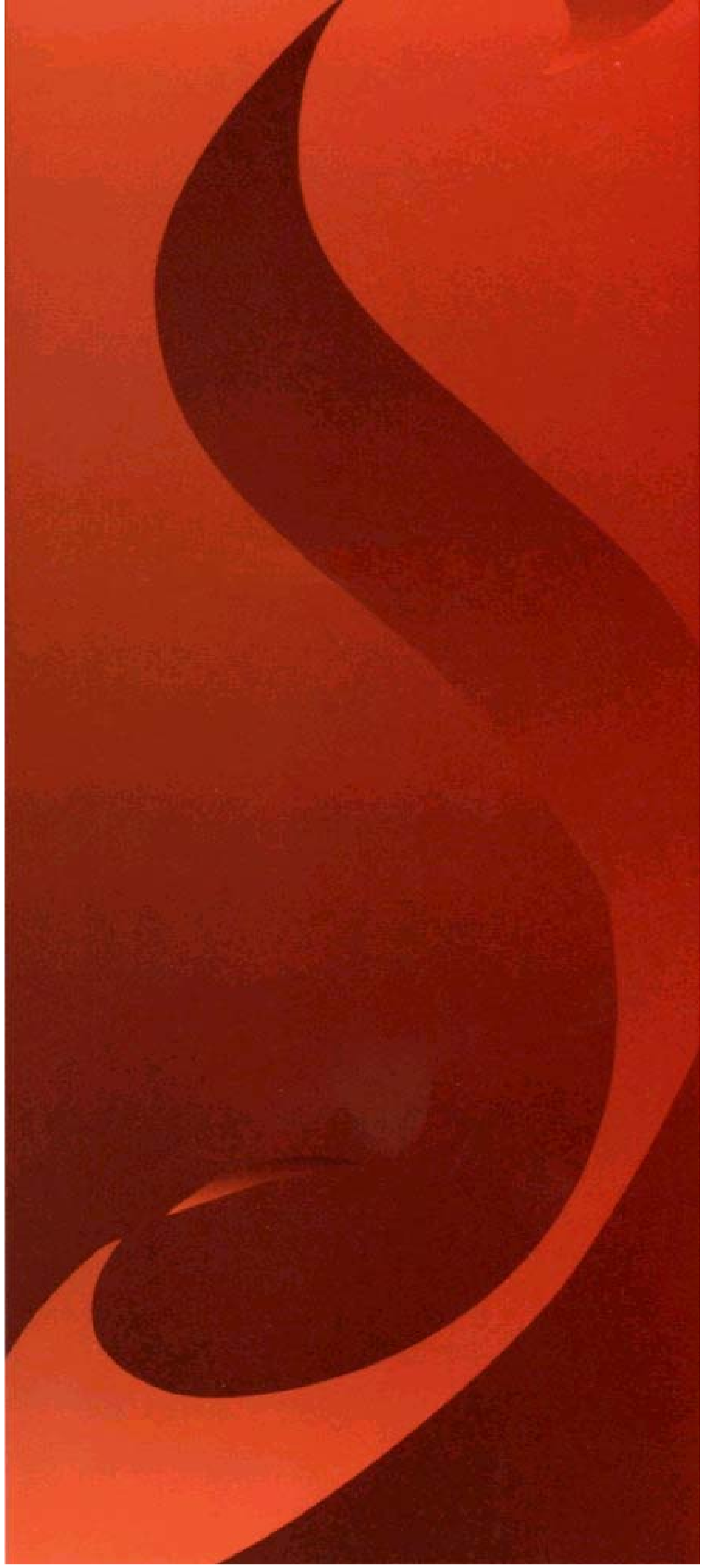

A Guidebook for Professional Advisors

SOUTHERN TIER WEST

Development Foundation

SOUTHERN TIER WEST

Development Foundation

To the Professional Advisor:

Welcome to the Southern Tier West Development Foundation. Even though some of you may already be familiar with us, allow me to tell you why we are an important resource for planned giving.

