The Family Philanthropist

A newsletter for staff, board members, advisors, and donors involved in family foundations and individual giving.

Summer 2004: Promising Practices in Family

Inside this Edition

northern california grantmakers

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Dear Colleagues and Fellow Donors,

I am pleased to introduce you to the *Family Philanthropist* – a semi-annual e-newsletter now available to all NCG family foundation and donor members! Distributed through the Family Philanthropy Exchange, the *Family Philanthropist* is just one of a number of programs and services geared specifically for this constituency. From educational programs for family foundation staff, to donor/trustee-only events, to learning circles focused on particular issues, to casual brown-bags – NCG is creating opportunities for learning that will stimulate and support your philanthropic spirit and help improve your giving.

The Family Philanthropy Exchange was founded as an informal network in 1998 by Carrie Avery, President of the Durfee Foundation, as a place for staff and trustees of family foundations to connect with one another and to advise NCG on educational programming relevant to their needs. The network evolved into an Advisory Committee that planned educational programs and served as a liaison to NCG staff on family foundation needs and issues. A lot has changed in six years, most notably the increasing sophistication of the field and the realization that philanthropy comes in many forms – be it an organized foundation, an individual or family effort, a donor advised fund, and/or through any number of nonprofit or commercial giving vehicles. In response, we've expanded and formalized the Advisory Committee to reflect the full array of giving vehicles used by NCG members. Regardless of how you choose to give, NCG is a nexus for learning, sharing, guidance, and support to help you move your philanthropy forward.

The *Family Philanthropist* is designed to provide insight into trends in the field and food for thought, as well as effective strategies for improving individual, family, and institutional giving. As you peruse this inaugural issue, you'll find articles on ***Engaging the Next Generation, Mission Driven Investment Strategies, How to Manage an IRS Audit, Place-based Grantmaking,*** and ***Effective Small Grants*** (by our own Carrie Avery). You'll also find a list of related ***Resources*** as well as a ***Calendar*** for upcoming events. Please let us know if you have articles to submit, topics to discuss, issues to be addressed, or events to publicize. Your input will ensure that the Exchange's programs and services evolve to meet your changing needs and interests.

I am also very pleased to welcome Colin Lacon as the new NCG President and CEO as of July 1, 2004. Colin has worked in the public policy arena in both state and local government. He also led the Strengthening Communities to Support Families Program at the Stuart Foundation. The foundation was founded by the creators of Carnation and provides funding in Washington and California. We are delighted to have Colin on board, and know that his experience at Stuart will help to inform our programs and services to family foundations and individual donors.

On behalf of the Family Philanthropy Exchange, I hope you'll enjoy the *Family Philanthropist* and that it and all Exchange programs will help you realize your philanthropic promise and potential.

With warmest regards,

Nancy Wiltsek
Chair, Family Philanthropy Exchange

NCG's Family Philanthropy Exchange

NCG reaches out to the greater Bay Area family foundations, family giving programs, and individual donors, with a comprehensive learning program that connects them with one another and with the best models of current practice. The goal of NCG's Family Philanthropy Exchange is to provide consistent high-value member benefits that will enable Northern California family foundations to ensure that the future builds upon the successes of the past. Participation in the Family Philanthropy Exchange offers:

- Access to information about best practices in family foundation governance, staffing, and management.
- Training in the traditions, strategies, operations, and higher purposes of giving, offered in interactive, welcoming settings by well-known faculty using the best adult learning principles available.
- Programming that is balanced between grantmaking and program development and the issues unique to family foundations and individual donors.
- Opportunities to broaden connections with other family foundation donors, trustees/directors, and staff.

Training Family Members to do the Work *by Judith K. Healey*

Much has been written on family foundations incorporating the "next generation" into philanthropy, but there is also a need to think of helping family members of the current generation get up to speed on the board. There are two parts to training board members: first, about the purpose or value of the family's philanthropy, and second, the structure or ways the work gets done. Both are important to convey to new trustees, whether younger or contemporary to the current generation on the board.

Too often the tendency is to educate new trustees only about the structure. The current board may have been engaged so long that they seldom think about their purpose, except at an occasional board retreat. But it's the most important thing in passing the torch. Otherwise, how will new trustees become engaged? Below are a number of suggestions for accomplishing this training, based on my experience garnered from working with over 60 family foundations.

