

# San Angelo Area Foundation

## Donor Advised Fund Policy

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### **What is a Donor Advised Fund?**

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 San Angelo Area Foundation. (hereinafter “Foundation”)
- The donor or persons appointed by the donor expect to have the privilege of providing advice with respect to charitable distributions.

### **Minimum Fund Size**

The Foundation has set the minimum amount needed to create a donor advised fund at \$5,000.00, and an on-going minimum balance of \$5,000.00 to keep the fund active. An endowed donor advised fund minimum is \$50,000.00. Note that these policies and amounts are subject to change.

### **Contributing to a Fund**

Gifts to a fund are irrevocable. The assets of donor advised funds are owned and controlled by the Foundation. As long as the Fund meets the minimum balance requirements, contributions to a fund may be made in any amount and at any time. Contributions may be made using cash, publicly traded securities or other property, including closely held stock, partnership interests, real estate, personal property, trusts and life insurance. Contributions are subject to acceptance by the Foundation. Contributions should be clearly designated by fund name: “The XYZ Fund of the San Angelo Area Foundation”.

Many donors make contributions using appreciated, publicly traded stock that has been held for longer than a year, to enjoy maximum tax benefits. Contributions of property that may not have immediate liquidity are accepted at the discretion of the Foundation, and subject to completion of our due diligence procedures. Donors considering a gift in any form other than cash should contact the Foundation to discuss its appropriateness and to obtain delivery instructions.

### **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.

### **Fund Advisors**

The initial advisors to the fund are those persons named in the fund agreement. Donor's may choose to name a successor advisor, like a child or friend which have the same advisory capacity of the Donor. Such successor advisors may appoint a subsequent successor advisor for up to two generations removed from the original donor. Such successor advisors are bound by the original fund agreement.

If at any time there is more than one advisor to the fund, the advisors will appoint a designee and all communications to and from the Foundation will be through the designee. If no designee has been appointed, the Foundation will consider the first advisor named in the agreement to be the designee.

### **Recommending a Grant**

Grants must be for charitable purposes. The minimum grant amount is \$100.00.

Advisors may recommend grants to any organization described in section 501(c)(3) of the Internal Revenue Code except that the Foundation does not make grants to private foundations. 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 nonprofit organizations (non-charities) or to businesses. Examples of organizations to which the Foundation will not grant include social welfare organizations (501(c)(4)); veterans' organizations; cemeteries; Chambers of Commerce and similar business associations; fraternities and sororities; social clubs; and fraternal organizations.

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.

Advisors have multiple ways to recommend grants from their fund. The easiest way is to use the Foundation's online donor advised fund grant recommendation portal, which is available 24 hours a day. An advisor can also email a recommendation or call the Foundation. An email or

phone call will be followed up with an email or letter to the advisor confirming the grant and compliance with the Foundation policies for grants. Donor advised grants are usually processed within one week of receipt for grants of \$50,000.00 or less. Larger grants may take longer in order to obtain additional signatures and liquidation of investments.

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 Restrictions**

The Internal Revenue Code prohibits grants to individuals from donor advised funds. Also prohibited are grants for political contributions or to support political campaigns. Grants may not result in benefits, goods, or services to the donor, the fund advisor, members of their families, and businesses they control. Failure to observe this restriction can subject the fund advisor to tax penalties. Benefits include the payment of pledges previously made, event tickets, meals, sponsorships, registration fees, discounted merchandise, preferred parking and/or seating, and memberships unless the membership confers nothing of value. Please contact the Foundation if you have specific questions about whether a grant you are considering recommending will result in a prohibited benefit.

### **Payments from a Donor Advised Fund**

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

### **Grant Acknowledgment**

Unless other arrangements have been made (e.g. anonymity requested), the grant letter will indicate that the grant is from "The XYZ Fund of the San Angelo Area Foundation", and that it has been given upon the recommendation of the advisor. The recipient organization is encouraged, but not required, to acknowledge the donor advised grant to the advisor. Additional language confirms 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 "The XYZ Fund of the San Angelo Area Foundation".

### **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 Foundation's Investment

Committee and Board of Directors. Donor Advised Funds are customarily invested and commingled with assets of other funds of the Foundation.

When the size of a fund warrants consideration of separate investment consideration, typically for funds over \$1,000,000.00, 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 Investment Policy. If a donor recommends a particular investment manager, the donor understand their fund will bear the underlying expenses related to an outside manager, in addition to administrative fees charged by the Foundation.

