



**ALASKA COMMUNITY
FOUNDATION**

How is my endowment fund's spendable amount calculated?

The annual amount that is available for granting out to charitable organizations is called the spendable amount. Calculating the spendable amount is a two-step process. First, the Alaska Community Foundation (ACF) Board of Directors determines the annual spending policy percentage. Second, ACF's CFO applies the spending policy percentage to the average fund balance over the previous 16 quarters.

Determining the Spending Policy

In setting the spending policy percentage, the Board of Directors utilizes a number of factors. It is generally calculated as follows:

- Investment Returns (five-year average)
- National Consumer Price Index (six-year average)
- ACF's Average Administration Fee
- = % Spending Policy

This calculation is based on the goal of covering the costs of ACF's administration of your fund, while also inflation-proofing it to maintain the long-term buying power of the fund's principal (total of all donations to the fund).

As an example, ACF's five-year average return through 12/31/2023 was 8.44%. That year, the six-year national average increase in the Consumer Price Index was 2.55%, while the average administration fee for all ACF funds was 1.36%. The calculation for determining the spending policy looked like this:

- 8.44% Investment Returns (five-year average)
- 2.55% National Consumer Price Index (six-year average)
- 1.36% ACF's Average Administration Fee
- = 4.53% Spending Policy

This calculation is the starting point for a conversation within the Board of Directors, with guidance from the Investment Committee, into which they also incorporate

perspectives on general economic conditions, expected total returns on ACF's investment portfolio, and other considerations. This allows them to determine what a fund's balance might become in the future. The goal is to establish an annual policy that is between 4% and 5%. The Board of Directors set 2025's Spending Policy at 4.25%.

Average Fund Balance - Example

The average fund balance is calculated as of September 30 of any given year and is an average of 16 quarter fund balance averages. In order to illustrate this calculation, please see the example of a growing fund below.

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|---------|----------|---------|----------|---------|-----------|---------|-----------|
| Q4 2020 | \$25,000 | Q4 2021 | \$84,000 | Q4 2022 | \$105,000 | Q4 2023 | \$136,000 |
| Q1 2021 | \$32,000 | Q1 2022 | \$89,000 | Q1 2023 | \$113,000 | Q1 2024 | \$142,000 |
| Q2 2021 | \$35,000 | Q2 2022 | \$91,000 | Q2 2023 | \$118,000 | Q2 2024 | \$148,000 |
| Q3 2021 | \$38,000 | Q3 2022 | \$98,000 | Q3 2023 | \$125,000 | Q3 2024 | \$157,000 |

The average balance of this fund over these 16 quarters is \$96,000.

The motivation for averaging the fund balance over 16 quarters is to compensate for market fluctuations and smooth out variations in the fund. If the spendable amount were calculated on the final fund balance as of September 30 of each year, the potential for awarding more in grants than has been earned in investment returns increases. A fund must be in place for at least five quarters before September 30 for a spendable amount to be included in this process. If a fund has been established for five or more but less than 16 quarters, the average balance will be calculated on the number of quarters during which it has been in place.

Calculating the Spendable Amount

With the two examples above, we can now calculate the spendable amount for the fund illustrated above. With a spendable policy of 4.25% and an average fund balance of \$96,000, the spendable amount for the fund would be \$4,080. This spendable amount will be made available in the fund in January for the following year.

If the investment returns are such that the fund balance dips below the total historic donations, a temporary suspension of the spendable amount may be put in place by the Alaska Community Foundation Board of Directors to protect the long-term health of the fund.