

**Annual Report
2004**



SOUTHERN TIER WEST

**Development
Foundation**



Development Foundation

A MESSAGE FROM THE PRESIDENT

Welcome to the Southern Tier West Development Foundation! The Southern Tier West Development Foundation is a locally controlled, endowment building and grantmaking organization created by and for the people and communities in Allegany, Cattaraugus, and Chautauqua Counties.

Our vision for the region is that every person have the opportunity to create a legacy. Our mission is to enhance the quality of life in communities we serve by encouraging permanent charitable giving to meet the needs of present and future generations.

2004 was an exciting year for the Foundation. We've expanded our volunteer base to more effectively reflect of the character and quality of our unique region. We've restructured our grantmaking making it more responsive to local need. We've established several new key partnerships that have helped us understand and access new sources of philanthropic opportunity.

We're even looking to develop new ways to expand our charitable vision. Our Creative Community Program will help ensure that communities have access to permanent resources, raised and allocated by local people, to address local need and advance local opportunity.

STWDF places a high value on its charitable mission. Even as we toil through our formative years, we have seen firsthand the profound impact that small, strategic investments can have on a community's future.

Southern Tier West Development Foundation is poised to embrace a whole new generation of community philanthropists to help carry forth our motto: *Our Community - Worth the Investment.*

Sincerely,

Charles Krause

Charles Krause, President, Board of Directors
Southern Tier West Development Foundation



Contents:

Introduction:

- What is the Southern Tier West Development Foundation?
- Board of Directors and Staff
- What do we do?
- Rural Development Philanthropy

Part One:

Why Give?	1
How to Design Your Fund	2
What Can You Give?	3
Making a Planned Gift	4
Current Grantees	5

Part Two: The Economics of Charitable Giving

Deduction Limitations	6
Tax Saving Tips	7
Comparison with Private Foundations	8

Part Three: Important Policies/Initiatives

Spending Policy	9
Administrative Fees Policy	9
Investment Policies	10
Gift Acceptance Policies	11
Creative Communities Program	13

Part Four: Financial Data

Financial Statement / Balance Sheet	14
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Introduction:

What is the Southern Tier West Development Foundation?

Welcome to the Southern Tier West Development Foundation. We are a locally controlled, regional endowment created by and for the people and communities in Allegany, Cattaraugus, and Chautauqua Counties. We're governed by a volunteer Board of Directors and work to improve the region's quality of life and economic vitality by meeting changing needs, strengthening community capacity and helping important community and economic development projects find success.

While most charitable organizations fund their activities from annual contributions, we pool charitable contributions received from many different donors into permanent, income-earning endowment funds. Our role is to:

- Build and manage **PERMANENT ENDOWMENT**.
- Use the earnings from the endowment to support a **WIDE VARIETY** of regional and local community and economic development initiatives.
- Provide donors with a **FLEXIBLE** range of giving and disbursement options.

We enable people with philanthropic interests to easily and effectively support the issues they care about - immediately, or through their will. Donors can establish a charitable fund with us by contributing a variety of assets and may also recommend grants - in their name, if they choose - to communities and nonprofit groups they want to support.

We seek to serve as a catalyst for the region to recognize its strengths and to develop a common vision for the future. Our motto reflects this commitment: Our Community - Worth the Investment!

Board of Directors and Staff

The Southern Tier West Development Foundation Board of Directors determine policy and provide oversight of the Foundation's operations. Directors serve without pay for a specified term and have a history of civic leadership and/or community service. Their success in business, service on other charitable boards, and knowledge of the needs of our region, equip them with the expertise needed for effective grant consideration and investment oversight of the Foundation's funds.

Board of Directors

Charles Krause, President
Allan Hendrickson, Vice President
Donald Rychnowski, Treasurer
Dan Jordan, Secretary
Sarah Bray
Lucille White

Staff

Eric Bridges, Administrator



What do we do?

Southern Tier West Development Foundation has a concentrated and deliberate focus on **community vitality** and we consider the community to be the primary customer of our products and services. The grantmaking, convening, donor services and other program work we do with stakeholder, nonprofits, donors and partners are considered a means to the end of building stronger cities, towns, and villages.

Our vision is to become a philanthropic leader in building vibrant, strong communities for the region we serve. The mission of the Foundation is to strengthen the region by working in partnership with donors and community groups. We accomplish our mission by:

- Building philanthropic resources
- Connecting donors to organizations and programs they care about
- Making effective grants
- Providing leadership to address community issues

In our work we value:

- Trust, accountability, integrity and objectivity
- Non-partisan activities that bring people together around important community issues
- Learning and innovation
- Openness, inclusiveness and representation of the region's communities
- Building on community strengths
- Privacy of our donors
- Local leadership and civic engagement
- Professional development of STWDF staff, board and volunteers and the contributions they make to STWDF
- The strength and breadth of being a regional organization

Rural Development Philanthropy

Rural Development Philanthropy (RDP) encompasses efforts to use community-focused philanthropy to build better rural futures. As an advocate for and proponent of RDP, the Southern Tier West Development Foundation is committed to its three basic ideals:

1. **...to raise significant endowment funds from and for rural communities to support rural community economic development.**
2. **...to use its grantmaking and program activities to enhance the economic security of low-income rural families and communities.**
3. **...to build a region's awareness that its identity and economic well-being depend on its rural areas.**

Through careful adaptation of Rural Development Philanthropy, we contend that Southern Tier West Development Foundation can become the region's foremost agent of community and economic viability.



