Principles & Practices
for Nonprofit Excellence in Colorado

Second Edition

Developed
by
Colorado Nonprofits
for
Colorado Nonprofits

Colorado
NONPROFIT
Association

Serving nonprofits. Strengthening communities.

Dear Colorado nonprofit employees, board members, volunteers and interested citizens:

Colorado nonprofit organizations create substantial economic and social impact in our great state. They provide essential services and opportunities for citizens throughout all Colorado communities. We simply could not maintain the quality of life we have become accustomed to without their many contributions.

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

On behalf of the entities responsible for regulating charities and nonprofits in Colorado, we appreciate the guidance provided in this publication and our strong partnership with the Colorado Nonprofit Association. These principles and practices will serve as a valuable tool for nonprofits of all sizes as they work to strengthen and demonstrate transparency and accountability. Such standards can only enhance the public's trust in the Colorado nonprofit community.

We recognize that representatives from all our communities invest time and resources to support our nonprofits. We commend your service to these organizations and your commitment to enrich the lives of thousands of people across Colorado.

We believe that the initial release of this guide has already proven to be a valuable resource to the nonprofit sector, and are confident that the updated version will continue that tradition.

Sincerely,

John Suthers
Attorney General

Scott Gessler
Secretary of State

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Preamble

With help and guidance from many leaders of Colorado's nonprofit, government, and private sectors, the Colorado Nonprofit Association has updated *Principles & Practices for Nonprofit Excellence in Colorado* (P&P). This guide is a tool to assist Colorado's charitable nonprofits in building their capacity while enabling them to demonstrate their accountability and transparency.

P&P now includes new principle areas on communications and information technology, Form 990 references, and other key revisions that have adapted the guide to the current nonprofit environment and regulatory standards.

Since its original launch in 2007, more than 22,000 individuals downloaded P&P online, and we have distributed more than 20,000 printed copies. The Colorado Nonprofit Association has given more than seventy-four presentations on P&P, engaged more than 1,200 individuals in the related training programs, and referred countless others to use, copy and distribute P&P at will.

P&P is designed to promote excellence in management practices, ethical conduct, legal compliance, and public accountability for Colorado's nonprofit organizations as they perform their crucial community services. Some practices reflect legal requirements and/or steps that all nonprofits should take, while others are aspirational in nature. Although many of the principles and practices detailed herein will be helpful to all nonprofits, they are specifically written for Colorado nonprofit corporations that are tax-exempt under § 501(c)(3) of the Internal Revenue Code and that are public charities (i.e., not private foundations). Many of the more stringent requirements placed upon private foundations are not addressed here.

Adherence to the principles and practices in this guide are not required by law unless specifically indicated as such. There is no certification or accreditation process associated with P&P. It is not designed as a report card. Simply, P&P provides a planning and assessment framework that raises the bar for nonprofit performance.

It is important to note that most nonprofits will not adhere to all principles and practices outlined here. This document is heavily reliant on the best judgment of the leadership of individual nonprofit organizations in determining the strategy for implementation and continuous improvement.

P&P is designed to be flexible to allow for differences between large and small, new and well established organizations throughout the state. Any organization will benefit from a comprehensive review of P&P. This guide is a starting point to provide a basis for each organization (board, staff and other constituents) to make a conscious determination of what will best move them forward. Discussion with the board and leadership is imperative to determine which practices should be adopted in the short-term and the long-term. Creating a customized plan using the related tools and resources will help to ensure that the organization operates with integrity and delivers the best possible programs and services.

Historical Context

National and local instances of fraud over the past few decades in both the charitable and private sectors have highlighted the ongoing need for integrity, good governance, and accountability to be instilled in the work of nonprofits. The inaugural *Principles & Practices for Nonprofit Excellence in Colorado* (P&P) was part of a national best practices movement sparked by Congress reacting to these rare, but highly publicized, occurrences of fraud. Hearings before the United States Senate Finance Committee fueled a debate about the appropriate balance between self-regulation and government oversight of the charitable nonprofit sector. Committee Chair Sen. Max Baucus (D-Montana) and Ranking Member Sen. Charles Grassley (R-Iowa) were particularly instrumental in the movement to regulate charitable organizations in a manner similar to the 2002 Sarbanes-Oxley Act that governs the private sector.

In its *Final Report to Congress and the Nonprofit Sector* in 2005, the Panel on the Nonprofit Sector – which was created by the Independent Sector at the recommendation of the Senate Finance Committee – advocated a combination of informed legislation and self-regulating practices. The report stated that "the nonprofit sector … must be actively involved in identifying and promoting best practices and strongly encouraging compliance within relevant sub-sectors." The Panel on the Nonprofit Sector noted that the "vast majority of nonprofit organizations … are willing to conform to commonly accepted standards of practice. The development and dissemination of these practices are an important component of the effort by the nonprofit sector. … Such initiatives, if actively embraced by the sector, are likely to bring about positive change."

At the state level, there has been some movement to increase government regulation of nonprofits. In response, the Colorado Nonprofit Association has successfully worked to strengthen relationships with the offices of the Colorado Secretary of State and the Colorado Attorney General. These strong partnerships and our continued efforts on behalf of the sector should help ensure that future regulation at the state level is well-informed, effective, and mindful of impacts on nonprofits of all sizes.

At the federal level, the Tax Exempt and Government Entities (TE/GE) division of the Internal Revenue Service (IRS) issued a major revision of the Form 990, Return of Organization Exempt from Income Tax, effective for 2008 tax year returns. Nearly all tax-exempt organizations are required to file a Form 990, 990-EZ, or 990-N (e-postcard) annually. This major revision was in direct response to the work of the Senate Finance Committee and the increased concern over good governance practices and compliance in the nonprofit sector.

In a speech to nonprofits and practitioners entitled, *Nonprofit Governance – The View from the IRS,* Sarah Hall Ingram, Commissioner, TE/GE, stated, "I believe that adherence to principles of good governance is entirely consistent with both your task to accomplish your charitable objectives, and ours, to see that the tax-exempt sector complies with the Code. Indeed, I

think practicing good governance helps advance these goals. I see good governance, then, as a tool – something practical and useful."

P&P is intended to help nonprofits use best practices to guide their organization towards not only compliance, but also efficiency and better overall performance. The numerous practices highlighted in P&P provide specific guidelines for individual organizations to evaluate and improve in each of the principle areas. This guide, along with the supplemental resources, will help nonprofits understand and adopt these principles and practices.

Building a Customized Plan for Implementation and Improvement: Step by Step

It is important to note the great diversity of best practices in the nonprofit sector and to acknowledge that no one set of practices will fit all organizations. Each nonprofit organization should conduct a careful organizational assessment, including evaluating its own nonprofit lifecycle, to establish where it is and where it wants to be.

Simply reading through this guide will not be sufficient. While participation and adherence is 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. Revisiting P&P periodically will keep a fresh perspective on organizational policies, procedures, and practices.

The following is a suggested framework for maximizing these resources to assess your organization. All of the tools listed can be found at the Colorado Nonprofit Association website *www.ColoradoNonprofits.org*.

Step One: Complete the Basic Infrastructure Checklist for nonprofits registered in Colorado to make sure your records, filings and policies are up to date and in order.

Step Two: Review *Principles & Practices for Nonprofit Excellence in Colorado* with your board and staff. If appropriate, make an organizational commitment to adopt and institute principles and practices that make sense for your organization. Keep in mind that P&P is focused on excellence and does not represent minimum standards. It may take some time to get to where you would like to be.

Step Three: Determine your organization's stage of development in the nonprofit lifecycle and become familiar with the strengths and challenges you face in the areas of management, governance and programming.

Step Four: Complete the Organizational Assessment and Planning Tool.

Step Five: Develop and review the Organizational Assessment and Planning Tool results and your action plan with key staff and board leaders. Determine what resources you have internally and where you may need outside assistance.

Step Six: Walk the talk. Implement changes and improvements. The online FAQs & Resources by P&P Topic Area will help you identify how you can strengthen your policies and procedures.

Step Seven: Remember that excellence is a journey, not a destination. Establish a plan for ongoing evaluation and reflection to make sure your organization continues to move forward.

Further Resources

P&P recognizes that good organizational practices are primarily implemented through education and self-regulation. This guide is intended as an educational resource to help charitable 501(c)(3) organizations to promote good governance, transparency and accountability. The Colorado Nonprofit Association will continue to provide trainings, complementary materials, and additional resources to help nonprofits implement best practices. Listed below are further resources available at *www.ColoradoNonprofits.org*.

- Basic Infrastructure Checklist: Quick reference of basic filing and compliance requirements for registered 501(c)(3) nonprofits in Colorado.

- Organizational Assessment and Planning Tool: An assessment that guides the creation of an organizational strategy for mission achievement. This tool addresses the activities outlined in P&P.

- 990 Reference Index: A checklist of all P&P practices that are related to the Form 990.

- FAQs & Resources by P&P Topic Area: Online resource center that includes frequently asked questions (FAQs), samples, and further online resources by P&P topic area.

