



2011-2016 Operating Plan

FINAL



Lead ♦ Serve ♦ Collaborate

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Situation Analysis

Nearly 100 years after the first community foundation's founding in Cleveland, the modern-day community foundation is experiencing an exciting evolution. Once focused almost entirely on managing funds and distributing grant checks, today's community foundations are respected community leaders, trusted philanthropic advisors, and powerful change agents across a wide range of issue areas.

While this evolution puts community foundations in a strong leadership position, advances public will and adds value for donors seeking impact, it also presents significant challenges in generating adequate revenue to both support today's operational needs and sustain the foundation over the long term.

A report on the changing business model of community foundations produced by CF Insights, entitled *Fueling Impact: A Fresh Look at Business Model Innovation and New Revenue Sources*, emphasizes that "the traditional asset-based fee structure provides many benefits, but was not designed to support the range of philanthropic offerings provided today, or the extensive community leadership work taken on by virtually all community foundations."

Diversifying revenue sources has become essential to strengthening differentiation and sustainability, the key principles behind a strong business model.

– "Fueling Impact: A Fresh Look at Business Model Innovation and New Revenue Sources" by CF Insights

In order for the Arizona Community Foundation to expand and enhance its philanthropic services in an increasingly competitive environment and affect change in our communities, a new business model is required—one that generates a mix of revenue both from asset-based fees and other sources, sharpens the foundation's focus and provides for a sustainable staffing structure.

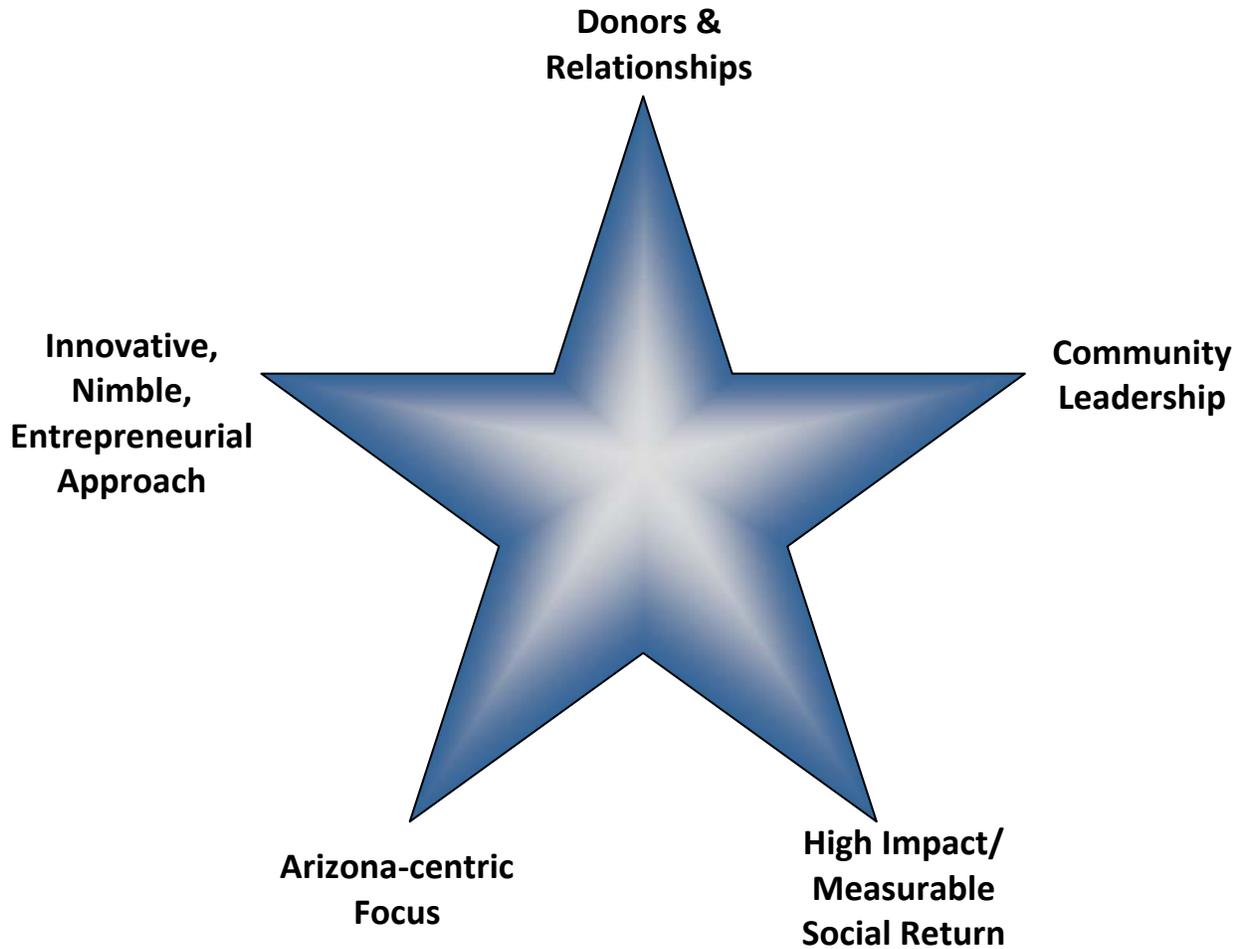
While business model innovation is required across the community foundation field, the Arizona Community Foundation possesses unique attributes which further influence its strategic direction:

