

# COMMUNITY FOUNDATION PRIMER

## AN OUTLINE FOR DISCUSSION AND AN INITIAL ORGANIZATION START-UP KIT

The Council of Michigan Foundations provides this publication as a part of the Michigan community foundation project jointly supported by the W.K. Kellogg Foundation and the Charles Stewart Mott Foundation along with the community foundation programs of the Indiana Donors Alliance through the GIFT Program of the Lilly Endowment, Inc.

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# OVERVIEW:

## COUNCIL OF MICHIGAN FOUNDATIONS' COMMUNITY FOUNDATION PROJECT

The Council of Michigan Foundations (CMF) serves more than 360 grantmaking organizations in the state. As a regional association of grantmakers that represents private foundations, corporate foundations, bank trust departments and community foundations, the CMF seeks to enhance, increase and improve the philanthropic resources of Michigan.

In 1988, the community foundations in Michigan worked together through the leadership of CMF to plan for the future of community foundation development in the state. Three major strategies were initiated: a challenge grant to raise endowment dollars, the involvement of youth in philanthropy and technical assistance delivered on a statewide basis. These strategies received support from the W. K. Kellogg and the Charles Stewart Mott Foundations.

A three-year pilot project (1988–1991) proved so successful in assisting the growth of community foundations and the building of a statewide network of organizations that CMF pursued continuing and more substantial funding. CMF, on behalf of the community foundations of Michigan, received a \$35 million challenge grant from the W.K. Kellogg Foundation in 1991 and an additional \$12 million grant in 1995. The grants provided for each community foundation member to receive up to a \$1 million challenge grant during 1991–1996 and provided for technical assistance. A companion grant of \$350,000 from the Charles Stewart Mott Foundation also supported technical assistance.

### Project Objectives

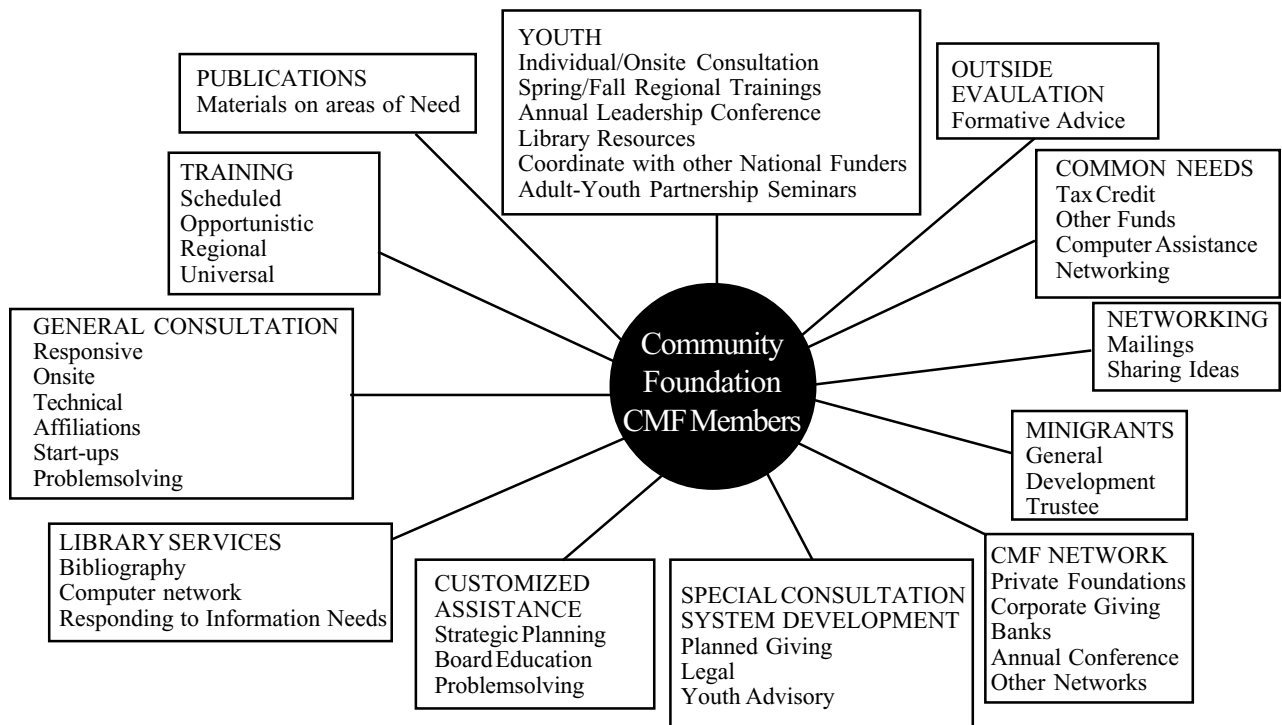
The objectives of the program are to:

1. Assist community foundations in building their unrestricted and field-of-interest endowments;
2. Expand and extend community foundation services to cover the state so that every donor has access to a community foundation vehicle;

3. Provide a permanent youth field-of-interest fund for communities across Michigan from which grants can be made to meet local youth needs;
4. Involve youth in the process of philanthropy: assessing local needs, raising funds and advising on youth grantmaking; and
5. Stimulate the implementation of youth volunteerism across the state.

The array of services offered by CMF to its community foundation members is displayed in the following illustration.

## Technical Assistance Activities



The Kellogg challenge requires a 2:1 local funding match by the community foundations which will generate almost \$100 million of new assets for Michigan communities.

The community foundation initiative receives enthusiastic support from CMF's private and corporate foundations in Michigan. Their sustained involvement helps to build this critical network of strong independent community resources.

For the continuing enthusiasm and generous assistance of the W.K. Kellogg and Charles Stewart Mott Foundations, Michigan community foundations extend a deep and public thanks.



## Publications

This is the eighth in a series of publications that are tangible products of many related efforts to build the capacity of community foundations in service to Michigan communities. Companion publications are: *How to Help Your Community Foundation Develop an Effective Strategic Plan*; *Media Matters: Informing the Public on the Impact of Grantmaking in Michigan*; *Community Foundation Primer*; *A Guide to Managing Change for Foundations*; *Community Foundation Scholarship Guidelines for Membership Clubs, Corporations, and Associations*; *Sample Language for Gifts and Bequests to Community Foundations*; and *Identifying the Patterns, Prospects, and Pitfalls in Community Foundation Growth and Development*.

Copies of these publications can be ordered from:

Council of Michigan Foundations  
P.O. Box 599  
Grand Haven, MI 49417  
616/842-7080  
mleyton@cmif.org



# INTRODUCTION

Deciding to start a community foundation is serious business. Although the idea is extremely attractive and many community volunteers have experience in other types of nonprofits, the decision to start a community foundation requires special consideration.

Volunteers should frame the discussions as if they were starting a bank. Would you begin a bank with part-time volunteer staff and no office?

Is there a commitment, a system and the resources to follow all state and federal licensure and tax code requirements on a timely and accurate basis?

A community may be best served by linking up with a neighboring, professionally staffed community foundation with experience where the regulatory, financial and reporting systems are already in place. The new community foundation can then turn its attention to the development (fundraising, donor relations) and grantmaking aspects of building their community resources.

This community foundation primer is designed for communities that are interested in the formation of a community foundation. Unlike much of the published literature in the field prepared for the more mature community foundation, this step-by-step primer will take some of the mystique and complexity out of the process. It is intended for use by those who have differing levels of experience in philanthropic activities, in legal structures for nonprofit organizations or in fundraising. What they share, however, is a common “missionary zeal” for their communities. We hope this outline will provide some of the initial ideas of what a community foundation is and can do for its community.

The best way to use this primer is to browse through it for an overview of activities required for the organization and start-up of a community foundation. Once there is sufficient interest to proceed, assign the various activities as outlined in the chapters. Obviously, not all stages of development and questions will apply to all communities in that each community foundation is unique to its particular community. Experience with numerous start-up

efforts for community foundations, however, has taught us some of the steps that facilitate success. What is more important, we have also identified common roadblocks to successful development and long-term growth.

This primer poses questions for discussion among organizing groups. It presents alternatives and considerations in the development of policies and styles of community foundations. It offers questions at each stage to assure discussions are held and consensus reached. And, most importantly, it provides reference to additional materials and organizations that can provide assistance.

This publication has been developed by Kathryn A. Agard, Ed.D., program director for the Council of Michigan Foundations; Helen Monroe, project director for the Lilly Endowment Inc. Indiana Community Foundation GIFT Program; and Ed Sullivan, executive director of the Heritage Fund of Bartholomew County, Indiana (a community foundation) and a part-time consultant to the Indiana GIFT Program. This primer is a joint venture of the programs serving Michigan and Indiana.

# CHAPTER 1

## WHAT IS A COMMUNITY FOUNDATION?

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## Definition

A community foundation is a tax-exempt, independent, publicly supported philanthropic organization established and operated as a permanent collection of endowed funds for the long-term benefit of a defined geographic area. The foundation is commonly known as a community trust, fund or foundation or a similar name conveying the concept of an endowment fund to support a broad range of charitable activities in the geographic area served. A community foundation actively seeks new, typically large contributions, and functions primarily as a grantmaking institution supporting a broad range of charitable activities. The community foundation has an independent governing body representing the broad interests of the community, with members of the board serving limited terms, and is responsible for seeing that a reasonable rate of return is achieved on all funds entrusted to the foundation. A common governing instrument covers all gifts and funds, including a “variance power” to modify the use of restricted funds if such restrictions become unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

## Standards of Practice

A community foundation actively seeks new, typically large, contributions of permanent endowment from a wide range of donors who are generally from a specific geographic, and provides services to assist those donors in fulfilling their philanthropic interests.

The community foundation generally encourages donors to make unrestricted gifts in order to build a flexible, permanent endowment. Other types of component funds within the community foundation include field-of-interest, designated, donor-advised, special project and various restricted funds.

Using income from invested assets, a community foundation functions primarily as a grantmaking institution supporting a broad range of charitable activities that creatively address emerging and changing community needs in such fields as education, arts and culture, health, social services, community development, environment and civic affairs.

A community foundation also provides leadership on pervasive community problems by serving as a facilitator, convener or mediator around significant community issues, and provides technical advice to area nonprofits.

The community foundation is not controlled or influenced by other organizations, government units or charities, and adheres to a sense of “community” that overrides individual interests and objectives.

A community foundation's funds are invested to preserve the value of substantially all of the contributions received as permanent assets of the organization either by trustee banks and/or the foundation's governing body. Annual audits are performed, and investment managers undergo periodic review by the governing body to ensure a reasonable rate of return on all funds entrusted to the foundation.

A community foundation is committed to the principles of equity and diversity and public accountability.

(A brochure of this definition of a community foundation is available from the Council of Michigan Foundations.)

## Mission

Community foundations usually have four concepts as a part of their mission:

1. The concept of building and managing permanent endowment to meet the emerging needs of the community (often termed building "community capital").
2. The concept of providing a central philanthropic vehicle for donors of various sizes and needs to meet their individual charitable interests (often termed "donor service organizations" or a "collection of donor interests").
3. The concept of broad-based grantmaking to other nonprofit organizations. The community foundation sometimes names its areas of interest: i.e., arts, education, environment, health, humanities, human services or community development.
4. The concept of community leadership (often the words "convener" and "catalyst" are used to describe this leadership role).

Other languages may be descriptive of the geographic area of service, and other philosophical commitments such as a commitment to cultural diversity or to building the community. (Sample mission statements can be found at the end of this chapter.)

## History

Credit for creating the first community foundation in the United States is universally given to Frederick Harris Goff, a Cleveland, Ohio, attorney and president of the Cleveland Trust Company. In creating the first community foundation in 1914 through the Cleveland Trust Company, Goff had two



goals. First, that a philanthropic vehicle be developed to facilitate donors' charitable intentions in perpetuity even if their original purposes became obsolete (variance power). And second, that a system be established whereby people of modest means could also engage in large-scale philanthropy if they pooled their contributions. He felt that distributions from such a pool could be made by a committee representing the community.

The community foundation concept spread to many major urban areas throughout the country during the succeeding five decades. By 1975, some 215 community foundations had been created with aggregate assets of more than \$1 billion. During the past 15 years, an explosion in the creation of community foundations has taken place in communities both large and small. As of 1996, there exist more than 400 community foundations in the U.S. with total assets exceeding \$6 billion and total grants estimated at \$496 million annually.

The creation of new community foundations and added gifts to existing ones represent the fastest growing area in philanthropy today. This unique American concept is also spreading to Canada, Great Britain, Eastern Europe, Mexico and other parts of the world.

## Legal Status

The two basic legal documents required to create an independent community foundation are the following:

1. **Articles of Incorporation.** This is the document which creates the foundation containing clauses meeting state law requirements for nonprofit corporations. The Articles name the corporation, state its purpose and describe its powers (including the variance power). The Articles of Incorporation are filed with the Secretary of State's office and are applicable immediately upon filing.
2. **IRS Documentation.** The most critical documents from the Internal Revenue Service are its two ruling letters. The first letter is a determination that the foundation is classified as a 501(c)(3) tax-exempt organization and, therefore, will pay no federal income tax and all contributions from donors may be claimed by the donor as deductible gifts. The second ruling letter typically is a determination that the foundation is a public charity and not a private foundation. The length of time from the initial submission of the proper documentation to IRS to receipt of its ruling letters normally is 60 to 90 days but may take up to six months.

Community foundations in Michigan should contact the Council of Michigan Foundations for the booklet “Michigan Community Foundation’s State and Federal Checklist.” This booklet, written by Duane L. Tarnacki, counsel for the Council of Michigan Foundations and partner with the firm Clark Hill P.L.C., is a comprehensive list that not only tells you when to file the necessary forms but also where to get the forms. Call the Council of Michigan Foundations at 616/842-7080 for a copy. Samples of completed forms are also available from CMF.

## Self-Study Questions

1. What are the unique attributes of a community foundation compared to other organizations?
2. How does the community foundation’s mission, history and definition compare and contrast with the historic role of United Way?
3. What are the benefits that will accrue in our community through having a community foundation that would not exist without a community foundation?
4. How will we handle the legal steps to form a community foundation if we are interested? Who will serve as our local legal counsel?

## Glossary

### **Actively Seeks New, Typically Large Contributions**

Growth in assets comes primarily from new gifts, generally significant in size and often initially from a small number of donors. Also, community foundations can attract small gifts from donors. Mature community foundations typically attract contributions from a large number of donors.

### **Broad Range of Charitable Activities**

Records indicate that grants, loans and other services promote the public good in a wide variety of fields of interest and that grantees and the purposes of the grants change over time. Foundations whose charitable activity has a limited number of targeted and specific activities, rather than serving the general charitable purposes of the specific geographic area, are not community foundations.

### **Broadly Representative of the Community**

The composition of the organization in its advisory committees, governing body and staff reflects the demographic characteristics of the community such as ethnicity and gender, and includes members knowledgeable of the community and recognized for their personal involvement in civic affairs.

Community foundations do not represent just one ethnic or religious segment of a geographic unit. They also are not established by municipalities to serve city interests.

### **Common Governing Instruments**

The community foundation meets the requirements for treatment of a single entity contained in the regulations of the U.S. Department of Treasury 26 C.F.R. 1.170A-9(e)(11).<sup>1</sup>

1. The organization must be commonly known as a community trust, fund or foundation, or similar name conveying the concept of an endowment fund to

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<sup>1</sup>Community foundations are described in U.S. Department of Treasury 26 C.F.R. 1.170-9(e). For purposes of brevity, these regulations have been annotated. A full and careful reading of the regulations is required and suggested.

support charitable activities in the geographic area served.

2. All funds must be subject to a common governing instrument (i.e., Articles and/or By-Laws or a master trust agreement).
3. The organization must have a common governing body that directs the distribution of all funds for charitable purposes.
4. The governing body must have the power to:
  - a. Modify any restrictions or conditions on the distribution of funds if such limits become unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served;
  - b. Replace any trustee, custodian or agent for breach of fiduciary duty; and
  - c. Replace any trustee, custodian or agent for failure to produce a reasonable return of net income.
5. The organization must prepare periodic financial reports treating all funds as funds of the organization.

**Creatively Addresses  
Emerging and Changing  
Needs**

A community foundation plays a leadership role in identifying immediate and emerging needs in the community especially as they affect underserved populations, and supports progressive new ideas and programs designed to address those needs. It assists nonprofits in specific needs which aid or enlarge their scope of service.

**Defined Geographic  
Area**

The community foundation serves a geographic area of natural cohesion such as a municipality, county or state that has adequate indigenous

resources to support the long-term growth and development of the foundation. The community foundation's name and all legal and public relations materials usually indicate the geographic area of service.

**Endowed Funds**

All legal and public relations documents state that endowment funds are the mission of the community foundation (i.e., funds created to provide income that will be used for charitable purposes).

**Inclusiveness**

Grantmaking policies and guidelines have been adopted to inform the public. They delineate the community foundation's own priorities and funding restrictions to encourage the fullest possible public participation in grant applications. Policies and guidelines are periodically reviewed to make certain that they reflect current and emerging community concerns.

**Independent Governing Body**

Legal and public relations documents and practices indicate that the governing body is independent of other entities. When appointing authorities are in place, no one appointing agent or related agents names a majority of members.

The community foundation is not controlled by or subject to the influence of another organization or group of organizations such as governmental organizations as defined under Section 509(a)(3) of the Internal Revenue Code and the relevant U.S. Treasury regulations.

**Mission**

Defines the broad purpose and philosophy of the organization—why it exists, what it hopes to accomplish, where it serves.

**Permanent**

All legal and public relations documents state permanent funds are the primary mission of the community foundation. Community foundations with experience have a record of attracting, receiving and investing permanent funds.

**Philanthropic**

All legal and public relations materials reflect a mission of philanthropic service. This means grants and activities devoted to systemic change, enhancement of community activities, as well as direct relief of suffering.

**Principles of Equity and Diversity**

Staff, members of the governing body, advisory committees and grantmaking policies and procedures reflect the demographic characteristics of the community relative to its diversity such as ethnicity and gender.

**Public Accountability**

At a minimum, the community foundation publishes and disseminates an annual report presenting organizational and financial information.

**Publicly Supported**

The community foundation is publicly supported as defined by the regulation of the U.S. Department of Treasury, 26 C.F.R. 1.170A-9(e)(10), and is meeting the public support test through direct contributions.

**Tax Exempt**

The community foundation qualifies for exemption from federal tax under Section 501(c)(3) of the Internal Revenue Code, as evidenced by receipt of an IRS tax exemption letter and continued listing in IRS Publication 78.

## Resources

***An Agile Servant***, edited by Richard Magat, The Foundation Center, 79 Fifth Avenue/16th Street, New York, NY 10003-3050, 888/239-5221. Order #901.

***Building Community***, John Gardner. Independent Sector, 1828 L Street, NW, Suite 1200, Washington, DC 20036, 202/223-8100.

***Common Characteristics of Community Foundations***, Council on Foundations, 888/239-5221. Copies available from the Council of Michigan Foundations, P.O. Box 599, Grand Haven, MI 49417-0599, 616/842-7080.

### **Community Foundation Competency Materials including:**

***Community Foundation Competency Guide***. Booklets describing Community Foundation Mission and History. Audio tapes describing Community Foundation Mission and History, Council on Foundations, 888/239-5221. Order #921.

**“Community Foundation Definition,”** Council of Michigan Foundations, P.O. Box 599, Grand Haven, MI 49417-0599, 616/842-7080.

**“Community Foundation Training Manuals - Mission and History,”** Council on Foundations, 888/239-5221. Order #915.

***Michigan Community Foundations State and Federal Checklist***, Duane L. Tarnacki, August, 1992. Copies available from Council of Michigan Foundations, P.O. Box 599, Grand Haven, MI 49417-0599, 616/842-7080.

***Starting A Community Foundation: Resources for Grantmakers***, Council on Foundations, 888/239-5221.

***What is a Community Foundation Anyway?***, Council on Foundations, 888/239-5221. Order #950.

## Internet Resource

The Council of Michigan Foundations maintains searchable databases listing both community foundation resources, as well as sample documents that are useful to young or new community foundations. The web address is <http://www.cmif.org>.





# APPENDIX



## The Community Foundation Connection

by Lois Roisman

reprinted from Foundation News

March/April 1982

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*A resident of Hartford, Connecticut wanted to give the community \$6.5 million: the donor also wanted to remain anonymous.*

*The people of Atlanta needed a place to put the contributions pouring in to aid in the investigation of the murders of 28 black youngsters.*

*The Lechmere Corporation wanted to clean up the toxic waste site blighting the town of Woburn, Massachusetts.*

*New Hampshire corporations wanted to work with the state's nonprofit institutions to help them improve their management skills.*

*A husband in San Francisco created a fund in his will to memorialize his wife and benefit the needy elderly of that city.*

*The parents of a preschool teacher's students wanted to begin a fund in her memory to benefit preschool education in Oklahoma City.*

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In each instance, the local community foundation was the catalyst that turned a donor's generous intent into a beneficial reality for the community.

Years of effective work as managers of local philanthropic giving have earned community foundations the confidence and trust they now enjoy. Through their participation in the lives of their communities, serving the interests of both donors and providers of public service, they have gained key positions in civic life, allowing them to be forces for public good in ways that no other entities can duplicate.

When Frederick Goff "invented" the Cleveland Foundation 67 years ago, he built in the versatility necessary for it to change as the times and the needs of Cleveland changed. Goff saw the need for flexible trust management that would realize the intent of donors after death, carrying out their charitable intentions while reserving the right to modify those intentions as the

community's needs evolved. This public trust—run by a publicly appointed board—became a popular model, and community foundations soon appeared in Minneapolis, Boston, Chicago and Philadelphia. Today there are more than 250 community foundations serving most of the large cities in the United States. Some serve small communities, others serve entire states. Their individual assets range from less than \$10,000 to \$356 million; combined, their assets total close to \$2 billion; and in 1981 alone, their combined grants were well over \$120 million.

### ***A New Flexibility***

For the 1980's, community foundations are developing a flexibility that is a variation on Frederick Goff's original thesis. Not only have community problems changed and unimagined ones appeared, as Goff predicted, but the needs of donors have changed as well. Community foundations have been able to find within their structure the versatility to allow them to also meet these unforeseen donor needs.

Cleveland's Goff, for instance, never could have imagined that Corning Glass Works would want to use the Community Foundation of Greater Washington, D.C. as its vehicle for local charitable giving, or that Julia Child would want to establish an International Culinary Fellowship Program in the Permanent Charity Fund of Boston. Could he have imagined that Henry Kissinger would use his Nobel Peace Prize money to establish the Kissinger Scholarship Fund in the New York Community Trust to benefit children of American armed service personnel killed or lost in Indochina? These days there are groups such as the local symphony or the Boy Scouts that need managers for their endowments, and there are donors who want to make charitable gifts during their lifetimes. There are also private foundations that find they can address their needs more efficiently by placing their assets in their local community foundation.

During their first 50 years, community foundations administered charitable bequests, using that method to build permanent endowments with which to meet present and future community needs. They managed charitable "portfolios" the way financial managers manage investment portfolios—only these investments were endowments for the community's future. The management of these endowments remains a central feature of community foundations, but now the well-established ones also offer a wider range of management services. Just as an investment portfolio grows and wise investments change with the economy, so the community foundations' portfolios become more varied as they are sought out by donors with new requirements. These requirements—coupled with the community's increasingly complex

cultural, educational, health, and social welfare needs—provide community foundations the opportunity to try new roles, expand services, and become leaders in the philanthropic life of the community.

The larger a community foundation becomes, the more valuable its staff becomes to donors who lack the staff's sophisticated knowledge of the community. The staff is paid to know all about the region's life: health, education, culture, the arts, social welfare, governance. This broad staff knowledge, the experience of a diverse board of directors, and sound management from fiscal trustees—all packaged in a legal entity that affords maximum tax advantage to donors—makes the community foundation an attractive partner for all manner of philanthropists.

The high birthrate of community foundations is a manifestation of an increased interest in them from all sectors. They seem to have come of age at a time in the nation's history when they can do the most good, acting as the community's philanthropic brokers between citizen generosity and civic need.

But the times require more, and true to their design, mature community foundations are again changing with the times, evolving beyond the role of neutral catalyst into that of active participant. This participation often is not a function of dollars, and never a function of dollars alone. Technical assistance for nonprofit organizations, funding of oversight committees on civic governance, initiation of projects to meet human needs—these are becoming more common functions of community foundations. At a time when charitable dollars are in short supply, they have found ways to be effective far beyond their dollars.

What makes community foundations distinctive? What can they do that other foundations or charitable entities cannot do? They can match the charitable intentions of donors with the most appropriate community needs, offering philanthropic investors the best return in civic betterment for their charitable dollar.

### ***They Know Their Territory***

In Erie, Pennsylvania, the Erie Infant's Home needed \$10,000 for specially equipped wheelchairs and therapy equipment. The community foundation made that grant from general purpose funds, because the foundation knew the group and the importance of its work to Erie's special children.

The Cleveland Foundation gave the City of Cleveland more than \$353,746 over three years to support the Mediation Diversion Program for the city's Prosecutor's Office. The foundation knew the promising assistant prosecutor who was overseeing the project, and knew that an investment in his skill would serve the city well.

The Mid-Nebraska Foundation gave a matching grant to the High Plains Emergency Medical Services to establish a VHF (very high frequency) radio system for advanced life-support activities in an 18-county region of west central Nebraska. Such a project could only have been proposed and evaluated by knowledgeable local people.

***They See to the 'Little' Things That Enhance Community Life***

The passersby who notice the large white sculpture “The Ohio” in the Gateway Center of Pittsburgh probably don’t know that the Pittsburgh Foundation put it there.

In Nebraska, one of the Lincoln Foundation’s first grants was to purchase a chimpanzee for the city zoo.

In Connecticut, the New Canaan Community Foundation helped launch the New Canaan Society for the Arts in the old carriage barn of an estate that the town had purchased.

***...And to the Big Things***

The Cleveland Foundation made its largest grant ever—\$710,000 over two years—from undesignated funds to transform the landmark Ohio, Palace, and State Theatres in downtown Cleveland into one of America’s largest arts and entertainment centers.

In 1979, the New York Community Trust decided to address the problems of urban blight with a special effort aimed at neighborhood revitalization. Last year, assisted by a \$50,000 grant from the Fund for the City of New York, 26 organizations in Brooklyn, the Bronx, Queens, and Manhattan received \$400,000 to rehabilitate, maintain, and weatherize apartment buildings; to provide job training for local residents; to create purchasing cooperatives to obtain food and fuel at wholesale rates; to teach courses in boiler maintenance and home repair; and to develop anti-crime programs.

***They Respond Quickly to Major Emergencies***

In response to the overwhelming crisis brought on by the floods and mudslides in the Bay Area this winter, the San Francisco Foundation established a \$7 million emergency fund to help put the Bay Area back together again. This fund was in addition to nearly \$500,000 already granted to relief agencies, such as the Red Cross and Salvation Army, and to local governments for storm-related programs.

***...And to Lesser Crises***

The Baton Rouge Area Foundation made an emergency grant of \$5,000 to the Baton Rouge Opera that helped it survive to conduct its own fund-raising drive.

In Glendale, California, the Foothill Service Club for the Blind had a leak in the kitchen roof over the steam table; plaster dust peppered the food every time a truck went by. A board member of the Glendale Community Foundation personally saw to it that the building was repaired with foundation funds.

### ***They Fund the New Ideas***

Two foundations can both take the same concept and adapt it to suit their own communities. In New Canaan, Connecticut, the community foundation helped start the New Canaan Hospice, while the Central New York Community Foundation in Syracuse made its major grant to the Caring Coalition, which trains people to work with the dying in their own homes and in-care facilities.

Grand Haven, Michigan benefited from an idea of the board of its local community foundation. The foundation decided to stage a Winterfest!, a winter festival that would provide cultural activities for all ages, with performances, demonstrations and participation in music, dance, theater, ethnic cuisine, graphic arts and winter sports.

In Michigan, the Jackson Foundation provided seed money for a bilingual program for students in grades K through 5. The program trains teachers, bilingual teacher aides and parents to be aware of the problems faced by students learning English as a second language.

In 1979, the Cleveland Foundation helped the YWCA establish a teenage pregnancy prevention program called PACT (Peer Approach: Counseling by Teens). First the program trained a group of teenagers. Then they, with adult advisors, were paid to staff PACT rooms in two area high schools to provide students with information related to sexuality. To date, only one of the 180 teenagers directly involved in PACT has become pregnant.

### ***...As Well as the Tried and True***

Virtually every community foundation's annual report shows strong cooperation between the organization and the basic nonprofit institutions of its community. The Greater Charlotte (North Carolina) Foundation holds endowments with more than 30 of that city's arts organizations, social welfare agencies and youth programs. Earnings are distributed yearly to the agencies, giving them the security of a permanent source of income. Some of these endowments were begun by the community foundation, but many were begun by the agency itself or by a donor wishing to endow the agency. United Way, 4-H, YMCA, the Community Health Association all have had funds established in the Greater Charlotte Foundation, and anyone can add to these funds at any time.

Established community organizations not only find themselves recipients of endowment funds, many use community foundations as the vehicles through which they realize their own charitable objectives. The Charlotte Rotary Club established its student load fund through the community foundation.

**Excerpt from the Chicago Community Trust Annual Report**

*What is the Chicago Community Trust?*

The Chicago Community Trust is a community foundation established in 1951. It is classified as a public charity under provisions of the 1954 Internal Revenue Code as amended.

*What is a Community Foundation?*

A community foundation is a union of many gifts, many different estates or parts of estates, contributed for the most part by the people of a particular community for the benefit of that community.

*How are Gifts Made to the Trust?*

A donor may make a gift or bequest of any size to the Trust for the community's benefit. Some donors designate specific organizations to receive their money. Others limit their gifts to specific areas of concern. Many donors provide wholly undirected gifts to be used by the Trust in responding to community needs as they arise.

*Who Decides How the Trust's Funds are Distributed?*

Allocations of income and, in some instances, of principal from the Trust's funds are made by a nine-member Executive Committee. All requests for grants are first reviewed by the Trust's professional staff. Staff reviews are then presented to the Executive Committee at its grant meetings (January, March, May, June or July, September and November) for final decision.

