EFFECTIVE PRACTICES AND IDEAS COLLECTION (EPIC)

Unit 6 – Grantmaking

Chapter 1 – Guidelines and Policies

"Generosity consists less in giving profusely than in giving judiciously."

Jean de la Bruyere

Grantmaking is perhaps the most basic and the most visible function of a community foundation.But that does not mean it is easy to do. To be an effective Grantmaker, a foundation must understand both its own aims and obligations, and the needs and capabilities of its potential grant partners. Sound guidelines and policies for grantmaking will allow you to give judiciously – helping every dollar truly make a difference.

Assessment

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

1. The foundation has identified grantmaking goals and objectives and reviews them on aregular basis to ensure they are in alignment with community needs.
2. Grant proposals are reviewed to ensure they are aligned with the foundation's grantmaking goals and objectives.
3. Charitable status of applicant organization is verified through use of Internal Revenue Service (IRS) resources, such as IRS Publication 78, the IRS list of automatically revokedexemptions, and the organization's IRS determination letter.
4. Grant requests are reviewed to ensure that grants do not violate the Pension ProtectionAct of 2006 or any other federal/state regulation or foundation policy or
5. procedure.
6. The foundation exercises the appropriate level of diligence and record-keeping on grantsmade to organizations not described in IRS Code section 170(b)(1)(A).
7. Grant application guidelines and materials are reviewed periodically.

Stories

An Exceptional Agency

As with so many areas, it's always best to communicate, communicate and communicate some more. Because of recent economic conditions, our community foundation chose to place a moratorium on grants for capital campaigns. We announced the moratorium by sending a letter to each of our local nonprofit organizations.

A few weeks later, we received a funding request for a capital campaign from a well-known local charity. I called the executive director and asked if he had received our letter which indicated we were not funding capital campaigns. "I saw it," he said, "but we didn't think it applied to us!"

What I Learned: Grant seekers are motivated to read into all your communications what is in their best interest. Be as you clear as you tactfully can and help them not to waste their time where no opportunity exists.

The Open-Ended Request

A small local organization applied for a grant from our community foundation. Our staff checks each application after it is submitted to ensure all required elements are included and discovered that this particular applicant had not attached a budget. Our staff member called the organization's contact person to ask for the project budget.

The response was, "Well, how do we know how much it will cost, we don't know how much money you will give us yet!"

We had to explain to them that we could not consider funding their request without knowledge of how the grant funds would be used and what the grantee estimated the cost would be.

What I Learned: This response reminds me yet again that while our work is quite logical and common to us, it is often out of the realm of experience for others within our communities – especially those who provide services at a very grass roots level. We should never assume that people understand the foundation's processes and need. Many grant applicants simply are not financially savvy.

What I Wish I Knew

- Don't make exceptions for the rules that you include in your guidelines.
- Everyone wants to manage their time well. Help out grant seekers by publicizing your grant cycles well in advance. Due to their life stage or culture, many community organizations find it challenging to be proactive in the best of circumstances; quick-turnaround deadlines for grants will only encourage the crisis-driven mentality that you want to help them move beyond.

Red Flags

- *Inconsistent guidance.* When fielding questions from grant seekers about grant guidelines, you should designate one person to respond, so everyone gets the same answers.
- *Religious purposes.* Make sure policies regarding grants to religious organizations are very clear, for example, spelling out what constitutes a religious group and what activitiesof such a group are or are not eligible for grant consideration. Apply your rules consistently.

Practical Tips

- If you have a deadline time, make it an hour or two before you close the office. That wayyou can avoid staff having to stay beyond normal closing time.
- If a grant seeker misses a deadline, you have to have a consistent policy, and everyoneneeds to agree to that policy.
- It is sometimes helpful to grant seekers to conduct a question-and-answer session priorto their application submission.
- If the project is too much for the foundation to grant and you think the organization will have trouble raising the rest of the money, make sure the foundation's money is the lastin. You can do this by offering a matching grant with a deadline for the organization to raise the additional funding.
- Use your grant committee and board members to publicize your grant cycle. They can personally deliver the word about the availability of funding and the grant cycles, which gives the foundation a face out in the community and gives them a reason to talk aboutthe foundation.

Chapter 2 – Honoring Donor Intent

> *"What makes life dreary is the want of motive."*
>
> *George Eliot*

Perpetuity is a long time for a gift to last, and sometimes the gift doesn't mature for many years after it is set up, either. Such circumstances require good stewards at community foundations tobe attentive to details, forward-thinking, and akin to historians in our proclivity for documentation. Good fund agreement templates will often ensure that a foundation has the latitude to deal reasonably with unforeseeable changes of circumstance that may occur in the future, altering what is possible or what represents a good faith effort to steward funds.

