

# **Rural Fund Development 101**

## ***Starting and Growing Rural Community Endowments***

A Working Guide for Community Leaders

August 2007



# Introduction and Users Guide

Across rural America, people are joining together to do something new and different. They are launching and growing *community endowments*. Community endowments resemble savings accounts that grow over time. Local residents are using the interest earned on these community endowments—and the local energy and leadership that come from building them—to improve the quality of life for people, organizations and the places they call home.

Two recent stories speak volumes about the exciting potential of this movement.

## ***Community Wealth for Community Health***

In 2002, a regional consortium of hospitals announced it was going to close the only hospital serving several rural counties in southern Illinois. The hospital's kitchen workers, about to lose their jobs, held a barbecue to collect a few dollars to start a fund to save the hospital. They knew their paltry fund might seem like a futile gesture, but, with a local mayor's help, they placed the fund with the recently launched *Southern Illinois Community Foundation* (SICF).

SICF director Maggie Flanagan sent a press release to the local newspaper announcing the news of the kitchen workers and their fund. The paper ran a short article, and in the following weeks, envelopes of large and small checks and cash started pouring into the foundation's mailboxes.

SICF continued to update community members about the fund's growth, and people began to take notice. Conversations started in the community—unprecedented conversations. The kitchen workers' fund grew large enough to attract more media attention as well as the notice of local legislators, who then worked to get the hospital its own state license to run independently. The legislators also helped the hospital get a federal rural development grant to keep the doors open during the transition.

The result? The hospital continues to operate today, and the workers still have their jobs. The region's rural families retained an important medical facility, and the community foundation—along with its positive impact on the region—is growing.

## ***New Community Endowment Traditions—and Traction***

In Pender, Nebraska, a town of 1,300 people, local leaders caught the endowment bug in 2004. Believing that *everybody* can be a philanthropist, they decided to build their community endowment by involving as many people as possible. To do so, they launched a Founder's Campaign with this idea: Recruit 500 donors who care about Pender and who will each give \$100 to the Pender community endowment per year—for life.

In a larger community, 500 such donors might be easy to find, but in a town as small as Pender, 500 lifetime philanthropists might have seemed impossible. But the Pender endowment reached

out both to current residents and to people with local roots who had moved away. By the end of 2006, the endowment approached the halfway mark—250 Founders. In that mix were 39 of the town's 42 school teachers, who are not highly paid but who spread out their \$100 annual pledge over monthly paycheck deductions.

The *Pender Community Foundation Fund* set itself up as an affiliated fund of the Nebraska Community Foundation. Its early grants have helped support day care for teachers' children and housing down payments for families who move into town, purchase local homes, and place their children in the Pender school system.

The energy—and endowment—continue to grow in unexpected ways. One local man recently listed his antique tractor collection for sale. When an appraiser estimated the collection's value at \$300,000, the owner balked at his potential capital gains taxes and decided to donate seven tractors to the Pender Fund, selling them in the Fund's name. The sale fetched \$108,000 dollars, which the Fund now uses to match other donations—\$1 for every \$3 donated.

In two short years, Pender is on its way, to building both its endowment and its community's future.

These two stories highlight rural communities' ingenuity, drive, and commitment, and their willingness to invest in the places they live. They also show how people in rural areas recognize that their efforts must be sustained not just for today, but for generations—and that community endowments are a way to accomplish this.

Could your community be another example? Are you ready to learn more about community endowments?

This guide, *Rural Fund Development 101*, will help you understand the basics of community endowments and how to create one.

## **How did the idea of community endowments start?**

Today's concept of community endowments began with the birth of community foundations. In 1914, Frederick Goff, a Cleveland banker and attorney, looked for an efficient way to help clients—and other donors at all income levels—who wanted to leave a portion of their assets to benefit their communities. Finding no ready-made organization or fund that could accommodate their wishes, Goff established the Cleveland Foundation—thus launching the community-foundation movement.

The Cleveland Foundation was established as one charitable organization that could accept endowed contributions and bequests, large and small, from many donors who cared about their community and wanted to give back. The plan made great sense. Whereas in the past, wealthy people had gone to the time and trouble of setting up and running their own foundations, now people who wanted to contribute to their communities could simply set up a fund at the community foundation, or give to an existing fund, and have the community foundation manage

it. This made it easy for anyone and everyone to give back to the community, no matter their income level or wealth. You no longer had to be rich to be a local philanthropist!

Because the concept made such sense, other communities quickly followed Cleveland's lead. In 1915, the Chicago Community Trust and the Boston Foundation were established. The New York Community Trust followed in 1924, and California's East Bay Community Foundation in 1928.

By early 2007, more than 700 community foundations across the country managed more than \$45 billion in assets, and made grants or invested millions of dollars in America's communities and people each year.

### **How do community foundations work?**

Community foundations vary widely in the size of their organizations, their funds, their grantmaking, and the communities they serve. But they all share these characteristics:

- Community foundations operate as nonprofit, tax-exempt organizations within a specific place, whether a town, county, region, state, or multi-state area.
- They accept large and small donations of cash, property, and bequests from a wide range of people, families, organizations, and businesses that want to “give back” to that place in some way.
- They invest and manage those funds as endowments—sort of like permanent community savings accounts, except they *never* spend the original amount invested.
- They use a portion of the annual interest earned on those accounts to make grants or to fund activities that benefit the community and its people.
- They also use a small percentage of the interest earned to cover the endowment's administrative costs.
- They plow the rest of any earned interest right back into the endowment, to protect its value from inflation and help it continue to grow over time.
- As a service to the community and to donors, community foundations can also accept, manage, and hold funds that are *not* endowed, such as money that passes through the foundation directly as grants to nonprofits. Unlike the foundation's endowed funds, these “pass-through” funds are spent down within a short period of time rather than held to grow over time.

### **Why the movement toward *rural* community endowments?**

Most of the initial community foundations originated in large metropolitan areas, and that trend continued for years. Statewide community foundations sprouted up next, but focused most of

their efforts for years on larger cities and towns, where they could find the most people. Together, these two trends left vast swaths of rural America essentially unserved by community foundations.

Around 1980, however, the situation began to change. Rural residents started setting up their own community endowments—and today this trend is accelerating.<sup>1</sup> Some structured these community endowments as brand-new, freestanding community foundations; others established them as affiliate funds of existing community foundations. Each of these routes has pros and cons, and its own set of merits and challenges. Each rural community must determine for itself which choice makes the most sense in its situation.

Whichever structure exists, the rural community ends up with a community endowment, and its local leaders make the decisions about how to use that endowment. To simplify our discussion and keep our language consistent throughout this Guide, we will refer to both routes as a community endowment—meaning a permanent fund (or set of permanent funds) that is established to benefit a specific geographic area, and is governed by local people who decide how to use the funds to benefit that area and its people.

### **Defining Our Terms** ***Community Endowment***

A community endowment is a permanent fund—or set of permanent funds—that is established to benefit a specific geographic area, and is governed by local people who decide how to use the funds to benefit that area and its people.

There are many reasons why more and more rural communities continue to set up and grow community endowments. Among the most obvious are:

- ***A community endowment is a local mechanism that can capture local giving.*** When rural people donate or distribute cash, valued belongings, land, stocks and bonds, or the proceeds of insurance policies or wills, those assets typically leave the community forever. Often these resources go to children who have moved away, or they go to some very specific and frequently non-local charitable cause, such as animal welfare, a religious group, an alma mater in an adjacent state, or a national research organization focused on a cure for a particular disease.

But people like to give to causes they care about, and many rural people care about their communities. The question, then, is *How can they give back to their communities?* The answer: a community endowment. If your community has an endowment to which people can contribute and leave all or part of what they own, you can help keep philanthropic giving local. Rural communities across the country are doing just that.

- ***That same local community endowment can also capture giving from elsewhere.*** The flip side of how to keep philanthropic giving local is to pave the way for funds to flow into your community. If an organization or foundation located outside your region or state wants to support a cause or sponsor a pilot program in your rural community, where do they place their funds? If a company that does business in your community wants to donate there, to

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<sup>1</sup> See *Growing Local Philanthropy: The Role and Reach of Community Foundations*. Washington DC: The Aspen Institute Community Strategies Group. 2005. Download at: [www.aspenccsg.org/rdpl/\\_documents/resources/survey2b.pdf](http://www.aspenccsg.org/rdpl/_documents/resources/survey2b.pdf).

whom do they give their funds? If a local hospital is sold or a court settlement decided, and the proceeds are to go to the community as a whole, who can accept the gift?

Without a community-wide endowment, these opportunities might be lost or, at best, designated for only one organization or cause. Indeed, an endowment not only prepares you for these types of situations, but can encourage them: A community with an endowment looks like one that is prepared to make the most of any gift, which counts as a big plus to outsiders with resources to give.

- ***An endowment offers rural communities a flexible, locally controlled resource.*** Rural communities across America face change and, as a result, challenges to their local economy, family life, resources, organizations, and culture. Some rural economies based on agriculture or natural resources are declining; others face sudden growth. Some rural communities are grappling with shrinking population and the loss of schools and businesses, as young people leave to seek jobs elsewhere. Others have the opposite challenge—lots of affluent outsiders are moving in, attracted by the natural beauty of the region or its proximity to urban areas, bringing with them cultural change and higher rents and property taxes, potentially pricing locals out of their own housing market.

In all these cases, change raises concerns: Will local ideas, energy, and resources be able to meet these new challenges? Government funding or programs can attempt to ease the transition, but local people and organizations typically have limited control over how to spend government dollars. Even when they do, government aid may be declining or be split among a range of town, county and regional agencies that are difficult to coordinate. In these situations, a locally controlled community endowment can help a community come together, retain its sense of identity, increase civic participation, and build for its future using the resources of its own people.

- ***More statewide and regional community foundations are building rural funds.*** Some community endowments are sprouting in rural places because statewide and regional community foundations have seen the light. They see the connection between the health of their rural and urban areas and want to contribute to both. They realize, however, that rural areas will benefit most by growing their *own* endowments, because rural residents know their place and people, and are better situated to make good grantmaking decisions to advance their own towns and counties.

Many of the best “lead” statewide and regional community foundations, therefore, have opted to launch rural community endowments as affiliate funds, setting up a win-win-win situation. The rural affiliate gains control over a local fund and can use it for community improvement. The rural affiliate saves the time, costs and administrative headaches of setting up and running its own foundation, and focuses its efforts on building endowment and making grants instead. And the lead foundation adds to its overall endowment, influence and ability to serve the state or region without having to do all the local work in the community.

- ***The time is right now for a massive transfer of wealth.*** A recent national study estimated that between now and 2052, as baby boomers and their parents age, \$41 trillion in assets

will pass from generation to generation.<sup>2</sup> Generally, this transfer of wealth will peak much sooner in rural areas, where people tend to be older, and especially in places where families that own farmland and ranchland move away or pass away. Because of the imminent timing of this transfer, many rural communities are setting up community endowments right now to offer a local option that can appeal to these givers.

## Who should use this guide—and how?

Overall, community endowments have grown in size, influence, and coverage because they are a flexible vehicle that offers people and organizations a simple way to give back to their community and their causes. Community endowments make it easy for anyone of wealthy or modest means to be a philanthropist—that is, to leave an enduring legacy that will benefit the place and the people they love today, tomorrow, and forever.

*Rural Fund Development 101* is for volunteer leaders in rural communities who are considering creating community endowments, either as a freestanding community foundation or an affiliate fund of an existing community foundation. The Guide is also for leaders of existing community endowments who want to evaluate their progress, consider new strategies, or engage more people in their efforts. And it is for people or organizations who work with rural leaders and communities and want to introduce the idea of developing a community endowment.

Whether you are contemplating launching a new endowment or seeking to advance an existing one, we suggest this first step: Find a few other people who are involved in or who might be interested in growing your community's endowment, and form a steering group to use this Guide. Especially in rural areas, where everyone knows and depends on everyone, your steering group will be stronger if you *include people from every sector of the community*—men and women of every income level, profession, location, age, religion, race, ethnicity, and ability.

This Guide is organized into five Conversation sections that discuss the answers to these questions:

Conversation	Topic	Page
# 1	What is a community endowment?	9-13
# 2	Why establish a rural community endowment?	14-18
# 3	What legal form can a community endowment take?	19-29
# 4	What are the ongoing activities of a community endowment?	30-35
# 5	What does it take to get a community endowment running?	36-45

(An Appendix for Conversation 3, called “More on Community Start-Up Paths,” can be found on page 46.)

Each of these conversations is followed by a list of questions that you and your steering group can discuss.

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<sup>2</sup> John J. Havens and Paul G. Schervish, *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*. Boston: Boston College, Social Welfare Research Institute. October 19, 1999. Download at: [www.bc.edu/research/swri](http://www.bc.edu/research/swri).

We are currently developing additional conversations on the following topics:

- Getting your RFD Leadership in Place
- Getting your Assets Growing
- Crafting Community Change
- Making Priorities, Plans, and Progress

**Why conversations?** You will face a lot of options as you go forward, and we designed the conversations to help you chart your course. No one “right way” for a community endowment to develop exists. Of course, you might find there are some clear basics related to having your legal structure, finances, accountability, and quality standards in order. Beyond that, however, you have some flexibility on setting the direction, strategies, and roles for a community endowment.

That’s why *Rural Fund Development 101* tries to guide your decision-making through bite-size conversations. Think of each conversation as one issue that your steering group can address one at a time. You will find that once you have the conversation, come to some conclusions, and develop a set of action steps based on your decisions, your steering group will slowly but steadily make progress and keep on track.

