



# Branch County

community foundation<sup>SM</sup>

For **good.** For **ever.**

## New Fund Information Packet



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## What is a Community Foundation?

A community foundation is a tax-exempt public charity created by and for the people in a local area. It enables people with philanthropic interests to easily and effectively support the issues they care about – immediately, or through their will.

The **Branch County Community Foundation** is a non-profit organization and a state-certified, nationally-accredited community foundation begun in 1991 by local Rotary clubs. We serve communities in Branch County and Colon, Michigan.

**For Good. Our mission** is to serve our communities by promoting charitable giving, building permanent endowments, and connecting community resources.

**For Ever.** Our endowment funds are preserved, invested, and managed to assure a steady stream of income for grants to organizations that serve our community.

We offer people of all means – no matter how great or small their personal resources – an opportunity to give back. Donors can contribute to one of over 100 funds or establish a new charitable fund at the foundation.

## Roles of the Community Foundation

The Community Foundation’s three roles are **grantmaking**, serving as a **catalyst and convener** in the community, and building a permanent community **endowment**. Through grantmaking, the Foundation confers grants in support of the community. By remaining a neutral entity with only the community’s best interest in mind, the Community Foundation serves as a catalyst and convener to bring people together to discuss, plan, and implement strategies that meet the needs of the community and that take advantage of opportunities available to the community. Through endowment development, the Foundation becomes a vehicle for channeling community resources.

### Creating a Fund

#### Advantages

There are many ways the Branch County Community Foundation can help nonprofit organizations who create a fund with us:

- Tax advantage (for permanent funds)
- Pooled investment program

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- State and federal reporting (If you are required to submit IRS Form 990 now, check with your tax advisor about whether or not you will still need to submit.)
- Bookkeeping, including gift receipts to fund donors
- Marketing assistance
- Low administrative fees
- Community knowledge and experience

By working with the Community Foundation, a new or small nonprofit may increase its visibility and credibility, tapping into what the Community Foundation has developed over years of local community work. Credibility and positive visibility within a community can only add to an organization's effectiveness and ability to fulfill its mission.

For a nonprofit looking to build upon its own success, partnering with the Community Foundation can bring a much-needed boost. A nonprofit can also utilize the Community Foundation as a planned giving center, using our expertise to develop and offer planned giving programs. A nonprofit that can offer the Community Foundation's menu of planned giving options to its regular donors increases its ability to cultivate major gifts.

#### Tax Advantage

Gifts given to a permanently endowed fund are eligible for the state of Michigan income tax credit as well as a federal tax deduction. The credit is available to individuals and businesses. And taxpayers don't have to be eligible to itemize on their federal income tax return to use the **Michigan Tax Credit!**

#### Investment Advantage

All assets are pooled and invested as a whole. That gives individual funds the investment power of the entire pool, and investment costs are often lower than if an organization has its own investment account. Our professional investment managers are experienced and thoughtful local residents who care about our community and about doing the best job for the Community Foundation. Monthly review is done by our investment consultant, GEM Asset Management and our Investment Committee and quarterly by our Board of Directors.

#### Marketing Advantage

Funds are still able to retain their own identity and can be marketed by your board or committee in much the same way you would if you administered the fund yourself. Additionally, we publicize the fund in our annual report, on our website, and in other publications. We can help organizations create special fundraising and other materials. We use our bulk mailing permit to send marketing pieces on behalf of a component fund – a tremendous savings on large mailings!

#### Administrative Advantage

We handle all administrative functions---including **audits**, filing of 990 **tax returns**, and other state and federal **reporting**---and provide an annual financial statement showing the balance of the Fund as well as all Fund activity during the fiscal year. We send **gift receipts** to all donors. And donor information and giving histories are kept on our database and are available to organizations when needed.

### Community Knowledge & Experience

We have over 18 years of experience in community development through grantmaking and leadership. Our extensive network of people and community groups gives us tremendous resources to help other nonprofit organization grow and prosper.

### **Fees**

Fees are assessed monthly, based on the market value of the asset. There are three types of fees regularly charged to each endowment fund: investment-related fees charged by investment firms, investment consultant fees, and administrative fees charged by the Community Foundation. Investment and consultant fees are charged based on each fund's portion of the Community Foundation's invested assets. Administrative fees vary from 1-2½ % depending on the amount of administrative time involved.

### **How Long Should the Fund Last?**

The Branch County Community Foundation has developed several types of funds to meet donor and community needs. Our staff works with you and your advisor to help you determine which type is right for you.

Temporary Funds. Temporary funds will be completely spent for grants. These funds provide the ultimate in flexibility and allow the fund to make larger, immediate grants. Donations are eligible for a federal tax deduction (but *not* the Michigan Tax Credit). A temporary fund gives you the opportunity to decide if a permanent endowed fund is right for you. Note: Temporary funds will not share in investment income.

Long-Term Funds. Some donors create a fund that allows the Community Foundation to spend from principal if deemed appropriate. Donations are eligible for a federal tax deduction (but *not* the Michigan Tax Credit).

Permanent (Endowed) Funds. A permanent, endowed fund makes grants solely from investment income. Creating this type of fund ensures that your fund can continue to make grants throughout time. Donations are eligible for both a federal tax deduction *and* the Michigan Tax Credit.

A permanent endowment fund can be started with any gift amount, but must reach an established minimum balance to begin spending income from the fund. A fund established with the minimum balance, must be invested for at least one year before it is eligible to begin spending income.

You can split gifts between the permanent and grantmaking portions of the fund so that the fund can make larger, immediate grants *and* build investment income and principal to make grants throughout time. The entire gift is eligible for a federal tax deduction, and the portion that is endowed is eligible for the Michigan Tax Credit.

