

**KING OF KINGS EVANGELICAL LUTHERAN CHURCH
Milwaukie, Oregon**

MISSION ENDOWMENT FUND POLICIES

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1. INTRODUCTION

1.1 Mission

The King of Kings Lutheran Church Mission Endowment Fund (MEF) is established to receive and administer bequests, estates, insurance, memorials and other assets. All associated efforts are dedicated to the Glory of Almighty God. In gratitude for all we have and continue to receive from a gracious God, the MEF is established. Its purpose is to receive special gifts and bequests to enhance and expand outreach ministry, as well as new spiritual, educational, and stewardship opportunities of King of Kings Lutheran Church, apart from the general operation of the congregation.

1.2 Application of Policies

These policies apply to anyone representing the Mission Endowment Fund. The Mission Endowment Board (MEB) must approve any change or exceptions to these policies.

2. CULTIVATION AND SOLICITATION OF GIFTS

2.1 Ethics

(1/31/2010) Mission Endowment Board Directors will act with fairness, honesty, integrity and openness in all matters. The Mission Endowment Board (MEB) and any contracted professionals will fully comply with and encourage all parties in the gift planning process to fully comply with all applicable federal and state laws and regulations as well as the ALDE (Association of Lutheran Development Executives) Code of Ethics and the AFP (Association of Fund Raising Professionals) Donor Bill of Rights. Mission Endowment Fund representatives will comply with the *Model Standards for the Charitable Gift Planner* promulgated by the National Committee on Planned Giving. MEF accounting practices will comply with GAAP (Generally Accepted Accounting Principles).

2.1.1 Priority of the Donor's Interest

The Mission Endowment Board (MEB) will seek to serve the best interest of both the donor and King of Kings Lutheran Church to provide responsible methods for the development, acceptance and administration of all gifts. Gift plans will respect each donor's intent and desire and no agreement will be entered into which would knowingly contradict the donor's wishes.

2.1.2 Confidentiality

All information connected with any gift or planned giving arrangement shall be treated with the strictest of confidentiality. Any publicity to be disseminated with respect to any gift shall be approved by the donor and confirmed in writing prior to the release of any oral or written publicity concerning the gift. Likewise all information concerning donors, including names and addresses, amount of gift, names of beneficiaries, nature and value of estate, amounts of provisions, etc., will be kept strictly confidential by the MEB and its representatives unless written permission is granted by the donors to release such information.

Adopted at Congregational Meeting, January 25, 2004

Amended at Congregational Meeting, January 31, 2010

2.1.3 Disclosure

The role and relationship of all parties involved in the gift planning process shall be fully disclosed to donors, including how and by whom each is compensated. The MEB will not accept compensation that is based on a percentage of charitable contributions; nor will the MEB accept finder's fees. Neither will the MEB pay finder's fees, commissions or percentage compensation based on charitable contributions.

2.1.4 King of Kings Lutheran Church Mission Endowment Board Standing

The MEB shall not accept any gift or enter any agreement which would improperly benefit any individual or in a manner that would jeopardize the tax exempt status of Kings of Kings Lutheran Church. In all its dealings and agreements, the MEB will seek to guard its reputation within the community.

2.1.5 Sale of Contributed Assets

To avoid any conflict of interest, no sale of any MEB assets will be made to any King of Kings staff or MEB member or council member. All sales exceeding \$5,000 will be fully disclosed to the Church Council at its next meeting.

2.2 Professional Counsel

2.2.1 Authorized Representatives of the MEB

When a planned gift agreement states or implies an obligation, commitment or management responsibility of the MEB, the authority to represent the MEB and execute such agreements has been assigned to the MEB and only to such representatives as may be designated by the MEB.

2.2.2 Use of Legal Counsel

The MEB shall seek the advice of legal counsel in matters relating to acceptance of gifts when appropriate. The following cases may need such legal advise:

2.2.2.1 Closely held stock transfers subject to restrictions or buy-sell agreements

2.2.2.2 Documents naming the MEB as Trustee

2.2.2.3 Gifts involving contracts, such as bargain sales or other documents requiring the MEB to assume an obligation

2.2.2.4 Transactions with potential conflict of interest that may invoke IRS sanctions

2.2.3 Advice to Donors

The MEB will refrain from giving legal, financial, tax, or accounting advice. MEB representatives will urge all prospective donors to seek the assistance of their own independent personal, legal and financial advisors in matters relating to their gifts and the resulting tax and estate planning consequences.

