



DONOR ADVISED FUND GUIDELINES

Morton Community Foundation
135 S First Ave
Morton, IL 61550
Tel: 309-291-0434
Web: www.mortoncommunityfoundation.org

INTRODUCTION

Welcome to the Morton Community Foundation. We strive to assist donors in maximizing the impact of their charitable gifts and hope that you make full use of the services we offer.

The purpose of the Donor Advised Endowment Fund program is to create an opportunity for people like you to give back to the community in an informed and active way. This handbook is designed to explain the Community Foundation's policies and procedures and to answer some of the basic questions you may have about your Donor Advised Fund. It is a useful orientation for new donors and a handy refresher for advisors of established funds. Our goal is to make participation in the work of the Community Foundation as rewarding as possible.

The staff at the Community Foundation is dedicated to meeting the diverse needs and interests of our donor advisors. We attempt to personalize our donor services in a variety of ways. Most of all, we want to get to know your charitable interests. By knowing you as a donor advisor, we are better able to assist you in meeting your charitable giving goals.



A Community Foundation is a 501(c)(3) charitable organization created by and for local citizens to benefit their community. Community Foundations pool gifts, both large and small, to meet local needs and improve the quality of life for all the community's residents.

Since 2000, the Morton Community Foundation has helped hundreds of donors to make the greatest impact for good, and, in some way has touched the lives of thousands of people in our area.

In the words of one donor, "When all is said and done, I want to know that our gifts made lives better, that we did the greatest we could with what we gave. The Foundation has been a wonderful way for us to give back."



MISSION OF THE MORTON COMMUNITY FOUNDATION

... to improve the quality of life for Morton area residents, now and for generations to come.

We do this by...

- Building community endowment.
- Investing in our community through strategic grant making.
- Turning donors' charitable dreams into permanent legacies.
- Providing leadership to identify and address changing community needs.

WHAT IS A DONOR ADVISED FUND?

A Donor Advised Fund, defined under the Internal Revenue Code, possesses three characteristics:

- The Fund is separately identified with reference to the contributions of a donor or donors. For example, the Smith Family Fund established by the Smith family children.
- The Fund is owned and controlled by a sponsoring organization such as the Foundation.
- The donor or persons appointed by the donor expect to have the privilege of providing advice with respect to the fund's distributions.

A Donor Advised Fund is a charitable fund established by a donor (an individual, family, or business) into which they contribute cash or other assets, receive a tax deduction, and continue to have the opportunity to be involved in its charitable use. A Donor Advised Fund offers active participation in the grant process by allowing you to recommend the grant recipients. It affords many of the advantages of a private foundation with the potential for greater tax benefits and none of the administrative tasks. A Donor Advised Fund can be created at the Morton Community Foundation in a variety of ways – cash donations or gifts of appreciated securities, for example. It's a perfect vehicle for those who wish to participate actively in grantmaking and retain philanthropic flexibility.

WHAT IS PERMANENT OR ENDOWED DONOR ADVISED FUND?

A Permanent or *Endowed* Donor Advised Fund simply means that grants are made only from the proceeds of the invested principal of the fund. The MCF uses a Spending Policy to determine the money available for grantmaking. The amount available to spend is based upon the rolling average fair market value of the fund at the end of the previous four (4) fiscal years or, if the fund has existed for less than four (4) fiscal years, the average fair market value of the fund balances as of the end of the fiscal years since its inception. This rolling average is then multiplied by the current spending percentage to arrive at the amount available to grant from the Fund in the following year. The MCF Board reviews its spending policy annually and may increase or decrease the percentage available to spend. As of the approval date of these guidelines, the spending percentage is five percent (5%).

WHAT IS A NON-PERMANENT OR DONOR CHOICE FUND?

"Donor Choice Fund" is a name that the MCF uses to describe our version of a "Non-Endowed" Donor Advised Fund. The entire advisable balance of a Donor Choice Fund may be granted.

WHY SHOULD I CONSIDER A DONOR ADVISED FUND?

Simplicity

The terms and conditions governing the operation of the fund can be quickly formalized in a standard fund agreement.

Flexibility

You may receive a charitable tax deduction to the extent allowed by law when you give to a Donor Advised Fund in the year of your contribution, but you can make decisions regarding distribution for many years thereafter.