To genuinely honor donor intent is to go a step beyond the legal safety net of *cy pres*, the board'svariance power. We must know who our donors are, and what they want, including if the unexpected should occur – and we must record it for posterity. Otherwise, there are sure to be dreary days down the road when it is hard to determine, much less honor, the true and completemotives of our donors.

Assessment

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

1. The foundation makes distributions consistent with donor intent.
2. The foundation has procedures in place to ensure that recipient organizations understand and follow donor intent.
3. The foundation utilizes a system to track and monitor grantees' compliance with donorintent.
4. The foundation's external auditor annually tests a sample of grants to verify that they honor donor intent.
5. The foundation has a process in place to address situations in which grant recipients arenot able or willing to follow donor intent.
6. A procedure is in place to resolve situations where the foundation is no longer able to honor donor intent.

Stories

A Fickle Funder

In the early 1990s our foundation established a fund to help graduates from high schools in our county attend any of the various colleges in our county. There was a significant public fundraising effort at the time, and the purpose of the fund was well documented. The fund received an early gift of approximately $100,000 from a local corporate foundation that was then in the process of dissolving. Correspondence from our executive director at the time made clear how the gift would be used – talking specifically about how support would be given to local students to attend local colleges.

Almost 16 years later, we received a petition from former members of the company associated with the foundation that had made the gift. Claiming that it would never have been the intent of the company to restrict scholarships to colleges within the county, they respectfully requested we disaggregate the original amount of money from the fund (plus an amount for calculated growth). They wanted those monies to be used to establish a similarly purposed scholarship fund that would allow qualifying students to attend the college or university of their choice.

In all honesty, we believed the proposed change would have better served our community. We wanted to do it. But we couldn't. The purpose of the fund was crystal clear and – thankfully – so was our correspondence from the time of the gift.

Unfortunately, all the documentation and reasoning we could muster was not going to be enough to satisfy the person who spearheaded the request. In fact, he was downright angry. The only satisfaction anyone could take from the situation was the knowledge that our foundation had done its job of protecting the stated intent of the gift in question … and all the other gifts that had been made in consideration of that donor's generosity.

What I Learned: Even the most straightforward objectives can become lost and confused over time. Without good documentation you may have a hard time defending the purpose of a particular fund should it ever come into question. Even with clear documentation, you may have a difficult time getting others to understand why you can't change gift terms later. What you can do, at the time a fund is started, is incorporate comprehensive donor intent into the legal document(s) associated with a fund. That may be the best step you can take to assure that later, if questions arise, you can show unequivocally that your hands are tied.

Spousal Surprise

Many years ago, a local donor set up a charitable gift annuity with us, with the residuum put intoan endowment fund to benefit several local charities, including his church. When the donor passed away, the wife informed the church that they would soon be getting a bequest from the proceeds of the annuity. In fact, while a portion of the income from the fund that was created benefited the church in perpetuity, the endowed fund was to remain at the community foundation – per the deceased donor's wishes. The angry widow did not understand how the estate plan was set up. In hindsight, we should have made sure that both husband and wife understood how the arrangement worked.

What I Learned: While every family makes financial decisions differently, it's important that family members know about, understand and approve of major gifts, particularly in an estate plan.

Confusion with Consequences

During the early years of our community foundation, I had worked with a small nonprofit organization that sought to promote volunteerism, here called "the Agency." It was a relatively young organization, with a small budget and only one part-time employee. The Agency had a very good board and had raised some excess reserves. The board determined it wanted to use the reserves to start an endowment to provide a regular stream of income in the future. However, as I worked with the attorney for the Agency, who also served on that board at the time, to develop the fund agreement, it was determined that a secondary purpose should be added in case the organization ever went out of business. We discussed what should happen if the organization merged with a larger organization too.

It was determined and the fund was written that if the Agency merged, the successor organization to the merger would receive the annual distribution from the agency endowment. If the Agency dissolved, the community foundation would then be responsible for distributing grants that promote volunteerism.

Nearly a decade passed, and the Agency decided to merge with another non-profit. The board members who set up the fund agreement were no longer involved. The Agency advised the foundation that they had completed the merger with a larger organization. I asked them for the Articles of Merger documents that they had to file with the Secretary of State. What I received back were not Articles of Merger, but Articles of Dissolution. What the volunteers had understood was that the Agency was "merging" its services into the larger agency, but it was not "merging" its organization. Rather, the Agency dissolved, and an unrelated entity picked up its service. Thus, according to the Fund Agreement, the community foundation was now responsible for providing the grants and not the organization that picked up the services of the Agency.

