

FOUNDATIONSOURCE

2022 REPORT ON

Private Philanthropy

/ GIVING AND INVESTMENT
TRENDS WITHIN
PRIVATE FOUNDATIONS /



From the CEO



How quickly times change. 2021 seems like a long time ago compared to today's challenges of record-high inflation, geopolitical and economic uncertainty, the Russia-Ukraine conflict and a sustained market downturn. But as we reflect on 2021, it was, at least in some ways, a refreshing and hopeful reprieve amid the extreme turbulence of 2020, which saw the rise of the COVID-19 pandemic, a host of environmental disasters and U.S. social unrest stemming from racial injustices and a deepening political divide. While the pandemic was still impacting just about every part of our lives in 2021, there were some corners turned, some economic recovery, some signs of normalcy returning and an impressive comeback in the markets.

For private foundations, the strong markets were a welcomed tailwind for increasing their giving in 2021, even after they generously – and without hesitation – answered the call for emergency aid in 2020. Foundation Source's **2022 Report on Private Philanthropy** examines the activities of nearly 1,000 private foundations with assets between \$1 million and \$500 million across the 24-month period encompassing 2020 and 2021 and found they:

- / **Increased aggregate grants by \$40 million** to a total of \$689 million in 2021, which represents an average of \$727,129 per foundation. Larger foundations, in particular, increased their giving by nearly 21%.
- / **Granted more than their annual mandatory distribution requirement** of 5% (as they consistently do), with smaller foundations giving nearly twice that amount.
- / **Made 500 fewer grants in 2021**, suggesting a shift from the 2020 focus on helping as many recipients as possible to having more targeted impact.

While some of our data indicates a return to pre-pandemic behaviors, the spike in giving over the last year could be a signal that the shocks of 2020 have had a lasting impact and set dedicated philanthropists on a new trajectory to address need in a less reactive, but increasingly generous way.

As the market winds have shifted again in 2022, it remains to be seen what will take place next but foundations will likely rise to the occasion. More than any other charitable giving vehicle, foundations are equipped with a powerful and versatile philanthropic toolkit for creatively solving problems and effecting change.

Foundation Source remains committed to our partnerships with private foundations and their professional teams, and providing insightful research and commentary on the state of private philanthropy. We hope that our **2022 Report on Private Philanthropy** inspires and informs your philanthropic endeavors as we enter this busy giving season and look forward to the possibilities of 2023. As always, we are here to help.

Thank you,

Sunil Garga

President and CEO of Foundation Source

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Key Findings

FOUNDATIONS GAVE
MORE MONEY THROUGH
FEWER GRANTS IN 2021
TO DELIVER MORE
TARGETED IMPACT /

/ Accelerated Giving

The stark needs of 2020 have seemingly propelled the philanthropic sector into an era in which philanthropists feel **a greater sense of responsibility to address visible and acute need.**

- / After the well-documented generosity in 2020, **private foundations increased their giving again in 2021**, with the foundations in our study collectively **granting \$689 million, or \$40 million more than in 2020.**
- / As we've observed in prior years, **foundations of all sizes granted more than their annual mandatory distribution requirement of 5% in 2021**, with smaller foundations giving nearly twice that (8.9%).
- / **Private foundation endowments experienced double-digit growth in both 2020 and 2021**, which is consistent with strong market performance and contribution rates, helping to **set the stage for future giving.** In 2021, endowments increased \$1.7 billion year-over-year.

/ A Return to Core Missions

Much of our data suggests **a post-pandemic easing that allowed private foundations to return to their core missions and established grantmaking processes** in 2021 after answering the call for emergency assistance in 2020.

- / **While foundations gave more dollars year-over-year in 2021, they made 500 fewer grants (30,470)** than in 2020, suggesting a move from urgently helping as many recipients as possible to making a more concentrated impact.
- / **Grants to individuals**, which foundations used extensively during the crises in 2020 to directly send emergency aid to people in need, **decreased by 64%** in 2021.
- / **Foundations decreased their use of general-purpose grants in 2021** by 3% after issuing an unprecedented number of them in 2020 to give recipients the latitude to direct funds where they were needed most.
- / **Grants supporting human services and public/societal benefit organizations decreased** in 2021 (after spiking in 2020) while those supporting education, the arts and the environment increased, indicating that many foundations are gradually refocusing on their pre-pandemic missions.
- / **Outside of traditional year-end giving, the highest volume of 2021 grant activity occurred in June** as it has in most years, aside from 2020 when it occurred earlier in the year in response to the national emergency proclamation regarding COVID-19.

/ Distinct Differences by Size

Foundations exhibit **distinct differences around giving and growth** based on their size.

- / Year-over-year, **larger foundations (those with assets between \$50-500 million) increased their giving by nearly 21% in 2021.** Mid-size foundations (\$10-50 million in assets) and smaller foundations (\$1-10 million in assets) decreased their giving by approximately 7% and 2% respectively.
- / **Contributions of new assets into foundations happened at a higher rate (9.9%) among the smaller segment,** as compared to their mid-size and larger counterparts (5.1% and 5.7% respectively). And while all foundations enjoyed growth in 2021, **smaller foundations realized the greatest gain in assets, adding 15.6% in net value.**
- / In their investment portfolios, smaller foundations had the largest allocation to equities and cash holdings, and the lowest allocations to alternative assets, in both 2020 and 2021. **Larger foundations were the opposite;** they devoted more than 20% of their portfolios to alternatives in both years—nearly five times the exposure maintained by smaller foundations.



As the nation's largest provider of management solutions for family, corporate and professionally-staffed foundations, Foundation Source is uniquely positioned to provide insights into the grantmaking and investment activity of private foundations.

For more than 10 years, we have collected and analyzed transaction-based data to provide **a timely, quantitative benchmark for the nonprofit sector and the professionals who support private foundations to help them optimize their operations and, ultimately, magnify their impact.**

According to publicly available data from the IRS, the U.S. is home to approximately 100,000 private, non-operating foundations. Despite all the attention given to the largest foundations and the highest profile philanthropists such as the Bill & Melinda Gates Foundation, MacKenzie Scott, Elon Musk and the Chan Zuckerberg Initiative, the majority of private foundations (92%) have assets under \$10 million, and just 2% have assets exceeding \$50 million.

