EFFECTIVE PRACTICES AND IDEAS COLLECTION (EPIC)

Unit 4 – Critical Processes

Chapter 1 – Budgeting/Cost Revenue Projections

"Money is a terrible master, but an excellent servant."
P.T. Barnum

One of the most important avenues for managing your foundation is the budget. Budgeting andforecasting give you the opportunity to apply your foundation's mission-driven priorities and to live by its values. If your foundation has ambitious fund development goals, the budget should ensure you can spend what's necessary to reach donors. If learning is one of your fundamentalvalues, this should be reflected in budget lines that support staff development, board development, and perhaps even the training available to your grantees and partners. If you aspire to a stronger community leadership role, the budget must support the allocation of staff time to networking and project development.

Further, budgeting and forecasting help you to ensure that your organization is on firm financial footing. Regardless of the size of your foundation or your community, the basic financial disciplines remain the same: don't spend more than you have coming in (with strategic exceptions), continue to diversify and strengthen your revenue sources, and plan responsibly forthe future. Throughout the year, you can use financial reports to help you evaluate how well you are progressing toward your mission and toward the perennial imperative of sustainability.

Assessment

Take this quiz to determine your community foundation's level of effectiveness in this area:

1. Clear policies and procedures exist for creating and approving the annual budget.
2. Clear priorities are established early in the budgeting process, including the prioritizationplaced on maximizing current grantmaking vs. preserving endowment in setting fund payout levels.
3. Budgets and cost revenue projections reflect the mission of the organization.
4. Cost revenue projections using various scenarios are developed with input from theboard or a duly appointed committee of the board.
5. Potential budget deficits are openly discussed by the board members and staff.

6. Budgets are based on cost revenue projections and prior year asset values andexpenses.
7. Realistic assumptions are made, such as assumptions relating to market performanceand charitable contributions.
8. Forecasts are created for a minimum of three years.
9. The various sources of income are disclosed to the board.
10. The board is educated about how their role in asset development impacts the budget.
11. An operating reserve fund exists and building this fund is a part of the annual budget.
12. At a minimum, quarterly budget review reports are made to the board of directors or aduly appointed committee of the board. If a budget deficit or crisis occurs, a corrective plan of action is immediately created andenacted.

Stories

Magic Budget

When I began my current position with our community foundation, I was amazed to find the budget consisted only of expenses. I looked back at prior years for a listing of income but discovered the board had regularly approved a budget consisting only of the expense side. Iasked the finance committee, “Where does our operating money come from?” There was a pause and a vague answer. I realized they were not sure! It was as if the money to fund our expenses was expected to appear out of thin air. Needless to say, this practice was soon changed, to show the income side of the budget as well.

What I Learned: Don’t assume your board members – even your finance committee members – are financially savvy. Make sure you have budget basics covered, like listing both incomesources and expense categories. Help your board understand both sides of the equationand how the income side of the budget drives the expense side.

Saved by the Reserve

Most of us charge administrative fees on our funds based on their market value. But equity prices can be volatile. During the go-go years of the late 1990s, I was able to add approximately one staff member per year based on high investment returns. When the bubble burst, thank goodness we had reserves to call on to prevent layoffs. When the bubble burst again in 2008-09,we had reserves – but not enough to prevent salary cuts.

What I Learned: Bubbles will come with frightening regularity. Significant cash reserves – if youcan afford that luxury – will make your life easier.

What I Wish I Knew

- It’s important to involve staff members in the budget process. Staff may have informationand ideas that will help you create a stronger, more accurate budget. At a minimum, keep staff informed of important decisions that are made about the budget, to ensure they have appropriate expectations and can carry out their job duties accordingly.

Red Flags

- *Board members who take comfort in your operating endowment, viewing it as a reservefor your organization.* Help your board understand that only a small portion of the operating endowment is available for administrative expenses.
- *Sloppiness in how fundraising expenses are tracked and reported.* Be transparent and consistent in how you report fundraising expenses, as this is an area of concern to the IRS.

