

**[Draft] Endowment Distribution and Use Policy**

**Purpose**

This resolution of the Board of Trustees establishes the policy of All Souls Church regarding the distribution and use of endowment funds held by or established for the benefit of All Souls Church and supersedes any prior Board of Trustees policy on these subjects.

**Audit**

By April 30 of each year, the Audit Committee will report to the Board of Trustees regarding the Church's compliance with this policy in the prior year. *(This is Brian's Alternative A recommended by Emily.)*

**Definition**

**Standard Annual Distribution:** Except as provided below, each endowment fund will distribute annually a percentage of the fair market value of its assets (excluding internal loans at no interest) at the end of each of the 13 quarters ending June 30 of the prior year. The percentage value will be determined annually by the Board of Trustees with advice from the Investment Committee and will be used in the creation of the annual budget, and approved by the congregation in the adoption of the budget. *(This is a revision recommended by Chuck with input from Peg and Ken.)*

**Endowment Funds**

The policy for the distribution and use of each endowment fund is as follows.

**General Endowment**

Annual Distribution: Standard Annual Distribution.

Use: The annual distribution of the General Endowment is unrestricted income in the annual budget.

**Mason Fund**

Annual Distribution: Standard Annual Distribution, except that in no case should a distribution reduce the fair market value of the Mason Fund to less than the inflation-adjusted value of the original bequest (\$757,220 in August 2010). *(This is Brian's revision O supported by Emily and Peg.)*

Use: The annual distribution of the Mason Fund is unrestricted income in the annual budget.

**Holmwood Fund**

Annual Distribution: Each year the Holmwood fund will distribute the income (not including capital gains, realized or unrealized) earned during the year ending June 30 of the prior year, plus any such income not distributed in prior years, not to exceed the Standard Annual Distribution.

Use: The annual distribution of the Holmwood Fund is restricted to “the maintenance and beautification of the church building and grounds.”

**A. Powell Davies Fund**

Annual Distribution: Ninety percent of the Standard Annual Distribution.

Use: The annual distribution of the A. Powell Davies Fund is expended on the recommendation of the A. Powell Davies Committee for the purposes listed in the July 10, 1992 letter from Russell B. Adams to the Board of Trustees.

**Religious Education Fund**

Annual Distribution: Standard Annual Distribution.

Use: Approximately fifty percent of the annual distribution of the Religious Education Fund is expended for external grants made on the recommendation of children participating in the religious education program, and the remaining distribution is expended for other special programs for children's religious education. (The founders of the fund, the Higgins-Hargrave Family, intend to propose to the Board of Trustees a more detailed use policy by 2020.) *(This is Brian's revision generated after conversations with Meredith Higgins-Hargrave and Anna Hargrave.)*

**Beckner Fund**

Annual Distribution: Standard Annual Distribution.

Use: The annual distribution of the Beckner Fund is expended on the recommendation of the Beckner Committee, with the approval of the Board of Trustees for any expenditure greater than \$500, for programs that “1. Enhance the influence of All Souls Church in the Washington metropolitan area[;] 2. Help to make the immediate community in which the Church is located . . . a more cohesive, attractive and forward looking community[; or] 3. Foster human rights and dignity,” consistent with the general purposes of the Beckner Fund.

### **Shively Fund**

Annual Distribution: Standard Annual Distribution.

Use: Forty percent of the annual distribution of the Shively Fund is expended for "needed building improvements." Forty percent of the annual distribution of the Shively Fund is expended on the recommendation of the Beckner Committee, with the approval of the Board of Trustees for any expenditure greater than \$500, for programs that "1. Enhance the influence of All Souls Church in the Washington metropolitan area[;] 2. Help to make the immediate community in which the Church is located . . . a more cohesive, attractive and forward looking community[; or] 3. Foster human rights and dignity," consistent with the general purposes of the Beckner Fund. Twenty percent of the annual distribution of the Shively Fund is distributed to All Souls Housing Corporation, Change-All Souls Housing Corporation, or as seed money for similar housing programs.