Throughout the Guide, we provide examples and links to other available tools and resources. Many of these are free and easily accessible.

We will also introduce you to other determined, entrepreneurial people like you who have already created endowments for their communities. These individuals have generously offered to share information and resources. If you seek them out, you can learn from their successes.

## **Let’s start!**

Now that we have run through the basic contents of this Guide, it’s time for you to get your steering group together and dig in! No matter the direction you take, you will be glad you took this first step—and your community will be far better for your efforts.



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## Conversation #1

# What is a community endowment?

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### What are the basic features of a community endowment?

Everyone involved in creating a community endowment must understand *the meaning and function* of endowed funds well enough to explain the idea to the entire community. So let's look first at what a community endowment is, and how best to describe it to different people in your community. Six easy pieces define a community endowment:

- **Forever Funds.** A community endowment is a collection of *permanent funds* dedicated to benefit people, organizations, and causes within a specific geographic area.
- **Of the Community.** Individuals, families, organizations, businesses, government, and foundations may all contribute to the community endowment—once or many times—with contributions large or small. Every contribution helps the endowment grow in size.
- **Forever Growing in Value.** The total community endowment is invested to maintain its original value and to grow. It earns interest every year.
- **For the Community.** Every year the community endowment uses a portion of its interest to make grants or fund activities that support community organizations and causes, or address community issues through special programs, meetings, or leadership efforts.
- **Self-Financing.** Another portion of the earned interest is used to cover administrative fees and costs of maintaining the endowment.
- **By the Community.** A local board of advisors or board of directors oversees and makes decisions about and for the community endowment.

Easy to remember, right? But these are still general definitions, and you and your steering committee may still have a lot of questions.

If this is the case, let's compare a community endowment to a regular bank savings account.

### How does a community endowment compare to a savings account?

A community endowment resembles a savings account that your community sets up for itself, but some important differences and benefits in the endowment structure distinguish them:

- **Difference 1: A community endowment is permanent, and will never be closed.** By “permanent,” we mean just that—forever. Unlike a normal savings account, which you can open today and close anytime in the future, an endowment is never closed. Once opened, it exists forever.

*The benefit:* No donor needs to worry that in the future someone will pick up the fund and move it elsewhere or use it for unintended purposes. That simply is not allowed. It explains why the national trademark line for community foundations is: For Good. For Ever.®

- **Difference 2: You never withdraw your original deposits, so the endowment keeps on growing.**

Savings accounts keep growing as they earn more and more interest—as long as you never withdraw any money from them. In a normal savings account, though, you can withdraw as much as you want. In a community endowment, however, you may withdraw and *use only the interest your community earns*. You never withdraw from the deposits you have made. A portion of those interest earnings goes to support causes, organizations, or programs that will benefit your community.

*The benefit:* If your community endowment is wisely invested, it will generally keep getting larger, and thus will produce more and more earnings over time that you can use to benefit your community.

- **Difference 3: Your “savings” is invested for a higher return.**

Savings accounts generally earn simple interest. By contrast, your community endowment is more likely to be invested in stocks, bonds, or mutual funds—under the advice and guidance of professional financial advisors that you choose—so that you earn a better return over a long period of time.

*The benefit:* If well invested, your community endowment will grow much more quickly than a savings account. If your annual return is significant, you can plow a portion of your earnings back into the fund. (“Earnings” is the same as the “interest” we mentioned above in *Difference 2*.) And as the fund continues to grow, the earnings you can use for grantmaking and for reinvesting grows as well.

- **Difference 4: You, your friends, and your neighbors all give to the same account.**

In truth, a community endowment more closely resembles a *joint* savings account set up to benefit people and address issues within a particular geographic area or community. It is an account to which *anyone* who cares about the community can give.

*The benefit:* Working together, you can build a larger account for your community than any single contributor might create. And you get some cost savings on expenses and fees, compared to what would occur if each donor managed and administered a separate account. Perhaps most important, you make local philanthropy a *shared* endeavor—not something only rich people do—and you *bring people together* to make decisions about how to use the fund to benefit the community.

- **Difference 5: A community endowment can include more than one fund.**

A community endowment can be one fund, like a simple savings account, or it can be a *collection* of funds. So your community endowment is actually more like a community savings bank, in which people and organizations who want to give to the community can set up a whole variety of accounts (or funds) dedicated to different charitable purposes. For example, one might be for schools, another for scholarships, one for business and Main Street improvement, one to help people with housing, a few to support the parks or libraries,

several to benefit youth, and one for health care assistance. The purposes can go on and on.

*The benefit:* Including more than one fund allows you to attract many people, with differing interests and priorities, to donate to your endowment. At the same time, it lets you combine the funds into one larger amount for a greater return.

- **Difference 6: When you make your “deposit,” you can specify how you want your funds used.**

When you set up a community endowment, every donor can decide whether he or she wants to “restrict” their donation for a specific purpose or leave it “unrestricted.” All the *unrestricted* donations are placed together. Each year, your endowment’s advisory board then decides how best to use the unrestricted proceeds to address the community’s current challenges.

*The benefit:* Both kinds of funds are good for the community. Funds that are specified (or restricted) ensure that specific causes or organizations always get support; this makes donors happy knowing their donation will live on for that purpose. General-purpose (or unrestricted) funds are the most flexible—which is critical when you do not know what the future holds. A kitty of unrestricted funds that you can use to address potential opportunities and needs is a tremendous asset for any community. (For more information on fund options, see Section 3.)

## **What are the primary activities of a community endowment?**

No matter their age or size, all community endowments combine some of the following three things:

### **1. Community endowments develop assets and raise funds.**

A community endowment creates and grows *endowed* funds by actively seeking donations of cash, property, land, stocks, bonds, and bequests from a wide variety of donors, including individuals, families, local businesses, corporations, private foundations, and other nonprofits. This long-term effort to raise endowed funds is called *asset development*.

Community endowments also typically engage in some old-fashioned fundraising by, for example, holding community suppers, sponsoring fun runs, conducting radiothons, hosting golf tournaments, or mailing letters to request annual donations. These activities typically raise operating money for expenses and staffing, increase the endowment’s visibility, and encourage everyone to get involved, no matter how large or small their contribution. Especially in rural areas, traditional fundraising can also help you build endowed funds.

### **2. Community endowments protect and invest the funds.**

Community endowments manage and invest their funds for maximum growth. The larger your endowment, the more “interest” you earn that can be used to support community projects. Those earnings can also cover administrative costs—brochures, a website, materials, equipment, postage, food at fundraisers, office rent, and eventually staff. The larger your earnings, the more you can reinvest in the endowment to build it more quickly.

### 3. Community endowments build community vitality.

The community endowment grows and manages all these financial assets so that it can accomplish its greatest purpose—to increase the vitality of your community and its people. And it has a great deal of flexibility in how it does this. Depending on your community’s needs, your endowment may choose to take on any of these roles:

- Make grants to community organizations.
- Sponsor research to define a community challenge, or hold focus groups to identify community concerns and goals.
- Create or manage new programs to address community challenges that no one else is handling.
- Gather leaders from all segments of the community to discuss your community’s overall future or consider specific issues.
- Be an ambassador to establish important connections for your community. Introduce people inside your community to each other, and connect people from your community to experts, information, and resources elsewhere.
- Attract resources from outside the community to help you address local needs and opportunities.
- Offer training to help your community’s nonprofits become more efficient and effective.

### Are there any other key features of a community endowment?

Yes. Two are particularly beneficial:

- **A community endowment is a nonprofit organization with charitable purposes.**  
This means that people and organizations that give to your community endowment can benefit from all the tax credits and deductions that are allowed for contributions to nonprofits. Federal—and some state—tax codes offer attractive incentives for giving to nonprofit organizations. Some employers match their workers’ contributions to nonprofits, which can double a donation. In addition, when corporations or foundations want to make significant charitable contributions to your community, there must be a nonprofit organization to receive them—and your endowment can meet that need. We’ll talk more about this in later *Conversations*.
- **A community endowment can hold and manage nonpermanent “pass-through” funds.**  
Your community endowment can also accept and hold contributions in non-endowed funds. Often called *pass-through funds*, these funds are meant to be spent in their entirety over a short period of time, not saved for the future. When would this option be used? In one case, a few donors might prefer to see their contributions go to work in the community today rather than give only to permanent endowments. In other cases, your community might need a pass-through fund for an immediate purpose, such as when a large project is planned, like building a new town center or playground. In this case your community endowment can hold the funds until construction is completed. This “good neighbor” activity occurs frequently in towns with community endowments.

## Steering Group: Questions for Our Discussion

1. What do we think about this concept of a community endowment?
  - What two or three things do we like best about it?
  - What two or three things raise the most concerns?
  - What aspects of community endowments do we need more information about—if any—in order to understand it better?
2. Based on what we have discussed so far, do we want to learn more—and move on to the next *Conversation*?
3. If **yes** to #2, when will we do that? Who should be involved?  
If **no**, what other idea do we want to pursue—and how?

## Toolbox for Conversation #1

Read more about the subjects described in this section:

- **Leading Tactics for Rural Fund Development: *Tactic A1—Promote Endowment and Philanthropic Potential***. This guide helps you further understand endowments and how to promote them. 2006. [www.aspencsg.org/rdp/\\_documents/tactics/a\\_1.pdf](http://www.aspencsg.org/rdp/_documents/tactics/a_1.pdf)
- **Community Foundation Handbook: What You Need to Know—Chapter 1: Community Foundations Overview**. This new guide suggests more resources—on the history, trends and other issues related to the community foundation field. 2006. Council of Foundations bookstore: [www.cof.org](http://www.cof.org)
- **The Philanthropy Index**. Managed by the Southern Rural Development Initiative. [www.philanthropyindex.org](http://www.philanthropyindex.org)
- **Rural Development Philanthropy Learning Network**. Managed by the Aspen Institute Community Strategies Group. [www.aspencsg.org/rdp](http://www.aspencsg.org/rdp)
- **Rural Philanthropy Knowledge Center**. Managed by New Ventures in Philanthropy, a National Initiative of the Forum of the Regional Association of Grantmakers. [www.givingforum.org/rural](http://www.givingforum.org/rural)

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## Conversation #2

# Why establish a rural community endowment? What is it good for?

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Why are community endowments so attractive? Over the last few decades, local community endowments have sprung up in rural communities across the country—small towns, growing counties and regions, or rambling areas where there are neither large populations nor concentrations of obvious wealth. What do these communities know, and what are they learning about why a community endowment makes sense for them?

A laundry list of answers responds to these questions. We summarize the list under three main topics:

- A community endowment increases funding for local priorities.
- A community endowment is an agile, enduring tool for community change.
- Building a community endowment builds community.

### 1. A community endowment increases funding for local priorities.

- **A community endowment nurtures local giving and philanthropy.**

While each community endowment may word its mission statement differently, one bedrock purpose of all community endowments is to *promote a culture of giving in the community*. Community endowments *democratize* philanthropy. Especially in rural places, where people tend to know each other (and each other's business), community endowments rely on—and encourage—every individual and organization in the community to give and to think of the foundation as their own. The most successful rural community endowments believe that every gift to the endowment is very important – no matter how large or small. With everyone giving something, it becomes “Our Community’s Endowment,” a locally owned and governed center that offers a way both to give back to the community and to help ensure that the community can satisfy its needs and seize opportunities.

- **A community endowment can accept planned gifts.**

This benefit may seem obvious, but is worth emphasizing. With a community endowment, you have an organization that can accept planned gifts for the community. These are gifts of cash, stocks, bonds, or property that transfer to the community foundation at some point in the future—in many cases, when the donor dies. The simplest planned gifts are bequests left in wills or the proceeds of life insurance policies or IRA accounts.

Planned gifts have income and tax advantages that can be very attractive to donors, while providing future assets for the community. Without a community endowment, planned gifts might leave the community, but with one, they stay and support local efforts.

Donors usually set up planned gifts with the help of professional financial advisors. Keep local lawyers, bankers, CPAs, brokers, funeral home directors, and other advisors up-to-date on your community endowment. Let them know you can offer the benefits of planned gifts to

their customers, expand awareness of your endowment, and turn a share of what people leave to the future into an investment in your community.

- **A community endowment attracts outside resources to your community.**

Your community endowment can become a terrific vehicle for local donors and their personal philanthropy—but its potential does not stop there. It can also attract gifts and grants from corporations, other foundations, and federal, state, and regional governments because it is a *trusted* entity.

For example, sometimes local nonprofits seek grants from outside funders, such as private or corporate foundations that require matching funds from another source. By providing the match for such projects, your community endowment can serve as a stamp of approval, assuring distant foundations and corporations that the local community knows and trusts the nonprofit. When disasters hit—whether storms, floods, fires, or man-made calamities—the community endowment offers a credible institution where outsiders who want to help can contribute their funds. Courts also often turn to community endowments when legal decisions produce large settlements that are meant to benefit a community or region.

## **2. A community endowment is an agile, enduring tool for community change.**

- **A community endowment can act fast.**

As a nonprofit, a community endowment is a private organization. That means it can make quick decisions without the bureaucratic processes that sometimes hamper government agencies or less nimble, large institutions. So when either an opportunity or emergency arises, a community endowment can move quickly to address it. For example, when the Red River flooded along the border between North Dakota and Minnesota in 1997, the local community foundations were the first to get recovery resources to the affected communities—before government was able to respond. Another fast-action situation: When one of your local service clubs wants to apply for an immediate grant opportunity, but does not have nonprofit status, a community endowment can serve as a fiscal agent to receive the grant, saving the time and effort it would take to set up a new nonprofit.

