

Family

Funds

Foundation

THE PITTSBURGH FOUNDATION

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MISSION STATEMENT

The Pittsburgh Foundation works to improve the quality of life in the Pittsburgh region by evaluating and addressing community issues, promoting responsible philanthropy, and connecting donors to the critical needs of the community.

*The Pittsburgh Foundation
serves Westmoreland County
through its affiliates,
The Community Foundation
of Westmoreland County.*

Philanthropy has been one of the fastest-growing sectors in the United States for more than a decade. Expanding numbers of nonprofits strive to serve vital community needs, supported by ever-increasing populations of generous donors.

Accompanying this rapid growth is greater complexity, competition and regulation which can be daunting and cumbersome for families and individuals inspired to give.

Individuals often choose to establish a private family foundation to fulfill their charitable goals and find the administrative oversight to be complicated or arduous.

A key choice for many donors is whether to create a new—or to continue with an existing—Private Family Foundation to fulfill their charitable goals, with all of the administrative, investment and grantmaking issues this entails.

The Pittsburgh Foundation is among the nation's leading community foundations and offers families an alternative—"Family Foundation Funds." These funds provide a range of personalized options for all donors, combined with the highest levels of professional expertise, advice and service.



About the Pittsburgh Foundation

The Pittsburgh Foundation is one of the oldest community foundations in the United States, and is the nation's 14th largest of more than 750 community foundations nationally. We manage over 1,500 charitable endowments. The combined assets of the Foundation and its supporting organizations are more than \$750 million. In addition to endowment services, the Foundation provides administrative services for current distribution funds and a variety of planned giving and trust services.

We offer options to private foundations that seek to increase administrative efficiencies, enhance programmatic expertise, and/or explore legacy and succession planning.

Further, as a community foundation, The Pittsburgh Foundation is legally classified as a publicly supported charity, and as such, offers excellent tax benefits to philanthropists.

Family Foundations at the Pittsburgh Foundation

The Pittsburgh Foundation often hears from individuals and families who currently operate a private foundation or those considering starting one up. For many, the administrative burden becomes arduous and expensive and questions arise regarding the future of the private foundation.

The Pittsburgh Foundation is an excellent resource for individuals with private foundations or those considering creating their own private foundation by offering ways to ease administrative overhead, enhance programmatic expertise, or explore legacy and succession planning.

For individuals concerned about the future of their private foundation, legacy and succession planning may be accomplished by transferring remaining assets into one or more funds such as a Family Foundation Fund at The Pittsburgh Foundation. We work with donors to craft guidelines that capture their philanthropic intentions, or establish individual funds for heirs to carry out their interests.



Commonly Asked Questions and Benefits

The following are some commonly asked questions and benefits regarding the differences between a private foundation and a Family Foundation Fund at The Pittsburgh Foundation:

If I choose to transfer my private foundation to The Pittsburgh Foundation, what are my options?

The Pittsburgh Foundation offers several fund choices including a Family Foundation Fund. Through this fund type, you maintain the advisory capacity over grant making, name identity, and, if you choose, anonymity. We assume responsibility for all administrative tasks including accounting, grant application due diligence, grants follow-up, and IRS reporting.

How are fund names selected?

The choice is yours. Some examples are The John and Jane Miller Family Foundation Fund, The Jones Charitable Trust, The Smith Philanthropic Fund, but we have seen all kinds of variations.

Will my family members be involved?

The donor establisher determines the advisory board and how/if successors are chosen.

I prefer that my Foundation information remain confidential. Is this possible through The Pittsburgh Foundation?

The Pittsburgh Foundation provides anonymity for all funds. Grantmaking through your Fund can be anonymous (or selectively anonymous). On the other hand, private foundations require disclosure and their information is freely accessible on websites such as www.guidestar.org where members of the general public can review your tax returns (990-PF), organization to which you grant, your board, foundation assets, etc.

Must I follow the private foundation 5% mandatory payout?

No. There is no minimum payout requirement with a Family Foundation Fund at The Pittsburgh Foundation.

More favorable tax consequences.

All new contributions to a Family Foundation Fund at The Pittsburgh Foundation would increase your philanthropic deductibility relative to your AGI [50% of Adjusted Gross Income (AGI) versus 30% for a private foundation; and up to 30% AGI on long-term appreciated property (20% for a private foundation)].

No excise tax.

A private foundation requires you to pay 1–2% excise tax on the foundation's investment income. Pittsburgh Foundation Funds are not subject to excise tax.

Relief of administrative responsibilities.

The Pittsburgh Foundation offers relief of the administrative responsibilities of managing your philanthropy. We would handle all of the requisite state and federal reporting, audits, and filings. The Board of your private foundation, by contrast, is responsible for the above.

