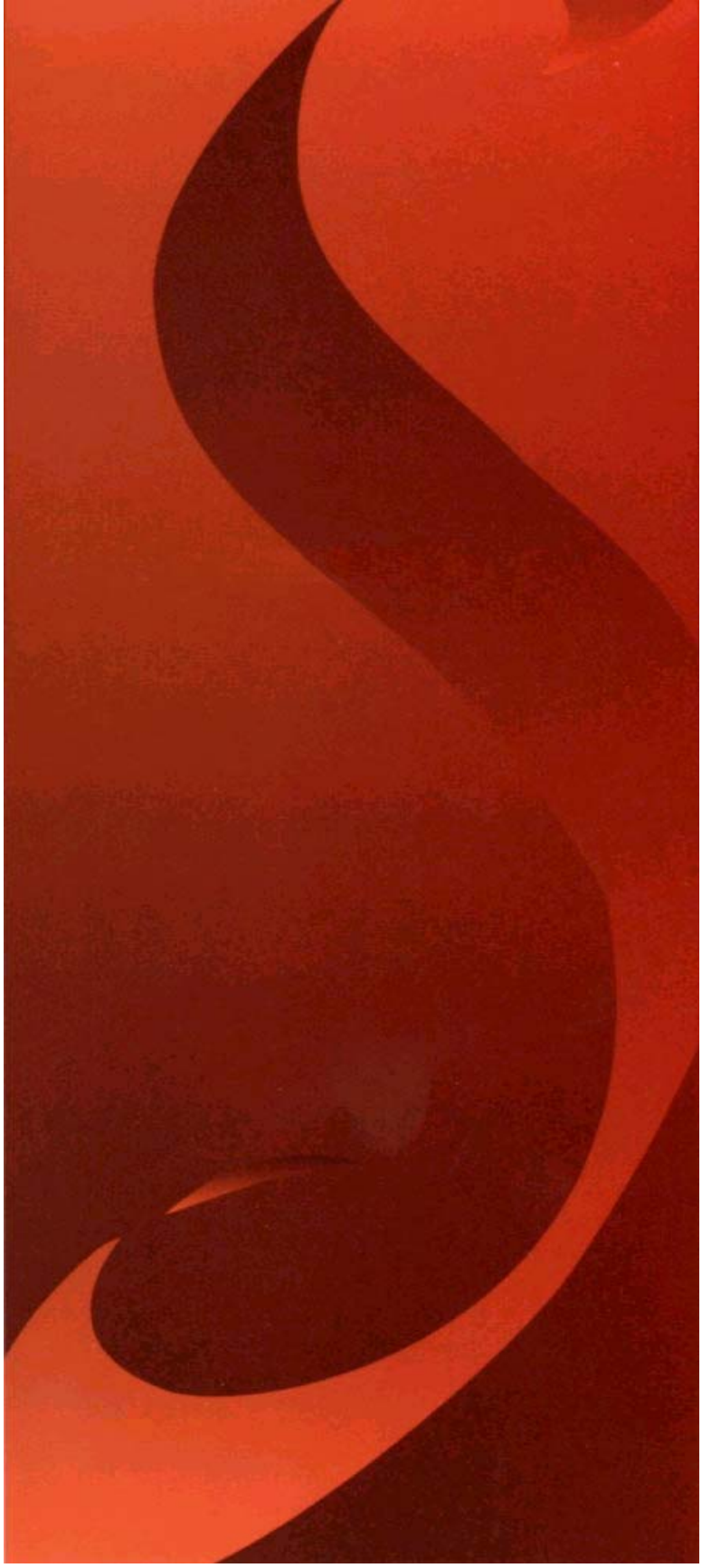
# A Guidebook for Donors



SOUTHERN TIER WEST

**Development Foundation**

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## VISION

The Southern Tier West Development Foundation's vision for the region is that every person be encouraged to create a legacy. Our vision for the Foundation is to be a philanthropic pacesetter providing planned giving for donors and matching community needs to solutions for all generations.

## MISSION

To enhance the quality of life in the communities we serve by encouraging permanent charitable giving to meet the needs of present and future generations.

## VALUES

**Community and Philanthropy**

To be are a leader in promoting philanthropy in an impartial, unbiased, ethical way with a commitment to inclusiveness.
To bring people and resources together to identify and address present and emerging community needs.
To be seen as a primary resource to understand the techniques, tools and outcomes of philanthropy.
To enable every person in the community to leave a legacy for the future.

