

2009 Preliminary Accountability Standards

Introduction

The Charities Review Council is pleased to present a preliminary draft of the 2009 Accountability Standards. The purpose of the Standards is to strengthen nonprofits' commitment to accountable practices and provide meaningful information to the donating public in order to advance more informed philanthropy.

The current Standards, first introduced in 1998, have helped to strengthen the nonprofit sector and to mobilize informed donors over the past decade. Currently more than 400 nonprofits have a review posted on the Council's website and listed in its bi-annual Giving Guide, reflecting the variety within Minnesota's nonprofit sector. Modifications, amplifications and additions to the current Standards are necessary to reflect economic, demographic, legal and societal changes that have occurred over that period. This process has been led by the Charities Review Council Program Committee and has brought together donors, institutional funders, academics, and nonprofit leaders to build a fair set of standards that are sensitive to a wide variety of constituents and will further strengthen an already vital and indispensable nonprofit sector.

The revised Standards represent a balance of contemporary regulatory requirements and sound practices for nonprofits, and therefore serve to modernize the reasonable expectations that donors have of nonprofits they wish to support. The standards address four distinct areas of accountability—Public Disclosure, Governance, Financial Activity and Fundraising. The Standards represent a measurable, specific indicator of a broader philosophy statement accompanying each standard.

The revised Standards are intended to bring effective nonprofits and informed donors together on a common platform of understanding how they can contribute to improving communities. Nonprofits achieving the revised Standards will be able to demonstrate a commitment to transparency and accountability to their constituents through voluntary participation in the Council's Accountability Wizard, and donors will be able to make better and more informed investment decisions with help from the Council's Smart Givers Network.

We are also taking this opportunity to lengthen the time a nonprofit organization is afforded to complete the review process, once enrolled in the Accountability Wizard, from 60 days. We want to give organizations time to effect any changes necessary to meet these standards and make the review process more accessible – especially to smaller or newer nonprofits and those that are less familiar with the standards. We are eager to work with charitable organizations to help explain the standards and provide technical assistance in order to meet them.

The New Draft Standards

- Reflect sector, regulatory changes and demographic trends;
- Reflect the involvement and input of diverse communities and perspectives;
- Continue to reflect reasonable, baseline public expectations of nonprofits while providing educational information;
- Reinforce the need for an engaged board of directors properly carrying out its oversight role and include Governance issues addressed by the new IRS Form 990;
- Reflect that prudent administrative and fundraising costs are necessary investments in the long term viability of a nonprofit;
- A more comprehensive analysis of a nonprofit's financial health;
- Include several new standards addressing common causes of charity abuse and loss of public trust, such as Prohibition of Loans, Travel and Entertainment Reimbursement Policy, and Donor Privacy.

PUBLIC DISCLOSURE

Legal Compliance

Philosophy

To uphold the public's trust in nonprofits and support regulation of charitable solicitations, a nonprofit should at a minimum carry out its actions in accordance with applicable state and federal charity law. Federal and state regulation of nonprofits is essential to protecting charitable assets and safeguarding the public against charity-related consumer fraud.

Standard

For the previous three years (including the year under review), the nonprofit has not violated applicable provisions of state law in which the nonprofit is registered to fundraise or any federal law. If the nonprofit is actively fundraising outside of its home state, it is taking steps to monitor and ensure compliance with other states' laws regarding charitable registration.

Public Information and Annual Reporting

Philosophy

Nonprofits that provide information to prospective donors and other constituents promote informed and responsible philanthropy. Donors are better able to make decisions when they can learn what a nonprofit's purpose is, who governs it, how they manage their financial resources, who the nonprofit serves, and what progress it has made towards its mission.

Standard

The nonprofit complies with the legal requirements for public disclosure of the following:

- 3 years of the nonprofit's IRS Form 990, 990-EZ or 990T;
- The nonprofit's IRS Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code.

The nonprofit also provides the following information in an annual report, by request, or as part of its website:

- The nonprofit's mission statement.
- A list of the nonprofit's board of directors.
- Annual financial statements prepared in conformance with Generally Accepted Accounting Principles (GAAP).
- A summary of the total cost of each major program and the nonprofit's fundraising and administrative costs as defined by either GAAP or as defined by IRS guidance for completing the IRS Form 990.
- Descriptions of its program, activities, accomplishments and achievements in relation to its mission for at least the most recent fiscal year
- Description of the communities or populations and the geographic area served.

