

EFFECTIVE PRACTICES AND IDEAS COLLECTION (EPIC)

Unit 1 – Governance

Chapter 1 – Mission Statements

“A mission statement should be something that you can repeat without thinking if you are awakened in the middle of the night from a deep sleep.”

Sr. Barbara Doherty, SP, former President of St. Mary-of-the-Woods College

A mission statement is a formal, short, written statement of the purpose of your community foundation. It's an important statement; in fact, it describes your foundation's reason for existing.

Some mission statement examples:

- Google: to organize the world's information and make it universally accessible and useful
- Wal-Mart: Help people save money so they can live better
- Disney: To make people happy.
- Ford: We are a global, diverse family with a proud heritage, passionately committed to providing outstanding products and services.

A good mission statement inspires employees, board members and volunteers, guiding them in making decisions. As the heart of your case for support, the mission statement also helps donors and other external constituents understand what your organization does – and why its work matters. While there are many ideas regarding the elements of a well-written mission statement, it is common for them to contain three elements:

- What are the opportunities or needs the organization addresses?
- What does the organization do to address those needs?
- What principles and values guide the organization?

In other words, the mission statement defines the organization's purpose, business, and values. A mission statement should not be too vague or too detailed. Also, avoid jargon or buzzwords. Here are some examples of community foundation mission statements.

- The Solano Community Foundation is dedicated to strengthening our community both now and for future generations. The foundation is a vehicle for private donors to make a lasting contribution to our community.
- The Kalamazoo Community Foundation enhances the quality of life for all in the greater Kalamazoo area through community leadership and the stewardship of permanently endowed funds.
- Columbus (Ohio) Foundation – To assist donors and others in strengthening and improving our community for the benefit of all its citizens.

Assessment

1. The mission statement is clear and concise.
2. The mission statement describes the core focus of the organization.
3. Every board and staff member can communicate the essence of the foundation's mission statement.
4. There is evidence that the board makes decisions based on the mission statement.
5. Board members and staff use the mission statement to guide the foundation's strategic plan.
6. The mission statement helps the foundation identify the highest priorities for the use of its resources.
7. The mission statement is proactively communicated to the public.

Stories

Evolving with Our Foundation

At our foundation, we decided to change our mission statement in 2010. We had operated for many years with the following mission statement:

The mission of the Community Foundation of Our County is to build public giving partnerships that effectively connect donors with nonprofit organizations and community projects to produce a brighter future for all people in Our County.

While we liked this statement, we felt that as we grew larger, it no longer captured our priorities. Our old statement lacked the notion of community engagement on the part of the community foundation. It implied that the community foundation is transactional, not relational. It also conveyed that the community foundation merely connects effort with funding without adding anything of value to the exchange.

The following was proposed as a new mission statement:

The mission of the Community Foundation of Our County is to serve as a community leader to improve the quality of life in Our County by building permanent endowments, promoting

effective grantmaking, fostering philanthropy, and helping donors achieve their charitable goals.

This mission statement has the advantage of focusing on the community foundation's core strategies: asset development, grantmaking, and community leadership. In addition, it expressly uses the term "endowment," which was lacking from our earlier mission statement.

What I Learned: The mission statement must be specific enough to convey what is unique about your organization, including aspirations that may evolve over time.

Short(er) and Sweet(er)

Convincing the board of directors to change the mission statement can be a challenge. As executive director of a small community foundation in Indiana, I felt that the mission statement was not well known by the board members and community because it was too long and too hard to remember.

Here is our original mission statement:

The ABC County Community Foundation was created to encourage philanthropy and the fostering of responsibility for the public good. The foundation is to seek and accept donations from public and private sources and prudently manage these funds for the purpose of distribution. The earned assets will be drawn upon to provide grants to worthwhile community enhancing projects. The foundation leadership and financial resources will be a dedicated catalyst to positive community change.

