

WHY
ESTABLISH
A PRIVATE
FOUNDATION?

Third Edition

Originally published in 1980 by
SOUTHEASTERN COUNCIL OF FOUNDATIONS

PREFACE

You are no stranger to the world of philanthropy. You have been asked to lend your name, your time, and your financial support to a number of charitable causes. Educational institutions, churches, hospitals, museums, orchestras, and other organizations have probably benefited from your generosity. Perhaps you serve on boards of directors or advisory councils for some of these charities. And you are constantly solicited by groups that want your help in combating various diseases, constructing new buildings, or saving animals from extinction.

Yet, despite your interest in the public good, you may never have seriously considered establishing a private foundation. Many people who are interested in the well being of their communities, and who are committed to expressing this interest in a creative and orderly way, find that operating a private foundation meets these goals. You could be among them.

Perhaps you have been discouraged from the possibility of establishing a private foundation by rumors of excessive federal and state regulation. This booklet takes a realistic look at the legal climate in which private foundations operate.

Perhaps you have been discouraged by the impression that tax benefits to private foundation donors have been removed or reduced so that you could not anticipate meeting your future family obligations and absorbing those costs. This booklet summarizes tax benefits and limitations which private foundations offer donors.

Perhaps you have been discouraged by your own lack of knowledge concerning the day-to-day operations of a private foundation. This booklet outlines the process of philanthropic grantmaking and suggests on-going sources of help for grantmakers.

Perhaps you have not considered establishing a private foundation because you thought that the government was taking care of everything. Former President Carter remarked that he couldn't think of one major movement for good in this country that had not been initiated by private resources. That pattern should be continued in our society, with the private sector leading the way for us and for those who will come after us.

There are far more needs in our country than will ever be met. More private foundations with vision and commitment are sorely needed. If you are considering establishing a private foundation, we urge you to pursue that interest. But do not begin with a concern for financial or legal matters. Begin with an examination of your own desire to accomplish good. If you wish to change the course of things, to follow through with your impulses for good, to invest your energy and skill in alleviating suffering, advancing knowledge, and enlarging opportunities, then use this booklet to help you gain insight into how a private foundation can help accomplish those purposes. While not a legal

textbook, an estate planning document or a manual for foundation operation, this booklet provides a valuable framework for planning. We invite you to read on and to consider joining us in this endeavor.

Robert Hull, for the Forum of Regional Associations of Grantmakers
Summer 1999

TABLE OF CONTENTS

Making the Future Possible

- The Changing Role of Philanthropy
- Private Foundations and the Tax Reform Act of 1969
- The Unique Benefits of Private Foundations

Will A Foundation Meet Your Philanthropic Needs

- Size Considerations
- Types of Foundations
- Major Provisions of the Tax Reform Act of 1969

Organizing a Foundation

- Seeking Advice
- Organization and Tax Exempt Status
- Formalizing and Exempt Purpose
- Choosing Foundation Mangers

Operating a Foundation

- Grantmaking Policies and Procedures
- Stand-by Foundations
- Changing Grantmaking Emphasis
- Terminating a Foundation

Reporting and Recordkeeping

- Federal Requirements
- State Requirements
- Informing the Public

Association With Other Foundations

- Local, Regional and National Councils
- The Foundation Center

Directory of Associations of Grantmakers

1. MAKING THE FUTURE POSSIBLE

The Changing Role of Private Philanthropy

An English Dictionary published in 1704 defined philanthropy as “a generous Love for Mankind in General, or an Inclination to promote Publick Good.” Although the style is quaint, the meaning is modern. It suggests an important distinction between the generosity which one individual exercises toward another and the philanthropic impulse to help larger numbers of people. The basic aim of private foundations is “to promote the Publick Good”.

In the United States, churches initiated the practice of general rather than person-to-person giving. Beginning with Colonial times, they used their resources to found and operate schools, hospitals and homes for children and the elderly. Churches cared for their parish poor and sponsored international missionary activities that brought medical, educational and practical assistance to people half a world away. During the late nineteenth century, church philanthropy was supplemented by local welfare societies organized in small towns and major cities. At the same time, wealthy individuals established increasing numbers of charitable trusts designated for specific purposes.

Social welfare remained largely the concern of private and religious philanthropy until the 1930s. But these resources could not begin to meet the demands placed on them by the Great Depression, and the federal government entered the arena. As fortunes crumbled, some previously active foundations dissolved. But, at the same time, such giants of the foundation world as The Ford Foundation, the Lilly Endowment and the Alfred P. Sloan Foundation were organized.