- ACF is a relatively young foundation at 32 years old, with a significant number of living donors engaged in grant recommendations and ongoing giving, and interested in philanthropic advice and other services;
- Because the vast majority of donors or their immediate successors are living, 93% of annual grants are awarded through donor advice, leaving little discretionary dollars for strategic grants, leadership activities and Board-driven initiatives;
- While most community foundations serve a single city, county or region, ACF is a statewide organization with a robust affiliate system that delivers philanthropic services across a vast geographic and diverse service area.

This Operating Plan identifies how the Arizona Community Foundation and its affiliates will rise to the challenge of being the first and best choice of donors, Arizona's focal point for philanthropy, and a financially sound, sustainable organization able to serve Arizona today, tomorrow and forever.

Five High-Priority Areas

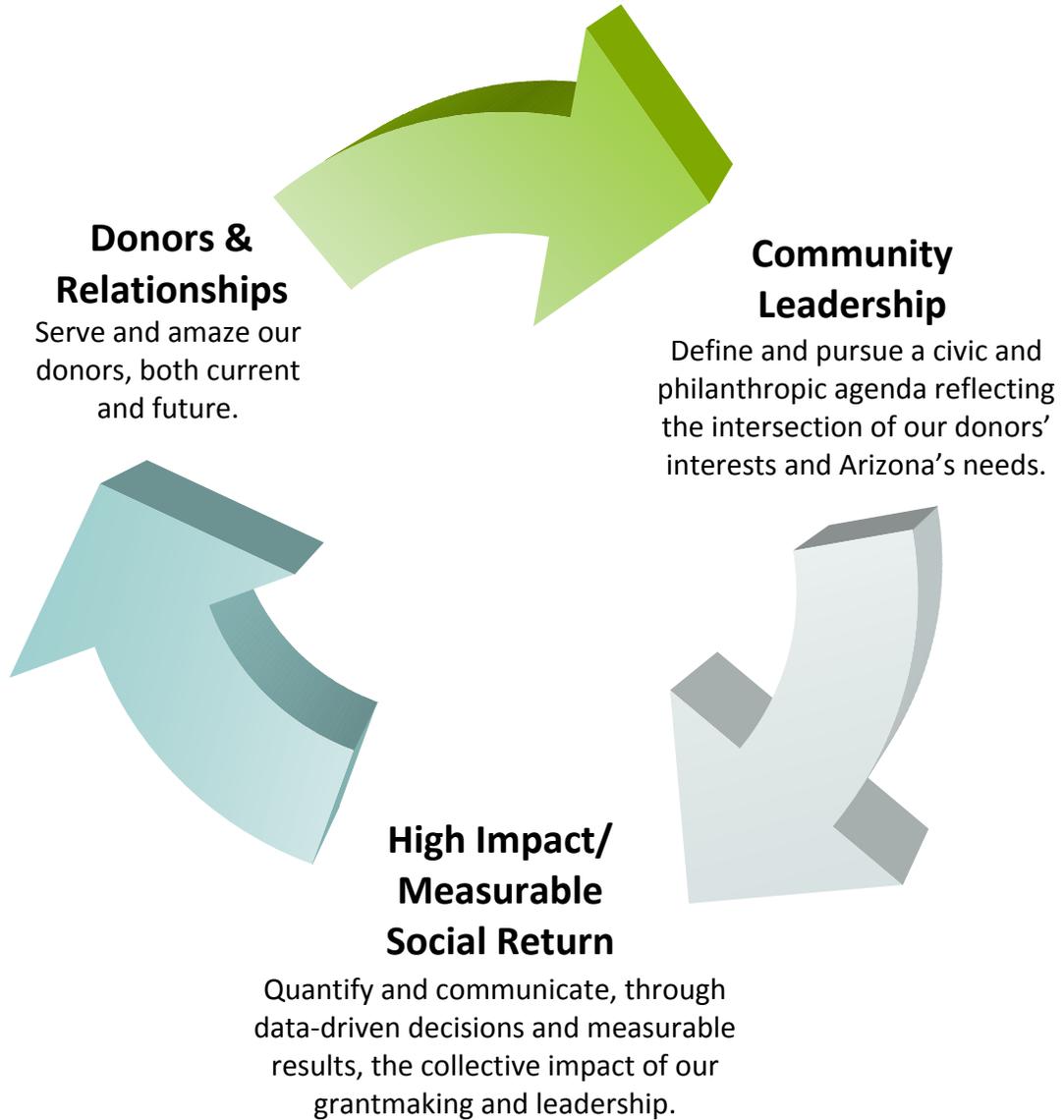
Established June 2010
Board of Directors Retreat, Prescott



Big, Hairy, Audacious Goal

Be the finest community foundation in the nation.

