

**Fueling Impact:**  
A Fresh Look at Business Model  
Innovation and New Revenue Sources

STORIES AND INSIGHTS FROM ACROSS  
THE COMMUNITY FOUNDATION FIELD

*Rebecca Graves*  
*Samira Rahmatullah*

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\* Confront the Brutal Truths task force members:

Peter Dunn – Central New York Community Foundation  
Robin Ferriby- Community Foundation for Southeast Michigan  
Doug Kridler – The Columbus Foundation  
Ruben Orduña – The Boston Foundation  
Alicia Philipp – Community Foundation for Greater Atlanta  
Walker Sanders – The Community Foundation of Greater Greensboro  
Nicole Taylor and Ted Liebst – East Bay Community Foundation  
Jeff Yost – Nebraska Community Foundation

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- John Davies, CEO & Debbie Pickell, Director of Finance, Baton Rouge Area Foundation
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- Laura Meyer, Executive Vice President & Deb Watt, Senior Vice President of Operations, Foundation for the Carolinas
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- Mindy Oakley, COO and Vice President Philanthropic Services, The Community Foundation of Greater Greensboro
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- Nicole Taylor, CEO & Ted Liebst, CFO, East Bay Community Foundation

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*This report is designed to spark thinking about new business model innovations and revenue sources but does not address the legal or tax issues raised by these revenue sources. A community foundation should work with its legal and tax advisors when designing new revenue sources to ensure continuing compliance with the law and to identify any tax implications of the arrangement.*

# 1. Executive Summary: A Wake Up Call for Community Foundation Business Models

Diversifying revenue sources has become essential to strengthening differentiation and sustainability, the key principles behind a strong business model.

Given the dynamic communities and constituents served by community foundations, all would benefit from taking a fresh look at the way their business model is designed to support their philanthropic goals today and in the future. Doing so will help community foundations avoid being caught off guard by major changes, whether these changes are the result of a volatile economy or other disruptions in the philanthropic marketplace.

*“There is a need to wake people up who aren’t thinking about this yet. My fear is that not enough of my colleagues are aware that this is an issue.”*

- Nicole Taylor, CEO, East Bay Community Foundation

The traditional asset-based fee structure provides many benefits, but was not designed to support the range of philanthropic offerings provided today, or the extensive community leadership work taken on by virtually all community foundations. Evolving to meet the ever-increasing scope of philanthropic needs, foundations are finding innovative new sources of support, diversifying their revenue base.

New revenue sources attempt to compensate for the limitations of asset-based fees: the inability to cover foundation activities that are not related to fund management; mechanics that mirror the volatility of market fluctuations; and implicit messages that fail to communicate the full value of community foundations. However, asset-based fees generate valuable recurring income,

and the key to a sustainable model is striking a balance between asset-based fees and other sources of revenue, rather than replacing the traditional structure altogether.

The choice of revenue sources differs greatly from one foundation to the next depending on the unique business model pursued by each. The best business models strengthen an organization’s differentiation and sustainability, in mutually reinforcing ways. A community foundation’s differentiation is based on the ways it meets constituents’ distinct needs, is tailored to community context, and builds from internal strengths. Its sustainability is a combination of current income that covers costs, and future growth. The best revenue sources are designed to contribute both to differentiation and to sustainability.

## Differentiation:

Offering a distinct value proposition tailored to constituents’ needs, community context, and unique strengths of the foundation

## Sustainability:

Enabling the foundation to achieve its mission today, while enhancing its ability to do so in the future

Many foundations are in the early stages of innovation, creating new approaches to enhance the foundation’s offerings and diversify revenue sources. Not all of these approaches are self-sustaining in the sense that current income covers costs. In some cases, foundations are in the process of understanding how to maximize a new product’s revenue capture. In other situations, they are making deliberate decisions to invest in future growth. In either case, it is essential to carefully weigh the costs and benefits of new efforts before moving from experimentation to a full commitment.

For those foundations interested in diversifying revenue sources, it is essential to consider the following four factors:

- **Differentiation:** Consider the distinct needs of constituents, the community context, and the foundation's internal strengths – innovation is not 'one size fits all'
- **Sustainability:** Balance current income and future growth
- **Transition:** Invest in change, securing or allocating bridge capital
- **Partnership:** Seek the input and collaboration of your constituents

The first two factors, differentiation and sustainability, are the basis of a strong business model. The second two factors are required to successfully shift from an old business model to a new one.

## Taking Action.

Throughout this report we present various examples of foundations finding innovative ways to address revenue gaps and transform their business models. We hope that the observations and examples in this report and the broader work of the Community Foundations Leadership Team and CF Insights will urge community foundations to take a fresh and informed look at their business models, and to consider two key questions:

- **Review your business model:**

*How do you create, deliver, and capture value?*

- **Plan for the future:**

*How can you better align your business model with future goals and prepare yourselves for future change?*

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## 2. The Need for Change: Why Is It Important to Innovate?

Community foundations nationally are responding to a changing philanthropic landscape, pursuing new opportunities for leadership and impact, and navigating the reverberations of a global economic crisis. Just one of these circumstances would justify a serious examination of the business model, but taken together, they speak to the urgency of the need for change.

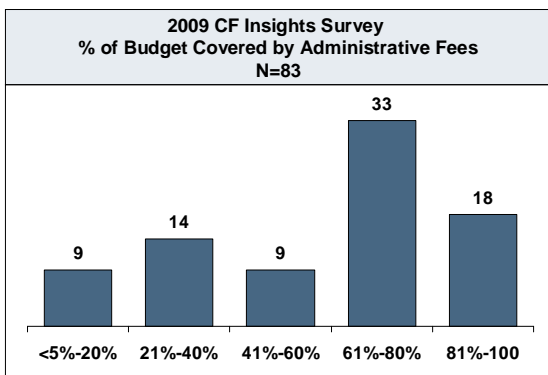
Community foundations today face a number of challenging dynamics with implications for their organizational sustainability and future role. It is essential to consider the ways in which the context is changing in order to define appropriate business model options.

**Volatile Economic Environment.** While we are no longer at the peak of the economic crisis, the economic environment has once again underscored the community foundation field's vulnerability to market fluctuations. Market performance has wound community foundation assets back to 2006 levels, and contributions declined 8% in 2008 and 20% in 2009.

According to a survey of 95 community foundations conducted by CF Insights at the height of the market downturn in Spring 2009, the vast majority of foundations were experiencing budget shortfalls, and relying on budget cuts and revenue sources beyond administrative fees to weather the storm.

Among surveyed foundations, administrative fees covered an average of only 66% of operating budgets in fiscal 2008, and the outlook for 2009 was even lower at 61%. To make up for budget shortfalls, two-thirds planned to tap into operating reserves and many needed to

leverage internal grants to fund operations. While operating endowments and operating reserves will remain crucial in coming years, 50% of foundations also reported an intention to explore new partnerships to increase revenue and strengthen future sustainability.



**Competitive Landscape and Technological Innovation.** Underneath the economic turmoil, the landscape community foundations are operating in continues to shift. Notably, the offerings of philanthropic service providers continue to change, with commercial and nonprofit providers growing to serve donor and community needs. New technologies offer the promise of finding new operating efficiencies, greater consolidation of efforts across foundations, shifting modes of communication, and the construction of new service offerings.

*“The market is changing and community foundations need to understand the premise of what they’re doing now, what their value proposition will be in the future and how they’ll change.”*

- Kelvin Taketa, CEO, Hawaii Community Foundation, Honolulu

**Increased Collaboration.** Collaboration across geographic and sector boundaries is another trend that is expected to grow, as philanthropic and nonprofit organizations explore networked and concerted ways of increasing their impact. As Lani Rossmann of The Community Foundation of Middle Tennessee predicts, *“Our borders are dissolving. I think in the future, we’ll see a movement towards partnering across communities and states, much like what we see today with disaster relief efforts.”*

**Evolving Donor Needs.** Importantly, the donor population also continues to shift – younger, more culturally diverse, providing active leadership in their communities with their time and their resources, growing more technologically savvy, and continuing to flock to Donor Advised Funds (DAFs) as a vehicle for philanthropy. More than half of community foundation grant dollars originate from DAFs. This fact is reflected in the ways community foundations are orienting their strategy and operating model to serve donors, add value to DAFs, and provide leadership.

**Growing Range of Constituents.** At the same time, newer types of constituents – nonprofit organizations, corporations, public agencies, private foundations, and funder collaboratives – are finding benefits in the experience and unique capabilities of community foundations. All of these changes have implications for how services are structured and delivered, and for how community foundations engage their constituents and create unique value.

**Changing Asset Composition.** Correspondingly, the composition of assets is changing. Many community foundations today support a broad range of funds that are not permanently endowed. Instead, they serve active donors or other community constituents focused on distributing philanthropic dollars today. These funds increase grantmaking resources and are flexible in responding to community needs, but also stretch the business model further from its traditional focus on building endowment.

## The Need for Change.

The old debate about whether community foundations are donor-focused or community-focused has melted away and it is clear that each community foundation is focused on serving active donors, engaging a host of other constituents in philanthropy, and providing leadership to the community. It is essential that the business model and revenue sources reflect these realities.

Brian Byrnes, CEO of the Santa Fe Community Foundation highlights the importance of a potential paradigm shift in the expectations of smaller, emerging community foundations, *“My question for smaller community foundations is, going into this next economy, should we start assuming growth of assets won’t happen like it has in the past? What then is the new way to think about revenue? There’s a real yikes moment here!”*

As expected, the answer to Byrnes’ question is complicated and depends very much on the unique context of each foundation. There is clearly no single silver bullet for all community foundations that would result in a universally sustainable business model. No innovation is ‘one size fits all.’ Every foundation is unique in its history, stage of growth, population served, mission, asset size and composition, and relationship with its base of constituents, thus requiring a different approach.

*“We need to work out different solutions to support the work we want to do in the community, and we have so many ideas, ranging from a housing development subsidiary, fundraising for statewide partnerships with other community foundations, creating a new investment company, or expanding our corporate relationships. We’ve learned we need to move forward in order to test what will work.”*

- Mindy Oakley, COO, The Community Foundation of Greater Greensboro

<b>Considerations for Community Foundations in Different Lifecycle Stages</b>	
<b>Emerging Foundations</b>	<b>Mature Foundations</b>
Have more freedom to be innovative with their service delivery and economic models	Have difficulty changing given history and established expectations
Face pressure to establish credibility with donors and the community	Have a proven track record
Operate with a “shoestring mentality” and under greater fiscal uncertainty	Operate with greater stability because of larger operating endowments and greater proportion of endowed funds
Small decisions made today have the potential to dramatically change the foundation’s future asset composition and economics	Small decisions made today can only alter the foundation’s assets and economic structure at the margin

### 3. Taking a Step Back: What Can We Learn from the Traditional Asset-Based Fee Model?

Asset-based fees have several limitations but also provide the valuable benefit of recurring income. A diversified revenue mix that includes asset-based fees alongside other revenue sources is the ideal for which many community foundations strive.

