

FREQUENTLY ASKED QUESTIONS

THE SILENT PARTNER BEHIND AMERICA'S FOUNDATIONS™



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INTRODUCTION

For over 100 years, America's prominent families have chosen private foundations as their vehicle for charitable giving. They seek the personal financial control, powerful tax advantages and family legacy benefits that only a private foundation can provide.

Yet maintaining a well-run foundation can have challenges, too. Administrative and compliance chores can sometimes overshadow the rewards of giving.

Foundation Source is the number one provider of outsourced services for new and existing private foundations. We provide complete back-office administration and compliance monitoring, as well as online tools that help keep foundations running smoothly and in accord with IRS regulations. This allows foundation donors, directors, family and staff to focus on charitable giving.

On the following pages, we answer the common questions that families and their advisors ask us about private foundations.

The information in this document is provided for general information purposes only and does not constitute legal, tax or investment advice.

1. What is a private foundation?

Technically, it is a not-for-profit entity that can be controlled by a person, family or business. It is organized exclusively for charitable, educational, religious, scientific and literary purposes under Section 501(c)(3) of the IRS Code. The foundation must be officially recognized by the IRS in order for contributions to it to be tax deductible.

In practice, a private foundation is a unique planned giving vehicle that fosters family involvement, provides significant control over assets and giving, and allows donors to receive an immediate tax deduction for charitable donations that are made in the future.

2. What are the benefits of a private foundation?

- **Family legacy.** A private foundation establishes a legacy of giving that can carry the family name, supports causes that are important to you, and promotes charitable activities into the future.
- **Control.** Private foundations provide the greatest control of any planned giving vehicle. You decide which charities to support and how the assets are invested. You also have great latitude as to the types of assets you can donate to the foundation.
- **Family involvement.** A private foundation enables you to involve the family in philanthropy and pass values on to future generations.
- **Current tax deduction for future grants.** You can take an immediate tax deduction for contributed assets, even if the foundation does not make charitable grants until a later date. You are also able to remove taxable assets from your estate, without incurring capital gains taxes. (Consult with your tax advisor.)

3. How does a private foundation compare to a Donor Advised Fund?

The difference is mainly in control and flexibility. With a private foundation, the donor retains control over charitable donations and other disbursements. Foundations can hire staff, reimburse expenses, set up structured giving programs such as scholarships, and make grants directly to individuals in need. In addition, donors can contribute a much wider variety of assets to fund the foundation, such as “144” restricted stock, and the founder retains control over how the assets are invested.

Contributors to a donor advised fund make irrevocable contributions to a nonprofit organization that administers the fund and makes decisions regarding fund investments. Contributors may recommend eligible charities as recipients for grants, but the fund’s governing body is free to accept or reject any recommendation.

RULES AND REGULATIONS

4. How may foundation assets be used?

Donations to a private foundation may only be used for charitable purposes and certain administrative expenses.

5. Can I or members of my family be employed by my foundation?

Yes. By appointing children or other family members as officers or directors, you will have the option of making the foundation a family affair.

However, paying yourself or family members requires strict adherence to detailed IRS rules. To avoid the potential for legal problems, you must consult with your attorney before paying yourself or family members.

6. Can my family or I engage in transactions with the foundation?

The IRS strictly prohibits self dealing. Disqualified individuals (the donor, lineal descendants and antecedents, e.g., parents, children and their spouses, and people under their employment) may not engage in transactions with the foundation except to make donations to it, or under limited circumstances, to receive fair market value compensation for services. Examples of self dealing include:

- Purchasing items from or selling items to the foundation.
- Personal use of foundation assets or income.
- Borrowing money from the foundation.
- Retaining foundation assets (e.g., paintings) on private premises.

7. Who can open a private foundation?

The founder must be a U.S. citizen or resident alien who is at least 18 years old.

