Navigating the Complex Marketplace of Donor-Advised Funds: Strategic Recommendations for Nonprofit Leaders

by

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Abstract

A Donor-advised fund (DAF) is a philanthropic giving vehicle primarily utilized by individuals/families, corporations, and private foundations. Donors open a DAF at a sponsoring organization. These organizations are classified as public charities, thus enabling the donor to receive a full charitable income tax-deduction at the time the assets are put into a DAF. Typically, DAFs are invested funds; therefore, once money is put into a DAF, the charitable assets continue to grow. Donors advise the sponsoring organization to make donations (typically referred to as “grants”) out of their fund to charitable nonprofits of the donor’s choosing and at the donor’s convenience.

This project is intended to serve as an overview of donor-advised funds in order to provide nonprofit leaders with practical insights and suggestions for strategically navigating the DAF arena. Primary data collected from nine expert interviews was blended with secondary data (inclusive of 20+articles and reports) to outline the general utilization and structure of the DAF marketplace. Additionally, in order to better understand the diversity of the DAF landscape, a high-level review outlines key differences among DAF sponsoring organizations and highlights the experiences of a small sample of nonprofit organizations. Finally, to articulate the complexity of DAFs, data was synthesized into the major themes and perspectives of key stakeholders in the DAF marketplace.

The primary results of the analysis demonstrate there is no one direct path for nonprofits to access donor-advised funds, for a number of key reasons. Recommendations are provided to help identify ways nonprofit leaders could strategically approach the complexity of donor-advised funds in order to expand and broaden funding opportunities for their organization.
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Section 1. Introduction

It is important for nonprofit leaders to intentionally develop business practices that will enable them to effectively maintain long-term financial sustainability. Donor-advised funds (DAFs) offer a potential funding source for nonprofit organizations; however, due to their complexity, many organizations do not strategically pursue this funding source. According to the 2016 IRS Statistics of Income, there were over 2,000 donor-advised fund sponsoring organizations in tax year 2012 (Arnsberger, 2016). According the National Philanthropic Trust (NPT)’s 2016 Donor-Advised Fund Report, the contributions to donor-advised funds has increased at least 10% each year for the past eight years, and currently is at a record high, making up 8.4% of individual giving. The 1,016 sponsoring organizations included in the NPT’s 2016 report had $22.26B in donor-advised fund contributions, and reported $78.64B in total charitable assets for 2015 (p. 3).

Because of the way the donor-advised fund marketplace is currently structured, donor-advised funds are complex to understand. Additionally, because there is no legally required mandate pertaining to payout rates or donor transparency, the true impact of donor-advised funds on charitable giving is unknown. As a result, their use and effectiveness is controversial. However, because of the increasing use of donor-advised funds, it is imperative for nonprofit leaders to better understand the donor-advised fund marketplace.

This project is intended to provide a broad snapshot overview of donor-advised funds – what they are and how they are utilized. Overall, this project is intended to provide nonprofit
leaders with insights and suggestions that are practical for navigating the DAF arena, in order to effectively leverage DAF funding in a manner that is most strategic for their organization.

Research Questions

The following research questions guided this project:

1. How is the donor-advised fund marketplace currently structured and utilized?
2. How can nonprofit organizations effectively pursue funding from donor advised funds?

This paper begins with providing an overview of DAFs, highlighting the differences in sponsoring organizations and various challenges to DAFs as found in the literature. Additionally, this paper will briefly discuss the debate surrounding DAFs. Next, this paper will discuss the methods and approaches used to collect data, followed by a brief overview of the data analysis. Next, this paper will outline implications and provide recommendations based on the analysis. Finally, this paper will end with a conclusion, highlighting next steps.

Section 2: Literature Review

Overview of DAF Landscape

According to the National Philanthropic Trust, DAF’s are among the fastest growing philanthropic vehicle (NPT, 2017, What is a DAF?). Additionally, according to the National Philanthropic Trust (NPT), “contributions to donor-advised funds have increased as a share of total giving since at least 2007 (p. 1, 2016). The NPT’s 2016 Annual Donor-Advised Fund Report found that contributions to donor-advised funds is at an all-time high, currently
accounting for 8.4% of individual giving (NPT, 2016, p. 1). In 2015, the estimated amount of charitable giving in the U.S. was $373.25 billion (Giving USA 2016, as cited by NPT, 2016).

Andreoni (2015) noted that avoiding capital gains tax is the primary financial advantage to DAFs, as highlighted in the Fidelity Charitable 2016 report, which noted that 78% of donors surveyed listed "potential to limit capital gains taxes" as a reason for establishing a DAF. In a study looking at giving in Silicon Valley, Culwell and Grant (2016) found that, "in 2015 total grants from Schwab and Fidelity donor advised funds given by Silicon Valley donors totaled $432 million with nearly $91M staying in Silicon Valley, with 61% going specifically to CBOs" (p.4, Culwell and Grant, 2016). Fidelity Charitable (2016) and Schwab Charitable (2016) highlight that most donors give from their DAF to education and religious organizations, and many give to causes within their home state.

**DAF Donors – Key Trends**

A survey done by Fidelity Charitable (2016b) found that "younger donors are much more likely to use giving vehicles than older donors" (p.7). Within the report, it noted that 22% of younger donors reported using community foundations, compared to 12% of older donors. Additionally, 15% of younger donors reported using DAFs, compared to 8% of older donors (p.7).

"Donors who give more than $20,000 a year are most likely to use giving methods beyond cash" (p.1, Fidelity Charitable, 2016b). While this does not specifically mean they are likely to use DAFs, it could highlight that donors of giving higher amounts are more likely to have access to giving non-cash assets, and thus, may be more inclined to utilize a DAF.
Defining DAFs

DAFs are a philanthropic giving vehicle primarily utilized by individuals/families, corporations, and private foundations (Pagnillo & Piepmeier, 2016; Colinvaux, 2017). DAFs offer a charitable vehicle that is different than other options available. As Hester (2008) noted, "they provide donors with a relatively simple and efficient way of giving, having the advantage of professional management of the assets and, in the case of community foundations, of oversight of the charitable recipients, and allow donors and their family members to remain involved in the philanthropic process" (Hester, 2008, p.346).