The federal government has remained in the business of social welfare long after the Great Depression. And, as observers are quick to note, governmental programs are more apt to react than to act. Absorbed by the day-to-day demands of bureaucracy and strangled by regulations, government agencies have little energy for long-range planning or creative thought. The individual who wants to pursue an innovative idea may find it impossible to attract the attention of such a ponderous system. Individuals who gain government funding may find their original ideas changed, or even lost, in the bureaucratic shuffle.

Private foundations, on the other hand, are organized for a variety of purposes and offer a multitude of potential sponsors for innovators in science, religion, welfare, education and the arts. In the business world, foundation grants would be called “venture capital” –the seed money that allows an idea to be tested. Private foundations help insure the viability of individual ideas, and in doing so preserve the pluralism of American society.

An important practical advantage of private grantmaking is expressed in a Roman proverb: “He gives a benefit twice who gives quickly.” While it may take years for a government agency to respond to a grant request, most private foundations have relatively simple application procedures. Unfettered by elaborate hierarchies, private foundations are often the only solution when the project seeking sponsorship must be carried out quickly or not at all.

In addition to sponsoring new ideas, private foundations have a long tradition of providing on-going community services. Private giving has helped perpetuate such diverse projects as boys’ and girls’ clubs, hospitals, colleges and symphony orchestras

Private Foundations and the Tax Reform Act of 1969

Traditionally, American charitable organizations have been tax exempt because the government wishes to encourage activities that serve the public good. And, since the advent of income tax in this country, individual and corporate contributions to charitable organizations have been tax deductible up to a certain percentage (which has varied) of income. Some groups and individuals, however, have taken unfair advantage of these provisions.

A long-running Congressional investigation which began in 1961 drew attention to a small number of individuals and families who used private foundations for non-charitable or political purposes. While the Select Committee on Small Business of the US House of Representatives pinpointed genuine abuses, its hearings and reports attracted publicity which exaggerated some of its findings and contributed to a hostile attitude toward private foundations. It was this atmosphere in which the Tax Reform Act of 1969 was written.

Some observers predicted that the Tax Reform Act of 1969 would drive private foundations out of existence. Although the Act places specific limitations on private foundations, it has certainly not made them extinct. Private foundations and their founders are a durable breed. Amendments to the Act passed in 1976, 1978, 1984, 1986, 1992 and 1996 have modified some of the harsher provisions applying to private foundations. As a result, it is estimated that there are more than 44,000 foundations in operation in the United States at the present time, and the largest number of those are private foundations.

Tax incentives for establishing private foundations still exist. Individuals may deduct cash contributions to a private foundation of up to 30% of the donor’s adjusted gross income. Details about gifts of appreciated property are discussed in Section 2. It is in

estate planning, however, that establishing a private foundation presents the greatest tax advantages. All contributions to private foundation by will are fully deductible for estate tax purposes. A legacy to a private foundation will substantially reduce the Federal estate tax imposed on the testator's estate.

Those familiar with the tax structure will hasten to point out that an individual may deduct direct contributions to publicly supported charities of up to 50% of his adjusted gross income. While the tax benefits available to those who exercise their charitable impulses exclusively through private foundations are smaller, many donors realize major tax planning benefits by a combined pattern of giving both to a private foundation and to public charities.

The Unique Benefits of Private Foundations

There are a number of benefits, both social and personal, which make private foundations very special investments in the future. Unlike a direct gift, which usually benefits one recipient on one occasion, a private foundation perpetuates the donor's generosity for so long as it exists. Foundations give to more recipients over a longer period of time.

As mentioned earlier, private foundations play a vital role in supporting social, scientific and cultural innovation. The kind of new ideas most needed by society changes over time, and a private foundation can respond to new needs as they occur. A one-time, direct gift does not provide this flexibility.

Several important personal benefits accrue to donors who establish private foundations. Many donors utilize private foundations as enduring tributes to loved ones – memorials that are not static monuments but living, changing entities. In addition, donors find that setting up a foundation is an effective means for organizing their charitable efforts and for regularizing the amount given. A foundation is also an orderly mechanism for giving that intervenes between the donor and potential recipients. In the case of a family foundation, most donors have found the foundation to be a stimulating and effective vehicle for teaching the next generation about philanthropy and its value to the family. In those family situations, the foundation also becomes a rallying place, an opportunity to share values and concerns for society, and a common cause for family members who might be scattered geographically.