Can I keep my current investment manager?

Foundations with minimum balances of \$250,000 may elect to keep their current investment manager or invest in The Pittsburgh Foundation's Legacy Fund.

What happens when I am no longer willing or able to serve on my Family Foundation?

Multiple options include naming successor advisors; crafting language that will describe your intentions for future generations; and/or selecting The Pittsburgh Foundation's content experts to handle your intentions.

Access to resources.

The Foundation offers a staff of knowledgeable and professional donor services staff and program officers who provide a very high level of professional expertise and personal service.

You and your family would be assigned a donor services officer who would be available to assist with any issues that may arise in the administration of your Fund including responding to grant inquiries, providing research on charities of interest, facilitating grant distributions, insuring grant follow-up, and providing quarterly fund status reports.

The program officers are available when requested to advise and assist in evaluating and selecting grantees. Additionally, we offer site visits to area nonprofit organizations that are of interest to donors, as well as educational events and lectures that enable donors to learn more about the needs and issues in the community.

The Pittsburgh Foundation can provide you and your family with an efficient and effective way to conduct your philanthropy, while allowing you the opportunity to focus your energies on the fulfillment of philanthropy.

Try us.

For a private foundation whose members would like to experience the benefits of a fund at The Pittsburgh Foundation, we offer the option to create a Donor Advised Fund. This allows private foundation members to 'test drive' the Foundation using the 5% minimum payout of their private foundation without making a termination election at the outset.

The conversion of a private foundation into a Family Foundation or other fund at The Pittsburgh Foundation is relatively simple, but should be done in consultation with an attorney.

For further information on the conversion process or in general, please contact the Development Office at 412-394-2653 or development@pghfdn.org.

The Top 10 Ways Family Foundations Get into Trouble

Operating a private foundation comes with significant responsibilities. Many of the mistakes private foundations make are inadvertent and fall under the rubric of “self-dealing.” Following are some of the more common self-dealing mistakes as printed in the Top 10 Ways Private Family Foundations Get into Trouble (Third Edition) printed and distributed by The Council on Foundations.

1 Self Dealing and Disqualified Persons

What is self-dealing?

The use of foundation assets to enter into any financial transaction between the foundation and a disqualified person. Types of self-dealing transactions include the sale, exchange or lease of property, loans, extensions of credit, payments to government officials satisfying pledges, furnishing goods or services, and more.

What are the penalties?

Penalty on self-dealing is now 10% of the amount involved. Penalty on the foundation manager is now 5%.

Who are disqualified persons?

- Directors, Officers, Trustees of the foundation
- Substantial contributors to the foundation
- Companies of partnerships owned substantially by disqualified persons
- Family members of the persons above, such as ancestors, spouse, children (and their spouses), grandchildren (and their spouses)

What are some examples of self-dealing?

- Lending money or extending credit
- The foundation pays rent to a disqualified person, even if it is below market rate
- The foundation pays excessive compensation to a disqualified person
- A foundation trustee uses the foundation’s office for meetings unrelated to the foundation business

Can we pay rent to a family member for use of their offices?

No. The payment of rent would be self-dealing, even if it is below market rate. The only exception is if rent is \$0 (any utilities and other costs must be paid to a third party, not to the family). Sharing office space is allowed where space is owned by an unrelated party, but the risk of inadvertent self-dealing remains.

Lois Tack Thompson

DONOR PROFILE

Lois Tack Thompson could have chosen to create her own private family foundation.

Instead, in 1984 she decided to establish an unrestricted fund at The Pittsburgh Foundation, initially with \$100,000. Today, her fund is valued at approximately \$21 million. During the 25-plus years since it was started, it has awarded \$18.2 million in grants to numerous charitable programs in the Pittsburgh Region, including The Pittsburgh Promise, The Sprout Fund, Attack Theatre, and Bethany House Academy.

After Lois passed away in 1991, she left the Foundation an additional gift of \$14 million for unrestricted grantmaking in our community.



Can we approve a grant to a school where one of our trustees is a paid executive?

Yes, provided the trustee receives no tangible, economic benefit from the grant.

2 Personal Family Pledges

What is the rule for personal family pledges?

It is self-dealing for a foundation to pay a legally binding debt (a “pledge”) of a disqualified person.

What is a legally binding pledge?

A legally binding pledge is a clear promise to pay that can be enforced in court.

One of the board members wants the foundation to contribute to the local symphony's capital campaign, a grant that will also satisfy his mother's pledge to give to the symphony. Can we do this?