- Colorado Nonprofit Help Desk: Web and phone-based service available to nonprofits to help answer nonprofit-related questions.

- Colorado Nonprofit Pro Bono Legal Group (PBLG): An initiative that matches 501(c)(3) nonprofits in need of legal assistance that cannot ordinarily afford legal assistance with volunteer lawyers.

- P&P Trainings: Trainings on P&P will be offered throughout the state in-person and via webinar.

Purposes

This document has three intended purposes:

- The first is to provide individual charitable organizations striving for excellence with a Colorado-specific tool for evaluating regulatory compliance, enhancing strategic planning, and refining operational evaluation.
- The second is to support the growth and quality of the nonprofit sector.
- The third is to increase public understanding of the role and impact of the charitable nonprofit sector in Colorado.

This guide is designed to provide guidelines for all 501(c)(3) public charities to implement practices that are legal, ethical, and effective. It is not meant to be used by funders or government as a "litmus test" to evaluate charitable organizations, nor is it intended as a substitute for the wisdom of directors, staff, and advisors of individual organizations.

Note that this guidebook is not meant to be construed as legal advice, and is not a substitute for individualized consultation with an attorney. While legal requirements for nonprofits other than 501(c)(3) organizations are not included in this guidebook, this guide remains a strong tool to help those organizations increase good governance, accountability and transparency.

Definitions

A "Principle" is a broad statement that defines a suggested ethical or managerial direction for a nonprofit organization.

A "Practice" is a suggested method to achieve the principles.

Whenever the term "must" is used, federal or Colorado state laws exist that require all 501(c)(3) charitable nonprofit organizations to conform to that practice. In these circumstances, a reference to the federal or state law is given (e.g., "CRS" for Colorado Revised Statutes, "CCR" for Code of Colorado Regulations, "IRC" for Internal Revenue Code, "USC" for United States Code, and "CFR" for Code of Federal Regulations), and a citation is made to the specific section of the law. Practices with applicable legal citations are indicated by *italic type* and the ▶ icon.

The term "should" means that the practice is not required by law, but is generally recommended depending upon the nature, resources, and lifecycle of the nonprofit organization.

The revised Form 990 has resulted in significant reporting changes for nonprofits and represents the government's increased interest in the correlation between good governance practices and compliance. For those reasons, Form 990 references, which reflect practices suggested by the IRS, have now been added to related practices throughout P&P. These references are indicated by the *990* icon directly following the text of the practice. Please note that practices indicated by the 990 symbol may not be required by law unless the term "must" is used.

In this guide the terms "charitable organization" and "nonprofit organization" are used interchangeably to refer to nonprofit organizations that are tax-exempt under § 501(c)(3) of the Internal Revenue Code.

Legal Accountability

▶ *All Colorado nonprofit organizations must be aware of and in compliance with all legal requirements pertaining to nonprofit management, reporting, and governance.* Visit the following websites for summaries of applicable laws, links to helpful resources, and downloadable forms:

- Colorado Secretary of State (*www.sos.state.co.us*)
- Colorado Attorney General (*www.ago.state.co.us*)
- Colorado Department of Labor (*www.coworkforce.com*)
- Colorado Department of Revenue (*www.revenue.state.co.us*)
- Internal Revenue Service (*www.irs.gov/charities*)

In addition, Colorado nonprofits should take advantage of an invaluable resource called the *Guide for Colorado Nonprofit Organizations* (©2007 Continuing Legal Education in Colorado, Inc.). More than 20 of Colorado's top corporate attorneys, many of whom specialize in representing Colorado nonprofit organizations, wrote this publication which is updated regularly.

Governance & Leadership

Principles

A nonprofit's governing body, officers, and key employees are responsible for defining and upholding the organization's mission, vision, and values, and for providing overall leadership and strategic direction to the organization. Each nonprofit board should:

- Ensure that the organization is adequately resourced to carry out its mission;
- Advance the ethical and legal integrity of the organization and ensure accountability and good governance practices;
- Ensure that activities and expenses align with mission focus;
- Actively set and implement policies;
- Provide oversight, direction, and moral support for the chief executive in order to further the goals of the organization; and
- Evaluate its own effectiveness as a governing body and as representatives of the community in upholding the public interest served by the organization.

Members of the governing body need to be aware of the legal fiduciary duties related to their work: the *duty of care*, the *duty of loyalty* and the *duty of obedience*.

▶ *Directors meet the duty of care by:*

- *Exercising their responsibilities in good faith and with diligence, attention, care, and skill;*
- *Carrying out the purposes and mission of the charitable nonprofit;*
- *Completing required filings; and*
- *Complying with the organization's governing documents (articles of incorporation and bylaws).*

This includes both decision-making and oversight responsibilities, and is fulfilled by such activities as attending board meetings regularly, entering discussions, reading minutes, understanding the organization's programs, maintaining a careful oversight of finances, and questioning unclear or troubling activity (CRS § 7-128-401).

▶ *Directors meet the duty of loyalty by placing the interests of the organization before their own private interests and avoiding the use of organizational opportunities for personal gain (CRS § 7-128-401).*

▶ *Directors meet the duty of obedience by complying with federal, state, and local law, adhering to the organization's governing documents, and guarding the organization's mission (CRS § 7-128-401).*

Practices

Board Roles

1. Governing Body ▶ *Unless otherwise provided in the articles of incorporation, a Colorado nonprofit corporation must have a board of directors (CRS § 7-128-101).* Responsibilities of the board of directors generally include reviewing and approving the organization's mission, strategic direction, annual budget, key financial transactions, compensation practices and policies, and fiscal and governance policies.

2. Corporate (Board) Officers ▶ *Unless otherwise provided in the bylaws, a Colorado nonprofit corporation must have a president (or chairperson), a secretary, and a treasurer, each of whom must be eighteen years of age or older (CRS § 7-128-301; 990).*

3. Board Member Job Descriptions and Responsibilities – Board members should be provided with a clear job description and understand their roles and responsibilities to the organization and to the public. Board members are responsible for fully understanding their legal and fiduciary obligations and carrying out their responsibilities in the following areas:

- Policy development and approval;
- Financial oversight;
- Strategic planning;
- Fundraising;
- Hiring, supervising, and conducting an annual performance review of the Chief Executive Officer or equivalent; and
- Setting of compensation structure.

Board Responsibilities: Oversight & Evaluation

4. Federal, State, and Local Laws ▶ *A nonprofit organization must be knowledgeable and comply with all applicable federal laws and regulations, as well as applicable laws and regulations of the states and the local jurisdictions in which it is based or operates. If the organization conducts programs outside the United States, it must also abide by applicable international laws, regulations, and conventions.*

5. Board Approval of Fiscal and Governance Policies – The board should review and approve new or revised fiscal and governance policies including a conflict of interest policy, whistleblower policy, document retention and destruction policy, gift acceptance policy and executive compensation policy (*990*).

6. Board Review of Financial Information – The board should annually review and approve the organization's budget to ensure that expenditures are in alignment with the organization's mission. Dependent on the size of the nonprofit, the board or the appointed finance committee should review financial reports quarterly, at a minimum, and monthly if possible. If an audit is conducted, the board should review and approve the audit. All board members should have the opportunity to review and approve the Form 990 prior to submission (*990*), and should be aware of any state and local filings.

7. Board Involvement in Strategic Planning – The board should actively participate in and approve the strategic planning efforts of the organization.

8. Review of Board Composition and Governance – The board should annually evaluate itself with an eye toward ensuring the effectiveness of the board while also improving governance practices. Periodically, the board should review its size, composition, and operational structure to ensure it is best able to support the organization's goals and objectives.

9. Review of Organization – The board should annually review the organization's articles of incorporation, bylaws, corporate policies, and mission statement, and amend them as needed to reflect organizational growth and development.

10. Chief Executive Performance Review and Compensation – Annually, the board should conduct a performance review of the chief executive, including his/her compensation. The chief executive's performance should be assessed in light of organizational accomplishments, and the total compensation package should reflect industry standards and his/her performance.

▶ *Both Colorado law and federal income tax laws prohibit the payment of more than reasonable compensation (CRS § 7-133-102; IRC §§ 501(c)(3) and 4958; 990).* To reduce its exposure to penalties relating to unreasonable compensation, the board of directors should consider the process outlined under § 53.4958-6 of the Treasury Regulations in order to position itself to create a rebuttable presumption that the compensation is reasonable by following each of these three steps:

- Independent approval: An independent governing body (or a committee acting on behalf of the governing body) approves the compensation arrangement. Usually this is a board of directors or a compensation committee of the board of directors.

- Comparables: The board or committee obtains and relies upon appropriate comparability data prior to approving the arrangement.

- Documentation: The board or committee adequately documents the basis for its determination concurrently with making that determination.

11. Succession Planning – The board should engage in succession planning for the chief executive, board members and key staff, to ensure strong leadership and accountability for the organization during planned – and unplanned – times of transition.