### What is the Purpose of the Fund Agreement?

The donor and the Community Foundation sign a formal fund agreement that is designed to

- protect donor intent as long as the fund exists,
- help the BCCF understand its administrative responsibilities,
- help donors understand the limitations of the fund,
- assure that the goals of the fund are legal and charitable, and
- specify whether the fund is intended to be endowed (i.e. whether or not the principal can be spent).

### When Do You Want to Make the Contribution?

	I want a fund that	What's Next?
Now	<ul style="list-style-type: none"> <li>• is set up now for granting in my lifetime.</li> <li>• benefits charities now.</li> <li>• realizes tax benefits in my lifetime.</li> <li>• allows others to contribute to the fund.</li> <li>• memorializes or honors another individual.</li> </ul>	<ul style="list-style-type: none"> <li>• Contribute the necessary amount to establish the fund and complete a Fund Agreement with the Community Foundation.</li> </ul>
Later	<ul style="list-style-type: none"> <li>• will go into effect after my lifetime.</li> <li>• legally provide for assets from my estate to be placed in the charitable fund.</li> <li>• create a vehicle that is ready to receive and distribute charitable gifts according to my wishes for the future.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete a testamentary Fund Agreement with the Community Foundation. (Note: may be modified at <i>any time</i> during your lifetime.)</li> <li>• Include the Community Foundation's recommended Will and Trust language in your estate planning documents.</li> </ul>
Both	<ul style="list-style-type: none"> <li>• is set up now for granting in my lifetime.</li> <li>• benefits charities now.</li> <li>• realizes tax benefits in my lifetime.</li> <li>• allows others to contribute to the fund.</li> <li>• memorializes or honors another individual.</li> </ul> <p style="text-align: center;"><i>and</i></p> <ul style="list-style-type: none"> <li>• provides for charitable intent through estate planning by creating a vehicle that is ready to receive and distribute charitable gifts according to my wishes for the future</li> </ul>	<ul style="list-style-type: none"> <li>• Contribute the necessary amount to establish the fund and complete a Fund Agreement with the Community Foundation.</li> <li>• Include the Community Foundation's recommended Will and Trust language in your estate planning documents.</li> </ul>

## Types of Gifts Accepted

The Branch County Community Foundation is extremely flexible in the types of assets that may be used to make a contribution to an existing fund or start a new fund.\* Donors may contribute gifts during their lifetimes or through wills or trusts. And gifts may be made in memory of or in honor of a friend or loved one.

### Gifts of Cash

Gifts of cash are most popular for many people who make smaller contributions to the Foundation. The cash gifts contributed each year help the community's endowment fund grow and allow the Foundation to expand our support to the community through grants.

### Securities

The Community Foundation gratefully accepts gifts of securities. If either public or private securities have appreciated over time, the owner may incur substantial capital gains taxes if the stock were sold outright. The donation of appreciated securities can offer the donor attractive income tax benefits, including relief from capital gains tax liability.

#### Outright Gifts

Securities may be given to the Community Foundation at their present market value as an outright gift. This way donors avoid all capital gains tax and also receive a charitable income tax deduction.

#### Deferred Gifts

By using securities to fund charitable remainder trusts, charitable annuity trusts, and other planned giving vehicles, the donor can avoid capital gains tax liability and is eligible for a charitable income tax deduction upon transfer of the assets. A gift of securities left to the Community Foundation is deductible from the gross estate, reducing estate taxes.

### Life Insurance Policies

Many people are surprised to learn that their life insurance policies can become a charitable gift. Life insurance is usually purchased to protect the family from financial loss due to the death and loss of income of one or more family members. Normally, the need for life insurance protection lessens as an individual grows older. Children are grown, self-supporting, and through college; the mortgage has been paid; and an estate of other assets has been acquired. The insurance has served its original purposes, and can become a gift to the Community Foundation. The donor receives an immediate tax deduction (usually equal to the cash surrender value).

#### Outright Gifts

If the donor decides to relinquish ownership of the policy by assigning all rights, titles, and interest in the policy to the Community Foundation, the donor may be eligible for a charitable income tax deduction for the present value or future premium payments on the policy. If ownership of the policy

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Source: *The Essentials of Planned Giving*, JOHN BROWN LIMITED, INC; 2<sup>nd</sup> Edition  
CONSULT YOUR TAX ADVISOR FOR THE VALIDITY OF THIS INFORMATION TO YOUR PARTICULAR TAX SITUATION.

is donated to the Community Foundation, even if ownership is retained by the donor, any proceeds received by the Community Foundation will be deductible by the insured estate as a charitable contribution, thus reducing the estate tax.

Donors can also contribute insurance even though the policy is not fully paid up. The donor can name the Community Foundation the beneficiary, continue to maintain the policy, and receive a charitable tax deduction for premiums paid to keep the policy in force.

### Deferred Gifts

Donors can contribute life insurance policies to fund a life income trust. These life income trusts (i.e. charitable remainder annuity trusts or charitable remainder unitrusts) are advantageous giving arrangements for many donors. A donor can make an irrevocable gift of an insurance policy's present value, yet reserve income for the donor or other beneficiaries for life.

### **Real Estate**

Gifts of real estate can include homes, condominiums, apartments, undeveloped land, farmland, and rental property. Such gifts may help the donor alleviate management costs and responsibilities if the property were held, and capital gains tax and broker's fee if the property were sold.

When you give gifts of real estate to the Foundation, the Foundation in turn sells the property, and — depending on the amount — contributes the proceeds to an existing fund of your choice or opens (or increases) your own fund with the income from the sale. You receive a charitable tax deduction equal to the fair market value of the property, and you pay no capital gains tax on the sale.

