

Institutional Advisors

A Practical Guide to Establishing and Managing a Private Foundation

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Private foundations help individuals and families fulfill their philanthropic goals and work together to create impact. Unlike public charities, private foundations are funded and controlled by a single donor, family, or corporation (private foundation or corporate foundation). This type of vehicle provides the members establishing the foundation with control over what the mission and vision are, investment strategy, grantmaking, and taking advantages of tax benefits if established correctly. The establishment of a private or corporate foundation has legal, regulatory, and operational responsibilities. So, when thinking about establishing a private foundation, work with an attorney to ensure all is properly done.

At inception, decisions need to be made on the foundation's mission and vision. A clear mission guides grantmaking and unites the board and future generations. Choosing the right legal structure — trust or nonprofit corporation — determines governance, liability, and reporting requirements. Recruiting a qualified board, appointing officers, and establishing bylaws and procedures will provide a framework for supervision and responsibility.

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Once created, a private foundation needs ongoing administration. The following are among the most important steps:

- Track contributions, grants, and expenses
- Check grantee eligibility
- Comply with IRS rules
- Meet federal and state filing requirements, including Form 990-PF
- Distribute a set percentage of assets yearly for charitable purposes.
- Avoid prohibited transactions, excess business holdings, and taxable expenditures

Just as administration is critical, investment oversight is also key to ensuring that the foundation's resources serve its mission effectively.

Investment oversight is central to the foundation. There are many policies that need to be developed: first and foremost is an investment policy statement that aligns with its goals and risk tolerance. The investment policy is then used to set parameters around asset allocation and how to measure performance.

Regular review, transparent reporting, and board member education support better decisions and lead to long-term sustainability. These efforts, along with robust strategy and compliance, form the basis for successful foundation management.

Together, these responsibilities can highlight how successful the foundation will be depending on the coordinated efforts of the board around overall strategy, governance, compliance, administration, and investment management.

The next sections provide more detail on each responsibility, including educating family and board members; establishing the foundation; defining its mission; and managing governance, compliance, administration, and investments.

Educating board members (Family and non-family)

Education sessions for board members should include at a high level, investments covering topics such as risk management, performance evaluation, and governance structure.

During every investment review meeting, all members should be comfortable asking questions and sharing concerns.

A typical investment review meeting should include:

- Updates from the foundation about changes to goals, budget, and more.
- Confirmation of investment policy statement and a revision of investment objectives, if necessary.
- Discussion and detailed review of investment performance.
- Explanation of any tactical changes to the portfolios that may have occurred since the last meeting.
- Description of current economic and market factors affecting the portfolios.

Establishing a private foundation overview

A private foundation is like a public charity and is classified as a 501(c)(3). However, a private foundation is not a public charity because, instead of receiving public support, it is funded and controlled by an individual, family, or corporation. When starting a private foundation, founders must consider steps at both the state and federal levels.

Private foundations have a few things in common with other 501(c)(3) structures.

For example, private foundations are:

- Tax-exempt but pay an excise tax on net investment income (for 2025 it is 1.39%).
- Established for charitable purposes and to provide founders with a tax deduction for their contributions.
- Managed by the foundation's board of directors.

Additionally, the financial contributions to private foundations are usually controlled by the founders. Private foundations must make charitable distributions (grants) throughout the taxable year.

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Defining mission and vision statements

Once the foundation's name has been established, it will be part of the incorporation with the state. The legal name of your foundation cannot conflict with any other organization registered in the state. Make sure the name is available and meets state requirements.

Establishing a clear mission and vision helps define purpose and long-term impact. Mission statements articulate what the foundation does, who it serves, and how it operates. Vision statements describe the long-term impact the foundation seeks to achieve and what that might make the world look like.

Governance structure

Best practices for determining the foundation's governance structure include:

- Determining if the foundation's structure will be a trust or a nonprofit corporation. Consider the implications for liability, regulations, and reporting at the federal and state levels.
- Recruiting and vetting a board of directors (or trustees if establishing a trust). Having at least three unrelated individuals with the knowledge, skills, experience, or connections to address the chosen cause is recommended.
- Establishing the foundation's officers (president, vice president(s), secretary, treasurer) according to your bylaws, recognizing that the president and secretary cannot hold multiple offices.
- Working with a qualified attorney to draft the foundation's bylaws and governing documents. These documents should align with your articles of incorporation based on state and federal laws. The operating procedures also will serve as your organization's internal operating manual and will be reviewed at the board level.

