

## **Donor Advised Fund ... Frequently-Asked Questions**

Because of the flexibility and long-term charitable benefits that donor advised funds offer, their popularity has risen dramatically in recent years. Community foundations have been offering donor advised funds for many years, helping connect donors with the causes they care about most. To help you develop clear understanding of the benefits and restrictions of donor advised funds, we have compiled a list of the most frequently asked questions.

### **GETTING STARTED - What amount do I need to start a fund?**

Donor advised funds can be established with an initial contribution of \$5,000 or more. If a donor wants to set up a fund but doesn't have a \$5,000 lump sum gift, FDCF will accept smaller gifts into a "Builder's Fund," as long as there is a commitment to contribute at least \$1,000 a year annually to the fund until it reaches \$5,000. As soon as the donor's Builder's Fund balance reaches \$5,000, a donor advised fund will be established.

### **GIFTS - Can I give stock?**

Absolutely! Many donors find that appreciated stock is the most beneficial contribution possible, because they receive a tax deduction based on the full market value of the shares, but they realize no capital gains when the stock is sold by the FDCF.

### **Can I make additional contributions to the fund? Is there a minimum amount?**

You are encouraged to make additional contributions to the fund! You will be entitled to take a tax deduction each time you make an additional gift of any size. Other people (or corporations) can also make gifts to the fund you established (in honor of special occasions, perhaps). Again, there is no minimum contribution amount.

### **Investments - How is a donor advised fund invested?**

At the time you establish your fund, you may invest it in the FDCF's investment pool of funds or in a Money Market Pool. Donors have the option to change from one pool to the other if they so decide based on approval by the Board of Directors.

### **Can I choose my own investment manager?**

FDCF encourages donors to utilize the foundation's investment pool that is professionally managed. If you request, FDCF will investigate the possibility of using a manager that you are comfortable with as a professional investment manager.

### **Will my individual financial advisor continue to handle my fund?**

FDCF's relationships with financial institutions are established at an institutional level. We will be happy to work in conjunction with your financial advisor; however individual advisors do not have discretion over the investment management of assets.

### **What are the fees? Do I have to pay those out of my pocket?**

The Foundation's administrative fees are determined by the market value of the fund. The fee is calculated and assessed on a semi-annual basis and is similar to fees charged by community foundations throughout Iowa and the nation. A fee schedule will be provided to you. All fees are collected from the investments, so you need not pay any amount out of pocket.

### **Advisors, Children & Succession - My spouse and I both want to be advisors. Is more than one advisor allowed?**

Yes.

### **Can my children be involved?**

Your children can be named as current or successor advisors – meaning that they will have the right to make grant suggestions from the fund. If you wish to engage several generations of your family to work together to support common interests or organizations over time, FDCF's policies permit you to name your grandchildren as "third generation advisors." In this case, your grandchildren can be named individually or as a class, and they will act as advisors to the fund after your children's lifetimes. For funds of \$500,000 or more, it may be possible to provide for unlimited generations of family advice.

### **Can I close a fund?**

Contributions to a donor advised fund are irrevocable. All money in the fund must be held for or disbursed to qualified 501(c)(3) charities. However, because you reserve the right to make grant suggestions, you could terminate a fund by requesting that the entire balance be granted to qualified charitable organizations.

### **What happens to my fund after I die?**

If you have named one or more successor advisors, they will have the right to make grant suggestions until their death(s). If you have not named a successor advisor or after the lifetime(s) of your successor advisor(s), the fund will generally convert to an unrestricted fund at FDCF, and the distributable income will be used to benefit worthy nonprofit organizations in Webster County. Alternatively, you may specify the fund to convert to an endowment that benefits certain charities or areas of interest you choose. In this case, before you establish the fund you must advise FDCF of the charities you have selected, so that the Declaration of Gift reflects your intention.

## **Grants**

### **What are the restrictions on grant-making?**

By law, community foundations can only make grants for public charitable purposes. FDCF will generally make grants only to qualified tax-exempt 501(c)(3) charities that are public charities (not private foundations). Community foundations cannot fulfill a donor's individual pledge or legally binding commitment through a grant from a donor advised fund. If FDCF is made aware that a grant suggestion relates to a pledge or commitment, the Board will have no choice but to deny the request. Similarly, FDCF cannot make a grant if the donor receives any benefit from the grant (e.g., raffle tickets, tickets to a benefit dinner or event, memberships, payment of a relative's tuition to an educational institution, etc.). The Pension Protection Act of 2006 imposes penalties on donor advisors and foundation staff who do not follow these rules.

