

## **The Knox County Foundation**

### **Spending Policy**

**Background:** The Knox County Foundation's ("Foundation") annual payout to charitable beneficiaries of endowment funds is determined by a board-approved payout rate known as the "Spending Policy". The Spending Policy for each fund is calculated by applying the payout rate to the average market value as of December 31 of each endowment fund over the 12 preceding quarters (or quarters in existence for new funds with less than 12 quarters of activity).

The use of the Spending Policy provides for a disciplined stream of income to charitable beneficiaries. It restrains spending in years when total return on funds (growth and income) exceeds the charitable payout, providing for growth of principal and enables level spending in under-performing markets.

The intent of the Spending Policy is to provide reasonably stable grants while preserving the inflation-adjusted value of funds. The Spending Policy developed considers the Foundation's dual responsibility to pay out charitable distributions and to perpetuate endowments entrusted to it by donors.

**Policy:** The Foundation shall consider the following factors in making a determination for appropriate expenditures:

- 1) The duration and preservation of the endowment fund(s);
- 2) The purposes of the institution and the endowment fund(s);
- 3) General economic conditions;
- 4) Projected effect of inflation or deflation;
- 5) The expected total return from income and appreciation of investments;
- 6) The investment policy of the institution.

The Foundation initially adopted a Spending Policy based upon average market value over 12 preceding quarters in 2005. The terms of the current Spending policy as approved by the Board of Directors follows:

The Foundation's Spending Policy for endowed funds is 4.5% of the average market value over the 12 preceding rolling quarters (or quarters in existence for new funds with less than 12 years of activity). The 4.5% rate represents the maximum amount of charitable distributions allowable for an endowed fund for a calendar year.

Non-endowed funds, including special project, short-term, operating and other related funds are not subject to this Spending Policy. The donor-advised fund Spending Policy is based on each individual fund agreement. A donor-advised fund may be endowed, non-endowed, or partially endowed. Reconcile

**Administrative & Investment Fees:** All funds held by the Foundation are subject to an administrative and investment fee to provide an income stream to cover operational and investment manager costs. The approved inclusive fee to be charged all funds is 1%, to be calculated and paid quarterly (0.25% per quarter). The quarterly fee is calculated using the fair market value of the most recently completed quarter, not the 12 quarter rolling quarter calculation used for charitable payout.

**Other Information (UPMIFA):** The state of Ohio adopted the Uniform Management of Institutional Funds Act (UPMIFA) in 2009. Under UPMIFA, the Foundation may expend so much of an endowment fund, including historic gift dollar value, as it considers prudent while considering factors including future appreciation. In addition, the Ohio version of UPMIFA establishes a “safe harbor” annual spending limit of 5% of the fund’s average value over the preceding 12 quarters. In general, the Foundation’s Spending Policy will likely be between 3 – 5% based upon historical return activity and projected future returns. When total return for a year is less than allocated spendable income, distributions from fund assets will be assumed from prior year unspent return before historic gift dollar value is spent.

**Spending Policy Approval:** On an annual basis, the Investment Committee shall review the most recently adopted Spending Policy. Based upon identified factors above, the investment committee shall make a recommendation to the Foundation Board as to whether the policy shall remain unchanged or be amended based upon historical and projected investment returns. Based on the investment committee recommendation, the Board shall determine whether a revision to the Spending Policy is required.

Adopted Date: 02/09/2005

Revised Date: 02/10/2016 – Spending Policy increased from 4.0% to 4.5%

Reviewed Date: January 25, 2017 (Investment Committee – recommended no change)

Last Reviewed Date: August 9, 2017 (Board of Directors)