Center for Rural Entrepreneurship
energizing entrepreneurial communities

Community Foundation Guide

Community Development Philanthropy

Background & Introduction

Our Community Foundation Guide has been developed by the Center for Rural Entrepreneurship to assist both communities and community foundations to energize philanthropy across America. This Guide is a work in progress, and it will evolve and become more complete and useful over time. We want to thank Doug Friedli for his many contributions in making this Guide possible. Doug is a champion of community philanthropy. Over his life, he has created foundations and helped communities embrace the power and benefit of community foundations and philanthropy.

This guide is dedicated to Maxine Moul. Maxine co-founded the Nebraska Community Foundation and is a champion of community philanthropy.

This version of our Guide is organized into the following topic areas:

- **Core Relationships**
- **Keys to Mutual Success**
- **Realities of Scale, Cost & Effectiveness**
- **The Opportunity & Challenge of Development Assistance**
- **A Performance Based Relationship**
- **Options for Having a Community Foundation**
- **Key Philanthropy Terms**

COMMUNITY DEVELOPMENT PHILANTHROPY
Transfer of Wealth

Core Relationships:

Family of Philanthropic Funds

Legacy – Donor Advised – Scholarships – Organizations – Churches – Government Agencies -

Community's Various Philanthropic Groups & Causes

Community

Affiliated Fund Advisory Board & Champions

State
IRS

FAO

Development Assistance

Regional Donors

Foundation within a Foundation

Regional Development Trust Fund

Development Funding

Regional Stakeholders

Regional Initiative Opportunities

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Keys to Mutual Success

Community foundations by design stimulate, develop and sustain collaborative relationships. For this transaction to be a "win" "win," there are a number of contributing factors:

- Mutual Self-Interests
- Trusting Relationships
- Strong Communication
- Role Transparency
- Financial Value to Both Parties

These contributing factors are both self-evident and generic. Let's create a simple matrix that details what community's and foundation's need and want in order to remain in the collaboration:

Communities	Community Foundations
Outcomes	
Community Betterment Economic Prosperity New Dollars for Community Works	Regional Prosperity Endowment Funds Under Management Partners for Regional Initiatives
Value Case	
Reasonable Fees for Services Access to IRS 501c3 Charitable Status Better Return on Investments	Adequate Fees to Cover Costs Protection of Non-Profit & IRS Status More Funds to Pool & Manage
Development	
Development Assistance Donor Services Matching Dollars for Endowment Building	Dollars for Development Staffing & Program Donors to Develop and Service Regional Legacy Fund
A Social Compact & Accountability	
Local Control & Maximum Choice Maximum Return/Minimum Risk of Loss Community Does its Agreed Upon Jobs	Responsible Board & Leaders to Work With Community Understanding of Risk/Return Foundation Does its Agreed Upon Jobs
Strong Grief-Free Relationships	
With the Community Foundation Local Non-Profits Local Donors Local Government Agencies With Community Stakeholders & Residents	With the Community Funds Under the Community Umbrella Donors State Government – Non-Profit Status U.S. IRS – 501c3 Status

Realities of Scale, Cost & Effectiveness

Nearly everyone who comes to understand the power and value of community philanthropy and community foundations believes in their importance. Where community foundations and philanthropy are robust, one finds a powerful vehicle for collective action and community building. Unfortunately, the reality is that not every community in America has access to robust community foundation services and the resulting community philanthropy and building. Situation does matter – rooted in the realities of scale, cost and effectiveness.

The underlying business model for community foundations as a vehicle to stimulate and enable community giveback and works of community betterment is rooted in a banking model. In banking, revenue is generated with every financial transaction. Fees generated provide the bank with the resources to hire professional staff and offer first rate services whether that is a child's savings account, a commercial line of credit or a mortgage for a new home. The business model underlying most community foundations is very similar. The more volume of activity (in this case endowed funds under management) – the more revenue and the greater the capacity of the community foundation to provide not only core services like investment management, but the all -important development services essential to reach all corners of a community. Some community foundations have been lucky and/or wise and have permanent endowments of their own that can support development assistance and enable both large and small players to be part of community giveback and betterment.