This report presents a year-over-year analysis (2020 to 2021) of foundations with assets between \$1 million and \$500 million to provide insights into how the wealthiest families and most philanthropic organizations are effecting change in the world. It discusses their advanced grantmaking activities, including the size, timing and locations of the grants, their financial inflows and outflows, and their investment activity, including portfolio growth and asset allocation.

About This Report

U.S.-Based Private, Non-Operating Foundations by Asset Level

\$ ASSETS	# FOUNDATIONS	% TOTAL
<1M	62,599	62.9
1-10M	28,566	28.7
10-50M	6,316	6.3
50M+	2,097	2.1
TOTAL	99,578	100.0

Source: IRS Business Master File, May 2021

Report Methodology & Sample Demographics

The findings in this report are based on our analysis of the activities of a sample of 948 private, non-operating foundation clients. Our data are drawn from investment returns, asset balances, and transactions recorded by Foundation Source, as we paid grants and expenses on behalf of our clients, prepared their tax returns, and recorded investment information provided by each foundation's financial institutions, as we do not custody or manage assets.



Each of the foundations in our sample **met the following criteria:**

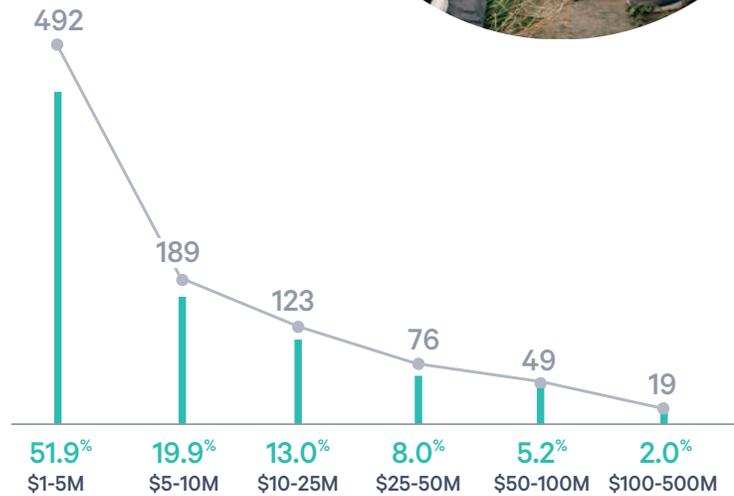
- / Active across the two years of the study period: 2020 and 2021
- / In existence for at least three years
- / Assets between \$1 million and \$500 million



Here is a closer look at the **948 foundations** we analyzed in this report.

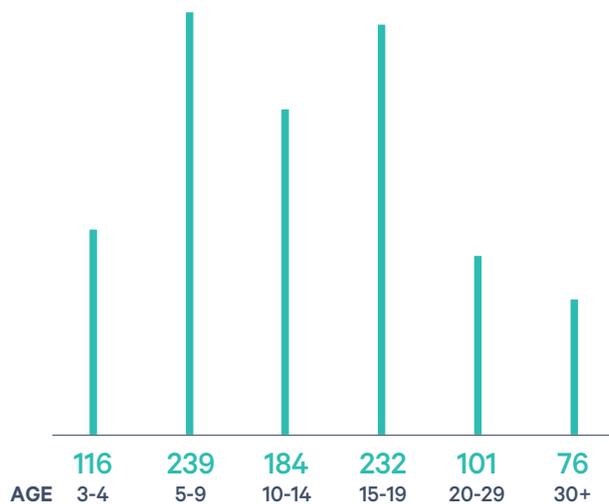
Composition by Asset Size

The vast majority, or 71.8%, of the foundations analyzed have assets of \$10 million or less. This sampling breakdown is consistent with the overall universe of similar U.S.-based foundations, as noted on page 7.



Composition by Age

Although the report includes foundations ranging in age from three years to more than 30 years, most of the foundations in our sample (81.3%) have been in existence fewer than 20 years.



The largest sub-group of foundations (239 of the 948) have been in existence between five and nine years, closely followed by those aged 15-19 years (232 of the 948), and as such have been through several grant cycles and potentially had the involvement of more than one leader or generation in both daily activities and governance matters.

Additionally, the majority of these foundations are led and managed by a founder or family leader, while larger and more complex foundations may be professionally staffed.

Throughout the report, we present both the aggregate results for the entire sample of foundations, as well as the results for subsets of foundations, **based on the following three asset bands:**

SMALLER FOUNDATIONS:
assets between
\$1 million and \$10 million



MID-SIZE FOUNDATIONS:
assets between
\$10 million and \$50 million



LARGER FOUNDATIONS:
assets between
\$50 million and \$500 million



The foundations in our sample had an **average age of 15 years** and average assets of **\$14.6 million**.





FOCUS GRADUALLY SHIFTED
AWAY FROM THE URGENT
NEEDS OF 2020 AS GRANTS
TO EDUCATION, THE ARTS
AND THE ENVIRONMENT
SAW MODEST
INCREASES /

Giving Trends

Size and Number of Grants

Collectively, the **948 private foundations** in our study made 500 fewer grants but gave nearly \$40 million more in 2021 than 2020.

