Standards *for Non-U.S. Nonprofit Organizations*

INTRODUCTION

The nonprofit community in the United States is well established with commonly accepted practices and government required standards. Thus, donors have come to expect certain behaviors from U.S. ministries, and generally assume that they can rely on those organizations to conduct themselves in a predictable manner. Some of these expectations include corporate conduct such as: oversight by an active board, regular preparation of financial statements in a standard form, willingness to share financial and operational information, access to senior management, and the opportunity to inspect programs and performance.

When U.S. donors make international grants, it is not so clear whether such standards are adhered to by their foreign grantees. There are many reasons for these variations; these range from legal difficulties in implementing U.S. business norms in certain countries, to cultural differences in how ministry or business is commonly conducted, through to the desire to do what in the U.S. would be considered fraud (use of funds for a purpose other than that for which they were obtained).

These factors often make U.S. donors reluctant to give internationally—they may feel they do not have the assurances that they can largely count on when giving domestically. Reasons that donors state for hesitating to give outside the U.S. include the following:

1. Inability to know how donated funds are actually used; difficulty in inspecting programs;
2. Fear that the funds would be used for a different purpose from that for which they were given;
3. Concern that embezzlement might occur, that a leader takes money for personal use;
4. Doubt over the efficiency of a project and whether funds are spent wisely and in a businesslike manner;
5. Fear that money is "lost" in transit through bribes or government confiscation; and
6. Difficulty in complying with U.S. government rules on international grantmaking.

BACKGROUND

In May 2008, Pastor Simon Mwaura, founder of God's Grace for All Nations, a Kenyan Christian ministry doing church planting and humanitarian work, approached Calvin Edwards and asked how his new organization could be accountable and transparent. He sought to attract U.S. donors and meet all their expectations. He had an honest desire to operate his ministry with the highest level of integrity.

Calvin Edwards & Company (CEC) prepared an early draft of the attached document, *Policy on Standards for Best Practices, Accountability, & Transparency for Non-U.S. Nonprofits,* as a resource for Pastor Simon. He responded enthusiastically, and the document was subsequently circulated for input to a variety of foreign grantmaking foundations and clients of CEC. The attached *Policy* represents a synthesis of the best practices that prominent U.S. donors want from their foreign grantees.

THE NEED FOR STANDARDS

We recognize that cultures are different. The way things are done in the U.S. is not necessarily the way things are done in Africa, or Central America, or India. Particularly, leadership styles differ, as do attitudes about money, distinctions between what belongs to oneself and to the ministry, and beliefs about honesty and integrity.

When they want to support good work, American donors can choose from 1.5^{+} million organizations—many of them Christian—right in their own back yard! If a foreign organization is to attract money away from all those clamoring for a donor's checkbook, it needs to be as appealing and "safe" to give to as a U.S. organization.

Foreign grantseekers must recognize fundamental issues of accountability and transparency. The board is "the boss." The ministry leader reports to the board and is under its authority. In countries where dictators are common or where charismatic leadership is greatly admired and respected, the notion of a leader submitting to a board may be uncommon. Ministry money is kept separate from personal funds. Detailed financial records are kept.

Efficiencies and economies are sought, and foreign donors are respected and not exploited. Corruption is shunned at every level. U.S. donors expect that these types of standards will exist, without exception, in organizations they support—even if it is not a part of the culture to do so. At times a Christian ministry must be counter-cultural.

U.S. donors absolutely expect all ministry personnel, especially leadership, to act in good faith and with integrity under all circumstances. CEC recommends that clients do not support ministries that deviate from these standards.

Reasonableness

The standards described in the attached *Policy* are quite demanding. A new or small organization may find that they are difficult to achieve all at once. While it may be acceptable to implement these practices gradually, the principle behind each should be adhered to from the outset. So, for example, a young ministry may not have an audit done in the first couple years, however, it should maintain records in such a manner that an audit could readily be performed, and be willing to do so if a donor requested one (and perhaps paid for it).

