

Processing Your Foundation's Disbursements



A DESCRIPTION OF OUR PROCESS AND PRACTICES

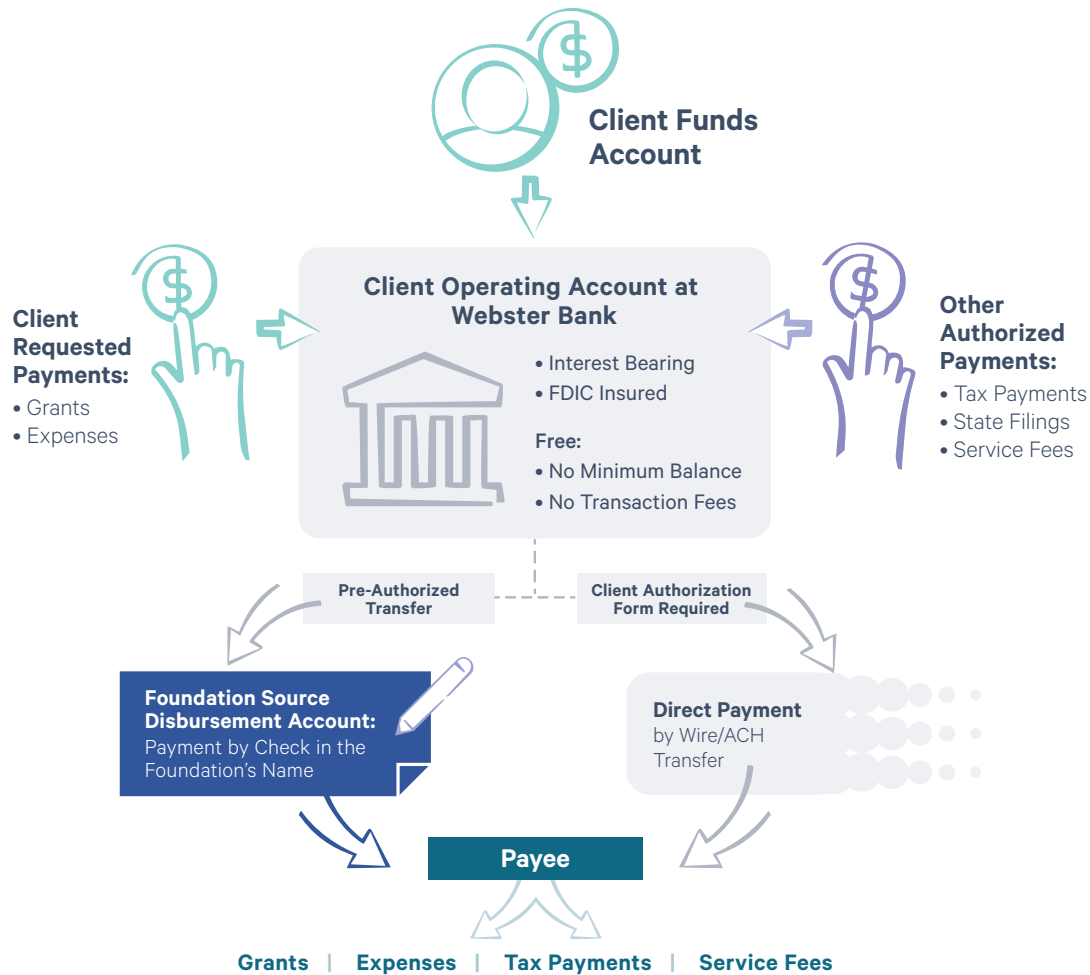
Once you become a Foundation Source client, we initiate a number of actions to onboard your foundation to our services. This includes identifying or opening a primary disbursement account. This account can be funded from any of your foundation's various financial accounts and will be used to distribute funds for grants, expenses, taxes, and fees, as explained below.

We ask that you initiate all foundation disbursements through [Foundation Source Online®](#), the secure web console we provide for your foundation. Your foundation will benefit from our normal compliance screening routines, which mitigate the risk that the foundation will inadvertently violate IRS rules.

Disbursement Accounts at Webster Bank

Our standard procedure is to open a disbursement account at Webster Bank, with whom we have a master agreement and a highly integrated process. This simplifies the transfer of funds from your foundation's financial accounts, reduces work for foundation members, and ensures a faster turnaround for making grants and paying expenses. (Foundation Source does not receive payment or other financial incentives from Webster Bank for referring clients who open these accounts.)

