Global Community Forum: An Introduction to Community Foundations

Prepared for: Global Community Fair 2015

November 10, 2015
“Strengthen the social sector by advancing knowledge about philanthropy in the U.S. and around the world.”

What if **EACH** community foundation could know what **ALL** community foundations collectively know?
A LITTLE ABOUT FOUNDATION CENTER

• Founded in 1956

• Leading Authority on Data and Research About U.S. and Global Philanthropy
  o Data on more than 130,000 foundations worldwide
  o Data on more than 4 million grants awarded by foundations worldwide

• Services to Grant Seekers
  • Grantmaking data, training, information resources

• Services to Foundations
  • Research studies, benchmarking, GrantCraft, knowledge platforms, data visualization tools

• 140 Employees in Five Locations
  • More than 30 employees involved in data collection, coding, analysis, and research

• Funding Information Network
  • More than 500 affiliated libraries/centers worldwide
  • In-person visitors have free access to all Foundation Center data and tools
Community Foundations: A Brief History

A LEGACY OF OVER 100 YEARS

- The first community foundation, The Cleveland Foundation, was founded in 1914 by Frederick Goff.

“How fine it would be,” if an individual who was “about to make a will could go to a permanently established organization … and say, ‘Here is a large sum of money. I want to leave it to be used for the good of the community, but I have no way of knowing what will be the greatest need 50 years from now. Therefore, I place it in your hands to determine what should be done.’”

Source: The Cleveland Foundation
AN IDEA WHOSE TIME HAD COME

• In 1915 alone, 12 more community foundations were established.

• The first non-US community foundation – the Winnipeg Foundation – was created in 1921.

• By 1931 there were a total of 74 community foundations in existence.

• Today there are more than 750 community foundations operating in the United States and over 1,800 worldwide.

• Visit the Community Foundation Atlas to learn more about community foundations across the world.

Source: The Cleveland Foundation
WHAT IS A COMMUNITY FOUNDATION?

• In the U.S., the Department of Treasury regulations define certain structural and operational criteria that community trusts (foundations) must meet - 26 CFR 1.170A-9(e)(10)-(14)

• However, without a comprehensive legal definition, community foundations are generally defined by several characteristics:
  – An indigenous grantmaking institution that accumulates financial resources from a variety of donors, including local individuals and companies, diaspora populations, government bodies, and international funders.
  – An institution that, when possible, pools sufficient resources to develop a permanent asset base in the form of an endowment.
  – An institution in which local people and groups respond to local challenges.
  – A grantmaker that provides funds to local groups to address a range of local needs, such as education, poverty alleviation, youth and women’s programs, health, community development, and others.
  – A bridge builder that helps create links between different sectors, particularly when there is a climate of public distrust in institutions.
  – An advocate that takes a leadership role with local or national authorities on sensitive social issues.
  – A steward that accumulates and pools resources for the public good – for today and in perpetuity – and distributes those resources in an open and transparent way

Source: Global Fund for Community Foundations
WHAT IS A COMMUNITY FOUNDATION?

• In 2005, U.S. community foundations created a voluntary self-regulated accreditation program called the National Standards for U.S. Community Foundations to promote excellence and accountability in the field.

1. Meeting the Definition of a Community Foundation
2. An Independent Board that Reflects the Community
3. Foundation Control over Component Funds
4. Advance the Foundation’s Mission, Strategy, and Policies
5. A Board and Staff that is Responsible for Operational Health
6. A Board that Approves and Monitors Policies and Grants
7. A Board that is Independent
8. Board and CEO Compensation
9. A Board with Oversight and Control of Geographic Affiliates
10. A Board and Staff Actively Developing Broad Support
11. The Board Secures Discretionary Resources
12. The Board Demonstrates Legal and Fiduciary Control
14. The Board is Accountable and Transparent about Programs and Finances
15. The Foundation Maintains Fund Records
16. Board and Staff Honors Donor Intent and the Law
17. The Board Has and Makes Public the Annual Audit
18. The Board Oversees Diverse Grantmaking
19. The Board’s Discretionary Grants Respond to Community Needs
20. The Community Foundation Oversees Grantmaking Due Diligence
21. The Board Oversees Donor Education and Engagement
22. Foundation Provides Gift Acknowledgement and Fund Statement for Donors
23. Privacy and Confidentiality
24. The Board Displays Community Leadership
25. The Board Oversees Social Media and Communications
26. The Board Oversees Advocacy and Lobbying Activities

