

cf INSIGHTS



Do More than Grow

Realizing the Potential of
Community Foundation Donor-Advised Funds

the **James Irvine** foundation
Expanding Opportunity for the People of California




COUNCIL *on* FOUNDATIONS

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About The James Irvine Foundation

The James Irvine Foundation is a private, nonprofit grantmaking foundation, with offices in San Francisco and Los Angeles. The Foundation was established in 1937 by James Irvine, a native Californian who devoted most of his life to business interests in San Francisco and to the development of his 110,000-acre ranch in Southern California, which was among the largest privately owned land holdings in the state. Since 1937, the Foundation has provided over \$1 billion in grants to more than 3,000 nonprofit organizations throughout California. With about \$1.6 billion in assets, the Foundation made grants of \$65 million in 2011 for the people of California.

About the Council on Foundations

The Council on Foundations (www.cof.org), formed in 1949, is a nonprofit membership association of grantmaking foundations and corporations. Members of the Council include nearly 1,800 independent, operating, community, public and company-sponsored foundations, and corporate giving programs in the United States and abroad. The Council's mission is to provide the opportunity, leadership, and tools needed by philanthropic organizations to expand, enhance, and sustain their ability to advance the common good.

About the Community Foundations Leadership Team (CFLT)

The Community Foundations Leadership Team provides strategic direction for the community foundation field and enables members to act effectively in their own behalf and on behalf of philanthropy as a whole.

About CF Insights

The idea behind CF Insights is simple: What if *each* community foundation could know what *all* community foundations collectively know? Created by community foundations, CF Insights responds to a hunger for shared knowledge and greater impact among U.S. community foundations. CF Insights believes community foundations grow stronger when their decisions are based on timely, accurate, and complete information. Through CF Insights, community foundations improve performance and sustainability — individually and collectively.

About FSG

FSG is dedicated to discovering better ways to solve social problems, and it operates as a nonprofit consulting firm specializing in strategy, evaluation, and research. Celebrating more than a decade of global social impact, FSG was founded in 1999 as Foundation Strategy Group, by Harvard Business School Professor Michael Porter and Mark Kramer. In partnership with the Council on Foundations and the Community Foundations Leadership Team, FSG has been a driving force for CF Insights since its inception.

About the Authors and Research Team Members

The following CF Insights and FSG team members contributed to the creation of this report:

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Advisory Group

An Advisory Group of community foundation practitioners and experts provided vital counsel for this project. CF Insights sincerely thanks them for their guidance and ideas.

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Research Participants

Figure 1: States Represented by Participating Community Foundations

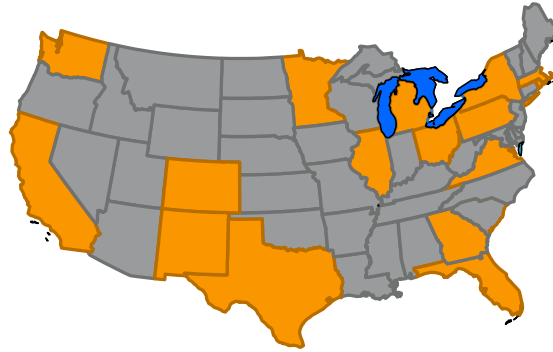


Figure 2: List of Participating Community Foundations

| Community Foundation Name | State | Total Assets (\$M) | DAF Assets (\$M) |
|--|-------|--------------------|------------------|
| The Community Foundation for Greater Atlanta | GA | \$737 | \$372 |
| The Boston Foundation | MA | \$860 | \$368 |
| The Chicago Community Trust | IL | \$1,583 | \$369 |
| The Greater Cincinnati Foundation | OH | \$447 | \$160 |
| The Cleveland Foundation | OH | \$1,795 | \$131 |
| East Bay Community Foundation | CA | \$361 | \$161 |
| Community Foundation of Greater Flint | MI | \$140 | \$3 |
| Gulf Coast Community Foundation | FL | \$207 | \$26 |
| Hampton Roads Community Foundation | VA | \$246 | \$61 |
| Kalamazoo Community Foundation | MI | \$314 | \$30 |
| Kern Community Foundation | CA | \$13 | \$5 |
| Minnesota Philanthropy Partners | MN | \$872 | \$376 |
| Napa Valley Community Foundation | CA | \$22 | \$10 |
| The New York Community Trust | NY | \$1,909 | \$821 |
| Community Foundation of North Texas | TX | \$147 | \$100 |
| The Philadelphia Foundation | PA | \$301 | \$60 |
| The Pittsburgh Foundation | PA | \$820 | \$147 |
| Rancho Santa Fe Foundation | CA | \$42 | \$9 |
| The Rhode Island Community Foundation | RI | \$606 | \$107 |
| The Community Foundation Serving Riverside and San Bernardino Counties | CA | \$58 | \$8 |
| Rochester Area Community Foundation | NY | \$235 | \$75 |
| Rose Community Foundation | CO | \$254 | \$22 |
| Sacramento Region Community Foundation | CA | \$96 | \$54 |
| The San Francisco Foundation | CA | \$1,100 | \$401 |
| San Luis Obispo County Community Foundation | CA | \$33 | \$10 |
| Community Foundation Santa Cruz County | CA | \$48 | \$13 |
| Santa Fe Community Foundation | NM | \$39 | \$12 |
| The Seattle Foundation | WA | \$622 | \$209 |
| Silicon Valley Community Foundation | CA | \$2,082 | \$942 |
| Community Foundation of Sonoma County | CA | \$147 | \$30 |
| Ventura County Community Foundation | CA | \$98 | \$12 |

Source: Columbus Survey 2011 (2010 for The Community Foundation Serving Riverside and San Bernardino Counties).

1. Executive Summary

The story of Donor-Advised Funds (DAFs) for community foundations is one of great growth and value to date, but also one of significant unrealized potential and ambivalence about strategic intent.

DAFs have represented a major change in community philanthropy. Over the last 10 years, DAFs have grown at more than 10 percent annually and currently constitute more than 50 percent of contributions and grants at community foundations

This study on the strategic value of DAFs was made possible with support and leadership from The James Irvine Foundation, the Council on Foundations, the Community Foundations Leadership Team, and 31 diverse community foundations that together represent approximately one-third of the DAF assets held by the community foundation field. The effort involved an unprecedented level of data collection and quantitative analysis on more than 6,100 individual funds and their activity from 2000 to 2011. This analysis was complemented by qualitative information gathered from a survey and from conversations with participating community foundations about aspirations, policies, and practices.

The research sheds light on what community foundations are hoping to achieve through their DAF programs and to what extent these aspirations are realized. The findings also provide a way to imagine the unrealized potential of community foundation DAFs and to frame important questions and challenges for the future.

The goal for this effort is to help each community foundation pursue greater impact by achieving strategic clarity with respect to the value of DAFs in their community and by closing the gap between aspirations and practice.

What Are Your Aspirations?

Community foundations have ambitious aspirations for the value of DAFs. Although individual community foundations have distinct views, and there is some ambivalence about aspirations, shared perspectives emerged.

Community foundations expect DAFs to **Do More than Grow**, to varying degrees expecting DAFs to:

- serve as an entry point to grow flexible assets that benefit the community,
- promote grantmaking to local organizations,
- grow grantmaking dollars,
- align grantmaking in support of community priorities and actively partner to address needs,
- increase future grantmaking by building endowment while also supporting grantmaking today, and
- contribute to sustainability, generating a surplus to support other areas, or at least covering costs.

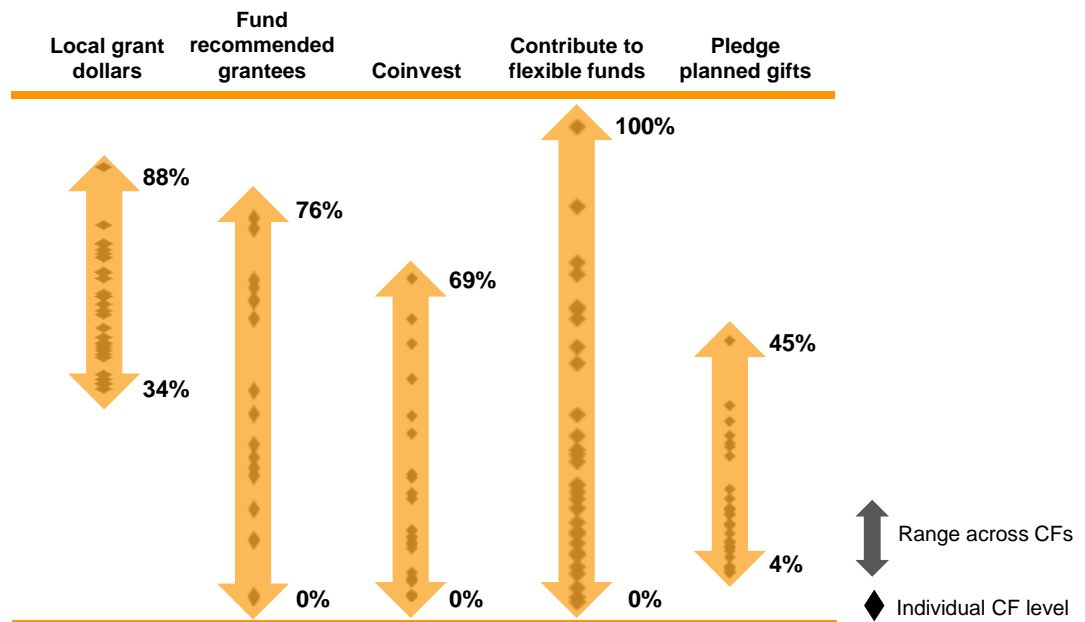
What Are Your Results?

Community foundations are realizing some of the potential value of DAFs. For every aspiration, there is some evidence of success.

There is also a greater opportunity to capture strategic value from DAFs. There are community foundations that are able to achieve results which may be surprising to their peers. And many of the top achievers believe there is room to reach higher. The range of results for donors' local grantmaking, supporting recommended grantees, coinvesting, contributing to flexible assets, and pledging planned gifts is shown in Figure 3.

Figure 3: The Range of Results Seen across Community Foundations

Percent of Donors Who Are Granting Locally or Are Philanthropically Engaged



Notes: Statistics refer to the percent of donors participating in a certain activity over the life of the fund. The dots represent the data points for individual CFs, while the arrows represent the range of results that we saw across all the CFs.

The study also found a gap between aspirations and practice. Across the participants, community foundation policies and practices are not always aligned with a clear strategic intent. In simple terms, many say “we are not fully doing what we say we want to do.” Some community foundations are uncertain about how to translate what they value into a clear strategic intent, and many are transitioning from one set of aspirations to another.

What Gets Results?

What are the organizations at the top of the range doing? Organizations that demonstrated unusual results shared two characteristics: a focus on sending clear messages to donors and a focus on execution. At the same time, the gap between aspirations and what current policies and practices enable community foundations to achieve means that there are no “best practices” to assert. No community foundation participating in the study believes that they have maximized their results. As always, there is much more to learn from one another and from organizations outside the field and much more room for innovation.

Figure 4: The Significant Relationships between Practices and Results

Significant Relationships Observed between Practices and Results

| | Fund recommended grantees | Coinvest | Contribute to flexible funds | Pledge planned gifts |
|---|---------------------------|----------|------------------------------|----------------------|
| Getting personal with donors | + | | + | + |
| Increasing relationship intensity | + | + | + | + |
| Getting donors to participate in committees or events | | | + | + |
| Giving personalized advice to donors | + | + | | |
| Strongly encouraging contributions to flexible funds | | | + | |
| Strongly encouraging planned gifts | | | | + |
| Maintaining a smaller scale DAF program | + | + | | |

Challenge to the Field

The study findings suggest several critical questions for the field, as well as a set of challenges that must be met in order to tap the full potential of DAFs to have an impact. These questions and challenges are in themselves not new, but the data suggest that a renewed focus is needed in order to realize the aspirations expressed by community foundations.

Critical Questions for the Field

1. How do DAFs contribute to achieving community foundation goals for impact in the community?
2. How is a DAF at a community foundation positioned as a differentiated and uniquely valuable offering?
3. How does a community foundation focus on specific types of DAF donors in order to establish the most valuable relationships and achieve its goals for impact in the community?

Challenges to Meet

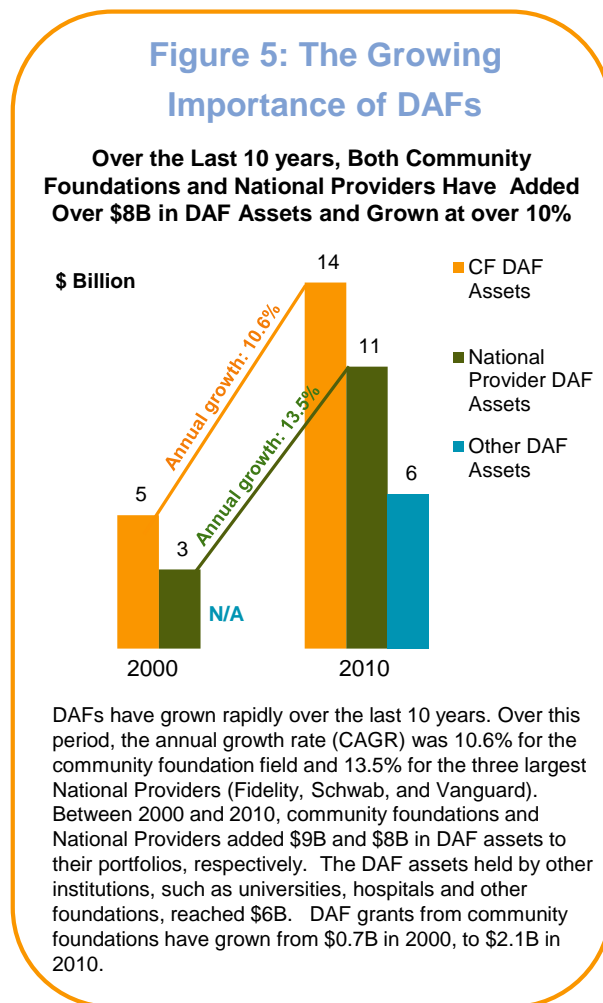
1. **“Reach higher.”** Don’t stay in the middle of the road, trying to straddle many different aspirations. Identify the value that DAFs represent in your strategy and aim for excellence in achieving specific aspirations.
2. **“Don’t try to be all things to all people.”** No organization can do all things at once or do all things equally well. Competing for growth on any terms is not the answer, and undermines the strategic value of DAFs to community foundations and to DAF donors. It’s important to know which individuals, families, and organizations are the right donors for your strategy and goals.
3. **“Own it!”** Community foundations need to seize upon their unique competitive positioning by aligning their policies, practices, and messages to external constituents. This means communicating a differentiated identity in the marketplace that clearly conveys priorities to the right potential donors. These messages will be different for every community foundation.
4. **“What gets measured gets done.”** Community foundations need to define results they care about, set targets, track progress, and learn and improve based on their performance.