- **A community endowment has a range of useful and flexible tools.**

Because it both raises and distributes funds, a community endowment has both the *know-how* and the *know-who* to get things done. It can match donors who want to give with the causes they care about, and can connect people who do not normally cross paths. Because it matches charitable resources with community opportunities, a community endowment can handle all sides of a program transaction, including: hosting meetings to study the problem; providing donors with services that establish funding streams; finding and cooperating with outside partners (foundations, government, business); identifying and building the capacity of local organizations that will carry out the work; and serving as a fiscal agent for rural nonprofits. A community endowment can even carry out important initiatives or projects when no other local nonprofit or agency can tackle the job.

- **A community endowment can become *the* regional resource.**

Even more so than their metropolitan counterparts, community endowments in rural areas are often the only institutions that cover wide jurisdictions. In fact, in many rural areas, community foundations have become the primary organizations to pull the region together. Consider the story in this guide's Introduction about the Southern Illinois Community Foundation and the hospital its region almost lost: SICF acted immediately to get the hospital kitchen workers' fund set up and publicized. It quickly connected other donors with the cause, and took on a role that no one else in the region was there to handle. What would have happened without SICF there? Many rural community endowments have found that once they have success on one area-wide issue, people turn to them for help when the next one emerges.

- **A community endowment focuses on your community's future, not just its present.** The vitality of your community—its economy, institutions, and people—affects everyone in it. Your community is home to self-reliant and independent, generous people, with a strong tradition of neighbor-helping-neighbor and finding creative solutions to problems. When a need appears, your community likely rallies to meet it—whether it is raising funds for a child who needs an operation, or for a volunteer fire department that needs new equipment. These all are important elements of community generosity, and are good examples of meeting emergency needs.

And because it builds permanent funds that you control, a community endowment also helps you focus on the future. Much like a family's goals, the endowment represents the difference between struggling to keep food on the table today, and building a nest egg that will increase your ability to buy a house, get an education, or start a business. A true financial asset, a community endowment helps stabilize your community and allows you to build stronger assets—whether vision, organization, people or ideas-- over the long term.

- **An endowment is in for the long haul—and will never leave your community.** A community endowment helps build, grow, manage, and distribute local assets for local benefit *forever*. It permanently supports the community, no matter what happens to government funding or local employers. In that spirit, forward-thinking rural communities

### **Beacon Community Endowments Building Endowments – and Community Too!**

In the late 1990s, the Montana Community Foundation (MCF) started working with three rural "Beacon" communities to launch community endowments. To get them going, MCF offered each Beacon community some funds to use for local grantmaking. But MCF required each community to raise a matching fund—equal to the grant funding—to start their local endowments.

One result of this challenge surprised Sidney Armstrong, MCF's executive director at the time: Beacon fund leaders generated more community energy and useful connections in raising the endowment match than they did through their local grantmaking. In one county, raising the match brought together three towns that had been untrusting rivals. In another part of the state, a tribe's leaders and its struggling reservation began a new and productive relationship with wealthy resort owners in a neighboring area.

In Armstrong's words: "Endowment-building was never intended to be the centerpiece of our local initiatives...but it became the focus as people began to see it as an opportunity to build community self-determination—stewardship of one's own future."



involve all sectors of the community in the endowment's work, especially children and youth, who represent the next generation of philanthropic leaders.

### 3. Building a community endowment builds community.

- **A community endowment defines its own geographic borders.**

Many rural areas face another challenge: They may have no organization or agency that covers the natural geographic area or cultural region they call home. Rural people may identify themselves as being “from the valley,” but that valley might cover two-and-one-half counties and multiple towns, townships, school districts, and unincorporated areas, perhaps with some government land and wilderness thrown in. So even though locals may think in terms of “the valley” (or the “lakes region,” or “up river,” or “down east,” or “Indian country”), most likely no organization or government builds resources for that valley, or brings people together to consider the valley's future, or weighs how to invest in the valley region as a whole. A community endowment can solve that problem, and create a unifying organization where none exists.

- **You make the decisions—not some outsider with strings attached.**

Rural communities think of their endowment as their own because it *is* their own. This is a real asset in communities that otherwise have no flexible dollars under local control to address community issues. Sometimes a government program or a regional or national foundation may drop by to invest in your community, but those funds almost always must be used for a specific purpose that *they* define—not you. With your own community endowment, *you* decide what the most pressing or most promising projects are, and you decide when and how to support them.

- **A community endowment is nonpartisan and community-wide.**

By its very nature, a community endowment serves the entire community. It is not a governmental organization. Its board of advisors or directors includes all segments of the community. These board members must stand for the *entire* community in their decisions—not simply represent the towns or organizations or causes that board members serve in their day jobs. Community endowments may not endorse political candidates or act to support them. They may also occasionally advocate on an issue that is important to the community,

#### **Upper Valley Community Foundation** *The Place WE Call Home*

The New Hampshire Charitable Foundation, a statewide community foundation, has worked hard over the last few decades to establish a set of affiliate regional foundations that will cover the state.

When foundation officials met with individuals in the west-central region along the Vermont state border, however, they encountered resistance. The people there identified with the Upper Valley—an area that spans the border of Vermont and New Hampshire—and they wanted an Upper Valley affiliate. The solution? Upper Valley residents defined their own geography, and then engaged both the Vermont and New Hampshire foundations to cooperate in serving their region.

Founded in 1994, the Upper Valley Community Foundation now gives away more than \$11 million in grants each year. Its cross-state service area encompasses 61 towns. It is truly a resource for the region—a *region that defined itself* through its community endowment.

but not do so in any politically partisan way. In communities that have sharp political divides, a community endowment is one of the few organizations that can bring people of all stripes together to work for the community.

- **A community endowment creates community energy.**

Community endowments do more than build financial capital and make grants. They also build social capital and create community, which means they create confidence in the future by bringing together individuals to successfully work together. The successes may be small at first—a new donor or two may establish a fund, a few small grants may help local nonprofits or the school, a community event may draw a good crowd. But each such small victory inspires hope, optimism, and trust. Community endowments project an image of commitment and community spirit, which not only inspires local residents but also attracts energy and resources from all over!

### Steering Group: Questions for Our Discussion

1. **How might a community endowment play out in our community?**
  - *What “natural” geographic area might it cover?*
  - *What sources of funding are currently available to address our area’s priorities?*
  - *What other organizations or agencies, if any, currently cover the area?*
  - *What gaps exist between what the existing funding and organizations do and what the area could use?*
  - *What are the two or three ways a community endowment might help the area?*
  - *What are the two or three ways a community endowment might complicate things?*
2. **What aspects of community endowments do we need more information about, if any, in order to understand it better?**
3. **Based on what we have discussed so far, do we want to learn more, and move on to the next *Conversation*?**
4. **If *yes* to #3, when will we do that? Who should be involved?  
If *no*, what other ideas do we want to pursue, and how?**

### Toolbox for Conversation #2

Read more about the subjects described in this section:

- ***The Power of Rural Philanthropy.*** This short booklet discusses why philanthropy is growing in rural places and offers examples from several communities. [www.givingforum.org/rural/resources/Rural\\_Report.pdf](http://www.givingforum.org/rural/resources/Rural_Report.pdf)
- ***Community Endowments for Community Futures.*** This article examines the community-building benefits that a community endowment can offer a rural community. 1999. [www.aspenccsg.org/rdp/documents/endowment/community-endowments.pdf](http://www.aspenccsg.org/rdp/documents/endowment/community-endowments.pdf)

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## Conversation #3

# How do you set up and start a community endowment?

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### What are our structural options for setting up a community endowment?

Once you decide to establish a community endowment, you have two main choices on how to proceed. What are the two options, and what is the primary difference between them?

- **Path 1: Launch a new freestanding community foundation.**  
This means that you must start up a brand new nonprofit organization, and set it up as a community foundation. If you go the freestanding route, all decision-making authority is in your hands—and all the work is on *your* plate. You must file all the papers, pay the costs and meet all the criteria to create your own nonprofit organization. You carry responsibility for investing and managing the endowment. You must create all the systems and handle *all* the many tasks and recordkeeping related to development, fundraising, and grantmaking for a community foundation.
- **Path 2: Establish a new community affiliate fund of an existing community foundation.**  
Rather than starting your own new community foundation, this choice means that you become an affiliate of an existing community foundation, which we will call the *lead foundation* in this discussion. The lead foundation might reside in a nearby city, metropolitan area or neighboring county, or it might serve the entire state.

If you go the affiliate route, you hitch a ride on all the know-how, systems and work that has already been developed—and *will* be developed—by the lead foundation. The lead foundation handles the investment of your funds, accounting, audits, recordkeeping, and regular tasks (like sending legally required acknowledgement letters to people when they contribute). You still retain decision-making control over the shape of your community affiliate's grantmaking and development efforts, although law requires that your grant decisions must ultimately be reviewed and approved by the lead foundation's board.

Over time, your community affiliate must develop a working relationship with the lead foundation that meets goals and needs for both of you. If your priorities, preferences, or methods ever diverge from those of the lead foundation, in the end *they* call the shots because their board has developed the foundation's overall direction, and it is their nonprofit status that is on the line.

However, not all lead community foundations are created equal. Some *encourage* community affiliate endowments through extensive outreach efforts, and provide ongoing assistance (sometimes even endowment matches) to help you set up a community affiliate and grow it. Others offer services and technical support only if you meet certain criteria—for example, if you walk in their door with a sizeable endowment contribution in hand at the start. Many lead community foundations have no organized approach to working with community affiliates, and invent what is needed as the occasion arises. So your decision on which option to choose might depend on the potential lead foundations you have around you, and what each has to offer.

## What are the real differences between these two options?

Let's look at some of the specific differences that you would encounter under the two scenarios, and some pros and cons of each. In the following tables, you will find a comparison of the roles, responsibilities and tasks involved in being a *Freestanding Community Foundation* versus a *Community Affiliate of a Lead Community Foundation*. Each table covers one aspect of operating a community endowment:

- Governance and Administration
- Outreach
- Asset Development and Fundraising
- Managing and Investing Funds
- Community Change and Grantmaking

Reviewing these tables might seem like a real chore, but it will help you understand in much more detail what lies ahead for you with each option, which could help you make your choice. Consider having each member of your steering group take one of the tables and review it, and then share impressions with each other. Many hands—and eyes—might make for lighter work.

	<b><i>Freestanding Community Foundation</i></b>	<b><i>Community Affiliate of a Lead Community Foundation</i></b>
	<b><i>Governance and Administration</i></b>	
<ul style="list-style-type: none"> <li>• <b>Overall governance</b></li> <li>• <b>The board</b></li> <li>• <b>Nonprofit status</b></li> <li>• <b>Financial management</b></li> <li>• <b>Record keeping and legal reports</b></li> </ul>	<p>All the responsibilities and legal accountability are yours. All the decisions are yours.</p> <p>You develop your own board of directors to oversee the foundation's operations. Your board educates itself on all laws and policies that apply to your community foundation. You develop all priorities, policies, and practices for the foundation.</p> <p>You must obtain legal IRS designation as a 501(c)(3) nonprofit organization and fulfill all state requirements for nonprofit corporations. This can be a long and painstaking process, which may require legal or other professional assistance.</p> <p>You must develop policies and procedures for all aspects of accounting—budgeting, recording contributions, making and tracking investments, disbursing and tracking operational funds, and disbursing and obtaining reports on grant funds.</p> <p>You are responsible for it all, and will need the administrative, accounting assistance and staff to handle it. You must maintain careful records of all your transactions and file all reports required by IRS and your state. In addition, you must conduct an annual audit or financial review to help inform donors, potential grantees, and the public about your endowment's financial status.</p>	<p>The lead foundation has overall governance responsibility and legal accountability for the entire foundation, including your affiliate.</p> <p>You have your own board of directors or advisors, which may establish grant priorities, set endowment-building strategies, and form other policies and practices for your community endowment, as long as they do not conflict with the lead foundation's approaches. But the lead foundation board of directors has final authority.</p> <p>The lead foundation's nonprofit designation from both the federal and state governments covers your operation.</p> <p><i>Note: In some cases, community affiliates have their own nonprofit status as well, typically because they had it before affiliating, or because they want it for some particular reason.</i></p> <p>The lead foundation provides all financial management services.</p> <p>You maintain your affiliate's records—gifts, donors, correspondence, board minutes, plans, grants—likely using the lead foundation's records as a base and adding to them. The lead is responsible for all legal record keeping; you must comply with their requests for information. The lead's IRS and state filings cover your reporting requirements. The lead conducts an annual audit for the entire foundation; it may include little detail on your affiliate. You might want to prepare your own brief annual financial statement—covering contributions, costs, grants, and investment earnings—to provide to donors, grantees and others in your community.</p>

