

essentials

A quarterly publication to inform and inspire your giving
SUMMER 2016

Funders are embracing philanthropy's flexibility and leveraging gifts of all types: large and small, dollar and non-dollar, domestic and global, traditional and uncommon.

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From the CEO

HENRY BERMAN, CEO



I was probably in third or fourth grade at the time. It was the day after Halloween and with my brothers was examining the chocolate bounty of our annual trick-or-treating. There was certainly more candy than was good for us, yet at that age I'm not sure we held that perspective.

As we sat on the floor trading Milky Ways for 3 Musketeers and counting our spoils, our mother explained we were taking most of our candy to a rehabilitation hospital for children where we would donate it to those who could not collect their own.

I can't honestly say I recall the look on any recipients' faces or hearing them say thank you, although I'm sure they did. But to this day I have an image recorded in my mind of children who were not like me, who couldn't go out to play ball or enjoy the fun of Halloween. I see that image often. It grounds me as a grantmaker.

My mother was delivering a powerful message that day. The point of giving isn't about the dollar value of the gift; candy bars in those days cost 5 cents. Giving is about sharing and helping others. And perhaps most important for me was the lesson that even a small, seemingly inconsequential gift can make a difference.

As a funder these days, I sign gift checks that range from a couple hundred dollars to over \$100,000. As I glance at the amount before affixing my signature, I often reflect on the lesson from my mother: Giving is about the difference you are making (in today's parlance, the impact) and not about the actual dollar amount. Thought of another way, the amount of the gift does not necessarily correlate with the amount of impact.

Here at Exponent Philanthropy, we talk often about our members' outsized impact—results that outpace the expectations attached to a particular dollar amount. In this issue of *Essentials*, we focus on ways funders are putting their philanthropy on the path to outsized impact by listening well, thinking creatively, and acting boldly. We talk about ways they are leveraging gifts large and small, dollar and non-dollar, domestic and global, traditional and uncommon.

Whether you began your gift-giving as a child or later in life, whether you are new to this work or a seasoned funder, the insights and inspiration shared in this issue are well worth your exploration.

Regardless of the type or size of your gifts, it is our mission to help you leverage your resources and amplify your impact now and in the years to come.

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Exponent Philanthropy is the country's largest association of funders—more than 2,000 members strong—and the only one dedicated to private and community foundations with few or no staff, philanthropic families, and individual donors.

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Making Strategic Gifts

BETSY BRILL, STRATEGIC PHILANTHROPY, LTD.

Effective and meaningful philanthropy takes many shapes and forms: one-time gifts, single year, multiyear. Gifts from foundations, donor advised funds, trusts, or personal checkbooks. Gifts with a narrow focus or those with broad intent. Don't underestimate, in any case, the amount of planning necessary to structure a gift that advances your goals as a donor and addresses a grantee's needs and capacity.

Making a strategic gift in any form can be both exciting and daunting. It can allow a grantee organization to successfully pursue a new initiative or enhance existing programs and services that add value for all stakeholders. It also is a business decision that requires careful thought and mutual understanding of objectives and timelines—all which should be documented and shared with those involved in your philanthropy.

Take, for example, one-time significant gifts. Whereas there is no hard and fast rule about what constitutes a significant gift—let's assume a gift over \$500,000 to an organization or institution, there are numerous stories of large gifts gone wrong resulting in years of legal action; institutions not following a donor's intentions, either because they weren't articulated or the grant's purpose was accomplished previously or no longer relevant; or heirs discovering that funds were misused.

Whether making gifts large or small, how can you assess organizations' needs to ensure you are providing the gifts that most meets those needs? How can you be sure to right-size your gifts? How can you ensure that your gifts stay aligned with your mission and goals, and how can you maximize their impact?

Here are some pitfalls to avoid and some prudent practices to follow when making strategic gifts of all sizes.

Starting out right. We work regularly with individuals and families to help them ensure that the gift they make is a win-win for both the donor and recipient organization. The starting point is always to help donors clearly articulate their intent, and to help them understand what the process should be to ensure a successful gift and partnership with the recipient organization or institution.

We prompt donors to consider whether they prefer to give during their lifetimes and/or as a part of their estate plan after death. We ask them where funds will come from (e.g., foundation or trust, donor advised fund, personal checkbook, or some combination thereof). We also ask how the gift fits into their overall philanthropic strategy.

Don't underestimate the planning necessary to structure a gift that advances your goals and addresses a grantee's needs and capacity.

Recently we worked with a client to facilitate a very significant (\$50 million) multiyear gift to his alma mater, with the goal of making the university's business school one of the best in the country. The terms and conditions of the gift had to be carefully considered and *discussed* with the institution to determine if the goal was even possible. Was it a realistic one? How might the university achieve the goal? How long would it take to accomplish?

This kind of dialogue between donor and recipient is important to the success of the gift—for all stakeholders and no matter the gift's size. It protects both parties and is often the most valuable aspect of expressing your charitable intent.

Assessing the organization's needs. Have you determined whether the gift is one that would add value to the institution or organization

you've selected? Having a conversation with the organization about what it would like to see funded and why—or sharing with them what you are considering investing in and finding out from them whether it is feasible or even needed—is an undeniably important step. Without this mutual understanding, the gift may not yield the results you are seeking.

When you are considering how to structure a gift, keep in mind that general operating support is the most flexible and desired support *all* nonprofits need.

Have you determined whether the gift would add value to the institution or organization?

Right-sizing the gift. Assessing whether an organization has the capacity to absorb a gift is critical. Giving a \$1 million grant to an organization with a \$250,000 budget could be disastrous. If you would like to provide significant funding, discuss with the organization whether it would be more useful for it to receive a one-time gift or instead a multiyear gift to allow for ramping up. Sometimes a large gift for a specific purpose is given to accelerate an organization's strategic goal or to replicate a successful program or approach. Being transparent about how you will structure the gift allows the organization to plan effectively.

