Chelsea Area Wellness Foundation

Finance Committee Meeting

~ March 11, 2015 ~
5:15 pm

<u>AGENDA</u>

I. Call to Order

II. Approval of February 10, 2014 minutes*

III. Approval of Investment and Spending Policy*
   a. Require a motion to approve temporary changes that reflect the change in allocation and new investment management.
   b. Approve changes temporarily and plan complete policy revision in August 2015. August 2015 recommended changes will require ratification by the BOD.

IV. Budget*
   a. Review 2015-16 budget and make a recommendation for approval to the BOD at their March 23, 2015 meeting

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

*****Material available online
**Material available at the meeting

Chelsea Area Wellness Foundation
Finance Committee Meeting Minutes
February 11, 2015

Present: Scott Broshar, Amy Heydlauff, Jeff Wallace, Jeff Hardcastle
Absent: Tom Mann, Robert Stephens, Judy Nold
Guests:

1. **Call to Order**: 5:18 p.m.

2. **Approval of Minutes:** Motion made, seconded and approved to accept January 13, 2015 minutes.

3. CWF 3rd Q reports
    a. Income & Expense
        1. Prefer to have taxes as a straight line item over the full year
        2. Confirm the CCH grant expenditure
        3. Collapse report for presentation at the February board meeting
    b. Balance sheet
        1. No suggestions or concerns about the content of the Balance sheet

4. 2015-16 draft budget
    a. Prefer not to call out investment fees on the budget
    b. WC budgets
        1. provide actuals & prior year budget for committee
    c. Confirm CWF payroll numbers
    d. Funds balance sheet not updated
        1. When updated Finance Committee would like to recommend to the BOD we make an adjustment to principal expectation that is the total cost of the DWC acquisition less what we financed.

<u>Note:</u> Heydlauff & Broshare further reviewed the the operating foundation question with Lynne Huismann from Plante Moran. Following that discussion it is their recommendation we do not pursue becoming an operating foundation as it does not really appear to bring benefits. In particular, we will not be able to reduce our excise tax from 2% to 1% on our next tax filing. The Finance Committee is in agreement.

Meeting adjourned at 7:10 pm
Next meeting: March 11, 2015

Recorded by: Amy Heydlauff

___________________________________ _________________

Scott Broshar Date

Treasurer, Chelsea-Area Wellness Foundation

Adendum 3/2/15

Item 3.2.: CWF has overpaid SJM-C's grant in 2014. SJM-C has been notified and we will adjust accordingly.

Item 4.a. Current budget includes Russell investment management fees. It does not include underlying manager fees. Because it is such a substantial number I believe it is wise for our BOD to be aware. The budget can be amended following reassessment at the March finance committee meeting if necessary.

Funds Balance Oversight sheet will require historic updating so shouldn't be used to present the budget. However, D. Weber did add a line (49) for the principal adjustment suggested in 4.d.1. This change to principal calculation will require a board vote before finalized. Note the current $1,000,000 is a place-holder only.

Through January, February and March CWF staff and the Finance Committee are busy with budgeting.

Chelsea-Area Wellness Foundation’s budget is composed of two ‘business lines’. The first is our wellness centers. The second is the Foundation operations along with our investments and properties.

Wellness Center budgets are drafted by Cindy Cope, reviewed by me and amended based on CWF feedback. Our income is almost entirely member dues. Expenses are primarily plant maintenance, operational expenses required to provide member services and Power Wellness management fees. In Chelsea we have a grounds-keeping contract with SJM-C and in Dexter we have condo CAM expenses. We also pay rent in Stockbridge, albeit very affordable rent. It is interesting to note, the landlord in Stockbridge does not pass property taxes through to CWF. Dexter, Manchester and Stockbridge Wellness Centers run annual losses.

As we all know, Foundation income is almost entirely our return on market investments. Historically we spun some income off Chelsea Wellness Center but that is reduced to a trickle as we spread membership over our two primary centers (CWC & DWC: total memberships are up from 3700 to 6500 but have not yet reached our 2016 goal of 8000), eliminated enrollment fees and increased programming that does not break even (medical integration, community-accessible classes…). These are all mission-driven decisions. We have income from SJM-C PT rent in Chelsea (70% of which we are granting back in 2015-16) and minimal ATI rent in Dexter. We do pass ATI’s share of property taxes through to ATI. In addition we have modest rental income as a result of land leases for the professional office building and UofM family practice on SJM-C’s campus. Expenses include CWF operations (salaries, rent, marketing, insurance, utilities, legal and accounting fees…), mortgage, interest and taxes in Dexter, grants and other community support.

Over CWF’s first six years our average investment rate of return has been approximately 7.8%. Until the purchase of DWC this return allowed us to keep pace with our spending and inflation. Over the last year the Foundation expenses outlined above required frequent withdrawals from our investments. The current rate of withdrawal is likely to prevent us from sustaining CWF as a perpetual organization. In other words, we will spend more than our investment returns (income) which will prevent us from protecting future generations’ opportunities to meet their health needs through Foundation spending. According to our Investment & Spending policy[i] any spending that causes us to draw down our principal (original $25MM plus growth equal to compounded inflation) requires a deliberate vote of the Board of Directors. Historically we maintained a surplus to cover years in which our investment returns are low or even negative. We know it is inevitable yet our commitment to community investment remains.

In 2015-16 we will continue to shoulder expenses that will force us to further divest (withdraw from) principal and/or encroach on our ability to spend on our mission. Our response to this spending shortfall may include

a. market returns substantially greater than 8% - of course, out of our control
b. a decision as a board to reduce principal
c. reduced spending (operational and/or grants)
d. a combination of the above

In November our BOD set mission-related spending priorities. Then, beginning in January, I met regularly with the other three CWF staff and we hammered out budget needs for marketing, meetings, other operation-related expenses, and grants. Together we thoughtfully decide how best to budget and meet Board directed priorities, including grant priorities (Wellness Center scholarships, CAC funds, Coalitions, sponsorships and so on).

The question of grant priorities is the deliberation I bring back to you, today. After much discussion the CWF staff would like to make the following recommendation. We are recommending a reduction in 2015-16 5H budgeted spending from $500,000 to $325,000.

Rationale for this recommendation is as follows.

1. The Coalitions are just learning how to prioritize. Prioritizing will improve dramatically over the next 2-3 years. Reducing their funding will provide them an opportunity to prioritize in a more strategic way. CWF staff believes dipping into principal or even surplus during the steepest portion of the prioritization learning curve may not be the right strategic decision. It may in fact slow down their progression to effective prioritization.
2. Reduced funding from CWF allows the Coalitions to explore ways to do more with less (think – necessity is the mother of invention). Currently they fund some things year after year without robust discussion and make loose connections between demonstrated need and intervention selection. With less funding they may become more focused on real needs.
3. If they focus on the greatest need their plans could evolve from their current reactive plans (in which decisions are made based on intervention options rather

than true community need) to one in which Coalition's seek out exactly what is necessary to meet a specific need.

