

PROFESSIONAL ADVISOR'S HANDBOOK



Chillicothe-Ross

COMMUNITY FOUNDATION
we're here for good

CHARITABLE GIVING information for

Attorneys

Insurance professionals

Financial consultants

Accountants

Trust officers



THE COMMUNITY FOUNDATION

helps professional advisors guide clients as they consider making charitable gifts.

The Chillicothe-Ross Community Foundation is a charitable organization founded in 1996 by a group of citizens interested in ensuring a strong future for our community. The Foundation:

- *promotes philanthropy*
- *builds and maintains a permanent collection of endowment funds*
- *serves as a trustworthy partner and leader in shaping effective responses to community issues and opportunities.*



Chillicothe-Ross

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A M E S S A G E *for professional advisors*

Many people have a strong desire to “give back to the community,” but have given little thought to how this might be accomplished.

As a professional advisor, you are in a unique position. You can help the community preserve and expand its philanthropic resources, and at the same

Over 70 percent of Americans donate to a charity at some point. Among taxpayers who itemize deductions, some 90 percent make charitable deductions.

time help your clients achieve personal goals and dreams. Through “planned giving,” which integrates the unique benefits of philanthropy with overall financial and estate planning, your clients can support the charitable

causes they care about in a way that makes sense for their particular situations.

The most important step you can take to help your clients is simply to ask the question:

“Are there any charitable interests or community interests you’d like to address?”

If you don’t initiate the topic, your client may never know the opportunity exists.

You don’t have to be an expert in planned giving to provide these opportunities to your clients. Our role is to be a resource for information about charitable giving, and a philanthropic partner for you and your clients.

We welcome questions, concerns, and comments from professional advisors and prospective donors. We will keep your inquiry confidential, and do our best to assist you in finding answers and resources.

Gifts through the Community Foundation can provide a true win-win situation for professional advisors, their clients, and the community.

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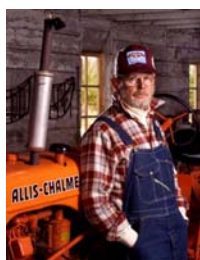
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Why Choose The Community Foundation?



Benefits of a public charity

Since 1996 area residents have chosen the Chillicothe-Ross Community Foundation as a vehicle to make their philanthropic giving as effective as possible.

We are a public charity with the flexibility to manage virtually any type of gift for any charitable purpose. Our primary objective is to promote and facilitate philanthropy in our area. An active board of community leaders manages the Foundation. The Board of Directors oversees administration and grantmaking, and is directly responsible to donors and the community.

Simple, personalized service

Working with the Community Foundation is a flexible way to achieve your client's charitable objectives. We work with individual donors and their advisors to design charitable funds tailored to their values, interests and objectives. Donors achieve the satisfaction of creating their own charitable fund, retain the flexibility to remain active in its grantmaking, but avoid the complexity and administrative burdens of a private foundation.

Family philanthropic funds give older family members a unique way to pass on family values, and to introduce the joy of giving to the younger generation. An endowment created in the donor's name (or to honor a loved one) becomes a permanent legacy that will be remembered for generations. Your client also has the ability to create a fund anonymously due to the charitable structure of the Community Foundation.

Geographic areas served

The primary focus of the Community Foundation is Chillicothe and Ross County, Ohio. We will gladly assist your clients in other regions as well. We make discretionary grants to nonprofit organizations predominantly within this area where we have particular expertise in assessing community needs and designing solutions. Grants to organizations outside of this area are primarily recommended by our donor advised fund holders.

The Community Foundation has the flexibility to support any qualified charitable organization, whether local, national or international.

Tax benefits

As a public charity, a community foundation offers the highest level of tax benefits for charitable giving. Donors can give a wide variety of property—cash, stocks, closely held securities, real estate or personal property—and receive maximum tax benefits.