### Outright Gifts

By making an outright gift of a piece of real estate, the donor avoids capital gains tax and receives a charitable income tax deduction.

### Deferred Gifts

*Trusts* – If real estate is used to fund a charitable remainder unitrust or a charitable lead trust, a donor typically avoids the capital gains tax liability on the transfer of the asset to the trust.

*Bequests* – If a donor leaves real property to the Community Foundation by will, estate taxes are substantially reduced as the property is removed from the taxable estate.

*Retained Life Estates* – Making an irrevocable donation of real estate while retaining the right to use the property often results in the immediate benefit of a substantial tax deduction. The income tax deduction can mean significant tax savings in the year of the gift and may be carried forward for up to five additional years.

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Source: *The Essentials of Planned Giving*, JOHN BROWN LIMITED, INC; 2<sup>nd</sup> Edition  
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## Types of Funds

No matter what your philanthropic goals, the Community Foundation can help you determine which existing fund matches your passion, or we can assist you in creating a new fund. Ask us for our most recent list of existing funds and the description of what type of grants they support.

**Unrestricted.** The most flexible funds within the Foundation, unrestricted funds are those for which the donor allows the Foundation discretion in the use of the annual income for a broad range of community projects. This provides the Community Foundation the opportunity to respond to changing community needs.

**Field-of-Interest.** With field-of-interest funds, the donor directs the Community Foundation to utilize the annual income in a certain program area. The Community Foundation determines the specific grant recipients. Educational scholarships may be awarded from field-of-interest funds.

**Donor Advised.** Donor advised funds allow the donor to actively participate in the grantmaking process by recommending to the Community Foundation the purpose and organizations that receive the annual income. Recommendations are referred to the Community Foundation's Board of Directors for approval. Many advised funds become unrestricted on the death of the donor or at the end of a specified period.

Temporary donor advised funds work just like an endowed fund with the exception that the minimum establishing gift is \$1,000. Use this option for end-of-year giving to multiple charities. You can write a single check or give stock to your community foundation, get one gift acknowledgement for tax purposes, and still make gifts to several charities.

**Designated.** Designated funds are funds in which a donor has specified the charitable recipient, or recipients, of the income at the time the fund is established.

**Agency Endowments.** Other nonprofit organizations often place their endowment funds within the Community Foundation for management and investment purposes. The Community Foundation regularly distributes the annual income back to these agencies to help them accomplish their charitable purposes.

**Special Project and Memorial Funds.** The Foundation's primary mission is to establish permanent funds, but we recognize that at times it's more appropriate to serve the donor and the community through a temporary fund. Any type of fund can be a temporary fund; special project, memorial, and donor advised funds are the most common.

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\* In accordance with the Community Foundation's Gift Acceptance Policy, The Investment Committee must formally accept all gifts to the foundation with the exception of cash or negotiable instruments.

## Donor Recognition

Unless anonymity has been requested, the Community Foundation recognizes every donor—no matter what size their gift—in our newsletter, annual report, and other publications.

### Donors’ Circle

The Donors’ Circle was created to give special recognition to donors who make significant gifts during the current fiscal year and those who have reached exceptional levels of giving during over time.

#### Current Donors (Fiscal Year)

Catalysts	Convenors
<u>Benefactor</u> \$5,000 +	<u>Founders</u> \$100,000 +
<u>Patron</u> \$2,500 +	<u>Presidents</u> \$50,000 +
<u>Partner</u> \$1,000 +)	<u>Governors</u> \$25,000 +
<u>Associate</u> \$500 +	<u>Leaders</u> \$10,000 +
<u>Friend</u> \$200 +	

#### Special Giving Levels

Continuous Giving	Life Time Gifts
<u>Evergreen</u> 10 years +	<u>Philanthropist</u> \$1,000,000 +
<u>Seedling</u> 5 years +	<u>Humanitarian</u> \$500,000 +
<u>Seed</u> 3 years +	<u>Ambassador</u> \$250,000 +
	<u>Champion</u> \$100,000 +
	<u>Sponsor</u> \$50,000 +

### Legacy Society

The Branch County Community Foundation created the Legacy Society to show our appreciation for those generous community members who have expressed their intent to provide a gift for the future by naming the Branch County Community Foundation as a beneficiary through their estate plan or other means.

Legacy Society members are those who have given us permission to list their names (details of gifts are always kept confidential).

## Preserving & Investing Permanent Endowments

### Investment Program

There are currently more than 100 separate endowed funds managed by the Community Foundation. As stewards of these funds, the Community Foundation converts contributions into community betterment. The Community Foundation uses a sound investment strategy designed to maintain the principal balance — those gifts and contributions received from the public — while maximizing the return on these investments for current grant-making and future growth purposes.

All of the endowment funds of the Community Foundation are pooled for investment purposes. They are carefully, expertly, and responsibly managed in a balanced portfolio. To assist us, BCCF contracts

with GEM Asset Management, an independent financial planning and investment advisory firm ([www.gemasset.net](http://www.gemasset.net)).

Independent auditors evaluate the financial position of the entire endowment on an annual basis. In addition, an audit committee provides guidance and technical review of the independent audit process. This audit committee reports directly to the Community Foundation Board of Directors.

A consistent and complete review of the management and allocation of the Community Foundation resources is one of the highest priorities of operating the Community Foundation as a public trust on behalf of the donors and citizens of this community – a responsibility that is taken with the greatest sense of seriousness and professionalism.

The names of investment managers, fees charged (including investment and administrative fees), governing body or appointees responsible for investment oversight and investment are available upon request.