4. In the last 18 months Coalitions have realized the potential of leveraging CWF funds by obtaining grant funding from other sources. Reduced 5H funding provides an opportunity for this realization to blossom into relationships with other local, regional and statewide funding organizations.

In spite of this list of good reasons to budget $325,000 instead of $500,000, we recommend increasing 2015-16 5H budgets if we prevail at the Michigan Tax Tribunal (MTT) in the fall of 2015. If we prevail the taxes we've paid to Scio Township will be refunded, although we can not predict if or when the refund will occur.

Our recommendation for 4th year plan funding is as follows:

Community	Fourth Year Plan Dates	Total Funding
Chelsea	May 2015-April 2016	$75,000
Dexter	Jan 2016- December 2016	$25,000
Grass Lake	Oct 2015 – September 2016	$75,000
Manchester	June 2015 – May 2016	$75,000
Stockbridge	August 2015 – July 2016	$75,000

The more substantial reduction for Dexter may (or may not) require explanation. First, Dexter's fourth year plan won't require approval until January 2016. Hopefully by then we will have a positive outcome at the MTT.

Second, in Dexter much of the money we are paying in taxes will go directly to organizations who are partners and often fiscal agents in the Coalition's wellness efforts (municipal government, school district and library). If the Coalition requests and is granted funding by those partners for the programs in which the organizations are already allies it will demonstrate their level of commitment. The primary exception is the $25,000 St. Joseph Mercy – Chelsea SRSLY Dexter intervention. This is a multi-year commitment by the Coalition to an organization that will not benefit from property tax revenue.

If CWF prevails in our Michigan Tax Tribunal case we further recommend that any spending on Coalition interventions by the Dexter School District and Library be reimbursed. If their intent is to escrow the funds until a Tax Tribunal decision is made this will allow them to actually use those funds secure in the knowledge they will be compensated if their tax revenue is refunded to CWF.

It is important to note, again, because of the late plan year in Dexter the MTT decision may be made before their fourth year plan is submitted to CWF for approval. However, we believe it is important to assure the community, Coalition and their intervention partners we are not abandoning them or our mission in their community. Matt and Ruth will also continue to provide support to the Coalition. It's easy to forget the salary and benefits we pay Matt and Ruth are also mission-spending on 5H.

The tax revenue to the following three partner organizations since fall 2014 is:

a. Approximately $137,000 to the Dexter School District ($44,000 for school debt)
b. Approximately $8200 to the Dexter Library
c. Approximately $72,700 to the Village (now City) of Dexter

It is our hope that by the end of 2015 we will be able to offer all five Coalitions additional funding. We recommend $25,000 in Chelsea, Grass Lake, Manchester and Stockbridge. In Dexter we recommend refunding any spending by the Dexter School District and Library and making available to the Dexter Coalition the difference between School and Library funding and $75,000. Matt and Ruth have the benefit of the full trust of the Coalitions. With our stated intent to increase funding if we are able, we believe the Coalitions will, if not to a man, as a whole, understand and accept the decision of the BOD.

Please consider this recommendation carefully. It will be discussed at our March BOD meeting, during which we will approve, as presented or as amended, the 2015-16 budget.

---

[i] Policy excerpt: SPENDING
Community investment (spending) will meet regulatory requirements. Non-charitable investment income available for spending is determined using a rolling average value of investments, on a total return basis, of as many immediate past quarters as available up to five years. Spending decisions will reflect the goal of maintaining the real value of the original principal.
Spending greater than spending defined in this spending policy statement will require approval by the Board of Directors. In such circumstances the Board of Directors may elect to adjust the value of the principal to account for the greater spending.
Consistent spending in excess of the 5 percent regulatory requirement substantially increases the risk we will not achieve the Pool's performance goals.

Chelsea-Area Wellness Foundation

2015-16 BUDGET -- TOTAL CWF

	Total
Ordinary Income/Expense	
Income	
40000 · Contribution Revenue	-
43410 · Corporate Contributions	-
43440 · Gifts in Kind - Goods	-
43450 · Individ, Business Contributions	-
43400 · Direct Public Support - Other	-
Total 43400 · Direct Public Support	-
46030 · U of M Land Rental	39,500
46040 · POB Land Rental	33,248
46050 · Ortho/PT Rental	199,626
46000 · Land Rental - Other (ATI)	51,576
Total 46000 · Rentals	323,950
47230 · Rental & Other	-
47240 · Member Services	-
47250 · Fitness Revenue	-
47260 · Ancillary Revenue	-
47200 · Wellness Center Revenue - CWC	2,462,879
47203 · MWC Revenue - Other	114,854
47205 · DWC Revenue - Other	2,159,879
47207 · SWC Revenue - Other	129,496
Total 47200 · Wellness Center Revenue	4,867,108
48430 · Miscellaneous Revenue	-
48400 · Other Types of Income - Other	-
Total 48400 · Other Types of Income	-
Total Income	**5,191,058**
Expense	
60920 · Business Registration Fees	-
60900 · Business Expenses - Other	-
Total 60900 · Business Expenses	-
62110 · Accounting Fees	53,000
62140 · Legal Fees	400,000
62150 · Outside Contract Services	17,400
62100 · Contract Services - Other	6,000
Total 62100 · Contract Services	476,400
62810 · Depr and Amort - Allowable	887,778
62830 · Donated Facilities	-
62840 · Equip Rental and Maintenance	1,000
62870 · Property Insurance	-
62880 · Facility Charge in lieu of Rent	-
62890 · Rent, Parking, Utilities	35,140
62895 · Property Taxes	333,750
62800 · Facilities and Equipment - Other	-
Total 62800 · Facilities and Equipment	1,257,668
64001 - Grants to CCH (Ortho & PT Lease)	142,165
64002 - Grants Other	412,464
Total 64000 · Grants	554,629
65010 · Dues, Subscriptions, Reference	16,440
65020 · Postage, Mailing Service	480
65030 · Printing and Copying	6,240
65040 · Supplies	2,000
65050 · Telephone, Telecommunications	4,000
65060 · Meeting Expenses	7,000
65070 · Advertising and Promotion	14,792
65071 · Community Expense	-
65075 - Comm. Advisory Council Expense	-
65120 · Insurance - Liability, D and O	53,004
65180 - Excise Taxes	64,000
65080 - Miscellaneous	-
65081 - Allocation from W.C. (Fitness/Env)	92,220
65082 - Operating Expenses - CWC	2,170,602
65085 - Operating Expenses - MWC	180,720
65087 - Transition Expenses - MWC	-
- Operating Expenses - DWC	1,964,381
- Transition Expenses - DWC	-
- Operating Expenses - SWC	240,360
- Transition Expenses - SWC	-
65000 · Operations - Other	-
Total 65000 · Operations	4,816,239
66100 · Salaries and Wages	260,224
66200 · Benefits	72,383
66300 · CTO	-
66400 · Workers Compensation Insurance	1,075
66500 · Payroll Processing	5,000
66000 · Personnel Costs - Other	-
Total 66000 · Personnel Costs	338,682
67000 · Purchased Services (clearing)	-
68310 · Conference, Convention, Meeting	1,200
68320 · Travel	6,000
68330 · Meals and Entertainment	600
68300 · Travel and Meetings - Other	600
Total 68300 · Travel and Meetings	8,400
Total Expense	**7,452,018**
Net Ordinary Income	(2,260,960)
Other Income/Expense	
Investment Income	
45020 · Interest Earned - Checking A/C	-
45030 · Interest-Savings, Short-term CD	-
45040 - Investment Manager Fees	(120,000)
45100 - Securities Sales Realized (G)/L	-
45300 - Unrealized Gain/(Loss) on Investments	1,955,761
45000 · Investments - Other	-
Total 45000 · Investments	1,835,761
Other Expense	-
70000 - Interest Expense	(305,564)
Total Other Expense	(305,564)
Net Other Income	1,530,197
Net Income	**(730,763)**