The DAF “X-ray”

These challenges are framed both for the field and for each individual community foundation. Diagnostic tools and discussion questions at the end of the report are designed to help community foundations consider the role of their DAF program in achieving goals for the community. Individual community foundations can use the tools to “X-ray” current priorities and future opportunities. With support from CF Insights, community foundations can use data to support decision making and ongoing management of their DAF programs.

2. Introduction

The story of Donor-Advised Funds (DAFs) at community foundations today is one of great growth and value to communities, but also one of significant unrealized potential and questions about how DAFs contribute to goals for community impact.



In a growing market, community foundation DAF assets have grown rapidly, and so has community foundation DAF grantmaking. Figure 5 outlines the growing importance of DAFs¹.

Growth in DAFs has happened alongside a shift in many community foundations' perspectives about their role and purpose, creating new ambitions for impact and community leadership.

Ten years ago, it was common to hear the following refrain in debates about the focus of community foundations: "Donor choice is the new model for community foundations. We need to reconfigure our foundation to serve donors' needs."

Today, the conversation about focus is centered on how community foundations can achieve impact through leadership in the community. At the same time, community foundations now support thousands of active donors through DAFs. Many desire to reconcile their approach to managing DAFs with the focus on leadership.

¹ Sources: National Provider DAF Assets: Information provided by Fidelity, Schwab, and Vanguard. CF DAF Assets 2000: "A Flexible and Growing Service to Donors: Donor-Advised Funds in Community Foundations," Luck & Feurt, 2002. CF DAF Assets 2010: Columbus Survey. Other DAF Assets 2010: "2011 Donor Advised Funds Report," National Philanthropic Trust

The challenge is to translate the ambitions held by community foundations into a clear strategic positioning and to seize the opportunity to create greater strategic value from DAFs, to **Do More than Grow**.

CF Insights and FSG believe that community foundations will meet this challenge more effectively when armed with research and facts. This effort to gather the facts was made possible with support and leadership from The James Irvine Foundation, the Council on Foundations, the Community Foundations Leadership Team, and 31 diverse community foundations. Together, these 31 community foundations represent approximately one-third of the DAF assets held by all community foundations.

The contributions of these organizations have enabled us to study the following questions:

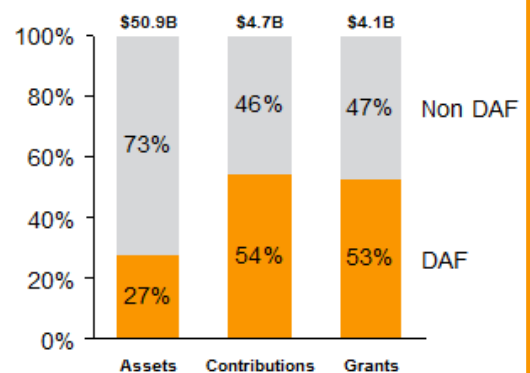
- **What are your aspirations?** How do community foundations define the strategic value of DAFs?
- **What are your results?** To what extent are DAFs at community foundations creating strategic value?
- **What gets results?** How are community foundations pursuing strategic value? What policies and practices are effective?

For the first time, there are data to answer these questions. The data show ample evidence of the upside of community foundation partnerships with donor advisors and glimmers of what could be. However, the data also show a gap between aspirations held by community foundations and the reality of current practices with respect to DAFs.

The goal for this effort is to help each community foundation pursue greater impact by achieving strategic clarity with respect to the value of DAFs in their community and by closing the gap between aspirations and practice.

Figure 6: Importance of DAFs for Community Foundations

DAFs Represent a Significant Proportion of Community Foundation Activity



DAFs have represented a major change in community philanthropy. As early as 1996, DAFs accounted for more than one-half of community foundation grantmaking* and this continues to be true today - DAFs currently represent 53% of community foundation grants and 54% of community foundation contributions. In 2010, DAFs held by community foundations accounted for \$14.2B in assets.

3. Methodology Overview

This study involved an unprecedented level of data collection and quantitative analysis on more than 6,100 individual DAFs active as of 2011 and analysis of longitudinal trends extending 12 years, from 2000–2011.

The data were analyzed:

- at the community foundation level to understand the results for individual organizations and differences across the field (sample of n=31 community foundations),
- at the fund level to understand donor behavior and trends over time (n= 6,119 DAFs),
- at the grant level to understand trends in giving over time (n=332,687 DAF grants), and
- at the planned gift level to understand what gifts were being realized (n=344 planned gifts by DAF donors).

The quantitative information was complemented by data gathered from a qualitative survey of community foundation aspirations, policies, and practices and from conversations with all of the participating organizations.

For more details about the methodology, see Appendix B.

4. How Do Community Foundations Position DAFs Today?

FSG and CF Insights think about strategic philanthropy as both creating value beyond the dollar amount of the grant and pursuing efforts to **Do More than Give**². At the outset of the study, community foundations were asked, “What makes DAFs strategic for community foundations?” Participants gave a variety of responses, with most reflecting some ambivalence about the purpose and strategic value of DAFs.

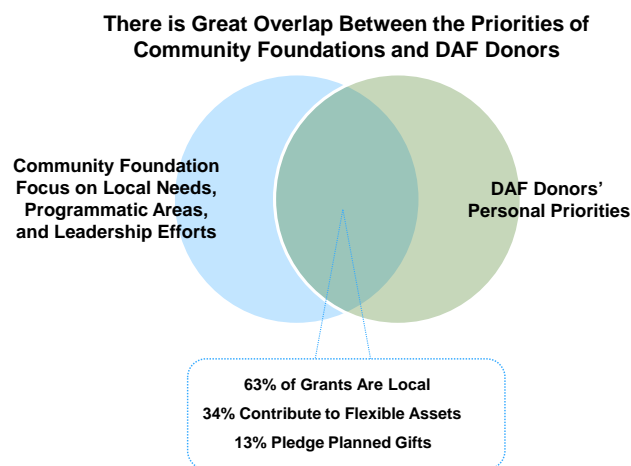
“We imagine that DAFs are a gateway, but we’re not really clear to what.”

“I’m not sure I know what we mean when we say we want DAFs to have ‘strategic’ value.”

“A lot of us work with donors that are doing fantastic work through their DAFs, but it might not be aligned with our community leadership work. So in some ways we want to do both – we also want to enable donors to do their thing.”

Despite some ambivalence about the specifics, community foundations recognize the potential of existing relationships with DAF donors. Conceptually, these foundations embrace the idea of working together with donors to fulfill a common purpose and passion. Figure 7 illustrates this mutually supportive relationship and some of the benefits that the data shows currently accrue to community foundations.

Figure 7: Overlap Between the Priorities of Community Foundations and DAF Donors



² Leslie R. Crutchfield, John V. Kania and Mark R. Kramer, *Do More Than Give, The Six Practices of Donors Who Change the World* (Jossey-Bass, 2011)

However, community foundations have not always been clear in how they should respond to the growth of the DAF market. Competition has raised the game but also distracted from the unique capabilities and positioning of community foundations. Messages about donor flexibility and cost-effectiveness have outshone important messages about philanthropic engagement and opportunities to build a stronger community. And, the focus on serving donors well has too often been interpreted as serving *any* donor well.

“In the 1990s we were very focused on improving donor services, and that consumed us. Today we are in a different place focused on our leadership role in the community, and the DAF focus needs to shift too.”

“Our real value is in making our communities better but we sometimes feel stuck in the role of promoting a commercial product for donors.”

After months of analysis and numerous conversations with community foundations, we learned that the hope for DAFs is that they **Do More than Grow** — as expressed through a variety of very tangible aspirations.

5. What Are Your Aspirations?

What does it mean for DAFs to **Do More than Grow**?

In beginning to answer this question, community foundations participating in the study — and beyond — were asked to share their stories about high-value DAF relationships. We were flooded by responses describing DAF donors who create strategic value and represent the types of powerful DAF relationships that leverage the community foundation’s unique capabilities and local focus. Below are three stories, chosen from more than one hundred submitted.

Encouraging others to give to overlooked areas

—a donor story from the Communities Foundation of Oklahoma

Having moved away, one donor family **uses grantmaking through their fund to stay connected to their home state of Oklahoma**. They support social services and arts & culture in rural areas often overlooked by other grantmakers. The donors have been especially **engaged with the community foundation** – serving on the Board of Governors of the foundation, attending events, and inspiring their community of Duncan, Oklahoma, to grow philanthropic assets. The donors have been so successful that matching grants made from the DAF have raised enough money to **help 16 rural communities create regional affiliates**. Their grants have also helped 250 charitable organizations establish endowment funds to sustain their work, and they have **granted over \$3M to local Oklahoma issues**.

Bringing entrepreneurial spirit and personal expertise to achieve social impact

—a donor story from The Rhode Island Foundation

One proactive donor who had a lucrative, successful business, took an early retirement, and brings an **innovative and entrepreneurial mindset in his giving**. The donor is passionate about education and environmental issues and **supports environmental education** through his grantmaking. The donor and his family have sought hands-on experience, working directly with the recipient nonprofit organizations of their grants. The donor **targets programs with the potential for systems change**, and currently focuses efforts in **underrepresented communities that are striving to improve the educational outcomes** of students. The donor often looks to the community foundation as a resource. Through the foundation, he has become engaged with a wider philanthropic community in Rhode Island. Through matching his interests with the community’s needs, the partnership with the community foundation has generated **over \$80,000 of strategic co-investments**. He has offered significant additional funding to several community organizations he learned about through the community foundation. The strong relationships the donor has forged with staff at the foundation and greater philanthropic community enable all involved to broaden their experience with strategic partnerships, and focus on becoming more nimble and effective grantmakers.

Bringing communities together and rebuilding after a disaster

—a donor story from the Silicon Valley Community Foundation

From day one, one family of donors focused on their vision for philanthropy: to encourage mindfulness and **to build strength and resilience** in our community. One way these donors live their vision is by supporting family and friends' giving to issues and organizations they are passionate about. This approach was dramatically illustrated when the family, saddened to learn about a **fire that destroyed a local school's 19-classroom building**, wanted to help. By offering to match contributions, they inspired others — individuals, community groups, and corporations as far away as London — **to co-invest with them in rebuilding the school**. Ultimately, the match **raised more than \$140,000** to ensure that the San José Trace Elementary School was able to once again serve its young students.

Moving beyond individual donor stories, participating community foundations were asked to reflect on their aspirations for DAFs. Through a survey instrument, each was given a range of choices that represent a variety of possible tradeoffs. The image below shows the average aspirations held by 31 community foundations, as represented by the seedling. The community foundations were also asked to provide a self-assessment of the reality today, defined as “the degree to which current policies and practices are designed to help achieve these aspirations.” The average response on this second self-assessment is represented by the year “2012” in Figure 8.

Figure 8: Overview of Strategic Intents and Current Reality Across all Participants



To varying degrees, community foundations share five aspirations for their DAF programs. DAFs should:

- **serve as an entry point to grow flexible assets that benefit the community,**
- **promote grantmaking to local organizations,**
- **grow grantmaking dollars,**
- **align grantmaking in support of community priorities and actively partner to address needs,**
- **increase future grantmaking by building endowment while also supporting grantmaking today, and**
- **contribute to sustainability, generating a surplus to support other areas, or at least covering costs.**

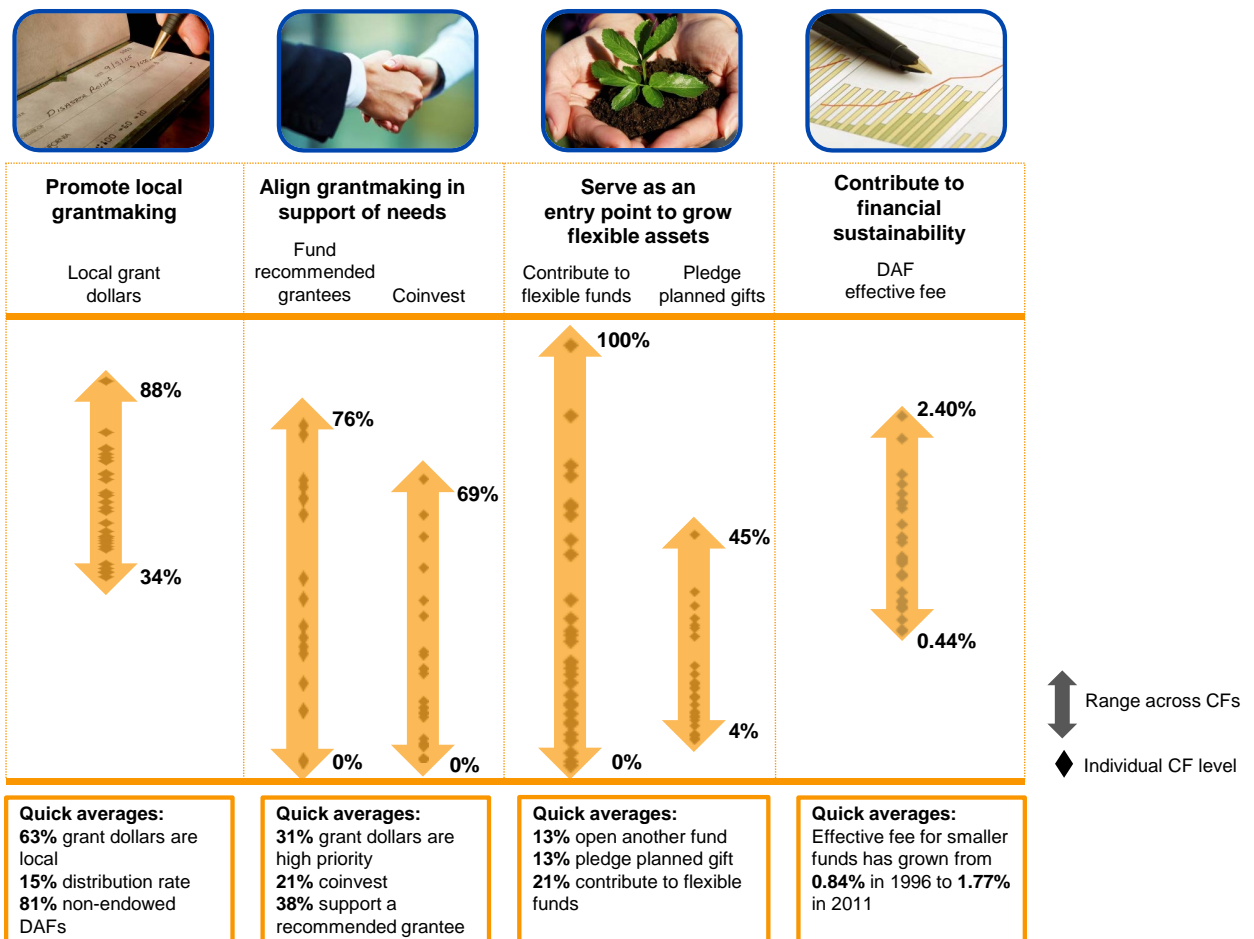
Although there is variety in individual responses, the strongest perspectives shared by the foundations are that DAFs should be positioned as an entry point to grow more-flexible assets and as a way to support grantmaking to local organizations. Many community foundations expect DAFs to support grantmaking today and also help build assets to grow grantmaking for the future. Economically, the common aspiration is for DAFs to break even or generate a surplus, but this is an area where responses varied widely. Most community foundations share an aspiration to align DAF grantmaking with priorities identified by the community foundation. However, this is the area with the largest gap between aspirations and today's reality.