No. A pledge is a private obligation, a promise to pay, and the foundation cannot fulfill a personal obligation. His mother, in this case, is a disqualified person.

3 Attending Fundraisers

What should we know about ticketed events?

Typically, where goods or services are received in exchange for the price of the ticket, the foundation and its disqualified persons would be receiving a tangible, economic benefit by using the tickets. If paid for by the foundation, this would be an act of self-dealing.

Can I avoid self-dealing by personally paying for the value of the goods/services received and having the foundation pay the charitable portion?

No. The splitting of the cost, also known as “bifurcating,” is also treated as self-dealing.

The attendance at an event is permitted where the attendee has to carry out a legitimate foundation duty, such as evaluating or monitoring grantee activities.

Can I avoid self-dealing by giving the tickets to my daughter-in-law? My neighbor?

You will still be committing an act of self-dealing as your daughter-in-law is a disqualified person. While giving the tickets to an unrelated person, such as a neighbor, would not be self-dealing, you would be using foundation assets for a non-charitable purpose. The IRS frowns on use of charitable assets for private benefit.

What should I do with tickets in my possession?

It is typically safe to give the tickets back to the organization or to another charity. This is a matter best addressed before it happens, in the foundation's conflict of interest policy.

4 Hiring Family Members as Staff

What do I need to know about family members and compensation?

Generally, you can hire family to work for the foundation and pay them a reasonable salary or fee for performing what the IRS describes as “personal” services that are necessary for the operation of the foundation.

Joe and Carol Massaro

DONOR PROFILE

Joe and Carol Massaro could have chosen to create their own private family foundation. Instead, in 2004 they decided to establish an advised fund at The Pittsburgh Foundation, initially with \$25,000. Today their fund is valued at approximately \$462,000. During the six years since it was formed, the fund has awarded over \$1 million in grants to many charitable organizations in Pittsburgh, for some of which they serve with their children on the boards, including Youthworks, Little Sisters of the Poor, City Theatre Company, Neighborhood Academy and Oakland Catholic High School.

“We could have had our own foundation and we thought about that for about five seconds,” said Joe. “The Pittsburgh Foundation does everything the way it's supposed to be done. I feel very comfortable having the Foundation handle our interests. It's been a wonderful experience for us and the kids.”



What are personal services?

The IRS specifically includes legal, accounting, banking, and investment services. Real estate management, interior design, consultants and IT are not included.

How do I determine what is reasonable compensation?

Look at what similar foundations pay similar persons for comparable services. For comprehensive data, refer to the Council on Foundation's Grantmakers Salary and Benefits Report which lists information for community, private, public and corporate foundation.

5 Board Compensation

What should I know about paying my board?

Simply put, reasonable fees for necessary board services are permissible. However, research shows that most foundations do not compensate their board members.

Can out-of-pocket expenses be reimbursed?

Yes, provided the expenses are reasonable and necessary for carrying out foundation work.

How do I determine what is reasonable?

Similar to the rules for compensation of family members as staff, you can look at what other foundations of similar size are paying.

6 Paying Travel Expenses for Family

Can I take my family on foundation travel at the foundation's expense?

Generally, no. Paying for spouse/family travel using foundation assets is self-dealing, unless the person has legitimate foundation duties or the travel expenses paid are treated as income to the foundation manager for the person in question.

Is attending dinner as a family at a conference a foundation expense?

It depends. If the family members all have official, meaningful foundation duties that further the charitable purpose of the foundation, the primary purpose of the dinner is to conduct official foundation business, and the costs of the dinner are

reasonable, foundation assets can be used to reimburse costs of the dinner.

Is taking my spouse with me to attend a social reception considered a meaningful foundation duty?

No. Having your spouse with you has no specific charitable purpose.

If my children serve on an official board subcommittee and go to a conference to help train them on the working of foundations, can the foundation reimburse them for the costs of the conference?

Yes. As long as the reimbursements are reasonable and the subcommittee's responsibilities are meaningful, reimbursement is acceptable.

7 Grants to Individuals

Are there any special rules for grants to individuals?

Yes. The grant must be for a charitable purpose and cannot be made to any disqualified persons. Grantee selection procedures must be preapproved by the IRS if the foundation is making the selection. Grants must be made on an objective and nondiscriminatory basis and the number of potential grantees must be broad enough to be considered a "charitable class."

Are we allowed to make grants to the college-bound members of our family?

No. Using foundation assets to make grants to people related to the family is a violation of self-dealing if the grants are to disqualified persons. While grants to extended family may not be self-dealing, requiring membership in a particular family may not be objective or broad enough to be considered charitable by the IRS.

Can we grant prizes or awards to recognize a remarkable achievement?

