THE WALLACE FOUNDATION
SPENDING POLICY

Adopted January 13, 2012

The Foundation's policy is to target spending on grants and qualifying distributions at an average 5.0% of assets over long periods of time.

The Foundation's Board may elect to exceed that spending rate for a limited period of time if:

- There is a compelling opportunity in a programmatic area that cannot be met by reallocating funds from other areas without acceptable sacrifice and that cannot be postponed until a later date when more funds might be available, or
- A sharp decline in support from the foundation would threaten key non-profit grantees whose health is important to sustain for the long-term effectiveness of the foundation's programs.

Spending in years after the limited period should be moderated until such time as the 5-year average of spending returns to 5%, while continuing to comply with IRS payout requirements.

Appendix: Private Foundation Payout Requirements

The idea behind the 5% payout requirement is simple, but its implementation is complex for several reasons:

- Only cash expenditures count, not grant approvals.
- The IRS assumes that 1.5% of assets are working capital, so the 5% test is applied to 98.5% of each foundation's average monthly assets during the year in question.
- Excise taxes reduce the qualifying distribution requirement.
- Only "qualifying distributions" count towards the 5% requirement, which in practice means that investment management costs and an allocated portion of overhead (senior managers who oversee investments and their pro-rata share of the Foundation's overhead expenses) are excluded.
- Private foundations have 12 months after the end of a year in which to meet the requirement. This means that, for any year in which cash expenditures fail to meet the calculated requirement, there is a "carryover" to the following year. In effect, this carry over is simply added to the payout requirement for the following year.
- There are no consequences as long as each year's payout is larger than the previous year's carryover. If the payout is less than the carryover, there is an excise tax of 15% on the shortfall. If a carryover persists longer than one year – and the IRS issues a letter closing off the catch up period, then the Foundation is required to pay an amount equal to the entire carryover to the federal government. The federal penalty applies only to the foundation, not to foundation managers; however, a state attorney general could attempt to force the managers to reimburse the foundation on the theory that the managers failed to exercise their fiduciary duty.