Community Foundation for Kingston & Area

Spending Policy

Endowment, Quasi Endowment & Operating Endowment Funds

History, Background and Considerations

The Community Foundation for Kingston & Area (the Foundation) is a registered charity designated as a public foundation and must comply with the Income Tax Act (Canada) ("the Act"). A central purpose of the Foundation is to benefit the community over the long term through grants from its endowed and quasi-endowed funds. Each year, the Foundation determines the investment return on these funds by considering the Market Value of the Fund at year-end; thus, the investment return includes all income from investments including unrealized capital gains. Decisions must be made annually about how to use this investment return or how to respond when this return is inadequate or negative. The individual nature of each endowment fund must be respected, but in each year a uniform policy should apply to all of these funds.

Questions to be addressed include the following. How much of the investment return is to be disbursed in grants? How much should be charged by the Foundation as an administrative fee? Should some of the investment earnings be retained within the individual fund to provide grants in future years when the investment return is less favourable? Should we use some of the fund returns held back in previous years to allow for granting in the current year? Given our long-term mission, should we use some of the return to grow each fund in order to protect the real (after inflation) value of the fund and its future grants? Should we provide for inflation through our ongoing efforts to encourage donors (both existing and new donors) to contribute additional capital? Given the wishes of some donors to provide for a higher level of spending, should we allow for a more flexible endowment that provides for encroachment on capital?

The spending policy adopted in September 2005 provided that there would be no encroachment on donated capital unless that was required to meet the requirements of the Act. During the significant market downturn of 2007 and 2008, this resulted in having only a small amount available for granting purposes. This occurred during an economic time when the community needed additional resources. The Foundation should be in a position to provide a level of constant granting to provide certainty regardless of the economic times. To take the above factors into account, in November of 2010 the Foundation updated its spending policy to make two changes. First, a three year average rate of return was used to try to smooth the volatility in the markets. Second, the spending formula provided for a minimum spending of 2.5% and a maximum of 3.5% based on a specific formula (3 year average rate of return less Foundation administration fees times 70%).

Each November the Board, with the advice of the Finance Committee and the Investment Committee, shall determine how much money shall be disbursed from each endowment fund for administration and for grants in the upcoming year, and whether some part of the investment return should be held as a reserve. In considering this issue, the Board shall take account of the investment return for the past years, the availability of returns not disbursed in previous years, and the need to restore funds that have suffered investment losses in previous years. This spending policy is created to provide guidance in making these decisions.

In order to provide more flexibility in meeting the needs of our Community and provide for the wishes of some donors to allow for some encroachment on the capital of their endowments (recognizing that these funds should still last for a considerable time); we should also allow for a second "enhanced spending option" with respect to any endowment.

Spending Policy

It is critical that the spending policy for endowment and quasi-endowment funds consider the viability of the Foundation and compliance with government regulations.

1. The Foundation will charge each fund a standard management fee to sustain the Foundation's operations. (Currently, we deduct the fee at the end of each calendar quarter, one fourth of the appropriate fee based on the Foundation's Policy Regarding Fund Administrative Fees based on the Market Value of the fund at the end of that quarter, commencing with the first full quarter of the fiscal year that the fund is established.) This charge will be made even if it causes the Foundation to encroach on the capital of a particular fund.
2. Unless specifically addressed in the Fund Agreement, the following rules will apply in the initial year that an endowment or quasi-endowment fund is created:
   (a) There will be no grants in the following year if the Fund is established after September 30.
   (b) If the Fund is established on or prior to September 30, spending for the following year will be determined under the normal policy provided that there is no encroachment of capital based on the accumulated capital at the end of the initial year.
3. The Foundation projects that conservative long term investment return expectations to be an average of 6% annually. Based on this, the following formula will be used to determine the Annual Distributable Earnings available for its funds:

   Regular endowment funds

   (a) Granting will be calculated on a 3 year rolling average rate of return as of the end of each December.
   (b) The Foundation's annual administrative fee will be deducted.

(c) Of the remaining amount, 70% will be used to provide grants, with a minimum payout of 2.5%. There will be no maximum; however, in paying any amount in excess of 3.5%, the balance of a particular fund would be required to exceed its original capital at the end of the preceding year.

(d) Any amount available for granting in a year but not spent, will be available for granting purposes in the following year in addition to the amount that year's Annual Distributable Earnings or, if specifically requested by the donor, this amount will be added to the accumulated capital of the fund.

(e) The annual granting percentage is to be approved by the Board.

(f) If the granting amount calculated in (c) above is less than 2.5% or more than 5.0% there will be an automatic review by the Finance committee and a report to the Board will be prepared with any revised policy recommendations. An automatic review of this policy will also occur every five years beginning in 2019. (Note that the expected amount for 2014 will exceed 5.0% and the Finance committee has considered this in making this recommendation).

(g) Granting may exceed the limitations noted above if this is required to meet the requirements of the Act.

Enhanced spending funds

As noted above, the Foundation will provide for an enhanced spending option which will allow for the encroachment on the capital of a fund. The Annual Distributable Earnings available for granting under the enhanced spending option will be a multiple (currently 2 times) the amount calculated for its regular endowment funds (per formula specified above) with a minimum annual distribution to be agreed upon by the donor upfront, but not to be less than 2.5% of the initial gift. An increase in the minimum annual fund payout may be renegotiated between the Donor and the Foundation as appropriate. However, to ensure appropriate spending from enhanced spending funds, the Foundation reserves the right to calculate the minimum annual payout from such funds as 2.5% of the total accumulated capital of the fund (defined as initial gift plus all additional gifts).

Operating Endowment Funds

Granting for operating endowment funds will be calculated on a 3 year rolling average rate of return as of the end of each December. This amount will be transferred to the current operating fund each year. No administrative fees will be charged.

4. The Foundation is aware that poor investment returns could result in the requirement that a fund encroach on the original capital for a period of time. The Foundation anticipates that based on the returns anticipated above, this will not result in an encroachment of donated capital over the long term.

Definitions

Accumulated Capital: All donations made to a fund since its inception;

Earnings: Includes all interest, dividends and realized and unrealized gains and losses;

Current Capital: Where an enhanced spending option is used, current capital is equal to the original capital less any additional spending (in the current year) resulting from the enhanced spending option to the extent that has resulted in a reduction of the original capital. In all other cases, current capital is the accumulated capital.

Enhanced Spending Option: Includes any spending in excess of the amount calculated in 3 above.

Note: In presenting its recommendations for the annual payout to the Board, the Finance Committee should show for each fund: (a) the Original Capital; (b) the Current Capital (if different); (c) the market value at the most recent year-end; (d) the estimated administrative fee for the coming year; (e) the amount recommended for disbursement in grants in the coming year and (f) the estimated value of the fund after the expenditures (d) and (e).

Approved by: Board of Directors Date:______________________________

Signed: Foundation President __________________________________

Foundation Secretary __________________________________