Practical Tips

- Use your committee, including making sure they are well-informed if you are deviating from the approved budget.
- Remember as you prepare your budget information to gather the information that you’llneed for the Form 990 filing (e.g., functional expenses).

Chapter 2 – Strategic Planning

"Strategy is no guarantee of impact. But without it you are almost guaranteed to have no impact."

Paul Brest, William and Flora Hewlett Foundation

Strategic planning is one of the most valuable tools in your leadership and management toolbox. The planning process can align your foundation's leaders around a powerful shared vision andthe goals through which they can help realize that vision. The plan itself can make your life as a manager easier and more fulfilling. When done well, itprovides clear plans for you and your team to implement, as well as indicators for tracking progress toward your goals.

Assessment

1. The foundation's vision, values and beliefs are clearly defined and guide the planning process.
2. The plan addresses all aspects of the organization, including fund development, community leadership, stewardship and programs.
3. Goals and objectives are Specific, Measurable, Attainable, Realistic and Timely (SMART).
4. Challenges to achieving goals and objectives are identified and addressed.
5. Specific action steps are identified for strategy implementation, including timelines andresponsible parties.
6. The plan is a living document and is monitored, reviewed and updated on a regular basis.
7. The board and staff review the strategic plan at least every 3 years.
8. Major decisions are guided by the strategic plan.
9. Measures of performance relative to the strategic plan are reviewed regularly with theboard.

Stories

The Plan That Never Ends

While a vital function of any organization, strategic planning can be a lengthy process and can sometimes get out of hand. The participants can get so caught up in the process, that they losesight of a realistic endpoint. Case in point: a nonprofit organization spent an entire year developing a strategic plan. The sky was the limit… all ideas placed on the table during the brainstorming process stayed in the plan.

The result was a very cumbersome plan that filled an entire three-inch ring binder. It was a beautiful plan…. but so lengthy that once it was placed on the shelf, it was rarely looked at again.Further complicating the implementation was the fact that once the plan was complete, upper management did not hold any directors/managers accountable for completion of goals.

What I Learned: Strategic plans need to be doable. A large plan that never gets implemented isa waste of time and resources. Better to start small, with fewer, achievable goals, than to create a plan that is too big to start.

What I Wish I Knew

- The role of the board is to look at the big picture and it's the role of the staff to determinethe details of the plan; figuring out the hand-off point can be challenging
- While you want a strategic plan to be thoughtful and thorough, you'll be in trouble if theplanning process is a long, drawn-out affair. Find a consultant who can not only get youinto the process, but get you out of the process, in a timely manner. Don't forget the
- S.M.A.R.T. principle – set goals that are Specific, Measurable, Attainable, Realistic andTimely – but also don't violate the K.I.S.S. principle – Keep it Simple, Stupid!

Red Flags

- *One or a few people are assigned to write the plan, or take it upon themselves to do so,without involving others meaningfully in the process.* Shared vision and buy-in for your goals are essential to the plan's success, so make sure stakeholders are genuinely engaged in developing it.
- *A process that lingers on after volunteer interest begins to flag.* Keep the planning process moving so you can proceed to the implementation stage while enthusiasm andownership is strong.

Practical Tips

- Color code each of the objectives in your strategic plan to indicate progress on achievingthe goals (green = good, yellow = concern, red = big trouble).
- Determining what you're NOT going to do is just as important as determining what you ARE going to do.
- The strategic planning process might work better if it's guided by a subcommittee of yourboard rather than your full board.
- The strategic plan is a part of the board recruitment and orientation process.

Chapter 3 – Succession Planning

“I never think of the future. It comes soon enough.”

Albert Einstein

Just as individuals can postpone for years the important task of writing a will, organizational leaders with the best of intentions sometimes let the succession plan slide. Board members mayprefer not to think about the possibility that a change of CEO could occur on their watch. As CEO,unless you are counting the months until retirement, you have many other, more immediate priorities on your plate. This is all natural.