What I Learned: Document, document, and document. If a corporation takes any action that substantially changes its operations, then ask for copies of the documentation. Do not rely upon what knowledgeable board members tell you, because they may be telling you the intended impact and not the legal impact.

What I Wish I Knew

- Do as much as you can while donors are still living to learn about their charitable interests and goals. Get background information on the donor and their families – as much as you can to build a file on them.

- Be aware of changes in legislation that may change the terms of the fund agreement. There are some things that can trump donor intent.

Red Flags

- *Lack of documentation.* You should have a section of your files where you keep documentation on estate gifts you expect to receive in the future.
- *Second-generation entitlement.* Don't be surprised if children of deceased parents comein thinking they can now control where the money goes.

Practical Tips

- Even if the gift is not coming for many years in the future, it is helpful to have a fund agreement in place.
- Make sure close family members are in agreement with the donor's intent.

Chapter 3 – Assessing and Evaluating Impact

“True genius resides in the capacity for evaluation of uncertain,hazardous, and conflicting information.”

Winston Churchill

If the hardest part of grantmaking is having to choose only some of the many possible worthwhilegrant awards we could make, the second hardest part must be assessing the impact of the grants we do make. This is where the rubber meets the road: are we making (enough of) a difference?

Fortunately, we can get sound, if not certain, information on which to base our evaluations. Wecan require and support grantees to provide useful data, conduct site visits to see results first-hand, and build problem-solving relationships with grantees, so that every grant becomes an opportunity for all parties to learn and improve for the future.

Assessment

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

1. The foundation's grant application asks how a grant to the organization would benefit thecommunity.
2. The foundation's grant agreement states the purpose of the grant and timeframe for thegrant funds to be expended.
3. The grant agreement is signed by the grantee organization and a copy is returned to thefoundation.
4. When a final (or interim, where applicable) grant report is required, the grantee organization states how the grant benefited the community.
5. A project evaluation process is in place to record outcomes and assure that the goals ofthe grant were met to the best of the grantee’s ability.
6. A process is in place to deal with grantee organizations that do not comply with grant reporting.
7. Post-grant site visits are conducted when appropriate.
8. The foundation periodically evaluates the overall impact of its grant program and makeschanges accordingly.

Stories

A few years ago, the grants committee met to discuss the distribution for the year's community grants. One of the projects held a particular interest for the chair of the committee. The project involved the building of a storage facility. When the distribution amounts were decided, the storage facility project was awarded one of the largest grants. The grant still only covered about 1/4th of the total project cost. No thought was given to securing other sources of funding beforethe grant was determined.

The executive director explained to the grantee that the foundation could not fund partial projects unless the organization raised the money needed to complete the project. His fear wasthat the organization would purchase building supplies and the money would be wasted, if the organization did not have the funds to complete the project. Unfortunately, the grantee had notidentified funding sources for the rest of the project and could not accept the award in good faith. So ultimately, the grant was not awarded.

What I Learned: An essential step in ensuring the impact of your grants is performing your duediligence before you award them. Don’t make grants that are doomed to fail from the outset! You can avoid wasted effort by making it clear in your application process underwhat conditions partial funding might be awarded – and by prompting applicants to provide information in their proposals that will help you evaluate the project’s financial footing and whether a partial award from the foundation would be prudent.

What I Wish I Knew

- Stronger non-profits seem to have robust systems for measuring their community impact.
- Not everything that matters can be measured, at least not easily or inexpensively. Scaleyour evaluation requirements to the project. If you want professionally designed evaluations, be willing to help pay for them.
- Consider how to measure not only breadth of impact (numbers served), but depth of impact (how well they were served or how important the result is).

Red Flags

- *Personal agendas.* Make sure members of your grant committee are not blinded by theirpersonal involvement with a charitable field or organization.
- *Playing God.* Sometimes foundation leaders are prone to high-falutin’ talk about the innovation and community impact that they credit to the foundation. Big change is actually slow and hard to come by. When it occurs, we must humbly acknowledge all theparties who played a role – there will surely be many.

Practical Tips

- Begin each grant review meeting with a reminder of conflict of interest and duality policies.
- Establish a procedure for penalizing future proposals from grantees that fail to complywith reporting requirements. Integrate it into your scoring process as well as communicating it in your proposal packets and grant agreements

Chapter 4 – Screening and Selection of Grant Proposals

“In daily living, discrimination means making wise choices. Without discrimination, the only basis for choice is personal conditioning – likes and dislikes.”

Eknath Easwaran

When screening grant proposals, grant committees are faced with what can be an overwhelming amount of information, and lots of choices. It’s a job that requires what some sages have called the “discriminating intellect” – the ability to weigh information, home in on what is important, and render objective judgments about the merits of a particular request. To do otherwise would be to fall back on personal likes and dislikes – in other words, to simply choose favorites.

