

# SPENDING POLICY STATEMENT OF THE MANKATO AREA FOUNDATION



## PURPOSE

The Mankato Area Foundation has chosen to implement a spending policy based on a percentage of portfolio smoothing term model, which provides the most consistent spending levels in perpetuity. The purpose of this spending policy is to establish the annual granting allocation for the Foundation. The Foundation is entrusted with the investments and management of the endowment and with carrying out the wishes of its donors in the best interest of the Greater Mankato community. Granting for purposes of the spending policy will be defined as grants, gifts and scholarships. The spending policy is designed to:

- Preserve purchasing power resulting in perpetuity in spending
- Allow for reinvestment of excess earnings
- Provide a means for future board members to follow a consistent path for spending and budgeting
- Allow for granting during periods of market decline providing the ability to meet long term mission goals of the Foundation
- Define a quarterly monitoring by the Finance Committee with recommendations to the Investment Committee.

## SPENDING ALLOCATION

The Foundation will spend a minimum of four percent (4%) of the average quarterly fair market value of long term invested funds as determined by the Foundation's Investment Policy, for the prior 12 quarters (the "Long Term Base") based upon an increasing investment value trend. The Long Term Base, and the spending allocation, will be calculated as of June 30 of each fiscal year. If the investment market is in an extended period of decline in value, the Foundation will spend no more than six percent (6%) of the Long Term Base. This spending policy is subject to enforceable donor restrictions. This 4% spending minimum does not include exceptional or unusual granting approved by the Foundation's Board of Directors ("Board").

When an endowed fund has a principal value below the endowed gift, no granting will be permitted from such fund until the endowed principal balance has been recovered and then only excess available income earned from such endowed fund can be disbursed. The endowed principal balance will be calculated as of June 30 of each fiscal year.

Disbursements of assets above or below the spending policy require approval of the Board. The Board may also at its discretion from time to time amend this Policy. Administrative fees charged by the Foundation are in addition to this spending policy, are deducted from the fund's account, and are assessed and calculated on a quarterly basis. The Foundation shall review the spending allocation and administrative fees annually and shall make a determination that such amounts and application are prudent.

## POLICY OVERVIEW

This policy is implemented during a time of growth in the asset base of the Foundation. The basis of the current policy is to preserve the Foundation's purchasing power while at the same time ensuring the long term growth and vitality of the Foundation. This policy retains approximately 1% of the Foundation's available spending to help grow the Foundation, illustrated by the example below:

|  |      |
|--|------|
| Investment Expectation (net of fees) of 5% + inflation of 2%     | = 7% |
| Less Inflation (example) of 2%                                   | = 2% |
| Less Spend policy (currently 4%)                                 | = 4% |
| Net retained for MAF operations and growth of unrestricted funds | = 1% |