

REED COLLEGE
OFFICE OF COLLEGE RELATIONS
Development Department
GIFT ACCEPTANCE POLICIES
(October 1999) (Revised September 2004)

I. PROGRAM PURPOSE AND POLICY OBJECTIVES

The mission of Reed College is to provide an education in the liberal arts and sciences with emphasis on the highest standards of intellectual excellence.

The purpose of Reed College's fund-raising program is to secure gifts that further the mission of the college. By offering programs that encourage various types of giving, the college seeks to make giving to Reed a high priority among its varied constituencies, as well as more readily achievable. Types of giving programs offered include the annual fund, major unrestricted and restricted gifts, planned gifts, and corporate and foundation gifts. Prospects are derived from college alumni, parents, friends, foundations and corporations.

The objectives of these policies are to:

- Direct development staff efforts towards those gift opportunities that most benefit the college;
- Secure valuable gifts that benefit both the college and its donors;
- Facilitate an effective approval process;
- Ensure that the college's interests are being protected; and
- Ensure that donors are treated in a professional, ethical and fair manner.

These policies define the criteria and processes by which proposed gifts will be considered for acceptance. Reed College reserves the right to refuse any gift.

II. CODE OF ETHICS

Every effort should be made to ensure that gifts accepted by Reed College are in the best interests of the institution and the donor. The college subscribes to the CASE Donor's Bill of Rights and to the Model Standards of Practice for the Charitable Gift Planner. Key principles include safeguarding the confidentiality of the donor, full disclosure to the donor, and encouraging the review of any major and/or planned gift by the donor's independent advisors. (See Appendix I for Donor's Bill of Rights and Model Standards etc. and Planned Giving Services Guidelines.)

As a protection to the donor and the college, the development officer working with a donor shall document for the donor's review and approval the donor's intentions, motivation, and objectives for creating the major or planned gift under discussion.

The college will seek legal counsel relating to matters of gift acceptance when appropriate.

III. SERVING AS TRUSTEE

Oregon law permits Reed to serve as trustee of charitable trusts that benefit the college. The college will agree to serve as trustee of a charitable trust as long as the terms and conditions outlined in

these policies are met. The decision to accept the trusteeship or successor trusteeship of a charitable trust shall be subject to the approval of the Gift Acceptance Committee, made up of the Treasurer, Vice President for College Relations, and the Director of Planned Giving. Their decision will be guided by the terms and conditions outlined in this policy document. Exceptions to these policies will be made only with the prior approval of the Gift Acceptance Committee, and will be made only upon an adequate showing that the interests of the college are served.

If a donor wishes to direct or restrict the investment of a trust's assets, the donor should be encouraged to serve as his or her own trustee or to secure the services of another trustee or administrator. The college will not serve as co-trustee of a trust with a donor.

The college may agree to serve temporarily as agent for asset management or trust administration or both for a Charitable Remainder Trust for which it is not the initial trustee. The college should be named as successor trustee to take office upon the expiration of a fixed period or upon the occurrence of an event such as the sale of the trust's funding asset(s).

IV. PLANNED AND MAJOR GIFTS

Major gifts are defined as non-recurring gifts that are usually \$75,000 or more and often are for restricted purposes. These gifts are integral to the mission of the college.

Planned gifts are a subset of major gifts, with variable minimum amounts, and enable a broad group of supporters to make significant gifts to the institution, either during their lifetime or as part of an estate plan, that they could otherwise not make through outright gifts. While planned gifts often enable donors to accomplish both financial and philanthropic goals; the college seeks to encourage gifts that have significant philanthropic motivation. Donors should be reminded that the college is not a financial institution offering commercial investment vehicles.

V. TYPES OF GIFTS ACCEPTED

The following types of planned gifts are acceptable under the terms and conditions set forth below. Gifts described in sections 3 through 10 below must have prior approval of the Gift Acceptance Committee.

