

Principles & Practices Guide

for Nonprofit Excellence in Michigan

October 2009



Michigan Nonprofit Association

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Introduction

With help and guidance from Michigan's Management Support Organization (MSO) Network in addition to many leaders of the nonprofit, government and private sectors, the Michigan Nonprofit Association has developed *Principles & Practices for Nonprofit Excellence in Michigan* to assist Michigan's charitable organizations in building capacity while enabling them to demonstrate accountability and transparency. Some practices reflect legal requirements and/or steps that all nonprofits should take, while others are aspirations. Although many of the principles and practices detailed herein will be helpful to all nonprofits, they are specifically written for Michigan nonprofit corporations that are tax-exempt under 501(c)(3) of the Internal Revenue Code and that are public charities (i.e., not private foundations).

Michigan Nonprofit Association recognizes good organizational practices are primarily implemented through education and self-regulation. Thus, *Principles & Practices for Nonprofit Excellence in Michigan* is intended to serve as an educational resource to improve the efficiency, transparency and accountability of Michigan's charitable organizations.

Adherence to *Principles & Practices for Nonprofit Excellence in Michigan* is **NOT MANDATORY**. There is no certification or accreditation process; it is not designed as a report card. Simply, *Principles & Practices for Nonprofit Excellence in Michigan* provides a planning and assessment framework that raises the bar for nonprofit performance. It is intended as a tool for nonprofits to live up to the challenge posed by Stephen Covey and other thought leaders: "Begin with the end in mind." A traveler employing an atlas might identify many alternative routes that lead to the final destination: the atlas itself does not determine the path, but provides an overview of options and serves as a starting point for decision making. Think of *Principles & Practices for Nonprofit Excellence in Michigan* as a nonprofit atlas then, enjoy the journey.

Purpose

Principles & Practices for Nonprofit Excellence in Michigan has three intended purposes:

- ◆ Provide individual charitable organizations striving for excellence with a Michigan-specific tool for evaluating regulatory compliance, enhancing strategic planning and refining operational evaluation.
- ◆ Support the growth and quality of the sector.
- ◆ Increase public understanding of the role and contributions of the charitable nonprofit sector in Michigan.

These principles and practices are intended to serve as a guide for all charitable nonprofits to implement practices that are legal, ethical and effective. They are meant neither to be used by funders or government as a "litmus test" to evaluate charitable organizations, nor are they intended as a substitute for the wisdom of directors, staff and advisors of individual organizations. Note also that this guidebook is not meant to be construed as legal advice, and is not a substitute for individualized consultation with an attorney.

Definitions

The following terms are used throughout this document:

- ◆ A "**principle**" is a broad statement that defines a suggested ethical or managerial direction for a nonprofit organization.
- ◆ A "**practice**" is a suggested method to aid in achieving the principles.
- ◆ Whenever the term "**must**" is used, federal or Michigan laws exist that require 501(c)(3) charitable nonprofit organizations to conform to that practice. These requirements are denoted with a **MI (Michigan law)** or **US (federal law)**.

- ◆ The term “**should**” means that the practice is not required by law, but is generally recommended depending upon the nature, resources, and lifecycle stage of the nonprofit organization.
- ◆ In this document the terms “**charitable organization**” and “**nonprofit organization**” are used interchangeably to refer to nonprofit organizations that are tax-exempt under 501(c)(3) of the Internal Revenue Code.
- ◆ “**Capacity**” generally refers to an organization’s level of ability to achieve its stated mission. Many factors affect capacity including the lifecycle stage of the organization, a sudden increase or decrease in funding, skill level of staff, changes to staff or governance, and/or a variety of other factors over which the organization may have no control.
- ◆ “**Accountability**” generally refers to an organization’s ability to answer questions regarding appropriate expenditure of funds and/or service impacts and outcomes that demonstrate progress toward its mission.

Legal Accountability

All nonprofit organizations operating in the state of Michigan should be aware of and in compliance with all legal requirements pertaining to nonprofit management, reporting and governance. Visit the following websites for a summary of applicable laws, links to helpful resources, and downloadable forms:

- ◆ Staying Legal for Michigan Nonprofits (www.stayinglegalmi.org)
- ◆ Michigan Attorney General, Charitable Trust Section (www.michigan.gov/ag)
- ◆ Michigan Department of Labor and Economic Growth (www.michigan.gov/dleg)
- ◆ Internal Revenue Service (www.irs.gov/charities)

Flexibility

It is important to note that some organizations will have acceptable reasons to deviate from the recommended practices. Such exceptions need not imply a lack of transparency and/or accountability, but may warrant

conversation among the organization’s leadership. Many nonprofit organizations already adhere to strict best practices programs, and there are numerous programs in specific nonprofit subsectors. For that reason, *Principles & Practices for Nonprofit Excellence in Michigan* should be utilized as a tool to increase transparency and accountability, and should be considered alongside other programs that may already exist for specific nonprofits.

Principles are presented in alphabetical order. It is difficult to arbitrarily prioritize one principle over another without sufficient assessment and knowledge of the organization, in addition to the fact that the principles and recommended practices are interconnected. It is up to your organization’s leaders to identify your top priority, work through that area, celebrate your success and move on to the next task.

Implementation

While Michigan has a diverse community of charitable organizations, it is also important to note the great diversity of best practices in the nonprofit sector and to acknowledge that “not one size fits all” organizations. Each nonprofit organization should carefully conduct organizational assessment, including evaluating its own stage in the nonprofit lifecycle, to establish where it is and where it wants to be. *Principles & Practices for Nonprofit Excellence in Michigan* is intended as a basis for each organization (board, staff, and other constituents) to make a conscious determination of how to best move forward and ensure its programs and services are of high quality.