There are gaps between aspirations and the current reality for each strategic intent. Probing further, there are multiple reasons for this. Some participating foundations attribute gaps to uncertainty about how to translate what they value into a clear strategic intent, and many note that they are transitioning from one set of aspirations to another. The gap may also be a reflection of questions that many community foundations have about their overall identify and strategy, not isolated to their thinking about the value and role of DAFs.

6. What Are Your Results?

Community foundations are realizing some of the potential value of DAFs today. For every aspiration, there is evidence of success. The data collected by the participating community foundations reflect what they have been able to achieve. They also provide examples of promising practices that can help other community foundations realize their aspirations.

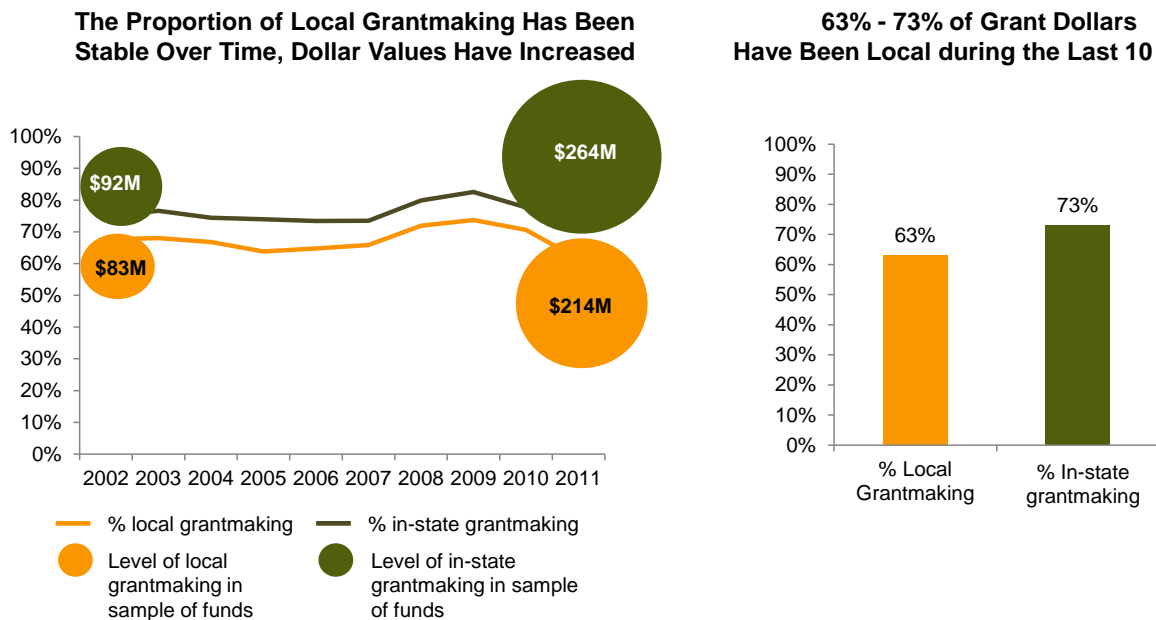
Figure 9: Overview of Results



Do DAFs contribute to local grantmaking?

- 63 percent of DAF grant dollars have gone to local organizations. The value of local grants, \$214M in the sample of funds analyzed in 2011, has grown by 10 percent annually over the last 10 years, while the proportion of all grant dollars going to local organizations has remained the same.³
- 73 percent of DAF grant dollars have gone to organizations located in the same state as the community foundations. The percentage of in-state grant dollars has likewise remained stable over the last 10 years.
- The distribution rate, defined as total grants divided by total assets, is 15 percent across the participants, and in some cases community foundations have worked with DAF donors during the economic downturn to maintain or increase funding to important local grantees.
- 81 percent of DAFs are *not* endowed and make grants more actively than endowed funds that follow a spending policy, which contributes to the high levels of local grantmaking observed.

Figure 10: Local Grantmaking

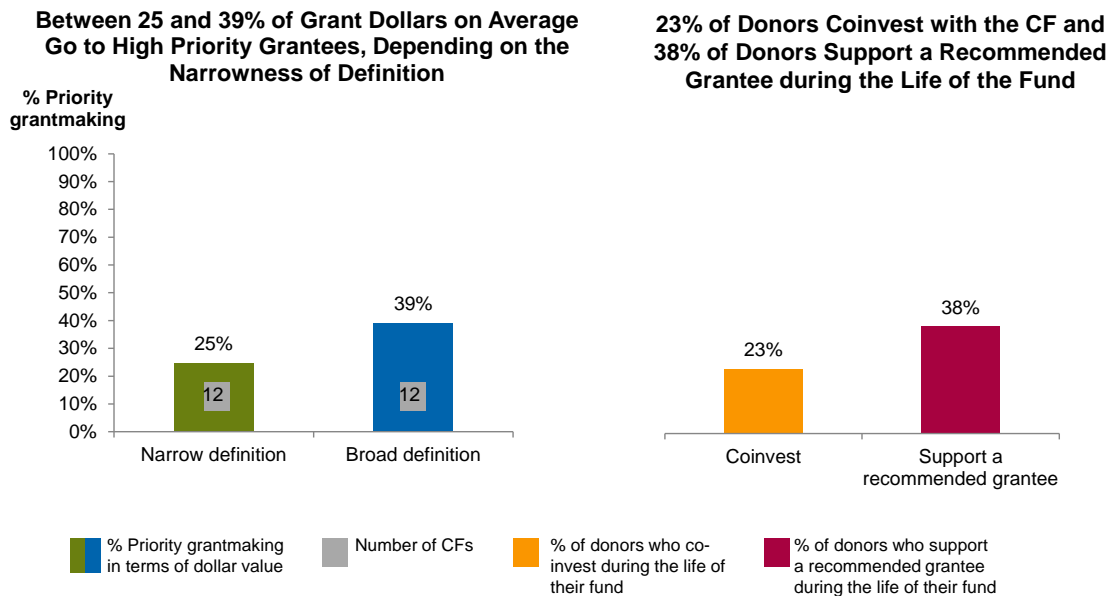


³ Each community foundation defined its own local service area, ranging from a county to an entire state.

Do DAFs align grantmaking in support of community priorities and actively partner to address needs?

- 31 percent of DAF grantmaking is designated as aligned with community foundation priorities based on an analysis of grant dollars over the last 10 years — though many community foundations have a hard time designating what they would view as “high priority.” Community foundations that defined their priority areas narrowly⁴ saw 25 percent of their grant dollars benefiting those organizations, whereas community foundations that defined their priority areas broadly saw 39 percent of their grant dollars benefiting those organizations.
- 23 percent of DAF donors coinvest or participate in a matching grants program at some point during the life of their fund, looking across all funds in the study.
- 38 percent of DAF donors support a recommended grantee during the life of the fund, looking across all funds.

Figure 11: Aligned Grantmaking

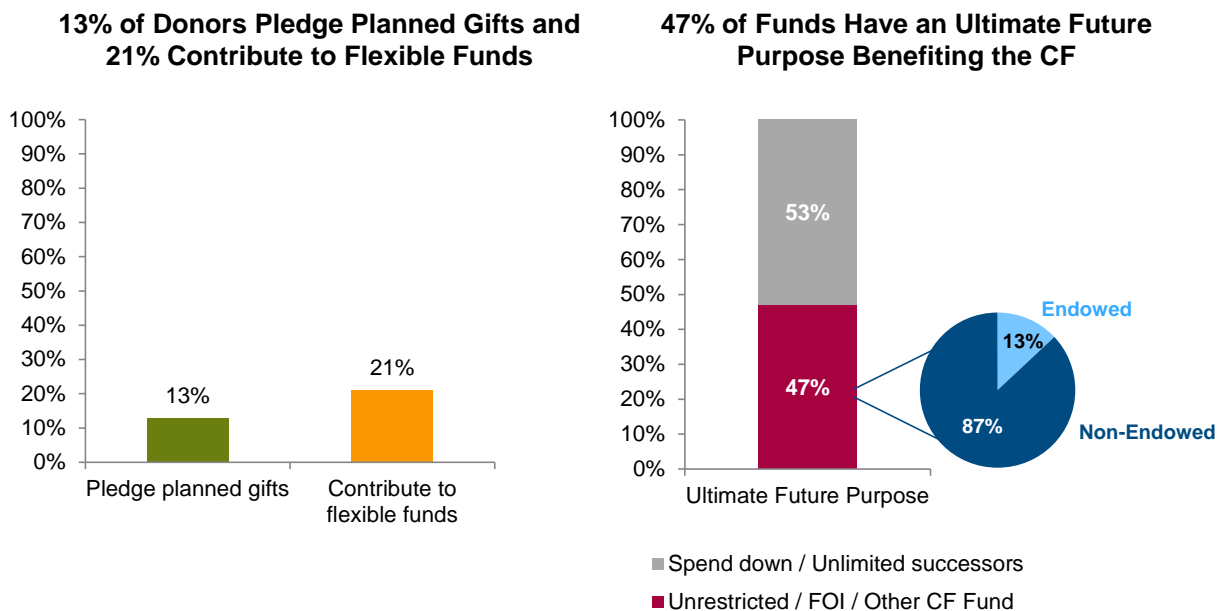


⁴ Note: Participants were asked to explain the narrowness of their definition of high priority grantees. Responses were categorized into “very narrow”, which was defined as only including organizations that the community foundation had made grants to from their unrestricted pool of funds, to “very broad”, which was defined as including broad categories such as “health”, “education” and “environment”.

Do DAFs serve as an entry point to build flexible assets that benefit the community?

- 13 percent of DAF donors have opened another fund at the community foundation
- 21 percent of DAF donors have made contributions to flexible funds at the community foundation, such as operating funds, leadership funds, or field of interest funds at least once over the life of their funds.
- While planned giving is a high priority, only 13 percent of DAF donors have pledged a planned gift, and pledges today are poorly tracked.
- What is tracked suggests that there is significant potential in these pledges. DAFs are leading to pledged gifts that amount to \$1 for every \$3 in DAF assets. The estimated average size of these pledges is \$2.2M.
- Considering only the assets held in DAFs, 47 percent of funds have an intended future purpose for the remainder of the DAF dollars to benefit an unrestricted, field of interest, or other fund advised by the community foundation. It should be noted, however, that only 13 percent of these funds are endowed, so the amount remaining in these funds at the time the ultimate future purpose comes into play is uncertain.

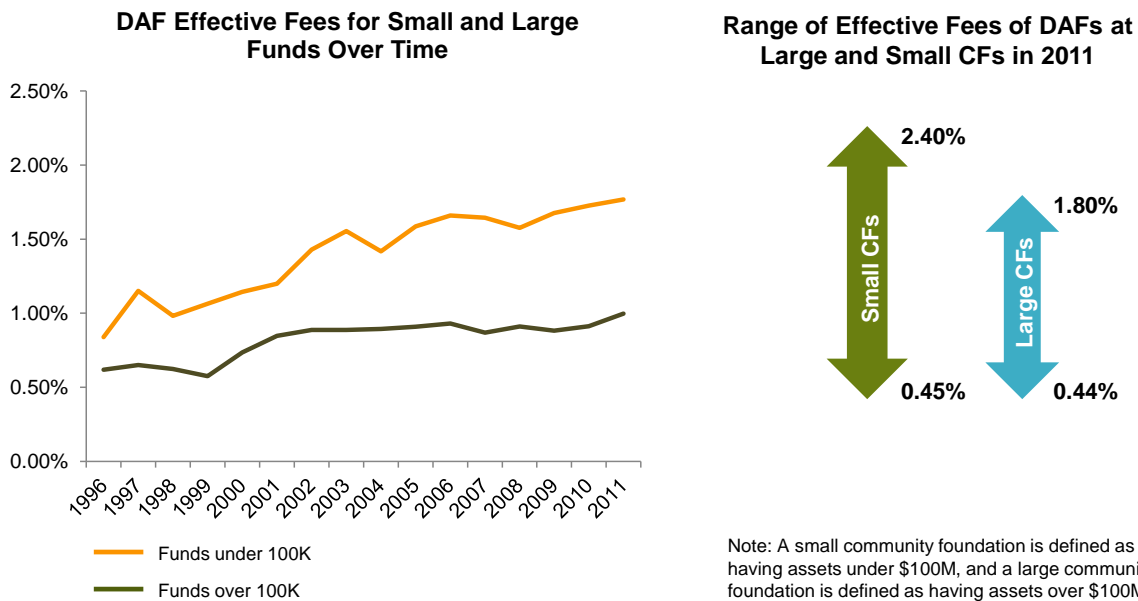
Figure 12: Contribution to Flexible Assets



Do DAFs contribute to the sustainability of the community foundation?

- In 2003, an analysis by FSG focused on nine community foundations that struggled with difficult economics of their DAF programs⁵. Most of these programs were unable to fully cover their cost. Over the last 10 years, the reality has shifted and the economics are more positive. Today, the majority of larger community foundations who have participated in Activity-Based Costing analyses with CF Insights are breaking even or generating a contribution from their DAF program. CF Insights observes a strong relationship between the fee charged for fund administration and the ability to break even or generate a contribution.
- The DAF analysis reveals that community foundations have been asking DAFs to make larger contributions to support operations by raising effective fees. The effective fees (which include both administrative and investment fees) range significantly across community foundations. The fees for smaller funds have grown much higher, from 0.84 percent in 1996 to 1.77 percent in 2011, while fees for funds over \$100K have grown from 0.62 percent in 1996 to 1.00 percent in 2011. Interestingly, the fee charged appears to be a choice that community foundations have made independent of scale. There is no relationship between the effective fee charged and the scale of the DAF program, testing this relationship by defining scale as DAF assets under management, average fund size, or the staff intensity of DAF portfolios.

