

# Nonprofits and Donor-Advised Funds:

## Perceptions and Potential Impacts

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*Researched and written by:  
Indiana University Lilly Family School of Philanthropy  
With support from: Schwab Charitable*

# Table of Contents

- Acknowledgements ..... iv
  - Indiana University Lilly Family School of Philanthropy ..... iv
  - Schwab Charitable ..... iv
- Highlights ..... 1
- Introduction ..... 3
  - Background ..... 3
  - How DAFs work ..... 3
- Current Study ..... 5
- Data and Methodology ..... 6
  - Survey ..... 6
  - Interviews ..... 6
- Overview: Experience with DAFs ..... 7
- Section 1: Perceptions of DAFs ..... 8
  - Theme 1: Experience with DAFs eases concerns for nonprofit organizations ..... 8
  - Theme 2: Nonprofit organizations have concerns about DAFs disrupting their relationships with their donors ..... 9
  - Theme 3: A majority of surveyed nonprofits were generally encouraged by the opportunity to connect with high net-worth (HNW) donors through DAFs ..... 11
- Section 2: Process for receiving gifts from DAFs ..... 13
  - Theme 4: The vast majority of surveyed nonprofits receive gifts from DAFs, solicit gifts from donors with DAFs, and are prepared to process gifts from DAFs ..... 13
  - Theme 5: Nonprofit organizations seek better ways to communicate with DAF donors when asking for gifts and in thanking donors ..... 16
  - Theme 6: Interviews revealed areas of confusion, specifically lack of knowledge of the solicitation process and managing the administrative burden, for some nonprofits ..... 18
- Spotlight: COVID-19: DAFs in times of crisis ..... 19

Section 3: Recommendations for how donors, sponsoring organizations, and nonprofits can work together more effectively .....20

    Theme 7: Donors, sponsoring organizations, and nonprofit organizations can work together to develop best practices for all three parties that will benefit the sector .....20

Discussion.....23

    Implications.....23

    Future Research .....23

    Conclusion.....23

Appendix A: Case Study Profiles.....24

    Large national human services organization .....24

    Large national health organization.....26

    Large national education organization.....28

    Mid-sized human services organization in the South.....30

    Mid-sized education organization in the West .....32

    Mid-sized environment and animals membership organization in the Midwest .....33

Appendix B: References .....35

Appendix C: Additional Resources .....38

    Donor-Advised Funds – History and Evolution.....38

    Donor-Advised Funds and Policy .....38

    Donor-Advised Funds and Tax Considerations.....38

Appendix D: Expanded Methodology.....39

    Survey Recruitment .....39

    Weighting.....39

    Analysis .....41

Notes.....42

*The full survey test, interview protocol, and statistical tables are available in an online supplemental appendix which can be accessed on the school's website: <https://philanthropy.iupui.edu/research/current-research/index.html>.*



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The Indiana University Lilly Family School of Philanthropy is dedicated to improving philanthropy to improve the world by training and empowering students and professionals to be innovators and leaders who create positive and lasting change. The school offers a comprehensive approach to philanthropy through its academic, research and international programs, and through The Fund Raising School, Lake Institute on Faith & Giving, Mays Family Institute on Diverse Philanthropy, and Women's Philanthropy Institute. Learn more at <https://philanthropy.iupui.edu/>.

### **Indiana University Lilly Family School of Philanthropy Project Team**

Una O. Osili, PhD, Associate Dean for Research and International Programs

Sasha Zarins, Project Manager

Jonathan Bergdoll, Applied Statistician

Melissa Buller, Project Consultant

Anna Pruitt, PhD, Managing Editor of Giving USA

Andrew Keeler, Associate Director of Corporate and Foundation Relations

Xiaonan (Coco) Kou, PhD, Associate Director of Research

Diantha Daniels, Senior Administrative Assistant

Adriene Davis Kalugyer, Manager of Public Affairs

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Design work by Jennifer Bradley Design, Zionsville, IN.

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### **Schwab Charitable Project Team**

Fred Kaynor, Vice President, Business Development & Marketing

Alisia Robin, Senior Manager, Strategic Partnerships

Stephanie Diamond, Managing Director, Charitable Planning Strategies

*With special thanks to Nadia Roumani, Principal of Roumani Consulting LLC.*

## Highlights

Donor-advised funds (DAFs) foster a unique partnership among nonprofits, donors, and DAF sponsoring organizations to achieve philanthropic goals. DAFs are also one of the fastest growing charitable vehicles and most talked about topics in the field of philanthropy.

Grants from DAFs totaled \$23.42 billion in 2018, reaching the highest level ever recorded [1]. Between 2014 and 2018, grants made by DAFs increased 90% [1] – over four times as quickly as growth in giving by individuals (17%) and total giving (21%) over the same time frame [2].<sup>1</sup> In fact, all metrics associated with DAFs have grown rapidly in recent years. The number of DAF accounts more than tripled from 2014 to 2018, and contributions and assets grew 86% and 73% respectively [1]. In other words, more donors have DAFs; more charitable dollars are flowing into these funds; more dollars are flowing from these funds to nonprofits and the funds hold greater assets now than ever before.<sup>1</sup> All of these factors indicate that DAFs will play an increasingly important role in the philanthropic landscape in years to come.

With growth in usage, DAFs have received increasing attention from donors, nonprofit organizations, scholars, the media, and policymakers. For example, in the media, the term “donor-advised fund” appeared in over 900 newspaper articles in the last three years alone.<sup>2</sup> While much of the media coverage introduced the public to this relatively new vehicle, some critics have also expressed concerns about DAFs, and more specifically, about whether DAFs should be required to have a payout rate to ensure that charitable dollars move from DAF accounts to nonprofit organizations in a timely manner.<sup>ii</sup> Similarly, prominent nonprofits and donors have taken varying stances on how the government should regulate DAFs (e.g. limitations on holding funds in a DAF, tax benefits, transparency), illustrating that there are many different perceptions about DAFs and their role in the field [6-8]. Policymakers are also taking note. In 2019, California state lawmakers introduced a bill that would require DAF sponsoring organizations to report grantmaking activity of each individual fund, rather than on an aggregate level [9; 10]. Though the bill has not progressed, the interest in the policy side of DAFs is also likely to continue.

The interest in DAFs has also sparked a wave of research, including multiple studies about how many charitable dollars are flowing into DAFs, how much DAFs are granting, and how those patterns have changed over time [1; 11; 12]. On the other side of the equation, some large national DAFs have contributed research about their DAF donors, and how donor behavior changes according to the donor’s generational group [13-15].

Moreover, it is essential to understand donors’ and nonprofit organizations’ perceptions of DAFs. Perceptions not only affect how and when DAFs are used, but they impact policymakers’ decisions about rules and regulations, thereby influencing the long-term efficacy of DAFs as a philanthropic vehicle.

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<sup>1</sup> All data are in current dollars.

<sup>2</sup> Based on a search of the term “donor-advised fund” anywhere in Newspaper publications for the past 3 years using the ProQuest Database: <https://search-proquest-com.proxy.ulib.uits.iu.edu/?accountid=7398>



However, despite the sustained interest in DAFs, more research exists that has focused on donors' experiences with DAFs than research that has focused on how nonprofit organizations perceive and interact with DAFs. How nonprofits perceive and interact with DAFs is particularly important in the wake of the twin crises of the global COVID-19 pandemic and an economic recession, as DAFs became an important tool for donors to respond to these crises. A recent report found that donors at Fidelity Charitable, Schwab Charitable, and Vanguard Charitable had donated \$452.9 million to COVID-19 relief efforts as of June 2020 [16], and the four largest DAF sponsoring organizations [17], as well as community foundations of all sizes, reported significant increases in grants from DAFs during the first part of the COVID-19 pandemic [18]. The question of how nonprofits, donors, and DAF-sponsoring organizations work together has never been more vital.

This study seeks to understand how nonprofits perceive and interact with DAFs and how those interactions can be improved to create an even stronger partnership among donors, nonprofits, and DAF sponsoring organizations.

This study explores three key questions:

1. How do nonprofit organizations perceive DAFs?
2. How do nonprofit organizations process donations received from DAFs?
3. How can DAF sponsoring organizations and nonprofit organizations work together even more effectively?

To answer these questions, this study fielded a national survey of nonprofit organizations and semi-structured interviews with development or leadership officers at nonprofit organizations. The qualitative and quantitative data revealed several key findings:

1. Nonprofit organizations that have experience with DAFs have more positive perceptions of DAFs;
2. Nonprofit organizations benefited from having a process in place to receive, track, and acknowledge DAF gifts; and
3. Nonprofit organizations requested that donors provided more direction and details for their gifts and that sponsoring organizations offered support to enhance nonprofits' ability to communicate with donors.

In addition to these findings, the report includes a special section focusing on nonprofits' experience during the COVID-19 pandemic.

The report concludes with profiles of the organizations interviewed and discussion around the implications and future directions of the research. In addition, the report includes actionable tips for donors, DAF sponsoring organizations, and recipient organizations to help develop best practices for all three partners that will benefit the sector.

# Introduction

## Background

DAFs are a type of philanthropic giving vehicle, and the process for donations made through DAFs can be described as a two-stage process (see *Figure 0.1*).

The first DAFs were created in the 1930s, but were not regulated until the Tax Reform Act of 1969 [19-21]. The term “donor-advised fund” was not codified in the federal tax code until the Pension Protection Act of 2006, which added both the term and its definition to the federal tax code [22]. DAFs began growing in popularity throughout the 1990s [21] and have continued to grow throughout the first two decades of the 21st century [1; 19].<sup>iii</sup>

There are three main types of DAF sponsoring organizations (hereinafter, “sponsoring organizations”).<sup>3</sup> National Philanthropic Trust’s *2019 Donor-Advised Fund Report* stated that there were 54 national charities sponsoring DAF accounts in 2018, which represents 593,356 DAF accounts and \$72.4 billion in charitable assets [1]. In 2018, \$23.4 billion was contributed and \$13.1 billion was granted from DAFs sponsored by national charities [1].<sup>ii</sup> The payout rate for DAFs at national charities at 22.2 percent was slightly higher than the overall payout rate of 20.9 percent in 2018 [1].

One important factor influencing the growth of DAFs is the evolution of technology over the past decade (2010-2019). It is now much easier for donors to contribute to and recommend donations from DAFs using online tools and smartphone apps than it was at the beginning of the decade [3].

## How DAFs work

In the first stage, donors make a contribution, which is tax deductible, to their personal DAF account held by a sponsoring organization. This contribution is irrevocable and the contributions, whether cash, stocks, or other assets, are managed by the sponsoring organization [11; 27]. In addition, a DAF is an investment account, meaning it can grow over time. However, while the sponsoring organization owns the fund, the donor can suggest or advise the sponsoring organization to make grants to other public charities recognized by the Internal Revenue Service. The sponsoring organization is not legally required to follow the advice of the donor, but, in practice, they almost always do [27].

