

Donor Advised Funds Q & A

The purpose of CFHZ's Donor Advised Funds (DAF) is to create an opportunity for people to organize their charitable giving and give back to the community in an informed and active way.

Who can be advisors on the fund I establish?

When the fund is established, the donors may choose anyone to be an advisor on the fund. While often the advisors are the donors themselves, some parents establish donor advised funds for each of their kids as a way to engage them in charitable giving. Corporations can establish DAFs and name individuals who are associated with the corporation as advisors to the fund.

What is the minimum size of a Donor Advised Fund?

CFHZ requires a minimum gift of \$10,000 to establish a DAF. This fund minimum may be built with a multi-year pledge. Going forward, the fund must maintain a permanent minimum balance of \$10,000. All assets above the \$10,000 minimum balance are eligible to be recommended for distribution. Ordinarily, however, CFHZ recommends giving no more than 4% of the average daily balance of the fund from the most recent 12 quarters (3 years) if the donor wants the fund to be permanent and act as an endowment.

What kind of organizations may I recommend grants to?

You may recommend grants to nonprofit organizations that are tax exempt under Section 501(c)(3) of the Internal Revenue Code (most well-known nonprofit organizations have this status) such as schools, municipalities, religious organizations, and other tax exempt organizations that serve a charitable purpose. If you are not sure of the status of an organization, give us a call and we can quickly determine if an organization is recognized under Section 501(c)(3).

How do I suggest a grant from a Donor Advised Fund?

We provide a grant suggestion form, and you provide the grant details. Grants may be suggested at any time. Individual grant recommendations of \$100 or more are strongly preferred. Once you make your recommendation, CFHZ Board and staff conduct due-diligence on the nonprofit organization and approve your request.

How can I use my fund?

- *May I recommend grants to organizations outside of the Holland and Zeeland area?* Yes. We will verify that the organization has qualified as a charitable organization under Section 501(c)(3) of the Tax Code, including obtaining a copy of the organization's letter from the IRS recognizing their tax exempt status. CFHZ can make limited international grants if the nonprofit organization operates under the umbrella of a recognized U.S. charitable organization.
- *May I recommend a multi-year grant from my Fund?* Yes, at the time of your recommendation please indicate that the distribution is to be made in increments. We will administer the distribution and payment schedule. We require that you maintain a minimum balance in your fund equal to any remaining balance of your multi-year recommendation.
- *Can CFHZ automate my recurring charitable gifts?* Absolutely. Do you routinely make monthly gifts to your church or do you make quarterly or annual gifts to your favorite nonprofit organizations? CFHZ can set up your donor advised fund to automate such charitable gifts according to the schedule and amounts you specify. You may instruct us at any time to change or discontinue an existing scheduled gift; you may also choose to add new ones.
- *May I serve on the board of an organization and recommend a grant to it from the Donor Advised Fund?* Yes, as long as you receive no personal benefit from the grant.
- *May the Fund make an anonymous contribution to a grant organization?* Absolutely. One of the benefits of a DAF as compared to a Private Foundation is the ability to make anonymous grants. Just let us know that you desire anonymity, and we will ensure that your wishes are followed.

Are there any restrictions?

Donors are subject to only a few restrictions when recommending grants. One of the most important restrictions is that the DAF cannot make a gift that fulfills a personal commitment or charitable pledge by the donor. Therefore, if you anticipate supporting an organization through a DAF, whether it is a one time gift or a multi-year commitment, it is important that the donor does not sign a pledge card or make any other binding commitment to the organization.

Grants from DAFs also may not be used to pay memberships or dues; nor can they be used for grants, loans, compensation or similar payments (including expense reimbursement) to donors, advisors, or donor related parties of an advised fund.

A grant may not be given to an individual. The IRS requires distributions be made to qualifying public charities and governmental organizations. CFHZ staff verifies all organizations for documentation of eligible status.

Another important restriction is that grants may only be made in a circumstance where the gift is 100% charitable. In other words, no personal benefit may be derived from the gift for the donor, advisors or any related parties. For example, grants cannot be used to purchase tickets for, or to sponsor, an event where the value of a meal, entertainment or a premium is included in the cost of the ticket or sponsorship.