*How are the Trust Assets Administered?*

Nine Chicago banks and trust companies safeguard and invest the Trust's funds.



### ***They Can Spot Problems and Stimulate Solutions***

In September 1981, the Indianapolis Foundation gave \$65,000 to the Central Indiana Council on Aging to develop and implement the Home Emergency Area Response System (HEARS), an emergency response communications system that will help senior citizens maintain independent living situations.

In recognition of contemporary pressures on families, especially those related to two-worker households, single-parent households, youth rebellion, substance abuse, unemployment and inflation, the Columbus Foundation last January issued 200 requests for proposals for its new program for families. This program was designed to stimulate better support systems in Columbus, Ohio for day care, after-school and educational programs, to move families away from dependence on publicly funded services and programs to reduce intergenerational conflict.

### ***...Or Anticipate Problems and Act to Prevent Them***

The period when the St. Paul Public Library system was between directors seemed an excellent time to evaluate the library's organization and assess future needs. The mayor appointed a committee, funded and staffed by the St. Paul Community Foundation, for that purpose. With counsel from professionals and consumers, the committee came up with long-range suggestions and new marketing plans that increased the possibility of St. Paul's library system surviving difficult times.

The community foundation in Elizabeth City, North Carolina, worried about the deterioration of beautiful landscape on the causeway, acquired through donation 1,400 feet of land along the Pasquotank River, and has since made grants to a local beautification organization to turn the land into a causeway park.

### ***They Plan Ahead***

In Illinois, the Chicago Community Trust spent two years developing systematic policy for grant allocation in the health field in order to identify priorities. It began with an analysis of the problems and needs of Chicago area hospitals, and grew into an examination of the entire range of health care services. This investigation not only expanded the Trust's own grantmaking process, it expanded cooperative funding with local and national foundations, and enabled the Trust to participate effectively as intermediary or broker with other area funding sources. When the Trust was approached by representatives of a major bank responsible for settling a large estate to be used to meet the medical needs of children, its recommendations resulted in two large grants exceeding \$6 million each.

The Lincoln Foundation is acting as agent for the City of Lincoln, the University of Nebraska, the Natural Resources District, the Railroad Transportation Safety District and the Nebraska State Highway Department to negotiate the purchase of the Rock Island Railroad right-of-way property within the city limits of Lincoln.

### ***They Can Leverage Funds***

In spring of 1981, the Grand Rapids public schools feared they would not have sufficient funds to support their special education summer school program for autistic, severely emotionally impaired and mentally impaired children. A dollar-to-dollar challenge grant from the Grand Rapids Foundation and creative fundraising efforts helped raise more than \$80,000 to provide a slightly modified program.

Nonprofit agencies that own their buildings spend increasing portions of their annual budgets on energy, consuming dollars that could better be used for direct services. To address this problem, the Chicago Community Trust set up the Joint Foundation Energy Conservation Fund with contributions of more than \$600,000. An advisory committee, headed by the former president of Commonwealth Edison, supervises the distribution of funds for energy audits by nonprofit agencies and implementation of audit recommendations.

The New York Community Trust established a similar fund for nonprofit agencies in New York City. Its initial investment was less than \$100,000, but the funds now directed to the problem exceed \$1 million. These investments in energy conservation measures will be paid back several times over in fuel cost savings during the next 10 years. For example, the 10-year savings projected for the Henry Street Settlement Administration Building are about \$144,280 from an original investment of \$17,150.

### ***...Broker Donor and Community Needs...***

The Parkersburg Community Foundation recently received a bequest of \$45,000 from a local citizen as a memorial to her parents. The income is to be used to aid the mentally handicapped in the Parkersburg, West Virginia, area. The staff surveyed the area and determined that the greatest need was for a new sheltered workshop where mentally handicapped persons could be productive and earn money in a supervised setting. The foundation has pledged the income from the donor's fund for the next few years, which, augmented by local contributions, will make the new structure possible.

It was Louise W. Keasler's wish that one-half of the income of her gift to the California Community Foundation benefit crippled children. This year, from the Louise W. Keasler Fund, the community foundation purchased

sophisticated transmitters and receivers for hearing-impaired children at the Oral Education Center of Southern California.

***...And, Can Pool Gifts from Many Sources to Meet the Large Needs***

In celebration of its 50th anniversary, the Watertown Foundation allocated \$50,000 from its pool of unrestricted funds to the residents of the City of Watertown, New York. The funds will be used to build a Victorian garden in downtown Watertown, designed by the director of the office of horticulture at the Smithsonian Institution.

Summer in Boston means Esplanade concerts—musical evenings with the Boston Pops that have been a tradition since 1929. Last summer, however, these free concepts appeared to be an endangered species because they were costly and produced no revenue. To save the concerts, Permanent Charity Fund of Boston created the Cultural Arts Fund, a permanent endowment for the benefit of Boston’s major cultural institutions, matching each contribution dollar for dollar. The Boston Symphony Orchestra-Arthur Fiedler Esplanade Concerts Fund has well over \$600,000 now, helping to ensure that this widely enjoyed American tradition thrives.

**A Range of Services to Donors**

**Management of Charitable Bequests**

- Charitable remainder trusts
- Unitrusts
- Pooled income funds
- Donor-directed funds for spouses
- Supporting organizations to the foundation
- Private foundation terminations
- Service in return for contributions
- Technical information and expertise
- Management of programs, projects, scholarship funds
- Stake holder for new capital construction (e.g., an art center, medical facility)
- Operator of a direct service program (e.g., community lecture series)
- Conversion of gifts of appreciated assets (stock, real estate, mineral interests, insurance policies) to charitable purposes
- Memorial Funds

**Management of Agency Endowments**

Facilitation of Flow of Information about Community Issues

Note: Not all community foundations offer this range of services to donors. The services provided are a function of the age and assets of the foundation, as well as the expressed needs of the donors of that community.

### ***They Are the Local Eyes for National Corporations and Foundations***

The Oregon Community Foundation was selected by the Northwest Area Foundation to monitor and be fiscal agent for its funding of a gifted child program in the Oregon public schools. Half of the \$100,000 is a challenge grant to encourage local corporate foundation and individual participation in the project.

The El Paso Community Foundation and the Levi Strauss Foundation have a long and productive history of cooperation. Recently, the Community Involvement Team at the local Levi Strauss factory chose as its annual project, a children's home in Juarez, Mexico, just across the border. Team members raised dollars in the plant through raffles and bake sales; the Levi Strauss Foundation matched their efforts, and the El Paso Community Foundation managed the funds earmarked for remodeling the children's home. They purchased refrigerators and bunkbeds, painted the walls and repaired the building to make a livable home for the children.

### ***They Stimulate Public-Private Partnerships***

When still a fledging in the field, the Arkansas Community Foundation joined with the U.S. Administration on Aging and the Council on Foundations to educate community foundations about programs on aging and related areas of human services. The purpose was to stimulate community foundations to examine their potential roles in these fields and to explore mechanisms for establishing productive and long-term relationships with the federal government.

One result of these efforts was a cooperative project undertaken by the young Greater Essex Community Foundation and the Department of Health and Human Services to study home equity conversion, a form of reverse mortgage for the elderly, which is an important element of the national effort to stabilize the living situations of the nation's aged.

### ***They Provide Technical Assistance to Nonprofit Agencies***

"Applying for Foundation Grants" and "Toward Self-Sufficiency" are only two of the topics of the workshops the Hawaiian Foundation sponsors for community groups.

New Hampshire Charitable Trust is the vehicle for corporate grants to improve nonprofit management. The Trust is also working with the Antioch/New England Graduate School to establish a joint resource of consulting and technical assistance for New Hampshire nonprofit organizations.

In Harrisburg, Pennsylvania, the Greater Harrisburg Foundation is co-sponsoring with the Harrisburg Junior League a day-long seminar for nonprofit organizations called "How to Survive After Budget Cuts: An Overview of Alternate Sources of Funding for Nonprofit Organizations."

***...And, Assist Other Grantmakers***

Assistance to other grantmakers is a standard part of any mature community foundation's operations. One of the newest services provided is computerized information about local nonprofit organizations, as in Oregon, New Hampshire and Washington.

***They Provide Opportunities***

Permanent Charity Fund of Boston (PCF) has established internally the Permanent Fund for Vocational Education, with assets of \$100,000 raised from the First National Bank of Boston, the Chamber of Commerce and PCF's undesignated funds. In addition, another \$45,000 of current-use funds is available for such projects as STRIVE, a new program in Boston to strengthen formal vocational education by adding the traditional practice of apprenticeship. By its third year of operation, STRIVE will apprentice 50 students a year in fields from computer operation to commercial art.

In cooperation with the local YMCA, the Indianapolis Foundation helped plan and start Training, Inc., a clerical skills training program for long-term unemployed persons of all ages.

In 1974, the Chicago Community Trust created the Edna L. Dunning Medical Student Loan Guarantee Program, which has guaranteed 1,624 loans to date, totaling nearly \$3 million to medical students from Chicago's six medical schools.

In a converted cottage in the India Street Art Colony of San Diego sits the only gallery in the country that provides a showcase for refugee art of the four Indochinese cultures: Laotian, Cambodian, Vietnamese and Hmong. With a grant from the San Diego Foundation, the Lotus Center provides the refugee artist an outlet to artistic expression.

***They Administer Scholarship Funds***

The management of scholarship funds is a popular service offered to donors by many community foundations.

The Aurora Foundation of Aurora, Illinois, has administered more than \$1 million in aid since 1949.

The Watertown Foundation has been providing financial aid to local college students for nearly 45 years; during the last three years, it has increased its annual funding from \$55,000 to \$215,000. More than 240 local undergraduate students at 25 public and 31 independent New York institutions have received assistance—a significant total in a county with a population of slightly more than 80,000.

***... And Award Programs***

Some community foundations encourage excellence through recognition. The San Francisco Foundation administers three public service awards,

two to recognize the important work of individuals and one to recognize the innovative efforts of a community organization. Nominations are sought from the community at large; community leaders serve on the awards committee. The foundation gives three competitive awards as well, two in literature and one in visual arts.

The Montague Metal, presented annually by the Winston-Salem Foundation from the H. Montague Metal Fund, continues a tradition begun in 1989. It is given to the student who attains the highest scholastic average in his or her senior year at each area high school.

### ***They Make Good Partners with Local Government***

As Cleveland, an aging industrial center, fell on hard times in the mid-1970s, the Cleveland Foundation responded with a program of careful research directed toward making sense out of the then-perilous finances of the City of Cleveland, analyzing the impact of federal grants on city services and assessing the condition of the city's capital assets. Cleveland Foundation-funded programs that aided the city's comeback include: an Operations Improvement Task Force; an employee assistance program unit of the Cleveland police; a management training program for senior city officials; an integrated safety system for the police; and a capital investment and financing agenda for Cleveland's streets, bridges, and water, sewer and transit systems.

Not all community foundations can tackle challenges as vast as Cleveland's, but many participate actively in community planning. The Austin Community Foundation's board of governors is now investigating the building of a scale model of downtown Austin for use by the City Council, Planning Commission, civic clubs and private individuals.

### ***...As Well as Instruments for its Evaluation***

The Hartford Foundation for Public Giving has helped to fund the Citizens Committee for Effective Government, a corporate-sponsored study group that has used volunteer teams from the private sector to complete management studies of the Hartford city government and the public school system. Estimates are that the management changes recommended by the group and implemented by Hartford's city government saved city taxpayers \$548,000 during the 1980-81 fiscal year.

### ***They Develop Community Leaders***

The Itasca Seminar sponsored by the Minneapolis Foundation provides five days of thoughtful exchange on topics of national significance that also have practical importance for persons involved in local decisionmaking. Such themes are "Reindustrialization," "The Nature of Leadership in a Changing Society," and "The Value of Urban Life: Cities as if People Mattered" expose 150 participants to areas of knowledge and to people outside their normal working environment.

The Greater Atlanta Community Foundation was the first to develop the “Leadership” programs that have become popular throughout the nation. Called “Leadership Atlanta,” the program brought together potential leaders from all sectors of Atlanta to study the city in detail and get to know one another. The networks of friendships that developed have served Atlanta well through difficult times, and the model has been emulated by other cities.

**Basic Funds in a Community Foundation**

**Discretionary:** Donor gives full discretion to governing board to choose recipients of earnings.

**Field-of-Interest:** donor limits discretion of governing board to choices within a charitable area (e.g., mental health, visual arts).

**Advised:** Donor or committee retains right to advise governing board regarding grant recommendations; governing body remains free to accept or reject suggestions.

**Designated:** Donor restricts payment at time of gift to named charitable agency, or to a specific project; governing body agrees to respect donor's request as long as agency or project continues to serve public interest.

**Agency Endowments:** Charitable agency gives its endowment to community foundation to manage with the agency receiving annual earning.

***...And Are a Neutral Agent, Bringing Diverse Groups Together to Solve Common Problems***

The Community Foundation of Greater Memphis hosted a one-day conference on “Community Needs and the Role of Individuals, Foundations and Corporations,” focusing on the local problems resulting from the reductions in federal support for arts, humanities and social programs.

In Burlingame, The Peninsula Foundation regularly sponsors special conferences and meetings bringing together people who, although they have common concerns, have never met. One such affinity group centered on dance—modern as well as ballet. Teachers, students and interested patrons met together and created the Mid-Peninsula Center for Dance Development to which the foundation gave \$42,000, the first collaborative effort among dancers in the area. The Peninsula Foundation has sponsored similar conferences of professionals who work with teenage pregnancy and of high school activity directors. Such gatherings reduce duplication of efforts and improve services.

***As the Conscience of Their Communities***

The Akron, Ohio, school system was closing Grace School. To make the transition as humane and comfortable as possible, the Akron Community Trust funded the Grace Model Program. It involved the parents and children in meetings to orient them to the new school, smoothing the way in a poten-

tially troublesome time.

In the Minneapolis Foundation, the Minneapolis Equal Opportunities Fund provides creative opportunities and emergency funding to agencies and programs that address the needs of disadvantaged people within the Twin Cities metropolitan community. It also coordinates joint funding ventures and the search for alternative financial resources.

***...They Are the Vehicle through Which People Express the Full Meaning of Community***

Three Japanese and two German industries established factories in Battle Creek, Michigan, bringing with them families from those countries. To help acclimate them to the community, the Greater Battle Creek Foundation, in cooperation with the Junior League, welcomed them with a brochure in their native languages that described the Battle Creek community—its schools, cultural activities and postal, banking, transportation and personal services.

Responding to its city's troubled race relations, the Permanent Charity Fund of Boston funded the Boston Committee, which was convened in 1980. Its task was to move the city toward racial peace. To that end, the committee is working on an ambitious program to create jobs in the city's most economically depressed neighborhoods; it is also establishing eight neighborhood task forces, composed of community leaders and residents, to foster interneighborhood collaboration on housing, employment and to reduce gang activity.

For each of these examples, thousands more exist. As donors and board members become more aware of such challenges, they are coming to expect their community foundation to provide mechanisms and leadership to help them meet those challenges. Through the community foundation, the city's people wrestle with difficult issues—drug abuse, unemployment, teenage pregnancy, refugee integration, women's rights and the problems of the elderly—as they work continually to build endowments that will secure the future of their community's culture, social welfare, health education and governance.

Signs of future evolution are emerging. More national corporations are seeking out community foundations as partners in local giving; more donors, too, are finding their community foundation's ability to handle varied gifts and charitable intents as incentive to partnership with it. And the Ford Foundation is contacting community foundations around the country about a



collaborative effort to test model programs in areas such as family day care and community crime prevention.

If, indeed, the “people are the city,” then the community foundation is a microcosm of the city’s people at their most generous. It has become the symbol of the community’s philanthropic spirit, embodying the innumerable varieties of expression that such generosity of spirit can take.

*Lois Roisman is executive associate of the Council on Foundations’ Community Foundations Program.*

## Community Foundation Fact Sheet

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Information provided by the  
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Community foundations are the fastest growing sector of philanthropy in the United States today. They build and strengthen communities by making it possible for a wide range of donors to create permanent charitable endowments to meet critical needs. Community foundations, through philanthropy that is visionary, flexible and inclusive, have become catalysts for improvement within urban centers and in rural settings.

The 1996 Columbus Foundation survey reports that there are more than 500 community foundations in the United States. The idea has spread throughout the world, including Australia, Canada, Costa Rica, Japan, Mexico, New Zealand and Great Britain.

Community foundations in the United States currently hold over \$17.1 billion in assets and are located in every major metropolitan area and state in the country. In 1996, community foundations gave over \$1 billion to a wide variety of nonprofit activities: urban affairs, the arts, education, environmental projects, health, and social services.

Community foundations offer donors many services and benefits. They routinely work with families, individuals, estate planners, and attorneys to design gift plans that fit every economic situation so donors can receive the most benefit from their charitable contributions and ensure that their philanthropic dollars are used to the fullest extent.

They receive gifts of various sizes and types from private citizens, local corporations, other foundations, and government agencies that want to help specific regions. Over 14,000 families, corporations and individuals have made significant gifts to community foundations.

Nearly every type of gift—real estate, closely held stock, artwork and insurance—can be contributed to a community foundation. Gifts are made from bequests and by living donors who want to be actively involved in local philanthropy. Community foundations received more than \$2.2 billion in gifts in 1996.

Community foundations range in size from the largest community foundation, the New York Community Trust, with assets in excess of \$1.6 billion, to some with assets of \$100,000 or less. The funds are invested in diverse portfolios and management is a major aspect of community foundations' work. All share the common goal of serving donors, nonprofits, and the community as a whole.

One of community foundations' special functions is to evaluate and help coordinate the services in their communities, so that charitable gifts are used effectively to fulfill the most critical needs in the community.

### ***The Role of Community Foundations***

Community foundations have traditionally had two major missions: to stimulate the establishment of endowments to serve the local community now and in the future; and to realize the intent of donors, carrying out their charitable intentions while reserving the right to modify those intentions as the community's needs evolved.

Community foundations leverage funds from national foundations, major corporations and federal government for worthy projects. The Ford Foundation, Chevron USA and the National Endowment for the Arts (NEA), for example, have recognized that community foundations have vast knowledge about and contacts in the community that make them a useful tool for distributing grants in local neighborhoods. The NEA selected a number of community foundations to receive challenge grants of up to \$200,000 over four years for subgranting to local arts agencies with modest budgets. Community foundations serve as the "eyes and ears" for these national funders that would not otherwise have the capability to evaluate small grants on a local level.

A community foundation can be a catalyst to action by helping groups start new agencies, by studying areas of unmet need, and by calling forth contributions from others through matching grants and the power of its endorsement. Their solutions are not limited to the private sector. They have funded oversight committees to improve civic government, for example. Not infrequently, a group of citizens turns to its community foundation to accomplish some community goal when there is no other organization through which to raise money to get started. When contributions from around the country poured into Atlanta, Georgia, to aid in the investigation of the mass murders of 28 black youngsters, they were placed in a fund with the Metropolitan Atlanta Community Foundation.

Many community leadership activities undertaken by community foundations do not require funding. A key role that many community foundations play is as a neutral convener on difficult public policy issues. They are often able to bring disparate parties from the private and public sectors to-

gether to constructively build frameworks for community problemsolving. Community foundations often provide technical assistance to local agencies on topics such as nonprofit management, and some serve as resource libraries on grantmaking by other foundations. Many operate scholarship programs and low-interest loan programs.

### ***Their Donors***

Community foundations also serve the donors whose generosity makes possible their endowment funds. A public charity under the law, a community foundation offers its donors maximum tax advantages. A community foundation is permitted to receive a wide range of gifts, and can assist its donors with a variety of tax-planning, estate planning and deferred giving options. The specific types of individual funds that can be established, and minimum amount required to establish a fund will vary depending on the policies set by each community foundation's board, in keeping with state and other governmental regulations.

Donors to community foundations range from people of relatively modest means to some of the most prominent names in American philanthropy. The community foundation stands apart within the field of philanthropy through its ability to grow—to bring into philanthropy an infinite number of donors, both large and small, and to create permanent and lasting capital to fund a community's charities. Local decisionmaking and control bring philanthropy within reach of all people, and in doing so, extends the limits of organized philanthropy itself.

Some of the more common types of funds that individuals have established in community foundations include: (1) named funds, where a donor wishes to memorialize his or her family; (2) funds created to protect the anonymity of certain donors; (3) charitable remainder annuity trusts and pooled income funds, which irrevocably donate the principal of the fund to the community foundation, but provide that the interest go to a third party—often a spouse or other heir—usually for one's lifetime, and then revert to the community foundation. The donor receives certain tax advantages immediately; and (4) gifts of life insurance or other assets.

Recognizing that community needs are likely to change, many donors specify that the local community foundation directors select the charitable causes and institutions to be assisted based on serious local concerns at any given time. For example, the AIDS epidemic could not have been predicted a decade ago, yet many community foundations are able to assist victims of AIDS, provide community education about AIDS prevention and take other important steps to address this worldwide problem through the use of unrestricted funds

Although most community foundations recommend the contribution of

unrestricted gifts to allow the board or distribution committee the maximum flexibility to address emerging and unforeseen needs, as illustrated—many community foundations encourage active participation of living donors in providing advice on possible grant purposes or recipients from time-to-time. This participation might include reviewing grant applications, for example. Some community foundations execute agreements with donors to distribute the funds within a specific field of interest to the donor. By law, the final determination on specific grants recipients lies with the board or distribution committee of each community foundation to insure that the recipient agencies meet all fiscal requirements of the grant, and to allow the community foundation to fulfill its mandate to best serve the needs of the community in perpetuity.

### ***Other Types of Donors to Community Foundations***

Community foundations can also provide financial management for non-profits and it is not uncommon for certain agencies such as a local arts organization or the local United Way to place an endowment fund with the community foundation. Certain changes in U.S. tax law in 1969 encouraged the boards of numerous private foundations to terminate the foundations and transfer the assets to community foundations. In certain situations, the resultant new funds in the community foundation required lesser tax payments, lower administrative costs and allowed for larger distributions to charities than if the private foundation continued to operate. Corporations have also found community foundations an economical way to operate a corporate giving program. The corporation can turn over appreciated stock to establish a fund or annually transfer a specific amount of capital to be paid out to charity each year and be replenished. In 1982, Chevron USA distributed \$13 million to eight community foundations in cities where the company had concentrations of employees.

### ***Start-Up of New Community Foundations***

New community foundations are forming in communities around the United States. And this burgeoning movement is being assisted by many farsighted private foundations. The Charles Stewart Mott Foundation through the Council of Michigan Foundations has funded technical assistance efforts to help community foundations get established, and has also provided challenge grants to many to help them build their endowments. The Ford Foundation, Lilly Foundation, David and Lucile Packard Foundation, the Gannet Foundation, William and Flora Hewlett Foundation, the MacArthur Foundation and Chevron USA are among the private and corporate foundations that have provided past and current support for community foundations.

Many other foundations, city councils and local United Ways among other organizations are helping community foundations get started in their area. The Kresge Foundation, with assets of more than \$1 billion in 1986, helped the Community Foundation for Southeastern Michigan get started to

serve the Detroit, Michigan metropolitan area. In 1985 the Mott Foundation, in a Special Report titled, *Community Foundations: A Growing Force in Philanthropy*, quoted the Kresge Foundation's chairman, William H. Baldwin, on the foundation's reasons for providing start-up support. "Having a strong United Way, and having strong education, health, and cultural institutions, which we do, is not enough. There remain unmet needs which the community foundation can help meet," Baldwin said.

The broad staff knowledge, the experience of a diverse board of directors, and sound management from fiscal trustees—all packaged in a legal entity that affords maximum tax advantages to donors—makes the community foundation an attractive partner for all manner of philanthropists, and to quote the Mott Foundation, "a growing force in philanthropy."

# Community Foundations: Catalyst for Change

## An Overview of Primary Elements

### OVERVIEW

- Community Foundation
- Permanent, Unrestricted Endowment
  - Annual Growth
  - Cy Pres Power
  - Single Entity
  - Investment Powers
  - Donor Service
  - Community Leadership
  - Broad-Based Grantmaking

#### Core Elements

- Board Leadership
- Potential Assets
- Political Independence
- Community Knowledge
- Long-Term Perspective

#### Other Issues

- Staff/No Staff
- Project/Vision
- Grow Slowly/  
Accelerate Growth

### DONATIONS

#### Types of Gifts

- Cash
- Stock
- Insurance
- Closely-Held Stock
- Other Appreciated Property
- Trusts
- Pass-Through Funds
- Memorials
- Memberships Dues

#### Planned Gifts

- Pooled Income Funds
- Gift Annuities
- Charitable Lead Trust
- Charitable Remainder Annuity Trust
- Charitable Remainder Unitrust
- Life Estate

#### Donor Types

- Major Individual Gifts  
Life Stage of Donor
- Smaller Individual Gifts  
Life Stage of Donor
- Corporate Gifts
- Private Foundations
- Other Nonprofits
- Government Grants

#### Donor Services

- Grant Research
- Tax Relief
- Estate Planning Assistance
- Grant Tracking
- Grant Evaluation
- Investment Responsibility
- Accounting
- Advice on Grantmaking
- Gifts in Perpetuity

### GRANTMAKING<sup>1</sup>

#### Grant Program Areas

- Community Development
- Arts
- Health
- Religion
- Education
- Environment
- Social Services

#### Grant Types

- Challenge Grants
- General Support - Project Support
- One-Time Grants - Multiyear Grants
- Loans
- Program-Related Investments
- Small Grants - Large Grants

#### Grant Styles

- Reactive-Prescriptive
- Hands Off - Project Manager
- Banker - Venture Capitalist
- Independent - Collaborative
- Minimal Contact - Continuous Contact
- Limited Community Involvement -  
Direct Community Involvement
- Basic Tracking - Formal Evaluation

#### Grant Strategy

- Developing Institutions
- Enhancing Individual Skills
- Improving Systems and Services
- Improving Information and Understanding
- Focusing Attention on Issues
- Promoting Community Leadership
- Building and Sustaining Community

### FUND INVESTMENT

#### Types of Funds

- |                     |                   |
|---------------------|-------------------|
| <i>Unrestricted</i> | <i>Restricted</i> |
|                     | Named             |
|                     | Field-of-Interest |
|                     | Endowment         |
|                     | Scholarship       |
|                     | Donor-Advised     |
|                     | Pass-Through      |
|                     | Designated        |

#### Management/Investment Strategy

- Minimum Levels for Types of Funds
- Management Fees on Types of Funds
- Return on Investment Goals
- Investment Policy

<sup>1</sup>Extrapolated from *An Agile Servant* by the Council on Foundations.

## Community Self-Assessment

### *for the Development of a Community Foundation*

This questionnaire is intended to help your organizing group as you consider the potential for the development of a community foundation in your area. As you review the questions you will find they also suggest an outline of activities instrumental to your group's progress. There are several options available to the community interested in the formation of a foundation. Consideration of the costs for a separate foundation in your town need to be carefully weighed against the costs of other forms. The collaboration of several communities or counties or your affiliation with a state-wide organization, which could provide administrative, legal, and financial support are all possibilities. There are many options. The resource team is available to assist if you desire. Call any of them if you have questions.

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#### **A. Your Community**

1. What is the nature of charitable giving in your community?  
(What types of fundraising campaigns are conducted and are they successful?)
2. When is a good time to be fund raising in your community?
3. What obstacles to successful fund raising are there in your community?
4. What is the nature of wealth in your area?
5. What is the relationship between your community and nearby geographical or political areas?
6. Can you identify the role a community foundation will have in your area?
7. How can the community foundation be distinguished from other institutions in your community?
8. Are there unmet needs that a community foundation could assist, both financially and as a catalyst and convener?
9. In any areas of public or private activity are there community-wide collaborations or common interests among surrounding communities?
10. As the foundation grows will the community be capable of meeting the public support test?



**B. Your Leadership**

11. Is there an understanding of the mission, purpose and activities of a successful community foundation?
12. Is there strong commitment to the challenge of development (fund raising) among the organized group?
13. Are the organizers willing and able to speak on behalf of the best interests of the community foundation?
14. Are the organizers familiar with the community to be served, including its needs, resources, history, citizens and activities?
15. Will there be board members who represent the community's interests, and have access to different constituencies of the area and are respected in the community?
16. What skills are represented in the group? Fundraising, administrative, managerial, organizational, legal (especially probate), financial and knowledge of community organizations?
17. Are participants willing and able to support the foundation with work, wisdom and wealth?
18. Are there any who object to the community foundation idea? Why?

**C. Your Organizing Progress**

19. Have you included all aspects of your community leadership in the planning to date?
20. Have you visited or talked with other community foundations?
21. Have you reviewed all possible forms available to you for the structure of a community foundation (local, regional, component fund of a state-wide organization)?
22. Are you familiar with the legal procedures to incorporate a nonprofit organization?
23. What kind of work is not getting done in the organizing process?
24. What additional information do you need to proceed with your organization?
25. Have you discussed a mission statement and comprehensive plan for the next five years?

26. What do you anticipate in administrative expenses and how have you provided for them?
27. What input have nonprofit organizations in the community had in planning the foundation?
28. What reaction have you had from the professionals in the community (legal, accounting, financial planning, bank, insurance, brokers)?
29. Are you committed and capable of sustaining the administrative tasks required?

**D. Next Steps**

30. Have you a vision of success for this foundation? Where should it be in ten years?
31. Are there board members identified and willing to serve?
32. Are there volunteers willing to serve on committees for fund raising, grantmaking, community needs identification, marketing and administration?
33. What can a resource person help you understand or accomplish?

## Sample Mission Statements

### *Sample I*

#### ***San Diego Community Foundation Community Based Philanthropy***

*The mission of the San Diego Community Foundation is to assist donors to build and preserve enduring assets for charitable purposes in all of our communities; to monitor and assess changing needs; to meet those needs through financial awards and organizational support; and to convene members of the community to promote creative dialogue on issues affecting all of our communities.*

You work hard to earn your money, and giving it away can be almost as difficult. When it comes time to make a charitable contribution, you want to be assured your money will work to make San Diego a better place to live. You want to be sure your money will be disbursed in the most effective manner, and that it will be as effective in 50 years as it is today.

