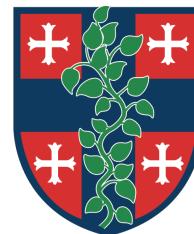


# Funds, Restrictions, and Investments

May Wardens and Treasurers Meeting



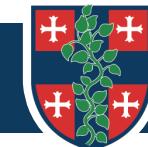
**EPISCOPAL**  
CHURCH OF NH

## This is part of your Fiduciary Duty

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- Duty of loyalty
- Duty of care
- **Duty of obedience**



## Money and other gifts often have strings attached

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- What are the sources?
  - Pledge and plate
  - Fundraisers
  - Grants
  - Capital Campaigns
  - Major Gifts
  - Bequests
  - Non-cash items
- What are their restrictions?
  - Time
  - Purpose
  - Reversionary
  - Board vs. permanent



## Donor Intent

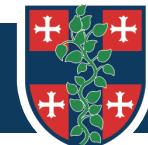
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Under New Hampshire law donor intent is paramount

It is very important to:

- Know the donor intent (if any)
- Have documentation of the donor intent
- Honor the donor intent

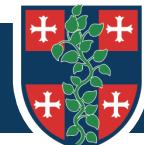


## Types of Restrictions - Sources

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- Unrestricted
- Donor restricted
  - Must be used in accordance to the restrictions indicated by the donor
  - Cannot be changed, w/ limited exceptions involving the probate court
- Board restricted
  - Otherwise unrestricted funds that are restricted by the Vestry or Bishop's Committee for a specific purpose and/or time.
  - Must be used per the restrictions imposed by the board
  - Can be changed by a vote of the board

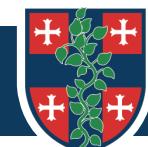


## Types of Restrictions - Uses

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- Time restricted
  - Must be used in the time frame as specified by the donor
  - The most common time restriction is a fund to be held in perpetuity, also known as a permanent endowment
- Purpose restricted
  - Must be used for the specific purpose as specified by the donor
- Reversionary interest
  - A specialized restriction, usually applied to real estate, that states that if a gift is not used in the manner specified, it reverts back to the donor or someone else that the donor specifies

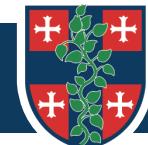


## Pledge and Plate

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- Pledge and plate are usually unrestricted
- Can be used for any church operating, capital, or other expense
- Beware of pledges that come with strings attached.  
You don't have to accept them.

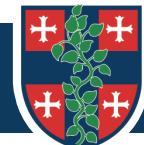


# Fundraisers

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- General
  - Funds must be used for what the fundraiser was advertised for
- Capital Campaign
  - Special type of fundraiser
  - Funds must be used according to the campaign documentation
    - Typically a case statement
    - Often includes permanent restrictions
    - Important to provide for contingencies
      - If campaign goal is exceeded
      - If purpose ceases to exist

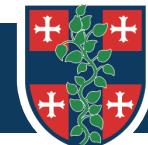


## Grants

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- Grants are restricted funds that must be used for the grant purpose and nothing else.
- Unused funds must be returned to the grantor



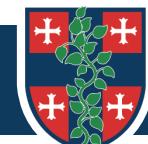
## Major Gifts and Bequests – Example #1

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- Enclosed is a check for \$500 in memory of my late mother to be used for the general purposes of the Lilies of the Field Episcopal Church.
  - In this example the donor's gift is fully expendable for any purpose relating to the mission of the Lilies of the Field Episcopal Church. The funds may be expended immediately or they may accumulate for use at a later time. This gift is classified as unrestricted.

Unrestricted



## Major Gifts and Bequests – Example #2

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- Enclosed is a check for \$10,000 to be used for the cleaning and repair of the stained glass windows at the Lilies of the Field Episcopal Church.
  - In this example the donation is purpose restricted – stained glass windows – but not time restricted. Lilies of the Field may decide to clean and repair some of the windows in the current year and some in future years. The donation may be expended in its entirety but, because it is purpose restricted, it is classified as donor restricted and may only be used for the cleaning and repair of the stained glass windows.