The Southern Tier West Development Foundation is a public charity (exempt under Sections 501(c)(3), 509(a)(1) and 170(b)(A)(iv) of the Internal Revenue Code) working to improve the region's quality of life by meeting changing needs, strengthening community capacity and helping important community and economic development projects find success. While most charitable organizations fund their activities from annual contributions, the Southern Tier West Development Foundation pools the charitable gifts of many donors into permanent, income-earning endowment funds. The Southern Tier West Development Foundation's role is to:

- Build and manage a permanent capital fund
- Use the earnings from the capital fund to support a wide range of regional and local initiatives
- Provide donors with a flexible range of giving and disbursement options

A Guidebook for Professional Advisors has been designed for those professionals who provide financial and/or estate planning advice to clients. The information contained herein can help maximize charitable gifts while minimizing taxes and, therefore, should be of interest to most of your clients.

The Southern Tier West Development Foundation is pleased to work with donors through their financial advisors. Our focus in the years ahead will be on building endowed funds, providing leadership in identifying and addressing regional and local needs, and assisting donors to achieve their philanthropic objectives.

We look forward to working with you in the months and years ahead to provide citizens of Allegany, Cattaraugus and Chautauqua Counties with a means of permanently endowing their community and demonstrating that their communities are worth the investment!

With respects,

Eric Bridges, Administrator

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Introduction:
The Professional Advisor and Charitable Giving

Over 70% of American taxpayers donate to charity during their lifetimes. Among taxpayers that itemized deductions, some 90% made charitable donations. Chances are most of your clients are already making charitable gifts. As a professional advisor, you have an opportunity to assist your clients in achieving their philanthropic objectives as effectively as possible. And, because our tax system accords special benefits to those who give, you also have a unique opportunity to help your clients achieve other financial, personal, or business goals through charitable giving. Through "planned giving," integrating the unique benefits of philanthropy with overall financial and estate planning, you can ensure that your clients are receiving the full benefits of their contributions while supporting the charitable causes of their choice.

Most Americans who give to charity do so on an annual basis. This is probably the pattern with your clients too, and there are many ways discussed in **A Guidebook for Professional Advisors** to help your clients make their ongoing gifts in a more convenient and tax effective manner. The greatest opportunities to assist your clients in maximizing the personal benefits of charitable giving, however, occur at the times that your clients are making other major business, personal, and financial decisions. Some of the circumstances in which carefully planned gifts can result in significant, direct advantages to your clients or their heirs are:

- when your client is involved in planning his or her estate, or writing or revising a will;
- when your client is contemplating the sale of a business or other major asset;
- when your client is planning retirement;
- when your client has received a financial windfall.

In each of these situations, planned giving presents an opportunity to help your client achieve important business or personal goals while also reaping the satisfaction of helping the community. You do not have to become an expert in planned giving to make these opportunities available to your clients. The single most important step you can take to help your clients obtain the benefits of planned giving is to integrate the charitable question – **"Are there any charitable interests or community interests you would like to address?"** – into your regular interactions with clients.

The Southern Tier West Development Foundation is a vehicle for philanthropy. Although a public charity, the Foundation does not promote any one charitable cause. Rather, its mission is to expand the overall level of private philanthropy in the region. Because of this unique mission, we can assist you and your clients to achieve their goals in ways not available through other organizations or strategies. We are available as a resource to you and as a philanthropic partner to your clients. As a professional advisor, through your ongoing interactions with clients, you are in a unique position to help our community preserve and expand its philanthropic resources. **A Guidebook for Professional Advisors** is designed to introduce the many ways that planned giving can assist your clients, and to introduce the Southern Tier West Development Foundation as a vehicle for accomplishing their charitable goals.

Your Clients Charitable Options

Direct Gifts to Public Charities

Most people choose to give directly to a 501(c)(3) public charity that is working in their area of interest. This is the most common and familiar form of charitable giving, and is the lifeblood of the nation's nonprofit sector.

