

DONOR ADVISED FUND HANDBOOK



PASADENA COMMUNITY
FOUNDATION

301 E. Colorado Blvd., Suite 810
Pasadena, CA 91101
(626) 796-2097

www.pasadenacf.org

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



PASADENA
COMMUNITY
FOUNDATION

Donor Advised Giving: HOW IT WORKS

The donor establishes a Donor Advised Fund (DAF) with Pasadena Community Foundation (PCF) by completing a PCF Fund Agreement. The fund may be an endowed or expendable fund.

1 The donor makes an irrevocable gift of cash, securities, or other assets to PCF for charitable purposes. The net proceeds from the donation will be deposited to the donor's DAF.

2 The donor receives a letter acknowledging the donation to PCF. The acknowledgment letter serves as a record for legal and tax purposes.

3 The donor may recommend grants through PCF's Fund Holder 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: pasadenacf.org.

4 PCF staff reviews the recommendations using criteria established by our Board of Directors in accordance with IRS guidelines. Please read information on "permissible and prohibited grants" (page 4-5).

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 thank the donor directly unless the donor has requested anonymity. However, the acknowledgment letter from PCF received in Step 2 is the record that the donor will need for tax purposes.

Additional Contributions

Many donors choose to make ongoing 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 DAF can be named the beneficiary of your estate. We are happy to discuss a range of financial and estate planning vehicles with you and your professional advisors.

Rollover Restrictions

The Charitable IRA Rollover allows individuals age 70½ and older to make direct transfers of up to \$100,000 per year (and up to \$200,000 per year for married couples) from individual retirement accounts to qualified charities without having to count the transfers as income for federal tax purposes. **However, the IRS prohibits charitable rollovers to a DAF, supporting organizations, and private foundations.**



IRS REGULATIONS

on Donor Advised Funds

PCF has created guidelines for donor advised grantmaking which comply with IRS regulations and which require reasonable oversight by PCF. PCF verifies the tax status of all nonprofit organizations recommended by donors to receive grants from their DAF.

Permissible Grants

Grants to Section 501(c)(3) public charity organizations that are not private foundations or that are designated as 509(a)(1) “traditional organizations” or 509(a)(2) “gross receipts organizations.” Examples of “traditional organization” include churches, schools, hospitals, support organizations to schools, and governmental units.

Prohibited and Restricted Grants

The IRS restricts the types of grants that can be made from a DAF.

1 Gifts that provide personal benefit to the donor, advisors, or related parties are not allowed.

Common examples of prohibited gifts from DAFs include:

- Purchase of memberships (in some cases)
- Tickets to fundraising events (e.g. galas, golf tournaments, dinners)
- Goods purchased at charitable auctions and other fundraising events

2 Bifurcation of grants is not allowed.

IRS regulations state that distributions from a DAF that include tickets to attend or participate in a charity-sponsored event would result in a “more than incidental benefit” to the donor or donor advisor. **This prohibition applies even if the DAF limited its distribution to cover only the portion of the ticket price that would be eligible for a charitable deduction.** This restriction also applies to distributions to cover a deductible portion of membership fees charged by a charity. To comply with IRS rulings, PCF will not pay any portion of a grant for an event or membership.

Continued on page 6

3

The IRS is allowing distributions from a DAF that the recipient charity treats as fulfilling a pledge. However, the sponsoring organization (PCF) may not reference 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

Additional prohibited grants:

- Grants to individuals, which includes 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

PCF does not allow grants from DAFs that require expenditure responsibility.

While the IRS does allow grants to be made to non-charities or to charitable organizations based outside the United States for charitable purposes, these grants require expenditure responsibility. Expenditure responsibility means that PCF 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. For this reason PCF, does not permit DAF grants to charitable organizations that require expenditure responsibility.

ACTIVE FUNDS POLICY

Consistent with its purpose of promoting philanthropy, Pasadena Community Foundation is committed to encouraging the distribution of grants from its DAFs.

In accordance with the National Standards for U.S. Community Foundations' active fund policy, PCF considers a fund inactive once there has been no grantmaking 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 DAFs held by PCF.

Fund 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, **PCF will take the following action:**

1 PCF will contact the Fund Advisor and/or any Successor Advisor to notify the donor and encourage grantmaking. The donor will be advised of our active 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 grantmaking options for the fund.

3 If the Fund Advisor or the 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 grantmaking for a period of time. In some cases, the Fund Advisor may indicate a desire to build the fund for future and deliberate grantmaking activity or the fund may be a small placeholder for a future bequest. Such funds may be exempt from the minimum grant distribution.

Please contact PCF if you would like to discuss the goals for your DAF. We can create an addendum to your fund agreement with an explanation of periods of acceptable inactivity.



FREQUENTLY ASKED QUESTIONS

Who may sign and submit a recommendation for your fund?

The Fund Advisors who are named in your Fund Agreement may submit the grant recommendation(s). Donors may also name Successor Fund Advisors to the fund who may act in the future.

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

Yes. PCF can distribute to charities anywhere in the United States.

Can I purchase tickets to a gala or special event through my DAF?

No. IRS regulations specifically preclude gifts that 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

How to Access PCF's Fund Holder Portal

If you would like to have online access to your fund, call (626) 796-2097.

When setup is complete:

1. Go to website: pasadenacf.org
2. Click on Portal button

My Login: _____

My Password: _____

Notes
