



Donors Forum

Strengthening Illinois philanthropy and the nonprofit community

Preserving the Public Trust Initiative

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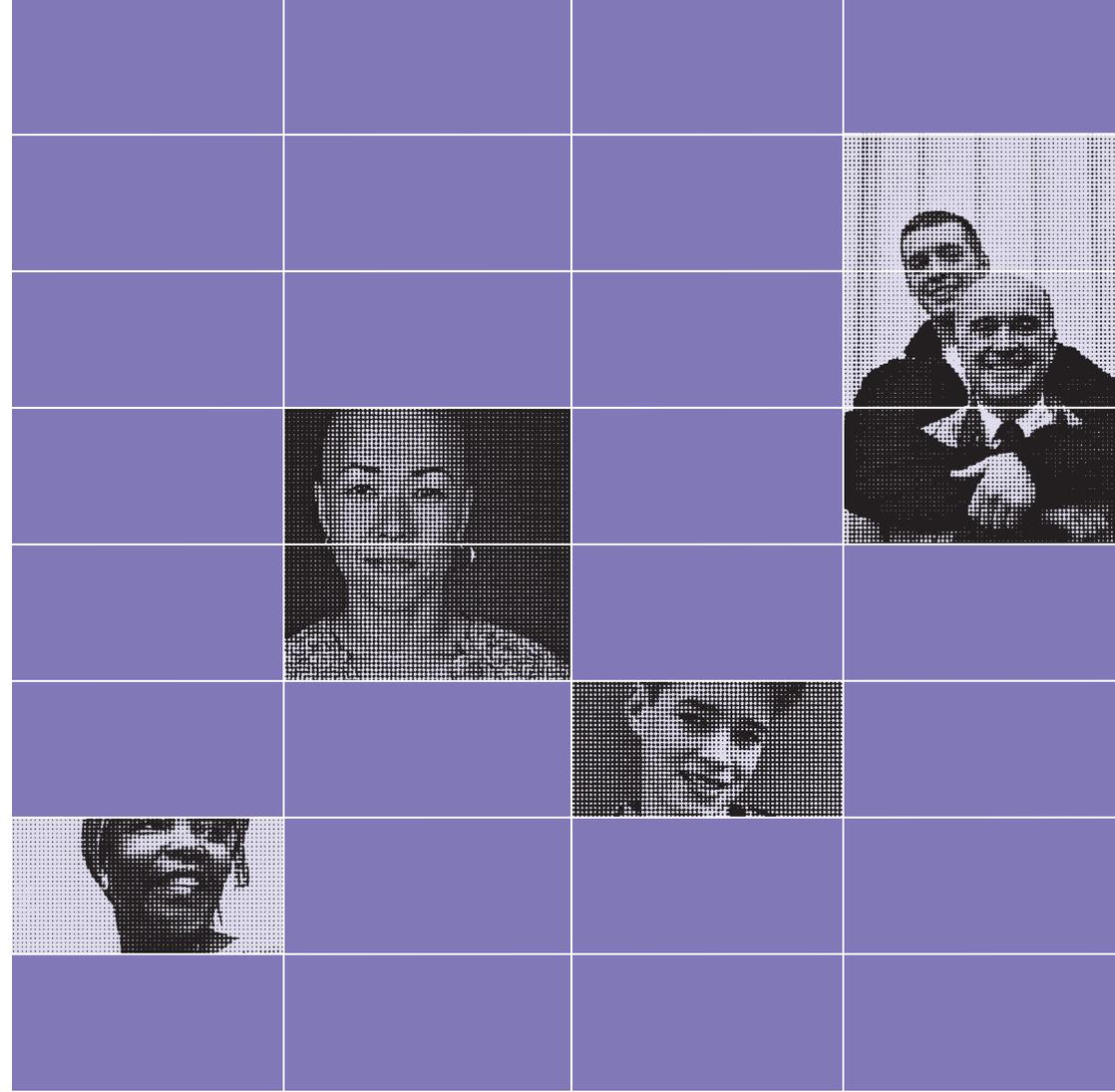


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Illinois Nonprofit Principles and Best Practices

Preserving the Public Trust Initiative
Updated in 2008



You represent one of the more than 54,000 nonprofits in Illinois – a diverse group of organizations working hard to make a positive difference in people’s lives and to improve the public good.

