

Building

Community

Bulletin #6 January 1993

Foundations

Grantmaking Consulting Program

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This bulletin is #6 in a series offering commentary on grantmaking by community foundations based on in-depth consulting (up to five days) at thirty community foundations.

- Bulletin #1 Findings From Visiting Community Foundations
- Bulletin #2 The Application Procedure
- Bulletin #3 Getting Out Into The Community
- Bulletin #4 Risk Taking and Grantmaking
- Bulletin #5 Foundation Board/Staff Relations

Accountability & Efficiency Ingredients for Good Grantmaking

Foundations require that applicants be accountable for the money they receive. In the same vein, community foundations receive money and there should be evidence that their stewardship of that money is such that it enjoys public confidence.

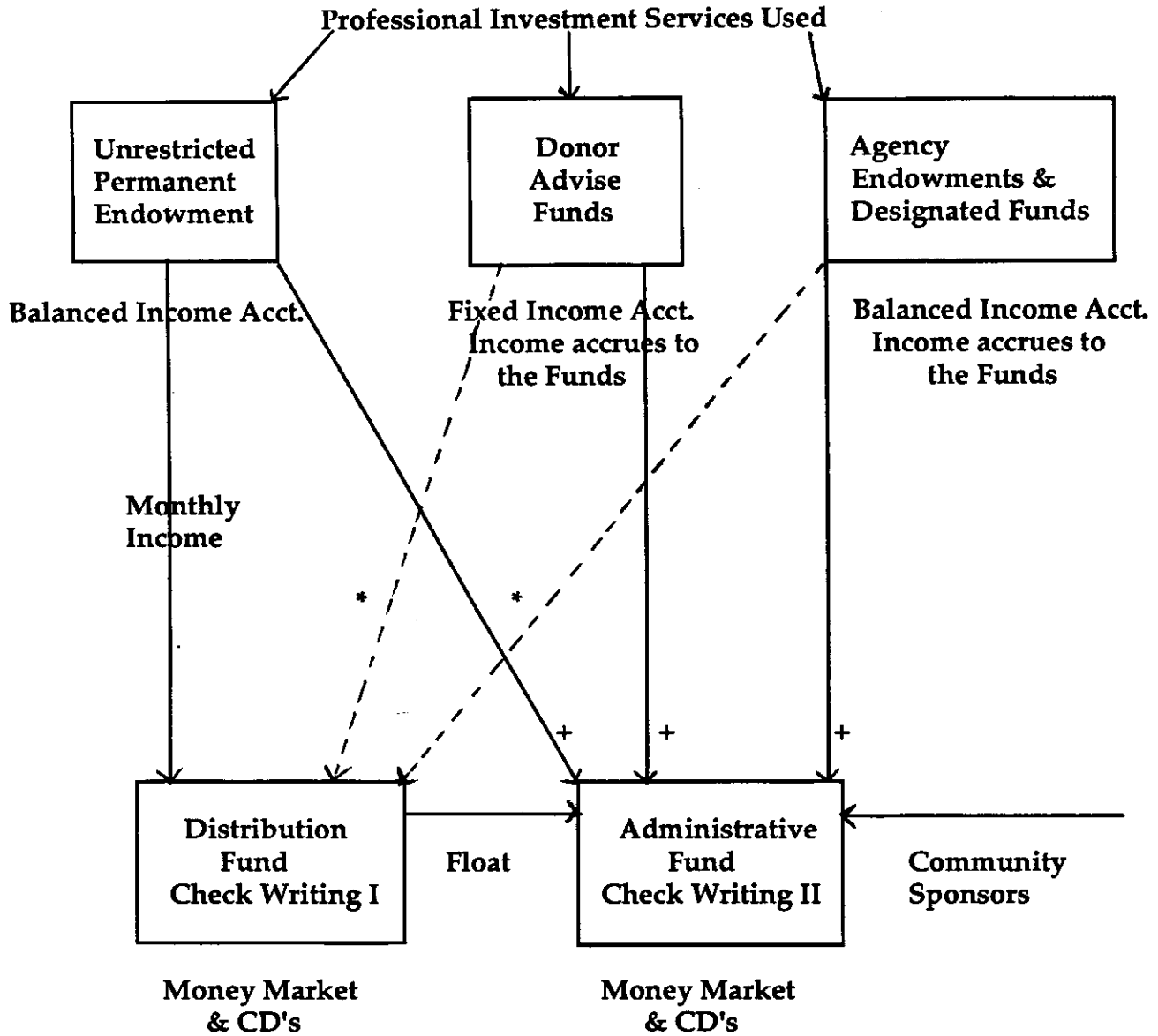
There are some universal aspects to the running of a community foundation. The Council on Foundations has developed and published a lexicon of terms used in the running of a community foundation. For the purposes of this Bulletin, the following terms will be used (not necessarily found in the above mentioned lexicon):