Purpose  
Restricted



## Major Gifts and Bequests – Example #3

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- **Bequest example #1: I, Mary Smith, give, devise and bequeath the sum of \$500,000 to the Lilies of the Field Episcopal Church the income to be used for the maintenance and improvement of the sanctuary.**
  - In this example the donor created a permanently restricted trust fund which is also purpose restricted. The income\* from the bequest may only be used for the maintenance and improvement of the sanctuary and not for general operating purposes.

\* See next slide re: UPMIFA

**Purpose  
Restricted**

**Time  
Restricted**

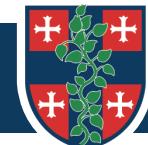


# Uniform Prudent Management of Intuitional Funds Act

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- Applies to permanently restricted funds
- Income is defined at total return – capital appreciation plus interest and dividends
- In setting the spending policy, the Bishop's Committee or Vestry must be prudent.
  - 0% – 7% annual draw on fund
  - But – must maintain value of fund in real dollars over the long term
  - Usually based on a 3 - 5 year average of the fund value
- Typical spending rates for institutions are between 4.5% and 5%.



## Major Gifts and Bequests – Example #4

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- **Bequest example #2: I, John Jones, give, devise and bequeath the sum of \$200,000 to the Lilies of the Field Episcopal Church, the income to be expended at the discretion of the Rector for the general purposes of the church.**
  - In this example the donor created a permanently restricted trust and delegated to the Rector decision making authority to expend the income. While the purpose of the fund is unrestricted, the bequest itself must exist in perpetuity and is therefore classified as a permanently restricted fund.

Time  
Restricted



## Major Gifts and Bequests – Example #5



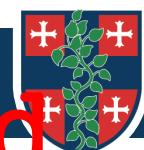
- Bequest example #3: I, Mary Smith, give, devise and bequeath my home located at 25 Elm Street, Graniteville, New Hampshire to the Lilies of the Field Episcopal Church to be used as a parsonage for the clergy person and his/her family. If at any time my real estate ceases to be utilized as a parsonage, this trust will terminate and the real estate will pass to my heirs and assigns.

- In this example the donor created a permanently restricted trust which is also purpose restricted. In this case, however, the donor has included a “reverter clause” to insure the real estate is used as a parsonage in perpetuity. Should the church decide it no longer needs a parsonage, and the building no longer houses the clergy as a result, it is possible the descendants of Mary Smith will make a legal claim on the real estate. Although the bequest is in the form of real estate, and not cash, it should be reported on the balance sheet as a restricted asset of the church.

**Reversionary  
Clause**

**Purpose  
Restricted**

**Time  
Restricted**



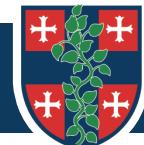
## Major Gifts and Bequests – Example #6

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- I, Bill Jones give to Saint Matthias Episcopal Church \$50,000 to be used for a purpose determined by the Vestry.
- The Vestry decides that since music was very important to Bill, these funds would be invested and the proceeds used to support the music ministry at St. Matthias.
  - In this example the donor gave the funds without restriction. Although he said “for a purpose determined by the Vestry”, the Vestry could have decided to use it for anything, including general operations. The endowment that the Vestry set up to support music is a board designated endowment. It could be changed at any time for a different purpose should the Vestry choose to do so.

Board  
Restricted

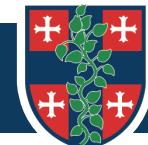


## What if we don't know?

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- Ask Us!
- Ask the Charitable Trust Unit
- If you aren't sure, it's much safer to avoid using principal
- Small / older bequests can be redesignated without going to court
  - Less than \$25K and older than 25 years
  - Need to notify CTU 60 days in advance of spending
- Whatever you end up doing – document it!
  - In vestry or BC minutes
  - Include any reference documents

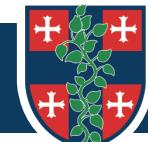


# Gift Acceptance Policy

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- Put in place before the gifts arrive!
- Things to include
  - Cash gifts
    - Threshold for acceptance of unrestricted gift
    - Threshold for restrictions
  - Non-cash gifts
    - Types accepted / not accepted
      - Securities
      - Crypto currency
      - Real estate
      - Life insurance & estate planning instruments
      - Artwork
    - Restrictions / right to sell
    - Policy re: sell on receipt

