HARNESSING THE POWER OF DONOR-ADVISED FUNDS FOR COMMUNITY GROWTH

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A donor-advised fund (DAF) is a philanthropic vehicle established at a public charity. It allows donors to make a charitable contribution, receive an immediate tax deduction, and recommend grants from the fund over time. According to the IRS, a DAF is a fund or account maintained and operated by a section 501(c)(3) entity, a sponsoring organization.

Key Characteristics of DAFs:

1. **Sponsoring Organization:** The DAF is managed by a sponsoring organization, which must be a section 501(c)(3) entity.
2. **Donor Contributions:** Individual donors contribute to the fund. These contributions are irrevocable, meaning the donor cannot request their return.
3. **Advisory Privileges:** Donors or their representatives retain the right to recommend how the funds are distributed. However, the sponsoring organization makes the final decision.
4. **Legal Control:** Once the donation is made, the sponsoring organization has legal control over the funds. The fund cannot be classified as donor-advised if these characteristics are missing.

The Greater Kanawha Valley Foundation (TGKVF) offers DAFs as part of its philanthropic services. Here's how DAFs work at TGKVF:

- **Establishment:** Donors can establish a DAF by making a tax-deductible donation to TGKVF.
- **Advisory Role:** Donors can recommend grants to various nonprofit organizations and advise on the investment strategy for their fund.
- **Flexibility and Control:** While TGKVF maintains legal control over the funds, it values the input of its donors and works closely with them to fulfill their charitable intentions.
- **Impact:** DAFs at TGKVF support various causes, including health, education, community economic development, basic needs, and arts and culture.

RECENT IRS CONSIDERATIONS

The IRS is considering new regulations for DAFs to ensure transparency and accountability in their operations. These potential changes address concerns about how quickly funds are distributed to charitable causes and how the investments within DAFs are managed.

Understanding the fundamentals of DAFs and their potential regulatory changes can help donors make informed decisions about their philanthropic strategies. At TGKVF, the goal is to facilitate meaningful charitable giving that benefits both the donors and the community.

2023 DONOR-ADVISED FUNDS

114

20% of TGKVF'S Total 582 Funds

DONOR-ADVISED FUNDS AT TGKVF

As of December 31, 2023, The Greater Kanawha Valley Foundation (TGKVF) managed 114 donor-advised funds (DAFs), representing 20 percent of TGKVF's total 582 funds. Despite the positive performance, 13 funds did not make a 2023 distribution. Historically, these funds have made regular annual distributions, indicating that 2023 was unusual for these specific funds.

Impact of Donor-Advised Funds in 2023
In 2023, donor-advised funds significantly impacted TGKVF's overall charitable activities. As illustrated in Figure 1, DAFs accounted for 36 percent of TGKVF's total distributions for the year.

Here are some key statistics:

Grants Made: 454 grants

Total Amount Distributed: $5,451,720

This distribution amount marks a record high for TGKVF, representing a 41 percent increase in distributions from 2019.

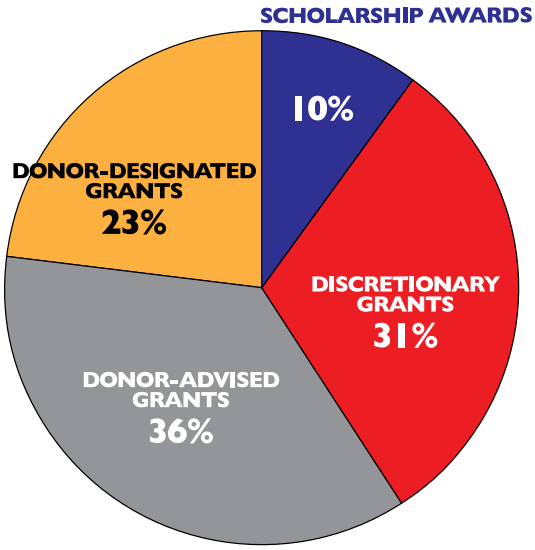

Figure 1 illustrates the significant portion of total distributions that donor-advised funds contribute, highlighting their importance in TGKVF's overall funding strategy.