Board Responsibilities: Fundraising & Development

12. Expectations of Board Members – To demonstrate their personal investment in the organization, board members should volunteer their time, assist in raising external funds, and make financial contributions to the nonprofit. One-hundred percent of board members should give financially to the organization. Expectations should be clearly communicated in writing to all prospective board members.

13. Board Members as Fundraisers – Board members are uniquely positioned to conduct fundraising on behalf of their organizations. In order to do this effectively, nonprofits should ensure training and support materials are available. Nonprofits should also help each board member to identify the roles for which they are best suited.

14. Board Members as Advocates and Liaisons – Board members should receive the training and education necessary to empower them to advocate for the organization and its cause. By sharing facts, figures, and personal stories, board members are poised to raise awareness for the organization in the community. Board members should act as liaisons with the community by sharing the organization's mission, accomplishments and goals. In this role, board members can effectively solicit feedback from the community about needs and expectations.

Board Responsibilities: Independence

15. Independence of Board Members – A substantial majority (at least two-thirds) of the board members of a public charity should be independent – that is, neither they themselves, nor anyone related to them (such as a spouse, sibling, parent or child), nor anyone they reside with, should:

- Be compensated by the organization as an employee or independent contractor;

- Have their compensation determined by individuals who are compensated by the organization; or

- Receive, directly or indirectly, material financial benefits from the organization, except as a member of the constituency served by the organization (*990*).

16. Conflict of Interest Policy – Each board should have a conflict of interest policy that includes a disclosure form, which is signed by all board members annually, and procedures for managing conflicts of interest and handling situations in which public and private interests intersect. The policy 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. A nonprofit should regularly and consistently monitor and enforce compliance with its conflict of interest policy (*990*).

17. Compensation of Board Members – Board members should receive no monetary compensation for their board duties other than reimbursement for board-related expenses. ▶ *If compensation is paid, it must be reasonable in amount (CRS § 7-133-102(b), 26 CFR § 53.4958-4(b)(1)(ii); 990).* Board member compensation may void applicability of federal and state statutes providing immunity for board members' personal liability.

Board Procedures

18. Board Orientation – Board members should be provided with an orientation including a board manual with the history of the organization, governing and planning documents, policies, an overview of board responsibilities, financial reports, fund development strategies, and impending challenges.

19. Ongoing Board Training – The board should establish an effective, systematic process for educating board members to ensure that each member is equipped with the information needed to carry out oversight functions, act on all legal and ethical responsibilities, and be knowledgeable of the community served by the organization and of all its activities.

20. Board Nomination – The board should establish a process for recruiting, evaluating and selecting new board members that will ensure adequate infusion of new ideas and diverse community perspectives, while preserving institutional memory (e.g., term limits and staggered terms).

21. Frequency of and Attendance at Board Meetings – Board meetings should be held at least quarterly and regular attendance should be expected.

22. Documentation of Board Meetings ▶ *Colorado nonprofit corporations must keep minutes of all meetings of its board of directors, along with a record of any actions taken by the board without a meeting, as permanent records of the corporation (CRS § 7-136-101; 990).* Minutes of board meetings and records of actions taken without a meeting should be recorded contemporaneously and should include the date, time, attendees, motions, and votes.

23. Voting Procedures ▶ *To satisfy the statutory default of a quorum, a majority of the directors must be present. A quorum must be present in order to vote on a motion. A nonprofit may authorize an alternate quorum in its bylaws as long as the authorized quorum consists of no fewer than one-third of the number of directors (CRS §7-128-205).*

24. Action without Meeting – A nonprofit may take action without a meeting through electronic voting or otherwise written voting as long as certain statutory criteria are met. ▶ *Unless otherwise*

provided in the bylaws, any action required or permitted by law to be taken at a board of directors' meeting may be taken without a meeting if a notice that meets certain criteria is transmitted in writing to each member of the board. The number of votes required to take action must equal or exceed the minimum number of votes that would be necessary to take such action at a meeting at which all of the directors then in office were present and voted. If the nonprofit receives a written demand by a director that such action not be taken without a meeting, the nonprofit must hold a meeting to vote on the action (CRS §7-128-202).

25. Committees – Larger boards should organize committees or task forces as needed to effectively structure their roles and responsibilities. Each committee should have a charter or other clear statement of its authority and purpose.
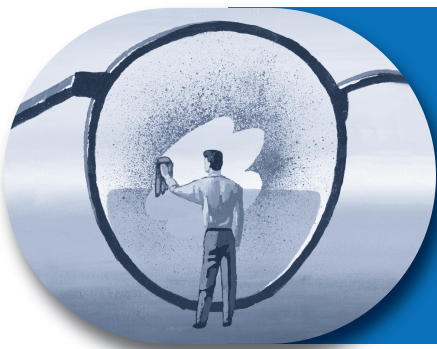
Board Composition

26. Board Composition, Diversity, and Inclusiveness – A nonprofit organization should strive toward board representation that reflects the diversity of the community and the organization's constituency. In addition, board members should value cultural competency, diversity, and inclusiveness as essential to advancing the mission of the organization.

27. Board Size ▶ *Colorado law allows nonprofit corporations to have as few as one director, and the number of directors must be stated in, or fixed in accordance with, the organization's bylaws (CRS § 7-128-103; 990).* However, to allow for sufficient deliberation and diversity of perspectives, nonprofit boards should consist of no fewer than five individuals.

28. Board Terms ▶ *Unless otherwise provided in the bylaws, directors of Colorado nonprofit corporations serve for one-year terms and without term limits (CRS § 7-128-105).* However, to ensure broad public participation, vitality, and diversity, boards of directors should establish a clear policy on the length of terms, the rotation of directors (e.g., staggered terms), the number of consecutive terms a board member may serve, and the removal of board members. This policy should be stated in the bylaws of the corporation.

29. Board Member Experience and Expertise – The board of a nonprofit organization should include members with the diverse skills, background, expertise, and experience necessary to fulfill all needed board roles. The board should include at least one individual with financial expertise (does not necessarily need to be a CPA), and all board members should receive financial literacy training as needed.

30. Staff Serving on Boards – Staff members should generally not serve as voting members of the board in order to preserve the independence of oversight over the organization. If staff does serve, no more than one employee of the organization (typically the chief executive) should do so, and he/she should not serve as the chair, vice-chair, secretary or treasurer. Staff members who serve on boards typically do so as ex-officio members without official voting status.

Transparency & Accountability

Principles

Nonprofits have an ethical and legal obligation to their constituents and the public to conduct their activities in a transparent and accountable manner. Nonprofits should regularly and openly convey information to the public about their mission, activities, accomplishments, and decision-making processes. Information should be easily accessible to the community in order to increase external visibility and public understanding of the organization in order to ultimately build trust in the organization.

Practices

Accountability

1. Reporting Requirements ▶ *A nonprofit must comply with all legally required reporting procedures (e.g., IRC § 6033; CRS § 6-16-101; 990).*

2. Performance Measurements – A nonprofit should share its evaluation methodology and results with the public.

3. Industry Standards – Each nonprofit should adhere to the established industry standards for the sector, subsector and particular activity area(s).

Accessibility & Public Information

4. Interaction with Constituents – A nonprofit should provide its constituents with ongoing opportunities to interact with the board and management regarding its activities.

5. Public Access to Information – A nonprofit organization should make information about its operations, including its governance, finances, programs, and activities, widely available to the community and on the organization's website (990). Full disclosure of executive compensation, including compensation received from related entities of the organization, must be disclosed on the organization's annual information return. ▶ *At a minimum, a nonprofit organization (unless specifically exempted) must make certain data available to the public, including:*

- *Annual Information Return (usually an IRS Form 990, 990-EZ, 990-N, or 990-PF) for the most recent three years (IRC § 6104);*
- *Annual Tax Return (usually an IRS Form 990-T) for the most recent three years if the organization has unrelated business income (IRC § 6104); and*

- *IRS Form 1023, Application for Recognition of Tax-Exempt Status, including any papers submitted in support of the Application and any letter or other document issued by the IRS with respect to the Application (IRC § 6104; 990).*

A nonprofit may charge a reasonable fee for copying and postage expenses incurred by providing these documents.

6. Annual Reports – A nonprofit should produce an annual report (in print and/or in electronic format) that contains information on its activities, accomplishments, performance and vision for the future. The annual report should include:

- An explanation of the organization's mission, activities, and impact;
- An explanation of the organization's outreach efforts and ways in which constituents may access the program(s);
- Overall financial information, including income and expense statement, balance sheet, and functional expense allocation;
- A list of board members, staff, and, when appropriate, contributors; and
- An evaluation detailing the extent of accomplishment of stated goals and other notable accomplishments.

Solicitation of Community Input

7. Community Meetings – Nonprofits are encouraged to hold public community meetings to gather and distribute information about their approaches, goals, and effectiveness in carrying out their missions. Boards of directors should also provide information to the public that describes their decisions and decision-making processes. Nonprofits should make meeting agendas and descriptions of significant decisions available to those who request them.

8. Working with other Nonprofits – Nonprofits should actively work with other organizations to avoid duplication of services, learn from each other, and share resources when appropriate.

