

HOW TO USE A COMMUNITY FOUNDATION

Barbara McInnes, President & CEO, Community Foundation of Ottawa

WHAT IS A COMMUNITY FOUNDATION?

A Brief History

"A community foundation is a simple but ingenious concept...a registered charity that pools large and small gifts and places them in a community endowment fund, the income from which is distributed in support of charitable causes." This description is taken from a 1996 report to the House of Commons from the Standing Committee on Finance.

Said to be the fastest growing form of philanthropy in North America, the idea has clearly taken off, but it is not new. The originator in 1914 was Frederic H. Goff, a Cleveland banker and lawyer who started the Cleveland Foundation. He found himself administering a number of trust accounts left in previous generations by generous people whose causes had become defunct or irrelevant. At the turn of the century it was a fine idea to leave large sums for the perpetual care and feeding of retired milk horses. But what was a trustee, committed to respecting the donor's intent, to do when all potential beneficiaries had gone on to the giant pasture in the sky?

Mr. Goff developed the idea of a community foundation as a way to ensure that the purposes of perpetual endowments could be varied over time to meet changing needs. The community foundation would be vested with a variance power to use funds for other purposes, as close as possible to a donor's original intent, should that purpose become obsolete. Thus the foundation could avoid costly court proceedings, continue to carry out the donors' wishes and benefit the community in perpetuity.

These foundations would not themselves provide direct charitable services but would, instead, award grants from the charitable trust funds to charities in the community that could best carry out donors' interests and meet community needs. Grantmaking decisions would be made by a volunteer, community based Board of Governors, who would be appointed because they were representative of the general public and for their knowledge of community needs and the charities that address those needs.

Vision, Mission and Values

The Community Foundation of Ottawa is a trusted centre for community philanthropy. We accomplish this by:

- *Being known and respected as an independent resource for addressing issues and by connecting donors with granting opportunities;*
- *Playing a major role in enhancing the nature and scope of philanthropy, primarily in the local community, but also nationally and internationally; and*
- *Expanding both the assets and the number of expected gifts, including endowments, for future generations to support changing issues.*

We earn the community's respect and support by being innovative and flexible and by maintaining the highest standards of excellence, efficiency and accountability in all of our endeavours.

Community Foundations in Canada – Some Facts

Community foundations are one of the fastest growing and most dynamic networks dedicated to building and strengthening communities in Canada. There are now 154 Canadian community foundations, with combined assets of \$2.3 billion. During 2005, they made over \$115 million in grants to support local and national causes across the country.

Governments and business are increasingly turning to charities to take up some of the biggest challenges of the 21st century, including job creation, redistributive social welfare and building a sense of community.

Community Foundations Today

Today, although the role of community foundations has been greatly expanded, the central feature remains attracting and managing permanent endowments. These funds, for a wide variety of philanthropic causes, are entrusted to the care of a group of living trustees, vested with the authority to vary the purposes in order to ensure the legacy remains relevant.

There are now nearly 700 community foundations in the U.S. holding combined assets of approximately \$39.4 billion. Canadians, always willing to borrow a good idea, didn't take long to adopt this one. The Winnipeg Foundation was started in 1921 and now has assets of \$383 million. The largest Canadian community foundation, in fact the largest foundation of any kind in Canada, is the Vancouver Foundation, started in 1943 and now holding assets of \$694 million.

What do community foundations do?

- Pool the charitable gifts of many donors into permanent, income-earning endowment funds that benefit local communities and meet donor objectives.
- Make grants from the earnings of these funds to support a wide range of local initiatives in various sectors - from health, education and social services to arts and culture and the environment.
- Provide leadership to their communities by bringing people together from all sectors to identify and address issues and opportunities.

Who gives to community foundations?

All kinds of people. Many types of gifts - cash, stock, artwork and insurance - are contributed to community foundations. Donors can choose to support their hometown broadly or designate favourite causes or charities. Flexibility is key. Community foundations provide many services to donors to help them make the most of their charitable gifts.

Many charities also place their endowment funds with community foundations in order to ensure perpetuity and benefit from enduring, professional endowment management expertise.

How are community foundations structured?

