San Diego Grantmakers PHILANTHROPY LINK

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SPRING 2004

San Diego Grantmakers

OUR VISION IS TO BUILD A STRONG PHILANTHROPIC COMMUNITY STRENGTHENED BY OUR VIBRANT LEADERSHIP.

OUR MISSION IS TO CONNECT, INFORM, DEVELOP, AND INSPIRE A DIVERSE GROUP OF FOUNDATIONS AND CORPORATIONS TO STIMULATE EFFECTIVE PHILANTHROPY IN THE SAN DIEGO REGION.

This Issue: Financial Planning and Tax Filing Tips

Inside …

Getting Ready to File Your 990-PF

Whether your foundation has been around for generations or is wrapping up its first year, tax experts say it is not uncommon for little mistakes to crop up on your 990-PF. And it is those errors that can result in the IRS flagging and sending it back for revisions or even prompting an unwanted audit.

One big thing to remember is to make sure you have all your schedules attached to your 990-PF

"Some mistakes are minor and some are substantive, but the key to preparing a 990-PF correctly is take your time, ask questions and have an expert check it over especially if you're new to the federal requirements," said Randy Perry, a partner in Bodman, Longley & Dahling of Ann Arbor, Mich.

Financial experts from around the nation who specialize in foundation tax and filing issues were surveyed to help determine what are the most common mistakes foundation trustees or staff make when preparing a 990-PF. "One big thing to remember is to make sure you have all the schedules attached to your 990-PF," said Marc Owens, a partner in Caplin & Drysdale P.C. in Washington D.C., and also the former head of the IRS Tax Exempt Organizations division.

"Basic mistakes that always occur are forgetting to sign a return and forgetting to answer questions on the form," said Owens. "There should always be a review process and whether that is internal or external is a judgment call for the organization. The advantage to having someone outside review your 990-PF is that it is a fresh pair of eyes."

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John Edie, president of John Edie Consulting in Potomac, Maryland, said he finds the most common mistake made is that foundations don't provide a complete list of grants that were made in a given year. "Many times they'll just put down the name of the grantee even though they're required to give an address and state the purpose of the grant," said Edie. "It's required."

Edie said another common faux pas occurs on the required schedule for investment gains and losses. "They will often times summarize those amounts," he said, "or put a total down instead of breaking them down. You are required to list each stock and how many shares you own. This is a key mistake that can get your 990-PF returned and it's a mistake that happens all the time."

In more than half the foundation forms his firm reviews annually, Perry said they find that the person preparing the 990-PF fails to either check a box on Part I, Line 1 or attach a Schedule B that lists all gifts and grants received by the foundation over $5,000 per grantor.

"If that box is not checked, then the IRS wants to see that Schedule B information," said Perry.

The second most common mistake Perry said he sees foundations make on their 990-PFs is failing to complete Part 8 of the form. "That section requires a listing of all officers, average hours they work for the foundation per week and their compensation," said Perry.

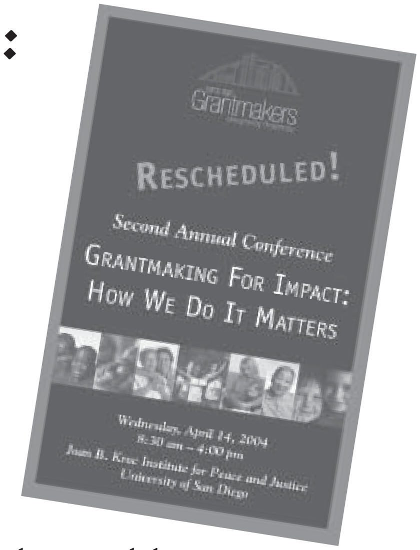
CONTINUED ON PAGE 5

San Diego Grantmakers
Strengthening Philanthropy

SDGrantmakers would like to thank Calloway Golf Company Foundation for becoming part of the Leadership Council. We appreciate their commitment to strengthening philanthropy in San Diego.