Learning IRS rules for private foundations

Private foundations are established for charitable purposes and need to adhere with [IRS rules](#). A private foundation is required to make distributions at least annually equal to 5% of its prior year's average net investment assets.

What would count toward this requirement? Most importantly, it would include grants to nonprofit organizations, certain related expenses, and reasonable administrative costs. It does not include investment expenses.

What is the benefit? Those who establish a private foundation have full control over how the assets are invested and grants are issued. There are also significant tax benefits, such as:

- Reducing the funder's income tax for each year in which a contribution is made.
- Avoiding capital gains taxes, depending on the characteristics of assets contributed in-kind.
- Potentially reducing or eliminating estate taxes.

Following state and federal requirements

Finding an attorney who specializes in foundations will help with the requirements imposed by the state and federal governments, including:

- Filing the foundation's Articles of Incorporation with the state.
- Obtaining an Employer Identification Number (EIN) from the IRS by submitting Form SS-4.
- Reviewing and meeting the IRS requirements when applying for 501(c)(3) tax-exempt status with the IRS by submitting Form 1023.
- Registering as a charitable organization with the state.

Ongoing operations and compliance

Once established, foundations must meet ongoing operational requirements, including:

- Holding board meetings and documenting decisions.
- Filing annual Form 990-PF 990-N or 990-T.
- Meeting minimum distribution requirements.
- Maintaining governance and compliance documentation.

Together, these responsibilities illustrate the level of planning, oversight, and coordination required to operate a private foundation effectively over time.



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Key Takeaways

Managing a private foundation requires coordination across strategy, governance, compliance, administration, and investment oversight. Foundations need to navigate complexity, meet regulatory obligations, and remain focused on advancing their charitable mission for generations to come by adhering to these principles:

Private foundations offer control and continuity.

By having solid governance, investment oversight, and grantmaking, private foundations allow individuals and families to align charitable giving with long-term values and goals.

Clear mission and governance are essential from the start.

Well-defined mission and vision statements, supported by governance structures, guide decision-making and help foundations navigate leadership transitions over time.

Compliance and administration require ongoing discipline.

Meeting IRS requirements, maintaining accurate records, and adhering to regulatory standards are critical to protecting tax-exempt status and sustaining charitable impact.

Investment strategy directly supports mission sustainability.

A disciplined investment policy, regular oversight, and informed board engagement help ensure foundation assets are managed prudently and aligned with charitable objectives.

Integrated advisory support simplifies complexity.

Coordinated expertise across governance, compliance, administration, and investments helps foundations operate efficiently while remaining focused on advancing their mission.

For more information, [please contact your advisor.](#)

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About the Author

Cindy serves as the National Director of Philanthropic Advice, where she is responsible for introducing a comprehensive suite of sophisticated planning solutions tailored for Nonprofit and Institutional clients. Her role encompasses developing and implementing growth strategies, providing strategic planning advice, conducting governance and policy reviews, offering thought leadership, and delivering education on a range of critical topics. These topics include planned giving, fund accounting, charitable trusts, donor-advised funds, and other services that support Nonprofits with a particular focus on Endowments, Foundations, and Pooled Special Needs Trusts.

Understanding the importance of supporting clients in the impactful work they do, Cindy obtained her Chartered Special Needs Consultant (ChSNC®) designation. This designation enables her to assist people with special needs through planning ideas. She has gained in-depth knowledge of the best strategies and a dynamic understanding of areas such as disability regulations, special needs trusts, ABLE accounts, government benefits, Medicaid complexities, special education, estate and retirement planning, and tax implications.

Cindy's career at KeyCorp began in 1992, reflecting her long-term dedication to her profession and the organization. She earned her Bachelor of Science in Business Management and Finance from Plattsburgh State College. Her credentials include earning her Certified Trust and Fiduciary Advisor (CTFA) designation through Cannon Financial Institute, attending the New York State Bankers Association, the New York State Bankers Estate and Administration School, and earning her ChSNC® designation through the American College for Financial Services.

Beyond her professional accomplishments, Cindy is also dedicated to community service. She volunteers at New Vocations, a national nonprofit organization that focuses on rehabilitating, retraining, and rehoming retired racehorses through adoption. Cindy supports New Vocations as they educate the community about racehorse aftercare. In addition, Cindy sits on the Board of Directors for the Thoroughbred Retirement Foundation focusing on the aftercare of retired racehorses.



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