However, much like one’s last will and testament, the succession plan is an important opportunity for you to help protect your professional heirs and preserve your legacy. Perhaps yourretirement is decades away, you love your job, and your board loves you. Your foundation still needs a succession plan, for the same reason it needs procedure manuals – what if you get hit by a bus tomorrow? If not tomorrow, your foundation will need a new leader “soon enough.” And if you don’t take the lead in developing a succession plan, who will?

Assessment

Take this quiz to determine your community foundation’s level of effectiveness in this area:

1. CEO Succession Plan exists for both planned and unplanned situations.
2. The succession plan identifies types of individuals the board chair could name to serveon a transition committee to conduct the search for a new CEO.
3. The succession plan addresses the question of interim leadership in the case of unplanned succession.
4. A CEO position description and required qualifications exist for use by a transition committee.
5. The plan includes a transition period in the case of a planned succession, with departingCEO training successor CEO.
6. The transition period has a set end date, determined and enforced by the board.

Stories

A Successful Transition

Near the ghost town of Tuff, Texas stands a 1940's-era fire engine, quietly rusting on the grass and clearly not operational. A large sign on the truck says "Tuff, Texas volunteer fire department – firefighting by appointment – 3 days' notice appreciated." Advance planning for firefighting may be ridiculous, but advance planning is critical when a community foundation needs to hire anew CEO.

Fortunately, my community foundation benefited from careful planning when I decided to retire as CEO. I had been considering retirement for some time; the decision to do so was difficult. Mycurrent position was extremely gratifying, with an exceptional board and staff and a rewarding mission. Because my board worked to ensure that I was satisfied with my job, I stayed longer than I expected. And when I finally decided to retire, I was motivated to make the transition as easy as possible for them.

Here are the three steps I took:

First, I gave my board of directors almost one year's notice, for which they expressed gratitudeover the entire year.

Second, I provided them with the best support possible in the search for a new CEO. With my assistance, the board took these steps:

Developed a succession plan. I helped by finding examples of existing plans, researching books on succession planning, and interviewing others who had experienced what I was about to experience.

Kept the rest of the staff well-informed about the process and included them in certain aspects of the search.

Conducted a nation-wide search for a successor, which produced an exceptional field of candidates. The search was conducted without the aid of a professional search agency.

Finished adoption of a comprehensive set of policies, like the Policy Governance Model, governing all aspects of the organization. This included guidance forthe CEO, rules for the board, and delegation of authority.

Exercised a policy requiring any board member who sought employment with the community foundation to resign his or her position before submitting an application. Thispolicy resulted in the early identification of a candidate with exceptional qualifications, who was finally selected for the position.

Third, I made sure the organization was in great shape when I departed. During the year of thesearch, my efforts in this regard included:

Finishing development of a clear set of written operating policies and reviewing all of the organization's other policies for clarity and currency. My successor and his successor both commented that the organization's policy set was most important in allowing them quickly to become proficient as a new community foundation CEO.

Staff members were cross trained to ensure back-up familiarity with the foundation's operations. Perhaps the most important aspect of this was to ensure that the development director and the program director were familiar with the operation of theorganization's accounting software.

What I Learned: By giving plenty of advance notice, an outgoing CEO can help assure a board ofdirectors has sufficient time to develop and execute a succession plan. Since this kind ofadvance notice is not always feasible and can't be counted upon, the best time for an organization to develop a succession plan (or update an existing plan) is now.

What I Wish I Knew

- A planned succession should be conducted so that both the departing and successor CEOs are comfortable.
- Planned succession can vary with each foundation. Some may take up to a year – as was the case in Grant County (Indiana), Kalamazoo (Michigan) – while others are completed much more quickly.
- Your succession plan should clearly address the issue of having a board member take over the executive director position. Such a move could be perfectly acceptable; on theother hand, it could raise eyebrows if a board member votes to fire an incumbent executive director and then applies for the same position.

Red Flags

- *Dramatic differences in leadership styles between outgoing and incoming CEOs.* The transition committee should be advised of the departing CEO's style and inform the board chair if the board and staff will need to be prepared for a significant difference inthe new CEO's approach. If the succession is planned, the departing CEO can also encourage board and staff members to see the best in the new leader and to welcome new ways of doing things.

