

THE COMMUNITY FOUNDATION
of Southeastern Connecticut

Dream...connect...build

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October, 2005

Dear Colleague,

We want to thank you for serving as a member of our Professional Advisors Council and we are pleased to send you this copy of our new handbook. We hope it will serve as a valuable resource as you work with your clients.

Charitable giving is important to the health and strength of any community and, of course, it can provide clients with significant tax advantages for income, gift and estate tax purposes. The Community Foundation can provide a particularly flexible way to help a client achieve financial, estate and charitable planning goals.

As you and your clients approach their year-end planning, whether it's a current, life income, or future gift, we hope you'll consider the many advantages of partnering with The Community Foundation. If you would like additional copies of this or other Foundation publications, please contact Alison Woods, director of development, at 860-442-3572 or alison@cfsect.org.

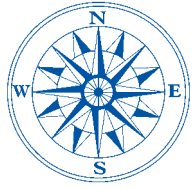
Thank you for your interest and support as The Community Foundation of Southeastern Connecticut strives to strengthen our region and to serve as a philanthropic resource.

Sincerely yours,

Timothy D. Bates, Esq.

Alice F. Fitzpatrick

A Foundation for Charitable Giving



THE COMMUNITY FOUNDATION
of Southeastern Connecticut

Dream...connect...build

Tools for Professional Advisors



Our mission is to transform our region into a
more vital, caring community.



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We work with advisors to enhance the services clients seek from you and your firm—always respecting and working within the relationships you have developed with your clients.



Talking About Charitable Giving

Philanthropy is a very personal decision. A professional advisor can help clients realize their charitable objectives by being aware of charitable giving opportunities, explaining options, and suggesting solutions. Significant giving opportunities often arise when clients are making major business, personal, and financial decisions. Our staff can work with you and your client to recommend the best charitable solutions. Your client may be interested in:

Strategic giving

Your client is passionate about helping meet a specific community need and wants to make a meaningful gift. You and your client can work with our grant making experts to understand community needs and programs and then direct gift dollars to make the greatest impact.

Leaving a legacy

As a wise advisor, you can note the taxes your client will save by leaving a legacy. Your client's gift will create a legacy of caring in the community that stays true to his or her charitable intent forever. The Community Foundation can help your client identify the need he or she wants to address and help you maximize the tax benefits of the bequest.

Year-end tax planning

Your client just earned a large bonus or his or her business created extraordinary profits. He or she wants to share his/her good fortune with the community, but has no time to decide on the most deserving charities. Recommend establishing a Donor Advised Fund through The Community Foundation which may realize an immediate tax deduction, and the ability to stay involved in recommending uses for the gift for years to come.

Sale or disposition of highly appreciated stock

Your client has appreciated stock and wants to use a portion of the gains for charitable giving, but the identified charities are too small to accept direct stock gifts. Suggest establishing a fund at The Community Foundation with a gift of appreciated stock. Your client may realize a tax deduction on the full market value, while avoiding the capital gains tax that would otherwise arise from the sale of the stock. Your client can even be involved in recommending uses for the gift, including the organizations and programs he or she cares about most.

Why should you talk to your clients about charitable giving?

You may be reluctant to begin a charitable giving conversation with your client. You may be concerned about appearing to make a value judgment, especially if the client has not expressed charitable intentions.

By not broaching the subject of charitable giving, however, a significant opportunity may be lost for your client and the community. In fact, many individuals expect their professional advisors to bring up the subject if appropriate and may assume charitable giving is not an option if the subject is not raised.



Retiring in comfort

Your client has always been charitable but wants a secure retirement. The Community Foundation can show you how gift annuities, pooled income funds or charitable remainder trusts can help your client achieve charitable objectives while also preparing well for retirement.

Substantial IRA/401K assets

Your client wants to leave his or her estate to community and family, and has substantial assets in retirement accounts. The Community Foundation can help you and your client evaluate the most beneficial asset distribution to minimize taxes, giving more to his or her heirs and preserving charitable intent.

Sale of a business

Your client owns highly appreciated stock in a company that is about to be acquired. The Community Foundation can work with you to suggest several ways to structure a charitable gift (including the use of planned giving techniques) to help your client reduce capital gains tax and maximize impact to the community.

Alternatives to a private foundation

Your client has the wherewithal to establish a private foundation, but is looking for a simpler, more cost-efficient alternative. The Community Foundation can help you and your client analyze the possible pros of creating a Donor Advised Fund or a supporting organization.

The Community Foundation can work with you to help each client fulfill his or her charitable goals.

Questions to Ask Your Clients:

People who are considering charitable giving often face challenges. Many clients want their professional advisors to help them plan charitable giving. In talking to your clients about their interests, you might ask the following question:

Do you want to make a difference in southeastern Connecticut?

What level of involvement do you want to have in identifying community needs and giving opportunities?

Are you searching for ways to teach your children to give back to their community?

Are you flooded by charitable solicitations?

Do you wonder if your current charitable giving really makes a difference?

Have you thought about prioritizing your charitable interests?

Do you have multiple charitable interests in the community?

Are you thinking about giving now or from your estate or both?

Are you interested in creating a personal or family legacy?

Is your family foundation becoming burdensome to run?



Why Choose The Community Foundation?

Experience

The Community Foundation has served Southeastern Connecticut since 1983. We are a public nonprofit that receives and manages funds for individuals, families, businesses, and nonprofit organizations. During our history of partnering with donors and their professional advisors, we have earned an outstanding reputation for integrity and service.

Strategic philanthropic services

We are a community specialist and knowledge base, helping donors achieve greater impact and joy through their giving.

Flexibility and simplicity

We offer donors flexibility and a variety of giving options. We listen to and honor donors' wishes. Funds may be established by individuals or organizations using cash, appreciated securities, retirement assets, life insurance, real estate, bequests, etc. Funds can be established with one governing document that requires less than an hour to prepare.

Legacy

With the Foundation, donors can build a lasting testament to the causes they value, far into the future.

Recognition or anonymity

Donors may choose to receive public recognition or remain anonymous. They may name a fund for an individual, family, group, or for a special purpose.

Donor services

A courteous, knowledgeable and responsive Foundation staff is always ready to answer questions and concerns—and will turn challenges into opportunities.

Maximum tax benefits

As a 501(c)(3) public charitable organization, the Foundation will maximize tax benefits to the full extent allowed, saving on income tax and estate tax, as well as reducing or eliminating capital gains taxes. Every gift qualifies for the maximum charitable tax deduction permitted by law.

Effective leadership and accountability

The Foundation's Board of Trustees is comprised of community leaders and provides overall direction and policy. An independent audit ensures fiscal responsibility.

Investment security

Our experienced investment committee oversees an investment strategy designed to maximize total return within acceptable risk tolerance. The funds are pooled and invested under professional management for maximum return.

Cost effectiveness

The pooling of assets and efficient oversight help to keep costs low.

Serving the towns of East Lyme, Groton, Ledyard, Lyme, Montville, New London, North Stonington, Old Lyme, Salem, Stonington, and Waterford



Ways to Give

All gifts, large and small, are welcome. Donors can give to an existing fund, start a new fund or make an unrestricted gift. More details on how to start a new fund appear on the following page.