### Endowment Investment Strategy

The Community Foundation’s investment portfolio is designed with these goals in mind:

- preserving the inflation-adjusted value of the principal,
- assuring the investments will generate income for maximum distributions back to the community, and
- assuring enough growth to keep pace with inflation.<sup>1</sup>

To achieve these goals the Community Foundation assumes a level of risk aimed at maximizing investment return but that is consistent with prudent investment practices. The Community Foundation’s investment managers are charged with investing dollars based on investment policies approved by the Board. We use two local banks, Century Bank & Trust and Southern Michigan Bank & Trust, for investing, and we have three separate Schwab accounts, two of which are managed by the Community Foundation’s Investment Committee—with advice from our professional consultant.

### Spending from Endowment Funds

In addition to wise investment strategies, we preserve and grow our permanent endowments by limiting the distribution each year. Currently, the maximum amount available each fiscal year for spending (grants and administrative fees) is 5% of the market value over an average of 20 quarters.

Agencies may adopt alternate spending policies based on how long they want their fund to last and their charitable giving goals. Policies which vary from BCCF’s are spelled out in the fund agreement.

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<sup>1</sup> The rate of inflation is taken from US Government Consumers Price Index figures.

## 2010 BOARD & STAFF

The Community Foundation Board of Directors consists of donors from all of the communities we serve. These individuals make significant gifts of their "time, talent, and treasure". Board members serve limited terms and without compensation.

### DIRECTORS

**President**, Hillary Eley (Bronson)  
**Vice President**, Mary Jo Kranz (Quincy)  
**Treasurer**, Dave Wright (Coldwater)  
**Secretary**, Ted Gordon (Coldwater)  
Bruce Bloom (Coldwater)  
Jay Carlson (Coldwater)  
Sandy Davis (Colon)  
Rachel Hard (Quincy)  
Sandi Jackson (Colon)  
Chuck Lillis (Coldwater)  
Kim Morgan (Colon)  
Dale Norton (Bronson)  
Wayne Reese (Coldwater)  
Remus Rigg (Coldwater)  
Ron Rose (Litchfield)  
Connie Winbigler (Coldwater)

### DIRECTORS EMERITUS

Robert Mayer (Bronson)  
Patricia Klein Shoemaker (Coldwater)  
Paul Creal (Bronson)

### STAFF

Colleen Knight, Executive Director & YAC Advisor  
Jenny Jackson, Program & Communications Assoc.

**Individual Taxpayers  
Michigan Tax Credit Chart**

	<u>Single, Nonitemizer</u>	<u>Married, Nonitemizer</u>	<u>Single, Itemizer</u>	<u>Married, Itemizer</u>								
<u>Federal Marginal Income Tax Rate</u>	N/A	N/A	15%	15%	25%	25%	28%	28%	33%	33%	35%	35%
<u>Impact on State Taxes: *</u>												
<b>Amount of Gift x</b>	<b>\$200</b>	<b>\$400</b>	<b>\$200</b>	<b>\$400</b>	<b>\$200</b>	<b>\$400</b>	<b>\$200</b>	<b>\$400</b>	<b>\$200</b>	<b>\$400</b>	<b>\$200</b>	<b>\$400</b>
State Tax Credit	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
= State Tax Savings	\$100	\$200	\$100	\$200	\$100	\$200	\$100	\$200	\$100	\$200	\$100	\$200
<u>Impact on Federal Taxes:</u>												
Amount of Gift x	\$200	\$400	\$200	\$400	\$200	\$400	\$200	\$400	\$200	\$400	\$200	\$400
Marginal Federal Tax Rate	N/A	N/A	15%	15%	25%	25%	28%	28%	33%	33%	35%	35%
= Federal Tax Savings	\$ 0	\$ 0	\$ 30	\$ 60	\$ 50	\$100	\$ 56	\$112	\$ 66	\$132	\$ 70	\$140
<u>Total Tax Savings:</u>												
Federal Tax Savings	\$ 0	\$ 0	\$ 30	\$ 60	\$ 50	\$100	\$ 56	\$112	\$ 66	\$132	\$ 70	\$140
+ State Tax Savings	100	200	100	200	100	200	100	200	100	200	100	200
= Total Tax Savings**	\$100	\$200	\$130	\$260	\$150	\$300	\$156	\$312	\$166	\$332	\$170	\$340
<u>Actual Cost of Gift:</u>												
Amount of gift -	\$200	\$400	\$200	\$400	\$200	\$400	\$200	\$400	\$200	\$400	\$200	\$400
Total Tax Savings =	100	200	130	260	150	300	156	312	166	332	170	340
<b>Donor's Actual Cost</b>	<b>\$100</b>	<b>\$200</b>	<b>\$ 70</b>	<b>\$140</b>	<b>\$ 50</b>	<b>\$100</b>	<b>\$ 44</b>	<b>\$ 88</b>	<b>\$ 34</b>	<b>\$ 68</b>	<b>\$ 30</b>	<b>\$ 60</b>

\* State tax liability must be at least \$100 for single, \$200 for married persons.

\*\* This example assumes that there is no reduction in the state and local tax deduction on the U. S. individual income tax return for the subsequent year. Some taxpayers may have a reduction in the state and local tax deduction if the credit results in a refund check from the State. Other taxpayers will not have a reduction in the state and local tax deduction because they are either not itemizing deductions or the itemized deductions are subject to phase-out.

**This chart was prepared by Clark Hill PLC on behalf of the Council of Michigan Foundations. The information is for illustrative purposes only. Check with your tax advisor about your personal circumstances.**

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## Fee Schedule

### Long-Term & Permanent Funds

Fees are assessed monthly, based on the market value of the asset. There are **three types of fees** regularly charged to each endowment fund: investment-related fees charged by investment firms, investment consultant fees, and administrative fees charged by the Community Foundation. Investment-related and investment consultant fees are charged based on each fund's portion of the Community Foundation's invested assets.

