Planned Giving Policies and Gifts

Accepted for the Minneapolis Medical Research Foundation

The Minneapolis Medical Research Foundation (MMRF) Planned Giving Program:

PURPOSE

The purpose of MMRF Planned Giving Program is to encourage, solicit and recognize bequests, gifts of life insurance, and gifts created by life income agreements for all purposes consistent with the mission and objectives of the MMRF.

This program is designed to supplement and enhance all other fund development programs of the Foundation by:

1. Offering donors the opportunity for life income gifts that will enable them to retain the income from their capital.
2. Offering donors the opportunity to make a larger gift during their lifetime than could be made without income retention.
3. Offering donors the opportunity to provide income for life of the survivor.
4. Encouraging estate planning and preparation of Wills which can provide for outright bequests, annuity for life income provisions for other beneficiaries, and additions to agreements and trusts which qualify for deduction of exemption under existing tax laws.
5. Offering donors the opportunity to establish a permanent memorial or endowment in one's own name or for another.

GENERAL POLICIES

It shall be the policy of the MMRF to offer through the Planned Giving Program and opportunity to make gifts in the following forms:

1. Gifts by Will and Bequest.
2. Gifts of remainder interest – including Charitable Remainder Unitrust, Charitable Remainder Annuity Trust, Charitable Gift Annuities; and the gift of one's personal residence or farm with retained life estate.
3. Other gifts – including life insurance policies, charitable lead (income) trusts; irrevocable trusts, and gifts of undivided interest in property.

It shall also be the policy of the MMRF to actively seek such gifts, and to provide adequate staff and resources for a full and effective program. The Foundation Board of Directors shall establish specific guidelines and conditions for various types of gifts through the basic formats that it approves.

CONFLICT OF INTEREST

In all matters involving donors and prospective donors, the interest of the donor shall come before that of the MMRF. No program, trust, contract or commitment shall be urged upon a donor or prospective donor, which would benefit the MMRF at the expense of the donor's interest. No agreement shall be made between the MMRF and any agency, person, company or organization on any matter, whether investments, management or otherwise, which would knowingly jeopardize the donor's interest. All donors and prospective donors will be encouraged to seek the counsel of their attorney and/or accountant before an agreement for any planned gift is finalized.

AUTHORITY TO SUPERVISE

The Chief Operating Officer of the MMRF, along with the Foundation's Board of Directors shall have the responsibility for supervising the Planned Giving Program. The COO and the Board should review the policies and guidelines of the Planned Giving Program at least annually.

AUTHORITY TO DISCUSS, APPROVE

Members and designees of the MMRF Board of Directors shall be authorized to discuss with the potential donor life income agreements and charitable trusts that follow the basic format of the agreements approved by the Board of Directors without further approval. All other agreements which are binding on the Foundation and which do not follow these formats shall receive the approval of the Board of Directors before final negotiations with the donor.

AUTHORITY TO INVEST

Investment policies are established by the MMRF Board of Directors and periodically reviewed. It is essential that the investment policy in each case be clearly stated and rigorously followed. All investments shall be managed by the _____ Committee. Further, the _____ Committee will make all investment recommendations to the Foundations Board of Directors.

PROTECTION OF DONOR'S RIGHTS AND INTEREST

In all matters involving donors or prospective donors, the interest of the donor shall come before those of the Foundation. No program, agreement, trust contract, or commitment shall be urged upon a donor which would benefit the Foundation, Hennepin Faculty Associates (HFA), or Hennepin County Medical Center (HCMC) at the expense of the donor's interest. No agreement shall be made between the Foundation and any agency, person, company, or organization on any matter – whether it be investment, management, sale, or other interest – which would knowingly jeopardize or compromise the donor's interest.

It shall be the policy of the Foundation, its directors and staff, to excircise extreme caution against the use of high pressure sales techniques when dealing with prospective donors. The task of all shall be to inform, serve, guide or otherwise assist in fulfilling the donor's philanthropic wishes, but never under any circumstances to pressure or unduly persuade.

CONFIDENTIALITY

All information obtained about donors or prospective donors shall be held in the strictest confidence by the Foundation. Neither the name, the amount nor the conditions of any gift shall be published without the approval of the donor and/or the beneficiary.