The mission of the San Diego Community Foundation is to assist donors to build an enduring source of charitable assets to meet the changing needs and interests of the community.

*Working to improve the quality of life for the entire community.*

It is the goal of the San Diego Community Foundation to improve the quality of life for all members of the community. And that's why hundreds of donors throughout San Diego County, as well as many organizations and foundations, look to their community foundation to administer more than \$29 million in charitable gifts and endowments. These gifts and endowments led to \$1,492,779 in grants to worthy causes and institutions throughout the community.

Contributions made by the foundation can range from arts and culture to religion, education, health, human services and urban and civic services. Whatever the donor's charitable goals, the leaders of the foundation assure the greatest good from the donor's dollars.

*We can handle your gifts, large or small.*

Whether you have a few dollars to give, or a few million, the foundation is one of the most efficient, flexible and adaptable charitable mediums available to San Diego donors.

You can set up a fund in the name of a loved one to honor them in a living memorial, or make a general contribution to the foundation. These donations allow the foundation to make grants to qualified community charitable institutions, and to help establish new charitable programs.

To allow as much participation as you would like, the foundation can be used as the spotlight to promote your cause or you can remain totally anonymous.

*We help business help others.*

The foundation will help businesses as well as individuals to establish and meet philanthropic goals. We help corporations that do not have an experienced contributions staff, or those who need to know more about the needs of the community.

*More than just money.*

The foundation does more than just make grants. It administers endowment funds for other nonprofit charitable organizations.

By monitoring the community and keeping abreast of what's going on within it, we are able to understand the needs of the community. We sponsor studies, conferences, forums, and other public meetings to deal with the widespread problems in our community. Out of these come the plans for action, the foundation of a better community.

With a permanent pool of flexible resources, we are able to meet the needs of our constantly changing community and build, from the ground up, a stronger community in which to live. After all "Community" is a part of our name.

**Sample 2**  
**The Milwaukee Foundation**

**Mission Statement**

The Milwaukee Foundation's purpose is to promote the betterment of the greater Milwaukee community and the enhancement of the quality of life for all of its citizens.

It fulfills these objectives by:

- attracting charitable funds, chiefly in the form of permanent endowments, which are committed to meeting the needs of the people living in the greater Milwaukee area.
- using those precious resources wisely and efficiently to address key concerns of the community, respond to its emerging and changing needs and sustain its agencies and institutions. In doing so, the foundation serves as steward for the donors who have entrusted assets to its care.
- providing leadership to the community, serving as a convener and catalyst in identifying problems and opportunities, and shaping effective responses to them.

In developing the foundation as a pool of capital permanently committed to the betterment of the community, high priority is given to attracting contributions that are broad in their charitable intent from individuals, foundations and corporations.

With these resources, the Milwaukee Foundation's Board may use to the fullest its discretion and judgement in meeting the changing needs of the community.

As a vehicle for donors with varied philanthropic objectives, the foundation also recognizes its role in managing funds with more limited purposes, including those that have been designated to benefit specific community institutions, endowment funds established by agencies themselves and funds which for a limited time are subject to the advisory recommendations of donors or their appointees.

Although the foundation's funds are used principally as a source of grants to operating agencies that are serving the community, its resources will also be used to undertake studies and programs addressing community problems, and to bring together groups of individuals and organizations, including other philanthropic entities, to work together in accomplishing common objectives.

*Sample 3*  
*The Community Foundation of New Jersey*

**V***ision*

The Community Foundation of New Jersey promotes and champions the betterment of the State of New Jersey and the quality of life for all its citizens by helping a wide variety of donors fulfill their philanthropic interests through:

- providing a vehicle to make giving easy, personally satisfying, and effective
- providing leadership in identifying and addressing significant community needs

# CHAPTER 2

## THE COMMUNITY FOUNDATION CONCEPT - HOW DO YOU SPREAD THE IDEA AND ORGANIZE IT?

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## **The Idea**

The initial concept of a community foundation is usually developed by a group of local people through the efforts of one or two individuals who were exposed to the concept in another area.

Sometimes, the idea for a community foundation comes from a particular nonprofit organization or arm of government that sees this as a solution to its own particular needs.

Successful organizing strategies will *intentionally* include *all* significant elements of a community in early discussions:

- Influential leaders.
- Affluent citizens.
- Representatives from key organizations in the community (other foundations, major nonprofits, business groups and professional associations).
- Academics.
- Professionals, especially legal and accounting.
- Political leaders (if they can rise above a constituency-based point of view).
- Key representatives of each important geographic area for county-wide or multicounty considerations.

## **Getting Organized**

There are certain key measurements for the success of an organizing effort. At this stage of development, it is most important that sufficient time be spent in proposing the idea to a wide variety of individuals and groups.

There is no rush to form the foundation. The early time invested in discussing the idea and securing the emotional, financial and administrative support of the whole area will assure long-term success.

Key measurements of the steering committee's success might include:

- A general awareness on the part of key community leaders that the formation of a community foundation is a good idea.
- A basic understanding to some depth by a small group of individuals committed to forming the steering committee.
- A determination that there is sufficient wealth in the area to

support the costs and long-term commitment of building an endowment.

- Some basic community research to identify key uses for foundation grants.

Typically, there are some who are not enthusiastic about the idea of a community foundation. They present obstacles to its formation that often include reference to:

- The limited number of dollars available for charitable causes.
- Too many charities already competing for the same dollars.
- The confusion among the roles of other nonprofit organizations and the community foundation.
- The idea that key community people are already over-committed.
- The apparent duplication with United Way (derived from failure to understand the significant differences between the two organizations).
- The strong commitment to major fundraising organizations already in existence in the community (typically academic institutions, large health facilities or religious organizations).

Other organizations have sometimes provided the incubator to start a community foundation. These include:

- Chambers of Commerce
- Economic Development Groups
- United Ways
- City and County Governments
- Junior Leagues
- Rotary Clubs
- Leadership Programs
- Private Foundations
- Banks or Trust Companies

There are advantages and disadvantages to start-up efforts controlled

by other organizations.

Advantages:

Early financial support.

Access to organizational assistance (copy machines, telephone, and administrative assistance).

Instant credibility through association.

Disadvantages:

At some point, the foundation must be independent.

Independence should be planned and organized in advance. The sponsoring organization *must* let go.

The identity of the foundation may be confused with that of the sponsoring organization.

The sponsor may want the foundation to only or primarily serve its area of interest.

Too close an identity *will* affect donor giving. Donors will probably not give large endowment gifts to community foundations that are viewed as arms of local government or vehicles of other organizations.

The foundation might never fulfill its responsibility to raise operating funds because the relationship is too easy.

## The Steering Committee

*Start* with a small group of committed community leaders. Depending on the size of the community, ten to 20 may be the number of people you can assure will become committed to the task of developing the foundation. Look for the following characteristics in the steering committee group:

- Wealth—personal wealth or access to wealth.
- Wisdom.
- Ability and willingness to work.
- Commitment to the idea of the community foundation.
- Willingness to raise money.
- High community visibility and personal ethics.
- Willingness to give money relative to their personal circumstances.

*Skills* you will need in the steering committee and on the board or

accessible to it include:

- Legal advice—an attorney with trust and foundation experience and willing to learn about community foundations.
- Accounting advice—preferably an accountant with knowledge of fund accounting.
- Contacts with all of the local banking institutions (especially all of those with trust departments).
- Civic leaders—corporate, volunteer (but not political).
- Entrepreneurs and business leaders.
- Management advice regarding internal policies and procedures.
- Marketing and communication skills.
- People who know the community.

The steering committee should *learn* everything possible about the community foundation concept—visit, read, invite speakers, contact the regional associations of grantmakers (mentioned in Chapter 4) and the Council on Foundations in Washington, DC, and speak to private foundations.

*Analyze* the community potential to support a community foundation over the long haul and make preliminary decisions required to file legal documents. Keep these decisions as broad and flexible as possible, but include those concepts that distinguish a community foundation from other nonprofit organizations.

Purpose of the organizing or steering committee is to:

- Develop a group of influential community leaders personally committed to building a community foundation over the next five to ten years.
- Educate themselves and the community to understand the concept of a permanent endowment.
- Secure the commitment of a group to give personally and to raise funds from others.
- Commit to the education of the community concerning the roles of a community foundation.
- Assess the characteristics necessary for the viable development of a community foundation (size of community, geographic area served and affluence).
- Commit time and energy to develop the vision and

mission of a community foundation.

- Commit to build within the near future (generally three to five years) a permanent endowment of a substantial amount of unrestricted assets (a minimum of \$5 million) to guarantee the proper functioning of a community foundation.
- Commit to raise administrative funds immediately to enable the organization to exist (initial operating budgets might be about \$35,000 per year for one or two years).
- Proceed with the legal steps of forming the organization.

At least one or two key steering committee members must passionately believe in the value of the community foundation. They must commit to leading its development.

## Action Plan

To assist you to move from the steering committee stage to that of a fully-operating community foundation, a recommended action plan for the initial 24 months is presented below. This plan should be used with the understanding that not all new community foundations develop the same in terms of the timing of certain events. These guidelines, however, are general enough to apply to the initial development process of most community foundations.

Month            Activity

1-3                Identify and bring together the initial steering committee. Begin the education of the steering committee about the community foundation concept. Review sample mission statements/articles of incorporation/by-laws. Assign various members to develop preliminary concepts in particular areas of interest. These might include a basic understanding of:

Month            Activity

- Legal steps to be taken to become incorporated and tax exempt or developing an affiliate relationship with a neighboring community foundation.

Month	Activity
	<ul style="list-style-type: none"> <li>• Laws related to community foundation operation and qualification.</li> <li>• Financial issues related to setting up accounts, managing funds and establishing financial systems (for the administrative budget and for managing the grants and endowment) or an affiliate relationship.</li> <li>• Asset development strategies and issues.</li> <li>• Office location, support services and operating budget or affiliation costs.</li> <li>• Knowledge of community needs and early identification of areas of potential funding.</li> </ul>
4–5	<p>Steering committee continues to learn about community foundations. Holds frequent meetings and considers a retreat for a day to discuss the concepts and develop initial questions and action plans.</p> <ul style="list-style-type: none"> <li>• Review sample articles of incorporation and by-laws (organizational papers and help available from your regional association of grantmakers or the Council on Foundations).</li> <li>• Begin identification of potential board members.</li> <li>• Visit existing foundations, if possible.</li> <li>• Continue discussions and presentations in local community to expand support for the idea.</li> <li>• Visit neighboring community foundations to investigate an affiliation relationship.</li> <li>• Visit with community board members who have decided on an affiliation option.</li> </ul>
6–8	<p>File organization papers with appropriate state and federal agencies (see Chapter 1). Processing of federal applications may take six to nine months. Don't lose momentum during this period. Continue the organizing and fundraising tasks or complete an affiliation agreement that will be legally effective immediately.</p>

Month	Activity
	<ul style="list-style-type: none"> <li>• Complete and refine the work outlined while waiting for IRS and state approvals. Incorporation happens quickly (can be “walked through” and completed in one day) so the organization exists.</li> <li>• Appoint/elect first board of trustees.</li> <li>• Develop several-year strategic plan to include endowment development, management, grantmaking and communication issues. Focus the plan on <i>action</i>.</li> <li>• Educate key constituencies through private meetings.</li> <li>• Prepare promotional materials and news articles.</li> <li>• Continue board and volunteer education.</li> </ul>

9-10 While awaiting the official IRS exemption ruling for the new foundation, work continues on all activities of organizing. The major difference is the acceptance of gifts by the new foundation. Contributions *may* be accepted to start operations, but NO TAX DEDUCTION is available until the IRS ruling is received. “Fundraising visits” with prospective donors should be held, but major gifts should not be made. (See Chapter 4 on fundraising for more detail.)

- Prepare news releases, speeches and awareness builders. Support from local media will be very helpful.
- Announce formation of foundation.
- Announce and introduce board of trustees.
- Hold small meetings with attorneys and accountants.
- Host luncheon meetings with key potential donors and civic leaders.
- Consider direct mail of public relations pieces to potential donors and financial advisors.
- Consider kick-off event.
- Discuss the purpose of the foundation with

United  
how  
foundation.

Way and other major nonprofits. Describe  
they will benefit from the community

Month

Activity

11-12

Once the IRS tax-exempt status has been approved [(501(c)(3)], you are officially a nonprofit organization on a probationary, five-year ruling. If you meet the criteria for public charity status for five years, you will receive a permanent classification. (Details on public support criteria in other materials cited in references.)

- Consider corporate campaign for initial three to five years of operating support.
- Begin raising endowment funds and administrative funds.
- Organize quiet campaign of individual solicitations for large gifts to be made.
- Solicit other private foundations and investigate challenge grants from them.

13-24

Year one is concerned with organizing activities. Lead endowment gifts from the board and by founders provide the capital to have earnings for grants in year two. Desire to build the endowment needs to be complemented with the need to make a few small grants as soon as possible so people will understand what a community foundation is and does.

- Put in place adequate organizational management system to assist in initial growth and development of the foundation.
- Refine grantmaking and community leadership programs.
- Make first, small grants probably for highly-visible and important community projects.
- Seek publicity for the grants.
- Expand asset development campaign.
- Refine endowment investment program.
- Implement and monitor other parts of multiyear strategic plan.
- Establish policies, procedures and documents.



- Make sure to have legal review of standard fund agreements.

Cautioning Note: The community foundation is complicated. Board members should be sure to actively confirm that all required legal documents and reports are filed completely and on time. In an affiliated relationship, these legal reports will be handled by the lead affiliate.

## Sample Action Plan Format

For the first few years, the foundation may not need a comprehensive strategic plan, but will need an action plan. The following format is suggested:



GOAL: \_\_\_\_\_  
 \_\_\_\_\_

Objective	Who	By When	Cost	Evaluation Criteria	Date Accomplished
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

GOAL: \_\_\_\_\_  
 \_\_\_\_\_

Objective	Who	By When	Cost	Evaluation Criteria	Date Accomplished
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

## Self-Study Questions

1. Why do we want to have a community foundation?
2. Do we hold the historic commitment to the idea of raising and building a permanent endowment for the continuing needs of our community?
3. Is the capacity for raising such an endowment existent?
4. What community should we serve?
  - Where are the boundaries or sense of community?
  - Will we be including or excluding important constituencies by being too small?
  - Will we be stretching the sense of community by being too large?
  - Are there sufficient assets in the area defined to envision a \$5 to \$10 to \$25 million endowment over a period of five to ten to 20 years?
5. What are the roles beyond that of grantmaker that our foundation can serve?
6. What are the important considerations we must make to assure the foundation receives the initial support it deserves as an independent, publicly supported and important community organization?
7. Have we analyzed our relationship to other community organizations and discussed our idea with them?
8. Have we analyzed our capacity to manage a community foundation independently? Have we investigated the advantages or disadvantages of affiliating with a neighboring community foundation?

## Descriptive Words and Phrases

Often, it is difficult to put the concept of a community foundation into words. The following phrases and ideas may help describe the community foundation concept. Discuss them. Incorporate them into your conversations—your literature—your thinking about how a foundation may help your community. Use them to illustrate the differences between community foundations and other community organizations. Add to the list!

- Expands philanthropic base
- Saves erosion of capital
- Technique to give something back to your community
- Tax-favored giving
- Growth oriented
- Builds community capital
- Meets changing community needs
- Avoids duplication
- Directed by community members
- Provides financial and technical help
- Nonpolitical
- Community convener, catalyst
- Builds sense of community
- Available to everyone
- Broad range of interests—serves whole community
- Everyone benefits—donors and grantees
- Fosters self-help concept
- Open process to identify priority needs
- Independent, self-governed
- Assures perpetuity of gift
- Living organization that changes to meet current needs
- Builds volunteer leadership
- Part of international movement with local applications
- Representative of “whole” community
- Convenient vehicle for personal philanthropy
- Allows everyone to be a philanthropist

## Glossary

### **501(c)(3)**

Section of the IRS code that gives tax-exempt status to a community foundation when it properly applies for the exemption. A commonly-used expression to define a nonprofit organization.

### **Council on Foundations**

A national association of foundations and corporations that serves the public good by promoting and enhancing responsible and effective philanthropy.

### **Forum of Regional Grantmakers Association**

A national service association for philanthropy, whose members are 26 regional associations of grantmakers (RAGs) across the country. The Forum helps individual RAG staff, volunteer leaders and member grantmakers work together across regions more effectively, and to join forces with national colleague organizations interested in protecting and advancing the field of philanthropy.

### **Grants**

Distribution of money by a foundation in support of its charitable purpose.

### **Regional Associations of Grantmakers (RAGs)**

A geographically defined group of representatives from a combination of private, public, community and/or corporate grantmaking foundations, bank trust departments and corporate contributions programs based in the United States that has been formally organized out of a stated interest in supporting and enhancing organized philanthropy. The Council of Michigan Foundations serves the state of Michigan and the Indiana Donors Alliance serves the state of Indiana.

### **Steering Committee or Organizing Committee**

The group instrumental in the formation of the foundation, which may become part of the board.

## Resources

**“A Sense of Community”** and **“A Sense of Community Donor Brochure Set,”** Council on Foundations, 1828 L Street, NW, Washington, DC 20036-5168, 202/466-6512.

**“Building a New Community Foundation,”** James P. Heron, Mohawk Hudson Community Foundation, P.O. Box 3198, Albany, NY 12203, 518/273-8596.

**“Community Foundations at 75: A Report on the Status of Community Foundations,”** Council on Foundations, 1828 L Street, NW, Washington, DC 20036-5168, 202/466-6512.

**“Community Foundations Take Off,”** Sidney S. Whelan, Jr. Trusts & Estates, August, 1987.

**“Community Foundation Training Manuals,”** Council on Foundations, 888/239-5221. Order #915.

**“Development and Fundraising for Community Foundations: Will The Ugly Duckling Become A Swan?,”** Council on Foundations, 888/239-5221. Order #953.

***Establishing and Administering a Scholarship Program in Michigan,*** *third edition,* Council of Michigan Foundations, 1998. P.O. Box 599, Grand Haven, MI 49417, 616/842-7080.

**“How to Calculate the Public Support Test,”** John A. Edie, Council on Foundations, 888/239-5221. Order #906.

**“Legal Compendium for Community Foundations,”** Council on Foundations, 888/239-5221. Order #905.

**“Letters to a Foundation Trustee,”** Council on Foundations, 888/239-5221. Order #405.

***Media Matters: Informing the Public on the Impact of Grantmaking in Michigan,*** Council of Michigan Foundations, 1992. P.O. Box 599, Grand Haven, MI 49417, 616/842-7080.

**“Promoting the Growth of Community Foundations Using Temporary Funds,”** Stephen D. Mittenthal, Council on Foundations, 1828 L Street, NW, Washington, DC 20036-5168, 202/466-6512.

***Scholarship Programs for Clubs and Membership Organizations,*** Duane L. Tarnacki, Council of Michigan Foundations, 1992. P.O. Box 599, Grand Haven, MI 49417, 616/842-7080.

**“Seed Planting, Community Foundation Style,”** Eugene C. Struckhoff.  
Foundation News & Commentary, January/February, 1985.

***Sample Language for Gifts and Bequests to Community Foundations,*** Duane L. Tarnacki, Council of Michigan Foundations, 1992. P.O. Box 599, Grand Haven, MI 49417, 616/842-7080.

***How to Help Your Community Foundation Develop an Effective Strategic Plan,*** Kathryn A. Agard, Ed.D., James M. Richmond, Council of Michigan Foundations, 1992. P.O. Box 599, Grand Haven, MI 49417, 616/842-7080.

# APPENDIX





# Stages and Steps in Organizing a New Community Foundation

## Stage 1 - Initial Information

- Step 1 - Prime organizer explores community foundation concept and assesses applicability to community.
- Step 2 - Prime mover informs associates and core group.
- Step 3 - Core group acquaints bankers, lawyers, business and other community leaders, including United Way, with concept.
- Step 4 - Initial meeting of 20 to 30 leaders whose acceptance and commitment is important.
- Step 5 - Core leadership group sanctions formal study of feasibility, and divides study assignments.

## Stage 2 - Feasibility

- Step 1 - Study team explores logical geographic area of service.
- Step 2 - Study team familiarizes others with proposal for local community foundation.
- Step 3 - Study team meets with neighboring community foundations to understand advantages of future affiliate relationships.
- Step 4 - Study team identifies potential fund sources.
- Step 5 - Key community organizations are more fully briefed.

- Step 6 - Survey made of potential sponsors from among organized community groups.

## Stage 3 - Tentative Decision by a Steering Committee

- Step 1 - Decision to organize in corporate or trust form.
- Step 2 - Decisions on:
  - (a) Area of service,
  - (b) Method of governing board selection,
  - (c) Staffing,
  - (d) Funding, and
  - (e) Committee and other structures.
- Step 3 - Decisions on program rationale and guidelines for acceptance of funds.
- Step 4 - Obtaining assurances of support from founders, sponsors and volunteers.
- Step 5 - Making known to public the work of the steering committee.

## Stage 4 - Formal Organization

- Step 1 - Steering committee works with lawyers commissioned to draft the instruments of governance.
- Step 2 - Steering committee makes application under the Internal Revenue Code for exempt status as a publicly supported community foundation.

## Stage 5 - Launching the New Organization

- Step 1 - Organizers meet to organize, begin operations and set policies, programs and procedures.
- Step 2 - Organizers hold initial public meeting to publicize formation of the new organization.



# CHAPTER 3

## HOW IS A COMMUNITY FOUNDATION GOVERNED?

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## The Board

After thorough discussion and planning by the steering committee through a period of several months, the group is ready to consider proceedings for formal incorporation.

The key issue in forming the community foundation is the development of the board that will govern it.

The steering committee may develop into the board or the nucleus of the board. However, some members of the original steering committee may not be appropriate board members. Some members may not be willing to assume the responsibilities of board participation.

The working steering committee may continue to build the foundation even if all members don't become board members. Assess the strength each person brings to the organization and assign responsibilities broadly. The young foundation needs all the support available to grow. (See Chapter 5 on committees and action plans.)

In the book by Richard T. Ingram published by the National Center for Nonprofit Boards, he outlines the *Ten Basic Responsibilities of Nonprofit Boards*. They are:

1. Determine the organization's mission and purpose.
2. Select the executive.
3. Support the executive and review his or her performance.
4. Ensure effective organizational planning.
5. Ensure adequate resources.
6. Manage resources effectively.
7. Determine and monitor the organization's programs and services.
8. Enhance the organization's public image.
9. Serve as a court of appeal.
10. Assess its own performance.

## Board Structure

There are several important considerations when forming the board of trustees. These include:

*How many board members should we have?*

- The number of board members may change from time to time as the organization changes.

- There is no “right number” for all foundations.
- There are advantages and disadvantages to a large board (19–35 members).

Advantages of a large board:

- Better fundraising potential with more human resources.
- More representative of the community.
- More ability to cover for inevitable nonfunctioning members.
- More fundraising contacts throughout the community.
- Variety of skills to better meet burgeoning needs of the growing organization.
- Many people of influence and affluence to avoid limited scope for the organization.
- More leadership gifts that must come from board members *before* fundraising from others.
- The board is the only initial creditibility of the organization.

Disadvantages of a large board:

- More difficult to form a clear mission for the organization than with a limited group.
- Management of a large board is very time consuming for staff.
- Lots of copies, mail and communication challenges.
- More difficult consensus-building.
- Potential danger that self-interest motives of other organization representatives will control the board.
- Committee work may “usurp” the power of the board, which merely rubber stamps committee work at board meetings.

*What type of rotation system for new members should be developed to assure orderly change?*

- Generally, the articles or by-laws will define terms of office and maximum number of terms that may be served.

- Initial terms must be assigned to establish rotation system for future years.
- Discuss whether former board members should be invited to serve again before anyone is in that position rather than when a specific individual is eligible.

*What type of board orientation and training should we have for members, and who will do it?*

- Consider whether other community organizations could provide basic board development skills training.
- Start a handbook for board members that eventually includes copies of:
  - Articles of Incorporation
  - By-laws,
  - List of board members’ names, addresses, phone numbers, fax numbers, and e-mail addresses,
  - Committee assignments,
  - Meeting schedules,
  - Sample agreement forms,
  - Descriptive materials about community foundations,
  - Copies of media coverage,
  - Financial statements,
  - General information about fundraising, ways to give and benefits of a community foundation.

*Should we invite a **few** key donors to serve on the board?*

Discussion should include whether to consider donors serving on the board and, if so, under what criteria.

Advantages:

- Encourages participation and knowledge of donors’ interests.
- Helps build commitment of donors.
- Educates donors about community foundation benefits.

- Keeps the foundation in touch with the donor.

Disadvantages:

- May cause the foundation to be too influenced by donors' interests.
- May make the community foundation board biased toward one element of the community and not representative of all its citizens.
- Potentially difficult to “overrule” donors' ideas.
- Sends message to community that board positions are “bought.”

*Should we consider leaving a few openings for unexpected “windfalls” such as new people coming to town, unexpected major donors or new collaborators?*

- Similar to the issue of donors on the board, this discussion is best held prior to the arrival of a particular case.
- There is no obligation to fill all board positions, especially on a large board, but available openings should be kept to a minimum.

*What about designated positions on the board belonging to other community organizations (i.e., United Way representative or Chamber of Commerce representative)?*

- Often a question when a community foundation is formed by a coalition of community organizations.
- Assignment of specific positions limits the selection of the best available board members.
- The successful community foundation should be free of external control elements other than those defined by law in its articles and by-laws to assure the board the control needed to meet the changing community needs.

## Board Selection

Techniques for board selection vary. The process for the first board is most likely an invitation from the steering committee. Future board selection will be developed along one of the following models:



Appointing Authorities—In this form, community organizations are named in the articles of incorporation or by-laws with specific authority given each to appoint an individual to fill a vacancy. This form is usually used by older, existing foundations incorporated prior to 1969.

Advantage:

- May assist public support test compliance showing open process if the Facts and Circumstances Test comes into play.

Disadvantages:

- Control of board in this model belongs to outsiders.
- Ability to balance board membership relative to ethnicity, gender, geographic representation, and professional expertise may be difficult.
- May eliminate advancing committee members to board service.
- Board members may be assigned because of their other career responsibilities and have no interest in the community foundation.

Nominating Committee—Usually in this form, a committee is named in the articles of incorporation or by-laws. This committee is composed of the volunteer leader of a specific group of highly-regarded community organizations or known community leaders (the presiding judge, chair of the bar association or president of the Chamber of Commerce). The community foundation forms a small committee which works with the community committee to prepare the slate of candidates and to select the board officers. The community committee is convened one or two times per year to prepare the slate.

Advantages:

- Opportunity to educate new group of key community leaders each year.
- May assist public support test compliance showing open process.
- Allows community foundation input to discussion of board needs to balance board composition.

Disadvantages:

- Somewhat cumbersome to educate new committee each year.
- Board doesn't control selection of its future members.

Self-Selecting Process—In this form, the board picks its own successors.

Advantages:

- Permits total control of board balance for skills, ethnicity, etc.
- Encourages promotion of like mindedness (yes, it's both good and bad—should be discussed!).
- Very efficient system with little constraint by outside forces.

Disadvantages:

- May be viewed as an exclusive “club” mode.
- May not assist public support test compliance.
- Encourages promotion of like mindedness.

## Self-Study Questions

1. Have we talked to key community leaders throughout our area for potential participation?
2. What key organizations should know about our idea for a community foundation, and what have we done to introduce them to the concept?
3. Have some of our members completed the community self assessment and feel confident of our prospects?
4. Has the discussion about the formation of the board touched the major issues outlined in this chapter concerning structure and selection process?
5. Does our new board have members with the necessary skills to accomplish the work to be done?
6. Will our nomination process for future board members assure the caliber and independence necessary to govern our organization?

## Glossary

### **By-Laws**

Rules for operations that are adopted in accordance with law, usually by the members or board of directors of an organization or institution, that provide for matters such as the election of directors and officers, the conduct of meetings and a committee structure.

### **Goal**

Defines, in broad terms, the end state of a specific activity to be achieved. For example: to serve the philanthropic interests of local donors.

### **Objective**

Is a measurable action step toward achieving a goal. Objectives should define: what is to be done, who's going to do it, how it's going to be done, the date it will be completed, the cost, and how it will be evaluated.

The mission, goals and objectives must be tied one to the other from the general definition, philosophy and values—to the ends to be achieved—to a description of the actions to be taken that year.

From the objectives, the budget can be built. Individual work plans and job descriptions can be identified for board and staff, and progress can be measured.

## Resources

*The Board Member's Book*, Brian O'Connell. The Foundation Center, 79 Fifth Avenue/16th Street, New York, NY 10003-3050, 212/691-1828.

**"Community Foundation Training Manuals"** Council on Foundations, 222/239-5221. Order #915.

*Governing Boards: Their Nature and Nurture*, Cyril O. Houle. Jossey-Bass Publishers, San Francisco, CA 94104-1342.

*NCNB Governance Series Papers*, including:

1. **"Ten Basic Responsibilities of Nonprofit Boards,"** Richard T. Ingram.
2. **"The Chief Executive's Role in Developing the Nonprofit Board,"** Nancy R. Axelrod.
3. **"Fund Raising and the Nonprofit Board Member,"** Fisher Howe.
4. **"Board Assessment of The Chief Executive: A Responsibility Essential to Good Governance,"** John W. Nason.
5. **"The Nonprofit Board's Role in Risk Management: More Than Buying Insurance,"** Charles Tremper and George Babcock.
6. **"Strategic Planning and the Nonprofit Board,"** Dabney G. Park, Jr.
7. **"Board Passages: Three Key Stages in a Nonprofit Board's Life Cycle,"** Karl Mathiasen, III.

National Center for Nonprofit Boards  
1225 19th Street, NW, Suite 340  
Washington, DC 20036  
202/452-6262.

*The Nature of Trusteeship*, John W. Nason. Association of Governing Boards of Universities and Colleges, 1982. Washington, DC 20036.

