Local Community Foundations at Work:

A Guidebook for Montana

Miss Montana Scholarship Contestants in Mikoshika State Park, Glendive CommunityFoundation

Bozeman Schools Foundation, Gallatin Valley Land Trust

Montana is well known for its independence and rural community pride. When a town is impacted by wildfire or a family is devastated by illness, community members rally with a swift call to action. Neighbors demonstrate the ability to assemble and share resources when the need arises.

Frederick Harris Goff, an attorney in Cleveland, shared a similar vision in 1914 when he created America's first community foundation. His goal was to create a way for charitable donors to create a legacy that would continue to provide resources beyond the donor's lifetime. In addition, he desired a mechanism for people of modest means to pool their contributions with the intent of large-scale philanthropic impact.

With dwindling federal and state resources, many communities are considering the establishment of a community foundation as a vehicle to fund specific projects, design a future, manage resources, and facilitate leadership. This guide provides an outline for forming a new community foundation as well as methods for improving an existing foundation.

MONTANA STATE UNIVERSITY EXTENSION

4605

What is a community foundation?

A community foundation is a non-profit organization within a geographically-designated area that pools local resources to improve the quality of life within a community. More specifically, community foundations are non-profit public charities that manage charitable endowments and grant funds back to a community or region.

Local boards reflective of the area that they serve govern community foundations. These boards are responsible for using private and public donations to make a coordinated investment in an effort to build endowments.

This form of philanthropic leadership enables communities to combine donations to develop projects that are chosen and implemented by community members. As a result, local residents leave a lasting legacy to future generations.

A community foundation is not managed by other organizations, charities, or government entities. A community foundation remains focused on the "community" rather than the special interests of specific groups and individuals. Further, the community foundation defines its own geographic boundaries. The identity of a rural community does not always correspond with a defined barrier such as a county line. Instead, a community may be defined as "the valley" which consists of a few unincorporated towns rather than a larger city.

Everyone involved in creating a community foundation must understand the meaning and function of endowed funds well enough to be able to explain the idea to the entire community. Six characteristics are described below to help define community foundation "funds" or endowments.

It is important that a community foundation understand the difference between fundraising and asset development. Fundraising activities such as community dinners, annual donor campaigns, and silent auctions are beneficial in addressing operating expenditures such as marketing, events, staffing, office space and equipment, training, and professional services such legal, accounting, and financial assistance. In contrast asset development often comes in the form of planned gifts such as bequests, charitable gift annuities, real estate, commodities, or livestock.

How does a community benefit from establishing a community foundation?

There are many ways in which a community can benefit from a community foundation. Several of the more prominent benefits are listed.

Planned Gifts. With an endowment, communities increase the ability to secure funds that address local priorities. A community foundation can accept gifts in the form of cash, stocks, bonds, life insurance policies or property that will transfer to the foundation at some point in the future. It is beneficial to inform certified public accountants (CPA), attorneys, bankers, and investment advisors of the opportunity to gift to your community foundation since they are often asked to advise donors in such transactions.

Glendive Splash Park, Greater Glendive Community Foundation

Outside Resources. A community foundation can also attract outside resources such as corporate gifts, foundation grants, and government funding, or financial awards resulting from legal decisions. This type of structured organization provides a credible venue for managing large financial transactions to benefit the community in situations such as natural disasters, court settlements, or matching funds from other institutions.

Flexibility. A community foundation is an organization with the ability to provide funds as well as accept funds. Other nonprofits in the community may not be eligible to apply for grants because the organizations lack 501 (c)(3) status. A community foundation can assist by serving as a fiscal agent for these "pass-through" funds. As a leader in the community, a foundation can also match organizations with common purpose, resources, and needs in addition to building the capacity of the entire sector through training, networking, and collaborations. To be a fiscal agent, the community foundation must be a 501 (c)(3). The steps for attaining this status are explained later in this document.

With endowments, a community foundation can provide financial resources to community groups without stringent restrictions often associated with government programs. This practice enables a community to have local control and define the parameters of the project. The community decides which issues are the most pressing and how best to support them.