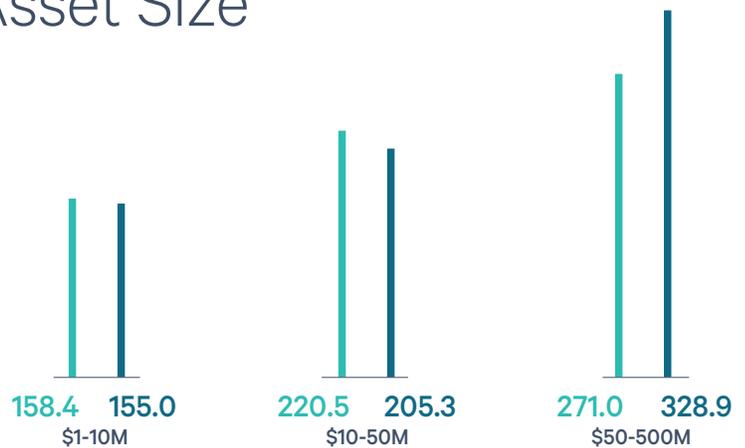
ALL FOUNDATIONS

2020 = \$649.8 M

2021 = \$689.3 M

The total value of all grants awarded increased from \$650 million representing 30,971 grants in 2020 to \$689 million representing 30,470 grants in 2021. While the total amount granted by smaller foundations remained about the same year-over-year, the total amount granted by larger foundations increased significantly by about 21% or \$60 million when compared to the previous year. Mid-size foundations decreased their giving by nearly 7%.

Grantmaking Totals by Asset Size



ALL FOUNDATIONS

2020

Mean = \$21,000

Median = \$4,000

2021

Mean = \$23,000

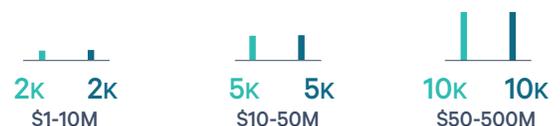
Median = \$5,000

Smaller foundations' grants remained constant at approximately \$9,000, while mid-size and larger foundations had slight increases (3% to 4%) for the same period. Median grant size remained constant year-over-year for all segments, ranging from roughly \$2,000 at smaller foundations to \$10,000 at larger foundations.

Average Grant Size



Median Grant Size



ALL FOUNDATIONS

2020

Mean = 34

Median = 17

2021

Mean = 33

Median = 18

Based on a weighted average, the number of grants awarded by all foundations in the sample was relatively flat year-over-year, however, more pronounced changes were evident when viewed by asset segment. This information helps to demonstrate that in 2020, to meet urgent needs resulting from the COVID-19 pandemic and racial equity/social justice issues, foundations were focused on getting emergency aid to as many recipients as possible. As those needs decreased in 2021 when the pandemic slowed, mid-size and larger foundations made bigger grants to fewer recipients, likely returning their focus to core missions and lessening emergency funding.

Average Number of Grants



Median Number of Grants



On average in 2021, the foundations in our study made 33 grants totaling \$727,129. Collectively, they granted \$689 million (\$40 million more than in 2020) to 16,943 nonprofit organizations.



/ Distribution Requirement

Foundations are required to disburse an amount of charitable funding each year equal to roughly 5% of their net assets of the previous year, known as the “minimum distribution requirement” (MDR). It is often assumed that most private foundations will curtail their charitable activities to stay at or near the 5% minimum requirement. In 2021, however, the foundations in our study collectively distributed an average of 7.2% of their assets for charitable purposes—generously exceeding the MDR. This finding is consistent with previous reports we’ve published using different samples of client foundations.

How Much Foundations Gave Relative to Their Assets

Over our 20+ years of working with foundations of all sizes, we have consistently seen their charitable distributions exceed the 5% MDR, and this year was no different. Historically, smaller foundations have been the most generous relative to their asset size, and they were the leaders again in 2021, distributing 8.9% of their total assets (down slightly from 9.1% in 2020), still nearly double the percentage required by law. Meanwhile, mid-size and larger foundations distributed 6.4% and 7.1% of assets, down from 6.7% and 7.4%, respectively.

Overall, in 2021, foundations distributed an average of 7.2% of their assets, down slightly from 7.5% in 2020.

Average Distribution Ratio by Asset Size

ALL FOUNDATIONS
2020 = 7.5%
2021 = 7.2%



The foundations in our study have a total of \$924.6 million in excess grant carry-overs for the 5-year period from 2017-2021, as a result of consistently giving above the MDR.



Giving by Charitable Sector

In 2021, the sector receiving the most foundation funding was Education, which increased slightly from 2020, followed by Public/Societal Benefit and Human Services, both of which decreased year-over-year by more than 2%. Three other sectors enjoyed modest increases in funding from 2020: Arts, Culture and Humanities; Environment and Animals; and Unknown/Unclassified.*

These year-over-year shifts across sectors are yet another indicator of foundation giving gradually shifting away from the urgent public health and social issues of 2020 and refocusing on core missions in 2021.

In 2021, as the turmoil of 2020 lessened, foundations gradually shifted their giving from urgent health and human services needs to revisiting their core missions.



		2020	2021	CHANGE
EDUCATION		20.9%	21.1%	↑ .2
HUMAN SERVICES		16.7%	14.5%	↓ 2.2
PUBLIC/SOCIETAL BENEFIT		17.4%	14.9%	↓ 2.5
ARTS, CULTURE & HUMANITIES		6.8%	7.4%	↑ 0.6
HEALTH		7.3%	7.1%	↓ 0.2
INTERNATIONAL/FOREIGN AFFAIRS		5.9%	5.5%	↓ 0.4
ENVIRONMENT AND ANIMALS		5.2%	6.8%	↑ 1.6
RELIGION RELATED		4.0%	2.9%	↓ 1.1
MUTUAL/MEMBERSHIP BENEFIT		.12%	0.0%	↓ 0.1
UNKNOWN/UNCLASSIFIED		15.7%	19.9%	↑ 4.2