Funds Balance Oversight

Financial Proforma ($000's)

Spending Policy Assumptions		Actual FY 2010-11		Actual FY 2011-12	FY 2012-13	FY 2013-14	2014-15 Orig Budget		2014-15 Actual
Marketable Assets									
Beginning Balance - Marketable Assets as of April 1									
Cash Equivalents	$	1,393.7	$	1,420.4			$	1,133.6	$ 1,133.6
Investments		25,287.7		28,219.1				28,057.5	28,057.5
Total	**$**	**26,681.48**	**$**	**29,639.47**			**$**	**29,191.1**	**$ 29,191.1**
Changes to Marketable Assets		**11.7%**		**-0.5%**				**8.0%**	**9.9%**
Net Investment Return	$	2,967.3		($456.7)			$	2,240.0	$ 2,783.8
Rental Income & Ground Lease		484.9		497.8				515.4	534.0
Administrative Operating Expense (excl. Depr. & Ir		(306.9)		(551.0)				(808.6)	(505.3)
Foundation Cap Ex & Debt Service								(826.3)	-
Transfer From / (To) Wellness Centers		700.0		241.9				(221.1)	(2,622.6)
Community Investment - Beyond Wellness Center		(433.1)		(81.3)				(645.0)	(544.2)
Contractual Grants		(454.2)		(427.2)				(337.8)	(462.0)
									-2927.8
Subtotal	**$**	**2,958.0**	**$**	**(776.5)**			**$**	**(83.4)**	**$ (3,744.1)**
Year End Marketable Asset Balances	**$**	**29,639.5**	**$**	**28,863.0**			**$**	**29,107.7**	**$ 25,447.0**

Funds Balance Oversight

Financial Proforma ($000's)

Spending Policy Assumptions	Actual FY 2010-11	Actual FY 2011-12	FY 2012-13	FY 2013-14	2014-15 Orig Budget	 Actual

Funds Balance Oversight

Financial Proforma ($000's)

Spending Policy Assumptions	Actual FY 2010-11	Actual FY 2011-12	FY 2012-13	FY 2013-14	2014-15 Orig Budget	2014-15 Actual
Targeted Funds Balances - Inflation Adjusted - Investment Portfolio Only						
Initial Principal	$ 25,000.0					
Inflation Rate	1.2%	2.5%	2.1%	1.5%	1.6%	
Principal Target - Beginning of Year	$ 25,300.0	$ 25,932.5	$ 26,477.1	$ 26,874.2	$ 27,304.2	$ 27,304.2
Principal Target adjustment - DWC Purchase						
Actual/Projected Balance - Beginning of Year	$ 25,287.7	$ 28,219.1			$ 28,057.5	$ 28,057.5
Over/(Short)	$ (12.3)	$ 2,286.6			$ 753.3	$ 753.3
Grant Total (for Tax purposes: Admin Operating Cost, (	$ 1,194.2	$ 1,059.5			$ 1,791.4	$ 1,511.5
Grants as a % of assets	4.7%	3.8%			6.4%	5.4%

Budget FY 2015-16	Forecast FY 2016-17
$ 1,000.0	$ 1,000.0
24,447.0	23,663.1
$ 25,447.01	**$ 24,663.08**
8.0%	**8.0%**
$ 1,955.8	$ 1,893.0
324.0	324.0
(1,453.5)	(1,511.7)
(1,170.9)	(825.0)
115.4	769.6
(412.5)	(860.8)
(142.2)	(99.5)
$ (783.9)	**$ (310.4)**
$ 24,663.1	**$ 24,352.7**

Budget	Forecast
FY 2015-16	**FY 2016-17**

	Budget FY 2015-16		Forecast FY 2016-17
	2.0%		3.0%
$	**26,830.3**	**$**	**27,635.2**
$	**(1,000.0)**		
$	**24,447.0**	**$**	**23,663.1**
$	**(2,383.3)**	**$**	**(3,972.1)**
$	**2,008.2**	**$**	**403.7**
	8.2%		**1.7%**

Chelsea-Area Wellness Foundation

2015-16 BUDGET -- TOTAL CWF

	2015-16 Total
Ordinary Income/Expense	
Income	
Rental Income	323,950
Net Income From Wellness Centers (excl. intercompany	27,845
Total Income	**351,795**
Expense	
Contract Services	476,400
Facilities and Equipment (Excl. Wellness Depr.)	974,468
Grants - Contractual to Hospital	142,165
Grants - Discretionary	412,464
Operations	260,176
Personnel Costs	338,682
Travel and Meetings	8,400
Total Expense	**2,612,755**
Net Operating Income	(2,260,960)
Other Income/Expense	
Investment Income	1,835,761
Interest Expense	(305,564)
Net Income	**(730,763)**
	-

Cash Flow Estimate

Net Income	$	(730,763)
Add Back Depreciation		887,778
Less Capital Expense		(545,600)
Less Principal Payments		(515,346)
Estimated Cash Flow	$	(903,931)

Chelsea-Area Wellness Foundation

2015-16 BUDGET -- TOTAL CWF

	2015-16 Total
Wellness Centers	
Income	
CWC Revenue	2,462,879
MWC Revenue	114,854
DWC Revenue	2,159,879
SWC Revenue	129,496
Total 47200 · Wellness Center Revenue	4,867,108
Operating Expenses	
Operating Expenses - CWC	2,170,602
Depreciation - CWC	111,000
Facility Charge - CWC	615,396
Operating Expenses - MWC	180,720
Depreciation - MWC	19,800
Operating Expenses - DWC	1,964,381
Depreciation - DWC	134,400
Facility Charge - DWC	782,412
Operating Expenses - SWC	240,360
Depreciation - SWC	18,000
Total Operating Expense	6,237,071
Net Income	4,839,263
Chelsea	(434,119)
Manchester	(85,666)
Dexter	(721,314)
Stockbridge	(128,864)
Total	(1,369,963)

