

# ❖ Chautauqua Region Community Foundation, Inc. ❖

## Endowment Spending Policy

January 2014

**Definition** Spending policy is the established rate, in terms of percent, that determines the amount expended for grants and administration. The spending policy rate at present is 5% but may be changed at any time by the Board of Directors as described below.

**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 spending rate is 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 initially adopted by the Foundation in 1993. It was reviewed at least annually, and more frequently if market conditions dictated.

The Spending Policy was expanded in 2001 to include the Uniform



Management of Institutional Funds Act which the State of New York mandated for all charitable endowments. UMIFA limited 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 was less than its historical dollar value (i.e., the amount of the donor's gift)

The Spending Policy was modified in 2010 when New York State adopted the Prudent Management of Institutional Funds Act (“NYPMIFA”) which, grants the Foundation discretion with respect to the accumulation or expenditure of amounts in the endowment fund including portions of the original dollar value of the donor's gift.

### Spending Rate Schedule

As stated previously, the spending rate is currently 5% for grants and administration. Grant spending is dependent 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 spending 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
Scholarship	3.50	1.50
Operating Endowment	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 the grant spending for the subsequent year using a September 30th cutoff date. The fund balance at this date, averaged with the previous quarterly balances for a total of twenty quarters (or five years) prior to the current year is multiplied against the grant spending rate. Subject to the NYPMIFA requirements, the resulting figure represents the dollar value for grant spending.

**Administration** - each calendar quarter, the Foundation multiplies the fee rate (see schedule above) 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.

