



# DONOR ADVISED HANDBOOK

*Promoting a Culture of Philanthropy*

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# TO OUR DONORS

## To Our Donors

### WELCOME TO THE FAMILY!

On behalf of Your McPherson County Community Foundation, thank you for considering us as your philanthropic advisor and partner. As a donor advisor, you play a very important role in making charitable investments in our community.

We have developed this guide to make your experience working with us easy and enjoyable. It contains information about making grant recommendations from and additional contributions to your Donor Advised Fund. It also contains information to help you interpret financial statements, fees and year-end giving deadlines. You can find additional information on our website at [www.mcphersonfoundation.org](http://www.mcphersonfoundation.org).

I hope you will take advantage of our professional staff that is always available to answer any additional questions you may have. Please feel free to contact us at any time via phone, email or you are always welcome to stop by our office. We'll keep the coffee brewing!

Again, thank you for partnering with us to ensure permanent resources are available to maintain and improve the quality of life in our county. We are proud to enable your good work.

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# DONOR ADVISED FUND DEFINITION AND POLICIES

## Donor Advised Fund Definition and Policies

### WHAT IS A DONOR ADVISED FUND?

A Donor Advised Fund is an attractive alternative to creating a private foundation (see chart #1, page 9). Donors still have the flexibility to make grant recommendations to registered 501(c)3 organizations, but they do not have mandatory distributions and there are no accounting or legal fees for filing required paperwork as with a private foundation.

Donor Advised Funds exist to help donors experience and enjoy charitable giving during their lifetimes. Donors who establish these funds receive a 100% charitable income tax deduction at the time of the gift while building a permanent, charitable fund that impacts our community forever. In future years, the donor may recommend that fund income, and in some cases principal, be used to make grants to favored charities.

Donor Advised Funds are normally established with a minimum of \$10,000. In some cases, funds can be established for lower amounts if there is a reasonable assurance that the account will grow to \$10,000 over an agreed upon period of time. There is no maximum fund size, and funds may be added by anyone at any time when it is convenient or financially advantageous.

### HOW MUCH DO I HAVE TO SPEND?

Each year our Finance/Investment Committee will calculate the amount of money available to spend from your Donor Advised Fund. Our spending policy is based on a 12-quarter rolling average. Our goal is a 5% distribution annually, however it may be adjusted if earnings are lower or higher for the year. For example, the Smith Donor Advised Fund has a value of \$100,000 allowing for approximately \$5,000 available for grants to various organizations.

### WHAT HAPPENS TO THE REST OF THE MONEY IN MY FUND?

Donor Advised Funds are placed in our pooled investment fund and generate a return which is then added to your fund each year. A spending policy based on a 12-quarter average of your fund and the returns of the overall pool within the year are available for distribution while the balance of the principal and growth is reinvested. This model is designed to help your fund keep pace with inflation and grow over time (see Chart #2, page 10). The goal of any endowment fund is to increase granting power through growth and additions to principal.

### DONOR RECOGNITION

Charities are informed that Donor Advised Fund distributions are grants from the donor's fund at the McPherson County Community Foundation and not a direct gift from the donor. Charities are asked to recognize and thank the donor for their original generosity and for recommending that a distribution be made. Your fund will be listed on our web site and in our newsletter when distributions are processed.

# DONOR ADVISED FUND DEFINITION AND POLICIES

## ANONYMITY

Your McPherson County Community Foundation honors all requests for anonymity. You may instruct us to keep the fund name and/or your own name anonymous or choose anonymity for any individual grant that you suggest. Simply let us know your preference.

Also, you may choose to work with our staff to make your anonymous grant strategically. For example, the staff can use your anonymous grant to create a challenge grant (a.k.a. matching grant) to stimulate fundraising for an organization or cause you care about.

## CHANGING ADVISORS FOR YOUR FUND

As a fund advisor, only you may recommend grants from your fund. You may change authorized advisors at any time during your lifetime by submitting a written request.

## ADMINISTRATIVE FEES

Each fund administered by the Foundation is charged an administrative fee and its portion of investment management fees. Annual fees for donor advised funds are 1% of the principal. It is assessed 1/12<sup>th</sup> of one percent each month. The fees are assessed directly to the fund and do not require additional payments by you at any time.

Fees help support general administrative and operating costs as well as:

- Charitable gift and estate planning assistance
- Investment and financial management
- Grant-making services
- Support to nonprofits in the region
- Resources to initiate or strengthen community programs

## FUND STATEMENTS

Statements with your fund's opening balance, contributions, grant report and administrative fees will be sent quarterly based on our fiscal year (see dates below). You may choose to have statements mailed to your office or home or we can arrange an online version for your review.