We have a client who, every year, makes one significant gift to an organization that is furthering one of her interests. Each gift is a standalone, to a different organization, and structured as a finite amount over a period of years—and this is made clear to the organization from the onset.

Clarity around use of the funds. Be sure to articulate your expectations, and any conditions attached to the gift, in an award agreement or memorandum of understanding. It is important to clearly spell out the terms of the gift—one-time or multiyear—and any metrics that may affect funding decisions, whatever the use of funds (e.g., to seed a new initiative; serve as leverage to spur other donor engagement; name or endow a department, school, or senior staff role;

or contribute to an endowment or capital campaign).

It is also important that the organization or institution knows what you expect in terms of annual communications and reporting. Are there benchmarks you want them to meet? Is there a particular way you want to be provided information, and how frequently? Keep in mind that you never want to make any gift onerous in terms of what you ask of the organization or institution.

The more clarity you provide surrounding the gift, the greater the chance to avoid misunderstandings and strengthen your partnership with the grantee organization.

Collaborating with other donors. In some instances, you may not want to be the sole funder of a particular endeavor. For example, if an organization is embarking on the development of a strategic plan and requesting a capacity building grant, it is often useful to inquire about co-funding so there is buy-in from other funders to the organization—particularly those with longstanding relationships with the organization. Or you may want to catalyze other funders by providing an incentive—a matching grant, where you will match up to a certain amount, say \$30,000, in a given year. This is often useful if an organization is seeking a strategic way to bring on new donors.

Funders also collaborate with other donors to leverage their funding by joining funding collaboratives where funds are pooled for a specific purpose or goal. The Four Freedoms Fund, which “seeks to secure the full integration of immigrants as active participants in our democracy,” is one example of a funding collaborative. Elaine Gast Fawcett gives an inside look at The Ohio Transformation Fund, another funder collaborative, later in this issue.

You may also choose to support a grantmaking intermediary, particularly to reach smaller grassroots communities using the intermediary's expertise and vetted relationships on the ground. The Global Greengrants Fund is one example, providing “the opportunity to help local people protect, restore, and transform the environment” around the world.

There are as many questions as answers when seeking to give strategically. We encourage you to carefully consider your intentions, have in-depth conversations, and communicate your decisions with recipients as well as those involved in your philanthropy.

Betsy Brill, president and co-founder of Strategic Philanthropy, Ltd., is an internationally recognized expert in philanthropy.



Creative Grantmaking Done Legally

RUTH MASTERSON, EXPONENT PHILANTHROPY

What if, to create the change you want, your foundation could make a grant for any charitable purpose to any entity? In fact, it can! The notion that private foundations can only give to 501(c)(3) public charities is just a myth. Some funders even believe that grants to non-charities can't count toward the foundation's annual minimum payout. But, the truth is, your foundation doesn't have to limit its funding decisions in these ways. It has broad freedom to give creatively.

Private foundations can make grants to almost anyone or any organization, including other private foundations and tax-exempt organizations, such as 501(c)(4)s, 501(c)(5)s, and 501(c)(6)s. Private foundations also can make grants to foreign organizations, individuals, unincorporated groups, and for-profit entities. You must just follow two steps: the grant must be for a charitable activity or project, and you must follow appropriate procedures as determined by the IRS.

Our goal is neither to encourage you to stay simple or to get complicated with your giving, but to help you be aware of all the strategies at your disposal. Your foundation can be extremely imaginative while still keeping its grantmaking straightforward. Or your foundation can take full advantage of the tax code's flexibility to make grants that are more complicated—and still perfectly legal.

Do speak with an attorney before taking on any of the “somewhat complicated” or “complicated” grants below, because there are nuances that are beyond the scope of this article.

Very Simple Creative Grants

The simplest grants are those made to organizations recognized by the IRS as public charities under Section 501(c)(3) of the tax code. This includes foreign organizations that have a determination letter from the IRS. To make these grants and apply them toward a foundation's annual minimum payout, the funder must only confirm the organization's exempt status.

Just because these are the simplest grants to make doesn't mean they aren't creative. Consider general operating grants, capacity building grants, funding a social enterprise, establishing an innovation grant fund, or providing disaster relief.

Somewhat Simple Creative Grants

If you lean toward simple but are willing to take on a little more work, you could make grants to charities that require more digging to determine their tax status. Several permissible grantees are unlikely to be in possession of an IRS determination letter:

- Organizations that are part of a group exemption—some religious, others organized with chapters
- Tiny charities, typically with annual gross receipts under \$5,000/year, which may qualify as tax-exempt without ever applying to the IRS
- Government agencies, school districts, and public libraries, all which take effort to determine if truly a government entity

Somewhat Complicated Creative Grants

At a level we'll deem “somewhat complicated” are grants to new charities whose applications are still pending, to non-charities, to other private foundations, and to certain supporting organizations. For all these, you'll need to perform a process known as expenditure responsibility. In some cases, you need to do a bit more.

Expenditure responsibility isn't hard to do, but it does require the following five steps:

- A substantive and genuine pre-grant inquiry
- A written grant agreement with some specific language in it
- The recipient to segregate funds from others it receives
- A written grant report to the funder
- A separate list of expenditure responsibility grants on the grantor's Form 990-PF

Visit www.exponentphilanthropy.org for more on expenditure responsibility.

Grants to new charities with pending determination letters and grants to non-charities require only expenditure responsibility. Grants from a private foundation to a private nonoperating foundation require the grantee to spend out the grant amount within the following year, and, to count the grant

toward its minimum payout, the grant must be itemized in each foundation's Form 990-PF.