REVIEW OF AGREEMENTS

The MMRF shall seek the advice of legal counsel in all matters pertaining to its Planned Giving Program, and shall execute no agreement, contract, trust or other legal document with any donor without the advice of legal counsel. Likewise, the prospective donor shall be advised to seek the counsel of his or her choice in any and all aspects of the proposed gift, whether by bequest, trust agreement, contract or other. The donor shall particularly be advised to consult his or her tax advisor on all matter related to the tax liability of a gift and matters pertaining to the planning of the donor's estate.

Each gift arrangement also shall be reviewed from the prospective of it potential benefit to the mission and work of the Foundation. While the interests of the donor are paramount, no gift shall be accepted if it benefit to the Foundation is so remote as to be negligible. The Foundation retains the right to refuse gifts in any form which are deemed inappropriate to its purpose.

TYPES OF PLANNED GIFTS ACCEPTED

A. <u>Bequests</u> – A common charitable gift is the traditional bequest through the donor's Will. This vehicle lets the donor use the cash or other assets up to their death. At the same time it gives the testator knowledge that their philanthropy will beused beyond their own life. Usually the easiest form of a planned gift to attract the interest of the prospect is a bequest.

   Benefits:

   1. is easily understood.
   2. is easy and inexpensive to execute.
   3. does not require donors to give up income-producing assets during their lifetime.
   4. is revocable.
   5. can reduce the estate tax.

POLICY FOR BEQUESTS

The MMRF Board has determined Bequest are recognized only when they are received and not at the they are described in the Will of the prospective donor.

B. **<u>LIFE INSURANCE</u>** – Contract issued by a life insurance company to an individual. Donor can name the Minneapolis Medical Research Foundation as the primary or final beneficiary, or he or she can transfer ownership of an existing policy. If the MMRF is merely named the beneficiary of the policy the funds will not be included until they are received, but if the MMRF is both the owner and beneficiary of the policy the funds will be included at the time the policy is transferred.

<u>BENEFITS:</u>

1. easily understood.
2. easy and inexpensive to execute.
3. discreet.
4. convenient and economical.
5. policy's face value is removed from the donor's taxable estate.
6. future premiums paid on policy by donor are treated as charitable gifts, if the policy is given to the Foundation.
7. if the policy has a cash value, the donor can receive an immediate income tax deduction.
8. gifts of life insurance are complete – Foundation receives total vaue of property.

POLICY FOR LIFE INSURANCE GIFTS

The MMRF will not endorse or share its mailing list with any particular agent or life insurance company.

The MMRF, as owner of the policy, will pay the premiums due with the expectatin that the donor will make a gift to the Foundation. In any event the donors decides not to do this, the Foundatio may decide to make payments anyway or discontinue payments.

The Minneapolis Medical Research Foundation may borrow against life insurance policies.

C. **CHARITABLE REMAINDER TRUSTS** – A Charitable Remainder Trust (CRT) is an inome trust created by transferring property irrevocably to a trustee (often the charitable institution receiving the gift) under a trust agreement that provides the donor and/or beneficiary with income for life. After the death of the income beneficiaries, the Foundation may use the remaining trust principal for charitable purposes. The two types of charitable remainder trusts are the Annuity Trust and the Unitrust.

1. **CHARITABLE REMAINDER ANNUITY TRUST** – A trust created under the Tax Reform Act of 1969. It provides for a donor to transfer property to a trustee subject to his or her right to receive a fixed percentage of the initial fair market value of the property for as long as he or she lives. The sum certain that is paid cannot be less than 5% of the initial fair market value of the property placed in the trust. Whatever remains in the trust becomes the property of the beneficiary (MMRF) at the time of his or her death.

   BENEFITS:

   1. receive a fixed lifetime income, paid at least monthly.
   2. receive n initial income tax deduction.
   3. provide a relief of Capital Gains Tax.
   4. receive a Federal Estate Tax savings.
   5. income may be taxed favorably.

