



# STEWARDSHIP PRINCIPLES AND PRACTICES FOR INDEPENDENT FOUNDATIONS

## PREAMBLE

Independent foundations aspire to achieve a lasting and positive impact on society by contributing philanthropic resources to the public good. The assets of independent foundations extend beyond money, encompassing reputation and credibility, leadership skills of board and staff, and the ability to make the most of relationships and other resources.

As responsible stewards of philanthropic assets, independent foundations should work in ways that benefit the public and also reflect fundamental values that include honesty, integrity, openness, fairness and accountability. The stewardship principles and accompanying practices describe how independent foundations can reflect these fundamental values in their governance, management, grantmaking and charitable activities.

As private entities operating for public purposes, independent foundations must comply with federal, state and local laws. They must also uphold public trust in philanthropy and the nonprofit sector. By ensuring the most appropriate and effective use of philanthropic resources, independent foundations can inspire future generations to continue the American tradition of foundation philanthropy.

## HOW TO USE THE PRINCIPLES

These principles correspond to an array of philosophical and practical issues that all independent foundations face. Board and staff leaders can use this document to better understand the practices and aspirations of their colleagues and to identify issues that are likely to arise in their own organizations, enabling them to develop thoughtful policies and practices and improve them over time.

The degree to which an independent foundation can adopt individual practices will depend on its:

- governing documents (which may include requirements and restrictions)
- history, philosophy and stage of organizational development
- asset size and staffing level
- status as a grantmaking or operating foundation.

As the foundation evolves, so will its practices. Foundations that approach these principles and practices with thoughtfulness and a commitment to continual review and revision will experience the greatest long-term benefits.

GOVERNANCE

**I. We have a governing board that establishes the mission, guides the strategy, assesses the effectiveness and fosters the ethical conduct of the foundation.**

*Practices:*

- A. Ensure the foundation's governing documents clearly set out its corporate structure, comply with all applicable laws and regulations, and establish policies related to the functioning of the board and its committees.
- B. Develop and periodically review the foundation's values and mission statement, strategies, program areas and guidelines, goals, and multiyear and annual objectives.
- C. Make certain that management dedicates sufficient human, financial and infrastructure resources to advance the mission. Ensure that staff is well-qualified and receives ongoing professional development.
- D. Provide for leadership continuity and plan for transitions.
- E. Hire and regularly evaluate the CEO's performance.
- F. Assess the effectiveness of the foundation's grantmaking, charitable activities, board governance, management and investments.

**II. Authority is vested in the governing board as a whole, and each member is equipped to advance the foundation's mission.**

*Practices:*

- A. Identify the desired characteristics of the governing board, including size, composition, and member skills and experience; ensure that members are competent, knowledgeable and sufficiently diverse to provide credible and effective oversight of all aspects of the foundation's work.
- B. Develop bylaws that specify term length, the number of consecutive and/or total terms board members may serve, roles and responsibilities, and selection and removal processes.
- C. Conduct business regularly to ensure meaningful interaction, including at least two in-person meetings annually.
- D. Ensure that grants made by authority delegated to individual board members or staff are reviewed by the board and are consistent with board approved budget and policies.
- E. Provide comprehensive orientation and continuing education for governing board and committee members on the foundation's history and all aspects of foundation governance, including legal, fiduciary, and grantmaking issues and obligations to the public trust.
- F. Assess board members regularly on their adherence to governance practices, attendance and substantive contribution. Term renewal should take into account assessment results.

**III. Our governing board exercises active fiscal oversight.**

*Practices:*

- A. Know and ensure compliance with federal, state and local law, fiduciary duties, and sound financial management principles.

## STEWARDSHIP PRINCIPLES AND PRACTICES FOR INDEPENDENT FOUNDATIONS

- B. Approve an annual budget for operating and grant expenses and require staff to report at regular intervals to the full board on the foundation's financial performance relative to the approved budget.
- C. Ensure that administrative expenses are reasonable and necessary to the foundation's mission.
- D. Ensure that the foundation has a written investment policy adequate for the size of the endowment and the financial and investment objectives adopted by the board. Have the investment policy reviewed and approved by the board at regularly-established intervals.
- E. Ensure that the foundation has accounting policies and procedures appropriate to the size and complexity of the foundation's budget and endowment.
- F. Incorporate internal controls. Ensure that staff:
  - 1. Prepare timely financial statements and reports according to accounting principles adopted by the board.
  - 2. Establish and report to the board on effective internal controls, systems of checks and balances, formalized record keeping, and compliance with legal, regulatory and financial reporting requirements.
  - 3. Perform proper due diligence to assess grantees' fiscal and organizational viability and that their grant funds are used for charitable purposes.
- G. Obtain external oversight:
  - 1. Establish finance and audit committees as warranted by size and in accordance with state law to oversee accounting (including internal controls), financial reporting, compensation practices and the external audit of the foundation.
  - 2. Obtain an external review of the organization's finances (based on asset size) by conducting a financial review, financial statement compilation, periodic audit or annual audit for larger foundations.
  - 3. Ensure the auditors present the audit report or external review to the audit committee or board and meet privately (without staff). Have the board vote on whether or not to accept the audit.
  - 4. Require that the president and chief financial officer (or equivalently responsible officers/employees) approve annual financial statements, federal tax returns and reports to state authorities to ensure that they fairly present the financial position and financial activities of the foundation, comply with the foundation's governing documents, and are consistent with the foundation's audited financial statements (if applicable).
- H. Develop thorough compensation processes:
  - 1. Base CEO compensation on performance, as well as data from comparable institutions]. Comparability should take into account asset size, annual operating budget, the complexity of the organization and the responsibilities of the position.
  - 2. Make sure that CEO compensation is approved by the board and the process and decision recorded.
  - 3. Carefully consider whether or not to compensate the board. If board members are compensated for board or committee service, compensation levels should be fair and reasonable and should take into account the nature and amount of work required and performed, as well as benchmarks from comparable institutions. The rationale for such compensation should be documented and disclosed and reviewed periodically.