To understand how new revenue sources can best complement the existing community foundation business model, it is helpful to first evaluate the traditional asset-based fee structure to understand its benefits and limitations, and why it is no longer sufficient for the changing needs of the community foundation field.

The asset-based fee model was inherited – a legacy of the origin of community foundations in bank trust departments. Since then, the field has benefited from this model in several ways. First and foremost, it has established a norm of charging for the management of philanthropic funds. Donors are accustomed to paying these fees and have come to expect a cost for having their funds managed in a professional, efficient and impactful way. Second, it has provided community foundations with a recurring source of income, allowing foundations to concentrate on their mission and on building the infrastructure for sophisticated administrative and philanthropic services rather than on fundraising or on deriving other sources of income.

However, the role of community foundations also includes activities such as community leadership, which are not covered by traditional asset-based fees. As these fees cover less and less of a community foundation’s operating budget, and the ambition of community foundations grows to encompass more and more, the traditional definition of sustainability –

covering costs with modest administrative fees based on asset values – becomes a relic of the past.

According to Sarah Slaughter of the San Diego Foundation, where asset-based fees cover 80% of their expenses, the foundation is concerned about its lack of diversification, *“I would say one of our lessons learned is that all of our efforts for community leadership will never be covered by our normal fees. As much as we want to be everything to everybody, we need to figure out how to get funding other than the natural fee income to cover our work.”*

Benefits of Asset-based Fees	Limitations of Asset-based Fees
<ul style="list-style-type: none"> <li>• Donors are accustomed to paying them</li> <li>• Generate recurring revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Do not cover several foundation activities, including community leadership and philanthropic advising</li> <li>• Are volatile based on market fluctuations</li> <li>• Revenue generated as compared to asset base, is low</li> <li>• Create a disincentive for large funds</li> <li>• Do not accurately communicate how foundations add value</li> </ul>

#### Mechanics and Messages of an Asset-Based Fee Structure.

In addition to its inability to cover the cost of an ever-changing community foundation operating model, an asset-based fee approach is challenging both in its mechanics and in its messages.

Mechanically, asset-based fees are volatile when the market is volatile. Community foundations would benefit from attracting revenue sources that are less correlated with the market, finding ways to mitigate the risk of a downturn, given that contributions and asset values are already heavily dependent on market performance.



*“Asset-based fees are enormously reliant on the economic cycle. When things are good, they’re good. When they’re bad, your assets under management go down, fees go down, endowment value goes down, and your contributions go down.”*

- Steve Maislin, CEO, Greater Houston Community Foundation

An asset-based fee structure also limits a community foundation’s ability to be nimble. Revenues build slowly as assets grow due to gifts or investment performance. At a 1% administrative fee, community foundations must raise \$1M in assets to generate \$10,000 in fee income. Alternative forms of revenue may not all be recurring, but they can make a bigger contribution to current income.

In addition, the messages that the asset-based fee structure sends may create perverse incentives in a philanthropic environment that is increasingly shifting away from permanent endowed funds. Correspondingly, a reasonable donor might see a disincentive for building a large, non-endowed fund. Jeff Rudd, CFO of The Seattle Foundation, explains how a donor might ask, *“Why should I add to funds if I am not going to increase my grantmaking or reliance on your community foundation? My fee goes up and I don’t get anything out of it.”* In the most extreme case, it follows that the incentive may lead donors to transfer assets to a community foundation fund only when they plan on making a big grant, in order to avoid paying higher fees. Were it not for the norm established in the field and concerns over disincenting grantmaking, it would perhaps make more sense to charge donors based on fund activity, rather than on fund size.

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Asset based fees offer the valuable benefit of recurring income, but their limitations must be balanced by other revenue sources.

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But the most significant drawback of the asset-based fee structure from a messaging standpoint may be that it doesn’t signal that the revenue

model is aligned with a community foundation’s mission, or how it delivers value. For an endowed private foundation focused primarily on grantmaking activities, where grant administration is done out of a common pool of funds, the structure makes more sense. In this case, revenues covering operations are aligned with the value of grants distributed. But in the case of a community foundation, particularly one that plays many roles and has many types of grantmaking funds, there is a major disconnect between mission and the traditional business model.

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The role of community foundations includes activities such as community leadership, which are not covered by traditional asset-based fees. As these fees cover less and less of a foundation’s operating budget, the traditional definition of sustainability – covering costs with modest administrative fees based on asset values – becomes a relic of the past.

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At the same time, there are foundations who aspire to have a larger portion of revenues covered by asset-based fees. According to Brian Byrnes of the Sante Fe Community Foundation, a \$31M foundation that is heavily dependent on annual fundraising, *“We have suffered from having to raise money in small chunks. It came at the expense of asset growth. We’re only \$30M in assets and we’re 30 years old. It is truly a missed opportunity.”* For this portion of the field, the challenge is to develop realistic expectations and find a healthy middle ground.

The Community Foundation of Greater Greensboro learned this lesson as it grew from \$65M in assets in 2000 to \$115M in 2008. While administrative fees grew from 56% to 79% of operating income over that period of time, this fee income was not the key to sustainability. Services to donors and community leadership activities grew along with the foundation’s assets. According to Mindy Oakley, *“We’re actively seeking new revenue*

*sources and new business models, many of which reflect strategic alliances.”*

## Revenue Diversification – The Key to Sustainability.

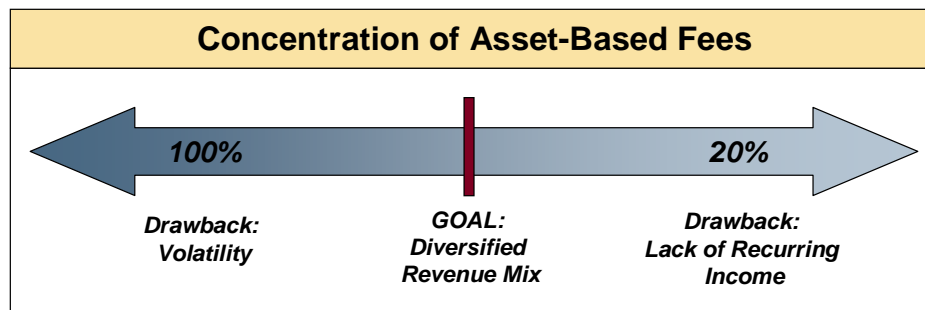
What we learn from evaluating asset-based fees is that while they offer the valuable benefit of recurring income, their limitations must be balanced by other revenue sources. The key to managing risk and achieving current income that can reliably cover costs is diversifying beyond asset-based fees, particularly if the community foundation is unable to build an operating reserve sufficient to weather economic volatility.

While each community foundation needs to look closely at its own unique business model, there are opportunities to learn from different business models across the field. In observing the

spectrum of choices made by individual foundations, it is helpful to consider the following questions:

- How do revenue sources align with the different ways community foundations create, deliver, and capture value?
- How are community foundations diversifying in ways that simultaneously support differentiation and sustainability? How can we learn from this innovation to plan for a stronger future?

Achieving a diversified and balanced revenue mix is one essential component of a strong and innovative business model. *Note: For information on managing the cost side of the equation, see sidebar, pg. 27.*

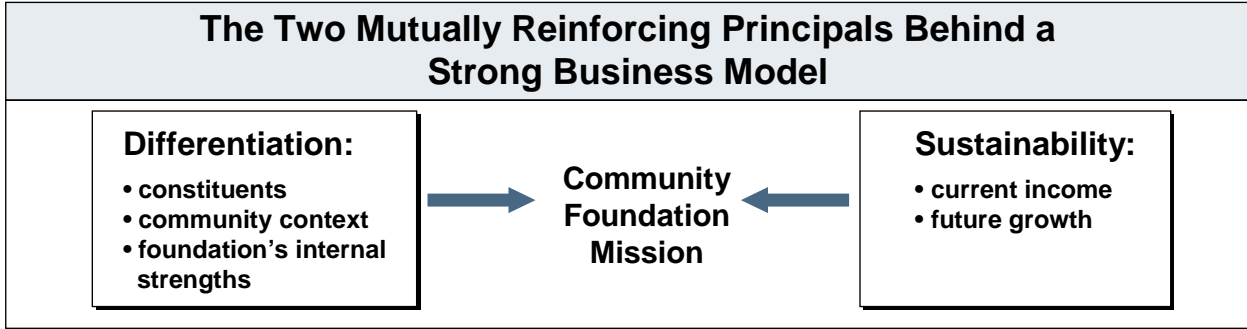


## 4. Guiding Principles for a Strong Business Model

Differentiation and sustainability are the two mutually reinforcing principles behind a strong business model.

Differentiation is a central aspect of every community foundation's strategy. And the distinct needs of constituents, unique community context, and internal strengths of a foundation

play a big part in determining how it differentiates its role in the community. Simultaneously, innovative community foundations consciously recognize that both current income and future growth are integral to sustainability. A strong business model requires both a differentiated positioning and an orientation toward sustainability. In considering new revenue sources, it is important to understand how each option reinforces the community foundation's differentiation and contributes to its sustainability.



**Differentiation – A Product of Constituents Served, Community Context, and Internal Strengths.**

*Revenue Aligned with Constituent Needs.* Community foundations achieve differentiation by serving the distinct needs of their constituent base, responding to their community context and leveraging their internal strengths. A typical community foundation serves a range of constituents, including fundholders, nonprofit organizations, corporations, private foundations, government agencies, and civic leaders in the community – through a variety of products and services. For each constituency, the foundation offers a unique value proposition and should have a distinct revenue source.

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A foundation’s revenue should be aligned with the value it delivers to its range of constituents, to meet their distinct needs.

