Chelsea Area Wellness Foundation

Finance Committee Meeting

~ January 13, 2015 ~
5:15 pm

AGENDA

I. Call to Order

II. Approval of November 12, 2014 minutes*

III. Russell Update

IV. Operating Foundation

[*Internet and Password – 5healthytowns, 310nms203*]]

*Material available online
**Material available at the meeting

Chelsea Area Wellness Foundation
Finance Committee Meeting Minutes
November 12, 2014

Present: Scott Broshar, Amy Heydlauff, Doug Weber, Judy Nold by phone, Larry Cobler by phone
Absent: Robert Stephens, Tom Mann
Guests: Russell Investment team by phone - Charlie Wright, Lisa Schneider, Mary Beth Lato for item 3 only

1. **Call to Order**: 5:15 p.m.

2. **Approval of Minutes:** Motion made, seconded and approved to accept September 10 and September 24, 2014 minutes.

3. Russell Investment Allocation recommendations

    a. Two proposals were reviewed. See attached power point presentation
        1. Provided scenarios with our full spending requirements (including mortgage obligations) and without our mortgage obligations.
        2. Russell stressed the unlikelihood of maintaining CWF's stated goal of intergenerational equity; meaning we are unlikely to maintain our spending power over the years with our current rate of spending. It is likely we will need to spend down our corpus (principal). We consider the corpus to be the original $25M plus growth equal to inflation.
        3. Russell often uses 2.5% inflation in their models. CWF reiterated our desire to use a more conservative 3% inflation.
        4. CWF Finance Committee previously discussed reducing our exposure to hedge funds to 10%. The Russell investment team agreed this is reasonable and will run their models with 10% hedge, 75% RIFL MAC+, 15% Core Bonds.

Action: Mary Beth Lato will provide the new model. Finance Committee will vote on the new model (option C), electronically, by Monday, 11/17/14. Amy Heydlauff will notify Mary Beth Lato of the Committee decision by Monday afternoon.

Action: Amy Heydlauff will provide the BOD with the historic resolution re: intergenerational equity and maintaining CWF buying power in perpetuity.

4. 2nd Quarter financials

a. Review of accounting related to wellness centers interest, depreciation & facilities charges was undertaken. Beginning in the 3rd Quarter (and adjusted for the 1st & 2nd Quarter) we will account for CWC & DWC in the following manner:

Building Depreciation	Accounted for by CWF for CWC & DWC – line item 71100
Equipment Depreciation	Accounted for by Wellness Centers (Power Wellness responsibility)
Interest on bonds (mortgage)	Accounted for by CWF for DWC
Facility charge	$17.00/sf for both CWC & DWC, below the line. Accounted for by Wellness Centers.

b. Minimal review of CommonFund 2nd Q report in light of upcoming transition to Russell Investments.

5. 990 PF (tax filing) review

a. To be filed on or before 11/17/14
b. Amy Heydlauff called committee members attention to Part XIII, line 9, Excess distributions. Regulations allow inclusion of the funds used to purchase DWC in our total distribution for 2013 (this filing year). That does the following
   1. Provides $13.6M toward future year spending. We, essentially, have no further spending requirements for the next five years since this $13.6M will more than cover 5% of our non-charitable assets for five years.
   2. Puts us in a 2% tax bracket instead of a 1% bracket for the next tax filing. We pay taxes on capital gains, only. In the current year we paid about $32,000 so we can anticipate something like a $64,000 tax burden for 2014 (if market performance is comparable). In order to avoid a 2% burden we'd have to spend more than we spent in 2013 & that is highly unlikely.
   3. This information will be useful in our November Board meeting discussion of spending priorities in 2015-16.

