



HANDBOOK FOR ATTORNEYS ADVISORS and DONORS

**COMMUNITY FOUNDATION OF
CENTRAL CONNECTICUT, INC.**

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Serving the Meriden and Wallingford Communities

MISSION STATEMENT

The Community Foundation of Central Connecticut is newly formed, created by the conversion of the United Way Foundation of Central Connecticut.

The mission of the Community Foundation of Central Connecticut is to encourage the creation of endowments to serve the Meriden and Wallingford communities now and in the future and to address the charitable and humanitarian needs of our community by providing resources into perpetuity.

DISCLAIMER

This booklet has been prepared by the Community Foundation of Central Connecticut, Inc. to help both professionals and potential donors better understand opportunities for charitable giving through the Foundation and some of the tax consequences. While all the information is believed to be accurate as of the date of publication, January 2006, the Foundation cannot be responsible for any decisions based upon information presented herein. Donors should consult professionals in the field when making significant decisions or charitable giving, estate planning and tax implications.

ACKNOWLEDGEMENT

The Community Foundation of Central Connecticut, Inc. acknowledges with deep appreciation the earlier work of The Community Foundation of Southeastern Connecticut in producing a similar booklet upon which our handbook draws extensively.

Community Foundation of Central Connecticut

ABOUT THIS HANDBOOK...

This handbook will guide you through the steps to identify the most appropriate type of charitable fund with an optimal financial outcome for you or your client. The handbook is meant for all professional advisors, not just specialists in trusts and estate planning. It is also intended to educate individual donors about the many giving options available through the Community Foundation of Central Connecticut (the “Community Foundation” or the “Foundation”). Donors should also consult their own legal and tax advisors when considering charitable gifts.

The Professional Advisor Benefits:

- By suggesting to clients creative solutions to their tax problems and charitable giving opportunities.
- By generating new resources to benefit the community.

The Donor Benefits:

- By creating a permanent gift to carry out personal charitable interests.
- By initiating a family tradition of philanthropic involvement.
- By reducing income and estate taxes.
- By avoiding the tax on capital gains which would have been incurred on the sale of appreciated property.
- By increasing retirement income.

The Community Benefits:

- By the creation of new resources for community agencies and initiatives in central Connecticut through the establishment of permanent funds at the Community Foundation of Central Connecticut.
- By offering a vehicle to the donor for other charitable activities as may benefit the people of central Connecticut.
- By providing a mechanism for the management and safekeeping of assets entrusted to the Foundation for the benefit of community agencies and initiatives in central Connecticut.

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INTRODUCTION

Create a Legacy of Generosity.

The donors
who support

Donors who support the Community Foundation of Central Connecticut share a love for our community. Together, we are creating a permanent charitable fund to meet our area's changing needs and strengthen our community's future - a legacy of generosity for generations to come.

the Community

Foundation

of Central

Connecticut

share a love

for our

community.

By giving through the Community Foundation, you can support our community's most creative thinking as it faces the challenges of the future. Your gift can be a way to give back to the community that nurtured you, and your family can be actively involved for generations to come. You can play an important role in making our unique area of the world a better place to live.

Gifts to the Foundation can honor a friend, perpetuate a family name, memorialize someone you love, or be unnamed. These can support a charitable project or an institution that has made a difference to you or your family, or your gift can also remain undesignated, benefiting the Community Foundation of Central Connecticut. Such gifts can help you meet your tax planning and estate needs.

Your gift to or through the Foundation can take effect now or after your lifetime. Either way you should plan for it today. When you inform the Foundation of your plan for future giving, you will enjoy the grateful recognition of your community while your assets are still working for you.

Who We Are

*We are a
collection of the
dreams and
legacies of our
community's
most generous*

The Community Foundation of Central Connecticut was established to encourage local philanthropy and strengthen local institutions. We are the caretakers for permanent funds that will long outlast their donors. We are a reality of our community's hopes and aspirations.

The Foundation is a **pool of gifts and bequests** placed into a permanent endowment fund and operated in a manner similar to a mutual fund. Contributions may be assigned to individual funds. However, all are invested and managed as a whole.

Selected for their leadership, community involvement and expertise, the Board of Directors governs the Foundation. They oversee investment strategy and income distribution, with support from professional staff.

The Foundation is a **tax-exempt organization** under Section 501(c)(3) of the Internal Revenue Code. All contributions are tax deductible to the maximum amount allowable for gifts to a public charity.

What We Do

*The Board of
the Foundation
assumes an
obligation
of reliable
stewardship.*

Each year, the Foundation establishes the amount of **income** to be distributed from its permanent endowment. This figure is developed under the so-called **spending rule** concept which allows for greater flexibility in investments while maintaining a more constant flow of income.

The policy and objective of the Foundation is to **prudently manage** and invest the endowment funds to generate an average annual rate of return which will:

- provide projected income to beneficiaries and cover expenses;
- allow the endowment to grow faster than the rate of inflation.

The annual income from undesignated funds would flow to the United Way of Meriden and Wallingford to benefit its member agencies which provide a broad range of programs and services. Income from designated funds would flow to the purposes or agencies specified by the donors. Extensive volunteer support allows the Foundation to provide services **efficiently and at the lowest possible cost.**

Perhaps, most importantly, the Directors of the Foundation assume an obligation of reliable **stewardship.** They establish policies and review performance in all areas of operation. The Foundation offers a high level of public **accountability**, including an annual report, newsletters and audited financial statements.

What We Can Do For You and Your Clients

*Income taxes
are reduced*

The Foundation provides **permanence**. Donors are assured that their gifts will benefit the agencies and residents of Meriden and Wallingford in perpetuity. Family members can participate forever, choosing their own level of involvement.

*through the
maximum*

By virtue of the pooling of many gifts, every gift assumes **significance**. The impact of each contribution grows with each succeeding gift and is put to work while growing.

deductions

Gifts to the Foundation **reduce** your (or your client's) **tax burden**. Income taxes are reduced through the maximum deductions allowable for contributions to a public charity. If appreciated property is donated, the donor eliminates the capital gains tax incurred if the donor sold the property. Estate taxes are reduced by removing the amount of the contribution from the estate.

allowable for

contributions to

The Foundation provides **flexibility**. For a contribution of \$10,000 or more, you or your client can select from the many options outlined in this booklet for establishing a named fund. Lesser gifts are equally welcomed and will be invested with other gifts.

a public

charity.