If the grantee is a supporting organization—a subset of 501(c)(3) organizations classified as 509(a)(3) public charities—you have to pay close attention to the type of supporting organization. You can make grants without expenditure responsibility to Type I, Type II, and some types of Type III supporting organizations. The IRS recently issued final regulations on the *other* type of Type III; see your attorney before making a grant to a Type III supporting organization.

Giving to traditional public charities is a great way to accomplish your work, but don't be limited in your thinking.

Complicated Creative Grants

Advanced but manageable strategies include direct international grantmaking; grants to individuals for scholarships, individual disaster relief, emergency hardship, or similar uses; and funding advocacy.

Here are some examples:

- Direct international grantmaking can be done using expenditure responsibility or equivalency determination. Resources abound and the process is straightforward, even with new rules in response to concerns about terrorism. See *pages 9–10*.
- Foundations can make grants to individuals for scholarships and similar uses, but the foundation must follow an IRS-approved procedure; approval can be obtained by filing Form 8940. On the other hand, grants to individuals for disaster relief, relief of poverty, or similar uses do not require IRS pre-approval.
- Many foundations are aware of prohibitions against lobbying (except in self-defense), but too often that rule is applied to organizations they fund. Unless making an expenditure responsibility

grant, a foundation can fund an organization or project that does advocacy as part of its work; it need not prohibit advocacy work, but it must refrain from covering any advocacy portions of the budget. This could be accomplished through a general operating grant.

Examples

No More Hunger Foundation might choose a simple and direct route of infusing local programs with grants to feed people. The foundation might take an extra step to set up 2:1 challenge grants to encourage local businesses and others in the community to support the local food bank. If it is willing to perform expenditure responsibility, it might make a grant to the local Chamber of Commerce to coordinate food contributions. And most complex, it could set up a fellowship program to make grants directly to individuals to research solutions to hunger.

The **University Education Fund** could very simply endow a science scholarship at a local university. If the university administers the scholarship fund and selects recipients, the foundation can simply make the grant. The foundation could be more hands-on if it contributes to the scholarship fund at its local community foundation and serves on the selection committee. It might award scholarship grants directly to individuals, after establishing procedures and securing preapproval from the IRS. Or, if the foundation wants to advocate for broader support for education, it might support efforts to increase state and federal funding for student loans and scholarships.

The **Disaster Response Foundation** could serve its mission simply with a general operating grant to the Red Cross. It could create a hurricane relief fund at local community foundation, and, in this way, support and empower its local community, or it might purchase state-of-the-art communications equipment for local first-responders. It might also choose to offer no- or low-interest loans to local relief organizations so they can focus on responding first and fundraising later.

All in all, whereas giving to traditional 501(c)(3) public charities is a legal way to go—and often a great way to accomplish your work—don't be limited to those in your thinking. Be creative!

Thanks to Andrew Schulz, Esq., for his help creating the conference session on which this article is based and to Ingrid Mittermaier, Esq., for her comments.

Senior Program Director Ruth Masterson answers funders' questions and creates written materials and training curricula on boards & governance and tax & legal topics.



Gifts of Unique Assets—Moving Off the Beaten Path

MATT LAWSON, WELLS FARGO PHILANTHROPIC SERVICES

With respect to lifetime giving, it seems most of us are walking along the same well-worn path: We are giving cash to charities instead of our non-cash assets, and often missing out on tax savings as a result. The potential benefits of giving non-cash assets are clear, and I invite you to think carefully about your illiquid wealth when considering your next gift.

I once heard a nonprofit fundraiser tell a story about how he had received a check in the mail for \$100,000 from a donor. The fundraiser immediately called the donor and said, “Mrs. Johnson, thank you for your check, but I can’t accept it. Based on our past interactions, I recall that you have some highly appreciated stock in your portfolio. It would be a disservice to you if I accepted this check, knowing how much money you could save by donating some stock instead of writing this check.”

Talk about a bold and unexpected statement! Fortunately, the fundraiser had a great relationship with his donor, and his proposed strategy did ultimately help the donor avoid significant taxes.

Has anyone been bold enough to have this kind of conversation with you? Have you ever strayed from the beaten path by considering charitable gifts of assets that are not normally viewed as “givable”?

Giving USA 2016 indicates that there were over \$373 billion in charitable gifts in 2015, and that most individual donors gave cash rather than non-cash assets.¹ Contrast this with estate tax returns from 2014, which indicate that cash comprised less than 15% of the estates that filed a return.²

What kinds of non-cash assets are we talking about?

Essentially, they fall into three categories:

- **Intangible personal property**—business interests, copyrights, patents, etc.
- **Tangible personal property**—gold, collectibles, art, etc.
- **Real estate and related interests**—houses, buildings, land, etc.

When giving something other than cash or marketable securities to charity, remember two key concepts of asset-based giving:

1. Right Asset (RA)—What are you giving?

What you give has a major impact on the tax implications of the gift, both to the charity and to you, in two main areas.

- **Income**—The various types of assets listed above may generate different types of income (long-term capital gain, short-term capital gain or ordinary income, long-term capital gain for collectibles, etc.), which may affect the amount of available tax savings.
- **Deductibility**—The type of asset affects the percentage of your Adjusted Gross Income (AGI) you can claim a deduction against in any given year and whether you will receive a fair-market-value deduction or a cost-basis deduction.

2. Right Vehicle (RV)—What type of entity will receive the gift?

The type of charitable entity receiving the gift can be just as important as what you give. Entity type helps determine not only which AGI percentage limitations apply, but also whether you can take a fair-market-value deduction or a cost-basis deduction. For example:

- A gift to a **public charity**—like a school, homeless shelter, or donor advised fund—will traditionally allow you to take a full fair-market-value deduction for most appreciated closely held assets.
- A gift to a **private foundation** will generally allow you to take a cost-basis deduction for most appreciated closely held assets.

