



This document has been provided by the International Center for Not-for-Profit Law (ICNL).

ICNL is the leading source for information on the legal environment for civil society and public participation. Since 1992, ICNL has served as a resource to civil society leaders, government officials, and the donor community in over 90 countries.

Visit ICNL's **Online Library** at
<http://www.icnl.org/knowledge/library/index.php>
for further resources and research from countries all over the world.

Disclaimers

Content. The information provided herein is for general informational and educational purposes only. It is not intended and should not be construed to constitute legal advice. The information contained herein may not be applicable in all situations and may not, after the date of its presentation, even reflect the most current authority. Nothing contained herein should be relied or acted upon without the benefit of legal advice based upon the particular facts and circumstances presented, and nothing herein should be construed otherwise.

Translations. Translations by ICNL of any materials into other languages are intended solely as a convenience. Translation accuracy is not guaranteed nor implied. If any questions arise related to the accuracy of a translation, please refer to the original language official version of the document. Any discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes.

Warranty and Limitation of Liability. Although ICNL uses reasonable efforts to include accurate and up-to-date information herein, ICNL makes no warranties or representations of any kind as to its accuracy, currency or completeness. You agree that access to and use of this document and the content thereof is at your own risk. ICNL disclaims all warranties of any kind, express or implied. Neither ICNL nor any party involved in creating, producing or delivering this document shall be liable for any damages whatsoever arising out of access to, use of or inability to use this document, or any errors or omissions in the content thereof.

The Act of September 3, 1997 on Foundations and Endowment Funds and on changes and supplements of certain related acts (the Foundations and Endowment Funds Act)

The Parliament has passed this Act of the Czech Republic:

**PART ONE
FOUNDATIONS AND ENDOWMENT FUNDS**

**CHAPTER ONE
BASIC PROVISIONS**

Section 1

(1) A foundation or an endowment fund are purposeful associations of assets¹ established and originating in compliance of this act for the achievement of publicly beneficial goals. A publicly beneficial goal is in particular development of spiritual values; protection of human rights or other humanitarian values; protection of the environment, cultural monuments and traditions; developments in science, education, physical education and sports.

(2) The foundation or the endowment fund is a legal entity.

(3) The expression "foundation" has to be part of the foundation's name; the expression "endowment fund" has to be part of the endowment fund; no other entities/persons are allowed to use this expression in their name or business name.

Section 2

(1) The foundation's property consists of foundation equity and other assets of the foundation.

(2) A foundation uses for achieving the purpose for which it has been set up revenues from the foundation equity and other assets of the foundation. The foundation equity is a financial expression of the sum of financial and non-financial deposits and foundation gifts entered in the foundation register (hereinafter only "the register").

(3) An endowment fund uses for achieving the purpose for which it has been set up its entire property.

(4) For the purposes of this Act, a foundation contribution is understood to be all which the foundation or endowment fund, in line with this act and the foundation or endowment fund statute, provides to a third person for the purpose for which the foundation or endowment fund have been set up.

(5) For the purposes of this Act, a foundation gift is understood to be all which is provided by a third person to the foundation or endowment fund for the achievement of that purpose for which the foundation or endowment fund have been set up.

¹Section 18 (2)(b) of the Civil Code

CHAPTER II
ESTABLISHMENT AND INCEPTION OF A FOUNDATION AND AN ENDOWMENT
FUND

Section 3

Establishing a foundation/an endowment funds

(1) A foundation or an endowment fund are established by an agreement in writing concluded between the founders or by a founding charter, if there is but one founder, or by a testament (hereinafter only "the foundation charter"). If a foundation/an endowment fund is established by an agreement, the authenticity of the founders' signatures in the agreement have to be officially verified; if a foundation/an endowment fund is established by a foundation charter or a testament, the foundation charter has to be executed in the form of a notarial deed.

(2) The foundation charter, if not a testament, has to include

a) name and location of the foundation/endowment fund,

b) name or business name, location and identification number of the founder (founders), or a document on legal subjectivity of the foreign founder, if a legal entity, or first name, last name or business name, personal identification number, or date of birth, and permanent residence of the founder/founders), if an individual (a natural person),

c) delimitation of the purpose for which the foundation/endowment fund is being set up; the specific purpose for which the foundation/endowment fund is being set up has to conform with a publicly beneficial goal,

d) the amount or value of asset deposit which each founder pledges to deposit in the foundation/endowment fund; if it is a non-financial deposit, the subject of the deposit has to be defined and valued by an expert,

e) the number of members of the board of directors, first and last names, personal identification numbers, or dates of birth, and permanent residence of the members of the first board of directors with a statement of the manner of their acting on behalf of the foundation/endowment fund.

f) the number if members of the supervisory board, first and last names, personal identification numbers, or dates of birth, and permanent residence of the members of the first supervisory board, or first and last names, personal identification number, or date of birth, and permanent residence of the first comptroller, if the competence of the supervisory board is carried out by a comptroller,

g) determination of a rule to limit the foundation/endowment fund's costs pursuant to Section 22 or a statement this rule to be determined by the statute of the foundation/endowment fund,

h) identification of a person who manages asset deposits of the founder (founders) up to the time of the establishment of the foundation/endowment fund.