Source: Council on Foundations
## COMMON COMMUNITY FOUNDATION FUND TYPES

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Description</th>
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<tbody>
<tr>
<td>Donor-Advised Funds</td>
<td>A fund that is owned and controlled by a community foundation, but the donor may recommend grants to eligible charitable recipients.</td>
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<tr>
<td>Designated Funds</td>
<td>A fund in which the non-profit agency beneficiaries have been specified by the donor.</td>
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<tr>
<td>Field of Interest Funds</td>
<td>A fund that is used for a specific category of charitable activity or a specific geographic region.</td>
</tr>
<tr>
<td>Discretionary Funds</td>
<td>A fund which is not specifically designated to particular uses by the donor. Grants are made at the discretion of the foundation.</td>
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<tr>
<td>Agency Funds</td>
<td>An endowment fund established by a non-profit agency and managed by the foundation. Net earnings are distributed back to the non-profit agency.</td>
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<tr>
<td>Scholarships</td>
<td>Funds established to provide awards for accomplishments or support to individuals who are pursuing some training or educational opportunity.</td>
</tr>
<tr>
<td>Services to Private Foundations or Non-Profits</td>
<td>Fee for service work in which the community foundation provides resources such as administrative, financial, grantmaking, or communications services.</td>
</tr>
<tr>
<td>Community Leadership</td>
<td>Activities specific to each foundation, typically resulting from its mission driven priorities. Examples include: activities that support the growth of philanthropy in the community, building capacity for non-profits, convening funders through grant writing workshops, and local presentation.</td>
</tr>
</tbody>
</table>
VISION & MISSION
“Silicon Valley Community Foundation advances innovative philanthropic solutions to challenging problems, engaging donors to make our region and world a better place for all.

Silicon Valley Community Foundation is a comprehensive center of philanthropy. Through visionary leadership, strategic grantmaking and world-class experiences, we partner with donors to strengthen the common good locally and throughout the world.”

In 2014, SVCF granted...

$219M to 9 Bay Area counties.

$239M elsewhere in the U.S.

$18M internationally.

Silicon Valley Community Foundation supports a wide range of different focus areas.

Source: Silicon Valley Community Foundation

Source: Foundation Maps
Top areas of focus

- Community Development and the Environment
- Health and People with Special Needs
- Education, Arts, and Human Justice
- Children, Youth, and Families

Most grantmaking is geographically focused

66% of grant dollars go to local recipients

Source: Foundation Maps

Through the generosity of New Yorkers who have set up charitable funds with us, we are able to make grants for a huge range of charitable activity so important to the well-being and vitality of our city. We are New York City’s community foundation, and one of the largest funders of City nonprofits.

Since 1924, The Trust has helped make donors' charitable dreams come true by funding the nonprofits that make our city a vital and secure place.

- Established the first Donor-Advised Fund in 1931.
- The Trust and Community Funds operate together as The New York Community Trust, with a single governing body.
- Community Funds is its not-for-profit corporation. Its assets are invested by outside portfolio managers and overseen by an Investment Committee.
- The New York Community Trust is composed of separate charitable trusts, each of which has a bank trustee.