Figure 13: DAF Effective Fees for Small and Large Funds over Time



⁵ *Strengthening Community Foundations: Redefining the Opportunities*, FSG, 2003

7. What Misconceptions Do We Need to Dispel?

In considering the growth and strategic value of DAFs, there are many hypotheses that drive decisions today, and many community foundations risk drawing the wrong conclusions based on anecdotal information or experiences with a small group of donors.

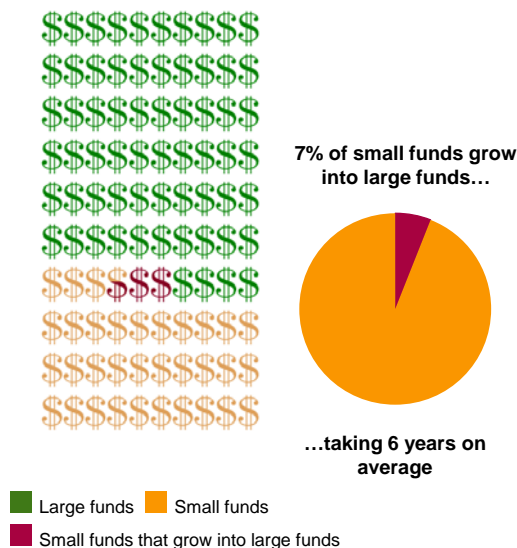
A broader analysis of the data in the study reveals that several common hypotheses are challenged by the facts. In other words, the data do not show a correlation between choices made and the behavior of donors. In practice, donor behavior is complex and driven by many factors. Each of these hypotheses warrants deeper research, but these initial conclusions represent important insights.

Hypothesis: Smaller funds will grow over time

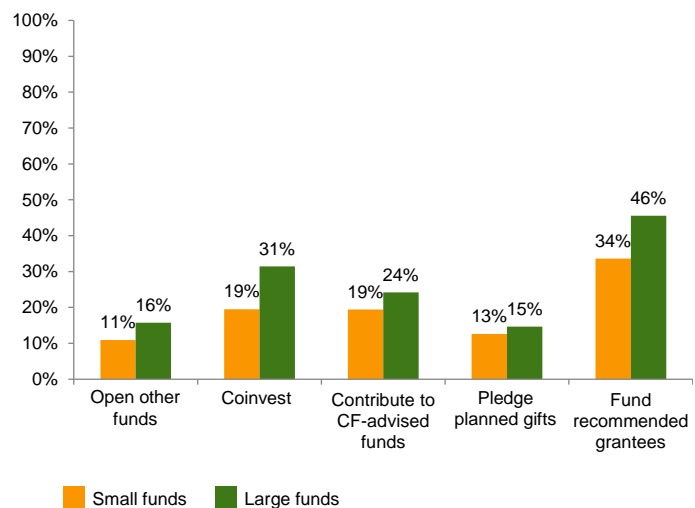
What the data say: The vast majority of small funds do not grow into big funds, and small funds also tend to be less philanthropically engaged with the community foundation. Only 7 percent of DAFs that start with less than \$25K in assets grow to over \$100K over 10 years. The data does reveal that the small group of “growers” grow visibly, adding dollars gradually and achieving an average fund size of more than \$700K in just over 6 years. The growth of small funds is not correlated with personal engagement, and there is no evidence that efforts to spend time with these donors results in fund growth.

Figure 14: The Value of Small Funds

36% of DAFs Start as Small Funds and Only 7% of These Small Funds Become Large Funds



Larger Fund-Holders Are More Philanthropically Engaged

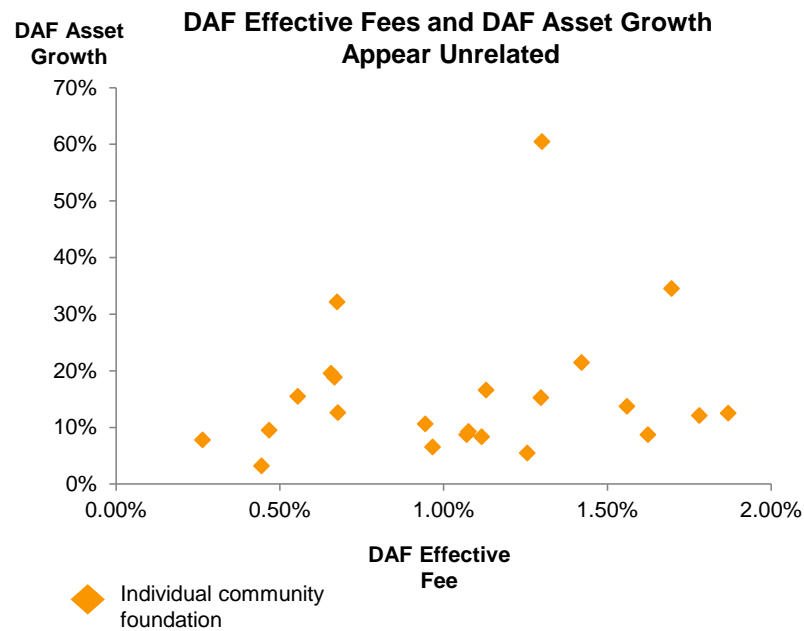


Note: A small fund is defined as having assets under \$25K, and a large fund is defined as having assets over \$100K.

Hypothesis: Higher fees slow growth

What the data say: The effective fee⁶ charged does not have a negative effect on the DAF asset growth rate. There is no significant relationship between the DAF asset growth rate and the effective fee charged by the participating community foundations.

Figure 15: DAF Effective Fees and Growth

**Hypothesis: Management by successor generations weakens engagement**

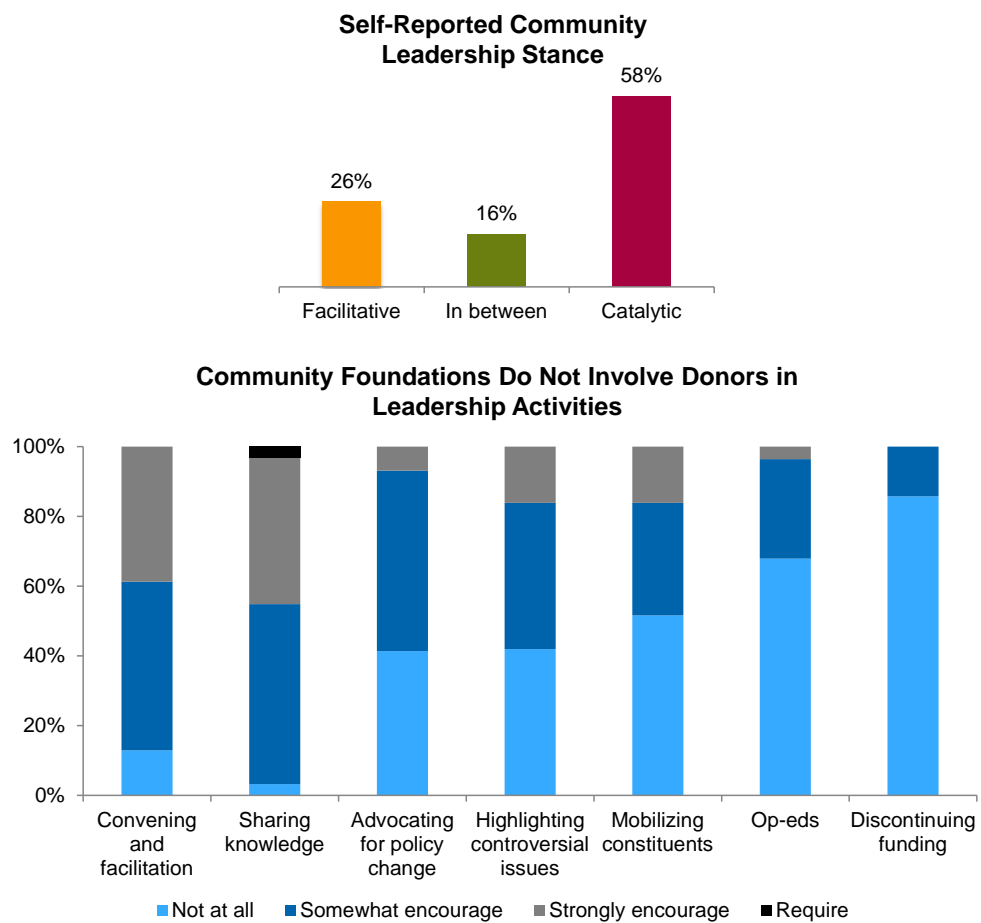
What the data say: The local giving and philanthropic engagement of successor advisors does not differ from first generation donors (though there is limited data on this trend given that only 5% of the funds represented by the study participants are managed by successors).

⁶ The DAF effective was calculated by dividing the DAF administrative and investment fees by DAF assets.

Hypothesis: Provocative leadership attracts donors...Provocative leadership repels donors

What the data say: Community foundations that view themselves as playing catalytic and advocacy-oriented leadership roles and those with a facilitative stance are growing DAF assets at similar rates and experience similar rates of donor participation in planned giving and aligned grantmaking. For the participating community foundations, there is no correlation between the leadership stance of the community foundation (as determined through a self-assessment) and key DAF program statistics including: the rates of DAF asset growth, planned giving by DAF donors, and aligned grantmaking. The data point toward one possible explanation for this finding. Few community foundations strongly encourage DAF donors to get involved in leadership work, raising questions about the degree to which donors are aware of leadership efforts or see an impact on their own priorities.

Figure 16: Community Leadership



Note: A facilitative leadership stance is defined as focusing on attracting and channeling donor funds and taking a neutral stance on community issues. A catalytic leadership stance is defined as aiming to solve social problems and taking sides on community issues using a broad array of advocacy tools.

8. The Opportunity

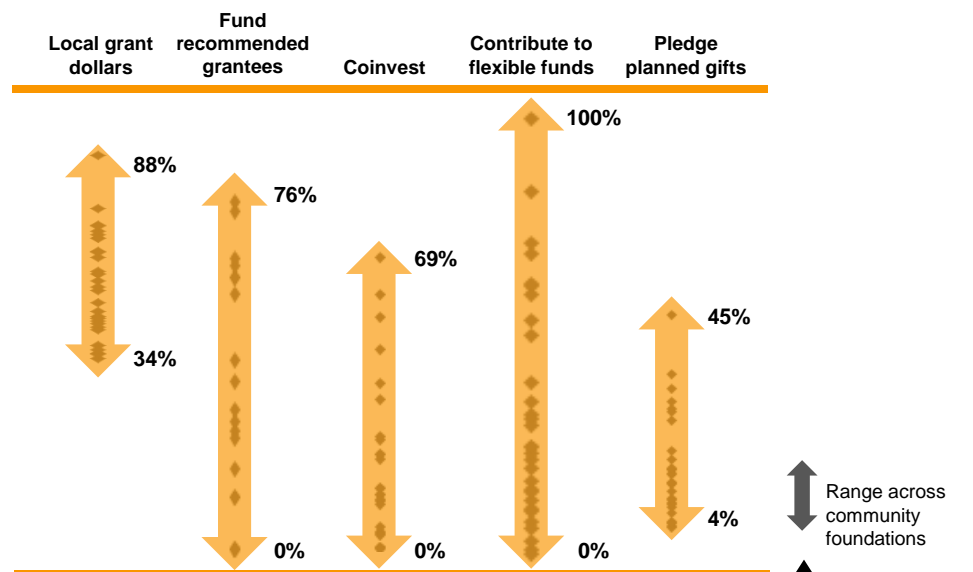
Taken together, today’s results are encouraging — there is already some alignment between the purpose and the passion of community foundations and donors, and this manifests itself in many different ways. However, much more opportunity exists to capture value from DAFs and DAF relationships. Community foundations of all sizes, from \$13M to \$2B, managing programs that range from 36 DAFs to 1,300 DAFs, in rural and in metropolitan areas across the United States, all believe that more can be done.

“We are just at the start of the journey — the higher expectations we have for DAFs are recent and our strategies are new.”

Data on the extent to which donors pledge planned gifts, participate in coinvestment or matching grants initiatives, or support recommended grantees show that some community foundations are able to achieve at much higher levels than is currently typical (Figure 17). And many of the top achievers believe there is room to reach higher. Finally, for all foundations there is room to close the gap between aspirations and practice.

Figure 17: The Range of Results Seen Across Community Foundations

Percent of Donors Who Are Granting Locally or Are Philanthropically Engaged



Note: Statistics refer to the percent of donors participating in a certain activity over the life of the fund. The dots represent the data points for individual community foundations, while the arrows represent the range of results that we saw across all the community foundations.

9. What Gets Results?

There are some things we now know about what works to realize aspirations. At the same time, given the gap between aspirations and practice, there is much more room for innovation, learning from one another, and learning from outside the field.

One fact that stands out about current policies and practices is that a minority of community foundations strongly encourage or require donors to take steps toward any of the professed aspirations. For example, less than half of community foundations claim to strongly encourage donors to leave a planned gift, and only two community foundations in the study require donors to align a portion of their grantmaking with community foundation goals. Despite this somewhat tentative approach to achieving results, what are we able to say about practices today that do get results?