(3) If the foundation/endowment fund is established by a testament, the testament has to include the name of the foundation/endowment fund and the particulars specified under paragraph 2, letters c), d), g) and i), as well as the appointment of the person who names the first members of the bodies of the foundation/endowment fund, or the comptroller, if they are not mentioned by name in the testament; and it will execute other deeds related to the inception of a foundation/endowment fund (hereinafter only "the executor of the testament");

a testament that does not meet these specific particulars will be void regarding the section dealing with the establishment of the foundation/endowment fund.

(4) The total value of foundation equity is not to be less than CSK 500,000 and it is not to decrease below this value throughout the period of the foundation's existence.

(5) Foundation equity may consist only of financial means, securities, real estate and moveables, as well as of other property rights and other property values that fulfill the assumption of permanent revenues and are not burdened by rights of lien.

(6) Other assets of the foundation or assets of the endowment fund may consist of the endowment fund may consist only of financial means, securities, real estate and moveables, as well as of other property rights and other property values that are not burdened by rights of lien.

Section 4

The Statute of Foundation/endowment fund

(1) The statute of foundation/endowment fund treats the procedures of the behavior of the bodies of the foundation/endowment fund; conditions for the provision of foundation contributions or the circle of persons eligible to receive them; the manner of the provision of these foundation contributions, as well as other issues that have to be included in a foundation charter and the statute of foundation/endowment fund as hereunder mandated.

(2) The statute of foundation/endowment fund will be issued within 30 days from the founding date of the foundation/endowment fund, and any amendments thereof will be determined by the board of directors.

(3) Unless stated otherwise by this Act (Section 22 (2)), the statute of foundation/endowment fund has to be in line with the foundation charter.

(4) The foundation/endowment fund is required to make the statute available if so requested; anyone is entitled to examine it and make excerpts or transcripts.

Inception of a foundation/endowment fund

Section 5

(1) A foundation/endowment fund is considered established on the date of its entry in the foundation register. The register is maintained by a court appointed by a special act² to maintain the commercial register (hereinafter only "the register court"). The register is a public list; the statute of foundation/endowment fund and the annual report constitute its parts.

(2) A proposal to register the foundation/endowment fund in the register is submitted by the founder or the executor of the testament or a person authorized by these in writing; the authenticity of the authorizing party has to be officially verified.

(3) The proposal to register the foundation/endowment fund is accompanied by its foundation charter, a voucher confirming the financial deposit was paid, or a voucher confirming the receipt of a non-monetary deposit issued by the deposit-managing person in compliance with Section 6 (2), and copies of the police record of the board of directors, the supervisory board or the comptroller; these police-record copies may not be older than 6 months. Those members of the board of directors, the supervisory board, or the comptroller, whose permanent residence is not in the Czech Republic, have to submit a relevant voucher from the state of their permanent residence ascertaining they have not been lawfully sentenced for a willful act punishable by law. This voucher may not be older than 6 months.

(4) The following date is entered in the register:

a) name, location and identification number of the foundation/endowment fund,

² Section 200d of the civil court code

b) name or business name, location and identification number of the founder (founders) if it is a legal entity, or first and last names, or business name, personal identification number, or date of birth, and permanent residence if the founder (founders), if an individual (natural persons),

c) the purpose of the foundation/endowment fund,

d) the amount of foundation equity, or the amount of property deposit with the endowment fund,

e) first and last names, personal identification numbers, or dates of birth, and permanent residence of the members of the board of directory and the manner of their acting on behalf of the foundation/endowment fund,

f) first and last names, personal identification numbers, or dates of birth, and permanent residence of the members of the supervisory board, or the comptroller if no supervisory board has been set up,

g) the list of assets comprising the non-financial deposit or foundation gift to the foundation equity, stating its description and value.

(5) Unless stated otherwise by this Act, similar provisions of the Commercial Code and the civil court code applicable to the Commercial Register, its maintenance and proceedings in Commercial Register matters will stand for the register, its maintenance and register matters.

Section 6

(1) In matters related to the inception of a foundation/endowment fund up to the time of its establishment, it is the founders who act jointly, or appoint one from among them in writing, on behalf of the foundation/endowment fund; if the foundation/endowment fund is being established by a testament, such a person is the executor of the testament from the time inheritance proceedings were completed.

(2) Property deposits are managed up to the date of the establishment of the foundation/endowment fund by the person so appointed by the foundation charter; if the foundation/endowment fund is set up by a testament, this person will be the executor of the testament from the time inheritance proceedings were completed, unless otherwise stated by the testament.

(3) Obligation that arose pursuant to paragraph 1 and ownership and other rights pursuant to paragraph 1 and 2 will be assumed by the foundation/endowment fund on the date of their establishment; the deposit-managing person is required to relinquish these deposits to the order of the foundation/endowment fund without unnecessary delay upon its establishment. The treatment of the transfer of ownership rights to real estate is not affected. If a foundation/endowment fund is not established, the deposit-managing person is required to relinquish these deposits without unnecessary delay back to the founders, or to the relevant heirs, if the foundation/endowment fund was set up by testament.

CHAPTER III WINDING UP AND DISSOLVING A FOUNDATION/ENDOWMENT FUND

Section 7

(1) A foundation/endowment fund ceases to exist on the date it was expunged from the register. Before a foundation/endowment fund ceases to exist, it is preceded by its winding up with liquidation or without liquidation if the assets are to be merged to another foundation/endowment fund. No liquidation will take place when the motion for bankruptcy is rejected on the grounds of insufficient assets or if the foundation/endowment fund is left with no assets upon the completion of bankruptcy proceedings.