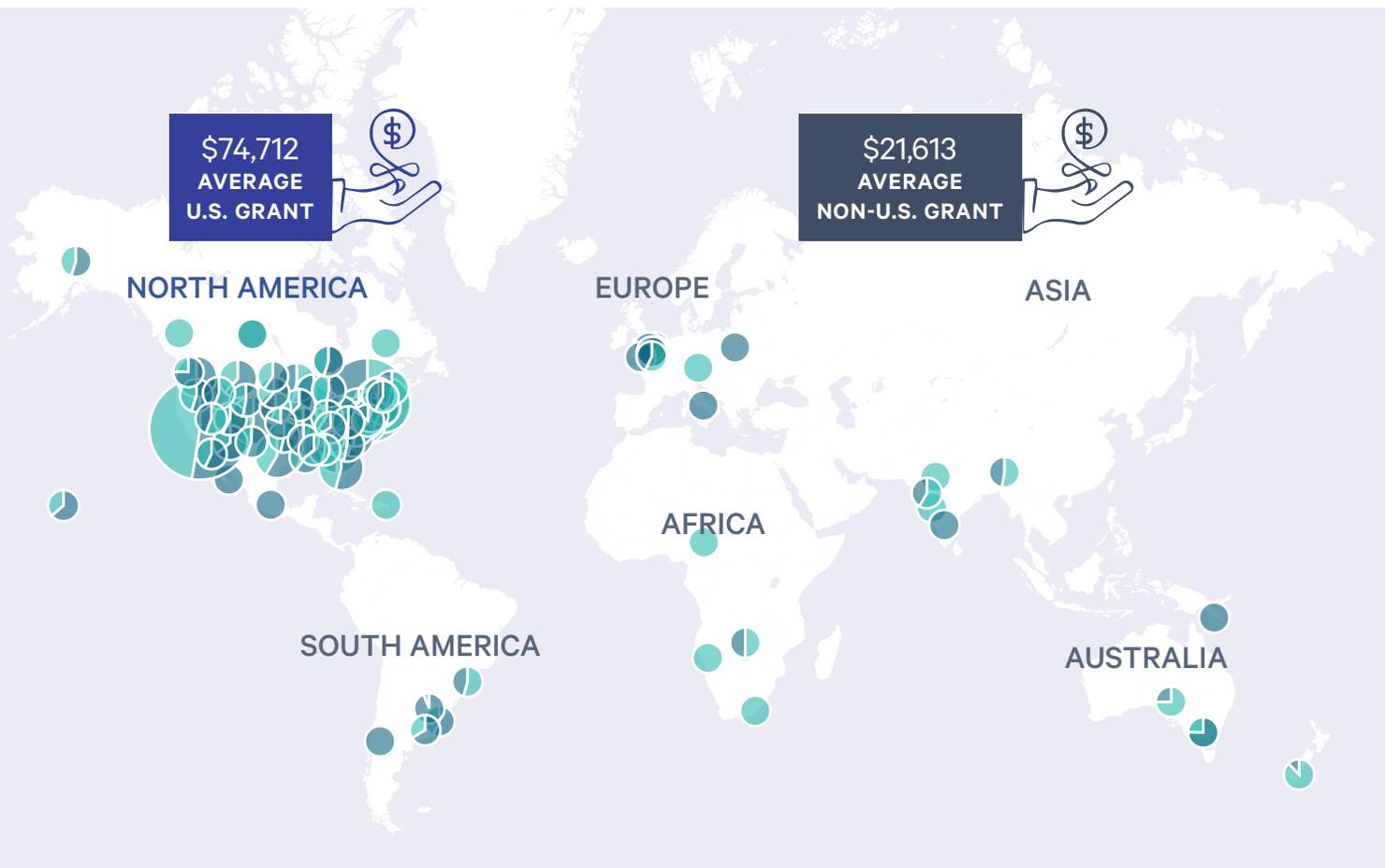
*25% of the 1,304,422 verified public charities in the U.S. do not currently have NTEE codes.

/ Where Grants Were Made

The map below shows the geographic location of grant recipients in 2020 and 2021. Although most of the grants made by the foundations in our sample were made domestically, grant dollars were directed to recipients in the U.S. and 32 other locations around the world over the past two years.

Of note, the average grant for non-U.S. locations is \$74,712, which is more than triple the size of the average U.S. grant of \$21,613.

Grants Geolocation 2020 2021



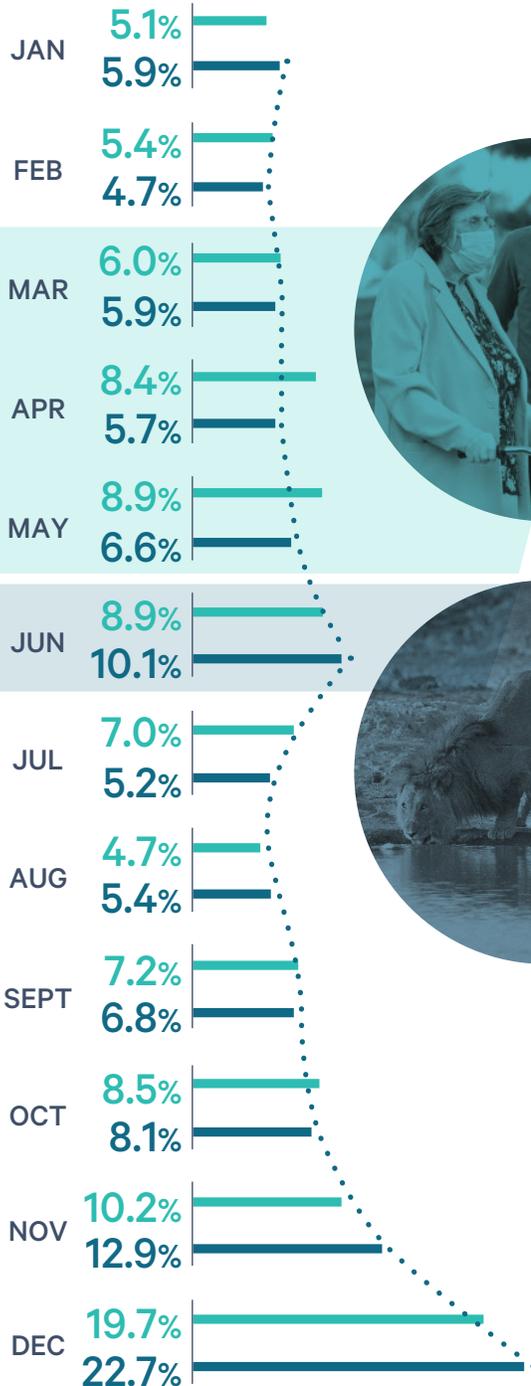
When Grants Were Made

As in previous years, foundation grantmaking activity in 2021 reached its highest point at the end of the calendar year. In both 2020 and 2021, approximately one-third of all grants were awarded in the “giving season” of November and December – most likely because these months encompass several holidays and occur just before the end of the calendar tax year.