Ask your advisors for help to review your balance sheet for appropriate assets to give. In many cases, a charitable gift of an appreciated illiquid asset can be much more advantageous from a tax perspective than a gift of cash.

Let’s examine how gifts of two types of appreciated illiquid assets might affect you and the charitable entity you want to support.

A gift of **real estate to a public charity** can have many advantages compared to a gift of cash.

¹ *Giving USA 2016: The Annual Report on Philanthropy*
² <https://www.irs.gov/pub/irs-soi/2014EstateTaxOneSheet.pdf>

- You can receive a full fair-market-value deduction for a gift of real estate made to a public charity. Additionally, you can avoid the long-term capital gain on the property, as can the charity—provided that there is no debt on the property.
- Let's assume you bought a home for \$500,000 20 years ago that is now worth \$1 million. Rather than donating a check for \$1 million, you could deed the property to the charity. By doing this, you could avoid \$100,000 long-term capital gain tax (\$500,000 x 20%, the current long-term capital gains tax rate for real estate), and receive a tax deduction of \$1 million, saving potentially \$396,000 (assuming a 39.6% tax bracket).³
- By giving assets instead of cash:
 - You can strategically make a donation that may not otherwise have been possible due to cash constraints.
 - You can increase your cash flow because your tax deduction has resulted in a lower tax bill.

Next let's examine giving a **coin collection to a private foundation**.

- Giving a coin collection to a private foundation would entitle you to a deduction in the amount of the coin collection's cost basis, because a coin collection is categorized as tangible personal property (TPP). Generally, the sale of a coin collection held longer than one year would generate long-term capital gain (LTCG) income specific to collectibles. Further, because the gift is being made to a private foundation, it would be subject to the reduced deduction limitations for gifts of TPP to private foundations.
- How does this look from a practical perspective? Let's assume that the coin collection is valued at \$500,000 with a cost basis of \$250,000. You could give the coins to the private foundation, and the foundation could then sell the collection. As a result, the foundation could avoid \$70,000 in LTCG tax that you would have had to pay due to the appreciation in value if you had sold the coins yourself (\$250,000 x 28%). Additionally, you would be allowed to deduct \$250,000 (your cost basis), saving an additional \$99,000 in taxes (assuming a 39.6% tax bracket).

Both of these scenarios would allow you to further your goals by giving appreciated assets rather than cash. Whereas such gifts may require more planning—and some good advice from your advisors—the results may include reduced taxes,

improved cash flow, and the ability to make larger gifts.

What are your next steps?

- Meet with your advisors and review your objectives. Discuss whether your objectives might be met by supporting public charities directly or by establishing a charitable vehicle such as a private foundation, donor advised fund, or other vehicle. What is the **Right Vehicle** to best satisfy your goals?
- Review your balance sheet with your advisors. How might a gift of any specific illiquid asset affect your portfolio? What is the **Right Asset** to give?
- Consult with your tax professional about how such a gift could impact your taxes and your cash flow. You may find that you are able to give more than you ever thought possible, and even increase your cash flow in the process.

Ask yourself and your charitable partners these questions: What would it look like if I gave a different kind of asset? Should I stray from the beaten path and forge ahead into the new frontier of asset-based giving?

Wells Fargo Wealth Management provides products and services through Wells Fargo Bank, N.A. and its various affiliates and subsidiaries.

Deduction Limitations

Gifts to public charities:

- Cash and marketable securities: 50% of AGI
- Appreciated assets other than tangible personal property: 30% of AGI
- Tangible personal property: 30% or 50% of AGI, depending on related use

Gifts to private foundations:

- Cash and marketable securities: 30% of AGI
- Appreciated assets (including tangible personal property): 20% of AGI

³ All references to tax brackets and savings relate only to federal income taxes and assume no other limitations would limit deductibility. State income tax is not addressed.

Global Giving Myths

ADAPTED FROM RESOURCES FOR EXPONENT PHILANTHROPY MEMBERS,
WWW.EXPONENTPHILANTHROPY.ORG

In a 2015 poll by Kaiser Family Foundation, the average American estimated the United States spends 31% of its budget on foreign aid. In reality, the percentage is less than 1%, one of the lowest percentages among industrialized countries. The relatively little America spends abroad and the reach that can be achieved in many locations by even small investments make a strong case for global giving.

The legal and practical aspects of global giving may at first seem burdensome, yet small-staffed foundations and individual donors can and do award gifts to foreign organizations in legal and trusted ways—18% of member foundations (22% of foundation grant dollars) in our most recent member survey.

Let's correct a few misconceptions and provide examples of how Exponent Philanthropy members fund effectively around the world.

Myth: Because our bylaws limit our giving to U.S.-based 501(c)(3) organizations, we can't support international causes. Many funders partner with U.S.-based 501(c)(3) organizations as intermediaries for their international giving. Intermediaries are U.S.-based nonprofits that specialize in social investing abroad. They provide global knowledge, connections, and experience, plus a simplified legal and administrative process that can make funding overseas as simple as awarding a gift here at home.

The California-based Skees Family Foundation operates by the mission statement Suzanne Skees drafted with her three sons around the kitchen table: "Self-help for families and youth to end poverty worldwide." Given its small asset base and solely volunteer staff, the foundation formed long-term partnerships with U.S.-based intermediaries. For several years in a row, the foundation pursued its international funding with gifts to Unitus, the V-Day Foundation, and Freedom From Hunger, all U.S.-based 501(c)(3) organizations.

