

Step 5

Policies and Procedures of the Community Foundation of Southern Wisconsin, Inc.

- *Gift Acceptance policy*
- *Guide for Real Property Gifts*
- *Investment Policy*
- *Grant Distribution/Spending Policy*

Community Foundation of Southern Wisconsin, Inc.

Gift Acceptance Policy

General Policies

Purpose of Gift Acceptance Policies

The purpose of this policy of the Community Foundation of Southern Wisconsin is to serve the best interest of the Foundation, its donors, and a healthy, caring community by providing guidelines for negotiating and accepting various types of gifts for various types of funds. Given the increasing complexity of IRS regulations, the volume of real estate and other property gifts, and state and federal environmental laws, the Foundation recognizes the value in carefully screening proposed gifts.

The purpose of the gift must fall within the broad charitable purpose of the Foundation. In addition, the Foundation Board and staff must be able to assure that gifts accepted by the Foundation do not place other assets of the Foundation at risk, and that they can be easily converted into assets that fall within the Foundation's investment guidelines. The Foundation must also be sure that it can administer the terms of the gift in accordance with the donor's wishes.

FOUNDATIONS RESPONSIBILITIES

Foundation staff should disclose to all prospective donors the benefits and liabilities that could reasonably be expected to influence the donor's decision to make a gift to the Foundation. Donors will be encouraged to consult with legal counsel and financial advisors in making their decision. In particular, donors should be made aware of:

- ◆ The irrevocability of a gift
- ◆ Prohibitions on donor restrictions
- ◆ Items subject to variability (market value, investment return, and income yield)
- ◆ The Foundation's responsibility to provide periodic financial statements on donors funds

Staff should maintain a written record of discussions with donors. The role of Foundation staff shall be to inform, guide and assist a donor in fulfilling his or her philanthropic wishes, but never to pressure or unduly influence a donor's decision.

FORM OF GIFTS TO THE FOUNDATION

Gifts Not Requiring Board Review

- ◆ Cash or cash equivalents
- ◆ Credit Card gifts
- ◆ Checks
- ◆ Marketable securities
- ◆ Gifts of personal property for use in Foundation offices or programs
- ◆ Life insurance policies except as noted below

Gifts requiring Board approval

- ◆ Tangible personal property that is not readily marketable
- ◆ Real-estate/properties
- ◆ Closely-held and S Corporation stock
- ◆ Partnership interests
- ◆ Accounts receivable (gifts of loans, notes, mortgages, etc.)
- ◆ Gifts of intellectual property, mineral reserves, precious metals and other types of assets carrying their own challenges
- ◆ Gifts whose structure falls outside the ordinary purposes, bylaws and procedures of the Foundation
- ◆ Life insurance policies requiring future premium payments by the Foundation

See Appendix A for detail on each gift category

GIFTS DECLINED

- A. The Foundation reserves the right to refuse any gift it believes is not in the best interests of promoting a healthy, caring community

TYPES OF FUNDS

The Foundation offers a continuum of funds designed to be responsive to donor needs. All types of Foundation funds can provide added value to philanthropy in the community. Permanent endowment funds are invested in the pooled asset fund for maximum appreciation. Endowment funds are subject to the Foundation's spending policy, which include the intent that the corpus or principal is not invaded for granting purposes. The fund types are listed in the order of maximum added value.

ENDOWED DISCRETIONARY FUNDS (Funds with the potential to benefit the entire community on a long term basis)

Undesignated

An undesignated fund is the donor's broadest option. An undesignated fund can reach out to all charitable organizations serving the arts, education, health, and human services. The Foundation funds those projects that best meet the community's most pressing needs even when those needs change over time. By making a gift or bequest to create an undesignated fund, a donor can create a living legacy that will grow and change as the community does.

The undesignated fund is best suited for:

- ◆ The donor who wants his or her gift to have the broadest impact on a community over time.
- ◆ The client who recognizes that community agencies and needs change over time and wants his or her gift to remain flexible to respond to those changes.

Field-of-Interest Funds

Field of interest funds allow donors to address a cause or issue of particular importance to them without being locked into naming specific charities. The donor names the purpose of the fund, such as meeting the needs of children, combating illiteracy, or promoting the arts. The Foundation identifies the projects that can most effectively accomplish that goal at any given time.

The field of interest fund is most appropriate for:

- ◆ The donor who has an abiding interests in a particular charitable cause rather than specific organizations.
- ◆ The donor who recognizes that charitable organizations change in mission.
- ◆ The client who wishes to fund emerging projects with a certain target audience.

