

April 2005

Principles & Practices

for Nonprofit Excellence in Michigan



Michigan Nonprofit Association



contents

Introduction	1
◆ Related Tools for Michigan Nonprofits	2
◆ History	2
◆ Legal Accountability	3
◆ Next Steps	3
◆ Acknowledgements	3
◆ Copyright	4
◆ Closing Thoughts	4

Copyright © 2005 Michigan Nonprofit Association

Guiding Principles (overview)	5
◆ Planning	7
◆ Governance	8
◆ Human Resources	10
◆ Financial Management	11
◆ Transparency and Accountability	13
◆ Fundraising	14
◆ Public Policy and Advocacy—Communications	16
◆ Information and Technology	17
◆ Strategic Alliances	18
◆ Evaluation	19

Michigan's Management Support Organization (MSO) Network	20
--	----

introduction

The nonprofit sector is continually challenged to be more transparent, efficient and effective. *Principles and Practices for Nonprofit Excellence in Michigan* is a support mechanism for nonprofits to address issues of capacity and accountability as they strive to build the foundation for true mission achievement.

Several high quality support tools and resources are available to assist nonprofits in building capacity and maintaining public accountability. We recommend that all nonprofits review and refer to materials from the following organizations for ongoing support:

- ◆ Alliance of Fundraising Professionals (AFP) Code of Ethical Conduct for Fundraisers (www.afpnet.org)
- ◆ Better Business Bureau's Wise Giving Alliance Standards for Charity Accountability (www.give.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's Nonprofit CARES and Pillars of Accountability risk assessment tools (www.nonprofitrisk.org)

Also, national umbrella organizations and sub-sector networks have developed a wide array of support materials targeted to their individual constituencies. It is worth your time to identify key resources and industry standards for your field of focus.

Adherence to *Principles and 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 and 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." Most nonprofits will not demonstrate full adherence to all *Principles* immediately, nor will they have every *Practice* reflected in their operations. The *Principles and Practices* should provide a basis for each organization (board, staff and other constituents) to make a conscious comparison and determination of what will best move them

forward and ensure that their programs and services are of high quality. A traveler employing an atlas might identify many alternative routes that lead to the final destination: the atlas itself does not determine the path. The atlas provides an overview of options and becomes the starting point for decision making. Think of *Principles and Practices for Nonprofit Excellence in Michigan* as a nonprofit atlas. Then enjoy the journey.

Related Tools for Michigan Nonprofits

Two primary tools have been developed to support the *Principles and Practices for Nonprofit Excellence in Michigan*:

- ◆ **Basic Infrastructure Checklist** addresses accountability requirements for all registered 501(c)(3) nonprofits in Michigan. This resource serves as a desk-top reference for accountability, providing a framework of nonprofit legal requirements as well as recommended practices in management and record-keeping.
- ◆ **Principles and Practices for Mission Achievement: An Organizational Assessment and Planning Tool** creates an organizational strategy for mission achievement. This tool addresses organizational life cycles and the activities outlined in *Principles and Practices for Nonprofit Excellence in Michigan*.

Both tools are available from the Michigan Nonprofit Association www.mnaonline.org or the many management support organizations (MSOs) that serve our state (page 20).

History

The Michigan Nonprofit Association, in partnership with the statewide Management Support Organization (MSO) Network, has been researching models for nonprofit standards, accountability, and effectiveness for the past three years.

In May 2003, INDEPENDENT SECTOR published a compendium of more than 100 different models of standards for various nonprofit contingencies, focused by state and national associations and by a variety of international and sub-sector organizations. Of these models, very few were applicable universally, nor did they reflect best practices and specific legal considerations for the broad spectrum of nonprofit organizations operating in Michigan.

Several of these models were reviewed through a series of focus groups including management support organizations, consultants, Michigan's Nonprofit Council for Charitable Trusts, and nonprofit practitioners. It was ultimately determined that the Minnesota Council of Nonprofits' *Principles and Practices for Nonprofit Excellence* best reflected the culture of Michigan's nonprofit sector. The Minnesota Council of Nonprofits was engaged in discussion and offered full support for the adaptation of its work in Michigan.