If you are interested in using an intermediary as a re-grantor, note that the Internal Revenue Service prohibits donors from determining where the grant will be allocated. You may recommend, but not earmark.

Myth: Our mission is to support the arts in our community, which prevents us from giving internationally. Given changing social and economic

trends, some foundation trustees have expanded their giving to include a broader geographic scope. They believe their founders would have recognized and responded to deepening international inequities and complex cross-border issues, such as immigration or the global refugee crisis. Some foundations amend their stated missions; others simply add a program or strategy to their current giving.

**A global infrastructure
is making cross-border
giving easier, more
effective, and more cost
efficient for smaller donors
than ever before.**

For more than 20 years, the Ohio-based John F. and Mary A. Geisse Foundation focused locally on poor people and issues of hunger. When the founders passed away, the next generation continued this work for several years. As they became more aware of global hunger and how globalization links the purchases of American consumers to the well-being of those around the world, they knew that their parents would have approved of giving to alleviate poverty globally.

Tim Geisse recalled one of the foundation's first international grants: "We received a request from Habitat for Humanity of Guatemala to build houses for \$2,000 each. So a \$100,000 grant could help 50 families in Guatemala." While continuing to give to many domestic organizations, the trustees concentrated part of the foundation's funding on

helping rural farmers in Guatemala, Nicaragua, and Honduras increase their income through improved farming techniques and better marketing.

Myth: Only large foundations can address international issues in significant ways. Because small amounts of money go a long way in many parts of the world, donors of all types are making a host of meaningful international contributions. In fact, small foundations or individual donors are often a better fit for the needs of community based or emerging organizations that may not meet a large foundation's criteria or may not be able to absorb large grants. Small annual gifts over a sustained period can have significant impact, and many intermediaries welcome the chance to introduce these donors to local organizations ready for their support.

Myth: Peer networks for smaller donors do not exist. Peer support of all types abounds. Connect with Grantmakers Without Borders; join a conference call on international issues; or reach out to a colleague listed in our Member Directory or via our discussion list for international funders. Many funders find an international giving niche in topical affinity groups or make ties with program officers from larger foundations or staff of intermediary organizations. Those relationships can lead to effective collaborations, in which other funders and intermediaries share their knowledge in an effort to increase their effectiveness and attract additional funding.

Myth: Global giving costs more administratively than domestic giving. Although foundations that give directly to foreign organizations acknowledge that setting up systems and identifying grantees requires an initial investment of time and money, most agree that their efforts are rewarded with high returns—particularly given how much further grant dollars can go in a developing country. For those funding exclusively through U.S.-based intermediaries, the costs of international grantmaking fall right in line with those of domestic grantmaking.

With assets of \$2 million and a giving program focused on the community where the wealth was created, the New York-based DBL Foundation provided international support without cutting a check. By pledging \$1 million as a loan guarantee, DBL enabled MicroCredit Enterprises, a U.S.-based 509(a)(1) public charity, to loan \$500,000 that, in turn, enabled foreign microfinance institutions to make nearly 1,000 microcredit business loans to some of the poorest women in the world.

As one of its trustees noted, “Being a guarantor in MicroCredit Enterprises means that the DBL Foundation’s assets can effectively multitask. Our investments stay where they are, the ongoing work

of the foundation continues, and significant poverty alleviation is accomplished around the world at the same time.”

Myth: Monitoring international grantees is beyond our abilities. Although travel costs may prohibit international site visits, many alternatives exist that make due diligence and grant tracking affordable and effective. Peer funders and intermediaries will often share their in-country contacts, and technology has of course enhanced and lowered the cost of international communications. Intermediaries also focus on providing domestic donors with photos, videos, and electronic reports that keep them in the know from across the globe.

Myth: Equivalency determinations and expenditure responsibility are impossible to implement.

Equivalency determination is one way to ensure that funds originating in the United States are spent appropriately and comply fully with IRS rules; expenditure responsibility is another.

Several resources can help you understand and implement these options step by step, including resources on the Exponent Philanthropy website. In addition, NGOsource, a project of the Council on Foundations and TechSoup, provides an online repository of foreign organizations that meet the equivalency determination requirements. All Exponent Philanthropy members are eligible for one free year of NGOsource membership. See www.exponentphilanthropy.org/membership for details.

At the Idaho-based Arthur B. Schultz Foundation, which makes grants to foreign-based organizations with minimum paperwork and several part-time staff, the staff learned to determine whether an international organization is the equivalent of a U.S.-based 501(c)(3) organization or if the grant requires expenditure responsibility. Most of the foundation’s international grants are made under the rubric of expenditure responsibility, which requires the donor and grantee to follow several specific steps. Said then Executive Director Erik Schultz, “We do the same amount of due diligence and documentation for our grants in Kenya and Vietnam as we do for those in Idaho and Montana. We find it is a straightforward process once you know the specific steps to follow.”

In sum: Don’t be intimidated. A global infrastructure of intermediaries and other nonprofits is making global giving easier, more effective, and more cost efficient than ever before.

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Foundations 101

September 25 | Chicago

Plus, don't miss the 2016 National Conference starting September 26!

Are you new to running a foundation or looking for a refresher? This one-day seminar for foundation trustees and staff is a great way to get up to speed on these foundation essentials:

- Governance
- Legal issues
- Grantmaking

Find out what you need to know to do your work and what you can and should do to achieve impact.

Register to ground yourself in foundation fundamentals:
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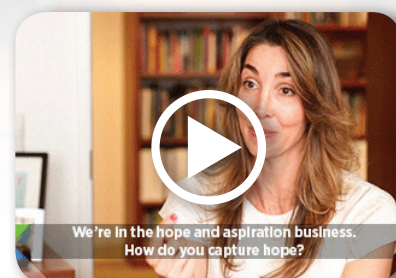
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Even effective boards have room for improvement.

