

Date: October 23, 1990
Memo to: BOARD OF TRUSTEES
From: Community Foundation Committee
Re: Information on the Community Foundation Program

Community Foundation programming highlights over and above those reported elsewhere in the 10/31/90 Board book include the following:

CHARLES STEWART MOTT TECHNICAL ASSISTANCE PROJECT

Community Foundation Development

- 9 new executive director level positions (29 total)
- 3 half-time director positions became full-time
- 8 new positions for other professionals (Vice President level)
- 4 foundations have new directors

Program Activities:

- 9 indepth consultations with member Board of Trustees
- 4 regularly scheduled training opportunities
- 3 more new training opportunities scheduled for 1990-1991
- 3 special workshops scheduled at member requests
- 3 new 3-fold brochure published
- Cooperative publications project underway with Indiana's GIFT program

CMF has requested the third year (10-1-90 - 9-30-91) of the current third year grant for technical assistance. As was discussed at the last Board meeting, CMF will submit a second third year grant for technical assistance during the winter of 1990-1991.

OTHER

- Tax credit information mailed to 35,000 accountants, attorneys, and bankers.
- The Tax Credit Evaluation was presented at the American Evaluation Association's annual meeting in Washington, D.C. on October 20, 1990. CMF was asked to present the study as an example of program evaluation.
- Kathy Agard, Program Director, is serving on the Onsite Consulting Advisory Committee for the Council on Foundations. This provides a link between CMF's project and activities at the national level.
- Michigan Probate and Estate Planning section of the Michigan Bar Association invited to a workshop on "Closely Held Stock" within the annual conference.
- Consumers Power Company representatives are meeting with the community foundations to discuss possible joint ventures.
- CMF has been in conversation with the W.K. Kellogg Foundation regarding an expansion and extension of a challenge grant opportunity for the community foundations. The current grant ends June 30, 1991, although the community foundations have until October 1993 to complete the match and must report until June 30, 1995.

Date: October 23, 1990
Memo to: Council of Michigan Foundations Board of Trustees
From: Community Foundation Policy Task Force

Lucy Allen	Mariam C. Noland
M. Gene Arnold	Mary Olson
Elizabeth Binda	Joel Orosz
Suzanne L. Feurt	James M. Richmond
Robert A. Fisher	Diana R. Sieger
John E. Hopkins	Eileen Starks
Dorothy A. Johnson	Linda B. Strevy
Patricia B. Johnson	David K. Swenson
Glenda Kraft	Bertram Vermeulen

Re: Community Foundation Definition

ACTION REQUESTED:

That the Council of Michigan Foundations' Board of Trustees adopt: a) the definition of a community foundation, and b) the behavioral characteristics to be used in judging compliance with the definition as presented in the attached document. Further, that all current CMF community foundation members be "grandfathered" into membership with the understanding that staff will work with the foundations to bring them into compliance with the definition and characteristics. The definition and characteristics describe a mature foundation. New foundations will be asked to demonstrate growth toward these characteristics.

BACKGROUND:

A special task force consisting of the Community Foundation Committee and other invited members was established to develop a definition of a community foundation and operating procedures for the community foundation project. The popularity of the name and concept of a community foundation, the heightened awareness statewide due to the tax credit, and the special services available to community foundations, make it necessary for CMF to be more explicit in defining what organizations qualify as community foundations. This is in the context of a similar effort occurring nationwide. It is anticipated that the Council on Foundations will develop a definition for community foundations but, because of Michigan's leadership, a document is needed now for direction until the national organization completes its work.

The Task Force developed and approved administrative guidelines which cover:

- the documents to be reviewed in judging an organization's behaviors
- the processing of CMF membership applications
- the process of CMF service to emerging community foundations.

COUNCIL OF MICHIGAN FOUNDATIONS
COMMUNITY FOUNDATION - WORKING DEFINITION

Introduction

The Council of Michigan Foundations adopts the following definition and characteristics as a working definition of a community foundation. The definition is complete only when Sections A and B are considered together. In many instances a term may appear to have a generic meaning in the paragraphs of Section A, when in fact the Council utilizes a specific definition as clarified in Section B. Both sections are crucial to an understanding of a community foundation organization.

The Council expects and welcomes comments from community foundation colleagues as the field moves toward greater clarity regarding the core activities and common descriptions of a community foundation. This working definition is neither a legal description nor a public relations tool; it will be used by the Council for its policy making and programs.

Definition

Part A:

1. A community foundation is a tax-exempt, independent publicly supported philanthropic organization organized and operated as a permanent collection of endowed funds for the long-term benefit of a defined geographic area. The foundation is commonly known as a community trust, fund or foundation or a similar name conveying the concept of an endowment fund to support charitable activities in the geographic area served.
2. It actively seeks new, typically large, contributions of permanent endowment from a wide range of donors who are generally indigenous to the area, and provides services to assist those donors in fulfilling their philanthropic interests. The community foundation generally encourages donors to make unrestricted gifts in order to build a flexible, permanent endowment.
3. Using ~~interest income~~ ^{income} from invested assets, a community foundation functions primarily as a grantmaking institution supporting a broad range of charitable activities that creatively address emerging and changing community needs in such fields as education, arts and culture, health, social services, community development, environment and civic affairs. A community foundation also provides leadership on pervasive community problems by serving as a facilitator, convener or mediator around significant community issues, and provides technical advice to area nonprofits.
4. A community foundation has an independent governing body representing the broad interests of the community, with members serving limited terms and without compensation. The foundation is not controlled or influenced by other organizations, government units or charities, and adheres to a sense of "community" that overrides individual interests and objectives.