- 1. Bequests under a will or living trust.**
- 2. Beneficiary designations in a retirement plan (such as an IRA or 401(k)), an annuity, or a life insurance policy.**
- 3. Charitable remainder trusts.**

Charitable remainder trusts include annuity trusts and standard, net income, and flip unitrusts. Reed College will agree to serve as the Trustee of a charitable remainder trust so long as it is named the irrevocable remainderman of the trust and it will receive at least 50% of the remainder of the trust. The minimum amount needed to fund a unitrust or an annuity trust is \$100,000 assuming the college receives 100% of the remainder. A unitrust must have a minimum payout rate of 5%. An annuity trust must have an annual payout of at least 5% of the initial funding value of the trust. Additions to a unitrust shall be in the amount of at least \$5,000. Income payments of any amount may be contributed back to a unitrust. Law does not permit additions to an annuity trust. Payments from a unitrust or an annuity trust may be made quarterly, semi-annually, or annually so long as the payment dates correspond to calendar quarter ends.

The expected duration of a charitable remainder trust should not ordinarily exceed 40 years at the time it is established.

Charitable remainder trusts shall normally have no more than *two* income beneficiaries. Charitable remainder trusts shall have an expected net present value equal to at least 50% of the initial funding amount of the trust. The assumptions to be used in determining net present value shall be reviewed and approved annually by the Treasurer.

The preferred arrangement to be used when an illiquid or non-income producing asset is contributed to a charitable remainder trust is a net income unitrust with a “flip” provision. This provision will cause the trust to become a standard unitrust in the year after the asset is sold. Alternatively, a standard or “flat” unitrust may be used if the donor agrees to contribute liquid assets on a timely basis in order to meet the beneficiary payout requirements and cover all other costs incurred by the trust (this should be documented in a letter of agreement signed by the donor and the college). Gifts of assets giving rise to unrelated business taxable income (UBTI) will not be accepted into charitable remainder trusts or charitable lead trusts. (See Appendix II for Trust Disclosure Statement)

4. Current and deferred charitable gift annuities.

Reed College currently offers charitable gift annuities to donors in states where we are compliant with state regulations. A charitable gift annuity shall have an annuity rate no higher than the rate suggested by the American Council on Gift Annuities at the time the gift is funded. Current and deferred charitable gift annuities may be established with at least \$10,000. Under IRS regulations, there may be no more than two annuitants. Charitable gift annuities generally are not recommended for beneficiaries under the age of 70, because of the effect of inflation on the purchasing power of the annuity payment over time. Special care should be taken to disclose this risk to a donor who plans to include a beneficiary under age 70. (See Appendix III for Gift Annuity Disclosure Statement.) The majority of gift annuity payments are made quarterly at calendar quarter end.

5. Retained life estate in real property.

Reed College will agree to accept remainder interests in real property, including personal residences and farms. The donor or the donor's designee must agree to continue to pay or otherwise make provision for the payment during his or her lifetime of all costs and liabilities of owning and maintaining the property, including property taxes, insurance, assessments, repairs and ordinary maintenance. Neither the donor, nor any other person with an interest in the property, shall be able to compel the college to make any capital improvement or take any other action regarding the property involving the expenditure of funds or an assumption of a risk. Gifts of interests in real property subject to a retained life estate are subject to the same review process as is set forth below for other gifts of real property.

6. Bargain Sales.

Bargain sales shall be negotiated individually with the donor, and are subject to review and approval by the Treasurer. Bargain sales involving a gift interest of less than 50% of the property's fair market value, or an estimated net gift value of less than \$100,000 will typically not be considered.

7. Reed College Pooled Income Fund.

Gifts of at least \$10,000 may be accepted to the pooled income fund. There shall be no more than two beneficiaries of the retained interest. Additions may be made to the pooled income fund in the amount of at least \$1,000. Income payments of any amount may be contributed back to the fund. Payments from the pooled income fund are made quarterly at calendar quarter end. The pooled income fund will accept gifts of cash and publicly traded securities. No gifts of tax-exempt securities will be accepted.

8. Charitable lead annuity trusts and unitrusts.

Reed College will serve as Trustee of a charitable lead trust only if it secures sufficient assurances, either through an indemnification clause in the trust agreement or through some other written means, that the donor(s) of the lead trust will protect the college from potential liability to the non-charitable beneficiaries of the trust (usually the donor's family) except in the case of willful misconduct or gross negligence. Generally, the college will not serve as the trustee of a charitable lead trust funded with or invested in assets other than a diversified portfolio of publicly traded securities. In order for the college to serve as Trustee of a lead trust:

- The expected net present value of the income interest it will receive shall be equal to at least \$500,000, and;
- The college must be irrevocably named to receive at least typically 50% of the income of the trust.

