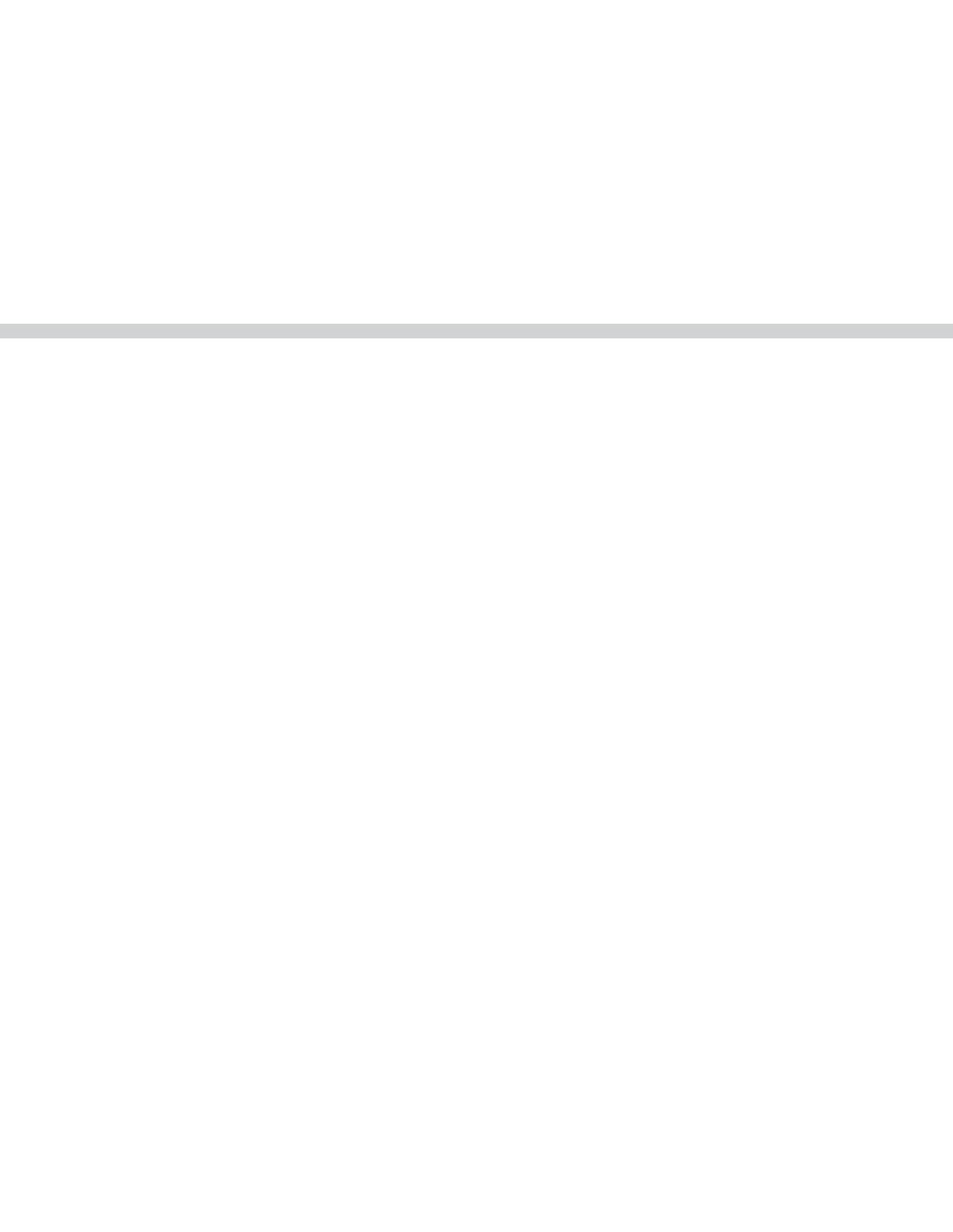


PRINCIPLES &
PRACTICES

For Nonprofit Excellence in Kentucky



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INTRODUCTION

Welcome to the Principles & Practices for Nonprofit Excellence in Kentucky, a comprehensive guide that sets forth principles, as well as legally required and organizationally recommended practices for all aspects of nonprofit leadership and management. This guide is the centerpiece of the Principles & Practices for Nonprofit Excellence in Kentucky program, created as a self-help, planning tool for staff and boards of directors. The program is designed to support and strengthen organizational development by helping nonprofits become more effective, more efficient and more accountable. The program was developed for organizations registered as tax-exempt under section 501 (c)(3) of the Internal Revenue Code, though the information and concepts apply broadly to and may be helpful for all types of nonprofit organizations.

Nonprofits play a central role in shaping and strengthening our communities. Nonprofit staff and board leaders face increasing challenges of greater community needs, heightened demand for accountability and limited or, at times, declining resources. This guide and its accompanying tools exist to strengthen nonprofits and provide assistance in meeting these challenges in a competitive and demanding environment.

The continued success of Kentucky's nonprofit organizations requires broad public support and confidence. This guide and the Principles & Practices program were developed because stronger, more effective nonprofits can provide improved services to clients and constituencies, strengthen Kentucky communities and enhance organizational experience for this and the next generation of nonprofit leaders. These positive changes will result in a more respected and influential nonprofit sector that receives greater support from all stakeholders.