SDGrantmakers' Second Annual Conference
Grantmaking for Impact: How We Do It Matters

Wednesday, April 14, 2004, 8:30 am – 4:00 pm
Joan B. Kroc Institute for Peace & Justice
University of San Diego



Conference Highlights:

- Opening plenary with Tom Donlea, Director of Social Venture Partners International, in which he will share lessons from their unique and successful model.
- Corporate funders track with a special presentation from the global nonprofit Business for Social Responsibility (BSR) on the topic of corporate social responsibility and trends in corporate funding.
- Keynote address with Paul Jansen of McKinsey & Company on his recent article entitled, "The Hidden $100 Billion: Is It Really There?"
- Update and assessment of our community's response to the San Diego Wildfires and discussion of how funders can be better prepared to respond to disasters.
- Family foundation session on how to engage, involve and prepare the next generation of philanthropic leaders.

In addition, the conference agenda addresses public policy issues, special needs of family foundations, as well as issues of collaboration and a discussion on foundation payout, among other topics.

Don't miss this unique opportunity to hear from so many leaders in the philanthropic field and to connect with your grantmaking peers. Register by April 5, 2004. Members pay $100; nonmembers $150. Special group discount for members of $80 per person.

2005 Budget Recommendations

President Bush recently released his 2005 budget recommendations, including the same charitable giving tax incentives as the previous years:

1) **Non-itemizer deduction**
2) **IRA charitable rollover**
3) **Enhanced deduction for contributions to food inventory**
4) **Excise tax reduction on private foundation investment income**
5) **Modify the tax on unrelated business taxable income of charitable remainder trusts**
6) **Modify basis adjustment to stock of S corporations contributing appreciated property**

The President's budget recommendations are largely a political rather than practical document, since the budget writing is actually conducted in Congress. It is not surprising to see charitable giving tax incentives included in the budget recommendations; it would only be noteworthy if they had been absent.

In addition to charitable giving tax incentives, the budget includes additional money for defense and homeland security, a bid to make the 2001 and 2003 tax cuts permanent and a very small increase for other domestic programs, including social service programs.

2004 Economic Forecast

Foundations looking to shore up their battered investment and endowment portfolios may have a reason for optimism as they look ahead in 2004. Financial experts predict the stock market to grow slowly and large-cap corporation earnings to soar.

"Foundations have for the most part taken a big beating the past three years," said James Sansoterra, Senior Vice President & Chief Investment Officer with Comerica Bank. "We believe 2004 will have opportunities for investors to see some good, but not tremendous growth."

But don't expect soaring double-digit returns any time soon, cautioned noted investment advisors, as economic predictions on many fronts temper the good news with somber warnings that small-cap stocks are significantly overvalued and a correction is overdue.

Also balancing the projected good economic news are market indicators that show interest rates are expected to rise and that large-cap companies will benefit at the expense of their small-cap brethren, many of which might not survive the next 24 months, according to Mitchell L. Stapley, Chief Fixed Income Officer with Fifth Third Investment Advisors.

"We believe 2004 will have opportunities for investors to see some good, but not tremendous growth."

"Portfolio managers are going to have to be prudent and patient," said Stapley. "Right now they are seeing impressive performances in the fixed income markets after taking three years of big hits with negative returns."

Stapley, however, reported that he is now advising clients to be a little more aggressive in their investing practices. He suggested investing in more large-cap stocks – such as IBM or Wal-Mart – rather than smaller companies with less investment capital at their disposal.

Stapley said that since a March 11 (pre-Iraqi war) low, "we have had very impressive rallies across the board, especially with the NASDAQ with small-cap stocks up 45%. That is certainly welcome news from the foundation and endowment standpoint after the battering of these portfolios."

But current returns on those investments are not expected to hold up over the next several months, he advised. Foundation investors also need to keep a sharp eye on the nation's productivity numbers into the new year as they will dramatically affect the investment markets.

