



PROFESSIONAL ADVISORS' MANUAL

The Community Foundation of South Alabama
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RAISING THE CHARITABLE GIVING QUESTION

The advisor's role in philanthropy

Asking a client about philanthropy may seem daunting, but it is an important part of providing complete financial planning and professional advice to your clients. For a host of reasons, any informed advisor should be prepared to talk with clients about charity.

- Many clients are already in the habit of supporting charity.

Americans gave more than \$241 billion to charity in 2003, according to *Giving USA*, 75% of it from living donors. Incorporating charity into the planning process is a natural reflection of most clients' existing habits and values.

- For clients with substantial estates, minimizing or eliminating estate taxes is difficult to do without some charitable planning.

The phased repeal of the estate tax is likely to change again before 2010, so the tax cannot be entirely discounted in planning. Regardless of the status of the estate tax, charitable planning offers tax advantages in many other situations, such as the sale of highly appreciated stock and dispositions of retirement accounts on death.

- Philanthropy can help resolve many personal issues that are deeply important to clients.

Beyond its practical uses, philanthropy can help clients answer questions such as: How can I feel that the world is better for my having been here? How can I raise children with good values? How can I balance the moral demands of my conscience or religious beliefs with my material wealth? And many professional

advisors find that assisting clients in this area is personally rewarding as well, because they struggle with the same issues.

Asking about charity

Some professional advisors hesitate to ask clients about charitable giving because of a number of misperceptions:

- "Asking the question is too intrusive. It's none of my business."
- "I might damage the relationship if I ask."
- "I don't know enough about philanthropy to start the conversation."
- "I would have to 'sell' the client on a particular charity."
- "My client won't be interested unless there are large tax savings."
- "A charitable gift will interfere with my client's goal of providing for his family."

But recent studies of donors and their professional advisors by The Philanthropic Initiative of Boston, as well as charities' extensive experience with donors, have shown just the opposite:

- Clients want help with their philanthropy and wish their advisors knew more.
- Good charitable advice strengthens the client relationship by providing better service to the client and generating greater client loyalty.
- Clients expect referrals to experts in charity, just as they would with other specialties like accounting or law.
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service to the client and generating greater client loyalty.

- Clients expect referrals to experts in charity, just as they would with other specialties like accounting or law.
- When considering charitable gifts, clients are generally cause-driven first, tax-driven second (although men are more motivated by tax savings than women, and tax savings do affect the size of gifts).
- High-quality charitable planning can meet multiple goals, and can result in a larger benefit to family members.
 - Your client expresses concern about "ruining" his children with too large an inheritance.
 - Your client is philanthropic and wants to teach other family members about philanthropy

- *Philanthropic interests*
- *Family circumstances*
- *Concern for self or others*
- *Financial circumstances*
- *Property sales*
- *Personal beliefs*

Clients likely to be interested

To an experienced professional advisor, many common client situations are appropriate for raising the charitable question and considering a community foundation. Beyond the obvious indicators of the financial capacity to make a gift, here are a few situations to watch for.

- **Philanthropic interests**

- Your client has contributed regularly to charity through annual giving.
- A particular charity, such as a hospital or university, has had a significant positive impact on your client or a family member.
- A particular issue, such as heart disease, has had a significant negative impact on your client or a family member.
- Your client gives regularly to her church, temple, or other house of worship.

- **Family circumstances**

- Your client is unmarried.
- Your client does not have any children.
- Your client has children who are financially independent adults.
- Your client would like to memorialize a loved one, such as a deceased child.
- Your client is recently divorced and is looking for new interests.

- **Concern for self or others**

- Your client wants to provide a steady source of income for herself or a family member.

Financial circumstances

- Your client has low-basis capital gain assets that have increased greatly in value.
- Your client is concerned about personal assets that are generating little or no income.
- Your client experiences a financial windfall, such as a bonus, late in the tax year.
- Your client holds a significant amount of assets in a retirement account.
- Your client owns a small business that she would like to pass to her children.
- Your client's wealth is self-made.
- **Property sales**
 - Your client is seeking to sell appreciated property.
 - Your client has real estate that produces little or no income.
 - Your client is considering taking a closely held company public.
- **Personal beliefs**
 - Your client is interested in channeling money away from the government through taxes and putting it to another use that better reflects his values.
 - Your client feels an obligation to repay society or his community for the benefits he has received.
 - Your client struggles with her conscience over issues related to wealth.
 - Your client has strong religious beliefs.

There is no single, "right" way to raise the charitable question with clients. And if the client does not respond, or responds unfavorably, the advisor can simply drop the matter.

To ensure that you are meeting your client's philanthropic interests, consider incorporating some of the questions listed below in your normal planning with clients:

- Do you currently support any charitable organizations, including your [church, temple, other house of worship, or alma mater] either by volunteering or by giving financially?
- Are you interested in supporting those organizations in any way after your death?
- Have you ever thought about what kind of personal legacy you want to leave?

[If a client responds to a question about charitable giving with a statement of intention such as "No, I want to leave everything to my kids. "]:

- If there were a way to significantly reduce your income or estate taxes that involved a charitable gift, would you be interested in hearing more about that?
- If there were a way to leave more to your family by making a charitable gift, would you be interested in hearing more about that?
- Do you think your kids would mind if you left 5% of your estate to charity? Would your answer be any different if your kids could be involved in some way?
- How much money do you think a parent can leave to a child without harming the child's future? Two million dollars? Five million dollars? If your estate proves larger than

Ways to start the conversation

that, would you want to consider a charitable gift with the excess?

- What if your spouse and children do not survive you? What would you want to do then? Would you prefer to have all or part of your assets pass to charity rather than to distant family members?
- Would you consider arranging for your retirement accounts to pass to charity as a tax-planning strategy?

[If client responds to a question about charitable giving with a statement such as "I haven't done

much before, and I just don't know where to start now."]

- If someone with expertise in this area could help you identify some charities that are worthy of your support, would you be interested in exploring a charitable gift?
- If you had to give away \$100,000 by the end of today, is there any group of people, such as needy children, that you would want to help?
- What cause would you like to be known for caring about and supporting?

THE Community FOUNDATION of South Alabama

History and description

The Community Foundation of South Alabama serves as a leader, catalyst, and resource for philanthropy by providing donors with flexible means of making charitable gifts to enhance our community.

The Foundation is a publicly supported charitable foundation consisting of named funds established by many separate donors for the benefit of the 8-county area of Baldwin, Clarke, Choctaw, Conecuh, Escambia, Mobile, Monroe, Washington Counties, although the Foundation's grantmaking extends nationally. The Foundation's grantmaking includes the arts, education, health, and social services.

Although the general public is less familiar with community foundations than with private foundations, community foundations have a similarly long history in this country. From the first community foundation in Cleveland in 1914, the field has now grown to more than 665 organizations nationwide. The CFSA was established in 1976.

Private foundations, at their simplest level, are endowments usually funded by a single person, family, or organization to provide

financial support for the charitable works of others.

