

# Donor-Advised Fund Guidelines

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LAKESHORE COMMUNITY  
*F o u n d a t i o n*

*gather . grow . give*

## **WHAT IS A DONOR-ADVISED FUND?**

A donor-advised fund sponsored by Lakeshore Community Foundation, Inc. ("Foundation") provides donors a convenient and rewarding way to actively participate in their charitable giving. It allows donors to make tax-deductible contributions to their donor-advised fund when it makes the most sense for them and then recommend grants as opportunities arise.

A donor-advised fund, as defined by federal legislation, encompasses three characteristics:

- The fund is separately identified, specifically acknowledging the contributions of the donor(s). For example, it may be referred to as the Smith Family Fund, established by the Smith family children.
- The fund is owned and controlled by a sponsoring organization, such as the Foundation. Therefore, contributions made to a donor-advised fund are considered irrevocable.
- The donor or individuals appointed by the donor have the privilege of providing nonbinding advice regarding grants disbursed from the fund.

## **FUND RECOGNITION OR ANONYMITY**

Grants from a donor-advised fund are made in the name of the fund unless a donor explicitly expresses preference for anonymity. When a grant is issued, charitable organizations receiving support from a donor-advised fund are notified via a letter accompanying the grant check. Additionally, the Foundation typically lists all donor-advised funds on its website, unless the donor specifically requests anonymity.

## **MINIMUM FUND BALANCE & CONTRIBUTIONS**

A donor-advised fund can be established with a simple fund agreement between the donor and the Foundation and an initial contribution of \$25,000.00 or more. The \$25,000.00 balance must be maintained at all times. Alternatively, a donor-advised fund can be established with a minimum contribution of \$5,000.00 if there is reasonable assurance that the fund will grow to \$25,000.00 in contributions over a subsequent five-year period.

Once a donor-advised fund is established, contributions can be made at any time and in any amount. The Foundation, in its sole discretion, may accept contributions to a donor-advised fund from others. Contributions can be made in the form of cash or check and publicly traded securities. Other assets, such as closely held securities and real property, are subject to review and acceptance at the discretion of the Foundation. Additionally, the Foundation accepts proceeds from various planned gifts, including bequests by will, charitable lead trusts, charitable remainder trusts, IRAs, other retirement funds, life insurance policies, and transfers from private foundations. Donors considering a contribution other than cash should contact the Foundation for further discussion.

All contributions to donor-advised funds sponsored by the Foundation are tax-deductible to the maximum extent permitted under the Internal Revenue Code for contributions to donor-advised funds sponsored by Section 501(c)(3) public charities. Upon receiving a contribution, the Foundation provides a contemporaneous written acknowledgement that serves as substantiation for the charitable contribution for tax purposes. Certain in-kind contributions of property may require additional substantiation. Once a tax-deductible contribution is made to the Foundation, donors are not eligible to claim an additional tax deduction for any grants issued from their donor-advised fund.

**Note:** Although donors cannot make Qualified Charitable Distributions to their donor-advised funds during their lifetimes, they can transfer the balance of their traditional IRA, 401(k), and some other tax-deferred assets to their donor-advised funds upon death by way of a beneficiary designation. Donors should talk with their professional advisor for advice on this subject.

## ENDOWED VERSUS EXPENDABLE FUNDS

A donor-advised fund can be categorized as either an endowed fund or an expendable fund, with the specific details documented in the fund agreement. An expendable fund may be converted into an endowed fund at any time. However, an endowed fund generally may not be converted into an expendable fund.

- An **endowed** fund is a fund that, under the terms of the gift instrument that created it, is generally not wholly expendable on a current basis. Such a fund is generally established as a permanent fund dedicated to fulfilling a donor's philanthropic wishes in perpetuity. It is invested with a focus on growth while aiming to preserve the principal amount. The annual distribution from the investment earnings typically follows the Foundation's Spending Policy. For further details, please refer to the Spending Policy section.
- An **expendable** fund allows grants from the entire balance of the fund, including both principal and investment earnings, down to the minimum balance requirement of \$25,000.00.

Please see the separate document titled: "Endowed Fund Structure v. Expendable Fund Structure".