Chelsea-Area Wellness Foundation

2015-16 BUDGET -- WELLNESS CENTERS

	Total
Ordinary Income/Expense	
Income	
47230 · Rental & Other	-
47240 · Member Services	-
47250 · Fitness Revenue	-
47260 · Ancillary Revenue	-
47200 · Wellness Center Revenue - Other	2,462,879
47203 · MWC Revenue - Other	114,854
47205 · DWC Revenue - Other	2,159,879
47207 · SWC Revenue - Other	129,496
Total 47200 · Wellness Center Revenue	4,867,108
48430 · Miscellaneous Revenue	-
48400 · Other Types of Income - Other	-
Total 48400 · Other Types of Income	-
Total Income	**4,867,108**
62810 · Depr and Amort - Allowable	283,200
62830 · Donated Facilities	-
62840 · Equip Rental and Maintenance	-
62870 · Property Insurance	-
62880 · Facility Charge	1,397,808
62890 · Rent, Parking, Utilities	-
62895 · Property Taxes	
62800 · Facilities and Equipment - Other	-
Total 62800 · Facilities and Equipment	1,681,008
65081 - Allocation from W.C. (Fitness/Env)	-
65082 - Operating Expenses - CWC	2,170,602
65085 - Operating Expenses - MWC	180,720
65087 - Transition Expenses - MWC	-
- Operating Expenses - DWC	1,964,381
- Transition Expenses - DWC	-
- Operating Expenses - SWC	240,360
- Transition Expenses - SWC	-
65000 · Operations - Other	-
Total 65000 · Operations	4,556,063
Total Expense	**6,237,071**
Net Ordinary Income	(1,369,963)
Net Income	**(1,369,963)**

NOTE: The allocated costs to Ortho/PT are excluded from the W

Allocated Expenses - Environmental	92,220
Allocated Expenses - Fitness	-
Total Allocated	92,220
Net Income (incl. Allocated Costs)	(1,462,183)

Chelsea-Area Wellness Foundation

2015-16 BUDGET -- FOUNDATION ONLY

	2016 Total
Expense	
60920 · Business Registration Fees	-
60900 · Business Expenses - Other	-
Total 60900 · Business Expenses	-
62110 · Accounting Fees	53,000
62140 · Legal Fees	400,000
62150 · Outside Contract Services	17,400
62100 · Contract Services - Other	6,000
Total 62100 · Contract Services	476,400
62810 · Depr and Amort - Allowable	604,578
62830 · Donated Facilities	-
62840 · Equip Rental and Maintenance	1,000
62870 · Property Insurance	-
62880 · Facility Charge	(1,397,808)
62890 · Rent, Parking, Utilities	34,140
62895 · Property Taxes	333,750
62800 · Facilities and Equipment - Other	-
Total 62800 · Facilities and Equipment	(424,340)
64001 - Grants to CCH (Ortho Lease)	142,165
64002 - Grants Other	412,464
Total 64000 · Grants	554,629
65010 · Dues, Subscriptions, Reference	16,440
65020 · Postage, Mailing Service	480
65030 · Printing and Copying	6,240
65040 · Supplies	2,000
65050 · Telephone, Telecommunications	4,000
65060 · Meeting Expenses	7,000
65070 · Advertising and Promotion	15,000
65071 - Community Expense	-
65075 - Comm. Advisory Council Expense	-
65120 · Ins. - Liability (incl umbrella), D & O	54,590
65180 · Excise Taxes	64,000
65080 - Miscellaneous	-
65081 - Allocation from W.C. (Fitness/Env)	-
65082 - Operating Expenses - CWC	-
65085 - Operating Expenses - MWC	-
65087 - Transition Expenses - MWC	-
- Operating Expenses - DWC	-
- Transition Expenses - DWC	-
65000 · Operations - Other	-
Total 65000 · Operations	169,750
66100 · Salaries and Wages	260,224
66200 · Benefits	72,383
66300 · CTO (included in 66200)	-
66400 · Workers Compensation Insurance	1,075
66500 · Payroll Processing	5,000
66000 · Personnel Costs - Other	-
Total 66000 · Personnel Costs	338,682
67000 · Purchased Services (clearing)	-
68310 · Conference, Convention, Meeting	1,200
68320 · Travel	6,000
68330 · Meals and Entertainment	600
68300 · Travel and Meetings - Other	600
Total 68300 · Travel and Meetings	8,400
Total Expense	**1,123,521**
Net Ordinary Income	(1,123,521)
Other Inc(45300	
Investment Income	

Chelsea-Area Wellness Foundation

2015-16 BUDGET -- FOUNDATION ONLY

	2016 Total
45020 · Interest Earned - Bank A/C	-
45030 · Interest-Investment Accounts	-
45040 - Investment Manager Fees	(215,134)
45100 - Securities Sales Realized (G)/L	-
45300 - Unrealized Gain/(Loss) on Investments	1,955,761
45000 · Investments - Other	-
Total 45000 · Investments	1,740,627
Other Expense	-
70000 - Interest Expense	(305,564)
Total Other Expense	(305,564)
Net Other Income	1,435,063
Net Income	**311,542**

Chelsea-Area Wellness Foundation

2015-16 BUDGET -- RENTALS

	Total
Ordinary Income/Expense	
Income	
46030 · U of M Land Rental	39,500
46040 · POB Land Rental	33,248
46050 · PT Rental	199,626
46000 · Land Rental - Other ATI PT	51,576
Total 46000 · Rentals	323,950
Total Income	**323,950**
62810 · Depr and Amort - Allowable	-
62830 · Donated Facilities	-
62840 · Equip Rental and Maintenance	-
62870 · Property Insurance	-
62880 · Facility Charge in lieu of Rent	-
62890 · Rent, Parking, Utilities	1,000
62895 · Property Taxes	-
62800 · Facilities and Equipment - Other	-
Total 62800 · Facilities and Equipment	1,000
Total Expense	**93,220**
Net Ordinary Income	230,730
Total Other Expense	-
Net Other Income	-
Net Income	**230,730**

Investment Policy

for

Chelsea-Area Wellness Foundation

Title: Investment Policy				*Length: 10 pages*		
Approved	***8/2009***	***9/21/10***	***9/23/13***			
Reviewed	***(8/2010)***	***9/2013***				
Revised	***9/12/13***					

Chelsea-Area Wellness Foundation

Investment Policy

I. PURPOSE

This policy statement provides a framework for the management of the non-charitable assets of Chelsea Area Wellness Foundation. Its purpose is to assist the Board of Directors in effectively supervising and monitoring the investments of the asset pool ("Pool"). The following investment objectives and directions are to be judged and understood in light of that overall sense of financial and mission stewardship. In that regard, the basic investment standards shall be those of a prudent investor as articulated in applicable state laws. The guidance outlined in this policy is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters to ensure prudence and care in the execution of the investment program.

This policy will establish appropriate risk and return objectives in light of the Pool's risk tolerance and investment time horizon. These objectives, as well as asset allocation guidelines, suitable investments, and responsibilities of the investment manager(s), are outlined below.

II. OBJECTIVES OF THE POOL

It is the general policy of Chelsea-Area Wellness Foundation to invest the Pool to achieve growth in principal value over time sufficient to preserve he purchasing power of the Pool, thus protecting the Pool against inflation.

