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Spending Policy For Endowed Funds

The purpose of a spending policy is to offer donors and beneficiaries a projected amount of money that will be available for distribution on an annual basis, while preserving the Fund itself for perpetuity and allowing for Fund growth. A policy allows donors, in the case of Donor Advised Funds, to plan for and budget their annual charitable gifts. For organizations, a spending policy offers the chance to plan for and budget income from an endowment Fund.

The Community Foundation of the Chattahoochee Valley currently recommends a spending policy of 4.5% of the average of the Fund balance over the past 12 quarters, or such shorter time as may be available. According to available research and based on long-term market performance, the spendable amount is historically the amount that most permanent endowments can distribute annually and maintain principal value in real dollars. This preserves the “philanthropic power” of endowment dollars by protecting the Fund’s value against inflation and year-to-year fluctuations in the investment market.

This rate is subject to change, however. If the anticipated market returns and the total return over time are not forecast to meet the payout and hedge against inflation, the Community Foundation will consider lowering the payout rate to preserve the long-term value of the Fund. Conversely, if the total return increases substantially and in a sustained manner, the Community Foundation will consider increasing the payout rate.

In November 2008 the Community Foundation lowered its spending rate to 4.5% in light of market conditions, after examining various 20- and 30-year capital projections.

Distributions will be made only from endowed Funds that have reached the Community Foundation’s established minimum funding levels (see “types of Funds”). Unless otherwise notified in writing, the Community Foundation will assume that Funds with a balance of less than the minimum funding level for its type are in a “growth period” and will reinvest all earnings to help the Fund reach this minimum level as quickly as possible.

Spendable amounts are figured annually, based on a trailing 12-quarter average that ends June 30. Recommended payout amounts for the upcoming Fiscal Year for each Fund will be determined and communicated to the appropriate Fund contact around the end of the Community Foundation’s Fiscal Year, September 30.

For newly established Funds, the recommended spendable amount for the following year will be prorated over the number of full calendar months the Fund was in existence during the year before the June 30 spending determination. For instance, a Fund established on January 1 that has a value of \$100,000 on that following June 30 would have, given a 4.5% spending policy, a recommended distribution of \$2,250 for the following year (half of the \$4,500 that would have been recommended had the Fund been in existence the entire year).

Organization Endowment Funds and Donor Designated Funds

Unless otherwise specified in an individual Fund Agreement, annual payouts of \$20,000 or more will be paid to organizations on a quarterly basis, by the end of each calendar quarter. Annual payouts of less than \$20,000 will be made once annually, by December 31.