Why Give?

The Southern Tier West Development Foundation makes it easy and cost-effective for donors to create a fund with the flexibility to address both immediate and emerging needs in the region. Just as they would do if he or she had their own private foundation, donors may identify the community and/or activities they wish to benefit and grants will be made in their name or any name they choose. Whether an established philanthropist or new to charitable giving, we can help donors endow a fund that meets their needs, interests, and goals for permanent charitable giving. Creating a fund with us offers the following benefits:

- **Permanence** - A gift given through the Foundation is given in perpetuity. As a permanent memorial in the donor's name, or the name of someone they wish to honor, the donor's fund enables them to carry out their charitable interests now and in the future. The donor's gift will never lose its power to fulfill his or her charitable goals and will always keep pace with changing times.
- **Tax Advantages** - When a donor creates a fund at the Foundation, he or she receives an income tax or estate tax deduction. Because the Foundation is a public charity, all donations earn the maximum available deduction. Funds are also exempt from excise taxes and the many other restrictions placed on private foundations. This means that more resources are available to address regional needs.
- **Economics** - Using the Foundation is an economical way to make donors' contributions work for them. For most funds, we charge only a modest annual administrative fee of 1.5% of the fund's fair market value. Extraordinary expenses for legal, consulting, or program services are charged against the appropriate fund.
- **Professional Management** - All assets are professionally managed according to the investment policies established by the Board of Directors. Donors' funds benefit from being pooled and invested with the Foundation's other assets.
- **Charitable Impact** - The Foundation can assist a donor in targeting his or her contributions where they will do the most good for the region. Grants from the fund may be combined with those from other funds for greater impact.
- **"Give Where You Live"** - The Foundation provides a vehicle for donors to keep their charitable giving assets here in our region.

How to Design A Fund

A charitable endowment through the Southern Tier West Development Foundation provides support to the region now and for the future. The first step in gift planning is to select the type of fund that best meets your needs in order for you to receive the greatest income and tax benefits and create the maximum impact of your gift. You may establish a fund with a one-time gift or multiple gifts, or even a deferred gift that creates a fund later. Some like the idea of a fund that forever carries the name of their family or of a loved one. Because every donor has different needs and values, we work with each interested donor to create a giving opportunity that is right for that person or group of people.

Unrestricted Endowments - Unrestricted Endowments give the Foundation the greatest flexibility in responding to present and future charitable needs of the region. Donors contributing to an Unrestricted Endowment rely on the expertise of the Foundation Board and staff to identify and evaluate the most effective uses for the fund.

Field of Interest Funds - A Field of Interest Fund is a restricted fund that enables a donor to choose from a list of eligible activities through which to donate their funds. The Foundation evaluates need within the specified field and responds to that need in the name of the fund.

Donor Advised Funds - A Donor Advised Fund gives donors the privilege of suggesting the organizations or communities that will receive disbursements from the Fund. While the ultimate decision remains with the Foundation, we listen closely to its donors and does its best to honor their recommendations that are consistent with the Foundation's charitable objectives.

Designated Funds - A Designated Fund allows donors to name a specific organization or community as the recipient of the distributions generated by the fund. Designated Funds allow donors to support specific eligible entities while the Foundation makes sure the grant remains relevant over time and responsive to changing circumstances.

Flow-Through Funds - Under certain circumstances the Foundation will accept and manage non-endowed, temporary Flow-Through Funds designated for specific charitable purposes that benefit the region and are consistent with the Foundation's mission.

Administrative Endowment Funds - Contributions to this fund are made to support the operation of the Foundation and its activities.

Agency Endowment Funds - The Foundation provides professional management of the endowment relieving the organization from the administrative burden and allowing the non-profit to focus on its mission.

Community Funds - A Community Fund is an endowment that specifically supports charitable activities within a particular defined area. Local citizens knowledgeable about the area serve as the grantmaking advisors to the Fund and take on fundraising duties as well.

What Can You Give?