You can help out your grant committee in its critical task by ensuring there are pre-approved criteria and a logical scoring system based on those criteria. That way, reviewers are subtly coached to call upon their powers of discernment with every proposal they review. The culture you create through staff and volunteer leadership in grant committee orientations and meetings will also go a long way to ensure that the screening process is sound.

Assessment

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

1. The foundation has an evaluation process in place to objectively assess the merits of each proposal, community needs and available funding.
2. There is an orientation process for members of the grant review committee prior to thetime of their first meeting.
3. The foundation has a process of disclosure of conflict of interest by members of both thescreening committee and the board of directors.
4. There are written minutes of the grant screening process.

Stories

Not-So-Small Talk

It’s always a good idea to be cautious about what you say to potential grant seekers. One day, I was in line at our local Rotary meeting waiting for lunch. Next to me was a gentleman whose nonprofit had applied for a grant from the community foundation. He asked something like “Everything OK with our grant application?” and I thought he was asking if we received it. I replied, “Yes, everything’s good.” I thought I was conveying to him that he had submitted everything that was required; what he apparently heard was that his grant application would receive funding.

As it turned out, the application was denied funding. He was extremely angry, thinking that I had misled him.

What I learned: Be very cautious in what you say to grant seekers and measure your words carefully. Hopeful applicants can easily misinterpret what you say.

What I Wish I Knew

- Your life will be easier if volunteers make the decisions on grant applications rather thanyou.
- This is the most visible operation that your foundation undertakes, so it's important thatnot only is it done in a fair and unbiased way but, that there is a perception that it is fairand unbiased.
- Your denial letter should refrain from explaining specific reasons for the application's denial.

Red Flags

- *Prose from the pros.* Beware of grant applications written by professional grant writers – it may be a well-written proposal for a mediocre program.
- *Ties to the top.* Be cautious if you personally know anyone submitting an application – make sure they understand that you are not making the decision.

Practical Tips

- Site visits can provide valuable information in conjunction with a grant application.
- All of your grantmaking is public information on the Form 990.
- Your grants are your best marketing tool, so use them that way.
- Consider switching to a letter of intent/invitation to submit grant process if your foundation routinely receives voluminous numbers of grant requests.

Chapter 5 – Screening and Selection of Scholarships

"I am a scholar of life. Every night before I go to sleep, I analyze every detail of what I did that day. I evaluate things and people, which helps me avoid mistakes."

Compay Segundo

Let's face it, nothing can compete with scholarships for the emotional impact that they have on everyone involved: selected and unselected students, families and donors, board members andstaff. Perhaps not coincidentally, scholarships are the source for some of our most moving stories – and some of our most troubling.

The upshot of this is that we need to bring an extra degree of sensitivity to this most personal aspect of foundation operations. Emotional sensitivity will help us work with people effectively.Self-reflection and analysis will help us see how we can set up policies and procedures to prevent problems from arising – or recurring – in the future.

Assessment

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

1. A process is in place for advertising scholarships in a fair and equitable manner, to assure that the appropriate audience is made aware of the opportunities available to them and the application process.
2. The information requested on the application is thorough without over-burdening the applicant.
3. The foundation uses a standard scholarship application which incorporates criteria fromas many funds as possible and annually updates the application as new funds are added.
4. Application forms are reviewed periodically to determine whether they gather the appropriate information.
5. The foundation uses an objective and consistent scoring process.
6. A process is in place to protect the confidentiality of scholarship applicants.
7. A process is in place to assure that the scholarship recipients meet the requirements ofthe scholarship they receive.
8. A process is in place to prevent related parties from serving in the scholarship selectionprocess.
9. For funds with donor involvement, an independent committee is appointed by the foundation to select the scholarship recipient(s).
10. Minutes are recorded for every application screening and selection meeting.
11. A process is in place to check for fraud in the application.

12. Whenever possible, the foundation works to assure that its scholarship awards do notadversely affect another student financial aid.
13. Scholarship awards are made to the student's institution for the benefit of the student'saccount.

Stories

A Two-Time Winner

As an Indiana community foundation, we are fortunate to be able to choose Lilly Endowment Community Scholars each year. There is one additional major scholarship available in our county but only to one of the five schools. One year the recipient for the Lilly scholarship was also named the recipient for the other major scholarship. We did not have a written policy in place for the acceptance of both scholarships. The student and her parents were contacted. She was told she could select the Lilly or the other scholarship. She decided to accept both.