At this point the sponsoring organization owns the funds in the account, but the second stage of the process is triggered by the donor/advisor who can suggest or advise the sponsoring organization to make grants to other 501(c)(3) public charities recognized by the Internal Revenue Service. The nonprofit organization then receives the grant as a check from the sponsoring organization; some larger sponsoring organizations typically pool the funds directed to a single organization and send a single check with a list of donor accounts.<sup>4</sup>

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<sup>3</sup> Community foundations, single-issue charities, and national charities [11; 27].

<sup>4</sup> Donors can also choose to remain anonymous.



**Figure 0.1.** Donation process for giving through a DAF



As the popularity of DAFs grows, scholars, practitioners, policymakers, and nonprofit leaders have continued to debate the benefits and costs of DAFs. However, most of the research has focused on advantages and disadvantages for donors. DAFs provide numerous benefits for donors, particularly those in the middle-upper income bracket, including tax benefits,<sup>iv</sup> assistance with liquidating contributions of non-cash assets,<sup>v</sup> low administrative costs and increased administrative support,<sup>vi</sup> and the option of anonymity.<sup>vii</sup>

While there are some references to nonprofit organizations' perceptions of DAFs, such as the perceived lack of ability to interact with their DAF donors, most of the research thus far has focused on the advantages and disadvantages for donors. There is one recent study that examined nonprofit CEOs' perspectives about DAFs. In a survey of nonprofit organizations published in the Center for Effective Philanthropy's *The Funding Landscape*, nonprofit CEOs were asked about the benefits of DAFs and their concerns with regards to DAFs. That DAFs place less of an administrative burden on nonprofit organizations was the most commonly cited advantage and concerns that DAFs interfere with organizations ability to build relationships with their donors was the most commonly cited disadvantage for nonprofit organizations according to their CEOs [44]. While this study provides some insight into nonprofit organizations' perceptions of DAFs, more research is still needed to better understand their perspectives.

This report addresses some of these gaps by examining nonprofit organizations' perceptions of DAFs and the processes used by nonprofit organizations to solicit, accept, track, and acknowledge DAF gifts. The paper begins by briefly discussing the current study before describing the data and methodology used for this study. The report is then broken into three sections, each addressing one of the key research questions. The report concludes with implications for practitioners and researchers. In addition, the report includes a special spotlight on nonprofits' experiences during the COVID-19 crisis and how DAF donors respond during times of crisis, in general. Finally, profiles of the organizations interviewed for the case study portion of the study are included in the appendix.



## Current Study

The current study aims to address the gap in the literature exploring nonprofit organizations' experiences with DAFs.

This study explores three key questions:

1. How do nonprofit organizations perceive DAFs?
2. How do nonprofit organizations process donations received from DAFs?
3. How can sponsoring organizations and nonprofit organizations work together even more effectively to improve the DAF process?

Through qualitative and quantitative data, this study raised seven key themes, broken out according to each research question.

### ***How do nonprofit organizations perceive DAFs?***

1. Experience with DAFs eases concerns for recipient organizations;
2. Nonprofit organizations have concerns about DAFs disrupting their relationships with their donors; and
3. The majority of surveyed nonprofits were generally encouraged by the opportunity to connect with high net-worth (HNW) donors through DAFs.

### ***How do nonprofit organizations process donations received from DAFs?***

4. The vast majority of surveyed nonprofits receive gifts from DAFs, solicit gifts from donors with DAFs, and are prepared to receive gifts from DAFs;
5. Recipient organizations seek better ways to communicate with DAF donors when asking for gifts and in thanking donors; and
6. Interviews revealed areas of confusion, specifically lack of knowledge of the solicitation process and managing the administrative burden, for some nonprofits.

### ***How can sponsoring organizations and nonprofits work together even more effectively to improve the DAF process?***

7. Donors, sponsoring organizations, and nonprofit organizations can work together to develop best practices for all three parties that will benefit the sector



## Data and Methodology

This report highlights results from a two-phase research project that included a national survey of nonprofit organizations and interviews with six organizations. Additional information on the survey and interview methodology can be found in the appendix

### Survey

The final survey sample size included 448 nonprofit organizations. The sample included organizations of varying revenue sizes (below \$100,000 to over \$50 million), from all subsectors, and from all regions of the United States.

### Interviews

Interviews were conducted with six organizations that ranged in revenue size, subsector, and geographic location. Findings from the interviews are included in the body of the report along with the results from the survey. The six organizations are also profiled in the “Case Studies” section of the report.

**Table 0.1.** Case study organizations

<b>Subsector</b>	<b>Revenue<sup>1</sup></b>	<b>Geographic Region</b>
Human Services	\$50M+	National
Health	\$50M+	National
Education	\$50M+	National
Human Services	\$1M-\$5M	South
Education	\$1M-\$5M	West
Environment	\$25M-\$50M	Midwest

## Overview: Experience with DAFs

Overall, 70 percent of organizations that responded to our survey had received a gift from a DAF in the last three years (hereinafter, referred to as DAF recipient organizations).<sup>5</sup> If participants indicated that they had received a DAF gift in the past three years, we asked which fiscal years (FY) their organization received donations through DAFs. In general, excluding 2020, which represented a partial year, the percentage of organizations that received DAF gifts increased in more recent years (see *Table 0.2*).

**70%**  
of organizations  
in our survey had  
received a gift  
from a DAF.

**Table 0.2.** What fiscal years (FY) did your organization receive contributions through DAFs?

	Full Sample	DAF Recipient Organizations Only
Before 2017	33.6%	47.9%
2017	50.3%	49.9%
2018	46.6%	66.4%
2019	58.0%	82.6%
2020 <sup>6</sup>	33.9%	48.3%

<sup>5</sup> There are no other known studies or publications that estimate the percentage of all nonprofit organizations in the United States who have received gifts from DAFs. However, a survey of California nonprofits found similar results to our survey: over 70 percent of respondents to CalNonprofits' survey had received a gift from a DAF in the year prior to the survey [45].

<sup>6</sup> Note that the survey was fielded February 2nd, 2020 through April 10th, 2020, so most organizations had not completed their 2020 fiscal year, which explains the lower rates of DAF gifts in 2020.



## Section 1: Perceptions of DAFs

Previous research has identified numerous benefits of DAFs for donors, but little research has focused on the benefits and concerns for nonprofit organizations. Therefore, we tried to assess nonprofit organizations' perceived benefits and concerns about DAFs using the survey by asking respondents to rate how encouraged or concerned they are about the following issues related to DAFs:

- Donor contact
- Ability to accept non-cash donations
- Ability to reach wealthy donors
- Administrative burden
- Unsolicited gifts
- Transparency
- Gift size
- Unclear donor requests
- Difficulty in soliciting donations

For most issues, respondents were primarily neutral, indicating that they do not see the issue as concerning or encouraging. This in itself is important to consider because this could indicate that nonprofit organizations' perceptions are more influenced by experience than public discourse, which will be explored in the following themes [5; 41; 46]. Over 50 percent responded neutrally when asked about the ability to accept non-cash donations (63 percent), administrative burden (60 percent), and unclear donor requests (57 percent). In addition, neutral was the most common response when asked about unsolicited gifts (45 percent) and transparency (42 percent).

Three themes in this section explore the most encouraging and concerning perceptions of DAFs identified in the survey and interviews.

### ***Theme 1: Experience with DAFs eases concerns for nonprofit organizations***

Nonprofit organizations that had received a gift from a DAF had fewer concerns than those that had not received a gift from a DAF.

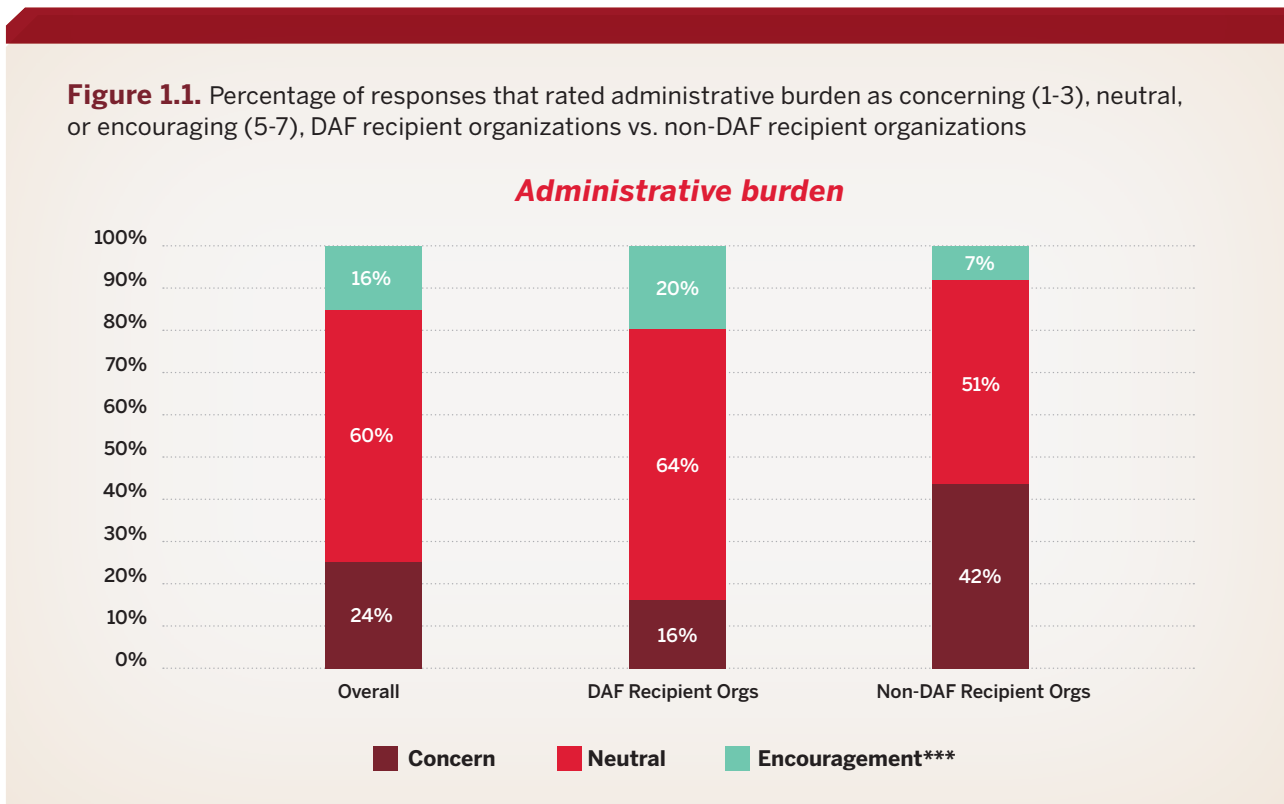
Respondents who had received a gift from a DAF in the last three years (DAF recipient organizations) tended to have more positive perceptions about DAFs both in terms of raising funds and processing them. DAF recipient organizations that had received a gift in the last three years were more likely to indicate that they were encouraged and less likely to indicate that they were concerned about soliciting donations, as well as the ability to reach wealthy donors than respondents that had not received a gift from a DAF in the last three years (non-DAF recipient organizations). The pattern held true for DAF recipient organizations once gifts had been received as well: DAF recipient organizations were more encouraged and less concerned about unclear donor requests, and the amount of time and resources necessary to process DAF gifts ("administrative burden," *Figure 1.1*), as compared with organizations that had not received a gift from a DAF. In addition, DAF recipient organizations were more likely to indicate encouragement about gift size than non-DAF recipient organizations. These results were supported by regression analyses.<sup>7</sup>

Overall, nonprofits that have more experience with DAF gifts have more positive perceptions of DAF gifts.

