About CF Insights

Community Foundation Insights’ mission is to enable community foundations to make informed decisions about their operating models in order to achieve greater sustainability and community impact. We are pursuing this mission through the development of a centralized online database of financial, investment, and operational data that allows members to benchmark their foundations against a self-selected set of peer foundations. Formed as an initiative of the Council on Foundations’ Community Foundations Leadership Team, CF Insights operates as a division of FSG Social Impact Advisors and builds on FSG’s cost-revenue tools and research.

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Executive Summary

As the financial environment continues to be shaky and a slow, potentially jobless recovery is predicted for the domestic and global economies, community foundations will continue to struggle with the twin challenges of fewer resources and greater community need. Following up on CF Insights' November 2008 report “Making Informed Decisions in Uncertain Times”, this report is aimed at helping community foundations take informed action in relation to their operating models and community activities in reaction to the ongoing economic slump. Our findings are based on quantitative and qualitative research conducted with 95 community foundations during the spring of 2009.

While these times continue to be challenging, community foundations have responded in innovative ways to meet the needs of all of their stakeholders, including donors, staff, and the communities they serve.

Our research findings overall underscore that the field has been able to “make lemonade” from this crisis. In light of tepid expectations for assets and gifts for the rest of 2009, community foundations are being creative and thoughtful in how they allocate precious resources and step up their community leadership.

Key Findings

Assets and gifts for 2008 were down across the board, but for many foundations grants were up, reflecting the field’s leadership in responding to the economic crisis in the fall and winter of 2008. For those foundations with fiscal year ends of July or later, assets declined an average of 19% from 2007 levels, while gifts dropped 14%. Nevertheless, foundations responded to increased needs in their communities after the markets collapsed through emergency funds or increasing donations to basic service organizations, resulting in an average increase in grants of 10% versus 2007.

The fiscal 2009 outlook for assets, gifts, grants, and budgets varies widely, but overall is trending toward declines of 5% to 10%. Foundations that have already ended, or are about to end, their fiscal 2009 year are on average expecting asset declines of 21% to 30%; a decrease in gifts of 11% to 20%; reduced grants by 5%; and flat operating budgets. Foundations with fiscal year ends past July are on average expecting asset declines of 5%; a decrease in gifts of 5% to 10%; reduced grants by 5%; and operating budgets trimmed by 5%. Overall, the budget to asset ratio will move for the whole sample set from 1.78% to 1.89%; more detail on this ratio by asset size is provided in the paper.

2009 budget reductions focused on cuts of discretionary items, such as travel, conferences, professional services as well as special initiatives; for 33% of the foundations surveyed, attrition and/or layoffs resulted in reduced FTE levels. On the personnel side, many organizations are leaning on salary cuts or freezes, furloughs, unpaid vacations, and overall hiring freezes to reduce expenses. On the non-personnel side, leveraging technology to cut down on the cost of print and mailed communication is a big theme, as is “smarter” development whereby resources are more targeted to audiences with high potential. Overall, foundations are belt-tightening across the board on office supplies, catering, and vendor-provided services.

The outlook for 2010 budgets varies, with a median expectation of -5% versus 2009. Overall, only a quarter of the community foundations sampled are expecting to be able to increase their 2010 budgets, but none by more than 5% to 10%. None of the community foundations that cut 2009 budgets by more than 10% are expecting to have to repeat this level of cuts in 2010. On the flipside, those organizations that did not make cuts at this level in 2009 may be facing these cuts for 2010. Foundations are gearing up for a potentially challenging 2010 by renegotiating leases, continuing hiring freezes, finding free or in-kind resources, and looking at ways to reduce benefits such as health and retirement contributions.

On the revenue side, the vast majority of foundations are not adjusting fee structures, instead relying on alternate revenue sources and budget cuts to weather the storm. Only 12% of foundations sampled have adjusted their fee structure in response to the crisis. Indeed, while administrative fees covered an average of 66% of the sample set’s operating budgets in fiscal 2008, the outlook for 2009 is 5% lower at 61%. To make up for this shortfall, 65% of organizations are tapping into operating reserves and many are leveraging internal grants to fund operations.
Stakeholders are worried foremost about the community and how to best serve its needs. Boards, staff, donors, and nonprofits are naturally all voicing concerns about the sustainability and health of the foundation. But even stronger is their concern for the nonprofits and families in their communities that are facing financial turmoil. Deliberating on how to conduct the most “impactful” grantmaking and community leadership has created more engaged boards and donors, momentum which foundations should work hard to maintain once the economy recovers.

In the wake of stakeholder concerns related to best serving the community, foundations have stepped up their convening, capacity building, and collaboration activities to highly commendable levels. Foundations are embracing the challenge and opportunity of taking on the role of convener around the issues and solutions in their communities. In addition, they have changed their grantmaking philosophies to aid their grantees through operating support, shorter grant decision cycles, and technical assistance around organizational strategy and development. These efforts are being undertaken in many cases in close coordination with other local funders; this collaboration ensures that funds and efforts are not duplicative. All of this activity is helping foundations find topics, excitement, and progress to share with donors and other key stakeholders. These activities should be continued even after the economy rebounds.

Donors are also being more strategic about their giving, and more receptive to foundation advice. While many donors have reduced both the number and size of grants in the wake of declining assets, they are aware that communities need their dollars more than ever. As such, they are being increasingly thoughtful about the impact of their giving and drawing upon the advice of the foundation to guide their grant choices. Foundations should take advantage of this opportunity to demonstrate their add-value and community knowledge to donors so that the increased dialogue on smart giving does not ebb once the markets recover.

In the midst of these short-term actions, foundations have not forgotten the long-term and are continuing to shore up their sustainability. A substantial portion of the small percentage of community foundations that did not have operating endowments or reserves before the crisis are setting these up now. Spending policies are under review, finding partnerships to cut costs or increase revenues is on the agenda, and activity-based costing studies are being pursued to help foundations make informed decisions about their economic models.
1. Introduction

Background

The financial markets continue to be depressed and volatile as shown in figures 1 and 2. The Dow Jones has lost more than one third of its value since the beginning of 2008. In March of 2009, it plunged to levels below 6,500 in trading – a level which had not been since 1997. According to the Bureau of Labor Statistics, employment continued its decline in April with 539,000 jobs lost, and the unemployment rate rising from 8.5 to 8.9 percent.¹

Over the past 12 months, the number of unemployed persons has risen by 6.0 million to 13.7 million as the unemployment rate has grown by 3.9 percentage points to 8.9%

Slowing the recovery is the fact that this recession is a global phenomenon. In a report issued by the International Monetary Fund in April of 2009², “in the most severe recession since World War II, the global economy is projected to shrink by 1.3 percent in 2009, with a slow recovery expected to take hold next year. Growth is projected to reemerge in 2010, but at 1.9 percent it would be sluggish relative to past recoveries.”

Moreover, the housing crisis that has unfolded as part of the economic slowdown has not abated. According to recent census data 1 in every 9 homes across the U.S. will sit vacant as a result of a slumping housing market. According to CNN, “with the perfect storm of the foreclosure crisis and the faltering economy, more and more families are becoming homeless. According to a recent count by the Metropolitan Washington Council of Governments, the number of homeless families in the Washington region alone has jumped 15 percent since last year.”³

As the unemployment rate continues to creep up and families struggle to make ends meet, the need for basic human services rises. The United Way has recently seen a 68% increase in the number of calls for food, shelter, and warm clothing.⁴ At the same time, community, private, corporate, and family foundations lost nearly $150 billion in assets by the end of 2008⁵, making it even harder to support the nonprofits and by extension families in their communities. While foundations were still able to give more than what forecasters originally expected in 2008, rolling averages of spending policy calculations will make grantmaking trickier in years to come, especially in 2010.

While the economic slump affects every type of organization across the country and around the world, community foundations are uniquely impacted by depressed markets:

1. Their operating models are highly dependent on administrative fee income which is based on asset values.
2. Community foundations look to new contributions each year to build their asset bases.
3. Finally, their communities are often dependent on grants coming out of community foundation funds, particularly as other philanthropic funds and government budgets dry up.

2 International Monetary Fund World Economic Outlook, April 22, 2009.
3 Kate Bolduan, “Schools, agencies seeing big increase in homeless families”, CNN.com, May 2, 2009.
Objectives

This research is aimed at helping community foundations make informed decisions about their operating models and community activities in reaction to the ongoing economic slump. The first paper CF Insights released on this topic caught the field just as the crisis was beginning to unfold; this follow-up paper revisits the themes of the first paper six months later, allowing us to draw on learnings and plans that have been developed as the current economic climate has moved from an acute crisis to an ongoing fact of life.

“We received very useful information in the first Community Foundation Insights report. We gave the study to our Board members and staff. This helped greatly to give all concerned the confidence that we were doing what other foundations were doing and we were on track. We provided the report to a funder to show them that we were in line with what other foundations were encountering and planning…”

The overall intent is to provide timely and actionable benchmarks and information to the community foundation field to help foundations as they continue to refine their operating, grantmaking, and community leadership strategies in these challenging times.