Simply reading through *Principles & Practices for Nonprofit Excellence in Michigan* is not sufficient. While participation and adherence is strictly voluntary, implementing the recommendations and aspiring toward greater efficiency and effectiveness will bring credibility to an organization in the eyes of the public, funders, community partners, staff, volunteers, and the audience it serves. Therefore, each nonprofit is encouraged to develop a thoughtful and strategic process for organizational assessment and planning that includes the following elements:

- ◆ review and adoption of a set of standards or principles to which the organization can commit;

- ◆ review of the **Basic Infrastructure Checklist**;
- ◆ identification of the lifecycle stage of the organization as a means to frame appropriate expectations;
- ◆ organizational assessment to identify strengths and growth areas;
- ◆ development of an action plan that will allow the organization to address its growth areas and to maintain and promote good practices where they exist; and
- ◆ implementation of the plan through individual work plans and periodic progress reviews.

Note: A number of frameworks have been developed related to nonprofit lifecycles. The Michigan Nonprofit Association typically employs **Nonprofit Lifecycles: Stage-Based Wisdom for Nonprofit Capacity** by Susan Kenny Stevens www.stagewiseenterprises.com as the basis of its lifecycle work with nonprofits. This handy reference outlines seven stages of nonprofit capacity, includes a user-friendly assessment tool to identify the organization's lifecycle "stage" and provides specific recommendations for every stage of development.

Additional Resources

There are two additional resources in the *Principles & Practices for Nonprofit Excellence in Michigan* collection:

- ◆ **Basic Infrastructure Checklist** - serves as a concise reference for nonprofit accountability, providing a framework of recommended practices in management and record-keeping. www.MNAonline.org
- ◆ **Principles & Practices for Mission Achievement: An Organizational Assessment and Planning Tool** - frames an organizational action plan for mission achievement through the assessment and prioritization of specific activities. www.MNAonline.org

We also recommend that nonprofit leaders review and refer to the following materials for ongoing support and guidance:

- ◆ Michigan Nonprofit Management Manual (www.MNAonline.org)
- ◆ Staying Legal for Michigan Nonprofits (www.stayinglegalmi.org)
- ◆ Alliance of Fundraising Professionals (AFP) Code of Ethical Conduct for Fundraisers (www.afpnet.org)
- ◆ Independent Sector's Code of Ethics for the Nonprofit Sector (www.independentsector.org)
- ◆ BoardSource reference materials and publications on governance (www.boardsource.org)
- ◆ Nonprofit Risk Management Center (www.nonprofitrisk.org)
- ◆ Nonprofit Good Practice Guide (www.npgoodpractice.org)

For assistance through training or consulting services, contact Michigan Nonprofit Association (MNA) or a local Management Support Organization (MSO) by visiting www.MNAonline.org/mso.asp

Acknowledgement

Principles & Practices for Nonprofit Excellence in Michigan is adapted in part from *Principles and Practices for Nonprofit Excellence* developed by the Minnesota Council of Nonprofits © MCN 2004, and used with permission. Michigan Nonprofit Association extends its deep gratitude to Michigan's MSO Network, Michigan Nonprofit Association, Maine Association of Nonprofits, Colorado Nonprofit Association and North Carolina Center for Nonprofits for their input and generosity in the constant evolution and enhancement of this resource.

Guiding Principles

COMMUNICATION

Nonprofit organizations should have thoughtful, intentional systems for general communications, marketing and media relations in order to promote and advance mission achievement. Internal communications help to motivate, inform, and counsel employees and volunteers of nonprofits and to set the stage for external communications. External communication helps to attract and retain constituents and to raise public consciousness, understanding and commitment to the organization. Working with the media is a necessary part of effectively communicating an organization's mission to the general public, donors, volunteers and policymakers.

EVALUATION

As entities that serve the public, nonprofit organizations have an obligation to demonstrate their value to the public. The public has a stake in nonprofit performance and is entitled to information regarding organization results. Nonprofits should regularly measure their performance against a clear set of goals and should share such information with their constituents. Nonprofit evaluation should be appropriate to the size and purpose of the organization and evaluation data should be used to continually improve the quality of processes, programs and activities.

FINANCIAL MANAGEMENT

Nonprofits have an obligation to act as responsible stewards in managing their financial resources. Nonprofits must comply with all legal requirements related to financial matters. They should adhere to sound accounting principles that ensure fiscal responsibility and build public trust. Nonprofits should use their financial resources to accomplish their missions in an effective, efficient manner and should establish clear policies and practices to regularly monitor how funds are used.

FUNDRAISING

Nonprofit organizations play an important societal role in serving as the vehicles by which philanthropy occurs. Nonprofits act as the intermediaries between donors and beneficiaries and have ethical obligations to ensure proper handling of funds to carry out their missions. Nonprofit fundraising should be conducted according to the highest ethical standards with regard to solicitation, acceptance, recording, reporting and use of funds. Nonprofits should adopt clear policies for fundraising activities to ensure responsible use of funds for designated purposes and open, transparent communication with donors and other constituents.

GOVERNANCE

A nonprofit board of directors is responsible for defining the organization's mission and for providing overall leadership and strategic direction to the organization. A nonprofit board actively sets policy and ensures that the organization has adequate resources to carry out its mission. The board provides oversight and direction for the executive director and is responsible for evaluating his/her performance. A nonprofit board also has a responsibility to evaluate its own effectiveness, in upholding the public interest(s) served by the organization.

HUMAN RESOURCES

Effective management of human resources is essential for creating successful organizational results. Nonprofit organizations should exercise fair and equitable human resource practices that attract and retain qualified individuals. Nonprofits have an obligation to adhere to all legal employment requirements and to provide a safe work environment. Nonprofit organizations should establish specific policies and practices that promote mutual cooperation to advance the organization's interests, and that reflect appropriate industry standards for remuneration.

INFORMATION AND TECHNOLOGY

Effective and appropriate use of technology is critical to maintaining a nonprofit organization's accountability and relevance. A nonprofit should manage information with regard for confidentiality, safety, accuracy, integrity, reliability, cost-effectiveness, and legal compliance. A nonprofit should incorporate appropriate technology into its work to improve its efficiency, efficacy, and accuracy in the achievement of its mission.

PLANNING

Organizational planning is a process that defines a nonprofit's overall direction, activities and strategies to fulfill its mission. Nonprofits have a duty to engage in sound planning to define a clear vision for the future. In order to best position organizations to achieve their goals, nonprofit planning should include input from constituents and should be intentional and ongoing.