With no policy, there was nothing we could do. The next year we implemented a policy that prevents a student from receiving both scholarships. If we had not, we would have had the same situation that year.

What I Learned: If you wish to prohibit winners of significant or full-ride scholarships from receiving multiple awards through your foundation, develop a policy, put it in writing, and make it known to applicants in advance.

True Confessions

There are times when an interview can provide very important information. Some years ago, our scholarship committee could not decide between three applicants. They elected to bring each ofthe three in for an interview before making a final decision.

Each of the potential scholarship recipients had submitted a very compelling application. Duringthe interview, however, one of the applicants admitted that she had falsified some of the significant facts in her essay. While the committee praised her for admitting the truth, without those facts her application was far less competitive, and she did not receive a scholarship award.

What I Learned: The stakes are high for students seeking scholarships. Even the best and brightest are not above providing misleadingly or outright false information on applications. Do your due diligence.

A Material Omission

Our foundation has a detailed application process for its awards. If applicants do not comply withall requirements of the application process, we then have to evaluate the situation accordingly.

In a recent instance, a student applied and was awarded a scholarship through our community foundation. The scholarship was based upon academic achievement, career goals, and family financial need. While the recipient was a good student who was involved in her community, it was the very low family income that caused this applicant to rise to the top.

After the award was announced, it became apparent to the Foundation's staff that the application submitted was not completed. The full family income was not disclosed. The applicant completed the appropriate section of the application. The mother completed her contribution to the family income. However, the father failed to complete the application related to his income even though he signed the application. This had been decisive in making the applicant the announced front runner.

I consulted with our legal counsel and our board president, and together we decided foundation representatives would have a meeting with the family and the student. We explained that the foundation had not been given all of the requested information and it was unfair to the other applicants who did disclose all requested information. We offered two options. The first option was that the recipient could decline the scholarship. Nothing more would be said, only that the scholarship was declined. The second option was that the father would complete the financial section of the application and the foundation would reconvene that selection committee to determine where the applicant would have ranked. The student decided to decline the scholarship.

To prevent this from happening again, the foundation incorporated into its scholarship procedures that applicants who are interviewed are required to bring to the interview copies oftheir parents' prior year's IRS income tax return.

What I Learned: Always double check applications and results. If an error is made, go back andcorrect it. Always work to maintain the integrity of the community foundation.

Red Hot Scholar

A community foundation in Illinois awarded a scholarship to a student who was studying to become a firefighter at the local community college. Before the student's forms were signed or acheck cut, the foundation learned that the student had committed arson on graduation night.

The community college confirmed that the student would not be permitted to enroll in the fireservice program with a conviction or confession, nor was he likely to get admitted with just a criminal charge. The foundation was able to withdraw the scholarship award, because the student could not keep up his end of the agreement by enrolling.

The foundation also added language to its scholarship policies and scholarship agreement thatwould allow the foundation to withdraw an award if a future recipient engaged in any illegal activity.

What I Learned: If a would-be scholar does the wrong thing, the foundation can do the right thing. Anticipate such possibilities and address them explicitly in your scholarship policies and agreements.

What I Wish I Knew

- There is nothing more emotionally charged than the scholarship process.
- Be careful who you talk with about scholarship funds (students vs. parents).
- Maintaining confidentiality between the board meeting and public notification of scholarship awards is critical.

Red Flags

- *Personal bias.* Sometimes in small counties, applications are swapped for the selectionprocess, to avoid committee members knowing applicants.
- *Financial need.* If you have scholarships that specify financial need as part of the criteria,you need an objective way of assessing need.
- *Panicked parents.* Some parents will have no idea how they can pay for college if they don't receive a major scholarship like the Lilly Endowment Community Scholarship. Theyare likely to panic when notified their child was not selected. Make sure a staff member is prepared to talk with them supportively.

Practical Tips

- You should have a well-considered procedure on how you notify students who don't receive scholarships.
- It can be helpful to coordinate with other scholarship-awarding organizations to ensurethat the same students don't receive large scholarships.
- You may wish to consider a morals clause or behavioral expectations after the scholarship is awarded.
- You should have a policy regarding information obtained about a student outside of thenormal application process.

Chapter 6 – Community Issues and Opportunities

"To be in hell is to drift: to be in heaven is to steer."

George Bernard Shaw

Many community foundations see community leadership as the Promised Land, the pinnacle oftheir mission. Certainly, to some donors it is one of the sexiest aspects of a community foundation – and we want to capitalize on that attraction, so we can all get more, and more important, work done together. It may also be the area of community foundation work that provides the greatest opportunity for continual growth on the part of board and staff leaders, asindividuals and as a team. There are no quick and easy roads to victory.