Giving Now

In addition to outright gifts of cash, appreciated securities, and in some cases, real estate, there are numerous other giving vehicles for a donor to consider. These types of planned gifts can be used to add to existing funds or to establish named funds at the Foundation, as well.

Giving Later

Bequests in Wills and Trusts—The donor can designate a gift or portion of his/her estate to the Foundation and in some cases, receive a substantial reduction in federal gift and estate taxes. Bequests are directed to the fund or purpose specified by the donor.

Retirement Plan Designations—A donor may realize significant tax benefits by naming the Foundation as a beneficiary of his/her qualified retirement plan.

Life Insurance—A donor may make a gift of a life insurance policy irrevocably designating the Foundation as the owner and beneficiary of the policy. Or, a donor may name the Foundation as a percentage beneficiary of a life insurance policy owned by the donor.

Remainder Interest in Real Estate—Donors may deed their real estate such as a personal residence or vacation property to the Foundation and retain use of the property for the rest of their lives.

Gifts That Provide Income

Charitable Gift Annuity—The donor makes a gift of cash or property now and gets immediate tax benefits. The donor (or a loved one) receives fixed quarterly or annual income payments for life. After the donor's death, the remainder is directed to the fund or other charitable purpose at the Foundation specified by the donor.

Charitable Remainder Trust—The donor places cash or property in a trust that pays annual income to him/her (or another named beneficiary) for life. After the donor's death, the remainder of the trust transfers to the Foundation and is placed in the fund or purpose specified by the donor. The donor may receive income tax benefits in the year the trust is established.

Charitable Lead Trust—The donor places cash or property in a trust that pays a fixed amount to the Foundation for a number of years specified by the donor. Once this period ends, the assets held by the trust are transferred to the beneficiaries named by the donor. In some cases, the donor receives a substantial reduction in federal gift and estate taxes.

Each individual, family, or organization has unique charitable interests and unique financial circumstances. Our goal is to assist professional advisors in helping their clients make the most of both so that they receive the greatest return on their community investment



Starting A Fund

The Community Foundation currently manages 170 funds which benefit a diverse range of causes and interests. These funds form a pool of dollars whose earnings are disbursed through informed grantmaking to non-profit agencies and scholarship applicants, as well as by the instructions of donor advisors. Available income for distribution is determined by the foundation's spending policy, of between 4–6% of the fund value based on a twelve-quarter rolling average (includes grants distribution and administrative fee).

The Community Foundation's assets are managed by The Frank Russell Company with oversight by the Foundation's Investment Committee and Board of Trustees.

What Type of Fund?

Some of the questions our staff asks of donors are: What would you like to accomplish? Where do your interests lie? Would you like to involve your family in gift giving decisions? Do you wish to honor or memorialize someone? Would you like to create a fund through a bequest or your estate plan? Would a planned gift vehicle be of benefit to you in making a charitable gift while also providing income for you or a relative?

Our staff can help donors choose the type of fund that is best for their situation.

Unrestricted (\$5,000 minimum)

Donors place no restrictions on their gift and the foundation's Board has full discretion in allocating the income. As opportunities arise to address challenges in our community, the Board can target its grantmaking to key issues.

Field of Interest (\$5,000 minimum)

Donors choose a particular cause or geographic area for which the funds are to be used in perpetuity.

Donor Advised (\$5,000 minimum endowed/\$1,000 current distribution)

Donors remain actively involved in their giving. Donors are consulted for recommendations on proposals which have been presented for funding or they may direct distributions of their own choosing.

A fund can:

Honor or memorialize an individual, family or group.

Support the interest or organization(s) of the donor's choice.

Support a specific town(s).

Remain anonymous at the donor's discretion.



Designated (\$5,000 minimum)

Donors permanently designate their funds for specific organizations.

Scholarship (\$10,000 minimum)

Donors can direct their funds with guidelines they establish. The Foundation and its experienced scholarship committee can handle the entire review or the donor may participate in selecting recipients from the applicant pool.

Agency Endowment (\$5,000 minimum)

A non-profit organization or its donors can create a permanent revenue stream for the future strength of that organization.

Administrative (\$5,000 minimum)

Donors provide for the ongoing work of the Foundation.

You may also be interested in supporting the foundation's **Special Initiatives: the Women & Girls Fund**, which improves the lives of local women and girls and the **Let's Read Fund**, which promotes literacy among children and their families.

Getting Started:

Cash or securities are the most common form of gifts. Other assets such as tangible property are accepted in accordance with the Foundation's gift acceptance policy. All gifts receive the maximum tax deduction allowed by law.

There is no cost to set up a fund at The Community Foundation. We charge an annual administrative fee of 1.25% (1% for agency endowments) of the fund value.

Investment fees are 8/10 of 1%. Annual statements reflecting fund activity for the year are sent to all fund holders.



New Fund Setup Form

Name: _____

Spouse's Name: _____

Address: _____

City: _____ State: _____ Zip: _____

Home Phone: _____ Fax: _____

Email: _____

Alternative Address: _____

City: _____ State: _____ Zip: _____

Dates at this Address: _____

Do you wish to remain anonymous? Yes _____ No _____

Fund Name: _____

_____ Unrestricted

_____ Donor Advised* Name of advisors _____

Successor advisors _____

_____ Field of Interest Please specify interest area _____

_____ Designated Please specify recipient organization(s) _____

_____ Scholarship Please specify selection criteria _____

_____ Administrative

*After the adviser privilege has terminated, as stated in the agreement, I wish this Fund to become:

_____ Unrestricted _____ Field of Interest _____ Designated _____ Scholarship _____ Administrative

Completion of this form will help us draft a fund agreement.



Sample Fund Statement (sent to donor annually)

The _____ Fund

Beginning Fund Balance 1/1/2004	\$51,247.78
Contributions	0.00
Net Investment Income	4,865.19
Grants Paid	-1,984.00
Administrative Support	<u>-526.88</u>
Ending Fund Balance 12/31/2004	\$53,602.09

Grant Detail

Children's Museum of Southeastern Connecticut	500.00
St. Paul's Church	484.00
Hospice of Southeastern CT	500.00
Lawrence & Memorial Hospital	500.00
***Total Grants:	\$1,984.00

Thank you for making good things happen in our community.



Securities Transfer Instructions

Giving Securities to

The Community Foundation of Southeastern Connecticut
147 State Street, New London, CT 06320
860-442-3572
860-442-0584 FAX
www.cfsect.org

Contact: Alison Woods, Director of Development
860-442-3572
alison@cfsect.org

To ensure accurate designation and proper acknowledgement of your gift, please let The Community Foundation know about your stock gift by contacting Alison Woods (contact information listed above)

If your broker or bank holds the certificate:

To transfer stock using the DTC automated system, your financial agent needs the following information:

Account Name: The Community Foundation of Southeastern Connecticut

Account Number: F/F/C account #ABE-097888

Contact: Mark Hunter
State Street Bank
225 Franklin Street
Boston, MA 02110
617-664-8025
800-892-4514 (for stock trades only-recorded line)
Fax: 617-664-1547

DTC #: 0226 (National Financial Services, LLC)

Community Foundation Tax ID: 06-1080097

The date for establishing the gift value of the stock is the day the shares enter The Community Foundation's account.