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<sup>7</sup> Results can be viewed in the *Online Supplemental Appendices* on the school's website: <https://philanthropy.iupui.edu/research/current-research/index.html>.

**Figure 1.1.** Percentage of responses that rated administrative burden as concerning (1-3), neutral, or encouraging (5-7), DAF recipient organizations vs. non-DAF recipient organizations



Note: \*\*\* p<0.01, \*\* p<0.05, \*p<0.1; Significantly more DAF recipient organizations than non-DAF recipient organizations were encouraged about the administrative burden (p<0.05) and significantly fewer DAF recipient organizations than non-DAF recipient organizations were concerned about the administrative burden (p<0.01).

**Theme 2: Nonprofit organizations have concerns about DAFs disrupting their relationships with their donors**

Nonprofit organizations have some concerns about DAFs, primarily about the donor-recipient relationship.

**Negative perceptions of DAFs**

Among organizations that have received a gift from a DAF, 78.6 percent had been in contact with donors or perspective donors who give through a DAF. Despite this, **donor contact** was the issue of greatest concern among the matters we asked about. Over 60 percent of respondents indicated some level of concern with donor contact. Lack of contact was perceived to be the biggest issue with DAF gifts. For example, in open-ended responses, some nonprofit organizations noted that they could only communicate with the donor through the sponsoring organization and that this caused them to miss opportunities to share proposals with donors that may be particularly interested in a particular program or issue. Other respondents shared that it was just generally difficult to get in touch with donors who give through DAFs, but were not specific about what difficulties they had encountered.



**Unclear donor requests** was a lesser concern, with over 50 percent rating the issue as neutral. However, many smaller organizations noted that they had received unclear donor requests in their written responses. For example, a mid-sized,<sup>8</sup> Public, Societal Benefit organization in the northeast shared that “as a fiscal sponsor [they] process gifts on behalf of over 100 initiatives. Sometimes DAF gifts are missing the indication of which initiative they are for, and it is difficult to get in touch with the donor or their representative to clarify.”

Another issue that is common in the discourse around DAFs is the tension between **donor anonymity** and **transparency**. DAFs offer donors anonymity, but donors are not required to give anonymously, nor is anonymity the default option [5; 12]. Donors may want to keep their identity or the amount of their gift anonymous for religious, familial, or financial reasons and protection [5]. DAF anonymity can promote philanthropic freedom, which is attractive to donors [47; 48]. In our survey, 52 percent of organizations that had received a gift from a DAF had received one or more anonymous gifts. However, some scholars and nonprofit leaders fear that this anonymity creates transparency issues [40; 41]. To better understand nonprofit organizations' perceptions of this tension, we asked how encouraging (7) or concerning (1) the issue of transparency is in their view. The most common response to this issue is neutral (41.8 percent), but slightly more respondents indicated some level of concern (31.9 percent) than encouragement (26.5 percent) with regards to transparency. Therefore, it is possible that transparency is not as much of a concern for nonprofit organizations as it appears in the public discourse.

**52%**  
of organizations  
who had received  
a gift from a DAF  
had received  
an anonymous  
donation.

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<sup>8</sup> Revenue \$10 million to \$25 million.

### **Theme 3: A majority of surveyed nonprofits were generally encouraged by the opportunity to connect with high net-worth (HNW) donors through DAFs**

Many nonprofit organizations saw **larger gift sizes**, the **ability to reach wealthy donors**, and **receiving unsolicited gifts** as encouraging factors of DAFs. The higher the revenue of the organization, the more likely they are to report feeling encouraged about DAFs and the ability to reach wealthy donors.

While the survey focused on perceptions of DAFs, some anecdotal evidence supports these positive perceptions. In the open-ended responses, many survey respondents indicated that larger gifts were a benefit of DAFs, and the value of DAF gifts was well articulated by a large<sup>9</sup> national health organization in their interview:

*“I believe [donor-advised funds] brought in more revenue...my observation is people are being more generous. In some ways, we have a lot of anecdotal evidence to that effect, but we also saw a huge uptick in the last fiscal year in terms of individual giving, and could trace that directly to seeing a lot more donor-advised fund gifts coming in.”*

However, additional research is needed to understand whether the perception that DAFs provide access to larger gifts and wealthier donors is the reality.

#### **Positive perceptions of DAFs**

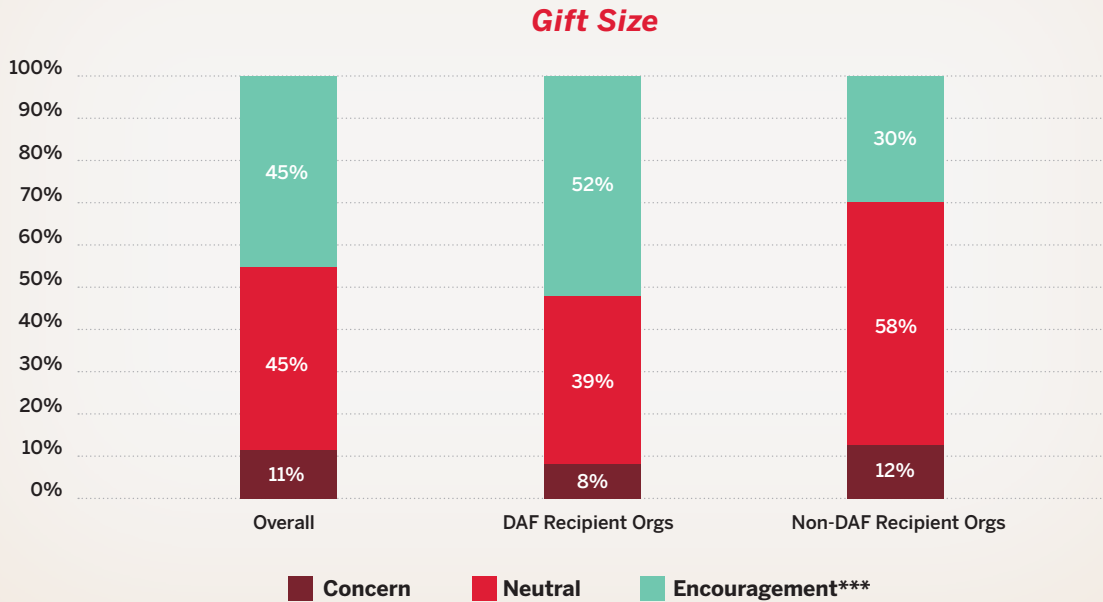
Gift size was seen as an encouraging factor related to DAF gifts, with 45 percent of respondents rating the issue as encouraging (see *Figure 3.1*). This was largely driven by organizations that had received a DAF gift – 52 percent of DAF recipient organizations rated the issue as encouraging and only 30 percent of non-DAF recipient organizations rated the issue as encouraging. However, there was no significant difference between DAF recipient organizations and non-DAF recipient organizations in how concerning the issue of gift size was. In other words, most of those that did not find the issue encouraging remained neutral on the issue, especially among non-DAF recipient organizations (58 percent of non-DAF recipient organizations rated the issue of gift size as neutral).

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<sup>9</sup> Revenue \$50 million or more.



**Figure 3.1.** Percentage of responses that rated gift size as concerning (1-3), neutral, or encouraging (5-7), DAF recipient organizations vs. non-DAF recipient organizations



Note: \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ; Significantly more DAF recipient organizations than non-DAF recipient organizations were encouraged about gift size ( $p < 0.01$ ).

Nearly 60 percent of respondents indicated that they thought the ability to reach wealthy donors was an encouraging factor of DAF gifts. This encouragement was higher among organizations that had received a DAF gift in the past three years (65 percent) compared to those that had not (47 percent). It was also rated as a more encouraging factor among high revenue organizations. In addition, nearly 9 in 10 respondents were neutral or encouraged about receiving unsolicited gifts from DAFs.

Reaching wealthy donors, receiving unsolicited gifts, and receiving larger gifts were all noted as positive aspects of DAFs by nonprofit organizations. However, additional research is needed to better understand whether these perceptions are the reality for nonprofit organizations of all sizes, types, and geographic locations.



## Section 2: Process for receiving gifts from DAFs

In addition to asking survey respondents and interviewees about their perceptions of DAFs, we inquired about the processes they used to solicit, receive, and process gifts from DAFs.

### ***Theme 4: The vast majority of surveyed nonprofits receive gifts from DAFs, solicit gifts from donors with DAFs, and are prepared to process gifts from DAFs***

As previously mentioned, 70 percent of survey respondents had received at least one gift from a DAF in the past three years. However, soliciting DAF gifts and processing DAF gifts differed among nonprofit organizations.

#### ***Soliciting DAF gifts***

Many nonprofit organizations have not changed their fundraising practices to inform their donors and potential donors that they are eligible and set up to receive donations from DAFs. In other words, they do not specifically solicit for DAF gifts. They can, and do, still receive gifts from DAFs. However, as DAFs grow in popularity, many organizations are purposefully adding language and practices to their fundraising plans to directly address DAF gifts [49]. There are many ways that nonprofit organizations may solicit gifts from DAFs, such as talking to their donors about DAFs, including information about giving through DAFs in their fundraising materials, and communicating with sponsoring organizations.

Moreover, these solicitation methods appear to be helpful. A higher portion of organizations that had solicited DAF gifts received a gift from a DAF compared to organizations that had not solicited DAF gifts: 87 percent of organizations that solicited for DAF gifts received a DAF gift in the past three years and 42 percent of organizations that did not solicit for DAF gifts received a DAF gift in the past three years.