A culture of giving. Establishing a community foundation builds a framework for philanthropy. The success of a community foundation is reliant upon small as well as large gifts. This culture of philanthropy can be nurtured for the future by encouraging youth involvement on foundation boards and organizational activities.

Economic garden. A community foundation helps to build, grow, and manage assets that contribute to the sustainability of a community. Regardless of what happens to government funding or local employment opportunities, an endowment established by a community foundation is permanent and devoted to developing a thriving community. Not only does a community foundation focus on the present, it is structured to provide support beyond the lifetime of any of its founding members.

CHARACTERISTICS OF COMMUNITY FOUNDATION ENDOWMENTS

Forever Funds. A community foundation manages a collection of permanent funds that are dedicated to benefit people, organizations and causes within a specific geographic area. Most community foundations focus on building an "unrestricted" fund, which gives the foundation's board flexibility in how to invest the income to benefit the community.

Of the Community. Individuals, families, organizations, businesses, government agencies and foundations may all contribute to community endowments – once or many times – with contributions that are large or small. Every contribution helps endowments grow in size. The Community Foundation's unrestricted endowment might attract many donations, small and large. Other endowments with more specific purposes may be established by an individual, family or business with large gifts, especially with bequests or planned gifts.

Forever Growing in Value. The total community endowments are invested in a diversified portfolio to maintain its original value and to grow. A small portion of the assets, usually 4-5 percent, is distributed as grants every year.

For the Community. Every year the community foundation uses a portion of investment earnings to make grants or fund activities that support community organizations and causes, or address community issues through special programs, meetings, or leadership efforts. The focus of grants from the unrestricted fund may change from year to year. Grants from "designated" funds or "field of interest" funds may go to the same charities or same causes every year.

Self-Financing. Another portion of the earnings is used to cover administrative fees and costs of investing the assets in the endowment funds.

By the Community. A local board of advisors or board of directors oversees and makes decisions related to the community foundation.

Compared to a Savings Account. An endowment is frequently compared to a savings account that a community might establish for itself. Similarly, the earnings from unrestricted endowments can be used to fund community needs. Unlike a savings account, an endowment is never closed. The community cannot withdraw the initial deposit. An endowment is also different because it does not earn "simple interest." Instead, it is usually invested in stocks, bonds, or mutual funds to generate a higher return over a longer period of time.

What is an affiliate?

Community foundations can choose whether to operate independently or as an affiliate of an existing foundation. Independent community foundations must be designated as a 501(c) (3) tax-exempt organization and are responsible for making investment choices as well as tax reporting. Frequently, this option requires the assistance of legal and financial professionals.

Affiliate foundations rely upon the experience of an existing foundation to manage finances and reporting activities. This leaves time for the community foundation to focus on what its members do best – building assets and leading community enhancement efforts. This is frequently the preferred option for foundations relying on the efforts of volunteers rather than paid staff.

With an affiliate arrangement, a local community foundation raises funds to open an account (fund) with an existing foundation such as the Montana Community Foundation (MCF) or Central Montana Foundation. In turn, the "lead" foundation invests the pooled resources, files documents with the IRS, and reports back to donors. This option transfers most of the legal, regulatory, and financial responsibilities from the local community foundation. As an affiliate, you are subject to the existing foundation's fundraising and grant-making policies. You might also be required to pay a fee to the existing foundation to cover the costs of investing, fund management, and operational expenses.

Links for Learning Garden Project,
Park County Community Foundation

How do we start a community foundation?

To begin, community members organize a group of individuals with an interest in enhancing the community through philanthropic efforts. These individuals should be reflective of the diversity and interests within the community they serve. The assembled group will become either an advisory committee or board members of the community foundation.

Once established, the board should designate the geographic area of the community that the foundation will serve. If a community foundation serves three towns, the board should include members residing in each of those areas. Successful community foundations also recruit members with a variety of professional skills and affiliations such as accounting, investing, nonprofit management, fundraising, leadership, legal expertise, networking, marketing, and communications.

The next step to creating a community foundation is for the community board members to choose an operating status. A community foundation can operate as either an independent foundation or as an affiliate of another foundation.