## SPENDING POLICY

If a donor-advised fund is an endowed fund, then it benefits from the Foundation's Spending Policy, which determines how much money is available each year to make grants. The Foundation's Spending Policy aims to preserve an endowed fund's inflation-adjusted principal value over time. Consequently, as the fund grows, the available distribution amount also increases. The Foundation's annual spending rate ranges from "0 to 5%" of the fund's market value, averaged over the preceding 12 quarters or since inception if the fund is less than three years old.

At the conclusion of each calendar year, the Board determines the annual spending rate. Subsequently, during the first quarter of the following calendar year, the donor(s) or their successor advisor(s) receive notification regarding the distributable amount available for granting from the fund. Grant recommendations can be submitted throughout the year, and any undistributed amounts can be carried forward for future granting.

## GRANTING MADE EASY

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|---|---|
| ◀ | Grants may be recommended via email, phone, or mail, followed by the completion and submission of a signed formal grant recommendation form.  |
| ◀ | The Foundation verifies eligibility of the organization to ensure it is a qualified charity.  |
| ◀ | The Foundation issues the grant check and accompanying grant letter, which mentions the fund name, unless anonymity is requested. Typically, the grant is mailed within two weeks after the recommendation. However, if additional due diligence is necessary for a grant, it may require a longer processing time. |
| ◀ | A copy of the grant letter is sent to the spokesperson as confirmation that the grant was processed.  |

## GRANT RECOMMENDATIONS

All grant recommendations undergo review and approval by the Foundation's Board of Directors. It is important to note that grant recommendations are solely advisory and do not legally bind the Foundation. While the Foundation typically tends to follow the recommendation of a spokesperson after conducting due diligence on the grantee, by law, the Foundation has final authority in determining the use and distribution of all its funds. Grant recommendations may be accepted or rejected, either in whole or in part, at the sole and absolute discretion of the Foundation. If a grant recommendation is not approved, the spokesperson will be notified. Subsequently, the spokesperson may choose to submit an alternative grant recommendation.

**Information Needed for Grant Recommendations:** The following details are required to facilitate the preparation of a formal grant recommendation form:

◀ <b>Name of the qualified charitable organization and contact information.</b>		
◀ <b>Grant amount:</b>	<u>Endowed Fund</u>	<u>Expendable Fund</u>
Minimum Grant Amount	\$250.00	\$1,000.00
Number of Grants per Year	Unlimited	Up to 12
◀ <b>Fund recognition or anonymity.</b>		
◀ <b>Program/project the grant is intended to support.</b> If no specific program/project is identified, the grant purpose will default to "unrestricted", which means the organization may use the funds as it deems appropriate.		
◀ <b>Deliver to:</b>	Email:	<a href="mailto:rwiegert@LakeshoreCommunityFoundation.org">rwiegert@LakeshoreCommunityFoundation.org</a>
	Phone:	920.458.1920 or 920.682.5222
	Address:	915 Memorial Drive, Manitowoc, Wisconsin 54220

**Timing for Grant Recommendations:** Grant recommendations are accepted throughout the year. However, to ensure timely delivery of grants before year-end, the Foundation encourages submitting grant recommendations by November 1. Grant recommendations received after December 15 will generally be processed in the following year.

While donors and initial/successor fund advisors are not obligated to make grants annually and any undistributed amounts can be carried forward for future granting, the Foundation encourages annual granting.

**Eligible Organizations for Grant Recommendations:** Qualified charitable organizations generally include the following: 1) organizations described under Section 501(c)(3) of the Internal Revenue Code, including churches and certain other religious organizations, that are not classified as private non-operating foundations or certain types of supporting organizations; and 2) governmental organizations, such as school districts, public libraries, and other government units, provided that the grants will be used for public purposes. Grants can support qualified charitable organizations both locally and nationwide.

**Ineligible Organizations for Grant Recommendations:** Generally, the Foundation's Board of Directors does not approve grants that require expenditure responsibility. Therefore, ineligible grant recipients include, but are not limited to, private non-operating foundations, charities located outside the United States, non-functionally integrated Type III supporting organizations, and any type of supporting organization if the donor, advisor or related parties exercise direct or indirect control over the supporting organization or an organization supported by the supporting organization. While grants to charities based outside the United States are prohibited, the Foundation may utilize a Code Section 501(c)(3) public charity as a fiscal sponsor to facilitate international grants.

