



Donor Advised Fund Policy

The Community Foundation of Northeast Alabama welcomes the opportunity to partner with individuals, corporations, civic and social clubs and families who wish to be actively involved in grant making. The Donor Advised Fund is designed to provide donors with a flexible vehicle for achieving their charitable objectives while promoting their personal values.

DONOR ADVISED FUND DEFINITION

A donor advised fund defined under the Internal Revenue Code possesses three characteristics:

- The fund is separately identified with reference to the contributions of a donor or donors. For example, the Smith Family Fund established by the Smith family children.
- The fund is owned and controlled by a sponsoring organization such as the Foundation.
- The donor or persons appointed by the donor expect to have the privilege of providing advice with respect to the fund's investments or distributions.

KEY FEATURES

The IRS allows all community foundations to offer donors the option to make tax-deductible gifts from which to recommend grants over a prolonged period of time to qualified charitable organizations. In addition, the IRS expects that a community foundation will administer its Donor Advised Funds in a manner that will maximize the community benefit; however, grants can be made to any qualified charity in the United States.

The Donor Advised Fund is named by the donor; it can be established immediately, which generates a charitable tax deduction whenever contributions are made to the fund. Also, the subsequent growth accumulated in the fund is tax-free. The charitable account eliminates the need to obtain a receipt from each charity for tax purposes; the donor receives professional assistance and administrative support in grant making; and the donor can build a permanent fund to continue their charitable values even upon their death.

ESTABLISHING A FUND

There are three steps to establish a Donor Advised Fund at the Community Foundation:

1. The donor selects a name for the fund and signs a binding agreement with the Community Foundation.
2. The donor irrevocably contributes assets to the fund as outlined below.

3. The Foundation's Board of Trustees accepts the new fund and the contribution.

MINIMUM FUND SIZE

The minimum amount required to establish a Donor Advised Fund is \$10,000. A fund can be started with a smaller amount, but must reach the minimum amount within three years (see our Forging Funds Policy). Distributions cannot begin until the fund has reached its \$10,000 minimum balance. Every Donor Advised Fund must maintain a minimum \$10,000 balance at all times to keep the fund active. The minimum amount is subject to change at any time by the Board of Trustees.

CONTRIBUTIONS AND REPORTING

Gifts to a fund are irrevocable. Contributions are subject to acceptance by the Foundation. Once accepted, the assets of donor advised funds are exclusively owned and controlled by the Foundation. In exchange for the gift, the donor receives a charitable tax deduction and relinquishes all ownership of the asset. As long as the fund meets the minimum balance requirements, contributions to a fund may be made in any amount and at any time.

A fund can be established using cash, publicly traded securities or other property, including real estate, closely held stock, partnership interests, IRA Rollover, personal property, trusts and life insurance. Donors considering a gift in any form other than cash should contact the Foundation to discuss its appropriateness and to obtain delivery instructions. All gifts are subject to the Foundation's *Gift Acceptance Policy*.

Subsequent contributions may be added at any time and in any amount, subject to acceptance by the Foundation. Also family and friends may contribute to the fund to recognize special dates or events. Contributions should be clearly designated with the fund name: "*XYZ Fund of the Community Foundation of Northeast Alabama.*" The financial activity and balance information for each Donor Advised Fund is reported in quarterly statements distributed to the advisor. The Foundation provides for all accounting, auditing, and tax returns regarding the fund.

CONTRIBUTION RESTRICTION

In compliance with the Pension Protection Act (2006), the Foundation, notwithstanding any other provision in this Policy or the *Gift Acceptance Policy*, shall not accept any gift of an interest in a business enterprise as an asset contributed to a Donor Advised Fund. The transaction would subject the Foundation to tax under section 4943 of the Internal Revenue Code, concerning "excess business holdings." Specifically, this excludes any gift of closely held stock that would result in the Donor Advised Fund holding:

- a) a 20% or greater interest in a business or in an entity that activity and regularly produces income from the sale of goods or the performance of services, or
- b) any interest in an entity in which any interest is owned by a donor or advisor to the Donor Advised Fund, by a family member of any such person, or by an entity in which any of the foregoing persons has an interest.

