EFFECTIVE: NOVEMBER 2023

Annual Income Distribution Policy

POLICY 3.6

APPROVED BY THE BOARD OF DIRECTORS, NOVEMBER 30, 2023

THE COMMUNITY FOUNDATION
building a greater saint john

POLICY CATEGORY: Financial	NUMBER: 3.6	PAGES: 1 of 4
SUBJECT: Annual Income Distribution Policy		
EFFECTIVE DATE/APPROVED: November 2023	REVISED/REAFFIRMED: Revised Policy	SUBJECT TO REVIEW: As required.

1.0 Overview:

1.1 The central purpose of the Foundation is to grow its endowment to benefit the communities it serves both now and in the future.

1.2 The achievement of this goal requires not only a sound investment management program, but also an income distribution policy that defines and sets annual operational, stabilization and granting parameters funded from the income available from investments.

1.3 Income from investments shall include interest, dividends, realized gains, unrealized gains or other forms of income such as rental or business income. Income to be disbursed is defined as spendable on the Foundation's annual Fund Statements.

1.4 Endowed Capital is defined as the original value of all donations to a fund from donors to the Foundation. Endowed Capital can be increased by additional donations from donors or by the Foundation itself through interfund transfer or capitalization of unused annual earnings, after operational, granting and stabilization needs are met.

The Fund Balance/Market Value of each Fund, which includes the Endowed Capital, temporarily fluctuates up or down with unrealized gains/losses that take place within the investment portfolio in which the capital is held.

Endowed Capital can only be permanently reduced by any realized losses that are recognized in the investment portfolio in which the capital is held.

The Foundation recognizes the distinction between Unrestricted and Restricted Endowed Capital and Unrestricted and Restricted Income.

1.5 The Foundation seeks, through its investment and income distribution policies, to maintain or increase the real value of the endowment capital and related grants over the long term while funding current needs and goals at an appropriate level.

1.6 The Foundation does not encroach on capital, unless specifically directed to in a particular Fund.

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2.0 Policy Objectives:

The income distribution policy has these principal objectives:

2.1 To meet the Disbursement Quota (DQ) set by the Canada Revenue Agency.

Disbursement quotas are a regulatory tool devised by Revenue Canada to control the operation of registered charities. They are designed to ensure that charities actually spend most of their annual income on charitable causes. Failure to meet this quota may result in an organization having its charitable status revoked.

2.2 To ensure annual granting without encroaching on the endowment capital, as defined in 1.4. nnual Foundation granting will be assessed based on the calculations defined in section 3.0 of this policy.

2.3 To set and collect administrative fees from each Fund of 2% annually to the operating fund. The administrative fees collected are to include the Foundations operating fees and Investment Management Fees. The Foundations operating fees are meant to support operational expenses of the Foundation. The Investment Management Fees collected are to recover the cost of Investment Management Fees paid for by the operating fund.

2.4 To manage inflation. The Foundation recognizes the potential of the erosion of purchasing power due to inflation and will endeavor to protect against this risk when possible.

2.5 To build a Reserve Fund. The Foundation recognizes the need to have funds in reserve to access in the portfolio up to an amount equal to two times the previous year's Disbursement Quota to preserve the Foundation's ability to grant annually in the event of market downturns.

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3.0 Calculations and Procedures:

To meet these objectives, the Finance Committee will advise the Board of Directors annually and recommend the operational, granting, inflation protection and reserve calculations for the Foundation based on the following:

3.1 The Disbursement Quota is established by Canada Revenue Agency (CRA) and is based on the average market value of the endowment funds held and managed by the Foundation during the preceding eight quarters. The Disbursement Quota is 5% as of January 1, 2023.

3.2 The total administrative fees per Fund, currently 2% total, consists of 2 fee recoveries- Operating fee recovery, and the Investment management fee recovery. These fees are charged quarterly on the current market value of all endowment funds, unrestricted and restricted. See Appendix 1 for details on the calculation of the charge.

3.3 To inform the budget for the upcoming fiscal year see Appendix 1 Budgeting. A balanced approach to the budgeting process should be considered with the current year's estimated total operating fee recovery informing the upcoming fiscal year's budgeted spend.