Permanence

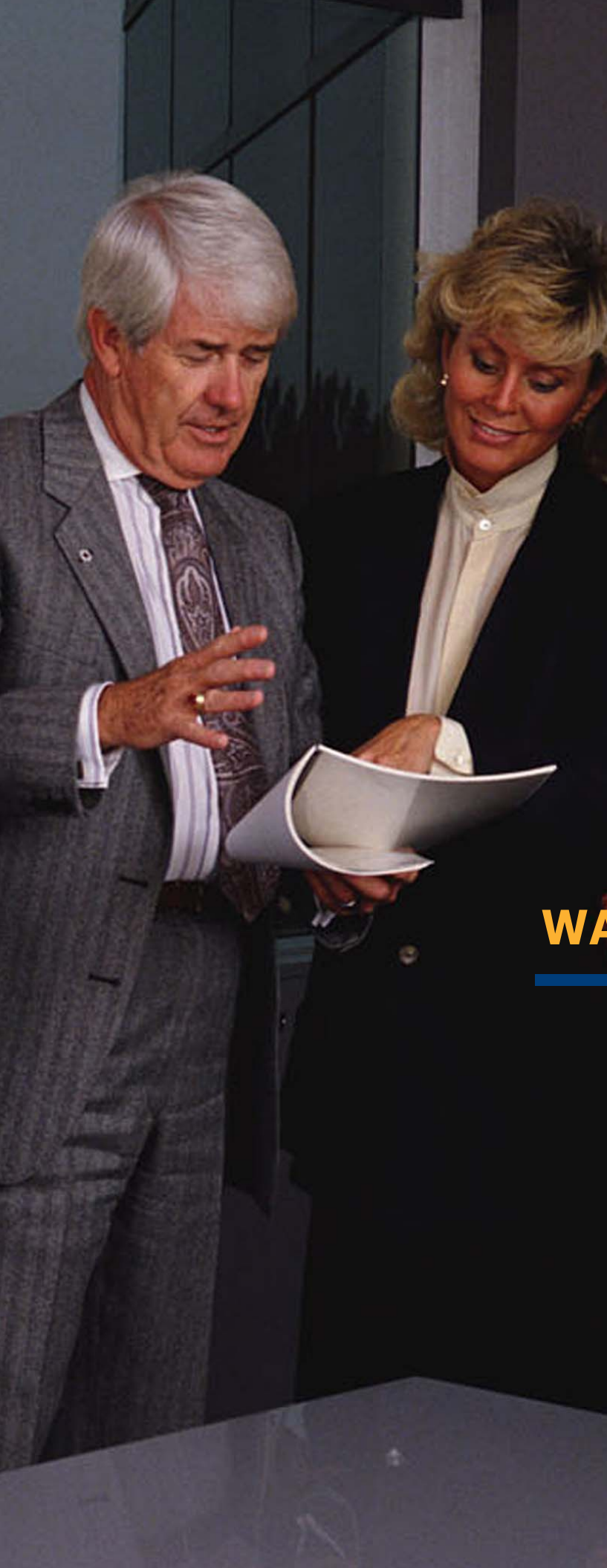
Your client can be assured that the Community Foundation will always fulfill the original charitable intent. An individual charity may change its mission over time, or even cease to exist. But permanent endowment funds at the Community Foundation will benefit the community in the name of the donor, for the purposes they specify, **forever**.

If the original purpose of the fund becomes obsolete, the Foundation Board has the legal authority to redirect the fund to the nearest possible use without lengthy court proceedings. Though circumstances may change, the donor's primary wishes will continue to be respected and carried out.

Investment management

The Community Foundation professionally manages the investments in its main portfolio using the services of one of America's foremost institutional investment consultants. This firm recommends individual investment management firms, which are constantly monitored by the Community Foundation's Investment Committee for performance and compliance with the Community Foundation's investment goals. This Investment Committee is made up of local business leaders experienced in investment management issues.





WAYS TO GIVE

Outright gifts

This is one of the most common and familiar forms of giving. Donors make an outright gift to the Community Foundation to establish a personal fund.

Unless the donors choose to remain anonymous, their generosity is recognized both by the beneficiaries of their fund and the community as a whole. Donors have the priceless joy and satisfaction of turning their charitable dreams into reality as their philanthropic dollars go to work.

An outright gift accomplishes three important tax objectives:

1. A charitable income tax deduction in the year of the gift.
2. The reduction of the donor's gross estate for future estate tax purposes.
3. Avoidance of capital gains taxes (on the increase in value over the donor's basis) for gifts of appreciated property.

Donors can create or add to their fund over time with gifts of cash, publicly traded or closely held securities, real estate, and other assets. (All gifts are subject to the various limitations as to deductibility applicable to different types of gifts made to public charities.)

Gifts by will

A testamentary gift is often the simplest way for a donor to make a significant, lasting gift to the community. After the needs of a spouse, children, and other loved ones have been addressed, many individuals find it satisfying to know that a portion of their resources will go toward the common good. A charitable endowment fund creates a permanent legacy—in the donor's name or the name of a loved one—that will serve the community for generations to come.

When you are involved in the estate planning process with a client, asking the simple question, **"Are there any charitable interests you would like to support through your will?"** can be meaningful to your client.

A testamentary gift also can significantly reduce the federal estate tax and the state inheritance tax due at the donor's death. A bequest to create a named fund in the

Community Foundation qualifies for an unlimited charitable deduction. A testamentary gift can create a dramatic tax savings for the estate, and enable the donor to make a significant charitable gift at a relatively small cost to the heirs.

If a donor's exact charitable wishes are made obsolete by the passage of time, the Community Foundation has the power to redirect assets. Needs may change and specific organizations may no longer exist, but the donor's basic intent will continue to be honored. A philanthropic fund in the Community Foundation can be created through a specific bequest of cash or property, a percentage bequest, a residual bequest, or a contingent bequest.

