

THE FIRST IN A NEW SERIES ON

Philanthropy in the United States, which exists in many forms, has seen substantial growth since the 1980s. Guidestar lists more than one million foundations on its website. In 2019, charitable giving in the United States topped \$400 billion. Baby boomers contribute a bigger share of total donations than any other age group. While the amount of giving has increased, the percentage of people giving has gone down. In 2000, more than two-thirds of Americans donated to charity. Prior to the coronavirus pandemic, it shrunk to just over 50%. The aging of America means that more than \$30 trillion will be passed on by aging baby boomers in the next 20 years. Much of this will go to charity. It will be interesting to see what the impact of the recent tax act will have on the amount of contributions since the tax benefit is not as great since about 20% fewer people will itemize.

Philanthropy within private clubs and the golf industry as a whole has also been on the rise. In the next few issues of *Club Director*, we will be addressing various issues involved in getting your members to contribute to a foundation and the types and purposes of foundations and other gifting programs that clubs have established.

Club



By Kevin F. Reilly, JD, CPA, CGM
and Larry J. Absheer, MBA

A group of people, including a woman in a teal shirt and brown pants, are crouching in a forest, planting small trees. They are wearing white gloves and holding wooden stakes. The background shows a dense forest of tall trees.

Philanthropy

CLUB FOUNDATIONS

How are Clubs Using Foundations?

In addition to the widespread number of charitable tournaments and similar functions held at clubs, many clubs have established or are beginning to consider establishing a club foundation or endowment. The impetus for creating a separate entity may be a member's interest in making a substantial contribution, a desire to garner donations for various purposes, or an interest in pursuing charitable activities that complement the primary mission of the club. Such entities may help to fund community service and educational programs undertaken by the club, such as supporting the development of library and art collections and providing scholarship programs.

The Union League Club of Philadelphia has a very unique setup. Before July 1, 2019, the Heritage Center was home to the Union League's three foundations emphasizing youth work, scholarships and Abraham Lincoln. The Abraham Lincoln Foundation acts as a steward of the League's priceless art and archival collections. It has provided thousands of teachers, students, researchers, visitors and members access to its unique collection. It brings its exhibits to more people on a regular basis through its virtual tour. The club's other two foundations have a long history

of the club's Keefer Memorial Library and programs of a charitable, educational, scientific, artistic and literary nature. From the funds the Foundation raises, it provides produce and meat to more than 110 families and individuals in partnership with the Food Bank at the nearby historic Metropolitan African Methodist Episcopal Church as well as grants to other community partners, such as College Bound, Food-for-Fuel and Luther Place's ArtSmart Summer Camp, that provide programming and services to underserved children in the community. It also provides scholarships that help club employees and their children realize their post-high school educational goals. The Foundation has become an integral element in the lives of club members and the community.

One of the more extensive foundation activities affiliated with a club is that of the Union League of Chicago. It has three separate foundations devoted to charitable activities that help to carry out the club's goal of involvement in the community and the arts. One foundation helps to endow 11 Boys and Girls Clubs in the Chicago area and has worked with 15,000 youth in the inner city. It provides support in three key areas: academic success, good character and citizenship, and healthy lifestyles. As part of the last area, it provides a hot meal every day and in

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of working with youth and providing scholarships. Since 1955, more than 1,000 students have received scholarships totaling more than \$4 million. These three foundations have been combined into the Union League Legacy Foundation.

The Jonathan Art Foundation in Los Angeles oversees a collection of pre-1940 California artwork and the McKinley Museum, which houses historic treasures of the Jonathan Club dating from the 1800s. Portions of the Foundation's art collection are loaned to museums or exhibits and are also accessible to art and historical societies through special showings at the club. In addition to the collection of the Foundation, the Jonathan Club itself also maintains an extensive art collection. Begun in 2013, the Jonathan Scholarship Fund has awarded scholarships to 30 recipients and raised more than \$2.9 million. Each recipient is eligible to receive the scholarship for four years. Club staff children, grandchildren, and spouses and significant others are all eligible to apply.

Celebrating its 35th anniversary in 2019, the University Club (of Washington DC) Foundation has provided decades of support for philanthropic endeavors within the club's walls and throughout the local community. The mission of the Foundation is to support

2019 served more than 300,000 meals. In addition, it owns and operates a 247-acre summer camp for these youths. A second foundation is devoted to promoting civic activity and scholarships in the visual and performing arts. Yet another foundation helps support endeavors in the field of engineering. All three have separate boards of trustees housed in the club and receive significant support from the club and its members.

