

# CHARITABLE ADVISED FUND HANDBOOK

AUGUST 2017



**This handbook is a guide to using your charitable advised fund.**

It also provides general information about other ways  
we can help you achieve your philanthropic goals.

Please feel free to contact us to learn more.

We look forward to working with you.

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# Using Your Charitable Advised Fund

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## **DonorCentral – Online Fund Management**

The easiest, most efficient way for advised fundholders to manage their funds is on DonorCentral, our secure online portal. You can make grant recommendations, search our database of almost 3,000 nonprofit organizations, check fund balances, see grantmaking and gift history, access and print your fund statements, and more — around-the-clock at your convenience.

DonorCentral also provides the simplest way to participate in our Giving Together program. This program regularly shares grant proposals received by our community philanthropy department with our fundholders and invites them to learn about — and support — exciting work being undertaken by nonprofit organizations across the state. Read more about the program on page 9.

Registering is easy. Visit [www.vermontcf.org/donorcentral](http://www.vermontcf.org/donorcentral) to create your account.

If you want to learn more about DonorCentral, feel free to contact us with your questions.

## **Grantmaking Activity in Your Fund**

We look forward to working with you on your grantmaking. Should there be no grant activity in the Fund for **2 years**, your philanthropic advisor will contact you to ascertain your desired level of involvement with the Fund. If there is no grant activity in the Fund for **3 years**, the Foundation will move the grantmaking account balance from the Fund to be used in the Foundation's discretionary grantmaking. If there is no grant activity in the Fund for **4 years**, the Foundation will move the Fund's entire balance to be used in the Foundation's discretionary grantmaking.

## **Things You Should Know Before Recommending a Grant**

We have compiled the following guidelines to make the grantmaking process easier for you. Please familiarize yourself with these guidelines before you make a grant recommendation. Your grantmaking strategy may involve any number of worthy endeavors, but please note that advised funds have some important limitations, which are explained on page 14.

### ***Eligible Grantees: You can recommend a grant to any of the following:***

- 501(c)(3) public charities, schools, municipalities, government entities, religious organizations
- Private operating foundations (if the private foundation was not established by the advised fundholder or his/her family)
- Any other component fund of the Foundation

***Prohibited Grantees: You cannot recommend a grant to any of the following:***

- Non-501(c)(3) organizations (unless they use a Foundation-approved fiscal sponsor, as outlined in the section below)
- Individuals or to a charitable organization earmarked for individuals
- Any entity if the purpose is not charitable
- Organizations based outside the United States
- United States-based organizations that are being used as a fiscal sponsor to support an international project and/or program
- Any entity to satisfy legally binding pledges of the donor, advisor, or related parties (see page 5)
- Any entity from which the donor, advisor or related parties will receive more than incidental benefits. This includes benefits received from membership (see page 5)
- An entity for the purpose of supporting a political campaign
- Private non-operating foundations
- The fund's donor, advisor or related parties in the form of a direct grant, loan, compensation, or similar payment
- Type III non-functionally integrated supporting organizations

***Fiscal Sponsors***

If you are recommending a grant to a United States-based project or group that does not have public charity status, it may be possible to use a fiscal sponsor. A fiscal sponsor is a 501(c)(3) public charity that sponsors a non-501(c)(3) project/group in order to receive grants.

The fiscal sponsor must be willing to accept money on the grantee's behalf and is ultimately responsible for overseeing the grant, ensuring the project's completion and filing required grant reports. The mission of the non-501(c)(3) project/group should serve the mission of the fiscal sponsor. The Foundation will confirm and document the fiscal sponsor/grantee relationship prior to making the grant.

*Note:* Many international projects and groups use United States-based fiscal sponsors in order to receive support. At this time, the Foundation does not make grants to United States-based nonprofits acting as fiscal sponsors for specific international projects or groups. We do make grants to support international charitable work when that work is an integrated project or program of the US-based nonprofit.

Please contact our grants specialist if you think your grant recommendation may involve a fiscal sponsor. This will expedite grant processing.