Independent. The first step to creating an independent community foundation is to draft Articles of Incorporation. The purpose of this document is to satisfy state law requirements for non-profit tax-exempt organizations. The articles identify the organization's name, purpose, and powers and are filed with the Montana Secretary of State's office.

Secondly, community foundations are required to be classified as a 501(c) (3) tax-exempt organization to avoid paying federal taxes and ensure that donor contributions can be claimed as deductible gifts. Additionally, community foundations should also receive documentation that a foundation is a public charity and not a private foundation. This process, from form submission to IRS ruling, can take approximately a year to complete. Independent foundations must also apply for separate nonprofit status with the state. Legal professionals are often used to complete this work.

Affiliates. Although it is an option, local affiliate foundations are not required to obtain tax-exempt status. Instead, some local community foundations work under the 501(c)(3) designation of existing foundations such as Montana Community Foundation or Central Montana Foundation.

Local community foundations wanting to become an affiliate should contact an established foundation. The umbrella foundation will likely provide your group its policies and procedures. This will outline the amount of funds required to open an account with the lead foundation as well as identify any fee structures.

How do we govern?

An effective community foundation board identifies its governing practices through by-laws or policies and procedures. Many of these document templates can be found online or through organizations such as the Montana Non Profit Association, Council on Foundations, or from existing community foundations.

The board's by-laws should define the organization's purpose, location, membership, board of directors' powers and duties, quorum, voting, and dissolution procedure.

A community foundation board must have the power to modify any restrictions or conditions on the distribution of funds, replace any trustee, custodian or agent for breech of fiduciary duty, and treat all funds as assets of the organization. The board must also be able to prepare financial reports for proper submittal. These practices are outlines in by-laws or policies and procedures.

Board members may also choose to adopt job descriptions for volunteers. Specific job descriptions are also beneficial if the organization opts to hire paid staff members.

What are the primary roles of a community foundation?

The role of a community foundation is three-fold: asset development, grant making and leadership.

ASSET DEVELOPMENT. Community foundations create and expand endowments by actively seeking donations such as cash, stocks, bonds, property, life insurance policies, and real estate. These donations may be secured through individuals, families, private foundations, nonprofits, local businesses and corporations. Raising endowed funds is a long-term effort. The annual distributions are used for community support and development. Foundation boards can help donors meet their charitable goals through a variety of fund types. Donors can establish permanent endowments or a temporary "pass-thru" fund. A pass-thru fund is awarded to a charitable organization such as a community foundation and then distributed to other organizations that are implementing community projects.

Considerations for Asset Development

☑ What organizations/institutions are the main competitors for your community foundation in terms of asset development?

- Universities
- Large corporations
- Large nonprofits with planned giving programs
- Nonprofit medical centers

☑ What are the fundraising opportunities in your service area?

- Private foundations for challenge grants
- Large corporations
- Successful businesses with corporate giving programs
- Prominent philanthropists

BOARD GOVERNANCE ACTIVITIES	
Strategic Planning	Develop a vision and mission; identify values and obstacles; set goals and design strategic objectives; monitor progress and document impact.
Member Support	Recruit and elect members and officers; provide orientation training and professional development opportunities; meet regularly; thank volunteers and celebrate successes.
Fiscal Management	Set an annual budget and monitor expenditures; develop a fiscal management policy; evaluate asset development capacity; develop fundraising plan; arrange for financial reviews or audits; adhere to legal requirements.
Administrative Policies	Implement by-laws or operating procedures; create standards for grant making; establish conflict of interest policy and forms; develop a gift acceptance policy; report foundation activities to stakeholders.

FUNDRAISING. Community foundations also engage in fundraising efforts such as special events, annual appeals or memorial gifts. These funds are typically used for operating expenses such as staffing and marketing. However, fundraising activities are also beneficial for increasing community visibility, citizen engagement, understanding of community foundations and endowments, as well as contributions to an endowment.

Considerations for Fundraising:

☑ Develop fundraising goals for the next 1-3 years. Identify how to achieve those goals.

- Endowment building goals
- Operational funding goals
- Grant making, project funding goals

☑ Obtain pledges for a community foundation.

☑ Identify current and prospective donors.