It was no wonder no one could create an elevator speech out of this mission statement. After nine years, the board finally agreed to revise the mission statement. This was the result:

The goal of the ABC County Community Foundation is to improve the quality of life in ABC County. We will help people make a difference by promoting the spirit of giving and investing in people and solutions to shape enduring effective responses to community needs and opportunities.

Much shorter, but still too wordy, I thought. After 7 years with this mission statement, I asked at a board meeting whether the board should once again revise the mission statement. Unanimously, the board determined that the mission statement was fine and did not require attention. What to do?

I devised an experiment to help the board members experience our mission statement's power – or lack thereof. I broke up the mission statement into 3–4-word sections, wrote each section on an index card, shuffled the cards, and then gave each board member a card. My instructions were simple: line up in the order of the mission statement. After five

frustrating minutes, the board decided that it was time to revise the mission statement. Case closed!

What I Learned: The best way to help board members understand the importance of an evocative mission statement is to put them in the position of using it.

Values-Driven

At our community foundation, a task force of two board members and me, the executive director, undertook the challenge of revising the mission statement. The first step was to identify the core values of the foundation. After identifying 9 core values, the team created the following mission statement:

Our mission is to engage people, build resources, and strengthen our community.

This mission statement is easy to remember, clear, concise and encompasses all the core values identified by the task force.

What I Learned: Values can form the basis of an effective mission statement.

What I Wish I Knew

Bring in many perspectives. Get lots of input from the community you plan to serve, as well as from your board, staff, and volunteers. This will help you develop a broad base of support. You can get this input through meetings, surveys, or phone calls. Ask people what they think or need regarding the areas of service you plan to offer.

Review your mission statement frequently. The American Heart Association, for instance, reviews its mission statement every third year, but it is changed only every few decades. Cass Wheeler, long-time CEO of the American Heart Association, and Independent Sector board member, says in his book, *You've Gotta Have Heart: Achieving Purpose Beyond Profit in the Social Sector*, "The environment changes and the organization changes, so a periodic review is important to ensure that there is alignment of purpose and reality."

Red Flags

Mismatch on your 990. Part 1, question 1 of the 990 asks for a description of the organization's mission or significant activities. Be sure that the individual who is preparing your 990 is aware of any changes you make to your mission statement.

Rushing the process. Time spent now will pay off later. So, take your time. Provide time to reflect on the information you gather, to write an initial draft, to allow key participants to read it, and to make changes.

An expansive mission statement. The best mission statements are short and state the obvious. Your statement's length and complexity depend on what your organization wants to do but keep it as brief as possible. You should be able to use the statement frequently, so make it succinct. As Tony Ponderis of the Fund-Raising Forum says, the mission statement should be "...short enough to remember and easily communicate. Strong enough to inspire."

Tunnel vision. Be open to new ideas – now is the time for some fresh perspective. This is especially important for the founders of the organization. Be open to different interpretations of what you should be doing and new ideas about how to accomplish your goals. Use brainstorming techniques to ensure that all ideas come forward freely. You can winnow them down later.

Practical Tips

- The mission statement should be short enough so that it is easily committed to memory.
- The larger the committee, the longer the mission statement will be.
- Place the mission statement prominently on-board meeting agendas. You can also have a laminated poster made of your mission and values and post them where your board and committees meet.
- Post the mission statement behind the reception desk at your office.
- Put the mission statement on the back of all business cards, especially cards for board members.
- Place the mission statement prominently on your letterhead and all publications.
- Be sure that your mission statement is aligned with your Articles of Incorporation. For example, a nonprofit organization that starts out as a food pantry, after several years of operation, opens a daycare for low-income families. Such a dramatic change in mission and direction would require a change to the mission statement and a review of the Articles of Incorporation.

Chapter 2: By-Laws

“It is difficult to make our material condition better by the best laws, but it is easy enough to ruin it by bad laws.”

Theodore Roosevelt

By-laws are like laws that your foundation’s founders and successors established specifically for your organization. They provide the broadest guidelines for operations and are the source to consult when questions arise. Attorneys often draw them up from boilerplate when an organization is founded, and by-laws are easy to take for granted after that. But by-laws are the foundation upon which all other policies of your organization are built – be sure it is a firm foundation.