Maximum Tax Deductions

Donors who contribute long-term appreciated securities to the Community Foundation may receive an additional federal tax benefit. Gifts of appreciated securities may be deductible at their full market value if they were owned longer than twelve months. The capital gains tax on the stock's appreciation (the difference between the stock's cost and its current fair market value) may be avoided. Every tax situation is unique, and we suggest that individuals consult their tax advisor with respect to maximizing tax benefits.

Expertise

Your partnership with the Community Foundation is an opportunity to learn about philanthropy from experienced, professional grantmakers. Foundation staff – a ready reserve of information and expertise about our nonprofit community – are available to review requests and make recommendations. If you wish, we will bring your attention to opportunities for giving in areas of your charitable interests.

Attractive Alternative to a Private Foundation

A private foundation can be an appropriate vehicle in the right circumstances. However, the disadvantages of private foundations, including costs, administration, annual tax filings with the IRS, and potentially lesser tax benefits, cause many people to seek a better alternative. A Donor Advised Fund may be that better alternative. Private foundations can be terminated, and the assets easily transferred to a Donor Advised Fund with the Community Foundation. The Community Foundation welcomes questions from your legal and financial advisors.

HOW DO I SET UP A DONOR ADVISED FUND?

To create a Donor Advised Fund, you sign a Fund Agreement -- a document that conveys your gift to the Morton Community Foundation (MCF). A *donor* is the person who establishes the fund, and a *donor advisor(s)* is designated by the donor in the Fund Agreement as the only person(s) who can recommend disbursements from the fund. In the agreement, you may name yourself as an advisor, either to act alone or with another individual (or individuals). It is recommended that if more than one person is listed as a donor advisor, that one person be specifically designated to act as the lead in submitting Grant Recommendation Forms to the Community Foundation.

A Donor Advised Fund is an irrevocable charitable gift of cash or securities from which you can recommend disbursements for charitable causes. IRS regulations stipulate that you, as a donor, cannot make a tax-deductible contribution and at the same time retain future

control over the contribution. Therefore, for the gift to be irrevocable, the Morton Community Foundation must retain the right of final determination for the use of funds.

WHAT IS THE MINIMUM AMOUNT REQUIRED TO START A PERMANENT OR ENDOWED DONOR ADVISED FUND?

A Donor Advised Fund requires a minimum gift of \$10,000 before it can begin making grants, but can be started with a gift of \$1,000, and a commitment of adding additional donations totaling at least \$1,000 per year over a maximum total of 10 years.

Once the fund reaches \$10,000, it will generate grants amounting to approximately 5% of the 4 yr. average balance of the fund. This calculation is made by the Foundation according to its Spending Policy.

The Community Foundation is eager to work with you to accomplish your charitable goals and will discuss your individual circumstances.

WHAT IS THE MINIMUM AMOUNT REQUIRED TO START A NON-PERMANENT DONOR CHOICE FUND?

There are two ways to initiate a Donor Choice Fund:

Method #1) Pay a one-time fee of \$250 to establish your Donor Choice Fund. Make a gift of \$5,000 to MCF's Leadership Forever Fund. This is a gift to MCF and will assure the Foundation is here to support your philanthropic goals forever. Your gift to the MCF's Leadership Forever Fund is not advisable.

As soon as **subsequent** gifts totaling \$5,000 are made to your Donor Choice Fund, you may start to make grant recommendations. Using this method, the total minimum gift is \$10,250. No additional donations to MCF are required.

Method #2) Pay a one-time fee of \$250 to establish your fund. Sign an Annual Support Partner agreement to donate a minimum of \$5,000 over a five-year period to MCF's Today and Tomorrow Fund. This Fund supports current operations of the Foundation, and similar to Option 1, is not advisable.

As soon as **subsequent** gifts totaling \$5,000 are made to your Donor Choice Fund, you may start to make grant recommendations. Using this method, the initial minimum gift is \$5,250, but further Annual Support Partner donations totaling at least \$5,000 to the Foundation's operating fund as an Annual Support Partner are required over the next five years.

ADDITIONAL CONTRIBUTIONS CAN BE MADE TO YOUR FUND

Gifts to a fund are irrevocable. The assets of donor advised funds are owned and controlled by the Foundation. If the Fund meets the minimum balance requirements, contributions to a fund may be made in any amount and at any time.

