



**DONOR CHOICE FUND
GUIDELINES**
(NON-ENDOWED DONOR ADVISED FUND)

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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 Choice 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 procedures and to answer some of the basic questions you may have about your Donor Choice Fund. It is a useful orientation for new donors and a handy refresher for our 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 publicly supported 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.

BEFORE WE GET TOO SPECIFIC, WHAT TYPES OF FUNDS ARE AVAILABLE THROUGH THE MORTON COMMUNITY FOUNDATION?

The Foundation offers a variety of funds designed to be responsive to donor needs. While all philanthropy adds value to the community, each type of Foundation fund can provide *added* value to philanthropy in the community.

Unrestricted Funds

Unrestricted Funds give the Foundation the most flexibility to respond to the changing needs of the community. These funds are used to support all aspects of community well-being – arts and culture, economic development, education, environment, health and human services, neighborhood revitalization and more. Unrestricted funds have the flexibility to make a difference where it is needed the most.

Field-of-Interest Funds

Field-of-Interest Funds allow donors to address needs in an important area of community life. – Arts, Aging, At-risk youth, etc. Donors identify their personal interest area when setting up these funds. The Board then awards grants from the earnings on the fund to community agencies and programs that are making a difference in that particular area.

Scholarship Funds

Individual donors or organizations establish these funds to provide income to be used to award scholarships to support the educational endeavors of worthy applicants. The awards are made to the academic institution at which the award recipient is enrolled. Scholarship funds have selection committees that recommend award recipients to the Board for their final approval. The administration of scholarships involves adherence to legal guidelines, restrictions, etc. associated with the selection and award process. It is the Foundation's responsibility to ensure that each scholarship is administered within these guidelines and restrictions.

Designated Funds

Individual donors or organizations establish these funds so that income is given regularly to named charitable organizations. If the named charity is no longer active or providing a needed service, or if the purpose of the fund becomes impractical or impossible to fulfill, the Board of Directors of the Community Foundation may select another recipient with a similar purpose.

Agency Funds

Charitable agencies recognized as tax-exempt under section 501(c)(3) of the Internal Revenue Code and as public charities under Section 509(a) establish these funds so that income is regularly distributed back to the agency establishing the fund. If the agency is no longer active or providing a needed service, or if the purpose of the fund becomes impractical or impossible to fulfill, the Board of Trustees of the Community Foundation may select another recipient with a similar purpose.

Donor-Advised Funds (Permanent and Non-Permanent)

A donor-advised fund allows a donor to have ongoing involvement in the use of his/her gift. A donor works with the professional grantmaking staff, identifying ways to use dollars from his or her advised fund to address the community needs the donor most cares about. Donor recommendations are submitted to the Board of Trustees of the Community Foundation. Grant recipients must be recognized as tax-exempt public charities by the Internal Revenue Service Code. Donor-advised funds are prohibited from being used to fulfill pledges to and/or to secure benefits for the distribution recipient. The Donor Choice Fund is an example of a non-permanent donor-advised fund.

Non-Endowed Pass-Through Project Fund

A pass-through fund is one in which the donated amount (less an administrative charge) is paid out for an identified purpose, normally within 36 months of when the gift is made. Grant recipients must be recognized as tax-exempt public charities by the Internal Revenue Service Code.

WHAT IS A DONOR CHOICE FUND?

“Donor Choice Fund” is a name that the MCF uses to describe our version of a “Non-Endowed” 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 investments or distributions.

A Donor Choice 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 Choice 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 Choice Fund can be created at the Morton Community Foundation in a variety of ways – cash donations or appreciated securities, for example. It’s a perfect vehicle for those who wish to participate actively in grantmaking and retain philanthropic flexibility.

WHY SHOULD I CONSIDER A DONOR CHOICE FUND?

Simplicity

Through the Community Foundation, you can centralize and streamline your philanthropy. One fund here allows you to recommend grants to many different nonprofit organizations without having to make separate contributions to each organization. Responsibility for the administrative work associated with charitable giving is transferred to the Community Foundation, and your anonymity can be maintained if desired.

Flexibility

You may receive a charitable tax deduction to the fullest amount 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 a double 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 completely 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 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 Choice Fund may be that better alternative. Private foundations can be terminated and the assets easily transferred to a Donor Choice Fund with the Community Foundation.

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

There are two ways to initiate a Donor Choice Fund:

1) Make a gift of \$5,000 to MCF's Leadership Forever Fund. This gift will assure the Foundation is here to support your philanthropic goals forever. Pay a one-time fee of \$250 to establish your fund. 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.

2) 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. Pay a one-time fee of \$250 to establish your fund. 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 are required over the next five years.

HOW DO I SET UP A DONOR CHOICE FUND?

To create a Donor Choice Fund, you sign a Fund Agreement -- a document that conveys your gift to the Morton Community Foundation (MCF). The initial advisors to the fund are those persons named in the fund agreement. 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. Because a Donor Choice Fund is a non-endowed, non-permanent fund, successor advisors may not be named.