2. **CHARITABLE REMAINDER UNITRUST** – A trust which fixes a specific income percentage (at 5% or more) of the trusts fair market value. It is significant that the unitrust's value is recomputed each year. The income payments of a unitrust vary from year to year as the trusts value hopefully inceases. When the unitrusts annual earnings drop below the promised pay-out, the corpus (principal) need not be invaded to bring up the pay out. Instead the payments may equal the trust's earnings for that year, and the shortfall can be made up during the years when the yield is high.

   BENEFITS:

   1. donor receives a percentage of net fair market value – valued annually.
   2. receive a lifetime income, based on the annual value of assets.
   3. receive an initial tax deduction.
   4. provide relief from Capital Gains Tax.
   5. receive a Federal Estate Tax deduction.
   6. income may be taxed favorably.

POLICIES PERTAINING TO CHARITABLE REMAINDER TRUSTS (ANNUITY OR UNITRUSTS)

The preferred from of a trust shall provide that a bank or financial institution shall serve as trustee, with the MMRF retaining the right to change the trustee.

Appreciated property may be used to establish a Charitable Remainder Trust.

Management fees shall be paid from the trust principal.

No trust shall be established for less than 5% pay out or more than a 10% payout.

The minimum amount for establishing a trust shall be $100,000.
Agreements are limited to two beneficiaries.

3. **LIFE ESTATE AGREEMENT** – Under Section 170 (f) (2) of the Internal Revenue Code, a person may give a remainder interest in a personal residence or farm to a charity and reserve the right to live there for one or two lives. This gift plan, commonly called a life estate or a life estate reserved, is used by persons who wish to receive an income tax deduction now, while leaving a substantial transfer to the MMRF at their death.

   BENEFITS:

   1) retains life estate in property.
   2) initial tax deduction.
   3) provides relief from Capital Gains Tax.
   4) Federal Estate Tax deduction.

POLICY FOR LIFE ESTATE AGREEMENT

The gifts must be an Irrevocable Remainder Interest in a personal residence or farm.

The property may not be subject to indebtedness.

Donor may place no restriction on the Foundation's future use of the property.

Life Estate shall be limited to two beneficiaries.

Donor shall be responsible for maintaining the property during his or her lifetime, including payment of real estate taxes.

D. **CHARITABLE LEAD TRUSTS** – The Charitable Lead Trust is a way for a generous individual in high estate and gift tax brackets to benefit a favorite charity and pass principal to family members with little or no tax penalty. It works like this: The donor irrevocably transfers assets to a trust; the trust provides payments to the MMRF for a term of years; then the trust principal goes to children, grandchildren or others absolutely free of – or at a greatly reduced – federal gift and estate taxes. The Charitable Lead Trust is authorized by federal tax law to encourage charitable gifts.

   BENEFITS:

   1) Allows the donor to pass on assets to heirs in the future.
   2) The donor gives a current gift to the MMRF.

3) A current income tax deduction can be utilized by the donor.
4) The donor can transfer highly appreciated property without recognizing the gain.
5) The donor can maximize the effectiveness of the Generation Skipping Tax exemption.

POLICY PERTAINING TO CHARITABLE LEAD TRUSTS

Highly selective solicitation of wealthy prospects by Foundation staff members is encouraged since mass solicitation efforts are likely to be unproductive.

The recommended minimum funding value for a charitable lead trust is $50,000.

Under normal circumstances, the Minneapolis Medical Research Foundation will not serve as a trustee. Exceptions must be approved by the President and COO of the Minneapolis Medical Research Foundation and the Foundation's Generl Counsel. Trustees fees will be paid by the tust and not by the MMRF. Any proposal and tax calculations prespared by the MMRF are for illustrative purposes only. Final authority rests with a donor's tax advisor or attorney.

E. **CHARITABLE GIFT ANNUITY –** The Charitable Gift Annuity is a contract backed by the MMRF to pay a fixed annuity amount to individual(s) in return for an amount transferred by the individual in the form of cash, securities, real property or other assets. The amount of annual annuity is fixed at the time of the gift and remains constant for the life of the contract. A large portion of the annual annuity payment is tax-free. IRS regulations determine the exact percentage based on the rate of return and the age of the annuitant(s). Capital gains realized by the donor on the transfer of appreciated assets will be less than in an outright sale; in addition, reporting of capital gains for income tax purposes can be spread over the donor's life expectancy rather than coming due in the year of the sale of asets.