However, most community foundations still require fees from funds management to pay the bills. In most cases, particularly with newer and smaller foundations, these fees barely cover core costs leaving little for development support. Despite present opportunity, the lack of development resources results in under-developed philanthropy. This Guide speaks directly at the opportunities and challenges of enabling and supporting community philanthropy regardless of geography, size or situation.

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The Opportunity & Challenge of Development Assistance

Necessity. Inherently, within the community foundation and affiliated fund model, there are clear and compelling opportunities and challenges associated with providing development assistance. The whole point of affiliated funds with a community foundation is one of necessity and convenience. The idea of a foundation within a foundation suggests that there are clear advantages for smaller, poorer and under-served communities and non-profits affiliating with a larger institution. By design, the community foundation is a way around the inherent limitations associated with too little scale potential.

Accelerator. We know that when there are robust, smart and sustained development assistance provided to affiliated funds that the rate of progress increases…

Community engagement expands.
More donors give and endowments grow.
5% transfer of wealth capture is realized.
Capacity for community building increases.

We know doing this makes a real difference. We even know more about what kinds of assistance accelerate the realization of success, but we still struggle mightily on how to pay for this assistance.

Paying the Development Bills. Most community foundations serving under-served communities and non-profits are not much better off financially than those they are serving. Generally, unrestricted endowments for development are small. Foundations struggle to cover just core costs (accounting, receipting, etc.) with fees, and there are shortages of donors willing to pay these costs. The time, talent and treasure needed to really move progress are substantial. Therefore, community foundations and their affiliates are caught in a chicken and egg situation. Progress cannot be accelerated (and endowments grown to increase fee income) within substantial development assistance, and there are no sources of funding for this work. This challenge fundamentally limits the ability of a community foundation to optimize its mission.

Ironically, this is the same challenge every human being with a good idea faces whether he is a medical researcher or an entrepreneur. Fortunately, in science and business, we have created institutional solutions rooted in funding for research and development for scientists and venture capital for entrepreneurs. We need a similar venture and funding model for community foundations. The Parkersburg WV Community Foundation model is an important innovation in the right direction.

COMMUNITY DEVELOPMENT PHILANTHROPY Transfer of Wealth

A Performance Based Relationship

A performance based relationship between a community (affiliated fund) and the community foundation potentially provides a rational way to allocate scarce development resources that insures optimal development impact and progress. Such an approach directly and transparently indicates how much development assistance a community foundation provides based on clear community performance of known success activities.

Community Performance Standards		
Affiliated in Good Standings Established Board Commitment to Move to Silver	Strategic Development Plan Active Builder's Club Strategy Committed to Board Training Commitment to Move to Gold	Family of Funds Access to Regional Initiatives Trained & Engaged Boards 100% Board Giveback Active Donor Development Cost-Share of Staffing
Level 1 ***Bronze***	**Level 2** ***Silver***	**Level 3** ***Gold***
Core Services Limited Development Assistance Silver Development Support	Facilitated Strategic Planning Builders' Club Assistance Active Board Development Gold Development Support	Umbrella Fund Development Advanced Board Member Dev. Matching Funds Donor Visitation Assistance Access to Regional Initiatives Cost-Sharing on Staff
Community Foundation Development Assistance		

We recommend keeping this compact simple as presented above. Within this framework, there can be progress metrics and benchmarks associated with each element that allows operationalization at both the community and foundation levels. The progress benchmarks should not be mandatory but strongly advised. We want to avoid being viewed as big brother forcing weakly understood or barely appreciated standards or regulations on the community. We want the community to understand that these things enable success. Voluntary buy-in is critical to maintaining the right relationship between the community and the foundation.

COMMUNITY DEVELOPMENT PHILANTHROPY Transfer of Wealth

Options for Having a Community Foundation

The following was developed by Doug Friedli under contract with the Center.

