EAST TENNESSEE FOUNDATION

GUIDE TO *CHARITABLE* GIVING

FOR DONORS AND PROFESSIONAL ADVISORS

THOUGHTFUL GIVING FOR
STRONGER COMMUNITIES AND
BETTER LIVES

EAST TENNESSEE
FOUNDATION

The information printed in this guide is current as of July 2019. Please contact our advancement team to inquire about circumstances not specifically covered in this guide. We work with donors and professional advisors to structure gifts that help donors meet their charitable goals and at the same time maximize tax advantages.

"I don't know how much personal wealth I'll have to leave, but I'm proud my work has enabled me to advise others to give millions that not only will grow into hundreds of millions but will pour into our region forever."

—PROFESSIONAL ADVISOR TESTIMONIAL

WHY PARTNER WITH US?

TRUST

We have built a reputation over time by fulfilling donor intent. During our 30+ year history of excellent stewardship, transparency, honesty, and integrity in working with fundholders, fund advisors, and grantee organizations, we have maintained the highest of ethical standards. Our standards are recognized in compliance with National Standards for U.S. Community Foundations.

IMPACT

Our team will assist you in making the communities you care about stronger and lives better. Whether your goals are immediate or to create a legacy to assist future generations, our team has the tools and knowledge to serve you.

SERVICE

We pride ourselves on the relationships we have with our donors, their advisors, volunteers, and our grant recipients. We recognize you when you call and are responsive to your needs. We know you have options for your charitable giving, and we want you to experience the reason to select us.

EAST TENNESSEE FOUNDATION (ETF)

Established in 1986 as a 501(c)(3) public charity and community foundation through a merger of the Community Foundation of East Tennessee and the Business Trust for the Arts, ETF is governed by a volunteer board of directors composed of leaders from throughout the region and managed by a professional staff. Under the watchful eye of the board and staff, assets are invested to provide a valuable source of grantmaking dollars for important projects and programs in our region, as well as elsewhere in the nation and the world.

OUR VISION

THRIVING COMMUNITIES *powered*
by THOUGHTFUL GIVING.

OUR MISSION

We provide philanthropic leadership inspiring donors to make lives better and communities stronger in enduring ways across generations.

WE VALUE

TRUST
RELATIONSHIPS
DONOR INTENT
RESPECT
GENEROSITY

WE MEASURE SUCCESS THROUGH OUR

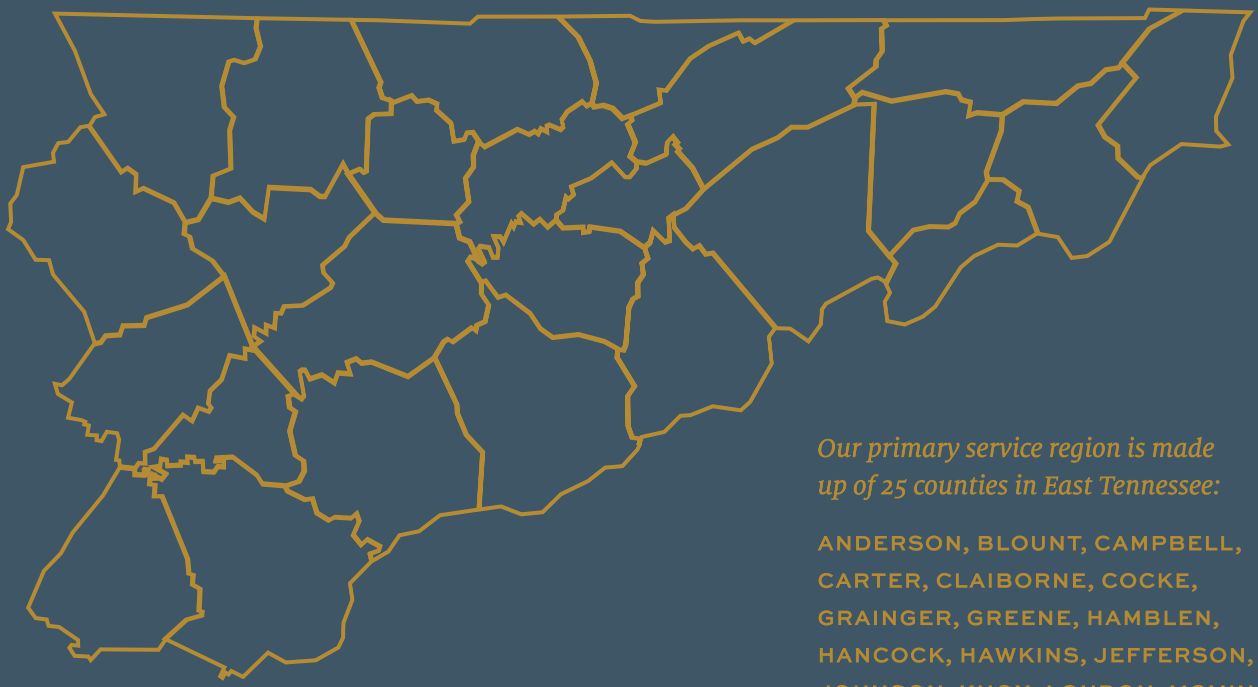
REPUTATION *with donors, advisors, and the public*
IMPACT *in communities*
SERVICE *to donors, grantees, and communities*
FINANCIAL PERFORMANCE*: growth and efficiency*