So how do we do it? To play a significant role in identifying and addressing local needs and opportunities requires bringing to bear not only the foundation's financial capital, but also its social and intellectual capital, in a finely balanced dance of deliberation and opportunism, inclusive process and decisive action.

This is the promise and challenge of community leadership: when community foundations aresuccessful at it, we help our communities to do less drifting – or going in hellish circles, or zigzagging – and more steering straight toward a destination that benefits all our citizens.

Assessment

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

1. Staff and board receive education and training about community leadership.
2. The foundation lays the groundwork for leadership, by developing a decision-making framework to assess its readiness for and role in community leadership, and by aligningits values, culture, vision and resources accordingly.
3. A process is in place to identify appropriate community issues or opportunities in whichthe foundation can take a leadership role.
4. The foundation deliberately builds the necessary relationships to support its communityleadership efforts.
5. The foundation engages diverse groups when identifying and addressing community issues and opportunities.
6. In relation to the specific community issues or opportunities it has selected, the foundation has a process in place to identify the plan for leadership, the desired outcomes and an exit strategy.
7. There is a system in place to evaluate the success and/or impact of any leadership effort.

Stories

Workforce Innovation

Community foundations have increased their involvement in economic development projects in the last several years, using a variety of avenues. While our role is usuallylimited to providing financial support for community economic development projects,other ideas have emerged.

One intriguing model is the Cleveland Foundation's Evergreen Cooperative Laundry. This state-of-the-art, nearly $6 million facility is 100 percent owned by its 50 employees, virtually all of whom live in the surrounding community. The poverty rate in their neighborhood exceeds 30 percent, and thousands of homes lay stripped and abandonedeven before the current recession began. In the midst of this urban distress, the Evergreen Laundry employee-owners earn a living wage and health benefits. As members of the co-op, they enjoy greater job security than workers at more traditional businesses, and, after seven years on the job, they will have built an ownership stake of as much as $65,000.

What I learned: There's more than one way to skin the economic development cat!

Strategic Leadership

In 2009 our community foundation spearheaded a first-ever countywide comprehensive strategicplan. We partnered with the county economic development corporation, the county Chamber of Commerce, and the local United Way. We provided the majority of the funding for the hiring of a facilitator for the project. The planning process occurred over a ten-month period of time, with 210 different individuals participating in the work. The final written report was presented to the community in 2010. The community foundation continues to lead on the project by serving as the "home" for the written plan and for the committee formed to implement the plan.

What I Learned: While collaboration and convening are important roles for a community foundation, there are times when truly taking the lead on anissue will provide the most benefit for the community.

What I Wish I Knew

- Sometimes it's hard to separate someone's political ambitions from their desire to be acommunity leader.
- You need to be careful about becoming a political pawn.
- Your board has to buy into it if you want to get into economic or community development
  - it takes you out of the endowment building game in some capacity.

- If you convene groups of non-profits, make sure they have a clear understanding of funding expectations, i.e., there may not be a grant at the end of the tunnel.

Red Flags

- *Ulterior motives.* Some people may want you to participate only because they want yourmoney or your name on it.
- *Just doing it.* Choose carefully – your involvement in community leadership may defineyour brand.
- *Domino game.* Beware of non-profits trying to get support from your foundation in orderto gain other funders' support – even if their project doesn't fit your criteria well.

Practical Tips

- A foundation needs to be at a certain point in its life cycle before it considers entering into community leadership. Get past the start-up and adolescence of your foundation, and well on your way to maturity, before venturing into leadership territory.
- Before you engage in a community leadership role, you should look to see if there are other organizations already doing it.
- Decide if you want to lead or participate.
- At a time of economic hardship when the foundation can't grant as many dollars, community leadership allows the foundation the opportunity to still make a positive impact in the community.
- It doesn't always have to be a grant of dollars – the foundation can provide other resources, such as staff time, meeting space, name credibility, office space, or office equipment.

Chapter 7 – Building the Capacity of Nonprofits

"Foundations can serve as bridges between donors, nonprofit and community leaders who are working to create social change, By engaging such collaborations, the process of philanthropy can have as significant an impact as the financial resources it provides."

Alison D. Goldberg, young donor, chair of the Robert P. & Judith N. Goldberg Foundation,and founding director of Foundations for Change

Some foundations consider it part of their mission to strengthen the local non-profit sector. Whenagencies are more effective as a whole, so are specific foundation grants to those agencies. And regardless of whether participating agencies apply for foundation funding, capacity-building is an investment that can have a significant return for the community, as non-profits more fully realize their missions. Such programs can have ancillary benefits for a community foundation as well – including agencies more inclined to partner with the foundation for their endowments or in community projects.