	<b><i>Freestanding Community Foundation</i></b>	<b><i>Community Affiliate of a Lead Community Foundation</i></b>
	<b><i>Outreach</i></b>	
<ul style="list-style-type: none"> <li>• <b>Building a reputation and earning trust</b></li> </ul>	<p>A freestanding foundation requires some time to build its reputation and earn its community's trust. At the start, how quickly and successfully you do so will depend in large measure on the caliber of your board and how well they are known and respected in the community.</p>	<p>Your affiliate inherits the credibility and reputation of the lead foundation. You can point to how long the lead foundation has been serving the area, the services it provides, and the success of its grantmaking, endowment building, and investments. Of course, depending on how well the lead foundation is known and understood in your community, you may have to start from close to Square One to establish credibility and respect. Even so, the lead's track record and stories of success with other community affiliates if they have any can help you in your local discussions.</p> <p>Of course, your affiliate also inherits any problems the lead foundation faces or has faced. In addition, some donors in rural areas may see an affiliate of a lead foundation as <i>less</i> credible than an independent local community foundation because the funds an affiliate raises are "sent elsewhere" and the lead foundation board legally has the final say over their use.</p>
<ul style="list-style-type: none"> <li>• <b>Promotion and marketing</b></li> </ul>	<p>You are responsible for promoting your community endowment's services to leaders, donors, and organizations in your community. While outside sources can help, your board and staff—if you have any—must track down those sources. And acting on their advice, whether it means developing brochures or information sheets or Web sites, or setting up and conducting key meetings, is all yours.</p>	<p>You benefit tremendously from the lead foundation's resources, which likely include an existing Web site, brochures, and other marketing materials. You can draw on the experience and expertise of the lead foundation's staff and advisors as you develop your own materials.</p>
<ul style="list-style-type: none"> <li>• <b>Learning and networking opportunities</b></li> </ul>	<p>In addition to your local community outreach, you will want to engage in regional and national networking to help build your reputation and, much more importantly, to expand your sources of information, good ideas and opportunities. You will start from Square One on this. Likely, you will want to connect to regional, statewide, and national organizations of grantmakers to gain quick access to colleagues and ideas--but memberships in such associations often come with price tags.</p>	<p>When you affiliate, your lead foundation is a ready-made source of ideas, resources, and opportunities. A lead foundation staff or board member may be able to answer your questions directly or guide you to helpful materials and workshops. Plus, your lead foundation's memberships, relationships, and reputation cover you, and can jump-start your own networking. On the other hand, the resources and opportunities you gain through affiliation will be shaped by the lead foundation's resources and priorities, not necessarily by yours.</p>

	<b><i>Freestanding Community Foundation</i></b>	<b><i>Community Affiliate of a Lead Community Foundation</i></b>
<b><i>Asset Development and Fundraising</i></b>		
<ul style="list-style-type: none"> <li data-bbox="155 396 277 422">• <b>Overall</b></li>   <li data-bbox="155 747 380 806">• <b>Donor support: planned giving</b></li>   <li data-bbox="155 1098 380 1157">• <b>Donor support: paperwork</b></li> </ul>	<p data-bbox="428 396 917 583">You take responsibility for all aspects of asset development and fundraising—budgeting for your needs, formulating endowment goals, deciding the types of gifts you target and will accept, cultivating donors, and planning and executing fundraising and awareness events.</p> <p data-bbox="428 747 917 1031">If you want your community foundation to include a planned-giving program that offers and administers more complex planned gift options such as charitable trusts and annuities, you must set it up yourselves, or at least find a local attorney, CPA, or estate planner to help you with the job. And you have to advise potential donors and their advisors on how the program works.</p> <p data-bbox="428 1098 917 1633">Accepting gifts from donors involves quite a bit of paperwork, which is all on your plate. As part of maintaining your nonprofit status, the IRS has strict requirements about maintaining records of many types of donations. A simple example: For each gift your foundation receives (above a very small cash amount), you must send a “gift acknowledgment” within a certain time frame—and there are legal requirements governing exactly what that acknowledgment must say. More complex (and larger) gifts require more work. Donors that set up their own endowed funds with your community foundation, for example, require “fund reports” on the investment return and expenditures several times a year, which you must make happen.</p> <p data-bbox="428 1671 917 1858">All community foundations eventually invest in computers and special software that makes some of this recordkeeping more manageable and reliable. Of course, these both come with price tags, and require some training if you want to use them effectively.</p>	<p data-bbox="943 396 1468 680">While you may be responsible for your community affiliate’s own asset development and fundraising, you can build on opportunities that may be available through the lead foundation. But you are subject to the lead foundation’s fundraising rules. In many cases, the lead foundation has staff or board members that help establish and maintain relationships with significant affiliate donors.</p> <p data-bbox="943 747 1468 995">Depending on its resources, your lead foundation may or may not already have a planned-giving program or planned-giving officers. If it does, that is a huge advantage to you. The lead foundation in that case will be able to work directly with your donors and their advisors, and will be likely to already have forms, brochures, and fact sheets that you can customize.</p> <p data-bbox="943 1098 1468 1472">The lead foundation handles much of the paperwork. For example, while you may want to thank donors yourselves, the lead foundation provides a receipt letter that covers your legal obligations. Likewise, they handle the complex fund reports, and whatever the IRS requires. You must use the systems that your lead foundation has established, which likely will include some special recordkeeping forms or computer software. But the lead foundation most likely will train you, and possibly help you with some set-up costs.</p>

	<b><i>Freestanding Community Foundation</i></b>	<b><i>Community Affiliate of a Lead Community Foundation</i></b>
	<b><i>Managing and Investing Funds</i></b>	
<b>▪ Investment policies</b>	You bear responsibility for all of your foundation's investment and administrative functions, meaning you must set and implement all the necessary investment policies, find investment advisors, determine how your funds will be invested, and complete all the fund paperwork and reports that must go to governments, your board, donors and the community.	<p>The lead foundation's investment and administrative functions cover your community's endowment. Lead foundations with numerous community affiliates sometimes include advisors drawn from their affiliate regions in their investment management group, and may include community affiliate board members with expertise on the lead foundation's financial and investment oversight committee.</p> <p>Your affiliate's funds are typically placed in a pooled investment portfolio with all the lead foundation's other assets. This might offer an advantage: Larger pools of funds can diversify their investments more easily, and often are given better rates. All else being equal, both these qualities might lead to a higher return on your funds than if you invested a smaller pool yourself.</p>
<b>▪ Investment choices</b>	You set up your own investment committee, and choose your own investment manager(s) and the kinds of investments to be made. You watch over the investment process to ensure its proper handling.	The lead foundation has an investment committee and chooses managers to invest all the foundation's funds, including yours. But different foundations handle this in different ways; just as your bank or retirement account may offer you options for your retirement investments, some lead foundations offer affiliates a range of choices (e.g., conservative, medium, aggressive) for how your funds are invested, for who manages your investments, or even where you place your funds.
<b>▪ Fees</b>	Your foundation assesses a fee, which is typically, but not always, in the one- to three-percent range, on every endowed and non-endowed fund that your foundation holds. You use this fee to cover the cost of investing, and to support the costs of staff and operations for your foundation.	The lead foundation assesses a fee – typically, but not always, in the one- to three-percent range, on every endowed and non-endowed fund that your community affiliate establishes. The lead foundation may also have an annual maintenance fee, a per-transaction fee, and a minimum annual maintenance fee for each fund. The lead foundation uses these fees to cover the cost of investing, and to support the costs of staff and operations for the foundation—including the services they provide to your community affiliate.



	<b><i>Freestanding Community Foundation</i></b>	<b><i>Community Affiliate of a Lead Community Foundation</i></b>
	<b><i>Community Change and Grantmaking</i></b>	
<ul style="list-style-type: none"> <li>▪ <b>Making decisions on grants</b></li>   <li>▪ <b>Making grants from unrestricted funds</b></li>   <li>▪ <b>Making grants from restricted funds</b></li>   <li>▪ <b>Community leadership and convening</b></li> </ul>	<p>Your board sets all grantmaking policies and procedures and approves all grant decisions.</p> <p>Your foundation has responsibility for all aspects of grantmaking. You evaluate community needs and opportunities, and determine your grantmaking priorities and grant sizes. You develop processes, forms, and timetables for nonprofits that want to apply for grants. You solicit and evaluate applications, conduct site visits as needed, and develop methods to make sure the nonprofit applying for a grant is stable and operating legally. You create a method for grantees to report their progress and impact. You also determine how to report your grantmaking results to the community.</p> <p>As with your unrestricted grantmaking, your foundation is responsible for all aspects of restricted grantmaking: setting up processes, working with donors, developing application methods for varying scholarship funds, and grant reporting.</p> <p>You decide any other community efforts you want to take on: initiating your own projects, forming partnerships, convening discussions around issues your community cares about, whatever you want to do that makes sense in your community.</p>	<p>Your board presents its grant decisions as recommendations to the lead foundation's board of directors for final approval. In practice, lead foundation boards approve affiliate decisions almost all the time without question; typically, only fiscal mismanagement or clear evidence of partisan or illegal bias raises red flags.</p> <p>You operate your own grantmaking program, but in accordance with your lead foundation's priorities, methods, and requirements. This can vary from lead foundation to lead foundation. Some lead foundations give you total freedom to design what fits your community; other lead foundations may encourage you to address a certain set of priorities with your grants, or may limit the size or frequency of grants. Lead foundations that have no or few affiliates may not have yet even considered this.</p> <p>The lead foundation likely has established good grantmaking practices, applications, and reporting forms that you can use or adapt for your purposes. You review grantee reports for grants made from your affiliate's funds, but they must also go to the lead foundation.</p> <p>As with unrestricted grantmaking, the lead foundation likely has good grantmaking practices, applications, and reporting forms and processes that you can use or adapt. This is likely to be most beneficial in working with donors who are advising their funds, and especially with scholarship application and award processes, which can require a lot of staff or volunteer time and effort. Sometimes the lead foundation will handle portions of this for you.</p> <p>As long as you do it with your resources, you take on any additional efforts you wish. Sometimes the lead foundation may have resources to focus change on a particular issue throughout its territory, and may ask you to help in your community, maybe even with funding.</p>

## So how do we choose?

If you decide to establish a community endowment, have your steering committee or board carefully consider which route suits you best: becoming a freestanding community foundation or becoming a community affiliate of a lead community foundation. The preceding tables give you a starting point, and you will gain additional insight as you proceed through this *Guide*.

Here is the crux of the matter:

- **Affiliating with a lead community foundation** offers a wealth of advantages when you are just starting out, especially in rural areas where resources—like organizations to help you, volunteers, and finances—may be scarce. Because the lead foundation provides your tax-exempt status and takes care of your organization’s legal, investment, and administrative functions, your community endowment’s organizers can focus sooner on the local work you really want to do: developing your board; finding and cultivating donors who will contribute and set up endowed funds; setting your community’s grant and program priorities; fundraising for operations; and educating the community about philanthropy. The lead foundation may even offer you staff help and training to do those things.
- **There is a tradeoff**, however. When you affiliate with a lead foundation, you cede some independence. Your endowment is *subsidiary* to the lead foundation. This means that you *advise* the lead foundation about grants you want to make from your fund, but they have the final say-so. This is rarely ever a problem in practice, because lead foundations almost always accept and approve an affiliate’s recommendations. Eventually, however, you must explain this arrangement to your community. In addition, you do have to spend time and effort establishing a healthy relationship with the lead foundation, and once you are part of a lead foundation, you also have to participate in its overall advisory committees and events, in addition to those of your affiliate.
- The decision about whether to launch a new, freestanding community foundation or whether the affiliate arrangement is right for you **depends on your particular community’s needs and circumstances**. This includes whether any potential lead foundations exist in your area—and whether they are successfully working with affiliates.
- And remember: **the path you choose today is not necessarily permanent**. As long as the lead foundation allows it (some do not), you can always switch from affiliate to independent status. And if you start a free-standing foundation and find it too cumbersome or challenging, you can decide later to affiliate. In other words, you can change your decision as your situation changes.

To help you think more about which path suits you, at least at the outset, look at the detailed steps at the start of each path. If you want to explore this further, check out the RFD Toolbox at the end of this Conversation, and review **Conversation 3 Appendix: More on Community Endowment Start-up Paths**. That appendix focuses mostly on the tasks required to set yourself up *legally*—not including all the community outreach and conversations you would likely conduct at the same time.

You now know the two options for the legal form your new endowment might take, and should have a sense of the pros and cons of each. Use the questions that follow to think about how you want to proceed.

## Steering Group: Questions for Our Discussion

1. **What are the pros and cons for *us* of starting a freestanding community foundation versus affiliating our community endowment with an existing community foundation?**
  - *What is most attractive about launching our own community foundation? What is least attractive?*
  - *What is most attractive about becoming a community affiliate of another community foundation? What is least attractive?*
  - *How much overall administrative work are we willing and able to do on an ongoing basis?*
  - *How equipped are we to muster the time and talent and financial resources needed to launch our own foundation?*
  - *If we were to consider affiliate status—either as a launching pad or indefinitely—what foundations in our general vicinity might we approach?*
2. **About what aspects of freestanding versus affiliate status—if any—do we still need more information, in order to better understand our community endowment’s options?**
3. **Based on what we have discussed so far, do we want to learn more, and move on to the next *Conversation*?**
4. **If *yes* to #3, when will we do that? Who should be involved? If *no*, what other ideas do we want to pursue, and how?**

## Toolbox for Conversation #3

Read more about the subjects discussed in this section:

- **Conversation 3 Appendix: More on Community Endowment Start-up Paths.** This section walks you through the start-up tasks to establish a community endowment. 2007. See Appendix at the end of this Guide.
- **Community Foundation Handbook: What You Need to Know.** This new guide goes into extensive detail on what it takes to operate as a vital community foundation. 2006. **Order from the Council of Foundations:** [www.cof.org](http://www.cof.org).
- **Community Foundation Primer: An Outline for Discussion and an Initial Organization Start-Up Kit.** This guide, published almost 10 years ago by the Council of Michigan Foundations, still offers good help on the ins and outs of becoming a community foundation. It offers a range of self-study questions for local groups that are considering forming a community foundation. 1998. **Council of Michigan Foundations:** [www.cmif.org/Documents/primer98-2Whole.pdf](http://www.cmif.org/Documents/primer98-2Whole.pdf)
- **Growing Local Philanthropy: The Role and Reach of Community Foundations.** This report documents a recent upsurge in the creation of geographic component funds – many of which are community endowments – that are affiliating with community foundations. 2005.