Five papers discussing the fundamentals of forming and implementing governing boards:

1. **"Board Membering: What Kinds of People Make Good Board Members? What Kinds of People are Needed to Make Up a Good Board of Directors?"**

2. **“No Board of Directors is Like Any Other: Some Maxims About Boards”**
3. **“Passages: Organizational Life Cycles”**
4. **“The Board of Directors ‘Is’ a Problem: Exploring the Concept of Following and Leading Boards”**
5. **“The Board of Directors of Nonprofit Organizations”**

Management Assistance Group, Washington, DC  
1555 Connecticut Avenue, NW  
Washington, DC 20036

# CHAPTER 4

## BY AND FROM WHOM ARE FUNDS RAISED FOR A COMMUNITY FOUNDATION?

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## Priority

The foremost priority of a community foundation (as presented in the mission statement in Chapter 1) is raising funds (i.e., “the concept of building and managing permanent endowment to meet the emerging needs of the community through grantmaking”). Without such an endowment, the other sections of the mission statement become moot in that the community foundation has neither the credibility nor capability to implement them.

## Donor Oriented

Fundraising, or preferably endowment, development for community foundations is conceptually different than any other type of fundraising for nonprofit organizations. Rather than beginning with a specific product (such as a building, special program or operating support) for which funds are sought, a community foundation promotes the concept of providing an effective vehicle to carry out a donor’s charitable intentions, whatever they might be. In addition, a community foundation provides myriad ways for donors to contribute in both direct and deferred manners which, in most cases, are very tax advantageous to the donor. A community foundation is designed to *serve donors*. It is a part of the grantmaking foundation world, not the grantseeking nonprofit world.

## Responsibility

The main responsibility to plan and implement an endowment development process is that of the board of directors. This responsibility includes personal giving, personal soliciting and oversight of a coordinated endowment development plan that may involve other elements of the community. How can a community foundation expect to receive gifts from others if its board members are not, themselves, committed to the concept?

In the early growth stages of a community foundation, you only have a “vision” to describe to potential donors in that the foundation does not yet have the capacity to make grants. Therefore, you must be very clear about that vision statement. You might include the following elements as items to know and discuss in preparation of the “message” for the public:

- A goal to obtain a \$5 million endowment within three to five years with a substantial portion unrestricted to meet emerging community needs
- An initial list of local *issues* that a viable community foundation could address as it serves the role of catalyst and convener as well as grantmaker and fundraiser

- A list of other comparable communities which have formed successful community foundations and the resulting benefits of them
- A convincing case-statement on why a community foundation should be created in your community

## Types of Funds

As indicated above, the community foundation offers the donors a variety of ways to carry out their charitable intentions. The process is simply to assist the donor to establish one or more of the following types of funds, according to how narrowly they want to limit their charitable interests. Donors may establish multiple funds within the foundation:

**Designated**—the donor directs the community foundation to pay the annual income to a specific named organization in perpetuity (often called an agency endowment).

**Field-of-Interest**—the donor directs the community foundation to use the annual income in a certain program area such as education, health, youth or the environment, with the community foundation determining the specific recipient from time to time.

**Unrestricted**—the donor allows the community foundation the discretion on the use of annual income for a broad range of community issues. This provides the foundation the opportunity to respond to changing community needs.

**Donor-Advised**—the donor actively participates in grantmaking by recommending to the community foundation the purpose and/or organization(s) that might receive the annual income. These recommendations must then be approved by the foundation's board of directors.

**Agency Endowment**—other nonprofit organizations place their endowment funds with the community foundation for management and investment purposes. The community foundation regularly distributes the annual income back to these agencies for their general purposes (often called a designated fund).

**Supporting Foundation**—another charitable organization, a 509(a)(3) supporting foundation can attach itself to the community foundation and achieve public charity status,

which eliminates IRS pay-out requirements, excise taxes, etc. This supporting foundation is then governed by a community foundation-appointed board that generally consists of a combination of board members from the original supporting foundation donors and the community foundation.

**Project Funds**—in looking at the needs of the community, the foundation board determines there is an unmet charitable need. By board resolution, a fund is established to meet that need. Donors contribute to the fund. Over time, the fund is expended (rather than endowed) in order to meet the community need.

## “FUND”amental Decisions

There are several considerations as you define services for the community foundation relative to how you will handle component funds. Assuming you want to be a “full service” foundation and accept all types of funds, the following are some questions that you should discuss thoroughly as you develop beginning policies and procedures:

*What will be the minimum size of our funds?*

Considerations:

- Too high a minimum creates an impression of philanthropy only for the wealthy.
- Too low a minimum may cause the establishment of numerous funds that have little likelihood of growth.
- Designing a strategy to accept small funds and providing donor recognition encourages contributions from throughout the community.
- Acknowledging donor contributions into pooled funds provides challenges to creative marketing.
- Fund size minimums can change with time, but think about the message it delivers to change them.

Another question concerns the establishment of new funds within the foundation. These can be started by individuals, community agencies or unrelated groups who share some common purpose. For example:

- Memorial funds honoring an individual for accomplishment or in memory.

- Scholarship funds. Although very labor intensive for a foundation, these are very attractive activities for donors and, with thought and care, can be managed well in a small foundation.
- Special area of interest funds—these can often be started by the foundation itself, identifying priority areas for its grantmaking in support of which an endowment will be built. Examples include a seniors fund, a fund for youth or a basic human-needs fund to support food and shelter.

A new foundation should spend considerable time thinking about areas of programmatic interest in the community. Too many field-of-interest funds are apt to dilute effective fundraising. Too few may cause the foundation to be identified as more single interest rather than general support for the whole community.

## **Types of Gifts**

The community foundation provides the most flexible charitable giving vehicle to potential donors. It provides donors maximum tax advantages for both direct and planned or deferred gifts. Types of gifts that can be accepted by community foundations include:

### ***Cash***

Advantages:

- Value is easily determined.
- Immediately available for use by the foundation.

Disadvantage:

- None.

### ***Stocks or Bonds***

Advantages:

- Donor takes market value for charitable tax deduction.
- Donor minimizes capital gains taxes on appreciated securities.
- Community foundation usually sells securities upon receipt with the proceeds becoming immediately available for use by the foundation.

Disadvantage:

- Determination of value and sale of certain types of securities, especially “closely held” stock, can be very time consuming or difficult causing potential donor relations problems.

### ***Life Insurance***

Advantages:

- Maximization of smaller gifts upon maturity.
- Donor may receive immediate charitable tax deduction based upon the lesser of the cost or cash value of the policy.
- Annual premium payments by donor are also deductible.

Disadvantages:

- Funds not immediately available to the community foundation for grant purposes.
- Foundation may be faced with arrangements with the donor to cover annual premium costs.
- Foundation may face challenging decision if donor does not continue premium payments.
- Listing of policies may not appear on foundation’s balance sheet.

### ***Real Estate and Other Tangible Property***

Advantages:

- Donor avoids capital gains on appreciation of assets.
- Donor receives immediate charitable tax deduction at market value.

Disadvantages:

- Determination of value of some types of property is difficult.
- Ability of foundation to sell property in a timely manner may be costly.
- Possible environmental problems with real estate.
- Liability of “operating” real estate.

### ***Charitable Remainder Trust***

#### Advantages:

- Donor receives immediate charitable tax deduction.
- Donor receives life-time income from the trust.
- Donor avoids estate taxes upon this portion of the estate at death.

#### Disadvantages:

- Funds not immediately available to the community foundation for grant purposes.
- Foundation must work with donor to identify trustee (small and young foundations generally do not act as trustee themselves). State laws vary regarding the legality of a community foundation serving as a trustee.
- Although these assets benefit the foundation as remainderman, they do not appear as gifts on the balance sheet until death of the donor.

### ***Charitable Lead Trust***

#### Advantages:

- Donor gives community foundation assets for designated period during which income can be used by the foundation.
- Assets eventually returned to the donor's estate, possibly avoiding estate taxes.
- Donor pays no income or capital gains taxes on assets while under community foundation control.

#### Disadvantages:

- Gift will not become permanent endowment of the community foundation.
- Like other trusts, the management of this one needs careful consideration.

## ***Real Estate with a Life Interest***

### Advantages:

- Donor deeds home, farm, rentals or land to the community foundation and receives immediate tax deduction for the remainder value.
- Donor retains the use of the real estate until death.
- The gift will not be subject to estate taxes.

### Disadvantages:

- Ability of the foundation to sell real estate upon the death of the donor.
- Funds not immediately available to community foundation.
- Careful negotiations with donor concerning responsibilities during life can be challenging.
- Care of donor, should he or she move out of real estate, can be challenging.
- Potential change in real estate values during life of donor.

## ***Bequests***

### Advantages:

- The ability by the donor to make a larger gift.
- Does not challenge donor to part with assets during lifetime.
- Enables foundation to work with donor during lifetime on provision for bequest.

### Disadvantages:

- May contain overly restrictive provisions.
- Funds not immediately available to community foundation for grant purposes.
- Is easily subject to change without the foundation's knowledge.
- Is generally not irrevocably done, thus raising recognition and public relations questions.

### ***Agency Endowments***

#### Advantages:

- Provides agency with professional management and investment practices.
- May attract additional gifts for agency from other donors.
- Ensures donors that gift will be used for a specific agency or a like purpose if “variance power” is exercised (see Chapter 1).
- Community foundation can better serve the community through centralization of philanthropic funds.

#### Disadvantages:

- Funds are generally irrevocably given to the foundation potentially causing public relations questions regarding investment performance.
- Questions often arise regarding community foundations’ conservative investment policies. Agencies should be committed to long-term endowment growth in principle, not high annual operating income.
- Small endowments can become labor intensive if the agency has frequent contact with the foundation.
- Questions sometimes arise regarding the growth in an agency fund (is it principle or is it income). The foundation should have a policy before signing an agreement.

### ***Project/Pass-Through Gifts***

#### Advantages:

- Community foundation facilitates gifts that might otherwise be lost.
- Increases visibility for the community foundation.
- May lead to later permanent endowment gift by donor.
- Ability to meet community needs.



Disadvantages:

- Gifts are not permanent endowment for community foundation.
- Some projects can become labor-intensive for the community foundation.
- Caution must be taken with gifts and projects related to economic development.

## Types of Donors

The most successful community foundations have developed a clear understanding of the types of donors who they will approach and on what basis they will be asked to participate in the community foundation. Listed below is a categorization of some of these potential donors and suggested approaches to them.

### **Major Individual Donors (people of wealth)**

May have a private foundation:

- Discuss challenge grant for unrestricted endowment.
- Discuss possible termination of foundation into component fund of supporting foundation.
- Discuss outright grant to endowment.

Younger donors of wealth:

- Discuss donor-advised fund.
- Discuss supporting foundation.

Older donors of wealth:

- Discuss estate plans and charitable interests.
- Discuss inheritance tax advantages.
- Discuss planned giving and income enhancement vehicles.
- Discuss range of giving options for charitable interest.
- Designated giving for cherished organization.
- Unrestricted giving for the future.
- Field-of-interest for area of life-long concern.

- Donor-advised for lifetime of the donor and/or spouse and maybe children.
- Tool for educating next generation in the family about the value of philanthropy.
- Named funds to keep family giving in perpetuity.
- Paid-up life insurance no longer needed.

### **Smaller Individual Donors**

- Insurance vehicles to dramatically increase gift potential.
- Gifts from their professional practices.
- Pledges over three to five years.
- Planned giving vehicles that enhance income in retirement:
  - Pooled income funds.
  - Charitable trusts.
  - Life estate gifts.

### **Corporations**

- Discuss advised funds for all of their charitable giving (sweep a portion each year into the unrestricted fund).
- Ask for challenge gifts to the unrestricted endowment.
- Pledges over three to five years.
- Ask them to consider employee matching gift contributions.
- Ask them for operating support.
- If involved in a corporate sale of some sort, ask for a gift to be structured into the sale.
- Ask for gifts of stock from executives.
- Provide a field-of-interest or donor-advised fund for a problem related to or of interest to the industry (environmental fund for a recreation industry/an education fund for a company dependent upon scientists).
- Establish a named fund or donor-advised fund in recognition of a retiring corporate executive.

## Private Foundations

- Seek gifts for endowment and for operations.
- Seek matching gifts.
- Look for opportunities for joint ventures.
- Consider how you might help them achieve their objectives.

Community foundation growth is a perpetual practice. The first efforts must aggressively work toward building a sufficient endowment to provide for local needs, to address questions of investment and management performance and to build the confidence of prospective donors that the organization is capable of handling major gifts.

As the foundation grows to the \$10–50 million range, the challenge of continuing momentum becomes the primary consideration. As bequests begin to “mature,” the young foundation typically experiences quantum growth, and the challenges of management and programmatic services begin.

Even the mature foundation with established policies and procedures, professional staff, and efficient operations will be challenged to continually evaluate its operations and program. As communities and times change, so must the growing and vital community foundation.

## Self-Study Questions

1. What is the main purpose of our community foundation?
2. Whose responsibility is it to implement our endowment development plan?
3. Who will contribute the initial endowment gifts?
4. What are the minimum amounts to be accepted for our funds?
5. Which types of funds shall we accept to start?
6. Who are the most probable initial donors in our community?
7. How should they be approached and by whom?

## Glossary

<b>Bequest</b>	A transfer, by will, of personal property such as cash, securities or other tangible property.
<b>Charitable Lead Trust</b>	A trust that provides for payments to a 501(c)(3) organization for a stipulated period of time, free from federal gift and estate taxes. At the end of the trust term, the trust assets go to a designated individual.
<b>Charitable Remainder Trust</b>	The amount expected to be received by a charity from a charitable remainder trust at the death of the trustor.
<b>Component Fund</b>	An individual fund treated as part of a community foundation and permitted by the IRS to be included among the exempt assets of the foundation. The foundation's governing board must have total control over all assets—principal and income—of a component fund.
<b>Fund</b>	An entity established for the purpose of accounting for resources used for specific activities or objectives in accordance with special regulations, restrictions or limitations. Also a self-balancing group of assets, liabilities, fund balance and changes in fund balance.
<b>Market Value</b>	The price an asset would bring on a specific date in an arms-length transaction between a willing buyer and a willing seller.
<b>Pooled Income Fund</b>	A form of a charitable remainder trust in which individual gifts are commingled to reduce risks and maximize return on investment. Each individual gift is treated as a share of the total fund rather than as a separate fund. The distribution to each donor is that donor's pro rata share of the trust fund's earnings for the year. As with other forms of charitable remainder trusts, the individual's share lasts for the life of the beneficiary, and, upon his or her death, the principal attributable to the gift is distributed to the designated qualified organization(s).

## Resources

**“Community Foundation Training Manuals,”** Council on Foundations, 222/239-5221. Order #915.

**“Community Foundations and Agency Endowments,”** Edward Jay Beckwith and David Marshall, Baker & Hostetler.

**Form Book,** Baker & Daniels, February, 1991. Copies available from the GIFT office.

**“Giving for the Future One Day at a Time,”** Linda Weinstein, Council on Foundations, 1828 L Street, NW, Washington, DC 20036-5168, 202/466-6512.

***Media Matters: Informing the Public on the Impact of Grantmaking in Michigan,*** Council of Michigan Foundations, P.O. Box 599, Grand Haven, MI 49417, 616/842-7080.

**“Searching for a Better Bottom Line in Your Corporate Giving,”** Council on Foundations, 1828 L Street, NW, Washington, DC 20036-5168, 202/466-6512.

**“Social Investment and Community Foundations,”** Council on Foundations, 222/239-5221. Order #902.

**“Use of Fiscal Agents: A Trap for the Unwary,”** John A. Edie, Council on Foundations, 222/239-5221. Order #908.

**“Why An Agency Endowment?”** Council of Michigan Foundations, One South Harbor Avenue, P.O. Box 599, Grand Haven, MI 49417, 616/842-7080.

# APPENDIX





## Funding Sources:

by Bill Somerville

### Who They Are & How to Use Them

1. The Seven Sources of Funds for Nonprofits
2. Finding Out about Government Funding
3. Philanthropic Foundations
4. Corporate Giving
5. Nonmonetary Sources of Support

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### The Seven Sources of Funds for Nonprofits

There are seven primary sources of support for nonprofit organizations. It is important to develop an understanding of the relationships among the sources. The ways these sources are braided together constitutes the basis for a sound fundraising strategy.

- (1) **Government Funds.** Federal, state, county, city. Examples include Revenue Sharing, funds from governmental entities. These funds are politically oriented and consequently tend to come and go. It is very hard to replace this type of money.
- (2) **United Way.** Continuing support money for a selected group of agencies in a given geographic area.
- (3) **Foundations.** Includes private foundations that normally tend to give by subject area and community foundations that normally give by geographic area. Proper research of foundations before making application pays dividends.
- (4) **Corporations.** Philanthropic money can be given by the corporate entity or by the corporate foundation (or both). Corporate foundations can be researched; information on corporate entity giving is not publicly available.  
  
Corporate giving takes a variety of forms that include used furniture and equipment, purchase of services from nonprofit agencies for mental health, recreation, child care and other programs that employees use. There are about 40 ways in which corporations can contribute to nonprofits.
- (5) **Fees for service.** This includes charging clients, patrons, customers and others for the services of a nonprofit program.
- (6) **Special Projects.** This large category includes such things as:

*Profit Making Businesses* such as restaurants, book stores or thrift stores.

*Special Events:* Can attract large crowds (a celebrity tennis match) and involve the participation of supporters (bake sale or auction). May be continuing events (Monday night bingo game), annual events (a dance), or one-time affairs like a recognition dinner.

It needs to be emphasized that there is a wide spectrum of possibilities for special fundraising events. Whereas people may not give an outright gift to an agency, they will usually contribute through the “purchase” of something fun. This category represents one of the primary continuing sources of funding.

To be included in this section are auxiliaries that act as fundraising agents for an agency and that usually conduct some of the activities just listed.

(7) **Individuals.** This represents the largest segment of giving in the United States; approximately 85 percent of the philanthropic dollar comes from living individuals. Individuals make (1) outright gifts of cash, securities or other assets, and (2) deferred or planned gifts (trusts, pooled income funds and insurance policies). There are various legal means for donors to make gifts and still receive some immediate financial return. These include trusts, pooled income funds, deferred giving and insurance beneficiary designation. Depending on the tax laws at a given time, donors may also benefit from making outright gifts, especially when an investment has appreciated far beyond its purchase price.

Ways to encourage personal giving include:

*Personal solicitation.* Givers are the most effective method of encouraging new support. Donors who are involved in an organization as board members or volunteers become effective fundraisers.

*Membership Drives.* Organized “friends groups,” sponsors, supporters and others give support on an annual basis to an organization. Usually there are various membership categories depending on how much a person gives. Emphasis is often placed on “promoting” people from one category to the next.

*Direct Main Appeals.* Requests for membership or other support are made through mass mailings, often several a year, to different categories of prospective donors.

*Telephone Appeals.* Sometimes used in conjunction with mailings, sometimes separately.

*Sponsor Groups.* Many organizations benefit from an ongoing relationship with an organized service group (Rotary, General Federation of Women’s Clubs, etc.) or with church organizations.

Often members of such groups become regular members and donors.

Note: An additional method of gaining funds is to conserve money by creative means. This could involve such things as use of volunteers; cooperative efforts between agencies, e.g., consolidated programs, group or wholesale purchasing of equipment, furniture and supplies; sharing equipment such as a copier, computer or printer. Some organizations share office space creatively.

### **Finding Out about Government Funding**

The following resources are available in the Funding Information Library to help you identify government grants for which you may be eligible:

- (1) **Catalog of Federal Domestic Assistance**, Office of Management and Budget. This catalog describes all of the domestic assistance programs of the federal government. Detailed information is given including descriptions of the programs, eligibility requirements and application deadlines. Information in the catalog is not always current but it can give some ideas of the areas where funding is available and can provide a contact person for current information.
- (2) **Federal Funding Guide**, Government Information Services. This is a selected listing of assistance programs thought by the Guide's compilers to be "...the most likely to answer the needs of governments and communities throughout the country." Describes programs, restrictions, deadlines, how to apply and gives names and addresses of federal and local contacts.
- (3) **Federal Register**, Government Printing Office. Published every weekday, the Register includes all federal regulations, proposed and final. The Register can alert you to available grants and can inform you about regulations which may affect your program.

Also available: *Grants and Contracts*, a weekly compilation of items published in the Register which affect domestic assistance programs; the *Index to the Federal Register*, published monthly; and *The Federal Register: What It Is and How to Use It*.

- (4) **Internet Resource**, For grants and related resources, visit <http://www.lib.msu.edu/harris23/grants/grants.htm>.

## Philanthropic Foundations

A foundation is a non-governmental, nonprofit organization, with funds and programs managed by its own trustees or directors, established to aid social, educational, charitable, religious or other activities serving the common welfare, primarily through the making of grants. Corporate and community foundations and charitable trusts are included. A charitable trust is a trust established for the benefit of the public, usually setting out a defined charitable purpose for an undetermined number of beneficiaries.

Certain organizations are excluded which bear the name “foundation” but whose primary purposes are other than the awarding of grants. Examples include public charities making general appeals to the public for funds, acting as trade associations for industrial or other special groups, or functioning as endowments set up for special purposes with a specific organization.

A private foundation may also be called an independent foundation. It is a fund or endowment designated by law as a private foundation, the primary function of which is the making of grants. The assets of independent foundations have most commonly been derived from a gift of an individual or family. Many function under the voluntary direction of family members and are known as “family foundations.” Others which may bear a family name have independent boards of trustees and are managed by professional staff. Typically, independent foundations have broad charters but, in practice, limit their giving to a few fields of interest; however, they may move into new fields in response to changing priorities. Depending on their range of giving, they may also be known as “general purpose” or “special purpose” foundations.

Some private foundations are also operating foundations. An operating foundation is a fund or endowment designated by law as a private foundation, the primary purpose of which is to operate research, social welfare or other programs determined by its governing body. Some grants may be made externally, but the number is generally small relative to the funds for the foundation’s own program.

Community foundations receive and administer endowment and other funds from private sources and manage them under community control for charitable purposes primarily focused on local needs. Community foundations are characterized by multiple sources of funding from many donors, and expenditures are for the benefit of a specified geographic area. By IRS regulation, the governing bodies of community foundations are required to represent broad community interests. Community foundations are classified by the Internal Revenue Service not as private foundations but as “public charities,” as are churches, schools and colleges, hospitals and certain other nonprofit organizations.

Community foundations are of growing importance not only as professional grantmaking organizations, but as a flexible means of administering many different kinds of charitable funds for the benefit of local communities.

A company-sponsored or corporate foundation is a private foundation under the tax law and derives its funds from a profitmaking company or corporation. It is independently constituted and its purpose is to make grants often on a broad basis. Officers of the company, as well as persons not affiliated with the company, may serve on the board. It is not uncommon for a company-sponsored foundation to assume responsibility for the parent company's giving in areas in which offices, production or service facilities or distribution outlets are located. The company-sponsored foundation makes it possible to set aside funds for use in future years when company earnings may be reduced, and the needs of charitable organizations are usually greater. Sometimes annual grants are equal to or exceed assets.

Company-sponsored foundations should be distinguished from "corporate giving programs" which are administered within the corporation. The latter may make grants for limited purposes closely associated with the interests of the corporation, although this is not always the case. The two types of giving are often coordinated under a general policy. In other cases, a private foundation bearing a name associated with a corporation may have few if any ties with the original source of funds.

### **How to research a foundation and/or corporate giving program**

Studies indicate that foundations and corporations reject many of the proposals they receive because the proposals do not fit the guidelines of the foundation or corporation. A preliminary step in researching is to be certain that foundation or corporate funding is appropriate. Be clear about your goals, the needs to be met by your project, the amount of money necessary to achieve objectives and the availability of funds from other sources. Foundation or corporate funding is not for everyone and a great deal of time, frustration and disappointment will be saved if you honestly assess your position in advance.

**Seek Local Support.** If you represent a small organization, or a new organization, looking for funding for a project limited to the local community, first seek local funding through your own local constituency, community support and neighborhood business donations. Keep in mind that a foundation and most corporations which consider funding an organization will want to see evidence of local support. Therefore, starting with community fund-raising efforts now, may help secure funding for a larger, more important project in the future.

If you are seeking funds for yourself or another individual, local support may be the most available for you. Foundation funding for individuals is

limited by legal technicalities, and most foundations do not provide direct assistance to individuals.

**The Research Process.** Doing your homework will assure that your proposal will be sent to foundations or corporations that make grants to your type of organization, in the geographic area in which you function and for your field of interest.

The Foundation Center in New York has established a network of regional foundation reference libraries around the country. We have thirteen such libraries in Michigan (see Section C for contact information). Each of these libraries has the same basic collection of information on state and national foundations and corporate giving programs, along with supplementary material on grantsmanship, fund-raising and philanthropy.

By using the resources available, you can establish a list of foundations and corporations that indicate interest in your subject area. Then, as the research continues, you will eliminate those whose limitations rule out your project. Finally, study in depth those foundations and corporations that remain on the list, and select those whose interests and grant-giving record appear closest to your needs. The book *Foundation Fundamentals* provides further insight into foundations and how best to approach them for funding.

Grant Guides serve as a beginning step to approach your study through 30 key areas of grantmaking. Descriptions of actual grants of \$10,000 or more to nonprofit organizations reflect the current interests of the listed foundations. Restrictions on their grantmaking may also appear. Recipients of grants are indexed. You can begin your list of potential funding sources with those foundations whose recent grants indicate a possible interest in your project, that are located or aware, grants in your geographic area and that have made grants in dollar amounts comparable to the amount you are seeking.

*The Foundation Grants Index Quarterly* publishes the most current data on recent grants and will lead you to additional foundations or you may eliminate some on your list after noting their restrictions. If your library provides computer searches of Dialog, it can search the Foundation Center data base for up-to-the-minute grants. Dialog can also be accessed through a home or office computer.

For comprehensive information about the largest foundations on your list, refer to the *Foundation 1000* (formerly *Source Book Profiles*). Although it includes only the 1,000 largest foundations, they account for about 60 percent of all foundation grant dollars. In addition to analysis of grants, it contains in-depth information about foundations: their trustees and staff, fiscal data, history, publications, policies and application procedures.

Continuing the process of eliminating inappropriate foundations, search *The Foundation Directory*. It describes foundations, including corporate foundations, with assets of over \$2 million or annual grants of \$200,000. These 6,300 of the largest foundations also award 92 percent of all U.S. grant dollars. Included is current information on 1,000 corporate foundations. This directory contains a statistical breakdown of the foundation community by geography, assets and grants.

*The Foundation Directory, Part 2* includes the next largest group of foundations, those with grant programs between \$50,000 - \$200,000. Complete coverage is provided on 4,200 foundations.

Finally, turn to the *Guide to U.S. Foundations.- Their Trustees, Officers and Donors* for foundations too small to be listed elsewhere. It includes all currently active U.S. grantmaking foundations, about 34,000. It is possible to pinpoint small foundations by city, identify foundations that issue annual reports, and obtain their employer identification number to order IRS returns.

**National Directories of Grants to Individuals.** About 2,275 foundations that conduct ongoing grant programs for individuals are included in *Foundation Grants to Individuals*. Individuals receive grants of \$2,000 or more from them each year. Research can be done by subject, type of support, geography, company-related grants and specific educational institutions. General welfare and medical assistance are included, as well as scholarships, loans, prizes and travel grants. Program limitations are described.

Having done your homework, you should have an accurate list of potential funding prospects. While this research is time-consuming, the foundations you select will know that much effort has gone into matching their interests and your needs. Because foundation funds are limited, the more research you do at the start, the better your chances of competing for the available funds.

## The Proposal Process

**Advice from a Foundation Program Officer.** Remember that the business of foundations is to give away money to qualified organizations for the purposes approved by the foundations' board of trustees. To carry out their charitable mission, foundations need good ideas—good projects effectively presented in written proposals from nonprofit organizations. Foundations need nonprofit's problem-solving skills and ability as much as nonprofits need foundation financial support.

The process through which foundations award grants varies greatly. However, the basics of the proposal process are the same whether for community foundations, corporate foundations or independent foundations. Understanding both sides of the process, i.e. how a nonprofit requests funds and what the foundation's perspective is, will improve your proposal and the likelihood of foundation support. Conversely, it will also help you realistically assess your chances and make decisions about whether or not to apply for a grant in the first place.

The proposal process has four essential phases: 1) Pre-Proposal Preparation, 2) The Proposal, 3) The Grant Decision, and 4) the Grant's Execution. Think through all four phases relative to your idea before writing and submitting the proposal.

### **Pre-Proposal Preparation**

Assess how attractive your organization is as a grantee or grant recipient. Your organization's need for funding has nothing to do with it.

Grants are made to qualified, tax-exempt organizations under Federal (not state) law, since foundation taxes and potential penalties are assessed by the Federal government. "Tax-exempt" refers to Section 501(c)(3) of the Internal Revenue Code and to its classification that an organization is not a private foundation as defined under Section 509(a). Evidence of tax exemption must be provided with the proposal. Make sure it is current information and that the name on the Treasury Department's letter is the same as that on your organization's letterhead.

Foundations are permitted to make grants to individuals or to non501(c)(3) organizations to carry out charitable activities. However, few foundations do so since the Internal Revenue Service requires them to exercise special "expenditure responsibility" over such grants. The few foundations that do make grants directly to individuals usually have special programs for this purpose.

Foundations try to ensure the program to be funded will be successful. Therefore, foundations scrutinize all of the indicators which help determine whether an organization is stable, has a strong board of directors, has adequate finances and related oversight, and, perhaps most importantly, has the capacity to successfully operate the proposed program.

The proposal writer must know the nonprofit organization well and be able to succinctly summarize its history, operations, mission and sources of revenue. Organizational problems which may detract from credibility or ability to fulfill the program should be briefly addressed, not ignored, in the written proposal.



Clearly define the purpose of your funding request before researching foundations. Without a clear purpose, it is much more difficult to assess the likelihood of a particular foundation's interest. A foundation looks at the grant's purpose as well as the organization requesting the funds to determine whether a proposal fits within its funding guidelines and priorities. A foundation's program and geographic areas are usually published in its annual report and/or printed guidelines. Make sure your proposal's purpose fits the foundation both programmatically and geographically. Learn what grants the foundation made in the past, which are listed in its annual report or Form 990 PF (available at Foundation Center Regional Libraries and some Cooperating Collections). But there is no guarantee that similar grants will be made in the future.