If the nonprofit has a web site, the above information should be found on the nonprofit's web site, preferably in one place so that the same content can be reliably printed and mailed upon request.

Impact on the Community

Philosophy

The Council believes that knowing whether a nonprofit has accomplished or is making progress toward its mission-related goals is crucial in making a giving decision. The Council also believes that communicating future program goals allows donors to evaluate the nonprofit's alignment with their giving philosophy.

Standard

The nonprofit tells the public in its annual report or on its website, using specific objective information, what it accomplished in the previous year in relation to its mission and how it has impacted the community. The nonprofit also relates its goals for the next year.

Financial Transparency

Philosophy

Trustworthy public disclosure of financial information by a nonprofit demonstrates a commitment to transparency that builds public trust.

Standard

Nonprofits have an independent audit with an unqualified opinion, following thresholds required by state law. Nonprofits in states without applicable laws regarding independent audits have an independent audit if revenues exceeded \$750,000 in the most recent year. Nonprofits without an independent audit have a board-approved IRS Form 990.

GOVERNANCE

Board Meetings

Philosophy

A fundamental element of a successful nonprofit is an active and engaged governing board that sets the strategic agenda and takes responsibility for the organization's mission and programs.

Standard

The board of directors meets at least four times per fiscal year with a quorum, and maintains written minutes for each board meeting and each meeting of any committee with authority to act on behalf of the board.

Conflict of Interest Policy

Philosophy

The board's deliberations on important matters should be free of bias from board members or key employees who may have a personal interest in the outcome. A nonprofit should have a policy that addresses conflicts of interest of its board members and key employees. A conflict of interest policy helps ensure independent decision-making and guards against inappropriate benefit to board members or key employees from organizational transactions.

Standard

A nonprofit addresses director, officer, and key employee conflicts of interest through a written policy that prohibits an interested party from approving or voting on a conflicted transaction and requires annual disclosure of the material facts. A nonprofit consistently enforces compliance with the policy.

Voluntary Board Service

Philosophy

Voluntary board service affirms that the nonprofit exists to provide a public good and not to serve an individual or group of individuals. Most donors and nonprofits expect that board members serve without compensation. A nonprofit should also take steps to ensure that any expense reimbursements for board service are reasonable.

Standard

A nonprofit does not compensate board members for board service other than reimbursement of expenses directly related to their board service.

Separation of Roles

Philosophy

Governance checks and balances are diluted and the ability of the board and its officers to act independently is compromised when more than one paid staff member serves on the governing board, its chair or treasurer is a paid staff member, or if one board member simultaneously serves as chair and treasurer.

Standard

Not more than one voting member of the board is a staff person of the nonprofit, no staff person serves as board chair or treasurer, and no board member serves as board chair and treasurer simultaneously.

Board Length of Service

Philosophy

A well-governed nonprofit utilizes a deliberate board nominating process that does not perpetuate the status quo. Limits on the length of board terms help to ensure that the board is accountable for the mission and the financial health of the organization. Changes in board membership allow for greater participation by the communities served and for boards to recruit new expertise as the needs of the nonprofit change.

Standard

No elected voting member of the board serves for more than five years without standing for re-election.

Board Composition

Philosophy

A nonprofit board should be comprised of individuals representing the community and constituents served by its mission. The board should also include members with expertise gained through professional or personal experiences that are beneficial to the mission. A nonprofit should plan for the future and regularly use board evaluation tools to plan and manage succession and assess capacity and expertise to effectively govern.

Standard

A nonprofit identifies the community and constituents served by its mission, assesses the capacity of the board to govern, evaluates how the composition of its board of directors can best reach the community and constituents served by its mission, and develops a written plan to address any gaps.

Diversity and Inclusivity Standard

Philosophy

The nonprofit sector plays a unique and critical role in our society, including providing an avenue for individual involvement to better society and offering equal access to opportunity and services. As such, an inclusive nonprofit seeks and embraces diversity in all its forms and is responsive to the changing demographics of the larger society. By striving to be diverse and inclusive, a nonprofit strengthens its ability to achieve its mission by bringing together individuals with varied experiences, perspectives and skills.

Standard

The nonprofit performs a written assessment to identify the community and constituents served by the organization in meeting its mission, evaluates whether the composition of the organization (e.g., board, staff, volunteers, donors, vendors and partners) reflects the diversity of the community it serves, and determines how it can best serve the broadest possible constituency given the organization's mission.