WHAT IS A *COMMUNITY FOUNDATION?*

A community foundation is a tax-exempt, nonprofit, autonomous, publicly supported philanthropic institution composed primarily of permanent funds established by many separate donors for the long-term, diverse, charitable benefit of the residents of a defined geographic area. Typically, a community foundation serves an area no larger than a state. Community foundations are collections of hundreds of separate endowed and nonendowed funds established by individuals, families, nonprofit organizations, and businesses —a community of donors—to enhance the quality of life in their local area. These funds are pooled and invested under the guidance of a board of directors made up of community leaders. When funds are endowed, an appropriate spendable amount is distributed as grants to nonprofits. The first community foundation was established in 1914 in Cleveland, Ohio. Today, there are over 750 community foundations nationwide. These foundations are one of the fastest-growing forms of philanthropy in the United States of America, and they are in the forefront of charitable giving. Community foundations represent their entire communities, have boards that are broadly representative of the communities they serve, are primarily grantmakers, make grants to multiple grantees, and establish permanent, named funds with the goal of endowment-building.

VARIANCE POWER *is a unique benefit with community foundations*

Variance power is a distinctive feature of community foundations, and its primary objective is to fulfill a donor's original charitable intent. This power provides community foundations with the authority to modify a fund to fulfill its purpose, if necessary over time, without undue legal expense. The Internal Revenue Service (IRS) requires that the community foundation have absolute discretion over all charitable funds in order to provide maximum tax benefits to donors. If at any time it appears to the board of directors that circumstances have so changed as to make unnecessary, undesirable, impractical, or impossible a literal compliance with the expressed desire of a donor, it may take steps as it deems necessary to direct the application of any funds to other educational, charitable, literary, or religious purposes of a public nature as in its judgment will, to the extent possible, carry out the purposes of the donor. Foundations carefully consider donor recommendations regarding preferences and distributions.



Our primary service region is made up of 25 counties in East Tennessee:

ANDERSON, BLOUNT, CAMPBELL, CARTER, CLAIBORNE, COCKE, GRAINGER, GREENE, HAMBLEN, HANCOCK, HAWKINS, JEFFERSON, JOHNSON, KNOX, LOUDON, MCMINN, MONROE, MORGAN, ROANE, SCOTT, SEVIER, SULLIVAN, UNICOI, UNION, AND WASHINGTON

WHAT WE DO

EAST TENNESSEE FOUNDATION DOES THREE THINGS:

1. RECEIVES CONTRIBUTIONS FROM DONORS
2. MANAGES AND INVESTS ASSETS
3. GIVES WELL-PLACED GRANTS AND SCHOLARSHIPS

ADVANTAGES OF GIVING THROUGH ETF

RESPONSIBLE STEWARDSHIP

Our board of directors has adopted an investment policy and appoints an investment committee to closely monitor and make all decisions on ETF's investments. All investments are managed by professional money managers. Members of our investment committee are chosen for their business and financial-management experience and expertise. To ensure its permanence to donors, beneficiaries, and the region, ETF seeks through its investment policy to maintain or increase the real value of the endowment principal and distributions over the long term while funding current needs at an appropriate level.

FLEXIBILITY

Funds can be established with a variety of assets, including cash, appreciated securities, real estate, life insurance, retirement funds, certain business interests, charitable trusts, and private foundation transfers. Individuals, families, or businesses can design a fund tailored to their charitable goals.

TAX BENEFITS

ETF is recognized by the IRS as a public charity and community foundation, which means donors receive the maximum tax advantages for income, gift, and estate tax purposes. We recommend donors consult with a professional advisor and contact ETF to learn how this can benefit their charitable giving.

CONVENIENCE AND DUE DILIGENCE

Setting up a fund at ETF is a simple process. ETF handles record-keeping, investments, audits, and reporting. Our knowledgeable staff offers advice on grantmaking and helps identify organizations that offer a great value for charitable dollars. We ensure grants go to reputable tax-exempt organizations that meet IRS requirements. We do the work and leave the joy of giving to our fundholders.