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To meet the needs of *fundholders*, community foundations administer various types of funds such as DAFs, Scholarships, or Field of Interest (FOI) funds. To capture revenue from these fundholders, community foundations typically charge fees based on assets – but increasingly these fees take shape in different ways:

- Administrative fees structured based on contributions or grants
- Staff time billed directly to funds
- Gifts directed to pooled Field of Interest (FOI) funds that charge distinct support fees

To support the needs of *nonprofits*, community foundations may provide services that deliver value beyond grantmaking, including capacity building, or fiscal sponsorship for smaller projects or more complex collaborations. Revenue sources are varied to support these efforts, and include:

- Grants or fees for capacity building services to nonprofit organizations
- Standard or custom fiscal sponsorship fees

To address the needs of the ***broader community***, foundations engage in a range of programmatic activities that are valued by civic and community leaders. Revenue sources that directly support this work come in the form of:

- Fees or proceeds from Mission Investments
- Private foundation funding for special initiatives
- Leadership funds
- Membership fees

Finally, for those ***corporations, private foundations, funder collaboratives, nonprofits, and individuals who require sophisticated philanthropic services***, foundations are

increasingly capturing fee-for-service revenues through:

- Custom fees for philanthropic advising for private foundations, corporations and individuals
- Custom fees for administrative services for private foundations, funder collaboratives, corporations, community foundations, or nonprofit projects
- Custom fees for back office and investment management collaborations

These relationships and revenues may be one-time or ongoing. *For more information on aligning revenue with constituents served, see tables on new revenue sources, pgs. 16-17*

## Revenue Sources Derived from Assets

Community foundations also generate operating revenue from unique assets, such as an operating endowment, real estate asset or real estate investment company. These assets can typically be traced back to circumstances in a foundation's history or unique gift from a particular donor. While valuable in diversifying revenues and strengthening the business model, these are assets that need to be cultivated, rather than revenue sources originating from a service the community foundation is providing to a distinct constituency. In the case of real estate or business enterprises, these efforts also tap the management capacity of the community foundation and account for a portion of their operating costs.

**Operating or Administrative Endowment:** Endowed operating funds provide a recurring source of revenue for operations in the form of annual distributions.

**Real Estate Asset:** Buildings owned by a foundation provide operating revenue in the form of rent. The building may have been a donor's gift to the foundation. In many cases, the foundation itself is also housed on this property, providing the organization with rent savings in addition to revenue.

**Business Enterprises:** In rare circumstances, foundations may operate a business to provide revenue for the foundation's operations. One example of such a business is a real estate investment company, which can provide operating revenue in the form of rent and returns from capital appreciation.

Traditionally, foundations have considered donors who create endowed funds as their primary constituency and have thus, constructed revenue streams based on this expectation. Moving beyond this traditional concept of constituency broadens the scope of services and opportunities to capture revenue, particularly revenue that is not as tightly correlated with market performance.

Foundation for the Carolinas' constituent service extends well beyond individual and family fundholders. Institutionally, the foundation makes a structural distinction for different constituents as it markets services. The Foundation launched its three original "Centers" over four years ago, namely a Center for Individuals and Families, Corporations, and Nonprofits. Recently, it added a new Center for Civic Leadership. According to Laura Meyer, Executive Vice President of Foundation for the Carolinas, *"This new Center is an umbrella to house our initiatives of highest impact in our community. And we've created a pretty robust fundraising mechanism around it...The concept is to pull more individuals and families into philanthropy on behalf of our community and engage them in the process – and art – of civic leadership."*

### Centers for Giving

At the Foundation, specialized service teams of financial and philanthropic experts work to meet our clients' diverse needs through three centers for giving.

**Center for Personal and Family Philanthropy** Designed to meet the unique needs of individuals and families in the Carolinas

**Center for Nonprofits** Established to support the management and administrative needs of area nonprofit organizations

**Center for Corporate Philanthropy** Tailored to meet the charitable initiatives of Carolina businesses

Steve Maislin, CEO of the Greater Houston Community Foundation describes his primary constituency as individuals and families who are both independent and hands-on. Ninety percent of the foundation's assets are in DAFs, and combining this offering with private foundation services is seen as a natural pairing to meet the needs of local high net worth families. *"If we're platform neutral then we're in a consultative process with any potential client. If we can bring them on board as a foundation service client, that can be better for us as fees don't move up or down with the stock market. Clients in the \$5-25M range tend to be fairly stable. Foundation services are not only an opportunity to diversify but also fill out a product set. We used to think of DAFs and foundations as an either or, but the reality is that several of our donors, especially the larger ones, have both."*

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For the Greater Houston Community Foundation, combining DAF management with services for private foundations serves as a natural pairing to meet the needs of the high net worth constituency.

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Nonprofits represent another important constituency with unique needs. Several foundations focus on services to local nonprofits, managing a separate budget for these offerings, and using different approaches to generate revenue. For example, the Hartford Foundation for Public Giving developed its Nonprofit Support Program to build the capacity of nonprofit organizations through workshops, toolkits, and management assistance. Given that two-thirds of the foundation's endowment is discretionary, there is flexibility to finance Program activities through an internal grant. On the other hand, Fairfield County Community Foundation operates a Center for Nonprofit Excellence, supported by a "patchwork quilt" of corporate grants, in-kind contributions, affordable fees to nonprofits, and an internal grant to support staffing. While the revenue sources are different, each foundation exemplifies business model discipline in

creating a budget that supports its nonprofit services with distinct revenue sources.

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The Hartford Foundation for Public Giving and Fairfield County Community Foundation have both developed services for nonprofit organizations, but due to differences in their asset mix, each generates revenue to support these activities in different ways.

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By creating revenue streams from products and services addressing the needs of diverse constituents, foundations can develop a diversified revenue mix – for example, blending recurring revenue from fund management, contributions to leadership or operations, and fees for contract services. Together, the mechanics of these different structures can help mitigate the risk faced in a downturn and send messages that reinforce the community foundation’s differentiation.

**Revenue Aligned with Community Context and Internal Strengths.** The community context differs greatly from one foundation to the next, and significantly affects the role a foundation plays in a community. For example, The Community Foundation of Middle Tennessee is a relatively young organization founded in 1991 and has very limited discretionary grantmaking dollars.

*“We invest in our community using a variety of other resources. We ask ourselves, how we can engage people and address issues through partnerships. As a result, our initiatives are designed around how we add value to the community. We don’t tell our community what they ought to be doing. Instead, as issues bubble up we step in and say here’s how we can help.”*

- Lani Rossmann, Vice President, The Community Foundation of Middle Tennessee

Collaborative initiatives provide value to the community and the foundation is able to generate contributions to support the

partnerships. Through the Foundation’s Fund for Strategic Opportunities nonprofits are able to access a “one-stop shop” for funding to support collaborations, mergers, as well as to develop business partnerships and strategic alliances. The Fund is overseen by a committee of community leaders and representatives from several area foundations. Half of the funding to support the work comes from the Fund for Strategic Opportunities, while the other half comes from funders in the community. The Foundation has also developed Giving Matters.com in collaboration with other local foundations and individual donors, creating an online database of local nonprofits. GivingMatters.com provides insights into community needs and profiles of different nonprofits, but Lani Rossmann emphasizes the neutral position of the foundation: *“The goal for us is to enable donors to make informed decisions about giving...We want to be a philanthropic resource, but at the end of the day, each donor knows how they want to invest.”*

In contrast, the San Diego Foundation, where DAFs account for more than 80% of the foundation’s grantmaking, has followed a different course due to its different community context. In addition to DAFs (both endowed and non-endowed) the Foundation has agency funds and regional affiliates from which it receives membership fees in exchange for providing back office services. Given the diversity in San Diego and its surrounding regions, there are several smaller foundations which cater to particular populations by focusing their grantmaking in specific regions of the world such as Mexico and China. The San Diego Foundation has developed regional affiliate services to support these smaller foundations. The region also has a strong corporate presence, and the foundation has been able to leverage a unique relationship with Qualcomm to support its Endowed San Diego campaign, which helps local nonprofit organizations raise endowments.

As these stories illustrate, every foundation exists in a unique environment and benefits from unique strengths, which are often the deciding factor in how it carves out a differentiated role and growth trajectory.

## Putting it All Together



The Greater Kansas City Community Foundation has designed its business model to fit a unique set of constituents, community context, and internal strengths. The Foundation has tailored itself to meet the needs of donors who are highly independent and entrepreneurial. Hence, the Foundation has devised distinct ways for individuals, families, and corporate constituents to be active in their giving. Emulating the entrepreneurial nature of its community, the Foundation has developed a suite of products and services to appeal to a wide range of hands-on donors.

**Constituents Served:** In addition to the typical Donor Advised Fund offering, the Foundation has created offerings that go beyond typical barriers in terms of: geography, gift size, type of constituent, and mode of support. The Greater Horizons platform serves the needs of individuals who have interests both inside and outside of the Kansas City region but still want to work with the Foundation. Giving cards put the ability to make donations of any size in the hands of friends, family members, employees, or customers of the Foundation's constituents. Services for corporate constituents are extensive and include a range of administrative services as well as philanthropic advice. Finally, the Foundation's online knowledge platforms and giving circles offer options for individuals interested in learning about and becoming involved in philanthropy, in a way that does not rely exclusively on engagement with Foundation staff.

**Internal Strengths:** But without certain strengths, the Foundation would have been unable to develop this complex business model. The offerings leverage technology, process improvement, and scale economies to communicate about philanthropy. The Foundation is able to offer giving cards because its scale and technological infrastructure makes it highly efficient at small transactions, because the cards serve a valuable role in building awareness of community philanthropy, and because it has a number of other revenue streams to support these efforts. There is a unique intersection between the value of the giving card offering and the interests of corporate clients.

Taken together, the Foundation generates two thirds of its operating revenue from fees, but expects this proportion to continue to decrease. The remaining balance of operating costs are covered by grants for philanthropy and community leadership; and contracts with nonprofits, foundations and other organizations doing grantmaking, back office services, or educational programs.

*"Giving is for everyone. Our values and our business model encourage any donor to experience a better way to give."*

- Jean-Paul Chaurand, Senior VP of Community Investment, Greater Kansas City Community Foundation

## Sustainability – A Product of Current Income and Future Growth.

As the mutually reinforcing principles of differentiation and sustainability illustrate, revenue sources that strengthen the business model enhance a foundation's differentiation and simultaneously contribute to its sustainability in the form of current income and future growth.

For example, in the case of leadership funds, it is clear that this revenue source contributes to a foundation's current income, differentiation and future growth. Contributions to a leadership fund translate into current income, and if the community foundation has a cost-effective fundraising approach, the incremental cost of a leadership fund can be low relative to the incremental current income generated. In addition, generating this type of support is an important signal about how the foundation delivers value to the community. To the extent that a fund engages community leaders in the foundation's work and provides support for leadership activities, it builds the foundation's visibility and strengthens relationships with a diverse base of leadership, many of whom are potential future donors. These efforts are seen as seeding future growth.