***Multi-Payment Grants***

Multi-payment grants are paid in installments based on a schedule recommended by you. When the grant is approved by the Foundation, the entire grant amount is applied against your fund balance.

## A Word About Pledges & Benefits

### **Pledges:**

Occasionally a fundholder wants to use his or her charitable advised fund to fulfill an enforceable pledge made to an organization. However, the IRS does not allow charitable advised funds to be used to fulfill this type of pledge. **What constitutes an enforceable pledge?** It occurs when a donor makes a financial commitment in writing to an organization he or she wishes to support. The donor is then legally responsible for fulfilling that commitment. From the perspective of the IRS, however, using a charitable advised fund to satisfy that commitment results in an impermissible benefit—it's as if the donor were using the fund to satisfy a personal debt, such as paying a credit card bill or making a mortgage payment.

By ensuring that fundholders, family members of fundholders, and entities controlled by fundholders do not use charitable advised fund grants to satisfy their enforceable pledges, the Foundation protects you from paying IRS-imposed excise taxes equal to 125% of the benefit received (i.e., the pledged amount). For example, a fundholder makes a legally binding pledge of \$500 to XYZ College by signing a pledge card, and then requests that the Foundation satisfy that pledge by making a grant from his or her advised fund. If the Foundation were to make that grant, the fundholder would be subject to a \$625 excise tax.

### **Material and Incidental Benefits:**

Because donors receive charitable tax deductions for all gifts to a charitable advised fund, the IRS does not allow additional material benefits, such as free admission to grantee events, a discount at its retail shops, or a table at a benefit or fundraiser for the organization.

Often annual membership to an organization will result in material benefits, which the fundholder is not allowed to receive. If you would like to receive these membership benefits, please pay for the full amount of the membership from other than your donor advised fund.

However, allowable incidental benefits can include coffee mugs, key chains, newsletters, etc.

Our staff is always happy to answer your questions about pledges or benefits in connection with charitable advised funds.

## Making a Grant Recommendation

The minimum grant recommendation is \$250. Using DonorCentral (see page 3) is the easiest and most efficient way to submit your grant recommendation.

Alternatively, you may fax a grant recommendation form to 802-388-3398 or mail it to the Vermont Community Foundation, 3 Court Street, Middlebury, VT 05753. Grant recommendation forms are available on our website and from our office.

*Once we receive your recommendation, we will*

- confirm that the grant matches the fund's stated purpose;
- confirm that the total grant amount does not exceed the balance of the fund;
- verify that the organization is an eligible grantee (see page 3);
- contact the organization, if necessary, for documentation or additional information about its mission, operation, and purpose;
- review any matters of concern with you;
- mail a grant award letter and check to the grantee when the grant recommendation is approved.

With each grant recommendation you have a choice as to how you, as advisor, and your fund are identified in the letter that accompanies the grant check received by the grantee organization.

- 1. Fund and Advisor Named with Advisor Address** – the letter will contain the name of your fund, your name and address so that the grantee may send a thank you letter directly to you
- 2. Fund and Advisor Anonymous** – the letter will not identify you or your fund
- 3. Fund Named, Advisor Anonymous** – the letter will name the fund, but will not name you as advisor
- 4. Fund Anonymous, Advisor Named with Advisor Address** – the letter will not identify your fund, but will contain your name and address so that the grantee may send a thank you letter directly to you

Whenever your address is not given in a grant letter, the grantee organization may send a thank you letter to the Foundation. We will then forward that letter to you.



**Year-end Alert:** Many advisors recommend grants at year-end. If you would like the organization(s) you wish to support to receive grant checks prior to December 31, please submit your recommendations to the Foundation before December 15.



## Adding to Your Fund

You may add to your advised fund at any time. We accept most gifts, including cash, publicly traded and closely held stock, tangible personal property, and real estate. Making additional gifts to your advised fund provides income tax benefits and for gifts of appreciated stock or real estate, avoids capital gains taxes.