(2) A foundation/endowment fund will be wound up

a) upon the attainment of the purpose for which it was set up on the date listed in the resolution by the board of directors on the achievement of the purpose of the foundation/endowment fund,

b) by the board-of-directors resolution of a merger with another foundation or endowment fund on the date of the merger agreement,

c) by the court judgement on winding up the foundation/endowment fund on the date shown in this judgment, or on the legal effective date of such a judgment,

d) by the declaration o bankruptcy or the rejection of a bankruptcy motion due to insufficient assets.

(3) The court will wind up a foundation whose foundation equity yields no revenues on a permanent basis and the foundation has no other assets and thus cannot fulfill the purpose for which it was set up, if so moved by the founder, the executor of the testament, the board of directors or a person who will assert a lawful interest.

(4) The court will wind up an endowment fund whose endowment --fund assets have been irrevocably used up (disbursed) and the endowment fund no longer can fulfill the purpose for which it was set up, if so moved by the founder, the executor of the testament, the board of directors or a person who will assert a lawful interest.

(5) Upon a motion by the founder, the executor of the testament, or a person who will assert a lawful interest, the Court will wind up the foundation/endowment fund if

a) the foundation/endowment fund in its activities gravely or repeatedly violates this Act, its foundation charter or stature,

b) in the last year, not a single session of the board of directors was held or no members of the bodies of the foundation/endowment fund were elected, nor a comptroller, to replace those members whose membership or office ceased to exist more that one year ago, or

c) the foundation endowment fund did not fulfill, in the period of at least two years, its purpose for which it was set,

and the foundation/endowment fund did not make efforts to rectify the matter by the deadline extended by the Court.

Section 8

Merging a foundation/endowment fund

(1) (1) Respective board of directors may resolve to merge the foundation with another one, provided revenues from foundation equity do not suffice to fulfill the purpose for which the foundation was set up, and the purpose of the foundation it is merge with (hereinafter only "the receiving foundation") is identical, or similar, with the purpose for which the merging foundation was set up. The receiving foundation's foundation equity has to increase by the merging foundation's foundation equity.

(2) (2) Respective boards of directors may resolve to merge the endowment fund with a foundation, provided the endowment fund's assets are insufficient to fulfill the purpose for

which the endowment fund was set up, and the purpose of the foundation it is to merge with (the receiving foundation) is identical, or similar, with the purpose for which the merging endowment fund was set up.

(3) (3) Respective boards of directors may resolve to merge the endowment fund with another endowment fund provided endowment fund's assets are insufficient to fulfill the purpose for which the endowment fund was set up, and the purpose of the endowment fund it is to merge with (hereinafter only "the receiving endowment fund") is identical, or similar, with the purpose for which the merging endowment fund was set up.

(4) (4) No merger is possible for the foundation/endowment fund whose foundation charter so precludes.

(5) (5) Prior to the merger resolution, the merging foundation will conclude with the receiving foundation, or the merging endowment fund with the receiving foundation, or the merging endowment fund with the receiving endowment fund, a merger agreement in writing. An appendix to the merger agreement has to include an outline of the merging foundation's foundation equity or the merging endowment's assets, and of their liabilities, not older than three months on the merger date.

(6) (6) The expunction of the merging foundation/merging endowment fund will be executed in the register as well as the entry of the change for the receiving foundation/receiving endowment fund with the same effective date; the merger agreement will evidence the motion to expunge the merging foundation/merging endowment fund. The register court will reject the motion to expunge if the merger contravenes any conditions stipulated by this Act.

(7) (7) Effective on the expunction date of the merging foundation/endowment fund in the register, the assets of the foundation/endowment fund, as well rights and liabilities of the merging foundation/endowment fund will be assumed by the receiving foundation/endowment fund.

Section 9

Liquidating a foundation/endowment fund

(1) (1) Unless otherwise stated, a special as similarly applies for liquidation of a foundation/endowment fund.³

(2) (2) A liquidator will be appointed by the board of directors of the foundation/endowment fund, save for the winding up of the foundation/endowment fund pursuant to Section 7(2)(c) and (d) in which instances the liquidator will be court-appointed. If the board of directors does not appoint a liquidator without unnecessary delay, the liquidator will be court-appointed even without a motion. The liquidator's remuneration is determined by the liquidator-appointing party.

(3) (3) Liquidation procedures will be determined by the liquidator in such a manner as to cash in only those assets necessary to meet the liabilities of the foundation/endowment fund.

(4) (4) If the foundation charter does not state that a liquidation balance is to be transferred to another foundation/endowment fund due to its purpose, the liquidator will offer this liquidation foundation/endowment fund of identical, or similar, purpose; if no such foundation/endowment fund is identified by the liquidator, or this liquidation balance is refused by the liquidator-identified foundation/endowment fund, the liquidator will offer this liquidation balance to the municipality where the foundation/endowment fund is located. If the municipality does not accept the offer within 60 days from the offer date, this liquidation balance will go to the state treasury upon the expiration of the 60-day deadline. The acquire is to use this liquidation balance for publicly beneficial goals.

