Community Foundation of
Newfoundland and Labrador

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<tr><td colspan="3" align="center">SUBJECT:
Annual Income Distribution Policy</td></tr>
<tr><td align="center">EFFECTIVE DATE/APPROVED:
January 1, 2024</td><td align="center">REVISED/REAFFIRMED:</td><td align="center">SUBJECT TO REVIEW:
As required.</td></tr>
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1.0 Definitions

1.1 Accumulated Capital: All donations made to a fund since its inception (also known as principal)

1.2 Grant Commitment: The amount of funds that is available for granting after the spending formula has been applied. This is referred to as spendable in C Suite software.

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

1.4 Endowment Funds: Funds that are established with the intention of only the earnings from the funds being granted.

1.5 Spend-down Funds: All donations (or capital/principal) are invested with the intent to grant the entire amount in agreed-upon intervals until it is fully depleted.

1.6 Flow Through Gifts/Funds: Donations that are received by the Foundation and meant to be distributed via grants within a 1-3 year period.

2.0 Overview:

2.1 One of the central purposes of the Foundation is to steward funds to benefit the communities it serves both now and in the future.

2.2 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.

2.3 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.

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

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.

2.5 The Foundation recognizes the distinction between Unrestricted and Restricted Donations and Unrestricted and Restricted Income.

2.6 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.

2.7 The Foundation does not encroach on capital except in the event of any realized losses that are recognized in the investment portfolio in which the capital is held, as a result of withdrawing the Foundation's administrative fees or to meet the Foundation's Disbursement Quota as legislated by the Canada Revenue Agency.

3.0 Policy Objectives:

The income distribution policy has these principal objectives:

3.1 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 spend most of their annual income on charitable causes. Failure to meet this quota may result in an organization having its charitable status revoked.

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

3.3 To set and collect an administrative fee for each Fund, as determined by the Board of Directors, to support operational costs of the Foundation, calculated quarterly. The Administrative Fee is calculated on the Market Value of each Fund, inclusive of the Endowed Capital and Unrealized Capital Gains/Losses.

3.4 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.

3.5 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.

4.0 Annual 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 established by Canada Revenue Agency and based on the average market value of the endowment funds held and managed by the Foundation during the preceding eight quarters. As of January 1, 2023, the Disbursement Quota is 3.5% on the portion of property not used in charitable activities and administration up to $1 million, and increases to 5% on property exceeding $1 million.

3.2 The administrative fee per Fund, as per the Foundation's Fund Administration Fees Policy, is to support operational costs of the Foundation. This fee is charged quarterly on the current market value of all endowment funds, unrestricted and restricted.

3.3 Unless specifically addressed in the Fund Agreement, the following rules will apply in the initial year that an Endowment is created:

3.3.1 There will be no grants in the following year if the Fund is established after September 30.

3.3.2 If the Fund is established 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 (partial spending is allowed).

3.4 No spending will happen until the minimum fund balance has been reached as per the Fund Agreement.

3.5 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.

3.6 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.

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

3.1 Deductions for investment management fees and administration fees will be calculated and made.

3.1 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 (Grant Commitment).

3.1.1 For Endowment Funds - A rolling average of the rate of return, net investment management fees, from the past of 5 fiscal years will be calculated. The Foundation's administration fee will be deducted. This will be set as the minimum Grant Committment for funds of this type for that fiscal year. If the Grant Commitment exceeds 5%, the board will consider capital preservation as outlined in 3.9.

3.1.2 For Spend-Down Funds - The Foundation will provide for an enhanced spending option which will allow for the encroachment on capital of a fund. The Grant Committment under the enhanced spending option will be determined by

3.1.2.1 Where no minimum was established in the Fund Agreement, a multiple (2 times) of the amount calculated for regular endowment funds, with a minimum pay-out of 5%.

OR

3.1.2.2 The minimum established in the Fund Agreement.

3.1.2.3 Depending on the timeframe of the stewardship of the Fund and its annual Grant Commitment, the Funds may not be invested to preserve the ability to meet the Grant Commitment.

3.1.3 Flow Through Gifts/Funds

3.1.3.1 The Foundation will charge each gift/fund a standard administrative fee based on the Foundation's Fund Administration Fees Poilcy.

3.1.3.2 Of the remaining amount, 100% will be used to provide grants according to the Fund Agreement.

3.1.3.3 If after three years from the date of receipt of the gift no direction has been given from the donor, any remaining funds will become unrestricted funds of the Foundation.

3.1.3.4 Funds will not be invested.

3.8 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 (3.5-5%) less qualified expenditures on charitable programs spent (if any) from of the Foundations administrative fee of 2%
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

3.9 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 of the 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.