NUMBER OF GRANTS

2020

2021



Additionally, as we’ve seen in most previous reports, we observed evidence of a **“summer bump” in grantmaking activity in June 2021**. This is likely due to: (1) foundations revisiting their charitable goals at mid-year, and (2) some foundations having fiscal tax years ending in June. **In 2020, however, there was a higher-than-usual volume of giving in April, May and June**, helping demonstrate how foundations responded to the March 2020 declaration of a national emergency due to COVID-19.

General vs. Specific-Purpose Grants

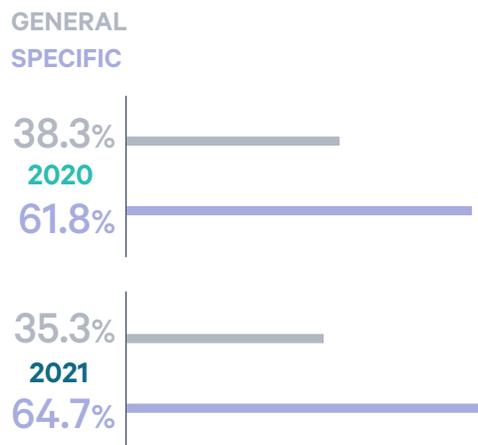
Grants can be made as general operating support (funds that can be used to sustain an organization's overall operations) or for a specific purpose (support for a designated program or initiative). General operating support is particularly treasured by nonprofits because it can be used as they wish, either to pay basic expenses that help keep the lights on, to launch a new program, or to **address new or unexpected needs such as a sudden call for emergency aid.** (In 2020, nonprofits saw a larger number of general-purpose grants in response to the COVID-19 pandemic.)



Funders, however, typically favor specific-purpose grants because they want their resources devoted to programs that further their own charitable objectives.

General vs. Specific-Purpose Grants All Foundations

In 2021, **foundations increased their giving of specific-purpose grants by roughly 3%**, in turn decreasing their general-purpose grants by the same amount. This shift, too, signals a return to pre-pandemic conditions as donors felt less compelled to give with fewer restrictions as they did in 2020 when they hoped their general-purpose funding would enable grantees to deploy resources more quickly in response to COVID-19 and other emerging needs.



General vs. Specific-Purpose Grants by Foundation Size

Funding for general operating support versus specific purposes varied by foundation size. Smaller foundations gave nearly equal amounts for each in 2020, yet in 2021, all foundations favored specific-purpose grants. Larger foundations favored them the most; 72.4% of their grants were specific-purpose and may be linked to bigger gifts where funders have explicit goals.



/ Other Tools for Giving

While gifts to public charities are the cornerstone of foundation giving, the features of a private foundation allow funders to deploy assets in a wide variety of ways that gives them an extraordinary and flexible toolkit to pursue their missions. **Some of these tools include:**

Direct Charitable Activities (DCA), such as establishing and running a museum or a training camp, or one-time activities like clothing and food drives



Gifts to Individuals, providing funds directly to individuals or families for emergency relief or hardship assistance

Gifts to Non-501(c)(3) Entities, which may include international and global entities, 501(c)(4) social welfare organizations (such as a volunteer fire-department) or even for-profit businesses, when those funds are used to advance the foundation's charitable mission



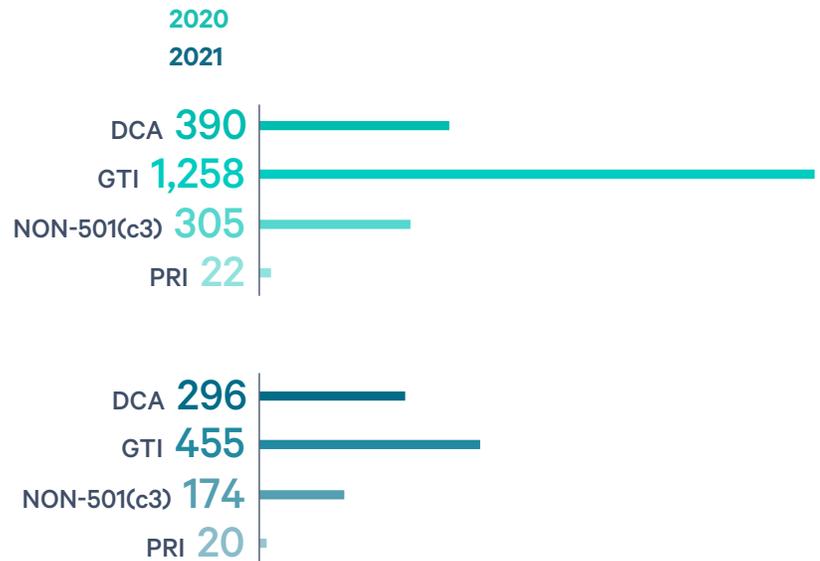
Program-Related Investments (PRI), which include loans, loan guarantees, and even equity investments, which are generally recaptured in part or in whole

Advanced Grantmaking Activities by Number

The foundations in our study took advantage of all these capabilities. The most notable change on a year-over-year basis is the 64% decrease in gifts to individuals in 2021, which foundations used abundantly in 2020 to get charitable aid quickly and directly to the people and places that needed it most during the height of COVID-19. As the world began to recover in 2021 and urgent need tapered, foundations used grants to individuals far less.