Reflect on the purpose of philanthropy. Have the current board take time to reflect on why they engage in philanthropy. Whether it's due to a family tradition or a personal passion, articulating a rationale for each trustee is often re-invigorating for them and the board as a whole. Do it as a group exercise.

Reflect on the values behind the philanthropy. Many family foundations have used the introduction of new board members to hold a retreat or an extended regular board meeting. They often identify values that the foundation tries to uphold in its work and reflect on the values of the family that led to this philanthropy.

Express the satisfaction and share the joy. New board members often hear a lot about the responsibilities and work of reading board books and deciding about grants. Be sure to share the joy and the satisfaction when a grant, small or large, is appreciated.

Make site visits a concrete illustration of the good that grants do. Many families take their children on site visits to show them what is being done. The visits should always be appropriate to the child's age. What better way to have the child – or teen – see the products of philanthropy than to see the people it helps? One elderly trustee told me once that he still remembered going out to help his father build a play area for a day care center.

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Getting the work done

There are two parts to getting the work done. a grant making process that is orderly, timely and useful, and the family dynamics work around decision making.

Explain how the work gets done before the trustee comes on the board. One client I worked with recently made a presentation about the grantmaking process, explained at a very simplified level. Other board members were very appreciative, as they had never had this process explained to them before. It was, in fact, a good refresher for them. They resolved to repeat the workshop when other new members join the board.

Remain open to new suggestions. Sometimes a new board member can see ways of making the process more efficient, open, or focused. Recognize that bringing on a new board member is an excellent time to stop and listen for good suggestions. "We've always done it this way" is not a sufficient response, and often speaks more to the comfort of older trustees/directors than to any value offered by the new suggestions.

Give new trustees/directors information. Be sure the new trustees are well supplied with general information, especially regarding legal issues and fiduciary responsibilities. Search out the best resources from your regional association of grantmakers, the Council on Foundations, the National Center on Family Philanthropy, and the Association of Small Foundations. Also, establish a policy that offers to send new trustees to workshops or conferences.

Acknowledge that new members change the dynamics. It is a truism that there will be ripples any time a new person joins a group that has been together. It's bound to happen and is a sign that things are healthy. But those trustees who are more experienced have the burden of adapting, and some preparation makes this adaptation go more smoothly.

Be flexible. Welcome the ideas and fresh perspective of new trustees. Don't grouse about the past, and be open to the future. After all, that is what family foundations that exist in perpetuity are all about.

Family foundation boards should regularly:

- Reflect on the purpose of philanthropy
- Reflect on the values behind the philanthropy
- Express satisfaction
- Make site visits a concrete illustration of the work

Best practices for a healthy family dynamic at the board table:

- Explain how the work gets done BEFORE the trustee comes on board
- Remain open to new suggestions
- Inform new trustees of their fiduciary and legal responsibilities
- Be flexible and patient
- Recognize individual personalities
- Establish mentor relationships for new trustees
- Try cross mentoring to reduce the possibility for branch divisions

Recognize individual personalities. Consider using the Myers Briggs typology inventory or other personal assessment tool to help board members assess their own strengths and weaknesses and become aware of complementary strengths of others. This also helps introverts understand why they have to fight to get in, and extroverts understand why they usually do the talking. It's fun for a family to do as a group. This is a good time to identify and minimize role-playing. Some families have members who unwittingly adopt roles over time: the Zeus role for the founder; the black sheep role for the youngest and most questioning trustee; the peacemaker (Hermes) for someone who does not want conflict and sometimes cuts off discussion. Now is a good time to catch yourself if you play a role, and see if you can manage behavior so that the new board member can have a more straightforward experience with the board.

Establish a mentor relationship between a new and a more experienced trustee. This is a practice more and more boards are adopting. It helps the new trustee avoid asking elementary questions during the board meetings (that may slow down the process), while increasing the intra-personal interaction around the foundation's work, thereby creating more positive dynamics within the meetings. Try cross mentoring to reduce the possibility for divisions across generations. Having uncles and aunts mentor second generation trustees, for example, is often more helpful than having mothers and daughters engage.

