



## FREQUENTLY ASKED QUESTIONS

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### What is a “community foundation”?

A community foundation is a public charity established to serve specific charitable interests or charitable interests in a designated geographical region. The community foundation invites donors to build endowment funds in support of its mission and/or hold funds for specific charitable organizations that serve community needs. Donors are able to designate which organizations will benefit from their gift or they may make an unrestricted gift in support of the overall mission of the Foundation. Since all funds are invested, the endowment funds continue to grow so that over time more and more charitable causes will be able to benefit from the donors’ gifts.

### How does a community foundation differ from a private/family foundation?

There are a number of major differences between a community foundation and a private or family foundation. Generally, a private or family foundation only makes sense for people who are willing and able to take on the high administrative costs and management responsibilities associated with this option. The benefits of working with a community foundation are numerous. They include:

**Cost Advantage:** There are no out of pocket costs to establish or maintain a fund within a community foundation. Administrative and investment fees are kept low by pooling the funds within community foundations.

**Tax Advantage:** There are no federal excise taxes owed (private foundations pay 2% of their net investment income). Also cash contributions are fully deductible up to 50% of adjustable gross income (vs. 30% for private foundations) and contributions of appreciated property are fully deductible up to 30% of adjusted gross income (vs. 20%).

**Privacy Advantage:** Donors may choose to remain anonymous. Anonymity allows donors to protect their privacy and avoid solicitation pressure from other charitable organizations.

**Payout Advantage:** There is no requirement for an annual fixed grant payout (vs. private foundations where no less than 5% of its net asset value must be paid out annually to charity). This allows community foundations more flexibility in their grant-making activities.

**Administrative Advantage:** Unlike private foundations, community foundations assume all administrative duties (i.e. record keeping, investigating grantee organizations, preparation of financial audits, etc.).

**Professional Advantage:** Donors to community foundations have access to a professional staff available to answer questions and offer suggestions tailored to meet the donor’s charitable intent.

In order to capitalize on these benefits and advantages, many private foundations are actually choosing to transfer their assets to community foundations.

### How many community foundations are there and what are their assets?

There are more than 700 community foundations in the United States ranging in size from a few million dollars to more than \$2.2 billion in assets.

### Why should I choose to work with LCF?

With so many ways for donors to give today, we are frequently asked: Why choose to work with the Lake Community Foundation (LCF)? There are many general reasons donors choose to work with a community foundation, such as to take advantage of the tax benefits of planned giving, or to simplify their giving, or to leave a legacy for generations to come. An important specific reason is that the LCF board of directors consists of community leaders who know the needs of the community.

### Is my gift to the Lake Community Foundation tax deductible?

Yes. LCF is recognized by the U.S. government as a 501(c)(3) non-profit organization. As such, all gifts to LCF are tax deductible to the fullest extent of the law. You will receive a written receipt to document your gift for tax purposes.

### Are there other benefits of establishing a fund with LCF?

Yes. Here are several more reasons and benefits of working with the Lake Community Foundation:

- Flexibility to create a fund tailored to your charitable interests
- The deduction for cash contributions that exceed 50% of your adjusted gross income may be spread over five additional years to get the full deduction
- Sound financial management
- Protection and fulfillment of donor intent
- Public accountability in our annual reports certified by independent auditors that our funds are being used for charitable purposes
- Security of keeping funds safe from legal actions against individual charities
- Access to LCF's professional staff for guidance on charitable giving
- Focus on our community needs as well as the flexibility to make a difference beyond our local area
- Savings on administrative, investment management, and grant activities, since funds are combined into larger pools.
- Fewer restrictions and less paperwork than with private foundations

#### **Tax benefits:**

- Cash contributions are fully deductible up to 50% of adjusted gross income (vs. 30% with private foundations)
- The deduction for cash contributions that exceed 50% of your adjusted gross income may be spread over a six year period to get the full deduction
- No excise tax imposed (vs. 2% of net investment income for private foundations)
- Gifts of appreciated securities and/or property are deductible up to 30% of adjusted gross income (vs. applicable deduction of 20% for gifts of appreciated property to a private foundation) and may also be spread over a six year period to get the full deduction.
- No capital gains taxes on gifts of appreciated securities and/or property
- Freedom to choose anonymity to avoid pressure of solicitation from other charitable groups or,
- Opportunity to receive public recognition for your generosity from the Foundation and set an example of stewardship for others
- Satisfaction of knowing your charitable interests will be supported for generations to come

### Can I honor my family name through a gift to LCF?

Yes. Endowments, donor advised funds and special scholarship funds are frequently named after individuals or families. Your LCF Planned Giving Officer can advise you regarding the options that are most suitable for you.

