

❖ Chautauqua Region Community Foundation, Inc. ❖

Endowment Spending Policy

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Definition Spending policy is the established rate, in terms of percent, that determines the amount expended for grants and administration. The spending policy rate is 5%.

Philosophy The basic philosophy behind a spending policy is to provide both higher total investment returns and increasing grant distributions over time that will keep pace with or exceed inflation. This is accomplished by:

- Investment management based on maximizing “total return” (i.e., asset growth and income combined).
- Investment objectives based on long-term growth of both assets and grant distributions exceeding the rate of inflation.
- A spending level set as high as possible without risking the long-term growth objective.

Spending Rate The 5% spending rate was derived from a historical analysis of the investment markets since the 1920’s. This analysis considered the optimal asset allocation to produce the highest investment returns with the least amount of risk or market volatility.

This return, net of inflation, is the basis for the spending rate and was adopted by the Foundation in 1993. Previous to that, all interest and dividend income was spent.

The Spending Policy was expanded in 2001 to include the Uniform Management of Institutional Funds Act (UMIFA) which the State of



The spending policy will substantially enhance asset growth and the amount paid out to the

New York mandates for all charitable endowments. UMIFA limits endowment spending to the lesser of ordinary income (i.e., dividends and interest) or the Spending Policy when the fair market value of a fund is less than its historical dollar value. This change in policy may primarily affect newer funds since market declines have absorbed any accumulated asset growth.

Spending Rate Schedule

As stated previously, the spending rate is 5% for grants and administration. Grant spending is dependant upon the type of charitable fund established and varies relative to the amount of administration required to fulfill the charitable fund purpose. Below is a schedule outlining the rate schedules:

<u>Fund Type</u>	<u>Annualized Rates</u>	
	<u>Grants</u>	<u>Admin.</u>
Community Service	4.10%	.90%
Field of Interest	4.10	.90
Donor Advised	4.10	.90
Designated/Agency	4.10	.90

<u>Fund Type</u>	<u>Annualized Rates</u>	
	<u>Grants</u>	<u>Admin.</u>
Scholarship	3.50%	1.50%
Operating Endow.	5.00	-

As a note, most other community foundation’s allocate a minimum of 1.5% from the total 5% spending for administrative expenses.

Spending Calculation

The calculation for spending is broken down into two components (grant calculation vs. administration calculation).

- **Grants**-each fall, the Foundation determines grant spending for the subsequent year by using a September 30th cutoff date. The fund balance at this date, averaged with the previous quarterly balances for a total of twelve quarters (or three-years) is multiplied against the grant spending rate. The resulting figure represents the dollar value for grant spending.
- **Administration**-each calendar quarter, the Foundation multiplies the fee rate (see schedule at left) against the previous quarter fund balance. These annualized rates vary by fund type.

Investment Returns

Actual total returns, net of investment management fees, are allocated 100% to each fund. Returns exceeding total spending will keep pace with inflation and assist in growing a fund’s market value to provide for greater charitable grants in perpetuity.