9. Ownership of a life insurance policy.

Reed College will accept transfers of ownership of existing life insurance policies. If premiums remain to be paid, the donor must agree in writing to give sufficient funds annually on a timely basis to the college in order for it to pay the premiums, or the donor must agree to pay the premiums directly. The college reserves the right to cash in a policy or take other actions available to the owner of a policy at any time. The college will not undertake to secure insurance on the life of a donor or otherwise at the request of a donor, nor will it accept ownership of policies subject to a loan or in connection with a "split dollar" or similar arrangement where the proceeds are to be divided between charitable and non-charitable interests.

10. Donor Advised Funds.

Reed College will accept a donor's advised fund with an initial contribution of \$250,000. The minimum addition is \$10,000. By creating a donor advised fund, the donor is making an irrevocable charitable gift of property over which the college has ultimate control and authority including earned income. The donor receives a charitable deduction in the year the fund is established.

The college will accept cash or publicly traded securities, including bonds and mutual funds, as funding assets.

The Fund may be used for charitable, religious or educational purposes as provided in the written agreement between Reed and the donor, consistent with the meaning of charitable purposes as defined by the Internal Revenue Code. When yearly distributions are made to other charities, an equal amount is made to Reed. At the termination of the fund, Reed receives at least

50% of the remainder. The final discretion as to use of the fund principal and income shall be that of Reed College.

If the donor's fund remains below \$50,000 for twelve consecutive months it will terminate and the balance will be distributed to Reed College or as provided in the written agreement between Reed and the donor.

The minimum annual distribution is calculated at the individual fund account level not the program level. The required annual amount is determined by multiplying a stated percentage times the market value of the fund as of the College's most recent fiscal year end. During the first year in which the fund account is established, the minimum distribution amount is prorated based on the gift date. \$1,000 is the minimum per charitable entry per distribution.

Investment and sale of contributed assets are managed in a manner consistent with the current investment policy guidelines for planned gifts. The donor may make a non-binding suggestion as to investment asset allocation, but the final decision rests with the college.

Service fees for administration and investment management are paid based upon the market value of each account at the end of the quarter before distributions are made.

VI. MISCELLANEOUS ISSUES

1. Testamentary funded gifts.

The charitable gift annuity, pooled income fund gift and various charitable trusts described above may be funded during the lifetime or at the death of the donor. The decision for the college to serve as the trustee of a testamentary funded trust requires prior approval by the Gift Acceptance Committee.

Terms and minimum funding requirements for a gift to be funded at the donor's death will be governed by the acceptance policies in effect at the time of the donor's passing.

2. Trust types not accepted:

Reed College will not serve as trustee of a funded revocable trust or a nonqualified trust.

3. Serving as Executor of an Estate.

With prior approval, a donor may appoint the college as personal representative of an estate or successor trustee of a living trust that benefits the college provided the college is given the right to name an alternate.

4. Generation Skipping Transfers

Each trust or other deferred gift shall be reviewed to determine if there is a possibility that a beneficial interest may vest in a person more than one generation removed from the donor.

The donor should be advised of the outcome of this review and encouraged to seek expert assistance in the event that such a beneficial interest could arise.

VII. ACCEPTABLE ASSETS

The following assets may be accepted as funding for an outright or planned gift, subject to the terms and conditions outlined below:

1. Cash and marketable securities.

Marketable securities (including mutual fund shares) contributed to fund a planned gift will be sold according to the terms of the college's investment guidelines for planned gift assets. (See Appendix IV for General Guidelines for Outright Gifts of Securities.) Securities may not be held without the prior approval of the Treasurer. Mutual fund shares are ordinarily transferred from the donor's account at their mutual fund company to the college's account at the same company. The college then sells the shares. Tax-exempt securities may not be used to make a gift to the pooled income fund, whether such securities are held directly or as part of the underlying assets of a "pass-through entity" such as a mutual fund, partnership, or an "S" corporation. Shares subject to restrictions on sale, whether by contract, SEC rules, an underwriter's "lock-up" or other restriction, or as the result of corporate policy applicable to the donor, will be given special review and accepted only if the Treasurer determines it is in the best interest of the college to do so. Efforts should be made to have the restrictions removed prior to the gift.

2. Closely held stock.

Closely-held stock in a "C" corporation will be accepted as funding for a flip unitrust, a standard unitrust (along with cash or marketable securities), or, in more limited circumstances, a gift annuity, upon the approval of the Treasurer.