Adopted at Congregational Meeting, January 25, 2004

Amended at Congregational Meeting, January 31, 2010

2.3 Gifts Acceptable to the Mission Endowment Fund (MEF)

The following are forms of gifts that are acceptable to the MEF. Any of these gifts or their remainder value may be used to establish an endowment.

2.3.1 Unrestricted Donations

An unrestricted donation is an immediately effective gift made without expectation of any further relationship with the MEB regarding that gift.

2.3.2 Bequests

A bequest is a gift made by will and is effective following the death of the donor. A bequest may be for a specific amount or a specific item or property or it may be for a percentage of the remainder of an estate.

2.3.3 Charitable Remainder Unitrust

2.3.3.1 Standard Unitrust - The donor irrevocably transfers money, securities or other property to the MEF trustees, who pay a fixed percentage (not less than 5%) of the trust's assets, valued annually, to the donor or other beneficiary(ies), named and living when the trust is created, as income for life or for a period of years (not to exceed twenty). The payout rate is determined at the time the trust is completed and is stated in the trust agreement. If the annual income and/or capital gain do not equal the committed payout rate, then principal is used to make up the difference. If there is income in excess of the payout rate, it is added to the principal.

2.3.3.2 Net Income Unitrust - This variation provides that only the amount of income earned by the trust will be paid to the income beneficiary(ies), not to exceed the stated payout rate.

2.3.3.3 Net Income with Make-Up Unitrust - This is a variation of the standard unitrust in which the trust agreement specifies that only the amount of income actually earned by the trust is paid to the beneficiary(ies), even if less than the stated payout rate. Deficiencies incurred during some years of the trust are "made up" in subsequent years as income earned by the trust exceeds the stated payout rate.

2.3.4 Charitable Remainder Annuity Trust

The donor irrevocably transfers money or securities to the MEF trustees, who pay a fixed dollar amount (equivalent to 5% or more of the initial value of the trust assets), to the donor or other beneficiary (ies), named and living when the trust is created, as income for life or for a period of years (not to exceed twenty). The payout is determined at the time the trust is created and is stated in the trust agreement. If the annual income and/or capital gain do not equal the committed payout rate, then principal is used to make up the difference. If there is income in excess of the payout rate, it is added to the principal.

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2.3.5 Charitable Lead Trust

The donor gives an asset to the MEF trustees for a term of years and the trustee pays the trust income to the MEF. At the expiration of the trust, the property returns to the donor or donor's family or designee.

2.3.6 Charitable Gift Annuity

With a simple contract, a charity pays the donor a fixed income for the rest of her/his life. Only cash or securities are acceptable for a charitable gift annuity. The income payment to the donor is set by the donor's age at the time of the gift and may be partially tax-free. At death, the MEF receives the remainder value. Gift Annuities may be established for one or two lives and payments may be deferred or given to someone else such as a grandchild during the college years.

2.3.7 Life Estate Agreement

A life estate agreement is a charitable instrument by which a personal residence, vacation home or farm is transferred by deed to a charitable organization during a donor's lifetime and the donor retains usage of the property for life. A deed with a life estate provision is executed. Upon the donor's death, the MEF receives the property to use as needed or as directed in the life estate agreement.

Gifts of real estate with a retained life estate interest should have a value of at least \$100,000. The donor shall sign a memorandum of understanding outlining their responsibilities for the property at the time the gift is made. The donor will maintain the property, pay real estate taxes, pay fees such as association fees or assessments, and pay for insurance, utilities, repairs, etc. Necessary capital improvements must also be made at the donor's expense.

2.3.8 Life Insurance

A life insurance gift may be either the gift of a new policy or a policy already in force. The donor shall simply transfer the ownership of the policy to the MEF. Alternatively the donor may name the MEF as a beneficiary or partial beneficiary of a policy that they continue to own.

2.3.9 Pooled Income Fund

A Pooled Income Fund is another type of life-income gift. When making a gift to a pooled income fund, the donor's contribution shall be pooled with gifts of other donors. Each donor has a prorata share interest of the fund and receives her/his share of the fund's annual net ordinary income. Upon the donor's death, her/his share shall become the property of the MEF.

2.3.10 Retirement Plans

A donor may name the MEF as a beneficiary or partial beneficiary of a Retirement Plan (IRA, Keogh, 403b, Tax Deferred Annuity, etc.).

2.4 Endowments

An endowment is a pool of property held by a charity and invested to provide an annual income for the institution. The principal is never used, only the fund's accumulated returns (earnings, income, and realized and unrealized changes in value). An endowment may be established through any of the gifts listed in Section 2.3.

2.4.1 Unrestricted Endowment

An unrestricted endowment is not committed to any specific use and will be made available for any use within the MEF.