The donor opens a DAF at a “sponsoring organization”. Sponsoring organizations are classified as public charities which enables the donor to receive a charitable income tax-deduction at the time assets are put into the DAF (Colinvaux, 2017; Pagnillo & Piepmeier, 2016). Because the donor receives the charitable tax deduction at the time the assets goes into a DAF, the donor technically has “advisory” rights only over the fund (Pagnillo & Piepmeier, 2016). Legally speaking, the sponsoring organization has full control over the assets held in a DAF. However, there is little incentive for sponsoring organizations to not follow the giving advice of donors, therefore, donors utilize DAFs to make gifts (referred to as “grants”) to charitable nonprofits of their choosing and at their convenience (Colinvaux, 2017; Pagnillo & Piepmeier, 2016).

Additionally, DAFs are typically invested funds; therefore, once money is put into a DAF, the charitable assets continue to grow. As described by the National Philanthropic Trust, “an easy way to think about a donor-advised fund is like a charitable savings account: a donor contributes to the fund as frequently as they like and then recommends grants to their favorite charity when they are ready” (NPT, 2017, What is a DAF?).
Furthermore, according to Daniels (2015), donors who make gifts from a DAF may give more than other individual donors. Additionally, many sponsoring organizations highlight the convenience of set up as one the greatest perks of a DAF. For example, Fidelity Charitable notes on its website that a DAF can be set-up in as little as five minutes over the phone. DAFs also allow for donors to give anonymously, as gifts can be made from the fund without any mention of the individual donor’s name (Pagnillo & Piepmeier, 2016).

**History of DAFs**

The concept of DAFs has been around since the 1930’s, beginning first as a way to pool funds at community foundations (Colinvaux, 2017). DAFs were not legally formalized by Congress until 1969 (NPT, 2017). In 1991, Fidelity was the first financial institution to obtain an IRS ruling that enabled Fidelity Charitable to provide clients with the same charitable tax deduction when transferring assets into a DAF that they would get if the property was donated directly to a charitable nonprofit, thus creating the “charitable middleman” that commercial (and other) sponsors tend to be considered (Cullman and Maddoff, 2017). As a result of such large commercial players entering the market, DAFs have grown considerably over the last several years, both in terms of assets and popularity (Cullman and Maddoff, 2017).

The IRS did not begin collecting data on DAFs until 2006. In 2006, Congress passed the Pension Protection Act (PPA) of 2006, which further outlined the legal definition and provided additional regulatory guidelines for DAFs (Colinvaux, 2017; Pagnillo & Piepmeier, 2016). The Internal Revenue Code (IRC) was updated in 2006 to include detailed language around DAF regulations and sanctions. Key things that came from the PPA included language around the requirements of DAFs, such as mandating that distributions from a DAF go to a charitable
501c3, and any distributions used for non-charitable purposes are subject to “excise tax” (Pagnillo & Piepmeier, 2016). Additionally, the IRC includes wording to the effect that “distributions to certain tax-exempt organizations that are not public charities are deemed to be taxable distributions unless the sponsoring organization exercises oversight over the distributions through a process called "expenditure responsibility" (IRC 4966(c) and IRC 4945 (h) as referenced in Pagnillo & Piepmeier, p. 36, 2016). It should be noted that these are just a few of the major changes to the IRC that come from the PPA of 2006.

**Private Foundations and DAFs**

Private Foundations utilize DAFs as a way to spend down the mandated 5% that private foundations must payout annually. Individuals/families and corporations often set-up a DAF because they offer an easier alternative to setting up a private foundation, which often costs more and requires a greater time-commitment on behalf of the donor (Foord, 2012; Pagnillo & Piepmeier, 2016). DAFs also provide donors with an easy way to donate non-cash assets, and the charitable income tax deduction threshold is higher for donations made to a DAF than to a private foundation (Cullman and Maddoff, 2017; Pagnillo & Piepmeier, 2016). Unlike private foundations, there is no minimum annual payout requirement for DAFs (Cullman and Maddoff, 2017; Dept of the Treasury, 2011; Pagnillo & Piepmeier, 2016).

Citing a report by Giving USA, Neyfakh (2013) noted that private foundations contributed a total of $92 million across the DAF programs managed by Fidelity, Schwab and Vanguard in 2011. In a study done by The Economist (2017), of the 4,000 foundations included in the study, 40 of them contributed about 1% of their total contributions to a DAF. While it is not clear how this 1% aligns with the foundations’ mandated 5% annual payout, the study further
noted that 25% of the foundations using a DAF gave 90% or more to a DAF (The Economist, 2017).

**Sponsoring Organizations**

According to the IRS Statistics of Income Bulletin (Arnsberger, 2016), “approximately 2,121 public charities sponsored one or more donor-advised fund account in 2012, which was 19% more sponsoring organizations than in 2006” (p.3). In this same report generated by the IRS, Arnsberger (2016) highlighted that of the 2,121 sponsoring organizations, more than half (60%) had a DAF portfolio size under $1 million, while 4% of sponsoring organizations had DAF assets over $100 million. Arnsberger (2016) further noted that although the organizations that have large DAF holdings only represent 4% of the sponsoring organizations, these large sponsoring organizations accounted for over 80% of the total amount held in DAFs ($43 billion in 2012), whereas the smaller organizations, with less than $1 million in DAFs held “…one half of one percent” of the total DAF assets in 2012. The large organization are primarily commercial sponsors and community foundations.

According to the 2011 Treasury Report, there are three main categories of “sponsoring organizations”. They include: (1) national sponsoring organizations, (NDAFs). Within NDAFs, there are (a) commercial NDAFs and (b) non-commercial NDAFs; (2) Community Foundations, and (3) Issue-Specific Sponsors, which include: (a) public foundations that are tied to a specific issue or cause, these organizations may give nationally or internally to charities that align with the foundation’s mission; (b) other public charities that set-up funds within their organization as a way to support their charitable mission, examples: hospitals and universities (Dept. of Treasury, 2011). For this project, these organizations are referred to as “cause-specific” and only
include public foundations that have grant-making as a key organizational activity. This project does not include organizations that sponsor DAFs as part of their fundraising efforts.

