Donor Advised Funds

What is a Donor Advised Fund?

A Donor Advised Fund is a charitable gift by a donor to the Community Foundation which is set aside in a separate fund and its disposition for charitable purposes is subject to the advice of the donor or individuals specified by the donor. A Donor Advised Fund combines the convenience of a one-time charitable gift with the flexibility of grant making over time and to multiple charities. A Donor Advised Fund can also live beyond the donor's lifetime by incorporating children and grandchildren into future decision making.

What are advantages of using a Donor Advised Fund?

- Because the Foundation is a 501(c)(3) organization, you may take the maximum tax deduction that is allowed by law for a charitable contribution. You can deduct up to 50% of your adjusted gross income for cash gifts and 30% for gifts of appreciated assets to a Community Foundation.

- Contributions of appreciated property can be deducted at its fair market value. Capital gain taxes are avoided on the donated appreciated property and it eliminates the recapture of previously claimed depreciation.

- It offers maximum tax benefits at one time, and at a time selected by you, for maximum tax benefits, but provides philanthropic funds for years to come. In addition, the proceeds of the single gift can be easily and conveniently spread among different charities.

- The cost of liquidating the donated property does not decrease the amount of the charitable deduction.

- The income earned by the fund or the appreciation in value of the assets are not taxable income but accrued tax free as part of the Donor Advised Fund.

- You can recommend gifts and be personally involved with their giving without the responsibility for filing tax returns or reports, supervising the investment of the funds or keeping records.

- The Community Foundation staff is available to help you learn more about the community needs, the groups addressing community issues and gifting opportunities.

- Through the Community Foundation there is an opportunity to connect with other donors and be part of an inspired and caring community.

- An endowed or long-term fund allows you to perpetuate your name, family or business name and provide philanthropy within the community after your lifetime.

- The advisor role allows you to engage family members in philanthropy, teach them the value and joy of gifting, share with them your philanthropic passions and create opportunities for their participation in causes you and they care about now and after you are deceased.

- The purpose and objectives of a Donor Advised Fund can be customized to your intent and include organizations in Grundy County, elsewhere in the United States or around the world.

- Additional property can be given to a Donor Advised Fund from time to time during your lifetime and at your death it can collect testamentary or other death time dispositions of property.

- Grants can be used to create new or additional donor advised funds and Donor Advised Funds can be used to collect mandatory distributions from private foundations.

- There is no cost to establish a Donor Advised Fund at the Community Foundation of Grundy County.

What are disadvantages of a Donor Advised Fund?

- After the gift is made to the Foundation, the Foundation is the unconditional owner of the property. The donor has no legally enforceable rights regarding the retention of the property, its liquidation, its reinvestment or its disposition.

- If the gift appreciates in value after the gift is made, the donor is not entitled to a charitable deduction for the appreciation, or for any income generated by the gifted property or its reinvestment.

- If the donor's circumstances or intent change there is a lack of flexibility to change the Donor Advised Fund Agreement. The Foundation has in place a variance policy which allows the Foundation to create variances or amendments to a Donor

Advised Fund Agreement at its sole discretion, and this could include action based on recommendations by the donor advisor.

How does a Donor Advised Fund compare with a Private Foundation?

Community Foundation funds offer significant tax benefits over private foundations. For federal tax purposes, gifts to private foundations of appreciated property (other than publicly traded securities) are deductible only at the donor's cost basis. Gifts of appreciated property made to the Community Foundation are deductible to the donor at their current fair market value. This difference can result in substantial tax savings to the donor.

In addition, a gift to the Community Foundation will enjoy a higher limit of deductibility as a percentage of the donor's adjusted gross income. Gifts of cash to the Community Foundation may be deducted up to 50 percent of the donor's adjusted gross income (AGI). Generally, gifts of cash to private foundations are limited to a deduction of 30 percent of AGI.

Gifts of appreciated property to the Community Foundation are deductible up to 30 percent of AGI, while gifts to a private foundation are only deductible up to 20 percent of AGI.

Beyond the deductibility of gifts, the Internal Revenue Code assesses an excise tax on the net investment earnings of private foundations. This tax amounts to either one or two percent of net investment earnings, depending on the foundation's distribution pattern. Community Foundation funds are not subject to the excise tax.

Private foundations are required to distribute five percent of their net investment assets each year, while community foundations are not. This means that a donor advisor and the Community Foundation can agree to "grow" a fund by reinvesting earnings in anticipation of making larger gifts.

The Internal Revenue Code also provides strict limits on the amount of stock that can be transferred to a private foundation by board members or donors. The Community Foundation is not subject to these limits. This allows donors who are major shareholders of their companies to make more tax advantageous gifts.

Beginning and operating a private foundation is an expensive and time-consuming proposition. Initial legal and accounting fees to incorporate and to seek IRS approval can easily reach $3,000. The annual accounting costs and tax filing fees are likely to be at least $1,000 to $2,000. Beyond these fees, charges paid to an investment manager can exceed one percent of the fair market value of the fund annually.

The Community Foundation charges donor advised funds a fixed administrative fee equal to 2% annually of the fund's fair market value calculated quarterly.