Methodology

The information for this research was collected from two sources. An electronic survey was distributed to the field and filled out by 95 community foundations. Please note that not all foundations filled out each question, thus our “N” is not always 95. In addition, 24 of these 95 community foundations were interviewed to collect more in-depth anecdotes on the actions these foundations have taken, or are considering taking, related to their revenues, costs, grantmaking, and communications. Our overall data set includes foundations of all sizes, as illustrated by figures 3 and 4 below. In addition, since the financial projections and budget actions are quite dependent on fiscal year ends, we have also categorized our data set along these lines and will at times show data in aggregate, as well as by fiscal year ends up to June 30th (37% of the foundations) and beyond June 30th (63% of the foundations).

Strong, visible community leadership is paramount in these times, both because communities are in need, but also because foundations should seize the opportunity to demonstrate their value to donors. This paper will highlight how foundations have managed to step up their community leadership, despite concerns about internal finances...

A full listing of the community foundations that participated in this research is shown in Appendix A of this paper. Only foundations that filled out at least 25% of the survey questions are included on this list. In addition, those foundations that were part of the interview set are marked with a *. The data requested and qualitative questions posed as part of this research are shown Appendix B.
2. Impact on Key Benchmarks

Overview

This section highlights results and expectations for key community foundation indicators. First, 2008 results for assets, gifts, and grants are compared to 2007. Next, 2009 expectations for assets, gifts, grants, and budgets are shown in aggregate and by fiscal year end and asset class. Finally, this section provides data on how the ratio between operating budget and assets will evolve between 2008 and 2009, and what kind of Donor Advised Fund (DAF) activity foundations are observing.

Our overall findings for these key benchmarks indicate:

- Many foundations stepped up their giving in the fall and winter of 2008, despite shrinking assets and gifts.
- Looking forward, foundations continue to expect asset declines in 2009, particularly those with fiscal year ends in the first part of the year.
- Gift expectations vary widely, as they continue to be difficult to forecast, but overall expectations are that gifts will not recover in 2009.
- Plans for grantmaking are also varied, but on the whole are trending down about 5% from the prior year.
- Foundations took different tacks with their 2009 operating budgets; however a large majority did make cuts and those that did not will likely have to make up for it in 2010 budgets.
- As a result of all of this, the ratio of budget to assets will increase in 2009 for the field as a whole and for each category of asset size.

2008 versus 2007

For those community foundations for which 2007 Columbus Survey data exists, we were able to compare fiscal 2008 data to the prior year. This analysis yields some very interesting results (see figures 5A-C).

Overall, assets were down by an average of 17% for the sample set, with gifts down by 11% and grants up by 6%. Splitting the data by fiscal year end reveals that declines in assets and gifts were not as severe for those foundations that finished fiscal 2008 in or before June. However, the average change in grants for this set is basically flat. These foundations, likely sensing an imminent downturn of the economy, curbed their grantmaking last year.

Figure 5A: All (N=59)

- Assets: -17%
- Gifts: -11%
- Grants: 6%

Figure 5B: January-June Fiscal Year End (N=18)

- Assets: -12%
- Gifts: -5%
- Grants: -1%

Figure 5C: July-December Fiscal Year End (N=41)

- Assets: -19%
- Gifts: -14%
- Grants: 10%

As a result of all of this, the ratio of budget to assets will increase in 2009 for the field as a whole and for each category of asset size.

The way 2008 played out, we had a strong year across all gift types – we didn’t see any dramatic downturn anywhere... but the beginning of 2009 is looking very different.

Foundations that were still in their fiscal 2008 year when the crisis unfolded last fall on the other hand turned up the volume on their grantmaking. For these foundations, 2008 showed a 10% increase in grants over 2007. Many foundations responded to the emergency needs for food, shelter, and other basic services in their communities, and the numbers prove it.

1 This analysis excludes any foundation that had more than a 100% swing in any of the three indicators.
2009 Estimates: Assets

On an aggregate level, expectations for 2009 assets levels as compared to 2008 vary dramatically. The median response in the sample set of 83 is a decrease of 5% to 10%. However, fiscal year end is naturally a key driver of the response to this question. (See figures 6A-C).

Splitting the sample set into foundations with fiscal year ends before June 30th and after reveals very consistent expectations for the former group, and a range of expectations for the latter.

52% of foundations that already have ended or are about to end their fiscal year 2009 expect a 21% to 30% decrease in their asset levels. A further 16% are expecting 11% to 20% declines. The remainder of the sample set has disparate expectations.

“Can we please stop talking about asset allocation?”

The 52 foundations with fiscal year ends later in the year demonstrate the level of uncertainty that still exists about the market and the economy overall. The median response for this set of foundations is an expected decrease of assets by 5%. However, there is not as much agreement across the board. 27% of these foundations are expecting their assets to recover from 2008 levels, while more than half are expecting further declines.
Peer Benchmarking Table 1: 2009 Estimates for Assets

Asset size also plays a role in 2009 expectations for asset change; however, this cannot be analyzed separately from fiscal year end since there is such variance as previously mentioned. The table below, which is the first of several tables in this paper of this nature, summarizes the entire sample set of 83 foundations that answered the 2009 change in asset expectation question by their fiscal year end and asset class. The percentages in the table represent the percentage of foundations in a given category that chose the asset expectation in the left-most column. In other words, of the 12 foundations that have a fiscal year end of July to December and assets of $100 million to $250 million, 33% are expecting their assets to decrease by 11% to 20% in fiscal 2009.

### Summary Table of 2009 Asset Change Expectations

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For the foundations with fiscal year ends that have already ended or will end soon, asset size does not play a huge role in expectations. For the foundations with fiscal year ends later in the year, there is a slight trend that larger foundations are not expecting a decrease in assets as much as mid-sized foundations are. Overall, it is important to note that one or two new large gifts alone can substantially alter the outlook on asset expectations.
2009 Estimates: Gifts

Similar to assets, there is quite a bit of disparity on fiscal 2009 gift expectations across the sample set. The median response in the sample set of 84 is a decrease of 10%. However, fiscal year end is naturally also a key driver of the response to this question. (See figures 7A-C).

For the 31 foundations that have already ended or are about to end their fiscal 2009, there is a high degree of visibility for gifts already received or gifts expected with certainty, which means that these estimates likely paint a realistic picture. This picture shows that only 12% of foundations were able to increase fiscal 2009 gifts, 19% were able to maintain levels, and the remaining 68% saw lower gifts. The median answer for the community foundations in this category was a decrease of 11% to 20%.

“Only a handful of new funds are being opened, mostly at low amounts”

For the 53 foundations that still have many months left in fiscal 2009, expectations vary widely. 23% of these foundations expect to be able to increase gifts in fiscal 2009, 11% are expecting to keep gifts flat, and the remaining 66% are expecting a reduction in gifts. The median answer for the community foundations in this category was a decrease of 5% to 10%.

Figures 7A-C: Expected 2009 Change in Gifts

Figure 7A: All (N=84)

Decrease: 67%
Increase: 19%

Figure 7B: January-June Fiscal Year End (N=31)

Decrease: 68%
Increase: 12%

Figure 7C: July-December Fiscal Year End (N=53)

Decrease: 66%
Increase: 23%
Forecasting gifts has always been a challenge for community foundations. The wide variances in the data in the table above underscore that even in challenging times, the foundation field does not have a consensus viewpoint on how gifts will evolve in a given year. Foundations that have developed and carefully cultivated a planned giving strategy over the previous years are seeing the rewards of their efforts.

**“We have to shifted our emphasis to planned giving”**

As shown in figure 8, in terms of gift types, 77% of foundations in the sample set indicated they are receiving fewer stock gifts, while 29% indicated that gift types are relatively unchanged. On the illiquid gift side, some are experiencing an increase, while some are experiencing a decrease.

**“Our biggest gifts have been testamentary”**

While the sample sizes are small in many cases, there are some interesting findings that emerge. For the 31 foundations that have ended or are about to end their fiscal 2009, none of the larger foundations were able to increase gifts, while 25% of the smallest ones were. For the 53 foundations that will end fiscal 2009 later in the year, expectations are low across the board, with only small foundations expecting substantial increases.
2009 Estimates: Grants

Not surprisingly, in line with tempered expectations for assets and gifts, and despite foundations’ best efforts to maintain their community support, grants are generally expected to be lower in fiscal 2009. The median response for the aggregate sample set of 84 community foundations that answered this question is a decrease of 5% for grants. (*See figures 9A-C*).

Fiscal year interestingly does not seem to play a very large role in grant expectations. For the 31 community foundations that have already ended or are about to end their 2009 fiscal year, the median change in grants is also a decrease of 5%. 26% will end up with a higher level of grants than in their fiscal 2008. This makes sense in light of the fact that their fiscal 2009 includes last fall and winter, when most foundations stepped up their giving to basic human services.