Community foundations like The CFSA on the other hand, are funded by many people and groups—individuals, families, corporations, and nonprofit organizations—to support a wide range of charitable activity in the communities the foundations serve. But community foundations resemble private foundations because their main activity is to express their donors' charitable goals by financially supporting other charities.

Tax status

Section 501(c) of the Internal Revenue Code exempts a wide range of organizations, ranging from country clubs to civic associations, from paying income tax. Only section 501(c)(3), however, deals with the kinds of organizations that most people consider to be charitable: groups that promote education, health, religion, social welfare, and similar purposes. Another section of the Code, section 170, grants taxpayers a deduction for giving to a section 501(c)(3) organization.

The extent of a taxpayer's charitable deduction partially depends on which kind of section 501(c)(3) group receives the gift. Section 509 of the Code presumes that all 501(c)(3) groups are

“private foundations” unless the group can establish otherwise. One way to avoid private foundation status is to be a “publicly supported” charity—one that normally receives at least a third of its support from the general public.

Because The CFSA receives support from a broad range of donors, the IRS considers the Foundation to be a publicly supported charity. Gifts to the Foundation accordingly qualify for

the most favorable tax treatment possible and the Foundation simultaneously avoids the complicated regulations that govern private foundations.

But because The CFSA is a community foundation, it offers that favorable tax treatment and regulatory simplicity, along with enormous flexibility to meet donors’ financial and charitable goals, in sometimes surprising ways.

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA FACTS

The Community Foundation of South Alabama fact sheet

Legal name: The Community Foundation of South Alabama, Inc.

Legal status: Alabama nonprofit corporation

Date incorporated: The Community Foundation was originally founded as The Mobile Community Foundation. In 1994, the name was legally changed to the Community Foundation of South Alabama. The corporate entity was created with the Alabama Secretary of State on January 12, 1976.

Employer Identification Number: 63-0695166

IRS determination letter: Issued May 9, 2002

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GIVING THROUGH THE COMMUNITY FOUNDATION

Comparing The CFSA with other giving vehicles

Selecting the right charitable giving vehicle for a particular client involves many variables, including how much money is available for charitable giving, whether family members are available as volunteers, and the client's need for operational control.

According to the Council on Foundations, more than 60% of U.S. private foundations have assets of less than \$1 million. Chances are good that a private foundation was not the best option for all of these donors, but the donors may have selected a private foundation because they were not fully informed about the alternatives.

The CFSA versus private foundations and supporting organizations

The vehicles most often considered are a private foundation, a donor advised fund, and a supporting organization. Some clients also consider a charitable gift fund through a provider like Fidelity.

To offer your client the best recommendation among the first three options, think through the following questions dealing with the startup phase of the giving vehicle, as well as ongoing operations:

Startup

- **How much time does the client have to complete a gift?**

Creation of a private foundation or supporting organization might require three to six months, while a donor advised fund can be opened in less than a day.

- **How much money will be available to contribute in the near and short term?**

Opinions differ, but some advisors think that a private foundation should not be considered unless \$2 to \$5 million is, or will be, available. Similar estimates are advanced for supporting organizations. Donor advised funds and charitable gift funds could be created with far less.

- **Given the client's tax situation, are the differences in tax deductibility among the three options significant?**

Donors to private foundations, for example, are limited to 30 percent of their adjusted gross income for gifts of cash, while donors to The CFSA enjoy a 50 percent limit.

Ongoing operations

- **Does the client demand absolute operational control?**

Private foundations offer clients the most operational control. But even then, some clients might not have the temperament, time, or aptitude for keeping up with the private foundation rules. Private foundations might have been the client's initial preference simply because of unfamiliarity with competing, simpler alternatives. Some clients might be willing to exchange absolute control for other benefits, like the superior tax treatment and administrative convenience offered by advised funds and supporting organizations.

- *How much time does the client have to complete a gift?*
- *How much money will be available to contribute in the near and short term?*
- *Are the differences in tax deductibility significant?*
- *Does the client demand absolute operational control?*
- *Will family members be available to run the foundation as volunteers?*
- *If not, can the foundation hire staff?*
- *Does the client already know what he wants to accomplish and how?*
- *Are the annual operating costs reasonable and sustainable?*
- *How will the client react to the operational restrictions?*
- *Is the client strongly concerned about privacy?*

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- **Will family members or others be available to operate a private foundation as volunteers? Will those volunteers still be available in the future?**

Running a private foundation takes time and attention, which some families are happy to offer. But other families may not have anyone available to do this work on the foundation's behalf. Even if family or friends are available, does it appear they will be able to continue to devote the time necessary in the future? What about the next generation?

- **If no volunteers are available, will the assets of the foundation be large enough to hire and pay professional staff?**

For example, a private foundation with \$1 million in assets will yield about \$50,000 to \$55,000 a year for expenses and grants while still preserving the value of the foundation's endowment. If a full- or part-time staff member were hired in this situation, management expenses would likely consume all or most of the amount available for grants. A private foundation with small assets and high operating expenses will probably frustrate the client's philanthropic goals.

- **Does the client already know what he wants to accomplish with his philanthropy and how to best achieve it?**

Many clients have been involved in charitable work long before they formally structure their giving. So they may have already developed firm goals for their philanthropy and a plan to achieve them. They are prepared, and in fact prefer, to "go it alone," so a private foundation might be best for them.

Other clients might still be developing a plan for their giving, and therefore welcome the chance to consult with people who work in the field or connect with other families with similar goals. For these clients, a donor advised fund or supporting organization associated with The CFSA might be the better option.

- **Given the amount of assets to be contributed, will annual operating costs be reasonable and sustainable?**

Some clients might want to fund these operational costs on an annual, pass-through basis through ongoing contributions, if the endowment is not large enough to sustain them. But if annual contributions are not feasible, lower-cost options should be explored.

- **How will the client react to the operational restrictions on private foundations?**

Private foundations pay excise tax and regulations prohibit most transactions between the foundation and its founders and related persons. Private foundations also are required to pay out 5% of the net investment asset value in grants or related expenses. Some clients might find these requirements intrusive.

As a public charity, The CFSA is exempt from these requirements.

- **Is the client strongly concerned about privacy?**

All of a client's contributions to a private foundation, and all grants from the foundation, are included in the foundation's annual tax return and then become public information. Due to the success of the nonprofit information service GuideStar (www.guidestar.org), the tax return is accessible to anyone on the Internet. This ready accessibility might be troublesome to clients who have strong views on privacy.

An advised fund at The CFSA might allay these concerns. Public charities like the Foundation do file donor lists and grant lists with their tax returns. But the donor lists are protected by law from public inspection. The grant lists, while public, do not identify which component fund was the source of the grant.

The Community Foundation versus a charitable gift fund

The past decade has seen an explosion in the number of charities offering some version of an advised fund, based on the

original community foundation model developed in the 1930s. The best known among them is the Fidelity Charitable Gift Fund, started in 1992, which now has several billion dollars in assets. Reportedly, more than 60 similar gift funds exist, and more are being created. Mutual fund companies, brokerage firms, and large, sophisticated nonprofits are among the many providers.