LEGACY

ETF offers permanence and the opportunity to teach younger family members the power and importance of giving. Donors' wishes can continue far into the future and can involve children and grandchildren in helping to carry on the charitable work. Plus, we can exercise variance power, when necessary.

PROFESSIONAL MANAGEMENT AND ACCOUNTABILITY

An independent auditor provides an annual accounting of all funds and practices.

PRIVACY

For donors or families desiring privacy, ETF offers anonymous grantmaking, both today and into the future.

COST-EFFECTIVENESS

If each individual donor had to create his or her own fund independent of ETF, the cost would be prohibitive. ETF pools investments to achieve reduced management fees and increase investment options. A small, efficient, professional staff reduces administrative costs, leaving more money for charity.

COMMUNITY IMPACT

We offer expertise to identify community needs and opportunities. Donors can take advantage of this regional knowledge to make better-informed decisions and increase the likelihood their charitable giving will have the impact they desire.

GIFTS ACCEPTED INTO A CHARITABLE FUND

Giving assets yields different results in the areas of income, capital gains, and estate taxes. Timing is everything.

TYPES OF ASSETS

To open a charitable fund, you may contribute almost any asset of value, including (but not limited to) the following:

CASH

PUBLICLY TRADED SECURITIES (STOCKS, BONDS, AND MUTUAL FUND SHARES)

STOCK IN PRIVATELY OWNED COMPANIES

RETIREMENT ASSETS (ETF NAMED AS BENEFICIARY OR GIFT OF REQUIRED MINIMUM DISTRIBUTION)

LIFE INSURANCE POLICIES (ESPECIALLY PAID-UP, UNNEEDED POLICIES)

UNENCUMBERED REAL PROPERTY*

REMAINDER INTERESTS IN PERSONAL RESIDENCES OR FARMS*

TANGIBLE PERSONAL PROPERTY

PROMISSORY NOTES

* *Gifts of real property are approved and accepted by the East Tennessee Supporting Foundation (ETSF), a supporting organization of ETF. This separate and distinct organization was set up for the sole purpose of accepting and selling real property. ETSF has its own board of directors, appointed by ETF's board.*

APPRAISALS

Except in the case of gifts of publicly traded securities and cash, Treasury regulations require the donor to obtain an independent appraisal for gifts valued at $5,000 or more. We can assist in making these contacts for you.

UNRELATED BUSINESS INCOME TAX

Certain gifts may subject the Foundation to unrelated business income tax. For example, this occurs with gifts of limited partnerships when partners engage in a business unrelated to ETF's exempt purpose. The board of directors will consider such gifts carefully.

INCOME TAX SAVINGS

Taxpayers are allowed to deduct up to 60% of their adjusted gross income for gifts of cash, with a five-year carryover. Deductions of up to 30% of adjusted gross income are allowed for gifts of appreciated securities, property, etc. The same five-year carryover applies. Gifts of these assets generally avoid capital gains taxes.

ELIGIBLE DONORS

Individuals, families, businesses, nonprofit organizations, trusts, private foundations, and estates are eligible to open charitable funds.

OPENING YOUR CHARITABLE FUND

You may establish your charitable fund by signing a Fund Agreement and providing an initial contribution. You may name your charitable fund for yourself, your family, or anything else you choose. If you would like your charitable fund to remain anonymous, you may name it accordingly.

MINIMUMS FOR CHARITABLE FUNDS

The minimum amount to establish a named fund at ETF must be determined and approved by ETF's board, which may change from time to time. The current amount needed to create a donor advised fund is $10,000, with a maintained minimum balance of $5,000. The minimum amount to create an affiliate fund, unrestricted, designated fund, or organization fund is $5,000. All other types of funds may be created with a minimum of $25,000. Any amount can be given to existing funds.

GIFT ACKNOWLEDGMENT

Contributions will be acknowledged promptly in writing and will include appropriate language to substantiate your gift for IRS reporting requirements.

GIFTS ARE IRREVOCABLE

In order to meet IRS guidelines, your contribution becomes irrevocable once it is accepted. It is owned and held under the direction of ETF's board. Contributions to ETF are not refundable.

A copy of ETF's Asset Development Policy is available upon request.