To help you do this work better, Donors Forum spearheaded the Preserving the Public Trust Initiative, a first-of-its-kind project in Illinois designed to help grantmakers and other nonprofits take specific, concrete steps to ensure adherence to the high ethical standards and strong governance principles expected of them.

The first step in this statewide effort is the *Illinois Nonprofit Principles and Best Practices*, which Donors Forum developed by listening to the needs and concerns of nonprofit staff throughout the state. Recently, we revisited and made revisions to the principles and practices. We changed the document to reflect changes in the regulatory environment and evolving best practices in the field. In particular, Donors Forum’s President participated in the Panel on the Nonprofit Sector’s project to create national standards for charitable organizations and a special committee of Donors Forum representatives reviewed the *Illinois Nonprofit Principles and Best Practices* to align them with the national standards.

The *Principles* cover a wide range of important issues – including board governance, legal compliance, responsible stewardship, and communication – and go beyond the federal, state, and local laws that are the minimum standard of expected behavior. They are a call for all nonprofits to strive for excellence in realizing their missions, managing resources effectively, and governing well. It is our goal that the *Illinois Nonprofit Principles and Best Practices* are useful to all nonprofits, regardless of their financial and staff resources, experience, and governance structures. To help facilitate their implementation, Donors Forum is providing practical assistance, tools and resources.

The overwhelming majority of nonprofits that ethically and effectively fulfill their missions inspired the Preserving the Public Trust Initiative and the *Illinois Nonprofit Principles and Best Practices*. We are grateful for all those who help nonprofits continue preserving the public trust.

→ *To develop the Principles, leaders from nonprofit organizations came together to address their collective responsibility to preserve the public trust. The Principles and Best Practices reflect their needs, questions, and concerns regarding governance and management and align with relevant national standards for the sector.*

Preamble

Nonprofit organizations – including foundations – must strive for excellence in realizing their missions, managing resources effectively, and governing well. Our democracy’s corporate and tax structure benefits nonprofits. In return, they serve the public by providing opportunities for assisting underserved or disadvantaged populations, volunteerism and civic engagement, and developing new approaches to solving problems. All nonprofits must:

- Operate for the public good;
- Comply with the law, especially in executing fiduciary responsibilities;
- Uphold fundamental values including honesty, integrity, fairness, and trust;
- Observe articulated and rigorous ethical boundaries, including respect for all people’s race, religion, ethnicity, gender, age, socioeconomic status, sexual orientation, and ability;
- Maintain complete and transparent financial accountability; and
- Make appropriate information available to the public.

Each of the ten principles are followed by best practices.

Mission and Purpose

1. The organization has a clearly stated charitable or educational mission, approved by the governing body, in pursuit of the public good.

- a. State the organization’s purpose in the mission.
- b. Ensure the mission is responsive to the constituency and communities to be served by the organization.

→ *One in 14 Illinois workers is employed by a nonprofit organization, accounting for more than \$16.5 billion in wages.*

Governance

2. The role, responsibilities, selection, and tenure of the governing body are clearly stated in the organization’s governing and policy documents and understood by the governing body members.

- a. Establish written criteria and selection process for the governing body.
- b. Stipulate the length of a term and, if applicable, the number of consecutive and/or total terms individuals may serve.
- c. Consider the appropriate governing body size and committee structure to oversee the organization, encourage discussion, and enhance efficiency.
- d. Formulate written descriptions detailing duties and responsibilities of governing body members and committees of the governing body.
- e. Meet as frequently as needed to fully and adequately conduct the business of the organization, including at least once a year in person.
- f. Maintain and distribute to governing body and committee members written meeting minutes reflecting the actions of the governing body, including minutes of governing body committees when acting in place of the governing body.