- *What types of assets does the client want to contribute, and how much?*

If the client is looking primarily for immediate convenience—a sort of charitable checking account—then a charitable gift fund might be appropriate. But if the client wants more guidance in determining where to give, how to give, or what the community needs, The CFSA offers a wider range of services.

Personal service can be particularly important to some clients. Toll-free numbers and online access are helpful, but some clients may prefer in-person contact. Some charitable gift fund providers may not have the staff to offer personal attention.

- *What will it cost to use a particular fund, and what services are available in exchange?*

Does your client want to make gifts for charitable purposes to non-registered charities or international

groups, or to be limited to certain kinds of charities?

Charitable gift funds have different policies, costs, and capabilities. Whatever the provider, the

professional advisor should consider a range of issues when considering whether to recommend this option:

- **What level of service does the client want now or potentially need in the future?**

Depending on the charitable gift fund program, there may be limits on the kinds of assets that can be used, or minimum fund requirements that exclude some clients. For example, many programs will accept only gifts of cash and publicly traded stock. Some programs, particularly those run by charities as an adjunct to their main work, have very high minimums to open, as high as \$1 million for one university-run fund. The CFSA accepts a wide range of assets and has a fund minimum of \$5,000.

- **What about investment choices for the fund?**

Charitable gift funds might offer four or five investment options, typically mutual funds in a single fund family. The CFSA selects its own managers but allows donors to select a range of different asset allocations, from growth to capital preservation. The Foundation will allow a private investment manager to continue to manage assets of \$1 million or more contributed to the Foundation, as long as the outside manager is reviewed and approved by the Foundation's Investment Committee. The CFSA has a cooperative arrangement with the American Funds that allow contributions to be invested in American's mutual funds. The Foundation also participates in the Merrill Lynch Community Charitable Fund, a national donor advised fund in cooperation with Merrill Lynch.

- **What will it cost to use a particular fund, and what services are available in exchange?**

The administrative and investment fees charged by the gift funds vary widely— 0.65% to nearly 4.0% in some funds. If the client receives little or no service in exchange, the fund might not be a good value. The CFSA administrative and investment fees is 1.25%.

Also keep in mind that some charitable gift funds may require that the donor grant a certain percentage of the fund to the charity

For philosophical or religious reasons, some funds may also limit the kinds of charities to which grants may be made. If your client's

values are not aligned with these rules, the client may chafe at the restrictions.

- **Does your client want to make gifts for charitable purposes to non-registered**

charities or international groups, or be limited to certain kinds of charities?

Although most charitable gifts are devoted to the 900,000-plus registered 501(c)(3) charities in the U.S., some clients might have additional interests. Some churches, for example, are not registered with the IRS. The CFSA can legally pay a grant to a non-501(c)(3) organization so long as our staff confirms that the grant is for a charitable purpose. Charitable gift funds have the same legal authority, but they may have policies prohibiting grants to non-501(c)(3) organizations or foreign charities.

	DONOR-ADVISED FUNDS	SUPPORTING ORGANIZATIONS	PRIVATE FOUNDATIONS
Creation of Fund	Established at the Community Foundation of South Alabama at no cost to donor	Not-for-Profit corporation created with assistance from The CFSA as an affiliate organization	Not-for-Profit corporation or trust independently organized as a private foundation
Tax-Exempt Status	Shares Public Charity status of the CFSA	Shares Public charity status of the CFSA	Must apply for private foundation tax exempt status from the IRS
Minimum Size	\$5,000	\$1 million	Substantial assets required
Charitable deduction of cash gifts	Tax deduction of up to 50% of adjusted gross income (AGI)	Tax deduction of up to 50% of AGI	Tax deduction up to 30% of AGI
Charitable deductions of appreciated property	Tax deduction available for full fair market value, up to 30% of AGI	Tax deduction available for full fair market value, up to 30% of AGI	Tax deduction available for full fair market value, up to 20% of AGI
Donor control	Donor holds advisory powers over grant recommendations, with final approval by the CFSA Board	Donor holds significant organizational influence and may appoint minority of board of directors	Donor retains complete control over investments and grant making, subject to IRS requirements
Annual Payout Requirements	None	None	Grants must equal 5% of asset value annually
Grant Making Program Management	Provided by the CFSA	Can be provided by the CFSA	Must establish and/ or retain these services
Annual costs	Minimal	Can be shared by the CFSA and therefore kept at a minimum	Include legal and accountant fees, insurance, and possibly office space, staff and miscellaneous expenses
Annual taxes	None	None	Subject to excise tax up to 2% of net investment gain including net capital gains
Annual tax filings and returns	Not required	Can be prepared and filed by the CFSA	Must be filed by the private foundation with required supporting schedules
Investments	Fund assets are professionally invested through the CFSA	May avail itself of CFSA professional investment services	Must research and secure its own investment vehicles

Types of funds at The Community Foundation of South Alabama

Once you and your client have determined that The CFSA is best suited to his or her situation, your client can contribute to the Foundation in a number of different ways: unrestricted funds, field of interest funds, designated and agency endowment funds, scholarship funds, advised funds, and supporting organizations.

Each option sits on a continuum reflecting a different level of involvement by the client. Unrestricted funds, at one end of the continuum, confer all grantmaking authority to The CFSA without restriction. Supporting organizations, at the other end, function almost independently of the Foundation.

Donors can either make gifts to establish these funds while living, or establish one of these funds through a planned giving vehicle such as a charitable remainder trust. The different features of the fund types are discussed beginning on this page.

Whatever the type of fund, the Foundation includes the fund on its federal tax return, handles all accounting and audit responsibilities, and issues regular reports to the donor.

- *Unrestricted funds*
- *Field of interest funds*
- *Designated and agency endowment funds*
- *Scholarship funds*
- *Advised funds*
- *Supporting organizations*

- **Unrestricted funds**

These funds benefit the community at large in the areas of the arts, education, health, and social

services. The donor does not restrict how these funds can be used, leaving their most effective charitable application to the expertise and discretion of The CFSA Board of Directors. These funds enable the Foundation to respond with maximum flexibility to changing community needs and emergencies, to support innovative solutions to community problems, to explore unique charitable opportunities, and to enhance the quality of community life.

Gifts to unrestricted funds are particularly appropriate when a client feels a sense of obligation to repay South Alabama for the business and personal opportunities he or she enjoyed here.

- **Field of interest funds**

These funds support a particular area of concern to the donor, such as the arts, education, health, or social services. The CFSA Board of Directors then awards grants on the basis of competitive applications to the most appropriate programs or organizations within the field of interest specified.

Gifts to field of interest funds are particularly appropriate when a client is highly motivated to help charitably in one particular area. For example, a client whose husband died of heart disease might want to create a field of interest fund that supports cardiology research.

Field of interest funds also work well as companions to other kinds of funds. For example, an advised fund can become a field of interest fund on the advisor's death, or a charitable remainder trust can create a field of interest fund honoring the original donor at the death of the life beneficiary.

Designated funds ensure that permanent support will be provided to specific charities named by the donor. Grants from this type of fund are often earmarked for operating support, but the donor can give specific directions for the money's use.