“The held steady in 2008 but may not be able to in 2009 and 2010”

The 53 foundations that have later fiscal year ends also anticipate grant declines on a median basis of 5%. Only 19% expect to be able to give out a higher level of grants than in their fiscal 2008.

Figures 9A-C: Expected 2009 Change in Grants

**Figure 9A: All (N=84)**

- Decrease: 52%
- Increase: 21%

**Figure 9B: January-June Fiscal Year End (N=31)**

- Decrease: 51%
- Increase: 26%

**Figure 9C: July-December Fiscal Year End (N=53)**

- Decrease: 53%
- Increase: 19%
Asset size also plays a role in 2009 expectations for changes in grants; and even though fiscal year end is less of a factor, we have broken this out to allow easier peer group comparison. The percentages in the table represent the percentage of foundations in a given category that chose the grant expectation in the left-most column. In other words, of the 6 foundations that have a fiscal year end of July to December and assets of $500 million to $750 million, 67% are expecting their grants to stay flat in fiscal 2009.

With the same caveat as before on small sample sizes, the data shows that the smaller foundations have a wide range of expectations around grants, ranging from severe decreases of over 25% to modest increases. Most medium to large foundations are anticipating fiscal 2009 grant levels to fall into a band of decreases between 11% and 20% and increases of up to 10%.

There are two important considerations to point out for this data. First, spending policies play a substantial role in a foundation’s outlook on whether or not they will increase or decrease grants in 2009, and often even more so in 2010. For foundations that have 12 quarters in their spending policy, a prolonged recession will have a sharp negative impact on the ability to make grants in the upcoming years. Second, because foundations know their grant budgets will be flat to declining in 2009 and beyond, they are being much more deliberate in making sure their grants have impact. In other words, less money to give may not necessarily translate into less community impact. Some of the tactics being used to ensure increased impact are discussed in more detail in Section 5 of this report.
Many foundations are facing the challenge of deciding how to make grants from funds that are “under water” or in danger of becoming so. Foundations are most concerned about agency endowments, since these nonprofits often depend on such grants to support their operations. Some respondents gave agency endowments different choices on how to grant during difficult times, which included: passing on a grant for this year, taking a smaller grant, or taking the full grant amount and endangering the fund of invading principal. Many foundations are also facing this same tough decision themselves: should they invade the principal of their operating endowment?

There are of course no right or wrong answers to this question since there are many factors at play in this decision. But foundations are sensitive to the fact that if they tell their constituents not to invade principal, they should stick to the same rules for themselves. Moreover, there are also legal considerations related to whether or not states have adopted UPMIFA or are still operating under UMIFA. UPMIFA permits invasion of principal of endowments as much as the organization determines is “prudent” for the purposes for which the fund was established, while UMIFA allows invasion only to “historic dollar value”.

DAF Activity

We asked community foundations about changes in DAF activity regarding both gifts and grants (see figures 10 and 11). Not surprisingly, gifts to DAFs are down both in number and size for most foundations. Grant activity from DAFs however is not such a one-sided story.

“We’re seeing a smaller number of grants, but at a higher impact”

While 40% of community foundations are seeing no change in DAF grant activity, the balance is split relatively evenly between seeing an increase in both number and size of grants, and a decrease in both number and size of grants.

“Anecdotally, some of our DAFs are nervous and less inclined to make grants at prior levels until funds make a return to their old value… others say ‘let’s give away when it’s needed’ ”

Foundations should use this time, when DAF holders are likely particularly keen on maximizing the impact of their grants, to show how much value they add as an expert on the needs of the community.

“Donors have become more responsive to input from the Foundation – they want to know where their money is best spent”
2009 Estimates: Operating Budget

We asked community foundations for their expected fiscal 2009 budget change versus 2008. (See figures 12A-C). When we asked this question last fall, most foundations expected to keep budgets flat.

However, fiscal 2009 operating budgets are ranging from 25% lower to 35% higher, indicating that there is certainly no common budget response for the field. The median budget change for the 87 foundations that answered this question is a decrease of about 5%.

Fiscal year end does play a significant role for 2009 operating budgets. Of the 32 community foundations that were already in their fiscal 2009 budget year when the crisis hit, 50% will end their fiscal 2009 with higher budgets than in fiscal 2008. Indeed, the median response for this sample set is a flat budget. These foundations will likely need to make larger cuts in their 2010 budgets, which will be discussed later in this paper.

“We are asking employees to watch expenses as they go along”

For the 55 community foundations that are ending their fiscal 2009 later this year, only 36% are planning for an increased budget, while 58% are on a reduced budget. The median budget change for this sample set is a decrease of 5%.

Figures 12A-C: Expected 2009 Change in Operating Budget

**Figure 12A: All (N=87)**

- **Decrease: 53%**
- **Increase: 40%**

**Figure 12B: January-June Fiscal Year End (N=32)**

- **Decrease: 44%**
- **Increase: 50%**

**Figure 12C: July-December Fiscal Year End (N=55)**

- **Decrease: 58%**
- **Increase: 36%**
Peer Benchmarking Table 4: 2009 Estimates for Operating Budget

As with assets, gifts, and grants, we have constructed a table that shows operating budget change expectations by fiscal year end and asset size to allow for peer benchmarking. The percentages in the table represent the percentage of foundations in a given category that chose the operating budget expectation in the left-most column. In other words, of the 4 foundations that have a fiscal year end of July to December and assets of $50 million to $100 million, 50% are expecting their operating budgets to increase by 5% in 2009.

Summary Table of 2009 Operating Budget Change Expectations

% in Table Represent % of Foundations per Category

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<tr>
<th>Expectation for change in 2009 budgets vs. 2008</th>
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As mentioned above, budget adjustments are not falling into uniform patterns. There are a lot of factors at play here, even beyond asset size and fiscal year end, such as the existence and level of operating reserves or endowments, the ability to make internal operating grants, and a foundation’s outlook for raising dedicated operating funds. Larger foundations with fiscal year ends in the later part of the year are all expecting their budgets to increase by no more than 10%, with the majority anticipating moderate to severe cuts in their budgets. The smaller foundations are expecting a wider band of outcomes, with a handful anticipating substantial budget increases.
Operating Budget as % of Assets

The data provided by the sample set of community foundations enables a comparison of operating budget as a % of total assets (see figure 13). For this analysis, 2008 actual data was compared to 2009 extrapolated data, using the mid point of change estimates. For example, if a foundation indicated it was expecting assets to decrease “5% - 10%” and budget to decrease “11% to 20%” for fiscal 2009, the 2008 asset figure was reduced by 7.5% and the 2008 budget figure was reduced by 15.5% to estimate 2009 levels.

An interesting, though largely to-be-expected, outcome arises from this analysis. Overall, the sample had a 2008 budget to asset ratio of 1.78%, and will trend up to 1.89% in 2009. Each asset size category will also experience an uptick.

The average budget to asset ratio for small foundations with asset bases below $50 million will nudge up a bit from 2.54% to 2.56%.

Foundations with asset bases of $50 million to $100 million are experiencing the sharpest jump in the average ratio, from 1.46% to 1.84%.

Foundations with asset bases of $100 million to $250 million will also end the year with a higher ratio, moving from an average of 1.34% in 2008 to 1.49% in 2009.

Foundations with assets of $250 million to $500 million had an average budget to asset ratio of 1.04% in 2008, better than their larger peer set of foundations with assets of $500 to $750 million. By the end of 2009, these groups will largely converge with average budget to asset ratios of 1.12% and 1.14%, respectively.

Finally, large foundations with assets above $750 million will also experience a substantial uptick from a 0.78% average in 2008 to a 0.88% average in 2009.

“Our board is really focused on the 1% number and does not want to go above it. But this number is outdated!”

These developments in the ratio of operating budget as a percentage of assets are one example of how long-established benchmarks in the community foundation field need to be re-visited in these changing times. Foundations are working hard to maximize the impact of their giving, which in turn requires staff members that have the skills and time to stay abreast of their community so that they can make knowledgeable decisions about precious resource allocation. Cutting operating budgets just for the purpose of meeting a budget to asset benchmark in these times could hinder the community foundation’s effectiveness in serving its community, or in other words, be akin to “cutting off one’s nose to spite one’s face.” Boards should be less focused on this ratio, and more focused on whether or not the foundation is doing all it can within its means to be a knowledgeable leader and resource for the community.
3. Adjusting Your Budget

Overview

This section looks in more detail at the adjustments made to fiscal 2009 budgets, in particular around personnel. It also looks at other ways organizations have reduced their budgets, and analyzes their outlook for fiscal 2010.

Our key findings are that:

- As expected, travel, conferences, and professional services have been cut by most organizations
- 33% of the community foundations we surveyed have reduced their FTE level; the median reduction for this group was 12% of FTEs
- Electronic means of communication are replacing expensive paper-based methods
- Many foundations have taken a very transparent and communicative approach to budget reduction decisions, openly involving their staff in the process
- For 2010, most organizations are expecting further budget reductions, especially those that did not cut budgets a lot in 2009

2009 Budget Changes – Detail

We analyzed where in foundation budgets adjustments have been made for fiscal 2009 (see figure 14). For this analysis, fiscal year end did not play a significant role and is therefore not shown.

