

Long-Term Ministry Funding

*A guide to choosing
the investment plan that is
best for your congregation*



Congregations are often the recipients of significant gifts, the type of gift that can be a blessing for generations.

With proper organization and vision, these gifts can be used to establish long-term growth resources for your congregation.

This guide can help you take the first steps toward putting a practical plan in place.



What Type of Investment Fund is Right for Your Congregation?

Just as each congregations's needs are unique, each congregation is different when it comes to their preferences for establishing and administering an investment fund. The LCMS Foundation can help you select an approach that is right for your church.

1 INVESTMENT ACCOUNT

This approach is simple and fast. It's ideal for any LCMS church simply seeking to invest funds in the market, without the need to create a detailed plan or policies to govern the fund.

IMMEDIATE | LOW-COST | SIMPLE | FLEXIBLE

As an LCMS congregation, you have the opportunity to pool your investments with other LCMS ministries and access the investment options and low costs usually only available to large organizations and corporations. With an LCMS Foundation investment account, your congregation retains control of the fund—investments, amounts, timing of distributions and more—and can change these variables at any time without penalty.

To simplify your investment choices, the Foundation offers several pre-set investment options that range from conservative to aggressive. These options have been carefully selected with the assistance of the Foundation's independent investment advisor to match various risk tolerance levels.

For more information on Foundation investment accounts, request a copy of our Investment Services guide.

If none of the pre-set options fit your congregation's needs, you are able to create your own flexible, personalized investment mix from among the Foundation's different asset classes.

2 FOUNDATION OWNED ENDOWMENT

This simple and popular approach is for congregations that prefer not to spend significant time establishing and then managing an endowment, or prefer an additional level of accountability to ensure the endowment is used as planned.

ALLOWS FREEDOM TO FOCUS ON MISSION AND NOT INVESTMENT

These endowments are established by an agreement between your congregation and the LCMS Foundation, which the Foundation will prepare. The agreement can be tailored to meet your goals for the fund. It can contain permanent restrictions to provide certainty, or temporary restrictions to allow your congregation the flexibility to adapt to changing ministry needs. Or, if you prefer, the LCMS Foundation can work directly with your donors to establish individual endowment funds.



3 CONGREGATION OWNED ENDOWMENT

This approach is for ministries that desire to put a detailed plan in place, and are willing to devote the time and resources necessary to establish, administer and sustain it.

HANDS-ON INVOLVEMENT PROVIDES A SENSE OF OWNERSHIP | OFTEN INCREASES DONOR CONFIDENCE IN SUPPORTING YOUR CONGREGATION

With a congregation owned endowment, your congregation establishes the terms of the fund, as well as the committees and accountability for managing the endowment. The terms can be tailored to meet your ministry objectives. A congregation owned endowment gives your congregation complete control of the fund, subject to the terms that have been established.

4 ESTABLISHING A SEPARATE FOUNDATION

This approach is for ministries that prefer to establish a separate foundation to handle gift administration.

ALLOWS GOVERNANCE TO BE KEPT SEPARATE FROM YOUR CONGREGATION

Creating a separate foundation is essentially establishing and maintaining a new tax-exempt, nonprofit organization, with all the challenges that entails. For some ministries, this is the right choice, but ministries considering creating a separate foundation will need tax and legal advice from firms or individuals with this expertise. The LCMS Foundation can provide information and resources to get you started.

The reasons for establishing a separate foundation should be carefully explored to make sure a separate foundation is necessary.

Formulating a Vision for Your Fund

There are many things to consider when setting up an investment fund. The following questions will help you formulate a vision.

1. Does your congregation already have assets you want to use for an investment fund?

- Yes
- No (skip questions 2 and 3, and go to question 4)

2. Are the assets already restricted?

- Yes (skip questions 3-16, and go to question 17)
- No
- Some are restricted, some are not.

Not sure?

See "Understanding Restrictions" on the next page

3. Do you want to put a plan in place for how your congregation will use the assets that are unrestricted?

- Yes
- No (skip questions 4-16, and go to question 17)

4. How do you want to use the fund? Check all that apply.

- Support operating budget of the congregation
- Fund special ministries within the congregation, including:

- Fund ministry outreach beyond the congregation, including:

5. How much of the fund do you want to make available? Check all that apply.

- Income only (no access to principal)
- Income and portion of principal each year
- Income and discretion to use some or all principal
- Income and limited discretion to use some or all principal

Congregations often establish what they call "endowment funds." To most people, the term "endowment" means that the principal will be kept intact and only the income expended for a specific purpose. However, it is possible to establish a fund with different terms as long as they are documented and individuals contributing to the fund understand them.