The rule does not apply to most gifts of real property, life insurance, non-inventory personal property, and a remainder interest in a personal residence or farm because these assets are not “business enterprises.” In addition, the rule does not apply to a gift of an interest in a business enterprise being made to a Field of Interest Fund or a Designated Fund.

DEFERRED GIFTS

A Donor Advised Fund can be established or receive added funding through a will, trust, contract assignment (deeds, IRAs, insurance policies) or a deferred gift of personal property. Ideally, the fund is crafted during the donor's life to ascertain charitable goals and, if desired, to designate an individual to assume the advisor privilege or the Foundation can also serve in this capacity.

RECOMMENDING GRANTS

Distributions from a Donor Advised Fund have no tax impact for the donor, as the charitable tax deduction was received at the time of the donor's gift to the fund. Donors may risk the loss of their entire charitable deduction if they file or claim any grant from a Donor Advised Fund as an additional tax deduction.

Unless otherwise stated in the Fund Agreement, Donor Advised Funds make periodic grants based on the Foundation's *Spending Policy*. Donors may advise the Community Foundation of recommended grants by completing the Advised Fund Recommendation Form located on the Foundation's website: www.yourcommunityfirst.org. The form includes non-binding recommendations regarding the amount and the recipient(s) of Donor Advised Fund distributions. Recommendations can **also** be submitted by mail. Grant recommendations are typically processed within one week with checks issued every Tuesday. Under applicable tax rules, the Community Foundation's Board of Trustees must approve all disbursements recommended from a Donor Advised Fund.

If desired, the Foundation staff researches prospective grantees beyond the region which may take additional time. Upon approval, a letter, a distribution form, acknowledgment reply form and a check stating the name of the fund are sent to the charitable recipient(s). Grants are primarily made to charitable organizations in northeast Alabama; however, grants can be made anywhere in the United States. If a Donor Advised Fund does not provide a substantial regional benefit, the Board may determine that the fund is not in line with **the Foundation's** charitable mission and the fund may be terminated.

The minimum distribution amount that can be awarded from a Donor Advised Fund is \$100.00. Distributions that are \$10,000 or greater will include a review of the proposed grantee's financial information prior to approval of the recommendation. All grants are to be used for charitable purposes and must be distributed to qualified nonprofit organizations with no goods, services or benefits received by the donor. See 'Grant and Distribution Restrictions: and "Benefit Restrictions" below for additional clarifications.

From time to time the Foundation may bring to the advisor's attention grant making opportunities in which the advisor may have an interest. The advisor is not obligated to recommend a grant for the identified program. Donors shall be furnished with lists of the unmet charitable needs of the community as determined by the Foundation from time to time.

GRANT AND DISTRIBUTION RESTRICTIONS

Grants must be for charitable purposes. You may recommend grants to any organization described in section 501(c)(3) of the Internal Revenue Code. You may also recommend grants to most units of government (e.g., public schools, colleges and universities, town and municipal governments, police departments, etc.).

The Foundation does not make grants from Donor Advised Funds, even for charitable purposes, to other types of organizations (non-charities) or to businesses.

The Foundation will not make any grant to an organization on a creditable watch list as further defined in the *Prohibited Grants Policy*. Examples of organizations to which the Foundation will not grant include: fraternities and sororities; social clubs; organizations whose primary purpose is lobbying, Chambers of Commerce and similar business associations; cemetery associations and funds set up to provide emergency relief to specific individuals or families. Also prohibited are grants for political contributions or to support political campaigns. If an advisor is concerned about a particular recommendation, the Foundation can pre-screen an organization for eligibility. Once a recommendation is received, the Foundation staff will perform due diligence to verify that the organization is a qualified charity and that its status is current.

Provisions of the Pension Protection Act (2006) prohibit Donor Advised Funds from making any grants to individuals such as scholarships, emergency hardship grants or disaster relief grants. 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 is prohibited. Donors, advisors or any related parties may not receive grants, loans, compensation or similar payments (including expense reimbursements) from Donor Advised Funds.

Expense reimbursements, loans, compensation, and other similar payments are not permitted from a donor advised fund to a donor, fund advisor, or related party.

