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Donor Advised Fund Policy

WHAT IS A DONOR ADVISED FUND (DAF)?

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.

Term and Definitions:

Donor: Defined as the person or persons who initially create the DAF and sign the fund agreement.

Fund Advisors: Defined as the person or persons who are named in the fund agreement by the donor as fund advisors. These names can only be amended the donor. All fund advisors must be 18 years or older.

Designee: Defined as the person who is charged with communicating directly with the Northern Michigan Catholic Foundation. It is assumed the Designee is the donor unless otherwise named by the donor. This person must be 18 or older.

Advisory Period: Defined as the time during which NMCF entertains recommendations from the DAF donors and their advisors.

ADMINISTRATION OF DONOR ADVISED FUNDS

Gifts to Donor Advised Funds are irrevocable. The Northern Michigan Catholic Foundation has absolute and ultimate authority and control of all property in the Fund, the income derived from

the Fund and of its use for the Northern Michigan Catholic Foundation's charitable purposes, subject to the following conditions and stipulations:

DONOR ADVISED FUND MINIMUMS

Spendable Donor Advised Funds: \$10,000 to open

Endowed Donor Advised Funds: \$10,000 to open, \$25,000 to grant

The minimum amount to start a DAF is \$10,000. This is specific to both Spendable and Endowed Donor Advised Funds. However, in order to keep the endowed DAF active and ensure annual distributions, the endowment fund portion must maintain a minimum balance of \$25,000. Should the endowed value of a DAF fund dip below \$25,000, the fund would be unable to make annual grants. This fund balance is calculated on December 31 (or the last day of the fiscal year). This amount is subject to change as directed by the Board of Directors.

If endowed, distributions can only be made in accordance with the NMCF Distribution Policy. For Spendable Donor Advised funds, principal and all earnings may be spent.

CONTRIBUTING TO A FUND

The assets of donor advised funds are owned and controlled by the Foundation. As long as the Fund meets the minimum balance requirements, contributions to a fund may be made in any amount and at any time. Contributions may be made using cash, publicly traded securities or other property, including closely held stock, partnership interests, real estate, personal property, trusts and life insurance. Contributions are subject to acceptance by the Foundation.

Contributions should be clearly designated by fund name: "The XYZ Fund of the Northern Michigan Catholic Foundation"

Many donors make contributions using appreciated, publicly traded stock that has been held for longer than a year, to enjoy maximum tax benefits. Contributions of property that may not have immediate liquidity are accepted at the discretion of the Foundation, and subject to completion of our due diligence procedures. Donors considering a gift in any form other than cash should contact the Foundation to discuss its appropriateness and to obtain delivery instructions.

VARIANCE POWER

Some donor advised fund agreements restrict distributions to a specific charitable purpose, such as Catholic education or Catholic missionary work. 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.

FUND ADVISORS

The initial advisor to the fund is the donor who creates the fund, unless otherwise stated in the fund agreement. The donor can appoint up to four total advisory committee members (in addition to the donor) at the time the fund is established or from time to time thereafter. The donor can amend these names at any time by notifying NMCF in writing during the donor's lifetime. After the death of the donor, for so long as the fund remains active, the fund advisor(s) may continue to recommend grants. The advisory period will conclude upon the death of the last surviving advisor.

If at any time there is more than one advisor to the fund, the advisors will appoint a designee and all communications to and from the Foundation will be through the designee. If no designee has been appointed, the Foundation will consider the first advisor named in the agreement to be the designee. All designees and fund advisors must be over the age of 18.

RECOMMENDING A GRANT

Grants must be for charitable purposes. The minimum grant amount is \$500.00.

A DAF may recommend grants to any organization described in section 501(c)(3) of the Internal Revenue Code excluding grants to private foundations. A DAF 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 DAFs, 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 (for specific plots or corporate owned); Chambers of Commerce and similar business associations; fraternities and sororities; social clubs; and fraternal organizations such as Elks and Moose.

The Foundation makes grants to US organizations that carry on their work in other countries. However, the Foundation does not make grants from donor advised funds to non-US organizations or governmental entities.

All grants from NMCF DAFs shall be to any organization described in section 501(c)(3) of the Internal Revenue Code excluding grants to private foundations, which are in accordance with the principals and teachings of the Catholic Church. Because NMCF's mission is support financially the Catholic community of northern Michigan, it is the board's preference that grants be to organizations serving this geographic area.