*The Directory* is a great place to begin foundation research, but always try going directly to the foundation for a copy of its latest annual report or guidelines. Foundations are subject to change. Follow the guidelines or the request may be denied on a technicality or not considered at all. If your program or organization doesn't fit the foundation's stated interests, it is a waste of time to send a proposal. It might even detract from your organization's credibility.

Don't send the same proposal to every foundation on your list. Tailor each request. "Tailor" means knowing whom to address the request at the foundation, understanding required information about the foundation's areas of interest, and then focusing your proposal to meet the foundation's funding priorities. In some cases, a foundation might completely fund your program. However, in many cases, you may want to ask different foundations to support different aspects or components of your program. Some are more willing to provide grants for furniture or computer equipment. Others emphasize support for construction and renovation of facilities. Still others limit their support to actual delivery of specific human services.

Remember that foundation people exchange information about proposals and grantees, just as you exchange information about potential grantors with other nonprofits.

Start with foundations close to home. These will be more concerned with local organizations and problems than large foundations with programs. Generally, the latter are looking for program swith national significance and solutions to problems which can be applied elsewhere. And local foundations generally have made a much larger investment in your community over time than national foundations.

If requested, contact the foundation as described in the *Directory* to determine whether your assessment is on target. Some foundations will respond to a letter of inquiry or discuss it at a meeting or over the phone.

## The Proposal

There are many books and articles about how, to write proposals which can be helpful. Some foundations have specific formats to follow, some do not. Nearly 50 Michigan grantmakers use the Council of Michigan Foundations' Common Grant Application Form which can be found at the end of this section. Proposals can be elaborate or simply written in letter form. In any event, brief, tightly written proposals are preferred. But be sure to include all the information requested in a foundation's guidelines. If something isn't applicable, say so and why not. Organize the proposal logically or follow the outline of the required information as contained in the guidelines.

Prepare a budget which is clear. Don't include an administrative charge for items already accounted for in the budget. Don't inflate the budget, but then don't underestimate the costs involved either. If the grant is awarded, your organization will have been set up for failure.

Avoid jargon, and define terms. Don't assume the foundation knows anything about your organization. Include a brief history, since foundations will not investigate to learn more about it.

Proposals not only ask for a grant, but they build the case for awarding one to your organization. State why the organization is qualified to conduct the program, what long-lasting results will come of it, how the grant funds will be spent, the organization's past successes with similar efforts and the expertise of the staff. Be sure to document any claims made; superlatives are ineffective.

Don't send a "shopping list" of needs and ask the foundation to choose one. You should determine the organization's priorities before sending in the proposal. Avoid emotional language or stories that do not enhance a proposal.

Emphasize how the grant program's performance will be evaluated. Evaluation should be planned from the beginning with specific data collection and analysis outlined in the proposal, Make sure the organization can complete the grant's program and also document its performance.

Foundations do not want to support a program over a long period nor do they want grantees to become dependent upon foundation funding. Foundations want to know how the program or purpose will be funded when the grant concludes. "Increased fund raising" is insufficient. List specific sources of future revenue or those likely to give to continue the program.

### The Grant Decision

As you know, many more proposals are denied than granted by any foundation. However some grant requests may be deferred for a future decision. Some grants are awarded for a lesser or greater amount than originally requested.

Letters of denial may not state specifically why a proposal was denied. It can be helpful to find out why, and some foundations will tell you in detail. However, it is rarely because there was something “Wrong” with the proposal which if fixed would then result in a grant. Usually proposals are declined because: a) the foundation’s grant budget was insufficient, b) the program or purpose wasn’t a priority or c) the organization lacked capacity to carry out the proposal.

The letter of award will include the foundation’s conditions and expectations. Prompt acknowledgment on receipt of the grant is appreciated. You or an officer of the organization may be asked to complete a grant contract confirming its tax-exempt status, the purpose for which the money will be used, and that the organization will refrain from activities which jeopardize its tax-exempt status. If the agreement is not adhered to, the foundation will ask for the grant’s return. Many foundations today also reserve the right to audit your financial records on a project.

If the proposal was declined, persevere, but not against all odds. Your organization may not be ready for a foundation grant. The more you know about the foundation community and your organization, the better you can identify the best foundation prospects. Add the foundation to your mailing list for reports and newsletters - it’s an easy way to keep them informed and aware of your organization’s work for the next application.

### **The Grant’s Execution**

During the period of the grant, the organization is responsible for ensuring that every effort is made to conduct the program as outlined in the proposal. However, changes may be necessary. If so, contact the foundation and let them know of problems. They will appreciate knowing earlier rather than later. The foundation will be very interested in the program’s progress. Send periodic reports. Send copies of any publicity about the program, particularly if it mentions the foundation. Don’t let the next time you submit another proposal be the next time they hear from you.

A full evaluation and accounting of the funds’ use are due to the foundation at the close of the grant period. Future plans for the program and how the organization plans to build upon progress made during the grant involve the foundation further and reinforce the wisdom of the original grant decision. Let the foundation know if other organizations are interested in your programs.

A word about directly contacting foundation trustees: although it may be appropriate to directly contact trustees of family foundations and foundations which serve as extensions of the donor’s personal philanthropy, it is not so with large independent foundations. Trying to influence trustees can even

have an adverse effect on your proposal. Professional staff are employed to communicate with potential grantees. They will help you as much as they can.

## **Conclusion**

The proposal process and the grant decision are not mysterious. Each foundation does its best to serve its community within the framework of its mission and funding guidelines. By knowing more about a grant's complete cycle, you will understand what foundations look for in terms of form and content. However, the original, creative idea of the proposal, is still up to you. Foundation grant decisions are made in many different ways but never in a vacuum. Your proposal competes in a "marketplace of ideas." The proposal will ultimately succeed or fail on its own merits.

## **Typical Questions A Foundation Might Ask**

The following questions are those actually used by a Michigan foundation staff member and trustee considering a grant request. Perhaps the questions will be helpful to grantseekers preparing a grant proposal.

1. Appropriateness of the project for the Foundation: Is the project consonant with the Foundation's Charter and Philosophy? Is the project consonant with the Foundation's current program objectives?
2. Assurance of Treasury Department and IRS Requirements: Does the organization meet applicable Treasury and IRS requirements for funding?
3. Defense of why this plan is needed: Why aren't others now meeting need? Can they?

Will they? Would they if funds were available? If a new organization is proposed, is it required or is the function adequately performed by others? *If* others are performing a similar function, or parts of the proposed function, how does the proposed function differ and why is the difference important? Do we have a short state-of-the-art synopsis of related work done by others in the field addressed by the proposal?

4. Importance and utility of the venture to the community or to society: Is there a demonstrable need for the project?

Whom will the project benefit and how? Is it based on ethical and moral premises? Will there be a measurable improvement if the venture is successful? Will harm be done if it fails? Will the project add an undesirable financial burden to the community or state?

5. Originality and creativity of the proposed venture: is the project already a part of any other existing program? Does the project duplicate or overlap other existing or past programs? Is it new and innovative? Alternatively, does it help conserve beneficial programs that might other-

wise atrophy or be lost? Could the project be carried out better elsewhere or by other persons? Does it eliminate vs. treat a problem? Is it for other than continuing, long-range maintenance?

6. Prospects for leverage and pattern-making effects: Will the project draw in other financial support (if needed)? Will the project produce significant changes in a wider circle? Will the results be transferable to other projects and localities?

7. The Trustees and Staff.

- a. Lists
  - A list of Trustees or Directors and Staff.
  - Biography or curriculum vitae for each individual.
  - An organization plan with brief position description.
- b. Dedication and Commitment
  - Will the Trustees give necessary and dedicated guidance?
  - Are the top people heavily involved?
  - Did the request come from a top individual?
  - Was the request well done and personally tailored to our Foundation?
  - Are the Staff vitally tied to the success of the project?
  - Is it their major professional occupation?
- c. Competence
  - Expertise of the Trustees
  - Knowledge, training, experience, ability of the staff.
  - Does the request itself indicate a plan showing the necessary competence to achieve the project goals?
- d. Cooperation
  - Have they consulted and cooperated with established agencies in the same or related fields?
- e. Integrity
  - Do we highly regard the integrity of the people?
  - Do we highly regard the integrity of all aspects of the operation?
- f. References
  - Do they defend the qualifications of the individuals as being adequate to achieve the project goals and specific task assignments?
  - Are there sufficient quality references from quality sources?
  - Are outside solicited opinions needed on the qualifications of the Trustees and Staff?
- g. Overall Personnel Rating
  - Can we rate the Trustees and Staff as definitely adequate?
  - Can we rate the Trustees and Staff among the best of all possible groups to undertake this project?

8. Financial Planning:

- a. Budgets submitted.

- LAST YEAR'S financial statement, including a balance sheet, income and expenses.
- Is the last year's financial statement audited by an independent CPA?
- Is the last year's financial statement audited by a person of adequate financial knowledge and personal integrity?
- THIS YEAR'S board-approved budget.
- NEXT YEAR'S tentative budget.
- b. Soundness and quality of the budgets.
  - Are the budgets well-organized, conforming to generally accepted accounting principles?
  - Are the budgets adequate for the job to be accomplished, but not excessive?
  - Is there evidence in the budgets of an adequate level of fiscal ability and responsibility?
  - Have contingencies been carefully planned?
- c. Report on funds pledged to date.
  - What public agencies are supporting? How much?
  - If not, why not? Have all possible agencies been approached?
  - What private sources are supporting? How much?
  - Is the Foundation the last possible source of help?
  - Will a grant from the Foundation bring matching grants?
  - A statement of sources and amounts of aid for the last three years.
- d. Time and Liquidation Planning.
  - Is this a one-time grant?
  - Will the project need Foundation support for less than five years at maximum? How many years?
  - Does the project plan realistically project eventual self support or support from sources other than the Foundation?

9. Provision for project evaluation: Where the project lends itself to statistical evaluation, has provision been made for recording and analyzing relevant data? Where necessary, has appropriate evaluation advice been sought? How will the Staff be able to recognize success? How can relative degrees of success be objectively measured?

10. Feasibility and realism of the proposal: Is the time right for the endeavor? Is the action proposed adequate to the problem addressed? Is the sponsoring agency or institution clearly enthusiastic about the substance of the proposal?

Are the proposed facilities, financing, and staffing sufficient but not excessive for the job? Have they submitted endorsement letters from recognized authorities?

## Getting Money From Individuals

By Bill Somerville

There seem to be seven major reasons why individuals give philanthropic funds and it is important to understand them if one wants to solicit money from people.

- (1) **Emotion.** My wife died in that hospital. My husband died of cancer. Thus there is a motivation to give to these two entities, i.e., the hospital, American Cancer Society.
- (2) **It sounds good.** The public relations person's job is to make programs sound good and all mail solicitations depend on this. Success is a factor in making something sound good.
- (3) **Recommendation.** There is an axiom in philanthropy that "people give to people, they don't give to things." You trust someone, they recommend a charity, you give to it.
- (4) **Prestige.** People enjoy recognition for their giving.
- (5) **Tax consideration.** Donors usually get a tax deduction for their philanthropic giving and for persons who are wealthy, this factor is significant in advice given by financial counselors.
- (6) **Coercion.** "Last year we had 100 percent contributions by the employees and we hope for the same this year." "When we pass the plate, we hope everyone will be generous in their support." Mild-and-not-so-mild encouragement for the donor.
- (7) **Default.** There is nothing more appealing, so why not give to this?

An important point to understand is the difference between soliciting funds from an individual and soliciting funds from an institution, such as a foundation. None of the aforementioned seven reasons apply (or should apply) to institutional givers. It is not their money. They are professional staff. Their job is to be objective.

It is interesting to note that none of the seven reasons refers to the needs for your funds by the charity or the worth of the charity to deserve your support. Thus, individual giving deals more in gifts not grants.

A grant is money given by an institutional entity (usually) with a clear expectation of a return for the philanthropic investment, i.e., an agreement which is referred to as a proposal. A gift is money given by an individual "with all best wishes."

Sometimes institutional entities can be approached as if they were individuals. Cases in point would include an unstaffed foundation that has one or two family members in charge, a corporation for which the president

decides what to give to. But generally those seeking funding support would be well advised to understand the difference between individuals and institutions.

One last thought on this subject. Recognition by you to the source of support should vary according to that source. For example, it is inappropriate and not recommended to give institutional donors plaques, certificates or trinkets. A thoughtful letter of thanks with documenting pictures is fine. For an individual donor, do whatever you think would be appropriate. (I would recommend a thoughtful letter and a serious invitation to visit your program.)



**FORM BOOK**  
**For Development of**  
**Tax-Exempt Community Foundations**

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Prepared For Lilly Endowment, Inc.  
Baker & Daniels  
May 1992

## Preface

The following commentary and sample forms for the development of tax-exempt community foundations were prepared by Baker & Daniels at the request of the Lilly Endowment, Inc. The purpose of the commentary and sample forms is to assist Indiana community foundations in their development efforts. The commentary and sample forms are not intended to address every issue or question that may confront a developing community foundation. Before adopting or implementing any sample form, a foundation should consult its own legal counsel.

## Development of Tax-Exempt Community Foundations

After a community foundation has established and obtained its exemptions from federal and state income tax and its determination of public charity status, it typically focuses on development activities. To begin that process, the foundation should create a standard set of forms to establish funds and effect transfers of gifts to the foundation from individuals, corporations, trustee banks and other organizations. The foundation's standard forms should be used in most situations. Forms specially tailored to each gift may be attractive to the donor at the time of the gift, but provisions in such forms may be very difficult to administer on a long-term basis. The foundation should particularly strive to maintain uniformity in all transfer documents and agreements as respects provisions dealing with investment policies and procedures, accounting, reporting and legal and tax considerations.

Following this discussion is a set of six sample standard forms. These sample forms are suggestions only and should be carefully evaluated by the foundation's legal counsel. Their purpose is to provide sample language for the foundation to use to develop its own forms.

The forms are prepared for gifts made directly to the foundation. The foundation should consult its legal counsel in managing and holding foundation funds. Many provisions in these sample forms would be applicable for forms to be used if trustee banks are involved.

In addition to devising a standard set of forms, the foundation should consider, among other things, the following issues and matters:

1. What will the foundation's policy be with respect to the types of property it will accept? Cash and publicly traded stock are preferable. Qualified appraisals will need to be obtained for other types of property. Moreover, the foundation will need to determine whether IRS Forms 8283 and 8282 need to be filed with respect to noncash gifts. In addition, the Internal Revenue Service is considering proposals that would require organizations eligible to receive tax-deductible contributions to provide additional information respecting charitable contributions they receive. The progress of these proposals should be monitored by the foundation.
2. The foundation should determine what, if any, liabilities it would assume by accepting certain gifts of property. Before real estate gifts are accepted, the environmental liability risks should be assessed. The foundation should also be careful about assuming or taking property

subject to existing obligations of donors, e.g., mortgages and leases. By assuming such obligations, the foundation could subject itself to unrelated business income tax (debt-financed income) and possible loss of component part status for the fund to which the encumbered property was contributed. The foundation should accept closely held stock and partnership interests, general or limited, only after a careful evaluation of the relevant tax issues has been performed. Finally, the foundation should generally ensure that gifts of property can be converted quickly into assets on which the foundation can earn a reasonable rate of return.

3. The sample forms contemplate that additional contributions to funds may be made after they are established. It is possible that some donors may not want additional contributions to be made to funds they establish. The forms can be modified to prohibit additional contributions.
4. The foundation should ensure that all activities of the foundation and all purposes for which funds are established are exclusively charitable and educational in nature within the meaning of Code sections 501(c)(3) and 170(c)(2)(B).
5. The foundation should work with its investment counselors to develop investment policies for the foundation's funds. It is generally preferable for the foundation to make investment decisions unilaterally. Moreover, the foundation should have ultimate control over the investment of the foundation's assets. There may be situations, however, where a donor will insist on the ability to advise the foundation regarding the investment of the assets contributed by the donor to the foundation. The foundation should evaluate therefore whether it wants to offer investment options to donors and founding contributors. Offering investment options would make the administration and management of the foundation's investments more complicated and would likely require a degree of asset segregation. Accordingly, investment options should probably not be offered in the standard set of forms.

6. It will be important for the foundation at work with its accountants to develop procedures for allocating principal and income of the foundation among the various foundation funds. The following forms in paragraph 8 articulate as succinctly as possible a procedure for making such allocations. These provisions should be reviewed with care and modified as required to meet the needs and objectives of the foundation.
7. The foundation should strive to develop its endowment funds. Consequently, with the exception of the advised pass-through fund agreement form, the sample forms do not provide for the expenditure of principal, but only income earned from fund assets. There may be situations where the foundation or a donor will want the ability to expend principal for charitable and educational purposes. If the foundation wishes to have flexibility in a particular fund as respects the expenditure of principal, such language should be included in the agreement establishing the fund. In addition, the foundation should consider whether it desires to be able to expend the realized or unrealized net appreciation of the principal in a fund. IC 30-2-12 provides that a governing board of a charitable organization having an endowment fund with a fair market value of at least \$10 million may expend the net appreciation, realized or unrealized, of the endowment fund, subject to certain fiduciary standards set forth in the statute, unless the gift instrument specifically indicates that net appreciation may not be expended. Such a restriction may not be implied from a designation of a gift as an endowment, or from a direction or authorization in the gift instrument to use only income, interest, dividends, rents, issues or profits or to preserve the principal intact, or a similar direction. Except for the advised pass-through fund agreement form, the form documents that follow provide that net appreciation may not generally be expended. The foundation should carefully evaluate whether this provision is acceptable to it.
8. With respect to contributions in the form of transfers of funds currently held by trustee banks, many of which funds may be held in trusts having private

foundation status, the trustee bank and the foundation should carefully evaluate the trust indenture establishing the trust or fund to determine whether there are restrictions on the ability of the trustee bank to transfer the assets from the trust or fund to the foundation. If such restrictions are present, it may be necessary for the trustee bank to seek authority for the transfer from the court under Indiana's *cy pres* laws. The *cy pres* statutes are contained in IC 30-4-3-26 and 27. In addition, the trustee bank should carefully evaluate the Code section 507 issues relating to substantial transfers of private foundation assets to other organizations before such transfers are made. This evaluation is particularly important if the foundation has been a public charity for less than five years.

9. Most community foundations are public charities described in Code section 170(b)(1)(A)(vi). If the foundation is such a public charity, it should have its accountant or tax counsel regularly review its public support percentages to ensure that the foundation keeps such percentages high enough to maintain its public charity status. The requirements for maintaining such status are generally found in Treasury Regulations section 1.170A-9(e). A number of large grants or transfers to the foundation can have a serious negative impact on the foundation's public support percentage. The foundation, therefore, should prepare projections of its public support percentage based upon anticipated contributions so that the timing of large gifts can be planned to avoid jeopardizing the foundation's public support percentage. Moreover, the future investment income earned from such large gifts also will negatively affect the foundation's percentages. This factor should therefore also be considered. If the foundation's public charity status would be endangered by a particularly large gift or transfer, the foundation should determine whether the gift or transfer would qualify as an unusual grant under Treasury

Regulations section 1.170A-9(e)(6)(ii) and accordingly be eligible for complete exclusion from the public support percentage calculations.

10. The foundation may encounter a trustee bank that wishes to retain legal title to the assets in a particular private foundation trust while at the same time having that trust be considered part of the foundation. The foundation and its tax counsel should therefore become familiar with the component part or single entity tax regulations, which are contained in Treasury Regulations section 1.170A-9(e)(10)-(14). These regulations provide for single entity treatment for community foundations organized in the form of multiple trusts. If these regulations are not complied with, the various trusts that comprise a community foundation could be considered separate private foundations. Compliance with these regulations will result in a donor's being able to treat a contribution to a component fund of the foundation as a contribution to a public charity, rather than a private foundation. Moreover, the various trusts will not need to file separate tax returns. One tax return can be filed for the foundation that will cover all of its component part funds. In this regard, Revenue Ruling 77-333, 1977-2 C.B. 75 and Revenue Ruling 77-334, 1977-2 C.B. 77 should be consulted. Please note that these regulations and rules are technical and complex and therefore the foundation should generally encourage direct and outright contributions or transfers of assets to the foundation.
11. An excellent secondary source providing information regarding the legal and tax rules relevant to community foundations is Christopher R. Hoyt's *Legal Compendium for Community Foundations*, which was revised and issued in 1996 by the Council on Foundations. Although this Legal Compendium is very instructive, it should not be a substitute for advice from the foundation's attorneys.

## Fund Agreements

### Discretionary Endowment Fund Agreement

A Discretionary Endowment Fund is typically established to provide support from income earned on the Fund's assets for general charitable and educational purposes and activities at the discretion of the foundation. It can serve as the Fund for the unrestricted gifts to the foundation.

**DISCRETIONARY ENDOWMENT FUND AGREEMENT  
BETWEEN  
COMMUNITY FOUNDATION OF \_\_\_\_\_ COUNTY, INC.  
AND \_\_\_\_\_**

**THIS AGREEMENT**, made and entered into on \_\_\_\_\_, 19\_\_\_\_, by and between COMMUNITY FOUNDATION OF \_\_\_\_\_ COUNTY, INC. (the "Foundation"), and \_\_\_\_\_ (hereinafter referred to as the "Founding Contributor"),

**WITNESSETH:**

**WHEREAS**, the Founding Contributor desires to create a charitable discretionary endowment fund in the Foundation; and

**WHEREAS**, the Foundation is a nonprofit Michigan corporation exempt from taxation under Internal revenue Code ("Code") section 501(c)(3), a public charity described in section 170(b)(1)(A)(vi) of the Code, and accordingly an appropriate institution within which to establish such a charitable endowment; and

**WHEREAS**, the Foundation is willing and able to create such an endowment as a Discretionary Endowment Fund, subject to the terms and conditions hereof;

**NOW THEREFORE**, the parties agree as follows:

**1. NAME OF THE FUND.** There is hereby established in the Foundation, and as a part thereof, a discretionary endowment fund designated as \_\_\_\_\_ (hereinafter referred to as "the Fund") to receive gifts, in whatever form of money or property, and to administer the same.

**2. PURPOSE.** The primary purpose of the Fund shall be to provide support to charitable organizations as directed by the Foundation's Board of Directors.

**3. GIFTS.** The Founding Contributor hereby transfers irrevocably to the Foundation the property described on the attached Exhibit A to establish the Fund. Subject to the right of the Foundation to reject any particular gift, any person whether an individual, corporation, trust, estate or organization (hereinafter referred to as "Donor") may make additional gifts to the Foundation of property acceptable to the Foundation in whole or in part for the Fund. All gifts, requests and devises to this Fund shall be irrevocable once accepted



by the Foundation.

**4. DISTRIBUTION.** The annual earnings allocable to the Fund, net of the fees and expenses set forth in paragraph 11, shall be committed, granted or expended for purposes described in Code section 170(c)(2)(B) to organizations described in sections 509(a)(1), (2), or (3). The net appreciation of Fund principal, realized or unrealized, may not be committed, granted or expended, except as otherwise provided herein. If any gifts to the Foundation for the purposes of the Fund are received and accepted subject to a Donor's conditions or restrictions as to the use of the gift or income therefrom, said conditions or restrictions will be honored, subject, however, to the authority of the Foundation's Board of Directors (hereinafter "the Board") to vary the terms of any gift if continued adherence to any condition or restriction is in the judgment of the Foundation's Board of Directors unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served by the Foundation. No distribution shall be made from the Fund to any individual or entity if such distribution will in the judgment of the Foundation endanger the Foundation's Code section 501(c)(3) status.

**5. ADMINISTRATIVE PROVISIONS.** Notwithstanding anything herein to the contrary, the Foundation shall hold the Fund, and all contributions to the Fund, subject to the provisions of the applicable Michigan laws and the Foundation's Articles of Incorporation and Bylaws. The Board shall monitor the distribution of the Fund, and shall have all powers of modification and removal specified in United States Treasury Regulations Section 1.170A-9(e)(11)(v)(B).

The Board agrees to provide the Founding Contributor and any Donor that has contributed to the Foundation at least \$10,000, a copy of the annual examination of the finances of the Foundation as reported upon by independent certified public accountants.

**6. CONDITIONS FOR ACCEPTANCE OF FUNDS.** The Founding Contributor and Donors agree and acknowledge that the establishment of the Fund herein created is made in recognition of, and subject to, the terms and conditions of the Articles of Incorporation and Bylaws of the Foundation as from time to time amended, and that the Fund shall at all times be subject to such terms and conditions, including but not by way of limitation, provisions for:

- (a) Presumption of Donors' intent;
- (b) Variance from Donors' direction;
- (c) Amendments.

**7. CONTINUITY.** The Fund shall continue so long as assets are available in the Fund and the purposes in the Fund can be served by its continuation. If the Fund is terminated, the Foundation shall devote any remaining assets in the fund exclusively for charitable purposes that:

- (a) are within the scope of the charitable purposes of the Foundation's Articles of Incorporation; and,

(b) most nearly approximate, in the good faith opinion of the Board, the original purpose of the Fund.

**8. NOT A SEPARATE TRUST.** The Fund shall be a component part of the Foundation. All money and property in the Fund shall be held as general assets of the Foundation and not segregated as trust property of a separate trust; provided that for purposes of determining the share of the Foundation's earnings allocable to the Fund and the value of the principal of the Fund, the interest of the Fund in the general assets of the Foundation shall be a percentage determined by dividing the gift to the Fund by the then value of the total assets of the Foundation, such percentage interest being subject to adjustment at the time of each addition to or reduction of the assets of the Foundation.

**9. ACCOUNTING.** The receipts and disbursements of this Fund shall be accounted for separately and apart from those of other gifts to the Foundation.

**10. INVESTMENT OF FUNDS.** The Foundation shall have all powers necessary, or in its sole discretion desirable, to carry out the purposes of the Fund, including, but not limited to, the power to retain, invest and reinvest the Fund and the power to commingle the assets of the Fund with those of other funds for investment purposes.

**11. COSTS OF THE FUND.** It is understood and agreed that the Fund shall share a fair portion of the total investment and administrative costs of the Foundation. Those costs annually charged against the Fund shall be determined in accordance with the then current fee schedule identified by the Foundation as applicable to funds of this type. Any costs to the Foundation in accepting, transferring or managing property donated to the Foundation for the Fund shall also be paid from the Fund.

**IN WITNESS WHEREOF,** the Founding Contributor has executed this Agreement and the Foundation has caused this Agreement to be approved by its Board of Directors and to be executed by a duly authorized officer, all as of the day and year first above written.

FOUNDING CONTRIBUTOR

\_\_\_\_\_

COMMUNITY FOUNDATION OF \_\_\_\_\_  
COUNTY, INC.

By \_\_\_\_\_  
President

## Designated Endowment Fund Agreement

A Designated Endowment Fund Agreement is typically established to provide support from income earned on the Fund assets for one or more particular public charities, e.g., the local art museum, symphony or hospital. The foundation should have ultimate control over the Fund.

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### DESIGNATED ENDOWMENT FUND AGREEMENT BETWEEN

COMMUNITY FOUNDATION OF \_\_\_\_\_ COUNTY, INC.

AND \_\_\_\_\_

**THIS AGREEMENT**, made and entered into on \_\_\_\_\_, 19\_\_, by and between COMMUNITY FOUNDATION OF \_\_\_\_\_ COUNTY, INC. (the "Foundation"), and \_\_\_\_\_ (hereinafter referred to as the "Founding Contributor),

#### WITNESSETH:

**WHEREAS**, the Founding Contributor desires to create a charitable designated endowment in the Foundation; and

**WHEREAS**, the Foundation is a nonprofit Michigan corporation exempt from taxation under Internal Revenue Code ("Code") section 501(c)(3), a public charity described in section 170(b)(1)(A)(vi) of the Code, and accordingly an appropriate institution within which to establish such a charitable endowment; and

**WHEREAS**, the Foundation is willing and able to create such an endowment as a Designated Endowment Fund, subject to the terms and conditions hereof;

**NOW THEREFORE**, the parties agree as follows:

**1. NAME OF THE FUND.** There is hereby established in the Foundation, and as a part thereof, a fund designated as \_\_\_\_\_ (hereinafter referred to as "the Fund") to receive gifts, in whatever form of money or property, and to administer the same.

**2. PURPOSE.** The primary purpose of the Fund shall be to provide support to ( \_\_\_\_\_ a Code section 501(c)(3) organization) to carry out its role and mission as desired by its governing documents.

**3. GIFTS.** The Founding Contributor hereby transfers irrevocably to the Foundation the property described on the attached Exhibit A to establish the Fund. Subject to the right of the Foundation to reject any particular gift, any person whether an individual, corporation, trust, estate or organization (hereinafter referred to as "Donor") may make additional gifts to the Foundation for the purposes of the fund by a transfer to the Foundation of property acceptable to the Foundation in whole or in part for the Fund. All gifts, bequests and devises to this Fund shall be irrevocable once accepted by the Foundation.

**4. DISTRIBUTION.** The annual earnings allocable to the Fund, net of the fees and expenses set forth in paragraph 11, shall be committed, granted or expended for purposes described in Code section 170(c)(2)(B) to organizations described in 509(a)(1), (2), or (3). The net appreciation of Fund principal, realized or unrealized, may not be committed, granted or expended, except as otherwise provided herein. If any gifts to the foundation for the purposes of the Fund are received and accepted subject to a Donor's conditions or restrictions as to the use of the gift or income therefrom, said conditions or restrictions will be honored, subject, however, to the authority of the Foundation's Board of Directors (hereinafter "the Board") to vary the terms of any gift if continued adherence to any condition or restriction is in the judgment of the Foundation's Board of Directors unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served by the Foundation. No distribution shall be made from the Fund to any individual or entity if such distribution will in the judgment of the Foundation endanger the Foundation's Code section 501(c)(3) status.

**5. ADMINISTRATIVE PROVISIONS.** Notwithstanding anything herein to the contrary, the Foundation shall hold the Fund, and all contributions to the Fund, subject to the provisions of the applicable Michigan laws and the Foundation's Articles of Incorporation and Bylaws. The Board shall monitor the distribution of the Fund, and shall have all powers of modification and removal specified in United States Treasury Regulations Section 1.170-9(e)(11)(v)(B).

