



The Scarborough Hospital Foundation

Policies and Procedures Endowment Fund Policy

Approved by The Scarborough Hospital Foundation Board of Directors June 22, 2009.

1. Introduction

This Endowment Fund Policy is framed with two main goals in mind. The first is to set up the structure in a manner that will maximize the benefits for the purpose of the fund in each fiscal year. The second is to endeavour to constantly strengthen the purchasing power of the endowment by the decisions of the Finance and Investment Committee with respect to the investing practices of the Foundation while at the very least striving to maintain the purchasing power of the fund in perpetuity. These two goals are not unrelated.

2. Establishment

The minimum amount for establishment of an endowment fund is a pledge of \$25,000. The maximum period in which a pledge may be fulfilled is five years.

Income is allocated to endowment funds once \$5,000 in pledge payments has been received. Prior to this no income is allocated to the fund. This is done, in part, to cover the costs of setting up and maintaining the funds by the Foundation.

3. Valuation

Donations towards endowment fund pledges are valued on the day in which the Foundation obtains control of the asset contributed, with the exception of gifts of securities. When gifts of securities are received, the foundation will liquidate them immediately. When a donation to an endowment fund arises from a gift of securities, the value of the fund is increased by the net proceeds upon liquidation. This is not only consistent with the Foundation's Gift Acceptance Policy but is also a practical treatment of the gift, given the attempt to maximize the benefit of the gift.

4. Payout (Includes Capital Preservation Policy)

Income earned by the endowment fund will be held in the fund and added to capital until pledges are fully funded, whereupon the annual income available for spending will be disbursed in accordance with the terms herein.

Payouts will be calculated annually and will be available for distribution in the month following the end of the Foundation's Fiscal Year.

Payouts will not be distributed until a signed donor agreement is in place.

The Foundation's Statement of Investment Policies' Investment Objectives state that the Fund should be structured and managed to generate long-term capital growth in excess of the projected disbursement rate on an annual basis. This is intended to ensure that

the rate of growth in the capital value of endowment funds matches or exceeds the rate of inflation over time. The pay out rate is set to be an amount not exceeding 5.0% of the market value of the fund. Returns in excess of 5.0% will be reinvested in the fund.

Should returns on capital be lower than 5.0%, instead of encroaching on capital, the rate of pay out may be reduced to the amount, which allows for the principal (principal being the original donation plus additional donations) to be maintained. In some cases, the pay out may be reduced to nil. In the case of negative returns, the principal may be reduced by such a return, to the extent that there is no reinvested income.

If the principal has been reduced by negative returns, income in subsequent years may be used to replenish the principal before any pay out is made.

If pay out from an endowment fund is not required for any reason, this amount may be contributed to the capital of the endowment fund, at the beginning of the period in which the income would have normally have been paid out. This amount will be added as part of the reinvested income.

5. Donor Agreement

Endowment Funds must have an agreement that specifies:

- The capital be long term in nature, and held for a period of not less than 10 years;
and
- The purpose of the fund.

6. Financial Reporting

A financial statement for each endowed fund will be produced annually and distributed to designated interested parties.