A unique feature of this type of fund is the “variance power,” which allows The CFSA to redirect a charitable fund that becomes obsolete or impractical, thereby ensuring that the donor’s gift will always be used effectively regardless of changing circumstances. For example, a fund devoted to a polio hospital fifty years ago could be adapted through the variance power to support physically disabled children today.

Designated funds are useful for clients who want to benefit a particular agency, but who want to protect against the very real possibility that the agency might close someday, or who want a third party like the Foundation exercising some oversight over the agency’s application of the funds.

A related type of fund, **an agency endowment fund**, is a permanent endowment established by a nonprofit organization itself to provide perpetual support for that charity. Any charity can establish such a fund at the Foundation. A charity might do so in order to protect hard-won endowment dollars from being borrowed by future management, or to benefit from investment economies of scale. And the variance power ensures that the funds will always serve an important, related purpose, should the agency close.

- **Scholarship funds**

Scholarship funds are dedicated to providing financial support for the continued education or training of children or adults. Scholarship programs are remarkably flexible. For example, they may be designed to assist students studying a particular subject, students demonstrating academic achievement or financial need, or students living in a particular geographic region or attending a certain institution.

The CFSA can provide a range of services to clients with scholarship funds, including designing the scholarship criteria and application process and assembling a scholarship advisory committee. An individual, a corporation, or a group of people, such as a civic club or trade association, may establish these funds. And the donor may participate on the advisory committee.

Scholarship funds are an appealing vehicle to a range of different donors. Parents who have lost a

child may find a scholarship in the child’s memory very rewarding. Companies may find that having a scholarship fund for employees’ children builds morale and loyalty without burdening the company with the administrative responsibilities of the scholarship.

- **Advised funds**

Also known as donor advised funds, these funds provide more involvement for donors, allowing them to recommend distributions to specific nonprofit organizations, changing as the donors’ interests and community needs change.

Some donors create advised funds with family members as the donor advisors or successors. The CFSA allows donors to appoint their children or other persons as advisors without any continuing obligations. For example, second-generation advisors are not required to contribute further to the fund to maintain their advisory rights.

The CFSA provides a range of services to advised fund donors. If donors do not yet know which causes they wish to support, we can work with them to refine their giving priorities. We can also research prospective grantees and provide a vehicle for anonymous giving.

Advised funds are attractive to many donors who previously considered establishing a private foundation, or who have well-established giving patterns but want to make the process more efficient and less time-consuming.

- **Supporting organizations**

Supporting organizations offer the donor another attractive alternative to forming a private foundation, while avoiding the administrative burdens associated with it. The supporting organization has its own board of directors and grantmaking policies, while using the Foundation staff for administrative activities if desired. Contributions to a supporting organization earn maximum tax

deductibility; there is no minimum payout for grants, and no excise taxes are assessed due to its public charity status acquired through affiliation with The CFSA.

Type of fund	How created	Reason for selection	Areas of interest and type of support	Decisionmaking
Unrestricted	Direct gift or bequest	Client feels gratitude to city, wants to provide for future needs	Any area of interest; usually grants are capital	Board of Directors
Field of Interest	Direct gift or bequest	Client wants to perpetually support favorite causes, like animal welfare or education	Client states an area of interest and type of support	Board of Directors
Designated	Direct gift or bequest	Client wants to perpetually support favorite organizations, with assurance that intentions will be honored	Client names agency and type of support; Foundation staff monitors for compliance	Board of Directors renews authority for distributions annually
Agency Endowment	Nonprofit agency establishes for its own benefit by direct gift	Agency wants to protect its endowment and benefit from investment economies of scale	Agency decides how funds will be used	Board of Directors renews authority for distributions annually
Scholarship	Client establishes fund and criteria	Client wants to memorialize a loved one, build employee morale	Client may limit areas of study; grants may be scholarships or fellowships	Board of Directors, on recommendation of scholarship advisory committee
Advised	Client recommends grantees periodically	Client wants to give with greatest efficiency and convenience	Client recommends areas of interest and type of support	Board of Directors, on recommendation of donor advisor
Supporting Organization (SO)	Client creates new organization that piggybacks on CFSA's charitable status	Client wants look and feel of private foundation with better tax treatment, administrative ease	SO's board establishes grantmaking program	SO's board

Asset classes accepted

The CFSA accepts virtually any kind of asset, subject to its gift acceptance policies. Typical gifts are cash and low-basis, highly appreciated securities. The Foundation can accept assets in the following forms:

-
- *Cash or cash equivalents*
 - *Appreciated securities*
 - *Closely held stock*
 - *Real property*
 - *Tangible personal property*
 - *Mineral/Timber interests*
 - *Life insurance*
 - *Mutual funds*
 - *Qualified retirement plan assets*
-

- **Cash or cash equivalents**

Cash, usually in the form of a check, is the most common form for charitable gifts. The actual tax savings from gifts of cash depend on the donor's tax bracket. The higher the tax bracket, the lower the cost of the gift. For example, a donor in a 35% tax bracket contributes \$100,000 to charity. Because of tax savings, the gift "costs" the donor only \$65,000.

- **Appreciated securities**

Donors who contribute long-term appreciated securities to the Foundation get a double federal tax benefit. Gifts of appreciated securities are deductible at their full market value if held longer than 12 months. Fair market value is the mean between the high and low trades on the date of the gift. The capital gains tax on the stock's appreciation is completely avoided.

- **Closely held stock**

Family members, top management, and the corporation itself usually own these shares in a privately owned business.

The stock can be contributed outright to the Foundation and the donor is entitled to a deduction for the appraised fair market value. The donor also avoids the potential capital gains tax on any appreciation in the value of the stock.

After the gift, the Foundation may sell the stock to the corporation or to other shareholders for cash. There can be no prior agreement between the Foundation and a potential buyer before the gift is made.

The donor is entitled to a deduction for at the full value of the stock up to 30% of the donor's adjusted gross income. A qualified appraisal may be required.

- **Real property**

Gifts of real estate include a house or personal residence, farm, vacation home, commercial buildings, and income-producing or non-income-producing land. Gifts of real estate, if held more than one year, are deductible for up to 30% of the donor's adjusted gross income in the year of the gift with a five-year carry forward period, if required.

Gifts of real estate may be contributed as outright gifts, as a retained life estate, or as a contribution to a charitable remainder trust, or may be gifted to the Foundation through a donor's will.

- **Tangible personal property**

Gifts of tangible personal property include property such as art, antiques, collectibles, jewelry, rare books, and stamp and coin collections. In most cases, the Foundation's use of the contributed property will be considered unrelated to the Foundation's tax-exempt purposes, limiting the client to a charitable deduction for his or her cost basis in the property.

- **Mineral/Timber interests**

The Foundation can most easily accept mineral/timber royalty interests. A gift of a working interest will incur unrelated business income tax liability for the Foundation, which may preclude acceptance of such a gift.

The Foundation will require the donor to provide information about the nature of the interest; any encumbrances; the status of taxes, litigation, and regulatory actions; and a title opinion, if available.