PUBLIC POLICY AND ADVOCACY

Nonprofit organizations play a central role in the democratic process by providing a means for public participation and promotion of the common good. As entities that serve the public, nonprofit organizations should engage in public policy and advocacy activities to promote constituent, organizational and sector interests. Nonprofits should work to promote broad public participation in public policy and advocacy efforts and should provide assistance to the public in these efforts.

STRATEGIC ALLIANCES

Strategic alliances can take many forms and can serve multiple purposes, such as partnership, sharing of resources and improved operational efficiency. Strategic alliances help to strengthen individual nonprofit capacity and the capacity of the sector as a whole. Nonprofit organizations should be open to strategic alliances and, when appropriate, should partner with other organizations to enhance their capability to achieve desired results. Nonprofits should work to promote cooperation and coordination among a variety of entities to avoid unproductive duplication of services and to maximize the resources available to the communities they serve.

TRANSPARENCY AND ACCOUNTABILITY

As entities that serve the public, nonprofits have an ethical obligation to conduct their activities in a way that is accountable and transparent to their constituents. Nonprofits should engage in ongoing efforts to openly convey information to the public about their missions, activities and decision-making processes. This information should be easily accessible to the public and should create external visibility, public understanding and trust in the organization.

VOLUNTEER ENGAGEMENT

Effective volunteer engagement is critical to the success of a nonprofit. The time, talent and treasure provided by volunteers help an organization maximize results in working toward its mission. Nonprofit organizations should exercise fair and equitable volunteer management practices that attract and retain qualified individuals. An effectively-managed volunteer program can build an organization's efficiency, enhance community engagement, provide specialized expertise and increase the community's awareness of issues and resources through a knowledgeable pool of ambassadors and donors.

COMMUNICATION

Nonprofit organizations should have thoughtful, intentional systems for general communications, marketing and media relations in order to promote and advance mission achievement. Internal communications help to motivate, inform, and counsel employees and volunteers of nonprofits and to set the stage for external communications. External communication helps to attract and retain constituents and to raise public consciousness, understanding and commitment to the organization. Working with the media is a necessary part of effectively communicating an organization's mission to the general public, donors, volunteers and policymakers.

RECOMMENDED PRACTICES:

1. All organizational communications should adhere to the highest ethical and professional standards, as well as any industry-specific standards that may exist and should include transparency, fairness and honesty. These standards should be clearly stated in writing and should be part of the orientation of all employees and volunteers.
2. A nonprofit should have a clearly defined, written communications plan that supports the organization's mission and vision and guides daily activities. The communications plan should be directly related to the strategic plan and should demonstrate accountability to constituents and the public.
3. A nonprofit communications plan should include goals, target audiences, key messages, intended outcomes and a means to evaluate impacts. Appropriate strategies and tools should be employed to achieve intended outcomes and may include: a website, advertising, public service announcements, promotional brochures and flyers, news releases, press conferences, feature stories, special events, editorial board meetings and opinion editorials.
4. A nonprofit communications plan should ensure that the organization is communicating in a clear and timely manner with those who request information. Constituents of nonprofits should be provided with ongoing opportunities to interact with the board and management regarding the organization's activities and a system should be in place for promptly and respectfully responding to grievances or complaints.
5. A nonprofit must meet all federal requirements for public disclosure. Federal requirements state that a nonprofit must provide the last three years' information returns (Form 990 or its variants) and Form 1023 as attachments, as follows: ***US**
 - a. Public access must be provided immediately on request by allowing inspection of the documents at the organization's office or offices;
 - b. Copies of the documents must be provided within 30 days upon written request;
 - c. Organizations that make their materials widely available through publication on their own website do not have to provide copies;
 - d. If the Internal Revenue Service (IRS) determines that the organization is being subjected to a harassment campaign, copies do not have to be provided; and
 - e. 501(c)(3) organizations not classified as private foundations are not required to publicly disclose the list of names and addresses of individual contributors and may block out that section of Form 990 and other materials for public viewing.
6. In serving the public trust, a nonprofit should produce an annual report that contains information regarding activities and performance. The annual report should include:

*MI = Michigan Law *US = Federal Law

- a. An explanation of the organization's mission, activities, and results;
 - b. An explanation of how individuals can access programs/services;
 - c. Overall financial information, including income and expense statements, balance sheet, and functional expense allocation; and
 - d. A list of board members, management staff, supporters and donors.
7. Each nonprofit must produce, on an annual basis, a financial report, including income and expense statements, balance sheet, and functional expense allocation. For membership organizations, these financial statements must be made available to members; directorship organizations must present this information at the annual meeting of the board.
***MI**
8. A nonprofit should encourage internal communication that welcomes alternative perspectives, invites and encourages participation at all levels, minimizes defensiveness, and builds and maintains camaraderie. Management should solicit actively, listen carefully, and respond respectfully to the views of internal constituents.
9. Internal communications should be guided by a clear policy and practices manual, regularly scheduled and attended meetings, regularly printed and/or e-mailed informational updates, an understood forum for suggestions, reports on meetings of the board of directors and its committees, recognition and social events.
10. A nonprofit should have a written policy and procedures for developing public statements and positions on issues, clearly identifying the primary organizational spokesperson(s) that are authorized to make public statements. These statements and positions should represent the full range of views of the organization's constituencies. All internal constituents should be aware of the statement and position policy.
11. A nonprofit should openly communicate with other nonprofits to share and gather information on lessons learned and best practices and to avoid duplication of services.
12. Information provided to policy makers, the media and the general public becomes a matter of public record. Therefore, a nonprofit should ensure that the information is timely and accurate, and that the social and political context of the information is clear to avoid misunderstanding or manipulation of the message.
13. A nonprofit should develop a media relations strategy through which appropriate representatives of the organization:
- a. Frequently update a press list of all relevant major newspapers, weeklies, television, radio and internet news sources.
 - b. Build relationships with individual reporters and become a resource for local media.
 - c. Coordinate messages to the media, ensuring that communications are well-rehearsed, brief, timely and newsworthy.