3.4 It is acknowledged that as programmatic opportunities arise, the overall operational spend may exceed the above. Any operational spend required, exceeding the above calculation must be approved by the Board of Directors as being funded by the annual unrestricted income or as an external source of funding for operational needs..

3.5 As of December 31st, each year, the market value of the investment portfolio will be assessed in accordance with terms of the Income Tax Act and CRA regulations.

3.6 As of December 31st, each year, the investment income/spendable will be calculated for each fund agreement for the previous 12 months.

3.7 Deductions for and administration fees will be calculated and made.

3.8 With due consideration of gift type and fund agreement restrictions, and with Board approval, an appropriate amount will be set aside for the annual disbursement of grants. A rolling average of the rate of return from the past of five (5) fiscal years will be calculated.

3.9 The granting commitment with consideration of the Foundation's requirement to meet the DQ and remain stewards of the funds,

a) the minimum granting commitment should be considered to be the DQ (5%) less qualified expenditures on charitable programs spent (if any) from of the Foundations administrative fee of 2%

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b) the maximum granting commitment should be considered to be the DQ plus any amounts determined by the Board of Directors after a balanced review of capital preservation and reserve balances has been completed

3.10 After the two annual deductions have been satisfied, being;

- the Foundation's administration fee of 2%
- The annual disbursement of grants (Grant Commitment)

an amount will be added to the capital of each fund utilizing the following formula (capital preservation).

The lesser of, **or** the Board's direction of:

a) 1/2 of the remaining income

b) 2.5% of the fund's capital balance as at December 31st of the current year

c) 0.25% of the total fund income

d) A rolling average of 5 year inflation

e) Amount between c) and d)

3.10 Any remaining income will be allocated to a reserve fund to be used in years in which the investment revenue is not sufficient to meet the obligations written within a Fund Agreement. If the total funds allocated to the reserve are equal to, or greater than, 2 times the current budgeted granting requirement, then the reserve would be deemed to be fully funded.

3.11 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 capitalization of funds, or additional administrative expenses. However, such discretion would continue to be constrained by the terms and conditions, and by the intended purpose, of individual endowed funds.

Appendix 1 – Administrative Fees Calculation

The Administrative Fee is broken down into 2 components with the combination of the 2 targeting total 2%.

1) The Investment Management Fees (IM Fee)
    a. The Foundations current IM Fee is 0.426% (0.269%+0.157%). This expense is broken down into 2 categories;
        i. Direct Fee – 0.250% + HST Invoiced by TD and charging HST resulting in 0.269% expense to the foundation after 50% of the HST is recovered.
        ii. Indirect Fee – 0.157% Paid within funds and netted against revenues.
2) The Foundations Administrative Fees to fund operations (Operating Fee)
    a. The foundations operating fee is charged quarterly to the funds based on the funds balance in the quarter.
    b. The Operating fee charged quarterly is 0.394% (1.574% Annual).
        i. The 1.574% annually is arrived at by maintaining the total Administrative fee charged at 2%. (2% - Direct IM Fee – Indirect IM Fee)(2%-0.269%-0.157%)

	Operating Fee	**IM Fee**
Frequency	Quarterly	Quarterly
Basis	Current Quarter FMV	Current Quarter FMV
Amount	0.394% (1.574% Annual)	Approximately 0.0672% (0.269 Annual)*
Methodology	C-Suite fund fee Percent Fee	C-Suite fund fee Fixed Amount*

* Each Quarter the 3 monthly TD invoices are charged to the funds using the actual expenses incurred by the foundation.

Budgeting

1) The Investment Management Fees (IM Fee)
    a. This amount is budgeted for the following year at the estimated FMV of assets for Q4.
    b. Any fluctuation in the actual expense vs the budgeted expense is factored into the IM Fee calculation. (ie the IM Fee is fully funded by the funds themselves)
2) The Foundations Administrative Fees to fund operations (Operating Fee)
    a. The amount collected in a calendar year is used as the budget assumption for the following year's operating revenue spend. At the time of budgeting the 4th quarter is estimated based on the 3rd Quarter with additions for donations and October investment statements if available. (ie. Budget Operating = Q1 Actual + Q2 Actual + Q3 Actual + Q4 Estimate)
        i. 2024 Budget = 2023 Actual