

ST. TIMOTHY'S LUTHERAN CHURCH

Columbia Heights, MN

ENDOWMENT FUND ORGANIZATION, BY-LAWS, INVESTMENT & DISTRIBUTION PLAN

Approved – February 6, 2011

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ENDOWMENT FUND

OVERALL FUND MISSION STATEMENT

The purpose of the Endowment Fund, “The Fund”, is to enlarge the mission of the church beyond our annual operating budget by supporting current ministries and developing new ministry programs. The FUND gains can also be used to cover budget deficits when the general income is insufficient to cover expenses. At no time will the amount disbursed exceed the income earned unless there is a special Congregational vote.

The Endowment Fund Investment Management Committee, “Fund Committee” has been formed to monitor and make investment decisions for the FUND. They will report the results of the FUND to the Church Council and the members of St. Timothy’s Lutheran Church.

The four main functions of the Fund Committee are as follows:

- Maintain complete and accurate books and accounts of the FUND
- Keep and maintain the assets of the FUND from other assets of the Congregation
- Maintain a high degree of communication with church membership and council
- Manage the FUND investments and disbursements

St. Timothy's Endowment Fund Bylaws

ST. TIMOTHY'S LUTHERAN CHURCH has established an **Endowment Fund (the FUND)**, in which the principal will be retained and only the income disbursed, to enable this Congregation to carry out its mission.

BE IT RESOLVED:

1. That the membership of this Congregation has established the Endowment fund to be able to receive and administer donations, bequests and other forms of giving.
2. That the efforts of this Congregation in establishing the FUND be dedicated to the glory of Almighty God.
3. That all disbursements from the FUND, with the exception of administrative expenses, shall receive prior approval by the Congregational Council.
4. That the Fund Investment Management Committee, (Fund Committee), shall be the custodian of the FUND.

BE IT FURTHER RESOLVED:

A – General

5. Any gifts to the FUND, as well as all income derived there from, shall be used exclusively for religious, educational and other purposes authorized for charities by law. Notwithstanding any other provision of this document, the FUND shall not do any act which would render contributions to it ineligible for treatment as a charitable donation under the provisions of the Income Tax Act.
6. The FUND shall have no donor restrictions. The principal of the FUND shall be preserved, and only investment income shall be disbursed in accordance with the current distribution policy.
7. That while this Congregation has every intention of using the FUND as set forth in these resolutions, it does recognize that with the passage of time and changing circumstances, there may be a time when it is not feasible to use the FUND as it was originally intended. Should that situation develop this Congregation in accordance with paragraph #28 or its successors in interest shall then be free to make such other use of the income and principal as is consistent with the charitable and religious purposes of this Congregation in accordance with the laws of the state of Minnesota.

B – Fund Committee:

8. The Fund Committee shall consist of five [5] members, all of whom shall be voting members in good standing of this Congregation. The pastor and the Congregational Treasurer shall be members ex officio; [three] other members shall be elected by the Congregation. The Fund Committee shall elect from its membership a chairperson and a secretary. The Congregational Treasurer shall be Treasurer of the Fund Committee. Two signatures will be required to execute FUND disbursements with one signer being the Congregational Treasurer and the other signer being any other Congregational Officer.
9. The term of the elected members shall be three years. The terms should be cycled so that one new member joins the Fund Committee each year. No member shall serve more than two consecutive terms, but a partial term of less than one year shall not be counted for this purpose. A former member may be re-elected after a lapse of twelve months from the completion of his/her second term.
10. The nomination and election of Fund Committee members shall use the same procedures as for positions on the Church Council.
11. In the event of a vacancy on the Fund Committee due to death, resignation or removal from office, the Church Council shall elect a member to serve until the next annual meeting of the Congregation. If the full three year term isn't completed by that next Annual Meeting Part #1, the Congregation shall elect a member to finish the term created by the vacancy.
12. The Fund Committee shall meet at least semi-annually or more frequently as the interests of the FUND require. Meetings may be called on twenty-four hours written or oral notice to members by the chairperson or any three members.
13. A quorum shall consist of three [3] members. The affirmative vote of a majority of the members of the Fund Committee (i.e. three members) shall carry any motion or resolution.
14. Each member is charged with knowledge of the contents of the minute book. If any member is not present at a meeting, consent in writing to the minutes by that member shall constitute his/her approval of the actions reflected in the minutes and shall have the same force and effect as though he/she had been present and voting at the meeting. The updated minute book is to be kept in the church office.
15. All new members of the Fund Committee shall receive a copy of this Resolution and Bylaws to become acquainted with the purpose and function of the FUND as well as their duties and powers as members.
16. The Fund Committee shall not be liable for any losses which may be incurred upon investments of the FUND except to the extent that such losses have been caused by bad faith or gross negligence of the Fund Committee members. No member shall be personally liable as long as he/she acts in good faith and with