Alongside noting the many benefits of leadership funds, it is important to recognize that

fundraising in support of community leadership is a challenging task. To be successful, foundations must invest in establishing their leadership role in the community, building relationships and engaging community members in their leadership work, and developing the internal capacity and professional expertise of the organization.

*"We are trying to wrap our arms around existing relationships to engage many more people in the initiatives of the Foundation as part of the launch of our Center for Civic Leadership. In addition to small group education sessions, we also have adopted a new system, Blackbaud's Raisers Edge, to tailor our outreach based on people's interests. We are trying to reach a broad base of individuals and organizations, engage them on particular issues, and make them feel special by designing communications and programs that interest them."*

- Deb Watt, Senior Vice President – Finance and Operations, Foundation for the Carolinas

In addition, Jeff Rudd, CFO of The Seattle Foundation, points to the internal capacity and expertise needed to raise community leadership funding: *"If we want to fundraise particularly for community leadership – doing things like annual appeals and coordinated campaigns – we need to hire someone. Everyone wants to be like Boston – raising \$1M per year. But it's challenging work. We need to add expertise to make the ask, and internal capacity to coordinate it."*



## Community Leadership Funds

In recent years, several community foundations have developed leadership funds to support their civic leadership activities. The Civic Leadership Fund of The Boston Foundation was among the first and is considered by many to be a model for aligning a revenue source with efforts to engage community leaders. More recently, Foundation for the Carolinas launched its Center for Civic Leadership with a similar purpose. Both vehicles have the objective of enhancing the foundation's ability to connect the community with knowledge on key issues through events and literature, provide expertise on charitable programs, and convene key stakeholders. We profile both leadership funds below to illustrate how they have enhanced the foundation's civic leadership role, deepened its engagement with community members, and broadened its reach.



The Civic Leadership Fund (CLF) was launched in 2002 as a way to move The Boston Foundation beyond its traditional grantmaking program and develop its civic leadership role in the community. Since it was established, the CLF has helped the region address key issues such as home foreclosures, increased food and fuel costs, youth violence, affordable housing, workforce development, and restoring cultural centers.

**Serving new constituents:** The CLF is designed to attract funds from civic leaders, corporations, the Foundation's own donors, and local private foundations. Since the CLF was founded it has connected the Foundation with individuals who were previously unaware of the organization's ability to assist them with their personal philanthropy. Many such individuals began giving to the Foundation through the CLF before ultimately opening a fund at the Foundation. Thus, the CLF has not only engaged new community members in civic leadership, it has also contributed to the Foundation's assets. Membership in the CLF continues to grow, with 37 new members joining in 2008, and 95 new members joining in 2009.

**Increasing reach and accessibility:** The CLF has focused on attracting small, recurring gifts from a large base of people. The objective is to engage more people in community issues and generate support for the Foundation. 66% of its contributors in 2009 were repeat contributors, and their average gift was \$3,667. The annual campaign reaches out to hundreds of potential contributors, resulting in a nearly 14% response rate and over \$1M annually in operating revenues.



The Center for Civic Leadership was launched in 2008 to advance Foundation for the Carolinas' role as a coalition builder and community catalyst. Through the Center, the Foundation has taken a proactive approach to identifying and prioritizing the community's needs. For example, in 2008, the Center conducted a scan of the Charlotte-Mecklenburg region and identified housing as the first community issue focus area of the Center.

**Serving new constituents:** The Center for Civic Leadership accepts contributions exclusively from individuals, with the objective of diversifying the Foundation's donor base beyond its historic focus on corporate and higher wealth individual and family relationships. In the words of Deb Watt, Senior Vice President of Finance & Operations, *"Historically as a community, we have had a high level of corporate-dependence due to the presence of two major banks, Bank of America and Wells Fargo/Wachovia, as well as another Fortune 500 company, Duke Energy. We have benefited greatly from their support, and will continue to do so, but we need to further diversify our donor base on behalf of our community."* She further adds, *"The idea of this Center is to pull a yet broader and diverse group of individuals and families into philanthropy and engage them in civic leadership."* To truly engage individuals in addressing community issues, the Center requires a 3 year commitment from its members. Since its founding, the Center has connected the Foundation with numerous individuals and families outside its existing donor base, expanding its reach and influence in the community.

**Increasing reach and accessibility:** The objective of the Center has been to engage a broad base of people and give everyone an equal voice on community issues. As a result, the starting contribution for the Center is only \$250, and the maximum contribution the Center will accept is \$10,000.

## New Revenue Sources and Their Alignment with the Principles of a Strong Business Model.

Faced with an economic crisis and evolving community needs, community foundations across the country have developed a multitude of new approaches to revenue generation which align with the principles of a strong business model, albeit to varying degrees. The table below organizes each source of revenue by the particular constituent served. It further indicates the specific need each revenue source addresses,

and explains how it aligns current income with the services and value being delivered to meet that need. Lastly, the table describes how the revenue source contributes to future growth.

*Note: Asset-based fee structures are an area where there is significant diversity in the level and structure of fees, but the specifics are not addressed in the scope of this report. For more information on fee structures across the community foundation field, contact CF Insights.*

New Revenue Sources That Meet the Needs of Fundholders (Typical Donors)		
Revenue Source	Alignment of Current Income and the Need That is Being Addressed	Contribution to Future Growth
<b>Administrative fees structured based on contributions or grants</b>	<ul style="list-style-type: none"> <li>Revenue is more closely aligned with fundholders' need for service and support around philanthropic transactions, particularly for non-endowed funds</li> </ul>	<ul style="list-style-type: none"> <li>No explicit contribution to future growth, and a one-time, rather than recurring source of revenues.</li> </ul>
<b>Staff time billed directly to funds</b>	<ul style="list-style-type: none"> <li>Revenue is more closely aligned with fundholders' need for management of funds, high-quality service and philanthropic guidance from experienced staff</li> </ul>	<ul style="list-style-type: none"> <li>If the fees include sufficient margins, this allows foundations to generate revenues that help build the capacity of the organization, preparing the organization for future growth.</li> </ul>
<b>Gifts directed to Pooled Field of Interest (FOI) funds that charge distinct support fees</b>	<ul style="list-style-type: none"> <li>Revenue is aligned with fundholders' need for aggregation of philanthropic capital and the strategic directing of funds toward community needs</li> <li>To the extent that fees are generally higher for FOIs than for DAFs, these fees also support the additional resources required to manage discretionary grants</li> </ul>	<ul style="list-style-type: none"> <li>Pooled funds are much more cost-effective for foundations to manage than numerous small funds, enhancing the long term efficiency of the organization.</li> <li>FOI funds build the discretionary funds available for community grantmaking and enhance a foundation's visibility and long term image in a community.</li> </ul>

New Revenue Sources That Meet the Needs of Nonprofit Organizations		
Revenue Source	Alignment of Current Income and the Need That is Being Addressed	Contribution to Future Growth
<b>Grants or fees for capacity building services to nonprofit organizations</b>	<ul style="list-style-type: none"> <li>Revenue derived from external fundraising or internal grants, is aligned with the need of nonprofit organizations for capacity building support, including technical assistance, workshops, courses, convenings, etc</li> </ul>	<ul style="list-style-type: none"> <li>Supports future growth by establishing the foundation as the source of strength and capacity for the field at large.</li> </ul>
<b>Fiscal sponsorship fees</b>	<ul style="list-style-type: none"> <li>Fee revenue that is aligned with the need of nonprofit organizations for support in: (a) administering new projects; (b) building an efficient nonprofit and philanthropic infrastructure, and (c) establishing community collaboratives</li> </ul>	<ul style="list-style-type: none"> <li>Supports future growth by strengthening a foundation's leadership role and establishing it as a lever for nonprofit growth and innovation in the community.</li> </ul>

New Revenue Sources That Meet the Needs of Civic and Community Leaders		
Revenue Source	Alignment of Current Income and the Need That is Being Addressed	Contribution to Future Growth
<b>Fees or proceeds from Mission Investing</b> (e.g., local real estate investments or loans to nonprofits for working capital)	<ul style="list-style-type: none"> <li>Revenue in the form of fees or retained financial returns, is aligned with civic and community leaders' need for sophisticated administrative capacity and community knowledge</li> <li>Revenue also compensates foundations for the due diligence and management associated with mission investing, as well as for the risk the foundation takes on</li> </ul>	<ul style="list-style-type: none"> <li>Support the future growth of a foundation by contributing to a clear community need and providing future financial returns. For example, capital appreciation from a real estate investment, or principal returned from a program-related investment.</li> </ul>
<b>Private foundation funding for special initiatives</b>	<ul style="list-style-type: none"> <li>One-time support for community foundation efforts – either through administrative contributions for administering grant funding or through programmatic contributions for leadership work – that is aligned with the specific value proposition of the particular initiative</li> </ul>	<ul style="list-style-type: none"> <li>Enable a community foundation to take on new programmatic, leadership and knowledge building roles, enhancing its visibility and credibility in the community.</li> </ul>
<b>Leadership Funds</b>	<ul style="list-style-type: none"> <li>Revenue in the form of recurring and flexible contributions from donors, is aligned with civic and community leaders' need for community leadership activities</li> </ul>	<ul style="list-style-type: none"> <li>Allow the foundation to partake in more leadership activities, which strengthen the foundation's visibility, credibility, and impact in the community.</li> </ul>
<b>Membership Fees</b>	<ul style="list-style-type: none"> <li>Recurring source of discretionary revenue that is aligned with civic and community leaders' need for a hub for social service activities and knowledge in the community</li> </ul>	<ul style="list-style-type: none"> <li>Create a sense of ownership among community members which in turn strengthens the foundation's staying power and long term growth.</li> </ul>