See survey highlights or download the full report at:  
[www.aspencsg.org/rdp/resources/surveys/survey2b.php](http://www.aspencsg.org/rdp/resources/surveys/survey2b.php)

### Helpful Web Sites

Some community foundations have well-designed programs to help community endowments in their state or region affiliate with their foundations. Check out these websites to see how a few of these lead community foundations do their work:

- **The Maine Community Foundation County Program.** MCF helps build affiliates at the county level across the state. <http://www.mainecef.org/html/aboutus/community.html>
- **Nebraska Community Foundation Affiliate Funds.** NCF has more than 80 rural community affiliates in its program, and provides tremendous assistance. View the group's Web site to see how they talk about affiliation; surf the site for ideas, stories and inspiration. [www.nebcommfound.org/affiliation.htm](http://www.nebcommfound.org/affiliation.htm)
- **Community Foundation of the Ozarks.** This regional foundation began to bring on community affiliates based in small rural towns in 1993. Check their Web site's "Virtual Office" for ideas and assistance. <http://www.cfozarks.org/affiliates.html>

## ***Exploring Other Paths***

### *Commercial Gift Funds, Regional Alliances, Supporting Organizations*

There are always other paths! You can get more (or less) creative in structuring your community endowment, depending on your preferences, commitment of time and resources, and energy. Here are three other paths that you might consider.

#### **Commercial Gift Funds**

Community foundations have held donor-advised funds for many years. These funds are created by donors, who make recommendations to the foundations on how to grant their money. Legally, however, once donors have taken a tax deduction for a gift to a foundation, the community foundation's board has final grantmaking authority for donor-advised funds.

Over the past 10 years, responding to the wealth explosion in the 1990s and charitable tax incentives, many banks, brokerage houses, and other financial institutions joined in and began to offer products that mirror many of the features of donor-advised funds at community foundations. These for-profit firms create nonprofit arms of their companies, called "commercial gift funds," so that they can accept charitable gifts. You could consider setting up your community endowment as such a commercial gift fund. But while donor-advised funds and commercial gift funds do have similarities, some critical differences set them apart. In general, commercial gift funds are held by financial institutions that:

- are not created to benefit a specific geographic area
- give minimal attention to understanding community needs and issues
- do not provide the same review of donor-selected charities
- usually require a higher minimum to create a fund
- usually require some specified minimum to add to an existing fund
- often have higher fee structures

- may be unable to accept non-cash gifts, and may offer fewer or no planned gift services

What this adds up to, most importantly, is: Commercial gift funds do not help create important benefits for the community that occur with a community endowment. They do not:

- expand charitable assets for a community
- build leadership capacity in the community
- create permanent endowment and legacies
- empower local leaders

In addition, because neither federal nor state law provides clear advice or guidance for these funds, many lawmakers and experts in the field have expressed concern that commercial gift funds, unlike community endowments, allow too much donor control with too little due diligence.

### **Regional Alliances**

In a few regions of the country, a new and promising practice that could help community endowments is emerging. For now, they are being called Regional Alliances. In these alliances, a group of freestanding smaller community foundations form an agreement to consolidate their back-office services and contract with one of the larger foundations in the group to provide them. Back-office services might include any or all of the following: investment management and oversight, fund accounting, basic donor services (like gift acknowledgments), sharing the cost of an expensive donor tracking software systems, a consolidated Web site host, and more. Alliances can save costs and streamline processes. Community foundations have formed such alliances in southwestern Michigan, and in Michigan's Upper Peninsula.

### **Supporting Organizations**

Your community endowment may both set up its own nonprofit organization and affiliate with a community foundation—it does not have to be one or the other. A 2004 survey documented that about 20 percent of geographic component funds that affiliated with community foundations have their own nonprofit status, although not all are community endowment affiliates. Most of the community endowments with their own nonprofit status set up their affiliation with the lead foundation as a donor-advised or field of interest fund. But if being your own nonprofit interests you because you want to maintain as much local control as possible over grantmaking and investment, look into the possibility of affiliating with a lead community foundation in a special classification called supporting organization. Doing so is more complex, of course. See the COF publication in the Conversation 3 RFD Toolbox for more information.

## Conversation #4

### What are the ongoing activities of a community endowment?

Whether you are considering a freestanding community foundation or an affiliate structure, your community endowment will be involved in activities that can be grouped into four basic categories. This section includes a checklist of the activities in each category.

#### 1. What are your governance activities?

Governance refers to what your board of directors or advisors must do to set direction, oversee, and make decisions for your community endowment. Some of these activities happen primarily as you start, and are revisited every few years. Other tasks are ongoing.

##### Set your community endowment's direction

<ul style="list-style-type: none"> <li>• <b>Develop a vision statement</b></li> </ul>	Your vision statement describes in a few sentences the future your community endowment's leaders seek for your community.
<ul style="list-style-type: none"> <li>• <b>Develop a mission statement</b></li> </ul>	Your mission statement is a "bumper sticker" sentence that describes your community endowment's specific purpose or role in moving toward your vision. It is the opening sentence in your answer to this question: What is the Community Endowment?
<ul style="list-style-type: none"> <li>• <b>Develop a values statement</b></li> </ul>	Your values are a list of principles by which you operate in doing the work of the community endowment—and for which you want to be known.
<ul style="list-style-type: none"> <li>• <b>Set goals, plans and strategies</b></li> </ul>	Your community endowment does best if your board sets some priorities—measurable goals that it wants to achieve over the next year or two—and then chooses strategies and creates action plans to reach those goals.
<ul style="list-style-type: none"> <li>• <b>Monitor progress and impact</b></li> </ul>	Once you have agreed on your goals, priorities, and plans, your board monitors progress to make sure you are moving to fulfill your mission.

##### Develop your community endowment's leadership

<ul style="list-style-type: none"> <li>• <b>Develop a board member job description</b></li> </ul>	Your community endowment spells out the responsibilities and expectations of board members in a job description, which details what they should know before they agree to serve, and serves as a standard to help you assess how the board is doing.
<ul style="list-style-type: none"> <li>• <b>Recruit and elect board members and officers</b></li> </ul>	Your board of directors or advisors fully represent the broad range of people and interests in your community or region. Each board member serves for a specific term, as spelled out in your bylaws or operating rules.
<ul style="list-style-type: none"> <li>• <b>Establish committees and develop descriptions of committee duties</b></li> </ul>	Your board sets up committees to help conduct grantmaking, grow your endowment, invest and manage your funds (if you are a freestanding community foundation), and carry out other special campaigns or projects. Committees are either ad hoc or permanent, and may include community leaders as well as board members.
<ul style="list-style-type: none"> <li>• <b>Meet regularly</b></li> </ul>	Your community endowment and its committees hold regular board meetings, perhaps opening them—or a portion of them—to the public, and rotating the location to different sites in your community.
<ul style="list-style-type: none"> <li>• <b>Provide board orientation</b></li> </ul>	You offer a full orientation to new board members. They will perform even better when they are paired with a current board member as a mentor.

<b>Meet your community endowment's standards of operation and accountability</b>	
<ul style="list-style-type: none"> <li>• <b>Write bylaws</b></li> </ul>	Your bylaws are the legal rules by which your board operates and makes decisions. If your community endowment is an affiliate of a lead foundation and not set up as its own nonprofit, only the lead foundation has the bylaws; your affiliate might have operating rules or standards instead.
<ul style="list-style-type: none"> <li>• <b>Know and observe legal requirements</b></li> </ul>	Your board ensures that your community endowment does everything by the book—e.g., filing government forms and reports, or making sure your grantees are legitimate.
<ul style="list-style-type: none"> <li>• <b>Develop administrative policies and procedures</b></li> </ul>	Your community endowment establishes basic checklists and timelines for how you do things, like handle donations and thank you letters, or make grants. If you are an affiliate, you must follow your lead foundation's policies and procedures, adjusting them with permission as needed for your local work.
<ul style="list-style-type: none"> <li>• <b>Arrange for annual audits or financial statements</b></li> </ul>	Your board ensures that your community endowment conducts an annual audit, or participates in the lead foundation's audit, if you are an affiliate. Affiliates often produce more detailed financial statements for their donors than the lead foundation provides.
<ul style="list-style-type: none"> <li>• <b>Set and approve the annual budget</b></li> </ul>	The budget reflects how the organization will pursue its priorities within its financial means.
<ul style="list-style-type: none"> <li>• <b>Develop job description for your staff executive, hire and review executive's performance</b></li> </ul>	When your community endowment is ready to hire staff, the board develops the job description and hires the executive director or coordinator and monitors his or her performance annually. Decisions about other staff, once the board authorizes them in the budget, typically are made by the director.
<b>Represent your community endowment and advance its mission.</b>	
<ul style="list-style-type: none"> <li>• <b>Talk about the community endowment</b></li> </ul>	As the chief ambassadors for your community endowment, board members often introduce the endowment to friends, donors, colleagues, and large groups, in both private and public settings.
<ul style="list-style-type: none"> <li>• <b>Participate in community endowment activities</b></li> </ul>	As needed, the board helps with the tasks of the community endowment: talking to donors, fundraising, grantmaking, and community projects. Until you have staff, the board—with the help of other volunteers—likely performs the work of endowment staff.
<ul style="list-style-type: none"> <li>• <b>Thank volunteers</b></li> </ul>	You cannot thank your community endowment's volunteers too many times, or too well. Cards, letters, and calls, as well as public recognition all work.
<ul style="list-style-type: none"> <li>• <b>Celebrate milestones</b></li> </ul>	When your community endowment meets a goal or target, or arrives at a mid-point or endpoint of a major effort, a small or large celebration helps recognize progress, thank people, and motivate them to do more.
<ul style="list-style-type: none"> <li>• <b>Give to the community endowment</b></li> </ul>	Except in cases of need or emergency, all board members contribute annually to the community endowment, and ideally set up bequests or planned gifts.

## 2. What are your asset-building and fundraising activities?

Growing permanent endowed funds and raising other resources to support your grantmaking, community initiatives and operations is a primary ongoing activity of your community endowment.

### Define your asset-building and fundraising goals

- **Set goals for a permanent endowed fund** Your community endowment's permanent endowed funds are your lifeblood because they continue to grow over the years and produce more income that

	you can use. Your community endowment can build one general endowed fund for the community, or a variety of endowed funds beyond that to include scholarships, funds to support nonprofits, or some focused on particular community issues.
<ul style="list-style-type: none"> <li>• <b>Set goals for temporary (pass-through) funds</b></li> </ul>	Pass-through funds are not endowed; rather they are spent down as grants over a defined period of time. In your early years, they offer your community endowment a way to get many grants out into the community quickly, to get your name known, and to help the community understand what you do. Plus, some donors prefer them.
<ul style="list-style-type: none"> <li>• <b>Set goals for an operating endowment</b></li> </ul>	Community endowments that are thinking ahead are constantly trying to grow an operating endowment—that is, a permanent endowed fund that helps support the staffing and organization costs of the endowment itself.
<ul style="list-style-type: none"> <li>• <b>Set goals for operating funds</b></li> </ul>	Most community endowments, especially in the early years, conduct some annual fundraising to support the cost of materials, activities, professional services (like accounting), office and staff. Until your endowment grows to a certain size, your fees or operating endowment will not produce enough income to cover these costs, and your annual goal is to raise the amount you are missing.
<ul style="list-style-type: none"> <li>• <b>Meet the public-support test</b></li> </ul>	If your community endowment is a freestanding community foundation, you must meet the public-support test in order to maintain the favored <i>public charity</i> tax status that provides you with certain tax and other benefits not allowed to other kinds of foundations. To meet that test, you must receive contributions from more than just a few sources, and none of your donors may exercise control over your community endowment. This is worth keeping in mind as you set your other targets.
<ul style="list-style-type: none"> <li>• <b>Establish a timeline and milestones</b></li> </ul>	Community endowments do better when they attach a timeline and mid-course goals or milestones to each of the above sets of goals—and track them!
<b>Choose and carry out your tactics and targets</b>	
<ul style="list-style-type: none"> <li>• <b>Determine what kinds of gifts you will seek</b></li> </ul>	Community endowments can receive cash donations, in-kind donations, property and real estate, charitable planned gifts, and the proceeds of life insurance, wills, and other bequests. Your community endowment identifies the type of gifts received, depending on your goals and your tactics.
<ul style="list-style-type: none"> <li>• <b>Develop gift acceptance policies and forms</b></li> </ul>	For each type of gift you might receive—besides cash—community endowments create simple standard forms that donors can fill in and sign, which fulfills the legal paperwork of making the contribution. More complex gifts may need more effort—and may require you to set special policies; for example, what type of property you will accept (or not) as a donation.
<ul style="list-style-type: none"> <li>• <b>Choose your endowment-building and fundraising tactics</b></li> </ul>	Community endowments choose specific tactics, or strategies, to build endowments and raise funds, based on their targets and what they know works in their place. Rural community endowments often start with approaches that are familiar to local people, and build toward the more complex types of giving over time.
<ul style="list-style-type: none"> <li>• <b>Identify potential donors</b></li> </ul>	To reach your goals, your community endowment develops lists that include the number and type and even names of potential donors to approach.
<ul style="list-style-type: none"> <li>• <b>Identify who will approach donors</b></li> </ul>	For each tactic your community endowment is using, you identify who is the best person to open the door to and connect with certain donors, either through a letter, an invitation, a phone call, a dinner, a casual chat, or a five-minute story about personal giving to a community supper crowd.
<ul style="list-style-type: none"> <li>• <b>Develop promotional ideas and materials</b></li> </ul>	For each tactic, your community endowment develops and uses a mix of written brochures, forms, letters, perhaps some press releases, banners, Web site copy, talking points—and other creative materials.