*distribution
of assets*

³Section 70 et al. of the Commercial code

CHAPTER IV
BODIES OF A FOUNDATION/ENDOWMENT FUND

The Board of Directors
Section 10

- (1) The Board of Directors manages the equity (assets) of the foundation/endowment fund, directs its activities and makes decisions in all the matters concerning the foundation/endowment fund, and constitutes the statutory body of the foundation/endowment fund.
- (2) The following constitute exclusive competence of the Board of Directors:
- a) to issue its statute and decide on its amendments,
 - b) to approve budget and its changes,
 - c) to approve the annual financial statements and the annual report on its activities and performance (hereinafter only "the annual report"),
 - d) to rule on mergers unless mergers are excluded by the foundation charter,
 - e) to elect new members of the board of directors and of all supervisory board, unless stated otherwise by the foundation charter, and to decide on recalls of members of the board of directors, the supervisory board or of the comptroller if they fail to meet conditions for membership or office,
 - f) to determine the amount of remuneration for the discharge of duties for members of the board of directors, the supervisory board, or for the comptroller,
 - g) to rule on the increase of the foundation equity.

Section 11

- (1) The board of directors has to have a minimum of 3 members. The total number of the members of the board of directors has to be divisible by 3, unless stated otherwise by the foundation charter.
- (2) (2) Only individuals of integrity, capable of legal acts, who are not in employment or similar relationship with the foundation/endowment fund, may be members of the board of directors.
- (3) (3) He who was lawfully sentenced for a willful act punishable by law is not considered an individual of integrity for the purposes of this Act. Integrity will be attested by a copy of one's police record, or by a relevant voucher from the state of permanent residence of the person concerned.
- (4) (4) An individual, who is disburser means that constitute fulfillment of the purpose of the foundation/endowment fund, may not serve as a member of the board of directors; nor can he be a member of a statutory or controlling body at a legal entity if the means that constitute fulfillment of the purpose of the foundation/endowment fund are disbursed to this legal entity.

(5) (5) A term of office is three years unless stated otherwise by this Act or the foundation charter. Repeated terms of office are allowed, unless stated otherwise by the foundation charter.

(6) (6) If a member's membership on the board of directors ceases to exist prior to the expiration of his term of office, the board of directors will elect a new member to the vacated position whose term of office will terminated on the day on which date the original member's

term of office on the board of directors would expire, unless stated otherwise by the foundation charter.

Section 13

(1) The first members of the board of directors are appointed by the founded, or the executor of the testament, unless they are mentioned by name in the testament.

(2) Unless stated otherwise by the foundation charter, upon the appointment of the first members of the board of directors, one-third of the member's names for one-year term of office and one-third of the members' names for two-year term of office from the date of their appointment will be drawn by a lottery. New members whose term of office will be a full three years will be elected subsequently to all vacated positions.

(3) The foundation charter may state that a certain number of the members of the board of directors be elected upon the nomination by certain legal entities, or individual, as specified by the founder, or the testator.

Section 14

(1) The members of the board of directors elect from their midst a chairman who convenes and chairs the sessions of the board of directors.

(2) Unless stated otherwise by the foundation charter, a plain majority is required to carry any resolutions by the board of directors. Votes by all the members of the board of directors are equal. Voting deadlocks will be decided by the chairman's ballot.

Section 15

(1) Membership on the board of directors ceases to exist

a) upon the expiration of the term of office,

b) upon one's death,

c) by recall, if the member fails to meet the conditions for membership or if he violates in a serious manner, or repeatedly, this Act, the foundation charter or statute of the foundation/endowment fund, or due to other reasons if so stated by the foundation charter,

d) by resignation.

(2) The board of directors will rule on recall of its member due to the reasons stipulated by this Act within one month from the date it learned the reason for the recall and no later than six months from the date the cause for the recall had occurred. Failure of the board of directors to rule on the recall within this prescribed deadline will result in the recall of the member of the board of directors by the court upon the motion of a member of the board of directors, the supervisory board, the founder, the executor of the testament through which the foundation/endowment fund were set up, or by a person who will assert his lawful interest.

Section 16

If the foundation/endowment fund lacks a statutory body or just a single member remains on the board of directors due to the cessation of membership on the board of directors, new members of the board of directors will be appointed by the court upon the nomination by the

Founder, the executor of the testament, the supervisory board, or even without any such nomination.

Section 17

- (1) The supervisory board is a body of control of the foundation/endowment fund.
- (2) The supervisory board has to be instituted always whenever the foundation equity or the endowment fund's assets exceed CZK 5,000,000. In other instances, it may be instituted when the foundation charter of the statute of the foundation/endowment fund so mandates.
- (3) The supervisory board, in particular,
 - a) oversees the observance of conditions for the provision of foundation disbursements (contributions) and the accuracy of the accounting system maintained by the foundation/endowment fund.
 - b) reviews the annual financial statements and the report,
 - c) supervises whether the activities by the foundation/endowment fund comply with the legal regulations, the foundation charter and the statute of the foundation/endowment fund,
 - d) points out any deficiencies noted to the board of directors and submits proposals how to remove these deficiencies,
 - e) at least once a year, it submits its control-activity report to the board of directors.