8. Who can a private foundation give money (make grants) to?

Private foundations typically carry out their philanthropy by making grants to recognized public charities. This includes churches and synagogues, educational, scientific and cultural institutions, poverty relief agencies or any other organization that qualifies as a 501(c)(3) charity according to the IRS. Foundation Source provides its clients with an online database of over 750,000 IRS-approved charities that foundations can use to research potential grantees. If the charity is not in our database, Foundation Source will research the organization to verify its charitable status. Foundation Source also makes it possible for foundations to easily set up scholarship programs, and give hardship and emergency assistance grants directly to individuals.

Private foundations are generally precluded from making grants to political campaigns or organizations that exist to influence legislation and voting.

In addition, Foundation Source ensures that grants are in full compliance with the requirements of the USA PATRIOT Act and OFAC (Office of Foreign Assets Control) sanctions, which preclude organizations and individuals suspected of, or known to be, engaging in criminal, terrorist, or other illicit behavior from receiving financial contributions from private foundations. (The Patriot Act and OFAC sanctions apply to donor advised funds and individuals as well.)

9. What is the tax deduction for donations to a private foundation?

Typically, donations to a private foundation are tax deductible up to 30% of adjusted gross income (AGI) for cash, and up to 20% of adjusted gross income for appreciated securities, with a five-year carry forward. Other types of assets, including real estate, can be donated to the foundation, but are subject to limitations. Individuals should consult with their tax advisors.

10. Is there a minimum or maximum amount a private foundation must give away each year?

The IRS requires that private foundations pay out at least 5% of the previous year's average net assets for charitable purposes. This can include certain administrative expenses. There is no maximum limit on giving. Foundation Source calculates the remaining required distribution on a daily basis and posts it on the secure foundation web site provided by Foundation Source.

11. What types of organizations can a private foundation make grants to?

Private foundations can give to any organization recognized by the Internal Revenue Service as a public charity. This includes churches and synagogues, educational, scientific and cultural institutions, poverty relief agencies or any other organization that qualifies as a 501(c)(3) charity according to the IRS. Foundation Source provides an online database of over 750,000 eligible charities for reference. If the charity is not in our database, Foundation Source will research the organization to verify its charitable status. Private foundations can also give specially defined scholarships and grants to individuals as long as they meet certain IRS criteria.

12. Can a private foundation make grants for political activities?

No. IRS rules generally prohibit private foundations from making grants to political campaigns or to organizations that exist to influence legislation and voting.

13. Can a private foundation own all or part of a family business?

Generally, no. The IRS has established rules against excess business holdings to keep a private foundation from owning a significant stake in a family business. We advise you to consult with your legal or tax advisor on any business issues.

14. Can I sell family assets to my foundation?

No. The IRS strictly prohibits self-dealing. Donors, donors' parents, children and spouses, and people under their employment may not engage in transactions with the foundation, except to make donations to it. Under limited circumstances, they can receive compensation for their services at fair market value. (See #23 below.)

SET-UP AND OPERATION

15. How long does it take to obtain a new private foundation?

With our streamlined systems and processes, Foundation Source can deliver a new foundation in as few as three business days. We also provide services for foundations set up by the donor's attorney as well as for existing foundations.

16. What is the minimum size for a foundation?

The old rule of thumb stated that a private foundation did not make sense unless the initial funding was \$1- 2 million. This was due to the complicated nature of setting them up and the ongoing expenses to keep them running.

Foundation Source has revolutionized the private foundation by developing technology and efficient processes that dramatically streamline the delivery and ongoing administration of private foundations. Foundation Source makes it possible to establish a new foundation with as little as \$100,000, yet provides services that are robust enough for foundations up to \$250 million and more. Foundation Source also provides services to existing private foundations.

17. How much personal time is involved in administering a private foundation?

As little or as much time as you prefer. With Foundation Source serving as your "back-office," we handle the time-consuming administrative needs of the foundation, including federal and state filings. This allows you to focus on selecting the charities that fit your foundation's philanthropic mission and making grants.