PLANNED GIVING

East Tennessee Foundation receives gifts from:

BEQUESTS IN WILLS

Tennessee inheritance law provides for those without a will, but it does not contain provisions for bequests to churches or other charities, a disabled child, more distant relatives, or friends. An up-to-date will puts assets exactly where donors wish them to go. Not only does a gift to charity remove the asset from the donor's taxable estate, but it is also the ultimate statement of values. It reminds loved ones, heirs, and the community where the donor found passion and merit. Charitable bequests add meaning to our lives both now and forever. Bequests to ETF can add to an existing fund or establish a new fund. The fund can be anonymous or named. It can make grants in a wide area of need that interests the donor, or it can benefit designated charities, which will receive a grant each year in perpetuity. Wills can also provide for scholarship funds.

CHARITABLE REMAINDER TRUSTS

A charitable remainder trust is a gift plan defined by federal tax law that allows a donor to provide income to himself or herself and/or others while making a generous gift to charity. The income may continue for the lifetimes of the beneficiaries, a fixed term of not more than 20 years, or a combination of the two.

HOW IT WORKS: The donor irrevocably transfers assets, usually cash, securities, or real estate, to a trustee of choice, such as a bank trust department or ETF. The donor receives an income tax deduction equal to the trust's remainder value to the Foundation, subject to IRS 30%/50% limitations. Charitable remainder trusts may also be funded after death to provide a spouse or other family member with lifetime income. During the trust's term, the trustee invests the trust's assets. Each year the trustee pays either a fixed percentage of the trust's current value, revalued annually (remainder unitrust), or a fixed dollar amount (remainder annuity trust) to income beneficiaries. Payments may be made annually, semiannually, or quarterly. When the trust term ends, the trust's principal passes to ETF to be used for the purpose the donor had designated. The charitable remainder trust is a powerful tool for those who desire the security of a lifetime income and who want to make a significant future charitable gift.

HELPFUL TIP: Purchase life insurance to replace the value of the assets placed in trust. The insurance benefits will come to heirs free of income tax. The insurance can be purchased with the income tax savings realized when the trust was created.

CHARITABLE LEAD TRUST

A non-grantor charitable lead trust is a gift plan defined by federal tax law that allows an individual to transfer assets to family members at reduced tax cost while making a generous gift to ETF.

HOW IT WORKS: The donor transfers assets, usually cash or securities, to a trustee of his or her choice, such as a bank trust department or ETF. During the lead trust's term, the trustee invests the trust's assets. During each year of the trust term, the trustee pays either a fixed percentage of the trust's current value, revalued annually (lead unitrust), or a fixed dollar amount (lead annuity trust) to ETF. These payments are used for the charitable purpose the donor designates. The lead trust's term may be for a specific number of years (10 to 20 years is common), one or more lifetimes, or a combination of the two. When the trust's term ends, its charitable payments cease and the trust distributes all of its accumulated assets to family members or other beneficiaries named by the donor.

LIFE INSURANCE

Life insurance may be given to ETF and the cash value deducted from income tax. However, ETF can also be named as a beneficiary on life insurance policies. Donors may wish to establish a fund at the Foundation by naming ETF as a sole beneficiary, a contingent beneficiary, or a beneficiary of a fixed percentage of the policy.

REMAINDER INTEREST IN A HOME OR FARM

This gift can be ideal for a donor whose home represents a major portion of his or her net worth. A life estate contract can allow a donor to remain at home and also provide a substantial gift to charitable causes. The donor gifts the home to ETF but retains the right to live there for life. This gift creates an up-front charitable deduction for the remainder value of the property, removes the property from the donor's taxable estate, and relieves heirs of the burden of selling the property. As with the charitable remainder trust, donors can use a portion of tax savings to purchase life insurance to replace the value of the home or farm for the heirs.

IRAS, OTHER RETIREMENT PLANS, AND SAVINGS BONDS

Lifetime gifts of these types of assets are encumbered with IRD—income in respect of a decedent. This simply means that the donor did not pay income tax on the growth of the asset during life, and upon death the taxes must be paid. These assets are poor bequests to children, because the heirs (except spouses) are taxed heavily on them. However, they are a great tool for charitable gifts by naming ETF as a beneficiary. ETF does not pay income tax; a gift of tax-deferred retirement assets or bonds comes to the Foundation tax-free.

OUTRIGHT GIFTS

Gifts of any of the assets accepted by ETF can be made today to begin a fund or add to an existing fund. Donors who plan a bequest to ETF often establish a donor advised fund, for example, to experience the joy of giving now and to "test the waters" to determine what type of fund should be created in their will or with their insurance or IRA proceeds. Outright gifts to ETF not only create generous income tax deductions for donors, but also remove the value of the gift from estates and avoid capital gains taxes on appreciated value.

Donors who are interested in gifting an asset should contact the Foundation. As tax laws change, new gift opportunities are created, and as donors suggest an original gift, ETF can update its asset development policy to stay current.