ordinary prudence in discharging the duties of the office. Each Fund Committee member shall be liable only for his/her own willful misconduct and not for the misconduct or omissions of any other Fund Committee member or of any accountant, agent, solicitor or custodian who has been selected with reasonable care.

17. Apart from the circumstances listed in this section, no part of the income or property of this FUND shall inure to the benefit of or be distributable to any member, director, officer or employee of the Congregation or to any other person:
 - (a) Payments and distributions in furtherance of the purposes set forth in this Resolution;
 - (b) Reasonable compensation for outside services rendered by professionals engaged to render assistance to the FUND;
 - (c) Reimbursement from the income of the FUND for expenses reasonably incurred while engaged in FUND business.
18. Members of the Fund Committee shall avoid all self-dealing and conflict of interest in the exercise of their duties.

C – Fund Committee Duties: Investment/Management

19. The Fund Committee shall maintain complete and accurate books and accounts and may employ such professional help as it deems necessary in this regard. The Fund Committee shall present a full account of the administration of the FUND during the preceding year, including a financial report, to the annual meeting part II of the Congregation.
20. The Committee shall provide communication with the Church Council and Congregation concerning its work.
21. The Fund Committee shall regularly inform the members of the Congregation of the FUNDS purposes and encourage members of the Congregation to make donations to the FUND through all appropriate means. The Fund Committee may periodically arrange for members of the Congregation to meet with professional counselors in the areas of planned giving, life insurance, estate and financial planning.
22. The Fund Committee shall keep and maintain records of the assets of the FUND separate and distinct from the other assets belonging to the Congregation.

D – Fund Committee Powers

23. In the administration of this FUND, the Fund Committee shall have all powers and authority necessary to carry out the purposes of the FUND, including the

following powers and authority it may exercise on behalf of the Congregation as trustees of the FUND:

- (a) To take, have, hold, sell, exchange, transfer, convert, invest, reinvest and in all other respects to handle and manage and control the FUND or any part thereof, as a prudent investor would and in accordance with the laws of the State of Minnesota.
- (b) To receive the income, profits, and proceeds of the FUND and to collect and receipt for the same, and pay all administrative and necessary expenses in connection with it. Such expenses shall be paid from the FUND income;
- (c) To make, execute and deliver all instruments necessary or proper for the accomplishment of the purposes of the FUND or of any of the foregoing powers, including transfers, assignments, conveyances, contracts, purchase agreements, waivers, releases and settlements;
- (d) To contribute, donate, support or distribute for the purposes herein stated, such payments or amounts as the Fund Committee in its discretion shall determine, with the prior approval of the Church Council;
- (e) To determine what is principal and income according to accounting procedures;
- (f) To hold investments in the name of the FUND, on behalf of the Congregation, and to authorize signing checks and all other necessary documents on behalf of the Congregation in furtherance of the FUND purposes;
- (g) To employ and reasonably compensate from the FUND income, accountants, agents and attorneys to assist and advise in the execution of the FUND, without liability for their omissions or neglect, but using reasonable care in their selection, and to rely on the advice of the persons so employed.

24. The Fund Committee will accept funds from an individual, corporations or organization in any form of donation such as cash, stocks, bonds or in other property acceptable to the Fund Committee. Any real estate or property would require special consideration.

25. If the sale of Church assets results in a donation to the FUND there shall be no restrictions for its use.

26. The Fund Committee may commingle the assets under its administration and administer such assets as a single fund, so long as the Fund Committee's records at all times accurately reflect the receipts and disbursements properly allocable to each distinct category of assets.

