

PART TWO: TYPES OF FUNDS

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A BRIEF SUMMARY

UNRESTRICTED ENDOWMENT

- Offers maximum grant making flexibility.
- Grants are made upon the recommendation of the fund's advisory board which has broad discretion meet needs as they evolve.
- Named fund can be started with a contribution of **\$10,000**.

Community Funds, a type of Unrestricted Fund, are a priority in the Community Foundation's efforts to serve Southern Wisconsin. Community Funds support a variety of projects and programs each year through the community grants program.

DONOR ADVISED FUND

- Offers the most involvement of your client or client's family; the donor may recommend to the board how and when the grants are made.
- Named funds can be started with a contribution of **\$25,000**.

FIELD OF INTEREST FUND

- Benefits donor's interests.
- Asks the Foundation Board to meet community needs within a broad area such as basic needs, education, or arts.
- Named funds can be started with a contribution of **\$10,000**.

SCHOLARSHIP FUND

- Helps students pay college expenses.
- Many criteria can be used to select student recipients.
- Named fund can be started with a contribution of **\$20,000**. A balance of \$25,000 provides an award of

approximately \$1,000 each year.

DESIGNATED OR AGENCY FUND

- Benefits one or more organizations in the community that the donor selects.
- Can be started by an organization (agency) as a part of its ongoing operating support.
- Lets an organization tend to its mission while the Foundation uses its expertise to manage resources, including management of funds, audited accounts, and other required reporting.
- Provides assurance to donors that money will be used as they intend.
- Can provide for contingent beneficiaries if supported organizations cease to exist.
- Gives public-spirited persons a trusted vehicle to support the non-profit infrastructure of the community.
- Named funds can be started with a contribution of **\$10,000**.

CFSW LEGACY FUND

- A special endowment fund created to support the operations of the Community Foundation.

SUPPORTING ORGANIZATIONS FUND

- A fund that operates similarly to that of a private foundation.
- Offers less administrative responsibilities than a private foundation.

PART TWO: TYPES OF FUNDS (CONTINUED)

1. UNRESTRICTED ENDOWMENT

Unrestricted Endowment Funds are permanent endowments that focus on meeting a community's most pressing needs, whether those be in the arts, community development, education, the environment, health, human services, youth, or other areas.

FEATURES:

- Community Foundation Board of Directors authorizes grant distributions each year.
- Grants are used to support the community grants program of the Foundation.
- Non-profit organizations from Southern Wisconsin are encouraged to apply for grants for programs or projects that improve the quality of life in the community. This effort is managed by staff and the Grants Committee of the Foundation which includes members of the Board of Directors and community volunteers.

REQUIREMENTS TO CREATE A NAMED UNRESTRICTED ENDOWMENT FUND

A named fund can be created with a gift of **\$10,000** or more. Additional gifts may be made at any time and in any amount to augment any existing fund.

CURRENT UNRESTRICTED ENDOWMENTS

(Note: Most of the unrestricted endowment funds of the Community Foundation are Community Funds, created for the betterment of a specific community in Southern Wisconsin.)

- Argyle Community Fund**
- Benton Community Fund**
- Blanchardville/Hollandale Area Fund**
- Community Enhancement Fund**
- Crawford County Community Fund**
- Darlington Community Fund**
- Edgerton Community**
- Elkhorn Community Fund**
- Evansville Community Fund**
- Janesville Community Fund**
- Kersten Fund**
- Lancaster Community Fund**
- Milton Fund**
- Monroe Fund**
- New Glarus Community Fund**
- Platteville Community Fund**
- Shullsburg Community Fund**
- South Wayne Community Fund**

CLIENTS BEST SUITED FOR UNRESTRICTED ENDOWMENT FUNDS:

- Those whose motivation is to “give something back to the community” in a general way, rather than to support a specific charity.
- Those who realize that community agencies and needs change over time and want their gifts to remain flexible enough to respond to those changes.
- Those who have broad charitable interests and/or are considering a private foundation for broad charitable purposes.

2. DONOR ADVISED FUND

Donor Advised Funds allow donors to simplify and consolidate all their charitable giving without the legal and administrative burdens of running a private foundation. Donor Advised Funds offer donors maximum latitude in grant distributions.

FEATURES:

- Donors may recommend grant recipients on own or with Foundation assistance. Foundation can provide information on community needs/priorities or help donors make grant decisions in a particular field of interest.
- Grants can be made to organizations or programs outside Southern Wisconsin area provided that the Foundation can verify the charitable tax exempt status of the grantee.
- Donors make grant recommendations to the Community Foundation's Board of Directors. (To protect the tax advantages of the gift, the board must ratify the grant recommendations.)
- Foundation reviews potential grantees to make certain they are legitimate charitable organizations.
- Donor's spouse, children, and heirs may serve as advisors to the fund, if so listed in the fund agreement.
- In year that the fund is created, donor receives a full charitable deduction to the maximum allowed by law (subject to IRS regulations). For tax-reporting purposes, donor only needs to document gifts to the fund. Donor does not need to document the many grants that will eventually be made from the fund.