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- Compile the responses and analyze the results
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Learn more:

exponentphilanthropy.org/board-self-assessment

"[This board self-assessment]...was the best review we could have done. It brought to the surface things that needed to be discussed; policies some had forgotten; and the need for a little training in investments, finances, and current federal and state requirements."

—MARTY FLUHARTY, THE AMERICANA FOUNDATION

Now is a great time to listen to your grantees! Grantee and Applicant Perception Survey

Find out what it's like to be on your grantees' side of the table with this straightforward and comprehensive new tool.

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- Solicit extensive and anonymous feedback from your foundation's grantees and applicants
- Compile candid responses about working with your foundation
- Develop a final report for your board that identifies strengths, areas for discussion, and recommended next steps

Invest in learning from your grantees and applicants:
exponentphilanthropy.org/GAPS

"The results validated some things we were already doing and gave us direction and data points for how we could improve. As we go forward, it will be invaluable to have data in hand to help with decision making."

—MEG RAMSEY, RAMSEY MCCLUSKEY FAMILY FOUNDATION



**Grantee
and Applicant
Perception Survey**

Listening to Your Grantee(s)

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philanthropy**



Are You Leaving Your Power on the Table?

ANDY CARROLL, EXPONENT PHILANTHROPY

More foundations and donors are asking themselves not only how to alleviate problems, but how to solve them once and for all. Should philanthropy initiate a conversation about a greater role for government and public investment? Do we need to build a stronger and more effective democracy? Is it time to leave ideological issues aside? Yet, at the same time, many donors are leaving a vast amount of power on the table.

In spite of our laws and regulations, our checks and balances, and our moral and social norms nurturing restraint and respect, people use power to bend rules, exclude and disenfranchise, distort facts, manufacture fear, and secure preferential treatment.

Disillusioned, some of us lose sight of our own agency and power. As author and activist Alice Walker wrote, “The most common way people give up their power is by thinking they don’t have any.” But what if more funders intentionally use their power for good?

In my work helping small-staffed foundations and donors step into leadership roles, I have learned that the most dynamic, effective funders use their power judiciously—but boldly.

In a paradoxical way, the source of their power is passion, curiosity, and humility. They are great listeners. They don’t begin by thinking they know the answers; they venture out to ask questions. They realize that as funders they have unique perspective, unique access to experts, and unique abilities to soak up knowledge. They venture deeper into their issues, until they figure out things no one else has really understood, and discern how to make change.

The journey takes them far beyond making grants, to convene, mobilize, commission research, raise public awareness, advocate, and put pressure on stakeholders to stay on course. They become activists, brokers, and catalysts.

Power in Action

What does power look like in action?

- A foundation executive made phone calls to local government agencies to find out why checks to his grantees were late. Within days, the grantees received their contracted payments.

- After discovering that a local domestic violence shelter wasn’t picking up urgent calls from a county referral agency, a foundation director arranged to meet the shelter’s director with her board chair and two community leaders to demand responsiveness.
- A foundation executive took the initiative to broker a deal with the city’s mayor and parks department to take over a struggling YMCA that provided the only recreation services available to young people in distressed neighborhoods.

The most dynamic, effective funders use their power judiciously—but boldly.

- A family foundation trustee met with her state legislator to brief him on the impact of state budget cuts on public education programs proven effective, such as school counseling, as part of a collaborative advocacy effort to build legislative support for education.
- During listening sessions around a state’s juvenile justice system, foundation staff and family members heard about a promising yet ignored strategy for preventing young people convicted of mild offenses from being locked up in prison. Lending its reputation and voice to the idea, the foundation was able to support a group of innovators in getting the idea tested and implemented. As a result, hundreds of youths got needed counseling and services, and the state saved millions.

Holding Yourself Back

You may admire the bold actions of these funders, or you may recoil at their audacity. My point is that each funder—knowledgeable, connected, immersed in the dynamics and histories of these challenges—made a calculation that acting boldly would create better outcomes than leaving the status quo intact, or letting others act on their behalf.

Yet, over 20 years, I have learned that most small funders don't use their power. Why not?

- Funders don't take the time to appreciate the assets they hold beyond money. In our culture, money consumes our attention and monopolizes the conversation about philanthropy. Assets such as reputational, intellectual, and moral capital get sidelined by the glamour of dollars.
- Knowing how and when to use power requires a deep understanding of a community or issue, an immersion and engagement that only a few funders attain. Many funders keep their distance, relying on proposals, phone calls, and email interactions. Therefore they never put themselves in a position to discern the right moment to act boldly.
- Foundations and donors are criticized for wielding power when they make too many demands of nonprofits, or set the agenda for nonprofits or a community. Broad critiques such as these instill timidity, and impel many thoughtful, engaged funders who listen to their communities to bury their deep knowledge and unique perspective, and pretend they do not see the leverage points for change they have discerned. Such funders end up shying away from opportunities to responsibly use their power for the common good.

Acting Boldly

To move beyond the scruples and unease you may feel about using your influence, consider the following.

- Recognize that power is always at work, and neutrality is not possible. Every problem or issue in a community is shaped by different interest groups—citizens, government agencies, nonprofits, educational institutions, trade groups, and for-profit businesses. When you arrive at the point of deciding whether to take assertive action, recognize that doing nothing means maintaining the status quo, or leaving decisions up to other players, who may have very different goals and agendas from your own goals, the community's goals, or the well-being of the people you are working to empower. Consider the consequences and costs of not acting.