For clients with the capability to make substantial gifts or gifts of permanent endowment, however, direct contributions to individual charities may not always be the most appropriate form of giving. Once a major gift has been made, the donor has very limited control over the continued use of the gift, and may lose recognition for the gift after it is commingled with others.

In addition, most individuals support more than one charity, but making and keeping track of tax-effective gifts to numerous organizations (through gifts of appreciated property, for example) can be cumbersome. Similarly, many individuals have a desire broadly to "give back to the community," or a deep interest in a broad charitable cause rather than an attachment to a particular organization. Finally, and perhaps most important, an organization that is serving the interests of the donor today may change its mission or cease to exist ten years from now.

Private Foundations

A second option is to form an independent private foundation. A private foundation is an independent charity established, controlled, and maintained over time by the donor or under the instructions of the donor. Private foundations offer substantial flexibility: they can be established for virtually any charitable purpose. For donors in the right circumstances, the private foundation is a very satisfying vehicle for charitable giving.

For some donors, however, the private foundation option carries significant drawbacks. First, the tax benefits of some gifts to private foundations are more limited than those of gifts to public charities. The foundation's trustees must comply with stringent IRS regulations. Private foundation tax returns are public information, affording the donor limited privacy in the operation of the foundation. And the administrative burdens of maintaining a private foundation over time may be formidable and costly.

Because of these various limitations, a private foundation often is not a practical option unless the donor is prepared to make a substantial commitment of time and/or money. Moreover, after the donor's death, control of the foundation may pass to heirs or others who may or may not have the time, skill, or interest to continue the donor's charitable goals.

The Southern Tier West Development Foundation

Your client's third option is to establish a personal endowment fund through the Southern Tier West Development Foundation, a unique hybrid between an operating charity and a private foundation. The key features of the Southern Tier West Development Foundation are explained further.

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Part One:

Southern Tier West Development Foundation

Legal & Financial Standing and Service Delivery Area

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

Founded in 1994, the Southern Tier West Development Foundation is governed by a volunteer Board of Directors. Southern Tier West Development Foundation enables people with philanthropic interests to easily and effectively support the issues they care about - immediately, or through their will. Donors can establish a charitable fund at the Southern Tier West Development Foundation by contributing a variety of assets and may also recommend grants - in their name, if they choose - to communities and nonprofit groups they want to support.

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

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

OUR COMMUNITY - WORTH THE INVESTMENT!

Part Two:

Benefits to Donors

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

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

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

Tax Advantages - When a client creates a fund at the Southern Tier West Development Foundation, they receive an income tax or estate tax deduction. Because the Southern Tier West Development Foundation is a public charity, all donations earn the maximum available deduction. Funds are also exempt from excise taxes and the many other restrictions placed on private foundations. This means that more resources are available to address regional needs.

Economics - Using the Southern Tier West Development Foundation is an economical way to make your client's contributions work for them. For most funds, the Southern Tier West Development Foundation charges only a modest annual administrative fee of 1.5% of the fund's fair market value. Extraordinary expenses for legal, consulting, or program services are charged against the appropriate fund.

Professional Management - All assets are professionally managed according to the investment policies established by the Board of Directors. Your client's fund benefits from being pooled and invested with the Southern Tier West Development Foundation's other assets.

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

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

Benefits to Advisors

Convenient Services - The Southern Tier West Development Foundation is structured to make powerful charitable giving easy, flexible and effective for clients and their advisors.

Tax Benefits - The Southern Tier West Development Foundation offers better tax incentives than either private foundations or other non-profit organizations while accomplishing the same goals

Gifts in Perpetuity - Through placing permanent gifts with the Southern Tier West Development Foundation, your client has the opportunity to give a gift that keeps on giving, one that creates a legacy of how they want to be known in the community now and forever.

"Give Where You Live" - As an advisor, you help keep the charitable giving assets here in our region where your clients live and work.

Consultation - There is no cost for consultation to either you or your client for assessing the services of the Foundation. We strive to help regardless of the benefit to the Foundation. As a public charity, we are committed to building community capital in any form

Confidentiality - Client and/or professional advisor consultations are kept totally confidential.

