

## **Why National Standards are Important for Community Foundations**

U.S. community foundations serve tens of thousands of donors, administer more than \$31 billion in charitable funds, and address core concerns of more than 650 communities and regions. There are many reasons that standards are important for both established and new community foundations. Below are just a few.

### **1. Standards Guide Sound Policies and Accountable Practices**

- Community foundations of all sizes use standards as a roadmap to establish legal, ethical, and effective practices that are ready for the increasing scrutiny of donors, government and the press.
- The very largest community foundations - now rivaling the largest private foundations in size - use standards to publicly communicate their commitment to accountability, excellence, and service.
- The smallest and youngest community foundations - more than 400 have formed in the past two decades - use standards to certify their achievement of comprehensive basic services that mark a true "community foundation."

### **2. Standards Distinguish the Field from Others**

- Community foundations use standards both locally and nationally to distinguish themselves from others in a more competitive marketplace in which many entities offer traditional community foundation services, such as donor-advised funds.
- Community foundations use standards to establish the highest levels of ethical and operational integrity, helping separate themselves from the potential wrongdoing or mistakes of other entities.
- Community foundations use standards to promote self-regulation in a manner viewed positively by the Internal Revenue Service, which has increased its scrutiny of charities offering donor-advised funds.
- Community foundation standards help reduce the risk of joint marketing by ensuring that all participating community foundations have met certain consistent standards for service and operations.

### **3. Standards Build the Capacity of Community Foundations to Carry Out Their Missions**

- Standards provide a template for training and technical assistance that can be used to efficiently transmit both established and emerging practices.
- Standards provide a framework within which community foundation practices can be systematically documented and communicated.
- Standards provide a set of consistent expectations that save time and focus energies for community foundation boards and staff.

# NATIONAL STANDARDS FOR U.S. COMMUNITY FOUNDATIONS

(As approved by the Community Foundations Leadership Team on June 8, 2000  
and including explanatory language as of February 29, 2002)

Standard	Compliance Documents
<p><b><u>I. Definition of a U.S. Community Foundation</u></b></p>	
<p>A. A community foundation is a tax-exempt, nonprofit, autonomous, publicly supported, non-sectarian philanthropic institution with a long term goal of building permanent, named component funds established by many separate donors for the broad-based charitable benefit of the residents of a defined geographic area, typically no larger than a state.</p>	<p>Governing instruments (i.e. by-laws, Articles of Incorporation or Declaration of Trust)</p>
<p><i>Community foundations are further defined by the following characteristics:</i></p>	
<p><b><u>II. Mission, Structure and Governance</u></b></p>	
<p>A. A community foundation is founded and operated for public benefit and has a well-defined, articulated mission.</p>	<p>Board approved mission statement</p>
<p>B. A community foundation is recognized by the Internal Revenue Service (IRS) as tax-exempt under Internal Revenue Code Section 501(c)(3), organized and operated exclusively for charitable purposes.</p>	<p>IRS Letter of Determination</p>
<p>C. A community foundation meets the public support test set forth in Internal Revenue Code Section 170(b)(1)(A)(vi) as modified by Treasury Regulation Section 170 A-9(E)(10)</p>	<p>IRS Form 990 filed for the most current two years.</p>
<p>D. A community foundation has an independent governing body broadly representative of the community it serves. <i>Explanation: "Governing body " means the board of directors or board of trustees of the organization. "Broadly representative " means that the governing body reflects the diverse composition and different perspectives of the community it serves, and its members are not drawn solely from a single subset of the community.</i></p>	<p>List of governing board members with affiliations Governing instruments referencing nomination and appointment process Written description of nomination process that describes the process used to seek diverse composition and different perspectives.</p>
<p>E. A community foundation's governing body retains variance power by which it may modify any restriction or condition on the distribution and investment of assets, if circumstances warrant. Explanation: <i>"The governing body must have the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to any specified organization if, in the sole judgment of the governing body, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. The governing body must be able to modify the restriction without obtaining the approval of any participating trustee, custodian, or agent of the community foundation."</i> <i><u>Legal Compendium for Community Foundations</u>, Christopher R. Hoyt, Council on Foundations, 1996)</i></p>	<p>Governing instruments (i.e. By-laws, Articles of Incorporation or Declaration of Trust) referencing the variance power</p>
<p>F. A community foundation serves a particular geographic area such as a municipality, county, state, metropolitan area or closely related aggregation of such areas that are considered for some purposes as a community, typically no larger than one state. An organization</p>	<p>Governing instruments (i.e. Bylaws, Articles of Incorporation or Declaration of Trust), mission statement, and/or marketing and communications materials</p>