The English poet Horace Smith wrote, "Our charity begins at home/And mostly ends where it begins." Even the most socially conscious donor is understandably concerned about providing for the wellbeing of his family, but careful planning makes it possible to attend to both familial needs and those of the community.

Not everyone should consider establishing a private foundation. But they are excellent charitable tools for individuals and families who want to have impact not only on their own time and place, but on the future. When one operates a private foundation, one joins the ranks of those who have not only voiced their concern for humanity, but who have translated this concern into action.

2. WILL A FOUNDATION MEET YOUR PHILANTHROPIC NEEDS?

Size Considerations

Unless a certain principal is available to generate funds for grantmaking it may not be worthwhile to incur the costs of forming and operating a private foundation. Although there is no legal minimum and no firm consensus on the amount that justifies establishing a foundation, there are some general guidelines.

One rule of thumb is that an annual minimum of \$25,000 should be available for grantmaking. This amount may be generated by endowment, annual contributions or a combination of the two. Another factor that is relevant to start-up size is whether or not future gifts to the corpus are anticipated. To a large degree the amount necessary to justify a foundation depends on the donor's interests. Many small foundations have been established, for example, in order to provide modest academic scholarships.

Two types of foundations are widely recognized exceptions to the rules governing size. One is the "stand by" foundation, which is set up to receive lifetime contributions and which stands by to receive a major bequest at death or on termination of a trust. In the interim, the donor gains experience with management and grantmaking procedures. The second is the "flow through" foundation, which converts appreciated and/or real property into cash and distributes the proceeds to publicly supported charities, without building up an endowment.

The types of assets available to an individual or family who is considering establishing a private foundation play a part in determining what kind of foundation should be set up and whether a private foundation is an appropriate charitable outlet.

Cash – Lifetime gifts of cash to a private foundation afford the donor a deduction of up to 30% of his or her adjusted gross income, with a five-year carry-over privilege for amounts in excess of 30%.

Appreciated Property – Lifetime gifts of appreciated property, such as closely held stock and real estate, may be deducted at cost. Publicly traded stock may be deducted at its fair market value. Although this provision expired on 12/31/94, it was subsequently restored for stated brief periods of time and at this printing is in effect. Check with your financial advisor or regional association of grantmakers as to its current status.

All these gifts of appreciated property to private foundations may be deducted up to 20% of the donor's adjusted gross income, with five-year

carryover privileges for amounts in excess of the 20% limit.

The above limitations apply only to lifetime gifts. Bequests are all deductible from the estate of the donor at full value.

Types of Foundations

There are a number of organizations whose names include the word “foundation” that are not technically foundations at all. They may use the word to describe efforts to raise funds to combat a particular disease or to support a particular educational institution. Generally, those "foundations" are actually publicly supported charities themselves, which exist to raise funds and distribute them to other public charities. They are often called "public foundations". On the other hand, private foundations, the subject of this booklet, are privately supported by an individual, a group of individuals, a family or a company. They exist for the sole purpose of making grants for charitable, educational or religious purposes or, in some cases, of carrying out such activities themselves. The major types of grantmaking foundations are discussed below.

Private non-operating foundations are usually incorporated under state law as non-profit corporations or organized as charitable trusts. They are recognized by the Internal Revenue Service as tax-exempt organizations. As the largest category of private foundations they vary greatly in size and purpose. A non-operating foundation may have derived the bulk of its income-producing corpus from a single bequest, or it may receive annual contributions from an individual, group of individuals or members of a family. Some non-operating foundations are “flow-through” or “conduit” foundations which distribute their assets soon after they are received. Others have substantial and long-lasting endowments. The primary purpose of a non-operating foundation is to make grants.

Grantmaking decisions are usually made by a board of directors or trustees, and this board may be autonomous or controlled by the donor or donor family. While grantmaking is the sole activity of some foundations, others participate actively in conferences, publications and research related to their field of interest.

All private foundations must set forth exempt purposes in their charters. Major non-operating foundations such as the Ford, Rockefeller and Sloan are general purpose foundations whose broadly-framed purpose allows them to make grants in virtually any field of endeavor. Special purpose foundations set forth a specific area of interest within which they will make grants. This may be a broad aim, such as the promotion of international peace, or a narrow one such as providing scholarships to the daughters of Lutheran ministers residing in Nashville.

