

# CONVERTING A PRIVATE FOUNDATION TO A DONOR ADVISED FUND

Family members and a board of trustees who manage private foundations may determine the administrative costs and time spent on compliance with private foundation rules have become too burdensome to continue with the status of a private foundation. They will look for alternative solutions and should consider converting the private foundation to a donor-advised fund (DAF) at the Community Foundation of Sarasota County. The family and board members may continue recommending the grant-making priorities and values of the founder of the private foundation but will have the expertise of the Community Foundation's staff to create lasting charitable impact on the charities and communities they care about. The steps to dissolve a private foundation and convert to a DAF are outlined below:

- 1. Board Approval:** The private foundation board/trustees must review its governing documents which created the private foundation and applicable state laws to determine whether the desired dissolution is permissible. If dissolution is permissible, then Articles of Dissolution or an Agreement to Dissolve the Private Foundation should be drafted and filed with the Florida Department of State's Division of Corporation.
- 2. Liability Management:** If the private foundation has any outstanding liabilities such as taxes, grants or fees, these liabilities must be identified and paid before transferring remaining assets to a DAF. A reserve may be created for any additional anticipated expenses. Once assets are transferred to a DAF, the assets may be granted to public charities or other permissible projects. Assets held in a DAF cannot be granted back to the private foundation to cover past expenses.
- 3. Account Set-Up:** A DAF can be set up quickly. The private foundation board must provide board minutes and a corporate resolution/trustee agreement with decisions regarding the name of the DAF, designation of current advisors to the DAF, recommended investment options, and a succession plan for advisors, if applicable.
- 4. Asset Transfer:** The DAF's assets are legally owned and held at the Community Foundation of Sarasota County, Inc. (CFSC) which is a public charity. Transferring the balance of the private foundation assets to the DAF is similar to issuing a grant to any public charity. CFSC can accept gifts of cash, stock, mutual funds, and other noncash assets.
- 5. Tax Filing:** When the asset transfer is complete from the private foundation to the DAF, the private foundation will file a final IRS 990 PF tax return indicating the private foundation has dissolved. The private foundation board should consult with its tax advisor/attorney to determine what necessary filings are required in the state where the private foundation was created to dissolve the foundation. If the private foundation is a trust, a final trust accounting may be required.