

We urge our supporting organizations to seek guidance from their professional advisors about the implications these new requirements may have on their specific situations.



## Changes to IRA Charitable Rollover

The new legislation includes a significant opportunity for charitable giving: the IRA Charitable Rollover provision. An individual who has reached the age of 70½ may, in 2006 and 2007, directly transfer up to \$100,000 per year from their IRA to qualified public charities. Eligible rollovers are not recognized as income for the donor, but they do count for purposes of the required annual minimum distribution.

This is a wonderful opportunity to establish a new fund or contribute to an existing fund at East Tennessee Foundation. Currently, IRA rollover gifts cannot be made to donor-advised funds, supporting organizations, or private foundations, nor can they include split-interest gifts such as charitable lead trusts, charitable remainder trusts, or charitable gift annuities. Several other types of funds administered by ETF are eligible for the IRA rollover:

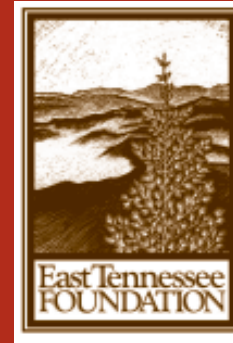
- Opportunity funds (grantmaking to a wide range of community needs)
- Designated funds (endowments benefiting specific nonprofit agencies)
- Field-of-interest funds (supporting causes such as youth and arts)
- Scholarship funds (assisting young people to pursue a college education)

Our staff is happy to work with donors and professional advisors to execute an IRA rollover to a new or existing fund.



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## IMPORTANT INFORMATION ABOUT YOUR FUND

*New law could affect you and your fund  
at East Tennessee Foundation*

Throughout the twenty-year history of East Tennessee Foundation, we have maintained the highest standards of conduct and professionalism. It is of paramount importance to our Board of Directors and staff that all of our constituencies have the utmost confidence in our organization, especially in the areas of stewardship, accountability, and transparency. From voluntary adoption of the Sarbanes-Oxley requirements to achievement of National Standards certification, East Tennessee Foundation complies with published regulations and adheres to recognized best practices.

To that end, we have prepared this informational update regarding the charitable reform provisions contained in the recently enacted Pension Protection Act of 2006. We want to let you know how we are responding to those parts of the legislation that have the greatest impact on the broadest range of our donors, fundholders, and professional advisors. Provisions of a more limited scope will be addressed on a case by case basis.

In this update, we will focus our attention on the effects that the new legislation will have on donor advised funds, scholarship funds, and supporting organizations. We also want to be sure you are aware of the wonderful charitable giving opportunity being afforded by the IRA Charitable Rollover provision.

Since this document provides only a brief overview of changes affecting East Tennessee Foundation, we encourage you to get in touch with us and with your professional advisors to discuss in detail the significance of this legislation for your philanthropic activities.

As always, we at East Tennessee Foundation feel blessed and honored for your confidence in us and support of our mission. We appreciate your patience and understanding as we work through these changes together.



## Changes to Scholarship Funds

Donors to East Tennessee Foundation have established many scholarship funds that benefit deserving students in our region. Under the new federal legislation, East Tennessee Foundation must ensure that several requirements are met for each scholarship fund:

- Donors and related parties may serve on scholarship selection committees, but they may not directly or indirectly control the committee by means of majority vote or by influence.
- East Tennessee Foundation's Board of Directors must approve all scholarship committees. To meet the new requirements, the Board will need information about the expertise and experience that qualifies a proposed member for service on the committee (for example, high school principal or community representative) and about any family or business relationship between the donor and proposed committee members.
- ETF Board must annually approve scholarship selection procedures, which must be objective and non-discriminatory.

These changes move further in a direction East Tennessee Foundation has been pursuing for several years, strengthening our oversight of funds as the sponsoring organization. Since some of our scholarship funds will be affected, our staff is currently evaluating our scholarship funds, our selection committees, and our procedures and will recommend any necessary modifications to our Board of Directors for their consideration before the effective date of the legislation. If the scholarship fund that you established is impacted by the new law, ETF staff will contact you regarding the changes being made.

## Changes to Donor Advised Funds



Congress has created a broad new definition of donor-advised funds and has imposed new requirements on all funds that meet this definition. East Tennessee Foundation is reviewing all of its funds and, where necessary, will implement changes to ensure our compliance with the new legislation.

We want to make you aware of some key requirements included in the new legislation:

- East Tennessee Foundation (or any other entity that sponsors donor-advised funds) is prohibited from reimbursing expenses from these funds (even reasonable and necessary expenses) to donors, advisors, or other related parties.
- New and substantial penalties for the donor, the foundation, and individual foundation managers exist in cases where a donor, advisor, or related party receives a benefit (direct or indirect) from a donor-advised grant. Examples of prohibited benefits include meals, event tickets, table sponsorships, or greens fees.
- Donor-advised funds may not make grants to individuals or private non-operating foundations.
- Donor-advised funds may not make grants to most Type III supporting organizations or to any supporting organization that is directly or indirectly controlled by the donor, advisor, or other related persons. ETF has no Type III supporting organizations.

We urge our donors to seek guidance from their professional advisors about the implications these new requirements may have on their specific situations.



## Changes to Supporting Organizations

Many of the changes imposed by the new legislation affect Type III supporting organizations. East Tennessee Foundation does not have any Type III supporting organizations.

All types (Type I, II, or III) of supporting organizations are prohibited from any transaction (including reimbursement of reasonable expenses) that benefits a substantial contributor, their family members, related parties, other entities in which the substantial contributor and/or family members hold an interest of more than 35%, or other "disqualified" persons (a category that is expanded under the new law). The law also prohibits grants from private foundations to supporting organizations in situations where the private foundation's donors, advisors, related parties, or other "disqualified" persons control the supporting organization.

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