Charitable giving comes in many forms — all of them helpful and beneficial to society. The key is to give in a way that is most consistent with your personal values and passions. The Southern Tier West Development Foundation accepts charitable gifts of almost any size or kind, invests the capital, and distributes the income in the form of grants to programs and activities that are consistent with the purpose of the Foundation and that match the donor's interests. Here are some of the most common methods philanthropists choose:

IMMEDIATE GIVING

Cash & Cash Equivalents - You may take a charitable gift deduction for the amount of your charitable gift of cash and cash equivalents (certificates of deposit, savings bonds, money market fund, etc.) up to 50% of adjusted gross income. If you can't take the entire deduction in the first year, you may carry the balance forward into the next five years. When savings bonds, certificates of deposit and other ordinary income assets are given to charity, the recipient charity, unlike the family, will not have to pay tax on the gain in those assets. You can name the charity as the primary or contingent beneficiary, or as a partial beneficiary.

Publicly Traded Securities - Appreciated stock, bonds, closely held stock in family business and other property can be gifted to the Foundation. Such gifts of appreciated securities often provide the most favorable tax benefits to the donor. The value of donated stock is determined by the mean of the stock on the date of gift.

Closely Held Business - Closely-held Business Interests can be gifted to the Foundation creating a donor advised fund. This can often help minimize the tax implications of the sale or closure of a business.

Life Insurance - By designating a charity as the beneficiary of a new or existing life insurance contract, you can make a significantly larger charitable gift than may be possible out of your current assets. And, if you make a charity the owner of the contract, you can deduct the premiums as you pay them. Or, if you would rather retain the right to change beneficiaries on the contract and don't care if you can't deduct the premium, you can remain owner of the contract and simply name the charity as partial, sole or contingent beneficiary.

Real Estate - Gifts of real estate to the Foundation may provide a convenient way to support the Foundation. Real Estate may be given at the appraised value so the donor can receive a full charitable deduction and avoid capital gains. Real estate may be contributed as an outright gift or deferred. For instance, through a life estate agreement, a donor can make a gift of a home or farm while retaining life tenancy. Such gifts require extensive review of the property and approval by the Board of Directors. The donor should provide a letter of transmittal with instructions for the use of the gift.

Personal Property - Personal property, such as artwork, cars, clothing and jewelry, can be given to charity. But unless the charity will actually use the property in connection with its stated mission, you can deduct only your cost basis, not the fair market value, of the property. (Note: It is important to ask the recipient of your gift whether or not your gift is being used in connection with its stated mission.) If the property has depreciated in value from the original cost, which is typically the case with cars and clothing, then the deduction will be its current value.

Retirement Assets - A donor can use retirement plan assets [401(k), Keogh, 403(b)] to create a fund in the Community Foundation for purposes the donor has specified. Also, retirement assets combined with charitable remainder trusts and life insurance trusts can be a valuable way of maximizing benefits from retirement plans.

Making a Planned Gift

Planned giving is a term used to describe a wide variety of giving vehicles that allow you to give to charity during your lifetime and/or after your death, while meeting your current income needs and providing for your heirs. Planned giving is typically done in conjunction with estate planning, and is a viable option for donors of all income levels. From a donor's perspective, planned giving is attractive for many reasons. It allows the you to make larger gifts than you otherwise could out of your current assets. Depending on how a planned gift is set up, it also allows you to receive income for life, earn higher investment yields, or reduce capital gains or estate taxes. Planned gifts often appeal to people who want to benefit a charitable organization but aren't certain how much of their assets they'll need for themselves during their lifetimes. The planned giving vehicles available through the Southern Tier West Development Foundation include bequests, charitable remainder trusts, charitable lead trusts, and charitable gift annuities.

Charitable Bequests - A charitable bequest is anything you give or leave to charity from your estate through a will or a revocable *inter vivos* ("living") trust. An "estate" is any property, money or personal belongings that you may have at the time of your death. You can arrange to bequeath a gift from your estate in several different ways. You can set aside a specific dollar amount, leave a percentage of your estate, or leave any assets left over after your family has been provided for. Some people use a bequest to give a charity something they own, such as a car, home, art or jewelry. Others leave a paid life insurance policy or other financial investments, such as stocks, bonds or CDs. These gifts may provide tax savings. Consult a professional advisor for details.

Charitable Remainder Trusts - Charitable Remainder Trusts allow you and/or other designated beneficiaries to receive income from a trust for your lifetime(s), or for a period not to exceed 20 years. At the end of that time, the balance of the trust is transferred to a charity that you have selected. You can take a charitable deduction for a portion of the gift you make to the trust in the year the trust was formed. (In some case, additional funds may be added in later years.) The two most common types of charitable remainder trusts are annuity trusts and unitrusts, which differ in how income you receive from the trust is calculated and distributed.

Charitable Lead Trusts - Charitable Lead Trusts allow you to designate a charity to receive a regular, fixed amount from a trust for a specified time period or the lifetime of a designated person. At the end of that time period, the remainder of the trust passes to your designated heirs or other non-charitable beneficiaries.

Charitable Gift Annuity - A gift annuity is a simple, contractual agreement between one or two donors and the Foundation in which the donor(s) transfer assets to the Foundation in exchange for the Foundation's promise to pay the donor(s) an annuity.