The standards should be implemented as early as possible in the life of an organization, but U.S. donors also seek to be reasonable and do not necessarily expect perfection immediately. They do expect impeccable integrity from the outset. An established organization with a sizable budget and fulltime staff should proceed promptly to implement all the standards in the *Policy* if it seeks funding from U.S. donors.

Exceptions

All of the standards are for *organizations*. We recognize that there are plenty instances where work is being carried out without an organization because it is done in a limited-access country, or it is a pilot or early-stage project, or for some other reason. In such cases, some of the standards can be adapted, but many will not be possible.

Expenditure Responsibility

For U.S. persons, foundations, nonprofits, or churches to make an international grant (except to their own subsidiary), the government requires that a number of standards be met. In essence, this requires the donor to accept responsibility to oversee how the grant funds are spent, and ensure that they are spent in a manner that, if so spent in the U.S., would be for a charitable purpose. This serious responsibility can inhibit international giving. If a foreign ministry can actively comply with the U.S. government regulations, it will significantly help attract U.S. donors. The attached *Policy*, if adhered to, meets the requirements of the U.S. government.

Formal Adoption of Standards

CEC has prepared the attached document, *Policy on Standards for Best Practices, Accountability, & Transparency for Non-U.S. Nonprofits,* to guide and assist foreign ministries. We recommend that the ministry board of directors adopt all of these standards, though some may be phased in over time and some may require a little editing. Commentary on a standard is marked in *italics* and may be deleted. Adoption may be achieved by:

1. Introducing the *Policy* document to the board (preferably in advance of a meeting);
2. Discussing it thoroughly (possibly for several hours);
3. Identifying items with future effective dates;
4. Voting to adopt it, including any time schedule for certain items; and
5. Recording the vote in the board's minutes.

Also, it would be common to vote or direct the senior executive to alter current practices immediately to conform to the *Policy*. The fully-compliant ministry may "advertise" that it adheres to the attached *Policy*, once adopted and implemented. This would likely provide helpful assurance to U.S. donors. Conversely, any non-compliance after adoption would be severely frowned upon.

Mutual Relationship

Foreign ministries want U.S. donors to share their assets. Thoughtful donors also want foreign ministry leaders to share their assets, their knowledge, wisdom, experience, and spiritual understandings. The following *Policy* helps to build trust and a healthy relationship that serves both parties. It also helps U.S. donors to mobilize the church to serve others and obediently reach out to the whole world.

CALVIN EDWARDS
& COMPANY®
Maximizing the Good of Giving

1200 Ashwood Parkway, Suite 140 Atlanta, GA 30338
PHONE 770.395.9425 E-MAIL Info@CalvinEdwardsCompany.com

POLICY

Standards for Best Practices, Accountability, & Transparency
for
Non-U.S. Nonprofits

This policy addresses 62 standards that our ministry has adopted to ensure best practices, accountability, and transparency. We believe that these protect against mismanagement, waste, and fraud. Adhered to, they help to ensure that we honor God in all we do. And further, because they provide a level of assurance for donors, they help to mobilize Christians from diverse cultures to support mission work and be obedient to the Great Commission.

LEGAL

1. ***Formation of legal entity.*** When appropriate, the ministry does its best to form a legal entity within its country of operation. *In the U.S. this is a nonprofit corporation, but in other countries it may be an association, society, church, or other entity.*
2. ***Registration as a charity.*** The ministry will also seek to register as a charity within its country of operation. *In the U.S. this is achieved through obtaining 501(c)(3) status from the IRS, and possibly, registering with a state agency such as the secretary of state or attorney general's office. The form of achieving this will vary greatly from country to country.*
3. ***Compliance with laws & regulations.*** The ministry will comply with the laws and regulations of the country and state/region/territory in which it operates. This includes laws pertaining to labor, finances, governance, health and safety, and other areas.