Administrative fees permanent and long-term funds that are invested and vary from 1% – 2.5% depending on the amount of administrative time involved. The following are the fees charged, based on fund type:

- 1.0% per year on the first \$3,000,000.00 for **unrestricted, donor advised, designated, agency** endowments and **field-of-interest** (with general committees)
- 0.75% per year on balances over \$3,000,000.00 for **unrestricted, donor advised, designated, agency** endowments and **field-of-interest** (with general committees)
- 2.0% per year for **field-of-interest** with specialized committee<sup>1</sup> and **scholarship** funds
- 2.5% per year for scholarship funds with specialized committee or with loan components<sup>2</sup>

<sup>1</sup> Specialized committee means individuals with specific training or experience must be convened in order in order to properly review applications and recommend grants.

<sup>2</sup> As of September 2008, the Community Foundation no longer accepts funds with loan components unless it benefits the communities we serve, e.g. loans are forgiven if the student returns to the area.



## Organizational Funds Frequently Asked Questions

### **How have other organizations used the Community Foundation to hold their funds?**

The Community Foundation holds organizational funds on both a permanent and non-permanent basis. Some organizations use a Community Foundation fund strictly to take advantage of administrative services, some for investment assistance, and some organizations have permanently endowed funds so that they will eventually have annual income from the fund for operations or annual projects.

### **Who “owns” the fund?**

In order for gifts to the fund to be considered tax deductible, the IRS requires the Community Foundation Board to have exclusive legal control over all the assets in the fund. The Community Foundation has explicit authority to redirect distributions if your organization ceases to exist.

Organizations often consider BCCF Board oversight an additional safeguard to protecting the permanence of the fund, and in making sure the fund is used to benefit the community if the organization ever dissolves.

### **How much input can we have over our funds to use for programming, administration, etc.?**

Your organization can specify whether or not the fund is permanent, how the income is distributed, and all other important details at the time the fund agreement is drafted.

### **Won't we lose our “identity”?**

Funds are still able to retain the identity of the organization and can be marketed by your board or committee in much the same way you would if you administered the fund yourself.

### **How do we access our funds? How much time is involved in getting funds?**

The authorized person(s) in the organization submits a request in writing. Once submitted payments are typically available to the organization within ten days.

### **If the fund shares in the investment pool, what is the return on the investments you typically realize?**

As with any type of investment, there is a risk of loss. However, BCCF's overarching investment goals are to assure the investments will generate income and growth to assist in providing for maximum annual distributions and to preserve the inflation-adjusted value of the principal assets. To achieve these goals, we seek a minimum net return of 8%. This rate of return takes into account

a 5% total spending rate (including BCCF administrative fees and annual distributions to your organization) and a 3% rate of inflation. For the fiscal year ending September 30, 2009, BCCF's portfolio lost 0.10% (-\$10,817).

### **What are the fees for holding our endowment fund?**

There are three types of fees regularly charged to each endowment fund: investment-related fees charged by investment firms, investment consultant fees, and administrative fees charged by the Community Foundation. Investment and consultant fees are charged based on each fund's portion of the Community Foundation's invested assets. BCCF administrative fees vary from 1-2½ % depending on the type of fund and/or amount of administrative time involved. Fees are assessed monthly, based on the market value of the fund.

### **What are the advantages of the Community Foundation holding funds?**

- Tax advantage (for permanent funds)
- Pooled investment program
- State and federal reporting (tax return, audit, etc.)\*
- Bookkeeping, including gift receipts to fund donors
- Marketing assistance
- Low administrative fees
- Community knowledge and experience

### **What if we already have our own foundation?**

**Some organizations elect to continue operating their foundation and use the Community Foundation for investments only. Others take advantage of a broader range of services including having all donor gifts come through the Community Foundation to eliminate the organization's need for bookkeeping.**

### **How would people make donations or memorial contributions to the fund we establish?**

The Branch County Community Foundation is extremely flexible in the types of assets that may be used to make a contribution. Donors may contribute gifts during their lifetimes or through wills or trusts. We can accept cash or checks, securities, life insurance policies, real estate or tangible personal property, and many other types of assets. Donors who make bequests are also eligible to join our Legacy Society and be recognized now for their generosity.

Community Foundation staff keeps track of these donations for your organization and sends the donor a receipt for tax purposes. To express your personal appreciation, just request a list of donors and addresses from our staff.

*NOTE: Ask donors to make checks out to the Branch County Community Foundation with the name of your fund in the memo line.*

*\*check with your tax advisor about whether or not you may need to file your own IRS Form 990.*

# SAMPLE

Agreement to Establish the  
**[Name of Fund] Endowment Fund**  
AN AGENCY ENDOWMENT FUND  
within  
The Branch County Community Foundation

This agreement is between [Name of Organization] ("the [Abbreviation]"), a Michigan nonprofit corporation and the Branch County Community Foundation (the "Foundation"), a Michigan nonprofit corporation.

## Recitals

1. The [Organization Name] is a Michigan nonprofit corporation which is exempt from taxation under Internal Revenue Code ("Code") section 501(c)3, is a public charity described in section 170(b)(1)(A)(vi) of the Code and has an interest in the welfare of their community, and desire to establish an agency endowment fund which would be used to support [the charitable purposes of the Organization Name].
2. The Branch County Community Foundation is a Michigan nonprofit corporation which is exempt from taxation under Internal Revenue Code ("Code") section 501(c)3, is a public charity described in section 170(b)(1)(A)(vi) of the Code, is a certified community foundation under the Michigan Income Tax Act of 1967, and is accordingly an appropriate institution within which to establish such a charitable endowment.
3. The [Organization Name] and the Foundation desire to enter into a written agreement to describe the terms under which such a fund will be held and distributed.