S-corporation stock will not be used to fund a charitable remainder lead or remainder trust, or a pooled income fund gift.

3. Partnership interests.

Partnership interests (either publicly traded or non-publicly traded) will be accepted only with the approval of the Treasurer. Non-publicly traded partnership interests will not be accepted as a gift to the pooled income fund. If any partnership interest is considered for acceptance, care must be taken to ensure that the gift would not trigger the bargain sale rules or give rise to unrelated business taxable income (either due to debt financed income in the partnership or because the partnership is actively conducting a business activity).

Special care should be given to ensure that interests in non-publicly traded partnerships are in fact limited and not general partnership interests and that no current or future obligation exists under which additional funds may be required to be provided to the partnership. If a general partnership interest is to be considered for acceptance, arrangements should be made to secure adequate indemnification and hold harmless protections from the donor or some third party with the capacity to fulfill such protection obligations.

4. Tangible personal property.

Tangible personal property may in certain circumstances be accepted as funding for a charitable gift annuity, a net income unitrust with a flip provision, or a standard unitrust (along with cash or marketable securities) with the approval of the Treasurer. Whether the tangible

personal property is given as an outright gift, or accepted to fund a life income gift, the property will generally not be held, but will be liquidated as soon as possible. In either case, disclosure should be made to the donor of the potential tax, administrative, and other consequences of contributing such property. Care must be taken to assure that no UBTI or other adverse tax consequence arises from acquiring or holding tangible personal property.

All potential donations of art must be approved in advance by the Art Management Committee. (See Appendix V for policy statement.)

5. Retirement plan assets.

Retirement plan assets may be withdrawn by a donor during lifetime and used to fund any type of planned gift. Under current law, the donor will be required to report all such withdrawals for income tax purposes and, in most cases, will be subject to tax at ordinary income rates on the full amount of such withdrawals. Retirement fund assets distributed before the donor is age 59 1/2 will give rise to a 10% penalty tax on the amount withdrawn, except in special circumstances. Other tax rules may apply, with potential adverse tax consequences. The donor should secure expert advice regarding any plans to give retirement assets during lifetime.

Retirement plan assets may be used to fund a charitable remainder trust or a gift annuity at the donor's death. Since the balance of assets that will remain in the account at the time of the donor's death is unknown, the donor should be asked to provide for additional assets to be distributed under the terms of his will or living trust, if needed, to meet the minimum funding requirement in the college's acceptance policies in effect at the time of the donor's death.

6. Real property.

Real property may be accepted into a charitable remainder trust or charitable lead trust and in some cases may be contributed as funding for a gift annuity, subject to the prior approval of the Treasurer. Real property should have a value of at least \$150,000 to be accepted. A gift of real property will be subject to the following requirements:

- Personal inspection by college or college's agents
- Title search and title insurance
- Minimum of level one environmental audit
- Marketability review by at least two knowledgeable brokers
- Qualified appraisal obtained by the donor
- Completed real estate checklist, including detailed financial information on the property if it is commercial real property

Mortgaged real property generally will not be accepted. Donors who own mortgaged real property should be encouraged to pay off or transfer the mortgage before making the gift. The Gift Acceptance Committee may make exceptions.

Donors should be informed that Reed College accepts gifts of real property provided that the property is readily marketable. Donors of property with complex issues (e.g., environmental concerns, uncertain marketability, or property subject to long-term leases) who are considering establishing a charitable remainder unitrust should be encouraged to serve initially as their own trustee. In this situation, the college may be named the successor trustee of the trust once the property has been sold. Acceptance of trusteeship at that time will be subject to the review and approval of the Gift Acceptance Committee.

VIII. GIFT USE CRITERIA

While the emphasis should be on encouraging unrestricted gifts to the institution, donors may restrict the purpose for which a planned gift will eventually be used by the college. The college prefers that any restrictions are agreed to at the time the gift is established, but in any case, such restrictions should be fully documented in a written “memorandum of understanding.” This document is signed by either the Treasurer or President, and the donor(s). (See Appendix VI for Example of Memorandum of Understanding.) The college should attempt to reserve the right in the gift designation agreement to broaden the purpose of a gift should the Treasurer determine at some future date that the purpose for the gift no longer best serves the mission of the college.

