

THE FARMHOUSE FOUNDATION

FREQUENTLY ASKED QUESTIONS

IRS Codes & Regulations

501(c)7 is the IRS classification for chapters, associations and the International Fraternity, and it means that they are **exempt from income tax**, but probably not exempt from sales tax, possibly from property tax. **Gifts of money or of any kind to chapters, associations, or the International Fraternity are not deductible from the donor's income tax, and if these entities do any fund raising, they must so advise donors in advance.**

501(c)3 is the classification for The FarmHouse Foundation and it is **tax exempt and gifts to The FarmHouse Foundation are tax deductible.**

What is the Annual Fund?

The Annual Fund provides unrestricted income which the Foundation Trustees can use at their discretion for leadership training, computer labs and related technology, scholarships, grants for the educational portions of chapter housing and general operating costs of the Foundation. The Trustees also earmark a portion of Annual Fund gifts to the donor's chapter of initiation.

What is the Endowment?

Endowment funds are permanently restricted so that only the income from the funds is to be used for the purpose agreed to with the donor when the Trustees accepted the gift. Ten thousand dollars is currently the threshold for establishing an endowment, which can be made in a lump sum or spread over up to five years. Historically the Foundation's return on the investment pool of endowed funds average 8-10 percent, and have paid out four to five percent for qualified educational programs and projects. Currently the pay-out is set at 4.25 percent, with a 1.75 percent management fee for a total of six percent (6%). Anything over six percent is ploughed back into the endowment to provide growth and as a hedge against inflation.

What is a FarmHouse Foundation Council?

The IRS regards these as "Designated Gift Funds" and holds the International Trustees responsible for them. Basically, this mechanism enables the local chapter and association to have all of the benefits of establishing their own foundation, but without the cost and challenges of establishing and administering one. **This includes coverage by the International Foundation's deductible gift status as a 501(c)3.**

What is a Building Fund?

Similar to the Foundation Councils, its purpose is to provide a fund to give donors an opportunity to support the educational portion of building or renovating chapter housing and also receive a tax deduction for their gift.

How can the money be spent?

The Foundation and, therefore, the Foundation Councils, can only use funds for **educational purposes**. Commonly recognized "safe harbors" are **leadership training, scholarships, computer labs and related technology and library/study facilities**. In the past year or so, the IRS seems to have backed off from questioning the use of fraternity-affiliated foundations, such as ours, as a means of funding the educational portion of chapter house construction or remodeling. This may be because of legislation that is pending in Congress that would expand tax deductible donations for chapter housing to include the entire construction or remodeling project, not just the educational portion.

What is the Re-contribution Program?

This is a program which the Foundation re-contributes 10 percent of the donations to the Annual Fund back to the Foundation Council of the donor's chapter of initiation. **This is a voluntary choice made by the donor.**

How are grants and scholarships processed?

To grant money from either the chapter's Foundation Council account or an endowment account for educational purposes or scholarships, the Foundation will need a written request for funds (e-mail is sufficient) and documentation of expenses such as receipts or invoices. For scholarships, a copy of the awarded application(s) and a university academic record is needed.

Provided the intent falls in the IRS guidelines or "safe harbors" as understood by legal and accounting counsel to the fraternity world, we approve the grant and release the funds upon receipt of the proper documentation.

A local alumni representative must serve as the chapter's Foundation Council representative and provide authorization when requesting disbursement of the funds. Typically it takes a week once the grant request is received for the Foundation staff to process and disburse the funds via check.

What are the fees assessed for the Foundation Councils?

The Foundation charges an annual 1.75% administrative fee for administering each Foundation Council account. Instead of an administrative fee, Building Fund accounts are assessed a one percent (1%) receipting fee up to a maximum of \$200 per gift. The Foundation does not pay interest on designated gift funds such as the Foundation Council or Building Fund accounts. Any interest or other return on these accounts is credited to the Foundation's Annual Fund to support the operation of the Foundation and to help fund educational programs and projects not yet endowed. Please review the "What Do You Get For Your Money" document for explanation of benefits received for the fees incurred.