Endowment Funds

Generally, endowments are segregated funds created by one or more contributions that are intended to be held as a permanent fund and invested. Often, they are initiated with a single gift or several gifts of some magnitude as a beginning corpus on which to build. The investment income generated from that corpus is then made available for use by the organization or foundation for whatever purposes have been designated.

Though some clubs have established separate foundations that permit members to make tax-deductible contributions, others have taken a different approach. One example is to set up an endowment fund to which members can contribute

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Stead Park Community Day brings together The University Club of Washington DC club members and the local community. Photo courtesy of the University Club (of Washington, D.C.) Foundation.

funds that, although not tax deductible, can provide a means for supporting major needs of the club, particularly capital improvement projects.

Several clubs have also set up special funds as a means of encouraging member contributions for specific projects. Among country clubs, a common example is a tree fund, dedicated to the preservation and replacement of trees on the club property.

Tax and Legal Issues

It is important to distinguish between these special funds and a 501(c)(3) foundation. The funds receive contributions from members to accomplish private goals of the club. Unless specifically restricted by the donor, the club can use the funds for any purpose. Foundations, on the other hand, must have some public benefit. The foundation may be associated with, but should be separate from, the club. Several steps should be taken to ensure that the foundation will qualify as a charity exempt from income tax under 501(c)(3) of the Internal Revenue Code.

Section 501(c)(3) of the Code provides, in part, for the exemption from federal income tax of corporations organized and operated exclusively for charitable, scientific, or educational purposes, provided no part of the corporation's net earnings inures to the benefit of any private shareholder or individual.

To be exempt as an organization described in Section 501(c)(3), an organization must be both organized and operated exclu-

sively for exempt purposes. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

An organization will be regarded as operating exclusively for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in Section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

The biggest problem many clubs encounter in establishing a foundation is the notion of private inurement—the club benefiting from activities of the foundation. An organization does not exist exclusively for any of the purposes specified in Section 501(c)(3) unless it serves public rather than private interests. Thus, to meet this requirement, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as, among others, the creator of the organization. If an organization serves a public interest and also serves a private interest, other than incidentally, it is not entitled to exemption under Section 501(c)(3).

The word “incidental” has both qualitative and quantitative connotations. In the qualitative sense, to be incidental an organization must show that the benefit to the public cannot be achieved without necessarily benefiting the club. In the quantitative sense, to be incidental the benefit to private interest must not be substantial.

A foundation may not be established to accomplish activities of the club that are required functions of the club itself. While historic preservation, establishment of a library, preservation of artwork, or the conduct of educational forums are all worthwhile goals, they must benefit the public and not merely the club. The IRS wants to see a broad public interest served.

Since the foundation must serve a public benefit, clubs should consider the impact on the club's private status. Members may be unwilling to open the club to the general public as it may impact its private status.

Clubs should also be very cautious about gifting assets to the foundation. For example, if the foundation is established to acquire and preserve artwork, and the club contributes its collection to the foundation, the artwork is gone. Even upon dissolution of the foundation, the assets cannot be returned to the club. Rather, the assets must be distributed to another 501(c)(3) organization. State laws should also be considered.

- What is the foundation's intended purpose or mission?
- What benefit will this provide to the public?
- Why do we need a separate foundation for this?
- Who should serve on the board of the foundation?
- What will be accomplished, particularly in terms of programs or services?
- Who is likely to provide the funding?
- How will those funds be raised?

The Foundation's Board and Staff

Before establishing a foundation, the club should carefully consider a variety of governance issues, including the relationship between the parent organization (the club) and the foundation, and the degree to which the club wishes to be involved in the foundation. Whether to have an overlap in the boards of the club and the foundation may depend on the type of foundation established and the related legalities, i.e., the extent to which an over-

To be exempt as an organization described in Section 501(c)(3), an organization must be both organized and operated exclusively for exempt purposes.

A foundation should apply to the IRS if it desires recognition as a tax-exempt entity under Section 501(c)(3). Oral requests are not accepted. Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code, should be used. The form's instructions provide a check list for the foundation to follow in submitting its application.

If the IRS does not approve your request, the ruling can be protested. You also have a right to a conference. If neither option is exercised, the ruling becomes final after 30 days. However, care in the application process may prevent rejection in the first place. Assistance from professionals experienced with the application process is advised.