Fairness & Equity Practices

9. Fees and Services – Information regarding fees and services should be made readily available to the public. When charging for services, nonprofits should price equitably and take into account the consequences of denial of services due to an individual's inability to pay.

10. Nondiscriminatory Service and Confidentiality – A nonprofit should ensure nondiscriminatory service to its constituents and confidentiality.

11. Code of Ethics – A nonprofit organization should have a formally adopted, written code of ethics with which all of its board, staff, and volunteers adhere to in order to ensure a high level of integrity.

Corporate Documents & Records

12. Document Retention and Destruction Policy – A nonprofit should have a written, mandatory document retention and destruction policy or schedule with guidelines for handling all types of documents, including electronic files and voicemail. The policy should also include backup procedures, archival procedures, and guidelines for regular checkups of the reliability of the system. ▶ *Documents involved in litigation or a government investigation must be retained (18 USC § 1519 – a.k.a. Sarbanes-Oxley; 990).*

13. Corporate Records ▶ *Certain corporate records must be kept by a nonprofit including its articles of incorporation, bylaws, resolutions, board meeting minutes, records of actions taken by the board, accounting records, current list of board members, and current list of members (if applicable) (CRS § 7-136-101 et. seq.).*

Financial Management

Principles

Nonprofits have an obligation to act as responsible stewards of their financial resources. ▶ *Nonprofits must comply with all legal financial requirements* and should adhere to sound accounting principles that produce reliable financial information, ensure fiscal responsibility, and build public trust. Nonprofits should use their financial resources to accomplish their missions in an effective and efficient manner, and should establish clear policies and practices to regularly monitor how funds are used. Adherence to best practices, especially for those nonprofits that do not receive an annual audit or financial review, is critical to maintaining compliance and public trust.

Practices

Functions

1. Financial Reports – A nonprofit organization should produce consistent and accurate financial reports at least quarterly. The income and expense reports should also compare the budget for the same period to the actual income and expenses, along with explanations for significant variances.

2. Board Review of Financial Statements – All board members should receive appropriate training on how to read and understand nonprofit financial statements. Board members should be actively engaged in reviewing financial statements and providing fiscal oversight.

3. Internal Controls – A nonprofit should devise and implement internal control procedures in order to ensure accurate information and to help prevent fraud.

Compliance

4. Compliance ▶ *A nonprofit organization must comply with all financial reporting and tax laws, including withholding and payment of federal and state income taxes and Social Security payroll taxes.*

5. Review of IRS Information Returns – A nonprofit's chief executive officer, chief financial officer (or equivalent), board, and audit committee should thoroughly review and approve the IRS Form 990 and 990-T (if applicable) to ensure that the organization's filings are accurate, complete, and filed on time with the IRS (*990*).

6. Audits – A nonprofit organization should have a qualified independent Certified Public Accountant audit or review the financial statements annually or in a manner appropriate to the

organization's size and scale of operations. In the process of the audit, the auditor should be given the opportunity to meet in executive session with the organization's board separately from management and staff. The independent financial audit or review should be reviewed and approved by the board of directors.

7. Audit Committee – The board should designate an audit committee to hire the auditor, oversee and evaluate the audit process, meet with the auditor to review the audit's content, and present the audit to the full board for its review and approval. It is permissible to have a combined finance and audit committee. If possible, an audit committee should be independent of the finance committee because the auditors are effectively assessing the performance of the finance committee (*990*).

8. Auditor Rotation – The audit committee should evaluate the quality of the audit firm and periodically put the audit out to bid. If maintaining the same firm, a nonprofit should consider requesting, if possible, a new audit partner every three to five years in order to ensure a fresh, objective perspective.

Policies

9. Open Communication ▶ *A nonprofit organization must openly communicate the annual reporting information contained on its Form 990 to constituents and others who request such information (IRC § 6104; 990).* In addition, nonprofits should share, at least annually, an overview of data regarding sources of revenue, functional expenditures, and related outcomes.

10. Protection of Assets – A nonprofit organization has a responsibility to ensure that its assets are used solely for the benefit of the organization, and not for personal or other gains. A nonprofit should establish a policy regarding the personal use of assets such as computers, phones, copy machines, etc.

11. Whistleblower Policy – A nonprofit organization should have a system in place that allows individuals to report financial and other misconduct, ▶ *and must ensure that there is no consequence for doing so – commonly referred to as a "whistleblower policy" (18 USC § 1107 – a.k.a. Sarbanes-Oxley; 990).*

12. Management of Funds ▶ *A nonprofit organization must manage and invest funds prudently and in compliance with conditions attached to funding (CRS § 15-1-1103–1109); 990).* A nonprofit should adopt and periodically review a sound investment policy.

13. Expense Reimbursement – A nonprofit organization should establish and implement policies that provide clear guidance on its rules for paying or reimbursing expenses incurred by anyone conducting business on behalf of the organization. The policy should specify the types of expenses that can be reimbursed, the approval and review process of expense reports, and the documentation required to substantiate expenses. Such policies should require that travel and other expenditures on behalf of the organization be undertaken in a cost-effective manner.

14. Related Persons Expense Reimbursement – A nonprofit organization should neither pay for nor reimburse travel expenditures (other than minor and incidental expenses such as refreshments served at an organization meeting) for spouses, dependents, or others who are accompanying individuals conducting business for the organization unless there is a business purpose for their attendance and participation. If, however, expenses without a business purpose are reimbursed, the person in receipt of the reimbursement must treat it as compensation.

15. Loans to Board Members and Key Personnel ▶ *A nonprofit must not make any loans to board members or officers (CRS § 7-128-501).* It should also expressly prohibit loans to key personnel *(990)*.

16. Personal Use of Nonprofit Funds ▶ *A nonprofit must not allow personal use of its funds or business credit cards because any such transaction may constitute private inurement or an excess benefit transaction under the intermediate sanctions rules (IRC § 501(c)(3) and 4958; CRS § 7-133-101; 990).*

17. Credit Card Use – A nonprofit should establish and implement a policy that provides clear guidance on the appropriate use of business credit cards. The policy should also provide consequences for unsubstantiated expenses and personal use of credit cards. The policy should specify oversight procedures including board oversight of the chief executive officer's credit card expenditures (*990*).

Financial Responsibilities

18. Annual Budget – The board of directors should review and approve an annual budget for the organization. While the board should determine the appropriate budget needed to achieve its mission, the board should also consider applicable industry benchmarks for expenditures on programs, administration and fundraising.

19. Revenues – A nonprofit should work toward diversifying its funding sources as much as possible in an effort to strengthen the organization's sustainability and public support ratio, and to lessen the impact of a potential loss of a significant amount of its funding from any one source. Funding sources could include grants and contributions, earned income, and unrelated business income.

20. Donor Restrictions ▶ *A nonprofit must comply with specific conditions placed upon donations (CRS § 15-1-1103-1109; CRS § 6-16-111(1)(i)). Donated funds must be clearly categorized as unrestricted, temporarily restricted or permanently restricted in the organization's financial statements and communications in accordance with the donor or grantor wishes/stipulations (990).*

21. Public Support Test – To be considered a public charity, an organization must generally receive financial support from a sufficiently broad base of donors to meet the public support test or the facts and circumstances test. ▶ *A public charity that normally receives more than one-third of its total support from "public support" sources is generally considered a public charity. If the organization fails the public support test, it may still qualify under the facts and circumstances test (IRC § 170(b)(1)(A)(VI) and 509(a)(1)).*

22. Expenses – A nonprofit organization should spend a high percentage of its annual budget on programs in pursuance of its mission. A nonprofit should consult industry and subsector standards to determine an appropriate range for administration and fundraising ratios. An organization should also provide sufficient resources for effective administration of the organization and, if the organization solicits contributions, for appropriate fundraising activities.

23. Reserves – A nonprofit should plan, establish, and maintain a financial reserve at a level determined by the organization's management and board to adequately support its operations. A recommended target for reserves is three to six months of operating expenses. Organizations with capital property should also consider an appropriate capital reserve policy.

24. Cash Flow – In order to facilitate smooth fiscal operations, a nonprofit should project, monitor, and make adjustments to cash flow as needed to ensure appropriate cash flow.

Fundraising

Principles

Nonprofit organizations provide opportunities for individuals and institutions to voluntarily contribute to causes of their choosing and 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 and open, transparent communication with contributors and other constituents.