27. The FUND Committee is charged with carrying out the Investment Policy and Distribution Policy which become a part of this document.

E - Congregation

28. In the event of unforeseen catastrophe or dire emergency, the Congregation may, by a two-thirds majority vote at a duly called annual or special Congregational meeting, decide to disburse FUND principal. Notice of such meeting shall include notice of the proposed action. If the fund principal is used to pay on the principal of the church's mortgage, no repayment is required.
29. This FUND Resolution may be altered or amended in accordance with the Congregation's constitution.

Endowment Fund Investment Objectives and Policies

Background

The Congregation has elected the members of the Endowment Fund Investment Management Committee, "Fund Committee", to provide oversight and direction of the financial affairs of the FUND. It is the Fund Committee's task to formulate policy to ensure the prudent investment of the assets given to the FUND and through this management to assist in building a permanent endowment. The Fund Committee may select professional investment managers and/or consultants to assist them.

Basic Investment Objective

The investment objective of the St. Timothy's Endowment Fund is to generate a reasonable return on the assets invested and long-term appreciation of principal. In balancing risk with return the Fund Committee is directed to *The Prudent Man Rule*¹

- All that can be required of a trustee to invest is that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds. He should consider the probable income, as well as the probable safety of the capital to be invested.

¹ The criterion for managing fiduciary assets has long been *The Prudent Man Rule*. This rule stemmed from an 1830 New York court decision in **Harvard v. Amory**¹

Performance Goal

The investment goal of the Endowment Fund is to generate sufficient total return on assets to permit

- (a) Distribution of five percent (5%) of gains annually and
- (b) Allocation to the FUND of an additional percentage equal to inflation plus one percent (1%) for real growth.

Disbursement Policy

The Congregation has implemented a total (income plus appreciation) spending policy. The policy is designed to provide a meaningful and growing payout to the beneficiaries while preserving the FUNDS assets on an inflation-adjusted basis.

At the end of each year the Fund and Finance Committees will recommend to the Church Council a distribution figure for the FUND guided by the following formula:

Total Return minus Fees minus Inflation Rate minus 1% Growth Reserve = Payout

Total return (interest + dividends + net capital appreciation) is based on the average of the latest three-year period.

Fees include current FUND and investment charges.

The inflation rate is for the past year based on the Consumer Price Index.

A one-percent reserve is set aside for growth.

It is the goal not to invade the historic dollar value of the FUND unless used to decrease the principal on the church's mortgage.

If Total Return less Fees does not exceed the Inflation Rate plus 1%, 50% of the Total Return less Fees will be distributed and 50% will be added to principal.

Asset Allocation

The portfolio of invested assets will include a mix of common stocks, debt obligations, and cash equivalents with the following recommended parameters:

<u>Asset Class</u>	<u>Target</u>	<u>Range</u>
Equities	65%	55-75%
Fixed Income	32%	22-42%
Cash/Cash Equivalents	3%	0-6%

Appropriate Investments

Common Stocks:

- Only stocks that are broadly classified as institutional grade are eligible. Private placements and letter stocks are not appropriate.
- No single common-stock investment, at time of purchase, may represent as much as 6% of the target allocation for common stocks.
- No industry, at time of purchase, may represent more than 25% of the target allocation for common stocks.

Debt Obligations:

- With the exception of direct obligations of the United States Government, no one holding shall exceed 10% of the target allocation for debt obligation.
- Corporate debt securities rated AAA, AA, or A by Moody's or AAA, AA, or A by Standard and Poor's.
- Direct obligations of the U.S. Treasury and agencies of the U.S. Government.
- Mortgage-backed securities issued or guaranteed by agencies of the U. S. Government.
- Collateralized mortgage obligations that are rated AAA or AAA.
- Asset-backed securities rated AAA or AAA.
- Commercial paper rated Prime-1 or Prime-2 (Moody's) or A-1 or A-2 (S&P).

In General:

Common trust funds and mutual funds may be used.

