

June 14, 2019

Talking Points Memo – Foundation Changes

Since its incorporation, the San Diego Kiwanis Club has been classified as a public charity.

This status requires that at least 1/3 of the foundation's revenues come from public contribution such as member donations, fundraisers, etc.

In the early days of the foundation this test was easily met.

In recent years, as our corpus has grown, at times reaching \$6 million, our net investment returns have grown tremendously.

We can no longer meet the 1/3 public contributions test because of the strength of our investment returns, requiring a change in our IRS status.

If the Foundation were ever audited, it could mean the following:

- It would likely require the Foundation to pay an excise tax on its net investment earnings annually,
- The excise tax would negatively affect the rate of our investment returns
- The foundation could be penalized for failing to operate as required by the IRS

The Foundation Board has moved proactively to address this situation.

We have hired long-time member and attorney Dick Shaw and prominent non-profit attorney Paul Dostart to shepherd the foundation and the club through the process of becoming what is called a "supporting foundation" of the club.

This will do the following:

- Retain the ability to accept charitable donations
- Avoid paying excise taxes and penalties
- Continue to operate in much the same manner as in the past

There will be changes to how the foundation is administered;

- The foundation will have a single member: the Kiwanis Club of San Diego
- The Kiwanis Club board will elect the foundation trustees
- The foundation board will elect its own officers as in the past
- The club members will no longer be members of the foundation but will become ambassadors with an annual meeting and would have oversight capabilities through the club board

There would be no change in the operations of the Foundation and the Club.

- The Club and its committees would continue to prepare and propose budgets for the many organizations we support.

- The budgets would be submitted to the Foundation Board for approval, just as they are now
- The foundation board could continue to make grants outside of the committee process as long as the grants met the mission of the foundation, subject to oversight by the club board

To accomplish the transition, the following are being implemented:

- The bylaws of the club and the foundation are being modified
- Application is being made to the IRS to accept the change in status
- Approvals by the current foundation membership and the board will be required, primarily at the annual meeting of the club and foundation scheduled for July 16, 2019.

Comparison of Changes in Foundation Status

Activity	Now	In the Future
Status	Public Charity	Supporting Foundation
Gifts	100% deductible	100% deductible
Foundation Members	All club members	Kiwanis Club
Appointment of Foundation Board	Nominated and elected by foundation board, club members approve	Nominated and elected by club board
Status of Club Members relative to Foundation	Members of the Foundation	Become Ambassadors for the Foundation
Club Committee Funding	Club committees submit, foundation board approves	Club committees submit, foundation board approves
Foundation Grants	Foundation can independently make grants within mission and policies	Foundation can independently make grants within mission and policies