If you have decided to focus on capturing a portion of the transfer of wealth to benefit the future of your community, you will need to have a charitable organization with 501(c)(3) tax status to accept the donations and manage the funds. In rural communities, a community foundation is the best type of organization to provide those services for the benefit of the entire community.

If your community is not presently served by a community foundation, you usually have two choices:

Create a new community foundation from scratch or "de novo".

Work through an existing community foundation or "affiliation".

There are pros and cons of both of these options. It is important to carefully consider all the implications before making this critical decision.

The first step is to determine if affiliation is an option:

- Is there an existing community foundation serving your area which would be willing to consider taking your community under their umbrella as an affiliated fund? There might be an existing community foundation in your county, your region or your state that supports or would be willing to support an affiliated fund for your community. There are 650 community foundations in the USA, but not all of them accept affiliated funds.
- Is there an existing foundation with a restricted purpose in your community that would consider broadening their mission and converting to a community foundation?
- Are there several existing foundations willing to collaborate and consolidate to create a new local community foundation under which the existing foundations could combine their energies and manage the new local community foundation?

If the affiliation option is not possible, then you would have to find volunteers to start the process of creating your own independent community foundation. A number of steps will be required including creating articles of incorporation and by-laws, applying to IRS for 501(c)(3) tax exempt status, incorporating with the secretary of state, etc. This option will take much more time and expense. However, after it is accomplished you would have total local control of the assets (whereas under the affiliation option, the assets technically belong to the host community foundation).

A side-by-side comparison is shown on the next page of the two basic options. Typically, the de novo option (creating your own community foundation from scratch) will take more time and more out-of-pocket cost.

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Task	De Novo (create your own CF)	Estimated Time	Estimated Cost	Affiliation (with an existing CF)	Estimated Time	Estimated Cost
Attain non-profit status	Submit Articles of Incorpor-ation to Secretary of State (will require an attorney)	2-3 months	$20-50 filing fee, plus $500-$1,000 attorney fee (could be less if done pro-bono)	Provided by the host CF	Immediate access	$0 (Usually included in the $100-$1,000 start-up fee)
Obtain provisional 501(c)(3) Status (good for 5 years)	Apply to IRS (will require an attorney and/or CPA)	6-9 months	$500 filing fee, plus $2,500-$4,000 (could be less if done pro-bono)	Provided by the host CF	Immediate access	$0 (Usually included in the $100-$1,000 start-up fee)
File IRS Form 990 annually	Requires the services of a qualified CPA	2 days	$500-$2,000 (could be less if done pro-bono)	Provided with the fund agreement	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Issuance of charitable receipts to donors	Must conform with IRS standards	Must be done at least monthly	Depends if done manually or with software	Provided with the fund agreement	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Financial Accounting	Recording contributions, making disbursements	Must be done regularly	Depends if done manually or with software	Provided with the fund agreement	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Annual Audit	Requires an Independent CPA	2 weeks to 1 month	$1,000 to $3,000	Provided with the fund agreement	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Cash Management	Investments via a professional or a bank	Must be done regularly	Typically 1.5 to 2.00%	Provided with the fund agreement	Typically Not Applicable	.50 to 1.00%
Compliance with National Standards	Apply to COF Develop policies & procedures	May take up to 12 months	Depends on source of proto-types	Usually provided by host CF	Typically Not Applicable	$0 (Usually included in start-up fee)
Scholarship Administration	Develop Policies and Procedures to Comply with Pension Protection Act of 2006	May take up to 12 months	Depends on source used for proto-types	Usually provided as an additional service	May take up to 1 month	$0 to $300 per year
Marketing Materials	Develop brochures, case statements, advertisements	May take up to 12 months	Depends on source used for proto-types	May be provided as an additional service	May take up to 1 month	$0 to $300
Communication Materials	Donor letters, Press releases	May take up to 12 months	Depends on source used for proto-types	May be provided as an additional service	May take up to 1 month	$0 to $300