Meeting adjourned at 7:45 pm
Next meeting: December 10, 2014 or
January 14, 2015

Recorded by: Amy Heydlauff

___________________________________ __________________

Scott Broshar Date
Treasurer, Chelsea-Area Wellness Foundation

Transition Recap

Chelsea-Area Wellness Foundation

Chelsea-Area Wellness Foundation
Transition Summary

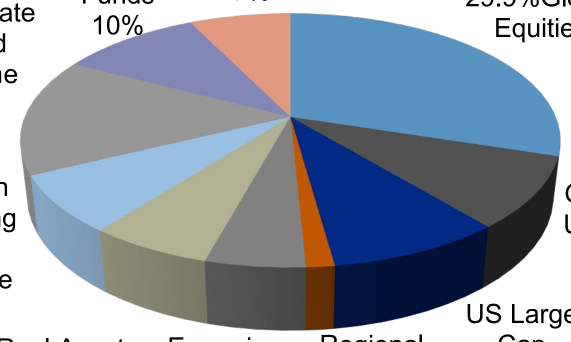
- Russell was selected in October 2014 as the outsourced investment provider for the Chelsea-Area Wellness Foundation Investment Account
- In early November, Russell met with the staff and the Investment Committee to review the spending study and plan an initial asset allocation for the assets
  - The goal was to assess various objectives given the spending policy and determine which goals are most important with the risk levels required to reach these goals
  - The result was an asset allocation to assist in meeting the goals and objectives
- Throughout November and December, a strategy was formulated for an asset transition based on Common Funds liquidity requirements and occurs in three phases:
  - On December 17th, asset liquidation from the legacy funds began with \$4.4 million transferring into Russell Funds
  - On December 31st, another \$17.0 million transitioned to Russell
  - Finally, the Common Fund hedge funds (~\$4.6 million) will be redeemed March 31, 2015. A small portion of approximately \$230k is available on June 30, 2015
- As of January 8th, approximately 83% of the legacy assets have transitioned to Russell

Chelsea-Area Wellness Foundation

Long-Term Investment Account Asset Allocation

	Fund/Asset Class	Legacy Allocation	Russell Allocation
Growth	RIFL MAC+	-	75%
	Global Equity	60%	-
	Global Listed Real Estate	5%	-
Risk reduction / Diversifying	Core Bonds	10%	15%
	TIPs	2%	-
	Commodities	8%	-
	Hedge Funds	15%	10%
	Private Real Estate	-	-

Russell Asset Class Diversification



Fund	Target Allocation %	Current Market Values As of 1/14/2015	Actual Allocation %
RIFL Multi-Asset Core Plus Fund	75%	$19,090,294.49	69%
RIFL Core Bond Fund	15%	$3,942,089.84	14%
Common Fund Hedge Funds*	0%	$4,630,315.00	17%
Russell Total Return Fund	10%	$0.00	0%
Total	**100%**	**$27,662,699.33**	**100%**

*Common Fund Hedge Fund values are as of 9/30/2014.

Russell Investments

Chelsea Area Wellness Foundation

Transition Trade Summary

Trade Date	Settle Date	Fund Name	Units	NAV	Amount	Tsfr Amt
12/17/2014	12/18/2014	Russell Core Bond Fund	129,546.947	15.23	1,973,000.00	
12/18/2014	12/19/2014	Russell Core Bond Fund	6,625.416	15.21	100,772.58	
					2,073,772.58	2,073,772.58
12/18/2014	12/23/2014	Russell Core Bond Fund	120,052.597	15.21	1,826,000.00	
		Russell Multi-Asset Core Fund	45,572.264	11.97	545,500.00	
12/19/2014	12/22/2014	Russell Core Bond Fund	6,888.885	15.23	104,917.72	
		Russell Multi-Asset Core Fund	2,609.414	12.01	31,339.06	
					2,507,756.77	2,507,768.64
12/31/2014	1/2/2015	Russell Multi-Asset Core Fund	1,348,664.44	11.98	16,157,000.00	
1/2/2015	1/5/2015	Russell Multi-Asset Core Fund	71,489.97	11.98	856,449.89	
					17,013,449.89	17,013,449.89
1/6/2015	1/7/2015	Russell Core Bond Fund	(8,127.44)	15.38	(125,000.00)	(125,000.00)

Cumulative Totals

Fund Name	Units	Cumulative Buys & Sells
Russell Core Bond Fund	254,986.4068	3,879,690.30
Russell Multi-Asset Core Fund	1,468,336.0925	17,590,288.95
		21,469,979.24

Russell Investments

In general, a private operating foundation is a private foundation that devotes most of its resources to the active conduct of its exempt activities.