There is great variation from one sponsoring organization to the next (Foord, 2003). Additionally, there is significant variation in how individuals and sponsoring organizations view the purpose of a donor-advised fund. Colinvaux (2017) pointed out that donor-advised funds can be viewed “…as quasi-private foundations, as public charity substitutes, or as catalysts for new charitable giving” (p. 39). The author further highlighted that each viewpoint brings a different perspective pertaining to the role that donor-advised funds play in regards to philanthropy. The author further noted that each viewpoint brings a different set of regulation recommendations, which highlights the challenges that come with developing effective policy around donor-advised funds.

**National Sponsors (NDAFs)** make up the largest group of DAF sponsoring organizations in terms of total assets (Arnsberger, 2016). According to the Department of the Treasury (2011), a national sponsoring organization, or “NDAF” is an organization that “…the sponsorship of the DAFs and other similar accounts or funds generally appears to constitute the principal activity performed by the sponsoring organization. The organizations largely focus on receiving contributions, converting non-cash donations into a more liquid form, facilitating grant-making, and managing the investment of DAF assets, rather than the direct provision of charitable services” (p. 49). As Colinvaux (2017) highlighted, the reason that the national charity exists is to fundraise through DAFs, meaning, “the DAF as a fundraising device is the end, not a means” (p.45).
National sponsoring organizations are often connected to a major financial institution, such as Fidelity Charitable, or Schwab Charitable (Colinvaux, 2017; NPT, 2016). Of The Chronicles Philanthropy 400, four out of the top 15 organizations were organizations run by financial institutions that manage donor-advised funds (Daniels, 2015). These are considered “commercial NDAFs” (Department of the Treasury, 2011).

National sponsoring organizations do not have to be connected to a financial institution and there are a number of non-commercial NDAFs, such as the National Philanthropic Trust and the American Endowment Foundation. Unlike Community Foundations and Single-Issue Charities, which often have mission-aligned priorities targeted towards a specific region and/or issue area, NDAFs are not associated with any particular cause or location. Because these organizations are not tied to one specific issue, they are considered to be broader in terms of charitable giving reach (Hester, 2008).

In a report of giving in Silicon Valley, Culwell and Grant (2016) reported that two largest national charities of donor advised fund programs - Fidelity charitable and Schwab charitable - hold more than 4,500 donor advised funds among Silicon Valley clients, 292% more than they did in 2005" (p.4, Culwell and Grant, 2016). "These combined donor - advised funds have more than $2.2 billion in assets, a 946% increase since 2005." (p.4, Culwell and Grant, 2016).

Hester (2008) noted that donors who are more interested in advising on grant recipients may find a better fit with a community foundation or single-issue sponsor, compared to a NDAF.

**Community Foundations** are where DAFs are rooted. The first donor-advised fund was established in the 1930s at The New York Community Trust (see p. 44, note 17, Colinvaux, 2017). According to the Department of the Treasury (2011), “Community foundations
commonly raise funds and make grants to support numerous charitable initiatives in their communities, and they hold endowments for local charitable projects in a number of funds, often including DAFs” (p. 51). Community foundations historically have tended to limit giving to the local community/region, however, there is an increase in international giving from DAFs through community foundations.

**Single-Issue/Cause-specific sponsoring organizations** includes organizations that sponsor DAFs as part of their overall fundraising strategy, as well as public foundations that are grant-making organizations and may or may not be tied to a specific cause (Department of Treasury, 2011). Typically, single-issue sponsors “…require that all or a percentage of grants made [from a DAF account] benefit that organization or cause” (Hester, 2008, p.345). However, this is not always the case, as some public foundations, such as Philanthropic Ventures Foundation, do not have a single-issue that they are funding, but have grant-making as their primary mission related activity. Philanthropic Ventures Foundation does not require DAF account holders to donate to specific cause or issue area. Alternatively, Tides, which is also a public foundation, requires that grants go towards organizations that align with the overall progressive mission of Tides. Horizons Foundation, which is also a public foundation, requires that donors give to organizations that are part of the LGBT movement and no other causes. There is great variation across all the different sponsoring organizations.

**Payout Rates**
Currently, there is no required annual DAF payout rate, nor is there is a time limit on how long a DAF can remain open (Cullman and Maddoff, 2017, Department of Treasury, 2011). As a result, DAFs are viewed by some as a philanthropic tool that can be utilized in perpetuity,
passed down to future generations within their family (Cullman and Maddorff, 2017). Others view DAFs as a tool that allows a person to invest charitable dollars that they otherwise would not, thus providing donors with an opportunity to grow their account in order to potentially have the ability to make larger charitable gifts in the future (NPT, 2017).

According to the NPT 2016 DAF Report, the total value of grants coming from DAFs, has been increasing since 2010 (NPT, 2016). There are currently numerous ways in which payout rates are calculated. According to the Chronicle of Philanthropy (Lindsay, Hatch and O’Leary, 2016), there are four common ways that payout rates are calculated. There is no required standard. As a result, the payout rates reported by organizations are subjective and tend to be relatively biased. There is also a tendency for “double-counting” due to the fact that a transfer from one DAF to another is considered a “grant” and thus is counted in the payout rate (Cantor, 2017). The four common methodologies for calculating payout rates, as noted by Lindsay et al., (2016) are:

- Grants divided by grants plus year-end assets
- Grants divided by previous year’s assets value
- Grants divided by year-end assets
- Grants divided by average year-end assets over 5 years

The payout rates vary from having an aggregate median of 10%, with half of individual organizations included in the report ranging from 1% to 35% (Arnsberger, 2016). The NPT’s 2016 report showed an average payout rate for 2015 as 15.4% for community foundations, 21.1% for national charities, and 33.1% for single-issue charities (NPT, 2016).
The debate is ongoing in terms of what is a reasonable mandated payout rate and whether or not a payout rate would be beneficial. Regarding a mandatory payout rate, some suggestions have included: (a) mandated payout time of five years, with a tax being applied to any undistributed funds after five years, proposed in 2014 by Congressman Dave Camp, (Pagnillo & Piepmeier, 2016), and (b) a set time frame of 10-20 years to spend down the full fund assets (Cullman & Maddoff, 2016). Others who are in support of DAFs note that a required payout rate will cause greater administrative burdens on sponsoring organizations, which could increase fees and/or make DAFs less attractive (Pagnillo & Piepmeier, 2016).