The Foundation established their ETF Legacy Society to recognize those individuals who have chosen to leave a lasting charitable legacy by including ETF or one of our supporting organizations in their will, trust or estate plan. The ETF Legacy Society honors its individual members' charitable passions while establishing its members as philanthropic role models in our community.

SAMPLE LANGUAGE FOR A CHARITABLE BEQUEST TO ETF

A TO CREATE AN UNRESTRICTED FUND

I bequeath to ETF ("Foundation") the sum of $___ (or the property described herein or a certain percentage of the remainder of my estate) for the purpose of establishing an unrestricted fund, which shall be named ____Fund. The Fund shall be administered by ETF in perpetuity for charitable purposes of benefit to the area served by the Foundation.

B TO CREATE A FIELD-OF-INTEREST FUND

I bequeath to ETF ("Foundation") the sum of $____ (or the property described herein or a certain percentage of the remainder of my estate) for the purpose of establishing a field-of-interest fund. Such Fund shall be administered by the Foundation in perpetuity for the purpose of ______ and shall be named ______ Fund.

C TO CREATE A DONOR ADVISED FUND

I bequeath to ETF ("Foundation") the sum of $___ (or the property described herein or a certain percentage of the remainder of my estate) for the purpose of establishing a donor advised fund. Such Fund shall be administered by ETF in perpetuity for charitable purposes. The Advisors to this Fund shall be ______ and the name of the Fund shall be ______. This Fund shall be administered for charitable purposes in accordance with the policies governing donor advised funds observed by ETF.

D TO CREATE A DESIGNATED FUND

I bequeath to ETF ("Foundation") the sum of $___ (or the property described herein or a certain percentage of the remainder of my estate) for the purpose of establishing a designated fund. Such Fund shall be administered by the Foundation in perpetuity for the benefit of _____, _____, and _____ ("Charitable Organizations"). In the event of the dissolution of any of these Charitable Organizations, the Foundation shall thereafter use assets of the Fund to benefit the remaining named Organizations or in the event of the dissolution of all the Charitable Organizations the Foundation shall continue to hold the Fund and distribute the income therefrom to such organizations as in the opinion of ETF's board of directors most nearly meet the purposes and objectives of the Charitable Organizations.

E TO CREATE A SCHOLARSHIP FUND

I bequeath to ETF ("Foundation") the sum of $___(or the property described herein or a certain percentage of the remainder of my estate) for the purpose of establishing a scholarship fund. Such fund shall be administered by the Foundation in perpetuity for ______________________ and shall be named __________________Scholarship Fund.

FOR A BENEFICIARY DESIGNATION OR PAY-ON-DEATH DESIGNATION:

East Tennessee Foundation
*Attn: Full Name of Fund
520 W. Summit Hill Drive, Suite 1101
Knoxville, TN 37902
865-524-1223
Tax ID (for SSN): 62-0807696

**If a particular fund is not named, the proceeds will be designated to ETF's Unrestricted Opportunity Fund.*

TYPES OF COMPONENT FUNDS

Funds can be established today or left as a legacy through a bequest. Funds may also be donated to an existing fund.

FIELD-OF-INTEREST FUNDS

Field-of-interest funds currently offer competitive grants throughout this region in broad areas such as Arts and Culture, Community Development, and Youth-at-Risk. Donors give assets to benefit a cause they care about, and the ETF staff then issues a call for grant proposals. Volunteers with knowledge of the particular field research the organizations, make site visits, and come together to discuss and recommend grant awards. Whether the interest is children, health, the elderly, the environment, public education, or animals, ETF field-of-interest funds help place grant monies where they will do the most good to address the donor's charitable cause.

A field-of-interest fund is the best choice for:

- One who has a deep commitment to a particular cause rather than a loyalty to a particular institution or group;
- One who knows organizations change over time and wants assets to continue helping a particular kind of person, place, or activity;
- One who is considering beginning a family foundation to support one area such as the arts, health, the environment, etc.

UNRESTRICTED FUNDS

Unrestricted funds offer donors the best way to keep responsive to community needs and opportunities, now and in the future. Donors who do not have a specific charitable focus and wish to give back to their communities in a more general way offer ETF the chance to do some of its best strategic grantmaking by responding to needs and opportunities as they arise in our region. The funds are designed to be broad in their scope of interest and encourage proposals from outside the Foundation's current field-of-interest areas. Since these funds are not designated for a specific organization or field of interest, we have the flexibility to respond in a timely manner to our area's most pressing needs, turning ideas into realities that benefit our neighbors and our communities.