Practices

Charitable Solicitation

1. Federal, State, and Local Laws ▶ *Nonprofits must comply with all federal, state, and local laws concerning fundraising practices.*

2. Charitable Solicitations Registration ▶ *Unless excepted by law, a nonprofit organization that solicits contributions from the public must file a registration statement with the Colorado Secretary of State and annually renew its registration with updated financial information and any material changes. These requirements must be met before an organization may solicit any donations (CRS § 6-16-104 (1-6)).*

3. Professional Fundraiser Registration ▶ *Any professional fundraiser (a person external to the organization, and not employed as staff) who consults or solicits contributions on behalf of a nonprofit must be registered with the office of the Colorado Secretary of State prior to engaging in any such activities (CRS § 6-16-104.3, 104.6). Nonprofits that contract with professional fundraisers must ensure such fundraisers are registered accordingly (CRS § 6-16-104.3 (2, 9), 104.6(2, 9)). In addition, nonprofits that engage paid solicitors must actively monitor the receipts and disbursements of those agencies or individuals (CRS § 6-16-104.6 (8-9)).*

4. Training of Professional Fundraisers – A nonprofit should provide appropriate training and supervision of the people soliciting funds on its behalf to ensure that they understand their responsibilities, ▶ *applicable federal, state and local laws, particularly disclosure requirements for donors (CRS § 6-16-105, 105.3),* and ensure that they do not employ techniques that are coercive, intimidating, or intended to harass potential donors.

5. Additional Registration Requirements – A nonprofit should be aware of and comply with requirements for gaming, auctioneering, bingo, and raffles. ▶ *Organizations must contact the Colorado Secretary of State's Office and the Internal Revenue Service for further information or to seek approval for these activities well in advance (CCR § 1505-2(3.0); CRS § 6-16-110; 990).*

6. Fundraising that Supports Mission – A nonprofit should pursue and accept funding that is unrestricted or restricted to a use that is in alignment with the organization's strategic direction and mission.

7. Fundraising Communications – Fundraising communications should include clear, accurate, and honest information about the organization, its activities, and the intended use of funds. Solicitation materials and other communications with donors and the public should clearly identify the nonprofit organization.

8. Fundraising Revenues – A nonprofit should work towards diversifying its funding sources as much as possible in an effort to strengthen the organization's sustainability and public support ratio, and to lessen the impact of a potential loss of a significant amount of its funding from any one source. Diversification may include a variety of types of grants, sponsorships, individual donations, and bequests in addition to other organizational revenue streams.

Accountability to Donors

9. Public Trust – A nonprofit should conduct its fundraising activities in a manner that upholds the public's trust in stewardship of contributed funds.

10. Donor Restrictions ▶ *A nonprofit must comply with specific conditions placed upon donations (CRS § 15-1-1103-1109; CRS § 6-16-111(1)(i)). Donated funds must be clearly categorized as unrestricted, temporarily restricted or permanently restricted in the organization's financial statements and communications in accordance with the donor or grantor wishes/stipulations (990).*

11. Acknowledgment to Donors – To enable a donor to receive a charitable deduction, ▶ *a nonprofit must provide contemporaneous written acknowledgement to the donor to substantiate contributions (IRC § 170(f)(17)).* Note that special requirements are applicable for non-cash donations where the fair market value is over $500 dependent on the type of donation. Acknowledgement of all charitable gifts to the organization is a best practice of donor stewardship.

▶ *A nonprofit must provide a receipt for contributions in cash (including those paid by check or credit card) or property (in-kind or non-cash) where the fair market value is at least $250 (IRC § 170(f)(8); 990).*

▶ *A nonprofit must send a written acknowledgment to donors who make a "quid pro quo" donation in excess of $75 (i.e. a payment made partly as a contribution and partly for goods and/or services) (IRC § 6115(a); 990).*

In order to accurately reflect the value of a non-cash contribution, ▶ *a qualified appraisal must be used to substantiate a donation of property when the fair market value of contributed property is more than $5,000 (26 CFR §1.170A-17(a), (b); 990).*

12. Donor Confidentiality
– While a nonprofit should strive to provide public recognition of donors when appropriate, donor confidentiality should be maintained when requested. A nonprofit should not share, trade or sell contact information for any donor without prior permission from the donor. Personal information about potential donors collected in prospect research should also remain confidential.

13. Donor Stewardship and Grant Relationships
– A nonprofit should regularly communicate with donors and grantors regarding its activities and expenditure of funds in periodic or final reports, as agreed upon at the time of donation. Response to questions or requests for additional information should be provided in a timely fashion.

Policies & Procedures

14. Application of Funds Raised
– A nonprofit should apply a significant percentage of each dollar raised to programs and services in accordance with practices of comparable organizations and commitments made to contributors and the public.

15. AFP Code of Ethics
– A nonprofit board and nonprofit chief executives should be familiar with the Association of Fundraising Professionals' (AFP) *Code of Ethical Principles and Standards of Professional Practice*, and ensure that all fundraising professionals and others representing the nonprofit organization in fundraising activities adhere to this code.

16. Compensation of Fundraising Professionals
– Consistent with AFP guidelines, a nonprofit should ensure that compensation for fundraising personnel and contractors is not based on a percentage of funds raised or other commission-based formulas.

17. Persons Raising Funds
– A nonprofit should be familiar with the legal distinctions between staff, consultants, and contract employees, and should ensure that its staff has the knowledge and ability to adequately manage and supervise all fundraising activities. This is especially important if the organization uses outside contractors for fundraising.

18. Board's Role in Fundraising
– A nonprofit's board assumes overall responsibility for raising sufficient funds to meet the organization's budgeted objectives. One-hundred percent of board members should give annually to the organization to the best of their ability or in accordance with a written board giving policy.

19. Gift Policy
– A nonprofit should have policies in place that govern the receipt, management and reporting of gifts (cash or non-cash) and grants.

20. Acceptance of Gifts
– A nonprofit should adopt clear policies regarding the acceptance of gifts (cash or non-cash) to the organization (990). There should be an additional policy regarding acceptance of personal gifts from any constituent to staff members, board members, and volunteers.

21. Declining Gifts
– A nonprofit should decline gifts (cash or non-cash) that would bring about adverse conditions for the organization or its constituents and gifts given for purposes outside the scope of its mission. Nonprofit organizations should implement clear policies, based on the organization's exempt purpose, to determine whether accepting a gift would compromise the ethics, financial circumstances, program focus, or other interests of the organization.

Human Resources

Principles

The ability of an organization to make effective use of the energy, time, and talents of its employees and volunteers is essential to accomplishing the organization's mission. Nonprofit organizations should place a high priority on exercising fair and equitable practices that attract and retain qualified volunteers and employees. Like for-profits, nonprofits have an obligation to adhere to all applicable employment laws and to provide a safe and productive work environment. Each nonprofit organization should establish specific policies and practices that promote cooperation and open communication among employees, volunteers and other stakeholders so that they can effectively work together to advance the organization's mission.

Practices

General

1. Federal, State, and Local Laws ▶ *A nonprofit organization must comply with all federal, state, and local employment laws when hiring and employing personnel.*

2. Work Environment – A nonprofit should continually work to provide a safe and healthy work environment. ▶ *Nonprofits must purchase workers' compensation insurance (CRS § 8-44-101).*

3. Guidelines and Procedures – A nonprofit organization should adopt a set of guidelines and procedures for managing employees and volunteers. This should include a broad and encompassing equal opportunity employment policy, anti-harassment guidelines, and nondiscrimination guidelines.

4. Employee Records Retention – A nonprofit should include both employee and volunteer records retention guidelines and procedures in its records retention policy that are consistent with applicable laws and industry best practices.

5. Conflict of Interest Policy – A nonprofit organization should establish a clear conflict of interest policy that requires disclosure of relationships, nepotism, and interested-party transactions. The policy should include a disclosure form, which is signed annually by staff and volunteers with decision-making authority, and procedures for managing conflicts of interest and handling situations in which public and private interests intersect (*990*).

6. Whistleblower Policy – A nonprofit should implement a whistleblower policy with specific procedures for reporting violations of organizational policy or applicable laws ▶ *and must ensure that those making such reports are protected from repercussions (18 USC § 1107 – a.k.a. Sarbanes-Oxley; 990).*

7. Staff Compensation – A nonprofit should endeavor to provide compensation in accordance with industry standards and market data in order to obtain qualified employees needed to fulfill the mission of the organization. Compensation should be based on performance and equitable given skills, experience level, and job status. ▶ *Both Colorado law and federal income tax laws prohibit the payment of more than reasonable compensation (CRS § 7-133-102; IRC § 501(c)(3) and 4958; 990).*

8. Periodic Review of Compensation Structure – A nonprofit's board should establish and periodically review its overall compensation structure using industry-based surveys of comparable salaries and benefits, market data, and internal review. The board should also establish and periodically review guidelines on employee benefits including medical insurance, retirement plans, sick leave, maternity/paternity leave, vacation, paid time off, and other benefits as appropriate.

9. Chief Executive Performance Review and Compensation – Annually, the board should conduct a performance review of the chief executive, including his/her compensation. The chief executive's performance should be assessed in light of organizational accomplishments, and the total compensation package should reflect industry standards and his/her performance.

▶ *Both Colorado law and federal income tax laws prohibit the payment of more than reasonable compensation (CRS § 7-133-102; IRC §§ 501(c)(3) and 4958; 990).* To reduce its exposure to penalties relating to unreasonable compensation, the board of directors should consider the process outlined under § 53.4958-6 of the Treasury Regulations in order to position itself to create a rebuttable presumption that the compensation is reasonable by following each of these three steps:

- Independent approval: An independent governing body (or a committee acting on behalf of the governing body) approves the compensation arrangement. Usually this is a board of directors or a compensation committee of the board of directors.