Board Orientation, Education and Assessment

Philosophy

An effective board of directors is engaged in the nonprofit's mission and possess a sound knowledge and understanding of the nonprofit's operations and finances. A process to orient and educate board members and to assess the board's effectiveness is important to a nonprofit's success.

Standard

A nonprofit provides orientation sessions to new board members within one year of initial election and provide ongoing education on topics critical to the nonprofit's mission for all board members at least annually. In addition, the board annually conducts a self-assessment of its effectiveness.

Chief Executive Assessment

Philosophy

Effective nonprofit leadership includes regular discussion of chief executive goals and expectations between the board of directors and the chief executive. Annual goal setting and year-end assessments against the goals establishes trust, understanding and identifies strengths and areas of opportunity in leadership development.

Standard

The board of directors annually sets performance goals with the chief executive or management company, as applicable, as well as assesses the individual or management company against those goals and other relevant criteria.

Compensation

Philosophy

A critical duty of a nonprofit's board is setting the annual compensation of the chief executive. To assure that compensation decisions are carefully considered and that pay is reasonable, the board or the committee to which it has delegated compensation decision authority has access to all relevant data and the deliberations are documented.

Standard

The board, or a committee to which it has delegated compensation authority, follows a process for determining compensation for the chief executive. Only board members free of a conflict of interest in the compensation decision may participate, and the board or committee obtains and reviews compensation data for comparable positions and considers whether the compensation is reasonable against this data. The compensation deliberations are documented in the minutes of the meeting.

Monitoring Mission and Strategy

Philosophy

A nonprofit board is responsible for determining and monitoring the mission of the organization and the strategy that supports it. Regular reviews of the nonprofit's mission and strategy assure that resources are being utilized responsibly and that the strategy is consistent with accomplishing their mission.

Standard

The board annually reviews the nonprofit's mission and supporting strategies, based on periodic (no less than every two years) monitoring and review of program effectiveness and impact in the community.

Governing Document Review

Philosophy

The governing documents of a nonprofit formalize many of the policies, procedures and structures that demonstrate effective governance. A nonprofit's board should regularly review the organization's governing documents to assure their relevance and that the board's and the organization's governance practices are being followed.

Standard

The board reviews the nonprofit's bylaws and other governing documents, including length of board terms, at least every three years.

Federal Tax Filing Review

Philosophy

To assure accuracy and transparency of a nonprofit's annual financial filing, the board of directors should regularly review filings and resolve any outstanding issues prior to filing with governmental authorities.

Standard

The board conducts a timely review of the complete IRS Form 990 and all attachments in connection with its filing with the IRS.

Whistleblower Policy

Philosophy

To demonstrate accountability to donors and constituents and to prevent abuse, nonprofits should adopt a policy and provide a means for reporting information on perceived or possible illegal practices or violations of organizational policies.

Standard

A nonprofit maintains a policy and communicates procedures for the reporting and investigation of complaints about perceived or possible illegal or questionable practices or policy violations. The policy provides for the confidentiality of the individual who reports the complaint or violation, and specifies that the nonprofit will not retaliate against the reporting party.

Document Retention Policy

Philosophy

Proper protection and destruction of important organizational documents is symbolic of a nonprofit's dedication to governance and accountability. A policy and related procedures outlining document retention practices provides assurance that information relating to audits, litigation and investigations is being properly maintained or destroyed in accordance with legal requirements.

Standard

A nonprofit maintains a policy describing the retention and destruction requirements for its key governing, legal, audit and financial documents.

FINANCIAL ACTIVITY

Use of Funds

Philosophy

A nonprofit should strive to efficiently and effectively use funds to achieve its mission, balancing the need to expend the majority of its funds on current programs with the need to invest in the infrastructure and administrative capacity necessary to carry out its mission over the long term.

The Council recognizes that there is no optimal balance point between program, administrative and fundraising expenses for all nonprofit organizations.

Standard

At least 60% of the nonprofit's three-year average annual expenses are used to directly support programming (ideal range is 70% to 90%). On an annual basis the board monitors this ratio and, if necessary, develops a plan to address any shortage of investment in programs, infrastructure or administrative capacity.