<p>serving a single greater metropolitan area would satisfy this criterion even if that greater metropolitan area included parts of several states. This criterion excludes national and multi-national organizations. <i>Explanation.- Service to a particular geographic area typically includes grantmaking, community leadership, and service to donors in that identified area. Unrestricted/discretionary funds primarily serve the community foundation's identified geographic area,- other grants may be distributed beyond that area.</i></p> <p>G. A community foundation's governing body:</p> <ol style="list-style-type: none"> <li>1. is responsible for the mission, direction and policies of the organization. <i>Explanation. The governing body of the community foundation is the ultimate fiduciary and is legally accountable for all of the activities of the organization, even when it delegates responsibility</i></li> <li>2. ensures adequate human and financial resources and actively monitors and evaluates the organization's chief executive officer. <i>Explanation: Human resources may include paid or unpaid staff It is the responsibility of the governing body to provide adequate resources to meet the National Standards.</i></li> <li>3. approves policies to prevent perceived, potential or actual conflicts of interest</li> <li>4. serves without compensation (exclusive of the chief executive officer.)</li> <li>5. is not controlled by any other nonprofit organization, or by any single family, business or governmental entity or any narrow group within the community.</li> <li>6. reviews and adopts an annual operating budget.</li> <li>7. ensures that the governing documents include policies for size of the board, required number of meetings annually, limits of members' terms, and structure and responsibilities of standing committees</li> <li>8. ensures that the community foundation reflects Corporate records or minutes the diversity of the community it serves. <i>Explanation: This item correlates to the item above regarding the governing body membership reflecting the community. Here, the governing body is looking beyond itself, and seeking staff and committee diversity, policies that do not promote exclusivity, and endeavors that address diverse communities.</i></li> <li>9. ensures that the community foundation meets all laws and legal requirements. <i>Explanation: All applicable local, state, and federal laws and regulations must be observed.</i></li> <li>10. approves all grants. <i>Explanation: The governing body has responsibility for grant approval, which may be exercised through delegation of the decision-making process.</i></li> </ol>	<p>Corporate record or minutes</p> <p>Board approved mission statement</p> <p>Board approved annual budget CEO job description Evidence of CEO performance evaluation</p> <p>Board approved conflict of interest policies Documentation of disclosures</p> <p>Most recent filed Form 990</p> <p>Most recent filed Form 990</p> <p>Board approved annual budget</p> <p>Governing instruments (i.e. Bylaws, Articles of Incorporation or Declaration of Trust)</p> <p>Corporate records or minutes</p> <p>Required annual legal filings with federal, state and local governmental agencies</p> <p>Corporate records or minutes and/or governing body resolution delegating authority</p>
<p><b>III. <u>Resource Development</u></b></p>	

<p>A. A community foundation has, or works to develop, broad support in the form of contributions from many separate, unrelated donors with diverse charitable interests in the community served by the community foundation.</p> <p>B. Contributions to a community foundation represent irrevocable gifts subject to the legal and fiduciary control of the community foundation's governing body.</p> <p>C. A community foundation has a long-term goal of securing resources to address the changing needs of the community it serves. <i>Explanation: Building discretionary funds to provide both flexible and permanent funding sources for meeting changing needs should be a goal of the community foundation.</i></p> <p>D. A community foundation accepts and administers a diversity of gift and fund types to meet the varied philanthropic objectives of donors.</p> <p>E. A community foundation adopts gift and fund acceptance policies that address minimum fund size, types of fund options, types of gift mechanisms, and policies and procedures for accepting various types of assets, and makes these policies available upon request. <i>Explanation: This item promotes accountability, policy and process disclosure, and consistency. Fund acceptance policies include purpose and use of the fund.</i></p> <p>F. During the gift planning process, the role and relationships of all parties involved are fully disclosed to the donor. <i>Explanation: The intent is to disclose any financial benefit that might accrue to a third-party participant in the gift planning process.</i></p>	<p>List of funds Sample marketing materials</p> <p>Sample fund agreements and gift acknowledgment letters</p> <p>Marketing materials Mission statement and/or governing instruments (i.e. By-laws, Articles of Incorporation or declaration of Trust)</p> <p>Marketing materials and/or gift/fund acceptance policies List of funds</p> <p>Gift/fund acceptance policies</p> <p>Sample disclosure documents</p>
<p><b><u>IV. Stewardship and Accountability</u></b></p> <p>A. A community foundation is a steward of charitable funds, investing and prudently managing funds and maintaining accurate financial records</p> <p>B. A community foundation is accountable to the community it serves and regularly disseminates information on its programs and finances.</p> <p>C. A community foundation maintains a written record of the terms and conditions of each component fund and all such records must reference the variance power.</p> <p>D. A community foundation honors the charitable intentions of its donors consistent with community needs and applicable laws and regulations.</p> <p>E. A community foundation observes the balance between donor involvement and governing board control and complies with applicable laws and regulations.</p> <p>F. A. community foundation ensures that the foundation's financial resources are used solely in furtherance of its mission. <i>Explanation: Some examples of intent here include</i> <i>1) salaries and benefits are within a range considered reasonable and customary for community foundations of similar size and taking</i></p>	<p>Annual audit with management letter (or financial review) Evidence of investment performance review</p> <p>Annual report Policy on public availability of the most recently filed IRS Form 990</p> <p>Sample fund agreements</p> <p>Documentation of procedures ensuring that funds are used to meet donors intent</p> <p>Guidelines for donor advisors and/or sample donor advised fund agreement</p> <p>Annual audit with management letter (or financial review) Most recently filed IRS Form</p>