“We have prepared three different budget scenarios – recovery, flat, catastrophe”

Travel and conferences was the budget item that was cut by the most respondents (67%), while personnel was cut by the least (only 37%).

“Anything over $250 has to go through our CEO”

As shown on the next page (see figures 15 A-F), there are some significant ranges in the depth of both the cuts and increases for each of these line items.

Figure 14: Overall 2009 Budget Changes (N=87)
Figures 15A-F: Detailed 2009 Budget Changes

Figure 15A: Total Budget (N=87)

- >50% | 41%-50% | 31%-40% | 21%-30% | 11%-20% | 5%-10% | <5% | No Change | +<5% | +5%-10% | +11%-20% | +21%-30% | +31%-40% | +41%-50% | >50%
---
% Decrease
53%
40%

Figure 15B: Personnel (N=84)

- >50% | 41%-50% | 31%-40% | 21%-30% | 11%-20% | 5%-10% | <5% | No Change | +<5% | +5%-10% | +11%-20% | +21%-30% | +31%-40% | +41%-50% | >50%
---
% Decrease
37%
49%

Figure 15C: Professional Services (N=81)

- >50% | 41%-50% | 31%-40% | 21%-30% | 11%-20% | 5%-10% | <5% | No Change | +<5% | +5%-10% | +11%-20% | +21%-30% | +31%-40% | +41%-50% | >50%
---
% Decrease
49%
35%

Figure 15D: Travel / Conferences (N=82)

- >50% | 41%-50% | 31%-40% | 21%-30% | 11%-20% | 5%-10% | <5% | No Change | +<5% | +5%-10% | +11%-20% | +21%-30% | +31%-40% | +41%-50% | >50%
---
% Decrease
24%
68%
22%

Figure 15E: Other (N=80)

- >50% | 41%-50% | 31%-40% | 21%-30% | 11%-20% | 5%-10% | <5% | No Change | +<5% | +5%-10% | +11%-20% | +21%-30% | +31%-40% | +41%-50% | >50%
---
% Decrease
1%
52%
37%

Figure 15F: Special Initiatives (N=22)

- >50% | 41%-50% | 31%-40% | 21%-30% | 11%-20% | 5%-10% | <5% | No Change | +<5% | +5%-10% | +11%-20% | +21%-30% | +31%-40% | +41%-50% | >50%
---
% Decrease
18%
46%
37%
For those organizations that did make cuts in their fiscal 2009 budgets for any given line item, the severity of the cuts on average is shown below in figure 16. The percentages do not represent the percentage of foundations that cut this item; rather, they represent the percentage by which this item was cut.

On average, travel and conference budgets were cut by 34% and special initiative budgets by 30%. Professional services budgets were cut by 20%, “other” by 12%, and personnel by 8%, resulting in an average overall budget reduction of 10%.

However, the more interesting story may not be what was cut, but how the cuts were made.

Many foundations created an active process around budget reductions that involved their staff. Lists of potential cuts were made and openly discussed, allowing staff to be part of the decision making process, which in turn has made the adjustment to a more “no frills” environment easier to swallow.

Personnel Measures

Since personnel costs make up an average of 60% to 70% of community foundations’ budgets, it is the area where reductions can have the most impact on the bottom line. However, it is also the area that foundations are most cautious about cutting as adequate staffing levels are critical to serving the community and staff morale is important to senior leadership.

In our initial research six months ago, we heard that foundations wanted to avoid lay-offs at all costs. Unfortunately reality has caught up and many foundations have found themselves having to reduce FTE levels.

“We developed a list of potential cuts and shared it with the staff for a joint discussion of which cuts to make”

As shown in figure 17 above, of our sample set, 33% reduced FTE levels for fiscal 2009, 52% maintained FTE levels, and 15% have been able to increase FTE levels. It is important to note that a reduction in FTE levels does not necessarily translate to lay-offs; rather, most foundations are not filling positions vacated by attrition, which leads to an FTE reduction in many cases.
Measures that have been implemented to reduce personnel costs include:

- Across the board salary reductions in various ways, for example:
  - 1 day per month of furlough for 6 months
  - Across the board salary cuts, ranging from 5% to 10%
  - 1 week of unpaid vacation
- Continued hiring freezes and / or not replacing employees that leave
- Reductions in hours for some staff members
- Freezes on salary increase
- Reductions in annual salary increase rates to 2% or 3%
- Various CEOs voluntarily reducing their own salary
- Reduction in health benefits
- Reduction in pension contributions or 401(k) / 403(b) contributions

Drilling down on the magnitude of reductions and increases shows that in both cases there is a range of outcomes. (See figure 18).

Of the 29 foundations that reduced FTE levels, 8 reduced them by up to 5%; 9 by 5% to 10%; 10 by 11% to 20%; and only 2 by more than 20%. The median for those that reduced FTE level was a reduction in FTE level of 12%.

Of the 13 foundations that increased FTE levels for fiscal 2009, 1 increased them by up to 5%; 6 by 5% to 10%; 4 by 11% to 20%, and only 1 by more than 20%. The median for those that grew FTE level was an FTE level increase of +10%.

As shown below and on the next page, foundations have instituted creative measures beyond FTE reductions.
From the *Council on Foundations’ recent survey*, there is also more detailed data available on the percentage of community foundations that have taken actions to limit or reduce personnel expenses (see figure 19).

### Figure 19: Community Foundations Taking Personnel-Related Action

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eliminated Salary Increases</td>
<td>55%</td>
</tr>
<tr>
<td>Hiring Freeze</td>
<td>37%</td>
</tr>
<tr>
<td>Eliminated Positions</td>
<td>20%</td>
</tr>
<tr>
<td>Reduced Benefits</td>
<td>18%</td>
</tr>
<tr>
<td>Reduced Staff Hours</td>
<td>13%</td>
</tr>
<tr>
<td>Have Staff Expenses But Took No Action</td>
<td>9%</td>
</tr>
<tr>
<td>Laid off Staff</td>
<td>9%</td>
</tr>
<tr>
<td>Asked Staff to Contribute to Benefits</td>
<td>7%</td>
</tr>
<tr>
<td>Reduced Salaries</td>
<td>5%</td>
</tr>
<tr>
<td>Furloughed Staff</td>
<td>5%</td>
</tr>
<tr>
<td>Increased Staff Contribution to Benefits</td>
<td>4%</td>
</tr>
</tbody>
</table>

### Other Budget Reduction Measures

Beyond personnel, which is the biggest cost for most community foundations, there is a continued push to eliminate all non-essential expenses, including:

#### Marketing, Communications & Development
- Reducing overall marketing / public relation costs and fees
- Leveraging technology and e-communications to eliminate print, paper, and mailing costs for annual reports, donor letters, fund statements, etc.
- Shifting development spending to focus on highest value constituents rather than a broad audience
- Asking board members to host events in their own homes at their own expense

#### Professional Development
- Reducing budgets for professional development / training / conferences
- Encouraging staff to pursue professional development through online courses

#### General Operating Expenditures
- Finding in-kind or inexpensive out-sourced service providers in the community (legal, accounting, etc.)
- Cutting catering for internal meetings and / or using only nonprofit caterers
- Negotiating with vendors for reduced prices and / or purchasing supplies only in bulk
- Asking technical assistance providers to host free seminars and workshops for nonprofits
- Reducing schedule for office cleaning and grounds maintenance
- Using flash drives and CDs for application binders for subcommittees in lieu of paper copies
- Reducing FedEx and courier use

“We put our annual report on our website and just sent postcards to donors letting them know it was available for download, or if they wanted a hard copy, they could contact us and we would send them one. It saved thousands of dollars…”

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8 From the Council on Foundations’ May 6, 2009 paper entitled “Foundations Respond to the Needs of Families Even as their Assets Have Declined.”
From the Council on Foundations’ recent survey there is also more detailed data available on the percentage of community foundations that have taken actions to limit or reduce non-personnel expenses (see figure 20).

Figure 20: Community Foundations Taking Non-Personnel-Related Action

Limited Staff Attendance at Conferences 81%
Reduced Staff Travel Budgets 69%
Reduced or Eliminated the Use of Consultants 53%
Reduced or Eliminated Professional Development Budget 50%
Reduced or Eliminated Board Attendance at Conferences 38%
Reduced or Eliminated Institutional Memberships 38%
Reduced or Eliminated Board Travel Expenses 35%
Reduced or Eliminated Board PD Expenses 34%
Reduced or Eliminated Support for Professional Memberships 21%
Reduced Investment Management Expenses 10%

2010 Budget Outlook

We asked community foundations for their fiscal 2010 budget outlook as compared to their fiscal 2009 budget (see figure 21). The overall budget outlook is distributed between slight budget increases (up to +10%) and decreases (up to -20%), with a few outliers expecting severe budget decreases. The median overall expectation is a 5% decrease in 2010 budgets from 2009 budgets.