WEBSTER BANK FOUNDATION DISBURSEMENT ACCOUNT



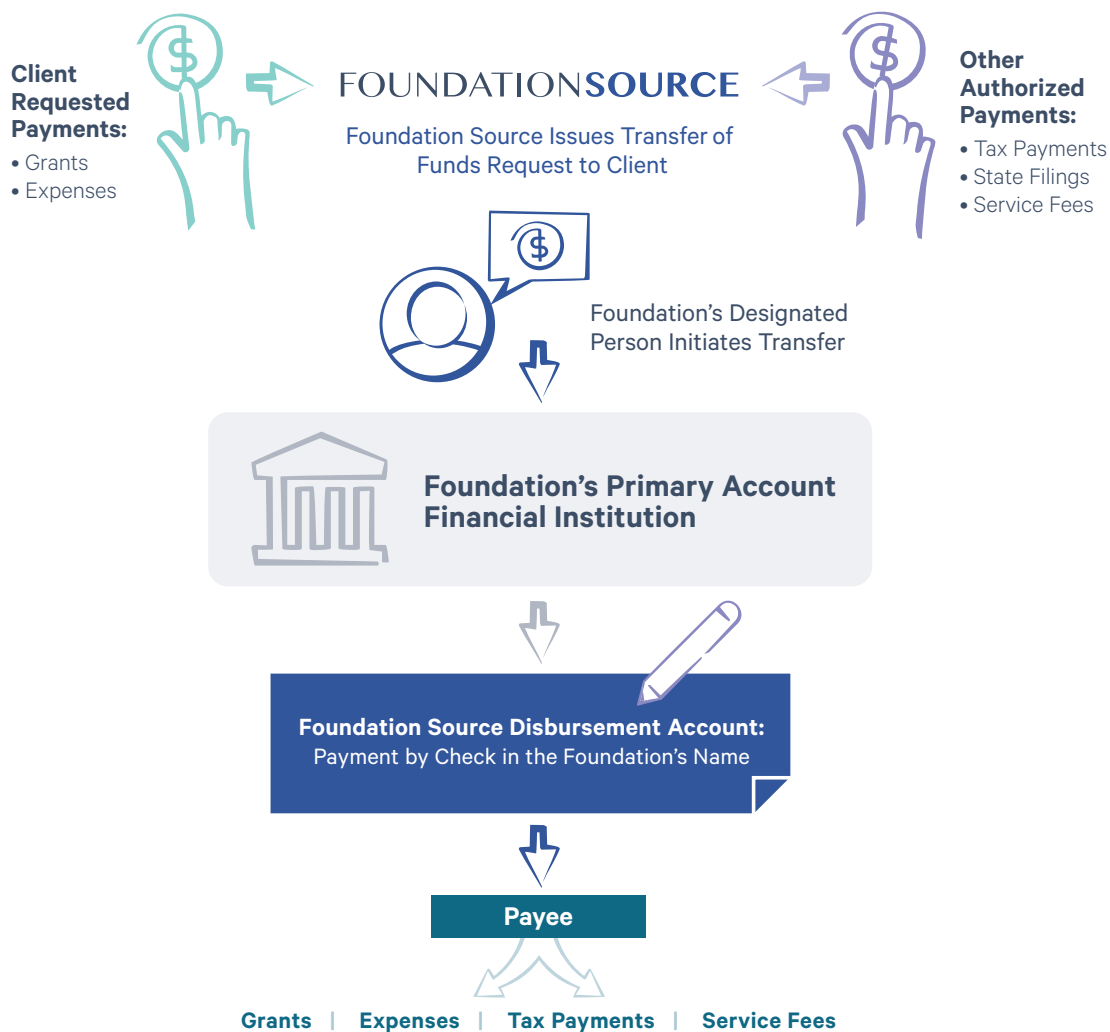
Here's what you can expect when opening a disbursement account at Webster Bank:

- We will work with you to complete the simple documentation needed to open the Webster Bank disbursement account.
- Webster Bank will not charge any fees for this account.
- Funding for the account is initiated by the client. Deposits may be submitted electronically or by sending a check to Foundation Source.
- Depending on your foundation's activity level, you may decide to fund the Webster Bank disbursement account periodically or as needed in advance of distributions. Foundation Source will provide notifications when the account balance is insufficient to meet distribution needs and, if the foundation chooses, notifications when transactions are processed. Note: Foundation Source relies on this account being sufficiently funded in order to process your grants, expenses, tax payments, and service fees without delay. Insufficiently funded accounts may result in complications with grantees and vendors, delays, and possible penalties from the IRS if tax payments are late.
- If your foundation uses this account for payroll disbursements, you will need to maintain a minimum account balance to sufficiently cover these automatic payments. (The minimum balance amount is based on the foundation's payroll obligations.)
- Foundation Source's authority will be limited to moving cash from the disbursement account at Webster Bank.
- This account will be an interest-bearing account that is FDIC insured up to current applicable limits.
- Duplicate statements and view-only online access are available to you upon request.
- Wire and ACH payments are available and will require additional authorizations if requested.