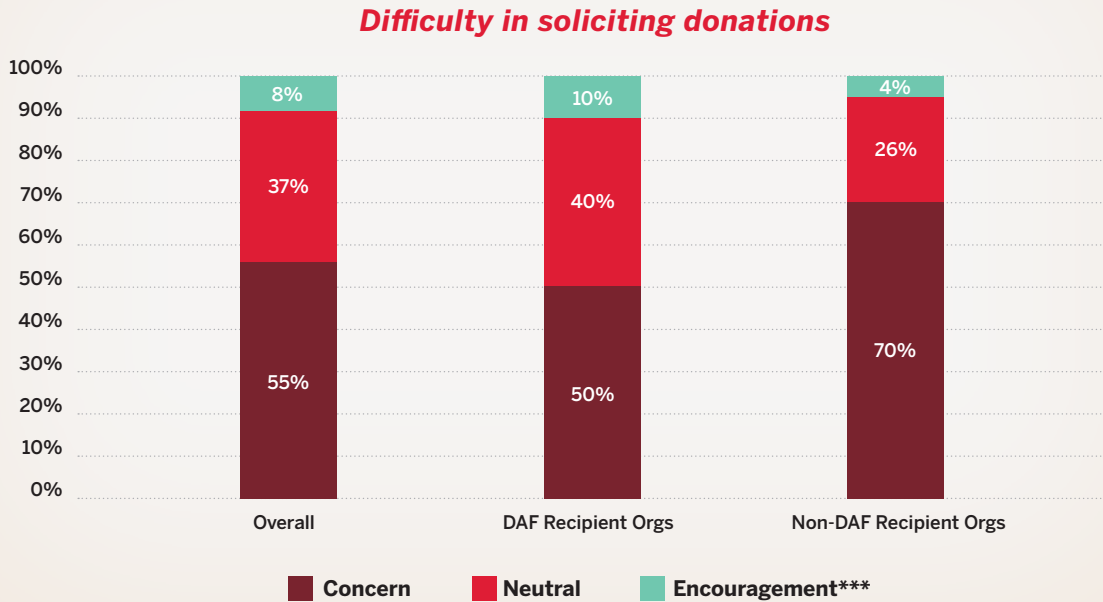
However, over half of surveyed nonprofits had some concern about the difficulty in soliciting donations from DAF donors (see *Figure 4.1*). Moreover, many respondents noted that they had difficulty soliciting donations from DAFs. When asked how encouraging or concerning the issue of difficulty in soliciting donations, over half of respondents (55.4 percent of the full sample and 50 percent of DAF recipient organizations) indicated that this was concerning (rated 3 or lower). However, this appeared to be less of a concern for organizations with higher revenue.

**87%**  
of organizations  
that solicited DAF  
gifts received a  
DAF gift in the  
past 3 years.

**42%**  
of organizations  
that did *not*  
solicit DAF gifts  
received a DAF  
gift in the past  
3 years.



**Figure 4.1.** Percentage of responses that rated difficulty in soliciting donations as concerning (1-3), neutral, or encouraging (5-7), DAF recipient organizations vs. non-DAF recipient organizations



Note:\*\*\* p<0.01, \*\* p<0.05, \*p<0.1; Significantly more DAF recipient organizations than non-DAF recipient organizations were encouraged about soliciting donations (p<0.1) and significantly fewer DAF recipient organizations than non-DAF recipient organizations were concerned about soliciting donations (p<0.05).

In addition to asking survey respondents how concerned they were about soliciting DAF gifts, we asked organizations whether and how they have **solicited gifts** from DAFs. The most common solicitation methods were meeting or communicating directly with donors who have DAFs (41.9 percent of respondents) and meeting or communicating with sponsoring organizations (25.7 percent of respondents). Because simply soliciting for DAF gifts is associated with a higher likelihood of receiving a DAF gift, these methods offer numerous opportunities for nonprofits to potentially increase their donations from DAFs.

**Table 1.1.** What steps has your organization taken to solicit donations from DAFs?

Solicitation Method	Full Sample	DAF Recipient organizations
Met or communicated with donors who have DAFs	41.9%	58.0%
Met with wealth managers	9.0%	12.2%
Met or communicated with sponsoring organizations	25.7%	31.7%
Have a widget on website to accept gifts from DAFs	9.3%	11.8%
Include an option for giving through a DAF in communications	20.7%	27.4%
None	36.5%	21.5%

Note: Respondents could choose more than one response. Therefore, percentages total more than 100 percent.

There are likely many ways that nonprofit organizations can further harness new technology and vehicles for giving to increase their effectiveness in soliciting DAF gifts. For example, only 9.3 percent of respondents and 11.8 percent of DAF recipient organizations have a widget on their website to accept gifts from DAFs.

### **Processing DAF gifts**

Gifts are typically received in the form of a check from the sponsoring organization. Therefore, in some ways, receiving a gift from a DAF differs little from receiving traditional cash or check donations. However, there are some nuances to processing gifts from DAFs, such as crediting both the sponsoring organization and the donor,<sup>iii</sup> that need to be addressed by nonprofit organizations to ensure proper tracking, acknowledgement, and reporting of DAF gifts.

Some organizations noted that having a process in place to accept and code gifts from DAFs significantly improved their experience with these gifts. For example, a large<sup>10</sup> environment and animals organization in the west shared their experience developing a process:

***“We audited our donor records and linked DAFs to individual donors and sponsoring organizations. This process was a big undertaking but worth it for better entering, coding, and stewarding DAF gifts. We have also marketed DAF gifts and asked donors to let us know if they are giving through a DAF so we can properly thank them.”***

Only a quarter of nonprofit organizations in our survey were concerned about the administrative burden of receiving and processing donor-advised gifts. However, of the organizations that were concerned about the administrative burden, most noted that they did not have a process in place for staff to follow when entering the gifts and their staff did not have the needed knowledge and understanding of these gifts to properly code them:

***“...the biggest issue is getting the administrative/database staff to understand what they are and why they need to be treated differently.”*** —Mid-size<sup>11</sup> health organization in the Midwest

<sup>10</sup> Revenue \$50 million or more.

<sup>11</sup> Revenue \$5 million to \$10 million.



In addition, many of the smaller organizations commented on the administrative burden in their open-ended responses. They noted that it required additional work for their data-entry staff to apply both the soft credit to the donor and the hard credit to the sponsoring organization. In addition, the lack of sector-wide guidelines on how to track DAF gifts was a concern to a few organizations. A large<sup>12</sup> human services organization expressed this very concern:

***“How do you code these things!? Keeping track of the donors when the gift is hard-credited to the DAF. It would be GREAT to have some guidelines/best practices here. Can the fundraising field standard this? My research always yields the pros and cons of each method for coding and then says, “Pick what works for you!” which isn’t so helpful.”***

While administrative concerns were primarily limited to the smaller organizations that infrequently received DAF gifts, this concern was also raised by a large national health nonprofit in their interview. As a national organization, they have a Direct Mail Processing Center. Any gifts sent in response to a direct mail campaign are sent to and processed by the processing center. However, if a check from a DAF is sent to the processing center, they are not equipped to deal with it, despite attempts by the organization to provide training and education.

Developing and implementing a process for soliciting, accepting, processing, tracking, and acknowledging gifts from DAFs is one step that nonprofit organizations can take to improve their experience with DAFs.

### ***Theme 5: Nonprofit organizations seek better ways to communicate with DAF donors when asking for gifts and in thanking donors***

As described in *Theme 2*, nonprofit organizations perceive a disconnect between themselves and their donors who give through DAFs. Additional research focusing on this perceived or actual disconnect is needed. However, improved communication between nonprofit organizations and donors remains a goal for most nonprofit organizations. In the survey open-ended responses, organizations indicated that they wanted to be able to communicate better with donors for the following reasons, in order of importance:

- To thank the donor and properly acknowledge their gift;
- To communicate with the donor about how their gift was used;
- To track donors and gifts; and
- To solicit future gifts.

Sponsoring organizations have the potential to assist nonprofit organizations to communicate with their donors. In their interview, a large national health organization provided the following suggestion when asked what DAF sponsors can do better when working with their organization:

***“If [sponsoring organizations] are willing, helping the charity provide the acknowledgement and information [to the donor] about what their dollars are doing.”***

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<sup>12</sup> Revenue \$25 million to \$50 million.

Overall, nonprofit organizations are eager to connect with and learn from sponsoring organizations. For example, in their interview, the a large<sup>13</sup> national human services organization said,

***“We really would like to work with [sponsoring organizations’ or community foundations’] team or their staff.”***

***“And I think what I would appreciate more of is some interaction [with national sponsoring organizations]. If they could interact more with the national and our [regional branches] about their donor needs.”***

A mid-sized environment and animals membership organization shared similar sentiments in their interview. They shared that they had a direct contact with their local community foundation, but had more trouble contacting national sponsoring organizations. For example, when calling the phone number provided on the check from the national sponsoring organization to obtain more information about the donor, the customer service representative transferred the fundraiser’s call multiple times to incorrect contacts leading to the fundraiser spending 45 minutes on the phone. They noted that while it would be ideal to have a local, or at least direct, contact at the national sponsoring organization, this may not be possible. In this case, the interviewee suggested that customer service representatives should be educated on how to respond to calls from fundraisers. This is just one example of how better communication between sponsoring organizations and nonprofit organizations can make it easier for nonprofits to then communicate with their donors.

As nonprofit organizations seek better ways to communicate with their donors, sponsoring organizations have an opportunity to improve the DAF experience for nonprofits.

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<sup>13</sup> Revenue \$50 million or more.



***Theme 6: Interviews revealed areas of confusion, specifically lack of knowledge of the solicitation process and managing the administrative burden, for some nonprofits***

The share of nonprofit organizations that had received a DAF gift in the past three years varied significantly by revenue. Smaller organizations, especially those with revenues below \$100,000, were less likely to have received a DAF gift in the past three years than those with higher revenues. Only 45 percent of nonprofit organizations with revenues below \$100,000 had received a DAF gift in the past three years, compared to 86 percent of organizations with revenues between \$100,000 and \$1 million, 93 percent of organizations with revenues between \$1 million and \$5 million, 99 percent of organizations with revenues between \$5 million and \$25 million, and 100 percent of organizations with revenues over \$25 million.

Smaller organizations, particularly those that have received no or few DAF gifts, indicated a **lack of knowledge** about almost every step of the process of soliciting and receiving DAF gifts. A small, but noticeable, portion of survey respondents had never heard of DAFs before and many who had heard of them didn't know how to solicit for DAF gifts. Survey respondents who had difficulty soliciting DAF gifts expressed some of the following concerns:

- Barriers to connect with sponsoring organizations. One organization noted that they were blocked from contacting a national sponsoring organization because the sponsoring organization only accepts letters from pre-selected candidates. Others highlighted the lack of a local community foundation that offers DAF accounts and explained that they believed their organization wouldn't be considered by large national sponsoring organizations or larger community foundations because of their size, location, or mission.
- Lack of understanding about whether they should talk to sponsoring organizations and/or donors to solicit DAF gifts.
- Misunderstanding of the "application process" to solicit DAF gifts.

In particular, it was clear from survey respondents' written comments that there is a lot of confusion and uncertainty with regard to Internal Revenue Service (IRS) regulations about whether gifts from DAFs can be used to fulfill pledges, purchase memberships, or qualify for other benefits.

While many smaller organizations still lack a full understanding of DAFs, the concerns covered in this section offer many opportunities for both sponsoring organizations and nonprofit organizations to proactively work together to improve knowledge and understanding of DAFs among these organizations.



## SPOTLIGHT: COVID-19: DAFS IN TIMES OF CRISIS

In 2020, nonprofit organizations, along with the rest of the world, experienced unexpected and unprecedented challenges due to the COVID-19 pandemic. This section will use the crisis to better understand how DAFs can support the sector and – through nonprofit organizations – society in general, in times of crisis.

Previous research has shown that giving from DAFs remained relatively steady during the Great Recession [11]. In addition, sponsoring organizations and nonprofit organizations have reported an increase in giving from DAFs in the first months of 2020, with many of these gifts being directed to COVID-19 response efforts. The four largest DAF sponsoring organizations [17] all reported significant increases in grants from DAFs during the first part of the COVID-19 pandemic: Fidelity Charitable reported a 20 percent increase for the first quarter of 2020 compared to the same time period in 2019; Schwab Charitable reported a 21 percent increase in grants between February 14th through March 31st, 2020 compared to the same time period in 2019; National Philanthropic Trust reported that the value of grants made in March 2020 compared to those made in March 2019 increased 120 percent; and Vanguard Charitable reported a 28 percent increase in the first quarter of 2020 compared to the first quarter of 2019 [18]. This surge was also seen among community foundations of all sizes.