A private foundation may qualify for treatment as a private operating foundation. These foundations generally are still subject to the tax on net investment income and to the other requirements and restrictions that generally apply to private foundation activity. However, operating foundations are not subject to the excise tax on failure to distribute income. Also, contributions to private operating foundations described in Internal Revenue Code section 4942(j)(3) are deductible by the donors to the extent of 50 percent of the donor's adjusted gross income, whereas contributions to all other private foundations (except those discussed under Private Pass-through Foundation) are generally limited to 30 percent of the donor's adjusted gross income. In addition, a private operating foundation may receive qualifying distributions from a private foundation if the private foundation does not control it.

Determination of compliance with operating foundation tests

Determining whether the income test and one of the three remaining tests are met depends on whether the tests are met in a foundation's normal and regular operation over a period of years, rather than on a given day during the year or on a year-by-year basis. A foundation may qualify as an operating foundation if it meets the income test and either the assets, endowment, or support test for any three years during a four-year period (*three-out-of-four year method*), or based on a combination of all pertinent amounts of income or assets held, received, or distributed during the four-year period *(four-year combination method).* The four-year period consists of the tax year in question and the three years immediately preceding that year. A foundation may not use one method for satisfying the income test and the other method for satisfying one of the other tests.

For example, if the income test is satisfied on the three-out-of-four-year basis, the foundation may not use the four-year combination method to satisfy one of the other tests. However, that the foundation uses one method to satisfy the tests in a particular year will not prevent it from using the other method to satisfy the tests in a later year. If a foundation fails to satisfy the income test and either the assets, endowment, or support test for a particular tax year under either the three-out-of-four-year method or the combination method, it will be treated as a nonoperating foundation for the tax year and for all later tax years until it satisfies the tests.

Definition of Private Operating Foundation

A private operating foundation is any private foundation that spends at least 85 percent of its adjusted net income or its minimum investment return, whichever is less, directly for the active conduct of its exempt activities (the income test).

In addition, the foundation must meet one of the following tests:
- the assets test
- the endowment test
- the support test

Certain private foundations that provide long-term care facilities are treated as operating foundations only for the purposes of the excise tax on failure to distribute income.

Private operating foundation - assets test

Assets test. A private foundation will meet the assets test if 65% or more of its assets:

1. Are devoted directly to the active conduct of its exempt activity, a functionally related business, or a combination of the two,
2. Consist of stock of a corporation that is controlled by the foundation (by ownership of at least 80% of the total voting power of all classes of stock entitled to vote and at least 80% of the total shares of all other classes of stock) and at least 85% of the assets of which are so devoted, or
3. Are any combination of (1) and (2).

Qualifying assets. An asset is devoted directly to the foundation's exempt purpose only if it is used by the foundation in actually carrying on the charitable, educational, or other similar function that gives rise to the exempt status of the foundation. Assets such as real property, physical facilities or objects (such as museum assets, classroom fixtures, and research equipment) and intangible assets (such as patents, copyrights, and trademarks) are directly devoted to the extent they are used by the foundation in directly carrying on its exempt activities or program. However, assets (for example, stock, bonds, or rental property) including endowment funds, when held primarily for the production of income, for investment, or for some similar use, are not devoted directly to the active conduct of the foundation's exempt function, even though income from the assets is used to carry on the foundation's exempt function.

Whether an asset is held for the production of income, for investment, or for some similar use, rather than being used for the active conduct of the foundation's exempt activities, is a question of fact.

For example, an office building used to provide offices for employees engaged in the management of endowment funds of the foundation is not devoted to the active conduct of the foundation's exempt activities.

However, for property used both for exempt and other purposes, if the exempt use of the property represents at least 95% of the total use, the property will be considered to be used exclusively for an exempt purpose. Property acquired by a foundation to be used in carrying out its exempt purpose may be considered devoted directly to the active conduct of that purpose even though the property, in whole or in part, is leased for a limited and reasonable period of time during which arrangements are made for its conversion to the use for which it was acquired. Generally, one year is considered a reasonable period of time. Similarly, when property is leased by a foundation in carrying out its exempt purpose and when the rental income received from the property by the foundation is less than the amount that would be required to be charged to recover the cost of purchase and maintenance of the property, the property will be considered devoted directly to the active conduct of the foundation's exempt activities.