2.4.2 Restricted Endowment

A restricted endowment may carry the name of the donor, and is committed to a specific use.

A minimum of \$25,000 is required to establish a restricted endowment with the MEF. Should a proposed restriction violate any policy of the MEF or require a program or service that the MEF cannot provide, the endowment will not be established.

(1/31/2010) Paragraph deleted.

3. GIFT ACCEPTANCE POLICIES

3.1 General Statement

A strong planned gifts program is an important element in fulfilling the long-term goals of the Mission Endowment Fund (MEF). Approved policies contribute to forming the best possible relationships with those who give. This statement specifies guidelines for general policies and specific practices by which the program operates. The degree of detail specified helps assure efficient functioning and quality control.

The Mission Endowment Board (MEB) will oversee the gift acceptance process for the congregation of King of Kings Lutheran Church and will review proposed gifts. The MEB will periodically review and update these policies and procedures, keeping the Council apprised of its activities.

3.2 General Gift Acceptance Guidelines

All gift and bequest arrangements, other than cash or publicly traded stock/mutual funds must be reviewed for acceptance by the MEB.

(1/31/2010) When a restricted endowment is established, the MEB must determine that a proposed restriction does not violate any policy of the Mission Endowment Fund Resolutions or King of Kings Lutheran Church or requires a program or service which King of Kings Lutheran Church cannot provide. Further, the MEB must communicate clearly and receive a written acknowledgment from the donor that should the time come when King of Kings Lutheran Church can no longer provide the specific service for which the endowment was established, the restricted endowment will be used for a similar service provided by, in order of preference, first by King of Kings

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Lutheran Church, second the Oregon Synod and, finally, by another Lutheran agency in Oregon; if no such program or service exists, the restricted endowment shall become unrestricted.

3.3 Substantiation of Gifts

The MEB shall see that donors are informed and have appropriate information and receipts/acknowledgments for the substantiation of the value of their gift.

The MEB will not establish the value of a gift. It is understood that acceptance does not represent concurrence in the value placed on the contributed property by the donor. Acceptance simply represents acknowledgment that the property described has been received on a specific date. The donor or donor's appraiser, and not the MEB, is responsible for establishing the value of property gifts.

The donor will be referred to IRS Publication 561 as well as IRS. Where the donor is required to file any tax forms, the MEB shall see that the donor receives the required signature. The MEB may inform the donor when there is a possibility that any tax forms may need to be filed.

3.4 Policies and Procedures for Specific Forms of Gifts

3.4.1 Cash

Gifts in the form of cash or checks will be accepted regardless of amount. All checks must be made payable to "King of Kings Lutheran Church," designated "Mission Endowment Fund."

3.4.2 Bequests

All appropriate property given will be accepted. Inappropriate property given to the Mission Endowment Fund by a bequest shall be disclaimed through a formal disclaimer presented to the estate representative in a timely fashion.

3.4.3 Publicly Traded Securities

Securities (stocks, bonds, mutual funds), which are traded on public exchanges, will be accepted by the MEB. Publicly traded securities will be liquidated as soon as possible after they are received.

3.4.4 Closely Held Securities

The MEB will examine closely held securities for acceptance on a case-by-case basis.

3.4.5 Real Property

The MEB will research all offered real property gifts. Such research will include the following:

3.4.5.1 Complete a Real Estate Environmental Questionnaire and Disclosure Statement with the donor's signature on the questionnaire. Inform the donor that if there are any environmental concerns, he/she may be responsible for an EPA Phase I audit.

- 3.4.5.2 Examine the title for clear ownership and acceptability of liens and encumbrances.
 - 3.4.5.3 Inform the donor that they are responsible for a Qualified Appraisal.
 - 3.4.5.4 For commercial property, require owners of commercial property to provide an EPA Phase I audit. The MEB may require from the donor an Agreement to Indemnify stating that the donor will indemnify King of Kings Lutheran Church if the property must be cleaned up after King of Kings Lutheran Church takes ownership.
 - 3.4.5.5 Gifts of real property, unless usable for the mission and program of King of Kings Lutheran Church, will be offered for immediate resale. Exceptions to this rule will be at the discretion of the MEB jointly with the Church Council.
- 3.4.6 Personal Property
- 3.4.6.1 Tangible Personal Property will be received after satisfactory review by the MEB. Perishable property or property that requires special facilities or security will generally not be accepted.
 - 3.4.6.2 Intangible Personal and Other Property of any description, including but not limited to notes, copyrights, royalties, easements, trademarks, and patents may be accepted but only upon a satisfactory review by the MEB.
 - 3.4.6.3 Life Insurance Policies and other assets evidenced by contract will be received provided ownership arrangements or beneficiary designations in the name of King of Kings Lutheran Church Mission Endowment Fund can be established in compliance with the procedures of the issuing company.