## GRANT RESTRICTIONS

In exchange for an irrevocable contribution to a donor-advised fund, the donor is eligible to receive an immediate tax deduction to the maximum extent permitted under applicable law. Donor-advised funds must adhere to the rules in the Internal Revenue Code and Treasury Regulations. Non-compliance with these rules can result in tax penalties for the donor and/or the Foundation. The term “donor,” as it relates to grant restrictions, includes the donor, initial/successor fund advisors, and any related parties.

- Grants from a donor-advised fund must not result in the donor receiving any personal or material benefit or an exchange of goods or services that is not provided to the general public (e.g., newsletters). Prohibited benefits, goods, and services include, but are not limited to, tables, tickets to an event, meals, memberships (unless the membership confers no value), preferred parking or seating, discounted merchandise, or any other form of preferential treatment from a grantee organization.

Deduction limitation rules apply to contributions when a donor receives a benefit in return for a contribution (a so-called “quid pro quo” contribution). For instance, if an individual purchases tickets to a fundraiser and receives a dinner as part of the ticket cost, the deductible amount would be the ticket price minus the value of the dinner. Since a donor receives a full tax deduction upon making a contribution to a donor-advised fund at the Foundation, a donor-advised fund cannot be used to pay for tickets, memberships, dues, etc., where the donor receives goods or services in exchange.

- Grants awarded from a donor-advised fund cannot be used to fulfill legally binding personal pledges or other financial obligations of the donor. If a grant recommendation is made to satisfy a legal pledge or financial obligation, it would essentially fulfill a personal commitment made by the donor, indicating that the donor has not relinquished control. Therefore, the Foundation cannot assume responsibility for a donor’s obligation, even if it is owed to a qualified charitable organization. However, a donor may inform a qualified charitable organization that the donor intends to recommend a grant from the donor’s fund.
- Grants from a donor-advised fund may not be issued to individuals, including emergency hardship grants, disaster relief grants, or scholarships. This includes issuing checks directly to an individual or to an entity for the explicit benefit of a specified individual. For instance, grants to universities for the benefit of specified students or gifts to hospitals to cover medical bills for specified patients are prohibited.
- Grants awarded from a donor-advised fund cannot be used for lobbying, political contributions, or to support political campaign activities. Furthermore, they cannot be used for payment of services.
- A donor is prohibited from receiving grants, loans, compensation, or similar payments from a donor-advised fund. This includes expense reimbursements of any type, including those related to charitable activities.

The Foundation retains the right to conduct further due diligence and decline a recommended grant to a charitable organization under various circumstances, including but not limited to: (i) when the grant would provide more than an incidental benefit to a disqualified person (where “disqualified person” refers to the donor, fund advisors, or related parties); (ii) when the grant would be used for improper purposes; (iii) when disqualified person(s) exercise control over the grantee organization; (iv) when the Foundation provides a substantial portion of the organization’s public support; and (v) for other reasons consistent with the Foundation’s policies. In the event that a disqualified person receives benefits from a grant that are not permissible, they should return the benefits and inform the Foundation. Remedial actions may include, but are not limited to, requesting the return of the grant or requiring the disqualified person to make an additional nondeductible contribution.

## **INITIAL & SUCCESSOR FUND ADVISORS**

When establishing a donor-advised fund, the donor(s) or individuals representing the donor typically serve as the initial fund advisor(s) and can, in writing, designate other living persons, such as family members, friends, or business associates, as successor fund advisors. If the donor(s) wishes, the serving successor fund advisors can also designate their own successor fund advisors in the event of their death, unwillingness, or for any reason inability to continue to serve as successor fund advisors.

Both the initial and successor fund advisors have the privilege, during their lifetimes, of providing recommendations for the distribution of charitable grants from the fund. However, it is important to emphasize that such advice and recommendations are solely advisory and not binding upon the Foundation.