BENEFITS:

1) Charitable Gift Annuities are relatively simple and easy to understand.
2) The MMRF receives a current gift.
3) The annuiant will receive a fixed income for life based on his or her age.
4) In using appreciated property, the capital gains tax is distributed over the life of the annuity.
5) The donor will receive a tax-free return of principal.
6) The donor will receive a current tax deduction.
7) All assets used to fund the Charitable Gift Annuity avoid probate.

8) The donor can choose to receive the income monthly, quarterly, semi-annually, or annually.

POLICY PERTAINING TO CHARITABLE GIFT ANNUITIES:

MMRF staff members should not promote gift annuities as investment vehicles or compare them to investment alternatives. The gift annuity is a gift vehicle which generates cash payments to a donor or others for life.

$5,000 is the minimum amount for the MMRF to establish a Charitable Gift Annuity.

An agreement funded with non-liquid assets must be approved by the President and Chief Operating Officer and Chief Financial Officer of the Minneapolis Medical Research Foundation. If thee property is determined not to be appropriate for MMRF to accept, the donor will be informed by the Chief Operating Officer. If the donor is willing to consider other options and is able to give other assets, such as cash, securities or bonds in lieu of the intended property, the Foundation will discuss other options. Real estate and tangible personal property are generally unsuitable.

The MMRF gift annuity rates generally conform with the gift annuity rates set by the American Council on Gift Annuities.

A disclousure statement as required under federal law should be provided to the donor with the initial gift proposal or illustration, and must be provided prior to execution of the gift annuity agreement.

The gift assets are invested according to the investment guidelines set by the MMRF _____ committee in order to generate income sufficient to pay part or all of the guaranteed annuity payments.

The gift annuity agreement typically provides funding for the MMRF _____ fund. Donors may designate an MMRF program or project to receive the gift assets remaining when the annuity payments terminate.

F. **BARGAIN SALE** – A Bargain Sale is a sale of an asset to a charity for an amount less than the asset's fair market value. The Treasury Regulations define such a sale as a transfer of property which is in part a sale or exchange of the property and in part a charitable contribution. For example, assume a parcel of land valued at $200,000 with a cost basis of $20,000 is adjacent to MMRF's main campus. MMRF desires to use the land for expansion purposes. After discussion with the donor, MMRF suggests to pay $100,000 for the property valued at $200,000. If an appraiser does indeed value the property at $200,000, the donor will then receive a tax deduction for a charitable gift of $100,000. Through this process, the donor would avoid the hassle of selling the property and paying real estate commissions.

POLICY PERTAINING TO BARGAIN SALES

In certain cases it may be preferable for the donor and the Foundation to negoitiate directly to determine the terms of the sale. For example, the MMRF may have confidential or "inside" information regarding the donor's financial affairs and motives, and the donor is likely to misunderstand the role of the Foundation if it is not involved in the negotiations.

A Bargain Sale must satisfy all MMRF gift acceptance policies for outright gifts of real or personal property.

It is often desirable to have the donor sign a "letter of understanding" outlining the terms and conditions of the gift, possible tax consequences, and cautions regarding a subsequent sale of property to the MMRF. This is most useful when donated personal property must be put to a general or specifically related charitable purpose to qualify the deduction for special income tax treatment.

The _____ should inform the donor of IRS Form 8283, reporting requirements for non-cash gifts in excess of $5,000 in value.

G. **GIFTS OF SECURITIES** – Gifts of readily marketable securities or stock can be one of the most advantageous ways of giving. If a donor owned the stock for at least one year, you may deduct the full fair market value of the stock as a charitable contribution, and at the same time, bypass all Capital Gains Taxes.

POLICIES FOR GIFTS OF SECRURITIES

Gifts of securities which will not be accepted are the following:

*Securities which are assessable or in any way could create a liability to the MMRF.

*Securities which, by their nature, may not be assigned (such as Series "E" Savings Bonds).

*Securities which, on investigation, have no apparent value.

H. **GIFTS OF REAL ESTATE** – The tax benefits available for gifts of appreciated real estate are virtually identical to those for gifts of appreciated securities.

