



PASADENA COMMUNITY  
FOUNDATION

# **Donor Advised Fund Handbook**

**Updated October 2018**



Excellence. Accountability. Impact.™

301 E. Colorado Blvd., Suite 810, Pasadena, CA 91101 (626) 796-2097  
[www.pasadenacf.org](http://www.pasadenacf.org)

Confirmed in compliance with the national standards for U.S. community foundations.

### **Donor Advised Giving: How It Works**

The donor sets up a Donor Advised Fund with PCF by completing a PCF Fund Agreement. The fund may be an endowed or a non-permanent fund.

1. The donor makes an irrevocable gift of cash, securities, or other assets to the Pasadena Community Foundation (PCF) for charitable purposes. The net proceeds from the donation will be deposited to the individual fund.
2. The donor receives a letter acknowledging the donation to the Pasadena Community Foundation. The acknowledgement letter serves as a record for legal and tax purposes.
3. The donor may recommend grants through PCF's Fundholder Portal or may submit written grant recommendations via email or fax using the PCF Donor Recommendation Form which can be found on PCF's website.
4. PCF staff reviews the recommendations using criteria established by our Board of Directors in accordance with IRS guidelines. *Please read Grant Review Process and Frequently Asked Questions pages 3-5 for information on "permissible grants."*
5. Once a grant is approved, PCF sends a check to the approved charity. Every effort is made to process the grant recommendation within two weeks.
6. PCF asks the charity to acknowledge the donor directly unless the donor has requested anonymity. However, the acknowledgement letter in (2) above is the record that the donor would need for tax purposes.

### **Additional Contributions to a Fund**

Many donors choose to make on-going contributions to their fund. A gift of restricted, closely held stock, real estate, or other unusual assets may require additional review by PCF's Board. Assets that cannot be readily liquidated or that carry potential liability are governed by the Foundation's Gift Acceptance Policy.

A donor advised fund can be named the beneficiary of your estate. We are happy to discuss a range of financial and estate planning vehicles such as charitable trusts with you and your professional advisors.

## **Grant Review Process**

Before approving grants from your fund, PCF verifies that the proposed grantee is recognized by the IRS as a charitable organization eligible to receive grants from donor advised funds.

## **IRS Regulations on Donor Advised Funds**

Legislation passed in 2006, the Pension Protection Act, and the Donor-Advised Fund Guidance – Notice 2017-73 of 2017, created some restrictions on grants from donor advised funds. PCF has created guidelines for donor advised grant making which comply with IRS regulations and which require reasonable oversight by PCF. PCF verifies the tax status of all non-profit organizations recommended by donors to receive grants from their donor advised fund.

### **Permissible Grants:**

Grants to Section 501(c)(3) public charity organizations that are not private foundations and that are also designated as 509(a)(1) “traditional organizations” or 509(a)(2) “gross receipts organizations.”

509(a)(1) “traditional organizations” include:

- 170(b)(1)(A)(i) Churches
- 170(b)(1)(A)(ii) Schools
- 170(b)(1)(A)(iii) Hospitals
- 170(b)(1)(A)(iv) Support organizations to schools
- 170(b)(1)(A)(v) Governmental units
- 170(b)(1)(A)(vi) Publicly supported organizations

### **Prohibited and Restricted Grants:**

The IRS restricts the types of grants that can be made from a donor advised fund. The Pension Protection Act of 2006 and Donor-Advised Fund Guidance – Notice 2017-73 of 2017 further specified and prohibited certain types of grants from donor advised funds.

1. Gifts which provide personal benefit to the donor, advisors or related parties. Common examples include:
  - Purchase of memberships (in some cases)
  - Tickets to fundraising dinners or golf tournaments
  - Goods purchased at charitable auctions and other fundraising events
2. According to Notice 2017-73, the IRS is addressing bifurcation of gifts. The regulation states that distributions from a DAF that pay for the purchase of tickets that enable a donor or donor advisor (or certain related persons) to attend or participate in a charity-sponsored event would result in a “more than incidental benefit” to the donor or donor advisor and thus in an excise tax under section 4967. This result would apply even if the DAF limited its distribution to cover only the portion of the ticket price that would be eligible for a charitable contribution deduction if made by the donor or donor advisor directly. This result would also apply to distributions to cover a deductible portion of membership fees charged by a charity. To comply with this notice PCF will not bifurcate gift recommendations.

