

# 10 THINGS YOU DIDN'T KNOW YOU COULD DO WITH YOUR FOUNDATION

The Possibilities for Creative Philanthropy Are Limitless

**M**uch of what is written about private foundations focuses on their restrictions—what you can't do. In truth, the IRS allows private foundations wide latitude to undertake creative, inventive, effective philanthropy that couldn't be accomplished by other means. If you want versatility, a private foundation is the best possible charitable vehicle to bring your philanthropic vision to fruition.

Making donations to public charities will always be the cornerstone of foundation giving, but inspired philanthropists go beyond the simple transfer of funds to 501(c)(3) organizations. Whether giving to an orphanage in India that has never heard of an IRS 501(c)(3) designation or a hardware store in Newark running a safe trick-or-treating program for kids in tough neighborhoods, the IRS allows you to fund most any charitable cause as long as you follow the rules.

Using your creativity along with Foundation Source's expert advice, you can unleash the full potential of the private foundation. In this article, we outline ten things that you might not realize you can do with this powerful charitable vehicle.

## 1 GRANT TO INDIVIDUALS

Simply sending checks to nonprofits is rewarding—but did you know you can make grants directly to individuals and families in times of need? Private foundations are permitted to provide funds to individuals for emergency relief or hardship assistance in circumstances such as loss of employment, illness, and temporary displacement. One client

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provided hardship assistance to a couple burdened with devastating medical bills for their child's cancer treatment; another gave emergency grants directly to 200 local families whose homes were destroyed by a major hurricane. Whereas granting to a nonprofit is one type of experience, directly supporting a family touched by tragedy can provide a profound, personal dimension to your giving.

## 2 DIRECT CHARITABLE ACTIVITIES

A family foundation can conduct its own charitable programs directly, instead of through a public charity, without setting up a separate nonprofit



or converting to an operating foundation. Direct charitable activities (DCAs) are programs that permit foundations to directly fund and carry out their own projects. This brand of “hands-dirty” philanthropy suits those who want to contribute both financial and human capital to their good works. For these donors, it’s not about finding charities worthy of donations; it’s about solving a problem using their connections, capabilities, and capital.

Examples of successful direct charitable activities we’ve seen include:

- Providing highly durable soccer balls to kids in war-torn countries.
- Running a small mathematics museum to illustrate to children the importance of math in everyday life.
- Providing funds to purchase business attire and remove gang tattoos from paroled prisoners looking to rejoin the workforce.

For ideas big and small, direct charitable activities allow foundation members to use their unique resources and skills to produce results that grant dollars alone wouldn’t buy.

### **3 PROVIDE PROGRAM-RELATED INVESTMENT LOANS (PRI LOANS)**

Besides making grants, a foundation can make loans to charitable organizations and use the proceeds from the repayment of that loan to make other programmatic investments. And just like grants, PRI loans count towards the foundation’s 5% distribution requirement. For example, if a public library branch wanted to bring children’s literature to an underserved community but lacked the credit-worthiness to secure affordable financing, a foundation could provide a low- or no-interest, one-year loan, enabling the library to purchase a truck and reconfigure it as a “bookmobile.” At the end of the year, if the loan were repaid in full, the library would be more credit-worthy, and the foundation could “recycle” principal, loaning it to other organizations.

### **4 GIVE PROGRAM-RELATED LOAN GUARANTEES**

Loan guarantees are another way to provide charitable support—often without spending a dime. One client wanted to help a local food pantry, a public charity, expand its kitchen space and fix a leaking roof. Rather than loaning the food pantry the funds

**To achieve a charitable purpose, you can invest in a for-profit business out of the foundation’s grantmaking budget and have it count toward the 5% minimum distribution requirement.**

directly, she arranged a loan guarantee through her foundation at a local bank, enabling the pantry to finance their construction costs with far more favorable terms than they might otherwise have received based on their own creditworthiness.

### **5 MAKE PROGRAM-RELATED EQUITY INVESTMENTS**

Few donors realize that they can make equity investments in for-profit commercial ventures for charitable purposes out of the foundation’s grant-making budget and have it count toward the 5% minimum distribution requirement. For example, The Bill & Melinda Gates Foundation invested \$10 million in Liquida Technologies, a company whose technology accelerated the development of vaccines for diseases such as malaria that primarily affect people in the developing world. Although the company had already attracted investment from traditional investors, the Foundation’s sizeable investment made it a major shareholder, giving it the clout to ensure that Liquida continued to invest in therapies that address the unmet health needs of the world’s poorest countries, as well as its traditional sources of profit.