The Board agrees to provide the Founding Contributor and any Donor that has contributed to the Foundation at least \$10,000, a copy of the annual examination of the finances of the Foundation as reported upon by independent certified public accountants.

**6. CONDITIONS FOR ACCEPTANCE OF FUNDS.** The Founding Contributor and Donors agree and acknowledge that the establishment of the Fund herein created is made in recognition of, and subject to, the terms and conditions of the Articles of Incorporation and Bylaws of the Foundation as from time to time amended, and that the Fund shall at all times be subject to such terms and conditions, including but not by way of limitation, provisions for:

- (a) Presumption of Donors' intent;
- (b) Variance from Donors' direction;
- (c) Amendments.

**7. CONTINUITY.** The Fund shall continue so long as assets are available in the Fund and the purposes in the Fund can be served by its continuation. If the Fund is terminated, the Foundation shall devote any remaining assets in the Fund exclusively for charitable purposes that:

- (a) are within the scope of the charitable purposes of the Foundation's Articles of Incorporation;

(b) most nearly approximate, in the good faith opinion of the Board, the original purpose of the Fund.

**8. NOT A SEPARATE TRUST.** The fund shall be a component part of the Foundation. All money and property in the Fund shall be held as general assets of the Foundation and not segregated as trust property of a separate trust; provided that for purposes of determining the share of the foundation's earnings allocable to the Fund and the value of the principal of the Fund, the interest of the Fund in the general assets of the Foundation shall be a percentage determined by dividing the gift to the Fund by the then value of the total assets of the Foundation, such percentage interest being subject to adjustment at the time of each addition to or reduction of the assets of the Foundation.

**9. ACCOUNTING.** The receipts and disbursements of this Fund shall be accounted for separately and apart from those of other gifts to the Foundation.

**10. INVESTMENTS OF FUNDS.** The Foundation shall have all powers necessary, or in its sole discretion desirable, to carry out the purposes of the Fund, including, but not limited to, the power to retain, invest and reinvest the Fund and the power to commingle the assets of the Fund with those of other funds for investment purposes.

**11. COSTS OF THE FUND.** It is understood and agreed that the Fund shall share a fair portion of the total investment and administrative costs of the Foundation. Those costs annually charged against the Fund shall be determined in accordance with the then current fee schedule identified by the Foundation as applicable to funds of this type. Any costs to the Foundation in accepting, transferring or managing property donated to the Foundation for the Fund shall also be paid from the Fund.

**IN WITNESS WHEREOF,** the Founding Contributor has executed this Agreement and the Foundation has caused this Agreement to be approved by its Board of directors and to be executed by a duly authorized officer, all as of the day and year first above written.

FOUNDING CONTRIBUTOR

\_\_\_\_\_  
COMMUNITY FOUNDATION  
OF \_\_\_\_\_  
COUNTY, INC.

By \_\_\_\_\_  
President





## Field-of-Interest Endowment Fund

A Field-of-Interest Endowment Fund is typically established to support from income earned on the Fund's assets a specific charitable purpose, e.g., cancer research, the arts, public schools, impoverished children. The foundation should have ultimate control over the Fund.

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**FIELD-OF-INTEREST ENDOWMENT AGREEMENT  
BETWEEN  
COMMUNITY FOUNDATION OF \_\_\_\_\_ COUNTY, INC. AND**

**THIS AGREEMENT**, made and entered into on \_\_\_\_\_, 19\_\_, by and between COMMUNITY FOUNDATION OF \_\_\_\_\_ COUNTY, INC. (the "Foundation"), and \_\_\_\_\_ (hereinafter referred to as the "Founding Contributor"),

**WITNESSETH:**

**WHEREAS**, the Founding Contributor, desires to create a charitable field of interest endowment in the Foundation; and,

**WHEREAS**, the Foundation is a nonprofit Michigan corporation exempt from taxation under Internal Revenue Code ("Code") section 501(c)(3), a public charity described in section 170(b)(1)(A)(vi) of the Code, and accordingly an appropriate institution within which to establish such a charitable endowment; and

**WHEREAS**, the Foundation is willing and able to create such an endowment as a Field-of-Interest Fund, subject to the terms and conditions hereof;

**NOW THEREFORE**, the parties agree as follows:

**1. NAME OF THE FUND.** There is hereby established in the Foundation, and as a part thereof, a fund designated as \_\_\_\_\_ (hereinafter referred to as "the Fund") to receive gifts, in whatever form of money or property, and to administer the same.

**2. PURPOSE.** The primary purpose of the Fund shall be to (a purpose within the scope of Code section 170(c)(2)(B).

Further purposes of the Fund include, but are not limited to, (purpose within the scope of Code section 170(c)(2)(B).

**3. GIFTS.** The Founding Contributor hereby transfers irrevocably to the Foundation the property described on the attached Exhibit A to establish the Fund. Subject to the right of the Foundation to reject any particular gift, any person whether an individual, corporation, trust, estate or organization (hereinafter referred to as "Donor") may make additional gifts to the Foundation for the purposes of the Fund by a transfer to the Foundation of property

acceptable to the Foundation in whole or in part for the fund. All gifts, bequests and devises to this Fund shall be irrevocable once accepted by the Foundation.

**4. DISTRIBUTION.** The annual earnings allocable to the Fund, net of the fees and expenses set forth in paragraph 11, shall be committed, granted or expended for purposes described in Code section 170(c)(2)(B) to organizations described in sections 509(a)(1), (2), or (3). The net appreciation of Fund principal, expended, except as otherwise provided herein. If any gifts to the Foundation for the purposes of the Fund are received and accepted subject to a Donor’s conditions or restrictions as to the use of the gift or income therefrom, said conditions or restrictions will be honored, subject, however, to the authority of the Foundation’s Board of Directors (hereinafter “the Board”) to vary the terms of any gift if continued adherence to any condition of restrictions is in the judgment of the Foundation’s Board of Directors unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served by the Foundation. No distribution shall be made from the Fund to any individual or entity if such distribution will in the judgment of the Foundation endanger the Foundation’s Code section 501(c)(3) status.

**5. ADMINISTRATIVE PROVISIONS.** Notwithstanding anything herein to the contrary, the Foundation shall hold the provisions of the applicable Michigan laws and the foundation’s Articles of Incorporation and Bylaws. The Board shall monitor the distribution of the Fund, and shall have all powers of modifications Section 1.170-9(e)(11)(v)(B).

The Board agrees to provide the founding Contributor and any Donor that has contributed to the foundation at least \$10,000, a copy of the annual examination of the finances of the foundation as reported upon by independent certified public accountants.

**6. CONDITIONS FOR ACCEPTANCE OF FUNDS.** The Founding Contributor and Donors agree and acknowledge that the establishment of the Fund herein created is made in recognition of, and subject to, the terms and conditions of the Articles of Incorporation and Bylaws of the Foundation as from time to time amended, and that the Fund shall at all times be subject to such terms and conditions, including but not by way of limitation, provisions for:

- (a) Presumption of Donor’s intent;
- (b) Variance from Donors’ direction;
- (c) Amendments.

**7. CONTINUITY.** The Fund shall continue so long as assets are available in the Fund and the purposes in the Fund can be served by its continuation. If the Fund is terminated, the Foundation shall devote any remaining assets in the Fund exclusively for charitable purposes that:

- (a) are within the scope of the charitable purposes of the Foundation’s Articles of Incorporation; and,



(b) most nearly approximate, in the good faith opinion of the Board, the original purpose of the fund.

**8. NOT A SEPARATE TRUST.** The Fund shall be a component part of the Foundation. All money and property in the Fund shall be held as general assets of the Foundation and not segregated as trust property of a separate trust; provided that for purposes of determining the share of the foundation's earnings allocable to the Fund and the value of the principal of the Fund, the interest of the Fund in the general assets of the Foundation, such percentage interest being subject to adjustment at the time of each addition to or reduction of the assets of the Foundation.

**9. ACCOUNTING.** The receipts and disbursements of this Fund shall be accounted for separately and apart from those of other gifts to the Foundation.

**10. INVESTMENT OF FUNDS.** The Foundation shall have all powers necessary, or in its sole discretion desirable, to carry out the purposes of the Fund, including, but not limited to, the power to retain, invest and reinvest the Fund and the power to commingle the assets of the fund with those of other funds for investment purposes.

**11. COSTS OF THE FUND.** It is understood and agreed that the Fund shall share a fair portion of the total investment and administrative costs of the Foundation. Those costs annually charged against the Fund shall be determined in accordance with the then current fee schedule identified by the Foundation as applicable to funds of this type. Any costs to the Foundation in accepting, transferring or managing property donated to the Foundation for the Fund shall also be paid from the Fund.

**IN WITNESS WHEREOF,** the Founding Contributor has executed this Agreement and the Foundation has caused this Agreement to be approved by its Board of Directors and to be executed by a duly authorized officer, all as of the day and year first above written.

FOUNDING CONTRIBUTOR

\_\_\_\_\_

COMMUNITY FOUNDATION OF \_\_\_\_\_  
COUNTY, INC.

By \_\_\_\_\_

President





## Advised Fund

An Advised Fund is typically established at the request of a donor to the foundation to provide support from income earned on the Fund's assets for charitable recipients recommended by the donor or persons designated by the donor to advise the foundation. The recommendations must be advisory only and the Foundation must be free to reject any recommendation.

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**COMMUNITY FOUNDATION OF \_\_\_\_\_ COUNTY, INC.  
ADVISED FUND AGREEMENT FOR \_\_\_\_\_**

**THIS AGREEMENT**, made and entered into on \_\_\_\_\_, 19\_\_, by and between \_\_\_\_\_ (“Donor”) and Community Foundation of \_\_\_\_\_ County, Inc. (the “Foundation”),

**WITNESSETH:**

**WHEREAS**, the Donor desires to have established in the Foundation an advised fund designated \_\_\_\_\_ with respect to which the Donor can recommend recipients of charitable grants; and

**WHEREAS**, the Foundation is a nonprofit Michigan corporation exempt from taxation under Internal Revenue Code (“Code”) section 501(c)(3), a public charity described in section 170(b)(1)(A)(vi) of the Code, and accordingly an appropriate institution within which to establish such a charitable endowment; and

**WHEREAS**, the Foundation is willing and able to create such an advised fund, subject to the terms and conditions hereof;

**NOW THEREFORE**, the parties agree as follows:

**1. GIFT AND NAME OF FUND.** Donor hereby transfers irrevocably to the Foundation the property described in the attached Exhibit A to establish in the Foundation the \_\_\_\_\_ Fund. Subject to the right of the Foundation to reject any particular gift, the foundation may receive additional irrevocable gifts of property acceptable to the foundation from time to time from Donor and from any other source to be added to the Fund, all subject to the provisions hereof. All grants, bequests and devises to this Fund shall be irrevocable once accepted by the Foundation.

**2. PURPOSE.** The primary purpose of the Fund shall be to (a purpose within the scope of Code section 170(c)(2)(B)) .

Further purposes of the Fund include, but are not limited to (purposes within the scope of Code section 170(c)(2)(B)).

**3. DISTRIBUTION.** The annual earnings allocable to the fund, net of the fees and expenses set forth in paragraph 11, shall be committed, granted or expended for purposes described in Code section 170(c)(2)(B) to organizations described in sections 509(a)(1), (2), or (3). The net appreciation of Fund principal, realized or unrealized, may not be committed, granted or expended,

except as otherwise provided herein. If any gifts to the Foundation for the purposes of the Fund are received and accepted subject to a Donor's conditions or restrictions as to the use of the gift or income therefrom, said conditions or restrictions will be honored, subject, however, to the authority of the Foundation's Board of Directors (hereinafter "the Board") to vary the terms of any gift if continued adherence to any condition or restriction is in the judgment of the Foundation's Board of Directors unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served by the Foundation. No distribution shall be made from the Fund to any individual or entity if such distribution will in the judgment of the Foundation endanger the Foundation's code section 501(c)(3) status.

**4. RECOMMENDATIONS FOR DISTRIBUTION.** Subject to the Foundation's principals and procedures for advised funds, the commitments, grants or expenditures from the Fund contemplated in paragraph 3 shall be made at such time or times and in such amount or amounts as may be determined solely by the Foundation to such organizations of the type described in paragraph 3 as may be designated by the Foundation; provided, however, that Donor may from time to time submit to the Foundation the names of specified organizations described in paragraph 3 to which it is recommended that distributions be made. All recommendations from Donor shall be solely advisory, and the Foundation may accept or reject them, applying reasonable standards and guidelines with regard thereto. If Donor is married and donor's spouse does not desire to serve as an advisor, Donor's spouse is requested (but not required) to sign a Spousal Consent as an addendum to this Agreement. If both spouses sign this Agreement as Donor, each shall equally advise as to Fund distribution. After the death of Donor or the survivor of Donor and Donor's spouse, as appropriate, the Board of Directors of the Foundation shall itself serve as the advisor of the Fund.

**5. ADMINISTRATIVE PROVISIONS.** Notwithstanding anything herein to the contrary, the Foundation shall hold the Fund, and all contributions to the Fund, subject to the provisions of the applicable Michigan laws and the Foundation's Articles of Incorporation and Bylaws. The Board shall monitor the distribution of the Fund, and shall have all powers of modification and removal specified in United States Treasury Regulations Section 1.170-9(e)(11)(v)(B).

The Board agrees to provide the Donor a copy of the annual examination of the finances of the Foundation as reported upon by independent certified public accountants.

**6. CONDITIONS FOR ACCEPTANCE OF FUNDS.** Donors agree and acknowledge that the establishment of the Fund herein created is made in recognition of, and subject to, the terms and conditions of the Articles of Incorporation and By-laws of the Foundation as from time to time amended, and that the Fund shall at all times be subject to such terms and conditions,

including but not by way of limitation, provisions for:

- (a) Presumption of Donors' intent;
- (b) Variance from Donors' direction;
- (c) Amendments.

**7. CONTINUITY OF THE FUND.** The Fund shall continue so long as assets are available in the Fund and the purposes in the Fund can be served by its continuation. If the Fund is terminated, the Foundation shall devote any remaining assets in the Fund exclusively for charitable purposes that;

- (a) are within the scope of the charitable purposes of the Foundation's Articles of Incorporation; and,
- (b) most nearly approximate, in the good faith opinion of the Board, the original purpose of the Fund.

**8. NOT A SEPARATE TRUST.** The Fund shall be a component part of the Foundation. All money and property in the Fund shall be held as general assets of the Foundation and not segregated as trust property of a separate trust; provided that for purposes of determining the share of the Foundation's earnings allocable to the Fund and the value of the principal of the Fund, the interest of the Fund in the general assets of the Foundation shall be a percentage interest being subject to adjustment at the time of each addition to or reduction of the assets of the Foundation.

**9. ACCOUNTING.** The receipts and disbursements of this Fund shall be accounted for separately and apart from those of other gifts to the Foundation.

**10. INVESTMENT OF FUNDS.** The Foundation shall have all powers necessary or in its sole discretion desirable to carry out the purposes of the Fund, including, but not limited to, the power to retain, invest and reinvest the Fund and the power to commingle the assets of the Fund with those of other funds for investment purposes.

**11. COSTS OF THE FUND.** It is understood and agreed that the Fund shall share a fair portion of the total investment and administrative costs of the Foundation. Those costs annually charged against the Fund shall be determined in accordance with the then current fee schedule identified by the foundation as applicable to funds of this type. Any costs to the Foundation in accepting, transferring or managing property donated to the Foundation for the Fund shall also be paid from the Fund.

**IN WITNESS WHEREOF.** The Donor has executed this Agreement and the Foundation has caused this Agreement to be approved by its Board of Directors and to be executed by a duly authorized officer, all as of the day and year first above written.

\_\_\_\_\_  
Donor

\_\_\_\_\_  
Donor

Approved by the Board of Directors of Community Foundation of  
\_\_\_\_\_ County, Inc., on \_\_\_\_\_.

COMMUNITY FOUNDATION OF  
\_\_\_\_\_ COUNTY, INC.

By \_\_\_\_\_  
President

**Addendum**  
**Spousal Consent**

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I, \_\_\_\_\_, the spouse of \_\_\_\_\_,  
the Donor under an advised fund agreement with Community Foundation of  
\_\_\_\_\_ County, Inc. (the "Foundation"), dated  
\_\_\_\_\_, \_\_\_\_\_, hereby consent and agree that I shall have no right at  
any time to recommend to the Foundation the names of beneficiaries of distri-  
butions from the Fund that is the subject of the above-referenced agreement.

IN WITNESS WHEREOF, I have executed this Spousal Consent, this  
\_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_

## Advised Pass-Through Fund

An Advised Pass-Through Fund is typically established at the request of a donor to the foundation to provide support from Fund principal and/or income earned on the Fund's assets for charitable recipients recommended by the donor or persons designated by the donor to advise the foundation. The recommendations must be advisory only and the foundation must be free to reject any recommendation.

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### COMMUNITY FOUNDATION OF \_\_\_\_\_ COUNTY, INC. ADVISED PASS-THROUGH FUND AGREEMENT FOR \_\_\_\_\_

**THIS AGREEMENT**, made and entered into on \_\_\_\_\_, 19\_\_, by and between \_\_\_\_\_ ("Donor") and Community Foundation of \_\_\_\_\_ County, Inc (the "Foundation"),

#### WITNESSETH:

**WHEREAS**, the Donor desires to have established in the Foundation an advised pass-through fund designated \_\_\_\_\_ with respect to which the Donor can recommend recipients or charitable grants; and

**WHEREAS**, the Foundation is a nonprofit Michigan corporation exempt from taxation under Federal Revenue Code ("Code") section 501(c)(3), a public charity described in section 170(b)(1)(A)(vi) of the Code, and accordingly an appropriate institution within which to establish such a charitable endowment; and

**WHEREAS**, the Foundation is willing and able to create such an advised fund, subject to the terms and conditions hereof;

**NOW THEREFORE**, the parties agree as follows:

**1. GIFT AND NAME OF FUND.** Donor hereby transfers irrevocably to the Foundation the property described in the attached Exhibit A to establish in the Foundation the \_\_\_\_\_ Fund. Subject to the right of the Foundation to reject any particular gift, the Foundation may receive additional irrevocable gifts of property acceptable to the Foundation from time to time from Donor and from any other sources to be added to the Fund, all subject to the provisions hereof. All grants, bequests and devises to this Fund shall be irrevocable once accepted by the Foundation.

**2. PURPOSE.** The primary purpose of the Fund shall be to (a purpose within the scope of Code section 170 (c)(2)(B)).

Further purposes of the Fund include, but are not limited to (purposes within the scope of Code section 170 (c)(2)(B)).

**3. DISTRIBUTION.** The annual earnings allocable to the Fund, net of the fees and expenses set forth in paragraph 11, and principal, to the extent

expressly permitted by this Agreement or the gift instrument, shall be committed, granted or expended for purposes described in Code section 170(c)(2)(B) to organizations described in sections 509(a)(1), (2), or (3). If any gifts to the Foundation for the purposes of the Fund are received and accepted subject to a Donor's conditions or restrictions as to the use of the gift or income therefrom, said conditions or restrictions will be honored, subject, however, to the authority of the Foundation's Board of Directors (hereinafter "the Board") to vary the terms of any gift if continued adherence to any condition or restriction is in the judgment of the Foundation's Board of Directors unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served by the Foundation. No distribution shall be made from the Fund to any individual or entity if such distribution will in the judgement of the Foundation endanger the Foundation's code section 501(c)(3) status.

**4. RECOMMENDATIONS FOR DISTRIBUTION.** Subject to the Foundation principles and procedures for advised fund, the commitments, grants or expenditures from the Fund contemplated in paragraph 3 shall be made at such time or times and in such amount or amounts as may be determined solely by the Foundation to such organizations of the type described in paragraph 3 as may be designated by the Foundation; provided, however, that Donor may from time to time submit to the Foundation the names of specified organizations described in paragraph 3 to which it is recommended that distribution be made. All recommendations from Donor shall be solely advisory, and the Foundation may accept or reject them, applying reasonable standards and guidelines with regard thereto. If Donor is married and Donor's spouse does not desire to serve as an advisor, Donor's spouse is requested (but not required) to sign a Spousal Consent as an addendum to this Agreement. If both spouses sign this Agreement as Donor, each shall equally advise as to Fund distribution. After the death of Donor or the survivor of Donor and Donor's spouse, as appropriate, the Board of Directors of the Foundation shall itself serve as the advisor of the Fund.

**5. ADMINISTRATIVE PROVISIONS.** Notwithstanding anything herein to the contrary, the Foundation shall hold the Fund, and all contributions to the Fund, subject to the provisions of the applicable Michigan laws. The Board shall monitor the distribution of the Fund, and shall have all powers of modification and removal specified in United States Treasury Regulations Section 1.170A-9(e)(11)(v)(B).

The Board agrees to provide the Donor a copy of the annual examination of the finances of the Foundation as reported upon by independent certified public accountants.

**6. CONDITIONS FOR ACCEPTANCE OF FUNDS.** Donors agree and acknowledge that the establishment of the Fund herein created is made in recognition of, and subject to, the terms and conditions of the Articles of



Incorporation and By-laws of the Foundation as from time to time amended, and that the Fund shall at all times be subject to such terms and conditions, including but not by way of limitation, provisions for:

- a. Presumptions of Donors' intent;
- b. Variance from Donors' direction;
- c. Amendments.

**7. CONTINUITY OF THE FUND.** The Fund shall continue so long as assets are available in the Fund and the purposes in the Fund can be served by its continuation. If the Fund is terminated, the Foundation shall devote any remaining assets in the Fund exclusively for charitable purposes that:

- a. are within the scope of the charitable purposes of the Foundation's Articles of Incorporation.
- b. most nearly approximate, in the good faith opinion of the Board, the original purpose of the Fund.

**8. NOT A SEPARATE TRUST.** The Fund shall be a component part of the Foundation. All money and property in the Fund shall be held as general assets of the Foundation and not segregated as trust property of a separate trust; provided that for purposes of determining the share of the Foundation's earnings allocable to the Fund and the value of the principal of the Fund, the interest of the Fund in the general assets of the Foundation shall be a percentage determined by dividing the gift to the Fund by the then value of the total assets of the Foundation, such percentage interest being subject to adjustment at the time of each addition to or reduction of the assets of the Foundation.

**9. ACCOUNTING.** The receipts and disbursements of this Fund shall be accounted for separately and apart from those of other gifts to the Foundation.

**10. INVESTMENT OF FUNDS.** The Foundation shall have all powers necessary or in its sole discretion desirable to carry out the purposes of the Fund, including, but not limited to, the power to retain, invest and reinvest the Fund and the power to commingle the assets of the Fund with those of others funds for investment purposes.

**11. COSTS OF THE FUND.** It is understood and agreed that the Fund shall share a fair portion of the total investment and administrative costs of the Foundation. Those costs annually charged against the Fund shall be determined in accordance with the then current fee schedule identified by the Foundation as applicable to funds of this type. Any costs to the Foundation in accepting, transferring or managing property donated to the Foundation for the Fund shall also be paid from the Fund.

*IN WITNESS WHEREOF*, the Donor has executed this Agreement and the Foundation has caused this Agreement to be approved by its Board of Directors and to be executed by a duly authorized officer, all as of the day and year first above written.

\_\_\_\_\_  
Donor

\_\_\_\_\_  
Donor

Approved by the Board of Directors of Community Foundation of  
\_\_\_\_\_ County, Inc., on \_\_\_\_\_, \_\_\_\_.

COMMUNITY FOUNDATION OF  
\_\_\_\_\_ COUNTY, INC.

By \_\_\_\_\_  
President

## Contribution Form

The following contribution form is designed to be used to document gifts to the various established funds of the Foundation. It is not meant to be used to establish a Fund.

COMMUNITY FOUNDATION OF \_\_\_\_\_ COUNTY, INC.  
ADDRESS  
PHONE NUMBER

### CONTRIBUTION FORM

Name of the Fund \_\_\_\_\_ (the "Fund")  
Amount of Contribution \_\_\_\_\_  
Donor \_\_\_\_\_  
Address \_\_\_\_\_  
Federal Identification or Social Security Number  
\_\_\_\_\_

The Foundation (may) (may not) announce publicly the donor's name and the fact of the donor's contribution?

The Foundation (may) (may not) indicate the amount of the contribution?

Is the contribution pursuant to a pledge to the Foundation?  
YES  
NO

By signing this form, the donor acknowledges that the contribution described in the form is irrevocably made to the Foundation and that the Foundation shall add the contribution to the Fund in accordance with and subject to the terms and provisions of the agreement establishing the Fund executed on the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

Donor's Signature \_\_\_\_\_  
Date \_\_\_\_\_



# CHAPTER 5

## HOW IS A COMMUNITY FOUNDATION MANAGED ON A DAILY BASIS?

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## Management Concept

A successful community foundation is managed on a daily basis by a partnership arrangement between the board of trustees (see Chapter 3) and the employed executive staff. The often-cited myth is that the board has the responsibility of solely developing management policies and procedures for the foundation, and the staff will implement them. The reality is that both board *and* staff develop policies and procedures and both have the responsibility to implement them.

## The Board

Upon the selection of the board as presented in Chapter 3, its first responsibility should be to organize in such a way to ensure proper management of the foundation. This process is normally completed through the use of a committee structure. The most common board committees among community foundations are the following:

### Long-Range or Strategic Planning Committee

This committee often has the responsibility of developing the initial strategic plan for the foundation, which should be translated into an annual operational workplan containing specific and measurable tasks, committee and personnel assignments and corresponding time lines.

### Endowment Development Committee

This committee should take the lead in developing and implementing an effective endowment development plan. It is always the responsibility of *all* board members of a community foundation to work on fundraising.

### Executive Committee

The executive committee's purpose is to act in the name of the full board when it is not in session, or to deal with emergencies as they arise.

### Marketing Committee

This committee assists the foundation in maintaining a positive image in the community through planning for and following all public relations and publicity-related activities.

### Nominating Committee

The purpose of the nominating committee is to seek out, identify and nominate the best qualified candidates for available board positions.

### **Finance Committee**

This committee should be charged with the responsibility of developing and monitoring an appropriate investment policy and process for foundation assets and overseeing the foundation's financial accounting and reporting system.

### **Grants Committee**

This committee should develop a grant program for the foundation including a grantmaking philosophy and guidelines (See Chapter 6) and oversee the operation of the grantmaking process.

Other committees such as an executive committee, marketing committee, nominating committee, etc., are part of the structures of various community foundations. Their inclusion will depend upon the size of the board, its overall promotion plan, and the selection process of its membership. It should be noted that even though specific tasks are assigned to the respective committees, it is the responsibility of the board as a whole to approve them and participate in them where appropriate, especially in the areas of endowment development and grantmaking.

As the community foundation grows and funds are developed in areas of special interest, advisory committees are likely to be formed. For example, a field-of-interest fund for youth could be beneficially directed by a youth advisory committee. This committee could include:

- Representatives of the board of directors—you may want to consider the chair as the board representative/liaison.
- Community representatives who have expertise in the area of youth programs.
- Representation from segments of the community underrepresented on the board.
- Active and successful fundraisers who have a particular interest in this area.

A large committee structure is both an asset and a liability to an emerging and vital community foundation. Careful thought and consideration should be given to the assignment of responsibility to committees to assure their participation is meaningful and there is a true desire for their opinions and decisions. Nothing offends volunteers more than a “rubber stamp” exercise.

Advantages of committees:

- Increased participation in the community.



- Ability to find true expertise by subject or geographic area.
- Expanded participation by those who are unable to serve on the board.
- Improved ability to meet the public support test.
- “Testing ground” for prospective board members to determine their commitment and interest.
- Ability to include significant community leaders who are otherwise too busy to commit time required for board participation.
- Effective way to maintain participation of former board members whose knowledge and experience with the organization are vital.

Disadvantages of large committees:

- Labor intensive for staff who generally must do meeting notices, minutes and attendance histories.
- Board may feel useless if all decisions are made at committee level.
- Committees may feel useless if board ultimately makes decisions.
- Thorough communication among committees and board is essential to coordinate activities.
- Modest increase in operating costs for postage, xeroxing, etc.

## The Staff

Like any new business, a new community foundation should be capitalized to ensure success. This means the early employment of either a part-time or full-time staff to carry out the daily functions of the board and foundation and provide the ongoing support needed by the committees. The selection of an executive director should be done with consideration for the future development of the foundation. In other words, the board should take care to employ staff members who are willing and able to grow with the job.

The first employee need not necessarily be the executive director. Consideration may favor employing a good administrative assistant to support an actively-involved board with the commitment to carry out the early responsibilities. Care should be exercised that the employee understands the role and does not misinterpret the position as that of executive director.

Some characteristics for consideration of the executive director position:

- Energy. This individual needs to be a high-energy self-

starter, as they are literally inventing and creating a new organization.

- Vision. A good director for the foundation will have the ability to envision the desired future and translate that into words and workplans for others to support.
- Passion. Probably the single greatest element in the success of an organization will be the degree of passion of the staff and board leadership—the community foundation will succeed in relation to the degree that its leadership wills it to be.
- Communication skills. The ability to be an effective and impassioned speaker is essential, because early years are spent almost exclusively in public presentations, private meetings and individual conversations.

Equally important are written communication skills for the development of brochures, pamphlets, descriptions, policies, procedures and operations consumes major portions of time during start-up.

Additional support staff in the areas of clerical services, financial accounting and grantmaking will be needed as the foundation grows. These positions may be filled on a part-time or full-time basis as appropriate or, perhaps, shared with other organizations. There are advantages and disadvantages with shared facilities and people:

Advantages:

Economical. Obviously, the ability to take advantage of available space means rent is saved. To use the part-time services of an existing bookkeeper may enable the use of a highly-qualified, full-time person who couldn't be afforded by the foundation at start-up.

Workload. At inception, there may not be a full-time workload in any of these positions and you face selecting someone who can be competent in several areas but not exceptional in any. (This is particularly dangerous with regard to the financial requirements, which should be addressed by a full-charge bookkeeper at the very least.)