Private operating foundations, as the name suggests, are not primarily grantmaking entities. They operate facilities or institutions devoted to a specific charitable activity spelled out in their charters. Some conduct research while others provide a direct service by operating museums, facilities for the handicapped, historical sites, etc.

Corporate foundations are usually private grantmaking foundations with close ties to the corporation that provides their funding. They are often “flow through” foundations that use funds received last year to make grants this year. Philanthropic priorities are usually set by the chief executive officer of the corporation or by a committee appointed by the foundation’s board of directors. Other corporate officers may serve as directors or trustees for the foundation.

Support foundations or named funds within a larger public charity or institution are attractive alternatives for donors whose philanthropic activity of choice is already being served by a large public charity, institution or community foundation. Support foundations or named funds are less administratively complex than independent, grantmaking foundations because the public charity that they benefit can assume many of the ongoing management responsibilities. Such foundations allow donors or donor families to maintain a continuing relationship with their chosen charitable enterprises. Although much grantmaking discretion is lost, the donors can often exercise considerable control of funds within the publicly supported organization or institution.

Community foundations are public charities, supported not by any one donor or donor family, but by the pooled contributions of a large number of donors. Although they are not the subject of this book, they deserve mention as a viable philanthropic outlet for donors who wish to serve the good of a particular community. Community foundations usually confine their grantmaking to a specific locale and decisions are made by trustees who represent a broad spectrum of the community’s residents. The Cleveland Foundation and the Community Foundation of Greater Atlanta are examples of such foundations. Donors may find that a gift to a community foundation, with instructions for its use, will serve their philanthropic goals.

Major Provisions of the Tax Reform Act of 1969 as Amended

The Tax Reform Act of 1969 is complex and a full explanation of its provisions is far beyond the scope of this book. What follows is a brief description of the major features of the Act that affect the formation and operation of private foundations.

Excise Tax -- A tax now set at 2% must be estimated and paid quarterly in advance on the net investment income of a private foundation. "Net investment income" includes dividends, interest and capital gains less the foundation's expenses related directly to the production of such income. The excise tax may be reduced to one percent if charitable distributions for the year equal or exceed the average of the previous five years' payout percent plus one percent of net investment income. In effect, the one percent tax saving must be added to the required payout for the current year, but is not considered a part of that year's total payout when figuring the next five-year average.

Self-dealing -- Transactions between a private foundation and its "disqualified persons" are called self-dealing. Disqualified persons include foundation managers, donors, owners of more than 20% of a corporation, trust or partnership which is a substantial contributor to the foundation and the family members of any of these persons. The foundation is also forbidden to deal with a corporation, trust or partnership in which any disqualified person holds an interest of 35% or more. Certain government officials are also considered disqualified persons.

Acts of self-dealing which are specifically prohibited by the Tax Reform Act include:

A private foundation and a disqualified person may not engage in any direct or indirect sale, exchange or leasing of property, regardless of how competitive the price.

A private foundation may not lend money or extend any other form of credit to a disqualified person. However, a disqualified person may lend money to a foundation, although there must be no interest or other charge, so long as the proceeds are used strictly for charitable purposes.

A disqualified person may be paid only for limited personal services provided and for expenses incurred in carrying out the exempt purposes of the private foundation. The total amount of compensation and reimbursement for expenses must be reasonable.

Acts of self-dealing are subject to heavy penalties in the form of additional taxes.

Payout requirements—A private foundation must distribute for its charitable purpose an amount equal to its "minimum investment return". The minimum investment return is defined by law as 5% of the average fair market value of all the foundation's assets, as determined by periodic appraisal. Failure to make charitable distributions at the required level will result in tax liability.

Limit on stock holding – A private foundation may not hold more than 20% of the voting shares of any corporation, public or private. This limitation was imposed because of past abuses which involved using foundations to hold large blocks of stock in family-run corporations in “friendly hands”.

Speculative investments –A private foundation may not invest in a manner that jeopardizes the security of its principal. The Internal Revenue Service pays special attention to foundation investments in highly speculative securities or futures. Foundations that invest according to generally accepted and prudent practices experience no difficulty in complying with this requirement.

Public reporting –Private foundations have been required for many years to file informational tax returns. The Tax Reform Act expanded the required forms and reaffirmed the rule that such returns must be available for public inspection. A copy of the annual return must be kept for public inspection at the foundation’s office, and copies of annual tax returns must also be filed with the state in which the foundation operates.