After determining the annual distribution amount, the fund designee may submit an annual DAF Recommendation Form, which includes the recommended charities and amounts for grantmaking. These recommendations are then approved by the NMCF Board of Directors.

Advisor recommendations for distributions from a Donor Advised Fund shall:

- Be in writing or email
- Be signed by the advisor if in writing
- Specify the grantee and the purpose of the grant
- Indicate whether or not the advisor is to be identified or should remain anonymous
- Not represent the payment of any pledge or other financial obligation

The Foundation's President is authorized to approve donor advisor grant recommendations. Such authorization will be confirmed by the Board of Directors at their next regularly scheduled meeting

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.

The Foundation retains final authority over all distributions made from the Fund.

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 (Foundation's minimum DAF amount). 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 advisors) and the Northern Michigan Catholic Foundation 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:
 - a. 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.
 - b. 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). 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 Foundation waits until the donor's death to distribute grants from 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 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.

GRANT RESTRICTIONS AND PROHIBITIONS

Grants from Donor Advised Funds are subject to the following restrictions and prohibitions:

1. Grants from Donor Advised Funds cannot result in the donor, advisors or related parties receiving an exchange of goods or services or any personal or material benefit. 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.
2. Donor Advised Fund grants cannot be used to satisfy all or a portion of a pre-existing personal pledge or other financial obligation of the donor, advisors or related parties.

3. Provisions of the Pension Protection Act of 2006 prohibit Donor Advised Funds from making any grants to individuals, such as scholarships, emergency hardship or disaster relief grants. This includes checks written directly to an individual or checks written to an entity for the benefit of a specific individual.
4. Donors, advisors or any related parties may not receive grants, loans, compensation, expense reimbursements, or similar payments from Donor Advised Funds.
5. Donor Advised Fund grants are prohibited for political contributions or to support political campaigns.

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 Northern Michigan Catholic Foundation” and that it has been given upon the recommendation of the named advisor. 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 Northern Michigan Catholic Foundation”.

FUNDRAISING

Due to significant regulatory and administrative complexities, account holders may not solicit third party contributions to their donor advised funds; fundraising is not permitted in NMCF donor advised funds. Account holders may, however, use their donor advised fund to receive third-party donations in memory of a loved one or in honor of a loved one’s significant life event such as a graduation, birthday, or wedding. NMCF will consider such requests on a case-by-case basis and will require that the account holder execute a letter of understanding.

INVESTMENTS

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 Investment Committee and approved by the Board of Directors. Donor Advised Funds are customarily invested and commingled with assets of other funds of the Foundation.

The Foundation's long-term investment objective is to preserve the real value of its permanent funds. This means that the Foundation seeks a total rate of return that supports the Foundation’s grantmaking, expenses, investment fees, and inflation. The Foundation will normally measure whether it has achieved that objective over a rolling five-year period. The Foundation’s Distribution Policy is attached.

The Foundation appoints an investment consultant and investment managers from time to time to carry out some of its investment management responsibilities with respect to its invested asset pool.

FEES

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. The Foundation's current administrative fee schedule for donor advised funds is:

1. An administrative fee of 1% will be charged to the fund annually.
2. All funds are subject to an overriding minimum fee of \$250.

The Northern Michigan Catholic Foundation assesses fees at least annually. Other direct costs (such as legal or probate fees) attributable to the activities of any fund will be paid directly by the fund.

Investment management fees incurred by donor advised funds are not included in the administrative fee schedule for donor advised funds set forth above, and vary depending on investment manager and investment vehicle.

INACTIVE FUNDS

A fund is deemed inactive if:

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

ACTIVATING GRANTMAKING

Should grant activity stop for more than a 2-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 regularly and periodically (for example, three times over a period of 3 years) 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 Foundation determines such intent is obsolete, incapable of being fulfilled, impractical, or inconsistent with the community's charitable needs, then exercise of the Foundation's overriding variance power to enable the Foundation to

continue to use its resources to meet the needs of the Catholic community and to address the charitable purposes for which the funds were committed.

If the fund becomes inactive, 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.

TERMINATION

Unless otherwise specified in the fund agreement, upon the death, resignation or incapacity of the last fund advisor to the fund, or if the fund is determined to be inactive, the fund will continue to be listed among the component funds of the Northern Michigan Catholic Foundation, but its assets will be commingled in a pool of unrestricted assets from which the income is used to meet community needs as determined from time to time by the Northern Michigan Catholic Foundation's Board of Directors.