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Unanimously Approved by Grant Committee on 8/21/14 and Reconfirmed on Sept 8, 2015

## **Grant Committee Policy Guidelines for the JL Turner Legal Association Foundation**

### **Corp - Background**

*TX Bus. Organization Code - Sec. 22.221. GENERAL STANDARDS FOR DIRECTORS. (a) A director shall discharge the director's duties, including duties as a committee member, in good faith, with ordinary care, and in a manner the director reasonably believes to be in the best interest of the corporation.*

### **Tax Background**

*To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for exempt purposes set forth in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual.*

*Organizations described in section 501(c)(3) are commonly referred to as charitable organizations. Organizations described in section 501(c)(3), other than testing for public safety organizations, are eligible to receive tax-deductible contributions in accordance with Code section 170.*

*The organization must not be organized or operated for the benefit of private interests, and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual.*

- A. **Exempt Purposes.** JLTAF should only authorize grants for 501(c)(3) exempt purposes.  
Per IRS Guidelines:

*The exempt purposes set forth in section 501(c)(3) are charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. The term charitable is used in its generally accepted legal sense and includes relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency.*

- B. **Expenditure Responsibility.** JLTAF should attempt to exercise Expenditure responsibility for the its grants

Per IRS Guidelines:

*Expenditure responsibility means that the foundation exerts all reasonable efforts and establishes adequate procedures:*

- 1. To see that the grant is spent only for the purpose for which it is made,*
- 2. To obtain full and complete reports from the grantee organization on how the funds are spent, and*
- 3. To make full and detailed reports on the expenditures to the IRS.*

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- C. **Excess Benefit Transactions.** JLTAF should attempt to avoid excess benefit transactions, consider carefully transactions that would be scrutinized under an excess benefit transaction analysis.

Per IRS Guidelines:

*If the organization engages in an excess benefit transaction with a person having substantial influence over the organization, an excise tax may be imposed on the person and any organization managers agreeing to the transaction. An excess benefit transaction is a transaction in which an economic benefit is provided by an applicable tax-exempt organization, directly or indirectly, to or for the use of a disqualified person, and the value of the economic benefit provided by the organization exceeds the value of the consideration received by the organization.*

JLTAF directors and officers are disqualified persons.

### Priority Goals

The Grant Committee is not limited by the history of the Foundation. However, the Committee recognizes in 1996, the membership of JLTLA voted to establish a non-profit foundation. The name of the Foundation established was the J.L. Turner Legal Association Foundation. The main purpose of the foundation was to explore obtaining corporate and other source of funding for the Annual Scholarship and Awards Banquet. The Foundation was also sponsor legal seminars for lawyers and education forums for the community. The Committee recognizes that as of 2014, the overwhelming majority of its retained funds were donated in connection with its fundraising efforts to raise money for scholarships.

This Priority Chart's purpose is to serve as a tool to guide grant decision making in a direction that flows from the unique identity of the JLTLA Foundation's membership and:

1. Prioritize, along with the Foundation's financial report, so that our grants over an annual basis are greater weighted in aggregated dollar amount towards the Foundation's higher priority items rather than toward lower priority items;
2. Encourage greater giving by legal pipeline oriented donors to the Foundation
  - a. To the extent that the Foundation cultivates the reputation of being a more efficient means of targeting the pipeline than the donor can do on its own, then greater donations should follow;
3. Encourage the expansion of the legal profession to larger number of African-Americans through educational initiatives;
4. Expand the legal competencies of practicing African American lawyers through CLE or other educational endeavors
  - a. Education should over time enhance the reputation of, marketability of and professional opportunities for African-American lawyers;
5. Disfavor, lower priority requests and or limit the amount of funding recommended to requests that would discourage donors from giving to the Foundation in the future because the requests:
  - a. involve self-dealing or self-interested items among insiders;
  - b. are outside the perceived scope of the organization by its donors;
  - c. are directed to Foundation and are expected to be funded based upon personal relationships that could motivate a grant more than the degree to which the requested item can assist the Foundation in achieving its goals; or
  - d. are directed to other oriented causes (particularly non-legal or non-pipeline causes) where donor could just as well contribute directly without going through the Foundation.

The Committee should ask itself whether the program is one the Foundation could and might strongly consider doing on its own, but instead could leverage the infrastructure and resources of a third party (including the Association) to achieve its goals. This is not intended to be an absolute litmus test question but could be helpful in assessing priority.

**Priority Chart**

|                                     | Priority of Preference | Nature of the Grant  | Comments   |
|-------------------------------------|------------------------|--|--|
| Highest Priority – Core - Education | Group 1                | Legal Educational Scholarships   |  |
| Higher Priority – Core - Education  | Group 2                | Education-Oriented Pipeline Programs (up to admission to the bar)  |  |
| Higher Priority – Core - Education  | Group 2                | CLE (esp. those that focus on topics of particular relevance to the AA community and/or are principally carried out by the Foundation or Association)                                |  |
| Priority – Core - Education         | Group 3                | Workshops on a learned subjects of law directed toward the general AA community and principally carried out by the Foundation or Association   |  |
| Priority – Pro Bono                 | Group 3                | Pro Bono Legal Services targeted toward civil rights related litigation.   |  |
| Priority – Pro Bono                 | Group 3                | Pro Bono Legal Services targeted toward AA's and principally carried out by and principally credited to the Foundation or the Association  | This category was not included as the rhetorical devise to shift a non-profit's legal bills to the Foundation or pay to support the ordinary course legal work for a non-profit. |
| Priority – Pro Bono                 | Group 4                | Pro Bono Legal Services to Larger Dallas Community supported by the greater Dallas legal community   |  |
|                                     | Group 5                | Others   |  |
| No priority                         |                        | Underlying Charitable/Educational Programs which are not primarily law-oriented but still sponsored by a JLTLA leader.   | Should be considered for denial or if funded be limited to a max of \$1,000 in the aggregate. This is not a target.  |
| No priority                         |                        | Charitable/Educational Programs requests which are primarily fund-raising for the primary benefit of another 3 <sup>rd</sup> party with little implications for the above priorities | Should be considered for denial or if funded be limited to a max of \$1,000 in the aggregate. This is not a target.  |
| No priority                         |                        | General college scholarships which are   | Consider   |