The Foundation provides **professional expertise and efficient administration**. For discretionary and field-of-interest funds, the Foundation continually assesses the changing needs of our community and awards grants to agencies which best address those needs. For designated funds, as agencies merge, alter their purpose or go out of business, the Foundation has the authority, without court order, to amend a fund's beneficiary in order to fulfill the original intent of the donor.

The Foundation provides an excellent **alternative to a private foundation**. Donors who want the flexibility of a private foundation without the accompanying administrative complexities and expenses can accomplish the same result by establishing an individual fund at the Foundation.

Establishment of a fund is **easy, convenient, and inexpensive**. Just select the purpose, amount, and name of the fund. The Foundation will do the rest.

Local governance by community leaders ensures that your gift will be used in the community interest forever.

Identify The Charitable Giving Opportunity

The Foundation gives donors nearly unlimited choices for establishing funds. The opportunities and solutions on the following pages are only a small, representative sampling of the possibilities. The chart on page 9 summarizes the range of choices.

*Susan Riley
would like to
give back
to her
community.*

A Donor With Charitable Interests and Limited Funds

Opportunity: Susan Riley has lived in the Yalesville area all her life and works in New Haven. She would like to give something back to the community through a permanent gift, but she understands that the needs of the community will change over time and that it would be best if an organization managing her gift had the flexibility to respond to changing needs. Susan is not wealthy and cannot commit a sizeable portion of her assets in case they are needed for an emergency or for unexpected expenses after she retires.

Solution: Susan establishes the **Restricted Principal/Unrestricted Income Susan Riley Fund** at the Community Foundation of Central Connecticut, Inc. with a cash gift of \$10,000. She gains a significant tax deduction, as well as a sense of satisfaction from having made a charitable donation during her lifetime, when she can see it work. Susan also adds a bequest in her Will which will substantially increase her fund at her death and reduce her taxable estate.

Forms: Unrestricted Fund Form • Bequest Form (*see Appendix B*)

IRS REGULATIONS on limitations for charitable deductions
LIFETIME IRC 170(b) • Regs 1.170A-8 (Individuals)
1.170A-11 (Corporations) • AT DEATH IRC 2055

*John Anderson
has given to
charities all his
life. Now he
wishes to make a
larger gift.*

A Donor Who Wants To Stay Involved In The Grantmaking Process

Opportunity: John Anderson of Meriden has given to charitable organizations all his life. Now he wishes to make a larger gift, but at the same time continue to be involved with selecting recipients. He would also like some advice on the most effective programs in the community and be relieved of the administrative paperwork of multiple contributions.

Solution: John establishes an **Anderson Family Donor-Advised Fund** at the Foundation with appreciated stock. He can confer with his family and the Foundation staff regarding effective programs and agencies in the area and make recommendations for the awarding of the income from his fund. If he is satisfied with the operations of the Foundation, he can add to his fund at any time. At the time of his death, his fund can become a **UNITED WAY** Fund to benefit the member agencies of United Way forever. By giving appreciated stock directly to the Foundation, Mr. Anderson avoids the capital gains tax incurred if he sold the stock and gets an income tax deduction for the fair market value of the stock.

Forms: Donor-Advised Form (*see Appendix B*)

TREASURY REGULATIONS: Treasury regulations permit a donor only to give recommendations for grants. The Foundation's Board must retain the ultimate decision making responsibility.

IRS REGULATIONS: Reg. 1.507-2(a)(8)(iv)(A)
on guidelines on permissible advice form donors.

Identify The Charitable Giving Opportunity

A Donor Who Wants To Memorialize A Loved One

*Mrs. Giuliani
wants to
establish a
scholarship
fund to honor her
husband.*

Opportunity: Maria Giuliani's husband had always been interested in young people, having served on the Wallingford school board and on an advisory board of Choate-Rosemary Hall. When he died, Mrs. Giuliani wanted to establish a Scholarship Fund in his memory as the most fitting tribute to his educational contributions. Mrs. Giuliani soon discovered that establishing a separate scholarship fund is not so simple. The IRS requires prior approval regarding the proposed selection process. Adequate records on each recipient need to be maintained. Contributions are not tax-deductible unless a private foundation is established or a nonprofit organization administers the scholarship.

Solution: Mrs. Giuliani established the **Harold S. Giuliani Memorial Scholarship Fund** at the Community Foundation of Central Connecticut. She chose from among many options for scholarship criteria including towns of residence, field of study, etc. The scholarships will be awarded to students living in Central Connecticut majoring in any field of study at an accredited four year college. The Foundation selects the recipients, makes the scholarship payments, monitors student attendance at the selected schools, and carries out all the required IRS reporting. Mrs. Giuliani personally presents the awards each Spring.

Forms: Scholarship Form (*see Appendix B*)
IRS REGULATIONS: Regs. 53.4945-4

Retired Donors Who Would Like To Give Now But Still Need Income

*The Flints,
are retired now,
and need the
income from
their assets, but
would like to
provide more
local support.*

Opportunity: Jim and Alice Flint of South Meriden, both 70 years old, have always been interested in local social service programs and have supported the community youth service agencies. They would like to provide more support, but they are retired now and need the income from their assets.

Solution: Jim holds shares of highly appreciated XYZ stock which pays almost no dividends, and he has been unwilling to sell the stock because of the large capital gains tax he would have to pay. Jim gives \$20,000 worth of the stock to the Foundation's Pooled Income Fund.

Assumptions:

Current Fair Market Value	\$20,000
Cost Basis:	5,000
Current Income @ 2%	400

By giving the stock to the Foundation, the Flints will realize the following (assuming a 28% income tax rate and a 5% return on the pooled income):

- A charitable contribution deduction of approximately \$8,896 saves approximately \$2,491 in federal income taxes in the year of the gift.
- A capital gains tax savings of \$4,200.
- An annual increase in income of \$1,000 (the income will vary as the return on the pooled fund varies).

When Jim and Alice both die, the principal in the fund will be transferred to the Foundation's endowment, where it will become **The Jim and Alice Flint Youth Fund** and continue to support all the organizations they were committed to during their lifetimes.

FORMS: Pooled Income Form (*see Appendix B*)

IRS REGULATIONS: Reg. 1.642(c)

Let's Not Forget Life Insurance

Mary Holtz

creatively uses

life insurance

to provide lasting

support.