Gifts to a public charity, unlike contributions to a private foundation, have the benefit of the maximum charitable deduction permitted under current laws. The charitable gift you make to establish a Donor Advised Fund, and any subsequent contributions to the Fund, may represent a charitable contribution for federal income tax purposes to the extent allowed by law. As always, check with your tax accountant for direction on tax deductibility. The Morton Community Foundation is defined as a public charity under sections 501(c)(3) and

170(b)(1)(A) of the Internal Revenue Code. All gifts to the fund are acknowledged by a sanctioned IRS letter that may be used as evidence of the charitable contributions for tax purposes.

All checks should be made **payable to Morton Community Foundation** with your DAF name identified on the memo line. This ensures ready acceptance by banks and accountability by MCF. Please contact MCF in the case of non-cash gifts for specific instructions regarding the transfer of your gift.

VARIANCE POWER

All grant recommendations are subject to modification by the Foundation if it determines, in its sole discretion, that a restriction or condition is unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.

HOW DO I RECOMMEND A GRANT?

The donor advisor(s) recognized in the Fund Agreement may submit grant recommendations to one or more charities by using a Grant Recommendation Form. You may deliver this to the Foundation or send by mail or email. Grant recommendation forms can be downloaded from our website at: <http://www.cfmorton.org/donation-forms>.

You may recommend grants to any organization described in section 501(c)(3) of the Internal Revenue Code except that the Foundation does not make grants to private foundations. You may also recommend grants to most units of government (e.g., public schools, colleges and universities, town and municipal governments, police departments, etc.).

The Foundation does not make grants from donor advised funds, even for charitable purposes, to other types of nonprofit organizations (non-charities) or to businesses. Examples of organizations to which the Foundation will not grant include social welfare organizations (501(c)(4)); veterans' organizations; cemeteries; Chambers of Commerce and similar business associations; fraternities and sororities; social clubs; and fraternal organizations such as Elks and Moose.

The Foundation does not make grants from donor advised funds to non-US organizations or governmental entities.

The Community Foundation will assume that the grant is to be used for general support unless you inform us that the grant is to be restricted for a particular purpose. In either case, the Community Foundation will so inform the recipient organization in the letter that accompanies the grant check.

Community Foundation staff will research and document the charitable status of the proposed recipient organizations and the charitable nature of their activities.

As stated in your fund agreement, our Board of Trustees retains final authority and responsibility for determining distributions from the Fund.

The Community Foundation's primary interest is the support of nonprofit institutions in and around Morton. The Foundation recognizes that there may be charitable organizations outside of this geographical area that are also of special interest to you and are deserving of support. Grants to these institutions are typically found to be appropriate for consideration.

SUCCESSION OF DONOR-ADVISED FUNDS

SUCCESSOR ADVISORS

The donor may designate a person or persons living at the time of the creation of the fund to be a successor advisor to exercise the privileges and duties of a fund advisor. Successor advisors may assume the privilege to advise the fund only after the deaths or resignations of all initial fund advisors named on the fund. The successor advisor(s) may be required to provide written notification and sufficient proof of the donor's or fund advisor's death prior to assuming the privileges and duties of a fund advisor. If the successor advisor is a minor, MCF's Board of Trustees reserves the right to grant from the fund for purposes which in its sole determination are consistent with the intention of the donors if such intentions are included in the fund agreement or, in the absence of such express intent, for the benefit of the Morton community until the minor successor reaches the age of majority as defined in Illinois law, currently 18 years of age.

A donor may modify appointments of advisors and successor advisors. All requests to modify advisor appointments or appoint additional advisors and successor advisors to a fund must be communicated to MCF in writing. In addition, a written acknowledgement must be received from MCF confirming that the request has been granted. If MCF has not received the name(s) of an additional advisor(s) or successor advisor(s) to the fund, or other special instructions, in writing, MCF will use the fund's balance to support MCF's Morton Impact Fund for support of its annual Community Grant program

Establishment of Intent: Each Founder may create philanthropic guidelines to carry on the intent of their fund should they no longer be willing or able to make recommendations. If there are no Advisors willing or able to act and there are no established philanthropic guidelines for a fund, then the remaining balance of the fund will become a part of the Morton Impact endowment fund, a fund devoted solely to meeting needs in the Morton area under the direction of MCF's Board of Trustees.

CAN A GRANT RECOMMENDATION BE DISALLOWED?

Yes. The IRS is specific about some limitations on the types of grants that can be made from a donor advised fund. The Internal Revenue Code prohibits grants to individuals from donor advised funds. Also prohibited are grants for political contributions or to support political campaigns. Grants may not result in benefits, goods, or services to the donor, the fund advisor, members of their families, and businesses they control. Benefits include the payment of pledges, event tickets, meals, sponsorships, registration fees, discounted merchandise, preferred parking and/or seating, and memberships unless the membership confers nothing of value. Please contact the Foundation if you have specific questions about whether a grant you are considering recommending will result in a prohibited benefit.