- g. Maintain systems for ongoing communications between meetings of the governing body.
- h. Review organizational and governing instruments no less frequently than every five years.
- i. Hire, set reasonable and appropriate compensation for, and annually evaluate the performance of the chief executive against goals and objectives agreed to by the chief executive and governing body. Document the basis for decisions. If this is a responsibility of a designated committee, a summary should be provided to the full governing body.

3. The governing body ensures that its members are competent and knowledgeable, and it seeks diverse points of view and experience as needed to provide credible and effective oversight of all aspects of the organization’s work.

- a. Ensure that governing body members have the requisite skills and experience to carry out their duties.
- b. When filling vacancies on the governing body, consider how skills and experience of new members will complement existing expertise of governing members.

Governance (continued)

- c. Provide governing body members with the tools and opportunities to develop in their roles, including appropriate orientation for incoming governing body members and training on distinct roles and responsibilities, particularly legal and fiduciary responsibilities.
- d. Provide access to sufficient information and diverse perspectives (including, but not limited to, ethnic, racial, and gender perspectives) to inform decision making and carry out due diligence.
- e. When appropriate, consult subject matter experts or community representatives and/or include them on committees or advisory groups.

4. The governing body regularly assesses the organization's mission and the effectiveness of the organization and its leadership in achieving it.

- a. Conduct a regular or periodic governing-body self evaluation.
- b. Set long- (multi-year) and short- (annual) term objectives evaluating program and organizational effectiveness, and annually evaluate progress toward achieving objectives.

- c. Review the mission every three to five years to determine whether it meets societal needs.
- d. Regularly determine, in consultation with the chief executive, staff, and, if the governing body deems necessary, outside experts, whether programs are effective in fulfilling the mission.
- e. Solicit and act on feedback from service participants and constituents about the effectiveness of the programs and operation of the organization.

5. The full membership of the governing body is responsible for the organization, and each member acts at all times in an ethical manner and in the best interest of the organization and the public.

- a. Maintain policies and practices, including a written code of ethics and a conflict of interest policy, to ensure the governing body and staff act in an ethical and legal manner.

→ *Nonprofit leaders are driven by deeply rooted ideals and a desire to improve the public good. By strengthening their governance and management, nonprofits can enhance their effectiveness.*

Legal Compliance, Fiduciary Responsibility, and Responsible Stewardship

6. The governing body and staff know about and comply with all federal, state, and local laws, regulations and fiduciary responsibilities.¹

- a. Educate the governing body and staff about basic legal, accounting, audit, and tax issues as well as applicable provisions of federal, state, local, and international laws and regulations that are relevant to the organization's activities.
 - b. Seek professional legal and accounting advice when needed to support compliance.
 - c. Develop and adhere to written financial management policies adequate for organization size, nature, complexity, and mission concerning:
 - Administrative expenditures
 - Internal controls
 - Purchasing
 - Gift acceptance
 - Fundraising expenditures
 - Endowment spending
 - Permitted investment and asset allocations
 - d. Provide the Form 990 or 990-PF and any 990-T to the entire governing body each year or ensure governing body members are familiar with the content.
- b. Educate the governing body and staff about what constitutes conflict of interest and prevent or manage any actual, potential, or perceived conflicts through disclosure, abstention, or other means.
 - c. Develop and adhere to policies to prevent inappropriate influence where one or more employees of the organization are voting members of the governing body.
 - d. Respect and protect the confidentiality and privacy rights of individual clients, grantees, employees, donors, volunteers, and others in the organization consistent with applicable law.
 - e. Adopt and abide by a whistleblower protection policy that specifies the organization will not retaliate against, and will protect the confidentiality (whenever possible) of, employees and governing body members who make good-faith complaints about violations of the policies of the organization, suspected misuse of organization resources, including finances, or any other unethical or inappropriate conduct of organization personnel.
 - f. Establish and adhere to a document retention policy that provides for the safekeeping of key organization documents and the prevention of their destruction upon receiving notice of a legal inquiry into the organization's operations.

