

**What is a professional practice statement?**

This Professional Practice Statement, developed by the Association Forum, is provided as a management tool for associations and individual association professionals, developed by experts in the industry, and recommended as a means to achieve excellence in managing associations and other not-for-profit organizations.

**BACKGROUND**

To further their own missions and provide the opportunity for charitable fundraising and development revenue, many associations establish related charitable foundations. In some cases, foundations (or other 501(c)(3) organizations) establish related associations to undertake activities that their tax status inhibits or prevents. In establishing a related organization, the founding organization should determine what its relationship will be to the subsidiary organization and, in many cases, it will exercise some degree of control over the new organization.

**MISSION AND PURPOSES**

The mission, purposes and principles of an association and its related foundation often are closely tied, yet the differences between them must be recognized. While a membership organization focuses on promoting and advancing the members of the profession or industry, a related foundation typically promotes or supports education, research, or other programs that benefit the public. As such, a foundation may play a direct role in providing education and supporting research or similar activities of the related association, as long as those activities are consistent with the foundation's tax-exempt purposes.

The primary benefit of a foundation is that it provides a means for association members, and others who wish to support the foundation, to make charitable contributions and receive charitable deductions for activities related to the association's profession or industry. To be eligible for favored tax-exempt status under Section 501(c)(3) of the Internal Revenue Code ("Code"), a foundation must be created for charitable purposes, namely, "charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and the prevention of cruelty to children or animals."

In return for favorable tax treatment of contributions, tax laws place limits on a foundation's permissible activities. The Code limits a foundation's lobbying activities to "no substantial part of its activities" and entirely prohibits a foundation from engaging in any political or campaign activity. As a result, the foundation must be clearly separated from any political, campaign, PAC, or lobbying activity carried out by the association to avoid jeopardizing the foundation's tax-exempt, charitable status. It is important to seek legal guidance before engaging in any activities about which the organization may have questions.

**GOVERNANCE AND OPERATIONS**

In any association-subsubsidiary foundation relationship, the separate identities of both organizations must be preserved and their activities carried out consistent with their differing tax-exempt statuses. At the same time, many associations typically establishes some type of control over subsidiary foundations through rules or structures embedded in the foundation's corporate governance documents.

An association may use a number of governance models to maintain control over a subsidiary foundation or to further other goals such as facilitating informed decision-making, coordinating action, and maintaining consistency and unity of overall purpose. Among the models used, alone or in combination, are:

- The association's board has the authority to appoint foundation directors, remove foundation directors, and/or approve amendments to the foundation's bylaws and/or articles of incorporation
- Partial or complete overlap of association directors or executive committee on the foundation's board
- The association is the sole member of the foundation.
- The association's CEO serves as the foundation's CEO
- The association's CFO serves as the foundation's CFO

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Each of these approaches provides differing levels of operational control and assurance that the foundation's activities will not markedly deviate from those envisioned by the association when it established the foundation. To further effective communication and achieve additional operational control, there also may be overlap in staff and management of the association and related foundation.

The foundation and association may share staff and office space, and share other resources and assets including communication, publications, public relations, web, business services, meetings, information technology, and databases. It is not unusual for one or more employees of the association to provide services to the foundation. The association and foundation should consider what, if any, compensation the foundation will pay to the association for the use of association resources, or whether and in what form the association will donate resources to the foundation. At all times, however, the foundation must maintain its own separate identity and corporate existence.

Regardless of the relationship between the association and the subsidiary foundation, a formal signed agreement is helpful in guiding legal, financial, and operational activities. Such an agreement may cover:

- Respective missions, objectives, activities, and spheres of responsibility
- Decision-making guidelines and processes
- Staff and organizational reporting relationships, resource commitments, compensation and liabilities
- Partnership in events, communications, public relations, and solicitations of support
- Legal, financial, and operational structures
- Intellectual property issues
- Conflict resolution process

#### MARKETING AND FINANCIAL SUPPORT

Associations and their related foundations also may benefit from coordination in strategic and marketing activities. A unified and strategic development/marketing plan may include:

- Common goals and stated desired outcomes.
- Combined infrastructure, if necessary, with an agreement between the association and foundation on resource allocation.
- Communication and implementation plan assigning responsibility for each step.

Possible coordinated actions include: a common sponsorship opportunity communication piece for both organizations, donation check-off (or opt-out) on member dues renewal statements, and opportunities for current association exhibitors and advertisers to donate to the foundation or support its programs. In addition, separately-branded foundation programs and services may be available at or within association functions such as the annual session and continuing education programs. Both the association's and the foundation's IRS information returns (Form 990) are open for public inspection and may be considered an important marketing tool for both organizations. Financial and programmatic information must be reported accurately and should be presented in a way that will inform and invite the continued support of potential and continuing members and contributors.

#### DISCLAIMER

The Association Forum expressly disclaims any warranties or guarantees, expressed or implied, and shall not be liable for damages of any kind, in connection with the material, information, or procedures set forth in these Statements or for reliance on the contents of the Statements. In issuing these Statements, the Association Forum is not engaged in rendering legal, accounting, or other professional services. If such services are required, the services of a competent professional should be sought.

#### RESOURCE LIST

"Fundraising." In *Professional Practices in Association Management*. 2nd edition. James P. Gelatt. (Washington: American Society of Association Executives, 2007), pp. 191-200.

Internal Revenue Code Section 501(c)(3) and related information. [www.irs.gov](http://www.irs.gov).

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