☑ Develop a system for tracking interactions with donors

- Constituent management system
- Donor database software

GRANT-MAKING. Community foundation members and staff live and work in the communities that they serve. They are keenly aware of the community needs and priorities. A community foundation provides grants to nonprofits and community organizations that support a wide variety of programs and projects that enhance the quality of life.

When making grants from donor-designated or field of interest funds, the community foundation honors the intent of the donors when making annual grants. The donors' wishes are stated in legal fund agreements with the community foundation. The foundation board is responsible for ensuring grantmaking adheres to the fund agreements. If the donors' original intention cannot be carried out because of a change in circumstance or because a charitable organization goes out of business, the board exercises "variance power," to change the beneficiary to match, as closely as possible, the donors' original wishes.

Considerations for Grant-making:

☑ Identify potential grantees in your service area.

☑ Describe the type of grant-making you will do in the first 1-3 years.

- Competitive grant cycle
- Strategic grant making (funding for specific programs/projects)
- Provide operational grants to selected nonprofits

☑ Develop an outreach plan to publicize grant opportunities.

LEADERSHIP. Members of successful community foundations are frequently referred to as "change agents" within their hometowns. They use leadership abilities to affect change that results in improved outcomes and conditions for local people as well as organizations.

A community foundation provides a vehicle for community leaders to convene people to explore and understand important issues. Leaders facilitate discussions to find common ground, create goals, and develop action plans to address community needs. The endowments may offer financial assistance to provide solutions to these issues in the form of a grant to a non-profit. The community foundation could also collaborate with other organizations to seek outside funding or to provide resources such as individual time or expertise.

In some communities, non-profits lacking 501(c)(3) status may require assistance from a community foundation in the form of fiscal sponsorship. One example might be a local gardening club that hopes to apply for a grant from a private foundation, but requires a 501(c)(3) status to do so. In this example,

INITIAL FUNDRAISING STRATEGIES	
Board members	Contribute yearly amounts; sponsor private gatherings; encourage friends/family members to provide annual donations, bequests, or in-kind services.
Community Fundraisers	Special events, memorial gifts, and annual appeals.
Founder's Circle	Partner with businesses, nonprofits, banks, rural co-ops, CPAs, attorneys, hospitals, etc. to commit $200-$2000 (or whatever they can afford) each year for 5 years.

the gardening club is likely engaged in a short-term project that would not necessarily benefit from the time and expense of obtaining this status from the IRS. In other instances, a community impacted by a wildfire or a flood may need an organization to rapidly assist with managing funds during an emergency.

Community foundations might also exhibit a leadership role in assisting other non-profits in the area. With its expertise, network, and financial resources, a community foundation may sponsor programs to encourage growth and development of other organizations. Examples may include grant-writing workshops, leadership training, or assistance with board development and governance. The community foundation might also host a lending library that provides books, DVDs, and periodicals to strengthen local non-profits.

It is important to remember that a community foundation may serve as the only neutral organization in a rural community that covers a large geographic area not served by other organizations. A community foundation serves all of its community members and focuses on the area as a whole. It can provide substantial assistance and leadership to people and organizations by hosting community gatherings, celebrations, discussions, and activities.

Adult Basic Education Program, Park County Coummnity Foundation

Considerations for Leadership:

☑ Partner with a local economic development organization
- Local needs, assets, resources

☑ Host nonprofit training opportunities
- Board development
- Leadership

☑ Provide fiscal sponsorship

☑ Identify collaborators
- Funding opportunities

How do we build an endowment?

Once a community determines it is ready to establish a community foundation, volunteers frequently start planning fundraising activities. In many cases, the community foundation is run by volunteers and kicks off with little to no available operating funds. Without an asset development and fundraising plan, the founding board members may easily become overwhelmed, frustrated, and burned out attempting to raise enough money to establish a presence in the community.

Of course, a community presence is required to begin building an unrestricted community endowment. Therefore, community foundation members might instead consider the establishment of a five-year operating budget and set a goal for raising the entire amount at once. With that task behind the group, a community foundation can set its sights on cultivating donor relationships and developing assets to grow an endowment.