### What are the various fund types or donor relationships possible when working with LCF?

Donors to the Lake Community Foundation are able to choose among a number of fund options to benefit their favorite charities. They include: Donor Advised Funds, Unrestricted Gifts, Designated Beneficiary Funds and Field of Interest Funds. In addition, the Foundation offers life income arrangements via Charitable Gift Annuities, Deferred Charitable Gift Annuities and Charitable Remainder Trusts.

### Can corporations establish a fund relationship with a community foundation like LCF?

Yes.

### How do I set up a fund with the Lake Community Foundation?

Getting started is as easy as making a phone call.

We will work with you. We will take the time to listen to your goals and answer your questions. We will explore the best options for you based on your age, financial situation and charitable objectives.

New donor advised funds can be set up with a contribution as little as \$5,000 (\$25,000 minimum for new donor advised endowed funds or \$50,000 for other named designated endowment funds). And there are never any out of pocket costs/fees for establishing a new fund. You may make a contribution of any size to an existing fund.

We make a living by what we get,  
we make a life

by what we give.

—Winston Churchill

### I'd like to give but I still need income.

#### Can LCF help?

Yes. Life income gift arrangements, such as charitable gift annuities and deferred gift annuities may be an excellent choice for you. These options allow you to make an irrevocable gift (cash, appreciated securities, real estate, etc.) that pays you a guaranteed income for life at a generous fixed rate of return. There are also immediate and future tax benefits associated with these gifts.

With larger minimums, the charitable remainder trust is an excellent option for individuals with highly appreciated assets -- like farmland, real estate or stocks. Please contact us for more information -- there is no cost and no obligation.

### What does it cost to set up a Donor Advised Fund?

There are no out-of-pocket expenses. The Foundation is responsible for investing the assets you contribute. An annual administration fee of 1% is charged against the earnings of the funds with less than \$1 million in assets (Funds greater than \$1 million have a lower, tiered fee structure). The fund's annual investment fees average .45% - .50%. These expenses impact the daily net asset value of the investment pools. They are not charged separately to accounts.

### What is the definition of an endowed fund? Is that the same as a trust?

An endowment is a long-term fund invested with two key objectives:

Protecting the original principal by making distributions only from a portion of the earnings and protecting the principal from erosion caused by inflation. By doing so, an endowment is a gift that lasts forever. Individuals who establish endowments are making an irrevocable gift and may designate the beneficiaries (e.g. their church, school, charitable cause, etc.). By doing so, they can be assured that their original intent will be fulfilled for future generations.

A trust is created as a legally distinct entity whereby another institution or person serves as a representative (trustee) acting on behalf of an individual. There is a transfer of ownership which provides the legal distinctiveness. Trusts may be revocable or irrevocable. An endowment may become part of a trust.

### When I make a gift to LCF, can I direct how the funds are to be invested?

Yes, at the time the fund is established you may choose among several options. Funds may be invested in three investment pools: long-term growth, balanced growth and conservative growth. Depending on the size of your fund and your charitable intent, we will explain your options and guide you to the best alternative.

### Why should I make my contributions to LCF with a Donor Advised Fund rather than make donations directly to the individual charities?

- **It's smart:** There are wonderful tax advantages. By making contributions to your own Fund, you receive an immediate charitable tax deduction. And, you can reduce your tax liability even more by donating appreciated securities or property. For these gifts you take a full fair market value tax deduction and pay no capital gains tax for the gift. Many charities have no way to handle these types of gifts but with your own Fund, it's easy: You make a single securities transaction with LCF into your Fund, rather than having to make smaller, multiple individual transactions with each of your favorite charities

In addition, your gift is invested to grow tax-free which can result in more dollars to be given away.

- **It's simple:** You centralize your charitable donations by setting up a Fund. This eliminates the need to track multiple receipts for your donations and simplifies your tax filing.

You can enjoy the flexibility of recommending grants to your favorite charities now, next year or whenever you are ready. No more rush to write a bunch of checks at year-end for tax purposes.

- **It's satisfying:** You can leave a legacy by naming your own fund or remain anonymous. You are also able to involve family members in your charitable giving decision-making. And you may choose successor advisors to continue your tradition of giving.

It used to be that only millionaires could afford to set up their own charitable gift funds. Now anyone with \$5,000 or more can do it through the Lake Community Foundation.