

What is a Donor Advised Fund?

A donor advised fund defined by federal legislation possesses three characteristics:

- The fund is separately identified with reference to the contributions of a client(s). For example, the Smith Family Fund established by the Smith family children.
- The fund is owned and controlled by a sponsoring organization. For example, Lakeshore Community Foundation (hereinafter “Foundation”).
- The client or persons appointed by the client expect to have the privilege of providing advice with respect to the fund’s distributions.

Ownership and Control

Contributions to a donor advised fund are irrevocable. As such, a donor advised fund is owned and controlled by the Foundation and is subject to the terms and conditions of its governing instruments, as amended from time to time.

In accordance with its “power of variance,” the Foundation’s Board of Directors bears responsibility for redirecting distributions from a fund if a client’s stated intent becomes unnecessary, impractical, incapable of fulfillment, or inconsistent with the charitable needs of the local community.

Establishing a Fund

A donor advised fund can be established with a simple agreement between a client and the Foundation and an initial contribution of \$25,000.00 or more. A fund may be established with a minimum contribution of \$5,000.00 if there is a reasonable assurance that the fund will grow to \$25,000.00 in contributions over a subsequent five year period. Clients may be individuals, families, or businesses. The fund may carry a name chosen by the client such as the client’s individual, family or corporate name, subject to approval by the Foundation.



LAKESHORE COMMUNITY
Foundation

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Contributing to a Fund

Contributions to a fund can be made at any time and in any amount. The Foundation may, at its discretion, accept additional contributions to a donor advised fund from others. Contributions should be clearly designated by fund name: “The XYZ Fund of Lakeshore Community Foundation.”

Contributions may be made using cash, publicly traded securities, closely held securities and business interests, real property, and planned gifts such as retirement assets, life insurance, and bequests. Contributions of noncash property are accepted at the discretion of the Foundation and subject to the Foundation’s due diligence procedures and excess business holdings restrictions outlined in the Gift Acceptance Policy. Clients considering a contribution in any form other than cash should contact the Foundation to discuss its appropriateness and to obtain delivery instructions. The Foundation will provide clients with a written receipt that is intended to substantiate their charitable income tax deduction.

Initial and Successor Fund Advisors

Generally, when a donor advised fund is established, the fund may be advised by the client or persons representing the client. The original client, who is often the initial fund advisor, has the opportunity to name, in writing, other living persons, for example, family members, friends, or business associates to act as successor fund advisors to recommend grants from the fund or he or she may leave distribution responsibility to the Foundation. Both the initial and successor fund advisors, during their lifetimes, shall have the privilege of making recommendations with respect to the distribution of charitable grants from the fund. Such advice and recommendations will be solely advisory and not binding upon the Foundation.

A serving successor fund advisor may, in turn, designate a successor fund advisor to serve upon the death or incapacity of the serving successor fund advisor. At any time that the fund has multiple fund advisors, the fund advisors shall select one fund advisor (the “spokesperson”) who will submit grant recommendations to the Foundation. The selection of a spokesperson shall be in writing, signed by all of the then acting fund advisors. If the successor fund advisors are unable to agree on a spokesperson within thirty (30) days of a written request from the Foundation, the Foundation will choose the spokesperson and the Foundation’s choice will be binding on all fund advisors.

If at any time the original or a successor fund advisor fails to appoint a successor fund advisor or if for any other reason there shall be no advisor to the fund, then the fund shall convert to the type of fund designated by the client in the fund agreement or if no such designation, when all of the fund advisors are deceased or, if living, unwilling or unable to serve, the fund will convert to an appropriate fund at the discretion of the Foundation.

Granting Made Easy

1	Fund advisor submits Donor Advised Fund Grant Recommendation Form.
2	Staff completes due diligence on grantee organization.
3	Staff presents grant recommendation to Board of Directors for approval.
4	Staff mails check and grant letter to grantee and a confirmation to fund advisor.