IX. ESTABLISHMENT OF GIFT DATE AND VALUE

It shall be the responsibility of the donor and the donor’s advisors to establish the effective date of any gift and the value of the assets on that date.

The college will assist the donor by providing the amount of the charitable deduction received for a new planned gift, or an addition to an existing gift, based on the college’s best understanding of the facts. However, the donor should confirm this amount with his or her own advisors. In the case of a gift annuity, a gift to a pooled income fund, or a bargain sale involving property other than cash or publicly traded and liquid securities, the college has a direct interest in the valuation used and may decide to independently verify the appraisal obtained by the donor.

X. COMMUNITY PROPERTY AND OTHER TITLE ISSUES

Special care should be taken to determine if the gift property is held as community property (or if there is any other party having an interest in or claim to the property). In all cases involving a donor who is married, efforts should be made to determine whether the spouse has consented to any gift arrangement, especially those planned gifts, in which the spouse is not also a donor and beneficiary, and to secure consent if deemed advisable by the college’s legal counsel.

XI. PRIVATE FOUNDATION AND OTHER TAX RULES

If a proposed gift arrangement contains aspects that differ from the simplest form of structure that is generally used, the arrangement should be reviewed by the college’s legal counsel to determine if private foundation rules of the Internal Revenue Code, potentially apply. In particular, attention should be given to the possibility of conflict of interest.

XII. PAYMENT OF EXPENSES

Responsibility for payment of various expenses involved in securing and managing planned gifts is as follows:

- Qualified appraisal to substantiate deduction (if necessary)—donor pays the cost
- Attorney’s fee for document drafting and counseling donor—if donor’s attorney performs, donor pays the cost; if the college’s legal counsel drafts a document for the donor and the donor’s attorney reviews it, the college pays the cost of drafting the document
- Title search (real property)—the college pays the cost
- Title insurance (real property)—the donor pays half the cost

- Environmental review (real property)—the donor generally should pay the cost, but this is subject to negotiation and the college may pay the cost in appropriate circumstances.
- Appraisal to update the property value once the trust is funded—charged to trust
- A professional investment firm retained by the college manages trust and annuity assets. Investment management and trust administration fees for these services are charged to the gift arrangement. The college reserves the right to charge separate trustee's fees to cover oversight costs.

XIII. ROLES AND RESPONSIBILITIES OF STAFF

1. Drafting and review of documents.

Reed College's legal counsel shall be responsible for preparing any trust agreements drafted by the college for which it will serve as trustee. If the donor has his or her own attorney prepare the document, the college's legal counsel shall review the document before the gift is accepted. The college will not review and comment on wills or living trusts except to ensure that the college is properly named in the instrument and that proposed restrictions are acceptable and enforceable. The college will not draft wills or living trusts for donors.

2. Forms 8283 and 8282.

The college shall be responsible for assisting the donor with completion of IRS Form 8283 and shall be responsible for completion and submittal of Form 8282 when the property has been sold.

3. Donor disclosure.

The college shall be responsible for providing a donor with appropriate disclosure materials for new planned gifts to meet the requirements of the Philanthropy Protection Act and other legal requirements. The college should explain to the donor the terms and operations of the gift, including how it will be invested and administered. The donor should be informed of both the potential rewards and the risks of the investment strategy to be employed. (See Appendix II and III for disclosure statements.)

4. New gift documentation.

The college shall provide the donor with a gift receipt and other necessary documentation about his or her gift.

5. Ongoing stewardship of planned gifts.

The college shall be responsible for ongoing stewardship of a donor with regard to their gift once a gift has been completed. This includes an annual report of investment performance, as well as an annual report on the specific use of any restricted gift, where applicable.

6. Oversight of administration and investment of gifts.

The college shall be responsible for oversight of any outside service providers engaged to manage and administer the college's planned gift assets.

XIV. ADMINISTRATION OF THESE POLICIES

Approval and oversight of these policies is the responsibility of the Development Committee of the Board of Trustees. The Gift Acceptance Committee is responsible for the administration of these policies. The Gift Acceptance Committee must approve exceptions to these policies.

XV. CHANGES TO GIFT ACCEPTANCE POLICIES

These policies and guidelines have been reviewed and accepted by the Development Committee of the Board of Trustees of Reed College. The committee must approve any subsequent changes to the policies.