Example of a gift by will

Greensboro, North Carolina businessman D. Morris Howell founded the Colonial Ice Company, a chain of ice plants headquartered in Greensboro that spread throughout four southeastern states. A retired Army sergeant, Howell lived a quiet life without fanfare. He wanted to benefit the Greensboro community where he and his wife, Margaret, had lived and prospered. After much discussion with his attorney, Richard Wharton, Howell decided to leave his estate, with the exception of a small fraction in individual bequests, to the Community Foundation.

"During his lifetime, Mr. Howell made his own choices, but he knew he could not foresee what would be best in the future," Wharton said. "He elected not to choose beneficiaries, but to leave that to the Community Foundation to decide."

The Margaret and Morris Howell Fund was created to help individuals and local charitable organizations for years to come. At the time of Howell's death in 1996, his estate had grown from \$3 million to more than \$8 million, and continues to grow. This generous gift has funded various grants, community initiatives and provided support for the Community Foundation. An example of Mr. Howell's legacy is a collaborative project with the Greensboro Public Library that provided computers, Internet access and training.

Charitable remainder trusts

Through a charitable remainder trust, a donor places assets (valued at \$100,000 or more) in trust and specifies that either a fixed dollar amount or a fixed percentage of the trust's value will be paid to a beneficiary (usually the donor, spouse, and/or children) for a period of years or for the life of the beneficiary.

At the same time, the donor specifies that the remaining principal, at the end of the trust term, will go to charity. To serve as trustee, the Community Foundation requires that 50% or more of the remainder be placed in permanent funds at the Community Foundation. Ten percent or more of the remainder must become part of a discretionary endowment at the Community Foundation, if less than 100% of the remainder is part of a permanent fund. The board will consider exceptions to the above in unusual circumstances.

Advantages of a charitable remainder trust

Although the assets do not go to charity until the end of the trust term, the donor gets an **immediate charitable deduction** for the discounted present value of the remainder gift, thus reducing current income taxes.

Also, the trust assets usually are removed from the donor's estate, **saving estate taxes** at death.

Since a charitable remainder trust is tax exempt, the trust does not pay capital gains taxes on the sale of donated appreciated assets.

Thus, the donor can often **increase his or her annual income while diversifying financial assets**.

The donor has the satisfaction of knowing that the remainder of the trust assets will be used to benefit the community as he or she has specified.

The charitable remainder trust is an ideal vehicle for:

- The client who has appreciated, but low-yielding, assets.
- The client who wants to increase current income without incurring capital gains taxes.
- The client who wants to reduce estate taxes and maximize the estate passed on to heirs.
- The client who wants to make significant future charitable gifts.

Wealth replacement trusts

A wealth replacement trust uses life insurance to replace, for the donor's heirs, the amount being transferred to charity via a charitable remainder trust.

Advantages of the wealth replacement trust

- Cash from insurance for heirs—outside of estate.
- Gift to the community through the Community Foundation.

Life insurance

Many people find that in their later years, when children have grown and educational costs have been met, they no longer need all the insurance they did when they were younger. The most common, simple, and straightforward gift of life insurance is the outright gift of a paid up, but unneeded, policy to the Community Foundation. The donor receives a charitable deduction equal to the replacement value or the donor's cost, whichever is less.

Younger donors who are earning a moderate income but have not yet accumulated substantial assets can also use life insurance to make significant gifts. They purchase insurance, naming their philanthropic fund in the Community Foundation as owner and irrevocable beneficiary. Each year they pay the premium, which is fully deductible as a charitable contribution. At their death, the proceeds of the policy pass to the fund free of estate taxes.



Charitable lead trusts

A lead trust is essentially the *opposite* of a charitable remainder trust. That is, a donor places assets in trust and specifies that a fixed amount or fixed percentage of the value of the trust each year will be paid *to charity* for a period of years. At the end of the trust term, the principal of the trust passes intact to a named individual beneficiary (or beneficiaries).

Qualified non-grantor lead trust

Under a qualified non-grantor lead trust, the trust assets pass to someone other than the donor at the end of the trust term. The donor receives a gift tax deduction at the time the trust is created.

The appreciated value of the lead trust passes to the beneficiaries at the end of the trust term, with the growth in the trust assets being transferred free of gift or estate tax.

The non-grantor lead trust is best suited for:

- The client who can afford to live without the income from a portion of his or her assets.
- The client who has accumulated significant assets and wishes to pass a portion of them to heirs.
- The client who is concerned about es-

tate taxes, gift taxes, or generation-skipping taxes in transferring property to heirs.

Qualified grantor lead trust

Under a qualified grantor lead trust, the trust assets revert to the donor or spouse at the end of the trust term. The donor, however, gets a charitable income tax deduction in the year the trust is created for the present value of the gifts to charity during the trust term. If the donor funds the trust with tax-exempt assets, he or she also may avoid tax on the trust income.

