Community Foundation of Nova Scotia

Disbursement Reserve and Preservation of Capital Policy

Original effective date: April 2018
Date of last review and Board approval: March 2023

Definitions

- **Board**: Board of Directors of the Community Foundation of Nova Scotia
- **Capital Value:** initial donation plus any additional donations.
- **Consolidated Investment Fund**: aggregate of the assets the Foundation holds as investment capital or as re-invested investment earnings in each individual endowment fund.
- **Disbursement Reserve Account**: an account associated with each fund. Contributions are made in years where investment returns exceed amounts required for administrative and investment management fees and until the value of the account reaches 14%. Funds are drawn from this account in years of low or negative investment returns.
- **Fiscal Year**: January 1 to December 31
- **Foundation**: Community Foundation of Nova Scotia
- **Fund Balance**: initial donations, plus any additional donations or investment returns (realized or unrealized) net of administrative fees, investment management fees, disbursements and any contributions to the preservation of capital.
- **Investment Committee**: a sub-committee of the Foundation's Board
- **Investment Returns**: gross return on investment obtained on the Consolidated Investment Fund, including interest and dividends received, accrued interest, and realized and unrealized capital gains/losses applied on a proportional basis to each endowment fund.

The Community Foundation of Nova Scotia is a public foundation established to improve the quality of life in Nova Scotia by distributing income generated from investing assets vested with the Foundation in the form of endowment funds, and to do so consistently over time. Because of this mandate, wise management and stewardship of endowment funds are critical to the Foundation achieving its aim and being accountable to its donors, grant recipients and the community at large.

1.0 Overview:

1.1 The central purpose of the Community Foundation of Nova Scotia 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 a *Disbursement Reserve and Preservation of Capital Policy* that defines and sets annual operational, stabilization and granting parameters funded from investment returns.

1.3 Returns from investments shall include interest, dividends, realized gains, unrealized gains, or other forms of income such as rental or business income.

1.4 The fund balance is used to determine the funds available for granting/disbursement, which is provided on the Foundation's annual fund statements.

1.5 The fund balance, or market value of each fund, which includes the capital value, temporarily fluctuates up or down with unrealized gains/losses that take place within the investment portfolio in which the capital is held.

1.6 Capital value is defined as the original value of all donations to a fund from donors to the Foundation. It is also known as principal.

Capital value can be increased by additional donations from donors or by the Foundation itself through interfund transfers or capitalization of unused annual earnings, after operational, granting and preservation of capital needs are met.

Capital value can only be 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.

1.7 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.

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

2.0 Policy Objectives:

The *Disbursement Reserve and Preservation of Capital Policy* will be reviewed annually. The objectives of this policy:

2.1 To meet the disbursement quota set by the Canada Revenue Agency (CRA).

Disbursement quotas are set by Revenue Canada to regulate the operation of registered charities. They are designed to ensure charities 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 capital value, as defined in 1.6. Annual Foundation granting will be assessed based on the calculations defined in section 3.0 of this policy.

2.3 To set and collect an administrative fee for each fund, as determined by the Board, to support the Foundation's operational costs, calculated quarterly. This administrative fee is calculated on the fund balance, or market value of each fund, inclusive of the capital value and unrealized capital gains/losses.

2.4 To preserve capital endowment, which generates monies for granting. The Foundation recognizes the need to preserve a fund's capital value and the Foundation's ability to grant annually in the event of market downturns, which is the basis for having a Disbursement Reserve Account for each fund.

3.0 Annual Calculations and Procedures:

To meet the above stated objectives, the Foundation's Investment Committee will advise the Board annually and recommend the operational, granting, inflation protection and reserve calculations for the Foundation based on the following:

3.1 The disbursement quota established by CRA and based on the average market value of the endowment funds held and managed by the Foundation during the preceding four years. (*Note:* This will be calculated beginning with the 2023 fiscal year and will appear on your Fund Statement issued in March 2024.) As of January 1, 2023, CRA has set the disbursement quota at 5%.

3.2 The administrative fee, currently up to 2% (including Foundation fees and investment management fees) per fund, to support the Foundation's operational costs. This fee is charged quarterly on the current fund balance or market value of all endowment funds, unrestricted and restricted.

3.3 Contributions to the Disbursement Reserve Account are calculated annually and are based on the previous year's investment returns, less fees and disbursements, as determined by the Board. They are intended to preserve an endowed fund's - and the Foundation's - ability to grant monies to the community in a year with a negative investment return. The goal is to grow a fund's Disbursement Reserve Account to approximately 14% of capital value.

3.4 Further, when a fund's Disbursement Reserve Account has accumulated net contributions of 14% of the capital value, and once disbursement quota and administrative fees for the year are met, any excess will be applied to the capital value to enhance capital preservation.

3.5 As of December 31 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 31 each year, the investment returns/disbursement amount will be calculated for each fund agreement based on the previous year's fund balance.

3.7 Deductions for administrative and investment management 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 (referred to as *Available for Granting/Disbursement* on fund statements). A rolling average of the rate of return from the past four fiscal years will be calculated.

3.9 After the two annual deductions have been satisfied, being:

- The Foundation's administrative fee combined with the investment management fee of up to 2% and

- The 5% annual disbursement of grants,

The amount remaining in any year will be kept for the Disbursement Reserve Account until the accumulated amount reaches 14% (two years of 2% + 5% as noted above).

3.10 In the event of negative investment returns, administrative fees and granting will come from accumulated disbursement reserve amounts.

In circumstances where accumulated disbursement reserve amounts are used for administrative fees and granting due to negative investment returns, excesses above fees and returns in future years will be used to replenish capital preservation value.

4.0 **Disbursement Reserve Account:**

4.1 Each fund will have a Disbursement Reserve Account. The amount in this account will be held separately from the consolidated investment fund and will be invested in securities where principal is protected and, where possible, modest investment returns can be achieved. For example, Guaranteed Investment Certificates (GICs) or Treasury Bills (T-Bills).

The following is an example for illustration purposes only.

An endowment fund of $100,000 generates a 10% return, or $10,000, in a year, realizing a fund balance of $110,000:

- 2%, or $2,200, is allotted for administrative fees, including investment management fees;
- 5%, or $5,500, goes to disbursements; and
- the remainder, or $2,300, goes to the Disbursement Reserve Account.

When the amount in the Disbursement Reserve Account reaches 14%, the excess amount is applied to capital value for preservation.