An unrestricted fund is best suited for:

- One who wants a gift to have the broadest impact over time and is excited about meeting unexpected challenges and seizing opportunities in the future;
- One who wants to give back to the community in general rather than support a particular cause or organization;
- One who has multiple interests or is considering a family foundation for broad purposes.
- Those who want to ensure donations will not become irrelevant or useless over time as the community and its priorities change.

AFFILIATE FUNDS

An affiliate fund is a community, county, or regional fund. It is an asset of ETF but is restricted through the fund agreement to serving a specified community, county, or geographic region. Communities choose to affiliate or link with ETF to create a local presence for philanthropic giving and grantmaking as well as to gain the technical expertise and support provided by ETF staff. Affiliate funds, by design, have local advisory boards that engage in endowment-building and fundraising activities, develop their own grantmaking criteria, review applications, recommend grants, and determine other types of activities to promote philanthropic giving and community-building. With the assistance of ETF staff, affiliates define their own operating principles, including the nominating process and the service terms and rotation schedule for board members.

An affiliate fund is the best choice for:

- Those who want to gain the benefits of a local community foundation by taking

advantage of the Foundation's staff, expertise, and professional investment services while avoiding the costs and administrative burdens of creating a separate community foundation;
- Those who have a deep commitment to a particular geographic area and want to create a philanthropic vehicle as a way for everyone to give;
- Those who understand that community needs and opportunities change and want to provide for the future as well as the present;
- Those who value the involvement of community volunteers working together to grow leadership and facilitate local giving, decision-making, and investment in nonprofit organizations;
- Those who want to ensure donations will not become irrelevant or useless over time as the community and its priorities change.

SCHOLARSHIP FUNDS

Many family members and friends want to memorialize a loved one by establishing a named scholarship. Alumni begin scholarship funds to benefit graduates of their alma maters. Others wish to assist young people majoring in a particular field. Whatever the reason, scholarship funds offer one of life's most important blessings—an education. Our endowed funds grant scholarships each year in perpetuity. The Foundation's staff assists the donor with scholarship guidelines to conform with federal regulations and performs all scholarship administration.

A scholarship fund is the best choice for:

- One who is committed to higher education for those who cannot afford it;
- One who wants to honor a friend or family member, high school class, or other entity;
- One who wants a project that extended family or friends can join in supporting.

DESIGNATED ENDOWMENT FUNDS

East Tennesseans often give assets, either during their lifetimes or through their wills, to benefit their favorite charitable organizations. Designated endowment funds provide an ongoing source of support for East Tennessee's many nonprofit organizations. Donors may establish an endowment for their favorite charities. These funds provide security and stability to enhance the good work of an organization.

A designated fund is best suited for:

- One who wants to make a gift to a charity that does not have extensive investment management capability or might have difficulty liquidating the particular asset;
- One who wants to ensure the future of a small, new, or struggling organization;
- One who wishes to support a particular organization but wants to ensure third-party oversight to protect the principal;
- One who wants to support several charities through one substantial gift such as real property or a block of stock.

ORGANIZATION ENDOWMENT FUNDS

Organization funds are endowments created by a charitable organization to ensure its future success. The organization makes an initial contribution to open the fund. Then each year, the organization receives a grant from the fund, calculated according to ETF's annual spending rate. The fund provides the organization with a relatively stable source of income without having to develop the expertise to manage its own investments. Additionally, ETF staff can assist the organization's staff and donors with bequests and other planned gifts for the fund. Finally, ETF's experience in liquidating assets to produce investable cash can alleviate the hesitation the organization may feel in accepting gifts other than cash.

An organization fund is best suited for:

- A charity that wants to have a permanent, relatively stable source of income;
- A charity that wants to benefit from noncash assets such as real estate or privately held business interests, but does not have the infrastructure to accept such gifts;
- A charity that may need some assistance with

- creating and accepting planned gifts;
- A charity whose board does not have investment experience.

DONOR ADVISED FUNDS

Donor advised funds offer donors great flexibility and involvement in grantmaking. The donors, or someone of their choosing, act as the fund advisors, requesting grants to eligible organizations that are approved by ETF's board. Funds may be endowed for the future or nonendowed. Next and future generations can be named as successor advisors to provide opportunities for teaching the importance of philanthropy. Donors also benefit from staff expertise in grantmaking, monitoring, and knowledge of the needs and opportunities of the region.