III. PERFORMANCE GOALS

The performance goals of the Pool shall be defined as follows:

- The absolute objective of the Pool is to seek an average total annual return net of fees that exceeds the average annual spending/payout rate of 5 percent, plus inflation. The inflation measure is the consumer price index (CPI). This objective shall be measured over an annualized, rolling 5-year period; the intent of this objective is to preserve, over time, the original principal value of the assets as measured in real, inflation adjusted (CPI) terms.

- The relative objective of the Pool is to seek competitive investment performance versus appropriate capital market measures, such as securities indices. This objective shall be measured primarily by comparing investment results, over rolling annualized three-year and five-year time periods.

- The comparative performance objective of the Pool is to achieve

    - A total rate of return that is above the median performance of a universe of similarly managed funds.
    - Performance in excess of market indices weighted to reflect the policy asset allocation of the pool as measured quarterly

The Pool has a long-term, indefinite time horizon that runs concurrent with the endurance of the institution, in perpetuity. As such, the Pool can assume a time horizon that extends well beyond a normal market cycle, and can assume an above-average level of risk as measured by the standard deviation of annual returns. It is expected, however, that both professional management and sufficient portfolio diversification will smooth volatility and help ensure a reasonable consistency of return.

The assets will be managed on a total return basis. While the institution recognizes the importance of preservation of capital, it also adheres to the principal that varying degrees of investment risk are generally rewarded with compensating returns. It is not a breach of fiduciary responsibility to pursue riskier investment strategies if such strategies are in the Pool's best interest on a risk-adjusted basis. Risk management of the investment program is focused on understanding both the investment and operational risks to which the Pool is exposed. The objective is to minimize operational risks and require appropriate compensation for investment risks which the Pool is willing to accept.

IV. INVESTMENT PROGRAM STRATEGY

To achieve its investment objectives, the Pool shall be allocated among a number of asset classes. The purpose of allocating among asset classes is to ensure the proper level of diversification with the fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur.

The following target asset class table defines the fund's target asset allocation, the minimum and maximum allocation limits of each asset class.

Target Long-Term Asset Allocation Table*

INVESTMENT STRATEGIES	ASSET CLASS	MINIMUM	TARGET	MAXIMUM	BENCHMARK
Equity		**50.0%**	**60.0%**	**70.0%**	**MSCI All Country World Index**
	Global Equity	50.0%	60.0%	70.0%	MSCI ACWI
Fixed Income (Deflation Hedging)		**5.0%**	**10.0%**	**25.0%**	**Barclays US Aggregate Index**
	US Treasuries & T-bills	0.0%	0.0%	5.0%	Merrill Lynch 3 Month Tbill
	Core Bonds	0.0%	10.0%	25.0%	Barclays US Aggregate
Real Assets (Inflation Hedging)		**5.0%**	**15.0%**	**30.0%**	**[1]Weighted Real Assets Composite**
	TIPS	0.0%	2.0%	10.0%	Barclays U.S. TIPS
	Commodities	0.0%	3.0%	10.0%	DJ UBS Commodity TR
	Natural Resources Strategies	0.0%	5.0%	10.0%	MSCI World Resource
	REITs	0.0%	5.0%	10.0%	Dow Jones U.S. Select REIT
Directional & Relative Value		**0.0%**	**15.0%**	**30.0%**	**HFRI FOF Composite Index**
	Directional Strategies	0.0%	10.0%	20.0%	HFRI Equity Hedge
	Relative Value Strategies	0.0%	5.0%	10.0%	HFRI FOF Conservative

Policy and Traditional Portfolio Benchmarks

POLICY BENCHMARK — **60% MSCI ACWI, 10% Barclays U.S. Aggregate, 15% Weighted Real Assets[1], 15% HFRI FOF Composite**

TRADITIONAL BENCHMARK — **75% MSCI ACWI, 25% Barclays Aggregate**

[1]**Weighted Real Assets Composite** consists of 33.3% MSCI World Resource, 33.3% DJ U.S. Select REIT, 20% DJ UBS Commodity, 13.4% Barclays U.S. TIPS

INVESTMENT STRATEGIES	ASSET CLASS	MINIMUM	TARGET	MAXIMUM	BENCHMARK
Growth Portfolio					
	Multi-Asset Core Plus	65.0%	**75.0%**	85.0%	Multi-Asset Core Plus Composite Index[1]
Return Enhancement/Diversifying					
	Total Return Hedge Fund	0.0%	**10.0%**	15.0%	HFRI Fund of Funds Diversified Index
Capital Preservation Portfolio					
	Core Fixed Income	10.0%	**15.0%**	25.0%	Barclays US Aggregate Index

Policy and Traditional Portfolio Benchmarks

POLICY BENCHMARK — **75% Multi-Asset Core Plus Composite Index[1], 10% HFRI Fund of Funds Diversified Index, 15% Barclays US Aggregate Index**

TRADITIONAL BENCHMARK — **75% Russell Global Index, 25% Barclays Aggregate Index**

[1]**Multi-Asset Core Plus Composite** consists of 75% Russell Global Index (50% hedged), 4% S&P Global Infrastructure Index (Net), 4% FTSE EPRA/NAREIT Developed Real Estate Index, 4% Bloomberg Commodity Index, 5% BofA ML Global High Yield 2% Constrained Index, 5% JP Morgan EMBI Global Diversified Index, 3% Barclays US 1-3 Month Treasury Bill Index.

* It is expected that the portfolio will deviate from the long-term asset allocation during the initial investment stage of the foundation as the portfolio builds towards the long-term policy over time.

The investment returns achieved by the investment manager(s) will be compared to the investment returns achieved by a policy benchmark. The policy benchmark will consist of the weighted returns of the target investment strategies representative index.

The general policy shall be to diversify investments among equity, fixed income, real assets, and directional/relative value strategies so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. The asset allocation policy will be implemented through the use of qualified external professional investment managers. The external investment managers will have full discretion and authority for determining investment strategy, security selection and timing subject to Policy guidelines and any other guidelines specific to their portfolio.

V. SPENDING

Community investment (spending) will meet regulatory requirements. Non-charitable investment income available for spending is determined using a rolling average value of investments, on a total return basis, of as many immediate past quarters as available up to five years. Spending decisions will reflect the goal of maintaining the real value of the original principal.

Spending greater than spending defined in this spending policy statement will require approval by the Board of Directors. In such circumstances the Board of Directors may elect to adjust the value of the principal to account for the greater spending.

Consistent spending in excess of the 5 percent regulatory requirement substantially increases the risk we will not achieve the Pool's performance goals.

VI. REBALANCING

The purpose of rebalancing is to control portfolio risk and maintain the policy asset allocation within the targeted ranges. The Pool will be rebalanced as necessary, making use of spending payments to the extent possible and considering the transaction costs involved in the rebalancing. Tactical rebalancing, which represents portfolio positioning to opportunistically capture short term market anomalies, is permissible as long as the trades do not violate the stated ranges for each asset class and do not cause undue expense to the portfolio.