*(This is alternative H recommended by Emily.)*

### **Externally-Held Funds**

Four funds are held by external trustees for the benefit of All Souls Church. The Unitarian Universalist Association holds the Ellen Marian Elizabeth Woodhull Trust, the Emily B Mitchell Trust, and the Paul Pfeiffer and Jane Wheeler Pfeiffer Trust. U.S. Trust holds the Fannie Meyers Consul Trust.

Annual Distribution: The trustee of each fund makes annual distributions to the Church.

Uses: The annual distribution of the Woodhull Trust is expended to "keep[] the . . . Church and [its] furniture in good order and repair." The annual distribution of the other funds is unrestricted income in the annual budget.

## **Appendix 1: Issues and Possible Resolutions**

### **Issue 1: Oversight of Endowment Uses**

Whether to exercise additional oversight concerning the use of endowment funds.

*Alternative A:* Insert a new section in [Draft] Endowment Distribution and Use Policy: "Audit. By April 30 of each year, the Audit Committee will report to the Board of Trustees regarding the Church's compliance with this policy in the prior year."

*Alternative B:* In Policy Governance (4)(b), amend the third bullet point to read "Use any long-term reserve or expend any endowment or designated funds other than for the purposes determined at time of receipt or designation, **and permitted by the Endowment Distribution and Use Policy**, unless the Board of Trustees approves an exception." (New language in the **underline bold**.)

*Alternative C:* Implement Alternatives A & B.

*Alternative D:* No change.

*Budget impact:* None, except the use of staff time.

### **Issue 2: Amount of Standard Annual Distribution**

Whether to reduce the annual distribution of the endowments.

*Alternative E-1:* Change the Standard Annual Distribution from "five percent" to "four percent."

*Alternative E-2:* Change the Standard Annual Distribution from "five percent" to "a percentage, to be determined annually by the Board of Trustees on the recommendation of the Investment Committee,"

*Alternative F:* No change to the Standard Annual Distribution.

*Budget impact:* For the 2015 budget, adoption of Alternative E-1 would have reduced the total annual distributions of the General Endowment, Shively Fund, and Mason Fund by \$28,565.82.

**Issue 3: Changes to the Use of the Shively Fund**

Whether to change the use of Shively Fund distribution among the purposes permitted by the bequest.

*Alternative G:* [Intentionally left blank. Alternative G in the prior drafts is current Church practice.]

*Alternative H:* In the first sentence, replace “Eight-five percent” with “Forty percent.” In the second sentence, replace “Fifteen percent” with “Forty percent.” Insert a third sentence to read, “Twenty percent of the annual distribution of the Shively Fund is distributed to All Souls Housing Corporation, Change-All Souls Housing Corporation, or as seed money for similar housing programs.”

*Alternative I:* [Intentionally left blank. Alternative G in the prior drafts is current Church practice.]

*Alternative J:* No change to the use of the Shively Fund.

*Budget impact:* For the 2015 budget, the adoption of Alternative H would have reduced the income in the annual budget by \$8,434.

**Issue 4: Changes to the threshold for Board approval of Beckner Committee grants**

Whether to change the threshold for requiring the Board to approve Beckner Committee recommendations for the distributions from Beckner Fund and the Shively Fund.

*Background:* The Beckner gift documents provide that “[t]he Advisory Committee [now known as the Beckner Committee] shall report regularly to the Board of Trustees. It shall obtain the Board’s advance approval or later ratification of all disbursements, to the extent provided in a statement of policies and procedures from time to time adopted by the Board with the concurrence of the Committee.” On March 25, 1974, while the Beckners were still living, Terms of Reference for the Committee were adopted which provided that the Committee had authority to “[a]pprove or disapprove requests for grants of \$250 or less, reporting all such actions to the Board of Trustees on a timely basis. The total amount of such grants approved by the the Advisory Committee is not to exceed \$2,000 in any one calendar year.” (I have not located the basis of the \$500 threshold with no annual cap that is currently used.)