Communication - You will be kept informed of any authorized communication between the client and the Southern Tier West Development Foundation.

Simplicity - All your clients charitable needs can be handled through one vehicle.

Referral - The Southern Tier West Development Foundation is a referral source. If we don't immediately know the answer to your client's situation, we will research the information or refer you to someone who does.

Objectivity - Because the Southern Tier West Development Foundation is structured to benefit all charitable entities, you will not be placed in the position of favoring one particular charity as you make recommendations to clients. The Southern Tier West Development Foundation is not in competition with other non-profits.

Recognition - The Southern Tier West Development Foundation can offer your client's anonymity or recognition in perpetuity, with as much or as little involvement in the granting process as they would like.

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Part Three:

Types of Funds

The Southern Tier West Development Foundation serves a variety of donors who share a common concern — supporting all that is good about the region. Through the Foundation, individuals, families, businesses, nonprofit organizations, and even other foundations create permanent charitable funds that help the region meet the challenges of changing times. Because every donor has different needs and values, we work with each interested donor to create a giving opportunity that is right for that person or group of people.

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

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

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

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

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

Administrative Endowment Funds - Contributions to this fund are made to support the operation of the Foundation and its activities. The principal and income of this Fund may be used to defray current operating expenses at the discretion of the Board of Directors.

Area Funds - An Area Fund is an endowment that specifically supports non-profit, government and other public agencies with a particular defined area (county, city, town, village) Local citizens knowledgeable about the community serve as the grantmaking advisors and primary fundraisers to the Fund.

Part Four:

Methods of Giving

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

Cash & Cash Equivalents - We're all familiar with donating cash to charities. If a client itemizes his or her deductions on their personal federal income tax return, they may take a charitable gift deduction for the amount of your charitable gift of cash and cash equivalents. If they can't take the entire deduction in the first year because of this limitation, they may carry the balance forward into the next five years. When savings bonds, certificates of deposit and other ordinary income assets are given to charity, the recipient charity, unlike the family, will not have to pay tax on the gain in those assets. A client can name the charity as the primary or contingent beneficiary, or as a partial beneficiary.

Publicly Traded Securities - Donors can transfer ownership of appreciated securities owned for at least one year to a charity and receive a deduction for the average value of the security on the day of the transfer. When the security is sold by the charity, neither the donor nor the charity has to pay capital gains tax. The donor receives the benefit of having his or her gift valued at fair market value, including the appreciation, for the purpose of determining their charitable deduction. For these long-term capital assets, the donor may claim an income tax charitable gift deduction for the year in which the gift is made. If he or she can't deduct the full fair market value of the gift in the first year, they may carry the balance forward for the next five years. If the securities have been owned less than one year, the charitable deduction is based on the donor's cost basis in the security.

Closely Held Securities - For owners of closely held securities, such as Sub-Chapter S Corporations (S Corps) stock, it is possible for companies to give this stock - and for community foundations to own this stock. (There are limitations that accompany ownership of such stock.)

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

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

Personal Property

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

Retirement Assets

Distributions from certain kinds of retirement assets (such as individual retirement accounts (IRAs), tax-sheltered annuities, and 401(k) and 403(b) plans) are subject to income tax and may be subject to generation-skipping taxes and estate taxes. However, gifts of these assets will not be taxed if they are paid directly to a charity as beneficiary. Donors can designate all or a certain percentage of their retirement assets to go to charity. Under current law, if a donor wishes to make a gift of IRA assets to charity, they must first withdraw the assets, recognize the distribution for income tax purposes, contribute the funds to charity, and then claim an income tax charitable deduction to mitigate the income tax liability (Note: there may be penalties for early withdrawal of your IRA assets).

Making a Planned Gift

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

Planned Giving Options

The planned giving vehicles available to your clients through the Southern Tier West Development Foundation include charitable bequests, beneficiary designation, charitable remainder trusts, and charitable lead trusts.

