

Solicitation to Avoid Problematic Narrowly Restricted Gifts

Introduction: Development Officers and other University personnel tasked with soliciting donations have a responsibility to ensure that gifts are negotiated with donors in such a way as to make them readily usable by the institution for the purpose intended by the donor. Small gifts with narrow restrictions are difficult to administer, track, manage and spend. In some cases, too narrow a restriction can result in the gift “failing” to meet the qualifications of a gift and hence, negating a donor’s tax deduction. This paper is intended to help guide solicitors in working with donors to ensure that the number of difficult-to-use or “failed” gifts are kept to a minimum.

Philosophy: The Foundation uses fund accounting which means it creates separate funds with purposes that match donors’ gift restrictions. The goal is to ensure that the fund purpose matches the gift’s purpose. In this way, all the money in that fund may be used as the fund purpose describes. While many donor restrictions are possible, not all can be efficiently managed. For a gift large enough (greater than \$500) and when on-going future gifts are expected for the same purpose, a separate fund can be created to implement the donor’s purpose if such a fund does not already exist. But for smaller gifts such separate funds cannot be efficiently created and managed. In such instances, the solicitor has an obligation to assist the donor in wording the restriction on their gift so that it matches an existing fund’s purpose. The solicitor should not take the approach of soliciting and accepting funds for ANY purpose and then figuring out how to manage them once they are accepted. Thus, the solicitor must start the solicitation process with some idea of what fund options already exist in the area the donor is seeking to benefit. It is our job to educate our donors on the issues surrounding narrowly restricted gifts.

Illustration 1: Donor conversation reveals that the donor wishes to make a gift of \$200 to allow for the purchase of only the specific periodical, *Psychology Today*, for one year by the Library. The Library does not have a fund specifically established to support the purchase of this periodical. The Library does, however, have a fund titled “Periodical Purchase Support Fund” whose purpose is to support the purchase of periodicals by the Library. In this instance the donor should be counseled by the solicitor to either make a larger gift (minimum \$500) that will allow for the establishment of a new fund whose purpose would match the donor’s specific intent, and to make future annual gifts to this fund; OR, to restrict their gift for the “Periodical Purchase Support Fund” for which the donor may be told, “periodical subscriptions, such as those for *Psychology Today* are often made.” In this way the \$200 need not be separately accounted for but may be placed into the fund where the purpose matches the donor’s more general restriction.

Illustration 2: Donor calls to say that she read of the Debate Team’s upcoming trip to Milwaukee to participate in a competition. The donor wishes to send a check for \$1,000 to help the team members get to the competition. Fortunately, the solicitor taking the call knows that there is a general support fund for the Debate Team: “The UAA Debate Team Support Fund.” The solicitor also knows that gifts that are earmarked in such a way that they will provide a specific benefit to a limited and defined class of recipients are not deductible gifts (The Katrina/9-11 rulings). Hence, the solicitor counsels the donor that, “while we do not have a fund just for this year’s debate team travel to Milwaukee, and that a gift for this specific purpose would not be deductible according IRS rulings anyway, we do have a Debate Team Support Fund from which expenditures for this year’s trip to Milwaukee are being made. Let’s put your

gift in that fund. That way even if the team raises enough funds for this year's trip, we can use any excess for their next trip to Nashville for the 2013 competition."

How to Implement this guidance: When soliciting or accepting gifts from donors:

- 1) Be aware of the existing funds (and their purposes) in the area that the donor is interested in supporting.
- 2) Make it gently known to the donor, if necessary, that not all restrictions are possible for any amount. This is not an odd concept and most donors will be very understanding of this.
- 3) Do not accept gifts "subject to an understanding", meaning gifts that you will place in a broadly defined fund but will use for a narrowly defined purpose.
- 4) Make sure that at the end of the conversation the donor has the information needed to direct their gift into the appropriate existing fund or understands the requirements to create a new fund for the new purpose.
- 5) Do not start a solicitation for a specific purpose for which we do not have a fund (or one is not intended to be created) instead, solicit for the broader purpose using the specific instance as an example. If you need money for the debate team's trip to Milwaukee in 2013 DON'T solicit funds for this narrow purpose. Instead, solicit funds "for the support of the Debate Team (for which a general support fund exists) which includes things like their travel to Milwaukee in 2013 and other such trips."
- 6) If you receive a small gift (below the new fund minimum) that is narrowly restricted and for which no Foundation fund exists, decide if a call to the donor may be in order. This can be an excuse to thank them for their gift by phone, AND, to "renegotiate" the gift to make it more usable. Be sure to document the conversation so that the gift can be placed in the more general fund than what the donor's notation may suggest. With this documentation of a conversation, there is no need to ask the donor to write a new check. If a call to the donor is not appropriate, the gift may be deposited in the Foundation's Restricted Donation Holding (RDH) Fund, where the individual gift and its restriction are tracked by the Foundation. See 'Options for Spending Restricted Gifts to the University of Alaska Foundation' for detailed instructions on spending gifts deposited in RDH.