Opportunity: Mary Holtz sits on 3 boards and 2 committees in Meriden and Wallingford. She would like to give more in monetary support to these agencies, but she is only 40 and has 2 children. She knows that these agencies do not have the expertise to manage endowment funds, and future boards may elect to use the funds for day-to-day operations. She wants her gift to provide lasting support.

Solution: Mary takes out a \$50,000 whole life insurance policy in the name of the Community Foundation of Central Connecticut, Inc. The premiums of \$648 per year, payable for 10 years, are tax deductible, and at her death the Foundation will receive \$50,000 for **The Mary Holtz Fund**. The fund's income will benefit the specific agencies designated by Mary. Through the Foundation she is assured of making a permanent gift to the agencies and should any agency no longer be in existence, the Foundation will disburse the income from her fund to another agency with a similar purpose.

NOTE: Another option for older donors is to irrevocably assign to the Foundation a life insurance policy that the donor no longer needs. If a policy is fully paid up, the tax deduction is either the replacement value or the donor's cost, whichever is less. If the policy is not yet paid up, an income tax deduction is allowed for contributions made to the United Way Foundation to pay subsequent premiums.

Forms: IRS REGULATIONS: IRC 170(e)(1)(A) • Reg. 1.170A-1(c)(1)

A Donor Who Wants The Best Of All Worlds

Mr. and Mrs.

Stuart wish

to make

a permanent gift

to the

community.

Opportunity: Mr. and Mrs. Frank Stuart of Wallingford are fortunate enough to have a significant estate. They wish to make a permanent gift to the community, but they would also like to receive a fixed income for life and leave something for their children. Since they decided it will be an undesignated fund, future income will benefit the United Way of Meriden & Wallingford and its member agencies.

Solution: Mr. and Mrs. Stuart, both age 60, establish a \$100,000 Charitable Annuity Trust with a 6% annuity rate.

Assumptions:

- 50% tax bracket for state and federal death taxes; 31% income tax bracket.
- Gift of appreciated stock yielding 2% with a cost basis of \$60,000. Upon receipt of the stock the trustee sells the stock and purchases investments yielding 6%.

Results:

- The charitable deduction for the charitable remainder interest reduces the Stuart income tax by 11,340.
- \$12,400 in capital gains tax is avoided on the sale of appreciated stock.
- Estate tax of \$50,000 is avoided by reducing the Stuart estate by \$100,000.
- Income to the donors is increased from \$2,000 to \$6,000 per year.

In addition, since the donors wish to maximize their children's inheritance, they can use the \$11,340 income tax savings to purchase a life insurance policy on their lives which is placed into a separate trust. This is known as **asset replacement**. Upon their death, the policy will pay \$80,000 to the children, **outside** the parents' taxable estate, an increase of \$30,000 over the \$50,000 the heirs would have received after paying \$50,000 estate tax on the original \$100,000.

FORMS: IRS Safe Harbor Trust Instruments

IRS REGULATIONS: Regs. 1.664-2

Corporate Gifts

The Foundation is well designed to receive gifts from corporations. It has both the organization and experience to ensure that such gifts can be administered efficiently and effectively in conformance with each donor's intent, but without any administrative burden upon the corporation. The Corporation would also receive full recognition for its generosity. Two examples of how such gifts might work are described below.

• • • • •

*Reliance Production
and Asian*

Opportunity: Reliance Production, Inc. is a well established, medium-sized corporation in Wallingford. Reliance and its employees have played an active role in the community for many years. The corporate focus has been on encouraging youth activities, especially sports and music. Reliance's CEO is 55 and she wants to ensure that the company's community role will continue long after she retires.

*Pathways both
want to help,
one using cash*

Solution: After discussion with the Foundation, the Company agrees to donate \$50,000 per year for 5 years to establish the Reliance Production Fund, which in the third year will begin making gifts to Wallingford entities to match the donor's expressed intent. As the fund continues to grow, additional and larger gifts can be made. The Foundation will screen all requests for funding and make the awards. Reliance will receive publicity at the time of each gift to the Foundation and each time awards are made.

• • • • •

*and the
other stock.*

Opportunity: In 1998 Frank Bender and Chao Chosang formed Asian Pathways, an internet company which meets a pressing need in international commerce. Both were educated in Meriden and started their business with considerable local help and backing. They both want to demonstrate their appreciation to the City and encourage others, but all their assets are committed to the business, which they hope to take public in about one year from now.

Solution: After discussion with the Foundation, the two owners decided to give 5000 shares of Asian Pathways common stock, which amounts to 1% of the total stock outstanding. The intent of the gift is to provide encouragement for remedial education through various United Way agencies in Meriden and Wallingford and to offer prizes in math and science, and scholarships in Meriden. All acknowledge that the gift has negligible value today, but if the Company continues to grow and has a successful public offering, the gift may be very valuable. By agreement with the donors, the Asian Pathways fund will become operative after the public offering when the stock can be traded. Then the Foundation will manage all the details of making awards.

Mix and Match

Meet the charitable interests and the financial needs of your client...

The chart below lists **Types of Funds, Ways of Giving, and Assets to Give**. We ask you to review the choices with your client and select options from each column to best meet the charitable interests and the financial needs of your client.

Types of Funds describes the charitable fund the donor establishes during his lifetime or the fund to which the remainder interest in a charitable trust will pass on the death of the life income beneficiaries. The minimum donation to start a fund is \$10,000. The Foundation encourages discretionary funds which will best meet the changing needs of the area.

Select from each column to devise the desired gift. Then use the appropriate form in Appendix B to generate the gift instrument.

