



OPTION A: SMOKETOWN COMMUNITY FUND

The Community Foundation of Louisville has approximately 1,800 individual component funds that support local nonprofit organizations. We help donors establish charitable funds to meet their individual charitable goals and to create maximum impact. The information below explains how a donor-advised Smoketown Community Fund held at the Community Foundation would work.

FUNDING THE SMOKETOWN COMMUNITY FUND

The Smoketown Community Fund ("Fund") would be funded by the sale of the Finzer Street Property. 100% of the net proceeds of the sale of the property would be deposited into the Fund. Reputable professionals knowledgeable about real estate transactions will be contracted to handle the sale of the land.

MAKING DISTRIBUTIONS FROM THE FUND

The Smoketown Community would elect a Smoketown Advisory Committee that would be responsible for making grant distributions from the fund as well as making other decisions about how the fund is set-up. Distributions, also called grants, from the Fund must be at least \$100 and can be made only to nonprofit, public charities and other qualified tax-exempt organizations (such as schools and churches). Grants from the Fund cannot be distributed to individuals or for-profit businesses.

INVESTMENT OPTIONS FOR THE FUND

The Smoketown Advisory Committee would select one of four options identified below for investment of the Fund balance. When choosing an Investment Option, it is important to consider the length of time the Fund will be invested and the comfort level for risk.

1. **Signature Fund:** This is the most balanced and diversified investment choice, invested in a mix of stocks and fixed assets designed to minimize the effects of market highs and lows. The target mix of investments is 65% stocks; 20% fixed assets; 13% non-traditional strategies; and up to 2% cash.
2. **Equity Fund:** 100% of this option is invested in a diversified mix of stocks, and occasionally alternative investments when appropriate. This 100% allocation to equities can result in greater short-term volatility than the Signature Fund, resulting in higher earnings but also higher losses.
3. **Fixed Income Fund:** 100% of this fund is invested in a mix of various fixed income securities like bonds and mutual funds. This is the most stable fund option and provides modest returns.
4. **Socially Responsible Fund:** This portfolio is based on the practice of investing money in companies and funds that have positive social impacts. Investments are based on an analysis of financial, environmental, social, and governance factors. Up to 70% of the fund may be invested in equities, 28% is in bonds, and up to 2% is cash.



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THE FUND'S SPENDING POLICY

The Fund's spending policy dictates how much is available to distribute in grants. The Community Foundation offers three spending policies for donor-advised funds, and the Smoketown Advisory Committee can select the spending policy that they believe will serve the neighborhood best. The Community Foundation is available to work with the Advisory Committee to discuss in more detail the pros and cons of all these options and answer any additional questions.

The three spending policy options are as follows:

1. **Permanently Endowed Fund:** This spending policy allocates 5% of the total fund balance (based on a 3-year rolling average) for grants and the Community Foundation fee (discussed more below). Because our fee is approximately 1% per year, this spending policy allows approximately 4% to be available each year for grant distributions to nonprofits. For example, if the total fund balance were \$1 million, there would be approximately \$40,000 available each year for the Advisory Committee to distribute. This is the most restrictive spending policy, but it provides a predictable amount of permanent resources that would be available to the Advisory Committee year after year, and it ensures that the Fund would last for multiple generations. This spending policy also provides the most potential for long-term impact because over time, the original gift is preserved and can even grow, while grants are still being distributed each year.
2. **Flexible Fund:** This spending policy allows the Advisory Committee to identify a minimum amount that must always remain in the Fund (any amount over \$25,000), and then distribute any portion of the fund balance above that minimum amount. For example, if the Advisory Committee selected a floor of \$100,000, and the total fund balance was \$1 million, they would have \$900,000 available to distribute. This option provides flexibility to make larger grant distributions, but if the minimum amount is not very high, the Fund balance can decrease quickly, and its ability to earn meaningful investment returns can be impacted.
3. **Super-Flex Fund:** This spending policy is the most flexible option and allows the Advisory Committee to distribute any amount of the fund balance anytime. This option allows the entire fund balance to be available immediately for grant distributions, but it also means the Fund could be completely spent in a very short time.



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HOW TO SUPPORT THE FUND IN THE FUTURE

Anyone, at any time, can make a donation into the Smoketown Community Fund and it will be added to the total balance. Individuals can also make gifts to the fund through their wills, or by making the Community Foundation of Louisville a beneficiary of their retirement accounts or life insurance policy. Donors can contact the Community Foundation for further details about these types of estate gifts.

FEES AND FUND STATEMENTS

The Community Foundation charges a standard administrative fee for all donor-advised funds, regardless of the selected spending policy or investment option. Our current fee structure for all donor-advised funds is set forth below:

Fee	Account Balance
1.00%	on the first \$1,500,000 of fund balance, plus
0.50%	on the next \$1,500,000 of fund balance, plus
0.20%	on the fund balance exceeding \$3,000,000

There is also an additional investment fee of 0.06% (6 basis points) per year to cover the cost of our independent investment consultant.

The Smoketown Advisory Committee will have access to our online donor portal where they can monitor all activity related to the Fund, including investment activity, gifts into the Fund and grants out of the Fund. We also issue fund statements each quarter that the Advisory Committee can access and view online or via regular mail.

WORDS TO KNOW

Definitions taken from www.investopedia.com or www.thefreedictionary.com

Bond - When companies or other entities need to raise money to finance new projects, maintain ongoing operations, or refinance existing debts, they may issue bonds directly to investors. The borrower (issuer) issues a bond that includes the terms of the loan, interest payments that will be made, and the time at which the loaned funds (bond principal) must be paid back (maturity date). The interest payment (the coupon) is part of the return that bondholders earn for loaning their funds to the issuer. The interest rate that determines the payment is called the coupon rate.

Distribution - generally refers to the disbursement, or paying out, money from a fund

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Endowment Funds - are investment portfolios where the initial money is provided by donations to a foundation. An endowment fund will have an investment, withdrawal and usage policy governing how it is run.

Fixed Assets - are items, such as property or equipment, a company plans to use over the long-term to help generate income.

Fund - a pool of money that is set aside for a specific purpose. The money is often invested and professionally managed.

Grant – generally, a gift to a company or individual that does not need to be paid back. CFL can only make grants to nonprofit recipients.

Investment - an asset or item acquired with the goal of generating income or appreciation. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit.

Modest – moderate or limited in size, quantity, or range; not extreme.

Principal - the original amount of investment made in an asset, separate from any earnings or interest accrued. Assume you deposit \$5,000 into an interest-bearing savings account, for example. At the end of 10 years, your account balance has grown to \$6,500. The \$5,000 you initially deposited is your principal, while the remaining \$1,500 is attributed to earnings.

Return - also known as a financial return, in its simplest terms, is the money made or lost on an investment over some period of time.

Stable – not subject to sudden or extreme change or fluctuation

Stock - (also known as "shares" or "equity") is a type of security that signifies proportionate ownership in the issuing corporation. This entitles the stockholder to that proportion of the corporation's assets and earnings.