- assets - the total amount of money the foundation has including everything.
- unrestricted endowment - permanent money, the income of which is used for grantmaking.
- donor advise - money which the donor can give out; it is neither permanent nor endowment.
- designated agency endowment - permanent money, the income of which goes to a specific recipient.
- balanced income account - money invested in equities and bonds.
- fixed income account - money invested in bonds, certificates of deposit, money market where, for the most part, the principal remains the same.
- distribution account - a fixed income checking account receiving money from other accounts for grantmaking.
- administrative account - a fixed income checking account receiving money from other accounts for operating expenses.

On the following page is an illustrated cash flow system designed to serve community foundations.

COMMUNITY FOUNDATION

CASH FLOW CHART



* Broken lines represent money on-call for specific distributions

+ Solid lines with + represent administrative fees

NOTES

Donor Advise Funds

This type of Fund is set up at the request of a donor who wants to be able to recommend grants. It is an opportunity for the community foundation to have a dialogue with a donor and showcase the foundation for that donor.

An "active" donor advise Fund is where the foundation executive recommends to the donor as well as the donor making recommendations. Many foundations merely wait for the donor.

When a donor starts a Fund, inquiries can be made as to the donor's areas of interest. Would the donor be willing to receive recommendations from the foundation staff of outstanding programs in these areas of interest? Would the donor consider making a contribution from the Fund to the unrestricted endowment of the Foundation? At some foundations, donors have agreed to give up to 20% of contributions to their Funds to the foundation's endowment; but it was necessary to ask.

Donors should be encouraged to make grants from their Funds, and when the balance gets low, they will usually replenish the Fund - due to their enthusiasm for giving. To establish a donor advise endowment Fund is to limit what the donor can give to the income from that Fund. This is contradictory to the concept of active donor advise Funds; it reduces the activity in the Fund; chances for enthusiasm are reduced and the Fund tends to become dormant.

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Administrative Income

A primary concern for community foundations that are limited in size is getting money to support the administrative costs.

Initially, community foundations are caught in a catch twenty-two. They don't grow unless they have a staff, and they are too small to afford a staff. Thus, they must have outside support to get started.

Private foundations have played a crucial role in helping community foundations get established by giving administrative support grants for multiple years. Likewise, United Ways have given birth and support to many community foundations.

The need though is for a continuing source of administrative income. The following describes some of these sources.

- Administrative fees - all money that the foundation has should be charged an administrative fee; unrestricted endowment, donor advise Funds, agency endowments, and designated money. The question is how much to charge.

Administrative fees vary. For example, some foundations keep the income on donor advise Funds; some charge a fee on the income, some on the principle; some charge a sliding fee according to the amount involved; some large community foundations don't charge any fee at all.

Foundation Boards of Directors want to be prudent, fair, and competitive in dealing with donor advise donors, but they often charge so little that they are 'giving their services away.'

The simpler the fee can be made, the better. A fee of 2% to 3% of assets can be justified for foundations of limited size, i.e. 2% of donor advise money; 2% of unrestricted endowment, 2% of everything else. The fee is charged at .5% per quarter of the highest balance in that quarter.

- Community Sponsors - some foundations have set a goal to invite 200 'significant citizens' to give \$200, \$500, or \$1,000 a year "to help develop philanthropy in _____ area." These people are advocates for the foundation. They hold receptions in their homes for their friends to become familiar with the foundation. Hopefully they write the foundations into their Wills. Some often start donor advise Funds or give additional money to the foundation. Experience has shown that such individuals have a renewal rate from 80% to 90%. These people receive the foundation newsletter; they attend foundation functions; they are the foundation's "family."

- Float - community foundations need a Fund from which they make grants. This Fund receives income money from the endowment either monthly or quarterly. It can receive money from donor advise Funds when the donor wants to make a grant.

Float is income on income. Money that is being held until it is given out will be making interest, and that interest is float which can be used for administrative costs. Large foundations can live on float and thus not charge an administrative fee.

- Administrative Endowment - setting aside money the income of which is designated for administrative expenses. It seems better to focus on an administrative endowment after the foundation has gotten going because usually more administrative money is needed initially than is realized from the endowment income.

- Other Sources -some foundations take money from the grantmaking budget, that is they give themselves an operating grant. This is risky in that the public can misunderstand what is going on and accuse the foundation of spending grant money on itself.

Did you know that of the 252
community foundations on the
Council on Foundations roster, 123
are directed by men and 128 by women

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