TYPES OF FUNDS	ASSETS TO GIVE	WAYS OF GIVING
<p>Undesignated: The income from unrestricted funds is used to benefit United Way of Meriden and Wallingford and its member agencies for programs meeting the needs of the community.</p>	<p>Cash, Appreciated Securities: Donor does not pay income tax on the capital gains, yet receives a charitable deduction on the fair market value.</p>	<p>Current Gift: Give a gift now to establish a fund at the Foundation.</p>
<p>Designated: A donor may request that the income from the fund be granted in perpetuity to specific charitable organizations.</p>	<p>Retirement Funds: Donating the residue of IRA's, Keogh and 401(K) plans after the demise of the beneficiary, avoids a tax burden that can approach 80%.</p>	<p>Bequest: Add a donation to the Foundation in a will.</p>
<p>Field-of-Interest: A donor may specify a particular field -of-interest such as the youth programs, counseling, health services, or other in a particular town.</p>	<p>Life Insurance: Donor purchases a new policy or donates an existing policy to the Foundation.</p>	<p>*Charitable Remainder Trusts:</p> <ul style="list-style-type: none"> • Annuity Trust • Unitrust • Q-Tip Trust with charitable remainder
<p>Donor-Advised: A donor may annually suggest possible grant recipients from this fund.</p>	<p>Real Property: A donor can give a full or partial interest in a home or land and retain the right to enjoy either for life.</p>	<p>*Charitable Lead Trust</p> <p>*Pooled Income Fund</p> <p>*Gift Annuities</p>
<p>Scholarship: Scholarship funds can be tailored to the donor's</p>	<p>Closely-Held Stock: Innovative ways to donate closely-held stock are possible through the Foundation.</p>	<p>* Please refer to Appendix A for complete descriptions</p>

Final Steps for Creating A Fund

If you or your client would like to learn more about the Foundation before deciding on a fund, we would be happy to meet with you at your convenience.

The Foundation can provide you with sample calculations and a proposal on the pooled income fund or any of the charitable trust options. Please provide the following information:

Assets to be donated: Amount, Fair market value, cost basis, current yield.

Donors: Birthdates of beneficiaries, tax bracket, frequency of income payout (quarterly, annually).

Although the Foundation's service area is Central Connecticut, focusing on Meriden and Wallingford, we may allow donors to designate income from their funds to agencies outside the Foundation's service area.

After you have selected the types of fund, ways of giving, and assets to donate, and prepared the documents, we would appreciate an opportunity to review the documents to ensure that the terms are suitable to the Foundation. Donations of real property should be reviewed by the Foundation before the gift is established.

Over time, a fund's purpose can become outdated. A designated organization may cease to exist, change its name, merge with others, change its programs. The language in the sample forms notes that the Foundation's Board has the authority, without court order, to amend a fund's purpose so as to carry out the donor's intent if, through a change in circumstances, the donor's original purpose as expressed in the gift instrument cannot be carried out.

A CHECKLIST FOR GIVING

In deciding what assets your client should contribute, and when, the following simplified checklist may be helpful. The table assumes that your client has decided to create a fund (of any type) in the Community Foundation of Central Connecticut, Inc.

For more information about these giving options, please call our office.

<i>Your Client Wants To:</i>	<i>We Suggest Your Client:</i>	<i>In Order To:</i>
Reduce Income Taxes	Contribute cash or other assets outright	<ul style="list-style-type: none"> • Receive a current income tax deduction with a five-year carryover for the unused amount • Distribute gifts now or later
Reduce income taxes and avoid capital gains tax on sale of appreciated assets.	Contribute appreciated assets outright	<ul style="list-style-type: none"> • Receive income tax deduction for asset's full market share • Avoid capital gains tax
	<i>or</i>	
	Contribute appreciated assets and deduct the donor's basis only (for clients subject to the alternative minimum tax)	<ul style="list-style-type: none"> • Contribute full value to charity • Possibly receive a greater current tax deduction • Avoid capital gains tax
	<i>or</i>	
	Sell the asset and contribute the proceeds (for clients subject to the alternative minimum tax)	<ul style="list-style-type: none"> • Offset capital gains tax with income tax deduction (may be more advantageous to client than gift of asset)
Reduce income taxes and retain income for self, spouse or other beneficiary.	Establish a charitable remainder trust during lifetime	<ul style="list-style-type: none"> • Receive life income based on full market value of assets • Realize life income based on full market value of assets • Realize increased yield from stocks, bonds or real property through tax-free reinvestment and tax-sheltered growth • Earn current income tax deduction • based on age, number of beneficiaries, asset value and payout plan • Assign life income to spouse • Receive tax-free income from tax-free contributed assets • Replace value of contributed asset in estate through optional

Your Client Wants To:

Reduce income tax and contribute to charity at death

We Suggest Your Client:

Create a life estate

In Order To:

- Retain lifetime use of residence
- Reduce taxable estate
- Receive a current income tax deduction with five year carryover for unused amount

Reduce estate taxes and contribute part or all of estate to charity

Make a gift by will

- Receive estate tax deduction based on full market value of appreciated assets
- Create permanent support for favorite causes
- Simplify administration of charitable bequests
- Make a larger gift than may be possible during life
- Make gift contingent on prior death of beneficiary

Reduce estate tax and provide income to heirs

Create a charitable lead trust during life or by will

- Provide life income to beneficiary after death and benefit charity

Pass assets to family while minimizing estate tax

Establish a charitable lead trust during life or by will

- Provide annual income to charitable fund over defined number of years
- Return assets to family after this period of time
- Reduce estate and gift taxes on property passing to heirs, based on length of trust and value of payout

Contribute asset that is no longer needed in later life

Contribute life insurance policy

- Realize income tax deduction
- Reduce taxable estate
- Deduct premium payments as charitable contributions.

Protect spouse from financial emergencies

Create a Q-Tip Trust with a charitable remainder

- Pay life income to spouse
- Pass assets to charity after spouse's death
- Allow trustee to invade principal for spouse's benefit

I. Bequests

Donors who wish to make a gift in the future without depleting their current assets, can do so by bequest...

Donors who wish to make a gift in the future without depleting their current assets, can do so by bequest. A bequest to the Community Foundation of Central Connecticut has these benefits:

- Gifts made by bequest do not deplete assets during the lifetime of the donor.
- The donor can draft a new will or add a codicil to an existing will to make a bequest.
- A donor can designate the Foundation as the residual beneficiary of a retirement plan, avoiding both income and estate tax liabilities.
- Donors can leave a specific dollar amount or a percentage of the residue of their estate to the Foundation. This enables the donor to leave a gift of any size.
- A bequest may significantly reduce estate taxes.

II. Retirement Fund Assets

Donating retirement fund assets may avoid both estate taxes and income taxes.

Many people have accumulated sizable amounts in various retirement vehicles, such as profit-sharing plans, 401(K) plans, IRAs and Keogh plans. The primary purpose of these arrangements is to provide an assured source of income during retirement. In a surprising number of cases, however, substantial balances remain in these accounts after the deaths of both the retiree and the retiree's spouse.