Range

60-70% - Meets standard, provides explanation
70-90% - Meets standard, no explanation needed
90-100% - Meets standard, provides explanation

Balanced Reserves

Philosophy

While a nonprofit should maintain a reasonable level of cash to safeguard against unexpected financial challenges, maintaining excess unrestricted reserves indicates the nonprofit is not maximizing the use of its resources in pursuit of its charitable mission. In such cases, it may not be appropriate to continue soliciting from the public unless it is clear that the fundraising could be used for a reserve fund.

Standard

Unrestricted net assets available for current use are not more than three times the current or next year's budgeted operating expenses.

Financial Health

Philosophy

A nonprofit should use its resources prudently and should maintain a healthy financial picture, including positive unrestricted net assets, which are a leading indicator of financial health. When making a contribution, donors want to know that the organization has the financial strength to pursue its mission on a long-term basis.

Standard

The nonprofit organization:

- Has a gain in unrestricted net assets at least once in the three most recently completed fiscal years, and;
- Has a positive trend in its three-year cumulative unrestricted net asset balance.

The nonprofit develops a board approved plan to address any deficiencies in the organization's financial health, regularly reviews the key assumptions in the nonprofit's financial plan, and the board monitors the financial statements on a monthly basis.

Board Fiduciary Oversight

Philosophy

The governing board is responsible and accountable for the financial management of the nonprofit.

Standard

The governing board approves an operating budget prior to the beginning of each fiscal year and receives financial reports, at least quarterly, comparing actual to budgeted revenue and expenses.

Prohibition of Loans

Philosophy

The financial resources raised and invested by a nonprofit should be in support of its mission and not utilized for other purposes. To assure that financial resources are used solely for their intended purposes, a nonprofit should not provide loans to directors, officers and employees, even if it is acceptable under applicable state law.

Standard

The nonprofit does not provide loans or loan guarantees, or relieve a debt or lease obligation for its directors, officers, or employees.

Travel and Entertainment Reimbursement Policy

Philosophy

The travel and entertainment reimbursement policies of a nonprofit should ensure that the organization's business is carried out in a cost-effective manner, is properly documented, and serves a business purpose.

Standard

The nonprofit maintains a policy outlining acceptable travel and entertainment expenses for business purposes, what is considered a reasonable expense, documentation requirements and reimbursement procedures.

FUNDRAISING

Fundraising Disclosures

Philosophy

The responsible actions of both donors and nonprofits promote and sustain a climate of giving. Fundraising methods should therefore be ethical and honest and encourage the donor to give voluntarily, based on their interest and knowledge of the purpose, programs, and achievements of the nonprofit. All information provided in connection with solicitations is accurate and not misleading.

Standard

Print, email, and electronic solicitations clearly describe the purpose or programs for which the contributed funds will be used and identify the nonprofit that will receive the contribution. The donor is provided with the address or phone number of the nonprofit.

Voluntary Charitable Giving

Philosophy

Appeals to donors that are threatening or intimidating are inconsistent with the essential aspects of giving to nonprofits.

Standard

Solicitations do not cause donors to feel threatened or intimidated. The nonprofit maintains a written policy to discontinue contacting any person upon that person's oral or written request directed to the nonprofit, its professional fundraiser or other agent.

Soliciting Practices

Philosophy

Donors are entitled to know who is soliciting their gift and what portion of their gift will be received by the nonprofit.

Standard

Solicitors who are not employees or volunteers of the nonprofit:

- Identify themselves in each solicitation as professional fundraisers, and;
- Upon request, provide the name and address of their employer or contracting party.

If the nonprofit is engaged in cause-related marketing or its name is used in connection with an event, or the sale or marketing of goods or services, upon request, the nonprofit or persons authorized by the nonprofit to utilize the nonprofit's name provides accurate information about the percentage of gross revenue that is paid to the nonprofit.

Donor Financial Information Security

Philosophy

A nonprofit should protect all private financial information provided by donors.

Standard

The nonprofit provides a secure environment for collecting online and offline donations, and maintains internal controls governing the safekeeping of all confidential donor financial and personal information.

Donor Privacy

Philosophy

A nonprofit should protect the privacy of donors and disclose when information is collected about them and how this information is used. Donor information should not be shared outside of the nonprofit without donor consent. A nonprofit should also offer a way for donors to have their name removed from solicitation or other mailing lists.

Standard

A nonprofit does not share donor information without consent and provides a privacy policy on its website or by request that describes how donor information is collected and used and provides for donors to "opt-in" to make their private information available. A nonprofit has a board-approved discontinue contact policy guaranteeing that donors can be removed from solicitation and other mailing lists.