A donor advised fund is best suited for:

- One who wants to have access to Foundation staff for research and familiarity with the region's nonprofit organization needs and opportunities;
- One who wants to simplify giving and would prefer having fewer gift receipts each year by making grants through one fund;
- One who has an appreciated asset (real property, securities, etc.) to donate;
- One whose income or giving fluctuates but who wants to maintain a certain level of grantmaking each year;
- One who wants to teach philanthropy to children or grandchildren by example or involvement;
- One who is considering creating a private foundation;
- A business that wants to involve employees in its philanthropy.

OPERATING ENDOWMENT FUND

ETF's operating endowment fund is an endowed fund whose annual grant awards help fund ETF's work in our region. This annual grant helps ensure that ETF has the staff and other resources necessary to carry out the important task of growing philanthropy in East Tennessee. A gift to the operating endowment fund helps provide ETF with its own relatively stable, permanent source of income.

An operating endowment fund gift is recommended for:

- One who believes in ETF's mission and appreciates the quality service, charitable expertise, and community knowledge ETF employs in its grantmaking and leadership throughout East Tennessee.

SUPPORTING ORGANIZATIONS

Supporting organizations, established under Section 509 of the tax code, are foundations that exist as a part of the ETF family. They operate as separate charities with their own charters, bylaws, and boards. ETF, in consultation with the donor, appoints a majority of the supporting organization's board members. ETF also performs its audit, tax reporting, and other duties as agreed upon by the Foundation and the supporting organization. A supporting organization is most cost-efficient with assets of $5 million or more.

A supporting organization is the right choice for:

- One who is thinking of establishing a private foundation but would enjoy the preferred tax status, cost-effectiveness, flexibility, and assistance that ETF offers;
- One who wants more autonomy and involvement in grantmaking than a donor advised fund would allow.

ETF FUNDS AT A GLANCE

Types of component funds at the Foundation include: field-of-interest, unrestricted, affiliate, scholarship, designated, organization, donor advised, and operating endowment. Funds can be established today or left as a legacy through a bequest.

NONENDOWED FUNDS	FUND PRINCIPAL BALANCE IS IMMEDIATELY AVAILABLE IN ITS ENTIRETY	MINIMUMS
FIELD-OF-INTEREST FUND	*Benefits a specific area of interest—for example, youth or arts—through competitive grantmaking.*	$25,000
DONOR ADVISED FUND	*Provides donor or designated individuals the ability to recommend grants.*	$10,000 TO OPEN $5,000 MIN BALANCE

ENDOWED FUNDS	PRINCIPAL IS PRESERVED FOR LONG-TERM GIVING—ANNUAL DISTRIBUTIONS ARE BASED ON AN ESTABLISHED SPENDING RATE	MINIMUMS
FIELD-OF-INTEREST FUND	*Benefits a specific interest area—for example, youth or arts—through competitive grantmaking.*	$25,000
UNRESTRICTED FUND	*Offers donors the best way to keep their funds responsive to community needs and opportunities, now and in the future.*	$5,000
AFFILIATE FUND	*Benefits a community, county, or region by creating a local presence for philanthropic giving and grantmaking.*	$5,000
SCHOLARSHIP FUND	*Supports education through a competitive process that meets IRS standards—can be for a particular geographic area or field of study.*	$25,000
DESIGNATED FUND	*Provides ongoing support for specified charitable organizations.*	$5,000
ORGANIZATION FUND	*Created by an organization for its own benefit and ongoing support.*	$5,000
DONOR ADVISED FUND	*Provides donor or designated individuals the ability to recommend grants.*	$10,000
OPERATING ENDOWMENT	*Helps ETF fund and expand its operations to continue changing lives in East Tennessee.*	N/A

COMPARING DONOR ADVISED FUNDS, SUPPORTING ORGANIZATIONS, AND PRIVATE FOUNDATIONS

DONOR ADVISED FUNDS

Establishing a fund with ETF is simple and quick. ETF holds the most tax-favored status, and our staff handles tax filings, investments, audits, and paperwork. The Fund can make grants of $100 or more. Some families desire privacy in their giving. A fund with ETF can be anonymous or named, depending on the wishes of the donor. By leaving the work to ETF, the donor can experience the joy in philanthropy and leave the administrative tasks to us—plus have the option to pass along the culture of giving to children and grandchildren who may also advise the family fund.

SUPPORTING ORGANIZATIONS

Supporting organizations/foundations, like funds of the Foundation, offer donors many advantages of a private foundation without all the administrative and reporting burdens, excise taxes, and payout requirements a private family foundation imposes. Supporting organizations can be established with a minimum gift of $5 million. They are separate 501(c)(3) nonprofits with their own charters, bylaws, and boards. ETF appoints a majority of the board and offers the supporting organization its grantmaking, record-keeping, and investment expertise should the supporting organization's board choose. Auditing and tax filing requirements are handled by ETF. Donors may serve on the supporting organization board as long as they or family members do not control the organization (see IRC 509(a)(3) and related regulations). This separate board makes grants and takes other action independently of ETF's board of directors.

