

THE COMMUNITY FOUNDATION  
*of Shelby County*  
*Build Today...Dream for Tomorrow*

## **Spending Policy Information Sheet**

### **What is a Spending Policy?**

A Spending Policy is a disciplined approach to identifying how much can be disbursed from an endowed charitable fund each year. The goal is to limit spending enough that the fund's market earnings will continue to grow the fund balance and help it keep pace with inflation. It is guided by the Uniform Prudent Management of Institutional Funds Act (UPMIFA)

The biggest perk is that when investments are down, the fund can typically continue to disburse at a time when it is most needed for scholarships and charitable organization support. However, should an endowed fund fall below 85% of its principal (gift) balance as of October 1 each year, the Foundation will suspend all new grantmaking to avoid depleting the fund. Any grants or scholarships already awarded or approved will be paid.

### **How much may be granted each year?**

Most Community Foundation charitable funds are placed within one of three investment pools. Each pool's asset allocation results in a different return expectation. The more fixed income and cash allocations, the lower the expected volatility and return. The higher the equity allocation, the higher the expected volatility and return. A recent report of pool return is available upon request.

The Spending Policy for each Investment Pool is as follows:

Conservative Investment Pool:	3.0%
Balanced Investment Pool:	3.5%
Aggressive Investment Pool:	4.0%

The Spending Policy calculation produces the Spendable Amount for the upcoming calendar year by multiplying the applicable percentage by the charitable fund's average balance from the 16 quarters prior to October 1 each year. This gives Foundation staff time to prepare the amount available for grants or scholarships in the coming year. Short term market fluctuations have a less drastic effect on Spendable Amounts. New gifts gradually affect the Spendable Amount as the fund's higher balance begins to increase the average.

The Investment Pool holding a charitable fund on October 1 will dictate the Spending Policy percentage. Should a Fund move to a different Investment Pool throughout the year, the Spendable Amount will not change until the next October 1 calculation is produced.

### **Which charitable funds abide by the Spending Policy?**

Those charitable funds whose agreements indicate a temporary or permanent endowment will abide by the Spending Policy. Charitable funds that are temporarily endowed should use the Spending Policy as their guide except for any special circumstances that are stated within the charitable fund agreement.

Non-endowed funds which allow disbursement of a charitable fund's Principal and Total Return are not affected by the Spending Policy. Gift Accounts, Project/Campaign Funds and other charitable funds which do not restrict spending amounts are free to continue disbursements as permitted in their fund agreements.