¹ These pertain, but are not limited to: internal operations, grantmaking, fundraising, licensing, financial accountability, human resources, lobbying and political advocacy, audit requirements, and taxation.

Legal Compliance, Fiduciary
Responsibility, and Responsible
Stewardship (continued)

- e. Develop and adhere to a risk management plan and regularly consider the need for insurance coverage and other actions to mitigate risk, taking into account the nature and scope of the organization's activities and its resources.

7. The governing body exercises active oversight of the financial affairs of the organization and sets policies to ensure that the organization's resources are used appropriately in furtherance of the organization's mission.

- a. Approve the organization's budget each year and assess financial performance relative to the approved budget.
- b. Maintain sufficient resources, including cash reserves, for effective administration of the organization, and if it solicits contributions, for appropriate fundraising activities.
- c. Ensure that expenses are reasonable and necessary and incurred in pursuit of the mission of the organization.

- d. Set compensation for chief executive officer, staff, and any others (including governing body members) who may receive compensation at reasonable levels, considering factors including comparable data of similar organizations, nature of work performed, and time and skills required. Document the basis for decisions.
- e. Maintain accurate financial records, prepare internal financial statements no less frequently than quarterly, and provide financial reports to the governing body, addressing any differences between actual revenues and expenses and budgeted revenues and expenses.
- f. Assure that any interim and annual financial statements, federal tax returns, and reports to state authorities fairly represent the financial position and financial activities of the organization and comply with the organization's governing documents through review by the treasurer, president, or chief executive.
- g. Secure an audit by an outside public accounting firm, or, at a minimum, a review of financial condition by an outside firm.² For organizations that have an audit, establish an audit committee; for organizations whose size or structure makes an audit committee infeasible, the audit or review should be overseen by the full governing body or portion thereof with knowledge about financial statements.

² Organizations should determine whether an audit is legally required (see Illinois Solicitation for Charity Act, Annual Reports of Charities). Even if not legally required, larger organizations are strongly urged to consider an audit.

**Communication, Accessibility,
and Disclosure**

8. The organization makes information about its mission, program activities, and finances available to the public and communicates in a clear and timely manner with those who request information.

- a. Ensure all financial, organizational, and program reports and educational materials are complete and accurate in all material respects.
- b. Make available to the public basic informational data about the organization, which should include the Form 990 or 990-PF (or a website link to copies provided by other organizations), grant guidelines, program reports, and financial statements by posting them on the organization's website. If the organization does not maintain a website, make them available upon request.
- c. Make available the names of governing body members, officers, and staff members.
- d. Publish an address and the name of an individual to contact for information. Organizations that maintain offices, if feasible, also publish a phone number, office location, and office hours.

- e. Respond to and act promptly on complaints.
- f. Develop and follow organization policy defining timely response.

9. Organizations that raise funds from the public or from donor institutions maintain solicitation policies that reflect the organization's mission and use of solicited funds.

- a. Represent the organization's policies and practices accurately and respect the dignity of program beneficiaries in all solicitation materials.
- b. Disclose important and relevant information to potential donors.
- c. Honor all statements in fundraising appeals about the use of a contribution.
- d. Respect the rights of donors in accordance with established professional standards such as "A Donor Bill of Rights."³
- e. Ensure donated funds are used for purposes consistent with the donor's intent, whether as described in the relevant solicitation materials or as specifically directed by the donor.
- f. Ensure that internal or external fundraisers are not compensated based on a commission or a percentage of the amount raised.