If you hold the certificate: *Please call The Community Foundation*



TOOLS FOR GIVING

Comparing four approaches to giving

Discover the benefits of working through your community foundation

	Community Foundation Donor Advised Funds	Commercial Gift Fund	Community Foundation Supporting Organization	Private Foundation
Items to consider				
Donor Involvement	Donor recommends grants to qualified nonprofit groups. Grants are approved by community foundation board of directors	Donor recommends grants to qualified nonprofit groups. Grants are approved by trustees of the gift fund.	Community foundation and donor work together to appoint board. Supporting Organization board often controls investments and grantmaking.	Donor appoints board, which controls investments and grantmaking.
Tax Status	Public charity.	Public charity.	Public charity.	Private charity.
Income Tax Deductions for Gifts of:				
Cash	Up to 50% of adjusted gross income.	Up to 50% of adjusted gross income.	Up to 50% of adjusted gross income.	Up to 30% of adjusted gross income.
Appreciated stock	Fair market value up to 30% of adjusted gross income.	Fair market value up to 30% of adjusted gross income.	Fair market value up to 30% of adjusted gross income.	Fair market value up to 20% of adjusted gross income.
Real Estate and closely held stock	Fair market value up to 30% of adjusted gross income.	Fair market value up to 30% of adjusted gross income.	Fair market value up to 30% of adjusted gross income.	Cost basis up to 20% of adjusted gross income.
Grantmaking Support	Professional staff is available to help identify and assess grantees, provide input on community needs, and verify nonprofit status of groups.	Varies.	Professional staff is available to help identify and assess grantees, provide input on community needs, and verify nonprofit status of groups.	Donors must arrange and support their own grantmaking and monitoring structure.
Start-up Costs				
Initial costs	None.	None.	Costs kept to a minimum through collaboration with community foundation.	Several thousand dollars for legal and accounting expenses and filing fees.
Minimum contribution	Thousands of dollars.	Thousands of dollars.	Typically millions of dollars.	Typically millions of dollars.
Administrative Requirements				
Ongoing costs	Pooled administration; annual fee.	Varies.	Costs kept to a minimum through collaboration with community foundation.	Several thousand dollars for legal and accounting expenses and filing fees.
Reporting	Community foundation handles reporting.	Financial institution handles reporting.	Annual 990 tax form must be filed.	Annual 990 tax form must be filed.



Donor Advised Funds

Why create a Donor Advised Fund?

It provides a convenient and flexible tool for individuals, families, businesses or groups who want to be personally involved in suggesting grant awards made possible by their fund. People with a range of community interests find that it's an ideal vehicle for fulfilling their charitable wishes. Donor Advised Funds are typically less costly and easier to administer than other forms of philanthropic giving, such as family or corporate foundations.

Here's how it works:

- You make a gift to The Community Foundation. You can give cash, appreciated stocks, real estate, or other assets.
- We set up a special fund in your name, in the name of your family or business, or in honor of any person or organization you choose.
- Generally, you receive tax benefits the year your gift is made.
- You recommend uses for your fund—working with the Foundation's grant making staff to support the agencies and programs you care about most.
- Your recommendations are presented to our Board for approval.
- We handle all the administrative details and issue grant awards to charities in the name of your fund (if you prefer, your awards can be made anonymously).
- If you wish, your gift can be placed in an endowed fund that is carefully invested and can grow over time; investment income from your fund is then used for your grant recommendations.

Benefits:

- You can establish a charitable legacy in your name, in the name of your family, or in honor of any individual or organization you select.
- Your gift can be combined with others to increase impact in areas you care about most.
- You know that your gift will be carefully invested and managed via our proven stewardship practices.
- You may realize the maximum tax benefits under federal and state law upon the initial and any subsequent additions to your fund.
- You can establish a fund today, and make grant recommendations now or in the future.



Easy start-up, easy maintenance:

In most cases, all it takes is a brief meeting or phone conversation to work out the terms under which you want your fund to operate now and in the future. The Community Foundation staff handles all ongoing details and sends a fund report once a year.

- You may establish an endowed Donor Advised Fund with any amount and over time, build to the \$5,000 minimum required to begin recommending grants; the administrative fee is 1.25% of the fund balance assessed on an annual basis, or;
- You may establish a non-endowed Donor Advised Fund. The minimum distribution from the fund must be \$250. The administrative fee is 1% of any gift at the time a gift is made.
- In collaboration with the Foundation's grant making staff, you make recommendations for distributions to non-profit organizations and programs of your choosing; you can involve the next generation in charitable giving by involving children or other family members in recommending grants (who can be named as successor advisors, as well, if you wish).
- You choose the amount of public recognition you receive, including anonymity.

Get great satisfaction from a wise charitable investment:

Whether you establish a non-endowed fund or a permanent endowment you can rely on sound stewardship, knowledgeable collaboration on grant making decisions, and a close affiliation with a committed, community-based organization. And, you can experience ongoing enjoyment and satisfaction which comes from supporting the causes you care about.



Transfer of Assets of Private Foundation

Illustrative Document

TRANSFER OF ASSETS TO ESTABLISH THE _____ FUND

The _____ Foundation, a Connecticut nonprofit corporation (hereinafter the "Foundation"), hereby gives and transfers to The Community Foundation of Southeastern Connecticut, a Connecticut nonprofit corporation ("CFSECT"), all the rights, title and interest of the Foundation in and to all property (including money) of the Foundation, subject to the following conditions:

A. The property transferred and any additions shall be accounted for and designated by CFSECT as the _____ Fund (hereinafter the "Fund").

B. The property transferred shall be subject to all liabilities of the Foundation existing at the time of the transfer in an amount not to exceed the total value of the property transferred. CFSECT shall not be obligated to contest, or be liable to any person for any failure to contest, the imposition of any tax, penalty, or other charge asserted as a liability of the Foundation existing at the time of the transfer.

(set forth any conditions or goals)

The effective date of this transfer of assets shall be _____, 20_____.

Foundation

By: _____

CFSECT hereby accepts the foregoing transfer of assets and the conditions thereof.

THE COMMUNITY FOUNDATION of *Southeastern Connecticut*

By: _____
(name and title)



Sample Language for a Bequest

I give to The Community Foundation of Southeastern Connecticut, Inc., a Connecticut nonprofit corporation located in New London, Connecticut, its successors and assigns

(insert specific assets, dollar amount, percentage or residuary of estate)

(for its general charitable purposes)

or

(to augment _____ Fund).

or

(to create the _____ Fund to support _____).

Beneficiary Designation Information (for retirement assets, life insurance, etc.)

The Community Foundation of Southeastern Connecticut, Inc.
147 State Street
New London, CT 06320
Tax ID: 06-1080097

Sample Trust Language

The Trustee shall distribute to The Community Foundation of Southeastern Connecticut, Inc., a Connecticut nonprofit corporation located in New London, Connecticut, its successors and assigns

(insert specific assets, dollar amount, or percentage of trust property)

(for its general charitable purposes)

or

(to augment _____ Fund).

or

(to create the _____ Fund to support _____).

Please note that the above document is for illustrative purposes only. The Foundation staff can assist the advisor and the donor with the actual document preparation to ensure our ability to comply with the donor's wishes.



