Foundation of the Rotary Club of Honolulu

Policy on permanently restricted fund “earnings” distribution

Background

- On February 16, 2006, the Trustees determined that, once the permanently restricted fund (commonly referred to as the Maile Hale Fund), reached $500,000, a spending policy would be adopted to make available a portion of the earnings from the Fund for a signature initiative or other unrestricted purposes.
- On June 25, 2007, the Trustees discussed various alternatives regarding the implementation of the spending policy and the determination of the amount that should be made available.
- On August 20, 2007, the Trustees approved a policy for spending 5% of the fair value of the fund on the preceding March 31st.
- The precipitous decline in the financial markets in fiscal 2009 that resulted in the Fund falling below the $500,000 threshold necessitated a reconsideration of the policy.
- On September 21, 2009, the Trustees revised the method used under the policy to determine the amount that should be made available.
- On May 30, 2012, the Trustees revised the policy to require that funds not spent in the year (after being made available) would revert to the corpus.
- On February 18, 2014, Will Henderson made a $50,000 endowment contribution for the “Will J. Henderson Educational Scholarship Fund” (HSF.) Earnings from the HSF are to be used for scholarships in $5,000 increments. On March 26, 2014, the Trustees decided to supplement Henderson’s initial donation with a $50,000 allocation of unused earnings in the Maile Hale Fund so as to accelerate the time period when the planned scholarships would be available.

Revised spending policy

1. For the purposes of this policy, “earnings” shall be the aggregate net increase in the market value of the Fund, regardless of whether this is from dividends and interest or from net increases in investment values.
2. The amount to be made available for spending in any fiscal year will be determined by applying a percentage to the average of the fair value of the permanently restricted funds as of March 31 of the preceding five fiscal years. Using March 31 as the determination date allows the determination of the amount available for spending before the start of the fiscal year in which spending is to take place.
3. The percentage to be used will be 4%. This percentage is considered conservative as it is estimated that the fair value of the investments will increase in excess of that amount over the long-term. Of course, the percentage can be modified from time to time.
4. Consistent with the members’ wishes that their contributions to the Fund be invested in perpetuity, any amount determined to be available for spending will be restricted to the extent that such spending would reduce

the fair value of the Fund below 105% of the “book value” of the Fund (book value being defined as the fund balance as of 7/1/2000 plus contributions or fund raising net revenue since that date.) Again, this percentage can be modified from time to time.

5. At such time as a determination is made that funds are to be made available for spending, securities in the portfolio will be liquidated in an orderly manner to yield the determined amount. The resulting amount will be invested in highly liquid cash equivalents to ensure that funds are available for the spending.
6. At all times that commitments are made to spend the amounts determined to be available for spending, care will be taken to ensure that, to the extent possible, such spending can be curtailed or reduced if it would impinge on the restriction in 4 above.
7. The allocation of $50,000 of unused earnings of the Fund to the supplement Will Henderson’s initial donation to the “Will J. Henderson Educational Scholarship Fund” (to allow for an acceleration of the time period when the planned scholarships would be available) is to be considered a “one time” event, effective on March 1, 2014.
8. A memorandum analysis will be maintained to summarize the amounts made available for spending for each year (and the above allocation) and the amounts actually spent. To the extent that the amount made available for any year is not spent (or continues to be encumbered) in that year, the residual amount shall lapse and remain in the corpus.

Approved by the Board of Trustees –
Originally August 21, 2007
Amended September 21, 2009
Amended May 30, 2012
Amended May 28, 2014