

**COMMUNITY FOUNDATION OF  
MEDICINE HAT AND SOUTHEASTERN ALBERTA**

<b>POLICY: Preservation of Capital Policy</b>		
<b>APPROVED:</b> January 2009	<b>REVISED/REAFFIRMED:</b>	<b>SUBJECT TO REVIEW:</b> November 2010

**Introduction**

The Community Foundation takes seriously its stewardship responsibility as a manager of donor funds. One of our core principles is the careful investment of these funds to ensure that they are protected and continue to support and enrich our community in perpetuity.

Responsibility for managing the investment portfolio is vested in the Board of Directors with the guidance of the Investment Committee and the advice of the Investment Manager. The Board is committed to the protection of the capital assets by guarding against the effects of inflation and market volatility.

The Board is also required to conform to Canada Revenue Agency Regulations that set out the disbursements that must be made annually by a public foundation such as the Community Foundation. The minimum disbursement quota required by the Income Tax Act is calculated as 3.5% of the average value of the assets over the previous 24 months, which were not used directly in charitable activities or for administration. It is emphasized that the Income Tax Act provides the minimum disbursement requirement placed on public foundations.

The Board is committed to keeping its administrative charge as low as possible. The administration charge is based on the capital market value calculated on a quarterly annual basis and may be reviewed and amended from time to time by the Board of the Community Foundation.

The Board has established a comprehensive investment policy that while conservative in nature should provide sufficient income to meet disbursement requirements and may occasionally result in surpluses. This Preservation of Capital Policy was developed to describe the regular disbursements that are required to be made, firstly from income and, in exceptional circumstances, from capital and also to deal with situations where income is surplus to, or not sufficient for, the required disbursements.

**Policy**

Spending

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1. An amount calculated as 4.5% of the average value of the assets held by the Community Foundation over the previous 24 months will be dedicated towards grants.
2. An amount calculated as of 1% per annum of capital market value, calculated on a quarterly basis, will be dedicated towards administration fees.
3. Should the income in any period be insufficient for the above purposes, any disbursements described above remaining without funds shall be paid firstly from the reserve fund described below, and secondly (and only in exceptional circumstances) by a charge against the capital account.

Preservation

1. As at each June 30 each year, income in excess of that required to meet the grants disbursement and the administration charge (the surplus) will be treated as follows:
  - The surplus will be divided into two equal parts with:

One half allocated to a reserve fund to be used in years in which the investment revenue is not sufficient to meet the CRA disbursement quota. If the total amount held in this reserve fund is equal to the required CRA allocation for the previous two fiscal years just ended, the reserve would be deemed to be fully funded. The remaining portion of this half of the surplus will be allocated at the discretion of the Board.

The other half, to a maximum amount equal to the average annual inflation rate (based on the StatsCan Consumer Price Index for Alberta) for the previous three years, times the average capital balance over the prior twelve months, added to capital. If this half of the surplus exceeds the maximum amount the remaining portion will be added to the reserve fund.

If the reserve is fully funded any remaining surplus will be allocated at the discretion of the Board.

Discretionary allocation of excess surplus by the Board may include additional community grants, additional fund capitalization or additional administration expenses.

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**Review**

This policy must be reviewed and confirmed annually by the Board.