Our survey was in the field<sup>1</sup> at the time the COVID-19 pandemic began affecting organizational operations in the United States; therefore, we added two questions to the survey to understand how nonprofit organizations responded to the crisis.<sup>1</sup> After applying the weights, the sample size of organizations that responded to the COVID-19 questions was 277. It is likely that organizations' responses have changed over the course of the crisis, but this data provides an important snapshot of responses during a highly volatile time for the sector.

Despite the reported increases in gifts from DAFs in the early months of 2020, most organizations in our sample (53.6 percent) reported that they had either already experienced or expected to experience a decrease in fundraising dollars or revenue due to COVID-19.<sup>1</sup> In comparison, only 15.6 percent of respondents indicated that they had experienced or expected to experience an increase in fundraising dollars or revenue due to the crisis.

We also asked organizations whether they had changed their fundraising plans or office practices in response to the COVID-19 pandemic.<sup>1</sup> Over four fifths of organizations had already made at least one change in response to the crisis, with the most common response being the cancelation of events. Of note, large organizations (by revenue) were more likely to have had to modify fundraising campaigns (see *Online Supplemental Appendix*).



Responses to the crisis also differed by subsector. Nearly 80 percent of arts organizations had cancelled an event. In addition, perhaps unsurprisingly due to the nature of the crisis, human service organizations had the highest percentage of respondents who had not made any changes at the time of the survey in response to the pandemic (26.6 percent). Despite this, the vast majority of human service organizations had made at least one change.

Nearly all organizations in our sample reported some sort of disruption in their fundraising and/or operations by late March 2020. It is likely that most, if not all, organizations continued to be impacted as the crisis continued into the summer. In addition to direct impacts on the sector, the COVID-19 crisis is indirectly affecting the sector through its significant impacts on all aspects of society, including the economy, government and business sectors, and social and cultural events around the world. If giving through DAFs follows similar trends as during the Great Recession [11] and continues to increase grants to the sector [18], DAFs have an opportunity to lessen the negative effects of the pandemic on the sector and society overall by infusing dollars currently held in accounts into the sector, which has the potential to provide funding for the sector while other areas of their fundraising are hurting.

The COVID-19 crisis is just one example of how donors, sponsoring organizations, and nonprofit organizations can work independently and together to improve processes related to DAF gifts to ultimately improve the sector.



## **Section 3: Recommendations for how donors, sponsoring organizations, and nonprofits can work together more effectively**

### ***Theme 7: Donors, sponsoring organizations, and nonprofit organizations can work together to develop best practices for all three parties that will benefit the sector***

Overall, organizations have differing perceptions of DAFs and their value, but it is clear that experience and contact with DAFs improves organizations' perspectives of these types of gifts. Taken together with the preceding themes, this indicates that changes can be made to improve the sector. Therefore, this section provides tips for sponsoring organizations and nonprofit organizations and recommends the development of best practices for working with DAFs.



### **Tips for sponsoring organizations:**

1. Make an effort to connect with small, local organizations. These organizations have the least knowledge and experience with DAFs, but they are eager to learn more about the growing giving vehicle.<sup>14</sup>
2. Provide regional contacts that work directly with fundraisers.<sup>15</sup>
3. Help bridge the gap between donors and charities:<sup>16</sup>
  - Provide donors with information from the nonprofit organization about how their donation is being used. This could include allowing nonprofit organizations to send letters to the sponsoring organization, who can then forward it to the donor or it could include providing standard information about organizations after a gift is made;
  - Educate donors and nonprofit organizations about the limitations of giving via a DAF with regard to receiving benefits in return such as tickets to events, memberships, or other incentives;
  - Be willing to reach out to donors to ask if it is okay if the nonprofit organization communicates with them directly. Sometimes donors want to remain anonymous to the public but are still willing to allow their contact information to be shared with the organization; and
  - Work to understand local communities and connect with organizations on a local level.
4. Increase communication with and education of nonprofit organizations about the basics of DAFs. Suggestions include webinars, easy to access “cheat sheets,” and “copy and paste” paragraphs that nonprofits can add to their communications with donors.<sup>17</sup>
5. Proactively communicate with organizations with little or no experience with DAFs.<sup>18</sup>

One idea offered by a large national human services nonprofit was for national sponsoring organizations to host webinars to educate their national and local branches about:

- What donors typically want from organizations that are trying to solicit them through DAFs;
- The procedures national sponsoring organizations use to process a gift after a donation is triggered by a donor;
- The priorities of donors who have established DAFs; and
- How nonprofit organizations can tell national sponsoring organizations about their needs.

Nonprofit organizations can then use this information to develop strategies to work with sponsoring organizations and to communicate with their donors.

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<sup>14</sup> For more information, see theme 6 on lack of knowledge about DAFs among smaller nonprofits.

<sup>15</sup> For more information, see theme 5 on thanking and communicating with donors.

<sup>16</sup> For more information, see theme 5 on thanking and communicating with donors.

<sup>17</sup> For more information, see theme 6 on lack of knowledge about DAFs among smaller nonprofits.

<sup>18</sup> For more information, see theme 6 on lack of knowledge about DAFs among smaller nonprofits.



In addition, a small- to mid-sized<sup>19</sup> human services organization explained a process that had worked well for their organization:

***“We submit an application to our local community foundation and they share it with their donor-advised fund holders and we get an annual grant. They tell us which funds gave how much. It has worked well for us and I wish more community foundations would have a system to share community needs and get them active in making grants from their funds.”***

Sponsoring organizations can use these tips not only to improve donors’ and nonprofit organizations’ experiences with DAFs, but sponsoring organizations have the potential to have a significantly positive impact on the sector overall.

### **Tips for nonprofit organizations:**

1. Talk to your donors about DAFs;<sup>20</sup>
  - Include information on giving from a DAF in your communications with donors, including mailings, e-mail newsletters, and on your website; and
  - Familiarize your staff with the benefits and limitations of gifts from DAFs for both your organization and your donors. DAFs cannot be used to make a donation in which the donor advisor receives any direct benefit; in other words, DAFs cannot be used to purchase memberships;<sup>21</sup> buy tickets to a fundraiser, gala, or other charitable event; or to pay for any other items (e.g. silent auction items) [52]. However, in 2017, the IRS clarified that DAFs can be used to fulfill pledges with some restrictions [53].
2. Make it clear to your donors who make a pledge to your organization that they can fulfill the pledge with a gift from a DAF, but that the sponsoring organization cannot reference the pledge when making the distribution. Let the donor know that it is their responsibility to communicate with your organization that they are using the gift from the DAF to fulfill their pledge.
3. Credit both the original donor and the sponsoring organization. Most organizations with a solid process in place to accept and code gifts from DAFs shared that they “soft credit” the donor and “hard credit” the sponsoring organization for the gift.<sup>23</sup>
4. Thank the original donor. Have template thank you letters for donors that give through DAFs that recognize that they recommended the gift without including tax deductibility information. Providing tax deductibility information in response to a gift from a DAF can confuse donors.<sup>24</sup>
5. Expand your attempts to solicit gifts from DAFs. Easy ways to do this include adding a widget on your website to accept gifts from DAFs and including an option for giving through a DAF in your print and online communications.<sup>25</sup>

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<sup>19</sup> Revenue \$250,000 to \$500,000.

<sup>20</sup> For more information, see theme 4 on receiving, soliciting, and processing DAF gifts.

<sup>21</sup> Some membership fees consist of a tax deductible portion and a nondeductible portion. DAFs also cannot be used to pay just the portion of a membership fee that is typically deductible.

<sup>22</sup> For more information, see theme 6 lack of knowledge about DAFs among smaller nonprofits.

<sup>23</sup> For more information, see theme 5 on thanking and communicating with donors.

<sup>24</sup> For more information, see theme 5 on thanking and communicating with donors.

<sup>25</sup> For more information, see theme 5 on thanking and communicating with donors.

## Discussion

### **Implications**

Perceptions of DAFs were primarily neutral, with many of the interviewees sharing positive views of DAFs. However, there is still a lot to be learned from the concerns shared by nonprofit organizations. Overall, it is clear that greater education for donors, wealth managers, and nonprofit organizations would be beneficial for all players as well as the sector overall.

In general, more experience with DAFs was associated with a more positive perception of them and smaller nonprofits still lack a basic understanding of processes and regulations for DAFs. This further suggests that both sponsoring organizations and nonprofit organizations have an opportunity to educate each other, thereby improving experiences with DAFs.

The biggest concern for nonprofit organizations is around the potential or perceived disruption of the donor-recipient relationship. Nonprofit organizations want to be able to thank and cultivate their donors and they find this more difficult when working through an intermediary. However, nonprofit organizations are interested in strengthening and personalizing their relationship with sponsoring organizations. This provides a great opportunity for sponsoring organizations to develop the DAF process and build deeper relationships with nonprofits of all sizes and types.

On the other hand, the ability to reach high net-worth donors and larger gifts were two of the most encouraging factors of DAFs according to survey respondents. Moreover, the interviews showed that many nonprofits are actually seeing real positive impacts on their fundraising revenue.

### **Future Research**

Future research can build on this study to provide additional recommendations for donors, sponsoring organizations, and recipient organizations. In particular, there is still a significant gap in the literature that provides sector-wide analyses on whether nonprofits' perceptions of DAFs translate into reality. Empirical evidence can provide further insight into whether nonprofit organizations are indeed reaching wealthier donors and seeing significant increases in charitable dollars resulting from DAFs, or whether this outcome is limited to larger organizations.

### **Conclusion**

As the popularity of DAFs continues to grow, the challenges nonprofits face when working with DAFs will continue to be an important conversation in the philanthropic sector. With the political, social, and economic crises and changes that have inundated 2020, it is highly likely that the fundraising landscape and the nonprofit sector overall will be permanently affected. DAFs will likely continue to play an increasingly important role in nonprofits fundraising going forward.



## Appendix A: Case Study Profiles

### LARGE NATIONAL HUMAN SERVICES ORGANIZATION

*A large national nonprofit aims to focus DAF fundraising at the local level*

Founded to share the message of the Christian Church and the Bible, the organization's mission is to preach the gospel of Jesus Christ and to meet human needs in His name without discrimination. The organization provides for basic needs at the local level through the administration of homeless shelters, food pantries, addiction rehabilitation, job training, and more. The organization's fundraising strategies include raising money through thrift stores, an annual campaign, and year-round donation appeals.

The organization operates over 7,500 regional and local centers around the United States.

#### **Key Points**

1. Optimism is key.
2. Connecting with donors is possible even when contact may be indirect.
3. Balance serving current urgent needs with looking ahead.

#### **Keeping an eye on the future.**

As new digital options for making contributions continue to grow, traditional fundraising sources such as direct mail are declining. The organization is working to make giving convenient for donors of multiple generations. This has led the organization to upgrade their infrastructure to receive gifts in different forms.