Judith Healey has worked in philanthropy for 25 years. She has published numerous resources and consulted with countless family foundations. Contact her at jkhealey@aol.com.

Innovative Grantmaking: Curbside Consulting Program *by Lee Draper*

Where do nonprofit leaders turn to get sage counsel or input on how to respond to new opportunities, resolve internal challenges or emerging crises, answer technical questions, test the ramifications of alternative paths to achieve organizational goals, or find a sounding board to deal with current circumstances?

The Flintridge Foundation, a family foundation in Pasadena, California, has a history of developing innovative, low-cost technical assistance programs for community-based organizations in its region. One such is "Curbside Consulting," where nonprofit staff or volunteer leaders sign up for 45-minute, one-on-one sessions with a well respected, professional consultant every Tuesday between 3 and 7 p.m. The sessions are free for those organizations within the Foundation's targeted constituencies and available to others on a sliding fee scale. The Flintridge Foundation launched the one-on-one consulting program three years ago in response to frequent requests from local nonprofits for expert assistance.

Individuals come to their Curbside Consulting session with any issue they want to work through, such as fundraising, board governance, planning, personnel management, public relations, organizational growth, and sustainability. The consultant provides advice, alternative scenarios, and resources related to each participant's needs during the 45-minute appointments. On a recent afternoon, topics included:

- Identifying and recruiting effective board members.
- Strategizing an approach to several prospective major donors.
- Developing questions and noting issues in exploring a potential merger.
- Reviewing a draft grant proposal.
- Developing a staffing plan given budget constraints and potential layoffs.

Lisa Wilson, Community Services Program Officer at the Flintridge Foundation, has been thrilled with the success of the program. "Start-up organizations have increased their capacity to provide services quickly and efficiently, using the sessions to explore options, envision ramifications, and answer difficult questions about organizational structure," she explained. She reported that they have avoided many of the pitfalls of trial and error and that "Mature nonprofits are able to get professional counsel on how to handle crises, design internal change to better address current conditions, or develop new fundraising programs to diversify their income and build long-term sustainability." Through the Curbside Consulting program, the Foundation has found a low-cost, practical method of fulfilling its mission to address community needs by building the strength of nonprofit organizations.

Lee Draper, president of Draper Consulting Group, has over 20 years of experience in advising all types of grantmakers on effective grantmaking, strategic planning, board governance, and producing long-term results. She can be reached at ldraper@drapergroup.com.

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Engaging the Next Generation: Three Perspectives

Diane and Norman Berstein Foundation

"Planning for succession by engaging in new practices for developing the next generation of trustees is the cornerstone of a successful family foundation," said Diane Bernstein, trustee of the Diane & Norman Bernstein Foundation in Washington, D.C. "One thing we did that expanded our knowledge and our ability to bring in new, fresh ideas was to open the foundation to all the husbands and wives of our children," continued Bernstein. "This gives everyone a say in our philanthropic efforts."

"And training youth early in the game is key to producing solid, educated and responsible trustees in the generations to come," she added. "Our youngest grandchild is nine and our oldest is 17. We formed a committee that meets to discuss philanthropic topics of interest to them."

In the near future, the grandchildren will be given the opportunity to vote for one of their own to represent them on the full board, said Bernstein. "Additionally, we have agreed that most of the decisions will be a consensus of what the group wants to do instead of what my husband and I say will be done," she noted. "Foundation trustees aren't born. They have to be nurtured and educated. You have to engage the youngsters and show them that their voice matters."

Kimsey Foundation

When it comes to making plans to prepare and select the next generation of trustees for the Kimsey Foundation, President and Executive Director Michael Kimsey says methodical research, instilling life lessons, and teaching good judgment is the best practice. "When the initial board was set up, it was only my father and two brothers," said Kimsey. "We didn't give much thought to board meetings and trustee involvement. Now we are starting to think along those lines and discuss what are the best ways to bring in the best people."

Like most family foundations, the first thought in planning for the future includes educating one's children to eventually fill those roles. "Since my children are only two and four years old, I have time to think about the best way to teach them about philanthropy," said Kimsey. "I'm sure the lessons will include direct observations and providing them with opportunities for involvement. There are many opportunities here in the Washington D.C. area to learn about good grantmaking."