3. According to Notice 2017-73, the IRS is allowing distributions from a DAF that the recipient charity treats as fulfilling a pledge made by a donor or donor advisor would not result in a more than incidental benefit under section 4967, provided that the sponsoring organization (PCF) made no reference to the existence of any individual's pledge when making the DAF distribution.
4. Gifts to a private foundation (because they receive different tax treatment)
5. Gifts for lobbying purposes or to support political campaigns
6. The Pension Protection Act of 2006 specifically prohibits:
  - Grants to individuals  
Prohibited grants to individuals include both grants made directly to an individual and grants made to an organization, such as a school, for the benefit of a specified individual.
  - Grants, loans, compensation or similar payments to donors, advisors, or related parties. Per IRS regulations, this includes a prohibition against grants, loans, compensation or similar payments to donors that are not individuals.
  - Grants for non-charitable purposes.

#### **Expenditure Responsibility Grants:**

The IRS does allow grants to be made to non-charities, e.g., grants to for profit, 509(a)(4) public safety organizations and other 501(c) organizations for charitable purposes. However, grants to non-charities require expenditure responsibility. Expenditure responsibility means that the Foundation must exercise significant follow-up and oversight and maintain additional documentation to ensure that the grant awarded was used for charitable purposes. This also places an additional reporting burden on the receiving agency. Because of our small staff, PCF does not allow grants from DA Funds that require expenditure responsibility.

#### **International Grants:**

Because of our small staff, PCF does not allow grants from DA Funds to charitable organizations outside the United States. These grants also require expenditure responsibility.

#### **Inactive Funds Policy:**

An inactive fund is one in which there has been no grant making from the fund in three calendar years. The minimum grant distribution from a fund will be \$100 to be considered an active fund.

This policy will apply to all types of DA Funds held by PCF:

1. Expendable (charitable checking)
2. Investment
3. Endowment

No activity:

If a fund has been inactive (no grants out of the fund) for two full calendar years based on the year-end fund statement, the Foundation will take the following action:

1. Foundation will contact the donor advisor and/or any successor advisor via a letter to accompany the year-end statement to notify the donor and encourage grant making. The

donor will be advised of our inactive fund policy which requires at least one grant of \$100 for a fund to retain "active status."

2. If the advisor is unresponsive and/or the fund does not make any grants for another year (three consecutive full calendar years with no grants), an additional attempt may be made to contact the advisor and/or any successor advisor to present grant making options for the fund.
3. In the event that the advisor or successor advisor cannot be located or is unresponsive, the fund will be considered as no longer having a Fund Advisor. The fund will be transferred as per the Foundation's variance power to the Foundation's Unrestricted Quasi-Endowment Fund.

There may be valid reasons for a fund to refrain from grant making for a period of time. In some cases, the fund advisor may indicate a desire to consciously build the fund for future and deliberate grant making activity or the fund may be a small placeholder for a future bequest. Such funds may be exempt from the minimum grant distribution.

Please feel free to contact PCF if you would like to discuss the goals for your, we can create an addendum to your fund agreement with an explanation for reasons for a period of acceptable inactivity.

### **Frequently Asked Questions**

**Q. Who may sign and submit a recommendation for your fund?**

The persons who are named in your Fund Agreement must sign the grant recommendation(s). Donors may also name successor advisors to the fund who may act in the future as advisors to the fund.

**Q. Can I make grants from my fund to organizations outside of the Pasadena area?**

Yes. PCF is able to distribute to charities anywhere in the United States.

**Q. Can I purchase tickets to a gala or special event through my Donor Advised Fund?**

No. IRS regulations specifically preclude gifts which include personal benefit or services rendered to the donor. Common examples include:

- Purchase of memberships (in some cases)
- Tickets to fundraising dinners or golf tournaments
- Goods purchased at charitable auctions and other fundraising events

***We update our Donor Advised Fund policies periodically to ensure compliance with National Standards for Community Foundations and IRS regulations and requirements.***