When these remaining balances pass to the children or other family members, they may experience a double tax bite: first for those who are subject to estate taxes, a rate as high as 55% may apply, then a second hit of both federal and state income taxes when the funds are paid out.

Retirement accounts vary greatly and are subject to different regulations. Each individual situation may vary, making it extremely important that tax advice be sought before naming a charity as beneficiary of any retirement account. However, from a tax standpoint, retirement funds are the best assets to earmark for charity, since they are generally the most harshly taxed asset when left to family members.

III. Trusts

Charitable Remainder Trusts

These individual trusts provide lifetime income, a current income tax charitable deduction to the donor, and other special benefits. This is considered one of the best arrangements for substantial gifts. The trust may be one of two types - a Charitable Remainder Annuity Trust or a Charitable Remainder Unitrust. *Both trusts share the following characteristics:*

*Use a Charitable
Remainder Trust
to provide income,
to reduce taxes,
and to benefit
the Foundation.*

- The recommended minimum amount of the initial gift is \$50,000.
- The three key factors in determining the income and tax benefits of the trust are the donor's age, the percentage payout selected by the donor (5% or more) and the amount of assets used to fund the trust.
- Appreciated stock, bonds, cash, and real estate are all acceptable assets to fund a charitable remainder trust.
- The trust can provide income to several beneficiaries.
- The donor receives an immediate income tax charitable deduction which can be used in the year of the gift transfer. If the entire deduction cannot be used in the year of the gift, the remaining deduction can be carried forward for up to five additional years.
- A payout rate is negotiated, usually between 5% and 9%, depending on the current economic conditions, but not less than 5%.
- The donor has the right to choose a Trustee, including himself or herself.

Charitable Remainder Trusts can be established as Annuities or as Unitrusts.

The **annuity** has these unique characteristics:

- The trust pays a fixed rate of return based on the initial market value of the gift.
- No additional contributions can be made to the trust, although additional trusts can be set up.

The **unitrust** has the following characteristics:

- The trust pays a fixed rate of return to the donor based on the amount of principal in the trust, as valued annually.
- The donor or any other person may make additions to the trust by will, deed, bequest or outright gift with prior approval of the trustee.

Q-Tip Trust with a Charitable Remainder

There is an alternative trust known as a qualified terminable interest property (Q-Tip) trust with a charitable remainder. This type of trust can be created during the donor's lifetime or by will. The spouse must be given the right to all of the income for his or her life, and on his or her death the trust property can pass to the donor's fund at the Foundation.

A significant advantage of the Q-Tip trust with a charitable remainder is that the trustee may be given the power to invade the principal of the trust for the benefit of the spouse, a power which the trustee of a charitable remainder trust does not have. This can increase the flexibility of the trust to meet unexpected family needs.

Charitable Lead Trust

Under a charitable lead trust, which the donor can create by a trust agreement or by will, an annuity or unitrust payment from the trust is made to the Foundation for a designated period of time, at the end of which time the principal would be returned to the donor or given to any other non-charitable beneficiary whom the donor might select.

A charitable lead trust created by will can substantially reduce the estate taxes payable on the donor's death, because the donor's estate gets a charitable deduction for the Foundation's interest in the annuity or unitrust payment.

The value of the charitable interest depends on the length of the trust and the percentage to be paid out each year. The saving in estate taxes means that the members of the donor's family will ultimately receive substantially more than if the property were left to them outright at the donor's death.

Similarly, if the donor creates a charitable lead trust during his or her lifetime, the donor can take an income tax deduction in the year the assets placed in the trust, but income taxes will be due on the Trust income in subsequent years. The donor can also reduce gift taxes on the property eventually passing to his or her children or grandchildren.

A charitable

lead trust

created by will

can substantially

reduce the

estate taxes.

IV. Pooled Income Fund

*Capital gains tax
may be avoided
since there is no tax
incurred on the sale
of appreciated property
that has been
transferred to the
pooled fund.*

As with the charitable remainder trust, the pooled income fund provides for payments to the life income beneficiaries, and upon their death, the assets are transferred to the donor's fund at the Foundation. In the pool, gifts are assigned a number of units for investment purposes. The number of units will not change although the value of each unit may fluctuate with the appreciation or depreciation of the fund's assets. The income from the investments is distributed to the beneficiaries, but any realized gains are reinvested as principal. Although the investment objective of the fund is to seek both current income and capital appreciation, the Foundation cannot guarantee a rate of return on the fund.

The donor receives an income tax deduction in the year of the gift for the value of the Foundation's remainder interest in donated property. The amount of the deduction is determined by the amount of the gift, the rate of return for the fund and the age of each income beneficiary at the time of the gift, and is calculated using standard actuarial tables. Another potential tax advantage is the reduction of the donor's taxable estate with consequent reduction in death taxes. In addition, a capital gains tax may be avoided since there is no tax incurred on the sale of appreciated property that has been transferred to the pooled fund. The minimum initial contribution to the pooled income fund is \$10,000 with a minimum of \$2,000 for subsequent contributions.

This arrangement is one of the most popular options for donors age 60 years and older, especially those with appreciated stock.

In summary, The Pooled Income Fund has the following characteristics:

- The donor makes a gift of appreciated stock or cash to the Fund, which is similar to a mutual fund.
- The donor receives an immediate income tax charitable deduction which can be used in the year of the gift transfer. If the entire deduction cannot be used in the year of the gift, the remaining deduction can be carried forward for up to five additional years.
- The donor or other designated beneficiary(ies) receives income paid quarterly for life.
- If the donor transfers appreciated stock to the Fund, capital gains taxes are avoided.
- All income earned by the Fund is distributed on a pro-rata basis to the designated income beneficiaries of the Fund.
- At the income beneficiary's death, the principal is transferred to the charitable organization for its use.

Gift Annuities

Charitable Gift Annuity

The Charitable Gift Annuity is a suggested idea for donors aged 60 and older. It is one of the simplest of planned gifts. The arrangement is a straightforward agreement between the donor and the Foundation. The Foundation agrees to pay a fixed income to any designated income beneficiary(ies) for life. The interest rate is determined by the beneficiary's age. On the death of the annuitant(s), the Foundation places the remaining principal into a fund named by the donor. The following are characteristics of a Charitable Gift Annuity:

The Charitable Gift

Annuity is a

suggested idea

for donors

aged 60 and older.