"Productivity for the third quarter is up over 8.1 percent … and third quarter share growth is up about 22%," stated Stapley. "Fourth quarter ('03) is estimated to be up about 24%. One thing to worry about is we are probably not going to see this continue. Companies are going to have to start hiring people and that is going to bring productivity down," he added, noting that it will also affect profits. As a result, "share growth will probably continue on a more muted, but positive pace."

Stapley said his investment advice is for foundation portfolio managers to start looking at large-cap names for next year's gains.

"Portfolio managers are going to have to be prudent and patient."

"Small stocks are becoming very, very expensive out there compared to their higher-caliber counterparts," he remarked. "If there is any kind of opportunity right now it is a rotation out of the small-cap stocks into the big-cap names and that makes a lot of sense."

David Littman, Chief Economist of Comerica Bank, said he is now advising clients, including foundation investment officers, to keep their portfolios evenly divided between small-, mid- and large-cap companies. He also warned against investing heavily now in the bond market.

"I wouldn't be in any bonds whatsoever," stated Littman. "I'd definitely be completely out of them before interest rates start rising and we're looking for that to occur in May 2004."

Asked what his research shows for the overall market in '04, Littman said, "I think the stock market will go up about 15 percent; we'll see around a 17-percent jump in corporate profits and it will be the best of our expansion years.

"I believe mutual funds will do better and I wouldn't mess with hedge funds. I'd also diversify geographically and internationally," he commented.

But Littman also said he is advising clients to put the bulk of their investments in U.S. companies in 2004. "You want to invest your money in companies where you can keep track of how their management is doing and easily check up on their performance," he added. "And those are companies in the U.S."

San Diego Grantmakers provides this information as an update only and is not responsible for investment decisions based on this information.

Grantee Information: *What To Collect and How Long To Keep It*

With accountability expected to be a main focus of state and federal legislators and the IRS in 2004, legal experts across the nation are advising foundation officials to ask two very important questions: What documents should be requested from a grantee to insure due-diligence? And how long should they be kept?

Most government, legal and organizational consultants agree that foundations should obtain, review and maintain a variety of prospective grantee information prior to approving a funding request to provide a high-level of protection for themselves.

The most basic of these documents – and the first one that should be obtained after receiving a grantee request for funding – is the recipient organization's 990s for at least the past five years, suggests Betsy Buchalter Adler, a senior partner in the San Francisco law firm of Silk, Adler & Colvin.

"A 990 will give the foundation quite a bit of the needed information about the grantee," said Adler, who also teaches the law of tax-exempt organizations at Boalt Hall School of Law at the University of California at Berkeley.

"It is the legal document that the IRS requires to be filed, but it must be remembered that it should never be the sole documentation requested by the grantor," she said. "Many times those 990s are incomplete, paints only the picture that the grantee wants the world to see and can be misleading."

But the old adage of "the more information, the better" holds true in philanthropy as well, notes Adler and Ingrid P. Mittermaier, also a lawyer with Silk, Adler & Colvin.

Both legal experts say many of the problems associated with less-than-scrupulous grantees could be uncovered if the IRS mandated a grantee affidavit similar to what is now required from foreign public charities seeking grants from U.S. corporate, community and family foundations.

Several years ago, in response to concerns raised by grantmakers and the Council on Foundations about the difficulties in determining the backgrounds and purposes of foreign charities seeking grants from U.S. foundations and philanthropists, the IRS issued a ruling known as Revenue Procedure 92-94. That ruling allows private foundations to rely on an affidavit of the grantee, prepared for the nonprofit grantor, which contains certain specific and required information.

Officials in the IRS Tax Exempt Organizations & Government Entities division handle all foundation tax issues and obtains, reviews and investigates 990 filings. Those experts believe that foundations would be exercising exceptional due diligence by requiring grantees to provide the information outlined in the following chart (created by Adler and Mittermaier). And as far as how long to keep these documents, Adler said they can be made a permanent part of a grantee's file, "but at a minimum they should be kept four years as long as the IRS return period is still open."