Section 18

- (1) In relation to the discharge of its control activities, the supervisory board is particularly entitled
 - a) to examine accounting ledgers and other vouchers relevant to the foundation/endowment fund,
 - b) to convene extraordinary sessions of the board of directors if so necessitated by the interests of the foundation/endowment fund and unless convened by the chairman of the board.
- (2) Members of the supervisory board have the right to participate in board meetings and take the floor if they so demand.

Section 19

- (1) The discharge of duties as a member of the supervisory board is incompatible with the membership on the board of directors or with the duties of a person/individual who is authorized to act on behalf of the foundation/endowment fund as a representative.
- (2) Sections 11 through 15 of this Act apply commensurably to the supervisory board, with save for the right to elect new members of the board of directors (Section 12 (2)).

Section 20
The comptroller

- (1) (1) If no supervisory board is set up, its competencies, pursuant to Sections 17 and 18, will be exercised by the comptroller.
- (2) (2) For the discharge of the comptroller, Section 11(2) through (4), Section 12, Section 13(1) and (3), Section 19(1) of this Act apply commensurably.

CHAPTER V
USING THE ASSETS OF THE FOUNDATION/ENDOWMENT FUND

Section 21

- (1) (1) Assets of the foundation/endowment fund may be used only in line with the purpose and condition set forth in its foundation charter or the statute of the foundation/endowment fund administration of the foundation/endowment fund.
- (2) (2) The costs pertaining to administration of the foundation/endowment fund must be kept separately from its by the foundation/endowment fund from foundation disbursements (contributions). Costs pertaining to administration of the foundation/endowment fund include particularly the costs to achieve and valorize assets of the foundation/endowment fund; costs to promote the purpose of the foundation/endowment fund; and operating costs of the foundation/endowment fund, including emoluments for the board of directors, the supervisory board, or the comptroller.
- (3) (3) A foundation disbursement (contribution), provided by the foundation/endowment fund in line with its purpose the foundation/endowment fund was set up for, has to used by the recipient individual (entity) in compliance with the conditions set forth by the foundation/endowment fund; otherwise this foundation disbursement (contribution) has to be returned or refunded in money by the recipient individual (entity) within the deadline stipulated by the foundation/endowment fund.
- (4) (4) The recipient individual (entity) that was provided with a foundation disbursement (contribution) by the foundation/endowment fund is required, if so asked, to demonstrate in what manner and towards what end this foundation disbursement has been used up.
- (5) (5) Members of the bodies of the foundation/endowment fund, or the comptroller, are ineligible for foundation disbursements.
- (6) (6) The foundation/endowment fund is prohibited from financing political parties or political movements.

Section 22

- (1) (1) The foundation charter or the statute of the foundation/endowment fund must announce one of the following rules intended to curb administrative costs of the foundation/endowment fund:

a) total annual cost of the foundation/ endowment fund pertaining to administration of the foundation/ endowment fund may not exceed a certain percentage of total annual revenues from foundation equity or assets of the endowment fund,

- b) total annual costs of the foundation/endowment fund pertaining to administration of the foundation/endowment fund may not exceed a certain percentage of the value of the foundation disbursements of that year, or
- c) total annual costs of the foundation/endowment fund pertaining to administration of the foundation/endowment fund may not exceed a certain percentage of foundation equity or assets of the endowment fund depending on their disclosure for the year ended December 31.
- (2) The rule subscribed to as per paragraph 1 may not be altered for at least five years. Per paragraph 1, the decisive period is a calendar year.

Section 23

- (1) The foundation/endowment fund is prohibited from doing business under its own name, save for real estate leases, organizing lotteries, raffles, public collections, cultural, social, sport and educational events.
- (2) Foundation equity or assets of the endowment fund may not be used as collateral nor subject of any other way of securing liabilities.
- (3) Foundation equity may not be stolen during the entire existence of the foundation. Financial means comprising part of the foundation equity have to be deposited by the foundation in a special bank account or used to purchase treasury bonds or securities guaranteed by the state. These financial means are not allowed to be loaned.
- (4) The foundation may participate in business of joint-stock companies only. The entire involvement of assets by the foundation may not exceed 20% of the foundation's property after the value of foundation equity has been subtracted. Publicly negotiable securities issued by joint-stock companies may be purchased and sold by the foundation only on public markets. The foundation's stake in a joint-stock company's assets may not exceed 20%.
- (5) The foundation/endowment fund may not be involved in the business of other persons, with the exception of the exercise of rights pertaining to the securities purchased in compliance with paragraph 3, and of the business stakes pursuant to paragraph 4.
- (6) Regarding the sale of assets of the endowment fund or leasing real estate constituting part of the property of the foundation/endowment fund, the buyer or leaseholder may not be a member of the board of directors, the supervisory board, or the comptroller, nor any persons close to them⁴ or a legal entity as long as a member of the board of directors, the supervisory board, or the comptroller of the foundation/endowment fund happens to be a member of its statutory body.

CHAPTER VI THE ACCOUNTING SYSTEM AND THE ANNUAL REPORT

Section 24 **The Accounting**

- (1) The foundation/endowment fund maintains its accounting system pursuant to special regulations.⁵

⁴Section 116 of the Civil Code

⁵In particular, Act no. 563/1991 Coll., "On Accounting," in the wording of the subsequent regulations

(2) A foundation's annual financial statements have to be verified by an auditor. An endowment fund's annual financial statements have to be verified by an auditor for that calendar year in which the sum of total costs or revenues disclosed by the endowment fund exceeded CZK 3,000,000, or if the endowment fund's assets are in excess of CZK 3,000,000.