By-laws are important to your board since they address the basics of governance. But external audiences will hold you accountable for compliance too – even though by-laws are voluntarily adopted, and you can change them. Donors, regulatory authorities, and others may take issue with your foundation if you do not abide by your own by-laws.

Assessment

1. By-laws are used as a basis for electing board members and filling vacancies.
2. By-laws define the timeframe for an annual meeting.
3. By-laws describe officer positions for the board of directors and how these offices are filled.
4. Board members have access to the by-laws and are familiar with critical components within the by-laws.
5. The by-laws are reviewed by a committee of the board on a regular basis and any needed changes are reported by the committee to the board for consideration and/or action.

Stories

By-laws Confusion

By-laws are meant to provide clarity on how your organization is governed and operated. If they don’t, they need to be changed. A good example is the ABC County Community and Economic Development Foundation, Inc. It was formed as a non-profit corporation in 1986. Over the years, several by-laws’ issues emerged:

Membership was an issue since the beginning. The by-laws made provisions for members of the corporation, but there has never been a membership to this corporation.

In 1992, the community foundation moved to another location and formed the Community Foundation of ABC County, a separate entity. The original by-laws for the County Community and Economic Development Foundation did not change – even though the by-laws stated that the resident agent is the executive director of the Corporation, and there were now two executive directors associated with the original mission of the Corporation.

A final confusing issue relates to other staff positions within the ABC County Community and Economic Development Foundation. The by-laws authorized and empowered the board to establish, operate, and manage a Promotion and Visitors Bureau as a standing committee of the Corporation, along with the authority to assign duties to a Promotion and Visitors Bureau Board. By 2010 the staff included a Director for the Economic Development Corporation and a Director for the Visitors Bureau. Both Directors are under the ABC County Community and Economic Development Foundation board. The chain of command was unclear. According to the current board, they were to be equal – but they were not treated as such. As organizations should, they looked to the by-laws for clarification only to become more confused.

After a long period of time which included board orientation, discussion and finally agreement, new by-laws were developed.

What I Learned: Be familiar with the by-laws and make sure your organization operates within the guidelines. If it was not operating within the guidelines out of ignorance, bring your organization into compliance as soon as possible. If your foundation is not in sync with the by-laws because you believe the by-laws do not make sense now, then you should revise your by-laws.

Fit to Govern

In recruiting new board members one year, we had identified a particular skill set that we needed to try to attract – someone who could chair our investment committee. Our search was made more difficult by the fact that our conflict-of-interest policies prevented someone who worked at one of our investment managers – or at a firm that could be one of our investment managers – from serving on our investment committee. After reviewing available candidates, we decided to try to recruit a well-known local leader who had expertise in investment management. We were thrilled when this candidate accepted our offer to serve on the board, as well as the investment committee.

After electing this candidate to the board and completing the orientation process, we learned that, while this new board member was a well-known community leader, she did not live in our county. According to our by-laws, however, all our board members were required to live in our county. She lived just a few hundred yards beyond the county border. So close!

After several weeks of discussion, we chose to modify our by-laws to say that two-thirds of our board members must live in our county. This also allows us to recruit “snowbirds” –

people who spend a portion of the year in warmer southern states yet have strong ties to our community.

What I Learned: By-laws can have unintended consequences. If you discover one that you believe to be a problem, change the by-laws. Just think it through, to reduce the likelihood that your change will create other unintended consequences.

What I Wish I Knew

- Community foundations have widely varying membership provisions, with some having no members, and others defining membership in inclusive ways.
- Outdated by-laws can come back to bite you.
- Read your by-laws on your first day of work.
- Although not the norm, occasionally community foundations establish themselves as membership organizations. Generally, such a decision is made at inception. It is a decision that should not be taken lightly. Although being a membership organization gives weight to the Facts and Circumstance Test, the additional responsibilities – such as holding periodic membership meetings and allowing members to participate in nomination of board members – may well outweigh the benefits.