The Foundation makes grants to US organizations that carry on their work in other countries. However, the Foundation does not make grants from donor advised funds to non-US organizations or governmental entities.

BENEFIT RESTRICTIONS

Based on federal tax law, grants from a Donor Advised Fund cannot result in benefits, goods, or services to the donor, fund advisors, members of their families, businesses they control, or any related parties. Prohibited benefits include tickets, memberships, event tickets, meals, sponsorships, registration fees, preferred parking, preferred seating, discounted merchandise or other preferential treatment from a donee organization. the Foundation, by policy, will not make a grant to an organization where a tangible donor or advisor benefit is included or known. Donors are asked on the *Advised Fund Recommendation Form* to specifically disclose any special incentives. For additional clarification see the *Policy on Declining Grants with Tangible Donor Benefits*. Failure to observe this restriction can subject the fund advisor to tax penalties. Please contact the Foundation if you have specific questions about whether a grant you are considering recommending will result in a prohibited benefit.

Donor Advised Fund grants also cannot be used to satisfy all or a portion of a pre-existing personal pledge or other financial obligation of the donor, advisors or any related parties. Advisors may, however, recommend that a grant be paid out over multiple years, subject to grant approval and annual due diligence.

DONOR EDUCATION

The Foundation strives to provide educational resources that will keep donors informed of the region's charitable needs and opportunities. This is accomplished primarily through meetings, seminars and one-to-one communications with donors. From time to time the Foundation may bring to the advisor's attention grant making opportunities and unmet charitable needs of the community as determined by the Foundation. The advisor is not obligated to recommend a grant for any identified organization or program; however, advisors have jointly made grants that generated significant community benefit. Overall, the Foundation will serve as a resource to donors in making grant recommendations.

PUBLIC RECOGNITION

Advised Funds can be either public or anonymous, depending on the donor's election. Some donors want complete anonymity. Others allow public recognition of the Donor Advised Fund and the programs and projects supported by the fund. Typically, the Foundation's annual report lists each Donor Advised Fund, the total amount of grants it awarded for the year, and the agencies (without specific dollar amounts) that received grants. When a distribution is made, the grantee is informed that the grant has been given based on the recommendation of the

named advisor. The Donor Advised Fund is specifically listed as the grantor unless the Foundation has been requested to keep the donor's identity confidential. In addition, donors can elect that their name can be associated with the Donor Advised Fund upon their death.

The recipient organization is encouraged to acknowledge the gift to the advisor which is usually sent to the Foundation and then forwarded to the donor. The Foundation will provide a letter to the grantee to confirm the charitable use of the grant, and that no benefits have been offered or provided to the Foundation or the advisor in exchange for the accompanying grant. If the recipient organization publishes a news release or a list of donors, it is asked to indicate the contribution as a grant from "*XYZ Fund of the Community Foundation of Northeast Alabama.*"

ADVISORY SUCCESSORS

The original donor, who is, often, the original advisor, has the opportunity to name successor advisors at the time the fund is established. Frequently these are the children of the original advisor. Generally, when a Donor Advised Fund is established, the fund may, upon the donor's request, be advised by persons representing up to two generations (the donor's and one additional generation). At such time as advisors from the second generation become active advisors, the fund, if not already endowed, it will become an endowed fund and the Foundation's *Spending Policy* will determine the amount available for distribution annually. In addition, the donor (and the successor advisors) will be encouraged to take advantage of the knowledge and expertise of the Foundation's staff, especially if the successor advisor(s) no longer live in the region.

The fund shall continue so long as there are donor advisors. When there are no longer any advisors, the Foundation shall transfer all remaining fund assets to the Foundation's Longleaf Fund exclusively for charitable or other exempt purposes.

INVESTMENTS

The Foundation has the sole responsibility and authority for investment of the assets of each Donor Advised Fund. Decisions with respect to the retention, investment, or reinvestment of assets and with respect to commingling of assets shall be made by the Board of Trustees.

Donor Advised Funds are component funds of the Foundation. As such, the Finance and Investment Committee and Board of Trustees define and oversee the investment policy. The Community Foundation invests assets with due regard for prudent risks, long-term market conditions, conservation of principal, grant making objectives, and planned giving horizon.