Beneficiary Designation - By designating a charity as the beneficiary of your life insurance or retirement assets, you can enjoy some flexibility in your charitable giving as well as certain tax advantages. The designated charity will receive the specified assets upon your death, and you have the option of changing the eventual recipient throughout your life.



Current Grantees

The Town of Ellicott (Chautauqua County) used Foundation funds to electronically digitize its tax parcels. Parcel digitization and subsequent additional investment by the community in Geographic Information Systems (GIS) has enabled officials to more effectively and efficiently manage many of its daily municipal operations as well as develop high quality marketing material about the community. **STWDF Investment - \$7,500.00**

In Wellsville (Allegany County), the town and village used Foundation funds to help develop a comprehensive plan. The plan will enable the community to make decisions based on reliable data, fact-based projections, and a focused vision for the community as a whole. **STWDF Investment - \$7,500.00**

The Town of Perrysburg (Cattaraugus County) used Foundation funds to prepare a preliminary engineering map, plan, and report for a municipal water expansion project. **STWDF Investment - \$2,300.00**

The Village of South Dayton (Cattaraugus County) used Foundation funds to conduct a mandated environmental review as per the State Environmental Quality Review Act. The completion of the study allowed for the release of more than \$500,000 in federal funds for a municipal water improvement project. **STWDF Investment - \$2,500.00**

In the Town of Randolph (Cattaraugus County), the community used Foundation funds to conduct a housing market study as a precursor to a comprehensive low income and elderly housing project. **STWDF Investment - \$1,500.00**

Southern Tier West Regional Planning & Development Board used Foundation funds to build www.DiscoverSouthwestNY.com, a web portal to showcase the region to residents, tourists, and businesses. **STWDF Investment - \$6,000.00**

In the Town of Machias (Cattaraugus County), the community used Foundation funds to conduct a preliminary engineering report for a proposed onsite wastewater collection and treatment system around Lime Lake. **STWDF Investment - \$5,000.00**

In the Town of Ellery (Chautauqua County), the town leveraged Foundation funds to aid in the construction of a multiple-use town park and recreational facility. A state of the art facility, the Town Park has emerged as a cornerstone of the community's commitment to quality of life. **STWDF Investment - \$10,000.00**

Leadership Cattaraugus (Cattaraugus County), Inc. used Foundation funds to offer tuition assistance for enrollees in their leadership development program. **STWDF Investment - \$3,000.00**

The Findley Lake Nature Center, Inc. (Chautauqua County) used Foundation funds to purchase and install a self composting public restroom for their downtown. **STWDF Investment - \$8,000.00**

The Village of Panama (Chautauqua County) used Foundation funds to assist with a study to investigate options for a new wastewater collection and treatment facility. **STWDF Investment \$5,417.50**

The Chautauqua Lake Partnership, Inc. (Chautauqua County) used Foundation funds to help offset the costs of completing an Environmental Impact Statement for the proposed application of herbicide to portions of Chautauqua Lake **STWDF Investment \$5,000.00**

Part Two:

The Economics of Charitable Giving

There is considerable personal satisfaction to making contributions that benefit others, but there is a financial benefit as well. The federal government has chosen to promote the greater good by allowing donors take an income tax deduction for their gifts to qualified charities, and to exempt charities from paying capital gains taxes on the appreciated assets they receive. Together, these personal and tax benefits magnify the power of a simple gift.

Deduction Limitations

The income tax deduction from ordinary income taxes is limited to a percentage of the adjusted gross income, but the excess may be carried over for up to five years. The limitation is based on the type of property donated.

Donations of cash or ordinary income property to a public charity such as the Southern Tier West Development Foundation are limited to 50% of adjusted gross income in a given year. Donations of long term capital gain property are limited to 30% of adjusted gross income. Thus, a gift of \$200,000 cash from an individual with an adjusted gross income (AGI) of \$300,000 would only be able to deduct \$150,000 in the first year (50% of \$300,000). The donor could deduct the remaining \$50,000 the next year.

The use of the Southern Tier West Development Foundation allows a donor to take full advantage of the tax deductions in ways now unavailable to private foundations. Gifts of cash to a private foundation are

deductible only up to 30% of the donor's AGI. Moreover, donations of long term capital gain property to a private foundation are deductible only up to the donor's basis in property. In general, the charitable deduction for an appreciated stock, bond or real property is equal to the current fair market value of this asset at the time of the gift. Tangible personal property such as artwork, jewelry, a car or boat, is valued at its cost basis not fair market value.

Long term capital gains property includes real estate, securities, and tangible personal property held for more than one year. For tangible personal property to qualify for a deduction of its fair market value (instead of its cost), it must have been created or produced by some one other than the donor and be used by the donee charity in a manner related to the exempt purposes of that donee.

