



THE COMMUNITY FOUNDATION

WHAT IS A SUPPORTING ORGANIZATION?

A "supporting organization" is a tax concept that allows a private foundation to enjoy the benefits of a public foundation. A supporting organization organizes itself to be operated exclusively to carry out the purposes of a public charity, and the public charity agrees in turn to have the supporting organization administer a program it would otherwise wish to carry on itself.

A "supporting organization" continues its separate legal existence. It continues to administer its program and to invest its assets in an independent manner. It must meet certain requirements imposed by Section 509 (a)(3) of the Internal Revenue Code.

HOW DOES A SUPPORTING ORGANIZATION WORK?

To become a "supporting organization" there are four organizational tests to be met by the "supporting organization."

1. Its Certificate of Incorporation must limit its purpose to charitable and educational purposes.
2. Its Certificate cannot authorize it to engage in any purpose other than the charitable and educational purposes of the public charity.
3. Its Certificate must state that it is organized and operated exclusively for the benefit of the public charity.
4. Its Certificate must not empower the fund to pay over its income or perform the services of any organization other than the public charity.
5. The "supporting organization" must not be controlled by one or more disqualified persons. Generally, disqualified persons include:
 - a. Substantial contributors (persons who contribute more than \$5,000);
 - b. Foundation managers;
 - c. A member of the family of the substantial contributor or a foundation manager.

Rochester Area Community Foundation undertakes to control the activities of the supporting foundation by appointing a majority of the Board of Directors of the supporting foundation. The Board may include substantial contributors, foundation managers or members of the families of each, but they must not control the organization.

The "supporting organization" regulations deal with structure rather than financial matters. The Internal Revenue Service wants to force the parent organization to consider the "supporting organization" as an important source of revenue and thus to lend public scrutiny to the efforts of that "supporting institution" in order to attain public status.

In the case of Rochester Area Community Foundation, a "supporting organization" would direct its grantmaking to areas compatible with our guidelines. Since we exist to benefit a broad spectrum of charitable activity in our six-county region -- from social services to the fine and performing arts, from equal justice to medical care and research, and from education at all levels to community betterment -- there is a great deal of latitude.