Legacy Society—Statement of Intent

The Legacy Society provides a way for The Community Foundation of Southeastern Connecticut to recognize generous individuals who have made plans to benefit this region's future. These donors understand that a planned gift to the Foundation is a simple way to contribute to the future well being of all Southeastern Connecticut residents and to create a favorable tax situation. We thank those who let us know ahead of time of funds to be given to the Foundation in the future. If you have made provision for a deferred gift to The Community Foundation of Southeastern Connecticut and would like to let us know, please complete this form.

Name _____

Address _____

Phone _____

City _____ State _____ Zip _____

I/We have made the following provision for a gift:

_____ Bequest

_____ Charitable Remainder Trust

_____ Life Insurance

_____ Other

_____ In recognizing this gift, the Foundation is authorized to list the following name(s) as members of The Legacy Society:

_____ I/We have made provision for a gift but prefer confidentiality and do not wish to be listed as a member of The Legacy Society.

_____ It is my/our intention that this gift be added to an existing fund at the Foundation and governed by all related agreements. Fund Name: _____

_____ It is my/our intention that this gift be used to create a new fund at the Foundation. Please contact me/us about the nature of that fund.

This "Statement of Intent" is non-binding. I will notify you if I remove this Provision.

Signature: _____ Date: _____

Guidelines for Life Income Gifts

1. Use of legal counsel

All prospective donors are urged to seek their own legal counsel in matters relating to their bequests, life income gifts, tax planning and estate planning.

The Community Foundation of Southeastern Connecticut (CFSECT) may seek the advice of legal counsel in establishing and operating its Planned Giving Program. All life income agreements issued by the CFSECT shall follow the formats of the specimen agreements approved by legal counsel unless counsel agrees in writing to changes for a specific agreement.

2. Authorization for promotion and execution of life income agreements

The President and those whom the President shall authorize may promote planned giving agreements with potential donors on behalf of the CFSECT, subject to these guidelines. Only persons authorized by the CFSECT Bylaws or the Board of Trustees to sign legal contracts shall have the authority to sign planned giving agreements on behalf of the CFSECT.

CFSECT's Gift Acceptance Policy provides that gifts funded with cash or publicly traded securities can be accepted without approval of CFSECT's Endowment Committee. Gifts funded with property other than cash or publicly traded securities (for example, real estate or interests in closely held businesses) must be reviewed and approved by the Endowment Committee unless the Foundation's acceptance policy provides otherwise.

3. Types of Planned Giving Agreements Currently Offered

NOTE: CFSECT does not currently serve as trustee on Charitable Remainder or Lead Trusts but can provide information and assistance to donors who would like to name CFSECT as a beneficiary)

a. Pooled Income Fund

The Community Foundation of Southeastern Connecticut Pooled Income Fund ("CFSECT-PIF") is a trust that has the following features:

- Currently, the minimum amount to participate in the CFSECT-PIF is \$5,000. CFSECT-PIF donors may make additional gifts of \$1,000 or more at any time. The CFSECT reserves the right to adjust these minimums in the future.
- The CFSECT-PIF will accept gifts for one or two life plans.
- At this time, income beneficiaries must be at least 40 years of age at the time the gift is made.
- A gift of \$5,000 or more to the CFSECT-PIF will enable a donor to name a fund at CFSECT to be established and funded once the last beneficiary dies. The new fund may be an unrestricted fund, a field of interest fund, a scholarship fund or a designated fund.



- For a designated fund, the donor may designate one nonprofit organization to receive annual grants from the fund. Other nonprofit organizations may be added through additional gifts of \$5,000 per nonprofit organization. In the case of a designated fund, a minimum of 15% of each residuum, as described in the written agreement, will be distributed to the CFSECT for its general purposes.
- At the time the gift is made, the donor will sign an Instrument of Transfer that will include written instructions about the distribution of the donor's shares of the CFSECT-PIF once the last beneficiary dies.

b. Charitable Gift Annuities

Charitable Gift Annuity agreements will have the following features:

- Immediate or deferred payment Charitable Gift Annuities may be issued for one or two lives.
- The charitable gift annuity payment rates shall be decided by CFSECT and shall not exceed those adopted and revised from time to time by the American Council on Gift Annuities.
- Payments under annuities shall not begin prior to the annuitant's or annuitants' attaining age 60 for immediate payment annuities and age 45 for deferred payment annuities.
- At this time, the minimum amount in exchange for which the CFSECT will issue an annuity is \$10,000 for both a one-life and a two-life plan. The lifetime aggregate maximum amount the donor can contribute to a CFSECT gift annuity is \$1,000,000 per annuitant or pair of annuitants. The CFSECT reserves the right to adjust these funding limits in the future.
- Gift assets from Charitable Gift Annuity contracts shall be invested according to an asset allocation strategy deemed to be appropriate by the CFSECT's Investment Committee and approved by the Board of Trustees. An annual 1% administrative fee will be applied to the year-end fund balance.
- At the time the gift is made, the donor will sign a written agreement that provides instruction about distribution of the annuity principal upon the death of the last annuitant ("the residuum"). When the last annuitant dies, the residuum must be distributed to one or more funds at the CFSECT.
- A donor may name a fund at the CFSECT receive the annuity's residuum. The new fund may be an unrestricted fund, a field of interest fund, a scholarship fund, or a designated fund.
- For a designated fund, a donor may designate one nonprofit organization as the beneficiary of annual grants from the fund for each \$10,000 gift. For example, if a donor contributes \$50,000 to a gift annuity, he or she can designate five (5) nonprofit organizations to receive annual grants from the fund. In the case of a designated fund, a minimum of 15% of each residuum, as described in the written agreement, will be distributed to the CFSECT for its general purposes.



- The President has the authority to sign charitable gift annuity contracts in exchange for gifts up to and including \$100,000. For contracts in exchange for gifts above that amount, signatures of both the President (or her/his staff designee) and the Chairman of the Board of Trustees (or his/her Board designee) will be required.

4. Administration of funds received for life income agreements

The Investment Committee of the CFSECT shall administer funds received for life income agreements. When each life income gift matures, the remaining funds will become the property of the CFSECT for the purposes stated in the life income agreement.

5. Modification or suspension of these guidelines

The Board of Trustees, or a committee authorized by the Board of Trustees, may modify or suspend these guidelines when, in their judgement, such action is necessary and desirable.



Charitable Gift Annuities

Disclosure Statement

The purpose of this [Disclosure Statement](#) is to provide you with information about Charitable Gift Annuities offered by The Community Foundation of Southeastern Connecticut (CFSECT) and to comply with the disclosure requirements of the Philanthropy Protection Act of 1995. Please review this document before requesting a gift annuity agreement with the CFSECT. We believe the following information to be correct under existing law, but we urge you to consult your own legal and financial advisors to determine how this information applies to your own situation.

CFSECT Charitable Gift Annuities provide a means by which you can make a gift for the long-term support of the CFSECT in exchange for a fixed, lifetime, annual income for yourself and/or one other person (maximum two annuitants). In addition, you will qualify for several tax benefits. The annuity payments can be designed to be paid out immediately or at some later date.

Your gift annuity should not be viewed as an investment. It is, rather, a way to receive annuity payments while making a charitable gift. In this respect, the CFSECT gift annuity is different from a commercial annuity, which may offer a higher annuity rate but does not have a charitable component or attendant tax benefits. A schedule of the current payment rates prepared by the American Council on Gift Annuities is available from the CFSECT.