The organization's signature fundraising campaign relies primarily on small cash donations. As fewer people carry cash and rely on debit and credit cards, the amount collected during the campaign could be impacted. In response to this, the organization developed a new system through which contributions can be made with Google or Apple Pay.

The organization sees DAFs as a vehicle through which the number and size of gifts made will continue to increase.

#### **Doing the most good at the local level**

The organization is committed to donor care and honoring their intent. When DAF gifts arrive at the national headquarters, staff strive to determine who the donor is, or at least where the donor resides, so the gift can be distributed to the community from where it came unless the gift arrives with documentation specifying how it is to be used. If the donor or address cannot be determined, the gift is divided among the four territories where it is dispersed to the local level.

Community foundations typically provide the most information regarding where the donor resides and how to best communicate with the donor. Again, the organization works closely with community foundations to maintain a strong sense of the needs in the area and donor interests in meeting the needs.

Working with larger DAF sponsors can present challenges for the donor care side of receiving a gift as they are often disconnected from the organizations at the local level.

When the organization builds relationship with donors they strive to understand their passions and giving goals in order to see if they are in line with the organizational mission and service needs.

The gifts are tracked in the CRM by the divisions and territories. The gift is attributed to the donor, if known, and to the sponsoring organization.

### **Education and relationships are key to all fundraising, including DAFs**

Relationship building opportunities exist for both the organization and DAF sponsors, especially national sponsors. One suggestion is for the sponsors to host webinars or other forms of online meetings for current and potential recipients of DAF gifts to provide background on the interests, dreams and passions of DAF clients and how to connect with them.

Another option is for locally focused sponsors to host webinars or meetings for donors to learn more about the missions and needs of area nonprofits.

In addition, national organizations with multiple service sites might work with DAF sponsoring organizations to coordinate informational meetings regarding the needs across various service areas. DAF structures are helpful to donors who do not want to manage the administrative steps for making contributions.

However, opportunities to interact with DAF donors do arise. For example, a current or former board member who gives directly to the organization may also have a DAF at the local community foundation. Community members may contact the local organization to learn more about a disaster response or other service need. Once the donor decides to make a contribution to the nonprofit through their DAF, the process is turned over to the community foundation representative.

### **COVID-19 is creating social needs on a larger economic and geographic scale**

Needs for services are increasing as more people are financially impacted by the crisis. People who have never needed basic needs services are now requesting food boxes. In addition, the thrift stores were closed for a few months. As a result the organization has had to update their budget and redirect other fundraising sources to support the programs typically financed by income from the thrift store.

### **Optimism is key**

Because millions of dollars are being distributed through DAFs, it is important for nonprofits to continue to educate donors on the specific needs. National organizations can have wide impact at the local level, so it will be important to send that message.



## LARGE NATIONAL HEALTH ORGANIZATION

*A large national nonprofit highlights the benefits of DAFs, especially during the COVID-19 crisis*

The organization works to save lives by improving lung health and preventing lung disease. Thanks to the combined efforts of donors, volunteers, program and event participants, and staff, the organization has become the U.S.'s trusted source for lung health education, lung disease research, support, programs, services and advocacy.

### **Key Points**

1. Attention to detail is key to managing DAF contributions.
2. Thanking donors requires tenacity and agility.
3. Donors who use DAFs are savvy.

### **Changes in organizational structure bring opportunity**

In 2017, the organization's national office and charter organizations united as one single national organization in order to grow their ability to their fund mission where there is the greatest need. The merger paved the way for the ability to navigate the unprecedented situation brought on by the COVID-19 pandemic.

The CEO's leadership during the merger was key to inspiring unity around the mission and confidence among board members, staff, donors and volunteers. Moving forward, the organization is working to address the challenges presented by the COVID-19 pandemic, changes in clean air regulations and the need for increased funding for health care research.

Building upon the momentum from the recent strategic cause campaign, the organization hopes to make a greater impact on not only those living with lung cancer, but also on those with other lung diseases such as asthma and chronic obstructive pulmonary disease.

### **Receiving and identifying DAF contributions require attention to detail**

As DAFs have grown in popularity in recent decades, the organization has been establishing systems for receiving, identifying and acknowledging the contributions.

The nonprofit organization has a designated mailing address for DAF contributions. It would be helpful if sponsoring organizations contact the receiving nonprofit to determine where to send the gift. Sometimes DAF contributions are incorrectly sent to the direct mail processing center and contributions received from DAFs in response to a direct mail solicitation can be a challenge to identify as they are not always noted as such. The nonprofit organization also put a widget on the website that allows donors to go directly to their DAF custodian to trigger a gift.

Events have historically been an important fundraising vehicle for the organization. However, per IRS rulings, DAFs cannot be used to pay for gala tickets and event registrations if the donor and or friends will be attending or will benefit in some way, even if the donor pays with separate funds for the market value of the dinner or event benefit. The DAF can be used to pay for registrations and sponsorships if the donor does not attend. Additional education may help address donors' confusion about the rules and regulations associated with DAFs.

### **Thanking DAF donors requires agility and tenacity**

The DAF gift receipt process differs from accepting cash contributions or stock or other traditional methods of giving especially when it comes to acknowledgement. Since DAF contributions are sent by a sponsoring organization, cultivating relationships with the donor can be a challenge. The organization currently receives contributions from commercial and community foundation sponsors. Each type of sponsoring organization has its own policies regarding communication with the donor. A donor-centered approach is the heart of fundraising and it's helpful when sponsoring organizations work with the nonprofit organization to communicate how the DAF donor's gift is making a difference so the relationship can grow.

If the donor's name and address are available, the organization follows up with an acknowledgement letter and additional outreach. Community foundation sponsors may offer to forward an acknowledgement letter to the donor on behalf of the organization.

Acknowledgement letters for DAF contributions do not include a reference to a "tax-deductible gift" as the tax deduction was likely taken when the donor made the original contribution to the fund. It can be helpful to the donor and an accountant to note the gift came from a DAF so it won't be double-counted for the purpose of a tax deduction.

### **Opportunities for DAF contributions**

Gifts received from DAFs have been increasing over the past five years. The organization saw an uptick in individual giving in the last fiscal year and attributes at least some of that to receiving more DAF contributions. DAFs provide a way to balance the fundraising portfolio. If the donor's identity is known, good stewardship, cultivation, and conversations can take place regarding making additional major gifts outside the DAF. Opportunities to work with sponsoring organizations may also present an opportunity to explore additional gifts.

The organization's fundraising, up to the onset of COVID-19, has relied to a good extent, like many other national health charities, on events. Event-based revenues will continue to be challenged in the coming year as many in person events will either be altered or postponed during the pandemic.

Since the tax law changes regarding charitable giving have taken effect, the number of contributions received from DAFs have increased. However, the perception is that the gift amounts have become more diverse. Prior to the tax law changes, gifts tended to be in multiples of hundreds and thousands. Now, in addition to those, gifts are also coming in smaller amounts of \$25, \$50 and \$75. Donors are using the DAFs, in a sense, as a charitable checkbook.

### **Donors that use DAFs are knowledgeable about the giving process**

In the organization's experience, when communication is open, donors that use DAFs understand how they fit into their overall financial outlook and plan. They tend to be generous, giving is an important part of their life, and they seem to be strategic. They understand the benefits and implications of various forms of giving.

### **DAFs offer opportunities for future growth**

The combination of a solid organizational structure, agility and an eye toward growth will strengthen a culture that allows for creative approaches to fundraising and donor-centered relationships and a world free of lung disease.





## LARGE NATIONAL EDUCATION ORGANIZATION

*A large national nonprofit applies their organization's values of community and equity to fundraising*

The mission of the organization is to confront educational inequity by catalyzing the leadership necessary to ensure that all children have access to an excellent and equitable education. Its diverse network of leaders spans the country, working in schools in urban, rural, and native low-income communities. While the organization is national, each of its more than 50 regions has a distinct, local story. The organization has historically maintained diverse funding streams, which includes DAFs as a vehicle of philanthropic giving. They report a large range and number of gifts coming to the organization via DAFs, with individual gifts ranging from \$500 to \$5 million per year.

### Key Points

1. Relationship building continues to be an important part of the organization's work with donors, including those who give through DAFs.
2. The organization has a significant interest in developing partnerships with DAF sponsors.
3. The social, political, economic, and health challenges throughout 2020 have highlighted the importance of DAF giving, as DAF giving has proven to be a resilient source of funding for the nonprofit sector during times of economic downturn.

### Nurturing long-term individual relationships

From the beginning, establishing and nourishing local relationships has been a key component of the organization's philosophy. This includes relationships with students, families, teachers, donors, and the wider local community. As such, the organization has created a diverse network of individuals who become invested in its mission to serve students.

**The organization respects that anonymity is part of the appeal of DAFs for some donors. With those donors, the organization would like to have a private – not public – relationship.**

In the context of DAF giving, the organization is focused on relationship-building – transforming the single transaction into a multi-faceted and lasting partnership. While potential donors are often attracted to the possibility of anonymous giving offered by DAFs, that same anonymity can be a challenge to the nonprofit organization's ability to develop an authentic and personal connection with the donor or to steward the donor's investment by reporting back the impact of their support. The organization is interested in the potential to build private relationships with these donors while continuing to respect their anonymity publicly. Thus, cultivating relationships with donors who give through DAFs is a particular area of focus for them.



**Learn continuously, an important value of the organization, applies to donor relations and fundraising**

Gifts from DAFs are increasing in amount and number for the organization. DAF gift amounts range from \$500 to \$5 million and are a significant source of funding. Gifts from family foundations are also increasing. The process for receiving and accounting for DAF gifts is basically the same as it is for other types of contributions. Currently, most gifts arrive in the form of a check or wire transfer. However, the organization strives to be proactive when it comes to fine-tuning processes for receiving gifts via multiple vehicles; for instance, they are looking into adding a DAF widget to their website.

The organization also envisions the potential for more collaborative knowledge exchanges between the DAF sponsor and the nonprofit organization. In particular, the organization is interested in learning from DAF sponsors about trends in donor giving, as well as what organizational missions, issue areas, or ways of demonstrating impact are of particular interest to DAF donors. The nonprofit staff are working to develop strategies for building deeper relationships with DAF advisors in addition to DAF donors.



## MID-SIZED HUMAN SERVICES ORGANIZATION IN THE SOUTH

*A regional nonprofit recognizes the potential of DAF gifts amid major fundraising and programmatic changes resulting from the COVID-19 crisis*

Issues related to domestic violence are entering the collective consciousness. The organization seeks to work toward finding the answers to how to end domestic violence through conversations about its complexity and how it not only impacts a single person or family, but also impacts a community's safety and quality of life.

Conversations and services are facilitated through emergency shelter, adult learning and advocacy, child and family counseling, assistance in obtaining protection orders, housing assistance education, and outreach and prevention programs. The organization serves a four-county region.

### **Key Points**

1. Opportunities to cultivate DAF donors may be lurking in the sidelines, so keep your eyes open.
2. Be mindful of potential ethical dilemmas when receiving DAF contributions.
3. DAFs can feel a bit abstract, but they are real.