Figure 18: The Significant Relationships between Practices and Results



| | Align grantmaking in support of needs | | Serve as an entry point to grow flexible assets | |
|---|---------------------------------------|----------|---|----------------------|
| | Fund recommended grantees | Coinvest | Contribute to flexible funds | Pledge planned gifts |
| Getting personal with donors | + | | + | + |
| Increasing relationship intensity | + | + | + | + |
| Getting donors to participate in committees or events | | | + | + |
| Giving personalized advice to donors | + | + | | |
| Strongly encouraging contributions to flexible funds | | | + | |
| Strongly encouraging planned gifts | | | | + |
| Maintaining a smaller scale DAF program | + | + | | |

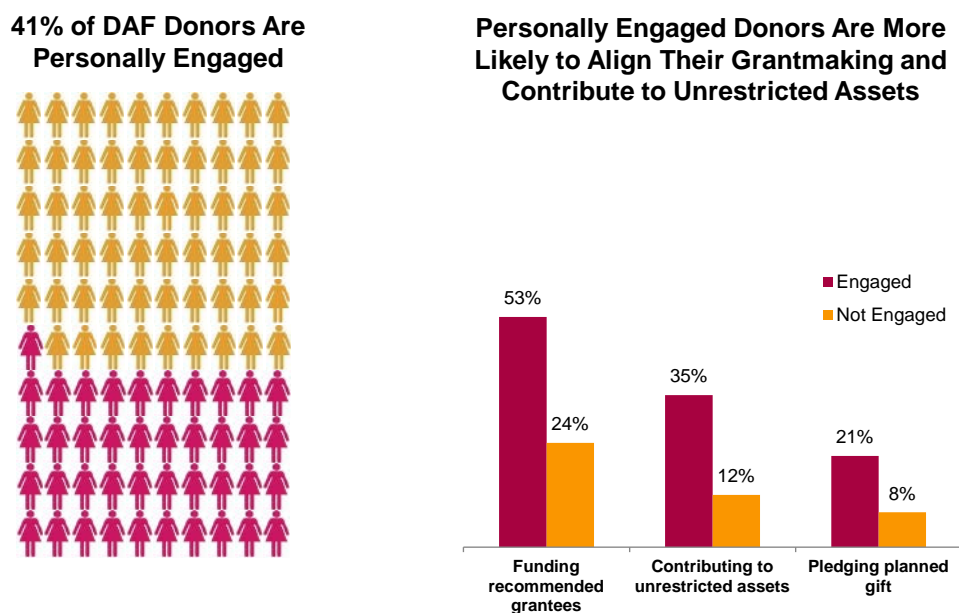
What gets results?

+ Positive Effect — Getting Personal with Donors

Personally engaged donors⁷ (those who commit time) are much more inclined to be philanthropically engaged (in a way that represents dollars). Across the field, 41% of donors are personally engaged, and their levels of philanthropic engagement are significantly higher, compared with their nonengaged peers:

- 53 percent of personally engaged donors fund recommended grantees, compared with 24 percent of nonengaged donors.
- 35 percent of personally engaged donors contribute to unrestricted assets, compared with 12 percent of nonengaged donors.
- 21 percent of personally engaged donors pledge a planned gift, compared with 8 percent of nonengaged donors.

Figure 19: The Engagement Level of DAF Donors



From our conversations with community foundations, it's clear that opinions vary about the extent to which you can increase the level of engagement of donors. One community foundation that saw high levels of philanthropic engagement has a clear strategy for cultivating engaged donors:

⁷ Personally engaged donors are defined as having either a) Participated in an event organized by the community foundation, b) Participated on a committee at the community foundation, c) Referred other donors to the community foundation, or d) Taken grantmaking advice from the community foundation

*“When donors come in, they’re immediately subjected to a barrage of contact. We have a new fund interview, where they need to bare their soul (which they do willingly), but after you’ve had an exchange like that, **you change the course of the relationship**. Usually there’s Kleenex in the room, occasional tears, and everyone feels warm and fuzzy after the meeting, we **enter as strangers and leave as friends**.”*

+ Positive Effect — Increasing Relationship Intensity

A focus on relationship development (e.g., individual meetings, person-to-person communication), measured by staff intensity, is important for philanthropic engagement. Community foundations with higher staff intensity, as defined by fewer than 50 DAFs per dedicated FTE, have different results:

- 28 percent of donors participate in coinvestment or matching grant opportunities, compared to 8 percent at community foundations with lower staff intensity.
- 45 percent fund recommended grantees, compared to 21 percent at community foundations with lower staff intensity.
- 37 percent contribute to flexible funds at the community foundation, compared to 29 percent at community foundations with lower staff intensity.
- 18 percent pledge planned gifts, compared to 13 percent at community foundations with lower staff intensity.

+ Positive Effect — Getting Donors to Participate

Getting donors to participate in different activities appears to be an effective way to foster deeper engagement. One example of deeper participation is to invite donors to participate on committees and boards:

- 25 percent of donors who have participated on a committee have pledged a planned gift, compared with 12 percent of donors who have not participated on a committee.
- 52 percent of donors who have participated on a committee have contributed to flexible funds, compared with 17 percent of donors who have not participated on a committee.

Hosting events is another way to get donors to participate. Though attending an event clearly requires a lower level of commitment, and is less strongly associated with high levels of philanthropic engagement. Still, event attendees do display higher levels of philanthropic engagement in some areas:

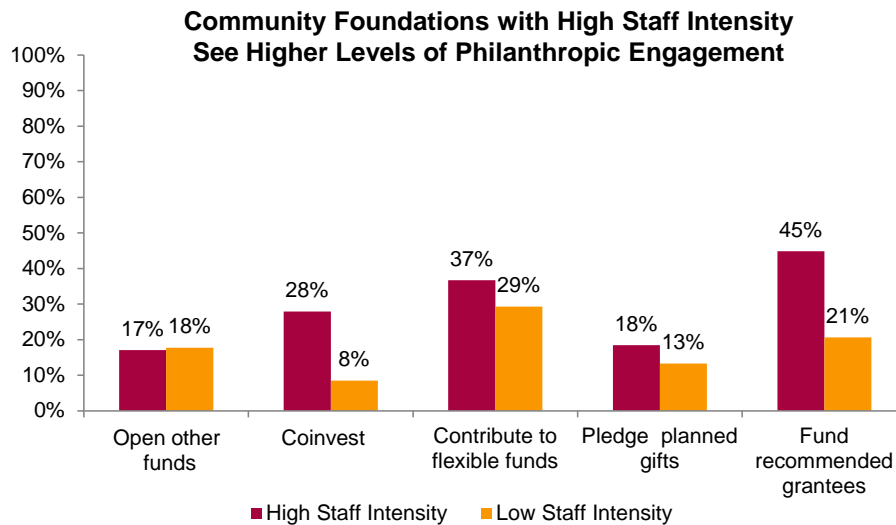
- 40 percent of donors who participate in events contribute to flexible funds, compared with 17 percent of donors who do not participate in events.

+ Positive Effect — Giving Personalized Advice to Donors

Offering proactive, personalized advice on grantmaking appears to be an effective way to encourage donors to align their grantmaking with the priorities of the community foundation:

- 46 percent of donors who have received direct advice on grantmaking coinvest with the community foundation, compared with 18 percent of donors who have not received direct advice.
- 61 percent of donors who have received direct advice fund recommended grantees, compared with 28 percent of donors who have not received direct advice.

Figure 20: The Results of High Staff Intensity



Notes: High staff intensity is defined as fewer than 50 DAFs managed by each dedicated FTE (Full Time Equivalent) employee. Low staff intensity is defined as more than 50 DAFs managed by each dedicated FTE.

+ Positive Effect — Encouraging Planned Gifts

Interviews with community foundations seeing high proportions of donors pledging planned gifts reveal that the degree of encouragement of planned giving and focused staff time is associated with higher levels of planned giving. This is what one community foundation says about their focused effort on encouraging planned gifts:

*“We focus on planned giving. When speaking with donors about it we ask them: Do you know your grandfathers name? Yes. Do you know their middle name? Maybe. Do you know their charitable interests? No. It **makes them think that their grandkids can’t maintain their intent, even if they are biological offspring. I think that resonates well with them, perhaps that’s why we’ve had success in terms of our planned giving rates.**”*

+ Positive Effect — Encouraging Contributions to Flexible Funds

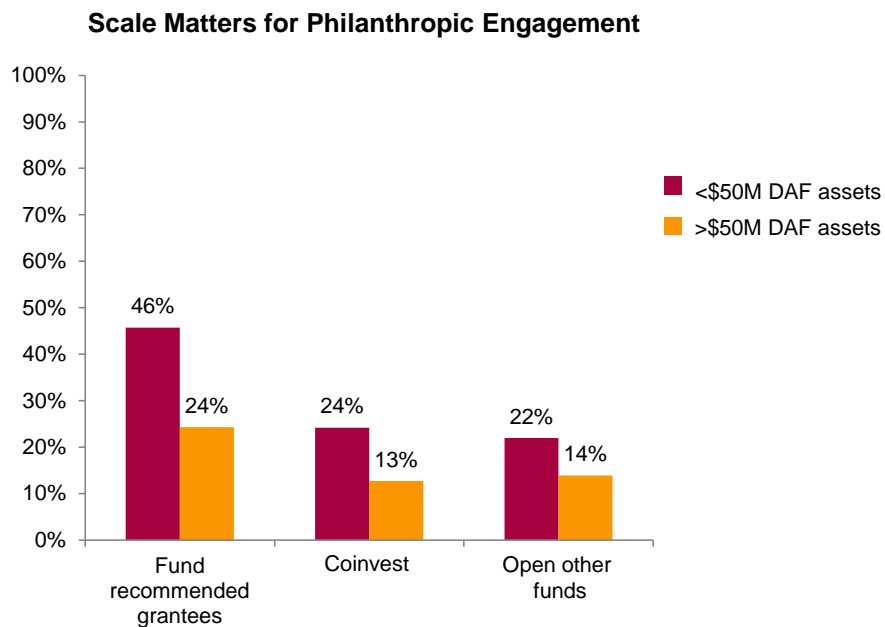
Those community foundations that strongly encourage or require contributions to operating, leadership, or field of interest funds are able to nearly double the percent of donors making these types of contributions. In doing so, digital communications matter. The biggest difference in communications for those who generate strong contributions to flexible funds is the use of email, custom online platforms, and digital tools/social media.

+ Positive Effect — Maintaining a Smaller Scale DAF Program

Philanthropic engagement is influenced by the amount of DAF assets under management at the community foundation. Community foundations with smaller DAF programs, defined as less than \$50M in DAF assets, have donors that are more philanthropically engaged:

- 46 percent fund recommended grantees, compared to 24 percent at large community foundations.
- 24 percent coinvest with the community foundation, compared to 13 percent at larger community foundations
- 22 percent open other funds at the community foundation, compared to 14% at larger community foundations

Figure 21: The Impact of Scale



Community Foundation “Promising” Practices

The first question on the tip of the tongue when viewing the range of results achieved by the study participants is “What are the organizations at the top of the range doing?”

No easy answers emerged when we asked the same question of the community foundations participating in the study. No community foundation in our study considered what they did in pursuing their aspirations as “best practice” and no community foundation thought they had maximized their results.

What did emerge from conversations with community foundations that demonstrated results outside of the norm were “promising” practices employed by individual community foundations that aligned with a clear set of community foundation priorities.

These community foundations also demonstrated two key characteristics:

- **A willingness to send clear and specific messages.** Instead of offering a “generic” DAF, some community foundations send clear messages to donors through the policies and practices they pursue. They are clear about the types of funds they want and don’t want and the type of engagement that represents success.
- **A focus on execution.** What made the difference for some community foundations was consistency of action. The actions themselves were not exceptional — what was exceptional was the discipline of execution. For example “just asking” donors about their intent to leave a planned gift or for contributions to unrestricted funds often added up to above-average results.

This is what one community foundation said about their focus on execution:

*“We never give up. We need to keep trying, keep asking. I’ve been here long enough to see that donor situations change over time. People come in with one mindset, and then life happens, family structures change, people enter a new phase where they have more time to think about philanthropy. **We don’t assume that if donors don’t engage at first, that they’ll never engage.**”*

Figure 22 highlights examples of actions that are being taken to realize particular strategic intents.

Figure 22: Table of Promising Practices Aligned with Strategic Intent

| | | |
|---|--|--|
| 1 | Position DAFs as a stand-alone offering | Position DAFs as an entry-point to grow more flexible assets |
| | <ul style="list-style-type: none"> • Feature DAFs prominently in marketing and communications materials • Emphasize benefits to donors in marketing and communications materials • Incent gifts to DAFs with matching funding | <ul style="list-style-type: none"> • Ask, and keep on asking • Have a designated planned-giving officer as part of the donor services team • Keep track of donors' giving potential and prioritize high-touch efforts • Recognize donors for making planned gifts |
| 2 | Grow assets and grantmaking through DAFs | Grow grantmaking through DAFs and assets through funds <u>other</u> than DAFs |
| | <ul style="list-style-type: none"> • Promote endowed DAFs • Monitor in-out activity from DAF funds • Institute development targets for growing DAFs | <ul style="list-style-type: none"> • Promote pass-through DAFs • Have explicit conversations with donors with low activity level to promote giving |
| 3 | Increase grantmaking for today | Increase grantmaking for the future |
| | <ul style="list-style-type: none"> • Promote pass-through DAFs • Monitor in-out activity from DAF funds • Have explicit conversations with donors with low activity level to promote giving | <ul style="list-style-type: none"> • Promote endowed DAF funds • Explicitly state effect of spending rates on fund level and grantmaking in regular communications with donors |
| 4 | Support DAF grantmaking that meets donors' priorities | Align DAF grantmaking with priorities identified by the CF |
| | <ul style="list-style-type: none"> • First and foremost focus on understanding the donor's philanthropic goals and motivations • Give recommendations to donors only when they ask for them | <ul style="list-style-type: none"> • Put forward specific opportunities aligned with donor and foundation interests • Conduct deliberate campaigns led by staff to explore alignment • Engage them through events tailored to their and foundation interests |
| 5 | Promote grantmaking to organizations anywhere | Promote grantmaking to local organizations |
| | <ul style="list-style-type: none"> • Emphasize support of giving anywhere • Invest in capacity to support giving internationally, based on donor interests | <ul style="list-style-type: none"> • Use local expertise as a selling point • Invest in staff and relationships to become the expert on local giving • Put forward local philanthropic opportunities • Establish online platforms that connect donors with local organizations |
| 6 | DAFs are a "loss-leader" to bring in other fund types | DAFs should generate a surplus to support other areas of our operations |
| | <ul style="list-style-type: none"> • Price funds close to competing players (and typically below their true cost) • Track connection between DAFs and the growth of other fund types | <ul style="list-style-type: none"> • Price funds so they contribute to operations (e.g. leadership and infrastructure) • Analyze and manage DAF-specific costs and revenues to maximize contribution |

The following sections share examples of specific practices used by community foundations in four areas where the community foundation participants expressed the strongest aspirations. We hope these examples will be of practical value in two ways:

- As examples of actions that can be taken for organizations that are yet to identify their aspirations, and
- As a spur to advance innovation and experimentation in these areas.

Examples of how community foundations position DAFs as an entry point to grow more flexible assets

Default to a future purpose of “Unrestricted/FOI” for endowed DAF funds with limited successors

“It’s a default in our agreement. We are raising donor advised funds with the goal of them becoming unrestricted or FOI funds. We focus on endowed funds and allow one successor generation.”