Charitable Bequests

A charitable bequest is anything a donor gives or leaves to charity from their estate through a will or a revocable *inter vivos* ("living") trust. An "estate" is any property, money or personal belongings that a donor may have at the time of his or her death. Most people leave an estate when they die, even though they may not have a great deal of wealth. Even an individual with a small estate can arrange to leave a charitable bequest. Donors can arrange to bequeath a gift from his or her estate in several different ways. They can set aside a specific dollar amount, leave a percentage of their estate, or leave any assets left over after their family has been provided for. Some people use a bequest to give a charity something they own, such as a car, home, art or jewelry. Others leave a paid life insurance policy or other financial investments, such as stocks, bonds or CDs.

Beneficiary Designation

By designating a charity as the beneficiary of their life insurance or retirement assets, a donor can enjoy some flexibility in his or her charitable giving as well as certain tax advantages. The designated charity will receive the specified assets upon their death, with the donor having the option of changing the eventual recipient throughout his or her life.

Charitable Remainder Trusts

A charitable remainder trust allows donors and/or other designated beneficiaries to receive income from a trust for their lifetime(s), or for a period of years not to exceed 20. At the end of that time, the balance of the trust is transferred to a charity that he or she has selected. The donor can take a charitable deduction for a portion of the gift they make to the trust in the year the trust is formed. (In some cases, additional funds may be added in later years.) The two most common types of charitable remainder trusts are annuity trusts and unitrusts, which differ in how the income you receive from the trust is calculated and distributed.

Charitable Lead Trusts

A charitable lead trust allows the donor to designate a charity to receive a regular, fixed amount from a trust for a specified time period or the lifetime of a designated person. At the end of that time period, the remainder of the trust passes to their designated heirs or other non-charitable beneficiaries.

Charitable Gift Annuity

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

Part Five:

The Economics of Charitable Giving

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

Deduction Limitations

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

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

The use of the Southern Tier West Development Foundation allows a donor to take full advantage of the tax deductions in ways now unavailable to private foundations. Gifts of cash to a private foundation are deductible only up to 30% of the donor's AGI. Moreover, donations of long term capital gain property to a private foundation are deductible only up to the donor's basis in property. In general, the charitable deduction for an appreciated stock, bond or real property is equal to the current fair market value of this asset at the time of the gift. Tangible personal property such as artwork, jewelry, a car or boat, is valued at its cost basis not fair market value.

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

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

In contrast to gifts made to a private foundation, charitable gifts of stock in a closely held corporation may be made to a fund in the Foundation with the same deduction rules as apply to publicly traded securities. Because of the special issues of valuation and corporate privacy inherent in gifts of closely held securities, the advisors should consult the Foundation regarding the specific policy.

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

If a donor's exact charitable wishes are made obsolete by the passage of time, the Foundation has the (variance) power to redirect assets. This can be particularly meaningful in the case of testamentary gifts, because donors are assured that their basic intent will continue to be honored.

A philanthropic fund in the Southern Tier West Development Foundation can be created through a specific bequest of cash or property, a proportional bequest, a residual bequest, or a contingent bequest.

Tax Saving Tips

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

1. You have a charitable giving partner — the government. Congress has granted favorable tax treatment to individuals who make charitable contributions to charity, whether through outright gifts, deferred gifts, or bequests. The Southern Tier West Development Foundation offers full tax benefits for charitable gifts.

2. "Giving while you're living" is a tax-wise idea. The reason is the income tax deduction donor's receive at federal and state levels. Charitable gifts made during a donor's lifetime provides an income tax deduction not available through a bequest. Because an outright current gift is no longer included in a donor's estate, it ultimately avoids estate taxes. Contributions to a donor-advised fund at a community foundation receive immediate tax benefits and the donor can recommend gifts in the years ahead.

3. Giving assets can be better than giving cash, especially long-term, highly appreciated assets, such as real estate, stock, and art. The dual tax benefit of an income tax deduction is based on the value of the gift plus the added benefit of avoiding the capital gains tax.

