



## 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.
3. **Successor advisors:** A supporting organization associated with The San Diego Foundation allows two generations to serve as advisors – the donors and their children or others they may name. Donors also may specify how assets are to be used after the role of the advisor ends.

## 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**

The supporting organization maintains a separate portfolio, and its board selects its own investment manager. The investment management fee depends greatly upon the market value of the supporting organization's assets. 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 can provide services to 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.

# 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

- 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

- Accounting
- Maintaining computerized management system
- Audit coordination
- Tax and other filings
- Quarterly reporting
- Payroll (if appropriate)

## 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)