Grant Process

Grant Purposes – The fund advisor, or spokesperson in the case of multiple advisors, may recommend distributions to charitable organizations qualified under Internal Revenue Code Section 501(c)(3) and classified as a public charity under Section 509(a)(1), 509(a)(2), or 509(a)(3). Grant recommendations may be made to religious institutions and governmental agencies, such as public libraries and most educational institutions, so long as the grant will be used exclusively for charitable or public purposes. For donor advised funds, as a general matter, the Foundation does not intend to approve grants that would require expenditure responsibility. Accordingly, ineligible grant recipients for donor advised funds include: private non-operating foundations, non-functionally integrated Type III supporting organizations, charities based outside of the United States, and any type of supporting organization if the client or fund advisor (or related parties) controls the supporting organization or an organization that the supporting organization supports.

Grant Restrictions – It is important to comply with Internal Revenue Service regulations regarding a donor advised fund. In exchange for an irrevocable contribution to a donor advised fund, the client is eligible to receive an immediate tax deduction. To preserve the integrity of the tax deduction, the Foundation cannot honor certain grant requests. Grants from a donor advised fund cannot result in the client, fund advisors, or any related parties receiving an exchange of goods or services or any personal or material benefit from a grantee organization that is not provided to the general public. The term “client,” as it relates to grant restrictions, shall mean the client, fund advisors, or any related parties.

- Prohibited benefits include, but are not limited to, tickets, memberships, dues, meals, preferred parking, preferred seating, discounted merchandise, or other preferential treatment from a grantee organization. A grant recommendation to pay for tickets, a membership, dues, or to make a donation that would result in such items being given to the client would result in a benefit to the client. There are specific Internal Revenue Service rules regarding the deductibility of contributions for which a client receives a benefit. For example, when an individual pays for a membership to an organization and receives parking privileges, the amount of the membership less the value of the parking privileges becomes the deductible amount. Or, if an individual buys tickets to a fundraiser and receives a dinner as part of the cost of the tickets, then the amount of the tickets less the value of the dinner becomes the deductible amount. Since a client receives a full tax deduction when a contribution is made to a fund at the Foundation, a donor advised fund may not be used to pay for tickets, a membership, dues, etc. in which the client receives goods or services in exchange.
- Grants awarded from a donor advised fund may not be used to satisfy legally binding personal pledges or other financial obligations of the client. A request to satisfy a legal pledge or financial obligation would fulfill a personal commitment made by the client. Since control is not given up if the Foundation fulfills a charitable obligation or pledge made by the client, the Foundation cannot be responsible for a client's obligation even though the obligation is to a charity.
- The Internal Revenue Service prohibits donor advised funds from making grants to individuals, including emergency hardship grants, disaster relief grants, or scholarships. This includes checks written directly to an individual or checks written to an entity for the benefit of a specified individual. For example, a grant to a university for the benefit of a designated student or a gift to a hospital to pay medical bills for a cancer patient is prohibited.
- The Pension Protection Act of 2006 prohibits distributions from a donor advised fund for the purpose of providing grants, loans, or compensation to clients, fund advisors, members of their families or businesses controlled by such persons. Because expense reimbursements are considered a “similar payment” under the Act, a donor advised fund cannot be used to reimburse a client's expenses for charitable activities carried out directly by the client, including fundraising expenses.

Grant Process (continued)

Grant Recommendations – Grant recommendations from donor advised funds must be made in writing and state the following: fund name; recipient organization, contact, address, phone number and email; grant amount; grant purpose; attestation that the recommendation does not represent payment of a pledge or other personal financial obligation on behalf of the client, fund advisors, family members, or related parties and businesses they control, and that no tangible benefits, goods, or services were or will be received by any individual or entity associated with the fund; and fund advisor's signature or electronic verification in place of a signature. If a grant is to be made anonymously, the fund advisor should indicate so on the recommendation form. Donor advised fund grant recommendation forms are available from the Foundation or at the Foundation's website www.LakeshoreCommunityFoundation.org under "Give."