In consideration of the covenants and agreements described in the agreement ("the Agreement"), the sufficiency of which is acknowledged, the [Organization Name] and the Foundation agree as follows.

## Terms

1. Establishment of Fund. A fund will be established on the books of the Foundation which shall be known as the **[Name of Fund] Endowment Fund** ("the Fund"). The Fund will be identified as the **[Name of Fund] Endowment Fund** in the literature, reports, promotional materials, and other written, magnetic, and electronic documentation of the Foundation and of the Fund.
2. Property of the Fund. The Fund will include the property listed in Schedule A such property as may from time to time be transferred to the Foundation by the [Organization Name] and various other persons for inclusion in the Fund, such property as may from time to time be transferred from any other source for inclusion in the Fund and accepted by the Foundation, and all undistributed income from the foregoing property. The Foundation may, in its discretion, refuse to accept any gift offered to the Foundation.
3. Status of the Fund. The Fund shall be the property of the Foundation, held in its corporate capacity, and shall not be deemed a trust fund held by it in a trustee capacity. It is intended that the Fund will be a component fund of the Foundation. The Foundation shall have the ultimate authority and control over all property in the Fund, and the income derived therefrom, in accordance with the Articles of Incorporation, bylaws, and other governing instruments of the Foundation (as they may be amended from time to time), and the terms of this Agreement applied in a manner not inconsistent with said Articles, bylaws, and other governing instruments.

## SAMPLE

4. Notification and acknowledgment of gifts to the Fund. The Foundation shall have the right to acknowledge and publicize, in the discretion of the Foundation, any gifts or transfers to the Fund, or designated for the benefit of the Fund. The Foundation may periodically notify the [Organization Name] of gifts and transfers from other sources to the Fund.
5. Designation of Purpose. The Fund shall be used for support of the [charitable activities] of the [Organization Name].
6. Investment of the Fund. The Foundation shall have final authority and discretion as to the investment and reinvestment of the Fund. The Fund will be held by the Foundation as part of the general investment assets of the Foundation, and will be invested as determined, from time to time, by the Foundation. The overall investment guidelines, objectives, and performance of the Fund will be provided to the [Organization Name] on the request of the [Organization Name].
7. Distributions. It is the donor's intent and expectation that the fund be a permanent endowment fund. Distributions from the fund will be made as the Foundation deems appropriate in accordance with the spending policy adopted by the Foundation as amended from time to time, to those charitable organizations or for those charitable purposes as the Foundation determines and in accordance with the terms of this Agreement..
8. Reporting. The Foundation shall provide a written financial report of the Fund on an annual basis. The Foundation may, in its discretion, provide more frequent reports. The Foundation shall provide all routine accounting reports to the Michigan Attorney General and the Internal Revenue Services with respect to the Fund.
9. Variance Power. It is understood and agreed that all assets in the Fund shall be subject to the Articles of Incorporation and By-laws of the Foundation, (as they may be amended from time to time) including the power contained therein for the Board of Directors of the Foundation to modify any restrictions or conditions on the distribution of funds for any specified charitable purposes or to specified organizations, if in its sole judgement, *cy pres*, (without approval of any trustee, agent or custodian), such restrictions become, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the area served by the Branch County Community Foundation.
10. Publicity. The Foundation, in its discretion, may publicize that the Foundation holds the Fund. The Foundation may use the name of the Fund in the Foundation's promotional efforts, printed materials, newsletter, annual report, and special mailings to prospective donors, as determined by the Foundation.
11. Fees. The [Name of Fund] will share a fair portion of the total administration costs of the Foundation. The administrative costs charged against the Fund will at all times be reasonable, will be in accordance with the current fee schedule applicable to funds of this type, and will not exceed usual and customary rates.
12. Variance. If the Board of Directors of the Foundation proposes to exercise the variance power under Article IX, Section 9.5 of the bylaws of the Foundation, then the exercise of such power shall not be effective earlier than 30 days after Foundation notifies the [Organization Name] in writing of (i) its intent to exercise such power and (ii) the manner in which the Foundation proposes to vary the purposes, uses, or methods of administration of the Fund. During the notice period, the [Organization Name] may advise the Foundation of the [Organization Name]'s views regarding the proposed exercise of such power and take such other action as it deems appropriate. If the Foundation becomes aware of any other action instituted or proposed by any person to vary the purposes, uses, or method of administration of the Fund, it will promptly notify the [Organization Name].

SAMPLE

13. Dissolution of the Foundation. If the Foundation ceases to be exempt from taxation under Code section 501(c)3 or if the Foundation proposes to dissolve, the assets of the Fund shall, after payment or making provision for payment of any liabilities, properly chargeable to the Fund, be distributed to [name of organization]. If [name of organization] is not then a qualified charitable organization, said assets shall be distributed in such manner and to such organizations as, in the opinion of the Board, satisfies the requirements of a qualified charitable organization and most nearly meet the purposes of the Fund.

14. Actions consistent with Foundation’s tax status. Notwithstanding any provision of this Agreement, in no event will the Foundation be required to take any action or fail to act, if, in the determination of the Foundation, such action or failure to act would cause the Foundation to fail to meet the requirements for exemption from income taxation applicable to the foundation, or if such action or failure to act would cause the Foundation to cease to be a Qualified Charitable Organization. If, but for this section, such action or failure to act is required under this Agreement, then the Foundation, in its determination, shall take such action and decline to act in the manner determined by the Foundation

15. Construction. Nothing in this Agreement shall affect the status of the Foundation as a Qualified Charitable Organization. This Agreement shall be interpreted in a manner consistent with the foregoing intention and so as to conform to the requirements of the Code and any regulations or ruling promulgated under the Code, applicable to the Foundation’s status and in accordance with the law of the State of Michigan, to the extent not inconsistent with the Code.