6. How do you want to determine the income?

- Traditional income (interest, dividends, rent)
- Percentage of annual fund value (identify):

- Rolling average of fund value over last three years (identify):

- Determined by the governing body based on the goals of the fund (modern spending rate policy)
- Other (identify):

How the income is determined can have a big impact on how the fund performs. Most states have a default definition of income if it is not defined. Accounting rules can also apply. The definition can affect the fund's investment and the cash flow available each year. For example, if the investment fund provides that income can be expended each year, and the traditional definition of income is used, the fund will likely be invested primarily in fixed income assets to maximize the amount available for ministry. If income includes capital gains, or is based on a percentage of the fund value, a more balanced investment may be appropriate.

Some congregations choose to define income in the terms of the fund to add certainty. Others prefer more flexibility and allow the organization to define income on an ongoing basis, subject to certain limitations. What is important is that there is an understanding on what income means and that it fits with the purpose of the fund.

Understanding Restrictions

Should your investment fund have permanent or temporary restrictions? It depends on your congregation's needs, the desires of your donors and what you are trying to accomplish with the fund.



PERMANENT RESTRICTIONS Sometimes called "donor restrictions"

Example One: When a donor makes a gift and communicates a restriction on what it can be used for and/or how much can be used. Unless the donor gave your congregation the right to change the restriction, the gift must be used by the congregation in line with the restrictions.

Example Two: When the congregation creates an investment fund and the terms of the fund do not give the congregation the right to change any of the restrictions unless they become impractical. Gifts contributed to the fund must be used in line with the restrictions.

Advantage: Certainty

A permanent restriction is approved up front when the congregation establishes the fund, and it provides certainty to donors and congregation leaders regarding how the gift will be used.

Caveats: Before accepting a restricted gift, a congregation should always consider whether the gift furthers its mission and whether it can faithfully carry out the terms of the gift.



TEMPORARY RESTRICTIONS Sometimes called "board restrictions"

Example One: When the congregation puts an investment fund in place with terms that give the congregation the right to change the restrictions.

Example Two: When the congregation places unrestricted assets in an investment fund that contains permanent restrictions. Even though the fund contains permanent restrictions, the unrestricted assets placed in the fund are temporarily restricted since the congregation has the right to release any restrictions it places on the asset.

Advantage: Flexibility

A temporary restriction gives the congregation flexibility to adapt to changing circumstances, but still gives donors confidence that the congregation has a plan in place for how the fund will be used.

Caveats: With this type of fund it is important that congregations communicate to donors, and make sure they understand that the congregation can change the terms of the gift.

Formulating a Vision for Your Fund (continued)

7. How often do you want the fund to make distributions?

- At least annually
 - Other (identify):
-

Most congregations choose to allow flexibility in the timing of distributions, but require that distributions be made at least annually. The fund's purpose and practicality will often determine the best approach.

8. Do you want to retain the ability to change any of the terms of the fund?

- Yes – unlimited changes should be allowed
 - No – changes should not be made unless restrictions become impractical or impossible to follow
 - Maybe – changes would be limited to special circumstances (identify):
-

Some ministries prefer maximum flexibility to respond to doors the Lord may open. Others prefer to limit the flexibility to provide donors greater certainty on how the gifts will be used. At a minimum, the congregation should retain the right to change any restrictions that become impractical or impossible to follow. Whichever method is chosen, it is important that donors understand whether the congregation is retaining any right to change the terms of gifts made to the fund.

9. Do you want to limit the fund to holding assets with all the same restrictions, or do you want to allow donors to make gifts with special restrictions?

- Limit the fund to the same restrictions
- Allow donors to make gifts with special restrictions
- Accept restricted gifts but make them subject to approval process (identify):

Consider:

2 FOUNDATION OWNED ENDOWMENT FUND

Special restrictions are allowed which helps build donor confidence.