Red Flags

Operating in a manner inconsistent with the foundation's by-laws. Whether you take actions counter to your by-laws, or fail to take actions prescribed by your by-laws, it can expose the foundation to public criticism, and even to a legal challenge. Either change your operations or amend the by-laws so that they are aligned.

Allowing foundation board members to serve more than ten (10) consecutive years. Should your foundation fall below 33% on the public support and must pass the Facts and Circumstances Test, this could count against you.

Frequent amending of your by-laws. Changes in the by-laws should not be occurring very frequently. If they are, you may be going into too much detail in your by-laws. Many matters of governance and management can be appropriately addressed in other policies.

Practical Tips

- Don't require adherence to Roberts Rules of Order during board meetings unless prepared to comply with all aspects.
- Include a provision for official actions between board meetings and for participating in meetings when not physically in the room.

- Ensure that there are provisions for adding board members between annual meetings and for filling partial terms and spell out the maximum length of service in those cases.
- Include a provision for how/when a board member will be allowed back after serving up to the term limit and leaving the board.
- Require a written resignation from board members who resign.
- Include the conditions for and process of removing board members from the board.
- Clearly describe rules for quorum and attendance.
- While most community foundations exist in corporate form, there are some that exist in trust form. The biggest difference between the two is the management of assets. Corporate form community foundations manage their own assets, while assets of a trust form community foundation are managed by bank trust departments.

Chapter 3 – Required Filings

“We can lick gravity, but sometimes the paperwork is overwhelming.”

Wernher von Braun

Even rocket scientists must stay on top of their paperwork. The same is true for foundation directors. While filing reports to governmental authorities may not be the most exciting thing we do, this is essential paperwork, and we must assure that it is done properly.

Assessment

1. The appropriate staff and volunteers are familiar with legal and regulatory filing requirements.
2. An effective system is in place to achieve all necessary filing and reporting.
3. The board ensures that filings are made in a timely manner.

Stories

The Case of the Missing Checkmark

In 2009, three organizations in our community received a bill for personal property taxes. An accountant had completed and filed this annual form for all the organizations, but the County had changed the form. There was now a tiny box about two-thirds of the way down the page that needed to be checked for a non-profit organization. The box was easily missed, resulting in the erroneous tax billing. After a couple hours at the courthouse the problem was corrected.

What I Learned: Always check the form thoroughly before sending it in, no matter who completes it.

The Organization that Never Ends

There are certain requirements for dissolving a charitable entity. If not done properly, however, the result can be as irritating as “the song that never ends.” Worse yet, it can pose a serious liability.

Our foundation was working with a local visioning organization whose importance and relevance had diminished. It elected to dissolve itself. Our foundation agreed to help disperse the remaining assets and tie up loose ends. To our surprise – and frustration – we

began receiving angry correspondence from the state. The state asserted that the organization in question owed hundreds of dollars of payroll taxes and penalties for a third organization that had been associated in some way but had long since gone out of business. Apparently, no one filed the correct form with the state to officially dissolve that defunct entity. The matter was eventually resolved – but not without considerable time, effort, and aggravation.

What I Learned: Take care to understand the requirements of the governing bureaucracies with which we must comply. They relate to starting a business, operating a business, and ending a business. And oftentimes the simplest requirements are the most important.

What I Wish I Knew

Early in your career, get a good handle on all filings because no one is going to remind you.

Red Flags

No calendar system for filings. Watch your dates because consequences can be significant.

Late or improperly filed reports. Don't just get it in – get it in on time, and make sure it's done correctly.

No record of your filings. Keep a copy of everything that you file; if any issues arise, you can refer to your copies to help you resolve them.

Practical Tips

- Prepare a calendar of all publishing/reporting dates, AND THEN look at it.
- The email from the secretary of state looks like junk - make sure you open it.
- Use certified mail to document dates of submission.
- If foundation staff uses their vehicles on foundation business, ask each staff member for a copy of their driver's license and proof of insurance. By checking for licensure and insurance, you can protect the foundation against legal liability. Plus, it helps staff keep track of these expiration dates!