Once the *Principles and Practices* were updated to reflect Michigan law, the document was distributed in draft form to 500 participants at MNA's Volunteerism SuperConference in May 2004. At a luncheon work session, participants provided feedback regarding: 1) general response to the concept of adopting "standards" for Michigan nonprofits, and 2) specific feedback on the *Principles and Practices* outlined at that time.

In addition to the conference participant feedback, the *Principles and Practices* draft was posted to the MNA web site for public review and comment for a period of 60 days. Additional focus groups reviewed the draft through a series of revisions made in summer and fall 2004. The final document was presented to Michigan's nonprofit sector in April 2005.

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 Web sites for a summary of applicable laws, links to helpful resources, and to download forms:

- ◆ Michigan Attorney General, Charitable Trust Section (www.michigan.gov/ag)
- ◆ Michigan Department of Labor and Economic Growth (www.michigan.gov/cis)
- ◆ Internal Revenue Service (www.irs.gov/charities)

Throughout this document, legal requirements are denoted as follows: *MI = Michigan law
*US = federal law.

Next Steps

Simply reading through the *Principles and Practices* 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 your organization can commit;
- ◆ review of the **Basic Infrastructure Checklist**;
- ◆ organizational assessment, with full consideration of nonprofit lifecycles, to establish where you are and where you want to be;
- ◆ development of a strategic action plan that will allow your organization to strengthen its areas of challenge, and to maintain and promote good practices where they exist; and
- ◆ implementing the plan through individual work plans and periodic progress reviews.

Acknowledgements

Principles and 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.

Our sincere gratitude to the C.S. Mott Foundation and DTE Foundation for their generous support of the development, printing and dissemination of *Principles and Practices for Nonprofit Excellence in Michigan*.

Copyright

Copyright © 2005 Michigan Nonprofit Association. All rights reserved. This publication, or any part thereof, may not be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, storage in an information retrieval system, or otherwise is prohibited, except as provided in 17 U.S.C. § 107. This publication may only be reproduced with the express written permission of Michigan Nonprofit Association, 1048 Pierpont Dr, Suite 3, Lansing, Michigan 48911, (517) 492-2400, (888) 242-7075 (Michigan only).

Closing Thoughts

Principles and Practices for Nonprofit Excellence in Michigan will continue to evolve and change as we learn more about nonprofit effectiveness and discover promising ways for nonprofits to adapt and advance in our dynamic culture. We expect that this document will be revised every two years, and immediate changes (e.g. changes to government regulations) will be posted to the MNA website www.mnaonline.org.

We value the voice and experience of our nonprofit partners in maintaining the integrity and utility of the *Principles and Practices*, and encourage you to share your thoughts as you put theory into practice in your daily work. Comments and questions can be directed to the Michigan Nonprofit Association at 517/492-2400 or www.mnaonline.org.

guiding principles



Michigan Nonprofit Association

Planning

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

Governance

Nonprofit boards of directors are responsible for defining the organization's mission and for providing overall leadership and strategic direction to the organization. Nonprofit boards actively set policy and ensure 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. Nonprofit boards also have a responsibility to evaluate their own effectiveness, as governing bodies, in upholding the public interest(s) served by the organization.

BoardSource, a national support organization for nonprofit board information and development, articulates the work of a nonprofit board through three primary legal responsibilities

(duties) and ten basic responsibilities. All board members should be aware of and committed to these responsibilities prior to accepting a board assignment.

Human Resources

Effective management of human resources is essential for creating successful organization results. Nonprofit organizations should exercise fair and equitable human resource and volunteer management practices that attract and retain qualified individuals. Nonprofits have an obligation to adhere to all legal employment practices 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.

Financial Management

Nonprofits have an obligation to act as responsible stewards in managing their financial resources. Nonprofits must comply with all legal financial requirements. 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.

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.