Figure 21: Expected Fiscal 2010 Budget Change versus Fiscal 2009 (N=81)

“We haven’t made any 2010 decisions yet, but it is weighing heavily on our minds”
As can be expected, both fiscal year end and asset size play a role in 2010 budget outlooks. For analyzing these dimensions, the granular categories shown on the prior page have been placed into five categories, whereby: severe decrease denotes expected budget reductions of -11% or higher; moderate decrease denotes expected budget reductions up to -10%; no change denotes expectations for a flat budget; moderate increase denotes expected budget growth up to +10%; and severe increase denotes expected budget growth of 11% or more, which not a single foundation is anticipating. (See figure 22).

The 30 community foundations in the sample set for this question with fiscal year ends of January to June 30th, in other words those who have already or will soon enter their fiscal 2010 budget years, fall not surprisingly generally more on the decrease side, with only 20% expecting increases in budget. The 51 community foundations in the sample set for this question that have a bit more time before their fiscal 2010 budget year starts are on the whole a bit more optimistic, with 27% expecting to increase their budgets.

For foundations with assets between $50 million and $250 million, the patterns for 2010 budget expectations is somewhat similar, with a smaller number (18%) anticipating an ability to increase their 2010 budgets.

Finally, the distribution for foundations with assets of $250 million or more follows a more evenly distributed pattern, whereby over 60% are in the flat to moderate decrease camp.

“...next year may not be so easy”
When asked about measures being taken to reduce 2010 operating budgets, a variety of ideas emerged that echo or augment measures being taken for 2009 budget reductions:

- Moving to donated office space
- Applying ceiling on spending policy
- Maintaining freezes on new hiring and salary increases
- Reducing use of energy and office supplies
- Moving to an on-line annual report rather than a printed annual report
- Limiting travel to in-state only
- Renegotiating leases
- Extending period of time before purchasing new IT equipment / computers
- Raising deductibles on health plans
- Using free interns from local universities for specific projects
- Sharing costs with other tenants in building
- Reducing pension contributions
- Using web meetings (with cameras) to connect different offices to save on travel costs

Finally, it is also interesting to compare 2009 budget actions with 2010 budget expectations as there is a natural relationship, as shown in figure 24. Looking at the 75 community foundations that either increased or decreased their 2009 budget (the 6 that made no changes represent too small a sample size for robust results) and comparing the extent of the cuts or increases to their outlook for 2010 budgets paints a pattern.

None of the foundations that reduced budgets by 11% or more in their fiscal 2009 are expecting to have to make similarly deep cuts in fiscal 2010. On the other hand, 91% of foundations that increased their 2009 budgets by up to 10% indicate they’ll have to reduce or at best keep flat their budgets for 2010. Finally, those foundations that increased their fiscal 2009 budgets by more than 10% are the most likely to have to enact budget reductions over 10% in fiscal 2010.

“"We are getting ARRA funds, recycling, and applying grandma's adage 'use it up, wear it out, make do' “”

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**Figure 24: Expected 2010 Budget Change versus 2009 Budget Action (N=75)**

<table>
<thead>
<tr>
<th>2009 Budget Change Action</th>
<th>Severe Decrease (-11% or more)</th>
<th>Moderate Decrease (up to -10%)</th>
<th>No Change</th>
<th>Moderate Increase (up to +10%)</th>
<th>Severe Increase (+11% or more)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severe Decrease (-11% or more)</td>
<td></td>
<td>56%</td>
<td>19%</td>
<td>25%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Moderate Decrease (up to -10%)</td>
<td>12%</td>
<td>32%</td>
<td>28%</td>
<td>28%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Moderate Increase (up to +10%)</td>
<td>9%</td>
<td>50%</td>
<td>32%</td>
<td>9%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Severe Increase (+11% or more)</td>
<td>17%</td>
<td>42%</td>
<td>17%</td>
<td>25%</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>
4. Supporting Your Revenues

Overview

This section looks at the revenue side of the equation. In line with our findings from the initial paper last fall, the vast majority of community foundations are not changing their fees. While trimming budgets can and is helping to make up for declining fee revenue, on average the community foundation field represented in this study is expecting administrative fees to cover only 61% of operating budgets in fiscal 2009, down from 66% in fiscal 2008. 41% of foundations are expecting to be able to maintain the same ratio in fiscal 2009, while 31% are expecting a drop of 10% points. 14%, most of which are small foundations, are actually expecting an improved ratio in 2009, while another 13% are expecting shortfalls in comparison to 2008 of 20%-60% points.

To cover these shortfalls, 65% of respondents are dipping into their operating reserves and utilizing a host of other alternate revenue sources, such as internal grants, targeted fundraising for operating support, or new fees on services such as backroom support, initiative management, or bequests.

Fee Changes

In our original research last fall, 80% of respondents indicated they were not planning to change their fee structure due to the economic turmoil. Six months later, community foundations have stuck to this plan. (See figure 25). Only 12% of respondents have changed their fee structures as a result of the crisis. These 10 foundations range in asset size from $19 million to $900 million, showing that size is not necessarily an indicator of whether or not fee changes have been seen as necessary.

The 16% that indicated “Other” are doing a range of things, including:

- Waiting for the results of a cost-revenue study to determine the best course of action related to fees
- Contemplating lifting the grandfathering of funds established in prior years and moving all funds to more recently established fee schedules
- Increasing fund minimums or fee minimums in order to discourage smaller funds
- Adding or increasing internal investment fees whereby internal refers to passing on the cost of staff services to investment pools or separate assets
- Treating administrative endowed funds the same as all endowed funds

“We are going to start charging a 1% fee on fiscal sponsorship”

Administrative Fee Coverage of Operating Budget

We asked foundations about the percentage of budget covered by administrative fees in their fiscal 2008 year, and what they expected this ratio to be for their fiscal 2009 year (see figure 26 on next page).

The average response in 2008 was 66%, while the average response in 2009 dropped to 61%. The tables on the next page illustrate a well-known fact, namely that the community foundation field does not have a standard business model, but that there are a wide variety of revenue structures across foundations of all sizes and shapes.

Another way to look at the data (see figure 27 on next page) is to plot a cumulative chart of how many foundations are at least covering a certain amount of their operating budget with their administrative fees. What this chart indicates is that the overall coverage has shifted to the left. In addition, in 2008 there were at least a few foundations that reached coverage levels above 100%. In 2009, not a single foundation is expecting this type of ratio, which means they all need to look to alternative revenue sources.
At an individual foundation level, the “before and after” for administrative fee budget coverage in fiscal 2008 and fiscal 2009 varies and an interesting pattern emerges when foundations are looked at by asset size, as shown in figures 28A-C on the next page.

For each foundation, the % of operating budget covered by administrative fees in fiscal 2008 was compared to expectations for fiscal 2009, and placed into categories. If the 2009 ratio is expected to be higher than in 2008, the category corresponds to “improved ratio”. If the ratio is expected to stay the same, the category is “kept ratio steady”. If the ratio in 2009 is expected to be up to 10% points lower than in 2008, the category is “moderate decrease of ratio”. Finally, if the 2009 expected ratio is 10% points or more below the 2008 ratio, the category is “severe decrease of ratio.”

It is important to remember that changes in this ratio for 2009 combine both sides of the equation: fee revenues and operating budgets. In other words, those foundations that have been able to keep this ratio steady, or even improve it, have been able to increase fee revenues, or lower their costs structure, or achieve both.

Foundations with assets below $50 million fared the best according to these categories. 60% of these foundations expect to be able to maintain or even improve this ratio, while only 8% are expecting a severe decrease. The fact that 22% are expecting an improved ratio shows that some of these small foundations have been very successful at trimming their budgets and / or bolstering their fee revenues.

For foundations with assets between $50 million and $250 million the story is similar, but not as positive. Only 52% are expecting improved or flat administrative fee coverage of operating budget, and 22% are expecting a severe decrease.

Looking at foundations with assets above $250 million, the range of outcomes is narrower. None of the foundations in the sample are expecting to have a higher ratio of administrative fees to operating budget in 2009. Slightly more than half are expecting to be able to maintain the ratio, while 37% are expecting only a moderate decrease.

“We don’t expect to be able to fully cover the shortfall this year”
Other Revenue Sources

The community foundations that participated in this research are drawing on a variety of alternate revenue sources in the wake of declining assets bases and declining fee income as shown in figure 29.

65% of the foundations are dipping into their operating reserves, while 38% are relying on an operating endowment. The average and median number of the listed alternate revenues sources utilized by the sample set is 1.9. In other words, most foundations are employing about 2 of these.

