COMMUNITY FOUNDATION
OF NORTHERN COLORADO

Finance Policy

Ratified May 28, 2024

General Duties

The Finance Committee is responsible for providing oversight of three priority areas for the Foundation: 1) investments, 2) audit, and 3) budgeting/financial management. This policy shall be reviewed from time to time and modifications made to reflect significant changes. The Board of Trustees may approve exceptions to this policy by a vote of Board members present at any legally called Board Meeting. Material changes to this policy must be approved by the Board of Trustees.

1) INVESTMENTS

Investment Managers

To accomplish the goals and objectives of the Community Foundation, it is important that the Foundation engages qualified and competent investment professionals to manage the portfolio. Subject to Board approval, the Finance Committee may hire one or more investment managers to select and monitor specific investments for the Foundation's assets. The Finance Committee shall monitor any investment managers to determine that investments (taken as a whole, without regard to any specific investment) are made to be consistent with the safeguards and diversity which a person exercising ordinary care and sound judgment would employ in the management of their own affairs, not in regard to speculation, but to the permanent disposition of their funds, considering both income and safety of capital.

It shall be the Finance Committee's responsibility to interview investment managers that have at least 5 years of experience and have demonstrated skill in their defined area of expertise. Each investment manager is to be given a copy of this Policy and must agree to its terms unless there is a separate written agreement approved by the Finance Committee.

The President/CEO or their designee is responsible for daily administration of the Foundation's portfolio and execution of Board and Committee decisions. The President/CEO shall consult with the Finance Committee on all matters relating to the investment of the Foundation's portfolio and will serve as the primary contact with investment managers.

Investment Objectives

Investment Pools

Donors to the Foundation have a range of investment objectives and risk tolerances. The Foundation recognizes that one investment portfolio will not suit this entire range. Accordingly, the Foundation offers donors four investment options: Stable Value, Conservative, Balanced, and Growth. Each of these investment options, or "pools," shall be diversified to minimize risk and shall be measured against an appropriate weighted benchmark index over a full market cycle of 3-5 years. The objectives for each pool are described below. All endowed funds are required to be invested in either the Balanced or Growth Pools.

- **Stable Value Pool:** To provide for preservation of principal, all funds are invested in cash and cash equivalents. This pool will also be used as an appropriate vehicle for "pass through" gifts and short-term funds. The pool will be reviewed quarterly by the Finance Committee along with all the Foundation's investments.

- **Conservative Pool:** To provide current income with long-term growth of capital being secondary. Funds shall be invested primarily in fixed income securities, with a smaller allocation to a diversified mix of domestic and foreign equities and appropriate alternative investments. This pool is for donors who seek some opportunity for capital appreciation but have a lower tolerance for volatility, and for those that intend to deploy their funds within the next 1 to 2 years.

- **Balanced Pool:** To provide both long-term growth of capital and generation of income by investing in a diversified mix of domestic and foreign equities and appropriate alternative investments and fixed income securities. This pool is for donors who seek moderate growth paired with stability, and for funds that intend to deploy their funds within the next 3 to 5 years.

- **Growth Pool:** To provide long-term growth of capital with production of income being secondary. Funds shall be invested primarily in a diversified mix of domestic and foreign equities while having exposure to fixed income and appropriate alternative investments. This pool is intended for funds with long-term time horizons and for donors seeking capital appreciation who have a higher tolerance for volatility.

Asset Allocations

	Equity	Fixed Income	Alternative	Range
Stable Value	0%	Cash	0%	N/A
Conservative	25%	65%	10%	+/- 10%
Balanced	55%	30%	15%	+/- 15%
Growth	75%	10%	15%	+/- 15%

Rebalancing
The asset allocation for each pool shall be reviewed at least quarterly to ensure the asset allocation is in compliance with the Finance Policy.

Investment Performance Goals and Measurement
It is the Foundation's investment goal to generate a total rate of return, i.e., investment income plus capital appreciation, for each investment pool at least equal to the appropriate weighted benchmark for that pool, net of fees and costs. Any investment manager hired by the Foundation shall propose a customized benchmark against which its performance is to be measured. The Finance Committee shall have final authority to determine the appropriate benchmark against which each investment manager's performance will be evaluated. Achievement of the Foundation's investment goal shall be reviewed at least annually, bearing in mind that a full market cycle is 3-5 years in duration.

Each investment manager shall be reviewed at least annually, based on the following criteria:

- Adherence to this Finance Policy
- Risk adjusted returns as compared to the relevant market benchmarks

Liquidity
The Foundation will give reasonable notice to investment managers of liquidity needs.