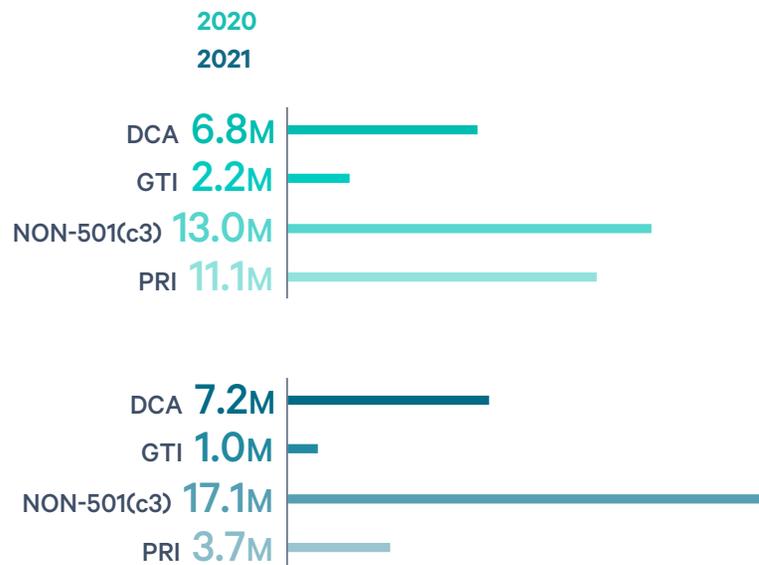


2021 saw fewer yet larger grants to non-501(c)(3) organizations and fewer emergency grants to individuals.



Advanced Grantmaking Activities by Dollar Amount

It's also notable that while the numbers of all alternative gifts decreased in 2021, the dollars earmarked to non-501(c)(3) entities increased by \$4.1 million. Again, this trend suggests a return to pre-pandemic activity in which foundations make larger grants to fewer recipients within their core missions.



Investment Trends

ENDOWMENT PORTFOLIOS
EXPERIENCED DOUBLE-DIGIT
NET GROWTH WITH THE
HELP OF STRONG MARKETS
AND NEW CONTRIBUTIONS



Portfolio Growth

To examine how the foundations in our sample fared relative to the market, we looked at the change in their investment portfolios due to capital gains, unrealized gains, and dividend and interest income.

Overall portfolio performance was strong for the 24-month period of the study, which is consistent with the performance of the U.S. equity markets, the largest holding in most foundation endowments.

Portfolio Performance (Gross-of-Fees)



Portfolio Performance by Foundation Size (Gross-of-Fees)

Foundations of all sizes experienced double-digit annual growth in both 2020 and 2021, gross-of-fees, due to a combination of gains and income.

ALL FOUNDATIONS
2020 = 14.7%

ALL FOUNDATIONS
2021 = 15.0%



/ Asset Allocation

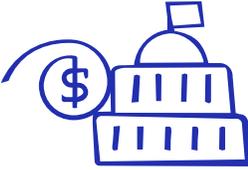
The study analyzed foundation asset allocation across **five broad categories**:



EQUITIES
domestic and international



CASH
cash and cash equivalents



FIXED INCOME
corporate and government bonds



ALTERNATIVE INVESTMENTS
private equity, hedge funds, publicly traded partnerships, real property and cryptocurrency

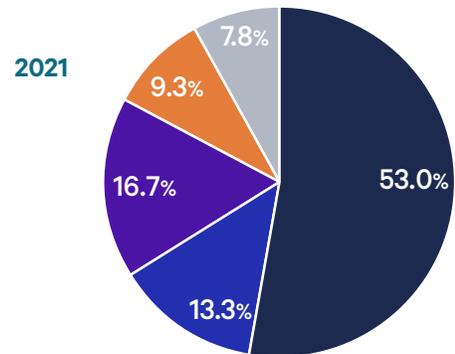
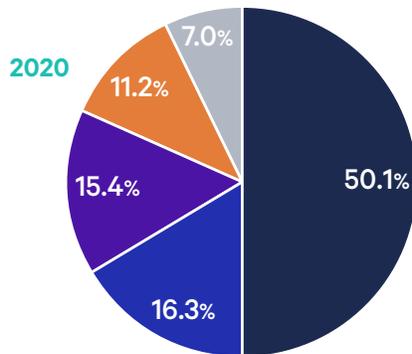


OTHER
life insurance, program-related investments, receivables, closely-held stock, annuities and inventory

Over the 20+ years that we have worked with private foundations, equities have consistently represented the largest share of endowment portfolios. The latest figures indicate that foundations maintained their enthusiasm for equities in 2021, which is understandable given the long-term investment horizon for most foundations.

Asset Allocation All Foundations

EQUITIES
FIXED INCOME
ALTERNATIVES
CASH
OTHER



Asset Allocation By Foundation Size

In 2021, the foundations in the study continued to invest the largest share of their portfolios in equities, allocating an average of 53% of their endowments to that asset class, up slightly from 50% in 2020 while allocations were shifted away from fixed income and cash.

2020	EQUITIES	FIXED INCOME	ALTERNATIVES	CASH	OTHER
\$1-10M	60.3%	15.7%	4.6%	13.2%	6.2%
\$10-50M	50.8%	15.3%	14.8%	11.7%	7.4%
\$50-500M	44.8%	17.4%	20.2%	9.7%	7.0%

2021	EQUITIES	FIXED INCOME	ALTERNATIVES	CASH	OTHER
\$1-10M	61.5%	13.9%	5.4%	12.4%	6.9%
\$10-50M	56.8%	12.6%	13.4%	9.9%	7.4%
\$50-500M	47.1%	13.5%	23.5%	7.6%	8.4%



SMALLER FOUNDATIONS (\$1-10M)

Compared to their mid-size and larger foundation cohorts, the smaller foundations had the largest allocation of equities and cash holdings, and the lowest allocations to alternatives, in both 2020 and 2021. Because these foundations disburse a larger percentage of their assets in grants and expenses, they need to maintain higher liquidity to fund their activities.



MID-SIZE FOUNDATIONS (\$10-50M)

The mid-sized foundations also allocated the greatest share of their assets to equities, up from 50.8% in 2020 to 56.8% in 2021. At the same time, they decreased their exposure to fixed income year-over-year from 15.3% to 12.6%.