New Revenue Sources That Meet the Needs of Constituents Who Require Sophisticated Advising, Administrative, or Investing Services		
Revenue Source	Alignment of Current Income and the Need That is Being Addressed	Contribution to Future Growth
<b>Custom fees for philanthropic advising for private foundations, corporations and individuals</b>	<ul style="list-style-type: none"> <li>One-time or ongoing contract revenue through a fee-for-service model that is aligned with the field's need for philanthropic advice and direction (provided the billing structure is sufficiently informed by data about operating costs)</li> </ul>	<ul style="list-style-type: none"> <li>Supports future growth by strengthening the foundation's capacity to leverage community knowledge and impact, a defensible competitive advantage for foundations.</li> </ul>
<b>Custom fees for administrative services for private foundations, funder collaboratives, corporations, community foundations, or nonprofit projects</b>	<ul style="list-style-type: none"> <li>Recurring revenue through a fee-for-service model that is aligned with the need to make philanthropy more efficient and effective through scale economies, technology, and effective administrative processes (provided the billing structure is sufficiently informed by data about operating costs)</li> </ul>	<ul style="list-style-type: none"> <li>Supports future growth where community foundations build a long term relationship with clients, leading to other revenue generating arrangements, including philanthropic advising or clients establishing major funds at the community foundation.</li> </ul>
<b>Custom fees for back office and investment management collaborations</b>	<ul style="list-style-type: none"> <li>Recurring revenue through a fee-for-service model that is aligned with the need to make philanthropy and the community foundation field more efficient and effective (provided the billing structure is sufficiently informed by data about operating costs)</li> </ul>	<ul style="list-style-type: none"> <li>Access to more sophisticated technology, operating processes, and investments supports the future growth and sustainability of foundations.</li> </ul>

## Case Studies From Across the Field.

It is evident from the long list above, that community foundations are exploring a wide range of new revenue-generating activities that contribute to current income and future growth in different ways, and which address the needs of many types of constituents, large and small. To determine which revenue sources make the most sense for a particular foundation, one must consider the foundation's unique environment and circumstances. Below are four case studies which illustrate how the following foundations have developed a mutually reinforcing revenue mix according to the needs of their constituents,

community context, and internal strengths:

- Baton Rouge Area Foundation
- Hawaii Community Foundation of Honolulu
- Napa Valley Community Foundation
- Vermont Community Foundation

These case studies are helpful as practical illustrations of the issues and factors a foundation must consider when deciding which new revenue sources fit together and make the most sense for it to adopt.



The Baton Rouge Area Foundation's Real Estate Investment Trust (REIT) supporting organization has played a big role in deciding the Foundation's direction of growth, and its role in the community. Through its real estate activities, the Foundation has developed the role of redeveloper, making investments in challenging neighborhoods and their economies. This unique role has also shaped its relationship with its constituent base. As the Foundation literally "rebuilds" parts of Baton Rouge, it encourages community residents to embrace the Foundation as their own vehicle for change. It has developed a membership model through which community members make an annual contribution and take part in helping to guide the Foundation's direction. As a result of its unique internal capabilities and constituent relationships, over the years, the Foundation has developed a mission that is bifurcated between providing traditional grantmaking services, and engaging in active civic leadership.

- **Differentiated Role:** According to John Davies, CEO of the Baton Rouge Area Foundation, "*Town planning has become a big part of what we do to build more functional and equitable communities.*" This role is partly made possible by the Foundation's unique internal capability – its REIT. To play the role was necessary because of the unique community context of Baton Rouge. Many of Baton Rouge's economically disadvantaged neighborhoods need real capital investment, in addition to the more typical efforts of community-based nonprofit organizations. Private developers will not invest in these neighborhoods given their high risk profile. Thus, the Baton Rouge Area Foundation is uniquely suited for this role, as it considers not only financial, but also social and environmental returns when making a real estate investment.
- **Scope of Partnership with Constituents:** The Foundation engages community members in guiding the organization, thus establishing a sense of ownership among its constituents. Membership fees range from \$150 to \$10,000 annually, ensuring widespread participation across income levels. This model enhances the Foundation's staying power and its influence in the



community, and ensures that the community is invested in its work. As John Davies describes it, “*We would like to ensure we are representative of our community.*” The Foundation’s orientation towards serving its constituents is further exemplified by its third party survey of donors, which helps the Foundation ascertain how it is meeting the needs of its donor community. Membership fees also generate a significant portion of operating revenue, amounting to approximately \$600,000 in 2009. The Foundation expects to finance its civic leadership work in the community through membership fees.

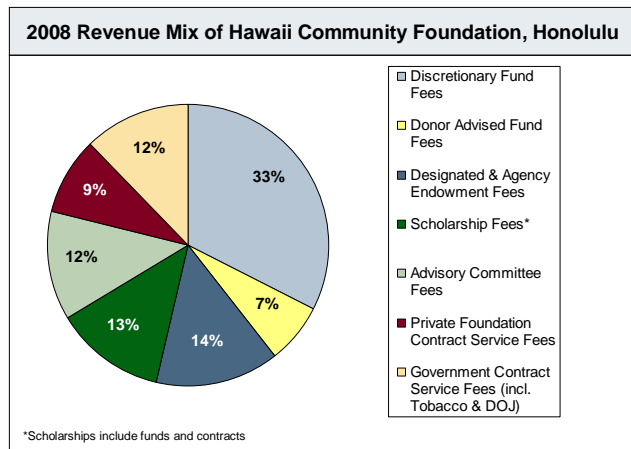
- **Path to Sustainability:** The annual contribution from the REIT is about 40% of the Foundation’s \$3.6M budget. While this unique for-profit/nonprofit hybrid model does allow the Foundation to take risks where they are necessary, it does not mean the Foundation lapses when it comes to financial discipline. Instead, the explicit goal is to have a “*viable, sustainable model*” with expectations that “*fees should cover 100% of expenses on donor services.*” Additionally, to maintain sustainability in the organization, explicit tradeoffs are essential. Because smaller donor accounts don’t cover their costs, the Foundation focuses energy elsewhere. “*We want to have closer and more enriching relationships with donors who have the resources and leadership to change the trajectory of our community,*” says John Davies.

The Foundation’s revenue mix reinforces its constituent relationships and perceived role in the community. Contributions from its REIT support its role as urban redeveloper, while its membership fees ensure that it is representative of the community. In the words of John Davies, “*We need to increase investment from the community, and it will happen if they believe in our role.*”





The Hawaii Community Foundation of Honolulu was established as an independent organization in 1987. Previously, the Foundation was part of a trustee bank, supporting a range of relationships with smaller private foundations. This historic relationship, and the Foundation's inheritance of the private foundation fee-for-service model, set its trajectory for growth. The Foundation was able to leverage its fee-for-service expertise and expand its contract services foothold with the government, establishing fee-for-service contracts as a major component of its revenues in addition to more typical fund management for donors. At their height, fee-for-service contracts accounted for 35-40% of the Foundation's revenue. Today, with a few contracts coming to their end, fee-for-service accounts for 25% of the foundation's revenue. The community foundation is very large relative to other philanthropic organizations in the state, administering nearly \$41M in grants last year. Its prominence and administrative capacity has helped it develop another robust revenue source in administering scholarships, which require significant economies of scale to manage cost-effectively. Of the revenue sources in the chart above, a portion of scholarships, private foundation contract services and government contract services comprise the Foundation's fee-for-service relationships.



The above components of its business model have impacted the way in which the Foundation views its role in the community. Given its relationships and role as the only local philanthropic intermediary, the Foundation plays a central role convening stakeholders and building the philanthropic landscape. It is agnostic about holding funds or supporting others through different means, and is very involved in catalyzing change well beyond the direct philanthropic assets held by the Foundation.

- Differentiated Role:** Hawaii is the largest foundation in its state, which has implications for its role in the community. According to Kelvin Taketa, CEO of the Foundation, *“We’re kind of unusual in the sense that in the ecosystem of philanthropic institutions in Hawaii, we’re a very big fish in a very small pond, administering well over half of the state’s grantmaking. As a result, we have a unique ability to convene grantees and help them to learn from each other and share best practices. Going forward, you’ll see us move towards creating more networks of grantees and linkages between programs.”* Hawaii also sees itself as responsible for building the philanthropic infrastructure by helping community members give without involving the Foundation, for example, through providing referrals for interested givers to worthy organizations and valuing that process as equally as new funds and contributions to the Foundation itself.
- Scope of Partnership with Constituents:** Hawaii sees its constituents as clients and the Foundation's role as helping its clients best achieve their philanthropic goals, be it through grants, through convenings, or by not involving the Foundation at all. At the same time, Hawaii believes

its constituents value their work and role in the community. For example, this wide base of constituents is helping the Foundation increasingly play a role in creating more linkages between actors in the community who have shared goals. As Kelvin Taketa explains, *“Our ability to reach into our clients and work with them is increasingly strong. We just launched a new initiative at the end of last year called the community stabilization initiative. We raised over \$4.6M from several DAFs, six foundations and some outside banks.”*

- **Path to Sustainability:** Hawaii exercises significant discipline in its approach to sustainability. As Kelvin Taketa describes it, *“We subsidize opportunities, not products.”* In doing so, Hawaii emphasizes the long-term impact of sustainability on its work and on the philanthropic landscape at large, feeling justified in expecting its constituents to pay fair value for its products and services. Again, in the words of Kelvin Taketa: *“We have never had a sliding scale in terms of fees. A lot of other CFs have done it, but I think a sliding scale is the wrong way to look at it. The larger clients drive more cost. We’re trying to build the ecosystem of a philanthropic community – we don’t want to create a dynamic where donors who don’t see our value, skew our work.”*

Hawaii’s revenue mix reinforces its constituent relationships and perceived role in the community. Its fee-for-service experience and orientation helps the Foundation customize its fees based on the value it delivers to its constituents. Operationally, this is supported by a very data-driven management culture, using analysis to figure out how all the parts are working together. Customizing appropriate charges for a range of its services, the Foundation is very open to devising new and unique services for specific constituents. For example, for funds from particular geographic areas, Hawaii offers advisory committees with leaders from that geography. Because this is a higher cost service, it charges a higher fee and requires funds from these geographic areas to commit to the Foundation for a minimum numbers of years. Similarly, Hawaii conducted a cost-revenue analysis of its private foundations services to make sure it is covering its costs. It holds its scholarship and government services to the same bar, expecting them to cover their costs on a standalone basis. It does so not only by customizing fees, but also by managing costs through economies of scale, technology and common processes.

