

How to Start a Foundation

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If you're a successful entrepreneur who wants to give back to the community, you might be thinking of starting your own foundation. But first, be sure you understand the many demands of running a nonprofit organization.

Creating a foundation can be rewarding, but it requires much more than financial support, says Janne Gallagher, senior vice president and general counsel of the Council on Foundations in Arlington, Va. Among other things, foundation founders must get up to speed on laws and regulations, oversee operations, attract donors, and review programs for possible funding.



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Some businesses instead choose to establish a fund through a community charity, but don't necessarily have the final say in how money is distributed. For those who want to retain control through their own foundation, here are several important steps to take:

Make the necessary commitment. As Dick Palazzo built his Tinton Falls, N.J., pet boarding and grooming business, Purr'n Pooch, he regularly rescued dogs from animal shelters and found homes for them. As his business neared its 30th anniversary in 2009, his daughters decided to launch the [Purr'n Pooch Foundation for Animals](#) to further their father's animal rescue work. Because a foundation is often like running another business, you need true dedication, Palazzo says.

"You have to have real passion for what you're doing because you're going to be dedicating a lot of your personal time to the cause," he says. "If you love what you're doing, I think the success will follow." His foundation has granted more than \$40,000 to various animal nonprofits and expects to disperse another \$25,000 to \$30,000 in January.

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Get good counsel. An experienced attorney can help you decide whether your organization should be a charitable trust or a 501(c)3, which is named after the portion of the IRS code defining nonprofit entities. Although Palazzo says working with an attorney makes the process easier, you can file the paperwork on your own. Newton, Mass. law firm Hurwit & Associates, which specializes in nonprofit law, provides the [filing requirements for each state](#).

Create bylaws. The foundation must be governed by a set of bylaws, says Jeff Hurwit of Hurwit & Associates. They include provisions for the organization's governance and board selection process, general decision-making, required meetings, and conflict-of-interest policies. [GrantSpace.org](#) provides a good collection of [bylaws information and samples](#).

Develop award criteria. Foundations need to create a clear set of criteria for selecting funding recipients. "Although it's not legally required, you want to make sure you're not setting expectations that people will be entitled to grants without meeting specific criteria," Hurwit says.

Your foundation should identify the types of programs it will support and a timeline for applications, program selection and grant awards. You also may require follow-up reports from funding recipients to document how the money was used and what impact it had.

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Recruit a strong board. A foundation often fills its board with family members, but that may not be the best approach. Family members fill all board positions for the [Gabe W. Miller Memorial Foundation](#), founded by attorney Alan B. Miller in memory of his son Gabe, who died in 2005 while he was a social work student at the University of Colorado.

Although Miller likes having an all-family board, he says it limits fundraising. "To enable larger and a greater number of scholarships and social service project grants, we may well have to go to a donor board or sub-board to expand our support population," Miller says. For example, Palazzo's animal-focused foundation recruited such outsiders as Nicholas H. Dodman of the Cummings School of Veterinary Medicine at Tufts University and Brian T. Voynick, a veterinarian who hosts an animal show on a New Jersey television station. They brought additional insight, dedicated

service and networking opportunities to the foundation, says Palazzo, who serves with his daughters on the board.

Create a sustainable plan. Unless you're independently wealthy, you're going to need to do fundraising to sustain the foundation. Miller, for example, raises funds through his foundation's annual 'Celebration of Life' dinner, as well as direct mail and email solicitations.

Since 2005, the Miller foundation has given away about \$55,000 in scholarships and \$40,000 in grants to social work projects. "We're not wealthy like that," Miller says. "What we do is raise money from everyone we know and everyone we can find who is interested in the work our foundation does."

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Avoid conflicts. Nonprofits need to prevent conflicts of interest, such as using the foundation to advance business purposes. Hurwit says, having the foundation sell products or services from your business could mean forfeiting your tax-exempt status. Nonprofits also cannot generally engage in political activities without jeopardizing their tax-exempt status.

Manage funds properly. It's critical to keep the foundation and your business as two separate entities with different accounts, Hurwit says. Secure individual employer identification numbers for each entity and do not commingle funds. If you make a donation from your corporation to the foundation, clearly state in your corporate records what the money will be funding. But don't funnel money from the foundation back into the business, Hurwit says, unless your attorney has cleared a transaction. He advises that it's best to assume that it's never permissible.

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