LARGER FOUNDATIONS (\$50-500M)

The largest foundations in our sample had the lowest allocation to equities at 47.1% in 2021. Additionally, as these foundations may have access to investment opportunities that are unavailable to smaller investors, they devoted 23.5% of their portfolios to alternative assets in 2021—nearly five times the exposure maintained by smaller foundations.

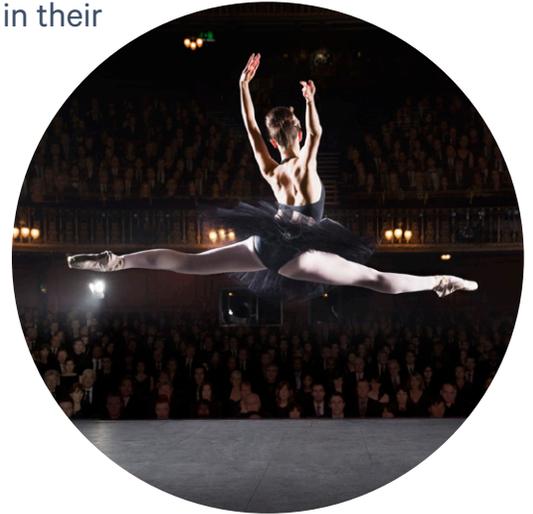
Changes in Asset Values

Collectively, the foundations in our study saw meaningful growth in their endowments and, at the end of 2021, held \$13.8 billion in assets.

Even accounting for grants and expenses, the foundations in our sample showed an **overall net increase in their endowments of \$1.7 billion between 2020 and 2021**, with the largest foundations experiencing the **biggest jump in total assets**.

As foundations grant funds quite generously relative to their assets (see page 14), the increase depicted on these charts represents investment performance, additional funding or both.

Growth varied significantly depending on assets – with smaller foundations growing at a higher percentage than larger foundations – but all segments experienced double-digit growth in 2020 and 2021.



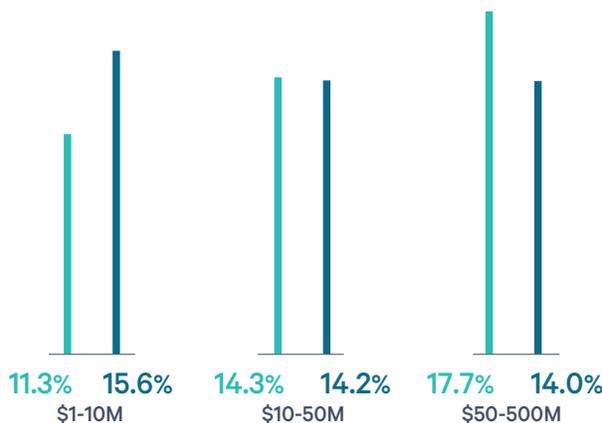
Total Asset Balance by Foundation Size

ALL FOUNDATIONS
 2020 = \$12.1B
 2021 = \$13.8B



Total Asset Growth by Foundation Size

ALL FOUNDATIONS
 2020 = 15.1%
 2021 = 14.4%



/ Analysis of Changes in Asset Values

The foundations in our study increased their net assets in 2021 by 14.4%.

In addition to solid investment returns, donors contributed 63 cents to their foundations for every 70 cents they disbursed as grants and charitable expenses, indicating an ongoing philanthropic intent.

However, that growth was inconsistently distributed across the three foundation cohorts. These different outcomes cannot fully be attributed to investment returns. Instead, as shown below, disparate rates of outflows in the form of grants and expenses also account for a good part of the variation in their net asset values.

		2020	2021	CHANGE IN NET VALUE	
CONTRIBUTIONS		7.8%	6.3%	↓	1.5
GRANTS		-6.4%	-5.7%	↓	0.7
EXPENSES		-1.2%	-1.3%	↑	0.1
REALIZED GAINS		4%	5.5%	↑	1.5
INCOME		2.3%	1.9%	↓	0.4
UNREALIZED GAINS		8.4%	7.6%	↓	0.8
NET		15%	14.4%	↓	0.6



SMALLER FOUNDATIONS (\$1-10M)

Smaller foundations realized the greatest gain, adding 15.6% in net value. This increase was the combination of investment returns and new contributions, which were more than sufficient to cover the 8.9% that these foundations disbursed as grants and expenses. The smaller foundations also had a considerably higher increase in contributions (9.9%) compared to their mid-size and larger counterparts (5.1% and 5.7% respectively).