Building the capacity of non-profits can take a variety of forms: grants for operational support, educational opportunities, matching grants, help building an agency endowment, employee loan programs, planned giving advice, and more. Capacity-building efforts often need considerablesupport to have a meaningful impact. That's why it's important to be sure you know how this work fits into your mission, and are prepared to see it through, before you start a capacity- building initiative.

Assessment

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

1. Before embarking on a capacity-building program, the foundation determines whether italigns with the community leadership goals and mission of the foundation.
2. The foundation has the resources to launch and operate a capacity-building program.
3. The foundation assesses the needs of non-profits before embarking on a capacity-building initiative.
4. The foundation identifies potential partners (consultants, funders, etc.) who can help withthe effort.
5. A system is in place to determine the best method of delivering capacity-building to individual non-profits.
6. A system is in place to determine which non-profits will be eligible to participate in capacity-building activities.
7. Roles and responsibilities of the foundation and non-profits are clearly defined.

8. A process is in place to determine whether non-profits will be asked to assume some orall of the expense of the effort.
9. A system is in place to recognize non-profits receiving training (i.e., certification).
10. A system is in place to evaluate the success and/or impact of the capacity-building efforts.

Stories

Feeding Two Birds from One Feeder

At our community foundation, we were often asked about two items. First, many agency leaders were seeking training in core non-profit issues: succession planning, board development, and fundraising strategies, for example. In addition, charities would ask us where they could find additional funding for projects that we supported.

We chose to partner with another local foundation to create a nonprofit resource center. This center not only provided training opportunities desired by charities, but they maintain a database of foundations and the types of organizations they support. To save on costs, the center was developed as a program of our local library – which had the added benefit of being viewed as a neutral community resource. We provide annual operating support (as does the other foundation funder). Now, when we are asked about training or fundraising, we say … call the nonprofit resource center!

What I learned: Investing in a nonprofit resource center not only helps local charities, but it also frees up your time as well!

The Magic of Matching

A community foundation decided to turn the tables, and to offer a challenge program. The Matchstick program was designed not only to help local agencies grow their endowments, butalso to serve as a new donor acquisition program for the foundation.

Here’s how it worked: for every three dollars that donors gave to an agency fund, the foundationadded another dollar to the endowment. The match, which came from unrestricted grant dollars,was added if and when the agency reached its own endowment-building goal. This all-or-nothing approach proved motivating to donors, and agencies planned carefully to determine an appropriate goal and then fulfill it. Each phase of the challenge program took place over a calendar year. Key elements of the agency application to participate in the program included an endowment-building readiness assessment and a development plan to meet their goal. The foundation provided marketing support, training related to long-term endowment-building, ongoing coaching for agencies’ campaigns, and stewardship of agency volunteers and donors, including a celebratory event after each phase of the program.

The immediate results? Through the first five years, Matchstick raised over $850,000 for theendowments of thirteen local charities. Additionally, over half of the first-time donors to the foundation in this period came in through Matchstick. Further, the program generated a gooddeal of publicity and word-of-mouth buzz, spilling over to other foundation giving and projects.

The intended impact is longer-term and that appears to be on track as well. The foundation provided training and marketing for planned gifts in association with this initiative, and a numberof planned gifts have been set up as a result – both for agency funds and other kinds of funds.

Through their participation in the program and related technical assistance, agencies have a better understanding of how to promote endowment gifts. They are confident that they can do itsuccessfully, and they view the foundation as a genuine partner.

The foundation reevaluates the program periodically, trying new things to strengthen the program and keep it on the radar with constituents. A number of other community foundationshave since modeled their own challenge programs on the Matchstick initiative.

What I Learned: Agencies and donors love matches, and with thoughtful marketing and value-added features, you can make it a big win for everyone.

What I Wish I Knew

- Doing a program once doesn't solve the problem – it has to be done over and over againto be effective.
- Even strong organizations will require sustained education because of staff and boardturnover.
- It's easier if you can involve another group in helping to arrange the logistics – it is verytime consuming to do it yourself.
- The ones who need the most help are often the ones that don't participate.
- They don't know what they don't know.

Red Flags

- *Kissing up.* Watch out for the ones who show up to trainings only because they view youas Santa and want to get on your "nice" list before grantmaking season.

Practical Tips

- For capacity-building to be effective, the non-profit has to want to actively participate –board and staff involvement is key.
- Consider asking on your grant application what type of training their board has had, or ifthey have participated in trainings you have offered.
- A short capacity-building needs assessment can help non-profit leaders learn what theydon't know.

Chapter 8 – Fiscal Sponsorships

"Wisely and slow; they stumble that run fast."

