



Distribution Policy for Charitable Endowment Funds

One of the true pleasures of being associated with the Catholic Foundation of Maine is the opportunity to distribute charitable funds. The Trustees of the Catholic Foundation of Maine are dedicated to maximizing financial benefit for the charitable beneficiaries of its charitable funds. The distribution policy of the Foundation is carefully determined to support the long-term financial health of these charitable beneficiaries.

How the distribution policy is determined

The Endowment Fund Agreement spells out the designation and purpose of the endowment and ensures that the donor's wishes are met and that the Foundation is comfortable with administration of the fund. Distributions from endowments are to be used only for the designated purpose as outlined in the Fund Agreement.

The Endowment Fund Agreement makes the Trustees responsible for protecting the principal (the sum of charitable gifts) of the fund and for setting or changing a distribution policy that is appropriate for the long-term financial health of the fund. The Trustees' flexibility in adapting to economic and investment factors is critical to their success in meeting these goals.

The Trustees will usually choose a distribution policy that applies in the same manner to all endowment funds held at the Foundation. The Trustees strive to provide a normal distribution policy of 4% when economic and investment conditions allow it. Because economic and financial conditions may change over time, however, the Trustees cannot guarantee any particular distribution policy in future years.

Can the Foundation spend the principal of an endowment fund?

Until recently, the Foundation has not had the legal ability to spend any of the principal (the sum of charitable gifts) of a charitable endowment fund. Recent changes in Maine state law may give the Trustees the flexibility to temporarily spend below the principal level. For the Trustees to have this flexibility, both current Foundation policy and an updated Fund Agreement with the donor(s) must explicitly authorize the Trustees to do so. You should assume, therefore, that the Trustees do not have the option of distribution below the principal value, unless you have both a written indication from the Foundation and a Fund Agreement that state otherwise. Please also note that the Foundation has a long-term goal of not only protecting the principal of endowment funds, but also growing these fund balances to keep up with inflation or better; distribution below the principal value is not generally considered to be a good idea.

What happens when endowment funds are "under water"?

An endowment fund is "under water" when the market value of the fund is less than the principal value. The Trustees of the Foundation have a legal responsibility to donors to maintain the principal value of the endowment funds. When endowment funds are "under water", the Foundation may not have the legal ability to distribute any money below the principal value of

each fund, and such distribution would make it even more difficult for the Trustees to invest fund assets so that the fund returns to its principal value or more. The Trustees may choose a distribution policy that includes only the interest and dividends actually earned on the investments during the year.

Example:

Assume an endowment fund created in 2006 has had total gifts contributed of \$50,000. Thanks to the stock market collapse of 2008 and the partial recovery of 2009, the market value of the fund is now \$45,000. The fund's share of the dividends earned in 2009 by the Foundation is \$300.

If the Board had chosen a simple 4% distribution/distribution policy, which represents approximately \$1,800 (the 4% is actually calculated using the average market value of the funds over the last twelve quarters), we still couldn't distribute any more than the \$300 interest and dividends earned during 2009. This is because the market value is below the original principal value (it is under water). The Foundation can't distribute principal.

Current distribution percentage

The current distribution percentage on all regular endowments is 4%, based on the 3 year rolling average, calculated each quarter. Donor advised and other special purpose funds are identified as such and may have a different distribution percentage, negotiated at inception.

How do I know what the current distribution policy is?

The Board of Trustees will discuss and determine its distribution policy for the fiscal year at its meeting in September. The Trustees could possibly change the policy at any time; however, such mid-year changes are rare. The Foundation will notify the primary contacts for each fund about the distribution policy in September or early October, if there is a change in the policy. If the policy changes mid-year, the Foundation will notify the primary contact of each fund at that time. Please contact the Foundation office with questions at any time.

For your own sake, it is important that you do not make assumptions or promises about the distributions you will receive from a particular fund for a coming year. The Foundation will strive to provide the best service to persons associated with our funds, but cannot generally make exceptions or special distributions for one fund versus another. Please contact the Foundation office and speak with the Executive Director for more information.

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