Grants to individuals –Individuals are frequently the recipients of foundation grants. Grants made for scholarship or fellowship purposes must be made on an objective and non-discriminatory basis according to procedures approved in advance by the Internal Revenue Service.

Propagandizing and lobbying –Private foundations are prohibited from attempting to influence the outcome of any election, but they may carry out voter registration drives under certain limited circumstances. With some important exceptions, private foundations are also prohibited from lobbying or attempting to influence legislation.

3, ORGANIZING A PRIVATE FOUNDATION

Seeking Advice

Individuals or families who are considering the establishment of a private foundation should seek technical assistance from a tax attorney or certified public accountant who is experienced in handling nonprofit tax matters. Existing private foundations are frequently able to recommend professionals who specialize in planning private foundations. Potential donors should consult *The Foundation Directory*, a standard reference work, for the names of foundations in their geographic area. Bank trust departments or trust companies may also be able to suggest appropriate attorneys or accountants. In addition, the Council on Foundations or the appropriate regional association of grantmakers can be of assistance (see Sections 6 and 7 for more information about these organizations).

Organization and Tax Exempt Status

All private foundations must qualify as tax-exempt organizations. The foundation must file an application for tax exemption (Form 1023) with the designated office of the Internal Revenue Service. The IRS will then determine whether the foundation meets the requirements for tax-exempt status. In addition, the new foundation will probably have to file with a state regulatory body and, when applicable, apply for exemption from state sales or property taxes.

The IRS will not recognize a “formless aggregation of individuals” as a tax-exempt entity. Therefore, private foundations are usually organized as corporations or trusts. Characteristics of these organizational types are:

Corporation—Most incorporated private foundations are set up as “nonstock, nonprofit” corporations. Articles of incorporation are normally filed with the Secretary of State or the Attorney General. Such a corporation, in general operates like a “for profit” corporation. The foundation’s board of directors elects officers, carries out the foundation’s activities and records its deliberations.

Trust—A private foundation organized as a charitable trust is governed by a trust instrument which appoints initial trustees, sets forth their powers and provides for orderly selection of future trustees.

Formalizing an Exempt Purpose

The exempt purpose set forth in a foundation's charter or trust instrument defines the arena in which its grantmaking will take place. In defining a purpose, the donor or donor family may wish to seek the opinions and advice of others. The founders, managers and directors of other private foundations can be especially helpful. There is a wide array of human and social needs and each private foundation has the opportunity to select which of these it wishes to address.

As mentioned earlier, exempt purposes of existing foundations run the gamut from global to highly specialized. The heavily endowed giants of the field, as a rule, have broad purposes which allow them to be active in a variety of endeavors. Smaller foundations often select specific areas of interest within such fields as science, medicine, education, the arts, social welfare or historic preservation. The responsibility for establishing a purpose rests with the donor, and there are no limits except that it be a charitable one.

If the foundation is organized as a charitable trust, special care should be taken in selecting its purpose. Because it is difficult to change a trust instrument once it has been finalized, this form of organization is best suited to donors who wish to insure that their charitable aims endure as originally set forth. It is much easier to change the exempt purpose of a private foundation organized as a nonprofit corporation, and donors interested in flexibility will find the corporate form attractive.

The foundation's purpose should be clearly expressed and accompanied by a set of basic policies designed to insure that its on-going activities will be consistent with the original goal. These policy resolutions should be periodically reviewed.

Choosing Foundation Managers

It is essential that private foundations, like commercial enterprises, have established management structures. Whether organized as a corporation or trust, a foundation must have mechanisms for making and implementing decisions. It is recommended that individuals with diverse backgrounds be included in the management process.

Kinds of foundation managers include:

Directors or trustees—The majority of private foundations have boards of directors or trustees. Members of such boards are usually chosen by the donor or donor family, and they are often members of the donor family. Ideally such boards should take an active role in setting the foundation's purposes and distributing its income. Sometimes, however, foundation boards meet infrequently and are poorly informed about the organization's charitable endeavors. It's best to select individuals with a high level of interest and commitment to foundation activities as directors or trustees.

Officers—Foundation boards usually elect officers to assume the ongoing administrative duties associated with foundation operation. As a rule, these officers are usually selected from among the members of the board or the donor family.