Initial Steps in Setting up a Foundation

A foundation is often viewed as simply a means for receiving tax-deductible contributions from the membership and thus, a source of additional funds. However, establishing and supporting a 501(c)(3) foundation can represent a major commitment of time and resources for a club and its governance structure. A foundation that is an "adjunct" to another organization can pose a challenge to the parent organization and will likely require a fair amount of assistance and support, particularly in its early years. Without strong ongoing commitment from the club's leadership, it may prove difficult to achieve success. Among the club's initial considerations should be determining:

lap is either encouraged or prohibited by IRS regulations. However, the prudent course is to minimize the overlap and maintain as much separation as possible between the two entities.

Determining the best candidates to serve on the board of the foundation may largely depend on the roles and responsibilities of board members. As a general rule, it is helpful to select board members with knowledge of investments, legal issues or philanthropy; familiarity with the club's activities and mission and the foundation's mission; experience or expertise with fundraising activities; and a willingness to contribute to the work of the foundation.

Policies and procedures that define the work of the foundation might include the foundation's bylaws, committee structure, investment policies, fundraising programs, degree of direct board involvement and control, and interaction with staff and outside counsel. It is helpful to establish bylaws that broadly define foundation activities, so that they provide flexibility for the future. It is also important that the foundation maintain good communications with the club, both at the governance level and through the staff.

Some club-related foundations have been developed by members of the club, rather than the club's board of directors, and while most, if not all, donors are club members, there are specific provisions in the structure of the foundation that maintain a completely separate entity from the club itself.

CLUB FOUNDATIONS

Staffing issues related to a foundation often involve these basic questions: What type and number of staff are needed, and how should the foundation staff function relative to the club's own staff and operations? The answers to these questions will vary by club but can be addressed by examining the level and amount of staff time needed for administrative tasks (such as recordkeeping and accounting), staffing of board meetings, preparation of printed materials and other support for fundraising programs, and staff involvement in research and program implementation.

Based on these and other factors, an assessment can be made of the skills and time commitments needed for foundation staffing. In some cases, it may be determined that one

and a study could help the foundation leadership identify that agenda.

Fundraising Activities

The terms “foundation” or “fundraising” can raise concerns about approaching members for more money. In most foundations affiliated with a club, the primary source of contributions is club members. This may start with the members of the foundation board, and perhaps the club's board of directors, where members may encounter the adage, “give, get or get off.”

Most successful fundraising programs follow the premise that people give to people. Thus, these programs involve members or leaders who have influence with other donors. For clubs

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or more club employees may be able to share duties with the club's foundation, particularly if full-time foundation staff is not required.


Developing a Mission and Case Statement

Many organizations view the development of a foundation mission from the standpoint of a case statement—defining a need that would be addressed through the activities funded by the foundation. The case statement should help the foundation assess objectively and clearly explain the needs and opportunities for support. Its purpose, like a prospectus, is to provide information and direction to the board and staff and prospective donors. In other words, to tell the world what you're going to do and who will be involved, in broad-based terms. The foundation's mission statement should help to clarify how it will be different from the club's mission and how it will complement the club's statement of purpose.

As part of the initial process of foundation development, it is advisable to consider a study of potential donors (likely to be the club's members) to determine the likelihood of their support, issues they would like to see addressed by foundation programs, and other factors. One start-up foundation discovered through a survey that members expected it to operate separately from the parent organization and not be a source of support for any shortfalls in operating revenues. It is critical that contributions to a charitable foundation not be used to fund shortfall in a club's operations. Members may feel that it is important for a club foundation to demonstrate a separate agenda from the club's own goals

establishing a separate foundation board of directors, it may be helpful to identify such influential members as prospective board members. The Fundraising Committee or council of a foundation should certainly include individuals who will have this type of influence. It may also prove helpful to include representatives of the foundation board to coordinate efforts.

What level of contribution should you ask for and how do you get it? The volunteers serving on the board or Fundraising Committee can help to address these questions, taking into account the club's relationship with prospective donors and their likely interest in programs or activities to be funded. It is often helpful to establish a baseline level of gift, or even several levels for giving, which can help donors decide what is appropriate.

Fundraising methods will likely vary by size and type of club and need to consider the internal culture of the club. They often include annual fund drives directed to the club's membership, silent auctions and other types of special events. Most often members contribute cash, but donations also are made through gifts of appreciated or long-term capital gain property, such as stocks, bonds, land or tangible personal property (e.g., paintings, manuscripts). A later article will consider the tax and administrative functions and requirements of fundraising. 

Kevin Reilly is a partner with PBMares, LLP and is a member of NCA Foundation board of directors. He may be reached at kreilly@pbmares.com or 703-385-8809. **Larry Absheer** is the former CFO of the Missouri Athletic Club and currently serves as the director of advancement & liaison to the CEO. He may be reached at labsheer@mac-stl.org or 314-539-4477.