The rate of payment you receive is actuarially determined to result in a projected residuum of approximately 50% as a gift to the CFSECT. Because the rates are based on your life expectancy, the older you are, the higher your annuity rate will be.

The minimum age for immediate charitable gift annuitants is 60 and for deferred charitable gift annuitants is 45. Your age on the date of gift is that closest to your past or next birthday. The minimum gift is \$10,000 for both a one-life plan and a two-life plan, and the lifetime maximum aggregate per annuitant or pair of annuitants is \$1,000,000. There can be no more than two annuitants for each contract.

Upon receipt of your irrevocable gift of cash or publicly traded securities, the CFSECT will issue a contract promising to pay the agreed-upon annuity in quarterly payments at the end of March, June, September, and December of every year. Your first payment will be prorated to conform to the quarterly cycle. Once payments have begun, we will send you information after the close of each calendar year, about the amount and tax treatment of the payments you received the previous year.



Your annuity, which is governed by the laws of the State of Connecticut, may not be assigned to a third party, unless you assign it to the CFSECT, in which case your assignment will generate an additional federal income tax charitable deduction.

This qualified charitable gift annuity is not insurance under the laws of the State of Connecticut and is not subject to regulation by the Insurance Commissioner or protected by an insurance guaranty association.

Our obligation to pay your annuity is backed by the full assets of the CFSECT, which is why we have included a copy of our most recent audited financial statement with this Disclosure Statement. In the unlikely possibility that the CFSECT should ever fail financially, individuals entitled to receive annuity payments would qualify as general creditors of the CFSECT.

The CFSECT will invest your contribution with our general funds and will maintain a separate fund record in your name. An annual 1% administrative fee will be applied to the year-end fund balance. Your fixed payments will be paid to you regardless of the outcome of the actual investment history of your account.

Distribution of the Residuum

Once annuity payments cease due to the death of the last annuitant, the residuum of your charitable gift annuity will be distributed to any CFSECT fund or funds specified by you. Details regarding the residuum distribution will be part of the written Agreement between you and CFSECT at the time your gift is made.

This new fund may be any of the following: an unrestricted fund, a field of interest fund, a scholarship fund or a designated fund.

For designated funds, your gift of \$10,000 will enable you to designate a particular nonprofit organization other than CFSECT as the beneficiary of annual grants from the fund. You may increase the number of nonprofit organizations with additions of \$10,000 for each designated nonprofit. In the case of designated funds, a minimum of 15% of the residuum, to be specified in the written agreement, will be distributed to CFSECT for its general purposes.



Income Tax and Taxable Income

When you establish a gift annuity, you will receive a federal income tax charitable contribution deduction, which, if you itemize your deductions, can be taken in the year of the gift up to 50% of your adjusted gross income for gifts of cash (up to 30% for gifts of securities), with a five year carry-over period for any excess. The amount of your charitable income tax deduction is calculated according to your life expectancy, the payout rate the CFSECT offers and the I.R.S. discount rate.

Sometimes also called “the charitable midterm federal rate” or the “7520 rate”, the I.R.S. discount rate is not your payout rate, but a rate based on the economy that is determined monthly. You may elect to use the discount rate for the month of your gift, or for either of the two preceding months. The higher the discount rate, the higher your charitable deduction will be. The lower the discount rate, the greater amount of your annuity will come to you tax-free.

The income you will receive will be taxable as ordinary income, except for that representing a return of principal, which will be tax-free. This tax-free income will be spread over your life expectancy and will be largest in gift annuities funded with cash or with appreciated securities with a high cost basis.

If you establish your gift annuity with appreciated securities, part of your gift annuity payments will be taxed to you as capital gain over your life expectancy and if your cost basis is very low, you may not receive much, if any, tax-free income. It is important to note that you will have to report all your capital gain the year you establish your annuity if you name someone other than yourself to benefit first. If you are thinking of setting up an annuity with highly appreciated property where you are not the first or only annuitant, please contact us for further information to help in your decision.

If you live beyond your life expectancy, your tax-free principal and capital gain will have been returned to you, and your payments thereafter will be taxed entirely as ordinary income. If you were to pass away before recovering the total tax-free amount to which you are entitled, the unrecovered amount may be taken by your executor/trix as a deduction on your estate’s final income tax return.

Estate tax

Because gift annuities are outright gifts, they are not included in your estate and will not figure in any estate tax calculations **if you are the only annuitant**. If, however, you establish a gift annuity to make payments first to yourself and then to a successor annuitant, the value of the successor annuitant’s annuity will be included in your estate for federal estate tax purposes. If the successor annuitant is your spouse, his or her annuity will qualify for the unlimited federal estate tax marital deduction.

Gift tax

The value of your gift to the CFSECT is calculated in the same manner as for the federal income tax charitable contribution deduction, and is eligible for a federal gift tax charitable contribution deduction on Form 709 to accompany your Form 1040.

If you have a successor annuitant, you should consult your tax advisor as to whether you should file a federal or state gift tax form in April following the year of the gift. It can be a good idea when naming a successor annuitant, for you to reserve the right exercisable by your will, to revoke his or her annuity—in order to avoid making a taxable gift to him or her for federal gift tax purposes. This is why our two-life gift annuity contracts contain a sentence outlining this right to revoke. Retaining this right will delay the occurrence of the gift until your death, when it will be included in your estate as described above.

If you establish a one-life gift annuity agreement to benefit someone other than yourself, you will be making a gift to that other person in the amount of the value of the annuity. In that case, your tax advisor will likely recommend that you take advantage of the annual gift exclusion. If that other person is your spouse, your gift will qualify for the unlimited marital deduction.

Conclusion

We would be happy to present a proposal for a gift annuity for you and your advisor's consideration. Of course, you should check the tax ramifications with your professional advisor(s) since they are familiar with the particulars of your situation. Please respond to Alison Woods, Director of Development, The Community Foundation of Southeastern Connecticut, 147 State Street, New London, Connecticut, 06320; (860) 442-3572. Thank you for considering a gift that will benefit both yourself and the community of southeastern Connecticut.

Revised May 20, 2004



Gift Annuity Agreement

One Life, Donor is the Annuitant—Immediate Payments

The Community Foundation of Southeastern Connecticut (“CFSECT”), a non-profit charitable corporation located at 147 State Street, New London, Connecticut 06320, and incorporated under the laws of the State of Connecticut, in exchange for the receipt of \$XXXXXX agrees to pay to XXXXXXXXXXXXXXXXXXXX (“Donor”) with an address of XXXXXXXXXXXXXXXXXXXXXXXXXXXX and a birth date of XX/XX/XXXX, for his/her life, an annuity of \$XXXXX per annum, from the date hereof, in equal quarterly installments of \$XXX on the last day of March, June, September, and December, with the first partial payment to be made on (date) of \$XXX, prorated on the basis of the number of days in the initial payment period. This annuity shall be nonassignable, except in the case of a voluntary transfer of part or all of such annuity to CFSECT.

The obligation of CFSECT to make annuity payments shall terminate with the payment immediately preceding the death of the Donor.

Upon termination of the payments, the residuum of the annuity account will be distributed according to Schedule “A” hereto annexed.

An annual 1% administrative fee will be applied to the year-end fund balance.

This qualified charitable gift annuity is not insurance under the laws of the State of Connecticut and is not subject to regulation by the Insurance Commissioner or protected by an insurance guaranty association.