RECOMMENDED RESOURCES:

W.K. Kellogg Foundation's Communication Toolkit
<http://www.wkkf.org/default.aspx?tabid=75&CID=385&NID=61&LanguageID=0>

Guide to Getting Good Media Coverage
<http://www.MNAonline.org/pdf/MediaGuide3.pdf>

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EVALUATION

As entities that serve the public, nonprofit organizations have an obligation to demonstrate their value to the public. The public has a stake in nonprofit performance and is entitled to information regarding organization results. Nonprofits should regularly measure their performance against a clear set of goals and should share such information with their constituents. Nonprofit evaluation should be appropriate to the size and purpose of the organization and evaluation data should be used to continually improve the quality of processes, programs and activities.

RECOMMENDED PRACTICES:

1. A nonprofit should have defined, ongoing and sustainable procedures in place for evaluating its programs, procedures, and outcomes in relation to its mission.
2. A nonprofit should regularly monitor the satisfaction of service participants and constituents and provide a grievance procedure to address complaints.
3. Information that is collected from persons served should be kept confidential.
4. Evaluation results should be used to strengthen and improve the nonprofit organization's programs and activities by incorporating evaluation findings into strategic planning processes.
5. Measurement should inform the operational plan and should be used to evaluate organizational effectiveness.
6. Performance measures should be realistic, specific, measurable and appropriate to the size and scope of the organization and its constituents.
 - a. Measurement may include information on satisfaction, activities, results, and community input.
 - b. Measurements may include both qualitative and quantitative data.
 - c. Measurement may include data on efficiency and effectiveness.
7. Nonprofit evaluation should be ongoing and include input from a wide variety of stakeholders including staff, board, funders, community members, etc.
8. Evaluation results should be communicated to a broad range of constituents including staff, board, clients, foundations, the public, etc.
9. A nonprofit should share relevant lessons learned with other nonprofits and funding sources.
10. A nonprofit organization should utilize external evaluators when appropriate and feasible. These evaluators should follow the Guiding Principles for Evaluators set forth by the American Evaluation Association. <http://www.eval.org/GPTraining/GP%20Training%20Final/gp.principles.pdf>.

RECOMMENDED RESOURCES:

W.K. Kellogg Foundation's Evaluation Toolkit
<http://www.wkkf.org/default.aspx?tabid=75&CID=281&NID=61&LanguageID=0>

Michigan Association for Evaluation www.maeeval.org

FINANCIAL MANAGEMENT

Nonprofits have an obligation to act as responsible stewards in managing their financial resources. Nonprofits must comply with all legal requirements related to financial matters. They should adhere to sound accounting principles that ensure fiscal responsibility and build public trust. Nonprofits should use their financial resources to accomplish their missions in an effective, efficient manner and should establish clear policies and practices to regularly monitor how funds are used.

RECOMMENDED PRACTICES:

1. A nonprofit should review *Staying Legal for Michigan Nonprofits* www.stayinglegalmi.org to verify the existence of appropriate policies, procedures and reporting mechanisms, and should demonstrate compliance with all legal requirements related to financial matters.
2. A nonprofit board member should clearly understand how to read and interpret financial statements.
3. Annually, the board should review and approve an annual budget for the organization. While each board must determine the appropriate budget needed to achieve its mission, various industry benchmarks provide target ranges of 65-80% of expenditures for programs, and 20-35% for administration, fundraising and evaluation.
4. A nonprofit should generate accurate and relevant financial reports which include the comparison of actual to budgeted revenue and expenses, and which identify and explain any significant variances. These reports should be provided to the board of directors for regular review and discussion, preferably on no less than a quarterly basis.
5. A nonprofit with annual total revenue of \$500,000 or more (not including government or restricted grants) must subject its financial reports to an annual audit by a Certified Public Accountant. ***MI**
6. A nonprofit with annual total revenue (not including government or restricted grants) of \$250,000 must have an independent review or audit of its finances. ***MI**
7. Financial audits should be approved by the organization's board and certified by the executive director and CFO of the organization.
8. The auditor should meet with the organization's board separately from management staff, and the board audit committee should approve the financial report.
9. To the extent possible given the size of the organization, a nonprofit should ensure separation of specific financial duties as a system of checks and balances.
10. It is recommended that a nonprofit board of directors have an audit committee that does not share members with, and works independently of, the finance committee.
11. A nonprofit CEO and CFO should verify and certify the Form 990 or 990-PF before it is submitted to ensure that it is accurate, complete and filed on time.
12. A nonprofit should have a system in place that allows individuals to report financial misconduct, without consequence for doing so (commonly referred to as a "whistle-blower protection policy").

*MI = Michigan Law *US = Federal Law

13. A nonprofit board must strictly prohibit financial loans to members of the board or officers. ***MI**
14. A nonprofit board should strictly prohibit financial loans to organization personnel.
15. A nonprofit should plan for a balanced budget. In the event that a budget deficit occurs, the board should be aware of this expected outcome and should participate fully in determining a plan to restore the budget to a balanced state.
16. A nonprofit should establish and maintain a financial reserve which is equal to 3 to 6 months of operating expenses.
17. A nonprofit has a legal and ethical obligation to expend funds responsibly and must ensure that funds are dispensed according to the funders' wishes and requirements. ***MI *US**
18. A nonprofit should consider bequests, planned gifts and pledges when determining the annual budget and should not include these dollars in budgeting for program expenditures until the gift is actualized.
19. A nonprofit, with board approval and full knowledge of its legal obligations and liabilities, may undertake responsibility of fiscal sponsorship for another organization.

RECOMMENDED RESOURCE:

AICPA Audit Committee Toolkit: Not for Profit Organizations http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/AuditPreparationandPlanning/PRD~PC-991004/PC-991004.jsp?cm_sp=RHN-_-XSELL-_-CWPTPAB

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FUNDRAISING

Nonprofit organizations play an important societal role in serving as the vehicles by which philanthropy occurs. Nonprofits act as the intermediaries between donors and beneficiaries and have ethical obligations to ensure proper handling of funds to carry out their missions. Nonprofit fundraising should be conducted according to the highest ethical standards with regard to solicitation, acceptance, recording, reporting and use of funds. Nonprofits should adopt clear policies for fundraising activities to ensure responsible use of funds for designated purposes and open, transparent communication with donors and other constituents.