   First, the donor will avoid capital gains tax on his or her profit. Second, he or she will receive an income tax charitable deduction for the full fair market value of the property contributed.

   Gifts of appreciated real property such as undeveloped land, farms or personal residences may be transferred by deed with no liability for income or estate taxes on the appreciation.

POLICY FOR GIFTS OF REAL ESTATE

Before acceptance, all offered gifts of real estate will be appraised by a recognized appraisal firm, totally independent of the Minneapolis Medical Research Foundation, or by the appraisal department of a major bank or savings and loan association in order to establish fair market value.

This appraisal will perform three functions:

1. Establish the donor's deduction.
2. Give the Foundation's finance _____ department and auditors a reasonable value at which to carry the asset on the MMRF books.
3. Eastablish an asking price for the property.

The donor will be asked to pay for this appraisal since it is tax deductable.

The property will be listed with a broker or broker in the area in which the property is located for sale at the offer in this range.

If because of high taxes or a sizable mortgage, the MMRF is unwilling to hold the property for a reasonable period of time and will be forced to cash out as quickly as possible, the prospective donor will be so nformed.

If the property does not warrant the expense of an appraisal, the assessor's evaluation will be used as fair market value, if located in Minnesota. (?)

Properties with mortgages will not be accepted except:

*With an independent appraial, and
*If the mortgage amounts to 50% or less of the value established by the appraisal.

Gifts of commercial properties and business will be evaluated, not only oon the basis of property tax and ortgage liabilities, but also taking into consideration that:

*The MMRF may have to pay income tax on unrelated business income.
*The MMRF is a non-profit corporation and receives no tax benefit from depreciation.

I. **GIFTS OF PERSONAL PROPERTY** – Personal property such as furniture, Oriental rugs, automobilesm boats, silver and jewelry may be contributed to the MMRF.

POLICY FOR GIFTS OF PERSONAL PROPERTY

GIFTS OF WORKS OF ART – both self created and purchased will be accepted by the Foundation, however:

*The decision whether or not the art is displayed at the Foundation will rest with the MMRF Board of Directors.
*No commitment wil be made to keep the art – if it is not suitable for the Foundation, it will be sold.
*The gifts will be placed on the MMRF books at $1.00 unless a valid independent appraisal is supplied at the donor's expense, since the cost of the appraisal is deductable to him or her.

GIFTS OF FURNITURE – will be accepted if the furniture is usable by the foundation, and can be quickly sold for an amount approximating the amount the donor wishes to take as a tax deduction.

Donors are responsible for establishing their own deductions.

GIFTS OF AUTOMOBILES AND OTHER VEHCLES – Automobiles will be accepted by the Foundation when they are in working order and salable.

Vehicles will be booked by the Foundation at retail "blue-book" prices less any necessary repairs.

Vehicles unsuitable for use by the Foundation will be sold.

GIFTS OF OTHER MISCELLANEOUS PERSONAL PROPERTY – Other items of property will be accepted if they are useful to the MMRF, and are easily salable.

Establishment of value is the responsibility of the donor.

*If the item is not usable by the Foundation but is salabe, the Foundation will inform the donor that the value placed on the item by the donor cannot be realized by its sale.

Other matters that will be taken into consideration by the MMRF before deciding to accept a gift of personal property will be: Transportation cost, storage cost, cost of selling, and maintainance and repairs.

GIFT AMOUNTS AND LIMITATIONS – Annuity trusts, Unitrusts and Gift Annuities require separate trusts and are therefore not feasible below specific sizes. The amounts listed below have been established by the Minneapolis Medical Research Foundation as minimums for charitable gifts from donors to the Foundation.

Charitable Gift Annuity	$5,000
Deferred Gift Annuity	$5,000
Charitable Remainder Annuity Trust	$100,000
Charitable Remainder Unitrust	$100,000
Charitable Lead Trust	$50,000
Grantor Lead Trust	$50,000

The Minneapolis Medical Research Foundation will accept life income gifts for one or two lives, and also a term of years; in some circumstances, payments may extend to additional lives or a combination of one of two lives plus a term of years. The usual minimum age for acceptance is ifty (50). The exception to the above would be the deferred gift annuity or retirement unitrust.