

Effective date: 04-11-2021

Neighborhood Unitarian Universalist Church (NUUC) Endowment Policy

Approved 10/26/99, Revised 7/2/02, 1/28/03, 3/18/21 and approved by the NUUC Board of Trustees on 4/11/2021

Purpose

The purpose of the Neighborhood Unitarian Universalist Church of Pasadena (NUUC) endowment funds is to enhance church programs for the future by building an additional secure base for the revenues of NUUC while preserving the principal of the endowment funds. This policy should be reviewed annually by the Finance Committee and as deemed necessary by any appropriate sub-committee, particularly in light of potential changes in church governance policies.

Endowments and Other Restricted Funds

NUUC has several endowment funds established for the receipt of permanently restricted gifts. Contributions to these funds are held in perpetuity with only the investment earnings (including interest, dividends and capital appreciation) or a portion thereof available for expenditure for programmatic and personnel costs pursuant to the “spending rate policy” defined below. In the event of the dissolution of NUUC these funds would be transferred to the Unitarian Universalist Association (UUA) to be used for a purpose as similar to the original intent as possible.

A Bequest Reserve Fund may be established by the Board of Trustees to receive unrestricted bequests to be invested as quasi endowment. Unrestricted bequests will be evaluated by the Finance Committee and referred to the Board for inclusion in the Bequest Reserve or to fund other NUUC needs.

Quasi-endowment funds are designated by the board, rather than by donors, to act like permanently restricted funds from which income is available for general operations or certain specific purposes. Accounting standards established by the Financial Accounting Standards Board (FASB) require nonprofits to report quasi-endowments as unrestricted funds.

Each Endowment’s funds may be held in its own investment account or in an equitably allocated pooled investment account based on individual endowment percentages. Expendable earnings from endowed funds are assumed to augment (add to) the annual budget unless stated otherwise in the establishing agreement.

General Endowment – Investment earnings generated from this endowment fund support the church’s general operations as reflected in the annual operating budget.

Jordan Ministerial Intern Endowment - Investment earnings generated from this endowment help to fund ministerial interns.

Neighborhood Unitarian Universalist Church Endowed Fund for Racial Justice - provides support at NUUC for social justice work and musical expression on the theme of racial justice. Annual payout from the endowed fund will be equally divided between NUUC’s social justice program and music program to promote racial justice. Uses will be determined with the involvement of associated music and social justice staff and the Neighborhood People of Color (NPOC), or a succeeding group.

Irving Rector Neighborhood Unitarian Universalist Church Preservation Endowment—

Investment earnings generated from this endowment fund support building and grounds projects at NUUC involving restoration, long term preservation, special maintenance, extraordinary major repairs and significant landscaping, but not including new construction.

Special Purpose Endowments-- NUUC encourages creation of new endowments named after the purpose of the endowment and/or named after individuals, families, or groups. The selection of a name emphasizes the important impacts made by the gifts. All endowments are open to the gifts of any donors. As a community grounded in equity, we appreciate gifts of all sizes, and acknowledge and celebrate all donors in our annual report, annual meeting and throughout the life of the church.

NUUC will work with prospective donors on the terms and conditions of special purpose endowment funds provided they support the church's mission through its activities or functions. Examples might be endowments which generate income to augment key ministry areas such as Music, Religious Education, Social Justice/Community Outreach, or a staff programs endowment.

Donations

Funds may be added to an existing endowment at any time in accordance with our gift acceptance policy.

The establishment of any endowment fund requires the approval of the NUUC Board of Trustees upon the recommendation of the Finance Committee and any applicable sub-committee. A new endowment may be established with a minimum donation of \$20,000. The Board of Trustees may grant approval to establish an endowment where a fundraising plan is presented which will raise the required \$20,000 minimum within a reasonable period of time. However, expendable earnings will be accumulated in the fund and earnings distributions will not occur until the fund reaches the \$20,000 minimum.

Because conditions change over time, all special purpose endowment instruments should contain the following contingency clause:

“If circumstances should arise in the future that make it illegal, impossible, or impracticable to use the gift for the purpose specified above, then the Finance Committee may submit a recommendation to the Neighborhood Unitarian Universalist Church Board of Trustees for modification of the original purpose with the use of the income from the modified fund to be for the fulfillment of objectives as near as practical to the original purpose. If, in the best judgment of the Trustees, such modification is deemed prudent, they shall submit the recommendation to the Congregation for a majority vote. In the event of such modification to a named endowment, the original name will continue to be associated with the fund. This provision cannot convert a permanently restricted gift into a temporarily restricted or unrestricted gift.”

