COUNCIL on FOUNDATIONS

Creating a Donor-Initiated Fundraising Policy

By Kelly Shipp Simone*

Community foundations are often faced with requests from donors or local volunteers who wish to express their support by raising money for the community foundation or for a particular fund. Allowing individuals or a group of volunteers to engage in fundraising activities on behalf of the community foundation (a practice called donor-initiated fundraising) can be a great way to increase foundation assets and boost name recognition in the community. However, this approach to fundraising also comes with risks. The community foundation is delegating its authority to individuals or groups who are neither staff nor board members of the community foundation. Before allowing others to fundraise on the foundation's behalf, foundations should understand the key issues and create a strong policy to guide fundraising activities. The fundraising policy should be carefully explained to potential donor-fundraisers before fundraising begins.

A strong policy should include the following:

1. **An advance approval process.**

   Some fundraising ideas can be enticing. However, if they are brought to the foundation at the last minute, they may not be well-planned or thought through, leaving the foundation open to possible risk.

   Thoughts to consider:

   - How far in advance must the donor-fundraiser request approval?
   - To whom at the foundation should the request be submitted?
   - What information is required (e.g., description, budget, anticipated income)?

2. **Types of prohibited fundraising activities (if any).**

   Certain kinds of events (e.g. auctions, gambling) can trigger liability concerns, IRS reporting, or compliance with state rules.

   Thoughts to consider:

   - Will you allow raffles? Dinner parties? Casino nights?
   - Will you permit events that use professional fundraisers or event companies?

3. **Scope of authority.**

   In planning a fundraiser, things can happen so quickly that the donor has obligated the foundation to

vendors without fully meaning to do so.

Thoughts to consider:

- Who has the authority to enter into any contracts?
- In what ways can you manage donors as they plan the event? Can they make reservations, pay deposits, or verbally commit the foundation?

4. **Protection from liability exposure.**

In planning special events, no one plans to get sick or injured, but the foundation can be prepared by planning for the worst.

Thoughts to consider:

- Will additional insurance be required for the activity? If so, how will it be handled?
- Will special waivers need to be signed by guests before participating in a risky activity (e.g. relays, bike events)?

5. **A plan for public relations**.

The foundation works hard at building its reputation within the community, so any use of its name should display the foundation in the best possible light.

Thoughts to consider:

- What is the approval process for use of the community foundation's name?
- Who is the spokesperson for the event and/or the community foundation?
- Will the foundation need to review any social media or other promotional activities?

6. **A feasible method for handling expenses.**

Strict IRS rules prevent certain kinds of payments from funds, which can affect how the foundation handles its reimbursements.

Thoughts to consider:

- How will payment or reimbursement of expenses be handled in light of donor-advised fund rules?
- Donor-Advised Fund Reminders:
    - No grants, loans, compensation, or similar payments (including expense reimbursements) may be made to donors, advisers, or related parties.

- No payments to individuals.
- Unclear if payments directly to vendors require expenditure responsibility.

See Taxable Distributions for Donor-Advised Funds for more details.

TIP: Foundations may consider providing donors a receipt for tax purposes acknowledging the amount of the out-of-pocket expense, for potential deduction by the donor as a charitable expense.

7. **A clear solution for handling contributions.**

   If the fundraiser is successful, contributions will come pouring in and the foundation will need to be ready.

   Thoughts to consider:

   - Who is responsible for communicating state charitable solicitation disclosure requirements (if any)? Do state charitable solicitation rules permit nonemployees to solicit, or handle, the funds? Consult IRS guidance for state charitable solicitation or your state government's website for more on state solicitation rules.
   - How will contributions of cash and checks be handled?
   - Are contributions by credit card permitted? Consider best practices for managing credit card information.
   - How will gift acknowledgments be handled? Consult IRS Publication 1771 for more on gift acknowledgment rules.

Note that if the foundation decides to prohibit donor-initiated fundraising, crafting a policy that clearly communicates this position is important.

When crafting a new policy, a community foundation should work with its experienced local legal counsel to ensure that the policy meets the specific needs of the community foundation and any applicable local rules.

Related Resources

Nober, Jane C. *Donor-Initiated Fundraising: Issues and Guidelines for Community Foundations*, Second Edition. (Washington, DC: Council on Foundations, 2006). Available for purchase from the Council bookstore.

Conducting a Raffle Fundraiser

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