But in general, Hawaii’s history and perceived role in the community allow it to be more agnostic than other foundations about whether or not it holds assets. This leads to its role of building the philanthropic infrastructure of the community, outside the infrastructure of the Foundation itself. As it has in the past, Hawaii will continue to constantly evaluate its services and role in the community through the collection and analysis of data, using this information to then shape its present and future direction. In the words of Wally Chin, Director of Finance and Administration of the Foundation, *“I keep trend charts, and it has really helped us. It provided us with context for a lot of our thinking about what our business model should look like and why – what kinds of funds we should be offering, what kinds of grants, etc.”*

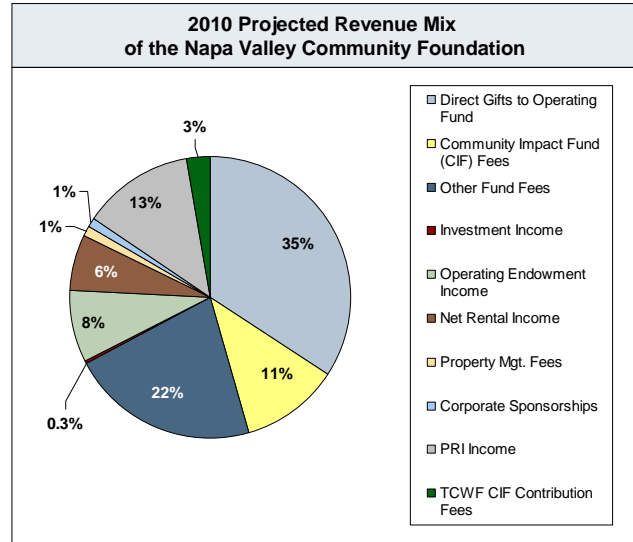


# NAPA VALLEY COMMUNITY FOUNDATION

The Napa Valley Community Foundation is a relatively new foundation established in 1994. While it is still in its preliminary stages of growth, several community leaders have helped to shape a robust mission and distinct role for the Foundation in the community. While this alone is not unique, what is unusual is that these same leaders have also partnered with the Foundation to identify new revenue sources that support the vision and mission.

A handful of Board Members and key donors worked with staff leadership of the Foundation to define a unique philanthropic vehicle, Community Impact Funds, which has taken hold as a way to pool philanthropic capital and generate significant operating revenues for the Foundation. Another engaged donor worked with the Foundation to create a unique program-related investment, whose returns will generate operating revenue for the Foundation. These unique constituent relationships also allow Napa to engage in significant fundraising efforts in support of its leadership role in the community.

At the same time, like all emerging community foundations, Napa relies on a variety of other revenue sources to fill gaps in its operating model and sustain the organization, resulting in a complex revenue mix that it hopes to build and strengthen over time. For these reasons, Napa presents an interesting example of a relatively new community foundation that is building sustainable revenue sources around constituent relationships and its unique community context, while still determining its future direction and ultimate role in the philanthropic landscape.



- Differentiated Role:** Napa Valley’s population is changing because of two distinct groups: aging, affluent baby boomers who are retiring to the region; and younger, poorer immigrant families who are coming expressly to work in agriculture and hospitality, the backbone of the economy. According to Terence Mulligan, CEO of the Napa Valley Community Foundation, this has complex implications for community issues, generating a need for organized capital: *“We have real challenges on thorny issues like immigration, social justice, educational equity, land use, transportation, climate change, etc., but there’s almost no organized philanthropy in rural places like Napa. We need a call to action in this community.”* As such, Napa has adopted a central focus on pooling philanthropic capital and directing it toward the community’s greatest needs.
- Scope of Partnership with Constituents:** The Foundation views its constituents as partners and advisors. In developing the Community Impact Funds model, the Foundation consulted with its donors. According to Terence Mulligan *“I wasn’t prepared for how helpful it would be to engage our core donors in the conversation around sustainability... They informed the specifics of*



*the idea and clarified how appealing the concept of philanthropic leverage is to them. That's what all of our reporting now focuses on."* Napa also sees its small size as an advantage in creating authentic relationships with its constituents. *"As community foundations get bigger, they become compartmentalized. The program officer role splits apart from the donor services role. While I understand the operational rationale of this move, I think it's a big mistake if your goal is to truly engage your donors in your programmatic work. We have three people on a six-person staff who are partly or completely devoted to program and donor services. I think that's why our donors seem to like us, and value what we're doing"*

- **Path to Sustainability:** Napa's relationship with its donors has positioned it to "make the ask" in support of the Foundation's sustainability and role in the community. Napa expects donor advisors to contribute 5% of their fund balance each year to Community Impact Funds, and then assesses an administrative fee on Community Impact Funds of 10% to support the Foundation's operating expenses and leadership work. Community Impact Funds represent a relatively small portion of the assets, but generate 34% of the Foundation's administrative fee revenue. Furthermore, the Community Impact Funds are discretionary funds which enhance the Foundation's visibility in the community, contributing to future growth. As Terence Mulligan explains, *"For us it's about doing good work, finding issues to work on that make a difference, and achieving sustainability. These are not separate things. We put it all together and are calling it Community Impact Funds."* Community Impact Funds currently contribute 11% to the Foundation's operating budget. Like other emerging foundations, Napa is also opportunistic in adopting a myriad of revenue sources, resulting in a complex revenue mix.

## **Giving together for greater good.**

The innovation and reinvention does not stop with existing revenue sources. To further support the differentiation and sustainability of its business model, Napa hopes to develop relationships with private foundations, bringing greater philanthropic capital to the region which can be directed towards key community needs.





The Vermont Community Foundation has been thoughtful about building its strategy and corresponding revenue sources around its constituents and community context. Foundation staff describes community members as having a passion for their state, and as being highly active on social issues, dedicating a significant portion of their free time to serving the community. As such, the Foundation has made a practice out of engaging its constituents as partners, providing them with knowledge and leadership on community issues. The Vermont Community Foundation’s mission is communicated in three simple words: Learn, Lead, and Grow. To help itself and the community *learn*, it developed the Understanding Vermont program; to help provide *leadership* on community issues, it developed the Philanthropic Leadership Fund; and to help the community *grow*, it began allocating 5% of the Foundation’s assets to investments in Vermont. The program is called Vermont Investments. In all three cases, it was the Foundation’s unique constituent base of engaged individuals that helped the initiative thrive. In the case of Understanding Vermont and the Philanthropic Leadership Fund specifically, it was a one-time influx of funds from a group of seed funders that provided their initial financing. As Vice President for Finance & CFO Debbie Rooney describes it, *“With this funding, we were able to establish the Understanding Vermont program, including convenings to generate momentum around this community knowledge and leadership work.”* Furthermore, in designing its business model, the Foundation has kept in mind the guiding principles of differentiation and sustainability, creating products and services that serve each element.

- **Differentiated Role:** The tagline “Learn. Lead. Grow.” speaks to the Foundation’s perceived role in the community. The Foundation sees itself as a community leader and investor, charged with educating its constituents on community issues, advising them on their philanthropy, organizing them to drive change, and directly contributing to the growth of the community at large. As Stuart Comstock-Gay, CEO of The Vermont Community Foundation, describes it, *“Other foundations and philanthropists look to us for guidance and want to explore partnerships. Additionally, I think our donors are engaged because of the profile work we do and because of our Giving Together program, which screens nonprofit organizations for them to contribute to. That is the appeal for many donors. These programs have shown folks we can provide philanthropic advice and guidance.”*

## LEARN. LEAD. GROW.

Building A Philanthropic Movement In Vermont

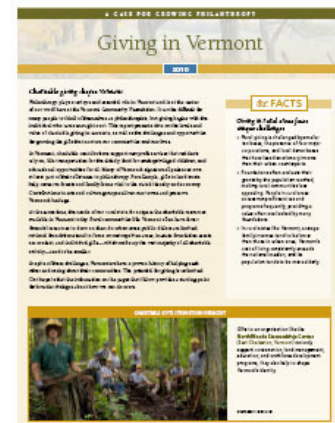
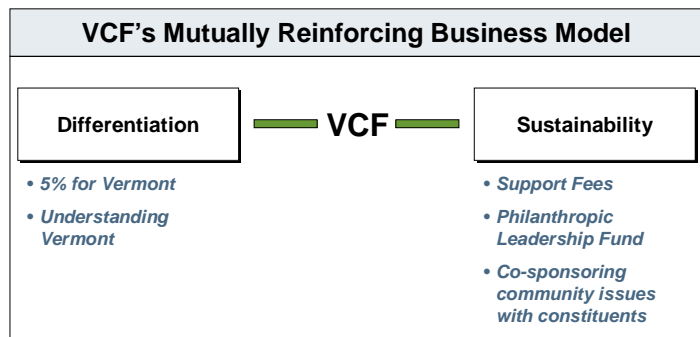
- **Scope of Partnership with Constituents:** The Foundation views its constituents as engaged partners and advisors, including them in deliberations on new initiatives and changes in fee structure. For example, in collaboration with FSG Social Impact Advisors, it interviewed 54 donors, members and community leaders and conducted three focus groups with 16 community leaders, to analyze potential community leadership activities and revenue models for the Foundation. These discussions with constituents were essential in introducing its Philanthropic Leadership Fund and the increase to its support fee.

- Path to Sustainability:** The Foundation is committed to building a sustainable organization, hence, is not afraid to leverage its relationship with constituents to “make the ask.” This was the idea behind increasing its fees on funds and renaming them as “support fees” to communicate the additional value, service and support the Foundation provides its donors. The Foundation looked at its fees and realized they were not supporting the larger organizational structure required to provide the kind of leadership, guidance and service to which its constituents were accustomed. Thus, it not only garnered constituent support for increasing fees, it introduced them under a different name to accurately communicate their purpose. In addition to including constituents in the decision-making process leading up to the support fee and Philanthropic Leadership Fund, the Foundation stresses transparency in ongoing communications around fees. Stu Comstock-Gay explains, *“With one particular supporting organization, we gave them a complete breakdown of our expenses and compared them with our competitors. We said, this is what you get from us, and this is what it costs us. Because we were 100% transparent, they stuck with us. In fact, it created a valuable relationship with the supporting organization. If we aren’t good enough, they’ll leave.”* On this last point, the Foundation is also comfortable with forgoing donors who don’t see the value it provides. As Stu Comstock-Gay further explains, *“I like that our fees at 2% - I think that is a good thing. We can’t fight Fidelity at 80 cent fees. We must assert our product, not apologize, and own what we are and what we do. Some will like it, some won’t and that is ok. We want partners. We provide good services and they are worth paying for.”*

Altogether, the Foundation’s offerings are designed to enhance its differentiation and sustainability.

For example, although Vermont Investments does not directly contribute to operating income, it contributes to the growth of the Foundation by playing on the community’s passion for Vermont to attract more donors, and by establishing its role as a direct investor in the community: Says Stu, *“Vermonters definitely have a passion for their state. As such, they’re fine with foregoing some investment returns in the traditional sense as long as we are investing in Vermont and issues near and dear to them. This remains a signature part of what we do and is hugely appealing to donors.”* By demonstrating its role in the community, Vermont Investments enhances the Foundation’s differentiation. Similarly, Understanding Vermont also enhances its differentiation by establishing it as a knowledge hub for community issues.