Bank trust departments—Bank trust departments are occasionally appointed as co-trustees for private foundations organized as trusts. Some foundations use the part-time services of the bank trust officers to manage their portfolios and carry out routine administrative duties such as meeting federal and state reporting requirements. While bank trust departments and their officers can provide adequate financial management, they are rarely equipped to execute the grantmaking responsibilities of a private foundation.

Paid staff—Larger private foundations frequently have full-time paid staff, while many smaller foundations rely on accountants, attorneys, and supporting staff who are employed by the donor or donor family. Other foundations hire part-time staff to carry out administrative duties. Meeting legal and investment responsibilities is not, however, all there is to private foundation management. Foundations of all sizes that are committed to innovative and sensitive grantmaking find that they need professional staff members, whether full- or part-time, who have expertise in the field in which grants are made, in grant management, and in communication with the public. Depending on the foundation's resources, such professional assistance may be obtained from consultants or from individuals who are permanently employed by the foundation. Experts in foundation programming can be located by contacting existing foundations, the Council on Foundations or your area's regional association of grantmakers.

4. OPERATING A FOUNDATION

Grantmaking Policies and Procedures

To a large extent, the exempt purpose of a private foundation determines how grants will be made. A foundation that exists solely to channel funds to a specific public charity or institution will not need to advertise the availability of grants or review applications. But a foundation whose purpose is to address problems of inner-city poverty, for example, must be prepared to receive and evaluate a wide variety of applications.

A clear set of policies and procedures for implementing the foundation's purpose should be determined by the donor in conjunction with directors or trustees or, when applicable, with paid staff or representatives of the community. Any geographical or other major restrictions on grantmaking should be determined. When contacted by potential recipients, a foundation should respond promptly with fact sheet and a straightforward explanation of procedures for receiving and processing grant applications.

Some foundations require the completion of an application form; others provide applicants with an outline of materials that constitute an application. When an application is received it should be acknowledged promptly and the applicant given a reasonable idea about when a decision will be reached. Applicants whose proposals are inappropriate because they fall outside the foundation's area of interest or fail to meet policy restrictions should be notified immediately.

Review of grant proposals should conform to the foundation's policies and procedures and be carried out in a fair and nondiscriminatory manner. Foundations boards and/or staff should work closely with successful applicants to insure agreement about the exact purpose of the grant, reports which may be required by the foundation and evaluation of the project.

The kind of grant determines how much follow-up and evaluation should be carried out by the foundation. Standard grants, such as unrestricted gifts to churches or universities, require minimal attention. Grants to innovative projects usually entail evaluation, which may include visits to the project, periodic reports from the grantee and independent audits. Foundations that deal in such grants may find, however, that following an ironclad evaluation plan is not practical. It is difficult to predict how long it will take to determine the value of a new program or approach and exactly which monitoring tools apply. It may be necessary to evolve an evaluation process in cooperation with each grantee.

The need for full- or part-time staff is also tied to a foundation's grantmaking policies and procedures. Evaluation of a large number of grant applications on a predetermined schedule may be beyond the capabilities of a volunteer board of directors or trustees. This type of grantmaking requires the services of professional foundation staff.

It is essential, at every step of the grantmaking process, that communication with grant seekers and the public be clear, open and based on mutual respect. Every private foundation plays a part in preserving the reputation of private philanthropy.

Stand-by Foundation

Stand-by foundations are created during a donor's lifetime with a minimum or modest endowment. The bulk of a stand-by foundation's endowment is planned to be received from the donor's estate, upon his or her death. These types of organizations have certain inherent advantages for the donor. The donor has the opportunity to select a board of directors or trustees and foundation managers in whom he or she has confidence before large sums are involved in grantmaking. Stand-by foundations also provide donors with the chance to explore various areas of philanthropy during their lifetimes. If either the board members or the foundation's purpose prove unsatisfactory, they can be changed before the foundation's major endowment is received. Stand-by foundations are also a good training ground for younger members of the donor family, and encourage them to develop philanthropic goals of their own.

Changing Grantmaking Emphasis

Once a foundation is in operation, the purposes for which grants have been made and their effectiveness should be periodically reviewed. This process may or may not entail changing the official exempt purpose of the foundation. In many instances a shift of emphasis can take place within the purposes set forth in the charter or trust instrument.