If raw land without any element of depreciable property is donated, the amount deductible will be equal to the fair market value of the land and the 30% limitation will apply. If the property contains depreciable assets or is mortgaged, a separate calculation is made. Because of the special environmental and other concerns inherent in gifts of real property, the advisors should consult the Foundation regarding the specific policy.

In contrast to gifts made to a private foundation, charitable gifts of stock in a closely held corporation may be made to a fund in the Foundation with the same deduction rules as apply to publicly traded



securities. Because of the special issues of valuation and corporate privacy inherent in gifts of closely held securities, the advisors should consult the Foundation regarding the specific policy.

Gifts of future interests in property, such as the case when a charitable remainder trust is the vehicle of contribution, are valued based on the applicable monthly federal discount rate and the age of the donor. The Fair Market Value of the trust assets is divided into the present value of the annuity the donor receives until his or her death and the remainder, which is the present value of what the charity will receive at that time. Because the present value calculations depend on the prevailing rate set by the federal government and the life expectancy of the donor, the deduction for the charitable donation is different for nearly every charitable remainder trust created.

If a donor's exact charitable wishes are made obsolete by the passage of time, the Foundation has the (variance) power to redirect assets. This can be particularly meaningful in the case of testamentary gifts, because donors are assured that their basic intent will continue to be honored. A philanthropic fund in the Southern Tier West Development Foundation can be created through a specific bequest of cash or property, a proportional bequest, a residual bequest, or a contingent bequest.

Tax Saving Tips

Even in an economic downturn, community

foundations offer many ways for people to conserve their hard-earned income and make a difference in the community at the same time. Using alternative assets such as real estate and works of art for charitable gifts provides donors with some very attractive financial benefits. Knowing when, how, and what to donate will maximize the savings for you and your family. And local community foundations can be great partners in figuring this all out. Here are five things to keep in mind:

1. You have a charitable giving partner — the government. Congress has granted favorable tax treatment to individuals who make charitable contributions to charity, whether through outright gifts, deferred gifts, or bequests. The Southern Tier West Development Foundation offers full tax benefits for charitable gifts.
2. "Giving while you're living" is a tax-wise idea. The reason is the income tax deduction donor's receive at federal and state levels. Charitable gifts made during a donor's lifetime provides an income tax deduction not available through a bequest. Because an outright current gift is no longer included in a donor's estate, it ultimately avoids estate taxes. Contributions to a donor-advised fund at a community foundation receive immediate tax benefits and the donor can recommend gifts in the years ahead.
3. Giving assets can be better than giving cash, especially long-term, highly appreciated assets, such as real estate, stock, and art. The dual tax benefit of an income tax deduction is based on the value of the

gift plus the added benefit of avoiding the capital gains tax.

4. While planning their estate, a donor can use his or her pension plan to help their community and ease their family's tax burden. Unlike most assets an heir inherits, money received from retirement plans are income taxable. It can be advantageous to leave these assets to charity and leave non-taxable assets to heirs. Prospective donors are advised to seek the advice of a competent tax professional before entering into any charitable planned gift.

Comparison to a Private Foundation

As donors, your clients have choices. They can establish a private foundation of their own or they can establish a fund at the Southern Tier West Development Foundation. If they choose to establish a private foundation, he or she must:

- File a detailed annual federal tax return and required schedules.
- Pay excise tax on net investment income including net capital gains.
- Publish in a local paper notice of the annual federal tax return's availability.
- Make sure grants paid out each year equal or exceed 5% of the Foundation's asset value and that grant administration costs qualifying as payout do not exceed .65% of assets.
- Assume expenditure responsibility for certain grants paid to tax-exempt organizations that are not "publicly supported."
- Make certain that the total of voting stock held by the Foundation, donor and other "disqualified persons" does not exceed 20% of the corporation's voting stock (or 35% of the corporation's voting stock, if it can be established that effective control of the corporation is in the hand of other, nondisqualified persons.)
- Avoid a long list of transactions held to be "self-dealing".
- Avoid investments that jeopardize the charitable purposes of the Foundation.
- Pay additional taxes for failure to take corrective action.

If he or she establishes a Fund as part of the Southern Tier West Development Foundation **we do it all** plus:

- The fund becomes part of a publicly supported organization.
- The donor may get a larger tax deduction for current and future gifts.
- Since the fund doesn't pay excise tax there frequently is more available for charity.
- The fund can be set up in one day, rather than requiring months.



Part Three:

Important Policies/Initiatives

Spending Policies

The spending policy of the Foundation is based on the concept of total return - a concept that allows the Foundation to invest in funds in the most advantageous vehicle to provide a reasonable return. In a total return environment, distributable income is based on the investment return of the Fund regardless of whether that return was fueled by dividends, interest or appreciation. It is the policy of the Foundation to spend each year 5% of the market value of each Fund, in order, over the long term, to both maximize its support for charitable activity in the region and protect the value of the endowment Funds.