Under the Foundation's unitized accounting system, each Donor Advised Fund owns a percentage share of the combined investment portfolio. This allows Donor Advised Funds to take advantage of lower management fees, ensure investment diversity and maximize distributions to charitable organizations and institutions. The Foundation's Investment Policy is available on our website: www.yourcommunityfirst.org and by mail upon request. Donor

Advised Funds bear their proportionate share of the fees and expenses of the invested asset pool.

The Foundation will endeavor to accommodate requests from donors for separate investment of fund assets, or use of a particular investment manager, broker or agent in accordance with the Foundation's Donor Recommended Investment Manager Policy. The donor selecting this option understands that the fund shall be responsible for paying the investment fees charged by named firm or agent. The Foundation cannot place any assets with an investment manager that is a related party to any related party of a Donor Advised Fund.

FEES

The Community Foundation assesses fees, including investment management fees, against all its funds to cover the cost of administration and to continue the Foundation's important work in our community. Fees provide the necessary resources to operate efficiently and effectively, ensuring fiscal responsibility in grant due diligence, donor and nonprofit education, research, and other activities. The administrative and investment management fees for Donor Advised Funds are stated in our current *Fee Policy*, which is available on the Foundation's website and will be mailed upon request..

FUNDRAISING

Donors sometimes want to raise money to add to their advised funds. The Foundation has responsibility for all fundraising activities related to the Foundation and cannot transfer responsibility for, or control of, fundraising to other organizations, agencies, or individuals.

In establishing a fund at the foundation, there may be times when you would like to organize a fundraiser to raise dollars for the fund. The Foundation has developed a *Fund Assistance Policy* to help guide advisors planning fundraising events and solicitations. Fundraising, if permitted, must strictly adhere to the *Fund Assistance Policy* and to any additional restrictions imposed as a condition of the Foundation's consent.

VARIANCE POWER

Some Donor Advised Fund agreements restrict distributions to a specific charitable purpose, such as education or the environment. Others may limit distributions to particular named organizations. These restrictions may apply from the inception of the fund or may come into effect at the conclusion of the advisory period. Any such restrictions are subject to modification by the Foundation if it determines, in its sole discretion, that the restriction or condition is unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.

NON-GRANT ACTIVITY

All Donor Advised Funds are intended to be active in grant making at least annually unless assets are not available. A fund will be subject to annual distributions of income if it has been dormant for two years. In the event the advisor is unable or unwilling to act, the Board of Trustees will assume responsibility of grant making. The Board of Trustees will allocate the grantable proceeds according to the fund's defined purpose(s) as defined in the fund agreement. Such action will only be taken 60 days after written notification to the advisor or successor advisor(s).

If a grant is recommended that would reduce a fund's balance below the \$10,000 minimum for endowed funds, the grant payment will be withheld pending discussion with the fund's advisor. If the advisor does not plan to replenish the fund for future grant making, the remaining assets will be distributed according to the fund termination procedure below.

INACTIVE FUNDS

A fund is deemed inactive if:

- The fund advisor dies or resigns or evidence of his or her incapacity is provided to the Foundation, and if no successor advisor has been named;
- All named successor advisors are unable or unwilling to serve as such; or
- No recommendations are made with respect to grants from the fund for a period of two years and, during such period, the advisor or successor advisor does not reply to the Foundation's attempts to contact them.

If the fund becomes inactive, the Foundation will deem the advisory period to have ended and will initiate distributions from the fund in accordance with the provisions of the fund agreement.

FUND TERMINATION

Unless otherwise specified in the fund agreement, upon the death, resignation or incapacity of the last advisor to the fund, or if the fund is determined to be inactive, the assets of the fund will become a part of the Community Foundation's unrestricted permanent endowment—the *Longleaf Fund*. If the principal balance of the fund exceeds \$500,000, the Fund will continue to be maintained as a separate named endowed fund for discretionary purposes or as a field of interest, if the donor(s) or successor-advisor(s) have specified in writing one or more broad fields of interests for the fund.

Approved January 21, 2010
Revised February 11, 2016