Many advised fundholders want not only to give through their charitable advised fund during their lifetimes, but to direct some or all of their estate to their fund at the Foundation (see pages 16-17).

Please contact our staff to make additional contributions. Contacting us prior to making your gift ensures that your fund is properly credited and helps you receive the maximum tax benefit.



**Year-end Alert:** Many donors make gifts to their funds at year-end. Gifts mailed to the Foundation need to be postmarked by December 31 in order to be recorded for that tax year. To ensure that stock gifts are received into the Foundation brokerage account before December 31, please allow up to one week to process stock gifts in December.

# Making The Most Of Your Fund

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In addition to managing the administrative details of your fund, the Foundation provides you with many opportunities to learn, lead, and grow as a philanthropist.

## **Working With You**

As an advised fundholder, you have a personal philanthropic advisor who is always happy to discuss your giving goals. Your advisor can help you identify and evaluate nonprofit organizations and programs, connect you with other fundholders who share your philanthropic interests, and create a plan that involves your family in your grantmaking. Your advisor can also provide answers to technical questions about pledges, fiscal sponsors, challenge or matching grants, planned gifts, etc.

## **Philanthropic Leadership Fund**

The Philanthropic Leadership Fund at the Vermont Community Foundation supports activities that help expand the impact of giving throughout the state. Since its inception in 2006, it has funded innovative programs, publications, and services that help philanthropists, nonprofits, and others learn more about community needs and promising ideas.

There are always new projects in the pipeline and support from generous individuals helps keep us moving forward with this important work. We invite you to join the dozens of supporters who are leaders in Vermont's philanthropic movement.

Donate now online at [www.vermontcf.org/give](http://www.vermontcf.org/give) or contact us for more information. You may also make a grant recommendation through your donor advised fund to support the Philanthropic Leadership Fund.

## **Understanding Vermont**

Launched in 2007, Understanding Vermont is a Foundation program that provides useful information for philanthropists, other grantmakers, and nonprofits interested in learning more about the issues where giving can have a real impact in Vermont.

Publications produced as part of Understanding Vermont include: *Postsecondary Education, Giving in Vermont, Early Care & Education, Vermont's Nonprofit Sector, and Local Foods for Healthy Communities*, and *Opportunity: 11 Critical Paths for Philanthropy in Vermont*. Learn more at [www.vermontcf.org/uv](http://www.vermontcf.org/uv).

## **Giving Together – Funding Opportunities**

Our Giving Together program invites advised fundholders to support grant proposals received by the Foundation or funding opportunities identified by the Foundation.

By combining the grantmaking power of advised funds with our discretionary resources, we substantially increase the impact of our grantmaking and provide fund advisors the opportunity to learn about meaningful work in the community.

## **Events and Gatherings**

Throughout the year we offer opportunities for philanthropists to share experiences and discuss topics of common interest. These include informal dinners and receptions, forums to learn about specific topics, and focus groups. We hope you will be able to join us for one of these events. Please be in touch with us if you have an idea for an event or gathering.

## **Estate and Charitable Gift Planning Advice**

We can help you create a charitable plan for the future, whether you are interested in developing a strategy for meeting charitable goals while preserving the value of your estate, planning for retirement, or minimizing tax liability. For more information on estate planning and life income gifts, please see pages 16-17.

# How Your Fund Supports Our Work

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## **Supporting Fee**

The revenue generated from supporting fees covers the cost of our core services, which include philanthropic advising, nonprofit capacity building, grantmaking, gift and grant processing, investment and asset management, planned giving services, nonprofit fund management, new fund development, and communications.

The Foundation is a comprehensive resource for Vermont-focused philanthropists. We help you understand the most pressing issues facing Vermont and point you to where your grants can make a difference. We can help you find organizations that are doing outstanding and innovative work. We spearhead statewide initiatives and invite you into the fold. We connect you with other Vermont-focused philanthropists and help you signal others to build the state's charitable capital.

In short, we go far beyond transacting grants and managing your charitable investment wisely. Our "business" is helping Vermont-focused philanthropists like you have lasting and meaningful impact.