PRIVATE FOUNDATIONS

Many financial experts believe that donors with $10 million or less to donate will find a private foundation less attractive than a fund with a community foundation or a supporting organization. Establishing and maintaining a private foundation is time-consuming and costly. The tax treatment for private foundations is not as favorable as that for a community foundation, and the IRS requires that private foundations give away a minimum percentage of assets each year and pay excise tax on net investment income.

COMPARING THE ADVANTAGES

Donors desiring the maximum control allowed by the IRS without the burdens imposed by a private foundation may prefer a supporting organization structure. The favorable tax status granted the supporting organization flows from its relationship with ETF. Donors who wish to remain active in grantmaking or use the Foundation to teach philanthropy to children, but don't wish to shoulder the burden of obtaining tax-exempt status, dealing with board meetings, or any of the other administrative duties of a separate nonprofit, will prefer the donor advised fund. Both donor advised funds and supporting organizations offer maximum tax advantages and involvement in determining where the charitable assets will go. Both provide the opportunity to meet community needs and challenges and a mechanism to endow funds in perpetuity, creating funds that will grow over time to make a substantial difference for the people and places of East Tennessee.

TRANSFERRING AN EXISTING PRIVATE FOUNDATION

A private foundation may be transferred to a fund at ETF and thereby continue its exempt purpose. The transfer terminates the private foundation status under IRC Section 509(a). However, it is a qualifying distribution and does not result in a private foundation termination tax, nor is it seen as an act of self-dealing. The IRS and the state of Tennessee have given a green light to those desiring to transfer the assets of their foundations to ETF.

COMPARING THREE APPROACHES

ITEMS TO CONSIDER	ETF DONOR ADVISED FUND
DONOR INVOLVEMENT	*Donor recommends grants to qualified nonprofit groups.*
	Grants are approved by East Tennessee
	Foundation board of directors.
DONOR PRIVACY	*Donor can remain anonymous.*
TAX STATUS	*Public charity*
EXCISE TAXES ON INVESTMENTS	*None*
INCOME TAX DEDUCTIONS FOR GIFTS OF:	
CASH	*Up to 60% of adjusted gross income*
APPRECIATED PUBLICLY TRADED STOCK	*Fair market value up to 30% adjusted gross income**
REAL ESTATE AND CLOSELY HELD STOCK	*Fair market value up to 30% adjusted gross income**
	** or basis only up to 50% of adjusted gross income*
GRANTMAKING SUPPORT	*Professional staff is available to help identify and assess*
	grantees, provide input on community needs, and verify
	nonprofit status of organizations.
REQUIRED PAYOUT	*None required*
START-UP COSTS, INITIAL COSTS	*None*
MINIMUM CONTRIBUTION	*$10,000*
ADMINISTRATIVE REQUIREMENTS	*Costs kept to a minimum through shared administration;*
	annual fee.
REPORTING	*ETF handles reporting.*

ETF SUPPORTING ORGANIZATION	PRIVATE FOUNDATION
ETF in consultation with donor appoints a majority of board. Supporting organization board controls investments and grantmaking.	*Donor appoints board, which controls investments and grantmaking.*
Application for tax exemption and 990 tax returns must be publicly available.	*Application for tax exemption and 990 tax returns must be publicly available.*
Public charity	*Private Foundation*
None	*Tax of 1% to 2% of net investment income annually*
Up to 60% of adjusted gross income	*Up to 30% of adjusted gross income*
*Fair market value up to 30% adjusted gross income**	*Fair market value up to 20% adjusted gross income*
*Fair market value up to 30% adjusted gross income**	*Cost basis up to 20% of adjusted gross income*
** or basis only up to 50% of adjusted gross income*	
Professional staff is available to help identify and assess grantees, provide input on community needs, and verify nonprofit status of organizations.	*Donors must arrange and support their own grantmaking and monitoring structure.*
None required	*5% of asset value annually*
Costs kept to a minimum through collaboration with ETF. Must apply for incorporation and tax exempt status.	*Must apply for incorporation and tax exempt status.*
Generally, $5 million or more	*Generally, $10 million or more*
Costs kept to a minimum through collaboration with ETF.	*Board must perform or hire staff for all administrative duties.*
ETF handles reporting, including annual audit and 990 tax return.	*Private foundation handles its own reporting.*
⚠ *May require donor representation by legal counsel*	⚠ *Requires legal counsel*

EAST TENNESSEE FOUNDATION

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