“We have a restriction on inheritability — family continuance of funds. If there are donors who value grandchildren advising in the fund that is not an option that we offer here.”

Require a contribution to pooled funds

“Donors are required to give 5% of their DAF fund to a pooled fund — that is in the standard DAF agreement. The donors seem to be willing to do this if we can deliver on leverage and worthwhile projects, visible progress and impact.”

Communicate priority for attracting unrestricted funds or planned gifts

“All our marketing and talking points are focused on encouraging a planned gift to us or a charity of the donor’s choice. We emphasize this in every publication and every ad on the local radio.”

Align staff resources

“We made a conscious strategic decision to hire a planned giving officer, set up a legacy society, and talk to donors about legacy giving. We are having staff dedicated to this aspiration, and that move has been intentional.”

Assess the potential for planned gifts

“We conduct wealth research and discover where our donors have additional assets (stocks, homes, property values, client foundations, other private foundations, etc.) These things influence the way we think about the DAF’s potential growth.”

Talk to DAF donors about planned gifts

“Planned giving is a high priority for us, and we talk to all our donors about this. What do we do differently? WE ASK THEM. We actively talk with donors in the course of our work about planned giving. And by reputation, we are known as a place associated with legacy.”

Highlight donors who make planned gifts

“We have a phenomenal program of donor recognition in our legacy program. We’ve used artists, we did video interviews and now it’s a phenomenal piece of artwork that recognizes the donors and their approach to philanthropy. We really want to position ourselves as the place that honors a donor’s values and legacy.”

Examples of how community foundations align DAF grantmaking with priorities identified by the community foundation

Put forward specific opportunities aligned with donor and foundation interests

“We spend time vetting a program and then put it in front of donors. It is a part of an engagement strategy that builds their trust. We engage with them deeply and try to bring them ideas they may want to fund through their DAF.”

Conduct deliberate campaigns led by staff to explore alignment

“We have been sitting down with donors with larger dollars in their DAF funds to make grants to places that have applied for competitive grants from our foundation. It is a pointed conversation with our donor advisors asking if they’ll earmark some of their money for our competitive grants program.”

Engage donors through events tailored to shared interests

“We have a donor engagement series that we do where we invite donors to attend a lunch or breakfast event where we bring in experts in a particular area. We explore a topic in more depth in a way that allows donors to actively participate in the conversation, and ask questions.”

Examples of how community foundations promote grantmaking to local organizations

Use the focus on local expertise as a selling point in promoting the foundation

“From the get-go, we talk about being knowledgeable in our county and working together to benefit the county. We can help them make other grants, but that’s not what we really focus on.”

Guide donors to local philanthropic opportunities

“Our communication pieces talk mostly about local nonprofits. Our area of expertise is our community, so we gravitate toward promoting those issues. We’re happy to facilitate something else, but we don’t spend a lot of time researching outside grant making opportunities.”

Examples of how community foundations support DAF grantmaking that meets donors' priorities

Focus on understanding donor interests first

“In conversations getting to know [the] donor we think about “Who is this donor and what do they care about? How can we help them fulfill their philanthropic goals and interests?” To the extent that we have a shared interest, we share our strategies and knowledge. Being donor-centric is where we start and end.”

Provide maximum flexibility

“We really strive to work with our donors in what they want to achieve in their philanthropy — over 15 generations or during one generation. We try not to limit what they can do with their philanthropy.”

“We want people to feel that a fund is very flexible — truly an alternative to a private foundation. We don't have many restrictions or policies in place and at the same time we work with the donor and have a conversation with them to then introduce a planned giving opportunity.”

Avoid requests that originate with the foundation's interests

“We don't go to donors and say — “we're doing this and won't you do it with us?” If they have extra dollars that they don't know what to do with, I point to our unrestricted fund.”

10. Challenge to the Field

Community foundations hope that DAFs **Do More than Grow**, creating value that extends well beyond the dollar value of the assets and contributes to goals for impact in the community. In order to do this, strategic clarity is essential. We believe community foundations must:

- Acknowledge **two** basic choices
- Ask themselves **three** questions
- Adopt **six** principles of strategy
- Analyze differences among **four** illustrative positionings
- Accept **four** challenges

Two Basic Choices

In an active and growing market, the question of how to achieve competitive advantage is at the forefront of conversations about strategy. Michael Porter's "three generic strategies" outline the basic choices any enterprise should consider⁸. These are: (1) cost leadership, (2) differentiation, and (3) focus. His six principles provide guidance on how organizations need to think about their strategy.

Figure 23: Michael Porter's Three Generic Strategies



⁸ Michael Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (The Free Press, 1985)

It is clear that community foundations' strength in the DAF marketplace does not lie in cost leadership. Other providers have greater scale, better technology, and more standardized offerings. The two choices that remain are:

- 2 **Differentiation:** creating uniquely desirable offerings
- 3 **Focus:** offering a specialized service in a niche market, cultivating strong loyalty

These choices can be pursued separately or in combination.

Three Questions for the Field

The scale of DAF growth and grantmaking is significant, and the research reveals that community foundations are not yet realizing the potential that they see in DAFs. Based on these findings, there are three important questions for the community foundation field to ask. These questions are not new, but need to be continually examined in a changing market in order to avoid the ambivalence observed today.

1. **How do DAFs contribute to achieving community foundation goals for impact in the community?**
2. **How is a DAF at a community foundation positioned as a differentiated and uniquely valuable offering?**
3. **How does a community foundation focus on specific types of DAF donors in order to establish the most valuable relationships and achieve its goals for impact in the community?**

Six Principles of Strategy

Community foundations wrestle with an incredible array of decisions about how to support their communities, advance solutions to complex social problems, and craft the right role for themselves in many arenas. Disciplined strategic thinking is essential to making the best decisions.

Each community foundation should be guided by six principles of strategy:

1. **Be committed to superior performance.** Start with articulating the values and goals that define what you intend to achieve.
2. **Be clear about how you are unique.** Determine how you will achieve impact and understand how and why what you do is distinct from others. Translate this into clear messages and be consistent with all your stakeholders.

3. **Be different.** Tailor what you do and how you do things to your unique positioning. Learn from your peers and competitors, but recognize that you should be making unique choices based on what you are trying to achieve.
4. **Be aligned.** Think of yourself as a single enterprise and not as an organization pulled between two different arenas, serving donors and the broader community. Create a strong fit between all of your goals and activities. This is what drives competitive advantage and sustainability.
5. **Be specific about growth goals and tradeoffs.** Avoid the growth trap by aligning what you are trying to achieve and your goals for growth. Spell out the tradeoffs you are making as you set goals and know who the most important customers and constituents are. Acknowledge that you cannot do everything well and need to focus.
6. **Be consistent but not rigid.** Do the planning work and recognize that strategy is not fixed, but directional. Aspire to strategic continuity, but also continuous change. If you understand your direction, it's easier to be an active learner and be focused on adapting as a leader.

It is clear that community foundations want DAFs to **Do More than Grow**. The promotion of the DAF vehicle itself is not the arena in which community foundations strive to achieve superior performance.

Four Illustrative Strategic Positionings

The role of DAFs should vary for each community foundation. Defining aspirations should be contingent on the unique qualities of the community, the foundation's values and expertise, and the foundation's goals for impact. When a community foundation is clear about strategic value, it is then able to differentiate itself from other DAF providers, make tradeoffs between different possible aspirations, align policies and practices with goals, and be selective about which donors to pursue and target for relationship building.

So how do individual community foundations do this? What does it mean to be differentiated, to target particular types of donors, and to communicate and work differently? What are the questions that community foundations face as they consider tradeoffs between growth and other goals?

Illustrative positioning choices.

Each of these illustrations is drawn from data and observations of participating community foundations, but the descriptions represent a composite of remarks and observations from multiple organizations.

1. “FOR GOOD FOREVER” COMMUNITY FOUNDATION

What differentiates us? We care about building long-term philanthropic resources to benefit the community. Our goal is to build long-term endowed assets, and we see our DAF program as an entry point for donors who are able to make a long-term commitment.

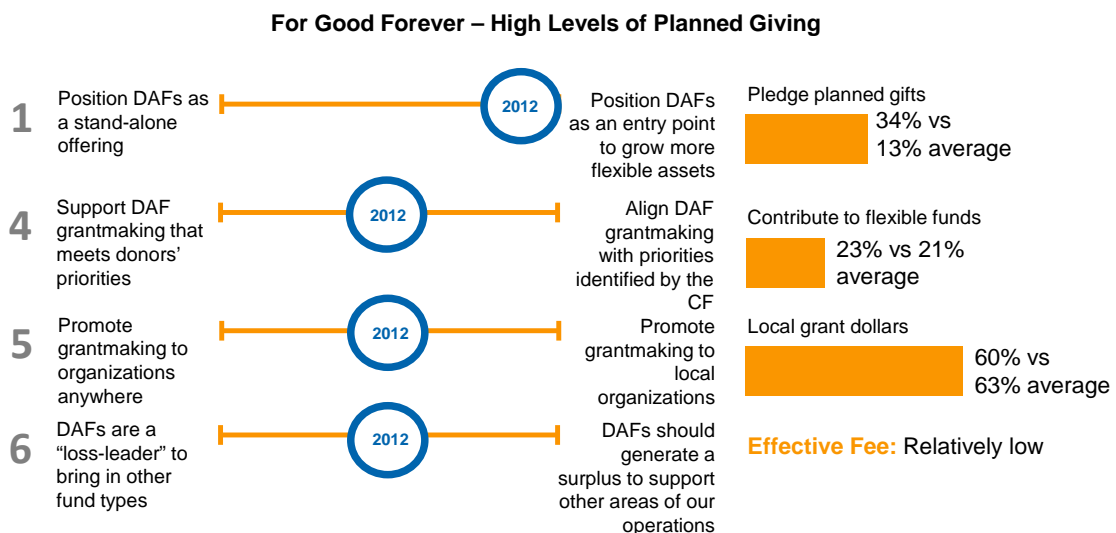
Whom do we target? We focus on donors in our community who we believe have the greatest giving potential and demonstrated inclination to be involved in civic life and philanthropy.

How do we communicate? Many community foundations position DAFs as a Fidelity-like product: transactional and convenience oriented. ‘You put money in, spend money out, we’re efficient, we can help you.’ We take a different approach. Our message is ‘this is not at all a transactional relationship. We’re looking to effectively partner with you to enhance your grantmaking.’ That’s how we sell it. And we are focused on messaging about endowment and long-term legacy.

How do we work? We promote DAFs as a flexible vehicle but also begin to talk with donors when they come through the door about their long-term legacy. We believe our donors are committed to our community, but we also position ourselves to help them meet their own priorities even when they extend beyond our own region. And we are always talking about endowment, with policies that structure DAFs as quasi-endowed, having set spending rates but with the ability to spend out of principal.

What questions do we face as we evolve? By reputation, we are associated with legacy. This can be both a plus and a minus. We are now shifting our image to be more about current leadership and grantmaking and active fundraising beyond just the legacy piece. This is a good thing, but also might get in the way of our position with our donors. It’s an interesting challenge in how we operate and how we project ourselves.

Figure 24: Example of a “For Good Forever” Community Foundation



2. “FUEL FOR CHANGE” COMMUNITY FOUNDATION

What differentiates us? We care about cultivating a strong leadership role in the community. Our DAF program introduces major philanthropists to the foundation, generates significant grantmaking, and helps sustain our leadership role. Our goal is to build a strong DAF program that generates resources through administrative fees and donor contributions to help the community foundation be a leader in the community and make progress toward our goals for impact.

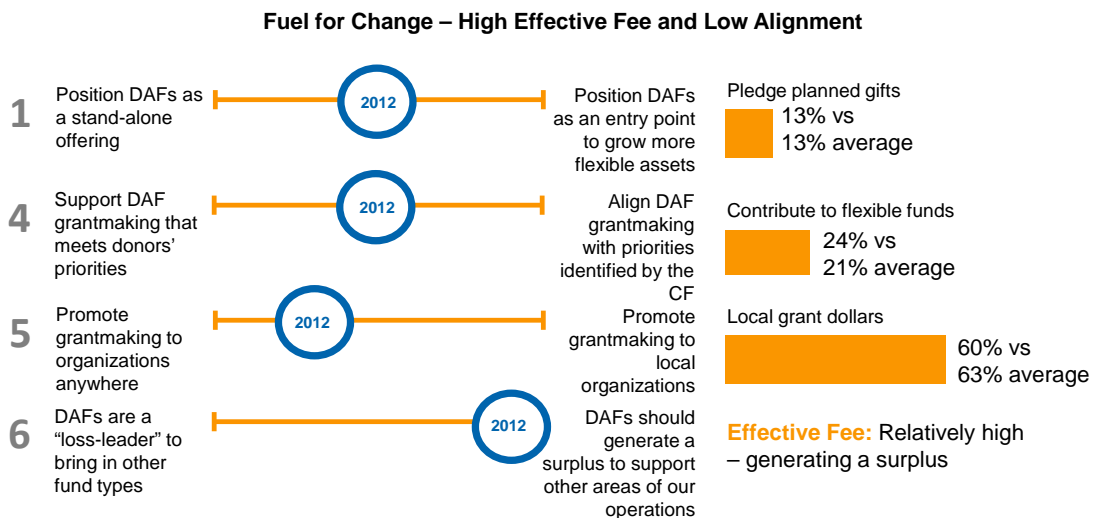
Whom do we target? We promote DAFs as a flexible vehicle to meet the needs of local philanthropic leaders with significant resources.

How is this communicated? We believe our donors are aware of the leadership role we play in the community, but we position ourselves to help them meet their own priorities. When we set up DAFs, we don't send messages about contributing to leadership funds, or other opportunities to partner and get engaged philanthropically.

How do we work? We are very intentional about focusing on donor priorities, and on focusing attention on the donors with the greatest philanthropic capacity, that's been very clear. This is part of making the economic equation work. We have also recognized that if you're going to have DAFs as a key piece of your strategy, you have to engage donors personally. We keep our eye on this. We've also sensed that our community leadership efforts have had no effect on our ability to attract donors. There are a few donors whose interests line up with ours who are engaged as community leaders in our initiatives, and occasionally as donors, but that's the extent of it today.

What questions do we face as we evolve? We are beginning to ask ourselves questions about whether we should be aligning our programmatic work more with our donors, or engaging donors more in our programmatic and leadership work — and which donors are the right ones to engage.

Figure 25: Example of a “Fuel for Change” Community Foundation



3. “LEADER-TO-LEADER” COMMUNITY FOUNDATION

What differentiates us? We care about mobilizing resources and engaging with donors to address priority local needs. Our role is to maintain a consistent focus on the challenges and opportunities facing our community.