Some of the “other” sources listed include:
- Internal grants from undesignated / unrestricted funds
- Fundraising campaign and events geared at raising operating support
- Operating support from board members
- New fees from small private foundations converting to DAFs
- Administrative revenue from national funders who fund specific foundation initiatives
- Fees on bequests
- Fees for backroom services for other foundations or supporting organizations

“We started a ‘Friends of the Foundation’ program with our board as the inaugural members and asked each board member to recruit five new members to join”

“We are looking at our costs of running special initiatives and charging fees to cover them”

“For additional revenue we are doing a lot of back office support for smaller community or private foundations in our state, as well as managing corporate employee matching programs and contracted grantmaking services”
5. Serving Your Community

Overview

We asked the research participants about three areas related to how they serve their communities: what their constituents are worried about, how they have changed their grantmaking and community leadership, and how they are communicating with stakeholders.

In terms of stakeholder concerns, boards and senior staff are worried about staying sustainable while maintaining high levels of service to the community; staff, in addition to the aforementioned concerns, are naturally worried about their jobs; donors are facing a trade-off between depressed fund levels and a desire to increase support; and the community overall is struggling to meet pressing needs with fewer resources all around.

In response to all of the concerns, community foundations have not made drastic changes to their strategies. However, most have altered aspects of their grantmaking and community leadership in terms of focus areas and process – with heightened emphasis on convening, capacity building, and collaboration.

Frequent communication with all stakeholders through a variety of channels has become the norm, and foundations that have increased their community engagement are finding this has enhanced their communications messaging and positive media coverage.

Stakeholder Concerns

We asked organizations to share what their constituents, specifically their boards, senior leadership, staff, donors, and community overall, are most worried about during this time of economic uncertainty. The aggregate results are depicted in the form of a “word cloud” on the next page. As the word cloud shows (see figure 30 on the next page), words such as “community”, “nonprofits”, and “needs” came up the most, even more so than the word “foundation.” The diagram represents the key theme that has emerged from this research, namely that while in the fall foundations were worried about their own stability as the crisis escalated so fast, they are now chiefly concerned about their communities and how to best serve them.

On a more granular level, themes did emerge for the individual constituencies we asked about.

Board Concerns

The concerns at the board level fall into two major categories: sustainability of the foundation and balancing long-term strategy with responsiveness to the current climate. On the sustainability front, board members are naturally worried about depressed asset levels and the corresponding impact on revenues, which in turn hamper grantmaking ability and threaten staff reductions. On the strategy front, as previously mentioned, foundations are staying the course on their long-term plans, but realize that goals and initiatives must be flexible enough to accommodate the pressing basic human service needs that have become a daily reality. Board concern in many cases has led to increased board engagement, which is an exciting development for many foundations that should be harnessed.

“Our board is concerned about continued implementation of our strategic plan without hampering our ability to respond to and address changing community needs”

Senior Leadership Concerns

Overall, senior leadership shares the same concerns as boards do, however since they are more in the trenches, their concerns include more tactical elements, such as motivating staff in times of job cuts, salary cuts, and decreased resources for grantmaking and community leadership. Leaders know that efficiency and effectiveness will be key in the coming years and they must now figure out how to structure and manage their organizations accordingly.

“Our senior leadership is concerned about maximizing the Foundation’s impact on priority issues, managing a growing workload with a very lean staff, and our funding partners, particularly area foundations which are less able to co-invest in projects with us right now”

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9 A word cloud is a visual depiction of individual words in a given text, whereby the frequency with which the word is used dictates its relative size in the depiction.
Figure 30: “Word Cloud” Depiction of Answers to Questions About Stakeholder Concerns
Both boards and senior leadership know that “doing more with less” will be the mantra of the next few years; senior leadership is on the hook for figuring out how to do this.

“Staff Concerns
In addition to concerns about sustainability and community support, foundations are reporting that their staffs are very concerned about losing their jobs. Moreover, due to hiring freezes or cuts already undertaken, staff are finding themselves stretched very thin. This is stressful at all times, but even more stressful when community needs, and fundraising urgency, are higher than usual. All of this negatively impacts morale.

“Donor Concerns
Donors are naturally concerned about investment performance, as well as balancing pressing community needs with depressed fund levels. Donors understand that their contributions are needed now more than ever, which is causing some donors to focus more on weighing the impact potential of contributions.

“Community Concerns
The nonprofits that are served by community foundations are facing very similar challenges: stretched staffs due to lay-offs; reduced values of endowments; scarcer donor dollar prospects; increased constituent needs. It may in fact be that because community foundations are feeling the pain of nonprofits more than ever, they have been more flexible in providing operating support and shortening grant decision cycles. For nonprofits that are not involved in emergency relief or basic human services,

“Grantmaking & Community Leadership
Not surprisingly, community foundations have calibrated their grantmaking and community leadership activities based on the current economic climate facing their organization and surrounding community.

In the initial CF Insights report on “Making Informed Decisions in Uncertain Times” we listed ten concrete ideas for serving the community that surfaced from our research (see box on next page). For this follow-up study, we asked foundations if they were implementing these ideas.

The chart on the next page, figure 31, shows the results of this question. Each of the ideas listed is being pursued or planning to be pursued by at least 25% of the community foundations in the sample. In addition, more than half of the community foundations surveyed are, or are about to, shorten decision cycles, establish safety net funds, support mergers, provide operating support, and convene large funders.

As a result of the crisis, community foundations implemented, or are planning to implement, an average of three ideas from the list of ten ideas presented in Making Informed Decisions in Uncertain Times

“While the staff is certainly dedicated to the mission of the Foundation, they are also concerned about the stability of their jobs”

“Our donors are concerned about the ability to support community needs with diminished resources”

“No organization in our community is on the verge of closing their doors yet. However, there are concerns about raising operational dollars and continuing the level of programming that is needed in our community”

“Many, even strong nonprofits, are in survival mode – most have already done one or two levels of cuts”

Depending on a community foundation’s geography, responses also included ongoing concerns about job losses in certain industries.

“Many, even strong nonprofits, are in survival mode – most have already done one or two levels of cuts”

“Community Concerns
The nonprofits that are served by community foundations are facing very similar challenges: stretched staffs due to lay-offs; reduced values of endowments; scarcer donor dollar prospects; increased constituent needs. It may in fact be that because community foundations are feeling the pain of nonprofits more than ever, they have been more flexible in providing operating support and shortening grant decision cycles. For nonprofits that are not involved in emergency relief or basic human services,
On a relative basis, when comparing what the field overall was supporting before the crisis to what the field is supporting now as a result of the crisis, some interesting findings emerge.

- First, the number of foundations that are engaged in activity directly linked to economic downturn, such as conducting targeted research on the impact of the downturn on the community or asking grantees to shift funding to basic services, has increased more than five-fold.

- In addition, the number of foundations that have conducted a scan to know which organizations are heavily reliant on government funding has also increased five-fold.

- The number of community foundations that have first responders lists, provide operating support, and act as a convener of other large funders has increased three-fold.

- Approximately twice as many community foundations as before now have safety net funds, shorter decision cycles, and a policy of supporting mergers.

- Finally, the number of organizations that make PRIs has only grown by 50%.

**Ideas from Making Informed Decisions in Uncertain Times**

1. Create a “first responders” list of vital human service organizations serving the community.
2. Establish an emergency relief / safety net fund.
3. Make program related investments (PRIs) in the form of bridge loans to nonprofits.
4. Shorten decision cycles or create “fast track” grant categories.
5. Convene larger funders in the community to create a coordinated response.
6. Ask current grant recipients to shift funding to basic services.
7. Support mergers of small programs into larger, more sustainable organizations.
8. Provide operating support in the short-term to vital organizations that might otherwise fold.
9. Commission a quick landscape scan of vital organizations heavily reliant on government funding.
10. Conduct targeted research to understand exactly how the economic downturn will impact the community.

**Figure 31: % of Foundations Implementing Ideas from Making Informed Decisions in Uncertain Times Paper (N=78)**

- Ask Current Grantees to Shift to Basic Services: 26%
- Scan Orgs Reliant on Government Funding: 29%
- Create First Responders List: 30%
- Make PRIs: 34%
- Conduct Research on Economic Downturn: 40%
- Shorten Decision Cycles: 54%
- Establish Safety Net Fund: 62%
- Support Mergers: 62%
- Consider Providing Operating Support: 63%
- Convene Large Funders: 69%

- Implemented before financial crisis
- Implemented as result of financial crisis
- Planning to implement as result of financial crisis
In addition to asking about the ten specific ideas surfaced last fall, we also asked in a more open ended way how the current economic climate has impacted how community foundations serve their community. Similar to last fall, community foundations are not making seismic adjustments to their overall strategy, but they are changing tactics in their approaches, including an increased focus on funding basic human services.

Specifically, the main themes that have surfaced, which we are calling the three “Cs” of community leadership and grantmaking during economic downturn are Convening, Capacity Building, and Collaboration, which are of course interrelated and mutually reinforcing.

Convening:
From both the survey responses and the interviews, it is clear that community foundations are placing much more weight on their role as a community convener. Convenings are taking many forms, including workshops and seminars for specific constituents (donors, nonprofits, peer funders) and for specific topics (capacity building, needs mapping, resource sharing). Convenings are happening in person, or as one foundation reports, through an online nonprofit discussion forum it established as a result of the economic crisis. One foundation has started a new “community partnerships division” that will commission research on community issues, convene stakeholders around these community issues and support advocacy efforts to change selected public policies and / or programs.