RECOMMENDED PRACTICES:

1. A nonprofit board and executive should be familiar with the Association of Fundraising Professionals' Code of Ethical Principles and Standards of Professional Practice, available at www.afpnet.org, and ensure that all fundraising professionals acting on behalf of the organization adhere to these principles and standards.
2. A nonprofit must comply with all local, state and federal laws and regulations concerning fundraising practices. ***MI *US**
3. A nonprofit's board assumes overall responsibility for raising sufficient funds to meet the organization's budgeted objectives.
4. A nonprofit organization must, if applicable, secure a charitable solicitation license through the Michigan Attorney General, Charitable Trust Section. www.michigan.gov/ag ***MI**
5. Fundraising communications must include clear, accurate, honest information about the organization (including charitable solicitation license number), its activities and the intended use of funds. ***MI**
6. A nonprofit has a legal and ethical obligation to expend funds responsibly and must ensure that funds are dispensed according to the funders' wishes and requirements. ***MI *US**
7. A nonprofit should work toward achieving a balance between publicly recognizing charitable contributions and maintaining donor confidentiality when needed. Nonprofits should not share or trade donor names with others unless given permission by the donor.
8. A nonprofit should regularly communicate with donors regarding its activities and should make such information available through multiple outlets.
9. To maintain the public's trust, a nonprofit should seek only the funds it needs to reasonably work toward achieving its mission over the foreseeable future. As a means of sustainability, endowment and reserve funds can be established to advance the organization's mission.
10. A nonprofit should have policies in place that govern the receipt, disposal and management of charitable gifts and grants.
11. Any professional fundraiser that works on behalf of a nonprofit must be licensed with the Office of the Michigan Attorney General, Charitable Trust Section. www.michigan.gov/ag ***MI**
12. A nonprofit should be familiar with the legal distinctions between staff, consultants and contract employees, ensuring the ability to adequately manage and supervise fundraising activity conducted by contractual service providers.

RECOMMENDED RESOURCES:

Association of Fundraising Professionals
<http://www.afpnet.org>

The Fund Raising School <http://www.philanthropy.iupui.edu/TheFundRaisingSchool/>

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GOVERNANCE

A nonprofit board of directors is responsible for defining the organization's mission and for providing overall leadership and strategic direction to the organization. A nonprofit board actively sets policy and ensures that the organization has adequate resources to carry out its mission. The board provides direct oversight and direction for the executive director and is responsible for evaluating his/her performance. A nonprofit board also has a responsibility to evaluate its own effectiveness, in upholding the public interest(s) served by the organization.

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Legal Responsibilities of Nonprofit Boards (BoardSource)

- **Duty of Care** - The duty of care describes the level of competence that is expected of a board member, and is commonly expressed as the level of "care that an ordinarily prudent person would exercise in a like position and under similar circumstances." This means that a board member owes the duty to exercise reasonable care when he or she makes a decision as a steward of the organization.
- **Duty of Loyalty** - The duty of loyalty is a standard of faithfulness; a board member must give undivided allegiance when making decisions affecting the organization. This means that a board member can never use information obtained as a member for personal gain, but must act in the best interests of the organization.
- **Duty of Obedience** - The duty of obedience requires board members to be faithful to the organization's mission. They are not permitted to act in a way that is inconsistent with the central goals of the organization. A basis for this rule lies in the public's trust that the organization will manage donated funds to fulfill the organization's mission.

Ten Basic Responsibilities of Nonprofit Boards (BoardSource)

1. Determine the organization's mission and purpose. It is the board's responsibility to create and review a statement of mission and purpose that articulates the organization's goals, means, and primary constituents served.
2. Select the chief executive. Boards must reach consensus on the chief executive's responsibilities and undertake a careful search to find the most qualified individual for the position.
3. Support and evaluate the chief executive. The board should ensure that the chief executive has the moral and professional support he or she needs to further the goals of the organization.
4. Ensure effective planning. Boards must actively participate in an overall planning process and assist in implementing and monitoring the plan's goals.
5. Monitor and strengthen the programs and services. The board's responsibility is to determine which programs are consistent with the organization's mission and to monitor their effectiveness.
6. Ensure adequate financial resources. One of the board's foremost responsibilities is to provide adequate resources for the organization to fulfill its mission.
7. Protect assets and provide financial oversight. The board must assist in developing the annual budget and ensuring that proper financial controls are in place.

8. Build a competent board. All boards have a responsibility to articulate prerequisites for candidates, orient new members, and periodically and comprehensively evaluate its own performance.
9. Ensure legal and ethical integrity. The board is ultimately responsible for ensuring adherence to legal standards and ethical norms.
10. Enhance the organization's public standing. The board should clearly articulate the organization's mission, accomplishments, and goals to the public and garner support from the community.

RECOMMENDED PRACTICES:

1. No more than one employee of the organization (typically the chief executive) should serve as a voting member of the board and he/she should not serve as chair or treasurer of the board.
 2. Although Michigan law allows for fewer members, the board should be comprised of at least five persons unrelated to each other or to staff to ensure appropriate deliberation, diversity of perspective and to minimize the opportunity for conflict of interest.
 3. A nonprofit board should be comprised of individuals who represent the best interests of the organization.
 4. The board should establish a process for selecting new board members that will ensure adequate infusion of new ideas and community perspectives, while preserving institutional memory (e.g. term limits which may be applied to staggered classes of board members).
 5. To demonstrate personal stake in the organization, board members are expected to make personal financial contributions to the nonprofit as well as to raise funds from external sources.
 6. Board members (who are not employees) should receive no monetary compensation.
 7. Board meetings should be held at least on a quarterly basis and regular attendance should be expected.
8. At a minimum of every two years, the board should review the organization's bylaws and mission statement and amend as needed to reflect organizational growth and development.
 9. Annually, the board should review and approve an annual budget for the organization. While each board must determine the appropriate budget needed to achieve its mission, various industry benchmarks provide target ranges of 65-80% of expenditures for programs, and 20-35% for administration, fundraising and evaluation.
 10. Annually, the board should conduct a performance review of the chief executive. The chief executive's performance should be assessed in light of organizational accomplishments, and the total compensation package (salary, raises, bonuses and other benefits) should reflect his/her performance as well as industry standards.
 11. The board should establish an organizational transition plan to maintain daily operations during the time of a change in executive or board leadership.
 12. Nonprofit board members are responsible for making decisions in the interest of the organization and not in the interest of another entity, including themselves. ***MI**
 13. The board should establish conflict of interest policies regarding board members, staff, volunteers, consultants and other contractors, and adhere to these policies in all dealings. The policies should include an obligation of each board member to disclose all material facts and relationships and refrain from voting on any matter when there is a conflict of interest.