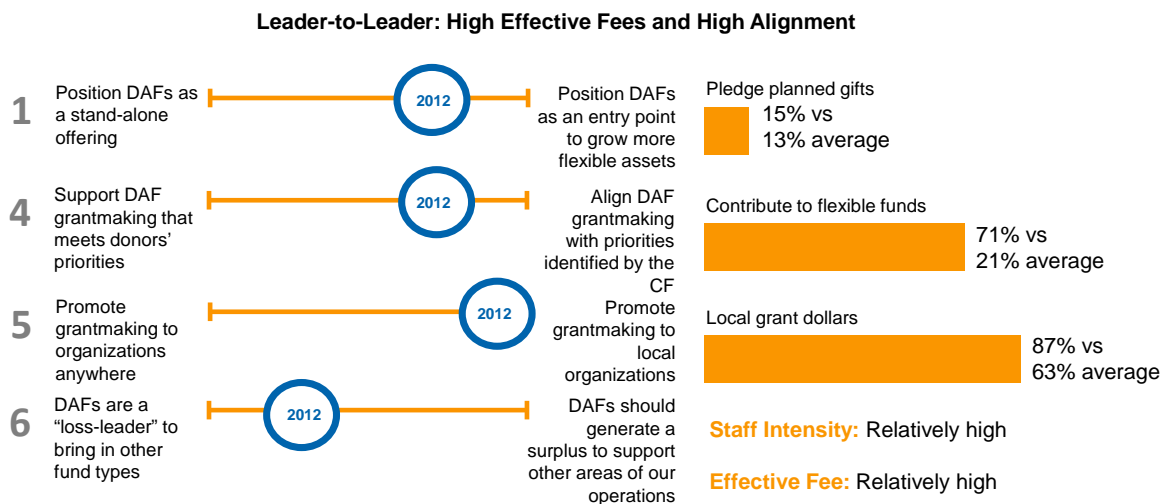
Whom do we target? We want to engage donors who share our values, have aspirations to have impact in our community, are interested in partnering with us, and are able to contribute significant dollars and their own leadership to achieve shared goals.

How is this communicated? Our messaging to all of our constituents is about leadership and impact locally. If a donor comes to us and is only interested in the most cost-efficient or flexible philanthropic vehicle, we will send them elsewhere. We also ask donors to make a contribution to our operations through the relatively high fees needed to support the way we work with donors.

How do we work? We focus our time and attention on developing ideas that we think matter in our community, to our board, and to the donors engaged with us. We invest more than others in maintaining donor relationships and alignment across all of our staff, no matter what the function. We recognize that our assets may not grow as quickly as other DAF providers, but we are focused on the quality and alignment of DAF relationships.

What questions do we face as we evolve? We’ve seen great loyalty from donors as we have deepened this approach, but we recognize that we may have slower growth because we have chosen this path. We have questions about how we pursue our growing ambitions with very active grantmaking but lower asset growth rates.

Figure 26: Example of a “Leader-to-Leader” Community Foundation



4. “DIVERSE, GLOBAL, AND COMPREHENSIVE” COMMUNITY FOUNDATION

What differentiates us? We care about supporting local donors’ philanthropy anywhere in the world. Our role is to help individuals, families, and corporations with significant resources meet their philanthropic goals. It’s important for us to be identifying the most important needs in our community, but we also recognize the range of important needs elsewhere. We see ourselves as promoting philanthropy and play a unique role directing the wealth in our community to worthy philanthropic priorities.

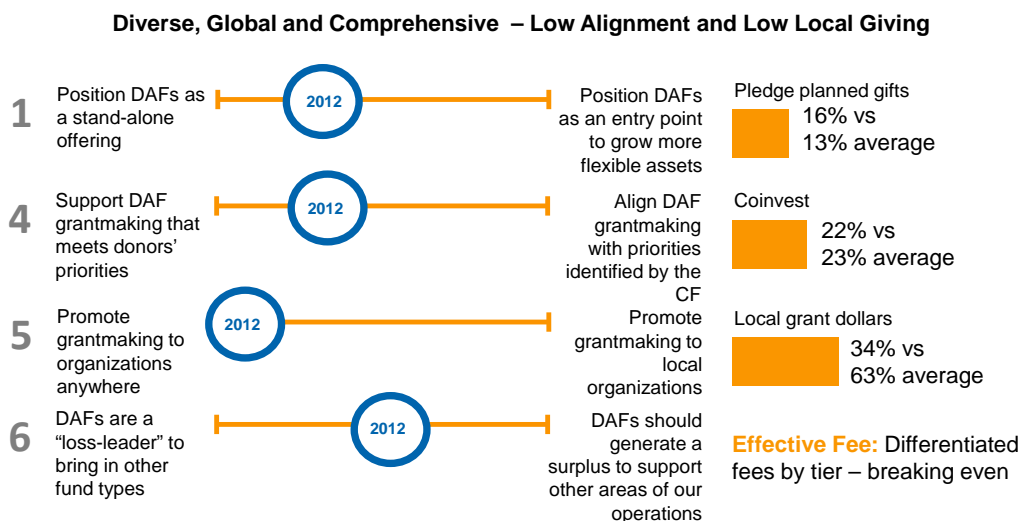
Whom do we target? We are broad in our approach to targeting donors, and attract many types but are very intentional about taking a segmented approach to serving donors. For the donors with the greatest philanthropic capacity, we position ourselves to meet the full range and complexity of their needs through a DAF or other vehicles.

How is this communicated? We position ourselves as a comprehensive resource for philanthropy and feel good about promoting our DAFs as a strong but distinct choice when compared with the flexibility and capabilities of other DAF providers.

How do we work? Our work extends into many realms to meet individual needs and act as a community leader. Taking this approach requires scale, and because of our size we can support a diverse set of needs. We see our work as learning about our donors, their motivations, their passions, and then supporting them in reaching their philanthropic goals. Where our interests align, we take the opportunity to talk with them about the priorities the community foundation has chosen to focus on in the community. We’re comfortable with the fact that some donors respond to some degree and others may not.

What questions do we face as we evolve? Right now we work to meet a diverse set of goals and needs, and don’t feel like we are in a position to make trade-offs, given the positioning of the community foundation in the community. Perhaps we don’t yet really know the answer for how we should focus, and because we operate a larger program, we have the privilege of being able to try multiple approaches.

Figure 27: Example of a “Diverse, Global and Comprehensive” Community Foundation



Four Challenges to Meet

There are four challenges community foundations in the field must meet to move from aspirations to reality and to tap the potential of DAFs:

1. “Reach higher”

DAF research illustrates the current reality, which is just a starting point for what community foundations can achieve in creating value for their communities through engagement with DAF donors.

What does this mean? Don’t stay in the middle of the road. Identify the value that DAFs represent in your strategy and aim for excellence in achieving specific aspirations.

2. “Don’t try to be all things to all people”

No organization can do all things at once or as well as others who specialize. Many community foundations now recognize that competing for DAF growth on any terms is not the answer. Pursuing growth in the absence of a clear strategy can undermine differentiation, lead to a divided organization, and result in an inconsistent identity. Growth should deepen focus, not compromise it.

“We are coming to terms with the fact that the community foundation DAF is not right for everyone.”

A clear and differentiated strategy specifies which individuals, families, and organizations are the right donors for your goals. By looking at strategic value and cost for current and potential donors, community foundations can make decisions about whom to target and how to best manage these relationships. Any community foundation will naturally be serving a broad portfolio of donors, and it’s important to serve the entire portfolio well, but this approach helps direct resources toward their best use and align the business model.

Figure 28: Reach Higher

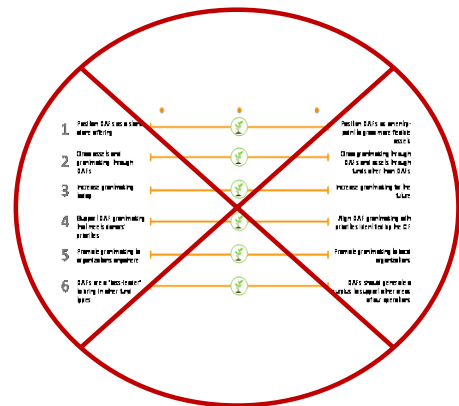
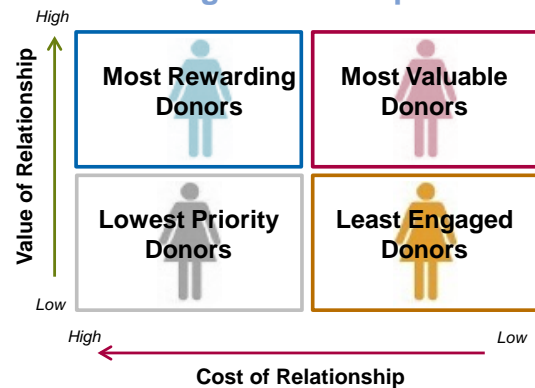


Figure 29: Don’t Try to Be All Things to All People



3. “Own it!”

Community foundations need to define their own unique positioning and assert how they are different from competing alternatives. They also need to realize their unique competitive positioning by aligning their policies, practices, and messages to external constituents. This means communicating a differentiated identity in the marketplace that clearly conveys priorities to the right potential donors. These messages will be different for every community foundation.

What this means in practice is that everyone communicates consistent messages — not different people representing a different positioning for each different circumstance or audience.

4. “What gets measured gets done”

Community foundations need to define results they care about, set targets, track progress, and learn and improve based on their performance. This is an essential aspect of the management discipline needed to change practice and achieve superior performance.

We know that generating data to track the metrics in this study is challenging but possible, given the right attention and systems changes. Today, however, this is not the practice. For example, despite the importance of planned giving to most foundations, fewer than half of the participants were able to generate an estimate of bequest dollars realized through DAFs. And for many participants, this was the first time they had looked at measures of local grantmaking, aligned grantmaking, success in enlisting DAF donors as partners, or pledges of planned gifts by DAF donors.

Figure 30: Own it!



Figure 31: What Gets Measured Gets Done



11. Creating a DAF “X-ray” for Your Foundation

In order to achieve strategic clarity with DAFs and reach for even greater impact, community foundations must take on these challenges. The “**X-ray**” is a guide designed to support the essential discussions at individual community foundations among staff and board.

The DAF Program “X-ray”

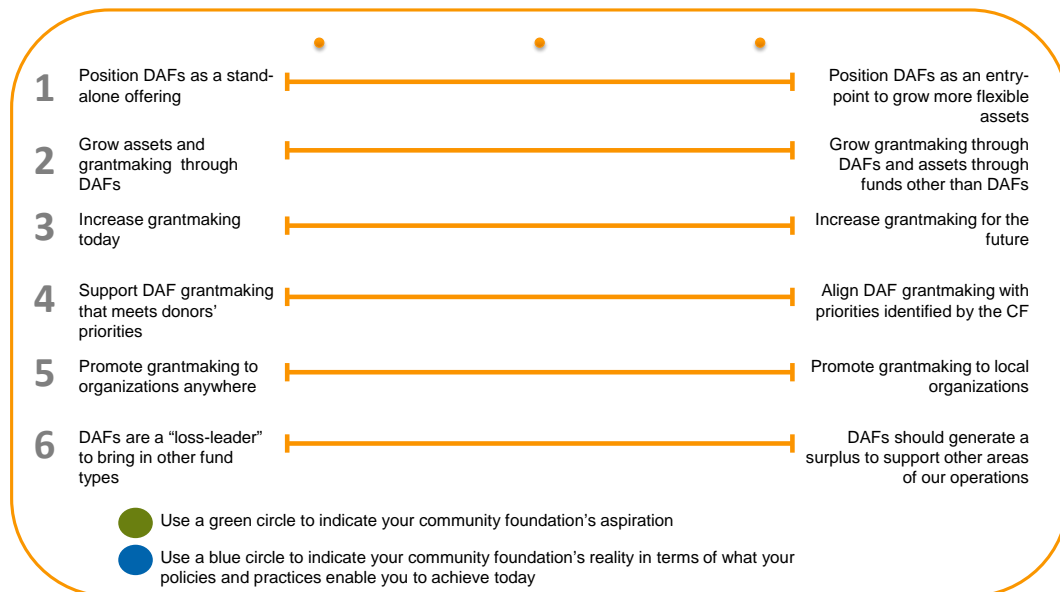
The following set of tools will help your organization take a DAF Program “X-ray” — a diagnostic of your program’s current characteristics and an opportunity to define its future. The tools include:

1. A Diagnostic of Aspirations
2. Discussion Questions
3. A Menu of Indicators
4. The DAF Program Dashboard

Tool 1: A Diagnostic of Aspirations Versus Reality

For each strategic intent in the diagram below, chart your aspirations for your DAF program and an assessment of what your policies and practices reflect today.

Figure 32: A Diagnostic of Aspirations and Reality



Tool 2: Menu of Indicators

Select how you will measure your progress toward your aspirations. Use the following menu of suggested indicators collected for the purposes of this study, or add your own.

Figure 33: Menu of Indicators

| | Progress Indicators | We aim to... | We aim to... | Progress Indicators |
|---|--|---|---|--|
| 1 | % DAF asset growth | Position DAFs as a stand-alone offering | Position DAFs as an entry point to grow more flexible assets | % of donors pledging to leave a planned gift |
| | DAF asset intensity (DAF assets as % of total CF assets) | | | % of funds with an ultimate future purpose benefiting the CF |
| | | | | % of donors contributing to flexible funds |
| 2 | % DAF asset growth | Grow assets and grantmaking through DAFs | Grow grantmaking through DAFs and assets through funds other than DAFs | % DAF grantmaking growth |
| | % DAF grantmaking growth | | | |
| 3 | % endowed DAFs | Increase grantmaking for today | Increase grantmaking for the future | % endowed funds |
| | DAF distribution rate (\$ grants / \$ assets) | | | DAF distribution rate (\$ grants / \$ assets) |
| 4 | % DAF grantmaking growth | Support DAF grantmaking that meets donors' priorities | Align DAF grantmaking with priorities identified by CF | % DAF donors coinvesting |
| | | | | % DAF grant dollars benefitting high priority areas |
| | | | | % DAF donors supporting recommended grantees |
| 5 | % DAF grantmaking growth | Promote grantmaking to organizations anywhere | Promote DAF grantmaking to local organizations | % local grantmaking |
| | | | | % DAF local grantmaking growth |
| 6 | DAF effective fee | DAFs are a "loss-leader" to bring in other fund types | DAFs should generate a surplus to support other areas of our operations | DAF effective fee |
| | % DAF donors opening another fund | | | |

Tool 3: Discussions Questions

Draw on the following questions to discuss your aspirations and changes you may wish to pursue to meet them.

