



## Donor-Advised Fund Guidelines

*Revised December 2011*

Coastal Community Foundation welcomes the opportunity to partner with those who wish to be active grant makers. Advised funds provide a flexible, effective way for staying involved with your personal giving and achieving your charitable objectives.

The IRS allows community foundations to offer donors the opportunity to make tax-deductible gifts at the most advantageous time for them and then to recommend grants over a period of time. The IRS expects that Coastal Community Foundation will administer its Donor-Advised funds in a manner that will maximize the benefits to the community and ensure charitable giving.

Advised funds are component funds and therefore, while advisors may recommend grant recipients, the assets have been given to the Foundation. All funds are subject to Coastal Community Foundation's bylaws, including the Board's ability to redirect funds, should the original cause for which the fund was established become obsolete. This is known as "variance power" and is a distinguishing feature of community foundations.

### **Establishing a Fund**

**Fund agreement:** Advised funds are created using a simple two-page agreement that outlines the fund's purpose and how it will operate, including naming advisors and successor advisors. Both the donor and the Foundation's president sign the agreement.

Soon after the fund is established, Coastal Community Foundation staff offers an orientation meeting for the donor and advisors to meet the Foundation staff and review logistics.

**Contributions:** Advised funds are established with a minimum gift of \$25,000. Additional gifts of any amount may be made to the fund at any time.

Donor-Advised funds may also be started as endowments-in-progress (EIP's) with as little as \$2,000. Donors are strongly encouraged to build the fund to \$25,000 over a five-year period. If, after five years, the fund has not reached \$25,000, the fund may be closed and assets transferred to the Coastal Community Foundation Unrestricted Fund to support unrestricted grantmaking.

**Gifts of Closely Held Stock or other Illiquid Assets:** Stock from a corporation for which most of the voting stock is held by a small number of shareholders, but which is still publicly traded, is

known as **Closely Held Stock**. **Illiquid Assets** are assets that are not easily and quickly converted into money, for example, real estate.

Funds holding Closely Held Stock or Illiquid Assets will be charged the same administrative fees as all other funds at the Foundation. There should be written assurance that the affected fund will have adequate cash to pay administrative fees, either from the investment itself or from further contributions by the donor. All paid dividends will be used to offset all or a portion of the fee charged to the account in the same year ending with the anniversary date of the gift. Dividends will be credited to the donor's fund only to the extent that they exceed offsetting fees.

**Minimum balance:** The partially-endowed advised fund must maintain a \$25,000 minimum balance, as a permanent endowment. Our aim is to encourage donors to think in terms of building resources for the future and after their lifetimes.

## **Grantmaking**

**Recommendation process:** Advisors have the privilege of making non-binding recommendations as to the timing, amount and charitable recipient of distributions. Advisors do not retain any legal right to direct grants.

All grants are to be used for purely charitable purposes; no goods or services (including meals at special events) may benefit the donor, advisors or related parties.

Due to recent Treasury pronouncements, the following additional guidelines are imposed on grants from Donor-Advised funds:

Distributions from a Donor-Advised fund to an individual are prohibited. So too are distributions to any organization if not for a charitable purpose.

Distributions to the following organizations will normally not be approved.

- An organization that is not described in section 170 (b)(1)(A) of the Internal Revenue Code- notably non-charities and private non-operating foundations
- A type III supporting organization that is not "functionally integrated"
- A supporting organization (even a "functionally integrated" type III) if the organization that is being supported is controlled by either the donor, an advisor appointed by the donor and/or related parties.

Coastal Community Foundation's focus and expertise involves organizations within the coastal region of South Carolina. Advised funds may certainly make grants outside the Foundation's service area and within the United States. If you have questions about specific organizations to which donor advised funds may make grants, please contact Foundation staff.

**Grantable amount:** For partially endowed funds, advisors may make grant suggestions utilizing any amount over the \$25,000 minimum fund balance.

For fully endowed funds, the grantable amount is determined annually by Coastal Community Foundation's Board of Directors, and is based on long-term investment performance. It is currently four percent of the fund's average balance over the most recent twenty quarters. Grantmaking from fully endowed funds may begin at the end of the fourth quarter after the fund has been established. For endowments-in-progress, grantmaking may begin when the fund becomes fully endowed if it has been in existence for at least four quarters.

To ensure the permanence of all funds, no grants will be made from any endowed or partially endowed fund whose balance is below \$10,000.

**Approval process:** Advisors submit a simple grant recommendation form which can be found on our website. Grants to organizations on the Foundation's annual pre-approved list are processed within seven days. For all other grant recommendations, checks are processed after staff review and Community Stewardship Committee approve at its monthly meeting. A month's notice may be required to process a grant of \$100,000 or more.

Should the staff discover information that causes concern and may lead to an unfavorable vote on a grant recommendation, this information is first given to the advisor. Should the Board not approve a grant, the advisor is notified immediately.