Fair market value must be used in determining whether 65% or more of the assets are devoted directly to exempt purposes. However, in the case of assets that are unique and for which no ready market or standard valuation method exists, such as historical objects, buildings, certain works of art, and botanical gardens, the historical cost (unadjusted for depreciation) will be considered fair market value, unless the foundation can show that fair market value is other than cost. If the foundation can show that fair market value is other than cost, this substituted valuation may be used for the tax year for which the new valuation is shown and for each of the following 4 tax years.

See Valuation of assets for a discussion of valuations.

Assets maintained for extending credit or making funds available to members of a charitable class are not considered assets devoted directly to the active conduct of exempt activities. For example, assets set aside in special reserve accounts to guarantee student loans made by lending institutions will not be considered qualifying assets. Even though amounts set aside for specific projects may qualify (as explained earlier) as distributions expended directly for the active conduct of exempt activities for the income test, they do not qualify under the assets test as assets devoted directly to the active conduct of the foundation's exempt activities.

Assets held for less than a full tax year. In applying the assets test, assets held for only part of the tax year are taken into account for the year by multiplying the fair market value of each asset by a fraction.

The numerator of the fraction is the number of days during the year that the foundation held the asset, and the denominator is the total number of days in the year.

Private Operating Foundation - Endowment Test

A foundation will meet the endowment test if it normally makes qualifying distributions directly for the active conduct of its exempt activities of at least two-thirds of its minimum investment return.

In determining whether the amount of qualifying distributions is at least two-thirds of the organization's minimum investment return, the organization is not required to trace the source of the expenditures to determine whether they were received from investment income or from contributions.

Example. X Foundation, created after May 26, 1969, has $400,000 of endowment funds and other assets not directly used for its exempt purpose. X makes qualifying distributions of $20,000 during the year directly for the active conduct of its exempt function. Two-thirds of X's minimum investment return is $13,333.33 (5% X $400,000 = $20,000; 2/3 X $20,000 = $13,333.33). Because the $20,000 distribution is greater than $13,333.33, X meets the endowment test.

In most cases, the foundation satisfies the endowment test if it satisfies the income test. Only where the minimum investment return is markedly higher than adjusted net income does the endowment test (and thus the other alternative tests as well) have independent significance.

Private Operating Foundation - Support Test

A private foundation will meet the support test if:

1. At least 85 percent of its support (other than gross investment income) is normally received from the general public and 5 or more unrelated exempt organizations,
2. Not more than 25 percent of its support (other than gross investment income) is normally received from any one exempt organization, and
3. Not more than 50 percent of its support is normally received from gross investment income.

Here the term support means gifts, grants, contributions, membership fees, the value of services or facilities furnished by a governmental unit without charge, net income from unrelated business activities, and gross receipts from admissions, sales of merchandise, performance of services, or providing facilities in any activity that if not an unrelated trade or business.

The support received from any one exempt organization may be counted toward satisfying the 85 percent support test only if the foundation receives support from at least five exempt organizations.

For example, a foundation that normally receives 20 percent of its support (other than gross investment income) from each of five unrelated exempt organizations will meet the support test even though it receives no support from the general public. However, if a foundation normally receives 50 percent of its support (other than gross investment income) from three foundations and the balance of the support comes from sources other than exempt organizations, the foundation will not meet the 85 percent test.

Support from the general public includes support received from an individual, trust, corporation, or governmental unit to the extent, that the total amount received from anyone individual, trust, or corporation does not exceed 1 percent of the foundation's total support (other than gross investment income) for the period. In applying the 1 percent limit, all support received from any donor and any person related to the donor is treated as received from one person. Support received from a governmental unit is not subject to the 1 percent limit.

FROM: http://www.irs.gov/Charities-&-Non-Profits/Private-Foundations/Private-Operating-Foundations

JANUARY 2015