

How Expenses Can Increase Philanthropic Impact

CONSIDER THEM AN
INVESTMENT IN MORE
STRATEGIC GRANTMAKING

Because most philanthropists want the lion's share of their charitable dollars to go to social issues and causes, "expenses" has become something of a dirty word—you want to cut as many as those as possible lest they divert resources from more useful ends. Expenses, however, don't necessarily deserve their bad reputation. **In fact, the right kinds of expenses can be an investment in more effective philanthropy.**

It's not just what you pay for but how you pay that matters. When you give as an individual, expenses come out of your pocket. But when you have a private foundation, the foundation pays for all legitimate and reasonable expenses incurred in carrying out its charitable purpose including conferences, consultants, office supplies, and travel for site visits—and it pays with tax-advantaged dollars that count toward the foundation's minimum distribution requirement (the "5% payout" that foundations are required to make each year).

Here's how you can use expenses to make grantmaking more strategic, streamline operations, and enhance engagement.

Strategic Grantmaking /

The ability to pay expenses with tax-advantaged dollars is a tremendous advantage if you want to deploy funds more strategically. For example, you may wish to incur expenses to:

- Hire issue experts to conduct research and/or advise you on opportunities in your field of interest.
- Conduct site visits prior to funding decisions and/or during the course of a grant.
- Hospitals and medical research organizations.
- Attend conferences and workshops that help you understand the needs in the field, meet the key players, and learn how to be a more effective philanthropist.
- Join donor networks or industry groups to share and learn from peer foundations with similar philanthropic interests.
- Retain legal counsel to help structure naming opportunities, capital gifts, or complicated, multi-year grants.

Incurring these expenses before you put a single dollar out the door can save you money in the long run, help you make more informed grantmaking decisions, and ensure that you get the results you anticipate.

EXPENSES CAN HELP YOU MAKE
MORE INFORMED GRANTMAKING
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YOU ANTICIPATE. /



Lean (Yet Comprehensive) Administration /

All private foundations must comply with federal and state laws and IRS regulations. This necessitates the preparation and filing of federal and state annual returns, due diligence on grant recipients, and recordkeeping that documents the foundation's compliance with various regulations. And someone needs to take care of the day-to-day operations common to foundations including cutting checks, opening the mail, answering the phones, and anything else that comes up.

To accomplish this work, the boards of smaller foundations often stitch together some combination of a team: an attorney, their accountant, and a non-foundation employee (such as a family member, the administrator for a family business or family office staff). This “patchwork” solution can be cumbersome and even potentially risky if responsibilities fall through the cracks.

Enhanced Engagement /

At the very least, foundation members typically meet in person at least once a year to discuss and approve policy changes and other major actions, and to oversee the management of the foundation's investments. (Foundations established by Foundation Source have the option to hold this annual meeting by telephone and conduct regular foundation business virtually, using Foundation Source's online technology platform.) A face-to-face meeting, mandatory or not, is often the best way to deepen connections to the foundation and to each other. The foundation can cover the cost of attending in person meetings, as long as a few guidelines are kept in mind:

- Travel accommodations should be "reasonable," not lavish. For example, rental cars or taxis are usually preferable to private limousine services.
- Meetings should be held somewhere convenient or relevant to the foundation's business. If you live in Minnesota and grant exclusively in the Midwest, it's hard to justify a board meeting in Las Vegas.
- Only foundation members' expenses can be reimbursed for attending foundation business. Spouses and children who are not serving on the foundation and attend must pay their own way.

SPENDING APPROPRIATE AMOUNTS ON ADMINISTRATION, GOVERNANCE, RESEARCH, STAFFING, AND EDUCATION MAY MAKE THE DIFFERENCE BETWEEN ACHIEVING GOOD AND EXCEPTIONAL RESULTS.



Clearly, no foundation should freely spend on itself at the expense of funding its grantees, but spending appropriate amounts on administration, governance, research, staffing, and education may make the difference between achieving good and exceptional results. Dollars allocated in the right places exponentially increase the foundation's ability to impact social issues, making every grant dollar go farther and accomplish more.

HAVE A QUESTION?

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

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