

# DISCRETIONARY GRANTS

**Discretionary Grants** are grants distributed at the discretion of authorized individuals, usually board members or senior staff, who are given the opportunity to direct a small portion of funds from the foundation to a charity or profit organization of their choice. Total discretionary giving should not exceed 10 - 20% of grants with the remainder dedicated to the core mission of the foundation. As long as the grants do not stray outside the foundation's purposes as approved by the IRS and do not violate prohibitions such as the rule against self dealing, discretionary grants are generally approved with minimal board or staff review. However, the full board is responsible for ensuring the grants follow legal requirements and meet any restrictions the board has put on this type of grant.

Typically, most family foundations become interested in discretionary grants when the second and third generations join the board. About half of family foundations allow board members to make discretionary grants. They serve to show appreciation for trustee volunteer service on the foundation board, can be a useful tool to encourage involvement when trustees are geographically dispersed, and help to accommodate differences in program interests.

Your board might discuss the advantages and disadvantages of discretionary grantmaking, and develop a policy for or against the practice accordingly.

## Advantages of discretionary grantmaking:

- **Encourages individual board members' involvement** by allowing them to direct a small percentage of the foundation's funds to non-profit organizations that are of personal interest.
- **Introduces the next generation** to the work of the foundation by allowing future trustees a modest amount of discretionary grantmaking as training for future board service.
- **Allows for quick response** to emergencies, disasters, or time-sensitive opportunities
- **Encourages personal giving** of trustees and staff by matching personal donations or volunteer hours with grant dollars

## Disadvantages of discretionary grantmaking:

- **Can send mixed messages to grantees and potential grantees** if grants are outside the foundation mission and guidelines
- **May dilute the overall focus** of the foundation's impact and ability to be effective in reaching long-term goals;
- **Involves little or no discussion** or consideration of shared values and the foundations guidelines
- **Increases the likelihood of self-dealing or conflict of interest**, because they do not require the full board's review and there is little accountability
- **Increases the amount of paperwork** and time needed to administer additional grants
- **May discourage personal giving** if a matching component is not included.
- **Could potentially lead to the desire to split** the foundation along family branches or by individuals in separate geographic locations.

If a foundation wishes to allow its board to make discretionary grants, it is advisable to develop a discretionary policy to regulate and oversee the grants.

Some boards require that discretionary grants fit into the foundation's mission. If the board has not previously discussed and approved a mission or grantmaking guidelines, it should do so before establishing a discretionary grants policy.

When establishing a discretionary policy, consider the following questions:

- What does the foundation want to accomplish with its discretionary grants and who will be allowed to make them?
- What criteria must discretionary grants meet? For example, must they stay within the overall mission and/or grantmaking guidelines of the foundation? Will certain grants be prohibited?
- What is the process for review and approval of discretionary grants? Will the board approve discretionary grants before or ratify after the fact at the board meeting? What reporting requirements if any will be required from trustees and grantees?
- Will discretionary grant amounts be determined by a certain fixed dollar amount or a percentage of total grantmaking and will the amount change if the board size increases?
- Are discretionary grants limited in number? For example, one large grant versus numerous small grants? If numerous small grants are allowed, is there a minimum dollar amount that can be designated?
- If an individual does not use his or her discretionary dollars and wishes to carry over their dollars into future years, would it adversely affect your core grantmaking budget in the future?

To ensure that your discretionary grants are legal:

**Follow your founding documents.** If the foundation's articles of incorporation or trust document limit giving in any way, discretionary grants must reflect those limitations.

**Abide by all foundation laws.** The grant must be to a charitable organization recognized under section 501(c)(3) of the Internal Revenue Service Code. The grant cannot be used for non-charitable purposes, be designated for lobbying or to influence the outcome of any public election. The trustee making the discretionary grant cannot receive any personal benefit as a result of the grant and the grant cannot satisfy a personal pledge made by an individual board member.

**Follow your policy and document your decisions.** Consider adapting a discretionary application to be filled out by a board member or authorized staff member and determine a reporting format. Develop a checklist of required documents necessary for an approval process including 501 (c) (3) letter, and financials. All grants designated under this policy should be presented to the trustees for ratification by the Board. To increase board communication and understanding, consider allowing time at the board meeting for each trustee to make a very brief presentation about their discretionary grant(s).

**SAMPLE FOUNDATION  
DISCRETIONARY GRANT ACKNOWLEDGMENT**

**ORGANIZATION:**

**GRANT AMOUNT:**

**PURPOSE:** To be used for General Operating

Received By: \_\_\_\_\_

Title: \_\_\_\_\_

Date of Receipt: \_\_\_\_\_

**\*No Goods or Services have been received for this grant.**

**PLEASE RETURN TO:**  
SAMPLE FOUNDATION  
Address, City, State, Zip  
Phone:

# **Sample Foundation**

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## **Discretionary Grant Request Form**

Name of authorized person requesting grant: \_\_\_\_\_

Legal name of grantee organization: \_\_\_\_\_

Contact Person and Title: \_\_\_\_\_

Phone number: \_\_\_\_\_ Email: \_\_\_\_\_

Address: \_\_\_\_\_

City/State/Zip: \_\_\_\_\_

Website: \_\_\_\_\_ Fax: \_\_\_\_\_

Purpose of Grant:- \_\_\_\_\_

\_\_\_\_\_

Amount Requested: \$ \_\_\_\_\_

Communities/Counties served by this Program/Project: \_\_\_\_\_

\_\_\_\_\_

On a separate piece of paper or by e-mail, please respond to the following questions:

- Why is this organization important to you?
- What services does this organization provide in your community?
- Have you been a volunteer to this organization or made a financial contribution?
- Other comments you may have.

Please attach a copy of the organization's 501(c) (3) tax-exempt letter.

By signing below, individual affirms that no self-dealing will occur as a result of the grant.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

# **SAMPLE FOUNDATION (Discretionary Grant Acknowledgement)**

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Street Address

City, State, Zip

Phone

FAX

Date

NAME

ORGANIZATION

Address

City, State Zip

Dear \_\_\_\_\_:

The Sample Foundation is pleased to enclose our check # \_\_\_\_\_ in the amount of \$ \_\_\_\_\_ to \_\_\_\_\_ . This grant is being made at the discretion of our trustee, \_\_\_\_\_ .

An acknowledgment copy is enclosed for your signature. Please return the original copy of this receipt at your earliest convenience.

Sincerely,

Name

Title