Failure to observe these restrictions can subject the fund advisor as well as the Foundation to penalties.

Payments from a Donor Advised Fund

Expense reimbursements, loans, compensation, and other similar payments are not permitted from a donor advised fund to a donor, fund advisor, or related party.

GRANT ACKNOWLEDGMENT

Unless other arrangements have been made (e.g., anonymity requested), the grant letter will indicate that the contribution is from "The XYZ Fund of the Morton Community Foundation" and that it has been given upon the recommendation of the named advisor. A copy of the grant distribution letter is sent to you as confirmation. The recipient organization is encouraged to acknowledge the gift to the advisor and also to the Foundation. Additional language confirms that no benefits have been offered or provided to the Foundation or the advisor in exchange for the accompanying grant. If the recipient organization publishes a news release or a list of donors, it is asked to indicate the contribution as a grant from "The XYZ Fund of the Morton Community Foundation."

We make every effort to respond promptly to your grant recommendations. Checks to organizations previously known to MCF will be issued in a timely manner – usually within two weeks of receipt of the grant recommendation. MCF staff will gather basic data and follow through with appropriate actions as quickly as possible.

CAN I SUPPORT THE COMMUNITY FOUNDATION IN OTHER WAYS?

Each year, individuals, foundations, and businesses from Morton contribute to the Community Foundation. Gifts to MCF's Operating Fund and/or the Unrestricted Endowment Funds demonstrate a desire to support the Community Foundation's mission. You may request that a transfer be made from your Donor Advised Fund to one of the Community Foundation's other funds at any time.

WHAT ABOUT FUND INVESTMENT, PAYOUT AND FEES?

The Foundation has the sole responsibility and authority for investment of the assets of each Donor Advised Fund. The funds of the Morton Community Foundation are managed by professional investment managers under the supervision of the Finance Committee and our Board of Trustees in accordance with our Investment Policy. Donor Advised Funds are customarily invested and commingled with assets of other funds of the Foundation but accounted for separately. Regular reviews are conducted to monitor investment performance activity.

MCF shall have all powers necessary, or in its sole discretion desirable, to carry out the purposes of the Fund, including, but not limited to, the power to retain, invest and reinvest the Fund in any manner as authorized by the laws of the State of Illinois. The assets of the Fund shall be co-mingled or pooled together with those of other funds for investment purposes, and the earnings, gains, and losses attributable to the assets of the Fund shall be allocated to the Fund based on the common investment experience of all of the assets pooled together.

The Foundation assesses fees, including investment management fees, against all its funds to cover the cost of administration and to continue the Foundation's important work in our community. Fees provide the necessary resources to operate efficiently and effectively, ensuring fiscal responsibility in grant due diligence, donor and nonprofit education, research, and other activities.

MCF shall charge an annual non-prorated fee (currently 1.5% of Principal balance annually) to cover administrative expenses of the Foundation, as determined by the Foundation's most current Fee Schedule, reviewed, and amended from time to time by the Board of Directors. This fee shall be deducted from the assets of the Fund.

HOW OFTEN WILL I RECEIVE A FUND STATEMENT?

You will receive fund statements annually after our fiscal year-end of June 30 each year. These reports contain information on the beginning balance of your fund, activity such as contributions to and grants made from your fund during the period, and the ending balance. Historical data of all your gift and grantmaking can be provided to you upon request. If you should have questions, do not hesitate to contact us.

FUNDRAISING

Donors sometimes want to raise money to add to their advised funds. The Foundation's policies on Donor-Initiated Fundraising are available upon request. Fundraising, if permitted, must strictly adhere to the guidelines in the policy and to any additional restrictions imposed as a condition of the Foundation's consent.

INACTIVITY/TERMINATION

A fund is deemed inactive if:

- The fund advisor(s) die(s) or resigns or evidence of his or her incapacity is provided to the Foundation, and if no successor advisor has been named, or...
- All named successor advisors are unable or unwilling to serve as such, or...
- No recommendations are made with respect to grants from the fund for a period of two years and, during such period, the advisor or successor advisor does not reply to the Foundation's attempts to contact them.