RECOMMENDED RESOURCES:

BoardSource www.boardsource.org

Blue Avocado's "Board Café" column www.blueavocado.com (pre-April 2008 archives at www.compasspoint.org/boardcafe/index.php)

*MI = Michigan Law *US = Federal Law

HUMAN RESOURCES

Effective management of human resources is essential for creating successful organizational results. Nonprofit organizations should exercise fair and equitable human resource practices that attract and retain qualified individuals. Nonprofits have an obligation to adhere to all legal employment requirements and to provide a safe work environment. Nonprofit organizations should establish specific policies and practices that promote mutual cooperation to advance the organization's interests, and that reflect appropriate industry standards for remuneration.

RECOMMENDED PRACTICES:

1. A nonprofit must comply with all local, state and federal employment laws in hiring and employing personnel. ***MI *US**
2. If the organization employs staff, the board should annually review its overall compensation structure, using industry-based surveys of salaries and benefits. The board should establish policies on employee benefits, which may include:
 - a. Medical insurance;
 - b. Retirement plans;
 - c. Sick leave, family leave, vacation and other paid time off; and
 - d. Other benefits as may be appropriate.
3. A nonprofit should adopt a set of policies and procedures for personnel. All employees should receive a copy of these policies and procedures and should submit a signed acknowledgement of such.
4. A nonprofit should employ skilled individuals who are suitable for the positions they occupy (paid or unpaid) and committed to the goals, values and objectives of the organization.
5. A nonprofit and its board must establish and abide by a broad and encompassing equal opportunity employment policy. ***US**
6. A nonprofit should strive toward employing personnel and volunteers who reflect the diversity of the community, as appropriate for program effectiveness.
7. A nonprofit should support the education and development of personnel and should provide them with opportunities for growth and advancement.
8. A nonprofit organization should provide all staff with clear, current job descriptions and the tools they need to produce quality work.
9. A nonprofit should have a system in place for the succession of key employees, most notably for the executive director and key board leadership.
10. A nonprofit should establish employee record retention policies and procedures that are consistent with applicable laws and best industry practices.
11. In establishing policies and procedures, a nonprofit should consider best industry practices as well as its own unique circumstances.

RECOMMENDED RESOURCE:

Nonprofit Risk Management Center
www.nonprofitrisk.org

*MI = Michigan Law *US = Federal Law

INFORMATION AND TECHNOLOGY

Effective and appropriate use of technology is critical to maintaining a nonprofit organization's accountability and relevance. A nonprofit should manage information with regard for confidentiality, safety, accuracy, integrity, reliability, cost-effectiveness, and legal compliance. A nonprofit should incorporate appropriate technology into its work to improve its efficiency, efficacy, and accuracy in the achievement of its mission.

RECOMMENDED PRACTICES:

1. A nonprofit should have information systems in place that provide timely, accurate, and relevant information.
2. A nonprofit should have a written technology plan that is integrated into its short- and long-term strategic and operational plans.
3. A nonprofit should have technology use and security policies that address staff use, and that prescribe how all organizational information is gathered and stored, how accuracy is maintained, how and what information is backed up, and to whom information is made available.
4. A nonprofit should designate responsibility for maintaining the organization's information systems to more than one staff member, volunteer, or board member; one person should be primary and at least one should be back-up.
5. All staff should have current training to use those systems that are relevant to their work.
6. A nonprofit should maintain and implement a catastrophic recovery plan. The plan should include hardware and software inventory for insurance purposes. Off-site recovery should include back-up copies of key data and information, and should allow for remote and/or alternative access in the event of an emergency.
7. A nonprofit should invest in appropriate telecommunications equipment, up-to-date, compatible computer hardware and software, and Internet access to enhance its ability to achieve its mission.
8. A nonprofit organization should develop computer networking strategies that are appropriate to the size of the organization.
9. A nonprofit should allocate sufficient resources to train its board, employees and volunteers in the appropriate use of its technology systems.
10. A nonprofit should monitor ongoing technological developments that have the potential to impact its information systems or mission.

RECOMMENDED RESOURCES:

NPower Michigan Technology Purchasing Guide
www.npowermichigan.org

TechAtlas www.techatlas.org

TechSoup www.techsoup.org

PLANNING

Organizational planning is a process that defines a nonprofit's overall direction, activities and strategies to fulfill its mission. Nonprofits have a duty to engage in sound planning to define a clear vision for the future. In order to best position organizations to achieve their goals, nonprofit planning should include input from constituents and should be intentional and ongoing.

RECOMMENDED PRACTICES:

1. A nonprofit must have a clearly defined, written mission statement that guides the overall aims and activities of the organization. ***MI**
2. Originally defined by its incorporators, a nonprofit's mission should be reviewed by the board periodically to consider societal and community changes. This review should determine whether the mission is still relevant, and/or whether it should be adapted to address evolving needs of its target constituents and the community at large.
3. In planning for its activities, a nonprofit should be responsive to community needs and should solicit input from a variety of sources such as staff, board members, and other constituents.
4. A nonprofit should consult with counterparts in its field to determine the need for service and the best use of community resources.
5. A nonprofit should create a written operational/strategic plan for implementation of its activities:
 - a. The plan should reflect the results of an environmental scan that includes information on strengths and weaknesses/challenges facing the organization, as well as opportunities for and perceived threats to mission achievement.
 - b. The plan should include clearly defined goals and objectives that are set by the organization to benefit constituents.
 - c. The plan should clearly define specific activities and responsibility for their implementation.
 - d. The plan should be a useful management tool for measuring activities and outcomes and should be tied to a solid budget.
6. The plan should provide a framework for regular progress reports and should be reviewed and/or updated regularly.