**Controversial Issues of DAFs**

One of the largest areas of debate pertaining to DAFs surrounds the issue of payouts, as briefly mentioned earlier. The Chronicle of Philanthropy’s (Lindsay et al., 2016) report of the top 80 sponsoring organizations found that “the rate at which funds are making grants is declining”. The NPT’s 2016 report of 1,016 sponsoring organizations also found that the grant payout rate is declining slightly. As Lindsay et al., (2016) reported, this decline “…worries critics, who argue that donor-advised funds are attracting contributions that typically go to charities immediately. Charitable giving is being warehoused, they argue, doing nothing but generating management and investment fees”. Sponsoring organizations rebut these claims, noting, “…a booming stock market has sent asset values skyrocketing. Grant making will catch up, they say, and payout rates will increase” (Lindsay et al., 2016).

Aside from no required annual payout rate, another notable challenge and area of debate pertaining to DAFs is the issue of transparency. Unlike private foundations, which are required to report who they fund annually on their IRS Form 990-PF, there is no required reporting of
DAF activity on an individual account level. Beginning in tax year 2008, sponsoring organizations are now required to report in Schedule D of the IRS Form 990 the number of DAFs they manage, the total assets held in these accounts, and the total amount paid out in grants from these accounts over the year. There are numerous challenges that come from only having access to aggregate data on DAFs. From a nonprofit’s perspective specifically, it makes it challenging to know what types of causes donors are giving to and in what capacity. This is an added challenge particularly because individuals can give through their DAF anonymously.

The role of DAF sponsoring organizations, particularly commercial sponsors is another area of debate. As Colinvaux (2017) points out, “the DAF debate is in a confused state, in part because there is no common understanding of what DAFs represent” (p. 41). As the author further notes, “DAF sponsoring organizations are called public charities but, as grantmaking entities, seem more like private foundations. Further, because not all DAF sponsoring organizations are the same, it is hard to generalize” (p. 41-42, Colinvaux, 2017).

Along these same notes pertaining to commercial sponsors, some say that donors do not feel any urgency to make grants out of their fund because they have already received their deduction (Cullman and Maddoff, 2016). Additionally, some think that financial advisors may cause donors to see the funds in a DAF as "assets to be managed", as opposed to funds to be distributed to charity (Cullman and Maddoff, 2016). Therefore, account holders may have a greater tendency to watch their fund accumulate and seeing the distributions as a loss of assets could make it more challenging for account holders to pay out from their fund (Cullman and Maddoff, 2016). Behavioral economists refer to this desire to keep property in which one feels a sense of ownership towards as the "endowment effect" (Andreoni, 2016).
There is also a good amount of ongoing debate regarding whether DAFs are more beneficial or harmful to charities and society at large. There is especially strong controversy surrounding commercial NDAFs. According to Cullman and Maddoff (2016), "a significant part of the work of commercial DAF sponsors consists of acting as a tax-free clearinghouse for complex assets" (para 20). The authors further pointed out, “if a donor gifts a complex asset to a private foundation, their income tax deduction would be the amount of the initial investment. However, if the donation was made to a DAF, the full current value of the asset could be deducted" (Cullman and Maddoff, para 21). Cullman and Maddoff (2016) noted that the ability for donors to receive a higher tax deduction for complex assets put into a DAF compared to the same assets being put into a private foundation “…has fostered the growth of DAFs” (para 21).

The overall philanthropic impact of DAFs is also debatable. As Cullman and Maddoff (2016) noted, citing Giving USA’s 2014 annual report on philanthropy, charitable giving has remained “…constant at 2 percent of disposable net income” (Cullman and Maddoff, 2016, para 25) over the past forty years. Although the rate of giving to DAFs is reportedly increasing, due to the lack of transparency of DAFs, it is challenging to know how this money is being used, and is somewhat questionable, if in fact, the overall giving is not increasing.

**Key Challenges to DAFs**

Aside from the issues noted in previous sections above, there are some key challenges nonprofits face when it comes to accessing funding from DAFs. Fidelity Charitable “…now holds more in assets than the Ford Foundation, the nation’s second largest private foundation, behind the Bill and Melinda Gates Foundation” (Daniels, 2015). This is a challenge because unlike traditional grant-makers, who outline giving priorities, donor-advised fund account
holders are not required to make focused giving priorities, let alone make their giving priorities available to the public. It can be challenging for nonprofits to know how to connect with DAF account holders because there is no easy way for organizations to know who within their donor pool has a DAF.

Additionally, donations made through a DAF do not have to include the donors name or contact information (Colinvaux, 2017; Daniels, 2015). Although “Fidelity and other national DAFs report that more than 90% of their donors include their contact information” (Daniels, 2015) when giving to a charity, the ability to give anonymously can be a challenge for nonprofits, and can also be an appealing factor to people who utilize a DAF for giving.

Another challenge to connecting with DAF donors that is highlighted in Daniels (2015) article is that communication can be difficult because the financial manager stands in the way of the organization and the donor interacting directly, which Victoria Smith, development manager of Oxfam America notes adds “an extra layer of communication” (Daniels, 2015).