For each Fund that is in existence at the beginning of the fiscal year, an amount equal to 5% of the market value of each Fund on the last day of the previous fiscal year is to be available for expenditure in the year. Capital contributions to an existing Fund during the fiscal year shall not result in an increase in the amount available for grants in the fiscal year when the contributions are received, unless otherwise approved as an exception by the Board of Directors.

For each new Fund that is newly established during a fiscal year, an amount equal to a prorated portion of 5% of the market value of the opening contribution shall be available for expenditure at the end of the same fiscal year. The prorated portion shall be calculated as: (number of days remaining in the fiscal year at

the date of the opening contribution/365 days) x the 5% amount. Subsequent capital contributions to an existing Fund during the same fiscal year shall not result in an increase in the amount available for grants in the fiscal year, unless otherwise approved as an exception by the Board of Directors. At the end of each fiscal year, any amount available for grants but not expended from a Fund shall be added to the capital of the Fund and shall not be available for granting in the subsequent year, unless otherwise approved as an exception by the Board of Directors.

Administrative Fees Policies

The cost to maintain any permanent endowed funds at the Foundation is 1.5% of the asset value of the fund per-year. This fee is automatically deducted on a quarterly basis. {Fees for non-endowed donor advised funds are 2.0%.} Basic services include:

- Investing fund assets
- Processing new gifts to fund (including sending acknowledgments to donors)
- Reporting grant payments, distributions, and other expenditures from fund
- Reporting fund balances and activities to fund representatives via quarterly statements
- Maintaining communications with fund representatives regarding current activities and new developments at the Foundation
- Annual audit servicing which provides assurance that financial statements are free of any material misstatement

Some of our expanded services include:

- Preparation, updating, and distribution of applications

- organizing and convening committees
- Reviewing applications, conducting interviews, and selecting recipients
- Organizing and conducting award receptions, etc.
- Communicating with appropriate organizations
- Publication of an annual report
- Oversight of investment performance

Investment Policies

The Southern Tier West Development Foundation's primary investment objective is to provide for long-term growth of capital, without undue exposure to risk. This objective is accomplished by investing in a mix of equities, fixed income and cash equivalents that allows participation in rising markets while providing reasonable protection in falling markets.

Implementation of Investment Policies

The investment policies of the Foundation will be carried out by means of investment strategies that reflect continuous evaluation of changing investment environments, judgment regarding the allocation of the Foundation's assets among different kinds of investment opportunities, identification of appropriate investment vehicles, and the making of specific investment decisions.

Standard of Investment Judgment

In seeking to attain the investment objectives set forth in this statement, the Board of Directors shall exercise prudence and appropriate care.

Investment Objectives

The primary objective of the investments will be to

provide for long-term growth of principal and income without undue exposure to risk allowing the Foundation to make grants on a continuing and reasonably consistent basis. Therefore, the focus will be on consistent long-term capital appreciation, with income generation as a secondary consideration. More specifically, the Board of Directors seeks returns during a full market cycle that are large enough to preserve and enhance the real, inflation adjusted purchasing power of the Foundation's assets, while also considering the current spending requirements. In pursuing this objective, the Board of Directors endeavors to achieve total returns that, over time, are better than the relevant market averages. The Board of Directors does not expect that in each and every year the investment objective referred to above will necessarily be achieved.

Evaluation of Investment Managers

The investment managers will be reviewed on an ongoing basis and evaluated upon the following additional criteria:

1. Ability to meet or exceed the performance objectives stated in this Statement.
2. Adherence to the philosophy and style that were articulated at, or subsequent to, the time the investment manager was retained.
3. Ability to meet or exceed the performance of other investment managers that adhere to the same or similar style.
4. Continuity of personnel and practices at the firm.

Asset Allocation

Deliberate management of the asset mix among classes of investments is both a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is a desirable objective. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and of the factors that may influence them.

In making asset allocation judgments, the Board of Directors is not expected to seek to "time" subtle changes in financial markets, or that frequent or minor adjustments would be needed. Instead, the Board of Directors is expected to develop and adopt expressed guidelines for broad allocations on a long-term basis, in light of current and projected investment environments. To insure broad diversification in the long-term investment portfolios among the major categories of investments, asset allocation (as a % of the total market value of the total long-term portfolio) will be set with the following target % and within the following ranges:


Types of Securities	Target	Range
Equities (Stocks)		
- Large Cap	40%	30-45%
- Mid Cap	10%	8-12%
- Small Cap	10%	8-12%
- International	10%	8-12%
Fixed Income (Bonds)	30%	25-35%
Cash	—	—

Conclusion

This statement of investment policy is reviewed annually. The investment performance is reviewed quarterly. The manager may provide any suggestions regarding appropriate adjustments to this statement or the manner in which investment performance is reviewed.

