

# The Endowment Fund of St. Alban's Episcopal Church

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## E. Spending Rules

### I. Description of Endowment Funds

Endowment funds are those funds in which the principal is protected and only the earnings can be used. Donor-restricted funds can specify a purpose for the proceeds, a spending limitation, or an effective time period. Endowment funds have three components:

1. principal, which is the total of the original fund balance and all subsequent gifts;
2. capital appreciation, which is the increase in the value of the principal; and
3. income, which may be in the form of interest or dividends. Income may be spent or reinvested.

Capital appreciation plus income is total return.

Allocations of funds available for distribution will be made in two general ways:

1. The Board of Trustees will determine the amount available for distribution and advise the Vestry. Funds may be transferred to the parish treasurer for those uses which conform to the purposes and restrictions incorporated in the Enabling Resolutions adopted by the Vestry on \_\_\_\_\_, 200 \_\_\_\_.
2. As set forth in the Bylaws, the Board of Trustees may obligate monies for general expenses incident to the management and administration of the Fund. Extraordinary initiatives contemplated by the Board to be undertaken for the Endowment Fund development will be approved by the Vestry before implementation.

The percentage of the corpus to be made available shall be determined each year by the Board of Trustees. In so doing, market performance of the portfolio will be an important consideration. However, it will be the goal of the Board to grow, or at least maintain, the purchasing power of the Fund, taking inflationary effects into account.

In order to protect the purchasing power of the Endowment Fund, the amount defined as protected principal will grow annually by a percentage determined by the Board to cover the increase in the cost of living. The protected principal is adjusted annually on June 30<sup>th</sup> by adding the designated percentage of the principal of the Fund on December 31<sup>st</sup> of the prior year. After this adjustment the value of all gifts received during the year is added to determine the new amount of protected principal.

The unprotected portion of the endowment that remains after the cost-of-living adjustment is called the net proceeds.

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Expendable funds will be determined on the basis of a total return principle and will not be dependent upon income generated through interest or dividends. The funds available for distribution during any one year will be limited to a percentage of the market value of the corpus that is based on a three-year rolling average, with measures taken at the end of each of the preceding twelve quarters. The market value for this purpose will be taken net of the fees for investment management.

All other expenditures, whether in categories 1) or 2) above, will be taken from funds available for distribution.

To mitigate volatility in the budget cycle, a method of averaging recent past annual balances ("rolling averages") shall be instituted. In the first year after the endowment fund balance produces spendable net proceeds (SNP), the amount transferred to the Vestry shall be the full amount of the allowable spendable net proceeds for the applicable year. In the second year, the amount transferred shall be the average of Year 1 and Year 2. In the third year, the amount transferred shall be the average of Years 1, 2 and 3. For Year 4, the amount transferred shall be the average of that year and the previous two (e.g., Years 2, 3 and 4), rolling forward in similar fashion through future years. In this way, the annual spendable net proceeds shall be made to apply to the average of the past three years.

The Board of Trustees will report to the Vestry: This year that percentage is set at \_\_\_\_ %; the three-year rolling average market value is determined to be \_\_\_\_\_; therefore the funds available for distribution are \_\_\_\_\_. The Board of Trustees will report the amount available for distribution by September 1<sup>st</sup> of each year based on the quarterly report for the quarter ending June 30<sup>th</sup>. This timing will allow the distribution amount to be available for use in budget planning.

In the event that, in a given year, the average SNP is less than or equal to zero dollars, then the fund principal shall be protected and no amount of SNP will be disbursed that year.

Any unexpended funds from those available for distribution in a given year will be accrued and will continue to be considered "available for distribution" in subsequent years, unless otherwise designated by action of the Board of the Endowment Fund, with the approval of the Vestry.

Adopted by action of the Vestry of St. Alban's this \_\_\_\_ day of \_\_\_\_\_, 200\_\_.