Prizes or awards that only recognize past achievement, have no strings attached, and are not earmarked for travel or study are charitable and do not require advance IRS approval.

Can we avoid these rules if we make the grant to a public charity or directly to the learning institution?

Generally, the travel/study rules do not apply if the private foundation leaves the entire selection process up to the public charity or learning institution.

8 Grants to Non-Charities

Can we make grants to organizations that are not charities?

Grants to non-charities are permissible, as long as the grant is for a charitable purpose, and the foundation follows special rules called “expenditure responsibility.”

Expenditure Responsibility

The five basis steps for completing expenditure responsibility are not that different from standard grantmaking procedures.

- **PRE-GRANT INQUIRY.** The foundation must make a reasonable investigation of the grantee to make sure that the grantee is capable of performing the charitable activity that is to be funded.
- **WRITTEN AGREEMENT.** A written agreement that specifically sets out what charitable activities are to be accomplished with the funds to be granted must be signed. The agreement must also contain certain limitations, such as prohibiting the use of any of the funds to lobbying.
- **SEPARATE ACCOUNT.** Unless the grantee is another private foundation, the grantee must establish a separate account for the funds. Charitable dollars cannot be commingled with noncharitable dollars.
- **REGULAR REPORTS.** The grantee must provide regular status reports on the expenditure of the funds and the progress made in fulfilling the charitable purpose for which the funds are earmarked.
- **REPORT TO IRS ON THE TAX RETURN.** When filing the Form 990-PF tax return for any year in which a payment for an expenditure responsibility grant is made, the foundation must indicate that expenditure responsibility payments were made and must add a schedule to the form with a brief description of each grant.

9 Using a Fiscal Sponsor

What is a fiscal sponsor?

As a grantmaker, you may wish to support charitable projects or work of groups that do not have 501 c (3) charitable status. It is common for a 501 c (3) public charity to serve as an intermediary between donors and the non-charity.

What are the rules for using fiscal sponsors?

Grants to fiscal sponsors are usually safe when the grant has not been earmarked and the fiscal sponsor has complete control over the way the funds are granted.

10 International Grantmaking

Can we make grants outside the U.S.?

Family foundations can safely grant to non-501 c (3) organizations outside the U.S. as long as they follow one of two special sets of procedures:

What are the rules for making an Equivalency Determination?

“Equivalency Determination” is a good faith judgment that the non-U.S. grantee is “the equivalent” of a U.S. public charity. The foundation may make such a determination based on either an affidavit or an opinion of counsel that the grantee is a public charity.

What kind of documentation is sufficient?

The file should be thorough enough so that the IRS will be satisfied that the determination was reasonable. Whether the foundation uses legal counsel or seeks to obtain an affidavit from the grantee, it is likely to need the following:

Robert M. Thompson, Jr.

DONOR PROFILE



The Robert M. Thompson Jr. Family Fund was created in the Fall of 2010, transferring the assets from his private foundation to The Pittsburgh Foundation. His new Family Foundation Fund at The Pittsburgh Foundation is in support of science education K–12 initiatives. “I wanted my children to remain involved in charitable giving. I realized that unless I was careful, I could potentially lose the legacy that I had created.”

Rob Thompson has fond memories of his grandparents and their passion for science. Both science teachers, his grandmother would often take him as a child, growing up in Forest Hills, to the Buhl Planetarium in Pittsburgh on the weekends where he would marvel at the scientific universe.

“Exposing young kids to science at an earlier age will not only bring more students into the science and technology fields, but it’s a way to lift our standard of living.”

- **ORGANIZATION DOCUMENTS.** Articles of incorporation, charter, certificate of incorporation, or similar names. Bylaws (the organization's internal governing rules) should also be obtained.
- **PURPOSES AND ACTIVITIES.** A detailed description of the purposes and activities of the grantee.
- **DISTRIBUTION OF ASSETS.** A copy of relevant statutory law or provisions in the governing instrument, stating how the assets of the grantee will be distributed if it ceases to exist.
- **LIMITATIONS.** The grantee must also demonstrate that none of its assets or income will provide a private benefit to individuals, its non-charitable activities or legislative lobbying are and will be insubstantial, and it will not participate in any political campaigns.
- **FINANCIAL DATA.** Detailed financial data for several years for organizations that are not religious, educational, or medical institutions.



For more information on Family Foundation Funds please contact the Development Office at 412-394-2653 or development@pghfdn.org.

A copy of the official registration and financial information for The Pittsburgh Foundation may be obtained from the Pennsylvania Department of State by calling toll free, within Pennsylvania, 1-800-732-0999. Registration does not imply endorsement.



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