Donor-advised funds play a crucial role at TGKVF in terms of the number of funds under management and their substantial contributions to annual distributions. The record high distribution in 2023 underscores the growing impact of these funds in supporting charitable initiatives across West Virginia and Central Appalachia. While a few funds did not make 2023 distributions, the overall trend indicates strong and increasing support from donor-advised funds. TGKVF's donor-advised grant-making over the past five years reveals several notable trends. As depicted in Table 1 below, distributions have varied across different sectors, with community-based education and health initiatives receiving significant support. Grants directed towards community-based education initiatives have exhibited the highest annual average over the past five years. This indicates a strong commitment from donors to support educational programs and projects that benefit local communities. Health initiatives have consistently received substantial support, with distributions closely following those made to community-based education initiatives. This trend highlights the importance of improving health outcomes and supporting health-related programs in the region.

Category	2023 Donor-Advised Distributions	2022 Donor-Advised Distributions	2021 Donor-Advised Distributions	2020 Donor-Advised Distributions	2019 Donor-Advised Distributions	5-Year Average
Animals	$99,050	$110,014	$74,023	$108,068	$92,142	$96,659
Arts & Culture	$813,680	$728,051	$583,636	$516,213	$725,935	$673,503
Basic Needs	$432,872	$428,761	$391,960	$290,656	$296,395	$368,129
Community Economic Development	$471,013	$959,489	$1,180,899	$1,249,358	$371,928	$846,537
Education - Community-Based	$945,750	$961,679	$1,248,369	$1,024,918	$1,144,747	$1,065,093
Education - University	$558,192	$424,411	$328,828	$470,820	$225,887	$401,628
Health	$1,061,524	$515,738	$1,210,971	$1,033,575	$812,413	$926,844
Intermediary Organization	$840,438	$434,068	$137,434	$77,376	$54,630	$308,789
Religious Organization	$229,201	$253,170	$127,142	$383,792	$139,603	$226,582
Total	$5,451,720	$4,815,381	$5,283,262	$5,154,776	$3,863,680	$4,913,764

Key Points from Distribution Amounts by Fund Type (2019-2023)
When examining the distribution amounts by fund type over the past five years, several key points emerge, as illustrated in Figure 2:

1. **Highest Distribution Amounts from Donor-Advised Funds**
   - **Consistent Leadership:** Donor-advised funds have consistently distributed the highest amounts each year, highlighting their significant role in TGKVF's grant-making activities.

2. **Record-Breaking Year in 2023**
   - **Pinnacle of Distribution History:** The year 2023 marked the highest distribution in TGKVF's history, with a total of $13.6 million distributed across 874 grants from discretionary, donor-advised, and donor-designated funds.

3. **Annual Average Distribution**
   - **Substantial Average:** Over the past five years, the annual average distribution stands at $13.1 million, demonstrating the robust philanthropic activities managed by TGKVF.

4. **Geographical Reach of Fund Types**
   - **Nationwide Distribution:** Donor-advised and donor-designated funds have a nationwide reach, allowing for a broader impact across the country.
   - **Local Focus for Discretionary Grants:** Discretionary grants are specifically confined to TGKVF's six-county service area, ensuring targeted support for the local community.
   - **Statewide Scholarship Awards:** Scholarship awards extend statewide, benefiting students across West Virginia.

5. **Record-Breaking Year for Scholarships**
   - **Significant Scholarship Distribution:** In 2023, TGKVF awarded 485 scholarships totaling over $1.5 million, marking a record breaking year for the Foundation's scholarship programs.

The analysis of TGKVF's distribution amounts by fund type over the past five years underscores the critical role of donor-advised funds, the impressive milestone reached in 2023, and the substantial impact of scholarships. The geographical reach of different fund types ensures that TGKVF's philanthropic efforts have both a broad and localized impact, supporting communities nationwide, within the six-county service area, and across the state of West Virginia.