Section 3: Methods and Approaches

Secondary Data Collection
Secondary data was collected through an in-depth literature review in order to understand overall history, structure, utilization, trends, challenges, opportunities, etc. of donor-advised funds. The key sources listed in Table 1 were used to better understand DAFs. Many of these sources were referenced in the literature review above, as well as in the data analysis section that follows.
Table 1: Key Secondary Sources

<table>
<thead>
<tr>
<th>Peer-reviewed journals:</th>
<th>Periodicals and publications:</th>
<th>Industry and organizational reports:</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Trusts &amp; Estates</td>
<td>✓ The Chronicle of Philanthropy</td>
<td>✓ Dept. of the Treasury: 2011 Report to</td>
</tr>
<tr>
<td>✓ Journal of Taxation</td>
<td>✓ Stanford Social Innovation</td>
<td>Congress on Sponsoring Orgs and DAFs</td>
</tr>
<tr>
<td>✓ Journal of Nonprofit and Public Sector Marketing</td>
<td>✓ Boston University Law Review</td>
<td>✓ Annual Reports, websites, and IRS Form 990s of sponsoring organizations</td>
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<td></td>
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<td>✓ Urban Institute reports</td>
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Key findings from the literature review were used to identify key stakeholders in the DAF arena. The key stakeholders identified include:

- Sponsoring organizations
  - Public Foundation / Cause-specific
  - Community Foundations
  - National DAFs (Commercial)
  - National DAFs (Non-Commercial)
- Nonprofit organizations that currently receive funding from donor-advised funds
- Finance professional (financial advisors and wealth managers)
- Nonprofits that do not receive funding from donor-advised funds
- Donors that have a donor-advised fund
- Other connectors, such as tax attorneys and corporate attorneys
Nonprofits that do not receive funding from donor-advised funds, donors that have a donor-advised fund, and other connectors, such as tax attorneys and corporate attorneys, are not included in the data analysis of this project due to the inability to collect sufficient primary or secondary data on these groups. Primary data collection was focused on gaining insights into the various perspectives of sponsoring organizations, nonprofit organizations that receive funding from donor-advised funds, and finance professionals.

**Primary Data Collection**

Primary data for this project was collected through expert interviews of professionals representing various positions within the overall donor-advised fund marketplace. These interviews were semi-structured and were conducted by phone, with the exception of two interviews, interviews D and H, which were done via email. A total of nine interviews were completed. The phone interviews lasted from 10-30 minutes. The intent of these interviews was to gather a range of perspectives. These interviews included:

- **Four interviews** with nonprofit executives or managers working at organizations that sponsor donor-advised funds. All three organizations were public foundations that include “grant-making” and “donor-advised funds” among their organization’s key activities; two of the organizations were cause-specific. Annual gross receipts (as reported for tax year 2014) for these organizations ranged from approximately $7.4M - $184.8M, with year-end aggregate DAF assets ranged from $13.2M - $131.8M. The number of donor-advised funds managed per organization ranged from 51 - 252 accounts.

- **Three interviews** with nonprofit executives who have experience receiving
organizational funding from donor-advised funds. Annual gross receipts (tax year 2014) for these organizations ranged from $485K - $16.5M.

- **Two interviews** with executives who have direct experience working with donor-advised funds from a wealth management perspective. One executive worked for a financial firm managing client portfolios primarily under $5M, and the other worked at a firm managing client portfolios of $10M+.

The interviews were done via convenience sample, primarily due to time constraints. Because not all sponsoring organization types were accessible by interview, secondary data was utilized to fill in these gaps. Sponsoring organizations that were mentioned during interviews were chosen as the stakeholders to include via “secondary” data. Below shows the breakdown of key stakeholders and method of data collection (Table 2). The questions used are found in Appendix A - C of this report.

**Table 2: Key Stakeholders and Method of Data Collection**

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<thead>
<tr>
<th>Sponsoring Organizations</th>
<th>Stakeholder Type</th>
<th>Method</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Public Foundation / Cause-Specific</td>
<td>Primary (Three semi-structured interviews)</td>
</tr>
<tr>
<td></td>
<td>Community Foundation</td>
<td>Secondary (Organizational Reports and Published interviews)</td>
</tr>
<tr>
<td></td>
<td>National (Commercial)</td>
<td>Secondary (Organizational Reports and Published interviews)</td>
</tr>
<tr>
<td></td>
<td>National (Non-Commercial)</td>
<td>Secondary (Organizational Reports and Published interviews)</td>
</tr>
<tr>
<td></td>
<td>Wealth Management / Financial Advisors</td>
<td>Primary (Two semi-structured interviews)</td>
</tr>
<tr>
<td></td>
<td>Recipient of DAF Funding - Nonprofit Organization</td>
<td>Primary (Four semi-structured interviews)</td>
</tr>
</tbody>
</table>
Limitations

The data analysis for this project was unable to include a number of things, due to time constraints, particularly related to the scheduling delays of interviews. As a result, a full and thorough data analysis was not able to be completed, and not all of the data collected was able to be included in the analysis. Additionally, this project does not include any quantitative analysis, which limits the scope and depth of the overall analysis. Finally, the sample size of interviews done to gather key stakeholder perspectives was small, and there were some stakeholders that were unable to be accessed for interviews.

Section 4. Data Analysis

Intent of Analysis

The intent of this project’s analysis is to provide brief insights into the complexity of the donor-advised fund marketplace, which includes evaluating the differing perspectives and motivations of key stakeholders in the DAF marketplace.

Primary data from interviews was blended with secondary data in order to outline the general utilization and structure of the donor-advised fund marketplace. This analysis (Figure 1) outlines key points pertaining to who, what, when, and why a donor-advised is likely be utilized, as well as highlighting where donor-advised funds are managed.
Stakeholder Perspective: Nonprofits funded through DAFs

In order to better understand the diversity of the DAF landscape, this analysis showcases the variations of DAF funding strategies and challenges within of a small sample (n=4) of nonprofits that currently receive funding from DAFs (Table 3). Table 3 further highlights the variation in organizational size and service areas of nonprofits that receive funding from donor-advised funds.
Table 3: Variations in Nonprofits Receiving Funding from Donor-Advised Funds