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Website	Develop website with information including On-Line Giving	May take up to 12 months	Depends on source used	May be provided with the fund agreement	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Errors and Omissions Insurance	Protect the Directors and volunteers from personal liability	Up to 2 months	$500 to $1,000	Provided with the fund agreement	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Event Insurance	Protect organization	Up to 2 months	$500 to $1,000	Provided with the fund agreement	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Staff	Hire and manage employees	May take up to 3 months	Depends on professional sources needed	Provided by the host CF	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Fundraising Training	Contract with professional s to learn donor visitation methods	May take up to 3 months	$1,000 to $3,000	Provided by the host CF	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Donor Stewardship	Contract with professional s to learn donor visitation methods	May take up to 3 months	$1,000 to $3,000	Supported by the host CF	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Gift Planning Assistance	Contract with financial advisors	May take up to 3 months	$1,000 to $3,000	Provided by the host CF	Typically Not Applicable	$_____ (Usually included in maintenance fee)
Manage the acceptance of non-cash gifts like real estate, collectables, commodities	Contract with financial professionals and advisors	May take up to 3 months	Depends on professional sources used	Provided by the host CF	Typically Not Applicable	$_____ (Usually included in maintenance fee)

Creating and running your own community foundation is challenging. For many community volunteers, the amount of time required focusing on the day-to-day operation of the foundation leaves very little time and energy for the essential tasks of donor development. Some communities have been able to garner the support of community partners (e.g., attorneys, certified public accountants, banks, investment firms, etc.) that are willing to provide the necessary staffing, services and expertise to run the community foundation so the volunteers can spend their time developing relationships with donors.

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The prime advantage of affiliating with an existing community foundation is that the host does all the legal, financial and administrative work enabling the local community volunteers to focus on fund-raising and grant-making.

The second advantage of affiliation is the issue of scale. Larger community foundations can afford to have full-time professional staff and can make more progress than organizations totally dependent on volunteers. Typically, a community foundation must have at least $10 million in endowed assets before robust staffing is possible or feasible.

The third advantage of affiliation involves donor confidence. Many donors are concerned about giving to an organization that is not established and does not have good staffing. Creating and running a community foundation is complicated. It requires expertise and experience. A well-established community foundation has procedures, advisors, staffing and experience essential for running a foundation. They have developed a history of measurable outcomes. Partnering with a community foundation that is in compliance with the National Standards of the Council of Foundations adds even more assurance for donors.

There is typically a cost of affiliation which is assessed through a variety of start-up fees, annual maintenance fees, transaction fees, asset management fees, or some combination of all of these. The net cost is typically 3% to 5% of total revenue or assets. However, the terms and conditions of affiliation vary widely from one community foundation to another, so careful due diligence is required to ensure that the conditions offered are acceptable and in the best interest of the long-term future of the community. Be sure to ask about the process of withdrawing from affiliation.

For a comparison, you can view the Nebraska Community Foundation's benefits of affiliation and pricing sheet on its website: www.nebcommfound.org. NCF provides services to 220 affiliated funds throughout Nebraska. Other examples of statewide community foundations which provide services to affiliates are located in Arkansas, Arizona, South Dakota and Wyoming.

Doug Friedli, December 30, 2012

COMMUNITY DEVELOPMENT PHILANTHROPY Transfer of Wealth

Key Philanthropy Terms

We all hate this somewhat when we begin to explore something new. There are new words with new meanings. Bottom line, there is a learning curve to be mastered. Energizing philanthropy in your community or organization does require learning new things. We hope this dictionary of key philanthropic terms can shorten your learning curve and serve as a ready resource when are trying to get your brain around some new ideas that seem really important. Good luck!

501(c)(3)

Refers to the section of the Internal Revenue Code (IRS) that designates an organization as charitable and exempt from federal income tax. This designation is granted to qualified non-profit entities that are organized to perform and support specific charitable purposes including support of religion, promotion of education, assistance to the government, promotion of health, relief of poverty or distress, and other purposes that benefit the community. Individuals donating to a 501(c)(3) organization are eligible to claim a deduction of their contribution from their federal income tax.