Practical Tips

- An operations procedure manual, encompassing all positions, is vital to a smooth transition.
- The succession plan should be in multiple locations and easily accessible so everyone isable to find it; a copy should be stored off-site as well.

Chapter 4 – Risk Management

"Riding a motorcycle on today's highways, you have to ride in a very defensive manner. You have to be a good rider and you have to have both hands and both feet on the controls at all times."

Evel Knievel

We may eschew wheelies and canyon-jumping… but on today's philanthropic by-ways, communityfoundations still need to drive defensively. That's what risk management is all about.

Operating a non-profit organization, like living, is full of inherent risks. And community foundationleaders often take calculated risks in the pursuit of their goals, be it in investment programs, grant strategies or personnel decisions. Whether our foundations stick with modest and unavoidable risks or embrace significant and strategic ones, we need to be conscious about the risks we face and prepare accordingly.

Assessment

Take this quiz to determine your community foundation's level of effectiveness in this area:

1. The community foundation conducts a comprehensive annual risk management assessment.
2. The risk assessment covers both insurable risks and those that can only be addressedthrough sound policies and procedures.
3. Board members are attentive to the potential risk involved with the various activities ofthe foundation and potential harm to the foundation's reputation in the community.
4. Personnel policies are reviewed regularly by an outside advisor knowledgeable about local, state, and federal employment law.
5. Insurance policies are reviewed periodically.
6. Appropriate types of insurance are in place, such as property insurance, liability insurance and Directors and Officers insurance.
7. The risk assessment covers volunteer management.
8. The risk assessment covers fiscal management including theft, fraud and waste.
9. The risk assessment covers fundraising, making sure that the foundation follows boththe spirit and the letter of regulations (e.g., silent auctions, raffles, alcohol licenses, gaming licenses, donor-initiated fundraising activities).
10. The risk assessment includes computer security and backup, and secure storage of computer data.

Stories

Golf Course Conundrum

Have you ever heard the saying “If there is a possibility of several things going wrong, the one that will cause the most damage will be the one to go wrong?” Well, that saying held true for thisnext case. A nonprofit organization was having a golf fundraiser at a popular golf course. The clubhouse at this specific course was located at the back of the course. In order to get to the club house, people had to drive through the course, exposing their vehicles to the elements of the course.

On this particular day, a golfer in a new Mercedes sports coupe happened to be driving throughthe course when, all of a sudden, a golf ball slammed into the side of it, creating a rather large dent. The golfer that hit the ball was participating in the nonprofit’s golf fundraiser. The million-dollar question was, who is liable for the damage? Is it the golfer who hit the ball? The driver? The golf course? The nonprofit agency hosting the event? The agency certainly had not anticipated this risk when they decided to have a golf tournament.

What I Learned: As Elvis Presley put it, “When things go wrong, don’t go with them.” There arealways ways to rebound from troublesome situations.

Life-Saving Information

HIPAA laws prohibit you from releasing personal information about an employee, but there aretimes when this information is critical.

I was the person in charge of an office at the time when one of our employees suffered an epileptic seizure. While the ambulance was in route, I pulled his personnel file to check for contact information and any health-related information that might be helpful. As it turned out, epilepsy was a known condition to him and he was taking medicine to help control it. This wouldbe useful information to the emergency medical team, but illegal for me to provide.

It probably wasn’t the first time I broke the law, but probably one of the few times I did with suchhappy consequence. The employee was treated successfully, recovered, and returned to work.

From then on we maintained an “emergency information file” containing specific medical details and contact information an employee would want disclosed in case of an emergency. The file waskept at the reception station in a discreet, but not secure location. The idea was to keep it available so anyone on staff would know where it was, should it be needed. The information it contained was at the discretion of the individual providing it, so they could disclose as much or aslittle as they wanted, with the understanding it would only be accessed in an emergency.

The information we asked for included:

- Contact phone numbers for spouse, parents, significant others, etc.