Under the current agreement, ~~with Commonfund Strategic Solutions~~the investment manager~~, Commonfund~~ will execute rebalancing transactions. These rebalancing shifts may be tactical in nature and must fall within the specified asset allocation ranges as defined by this statement. The Asset Allocation Certificate and Rebalance Authorization ("Certificate") sets forth the allocation of the assets in the investment account in accordance with the terms of the agreement between the Foundation and Russell Trust Company ("Russell"). The Certificate specifies the investments and rebalancing policy in place, which may be amended over time as agreed upon by the Committee and Russell. Russell will be entitled to rely on this Certificate until such time as a replacement Certificate is received by Russell.
~~Commonfund Strategic Solutions may not execute rebalancing that would result in a new investment in an illiquid investment program or an allocation outside of the guidelines in this policy statement without the prior approval of the Finance Committee. The rebalancing process will be consistent with the executed investment agreement between the Institution and Commonfund Asset Management Company.~~

Formatted: Indent: Left: 0.5"

Formatted: Font: (Default) Times

Formatted: Font: (Default) Times

VII. INVESTMENT POLICIES AND GUIDELINES

The investment policies, guidelines and restrictions presented in this policy statement serve as a framework to help the Pool and its investment manager(s) achieve the investment objectives at an acceptable level of risk. The Pool will be diversified both by asset class and within asset classes. Within each asset class, securities will be diversified among economic sector, industry, quality, and size. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total Pool. As a result, the risk level associated with the portfolio investment is reduced.

VIII. EQUITY SECURITIES

The purpose of equity investments, both domestic and international, in the Pool is to provide capital appreciation, growth of income, and current income, with the recognition that this asset class carries with it the assumption of greater market volatility and increased risk of loss. This component includes domestic and international common stocks, American Depository Receipts (ADRs), preferred stocks, and convertible stocks traded on the world's stock exchanges or over-the-counter markets.

Public equity securities shall generally be restricted to readily marketable securities of corporations that are traded on established stock exchanges, including NASDAQ and similar networks. Equity holdings must generally represent companies meeting a minimum market capitalization requirement of $50 million with reasonable market liquidity. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to broad manager discretion, subject to the standards of fiduciary prudence. However, no single major industry shall represent more than 20% of the Pool's total market value, and no single security shall represent more than 5% of the Pool's total market.

The "Traditional Long-Only" Investment Manager(s) is prohibited from borrowing money or pledging assets, or trading uncovered options, commodities or currencies without advance approval. The Manager(s) is also restricted from investing in private placements and restricted stock unless otherwise permitted by the Finance Committee. It is expected that no assets will be invested in securities whose issuers are or are reasonably expected to become insolvent, or who otherwise have filed a petition under any state or federal bankruptcy or similar statute.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of equity securities.

IX. FIXED INCOME SECURITIES

The purpose of fixed income investments, both domestic and international, is to provide diversification and a predictable and dependable source of current income. It is expected that fixed income investments will not be totally dedicated to the long term bond market, but will be flexibly allocated among maturities of different lengths according to interest rate prospects. Fixed income instruments should reduce the overall volatility of the Pool's assets, and provide a deflation hedge. This component includes both the domestic fixed income market and the markets of the world's other economies. It includes but is not limited to U.S. Treasury and government agency bonds, foreign government and supranational debt, public and private corporate debt, mortgages and asset-backed securities, and non-investment grade debt. Fixed income also includes money market instruments, including, but not limited to, commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and U.S. Treasury and agency obligations.

Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. These investments will be subject to the following limitations:

The weighted average duration of the portfolio should be within 20% of the duration of the index to which the portfolio is benchmarked;

Investments of a single issuer, with the exception of the U.S. Government and its agencies (including GNMA, FNMA and FHLMC), may not exceed 5% of the total market value of the Pool;

No more than 25% of the traditional fixed income portfolio may be rated below-investment grade.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of fixed income securities.

X. DIRECTIONAL AND RELATIVE VALUE

Marketable Alternatives - Investments may also include equity-oriented or market-neutral hedge funds (i.e. Long/Short, Macro, Event Driven, Convertible Arbitrage, and Fixed Income strategies) which can be both domestic and international market oriented. These components may be viewed as equity-like or fixed income-like strategies as defined by their structures and exposures.

Derivatives and Derivative Securities - Certain of the Pool's managers may be permitted under the terms of their specific investment guidelines, and under the management of the Investment Advisor, to use derivative instruments. Derivatives are contracts or securities whose market value is related to the value of another security, index, or financial instrument. Investments in derivatives include (but are not limited to) futures, forwards, options, options on futures, warrants, and interest-only and principal-only strips. No derivative positions can be established that create portfolio characteristics outside of portfolio guidelines. Examples of appropriate applications of derivative strategies include hedging market, interest rate, or currency risk, maintaining exposure to a desired asset class while making asset allocation changes, gaining exposure to an asset class when it is more cost-effective than the cash markets, and adjusting duration within a fixed income portfolio. Derivatives positions should be fully collateralized. Investment managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

Each manager using derivatives shall (1) exhibit expertise and experience in utilizing such products; (2) demonstrate that such usage is strategically integral to their security selection, risk management, or investment processes; and (3) demonstrate acceptable internal controls regarding these investments.

XI. REAL ASSETS

The purpose of investing in real assets is primarily to hedge the Endowment against inflation and to provide diversification to other investment strategies in the Endowment. Some real asset investments may also provide long-term opportunities for capital growth. Real assets investments may include

Commodities - Investments may also include a broad range of commodity oriented strategies. These strategies will include but may not be limited to futures, options on futures and forward contracts on exchange traded agricultural goods, metals, minerals, energy products and foreign currencies. The use of swap transactions will be permitted to access this market strategy. Investments may be held in the form of professionally managed pooled funds, segregated and limited liability or corporate investments.

U.S. Treasury inflation-indexed securities ("TIPS") and non-U.S. dollar denominated inflation-indexed securities – Inflation-indexed securities are fixed income securities that are structured to provide protection against inflation. The value of an inflation-indexed bond's principal or the interest paid on the bond is adjusted to track changes in an inflation-linked index.

Natural Resources - Investments may include public equities of natural resource companies – either in the form of index investments or actively managed portfolios. Private natural resource investments may be made in limited partnerships investing in oil, gas, clean energy, services and other private natural resource investments. Private investments must be made through funds offered by professional investment managers employing a fund-of-funds approach.

XII. CASH AND EQUIVALENTS

The Investment Manager may invest in the highest quality commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the Fund's principal value. Commercial paper assets must be rated at least A1 or P-1 (by Moody's or S&P). No more than 5% of the Pool's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. Government and its agencies.

Uninvested cash reserves shall be kept to a minimum; short term, cash equivalent securities are usually not considered an appropriate investment vehicle for investment. However, such vehicles are appropriate as depository for income distributions from longer term investments, or as needed for temporary placement of funds directed for future investment to the longer term capital markets. Also, such investments are the standard for contributions to the current fund or for current operating cash.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of cash equivalent securities.