Affiliation

Relationship established when an existing 501(c)(3) organization (typically a community foundation) allows another group to operate under their umbrella. The affiliated fund enjoys the benefits of the tax-free status without having to apply separately to the IRS.

Articles of Incorporation

A document filed with the secretary of state or other appropriate state office by persons establishing a corporation. This is the first legal step required in forming a nonprofit corporation.

Asset

Includes cash, stocks, bonds, real estate or other tangible holdings of an individual or institution. Assets of a foundation are usually invested and the income is used to make grants.

Beneficiary

A person or organization entitled to receive gifts made under a legal document such as a will or trust.

Bequest

A sum of money or other property directed by an individual's will to a specified person or organization. (See Will)

"Bricks and Mortar" Grants

An informal term indicating traditional type grants for buildings or construction projects in contrast to grants that impact people and programs.

Bylaws

Rules governing the operation of a nonprofit corporation. Bylaws often provide the methods for the selection of directors, term limits, creation of committees, and the conduct of meetings.

Capturing Wealth
The process of convincing donors to give a portion of their assets and/or estate back to their hometown community.

Challenge Grant
A grant that is paid only if the grantee organization is able to raise additional matching funds from other sources, usually within a specified period of time. Challenge grants are often used to stimulate giving from a wide base of donors.

Charitable Gift Annuity
An agreement between a donor and a public charity whereby the donor irrevocably makes a gift of cash or stock and, in turn, the public charity agrees to pay a fixed annuity income to one or two beneficiaries for life. Upon the donor's deaths, the unused remainder is the public charity's to utilize for charitable purposes.

Charitable Organizations
In its traditional legal meaning, the word "charity" encompasses support of religion, promotion of education, assistance to the government, promotion of health, relief of poverty or distress, and other purposes that benefit the community. Nonprofit organizations that are organized and operated to further one of these purposes generally will be recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (see 501(c)(3)) and will be eligible to receive tax-deductible charitable gifts.

Community Foundation
A tax-exempt, nonprofit, autonomous, publicly supported, philanthropic institution composed primarily of permanent funds established by many separate donors. A community foundation makes grants for charitable purposes in a specific community or region. Typically, a community foundation serves an area no larger than a state. Most community foundations are classified by the IRS as public charities and are thus eligible for maximum tax-deductible contributions from the general public.

Compliance
The process of following the required laws, rules, procedures and regulations. For community foundations those are prescribed by federal, state and sometimes local authorities.

Designated Fund
A restricted fund of a foundation under which the recipient beneficiaries are specified by the grantors. Examples would be a fund to support a specific charitable project such as an entrepreneurship education program, leadership development, recruiting young families back to a community, etc.

Donor
An individual or company making a contribution to a nonprofit organization, public charity, or fund. Contributions can be current gifts of cash or planned gifts through an estate. (Also see Grantor)

Donor Advised Fund
A DAF is a charitable investment account administered by a public charity. Donors can open a fund in a donor advised program by making a contribution and receiving an immediate tax deduction. The contribution is irrevocable and becomes controlled by the public charity, which invests the funds. Although the donor no longer controls the funds once contributed, they can recommend grants be made to other charitable organizations.

Earnings
Interest, dividends, rents or income which are provided from assets owned by an organization or individual.

Eligible Charitable Organization
Eligible charities are those charities that can prove they exist for charitable purposes and/or any grant they receive would be used for charitable purposes. Typically, eligible organizations are those that have been granted 501(c) (3) status by the Internal Revenue Service.

