Foundations 101

Basics in Governance and Oversight

or “Doing the Right Things Right”!
Objectives

- Explore the role of mission
- Review non-profit governing laws
- Understand the board’s role
- Discuss legal, fiduciary and strategic responsibilities
- Talk about guidelines for serving on foundation board
- Review governance, management and reporting policies
Role of Mission

• Explains the foundation’s purpose.
• Asks us, “Why do we exist?”
• Guides your foundation’s work like a compass.
• Needs to be reviewed regularly by your board so your foundation stays relevant.
Role of Mission

• Explains the foundation’s purpose
  – What does it hope to accomplish?
  – What programs or activities it will fund?
  – Who will it serve?

• The mission statement is specific, short and sharply focused. It is clear and easily understood.

• The mission statement says what we want to be remembered for.
Role of Mission

• Regularly reviewed by board
  – Review your existing statement.
  – List your current objectives.
  – Renew your passion.
  – Recognize changes.
  – Write your revised statement.
Role of Mission

• Regularly reviewed by board
  – Considers changes in your club’s service area
  – Evaluates whether strategies, programs and activities still help accomplish set goals
  – Reviews progress and methods used for measuring success and impact
  – Fine tunes or redefines as needed
The Board

• Nonprofit governing laws
  – Nonprofit statutes evolved from for-profits
  – Duties of nonprofit directors like for-profits
  – Typically nonprofits governed by state laws, enforced by state attorneys general and state courts
  – Similarities in nonprofit state law
    • Nonprofits shall be managed “by,” under the direction of” the board
    • Board of directors has a fiduciary duty to the nonprofit
The Board

• Legal responsibilities:
  – Duty of care
    • Describes level of competence expected of board members
    • Trustees are to exercise reasonable care when making decisions
    • “Care” means paying attention and exercising due diligence in monitoring the foundation’s finances and supervising the actions of its management.
The Board

• Legal responsibilities
  – Duty of Loyalty
    • Trustees must act in the nonprofit’s best interests
  – Duty of obedience
    • Trustees must be faithful to the nonprofit’s mission
The Board

• Fiduciary responsibilities of board
  – Protect public interest
  – Fulfill legal requirements
  – Maintain legal documents, policies, bylaws
  – Maintain integrity of the organization
  – Ensure effective leadership
The Board

• Financial responsibilities of nonprofit board:
  – Ensure long-term viability of organization
  – Ensure adequate funding sources
  – Oversee fiscal operations by reviewing budget
  – Draft, implement sound investment policies
  – Create policies that authorize, enforce accepted accounting procedures

• If you are a trustee, these are important responsibilities. For a foundation, a good board is the key to success. An active board is essential.
The Board

• A 2007 report titled "Nonprofit Governance in the US: Findings on Performance and Accountability" found a substantial percentage of nonprofit board members are not actively engaged in such basic governance activities.

• This is disconcerting as the strategic responsibilities of a foundation’s board of trustees are to:
  – Ensure foundation’s mission being fulfilled
  – Approve policies and financial commitments
  – Evaluate effectiveness of programs funded
  – Review progress and methods used for measuring success and impact
The Board

• Basic guidelines for serving on board
• What’s important to be a good trustee?
  – Know the foundation’s mission
  – Shares the values of the board
  – Can meet the performance expectations of the board
  – Be familiar with articles of incorporation, bylaws and policies
  – Know federal, provincial/state and local laws (e.g. Internal Revenue Code in US)
  – Thoroughly review budget, financial reports
Policies

• Governance, management policies
• Conflict of interest policy
  – Purpose
    • require those with a conflict (or who think they may have a conflict) to disclose the conflict/potential conflict; and
  
  – Content
    • prohibit interested board members from voting on any matter that gives rise to a conflict between their personal interests and the foundation’s interests.
Policies

- Governance, management policies
- Investment policy statement
  - All organizations that invest assets must have an investment policy which outlines your overall strategy for investing, your short and long-term goals and the process by which investment decisions are made.
  - The board of trustees needs to make two critical decisions in regard to investment policies: asset allocation (commonly referred to as diversification) and spending parameters.
Policies

• In 1993, AFP, the American Association of Fundraising Counsel, the Association for Healthcare Philanthropy and the Council for Advancement and Support of Education developed A Donor Bill of Rights so that donors and prospective donors could have full confidence in the nonprofits they support. Since then, thousands of organizations have adopted A Donor Bill of Rights.

• Central to the Bill of Rights is the fundraising policy.
Policies

• Governance, management policies
• Fundraising policy
  – Affirms, reinforces foundation’s commitment to ethics, high standards
  – Ensures solicitations meet legal requirements
  – Articulates fundraising materials are accurate, truthful, candid
  – May include processes for budgeting, monitoring costs, acknowledging gifts
Policies

• Governance, management policies
• Document retention, destruction: So important the IRS now asks about it on the Form 990.
  – Which documents are to be kept
  – For how long
  – Who can access them
  – How they will be stored
  – How documents will be destroyed
Policies

• Governance, management policies
• Written code of ethics
  – Board responsible for setting ethical standards
  – Outlines practices, behaviors of directors
  – Highlights expectations regarding confidentiality, working with donors, club members
  – Board orientation should include review of code of ethics
Financial statements

- Management and reporting
- Is having a club member who is an accountant on the board enough?
- Are external auditors a must? No, but a “best practice.”
- Are independent audits advisable?
- Who certifies financial statements?
- Who prepares, approves Form 990? You can prepare your own 990, but best to have it reviewed by CPA knowledgeable of not-for-profits.
Form 990

• Form 990 is an annual reporting return that certain federally tax-exempt organizations must file with the IRS.
• Provides information on the organization's mission, program and finances.
• Answering no to too many questions could signal lack of adequate governance policies.
• Could impact contributions, other aspects of the foundation's operations, as donors now review charity watchdog sites and review information from 990s to make funding decisions.
• Filing requirement depends on financial activity.
Form 990

• Form 990
• Board should be actively engaged in and fully aware of information on Form 990
• Many foundations being asked to share how board reviews the Form 990
• Formal board review now a “best practice” with documentation made in meeting minutes.
Capitalise on good governance

- Best practices: foundations need to be proactive in a time when donors are taking considerable time to research organizations before choosing to invest.
- Post reports on your club website
  - Form 990
  - Annual reports
  - Financial statements
  - Donor Bill of Rights
- Transparency appeals to donors
- More donors conducting due diligence when considering charities to support