BOARD GOVERNANCE

4. ***Board of directors.*** The organization has a board of directors that governs the organization, hires and evaluates the senior executive (see below), sets the direction, and provides ultimate oversight.
5. ***Independence.*** Directors are independent, that is, they are not employees or related to staff by blood or marriage. One non-independent person may be on the board, *possibly the founder or senior executive.*
6. ***Officers.*** The board elects officers for the organization, usually for a one-year term, including a chairperson, a treasurer, and a secretary. These offices are not held by the senior executive. *The roles of these positions will usually be spelled out in the legal formation papers (articles of incorporation, bylaws, or similar documents that vary by country).* If the roles are not spelled out in the legal documents, the board will prepare a brief job description for each position.
7. ***Size.*** The board is at least five persons, and not more than 15.
8. ***Directors.*** Directors are elected by the existing board—so that it is self-perpetuating. *Initially, the founders form a small group of directors (about 3-5) that subsequently elects other directors to form a larger board. Subsequently, directors are not appointed by the founder or senior executive.*
9. ***Composition.*** Board members are qualified by being wise, independent, knowledgeable persons with a heart for the ministry. Over time, the board will become comprised of a number of experts in diverse areas such as ministry programming, business, legal matters, communications, fundraising, finance and accounting, human resources, etc.
10. ***Terms & Rotation.*** To avoid director fatigue and ensure new ideas, directors will be elected for two- or three-year terms and be allowed to serve up to two consecutive terms before rotating off. After a year's absence, they could be re-elected. If the senior executive is on the board, an exception may be made so he/she can stay on without rotating off; *this is often achieved by making the senior executive an ex officio member.*
11. ***Self-dealing.*** A director may not vote on any matter before the board that affects himself; that is, where he has a conflict of interest. This would include voting on whether he or a family member serves as a director, his compensation if he is an employee, a deal with his business or that affects his personal finances, and so forth. The involved director may

address the board on the issue and answer questions, but then will allow the board to discuss and vote on the matter confidentially without him present. The vote is recorded in the meeting minutes, and the interested party's non-vote is noted.

12. ***Meeting frequency.*** The board meets at least three times each year, at roughly equal time intervals, and perhaps more often as the organization launches. In-person meetings are best, but one could be by phone. Electronic distribution of requests for votes does not constitute a board meeting.
13. ***Expense Reimbursement.*** Directors may be reimbursed for their direct expenses of attending board meetings, or provided a per diem allowance for expenses. Subject to resource availability, a small and reasonable fee may be paid to directors for their board service, but not to the senior executive who is compensated as an employee.
14. ***Duties.*** The board performs the following duties: sets the direction for the organization, approves the strategy and all major decisions, hires the chief executive and reviews his/her performance at least annually and sets his/her compensation, sets financial policies, reviews financial statements at least quarterly, approves or denies transactions with related parties and those involving a conflict of interest (see item 11 above), checks that all actions taken are legal and proper, and ensures that the ministry functions with full integrity at all times.
15. ***Minutes.*** Written minutes of board meetings are kept and are available for review. These identify the matters discussed, provide a brief commentary on the issues considered, and record any motions made and votes taken and whether the motion passed or failed. *They should be written in such a way as to provide a useful reference document for those who later seek information about the board's actions—they should neither be too brief nor too long and detailed.*

SENIOR EXECUTIVE

The senior executive is the highest ranking employee of the ministry. Many different titles are used, including: director or executive director, general overseer, pastor or senior pastor, bishop, chief executive officer, president, and others. The following points apply to the senior executive irrespective of his/her title.