Purchases of securities on margin, short sales transactions, use of highly leveraged derivative securities, options and futures, commodities, and special purpose funds (LBOs, Venture Capital, etc.) are prohibited.

Investment Portfolio Reporting and Review

When consulting with investment advisors, they shall provide monthly reports and shall meet at least twice a year with the Fund and Finance Committees to review the portfolio and to compare portfolio performance with appropriate indices (e.g., S&P 500, EAFE, Russell 2000, Lehman Govt-Corporate Intermediate Index, Lehman Govt-Corporate Index, Lehman Aggregate Index). A report of the investment results shall be presented at the next Church Council meeting.

This FUND Resolution, recommended by the Church Council and adopted by the Congregation at a legally called meeting is hereby made an Addendum to the bylaws of St. Timothy's Lutheran Church.

REVISION DATED this _____ day of _____ 20____

St. Timothy's Lutheran Church

By _____
(President)

And _____
(Secretary)

Endowment Fund Plan for Distribution:

- I. The purpose of the FUND is to provide annual distributions as stated below:
 - A. Outreach into the local community;
 1. for social service agencies, institutions, and agencies;
 2. for special programs designed for those persons in our community who are in spiritual and/or economic need;
 3. for temporary shelter, food, and clothing.
 - B. Special Ministries within the Minneapolis Area Synod, ELCA and/or ELCA church-wide ministries such as:
 1. World Hunger
 2. Global Missions
 3. Mission Outreach
 4. Partnership Ministries
 5. Educational Ministries
 6. Congregational Ministries
 7. Lutheran Vespers
 8. (Other)
 - C. Extraordinary programs or other ministry initiatives within this Congregation such as:
 1. for the purpose of attending a Lutheran College or Lutheran Seminary;
 2. for other training which enables members of this Congregation to grow in their Lutheran faith and service to God's people;
 3. for church-related camping or leadership conferences;
 4. for the funding of church youth outreach programs outside of the current operating budget.
 5. (Other)
 - D. Capital Improvements to the property.
 - E. Distributions through any or all of the above categories in any proportion as decided by the Fund Committee as recommended by the Church Council and presented to the Congregation at an annual meeting.
 - F. The distribution of income in any of the above categories may be reduced or not made at all if income is required to cover the church budget deficit for the current year.

- G. Income may be used to reduce church mortgage in an amount not to exceed 50% of the income distribution amount. This can be adjusted depending on the financial conditions at the time by vote of the Church Council and Congregation.
- H. The Fund Committee shall make annual distributions. These distributions may include interest and dividends received, realized gains, and/or unrealized gains.
- I. The Fund Committee will distribute five (5%) percent of the average balance of the FUND's gains (average balance to be determined from the previous 36 months). This basic premise supports a "Total Return" philosophy.
- J. The Church Council, through individuals and/or the advisory of the appropriate committee, shall recommend causes and programs for the Fund Committee to consider for outreach ministry.
- K. Should the Fund Committee determine that the Congregation is in dire need of the assets in the FUND or has an emergency of such a nature that the future of the Congregation is at stake and the only recourse is to use the Fund's assets, the Fund Committee may, upon a two-thirds majority vote, recommend to the Church Council for recommendation to the Congregation that a loan be given to the Congregation for this dire need/emergency with set rules for the pay back of the loan to the FUND. The Congregation must then approve such use by two-thirds majority vote at a properly called Congregational meeting.
- L. Gifts such as bequests of life insurance proceeds and remainders from life income agreements that are otherwise undesignated shall be automatically placed in the FUND.
- M. Request for distributions must be submitted on the paper request form by December 31st of each year.
- N. At such time as the Fund value has sufficiently increased above the original amount, the Fund Committee may recommend to substantially pay down or pay off the church's mortgage.

ENDOWMENT FUND COMMITTEE
DISTRIBUTION REQUEST REVIEW

Date Reviewed by Endowment Committee: _____

Action Taken: Accepted _____ Denied _____

Amount of Grant Approved: \$ _____ Date to be Paid: _____

If Denied, Reason for Denial: _____

Signature of Secretary: _____

Signature of Treasurer: _____

Date Reviewed by Church Council: _____
(Attach Minutes)