Source: The New York Community Trust
<table>
<thead>
<tr>
<th>Mission and Values</th>
<th>Strategy and Goals</th>
<th>Business Model</th>
<th>Culture and People</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Engage in critical civic issues and take a visible stand</td>
<td>• Serve as “an anchor institution for values-driven donors, foundations and visionary nonprofits that want to work collectively to achieve measurable positive change.”</td>
<td>• Focus largest share of capacity on initiatives and leadership</td>
<td>• Operate with an entrepreneurial mindset</td>
</tr>
<tr>
<td>• Be an active partner and physical presence, an “exciting and collaborative place where the community goes to work”</td>
<td>• Engage donors in issues and enlist contributions to leadership</td>
<td>• Choose a few core fee-based products: Discretionary, DAFs, Agencies, Granting</td>
<td>• Focus on being visible and communicating about values with the broad community</td>
</tr>
<tr>
<td>• Serve as infrastructure for effective philanthropy and nonprofit service</td>
<td>• Fill gaps by bringing in new resources or taking an active role</td>
<td>• Manage all products to cover costs</td>
<td>• Build staff capacity to engage with partners around complex issues in the community</td>
</tr>
<tr>
<td></td>
<td>• Lead and take part in new community conversations</td>
<td>• Generate revenue to fully support leadership and initiatives through a variety of sources</td>
<td>• Dedicate significant resources to operating The HUB as a place for gathering and making connections</td>
</tr>
</tbody>
</table>

Source: CF Insights
274 PARTICIPANTS

$71 BILLION in Assets

$8.3 BILLION in Gifts

$5.5 BILLION in Grants

>90% Representation of estimated field-wide assets
Community Foundations: Current Trends

**Participant Service Density Distribution**
- Urban: 19%
- Rural: 44%
- Mix Urban and Rural: 37%

**Size of Population Served**
- <25,000: 3%
- 25,000-75,000: 11%
- 75,000-200,000: 20%
- 200,000-500,000: 13%
- >500,000: 53%

**Age (in years)**
- 75+: 10%
- 50-75: 12%
- 25-50: 34%
- 15-25: 40%
- <15: 5%
ASSETS, GIFTS, AND GRANTS REACHED RECORD-SETTING LEVELS FOR THE THIRD STRAIGHT YEAR

<table>
<thead>
<tr>
<th></th>
<th>2013 Reported Data</th>
<th>2014 Reported Data</th>
<th>Change in Reported Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$66 B</td>
<td>$71 B</td>
<td>7%</td>
</tr>
<tr>
<td>Total Gifts</td>
<td>$7.5 B</td>
<td>$8.3 B</td>
<td>10%</td>
</tr>
<tr>
<td>Total Grants</td>
<td>$4.9 B</td>
<td>$5.5 B</td>
<td>13%</td>
</tr>
</tbody>
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*Figures represent community foundations reporting at the close of their fiscal year end in each year and does not represent a consistent sample across the two years.

Even with slightly fewer foundations reporting for FY 2014, these figures each represent increases from the prior year.
Community Foundations: Current Trends

ASSETS CONTINUED THEIR STEADY CLIMB FIELD-WIDE

Average Change in Assets, 2013–2014, by Size

<table>
<thead>
<tr>
<th>Average Change for CFs</th>
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</thead>
<tbody>
<tr>
<td>&gt;$250M in Assets</td>
<td>$50–$249M in Assets</td>
<td>&lt;$49M in Assets</td>
</tr>
<tr>
<td>(N = 61)</td>
<td>(N = 87)</td>
<td>(N = 124)</td>
</tr>
<tr>
<td>Assets</td>
<td>Increased 10%</td>
<td>Increased 10%</td>
</tr>
</tbody>
</table>

Average Change in Assets, 2013–2014, by Fiscal Year End Date

Dow Jones Industrial Average, January 1, 2014–December 31, 2014

- Average Change for CFs with March or June FYE (N = 97): 13%
- Average Change for CFs with September or December FYE (N = 175): 9%

Foundations with a first-half fiscal year end saw slightly higher rates of asset growth
DONOR ADVISED FUNDS REMAIN AN AREA OF GROWTH FOR MANY COMMUNITY FOUNDATIONS AMID INCREASING COMPETITION