**Donors**

To help potential donors to discover their philanthropic goals.
To support and encourage every donor to make a planned gift no matter where the gift is directed.
To provide convenient and flexible giving vehicles to serve donors.
To help everyone experience the joy of making a meaningful contribution to the community.

**Endowment**

To counsel donors and their advisors to choose a planned giving solution that makes a lasting difference.
To assist communities and organizations in building endowments to secure their continued success.
To use endowment as a perpetual tool to provide steady support for charitable needs.
To encourage unrestricted endowment gifts because they meet the needs of future generations.

**Grants and Operations**

To make grants based on the greatest impact in the community.
To reflect the diversity of our community through our choices of grants, staff, volunteers, programs and initiatives.
To select staff with the talent and expertise required to efficiently and effectively achieve our long-term objectives.
To insist on maintaining the highest standards in donor relationships, fund stewardship and promotion of philanthropy.

DISCLAIMER — This information/material is intended to provide general examples/reference tools for understanding the ways in which charitable gifts may be made to Southern Tier West Development Foundation. Every effort has been made to ensure the accuracy and timeliness of the information presented. Donors reviewing this information/material should consult with professional advisors for independent advice on the optimal way to achieve their objectives. Further, any examples presented are for illustration purposes only and should not be relied upon without the supervision of professionals.

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# Introduction:

## What is the Southern Tier West Development Foundation?

The Southern Tier West Development Foundation is a public charity created by and for the people and communities in Allegany, Cattaraugus, and Chautauqua Counties and is tax exempt under Sections 501(c)(3), 509(a)(1) and 170(b)(1)(A)(iv) of the Internal Revenue Code.

Founded in 1994, the Southern Tier West Development Foundation is governed by a volunteer Board of Directors. The Southern Tier West Development Foundation enables 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 at the Southern Tier West Development Foundation 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.

Created as a locally controlled endowment building and grantmaking organization, the Southern Tier West Development Foundation's mission is to be a catalyst, facilitating opportunities for community and economic growth by promoting philanthropy, leadership, innovation, and collaboration.

The Southern Tier West Development Foundation seeks to serve as a catalyst for the region to recognize its strengths and to develop a common economic vision for the future. The motto of the Southern Tier West Development Foundation reflects this commitment:

**OUR COMMUNITY - WORTH THE INVESTMENT!**

# What do we do?

The purpose of the Southern Tier West Development Foundation is to:

1. Use permanent endowment to create an environment that encourages and facilitates the creation of wealth, jobs, and economic prosperity.
2. Build leadership in the communities and region.
3. Encourage a sense of “self-help” within communities.
4. Provide a mechanism whereby people can participate in the development of their community and region.
5. Provide an incentive for communities to develop their own opportunities.

Although the Foundation is organized and structured like most traditional public foundations, we do have a concentrated and deliberate focus on **community and economic development**. The Foundation is committed to economic progress in the region – the goal of which is the development of a solid and sustainable infrastructure that will support future community and economic growth.

The Southern Tier West Development Foundation is here to encourage, facilitate, and support planning and development projects that communities require to grow. The Foundation encourages private citizens, businesses, governments, and other organizations to participate directly in these community-driven initiatives, with the broad aim of reinforcing the public private partnership dedicated to our communities’ health and prosperity.

# 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.

# Part One:

## Your Charitable Options

**Direct Gifts to Public Charities**

Most people choose to give directly to a 501(c)(3) public charity that is working in their area of interest. This is the most common and familiar form of charitable giving, and is the lifeblood of the nation's nonprofit sector. For clients with the capability to make substantial gifts or gifts of permanent endowment, direct contributions to individual charities may not always be the most appropriate form of giving. Once a major gift has been made, the donor has very limited control over the continued use of the gift, and may lose recognition for the gift after it is commingled with others. In addition, most individuals support more than one charity, but making and keeping track of tax-effective gifts to numerous organizations (through gifts of appreciated property, for example) can be cumbersome. Similarly, many individuals have a desire broadly to "give back to the community," or a deep interest in a broad charitable cause rather than an attachment to a particular organization. Finally, and perhaps most important, an organization that is serving the interests of the donor today may change its mission or cease to exist ten years from now.