1. What would it mean for our DAF program to **Do More than Grow**?
2. Which of our aspirations are most important to us? (Prioritize among intents 1-6)
Reflecting on what is most and least important to you, what are your answers to the following questions?
3. What are the gaps between our aspirations and the reality of our policies and practices today?

4. What are we doing uniquely well?
5. What are we not doing that we could be doing?
6. How can we close our most critical gaps and attract the DAFs most aligned with our aspirations? *In addition to generating ideas among your board and staff, turn to the effective practices of community foundations featured in the “Community Foundation Promising Practices” section.*
7. What specific results do we aspire to realize and how will we measure these results? *Refer to the measures defined and developed during the course of the study and provided above.*
8. What changes should we make to the foundation’s policies and practices?
9. What changes should we make in the foundation’s marketing, communications, staff focus, data collection, and other infrastructure?

TOOL 4: The DAF Program Dashboard

Gather important information about your DAF program today, and identify relevant targets for the future given what you believe is important to **Do More than Grow**.

Figure 34: The DAF Program Dashboard

| Elements | Dashboard Indicators | Today | In the Future? |
|----------------------------|---|-------|----------------|
| DAF Assets | Year-End assets (\$) | | |
| | Number of funds (#) | | |
| | DAF asset intensity (DAF assets as % of total CF Assets) | | |
| | Funds <25K (\$ and #) | | |
| | Funds >100K (\$ and #) | | |
| DAF Grantmaking | Total grants (\$ and #) | | |
| | DAF grants intensity (DAF grants as % of total CF grants) | | |
| | Distribution rate (\$ DAF grants as % of \$ DAF assets) | | |
| DAF Growth | Total gifts (\$ and #) | | |
| DAF Economics | Revenue from DAFs (\$) | | |
| | Total cost of DAFs (\$) | | |
| | DAF effective fee (DAF revenue as % of DAF assets) | | |
| | DAF staff (# FTEs) | | |
| | Service ratio (# DAFs per FTE) | | |
| DAF Strategic Value | CHOOSE FROM THE PRIORITY INDICATORS ABOVE BASED ON YOUR ASPIRATIONS | | |

Track these indicators over time to maintain a current picture of your DAF program and track progress toward those indicators that are most important. Note that many of the indicators above are tracked in the CF Insights database, where members and Columbus Survey respondents can find your own data and compare to peers across the field. The hope is that this “X-ray” tool offers the opportunity to focus on important questions and create a new discipline to achieve the results you value from your DAF program.

CF Insights can be your partner in using these tools. CF Insights has the ability to:

- Assemble your information and support the development of your strategy.
- Provide a platform for comparative data across the community foundation field.
- Support knowledge sharing among community foundations.

We at CF Insights and FSG hope that you find the analysis, key questions, and tools outlined in this report useful in defining the strategic value of your DAFs and pursuing your aspirations.

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Appendix B: Data Definitions and Methodology

Five types of information were collected for purposes of the study:

1. **Funds under Management:** Basic information was captured for all open DAFs under management during 2011. Our data set includes information for more than 6,100 unique funds.
2. **Grant-Specific Longitudinal Data:** Grant-level information was collected for all funds open in 2011. We requested that participants provide at least 10 years of longitudinal data. On average, community foundations submitted 12 years of information and our data set includes more than 330,000 grant records.
3. **Fund-Specific Longitudinal Data:** Fund-level longitudinal information was also collected for all funds open in 2011. Similarly, we requested that participants provide at least 10 years of data and, on average, community foundations submitted 12 years of information. Our data set includes more than 50,000 observations.
4. **List of Realized Planned Gifts:** Basic information was captured for realized planned gifts associated with closed DAFs. Our data set includes more than 300 planned gifts.
5. **Policies and Practices Survey:** An online survey consisting of 48 questions was used to collect information about DAF strategic intent and current policies and practices. Thirty-one community foundations completed this survey.

A detailed list of each data point captured and the definitions used can be found below.

Basic Definitions

The following definitions were used to guide overall data collection:

1. **Donor-Advised Fund:** We defined this according to Title XII of the Pension Protection Act of 2006:

A Donor-Advised Fund (DAF) is a fund or account at a qualified sponsoring organization (e.g. Community foundation) over which a donor or a donor-appointed advisor retains advisory privileges regarding the investment and/or distribution of assets in the account; thus the name “donor advised fund.” The sponsoring organization generally heeds the recommendations from the donor but is not compelled to do so. The sponsoring organization generally distributes grants from the DAF’s assets to charities engaged in direct charitable activities. At the time of donation, a charitable contribution deduction is generally available to the donor for contributions to a DAF. The DAF sponsoring organization owns and controls the donated assets and all investment returns from those assets. DAF sponsoring organizations are subject to excess benefit transaction rules intended to curb grants, loans, compensation, and other similar payments from a DAF to donors, advisors, or their related parties.

2. **Fund types included:** We included all donors who are families/individuals or corporations, including Merrill Lynch Partnership Funds. Note: Donor-Advised scholarship funds or Donor-Advised Funds managed by groups of unrelated individuals were not included.
3. **Financial information:** We collected core organization figures, *excluding* supporting organizations.

2011 Funds under Management

1. **DAF ID:** Unique identifier for each fund.
2. **Year established:** Year the fund was opened.
3. **Fund type:** Refers to the fund-holder.
 - Individual/family: Fund is managed by an individual or a family (this includes instances where the fund holder is deceased and passed the administration of the fund to an accountant or CPA).
 - Corporate: Fund is managed by a corporation.
4. **Endowment level:** What is the endowment and spending policy of the fund?
 - Endowed: Grants are only made from investment income.
 - Quasi-Endowed: An endowed fund where the principle can be invaded to make grants beyond investment income.
 - Non-endowed: Pass through fund with no endowment building goals or restrictions, such as a “charitable checking account” or other funds with a primary goal of grantmaking.
5. **Tiered services:** Differences in the services provided (such as events or personalized services) based on a fund characteristic (such as asset level). Note: This does not include tiering of administrative fees.
 - 1/2/3....: Based on community foundation-defined tiers.
 - N/A: Not applicable
6. **Successor named:** Has the donor named a successor?
 - Yes: Donor has named a successor, which could include another family member or heir.
 - No: Donor has not named a successor, or the community foundation has been named the successor.
 - N/A: Do not allow successors for this fund.
7. **Fund currently managed by successor:** Does the original donor or a successor manage the fund?
 - Yes: Fund is currently managed by a successor.
 - No: Fund is currently managed by the original donor.
 - N/A: Do not allow successors for this fund.
8. **Ultimate future purpose of fund:** Intent of the remaining assets of the fund.
 - Unlimited successors/spend down: If endowed, the DAF will continue to be managed by successor advisors. If non-endowed, funds will be spent down gradually by current advisor or future successors.

- Unrestricted or FOI (Field of Interest): The remaining DAF assets will be transferred to the community foundation as an unrestricted or FOI fund.
 - Other community foundation fund: The remaining DAF assets will be transferred to another fund at the community foundation, such as a designated fund.
 - N/A: Do not know what will happen to the assets of this fund.
- 9. Donor opened other fund(s):** This could refer to a field of interest fund, another DAF, a scholarship fund, etc. This refers to the *entire history of the DAF*, and includes funds that were established by this donor and have since been closed. A person taking over as a successor does not count as opening another fund.
- Yes: This donor has established another fund at some point.
 - No: This donor has not established another fund.
- 10. Referrals:** Has this donor ever referred the community foundation to another individual, family, or corporation, resulting in that referral making a contribution to the community foundation? This contribution could be a DAF, a general donation, or any other type of contribution. This refers to the *entire history of the DAF*.
- Yes: This DAF donor has made a referral.
 - No: This donor has never made a referral.
- 11. Committee participation:** Has the donor ever sat on any type of advisory committee at the foundation (including board of directors)? This could include any committee or working group that the community foundation manages. The amount of time engaged in the committee does not matter. The participant can be anyone who has an advisory role on the fund and does not have to be the original donor. This refers to the *entire history of the DAF*.
- Yes: Donor has participated on a committee.
 - No: Donor has not participated on a committee.
- 12. Events:** Did the donor attend at least one community-foundation-sponsored event *in the last year*, including site visits?
- Yes: Donor attended at least one event.
 - No: Donor did not attend any events.
 - N/A: Did not hold donor-related events in the last year.
- 13. Coinvestment and matching grants:** Has the donor ever coinvested, engaged in parallel funding with the community foundation through a match (or other mechanism), or responded to a challenge grant? This does not include the scenario where a donor pools funds with other donors, where the community foundation is not involved. This refers to the *entire history of the DAF*.
- Yes: Donor has coinvested or engaged in parallel funding.
 - No: Donor has never contributed in this way.
 - N/A: We do not provide this option to our donors.
- 14. Contribution flexible funds:** Has the donor ever contributed to an unrestricted fund, leadership fund, operating endowment fund, current spending fund, field of interest fund, or any similar type of fund or community-foundation-led activity? This refers to the *entire history of the DAF*.

Contributions may include real estate, jewelry, or other in-kind gifts that the community foundation can convert to cash.

- Yes: Donor has contributed to these types of funds.
- No: Donor has never contributed in this way.

15. Pledged planned gifts: Has the donor associated with this fund left, or indicated to you that he or she intends to leave, any type of planned gift? This *does not include* the remaining assets of the DAF itself. It includes other charitable assets such as real estate, or another gift that would fall to the community foundation when the donor passes away. This includes both irrevocable and nonirrevocable planned gifts. This refers to the *entire history of the DAF*.

- Yes: Donor has made, or promised to make, a planned gift.
- No: Donor has not made, or promised to make, a planned gift.

16. Value of the planned gift: Estimated dollar value of the planned gift

17. Direct advice on grantmaking: Meaningful communication with this donor regarding grantmaking *in the last year*? This captures any type of ‘meaningful’ communication, such as a phone conversation about grantmaking opportunities, engaged email communication, or anything that goes beyond purely transactional communication or marketing communication. The communication *does not* have to have been initiated by the donor and it counts even if the donor does not end up acting on the advice.

- Yes: “Meaningful” communication with this donor during the last year.
- No: Communication with the donor has been of a more transactional nature or non-existent.

18. Funding of recommended or high-value grantees: This is an indicator of whether the donor funds grants/grantees that the community foundation deems of high value for the community. For example, has the donor funded grantees that the community foundation has funded in a competitive process or recommended? This could be an organization that the community foundation recommended several years back. It does not include organizations that the community foundation has funded solely at the advice of a DAF donor in the past. This does not necessarily need to have happened based on a recommendation by the community foundation. This refers to the *entire history of the DAF*.

- Yes: Donor has funded “recommended” grantees.
- No: Donor has not funded these organizations.

19. Use of online system for researching/recommending grantees: Did this donor use an online system supported by the community foundation for grantmaking, such as DonorEdge, *in the last year*?

- Yes: This donor has used our online grantmaking resources.
- No: This donor has not used these resources.
- N/A: This is not applicable.

Grant-Specific Longitudinal Data

1. **Grant ID:** A unique identifier for the grant.
2. **Non-U.S. grant:** Is the grant made to a nonprofit located outside the U.S.?
 - Yes: This is a non-US grant (or the end recipient is likely outside of the U.S.)
 - No: This is a grant made to a US nonprofit (for likely use in the U.S.).
3. **Grantee ZIP code:** For U.S. grants.
4. **Inter-fund transfer:** Is this a transfer from the DAF to an internal community foundation fund, such as a field of interest fund or any other type of fund at the community foundation?
 - Yes: This is an inter-fund transfer.
 - No: This is not an inter-fund transfer.
5. **Date grant issued:** On what date was the grant issued?
6. **Grant value:** What was the dollar amount disbursed for this grant?
7. **Funds a priority grantmaking area:** Does this grant fund a priority grantmaking area of the community foundation? Priority areas could include issues such as education, health, or environment.
 - Yes: This grant funded a priority area.
 - No: This grant did not fund a priority area.
 - N/A: No defined priority grantmaking areas.
8. **Grantee name:** What is the name of the grantee?

Fund-Specific Longitudinal Data

1. **Applicable year:** The year the financial information refers to.
2. **Beginning balance:** The balance of the fund at the start of the fiscal year.
3. **Fees paid:** All fees paid by the donor for the fund in the financial year. Fees include administrative fees, investment fees, and any other fees charged.
4. **Investment income/loss:** Any investment income or loss made from this fund in the fiscal year.
5. **Year-end balance:** The balance of the fund at the end of each fiscal year.
6. **Total gifts received:** The value and number of gifts received to this fund in the fiscal year.
7. **Total grants made:** The value and number of grants made in the fiscal year.

List of Realized Planned Gifts

1. **DAF ID:** Unique identifier for each fund.
2. **Value of realized planned gifts:** The value of all realized planned gifts from DAF donors. For each closed fund, this refers to the total monetary value of the planned gifts from a specific donor. This could be the remainder of the DAF, real estate, other assets, or another gift that would fall to you when the donor passed away. For example, this includes CGAs, CLTs, CRTs, or an instance where the community foundation was named a beneficiary of an insurance or a retirement plan.
3. **Type of planned gift:** Was the planned gift the remaining balance of the DAF or another type of charitable asset, such as real estate, part of a will, or jewelry?
 - Transitioned from DAF: The planned gift was transitioned from the remaining balance of the DAF.
 - Other charitable assets: The planned gift was external to the DAF itself, such as another asset or real estate.
4. **Year planned gift was received:** In what year was the planned gift received?

Policies and Practices Survey

The online survey consisted of 48 questions and covered five main topics:

1. **DAF strategic intent:** What the community foundation intends to accomplish with the DAF product.
2. **Grantmaking and partnering:** Policies and practices supporting grantmaking.
3. **Use of funds and future growth:** Policies and practices affecting future growth.
4. **Communications:** How these policies and practices are communicated to donors.
5. **Structure of DAF offering and basic information:** Basic information on the community foundation and structure of the DAF offering.

All statements and conclusions, unless specifically attributed to another source, are those of the authors and do not necessarily reflect those of the other organizations or references noted in this report.

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The idea behind **cf INSIGHTS** is simple

What if *each* community foundation could know what *all* community foundations collectively know?

Created by Community Foundations

CF Insights responds to a hunger for shared knowledge and greater impact among U.S. community foundations.

Community foundations grow stronger when their decisions are based on timely, accurate, and complete information. Through CF Insights, community foundations improve performance and sustainability - individually and collectively.

Propelled by FSG

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

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

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