Investment Policy

The investment Policies for NUUC are documented in a separate Investment Policy document and summarized here as they apply to this Endowment Policy (in blue highlight). Additional information is included in the full approved investment policy which is an integral element of the endowment policy and is available upon request.

Management, Responsibility, and Decision-Making

In keeping with the By-Laws, responsibility for the investments of the Church resides with the Board of Trustees, which shall delegate responsibility for investment decisions regarding endowment funds in accordance with the governance procedures of the Church. The investment performance of endowment funds should be reviewed periodically by the Finance Committee and not less than annually by the Board of Trustees.

Hold Harmless Clause

Neither Board members, Finance Committee members nor Church Staff shall be personally liable for the performance of endowment fund investments, and, to the maximum extent permitted by law, NUUC shall indemnify and hold harmless such persons from any and all claims brought against them arising out of the performance of such investments.

Liquidity, Diversification and Asset Quality

NUUC Endowment funds are to be invested with the primary objective of preserving the long-term, real purchasing power of funds, while providing reasonable annual distributions in support of NUUC's ongoing operations and its missions through the spending rate policy.

NUUC non-endowed funds, working capital and reserves, are to be invested with the primary objective of meeting the expenditure needs of the specific funds, while providing a reasonable return on investment. Investments in this category may be held in separate accounts when long term investment objectives are not consistent with the needs of the funds.

Investment guidelines and prohibitions contained in this policy have been formulated in consideration of NUUC's tolerance for investment risk. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in market conditions and in the financial circumstances of NUUC.

Overarching Asset Allocation Policy

The Finance Committee recognizes that the strategic allocation of funds across broadly defined financial asset and sub-asset categories, with varying degrees of risk, return, and return correlation, will be the most significant determinant of long-term investment returns and fund value stability.

Socially Responsible and ESG Investment Considerations

As a Unitarian Universalist congregation, NUUC intends to seek out investment funds whose portfolio strategies align to the seven principles which form the foundation upon which Unitarian Universalism is built.

Diversification Policy

Diversification across and within asset classes will be the primary means by which the Finance Committee expects investments to avoid undue risk of large losses over long time periods. No one issuer may hold more than 5% of any portfolio.

Invested funds will be managed as diversified portfolios composed of two major asset classes: an equity portion and a fixed income portion. Cash equivalents will be used to meet expenditure requirements under an endowment spending rate distribution policy, reserve fund needs as determined during the budget process, or to facilitate a planned program of dollar-cost averaging into investments in either or both of the equity and fixed income asset classes.

Distribution & Spending Policy Governing Endowment Funds

Annually, as part of the budget development, the Finance Committee will notify the Senior Minister and Board of the amounts available for distribution. Earnings from an Endowment fund may only be spent if the corpus is \$20,000 or more to ensure that distributions are meaningful. Alternative spending terms may be included in the terms of a specific endowment.

Distributions

The annual spending rate for distributions from the Endowments shall be up to or equal to 5% of the Endowment Funds’ average fair value over the prior 13 quarters through the calendar year end preceding the fiscal year in which the distribution is planned.

The Endowment investments must offer sufficient liquidity to meet the expected annual spending distributions from the Endowments.

The Finance Committee and any applicable sub-committee will review these spending assumptions annually for the purpose of deciding whether any changes therein necessitate amending the Endowments’ spending policy, their target asset allocation, or both.

Periodic cash flow, either into or out of the endowment, will be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy.

Long-Term Investment Objective And Considerations

The primary investment objective of the Endowments is to provide a real rate of return over inflation sufficient to support in perpetuity the mission of NUUC. It is particularly important to maintain the value of the Endowment funds in real terms in order to enable NUUC to retain the purchasing power of spending for programs and administration without eroding the real value of the principal corpus of the Endowments. As a result, the long-term net compound return objective (“Objective”) for the Endowments should at least equal 7.5% as calculated below:

Target Spending Rate	5.00%
Inflation (CPI) (Long-Term Estimate)	2.50%
Objective (Net of Fees)	7.50%

The Objective shall always be considered net of fees. Since NUUC is a non-profit subject to Section 501(c)(3) of the Internal Revenue Code, it will be assumed when making investment decisions that all Endowment transactions will be tax-free unless otherwise known.

Since the Board intends that NUUC remain in existence in perpetuity, the Endowments should be managed with a time horizon (“Time Horizon”) much longer than the normal investment cycle. Accordingly, interim performance fluctuations should be viewed from that perspective.

Because NUUC has adopted a “total return” investment approach, current income is considered a secondary consideration.