Each community foundation is autonomous, accountable to the community it serves. It provides a way for the community's assets and decision making to be retained locally. As a way of ensuring that the foundation will be well managed today and into the future, there is usually a governing body appointed by an outside committee made up of the incumbents in positions of responsibility and influence.

For example, in Ottawa, the Nominating Committee is chaired by the Governor of the Bank of Canada. The other members include the Regional Senior Justice, the Mayor of Ottawa, the President of the Greater Ottawa Chamber of Commerce, the President of the Public Service Commission, the Chair of the District Health Council, the President of Carleton University, the Rector of the University of Ottawa and the presidents of the two community colleges on a rotational basis.

This group meets once each year. Collectively, they select people of integrity and ability to form the Board of Governors whose members serve, without compensation, terms which are limited to three years, renewable once. The Board hires and oversees the CEO who is responsible for the day to day running of the Foundation.

WAYS TO USE A COMMUNITY FOUNDATION

Kinds of Funds

Donors to community foundations generally establish different kinds of funds, any of which can bear the donor's name or memorialize a family, an individual or a cause:

- *Community Funds* ensure adequate flexibility to meet emerging opportunities and address issues of importance as they change over time. These funds make grants possible in areas not adequately covered in a particular year by designated and advised funds. In this way, the community foundation balances its overall support to the community in all its diversity. A person who wants to give a certain amount to charity each year or by way of a planned gift or bequest, but has no cause especially close to his/her heart, might do so through a community fund.
- *Field of Interest Funds*. The donor identifies a general area such as music education, health or environmental causes and leaves it to the foundation to select the particular grantees.
- *Advised Funds*. The donor or a designated individual or group, advises the foundation each year on which grants are to be made and in what amounts.

The Effectiveness of Informed Generosity

People want to be generous, but increasingly they insist that their generosity be well informed. The community foundation Board and staff are knowledgeable about community needs and resources, including those non-profits that are doing the best work to meet that particular community's challenges. Foundations find that donor advised funds often work best when the advice goes in both directions.

"Just as we are willing, as a state and as individuals, to invest in traditional infrastructure like roads and sewers, so we should be willing to make a commitment to organizations that uphold our values of compassion, social justice and generosity, organizations that put people first."

André Picard, A Call to Alms: The New Face of Charities in Canada

- *Designated Funds* are for donors who want to support a particular organization and wish that support to extend beyond their lifetime. Within this category are several types, including organizational endowments and scholarship funds.

Kinds of Gifts

Nearly every kind of asset can be contributed to a community foundation. Most non-cash gifts are liquidated immediately and the proceeds transferred to the investment portfolio. Variations are possible, within the confines of the law, depending on the nature of the asset and the wishes of the donor. Flexibility and responsiveness are the basis of the gift acceptance policies of most community foundations.

With one notable exception, the whole variety of planned giving vehicles can be used to establish a fund at a community foundation. The one exception is annuities, which are considered a form of debt. In Canada, public foundations are precluded from incurring such debt obligations.

REASONS TO USE A COMMUNITY FOUNDATION

Community foundations are not the object of donors' philanthropy but provide the vehicle to fulfill their charitable objectives. Thus community foundations are not competitive but develop their assets for, and in cooperation with, all the charitable causes that go to make up a community's quality of life. The community foundation's role is as neutral broker in support of other charities.

Community foundations don't fundraise in any usual sense; rather they attract wealth. The major focus is planned giving, gifts of assets rather than income. Professional advisors are key to introducing clients to this form of giving.

Following are some of the ways in which a community foundation can be particularly useful to clients of professional advisors.

Donor Advised Funds

One of the reasons for the growing popularity of community foundations is the donor advised fund. Such funds enable the donor to establish a fund at the local community foundation and advise the foundation on how (s)he wants grants to be awarded - thus the name. The foundation ensures that the organization is a charity in good standing with Canada Revenue Agency (CRA) before approving the recommendation. It then sends the organization a cheque with a cover letter indicating the purpose of the grant and the name of the fund from which it was made and/or the donor, upon whose advice it was made. The foundation can also protect the donor's name, should (s)he wish to preserve anonymity.

