



# The Community Foundation

## A Charitable Giving Vehicle for High-Net-Worth Individuals

By Christina Tucker and Diane Miller

It was a novel concept at the time: Frederick H. Goff planned to create a public “community” foundation that would aggregate the charitable resources of the local citizenry of Cleveland into a single, permanent endowment dedicated to the betterment of the community. It would be overseen by a board appointed by and composed of some of Cleveland’s most prominent leaders.

He set out to replicate on a local level what the larger, national private foundations were doing in the areas of charitable, educational, religious, and other activities serving the common good. Goff, however, wanted to concentrate these efforts in his immediate geographic locale while operating under the watchful eye of, and being held accountable to, the public.

On January 2, 1914, the Cleveland Foundation was born.

Today, more than 700 community foundations in the United States serve an estimated 86 percent of the U.S. population. Collectively, they manage more than \$40 billion in assets and distribute more than \$4 billion annually to a variety of nonprofit organizations and activities. And the community foundation model has emerged worldwide, with more than 300 community foundations operating in more than 30 countries.

### The Community Foundation Charitable Giving Vehicles

The community foundation offers a number of charitable vehicles and funds that enable donors to contribute to the public charity, educational institution, or nonprofit organization of their choice.

Most of these provide immediate and considerable tax benefits. The following are a few of the most popular vehicles:

**Donor-advised fund.** A donor-advised fund (DAF) is generally a fund held by a community foundation where the donor, or a person or committee appointed by the donor, may recommend eligible charitable recipients for grants from the fund. The community foundation’s governing body must be free to accept or reject the recommendations. This is also one of the most flexible funds a community foundation offers because the DAF allows a donor to consolidate all tax-deductible assets and charitable giving into one vehicle that is invested by the community foundation for growth.

**Designated fund.** A designated fund is a restricted fund held by a community foundation in which the donor specifies fund beneficiaries when the fund is established. In addition, the designated fund is invested for long-term growth and periodically distributes grants to those charities named by the donor.

**Field-of-interest fund.** A field-of-interest fund enables a donor to target his contribution to a specific or broad charitable cause or purpose, such as education, health, the environment, civic engagement, and the like. The community foundation selects grantees within that field of interest.

**Scholarship fund.** A scholarship fund allows a donor to support individuals pursuing some type of training or education opportunity. When setting up the fund, the donor can establish criteria used by the community foundation in the scholarship selection

process such as the institution, level of education, or area of study as well as the eligibility requirements.

**Endowment fund.** Any of the above funds may be endowment funds. An endowment is a fund in which the principal is kept intact and only a certain amount of earnings are available for other purposes. Donors may require that the principal remain intact in perpetuity, for a defined period of time, or until sufficient assets have been accumulated to achieve a designated purpose. With a permanent endowment, the principal often is invested along with some retained earnings to retain the fund’s value.

**Charitable trusts.** A charitable lead trust (CLT) pays the trust income to a charity for a specified period, with the principal reverting to the donor or going to other person(s) at the end of the period. If it is established by will, it is known as a testamentary charitable lead trust (TCLT). A charitable remainder trust (CRT) is a gift plan that provides income to one or more beneficiaries for their lifetimes, for a fixed term of not more than 20 years, or a combination of the two. Assets—usually cash, securities, or real estate—are transferred to a trust that pays income to the beneficiaries for the term of the trust. When the trust term ends, the remainder in the trust passes to the charity. It can be established as a charitable remainder annuity trust (CRAT) with a fixed payout or as a charitable remainder unitrust (CRUT) with a variable payout. If it is established by will, it is known as a testamentary charitable remainder trust (TCRT).

**Charitable gift annuity.** A charitable gift annuity is a gift of cash or securities in exchange for the promise of lifetime income, immediate (CGA) or deferred (DCGA). A charitable gift annuity is a contract between the donor and the charity that is part charitable gift and part purchase of an annuity. The total assets of the charity back the payments.

### Advantages of Working with a Community Foundation

With these models, a community foundation can do the following:

- Provide your client with expertise and extensive knowledge of philanthropy and the charitable needs of the communities in which your client resides.
- Simplify your clients' charitable giving while providing the greatest tax advantages.
- Offer collaboration with the local region's most effective philanthropic and nonprofit sectors and access to community leaders.
- In many cases, provide peace of mind for your client in knowing that the institution has met the rigorous compliance process of National Standards for U.S. Community Foundations™.