Building a large endowment requires patience, hard work, dedication, community connections and donor trust. Once a community foundation establishes funds for operating expenses, the group can focus its attention to its primary role: asset development. A community foundation establishes relationships with donors to develop permanent unrestricted as well as restricted endowment funds. This effort produces the income that is used for providing grants to non-profits for improving the community and addressing local needs.

Establish donor relationships by promoting the community foundation and communicating leadership efforts. The individuals and organizations that assisted with start-up costs might also contribute to the endowment through planned giving options. Provide information to the community and donors about the resulting impacts from the endowment and grant-funded community projects. Community foundations might also consider challenge funds, which provide a match for funds that are raised from other donors. Credibility can also be established by partnering with other groups to accomplish a significant and larger group effort that gains recognition.

Regardless of the source of funds, community foundations must pass the public support test to ensure that the group can maintain its status as a "public charity." If a community foundation receives too much of its support from one individual or business, the group could lose the IRS designation. Therefore, it is important to maintain a broad donor base.

To attract a broad base of community support, a community foundation must be effective, credible and trustworthy. This credibility and trust comes from transparency, sound financial practices and ethical decision-making. Local community foundations can further this effort with continued communication and public outreach such as newsletters, websites, press releases, and donor appreciation letters.

How do we market our community foundation?

When community foundations initiate outreach efforts, it is beneficial to have printed materials available. Brochures and fact sheets communicate to the general public as well as potential donors about how the community foundation and the endowment benefit the area. This material should contain at a minimum: the community foundation's mission, goals, board members, opportunities and process for becoming a donor, grant application process, community priorities, foundation successes and contact information. Additional print materials should include stationary (with group's logo and contact information) to communicate to donors, organizations, professional advisors, and grantees.

A website provides an invaluable resource for marketing and communication. The Community Foundations of Montana Council is developing marketing materials to assist local communities. Although the local community foundations (LCF) will be responsible for the cost of printing materials, the templates are available at no cost. The council's website will also link to all LCF websites throughout the state, providing the general public and potential donors the opportunity to learn more about individual community foundations and make contributions.

Facebook and other social media outlets provide an inexpensive way to have a web presence. Potential donors must have an easy way to get information about your organization anytime. It's important to tell what the foundation is accomplishing with the money that donors give. That means posting regular stories about new grants, projects, outcomes from past grants or projects, new donor stories, new leadership initiatives, new funds you have opened, and more.

Considerations for Marketing and Outreach:

☑ Develop a marketing and outreach plan

- Brochure
- Public open house
- Individual meetings with community leaders/ prospective donors
- Press release for media
- Website
- Facebook

☑ Network with other nonprofits to address concerns about potential competition

☑ Collaborate with Community Foundations of Montana Council

Big Brothers/Big Sisters of Gallatin County, Bozeman Area Community Foundation

How does a community foundation benefit donors?

An estimated 83 percent of Americans give to charity when they are living. However, only five percent provide a bequest following their death when their wealth is no longer needed. A planned gift allows donors to maintain access to income during their lifetime and builds permanent wealth for a chosen charity. By contributing to an endowment, donors gain an opportunity to experience philanthropic giving, create a lasting legacy, and receive tax benefits. With a contribution to an endowment, a donor impacts the community beyond his or her lifetime. An endowment allows a community to thrive for many generations. In rural Montana, that may mean that a community continues to exist and does not become an addition to the state's list of ghost towns. In other cases, it could ensure that a community sustains its arts and cultural resources or that it provides its youth with opportunities to return to their childhood community to work and raise a family.

Planned gifts assist a donor in a number of ways including: avoiding or stretching out payment of capital gains taxes, earning federal and state income tax deductions, reducing the size of the donors estate, and if given to a qualified Montana endowment, the donor may be eligible for the Montana Endowment Tax Credit. When donors contribute a planned gift to a qualified Montana endowment, it results in a reduction of Montana state income taxes. In 2013, donors were qualified to deduct 40 percent of the gift's charitable value, up to a maximum of $10,000 tax credit per year per individual. Businesses can receive a credit of 20 percent of a direct gift to an endowment, up to a maximum of $10,000 in the tax credit per year.