Change to California State Law

On January 1, 2009 California adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) into law. UPMIFA replaces the Uniform Management of Institutional Funds Act (“UMIFA”) and differs from UMIFA in a few key areas: It eliminates the historic dollar value rule with respect to endowment fund spending, it updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds. The new spending rules in UPMIFA specifically apply to “endowment funds” held by institutions. For purposes of UPMIFA, an “endowment fund” is an institutional fund that is not wholly expendable on a current basis because of a donor restriction in the gift instrument governing the endowment fund. The endowment restriction may be either permanent or for a limited duration. The new spending rules do not apply to all institutional funds. Only donor-restricted endowment funds are subject to UPMIFA’s endowment fund spending rules. Such provisions do not apply to funds that are restricted only by a board of directors or to funds only informally referred to as “endowments.”

Unless specifically directed to the contrary, under UPMIFA an institution may expend so much of an endowment fund as an ordinarily prudent person in a like position would spend for the uses, benefits, purposes, and duration for which the endowment fund was established. Under this new rule of prudence, a distinction no longer exists between income and principal, nor is there a need to track historic dollar value. This allows an institution to spend any amount from an endowment fund (whether it was historically categorized as income or principal or whether the fund is above historic dollar value), provided that the spending decision is prudent under the circumstances.

UPMIFA Endowment Spending Standards

- Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established.
- The institution shall act in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:
 - duration and preservation of the endowment fund
 - purpose of the institution and the endowment fund
 - general economic conditions
 - possible effect of inflation or deflation
 - expected total return from income and the appreciation of investments
 - other resources of the institution
 - the investment policy of the institution

- A donor may limit the authority granted under UPMIFA’s flexible spending rules by including specific restrictions in the terms of the written gift agreement. A donor cannot simply rely on use of terms such as “income” or “principal” as evidence of an intent to limit spending; the donor must be very precise in documenting any limitations, which may include a specific reference to limiting the applicability of UPMIFA.
- In some versions of UPMIFA, the legislation contains a provision that expenditure rates in excess of seven percent of the endowment fund are presumed not to be prudent.

Donor Intent

Donor intent as specifically stated in the fund agreement takes precedence over UPMIFA standards or NUUC spending policies. If a specific Endowment fund agreement uses general terminology such as “retain principal” or “spend only income”, then spending will follow NUUC spending policies that are in compliance with UPMIFA.

Appropriation of Expenditures

Annual Spending Limitation

NUUC will limit endowment appropriation for expenditures to the spending rate which shall be set annually by the Board upon recommendation from the Finance Committee as a part of the annual budget process. The calculation of the Spending Rate shall be based on a formula recommended and approved by the Finance Committee from time to time. However, donor intent specifically stated in a particular fund agreement will take precedence and may result in a different percentage of spending in any given year.

Original Gift Value / Underwater Endowments

Definition:

Original Gift Value (OGV) – the value of the corpus or original contributions at the time the contributions are received.

NUUC believes prudent management helps to ensure endowment funds provide benefits to the Church in perpetuity; therefore NUUC’s spending policy will be conservative focusing on minimizing the reduction of fund value during poor market conditions. NUUC will retain the OGV spending limitation on its endowment funds with the limited exceptions of certain funds.

Endowment funds with OGV’s greater than fair market value will be considered “underwater” and spending will cease and no new awards or commitments may be issued until the fund’s value exceeds OGV with the limited exceptions as listed below. NUUC believes it is important to honor the commitments of these funds as they affect in a tangible way, members and staff.

Funds will be evaluated annually for “underwater status” as of the designated budget period; those funds considered “underwater” will be reviewed under the exceptions policy to determine funding eligibility for the next fiscal year. Undistributed earnings attributable to underwater accounts will remain in the investment fund in order to accelerate the fund’s recovery.

Exceptions to Original Gift Value Limitation / NUUC Commitments

Exceptions to the OGV limitation include:

- Guaranteed renewable (multi-year) NUUC projects and events
- Endowed staff support funds with restriction for support of ministerial interns, sabbatical expenses or benefits
- Special exemption – Spending from underwater funds restricted for other purposes than mentioned above can be considered by the NUUC Board of Trustees upon a request.

Initial Spending from New Endowments

Endowments are intended to be held in perpetuity; therefore, spending typically comes from accumulated earnings derived from investment performance. Consequently, spending from new endowments cannot occur immediately unless the donor specifies a certain amount as non-endowed and available for immediate appropriation. Spending will commence on a newly established endowment after at least a 12-month period to allow for earnings accumulation. Participation in the spending rate draw may be delayed pending full funding of a new endowment fund.