How is the grantee notified?

When the Foundation makes a grant from a DAF, we send the check with a letter to the recipient charitable organization indicating which Fund made the grant.

What fees are charged to my Donor Advised Fund?

Each Fund held by CFHZ is charged an administrative fee to help cover the operational costs of CFHZ. The administrative fee is set by CFHZ's current fee schedule. As of 2015, the fee for a DAF is 1% annually. Administrative fees are assessed quarterly, based on the market value of the fund.

Will I receive an accounting of my Fund's activities?

Yes, you will receive a quarterly fund statement. You may also call the CFHZ office at any time for a current balance. In addition to accounting activity, CFHZ maintains records of the organizations your fund has supported in the past and corresponding amounts.

How is pairing a Donor Advised Fund with gifts of appreciated stock a smart giving option?

Though some people know about the financial advantage of giving appreciated assets, they don't always choose to make such a gift. Often, they find it cumbersome to divvy stock shares to a variety of charitable organizations, so they default to writing checks. This is where a Donor Advised Fund at CFHZ can help.

We manage donor advised funds which makes giving appreciated assets really easy for donors. Donors make one gift of appreciated assets into their Donor Advised Fund, and then recommend distributions from their fund to their favorite charities. Since CFHZ is a certified 501(c)(3) nonprofit organization, donors receive the full charitable deduction and avoid capital gains taxes at the time of the gifts. The donors' recommended charities then receive a check, which is easiest for them to process. And since the donors were able to "give smarter," they are able to increase their charitable giving.

If your client is one of the 95% of people who will make a charitable gift this year and they own appreciated assets, they should strongly consider giving smarter. Giving smarter really does allow donors to give more.

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How is my Donor Advised Fund invested?

The Board of Trustees has the ultimate responsibility for CFHZ's investment portfolio. The Board has delegated that responsibility to CFHZ's Investment Committee for implementing and monitoring CFHZ's investment policy. The Investment Committee meets bimonthly and is comprised of local business and financial leaders in our community. The Investment Committee selects custodians and financial advisors to manage CFHZ's investment portfolio. A complete investment profile is available upon request.

If a Donor Advised Fund is established with one million dollars or more, we allow the advisor to recommend a custom investment strategy with a specific investment advisor. If you have a client who is considering this option, please contact CFHZ. CFHZ is audited annually, and its report as well as the Form 990 or 990-T is available upon request or on our website as a PDF file.

What happens to my Donor Advised Fund upon my/our death(s)?

Typically, we make provision for this at the time you initiate your Donor Advised Fund and include it in the Donor Advised Fund agreement.

Some donor advisors name a child(ren) as a successor advisor(s), thus enabling the next generation to recommend grants from the fund. CFHZ's policy allows for one generation of successor advisors. But we also offer four other options. When the last of the advisors is no longer living, the remaining balance in a Donor Advised Fund (less the \$10,000 minimum balance) may be used for one or more of these purposes:

1. Creates an unrestricted fund in your name, with the balance pooled with others' gifts in CFHZ's Community's Endowment and used at CFHZ's discretion for significant, vetted grants to nonprofits that benefit the Holland/Zeeland community.
2. Creates a field of interest fund at CFHZ named for you, with interest from the fund directed to those local nonprofits that focus on the area(s)/need(s) you name.
3. Goes to create an endowment fund at CFHZ for a specific nonprofit to which you feel a strong affinity. Or, if the nonprofit(s) already has an endowment fund with CFHZ, the balance is credited to that pre-existing fund.
4. Is bestowed on a percentage basis to the nonprofit(s) you have pre-designated via a designation form CFHZ provides you. We can release funds to those nonprofit(s) in a lump sum or over a pre-specified number of years.

The CFHZ board may consider an exception to the "one successor generation only" limitation provided:

1. The fund is endowed with \$250,000 or greater;
2. Each successor generation will have only one named advisor;
3. All grants from the fund will support charitable projects within CFHZ's service area; and
4. Any other requirements as determined by the CFHZ board.