Chapter 4 – Form 990

“We'll try to cooperate fully with the IRS, because, as citizens, we feel a strong patriotic duty not to go to jail.”

Dave Barry

Kidding aside, foundations have good reasons for cooperating with the IRS. Staying on the right side of the law is certainly one of those reasons. We do that chiefly by disclosing on the IRS Form 990 a wide range of information about our operations that assures the government, and the people, that we are worthy of our special tax-exempt status.

But interest in the Form 990 is not limited to bureaucrats. The information on this form is increasingly accessed by savvy prospective donors who want to check out charitable organizations from the comfortable anonymity of their computers. The 990 is one more opportunity to put your best foot forward with those who may want to invest in your mission.

Assessment

1. A procedure is in place to effectively gather information for the 990 in a timely manner.
2. Efforts are made to maintain knowledge of current 990 requirements.
3. Special emphasis is given to the Public Support Test and appropriate measures are in place to ensure compliance.
4. The foundation's accounting firm or auditor presents 990 information to the full board.

Stories

Missing Narratives

The first year the new 990 format was required for our foundation, I made the mistake of leaving the narrative parts up to our accountant to complete on our behalf. Big mistake. On the eve of the deadline, I received the “completed” 990 only to realize that the answers either were not there at all or were incomplete or incorrect. In any case, not the answers I wanted sent to the IRS or the image of the community foundation that I wanted to convey. With the deadline for filing only two days away, I was left with redoing and completing the narrative sections myself.

What I Learned: Review the questions with your accountant before he/she starts the preparation and be prepared to submit some of your desired answers yourself. Do it the first

year using the new format, when beginning with a new accountant or tax preparer and ideally every couple of years after that (if there are no material changes in your programs or practices).

The All-Zero 990

In performing due diligence before we award a grant, we ask the grant recipient for their most recent Form 990 (or we download it from GuideStar). In preparing to award a grant to a very large nonprofit, with annual revenue more than \$8 million, we received their Form 990 and were surprised to see that every line in their financial statement was marked with a zero – revenue, assets, everything.

We subsequently learned that the organization was unable to gather their information in time to fill out the Form 990. They had already filed twice for an extension, and they were not eligible for a third extension. Rather than file late, they thought they would just file a return with all zeros, and then file an amended return later.

While we still support this nonprofit, it did put us on notice that they need to improve their financial reporting system so that they could prepare their statements in a timely manner. In addition, it raises serious questions about their governance and oversight. Why did the board approve filing such a tax return? Or if the board didn't know, why not?

What I Learned: Some organizations do abuse the system. Make sure your organization has checks and balances in place to ensure that it will always file timely, accurate reports.

What I Wish I Knew

If you are compliant with Indiana Operational and Ethical Standards, then much of the 990 is taken care of automatically.

Take the time to review the 990 to see what the auditors did and ensure that you “know the business.”

Red Flags

Exposure of confidential information. Be aware that the Form 990 is a public document and is available on GuideStar and other publicly accessible websites. Only post the public version of the 990 to your website to ensure that sensitive information, such as donor lists, does not become public.

Large gifts that could tip you on the Public Support Test. If the foundation is going to receive a very large gift, be aware of what that gift will do to the Public Support Test. Work with professional advisors to minimize the gift's impact on the Public Support Test.

Practical Tips

- Hire a good accountant that is knowledgeable in non-profit work.
- Get the 990 done on time or request an extension so that the board can review it before filing.
- Until you are comfortable with your accountant writing the narrative, do it yourself.
- The narrative is an opportunity to market the foundation and will show up in other places.
- Make sure what you say in the 990 matches the foundation's 1023 application.
- Put your 990 on GuideStar before the IRS does.
- Professional network groups and other organizations can be helpful in identifying potential changes to the Form 990.
- For purposes of educating your auditor and accountant, share any relevant materials from membership organizations or trade associations.