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

Comparison to a Private Foundation

As donors, your clients have choices. They can establish a private foundation of their own or they can establish a fund at the Southern Tier West

Development Foundation. If they choose to establish a private foundation, he or she must:

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

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

- The fund becomes part of a publicly supported organization.
- The donor may get a larger tax deduction for current and future gifts.
- Since the fund doesn't pay excise tax there frequently is more available for charity.

Part Six: Policies

Investment Policies

Investment Philosophy

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

Implementation of Investment Policies

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

Standard of Investment Judgment

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

Investment Objectives

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

Evaluation of Investment Managers

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

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

The investment manager shall immediately notify the Board of Directors in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.

Asset Allocation

Deliberate management of the asset mix among classes of investments available 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 diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and of the factors that may influence them.

In making asset allocation judgments, the Board of Directors is not expected to seek to "time" subtle changes in financial markets, or that frequent or minor adjustments would be needed. Instead, the Board of Directors is expected to develop and adopt expressed guidelines for broad allocations on a long-term basis, in light of current and projected investment environments.

To insure broad diversification in the long-term investment portfolios among the major categories of investments, asset allocation, as a percent of the total market value of the total long-term portfolio, will be set with the following target percentage and within the following ranges:

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

Conclusion
This statement of investment policy shall be reviewed annually. The investment performance will be reviewed on a quarterly basis with a report provided by an independent third party. The manager may provide any suggestions regarding appropriate adjustments to this statement or the manner in which investment performance is reviewed.

Gift Acceptance Policies

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

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

all donors will be strongly encouraged to discuss their gifts with their financial advisor before signing the gift agreement.

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

Authorization for Gift Negotiation
The President (or other Board authorized staff/Board Members) will have the authority to handle inquiries, negotiate with donors and execute agreements on behalf of the Southern Tier West Development Foundation. All gifts of one million dollars or above or gifts that fall outside the Gift Acceptance Policies need the review and approval of the Board of Directors. The Foundation has standard fund agreement forms. Proposed deviations from these standard forms require legal counsel review before being executed before approval.

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

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

Spending Policies

The spending policy of Southern Tier West Development Foundation is based on the concept of total return. This is a concept widely used in the non-profit field and allows the Southern Tier West Development Foundation to invest in funds in the most advantageous vehicle to provide a reasonable return. In a total return environment, distributable income is based on the investment return of the Fund regardless of whether that return was fueled by dividends, interest or appreciation.

It is the policy of the Southern Tier West Development Foundation to spend each year 5% of the market value of each Fund, in order, over the long term, to both maximize its support for charitable activity in the region and protect the value of the endowment Funds.

For each Fund that is in existence at the beginning of the fiscal year, an amount equal to 5% of the market value of each Fund on the last day of the previous fiscal year is to be available for expenditure in the year.

Capital contributions to an existing Fund during the fiscal year shall not result in an increase in the amount available for grants in the fiscal year when the contributions are received, unless otherwise approved as an exception by the Board of Directors.

For each new Fund that is newly established during a fiscal year, an amount equal to a prorated portion of 5% of the market value of the opening contribution shall be available for expenditure at the end of the same fiscal year. The prorated portion shall be calculated as: (number of days remaining in the fiscal year at the date of the opening contribution/365 days) x the 5% amount. Subsequent capital contributions to an existing Fund during the same fiscal year shall not result in an increase in the amount available for grants in the fiscal year, unless otherwise approved as an exception by the Board of Directors. At the end of each fiscal year, any amount available for grants but not expended from a Fund shall be added to the capital of the Fund and shall not be available for granting in the subsequent year, unless otherwise approved as an exception by the Board of Directors.

Administrative Fees

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

- Investing fund assets.
- Processing new gifts to fund.
- Processing grant payments, distributions, and expenditures from fund.
- Reporting fund balances and activities to fund representatives via quarterly statements.
- Maintaining communications with fund representatives regarding current activities and new developments at the Foundation.
- Annual audit servicing.

Examples of expanded services include:

- Prepare, update, and distribute applications.
- Organize and convene committees.
- Review applications, conduct interviews, and select recipients.
- Organize and conduct award receptions.
- Communicate with appropriate organizations.
- Publication of an annual report
- Oversight of investment performance

Southern Tier West Development Foundation Board members serve without compensation.