The Foundation's mineral/timber custodian will review the interests to be transferred and the supporting documentation. The custodian will recommend to the Foundation whether to accept the gift. The custodian's review may include securing a title opinion if no recent opinion can be secured and updated.

- **Life insurance**

Gifts of life insurance enable donors to make a future major gift to the Foundation at a relatively modest cost. Donors need to be aware that retained ownership of the policy by the donor results in its inclusion in the donor's estate; however, policy proceeds are free of income tax to the beneficiary. Donors may name the Foundation as the owner and beneficiary of existing policies that they no longer need. Alternatively, donors may purchase new policies and name the Foundation as the owner and beneficiary. Donors are entitled to a federal income tax

deduction for the cash surrender value in the year the gift is made.

- **Mutual funds**

Mutual funds can be excellent assets to contribute to the Foundation. The fair market value of a mutual fund share is its public redemption price on the valuation date. Gifts of mutual funds are deductible at their fair market value up to 30% of the donor's adjusted gross income, with a five-year carry forward, if required.

- **Qualified retirement plan assets**

Retirement plan assets, such as IRAs, can make ideal charitable gifts. Qualified retirement plans enjoy favorable tax treatment prior to retirement, but may be severely taxed upon the death of the plan participant because they are considered "IRD property." IRD stands for "income in respect of the decedent." Because the owner of an IRA, for example, would have been taxed on distributions from the plan if still alive, anyone receiving those plan assets on his death (except for the surviving spouse) must also pay income tax. Qualified plans may be subject to both income tax and estate tax, which can total 75% or more, depending on the size of the overall estate.

If the client is considering charitable gifts, it may be advantageous to name the Foundation as the full or partial beneficiary of the retirement plan, and use other, non-IRD assets for gifts to other heirs. Estate tax and income tax can be avoided if the plan participant makes a gift to The Community Foundation at death by beneficiary designation.

Planned giving through The CFSA

In addition to gifts made during the donor's lifetime, The CFSA can accept a wide range of planned gifts.

-
- *Bequests*
 - *Life estates*
 - *Retirement plan beneficiary designations*
 - *Charitable lead trusts*
 - *Charitable remainder trusts*
-

Bequests

Generally

Bequests are the simplest way of giving to the Foundation in the future. Bequests are fully revocable gifts, which are legally triggered upon the donor's death through language contained in either a will or trust.

The key to making effective bequests is precise language that accurately identifies the charity and expresses the donor's intent. Donors may choose to make gifts in the form of an exact dollar amount, in a percentage amount, or as a portion of the residue estate. They may also name the Foundation contingent beneficiary of an estate.

Clients may use a bequest to establish any kind of fund at the Foundation, such as a field of interest fund. If a donor wishes to create a fund, other than an unrestricted fund, by bequest, the Foundation suggests that the donor execute a "placeholder" agreement while alive. Doing so will assist The CFSA in following the donor's intentions concerning the use of his or her gift, as the agreement allows a fuller expression of those intentions than might be practical in a will.

The placeholder agreement is a simple document spelling out how the potential gift will be used, such as supporting a favorite cause, or creating an advised fund with the donor's children as advisors. The placeholder fund may be opened without making a contribution, and does not obligate the client in any way. The client, of course, may change his or her will at any time.

Illustration

Mrs. Janet Thorington is a divorced 65-year-old woman. She has three adult children and four grandchildren. A lifelong animal lover, Mrs. Thorington is devoted to her two dogs. The approximate value of her estate is currently \$5 million.

After providing for her children and grandchildren in her will, Mrs. Thorington leaves a bequest of \$1 million to The CFSA to create the Janet Thorington Animal Welfare Fund. This field of interest fund will be devoted to grants contributing to the health, welfare, and protection of cats, dogs, and other companion animals.

Distributions from the fund of roughly \$50,000 per year will be available in perpetuity for agencies such as animal shelters, low-cost veterinary clinics, spay-and-neuter programs, and breed-specific rescue organizations. All grants from the fund will carry Mrs. Thorington's name, and the Foundation will ensure that she is appropriately recognized in any "naming opportunities" such as the naming of facilities.

Mrs. Thorington's estate will completely avoid estate taxes on the \$1 million bequest. And twenty years after her death, assuming typical return and spending rates, the Thorington Fund will have doubled and will have provided gifts for animal welfare exceeding the original gift amount.

Life estate

Generally

Regardless of the volatility of the stock market, almost half of personal wealth in the U.S. lies in real estate. This is particularly true for elderly clients who have lived for many years in homes that have appreciated enormously in value. Three-quarters of people aged 65 and over own at least one home, of a total value of approximately \$1 trillion. A life estate may enable a client in this situation to give generously to charity while achieving significant income and estate tax benefits.

A life estate gives the client the right to use a personal residence or farm for her life, or a specified term, and conveys the remainder interest to a charity like The CFSA. The client's primary residence is the most common

property used for life estates, although second homes may also be used.

Creating the life estate reduces both income and estate taxes. The client receives an immediate income tax charitable deduction for the net present value of the remainder interest in the property. The amount of the income tax deduction depends on a calculation that considers a number of factors, including the fair market value of the property. The client also removes the real estate from her estate, reducing estate taxes. The client can use the income tax savings to purchase life insurance to replace the value of the property for heirs.

The client may specify in the life estate agreement which kind of fund should be established at The CFSA with the proceeds.

Even though a life estate irrevocably conveys the remainder interest in the property to the Foundation, these arrangements do offer some flexibility. The client, for example, might decide to enter a retirement community. In this situation, the client could rent the property and receive the income. Or the client and the Foundation might agree to sell the property and divide the proceeds according to their respective interests.

Illustration

Mr. Harry Winslow is an 80-year-old widower. He and his late wife, Kathleen, purchased their home in 1960 for \$75,000, and paid off the home many years ago. The property is now worth approximately \$500,000; so selling it would generate capital gains tax.

Mr. Winslow conveys the property to The CFSA retaining a life estate in the residence. He receives an income tax charitable deduction.

The life estate agreement provides that the property will be used to create the Kathleen Winslow Fund to perpetually support a local domestic violence shelter, a favorite charity of his late wife's. Proceeds of the fund will be used to provide medical and counseling services at the shelter. Mr. Winslow likes the idea that The CFSA will oversee the operation and use of the endowment fund and ensure that the shelter is using the funds as he intended. And he knows that if the shelter were ever to go out of business, the Foundation would see that his goals were still met, by redirecting the proceeds to another shelter serving similar needs.

Retirement plan beneficiary designations

Generally

Retirement plans, including IRAs, 401(k) plans, 403(b) plans, Keoghs, and SEP plans, can be extremely effective assets to use for testamentary charitable gifts.

While many people name their heirs as beneficiaries on retirement plan documents, doing so is probably not the best course from a tax planning perspective, if the client has charitable intentions. Assets in retirement plans can incur both income and estate taxes if left to anyone other than the surviving spouse. Because funds distributed to an individual beneficiary are considered "income in respect of a decedent," or IRD, the individual beneficiary would be required to pay income tax on the distributions.