Even as DAFs continue to grow at community foundations, total DAF assets held by the three largest national providers are now greater than those held by the community foundation field.
MOST COMMUNITY FOUNDATION REVENUES COME FROM ADMINISTRATIVE FEES

Average Revenue Mix by Asset Size, 2014

Small Community Foundations
Assets <$50M
N = 125
- Administrative Fees: 59%
- Fundraising—Operating Capacity: 10%
- Fundraising—Programmatic: 5%
- Dist. From Endowment/Reserve: 15%
- Fees for Service: 9%
- Other: 1%

Medium Community Foundations
Assets > $250M
N = 61
- Administrative Fees: 76%
- Fundraising—Operating Capacity: 8%
- Fundraising—Programmatic: 6%
- Dist. From Endowment/Reserve: 4%
- Fees for Service: 3%
- Other: <1%

Large Community Foundations
Assets > $250M
N = 61
- Administrative Fees: 75%
- Fundraising—Operating Capacity: 6%
- Fundraising—Programmatic: 9%
- Dist. From Endowment/Reserve: 3%
- Fees for Service: 3%
- Other: 2%

*Totals may not add up to 100% due to rounding.

Small community foundations rely more on fundraising and distributions from endowments, while mid-sized and large community foundations have comparable revenue streams.
OPERATING BUDGETS CONTINUED THE UPWARD TREND IN 2014

Percent of Respondents Increasing or Decreasing Operating Budget, 2009–2014

- Percent Decreasing Operating Budget
- Percent Increasing Operating Budget

Average Staff and Staff Costs as a Percentage of Total Costs, by Size, 2014

<table>
<thead>
<tr>
<th></th>
<th>Average for CFs &gt;$250M in Assets (N = 54)</th>
<th>Average for CFs $50–$249M in Assets (N = 80)</th>
<th>Average for CFs &lt;$49M in Assets (N = 118)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average # Staff</td>
<td>26</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Average Staff Costs as</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Total Costs</td>
<td>65%</td>
<td>63%</td>
<td>62%</td>
</tr>
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</table>

The ratio of staff expenses to total expenses remained the same from 2013, even as the number of staff decreased for community foundations of all sizes.
A BUSINESS MODEL CLARIFIES THE WAYS A COMMUNITY FOUNDATION CREATES, DELIVERS, AND CAPTURES VALUE AND IDEALLY ALIGNS WITH STRATEGIC GOALS AND PRIORITIES

Create Value
The product portfolio and activities, e.g. DAFs, Agency, Community Leadership, etc.

Deliver Value
The operating capacity and cost structure of the organization, which is primarily staff

Capture Value
The revenue generated to cover the costs, such as administrative fees, distributions from endowments, fundraising, or fee-for-service arrangements
We are the community’s philanthropic institution, our value is inherently clear.

We can rely on our endowment/discretionary funds to cover operations and leadership funding needs.

We’ve been in this business for a long time. We know what works.

We don’t have the time or capacity to evaluate our business model.

As part of the Social Sector we should be mission-driven not profit and revenue driven.

Given our unique circumstances, what works at other foundations won’t apply to us.

H owever, reluctance to define, analyze, and evolve Community Foundation business models is common.
For example:

- How to be thoughtful about **future areas of growth and investment**, particularly in areas with challenging business model implications or less alignment with mission
  - Product growth and focus should be intentional and aligned with mission and strategy
  - Similarly, investments in products and activities should be the result of intentional decisions rather than a lack of information

- How to consider **opportunities to enhance programmatic and leadership possibilities** in order to grow impact and relationships in the community
  - Clarify the foundation’s leadership role in the community
  - Determine new terms for accepting new relationships or projects
A SERIES OF SHIFTS IN COMMUNITY FOUNDATION OPERATING MODELS WILL OCCUR OVER THE NEXT SEVERAL YEARS