<ul style="list-style-type: none"> <li>• <b>Carry out your tactics</b></li> </ul>	This is the real work where the rubber meets the road!
<b>Follow-up and track progress</b>	
<ul style="list-style-type: none"> <li>• <b>Thank donors</b></li> </ul>	You cannot thank donors too many times, or too well. Cards, letters, and calls, as well as public recognition all work.
<ul style="list-style-type: none"> <li>• <b>Track and evaluate progress</b></li> </ul>	Community endowments build more assets and funds if they look at how they did compared to their goals, figure out what they did right to meet them or wrong to miss them, and apply those lessons to the next time.

### 3. What are your fund management and finance activities?

Fund management includes all the activities involved in deciding where and how your funds will be invested, a key step in nurturing your community endowment's growth over time.

*If your community endowment is a freestanding community foundation, you carry out all these activities. If your endowment is a community affiliate of a lead community foundation, the lead foundation handles most of these activities for you; your board or staff members may help on the lead foundation committees that oversee these activities. Some lead foundations allow community affiliates to vary from the lead's policies.*

<ul style="list-style-type: none"> <li>• <b>Establish investment policies</b></li> </ul>	Your community endowment combines all your funds into one pool, which is invested in stocks, bonds and mutual funds to get higher return than simple savings. Your investment policies detail the risk, the targeted annual return and other criteria for how you want your funds invested.
<ul style="list-style-type: none"> <li>• <b>Select your investment manager(s)</b></li> </ul>	Your community endowment selects a professional money manager—or more likely, a team of them—who handles the fund investments according to meet the criteria set by the board.
<ul style="list-style-type: none"> <li>• <b>Establish fee policies</b></li> </ul>	Your community endowment charges fees on every fund you hold. Different fees may be set for different kinds of funds, and for different fund sizes. Fees cover the cost of investing, and help cover operating costs of the community endowment.
<ul style="list-style-type: none"> <li>• <b>Establish spending policies</b></li> </ul>	Your community endowment sets the percentage of funds to be used annually for grantmaking, operations, and other program activities.
<ul style="list-style-type: none"> <li>• <b>Monitor and evaluate performance</b></li> </ul>	The finance and investment committee(s) and board oversee how well investments do, how well fees cover costs, and monitor the spending policy in relation to the legally required payout and public support requirements of a public charity.
<ul style="list-style-type: none"> <li>• <b>Adjust policies as necessary</b></li> </ul>	Based on your goals and performance, your community endowment revises its finance and investing policies as needed.
<ul style="list-style-type: none"> <li>• <b>Inform donors and the community of results</b></li> </ul>	Your community endowment produces regular financial and fund reports for donors on their specific funds, and for the community at large on the endowment as a whole.

### 4. What are your community change activities?

Community change refers to all the activities a community endowment uses to improve outcomes for people, organizations, and conditions in your community. To start, all community endowments make grants to nonprofit organizations. Beyond that, community endowments can choose whether to carry out certain roles to address specific community issues, needs, and opportunities.

<b>Grantmaking</b> <i>If your community endowment is a community affiliate of a lead community foundation, the lead foundation may have grantmaking processes and criteria that you must follow, or that you can adapt for your purposes.</i>	
<ul style="list-style-type: none"> <li>• <b>Choose grantmaking priorities</b></li> </ul>	Your community endowment sets priorities for the issues or impact you want to target with grants from unrestricted funds.
<ul style="list-style-type: none"> <li>• <b>Develop grant criteria</b></li> </ul>	Community endowments set other grant criteria; for example, the range of grant sizes you will consider, the kinds of activities or nonprofits you will or will not fund, and so forth.
<ul style="list-style-type: none"> <li>• <b>Develop and manage the grantmaking process(es)</b></li> </ul>	Your grantmaking process includes how nonprofits can apply for a grant, and the methods you use to make decisions on those applications. As your most visible activity, your community endowment sets forth a grantmaking process that is clear, understandable, fair, and well-run. As you grow and build more kinds of restricted funds, you may need a process for each kind of fund.
<ul style="list-style-type: none"> <li>• <b>Publicize information about your grants and awards</b></li> </ul>	Your community endowment announces and publicizes each grant opportunity far and wide throughout your community. When you award grants, you spread that news through newspapers, newsletters, Web sites, celebrations, and public announcements—unless the donor wants it kept quiet.
<ul style="list-style-type: none"> <li>• <b>Monitor and evaluate your grantmaking</b></li> </ul>	Community endowments monitor grants through a mix of site visits, written reports and other contacts. Periodically, you may change your grantmaking processes and priorities based on what you learn.
<b>Community initiative and leadership</b> <i>Rural community endowments often voluntarily assume roles they did not anticipate at the outset, in response to issues or opportunities confronting the region, unexpected events, or the growing capacity of the community endowment. This happens especially in areas where community endowments may be the only community-wide organization able to take on some of these roles. Here is a sample list—none of these are mandatory.</i>	
<ul style="list-style-type: none"> <li>• <b>Convene for consensus building and action</b></li> </ul>	Community endowments often convene specific leaders or the entire community to help learn about and understand important issues, bring opposing views together and find common ground, or develop goals and action plans.
<ul style="list-style-type: none"> <li>• <b>Provide services to local nonprofits</b></li> </ul>	Community endowments may offer or sponsor a range of activities to help rural nonprofits start up and get stronger; for example, run skill-building workshops, provide one-on-one technical assistance, or set up an information library to help nonprofits find grants from other funders.
<ul style="list-style-type: none"> <li>• <b>Serve as a fiscal sponsor</b></li> </ul>	Community endowments sometimes serve as the fiscal sponsor for start-up nonprofits before they get their formal tax status, or for special community projects that have a short timeframe, or for special funds that address local emergencies like floods or other disasters.
<ul style="list-style-type: none"> <li>• <b>Collaborate and partner on joint endeavors</b></li> </ul>	Community endowments often work with other organizations or even governments inside and outside the community to cosponsor or develop special community projects or events, providing funds, staffing, office space, or planning assistance.
<ul style="list-style-type: none"> <li>• <b>Incubate community programs and services</b></li> </ul>	When a community challenge is not being addressed, community endowments sometimes start a project to do so, and then spin it off once another nonprofit or agency can take it on.
<ul style="list-style-type: none"> <li>• <b>Operate community programs and events</b></li> </ul>	Especially in rural areas with many towns and unincorporated places, the community endowment may be the only organization that covers the entire region. In cases like these, community endowments may operate community, workforce, business, social, youth, leadership, or other development programs themselves. Or they might host periodic community gatherings or celebrations.
<ul style="list-style-type: none"> <li>• <b>Advocate for better policy</b></li> </ul>	Community endowments are nonpartisan and generally do not lobby on

	specific pieces of legislation. But they can bring to light the impact of existing proposed policy on their rural area and people by sponsoring unbiased research, holding public events, and educating the media and elected officials. Some do a limited allowed amount of advocacy related to policy that encourages or discourages charitable giving.
<ul style="list-style-type: none"> <li>• <b>Provide a community center</b></li> </ul>	Many rural community endowments eventually set up their offices in historic or new buildings that serve as a neutral and welcoming community center, with meeting rooms and other services that the entire community can use.

### Steering Group: Questions for Our Discussion

1. Now that we know more about the basic activities of a community endowment, do we still want to start one?
2. How does this review of basic activities change our thinking about whether we want to be a freestanding community foundation or a community affiliate of an existing community foundation?
3. What questions do we have about any of these basic activities before we can decide how we want to proceed?
4. Based on what we have discussed so far, do we want to learn more—and move on to the next Conversation?
5. If **yes** to #4, when will we do that? Who should be involved?
6. If **no**, what other idea do we want to pursue—and how?

### Toolbox for Conversation #4

Read more about the basic activities described in this section:

- **Community Foundation Handbook: What You Need to Know.** This new guide goes into extensive detail, including more resources on what it takes to operate as a vital community foundation. 2006. Order it from the Council of Foundations bookstore: [www.cof.org](http://www.cof.org).

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## Conversation #5:

# What does it take to get a community endowment up and running?

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Suppose your community decides to set up and grow a community endowment. As you start out, concentrate first on getting your community endowment off the ground as an organization, and figure out how to make it operate smoothly. Let's look first at the start-up costs you might entail, and then look at resources that can help you cover those costs.

### What are your community endowment's start-up costs?

Your essential start-up costs fall into six categories:

1. **Coordination and staffing.** From the outset, you will need someone—or a group of people—to take primary responsibility for organizing and coordinating your community endowment's activities. This includes organizing the planning and communications of your board, coordinating the paperwork and meetings to launch the community endowment, drafting your endowment's written materials, planning and scheduling your initial community outreach, and building connections to organizations inside and outside your area that can aid your efforts. Even better, staffing an office on a regular basis—even just part time with volunteers—helps you begin to show your face to the community.

Typically, your board takes on this coordination work at first, but willing, able, and available volunteers can help you handle the job. Especially if you are launching a new community foundation rather than affiliating with an existing one, you may want to move quickly to bring on staff, most likely part time at first. What a part-time staff person might do depends on where your board most needs help and what its members are least able to do on their own, whether that involves scheduling, writing, bookkeeping, correspondence, or simple photocopying and administrative duties.

You will need to budget for this coordination, no matter how you handle it. Remember, even if you do it all with volunteers, you may need some budget to cover your volunteers' mileage, phone calls, and similar expenses. (Once you have nonprofit status, volunteers can deduct any direct costs they donate to the effort as a charitable contribution—but the cost of their time is not deductible.)

2. **Office space, supplies and an address.** If you are setting up a freestanding community foundation, the IRS requires that your nonprofit have an official address. Whether you are freestanding or affiliating, though, finding and setting up an office in the community is usually a good early move. It can provide a place for your board, volunteers, advisors and staff—as well as potential donors and grantees—to meet. More important, it establishes a public face for your community endowment in the community, which lends you both visibility and credibility. It sends a message that you are here to stay. Consider opening a post office box that can serve as a permanent mailing address, which is also helpful in case you expect to move the office. Of course, you will need some basic office supplies and furniture, plus phone and computer equipment and services, and money for printing and postage

At least for the first few months or years, you might be able to find board members, local donors or community groups who can offer a spare office and supplies for free in a local law or accounting firm, a bank, a nonprofit, or a community center. (*If you ask, the worst they can do is say "No."*) Even if you get such assistance, it makes sense to include the

estimated cost of the donation in your budget, so that you can plan for the future when you will be shouldering the expenses.

3. **Filing, banking and membership fees.** If you decide to launch a stand-alone community foundation, there are fees associated with filing for an IRS nonprofit designation (about \$500—not counting any legal advice) and for filing with your state as a nonprofit corporation (varies by state). You also need the cash to open a bank account. If you are choosing the community affiliate path, you might need to pay your lead foundation a start-up and annual fee to set up and maintain your affiliate account.

You may want to invest early in joining some membership organizations that offer publications, workshops, training, and other information that may guide your community endowment on its path. If you are affiliating, your lead foundation may belong to some helpful membership groups; they may give you access and offer you discounts, but you will still have to pay your way to attend most conferences and workshops. (*This Guide lists several such membership organizations—or ways to find them—in our RFD Toolboxes.*)

4. **Marketing and communications materials.** As soon you begin community outreach, you will need printed materials—like brochures or fact sheets—to explain your community endowment. You might want one piece or several to hand out, but they need not be slick or expensive. They simply need to convey the basic facts about your foundation: your mission and goals, who serves on the board, why donors should consider setting up a fund, what kinds of funds they can set up, how to apply for a grant, and your priorities for the community and grantmaking. In addition to printed materials, a Web site provides another relatively inexpensive—and, today, almost indispensable—way to promote your community endowment.

You will also need materials for ongoing basic communication—such as letters and notes to your board, current and potential donors, professional advisors, grantees and the public. At the very least, a simple letterhead document printed from your computer will work fine. You may also want to invest early in developing a logo and look that will be quickly recognizable.

If you are affiliating with a lead foundation that has a number of community affiliates, the foundation may have some templates for your basic information pieces that you can simply tailor to your purposes. Use these and add your own local information or photos. The lead foundation may also have letterhead, and be able to set up a webpage for your affiliate.

5. **Outreach events.** When you start out, consider how many events you want to hold in the first several years. For example, in your first year, you might decide to host a series of private dinners in board members' homes, and perhaps one or two larger community kick-off events. You may be able to cover these costs with contributions from board members and local businesses. Or you may need some cash to cover certain costs such as renting a booth at a community fair, or paying a local bakery, restaurant, or church group to cater a community breakfast. Since your visibility and acceptance in your community may well depend on these outreach efforts, be sure to estimate these as start-up costs for any community endowment.
6. **Professional advisors.** A range of professional advisors can really help you at start up. In some cases, you may need to pay them; in others, you may find professionals who are willing to volunteer their services, especially if they are on the board or community-minded.
  1. **Legal advisors.** Be sure to get a lawyer's help if you are starting a freestanding foundation, someone who can review all your official filings with state and federal

governments to set up as a business, apply for nonprofit status, and file for tax exemptions. Even if you are affiliating with a lead foundation, you may want a friendly attorney to review any agreements you sign with the lead foundation.