**Recognize that power
is always at work, and
neutrality is not possible.
Consider the consequences
and costs of not acting.**

- Understand your chosen issue or community. Engage and listen, soak up knowledge, become an expert. Once you see leverage points to make change, you will feel greater confidence to convene, advocate, speak out.
- Choose an important issue you feel passionate about. Being personally invested and committed makes it more likely you will summon the energy and courage to act boldly, when the time comes.
- Don't assume others will act. Your peers who catalyze change come to understand, at a certain point in their journey, that if they don't take the bold action that years of listening and insight recommend—if they don't act—no one else will. They look around, and realize no one is going to do it. They step up.
- See yourself as a player at decision forums—someone with knowledge, experience, connections, reputation, power. An Exponent Philanthropy member once told me, "My voice as a foundation trustee carries greater weight with my legislator than others' voices. It shouldn't be that way, but it is. I use it to advance issues that impact children." Every issue philanthropists work on is influenced by government budget decisions and rule-making—whether funders like it or not. Engage in policy discussions on the issues you care about; the law offers you great freedom to do so.

I had the great privilege of learning from the late Alan Egly, former executive director of the Doris and Victor Day Foundation in Illinois and a founder of Exponent Philanthropy. Reflecting on the foundation's work, Alan said, "Sometimes, you have to be daring."

Senior Program Director Andy Carroll dedicates a significant portion of his time to research and writing that defines, validates, and celebrates the ways philanthropists lead.



Inside Look at a Funder Collaborative

ELAINE GAST FAWCETT, FOURWINDSWRITING.COM

Funder collaborations (commonly called *collaboratives* or *pooled funds*) bring together grantmakers' minds and money to meet a goal they wouldn't necessarily be able to achieve alone. The newly formed Ohio Transformation Fund is one successful collaborative working to reduce the number and racial disparity of youths and adults incarcerated in Ohio.

Ohio has one of the highest incarceration rates in the country. The Ohio Transformation Fund (OTF) wants to change its state's justice system from one of mass jailing, particularly of young people and people of color, to one based on stable families, economic security, and access to health care and education. It began with the vision of a national funder building a model together with local funders and key partner organizations.

In early 2015, after considerable research of criminal justice reform, the Ford Foundation identified Ohio as a place with potential for statewide change.

"Whereas the issue is getting a lot of attention at present, in many states criminal justice reform

has historically been an issue that politicians and funders don't want to touch," says OTF executive director Judy Wright. "In Ohio, leaders on both sides of the political spectrum agree that we have the opportunity now to get something done." Pair that with Ohio's long history of organizing capacity, grassroots strength, and committed group of funders invested in safe communities.

The Ford Foundation initiated conversations with on-the-ground organizations and local funders to see how it might catalyze change. Wright, who has a longtime interest in social change and community organizing, helped coordinate some of those.

Inviting Fund Partners

The Ford Foundation invested \$1 million to OTF, with a matching requirement to raise half that amount. OTF then approached Ohio-based funders, or those who have invested in Ohio, in any of three areas: community organizing, policy/advocacy work in criminal justice, and civic engagement. "Our theory of change is that, whereas each of these areas is important and necessary, none on its own can create sustainable, statewide change," says Wright.

But how could the group make the effort more meaningful than a few individual grants? The immediate answer was to co-create their work with practitioners on the ground—"that was an important value that everyone agreed on from the start," says Wright. They worked with two anchor organizations—the Ohio Justice and Policy Center and the Ohio Organizing Collaborative—to learn what was most needed and ensure strategies are community driven.

Beyond recruiting partners, OTF focused on informing and engaging the funding community as a whole.

"People don't often connect that mass incarceration is entwined with other issues, such as job accessibility, school policies, and healthcare access," says Wright. "In addition, community organizing is an edgier approach to making change. It's a longer, slower investment that doesn't offer immediate metrics, or fit the short-term, results-oriented philanthropy that most people practice."

Yet this is the right climate for criminal justice reform, she says.

The Ohio Transformation Fund ohtransformationfund.org

Partners: Nine funders (one national funder and eight Ohio-based funders)

Contribution: \$50,000 minimum for voting

Entity: Fiscally sponsored

Staff: One executive director

Meetings: Quarterly, with some communication in between

Goal: In its first phase, to reduce the number and racial disparity of youths and adults incarcerated in Ohio

Five Tips for Starting a Funder Collaborative

1. **Identify the interests of potential partners and find out where your interests and values overlap.** What do you share? What can you learn from one another?
2. **Make it easy to participate.** Set reasonable thresholds for money and time so smaller funders can participate as equal partners.
3. **Play to one another's strengths.** Don't expect anyone to know everything or do everything. Approach the collaborative as a learning opportunity, not an expression of expertise.
4. **Test your assumptions.** As a funder, it's easy to do what you're used to doing. Ask questions at every step of the way.
5. **Tweak as needed.** Stay flexible and change as you go. Continue to define who fits where. Talk with other collaboratives about how they operate and what they would do differently.

OTF held convenings and conversations for funders to talk about criminal justice reform and how it's rooted in safe and healthy communities. What has emerged, Wright says, is an eclectic group of nine funding partners. Some are local and some national; some have a background in social justice or community organizing and others are place-based funders. Some have a small funding capacity and others have the ability to contribute much more.

Wright's best piece of advice for other funder collaboratives? Keep the entry point low.

"We kept the threshold for participating purposely low for partners to be voting members," says Wright. "We wanted smaller funders to come in and feel like equal partners." In the first year, voting partners gave a minimum of \$50,000, which they could contribute as two \$25,000 grants.

She says that has created a sense of partnership without hierarchy. Whether a funder gives \$50,000 or \$100,000, they have the same vote, the same power and authority. "A big national funder may be able to move more resources, but the smaller state-based funders are in it for the long haul. There's a real respect for that."