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|  |  | not reasonably likely to result in the recipient attending law school or paralegal school. | recommending denial |
|  |  |  |                     |

### Effectiveness of the Grants

The Grant Committee should consider the following elements (borrowed in part from the United Way):

- **ALIGNMENT:** Connection between requested program goals (stated and unstated), Foundation's goals, use of funds towards the Foundation's goals. (Is there a bait and switch)
- **IMPACT:** Effectiveness of programming to attain its goals
- **RESOURCES:** Access to the resources (staff, experience, financial, etc.) to successfully implement the program

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### Background - Federally Tax Exempt Entities and 501(c)(3)s

Not all state chartered non-profits are federally tax exempt, just those that qualify and are approved by the IRS. Not all federally tax exempt non-profits are 501(c)(3)s. There are 29 federally tax exempt categories and non-profits under different categories have different purposes and different restrictions on their spending.

#### Tax Exempt vs Tax Deductible

Donations to most non-501(c)(3)s do not qualify for income tax deductions and these non-profits are not subsidized by the government with "pre-tax" donations. They simply can keep 100% of the after-tax donations they receive and don't have to pay income tax on those donations.

501(c)(3)s are both tax exempt and can receive tax deductible donations for which the federal government later gives a tax benefit to donor that makes the contribution. Since donations to 501(c)(3)s are tax deductible, the 501(c)3 is considered a federally subsidized entity and the US Congress had set strict limits on what activities the 501(c)3 can perform and thus determined what activities can be subsidized by the US taxpayer.

While a non-501(c)(3) not-for-profit organization may benefit society, may spend the majority of its funds on non-501(c)(3) purposes and may choose to also spend its funds on be permitted charitable purposes as well, 501(c)(3)s have less flexibility and their activities and spending must be focused exclusively on 501(c)(3) purposes.

The IRS code for Section 501(c)(3) reads as follows:

"Corporations, and any community chest, fund, or foundation, organized and **operated exclusively** for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office." IRS Section 501 (3)

The list of the 29 types of tax exempt organizations is below:

|             |   |
|-------------|---|
| § 501(c)(1) | Corporations Organized Under Act of Congress (including Federal Credit Unions)  |
| § 501(c)(2) | Title Holding Corporations for Exempt Organization                              |
| § 501(c)(3) | Charities   |
| § 501(c)(4) | Civic leagues and Social Welfare Organizations                                  |
| § 501(c)(5) | Labor Agricultural, Or Horticultural Organizations.                             |
| § 501(c)(6) | Business Leagues, Chambers of Commerce, Real-Estate Boards, Boards of Trade, or |

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|              |  |
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|              | Professional Football Leagues  |
| § 501(c)(7)  | Social Clubs - Clubs Organized for Pleasure, Recreation, and Other Non-Profitable Purposes   |
| § 501(c)(8)  | Fraternal Beneficiary Societies, Orders Providing for the Payment of Life, Sick, Accident, or Other Benefits   |
| § 501(c)(9)  | Voluntary Employees Benefit Associations   |
| § 501(c)(10) | Domestic Fraternal Societies, Orders, or Associations Not Providing for the Payment of Life, Sick, Accident, or Other Benefits   |
| § 501(c)(11) | Teachers' Retirement Fund Associations   |
| § 501(c)(12) | Benevolent Life Insurance Associations, Mutual Ditch or Irrigation Companies, Mutual or Cooperative Telephone Companies, or Like Organizations (if 85 percent or more of the organization's income consists of amounts collected from members for the sole purpose of meeting losses and expenses) |
| § 501(c)(13) | Cemetery Companies (owned and operated exclusively for the benefit of their members or which are not operated for profit)  |
| § 501(c)(14) | State Chartered Credit Unions, Mutual Reserve Funds  |
| § 501(c)(15) | Mutual Insurance Companies or Associations   |
| § 501(c)(16) | Cooperative Organizations to Finance Crop Operations   |
| § 501(c)(18) | Employee Funded Pension Trusts (created before June 25, 1959)  |
| § 501(c)(19) | A Post or Organization of Past or Present Members of the Armed Forces of the United States   |
| § 501(c)(20) | Qualified Group Legal Services Plan or Plans   |
| § 501(c)(21) | Black Lung Benefit Trusts  |
| § 501(c)(22) | Withdrawal Liability Payment Funds   |
| § 501(c)(25) | Title Holding Corporations or Trusts with Multiple Parents   |
| § 501(c)(26) | State-Sponsored High-Risk Health Coverage Organizations  |
| § 501(c)(27) | State-Sponsored Worker's Compensation Reinsurance Organizations  |
| § 501(c)(28) | National Railroad Retirement Investment Trust (45 U.S.C. 231n(j))  |
| § 501(c)(29) | Qualified Nonprofit Health Insurance Issuers   |