Endowment
A fund owned by a nonprofit organization, such as a community foundation, for which the principal amount of gifts and bequests are accepted subject to a requirement that the principal be maintained intact and invested to create a source of income for the organization. Donors may require that the principal remain intact in perpetuity, or for a defined period of time or until sufficient assets have been accumulated to achieve a designated purpose. Endowed money is invested and earns interest. The charity spends only the interest and keeps the original sum untouched. Endowments are commonly found with entities such as hospitals, colleges, schools, libraries, etc. From time to time, charities launch fundraising efforts to start, or add to, an endowment. Funders of an endowment grant want to be sure that the gift to an endowment will remain in the endowment earning interest and not be drawn out of the endowment to satisfy transitory operating expenses.

Estate Planning
Making a choice as opposed to leaving the probate of assets to chance based on laws of government. Planning established a process of creating an orderly and desirable arrangement for the disposition of all the assets owned by an individual at his or her death. A plan is developed by working with a financial advisor (attorney, accountant, trust officer, life insurance agent, etc.). The main objective is to ensure that the individual's wishes regarding the security of their family and others are fulfilled. Tax consequences are also taken into consideration during estate planning. A well-drafted estate plan can provide significant benefits to the donor and/or family and help ensure that his or her philanthropic legacy continues.

Expectancy
The asset amount anticipated to be bequeathed to a charity through a planned gift.

Family Foundations
"Family foundation" is not a legal term, but it describes an independent private foundation whose funds are derived from members of a single family. Family members often serve as officers or board members of family foundations and have a significant role in their grant-making decisions.

Fiduciary Duty

The legal responsibility for investing money or acting wisely on behalf of another. Managers of charitable entities have fiduciary obligations to the donors and to the charity.

Field of Interest Funds

A field of interest is a charitable cause reflecting an area of the donor's personal interest. Fields of interest may include, but are not limited to the arts, the environment, women's services, education, youth services, religion, and health.

Form 990

The information that public charities are required to file annually with the IRS, (similar to a tax return). The IRS uses this form to assess compliance with the Internal Revenue Code. Form lists organization assets, receipts, expenditures, and compensation of officers. Copies of Form 990 open to the public and can be viewed online by visiting www.GuideStar.org.

Foundation

A tax-exempt, nonprofit, autonomous, philanthropic organization, supporting charitable causes of religion, promotion of education, assistance to the government, promotion of health, relief of poverty or distress, and other charitable purposes which benefit the community. Foundations which have 501(c)(3) status are exempt from federal income tax and are eligible to receive tax-deductible charitable gifts. Foundations are designated by the IRS as "public" or "private" based on their mission.

Giveback

A donor's act of contributing to their hometown or favorite charity by making a current gift of cash or a future gift through an expectancy to benefit a designated or unrestricted cause.

Grant

An award of funds from a foundation to a charitable organization.

Grantee

The individual or organization that receives a grant from a foundation

Grantor

The individual or organization that makes the grant or establishes the trust

Guidestar.org

A national organization that hosts a website of information about non-profit organizations. It is a valuable resource when researching financial information, verifying 501(c) (3) status of an organization, viewing form 990's, etc.

IRS

The federal agency with responsibility for regulating both public charities and foundations and their activities.

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Inurement
To transfer or use a charity's assets or income for the benefit of a charity's insiders. Inurement is a specific form of private benefit and is prohibited for all 501(c)(3) organizations.

Investment
The financial management of an asset to provide an income stream for future grant-making. Also sometimes referenced as a strategic grant that makes a lasting impact.

Legacy
A gift(s) that an individual leaves, both in the details of their will and in the tradition of giving during their lifetime which created significant and lasting impact. (See Bequest)

Leverage
A method of grant-making practiced by some foundations and donors. Leverage occurs when a small amount of money is given with the express purpose of attracting funding from other sources or of providing the organization with the tools it needs to raise other kinds of funds. Sometimes referred to as the "multiplier effect."

Matching Grant
A matching grant is a way of leveraging additional funds from other donors. A funder agrees to contribute a certain amount if the organization can raise a required matching amount. For example, if a grant is made on a 1:1 match, for every dollar raised by the organization, the funder will match an equal amount, up to a specified amount within a specified time frame, such as three years. This process is an effective way to build an endowment.