Kimsey said he will teach his children that the family foundation is not a career path. "I want them to develop themselves and not view the foundation as a job opportunity," he concluded.

Cook Family Foundation

Tom Cook, executive director of the Cook Family Foundation in Michigan, said he has very simple advice for foundation members who are looking for ways to engage their children in philanthropy as training for the future. "I put in my plug for involving them in any structured workshops, where the kids can actually participate in a giving program," noted Cook. "Here we have the Council of Michigan Foundations, and they provide great programs for youth."

"Grantmaking programs, which can be found or started in every state, provide activities where the kids not only talk about philanthropy and its importance, but they can actually participate in a limited, structured giving program outside of their parents and grandparents," he said.

Another suggestion, he noted, is involving children in Youth Advisory Councils at community foundations that are designed to engage teenagers in grantmaking together, where they see how their giving impacts people and organizations in their communities. "There are no better lessons for our children to learn, especially since we older folks want to instill in them the love of giving and helping others. They can bring these lessons with them when they eventually become the trustees of our family foundations," concluded Cook. "Any structured giving programs for kids are valuable to this end."

Mission-Driven Investing *by Ina Fernandez, CPA*

In a 2003 study, the Social Investment Forum reported that $2.16 trillion, or over 11% of total assets under professional management in the U.S., was invested in a socially responsible manner. From 1995 to 2003, assets involved in social investing grew 40% faster than all professionally managed investment assets in the U.S.

Mission-Driven Investing (MDI) is the application of socially responsible investing to institutions. It recognizes that a foundation's mission and purpose are at the core of its existence, affecting all aspects of decision making, including asset management. MDI can take different forms:

Screening – This is the most common approach, based on the belief that shareholders are *owners* of the businesses they invest in, and not merely traders of stocks. Does it make sense then for a foundation to own businesses that promote values that are contrary to its mission? The answer for many is a resounding "no!" Exclusionary or negative screening directs capital *away* from companies that are engaged in businesses that are inconsistent with a foundation's mission. Inclusionary or positive screening directs capital *toward* companies that further its mission and promote its values.

Shareholder Advocacy – In its most basic form, the foundation votes proxies in ways that support its mission. To truly harness the power of stock ownership, a foundation can sponsor or co-sponsor proxy resolutions to engage management in a dialogue on issues of importance. Success is often measured by how many proposed resolutions are "dropped" because management has agreed to take action on the issue prior to bringing the resolution to shareholder vote.

Program-Related Investing – This form directs capital to emerging businesses that further the foundation's mission. Capital can also be directed to programs that generate jobs and services for the economically disadvantaged. This type of MDI can take the form of direct equity participation, low-interest loans or deposits made to community development banks.

Each of these approaches can be used independently to further the foundation's mission. However, there are powerful synergies in adopting all three forms of MDI to reinforce and complement a foundation's grantmaking. The ultimate goal is to use 100% of the foundation's endowment to execute its mission, rather than just the 5% dedicated to grantmaking. (See MDI case study, *View from the Field*, on page 9.)

Ina Fernandez is a Senior Portfolio Manager at Munder Capital Management, where she manages investment accounts for endowment and foundations, specializing in socially responsible investing. She also serves as team leader of the Charitable Investment Services Group. She can be contacted at ifernand@munder.com.

Mission-Driven Investing: Frequently Asked Questions

Q: Will we have to sacrifice investment returns if we adopt a mission-driven investment strategy?
A: It depends on the strategies used. KLD Research & Analytics, Inc. (www.kld.com) was the first firm to track the effects of screening on investment performance. KLD reports that its Domini 400 Social Index, which uses an array of positive and negative screens, returned 434.79% from its inception on 5/1/90 through 5/31/04, versus the S&P 500 return of 359.38% for the same period. Investors in program-related ventures or community development projects often deliberately choose to accept lower returns or higher risk in exchange for a direct impact on mission-related programs.

Q: Is mission-driven investing legal for foundations?
A: In general, the law permits foundations to adopt MDI, recognizing the need for consistency between mission and investment policy.