*Alternative K:* In [Draft] Endowment Distribution and Use Policy, replace “\$500” in the draft with “\$2,500.” (Note: Per the terms of the gift, adoption of this alternative requires concurrence of the Beckner Committee.)

*Alternative L:* In [Draft] Endowment Distribution and Use Policy, replace “\$500” in the draft with “\$250.” (Note: Per the terms of the gift, adoption of this alternative requires concurrence of the Beckner Committee.)

*Alternative M:* No change to the threshold for Board approval.

*Budget impact:* None.

## **Issue 5: Distribution of the Mason Fund**

Whether to modify the Standard Annual Distribution for the Mason Fund.

*Background:* In October 2012, the Investment Committee recommended adoption of the current practice (as reflected in the draft above) based on the following research conducted by Brian Marshall:

As a condition of the Mason bequest, the Church agreed "that the principal of [the gift] will be treated as part of the organization's endowment, with only the income available for disbursement." Given that Mr. Mason's will does not define "income," D.C. law provides that the Church "may appropriate for expenditure or accumulate so much of an endowment fund as the [Church] determines is prudent," D.C. Code § 44-1633(c), even though there is "a direction or authorization in the gift instrument to use only 'income'" of the endowment, D.C. Code § 44-1633(c). Moreover, the direction to only expend "income" does not prohibit expending the original principal, so long as the amount expended "prudent for the uses, benefits, purposes, and duration for which the endowment fund is established," D.C. Code § 44-1633(a), the same standard as for the other named endowments. (Note, however, that a 5% distribution this year would not expend any principal.)

(I have reproduced [as Appendix 2] the relevant section of the D.C. Code, which adopts the Uniform Prudent Management of Institutional Funds Act adopted by Uniform Law Commissioners and every U.S. jurisdiction except Pennsylvania and Puerto Rico. This statute applies to all actions taken after January 23, 2008, including with respect to endowments already existing at that time. D.C. Code § 44-1637.)

*Alternative N:* In [Draft] Endowment Distribution and Use Policy, limit the maximum distribution to the amount of the original gift. ("Annual Distribution: Standard Annual Distribution, except that in no case should a distribution reduce the fair market value of the Mason Fund to less than \$757,220.")

*Alternative O:* In [Draft] Endowment Distribution and Use Policy, limit the maximum to the inflation-adjusted value of the original gift. ("Annual Distribution: Standard Annual Distribution, except that in no case should a distribution reduce the fair market value of the Mason Fund to less than the inflation-adjusted value of the original bequest (\$757,220 in August 2010).")

*Alternative P:* No change. ("Annual Distribution: Standard Annual Distribution.")

*Budget impact:* At this time, none. (On December 31, 2014, the value of the Mason Fund was \$928,821.33. The approximate current inflation-adjusted value of the original gift is \$827,574.76, based on <http://data.bls.gov/cgi-bin/cpicalc.pl?cost1=757220&year1=2010&year2=2015>.)

**Appendix 2: D.C. Code § 44-1633**

D.C. Code § 44-1633. Appropriation for expenditure or accumulation of endowment fund; rules of construction.

(a)(1) 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.

(2) Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution.

(3) In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:

(A) The duration and preservation of the endowment fund;

(B) The purposes of the institution and the endowment fund;

(C) General economic conditions;

(D) The possible effect of inflation or deflation;

(E) The expected total return from income and the appreciation of investments;

(F) Other resources of the institution; and

(G) The investment policy of the institution.

(b) To limit the authority to appropriate for expenditure or accumulate under subsection (a) of this section, a gift instrument shall specifically state the limitation.

(c) Terms in a gift instrument designating a gift as an endowment, or a direction or authorization in the gift instrument to use only "income", "interest", "dividends", or "rents, issues, or profits", or "to preserve the principal intact", or words of similar import:

(1) Create an endowment fund of permanent duration unless other language in the gift instrument limits the duration or purpose of the fund; and

(2) Do not otherwise limit the authority to appropriate for expenditure or accumulate under subsection (a) of this section.