In witness of the adoption of this Agreement to Establish the [name of fund], each of the [Organization Name] and the Foundation, by their duly authorized representatives, have executed this Agreement.

[Name of Organization]  
by: \_\_\_\_\_  
its: \_\_\_\_\_  
  
date: \_\_\_\_\_  
  
by: \_\_\_\_\_  
its: \_\_\_\_\_  
  
date: \_\_\_\_\_

**Branch County Community Foundation**  
by: \_\_\_\_\_  
its: President  
  
date: \_\_\_\_\_  
  
by: \_\_\_\_\_  
its: Executive Director  
  
date: \_\_\_\_\_

Branch County Community Foundation  
Investment & Spending Policy Statement  
April 24, 2009

## INTRODUCTION

### Purpose

This Investment Policy Statement was adopted by the Branch County Community Foundation to establish a clear understanding of the Foundation's philosophy and investment objectives.

The purpose of the Community Foundation is to accumulate a pool of assets sufficient to build community capital for future use with the corresponding obligation to support current and future community needs. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Community Foundation.

### Scope

This Policy applies to all assets that are included in the Community Foundation's investment portfolio for which the Investment Committee has been given discretionary investment authority.

### Fiduciary Duty

In seeking to attain the investment objectives set forth in the policy, the Investment Committee and the Community Foundation's investment managers shall exercise prudence and appropriate care in accordance with the Prudent Investor Rule. All investment actions and decisions must be based solely in the interest of the Community Foundation. Fiduciaries must provide full and fair disclosure to the Investment Committee of all material facts regarding any potential conflicts of interests.

### Definition of Duties

#### **Board of Directors**

The Board of Directors has the ultimate fiduciary responsibility for the Community Foundation's investment portfolio. The Board must ensure that appropriate policies governing the management of the Community Foundation are in place and that these policies are being effectively implemented. To implement these responsibilities, the Board sets and approves the Investment Policy Statement and delegates responsibility to the Investment Committee for implementation and ongoing monitoring.

#### **Investment Committee**

The Investment Committee is responsible for implementing the Investment Policy. This responsibility includes approving investment strategy, hiring and firing of investment managers, custodians and investment consultants, monitoring performance of the investment portfolio on a regular basis (at least quarterly), and maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Investment Policy Statement.

The Investment Committee is responsible for all aspects of managing and overseeing the Community Foundation's investment portfolio. On an ongoing basis the Investment Committee will:

- a. Provide the Community Foundation's Board of Directors with quarterly performance reports within 45 days following the end of the quarter; and
- b. Monitor the activities of each investment manager or investment fund.

## OBJECTIVES

Assets are to be managed in a manner that will maximize the benefits intended by the donor.

### Short-Term Investments

The Community Foundation's primary mission is to establish endowment funds. In addition, the Foundation recognizes that on occasion it can assist charitable efforts by establishing temporary funds. BCCF establishes these funds as a way of assisting individual donors and community groups and to build local recognition of its charitable activities. The Community Foundation guarantees to the donor or organization that the full amount of the principal will be available.

Although some of the principal may be held for one year, funds may be needed to pay on-going fundraising or project expenses. Therefore, BCCF often requires money from this account to pay out monthly expenses.

### *Short-Term Investment Strategy*

Because of the purpose of these dollars, the investment goals for our short-term assets are to protect capital and keep the investments accessible so that cash flow is scheduled to meet estimated payout dates while maximizing the rate of return in an investment vehicle consistent with the above goals.

### Long-Term Investments

The overall, long-term investment goal of the Community Foundation is to achieve an annualized total return (net of fees and expenses), through appreciation and income, greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus 6%, thus protecting the assets against inflation.

### *Long-Term Investment Strategy*

The Board and Investment Committee agree that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities will be used to lower the short-term volatility of the portfolio and to provide income stability, especially during periods of weak or negative equity markets. In addition, other asset classes and investments (specialty category) such as real estate investment trusts (REITs), commodities, convertible bonds, absolute return funds and long/short equity funds can be used to further diversify the portfolio. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs. Managers should be fully invested but may temporarily hold up to 10% in cash.

### Asset Allocation

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 highly desirable objective. The Investment Committee's general policy shall be to diversify investments within both equity and fixed income securities so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category. 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. Diversification can be enhanced by using the additional asset classes mentioned in the specialty category above.

In making asset allocation judgments, the Investment Committee does not seek to "time" subtle changes in financial markets, or to make frequent or minor adjustments. Instead, the Investment Committee does seek to develop and adopt expressed guidelines for broad allocations on a long-term basis, in light of current and projected investment environments. Target asset allocation, as a percent of the total market value of the total long-term portfolio, will be as follows:

<u>Asset Class</u>	<u>% of Portfolio</u>
Large Cap Equities	30.0%
Mid Cap Equities	12.5%
Small Cap Equities	12.5%
International Equities	15.0%
Fixed Income	30.0%

The specialty asset classes and investments are not part of the portfolio's target asset allocation. But these diversifying strategies are available for use, up to 10% of the portfolio, during periods of volatility or when the markets are offering an exceptional opportunity.

#### Rebalancing

The Investment Committee will monitor the asset allocation structure of the investment pool and will attempt to stay within the ranges allowed for each asset class. If the portfolio becomes over-weighted or exceeds the range of percentage for that asset class, the Investment Committee will develop a plan of action, either for immediate rebalancing of the portfolio or a rebalancing that will occur over the subsequent few months.