On the sustainability side, support fees and the Philanthropic Leadership Fund help sustain the organization’s grantmaking and leadership activities. Other work which contributes to sustainability is the co-sponsorship of deeper research into community issues with direct grants from donors. With this work, the Foundation leverages its own grants with direct grants from donors, ultimately making its grantmaking more sustainable. One of the more recent issues the Foundation co-sponsored is access to higher education.



## 5. Future Differentiation vs. Sustainability Today: What's the Right Balance?

Several foundations are exploring revenue sources which are not self-sustaining, but enhance the foundation's differentiation and positioning to serve future constituents.

An ideal product or service is one which simultaneously contributes to a foundation's differentiation and sustainability. As such, products and services that contribute to only one of these dimensions need to be weighed carefully. Many community foundations are exploring innovative activities that contribute to current income as well as enhance

differentiation. The challenge is to balance current investments with future growth and the corresponding revenues.

Particularly in benefiting from the capabilities of new technologies or reaching out to new constituencies, many foundations are in the exploration phase of a new product or service. The means for current and future revenue capture is still unclear. This speaks to the fact that the community foundation business model must constantly be evolving in response to changes in constituent needs, community context, or internal strengths.

Below are several examples of business model innovations which generate some revenues and enhance the differentiation of a foundation, but are currently not self-sustaining:

Example Business Model Innovations Oriented Toward Future Growth	
<ul style="list-style-type: none"> <li>• The Minnesota Community Foundation's GiveMN</li> <li>• The Community Foundation of Middle Tennessee's Giving Matters</li> <li>• Variety of knowledge platforms based on DonorEdge</li> </ul>	<p><i>Online platforms which expand the base of philanthropy and philanthropic knowledge and allow people to make small contributions to NPOs without going through the Foundation</i></p> <ul style="list-style-type: none"> <li>• Funded by philanthropic start-up capital from private foundations or subsidized by operating revenues from other areas</li> <li>• Do not generate significant recurring income, hence, are not self-sustaining</li> <li>• Serve the mission of increasing access to philanthropy and/or connecting donors to information on community needs and relevant nonprofits</li> </ul>
<ul style="list-style-type: none"> <li>• The Greater Kansas City Community Foundation's philanthropic gift cards</li> </ul>	<p><i>Philanthropic gift cards issued by the Foundation which can be spent on any NPO of a donor's choosing</i></p> <ul style="list-style-type: none"> <li>• Gift cards generate minimal revenue to cover their incremental cost</li> <li>• Gift cards serve the mission of finding easier ways for people to give and drawing in new donors who otherwise would not think of contributing through the Foundation</li> </ul>
<ul style="list-style-type: none"> <li>• The Community Foundation Serving Richmond and Central Virginia's ConnectNetwork</li> </ul>	<p><i>Online knowledge network that allows NPOs and community residents to connect, exchange information and ideas, and work in concert for social action</i></p> <ul style="list-style-type: none"> <li>• Does not generate current income, as access to the network is free. Hence, it is not self-sustaining, but instead is subsidized by ongoing philanthropic support</li> <li>• Serves the mission of making the social sector more efficient and of encouraging organizations to work together to solve complex social problems</li> </ul>
<ul style="list-style-type: none"> <li>• Special interest funds or giving circles</li> </ul>	<p><i>Race or ethnicity-based funds such as a Latin Fund or Asian Fund, which attract new and diverse donors who have not historically engaged with community foundations</i></p> <ul style="list-style-type: none"> <li>• Special interest funds or giving circles typically generate small individual funds which are time-intensive for the Foundation to manage and not self-sustaining based on current income</li> <li>• Allow the Foundation to target a sub-population of donors with future growth potential, thus serving the mission and future differentiation of the foundation</li> </ul>

To continually evolve and serve the changing needs of a community, foundations will naturally assume a reasonable amount of risk. The key is to balance the amount of risk a foundation takes on, to continue learning and

making data-driven decisions, and to remain disciplined about ending products and services that continually erode a foundation's sustainability in the immediate- and long-term.

## What About Cost?

In addition to devising a diversified base of revenue sources, community foundations must think about minimizing costs as an ongoing management practice. More and more, community foundations are being intentional about cost management and incorporating it into their business strategy. This is one requirement that is agnostic to a community foundation's community context or constituent base, although a foundation's approach to cost management may differ depending on its specific circumstances. Some of the specific ways in which community foundations are managing costs include:

**Tailoring Service Levels:** The service levels offered to donors or funds often do not directly correspond with the revenue generated by the fund's assets. Minnesota Community Foundation and The Saint Paul Foundation have recently focused on moving more donors to self-service using online resources and tailoring staff service levels to individual donors and regional funds based on a combination of donor engagement and philanthropic potential.

**Economies of Scale and Common Processes:** Economies of scale allow foundations to drive down the unit cost of services when there are common processes that streamline operations and minimize the staff time and resources required for customization. The Community Foundation of Hawaii is able to more cost-effectively manage a large number of government contracts because it has enough scale to manage the sophistication of these services. For example, for the government's tobacco settlement fund alone, the foundation administers \$6-8M a year, while the Department of Justice's crystal meth program is \$16-17M in size. The foundation also processes thousands of student scholarships each year using a common application, essential to managing an efficient process.

**Balancing Fixed and Variable Costs:** Minimizing fixed costs is another innovative approach to cost management. For example, Foundation for the Carolinas has introduced a fixed-variable staffing model in an effort to transition into its new strategy in a cost-effective way. As it scales operations, it is hiring additional staff on a contract basis in order to minimize fixed costs and maintain flexibility in its operating model. Its guiding principle is to have 6 months of operating income on hand at all times.

**Technology:** Online access and automated services allow foundations to cut back on expensive staff time to manage funds. For example, the Greater Kansas City Community Foundation reduces the cost of managing many small funds by automating fund reports and moving them online. Online platforms such as DonorEdge hold the promise of providing community knowledge and connections to nonprofit organizations to large audiences in a more cost-effective way, while allowing foundation staff to concentrate on revenue generating activities.

**Consolidated Back Office:** A shared services or outsourcing model holds promise for the community foundation field, but has yet to be widely and conclusively implemented. According to the Outsourced Back Office (OBO) feasibility study supported by an Idea Lab grant from the Community Foundations Leadership Team, the community foundation field would benefit from an OBO, but would need to invest significant time and money – two things the field currently lacks – and generate the cultural shift required to scale this approach. Nonetheless, three basic models emerged from the study:

- **The Consolidation Model:** The merger of existing organizations into one stronger entity. Example: 2007 consolidation of the Community Foundation Silicon Valley and Peninsula Community Foundation.
- **The Umbrella Model:** One foundation, or a separate entity, provides an “umbrella” of core administrative services to independent third parties (i.e., private foundations, smaller local community foundations) for a fee. Example: The Columbus Foundation
- **The Affiliate Model:** The “Home” community foundation provides services to local and regional affiliates that operate as part of the host, but still maintain local missions (i.e., fundraising and grantmaking). Example: Nebraska Community Foundation

## 6. Obstacles in the Path of Change

To implement change in their business model, foundations must engage constituents in the process and develop access to bridge capital.

Our study has unearthed a variety of innovations being explored by community foundations across the country. The guiding principles of differentiation and sustainability provide the framework for considering diversification of revenue sources. At the same time, discussions reveal important challenges to innovation.

As Mark Brewer, CEO of the Community Foundation of Central Florida remarks, *“It’s harder to disengage from a nonproductive rusty business model than it should be.”*

For one, most community foundations lack bridge capital. For foundations to transition to a new revenue source or make major changes to a business model, they need sufficient liquidity and stability in their income to allow them to introduce change. If a foundation is struggling to manage current operating expenses, it will not have the financial bandwidth to steer the ship in a different direction.

In the case of The Vermont Community Foundation, it was able to implement new leadership initiatives and mission investing offerings with the help of bridge capital contributed by its donors. Vermont engaged a small group of leading philanthropists in the state who believed in a new vision and strategy, and who were willing to support its transition into a new role. They invested in the organization somewhat like equity investors would do in a for-profit environment, with the expectation of increased social returns.

At the Greater Houston Community Foundation, transitioning to a new business model that emphasizes a more active role sharing community knowledge with donors and client foundations will require significant investments.

*“I’ve been charged with creating a strategic plan and a business plan, an action plan, to take the strategic plan live... We hope to raise targeted contributions from board members, donors and local foundations to fund the new vision. We’ll need to bring on some additional senior staff, in addition to technology cost. We estimate the cost could be in the area of \$1M for initial funding over the next couple of years, and soon after that we plan to incorporate the new expenses into our ongoing budget.”*

- Steve Maislin, CEO, Greater Houston Community Foundation

Second, foundations must apply community-building skills to business model innovation. The art of bringing constituents along is not a new one for community foundations, but it may be new to engage constituents in decisions about the foundation’s business model.

As many community foundations have observed, one of the most significant challenges of change is communications, and finding the effective messages for various constituents. As Jeff Rudd of The Seattle Foundation observes, *“Our biggest challenge is shifting from an understanding that donors are paying a fee for our service to one where constituents are comfortable making a contribution to the foundation. Without this, it makes it difficult to move to any other kind of model... Internally, we are wary of how donors might respond to change.”*

Seeking the input and collaboration of constituents in identifying ways in which the community foundation business model can and should change will diminish potential resistance from the community. Constituents are also helpful in shaping or testing messages, providing community foundations with valuable market data. Additionally, those most invested in the mission and value of the community foundation may well be potential sources for bridge capital.

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The art of bringing constituents along is not a new concept for community foundations, but it may be new to engage constituents in decisions about the foundation’s business model.

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## 7. Action Steps: What Can You Do to Evolve Your Foundation’s Business Model?

Foundations can leverage several tools available to the field to deepen their understanding of their business model and broach the topic of innovation with their board.

Often times the most difficult part of implementing change is determining where to begin. For those foundations that are interested in exploring and potentially implementing innovations in their business model, below is a proposed process – complete with tools and a potential discussion guide to share with your board – as well as a list of additional resources, to help you review your existing business model and to plan for the future.