Donor advised funds enable people to centralize and streamline their charitable giving. They can make a single charitable contribution to the community foundation, take the tax deduction for that one gift (a single receipt) and make distributions from the fund at a later time. Grantmaking from the fund can be spread over a period of months or years.

An Alternative to a Private Foundation

Starting up a private foundation requires the donor to create a new organization, establish a board of trustees, obtain registered charitable status from CRA and report regularly. A fund at a community foundation is far easier and faster to establish and entails no start-up costs. This advantage often becomes apparent at year-end, when people want to enjoy the tax saving advantages of charitable contributions but are not certain which charities they would like to support. They can establish a fund at their community foundation quickly, often in the course of a single, brief meeting and take the tax deduction for the amount contributed to the fund. These donors can then take their time deciding where they wish to focus their giving from the fund. The knowledge and experience of community foundation staff can be tapped to help with these decisions, which can be made over the course of months or years.

Maintaining a donor advised fund at a community foundation is usually more cost effective than running a private foundation and the problem of intergenerational succession is resolved. In addition, community foundation donors are free of the responsibility for monitoring grants made and for fulfilling national and provincial reporting requirements on grants. The community foundation staff handles all those tasks.

One man's story

On the occasion of his retirement, Mr. X established a donor advised fund at the Y Community Foundation to support empowerment, education, cultural enrichment and welfare of all people, especially marginalized segments of the population. He seeded his fund with the assets of his private foundation, which he then dissolved.

"I knew about the costs of running a private foundation and, following my retirement, I knew I wouldn't have the resources to help with all the paperwork. I also wanted more money to be available to address the causes I'm interested in," he said. "But I didn't want the direct involvement in grantmaking decisions, and I want my daughters to continue the family tradition of charitable giving after I am gone."

"I was also concerned about how best to perpetuate my own charitable interests," he added. "With a private foundation, run by family members or others, there is no clear, predictable outcome two or three generations from now. But with the community foundation, the giving pattern is institutionalized. I can be certain that the community foundation will provide both continuity and perpetuity for my interests."

Community foundations retain staff who can assist donors in several other ways as well:

- *research the best organizations working in the donor's field of interest.*
- *make recommendations on particular funding proposals and opportunities.*
- *organize site visits so the donor can meet a prospective grantee's leaders, observe the services being provided and make an informed decision about whether or not to support the group.*
- *host meetings for donors to interact with one another and share experiences and ideas.*

Recent legislative trends in Canada have tended to discourage contributions to private foundations. Some gifts, such as private company shares, while not acceptable for a private foundation, are welcomed by community foundations and can be used to establish an advised fund in the donor's name.

Philanthropy for All

Community foundations truly belong to the community they serve. Though they appeal to the wealthy, they are not just for the rich. Through a community foundation, philanthropy is accessible and available to all. Most gifts come from people of modest means. Most community foundations permit a donor to establish a fund with as little as a few thousand dollars. In Ottawa, the minimum size of a named fund is \$5,000. This can be built over time, through annual contributions or added to with a deferred gift such as life insurance or a bequest.

Guarantee of Perpetuity and of Perpetual Relevance

The donation is retained, pooled with other funds for investment purposes, protected from inflationary erosion, with the net earnings disbursed annually in support of the organization(s) and/or cause(s) specified by the donor. Should the organization or cause close or become defunct, the Community Foundation Board ensures the earnings are diverted to a current need, as close as possible to the original purpose.

This means, for example, that a donor can make an endowed gift for AIDS research, in hope of an eventual cure but without fear that when that happens, his fund will no longer serve a useful purpose. Should AIDS be eradicated, the Board would exercise its authority to act on

behalf of the "dead hand". In doing so, in the absence of alternative instructions from the donor, they would direct the earnings to research into a then-current health issue, one that may have emerged after the donor's lifetime.

In this way donors can have their names linked forever to the kinds of causes they cared about during their lifetime. Those generous gifts for retired milk horses would be kept viable in support of current animal welfare issues.

The community foundation option also appeals to people who wish to support a particular organization but only for a specific period of time. For example, the XYZ Family Fund earnings can be directed to support the ABC organization for 25 years. After that time, the fund becomes an unrestricted Community Fund, allowing the Board of Governors to make grants to new and emerging causes in the local community.