<p><i>into account the background and experience of staff, and 2) assets of the foundation are not used for personal benefit of either board or staff.</i></p> <p>G. An annual audit (financial review when assets total less than \$1 million) is performed by an independent public accountant, reviewed and accepted by the governing body and made available to the public upon request.</p> <p>H. A community foundation</p> <ol style="list-style-type: none"> <li>1. has investment policies that include asset allocation guidelines, a spending policy and criteria for measuring investment performance.</li> <li>2. makes available to the public upon request the names of its investment managers, fees charged (including investment and administrative fees), governing body or appointees responsible for investment oversight and investment.</li> </ol>	<p>Annual audit or financial review  Documented evidence of governing body acceptance  Documented evidence of public availability of most recent audit (or financial review)</p> <p>Investment policy</p> <p><i>Marketing materials</i></p>
<p><b><u>V. Grantmaking and Community Leadership</u></b></p> <p>A. A community foundation operates a broad grants program to multiple grantees that is limited neither by a single focus or cause nor exclusively to the interests of a particular constituency.</p> <p>B. A community foundation awards some grants from its discretionary resources through open, competitive processes that address the changing needs of the community.</p> <p>C. A community foundation widely disseminates grant guidelines to ensure the fullest possible participation from the community it serves.</p> <p>D. A community foundation performs due diligence to ensure that grants will be used for charitable purposes.  <i>Explanation: Due diligence applies to all grants made by the foundation, and includes gathering and evaluation of information on the grantee and may include the intended use of the grant. Vigilance regarding quid pro quo benefit to a donor advisor would fall within the scope of this item.</i></p> <p>E. A community foundation works to identify community issues and opportunities and acts as a leader and convenor, using its human and/or financial resources to address immediate and long term community issues and opportunities.</p>	<p>Grant guidelines  Grants list for most recently completed fiscal year.</p> <p>Grant guidelines  Grant guidelines Grants list of discretionary awards for most recently completed fiscal year</p> <p>Grant guidelines  Documented evidence of public dissemination</p> <p>Policy or documented procedure for due diligence</p> <p>Documentation of issues identified and resulting actions</p>
<p><b><u>VI. Donor Relations</u></b></p> <p>A. A community foundation informs and educates donors about community issues and grantmaking opportunities.</p> <p>B. A community foundation actively involves donors in identifying and responding to community issues and opportunities.</p> <p>C. A community foundation promptly and accurately acknowledges gifts.</p>	<p>Documented evidence of donor education</p> <p>Documented evidence of donor participation</p> <p>Gift acknowledgment procedures</p>

<p>D. A community foundation provides fund statements, at least annually, to those donors who wish to receive them.</p>	<p>Documented evidence that fund statements were provided</p>
<p>E. All private information obtained with respect to donors and prospects is kept confidential to the fullest extent possible.</p>	<p>Confidentiality policy</p>
<p><b>VII. <u>Communications</u></b></p> <p>A. A community foundation communicates openly and welcomes public scrutiny.</p> <p>B. A community foundation has a communication strategy that includes a report, widely distributed at least annually, which describes the community foundation's mission, activities and financial operations.</p>	<p>Press releases and news clippings</p> <p>Annual report or equivalent and dissemination plan</p>