### **6 DONATE INTERNATIONALLY**

Making grants outside the United States holds great appeal for donors with family or ties to other nations and philanthropic goals that cross political borders. Private foundations may grant directly to overseas charitable organizations, even when there is no IRS-recognized 501(c)(3) entity to serve as an intermediary. For example, some foreign charities are automatically recognized by the IRS because of their special status (e.g. the United Nations); others have set up a U.S.-based “friends of” organization that is a recognized 501(c)(3) public charity that may accept funds on their behalf. But when there’s no easy route to channel funds to a favorite organization overseas, foundations may still make a grant by providing additional oversight, either by finding the organization to be “equivalent” to a U.S. public charity, or by exercising “expenditure responsibility.” These philanthropic alternatives have enabled our clients to support an after-school boxing club in England, a university in Singapore, a microfinance organization in Peru, and a home for AIDS orphans in East Africa, among many others.

## 7 GIVE AWARDS AND PRIZES TO SPUR PROGRESS

One effective method of driving innovation and creating buzz around one's field of interest is to offer a prize. Traditionally, awards were given as a way of rewarding past performance, (e.g., the Nobel Prize), but modern foundations are using prizes to drive future progress. For example, the first non-government-supported space flight was the product of a competition created by the \$10 million X-Prize. Prize-based philanthropy spurs innovation by enabling donors to leverage the creativity of many people to innovate or solve a problem without having to support each person individually.

## 8 PAY PROGRAMMATIC EXPENSES

Most donors want as much money as possible to go to their favorite charitable causes. But to make the best use of your charitable dollars, sometimes you need to spend money in order to save it. For example, the IRS recognizes that research and education to inform your philanthropy is vital and considers such research a legitimate expense. By undertaking research before putting dollars out the door, your foundation members will better understand the problem they've chosen to work on, learn who else is working on it, and surface multiple potential solutions.

Other allowable expenses for a private foundation include board meetings and site visits to explore and understand the work of potential grantees, and conferences or seminars in the foundation's areas of interest. As many foundations discover, these kinds of expenditures are often a wise investment of limited philanthropic dollars because they uncover new opportunities while preventing money being wasted on "re-inventing the wheel."

## 9 MAKE SET-ASIDES

As long as they meet certain requirements and obtain advance approval, the IRS allows private foundations to set aside funds in order to build up the reserves necessary for an ambitious future project. For example, if a foundation wants to undertake a large initiative (e.g., the construction of a building), the foundation could apply to the IRS for permission to set aside funds every year over five years that may be counted toward satisfying its minimum distribution requirement.

**Using grants, PRIs, scholarships, direct charitable activities and more, you can help others help themselves and in so doing, remake society to your vision of the ideal.**

## 10 UNDERTAKE IMPACT INVESTMENTS

There used to be a firewall between a foundation's investments and its grantmaking. But a relatively new idea, Impact Investing, aligns a foundation's financial investments to its mission while maintaining financial returns.

Impact investment opportunities are arrayed across a full spectrum of risk. Some donors make very secure deposits in community-owned banks that are subsequently lent out to charitable causes, for instance to a hunger relief agency to purchase refrigerated trucks; others use their position as stockholders in publicly traded companies to advocate for change from within, such as proxy voting on social issues. And some more adventurous investors invest in companies that are compatible with their mission, such as a biotech firm doing research on a rare form of cancer that affected a family member. Whether they have \$250,000 or \$500 million, private foundations are in a unique position to use all of their assets to advance their philanthropic missions—not just funds from their grantmaking budgets.

### NEW HORIZONS

Philanthropy is about more than your checkbook. It's a canvas upon which you express values and creativity. Using grants, PRIs, scholarships, direct charitable activities and more, you can help others help themselves and in so doing, remake society to your vision of the ideal. With such a range of possibilities, you can take on thorny problems, knowing you have the right tools to craft viable solutions.

If you are intrigued by the philanthropic approaches described in this article, contact Foundation Source at 800.839.0054 to learn more about how we support innovative philanthropy.

## **ABOUT FOUNDATION SOURCE**

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Now in our second decade, Foundation Source provides its services to more than 1,500 family, corporate, and professionally staffed foundations, of all sizes, nationwide. We work in partnership with wealth management firms, law firms, accounting firms, and family offices as well as directly with individuals and families. Foundation Source is headquartered in Fairfield, Connecticut.

Have a question? Call 800.839.0054 or send us an email at [info@foundationsource.com](mailto:info@foundationsource.com).

55 Walls Drive, Fairfield, CT 06824

**T** 800.839.0054

**F** 800.839.1764

[www.foundationsource.com](http://www.foundationsource.com)

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