Broad Organizational Goals



Mission

**Lead, serve and collaborate to mobilize enduring philanthropy
for a better Arizona.**

Values

Exceptional Service

We serve and amaze our clients, nurturing lifelong relationships that span the generations.

Stewardship

We safeguard donor intent in perpetuity, ensuring the resources entrusted to us are protected and invested in positive, sustainable outcomes for our communities.

Integrity

We earn the trust of those we serve by operating ethically and transparently, honoring our commitments, and showing courtesy and respect in all aspects of our work.

Innovation

We demonstrate and welcome creativity, resourcefulness and ingenuity. We invite and encourage new ideas, pioneering practices, and inventive methods for achieving community good.

Nimbleness

We are flexible, responsive, open to creative strategies and unusual requests, and able to take prompt action.

Inclusion

Our strength is found in our differences. We believe diverse voices, engagement and participation are essential to building and sustaining thriving communities.

Collaboration

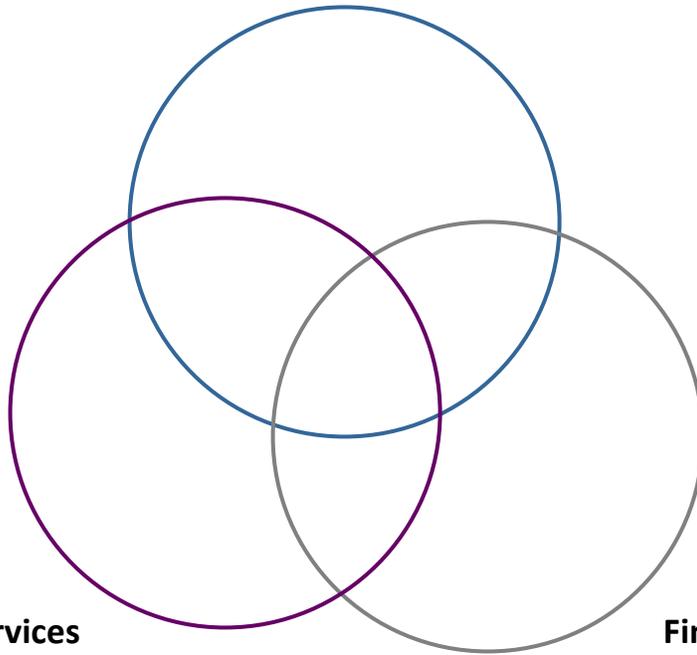
We believe in the transformative power of partnerships around shared passions and objectives. We encourage and celebrate teamwork, pooling of resources, open communication and trust.

Organizational Structure

Three Business Units

Philanthropic Services

*Advancement, Donor Services,
Programs, Affiliates*



Executive Services

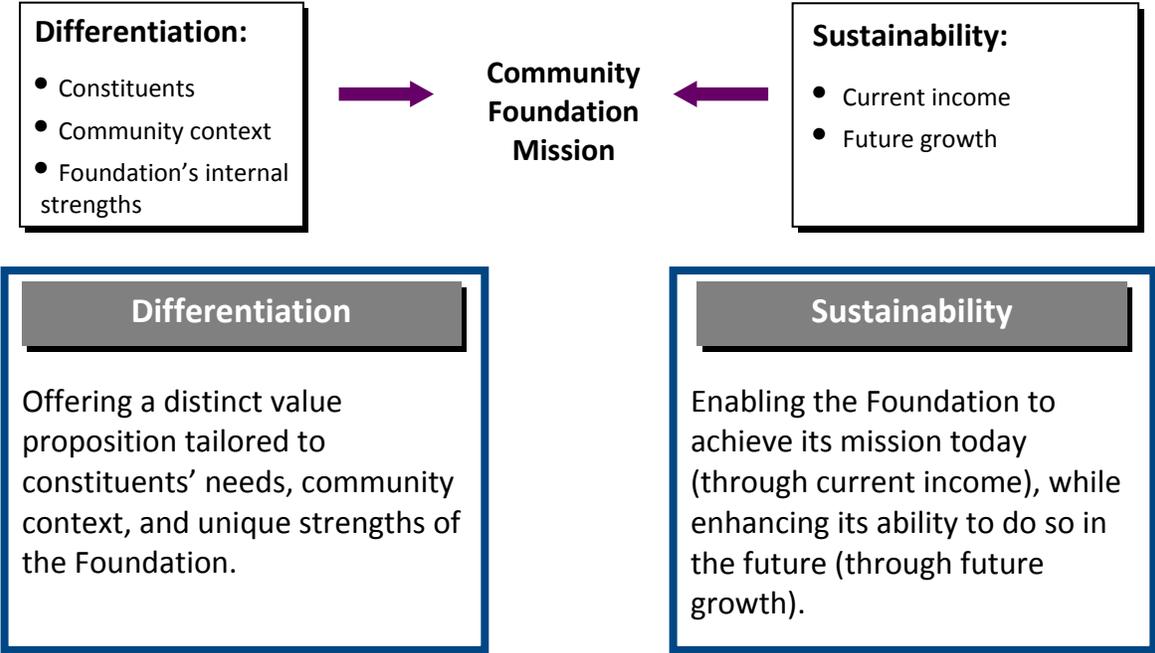
*Marketing, Communications,
Branding, Board Relations,
Strategy, Public Policy, Research,
Education & Scholarships,
Corporate Philanthropy*

