

NSSA-NSCA Spending Policy

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Introduction:

Rather than spending all the investment earnings generated from an endowment each year, most nonprofit organizations have a “Spending Policy”. The objective of the policy is to even out the available funds from year to year and help the endowment value keep pace with inflation. This makes the available funds more predictable and keeps the value of the endowment consistent over time.

Industry Standard Spending Policy:

The industry standard for Spending Policies is as follows:

“The organization will spend 5% of a rolling three-year average market value for each endowment fund after it reaches a year-end value of \$25,000 or more. All annual investment income from each endowment gift will be used, per the spending policy, consistent with the original intent of each donor, and such annual investment income from each endowment gift will not be rolled over into the general endowment fund.”

Example:

Donor John Doe established an endowment fund with NSSA-NSCA with a \$100,000 payable over 5 years with equal payments on or before December 31st of each year with the first payment in 2019.

Funds available

January 1, 2020 – Received pledge payment of \$20,000 by 12/31/2019. **\$0** funds available for grants in 2020 since the fund has not met the \$25,000 threshold.

January 1, 2021 – Received pledge payment of \$20,000 in 2020, other donations of \$5,000 and investment income of \$1,000 for a total market value of \$46,000 at 12/31/20. **\$1,650** funds available for grants in 2021. $\$46,000$ (2020 value) + $\$20,000$ (2019 value) / 2 = $\$33,000$ average value. 5% of $\$33,000$ is $\$1,650$.

January 1, 2022 – Received pledge payment of \$20,000 in 2021, other donations of \$2,000 and investment income of \$3,300 for a market value of \$71,300 at 12/31/21. **\$2,288.33** funds available for grants in 2022. $\$71,300$ (value 2021) + $\$46,000$ (2020 value) + $\$20,000$ (2019 value) / 3 = $\$45,766.67$ average value. 5% of $\$45,766.67$ is $\$2,288.33$.

January 1, 2023 – Received pledge payment of \$20,000 in 2022, other donations of \$6,000 and investment income of **-\$4,000** for a market value of \$93,300 at 12/31/22. **\$3510** funds available for grants in 2023. $\$93,300$ (value 2022) + $\$71,300$ (value 2021) + $\$46,000$ (2020 value) / 3 = $\$70,200$ average value. 5% of $\$70,200$ is $\$3510$.