Fiscal year is September 1 – August 31. Statement Dates are:

December 15 – first quarter activity

March 15 – second quarter activity

June 15 – third quarter activity

September 15 – fourth quarter activity and year-end review

# INVESTMENT POLICIES

## Investment Policies

### INVESTMENT OBJECTIVES

The investment objective of the McPherson County Community Foundation is to earn the highest real total return over time commensurate with the risk profile of a given asset allocation. The minimum performance objective over time is to earn an average annual total return equal to the rate of inflation (CPI), plus the spending rate plus 2% administrative fee growth. The mechanics of the spending rate is governed by the spending guideline set forth in this Investment policy.

### GENERAL CONSIDERATIONS

- a) **Tax Status** - As a 501 (c) (3) organization, the McPherson County Community Foundation is exempt from income taxes. Investments will not be made in tax-exempt securities. Tax considerations are not to influence investment decisions. There are no requirements for, or restrictions against, the realization of realized gains or losses during any accounting period.
- b) **Liquidity Needs** - The McPherson County Community Foundation will not view cash as an investment vehicle. The Endowment Fund should only hold the cash needed to make distributions to the operating budget and to meet any expense of the fund itself.
- c) **Diversification** - Investments will be appropriately distributed to provide prudent diversification and limit undue concentration related to asset quality, industries, geographic location and managers.
- d) **Real Estate** - The Endowment Fund will execute Gift Acceptance Policy A.4. The Foundation does not actively pursue real estate as an asset, but from time to time hold donated property until it has been liquidated.
- e) **Excess Holdings** - Under the Pension Protection Act of 2006 (PPA), the private foundation excess business holdings rule apply to donor-advised funds as if they were private foundations. That is, the holdings of a donor-advised fund in a business enterprise, together with the holdings of persons who are disqualified persons with respect to that fund, may not exceed any of the following:
  - Twenty percent of the voting stock of an incorporated business
  - Twenty percent of the profits interest of a partnership or joint venture or the beneficial interest of a trust or similar entity
  - Any interest in a sole proprietorshipDonor-advised funds receiving gifts of interests in a business enterprise have five years from the receipt of the interest to divest holdings that are above the permitted amount, with the possibility of an additional five years if approved by the Secretary of the Treasury.

### ASSET ALLOCATIONS

ASSET CLASS	MINIMUM ALLOCATION	TARGET ALLOCATION	MAXIMUM ALLOCATION
<b>Equities</b>	55%	65%	75%
<b>Fixed Income</b>	25%	35%	45%

# GRANT RECOMMENDATIONS AND PROCESSES

## Grant Recommendations and Processes

### WHAT ORGANIZATION IS ELIGIBLE TO RECEIVE A GRANT?

Your community foundation adheres to all Internal Revenue Service laws for grants made from your Donor Advised Fund. As with all community foundations, our board of directors has final approval over all grants made from the Foundation. This procedure ensures that all grants are made in the most cost effective and efficient way possible while following all laws and best practices associated with grant-making. It also provides protection and oversight for all grants from your fund by ensuring that the organizations you recommend are eligible to receive grants and that funds are used effectively.

When you recommend a grant recipient, we first verify that the organization is a registered nonprofit organization. The IRS requires that a recipient organization be a public charity as defined in Sections 501(c)3 and 509(a) of the Internal Revenue Code. If a recommended organization fails to meet IRS requirements, we are prohibited from awarding your recommended grant, and we will notify you so you can modify your request.

You may recommend a grant to any public charity located in the United States, including your place of worship, public libraries and most educational institutions. We do not make grants to individuals or to for-profit organizations from Donor Advised Funds.

### RESTRICTIONS

The IRS places a number of restrictions on the use of grants. IRS regulations prohibit Donor Advised Funds from awarding grants to:

- purchase tickets to fundraisers or benefit donors (including any portion of the ticket that is above the cost of the event);
- purchase or fulfill memberships that have any tangible economic benefit for donors, advisors or related parties;
- support of a specific individual;
- fulfill personal pledges;
- secure personal benefits for donors, advisors or related parties;
- support political campaigns or lobbying; or
- make grants, loans, compensation or similarly payments (including expense reimbursements) to donors, advisors or related parties.