**Private Foundations**

A second option is to form an independent private foundation. A private foundation is an independent charity established, controlled, and maintained over time by the donor or under the instructions of the donor. Private foundations offer substantial flexibility: they can be established for virtually any charitable purpose. For donors in the right circumstances, the private foundation is a very satisfying vehicle for charitable giving. The Southern Tier West Development Foundation encourages the creation of private foundations by donors in the appropriate circumstances. For some donors, however, the private foundation option carries significant drawbacks. First, the tax benefits of some gifts to private foundations are more limited than those of gifts to public charities. The foundation's trustees must comply with stringent IRS regulations. Private foundation tax returns are public information, affording the donor limited privacy in the operation of the foundation. And the administrative burdens of maintaining a private foundation over time may be formidable and costly. Because of these various limitations, a private foundation often is not a practical option unless the donor is prepared to make a substantial commitment of time and/or money. Moreover, after the donor's death, control of the foundation may pass to heirs or others who may or may not have the time, skill, or interest to continue the donor's charitable goals.

**Southern Tier West Development Foundation**

Your third option is to establish a personal philanthropic fund through the Southern Tier West Development Foundation, a unique hybrid between an operating charity and a private foundation. The key features of the Southern Tier West Development Foundation are explained in further sections of **A Guidebook For Donors.**

# Why Give?

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

Creating a fund at the Southern Tier West Development Foundation offers the following benefits:

- **Permanence** - A gift given through the Southern Tier West Development Foundation is given in perpetuity. As a permanent memorial in your name, or the name of someone you wish to honor, your fund enables you to carry out your charitable interests now and in the future. Your gift will never lose its power to fulfill your charitable goals and will always keep pace with changing times.

- **"Give Where You Live" -** The Southern Tier West Development Foundation provides a vehicle for you to keep your charitable giving assets here in our region.

- **Charitable Impact** - The Southern Tier West Development Foundation can assist you in targeting your contributions where they will do the most good for the region. Grants from your fund may be combined with those from other funds for greater impact.

- **Economics** - Using the Southern Tier West Development Foundation is an economical way to make your contributions work for you. For most funds, the Foundation charges 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. Your fund benefits from being pooled and invested with the Foundation's other assets.

- **Tax Advantages** - When you create a fund at the Southern Tier West Development Foundation, you receive 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.

# How to Design Your Endowment

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 works with each interested donor to create a giving opportunity that is right for that person or group of people.

**Discretionary Endowments** - Discretionary Endowments give the Foundation the greatest flexibility in responding to present and future charitable needs of the region. Donors contributing to a Discretionary 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 eligible organizations to receive grants. 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.

**Community Funds** - Community Funds are endowments that specifically support non-profit, government and other public agencies with 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.

**Organizational Endowment Funds** - The Foundation offers nonprofit organizations the opportunity to establish stable, predictable sources of income for their operational needs through an Agency Fund. Like a personal savings account, an Organizational Endowment Fund can provide a reliable source of additional income each year.

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# 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 -** We're all familiar with donating cash to charities. If you itemize your deductions on your personal federal income tax return, 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.) If you can't take the entire deduction in the first year because of this limitation, 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 -** You can transfer ownership of appreciated securities owned for at least one year to a charity and receive a deduction for the average value of the security on the day of the transfer. When the security is sold by the charity, neither you nor the charity will have to pay capital gains tax. You receive the benefit of having your gift valued at fair market value, including the appreciation, for the purpose of determining your charitable deduction. For these long-term capital assets, you may claim an income tax charitable gift deduction for the year in which the gift is made. If you can't deduct the full fair market value of the gift in the first year, you may carry the balance forward for the next five years. If the securities have been owned less than one year, the charitable deduction is based on your cost basis in the security.

**Closely Held Securities -** For owners of closely held securities, such as Sub-Chapter S Corporations (S Corps) stock, it is possible for companies to give S Corps stock, and for private and community foundations to own S Corps stock. There are limitations that accompany ownership of such stock, and the recipient organization(s) should be encouraged to consult their professional advisors prior to accepting such a gift.

**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 -** You can even make gifts of real estate. If you have owned the property for at least one year, both you and the charity can avoid paying capital gains taxes on the appreciation in the value of the property. Gifts of real estate will often result in an income tax deduction equal to the fair market value of the property, as determined by appraisal, but there are some situations where this may be reduced. It's possible to make a gift of your personal residence, vacation home, or farm to charity and retain a "life estate" in the property, allowing you to retain rights to use or rent out the property until your death. You deed the property directly to the charity subject to your retained life estate, receive an immediate income tax deduction for a portion of the appraised fair market value, and have the comfort of knowing that the property will be excluded from probate. If the real estate is a long-term capital asset, you may claim an income tax charitable gift deduction for the donation. If you can't deduct the full fair market value of the gift in the first year, you may carry the balance for the next five years.