<table>
<thead>
<tr>
<th>Organization Size (Gross Receipts, 2014 Form 990)</th>
<th>Interview A</th>
<th>Interview B</th>
<th>Interview C</th>
<th>Interview D</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.5M</td>
<td>$16.5M</td>
<td>$455,000</td>
<td>$3.7M</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organization Issue Area</th>
<th>Interview A</th>
<th>Interview B</th>
<th>Interview C</th>
<th>Interview D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational support/scholarships</td>
<td>Women's rights/international development</td>
<td>Financial coaching/tax-prep services</td>
<td>Education/ethical leadership development</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Approx. Amount of Funding from DAFs</th>
<th>Interview A</th>
<th>Interview B</th>
<th>Interview C</th>
<th>Interview D</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% of total revenue</td>
<td>$2.5M</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gift size (range)</th>
<th>Interview A</th>
<th>Interview B</th>
<th>Interview C</th>
<th>Interview D</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000 - $5,000</td>
<td>$1,000 - $250,000</td>
<td>NA</td>
<td>$3,500 - $350,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Source(s) of DAF Funding</th>
<th>Interview A</th>
<th>Interview B</th>
<th>Interview C</th>
<th>Interview D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community foundations</td>
<td>Directly from donors (major gift donors)</td>
<td>Rarely from community foundations</td>
<td>Community foundations</td>
<td>Directly from donors - commercial, public foundations, Community foundations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Challenges to DAFs</th>
<th>Interview A</th>
<th>Interview B</th>
<th>Interview C</th>
<th>Interview D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessing donors directly</td>
<td>Directly marketing to SOs and financial advisors tends to yield little results</td>
<td>Ensuring fundraising staff has expertise in understanding when donor can/cannot use DAF</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Funding often tied to grant application</td>
<td>SOs not wanting to share donor info/additional red tape caused by SOs</td>
<td>SOs priorities different than nonprofits</td>
<td>Lack of transparency makes things difficult</td>
<td></td>
</tr>
<tr>
<td>501(c)(3) not wanting to share donor info/</td>
<td>Lack of transparency makes things difficult</td>
<td>Repeat funding can be uncertain, makes planning difficult</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Nonprofits typically receive funding from DAFs either via grants from community foundations, or by donors who give directly to the nonprofit out of their donor-advised fund. Based on the primary and secondary data collected for this project, nonprofit leaders who have experience receiving funding from DAFs report accessing donors as one of the greatest challenges to DAFs. These leaders highlighted that sponsoring organizations, particularly community foundations, create an unnecessary “middle-man” that often prevents organizations from connecting with and accessing these donors.

Additionally, the overall lack of transparency surrounding DAFs was noted as a key challenge to accessing donors and funding from DAFs, as it is essentially impossible to know how DAFs are truly being utilized by individual account holders. These findings were consistent with secondary data findings.
Stakeholder Perspective: Sponsoring Organizations

To highlight the variation in sponsoring organizations, key information from the three interviews with sponsoring organizations is summarized in Table 4. This information highlights the viewpoint of a small sample of sponsoring organizations (n=3) that fall into the category of public foundations/cause-specific sponsoring organizations. Table 5 also includes basic organizational and DAF information reported on the organizations’ 2014 IRS Form 990. This information on the table is noted with an asterisk (*). For comparison purposes, this information is alongside secondary data reported in the NPT 2016 Report for “single-issue charities”.

Table 4: Variation across Sponsoring Organizations - Public Charities/Cause-Specific

<table>
<thead>
<tr>
<th>Stakeholder Type: Sponsoring Organization - Public Foundation / Cause Specific - Additional Info from Interviews</th>
<th>Interview G Issue-Specific</th>
<th>Interview H Issue-Specific</th>
<th>Interview I Public Foundat.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Comments about DAFs and Charitable Giving</td>
<td>DAFs are more efficient than foundations, which explains increased trend in corporate use</td>
<td>More legislations is needed. Legislation that requires an annual payout rate and/or an account lifetime of 5 years</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td>DAFs have helped make it that non-traditional philanthropists can be more active as a philanthropist at an institutional level (democratized philanthropy)</td>
<td>Need for transparency of individual accounts and account holders</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DAFs have increased the amount that is given to nonprofits; they have increased the overall pie of indiv. giving</td>
<td>Without the ability to know who the donor is, how much the fund is worth, what causes the person is interested in, how the fund is being used, etc., no one knows how to access this money and it’s very complicated for nonprofits to successfully tap into that money</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Because of current structure, they are not helping philanthropy, they are simply helping large institutions like fidelity make more money</td>
<td></td>
</tr>
<tr>
<td>How can nonprofits best connect with DAF account holders</td>
<td>Cold-calls to a SO is not a method that will yield much opportunity for the nonprofit</td>
<td>At this org. fund manager learns about donors’ interests when they set-up their account, and when he learns about opportunities that may interest the donor, he lets them know, either by passing along info to the donor, or by asking them directly to make a gift.</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td>Don’t spend time on direct outreach to SOs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Instead, spend time understanding the landscape of the issue area you work in and focus on developing relationships across that issue area and become well known/seen as an expert in your specific issue area</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SO does not work directly with nonprofits, SO works directly with donors to help them understand the landscape of opportunities available to fund with their DAF</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Additionally, secondary data was gathered on other sponsoring organizations not available for interviews (community foundations and national charities). This information is included in the summarize findings in Figure 2.

