

A Letter from the President

AN ANNUAL REPORT REPRESENTS AN IMPORTANT MEANS for a foundation to tell its story—to communicate its mission, program guidelines, funding strategies, decision-making processes, program progress, and shifts within the foundation.

This year's annual report, presented in two sections, focuses on customer service.

The essay in the companion booklet, "Customer Service in Action," is written by Patricia J. Kozu, Vice President, Finance and Administration. Pat is responsible for making the Foundation's long-term interest in quality customer service a reality. With energy and flair, she has expanded upon our initial efforts to improve our response time to applicants and grantees/investees to include an expanded concept of relationships and service. The booklet also includes profiles of several grantees that have a commitment to customer service.

This report includes the Foundation's current guidelines, a description of grants and mission-related investments made during 2004.

I would also like to take this opportunity to tell the readers of this annual report—particularly our grantee, investee and applicant customers—about a significant change approved by the F.B. Heron Board of Directors in November 2004, to explain why and how we are making this change—and what is not changing.

Going forward, we will be concentrating our grantmaking in twelve U.S. geographic areas, noted at the end of this letter. The areas are a mix of cities, states and regions in which we have been funding for a number of years. While we will remain a national foundation, this consolidation represents a decrease from nearly 30 geographic areas, (loosely defined as "clusters") in which we were also funding. It should be noted that our mission-related investing will remain nationwide in scope.

WHY THE GEOGRAPHIC CONSOLIDATION?

Motivated by a desire to deploy the Foundation's financial and human resources as effectively as possible to achieve our mission, the board and staff engage in regular, comprehensive reviews of Heron's grantmaking and investing programs.

We are also motivated by a desire to deepen the **quality of our engagement with our customers**. As we broaden our "tool kit" of investments to support program—and as other resources emerge to advance the work of organizations helping low-income people to join the economic mainstream—it became increasingly clear that working in fewer areas holds the promise of deploying our supportive resources more adeptly and effectively.

And, in a third-party survey conducted with our customers in 2003-04, we learned that we have opportunities to improve our understanding of the communities in which we work—more fully discussed in the companion essay. The ultimate motivation is, of course, to improve and demonstrate positive impact on low-income people and communities.

HOW ARE WE MAKING THIS CHANGE?

Unfortunately, some of the organizations currently funded by Heron no longer correspond to the Foundation's core geographic areas going forward. This shift in no way reflects a judgment on the value and impact of those organizations. Rather, it reflects a recognition that the Heron

Foundation cannot effectively deploy resources in so many diverse and disperse geographic areas.

In all cases, the Foundation has attempted to provide clear and adequate notice of the change. To help with those organizations not within the geographic areas in which we will be concentrating in the future, we also plan to recommend transition grants—most of these will be general support grants, as is our practice—over the next 12-18 months.

This decision followed months of difficult and deliberate consideration, although I suspect this is of small comfort to the many organizations that we have been privileged to get to know and to fund.

The niche we have carved as a national foundation is one that tends to work with organizations that have a demonstrated track record in our program areas. Among the questions we asked: Does the "cluster" currently have a significant level of grantmaking and investing relationships with track records in our program areas? Are there mission-related investment opportunities? Are there present opportunities to help organizations move closer to the private capital markets? And, are there demonstrated efforts to advance work in improving impact?

To be clear, we do not intend to design and impose initiatives on the geographic areas that we have selected. Nor will we limit our mission-related investment activity to the twelve geographic "clusters." We do hope that within these areas we might: deepen our understanding of and, perhaps, broker relationships within the private, nonprofit and public sectors; mine opportunities to advance market-rate investments that support mission; support research and policy opportunities that advance the wealth-creation program areas on which we have chosen to focus; and accelerate efforts to demonstrate and communicate impact to residents and policymakers.

As a small staff team at Heron, we have always worked at exchanging lessons learned from our grantees and investees to ensure consistency in our decisions. As we consolidate geographic areas with attendant program officer portfolio reassignments, we are keenly aware that these reassignments might cause nervousness among our customers. Nevertheless, we offer the perspective that it often helps to have more than one person within a foundation deepen the understanding of a customer’s organization, leadership and programs. We appreciate your patience and understanding through these transitions.

WHAT HASN’T CHANGED?

Our mission: helping people and communities to help themselves

Our wealth-creation program areas as a means to help people take control over their lives, and make decisions for themselves and their families

Our mission-related investing, which seeks to deploy an array of below- and market-rate investments to support our program areas

Our strategy of funding community-based organizations and the regional and national organizations that improve their capacity and take their lessons into the policy arena

Our belief that **general support grantmaking** remains a rare and valuable tool for planning, paying the bills and leveraging other resources

Our intent to **identify and support practice-based, meaningful approaches to improving and demonstrating impact**

Our approach to **listening to and applying lessons from our customers**

We do not pretend to assume that we have selected the golden number of geographic areas. It is our hope that a smaller number of geographic areas will help us to deploy the Foundation’s resources more effectively and efficiently. As always, we rely on our grantees and investees to advance the Foundation’s mission of helping people and communities to help themselves.

I thank the Foundation’s Board of Directors, especially our chairman, Bill Dietel, for their guidance and support. During this period of change, they have consistently challenged

the staff to make sure that the interests of the ultimate beneficiaries of the Foundation’s work were utmost in our minds and that we be respectful when exiting relationships with existing grantees no longer in target areas.

My thanks as well to the staff for enthusiastically engaging in yet another “improvement opportunity.” The Foundation benefits from this exceptional team of professionals whose commitment to Heron’s mission and methods is demonstrated every day.

Finally, I acknowledge the Foundation’s partners—the grantees and investees—who do the real work in building wealth-creation opportunities for low-income families and communities. They work with extraordinary creativity and nimbleness in achieving their mission in a very dynamic environment—where traditional lines between nonprofit, public, and private sectors continue to blur.

Sharon B. King
President

▶ **AREAS IDENTIFIED FOR HERON SUPPORT**

From 2005 forward, the Heron Foundation will concentrate the majority of our grants in the areas listed below. We will also continue to support organizations with a national focus and, in some cases, regional focus where those organizations are advancing solutions that have broad application for the Foundation’s selected wealth-creation strategies. Our mission-related investments, however, will not be restricted geographically, but will remain nationwide in scope.

▶ APPALACHIA	▶ MICHIGAN	▶ NEW YORK CITY
▶ CALIFORNIA	▶ MINNEAPOLIS/ST. PAUL	▶ NORTH CAROLINA
▶ CHICAGO	▶ MISSISSIPPI DELTA	▶ TEXAS
▶ KANSAS CITY	▶ NEW JERSEY	▶ WASHINGTON, D.C.