## **How the Supporting Fee is Assessed**

For a fund invested in a Foundation investment pool, a supporting fee is assessed quarterly. For a fund not invested (called the Passthrough Option), a fee is assessed each time a gift is made to the fund.

## **Third Party Investment Management Fees**

The Foundation incurs third-party investment related costs that are netted out of investment results before fund balances are reported to the fundholder. These costs generally range from 0.80% to 1.00% for the Socially Responsible and Primary Investment Pools. The cost for the Mid-Term Pool is approximately 0.30%. These costs reflect professional investment management and consultant services and custody of the Foundation's assets. The costs vary by investment pool based on the underlying investment managers. These third party fees are subject to change based on the underlying asset allocation and fees charged by the third party managers, consultants, and custodians.

Funds not invested do not incur an investment management fee.

## Frequently Asked Questions

# Q & A

## About Your Fund

### **Q. How many grants may I recommend in a year?**

- A.** You may recommend as many grants as you wish, amounting to the total of your fund balance. The minimum grant recommendation amount is \$250.

### **Q. Is there a fee for processing grants?**

- A.** Every fund at the Foundation contributes a supporting fee that covers core fund administration costs and helps further the Foundation's mission of building healthy and vital Vermont communities. Grant processing is included in your supporting fee. To learn more about our supporting fee, please see page 10.

### **Q. How often are grant recommendations processed?**

- A.** Advised Fund grants are processed every other Thursday and checks are mailed by the following Friday. Please contact us to find out the specific schedule. Grant recommendations received after December 15 will be processed early in the following year.

### **Q. I recently made a legally binding pledge to support my favorite charity. Can I use my charitable advised fund to make payments?**

- A.** No. The IRS does not allow a charitable advised fund to be used to fulfill a pledge made in writing. As part of the grant recommendation process, we require you to acknowledge your understanding of this policy. Please refer to page 5 for a complete explanation.

### **Q. Who can recommend grants from the charitable advised fund I established?**

- A.** Anyone listed as an advisor in the fund agreement can recommend that grants be made from the fund. If you would like to add an advisor to the fund, please submit a written request to the Foundation. An advisor must be 18 years of age to make grant recommendations.

**Q. Can I recommend grants anonymously?**

**A.** Yes. The following recognition options are available for each grant recommendation:

- *fund and advisor named, with advisor address*
- *fund and advisor anonymous*
- *fund named, advisor anonymous*
- *fund anonymous, advisor named, with advisor address.*

Please refer to page 6 for a complete explanation.

**Q. Can I name successor advisors to my fund?**

**A.** Yes, the original donors to the fund can designate their children or others as successor advisors to recommend grants from the fund, as long as they are 18 years of age or older.

**Q. Can I request a change to the name of the charitable advised fund I established?**

**A.** Yes. The Foundation can change the name of a fund. Please submit your request in writing.

**Q. Can I request a change to the purpose of the charitable advised fund I established?**

**A.** Advisors to the fund can make a request to broaden the fund purpose or convert it to a less-restricted fund. Per IRS regulations, the fund purpose cannot be narrowed from its original intent. Therefore, the Foundation encourages donors to establish charitable advised funds with as broad a purpose as possible, to accommodate both the advisors' changing grantmaking interests over time and the ever-changing needs of our communities.

**Q. Can I encourage others to give to the fund?**

**A.** You can informally solicit family and friends. However, organized fundraising activities (events, mailings, websites, etc.) on behalf of the fund are not permitted.

**Q. Can I serve on the board of an organization and recommend a grant to it from my advised fund?**

**A.** Yes. You can recommend grants from charitable advised funds to organizations where you, your spouse, or family members serve on the board and/or volunteer. We ask you to acknowledge that neither you nor your relatives will receive any personal benefit from the grant.