In evaluating the overall effectiveness of a grantmaking program, it is often advisable to call upon the expertise and insight of individuals beyond the inner circle of the donor family, directors or trustees and foundation staff. A foundation may wish to seek assistance from a grantmaking professional who is on the staff of another private foundation. If it appears that the purpose of grantmaking has become dated, and no longer speaks to what the foundation feels is an essential need, then it may be changed.

Private foundations, with their discretionary power, are in a uniquely responsive position. They can keep pace with social change more easily than governmental agencies, and with this capability comes the responsibility to be vigilant.

Terminating a Foundation

In certain circumstances a private foundation board may decide that it is appropriate and timely to terminate a foundation. This could occur because the foundation purposes have been achieved. It is also possible that the foundation board and donor family lose interest and find no likely candidates to take their places as future board members.

In such cases there are three options for terminating a foundation. They are:

Transferring assets to existing public charities or other private foundations

Qualifying as a public charity.

Consolidating with other private foundations.

REPORTING AND RECORDKEEPING

Federal Requirements

All private foundations must file a Federal tax return, Form 990-PF. In addition to information about the foundation's assets, income and expenses, this form requires that the foundation list its substantial contributors, foundation managers and highly compensated employees as well as all payments made to these persons.

The IRS makes copies of these tax returns available for public inspection. The foundation must also make a copy of its annual return available at its office, and must publish notice of its availability in a newspaper of general circulation, along with the foundation's telephone number.

State Requirements

Copies of the Federal tax return (Form 990-PF) must be filed with the attorney general's office in most states in which a private foundation is located. Some states may impose additional reporting requirements on private foundations, and advice concerning these should be sought from an attorney or certified public accountant.

Informing the Public

Historically, private foundations have been reticent about publicizing their activities. While many foundations sincerely feel that it would be inappropriate to sing the praises of their own good works, this silence has sometimes been mistaken for aloofness. In an effort to promote better understanding of private foundations and their endeavors, individual foundations should develop effective ways of communicating with the general public.

Making the annual return required by the IRS available to the public is a beginning, but Form 990-PF is uninviting to most readers. The grantmaking activities of a foundation, including those that fail to yield the intended results as well as those which succeed, can be presented in an interesting and informative manner. The testing of innovative ideas is a vital activity, and the results of foundation-sponsored experimentation are useful to government agencies, private citizens and other grantmaking organizations.

In addition, private foundations may wish to consider publishing newsletters or more formal periodic reports of their activities. The Foundation Center, a non-profit educational institution which collects and disseminates information about private foundations (and other types), can also be an effective channel for communicating with the public.

ASSOCIATION
WITH OTHER
PRIVATE FOUNDATIONS

Local, Regional and National Councils

Private philanthropy, as exercised through private foundations, must always keep its eye on its past and remember the trying times of the 1960s, when the US Congress scrutinized the activities of private foundations with great care. The enactment of the Tax Reform Act of 1969 served as a wake-up call to organized philanthropy in America, focusing philanthropy's attention on how it is perceived by lawmakers and the public. As a result of that new focus several amendments have been made to the Tax Reform Act of 1969 which indicate more favorable attitudes toward private foundations.

Association with other private foundations provides donors and foundation managers with the opportunity to share expertise and experience, to secure assistance with grantmaking and operation, to plan for the future and to make a concerted effort to support governmental regulation and legislation which will strengthen, rather than inhibit, private foundations. It is advantageous for private foundations to belong to the Council on Foundations, the national association for grantmakers, and to regional associations of grantmakers serving their geographic area. (A directory of grantmaker associations is available in Section 7).

The Foundation Center

The Foundation Center collects and disseminates valuable information about private philanthropy in the United States. The Center is an independent, nonprofit educational institution which publishes such standard reference works as The Foundation Directory and others. The Center serves as a repository for annual reports made by private foundations as well as for an extensive array of other documents pertaining to private grantmaking.

The Foundation Center maintains computerized files of information about available grants. Grant seekers, for a fee, can obtain customized printouts listing these grants by subject, size or geographical location.

NORTHWEST GRANTMAKERS ASSOCIATIONS

Pacific Northwest Grantmakers Forum

www.pngf.org

2815 Second Avenue, Suite 290

Seattle, WA 98121

PH: (206) 770-9423

FX: (206) 770-9424

Grantmakers of Oregon and Southwest Washington

1515 SW Fifth Avenue, Suite 500

Portland, OR 97201

PH: (503) 228-5512

FX: (503) 228-5840