### National Standards for U.S. Community Foundations™

In 2000, the Council on Foundations and a group of community foundation practitioners developed the National Standards for U.S. Community Foundations™ to unify and define community foundations and to promote community foundations' integrity and public trust. The meticulous set of guiding principles behind the National Standards for U.S. Community Foundations™ represent an individual and collective commitment to and an outward sign that community foundations take their responsibilities very seriously.

Compliance with the National Standards signifies that a community foundation:

- demonstrates transparency;
- utilizes policies that promote financial responsibility and accountable practices;
- maintains policies supporting ethical and effective practices; and
- assists the broader community foundation field with self-regulation in a manner viewed positively by the Internal Revenue Service.

### Stories from the Field

What do actual donors and donor advisors say about their work with community foundations? If you ask around, you'll hear stories about donors who sought to make a difference in the lives of those in the community through charitable giving, and more than likely you'll hear a story about the value of philanthropy and strategic giving that goes far beyond money. Here are some of those stories:

#### The Parkersburg Area Community Foundation

Paul L. Hicks, a partner with Bowles Rice McDavid Graff & Love, PLLC, in Parkersburg, West Virginia, specializes in tax and trusts as well as business law. He cites several reasons for working with his local community foundation, and Judy Sjostedt, executive director of the Parkersburg Area Community Foundation, is one of them.

Since meeting Sjostedt more than 10 years ago, Hicks has advised a number of clients to make charitable giving plans with the Parkersburg Area Community Foundation. Sjostedt's expertise and knowledge of the region, its priorities, and emerging needs, as well as her willingness to invest personal time with clients to understand their philanthropic goals, give investors added comfort. "The value that Judy brings to the process is that clients can explore some possibilities with her without spending money because they aren't paying her by the hour," says Hicks. "Judy puts together a package and goes to visit my clients in their homes to tailor a charitable giving program to meet their needs."

In addition, Hicks advises clients that one of the best reasons for partnering with a community foundation is its use of and expertise with DAFs. Several clients Hicks has worked with, who have estates from \$600,000 to \$1 million with not-very-liquid 401(k)s, have asked about setting up private foundations. The clients say they want to do something for the community, and they may have multiple causes they want to support. "In this instance," says Hicks, "I advise my client to set up a donor-advised fund. A DAF acts as a charitable account that accommodates a tax deduction this year, not some future date. My client can set up a DAF to receive their estate, which also can offer the ability to share the community responsibility with family members."

While working with another attorney's clients, who had built a successful business worth several million dollars but had no children or immediate heirs, Hicks directed them to Sjostedt and the Parkersburg Area Community Foundation. The clients believed that their success was tied to the community and as a result wanted to give back to the Parkersburg community. After meeting with Sjostedt, the clients liked the fact she could prescreen their opportunities and help with distributing the grants they designated without identifying the couple, who wanted to remain anonymous. "Essentially Judy serves as a clearinghouse or matchmaker by matching people of need with their funders," Hicks said.

#### The Napa Valley Community Foundation

Terence P. Mulligan is president and chief executive officer of the Napa Valley Community Foundation in Napa, California, where he directs all fundraising activities and manages the foundation's internal operations. He has a mix of public and private sector experience, particularly in fundraising; before joining the Napa foundation, he



helped raise more than \$100 million from individuals, families, and corporations as director of outreach with the Peninsula Community Foundation.

Mulligan works with numerous financial advisors and their clients who are looking to invest in the Napa Valley Community Foundation for the tax benefits, to help revitalize and create a vibrant Napa Valley community, and to do something for the greater good of their fellow citizens.

Napa has two nonprofit hospitals, one of which is much smaller than the other. A wealthy donor wanted to support the smaller, St. Helena Hospital, and at the same time had a deep concern about climate change. The donor and professional advisor worked with Mulligan and the Napa Valley Community Foundation to help purchase a gas cogeneration power plant that turns natural gas into electricity with hot water as a byproduct.