Gift Acceptance Policies

The purpose of the Gift Acceptance Policies is to serve the best interests of the Foundation, its donors, and the region it serves by providing guidelines for negotiating and accepting various types of gifts for various types of funds. Given the increasing complexity of IRS regulations, the volume of real estate and other property gifts, and state and federal environmental laws, the Foundation recognizes the value in carefully screening proposed gifts.



Responsibility to Donors - The Southern Tier West Development Foundation is committed to the highest ethical standards of philanthropy and development. In all transactions between potential donors and Foundation, the Foundation will provide accurate information and full disclosure of the benefits and liabilities that could influence a donor's decision. This will include IRS regulations, Foundation fees, the irrevocability of a gift, prohibitions on donor restrictions, investment policies and other information needed by individuals to make an informed choice about using the Foundation as a vehicle of charitable gifts. In addition, all donors will be strongly encouraged to discuss their gifts with their financial advisor before signing the gift agreement.

Donor Recognition - All donors will be recognized for contributing to the mission of the Southern Tier West Development Foundation and for providing the resources to serve charitable interests in the region. The Foundation also respects the confidentiality of donors that do not want to be publicly recognized. Each donor is given the freedom to determine the degree and type of recognition that they prefer.

Authorization for Gift Negotiation - The President (or other Board authorized staff/Board Members) will have the authority to handle inquiries, negotiate with donors and execute agreements on behalf of the Foundation. All gifts of one million dollars or above or gifts that fall outside the Gift Acceptance Policies need the review and approval of the Board of Directors. The Foundation has standard fund agreement forms. Proposed

deviations from these standard forms require legal counsel review before being executed before approval.

Restrictions on Gifts - The Foundation, in keeping with Internal Revenue Service regulations, cannot accept a gift that will be directly or indirectly subject to any material restriction or condition by the donor that prevents the Foundation from freely and effectively employing the transferred assets or the income from those assets to further its philanthropic mission. The Foundation reserves the right to refuse any gift that jeopardizes the mission or is not in its best interest.

Minimum Gifts - The Foundation will accept gifts to existing funds of any size. The minimum gift to create a new fund is \$2,000. Higher minimums may be required depending on the type of gift, such as real estate or other gifts of property. Funds may be established with a lower minimum if the donor arranges regular payments to bring the Fund's assets to the minimum within a reasonable period of time. No grants may be made from funds until the minimum is reached.

Fundraising for a Component Fund - Because Southern Tier West Development Foundation is legally responsible for all fundraising undertaken on its behalf, the Foundation must approve any Donor-initiated fund raising events for a Fund in advance. All such fundraising activities are subject to the approval and supervision of the Foundation.

Creative Communities Program

What is the Creative Communities Program?

The Creative Communities Program is a program to help communities to establish their own permanent community assets. Assistance comes in the form of a challenge grant from the Southern Tier West Development Foundation (STWDF) to select communities that are able to raise new permanent endowment. The goal of the Creative Communities Program is to ensure that rural areas have permanent resources to address local challenges and opportunities.

What is a “creative community?”

A creative community is a place with high quality amenities. A creative community is one that celebrates its history, its culture, and its individual identity. Creative communities encourage diversity and exhibit a people first philosophy.

What is community endowment?

Think of it as a permanent savings account where the community determines how and where earnings are distributed. Community endowment is a combination of charitable contributions permanently invested to produce a continuing stream of income. These contributions are invested to produce a maximum rate of return with income used to make grants for activities in the community. Because they are established and supported by local individuals, businesses, and organizations, these community savings accounts become a source of capital to strengthen the community for generations.

How does the Program work?

All contributions successfully secured by the community will be matched dollar-for-dollar by the STWDF up to \$7,500. It is important to note that contributions to the Endowment are not available for immediate expenditure. Rather, STWDF will hold and invest the contributions until such time as their value equals or exceeds \$20,000 – after which STWDF will pay out (in the form of grants) up to 5% of the value of the fund each year for projects within the community that benefit the public. Matching funds from the STWDF are awarded after all other contributions/pledges have been secured. When all local funds are securely in place, the community has the option of spending the challenge grant or they can add it to their endowment.

Eligibility:

Participation is limited to existing grantees. Eligible contributions include cash and/or marketable assets. STWDF must receive all gifts within 12 months of the community's entry into the program. To qualify for the challenge grant, the community must have raised its entire endowment goal. In the event the required amount of is not raised, the challenge grant will not be awarded but all funds contributed will remain as part of the Community Endowment.

Fine Print:

- *Matching funds are granted to communities when the Community Fund is formally established AND after the funds are received by the STWDF.*
- *Gifts into the endowment are irrevocable and subject to the variance power of the STWDF.*
- *All funds in the Community Fund are invested through the commingled fund of the STWDF.*

Endowment Distributions

As the intent of this program is to create permanent endowment that will grow and serve the community's needs forever, the principle will be considered a perpetual component fund of the STWDF. Contributions can be added to the Endowment at any time. STWDF will invest the principle along with its other funds to produce a reasonable mix of income and capital appreciation. Distributions will be paid to eligible charitable organizations or other activities that benefit the general public within in community with fees assessed annually according to the current Foundation policy.