- Contact information for physicians
- Known allergies or other medical conditions
- Current medications
- Other information the person thought to be important

What I Learned: With a little forethought, you can obey the law and protect your employees. Havenew employees complete an emergency information form when they are hired and show them where it is kept. Remember to update the file at least annually.

What I Wish I Knew

- It's not the big things that you need to worry about – it's also the little things. Even whenthe dollar amount involved is relatively small, the damage to the organization can be substantial.
- Having an active relationship with your legal counsel and accounting counsel can preventa lot of these issues. Be informed about what's going on.

Red Flags

- *Looking at risk only in terms of things you can insure against.* Address a wide variety ofpotential risks, including things like risk to your reputation and poor investment results.Follow your policies and procedures to ensure that you are operating properly to avoid these risks.
- *Public perception of your foundation as having deep pockets.* This may increase the likelihood of your foundation being named as a defendant in a lawsuit. Operating transparently and behaving like a servant leader may help minimize this risk.
- *Media inquiries about your operating budget.* Be prepared to defend the salary level ofyour executive director – the media sometimes tries to act as a watchdog regarding executive compensation and may not put it in proper context without your help.

Practical Tips

- If you have a volunteer who works for a publicly traded company, they may have a riskanalysis sample they can share with you.

Chapter 5 – Disaster Preparedness

“Life is what happens when you’re busy making other plans.”

John Lennon

No one relishes the idea of disaster striking close to home, but in a state prone to floods and tornadoes, it pays to expect the unexpected. Communities count on community foundations to act strategically in good times. They need us all the more in bad times – for financial help, for pulling partners together, and for our can-do community spirit. Even if a disaster is limited to foundation offices, as in the case of a fire, foundation leaders must be poised to recover quickly,ensuring that critical functions continue.

Assessment

Take this quiz to determine your community foundation’s level of effectiveness in this area:

1. The foundation has a Business Continuity and Disaster Preparedness Plan.
2. The plan covers disasters impacting the foundation’s operations and/or the community.
3. The plan includes an alternate business location to be used if the regular location is inaccessible or inoperable.
4. The plan identifies who would serve on an emergency planning team.
5. The plan identifies and prioritizes critical operations with staff and procedures that arenecessary for recovery.
6. The plan includes contact information on suppliers, contractors and alternate vendors.
7. The plan identifies a public spokesperson and an alternate.
8. The plan identifies other partners (consultants, funders, other non-profits, local government, etc.) who can help with the effort.
9. The plan calls for off-site storage of a copy of the Business Continuity and Disaster Preparedness Plan, insurance policies, bank account records and computer backups.
10. The plan outlines a process for emergency granting.
11. The foundation has an office evacuation plan with an identified site at which to regroup,and the plan has been communicated to the employees.
12. The foundation has actively reviewed the county’s disaster plan and identified its role inthe plan.

Stories

Crisis and Community Spirit

One spring, heavy rains and fierce winds battered the community served by our foundation. Thesaturated land could not handle the deluge that fell during the night. The river surpassed all recent flood levels. One highway bridge over a creek was washed away by water that escaped when a private dam burst. In the county seat, people were shaken from slumber by neighbors warning them to escape the flooded river. On the south side of town four feet of water raged through homes. Residents of one neighborhood were evacuated as the water reached record levels. With many roads underwater, escape by car was slow and risky. Trees and power lines were downed. Many businesses closed, some due to flood damage, others because employees could not get into town. First responders performed heroic tasks to control the crisis. Not asingle life was lost.

Within two days, the community was starting to dry out and dig out of the debris. Our communityfoundation staff went to work surveying the damage, assisting officials, and accepting donationsfor the recovery process. When we learned of an opportunity to garner recovery funds from a private foundation in our region, we drafted an application immediately. Without a local United Way to join us, our foundation took the lead in calling on local non-profits, churches, and individuals to form the recovery committee to assist neighbors. Thirty-seven representatives were meeting to plan the recovery before the week was out. The committee continued to meet weekly for the first few weeks and then monthly until the project was officially closed over two years later.