<table>
<thead>
<tr>
<th>The Institution</th>
<th>The Community</th>
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<tbody>
<tr>
<td>• Every service and product community foundations offer is now available from other sources, or soon will be</td>
<td>• Community foundations must move beyond the important emphasis on operational efficiency of the last decade to a second order of change</td>
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<table>
<thead>
<tr>
<th>Managing Financial Assets</th>
<th>Long-term Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Community foundations must begin to see their endowments as a means to service, not the end in itself</td>
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</tr>
<tr>
<td>• Foundations can only differentiate themselves from other service providers through taking a visible leadership role in the community</td>
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</table>

<table>
<thead>
<tr>
<th>Competitive Independence</th>
<th>Coordinated Impact</th>
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<tbody>
<tr>
<td>• Success on the ground in communities and successful competition for donors will require a fundamental shift from a mindset of independent value to one of coordinated impact</td>
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<tr>
<td>• Just as foundations increasingly expect nonprofits to collaborate to solve social problems, foundations, too, must be willing to partner with others in the field</td>
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WE’LL USE FOUR EXAMPLE BUSINESS MODEL TYPES TO ILLUSTRATE THE VARIATION ACROSS THE FIELD AND DISCUSS SOME KEY TRENDS

<table>
<thead>
<tr>
<th>Established Institution</th>
<th>Donor-Focused</th>
<th>Change Catalyst</th>
<th>Statewide/Rural Regional</th>
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</thead>
<tbody>
<tr>
<td><strong>Defining Factors</strong></td>
<td></td>
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<tr>
<td>Older community foundation, typically located in large Northeast or Midwest city</td>
<td>Lean business model – little room to subsidize products or fund leadership</td>
<td>Emphasizes a few key products, but focuses largest share of capacity on initiatives and leadership</td>
<td>Develops charitable resources and addresses multiple communities' needs across the entire state/region</td>
</tr>
<tr>
<td>High percent of assets in endowed &amp; discretionary/field of interest funds</td>
<td>Assets &amp; revenues almost entirely in donor-driven products, little to no discretionary funds</td>
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<td></td>
</tr>
<tr>
<td><strong>Donor Relationships</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Known and respected by donors as area's core philanthropic institution</td>
<td>Emphasis on developing and serving ultra high net worth, savvy donors</td>
<td>Seeks to create buy-in and support by proactively asking donors to learn about and fund initiatives</td>
<td>Serves a diverse donor base – different interests/needs, financial capacities, community affiliations</td>
</tr>
<tr>
<td>Relatively high percent of deceased and aging donors</td>
<td>Strong relationships with donor advisors</td>
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<tr>
<td><strong>Product/Service Emphasis</strong></td>
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</tr>
<tr>
<td>Offers a wide array of products, with emphasis on building endowment</td>
<td>Heavily concentrated in donor-advised, corporate funds, &amp; fee-for-service</td>
<td>Manages products to cover costs and develops revenue streams specifically to fund leadership efforts (e.g., Civic Leadership Fund)</td>
<td>Offers a wide array of products, subsidizing some because they are the only entity offering that product in the region/state</td>
</tr>
<tr>
<td>Several supporting/affiliate organizations</td>
<td>Deemphasize products that do not cover costs</td>
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<td></td>
</tr>
<tr>
<td><strong>Leadership Approach</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deeply rooted in community, invests discretionary resources in leadership activities</td>
<td>Servant leadership - support and inform donors in their self-identified leadership efforts</td>
<td>Clearly articulated agenda for community leadership and initiatives</td>
<td>Involved in a range of initiatives (often small scale/grassroots) in multiple communities</td>
</tr>
<tr>
<td>Serves as convener, key stakeholder, and initiator in leadership efforts</td>
<td></td>
<td>Leads the way &amp; encourage donors, non-profits, and other partners to become engaged</td>
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</tr>
</tbody>
</table>
THE ASSET MIX FOR EACH FOUNDATION TYPE IS DISTINCTLY DIFFERENT

