

Spending Policy

1. PURPOSE

This policy is established to determine the level of spending to be budgeted each year by the Board of Directors (hereafter the “BOD”) based on the projected sources of Montgomery County Public Schools Educational Foundation (hereafter the “Foundation”) revenue, including contributions, grants, escheated funds, investment returns, realized gains and losses, inflation, the restricted use of certain funds, and multi-year commitments.

This policy is intended to set forth a financial plan for carrying out the mission of the Foundation. The policy should also seek to achieve the overarching goal of preserving, and where possible growing, our endowment.

At the core of the policy is a methodology for projecting predictable cash flow, for managing inflation, and for anticipating downturns in the financial markets which will provide overall financial stability to our organization.

The practical application of the policy is to ensure that the budget presented to the BOD each year reflects a fiscally responsible and prudent use of Foundation funds. The policy assumes efforts on the part of the officers and directors to become knowledgeable about best practices in the management of charitable non-profits through membership in professional associations, the experiences of our knowledgeable board members, maintaining contact with philanthropic organizations of all sizes, and through researching the best practices and latest findings about successful endowment fund management.

2. POLICY

The Methodology Used in Preparing the Budget

Contributions, grants, investment income, administrative fees, and unrealized gains and losses associated with the donor restricted funds comprise the available cash for budgeting.

To formulate the annual budget, the Executive Director will provide a draft budget for the forthcoming fiscal year to the Treasurer and Chair, outlining projected program revenue and expenses, and operational expenses. The Treasurer, working with the Executive Director and committee chairpersons, will estimate the funds to be generated from fundraising efforts, investment returns, and administrative fees to complete the draft budget. The draft budget will be presented as an operating budget to the BOD for its approval at its Annual Meeting in June.

Revenue and Expenditure Categories to be included in the Budget

The budget should reflect all sources of revenue and all anticipated expenditure obligations.

Sources of Revenue

Sources of revenue include:

- (1) Contributions from businesses (for-profit and not-for-profit), foundations, and individuals
- (2) Investment income net of fees,
- (3) Planned gifts: gifts based on assets such as bequests, escheat estates, charitable remainder trusts, gifts of stocks & securities, and gifts of real property, unrealized gains, and losses, and
- (4) Administrative fees earned from the management of (i) endowments and (ii) the management of grants and programs.
- (5) In-kind contributions: goods and services provided by Montgomery County Public Schools and/or the Montgomery County Board of Education to the Foundation.

Items #2 and #4 will be determined after discussions with the Finance Committee.

Purpose of Revenue

Planned gifts and contributions may create unrestricted, temporarily restricted, or permanently restricted funds.

Funds Without Donor Restriction

In general, a fund without donor restriction is available to fund operational costs, program costs, grants, and other Foundation initiatives. These unrestricted funds may be designated by the executive director to specific program costs and initiatives. Use of unrestricted funds greater than \$2,500 shall require approval from the Finance Committee. Use of unrestricted funds greater than \$5,000 shall require approval from the full BOD.

Funds With Donor Restriction

In general, funds with donor restriction, are contributions given with donor instructions. There are two types of funds with donor restriction:

- (1) “Current use funds” designated by the donor for a specific purpose; and
- (2) Funds formally referred to as “Permanently restricted funds” or “Endowments”

Current use funds are contributed for immediate use. Because project timelines often extend beyond the period of formal solicitation and acceptance of contributions, the Foundation defines the period of immediate use as expenditure of funds within three years, unless otherwise the term of use is defined in a gift agreement.

Permanently restricted funds consist of the original gift (principal) from donors wishing to establish an endowed fund (endowment). The minimal endowment that can be held with the Foundation is \$10,000. The investment earnings from the endowment are

accumulated and added to the fund. Disbursements from the fund are made pursuant to the terms in the gift agreement or an estate document (e.g., donor's will).

Donors may want to create an endowment with a principal amount to be realized over time. If the donor signs a pledge agreement to contribute the amount required to establish an endowment, the fund will be included in the funds with donor restriction asset allocation and will accrue interest as the donor fulfills the pledge agreement. In such cases the initial principal, principal additions, accumulated income, less any specific charges, as expressed by the donor, will be reflected in the Foundation asset allocations as "Funds with Donor Restriction" and the funds will not be available for current use.

Administrative Fees

The administrative fee schedule to be applied to endowments is as follows:

- A new fund will be assessed a flat fee of \$200
- An endowment principal less than or equal to \$49,999 will be assessed a flat fee of \$250
- An endowment principal equal to \$50,000 up to \$749,999 will be assessed a fee of one-half of one percent (0.005%)
- An endowment principal greater than or equal to \$750,000 will be assessed a fee of one percent (.01%).

Administrative fees charged for the management of grants and programs will be twelve percent (12%) to be assessed at 3% each quarter.

Administrative fees charged for the management of pass-through grants and programs will be five percent (5%) to be assessed upon receipt of the funding.

Program Costs

In general, "program costs" include "Grants," "Scholarships and Awards," "operational expenses," and other funding initiatives undertaken by the Foundation.

Grant & Scholarship / Awards

The amount of Grant and Scholarship awards to be paid each year from current use and permanently restricted funds (a.k.a. endowments) is based on the process outlined in the Foundation's disbursement guidelines.

The projected cost of the entire scholarship award, e.g., 1-year, 2-year, 4-year, (a.k.a. the "Pipeline") will be recorded as a liability in the year of the award.

Operational Expenses

Overhead costs such as salaries, taxes, fringe benefits, insurance, office, and event expenses shall be captured under “operational expenses.”

The benefits of the Foundation's activity are maximized when the administrative costs are kept to a minimum. This requires that the BOD and staff exert every effort to obtain volunteer assistance, solicit donated services, and implement programs to raise funds to defray administrative costs.

Funding Obligations

The Foundation accepts funds from third parties, to pay out during the fiscal year, consistent with the mission of the Foundation.

Other Foundation Initiatives – The BOD should approve a budget which reflects all initiatives that are reasonably known at the time the budget is presented. If new initiatives are brought to the BOD, or the BOD in their judgement wants to create a new initiative, a determination must first be made as to whether there are sufficient funds available to undertake such a program. For this section's purposes, an initiative projected to cost over \$15,000 net must first be approved by the BOD.

Use of Investment Income and Principal to Fund Foundation Initiatives and Operating Expenses

Investment income earned during the fiscal year, net of fees, and unrealized gains and losses from managed accounts (collectively referred to as “investment income”) should be allocated by the internal accountant among Restricted and Unrestricted usage.

We estimate the “annual return on investments” will be between 3% - 5% annually. For the purpose of preparing the budget, the Finance Committee will provide the Treasurer with a reasonable estimate of investment earnings to be included in the budget. In addition, the Treasurer can recommend utilizing a portion of accumulated earnings to fund any projected deficit, not to exceed 5% of the current investment assets.

The amount and the timing of the payment to be withdrawn from the Foundation’s investment accounts will depend on any surplus carried over from the prior year. The Foundation’s executive director and internal accountant are responsible for the payment of the Foundation’s operating expenditures.

This document should be attached to the annual budget submitted to the Board of Directors and signed by the Finance Committee to ensure the budget is drafted in compliance with the Foundation Spending Policy.

3. COMPLIANCE

The executive director and the chair of the Finance Committee shall review these guidelines regularly to ensure the Foundation’s actions follow the guidelines.

The chair of the Finance Committee shall periodically review these guidelines and related procedures with legal counsel and the full Finance Committee to ensure the guidelines are compliant with new or revised Foundation, MCPS and other regulatory bodies' policies and regulations.

Policy History

- Adopted June **, 2024