18. Why does Foundation Source incorporate new foundations in Delaware?

Regardless of your state of residency, there are many unique benefits to setting up a foundation as a Delaware corporation. First, foundations set up as corporations have much greater flexibility than those set up as trusts. Second, Delaware allows for sole director corporations. This means the founder can be the only person involved in the foundation, if he or she chooses. Third, Delaware allows annual meetings to be held electronically via telephone or online, which greatly simplifies this requirement—especially when families live far apart. Foundation Source also provides services for foundations set up by the donor's attorney as well as existing foundations, whether trust or corporate format, and regardless of state of incorporation.

19. How does my foundation make donations using Foundation Source?

You can make grants quickly and easily through Foundation Source Online™, a secure, customized web site provided by Foundation Source. You can also make grants via fax. You decide which charities will receive grants; we then send a check with a special letter to each charity, or directly to you for personal presentation.

20. How do I deal with grant requests that I get from charities?

Foundation Source provides complete services for Grants Management that organize and manage inbound grant requests, so you can easily monitor each step and simplify the entire process. This includes online applications, activity tracking, communications management, charity research, preparation of grant checks and transmittal letters, customized reports and more.

21. How do I get information about foundation activities, account statements and annual reports?

Foundation Source Online™ creates a secure, password-protected web site for each foundation that provides account balances, foundation documents, grant history, pending grants, year-to-date donations and more. Detailed account statements for the foundation assets will continue to come to you from your financial institution. Foundation Source holds all foundation data in the strictest confidence. Our systems, processes and procedures are designed with privacy and security as a primary consideration.

22. How do private foundations learn about charities they are interested in?

Foundation Source provides an online database of over 750,000 IRS-approved charities that foundations can use to research potential grantees. Information includes finances, activities, copies of past 990s, mission statements and more. If the foundation is interested in making a grant to a charity that is not in our database, Foundation Source will research the charity to verify its charitable status.

23. Can family members be involved in the foundation?

Generally yes. By appointing a spouse, children and other family members as officers and directors, the foundation can be used to bring the family together and pass on philanthropic values to younger generations. However payments to family members require strict adherence to IRS rules. To avoid the potential for legal problems and penalties, you should consult with your attorney.

To help increase involvement by family and friends, Foundation Source has created a unique giving tool called Grant Certificates that allow the foundation to give limited granting rights to those not directly involved with the foundation.

24. Does Foundation Source provide services for existing foundations?

Yes. Foundation Source provides its full range of services to existing foundations, whether trust or corporate form, and regardless of state of incorporation.

25. Does Foundation Source manage the foundation's assets?

No. Foundation Source focuses strictly on back-office administrative and compliance services. We do not provide financial advice, nor do we manage or custody assets. We work with your existing financial advisors and financial institutions.

26. Does Foundation Source provide legal or tax advice?

No. Foundation Source does not provide legal or tax advice. We will work with your current advisors or provide you with the names of specialists in these areas, if you prefer.

27. Can I continue to work with my existing legal, tax and financial advisors?

Yes. Foundation Source is happy to work with your current legal, tax and financial advisors, as instructed. We can also provide the names of specialists in these areas.

ABOUT US

Foundation Source is the number one provider of outsourced services for private foundations, serving hundreds of foundations of all sizes. We offer complete administration, compliance monitoring, tax filing and grantmaking services. In addition, we provide a full set of online management tools designed to keep foundations running smoothly and in compliance with all IRS guidelines.

Foundation Source is headquartered in Connecticut, with regional offices in New York, Chicago, San Francisco, Palm Beach and Denver.

CONFIDENTIALITY

Foundation Source holds all foundation data in the strictest confidence. Our systems, processes and procedures are designed with privacy and security as a primary consideration.

CONTACT US TO LEARN MORE

We are happy to provide documentation and professional references and to answer any questions about our services. Our representatives are always available to meet with you personally and with your advisors as appropriate.

For more information, please call us at **800-839-0054** or visit our web site at www.foundationsource.com.



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