CFSECT certifies that the Donor, as evidence of her desire to make a charitable gift for the purpose of supporting CFSECT’s charitable mission, has this day transferred to CFSECT marketable securities listed in Schedule “B” hereto annexed, having a total value of \$XXXXX, receipt of which is acknowledged.

IN WITNESS WHEREOF, CFSECT has executed this document this ___th day of _____, 200_.

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT
By: _____

Alice F. Fitzpatrick
President

I have received a copy of the CFSECT Charitable Gift Annuity Program Disclosure Statement and herewith approve and accept the terms and conditions of this agreement.

Donor

Date



Gift Annuity Agreement

Two Lives—Immediate Payments

The Community Foundation of Southeastern Connecticut (“CFSECT”), a non-profit charitable corporation located at 147 State Street, New London, Connecticut 06320, and incorporated under the laws of the State of Connecticut, in exchange for the receipt of \$XXXXXX agrees to pay to (NAME #1) (“Donor”) with an address of (ADDRESS) and a birth date of _____, 19__ or his/her life, and thereafter to (NAME #2), with an address of (ADDRESS) for his/her life, if (NAME #2) survives the Donor, an annuity of \$XXXXXXX per annum, from the date hereof, in equal quarterly installments of \$XXXX on the last day of March, June, September, and December, with the first partial payment of \$XXXX to be made on (date), prorated on the basis of the number of days in the initial payment period. This annuity shall be nonassignable, except in the case of a voluntary transfer of part or all of such annuity to CFSECT.

CFSECT acknowledges that the Donor may by the Donor’s last will revoke the annuity for (NAME #2).

If the Donor revokes (NAME #2)’s annuity, CFSECT’s obligation to make annuity payments shall terminate with the payment immediately preceding the death of the Donor. If the Donor does not so revoke, then CFSECT’s obligation to make annuity payments shall terminate with the payment immediately preceding the death of the survivor of (NAME of Donor) and (NAME #2).

Upon termination of the payments, the residuum of the annuity account will be distributed according to Schedule “A” hereto annexed.

An annual 1% administrative fee will be applied to the year-end fund balance.

This qualified charitable gift annuity is not insurance under the laws of the State of Connecticut and is not subject to regulation by the Insurance Commissioner or protected by an insurance guaranty association.

CFSECT certifies that the Donor, as evidence of his/her desire to make a charitable gift for the purpose of supporting CFSECT’s charitable mission, has this day transferred to CFSECT [choose one] \$ _____ in cash [or] marketable securities listed in Schedule “B” hereto annexed, having a total value of \$ _____, receipt of which is herewith acknowledged.

IN WITNESS WHEREOF, CFSECT has executed this document this __th day of _____, 200_.

THE COMMUNITY FOUNDATION OF SOUTHEASTERN CONNECTICUT

By: _____

Alice F. Fitzpatrick
President

I have received a copy of the CFSECT Charitable Gift Annuity Program Disclosure Statement and herewith approve and accept the terms and conditions of this agreement.

Donor

Date



Gift Acceptance Policy

The Community Foundation of Southeastern Connecticut will accept gifts subject to the following policies:

Types of Gifts

The Foundation will receive gifts in the following forms:

- cash
- publicly traded securities
- checks
- life insurance, subject to review by the Endowment Committee
- closely held marketable securities, subject to review by the Endowment Committee
- real estate, subject to review by the Endowment Committee
- interest in limited partnerships, subject to review by the Endowment Committee
- other property (examples: furniture, works of art, precious metals, etc.), subject to review by the Endowment Committee.

Purpose of Gifts

The purpose of all gifts to the Foundation must fall within the mission of the Foundation and comply with the Internal Revenue Code and Regulations pertaining to 501(c)(3) organizations. If gifts are for a limited purpose, the purpose for the gift and the procedures for its administration must be defined in a letter signed by the donor. Except in unusual circumstances, a letter restating the original purposes of the fund need not accompany a gift added to an existing fund.

Policy for Review of Gifts

The Endowment Committee of the Foundation's Board of Trustees has the responsibility to consider and determine procedures concerning acceptance of all gifts to the Foundation in order to insure the gifts are consistent with this policy and the mission of the Foundation.

Acceptance by staff of gifts consistent with the purposes of the Foundation will not require review by the Endowment Committee if the gifts are in the following forms:

1. Cash, checks, and money orders
2. Marketable securities (publicly traded)
3. Gifts of usable furniture and equipment for the Foundation's offices or programs of the Foundation.



Before acceptance of the gift by the Foundation, gifts requiring review and approval of the Endowment Committee include the following:

1. Gifts where there is a question that they may fall outside the purposes, by-laws, and procedures of the Foundation.
2. *Gifts of marketable real estate.* The donor will be required to provide a recent independent appraisal and an environmental review (Phase I), as well as a legal description of the property and proof of title insurance for the property. The Committee will review these documents, as well as consider any liabilities, restrictions, or other conditions related to the gift, and may require additional documentation or information. The donor will prepare all closing documents in connection with the transfer.
3. *Closely held securities.* The donor will be required to provide an appraisal of the security, including an income statement and balance sheet of the underlying entity, any restrictions on the marketability of the security, any agreement between the owners regarding the marketability of the securities, such as a shareholder's agreement, operating agreement, or voting trust, and an opinion of counsel that the security is transferable to the Foundation without restriction.
4. *Life insurance.* The Foundation accepts insurance policies for which the donor has relinquished ownership by assigning all rights, title, and interest to the Foundation. If the insurance policy is not fully paid up, the acceptability of the gift is judged on a case-by-case basis. If the insurance policy is accepted, the Foundation may choose either to cash it in for the current surrender value or continue to pay the premium (e.g., the Foundation may pay the premium on an insurance policy for which the donor provides an annual contribution equal to that premium.)
5. *Partnership and LLC interests.* The Foundation does not accept gifts of a general partnership interest due to potential unlimited liability. Before gifts of limited partnership or limited liability company ("LLC") interests are accepted, the donor shall provide the Endowment Committee with the same information required above for gifts of closely held securities. Further, the donor will provide a copy of the Partnership or LLC Operating Agreement, and other documents as required, so that the Foundation can understand the activities of the entity and how allocations are made to the partners or LLC members. The underlying assets and liabilities of the entity will be reviewed to help determine the marketability of the partnership interest. Consideration will be given to whether income generated by the entity is considered unrelated business income subject to income tax.
6. *Other property* which may be unusual or fall outside the type of gifts usually handled by the Foundation.

The Foundation also accepts deferred gifts as follows:

1. **Bequests.** The Community Foundation receives bequests from persons who have directed in their Wills that certain money or property be transferred to the Foundation.



2. **Life Income Arrangements.** (*see Guidelines for Life Income Gifts*) Several types of deferred giving arrangements can be established during one's lifetime or through a Will and can be structured to provide a life income for oneself or a loved one. Life income arrangements include, but are not limited to: charitable remainder annuity trusts, charitable remainder unitrusts, charitable lead unitrusts, gift annuities, the Community Foundation of Southeastern Connecticut Pooled Income Fund, and remainder interests in real estate. At this time the Foundation does not choose to serve as a Trustee of any of these trusts, other than the pooled income fund.