Q: How do we get started?
A: The Board and Investment Committee need to be well informed on the issues surrounding MDI to make a decision on the scope of its commitment. There are many educational resources available at a number of websites, including:

- The Social Investment Forum (www.socialinvest.org) offers research on social investing and lists of consultants, investment advisors, mutual funds, proxy-voting services. and community development loan funds.
- The Interfaith Center on Corporate Responsibility (www.iccr.org) serves as a central exchange for shareholder activism. Use ICCR to get informed on issues of shareholder concern, collaborate with others on resolutions in progress, or raise support for your own issues.

Ask a Lawyer *by Marcus Owens, Esquire*

Q: I just received notice that my foundation will be audited by the IRS as part of its "market segment study." What is this, how was I chosen, and what can I do to prepare?

A: "Market segment study" refers to an IRS effort to develop baseline information about tax-exempt organizations, such as foundations. The IRS has divided the tax-exempt sector into at least 42 "market segments," each composed of organizations with similar characteristics. Other market segments include, for example, schools, supporting organizations, and community foundations. The studies will consist of audits of a randomly selected sample of organizations within each segment.

The use of a random selection process will enable the IRS to collect data regarding tax compliance from the sample and extrapolate the findings to the rest of the segment, enabling the agency to allocate its resources more efficiently. The audits themselves are standard IRS reviews; they are distinguished from any routine audit only by the structured random selection process. One aspect of the market segment studies that can be helpful to organizations that have been randomly selected is that the IRS is placing on its website the check sheets that revenue agents will use to collect the data. Please visit the following website www.irs.gov/charities/index.html - scroll down to "Update on Market Segment Studies." Reviewing the check sheet that relates to your organization's market segment will give you a good idea of the questions the revenue agent will ask.

There are a number of measures that tax-exempt organizations can take to prepare for an audit, and, hopefully, make the whole process as painless as possible. In fact, there are things that an organization can do both before and after notice of an audit has been received. See the article to the right for suggestions on steps to take now and after you've "won" the audit lottery.

Marcus Owens is a member of the Caplin & Drysdale law firm in Washington, D.C., where he specializes in federal tax issues relating to tax-exempt organizations. Prior to this, he spent 25 years with the IRS, including 10 years as Director of the Exempt Organizations Division. He can be reached via email at MSO@capdale.com.

Harden the Target: Steps to Take Now

Review your activities. This step seems simple and basic, but the IRS will certainly ask about your activities, and the examination context is not the time to learn about someone's pet project for the first time. Do you have documentation to establish the relationship between program activities and your exempt purposes?

Review your records. Make sure you know where the records are located, that they are labeled accurately, and that they contain what they are supposed to contain. Create a records retention schedule, if one doesn't already exist, and stick to it. The IRS will be interested in financial and operational records.

Review your Form 990-PF. Are there any gaps or incongruities? Are entries credible on their face? Did you list trustee names, addresses, the number of hours they work on foundation business and any compensation?

Adopt and implement a conflict of interest policy. A conflict of interest policy tells revenue agents that you are interested in high integrity operations and helps establish a boundary between personal and institutional interests for your board and employees.

Employment contracts. If you have highly paid employees with written employment contracts, make sure that copies are in the appropriate personnel files. If anyone's compensation would make a good headline in the local newspaper, be sure that you have documentation to explain the amount and the process by which it was set.

Stay current on employment tax filings. All tax-exempt organizations with paid employees are also exposed to examination by IRS employment tax agents and exempt organizations revenue agents. Stay current with proper withholding and reporting, and review the employee/independent contractor classification of your workers. Make sure your personnel files contain justification for independent contractor status and copies of Form 1099.

Steps for After You Win the Audit Lottery

Get organized. Identify a team to oversee the examination. Your goals are to maximize your control over the situation and move the agent(s) through the process as quickly as possible.

Designate a single point of contact. You want to control contact with the IRS so that all requests for documents and/or interviews can be tracked and timely responses made. Be sure to maintain a log of information document requests (IDRs) and periodically ask the IRS to confirm its accuracy.

Develop a communications strategy. While the IRS

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Grantmaking with a Geographic Focus

Developing and implementing a place-based strategy for philanthropic giving allows a foundation to target specific areas of need in a limited geographic region and to maximize results, according to Reginald Jones, executive director of the Steans Family Foundation in Chicago.