Clients can avoid this situation by designating the Foundation as the beneficiary of all or part of the plan's assets, and use other, non-IRD property for their heirs. As a qualified public charity, the Foundation does not pay any tax on the distribution.

Unless the client specifies differently, gifts made to the Foundation through a beneficiary designation will be considered gifts to the Unrestricted Fund. If the client has more specific plans, it will probably be difficult to spell those out, given the space limitations on most plan documents. As with bequests, the Foundation suggests that the client establish a placeholder fund for contributions of plan assets for specific purposes to ensure that the client's wishes are fully understood.

Once a client has created a placeholder fund, the beneficiary designation can simply state "100% to The Community Foundation of South Alabama, pursuant to the Agreement between [client] and the Foundation dated [____, ____]."

Illustration

Ruby Geiger is 65 years old and started working twenty years ago after her children were in college. She also was the principal beneficiary of the estate of her late husband, who died three years ago. She has accumulated retirement plan assets of \$200,000, in addition to \$3 million left to her by her late husband. Mrs. Geiger has always been charitable, and has tried to pass that legacy on to her three children.

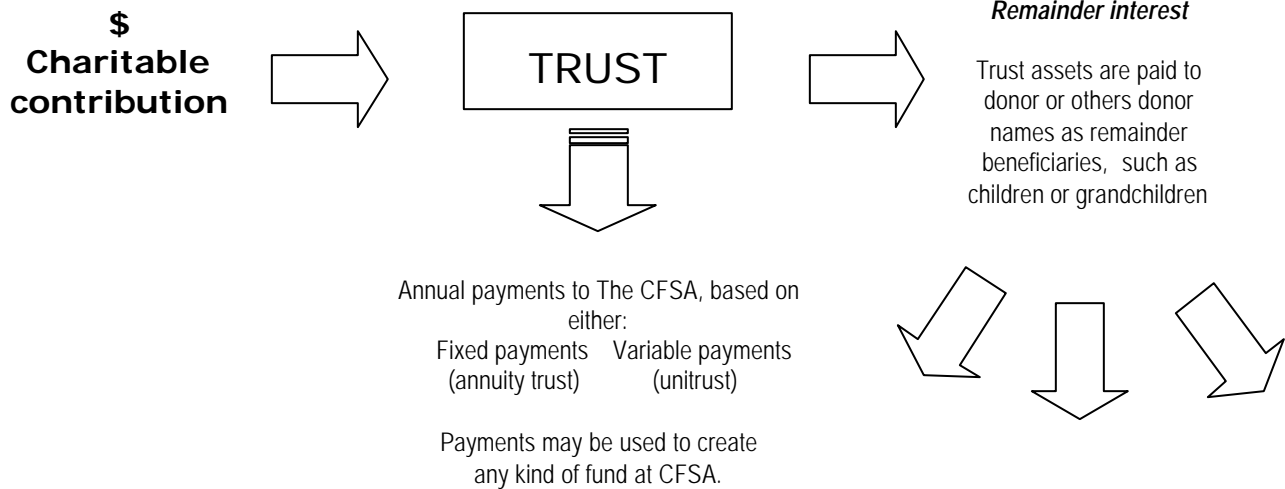
Mrs. Geiger executes a placeholder agreement with The CFSA and sends a new beneficiary designation form to the administrators of her retirement plans. The placeholder agreement provides that any funds the Foundation receives, as the plan beneficiary will be used to create the Geiger Family Advised Fund. Mrs. Geiger's three children will serve as donor advisors to the fund. They may also appoint their own children as additional or successor advisors.

Charitable lead trust

Generally

A charitable lead trust (CLT) is a trust that generates income for a charity and then transfers trust assets to others. The donor transfers cash or property irrevocably to a trust, creating an income stream, either a percentage of the value of the assets when

the trust is created (an annuity trust) or a percentage of the trust assets revalued each year (a unitrust), to The CFSA, for a certain number of years. At the end of that period, the principal either reverts back to the donor (a grantor trust) or passes to noncharitable beneficiaries, such as the donor's children, grandchildren, or great-grandchildren (a non-grantor trust).



If persons other than donor receive the remainder (that is, the CLT is a non-grantor trust),

- Donor receives a federal gift or estate tax deduction for the present value of the payments given to The CFSA.
- Taxable income and capital gains realized annually by the trust are taxed to the trust.
- The principal ultimately passes to noncharitable beneficiaries either outright or in a continuing trust. The

present value of the assets passing to noncharitable beneficiaries is a gift for gift tax purposes or is included in the estate for estate tax purposes.

If the donor receives the remainder (that is, the CLT is a grantor trust),

- Donor obtains a current income tax deduction equal to the present value of the total payments to the Foundation.
- Taxable income and capital gains realized annually by the trust are taxed to the donor.

CLTs are ideal vehicles not only for making charitable gifts, but also for transferring stocks with high growth potential.

Alternatively, it may also be appropriate to fund a CLT with income-producing real estate interests or closely held stock as a method of ultimately transferring these assets to future generations.

Illustration

Mr. and Mrs. Doug Sherwin, both in their 50s, have built a thriving family manufacturing business over a thirty-year career. They would like to eventually transfer the business to their twin daughters, Amy and Anna, who are now 20 and in college.

The Sherwins have long contributed to charity throughout their personal and professional lives, and have encouraged their daughters to do so as well.

They would like their daughters to carry on the family giving tradition, as well as the family business. The Sherwins establish a charitable lead trust using the company's stock, naming The CFSA as the charitable beneficiary for a 15-year term. At the end of the term, the trust assets will pass to Amy and Anna. In addition to creating a charitable lead trust, the Sherwins establish a donor advised fund at The CFSA, the Sherwin Family Advised Fund, naming Amy and Anna as the donor advisors.

During the term of the trust, the annuity or unitrust payment will be made from the trust to the Sherwin Family Advised Fund. Amy and Anna, either individually or jointly, will have the right to recommend the charitable beneficiaries from the fund periodically. Through the 15-year trust period, the daughters will be able to garner significant philanthropic experience that will be helpful once the trust assets, and control of the company, are transferred to them.