Shakespeare, Romeo and Juliet

Sponsoring special projects in the community can be a great way to raise new friends, get your foundation's name out there, and extend greater benefit to the community. For such reasons, itoften sounds like a no-brainer to cheerful board members. And it can work out beautifully.

However, as with many facets of foundation operations, when it comes to fiscal sponsor relationships, there's more to it than first meets the eye. Take it "wisely and slow" as you assesseach potential project. Then don't be afraid to decline this role if the risks are too great, the rewards too small, or the project deemed too far afield from your mission. When you do proceedwith a project, this considered approach will minimize stumbles, keeping you on track toward positive outcomes for your community and your foundation.

Assessment

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

1. There is a process in place to determine if the project addresses a compelling communityneed or opportunity.
2. The foundation has the organizational resources to properly manage the sponsorship.
3. The foundation charges a reasonable fee for the service.
4. Appropriate legal documents, including a fund agreement, are in place.
5. Roles and responsibilities of the foundation and participating organizations are clearlydefined.
6. The potential risks are considered, and adequate insurance is in place.
7. A process is in place for the foundation to exercise its due diligence and ensure properrecord retention.
8. An exit strategy, including evaluation, is in place.

Stories

Indecent (Legal) Exposure

Community foundations are often asked to serve as a “fiscal sponsor” for a charitable project that either does not have its own 501(c)3 designation, or which wishes to use the financial expertise of a community foundation. Yet sometimes community foundations enter into these arrangements without understanding the legal obligations. This is illustrated by the example of a community foundation which “specialized” in providing fiscal sponsorship services. They developed expertise in the area, and then marketed those services to local charitable projects.

At one point, though, a serious employee issue resulted in a lawsuit, with the community foundation named as one of the defendants. The community foundation argued that they were only holding the finances for the project and were not involved with personnel decisions. That board of directors, though, learned that the community foundation, in serving as the fiscal sponsor, exposed itself to legal liability, as well.

At the board meeting where the bad legal news was shared, one of the board members asked how many fiscally sponsored projects the community foundation was supporting.The answer: more than 50! At that point, the board made the decision to get out of thefiscal sponsorship business entirely, and all of the projects were eventually moved to other charities or dissolved.

What I learned: Good intentions alone don’t provide a legal shield. If you choose to provide fiscal sponsorship services, make your attorney a regular member of theteam.

Throwing the Bird Out of the Nest

Years ago, our foundation agreed to serve as the fiscal sponsor for a grassroots community group. They were not big enough for paid staff, and their activities –though historically, culturally, and educationally significant – were not difficult to manage. In fact, a number of benefits accrued to the foundation from the partnership.

Problems arose, however, when the organization grew in size and scope. Essentially, we wereallowing them to function as a qualified charity, but the foundation was doing all the work andassuming all the risk.

To resolve the situation, we helped them understand our position and explained that they were limiting themselves by not having their own qualified charity status. Clearly, we didn’t want to seethem fail or put them in an unnecessarily difficult situation, but they had to learn to fly on their own. We set up a transition period based on their Form 1023 filing and helped them get established on their own.

We still hold a fund in support of their work and provide them with office space. Today the organization is bigger and stronger than ever.

What I Learned: We're more careful now in how we sponsor new organizations. We make surethe organization's purpose is complementary to ours; we have a clear understanding of the responsibilities involved; and we establish a sunset time at the very beginning. A clear understanding of the roles and expectations makes everything much easier whenit's time for the sponsored organization to leave the nest and fly on its own.

What I Wish I Knew

- Start with the end in mind – have an exit strategy!
- It's going to cost you about twice as much as you expect it to cost you.

Red Flags

- *"Sure, we'll be your fiscal whatchacallit…"* Know the difference between being a fiscalsponsor and a fiscal agent.
- *Mixed branding.* It can be confusing to donors when the community foundation is involved with a sponsored project. They don't understand why the gift isn't going directlyto the sponsored project. It can be frustrating for the sponsored project as they do not develop their own identity.
- *"Just lend us your name."* Sometimes people will want a fiscal sponsorship because theywant to piggyback on your good name. If they need cover for their own lack of fiscal skill,you probably don't want to provide it. Do your due diligence.

Practical Tips

- Legally, people will not be able to distinguish between the community foundation and thesponsored project.
- Err on the side of a higher fee; it's easy to underestimate the time your staff will spend onthe fiscal sponsorship, and you want to at least break even.
- Put in place a contingency plan for the funds in the event that the project is not successful or if there is money left over.

Questions?

Have questions about this information? Please contact us.

Community Foundation Research and Training Institute

PO Box 86

Grabill, IN 46741

(260) 804-5617

cfrtinstitute@gmail.com