TWO TYPES OF DONOR ADVISED FUNDS

A Donor Advised Fund may be established in either of two forms:

•PERMANENT ADVISED FUND

A Permanent Advised Fund is an endowment invested to grow the market value of the fund over the long term to provide larger annual distributions and to work in the community in perpetuity.

•TEMPORARY ADVISED FUND

Allows the balance to be spent out completely if in keeping with the donor's charitable intent.

REQUIREMENTS FOR CREATING AN ADVISED FUND

A minimum gift of **\$25,000** is recommended to establish a **Permanent Advised Fund**. Funds can be established with a lesser gift with the intent to reach the goal within a predetermined time period.

A simple agreement with the donor is required to establish the fund. Additional contributions may be made throughout the donor's lifetime or through a variety of planned gifts or estate planning arrangements.

A **Temporary Advised Fund** is a non-endowed fund that can be established if, after conversation with the donor, it is determined that such an arrangement is well-suited to the charitable intent of the donor and the mission of the Foundation.

PART TWO: TYPES OF FUNDS (CONTINUED)

EXAMPLE: USING A DONOR ADVISED FUND AS PART OF FAMILY WEALTH MANAGEMENT

The Smith-Jones family has established an Advised Fund through the Community Foundation of Southern Wisconsin with a generous contribution. In the years following the Fund's establishment, the family adds to the Fund through the donation of appreciated securities and arrangements in a variety of planned giving vehicles. The Smith-Jones family's intent is to involve future generations in making decisions about community needs and contributions to support those needs.

What a tremendous legacy to leave to the community and the family!

CLIENTS BEST SUITED FOR DONOR ADVISED ENDOWMENT FUNDS:

- Want maximum flexibility to give to varying charities or to change beneficiaries over time.
- Want to involve spouse or children in charitable giving.
- Are considering a private foundation but would like to avoid the requirements of a private foundation and enjoy the favored tax status that such Donor Advised Funds provide compared to private foundations. (See page 22.)
- Currently make cash gifts to numerous charities but would save substantially in income taxes by making gifts of appreciated securities instead.
- Want to maintain a steady level of charitable giving but whose income fluctuates.
- Would like to make a tax-deductible gift because of an exceptionally high income year but also would like to defer making grants until a later time.
- Would like anonymity in the creation of the fund or in grant-making from the fund.
- Are charitably inclined but would appreciate administrative support with the details.

3. FIELD OF INTEREST FUND

Field of Interest Funds allow donors to address a cause or issue that is important to them without being locked in to one specific charity.

FEATURES:

- Donor names the purpose of the fund, such as Women’s Issues, Youth and Children, Health, or the Arts.
- Grant recommendations are generated by the Grants Committee of the Community Foundation which identifies projects/ programs that can most effectively accomplish the goal of the Fund.
- Grants Committee recommends grants to the Foundation’s Board of Directors.

REQUIREMENTS TO CREATE A FIELD OF INTEREST FUND

A Field of Interest Fund can be created with a gift of **\$10,000** or more. The fund may be named to honor a family member or any other individual that the donor wishes to honor.

If a field of interest fund is contemplated as part of an estate plan, it is a good idea to complete the fund agreement at the same time as the planning document. That provides the best opportunity for making sure the intent of the donor is faithfully carried out.

Fund Agreement samples may be obtained by calling the Foundation office at (608) 758-0883.

SAMPLES OF CURRENT FIELD OF INTEREST FUNDS HELD BY THE COMMUNITY FOUNDATION :

- All Excellence in Education funds
- Argyle Park Fund
- Cabin Fund
- Tim Cullen Government Intern Fund
- Robert & Marian Graham Community Fund
- Alvah Lloyd & Lulu Lloyd Charitable Fund
- Jane Lysaght Memorial Fund
- Clifford and Dorothy Reasa Fund for Historic Preservation
- Women’s Fund

CLIENTS BEST SUITED FOR FIELD OF INTEREST FUNDS:

- Have an abiding interest in a particular charitable cause (such as the arts, women’s issues, community beautification) rather than a particular charitable organization.
- Wish to establish a memorial to an individual by recognizing that person’s interest in or accomplishments in a given area of charitable concern.
- Recognize that charitable organizations change in effectiveness over time.
- May be considering a private foundation to support a cause.

PART TWO: TYPES OF FUNDS (CONTINUED)

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4. DESIGNATED OR AGENCY ENDOWMENT

Designated Endowments are created by individuals who make gifts to the Foundation to be set aside for the benefit of one or more nonprofit organizations, religious institutions, or civic activities. If that fund is created by the organization for its own benefit, it is called an Agency Endowment.

FEATURES:

- Organization receives annual grants according to the **spending policy*** of the Foundation in effect at the time.
- Organization can focus on doing the work that defines its purpose while the Community Foundation provides proven financial management results.
- Fund strengthens the nonprofit organization.
- Designated or Agency Endowment can serve any nonprofit 501(c)(3) organization in the United States, including colleges, universities, churches, and non-profit hospitals, schools or libraries.
- The Community Foundation includes these funds in its annual audit as well as its fiduciary information tax returns. The funds are also included in the marketing efforts of the Foundation, inviting donors to support any of the funds that are in keeping with their charitable interests.