Grantmaking with a geographic focus has worked exceedingly well for the foundation since it was founded in 1995, notes Jones. "Our foundation has $25 million in assets, and we provide around $2.5 million a year in grants. Our board is determined that those dollars generate the most impact possible," he says.

Steans Family Foundation trustees chose North Lawndale, Illinois, a predominantly African American suburb of Chicago, as its community of choice and went to work on goals of reducing high poverty and unemployment rates and improving public safety for its 41,000-plus citizens. "Education is also a high priority with us," reports Jones. "By being place-based, we can really hone in on the socio-economic conditions within the community where, with some financial help and a commitment from concerned citizens and organizations, we can really make a significant change for the better."

For example, Jones mentions a foundation grant that helped launch a local charter school, the North Lawndale College Preparatory High School. Another foundation effort under way is a housing development project to bring affordable housing for both sale and rent along with providing funding for improving the facades of existing structures.

Geographic grantmaking also enhances the foundation's ability to leverage its dollars with those of other public and private organizations with similar missions dedicated to that area. "When we talk about collaborations, our biggest partners are those organizations right in that community," concludes Jones. "And our mutual success is looked at in terms beyond the dollar; we look at positive community patterns that are created."

NCG Family Philanthropy Exchange Events

The Family Philanthropy Exchange hosts approximately six programs a year that are geared towards family foundation and family giving program staff, trustees, and advisors, as well as individual donors. Information on all current and upcoming events sponsored by FPE, as well as all other NCG events, is available at NCG's website, www.ncg.org.

LOOKING BEYOND OUR BORDERS: PERSONAL PERSPECTIVES ON GLOBAL GIVING

A special event for trustees/directors and donors cosponsored with Grantmakers without Borders
September 14, 5:30-7:00 p.m. ♦ at the home of Nancy Wiltsek, San Francisco, CA

International funders will tell their tales and share their tips about the nuts and bolts, challenges, and epiphanies of funding projects abroad. Enjoy light refreshments and drinks, stimulating stories, and a wealth of insight. You'll leave with **take-away tools** you can use to remove some of the barriers to global giving, and find ways to launch or improve your international grants.

For directions and to RSVP, please contact Sai Seigel at Northern California Grantmakers, sseigel@ncg.org or (415) 777-4111, ext. 12. Or, if you are unable to attend, but would like to receive handouts from the event, please contact Sai.

THE ROLE OF EVALUATION IN FAMILY FOUNDATIONS

September 30, 10:30 am-1:00 pm ♦ James Irvine Foundation, 1 Market St., Suite 2500, San Francisco

This interactive session will use case studies to help family foundation staff and trustees better understand evaluation processes, costs, and tools.
To RSVP, please contact the NCG event Coordinator at (415) 777-4111, ext. 19, eventcoordinator@ncg.org.

View from the Field

Mission-Driven Investing (MDI) is a small but growing movement among foundations nationwide, according to Stephen Viederman, a trustee of the Needmor Foundation and past president of the Jessie Smith Noyes Foundation.

As one of the nation's leading proponents of MDI, Viederman said that current studies show only about 15% to 19% of grantmakers leverage their investments to make a significant impact through use of mission-driven investing. "Foundation leaders tend to think of making a positive social change through their grants, but if they would look at their investments as a tool as well, billions of dollars nationally can be put to work for an even more dramatic impact through philanthropy," advised Viederman.

For example, the Jessie Smith Noyes Foundation in New York (with approximately $70 million in assets), in the late 1980s and early 1990s began screening out (divesting) stocks and bonds that didn't meet its mission, goals and ethical beliefs, Viederman explained.

And the Needmor Foundation in Ohio (with about $25 million in assets) started screening in the early 1990s. "Both felt that they could make a powerful statement by repositioning and investing their assets in companies that met their level of social responsibility," he said. "And those investments could earn just as much, if not more, in the market than the others."

Viederman said there is a myth in the field of philanthropy that mission-driven investing – sometimes referred to as socially responsible investing – equates to a sub-par or diluted foundation portfolio with declining returns. "That's false," he noted. "There are many, many investment opportunities out there that can produce returns equal to or better than some of these problematic companies."