Figure 2. Distribution Amounts by Fund Type

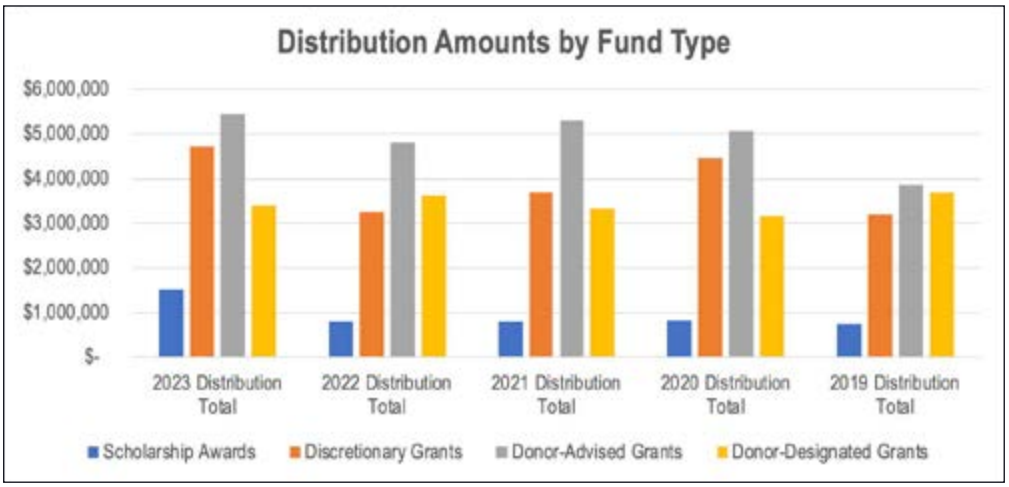

Figure 2 highlights the distribution trends by fund type, showcasing the significant contributions of donor-advised funds and the record-breaking achievements in 2023.

Trends in the Number of Awards Distributed by Fund Type (2019-2023)
Examining the number of awards distributed by fund type over the past five years, as shown in Figure 3, several trends become apparent.

1. **Donor-Advised Funds and Scholarship Funds Lead in Number of Awards**
   - **Consistent Leadership:** Donor-advised and scholarship funds have consistently distributed the largest number of awards each year, indicating their significant role in supporting various initiatives and individuals.
2. **Discretionary Funds Distribute the Fewest Grants**
   - **Increasing Trend:** While discretionary funds distribute the fewest number of grants, there has been a noticeable increase in the number of discretionary grants over the years, showing a growing focus on targeted community support.
3. **Peak Year in 2023**
   - **Record Numbers:** Discretionary grants and scholarships peaked in 2023, marking a significant milestone in TGKVF's grant making efforts.

The analysis of the number of awards distributed by fund type over the past five years reveals the dominant role of donor-advised and scholarship funds in TGKVF's philanthropic activities. Despite distributing the fewest grants, discretionary funds have shown a rising trend, culminating in a record peak in 2023. This growth in discretionary grants and scholarships underscores TGKVF's commitment to expanding its impact and supporting diverse initiatives and individuals across its service areas.

Figure 3 Number of Grants and Scholarships Awarded by Fund Type

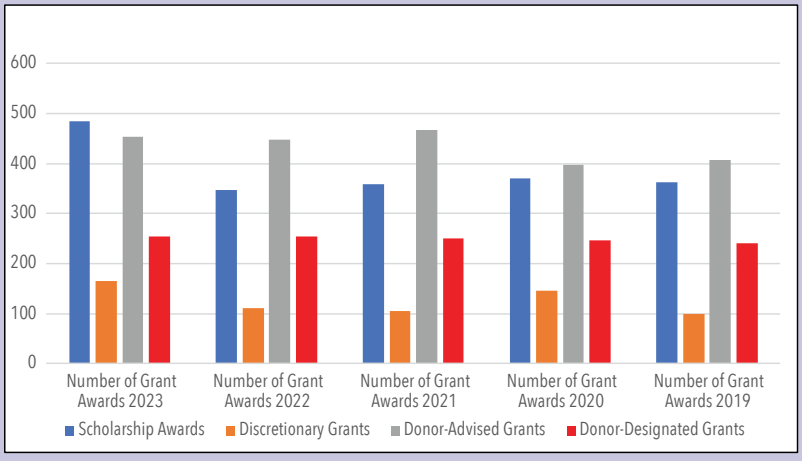

Figure 3 illustrates the distribution trends by fund type, highlighting the leading roles of donor-advised and scholarship funds, as well as the increasing impact of discretionary funds.

Observations on Annual Average Grant Size (2019-2023)

When considering the annual average grant size, as shown in Figure 4, several observations can be noted.

1. **Highest Average Grant Size: Discretionary Funds**
   - **Significant Impact:** Despite distributing the fewest number of grants, discretionary funds have the highest average grant size. This indicates that when these grants are made, they tend to be substantial, targeting significant projects or needs within GKVF's six-county area.

2. **Smallest Average Grant Size: Donor-Advised Funds**
   - **Broad Reach:** Donor-advised grants tend to be the smallest in size on average. This trend suggests that donor-advised funds often support a larger number of smaller projects, allowing for a broad reach across various initiatives and organizations.