Consolidate the Giving

A planned gift is generally made only once, often during a general financial or estate planning exercise. Most people support a variety of organizations and causes. A single gift can be used to establish a community foundation fund, the income from which can be directed to a number of beneficiaries, general or specific. Mrs. Bigheart's single life insurance policy can be used to establish the Bigheart Family Fund. The earnings can be designated to support her alma mater, her father's church, health care research and local programs for children living in poverty. She can even specify in what proportions each of these will share her fund earnings.

Benefit a Cause rather than a Particular Organization

A community foundation allows the donor to make a deferred gift to a cause such as children or the arts or even the community in general. This obviates the requirement to specify particular organizations which, over time, may not be viable or well managed. Some may not even be around by the time the gift is realized, after the donor's lifetime.

Preserve Anonymity

In what may be a particularly Canadian phenomenon, many donors, especially those who give large amounts, prefer to have no public acknowledgement, especially during their lifetime. By giving through the community foundation, they are anonymous to the public and, if requested, to the ultimate recipients of their philanthropy.

The Community Foundation of Ottawa is a unique non-profit organization established to enable generous citizens to enhance the quality of our growing city's life and to achieve their own charitable objectives through permanent, well-managed endowments.

"We think of a philanthropist as someone who donates big sums of money, yet the word literally means 'love of humankind'. All of us are capable of being philanthropists.

Edward Lindsay

Cost Effectiveness

The foundation looks after the paperwork for the funds under its care, ensures conformance with government regulations, makes the official reports, does the accounting and undertakes annual audits. The costs are kept low by a variety of means such as subsidies, donations and its own endowment fund earnings. In Ottawa, a modest service fee, capped at 1.5% (2% for Scholarship funds), is charged to the funds. As the assets grow, the fee is generally reduced as it can be spread over a larger pool.

Endow Another Charity

As a service, most community foundations manage the endowment funds of other charitable organizations. This is a benefit to the charity in that it provides for professional investment management, guarantees permanence, pools the funds with others for cost efficiency and participation in a broader portfolio with improved prospects for investment performance. In addition, it removes the endowment as an asset in the organization's books and protects it from potential creditors.

Donors who are considering making a gift to endow their favourite charity like the idea that the fund will be held within the community foundation for the perpetual benefit of the charity. This gives them confidence in the fund's permanence (future boards will not be able to succumb to the temptation to "borrow" from it), flexibility and sound management. They know that their fund can live beyond the organization or the cause and that it relieves the charity of an administrative burden. People who love the local ballet company may be reluctant to give it a large sum of money when solid financial management is not one of its ongoing strengths.

Of Special Appeal to Ottawa's Venture Community

In the rarified world of Silicon Valley North, the community foundation can offer some specialized opportunities in "venture philanthropy":

- ♦ *acceptance of gifts of stock and stock options, often the main assets of today's high tech worker.*
- ♦ *opportunities to learn about philanthropy and how to give money away, something the newly wealthy entrepreneur may not have had a chance to learn at home.*
- ♦ *assistance with developing process and guidelines for corporate giving programs.*
- ♦ *relieving individuals and corporations of the administration burden of running a foundation while retaining for them the benefits and joy of giving.*

8
"Community foundations are generous, creative and community minded. There is something essential about a community itself saying: 'This is what matters. This is how we want to enhance our quality of life.' In many ways we provide the venture capital for those desires and dreams."

Monica Patten, President,
Community Foundations of
Canada

- ♦ *providing the ultimate status symbol – beyond the yacht and the Lamborghini to the Mr. and Mrs. Cybergiver Fund.*

Conclusion

In small and large communities across North America, professional advisors, planned giving officers, financial estate planners are assisting community foundations to build charitable endowments. In fact, many have been instrumental in starting their community foundation, just as Gordon Henderson did in Ottawa. There are many opportunities for professional advisors to collaborate with their community foundation, to the mutual benefit of both and for the larger benefit of the community as a whole.

“To give away money is an easy matter in any man’s power. But to decide to whom to give it and how much and when, and for what purpose and how, is neither in every man’s power – nor an easy matter. Hence it is that such excellence is rare, praiseworthy and noble.”

Aristotle