

## **ABBOTSFORD COMMUNITY FOUNDATION**

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<b>APPROVED:</b> Oct. 5, 2011	<b>REVISED/REAFFIRMED:</b> November 2017	<b>REVIEW: Every year</b> <b>NEXT REVIEW DATE:</b> November 2018

### **Policy Objectives**

The objective of the spending policy is to ensure predictable cash flow and cover administration costs.

### **Predictable Cash Flow**

The Foundation's income will include interest income, dividend income, and net realized or unrealized gains or losses of bonds and equity assets.

Rates of return in capital markets are highly variable from year to year. To prevent this level of variability impacting our annual charitable grants, investment income averaged over a longer term is used to determine the annual spending limit.

### **Spending Limit**

The Finance and Audit Committee will meet in the fall of each year and prepare a recommendation to the Board of Directors regarding the annual Spending Limit, which will determine the Distributable Income for the following fiscal year. The Finance and Audit Committee will also recommend any changes in the Administration Fee for all Capital Funds. All recommendations of the Finance and Audit Committee are subject to Board approval.

### **Calculation of Spending Limit and Distributable Income**

The primary objectives of this spending policy are to provide predictability and sustainability of cash flows for distribution purposes. The following will be considered in the Spending Limit calculation:

Long term versus short term returns: The Spending Limit must be based on a long term historical rate of return. A 4-year average annualized rate of return is deemed appropriate for this purpose.

All Capital Funds will receive a Distributable Income calculated on the closing fund balance at the end of the year except for the year of contribution.

For contributions of \$5,000 or more, the Distributable Income, in the year of contribution, will be calculated on a pro rata basis from the date the funds are received by the Foundation until the end of the first year. For example, if the contribution is \$5,000 or more and has been held by the Foundation for three months, its Distributable Income would be 25 per cent of the annual distribution. In the case where contributions are less than \$5,000, the Capital Funds will

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receive a Distributable Income calculated on the average of the opening and closing fund balance during the year at the annual approved rate.

### **Administration Fee**

All Capital Funds will be charged an Administration Fee calculated on the closing fund balance at the end of the year at the current rate of 1.5 per cent except for the year of contribution.

For contributions of \$5,000 or more, the Administration Fee, in the year of contribution, will be calculated on a pro rata basis from the date the funds are received by the Foundation until the end of the first year. For example, if the contribution is \$5,000 or more and has been held by the Foundation for three months, the Administration Fee would be 25 per cent of the annual fee. In the case where contributions are less than \$5,000, the Capital Funds will be charged an Administration Fee calculated on the average of the opening and closing fund balance during the year at 1.5 per cent.

### **The Capital Reserve Account**

Although our investment policy requires a conservative investment position, times of significant volatility are inevitable. A Capital Stabilization Reserve Account balance equivalent to two years Spending Limit is recommended to fund distributions during periods of below average investment returns. The capital fund will have a separate account category called the Capital Stabilization Reserve Account. It is intended to provide stability in distribution levels and to be used as an offset in those years when underperformance may occur.

### **Managing Stabilization Reserve Account Balance**

The balance in the Capital Stabilization Account has been reserved to meet the objective of the spending policy, namely to ensure predictable cash flow. If, by following the spending policy as outlined, this results in a significant reduction of the Capital Stabilization Reserve Fund, the spending will be limited to the lesser of the four year average and the estimated rate of return during the current year at the discretion of the board. For greater certainty, the intention of this paragraph is to ensure that under no circumstances will the Capital Stabilization Reserve Fund become negative.

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The following guidelines will be followed, subject to CRA's minimum gross disbursement requirement of 3.5% of all assets and allowable excess disbursement room in our historical CRA disbursement quota:

If the Stabilization reserve is positive but below optimum\*  
Spending limit will be reduced by 10%

If the Stabilization reserve is at or above optimum\*  
There will not be any reduction in spending limit

\*Optimum Capital Stabilization Reserve is two years of spending limit at 3.5% CRA minimum, calculated on the most recent available endowed capital balance.