It is one of the

simplest of

planned gift.

- The donor makes a gift of appreciated stock or cash with a minimum value of \$10,000 in exchange for an annuity.
- The donor receives an immediate income tax charitable deduction which can be used in the year of the gift transfer. If the entire deduction can not be used in the year of the gift, the remaining deduction can be carried forward for up to 5 additional years.
- The annuitant(s) receives fixed payments guaranteed by the full faith, credit and assets of the Foundation. Payments are made quarterly.
- The donor can fund the annuity with appreciated stock, and if any capital gains tax is incurred, it is largely offset by the income tax charitable deduction and spread over the actuarial life expectancy of the donor.
- If the annuity is funded with cash, a portion of the income is considered tax-free return of principal and is exempt from federal, and in most cases, state income tax.

Deferred Charitable Gift Annuity

For donors age 35 through 60, the Deferred Payment Charitable Gift Annuity is a very flexible gift idea. This arrangement acts like an individual retirement account (IRA). The annuitant's income is usually deferred until age 65 or retirement. The agreement has the following characteristics:

- The donor makes a gift of appreciated stock or cash with a minimum value of \$10,000 in exchange for an annuity.
- The longer the annuitant is willing to defer the annuity payments, the higher the payout rate.
- The donor receives an immediate income tax charitable deduction which can be used in the year of the gift transfer. If the entire deduction cannot be used in the year of the gift, the remaining deduction can be carried forward for up to five additional years.
- The annuitant receives the benefit of tax-deferred earnings with a compounded return.
- The donor has the opportunity to make a large gift, or a series of gifts, to the Foundation early in life, naming the fund and building income.
- The deferred income at retirement age is normally taxed at a lower rate.
- The donor can fund the annuity with appreciated stock, and if any capital gains tax is incurred, it is largely offset by the income tax charitable deduction and spread over the actuarial life expectancy of the donor.

VI. Gift of Life Insurance

A life insurance

gift

does not deprive

the donor's

family of

other estate

assets...

The use of life insurance is becoming an increasingly popular way to accomplish significant charitable goals on a gradual, tax-favored basis. The procedure is simple, and the variety of life insurance products available support very individualized planning. In most cases, the ownership of rights of a life insurance policy on your life are irrevocably assigned to the Foundation, and the cash value is classed as a charitable donation. If the Foundation is designated as the irrevocable beneficiary, the annual premiums are considered a charitable donation. These relatively small tax deductible contributions thus leverage a substantial fund that will pass to the Foundation at your death. Tax credits are available on donations of up to 20% of your net income; carry-forwards are also allowed.

Some benefits to the donor are that a life insurance gift does not deprive the donor's family of other estate assets; neither taxes nor probate fees will reduce the size of the gift; premium payments and tax credits will reduce tax liability in your lifetime; your gift cannot be contested.

The Foundation benefits because there are no delays in receiving the gift and the proceeds are not subject to probate.

Due to the complexity and variety of choices available with gifts of life insurance, it is advised that you seek the advice of an insurance professional as well as your legal and tax counsel.

VII. Matching Gifts

*Increase
the power*

of giving...

Many corporations and even some not-for-profit entities strongly encourage charitable giving by their employees, spouses of employees, and retirees and their spouses. Some will not only match dollar for dollar the gift of an individual, but will do a double match. Thus a gift to the Foundation may be doubled or even trebled.

Please check with your Human Resources Department to determine if your gift qualifies and whether any restrictions apply. Matching gifts offer a wonderful opportunity to help the Foundation.

VIII. Gifts of Real Estate

Real property may be a suitable asset to be given to the Community Foundation of Central Connecticut, Inc. The Foundation can relieve some of the financial burden of owning and maintaining real estate while securing the donor's ability to live at home for his or her lifetime.

We can also help ameliorate some of the taxable gain on certain properties. Because there are so many considerations and complexities involved in gifts of real estate, please consult with the Foundation before recommending it to a client. An interest in real property which is environmentally contaminated, the subject of litigation, or which cannot be readily converted to the financial benefit of the Foundation may not be accepted.

*The Foundation
can relieve some
of the financial
burden of
owning and
maintaining
real estate
while securing
the donor's ability
to live at home
for his or her
lifetime.*

Some real estate gift options include:

Outright gift: The donor transfers property to the Foundation and receives an income tax charitable deduction equal to the appraised value of the property.

Retained life estate: An outright gift of real estate with a retained life estate is a very common and useful gift option. Under this option, the donor retains the right to live in the home and, at the donor's death, the Foundation owns the property outright. The donor receives an income tax charitable deduction that is calculated using several IRS factors.

Bargain sale: The bargain sale is an excellent choice for a donor with mortgaged property, or a donor who wishes to buy a unit in a retirement community. For example, assume a donor owns a residence worth \$210,000, and through a bargain sale of the property, sells the Foundation one-third of the property for \$70,000 in cash and gives the remaining two-thirds, or \$140,000, to fund a Charitable Remainder Unitrust. The donor receives a lump-sum payment, an income for life, and an income tax charitable deduction. The Foundation takes title to the property, which it then sells and receives the proceeds.

Net income unitrust: Real estate can be transferred to a net income unitrust that provides the donor, or other designated beneficiary(ies), an income for life and an immediate income tax charitable deduction, while freeing the donor from the responsibility of owning real property. This option is especially attractive to a donor who owns vacant land, commercial property or real estate that is no longer needed. The donor may select a payout rate - usually between 5% and 9%. The value of the assets are valued annually. the higher the payout rate, the lower the income tax charitable deduction. Because there is often a delay in the sale of the property, the donor must fund the gift with cash as well, before receiving the net income or agreed upon payout rate, whichever is less. In future years, the donor can receive a makeup of the shortfall that occurred while waiting for the sale of the property if a makeup provision is incorporated into the unitrust agreement.

Transferring A Private Foundation

For many years, the private foundation, established by a family or a business, has been a popular vehicle for carrying out philanthropic goals on a long-term basis. Through the use of such a foundation, the donors have been able to accelerate tax deductions and may involve family members, and obtain community visibility (if desired).