*IRS Federal
regulations*

income in part

5. A community foundation's funds are invested to preserve the value of substantially all of the contributions received as permanent assets of the organization either by trustee banks and/or the foundation's governing body. Annual audits are performed and investment managers undergo periodic review by the governing body to ensure a reasonable rate of return on all funds entrusted to the foundation.
6. A common governing instrument covers all gifts and funds, including a "variance power" to modify the use of restricted funds if such restrictions becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.
7. A community foundation is committed to the principles of equity and diversity, inclusiveness, and public accountability.

Part B:

The following definition and characteristics are an integral part of this definition and serve to clarify and interpret its intent:

- Tax exempt = The community foundation qualifies for exemption from federal tax under section 501(c)(3) of the Internal Revenue Code, as evidenced by receipt of an IRS tax exemption letter and continued listing in IRS Publication 78.
- Publicly supported = The community foundation is publicly supported as defined by the regulations of the U.S. Department of Treasury, 26 C.F.R. 1.170A-9(e)(10), and is meeting the public support test through direct contributions.
- Philanthropic = All legal and public relations materials reflect a mission of philanthropic service. This means grants and activities devoted to systemic change, enhancement of community activities, as well as direct relief of suffering.
- Permanent = All legal and public relations documents state permanent funds are the primary mission of the community foundation. Community foundations with experience have a record of attracting, receiving, and investing permanent funds.

- Endowed funds = All legal and public relations documents state that endowment funds are the mission of the community foundation, i.e., funds created to provide income which will be used for charitable purposes. A community foundation can demonstrate that significant endowed funds exist.
- Defined Geographic Area = The community foundation serves a geographic area of natural cohesion such as a municipality, county or state that has adequate indigenous resources to support the long-term growth and development of the foundation. The community foundation's name and all legal and public relations materials indicate the geographic area of service. Grantmaking records demonstrate that grants are overwhelmingly made for the benefit of the defined area.
- Actively seeks new, typically large, contributions = Growth in assets comes primarily from new gifts, generally significant in size and often initially from a small number of donors. Mature community foundations typically attract contributions from a large number of donors.
- Broad range of charitable activities = Records indicate that grants, loans and other services promote the public good in a wide variety of fields of interest and that grantees and the purposes of the grants change over time. Foundations whose charitable activity has a limited number of targeted and specific activities, rather than serving the general charitable purposes of the specific geographic area, are not community foundations.
- Creatively addresses emerging and changing needs = A community foundation plays a leadership role in identifying immediate and emerging needs in the community especially as they affect underserved populations, and supports progressive new ideas and programs designed to address those needs. A community foundation generally does not support the annual operating costs of area nonprofits, but assists nonprofits in specific need which aid or enlarge their scope of service.
- Independent governing body = Legal and public relations documents and practices indicate that the governing body is independent of other entities. When appointing authorities are in place, no one appointing agent or related agents names a majority of members.

Independent of other organizations = The community foundation is not controlled by or subject to the influence of another organization or group of organizations such as governmental units, and is not a supporting organization as defined under section 509(a)(3) of the Internal Revenue Code and the relevant U.S. Treasury regulations.

Broadly representative of the community = The composition of the organization in its Advisory Committees, governing body and staff reflects the demographic characteristics of the community such as ethnicity and gender, and includes members knowledgeable of the community and recognized for their personal involvement in civic affairs.

Common governing instruments = The community foundation meets the requirements for treatment of a single entity contained in the regulations of the U.S. Department of Treasury 26 C.F.R. 1.170A-9(e)(11). (See Footnote at the end).

1. The organization must be commonly known as a community trust, fund or foundation or similar name conveying the concept of an endowment fund to support charitable activities in the geographic area served.
2. All funds must be subject to a common governing instrument (i.e., articles and/or by-laws or a master trust agreement).
3. The organization must have a common governing body which directs the distribution of all funds for charitable purposes.
4. The governing body must have the power to:
 - a. modify any restrictions or conditions on the distribution of funds if such limits become unnecessary incapable of fulfillment, or inconsistent with the charitable needs of the community or area served;
 - b. replace any trustee, custodian or agent for breach of fiduciary duty; and
 - c. replace any trustee, custodian or agent for failure to produce a reasonable return of net income.
5. The organization must prepare periodic financial reports treating all funds as funds of the organization.

Principles of equity and diversity =

Staff, members of the governing body, Advisory committees, and grantmaking policies and procedures reflect the demographic characteristics of the community relative to its diversity such as ethnicity and gender.

Inclusiveness =

Grantmaking policies and guidelines have been adopted to inform the public. They delineate the community foundation's own priorities and funding restrictions to encourage the fullest possible public participation in grant applications. Policies and guidelines are periodically revised to make certain that they reflect current and emerging community concerns.

Public accountability =

At a minimum, the community foundation publishes and disseminates an annual report presenting organizational and financial information.

Footnote: Community foundations are described in U.S. Department of Treasury 26C.F.R. 1.170A-9(e). For purposes of brevity these regulations have been annotated. A full and careful reading of the regulations is required and suggested.

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