16. ***Employee.*** The senior executive is employed by the organization; the board of directors selects and appoints him/her. He/she reports to the board and it may fire him/her at any time. The board does not report to the senior executive, and the senior executive has no control over the board.
17. ***Chairman.*** The senior executive is not the chairman of the board (see item 6 above). The chairman and the senior executive seek to foster a healthy working relationship.
18. ***Accountability.*** The senior executive is accountable to the board, and in particular, to the chairman. He discloses all significant pending decisions to the chairman along with events and actions that may affect the well being of the ministry.
19. ***Job description.*** The senior executive's responsibilities and duties are written in a 2-3-page job description. *To create this document, a draft could be prepared by the senior executive himself in conjunction with the chairperson. Once finalized, the board approves it.*
20. ***Organizational chart.*** Management prepares an organizational chart that shows the board, the senior executive, and other key persons and their reporting relationship. This is updated at least annually.
21. ***Performance review.*** The board reviews the senior executive's job performance, including how well he/she carried out the duties on his/her job description (see item 19 above) and the degree to which the budget was achieved (see item 23 below). This review is in writing and treated with confidentiality. The board may assign the review to a person or committee to perform, but the whole board is informed of the senior executive's job performance, once assessed.
22. ***Conflict of interest.*** The senior executive discloses any business dealings he/she has or contemplates with the ministry. The board, without the vote of the senior executive, approves or denies these (see items 11 & 14 above).

Planning & Budget

23. ***Ministry plan preparation.*** The senior executive works with staff to prepare an annual plan for ministry which identifies key projects and priorities. The board of directors approves the plan and monitors its implementation.
24. ***Budget preparation.*** An annual budget is prepared by or at the direction of the senior executive, prior to the beginning of each fiscal year. This corresponds to the ministry plan (see item 23 above). The budget identifies sources of income, and expenses by project, by expense category, and by time period (month or quarter). It carefully projects what is *expected* to happen; it is not a "wish list" of items or programs desired or hoped for.
25. ***Review & approval.*** Management staff and those responsible for implementation of items in the budget contribute to its preparation and approve it prior to its finalization and presentation to the board. It is a team document, not a "top down" plan from the senior executive.
26. ***Board approval.*** The senior executive presents the annual budget to the board once a year for the following financial year and answers any questions about it. The board may require changes. Once it is acceptable, the board officially votes to approve it and records the approval in its minutes (see item 15 above).
27. ***Basis for reporting.*** The quarterly financial statements provided to the board (see items 14 above & 40 below) show actual financial performance in comparison to the budget. *This is usually achieved by presenting the two sets of numbers side-by-side in parallel columns.*
28. ***Budget changes.*** A proposed change to a budget is not authorized unless the board approves it. When donation income, or other sources of funds, varies significantly from budget, the board will initiate a revision.

Accounting & Finances

29. ***Bank account.*** The ministry has its own bank account, separate from other organizations and from its founder, leader, or key employees. All monies are deposited directly into the bank account; all payments for expenses are made out of the account. Thus, its deposits and withdrawals accurately reflect all the financial activities of the ministry. *For a short period during start-up (when possibly the organization doesn't have a name or a board of directors), the account may be a "personal account" of the founder, but ideally it would be a separate account from the founder's regular bank account.*
30. ***Cash management.*** Ministry leadership manages spending to be less than the amount of income received. There is not a practice of borrowing and "spending in faith" that more money will come in. Leadership exercises patience and spends money after it is received, not in anticipation of getting more funds.
31. ***Incurring expenses.*** All purchases and expenses are approved prior to being incurred. This may be done by the board's approval of a budget, and by the approval of a designated senior executive. The board may also set up other ways of approving expenses such as a board committee or a more stringent approach for larger expenses. No expense is incurred that has not been properly approved.
32. ***Spending limits.*** The board has set spending limits for each person authorized to incur an expense. *For example, managers may be allowed to spend up to $100, senior leadership up to $500, and beyond that board approval is required.*
33. ***Paying bills.*** Invoices and bills are only paid after being approved in writing by an authorized person. Generally, this is a signature and date on an invoice, indicating that payment may be made.
34. ***Writing checks.*** All checks and bank fund transfers require signature by two persons. The board authorizes who may sign checks. *An exception may be created to require only one signature for checks of a small amount.*
35. ***Receipting.*** All income (especially donations) is receipted promptly (usually within a week). A short letter indicating the funds were received and the purpose for which they will be used is sufficient. This includes funds received by wire transfer.
36. ***Separation of duties.*** The person who deposits the check in the bank account is different from the person who prepares and sends receipts and from the person who records the income in the accounting system. These principles should be adapted and used for the