The grantor lead trust is most appropriate for:

- The client who can afford to live without the income from a portion of his or her assets for a period of time.
- The client with unusually high income in a particular year who wishes to accelerate an income tax charitable deduction for future gifts.

Gift annuities

A charitable gift annuity is a simple contract between the donor and the Chillicothe-Ross Community Foundation. In exchange for the donor's contribution, the Community Foundation promises to make fixed, guaranteed payments for life to one or two annuitants (usually, but not necessarily, the donor). The amount paid is based on the age of the annuitant at the time of the gift, in accordance with the Foundation's gift annuity rate schedule.

This gift provides a unique opportunity for donors to enjoy lifetime income and tax benefits, while also being able to choose a nonprofit organization to benefit from the remainder interest. The minimum amount to set up a charitable gift annuity is \$10,000. When the gift annuity ends, the money remaining, up to the original gift amount, will be used to create a permanently endowed fund at the Community Foundation to benefit a charity chosen by the donor.

Deferred gift annuities

A donor may elect a deferred gift annuity by which the donor receives larger annuity payments, beginning later in life. The donor receives a larger income tax deduction than for a current gift annuity. A deferred gift annuity works well for people in a high tax bracket who expect their income to decrease in the future when they retire.



Example of a gift funded by retirement benefits

A local attorney has a client who is 60 years old, married, and has substantial assets in a qualified retirement plan. The client's wife is currently the beneficiary at death of the retirement plan benefits. The client and his wife have other assets, and it is unlikely that they will need all of the assets of the qualified plan. The client is charitably inclined and wants to give a portion of his assets to Ross County charities. It appears that taxes will consume approximately 70% of the assets in the retirement plan after both the husband and wife are deceased. The couple's children are the ultimate beneficiaries.

The attorney determines that the retirement plan is the best place to get funds to make charitable gifts and suggests the following:

1. The client withdraws a portion of his plan assets each year.
2. In the same year that funds are withdrawn from the retirement plan, the client contributes the withdrawn funds to a Donor Advised Fund at the Community Foundation.
3. The client receives an income tax deduction for the gift and avoids income tax on the annual withdrawal.
4. The Donor Advised Fund becomes an ongoing vehicle for the entire family to recommend charitable gifts and carry on the father's charitable interests.

If the client decides that he and his wife need the retirement plan assets to provide income to them during their lifetimes, the client can make the Community Foundation the beneficiary of the assets of the retirement plan after the death of the client and his wife. The Community Foundation will receive the plan assets free of estate and income taxes, thereby eliminating most of the taxes that would otherwise be owed if the retirement plan is made payable to the children.

Qualified retirement plans and IRA benefits

Qualified retirement plans and Individual Retirement Accounts (IRAs) are often the largest part of a donor's estate. While the account owners are living, minimum distribution rules require, under penalty, the taxable distribution of a certain portion of these accounts annually. When both husband and wife are deceased, a combination of estate taxes, income taxes, and generation-skipping taxes may reduce the account value up to 70%.

Faced with these burdensome tax rules, many individuals prefer to make more of these assets available to family members or to charity, rather than see the majority of the assets consumed by taxes.

One way to greatly reduce estate and income taxes is to use these assets to satisfy charitable desires at the account owner's death. In some cases, this approach is combined with the use of lifetime distributions from the account to fund the purchase of life insurance. The life insurance then replaces the assets that would otherwise pass to children and other family members were it not for the burdensome tax environment for qualified plans and IRAs.

From a tax standpoint, persons who have already decided to make charitable gifts often find that it is prudent to withdraw funds from a qualified plan or IRA, rather than to deplete other assets which are not taxed as heavily at death. In some situations, a donor can receive a distribution from the qualified plan or IRA (which is subject to income tax) and make a charitable contribution in the same year without negative income tax consequences.

This strategy allows the donor to make the charitable gift while living and to preserve other assets that will be taxed least at death.

Combining charitable remainder trusts with retirement plans or IRAs at death

The owner of a qualified retirement plan or an IRA may name a charitable remainder trust as the beneficiary of the plan. After the death of the account owner, payment of the plan assets to a charitable remainder trust can avoid the income taxes that would otherwise be assessed, while providing income to a spouse or children, and reducing estate taxes.

Gifts of Real Estate

Real estate gifts often involve a variety of special considerations. Potential environmental hazards, marketability assessments, easements, split interests, liens, debts, and other factors often encumber a potential gift of real estate.

For these reasons and others, the Community Foundation takes special consideration when reviewing real estate gifts.

A remainder interest in a home or farm

Given the inflation in property values over the past few decades, it is not unusual for individuals to have a substantial portion of their net worth tied up in their home. A life estate contract can allow a client to increase current cash flow by virtue of the current charitable income tax deduction, remain in the home during his or her lifetime, and provide a substantial gift to charity at his or her death.