Capacity Building:
Community foundations are also increasing their role as capacity builders. In the most “direct” way, this includes an increased openness to providing general operating support. In an indirect (“beyond the grant”) way, this includes organizing and funding workshops and seminars on topics of proposal writing, donor development, board development, strategic planning, and even how to obtain funding from the American Recovery and Reinvestment Act (ARRA). One foundation is helping nonprofits with projects that enable them to parlay existing funds into new funds. On the systemic level, more foundations are investing time and resources into general advocacy on behalf of the nonprofits and issues in their communities.

Collaboration:
Community foundations are pushing collaboration more than ever, both for their grantees and for themselves. On the grantee side, this entails encouraging nonprofits to understand how to work with each other to cut costs, avoid duplication of services, and even consider outright mergers. Additionally, foundations are seeking a more collaborative relationship with key constituents such as

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“We have done more convening of area agencies to ensure there are no overlaps”

“We will see the survival of the fittest in the nonprofit sector”

“While it is too soon to know what we will do in 2010, among our options is the idea of significantly increasing our convening activities in our four fields of interest... the idea is to bring together organizations that work in the same area or focus and support them in identifying what the critical elements of their service system are that need to be maintained and then provide capacity building support to develop outcome goals and a work plan”
board members and donors. Several foundations have reported that their boards have become much more engaged and active as a result of the crisis. Others highlight how they are more proactively working with donors to help direct funds to organizations with great impact potential. Finally, foundations are being more collaborative with peers, including their local United Way, to ensure that giving is coordinated among funders in a given region.

These findings are also in line with the Council on Foundations’ May 6, 2009 paper “Foundations Respond to the Needs of Families Even as Their Assets Decline” which found that 81% of community and public foundations are collaborating with other funders; 70% are convening meetings of funders and nonprofits to develop strategies; and 53% are assisting nonprofits to better coordinate their assistance.

“We are collaborating more than ever with other funders to leverage our dollars as much as possible”

“We have started a series of ‘Community Conversations’ with key nonprofit leaders and donors”

What Your Peers Are Doing: Convening, Capacity Building, & Collaboration

1. **Workshops for donors** on how to make the most of their grants in these times
2. **Educational seminars for nonprofits** on topics such as proposal writing, donor development, board development, strategic planning
3. **Roundtable discussions** between donors interested in and nonprofit leaders focused on certain issue areas (e.g., health, housing, education, etc.)
4. **Brown bags** on obtaining funding from the American Recovery and Reinvestment Act (ARRA)
5. **Workshops** for nonprofits on sharing resources and forging partnerships or even mergers
6. **Summits of all funders in a given region**, including private foundations, corporations, and United Ways, to coordinate efforts
7. **Advocacy campaigns** around critical issues facing their communities
8. **Online discussion for local nonprofits** to connect with each other and share learnings
9. **Working sessions** between government agencies and nonprofits to coordinate service provision
10. **Endowment challenges** to help select nonprofits they see as critical start endowments
Communications

When we conducted our initial research in the fall, most community foundations were just starting to address how to best communicate with their various constituencies (donors, board members, staff, grantees, the community at large). At that time, when we asked about the status of their communication plans, only 18% felt they had a full communications plan in place, 69% indicated they were just starting to plan their efforts, and 13% had not planned anything.

Many foundations have also established a communications calendar with set frequencies for different stakeholders, for example real-time updates almost daily through website; weekly or monthly staff meetings; bi-weekly email communication from CEO to board; quarterly investment briefings for donors; quarterly Op-Ed pieces; semi-annual briefing with donors and foundation CEO; semi-annual community convenings. These set frequencies are augmented with more ad hoc communications as needed.

In an interesting and laudable twist, the answers to our questions on “How have the ways you serve your community changed?” and “What communication efforts have you implemented or are you planning to implement?” bleed into each other for many foundations. In other words, community foundations are recognizing that convening, collaborating, and even supporting capacity building provide the added benefit of communication vehicles to the community and donors, particularly since many foundations have succeeded in garnering positive press coverage of their stepped up community leadership.

“Communications

Six months later, most community foundations have met the increased need for communication head on. On the one hand, electronic media has emerged as a cost effective and efficient vehicle for staying in frequent touch with constituents. Foundations are also leveraging traditional media outlets such as newspapers, television, or the radio to spread the word about the importance of their work. On the other hand, there is an increased emphasis on personalized “one-on-one” touch points with critical donors and supporters.

“We have dramatically increased communication to all constituents – knowing that more communication is necessary in uncertain times, especially to retain donors, and have done the following: launched newsletters in both hard copy and electronic form aimed at specific audiences, revamped website content, trained donor relations staff on financial issues to proactively address inquiries, tripled the outreach to existing donors by the staff, and revamped the quarterly statements to include more financial and market information”

“We have created a ‘board card’ to help our board members talk about the foundation”

“We are doing a series of articles in our local paper about philanthropy and the needs of our community”

“We have shifted foundation publications to be issue-based rather than standard newsletters”
6. Bolstering Your Sustainability

Overview

Community foundations are continuing to use this crisis as an opportunity to build out their arsenal of sustainability-enhancing measures. (See figure 32).

Figure 32: Sustainability Measures Undertaken (N=79)

- Set up Operating Endowment: 77% already implemented, 11% planning to implement
- Set up Operating Reserve: 77% already implemented, 5% planning to implement
- Adjust Spending Policy: 38% already implemented, 25% planning to implement
- Form Partnerships to Cut Costs: 30% already implemented, 22% planning to implement
- Form Partnerships to Increase Revenue: 25% already implemented, 25% planning to implement
- Do an Activity-Based Costing Model: 28% already implemented, 17% planning to implement

Currently, nearly 80% of community foundations sampled have set up operating endowments and / or reserves. Those foundations that do not have these types of funds in place are catching up.

Partnerships, whether on the revenue or cost side, continue to be an under-utilized avenue. Counting those foundations that have implemented these measures and those that are planning to implement them, only about half of the field is engaged in partnerships at this time. Foundations are encouraging their grantees to look for creative and innovative partnerships — they should continue to take a page from their own book and expand their own use of partnerships.

“You have to build now for the future – take advantage of the utility of the crisis, keep moving forward”

Finally, more and more foundations are leveraging activity-based costing to help them better understand their economic models. Similar to our interviews from the fall, we heard that those community foundations that had a firm grasp on the economics of each fund product / service feel they have been able to make more informed choices during the crisis.

Appendix C provides information about resources available from CF Insights to help foundations plan for sustainability.

What Does This All Mean For You?

The community foundation field has responded to this crisis with changes in mindset and action that the field should be proud of and work hard to sustain once the economic climate recovers. These changes include:

Creative solutions for internal resource allocation: Foundations of all shapes and sizes are learning to do “more with less.” The non-essential expenditures that have been cut should be carefully evaluated before adding back to budgets in better times. Foundations have been forced to be as frugal as they expect their grantees to be. This has created a better understanding between the two that should become a permanent state of mind.

Increased engagement at the board level: Boards are paying much more attention these days, both on the investment side and the grantmaking and community leadership side. While foundations are probably a bit overwhelmed by their newly overly anxious boards, once the tide turns on the economy, community foundations should continue to keep their boards actively involved and engaged.
Facilitation of “smarter” giving by donors: Community foundations have been able to demonstrate their value-add as donors have turned to them to maximize the impact of the now-reduced dollars they can give out. This status of “trusted advisor” should be maintained and built on to underscore the importance of the foundation in channeling donor dollars.

“Our next step is to be a ‘knowledge center’ where people can learn things, and making sure we are the place to go to for that… not just a convener but a knowledge center that can be tapped”

Stepped up community leadership, particularly around convening and advocacy: Foundations are becoming more active as their communities need them more. Convening has become commonplace, while advocacy efforts are becoming more prevalent. Foundations are also realizing that their stepped up community leadership has the added side benefit of increased positive media coverage and enhanced ability to communicate “add-value” to donors. As FSG Social Impact Advisors, the parent of CF Insights, recently addressed at the COF Annual Conference, “Raising Money While Raising Hell” is very possible. A report on this topic will be released later this summer. For our question on other ways community foundations are planning to ensure long-term sustainability, one respondent said the following, which highlights the point that being a leader bolsters the bottom line:

“Our other way to increase sustainability: responding in a leadership role to address current community needs”

More common sense engagement with grantees, including provision of operating support and streamlined decision processes: Many community foundations, for the first time ever, are providing operating support to select nonprofits, while at the same time making the process of receiving any funding much easier. Community foundations that have seen their administrative fees decline are feeling firsthand how challenging it is to raise revenue to support operations. This seems to have created more empathy and flexibility in serving grantees.