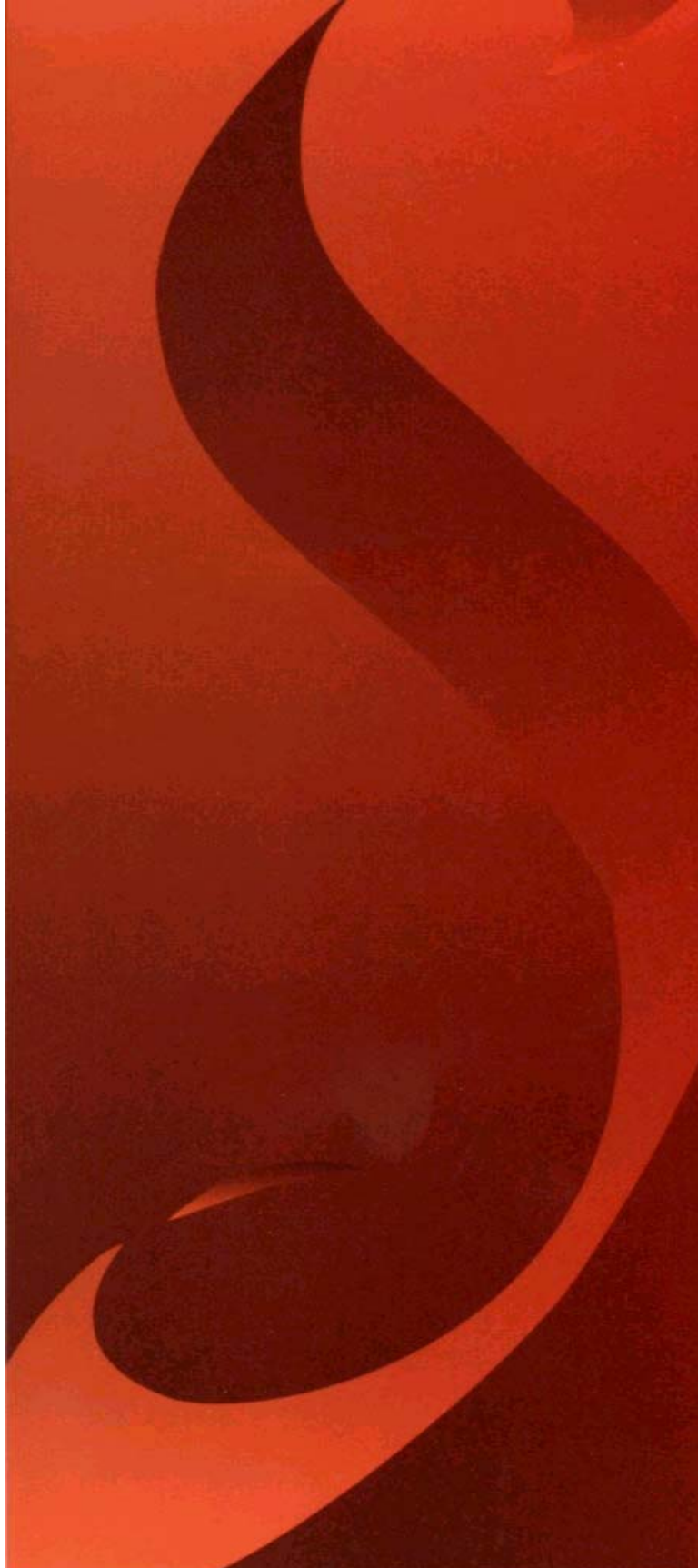
Part Four:**Financial Data**

**Financial Statement
Revenues and Expenses
FY July 31, 2004**

Revenue	
Contributions	\$ 40,096
Interest on Savings and cash investments	\$ 978
Dividends and Interest from Securities	\$ 25,175
Investments	\$ 44,927
Total Revenue	\$ 66,249
Expenses	
Operation and Administration	\$ 1,833
Contributions and Disbursements	\$ 34,303
Total Expenditures	\$ 36,136
Net Gain	\$ 30,113

**Balance Sheet
July 31, 2004**

Assets	
Cash and Equivalent	\$ 20,029
Savings and Temporary Cash Investments	\$ 98,156
Investments/Corporate Stock	\$ 145,194
Investments/Corporate Bonds	\$ 62,992
Note Receivable	\$ 673,629
Total Assets	\$1,000,000
Liabilities	
Accounts Payable	\$ 0
Grants Payable	\$ 0
Other	\$ 0
Fund Balance	\$1,000.000



SOUTHERN TIER WEST

**Development
Foundation**