

## **Spending Policy for Endowed Funds**

### **Policy Statement and Purpose**

It is the stated policy of the Hendricks County Community Foundation (HCCF) to realize real asset growth of endowed funds over the long term. This Spending Policy provides a maximum cap (the “Spending Rate”) for expenditures from endowed funds to ensure that a fund is not eroded over time as it generates grants and pays internal fees, so that it grows in perpetuity for the enduring benefit of the community. The Spending Policy is intended to establish reasonable and prudent spending, on an annual basis, to support HCCF’s mission and purposes, and may be amended from time to time as the Board of Directors deems appropriate. The Spending Policy is based on the provisions outlined in Indiana Code 30-2-12, Uniform Management of Institutional Funds Act, which includes the total return investment approach.

HCCF recognizes that the establishment and consistent application of the Spending Policy, in conjunction with our Investment Policy, is essential to the long-term growth and success of HCCF and the performance of our advised funds, designated funds, field of interest funds, scholarship funds and other endowed funds. Additionally, this policy ensures that HCCF is able to address current needs and goals in the community, respond to donor’s intent, and foster consistent grant distributions to the community.

HCCF is deemed by the Internal Revenue Service to be a tax-exempt public charity. As such, funds of HCCF are not subject to private foundation regulations requiring a 5% minimum annual grant expenditure. Funds of HCCF may expend less than the Spending Policy in any given year.

### **Written Notice to Expend Less than Spending Policy**

While funds of the Community Foundation are not required to recommend grants, plans to allow a fund to grow for a period of years with no expenditures made should be communicated in writing to HCCF so that the fund does not become subject to the HCCF Inactive Funds Policy, which applies after three years of dormancy. See *HCCF Inactive Funds Policy*.

### **Determination of Annual Spending Rate**

The Spending Rate shall be a percentage of up to 5% applied to an average balance of an endowed fund to determine the Spendable Amount for each year. The Spending Rate for grant distributions from a fund for the coming calendar year will be set by the Board of Directors annually, upon recommendation from the Finance Committee. The Directors and Finance Committee members will act prudently, responsibly and in good faith when deciding on a Spending Rate, and will consider the following factors:

- The duration and preservation of the endowment fund,
- The purposes of HCCF and the endowment fund,
- General economic conditions,
- The possible effects of inflation or deflation,

- The expected total return from income and the appreciation of investments,
- Other resources of HCCF, and
- The investment policy of HCCF.

The amount appropriated for expenditure for grants (the “Spendable Amount” for each fund) shall be calculated each year by averaging the previous 12 quarters of a fund’s ending account balance, beginning with the September balance, and applying the determined Spending Rate to the resulting average balance. The resulting Spendable Amount will be the maximum available grantmaking amount for the fund for the next fiscal year.

Unusual market conditions or other considerations may cause the Board of Directors to make adjustments to the Spending Rate at any time, as deemed prudent and responsible at the time the decision is made.

**Recommended Process for Calculation of Investment Returns**

In assessing the total return from income and appreciation of investments, the Finance Committee and Board of Directors may use the following process: The total investment return for the pool of endowed fund assets will be reviewed for the twenty (20) prior quarters, starting September 30 of the current year. The high and low quarters for rates of return will be eliminated and the remaining eighteen (18) quarters will be averaged for the adjusted average total return. Time-weighted rates of return for each period shall be calculated using the following formula:

$$\frac{\text{Ending Value} - (\text{Net Contributions} + \text{Beginning Value})}{\text{Beginning Value} + (\text{Net Contributions} / 2)}$$

Using this weighted investment return, and other factors, the Finance Committee and Board shall determine the Spending Rate for the following year, up to a maximum of 5% of the average fund balance.

Please see the *HCCF Investment Policy Statement* for more information on our investment goals and objectives, and our *Administrative Fee Policy* for more on our internal fees and minimum balances for funds.