**Stakeholder Perspective: Finance Professionals**

The key themes from the two interviews done with finance professionals is outlined in Table 6.
Table 6: Key Themes from Interviews with Finance Professionals

<table>
<thead>
<tr>
<th>In what way do financial advisors connect clients to philanthropy</th>
<th>Help donors vet nonprofits, help them choose philanthropic tools, help clients expand philanthropic efforts. Provide clients with landscape survey: client goes to wealth manager with ideas and HM/L does the research and gathers info back to client (Landmark survey of 500+ goes in the issue area or geographic location).</th>
<th>Most financial advisors are not necessarily all that philanthropic: they run. Advisors in general tend to not talk much about philanthropy or have philanthropy as a value of their priorities. Most financial advisors won’t spend the time to interact with a nonprofit that they or their clients aren’t on the board of.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree that client depends on advisor for giving advice</td>
<td>Clients do not ask for recommendations, they know the organizations they want to give to, advisors help provide the most effective vehicle</td>
<td>WM/L are influential with ideas and connecting clients to resources, but normally, clients do what they want and most often know what they want to give to.</td>
</tr>
<tr>
<td>Frequency of anonymous giving</td>
<td>Varies</td>
<td>Varies; tends to be at grassroots level or when people don’t want their name out for various reasons</td>
</tr>
<tr>
<td>DAF Clients interaction with nonprofits</td>
<td>Unknowns</td>
<td>Varies; many tend to involved at board level; most give to a number of organizations/ causes from DAF; more than half use DAF for writing checks from $100,000 - millions for 10-150 organizations. “Checkbook philanthropy is very much alive and well.”</td>
</tr>
<tr>
<td>Financial managers interaction with nonprofits</td>
<td>Connecting with nonprofits in order to help clients engage in philanthropy is not a topic of discussion among financial advisors.</td>
<td>Financial advisors aren’t likely to engage directly with nonprofits other than in a board role. Individual nonprofits reaching out is just extra noise, and is likely to be more annoying than helpful.</td>
</tr>
<tr>
<td>Capacity of how client uses DAF (LT/ST)</td>
<td>Short-term, 5 years</td>
<td>STT UG raises, many like being able to have a DAF successor.</td>
</tr>
<tr>
<td>Reasons that lead client to DAF</td>
<td>Financial advisor knew client was philanthropically minded and made recommendation because it was most applicable, best financial option to the clients situation.</td>
<td>Most clients like DAF vs. PP because there is no required payout, better tax advantages, and no admin work.</td>
</tr>
<tr>
<td>Impact of DAFs on charitable giving</td>
<td>Note: interviewers noted that DAFs are not common among his clients because they tend to not have large enough portfolio of assets. Suspected DAFs would be more common among clients with $10-20million + of assets.</td>
<td>Many use DAFs and PFS together, interchangeably. Can be hard to tell when the money is actually benefiting the public.</td>
</tr>
</tbody>
</table>

Major Themes and Perspectives of Key Stakeholders

Finally, in order to articulate and showcase the complexity of donor-advised funds, the perspectives of key stakeholders were combined. Utilizing primary and secondary data, the major themes and perspectives of key stakeholders in the DAF marketplace were synthesized and outlined (Figure 2).
Section 5: Implications and Recommendations

Implications

The key results from the data analysis show that the marketplace of donor-advised funds tends to have some barriers when looked at from the perspective of the community nonprofit. Essentially, this is due to each stakeholder having a different client to serve, thus, the priorities of
stakeholders tend to not align. As a result, it is challenging for nonprofits to access donors though sponsoring organizations or by connecting directly with wealth managers.

Additionally, some nonprofits that were interviewed noted that accessing donors with DAFs by connecting directly with the donors (through major gift officers), versus attempting to connect with these donors through sponsoring organizations or wealth managers. Furthermore, all four of the nonprofits that were interviewed explained that one of the greatest challenges to connecting with DAF donors was trying to access donors through sponsoring organizations or financial professionals. And, conversely, there were sponsoring organizations and financial professionals that were interviewed for this project who further emphasized that nonprofits were not their primary client (or their client at all), and explained that nonprofits would have little to no success “cold calling” in an attempt to connect their cause with donors. Figure 3 outlines these implications.

Figure 3: Challenges to the DAF Marketplace
Data analysis results further showed that relationship building is the best way for nonprofits to connect with these donors. While this relationship building may be similar to traditional fundraising practices, it is apparent from the data and insights gathered for this project, that in order for nonprofits to bridge the gap in connecting with and accessing these donors, organizations need to strategically focus on building relationships and connections that extend beyond their own network.

Recommendations are provided to help identify ways nonprofit leaders could strategically approach the complexity of donor-advised funds in order to expand and broaden funding opportunities for their organization.

**Recommendations**

- Nonprofits only need the ability to talk to donors about DAFs at a high-level.
  
  Nonprofits can easily and quickly learn enough about how these funds work to sufficiently answer donor questions, which would likely be few and far between, as most times to decision to utilize a DAF is a financial decision, not a donation decision.

  - Nonprofits need to take the time and resources to ensure staff understand key things about DAFs from an internal operations perspective, such as making sure staff how these gifts are to be acknowledged (thank-you letter format different than regular donation, cannot be used for pledges, etc.), and ensure steps are taken to ensure donor databases accurately connect donor profiles for donors who use multiple giving methods.
• Nonprofits need to get on the radar of DAF advisors by being a well-known and credible organization in their space/issue area. This requires networking to well-known beyond their current network or circle of connections. It requires branching out and intentionally putting efforts (time and resources) towards cultivating new relationships, across sectors and interest areas, to develop new connections. To open opportunities to funding that is knowingly based on personal relationships, organizations must intentionally work on expanding their network.
  o The key is that meeting someone once rarely means you’ve made an impression. Relationships take time and work to build and maintain. It may not be effective or feasible for the Executive Director to take on these activities. Expanding the organizations network may require a specific position, someone who has the time to build relationships by making the time for repeat encounters. Could be costly. Pilot it out for a year, see what comes from it. Attend events and trainings that are outside the scope of your daily work. Set goals for monthly contacts to make that are outside your regular network, etc.

• Build board to include finance professionals. In the interviews for this project, one thing that surfaced is that the only way financial advisors tend to engage with nonprofits is at the board level, so this could be a way to connect with these stakeholders. Additionally, in a secondary interview found with Matt Nash, senior vice president of donor engagement at Fidelity charitable, he noted, "Charities should identify any board members or highly engaged supporters with ties to financial
service providers, who can help in this regard by getting the word out that their clients' charitable goals might be best served through something other than a straight cash donation" (p.8, Nonprofit Business Advisor, 2016).