- Comparables: The board or committee obtains and relies upon appropriate comparability data prior to approving the arrangement.

- Documentation: The board or committee adequately documents the basis for its determination concurrently with making that determination.

10. Volunteer Engagement Plan – A nonprofit that intends to engage volunteers should implement a volunteer engagement plan that fits the needs of the organization. The plan should identify adequate resources and organizational needs; establish effective recruitment, training, support, accountability, and recognition strategies; specify standards for inclusivity and background checks; and determine appropriate evaluation practices.

Employee & Volunteer Engagement

11. Qualifications of Employees and Volunteers – A nonprofit organization should utilize skilled and diverse employees and volunteers who are suitable for the positions they occupy and are committed to the goals, values, and objectives of the organization. To better serve their constituents, organizations should endeavor to continually teach employees and volunteers new skills to improve work skills and industry knowledge.

12. Diversity and Inclusiveness – A nonprofit organization should strive to employ personnel and volunteers who reflect the diversity of the community and the organization's constituency. In addition, a nonprofit should value cultural competency, diversity, and inclusiveness as essential to improving the organization.

13. Employee Status/Contractor Status ▶ *A nonprofit must be aware of and in compliance with the rules regarding exempt versus non-exempt employment status, as well as when an individual may be categorized as an independent contractor (IRS Publication 1779; Fair Labor Standards Act).*

14. Background Checks – A nonprofit should consider conducting background checks on employees, volunteers, independent contractors, and paid solicitors. This must be enforced in some nonprofits with positions that involve children or vulnerable adults, performing financial duties, or serving in other sensitive areas. ▶ *A nonprofit must follow certain practices when using a third party to conduct a background check (Fair Credit Reporting Act).*

Training, Development & Retention

15. Employee Retention – As in all other industries, it is beneficial for nonprofits to maintain a stable, well-informed workforce. Retention of staff is often dependent on numerous factors, including work environment, compensation, training and opportunity for advancement. Nonprofit management teams should assess their ability to meet or exceed employee expectations on an annual basis.

16. Job Descriptions and Resources – A nonprofit organization should provide volunteer and paid personnel with clear, current job descriptions and the resources they need to conduct quality work.

17. Performance Evaluations – Nonprofit personnel should receive performance evaluations on at least an annual basis. A record of the evaluation, along with employee signature and comment, should be kept in the employee's personnel records, and should be used to help determine compensation.

18. Training and Development for Staff – A nonprofit should support and encourage professional development and education of its personnel. The organization should actively provide personnel with opportunities for growth, advancement, and new challenges.

19. Benefit Programs – To the extent of its ability, a nonprofit should provide personnel with benefits including health, dental, and life insurance, as well as the opportunity to financially contribute to retirement plans (*990*).

20. Feedback from Staff and Volunteers – A nonprofit organization should continually solicit and use input from paid and volunteer personnel regarding the organization's activities and results.

21. Succession Planning – The board should engage in succession planning for the chief executive, board members and key staff, to ensure strong leadership and accountability for the organization during planned – and unplanned – times of transition.

Planning

Principles

Organizational planning defines the overall direction, activities, and strategies that will be used to fulfill a nonprofit's mission. Nonprofits should engage in sound planning to define a clear vision for the future and specific strategies for reaching established goals. Nonprofit planning should be proactive rather than reactive. It should incorporate evaluation results and periodic analyses of community needs. The process should be intentional and ongoing in order to best position a nonprofit to achieve its goals.

Practices

Mission, Vision & Values

1. Mission Statement – A nonprofit should have a clearly defined, written mission statement that accurately describes the overall aims and activities of the organization. The mission statement should be linked to the values of the organization and its vision for the future (*990*).

2. Vision Statement – A vision statement should be a clear, motivating message about the organization's future. It should reflect a world enhanced by the accomplishment of the mission.

3. Values Statement – A values statement (or statements) should reflect those core beliefs or principles that drive the work of the organization. It should describe the manner in which the nonprofit will conduct its work by highlighting those attributes that are most important.

4. Review of Mission, Vision and Values – Originally defined by its incorporators, a nonprofit's mission, vision, and values should be reviewed by the board periodically to consider societal and community changes. This review should determine whether these statements are still relevant, and/or whether they should be adapted to address evolving needs of its constituents and the public.

Stakeholder Input & Responsiveness

5. Soliciting Input/Feedback from Community – In planning and evaluating its activities, a nonprofit organization should be responsive to community needs. It should solicit input and feedback from a variety of sources, such as board, staff, community members, funders, government officials, and other stakeholders. This input should be inclusive of a broad range of views and perspectives and should play an integral role in the organization's decision-making process.

6. Communication with other Nonprofits – To promote overall success within the sector, a nonprofit should openly communicate with other nonprofits to share and gather information on lessons learned, best practices, and effective resource allocation, and to prevent the duplication of services.

Strategic Plan

7. Strategic Plan – A nonprofit should create a written strategic plan every three to five years. The strategic plan should:

- Reflect the results of an environmental assessment that includes information on strengths and challenges facing the organization, as well as opportunities for, and perceived threats to, mission achievement;

- Include clearly defined, measurable goals and objectives that are set by the organization to achieve its mission;

- Provide an overarching direction for the organization created and fulfilled by staff and board members that is reflective of the organization's stated mission; and

- Involve a more comprehensive planning process with an environmental scan that should occur every three to five years. The strategic plan may be reviewed and approved each year.

8. Environmental Assessment/Scan – A nonprofit organization should have a thorough understanding of the community in which it operates, including the needs of constituents, services provided by the government and other nonprofits, and applicable trends (e.g. economic, demographic, etc.).

Operational Plan

9. Operational Plan – A nonprofit organization should annually create a written operational plan which aligns with the strategic plan and specifies how its activities will be implemented on an annual basis. The operational plan should:

- Clearly define specific program, financial, personnel, and evaluation activities; delineate timelines; and assign specific responsibility for implementation;

- Clearly identify goals and performance measurements;

- Be tied to an approved budget;

- Provide a framework for regular progress reports; and

- Be reviewed and updated regularly by staff and board members.

Risk Management & Disaster Management

10. Risk Management Plan and Disaster Management Plan – A nonprofit organization's board should ensure that the organization has both a risk management plan and a disaster management plan that protects the organization's assets – its property, financial and human resources, documents, and programmatic content and material. As risks are identified, the organization should develop a plan to mitigate those risks. It should also adopt a crisis communications plan and data backup and recovery plan.

11. Use of Appropriate Insurance – A nonprofit should obtain necessary insurance products such as general liability, property, fidelity bond insurance, and directors and officers liability insurance to protect the organization and its employees, volunteers, and board members. ▶ *Nonprofits must purchase workers' compensation insurance (CRS § 8-44-101).* Insurance plans should be reviewed with the board on an annual basis.

12. Director Liability and Indemnification Provisions – The articles of incorporation of a nonprofit should include a provision limiting the liability of directors to the fullest extent permitted under Colorado law. In addition, the bylaws should include board liability and indemnification language that clearly define the circumstances under which the organization will indemnify its directors, officers, volunteers, and employees against claims arising from the performance of their duties. The organization should also obtain appropriate directors and officers insurance.
▶ *Note that there are statutory limits on the ability of a nonprofit corporation to limit officer and director liability (CRS § 7-128-402, 403) and to indemnify directors (CRS § 7-129-102).*

Evaluation

Principles

As organizations that serve the public, nonprofits have an obligation to demonstrate their contribution to the public good. An essential responsibility of every nonprofit organization is to assess the impact of its actions and to respond appropriately. A nonprofit also has the responsibility to collect and disseminate data using ethical methodologies. Nonprofits should regularly measure their performance both in terms of effectiveness, such as outcomes and results of services, and efficiency, such as service delivery systems. They should share this information with their constituents and the public and use it to continually inform the planning process and improve the quality of their programs and activities.

Practices

Stakeholder Input & Responsiveness

1. Delivery of Services – A nonprofit should commit to effective and efficient delivery of services, and should always strive to improve processes, programs, and results to increase its impact relative to its mission.

2. Improvement – A nonprofit organization should have a regular system for assessing opportunities for improvement of its services, programs, and internal processes in order to best serve its constituents.

3. Feedback from Stakeholders – Nonprofit programs should actively collect and respond to the experience, needs, and satisfaction of stakeholders. They should solicit input and feedback from a variety of sources, such as board, staff, community members, funders and other stakeholders. This input should be inclusive of a broad range of views and perspectives and should play an integral role in the organization's decision-making process.

4. Feedback from Constituents – Nonprofit programs should take into account and respond to the experience, needs, and satisfaction of the constituents they serve. A nonprofit organization should have a grievance procedure to address complaints.

5. Culturally Sensitive Evaluations – A nonprofit should conduct program evaluations in ways that are appropriate for the community served.

6. Use of Appropriate Data Collection Tools – A nonprofit should employ appropriate data collection and analysis tools in order to produce accurate, timely, and useful evaluation information.