### **The organization's home community has a strong philanthropic culture**

Members of the community give major gifts to various agencies, schools, hospitals and other organizations. As the conversation continues to expand regarding the scope of who is impacted by domestic violence, and as the stigma decreases and empathy increases, the organization believes the number and size of major gifts will increase.

### **The number and size of DAF gifts to the organization are increasing**

The organization receives a significant number of gifts from DAFs. Donors make one-time gifts and recurring gifts through DAFs. In 2019, a total of 25 DAF gifts were received. As of the interview in June 2020, 30 DAF gifts had already been received. The increase was already in progress prior to March 16 when the need for sheltering in place in response to the spread of COVID-19 picked up momentum. In the first ten weeks of 2020, 17 DAF gifts had been received compared to three during the same time period in 2019.

### **Sometimes unintended consequences are positive**

The number of DAF gifts being made by members of the local community foundation serves as evidence that continuing the conversation about the scope of domestic violence increases philanthropic support. The organization applies for capacity building grants through the local community foundation. The grant funding is restricted to specific purposes. Members of the community foundation who serve on grant application review committees have made unrestricted gifts from their DAFs.

### **The process for recording DAF gifts is similar to that for other types of contributions**

Soft and hard credits are used to track DAF gifts in the CRM. If the name and contact information for the donor are known, it is recorded in their record as a soft credit; DAF sponsors are hard credited for all DAF donations. The strongest donor relationships typically come from DAF gifts made through the local community foundation.

The organization could benefit from expanded use of digital technology to attract DAF gifts. The organization does not yet have a widget on their website to use for DAFs. In addition, the interviewee suggested that sponsors consider setting up a portal for DAF gift recipients to use to access contact information for donors who agree to connect with the organization.

### **As with fundraising in general, it is important to be conscientious about ethics**

As the number of DAF sponsors increases, the diversity of causes supported by the host sponsors will increase as well. Organizations may face situations where a DAF sponsor supports nonprofits whose mission conflicts with their own, while the individual or couple donors may want to make a contribution to support their programs.

### **Bi-weekly restructuring services have been taking place since the onset of COVID-19**

As an emergency shelter, the organization had to respond quickly to need during the COVID-19 crisis. Incidences of domestic abuse increased as people were required to shelter in place. The number of inquiries for various forms of assistance increased as capacity decreased. The shelters were set up as community living spaces with shared common areas and kitchens. While they did not have space for residents who tested positive for COVID-19 to quarantine, the organization transitioned to using local hotel rooms to house clients while shelters were reconfigured to comply with health and safety regulations during the pandemic.

The budget has also been significantly impacted by the crisis, highlighting the need for fundraising income. The cost of serving the community increased significantly as the residents were no longer able to cook in the common kitchen and meals had to be delivered, the cost of the hotels added to the increased expenses; and staff were furloughed.

### **Special event – no go. Capital campaign – pause.**

Funding streams changed course as the annual special event was cancelled. However, the organization received a payroll protection grant and saw an increase in other grants as some funders pivoted to support COVID-19 causes. Many, but not all, of the corporate sponsors continued to support the organization even though the annual event was cancelled.

The organization has a reserve fund and will be able to continue to provide services. Individual contributions have increased, but the organization will run at a deficit this fiscal year. In addition, they had to pause their capital campaign.

### **As social justice issues gained renewed national attention, the organization responded**

The racial tensions felt across the country were also relevant at the organization. Approximately 76 percent of their clientele is black and the staff is diverse. The organization considers itself to be a social justice organization and addressed the climate by making debriefing sessions with therapists and additional time off available.



## MID-SIZED EDUCATION ORGANIZATION IN THE WEST

*A local nonprofit continues to value building relationships with donors who give through DAFs*

### **The founders began by listening**

The organization was founded on the belief that the success of children and parents is inextricably intertwined. The two-generation approach supports whole families which creates a culture that paves the way for children and parents to thrive.

The organization began as a project of another nonprofit organization focused on promoting equity and social justice in local communities. The project was started in response to a challenge to identify and address the needs of the fast-growing, low-wage immigrant community in the local area.

The project was established through a planning grant that included funding for an initial survey of the needs of the area. Bilingual and bicultural community organizers spent nine months conducting 300 one-on-one conversations with the area's most vulnerable families.

In response, the organization created a pipeline of early childhood and parent engagement programs designed to eliminate barriers to participation. As trust grew, staff continued to listen, learning about additional unmet needs. Today, the organization serves hundreds of families annually with 2Gen programs that are consistently evaluated and evolving to respond to the community's needs.

### **Key Points**

1. As more high net-worth people prefer to not have to manage the administrative tasks associated with making major gifts, DAFs will continue to grow.
2. Keeping ears and eyes wide open will be key to growing DAF contributions.

### **The organization listens to donors, or would like to**

Gifts made through DAFs have been enormously helpful to the organization, and donors have been very generous. Most of the DAF gifts come through the local community foundation. The process for receiving DAF gifts is the same as for other gifts except for the tax implication language included in the follow up correspondence.

DAF gifts that arrive anonymously are a challenge. The organization is a small organization and knows most of its donors, and the relationship involves a high degree of personal touch. They noted that it can be frustrating when a gift arrives and staff and volunteers don't have a way to express gratitude to the donor.

### **COVID-19 presents challenges and opportunities for cultivating donors**

While maintaining contact with donors via email, phone calls, and online video meetings throughout the COVID-19 crisis has helped to continue relationships with donors, it doesn't feel the same as the high degree of personal touch the organization strives to cultivate with current donors.

However, the gifts from DAFs have allowed time and opportunities to generate new donors.

### **DAF sponsors could help connect donors to local nonprofits**

Donor representatives at sponsoring organizations could help facilitate the giving process by encouraging them to give to local nonprofits. In addition, the representatives could work with the nonprofits to learn more about the mission in order to better inform their DAF clients.

## MID-SIZED ENVIRONMENT AND ANIMALS MEMBERSHIP ORGANIZATION IN THE MIDWEST

### *A local nonprofit highlights the complexity of DAF gifts for membership organizations*

The mission of the organization focuses on the advancement of animal conservation. It's important for people to understand that when they come to the organization, they are seeing conservation in action.

#### **Key Points**

1. DAFs play an increasingly important role in the organization's annual revenue.
2. Corporate matching gifts for contributions made through DAFs may be available. It will be important for gift officers to let donors know about the opportunity and be aware of policies associated with matching gifts.
3. Given the tax implications, it can be important that the donors for DAF contributions be identified. Donors cannot receive benefits, such as memberships (or special event tickets or cover space rental fees), based on DAF gifts. That isn't always clear to donors.

#### **Membership organizations face additional complexities when receiving DAF gifts**

While working to reduce negative environmental footprints, DAFs are an important "hoof print" among the organization's contribution sources. However, they can be confusing in the context of a membership organization that also has earned income streams. It isn't always clear to DAF donors that they cannot receive benefits such as organization memberships when giving through a DAF. This has been especially frustrating for long term donors who have shifted from traditional cash or check giving to giving through a DAF at the same level, but no longer receive the membership cards as they are used to receiving.

Nonprofit organizations that offer memberships have needed to add processes to receive and account for DAFs.

#### **Tracking DAFs can add additional work for fundraisers**

DAFs can be more complicated to track and analyze as they don't always come through a clearly identified donor or organization. This can be as simple as tracking down a specific pledge to a contribution, but can also present larger challenges if dealing with a larger DAF sponsor where the actual source of the contribution is more opaque.

On occasion, a donor will let a member of the development team know a DAF contribution is in the works. If the sponsoring organization does not note the original donor on the check or in related correspondence, it's a challenge to recognize the contribution and follow up to let the donor know the contribution arrived and send a note of thanks. Special attention to DAF gifts is required. Once an original donor is identified and giving patterns develop, staff can touch base with donors whose gift amounts and timing match the characteristics of the DAF gift.

Working with large DAF sponsors can be time consuming as people answering the phones may not be familiar with DAFs and a series of transfers can begin. It would be helpful if the large sponsors would have a designated staff available to address DAF inquiries from nonprofits.



Likewise, members of the organization's development team have relationships with area community foundation DAF advisors, in addition to individuals who make DAF contributions, and work with them to determine appropriate follow up protocols.

Matching corporate gifts will add an additional layer of complexity to tracking DAF contributions and aligning them with the original donor. It will be important for the gift officers, when possible, to work closely with the donors to determine the amount and timing of the matching gift.

**As a result of the effects of COVID-19, funding streams have changed significantly**

More recently, the COVID-19 pandemic has had a significant impact on the organization's operations. Given the need for social distancing during the pandemic, the pandemic has changed how the organization has been receiving revenue.

- Off-the-street/gate revenue has declined due to the pandemic and the associated restrictions. This continued to be the case even as the city and county began re-opening. The same capacity issues have affected revenue typically generated by space rental for special events.
- Special event fundraisers have been cancelled or changed in delivery which has impacted the organization's revenue.
- "Random" gifts from especially non-frequent donors of different sizes have been more common.
- Although the role of DAFs in relation to the pandemic is unclear, they've continued to be important for revenue at the organization.

Of course, given the nature of this crisis, the organization (like many other organizations) has had a very difficult time forecasting revenue. Our interviewee suggested that getting some of the newer donors who have given during the pandemic to make recurring contributions will be important for the organization this year.

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## Appendix C: Additional Resources

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## Appendix D: Expanded Methodology

### Survey Recruitment

Survey participants were recruited using a convenience sampling method. We sent survey invitations to a wide range of nonprofit organizations, primarily through various listservs, including *The Fund Rising School's* monthly newsletter, "First Day from The Fund Raising School," which is typically sent on the first Monday of every month and includes nearly 13,000 subscribers;<sup>26</sup> conference attendee lists purchased by the school; and publicly available lists of organizations recently approved for 501c3 status (or recently reapproved).<sup>27</sup> Response rates were extremely low, but yielded a final sample size of 478 (N=448 after weighting, see below).

### Weighting

The survey sample included 478 organizations. The sample was weighted to reflect the sector as a whole.<sup>28</sup> Due to incomplete organization information from some respondents, this reduced the sample size to 448. All models were run on unweighted samples as robustness checks, and no key findings differed significantly. All results presented in this report, unless otherwise noted, are based on the weighted sample.

Due to non-response and self-selection biases, survey samples rarely *exactly* reflect the distribution of the population they are meant to represent. In this study, we were attempting to study the nonprofit sector in the United States. In order to make our analyses better reflect the sector overall, we calculated weights based on two variables: revenue and geographic region, which gave a total of 24 groups.

A sampling weight indicates that an observation in the survey represents a portion of a finite population. In this case the population is all public charities in the United States. This allows us to make inferences about the population as a whole. A weight is applied to each observation to reflect the influence that observation has on the analysis (i.e. observations with larger weights have a greater influence on the analysis, observations with smaller weights have a smaller influence on the analysis, and observations with a weight of zero are excluded from the analysis).