Today the complexities of complying with tax laws and reporting requirements have become expensive burdens to many private foundations, diminishing funds available for charitable purposes. Private foundations of small or even moderate size cannot afford staff assistance to deal with the many requests for funds that pour in. And in many cases the descendants of the founders lack the interest or enthusiasm to carry out the foundation's intended purpose.

In many cases, the ideal solution to the burden of an existing private foundation lies in terminating the foundation and transferring its assets to a newly created donor-advised fund at the Community Foundation of Central Connecticut. Typically, the new fund will bear a name similar to that of the original foundation, and the activities of the private foundation can continue without interruption. The founding family members or former trustees of the terminated private foundation can submit grantmaking recommendations to the Foundation's Board of Directors which has ultimate responsibility for all Foundation grants. The Board will pay very close attention to the recommendations of these advisors although, under IRS regulations, their suggestions cannot be binding.

There are distinct advantages to a donor-advised fund in the Community Foundation of Central Connecticut when compared with a private foundation:

- The 1% or 2% excise tax on private foundation investment income is eliminated;
- The requirement that approximately 5% of the private foundation's asset value be paid annually to charity is no longer applicable, enabling grants to be made over a more flexible timetable;
- The tax deductibility of contributions to community foundations is often greater than for gifts to private foundation; and
- The names of donors to private foundations must be made public, while donors to community foundations may remain anonymous.
- The Community Foundation of Central Connecticut also offers economies of scale with lower investment management fees as well as efficient administrative support. Perhaps the most important consideration of all is that the former private foundation's grantmaking decisions can benefit from the support of a professional staff which is in close touch with the needs of the community and the extent to which those needs are being met by other funding sources.

X. Tributes and Memorial Gifts

*A way to
honor others...*

The Foundation offers a wonderful opportunity to memorialize a deceased friend or relative or to honor a living person. Such tributes honor both the person acknowledged and the donor, and provide lasting benefits.

A living person might be recognized for a special accomplishment, a birthday or anniversary. This is always guaranteed to “fit” and is an eloquent response to a difficult or uncertain situation.

The Foundation will acknowledge any such gifts to both the donor and the honoree.

XI. Agency Endowments

*Professional
stewardship...*

The Foundation can manage endowment funds of other nonprofit organizations. We offer prudent oversight and quarterly payouts, with a view toward growth and minimizing costs. This service can bring professional management and peace of mind to organizations which are primarily focused on program and service delivery. It also ensures that funds intended for permanence will remain uninvaded for the lifetime of the organization.

SUGGESTED LANGUAGE FOR THE ESTABLISHMENT OF FUNDS

UNRESTRICTED, FIELD-OF-INTEREST OR DESIGNATED FUNDS

I/we give (and bequeath) to the Community Foundation of Central Connecticut, Inc. ("The Foundation"), a not-for-profit community foundation located in Meriden, Connecticut, the following assets:

(describe gift)

This gift is irrevocable and is to be held by the Foundation in a separate fund to be known as:

The _____ Fund.

TYPE OF FUND:

Unrestricted _____

Field-of-Interest (list field) _____

Designated (list organization(s)) _____

If more than one organization is listed, the donor can either list percentages of income to be distributed to each organization or, preferably, give the Foundation's Board of Directors discretion to allocate the income, in any given year, to the designated organization(s) whose proposed projects best meet the need of the community.

I/we desire that a portion of the yield from said Fund (less the Fund's reasonable and allocable share of the Foundation's administrative and operating expenses) be utilized for the designated organization(s) as given above. It is understood that if the Board of Directors of the Foundation shall at any time determine that such distributions are no longer appropriate and in accord with my desires and the objectives and principles of the Foundation, it may, in the exercise of its discretion, direct the application of the same in whole or in part to meet other related projects or the general charitable purposes of the Foundation.

Under normal circumstances the Spending Rule adopted by the Board of Directors will determine the amount of the annual distribution. Any surplus between income generated and spending levels is reinvested into the Fund.

Further additions to the Fund can be made at any time and shall be subject to the conditions and understandings set forth above. The countersignature by the Foundation and return of a copy of this form to you will indicate approval of the Fund.

Signature of Donor _____ Date _____

**SUGGESTED LANGUAGE FOR THE ESTABLISHMENT
OF FUNDS
SCHOLARSHIP FUND**

I/we give (and bequeath) to the Community Foundation of Central Connecticut, Inc. (“The Foundation”), a not-for-profit community foundation located in Meriden, Connecticut, the following assets:

(describe gift)

This gift is irrevocable and is to be held by the Foundation in a separate fund to be known as:

The _____ Fund.

For gifts or pledges of \$10,000 or more, to be paid over five years, the donor has the following options:

_____ The income should be awarded as part of the Foundation’s General Scholarship Fund.

_____ The donor desires that the purpose of the Fund be to provide scholarships for students who:
(list any geographic restriction, level of education e.g. secondary, graduate, or areas of academic study or interest, etc.)

-

-

—

Unless otherwise noted below, the scholarship recipients will be selected based on recommendations from school personnel, academic ability, extra-curricular activities and financial need.

In addition to the above or instead of the above, I/we desire that the applicants be selected for scholarship awards based on the following criteria: _____

—

The Foundation’s Board of Directors will select the scholarship recipients.

It is understood that if the Board of Directors of the Foundation shall at any time determine that such distributions are no longer appropriate and in accord with my desires and the objectives and principles of the Foundation, it may, in the exercise of its discretion, direct the application of the same in whole or in part to meet other related projects or the general charitable purposes of the Foundation.

Under normal circumstances the Spending Rule adopted by the Board of Directors will determine the amount of the annual distribution. Any surplus between income generated and spending levels is reinvested into the Fund.

Further additions to the Fund can be made at any time and shall be subject to the conditions and understandings set forth above. *The countersignature by the Foundation and return of a copy of this form to you will indicate approval of the Fund.*

SUGGESTED LANGUAGE FOR THE ESTABLISHMENT OF FUNDS

DONOR-ADVISED FUND

I/we, having reviewed the Foundation guidelines for the establishment of donor-advised funds, wish to establish the following donor-advised fund in compliance with those guidelines. I/we give to the Community Foundation of Central Connecticut, Inc. ("The Foundation"), a not-for-profit foundation located in Meriden, Connecticut, the following assets:

(describe gift)

This gift is irrevocable and is to be held by the Foundation in a separate fund to be known as:

The _____ Fund.

