



## **SPENDING POLICY ON ENDOWED FUNDS**

**Adopted by the Board 2/1/2023**

**Reviewed by the Investment Committee 1/26/2023**

### **Statement of Purpose**

The Community Foundation San Luis Obispo County ("Foundation") has a Spending Policy for endowed funds to accomplish three objectives:

- 1) Allocate** annually a percentage of the net value of each fund that may be spent on distributions for the current year and beyond.
- 2) Provide** a reliable source of dollars that balances the intent of long-term growth of assets, in consideration of economic and market conditions, with the desire to provide funds that can be granted to meet needs in the community or the non-profit agency.
- 3) Protect** donor intent *in perpetuity*.

### **Statement of Policy**

#### **Spending Policy**

3.75% of the average net value will be transferred from each fund's Accumulated Earnings balance as of the prior calendar year end to its "Available to Spend" balance for use in the following year. If a fund has a lower amount of Accumulated Earnings as of the prior year end than the calculated Available to Spend for the subsequent calendar year, then Available to Spend will be limited to the amount of its Accumulated Earnings as of the prior calendar year end.

#### **Calculation**

- At the end of the calendar year of the prior calendar year, the average fund value based on the average quarterly balance over the prior twelve quarters of each endowed fund will be calculated.
- 3.75% of that average net value will be transferred from each fund's accumulated prior year earnings balance to its "Available to Spend" balance for use in the following year, along with any Available to Spend balance remaining from prior years. If a fund has a lower amount of accumulated prior year earnings than the calculated available to spend for the subsequent

calendar year, Available to Spend will be limited to the amount of its accumulated earnings in the prior calendar year.

- From the Available to Spend total balance, distributions may be made throughout the following calendar year in accordance with the fund agreement.

### **Spend Policy Review**

The Investment Committee and the Board of Directors of the Foundation will review and approve this policy periodically to assure its compliance with prevailing regulations and best practices of community foundations nationwide.

## Spending Policy Appendix A

### Implementation Guidelines & Definitions

- A fund must be in existence for a minimum of four full quarters during the prior calendar year in order to participate in spending (grantmaking) for the next calendar year. See example below for Fund A.
- Accumulated earnings shall be defined as aggregate return from capital appreciation plus dividend and interest income, minus any investment and administrative fees, any grants, and any Available to Spend not spent in prior years (Accumulated Available to Spend). This figure is calculated over the lifetime of the fund.
- The "Available to Spend" figure for a year will be calculated as follows (see example below for Fund B):
  - The average quarterly balance for the previous twelve (12) quarters will be determined.
  - These twelve quarters will be averaged (Average Net Value)
  - 3.75% of the Average Net Value will be the Available to Spend for the next calendar year
- If Lifetime Accumulated Earnings for a fund is negative at December 31, the spending policy will not be implemented for that fund in the following year. See example below for Fund C.
- Available to Spend will be the lesser of the calculated amount for the upcoming year or Accumulated Earnings. See example below for Fund D.
- If a fund does not spend all its available to spend in the current year, that amount will be carried forward to future years (Accumulated Available to Spend) See examples below for Fund C and D.
- The spending policy will not be implemented for donor advised endowed funds whose fund agreements specify that the fund is not subject to the spending policy.

### Examples

- **Fund A:** Fund A was started on 2/1/18. As of 12/31/18, Fund A has only been in existence three full quarters, so it will not participate in grantmaking for 2018 or 2019. Fund A will be able to participate as of January 2020 provided that all other spending policy stipulations are met.
- **Fund B:** At 12/31/18, Fund B has positive Accumulated Earnings for the calendar year. The average quarterly balances for 2016-2018 are calculated. Those twelve quarters average out to \$210,000. 3.75% of this is \$7,875. \$7,875 will be made available for grantmaking in 2019.

- **Fund C:** On 12/31/18, Fund C has negative Accumulated Earnings of (\$2,500) for the calendar year. There are no Accumulated Earnings available on 12/31/18, so Fund C is not able to participate in grantmaking for the upcoming calendar year of 2019. However, if Fund C has Accumulated Available to Spend from prior years, that amount will be available in 2019 for grantmaking.
- **Fund D:** On 12/31/18, Fund D has positive Accumulated Earnings of \$1,500 for the calendar year. The amount calculated as available for grantmaking in 2019 is \$4,000, based on the Average Net Value of the fund. Regardless, Fund D will only be able to spend the \$1,500 of available Accumulated Earnings in 2019, as Available to Spend is the lesser of these two calculated figures. However, if Fund D has Accumulated Available to Spend from prior years, that amount will also be available in 2019 for grantmaking.



**Spending Policy  
Appendix B  
(Internal only)**

**Implementation Guidelines & Definitions for Exceptions Made in Past Years**

- These guidelines may be applied if a fund meets age of fund and positive income tests.
- Historic gift value shall be defined as the total of all gifts to the fund minus any gifts made directly to the available to spend portion of the fund (will equal principal balance unless fund has invaded principal at some point).
- For endowed funds which have a fund balance as of 12/31 of 95-100% of historic gift value, a reduced spending rate will be allowed, only if the original donor has given written permission to do so. In this case, 2.00% of the average annual fair market value of the fund, as calculated above, will be made available for grantmaking, and only if the accumulated earnings are positive. The spending rate will return to normal when the fund balance equals or exceeds 100% of historic gift value and when accumulated earnings are positive. See example below for Fund E.

**Example**

- **Fund E:** On 12/31/18, Fund E has a historic gift value of \$100,000, a fund balance of \$96,000, and an Average Net Value of \$97,000. Accumulated Earnings for the fund are positive. The amount calculated for grantmaking in 2019 is \$1,940 ( $\$97,000 \times 2\%$ ), because the Fund Balance is between 95% and 100% of the Historic Gift Value. If the Fund Balance returns to at least \$100,000 by 12/31/19, the fund will have the full available to spend for 2020, provided that its accumulated earnings are positive at 12/31/19.