What are the steps to start a Donor Advised Fund?

- A minimum gift of $10,000.00 for non-endowed; no minimum to start an endowed fund.

- Execute a Donor Advised Fund Agreement. The Foundation has a sample fund agreement that you can customize to meet your own needs. Completing this agreement can often help donors clarify their charitable objectives. You should have your attorney or other advisors review it, as well as consult with them about the tax consequences of making any sizable charitable contribution. A sample donor fund agreement and a list of starter questions are available at http://cfgrundycounty.com. A Donor Advised Fund can also be established through a donor's will or living trust.

- Donor decisions

    - Endowment versus expendable fund: It is up to the donor to choose how permanent your Donor Advised Fund is. Many people elect to create endowments which are permanent funds established to insure donor's philanthropic intentions extend in perpetuity. Assets are invested in a way that is intended to allow them to grow. Income is determined on a total return basis which is currently set at 5% of the fair market value of the fund. Based on historic stock and bond market performance, this should allow the endowment fund to perpetually distribute grants in inflation-adjusted amounts. Other donors prefer that all their charitable contributions are spent during their lifetimes. A fund created using this approach is an expendable fund. Grants from this kind of fund can be made in any size at any time. Funds can be endowed for a specific number of years or until the occurrence of a specific event and then become expendable.

    - Selection of assets you will donate.

    - Select the purpose of your fund.

    - Ascertain the name of the fund or make a decision to remain anonymous.

    - Determine who will serve as advisors.

How does a Donor Advised Fund operate?

A Donor Advised Fund makes grants. An expendable fund can make grants at any time of any amount. Grants from an endowed fund are limited to the fund's income. Income, however, is determined on a "total return" basis pursuant to policy established by the Foundation. The current policy of the Foundation is as follows:

- Preserve and build the assets of an endowment fund and protect the purchasing power of the original gift.

- Maintain reasonable inflation adjusted spending into the future.

- The current investment strategy is to have 50% equity and 50% fixed obligations which are intended to allow annual distributions of 5% of the market value of the fund on June 30th of each year. The 5% distribution amount is calculated on a twelve-quarter rolling average of the fund's market value. The annual distribution percentage is subject to change from time to time based on investment performance and Board policies.

At any time after July 1st of the fiscal year, donors may make recommendations in writing for grants from endowed funds that the donor wants the Foundation to consider. Grant recommendations by donors will, in each case, be evaluated independently by the Foundation staff and the Grants and Program Committee of the Board to determine if the grant recipient is a qualified charity and if the gift is consistent with the purpose of the Foundation and the Donor Advised Fund Agreement. The Grants and Program Committee meets every month. The Foundation will give the donors recommendation careful and thoughtful consideration. Donors should understand their recommendations are advisory only and not binding on the Committee or Foundation. It is the general practice of the Foundation to follow the recommendations of the donor unless legally or morally impossible to fulfill, or would put the Foundation's 501c3 status at risk.

What is the gift acceptance policy for gifts other than cash?

Gifts of appreciated securities are easily transferred from the donor to the Foundation account at Grundy Investments. Contact the Foundation staff for transfer instructions. The Foundation's general policy is to sell donated securities immediately and transfer the cash into the donor's fund. Under appropriate circumstances, and subject to the fiduciary obligation and responsibilities of the Foundation, securities can be retained at the request of the donor.

Other types of gifted property might include real estate, closely held stock, jewelry or art. In general, the Foundation will only accept this type of gift if there is a commercially expedient way to liquidate the gift. If the donor has unique knowledge about the asset this

is taken into consideration. A gift, however, cannot be accepted subject to a legally enforceable condition. The Foundation is obligated to act in a prudent manner based on the information available to it. The Executive Committee of the Foundation is the first level of review and may consult with outside professional experts before presenting the gift proposal to the Board. In some situations a hold harmless agreement might be requested to protect the Foundation against unusual liquidation expenses or liability. The Donor Advised Fund can own life insurance policies provided there is adequate funding available for future premiums. Distributions up to $100,000.00 in a year can be made to a Donor Advised fund from retirement accounts under current law which satisfy minimum distribution requirements but not subject to limitation on annual charitable gifts. The current IRA Charitable Rollover rules are subject to change.

What services are offered by the Community Foundation of Grundy County to the creator of a Donor Advised Fund?

In addition to professional fund management, record keeping and filing required reports, the "back room" activities, the Community Foundation and its staff are available as consultants regarding charitable needs within the community and staff members participate in a number of community issue networks. Because the Foundation provides a wide range of services to not-for-profits within the community, it is aware and knowledgeable about charitable opportunities. In addition, the Foundation can serve as a conduit between donors and not-for-profits and help develop a deeper and more intense and meaningful relationship between the donor and the object of its charity. The Foundation also has access to information about not-for-profits throughout the United States and the world and can provide valuable insights about these organizations. The Foundation also can provide the names of professional consultants who work in the charitable gifting field.

How are the donated funds managed?

The Community Foundation of Grundy County has contracted with two investment firms to invest all funds in accordance with the Foundation's Investment Policy Statement: Savant Capital Management in Rockford and Balasa, Dinverno & Foltz in Itasca (see attached firm resumes).