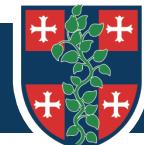


# A Word About Investments

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- Vestries and Bishop's Committees have a fiduciary duty to manage investments responsibly – part of the Duty of Care
  - Have an investment policy
  - Have a spending policy
- A Vestry or Bishop's Committee can invest their money themselves
  - Important to have leaders with expertise in investing
  - Understand who you are working with
  - Understand the fees you are paying
- The Diocesan Investment Fund is available if you are not comfortable managing your investments, or you don't want the hassle
  - Diversified fund – approx. \$47MM
  - Mix of ESG and conventional assets
  - Managed by the Trustees of the Episcopal Church of NH
  - Investment and spending policies set by the Trustees
  - Utilizes very low fee advisors and custodians

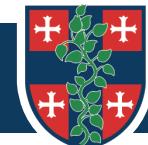


# Diocesan Investment Fund Overview

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- The DIF is a unitized fund
  - Congregations purchase units – analogous to a share of a mutual fund
  - Congregations can have multiple sub-funds
  - Approx 400 sub-funds held by the Bishop, the Diocese, the Trustees, and almost all of our congregations
- DIF administration & fees
  - Investment Advisor – Cap Trust – fixed fee, approx. 10 bps (.10%)
  - Custodian – Midwest Institutional Trust – fee approx. 6 bps
  - Sub-fund reporting – NRS – fee approx. 3 bps
  - Congregational support – D-House (Lauren) – 0 bps

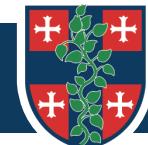


# Investment Details

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- Cap Trust has investment discretion – within the boundaries of the investment policy, they can make investment changes as they see opportunities
- Cap Trust reports on investment performance quarterly
  - Reports are available typically 30 days after the close of the quarter and are posted on the website
  - The investment policy is also on the website
- Asset mix
  - 3 portfolios
    - Conventional (initially 80% of non-cash)
    - ESG (initially 20% of non-cash)
    - Cash – for paying distributions
  - Invested portfolios approx. 75-25 / equity-fixed income
  - A mix of passive and active funds
  - Fixed income includes local impact investing – currently NHCLF

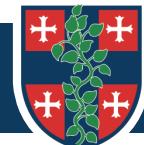


# DIF Distributions

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- NAV – Net Asset Value: the total value of the DIF divided by the total number of units
  - Calculated monthly
- Distributions and reinvestments are made quarterly based on the number of units at the close of the quarter
  - Distribution – the church gets a cash payment based on the number of units held
  - Reinvestment – the church buys more units based on the distribution and the NAV at the close of the quarter
  - Principal withdrawals or additions sell / buy units
  - The distribution rate is set by the Trustees in Sept for the upcoming year
  - Based on a 5-year average of the NAV
    - Goal: keep the NAV rising with inflation
    - Typically pays out 4.6% - 4.8% of fund market value
- Reports available to congregations approximately 2-3 weeks after the close of the quarter. Online access is available.

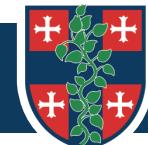


## Key Takeaways

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- As a Bishop's Committee, Vestry, or Trustee, you have a fiduciary responsibility
- Donor intent is paramount
- Be sure to have a record of all gifts with restrictions, and preferably any major gift regardless of restriction
- Have a spending policy for permanently restricted funds – UPMIFA compliant
- Have a gift acceptance policy
- Have a plan to convey this information when church leaders transition
- Having these things in place will demonstrate to donors that you will be good stewards of their gifts



## A related important note

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- Stock donations
  - We do have the ability process stock or mutual fund donations for congregations. **BUT:**
  - It is critical to call and/or email Lauren if someone is making a donation of stocks or mutual funds.
  - Our policy is to liquidate the funds upon receipt and transfer the proceeds to the congregation
  - If we don't get notification, we cannot liquidate the funds and distribute the cash.
  - Call us. Call us. Call us.
  - We now have a new donation account set up through Mid West Trust with lower fees than our previous account through Merril Lynch.
  - Contact Lauren for the new donation instructions.