Another problem that must be overcome is a traditional hesitation by foundation board members to not tinker with existing investment portfolios, said Viederman. "This is an old-boy network kind of thing that says if an investment is making us money, stick with it," said Viederman.

Yet another myth that needs to be dispelled is that it's "all or nothing" when it comes to mission-driven investing. "There are several steps, in any size increment, that can be done by foundations and you need not incorporate all of them," he stated. Among those steps:

- positive or negative screening of a foundation's portfolio;
- using the power of being a shareholder to lobby a company to act/invest in a more socially responsible manner;
- investing funds in community businesses that share common social and ethical goals; and
- making mission-related venture capital available for new and existing businesses.

Ask a Lawyer

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won't issue a press release about your audit, they could contact your bank, your contractors and others with whom you do business. Be ready with a thoughtful, considered statement for the local media, just in case, particularly if you already make good copy for local reporters.

Who's who. Find out who's on your case. Meet and greet the agent(s) and their manager, or at least get the manager's name and contact info. Will IRS Counsel be assisting them? Will there be specialists, such as engineers, computer audit specialists, or financial analysts assigned?

Find an office for the agent(s). The IRS will need work space. Decent, quiet space, a telephone, a place to hook-up a computer, but let's be blunt – it's better to have them across the street or down the road than next door to your lunch room.

On that note. The IRS examination guidelines handbook for revenue agents specifically suggests engaging employees in casual conversation as a way of collecting information. Enough said.

Ask questions up front. Does the agent have any special areas of interest? Is there an examination plan and timetable they are willing to share?

Be talkative – carefully. First impressions are important. Offer (insist) to provide an overview of the foundation. Don't be overly fluffy, but you want the agent(s) to understand, as soon as possible, that you do good work.

Read and reread. You want the IRS to ask, in writing, for documents. They probably will anyway. Don't read more into their requests than they've specifically stated. Remember to note the specific tax year involved in each request.

Stay calm, things take time. The agent(s) won't have the final say in the outcome unless you agree to let them. You have right to explanations, conferences and review of the findings. Don't be afraid to use them; it doesn't count against you.

Take a deep breath and relax. IRS examinations are worrisome and time/ resource consuming, but survivable.

Small Grants: When a Little Goes a Long Way

By Caroline D. Avery, President, The Durfee Foundation

How do foundations give away smaller amounts of money effectively? To answer this question, I interviewed dozens of grantmakers from around the country, focusing on those who make grants in increments of $10,000 or less according to well-defined guidelines. The range and inventiveness of these programs is fascinating, as can be seen in *The Guide to Successful Small Grants Programs: When a Little Goes a Long Way*, published by the Council on Foundations.

Small grants need not be viewed as merely diminished versions of larger grants, but rather as unique opportunities for grantmakers to exercise creativity while serving community needs. The fact that relatively little money is at stake can free foundations from a traditional mode of operations to explore new ways of doing things, such as turning grants around exceptionally quickly, involving foundation outsiders in the grantmaking process, working with nontraditional grantees, or doing away with grant application forms.

Small grants programs are not limited to small foundations; funders of all sizes have exciting small grants programs. The Pfaffinger Foundation in Los Angeles spends hundreds of thousands of dollars each year assisting working poor families with emergency cash needs, such as apartment rental security deposits or the replacement of a construction worker's stolen tools. The Albert Kunstadter Family Foundation in New York makes $2,000 grants of "walking around money" to new nonprofits that have never received grants before. And the Grameen Foundation USA supports micro loans to female, small business owners in developing countries. Some of these loans are as small as $60, but these small amounts have enabled women to start self-supporting businesses that can lead to access to bank loans for additional growth.

The Philanthropic Ventures Foundation in Oakland, California offers grants up to $500 to public school teachers for supplies, books, field trips or whatever the teacher needs. The foundation gets the checks in the mail 48 hours after receiving a teacher's request.