XIII. ROLES AND RESPONSIBILITES (Also see addendum)

Duties of the Board of Directors

A subcommittee of the Board of Directors, or Finance Committee, may be established to focus on implementing and monitoring the Pool in accordance with the guidelines outlined in this policy statement.

In the management of the Institution's assets, the Board of Directors will approve the Investment Policy developed by the Finance Committee for the investment program. The Board of Directors in its sole discretion can delegate its decision-making authority to the Finance Committee regarding the investment program within the guidelines established by this policy statement. The following are the duties and responsibilities delegated by the Board of Directors to the Finance Committee:

- Review, with assistance from CWF Administration and the Investment Advisor, at least quarterly the portfolio's investment structure and financial performance. The review will include recommended adjustments to the long-term, strategic asset allocation adjustments are warranted.

- Select, retain, and terminate Investment Manager, and investment advisors as necessary to conduct performance review, asset allocation, manager review and selection, and topical research. The comments and recommendations of the advisors will be considered in conjunction with other available information to aid the Finance Committee in making informed, prudent decisions.

- If necessary, recommend changes in CWF's spending practices to be approved by the Board of Directors. Spending practices are outlined in this Investment Policy.

The Finance Committee will report regularly to the Board on the financial performance of the portfolio and significant committee decisions related to the management of the portfolio.

Duties of CWF Administration and Staff

In the management of CWF's assets, Administration will:

- Implement the investment policy as directed by the Finance Committee.
- Execute any documents necessary to facilitate implementation of this policy, including but not limited to contracts with consultants and investment managers for providing services.
- Review the Portfolio's investments at least monthly to ensure that policy guidelines continue to be met. Administration or staff shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks. The information for these reviews shall come from outside advisors, the custodian, and the Institution's investment advisor and managers.
- Raise timely concerns with the Finance Committee and take appropriate action under the direction of the Finance Committee if investment objectives are not being met or if policies and guidelines are not being followed.
- Administer the investments in a cost-effective manner. These costs include, but are not limited to: management, consulting and custodial fees, transaction costs and other administrative costs chargeable to the investment pool.
- Provide overall monitoring of Investment Advisor and Investment Manager, and ensure that they conform to the terms of their contracts and that their performance monitoring systems are sufficient to provide Administration with timely, accurate and useful information.

Duties of Investment Advisor

The Committee has hired ~~Commonfund Strategic Solutions~~Russell Investments as Investment Advisor to advise and assist the committee in the discharge of its duties and responsibilities. The Investment Advisor will have responsibility to select, retain and terminate Investment Managers or sub-advisors as necessary to execute the strategies of the investment program. The Investment Advisor will have discretion to develop and execute the investment program within the constraints of the guidelines outlined in this Policy. In its advisory capacity, the Investment Advisor will:

- Assist in establishing investment policies, objectives, and guidelines.
- Know and comply with the policies as outlined in this document. It is Investment Advisor's responsibility to identify policies that may have an adverse impact on performance, and initiate discussion with CWF Administration or staff toward possible improvement of those policies.
- Recommend investment funds in accordance to the Policy and periodically review such funds.
- Rebalance the portfolio to maintain the proper diversification within the ranges approved by the Finance Committee and in accordance to the guidelines established in the rebalancing policy of this document

- Review CWF's investments at least monthly to ensure that policy guidelines continue to be met.

- Monitor investment returns on both an absolute basis and relative to appropriate benchmarks. Provide reports to Administration and the Committee on a quarterly basis. Also included will be a complete accounting of all transactions involving the Institution during the quarter, together with a statement of beginning market value, fees, capital appreciation, income and ending market value, for each asset class.

- Report performance in accordance to the Pool's Performance Goals as highlighted at the beginning of this policy.

- Inform the Finance Committee regarding any qualitative change to investment management or strategies.

- In addition, the Investment Advisor shall assure that each investment manager and each investment fund selected and employed by them for use in the Pool will, at a minimum:

  - Comply with "prudent expert" standards.

  - Maintain thorough and appropriate written risk control policies and procedures. Oversight of compliance with these policies must be ongoing and independent of line investment activity.

  - Reconcile every month accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian.

  - Maintain frequent and open communication, on all significant matters pertaining to the investment policy, including, but not limited to, the following:

    - Major changes in the Investment Manager's investment outlook, investment strategy, investment process, subadvisors or portfolio structure;

    - Significant changes in ownership, organizational structure, financial condition or senior personnel;

    - All pertinent issues which the Investment Manager deems to be of significant interest or material importance;

ADDENDUM

Task	Board of Trustees	Investment & Finance Committee	Foundation Administration	Investment Advisor
Hire Investment Advisor	Approve	Vet and recommend to the Board	Research and provide information to Finance Committee	

Develop the Investment Policy the Foundation	Review & Approve	Develop	Develop	Advise & assist in development
Establish Asset Allocation	Approve	Review data & options, recommend To the Board		Analyze and suggest
Select Managers and/ or Funds to Meet the Asset Allocation and Return Objectives		Monitor	Monitor	Hire, monitor, fire, replace,
Rebalance Portfolio		Monitor	Monitor	Implement
Investment Results Oversight	Review	Monitor	Monitor	Analyze and Report

INVESTMENT STRATEGIES	ASSET CLASS	MINIMUM	TARGET	MAXIMUM	BENCHMARK
Growth Portfolio					
	Multi-Asset Core Plus	65.0%	**75.0%**	85.0%	Multi-Asset Core Plus Composite Index[1]
Return Enhancement/Diversifying					
	Total Return Hedge Fund	0.0%	**10.0%**	15.0%	HFRI Fund of Funds Diversified Index
Capital Preservation Portfolio					
	Core Fixed Income	10.0%	**15.0%**	25.0%	Barclays US Aggregate Index

Policy and Traditional Portfolio Benchmarks

POLICY BENCHMARK	**75% Multi-Asset Core Plus Composite Index[1], 10% HFRI Fund of Funds Diversified Index, 15% Barclays US Aggregate Index**
TRADITIONAL BENCHMARK	**75% Russell Global Index, 25% Barclays Aggregate Index**

[1]**Multi-Asset Core Plus Composite** consists of 75% Russell Global Index (50% hedged), 4% S&P Global Infrastructure Index (Net), 4% FTSE EPRA/NAREIT Developed Real Estate Index, 4% Bloomberg Commodity Index, 5% BofA ML Global High Yield 2% Constrained Index, 5% JP Morgan EMBI Global Diversified Index, 3% Barclays US 1-3 Month Treasury Bill Index.

Excise Taxes: Qualifying for the 1% Tax Rate

Jeffrey D. Haskell, J.D., LL.M. (Taxation), Chief Legal Officer

Typically, private foundations pay a federal excise tax of 2% on their net investment income. It is possible, however, to qualify for a reduced tax rate of 1% for any year in which the foundation pays out enough in grants (and other qualifying distributions) to reach a target amount. This target is calculated afresh each year. The formula for calculating the target is the foundation's net income investment for the current year plus an amount determined by looking at the ratios of grants to asset size for each of the previous five years. The resulting average of those ratios, expressed as a percentage, is multiplied by the foundation's average asset size for the current year to produce the target amount.