Enhanced efforts around collaboration, including with peer funders: Because every dollar counts much more than in the past, foundations are taking extra steps to make sure their efforts are not duplicative. Foundations are working closely with other funders and peers to coordinate grantmaking and community leadership. This is a tremendous development for the field of philanthropy as a whole and the practice of peer collaboration should become the norm, not the crisis-mode exception.

Elevated communication with all stakeholders: Finally, community foundations are finding themselves communicating, early, often, and creatively with their boards, donors, staff, grantees, and community at large. Those that are engaged in community leadership are finding it easy to “have things to say” in these communications as they have become central resources and nerve centers for the impact of the crisis on their communities, and how to best respond. This increased communication has spurred increased engagement from all stakeholders. Keeping up the communication even when things get better will pay dividends for years to come.

“We are using stories about our community efforts to donors in lieu of a formal marketing budget”

FSG developed several case studies of community foundations that have seen an increase in donor engagement and contributions as a result of more active community leadership. These case studies were presented during a panel at the Council on Foundation’s Annual Conference in May, 2009.

If you have additional ideas on the topics covered in this paper or want more information on them, please contact: Wendy Horton Wendy.Horton@fsg-impact.org Melissa Scott Melissa.Scott@fsg-impact.org
Appendix A | Participating Foundations

Adirondack Community Trust*
Akron Community Foundation
The Alaska Community Foundation*
Ann Arbor Area Community Foundation
Arizona Community Foundation*
Aspen Community Foundation
The Community Foundation for Greater Atlanta*
Beckley Area Foundation, Inc.
Berks County Community Foundation*
Berkshire Taconic Community Foundation
Berrien Community Foundation
The Community Foundation of Greater Birmingham*
Blue Grass Community Foundation*
The Boston Foundation*
Community Foundation for Greater Buffalo
California Community Foundation*
Foundation For The Carolinas
Community Foundation of Central Florida*
Central Indiana Community Foundation*
Community Foundation of Greater Chattanooga, Inc.
The Greater Cincinnati Foundation*
Communities of Coastal Georgia Foundation
The Columbus Foundation
Cumberland Community Foundation
The Dallas Foundation*
The Dayton Foundation
The Denver Foundation
East Texas Communities Foundation
Erie Community Foundation
Evanston Community Foundation*
Fairfield County Community Foundation, Inc.
Findlay-Hancock County Community Foundation
Community Foundation of Frederick County, MD
Community Foundation of Greater Flint
Community Foundation for the Fox Valley Region
Fremont Area Community Foundation (MI)
Fremont Area Community Foundation (NE)
Fresno Regional Foundation
Grand Rapids Community Foundation
Hancock County Community Foundation
Hartford Foundation for Public Giving
Henry County Community Foundation, Inc.
Heritage Fund - the Community Foundation of Bartholomew County, Inc.
Community Foundation of the Holland/Zeeland Area
Greater Houston Community Foundation
Jewish Community Foundation of Greater Hartford
Johnson County Community Foundation*
Kalamazoo Community Foundation*
Greater Kansas City Community Foundation*
Kern Community Foundation
Community Foundation of Lorain County
Community Foundation of Greater Memphis, Inc.
Community Foundation Mendocino County
Greater Milwaukee Foundation, Inc.*
The Community Foundation for Greater New Haven
Central New York Community Foundation
New York Community Trust
The Norfolk Foundation
Community Foundation of North Florida
Community Foundation for Northeast Michigan
Parasol Tahoe Community Foundation
Parkersburg Area Community Foundation
First Community Foundation of Pennsylvania
Philadelphia Foundation
The Pittsburgh Foundation*
Placer Community Foundation
Rancho Santa Fe Foundation
The Rhode Island Foundation*
Richland County Foundation
Rochester Area Community Foundation
The Saint Paul Foundation and Minnesota Community Foundation*
Greater Salina Community Foundation
The San Diego Foundation*
San Luis Obispo County Community Foundation
The Community Foundation of Santa Cruz County
Community Foundation of Sarasota County
Scranton Area Foundation
The Seattle Foundation
Shasta Regional Community Foundation
Sioux Falls Area Community Foundation
Community Foundation Sonoma County
Community Foundation for Southeast Michigan*
Community Foundation of Southern Wisconsin
Southwest Florida Community Foundation
The Greater Tacoma Community Foundation*
Telluride Foundation
Communities Foundation of Texas
Community Foundation of Tompkins County
Vermont Community Foundation
Community Foundation of Wabash County
Walker Area Community Foundation
Washington County Community Foundation
The Community Foundation of Westmoreland County
Community Foundation of Western North Carolina
Williamsburg Community Foundation

Note: Foundations that were interviewed are denoted by *
Appendix B | Research Questions

The Basics | Assets, gifts, grants, budget, full time equivalents:
- Fiscal 2008 actual
- Fiscal 2009 expected % change
- Changes in gift and DAF activity

Your Budget | Personnel expenses; professional services; travel, conferences and meetings; all other expenses; special initiatives; and total operating budget:
- Fiscal 2008 actual
- Fiscal 2009 estimated % change
- Personnel and non-personnel cost reduction measures
- Expected percentage change in operating budget for 2010 versus 2009

Your Revenues | Fees and alternative revenue:
- Changes to fee schedule(s)
- Percent of total budget covered by administrative fees in fiscal 2008
- Percent of total budget expected to be covered by administrative fees in fiscal 2009
- Alternative revenue sources

Your Community Activities | Response to the community, concerns from stakeholders, communication measures:
- Stakeholder concerns (board, senior leadership, staff, donors, community)
- Changes to grantmaking and community leadership strategy
- Communication efforts

Your Long-Term Sustainability | Measures undertaken
Appendix C | Additional CF Insights Resources

CF Insights, and its parent organization FSG Social Impact Advisors, have developed several publications and tools designed to help community foundations with operational decision making and sustainability. These publications and tools are all available on the CF Insights website at www.cfinsights.org

Publications

Making Informed Decisions in Uncertain Times (November 2008)

- In an effort to respond to the current financial uncertainty, CF Insights and FSG Social Impact Advisors conducted a study to identify strategies and recommendations for coping with today’s environment and provide information to share with boards and communities
- The report included data on forecasting budgets, as well as actionable ideas for serving the community through grantmaking and community leadership

Growing Smarter: Achieving Sustainability in Emerging Community Foundations (September 2007)

- It’s a striking paradox: as community foundations grow their assets, their sustainability is often threatened
- This report, sponsored by The James Irvine Foundation, and based on research with growing community foundations is filled with valuable information, case studies and economic models
- Three different approaches to sustainable growth (controlled, engaged, leveraged) are presented and analyzed

Compounding Impact: Mission Investing by U.S. Foundations (March 2007)

- Mission investments are financial investments (loans, guarantees, venture capital, etc.) made with the intention of furthering a foundation’s mission and recovering the principal invested or earning financial return
- While there is rapid growth in mission investments across U.S. foundations of all sizes, our research also suggests that a lack of knowledge, communication, and opportunity is restricting further growth
- This study offers key changes for the continued expansion and maturation of mission investing


- Complex adaptive challenges – where the problems are not so well defined, the answers are not known in advance, and many different stakeholders are involved – require adaptive leadership
- Foundations can create social change through imaginative and even controversial – adaptive leadership, through 1) Focused attention, 2) Generating and maintain productive distress, 3) Framing the issues, 4) Mediating conflict among stakeholders
Cost Revenue Studies

- Cost-Revenue studies answer a wide range of questions and inform major strategic and operating decisions, including
  - How much do the different funds and products we offer really cost?
  - Which products make money for the foundation and which do we subsidize?
  - How do our costs compare with other foundations?
  - Where can we cut back spending while still supporting our mission?
  - In an increasingly competitive market, how does the Foundation best position itself for sustainability?
- CF Insights provides free tools for community foundations conducting a cost revenue study in-house; alternatively, many community foundations choose to engage CF Insight to provide support, analysis, and recommendations for this process

Peer Benchmarking Database

- Available to CF Insights members, the database is a powerful tool for helping community foundations benchmark their operating models
- CF Insights compiles data from multiple sources in a way not previously possible:
  - Columbus Survey
  - COF Surveys (Investment and Salary)
  - Member Profile (includes audit, budget, 990s, fund types, etc.)
  - Cost-Revenue Studies
  - Investment Attribution
  - Fund-level Data
- Members can run both longitudinal or peer-based comparison reports on
  - Products and Services
  - Operations and Infrastructure
  - Staffing
  - Asset Development
  - Investment Management
  - Grantmaking and Community Leadership

Surveys

- CF Insights Houses and Manages Various Field-Wide Surveys:
  - 2008 FAOG Technology Survey
  - Columbus Foundation Survey of Community Foundations
  - Investment Performance and Practices of Community Foundations
  - Grantmakers Salary and Benefits Report

Educational Webinars

- As part of our goal of educating the field, CF insights conducts free webinars on a variety of topics and provides access to recordings online:
  - Latest Research
  - Conducting a Cost-Revenue Study
  - Online Benchmarking for Community Foundations
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