

# Giving and saving for the future

## Spending Policy for Endowed Funds



In 1995, the Kalamazoo Community Foundation adopted a spending policy to determine the amount available for grantmaking from endowed funds each year. The objective of the spending policy is to provide a structure for the systematic distribution of funds in an unstable and unpredictable investment world. The spending policy, guided by the Uniform Management of Institutional Funds Act (UMIFA), is designed to protect the original gift (defined as “principal” under UMIFA) while providing for grantmaking capability, which ideally will grow in real value over time.

### How it works

Each June 30, the Community Foundation takes the market value of an endowed fund, adds it to the prior 19 quarters, and averages the results to form a 20-quarter average spending base. This smooths spending from one year to the next by taking out the sharper quarterly increases and decreases in the market. If a fund has been in existence for fewer than five years, the Community Foundation uses the number of quarters the fund has existed. A spending policy rate is then applied to the average to determine spending in the subsequent year.

Depending on how quickly market values increase or decrease, the spendable amount may be greater or less than the calculation described above. And, in times where the market is in steady decline, spending may have to be delayed or an alternative spending policy chosen because the Community Foundation is fully committed to UMIFA for the administration of assets entrusted to it, which provides that the principal may never be distributed.

The asset allocation and spending policy are reviewed formally by the Community Foundation’s board of trustees every five years.

### Distributing endowment funds

The Kalamazoo Community Foundation’s 2008 (as of June 30, 2007) spending policy rate will be 5.3% for endowed restricted funds and 5% for endowed unrestricted funds. Each year, the entire “spendable” or “grantmaking” amount available from a fund may be distributed to provide for the needs of charitable organizations or institutions. In any given year, a fund representative may choose to reduce the spending policy rate and keep the difference with the principal of the fund.

The Community Foundation will reduce its endowed restricted funds spending rate to 5% no later than 2009 to better provide for the long-term needs of the community.

Your donor relations representative will review the Community Foundation’s spending policy and rate with you when you establish a fund.

### Fees

There are two fee assessments on funds. An annual investment fee is assessed, which covers the costs incurred to provide investment oversight and management services. An administrative fee is charged to help cover operation costs. These fees vary by the type of fund you decide to establish.



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