If the foundation has been in existence for less than five years, the ratio used in this calculation is based upon the number of years the foundation has been in existence. This fact is of critical importance to newly established foundations because the foundation, which has no annual minimum payout requirement in its formation year, stands a better chance of qualifying for the reduced tax rate for the next five years if the foundation: (1) is funded as soon as possible following formation; and (2) limits its charitable grants and other qualifying distributions to the greatest possible extent during this first tax year. By doing these two things, the foundation creates a very low (potentially zero) ratio of qualifying distributions relative to its asset size in its first tax year, making it easier to qualify for the reduced tax rate for the second year and beyond.

Important Terms

Annual Minimum Payout ***(also known as "annual minimum distribution requirement" or "MDR"):*** Federal tax laws require private foundations to annually distribute for charitable and certain administrative purposes roughly 5% of the value of the foundation's previous year's average investment assets. A foundation cannot qualify for the reduced tax rate in its first tax year and in any subsequent year in which it has not satisfied its annual minimum payout requirement in the current year or any one of the preceding four tax years.

Qualifying Distributions: These include grants to charities, expenses incurred while carrying out the foundation's charitable purpose (e.g., site visits), and fees for reasonable and necessary administrative services (including Foundation Source's fees). Such distributions are deemed "qualifying" because they count toward satisfying the foundation's annual minimum payout. Note that investment-related expenses don't count as qualifying distributions.

Net Investment Income: This figure is determined by adding gross investment income (e.g., dividends, interest, rent, royalties) to net capital gains and subtracting investment-related expenses (e.g., investment management fees, bank fees). It's important to note that because income fluctuates according to market value and other factors, the foundation won't know its total net investment income for the year until it's officially over. If it's early in the year, and the foundation is trying to forecast its total net investment income in order to predict its target for qualifying for the 1% tax rate, it will have to rely on a "crystal ball" estimate that could be wildly inaccurate. In order to avoid a significant miscalculation, the foundation should either undertake its take planning later in the year, when estimates are likely to be more reliable, or err on the side of caution by using a conservatively high number for its net investment income.

Historical Ratio: The average of the ratios of qualifying distributions to average assets determined for each of the preceding five tax years.

If a foundation makes significant qualifying distributions relative to its average asset size in its first tax year, its historical ratio may be adversely skewed for the next five tax years. This is especially true if a foundation is funded toward the end of its first tax year. A foundation remaining unfunded for most of its first tax year will have a correspondingly low asset average for that year. Therefore, even modest qualifying distributions made in a foundation's first tax year may have unforeseen consequences if such distributions are significant in comparison to that year's average asset size.

Examples

The foundation's formation year has critical implications for its ability to qualify for the reduced tax rate in future years. Let's compare two scenarios to see how this is so:

<u>**Proactive Planning Example**</u>

If a foundation has $10 million of assets and makes grants of $600,000 each year, its historical ratio of qualifying distributions to relative assets would be 6%. In the current year, assume the foundation makes $610,000 in qualifying distributions and has $950,000 net investment income. If the current year's qualifying distributions are equal to or greater than 1% of that year's net investment income plus the product of the historical ratio multiplied by the current year's average assets, the foundation will qualify for the 1% tax rate.

$9,500	Current year's net investment income multiplied by 1% ($950,000 x 1% = $9,500)
$600,000	Historical ratio multiplied by current year's average assets (6% x $10 million = $600,000)
$609,500	Target amount to compare with current year's qualifying distributions ($600,000 + $9,500)
$610,000	Current year's qualifying distributions

In this example, the foundation will qualify for the 1% tax rate because the current year qualifying distributions ($610,000) equal or exceed the baseline amount ($609,500).

The "Whoops" Example

If a foundation remained unfunded for the majority of its first tax year and is funded with $500,000 in the last month of that tax year, its asset average for the year may be only $50,000. Thus, if this foundation made $40,000 in qualifying distributions in its first year of existence, it would have a ratio of $40,000 of qualifying distributions to only $50,000 of average assets, resulting in a whopping 80% ratio. This would result in an abnormally high historical ratio, making it much more difficult for the foundation to qualify for the reduced tax rate over the next five tax years.

To put this into perspective, assume the foundation's major funding event occurs in its second tax year, and its investment asset average for that year is $2 million. To qualify for the reduced tax rate in its second tax year, at a bare minimum, the foundation would have to make qualifying distributions of $1.6 million (80% historical ratio x $2 million asset average). If the foundation has $1 million of net investment income in its second tax year, the tax liability at the default 2% tax rate would be $20,000. The foundation would need to make qualifying distributions in excess of $1.6 million to save only $10,000 in taxes!

Planning for the Future

If a foundation's average asset balance remains relatively stable, it is possible to deliberately time grant payments to reduce the tax rate to 1% in alternate years. For example, if a foundation expects to have an historical ratio of 6%, it could plan a 5.8% ratio in year one (remember: it cannot qualify for the reduced tax rate in its formation year), a 6.2% ratio in year two (will qualify for 1% tax rate), a 5.8% ratio in year three (will not qualify for 1% tax rate), a 6.2% ratio in year four (will qualify for 1% tax rate), and so on. In this manner, the foundation will continue, on average, to maintain its 6% historical ratio and will qualify for the 1% tax rate every other tax year, so it can plan significant income events for such years.

Depending on your foundation's particulars, the difference between a 1% excise tax rate and a 2% rate may or may not seem incredibly significant. However, a proactive approach to tax planning, especially in the foundation's formation year, maximizes the funds available to the foundation for its philanthropic mission. And although foundations not managed by Foundation Source might be deterred by the burdens of tracking the market value of investments, monitoring distributions, and adjusting grantmaking strategy accordingly, Foundation Source clients are able to realize these tax savings without additional effort. Our real-time monitoring of foundation activity, together with the strategy of our tax-planning experts, can help your foundation time its disbursements to maintain a favorable historical ratio, reducing its tax burden and preserving more dollars for good work.

About Foundation Source (www.foundationsource.com)

Foundation Source is the nation's largest provider of comprehensive support services for private foundations, bringing specialized knowledge and expertise to clients across the country. The company's administrative services, online foundation management tools, and philanthropic advisory services provide a complete outsourced solution for private foundations. The result: better-run, more effective foundations, and more enjoyable philanthropy. Our clients supply the funds, the vision, and the philanthropic goals; we provide everything else.

Today, Foundation Source provides its services to more than 1,200 family, corporate, and professionally staffed foundations, of all sizes, nationwide. We work in partnership with wealth management firms, law firms, and accounting firms, as well as directly with individuals and families. Foundation Source is headquartered in Fairfield, Connecticut, with offices in Boston, Los Angeles, New York City, Philadelphia, San Francisco, Seattle, South Florida, Washington, D.C., and Winston-Salem.

Foundation Source

55 Walls Drive
Fairfield CT, 06824
800.839.0054
www.foundationsource.com

Boston | Los Angeles | New York City | Philadelphia | San Francisco
South Florida | Washington D.C. | Winston-Salem