<b>Reviewing Your Existing Business Model</b> <i>How do you create, deliver, and capture value?</i>	
TASK	DISCUSSION QUESTIONS
<p><b>1. Understand your community foundation’s unique assets, revenues, and capabilities</b></p> <p><b>TOOL:</b> CF Insights Comparative Data  <i>(Refer to the CF Insights page at the end of this report for a full listing of resources and tools for the field)</i></p>	<p>➔</p> <ul style="list-style-type: none"> <li>• What is unique about your community foundation relative to your peers?</li> <li>• How does your business model compare?</li> </ul>
<p><b>2. Use the examples and stories contained in this report to frame a discussion about your business model</b></p>	<p>➔</p> <ul style="list-style-type: none"> <li>• Which factors support differentiation?</li> <li>• Which support sustainability?</li> </ul>
<p><b>3. Conduct an analysis of your current products, costs and revenues</b></p> <p><b>TOOL:</b> CF Insights Cost Revenue Analysis Toolkit <i>(CF Insights page)</i></p>	<p>➔</p> <ul style="list-style-type: none"> <li>• How are your resources aligned with your goals?</li> <li>• How does each product’s cost compare to its revenue?</li> <li>• Are there opportunities to increase fees to better align with a product’s value?</li> </ul>
<p><b>4. Test your current business model’s viability under various economic conditions</b></p> <p><b>TOOL:</b> CF Insights Economic Scenario Planning Model Toolkit <i>(CF Insights page)</i></p>	<p>➔</p> <ul style="list-style-type: none"> <li>• Where are the weak points in your business model?</li> <li>• Where do you need more stability and where can you take on more risk?</li> </ul>
<p><b>5. Connect with key community constituents</b></p>	<p>➔</p> <ul style="list-style-type: none"> <li>• How is your foundation meeting constituents’ needs?</li> <li>• What future needs do constituents anticipate?</li> <li>• Where do constituents perceive the foundation as adding the greatest value?</li> <li>• Is this value reflected in your revenue structure?</li> </ul>

## Planning for the Future

*How can you better align your business model with future goals and prepare yourself for future change?*

TASK	DISCUSSION QUESTIONS
<p><b>1. Identify high potential new revenue sources</b></p>	<ul style="list-style-type: none"> <li>Which new revenue sources generate current income, support future growth, and make sense given your constituents' needs, the community context, and the unique strengths of your foundation?</li> </ul>
<p><b>2. Create a new business model to test, including a discrete set of revenue sources, growth priorities, and operating model changes</b></p>	<ul style="list-style-type: none"> <li>What factors would you like to change going forward?</li> <li>Where can you achieve operating efficiencies?</li> </ul>
<p><b>3. Consider the new model's viability under various economic conditions</b></p> <p><b>TOOL:</b> CF Insights Economic Scenario Planning Model Toolkit (<i>CF Insights page</i>)</p>	<ul style="list-style-type: none"> <li>What are the economic implications of these changes?</li> </ul>
<p><b>4. Make Decisions</b></p>	<ul style="list-style-type: none"> <li>How do you simultaneously balance your mission-driven priorities and your budget?</li> </ul>
<p><b>5. Develop new messages and communications</b></p>	<ul style="list-style-type: none"> <li>How should you engage your constituents in the changes you need to make to support your collective philanthropic goals?</li> </ul>

## Additional Resources

*What other perspectives can help inform your thinking on community foundation business models?*

**Blueprint Research & Design, and the Monitor Institute, "On the Brink of New Promise, The Future of U.S. Community Foundations," 2005.**

*Describes current and future trends shaping the landscape of community foundations, and explores their implications for the role foundations play in the field.*

**Council of Michigan Foundations, Blueprint Research & Design, Public Policy Associates, and Williams Group, "Better Together, Regional Alliances and Small Community Foundation Sustainability," August 2005.**

*Describes how several small community foundations are achieving sustainability by forming regional alliances.*

**FSG Social Impact Advisors, "Growing Smarter, Achieving Sustainability in Emerging Community Foundations," September 2007.**

*Compares three approaches to growth used by community foundations: the controlled approach; the engaged approach; and the leveraged approach.*

**FSG Social Impact Advisors, "Strengthening Community Foundations: Redefining the Opportunities," October 2003.**

*Presents and explores the primary factors affecting long-term sustainability of community foundations.*

**Miller, Clara, "The Equity Capital Gap," Stanford Social Innovation Review, 2008.**

*Explores ways in which the nonprofit sector can create its own version of equity capital (much like the equity capital of the for-profit sector) as well as develop an equity approach to doing business.*

**Nonprofit Finance Fund, "Linking Mission and Money, An Introduction to Nonprofit Capitalization," 2001.**

*Describes the "iron triangle" that connects an organization's mission and program, capital structure and organizational capacity, making the case that a change in one of these aspects will require a change in the others.*

**Southwestern PA Community Foundation Group, "The Feasibility and Options for Consolidation of Back Office Operations," June 2009.**

*Compares three approaches to back office consolidation used by community foundations: the consolidation model; the umbrella model; and the affiliate model.*



## what we are

### **The idea behind CF Insights is simple: What if *each* community foundation could know what *all* community foundations collectively know?**

CF Insights is a unique resource helping community foundations use information to improve decision making, performance, and sustainability. If you find this report valuable, we hope you'll join CF Insights' membership, and become part of a community that is improving access to performance data and sharing knowledge across the field. Visit [www.cfinsights.org](http://www.cfinsights.org) to learn more, update the database with your most recent performance data, and download tools for sustainability planning.

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## about us

### **Created by community foundations.**

We share one goal: improving our performance and sustainability—individually and collectively.

For community foundations, growing impact in the communities we serve begins with strong decision making. CF Insights was initiated in response to a shared hunger among U.S. community foundations for more accurate, timely, and complete information to inform our actions and drive improved performance.

### **Propelled by FSG.**

As nonprofit consultants dedicated to social impact, FSG combines deep knowledge of the community foundation field with world-class research, strategy, and evaluation capabilities.

In partnership with the Council on Foundations' Community Foundations Leadership Team, FSG has been a driving force for CF Insights since its inception.

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## contact us

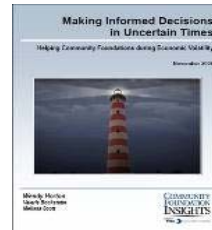
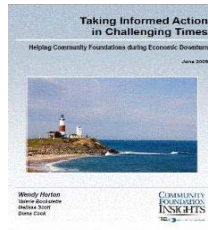
[www.cfinsights.org](http://www.cfinsights.org)

- Rebecca Graves, CF Insights Executive Director  
[Rebecca.Graves@fsg-impact.org](mailto:Rebecca.Graves@fsg-impact.org) | 206-624-6745 x302
- Melissa Scott, CF Insights Program Manager  
[Melissa.Scott@fsg-impact.org](mailto:Melissa.Scott@fsg-impact.org) | 617-502-6102
- Diana Cook, CF Insights Operations Specialist  
[Diana.Cook@fsg-impact.org](mailto:Diana.Cook@fsg-impact.org) | 617-502-6112
- Jack Hopkins, CF Insights Senior Advisor  
[Jack.Hopkins@fsg-impact.org](mailto:Jack.Hopkins@fsg-impact.org)

## For the Community Foundation Field

CF Insights offers specialized resources to serve the community foundation field, including:

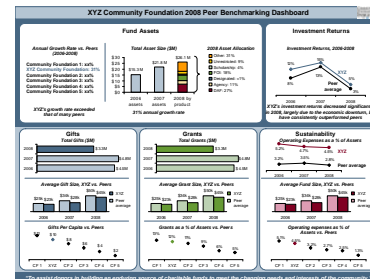
- **Information**—CF Insights provides access to field-wide financial data and tools for use by any community foundation (e.g., Cost-Revenue Study; Economic Scenario Planning (ESP) Model, Columbus Survey).
  - The Cost-Revenue Analysis Tool Kit helps foundations conduct the financial and operating model analysis to better understand their revenue and cost model product-by-product.
  - The ESP model allows users to test the implications of market performance, donor behavior, and budget adjustments on their operating budgets.
- **Ideas**—CF Insights research for community foundations is available to the entire field via publications, webinars, and conference presentations



## Additional Benefits For Members

CF Insights members gain comprehensive benefits, featuring:

- **Benchmarking**—CF Insights members have full access to the primary database on U.S. community foundations; they learn about field norms, practices, and trends; and have the ability to compare individual performance with peers.
- **Advice**—CF Insights assists members in applying and interpreting performance metrics, helping produce customized analyses and dashboards that inform decision making.
- **Insights**—CF Insights members receive relevant, timely, research-based offerings.
- **Connections**—CF Insights members have ready contact with peers in common interest areas, and share knowledge through learning events and opportunities



## CF Insights Members & Funders

Adirondack Community Trust  
Akron Community Foundation  
Alaska Community Foundation  
Arizona Community Foundation  
Community Foundation for Greater Atlanta  
The Baltimore Community Foundation  
Barrington Area Community Foundation  
Berks County Community Foundation  
Berkshire Taconic Community Foundation  
Blackford County Community Foundation  
The Community Foundation of Greater Birmingham  
Community Foundation of Bloomington and Monroe County  
Blue Grass Community Foundation  
The Boston Foundation  
California Community Foundation  
The Community Foundation for the National Capital Region  
Foundation for the Carolinas  
Central New York Community Foundation  
The Chicago Community Trust  
The Greater Cincinnati Foundation  
The Cleveland Foundation  
The Columbus Foundation  
The Dallas Foundation  
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The Community Foundation of the Holland/Zeeland Area  
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Johnson County Community Foundation  
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Greater Kansas City Community Foundation  
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The Community Foundation for Greater New Haven  
The New York Community Trust  
Northwest Arkansas Community Foundation  
Communities Foundation of Oklahoma  
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The Pittsburgh Foundation  
The Rhode Island Foundation  
The Community Foundation Serving Richmond & Central Virginia  
Rochester Area Community Foundation  
San Angelo Area Foundation  
San Antonio Area Foundation  
The San Diego Foundation  
The San Francisco Foundation  
Community Foundation of Santa Cruz County  
The Seattle Foundation  
The Community Foundation of Shreveport-Bossier  
Silicon Valley Community Foundation  
Community Foundation of Greater South Wood County  
Community Foundation for Southeastern Michigan  
Southwest Initiative Foundation  
The Saint Paul Foundation and Minnesota Community Foundation  
The Greater Tacoma Community Foundation  
Communities Foundation of Texas, Inc.  
Toledo Community Foundation, Inc.  
Truman Heartland Community Foundation  
Unity Foundation of LaPorte County  
Vermont Community Foundation  
Community Foundation of Wabash County  
Community Foundation of Western Massachusetts  
Community Foundation of Western Nevada  
The Community Foundation of Westmoreland County  
The Winston-Salem Foundation  
Greater Worcester Community Foundation

### ***Private Foundation and Other Funders***

*Council on Foundations' Community Foundations Leadership Team*  
*W. K. Kellogg Foundation*  
*Charles Stewart Mott Foundation*