



# THE COMMUNITY FOUNDATION

## SHOULD I CONSIDER A PRIVATE FOUNDATION OR A DONOR-ADVISED FUND IN MY LOCAL COMMUNITY FOUNDATION?

As a community foundation, Rochester Area Community Foundation serves as an umbrella for a wide variety of charitable funds established by local donors for generally local purposes. Many of these funds are set up to distribute investment income only (*endowment funds*). Others may spend principal as well (*expenditure or "current giving" funds*). We hold more than 500 endowment funds and over 420 other funds of various types, totaling about \$225 million in assets.

Quite a few of our funds are "donor advised," meaning that a donor or family or organization retains an active role in the fund's grantmaking purposes and activities. These are quite popular as an alternative to the private foundation because they are administratively simpler, provide greater tax deductibility for donations, and offer the professional grantmaking and investment support of a multi-million dollar foundation at the fraction of the cost it would take to obtain such expertise independently. The donor retains the joy of giving, and the satisfaction of shaping his or her philanthropy; The Community Foundation takes care of all of the government reporting and other paperwork needs.

These are the most important differences between a private foundation and a donor-advised fund with The Community Foundation:

<b>Private Foundation</b>	<b>Donor-Advised Fund at Community Foundation (CF)</b>
Separate legal structure must receive federal & state approval	Set up in less than an hour, at no cost
Annual audit required	Handled by CF
Annual state & federal returns	Handled by CF
Tax deductions for lifetime gifts limited to cost basis (except for public stock)	Tax deductions for lifetime gifts at full market value
Cash gifts deductible up to 30% of adjusted gross income	Cash gifts deductible up to 50% of adjusted gross income
Required 5% payout every year	No required payout level
Anonymity impossible	Anonymity possible
Requires separate grantmaking process, requests for and receipt of proposals	Grantmaking can be part of CF process and/or receive recommendations from donor
1-2% excise tax on investment income	Pays no tax
Requires annual activities be publicized	CF handles annual report
Writes grant checks and handles related accounting, monitoring, reporting	CF handles check writing, monitoring, reporting
N/A	Quarterly reports to donor
Donor appoints board responsible for final grant decisions	Donor's grant recommendations are reviewed by CF to confirm charitable use
Must monitor changes in private foundation law	Handled by CF

Donor advisors may suggest distributions from funds and/or ask Foundation staff to help research, recommend or process grant applications. Since the Community Foundation already has a grantmaking structure (we made \$27 million in grants and distributions last year, primarily to this six-county region), we can actively seek organizations that carry out a donor's specific charitable interests. We also have relationships with community foundations serving other geographic regions.

Tax-deductible additions to an advised fund may be made when convenient for market and tax purposes, and later can be distributed at the donor's convenience. If desired, The Community Foundation can provide publicity for the Fund when created and in its annual report; limited additional publicity services (e.g., announcing grants made from the fund) may also be requested. All checks are paid in the name of the fund; however, anonymity may be provided for some or all gifts.

The Community Foundation President (on behalf of the Board) must review donor advisor suggestions for IRS reasons. Our donors typically welcome this independent review to confirm the charitable nature of the intended grant.

**Investment returns and administrative fees.** Donor-advised funds fully participate in The Community Foundation's investment experience. As of December 31, 2007, annualized total return for the last 10 years was 7.2%, net of investment fees averaging 0.52 percent. Endowment fund investment earnings are paid out quarterly to a linked expenditure account based on an annual "spending policy," which is currently 5 percent of a 20-quarter rolling average of the fund balance. Donors selecting a Charitable Investor Fund<sup>SM</sup> may choose among five different blends of our equity and fixed pools; all of the income and principal are available for distribution in grants. Annual administrative fees for donor-advised funds are 1.00% of principal market value with a minimum of \$250. Reduced fees are charged on larger balances.

**To summarize.** A fund with us will save a donor the costs and administrative headaches of setting up and administering a separate organization. Yet the donor retains the satisfaction and credit of giving (all checks go out with the fund name on them), plus the ability to shape the charitable uses of the grants with professional support.

*Please call to request our fee schedule and information about our investment policies and procedures.*



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