ENDOWED RESTRICTED FUNDS (The funds with which the Foundation adds value to certain areas of the community)

Designated Fund

The designated fund names a particular charity or charities to benefit from the fund. The designated charity benefits from the Foundation's pooled investment management capabilities, and the donor has the assurance of knowing that, if the organization ceases to exist, the Foundation's Board will preserve his or her intent by redirecting the fund toward an agency with a similar mission. Designated funds are most appropriate for:

- ◆ The donor who wishes to support a particular charity but wants a third-party oversight to ensure that principal is not invaded or that the gift is used as he or she specified.
- ◆ The client who wants to make an endowment gift to a charity that does not have extensive investment management capability.

Scholarship Funds

A scholarship is designed to provide students the opportunity to obtain higher education. Scholarships can be tailored to the client's desires. They can be designed for a specific college or technical college, or a specific career. Scholarships recipients can be chosen based on grades, income, community activities, school activities etc... whatever the donor wants to set as parameters.

Advised Funds

The donor retains an advisory capacity in making grants from the fund. The minimum level of individual grant distribution shall be \$100. All grants made from advised funds will be distributed to other charitable entities provided they meet the qualifications set forth by sections 501©(3) and 170(b)(1)(A) of the Internal Revenue Service Code. A grant from an advised fund cannot be used to satisfy an irrevocable personal or corporate pledge or obligation of the donor, or to provide a benefit to the donor such as paying membership dues. The donor-advised fund is able to use both principal and interest if the donor wishes.

In addition:

- ◆ Generally, when an advised fund is established, the fund may, upon the donor's request, be advised by a person representing up to two generations—the donor's and one additional generation.
- ◆ When advisors from the second-generation become active advisors, the fund, if not already endowed, will become an endowed fund (unless the donor has left other instructions) and the Foundation's spending policy will determine the amount available for distribution annually.
- ◆ In addition, the donor (and the successor advisors) will be encouraged to take advantage of the knowledge and expertise of the Foundation's grantmaking staff. The Foundation will encourage advisors to give a portion of the grant funds remaining to the Legacy Endowment Fund of CFSW.

The Board will consider an exception to the above policy upon request of the donor to involve a third generation. The response to a donor who has requested that a third generation be included as successor advisors will take into account the desire of the donor to encourage/expect that:

- A. Successor advisor (whether residing within the service area of the Foundation or not) will be active participants in the fund.
- B. A portion of the advised fund will remain within the service area of the Foundation.

NON- ENDOWED RESTRICTED FUNDS (Funds with which the Foundation adds minimal value to the community)

Pass-through Funds

Pass-through funds are created primarily for time-specific projects and are not invested in the Foundation's long-term pooled assets. Rather, they are invested in highly liquid money markets accounts in order to meet the needs of the funds. These funds allow disbursement of principal and are not restricted by the Foundation's spending policy.

Capital Campaign Funds

The Foundation will accept and administer capital campaign funds. The cost of administering the non-endowed portion of the campaign will be estimated up front and an appropriate fee will be agreed upon at the inception of the campaign.

ACKNOWLEDGMENT

Donors shall receive an expression of sincere thanks and gratitude from the Foundation and an acknowledgement of the gift in accordance with federal regulations.

RESTRICTIONS

In conformance with Treasury Department regulations governing 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 purpose.

ACTING AS TRUSTEE

The Foundation may not serve as a trustee. Further, no employee shall serve as a trustee, conservator, executor, or personal representative for one of the Foundation's donors or prospects

INVESTMENT OF GIFTS

It is the policy of the Foundation to convert all gifts to cash as soon as possible. The Foundation reserves the right to make any or all investment decisions regarding gifts in accordance with its Investment Policy.

In making a gift to the Foundation, donors give up all rights, title and interest to the asset contributed. In particular, donors give up the right to choose investments and investment managers, brokers or to veto investment choices for their gifts.

However, when the size of the a fund warrants separate investment consideration, the Foundation will endeavor to accommodate requests from donors for separate investment of fund assets, or use of a particular investment manager, broker or agent in accordance with the Investment Policy, and may consult with donors on investment options for such funds.

COST OF ACCEPTING AND ADMINISTERING GIFTS

Generally, costs associated with the acceptance of a gift such as attorney fees, accounting fees, other professional fees, as well as, other costs to establish a gift such as appraisal, escrow, evaluation, and environmental assessment fees will be borne by the donor.

The direct costs of administering outright and planned gifts of the Foundation will be borne by the assets of the individual funds, except for those special circumstances as determined by the Gift Acceptance Committee. Custodial, investment and administrative fees will be paid from the respective funds in accordance with the Foundation's guidelines and fee schedule.