Small grants programs can play an important role in informing all of a foundation's grantmaking. At the Durfee Foundation, we have found that our small grants programs are a necessary component of our grants portfolio, which contains a range of programs and grants from $1,000 to $100,000. Some of the greatest excitement in our office is generated by two small grants programs. One makes quick turnaround grants to individual artists to enable them to take advantage of a career-building opportunity and the other makes grants to young nonprofits with strong leadership and grassroots support. Both of these programs give us insight into two of our main funding areas—arts and community development. Through these programs, we have learned a great deal about individual artist's career development and nonprofit entrepreneurship. This ground-level intelligence informs and enhances our larger grants in these areas.

At a time when nonprofit and foundation effectiveness is under scrutiny, the examples of successful small grants programs are particularly compelling. Foundations that harness the potential of their small grants have found a way to maximize their grantmaking, and can inspire us all with their innovative approaches to their work.

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Senate Committee to Consider New Regulations

The U.S. Senate Committee on Finance has issued a staff paper and held two meetings to discuss a number of proposed new regulations for private foundations and other charitable organizations. Committee staff have indicated that they plan to draft legislation that would include some of the proposed changes for passage in the fall. Most likely, these would be attached to other bills that need to pass before the election. Summarized below are the major items being considered at the time the newsletter went to press.

- Five-year review of tax exempt status: Each organization would be required to file with the IRS documentation allowing for a determination of whether it is still operated exclusively for an exempt purpose; a sliding scale processing fee would be imposed, the submitted documents would be available for public inspection, and failure to file the required documents would result in loss of the

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tax-exempt status. Increase in the penalty tax for self-dealing from 5% to an unspecified amount.

- Modification of the IRS 990 federal return, including requiring certification of the form by the CEO and increased penalties for failure to file.
- Establishment of specific board duties to strengthen governance, including mandating board size of no less than three and no more than 15, requiring a certain number of independent members and allowing IRS removal of trustees under certain circumstances.
- Either prohibit compensation to trustees or limit the allowed amount.
- Require that compensation of disqualified persons be comparable to the federal government rates for similar work. Compensation above a certain level would trigger filing of supporting documents, which would be made available to the public and for which the IRS would charge a sliding scale fee to review. Such compensation subject to review would need to be approved annually and in advance by the board of directors.
- Require additional filing of documents if a foundation's administrative expenses are higher than 10% of the foundation's total expenses. Review by the IRS as to whether the expenses are reasonable and necessary would be accomplished with the imposition of a sliding scale fee.
- Administrative expenses above 35% of a foundation's total expenses would not count as qualifying distributions.
- Prohibit grants to donor-advised funds from private foundations.
- Eliminate the excise tax on net investment income for any year in which the foundation pays out more than 12% of non-charitable use assets for grants.
- Limit payment of travel, meals and accommodation to the U.S. government rate or an alternative, not yet specified charitable rate, with penalties applied for non-compliance.

Resources for further exploration of the issues in this edition of *The Family Philanthropist*

Succession Planning

- *Living the Legacy: The values of a family's philanthropy across generations*, National Center for Family Philanthropy, 2001
- *Generational Succession*, Council on Foundations, 1995
- *The Succession Workbook: Continuity planning for family foundations*, Council on Foundations, 2000
- *Voyage of Discovery: A planning workbook for philanthropic families*, National Center for Family Philanthropy, 2001

Training for service

- *The Trustee Notebook: An orientation for family foundation board members*, National Center for Family Philanthropy, 1999
- *Planning a Successful Board Retreat for a Family Foundation*, Frey Foundation, 1992
- *Self-study Guide for Family Foundation Boards,* Council on Foundations,1994

Mission-Driven Investing

- *Investment Issues for Family Funds: Managing and maximizing your philanthropic dollars*, National Center for Family Philanthropy, 1999
- *Investment Policies and Practices*, Council on Foundations, 1995
- *Philanthropy for the Wise Investor: A primer for families on strategic giving*, The Philanthropic Initiative, 1998

Geographically focused grantmaking

- *Grantmaking with a Compass: The challenges of geography*, National Center for Family Philanthropy, 1999

Small grants, big bang

- *The Guide to Successful Small Grants Programs: When a little goes a long way*, Council on Foundations, 2003
- *Unique Approach Helps Small Foundation Make a Big Difference*, Nokomis Foundation, 1999