Expansion. If part-time people are used, it is possible that their time may expand as the foundation's needs and ability to pay also expand.

### Disadvantages:

**Identity.** If physical space is shared, it may be difficult for the foundation to establish its own identity in the shadow of an already-existing and well-known organization.

**Expansion.** What is a potential advantage of part-time people is a disadvantage if they are shared with other organizations, for the likelihood of expanding to a full-time position is minimized.

**Control.** A part-time or shared person may answer to several “bosses” and, thus, not be as responsive as desired.

## Job Descriptions

At all stages of growth, job descriptions are important to ensure that all foundation personnel—board, staff and volunteers—know what is expected of them. A good job description spells out the functions of the position, the outcomes for which the incumbent is responsible, and the criteria against which performance will be measured.

## Management Systems

Administrative and financial functions should be formalized and performed in a systematic manner. Community foundations need systems for tracking core functions that communicate in a timely manner and allow quick and accurate retrieval of information. Initial management systems include:

**Financial System.** The financial system must store and tabulate information and generate reports that are easily understood. The financial tracking system should enable the foundation to provide timely answers to questions such as:

- (a) *What are the current assets of the foundation?*
- (b) *What funds, both restricted and unrestricted, are available for grants?*
- (c) *Is income from investments in line with projections?*
- (d) *Are current administrative costs in line with the approved budget?*

This checklist is prepared for community foundations that are incorporated and have received their federal tax exemption. Although not a comprehensive list of items, it might help raise questions for discussion:

- Get a business license (if needed in your state).
- Get an employer federal ID number for payroll.
- Receipt all gifts as you receive them. Receipt books can be purchased at a stationery store.
- Acknowledge all contributions within 24 hours of receipt—you can't say thank you too soon or too often.
- Deposit gifts promptly.
- Decide policy for immediate sale of security gifts (or guidelines for other action).
- Consider one central clearing account (custody account) through which *everything* passes—it will simplify your life and ease tracking all activities.
- Use business-size checks—looks more professional.
- Two-signature checks (say for amounts greater than \$1,000) are best for protection, despite periodic inconvenience.
- Have several signatories—maybe all officers—so you can get things done despite individual's travel schedules.
- Prepare monthly financial statements (even if the board meets less often)—include a statement of fund balances, consolidated statements and operating budget.
- Set up your chart of accounts *carefully*—it's the basis of everything you do.
- Use a bookkeeper (don't try to be one if you're not even if you must pay for it).
- Use a check request form—it may seem silly now, but you plan to be big and will need it.

- Have an audit, or at least a review by a CPA annually (in the early years, they are usually donated).
- Discuss the various forms of insurance you'll want to consider—directors and officers liability, general property coverage, employee bond and health for employees.
- Be aware of payroll obligations—FICA, unemployment and state disability.
- Consider accounts for office supplies, temporary help, and local sandwich and cookie shops for catering meetings.
- Request monthly distributions of earnings from your investment accounts (outside the custody account) into your custody account—you get the earnings on earnings.
- Form a finance committee to consider policies and procedures for board approval.
- Decide the basic financial policy for:
  - (a) *How you will invest funds (during start-up and until you reach X million)?*
  - (b) *Who will manage the funds (most foundations hire professionals when they reach some minimum size)?*
  - (c) *How often you will allocate earnings?*
  - (d) *What will be your minimum size fund?*
  - (e) *Will you pay interest to advised funds?*
  - (f) *Do you want to charge fees—if yes, how much on what types of funds?*
  - (g) *What will you do with gifts which come without any designation?*
  - (h) *Do you want an administrative endowment—if yes, how will you build it?*
- Determine who will prepare the annual IRS information return (Form 990) and your state return.

- Become familiar with the public support test.
- Annually prepare several original copies of your corporate resolution used to open accounts at financial institutions and brokerages, (sample attached).
- Prepare to accept all forms of gifts, such as the various types of stocks (especially lettered or restricted).
- Consider opening brokerage accounts with all your local offices *before* you have gifts.
- Consider if you accept real estate what criteria you have for appraisals, toxic reports, encumbrances, and holding costs (such as who pays for services, debt to equity ratios and the like).
- Equip your office for success—a computer, high-quality printer and copier—at a minimum.
- If you are using a board member (or his or her firm) for accounting/bookkeeping services, be *certain* the procedures are in place to bring the activity “in house” as soon as possible.
- Grants Program System. The system for accounting for grants should track each grant from receipt of the application through review, evaluation, award decision and follow-up. This system should be designed to yield a document specifying the purpose of the grant, payment schedule and reporting requirements, often called the grant agreement, and signed by both the foundation and the recipient. If contingencies are attached to a grant, the system should incorporate a means of flagging them.
- Personnel System. Systems relating to personnel matters should include a means of computing vacation time, sick leave, salary increases, and performance reviews.
- Donor Tracking System. Donor databases must be current, accessible, and easy to update. Many community foundations use their donor databases to generate invoices for pledges, receipts for gifts, labels

or envelopes for mailings and giving profiles as they study their constituencies.

- **The Potential for Automating.** Most community foundations agree that it is best for a new foundation to automate its operation from the outset. Automation streamlines a foundation's internal operations, increases productivity and may cut costs by reducing staff time required to perform basic functions.
- **System for Storing and Retrieving Individual Donor Agreements.**

## The Operating Budget

An initial challenge for the new community foundation is the adequate funding of its operating budget. It is preferable to obtain such funding through individual, foundation and corporate gifts over a multiyear start-up period. Upon the accumulation of a sufficient endowment, the community foundation can become essentially self-sufficient by the allocation of administrative contributions (or fees) from each of the funds administered. In addition, many foundations establish at inception an administrative endowment, which is entirely designated to support the operations of the foundation. Although this is the most difficult money to raise, it is clearly some of the most important; and addressing it early is highly beneficial.

## Ten Ideas on How to Raise Operating Money

1. **Segment the budget and match pieces to prospective donor interests.**  
For example, a public relations firm would be very interested in underwriting items concerning public relations such as brochures. An accounting firm might donate money to have their name put on the first annual report.
2. **Secure multiyear pledges.**  
Nothing good happens overnight, and folks must be convinced that to build the permanent endowment will take 3–5 years to get started. If you must raise annual operating money each year, too much time is spent in that and little time remains for endowment fundraising.
3. **Get underwriting for things you need and want to do anyway.**  
For example, teach a class to the nonprofit agencies on how to write grants, and charge them a modest sum for participation. Open a funding information center (reference, non-circulating library) because you will want to accumulate books

about local philanthropy, national trends and annual reports from other foundations. Many organizations seeking visibility might underwrite a budget to enable you to do this if they could have their name prominently displayed in the library and on the training materials, etc.

**4. Sell your services to corporations or private foundations that are interested in other nonprofit organizations.**

For example, you will be doing research on organizations which are applying to you for resources and, if discreetly handled, you can use this research to answer questions from corporate donors or private foundations without their own staff about applications they may be receiving from the same groups.

**5. Carve out a piece of administrative support from every special project you undertake.**

For example, if the community foundation is acting as the convener and catalyst of a group to support the building of play equipment in a community park, agree that you will hold the resources if a small percentage or a fixed amount can be contributed to your organization to help with the overhead.

**6. Produce a directory of local philanthropic resources in the community and sell it.**

Not only is this highly regarded by the grantseekers in the community, but if discreetly done, it can provide beneficial results for the grantmakers by eliminating unwanted applications.

**7. Start a local association of grantmaking entities and philanthropic individuals.**

For example, a regional association—if there isn't one in your area—usually charges its members dues in sufficient amounts to offset its quarterly or monthly meetings as well as provide resources to the organizing agency (in this case, the community foundation).

**8. Perform a needs assessment in the community if nobody else is already doing one, and sell the results.**

For example, everyone in town will be interested in knowing what the priority areas of need are, what the dollar amounts going to them are, from what sources, how the needs and the resources match or mismatch, where the special populations are in the community, etc. This is work you will want to do for grantmaking anyway, so why not produce a saleable product which obviously could be underwritten and carry a sponsor's name.



**9. Work for bank trust departments, attorneys or other private individuals who are responsible for distribution of charitable assets but find themselves with very little time.**

For example, the selling of staff services not only assists the client trust department or attorney by professionalizing their work, but also provides an appropriate paper trail should they be challenged by the IRS or anyone and provides an intermediary when they are nervous about having to say no to so many applicants.

**10. Secure gifts in kind to cover some basic needs.**

For example, furniture, equipment, supplies, maybe even your space, can be donated and recognition and acknowledgement given to the donating group. Be sure, however, to always carry these items as an expense in the budget so that a realistic budget is always in front of the directors.

*For your consideration...*

Many nonprofit organizations use special events to fundraise for their operating budget. Traditionally, community foundations do not. With the premise that they will achieve self-sufficiency as the permanent endowment grows, the community foundation should sell its initial stages as a business investment would, showing its future “profitability” as that time when it will no longer be seeking funds to run itself.

## Self-Study Questions

1. Who will be responsible for the development of management systems? How shall we assign those responsibilities during organizing stages? If board members fill operating functions as volunteers while we are starting, how will we plan for transition to paid staff?
2. What committees do we want to start? When will we need other committees, and which ones will they be?
3. Why should we employ staff early in the life of our foundation?
4. What characteristics and qualities are important in our first staff person to complement our board and volunteer strengths?
5. How can the community foundation best utilize volunteers?
6. Are we prepared with job requirements for our first employee? Do we have a plan for staffing that will grow with the foundation?
7. How have we capitalized the initial operating budget for our first three to five years?

## **Glossary**

**Chart of  
Accounts**

List of all accounts within the general ledger.

**Governance**

Oversight by those persons who constitute the governing authority of an organization or institution.

**Management**

The process of directing the business of the community foundation.

**Program Officer**

Staff member in a foundation or corporate contributions office who is responsible for screening grant applications, researching the organization or program seeking funds, reviewing proposals, and making recommendations about grants, often in a particular area, to the distribution committee or board.

**Strategic Plan**

A comprehensive description or design to accomplish the proposed goals of the foundation.

## Resources

**“Grantmakers Salary Report”**- updated yearly, Council on Foundations, 888/239-5221. Order #915.

**“Community Foundation Training Manuals,”** Council on Foundations, 888/239-5221.

# APPENDIX



## Community Foundation for Muskegon County Sample Chart of Accounts

Account #	Description
	<b>Assets</b>
1010	Checking
1020	Money Market Savings
1100	Accrued Income Receivable
1200	Marketable Securities - Combined
1210	Marketable Securities - Segregated
1220	Other Investment Securities
1300	Other Property
1400	Notes and Accounts Receivable
1410	Pledges Receivable
1411	Allowance for Uncollectable Pledges
1420	Other Assets
1500	Interfund Receivable
1501	Interfund Payable
1600	Building and Improvements
1610	Furniture and Equipment
1620	Land
1630	Accumulated Depreciation
1700	Prepaid Expenses
1710	Reimbursable Expenses
	<b>Liabilities</b>
2010	Grants Payable
2020	Accounts Payable
2100	Notes Payable
2110	Interest Payable
2200	Accrued Salaries and Benefits Payable
2210	Statutory Withholding Payable
2300	Other Liabilities

**Fund Balances**

3000	Unrestricted Fund Balances
3100	Restricted Fund Balances
3200	Field-of-Interest Fund Balances
3300	Endowment Fund Balances
3400	Supporting Organizations
3500	Agency Funds
3600	Property Fund
3700	Operating Fund

**Revenues**

4000	Contributions
4100	Interest and Dividends
4110	Other Investment Income
4120	Realized Gains (Losses)
4130	Unrealized Gains (Losses)
4200	Administrative Fees
4210	Program Fees
4900	Interfund Transfers

**Grants, Distributions and Expenses**

5000	Scholarships
5010	Arts and Culture Grants
5020	Community Development Grants
5030	Education Grants
5040	Health and Human Service Grants
5050	Youth Grants
5060	Agency Distributions
5070	Other Grants
5080	Fund Expenses
5100	Investment Fees
5200	Administrative Fees

**Administrative Expenses**

5300	Salaries and Wages
5310	Employee Benefits
5320	Other Staff Expenses
5400	Occupancy Expense - rent
5410	Electricity



5411 Telephone  
5420 Postage  
5430 Office Machines  
5440 Office Supplies  
5450 Subscriptions and Periodicals  
5500 Facility Expenses  
  
5600 Audit  
5605 Legal  
5610 Consultants  
5620 Professional Services  
  
5700 Public Relations and Promotion  
5710 Development  
5720 Board Expenses  
5725 Program Supplies  
5800 Annual Report and Meeting  
  
5900 Other Operating Expenses



**San Diego Community Foundation  
Tracstar  
Department Numbers - Fund Names  
5/29/91**

\*\*High Yield Only

43000	Int & Div Alloc
43010	Int & Div Earned
45100	Contributions
45200	Realized G/L
45210	Realized G/L - Sep
45300	Unrealized G/L
45310	Unreal G/L - Sep
50100	Grants
50200	SDCF Fees
50400	Other Expenses

**Superfund 0 Operating**

<b>Subfund 1</b>	<b>Operating</b>
0001	Operating Fund
<b>Subfund 2</b>	<b>Stabilization</b>
0002	Stabilization
<b>Subfund 3</b>	<b>Other Assets</b>
0020	Unrealized G/L - SDCF Securities
0110	Security Deposit - Rent
0111	Prepaid Insurance
0112	Accounts Receivable
<b>Subfund 4</b>	<b>Liabilities</b>
0100	Accounts Payable
0101	Grantmakers Clearing Account
0102	Library/Foundation Directory

**Superfund 1 Planned Gifts**

<b>Subfund 1</b>	<b>Annuity</b>
9000	Florence Riford Annuity I
9005	Florence Riford Annuity II
9023	Florence Riford Annuity III - Cash
9024	Florence Riford Annuity III - Securities
<b>Subfund 2</b>	<b>Unitrust</b>
9019	Charles Borgeding Unitrust - Cash
9020	Charles Borgeding Unitrust - Securities
9015	Thos. L. Christ Unitrust - Cash
9016	Thos. L. Christ Unitrust - Securities
9007	Joseph Hibben Unitrust I - Cash

9008	Joseph Hibben Unitrust I - Securities
9011	Joseph Hibben Unitrust II - Cash
9012	Joseph Hibben Unitrust II - Securities
9017	George LaPointe Unitrust - Cash
9018	George LaPointe Unitrust - Securities
9013	Lewis Reich Unitrust I - Cash
9014	Lewis Reich Unitrust II - Securities
9021	Betty Smisek - Cash
9022	Betty Smisek - Securities

**Superfund 2 Endowment Funds**

0004	Accrued Interest
3020	Adams, Kate and Gibson
1071	The Adageo Fund
4016	Ahlering, John R.
1043	Air Mail Pioneers
1003	Allen/Sunrise
1079	Alzheimers Disease & Related Disorders Association (ADRA)
1074	Alzheimers Family Center
**0012	Anonymous #4 (K) (4013)
1081	The Athenaeum Endowment Fund
4004	Antonicelli
**1007	Association for Retarded Citizens (ARC)
1008	ARC - M/M (Balance not in Home Fed)
1009	ARC (Securities)
3024	Arts Fund (NEA)
1035	Balboa Park
1085	Balboa Park (Securities)
3008	Balfour, S.K.
3000	Beckett
0008	Benbough, Lengler (3005)
1027	Big Brothers
----	Blind (See SD Service Center for the Blind)
1030	Boys and Girls
4019	Brosio Family Fund
1039	Burn Institute
3002	Burns, R.L.
3001	Burns, R.L. Corp.
1031	Camp Fire
1012	Century III

1000	Chamberlain, J. Clark
5011	Clark, Henry B. And Lena S.
5010	Coggeshall, Ariel
1004	CSSARF
1052	CWSS - Center for Women's Studies
3036	Daley, Megal E. I.D.P. Memorial Fund
**3013	Deaf & Hearing Impaired
9010	Derksen, Herman H.
5003	Education Fund
1014	Elliott, M.A.

**Superfund 3 Advised Fund**

0003	Accrued Interest - Advised Fund
6026	AFTC&B Fund
6052	Anonymous #3
6056	Anonymous #3 Scholar
4013	Anonymous #4 (K)
6003	Appleby, C.R.
6027	Art Memorial Fund
3005	Benbough, Legler
6041	Bosch Milk Fd (Wells Fargo)
6000	Buffum, Betty
6018	Buffum, Robert
3010	Clark, J. Dallas & Mary
6034	Cramer, E & D
6046	Crawford, R. G.
6054	Das Trust
6055	Das Trust, Securities
6066	Eureka Fund
4005	Fletcher, W & J (Now Endowment)
6012	Fuller, Alvan T.
6013	Fuller, Alvan T. (Melanie Sanchez)
6014	Fuller, Alvan T. (William Gordon)
6064	Gluck, Muriel

6058	Golden, Robert - Cash
6059	Golden, Robert - Securities
6044	Hall, Mae M. & Edward C.
6038	Hastings College
6032	Henderson, J. Bruce (Changed to Japanese Friendship Garden)
6001	Hibben, J.W. (Securities)
6002	Hibben, Joseph W. (Ingrid)
6061	Homeless Fund
4003	Hsiu, H. & J.
6025	Johnson, Spencer
6043	Kaplan, C. & M.
6049	King Jr., Dr. M.L.
6045	Kuni, H.W.

#### **Superfund 4 Special Projects**

8549	Ackerman, Tom Fund
8547	AEA Scholarship (American Electronics Association)
8527	Aids Collaboration
8521	Balboa Park, Special Purpose
8533	Bank of America Loan Fund
8523	California Consortium
8543	Christman, Florence
8501	Coggeshall Special Project
8537	Community Development
8534	Council Fdn-Small Comm Fdn. Survey
8546	Drug Partnership
8509	Emergency Fund
8506	Endowment Builders
8544	Fleet Theatre
8538	Ford Planning
8532	Give 5
8541	Hispanic Aids
8542	Historic Preservation
8530	Irvine Neighborhood
8548	Lewis, Robert/Museum of Man
8539	Mott/Trac

8500 Neighborhood Fund  
(Irvine Neighborhood Above)  
8512 Preuss, Peter  
  
8545 Riford, Florence (Expenses)  
8526 Rural Arts  
  
8531 SDCF Employee Matching Gift  
8535 SDCF Loan Fund  
8525 SDCF Special Projects  
8552 San Diego Gas & Electric  
8540 Senior Fund (Moved to Advised)  
8520 Special Purpose - Miscellaneous  
  
8550 Weingart Foundation  
  
8517 Youth Fund  
  
8524 Zoological Soc Pooled Income Fund

**Recoverable Grants**

8602 Mingei International Museum  
8600 Mental Health Systems  
8601 San Ysidro Health Systems





## **Job Descriptions**

### **Chair of the Board**

The chair of the board supervises board members as the principal elected officer of the board. The chair's main responsibilities include managing, directing and disciplining board members and presiding over all board meetings. The chair will prepare agendas in advance, focus meeting discussion and move the board as a whole toward decisions. The chair is also responsible for appointing board members to committees. The chair's power is devired from the full board.

### **Vice Chair**

The vice chair's role is to maintain leadership continuity by performing the duties of the chair in his or her absence. The vice chair should serve on the executive committee, chair at least one important committee and work closely with the administrator and the chair.

### **Secretary**

The secretary maintains all board records and documents ensuring their accuracy and safety. The secretary will be responsible for keeping the board apprised of meetings dates and times.

### **Treasurer**

The board treasurer will ensure the fiscal integrity of the organization by overseeing its financial activities and ensuring the accuracy of all financial records.

## Executive Committee

The executive committee handles routine board business when the board is not in session. This saves time and allows the full board to concentrate on major issues, like long-range planning, policy-making and new funding. The full board is responsible for approving decisions made by the executive committee.

The executive committee meets when an emergency needs to be dealt with immediately, and the full board can't be convened. The executive committee also delegates responsibilities to the board's standing committees and monitors their work. In many organizations, the executive committee performs specialized functions like administrator or board evaluations.

## Nominating Committee

The nominating committee selects qualified candidates for the board and board officer positions. It plays a key role in the organization's success because the people it chooses will influence the board long after their terms expire.

To perform its job effectively, the nominating committee must know what skills board service requires. The committee should be made up of veteran board members who are familiar with the organization, and the administrator. Committee members should look to the future of the organization. For a private, nonprofit board this means concentrating their efforts on recruiting prospective board members whose skills fit in the needs of the organization's long-range plan. For a public board, it means seeking out and asking individuals who have these skills to run for office.

## Marketing Committee

The marketing committee's role is to help the administrator to set a year-round marketing plan, assist in planning and developing marketing efforts that support the organization's services and programs, and provide opportunities for the rest of the board to carry out this important duty. Every board member has the responsibility to project a positive image of the organization both in his or her public and private dealings.

## **Executive Director**

### **Background:**

Require a minimum of five to ten years experience. Prefer endowment development expertise...in a competitive environment. (Deferred giving, various trusts, insurance, etc.)

Strongly prefer experience initiating new development contacts along with public relations experience.

Prefer supervisory experience.

Require oversight experience of financial accounting and reporting systems, and annual budget preparation experience.

The Executive Director should have a fundamental concern for others with a commitment to making this community a better place to live. This requires leadership, vision, and energy. Must be able to develop relationships within the community. Must have good oral and written communication skills as well as presentation skills.

### **Responsibilities:**

Design a comprehensive, multi-year endowment development plan (deferred giving, living trusts, insurance beneficiaries, etc.) for the Fund to include promotion and marketing techniques, education of financial advisors (stock brokers, accountants, life insurance underwriters, bank trust officers, estate planning attorneys, etc.) relative to the merits of philanthropic giving through community foundations, and ongoing identification of potential donors.

Implementation of endowment development plan through personal contacts, public presentations, and the most efficient utilization of board members, professional advisors, and other interested volunteers.

Maintain ongoing relationships with fund donors and potential donors.

Coordinate with Fund's Finance Committee a multi-year investment plan.

Oversee Fund accounting and reporting system.

Continually monitor and project multi-year Fund grants program and coor-

dinate with the Grants Committee and Board of Directors to set grant priorities, grants budget and maximize use of grant funds.

Prepare newsletters, news releases, Annual Reports, and other philanthropic education material.

Work with other local foundations, organizations, community leaders, etc., to plan and develop major community initiatives.

Oversee the general administration of the Foundation office.

Maintain membership in appropriate professional associations.

## **Assistant Director**

The Assistant Director is responsible for helping initiate, carry out and evaluate all aspects of Foundation operations, including fund/asset development, grantmaking, policy recommendations to the Board, and community leadership projects.

Employed By: Executive Director after consultation with the President of the Board of Trustees.

Responsible to: Executive Director

Immediate Supervisor: Executive Director

Status: Regular Exempt Employee

Salary Range:

Purpose of job: To provide top level management support for the Foundation's grants, fund development and community leadership programs according to the policies, procedures, goals and objectives established by the Board of Trustees; to represent the Foundation with grantees and potential grantees; to facilitate Board and Committee meetings; and to assist the Executive Director as required.

Principal Responsibilities:

1. Help oversee the general day to day operations of the Foundation under the supervision of the Executive Director.
2. Perform duties of the Executive Director in his absence
3. Advise, counsel and direct activities of subordinate staff.
4. Act as a spokesperson for the Foundation
5. Promote and stimulate further development of public philanthropy in Battle Creek by:
  - Developing relations with present and potential donors
  - Fostering a general public awareness and understanding of the Foundation
  - Participating in and supporting the work of other community group and agencies to advance common goals
  - Implementing cooperative and joint efforts
6. Help administer the Foundation's grantmaking program, including: — investigating and evaluating of grant proposals, — drafting written reports and recommendations necessary to the

grantmaking programs of the Foundation

— monitoring grantee performance and conducting of post-grant evaluations

7. Work with the Executive Director in developing special grant initiatives, including collaborative efforts with other foundations and corporations in Greater Battle Creek
8. As the budget permits, participate in Council on Foundations' and Council of Michigan Foundations' regional, national and affinity group functions, as well as other conferences and workshops related to the Foundation's asset development and grantmaking goals.
9. Assist in planning and preparing Board agendas. Collect background information and definitions of alternatives with their projected implications, and clarification of issues as needed by the Board.
10. Oversee preparation of Board Books by staff, including all information needed by the Board for each meeting;
11. Develop and coordinate a program for utilizing volunteers in donor relations, grantmaking and administrative areas where they can be effective.
12. Work with the Executive Director in planning and implementing public events and information programs of the Foundation, including the annual meeting; as well as individual and group presentations to financial planners, attorneys, accountants, CLUs and other interested groups
13. Draft and edit copy for the Foundation's annual printed report, newsletter, and news releases.

#### Key Skills/Experience Required:

1. Program development, management and evaluation experience
2. Excellent written and oral communication skills, including experience in grantwriting, news release writing, and public speaking
3. Successful track record in management of a nonprofit or forprofit organization, including budgeting, staffing, and working with a board of directors/trustees
4. Interest in and commitment to a high intensity, goal-oriented, 50-hour a week position.

## Fund Development Officer

Reports to: Executive Director

This staff position is responsible for the design, planning and implementation of The Grand Rapids Foundation's Fund Development Program. This position requires extensive communications skills, both oral and written, significant skills in organizing, analyzing, research, and establishing and maintaining effective working relationships with a wide range of individuals and groups.

*Duties of the Fund Development Officer will include:*

1. Assessing, implementing and refining all aspects of the Fund Development Program.
2. Identifying prospects and making contacts for fund development purposes in concert with the Executive Director.
3. Developing a full range of fund raising services/activities to include:
  - a) Planned Giving
  - b) Annual Giving
  - c) Donor research
  - d) Donor recognition
  - e) Special events
  - f) Donor relations
  - g) Seminars
  - h) Contacts with estate planning specialists.
4. Building relationships with businesses and corporations.
5. Designing and implementing special services, i.e., Donor Advised Funds, Corporate Advised Funds, Agency Endowments, Pooled Income Funds.
6. Working with the Executive Director, developing the appropriate materials to market The Foundation to a variety of potential donors.
7. Developing a system of follow-up once an individual, family or business has committed to The Foundation.
8. Managing Fund Development events.
9. Making presentations/speeches to a variety of audiences.

10. Developing and providing reports on the performance and progress of all fund development efforts to the Board of Trustees.
11. Assisting in the development of methods of communicating The Foundation's case statement to potential donors, and other audiences.
12. Accountable to performance goals established each year.

**Qualifications:**

1. College degree with related work experience—minimum of five (5) years.
2. Ability to raise substantial funds from individuals, business, private foundations, and other potential contributors. Preference is with person having experience in developing and implementing successful planned giving programs.
3. Excellent communication skills—writing, speaking and interpersonal relations.
4. Ability to work independently and manage own time.
5. Working knowledge of the not-for-profit sector.
6. Ability to handle multiple assignments.
7. Must be well organized, able to prepare materials on time, prioritize tasks and meet deadlines.



## Vice President for Finance

The Vice President for Finance reports to the President, who is the chief executive officer of the organization. The Vice President for Finance directs financial and accounting activities, including monitoring outside investment management.

### Summary of Responsibilities:

The Vice President for Finance is responsible for the operation of financial and bookkeeping services, including preparation of financial analyses, income and expense reports, budgets, governmental reports, payroll, monitoring the performance of investment managers, managing the Foundation's computer system, and other financial operations.

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### Specific Responsibilities:

#### 1. Corporate Records

Organizes and oversees the maintenance of corporate records in compliance with appropriate federal and state laws and regulations; minutes of the Board of Trustees and standing committees; Articles of Incorporation; By-laws; personnel files; resolutions and policies.

#### 2. Financial Management

Manages the overall financial activities of the Foundation, including maintenance of receipts and disbursement journals, bank reconciliations, general ledger, revenue/expense statements, balance sheet and subsidiary ledgers for all funds.

Provides primary staff support to the Finance and Audit Committees.

Maintains liaison with investment managers and monitors their performance.

Assists the President in the development of the annual budget and monitors administrative expenses.

Manages all records associated with the management of

component funds of the Foundation.

Oversees the preparation of reports required by government agencies and fiscal reports required by donors to the Foundation.

Oversees prompt acknowledgment of all gifts to the Foundation.

Works with the Vice President for Program to assure the payment of grants according to the conditions contained in grant agreements.

Assures proper fiscal management for all funds in compliance with their creating documents and/or other agreements reached with donors at the times the gifts were made.

### **3. Computer System**

Maintains liaison with hardware and software companies to assure proper development and maintenance of the Foundation's computer system.

Works with counterparts in other community foundations and the Council of Michigan Foundations as necessary in the development and maintenance of a common electronic data system.

### **4. Administration**

Participates (as the budget permits) in meetings of the Council on Foundations, Council of Michigan Foundations, national and regional affinity groups as well as in other conferences and workshops related to the Foundation's program goals.

Carries out other duties as assigned by the President.

Recruits, supervises and trains staff.