The Foundation reserves the right to refuse any gift that it believes is not in its best interests. Where possible, the Foundation would prefer to review the terms of deferred gifts before they are executed.

In conformance with the Treasury Department Regulations regarding community foundations, gifts to the Foundation may not be directly or indirectly subjected by a donor to any material restriction or condition that prevents the Foundation from freely and effectively employing the transferred assets or the income derived therefrom in furtherance of its exempt purposes.

Action to accept gifts:

The Chair of the Foundation's Board of Trustees and/or its President is authorized to accept all gifts not requiring Committee review. Gifts requiring Endowment Committee review will be handled promptly with Foundation staff delivering to the members of the Endowment Committee all relevant information necessary to make a decision. If a gift is not accepted, staff will notify the donor immediately. All gift reviews will be handled with utmost confidentiality.

Special notations regarding gifts needing review.

In certain instances, a decision regarding gift acceptance must be made immediately. An example is a gift made on December 31. In such a case, the Chair of the Board of Trustees, or any other officer of the Foundation, with the concurrence of any two (2) members of the Executive Committee, will be authorized to accept such a gift if in their judgement there will be no significant reservations.

Administrative Expenses

In the event that a particular gift requires unusual administrative expense, the Committee may require that a fee be paid to the Foundation to cover such costs.

Note: The Community Foundation will accept pass through gifts to other charities, but as a general rule, will hold any such gifts for ninety (90) days before distribution.



Investment Portfolio Performance 2001–2005

	<u>Actual Performance</u>	<u>Composite Benchmark</u>
Fiscal 2005	8.22%	5.87%
Fiscal 2004	10.49%	11.02%
(A) Fiscal 2003	18.62%	23.37%
Fiscal 2002	-10.90%	-8.37%
Fiscal 2001	-2.45%	-2.70%
Total Return	23.98%	29.19%
5 Year Annualized Return	4.39%	5.26%

Notes: (A) Switched to Russell Investment Group in July.

Statement of Investment Policy As of January 2005

Statement of Purpose

This Statement of Investment Policy defines the investment policies for the management and oversight of the Community Foundation of Southeastern Connecticut (the “Foundation”). It sets forth the investment objectives for the Foundation, the strategies to achieve these objectives, procedures for monitoring and control, and the delegation of responsibilities for the oversight and management of Foundation assets.

The Investment Committee (the “Committee”) is responsible for making recommendations concerning management of all endowment funds to the Board of Trustees (the “Board”) of the Foundation. Amendments to the Investment Policy may be recommended to the Board from time to time.

Responsibilities

Responsibilities for the oversight and management of Foundation assets are delineated as follows:

- The Board has delegated primary fiduciary responsibility to the Committee. In carrying out its responsibilities, the Committee establishes investment policy, makes asset allocation decisions, determines asset class strategies and retains investment managers to implement asset allocation and asset class strategy decisions.
- The Committee has engaged Frank Russell Trust Company (“Russell”), as trustee, to assist the Committee in the areas of asset allocation, investment policy, portfolio strategy implementation, performance monitoring and evaluation, and implementation of rebalancing policy.
- Russell is responsible for investing the Foundation assets in a manner consistent with this Investment Policy and Russell’s investment guidelines.

Objectives

The Foundation has been established for the benefit of the community, of the eleven towns in Southeastern Connecticut. The intent of the fund is to remain in operation in perpetuity. Foundation assets will be invested in a prudent manner for the purpose of providing support to its grant and scholarship recipients, while protecting the contributions of its donors. Other objectives are to:

- Provide a total return that, over the long term, provides sufficient income and asset appreciation to fund the Foundation’s spending policy as deemed appropriate by the Committee, and adopted by the Board.
- Maximize the return on assets, over the long term, by investing primarily in equities. Additional asset classes with differing rates of return, volatility and correlation will be included to reduce risk by providing diversification relative to equities.
- Diversify investments within asset classes to reduce the impact of losses in single investments.



Performance Objective

In order to achieve the Foundation's objectives, the investment performance objective is to outperform the Policy Portfolio return after fees at a comparable level of risk. This investment objective is expected to be achieved over the long term and is measured over rolling five-year periods. Peer-relative performance comparisons will also be considered, especially when performance deviates meaningfully from market indexes. Investment objectives for each asset class are included as appendices.

Policy Portfolio

Asset allocation policy is the principal method for achieving the investment objectives stated above. The Foundation's policy targets and ranges are as follows:

	<u>Target</u>	<u>Range</u>
US Large Cap Equities	45%	40-50%
US Small Cap Equities	8%	5-10%
Non-US Equities	15%	10-15%
Fixed Income	24%	20-25%
Real Estate	8%	5-10%

US equities are held for their long-term expected return premium over fixed income investments and inflation. Non-US equities are held for their expected return premium, as well as diversification relative to US equities and other asset classes. Fixed income investments and real estate are held for diversification, relative to equities. Cash equivalents are held solely to meet the Endowment/Foundation's liquidity requirements. More detailed strategy statements for each asset class are included as appendices.

Asset allocation policy is reviewed regularly. A review may be brought forward if significant changes occur to the Foundation's financial position or spending policy.

The Foundation's assets are actively managed. The Committee believes that superior active managers have the potential to earn above-index returns.

Rebalancing Policy

Russell will rebalance the assets on a monthly basis to remain within the stated ranges.

Spending Rule

The Foundation's spending rule will be set annually at approximately 5% of the three-year rolling average of its endowed funds. The Foundation intends to increase its distributions by at least the amount of inflation each year, but may hold spending levels flat during extended periods of poor market performance. Recognizing the need to balance immediate needs against those of future generations, the Foundation will maintain a distribution corridor between 4–6% of the three year rolling average. In years of sustained market strength, the Foundation may consider creating a future reserve or declare a "community dividend" for that period only.



Monitoring and Control

The Foundation's investment structure is monitored and controlled as follows:

- Actual investment portfolio results are compared to the Policy Portfolio return. The Policy Portfolio return is developed by weighting passive investment alternatives by the policy target allocations. The following indexes are used:

US Equities—Large Cap:	Russell 1000 Index & S&P 500
US Equities—Small Cap:	Russell 2000 Index
Developed Non-US Equities:	MSCI EAFE Index
Fixed Income:	Lehman Brothers Aggregate Bond Index
Real Estate:	Russell Open End Fund

- Monitoring and control for each asset class is included in the appendices.
- Investment managers provide quarterly reports to the Committee or its delegate that detail results relative to performance objectives and indicate compliance with strategy and guidelines.
- A report is made annually to the Board of Trustees showing results relative to this Statement of Investment Policy.

Statement of Investment Policy

As of January 2005

Appendix A

US Equity Strategy Statement

The purpose of this statement is to further define the strategic role of US equities within the Foundation's Investment Policy and to set forth the investment objectives and strategic guidelines for the asset class structure.

Strategic Role

The strategic role of US equities is to:

- Provide higher expected returns (along with non-US equities) of the major asset classes.
- Maintain a diversified exposure within the US stock market.
- Achieve returns in excess of passive indexes through the use of active investment managers and strategies.

Investment Objectives

The US equity portfolio investment objective is to provide a total return greater than the Russell 1000 Index and the Russell 2000 Index for the US Large Cap Equity and US Small Cap Equity portfolios, respectively, after fees, at a comparable level of risk.