### **To what organizations can I make grants?**

The fund can make grants to any U.S. 501(c)(3) that is a public charity. Private foundations do not fall under this definition. You may, however, make grant suggestions to schools and places of worship.

### **Can I make grants to organizations outside the region?**

Yes. While FDCF's mission is to improve the quality of life in the Fort Dodge/Webster County region, we understand that many people have charitable interests outside the region. Therefore, any qualified public charity in the U.S. may receive grants from a FDCF donor advised fund.

### **Can I support foreign charities through a donor advised fund?**

Yes! International grant-making is much more complicated than domestic, but FDCF can help you. By working through FDCF, a grant can be made to support a cause overseas – and it will be in compliance with U. S. tax law and the Patriot Act's anti-terrorism provisions.

### **How quickly will a check be issued once I submit my grant suggestion?**

Because the FDCF board has to act on your recommendation, generally, your grant check will be mailed to the charitable organization within three business days following the most recent FDCF board of directors meeting.

### **What is the minimum grant amount I can suggest?**

To minimize administrative costs, grants must be at least \$100.

### **Is there a limit to the number of grants I suggest each year?**

No.

### **Do I have to make grants every year?**

You are under no obligation to make grant suggestions from the fund, but we encourage you to be an active philanthropist and use your fund to support all your charitable interests.

### **I want to control the grant-making from my fund? Is that possible?**

You may be involved in the grant-making from the fund, but may not control it. In accordance with tax law, when you establish a donor advised fund you must relinquish control of the assets you contribute to the fund in order to take a charitable deduction. However, you do retain the right to make grant recommendations for the review of the FDCF Governing Board.

### **Why does the Board have the final authority to approve or deny the grants?**

IRS regulations require that a donor relinquish control over the gift at the time it is made. (Donors only qualify for a tax deduction if they give the money to a public charity and relinquish the right to control it.) Consequently, the Governing Board at FDCF is legally empowered to approve or deny a donor's grant suggestion.

### **Are grants ever denied?**

If a donor suggests a grant to an organization that does not qualify for tax-exempt status, or if it is clear that the donor would receive some benefit from the grant, the Board would deny the request. However, if all suggested grant recipients are qualified U.S. public charities, and there is no suggestion of private benefit to the donor, the Board will endeavor to honor the donor's wishes.

### **I want to fulfill a pledge/commitment to a specific charity through my fund. Can I do that?**

No. By law, FDCF may not issue grant checks to fulfill a pledge or commitment. If a donor were permitted to use an advised fund to fulfill a legal obligation or pledge, it would be clear that the donor never truly ceded control of his or her gift to FDCF. For this reason, FDCF cannot satisfy a donor's pledge or obligation, even if the commitment is to a qualified public charity. If FDCF is made aware that your grant suggestion relates to a pledge or commitment, by law, the Board must deny your request.

### **What do I do when an organization asks for a pledge?**

You should inform the organization that by law, you can only make a grant on an individual basis and cannot agree to future contributions. You can recommend a gift be made on a repeated basis, but a pledge or an agreement to make future payment is not allowable by law.

### **Can a donor advised fund make a grant for a fundraising gala?**

There are specific IRS rules regarding the deductibility of charitable contributions for which donors receive a benefit. (For example, when a person buys tickets to a fundraiser and receives a dinner as part of the cost of the ticket, then the deductible amount is equal to the cost of the ticket less the value of the dinner.) Since a gift to FDCF results in a full charitable deduction, the donor may not receive goods and services in exchange for that gift. You may make a grant in response to a fundraising event in lieu of attending. Further, the Pension Protection Act of 2006 expressly prohibits donors from receiving "more than incidental benefits."

**What do I do if an organization asks me to buy tickets?**

Remember this rule of thumb regarding grants for memberships or special events: If you could not write a check from your personal checking account and receive a full deduction for the gift, then FDCF will not be able to make a grant. Note the following possible language: "I am suggesting a grant to {name of organization} from my donor advised fund at the Fort Dodge Community Foundation. Please note that if the grant is approved, it does not qualify for goods or services. I do not wish to receive any goods or services."

**Can a donor advised fund make a grant to an individual?**

No. Donor advised funds may not make grants to individuals either directly or indirectly or to a charitable entity for the benefit of a specified individual. Further, donors, advisors or related parties are prohibited from receiving grants, loans, compensation or similar payments (including expense reimbursements) from donor advised funds.

**Can I hold a fundraising event and get reimbursed for my expenses in organizing the event?**

No. Under the Pension Protection Act, donors, advisors or related parties are prohibited from receiving grants, loans, compensation or similar payments (including expense reimbursements) from donor advised funds.