If asked, staff will monitor grant recipients to help advisors evaluate the impact of their money at work in the community.

**Minimum distribution:** Grant recommendations should be sufficiently large to warrant the administrative time and expense involved in making the grant; a \$200 minimum is the rule. When recommending organizations that have not recently been evaluated by Coastal Community Foundation, it is preferable that the grant amount justifies the time involved in evaluating the organization.

**Dues/pledges/other prohibitions:** Grants from Donor-Advised funds may not be used to pay membership dues or to satisfy a legally enforceable personal obligation or personal pledge of a donor, advisor and/or related party. However, where an advisor is neither discharging a legal obligation nor satisfying a personal pledge, the advisor may indicate to a charitable institution that he will recommend a grant. Multi-year grant recommendations may be submitted. Under no circumstance may a donor, advisor and/or related party receive benefits from the distribution recipient as a result of a grant recommendation.

Advisors may not recommend grants to individuals, including grants to organizations (such as a

university) for the benefit of a specified individual. Donors, advisors and/or related parties may not receive grants, loans, compensation or similar payments from Donor-advised funds.

**Active grantmaking funds:** All funds are intended to be active grantmaking funds. Should advisors cease to provide annual recommendations over a 36-month period, despite attempts by the Foundation to gain the advisors' participation, the Board will assume all future grantmaking responsibility, using the fund to support the Foundation's unrestricted grantmaking, (unless otherwise specified in the original fund agreement). This policy assures the original donors that effective grantmaking will always continue.

**Grant recommendations to support competitive grants programs:** Coastal Community Foundation offers several competitive grants programs, to which non-profit organizations in the counties served by the Foundation may apply. Coastal Community Foundation encourages advisors to support these competitive programs by recommending grants each year from their Donor-Advised funds.

**Fund recognition:** When a grant is made, Coastal Community Foundation lets the recipient organization know the name of the fund providing the grant and the advisor recommending the grant (unless the advisor requests to remain anonymous). The recipient organization is asked to thank the advisor for recommending the grant. It is the Foundation's practice to list all funds in its annual report and newsletters, unless donors request otherwise.

## **Investment Management**

Coastal Community Foundation invests assets with due regard for prudent risks, grantmaking objectives, and timing of grants from the fund. The Foundation offers donors two investment pools to match their grantmaking needs.

**Long-term pool:** In this pool the Foundation's primary investment objective is to provide for long-term growth of capital, without undue exposure to risk. This objective is accomplished by investing in a mix of equities, fixed income and cash equivalents that allows participation in rising markets while providing reasonable protection in falling markets. This pool is recommended for funds where the donor's grantmaking objective is satisfied by a long-term spending rate of 4%.

**Short-term pool:** In this pool, the primary objective is to conserve capital for immediate grantmaking needs. The objective is accomplished by investing in short-term bond funds. This pool is recommended for funds whose annual grantmaking objectives are greater than 20% of the fund's balance.

**Fund statements:** Donors/advisors will receive quarterly financial statements reflecting contributions, grants made, income, appreciation/depreciation, fees, and grantable proceeds

available for grantmaking. At any other time, donors/advisors may call staff for a current report.

**Fees:** The current annual support fee is the greater of one percent (1%) of the first one million dollars or \$250; for the next \$4 million the fee is .75%; for amounts over \$5 million the fee is .50%. Fees are calculated and deducted quarterly. For additional services or extraordinarily large grants, additional fees may be applied.

### **Advisors/Successor Advisors**

Donors may designate their spouse, children or others to serve as advisor with, or in place of, the donor. They may also name one or more successor advisors. Successors must be living at the time the fund is created and must be named in writing by the donors in the fund agreement. Successor advisors may act by unanimity or by majority.

After the lifetime of the founding donors, the fund will become a fully endowed advised fund. The Board will determine the grantable amount. Successor advisors may make recommendations as to the recipients of this grantable amount. A fund may have no more than 3 advisors at any time.

### **Perpetual Successor Advisors**

If at the time of fund establishment, a fund is fully endowed at a balance of \$1 million dollars or more, advisors will have the privilege of naming successor advisors in perpetuity. The founding donor(s) of the fund must name the first successor advisors during his/her/their lifetimes. Each successor may appoint his/her own successor advisor by sending a written notice to Coastal Community Foundation. A majority (greater than 50%) of grantmaking dollars from the fund must benefit organizations based in Coastal Community Foundation's service area.

**Designation of Fund after Advisors' Lifetime:** Endowments generate grants in perpetuity. To provide the greatest flexibility to meet future community needs, when the advising ceases, funds generally become unrestricted. Donors may also request in their fund agreement that their fund support grantmaking in a broad field-of-interest. All grants will be made at the Board's discretion in the fund's name.

*These policies are designed to protect the interests of both donors and Coastal Community Foundation. Exceptions to these policies may be made with approval of Coastal Community Foundation's Board.*