

COMMUNITY FOUNDATION OF *MEDICINE HAT AND SOUTHEASTERN ALBERTA*

POLICY: Preservation of Capital Policy		
APPROVED: January 2009	REVISED/REAFFIRMED: June 2010	SUBJECT TO REVIEW: June 2011

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 Directors 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.

Capital

The definition of what is capital and what are the earnings from that capital has been the subject of much discussion and debate. For the purposes of this policy capital is considered to be the original charitable gifts i.e. contributed capital, plus any amounts added to that gift or gifts as approved by the Board of Directors.

Revenue from Capital

Revenue is earned from the capital through the investment portfolio that is managed by one or more investment manager(s). Revenue can be interest, dividends and capital gains and losses (realized and unrealized). It is possible that capital losses may exceed other forms of revenue in which case revenue is expressed negatively.

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Spending

As an annual target the Board will make every effort to find sufficient resources to spend on grants an amount calculated as 4.5% of the average value of the assets held by the Community Foundation over the previous 24 months. **This is 1% above the minimum disbursement required by the Income Tax Act. The detailed policy concerning the actual amount to be dispersed each year for grants is contained in the spending policy.**

An amount calculated as of 1% per annum of capital market value, calculated on a quarterly basis, will be dedicated, towards administration fees.

The Investment Manger and Custodian Fees are deducted by agreement at source. Investment returns are expressed as gross amounts prior to these deductions.

Should the income in any period be insufficient for the above purposes, any disbursements described above remaining without funds shall be paid firstly from interest and dividend returns, and secondly by encroaching on capital up to an amount equivalent to any available capital gains (realized and unrealized). It should be noted that eroding capital (ie using any portion of donated or contributed) would be in conflict of the terms of Community Foundation Fund Agreements.

Policy

Preservation of Capital

- 1. As at June 30 each year, the market value of the investment portfolio will be assessed in accordance with terms of the Income Tax Act and CRA regulations.**
- 2. Deductions for investment management fees and community foundation administration fees will be deducted.**
- 3. With due consideration for restrictions of gift type and fund agreement restrictions, and with Board approval an appropriate amount will be set aside for annual disbursement for grants.**
- 4. After all other deductions have been satisfied any remaining revenue is to be divided into two equal parts:**
 - a. One half allocated 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.

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If this half of the surplus exceeds the maximum amount the remaining portion will be added to the reserve fund.

b. The other half allocated to a reserve fund to be used in years in which the investment revenue is not sufficient to meet the disbursement quota. The reserve fund is to be held in a secure fixed interest investment portfolio separate from the main investment portfolio. If the total amount held in this reserve fund is equal to the disbursement quota for the fiscal year just ended, the reserve would be deemed to be fully funded.

5. If the reserve is fully funded any remaining surplus will be allocated at the discretion of the Board. **Such** discretionary allocation of excess surplus by the Board may include additional community grants, additional fund capitalization or additional administration expenses.

Review

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