Thrive Dynamic Dads event,
Bozeman Area Commnity Foundation

The Montana Endowment Tax Credit was enacted in 1997 as a means to increase charitable giving to qualified endowments. According to the Montana Department of Revenue, the endowment tax credit generated$123 million from 1997 to 2010. A planned giving calculator is available as a resource at www.mtcf.org.

The community foundations that currently offer planned giving programs to donors are Billings Community Foundation, Bozeman Area Community Foundation, Flathead Community Foundation, Montana Community Foundation and Whitefish Community Foundation.

Farmers and ranchers can reduce taxable income by donating gifts of grain or livestock to a local community foundation. If a producer transfers legal ownership of the grain or livestock to a charity before it is sold, he or she may deduct production expenses and reduce the total amount of taxable income. Prior to making any charitable gifts, donors are encouraged to contact a tax advisor as well as the designated charity.

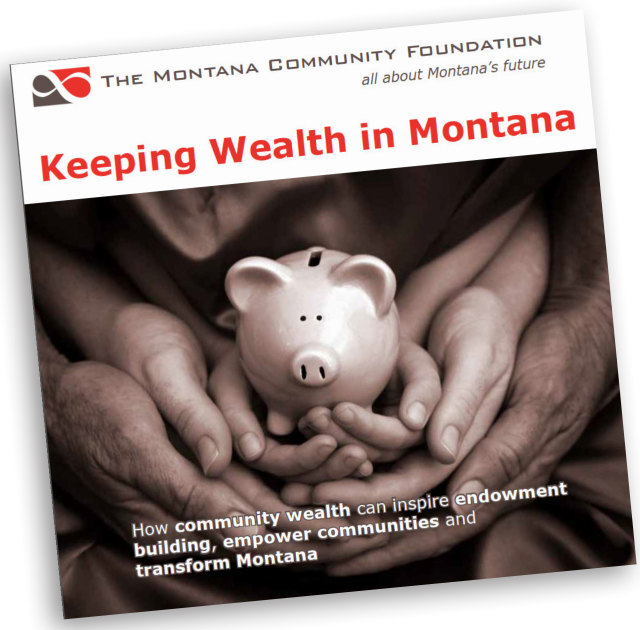
What impact does the Transfer of Wealth Study have on rural Montana?

A recent study funded by the Montana Community Foundation indicates that $12 billion will transfer to the next generation from 2011 to 2020. If five percent of that amount is endowed, and granted, the result would be $31 million each year for Montana communities.

In Montana communities, many residents are 65 and older. By 2030, it is estimated that 25 percent of the population will fall into that demographic category. This is driving an urgency to preserve a portion of wealth for rural Montana communities. While most aging Montanans live near their birthplace, many of their heirs live and work outside the state. As the transfer of wealth occurs, much of the estimated $31 million dollars will leave the state if it is not preserved in an endowment.

Local community foundations can determine the amount of wealth that will transfer in each community within the next 10 years by visiting the Montana Community Foundation website at www.mtcf.org. The Transfer of Wealth Study will also provide community foundations information regarding the amount of money that could be generated each year by creating an endowment with five percent of the available wealth. The amount of wealth in the communities is changing each year. In the case of many counties, that is due to increased property values and other economic situations like the oil boom in rural counties of eastern Montana.

By taking advantage of opportunities associated with the transfer of wealth, Montana communities can be built by design, rather than by default. Local community foundations can play a vital role building and sustaining their towns with financial resources and leadership capacity.



How do we build capacity in rural communities?

Assistance is available to communities desiring to start or increase the capacity of local community foundations in Montana. In 2012, the Montana Community Foundation, Montana State University Extension and the Anaconda Development Corporation collaborated to receive a $150,000 grant from the USDA for three years. The purpose of this grant is to provide technical assistance and training to local community foundations throughout the state and train MSU Extension agents about community foundation development.

Montana State University Extension and Montana Community Foundation each provide matching funds and staff to assist local communities and their foundation efforts. Incentive grants and a certificate are available to community foundations that complete a strategic plan, engage in a cumulative total of 100 hours of training, and host a Transfer of Wealth Event by September 2015. Community foundation resources, training schedules, and webinars are available at www.cfmontana.org and msucommunitydevelopment.org/rcdi.

MONTANA STATE UNIVERSITY EXTENSION