**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 -** Distributions from certain kinds of retirement assets — such as individual retirement accounts (IRAs), tax-sheltered annuities, and 401(k) and 403(b) plans — are subject to income tax and may be subject to generation-skipping taxes and estate taxes. However, gifts of these assets will not be taxed if they are paid directly to a charity as beneficiary. You can designate all or a certain percentage of your retirement assets to go to charity.

It is important that you seek professional advice to determine how your retirement asset distributions will be affected by naming a charity as a beneficiary. Under current law, if you wish to make a gift of IRA assets to charity, you must first withdraw the assets, recognize the distribution for income tax purposes, contribute the funds to charity, and then claim an income tax charitable deduction to mitigate the income tax liability (Note: there may be penalties for early withdrawal of your IRA assets).

## 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.

## Grantmaking Examples

The Town of Ellicott used Foundation funds to electronically digitize its tax parcels.

In the Town of Ellery, the community leveraged Foundation funds to aid in the construction of a multiple-use town park facility.

The Village of South Dayton used Foundation funds to conduct a mandated environmental review as per the State Environmental Quality Review Act.

The Town of Perrysburg used Foundation funds to prepare a preliminary engineering plan for a municipal water expansion project.

In Randolph, the town used Foundation funds to conduct a housing market study as a precursor to a comprehensive low income and elderly housing project.

In Machias, the town used Foundation funds to conduct a preliminary engineering report for a proposed onsite wastewater collection and treatment system around Lime Lake.

Leadership Cattaraugus, Inc. a nonprofit leadership development organization received Foundation funds for tuition assistance for select enrollees.

In Wellsville, NY, the Town and Village used Foundation funds to help develop a single comprehensive plan for the community.

In Mina, the Foundation supported the acquisition and installation of Clivus Multrum self-contained composting system at the Findley Lake Waterwheel Overlook Building.

The Village of Panama used Foundation funds to conduct a preliminary engineering plan for a planned new wastewater collection and treatment facility.

The Chautauqua Lake Partnership, Inc. is using Foundation funds to aid in the completion of a Environmental Impact Statement for an updated comprehensive Lake Management Study for Chautauqua Lake.

The Foundation is also supporting an online regional marketing initiative. Visit the site at www.DiscoverSouthwestNY.com.

# 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 individuals 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 in 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, you have choices. You can establish a private foundation of your own or you can establish a fund at the Southern Tier West Development Foundation. If you choose to establish a private foundation, you 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 you establish 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

## Spending Policies

The spending policy of Southern Tier West Development 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 Southern Tier West Development 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. 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 their value reaches $5,000.

**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.

## Contact Information

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Charles Krause, President
Eric Bridges, Administrator

# Frequently Asked Questions

**Who decides on the grants from restricted funds?**
Donors may designate specific agencies that their fund will benefit, or they may establish an advised fund where they recommend grants for charitable purposes. Donors may choose to restrict the fund's use to their own community or to a particular field of interest. In these cases, STWDF makes grants subject to these restrictions. Finally, donors may decide to make their fund even more flexible by establishing an unrestricted fund.

**Is there a fee?**
There is no charge for establishing a fund and no out-of-pocket costs to the donor once the fund is established. There is an annual administrative fee. Our fees are low because of the cost efficiencies of pooling funds under one management system.

**Are you a "charity?"**
Yes. We is a tax-exempt 501(c)(3) charitable organization. Our primary role is to encourage and administer endowed capital to benefit charitable programs and projects throughout the region.

**What is an endowment?**
Endowment defines irrevocable charitable gifts permanently invested for growth and income. The net income is distributed periodically to donor-specified charitable purposes. Principal is preserved, growing through appreciation each year.

**How are you different from the United Way?**
Here's one way to look at it. United Way is an annual "checking account" for specific organizations; STWDF is the permanent "savings account" for all charitable organizations.

**Why establish an endowment with you instead of giving directly to a favorite charity?**
Donors value the growth of endowment, involvement in grant making, assigning annual gifts to more than one charity, the professional management, and permanence, all offered through the STWDF.

**How are your assets managed?**
We hire a professional investment consultant to advise the Investment Committee of the Board. The consultants report quarterly to the Investment Committee that is guided by a formal Investment Policy, recognized performance benchmarks, and our mission statement.