INSTITUTIONAL IMPACT

IV. **We consider multiple strategies to further our mission.**

*Practices:*

- A. Embrace best practice models and compare practices with others in the field.
- B. Consider a range of financial support options that could include general operating, project, capital, research, scholarship, endowment, multiyear and challenge grants and funds to respond to emergency or other unanticipated needs.
- C. Use institutional, program and grant evaluations to improve outcomes.
- D. Share successes, failures and lessons learned from grant and program evaluations internally and externally, as appropriate.
- E. Collaborate with others who fund similar work.
- F. Provide technical assistance to grantees and other nonprofits as necessary.
- G. Consider investing in ways that further the mission (e.g., program-related investments, microcredit loans, socially responsible investing and proxy voting/shareholder resolutions).
- H. Convene community leaders, government officials, nonprofits and/or other funders concerned about similar issues for the good of the community.
- I. Consider employing public policy advocacy as permitted by law.
- J. Acknowledge that the results we seek from grant investments are in part a function of the relationship between the grantee and the foundation.

ETHICS AND ACCOUNTABILITY

V. **We recognize and act upon our obligations to multiple stakeholders: the donor, grantees and grantseekers, the public, and governmental bodies.**

*Practices:*

- A. Include a variety of perspectives, knowledge and experience in the foundation's work.
- B. Establish governance policies, board and staff training, and operational and grantmaking practices that promote inclusion.
  - 1. Seek diversity and inclusiveness in board appointments and hiring practices.
  - 2. Develop the capacity to understand issues and communicate skillfully across cultural, socioeconomic and other boundaries.
- C. Establish and have board and senior staff annually sign a written conflict of interest policy that identifies the types of conduct or transactions that raise concerns and describes how conflicts and perceived conflicts of interest are handled.
- D. Develop a whistleblower policy, as well as a policy to handle external good-faith complaints about violations of foundation policy or the conduct of foundation board and staff.
- E. Respect donor intent while also considering the demands of a changing world. In cases where founding documents or other materials express donor intent or preferences, review them periodically to assess their continued usefulness.

**VI. We respect nonprofits' missions and expertise and strive for relationships based on candor, understanding and mutual respect.**

*Practices:*

- A. Develop transparent grants processes:
  - 1. Specify the steps, timing and general criteria used in the review process.
  - 2. Acknowledge grantseeker inquiries and submissions promptly.
  - 3. Use grant agreement letters to outline mutual expectations.
  - 4. Provide basic reasons for declining applications (e.g., outside geographic scope) and consider additional constructive feedback when appropriate.
  - 5. Limit requests for information pre- and post-grant to that which is necessary for decisionmaking and appropriate to the size or purpose of the grant.
- B. Conduct site visits when appropriate, guided by the size and purpose of the grant and the impact on the grantee.
- C. Respond to and act promptly on complaints.
- D. Acknowledge and limit the effects of the imbalance of power in grantee/grantor relationships.
- E. Support operating projects and/or direct charitable activities (if any) that complement and strengthen nonprofit organizations.
- F. Seek input on guidelines and criteria to ensure that they are clear and understood by applicants.
- G. Gather feedback (including anonymous) on foundation performance from current and former grantees and denied applicants.
- H. Consider accepting "common grant applications" (available through regional associations and affinity groups).

**VII. We welcome public interest and communicate openly.**

*Practices:*

- A. Make public (on the Web and/or in print) items such as the foundation's board of directors, mission, guidelines, grant process (including whether unsolicited proposals are accepted), finances, timetable, grantee list with amounts and purpose.
- B. Identify and make public an individual to serve as a point of contact for the foundation.
- C. Respond to requests for information promptly.
- D. Prepare and distribute (on the Web or in print) information annually (e.g., the annual report, updated Web content or a brief letter for small foundations).
- E. Convey the public value of the foundation's work by communicating grant results, studies and lessons learned.
- F. Establish procedures to communicate with and respond to the media, legislators and other audiences, and train the board and staff to ensure proper implementation.