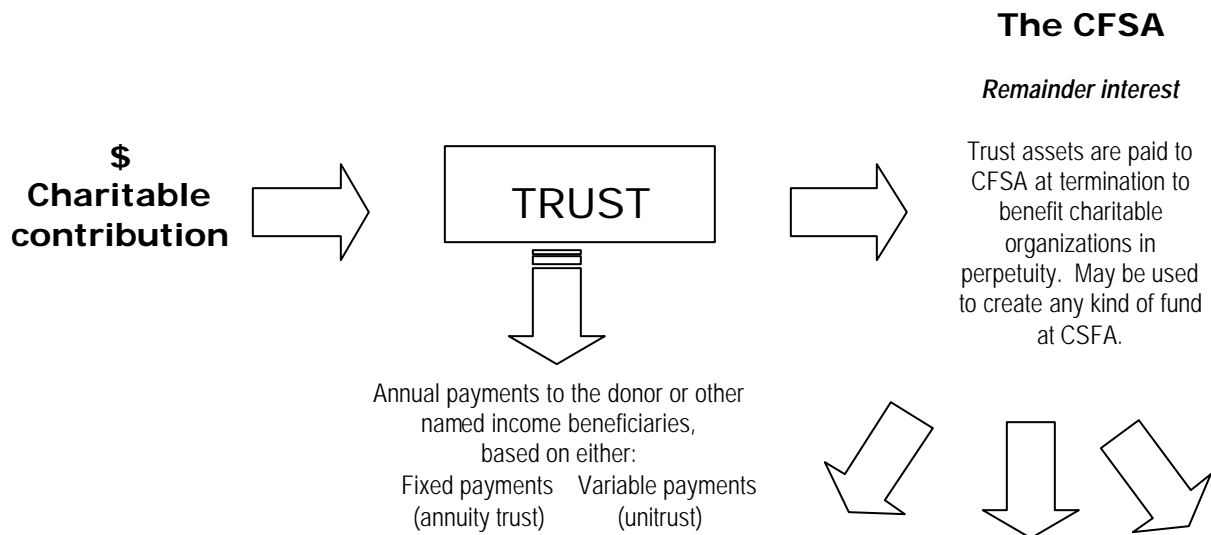
Charitable remainder trust

Generally

A charitable remainder trust (CRT) enables the donor to irrevocably give cash or property to the trust while retaining an income stream, either for life or for specified time period. The donor may also select

someone else, such as a spouse, parent, or child, to receive the periodic distributions.

The CRT terminates either on the death of the named beneficiary or at the end of the specified term. The appreciated principal then passes to the Foundation to grow in a perpetual fund, such as a donor advised or field of interest fund.



- Generates immediate tax deduction for contribution to the trust equal to the present value of the remainder interest, and avoids capital gains tax on the sale of appreciated property by the trust
- Allows donor to increase yield from nonproducing property

- Pays annual distribution to the donor or other beneficiaries
- Permits donor to include contingent income payment provisions
- Provides high flexibility in structuring the amount and timing of income payments to the noncharitable income beneficiaries for life, unless a term of years is chosen.

Table 3. COMPARISON OF CLIENT GOALS WITH PLANNED GIVING VEHICLES

Giving vehicle	Typical client goals	Income to donor or others	Income tax deduction	Capital gains and estate taxes	Attractive funding assets
Bequest	Estate tax reduction Provide for favorite causes	No	No	Avoided	IRD assets
Life estate	Reduce income taxes Provide for favorite causes	No	Yes	Avoided	Residential real estate
Retirement plan beneficiary designation	Provide for charity while treating heirs equitably	No	No (but avoids income tax that would accrue to heir if named beneficiary)	Avoided	IRAs, other qualified plan assets
Charitable remainder unitrust (CRUT)	Create income for self or others Establish permanent charitable legacy	Yes, variable	Yes	Avoided	Appreciated stock Appreciated, low-basis real property Low-dividend stock
Charitable remainder annuity trust (CRAT)	Create steady income stream for self, others Establish permanent charitable legacy	Yes, fixed	Yes	Avoided	Appreciated stock Appreciated, low-basis real property Low-dividend stock
Charitable lead trust (CLT)	Transferring assets to another generation (non-grantor trust) Income tax deduction (grantor trust)	No	No (non-grantor trust) Yes (grantor trust)	Estate taxes are avoided, but gift tax may be due	Income-producing assets Assets to be passed to children such as shares in closely-held business
Charitable gift annuities	Income tax deduction, establish permanent charitable endowment, provide income stream	Yes	Yes	Avoided	Permanent fund establishment

Supporting organizations

Generally

Supporting organizations are charitable organizations that operate in association with a public charity like The CFSA. Because of that association, supporting organizations are also considered public charities and thereby avoid the private foundation rules.

The supporting organization may be particularly appropriate for the donor who wishes a distinct public profile for his or her philanthropy is attracted to the “separateness” of the supporting organization, and for one reason or another does not want to create a private foundation.

Section 509 of the Code assumes that all 501(c)(3) organizations are “private foundations,” the least tax-favored type of 501(c)(3) group. But if an organization can show that it falls into one of three defined categories, the IRS will consider it to be “not a private foundation.” And the organization will then receive the most favorable tax treatment. Those three categories are:

- Traditionally public institutions (Section 509(a)(1)), which include hospitals, churches, and educational institutions.
- Publicly supported charities (Section 509(a)(2)), which are groups that generally receive at least a third of their total support from the government, the public, or fees. Detailed rules exist for

calculating whether an organization meets this “public support test.”

- Supporting organizations (Section 509(a)(3)), which are separate corporations or trusts that have a relationship to a community foundation or other public charity and are deemed to be publicly supported charities because of that relationship.

The supporting organization may be particularly appropriate for the donor who wishes a distinct public profile for his or her philanthropy is attracted to the “separateness” of the supporting organization, and for one reason or another does not want to create a private foundation.

Because supporting organizations are public charities, not private foundations, they are subject to more favorable contribution rules than private foundations. They are also free of the administrative burdens and excise taxes that apply to private foundations. Regardless of the kind of supporting organization, The CFSA can provide back-office support on a negotiated fee basis.

Types of supporting organizations

There are three types of supporting organizations.

- **Type 1**

This type has a subsidiary-parent relationship with The CFSA. The foundation must have a substantial degree of direction over the activities of the supporting organization, such as appointing a majority of the board members.

The creator of a Type 1 supporting organization forgoes the degree of control

available if the organization were a private foundation; however, he or she may still sit on its board, appoint a minority of the board members, and be involved in investment decisions of the organization. The community foundation acts in an advisory capacity, assisting with grantmaking and administrative duties. In many instances supporting organization assets are pooled with the community foundation's other funds in order to achieve investment efficiencies.

- **Type 2**

This type has been compared to a brother-sister relationship. There must be common supervision and control, such as having a majority of board members in common, between the public charity and the supporting organization. Many hospitals and universities have Type 2 supporting organizations, but they are more rare in the community foundation field.

- **Type 3**

This type does not have the same requirements regarding governance, as do Types 1 and 2. The supporting organization still has to be "responsive" to the needs of the community foundation, and be an "integral part" of it. The tax law sets out several ways of satisfying these two requirements.

In addition, the organizing documents of the supporting organization must specify by name each one of the charities to be supported. This list can be cumbersome to assemble and difficult to change. So one option is for the supporting organization to name The CFSA as the only charity to be

supported, and then create a donor advised fund using the supporting organization's income. The supporting organization, acting as an advisor, could recommend multiple grantees using the donor advised fund, subject to the ultimate control of The CFSA's Board of Directors.

Steps to create a supporting organization

To establish a supporting organization, first, the supporting organization would most likely be organized as an Alabama nonprofit corporation.

Articles of incorporation would then be filed with the Alabama Secretary of State's office. If drafted for a Type 1 supporting organization, the articles would provide that The CFSA would elect or have the right to appoint a majority of the members of the board of directors of the supporting organization. Bylaws for the organization would then be prepared.

Once the articles of incorporation have been filed with the Secretary of State, an organizational meeting would be held at which officers would be elected, the bylaws would be approved, and other organizational actions would be taken. The organizational meeting need not be an actual meeting, but may be held by the written consent of all of the members of the board of directors of the supporting organization.