Grant Size – The minimum grant recommendation is \$250.00. Grants may be recommended out of the income, if any, from an endowed fund subject to the client's fund agreement or the Foundation's Spending Policy. Grants may be recommended out of principal as well as income, if any, from an expendable fund subject to the minimum balance requirement for an expendable fund. Grant recommendations may be made at any time during the year. However, clients are encouraged to submit annual grant recommendations by November 1 to ensure timely delivery of the grants prior to year-end.

Grant Timing and Confirmation – Grant recommendations are usually reviewed when received. Grants will typically be made within one month of approval. If a grant recommendation is made for a grantee that requires additional due diligence, the grant may take longer. The fund advisor will receive confirmation after a grant is processed.

Granting Procedures – Grant recommendations are solely advisory and may not bind the Foundation which, by law, must have the final authority to determine use and distribution of all the Foundation's funds. A fund advisor's recommendations may be accepted or rejected, in whole or in part, by the Foundation in its sole and absolute discretion.

Upon receipt of a grant recommendation, the Foundation will review the form to ensure that all necessary information is included, verify that the grantee organization is recognized as a qualified charitable organization, and evaluate the recommendation following completion of due diligence. It is the Foundation's practice generally to follow the fund advisor's recommendation; however, the final decision is the Foundation's. Once the Foundation approves the grant recommendation, a check will be issued to, and a letter prepared for, the grantee organization. The fund will be identified to grant recipients unless the fund advisor requests anonymity. A copy of the grantee letter will be sent to the fund advisor after the grant recommendation has been processed. If a grant recommendation is not approved, the Foundation will notify the fund advisor, or the spokesperson in the case of multiple advisors. The fund advisor may then decide whether to submit an alternative grant recommendation.

The Foundation reserves the right to perform additional due diligence and to decline to make a recommended grant to a charitable organization, including, without limitation, (i) where the grant will confer a more than incidental benefit to a disqualified person ("disqualified person" shall mean the client, fund advisors or related parties), (ii) where the grant will be used for lobbying, for political contributions, or to support political campaign activities; (iii) where the grant will be used for improper purposes; (iv) where disqualified person(s) control the grantee organization; (v) where the Foundation provides a substantial portion of the organization's public support; and (vi) for other reasons in accordance with the Foundation's policies. If a disqualified person receives any benefits from a grant, which are not allowed, the disqualified person should return the benefits and notify the Foundation. Remedial actions may include, but are not limited to, requiring that the grant be returned or that the disqualified person make an additional nondeductible contribution.

Inactive Fund

If a donor advised fund is inactive, as defined by the Inactive Donor Advised Fund Policy, the Foundation may convert the fund assets to an unrestricted, separately named fund or transfer the fund assets to the Foundation's Lakeshore Fund from which distributions will be made at the discretion of the Foundation.

Investment Management

Control over the investment management of a donor advised fund will be exercised exclusively by the Foundation. The client shall have no control over such investment management of the fund. For investment purposes, assets of the fund may be commingled with other assets of the Foundation. The Foundation's primary investment objective is to invest funds with a focus on diversification to help control risk, while achieving long-term growth to offset inflationary impact, and allow for current and long-term support of clients' charitable endeavors.

The Foundation appoints investment professionals, from time to time, to carry out investment management responsibilities per the Foundation's Investment Policy, which is reviewed and approved at least annually by the Foundation's Board of Directors. The Foundation's Board of Directors meets quarterly to monitor investment activity against Investment Policy guidelines, review performance, and discuss investment strategy.

Administrative and Investment Fees

The Foundation shall assess a reasonable administrative fee for its services. In addition, each fund pays a proportionate share of all investment fees incurred by the fund. Administrative fees shall be established by the Foundation from time to time. Investment fees shall be established in accordance with investment professionals' contractual agreements. All of the fees are annual fees calculated quarterly and paid directly to the Foundation, from each donor advised fund, on a quarterly basis. Fees are assessed against each fund in accordance with the then current fee schedule at the time the fee is assessed.