Chapter 5 – Supporting Organizations and Affiliates

“As always in a musical collaboration: One has to like each other. As simple as that.”

Klaus Schulze

Like musical collaborations, philanthropic partnerships require that the partners like each other – or at least, trust each other. But it is not as simple as that. When you are giving special support to an important priority or sharing infrastructure with neighboring communities, you must ensure that as people come and go from both sides of the collaboration, trust will abide – and all the legal i's and t's will be dotted and crossed, respectively. Hence, you may find yourself working with a supporting organization or an affiliate structure.

Assessment

1. The foundation maintains documentation regarding the Type I, Type II or Type III status of all supporting organizations.
2. If the foundation maintains a Type III supporting organization, documentation exists to indicate if the supporting organization is functionally integrated with the foundation.
3. All legal and regulatory documents relating to supporting organizations and affiliates are filed in a timely manner.
4. A procedure is in place to appoint members of the boards of all supporting organizations and affiliates.
5. Board members and volunteers of supporting organizations and affiliates are provided with adequate orientation of their duties.
6. Board members and volunteers of supporting organizations and affiliates are provided with adequate conflict of interest disclosures.
7. Financial transactions of supporting organizations and affiliates are protected through use of internal controls and audit testing.
8. The legal responsibilities of affiliates and parent organizations are clearly described and understood by all staff and volunteers.

Stories:

Finding a Collaborative Structure That Works

Our foundation was originally formed to be a regional foundation. However, that was in name only. Our early volunteers all came from one county. We struggled to provide grants in our surrounding counties; it was hard to justify spreading the money around when the donor's funds came from the largest and primary county.

After several years, we had surrounding counties investigate forming their own legal organization versus forming as an affiliate of our foundation. Because of time and cost, two of the counties chose to affiliate with our foundation.

Our foundation adopted a by-law revision that allowed other counties to form an affiliate by organizing a group or committee of residents. Officially that committee is a “County Services Committee;” however, as a marketing title, that committee is the Named County Community Foundation. The County Services Committee, hereinafter “CSC,” is responsible for proposing its own operating rules which I liken to the committee’s by-laws. They determine the term its members can serve, the number of CSC members its needs, who may sit on the CSC, and how often it meets. The CSC also appoints two of its members to serve on the board of the parent or legal entity board. (The number of CSC members who serve on the legal entity board is determined by the by-law provision of the legal entity.)

Basically, the affiliate acts like a separate community foundation, except it doesn’t handle its own investments or finances, and its decisions need to be ratified by the parent foundation. The affiliate foundation is responsible for its own operational fund raising, long-term asset development and grant selection. Other foundations with affiliates have each foundation be a separate legal entity and the “parent” organization is equally represented by all affiliates equally.

What I Learned: There may be many “wrong” ways to set up an affiliate structure with a neighboring county or town, but there is no one “right” way to set up an affiliate. Do what works in your region.

What I Wish I Knew

- Supporting organizations require significant legal and regulatory oversight. Just like a baby, they require constant care and feeding.
- Supporting organizations are separate legal entities and require all the necessary accoutrements of a legal entity.
- If you can organize the affiliate to follow the same timelines and general guidelines for grants and scholarships as the parent foundation, it is easier for the staff.

Red Flags

Confusion about what type of supporting organization you are operating. Understand the difference between Type I, Type II and Type III supporting organizations and how you wish to operate. Be aware that there is increased IRS scrutiny of Type III supporting organizations.

Practical Tips

- Consult legal counsel to determine the most appropriate legal structure to accomplish your goals, such as supporting organization vs. LLC for real estate.
- Consider creating a supporting organization to accept large gifts without concern for the public support test.

- Consider creating a supporting organization to accept real estate gifts to insulate the foundation assets from legal liabilities related to the real estate.
- Having everyone on the supporting organization board serve on the foundation board makes the life of the executive director much easier.

Questions?

Have questions about this information? Please contact us.

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