REQUIREMENTS TO CREATE A

DESIGNATED OR AGENCY ENDOWMENT:

A Designated or Agency Endowment can be created with a gift of **\$10,000** or more. As of this writing, there are more than 82 Designated Endowments and 91 Agency Endowments in the Foundation. Donors may make gifts to any of these funds or establish their own fund if they wish to establish a fund in their name.

If a donor wishes to establish a Designated Endowment as part of a planned giving scenario, it is wise to also complete the fund agreement at the time that the gift document is drafted. This is the best way to ensure that the intent of the donor is understood and protected. Fund agreement samples can be obtained by calling (608) 758-0883.

*CFSW SPENDING POLICY

The current spending policy calls for an annual **4 to 6 percent payout** to the nonprofit organization based on a twelve quarter rolling average of the fund balance.

For example, under the current policy, an organization whose fund balance averages \$100,000 over the past 12 quarters can be assured of a \$4,000 annual grant payout.

Any additional appreciation is added back to the specific fund for inflation protection and real growth which will create increased payments to the nonprofit in later years.

CLIENTS BEST SUITED FOR DESIGNATED ENDOWMENTS:

- Want to support a specific charity but want the Foundation to protect the donor's intent and manage the investment.
- Want to make a gift to a new or struggling charity but also want to make sure the power of the endowment is preserved.
- Want to support more than one charity through one gift.

EXAMPLE: CREATING A DESIGNATED ENDOWMENT

A local financial consultant has a client who has been making significant annual gifts to her favorite charity. As a part of the client's estate plan, the consultant suggests creating a Designated Endowment in the Community Foundation of Southern Wisconsin that would make regular gifts in the client's name in perpetuity, so that her current support and generosity is extended past her lifetime. She gets an income tax deduction equal to the market value of the assets used to create the endowment, avoids capital gains tax, if applicable, and has the value of the gift removed from her estate. The client has the assurance that the funds will be well managed and that, in the event the charity no longer operates at some time in the future, the Community Foundation will select a charitable use for her fund's support that most closely mirrors her intent.

EXAMPLE: CREATING AN AGENCY ENDOWMENT

The Good Works organization has received its first significant gift in the form of a \$100,000 bequest. It is clear that the donor wished this to be an endowment. Good Works has no background in making long-term investment decisions. It wants to make a distinct separation between endowed funds and current operating funds. Good Works opens a fund with the Community Foundation, receives annual income, and is able to focus on providing the services that it was established to provide. This contributes to the increased success of the organization which can attract more donors to support the endowment, clearly a benefit to the entire community.

5. THE COMMUNITY FOUNDATION'S LEGACY FUND

The Community Foundation of Southern Wisconsin has its own administrative endowment called the Legacy Fund. Donors who wish to support the Community Foundation may make a gift to the Legacy Fund or establish a new fund for that purpose. The Community Foundation is always grateful when for donors elect to support the Legacy Fund.

PART TWO: TYPES OF FUNDS (CONTINUED)

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6. SUPPORTING ORGANIZATION

Supporting Organizations, sometimes called Supporting Foundations, are charitable organizations that have their own boards of directors but are organized and operated to carry out the purposes of the public charity (i.e. the Community Foundation) which they support.

FEATURES:

- A Supporting Organization has a separate identity and makes its own decisions regarding charitable grants from the funds of the organization.
- A Supporting Organization must serve the same purpose of the Community Foundation which means making charitable gifts for the benefit of the community.
- Donor must have less than 50 percent of the voting control of the Organization, which is typically addressed by giving the Community Foundation the right to elect the majority of the Supporting Organization's Board of Directors, and allowing the donor to elect the remainder of the board.
- The Community Foundation staff will support the administrative needs of the Supporting Organization, and may assist by reviewing grant requests, if desired.

DIFFERENCES FROM PRIVATE FOUNDATION

For tax purposes, supporting organizations are treated as a public charity rather than a private foundation, although they may have many of the advantages of a private foundation.

There are several advantages of this treatment:

- The ability to deduct the maximum fair market value of appreciated marketable securities given to the supporting organization. Private Foundations do not get this benefit.
- Increasing the adjusted gross income limitations of the donor for charitable deductions from 30 to 50 percent for cash and from 20 to 30 percent for appreciated property.
- Avoiding private foundation transaction rules.
- Avoiding the excise tax on investment income.

REQUIREMENTS FOR CREATING A SUPPORTING ORGANIZATION

Supporting organizations are an option only if the contemplated gifts exceed **\$1 million** and the objectives of the donor cannot be achieved through a Donor Advised or Field of Interest Fund. The organizational documents must be approved by the Community Foundation and the Internal Revenue Service.

A private foundation may become a Supporting Organization provided they meet the IRS requirements.