## Community Foundation Model Administrative Budget

	Year 1	Year 2	Year 3
Executive Staff	\$15,000	\$15,750	\$ 32,000(a)
Other Compensation	8,000	8,400	9,800(b)
FICA Expenses	1,760	1,847	3,198
Fringe Benefits	-0-	-0-	4,000(c)
Annual Meeting	-0-	250	500
Annual Report and Newsletter	1,000	2,000	4,000(d)
Audit	1,000	1,200	1,400(e)
Books and Subscriptions	150	150	150
Dues - Council on Foundations	-0-	300	300
Indiana Donors Alliance	100	100	100
Equipment	5,000	500	500(f)
Occupancy	2,500	2,625	2,756(g)
Supplies and Postage	1,500	1,750	2,500(h)
Telephone	1,200	1,300	1,400
Travel and Conferences	500	1,000	1,500
Endowment Development	1,000	500	500(i)
Miscellaneous	100	100	100
<b>Totals</b>	<b>\$38,810</b>	<b>\$37,772</b>	<b>\$64,704</b>

**Operating Budget –  
Community Foundation with one staff person**

Category of Expenditures	Amount
Advertising/Publications	\$ 500
Copying	60
Dues/Subscriptions	150
Electricity	350
Insurance	150
Miscellaneous	400
Office Supplies	300
Payroll (net)	7,000
Payroll taxes withheld	1,320
Employer payroll taxes	800
Postage	550
Printing	100
Seminars/Workshops	500
Telephone	1,000
Travel	300
Youth	100
	<hr/>
	<u>\$13,580</u>

**Operating Budget –  
Community Foundation with two staff people**

**Operating Fund Expenses**

Salary Expense	35,546.88
FICA/Medicare-Employer	2,769.72
Health Insurance	1,890.58
Accounting Services	8,164.25
Legal Services	2,468.50
Consulting Services	142.50
Investment Management Fees - FEG	3,375.00
Insurance, Property-Liability	787.00
Rent	2,480.67
Utilities and Fuel	208.12
Telephone	1,392.01
Postage and Shipping	1,436.46
Office Supplies	980.41
Oper. -Misc. Office Expenses	(81.69)
Publication and Printing	2,700.47
Annual Report-Printing/Postage	20,332.94
Conference., Conventions & Meetings	3,630.13
Travel, Mileage & Lodging	130.82
Dues	1,795.00
Subscriptions	176.50
YAC Expenses	1,136.43
Devel-Consulting Services	511.00
Devel-Meals & Entertainment	19.25
Devel-Conf., Conven. & Meetings	428.30
Devel-Public Relations	<u>2,143.00</u>
 Total Operating Fund Expenses	 \$94,465.25



# CHAPTER 6

## WHAT CONSTITUTES EFFECTIVE COMMUNITY FOUNDATION GRANTMAKING AND COMMUNITY LEADERSHIP?

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## Unique Philanthropy

Unlike any other philanthropic organization, the community foundation serves three publics: its donors (see Chapter 4), the community as a whole, and its grantees. How successfully the foundation balances the concerns of these three publics, and how successfully it responds to these concerns in its grantmaking and leadership activities, will largely define the value of the contribution the foundation makes to its community. Too often, it seems, a community foundation is evaluated on the amount of its assets rather than the effective use of these assets for grantmaking and community leadership purposes. A community foundation has the opportunity to facilitate the charitable intentions of its donors in a number of program areas through its grantees, and thereby, serve the broader community in which it is located.

## Initial Grants Program

Most funds received by a community foundation early in its history will, most likely, be designated, field-of-interest and advised endowments or pass-through funds (see Chapter 4). Therefore, the foundation's initial grants program will be largely to carry out the specific intentions or recommendations of the donors in making grant awards. There is no reason, however, that these cannot be effective and highly visible grants that can serve the foundation well in terms of attracting additional endowment funds. As the foundation's endowment grows, which will include its unrestricted funds, its role to respond to the changing needs of the community will also grow.

Following are some things to think about for early grantmaking decisions. It is assumed that dollars will be very limited.

### ***Many small grants versus few large ones?***

Advantages of many small grants:

- Shows the community foundation serves the full community.
- Enables many recipient organizations to know about the existence of the new group.
- Begins to increase awareness of the board and committees of a wide range of community organizations.
- May create opportunities for publicity through human-interest stories.

Advantages of a few large grants:

- More possibility of having an effect in an area of need.
- Less paperwork and administrative management.
- Larger sums of money may get media attention more easily.

***Should we have a major effect in one area or spread our grants over many?***

Considerations:

- A major effect in one area may still be limited if dollar amounts are modest.
- Focusing early grantmaking in one area may cause the public to identify the foundation as a single-interest entity.
- Spreading grants around helps beneficiary organizations understand the foundation’s role as seed-money funder rather than ongoing support.

***How risk-oriented should we be with our grants?***

- The foundation may choose to carve out a niche of being the most tolerant of high-risk new ventures—often highly regarded as a venture philanthropist.
- Few other sources feel as comfortable being risk tolerant as community foundations.
- Modest amounts of money sometimes are the significant difference between success and failure of projects.
- First funding for a new venture can be significant both for the beneficiary organization and the community foundation whose reputation may come to be regarded as significant for other funding sources considering the same project.

***How clearly do we want the results identified with the community foundation?***

- With modest amounts of money, there is little opportunity for the young foundation to have “credit” for any single project.
- Being listed as merely one more funder in a long line of supporters of a project may not benefit the foundation greatly.

***How do we feel about funding operating expenses and other ongoing needs of organizations versus new programs?***

- To get identification, the foundation may need to fund new activities.
- Funding too many new activities means good and ongoing activities may fail for lack of resources.

***If foundation funding is applied to ongoing expenses, on what basis do we say no in future years?***

- The question of support for ongoing operations is difficult and changes as the grantmaking budget grows. Regular review of grant guidelines should assure sensitivity to this important question.

## **Reactive versus Proactive Grantmaking**

To solely respond to proposals initiated by grantseekers as the basis of a grants program would be considered reactive grantmaking. That type of grantmaking can serve as an important function in the community, but does not fully use the potential of the community foundation. Combined with reactive grantmaking can be an extensive range of activities by the foundation, which will position it in an important philanthropic leadership role.

These activities might include:

- Assessing community needs for both its own grants program and those of other philanthropic organizations such as corporate giving programs, private foundations, United Ways and others.
- Using unrestricted funds to respond to unmet needs by soliciting appropriate grant proposals from certain specific organizations. This is called a Request for Proposals (RFP).
- Initiating and participating in joint projects by several organizations.
- Serving as a convener for community-wide discussions to address unmet needs that will result in responsive community actions with which the foundation may or may not be involved.
- Providing technical assistance to grantseekers to assist them in formulating better projects and solutions for which they are requesting funding.
- Providing challenge grants that will promote the participation of a broader funding base for certain projects.

- Creatively responding to emergency community needs caused by natural disasters or other unforeseen circumstances.
- Serving in a staff capacity for broad community projects that will facilitate their getting accomplished. This may both enhance the executive staff role of the community foundation and respond to one of the more scarce resources in a community (i.e., the lack of staff capability in most nonprofit service organizations).

## Grantmaking Process

To best facilitate the grantmaking process and leadership initiatives, most community foundations establish a grants or distribution committee. The purpose of such a committee will be to carry out the following functions:

- Develop with the staff a comprehensive grants program for the foundation to be approved by the board of directors that should include:
  - Grants guidelines.
  - A formal grant application procedure (using a grant form or specifying information needed in such an application).
  - A grant application review process by the staff, grants committee and board of directors.
  - A grants award and recording system.
  - A grants monitoring system.
- Conduct periodic program area needs assessments to better determine how grant applicants are responding to the overall needs of the community.
- Provide, through the committee and/or staff, technical assistance to grant applicants to assist them in preparing the best grant proposals possible to address the identified issues.
- Provide for adequate grant application review procedures that might include meetings and on-site visits with grant applicants and sufficient discussion of these applications at the committee and board levels.
- Ensure that the grants approved are monitored by the foundation (through reporting forms, meetings, and/or on-site visits) to assist the foundation in determining the effectiveness of its grants programs.

- Take the initiative to solicit grant applications or develop projects coordinated by the foundation to address certain community issues found to be lacking through the assessment process.

***Considerations for the grants committee:***

- Should it be limited to board members?
- Can community representatives be staff of potential applicant agencies?
- Should it include other grantmaking organizations?
- Will this appear to be the “philanthropic resources cartel?”
- Will the young community foundation be influenced by other grantmaking agendas?
- Might this promote collaborative funding?
- What training will we give our grants committee in Robert’s Rules or consensus decisionmaking process?
- How will we handle conflict of interest if members are involved with applicant organizations?
- Will committee decisions be discussed with the board or merely approved?
- How will we handle the confidentiality of the discussion?

## **Grants Program Issues**

Ultimately, a community foundation will be evaluated upon the effectiveness of its grants program in responding to community needs. This evaluation can and will be done in two ways.

First, the community foundation should periodically review its grants program, its effectiveness, and whether or not modifications should be made.

Second, and perhaps more important, the foundation’s grants program will be constantly evaluated by potential donors, which will affect the future endowment development success of the foundation.

## **Working with Donor Advisors**

Advised funds, whether endowment-based or entirely pass-through, allow the community foundation the opportunity to work with the donor advisor on the grantmaking agenda. There are advantages and disadvantages to advised-fund relationships.

#### Advantages:

- Enable the foundation to become well acquainted with its donors and their interests.
- A well-established rapport between a donor and the foundation is more likely to assure continuing and growing contributions.
- Broadening donors' interests is only possible through advised funds when the foundation starts from the donor's interest and gradually develops other areas of rapport.
- Most donors are totally unaware of the multiple needs in a community and come to like the opportunities available through their community foundation for providing assistance.
- Happy advised-fund donors are the greatest marketing asset the foundation can have.

#### Disadvantages:

- To build an effective relationship takes *lots* of time.
- If the entire job is left to staff, it can't possibly be handled.
- Many advised-fund donors will resist involvement with the foundation seeking only to support their known and favorite organizations.
- Care must be given to establish minimum-size grants, or the foundation will be a full-time check-writing service.

### **Additional Thoughts**

A community foundation, like any philanthropic organization, will be confronted with the ongoing dilemma of responding to both today's very evident community needs and those long-term project investments that may dramatically affect issues in years to come. For example, does a community foundation fund the immediate operating needs of a homeless shelter or does it attempt to address the longer-term social, educational and employment needs that may effect the number of homeless people in the future?

The answer is that a proper balance of present and future needs must be struck by the foundation. To maintain such a balance, however, requires two key elements. First, the community foundation must be adequately informed relative to these issues so that it can make the proper decisions with

respect to them. And second, it must have the ability to inform and educate its publics with respect to the intent and projected results of its grants and community leadership program.

As grants are reviewed, many will be declined. The foundation should think carefully about detailing logical reasons for these declinations in order to assure due process has been observed. Staff will regularly be called on by applicants to tell them why they were unsuccessful. Discussion should be thorough and detailed with regard to grantmaking choices, and staff should be instructed as to how to respond when inquiry comes. The inclination is always to say there were “higher priorities” or there are “insufficient funds,” both of which are always perfectly legitimate reasons but do not provide much assistance to the applicant.

## Self-Study Questions

1. Have we identified our publics that make us a unique philanthropic organization in our community?
2. What have we decided about our first grants? And when will we review our decisions again?
3. How much of our grantmaking will be reactive and how much will be proactive?
4. What are some of the other community leadership roles that our community foundation can play to fully use our unique status?
5. Have we organized the steps for an efficient grants program: grant minimum size, frequency of payouts, installments for larger grants (so we get the float) and requirements for matching and challenge grants?
6. Thinking specifically about our community, what areas of need might be identified as important that would help people understand our unique role?



## Glossary

### **Advised Fund**

A fund that includes a formal provision or informal arrangement providing that an advisor, such as a donor or person designated by the donor, or an advisory group, such as a committee or specialists with technical expertise related to the purposes of the fund, advise the staff and/or governing body on grants to be made from the fund. Advice and recommendations cannot be binding on the governing body after an irrevocable gift has been made to the foundation.

### **Challenge or Matching Grant**

A grant that carries a stipulation that the recipient raise a specified amount of funds (cash and/or pledges) from other sources, usually within a specified period of time before payment of all or a portion of the grant. Alternately, the grant may specify other requirements be met before payment of the grant.

### **Grant Application**

The document(s) submitted to the foundation or other potential funding source in which the organization presents its request for support.

### **Grant Guidelines**

A published outline of foundation policies which guides its grantmaking process.

### **Proactive Grants**

Grants initiated by the board or grants committee to address a specific community issue identified as a priority by the foundation.

### **RFP** (Request for Proposal)

A formal announcement by an organization that it is seeking written offers of assistance for services it desires, or it is seeking requests for funding support for a specified area of interest.

### **Site Visit**

Fact-finding visit by a grantmaker to an organization that has applied for or received funding. It may also be a visit to the area(s) and institution(s) that are affected by the grant request.

**Technical  
Assistance (TA)**

The providing of specific skills, advice or training by one agency or individual to an agency.

## **Resources**

**“Community Foundation Training Manual V - Grantmaking,”** Council on Foundations, 1828 L Street, NW, Washington, DC 20036-5168, 202/466-6512.

**“Community Foundations as Catalysts: Leadership in Education,”** Council on Foundations, 1828 L Street, NW, Washington, DC 20036-5168, 202/466-6512.

**“What is a Community Foundation - Financially Speaking?,”** Karen Metcalf, Council on Foundations, 1828 L Street, NW, Washington, DC 20036-5168, 202/466-6512.

**“Michigan Community Foundation Grant Focusing,”** Kathryn A. Agard, Ed.D., Council of Michigan Foundations, P.O. Box 599, Grand Haven, MI 49417, 616/842-7080.



# APPENDIX



# Grant Making Criteria

By Bill Somerville

## I. Responding to proposals

*Does the project fill a need?*

It doesn't matter if it is similar to other programs, maybe the need is unmet.

*Does the person in charge seem capable of doing the project?*

Sometimes the director has not yet been selected; then one looks at the sponsoring agency.

*Does the applicant indicate a depth of awareness of the subject area in which the project will operate?*

Promises of accomplishments should not be confused with awareness of what needs to be done.

*What is the track record of past work by the applicant?*

Accomplishments in any subject area, not just the project area.

*How does the project fit into the sponsor's overall program?*

One should look for a dynamic quality in the project in that it should improve the applicant's overall program, not just fill in for budget cuts.

*Is the budget reasonable?*

One can often feel as much confidence about a project from the budget as from the proposal narrative.

*How do related professionals feel about the project?*

Hopefully the applicant will have listed references, if not ask for them and then ask the reference people for other names.

*Is the project in response to a problem or is it a creative approach to getting something done?*

Money doesn't solve a crisis.

*Is the project controversial?*

Controversy is not correlated with need or the lack thereof so judge the applicant as you would any other.

*Does the application raise more questions than it answers?*

If so, this might indicate something about how well thought out it is.

*Does the applicant promise too much?*

This might reflect on the applicant's credibility.

*Does the application read like a rescue mission?*

The target population must be players in the programs that affect them.

*Is there a sense of originality in the project?*

New approaches often represent a good buy.

*Does the reader get a picture of how the project can be evaluated?*

The project should add something to the quality of life and demonstrate that.

*Does the applicant indicate the factors of excellence in the operation of the agency?*

This is a good way of knowing whether or not there is a concern for and awareness of quality.

## **II. Initiating your own ideas as a funder**

*Is there a need not being responded to?*

Send out a request for proposal or offer grants for a specific purpose.

*How can agencies and professionals be more responsive to the public they serve?*

Maybe they should have the choice of how to spend money, try discretionary grants.

*Would a demonstration project be useful?*

The funder might consider showing the way.

*Does the agency need management assistance?*

Offer small grants so the agency can operate better.

*What do you do with a poor proposal from a good applicant?*

Negotiate a grant and make known your opinions of what needs to be done.



*What is there to stimulate inter agency cooperation?*

Act as a convener, host, or sponsor to bring people together.

*Are special population groups being overlooked?*

Focus specific attention on that group.

### **Sample Guidelines for Application**

Applicants may telephone or submit a Letter of Intent briefly describing the project before submitting a proposal to find out if their ideas are potentially fundable by the foundation.

In applying for grants, the following information should be included:

- 1) Summary statement.
- 2) The specific purpose of the funds requested.
- 3) The need for the project in the community.
- 4) Qualifications of key personnel.
- 5) The amount requested.
- 6) A detailed copy of how the money would be spent.
- 7) A detailed copy of the latest annual operating budget reflecting expenditures and receipts and a statement of assets.
- 8) A statement advising how the grant, if made, can be evaluated with regard to the funds going to the agreed upon purpose and/or the effectiveness of the program.
- 9) Recent grants received and applications pending.
- (10) Names and members of the Board of Directors and their principal occupations.
- (11) Evidence that this application has the approval of the Board of Directors: a copy of the minutes of the Board of Directors meeting.
- 12) A copy of the organization's Internal Revenue Service Federal tax-exempt letter.

After these materials are received, you will be contacted for a visit if your application is accepted for consideration.

The general policy of the foundation is to make grants for innovative and creative projects, and to programs which are responsive to changing community needs in the areas of health, social service, education and cultural affairs.

Agencies applying for funds should be serving citizens of San Mateo County and the Palo Alto area.

Foundation grants are made six times a year.

## **Effective Grant = Money at the Right Place at the Right Time**

### **Effective Grantmaking**

#### ***Ingredients***

- Significance, impact, fun, satisfaction
- Timing, being there, critical intervention, money
- Staff ability to give and approve grants
- Finding professionals who are capable of getting things done
- Willingness to risk, to fail, to try something unproven
- Flexibility—the effort to get a grant involves giving the minimum of necessary information
- Willingness to take the initiative and encourage others to do so
- Emphasis on the creative process, not problems
- Striving to be aware of needs and how to respond with limited money
- Ability to anticipate and to predict—to have vision
- Willingness to work with public entities, give grants to them and co-fund with them

#### **Proactive Funding**

- Taking initiative—causing something to happen
  - Rural area, youth and police
  - Emergency money to individuals thru agencies
  - Emergency money to agencies—theft, fire
  - Discretionary grants to professionals
  - Educational grants for special population persons
  - Ideas into reality—Families in Transition
  - Collective efforts—Girls Consortium
  - Summer youth employment—libraries, agencies
  - Teacher—buy—your—day
  - Teacher excursions
  - Youth advocate for country
- Sharing the prerogative—
  - Teachers Fund
  - Black Fund
  - Arts Fund
  - Young Adult Fund

## **Maximum Impact for Limited Dollars**

### **Small Grantmaking**

- Emergency Fund set aside \$5,000—good credibility
- Fax machine initiative—part pay
- Answering machine initiative
- Computer initiative
- Software initiative
- Furniture and equipment start-up storage with United Way
- Bulk buying for nonprofits
- See: ‘Other Resource Offerings’ ‘Initiatives’
- Discretionary grants—School principals
- Ropes course
- Agencies hire P-T youth workers
- Teen mothers meeting
- Brown bag opera
- Corridor gallery—public and corporate buildings

### **Ideology for Applications - Proposal = Contract**

#### **Nuts & Bolts of Grantmaking**

- Application forms—Why?
- Guidelines for application—don’t speak in the negative; e.g., “what we don’t fund”
- Criteria for judging applications
- Process for handling applications—
  - Immediate response by mail to applicant
  - Determine eligibility for consideration
  - Not favored by staff and notify applicant
  - Site visit to eligible applicants
  - Conferring with related professionals
  - Writing up a report with or without a recommendation to fund
  - Mail to distribution committee 2 weeks in advance
  - Meeting and decision
- Payment in installments with reports
- Demand publicity for grant and ask for a copy of brochure, media, newsletter or announcement.
- Site visit—use of interns
- Clip news coverage

### **Focused Grants**

- Theme for the year - pros and cons  
antagonism for being left out  
if too focused leads to old boy network
- RFP's to focus attention on an area, e.g., teen pregnancy
- Join funding with others on a subject area

### **Offering Other Resources**

- Funding library
- Management seminars
- Computer training  
Technical assistance grants to get training for full-time permanent staff persons  
Technical assistance grants to use an expert
- Author special literature for assistance
- Convene nonprofits  
People with focused interest; e.g., youth workers, black professionals

### **Additional Staff Resources**

- Volunteers —become donors  
Jr. League  
Retired
- Interns  
College students  
Adults  
Agency personnel
- Contract worker for specific one-time task
- MBA students
- MBA alumni

### **Professional Growth**

- Ethics dinner meetings
- Fellowship to another foundation
- Special training courses  
facilitating  
interviewing  
negotiating  
executive seminars  
public speaking
- Intern at grantee agencies
- Course on fundraising (for perspective)

- Regional grantmaker seminars on a focused topic
- Bring in expert for 1-day staff seminar on site

### **Donor-Advised Grants**

- Find areas of interest to donors
- Recommend funding opportunities to donors
- Ask donors to give a percentage of their gifts to unrestricted endowment
- Have donor advised grants approved by mail vote of distribution committee
- Have donor advised grants, recommended by staff, confirmed by distribution committee
- This allows for immediate grantmaking
- Take donors on field trip to see how money is used

### **Grant Evaluation**

- Bifurcated process—
  - judgement of who should get money
  - assessment of how money was spent
- Site visits to grantees—
  - can be unannounced as in a field trip
  - can be done by interns
- Request report on how money was spent
- Request narrative report on how the project went
- Reports should not be onerous; keep it simple
- Leave open for grantee to expand
- Installment payments tied to reports coming in

### **Grantmaking Administrative Concerns**

*Minimum staff requirements—*

full time director

full time administrative assistant (reception, word processing, book keeping)

*Recommended size for Board—seven to nine members*

Sub committees for distribution, investment, development

*Advisory committees for additional people to participate*

*Grantmaking role of Director vis-a-vis Board*

Director does analysis of applications and reports to Distribution Committee

Director has authority to do discretionary grantmaking up to an amount

Public contact is through the Director



# CHAPTER 7

## HOW DOES A COMMUNITY FOUNDATION SUCCESSFULLY COMMUNICATE WITH ITS PUBLICS AND PROVIDE ACCESSIBILITY?

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## Initial Communications Plan

The basic challenge for a newly-created or rejuvenated community foundation is to make itself known to its three publics (i.e., its donors and potential donors, its grantees and the related nonprofit sector, and the community at large). As has been often stated: “Community foundations have been one of philanthropy’s best-kept secrets.”

Effective communication begins within the community foundation’s own organizational structure (i.e., its board, staff and volunteers). Therefore, it is critical that everyone representing the foundation be committed to and have a clear understanding of its mission, its goals and priorities and the image that it intends to project. The quickest way to create confusion about the foundation is to have those most closely connected with it contradicting each other, giving out wrong information or just creating the wrong impression.

Every individual who comes into contact with the community foundation forms an impression of it. These myriad impressions form the reputation of the foundation. A good reputation and the credibility of its initial board and staff are the foundation’s most valuable assets. Without them, the foundation has little hope of attracting significant endowments, working effectively with other nonprofit organizations, and establishing itself as a community leader.

## Elements of a Communications Plan

To effectively communicate with its various publics, a community foundation needs to develop a multifaceted communications plan. Developed over a period of time, such a plan might include:

- A basic brochure that includes:
  - The mission of the foundation.
  - Grant purposes, program and policies.
  - Grant application procedures.
  - Endowment development programs that illustrate types of funds accepted by the foundation, ways to give and tax advantages related to them.
  - The flexibility of community foundations to serve charitable desires of potential donors.
- Periodic newsletters to highlight activities of the foundation including receipt of new gifts, grants awarded, ways to give and donor profiles.
- An annual report that summarizes the work of the foundation over the previous year and includes the official financial report of its activities.

- Public annual meetings to inform and encourage the participation of donors, grantees, and the public in the activities of the community foundation.
- Specific materials and/or workshops for attorneys, CPA's, bank trust officers, estate planners, life-insurance agents, and other types of professional advisors to educate them on the many ways and tax advantages related to making gifts to a community foundation.
- Articles for newspapers, radio and TV to highlight activities of the foundation, especially grants awarded.
- Presentations by board and staff members to service clubs and other nonprofit organizations to present the advantages of developing a community foundation.
- Presentations and discussions with potential donors to stress how a community foundation can serve their charitable interests.
- Video or slide shows describing the foundation and its activities help people see the whole community in a new light.

### **Action Orientation**

All of these communication techniques, of course, are only as good as the actions of the foundation in successfully doing what it says it is going to do. Examples of such actions might include:

- Effectively serve donor desires within the abilities of the foundation.
- Award important and visible grants that have an impact.
- Identify community needs and initiate action related to them.
- Establish a representative board of directors.
- Treat all grant applicants in a consistent and respectful manner.

### **Public Charity Status**

A community foundation, by its ruling from the IRS, is classified as a public charity. Therefore, it has the responsibility to act like one. The board of a new community foundation should familiarize itself with the technical requirements for compliance with public charity status. Although these appear overwhelming, do not let them become so. The requirement to raise money to meet the annual public support test may seem extraordinary, but

remember, we are in the business to build a new endowment. Problems in meeting the public support test generated by raising huge amounts of money are the best kind. The truly active and accessible community foundation will have no problem with its compliance in spite of its financial success if it is addressing its community with openness.

Not only does public charity status affect the tax ramifications of gifts given to the community foundation, but it also relates to grant distribution, leadership roles, and accessibility to the foundation.

Accessibility factors might include:

- Visibility and easy access to the community foundation’s office.
- Listing in the phone book.
- Office hours.
- Some public meetings.

Availability of information relating to the foundation’s philanthropic funds and financial assets.

- Publish an annual report, even if it’s a listing in the paper rather than a separate publication.  
Equal opportunity for grant seekers to have access to the foundation’s grant guidelines, schedules, decisionmaking processes.
- Classes for grant seekers are helpful.
- An official application may equalize presentations.
- Expectation by grant seekers that the foundation will work with them to develop the best grant applications possible to address community needs.
- Information on how to give to the foundation, minimum fund size, types of gifts to be accepted, guidelines for acceptable areas for distribution, and procedures for donor recognition.

## The Communications Conundrum

Agonizing are the discussions about why community foundations are the best-kept secrets in their communities. At inception, the board and staff will inevitably feel it wants more publicity. However, after the announcement of the establishment of the foundation until it has some *news*, there may be little of interest to the media.

During the organizing and start-up phase of a foundation, good work by board and committees to address the following issues will help the foundation be prepared when it has news to announce. The community foundation’s challenge will be to explain its:

Complexity. The foundation will be described by any individual in the way in which that individual uses it.

For example:

- Advised-fund donors will see it as a convenient alternative to private foundations.
- Designated-endowment donors will see it as a wonderful partner and secure endowment for their favorite other community organizations.
- Donors who give highly-appreciated assets will see it as a tremendous tax advantage.

Diversity. Many are the publics that a community foundation serves both in the donor side of the equation and the beneficiary side. Unlike any other organization in town, the community foundation has:

- No single vested interest.
- No single identifiable constituency.
- No limitations other than its own internal policies and procedures regarding how it chooses to distribute money.
- No self-interest other than to build a flexible endowment to meet its community needs.

Flexibility. Because it can do anything it chooses within the community, the foundation will always struggle in its early years with the notion of truly communicating the power and strength of this flexible vehicle.

Identification with any single programmatic area, geographic section, target population or type of activity may leave a lasting imprint of people seeing it as a single-function entity. Therefore, in early years, the foundation is especially urged to:

- Communicate with as many constituencies as possible to assure broad-based understanding and support.
- Do as many different things as it can possibly manage effectively and efficiently, even if these are done sequentially over short periods of time in order to promote the understanding of its flexibility.
- Encourage its board members to explain their particular interests as a piece of the whole picture when they discuss the community foundation.

Perpetuity. Because the foundation strives to build a permanent pool of flexible assets, it holds a unique role in the community that must constantly be explained. No other organization has a single mission to serve the many masters in the many ways that the community foundation does. Using historic examples of the founding community foundation in Cleveland, the reason for its establishment and individual donors' activities, even from other parts of the country, is the best way to explain the notion of perpetuity.

Points of difference. Often the easiest way to describe the community foundation is to contrast it with the:

- Local United Way, which raises annual money given to member organizations limited to social service needs.
- Private foundations, which are generally the assets of a single family and often limited to the interests of that family.
- Other foundations. The term “foundation” is used to describe both grantmaking entities and fundraising entities, and careful attention should be paid to the description of the community foundation as fulfilling both those functions. Contrasts should be highlighted between hospital foundations or school foundations which are called foundations but are truly the fundraising arm of those organizations whose assets are directed exclusively to a particular institution.

## A Final Thought

Not long ago, community foundation colleagues were agonizing over the need for a concise and simplified explanation of what is a community foundation. All shared the frustration of trying to help board members have that short but essential answer when asked at a social gathering “What is a community foundation?” There followed a search for the most “pithy” statement that could be assembled with the fewest words describing our business.

Needless to say, many of the answers were outstanding—but incomprehensible. And some of the answers were understandable, but defied the attention span of the listener or the memory of the speaker.

Here's what the group picked as its best response:

***“Today’s answer for the community needs of tomorrow.”***

### **Self-Study Questions**

1. How have we prepared to communicate with our various constituent publics?
2. What are the elements of our initial communications plan? Who will implement them?
3. When our communication and outreach begins to work, are we prepared to respond? Who is our spokesperson? Have we a consistent message to deliver?
4. Are we sufficiently aware of the public support requirements to begin to address them as we succeed in raising endowments?

## Glossary

**Annual Meeting**

A public meeting at which the community foundation reports on activities during the previous year and plans for the future.

**Annual Report or Yearbook**

Yearly foundation publication focusing on financial, program and governance information.

**Newsletter**

A periodic published communication to foundation constituents that highlights its activities.

**News Release**

A printed handout prepared for the new media that reports on specific events, grants and gifts.

**Professional Advisors**

Attorneys, estate planners, life insurance underwriters, CPAs and others who advise clients as to financial plans and actions.

**Public Charity**

Any charitable organization classified under Section 501(c)(3) of the Internal Revenue Service Code and defined under Section 509(a)(1), (2), (3) or (4). To qualify for classification under these sections, the organization must meet one or more of several tests or definitions whereby the organization demonstrates that a minimum specified percentage of its total support comes from the public or it meets certain organizational definitions.

**Public Support Test**

In order to maintain tax-exempt status, a public charity that is not a governmental unit, church, school or medical institution generally must meet certain tests showing that it normally receives a specified minimum amount of support from the public.

## Resources

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# APPENDIX



## Distinguishing Community Foundations from United Ways

### *(Historic View)*

Community Foundation	United Way
Provides risk capital and project grants.	Provides operating support.
Larger gifts of assets from a smaller group of donors.	Small gifts from income (after payroll deduction) from a large number of donors.
Broad-based grantmaking: health, education, arts, home services, environment, community development, youth.	Focused on human services.
Time-limited funding.	Continuing funding.
All 501(c)(3) organizations and charitable organizations eligible for grants.	Membership organizations eligible for support.
Endowment based in perpetuity.	Annual operating funding.
Quiet, donor-oriented asset development strategy.	Public, community-wide, needs-oriented fundraising strategy.
Community “savings account.”	Community “checking account.”

United Ways and community foundations must work together in a community to achieve their individual and mutual missions. Clarity of role and purpose, distinctive competencies, open communication, mutual respect and a desire to build community aid this collaborative effort.