Nonprofits should establish a formal risk management plan, which is monitored by a dedicated committee of the board (e.g. audit committee or executive committee).

RECOMMENDED RESOURCE:

Nonprofit Risk Management Center
www.nonprofitrisk.org

*MI = Michigan Law *US = Federal Law

PUBLIC POLICY AND ADVOCACY

Nonprofit organizations play a central role in the democratic process by providing a means for public participation and promotion of the common good. As entities that serve the public, nonprofit organizations should engage in public policy and advocacy activities to promote constituent, organizational and sector interests. Nonprofits should work to promote broad public participation in public policy and advocacy efforts and should provide assistance to the public in these efforts.

RECOMMENDED PRACTICES:

1. A nonprofit should advocate publicly on behalf of its mission and organizational values.
2. A nonprofit should advocate for the sector with regard to tax-exemption and nonprofit status.
3. An organization should participate in public policy formation.
4. A nonprofit should continuously maintain a sound understanding of the current policy environment and the resulting consequences for the public.
5. A nonprofit should have a written public policy and advocacy plan that defines how decisions are made, as well as the scope of activity, time, and resources to be allocated to advocacy and public policy work.
6. A nonprofit should develop specific strategies to address key issues facing the sector and should include its constituents in those efforts.
7. A nonprofit should assist its constituencies in public and civic engagement by encouraging voting and other citizen participation in local, state and federal policy-making efforts.
8. A nonprofit that engages in lobbying activities that are subject to state and federal reporting requirements must file accurate and timely reports on its lobbying activities with the Internal Revenue Service and Michigan Secretary of State. ***MI *US**
9. A nonprofit engaged in promoting public participation must ensure that the activities of the organization are nonpartisan. ***US**
10. A nonprofit board should consider both the 501(h) election and the “insubstantial part” rule related to financial expenditures for lobbying to determine which reporting mechanism is most appropriate for the organization.
11. Information provided to policy makers, the media and the general public becomes a matter of public record. Therefore, a nonprofit should ensure that the information is timely and accurate, and that the social and political context of the information is clear in order to avoid misunderstanding or manipulation of the message.

RECOMMENDED RESOURCE:

Nonprofit Advocacy: A Michigan Primer
www.MNAonline.org/pdf/AdvocacyHandbook.pdf

*MI = Michigan Law *US = Federal Law

STRATEGIC ALLIANCES

Strategic alliances can take many forms and can serve multiple purposes, such as partnership, sharing of resources and improved operational efficiency. Strategic alliances help to strengthen individual nonprofit capacity as well as the capacity of the sector as a whole. Nonprofit organizations should be open to strategic alliances and, when appropriate, should partner with other organizations to enhance their capability to achieve desired results. Nonprofits should work to promote cooperation and coordination among a variety of entities to avoid unproductive duplication of services and to maximize the resources available to the communities they serve.

RECOMMENDED PRACTICES:

1. A nonprofit should be open to strategic alliances as a means to help achieve goals, improve effectiveness and efficiency and/or strengthen community connections with clients and others.
2. Decisions regarding alliances should reflect the strategic goals of an organization and should impact the brand and image of the organization positively. A nonprofit should carefully consider how entering into strategic alliances will affect all parties involved.
3. A nonprofit should know about and understand the services provided by other organizations in its community and/or service area.
4. While most nonprofits pursue both cooperative and competitive relationships, a nonprofit should promote other organizations' services to enhance customer choice whenever possible.
5. A nonprofit should cooperate and collaborate with agencies and other community organizations to ensure effective use of charitable resources and to advance its mission.
6. When appropriate, a nonprofit should foster relationships with similar organizations and state, regional and national associations to support advancement of its mission.
7. On a regular basis, a nonprofit board should conduct an environmental scan to identify organizations providing similar services and to assess its relationship to those organizations.
8. A nonprofit, with board approval and full knowledge of its legal obligations and liabilities, may undertake responsibility of fiscal sponsorship for another organization.
9. A nonprofit should work to establish mutual understanding among government, nonprofit and for-profit sectors.
10. When appropriate, larger nonprofits should assist smaller nonprofits through strategic alliances and resource sharing.

RECOMMENDED RESOURCE:

Strategic Restructuring: Partnership Options for Nonprofits www.lapiana.org/sr/index.html

TRANSPARENCY AND ACCOUNTABILITY

As entities that serve the public, nonprofits have an ethical obligation to conduct their activities in a way that is accountable and transparent to their constituents. Nonprofits should engage in ongoing efforts to openly convey information to the public about their missions, activities and decision-making processes. This information should be easily accessible to the public and should create external visibility, public understanding and trust in the organization.

RECOMMENDED PRACTICES:

1. A nonprofit must comply with all legal and other required reporting procedures regarding its performance. ***MI *US**
2. A nonprofit has a financial obligation to use its resources responsibly for the purpose of serving the public interest. Financial audits should be approved by the organization's board and certified by the executive director and the CFO of the organization.
3. A nonprofit has a responsibility to establish, achieve and regularly measure clearly defined levels of performance in its activities and to share those results with the public.
4. A nonprofit has a responsibility to adhere to its sub-sector's established professional standards.
5. Constituents of nonprofits should be provided with ongoing opportunities to interact with the board and management regarding the organization's activities.
6. In serving the public trust, a nonprofit should produce an annual report that contains information regarding activities and performance. The annual report should include:
 - a. An explanation of the organization's mission, activities, and results;
 - b. An explanation of how individuals can access programs/services;
 - c. Overall financial information, including income and expense statements, balance sheet, and functional expense allocation; and
 - d. A list of board members, management staff, supporters and donors.
7. Each nonprofit must produce, on an annual basis, a financial report, including income and expense statements, balance sheet, and functional expense allocation. For membership organizations, these financial statements must be made available to members; directorship organizations must present this information at the annual meeting of the board. ***MI**
8. A nonprofit is encouraged to hold public meetings to gather and distribute information about approaches, goals and effectiveness in carrying out its mission.
9. To promote overall accountability within the sector, a nonprofit should openly communicate with other nonprofits to share and gather information on lessons learned and best practices.
10. Information regarding fees and services should be readily available to the public.
11. A nonprofit should have a system in place that allows individuals to report financial misconduct, without consequence for doing so (commonly referred to as a "whistle-blower protection policy").
12. A nonprofit should ensure confidentiality and non-discriminatory service to its constituents.
13. A nonprofit must meet all federal requirements for public disclosure. These state that a nonprofit must provide the last three years' information returns (Form 990 or its variants) and Form 1023 as attachments, as follows: ***US**