**Q. What happens to the fund when there is no longer an advisor to make grant recommendations?**

**A.** Upon the death or resignation of the last advisor, a charitable advised fund becomes a discretionary fund, allowing the Foundation to make grants within the fund's purpose to meet current community needs. In this way the Foundation ensures that your generous gift remains relevant over time.

**Q. What happens if I don't make grant recommendations from the fund for an extended period of time?**

**A.** Should there be no grant activity in the Fund for **2 years**, your philanthropic advisor will contact you to ascertain your desired level of involvement with the Fund. If there is no grant activity in the Fund for **3 years**, the Foundation will move the grantmaking account balance from the Fund to be used in the Foundation's discretionary grantmaking. If there is no grant activity in the Fund for **4 years**, the Foundation will move the Fund's entire balance to be used in the Foundation's discretionary grantmaking.

**Q. May I make a grant recommendation to satisfy my annual membership dues?**

**A.** You may, but please know that IRS regulations prevent you from receiving material benefits from the membership. Please refer to page 5 for a complete explanation.

# Additional Information About Your Fund

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## **Control of Assets / Material Restrictions**

A fundamental concept of charitable advised funds is the transfer of donor control. When you make a gift to establish a fund or to add to your fund, the gift becomes the property of the Vermont Community Foundation, which means that the Foundation has exclusive legal control over the contributed assets. Furthermore, Treasury regulations require that all component funds of community foundations be free from material restrictions (or “conditions”) imposed by donors. This means that while you, as an advisor, may recommend grants, the Foundation is not legally bound by your advice. However, if a grant recommendation meets the requirements on page 3, we will approve your recommendation.

## **Variance Power**

All contributions to the Foundation are subject to the Foundation’s variance power, as stated in your fund agreement. Variance power, though rarely invoked, gives the Foundation the right to redirect the use of any fund if we determine that distributions from that fund have become unnecessary, cannot be fulfilled, or are inconsistent with the charitable needs of the community or area served by the Foundation. All funds accepted by the Foundation are subject to this variance power, and all community foundations have this policy, which allows them to remain flexible and relevant as grantmaking organizations over a long period of time.

## **Fund Statements**

Statements show your fund balance and report year-to-date activity, including all contributions to and grants from your fund, investment returns, and assessed supporting and investment fees. An explanation of terms can be found on our website. DonorCentral users receive quarterly fund statements online. A statement is automatically mailed to all other fundholders annually.



## Spending Rate Guideline

Based on your philanthropic goals, you may choose how much to grant out of your fund (up to the fund balance). For advised fundholders interested in preserving the value of their fund over the long term, the Foundation has established an annual spending rate guideline of 3.5%. This rate seeks to maintain the inflation-adjusted value of the fund over time.

For funds in a Foundation investment pool, we calculate the annual spending amount in late January by multiplying 3.5% by the 36-month trailing average balance of the invested portion of your fund on December 31 of the previous year. The annual spending amount is then transferred from your fund's invested account to your fund's grantmaking account.

As a fund advisor you may recommend as large a grant as you like, for as much as the total fund balance.

**Please Note:** Spending calculations do not apply to funds invested in the money market pool, nor to funds not invested in any pool.

# Planned and Legacy Giving

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Many of our advised fundholders enjoy giving through the Foundation now and also want to direct some or all of their estate to a fund at the Foundation. We offer several planned giving options, and careful planning can reduce income, estate, and capital gains taxes. Gifts to the Foundation that provide life income to the donor can be a valuable component of a broader retirement income strategy.

Brief descriptions of some Foundation planned giving options are listed below. For more detailed information, please contact one of our philanthropic advisors by calling 802-388-3355. Additional information can also be found on our web site, [www.vermontcf.org/funds](http://www.vermontcf.org/funds).

## **Legacy Gifts to Your Fund**

A provision in your will or living trust can enable you to grow your charitable fund without diminishing the assets available to you during your lifetime. All such provisions avoid estate taxes, both on the federal and state levels. Sample bequest language is available on our website, or you may contact us for more information.