Figure 4. 2023 Average Grant Size

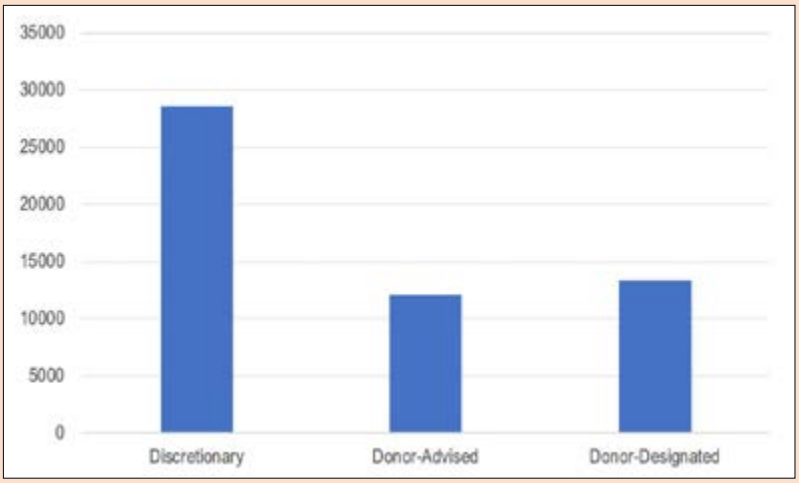

Figure 4 illustrates the average grant size by fund type, highlighting the relative differences in grant sizes among discretionary, donor-advised, and other funds

The annual average grant size analysis by fund type over the past five years reveals the strategic differences in TGKVF's grant-making approach. Discretionary funds, although fewer in number, provide larger grants, reflecting targeted support for significant initiatives within the local community. In contrast, with their smaller average grant size, donor-advised funds enable a wide-ranging impact by supporting numerous smaller-scale projects. This balanced approach ensures that TGKVF can address substantial community needs and diverse charitable activities through its various fund types.

BENEFITS OF DONOR-ADVISED FUNDS

Donors benefit from establishing a donor-advised fund at a community foundation in several ways:

- Donors can access the knowledge and expertise of foundation staff about community need
- Donors receive an immediate tax deduction when they contribute to a DAF, allowing for strategic tax planning.
- Donors can recommend grants to their favorite charities over time, enabling them to respond to current and future needs.
- DAFs simplify the process of charitable giving by handling all administrative tasks, including record-keeping, due diligence, and distribution of funds.
- Funds in a DAF can be invested, allowing for more significant future grants.
- Donors can involve family members in their charitable giving, teaching future generations about philanthropy and creating a family legacy.

The community benefits from donor-advised funds in several ways:

- DAFs enable donors to make more substantial, strategic contributions, often resulting in a more significant impact on the community.
- DAFs can quickly respond to emerging needs and crises, providing timely support to nonprofits and community initiatives.
- DAFs support various causes and organizations, contributing to a more vibrant and well-supported nonprofit sector.
- Foundations can leverage DAFs to collaborate with donors on large-scale projects and initiatives, amplifying the impact of philanthropic efforts.

TGKVF also benefits from managing donor-advised funds:

- DAFs can attract more significant donations from individuals who appreciate the tax benefits and flexibility and love their community.
- DAFs often lead to stronger relationships with donors, who may seek advice on their philanthropic strategies and become more engaged with the foundation's mission and activities.
- As funds are invested, they generate a steady stream of income that can support the foundation's operations and grantmaking activities.
- We charge modest administrative fees for managing DAFs, providing a sustainable revenue source to support our operations.
- DAFs increase the foundation's grantmaking capacity, enabling it to address a broader range of community needs and support more nonprofits.

GETTING STARTED IS EASY

1. **Open Your Fund:** Establishing a DAF with us is straightforward and can be tailored to your unique philanthropic goals.
2. **Contribute Assets:** You can donate various assets, including cash, stocks, real estate, and more.
3. **Recommend Grants:** You can recommend grants to your favorite charities at any time, allowing you to stay actively engaged with your philanthropy.

We invite you to join a community of passionate, like-minded individuals committed to making a positive impact. By starting a donor-advised fund at The Greater Kanawha Valley Foundation, you'll gain a trusted philanthropy partner dedicated to helping you achieve your charitable goals.

Let's work together to create a brighter future for our community. Contact us today to learn how to start your fund and begin your journey of impactful giving.