An application for recognition of tax-exempt status (IRS Form 1023) would then be filed with the Internal Revenue Service. Once the application is filed, it might take the IRS several months to review and comment on the application.

After the organization is granted tax-exempt status, its status is grandfathered to the date the articles of incorporation were filed with the Alabama Secretary of State. Consequently, contributions to the organization after the date of its formation, but prior to the date the IRS issues its letter advising the organization of the granting of its tax-exempt status, would nonetheless qualify for the charitable contribution deduction, assuming the organization's tax-exempt status were eventually approved.

Services available to supporting organizations

The CFSA can provide any level of administrative, financial, or program services needed for a supporting organization, on a fee-for-service basis.

- **Administrative**

- Providing professional management and oversight
- Offering meeting space and parking
- Providing basic office needs such as telephone and mail service
- Staffing board meetings, preparing minutes, and conducting follow-up

- Printing documents, stationery, newsletters, brochures, and reports
- Filing necessary documents with federal and state authorities
- Providing D&O insurance

- **Financial**

- Financial oversight and reporting
- Preparing and filing the Form 990
- Preparing checks
- Preparing financial statements
- Making audit arrangements

- **Program**

- Drafting and distributing grant guidelines
- Handling receipt of grant proposals
- Reviewing grant proposals with recommendations
- Making post-grant evaluations
- Preparing grant and declination letters
- Preparing grant meeting materials and agendas
- Preparing and distributing press releases

PROFESSIONAL SERVICES

Individuals

The CFSA can provide an additional layer of privacy for a client in sensitive circumstances, even on a short-term basis. The Foundation may accept "pass-through" gifts, gifts that are to come into the Foundation and be redistributed to another charity within a short period. A client who wants to make a one-time anonymous gift to a charity may be able to route it through The CFSA as a pass-through gift without even formally opening a fund.

In addition, The CFSA can provide a range of consulting services on either a formal or informal basis. For example, some clients want help in developing their own charitable giving priorities. Or a client may want some confidential background research on a charity before deciding on a gift. Professional advisors are encouraged to contact The CFSA with questions about any charitable issue.

The Community Foundation of South Alabama (CFSA) offers a number of options to a private foundation wishing to wind down its operations or minimize its administrative activities.

Private foundations

As a community foundation, The CFSA is legally classified as a publicly supported charity. At the same time, the Foundation shares some of the features of a private foundation, particularly its grantmaking expertise. Because of this hybrid quality, The CFSA offers a number of options to a private foundation wishing to wind down its operations or minimize its administrative activities.

Grantmaking focus

Transfer options

The private foundation may transfer all of its assets to The CFSA and then elect with the IRS to terminate both its private foundation status and legal existence. The CFSA may then use the assets either for general community benefit or for purposes specified by the private foundation.

Termination of a private foundation into a philanthropic fund at The CFSA is relatively simple, but should be done in consultation with an attorney to avoid any possibility of incurring the tax that is levied for an improper termination.

The private foundation may be required to notify the IRS in advance of its intent to dissolve. It also must file a final tax return.

In the alternative, the private foundation may transfer all of its assets to the community foundation without electing to terminate. Through this method, the private foundation avoids excise taxes and the obligation to file a tax return, since it will have no assets and no income. But the private foundation still exists as a legal entity in order to advise the community foundation on disbursements from the fund.

Conversion to supporting organization

Rather than terminating, the private foundation may change its legal status to that of a supporting organization of The CFSA. A supporting organization operates "in support of" the charitable purposes of another public charity. Because The Community Foundation's purposes are so broad, a private foundation that becomes a supporting organization of The CFSA has enormous grantmaking flexibility.

Regardless which of these alternatives a private foundation chooses, the private foundation's

assets can come into the community foundation either without any restriction on the use of those funds, or with restrictions selected or recommended by the private foundation. The private foundation's assets could also be divided among both unrestricted and restricted funds.

For example, a private foundation that previously focused on assisting the elderly could terminate into the CFSA and create a field of interest fund that also benefits the elderly.

There may be family members or other persons connected with the private foundation that is interested in grantmaking, but not any of the administrative burdens involved in running the foundation. In this case, the private foundation might use its assets to create a donor advised fund. The family members can retain advisory rights to the fund, and then can recommend grant recipients periodically to the Board of Directors for approval.

Using private foundation income to create a fund

Clients who have private foundations may occasionally have difficulty meeting the foundation's annual payout requirement. Perhaps the private foundation has not received sufficient applications within its focus area, or a favored project is not quite ready to proceed.

In these situations, the private foundation can create a donor advised fund at The CFSA and contribute all or part of the current year's income to the fund. This contribution to The CFSA is a "qualifying distribution" that counts towards the payout requirement. The private foundation's trustees can then take the needed time to find suitable grantees before recommending grants, or wait until potential grantees are ready to proceed with their projects.

Corporations

Businesses of all sizes, including closely held or family businesses, may wish to work through The CFSA to implement both corporate and individual charitable giving goals.

Many corporate executives believe in the importance of being a "good corporate citizen" by supporting nonprofit organizations in the communities they serve. But the costs and administrative responsibilities of running such a program can overwhelm internal enthusiasm.

As cash flow permits, a business can set aside funds for charitable giving through a donor advised fund. The CFSA's staff can work with the company to help identify the company's goals and implement the program. Corporate representatives can serve as the advisors to the fund to recommend grantees. The CFSA will receive all grant applications, and handle all the administrative responsibilities, such as paying grants and monitoring and evaluating grantees.

Companies may also be interested in establishing scholarship funds for the children or grandchildren of employees. The CFSA can establish such a fund on a turnkey basis, designing criteria and the scholarship application, and receiving all grant applications, freeing the company from the very labor-intensive work of running such a program.

Small business owners may be interested in other aspects of The CFSA, in addition to donor advised and scholarship funds. As discussed beginning on page 24, a small business owner might use the charitable lead trust as a way of transferring business ownership to children in a tax-favored way.

Nonprofit organizations

The CFSA can provide back office services to nonprofit organizations that lack the volunteer or paid personnel needed to administer their organizations. If the nonprofit establishes a fund, the Foundation can provide the following services:

- **Receiving charitable contributions**

The Foundation can receive all gifts intended for the organization. Checks usually are made payable to The CFSA with the notation that the gift is for the particular nonprofit. The Foundation can also receive credit card donations by telephone or over its Web site.

- **Acknowledging contributions**

The Foundation will acknowledge contributions in a letter that satisfies federal tax law requirements.

- **Paying expenses and grants**

The Foundation will pay fund-related expenses after the nonprofit submits appropriate documentation of the charitable purpose of the expenses. The Foundation will also pay grants to nonprofit organizations coming from the fund.

- **Banking**

Each nonprofit's fund becomes part of the Foundation's overall banking arrangements with all necessary internal controls.

- **Accounting and audit**

The Foundation issues quarterly reports to all fund holders. Each fund is included in the Foundation's t audit and federal tax return.