

## Spending Policy for Endowed Funds & Spending Guideline for Non-Endowed Funds

*Approved by the Arizona Community Foundation Board of Directors, effective as of Saturday, April 01, 2017.*

### Background & Purpose

The Arizona Community Foundation, Inc., an Arizona nonprofit corporation (the “Foundation”), recognizes that the establishment and consistent application of a Spending Policy, in conjunction with its Investment Policy, is essential to the long-term growth and success of the Foundation and the performance of its advised funds, designated funds, field of interest funds, scholarship funds and other endowed funds.

The Spending Policy & Guideline is intended to establish reasonable and prudent spending, on an annual basis, to support the Foundation’s missions and purposes and may be amended from time to time as the Board of Directors deems appropriate.

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

### Written Notice to Expend Less than Spending Policy

While funds of The 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 the Foundation so that the fund does not become subject to the ACF Inactive Funds Policy, which applies after three years of dormancy. See ACF Inactive Funds Policy.

### Governing Regulations

Arizona Revised Statutes section 10-11803, which governs expenditures of endowed funds, permits the Foundation to appropriate for expenditure, or accumulate so much of an endowment fund as the Foundation determines is prudent, for the uses, benefits, purposes and duration for which the endowed fund is established, subject to the intent of a donor expressed in a gift instrument.

This policy details both the Spending Policy for endowed, or permanent, funds, as well as the Spending Guideline suggested for non-endowed, or non-permanent/fully expendable, funds. 21

### Spending Policy for Endowed Funds

The Spending Policy provides a maximum cap for expenditures from endowed funds to ensure that the fund is not eroded over time as it generates grants and so that it grows in perpetuity for the enduring benefit of the community. The fund may expend less than the amount provided through the Spending Policy.

The Foundation has determined that the annual amount to appropriate for expenditure for grants shall be four and ¼ percent (4.25%) of the fund assets, excluding illiquid assets; provided that the minimum amount appropriated for expenditure each year shall be no less than \$250 unless otherwise negotiated at the time of fund establishment.

The amount appropriated for expenditure for grants shall be calculated each year by averaging the previous 12 quarters of a fund's ending account balance, beginning with the December balance (with the exception of endowed scholarship funds, which amount is calculated by averaging the previous 12 quarters of a scholarship fund's ending account balance, beginning with the September balance.) The result will be the maximum available grantmaking amount for the next fiscal year, starting April 1.

### **Spending Guideline for Non-Endowed Funds**

Non-endowed funds are not subject to the ACF Spending Policy; it is provided as a guideline only. Non-endowed funds may recommend grants of less than or more than the Spending Policy, per the grantmaking goals and time horizon of the fund.

As a suggested guideline to aid donor advisors in achieving their growth and grantmaking goals, the Foundation calculates and provides to the donor advisor(s) a suggested annual amount for expenditure consistent with the Spending Policy for Endowed Funds: four and ¼ percent (4.25%) of the fund assets, excluding illiquid assets; provided that the minimum amount appropriated for expenditure each year shall be no less than \$250 unless otherwise negotiated.

As with endowed funds, the amount suggested for grantmaking expenditure shall be calculated each year by averaging the previous 12 quarters of a fund's ending account balance, beginning with the December balance (with the exception of scholarship funds, which amount is calculated by averaging the previous 12 quarters of a scholarship fund's ending account balance, beginning with the September balance.) The result will be the maximum available grantmaking amount for the next fiscal year, starting April 1.

### **Internal Practices & Industry Basis**

In calculating the spending amount for funds that are within the Foundation's four investment pools, the amounts appropriated for expenditure from the fund, as calculated herein, will be allocated based upon unitized fund accounting, as is standard practice in the industry.

The Foundation's accounting staff, in calculating the annual amount to appropriate for expenditure for grants, is authorized to round up to the next prudent expenditure amount in \$100 increments. The Foundation has determined that expenditures for administrative fees charged to the funds in amounts greater than the amounts appropriated for expenditure for grants set forth above may also be made.

In making the determination to appropriate for expenditure a 4.25% portion of the fund assets, the Foundation Board of Directors considered the following factors:

- a. The duration and preservation of the endowment funds within the Foundation;
- b. The purposes of the Foundation and the endowment funds
- c. General economic conditions

- d. The possible effect of inflation or deflation
- e. The expected total return from income and investment appreciation
- f. Other resources of the Foundation
- g. The Investment Policy of the Foundation

The Foundation may appropriate for expenditure in any year an amount greater than four and ¼ percent (4.25%) of the fund assets, provided that the Foundation, in making such appropriation, exercises good faith and care that an ordinarily prudent person in a like position would exercise under similar circumstances, taking into consideration the above factors.

Unless otherwise stated herein, any actions by the Foundation hereunder must be made by the Foundation Board of Directors or a committee consisting of directors designated by the Foundation Board of Directors to take such action. The Investment Committee and the Philanthropic Services Committee will each review this policy annually and will forward any proposed revisions to the Foundation Board of Directors for consideration. Irrespective of the Committee review process, the Foundation Board of Directors will review this policy no less frequently than every three years.

#### **CERTIFICATE OF ADOPTION**

The foregoing Spending Policy & Guideline was duly adopted by the Board of Directors of the Arizona Community Foundation, Inc. effective as of April 1, 2017.

By: \_\_\_\_\_

David Connell, Secretary

Date: \_\_\_\_\_