Donor Advised Funds Q & A

What is the difference between a DAF at the Community Foundation and a DAF at a Commercial Gift Fund (Fidelity Charitable, Schwab Charitable, etc.)?

There are several important differences between a Donor Advised Fund (DAF) at CFHZ and a Commercial Gift Fund. These differences include the level of grantmaking support, investment options, fees, and the ability of the donor to leave a local legacy.

Grantmaking support, local expertise

The Community Foundation has professional staff available to help you identify and assess local grantees and provide input on current local community needs. A DAF at CFHZ also allows you to co-invest in philanthropic projects with other DAFs and CFHZ's competitive grantmaking program. Commercial Gift Funds are not familiar with our community and are unable to assist with due diligence involving local grantees. In addition, the Commercial Gift Funds are not aware of local organizations that might be engaging in initiatives or projects that would be of interest or appropriate to your Donor Advised Fund. As a result, you and your Donor Advised Fund may miss out on important opportunities to fund local initiatives or projects.

Investment options

DAF assets less than \$1 million at CFHZ are pooled with our 475 funds and invested together using a wide variety of investment strategies approved by our Investment Committee. Commercial Gift Funds often allow donors to pick from only a few different investment strategies.

Fees

CFHZ charges a 1% administrative fee for assets in DAFs commensurate with the level of service and community intelligence CFHZ provides, while the Commercial Gift Fund fees tend to be a little lower (around 0.75%).

Local Legacy

One of the main reasons individuals start a DAF at CFHZ instead of with a Commercial Gift Fund is to leave a legacy gift to the Holland/Zeeland area. The assets remaining in a CFHZ DAF when the final advisor passes away are converted into a permanent fund here at CFHZ. This enables the donor's generosity to continue to benefit the local community after the final advisor's death. After the final advisor's death, a DAF at a Commercial Gift Fund is under the control of an organization and staff far removed from our local community, making it very unlikely that the funds will become a legacy gift for our community.

What is the difference between a Donor Advised Fund and a Private Foundation?

Donor Advised Funds provide an excellent alternative to creating a private foundation. Because of the costs and complexities of forming and administering Private Foundations, they are typically recommended only when philanthropic assets will be \$5 million, and work best when the funds are much larger. Even when a Private Foundation will be funded with gifts in excess of \$5 million, a Donor Advised Fund can provide significant advantages over a Private Foundation.

The chart to the right describes the main differences between a DAF and a Private Foundation.

	Donor-Advised Funds	Private Foundations
Start-Up Time:	Immediate	Can take several weeks or months
Start-Up Costs:	None	Legal (and other) fees are typically several thousand dollars
On-going Administrative and Management Fees:	100 basis points (1%) plus investment management fees	Can be in the range of 250-400 basis points (2.5% to 4% per year)
Excise Taxes:	None	1% to 2% of net investment income annually
Tax deduction limits for gifts of cash:	50% of adjusted gross income	30% of adjusted gross income
Tax deduction limits for gifts of stock or real property:	30% of adjusted gross income	20% of adjusted gross income
Valuation of gifts:	Fair market value	Fair market value for publicly traded stock, cost basis for all other gifts, including gifts of closely-held stocks or real property
Required Grant Distribution:	None	Must expend 5% of net asset value annually, regardless of how much the assets earn
Grantmaking Support:	Professional staff is available to help identify and assess grantees, provide input on community needs, and verify nonprofit status of groups	Donors must arrange and support their own grantmaking and monitoring structure
Donor Involvement:	Donor recommends grants to verified nonprofit groups. CFHZ's Board of Trustees approves grants and controls investment of assets	Donor appoints boards which controls investments and grantmaking
Privacy:	Names of individual donors can be kept confidential if desired, and grants can be made anonymously	Must file detailed and public tax returns on grants, investment fees, trustee names, staff salaries, etc.
Administrative Responsibilities:	Recommend grants to favorite charitable causes	Manage assets, keep records, select charities, administer grants, file state and federal tax returns, maintain board minutes, etc.
Preservation of Purpose:	CFHZ protects the establishing donor's purpose and prevents future generations from changing the fund's goals or objectives	Next generation board members have full legal control to change goals and objectives of the private foundation