Fundraising

Nonprofit organizations play an important societal role in serving as the vehicle by which philanthropy occurs. Nonprofits act as the intermediary between donors and beneficiaries and have an ethical obligation 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.

Public Policy and Advocacy— Communications

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.

Information and Technology

A nonprofit manages information with regard for confidentiality, safety, accuracy, integrity, reliability, cost-effectiveness, and legal compliance. A nonprofit incorporates appropriate technology into its work to improve its efficiency, efficacy, and accuracy in the achievement of its mission.

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.

Evaluation

As entities that serve the public, nonprofit organizations have an obligation to demonstrate their value to the public good. 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 results and should share such information with their constituents. Nonprofit evaluation should be appropriate to the size and activities of the organization and evaluation data should be used to continually improve the quality of processes, programs and activities.

Planning

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

Recommended Practices:

1. A nonprofit should 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 individuals in society.
 - 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.
 - e. The plan should provide a framework for regular progress reports and should be reviewed and/or updated regularly.
6. 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).

Governance

Nonprofit boards of directors are responsible for defining the organization's mission and for providing overall leadership and strategic direction to the organization. Nonprofit boards actively set policy and ensure 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. Nonprofit boards also have a responsibility to evaluate their own effectiveness, as governing bodies, in upholding the public interest(s) served by the organization.

BoardSource, a national support organization for nonprofit board information and development, articulates the work of a nonprofit board through three primary legal responsibilities (duties) and ten basic responsibilities. All board members should be aware of and committed to these responsibilities prior to accepting a board assignment.

The following items are reprinted with permission from www.boardsource.org. For more information about BoardSource, formerly the National Center for Nonprofit Boards, please visit www.boardsource.org or call 800-883-6262. BoardSource © 2002. Text may not be reproduced without written permission from BoardSource.

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 duty 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. ***MI**
- ◆ **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. ***MI**

- ◆ **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. ***MI**

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. Provide proper financial oversight. The board must assist in developing the annual

budget and ensuring that proper financial controls are in place.

4. Ensure adequate resources. One of the board's foremost responsibilities is to provide adequate resources for the organization to fulfill its mission.
5. Ensure legal and ethical integrity and maintain accountability. The board is ultimately responsible for ensuring adherence to legal standards and ethical norms.
***MI**
6. Ensure effective organizational planning. Boards must actively participate in an overall planning process and assist in implementing and monitoring the plan's goals.
7. Recruit and orient new board members and assess board performance. All boards have a responsibility to articulate prerequisites for candidates, orient new members, and periodically and comprehensively evaluate its own performance.
8. 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.
9. Determine, monitor, and strengthen the organization's programs and services. The board's responsibility is to determine which programs are consistent with the organization's mission and to monitor their effectiveness.
10. Support the chief executive and assess his or her performance. 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.

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 made up of at least five persons unrelated to each other or to staff, to ensure appropriate deliberation and diversity.
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 volunteers).
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 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 operation 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.

Human Resources

Effective management of human resources is essential for creating successful organization results. Nonprofit organizations should exercise fair and equitable human resource and volunteer management practices that attract and retain qualified individuals. Nonprofits have an obligation to adhere to all legal employment practices 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:

- ◆ medical insurance;
- ◆ retirement plans;
- ◆ sick leave, maternity/paternity leave, vacation, and other paid time off; and
- ◆ other benefits as may be appropriate.

3. A nonprofit should adopt a set of specific, but separate, policies and procedures for personnel and volunteers. The *Basic Infrastructure Checklist* contains a list of recommended policies and procedures.

- | | |
|---|---|
| <ul style="list-style-type: none"> 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 should 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. | <ul style="list-style-type: none"> 8. A nonprofit organization should provide staff and volunteers 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 employees and volunteers, most notably for the executive director and key board leadership. 10. A nonprofit should establish both employee and volunteer records retention policies and procedures that are consistent with applicable laws and best industry practices. |
|---|---|

Financial Management

Nonprofits have an obligation to act as responsible stewards in managing their financial resources. Nonprofits must comply with all legal financial requirements. 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:

- | | |
|--|--|
| <ul style="list-style-type: none"> 1. A nonprofit should review <i>Michigan's Basic Infrastructure Checklist</i> to verify the existence of appropriate policies, procedures and reporting mechanisms, and should demonstrate compliance with all legal financial obligations. 2. A nonprofit board member should clearly understand how to read and interpret financial statements. | <ul style="list-style-type: none"> 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 expense, 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 a quarterly basis.