4. INVESTMENT POLICY

- 4.1 Investment Management Responsibilities
 - 4.1.1 The responsibility of the Mission Endowment Board (MEB) is to develop and adopt, within the powers granted under Article III of the Resolution establishing the King of Kings Lutheran Church Mission Endowment Fund (the Resolution), broad investment policy, guidelines and objectives.
 - 4.1.2 The investment policies, guidelines and objectives developed and adopted by the MEB shall be approved by the Congregation as detailed in paragraphs 1 and 2 of Article II of the Resolution.

- 4.1.3 The MEB may utilize the services of one or more professional investment managers. The Board will appoint the investment manager(s). The responsibility of the investment manager(s) is to optimize the return on assets within the guidelines established under paragraph 1 of Article III of the Resolution.
- 4.1.4 The Board will review the performance of the investment manager(s) at least annually. The investment manager(s) will regularly report its investment management activity to the Board.
- 4.2 **Deferred Gift Agreement Management**
Unless determined by prior agreement, funds, securities or property received under deferred gift agreements will be managed by a professional trustee. Management options include a trust managed by a bank or trust company, or a designated fund managed by a nonprofit organization such as a community or Lutheran church-affiliated foundation.
- 4.3 **Gift-Related Costs**
 - 4.3.1 The Mission Endowment Fund may fund such appraisals as may be appropriate for its own purposes. The cost of any appraisals necessary to establish the fair market value of trust assets that is required annually for trust purposes will be borne by the appropriate trust.
 - 4.3.2 Gift-related costs, such as those associated with the acquisition or selling of real estate, will normally be charged against the balance transferred to the designated fund receiving the gift. Where there are ongoing management costs associated with property or trust assets, those costs will be borne by the property or trust involved. Legal fees/expenses that may be incurred in the life of the trust will be borne by the appropriate trust.
 - 4.3.3 In all cases, Internal Revenue Code requirements and any applicable other Federal or State laws shall govern how costs are incurred and allocated.
- 4.4 **Investment Objectives**
 - 4.4.1 Ensure sufficient liquidity. Maturities tied to periods of forecasted need.
 - 4.4.2 Obtain the highest possible rate of return within the level of risk approved by the MEB.
 - 4.4.3 Maintain a flexible and diversified portfolio that reflects the investment guidelines.
 - 4.4.4 Ensure that investments are with organizations that have values that are consistent with the mission and values of this agency.
 - 4.4.5 Provide for the safety of the assets, consistent with other objectives.

4.5 Investment Guidelines

- 4.5.1 Investment shall be guided by the concept of a prudent investor as outlined in Article III of the Resolution. Investments shall be in a diversified balanced selection of fixed income securities, equity securities, and cash equivalents.
- 4.5.2 Cash equivalents should be maintained at a minimal level necessary to provide liquidity for expected distributions as outlined in the Distribution Guidelines. The balance of the portfolio shall be held:
50-70% in equity securities, and
30-50% in fixed income securities.
- 4.5.3 Securities shall be managed to achieve returns with medium risk. A target return shall be 6-8% annualized return over inflation, after investment management costs, measured over a five year period.
- 4.5.4 No investment may be made using short sales, margins, options, commodities, derivatives or any other method, device or vehicle in which the level of risk is inconsistent with this Policy.
- 4.5.4.1 Equity Securities
Equity securities management style will emphasize long-term capital appreciation. Equity investment will normally be made through mutual funds. Selection of individual securities, if any, will be based on fundamental analysis and turnover will be low on those individual securities. No individual security will be more than 5% of the equity portion of the portfolio.
- 4.5.4.2 Fixed Income
Fixed income management style will not take excessive risks in the terms of maturity and credit ratings. Fixed income investments, individual securities or mutual funds if fixed income securities, shall consist of instruments issued by the U.S. Treasury, U.S. Government Agencies or Public Corporations. All purchases shall be made with securities rated "Investment Grade" by Moody's and/or Standard & Poors. Any portfolio holding downgraded by the rating agencies below "Investment Grade" must be liquidated immediately.
- 4.5.4.3 No more than five percent (5%) of the fixed income portion of the portfolio shall be invested in any single issue, other than U.S. Treasury Securities.

4.6 Investment Manager Responsibilities

- 4.6.1 The investment manager(s) will provide transaction confirmations or registers and portfolio valuations, including cost and market data, on a monthly basis. The manager(s) will also provide data required for proper monitoring on a timely basis each quarter.