Volatility
Consistent with the desire for adequate diversification, the Finance Committee's goal is to structure the asset allocation in such a way as to reduce the volatility of each pool, in aggregate, relative to the volatility of stock and bond weighted indices reflecting each of the pools.

Proxy Voting Policy
The Finance Committee gives sole and exclusive right to vote all proxies solicited in connection with securities held by the Foundation to the investment manager managing that security.

Outside Charitable Funds
"Outside Charitable Funds" are defined as investment relationships that exist outside of the Stable Value, Conservative, Balanced and Growth Pools described above. Accordingly, Outside Charitable Funds should fall within the investment range between the highest % of the growth pool and lowest % of the conservative pool. The Finance Committee is authorized to add to the list of approved Outside Charitable Funds as the opportunity is presented and qualifications are met by various financial institutions. The Finance Committee recommends a $500,000 minimum fund contribution be established for any such Charitable Fund. The Finance Committee will periodically review funds invested under this section.

Prudent Investing
Except as a donor's gift instrument otherwise requires, and consistent with the State of Colorado's adoption of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the following factors must be considered, if relevant, in managing and investing the investment portfolio, including the requirements for any specific institutional funds:

- General economic conditions
- The possible effect of inflation or deflation
- The expected tax consequences, if any, of investment decisions or strategies
- The role that each investment or course of action plays within the Foundation's overall investment portfolio
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The needs of the Foundation and a given institutional fund to make distributions and to preserve capital; and
- An asset's special relationship or special value, if any, to the purpose of the Foundation.

Portfolio Limitations

Equities
Types of Securities: Equity securities shall mean mutual funds whose assets are invested primarily in common stock or equivalents, such as American Depository Receipts (ADRs), or Exchange Traded Funds ("ETFs").

Diversification: Since all equity securities will be invested in diversified mutual funds or ETFs, concentrations by industry, sector or issuer will be avoided.

Cash and Cash Equivalents
Investments and deposits maturing in 24 months or less may be placed in FDIC insured bank accounts or short-term investment funds whose investments would qualify as acceptable fixed income investments under this policy.

Fixed Income Investments
Types of Securities: Funds not invested in cash equivalents (securities maturing in one year or less) may be invested in marketable debt securities, including but not limited to securities issued by the United States Government, municipal governments, domestic corporations, including industrials and utilities, and domestic banks and other United States financial institutions. Investment in mutual funds or ETFs holding securities issued by governments outside the United States is permissible, provided that such funds comprise no more than 20% of the fixed income assets of a pool at any time.

Quality: Fixed income securities shall be a minimum of investment grade rated (BAA or better) at the time of purchase. Notwithstanding the preceding sentence, investment in mutual funds or ETFs holding securities less than investment grade is permissible, provided that such funds comprise no more than 10% of the fixed income assets of a pool at any time. If any individual fixed income security (i.e., one held outside a mutual fund or ETF) drops below investment grade after purchase, it shall be sold as soon as reasonable.

Concentration by Issuer: No more than 5% of the fixed income portfolio based on market value, excluding mutual funds, shall be invested in the securities of anyone issuing corporation.

Duration: Average portfolio duration shall not exceed 5 years.

Other Investments
Investment in alternative investments, which shall be evaluated by the Finance Committee independently of marketable securities, is expressly authorized. The primary objective of alternative investments is to diversify the portfolio by targeting investment vehicles with low correlations to other portfolio assets. Investments may include private alternatives as well as liquid alternatives.

Private alternatives: Investments, including but not limited to private real estate, private debt, private equity, and hedge funds shall be evaluated by the Finance Committee independently of marketable securities.

Liquid alternatives: Investments, including mutual funds and ETFs, are expressly authorized within the asset allocation constraints for alternatives. The investment manager shall determine the level of alternative investment exposure with the goal to maximize portfolio returns and reduce risk.

Restricted Investments
Categories of investments that are not eligible for investment include:
- Short sales
- Margin purchases
- Extension of lines of credit to any interested party

Communications
Information is an integral part of the management process. The Finance Committee shall provide reports to the Foundation Board on a quarterly basis. Such reports may include:

- Quarterly portfolio valuations
- Analysis of investment performance in comparison to relevant benchmarks
- The Finance Committee shall periodically evaluate the Foundation's investment strategy and make recommendations to the Board for changes to this Finance Policy, if any.

Fund Spending Policy

Subject to statutory requirements, spendable income is based on a total return concept. Spending may be made from interest, dividends, capital appreciation, or prior year accumulations of the same. The annual amount to be moved to available for spending is 4.5% of the average total endowment balance in the previous 16 quarters as calculated by the Foundation's financial record-keeping software. Funds that have less than 4 years of available balances will be calculated since the inception of the fund. A fund must be established for at least 6 months before receiving the first spendable calculation. A fund that has been in existence for at least 6 months but less than 12 months will receive 2.25% of the average total endowment balance since the inception of the fund. The Board of Trustees will review this spending policy annually and approve changes in the spending rate.