In the spring/summer of 2009, the Community Foundation published a Request for Proposal (RFP) for an investment manager(s). Five firms responded, three were interviewed, and two firms were selected. Before the RFP, the Community Foundation used the investment services of the Greater Kansas City Community Foundation and the Community Foundation of Northern Illinois in Rockford.

Each fund holder can select and recommend that their fund be invested in one of four asset mix allocations: Aggressive (80% equity/20% fixed), Moderate (50% equity/50% fixed),

Conservative (20% equity/80% fixed) and Low-Risk (0% equity/100% fixed). The Foundation board of directors reviews each fund holder's selection to assure that the investment selection meets the fund holder's charitable goals for the fund. Each fund advisor is given the option annually during July to recommend a change in the fund asset allocation.

The creation and maintenance of an Investment Policy Statement, review of investment manager performance, and selection of investment managers is the responsibility of the Foundation's Investment Committee. The Committee consists of both board and community members. Current (July 2011) members are: Jim Baum, Kristi Bennington, Ralph Wolter, Tom Tesdal, Charles Gibbs, Dick Sefton, and staff. The report of the Investment Committee is then presented to the full board and action is taken as needed.

The Investment Committee meets in person with representatives of both investment managers on a quarterly basis. The Foundation receives monthly e-reports from both firms and can access the Foundation's accounts through the firms' websites on a daily basis.

The Community Foundation, under certain circumstances and subject to certain conditions, will accept a donor advisor's recommendation of an outside investment manager to manage a Donor Advised Fund. An outside manager must comply with the Foundation's Investment Policy Statement and standards established by the Foundation.

What fee is charged a Donor Advised Fund by the Community Foundation?

All funds at the Community Foundation are assessed at a 2% annual fee calculated and assessed quarterly. Of this amount, the investment advisor receives a fee of 1% on the first pooled $1,000,000.00 of investments and .6% on the excess. The balance of the fee charged by the Community Foundation is used to support the Foundation's work in the community.

Who can be an advisor?

Typically, the donor and spouse are the initial advisors. Some donors establish a committee which may include family members. Other donors designate respected friends, legal, tax or financial advisors or members of the community for whom they have respect. Long-term appointees might be based on who occupies a particular position in the community, such as a pastor, elected official or head of a particular board. The Community Foundation does not have specific written standards and the choices are at the discretion of the donor.

Is there a time limit on how long a Donor Advised Fund may last?

Funds do not have a sunset clause unless the donor specifically provides for it. The Foundation recommends that a Donor Advised Fund Agreement not designate advisors beyond the grandchild generation as family trees grow broader which can make management difficult and confusing for both the heirs and the Foundation.

How many Donor Advised Funds does the Community Foundation of Grundy County have?

As of December 31, 2010, the Foundation has 21 Donor Advised Funds, 12 of which are endowed.

How many total dollars are managed by the Community Foundation of Grundy County and what percent are Donor Advised Funds?

As of December 31, 2010, the assets of the Community Foundation of Grundy County were $4,535,424. Of these assets, 30.63% or $1,389,200 are Donor Advised Funds.

What financial statements are available for donor review?

As part of National Standards for Community Foundations, the Community Foundation of Grundy County's annual IRS 990 is available for review by the public upon request, via our website, or via numerous non-profit watchdog groups such as Guidestar.org. Our annual report is on our website and is also distributed each May to 18,000 households via a pull-out section of the Morris Daily Herald, Coal City Courant, and Dwight Paper. Upon request, Foundation staff can produce condensed quarterly investment performance reports that do not divulge privileged donor data.

Does the public get to see the charities I support with my Donor Advised Fund?

The annual report contains a comprehensive list of donors, funds, and grant recipients, but it is not disclosed what each fund gave to which charity. The public reports give an overall picture of the Foundation and its work. Donor Advised Funds can have names that keep the donor's identity anonymous. There is no requirement that a fund name contain the family name.

Occasionally fund holders are asked to be the focus of an article to help share the joy of intentional giving, but participation is strictly voluntary.

Who serves on the Board of Directors? How are Board Members selected? Are there written standards or qualifications for serving on the Board?

The bylaws of the Community Foundation of Grundy County state that "It is the intent that the selection of directors shall ensure that this institution remains in the hands of Grundy County's most capable and involved civic leaders. All Directors should have demonstrated their commitment to the community through their donation of time and/or money to civic affairs." This is re-stated in our Nominating Policy.

The Foundation Board has thirteen members each serving two three-year terms. When a vacancy occurs, the staff and Board recommend candidate names. In addition, legal notices of vacancies are published in local newspapers seeking members of the community who are interested in serving.

What happens to the funds in a Donor Advised Fund if the Community Foundation of Grundy County ceases to exist?

The rules, regulations, and National Standards for Community Foundations are designed in such a way to encourage community foundations not to fade away or go bankrupt due to mismanagement. However, should the Community Foundation of Grundy County ever choose to dissolve, our assets would be transferred to another 501c3 with a similar mission.