Financial Services

*Finance, Administration, Human
Resources, Operations, IT*

Business Model: Differentiation & Sustainability

DIFFERENTIATION AND SUSTAINABILITY are the two mutually reinforcing principles behind a strong business model. – *CF Insights*



OUR NEW BUSINESS MODEL is designed to generate a balanced mix of asset-based fee revenue combined with a diverse array of new revenue-generating services, products and programs.

Sustainability: Theory of Change for a New Revenue Model

	Current State: 2011	Desired Future State: 2016
Revenue & Fees	1) 86% of revenue from asset-based fees	70% of revenue from asset-based fees – less dependent on variable income
	2) Budgeted operating expenses exceeding annual revenue by \$400,000 to \$500,000	Operating expenses equal to or less than annual revenue, with potential operating surplus
	3) Annual gifts to ACF averaging \$30M to \$40M	Annual gifts to ACF averaging \$50M to \$60M
	4) Undefined use of Administrative Endowment(s)	Annual 5% payout from Administrative Endowment(s) to support operations
	5) \$2M Administrative Endowment, requiring asset-based fees higher than private competitors to cover majority of operating expenses	\$50M Administrative Endowment to support annual operations, allowing ACF to offer philanthropic services for free or at a nominal cost
	6) Same fee schedule applied to all funds regardless of service requirements	Multiple service level and fee options offered based on donor service requirements and actual costs of services provided
Donor Development & New Markets	7) Organization under-invested in and unfocused on donor development statewide	Sustainable, efficient, well-integrated statewide philanthropic services provider where Advancement is a high priority and properly staffed teams focus on growth of philanthropy statewide
	8) Prospect research and grant evaluation provided to donors, resulting in unsubsidized annual costs of \$100K	Research and evaluation services offered to donors for a fee, becoming a profit center by 2016
	9) One new fund established annually by a business	Launch Center for Business Philanthropy to drive significant growth in corporate giving, resulting in 10 to 15 new funds under management by year 5
	10) Professional Advisor network under-utilized, referring an average of 20 new funds annually.	Deep and expansive statewide Professional Advisor network referring substantial new business, to double the number of annual new fund referrals
	11) Small, discrete Donor Services team with unwieldy number of accounts per staff member; no focused staff handling large funds/top accounts	Rebalanced team of Relationship Managers spread throughout organization; special handling provided to largest funds/top accounts by dedicated professional staff
	12) Grantmaking opportunities provided to donors through mostly passive interaction with separate Advancement & Programs dept. staff	High impact philanthropy options (PRIs, collaborative projects, innovative leverage opportunities.) provided by integrated team of Philanthropic Advisors skilled in both asset development and programmatic work
	13) 66% of donor advised funds actively granting	80% of donor advised funds actively granting
	14) 78% of donor advised funds are spendable (can be liquidated with donor's advice); 22% are endowed (permanent)	50% of donor advised funds are spendable (can be liquidated with donor's advice); 50% are endowed (permanent)
	15) Unrelated donor education events across the year with no scope and sequence or donor engagement goals	An "Impact Philanthropy" donor engagement series ranging from small group salons, donor-to-donor collaborative programs and hands-on multi-generational philanthropy training resulting in higher donor engagement, new fund development and more strategic grantmaking
Cost Consciousness	16) Grant proposals sent to major/national funders request only needed program dollars; administrative costs of program unsubsidized	Grant proposals sent to major/national funders always request 10% of awarded grant dollars to cover indirect expenses related to program implementation
	17) New ACF initiatives started without careful cost-revenue evaluation, capacity assessment or sustainability analysis	Established protocol for vetting proposed new Initiatives that determines capacity, sustainability, potential risk, profit margins, and opportunities for success before Initiative is adopted, with the goal of breaking even by Initiative's second year