- 4.6.2 A representative of the investment manager(s) will meet with the MEB quarterly, or as needed, to review the portfolio and to provide results of the past period, comparative data to evaluate performance relative to index benchmarks which appropriately reflect the portfolio allocations, and the outlook for the next period.
- 4.6.3 This statement is meant to provide guidelines for the investment manager(s). They should feel free to suggest changes and to make recommendations to the MEB on an ongoing basis.

5. DISTRIBUTION GUIDELINES

5.1 General Statement

- 5.1.1 As specified in the Resolution establishing the Mission Endowment Fund (MEF) and as approved by a vote of the members of King of Kings Lutheran Church, distributions from the MEF will be made to enhance and expand outreach ministry as well as new spiritual, educational and stewardship opportunities, apart from the general operation of the congregation.
- 5.1.2 A strong distribution program can be an important element in fulfilling the long-term goals of King of Kings Evangelical Lutheran Church.
- 5.1.3 The Mission Endowment Board (MEB) will oversee the disbursement of funds within the purposes identified in the Resolution, this Policy and within the guidelines established by the MEB. The MEB has full authority to disburse funds generated by the MEF investments, in accord with the limitations set forth by these guidelines.

5.2 General Disbursement Formula

- 5.2.1 Upon receipt of any gift, ten percent (10%) of the cash value of the gift will immediately be given to the Oregon Synod Mission Endowment Fund.
- 5.2.2 ^(1/31/2010) No funds will be disbursed until the MEF cash value reaches \$10,000.
- 5.2.3 ^(1/31/2010) After reaching a fund value of \$10,000, annual distribution of interest, dividends, and realized gains may be made.
- 5.2.4 The amount available for annual disbursement will be determined by the MEB Treasurer following the fiscal year-end and shall be the lesser of:
 - 5.2.4.1 ^(1/31/2010) Five percent (0.05) of the average of the Fund balance at the end of each of the most recent five (5) fiscal years; or fewer years if the balance of the Fund reaches \$10,000 before the first five years of the Fund's existence, or

- 5.2.4.2 The amount in the Fund at the most recent fiscal year-end in excess of accumulated donor contributions intended to remain in the fund in perpetuity (generally accumulated undistributed earnings, but possibly including contributions intended for distribution)
- 5.2.5. Following calculation of the amount of the annual distribution, the MEB will determine the amount of each contribution based on the following limitations:
 - 5.2.5.1 Up to 40% of the annual distribution to support members of King of Kings seeking scholarships for seminary education, higher education scholarships, or support for involvement (travel, tuition, membership fees, etc) in local, national, or global ministries.
 - 5.2.5.2 Up to 30% of the annual distribution for special project support in the local geographic area of King of Kings.
 - 5.2.5.3 Up to 50% of the annual distribution for special ministries within the Oregon Synod and/or churchwide ministries of the ELCA
 - 5.2.5.4 Up to 20% of the annual distribution for extraordinary programs, ministry initiatives or capital improvement within King of Kings.
- 5.2.6. The decision of amounts to be distributed by the MEB will be announced to the Congregation in the next bulletin and newsletter. The Chairperson of the Fund will notify the recipients of distributed funds. Arrangement for payment of the funds will be documented in the records of the MEF and receipted for by the receiver.

KING OF KINGS LUTHERAN CHURCH MISSION ENDOWMENT FUND

POLICIES

Exhibit # 1
(1/31/2010)

Board Annual Responsibilities

February 6, 2006

February

Annual program actions
Review Introduction to Policies
Review Distribution Guideline Policies
Indoctrination of new MEB members
Provide MEF Resolution to new KOK members
Financial report, review Investments
Determine need for fidelity bond for MEB
Disburse approved funding requests
Elect officers

May

Annual program actions
Review Cultivation and Solicitation of Gifts Policies
Review Distribution Guidelines
Provide MEF Resolution to new KOK members
Financial report, review Investments
Determine need for financial advisors

July

Annual program actions
Review Gift Acceptance Policies
Provide MEF Resolution to new KOK members
Financial report, review Investments
Discuss goals and develop strategies for coming year annual program
Solicit funding request for next year

November

Annual program actions
Review Investment Policies
Provide MEF Resolution to new KOK members
Financial report, review Investments
Finalize strategies, begin implementation for coming year annual program
Coordinate with Nominating Committee for election of new MEB members
Statement of assets report for KOK annual report and meeting
Funds distributed report for KOK annual report and meeting
Review funding request for next year, recommendations for annual meeting.

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Amended at Congregational Meeting, January 31, 2010