receipt of wire transfers too. *If this is impractical, duties should be separated insofar as possible (e.g., the bank deposit is made by a different person).*

37. ***Accounting System.*** The ministry uses a thorough and professional accounting system. *This may start as a basic, manual system, but once funds exceed $25,000 per year, this is a computer-based system using professional accounting software.*

FINANCIAL REPORTING

38. ***Monthly reports.*** A qualified person with financial training and experience prepares monthly financial statements. Ideally, the statements consist of an income statement showing income and expenses, a balance sheet showing assets and liabilities, and a general ledger showing details of each transaction. *For new or small organizations, monthly statements might consist of a "cash flow statement" showing cash in and out of the bank account. In this case, care must be taken because future obligations are not shown, only actual cash paid (so, money owed is not on the statement).*
39. ***Financial statement basis.*** *As soon as possible,* financial statements are prepared on an accrual basis, not a cash basis. *This is essential once income reaches $250,000 per year. A financial professional can explain the important difference.*
40. ***Review of statements.*** The ministry leader and his leadership team (not simply one person) review the financial statements monthly. If there are questions, they are openly discussed by the leadership team and the person who prepared the statements. The board receives and reviews financial statements at least quarterly.
41. ***Yearend financial statements.*** An "outside" accountant prepares financial statements at the end of the financial year *(often December 31, but not necessarily so).* This is a professional accountant who is independent of the organization and its leadership—not a friend or family member. *If errors have been made throughout the year, this professional corrects them (with "adjusting entries") so that final yearend statements are correct.*
42. ***Annual audit.*** *Once the organization gets to about $500,000 in annual income,* an audit of the financial statements will be prepared annually by a qualified independent accounting firm. *Practices in this regard vary widely—some countries require an audit to maintain charitable status, in others an "auditor" acts more like a paid defender who supports an organization whether or not it is doing things correctly (that is, it is not independent). What is required is an independent audit that includes verification of the accuracy of accounting records through testing, and examination of the existence of reasonable accounting controls. Smaller organizations may start with a "compilation" or "review" of financial statements prior to incurring the cost of a full audit; a financial professional can explain these less rigorous services.*
43. ***Project reporting.*** Each project that a donor supports has its own simplified income statement showing income from donors and any other sources, and expenses by key categories. *This may be achieved in accounting software through the use of "funds," or in QuickBooks with the use of "classes," and could also be handled for small organizations with an Excel schedule.* This will indicate to a donor how much of a project he/she paid for, and where the money went (see also item 50 below).
44. ***Government filings.*** The ministry makes all filings with government agencies in an accurate and timely manner. This may include other types of filings in addition to financial reports.

ACCOUNTABILITY TO DONORS

45. ***Restricted income.*** The organization uses donated funds only for the purpose for which they were donated. Records are kept that show that this occurred, or will occur.
46. ***Overhead allowance.*** An allowance for project management and organizational administrative costs may be included in grant request to donors and will be identified in the budget. Such funds will be accounted for separately from the project itself.
47. ***Excessive project income.*** If more money is raised for a project than it requires, the organization seeks permission from donors to use the funds for a different purpose. *It is illegal in the U.S. to raise money for one project and use it for a different project.*
48. ***Financial disclosure.*** Upon request, the organization will show a donor the organization's financial statements (both last yearend and most recent year-to-date, see items 38, 41, &

42 above), and any project income statements for projects of which the donor has been a part (see item 43 above).