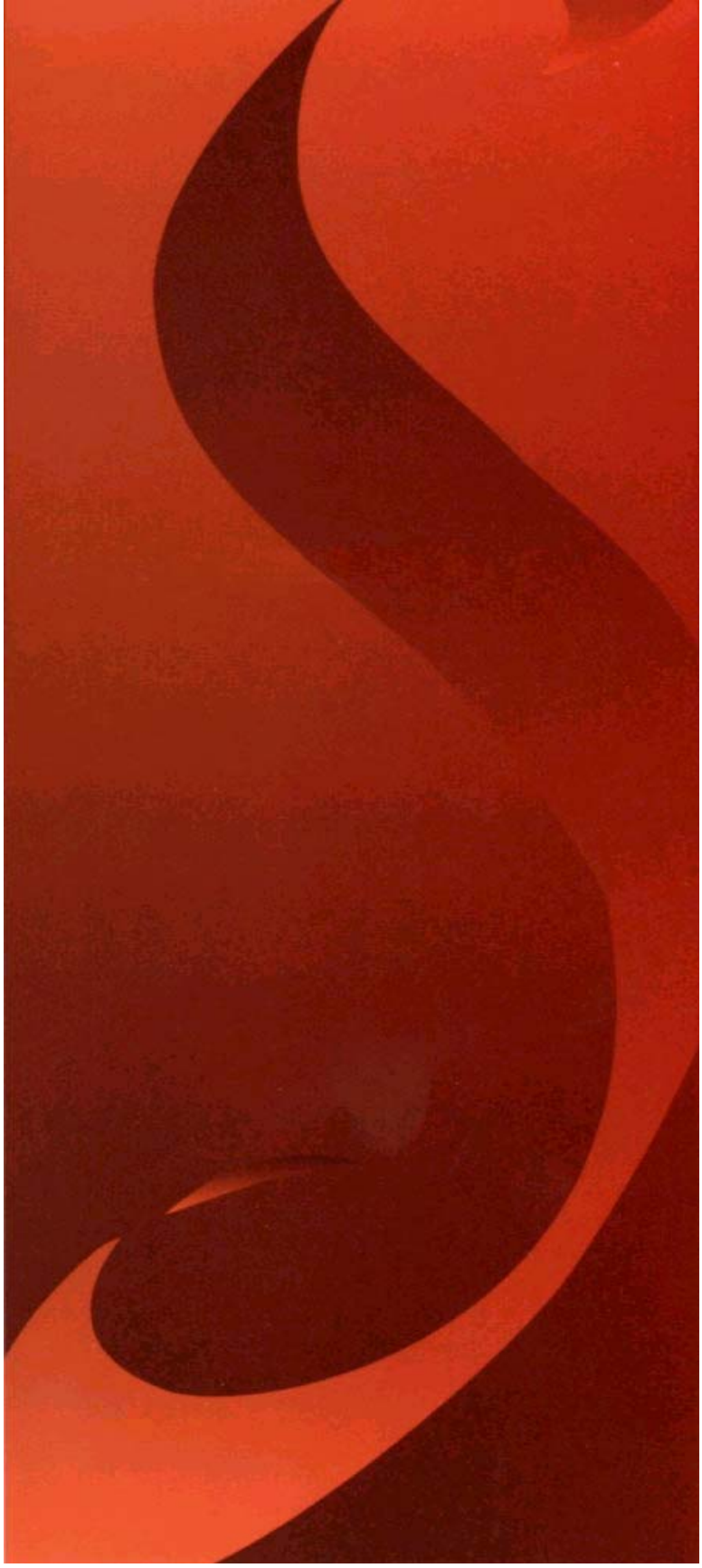
**How do I start a fund?**
It is as simple as sending a letter stating your wishes. We will then draft for your approval an agreement establishing your fund. Once the agreement is signed, your fund is ready to receive assets. You may also go directly to your attorney or other advisors. Our staff will work with these advisors to expedite your wishes.

**How long does it take to establish a fund?**
A fund can be established quickly. The length of time it takes depends upon the complexity of the donor's wishes. Two to four weeks is normal, although funds have been established in as few as two hours.

**Are gifts tax deductible?**
We qualify for the maximum tax deductions provided by the Internal Revenue Service. We are classified as "tax exempt" under Section 501(c)(3) of the Internal Revenue Code; as a "publicly-supported organization" under Section 170(b)(I)(A)(vi); and as "not a private foundation" under Section 509(A).

**Is there a minimum amount I must give to establish a fund?**
There are no minimum requirements to open a fund; however, funds must reach $5,000 within a reasonable period of time before grants can be made from the fund.

**Can other people add to the fund I establish?**
Certainly, you and other people can add to the fund at will. Many people make contributions in honor of anniversaries, birthdays, and the like. There is no minimum for a contribution to an existing fund.



SOUTHERN TIER WEST

# Development Foundation