Policies & Procedures

7. Evaluation – Nonprofit evaluation should be ongoing and in accordance with the strategic and operational plans. An organization's measurement systems should be practical and useful to improve ongoing processes, activities, and results. These systems should also be used to evaluate organizational effectiveness and inform the planning process in order to maximize impact.

8. Environmental Assessment/Scan – A nonprofit organization should have a thorough understanding of the community in which it operates, including the needs of constituents, services provided by the government and other nonprofits, and applicable trends (i.e. economic, demographic, etc.). While the strategic plan may be reviewed and approved each year, a more comprehensive planning process with an environmental scan should occur every three to five years.

9. Procedures – A nonprofit should have defined, ongoing, and sustainable procedures in place for evaluating its programs, procedures, and outcomes in relation to its mission.

10. Performance Measurements – Performance measurements should be determined in advance to allow for adequate time and resources to create an environment for successful review. Expected systems of evaluation and anticipated outcomes should be realistic, specific, measurable, and appropriate to the size and scope of the organization's activities. Measurements may include both qualitative and quantitative data.

End Uses

11. Evaluation Results – Evaluation results should inform the planning process in order to strengthen the organization and its programs.

12. Communication of Results – Evaluation results should be communicated to a broad range of stakeholders in promotional or informational materials (i.e. annual report, brochures, etc.) at least annually.

13. Funder and Donor Engagement – A nonprofit should share the impact of the organization's accomplishments, demonstrate use of funds, and provide reasoning behind program changes developed as a result of relevant findings. A strong evaluation program will ensure funder and donor confidence and help build stronger relationships.

14. Assessment of Evaluation Practices – A nonprofit should assess the usefulness and accuracy of current evaluation practices and modify them as needed in order to establish more successful processes to ensure program effectiveness.

Advocacy, Public Policy & Civic Engagement

Principles

Advocacy is the active support of an idea or a cause. A nonprofit should advocate on behalf of its constituency, organization, and the nonprofit sector as a whole in order to advance the mission of the organization. Involvement in advocacy, public policy, and civic engagement will vary in sophistication dependent upon an organization's mission and strategic direction. Nonprofits should encourage broad community participation in these efforts and, in the process, provide appropriate assistance when needed. These practices pertain only to nonpartisan public policy issues.

When a nonprofit advocates for or against specific pending legislation or ballot issues, federal and state lobbying rules will apply. Lobbying activities are permitted but a nonprofit must not violate the prohibition on endorsing a candidate or elected official and must stay within regulatory limits on activities that meet the definition of lobbying. By knowing and observing these rules, nonprofits may legally include lobbying activities directed at specific legislation or ballot issues in their advocacy efforts.

Practices

Advocacy & Engagement

1. Proactive Approach – A nonprofit should proactively develop specific strategies to address key issues facing the organization, its constituency, and the charitable sector and should include its stakeholders in those efforts.

2. Stakeholders as Advocates – A nonprofit should encourage board members, staff, volunteers, and constituents to act as advocates and ambassadors for the organization and the entire charitable nonprofit sector.

3. Inform Stakeholders – A nonprofit should ensure that individuals who act as advocates and ambassadors for their organizations are knowledgeable about the programs and activities of the organization and prepared to speak on its behalf when appropriate.

4. Communications – A nonprofit should ensure that information provided about or emanating from their organizations is timely and accurate and that the social and political context of the information is clear. Information provided by the organization to the general public, the media, and policy makers becomes a matter of public record and these activities may be subject to lobbying limitations and political campaign prohibitions.

5. Public Policy and Advocacy Plans – If engaged in public policy and/or advocacy activities, nonprofits should adopt a written policy that clarifies the scope of the work, as well as the time and resources to be allocated to those activities, including clear guidelines that explain and adhere to the limits on lobbying activity and prohibit political campaign activity.

6. Relationship Building – A nonprofit should build relationships with elected officials, community leaders, and other nonprofits in order to strengthen its ability to effect community change and impact public policy. However, these relationships should be carefully scrutinized to ensure there is no express or implied endorsement of a candidate for public office or attempt to influence legislation outside the permissible limit.

7. Education – A nonprofit should provide board, staff, stakeholders, and the public with nonpartisan resources and training on issues important to it or its constituencies.

8. Public Forums – A nonprofit organization whose constituencies are affected by government actions should conduct public forums for nonpartisan discussion or provide venues for constituents to express concern about the effects of various policy choices.

9. Nonpartisan Activities – A nonprofit engaged in promoting public participation in federal, state and local policy ▶ *must ensure that the activities of the organization are educational in nature or within permissible lobbying limitations (IRC § 501(c)(3) and 501(h); 990).*

10. Promote Civic Engagement – A nonprofit should encourage citizen participation in local, state, and federal policy-making efforts amongst its stakeholders.

Public Policy

11. Understanding of Policy Climate – A nonprofit should continuously maintain an understanding of the current public climate and the resulting impact on policy.

12. Supporting/Opposing or Taking Positions on Policy – A nonprofit should participate in and support the formation and amendment of public policy consistent with the organization's mission. An organization may take appropriate public positions on relevant issues while developing coalitions and communicating with other organizations to inform the public about these issues. ▶ *A nonprofit organization may support or oppose legislation subject to the lobbying limitations (IRC § 501(c)(3) and 501(h); 990).*

Political Campaign Activity

13. Prohibition on Endorsing Candidates or Elected Officials – A nonprofit must not make a contribution or expenditure in connection with a candidate, a political committee that supports or opposes a candidate, or a political party. A nonprofit must not engage in any activity that promotes or discourages a vote on behalf of any individual candidate. A nonprofit should be careful not to engage in activities that could be perceived as endorsements of candidates or political parties. ▶ *A nonprofit must not support or oppose any elected official or candidate for public office (IRC § 501(c)(3); 990).*

14. Distinction between Personal and Organizational Positions – A nonprofit organization should ensure that board and staff distinguish between personal opinion and organizational positions. This is especially important when publishing information online or in print. A nonprofit organization may be held accountable for statements made by a board or staff member *(990).*

Lobbying

15. Reporting of Lobbying Activities ▶ *A nonprofit or person that engages in lobbying activities subject to state and federal reporting requirements must file accurate and timely reports of its lobbying activities with the IRS and with the Office of the Colorado Secretary of State (CRS § 24-6-303; 990).*

16. Lobbying Limitations ▶ *A nonprofit must not engage in more than insubstantial lobbying activities. A nonprofit must know and understand the tax law limits on the amount of permissible lobbying (IRC § 501(c)(3) and 501(h); 990).* Organizations that engage in lobbying activities should be aware of the IRC 501(h) election.

17. Prohibition on the Use of Federal Funds for Lobbying ▶ *Federally funded nonprofits that engage in lobbying activities must organize their legislative activity so that no federal funds are used for this purpose (OMB Circular A-122; 990).*

Communications

Principles

Excellent internal and external communications will advance a nonprofit's mission, inspire its stakeholders, and increase its impact. Every nonprofit should aspire to engage stakeholders with impactful communications. Effective communications also help to ensure public trust in the organization. Internal communication is essential to motivate, inform, and counsel employees and volunteers and to set the stage for excellent external communication. External communications are necessary to: attract and retain stakeholders; raise public awareness; and increase understanding, commitment, and funding for the organization.

Practices

General

1. Organizational Communications – All nonprofit communications should adhere to the highest ethical and professional standards, as well as any applicable industry-specific standards, and should exhibit transparency, fairness, and honesty. These standards should be clearly stated in writing and made part of the orientation of all employees and volunteers, including board members.

2. Written Communications Plan – A nonprofit should have a clearly defined, written communications plan that supports the organization's strategic plan. It should be strategically integrated and central to all organizational planning, and should demonstrate accountability to constituents and the public. The written communication plan should:

- Include goals, target audiences, key messages, strategies, tools, intended outcomes and the means to evaluate results;

- Ensure that an organization is making the appropriate information available to the public and communicating in a clear and timely manner with those who request information;

- Be shared and regularly reviewed with staff, board and key volunteers of the organization; and

- Be updated regularly to ensure the plan stays current with the organization's priorities, communication trends such as social media, and technological capabilities.

3. Social Media Policy – Any nonprofit that is considering engaging in social media should adopt a social media policy. The policy should outline clear rules around the use of social media and designate one person to oversee social media efforts.

4. Communication Procedures – Nonprofits should establish clear policies pertaining to communication practices and procedures such as outreach efforts, frequency of communications, graphic standards, rules around print and electronic communications, approval for institutional facts and messaging, and expected response for internal or external concerns. These policies should be included in the written communications plan.

5. Privacy and Consent – Nonprofits should establish and implement clear policies regarding confidentiality of certain communications, images, and personal information. Sensitive, private, or confidential information should not be shared without express consent.

6. Crisis Communications Plan – A nonprofit should have a written plan for communicating with the public and the media at a time of crisis or emergency. This plan should include a procedure to communicate internally as well. A crisis communications plan may be incorporated into a disaster management plan or written communications plan.