Occasional expenses directly attributable to a particular fund are charged directly to that fund. Investment managers also charge a fee that averages 0.6% of market value. Fees are calculated quarterly based on current market values.

Part Seven: Grantmaking

Grantmaking Policies

The Southern Tier West Development Foundation is dedicated to supporting local planning and community economic development. Southern Tier West Development Foundation grantmaking is focused in support of the following areas:

- Initiatives that build leadership in local communities and region;
- Initiatives that provide a mechanism whereby people can participate directly in the development of their community and region;
- Initiatives that encourage a sense of "self-help" within communities;
- Initiatives that provide an incentive for communities to develop their own opportunities.

The Foundation is interested in working with those communities that recognize the importance of local planning and development but lack ample or sufficient capacity to act on it. An essential factor in the Foundation's investment decisions is identifying specific financial needs that Foundation support can address. An applicant's ability to demonstrate local community support for the proposed activity is also an important factor.

Southern Tier West Development Foundation grantmaking is limited to Allegany, Cattaraugus and Chautauqua Counties, New York.

The Foundation will grant up to 50% of the total project cost.

Grants requested of the Foundation must be matched dollar for dollar with cash.

The Southern Tier West Development Foundation views its financial support as an incentive for local government officials to initiate new or expand upon existing local planning and development activities.

The Foundation makes every effort to remain flexible so it can respond to requests on a project-by-project basis. The Foundation also seeks new, innovative, and unusual solutions to local development challenges and is well suited to help respond to immediate needs.

It is not the practice of the Foundation to fund personnel expenses or salaries.

It is Foundation policy that Board members who are connected to an applicant's project can participate in the discussion of the project, but may not vote on the application.

Grantmaking Priorities

The Southern Tier West Development Foundation is dedicated to supporting local planning and development activities. The goal of the Foundation is to encourage the development and adoption of strategies that will guide the future development and preservation of a community. The Foundation's grantmaking is focused in support of the following priority areas:

Planning

The goal of the Planning priority is to encourage the development and adoption of sound, local planning activity.

Community Economic Development

The goal of the Preliminary Community Economic Development priority is to help advance locally planned community and economic development activities.

Leadership and Community Capacity Building
The goal of the Capacity Building Efforts priority is to enhance the skills and abilities of local individuals, organizations and communities to identify, access, and sustain economic opportunity.

The Foundation will only consider projects that:

- Complement the objectives of the Southern Tier West Development Foundation;
- Encourage and rely upon local citizen participation;
- Enhance or build local citizens and community capacity;
- Have leveraged dollar for dollar match.

Some Recent Grantees

The Town of Ellicott used a Foundation seed grant to help it electronically digitize its tax parcels. Parcel digitization and subsequent additional investment by the community in Geographic Information Systems (GIS) has enabled officials to more effectively and efficiently manage many of its daily municipal operations as well as develop high quality marketing material about the community.

In the Town of Ellery, the community leveraged Foundation seed funds to aid in the construction of a multiple-use town park and recreational facility. A state of the art facility, the Town Park has emerged as a cornerstone of the community's commitment to quality of life.

The Village of South Dayton used a Foundation seed grant to conduct a mandated environmental review as per the State Environmental Quality Review Act. The completion of the study allowed for the release of more than $500,000 in federal funds for a municipal water improvement project. Once abandoned, the site has recently been re-acquired and slated redevelopment.

The Town of Perrysburg used a Foundation seed grant to prepare a preliminary engineering map, plan, and report for a municipal water expansion project. The completion of the preliminary engineering report has put the town in a better position to pursue further financial assistance for their project.

The Town of Randolph used a Foundation seed grant to conduct a housing market study as a precursor to a comprehensive low income and elderly housing project.

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

In Wellsville, NY, the Town and Village used a Foundation seed grant to help develop a single comprehensive plan for the community. The plan will enable both governments to make decisions based on reliable data, fact-based projections, and a focused vision for the community as a whole.