% of Total Assets by Product

- **Established Institution**
  - Community Leadership/Initiatives: 4.4%
  - Fee-for-Service: 5.4%
  - Supporting Organizations: 33.4%
  - Scholarships: 30.5%
  - Geographic Affiliates: 21.1%
  - Deferred Gifts: 4.3%
  - Discretionary/FOI: 2.3%
  - Other: 1.9%

- **Donor-Focused**
  - Community Leadership/Initiatives: 2.0%
  - Fee-for-Service: 5.7%
  - Supporting Organizations: 85.3%
  - Scholarships: 2.3%
  - Geographic Affiliates: 1.4%
  - Deferred Gifts: 1.1%
  - Discretionary/FOI: 1.9%
  - Other: 0.7%

- **Change Catalyst**
  - Community Leadership/Initiatives: 17.1%
  - Fee-for-Service: 12.7%
  - Supporting Organizations: 34.1%
  - Scholarships: 9.7%
  - Geographic Affiliates: 18.1%
  - Deferred Gifts: 4.6%
  - Discretionary/FOI: 12.9%
  - Other: 1.5%

- **Statewide/Rural Regional**
  - Community Leadership/Initiatives: 26.8%
  - Fee-for-Service: 6.5%
  - Supporting Organizations: 9.8%
  - Scholarships: 19.9%
  - Geographic Affiliates: 18.1%
  - Deferred Gifts: 4.6%
  - Discretionary/FOI: 12.9%
  - Other: 1.1%
CAPACITY DEDICATED TO PRODUCTS AND ACTIVITIES REFLECTS DIFFERING PRIORITIES

% of Total Costs by Product

- Established Institution
  - Other: 16.2%
  - Community Leadership/Initiatives: 8.3%
  - Fee-for-Service: 3.0%
  - Supporting Organizations: 6.9%
  - Scholarships: 24.6%
  - Geographic Affiliates: 25.7%
  - Deferred Gifts: 10.1%
  - Discretionary/FOI: 5.3%
- Donor-Focused
  - Other: 6.6%
  - Community Leadership/Initiatives: 14.7%
  - Fee-for-Service: 2.7%
  - Supporting Organizations: 6.6%
  - Scholarships: 62.3%
  - Geographic Affiliates: 4.4%
  - Deferred Gifts: 15.8%
  - Discretionary/FOI: 1.3%
- Change Catalyst
  - Other: 3.6%
  - Community Leadership/Initiatives: 3.0%
  - Fee-for-Service: 4.4%
  - Supporting Organizations: 4.6%
  - Scholarships: 15.0%
  - Geographic Affiliates: 2.4%
  - Deferred Gifts: 19.5%
  - Discretionary/FOI: 1.3%
  - Other Nonprofit: 3.4%
  - Endowment: 6.6%
- Statewide/Rural Regional
  - Other: 8.8%
  - Community Leadership/Initiatives: 18.1%
  - Fee-for-Service: 7.0%
  - Supporting Organizations: 9.0%
  - Scholarships: 8.2%
  - Geographic Affiliates: 3.1%
  - Deferred Gifts: 16.3%
  - Discretionary/FOI: 19.5%
  - Other Nonprofit: 3.4%
  - Endowment: 6.6%

Community Foundations: Business Models
Each foundation type funds its priorities with a different revenue mix.
Established Institution
- Changing donor bases and expectations require new approaches to development and donor relations
- Increased competition and challenges to endowed philanthropy threaten the traditional role of community foundations
- Shift from role as funder and convener to collaborator

Donor-Focused
- Need to differentiate from commercial DAF providers
- Lack of endowment or discretionary funds requires creativity and efficiency in managing funds
- Make strategic decisions about where to invest

Change Catalyst
- Grow sustainable funding source(s) for leadership and initiatives
- Easy to become over-extended
- Avoid straying too far from community foundation roots

Statewide/Rural Regional
- Being “everything to everyone” is unsustainable
- Working with lots of small donors and small communities with limited resources is time intensive
- Can be challenging to align leadership priorities across multiple communities
SHARING KNOWLEDGE. GROWING IMPACT.

cfinsights.org

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