5. A nonprofit with annual total revenues in excess of \$500,000 should subject its financial reports to an annual audit by a Certified Public Accountant. A nonprofit under this threshold, or exempted by law, should have a CPA provide a review of its finances to the board annually. Financial audits should be approved by the organization's board and certified by the executive director and CFO of the organization.
6. The auditor should meet with the organization's board separately from management staff, and the board audit committee should approve the financial report.
7. To the extent possible given the size of the organization, a nonprofit should ensure separation of specific financial duties as a check and balance system. 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.
8. 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.
9. 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 policy").

10. A nonprofit board should strictly prohibit financial loans to members of the board or to organization personnel.
11. 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.
12. A nonprofit should establish and maintain a financial reserve which is equal to 3 to 6 months of operating expenses.
13. A nonprofit has a legal and ethical obligation to expend funds responsibly and to ensure that funds are dispensed according to the funders' wishes and requirements.
***MI, *US**
14. 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.
15. A nonprofit, with board approval and full knowledge of its legal obligations and liabilities, may undertake responsibility of fiscal sponsorship for another organization.

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 their 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 their activities and to share those results with the public.
4. A nonprofit has a responsibility to adhere to its 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. A nonprofit is encouraged to hold public meetings to gather and distribute information about approaches, goals and effectiveness in carrying out its missions.
8. 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.
9. Information regarding fees and services should be readily available to the public.
10. 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 policy").

- II. A nonprofit should ensure confidentiality and non-discriminatory service to its constituents.
- I2. A nonprofit should 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), 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 the Internet 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.
- I3. A nonprofit organization should have a written, mandatory 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.

Fundraising

Nonprofit organizations play an important societal role in serving as the vehicle by which philanthropy occurs. Nonprofits act as the intermediary between donors and beneficiaries and have an ethical obligation 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:

- I. 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 should, if applicable, secure a charitable solicitation license through the Michigan Attorney General. Information on state solicitation regulations can be found at www.michigan.gov/ag. ***MI**
5. Fundraising communications should 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 to 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 must 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. When appropriate, 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. More information on this regulation can be found at 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.

Public Policy and Advocacy— Communications

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 missions 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 their 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 IRS (www.irs.gov/charities) and Michigan Secretary of State (www.michigan.gov/sos). ***MI, *US**
9. Information provided to policy makers, the media and the general public becomes a matter of public record. Therefore, a nonprofit must 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.
10. A nonprofit engaged in promoting public participation must ensure that the activities of the organization are nonpartisan. ***US**
- II. 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.

Information and Technology

A nonprofit manages information with regard for confidentiality, safety, accuracy, integrity, reliability, cost-effectiveness, and legal compliance. A nonprofit incorporates 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 person, volunteer, or board member; one person should be primary and at least one should be back-up. All staff should have current training to use those systems that are relevant to their work.
5. 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.
6. When feasible, a nonprofit should invest in appropriate telecommunications equipment (such as telephones, voice mail, and fax machines), up to date, compatible computer hardware and software, and Internet access to enhance its ability to achieve its mission.
7. A nonprofit organization should develop networking strategies that are appropriate to the size of the organization.
8. In addition to those items listed above, minimum technology recommendations include:
 - ◆ off-site electronic back-up;
 - ◆ virus protection (updated regularly);
 - ◆ firewall;
 - ◆ Web site (updated regularly); and
 - ◆ E-mail accounts for appropriate staff.
9. A nonprofit that chooses to invest in technology equipment should allocate sufficient resources to train its board, employees, and volunteers in its use.
10. A nonprofit should monitor ongoing technological developments that have the potential to impact its information systems or mission.