The Southern Tier West Development Foundation is also providing seed grant support for a regional tourism initiative developed by the Southern Tier West Regional Planning & Development Board. The initiative will employ advanced GIS mapping and other newly developed software to market the region's community, social, economic, education, and cultural assets via the World Wide Web.

Contact Information:

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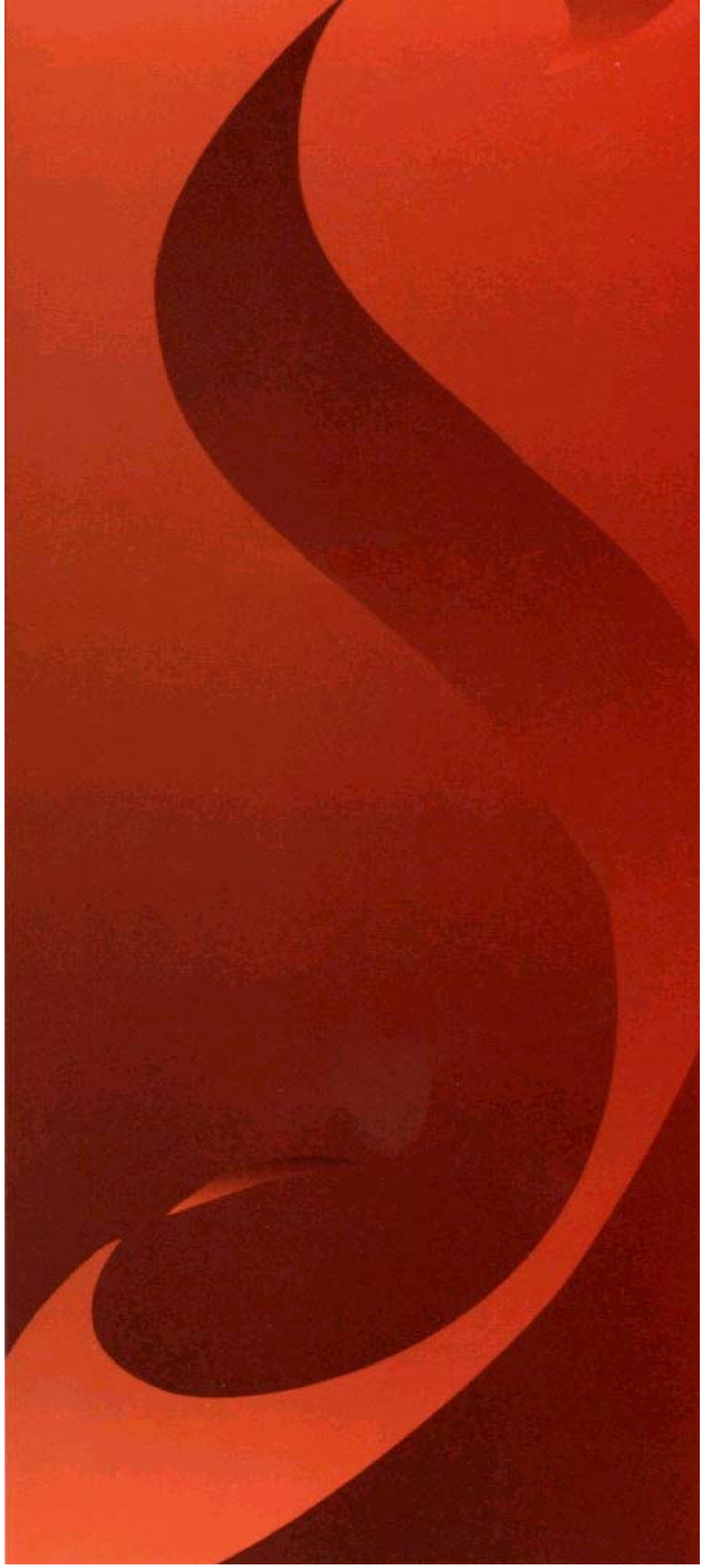

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Development Foundation