The Foundation's long-term investment objective is to preserve the real value of its permanent funds. This means that the Foundation seeks a total rate of return that supports the Foundation's grantmaking, expenses, investment fees, and inflation. The Foundation will normally measure whether it has achieved that objective over a rolling five-year period.

The Foundation appoints an investment consultant and investment managers from time to time to carry out some of its investment management responsibilities with respect to its invested asset pool.

### **Fees and Minimums**

The Foundation assesses administrative fees against all its funds to cover the cost of administration and to continue the Foundation's important work in our community. Fees are levied monthly at 1/12<sup>th</sup> of the annualized fee against the monthly fund balance. Fees provide the necessary resources to operate efficiently and effectively, ensuring fiscal responsibility in grant due diligence, donor and nonprofit education, research, community grant making and other activities. Investment returns are net of imbedded investment expenses which normally occur in mutual funds. The Foundation's current administrative fee schedule for donor advised funds is:

1.5% for the first \$500,000 in the Fund.

1.0% for the next \$2,500,000 in the Fund.

0.5% for amounts greater than \$3,000,000.

The annual minimum for donor advised funds is \$150.

### **ACCEPTABLE TYPES OF FUND ACTIVITY**

The following are definitions of fund activity that leads to fund distributions that apply to funds that meet the minimum required balance to maintain a donor advised fund. If this policy ever conflicts with federal law or state law (including UPMIFA), the relevant law controls.

A fund is considered active when there is regular communication between the donor advisor (or named successors) and the Foundation regarding the existence and purpose of that fund. Examples of the activities that would deem a fund active include (but are not limited to):

- Regular Grant Recommendations. Donor advisor generally recommends grants at least annually to qualified charitable organizations. The amount of grantmaking can vary from year to year.
- Developing a Philanthropic Program. Donor advisor makes a substantial contribution to donor advised fund, for example, upon the sale of his or her business, and refrains from recommending grants for a given initial period while the fund advisor consults with the sponsoring charity and/or does his or her own research to determine what types of grants will best meet community needs and/or her philanthropic goals.
- Long-term Giving Plan. Donor advisor deliberately reduces the frequency or size of grant recommendations from fund, for example:
  1. During his or her working years with the intention of increasing the donor advised fund balance to support grantmaking during his or her retirement, when the advisor expects his or her income to change.
  2. A donor may want to build a fund over time so the donor's children can make grants later (the idea being the donor is leaving a charitable legacy for the next generation to administer).
  3. Donor advisor refrains from recommending grants for a given period because the fund is invested in an illiquid or undervalued investment. Donor advisor intends to begin making grant recommendations when the investment can be sold at a reasonable price.
- Project Grants. Donor advisor makes a substantial contribution to a donor advised fund and determines to recommend grants to a specific qualified charitable organization over a period of 20 years so that the donor can monitor how the charitable organization performs, and to consider whether another organization would better achieve the donor's charitable objectives.
- Starter Fund: Donor advised funds may need time to build the fund balance to make substantial grants to the community. Therefore, there may be no distributions made until the fund balance reaches an amount stated in the donor advised fund file.
- Specific Occasion Grant. Donor advisor refrains from recommending grants for several years with the specific charitable goal of recommending a grant upon a specific occasion. Examples may include:
  1. Donor is incapacitated with no successor advisor(s) named so the Foundation waits until the donor's death to distribute the fund according to the donor's original intent;

2. Fund has transitioned to named successor advisors, but they are minors and no adult representative is named to represent them (so grants resume when successor advisors are adults);
3. Founders of fund who are also the donor advisors are getting divorced so that grants are suspended until both the husband and wife agree on grants, which may include splitting the fund into two separate funds, one for each spouse to advise or eventually dissolving the fund by the making of charitable grants;
4. Grants are suspended during litigation involving a fund (e.g., the donor has left his/her estate to a fund, but the donor's children are disputing the bequest so the community foundation does not allow grants until the litigation is resolved);
5. Donor leaves a bequest to a fund and distributions are made periodically to the fund during the estate settlement process, but grants are not made until the estate is fully settled.

### **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.
- No recommendations are made with respect to grants from the fund for a period of three 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.

### **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 Foundation's unrestricted permanent endowment. If the principal balance of the fund exceeds \$50,000.00, 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.