



SUPPORTING ORGANIZATIONS

In most respects, a charitable entity called a “supporting organization” functions like a private foundation. Its ties to a community foundation, however, qualify it for the superior tax considerations reserved for public charities and greater cost efficiencies, as well.

HOW SUPPORTING ORGANIZATIONS WORK

A supporting organization is a distinct legal entity affiliated with The San Diego Foundation by both its purposes and its operations. It may have its own letterhead, checkbook, investment manager and may even publish its own annual report.

For individual donors, supporting organizations are an excellent way to gain the participation and visibility traditionally associated with a private foundation without the paperwork or overhead. For private foundations concerned about continuity or maintaining their impact, supporting organizations provide a simple, effective way of ensuring that the foundation’s mission is not eroded by time and overhead.

The board of the supporting organization decides when and to whom grants will be given. Because of its association with The San Diego Foundation:

- Gifts to the supporting organization are accorded a greater tax deduction than those given to a private foundation
- Overhead costs are cut
- Administrative responsibilities are reduced.

ESTABLISHING A SUPPORTING ORGANIZATION

1. **Board Makeup:** To qualify as a supporting organization under Section 509(a)(3) of the Internal Revenue Code, more than 50 percent of the board members must be selected by The San Diego Foundation Board. (Thus, if the three existing trustees of a private foundation wished to serve as board members of the supporting organization, four additional members would be selected by The San Diego Foundation Board of Governors.) Donor members often submit recommendations for review and approval by Foundation-appointed members.

2. **Minimum gift size:** Because a separate investment portfolio is maintained for a supporting organization, a minimum gift of \$1 million is required. This enables the investment manager to provide a diversified portfolio at a reasonable cost. Additionally, because the administrative costs associated with a supporting organization are above those of a donor advised fund, maintaining a balance of \$1 million assures that costs, as a percentage of the corpus, are within a reasonable range.

SUPPORTING ORGANIZATIONS ADVANTAGES

Donor recognition

A supporting organization provides the same visibility as a private foundation. Donor members of the board can serve as officers and, as such, can sign the grant checks and the grant award letters.

Tax benefits

Because The San Diego Foundation is a public charity, supporting organization donors receive the most generous tax deductions allowable. If closely held stock is used to make a gift, the donor's deduction is based on current market value rather than original cost.

Investment management

Supporting organizations with assets of \$1 million or more may retain their current investment broker or may choose to invest in one of The San Diego Foundation's (TSDF) investment pools. The Chief Investment Officer of TSDF will review all proposed investments prior to such investments being made (regulatory requirements due to FASB 157). If investments are held in a separate entity with its own EIN, then the assets cannot be invested in existing TSDF investment pools. TSDF could manage the money and set up investment pools similar to those TSDF currently has. Substantial fee discounts often can be arranged if one of the foundation's existing investment managers is selected.

GUIDELINES FOR SUPPORTING ORGANIZATIONS

Under appropriate circumstances, a "supporting organization" may be formed in connection with the San Diego Foundation. The San Diego Foundation welcomes the opportunity to work with donors who, after consultation with their legal counsel and tax and financial advisors, desire to support the activities and goals of The San Diego Foundation through the formation of a supporting organization.

The San Diego Foundation has adopted the following guidelines in order to establish and maintain a productive and rewarding relationship between The San Diego Foundation and its supporting organizations, and to facilitate the efficient administration and operation of its supporting organizations.

1. Articles of Incorporation Typically, a supporting organization is formed through the incorporation of a California nonprofit public benefit corporation. The Articles of

Incorporation for the supporting organization should provide that (i) the supporting organization operates for the support and benefit of The San Diego Foundation and (ii) on dissolution, the assets of the supporting organization will be paid to The San Diego Foundation, provided it is a qualified tax exempt organization at that time. Appropriate form language is available. The San Diego Foundation should be the only supported organization of the supporting organization.

2. **Bylaws** The Bylaws of the supporting organization should provide that either (i) The San Diego Foundation is the sole member of the supporting organization or (ii) the supporting organization is a nonmembership organization for which The San Diego Foundation appoints a majority of the board to trustees. The Chief Executive Officer of The San Diego Foundation, or his or her designee, should always be on the board of trustees of the supporting organization. The bylaws should require that the supporting organization should submit to The San Diego Foundation (I) quarterly financial reports and (ii) an annual operating budget. Because The San Diego Foundation operates on a June 30 fiscal year, it is recommended that the supporting organization adopt a June 30 fiscal end year. Finally, in accordance with federal income tax law, the board of trustees of the supporting organization cannot be controlled by the donor and/or the donor's family. Appropriate form language is available.
3. **Administration** If desired, The San Diego Foundation will assist the supporting organization with (I) overall administration, (ii) corporate governance and/or (iii) making grants. The responsibility for investment of the supporting organization's assets is vested in its board of trustees, which may engage such advisors as it deems appropriate. Please refer to the list Menu of Services below.

MENU OF SERVICES

Below are service categories provided to Supporting Organizations. The donor may wish to perform some services on their own. However, The Foundation is ready to assist in whatever way the donor wishes.

I. ADMINISTRATIVE

Clerical Support

- Records processing, maintenance, and data input
- Mail and telephone services (handling inquiries from public/nonprofit organizations)
- Scheduling meetings

Board Coordination

(Board meetings are required, and meeting minutes must be filed with The San Diego Foundation)

- Planning Board meetings

- Preparing agendas
- Making presentations
- Keeping minutes
- Circulating memos
- Preparing and disseminating unanimous consent resolutions
- Training and development of Board members

II. FINANCIAL

- Payroll (if appropriate)
- Grant processing
- Maintaining computerized management system
- Investments. Foundations with assets of \$1 million or more may retain their current investment broker or may choose to invest in one of The San Diego Foundation's (TSDF) investment pools. The Chief Investment Officer of TSDF will review all proposed investments prior to such investments being made (regulatory requirements due to FASB 157).

The San Diego Foundation will fully service:

- Accounting
- Disbursement of all accounts payable payments
- Disbursement of all grant payments
- Audit coordination
- Tax and other filings
- Quarterly reporting

III. GRANTMAKING

- Assist in development of grantmaking goals and funding priorities
- Guidelines preparation and distribution to grantseekers (information on foundation's interests, how and when grant applications should be submitted)
- Preliminary grant screening
- Full proposal review and evaluation
- Staffing grant review meetings and providing input to funding decisions
- Grant notification
- Execution of grant agreement/payment/grant monitoring
- Grantmaker networking/partnering
- New program development: research/design/implementation
- Long-range planning
- Public relations and marketing (preparing press releases, setting up events, producing brochures and other communication materials, shaping foundation's image)