CONFIDENTIALITY

Foundation staff shall maintain strict control over files and information received from or about donors or prospective donors so as to maintain confidentiality of such information.

Community Foundation of Southern Wisconsin, Inc.
DONOR GUIDELINES FOR REAL PROPERTY DONATIONS

The Community Foundation of Southern Wisconsin (CFSW) encourages the gift of Real Property (real estate) to promote philanthropy. There are often tax advantages to the donor. The transfer of appreciated property may enhance the amount of the donor's charitable deduction as well the amount of the donation and the charitable purposes it supports.

Real Property donations will be sold by CFSW in a professional, financially responsible manner. The net proceeds of the sale (that is the sale price less any and all expenses associated with the acceptance, management and selling process) may establish a permanent charitable fund that may be advised by the donor or added to an existing fund.

Due to the nature of Real Property, CFSW reserves the right to determine whether or not to accept the gift. CFSW will assist in reviewing potential donations to determine the viability of accepting a particular property. In general, the following conditions will enhance the ability of CFSW to accept this type of donation:

- unencumbered by debt or other conditions
- a current environmental report showing no environmental concerns
- a property condition report
- a current appraisal by a qualified appraiser
- a current survey
- a title commitment showing that clear title can be transferred
- funds to meet the ongoing expenses of maintaining the property until it is sold

CFSW will provide expertise in obtaining this information, at the donor's expense, if the donor requests it. Exceptions to furnishing all of this information will be handled on a case-by-case basis.

For consultation or a copy of our policy on accepting Real Property please contact CFSW at 1-608-758-0883.

Community Foundation of Southern Wisconsin, Inc.

Investment Policy

The investment policies of the Community Foundation of Southern Wisconsin, Inc., as detailed below, are designed to ensure prudent management of the Community Foundation's assets in order to serve the long term best interests of the southern Wisconsin area. The Community Foundation is a collection of individual donations from private citizens, other foundations and organizations that, in aggregate, form a fund that will support the charitable needs of the communities it serves for generations to come. Investment policies are designed to provide an investment strategy to preserve the purchasing power of both principal and income in perpetuity. It is only through real growth in both principal and income that the fund will maximize its support of charitable activities over a longer time horizon. Investment policies were developed with the long term interests of the communities in mind and adhere to accepted investment principles.

Investment Policy Guidelines

The Community Foundation of Southern Wisconsin, Inc. Board of Directors monitors and reviews the investment management of the assets of the Foundation through its Asset Management Committee. Investment managers make investment decisions within the parameters of the Foundation's investment policies as established by the Board from time to time.

The Asset Management Committee holds formal meetings with the investment managers at least annually to review investment matters. The investment managers are required to report to the Asset Management Committee at intervals set by the Committee. Such reports shall include, but are not limited to, major changes in investment outlook, investment strategy, change in corporate structure and/or personnel of the manager and other matters affecting investment policy and assets of the Community Foundation. It is requested that the investment managers notify the Asset Management Committee at any time that significant developments occur that may affect the Foundation investment assets.

It is expected that the assets of the Foundation will be invested by the investment managers with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use in the investment of assets of institutions of like character and aims.

The Board believes that the best method to review results is total rate of return, which includes interest, dividends, and realized and unrealized capital gains and losses. Evaluation of total return should emphasize long-range rather than short-range performance.

The Community Foundation has a long term time horizon, limited liquidity needs, and a need for reasonable consistency of return on an annual basis. Therefore, the funds are to be actively managed in a manner that will limit downside risk; consequently, the fund can

assume an average level of risk. The asset allocation and investment manager structure and guidelines should ensure adequate diversification.

The Board recognizes that capital markets are dynamic and that any statement of guidelines and objectives promulgated at one time may not, in the future, be totally appropriate, applicable, or meaningful. Whenever an investment manager believes that any particular guideline is too liberal or restrictive, requires further definition, or should be altered or deleted, it is the responsibility of that investment manager to initiate conversation with the Asset Management Committee.

Investment mix of Assets:

In order to provide investment managers with general guidelines for investment, the following ratios shall reflect the asset mix of holdings of the Community Foundation of Southern Wisconsin, Inc.:

- 1) Equity and equity fund holdings not less than 50% nor more than 70% of an individual manager's portfolio.

a) Domestic Large/Mid Capitalization Equities

b) Domestic Small Capitalization Equities – shall not exceed 20% of an individual manager's portfolio

c) International (Non-domestic) Equities - shall not exceed 20% of an individual manager's portfolio

- 2) Fixed Income Holdings not less than 30% and not more than 50% of an individual manager's portfolio.