2. **Financial advisors.** Just as important, you can use a friendly financial professional to help you establish forms and procedures for accepting a range of charitable donations. If you are affiliating, your lead foundation has these forms and systems in place. But even then, having a local financial professional available who helps you with complex gifts and gets to know your work in the community is a good idea. In fact, rural community endowments often receive complicated gifts of land and property that some lead foundations have never seen before. Local financial professionals come in handy in such situations.

You will also need financial advisors to help you invest your funds. If you are setting up a freestanding community foundation, this is essential. If you are affiliating, your lead foundation has this covered, but a local financial advisor—perhaps a volunteer on your board—can help you monitor the lead foundation’s investment performance, and can explain it to your local donors, friends, and critics.

3. **Accountants.** Community endowments grow endowed funds, besides running their own organizations: A good accountant can help with both. If you choose to establish your own foundation, an accountant can consult the many resources available to community foundations to help you set up quality accounting standards, systems, and procedures. As a freestanding foundation, you will also need an accounting firm to conduct an annual audit. If you are affiliating, an accountant can help you with your affiliate’s operating expenses and financial tracking and statements.
4. **Others.** Depending on your goals and your community situation, you might also consider bringing in other professionals who can help you at start-up, such as graphic designers, writers, meeting facilitators, board development experts, event planners, or other marketing specialists.

## How do you construct and fund a basic start-up budget?

- **Estimate a five-year budget.**

Many of the costs outlined above may be met through volunteer work and donated services, and we look at those options in more detail below. But preparing a budget is a good idea, anyway. That way, if you need to replace volunteer work with paid staff—or donated services with contracts, or donated space with a lease—you will be prepared, and absorbing the new costs will not be so difficult. In addition, your budget will give you a structure for valuing donated time, services, space, or materials as pro bono contributions.

Budgeting for more than your initial start-up is also important. Begin sketching out your five-year—or even ten-year—plan now. Which of your immediate start-up costs will translate into ongoing expenses? What new expenses will arise as you become more established and as you shift your focus from the requirements of setting up legally, to conducting extensive community outreach, and building your endowment and making grants?

A basic budget for the first five years might include the categories outlined below in the fictional *Homestead County Community Endowment: Start-up Five-Year Operating Budget Estimate*. Note that this is only a sample. Costs and categories may vary widely from place to place, and from community endowment to community endowment, based on your

ambition, your vision, how you got started, the size of your community, local prices for goods and services, and plenty of other factors.

<b>Homestead County Community Endowment</b>						
<b>Start-up Five-Year Operating Budget Estimate</b>						
<i>Caution: This is only a sample. Use this basic budget as a model and adjust the categories and figures to fit your community and your community endowment's situation.</i>						
<b>Cost Items</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Comments</b>
<b>Staffing &amp; Volunteers</b>	500	500	5,000	7,500	10,000	Once you grow a bit, you might pay someone to help out. Or if volunteers are covering staff tasks, you might cover some of their transportation or out-of-pocket costs.
<b>Office Space</b>	0	1,200	1,200	1,200	3,000	Even if your office space is free, build this cost into your budget and fundraising so that when you do have to pay for office space, absorbing the cost will not be as difficult.
<b>Supplies, Equipment, Services</b>	2,000	1,500	1,500	2,000	3,000	In the year(s) you acquire new computer equipment and software, or set up phone and Internet services, this figure will spike.
<b>Marketing, Printing, Postage</b>	1,000	2,500	2,500	4,000	5,000	Allow a generous amount for this item, because your marketing efforts likely will increase each year.
<b>Events</b>	1,000	1,500	3,000	3,500	4,000	As you develop more donors and prospects, and work with more grantees, you will organize more and larger events to keep them informed and interested.
<b>Professional Services</b> <i>Legal, Accounting, Financial</i>	3,000	1,000	2,000	3,500	5,000	A freestanding community foundation will pay costs (about \$2,500) in Year 1 to become a nonprofit—and after that an annual fee to file IRS Form 990. Once you have even a small budget to spend, adding a part-time bookkeeper or service can help you produce fund statements or handle a lot of donations at once.
<b>Miscellaneous</b>	500	1,000	1,000	1,500	2,500	Set something aside for the unexpected; for example, membership or workshop fees, cosponsoring a local event, etc.
<b>TOTAL</b>	<b>\$8,000</b>	<b>\$9,200</b>	<b>\$16,200</b>	<b>\$23,200</b>	<b>\$32,500</b>	<b>Five-Year Total: \$89,100</b>

You can use this basic budget and its categories as a template and adjust the figures to make them fit your community and your situation. For example, you might choose to hire someone as a part-time executive director immediately and pay that person \$5,000 the first year and \$7,000 the second. Perhaps board members can absorb all event costs, or a board member's business can absorb all supply costs. It is simply a matter of thinking together about what you think it will take to get started in your community – and doing a little pricing research – to come up with your first draft.

- **Get a smart start.**

The typical rural community endowment starts on a shoestring, with only good will, good volunteers, and no funds to speak of. If yours is an exception to that rule, be happy! If not, your initial board will likely spend much effort each year just raising the operating funds for the basic supplies, services, and events you need to have a face in the community. That can take so much time and energy that none is left to build endowments or play the other positive roles in the community that are the true mission of your community endowment.

Another way exists, and it usually works better. Once your steering group or organizing board has constructed a five-year operating budget that makes sense, determine how you might raise the entire five-year amount at once, and set a goal of raising it within a relatively short period of time—the faster the better. If you can do it in six months or one year, bravo! If it takes 18 months, that's fine, too. *Remember, you only need to have the money pledged, not necessarily in hand.*

If you can manage to get those basic funds in hand quickly, your board can focus sooner on getting out into the community, talking about the community endowment and connecting with donors. The sooner you do that, the sooner you can begin to make grants and sponsor other activities to bring the community together and move it forward. All in all, you will have a more solid base for success if you have your basic operating dollars pledged or in hand for a few years out.

But how can you raise those operating dollars quickly? Here is a set of ideas to spark your thinking:

- Ask each *board member* to reach deep and give as much as possible each year for five years.
- Seek a few *business sponsors or partners*, for example, local banks, hotels, law firms, retail stores, restaurants, hospitals, or professional financial advisors, to commit \$500 or \$1,000 per year for five years—or ask them to pledge whatever amount they can every year—as members of a “Founder’s Circle.”
- Hold *community-wide fundraisers*—such as spaghetti suppers or benefit auctions—at which local residents can learn about the endowment and are encouraged to support the foundation with smaller amounts.
- Have board members host *private dinners* to encourage close friends to make annual pledges to the foundation.
- Ask a family foundation, private *foundation or wealthy donor* in your region to underwrite one year—or all five—of your start-up as their investment in the community.

Those are just a few ideas—and remember, you can do more than one at a time. Next, let's turn to where you might go for *all* the resources and assets your community endowment needs.

### Where do we find the resources and partners we need for the community endowment to thrive?

As you build your rural community endowment, be sure to identify a broad range of resources and donors, build relationships with them, and ask for their help along the way. Seek support for six major areas:

- *Start-up and operating* money
- *Permanent unrestricted and restricted endowment* funds, which produce the income streams that become your grants



- *Temporary or pass-through funds*, to use immediately for grants or community initiatives
- *In-kind and pro bono goods and services*, such as free office space, refreshments for events, printing, accounting, or legal help, and marketing advice
- *Challenge funds*, which provide a match for funds you raise from other donors
- *Partnerships with other groups*, to take on significant community activities that are too big for you alone, to add to your credibility so that a project gets notice and succeeds, or when you want to bring the community together.

The list below describes potential sources of help in each of these areas. Seek these out as you establish and grow your community endowment. Note that the table gives you only the most likely sources for different needs. Remember, tailor it to you community. Go with what you know.

<b>Sources of Resources for Community Endowments</b>						
<i>Here are the most likely sources for different kinds of resources you need to get your community endowment going and keep it growing. It might be different where you are—just use this to get your thinking going!</i>						
<b>Likely Sources</b>	<b>Operating/ Start-Up Funds</b>	<b>Endowed Funds</b>	<b>Pass-Through Funds</b>	<b>In-Kind or Pro Bono Help</b>	<b>Challenge Funds</b>	<b>Partnering</b>
<b>Individual Donors</b>	X	X	X		X	
<b>Other Foundations/ Endowments</b>	X	X	X	X	X	X
<b>Local, State, and Federal Government</b>	X	X	X		X	
<b>Local Businesses</b>	X		X	X	X	X
<b>Businesses Elsewhere with local stakes</b>		X	X		X	
<b>Rural Utilities and Co-ops</b>	X	X	X	X	X	X
<b>Nonprofits</b>		X	X	X		X

- **Individual donors.** Generally, the people most willing to contribute to rural community endowments are local people with deep roots in the community who have a strong desire to improve it through a lasting legacy. Among this group, remember community alumni and family members who have moved and become successful elsewhere. They are often delighted to have an opportunity to give back to their hometown. And finally, think about new full-time or part-time residents who have developed an attachment to your community.
- **Other foundations and endowments.** In every state, you will find other foundations that might have an interest in your community, some well-known and others relatively unknown. They might be family foundations, corporate foundations, or private foundations that cover a state or a multi-state region, maybe even the nation. In addition, existing endowed funds

held in a bank trust or by a private attorney could be transferred to your community endowment. Often such endowments have existed for years, but their donors or administrators may know nothing about community endowments.

Some foundations might provide grants for endowment building, either as direct grants or as challenge grants to provide you an incentive to seek other contributions. Others do not support endowment or operational grants but are willing to provide pass-through funds for re-granting, or sponsor community projects, which can give you a wonderful opportunity to make grants in your community before your endowment is large enough to produce much income.

- **Local, state and federal government agencies.** Governments at all levels fund programs that community endowments can administer. For example, in some states, governments work with community endowments to support youth, arts, and economic development programs. Other states—like Iowa, South Dakota and Ohio—have actually appropriated general funds or dedicated lottery proceeds to build rural community endowments. Unfortunately, no guide about these opportunities exists. However, staff in the office of your member of Congress or your state representative can be good sources of information about potential resources. When it comes to your local town or county governments, sit down and talk with them. Some rural community endowments receive operational or project funding from local units of government, because local officials know the community will benefit with a community endowment in place.
- **Local “Main Street” businesses.** Many local businesses actively support community programs. Doing so gives them visibility and a positive image with potential customers in the community. Even if they already support the local United Way or other community organizations through an annual contributions program, businesses are usually enthusiastic partners for rural community endowments. How might they help you?
  - Their officers might serve on your board of directors.
  - Their staff might advise you on financial or legal issues.
  - They might pledge a certain amount for annual operating costs.
  - A business might start an endowed fund named after its business.
  - If they already have an annual community grants programs, they can move it to your community endowment, which frees them from administrative work while allowing them to take credit for the good causes they support.
  - They could set up a matching fund for employee contributions to the community endowment
- **Businesses elsewhere with local branches or local stakes.** Some local businesses and corporations may be branch or district offices or stores of national corporations. These corporations often make charitable contributions from home offices as well as local branches. Find out whether your foundation can apply for funds from both sources. Likewise, an industry that depends on people in communities like yours might give something. For example, rural communities in an agricultural area might ask for help from tractor manufacturers or seed companies.
- **Rural utilities and co-ops.** Another special category of business that may provide funds and assistance for rural communities is rural utility companies—including telephone companies, gas and electric companies and co-ops. Many already have programs to make grants to rural communities; you can help them with that. Or they might donate staff time, office space, marketing and printing services, and other key items in your budget. In

Nebraska, for example, one utility company helps fund a Nebraska Community Foundation staff person who works with dozens of NCF's rural community affiliates.

- **Nonprofit organizations.** Some local institutions, such as schools, museums, hospitals, libraries, or nonprofits like YMCAs or Boys and Girls Clubs may already have their own endowments. As you get started, they could become a quick source of significant endowed funds if they simply transfer those existing organizational endowments, placing them with you. Why would they do that? Your community endowment can offer two benefits: First, pooling their resources with the funds you already hold can offer them higher interest rates, and second, you can relieve them of all the administrative and investment burdens. Both groups benefit. Some rural community endowments have found this a very effective strategy at start-up; others find it complex and a difficult sell. Consider it in your situation and decide for yourselves.

Congratulations! This discussion of getting your community endowment on stable ground as an organization rounds out the five Conversations in Section 1.

## Steering Group: Questions for Our Discussion

1. **What do we think about start-up costs for our rural community endowment?**
  - *Are there any cost items not included in the list that we foresee and want to include?*
  - *What is our first-cut of a projected five-year budget?*
  - *What questions about costs remain that we need to research?*
  - *Who will do that research and when?*
2. **What do we think about gathering resources for a one- to five-year operating budget?**
  - *What are our likely best sources?*
  - *What would our “ask” be for each one?*
  - *Who could do the ask, how, and when?*
3. **Based on what we have learned and discussed so far, do we still want to consider starting a community endowment— and/or move on to the next Conversation?**
4. If **yes** to #3, when will we do that? Who should be involved?
5. If **no**, what other idea do we want to pursue—and how?