#### Spending Policy

Income available for spending is determined by a total return system. The amount to be spent in the coming year is calculated each June 30 and is reviewed and approved by the Investment Committee annually. The calculation is as follows:

- a. a *minimum* 8-quarter rolling average of the market value is determined.
- b. the amount available for spending will be up to 5% (including Community Foundation administrative fees) of the market value as calculated in "a" above.

## IMPLEMENTATION

#### Time Horizon

The Investment Committee seeks to achieve or outperform the targeted expected returns, as defined by the asset allocation decision, over a full market cycle. The Investment Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured over a 5-year moving period. The Investment Committee reserves the right to evaluate and make any necessary changes regarding investment managers over a shorter-term using the criteria established under "Manager Evaluation" below.

## Manager Evaluation

All investment returns shall be measured net of fees. Each investment manager will be reviewed by the Investment Committee on an ongoing basis and evaluated upon the following criteria:

- a. Avoidance of regulatory actions against the firm, its principals or employees;
- b. Adherence to the guidelines and objectives of this Investment Policy Statement;
- c. Avoidance of significant deviation from the style and capitalization characteristics defined as “normal” for the manager.
- d. Ability to exceed the return of the appropriate benchmark index and, for equity managers, produce positive alpha (risk-adjusted return) within the volatility limits set in the following “Summary of Quantitative Performance Objectives” table; and
- e. Ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

## Summary of Quantitative Performance Objectives

The following table summarizes the quantitative performance objectives for the active managers. Betas will be calculated versus the appropriate index. The index fund manager is expected to approximate the total return of the S&P 500 Index.

ASSET CLASS	PRIMARY INDEX	PEER UNIVERSE
Large Cap	S&P 500	Top 50% over a 3-year period
Mid Cap	S&P 400 MidCap Index	Top 50% over a 3-year period
Small Cap	Russell 2000 Small Cap Index	Top 50% over a 3-year period
International Equity	MSCI EAFE Index	Top 50% over a 3-year period
Fixed Income	Lehman Aggregate Bond Index	Top 50% over a 3-year period
Cash	Citigroup 3-month T-Bill	Top 50% over a 3-year period

An appropriate index and the same top 50% over a 3-year period performance objective will be used to evaluate active managers in the specialty category.

Managers failing to meet these criteria will undergo qualitative and quantitative analysis. This analysis will focus on the manager’s personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the manager is capable of implementing their defined portion of the overall portfolio structure.

## GUIDELINES AND RESTRICTIONS

### General

In today’s rapidly changing and complex financial world, no list or types of categories of investments can provide continuously adequate guidance for achieving the investment objectives. Any such list is likely to be too inflexible to be suitable of the market environment in which investment decisions must be made. Therefore, it is the process by which investment strategies and decisions are developed, analyzed, adopted, implemented and monitored, and the overall manner in which investment risk is managed, which determines whether an appropriate standard of reasonableness, care and prudence has been met for the Foundation’s investments.

The requirements stated below apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the Foundation.

Although the Investment Committee cannot dictate policy to pooled/mutual fund investment managers, the Investment Committee's intent is to select and retain only pooled/mutual funds with policies that are similar to this policy statement. All managers (pooled/mutual and separate), however, are expected to achieve the performance objectives. Each investment manager shall:

- a. Have full investment discretion with regard to security selection consistent with this Investment Policy Statement and is expected to maintain a fully invested portfolio;
- b. Immediately notify the Investment Committee in writing of any material changes in the investment outlook, strategy, portfolio structure, ownership or senior personnel;
- c. Make no purchase that would cause a position in the portfolio to exceed 5% of the outstanding voting shares of the company or invest with the intent of controlling management;
- d. Not invest in non-marketable securities, , buy securities on margin, borrow money or pledge assets, nor buy or sell uncovered options;
- e. Only use mutual or exchange traded funds to purchase commodities or currencies and sell securities short;
- f. Notify the Foundation of all gifts to the Foundation immediately.
- g. With the exception of international managers, not invest in non-dollar denominated securities; and
- h. In the case of international managers, maintain appropriate diversification with respect to currency and country exposure.

#### Equity Guidelines

Each active equity investment manager shall:

- a. Assure that no position of any one company exceeds 10% of the manager's total portfolio as measured at market;
- b. Vote proxies and share tenders in a manner that is in the best interest of the Community Foundation and consistent with this Investment Policy Statement;
- c. Maintain a minimum of 20 positions in the portfolio to provide adequate diversification; and
- d. Maintain adequate diversification among industries by investing no more than 25% of the portfolio in any one industry, as defined by the relevant benchmark.

The Investment Committee will review equity holdings monthly to assure that no position of any one company exceeds 5% of the Community Foundation's total portfolio.

#### Fixed Income Guidelines

Each fixed income investment manager shall:

- a. Maintain an overall weighted average credit rating of A or better by Moody's and Standard & Poor's;
- b. Make purchases at investment grade or better;

- c. Hold no more than 10% of the portfolio in investments rated below investment grade (below Baa/BBB). Split rated securities will be governed by the lower rating;
- d. Maintain a duration within +/-20% of the effective duration of the benchmark index; and
- e. Assure that no position of any one issuer shall exceed 5% of the manager's total portfolio as measured at market value except for securities issued by the U. S. government or its agencies.

Derivative Securities

For definition purposes, derivative securities include, but not are not limited to, structured notes, lower class tranches of collateralized mortgage obligations (CMOs) principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, options, short sales, and margin trading.

Under no circumstances shall the investment managers utilize derivative securities.

ACKNOWLEDGEMENT

We recognize the importance of adhering to the mission and strategy detailed in this policy and agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this mission and if at any time an investment manager wishes to discuss improvements to this document such discussion should be referred to the Community Foundation.

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Branch County Community Foundation (date)

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Manager (date)

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Firm Name