

## Is It Time for Your Church to Start an Endowment Fund?

by Louise A. Jackson



Has your church received an unanticipated large bequest or gift? Have some of your older church members inquired about leaving bequests to the church but want them used to ensure the church's future rather than being added to the current budget? Have there been instances where you as the pastor or head of the finance committee wished for a rainy day fund to pay for repairing that unplanned roof leak? Maybe it is time to think about starting an endowment fund for your church.

Endowment funds look to the future. Typically, the income from the fund is used currently and the principal continues to be invested for the future so it can produce more income. Many prospective donors embrace endowment funds because their lifetime gifts and/or bequests will benefit the church long after they are gone.

So how does one start an endowment fund? At the end of this article is a checklist of steps commonly used by local churches to start one. We will elaborate on the major considerations for the process in this article.

### Form a Task Force

Church endowment funds usually start with an idea of the pastor's or of concerned members of the church. The resulting task force/committee should include the pastor/head of the local church governing board, a business person, an attorney, an accountant, a marketing person, and church members who serve or have served on church committees and have an in-depth knowledge of the church.

### Determine Why the Church Should Set Up an Endowment Fund

The task force to look at starting an endowment fund needs to brainstorm on the reasons for their church to start one. Reasons might include:

- Managing, via a financial professional, a recent bequest or significant gift in order to optimize it;
- Planning for the long-term future of the church;
- Having a vehicle in place for people to contribute aside from annual church support and tithing;

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- Pooling other “future” funds given to the church in the past;
- Fundraising for capital improvements such as an addition to the church that is not available through annual budget;
- Augmenting youth ministry programs;
- Supporting mission work, either foreign or home;
- Enhancing music/art/worship ministry; and/or
- Amplifying religious education.

If you have ever been involved with a fundraising campaign, you know that one of the critical steps is to develop the case for the campaign. So if the task force decides an endowment fund is the way to go and the church pastor and governing board agree, then the task force needs to put the case together for starting an endowment fund. The brainstorming to develop the reasons for why members should leave bequests or make lifetime gifts to the endowment fund helps with the case, likely including one or more of the reasons outlined above.

## **Formalities**

***Consents.*** Does anyone else, like a higher church body, need to consent to the local church establishing an endowment fund? If so, now is the time to obtain that consent and maybe some help in developing the endowment fund documents.

***Higher authority specific requirements.*** In that vein, you need to determine whether or not the endowment fund must be legally structured as a specific entity, such as a trust or a nonprofit corporation, and what, if any, specific terms must be included in the applicable governing documents.

***Decide on a name for the fund.*** Many endowment fund names include “fund” or “foundation.”

***Decide on the choice of entity.*** The task force needs to decide whether or not the fund will operate as a separate legal entity, such as a trust or nonprofit corporation, a segregated fund (or pool of funds such as a mission fund or a capital fund) which remains under the control of the church’s governing board or a fund administered by the national church or a local community foundation earmarked for the church. The separate legal entity establishes a “firewall” between the endowed funds and the church’s operating funds, but a major disadvantage may involve the necessity to apply for IRS recognition of the tax exempt status of the entity unless it falls within a blanket exemption for a subordinate of the church or as an integrated auxiliary. The segregated fund is simpler to form and operate. It enhances the church’s balance sheet but lacks the advantage of the clear separation inherent with the separate entity structure. Placing the fund with a community foundation or national church body gains professional management of the endowed assets and access to more sophisticated fundraising and planned giving tools, but it may create some confusion in donors contributing to the community foundation rather than to the church. The services of an attorney with expertise in laws pertaining to nonprofit organizations should be engaged to help make and implement this decision.