Volunteers were recruited and trained to do case management, providing technical and emotional support for 93 families. They could tell many stories of courageous people who started life over with determination and assistance from the recovery committee. Staff of the community foundation and the recovery committee collaborated to create a system to managethe half million dollars received from our foundation funder and hundreds of individual donors.Local contractors and vendors were utilized on projects whenever possible.

Three years beyond the disaster, most lives have returned to normal. The neighborhood that suffered the greatest flooding still stands barren and empty lots dot the south side of town. Theraging water changed the landscape and the community. Some had to say goodbye to their homes, gardens, and neighborhoods permanently. But most resettled onto new land and homes, with the help of the recovery committee, and are rebuilding their lives within the same community they have long called home.

That rainy day changed the short-term focus for our community foundation. But in the end, wewere still completing our mission to help our communities become better places to live, grow, and work. We are now a bit older, wiser, and definitely dryer.

What I Learned: You can react quickly and effectively to crisis if you are prepared. Your community foundation should be on sound footing organizationally and financially and establish good working relationships with key organizations and leaders in the community when all is calm. Then you'll be poised to serve if a time of need arises in your community.

Duty & Disaster

Disaster strikes when you least expect it to. Because it happens at random, preparedness is essential. On June 8, 2008, the city in which we are headquartered was rocked by devastating storms. Those storms caused massive flooding throughout the entire region. In response to this event, the Foundation reacted according to our Disaster Preparedness Plan. The plan allowed usto award an emergency grant to the local chapter of the American Red Cross.

This gesture was well received by the local media and residents. We thought we had done all wecould do to help local residents affected by the flood, until the Federal Emergency Management Association (FEMA) contacted us. The FEMA representative I spoke with introduced the idea of starting a long-term community recovery program in our area. He went on to explain that this program was designed to assist residents in meeting immediate basic needs (like shelter, food,and water) after the occurrence of a disaster.

We gave it some thought and decided that it was something worth investing the time of our staffand volunteers. Our Foundation took on the task of organizing the effort along with our United Way, headed by a new executive director with approximately 1 week on the job. We publicized meetings, encouraged attendance, built partnerships within the community and within the partnership created a temporary organization to assist individuals lacking the ability, financially or physically, to recover from the devastation of the flood.

The foundation continued to be a partner throughout the life of the coalition. Our community's Long Term Disaster Recovery Coalition took nearly 2 ½ years after the flood to complete its work and close its office. It was an extraordinary time with many frustrations that provided much reliefto the community.

What I Learned: We were able to spring into action because we already had a plan for responding to disaster. We were also able to play a broader role in our community'srecovery because we were open to learning and partnering with others to provide maximum service to our area.

What I Wish I Knew

- Being part of a disaster recovery process is very time consuming.
- Be aware of the best role for the foundation – sometimes it's better not to be too involved, yet sometimes it may not be handled as well if you just grant the money for someone else to spearhead handling it.
- It will be much easier to document your losses for insurance claims if you have alreadydone an inventory of key assets. Make this part of the preparedness process.

Red Flags

- *An unfamiliar agency wants to partner on disaster recovery.* Do your due diligence on potential partners.
- *A flood (no pun intended) of volunteers.* Following disasters all sorts of individuals step forward to help in recovery efforts or to champion the oppressed. Most, but not all, havethe right motives. Listen to your intuition and screen people as appropriate.
- *Ignorance of government directives.* After a disaster, you need to stay informed on recovery directives from all levels of government, from municipal to the Federal Emergency Management Administration.

Practical Tips

- Church groups have fantastic disaster support networks.
- Run practice drills to ensure that your plan can be implemented when necessary.
- Make sure multiple foundation representatives know where the plan is located.
- Include a copy of the disaster preparedness plan in the board manual.
- Ensure the board chair has a copy of the plan readily available in the case that the executive director is not available.
- In preparing and implementing your plan, consider whether your foundation will need protection against third-party liabilities.

Questions?

Have questions about this information? Please contact us.

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