## Toolbox for Conversation #5

For more information on the topics in Conversation #5:

- **Conversation 3 Appendix: More on Community Endowment Start-up Paths.** If you have now decided to start up a community endowment, we again refer you to this RFD 101 appendix, which walks you through the start-up tasks you face to set yourself up legally. This section examines two paths to launching a community endowment: the initial steps for starting a free-standing community foundation, and the steps to setting up as a community affiliate of an existing community foundation. 2007. [See the appendix at the end of this Guide.](#)
- **Leading Tactics for Rural Fund Development.** Here you will find individual how-to guides, each for one of a dozen individual tactics rural leaders use to grow endowed assets and raise funds for their community endowments. These tactics will give you lots of ideas about how to cultivate different kinds of donors. 2005-2007.  
Download for free: [www.aspencsg.org/rdp/endowment/tactics.php](http://www.aspencsg.org/rdp/endowment/tactics.php) or [www.givingforum.org/rural/tactics.html](http://www.givingforum.org/rural/tactics.html)
- **Foundation Center—and other library resources on foundations.** There are several resources to help you identify what other private, family, or corporate foundations— local and national— might help you:
  - Visit **The Foundation Center** online search page to find names of foundations near you. [www.fdncenter.org/findfunders](http://www.fdncenter.org/findfunders)
  - Scope out the entire **Foundation Center** Web site and look for helpful publications or other resources. You can even consider joining *Foundation Directory Online* to gain online access to more information.

[www.fdncenter.org](http://www.fdncenter.org)

-- Also check out the Foundation Center's **Cooperating Collections**, which are located in every state. Cooperating Collections are free funding information centers in libraries, community foundations, and other nonprofit resource centers that provide a core collection of Foundation Center publications and a variety of supplementary materials and services useful to grantseekers.  
[www.foundationcenter.org/collections](http://www.foundationcenter.org/collections)

-- Visit your local **public library**. Ask for state-based information or directories on funding sources. Your library may already subscribe to *Foundation Directory Online*.

▪ **How do other rural community endowments do it?** If you want to check out how existing rural community endowments talk about themselves and what they are doing, we suggest you scope out some Web sites where you can easily find a lot of them. Here are a few.

-- **Nebraska Community Foundation community affiliate funds.** NCF has more than 80 rural community affiliates. Surf this map page to link to individual community endowments and explore the entire site for their ideas, stories and inspiration.  
[www.nebcommfound.org/Bigmap.htm#community](http://www.nebcommfound.org/Bigmap.htm#community)

-- **Minnesota Community Foundation community affiliate funds.** Likewise, MCF has dozens of community funds. Scroll down this page to link to an MCF page for each individual fund. Some of those pages let you link to a fund's individual Web site, news stories, and more.  
[mncommunityfoundation.org/funds/map/](http://mncommunityfoundation.org/funds/map/)

-- **Iowa and Indiana Community Foundation Locators.** Iowa is chock full of rural community endowments, some freestanding, and dozens of new community affiliates, thanks to a state incentive that helped many launch in the last five years. Likewise, Indiana has almost 100 community foundations and affiliate funds that have been growing over the last decade, sparked at the start by the Lilly Endowment.  
[www.locator.iowacommunityfoundations.org](http://www.locator.iowacommunityfoundations.org) and [www.indianagrantmakers.org/locator](http://www.indianagrantmakers.org/locator)

-- **Community Foundation Locator.** The Council of Foundation's nationwide community foundation locator will link you to free-standing community foundations, both rural and urban. The COF is beginning to add community affiliates to this site, so soon you will be able to find rural community endowments all in one place.  
[www.cof.org/locator](http://www.cof.org/locator)

## More on Community Endowment Start-up Paths

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This section walks you through the start-up tasks needed to set yourself up legally as a community endowment. However, it does not include all the community outreach and conversations you will also need to conduct. It examines two steps to launching a community endowment: **Path 1** describes the initial steps for starting a freestanding community foundation; **Path 2** explains how to set up as a community affiliate of an existing community foundation. After reviewing these two options, your steering committee can make a more informed decision about which setup best suits your community endowment.

### **Path 1: How do we start our own freestanding community foundation?**

Below is a basic road map for starting your own community foundation. There are three stages, based on where you are in the process of obtaining tax-exempt status:

#### **Initial steps to apply for tax-exempt—called 501(c)(3)—nonprofit status**

1. Recruit your initial board members.
2. Have your board define the purpose and intended activities of your community endowment, some of which you may have begun to discuss using this Guide's conversation topics.
3. Draft articles of incorporation and bylaws that adhere to requirements for qualifying as a nonprofit 501(c)(3) organization according to federal law and your state law. The IRS requires some provisions that are not typically required by states, and failure to adhere to these provisions is the most common reason applications for nonprofit status are rejected. You will find it a good idea to seek expert advice at this stage from an attorney or other professional who has helped put together a successful nonprofit organization application.
4. Once your articles and bylaws are drafted, hold an organizational meeting to approve them and to elect your directors and officers.
5. Obtain an EIN (Employer Identification Number) for your organization by filing a simple one-page Form SS-4—*Application for Employer Identification Number*—with the IRS. The employer identification number is a unique number that identifies your organization to the Internal Revenue Service, just as your social security number identifies you as an individual to the IRS. You will need this number before you apply for nonprofit

#### ***Why you need the IRS 501(c)(3) nonprofit designation***

Nonprofit organizations are exempt from federal and state income taxes, and from some local taxes as well. This represents a significant advantage to you, but there are even more important advantages.

First, this tax-exempt designation allows your donors to claim federal—and in many cases, state—income tax credits or deductions for contributions they make to your endowment. This is critical to your fundraising efforts. Next, as a tax-exempt organization, you can receive grants from *other* foundations, which can bring new and useful dollars to your community.

To qualify for 501(c)(3) status, your community endowment:

- must be organized and operated exclusively for charitable purposes
- must not provide financial gain to its directors, members, or any individual, except for reasonable compensation for services rendered
- must comply with restrictions placed upon nonprofits related to lobbying and other political activities.

In case you were wondering, nonprofit tax-exempt organizations often are called *501(c)(3)s* because that is the section number in the federal tax code that deals with nonprofit operations.

status, whether or not you have any employees. You can find and download the form—or even file online—by going to [www.irs.gov/charities](http://www.irs.gov/charities).

6. File your articles of incorporation with your state—usually with the Secretary of State—and obtain a certified copy. The filing fee varies by state.
7. Develop a fundraising plan, preliminary budget and cash-flow projections for at least the first two years of operation. Consider looking at IRS Form 23 first (see #8 below), so that you know what the IRS is looking for here.
8. Complete and file IRS Form 1023—*Application for Recognition of Exemption*, which you can download at [www.irs.gov/charities](http://www.irs.gov/charities)—within 15 months of your incorporation. This is another stage at which expert advice will be helpful. You will also need to pay a filing fee of about \$500 or more if you pay a professional to review your application.

### **While waiting for your IRS ruling (typically a four- to eight-month period)**

1. Keep an eye on your mail for IRS requests for additional information. Typically, the IRS contacts you several times with questions, and gives you very little time to respond. Do not let their questions get you down! Stay clear and committed, and simply answer them.
2. If you plan to start out with paid staff, develop your personnel policies, job descriptions, and other employment materials. Even if you rely on volunteers to start, clearly stated policies and job descriptions for volunteers can avoid misunderstanding, provide recognition, and pave the way for a shift to paid staff.
3. Develop your accounting systems (and payroll systems, if you have paid staff) or contract with an accounting firm.
4. Develop the operating policies that will govern your fundraising and investing.
5. Request a state tax identification number (if your state requires one in addition to your federal EIN).
6. File with your state tax department for exemption from state sales and income taxes.
7. If you will be hiring staff in the near future, register with your state unemployment department to determine your liability for unemployment taxes.
8. Research and determine your insurance and bonding needs, and obtain price quotes.

### **Once you receive your nonprofit status**

1. Obtain bonding, liability, and other necessary insurance, including workers compensation insurance if you will be hiring staff.
2. Recruit volunteers and hire staff as needed.
3. Begin your operations and fundraising. Note that while you may raise funds before receiving nonprofit status, any contributors at that stage must be informed—in writing—that their contributions may not be tax-deductible if the IRS rejects your application for exemption.

## **Path 2: How do we pursue affiliating with an existing foundation?**

Your road map to affiliation is considerably simpler than the preceding one. Its stages are partly defined by where you are in finding an appropriate lead foundation with which to affiliate.

### **Initial steps to locate a lead foundation**

1. Recruit your initial local advisory board members.
2. Have your board define the purpose and intended activities of your endowment, some of which you may have begun to discuss using this Guide's conversation topics.
3. Sketch out a potential fundraising plan, preliminary budget and cash-flow projection for at least the first two years of operation.
4. Identify the community foundations in your region or state with which you might affiliate, and learn what you can about their priorities and interests in relation to yours. More than 700 free-standing community foundations operate in the United States. You can find a list of these foundations and links to their Web sites at the Community Foundation Locator page on the Council on Foundations' website— [www.cof.org/locator](http://www.cof.org/locator). You can also get information about your local community foundations from your regional association of grantmakers,. To find out, visit the Forum of Regional Associations of Grantmakers website— [www.givingforum.org/ralocator.html](http://www.givingforum.org/ralocator.html).
5. Once you have identified community foundations near you that might share your interests, make appointments to introduce yourself and discuss the possibility of affiliating. Use the planning work you have already done—your statement of purpose, intended activities, fundraising plans, preliminary budget, and projected cash flow—to help them understand what you would be contributing to their efforts.

The responses you receive from potential lead foundations, and the kinds of services and assistance they might offer—and at what cost—will depend on each foundation's mission and resources, which may vary widely. You might encounter any of the following:

- A lead community foundation whose primary mission is to help create and support rural community affiliate endowments just like yours. These foundations typically have a well-developed process, steps, timeline and detailed technical assistance services to get you going and keep you on track. *Examples include the Nebraska Community Foundation and the North Carolina Community Foundation.*
- A lead foundation that started out working mostly in metropolitan or larger city areas, but has branched out in recent years to work in the rural areas of its region or state—and has developed a comprehensive community affiliate program to do so. *Examples include Arkansas Community Foundation, CREATE Foundation (northeast Mississippi), Arizona Community Foundation, East Tennessee Foundation and East Bay Community Foundation (California).*
- A lead foundation that encourages the formation of community affiliates as they emerge, but has no formal process for doing so. In this case, you might find that the lead foundation strikes different deals with different community affiliates, based on



their needs and resources. *Examples are the Humboldt Area Foundation (far north coast of California) and the Greater Milwaukee Foundation.*

- A lead foundation that agrees to sponsor community affiliates, but mainly as a courtesy, because nurturing new affiliates is not a priority or the foundation lacks the resources to do a good job. This lead foundation may be able to offer only very basic services.

Many other possibilities exist—largely because every community foundation sets its own goals, priorities, and structure. But be prepared to encounter either extreme—or some variation in the middle of this range—as you talk to potential lead community foundations in your area.

### Negotiating your relationship with a lead foundation

Once you find a lead foundation interested in bringing your community endowment in as an affiliate, work with the foundation leadership to hammer out the parameters of your relationship.

1. *Find out what the threshold will be to formally establish yourself as a community affiliate.* Is there a minimum amount you must set up as an affiliate fund? Does a “model” timeline exist, or set of steps for you to follow to keep yourselves on track? How can you use the affiliation as a launching pad for your community endowment?
2. *What will they do to help you along the way?* Are there any financial incentives available to get you going or growing? What must you do at the start and on a regular basis to be part of the lead foundation? Do they have other community affiliates you can consult for advice, and to see how the lead foundation works with its community affiliates?
3. *It's important to understand—and perhaps negotiate—all the fees that you will pay on your funds, and any additional fees the lead foundation may charge for specific services to your affiliate.* Even though many lead foundations welcome affiliates as part of their mission to provide philanthropic services to rural areas within their regions, be aware that working with affiliates is often quite expensive for lead foundations, both in terms of staff resources and opportunity costs. If a lead foundation's staff member spends time training your new board, and your community is hours away from the lead foundation's headquarters, the staff person has spent a lot of time not working on other lead foundation business. To offset these costs, the lead foundation will charge fees on the funds you place with them, likely to run between one and three percent of the value of the assets that the lead foundation manages for you each year. In addition, they may charge a minimum maintenance fee per fund, or special fees for some of the extra services they provide you.
4. *Work with the lead foundation's leadership to determine what you can expect to receive in return for the fee they charge.* Lead foundations usually provide the following:
  - investment services
  - administrative support
  - accounting
  - record keeping
  - annual IRS reports
  - annual audits

- gift acknowledgments

Your lead foundation may also provide professional advice and assistance—at additional charge—with fundraising, marketing, governance, grantmaking, planned giving, and learning and networking opportunities. The organization may also include your endowment in its annual report and feature your activities on its Web site.

### **Once you establish your affiliate status**

1. Adapt the lead foundation's personnel policies, job descriptions, and other employment materials as needed to accommodate your local situation.
2. Develop any local recordkeeping systems that work for you and satisfy your lead foundation's accounting needs.
3. Work with the lead foundation staff to develop a fundraising and grantmaking plan.
4. Set a tentative date for a launching event to celebrate and publicize your new community endowment and its affiliation with the lead foundation.
5. Begin operations and fundraising.
6. Recruit volunteers and hire staff as needed.
7. Once there are sufficient funds, begin grantmaking activities in conjunction with the lead foundation.