7. Copyright and Trademarks – A nonprofit should copyright or trademark organizational materials as appropriate.

8. Branding – A nonprofit should consider establishing and promoting a clear brand. An organization's brand is its reputation and personality and is supported by its logo, graphic standards, messaging, tone, and actions. Understanding of and familiarity with the brand by all employees, board members and volunteers is the cornerstone of effective communications, and provides strategic benefits to the organization as a whole. All communications should be consistent with the brand.

Internal Communications

9. Internal Communications – Internal communications should be guided by clear policies and practices.

10. Promote Camaraderie – A nonprofit should encourage internal communication that welcomes alternative perspectives and encourages participation at all levels in order to build and maintain camaraderie. Management should solicit actively, listen carefully, and respond respectfully to the views of internal constituents.

11. Communication between Staff and Board – The line of communication between the staff and the board of directors should be clearly defined and well understood, as should appropriate methods for conveying information, processes, concerns, and accomplishments.

External Communications

12. Graphic Standards – A nonprofit should consider implementing a set of graphic standards that provides the rules for using the organization's fonts, primary colors, accent colors, logos, and other details in accordance with the organization's brand and communications plan.

13. Marketing and Public Relations Efforts – External communications should be guided by a clear, mission-driven plan and should employ consistent use of the organization's graphic standards. Marketing and public relations efforts should be timely and accurate. Examples of important portals may include newsletters, websites, social media outlets, annual reports, advertising, public service announcements, promotional brochures and flyers, news releases, press conferences, and feature stories.

14. Public Accessibility – In order to demonstrate transparency and accountability, communications should be clear, easily accessed, and kept up to date.

15. Identify Spokesperson(s) – Nonprofits should identify key spokespersons for the organization and ensure processes to provide appropriate, accurate and timely information for those individuals to use for internal and external communications. All internal constituents should be aware of who is designated as the spokesperson(s).

16. Public Statements and Positions – A nonprofit should have a written procedure that stipulates who has the authority to make public statements on behalf of the organization and the procedures for developing the statements. Board members, staff, and volunteers should be trained on the organization's statements, positions, policies, and procedures. The statements and positions should represent the full range of views of the organization's constituencies.

17. Distinction between Personal and Organizational Positions – A nonprofit organization should ensure that board and staff distinguish between personal opinion and organizational positions. This is especially important when publishing information online or in print. A nonprofit organization may be held accountable for statements made by a board or staff member *(990)*.

18. Public Interaction – Constituents of nonprofits should be provided with appropriate, ongoing opportunities to interact with the board and management regarding the organization's activities.

19. Grievance Policy – A nonprofit should have a written grievance policy in order to promptly and respectfully respond to grievances or complaints from stakeholders.

Information Technology

Principles

A nonprofit should manage information with regard to confidentiality, safety, accuracy, integrity, reliability, cost-effectiveness, and legal compliance. A nonprofit should invest in appropriate technology to enhance capacity and thereby improve its efficiency, effectiveness, and accuracy in the achievement of its mission. A nonprofit should also ensure the security of sensitive or confidential information, and ensure its document retention and destruction policy adequately protects electronic information.

Practices

Information Management & Policies

1. Information Systems – A nonprofit should have reliable information systems in place that provide timely, accurate, and relevant information to facilitate workflow and track the organization's data.

2. Information and Technology Use Policy – A nonprofit should have a policy that addresses personal use of the organization's information and technology, such as computers, phones, social media, data, etc.

3. Data Security Policy – A nonprofit should implement a policy that prescribes how all organizational information is gathered and stored, how accuracy is maintained, how and what information is backed up, and who is authorized to view or manipulate that data.

4. Remote Access to Information – A nonprofit should implement specific policies addressing information system security if employees or volunteers have remote access to secure or confidential information. A nonprofit should ensure that secure or confidential information is not taken from the organization in any manner unless expressly authorized.

5. Document Destruction Policy – A nonprofit should have a written, mandatory document retention and destruction policy or schedule with guidelines for handling all types of documents, including electronic files and voicemail. The policy should also include backup procedures, archival procedures, and guidelines for regular checkups of the reliability of the system. ▶
Documents involved in litigation or a government investigation must be retained (18 USC § 1519 – a.k.a. Sarbanes-Oxley; 990).

6. Social Media Policy – Any nonprofit that is considering engaging in social media should adopt a social media policy. The policy should outline clear rules around the use of social media and designate one person to oversee social media efforts.

7. Designated IT Person – One person should be designated as primarily responsible for overseeing the maintenance of the organization's information systems, delivery of technical support, and coordination with outside assistance. At least one other person should be equipped to serve as a backup if possible.

8. Staff and Volunteer Training – All staff and volunteers should have ongoing information systems and technology training relevant to their work. They should also receive electronic security training that addresses the prevention of, and appropriate response to, threats.

Technology Infrastructure

9. Technology Plan – A nonprofit should have a written technology plan that is integrated into its short- and long-term strategic and operational plans. The plan should include periodic assessments of technology and provide information regarding expected technology acquisitions, upgrades, and maintenance costs. Staff and board members should be familiar with this plan.

10. Investment in Technology – A nonprofit should invest in computer hardware and software, email and website hosting, internet access, telecommunications equipment, and any other technology infrastructure deemed appropriate to enhance and streamline its ability to achieve its mission.

11. Allocation of Resources – A nonprofit that chooses to invest in technology should allocate sufficient resources for system maintenance and training.

12. Data Backup and Recovery – A nonprofit should have a catastrophic recovery plan and should utilize at least minimal security measures, such as off-site electronic backup, firewalls, and up-to-date software that provides protection from malware.

13. Data Security Standards – A nonprofit should be aware of and in compliance with all regulations and industry standards relating to the types of data the organization collects, transmits, and stores. These may include requirements for: the protection of health care information under the Health Insurance Portability and Accountability Act (HIPAA); the protection of credit card information in compliance with the Payment Card Industry Data Security Standard (PCI DSS); or the online collection of information from children under the Children's Online Privacy Protection Act (COPPA).

14. Monitor Relevant Developments – A nonprofit should monitor ongoing technological developments that may have an impact on its information systems or its ability to fulfill its mission.

Strategic Alliances

Principles

Strategic alliances can take many forms, and are known by many terms. An alliance may be an informal arrangement for sharing information and resources, strengthening policy initiatives, or increasing operational efficiency. Alternatively, an alliance may be a formal arrangement such as a joint venture, partnership, consolidation, or merger with nonprofit or for-profit entities. A nonprofit should carefully consider and understand all implications before entering into any kind of alliance. Informal and formal alliances can help to strengthen individual nonprofit capacity and the capacity of the sector as a whole. Nonprofits should also assess the viability of strategic alliances with public, private, and charitable organizations prior to engaging in an alliance. Nonprofits should initiate and promote cooperation and coordination whenever feasible to maximize positive impact in the communities they serve.

Practices

Assessment

1. Actively Seek Alliances – A nonprofit should actively seek strategic alliances as a means to help achieve goals, improve effectiveness and organizational efficiency, maximize the impact of charitable resources, strengthen community connections with constituents and others, and improve services.

2. Thoughtful Consideration – Decisions regarding alliances should be consistent with the strategic goals of an organization. A nonprofit should carefully consider how entering into strategic alliances will affect all parties involved and identify the key staff, board, and other stakeholders that should be involved. Strategic alliances should never be made purely to meet funding challenges.

3. Community Assessment – On a regular basis, a nonprofit board of directors should conduct a community assessment to identify organizations providing similar services and to assess its relationships with those organizations.

Relationship Building & Strategies

4. Knowledge of Community – A nonprofit should be knowledgeable about other organizations providing similar or complementary services in its community and/or service area and be prepared to identify, promote, and provide referrals to other organizations that may be better able to meet the needs of its constituents.

5. Community Relationships – When appropriate, a nonprofit should support the advancement of its mission by fostering relationships with: similar organizations; state, regional, and national associations; governmental entities; and businesses.

6. Information and Resource Sharing – To promote overall accountability within the sector, a nonprofit should openly communicate with other nonprofits to gather and share information on lessons learned and best practices. Nonprofits should also be open to sharing resources when appropriate.

7. Consistency with Policies – A nonprofit entering into a partnership or strategic alliance should ensure that agreements are consistent with its policies, especially around constituent and donor confidentiality.

8. Consolidations or Mergers – Nonprofits should be open to consolidating and/or merging their organizations when it is in the best interest of the constituents, community, or service area to avoid unproductive duplication of services and to maximize available resources and impact.

9. Affiliates or Chapters – Nonprofits that have local chapters, branches, or affiliates should have written policies and procedures governing the activities of those chapters, branches or affiliates to ensure their operations are consistent with the mission of the governing organization *(990)*.

10. Consideration of a Joint Venture – A nonprofit should implement a written policy or procedure that requires the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status.

11. Public/Private/Nonprofit Partnerships – A nonprofit should work to establish communication channels, mutual understanding, and natural alliances among the government, nonprofit, and for-profit sectors to take advantage of the total resources of the community.

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