Through a life estate contract, a client commits a primary residence, vacation home, or farm to pass

to charity at death (giving the charity a remainder interest) while retaining use of the property during his or her lifetime.

The life estate contract has value for:

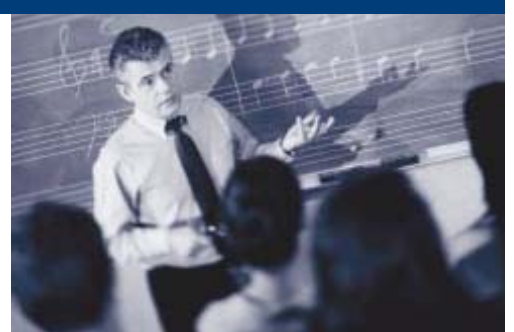
- The client who could use an up-front charitable deduction for the remainder value of the property, thus increasing current cash flow.
- The client who seeks to reduce estate taxes by removing the property from the donor's estate.
- The client who would like to relieve heirs of the burden of disposing of the property.

As with the charitable remainder trust, the donor can use a portion of his or her increased current income to purchase life insurance to replace the value of the property for the heirs.





PUTTING GIFTS TO WORK



Donor advised funds

A donor advised fund is one of the most commonly selected options at the Community Foundation because it is simple, easy to establish, and offers great flexibility.

A donor sets up a donor advised fund without naming any specific charity as beneficiary, and receives a full, upfront charitable deduction in the year the fund is created or increased. For tax reporting purposes, the donor only needs to document gifts to the fund. As its name suggests, the donor *advises* the Foundation about grants to be made to charitable organizations from the fund. The donor's spouse or children may also advise on grants from the fund. Legally, the Foundation's board of directors makes the final decision.

As part of its donor services, the Community Foundation can help donors sort through the hundreds of charitable organizations serving the area and identify worthwhile projects to support in a particular field of interest. As an added safeguard, the Foundation oversees grants from donor advised funds to ensure that all recommended recipients are legitimate charities. The donor can recommend grants to any tax-exempt charity in any geographic location, and is not limited to nonprofit organizations in the Ross County area.

Using a donor advised fund as part of an estate plan

A local attorney has a client who wants to involve his children in charitable giving. The client establishes a donor advised fund at the Community Foundation with a \$10,000 gift. He hopes to add more to that gift during his lifetime. In addition, he makes a monetary bequest in his will to the Community Foundation that would be added to his donor advised fund. After his death, his children will become the lead advisors to the fund. The client's estate will receive a charitable estate tax deduction for this bequest. In addition, the client hopes his children will learn more about the needs of the community and the joy of giving back by participating in the donor advised fund.

Specific types of donor advised funds

Donor advised funds allow donors to simplify and consolidate all their charitable giving without the legal and administrative burdens of running a private foundation. There are two types of donor advised funds:

- **Permanent donor advised funds**

These funds are maintained as endowments with distributions calculated to preserve principal.

- **Pass through donor advised funds**

These funds allow the advisors/donors to recommend grants from *both the income and principal* of the fund. The entire fund could be exhausted by charitable grants if the donor so wished.

A donor advised fund should be considered for:

- The client who wants maximum *flexibility* to give to various charities, or to change beneficiaries over time.
- The client who wants to *involve spouse or children* in charitable giving.
- The client who currently makes cash gifts to numerous charities but would save income taxes by giving *appreciated property instead*.
- The client who is considering creating a private foundation but would like to *avoid the IRS requirements of a private foundation* (such as the minimum annual distribution requirement, administrative responsibilities, and annual taxes).
- The client who wants to *maintain a steady level of charitable giving* but whose income fluctuates.
- The client who has an exceptionally high income year in which he or she would like to make a tax deductible gift but who would like to *defer making grants to individual charities until later*.
- The client who would like *anonymity* in the creation of the fund and/or in making some or all of the grants from the fund.
- The client who knows what kind of charitable grant he or she would like to make at a certain time each year, but prefers to *let the Community Foundation handle the details*.



Requirements to create a donor advised fund

A donor advised fund can be established with a simple one-page agreement. The agreement lists the name of the fund, the advisors to the fund, and the initial amount of the gift. Additional contributions may be made at any time.

Gifts of closely held stock

A local accountant has a client who owns a closely held corporation. The client would like to establish a donor advised fund at the Community Foundation to carry out his charitable interests. However, most of the client's liquid assets are tied up in his corporation. The accountant suggests that the client make a gift of stock in the closely held corporation to a donor advised fund at the Foundation. This gift will give the client an immediate income tax deduction. There cannot be a prearranged agreement that the closely held corporation will redeem the stock for cash, but frequently the Community Foundation negotiates with closely held corporations to redeem stock given to it. Such redemption would be tax-free and would provide the client's donor advised fund with cash to carry out the client's charitable interests.