Mission Statement
A written declaration of an organization's core purpose and focus. Properly crafted mission statements serve as filters to separate what is important from what is not, clearly state which goals will be pursued and how, and communicate a sense of intended direction to the entire organization. A mission is different from a vision in that the former is the cause and the latter is the effect; a mission is something to be accomplished whereas a vision is something to be pursued for that accomplishment. A "visionary" dream about what could be, a "missionary" goes into the field to make it happen.

Nonprofit (a.k.a. non-profit or not-for-profit)
An organization whose income is used for the benefit of its members or for the community in general. Various categories of non-profits are designated by the Internal Revenue Service. Funds received by a nonprofit must be used only in support of its mission and operations. Note: a majority of non-profit organizations in rural communities have not received "charitable" tax status from the IRS. For example, Chambers of Commerce, Community Clubs, Golf Courses, American Legions, Cemetery Associations are all non-profit, but are organized primarily to benefit their members so are therefore not considered charitable in the eyes of the IRS.

Non-traditional Scholarship
A scholarship given to a non-traditional student…an adult whose post-secondary education was interrupted but now desires to go back to college.

Operating Support
A contribution given to cover an organization's day-to-day, ongoing expenses, i.e. salaries, utilities, office supplies, etc.

Payout Requirement
The minimum amount that private foundations are required to expend for charitable purposes (including grants and, within certain limits, the administrative cost of making grants). In general, a private foundation must meet or exceed an annual payout requirement of five percent (5%) of the average market value of its total assets. In contrast, there is not a specific payout requirements imposed on community foundations…they are allowed to grant as much or as little as they choose each year.

Philanthropy
The word is derived from the Greek language, meaning, "love for mankind." Modern definitions include the concept of voluntary giving by an individual or group to promote the common good and improve the quality of life.

Planned Gift
A future gift of a donor's assets such as life insurance, a specified dollar amount or percentage of assets in a will, etc. Planned gifts are typically developed by working with a financial advisor (attorney, accountant, trust officer, life insurance agent, etc.). The donor is able to direct a portion of his or her assets to charitable causes of their choice creating a philanthropic legacy. The donor received favorable tax consequences from planned gifts.

Private Foundation
A 501(c)(3) organization, further defined in the IRC section 509(a), that does not qualify as a public charity. Generally, a Private Foundation is a nonprofit organization established and supported primarily by private funds. Private operating foundations conduct their own programs, expending funds directly for charitable activities. A private non-operating foundation supports charitable activities by making grants to other nonprofit organizations. Private foundations are required to grant at least 5% of their assets each year.

Private Benefit
IRS does not allow the transfer or use of a charity's assets or income, or the conferment of undue advantage, to benefit private persons especially to the organization's insiders. Some private benefit is permitted, but it must not be more than incidental to the charitable purpose being served. Private benefit is a broad term that includes inurement and applies to all 501(c)(3) organizations.

Professional Advisor
Individuals who assist in planning and executing charitable giving through providing information on giving options according to one's specific financial situation. Types of professional advisors include: attorney, accountant, estate planner, financial planner, stockbroker, insurance broker, planned giving officer, and philanthropy consultant.

Public Charity
A nonprofit organization that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and that receives its financial support from a broad segment of the general public. Religious, educational, and medical institutions are deemed to be public charities. Other organizations exempt under Section 501(c)(3) must pass a public support test (see Public Support Test) to be considered public charities, or must be formed to benefit an organization

that is a public charity. Charitable organizations that are not public charities are private foundations (See Private Foundation) and are subject to more stringent regulatory and reporting requirements.

Public Foundation

Public foundations are nonprofit organizations that receive at least one-third of their income from the general public. Public foundations, along with community foundations, are recognized as public charities by the IRS. Although they may provide direct charitable services to the public as other nonprofits do, their primary focus is on grant making.

Recipient (Grantee)

A nonprofit organization recommended to receive a grant by a donor from a donor-advised fund (DAF).