If the fund becomes inactive due to the circumstances above, the Foundation will, in its sole discretion, determine whether the advisory period has ended and if so, will initiate distributions from the fund in accordance with the provisions of the fund agreement.

Upon the death, resignation or incapacity of the last advisor to the fund, the Foundation will deem the advisory period to have ended and will initiate distributions from the fund in accordance with the provisions of the fund agreement.

See **DAF Fund Activity Policy** for circumstances that could lead the Foundation to determine a fund is still active even if it meets one or more of the above criteria. A copy of the MCF's DAF Activity Policy is an Addendum to this document.

Morton Community Foundation

DAF FUND ACTIVITY POLICY

ACCEPTABLE TYPES OF FUND ACTIVITY

The following are definitions of fund activity that leads to fund distributions that apply to funds that have more than \$10,000. If this policy ever conflicts with federal law or state law (including UPMIFA), the relevant law controls.

A fund is considered active when there is regular communication between a donor (or named successors) and Morton Community Foundation (“MCF”) regarding the existence and purpose of that fund. Examples of **some** of the activities that would deem a fund active include (**but are not limited to**):

- **Regular Grant Recommendations.** Donor advisor generally recommends grants at least annually to qualified charitable organizations. The amount of grantmaking can vary from year to year.
- **Developing a Philanthropic Program.** Donor advisor makes a substantial contribution to donor advised fund, for example, upon the sale of his or her business, and refrains from recommending grants for a given initial period while the fund advisor consults with the sponsoring charity and/or does his or her own research to determine what types of grants will best meet community needs and/or her philanthropic goals.
- **Long-term Giving Plan.** Donor advisor deliberately reduces the frequency or size of grant recommendations from fund, for example:
 1. During his or her working years with the intention of increasing the donor advised fund balance to support grantmaking during his or her retirement, when the advisor expects his or her income to change.
 2. A donor may want to build a fund over time so the donor’s children can make grants later (the idea being the donor is leaving a charitable legacy for the next generation to administer).
 3. Donor advisor refrains from recommending grants for a given period because the fund is invested in an illiquid or undervalued investment. Donor advisor intends to begin making grant recommendations when the investment can be sold at a reasonable price.
- **Project Grants.** Donor advisor makes a substantial contribution to a donor advised fund and determines to recommend grants to a specific qualified charitable organization over a period of 20 years so that the donor can monitor how the charitable organization performs, and to consider whether another organization would better achieve the donor’s charitable objectives.

- Starter Fund: Donor advised funds may need time to build the fund balance to make substantial grants to the community. Therefore, there may be no distributions made until the fund balance reaches an amount stated in the donor advised fund file.
- Specific Occasion Grant. Donor advisor refrains from recommending grants for a few years with the specific charitable goal of recommending a grant upon a specific occasion. Examples may include:
 1. Donor is incapacitated with no successor advisor(s) named so the community foundation waits until the donor's death to distribute the fund according to the donor's original intent;
 2. Fund has transitioned to named successor advisors, but they are minors and no adult representative is named to represent them (so grants resume when successor advisors are adults);
 3. Founders of fund who are also the donor advisors are getting divorced so that grants are suspended until both the husband and wife agree on grants, which may include splitting the fund into two separate funds, one for each spouse to advise or eventually dissolving the fund by the making of charitable grants;
 4. Grants are suspended during litigation involving a fund (e.g., the donor has left his/her estate to a fund, but the donor's children are disputing the bequest, so the community foundation does not allow grants until the litigation is resolved);
 5. Donor leaves a bequest to a fund and distributions are made periodically to the fund during the estate settlement process, but grants are not made until the estate is fully settled.

ACTIVATING GRANTMAKING

Should grant activity stop for more than a 1-year period, steps will be taken by the staff or the board to activate that fund. These steps may include such activities as:

- Notifying the fund advisor to encourage the fund advisor to activate the fund.
- Distributing grants from the fund to qualified grant recipients that align with donor intent, but if the community foundation determines such intent is obsolete, incapable of being fulfilled, impractical, or inconsistent with the community's charitable needs, then exercise of the MCF's overriding variance power to enable the community foundation to continue to use its resources to meet the needs of the community and to address the charitable purposes for which the funds were committed.
- Closing of a "starter" fund if the "starter fund" balance does not reach the Foundation's required minimum amount within a stated period of time, and, for example but not limited to, re-allocating of the fund proceeds to the MCF's unrestricted fund or issuing the balance as a charitable grant to a qualified recipient.