

Getting the Background on Foundations

Definitions:

foundation

An organization created from designated funds from which the income is distributed as grants to not-for-profit organizations or, in some cases, to people

endowment

Funds intended to be kept permanently and invested to provide income for continued support of an organization

grant

A financial donation given to support a person, organization, project or program. Most grants are awarded to not-for-profit organizations

grant proposal

The document submitted to the foundation or other potential funding source in which the organization presents its request for support

What is a Foundation?

“A foundation is a charitable nonprofit that supports charitable activities in order to serve the common good.”

Foundations exist either in trust form or as corporations. They receive their own funds originally from individuals, families, corporations or other nonprofits and usually create endowments, with grants being made from the income earned from investing those endowments. Their donors are entitled to certain charitable tax deductions.

What Are the Major Types of Foundations?

The IRS classifies foundations either as:

private foundations, which receive the bulk of their support from a single donor or a few donors, or as

public grantmaking charities, which receive a significant portion of their support from the general public.

Private foundations include the following:

- **Family foundations** are usually founded by an individual or a family and are generally operated by members of that family. Examples include: *The Paul G. Allen Charitable Foundation*, *The Annenberg Foundation*, *the Bill and Melinda Gates Foundation* and



the Walton Family Foundation, Inc.).

- **Corporate foundations** are created and funded by companies as separate legal entities, but (are) operated by a board of directors composed of company officials. Some corporate foundations are endowed, but most receive an annual contribution from their supporting company for the purpose of making grants. Some companies form corporate contribution offices, which, unlike corporate foundations, are under the full control of the company and are not required by law to follow the same IRS regulations as corporate foundations. Many companies maintain both corporate foundations and corporate contribution offices. Corporate foundation examples include: Dow Chemical Company Foundation, Daimler-Chrysler Corporation Fund and the Ford Motor Company Fund.

Independent foundations operate independently from their original donors or original source of funds. They may have been started by a family, but the family has ceased to serve on the board, or they may have been formed through the assets of an entity such as a disbanding HMO. Independent foundation examples include: W.K. Kellogg Foundation, Hudson-Webber Foundation, Kresge Foundation and the Charles Stewart Mott Foundation.

Public grantmaking charities include community foundations as well as some other entities.

- **Community foundations** are operated by and for the benefit of a specific geographic region. They receive their funds from a variety of donors and provide a vehicle for donors to establish endowed grantmaking funds without incurring the costs of starting a private foundation. Community foundations are administered by a governing body representative of community interests.

Other public grantmaking charities also exist, including some service club foundations such as a local Rotary Foundation. They generally have a somewhat narrower grantmaking focus than do community foundations and may or may not have endowed funds.

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