**Share of revenue.** In designing the weights for this analysis, we wanted to take into account the distribution of the nonprofit sector both by number and by revenue<sup>29</sup>. A weight based solely on number of organizations would make small nonprofits dominate the survey, while a weight based solely on revenue would do the same for the large nonprofits. Therefore, in this study, we weighted the sample by share of revenue, along with geographic region (e.g., if 4.8% of all public charity revenue comes from organizations in the South with \$5-\$25M in revenue, but in our sample 5.5% of it is, then our weight for Southern organizations with \$5-\$25M in revenue is 0.89).

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<sup>26</sup> Open rate for the April 2020 newsletter was approximately 19 percent.

<sup>27</sup> These lists can be found at <https://www.irs.gov/charities-non-profits/exempt-organizations-form-1023ez-approvals>.

<sup>28</sup> Weights were calculated and applied based on two organization-level variables: revenue (adjusted to account for universities & hospitals) and geographic region.

<sup>29</sup> Ideally, we would have used direct support, a better measure of charitable contributions, instead of revenue, but revenue was the data available. To smooth out the biggest differences between these; however, adjustments were made to discount the extremely high revenues of hospitals and universities, only a small percent of which is philanthropic.



**Table D.1.** Distribution of sample verse sector by revenue

Revenue	Unweighted	Weighted	Percent of public charities <sup>a</sup>	Percent of expenses <sup>a</sup>
<100k	52.4%	44.0%	73.5%	0.4%
\$100k-\$1M	14.7%	32.3%	17.7%	3.6%
\$1M-\$5M	9.2%	15.1%	5.4%	7.4%
\$5M-\$25M	12.4%	5.3%	2.4%	15.8%
\$25M-\$50M	3.9%	1.1%	0.4%	9.2%
\$50M+	7.5%	2.3%	0.6%	63.6%

<sup>a</sup>Source: IRS Business master file, downloaded December 2019, <https://www.irs.gov/charities-non-profits/exempt-organizations-business-master-file-extract-eo-bmf> [54]

**Geographic region.** We also weighted by geographic region based on the United States Census regions, which include west, midwest, south, and northeast [55].

**Table D.2.** Distribution of sample verse sector by geographic region

Region	Unweighted	Weighted by Revenue	Percent of public charities
Northeast	15.1%	20.9%	18.9%
Midwest	29.9%	18.8%	22.4%
South	29.5%	32.8%	35.6%
West	25.5%	27.5%	23.0%

## Analysis

We conducted logistic regression with robust standard errors on the survey responses (as our dependent variables were binary), controlling for three organizational characteristics, in addition to the DAF-specific variables mentioned in the text. Those organizational characteristics were: geographic region, subsector, and revenue. The distribution of our sample compared to the sector for revenue (*Table C.1*) and geographic region (*Table C.2*) can be found above in the “Weighting” section. This distribution by subsector is included in *Table C.3* below. All regression results are available upon request.

Subsector was classified based on the organization’s National Taxonomy of Exempt Entities (NTEE) Codes, which categorizes organizations based on their mission. NTEE codes include: Arts, Culture, and Humanities; Education; Environment and Animals; Health; Human Services; International, Foreign Affairs; Public, Societal Benefit; Religion Related; and Unknown or Unclassified [56].

**Table D.3** Distribution of sample verse sector by subsector

<b>Subsector</b>	<b>Unweighted</b>	<b>Weighted by Revenue</b>
Arts	11.8%	11.7%
Education	22.9%	19.6%
Environment / Animals	8.6%	9.5%
Health	10.7%	13.9%
Human Services	19.2%	22.3%
International	2.6%	1.8%
Public Societal Benefit	13.5%	11.5%
Religion	4.5%	3.7%
Unknown / Other	6.4%	6.0%



## Notes

<sup>i</sup> New types of DAFs have been created in recent years. For example, some employers have created workplace DAFs with low or no minimum contribution requirements allowing more donors to utilize DAFs for their charitable giving [3]. Because of this and other factors, such as growing awareness of DAFs, there has been a sharp increase in the number of DAF accounts. In 2018, there were approximately 728,563 DAF accounts, which is a 55.2 percent increase over 2017 (469,331 DAF accounts; [1]). Some of these new types of accounts have no or low minimum contribution requirements (including but not limited to workplace DAFs), which has driven down the average size of DAF accounts to \$166,653 in 2018. This is a 43 percent decrease from 2017 when the average size was \$238,857 (and significantly lower than the high of \$298,169 in 2016; [1]).

<sup>ii</sup> A common debate in policies about DAFs revolves around whether there should be a minimum payout rate. Currently, DAFs are not required to meet a minimum payout rate like private foundations. Private foundations are required to payout a minimum of 5 percent of their asset value. Since the minimum distribution rate was enacted, foundation payout rates have decreased with many foundations treating this minimum as a de facto maximum [4]. Rooney (2017) agrees that this may happen to DAF payout rates as well, saying that the minimum would likely become more of a maximum [5].

<sup>iii</sup> For 27 years, *The Chronicle of Philanthropy* published the Philanthropy 400, a list of nonprofits that raised the most in donations from private sources (foundations, corporations, and individuals) each year [23]. For all but one year (1991), United Way was the top recipient of private funds between 1990 and 2014. However, in 2015, Fidelity Charitable Gift Fund overtook United Way as the nonprofit that received the most in donations from private sources [24]. Because of this change, in 2018, for giving year 2017, *The Chronicle* changed the format of its ranking and published a new list with two major changes: (1) only includes donations of cash and stock (excludes donations of goods and products such as medications and (2) excludes DAFs [25]. The new list, America's Favorite Charities, is a list of the top 100 charities that received the most in cash and stock donations. In 2018, United Way once again topped this list [26]. *The Chronicle* also now maintains a list of the top 10 DAFs. In 2018, this list was topped by Fidelity Charitable Gift Fund (\$9 billion in contributions), Schwab Charitable Fund (\$3.3 billion in contributions), and National Philanthropic Trust (\$2.7 billion in contributions; [17]).

<sup>iv</sup> DAFs allow donors to maximize their tax deduction. Contributing money or assets to a DAF is considered a charitable gift and therefore qualifies for the charitable deduction. Therefore, donors can choose to bunch their giving by contributing several years' worth of charitable gifts to a DAF. They can then use this fund to recommend grants over the next several years. In other words, they can give their money at a time when it will provide them a greater tax benefit (e.g. December 2017; [28]) while still being able to distribute the funds at any time. While this practice was already a key advantage of DAFs from their conception, the 2017 Tax Cuts and Jobs Act (TCJA) [29] changed the federal income tax policy in ways that could favor the use of DAFs. In addition, donors can avoid paying other forms of taxes, such as capital gains [30]. Critics of DAFs fear that donors, and high-net-worth donors in particular, will use DAFs to receive the tax benefit without benefiting the charitable sector.

Under TCJA, the standard deduction was doubled and limitations were added to some deductions (e.g. a \$10,000 limit on the state and local tax [SALT] deduction). As a result fewer taxpayers will itemize on their taxes [31] and fewer taxpayers will benefit from the charitable deduction [32]. If a taxpayer is just below the threshold to switch from taking the standard deduction to itemizing their deductions, they could increase their charitable giving for that year. One way to do this is to contribute to a DAF and there is some evidence that taxpayers changed their behavior in response to TCJA. According to a report by Fidelity Charitable, 50 percent of taxpayers indicated that they changed their giving in response to the policy changes [33]. Moreover, 15 percent of responding taxpayers said that they contributed to an existing DAF and eight percent responded that they established a new DAF. After the passage of TCJA in December 2017, many nonprofit organizations encouraged people to shift some or all of their planned 2018 donations to the end of 2017 [28]. According to some news outlets, DAFs were the perfect giving vehicle to respond to the somewhat unexpected change in tax policy at the end of 2017 because they allowed taxpayers to take the tax deduction in 2017 while also giving them more time to decide how to apportion their charitable gift [34-36]. Anecdotal evidence suggests that some people did indeed bunch their donations by either making their planned 2018 donations in the last week of 2017 or by creating DAFs [34].

<sup>v</sup> In addition to traditional cash or check donations, donors can donate non-cash assets to DAFs, including shares (both publicly and non-publicly traded shares), art, and real estate. This can benefit donors in a few ways. First, DAF sponsors typically help donors appraise the value of these assets, which reduces the burden on the donor [37]. In addition, certain events might cause a taxpayer to receive a large influx of capital gains that they cannot offset with matching losses (e.g. mergers or take-overs) [38]. In order to avoid paying capital gains taxes on the sales of these assets, the taxpayer can contribute their shares to a DAF.

<sup>vi</sup> DAFs are relatively easy for donors to administrate. Not only do DAFs have significantly lower administrative costs than private foundations [39; 40], but sponsors typically have all of the nonprofits' information on file, reducing the burden on the donor. Recommending a donation can be as easy as clicking on a few options on a smartphone app [37]. In addition, DAFs can be passed down to successive generations, which could promote family giving [40]. Donors can name a successor (or successors) on the account who gains control of the account in the event of the donor's death.

DAFs are often seen as an alternative to creating a private foundation. They have relatively low start-up costs, especially compared to the costs of creating a foundation [37; 40]. While some see DAFs strictly as giving vehicles for the wealthy [41], others have said that they are the "democratization of endowed giving," particularly for upper-middle income households [40; 42].

<sup>vii</sup> A common criticism of DAFs is that they disrupt the social relationship between donors and nonprofit organizations, giving the donor outsized control compared to the nonprofit [43]. This criticism results from the fact that sponsoring organizations act as intermediaries between the donor and the nonprofit organization, which nonprofit organizations perceive to limit their ability to build a relationship with the donor.

However, because donors give up legal ownership of their assets when they contribute to a DAF, in reality donors have less control over their funds than they would if they kept the funds in a personal account [39]. In other words, both the donor and the nonprofit organization give up some form of control with the use of DAFs.

<sup>viii</sup> Customer relationship management (CRM) software is commonly used by businesses and nonprofit organizations to track interactions with clients, including customers and potential customers [50]. Nonprofit CRM programs – sometimes referred to as donor databases – allow nonprofit organizations to track metrics about their donors and potential donors, including demographic and wealth information, communication history, and donation history.

These software programs allow nonprofits to credit donors for their donations. Donors receive a hard credit for donations they make directly (e.g. cash or check donations). They can also receive a soft credit for donations that they did not make themselves but somehow influenced (e.g. gifts from DAF accounts) [51]. Many organizations track DAF gifts by hard crediting sponsoring organizations and soft crediting donor-advisors for all gifts from DAFs when the original donor is known. These differing types of credits used during the tracking process are also important for properly acknowledging gifts. Donors are eligible to receive tax incentives for their donations when they give to their DAF account, *not* when the DAF distributes the gift to the nonprofit organization. Therefore, nonprofit organizations should not include tax deductibility information in acknowledgements to donors giving through DAFs. Proper tracking of gifts helps ensure donors receive proper acknowledgement.





**IUPUI**  
LILLY FAMILY SCHOOL OF PHILANTHROPY

Indiana University Lilly Family School of Philanthropy  
University Hall  
301 University Blvd.  
Indianapolis, IN 46202  
317.278.8908