The Annual Report

Section 25

(1) A foundation/endowment fund compiles its annual report by the deadline determined by its board of directors, or by the statute of the foundation/endowment fund, at the latest, however, within 6 months from the completion of the period under review. The period under review is the past calendar year, or the time elapsed from the establishment of the foundation/endowment fund through the end of the calendar year during which the foundation/endowment fund was established, if it is its first annual report.

(2) The annual report outlines activities of the foundation/endowment fund in its entirety during the period under review as well as an assessment of these activities, particularly

a) an outline of assets and liabilities of the foundation/endowment fund,

b) as far as individual foundation gifts over CZK 10,000 provided to the foundation/endowment fund, information about the persons who provided them is to be given; if a donor requests anonymity, his anonymity has to be guaranteed,

c) an outline of the use of the property of the foundation/endowment fund,

d) an outline regarding persons who were the recipients of foundation disbursements for the purpose for which the foundation/endowment fund was set up, if the value exceeds CZK 10,000, and an assessment whether and in what manner were the foundation disbursements used; if a foundation disbursement went to an individual for health or other humanitarian purposes and this individual requests his anonymity be protected, this anonymity has to be observed,

e) an assessment whether the foundation/endowment fund in its economic performance adheres to the administration cost curbing rule (Section 22),

f) an assessment of basic disclosures contained in the annual financial statements and the audit opinion supplemented by significant findings from the audit report; the annual financial statements constitute an appendix to the annual report.

(3) If any facts warrant corrections of the annual report after this has been already published, the foundation/endowment fund is obliged to make such corrections and publish them without unnecessary delay.

Section 26

(1) The foundation/endowment fund will file, within 30 days after the annual report, or corrections to it pursuant to Section 25 (3) of this Act, were approved by the board directors, with the register court.

(2) Everyone is entitled to peruse the annual reports and make copies and excerpts.

(3) Another method of publishing (making available to the public) of the annual matter may be prescribed by the foundation charter or the statute of the foundation/endowment fund.

SECTION VII
FOREIGN FOUNDATIONS AND FOREIGN ENDOWMENT FUNDS

Section 25

(1) A legal entity with its registered office outside the territory of the Czech Republic which is a foundation or an endowment fund under the law of the country in whose territory it has its registered office (hereinafter only “a foreign foundation”), may evolve its activities in the territory of the Czech Republic under identical conditions and in the identical scope as foundations or endowment funds established in compliance with this Act, unless stated otherwise by this Act or a special act.⁶

(2) The right of the foreign foundation to operate in the territory of the Czech Republic commences on the date of the registration of its branch established in the territory of the Czech Republic in the register, and ceases to exist on the date of the branch’s expunction from the register.

(3) The register court will register the branch of a foreign foundation that has been established in the territory of the Czech Republic, provided the purpose of the foreign foundation is in line with Section 1 (1) of this Act.

(4) The motion to register the foreign foundation’s branch is filed by the foreign foundation; the motion is to include the statute of the branch, further a proof the foreign foundation had been set up as a legal entity, and that the value of the asset deposit complies with the provisions of this Act.

(5) The entry in the register will include all data specified in Section 5 (4), letters a), c) and d), further the address of the branch in the territory of the Czech Republic and first and last names, personal identification number or date of birth, and permanent residence in the territory of the Czech Republic of the individual empowered to act on behalf of the foreign foundation in matters pertaining to the branch.

(6) Section 1 (3); Section 2; Section 3 (2) (d); Section 4; Section 7 (3); Section 7 (5) letters a) and c); and Sections 21 through 26 of this Act apply commensurably to the foreign foundation, with that proviso that under these provisions a foundation or an endowment fund is understood to be the branch of the foreign foundation.

**PART TWO
AMENDMENTS AND SUPPLEMENTS TO THE CIVIL CODE**

Section 28

The Act no. 40/1964 Coll., “The Civil Code” in the wording of the Acts no. 58/1969 Coll.; no. 131/1982 Coll.; no. 94/1988 Coll.; no. 188/1988 Coll.; no. 87/1990 Coll.; no. 105/1990 Coll.; no. 116/1990 Coll.; no. 87/1991 Coll.; no. 509/1991 Coll.; no. 264/1992 Coll.; no. 267/1994 Coll.; no. 104/1995 Coll.; no. 118/1995 Coll.; no. 89/1996 Coll., and no. 94/1996 Coll., are hereby amended and supplemented as follows:

1. Section 20b through 20c inclusive will be dropped.
2. In Section 476d (1), the full stop in the end will be dropped and the following words will be added; “ and when it has to have the form of a notarial deed”.

3. In Section 477(2), the semicolon after the word “foundation” will be superseded by a full stop and the remaining part of the sentence will be dropped.