*MI = Michigan Law *US = Federal Law

- a. Public access must be provided immediately on request by allowing inspection of the documents at the organization's office or offices;
 - b. Copies of the documents must be provided within 30 days upon written request;
 - c. Organizations that make their materials widely available through publication on their own website do not have to provide copies;
 - d. If the IRS determines that the organization is being subjected to a harassment campaign, copies do not have to be provided; and
 - e. 501(c)(3) organizations not classified as private foundations are not required to publicly disclose the list of names and addresses of individual contributors and may block out that section of Form 990 and other materials for public viewing.
14. A nonprofit organization should have a written, document retention and periodic destruction policy, which includes guidelines for handling electronic files and voicemail, back-up procedures, archiving of documents, and regular check-ups of the reliability of the system.

RECOMMENDED RESOURCES:

Nonprofit Risk Management Center
www.nonprofitrisk.org

Independent Sector Accountability Checklist
www.independentsector.org/issues/accountability/checklist/index.html

Independent Sector Sarbanes-Oxley Checklist
www.independentsector.org/pdfs/sarbanesoxley_checklist.pdf

VOLUNTEER ENGAGEMENT

Effective volunteer engagement is critical to the success of a nonprofit. The time, talent and treasure provided by volunteers help an organization maximize results in working toward its mission. Nonprofit organizations should exercise fair and equitable volunteer management practices that attract and retain qualified individuals. An effectively-managed volunteer program can build an organization's efficiency, enhance community engagement, provide specialized expertise and increase the community's awareness of issues and resources through a knowledgeable pool of ambassadors and donors.

The following recommended practices are adapted from training materials of the Points of Light Institute www.pointsoflight.org, promoted and sustained through the work of Volunteer Centers of Michigan.

Recommended Practices:

1. A nonprofit should develop a volunteer engagement plan that includes the following elements:
 - a. Purpose statement – identify what benefit the organization will receive from the effective use of volunteers; all members of the organization (including board members) should recognize the role that volunteers play in achieving its mission.
 - b. Organizational assessment – assess the organization's readiness for volunteers: are all staff on board with the purpose and role of volunteers? Is the current staffing level sufficient to effectively support and manage a volunteer program? Is the organization aware of liability and risk issues as well as insurance needs?
 - c. Budget – does the organization have the financial resources to support a volunteer program?
 - d. Roles and responsibilities – roles, responsibilities and relationships between staff and volunteers should be clearly delineated and communicated to avoid confusion and potential human resource law violations.
2. A written position description should be created for every volunteer position within the organization.

This position description should be shared with potential volunteers during the recruitment process and should be used as a tool for ongoing feedback and evaluation related to volunteer performance.
3. Volunteer recruitment activities should be targeted and specific, clearly identifying the work to be done, the hours to be committed and the intended impacts of the volunteer activity.
4. Effective volunteer screening procedures should be established and implemented as a condition of placement, ensuring the safety of clients and minimizing potential liability to the organization.
5. Volunteer assignments should be made with careful consideration of the volunteer's skills, needs and interests.
6. A nonprofit should construct an intentional system for orientation and training of volunteers wherein the volunteers clearly understand the limits of their work, as well as the latitude they may have for decision-making on behalf of the organization. Each volunteer should clearly understand how his/her role is directly related to advancing the mission of the organization. Resources for orientation and training include:
 - a. A current manual of policies and procedures that is accessible for all volunteers, including attendance policies, confidentiality policies, grievance procedures and other key information to minimize risk and maximize effectiveness.

- b. A system whereby volunteers are trained with the specific skills and knowledge needed to perform their volunteer role.
 - c. An ongoing orientation/communication plan to keep volunteers apprised of changes within the organization as well as enhanced opportunities for volunteer involvement.
7. The volunteer program should be structured so that each volunteer has a direct connection to an identified supervisor, and understands who to communicate with in the event the supervisor is absent. The volunteer should meet with his/her supervisor prior to fulfilling any duties to ensure roles and expectations are clear.
 8. The nonprofit organization should have a clearly articulated and documented grievance procedure whereby volunteers may address issues including (but not limited to) harassment and discrimination.
 9. The nonprofit organization should have clearly articulated and documented accountability and discipline procedures for volunteers that address lack of performance as well as policy violations.
 10. The nonprofit organization should have a thoughtful recognition system which provides individual and group recognition, and celebrates the impact of volunteers (dollar value of time invested as well as issue impacts and outcomes).
 11. The nonprofit organization should consider and promote benefits to potential and current volunteers, and should communicate those benefits to promote meaningful engagement. Benefits may include: job-training or skill-building, relationship development, social interaction and fun as well as the benefit of improving the community.
 12. The performance of a volunteer should be evaluated regularly (at least annually) with the supervisor through a formal process. Evaluation should include discussing current strengths, areas for improvement and mission impact. Additionally, if a volunteer is not effectively performing his/her duties, a process should exist for thoughtful reassignment and/or release of the volunteer.

***note: the depth of performance evaluations should be appropriate to the role and scope of service the volunteer provides. One-time (or episodic) volunteers can be evaluated in much less detail.*

13. The volunteer program as a whole should be evaluated annually to assess cost and benefits of the program, to document impact on mission achievement, and to direct future volunteer initiatives.

RECOMMENDED RESOURCES:

Volunteer Centers of Michigan www.mivolunteers.org

Points of Light Institute www.pointsoflight.org

Energize www.energizeinc.com

Nonprofit Risk Management Center
www.nonprofitrisk.org





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