If you have a retirement plan, you may direct those assets to your fund by naming the Foundation as a full or partial beneficiary of your plan (be sure to list your fund name). Simply contact your plan administrator for a change-of-beneficiary form. An added advantage is that your gift to the Foundation will not be diminished by federal or state income taxes, which may not be the case if you leave your retirement plan assets to heirs. As with a bequest, you can change your beneficiary designation at any time, if you so desire.

Life insurance policies make good gifts to your fund as well. Simply ask your life insurance agent or company for a change-of-beneficiary form. If you would like to enjoy an income tax deduction from a gift of your life insurance policy, you should also ask your agent to provide you with a change-of-ownership form. When you name the Foundation as the irrevocable owner of your policy, the cash surrender value or the cost of a replacement policy is deductible as a charitable contribution. Any future premiums you pay on the policy also qualify as additional charitable gifts.

## **Gift Options that Provide Income for Life**

We offer several options which enable you, or someone you designate, to receive income for life in return for a gift to the Foundation. That income can be a fixed dollar amount or an amount based upon the annual value of the underlying investments. Additional benefits are a charitable income tax deduction when the gift is arranged, full or partial avoidance of capital gains taxes if you fund your gift with appreciated property, and tax-favored income paid to you each quarter. Our most popular life income gifts are Charitable Gift Annuities and Charitable Remainder Trusts. Please contact us for details and a specific gift-vehicle recommendation for your situation.

### **Gift Options to Transfer Assets to Heirs at Reduced Transfer Costs**

An interesting way to add to your fund and ultimately transfer assets to your heirs at reduced transfer costs is called a charitable lead trust. This is a sophisticated trust vehicle used by individuals to provide annual support for a number of years to their favorite charities, while reducing or eliminating gift and estate taxes on transfers to the next generation. Please ask us for a detailed description of how these trusts work.

### **Gifts of Real Estate, Closely-Held Stock, and Similar Assets**

Often the most advantageous assets to add to your fund from an income tax savings perspective require special handling. We are experienced in dealing with different types of real estate gifts, gifts of closely-held securities, gifts of mutual funds, gifts of tangible personal property, and other similar assets. Please take advantage of our expertise in these areas by contacting one of our philanthropic advisors.

### **The Vermont Community Foundation Bequest Society**

By arranging for a bequest or life income gift to be added to your fund, you automatically qualify for membership in our Bequest Society. We will send you an application for membership when you qualify.

# Investments at the Vermont Community Foundation

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We invest our assets to make grants that balance current needs in the community while providing resources for future generations to address emerging needs. We use a well-diversified asset allocation strategy, executed through world class active investment managers and index funds.

## Our Investment Objectives

- Earn a sufficient real rate of return on the Long-Term and Socially Responsible Pools that supports the Foundation's spending guideline and maintains the purchasing power of its assets adjusted for inflation in perpetuity. For funds that have a shorter time horizon, we have alternative investment options to provide less volatility and/or principal preservation.
- Control portfolio risk and volatility in order to provide as much year-to-year spending stability and still meet the Foundation's return objective. Design the investment strategies to achieve long-term objectives given that there will be both good and challenging investment return years.
- Over each five-year time period, to earn a rate of return that exceeds its customized benchmark.

## Our Investment Strategy

- Fully invest each pool's assets with disciplined rebalancing to achieve its goals.
- Consistently utilize meaningful asset class diversification to achieve return objectives during a variety of economic and market conditions.
- Avoid attempts to predict short-term market behavior via market timing strategies.
- Retain world-class investment managers who are expected to out-perform index funds over a five-year period. In areas where the Foundation does not believe meaningful or reliable above benchmark performance is available, index strategies are used.

When you establish a fund at the Foundation, the gift is pooled with other fund assets and invested. We recognize that donors have different time horizons, risk tolerances, and other criteria that influence their choice of how to invest the fund. To meet these needs we offer the following investment options:

***If your goal is to maximize long-term growth while providing for a steady stream of annual distributions, we offer a Long-Term Pool.*** This is our most diversified pool, and the one expected to produce the highest long-term returns. The Long-Term Pool is particularly appropriate for assets with a longer-term horizon (greater than seven years).