⁶For example, Section 17 of the Act no. 219/1995 Coll., “On Foreign Currencies”

**PART THREE
SUPPLEMENTS TO THE CIVIL COURT CODE**

Section 29

The Act no. 99/1963 Coll., "The Civil Court Code" in the wording of the Acts no. 36/1967 Coll.; no. 158/1969 Coll.; no. 49/1973 Coll.; no. 20/1975 Coll.; no. 133/1982 Coll.; no. 180/1990 Coll.; no. 328/1991 Coll.; no. 519/1991 Coll., no. 263/1992 Coll.; the Czech National Council's Act no. 24/1993 Coll.; no. 171/1993 Coll.; no. 117/1994 Coll.; no. 152/1994 Coll.; no. 216/1994 Coll.; no. 84/1995 Coll.; no. 118/1995 Coll. no. 160/1995 Coll.; no. 238/1995 Coll.; no. 247/1995 Coll.; the ruling by the Constitutional Court of the Czech Republic no. 31/1996 Coll.; the Act no. 142/1996 Coll.; the ruling by the Constitutional Court of the Czech Republic no. 269/1996 Coll. And the Act no. 202/1997 Coll. will be supplemented as follows:

In Section 9 (2) (i), the full stop in the end will be superseded by a coma and letter k) will be added which, inclusive of Note no. 1a) will be worded as follows;

"k) in proceedings to wind up and liquidate a foundation or an endowment fund, to appoint a liquidator of the foundation or the endowment fund, and to nominate new members of the board of directors of the foundation or the endowment fund. ^{1a)}

^{1a)} Section 7 (3) through (5); Section 9 (2) and Section 16 of the Act no. 227/1997 Coll., "On Foundations and Endowment Funds and on changes and supplements of certain related acts (the Foundations and Endowment Funds Act)".

**PART FOUR
SUPPLEMENTS TO THE CZECH NATIONAL COUNCIL'S ACT NO. 549/1991
COLL.,
"ON COURT FEES." IN THE WORDING OF THE SUBSEQUENT REGULATIONS**

Section 30

The Czech National Council's Act no. 549/1991 Coll., "On Court Fees," in the wording of the Czech National Council's Act no. 271/1992 Coll.; the Acts no. 273/1994 Coll.; no. 36/1995 Coll.; no. 118/1995 Coll.; no. 160/1995 Coll. And no. 151/1997 Coll. Is hereby supplemented as follows:

In Section 11(2) (i), the full stop in the end will be superseded by a comma and letters k) and l) will be added to read:

"k) a foundation or an endowment fund in matters of the foundation register,

l) publicly beneficial companies in matters of the register of the register of publicly beneficial companies."

**PART FIVE
SUPPLEMENT TO THE CZECH NATIONAL COUNCIL'S ACT NO. 357/1992
COLL., "ON
INHERITANCE TAX, GIFT TAX, REAL ESTATE TRANSFER TAX" IN THE
WORDING OF
THE SUBSEQUENT REGULATIONS**

Section 31

The Czech National Council's Act no. 357/1992 Coll., "On Inheritance Tax, Gift Tax and Real Estate Transfer Tax" in the wording of the Czech National Council's Act no. 18/1993 Coll.; the Acts no. 322/1993 Coll.; no. 42/1994 Coll.; no. 72/1994 Coll.; no. 85/1994 Coll.; no.

113/1994 Coll.; no. 248/1995 Coll.; no. 96/1996 Coll.; no. 151/1997 Coll. And no. 203/1997 Coll. Will be supplemented as follows:

In Section 20 (4) (c), the full stop in the end will be superseded by a comma and letter d) will be added to read:

“d) foundations or endowment funds, as well as assets provided by the foundations or endowment funds in line with the purpose and condition set forth in the foundation charter or the statute.”

PART SIX
SUPPLEMENT TO THE CZECH NATIONAL COUNCIL’S ACT NO. 586/1992
COLL., “ON
INCOME TAXES” IN THE WORDING OF THE SUBSEQUENT REGULATIONS

Section 32

The Czech National Council’s Act no. 586/1992 Coll. “On Income Taxes,” in the wording of the Czech National Council’s Act no. 35/1993 Coll.; the Acts no. 96/1993 Coll.; no. 157/1993 Coll.; no. 196/1993 Coll.; no. 323/1993 Coll.; no. 42/1994 Coll.; no. 85/1994 Coll.; no. 114/1994 Coll.; no. 259/1994 Coll.; no. 32/1995 Coll.; no. 87/1995 Coll.; no. 118/1995 Coll.; no. 149/1995 Coll.; 248/1995 Coll.; no. 316/1996 Coll.; no. 18/1997 Coll.; no. 151/1997 Coll.; no. 209/1997 Coll. And no. 210/1997 Coll. Is supplemented as follows:

1. In Section 18 (7) the word “foundations” will be followed by the following words: “Endowment funds,”.

2. In Section 19 (1) (p), the full stop in the end will be superseded by a comma and letter r) will be supplemented that, inclusive of Note no. 57, will read:

“r) revenues arising from the lease of real estate that constitute part of the foundation equity and are registered in the foundation register, revenues arising from the lease of word of arts that constitute the foundation equity and are registered in the foundation register, interest and dividend revenues arising from securities that constitute part of the foundation equity and are registered in the foundation register, revenues arising from interest on financial means that constitute part of the foundation equity and are registered in the foundation register, provided they are deposited in a special bank account, revenues arising from copyright and patent rights that constitute part of the foundation equity and are registered in the foundation register; the tax holiday does not apply to those revenues that were used by the foundation in contravention of the special act.