With this project, St. Helena Hospital meets more than 50 percent of its electrical needs and nearly one quarter of its hot water needs while reducing local carbon dioxide emissions and other pollution. The power plant was purchased with a structured gift of \$500,000 and a zero-percent interest program-related investment. In addition, St. Helena Hospital is saving nearly a quarter of a million dollars in costs and still is able to meet its \$145,000 annual debt payments. In this case, Mulligan and the community foundation helped structure a complicated financial transaction to help a donor leverage resources for the benefit of the community.

And when a retired educator wanted to give something back to the community by funding a scholarship program, he and his advisor met with Mulligan and his staff. They suggested that the educator think about offering a program for underserved minority students, who typically don't academically qualify for scholarships. The foundation helped meet the client's desire to narrow the

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achievement gap by creating a charitable vehicle for giving to organizations that serve underrepresented, academically challenged youth.

#### The Columbus Foundation

Terry Schavone, vice president for donor services and development at The Columbus Foundation since 1995, has more than 30 years experience in the philanthropic sector. He has led programs that have raised more than \$2 billion in outright and planned gifts.

Schavone recently collaborated with a Merrill Lynch financial advisor and two of his older clients who already had made arrangements to leave large planned gifts with The Columbus Foundation to create future funds upon their deaths. After discussing with the clients their charitable interests and wishes, the adviser and Schavone concluded that it would be fiscally advantageous for both clients to establish the funds now, to fund them partially, and then to complete the funding through their estate plans. This strategy also would allow them to see to how their funds worked and to experience their charitable giving in action while they were still alive. The gifts were \$1 million and \$500,000, respectively, and the planned gifts are in the \$10-million and \$5-million ranges.

The Merrill Lynch advisors met with Schavone and his staff to discuss creating lifetime gifts for the clients. After thorough evaluation and analysis of the clients' portfolios, a giving plan was developed for each client. Both clients had highly appreciated assets with low cost bases that were placed

into endowed DAFs that will function, upon death, as designated funds. Ms. A will begin making grants using the income from her fund in 2011. Because of the immediate tax benefit, Ms. B can make larger gifts today using her fund now versus not creating a fund at all. The Merrill Lynch advisors played an active role in helping the clients meet their charitable giving goals. In both cases, Merrill Lynch remained the broker of record for the current gifts, and upon death, Merrill Lynch will remain the broker of record.

#### Financial Advisors— Doing Your Part

Lee Iacocca recalled: “My father used to say, ‘You can spend a lot of time making money. The tough time comes when you have to give it away properly.’ How to give something back, that’s the tough part in life.”

Wealthy people know dollars and cents. But more than a few need better guidance in making their dollars make sense.


This is where a first-rate financial advisor can shine—and earn and be regarded highly by clients. Having your most affluent clients join forces with their local community foundations will present a win-win outcome for all parties involved. Advantages include the following: 1) giving clients direct access to charitable giving experts knowledgeable about issues and concerns facing their communities (as well as the most effective organizations addressing them); 2) having clients' giving plans and contributions structured to meet their individual needs while maximizing tax advantages;

Find your local community foundation at [www.cflocate.org](http://www.cflocate.org). For more information about community foundations, visit [www.cof.org](http://www.cof.org) and under “Those We Serve” click on “Community Foundations.” To learn more about the National Standards accrediting program, visit [www.cfstandards.org](http://www.cfstandards.org).

and 3) enabling clients to invest alongside and engage with like-minded donors and community leaders with shared interests to improve the quality of life and effect change right in their own backyards—philanthropic IMBYism, if you will.

Kenny Emson, chief development officer of the Community Foundation for the National Capital Region in Washington, DC, has worked with financial advisors for more than 20 years. To be successful, he believes that those who target high-net-worth clients must know how to effectively discuss and plan for their clients’ philanthropic goals. “Those financial advisors who are not engaging with their local

community foundations as part of the planning process are missing a great opportunity and resource available to them,” Emson said. “Where else can you discuss private foundations, donor-advised funds, memorial funds, scholarship funds, charitable trusts, gift annuities, and bequest gifts that ultimately can support the multiple different nonprofit organizations and causes most important to clients?”

Steering clients toward investing in a community foundation may just be the answer that you and your clients need. 

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**Endnote**

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