The Donor (and his or her spouse) have the privilege of making recommendations for grants from the Fund's income. One set of recommendations shall be submitted in writing to the Foundation office. Such privilege of a Donor or the spouse will be terminated by (i) death, (ii) written notice to the Board of Directors of resignation or release, or (iii) a finding by the Board of Directors that the person involved is not available or competent to exercise the privilege.

Upon termination of the advisor privilege, the Fund will be retained as a permanent endowment fund of the Community Foundation of Central Connecticut, Inc. In the absence of instructions provided either in this instrument or at a later date by a separate communication to the Board of Directors by the Donor or spouse, the Fund will become an unrestricted fund of the Foundation.

Upon termination of the advisor privilege I/we request that the Fund be retained by the Community Foundation of Central Connecticut, Inc. as the following type of fund:

Unrestricted _____

Field-of-Interest *(list field)* _____

Designated *(list organization(s))* _____

Scholarship *(list purpose)* _____

Guidelines for Recommendations

I/we understand that the recommendations provided annually by the Donor will be reviewed by the Finance Committee and the Board of Directors to ascertain if the recommendations are consistent with the charitable purposes of the Foundation. The Board of Directors is not bound by the advice of the Donor and always maintains the right to distribute the funds in accordance with the objectives of the Foundation.

After the close of the Foundation's fiscal year, December 31st of each year, the Foundation staff will inform the Donor of the funds available for distribution, less the reasonable and allocable share of the Foundation expenses. The staff will be pleased to inform the Donor of all proposals under consideration by the Board of Directors and provide background on the projects under review. Unless requested otherwise, the transmittal letter with the check for the approved organization will include the name of the fund. The Donor will receive notification of all grants made from the Advised Fund.

Under normal circumstances the Spending Rule adopted by the Board of Directors will determine the amount of the annual distribution. Any surplus between income generated and spending levels is reinvested into the Fund.

Further additions to the Fund can be made at any time and shall be subject to the conditions and understandings set forth above. *The countersignature by the Foundation and return of a copy of this form to you will indicate approval of the Fund.*

Signature of Donor

Date

LETTER OF INTENT

I am interested in improving the health and human service environment of our community and want to make a gift that will have a lasting impact for many years to come. In acknowledgement of my strong belief and confidence in the United Way, I affirm that I have made, or intend to make, the following gift(s) to the Community Foundation of Central Connecticut, Inc.:

- _____ A gift in my will.
- _____ An outright gift of cash, stocks or real estate.
- _____ A gift of life insurance (designating the United Way Foundation as the beneficiary).
- _____ A gift that provides income to me or my family (charitable trust or other deferred gift).
- _____ Other endowment gift:

This letter of intent is not a legal obligation.

_____ I would like a representative of the Community Foundation to contact me for a confidential discussion of my gift.

Please Print:

Name(s) _____ Phone _____

Address _____

City _____ State _____ Zip Code _____

Signature _____ Date _____

We would like to include your name(s) on our Foundation membership rolls to encourage other gifts and to provide you with appropriate recognition. However, please check here if you prefer to remain anonymous: _____

SUGGESTED LANGUAGE FOR POOLED INCOME FUND

Certificate of Transfer

I, the Donor, hereby transfer to the Community Foundation of Central Connecticut, Inc. Pooled Income Fund (the "Fund"), under their terms and conditions set forth in its Declaration of Trust dated **xxxxxxx**, **xxxx** (the "Trust"), the property listed below. The Donor recognizes that, under the terms of the Trust, the property will become part of the Fund and will commingled with gifts of other donors who have made or will make similar transfers and will be managed and invested under the terms of the Trust. The Donor reserves the right to make additional gifts to the Foundation by deed, gift or will, with the consent of the Foundation.

(describe gift)

The interest income attributable to the property transferred shall be paid as follows:

- The Donor retains for himself or herself, during his or her lifetime, an income interest in the property transferred to the Fund.
- The Donor retains for himself or herself, and during his or her lifetime, an income interest in the property transferred to the Fund. In the event the Donor's spouse survives the Donor, there is created an income interest in such property in the Fund to commence on the Donor's death for the Donor's spouse for and during his or her lifetime. However, the Donor hereby reserves the right to appoint and direct, solely by will, that the income interest created on such property in the Fund shall terminate upon his death, whether or not the spouse survives the Donor.
- The Donor directs that _____ shall be the income beneficiary for life from the property transferred to the Fund. However, the Donor hereby reserves the right to appoint and direct, solely by will, that the income interest created on such property in the Fund shall terminate upon his or her death, whether or not the beneficiary survives the Donor.

Upon the termination of the income interest, the Trustee of the Fund will sever from the Fund an amount equal to the value of the remainder interest in the transferred property and transfer it to the Community Foundation of Central Connecticut, Inc. (the "Foundation"), for the following purpose(s):

Unrestricted _____ **Field-of-Interest** *(list field)* _____
Designated *(list organization(s))* _____ **Scholarship** *(list purpose)* _____

The income from said fund (less the fund's reasonable and allocable share of the Foundation's administrative and operating expenses) shall be utilized, in the case of a discretionary fund, for the Foundation's general uses and purposes as set forth in its Certificate of Incorporation and Bylaws, as the same have been, or may hereafter from this time be, amended, or in the case of other funds, for the field of interest or the designated organization(s) as given above. It is understood, however, that if the Board of Directors of the Foundation shall at any time determine that such distributions are no longer appropriate and in accord with the Donor's desires or the objective san principles of the Foundation, it may, in the exercise of its discretion, direct the application of the same in whole or in part O'T meet other projects and the charitable purposes of the Foundation.

With respect to discretionary funds, where a preference is indicated, the Foundation will consider the Donor's preference at the termination of the income interest(s) as it shall deem advisable, but such funds will always retain their unrestricted character. With respect to these unrestricted funds, the Donor may advise the Foundation of a change in preference at any time.

The Foundation, acting alone, shall have the power to amend this Certificate of Transfer to the extent required, and only to such extent, for the sole purpose of insuring that the Donor's gift qualifies as a gift to a "pooled income fund" under Section 642(c)(5) of the Internal Revenue Code of 1986, as amended.

This instrument, and the transfer of property made pursuant thereto, shall be effective after acceptance by both the Donor, the Foundation and the Trustee.

Signature of Donor **Date**

Signature of Bank Officer **Date**