***If your goal is to pursue long-term returns while evaluating investments against an environmental, social and governance values framework, we offer a Socially Responsible Pool.*** This pool pursues long-term returns with companies that foster positive relationships with their employees and shareholders, the community and the environment. The Socially Responsible Pool is particularly appropriate for assets with a longer-term horizon (greater than seven years).

***If your goal is to pursue moderate growth and risk through a balanced portfolio, we offer a Mid-Term Pool.*** This pool provides for growth at a moderate level of risk, with less volatility than the Long-Term Pool. The Mid-Term Pool is most appropriate for assets that will remain invested for three to seven years.

***If your goal is to secure your fund's value, we offer a Money Market Pool.*** This pool provides limited market risk through a portfolio of U.S. Government Money Market Funds. The Money Market Pool is most appropriate for assets that will remain invested for one to three years.

***If your goal is to make periodic gifts to the Foundation for immediate grantmaking we offer the Passthrough Option.*** This option is optimal for those donors who do not maintain a fund balance, but rather continuously gift and grant out the value of their fund. This option is not assessed a third-party investment fee, and the funds are held in a risk-free account.

## **Investment Oversight and Management**

Through the Foundation's investment policy, the board of directors delegates investment management decisions to the CEO. The CEO seeks counsel from our CFO, Investment Committee, and Colonial Consulting, our independent investment consultant.

This investment team is responsible for reviewing the asset allocation, investment manager performance, due diligence, and selection of recommended investment managers. Colonial Consulting provides monthly investment manager performance reports and performs ongoing due diligence on investment managers; all of which is shared with the Foundation's investment team.

## **Mission Investing at the Foundation**

The Community Foundation believes in using all of its resources to create healthy and vital Vermont communities. Along with grantmaking, programmatic and leadership work, and nonprofit capacity building, we are committed to our mission investing strategy. This strategy focuses on offering investments that reflect the Foundation's core values by offering a socially responsible investment pool, being an active shareholder through proxy voting and shareholder filings, and investing 5% of our pooled investments in Vermont.

This 5% allocation is called Vermont Investments, and is invested in fixed income and equity vehicles. Fixed income investments are made primarily to community development financial institutions and are used for community and housing projects, job creation, and community betterment. Equity investments are made through direct or venture capital investments that focus primarily on job creation within the state of Vermont. We believe investments in Vermont will yield social and economic benefits that will continue to advance our mission, yield a financial return, and ultimately strengthen our communities.

For more information regarding investments at the Foundation, please visit [www.vermontcf.org/investments](http://www.vermontcf.org/investments) or call us at 802-388-3355.

# Glossary of Terms

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**501(c)(3):** Section of the Internal Revenue Code that designates an organization as charitable, tax-exempt, and nonprofit. Organizations qualifying under the code include religious, educational, charitable, amateur athletic, scientific, or literary groups; organizations testing for public safety and organizations involved in prevention of cruelty to children or animals. Most organizations seeking foundation or corporate contributions have a 501(c)(3) status. The Foundation's due diligence on grants includes verifying 501(c)(3) status.

**Advised Fundholder:** The primary contact(s) for the advised fund.

**Advisor:** Person(s) identified in the fund agreement or subsequent documents as having advisory privileges for a fund.

**Charitable Advised Fund:** A fund through which the donor (or person or committee designated by the donor) can advise the Foundation on grant recommendations.

**Community Foundation:** A tax-exempt, nonprofit, autonomous, and publicly supported philanthropic institution comprised of funds established by many separate donors for the long-term, charitable benefit of the residents of a defined geographic area. Typically, a community foundation serves an area no larger than a state.

**Community Fund:** The Foundation's discretionary grants program. It provides grant awards to nonprofit organizations through annual competitive grant rounds. These grants support our mission to build healthy and vital Vermont communities. Additionally, grants are awarded on an as-needed basis through a Special and Urgent Needs program. All grant applications are reviewed by Foundation staff, which makes awards at its discretion.