³ A Donor Bill of Rights was developed by the American Association of Fundraising Counsel, the Association for Healthcare Philanthropy, the Council for the Advancement of Support of Education, and the Association of Fundraising Professionals, and endorsed by the INDEPENDENT SECTOR, National Catholic Development Conference (NCDC), National Committee on Planned Giving (NCPG), National Council for Resource Development (NCRD), and United Way of America. It is available on the Internet at: www.aafrc.org/choose_council/donor.html

Communication, Accessibility,
and Disclosure (continued)

- g. Provide appropriate training and supervision of the people soliciting funds to ensure they understand their responsibilities and applicable federal, state, and local laws, and prohibit techniques that are coercive, intimidating, or intended to harass potential donors.

10. Grantmaking organizations establish, follow, and clearly communicate processes for receiving, reviewing, and acting on grant applications and for monitoring and evaluating grants made.

- a. Make readily available a brief written statement including:
 - Program interests
 - Grantmaking policies
 - Geographic or policy restrictions
 - Preferred ways of receiving applications
 - Steps in the proposal review and due diligence process
- b. Establish and maintain relationships with grantseekers based on mutual respect, candor, understanding, and fairness.
- c. Communicate clearly and on a timely basis with potential grantees.
- d. Advise those affected by a significant policy or procedure change within a reasonable period of time.
- e. Clearly explain reporting and evaluation requirements.

Implementing the Illinois Nonprofit Principles and Best Practices

To many nonprofit leaders, the *Illinois Nonprofit Principles and Best Practices* will affirm existing operating procedures. For others, some of the Principles will appear to be more challenging.

Implementing the Principles will be an ongoing process, not a one-time event. While it may not be easy, this process is important because it will help nonprofits become more successful in fulfilling their missions. In addition, it is critical to demonstrate to policymakers and the public that the nonprofit sector takes seriously the issues of good governance, integrity, and public trust.

Nonprofit leaders are encouraged to review the Principles with their boards and management teams. To help your organization implement the *Illinois Nonprofit Principles and Best Practices*, Donors Forum is providing a range of tools and practical advice. Go to www.donorsforum.org/publictrust for more information.

→ *Please visit our web site at www.donorsforum.org/publictrust for resources and more information.*

Donors Forum Preserving the Public Trust Initiative

We are grateful for the national efforts helping nonprofit organizations preserve the public trust. The Initiative was inspired by these organizations.

INDEPENDENT SECTOR,
Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations,
www.nonprofitpanel.org

American Association of Fundraising Counsel,
Donor Bill of Rights,
www.aafrc.org

Association of Fundraising Professionals,
Code of Ethical Principles and Standards of Professional Practice and Donor Bill of Rights,
www.afpnet.org

BBB Wise Giving Alliance,
Standards for Charity Accountability,
www.give.org

Council on Foundations,
National Standards for U.S. Community Foundations, Stewardship Principles for Family Foundations, Stewardship Principles for Corporate Grantmakers, and Accountability: Proposed Governance Principles for Discussion with Large Foundations,
www.cof.org

Minnesota Council on Foundations,
Principles for Minnesota Grantmakers and Illustrative Statement of Practices to Implement the Principles for Grantmakers,
www.mcf.org

Minnesota Council on Nonprofits,
Principles and Practices for Nonprofit Excellence,
© 2004, www.mncn.org

About Donors Forum

Creating the Preserving the Public Trust Initiative stems from the mission of Donors Forum: Donors Forum is the premier resource for networking and education, information and knowledge, and leadership on behalf of philanthropy in Illinois. As a nonprofit membership association of grantmakers, individual donors, and advisors, Donors Forum advances philanthropy by serving its members and by promoting an effective and informed nonprofit sector.

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Benna B. Wilde, *Chair*
Valerie S. Lies, *President and CEO*
Paula Wolff, *Chair, Preserving the Public Trust Task Force, 2004*