Restricted Funds

Assets or income that are restricted in their use, in the types of organizations that may receive grants from them or in the procedures used to make grants from such funds.

Revocation

A corrective action by IRS that removes a charity's tax-exempt charter. Revocation is used for violations such as inurement, performing non-exempt activities, operating in a commercial manner or operating for private use.

Seed Money

A start-up grant or contribution to help a new nonprofit organization or a program during its first few years. Such grants are often for more than one year, and frequently decrease in amount each year. For example, a grant might be $25,000 in the first year, $15,000 the second year, and $7,000 the last year. The funder usually assumes that the new organization will begin to raise other funds to replace the decreasing start-up grant.

Strategic Plan

A document that describes goals of an organization and specific action items to achieve those goals. It typically includes vision, mission and values statements. A good plan identifies specifically what, when, how the goals are to be accomplished and by whom.

Tax Exempt

Organizations that do not have to pay federal income taxes. Organizations other than churches seeking recognition of their status as exempt under Section 501(c)(3) of the Internal Revenue Code must apply to the Internal Revenue Service. Certain charities (but not community foundations) may also be exempt from state income, sales, and local property tax.

Transfer of Wealth

The Intergenerational Transfer of Wealth refers to the assets transferring between generations that will occur as the 'baby boomer' generation inherits the wealth that has been amassed by their parents. A number of community foundations are focusing their efforts on capturing a portion (typically 5%) of that wealth in order to keep it in and benefit the community.

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Trust
A legal arrangement used to set aside money or property of one person or institution (trustee) for the benefit of one or more persons or organizations (beneficiary).

Trustee
The person or institution responsible for the administration of a trust

Unrestricted Funds
A fund that is not specifically designated to particular uses by the donor. The board or the advisory committee overseeing the fund has the freedom to spend the funds in ways they determine will fulfill the mission of the organization to which the funds have been given.

Values Statement
A declaration that informs donors about an organization's top priorities and what its core beliefs are. Non-profit organizations often use a value statement to help them identify with and connect to targeted donors, as well as to remind board members about its priorities and goals.

Vision Statement
An aspirational description of what an organization would like to achieve or accomplish in the mid-term (5 year) or long-term (20+ years) future. It is intended to serve as a clear guide for choosing current and future courses of action. (also see Mission Statement and Values Statement)

Volunteerism
Freely giving of personal talent, time and/or treasure without expectation of compensation. Performing an act(s) of kindness, for the simple fulfillment of community expectations

Will
A legal document in which a person states various binding intentions about what he or she wants done with his or her property after death.

(See National Philanthropic Trust's website www.nptrust.org for definitions of additional terms)

Doug Friedli, December 31, 2012

COMMUNITY DEVELOPMENT PHILANTHROPY
Transfer of Wealth

Questions & More Information

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The Center for Rural Entrepreneurship's vision for rural America is one of vibrant communities and regions that embrace entrepreneurship, that find new sources of competitive advantage in their inherent assets, and that invest in a new more sustainable future for both present and future generations. The Center's mission is to help our local, regional and state partners achieve this future by connecting economic development practitioners and policy makers to the resources needed to energize entrepreneurs and implement entrepreneurship as a core economic development strategy.

These development efforts require financial resources. Most traditional sources of funding are challenged as governments, businesses and foundations struggle to meet rising community needs. A core program area for the Center is Community Development Philanthropy, where our team helps your community, region or state build a community wealth road map. Our Transfer of Wealth (TOW) research offers insight into possibly the greatest opportunity to tap new, significant and sustainable funding streams in support of growing better and stronger communities. For many communities and regions, TOW research can help jump start important conversations leading to greater community giveback.

The Center has conducted TOW studies for clients around the nation for more than 10 years, and has published a book titled, *Transfer of Wealth in Rural America: Understanding the Potential, Realizing the Opportunity, Creating Wealth for the Future.* More product offerings are planned under our Community Development Philanthropy area.

To learn more about the Center's history and program areas, go to www.energizingentrepreneurs.org.