**Component Funds:** Multiple funds that comprise the resources of a community foundation. A Foundation advised fund is a component fund and an asset of the Foundation, and, as such, any contribution to a component fund is automatically treated as a gift to a public charity.

**Designated Fund:** A fund from which distributions are restricted to one or more public charities named by the donor at the time the fund is established. The Foundation oversees the annual distribution process, ensuring that the organization has not changed its legal status and that its purpose remains charitable in nature. In the event the organization ceases to operate or changes its purpose, the Foundation will ensure that the fund is used to continue the donor's charitable intent.

**Discretionary Fund:** Discretionary funds enable donors to carry out their charitable intentions by giving grantmaking discretion to the Foundation. The Foundation responds to proposals received from community nonprofits through its Community Fund grants program. Discretionary funds may be *unrestricted* or *field of interest*. (Please see definition for *unrestricted* and *field of interest funds*.)

**DonorCentral:** A secure website where donors can view their funds. Fund advisors can make grant recommendations, check fund balances, see grantmaking and gift history, access and print their fund statements, and more – all at their own convenience.

**Field of Interest Fund:** A discretionary fund that restricts distributions to a charitable purpose specified by the donor (for example, the arts, education, the environment, or a specific geographic region).

**Fiscal Sponsor:** A 501(c)(3) public charity that sponsors a non-501(c)(3) United States-based project in order to receive grants from an advised fund.

**Giving Together:** A Foundation program that shares a list of proposals from each Community Fund grant round with advised fundholders. The Foundation invites fundholders to partner with it in funding these proposals.

**Incidental Benefits:** Benefits that an advised fundholder, a family member, or an advisor are allowed to receive from an organization to which their fund has made a grant. Examples include coffee mugs, key chains, and newsletters with the organization's logo.

**Material Benefits:** Benefits that an advised fundholder, a family member, or an advisor are not allowed to receive from an organization to which their fund has made a grant. Examples include free admission to the organization or its events, discounts at retail shops, and a table at a benefit or fundraiser.

**Philanthropic Leadership Fund:** A fund at the Foundation that supports innovative programs, tools, and services that help Vermont-focused philanthropists learn about community needs, lead by cultivating promising ideas, and grow philanthropy by inspiring others.

**Private Foundation:** A foundation that receives most of its income from, and is subject to control of, an individual or other single or limited source. Also the technical IRS term for an organization that is tax-exempt under Section 501(c)(3) but does not have to meet a public support test; therefore it is classified as a private foundation under the Internal Revenue Code.

**Private Non-Operating Foundation:** A private foundation that grants money to other charitable organizations.

**Private Operating Foundation:** A private foundation that distributes funds to its own programs that serve charitable purposes.

**Public Charity:** A charitable organization that has broad public support, actively functions to support another public charity, or is devoted exclusively to testing for public safety. Many public charities rely on contributions from the general public. Donations to public charities are tax deductible.

**Spending Rate Guideline:** The rate set by the Foundation as a guideline for fundholders who are interested in preserving the long-term value of their fund. The rate works in conjunction with the Foundation's investment strategy and seeks to maintain the inflation-adjusted value of the fund over time.

**Unrestricted Fund:** A discretionary fund that is most responsive to communities' changing needs over time and enables the Foundation to make grantmaking decisions.

**Variance Power:** The ability of a community foundation to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to any specified organization if, in the sole judgment of the governing body, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served by the Foundation.







Do you have questions?  
We are here to help you.  
Please visit [www.vermontcf.org/staff](http://www.vermontcf.org/staff)  
for a complete staff list or  
call us at 802-388-3355.



3 Court Street  
Middlebury, VT 05753  
Phone: 802-388-3355  
Fax: 802-388-3398

[info@vermontcf.org](mailto:info@vermontcf.org)  
[www.vermontcf.org](http://www.vermontcf.org)



The Vermont Community Foundation is confirmed in compliance  
with national standards for U.S. community foundations.