- 3) Cash & Cash Equivalents shall not exceed 20%.

Investment Limitations:

It shall be the responsibility of each investment manager to maintain a diversified portfolio. Diversification of each manager's portfolio shall be maintained at least within the following parameters: 1) No security in an individual company shall exceed 10% of the market value of the total portfolio, 2) No one sector shall represent more than 25% of the portfolio, 3) No more than 3% of the total outstanding shares of any one corporation may be purchased, 4) Bond portfolios must have at least an average of A rating status as identified by Standard & Poor's or an equivalent rating service.

At least annually, the investment managers shall provide information related to the sector and issue exposure of mutual funds held in the portfolio.

The investment managers shall not make direct investment of the Foundation assets in venture capital companies, letter stock, private placements, real estate properties, short positions, derivatives, hedge funds, calls, puts, options, commodities, or oil and gas real properties without prior authorization from the Asset Management Committee

Deviations:

In the event of severe economic or market conditions, which would negatively impact the Community Foundation, the investment manager may deviate from the stated asset structure only upon obtaining approval from the Asset Management Committee. Any such decision must be explained in writing to the Asset Management Committee immediately thereafter. Any other deviations must first be communicated to, and approved by, the Asset Management Committee.

The Board allows investment managers Level 1 options (defined as covered call writing, selling a call against a long stock position in order to gain income and/or protect the position from a market decline) for new gifts or existing issues owned by the Community Foundation. Community Foundation will require that the Investment manager notify the Asset Management Committee in writing upon implementation of action.

Liquidation of non-cash assets:

Gifts of marketable securities shall be liquidated immediately upon receipt and reinvested within the then current investment guidelines of the Community Foundation. Gifts that are not readily convertible into cash (such as stock in closely held corporations, limited partnership interests, real estate and personal property) may require a long-term strategy for liquidation. These assets shall be considered unique and will not be subject to the guidelines and performance expectations of the current investment policy.

Investment Performance Evaluation:

Investment Performance, based on total rate of return, will be evaluated on a cumulative basis over a 3 to 5 year time horizon. These goals are as follows:

- (1) The annualized total rate of return of the equity portion of the fund is expected to compare favorably to the following indices, after deducting investment managers' fees and commissions, over a 3 to 5 year period:
 - a) Large/Mid Cap Equity shall be compared to the Standard & Poor's 500 Index;
 - b) Small Cap Equity shall be compared to the Russell 2000 Index,
 - c) International Equity shall be compared to the Morgan Stanley Capital International Europe, Australia, Far East Index (MSCI EAFE),
- (2) The annualized total rate of return of the fixed income portion of the fund is expected to compare favorably to Lehman Brothers Intermediate Government/Corp Index.

Individual investment managers will be evaluated relative to the Community Foundation's Investment Policy as issued by the Foundation at the inception of the account and modified from time to time thereafter. The Community Foundation reserves the right to evaluate and make necessary changes regarding the investment manager, at any point prior to the stated 3-5 year time horizon, the following additional criteria to include, but not be limited to:

- 1) Ability to meet the performance objects stated in this Investment Policy.
- 2) Adherence to the philosophy and style which was articulated to the Board (through the Asset Management Committee) at, or subsequent to, the time the investment manager was retained.

- 3) Ability to perform similar to other investment managers who adhere to the same guidelines.
- 4) Continuity of personnel and practices of the firm.

Written & approved: 8/11/93

Revised: 8/10/94

Revised: 4/12/95

Revised: 5/10/95

Revised & approved: 7/15/98

Revised & approved 1/19/00

Revised & approved 1/16/02

Revised & approved 4/17/02

Revised & approved 1/21/04

Revised & approved 10/19/05

Revised & approved 1/17/07

COMMUNITY FOUNDATION OF SOUTHERN WISCONSIN, INC.

GRANTMAKING DISTRIBUTION (SPENDING POLICY)

The spending policy allows the Community Foundation to pay out the most it can through its grant making while ensuring long term growth of all permanent funds. Currently the policy is to use the average market value of 12 trailing quarters of each relevant fund at the end of the fiscal year (6/30). In the event that a fund has not been in existence for 3 years, zeros would be used to indicate value for those quarters. For instance, if a fund had only been in existence for 2 years, zeros would indicate the balance in four of the trailing quarters. Given current market trends or anticipated problems, a percentage would be applied, between 4% - 6%, for the annual grant making of the coming fiscal year. This percentage is reviewed annually and approved by the Board in its July meeting. (4.5% approved 07/18/06).