This investment objective is expected to be achieved, over the long term and is measured over a market cycle of three to five years. Peer-relative performance comparisons with managers employing similar styles will also be considered, especially when performance deviates meaningfully from market indexes.

US Equity Strategies

- Diversify the asset class across the US equity market to ensure exposure to a wide range of investment opportunities and participate broadly in US stock market returns.
- Maintain a fully-invested, as practical, US equity portfolio by equitizing investment manager allocations to cash.
- Maintain capitalization and style exposures at the asset class level, similar to those of the respective benchmark indexes.
- Retain active US equity management for the sole purpose of achieving added value, with diversification provided through multiple investment managers.

Monitoring and Control

- The returns for the asset class are reported to the Committee quarterly to monitor progress towards longer-term investment objectives.
- Due diligence meetings with the investment manager are held at least annually, with the Committee, to review portfolio results, as well as to discuss guidelines and expectations.
- Consistent inability to meet investment objectives or significant organizational events will trigger a review of an investment manager.

As of January 2005

Appendix B

Non-US Equity Strategy Statement

The purpose of this statement is to further define the strategic role of non-US equities within the Foundation's Investment Policy and to set forth the investment objectives and strategic guidelines for the asset class structure.

Strategic Role

The strategic role of non-US equities is to:

- Provide higher expected returns (along with US equities) of the major asset classes.
- Diversify the Foundation's overall equity exposure by investing in non-US stocks that are less than fully correlated to US equities with similar return expectations.
- Maintain a diversified exposure within the non-US stock market.
- Achieve returns in excess of passive indexes through the use of active investment managers and strategies.

Investment Objectives

The non-US equity portfolio investment objective is to provide a total return greater than the MSCI EAFE Index and MSCI Emerging Markets Free Index, for developed and emerging markets respectively, after fees, at a comparable level of risk.

This investment objective is expected to be achieved, over the long term and is measured over a market cycle of three to five years. Peer-relative performance comparisons with managers employing similar styles will also be considered, especially when performance deviates meaningfully from market indexes.

Non-US Equity Strategies

- Diversify the asset class across the non-US equity markets to ensure exposure to the broad range of investment opportunities primarily in the developed markets, particularly Europe and the Far East.
- Maintain country, capitalization and style exposures at the asset class level similar, to a broad market representation of the non-US markets.
- Retain active non-US equity management for the sole purpose of achieving added value, with diversification provided through multiple investment managers.

Monitoring and Control

- The returns for the asset class are reported to the Committee quarterly to monitor progress towards longer-term investment objectives.
- Due diligence meetings with the investment manager are held at least annually, with the Committee, to review portfolio results, as well as to discuss guidelines and expectations.
- Consistent inability to meet investment objectives or significant organizational events will trigger a review of an investment manager.



As of January 2005

Appendix C

Fixed Income Strategy Statement

The purpose of this statement is to further define the strategic role of fixed income within the Foundation's Investment Policy and to set forth the investment objectives and strategic guidelines for the asset class structure.

Strategic Role

The strategic role of fixed income is to:

- Diversify the Foundation equity exposure by investing in fixed income securities that exhibit a low correlation to equities and lower volatility.
- Maintain a diversified exposure within the US fixed income market.
- Achieve returns in excess of passive indexes through the use of active investment managers and strategies.

Investment Objectives

The fixed income portfolio investment objective is to provide a rate of return greater than the Lehman Brothers Aggregate Bond Index after fees, at a comparable level of risk. It also provides effective diversification against equities and a stable level of cash flow.

This investment objective is expected to be achieved over the long term and is measured over a market cycle of three to five years. Peer-relative performance comparisons with managers employing similar styles will also be considered, especially when performance deviates meaningfully from market indexes.

Fixed Income Strategies

- Diversify the asset class across the US fixed income markets to ensure exposure to a wide range of investment opportunities and participate broadly in US fixed income market returns.
- Maintain a high quality bond portfolio with a duration that is similar to that of the respective benchmark index.
- Emphasize US investment grade fixed income securities and those issued or guaranteed by the US government but allow debt issued by non-US governments and their respective agencies and instrumentalities, as well as "extended fixed income market sectors" to include high yield bonds, collateralized mortgage obligations, non-US debt and emerging markets debt.
- Retain active fixed income management for the sole purpose of achieving added value, with diversification provided through multiple investment managers.



Monitoring and Control

- The returns for the asset class are reported to the Committee quarterly to monitor progress towards longer-term investment objectives.
- Due diligence meetings with the investment manager are held at least annually, with the Committee, review portfolio results, as well as to discuss guidelines and expectations.
- Consistent inability to meet investment objectives or significant organizational events will trigger a review of an investment manager.

As of January 2005

Appendix D

Real Estate Strategy Statement

The purpose of this statement is to further define the role of real estate within the Foundation's Investment Policy and to set forth the investment objectives and strategic guidelines for the asset class structure.

Strategic Role

The strategic role of real estate is to:

- Provide diversification relative to stocks and bonds, thereby lowering the overall return volatility of the entire investment portfolio.
- Provide a long-term return between those of stocks and bonds.
- The real estate allocation provides an exposure to equity real estate. Investment in real estate debt is generally obtained through the fixed income allocation of the investment portfolio.

Investment Objective

The real estate portfolio investment objective is to exceed the median return of the Russell Open-End Real Estate Universe. This investment objective is expected to be achieved over the long term and is measured over a market cycle of three to five years.

Real Estate Strategies

The real estate portfolio participates in both public and private market investments.

- **Public market investments.** These investments are publicly traded real estate securities and include Real Estate Investment Trusts. A maximum of 30 percent of the real estate portfolio shall be invested in public real estate securities. Management is delegated to an external investment manager(s).
- **Private market investments.** These investments will be in the form of collective investment vehicles. A minimum of 70 percent of the real estate portfolio shall be invested in private real estate investments. Management is delegated to an external investment manager(s).

The Foundation will invest in a diversified portfolio of high-quality, operating and substantially leased properties that will be referred to as the real estate "core." In the core portfolio, the level and sustainability of initial cash yields will be more heavily weighted than the potential for property appreciation. Core assets will comprise a majority of the real estate portfolio. Special purpose properties that do not have general utility shall be specifically prohibited.

Private market collective investment vehicles include all finite and infinite life pooled investment vehicles designed for multiple institutional investors. Collective investment vehicles exhibit the following attributes:

- Properties are acquired, managed and disposed of by an external asset manager.
- Well-defined investment objectives.



- A well-defined investment strategy that is reflective of the manager's expertise.
- Strong governance features.
- Capitalization adequate to implement the stated investment strategy.
- A competitive fee structure that aligns investor/manager interests.

Diversification

The real estate portfolio shall be prudently diversified by property type, location (geographic and economic region), and number of properties. Detailed investment guidelines are included in the Investment Management Agreement with each investment manager.

Leverage

Aggregate leverage of the private market core real estate portfolio shall generally be no greater than 35 percent.

Monitoring and Control

- The returns for the asset class, both public and private components are reported quarterly to the Committee to monitor progress towards longer term investment objectives.
- Due diligence meetings are held at least annually by the Committee, with each manager to review guidelines and performance relative to expectations.
- Consistent inability to meet investment objectives or significant organizational events will trigger a review of an investment manager.