In addition, OTF is open to non-voting participants

as well. "If it makes more sense for people to invest in specific work versus the pooled fund, that doesn't preclude them from being a partner and participant," says Wright. "We want it to be an open learning space for people who are stakeholders, and we welcome anyone who can help inform our work."

Learning and Growing

"What's different about this collaborative is that it's more than a simple pass-through of funds," says Wright. "We care about capacity building for the philanthropic sector in addition to capacity building for our grantee partners. We hope to grow a longtime, progressive funding infrastructure in Ohio—a network of funders and donors who are informed and motivated to support this work."

"We're all here to learn," she continues. "We're bringing different things, and no one is the expert. This approach has allowed us to interact in a more honest, transparent way with the grantees."

Because the collaborative is a newer entity, Wright says, it is constantly evolving. "We have a great degree of flexibility, which can be good and bad. A lot of times our response to something is, 'Well, we just don't know; we're figuring that out.' We're changing as we go and challenging our assumptions."

Ultimately, OTF hopes to serve as a model for state-based criminal justice reform that is replicable for funders in other states, and replicable in Ohio for other issues.

Today, little more than a year after it started, OTF has brought more than \$2 million to Ohio, passing the original funding goal. The largest grant it has given is \$100,000, and it also offers rapid response awards of up to \$25,000, which give it the flexibility to move funds fast. The first round of funding offered general operating support, and also paid for retreats, convenings, and capacity building for organizations to attract even more resources.

The challenge, says Wright, is to find a balance between something that's still being created, and being concrete enough so that people can understand what it is. "We want to be a funnel to support this work—to create a center of gravity—and at the same time, we don't want to be an extra layer or wall between funders and the organizations."

"We are all committed to keeping impacted people at the center of our funding, and the center of our strategy."

Elaine Gast Fawcett helps leaders tell their stories and move their missions forward, focusing on foundations, nonprofits, and socially conscious companies.

20th Anniversary Campaign— Invest in Your Association's Future

This year marks an important milestone for

Exponent Philanthropy: 20 years of guiding, connecting, and championing thousands of members in their missions to create a better world.

As we celebrate our association's 20th anniversary year, we also are looking forward to ensure its sustainability, community, and future. To honor Exponent Philanthropy's important work, the legacy of the Association of Small Foundations, and the essential efforts of all our members, we launched a 20th Anniversary Campaign this spring to build on our success and continue to support funders who work with few or no staff.

The 20th Anniversary Campaign seeks to raise \$200,000 above the amount our annual campaign raises every year to cover general operations—and we are pleased to report that, with generous contributions from members like you, we are 80% toward this goal.

The 20th Anniversary Campaign will allow for new programs and services that deliver additional value to our community. In particular, members regularly turn to us seeking legal guidance and advice on tax regulations, advocacy funding, personnel policies, and bylaws. With additional financial resources, our association will enhance its ability to provide this important technical assistance, saving members money and time.

We hope you will give generously this year toward general operations and additionally toward the 20th Anniversary Campaign.

We are immensely proud of Exponent Philanthropy's work and its important role in the philanthropic landscape. Our association built the roadmap for philanthropy practiced with few or no staff by creating valuable resources and programs such as



Foundation in a Box, the *Foundation Operations and Management Report*, the Master Juggler Executive Institute, and the Next Gen Fellows Program.

In just the past year, we all benefited from new programs on transition points in philanthropy, design thinking and philanthropy, and adaptive leadership, and new resources such as *Essentials of Impact Investing: A Guide for Small-Staffed Foundations*, *A Funder's Guide to Engaging With Members of the Media*, and the Philanthropy Lessons video series.

For information on the 2016 Annual Campaign, 20th Anniversary Campaign, and the many ways to support Exponent Philanthropy, contact Jeanne Metzger at jeanne@exponentphilanthropy.org or 202-580-6560.

We hope you will join us and other fellow members in supporting Exponent Philanthropy and investing in your association's future.

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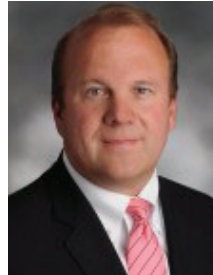
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From the Chair

CHRISTOPHER PETERMANN, BOARD CHAIR



As we gear up to celebrate our association's 20th anniversary during the 2016 National Conference in Chicago at the end of September, this issue of *Essentials*—on the power of gifts of all sizes and types—is particularly fitting.

As an association with a range of members who give gifts across the spectrum from small to large, traditional to unusual, the articles in this issue should speak to all of us.

And therein lies the beauty of you, the members of Exponent Philanthropy.

Our members come from all walks of life with backgrounds as varied as the gifts you give. From those who have been doing this for decades to those just starting out, we share a common desire to be effective grantmakers.

We owe a collective debt of gratitude to our association's founders and early builders. Their inclusive vision and investment of time and energy to realize it continues to pay dividends we all reap.

During the National Conference, I'll have the opportunity to host our Annual Membership Meeting and recognize the contributions and service of two members who are stepping off the board. Megan McTiernan of Thomson Family Foundation is leaving to lend her talents and passion to the nonprofit side of the world of philanthropy. Juanita Garcia of Aerojet Rocketdyne Foundation has begun her new adventure in retirement. On behalf of the board and all of you, we thank them and wish them much success.

I will remain on the board, but my term as chair will conclude at the Annual Membership Meeting. During my decade-plus with the association, I've seen our members grow and expand their impact. I've watched and helped many as they explored new ways of giving and investing their funds. I've seen some stumble and then stand taller, better for the experience.

This all bodes well for our future and the next 20 years.

Thank you for allowing me the chance to serve the association and, in turn, each of you.

I look forward to seeing you in Chicago.



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