Information that a family foundation can request in writing of a prospective grantor	Why the information is necessary
The purpose for which the grantee was organized	*To determine whether the grantee is organized exclusively for purposes within the scope approved by the IRS*
A description of the grantee's past, current and future activities and operations	*To determine whether the grantee is operated primarily for Section 501 (c)(3) purposes*
A copy of the grantee's organizational and governing documents	*To determine whether the grantee is organized exclusively for Section 501 (c)(3)*
A statement that none of the grantee's income and assets confer an improper private benefit	*To determine that the grantee complies with Section 501 (c)(3) purposes*
A statement that no person has a proprietary interest in the income or assets of the grantee	*To determine whether the grantee meets the requirements of Section 501 (c)(3)'s prohibition against private benefit*
A copy of the relevant statutory law or provision in the grantee's governing instruments controlling the distribution of the grantee's assets upon dissolution	*To determine whether the grantee meets the requirements of Section 501 (c)(3) regarding the distribution of assets upon dissolution*
A statement that the grantee is not engaged, beyond an insubstantial amount, in activities that further nonexempt purposes or in influencing legislation	*To determine that the grantee complies with the operational test and other limitations on activities set forth in Section 501 (c)(3)*
A statement that the grantee does not engage in candidate campaign activity	*To determine that the grantee complies with the ban on candidate campaign activities set forth in Section 501 (c)(3)*
Whether the grantee is controlled by another organization and, if so, what organization	*To determine whether the grantee is controlled by a for-profit entity (which can lead to stricter scrutiny by the IRS)*
A statement of what type of publicly supported charity the grantee is: a school, a hospital, a church or an organization satisfying one of the public support tests	*To determine what public charity standard to apply: the statutory and regulatory tests for school, hospital or church status or the mathematical public support tests of Sections 170(b)(1)(A)(vi) or 509(a)(2)*
If the grantee is a school, whether it is operated pursuant to a racially nondiscriminatory policy as to students	*To determine whether the grantee meets the requirements imposed by various IRS procedures on domestic organizations seeking public charity status as educational institutions*
If the grantee claims to meet a public support test, a Schedule of Financial Support for the four most recently completed tax years	*To determine whether the charity satisfies one of the public support tests:* • *One-third of the charity's total support consists of includible public support, or* • *At least 10 percent of the charity's total support consists of includible public support, and the facts and circumstances indicate that the charity is operated so as to generate public support, or* • *The charity derives at least one-third of its total support from includible public support (both donations and income from performing its exempt functions) and not more than one-third of its total support form investment income*

Adding Value With a Systemic Approach

On January 21, 2004 local funders met to discuss the hows and whys of systemic funding. Valerie Jacobs, The Jacobs Family Foundation, led the discussion, along with fellow panelists, Murray Galinson, representing Price Charities, and Susan Wolking, Girard Foundation. Each described his or her current funding portfolio, the two former of which concentrate funding in a specific geographical region, whereas the third's focus is K-12 education.

Jacobs set the context for the discussion with a definition, which had been developed by the panel members. She stated that, "a systems approach to funding recognizes that social problems do not exist in a vacuum and that, in fact, issues are interrelated and linked in both cause and effect." Jacobs provided the example that if one wants to reduce unemployment, then he must also look at the availability of job training, education, childcare, transportation and housing, among other issues.

She further explained that, "If one believes that community problems are interrelated, then trying to solve a problem must involve the entire system to be effective." She stated that, "funders who take a systems approach try to understand the *system* in which the issue occurs and try to engage as many stakeholders as possible in developing solutions. The project or programs they initiate tend to be more complex and comprehensive, requiring a commitment to long-term funding."

All three panelists explained that the move to a systemic funding approach grew out of a desire to be able to see a dramatic and lasting effect from their grantmaking and to be able to assess the impact of the dollars spent. The group concurred that it is often challenging to pinpoint clear-cut outcomes, but agreed that evaluation is an important piece of their work.

Panelists were asked to discuss the keys to this funding approach. Galinson expressed that, "a systemic funder must have both financial and emotional staying power, and needs to develop some form of evaluating the work he is doing." Wolking advised that a funder must: "understand the system in which he is operating (trying to affect or change); form an authentic partnership with grantees; have clarity regarding the desired outcomes; and discover and invest in great leaders." Jacobs added that, "funders need to spend time developing the relationship with the grantee; take time for real learning and trust-building; and stay on mission."