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 be in line with 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. While most nonprofits pursue both cooperative and competitive relationships, a nonprofit should promote other organizations' services to enhance customer choice whenever possible.
4. A nonprofit should know about and understand the services provided by other organizations in its community and/or service area.
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. *(Note: the IRS views fiscal agency differently from fiscal sponsorship: get legal advice before proceeding.)*
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 alliances and resource sharing.

Evaluation

As entities that serve the public, nonprofit organizations have an obligation to demonstrate their value to the public good. 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 results and should share such information with their constituents. Nonprofit evaluation should be appropriate to the size and activities 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. Measurement should inform the operational plan and should be used to evaluate organizational effectiveness.
4. Evaluation results should be used to strengthen and improve nonprofit organizations, programs and activities by incorporating evaluation findings into strategic planning processes.
5. Performance measures should be realistic, specific, measurable and appropriate to the size and scope of the organization and its constituents.
 - a) Measurement should include information on satisfaction, activities, results, and community input.
 - b) Measurements may include both qualitative and quantitative data.
 - c) Measurement should include data on efficiency and effectiveness.
6. Information that is collected from persons served must be kept confidential.
7. Nonprofit evaluation should be ongoing and should 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, 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 national Guiding Principles for Evaluators set forth by the American Evaluation Association. <http://www.eval.org/Guiding%20Principles.htm>.

Michigan's Management Support Organization Network

The following organizations provide information, training and consulting services to support the Principles and Practices for Nonprofit Excellence in Michigan:

Organization	Service Area	Phone Number	Web Address
ArtServe Michigan	Statewide	248/557-8288	www.artservemichigan.org
City Connect Detroit	Statewide	313/963-9722	www.cityconnectdetroit.org
Community Legal Resources	Statewide	313/964-4130	www.dronline.org
Detroit Executive Service Corps	Southeast MI	248/395-2840	www.esc-detroit.org
Dorothy A. Johnson Center for Philanthropy & Nonprofit Leadership	West Michigan (primary)	616/331-7587	www.gvsu.edu/philanthropy
Great Lakes Center for Youth Development	Upper Peninsula	906/228-8919	www.glycd.org
Great Lakes Nonprofit Institute	Northwest Michigan	231/995-1206	www.nmc.edu/glni
Jackson Nonprofit Support Center	Jackson County	517/796-4750	www.jacksonnonprofit.org
Michigan Association of United Ways	Statewide	517/371-1801	www.uwmich.org
Michigan League for Human Services	Statewide	517/487-5436	www.milhs.org
Michigan State University College of Law (Small Business and Nonprofit Clinic)	Statewide	517/337-4518	www.msulawclinics.org
Neighborhood Partnership Academy	Detroit	313/596-8222	www.liscnet.org
NonProfit Alliance	Calhoun County	269/968-8166 x-548	www.nonprofitalliance.org
Nonprofit Enterprise at Work (NEW)	Southeast MI	734/998-0160	www.new.org
NPower Michigan	Statewide	313/237-8155	www.npowermichigan.org
Resource Center	Genesee County	810/232-6300	www.rescen.org
Society for Nonprofit Organizations	National	734/451-5935	www.snpo.org
UnitedWay Community Services	Southeast MI	313/226-9222	www.comnet.org/uwcs
Volunteer Accounting Service Team of Michigan (VAST MI)	Statewide	313/647-9620	www.vastmi.org

Additional Resources

Council of Michigan Foundations	www.cmif.org
Internal Revenue Service	www.irs.gov/charities
Michigan Attorney General Charitable Trust Section	www.michigan.gov/ag
Michigan Department of Labor and Economic Growth	www.michigan.gov/cis
Michigan Nonprofit Association	www.mnaonline.org



Michigan Nonprofit Association

**1048 Pierpont, Suite 3
Lansing, Michigan 48911
(517) 492-2400 Fax (517) 492-2410**

www.mnaonline.org

Copyright © 2005 Michigan Nonprofit Association