

# Gift Acceptance Policy

Imagine this scenario for a moment:

An unexpected package from a law firm arrives at a church's office addressed to the Pastor. Inside is a letter from an out-of-town attorney explaining that a person who was baptized and confirmed in the church nearly eight decades prior had recently died and left a portion of her sizable estate to the church, despite having moved across the country to attend college many years ago and never returning to her hometown. (Side note: Wouldn't that be a terrific surprise?)

The donor left the gift, which totals \$500,000, with a few instructions: 50 percent of the gift was left in cash as unrestricted to be invested as the church wishes and distributed to any part of the church's mission or operations. The remaining 50 percent of the gift is in the form of stock in Exxon Mobil, and the church is required to hold the stock in perpetuity. Additionally, the church may only distribute the quarterly dividend payments from the Exxon Mobil stock to fund parsonage upkeep.

The Pastor's initial smiles at the prospects of such a generous gift turn to a grimace at the instructions in the letter. Unbeknownst to the donor, the church voted in 2018 to remove all fossil fuel holdings from the investment portfolio and sold the parsonage 10 years ago.

We'll come back to our story in a moment...

In the [last edition of Fiduciary Focus](#), I discussed the importance of having an updated governance policy for your church or organization's endowment assets. That article laid out six questions, the answers to which help to form the building blocks of a well-crafted policy. This quarter, let us continue the discussion and focus on an important but often overlooked section of endowment governance: a Gift Acceptance Policy. A Gift Acceptance Policy performs two primary functions for an Endowment Committee:

- It lays out the guidelines by which the church will accept various types of gifts to the endowment – cash, securities and real estate being the three most common – and under what circumstances the church might reject a gift.
- It communicates to potential donors the information above and highlights the core missions and ministries of the church that have been pre-selected by church leadership as strategic priorities for future gifts.

The first of the two primary functions is the easy part; the second is more nuanced, requiring a strategy we at United Church Funds informally refer to as the "Bucket Approach." It allows the church leadership to pre-designate core missions and ministries of the church to which donors may direct their gift. When I work with churches – and this strategy also works for conferences, associations and other non-profit organizations — they most often have several board-designated buckets such as:

- Mission and Community Outreach Fund
- Social Justice and Witness Fund
- Building and Grounds Fund
- Christian Education Fund
- Pastoral Support Fund
- Music Ministry Fund
- Unrestricted Fund

Your church may have more (or fewer) funds or different funds depending upon your unique needs and priorities. That said, when a donor looks at the list of options for directing their gift, each category should reflect the core priorities of your church and should not be so specific as to pose challenges for distribution.

Here are a few other practices and strategies to consider when employing the Bucket Approach in a Gift Acceptance Policy:

- Each category can have a different distribution method. Some funds will have regular distributions, while others may have occasional larger distributions for big projects (think “Building and Grounds Fund,” which could be used to replace a boiler or build a new addition). The distribution strategies for each category should be outlined in the Distribution section of the overall Endowment Policy and should be in alignment with an investment strategy that can prudently support the needs of the fund.
- How much money should you have in each category? The answer, of course, is that the more money you have, the more you can use! However, as an example, if your church budgets \$20,000 each year for Christian Education, the Endowment Committee could set an initial goal of \$500,000, which if invested using a moderate-risk diversified portfolio could support a distribution rate of 4 percent per year, or \$20,000. The initial goal should be to create a fund that is self-sustaining on an annual basis.
- While the categories your church selects should reflect the unwavering core priorities of the church, if for some reason one or more funds become obsolete, those assets should be rolled into unrestricted endowment assets.

Let’s revisit our initial story. How should the Endowment Committee proceed with the \$500,000 gift? If the church accepts the gift, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is clear that donor intent must be followed. The church would not be able to accept at least 50 percent of the gift, which restricts spending to parsonage upkeep. Additionally, the church voted to reject fossil fuels from the portfolio, so holding shares of Exxon Mobil would put the church out of alignment with its stated investment policy.

There may be a silver lining for certain restricted gifts: in many states, attorneys general have procedures to release donor restrictions when they have become outdated or are impractical or unreasonable for the organization to comply with. Procedures differ from state to state, and a church or organization would be wise to consult legal counsel with experience in this area before pursuing the removal of any donor restrictions. While United Church Funds doesn’t give legal advice, we would be happy to connect you with the right resources and assist you along the way to ensure alignment between investment strategies and the church or organization’s goals and objectives.

In closing, I will stress to you what I stress to the many UCF clients who have employed this strategy to building a Gift Acceptance Policy: the Bucket Approach does little service to the church unless the Endowment Committee communicates the policy to potential donors. Find ways to communicate what the categories are and why they are important to the life and mission of your church. Don’t be shy about educating people on the ways the church prefers to accept gifts (By the way, did you know UCF can help your church with gifts of stock? Ask us!) and how they will be invested and distributed prudently for the long term. Donors should be confident in your church leadership’s ability to make the most of their legacy gifts, and a clear Gift Acceptance Policy is the first step.

Contact us at 877-806-4989 or [info@ucfunds.org](mailto:info@ucfunds.org) with questions or thoughts on crafting your church’s policies.