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# Setting Up a Foundation



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Credit unions have a rich history of supporting their membership and bettering their communities. For this reason, many credit unions have taken the step of setting up a foundation to further their ability to support their charitable endeavors. For those credit unions that haven't taken that step, following is a guide to help in the determination of whether—and the steps necessary—to do so.

## Benefits of a Foundation

A foundation is more than just a charitable organization. It is a public commitment of support to the causes important to the credit union and its membership. That public commitment can be leveraged to accept donations from sources outside of the credit union, thereby increasing the potential pool of funds available to support the causes that the foundation was developed to support. Donations can be received from members and non-members alike, and such donations are tax-deductible for the donors. This is especially important as there may be community development opportunities that the credit union and other donors may want to support that aren't always tax deductible.

## Considerations for Having a Foundation

A foundation is similar to any business; it requires a board of directors to oversee and staff to operate, has to make filings with federal and state authorities, and has to adhere to specific rules and regulations. While these costs can be mitigated or minimized through different techniques, such as employing volunteer or part-time staff, thoughtful consideration must be given as to whether the long-term benefits of having a foundation outweigh the costs associated with setting up and running a foundation. Additionally, in order to get scale quickly, the credit union must also consider how much it will donate initially to "seed" the foundation, and how it will market it to get donations. It is important to understand that foundations do have a minimum amount that they have to give away each year, in order to maintain their tax-exempt status.

## Alternatives to a Foundation

While a foundation can be an excellent tool for raising money and distributing funds to important causes, there are alternatives. Credit unions can donate directly to organizations they wish to support. Other foundations can be sought out as well that align with the values the credit union is supporting, such as the National Credit Union Foundation. A multitude of fund-raising opportunities exist such as sponsoring or even hosting charitable events. Community involvement inherently creates greater awareness and altruism by the public.

## Setting up a Foundation

There are three basic steps to setting up a foundation, each with various considerations that the credit union must address:

1. Pre-formation Planning
2. Incorporation and Filing
3. Ongoing Operation

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## ***Pre-formation Planning***

In this stage, the credit union will delve more deeply into the benefits and considerations that are highlighted above. Some common questions that may help in the planning process include:

- Is this organization necessary over the alternatives?
- Who will do the work?
- How much will we donate to the foundation as start-up capital?
- Will the foundation be able to sustain itself?
- Who will serve on the board of directors?
- How much administration and management will the credit union retain? Will additional staff be needed?

Through this process, it is advisable to engage with an attorney experienced with non-profit organizations. Additionally, there are a multitude of resources available online dedicated to this topic. Care should be given to ensure that qualified resources are utilized.

## ***Incorporation and Filing***

Incorporation is the process of establishing the foundation as an actual legal entity separate from the credit union. This is done at the state level. It is important to understand that each state has its own process for incorporation, as well as rules governing foundations that will have to be adhered to.

Filing is the process of getting the IRS tax-exempt status under Internal Revenue Code 501(c)(3). This will typically involve filing IRS Form 1023, "Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code."

## ***Ongoing Operation***

Once established, a foundation will need to have operational oversight. This can be done in a number of ways. Ideally this will have been addressed in the pre-formation planning, but the considerations may change over time and, as a result, the operational structure may also change over time. Some common options that the foundation's board of directors can consider include:

- In-house staff
- Volunteer staff
- Paid staff
- Outside consultants
- Attorney or CPA that offers trust services
- Other outside trust

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