10. Will the congregation be placing any of its own unrestricted assets in the fund?

- Never
 - Yes, if received from an estate
 - Yes, if over \$ _____
 - Yes, under certain circumstances (identify):
-

Many ministries create a policy where unrestricted gifts over a certain dollar amount, or gifts received from deceased individuals, will be put into the investment fund.

11. What would you like to call your fund?

Name: _____

Your investment fund should have a name. A name will make the fund easier to identify, particularly if there is ever more than one fund. A name that emphasizes the purposes of the fund is often chosen.

12. What reports are needed regarding the administration of the fund?

- Annual reports to our governing body by the individual(s) responsible for administering the fund
 - Other (identify):
-

At a minimum, most ministries should require annual reports that detail investment gain and loss, fund distributions and additions, and any charges against the fund.

13. Do you want to place any investment restrictions on the fund?

- Must not jeopardize the tax-exempt status of the fund and/or create taxable income
 - No conflicts of interest or self-dealing
 - Other (identify):
-

Most ministries prefer investment flexibility and provide few limitations on how the fund can be invested.

14. Who is going to be responsible for promoting the fund?

- The same group that will be responsible for administration of the fund
- Other (identify):

Ministries should create a communication plan that increases donors' awareness of the fund's mission and vision for ministry. The LCMS Foundation can assist ministries with ideas and marketing templates to help communicate and promote the fund.

15. How do you feel about borrowing against the fund?

- Borrowing should be prohibited
- Borrowing should be allowed, provided it does not result in tangible income
- Borrowing should always be allowed

By borrowing against the fund, it may be possible to obtain resources for uses other than those provided in the fund. The congregation should discuss whether this is acceptable.

Ministries should also be aware that penalty taxes or loss of exempt status can occur if borrowed funds are used to purchase an investment, or are used for purposes outside of the congregation's tax-exempt purpose.

16. What assets would you like donors to be able to give to your fund? Check all that apply.

- Cash
- Publicly traded securities
- No limits on which assets can be given
- These assets would need prior approval (identify):

Most ministries provide that cash and publicly traded securities are always acceptable and that other types of assets must be approved before acceptance. This allows the congregation to ensure the asset can be liquidated, it will not be a liability, and it will not trigger any adverse tax consequences to the fund.

17. Which best describes your congregation?

- Our congregation has the expertise and time to manage the fund
- Our congregation prefers to give the LCMS Foundation the responsibility of managing and administering the fund
- Unsure

If your funds are restricted, consider:

3 CONGREGATION OWNED ENDOWMENT

If your funds are restricted, consider:

2 FOUNDATION OWNED ENDOWMENT FUND

Managing and administering an investment fund requires financial expertise, accountability, and the ability to keep and maintain records. Some ministries are well equipped to handle this responsibility. Other ministries prefer not to or are less equipped to do so.

Fund Options Overview

	1 INVESTMENT ACCOUNT	2 FOUNDATION OWNED ENDOWMENT	3 CONGREGATION OWNED ENDOWMENT	4 ESTABLISHING A SEPARATE FOUNDATION
TYPE OF FUND	 UNRESTRICTED	 RESTRICTED & UNRESTRICTED	 RESTRICTED & UNRESTRICTED	 RESTRICTED & UNRESTRICTED
ADMINISTRATIVE TIME & EFFORT				
TIME TO ESTABLISH	 IMMEDIATE	1-3 months SHORT	6-12+ months MEDIUM - LONG	12+ months LONG
ADVANTAGES	Low-cost access to sophisticated investments available exclusively to LCMS organizations	Simplifies establishment, investment and distributions of the investment fund and adds an extra layer of accountability	Gives your congregation control of the investment fund and provides close connection to your congregation	Allows governance separate from congregation

This publication is intended to provide information of a general character only. The Lutheran Church—Missouri Synod, the LCMS Foundation, nor any of its affiliated organizations or ministries provides tax, legal or accounting opinions. Please consult your own tax and legal advisors for advice regarding your particular situation.

Start Today

The LCMS Foundation is ready to help your congregation create a plan to best meet your goals and objectives.

While this guide outlines a number of potential approaches that may or may not suit your congregation, the real planning begins when we connect. We're ready to answer any questions you might have.

Contact me to start planning a healthy, vibrant future for your congregation, today.



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