A Donor Choice 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, in order for the gift to be irrevocable, the Morton Community Foundation must retain the right of final determination for the use of funds.

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 Choice 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. A 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 the specific fund identified on the memo line*. This ensures ready acceptance by banks and accountability by MCF.

VARIANCE POWER

Some donor advised fund agreements restrict distributions to a specific charitable purpose, such as education or the environment. Others may limit distributions to particular named organizations. These restrictions may apply from the inception of the fund or may come into effect at the conclusion of the advisory period. Any such restrictions are subject to modification by the Foundation if it determines, in its sole discretion, that the 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 and non-profit 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 non-profit 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.

Please tell us whenever the grant is to be used for a particular purpose. Otherwise, we will assume that the grant is to be used for general support and 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, when necessary. With the support of our grantmaking staff, the Community Foundation reviews the recommendations using criteria established by our Board of Trustees in accordance with IRS guidelines. 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.

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. **Failure to observe this restriction can subject the fund advisor as well as the Foundation to penalties.** 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.

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 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 Choice 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. Decisions with respect to the retention, investment, or reinvestment of assets and with respect to commingling of assets shall be made by the Foundation's Finance Committee and approved by our Board of Directors. Donor Advised Funds are customarily invested and commingled with assets of other funds of the Foundation but accounted for separately.

There is an initial charge of \$250 to set up a Donor Choice Fund. This charge supports the operation of the Community Foundation, including documenting tax deductions for donors, check preparation, grant review and processing, fund reports, mailing, data processing, bookkeeping, and obtaining an independent audit. This is a one-time charge; thereafter, there are no additional fees or charges assessed to your fund.

All gains or losses from investment are absorbed by the Foundation. Once established, the balance in your account is impacted only by the value of the gifts you add, and the grant requests you deduct from the account.

HOW OFTEN WILL I RECEIVE A FUND STATEMENT?

You will receive fund statements annually, or upon request throughout the 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 on 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...
- 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 included as an Addendum to this document.

More permanent arrangements, including the ability to appoint Successor Donor Advisors, are available through the Community Foundation's Endowed Donor Advised Funds. Please contact the staff for more information regarding this type of fund.

FREQUENTLY ASKED QUESTIONS

What are the benefits of giving through a Donor Advised Fund?

This type of fund is the Community Foundation's most flexible option for giving. The donor receives the maximum tax deduction allowed by law, immediately, on his or her gift. It allows a donor to make a charitable gift when it best suits their planning needs, then to recommend grants to nonprofit organizations on their schedule. The Foundation takes care of writing checks, distributing grants, filing paperwork, and conducts due diligence on each grant recipient.

How do I establish a Donor Choice Fund?

It takes just one simple form to set up a fund that can be added to whenever the donor wishes.

Who can act as Donor Advisor?

Typically, donors name themselves and/or a spouse as the advisors to recommend grants from the fund, although others may be named as Donor Advisor. Because a Donor Choice Fund is a non-endowed, non-permanent fund, Successor Advisors may not be named.

How and when may I make grant recommendations from my fund?

We encourage you to recommend grants from your fund on a regular basis. Grant recommendations are made in writing and may be made by Donor Advisors at any time throughout the year.

How will I know how much I have available in the fund to make recommendations for grants?

Fund statements are prepared annually, but you may contact the MCF at any time for a more current statement, or to inquire of the amount that is available to you to recommend for grants.

What kind of organization may I recommend for grants?

You may recognize publicly supported 501(c) charities and not-for-profit organizations, schools, or government entities, including religious organizations such as your church.

From time to time the Foundation may bring to the advisor's attention grant making opportunities in which the advisor may have an interest. The advisor is not obligated to recommend a grant for the identified program. Donors shall be furnished with lists of the unmet charitable needs of the community as determined by the Foundation from time to time.

May I serve on the board of an organization and recommend a grant to it from my Donor Choice Fund?

Yes, if you receive no personal benefit from the grant.

May I make a grant anonymously?

Yes. The donor may request that grants be made anonymously.

Will my grant recommendations always be honored?

To meet the Treasury regulations for Advised Funds, the Board of Trustees can not be bound by the advice of the donor and must always maintain the right to distribute funds in accordance with its charitable purpose. If a grant recommendation is not approved, the advisor will be notified and offered the opportunity to make an alternate suggestion.

May I fulfill a pledge or pay for a membership through a Donor Choice Fund?

To meet Treasury regulations for donor-advised funds, grants may not be used for legally binding pledges or to receive any benefits such as tickets to an event, gifts or memberships that carry more than a token value. The Treasury regulations are designed to ensure that donors do not receive a maximum charitable deduction at the time of the gift and still maintain control over the gift or receive benefits from the gift.

May I make a grant directly to a student or to support a political candidate?

The Foundation will not make grants to individuals, political parties, organizations that discriminate based on sex, race, age, religion, or national origin, or organizations that are on the United States Department of the Treasury Specially Designated Nationals List (often referred to as the Terrorist List).

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 number of 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.