Disbursement Accounts at Financial Institutions Other than Webster Bank

While a Webster Bank disbursement account is the best and most efficient solution, there is no obligation to open one. If the foundation would like to maintain a disbursement account at another financial institution, Foundation Source can accommodate that for an additional fee.

OTHER FOUNDATION DISBURSEMENT ACCOUNT



Here's what you can expect when working with an alternate financial institution:

- We will ask you to designate one "primary account" for all cash disbursements along with a designated contact person(s).
- Foundation Source will prepare a "Transfer Funds Request" for the foundation as disbursements are requested, and deliver it via email or fax, as agreed upon during setup.
- The designated person at the foundation will be responsible for initiating the funds transfer from the foundation's "primary account" financial institution to a Foundation Source disbursement account.
- We will ask you to authorize Foundation Source to receive duplicate statements for this account.

THINGS TO CONSIDER:

- Your foundation and the person designated for transferring its funds will bear a greater degree of responsibility if the foundation opts to use its own disbursement account rather than one at Webster Bank.
- Your financial institution may require written or verbal confirmations of the transfer requests, which may be inconvenient and could potentially delay the funds transfer.
- If the designated person is unable or unavailable to initiate the transfer request, your grants, expenses, tax payments, and service fees could be delayed, which may result in complications with grantees and vendors, and possible penalties from the IRS if tax payments are late.
- Depending on your financial institution's policies, your foundation may incur wire or other transaction fees for each transfer.
- The foundation will be charged an additional annual fee of \$1,500.

Disbursement Activities

GRANT TRANSACTIONS

Grant transactions are initiated through Foundation Source Online only by users who are authorized by the foundation to do so. By default, we send a confirmation email to both the grant initiator and the Foundation Representative, with a copy sent to the primary advisor/broker linked to the foundation. Grant requests are kept in a pending status while we verify the status of the recipient charity and the availability of funds in the primary account.

Once the grant request is approved and processed by Foundation Source, and funds to cover the grant are received, payment is sent to the charity. The charity also receives a detailed letter with grant specifications, terms, and conditions. This package is sent directly to the charitable organization or, upon request, to the person who initiated the grant for personal delivery to the charity.

EXPENSE TRANSACTIONS

IRS tax rules require that all foundation expenditures be ordinary and necessary for carrying out the foundation's charitable purpose, appropriate and reasonable, and properly documented. Further, all expenses should comply with the foundation's own expense policy. If the foundation conducts any activities other than grantmaking, we also look to see that these activities have been vetted with the IRS (via the IRS Form 1023 submission when it first sought tax exempt status) or reviewed by a qualified attorney. Foundation Source will verify that any expense report submitted for reimbursement to a foundation member, or any invoice submitted for payment to a third party, has been submitted by someone who is authorized by the foundation to do so, and that the invoice contains sufficient information for tax and compliance purposes.

If we determine that an expense strays into a gray area with respect to the regulations, we will contact the foundation to explain the IRS rules or to obtain more information as appropriate.

Once the expense is approved and processed by Foundation Source, and funds to cover the expense are received, payment is sent along with any required documentation.

TAX TRANSACTIONS

The IRS requires foundations to pay an excise tax of 1.39% on interest income, dividends, and realized capital gains. The excise tax is reported on IRS Form 990-PF and must be paid annually at the time for filing that return, or in quarterly estimated tax payments if the total tax for the year is \$500 or more.

Unless other arrangements have been made by the foundation, Foundation Source automatically calculates the quarterly estimated taxes on behalf of the foundation and makes the tax payments.

Once calculated, Foundation Source sends an email notification of the transaction to the foundation president or other officer or trustee designated to receive such notifications. The foundation will have a three-day grace period to approve or question the payment. After the third day, it will automatically be submitted for processing, unless the payment exceeds \$10,000, then a formal approval is required. There are no forms that require additional signature.

For payments due with the 990-PF return or an extension, the calculated amount is paid automatically once the return or extension is completed. Once submitted for processing and funds are received, payment is made to the IRS electronically.

STATE FILING FEE TRANSACTIONS

Most states require annual corporate reports and/or tax filings with accompanying fees. Unless other arrangements have been made by the foundation, Foundation Source prepares those reports and requests the funds for required fees.

FEE TRANSACTIONS

Fees assessed by Foundation Source are related exclusively to the services we provide in accordance with the Foundation Services Agreement, any Engagement Letter signed by the foundation and Foundation Source, and/or any current Notice of Fees.

HAVE A QUESTION?

Call 800.839.0054 or send us an email at info@foundationsource.com.

www.foundationsource.com

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