Funds with large inflows relative to their historical balance (generally an increase greater than 30%) will be assessed on a case-by-case basis to account for the increased asset base. The Finance Committee will have the ability to implement an adjusted Spending Policy that would account for the inflows, but still follow the general intent of the spending calculation parameters outlined above.

Underwater Funds Policy

The Board of Directors of the Foundation has fiduciary responsibility for all funds held by the Foundation for the purposes of carrying out its charitable mission. In addition to conforming to U.S. GAAP and the UPMIFA, the Foundation has adopted its own policies regarding the investment of and grants from component funds. This section outlines spending from endowed component funds with a current market value equal to or less than the Historic Dollar Value (HDV), referred to as "underwater."

Definitions

- **Current Market Value –** The current market value is the value of the fund. For the recommendations outlined in this policy, the current market value is the value of the fund at the end of the fiscal year (June 30).
- **Historic Dollar Value (HDV)** – Sometimes referred to as "principal," the HDV is the aggregate value of all contributions to an endowed fund at the time they were made.
- **Spending Policy** – The Foundation's spending policy, as outlined in the prior section and reviewed annually.
- **Underwater Fund** – An underwater fund is an endowed fund with a market value below historic dollar value. UPMIFA – Adopted in Colorado in 2008, the UPMIFA eliminated the requirement that the HDV of an endowed fund be maintained at all times. However, spending from a fund below HDV must be prudent for the uses, benefit, purposes, and duration for which the endowed fund is established. In accordance with the UPMIFA, the Foundation considers numerous factors when appropriating funds for disbursement from endowed funds, including the duration and preservation of the fund; the purposes of the fund; general economic conditions; the possible effect of inflation and deflation; the

expected total return from income and the appreciation of investments; and the investment policies of the Foundation.

Policy
When an endowed fund's current market value falls below the fund's HDV, the Foundation shall recommend the following approach to balance the desire to return the fund to its HDV with the desire to continue to make grants to support the purpose of the fund:

- For funds with current market values within 10% of HDV, the Foundation recommends distributions up to the full amount available to grant as calculated per the Foundation's current Spending Policy. If there is an existing "spendable" amount carried over from prior fiscal years, it will be treated as follows:
    - If the fund's current market value is within 95% and 100% of HDV, carryover spendable amounts of up to 2% of HDV will remain.
    - If the fund's current market value is within 90% and 95% of HDV, carryover spendable amounts will be eliminated.
- For funds with current market values 10-20% below HDV, the Foundation recommends distributions up to 50% of the amount available to grant as calculated per the Foundation's Spending Policy. It is recommended that the remaining 50% be reinvested in the fund to aid in returning the fund to its HDV. Any existing "spendable" amount carried over from prior fiscal years will be reduced to zero.
- For funds with current market values more than 20% below HDV, the Foundation does not recommend distributions. Instead, it is recommended that the full fund balance remain invested to aid in returning the fund to its HDV. Any existing "spendable" amount carried over from prior fiscal years will be reduced to zero.

Donors may choose to make additional, non-endowed contributions to an endowed fund. Such contributions are added to the fund's available to grant balance and are available for immediate distribution. This is a helpful option for advisors to underwater funds, as the non-endowed contributions will enable the fund to continue making grants as the fund balance returns to its HDV.

2) AUDIT

Audit and Tax Preparation
The Foundation requires an annual audit at the close of each fiscal year. The results of the audit are presented to the Board of Trustees for approval, generally at the December meeting. Review and consideration of bidding for audit and tax services is done every 5-7 years and is overseen by the Finance Committee.

Public Availability of IRS Forms 990
Because the Community Foundation of Northern Colorado is committed to financial security, transparency and accountability, the organization will make available for public inspection Forms 990 for any years in which the forms are filed.

These documents will also be available on the Community Foundation's website, which is currently located at www.nocofoundation.org. Questions concerning documents should be address to either the President/CEO or the Director of Finance.

3) BUDGETING/ FINANCIAL MANAGEMENT

Budgeting and Financial Management

The Foundation's annual budget is prepared and approved annually. The budget is prepared by the President/CEO in conjunction with the Director of Finance. The Finance Committee reviews the draft budget prior to it being presented for approval to the Board of Trustees, prior to the start of each fiscal year. The Finance Committee is also charged with monitoring the budget throughout the year and ensuring the Board of Trustees receives adequate financial reporting.