Donors maintain the flexibility to add or modify current and successor fund advisors at their discretion. If there are multiple fund advisors, they are required to designate a single “spokesperson” responsible for conveying grant recommendations to the Foundation. The selection of a spokesperson must be made in writing and signed by all the then acting fund advisors. If the initial and 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 decision will be binding on all fund advisors.

In the case of jointly held donor-advised funds, if the spokesperson passes away or is unable or unwilling to serve as spokesperson, the surviving joint donor will automatically assume the role of spokesperson. The designation of successor fund advisors will only take effect after the death of the surviving donor associated with a donor-advised fund, and such designations may be subject to change by the surviving donor.

If the initial or a successor fund advisor fails to appoint a successor fund advisor or if there are no advisors to the donor-advised fund for any reason, the Foundation may exercise its discretion to convert the donor-advised fund to its final purpose as documented in the fund agreement by the donor. If no such final purpose exists, and all fund advisors are deceased, unwilling, or for any reason unable to continue to serve as successor fund advisors, the Foundation may convert the donor-advised fund to an appropriate fund at its discretion.

## **ACTIVE VERSUS INACTIVE FUND**

A donor-advised fund is considered active when there is regular communication between the donor or initial fund advisor(s)/successor fund advisors and the Foundation. This regular communication may include, but is not limited to, the following examples:

- Regular grant recommendations.
- Intentionally postponing grants to: recommend a significant grant at a later date, gradually build the fund over time, initiate grants upon retirement, or set up the fund for their children’s philanthropy as successor fund advisors.
- Special circumstances, such as divorce.

If the initial fund advisor(s)/successor fund advisors choose not to make grants from the donor-advised fund, they must notify the Foundation of their intentions in writing. In the absence of such communication, the donor-advised fund may become subject to the Foundation’s Inactive Donor-Advised Funds Policy. A donor-advised fund is considered inactive after a three-year period of no granting or regular communication with the Foundation. However, the Foundation will contact the initial fund advisor(s)/successor fund advisors to discuss the intentions for the fund before taking any action.

## ADMINISTRATIVE FEES

The Foundation assesses an administrative fee for its services. These fees are assessed on a quarterly basis and paid directly to the Foundation from each fund. The Foundation reserves the right to assess additional fees for extraordinary services.

FEE STRUCTURE:		Endowed Fund	Expendable Fund
*	On first \$1 million balance	0.60%	0.80%
	On next \$2 million balance	0.40%	0.60%
	On balance > \$3 million	0.20%	0.40%
Fee on all contributions into a fund.		None	1.00%

\* Annualized Fees

## INVESTMENT FEES

The Foundation exclusively manages the investment of assets contributed to a donor-advised fund. Investment fees are determined through contractual agreements with investment professionals and are assessed quarterly, with proportional allocation across all funds.

## FUND STATEMENTS

An annual fund statement is provided to the donor or fund advisors at the conclusion of each calendar year. This statement includes the fund's beginning and ending balances, contributions, investment activity, and disbursements. The disbursements include grants issued, as well as investment and administrative fees.

## VARIANCE POWER

The Foundation is committed to fulfilling the charitable intentions of each donor. Therefore, the Foundation has the authority to modify any donor recommendation if such recommendation becomes unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the communities it serves. This authority, referred to as "variance power", serves to protect the donor's charitable intentions by ensuring that the Foundation consistently issues grants from a fund in a manner that closely aligns with the donor's original intent.

The Foundation retains the right to amend these Donor-Advised Funds Guidelines at any time. Such modifications will apply to both existing and new donor-advised funds.

### As a philanthropic partner, the Foundation:

- Handles all accounting and tax reporting associated with a donor-advised fund.
- Conducts an independent annual audit of the Foundation's financial records and practices.
- Provides professional oversight and management of the investment pool where a donor-advised fund is invested.
- Assists donors in making grant recommendations.
- Processes grants and ensures recommended grant recipients meet the eligibility criteria outlined by the IRS.
- Informs donors of current granting opportunities in the community.
- Supports donors throughout their lifetime and that of their successor fund advisors. In the event there are no successor advisors for the fund, the Foundation will ensure each donor's philanthropic intentions are perpetually fulfilled.