### HOW DO I RECOMMEND A GRANT ONCE I'VE DECIDED?

As a donor advisor, you may make grant recommendations via email to the Foundation staff, a request in person or mail your requests to the office. Approved grants are normally paid out within two weeks of receiving your recommendation. If there is a delay for an unforeseen circumstance, we will contact you regarding the situation to discuss options. **Note: Grants may be made at any point during the year.**

# ADDING TO YOUR FUND

## Adding to Your Fund

You may make contributions to your fund at any time. Other persons, such as family members or friends, may also make contributions to your fund. Assets such as cash and securities, including stocks, bonds and mutual fund shares, are routinely accepted. Other assets, such as real estate, interest in closely held businesses, partnership shares and tangible personal property such as art, antiques, collectibles and jewelry, may also be gifted based upon review.

The McPherson County Community Foundation can receive gifts online (via credit card) for many of our funds ([www.mcphersonfoundation.org](http://www.mcphersonfoundation.org)). We also accept gifts by wire transfer or traditional mail. Please give us advance notification if you plan to make a stock gift by electronic transfer so that we can place the gift in the correct fund. You may also choose to hand-deliver stock certificates, with the appropriately executed stock power.

In the case of more complicated gifts, such as real estate, shares in closely held businesses or other unusual assets, the proposed gift may require additional review by Foundation staff and board members. This may add several weeks to the process. While our goal is to be responsive, the McPherson County Community Foundation board members have final authority to accept or decline any proposed gift. Our gift acceptance policy is available upon request.

### GIFTING IDEAS

**Estate Plans.** Please keep your Donor Advised Fund in mind as you develop your estate plans. The most significant impact most of us will ever have is through the generosity of our estate plans.

You can include languages in your will about your fund or list the McPherson County Community Foundation as the beneficiary of your retirement funds. This way, your donor advised fund will continue to be a vehicle for charitable giving after your lifetime.

You can establish a Donor Designated Fund or other type of fund that will be funded upon your death. This will create a permanent funding stream for the charities you care about most. You can change the list of beneficiaries for your fund at the Foundation at any time for no cost and without changing your will. Give us a call. We would be happy to review these options with you.

**Year-End Giving.** Many of our donors choose to make additions to their funds in December. We strongly encourage you to send us such year-end gifts and grant recommendations as early as possible to ensure timely processing.

- **Cash, Check or Stock Certificates.** All liquid assets like cash, checks or stocks must be delivered to our offices or postmarked by the U.S. Postal Service by close of business on December 31 each year. In the case of a stock certificate, it should be hand-delivered with the appropriately executed stock power by 4 pm on December 31.



## ADDING TO YOUR FUND

- **Stocks Transferred by Wire.** Instruct your broker to transfer to the McPherson County Community Foundation account. It is recommended the transfer take place by December 15 in order to ensure it is complete by the end of the calendar year. Contact the Foundation office for transfer instructions.
- **Mutual Funds.** Submit completed letter of instruction and most recent mutual fund statement to us by December 1.
- **Real Estate.** Real estate gift acceptance requirements include two officers of the Foundation physically inspect the property and require an initial environmental review of the property to ensure that the property is not contaminated with environmental damage. Contact us by September 30 to begin the process to be recorded in the current calendar year.
- **Special Securities (e.g. restricted stock).** Instruct your broker to initiate the process with us by October 31.

**PLEASE NOTE:** If December 31 falls on a non-business day for the Foundation (Friday, Saturday or Sunday), stock certificates or documents you plan to hand-deliver, must be in the office by 4 pm on the last business day of the year for the Foundation. To confirm that date, contact our office.



# ILLUSTRATIONS AND CHARTS

## Illustrations and Charts

TABLE 1. MCCF FUND VS. PRIVATE FOUNDATION

### 1. INCOME TAX DEDUCTIONS FOR DONOR

	<b>MCCF Fund</b>	<b>Private Foundation</b>
	<i>Percentage limitations (Adjusted Gross Income)</i>	
<b>Cash Gifts</b>	50%	30%
<b>Capital Gain Property</b>	30%	20%
<b>Carry-over Available</b>	Yes	Yes
	<i>(Amount deductible subject to % limitations)</i>	
<b>Capital gain publicly traded stock</b>	Fair Market Value	Fair Market Value
<b>Other capital gain property</b>	Fair Market Value	Basis

### 2. ACCOUNTING & TAX PREPARATION

	<b>MCCF Fund</b>	<b>Private Foundation</b>
<b>Separate tax returned required</b>	No	Yes
<b>Separate account statements required</b>	No	Yes
<b>Tax returns open to public inspection</b>	Yes (but not donor list)	Yes