Charitable purpose funds

A charitable purpose fund may be established to support a worthwhile charitable effort or community project that does not have a permanent administrative organization in place. This type of fund is temporary, generally created for a period of up to one year. The Community Foundation acts as the fiscal agent, receives gifts from multiple donors and makes payments for all related expenses.

Scholarships

The Community Foundation can administer a wide variety of scholarship funds, which may be established by individual donors, families, organizations or corporations. Scholarship funds are very flexible and can be targeted to students from a particular geographic area or school, to students studying a specific field of interest, or for a designated career focus. Scholarship recipients are selected on a competitive basis and criteria generally include academic and non-academic factors as well as demonstrated need. Selection of scholarship recipients can be done either by the scholarship committee of the Community Foundation, or by a selection committee of the donor's choosing. The foundation staff works with individual clients to set up scholarship funds to meet their charitable objectives.

Discretionary endowments

Discretionary endowments are permanent funds that are designed to fund the most pressing needs of the community. Those needs often change over time and may fall into several categories, including health, human services, education and the arts.

The ***Unrestricted Fund*** and the ***Community Fund*** are two examples of discretionary endowments that were created by the board of directors. The board of directors exercises its discretion in distributing the income from these funds.

The ***Unrestricted Fund*** is the Community Foundation's least restricted endowment. Its income is used to make discretionary grants within the Foundation's entire geographic area of service. Income from the ***Community Fund*** underwrites discretionary grants to nonprofit organizations in our area. Donors can make gifts in any amount to these endowments. Individuals, families, corporations or foundations can also create named discretionary endowments. (See example of a gift by will, page 9.)

Making a gift or bequest to a discretionary endowment is one way to create a living legacy—one that is able to grow and be responsive to the changing needs of the community.

Discretionary endowments are best suited for:

- The client who wants to give maximum flexibility to the Community Foundation to meet community needs as they arise. Gifts to such discretionary endowments recognize that no donor can foresee the future concerns of the community, or the best ways to address them 20, 50, or 100 years from now.
- The client whose motivation is to give back to the community in general, rather than to direct support to a particular organization or cause.
- The client who has broad charitable interests, or the client who is considering creating a private foundation for broad charitable purposes.

Requirements to create a named discretionary endowment fund

A gift of \$25,000 or more is required to set up a

named discretionary endowment fund. Additional gifts may be made at any time to augment an existing fund. All named funds are listed in the annual report of the Community Foundation.

Field of interest funds

A field of interest fund, as the name implies, allows the donor to address a cause or special interest without being locked into naming a specific charity. The donor names the purpose of the fund—such as meeting the needs of children or providing affordable housing—and the Community Foundation identifies the projects that can most effectively accomplish that goal at any given time.

Field of interest funds are most appropriate for:

- The client who has an interest in a particular charitable cause, rather than specific organizations. The client who may be *considering a private foundation* to support a cause.
- The client who recognizes that specific charitable organizations change in mission and effectiveness over time.
- The client wishing to establish a memorial to an individual by recognizing the individual's interest in or accomplishments in a given area of concern.

Requirements to create a field of interest fund

A minimum of \$250,000 is required to create new field of interest fund. Contributions of 25,000 or more may have a named fund within an existing field of interest fund. Each named fund is listed in the Community Foundation's annual report.





party oversight to ensure that principal is preserved or that the gift is used as he or she specified.

- The client who wants to make an endowment gift to a *new, small, or struggling charity*.
- The client who wants to support several named charities through one substantial gift.

Requirements for a special interest endowment

Donors can choose to contribute to one of the many existing special interest endowment funds, or they can create a new endowment with a minimum gift of \$5,000.

One example is the **Administrative Endowment** that directly supports the Foundation's operations. Created to recognize the remarkable achievements of the Community Foundation, this fund provides resources for special initiatives selected by the board. A complete list of these endowments can be found in the Community Foundation's annual report.

Special interest endowments

A special interest endowment names a particular charity or charities of the donor's choice to receive annual income. The specified charity benefits from the Community Foundation's investment management capabilities and organization. Donors have the assurance of knowing that the principal can never be invaded, and that the charity they've selected will continue to receive funding. If for any reason the named organization should cease to exist, the Community Foundation's board will redirect the fund to a charity that most closely meets the original intent of the donor.

The special interest endowment is ideal for:

- The client who wants to make an endowment gift to a charity *that does not have extensive investment management capability*.
- The client who wishes to support a particular charity but wants *third-*

Creating a special interest endowment

A local financial consultant has a client who has been making significant annual gifts to a charity. As a part of the client's estate plan, the consultant suggests creating an endowment at the Community Foundation that would make gifts to the same charity in perpetuity, so that her current generosity is extended past her lifetime. The client receives an income tax deduction equal to the market value of the assets used to create the endowment. The gifted assets are removed from the donor's estate. The client has the assurance that the funds will be well managed and that, if the charity no longer operates at some time in the future, the Foundation will identify a charity pursuing a similar mission.