49. ***Receipt and thank you letter.*** Within a week of receiving funds, a formal written acknowledgement will be sent to each donor. It states how the funds will be used; and this corresponds to how they are recorded in the organization's financial records (see item 35 above).
50. ***Progress reports.*** Progress reports will be provided as requested and at the end of each project for which funds have been received, and for lengthy projects spanning a year or more they will be provided at each yearend. Interim reports could vary from a detailed letter to a short email update, and photos are helpful to convey progress. Project end and yearend reports will be detailed and show project income and expenses and explain how much of the project was achieved (see item 43 above).

TRANSPARENCY & DISCLOSURE

51. ***Transparency.*** The ministry provides a copy of annual and year-to-date financial statements if requested by a donor. If audited statements are available, these are provided. If there is an auditor's "management letter," it too is provided if requested.
52. ***Clarity in reporting.*** Claims for work done can be confusing and misleading, particularly when there are partners involved. The ministry will be clear and precise when stating what it has done and what others have done. It will not claim to have largely done projects that it has barely started nor that have been mostly achieved by another organization. It will lay out clearly the separate achievements of its own ministry and others. Photos and third-party testimonials will be provided if requested.
53. ***Grant agreement.*** The ministry signs (once reviewed) a grant agreement prepared by the U.S. donor which outlines spending and reporting responsibilities and commits the ministry to spend the money only for the grant's specified charitable purpose. *These agreements will vary depending on the donor's requirements, the size of the project, the amount of the grant, and other factors.*
54. ***Other information.*** The ministry will answer questions about finances, management practices, legal issues, or other items of interest to a donor or prospective donor. This includes disclosing all compensation paid to the senior executive and other leaders, all financial arrangements between them and the ministry, and all compensation and financial deals with their family members or companies in which they have an interest.
55. ***Annual report.*** At the end of each year, the ministry prepares an annual report of at least 2 pages that spells out the following, and possibly additional information:
    a. The mission of the ministry
    b. The strategy and programs to achieve the mission
    c. Recent activities and what was achieved, including numbers
    d. Composition of the board
    e. Key staff members
    f. Yearend financial statements
    g. Specific future funding needs (projects or general administration and capacity building)

    This report is freely available to the public and all donors.
56. ***Detailed project report.*** The ministry prepares project reports that respond to donor requests for information regarding how their donation is used. This may include providing copies of receipts explaining expenditures. *Donors recognize that this is burdensome and would usually request it only in extraordinary circumstances* (see items 43 & 50 above).
57. ***Website.*** As possible, the ministry will maintain a current and accurate website with photos and detailed information on its projects and work.

COMMITMENTS TO DONORS

58. ***Communication style.*** The ministry will communicate in an objective, factual, level-headed manner that is accurate and precise. It will not exaggerate.
59. ***Compliance with U.S. laws.*** The U.S. government heavily regulates whether and how a U.S. donor can make a grant to an international organization. This can be burdensome on

the donor and the receiving ministry. The ministry agrees to fully cooperate to enable donors to comply with their government's regulations.

60. ***Designated funds.*** The ministry will use funds strictly in accordance with donor designations, will maintain a system to enable this, and will prepare reports to demonstrate it (see item 45 above).
61. ***Access to information.*** The ministry pledges to make all information and reports, as described above at "Transparency & Disclosure" readily available to donors. Some will be provided automatically, others will be available on request. Photos will be provided if requested.
62. ***Opportunity to inspect.*** Donors are free to inspect the work of the ministry, within security limitations, and to examine the financial and other records of the organization.

Adopted:

______________________________	__________
Chairman	Date
______________________________	__________
Senior Executive	Date

1200 Ashwood Parkway, Suite 140 Atlanta, GA 30338
Phone 770.395.9425 *E-Mail* Info@CalvinEdwardsCompany.com