### 3. OPERATING RULES OF INTERNAL REVENUE CODE

	<b>MCCF Fund</b>	<b>Private Foundation</b>
<b>Excise tax on investment income</b>	No	Yes
<b>Minimum payout requirement</b>	No	Yes
<b>Restrictions on "self-dealing" or donor benefit</b>	Yes	Yes
<b>Restrictions on holding interests in business</b>	Yes	Yes
<b>Prohibition against grants to support lobbying</b>	Some	Yes
<b>Application of expenditure responsibility procedures for grants to organizations that are not public charities.</b>	Yes	Yes
<b>IRS pre-approval of scholarship and research grant procedures</b>	Yes	Yes
<b>Possibility of advisory role in grant making</b>	Yes	Yes
<b>Possibility of legal control by donor in grant making</b>	No	Yes

### 4. INVESTMENT & ADMINISTRATION

	<b>MCCF Fund</b>	<b>Private Foundation</b>
<b>Opportunity to participate in community foundation's pool</b>	Yes	No
<b>Possibility of donor control over investments</b>	No	Yes
<b>Access to advice and counsel of professional staff</b>	Yes	If staff retained to consult
<b>Possibility of grant making to out-of-state charities</b>	Yes, in most cases	Yes

# ILLUSTRATIONS AND CHARTS

TABLE 2. 50 YEAR ENDOWMENT GROWTH

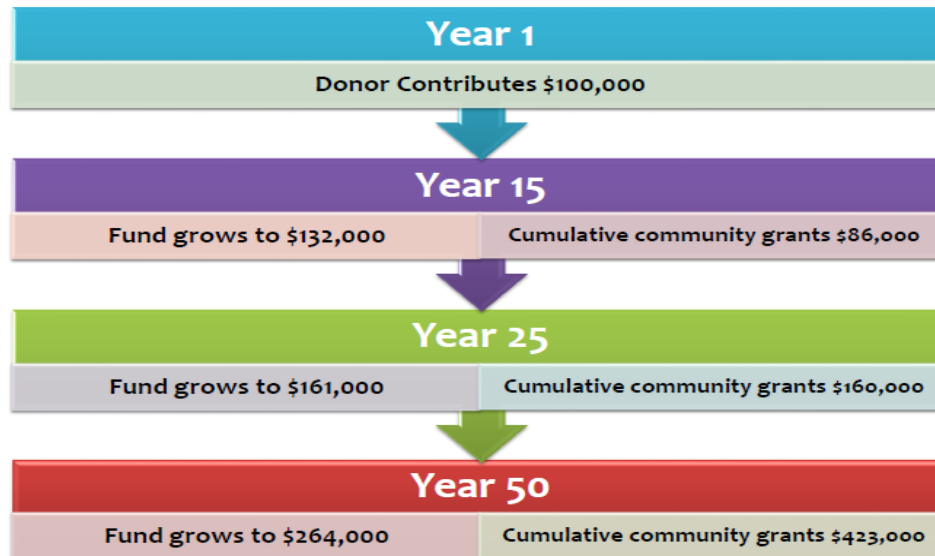


TABLE 3. COMPARISON OF FUND TYPES

The Foundation offers multiple levels of fund types designed to meet the goals and needs of donors or agencies. The table listed below illustrates the various types based on how it was created, reason for selection process, areas of interest and who determines grant recipients.

Type of Fund	How Created	Reason for Selection	Areas of interest & type of support	Decision Making
<b>Unrestricted</b>	Direct gift or bequest	Client feels gratitude to community, wants to provide for future needs	Any area of interest	Board of Directors
<b>Field of Interest</b>	Direct gift or bequest	Client wants to perpetually support favorite causes, like arts, animal welfare or education	Client states an area of interest and type of support	Board of Directors
<b>Designated</b>	Direct gift or bequest	Client wants to perpetually support favorite organization	Client names agency and type of support; Foundation staff monitors for compliance	Board of Directors renews authority for distributions annually
<b>Agency Endowment</b>	Nonprofit agency establishes for its own benefit	Agency wants to protect its endowment and benefit from investment economies of scale	Agency decides how funds will be used	Board of Directors renews authority for distributions annually
<b>Advised</b>	Client recommends grants	Client wants to give with greatest efficiency and convenience	Client recommends areas of interest and types of support	Board of Directors, after consideration of donor recommendations

## CONTACT INFORMATION

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### THANK YOU!

It is truly a privilege and honor to assist you with your charitable goals. We are a community resource that is designed to help preserve wealth in our community while improving the quality of life for all citizens.

You can make a lasting gift through your estate plans. Even more, you can help us continue this wonderful work by referring your friends and colleagues to make a lasting gift through the Foundation. Tell them about your experiences with your fund and the granting process. You can make a difference.

Remember, there is never a fee to talk with us about establishing or building a fund. If you have a philanthropic spirit and wish to create a permanent funding stream for causes you care about, call us. We are here to help.



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