***Draft the endowment fund agreement.*** The endowment fund agreement should set out the primary purposes of the fund, how the income will be used each year (such as for specific projects or as a spending policy), discuss how gifts will be accepted (usually according to a separate gift acceptance policy), how funds will be invested (usually in accordance with a separate investment policy), and how the governing body — perhaps called the endowment fund committee — will be structured. In addition to the separate documents mentioned, there should be a conflict of interest policy, and maybe documents related to the chosen legal form of the fund (often referred to as the governing documents), such as articles of incorporation and code of regulations for a nonprofit corporation, and trust agreement if the trust form is selected.

***Execute all documents.***

***Form the endowment committee to administer the fund.*** It is helpful for committee members to have the same types of backgrounds as described earlier in this article for members of the endowment fund task force.

## **The Mechanics**

The remaining steps to make the endowment fund operational include:

- Hold a meeting of the endowment fund governing board and make critical decisions so the endowment fund becomes operational.
- Set up the mechanics including bank accounts and select a fiduciary who provides investment services, custodial services, planned giving and charitable trust administration, and comprehensive, customized administration and reporting, to manage the funds. If the endowment fund has been placed with a community foundation or a national church fund, some of these services may be provided in connection with that relationship.
- Decide on transferring existing restricted funds of the church to the endowment fund, if that does not violate any restrictions of the gift instruments and the purposes of the gift.
- Educate the church community on the availability of the fund and why it was established. Put together a marketing plan which will include a fund brochure and have materials available for how to make gifts such as by amending one's will or trust, naming the fund as a beneficiary of an unneeded life insurance policy or making planned gifts. You need to develop a program for ongoing promotion of giving to the endowment fund.
- Plan on accounting to the congregation on the fund's operation at least annually, perhaps through the church bulletin. Transparency is critical.
- Evaluate the pattern of giving to the endowment fund every year, its returns on investments, its purposes and how well they have been achieved, and make changes as appropriate.

## **Checklist for Setting Up a Church Endowment Fund**

\_\_\_The pastor or church governing board should appoint an endowment fund task force which preferably includes the following:

- ◇ Pastor;
- ◇ Governing board chair or his/her delegate;
- ◇ Business person;
- ◇ Attorney;
- ◇ Accountant;
- ◇ Marketing person; and
- ◇ Church members who serve or have served on church committees such as finance/stewardship and have an in-depth knowledge of the church's ongoing activities and history.

\_\_\_Decide on why the church should consider setting up an endowment fund and develop a written case which would focus on why members should make bequests or lifetime gifts to the endowment fund. Some rationales for the fund are listed above.

\_\_\_Check for any consents needed from your church's pastor/governing board, regional, state-wide or national bodies to establish an endowment fund.

\_\_\_Decide on whether or not the fund will be a separate legal entity (such as a trust or nonprofit corporation), a fund of the church, or a fund through the national church or a local community foundation, taking into account such factors as asset protection. This is the stage to involve an attorney experienced in advising churches and charities who can help you make this decision and work through the rest of the process to set up an endowment fund.

\_\_\_Draft the endowment fund agreement and other governing documents pertinent to the legal form in which your fund will operate in conjunction with an attorney after deciding on the fund name and how the income from fund will be used each year, such as for specific projects or according to a spending policy.

\_\_\_Sign the agreement and related documents.

\_\_\_Form the endowment committee to administer the fund.

\_\_\_Set up the mechanics including bank accounts and selecting a fiduciary who provides investment management services, custodial services, planned giving and charitable trust administration, and comprehensive, customized administration and reporting, to manage the funds.

\_\_\_Educate the church community on the availability of the fund and put together a marketing plan which will include a fund brochure as well as materials for how to make gifts such as by:

- ◇ Amending one's will or trust agreement;
- ◇ Naming the fund as a beneficiary of an unneeded life insurance policy; or
- ◇ Making planned gifts.

*For information regarding the creation or operation of an endowment fund, please contact [Louise A. Jackson, Esq./CPA](mailto:Louise.A.Jackson@eastmansmith.com) or visit our web site [www.eastmansmith.com](http://www.eastmansmith.com).*

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