Supporting organizations

A supporting organization (sometimes referred to as a supporting foundation) is a charitable organization with its own separate board of directors. Typically a nonprofit corporation, the supporting foundation has a separate identity and makes its own decisions regarding charitable grants.

However, the supporting organization is organized and operated to carry out the purposes of a public charity. By using the Community Foundation, the supporting organization maintains maximum flexibility because of the broad mission of the Foundation.

A supporting organization provides many of the advantages of a *private foundation*, but is treated for tax purposes as a *public charity*. Such public charity tax treatment has many advantages over a private foundation including:

- The ability to deduct the fair market value of donated real property or closely held assets, rather than the cost basis of such assets donated to a private foundation.
- Raising the adjusted gross income limitations of the donor for charitable deductions when compared to gifts to private foundations from 30% to 50% for cash gifts and from 20% to 30% for gifts of appreciated property.
- Avoiding private foundation prohibited transaction rules.
- Avoiding the 1% or 2% annual excise tax applicable to private foundation investment income.

In the case of the Community Foundation, a supporting organization must serve the same purposes as the Community Foundation, which means making charitable grants for the benefit of the community. The Community Foundation staff supports the administrative needs of the supporting organization, and may assist by reviewing grant requests, if desired. Other services can be customized as needed.

A supporting organization should be considered for:

- The client who wants *flexibility* to give

to varying charities, *prefers distinct visibility* in grantmaking, *prefers more autonomy* in grant decisions than afforded in other Community Foundation funds, but *desires public charity status* rather than private foundation status for some or all of the tax reasons stated before.

- An *existing private foundation* that wants to access:
 - The *administrative support* of the Community Foundation (such as tax reporting, investment management and, perhaps, research of grant requests).
 - *Public charity status*, which enables your clients to accomplish their charitable objectives while not being subject to *prohibited transaction rules* (such as excess business holdings).
- The client who may be *considering creating a private foundation* but who

How a supporting organization can be effective

A family has a small private foundation, which it had intended to grow, over time, with gifts of appreciated, closely held stock. However, the current tax penalty for contributing that stock to the private foundation presents a problem. In addition, the family finds that administering a separate foundation with current assets of about \$2 million are costly, time consuming and cumbersome. To resolve these issues, the family decides to dissolve its private foundation and transfer the assets into a supporting organization at the Community Foundation. The family is able to maintain flexibility in grantmaking while achieving the autonomy and visibility they prefer.

finds that his or her charitable objectives can be reached more easily with the public charity status of a supporting organization.

Requirements to create a supporting organization

A supporting organization may be an excellent alternative for a client who is considering a significant charitable gift. It may also be a good choice if the donor's objectives cannot be achieved through any other means at the Community Foundation. Both the Community Foundation and the Internal Revenue Service must approve the legal documents establishing a supporting organization.

Services to private foundations

The Community Foundation can design customized services to meet the specific needs of a corporate, private or family foundation. Types of services might include:

- Grant screening.
- Review and evaluation of grant seeking organizations.
- Investment management.
- Consultation on community issues.
- Administering a small community grants program or scholarship.

Other services are available, and fees will vary based upon the types of services requested.

Organization endowments

An organization endowment is designed to strengthen nonprofit organizations by providing sophisticated, long-term investment management of



endowment funds. Endowments are available to all 501(c)(3) organizations in the Community Foundation's service area. By using the Community Foundation's expertise, a nonprofit can focus its talents on its primary mission.

Here's how it works: A nonprofit organization makes a gift of endowment funds to the Community Foundation. These funds are set aside for the benefit of the nonprofit organization. The Community Foundation invests these funds, just as it does its other assets. Then once a year, the Foundation distributes funds from the endowment to the nonprofit organization. Currently, the annual distribution is 5% of the value of the endowment. This amount is set by the Community Foundation's board of directors. Organization endowments are included in the Foundation's annual audit and fiduciary tax returns.

As the endowment fund grows over time, both through appreciation of assets and through additional gifts, the nonprofit benefits from an increasing cash flow. The nonprofit can reserve the right to request return of some or all of the principal.

Creating an organization endowment

A nonprofit organization receives its first significant bequest—a gift of \$100,000 for an endowment. The nonprofit organization has no background in making long-term investment decisions. Accordingly, the nonprofit creates an organizational endowment at the Community Foundation. This accomplishes several objectives: it clearly separates operating funds from the endowment, and takes advantage of the Foundation's expertise in managing long-term investments. The nonprofit receives an annual cash payment and is able to focus its time and energies on its primary mission. As the endowment increases over time, this contributes to the success of the nonprofit, which, in turn, attracts additional endowment funds.