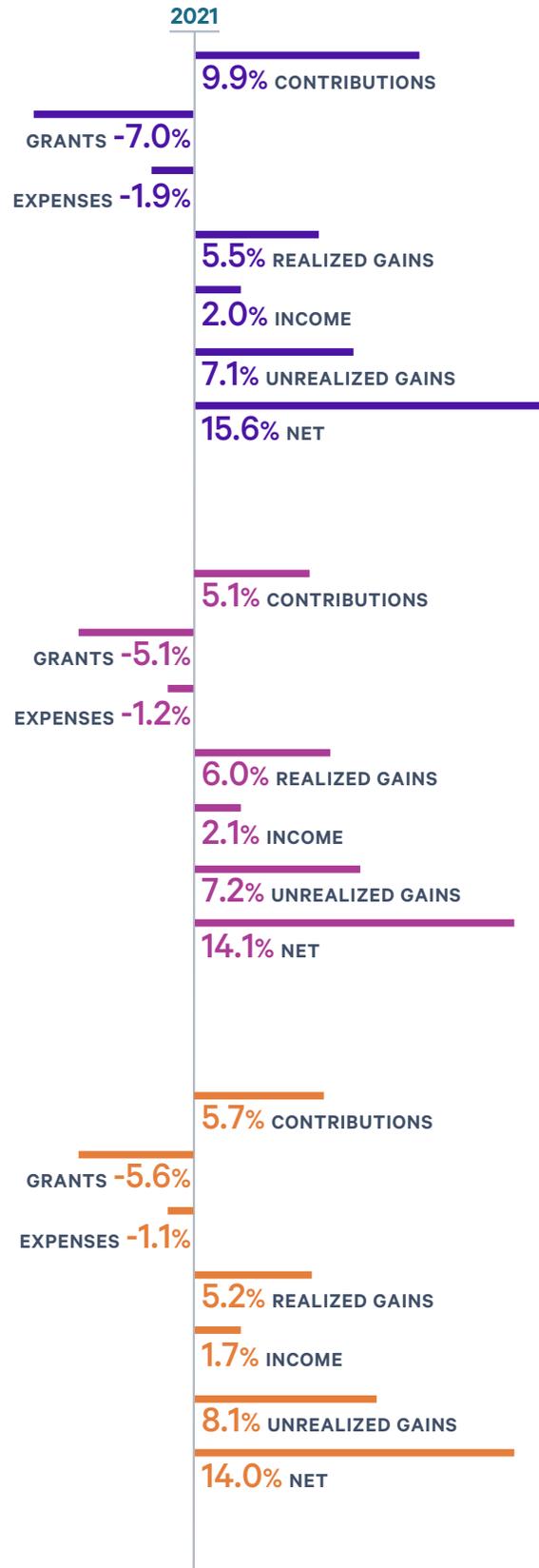
MID-SIZE FOUNDATIONS (\$10-50M)

Mid-sized foundations gained 14.1% in net value. This increase was the combination of investment returns and new contributions, which were more than sufficient to cover the 6.3% that these foundations disbursed as grants and expenses.



LARGER FOUNDATIONS (\$50-500M)

Larger foundations gained 14% in net value. Gains and income accounted for 15% increases which, along with new contributions of 5.7%, were more than sufficient to keep pace with their disbursements of 6.7% in grants and related expenses.



Some foundations included in the research sample own investments in partnership interests; there may be changes in asset balances due to Schedule K-1 activity after the publication of this report.

/ Conclusion

2021 will forever be known as the year of recovery from a tumultuous, pandemic-stricken 2020. It was a time of long-awaited COVID-19 vaccines and treatments, economic bounce-back to strong markets and fruitful investments, an awakening to social and racial equity issues within the U.S., and, we're pleased to report, increased charitable giving by private foundations.

After generously supporting pandemic emergency relief efforts in 2020, **foundations gave even more abundantly in 2021** as they continued to assist with pandemic recovery efforts, revisited their core charitable missions, and responded to emerging needs.

We're also pleased to report that, as in many years past, **private foundations granted more than their annual MDR of 5%**, with smaller foundations giving nearly twice that amount.

As we partner with private foundations to help them realize their philanthropic goals, **we are encouraged to see them consistently and increasingly answer the call for charitable support.** In the years ahead, we are confident that their generosity will continue and look forward to witnessing the innovative and impactful ways in which they will change the world for the better.



/ Terminology

ASSETS/ENDOWMENT

All investments, cash, and other property held by the foundation for investment purposes at a given moment in time, generally the last day of the year, unless otherwise noted. Our definition does not include property used directly in carrying out the foundation's charitable mission, such as land used to operate a camp for disadvantaged youth or a building used as a community center.

AVERAGE INVESTMENT ASSETS

The assets against which the 5% mandatory distribution requirement is measured. It is calculated by valuing all investments periodically throughout the year (monthly for most liquid assets) and taking the average of those values. This number does not include assets used in carrying out the foundation's charitable mission, such as buildings, art, property, or equipment used directly for charitable activities.

CHARITABLE EXPENDITURES

All funds expended by the foundation in furtherance of its charitable purposes, including all grants and all reasonable and necessary administrative expenses. These expenditures do not include investment expenses or other expenses related to producing income.

CONTRIBUTIONS

New gifts to the foundation. These gifts are typically from the founder or parent company (in the case of a corporate foundation), but they may also come from family members, related businesses, and others close to the organization. While some foundations also conduct occasional fundraising events, the amounts collected at such events typically do not represent a significant source of new revenue. Because of somewhat complicated IRS rules that can discourage foundation-to-foundation transfers, contributions generally do not include funds from other private foundations.

EXPENSES

All amounts spent by the foundation in pursuit of its mission, including administrative expenses, investment management fees, compensation paid to employees, rent, fees for services, and all other program and operational expenses, exclusive of grants.

GRANTS/GIVING

Funds distributed to individuals, charitable organizations, or other organizations that are used exclusively to support charitable activities. Money spent on rent, to purchase supplies, or in any other quid pro quo transaction—even if entered into to further the charitable programs and mission of the foundation—is considered an expense, not a grant.

MINIMUM DISTRIBUTION REQUIREMENT

Federal tax laws require that private foundations distribute a certain amount each year for charitable purposes, which can include some administrative expenses. That amount is equal to 5% of the foundation's average investment assets from the previous year, less a few minor modifications and credits set forth in the tax regulations.

PRIVATE, NON-OPERATING FOUNDATION

This type of foundation is also known as a grantmaking foundation, distinguishing it from an operating foundation which devotes most of its resources, at least 85%, to the active conduct of its own charitable, educational and other exempt activities.

ABOUT FOUNDATION SOURCE

Foundation Source **empowers people and companies to create a better world** through philanthropy. As the nation's largest provider of foundation management services, we're a trusted source for philanthropic expertise. We invest in industry-leading technology for private foundations and offer a configurable suite of administrative, compliance, tax and advisory solutions that meet you where you are in your philanthropic journey.

For more than two decades, we've worked with individuals, families, boards and professional advisors to preserve legacies and make giving easier. Today we are proud to support **more than 2,000 unique foundations** and have facilitated over **\$10 billion in charitable aid**. With a 98% retention rate, we are honored to have earned the trust and loyalty of our clients.

HAVE A QUESTION?

Call 800.839.0054 or send us an email at info@foundationsource.com.

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