- Include wording on pledge cards about the legal restrictions of using DAFs. Also, organizations need to continually remind donors that they can make donations from their DAF by including information about DAFs in all fundraising materials and pitches (Daniels, 2015).
  - The “DAF Direct” widget, introduced in 2013 by Fidelity, Schwab, and the Greater Kansas City Community Foundation, is another way that nonprofits can connect to DAF users. The widget can be embedded in the organization’s website and can make it that donors can give to the organization from their DAF directly through the organization’s website, as opposed to having to connect to both their account and the charity’s website (Daniels, 2015).

- Finally, stay-up on trends of DAFs. There is a lot of discussion happening around them and it’s not unthinkable that policy changes could be coming at some point. Nonprofit leaders have little to lose, and potentially lots to gain, by having at least a high-level understanding of this giving tool.

**Section 6: Conclusions**

In conclusion, the results of the analysis showed that there is no one direct path to for nonprofits to access donor-advised funds. The legal structure, particularly the lack of transparency, no required annual payout rate, and the barriers to accessing donors caused by
sponsoring organizations, make it that there is no simple solution for how nonprofits could best access these donors. Additionally, the differing perspectives and priorities of key stakeholders are not well-aligned, causing a gap in how sponsoring organizations and financial managers work with nonprofits and vice-versa (Figure 1).

Because there is no “one-size fits all” approach to DAFs, in order to effectively navigate the DAF space, nonprofit leaders need to first understand the overall marketplace, so they can then focus on developing a strategy for building the relationships and staffing capacities necessary to navigate this marketplace, in a manner that best aligns with the overall priorities and goals of their organization.

There are numerous questions pertaining to the level of scrutiny and federal oversight that should be developed in relation to donor-advised funds, particularly as they grow and become a more utilized form of charitable giving. Common questions include those such as whether or not DAFs benefit or harm public charities (Colinvaux, 2017), if there should be a required payout rate for donor-advised funds (Colinvaux, 2017), and whether or not donor-advised funds truly increase philanthropic giving, or if they essentially provide a tax-shelter or easy way to store funds (Colinvaux, 2017).

Until legislation changes are made that require more detailed data to be collected on DAFs, there is little that can be done in terms of fully understanding the “black box” of donor-advised funds. In the meantime, organizations who are not in the position to advocate for policy changes can do their best to understand this complex marketplace and develop strategies to build relationships and networks that may help their organization connect with the capital that is waiting to be used for charity in these funds.
List of References


Appendix A: Interview Questions for Sponsoring Organizations

1. Please provide a brief overview of how DAFs at your foundation are structured.
2. How do people find out about opening a DAF at your foundation?
3. How do individuals with DAFs at your organization find opportunities/charities to fund?
4. What areas of interest your DAF account holders typically interested in funding? Which is more prevalent, domestic or international causes?
5. How involved are DAF donors with the causes/charities they give to?
6. What is the average size of a DAF at your organization? How much is given per year from each fund?
7. How many DAFs does your organization sponsor?
8. How have trends in DAF account holders and payouts changed over recent years?
9. How do you think that the use of DAFs has impacted the amount that nonprofits receive in charitable giving?
Appendix B: Interview Questions for Nonprofits

1. Approximately how much of your organization’s annual funding comes in the form of DAFs?
   a. Average gift size / range:
2. How frequently are gifts given to your organization from the same DAF account? (Do people tend to make routine gifts from their DAF to your organization, or do they tend to be one-time?)
3. How frequently are gifts from DAFs made anonymously?
4. Have the trends in gifts your organization receives from DAFs changed over recent years? Is so, in what ways?
5. How does your organization go about connecting with/soliciting donors who give from DAFs?
6. How engaged with your organization are the donors who give through a DAF?
7. From a fund-development standpoint, are there any challenges to DAFs? If so, please explain.
8. Are there any opportunities that DAFs offer to nonprofits? If so, please explain.
9. In what ways (if any) have DAFs impacted your organization’s ability to raise money?
10. How do you think DAFs have impacted the amount that nonprofits receive in charitable giving?
11. Any additional comments/feedback from your experience?
Appendix C: Interview Questions for Wealth Managers

1. How much have you worked with DAFs in your work as a wealth manager/financial advisor?
2. How frequently do wealth managers/financial advisors discuss philanthropy with their clients?
   a. Who typically initiates these conversations?
3. Do most of these clients come with a philanthropic/giving plan, or do they look to you as a financial manager for advice/guidance?
4. In your interactions with other financial planners and wealth managers, how prevalent does it seem that DAFs are? (How frequently are DAFs discussed in your industry?)
5. What role (if any) do wealth managers/fund advisors play in connecting clients to individual nonprofits?
   a. How do wealth managers/fund advisors learn about individual nonprofit organizations and their funding needs?
   b. How much interaction do managers/advisors have with individual organizations?
   c. How would an individual nonprofit learn about the interests of your DAF clients?
6. What is the average DAF account size that your company manages? How much is given per year from each fund?
7. How have trends in DAF account holders and payouts changed over recent years?
8. How do you think that use of DAFs has impacted the amount that nonprofits receive in charitable giving?
Author’s Bio

Tricia has over 10 years of experience working in the nonprofit sector, primarily working in the area of social service and mental healthcare. Tricia most recently worked as the Executive Director at Family Service Counseling & Community Resource Center, a grassroots organization located in San Leandro, California. Tricia held this position for three years. During this time, she led the agency to establish a more organized and effective overall way of operating and doing business, secured additional funding from government contracts, and assisted the board in developing a board recruitment and development strategy. Tricia held various positions within Family Service prior to becoming the organization’s Executive Director. In 2011, after her first year working at the organization, she was awarded “Employee of the Year” by the organization’s Board of Directors.

As a volunteer, Tricia’s experience includes: working with women and children at a domestic violence shelter, weekly mentoring to teenage girls in the juvenile justice system, facilitating a weekly support group for women with eating disorders, and speaking at school-sites to raise awareness about eating disorders.

Tricia completed an undergraduate degree in Psychology in 2008 at University of Colorado. She is currently working towards completing a graduate degree in Nonprofit Administration at the University of San Francisco and is expected to graduate in August 2017. She is a member both of Nu Lamba Mu, the international honor society for nonprofit leaders, as well as Phi Alpha Alpha, the global honor society for public affairs.