⁵⁷⁾ Act no. 227/1997 Coll., “On Foundations and Endowment Funds and on changes and supplements of certain related acts (the Foundations and Endowment Funds Act).”.

PART SEVEN
AMENDMENT TO THE ACT NO. 563/1991 COLL., “ON ACCOUNTING,” IN THE
WORDING OF THE ACT NO. 117/1994 COLL.

Section 33

The Act no. 563/1991 Coll., “On Accounting,” in the wording of the Act no, 117/1994 Coll., will be amended as follows:

In Section 9 (1) (d), following words “association of legal entities and” the word “foundation” will be superseded by the words “ endowment funds”.

PART EIGHT
AMENDMENTS TO THE CZECH NATIONAL COUNCIL'S ACT NO. 102/1992
COLL.,
ADJUSTING CERTAIN ISSUES PERTAINING TO THE PASSING OF THE ACT
NO.
509/1991 COLL. WHICH AMENDS, SUPPLEMENTS AND ADJUSTS THE CIVIL
CODE

Section 34

The Czech National Council's Act no. 102 /1992 Coll. Adjusting certain issues pertaining to the passing of the Act no. 509/1991 Coll. Which amends, supplements and adjusts the Civil Code, will be amended as follows:

Section 12, including Note no. 8) will be dropped.

PART NINE
TEMPORARY AND CLOSING PROVISIONS

Temporary provisions
Section 35

(1) Foundations established in compliance with the regulations in force to date will be considered foundations or endowment funds under this Act provide the statutory body of the foundation will file within the deadline of 12 months from the effective date of this Act a motion to be registered pursuant to this Act including a proof of the prescribed minimum amount of foundation equity at the date of the filing of the motion, and will submit an adjusted statute of the foundation/endowment fund and copies of police records of the members of the board of directors, the supervisory board, or the comptroller; the police record copies may not be older than 6 months. An identical copy of the motion to be registered has to be sent by the statutory body of the foundation/endowment fund to the county authority, in the capital of Prague to the district authority (hereinafter only "the county authority"), that had previously registered the foundation.

(2) The statutory body of an foundation established in compliance with the regulations in force to date may decide to merge with another foundation in compliance with the regulations in force to date, provided the purpose of the receiving foundation is identical with, or similar to, the purpose for which the merging foundation had been set up. In mergers, Section 7 (1); Section 7 (2) (b) and Section 8 (4) through (7) will apply commensurably with the proviso that regarding these provisions, the foundation's statute will be considered the foundation charter; the list of foundations maintained by county authorities will be considered the register, and the county authority that had registered the merging foundation will be considered the register court. Upon the merger, the receiving foundation is obliged to proceed pursuant to paragraph 1 including the observance of the deadline specified in paragraph 1 for filing the motion to be registered in the register in compliance with this Act.

(3) The statutory body of an foundation established in compliance with the regulations in force to date may decide to transform into a publicly beneficial company. The transformation of the foundation, established in compliance with the regulations in force to date, into a publicly beneficial company will be effective at the inception date of the publicly beneficial company. At the inception date of the publicly beneficial company, all assets, rights and liabilities of the foundation that had ceased to exist due to the transformation will be assumed without liquidation by this publicly beneficial company. The publicly beneficial company

thus formed will notify of its establishment, without delay, the county authority that had originally registered the foundation.

(4) The statutory body of the foundation may, within the deadline of 12 months from the effective date of this Act, decide- instead of filing the motion in compliance with paragraph 1 or the procedures in compliance with paragraphs 2 and 3 – to wind up the foundation and liquidate it. The county authority will be notified of such liquidation. Upon the completion of

liquidation, the liquidator will notify the county authority of the foundation's demise. Provisions of this Act will apply commensurably for the settlement of liquidation balance.

(5) Upon the expiration of the deadline specified in paragraph 1 or 4 when no action was taken, or the motion to be registered was denied, the county authority will wind up the foundation and order its liquidation. The county authority will appoint a liquidator. Provisions of this Act will apply commensurably for the settlement of liquidation balance.

(6) Until the date of the registration pursuant to paragraph 1 or the foundation's demise pursuant to paragraphs 2 through 5, the legal circumstances of a foundation established prior to this Act's being in force will be governed by the current regulations unless otherwise stated by this Act.

(7) The foundation or endowment fund will compile extraordinary financial statements at the registration date.

Section 36

(1) Organizations with an international element evolving activities in the Czech Republic on the basis of a permit granted in compliance with a special act ⁷, that under this Act have a nature of a foreign foundation, may file within the 12-month deadline from the effective date of this Act, a motion to be registered pursuant Section 27 of this Act that will be supported by vouchers as specified by Section 27. An identical copy of the motion to be registered has to sent to the Interior Ministry by the organization with an international element.

(2) Upon the expiration of the deadline specified in paragraph 1 when no action was taken, or the motion to be registered was denied by the register court, the permit to evolve activities in the Czech Republic, that was granted in compliance with a special act ⁷ to the organization with an international element, will cease to exist.

Section 37 Effective date

This Act will be in force effective January 1, 1998.

Zeman, in own hand
Havel, in own hand
Klaus, in own hand

⁷Act no, 116/1985 Coll., " On conditions of activities for organizations with international element in the Czechoslovak Socialist Republic, "in the wording of the Act no. 157/1989 Coll.

⁷ ditto