

registered charities. In fact a charitable organization which gives away more than 50% of its income may be subject to deregistration.

17. Separate foundations established as fund-raising entities on an ongoing basis for charitable organizations will be substantially affected by the Budget. As discussed in footnote 11 *supra*, it is extremely likely that the Minister of National Revenue will register them, or designate them, as charitable foundations. Therefore, they will be subject to the more stringent expenditure tests as charitable foundations. As a result funds raised from the public by the separate foundation, in general, will have to be passed on within two years to the charitable organization. This, of course, will be subject to the continuing accumulation procedures including application to the Minister for permission to accumulate for a specific project, receipt of a donation subject to a trust or direction that it be held for 10 years and exclusion of donations received for which no tax deduction has been claimed by the donor.

If the separate foundation receives a donation of funds from another charity and if that charity is non-related and provided this donation is not out of capital, the proposed new rules will require that such a donation be expended within two years, assumedly by transferring it to the charitable organization. If the other charity is a related charity, the funds must be expended on or before the end of the year.

Public Foundations: The Operating Experience

The foregoing paper was delivered at the November, 1981 Charities Conference of The Canadian Centre for Philanthropy. Following Mr. Coombs' presentation, Claus Wirsig, President of The Hospital for Sick Children Foundation, outlined the practical experience of his organization. The following represents a brief summary of his views.

CLAUS WIRSIG

Factors Contributing to a Perceived Need for a Parallel Foundation

Charities are frequently supported with public monies and may therefore be subject to strict regulations which may make it difficult to accumulate and apply freely the funds voluntarily given. This is particularly so if a need arises outside the mandated role of the charity.

As public money becomes less available, there is a temptation for government to expect voluntary funding obtained by charities to fill the gaps caused by budgetary restraints. This limits their ability to achieve new social goals. It may also inhibit voluntary giving.

The Hospital for Sick Children had accumulated substantial endowment funds and had a capacity to raise more voluntary funding on a scale which suggested a need for special efforts to apply such funding resources carefully in a coordinated and effective program to improve child health.

In effect, the parallel foundation provides a vehicle through which the broader role and objective of the operating charity can be met.

Advantages Of A Foundation

- the need for constant attention to details of donor relationships and other aspects of organized fund raising may divert the interest, talents and resources of the charity from its primary purpose.
- the foundation structure permits the charity to demonstrate to the community that voluntary gifts are being used for something more than operating at a level that should be funded by government.
- voluntary giving can be directed by the foundation to its proper goals: special services, innovative programs and levels of excellence which are not easily achieved with funding from the public purse.
- the foundation can directly fund activities not usually funded by charity. While such giving diverts funds from the parent charity, support to others in the same field can promote projects that are of long-term benefit to all.
- the establishment of a foundation offers added protection of the charity's accumulated resources against government confiscation. However, it is imperative that careful attention be paid in transferring funds to the foundation. For example, funds which result from operating surpluses, depreciation or cash-flow benefits properly belong to the publicly-supported charitable functions and inappropriate transfer of such funds may invite expropriation of accumulated capital for the charity's "rightful purpose". There is more than a hint of concern on matters such as this in the November federal Budget.

The Hospital For Sick Children Foundation: A Structure That Works

- the Foundation is a separate non-profit corporate entity with letters patent issued under the Ontario Companies Act. The Hospital functions under the Public Hospitals Act.
- the board of the Foundation overlaps the Hospital board but two of the 12 directors are not trustees of the Hospital. The directors of the Foundation confirm membership in the Foundation and the membership elects the board of the Foundation from its own members.
- Hospital and Foundation endowment funds are held in a pooled fund for investment purposes. The fund is managed by a joint investment committee responsible for both the Hospital and the Foundation board.
- the Foundation pays for Hospital space and services such as accounting, personnel and computer services at about 25 per cent below market value. This arrangement has benefits for both parties.
- the Foundation has a careful peer review process for external grants. It would be beneficial to have a similar review of grants to the parent charity if the Foundation were in the habit of making grants for individual projects of the charity.
- the Foundation and Hospital public relations programs are closely integrated, so that one reinforces the other.
- funds are raised and receipts are issued in the name of either the Hospital or the Foundation, if the donor has a specific wish as to the application of the funds.

- the Executive Director of the Hospital is invited to all meetings of the Foundation board but is not a member. This provides communication but keeps responsibilities separate.
- all grants from the Foundation to the Hospital are to the Hospital's Executive Director whose applications for funding are considered and approved by the Hospital board. This makes it impossible for the Foundation to circumvent the Hospital board's decisions about priorities for funds which the Foundation can make available.

ALLAN ARLETT

A More Cautious View

Allan Arlett, Executive Director of The Canadian Centre for Philanthropy which sponsored the conference at which these papers were given, suggests that interested charities also consider two potential dangers arising from the establishment of a parallel foundation:

- (i) over the long term the goals of the foundation and that of the parent charity can diverge. The foundation may become research- and project-oriented; the parent charity remains a service organization. These potential difficulties must be resolved at the outset because when conflict arises it may be impossible to settle differences without damage to both organizations.
- (ii) the delegation of fund-raising responsibilities from the parent charity to the foundation may have the positive benefits outlined. Nevertheless, the boards of charities should not be permitted to avoid these responsibilities entirely. No governing body should be permitted to pass on all responsibility for the support of the enterprises it governs.