FREQUENTLY ASKED QUESTIONS

When I establish a fund at the Community Foundation, what happens to the appreciation in the account?

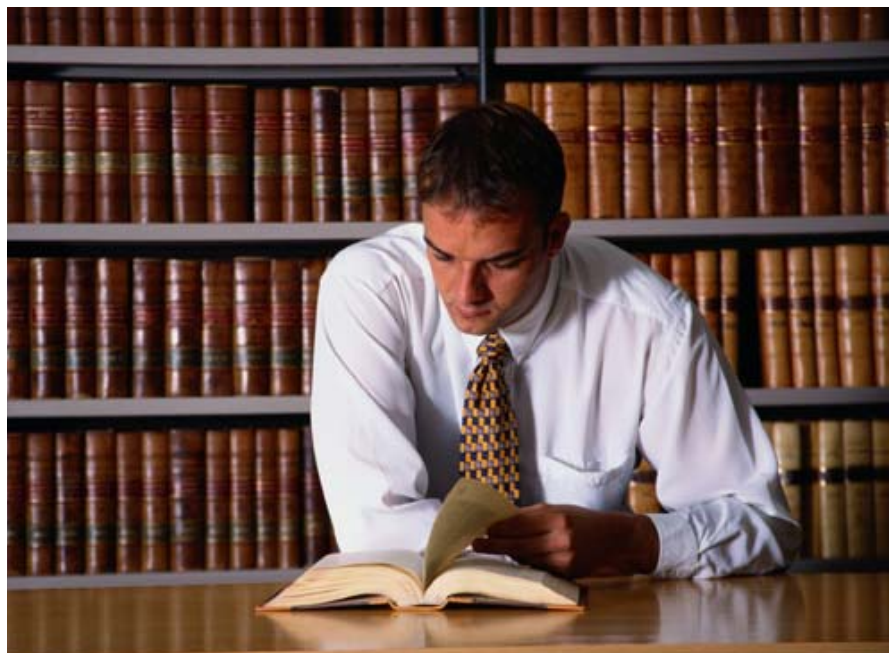
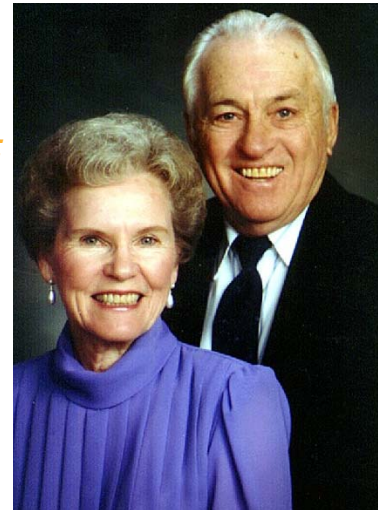
The appreciation, less any applicable fees, remains in the account, as an increase in the fund's principal. The Community Foundation invests the fund in accordance with the donor's charitable objectives.

Why can't the donor "direct" the use of gifts rather than "advise" on the use of gifts from donor advised funds?

The Internal Revenue Service requires that the donor lose control of a gift before an income tax deduction is permitted. The policies of the Community Foundation permit the donor to receive an immediate income tax deduction, while being involved in the grant making. Donors may "direct" the use of the gift as a part of an initial gift agreement. Commonly, the beneficiaries of an endowment gift are stated at the time of the gift. The beneficiaries of the remainder interest of a charitable remainder trust may also be stated explicitly. Generally, donors have a greater ability to "direct" gifts at the time of the gift. Subsequently, the IRS requires donors to have advisory relationships.

What is the best way to make a gift that will meet unforeseeable needs in our community?

A gift to the unrestricted endowment fund of the Community Foundation is the best way to make a gift that will address the future needs of the area. Local leaders who serve on the board of the Foundation come from all segments of our community. They know our potential and our problems. Increasing discretionary grant funds will increase the health of the community in the decades to come, as decisions are made on the most informed basis possible.



THE CHILlicothe-ROSS COMMUNITY FOUNDATION

Objective

The primary objective of the community foundation is to promote and facilitate philanthropy throughout our area.

Legal Name and Nature

The Chillicothe-Ross Community Foundation, Inc. is a public charity. It is certified as a 501(c)(3) and 170(b)(1)(A)(vi) organization.

Organization

Founded in 1996, it is governed by a of 12 member volunteer board and guided by a number of committees.

Geographical Areas Served

Residents of Chillicothe and Ross County, Ohio are the primary clientele of the Community Foundation. The Community Foundation makes discretionary grants to nonprofit organizations predominantly within this geographical region. Donor advised grants may go to any other qualified charitable organization. Other funds and services may meet the needs of local, national and international charitable organizations.



COMMUNITY FOUNDATION
we're here for good

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