> *"If community problems are interrelated, then trying to solve a problem must involve the entire system to be effective."*

The group discussed challenges of this type of funding. Galinson pointed to the need for patience on the part of the funder as well as the frustration in dealing with nonprofits whose culture is often very different from the for-profit world. Wolking discussed the difficulty in knowing how best to structure a new venture or find the right entity with which to work in order to produce the desired outcomes. Jacobs explained the challenges of combining the competing economic and community development needs and priorities, as well as building the trust of the community that is targeted for support. All panelists agreed that funders using a systemic approach give up a level of control in exchange for the potential to create lasting change.

In closing, panelists said that the most rewarding part of this work is the gratitude, learning, and authentic change they experience in grantees, board members and themselves, that is the result of this intense process of funding.

Getting Ready to File Your 990-PF …
CONTINUED FROM PAGE 1

"That includes cash, contributions to benefit plans, deferred compensation, expense accounts, other allowances, etc. And it must be specific."

Owens said if foundations review the above mistakes and look out for them when filling out their 990-PF forms, "it would eliminate the vast number of IRS send-backs and possibly audits." Officials of the IRS' tax-exempt division, which handles most of the paperwork filed by foundations, annually compiles a list of the top errors made by exempt organizations on their 990-PFs. The agency identifies those errors by the specific line on the form. The advisors all suggested checking with your respective Secretary of State and Attorney Generals' Office for filing and disclosure requirements, sample forms and tips, as each state may have different rules.

People …

SDGrantmakers is proud to announce a new addition to our family. Executive Director **Julie Holdaway** welcomed **Jonas Aaron** into the world on Friday, January 9th. He weighed in at 8lbs 2oz and measured up at 21". Mom and baby are doing well, madly brainstorming new SDGrantmakers' programs between feedings. Congratulations Julie and welcome Jonas!

Stacey Greer recently joined the Waitt Institute team as Operations Manager. Stacey comes to Waitt from Gateway where she has held a number of positions in the executive office, most recently working directly with Ted Waitt on special projects. Her role at the Waitt Institute is to keep the place operating smoothly. Congratulations Stacey, and good luck!

Announcements …

Southern California Grantmakers

It's official! As of March 1, SCAP, Southern California Association of Philanthropy changed their name to Southern California Grantmakers: Advancing Effective, Responsible Giving.

SOUTHERN CALIFORNIA GRANTMAKERS
Advancing Effective, Responsible Giving

Council on Foundations Annual Conference Is Coming to San Diego April 11-13, 2005

The San Diego philanthropic community has a special opportunity coming our way in 2005! The Council on Foundations (COF), the nation's premier national networking and membership organization for grantmakers, will hold its annual conference in San Diego. The event will bring over one thousand grantmakers to our region to network, reflect on our work, share lessons and celebrate the power of philanthropy. This conference will provide a unique opportunity to highlight the inspiring work of the nonprofit sector in San Diego.

Judy McDonald, The Parker Foundation, and Al Panico, The Waitt Family Foundation, are Co-Chairs for the local Host Committee. They welcome your participation.

Please plan to join us for this special series of events. If you would like to be involved in the planning or want more information, please call the SDGrantmakers office at 619/744-2180.

COUNCIL *on* FOUNDATIONS
PROMOTING KNOWLEDGE, GROWTH AND ACTION IN PHILANTHROPY

Highlighted Member Services …

Learning from other foundations is one of the most valuable resources SDGrantmakers has to offer. What better way to learn than to have access to the forms, policies and procedures of other foundations? The Library of Sample Documents is one of our member resources, and it is always growing. Listed below are our most recent arrivals from the Council on Foundations:

- **What Foundation Boards Are Saying about Diversity.** Based on interviews conducted in 2002, this book enables readers to learn more about the needs of both new and experienced foundation board members.
- **The Guide for Community Foundation Board Members.** This new guide, developed in conjunction with BoardSource, offers wide-ranging guidance for new and experienced board members of community foundations.
- **2002 Investment Performance and Practices of Community Foundations.** This annual publication provides a window on the investment practices of nearly half of all U.S. community foundations with assets of $5 million or more.
- **Supporting Organizations and How They Work.** This new handbook by the Council's former general counsel, John Edie, explains the ins and outs of supporting organizations and the IRS requirements for each type of supporting organization.
- **Top 10 Ways Independent Foundations Get into Trouble.** Co-authored by the Council on Foundations' legal and governing boards staff and based on their popular guide for family foundations, this booklet helps board members avoid common problems. It provides basic rules, questions to consider and details on where to find more information.

To learn more about this member service or to request a document please call us at 619/744-2180 or email *Ellen@sdgrantmakers.org*.

Calendar of Events …

Homeless in San Diego: A Funders' Working Group on the Challenges and Opportunities

Wednesday, March 31, 2004
11:30AM - 1:30PM
The California Endowment

Following a presentation by John Thelen, Executive Director, Regional Taskforce on the Homeless, this working group will discuss the next steps required in championing a local effort to end homelessness. How do we get key players to the table and what is a funder's role? Join us for this critical conversation.

REGIONAL TASK FORCE ON THE HOMELESS
SAN DIEGO

RESCHEDULED! *SDGrantmakers Second Annual Conference—*

Grantmaking for Impact: How We Do It Matters

WEDNESDAY, APRIL 14, 2004
8:30AM - 4:00PM
JOAN B. KROC INSTITUTE FOR PEACE & JUSTICE, UNIVERSITY OF SAN DIEGO

Don't miss this unique opportunity to hear from so many leaders in the philanthropic field and to connect with your grantmaking peers. Register by April 5, 2004. Members pay $100; nonmembers $150. Special group discount for members of $80 per person.

Reception for California Funders, Council on Foundations Annual Conference

TUESDAY, APRIL 27TH, 2004
6:30PM - 8:00PM
SHERATON HOTEL, DOMINION NORTH
TORONTO, CANADA

Please join colleagues from San Diego and other parts of California at this informal reception, co-sponsored by San Diego Grantmakers and Northern California Grantmakers. This will be a great opportunity to learn more about plans for the COF 2005 Annual Conference in San Diego. Hors d'oeuvres and drinks will be served.

Yes! Sign me up for:

- ❑ **MARCH 31ST ... HOMELESS IN SAN DIEGO: A FUNDER'S WORKING GROUP ON THE CHALLENGES AND OPPORTUNITIES**
- ❑ **APRIL 14TH ... SAN DIEGO GRANTMAKERS' SECOND ANNUAL CONFERENCE "GRANTMAKING FOR IMPACT: HOW WE DO IT MATTERS"**
- ❑ **APRIL 27TH ... RECEPTION FOR CALIFORNIA FUNDERS, COUNCIL ON FOUNDATIONS ANNUAL CONFERENCE**

NAME: ______________________________

ORGANIZATION: ______________________________

PHONE: ______________________________

EMAIL: ______________________________

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SDGrantmakers is committed to increasing the impact of philanthropy in San Diego by creating a forum for the open discussion of ideas among grantmakers. To achieve our goal of strategic education, programs are open to members and other grantmakers as guests, unless otherwise noted.

San Diego Grantmakers ***Reserve your seat today!***
phone 619/744-2180 • fax 619/744-2182 • programs@SDGrantmakers.org

San Diego Grantmakers welcomes our newest member . . .

- **The Picerne Family Foundation**

The mission of the Picerne Family Foundation is to enhance the capacity of high potential human service organizations in the delivery of exceptional service to individuals, families and the community.

San Diego Grantmakers
Philanthropy Link

We encourage members to contribute suggestions, articles ideas, news items, and personnel changes. Submit items or ideas to **Link@SDGrantmakers.org** *or mail to the our office.*

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Strengthening Philanthropy

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