

DONOR ADVISED FUND 101 FOR NONPROFITS

Recognizing and Stewarding Donors Who Give Through DAFs



THE CHICAGO
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A Donor Advised Fund (DAF) is a charitable giving account established at a public charity (such as The Chicago Community Trust) called a “sponsoring organization.” Many donors use DAFs because they allow for easy and flexible giving. Contributions to donor advised funds at the Trust totaled \$1.7 billion in the last fiscal year; grants from donor advised funds at the Trust totaled approximately \$1.5 billion.

As DAFs continue to grow in popularity, many nonprofit organizations are seeking insight into how they can unlock the giving potential in donor advised funds. We hope you will find the following information useful in growing support for your work.

HOW DAFs WORK

Donors establish a donor advised fund at a sponsoring organization, funding it once, periodically, or annually. Donors receive an income tax charitable contribution deduction from the sponsoring organization in the year they make the contribution to the DAF.

Donors recommend grants from their fund to qualified 501c3 public charities—however it is the sponsoring organization that issues the payments and has legal responsibility for the assets of the DAF.

For example, when Jane Smith wants to use her DAF to support a nonprofit, she submits a grant recommendation through the Trust’s online Donor Portal. The Trust has a team that processes DAF grants and sends the checks to the designated organizations.

While the Trust posts RFPs and invites applications for its discretionary community grant initiatives, there is no application for a donor advised fund grant. As with any charitable gift, cultivation and stewardship are critical to growing a relationship with the donor and starting a conversation about further support.

- A sponsoring organization can be a community foundation, a single-issue charity, or a commercially affiliated national charity.
- Donors can open a DAF either during their lifetimes or through their estate and design a succession plan for their giving.
- DAFs are often created when an individual:
 - Has a high-income earning year
 - Has a liquidity event after the sale of a business or other asset
 - Wants to give highly appreciated stock through one transaction, but wants to grant to several organizations
 - Wants to track only one tax receipt for charitable contributions
 - Wants an intentional plan for giving
 - Wants to include several family members in giving decisions
- DAF-advisors cannot receive a personal benefit from their DAFs—for example DAF grants can’t be used to purchase tickets for the DAF-advisor or family to a charity event or to fulfill a pledge.

CONNECTING WITH THE DONOR

A DAF grant from the Trust or any sponsoring organization will be accompanied by a grant award letter. The letter will include the name of the DAF-advisor unless they choose to remain anonymous and may also include specific instructions for acknowledgement.

Giving through a DAF indicates that an individual (or group) has made a commitment to philanthropic giving and may have a giving focus and strategy.

Steps to take upon receipt of a DAF grant:

- Make sure your advancement/development team receives a copy of the grant award letter.

If you already know the DAF-advisor:

- Send a handwritten thank you note to acknowledge receipt of the grant. *You should not send a typical tax receipt letter. The donor received a tax deduction when they opened the DAF or contributed to the fund; grant distributions are not tax deductible.*

If you do not know the DAF-advisor:

- If the grant letter does not provide the DAF-advisor's information, follow instructions in the award letter to acknowledge the grant, which may include contacting the philanthropic advisor at the sponsoring organization to share acknowledgement of the grant.
 - Send a handwritten note and thank you to the DAF-advisor through the philanthropic advisor.
 - Request permission to add the DAF-advisor to your contact list for future communications.
- Cultivate and steward the DAF-advisor in the same way you would other individual donors.

MARKETING THAT YOU ACCEPT DAFs

While it may seem obvious, some donors may not immediately think about their DAFs when they receive a solicitation. Make sure that you communicate in all solicitations, acknowledgements, and on your website that you accept DAF grants, and ensure your tax ID information is easily available.

WORKING WITH THE SPONSORING ORGANIZATION

Sponsoring organizations vary in how actively they engage with DAF-advisors in the development of a giving strategy and selection of nonprofits to support. You can reach out to philanthropic advisors at the sponsoring organizations to ensure they are aware of your work and mission.

The Trust is committed to partnering with donors and nonprofits to advance positive change in our communities. Please email donorservices@cct.org with additional questions about DAF giving.