HISTORY

The Principles & Practices for Nonprofit Excellence in Kentucky is based on the work done by several other state associations of nonprofits across the country, more specifically the Colorado Nonprofit Association, the Minnesota Council of Nonprofits, the Michigan Nonprofit Association, the Montana Nonprofit Association and the North Carolina Center for Nonprofits. Using the tools from these states as a model, Kentucky's program was modified to reflect the requirements of Kentucky law. Expert reviewers provided feedback in each area of nonprofit management and leadership. Additional suggestions were received during a period of public comment.

ABOUT THIS RESOURCE

Principles & Practices for Nonprofit Excellence in Kentucky has three intended purposes:

1. Provide individual organizations striving for excellence with a Kentucky-specific tool for planning and refining operations;
2. Support the growth and quality of the nonprofit sector; and
3. Increase public understanding of the role and contributions of the nonprofit sector.

Participation with the Principles & Practices program is VOLUNTARY and will not result in certification or accreditation. The program is not meant to serve as criteria for rating nonprofit effectiveness and is not a report card. The Principles & Practices program is not intended as a substitute for the wisdom of directors, staff and advisors of individual organizations. Note also that this guide is not meant to be construed as legal advice and is not a substitute for consultation with an attorney or other advisors. Simply, Principles & Practices is a self-help tool to be used as needed and as appropriate to help nonprofit leaders achieve excellence in carrying out their important work.

The practices included in this guide and related tools focus on the highest, not minimum, standards. Many nonprofits will not demonstrate adherence to all of the recommended best practices. Nonprofits are encouraged to recognize that implementing best practices is a process that may take some time, one size does not fit all and flexibility to adopt what is appropriate for each unique organization is important. Some nonprofits may also be accountable to supplemental or slightly different standards based on national or other accreditation requirements or affiliations, their responsibility to funders and/or nuances of their subsector work.



DEFINITIONS

The following terms are used throughout this guide:

- A “principle” is a broad statement that defines a suggested ethical or managerial direction for a nonprofit.
- A “practice” is a suggested method to help achieve the principle.
- “Must” means that a federal and/or Kentucky law exists that requires 501 (c)(3) organizations to conform to that practice. These are denoted in the guide, Kentucky law: KY and federal law: US.
- “Should” means that the practice isn’t required by law, but is generally recommended depending on the nature, resources, scope, etc. of the specific nonprofit organization.
- “Capacity” refers to an organization’s level of ability to achieve its stated mission.
- “Accountability” refers to an organization’s ability to answer questions regarding appropriate expenditure of funds and/or outcomes that demonstrate progress toward its mission.
- “Charitable organization” and “nonprofit organization” are used interchangeably to refer to nonprofit organizations that are tax-exempt under section 501(c)(3) of the Internal Revenue Code.

RELATED TOOLS & RESOURCES

Good organizational practices are primarily implemented through education and self-regulation. The Principles & Practices program exists as an educational resource to help charitable 501(c)(3) organizations promote good governance, transparency and accountability. Related tools to help nonprofits implement best practices include:

- [Organizational Planning & Implementation Workbook](#)
- [Web Resources](#)
- [Training/Education](#)
- [Consulting Services](#)

Visit www.kynonprofits.org to learn more.

USING THE PRINCIPLES & PRACTICES TOOLS

Each nonprofit organization is encouraged to develop a thoughtful and strategic process for using the Principles & Practices for Nonprofit Excellence in Kentucky. The following is a suggested framework for maximizing these resources:

Step One: Review the Principles & Practices for Nonprofit Excellence in Kentucky Guide with key board and staff. Make an organizational commitment to adopt and implement principles and practices that are appropriate for your organization.

Step Two: Assign an ad hoc committee of board and key staff members to work on this program or assign specific areas to existing board committees.

Step Three: Have the committee(s) review and complete the Organizational Planning & Implementation Workbook to 1) make sure your organization has the essential, legal requirements in order and 2) identify strengths and areas needing improvement and more work. A process that might work well is to look at one guiding principle at a time and establish priorities, persons responsible for the appropriate next steps and a timeline for completing needed action items. You may use this tool to make sure your records, filings and policies are up to date and in order and develop your action plan, noting existing resources you have at hand and those that may require outside assistance. It may also be helpful to explore 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: Utilize the additional resources of the Principles & Practices for Nonprofit Excellence in Kentucky program to develop your implementation plan and strengthen your organization’s policies and procedures. These resources include links to other resources and samples, training and educational opportunities and customized consulting services. Include persons responsible and timeframes in your implementation plan.

Step Five: Keep in mind that this program is focused on achieving excellence. The principles and practices described here do not represent minimum standards, instead they are aspirational goals. Remember that achieving excellence is a process. It’s impossible to accomplish everything at one time. Prioritize practices most important for your nonprofit and develop a realistic timeline for implementation. And remember -- one size doesn’t fit all! Some of the practices described here may not be appropriate for your organization. But your organization’s journey towards excellence is something that all of your nonprofits’ stakeholders: volunteers, board members, staff, and funders – can participate in.

Step Six: Implement changes and improvements. Establish a plan for ongoing evaluation and reflection to make sure your organization continues to move forward and learns from the self-evaluation process.

Step Seven: Regularly update the implementation plan and keep the full board of directors and staff members informed on the work that has been accomplished and what still remains to be completed/implemented, etc. Also remember to communicate successes to the organization’s stakeholders: such as volunteers, funders, and those served, so that they can help in the organization’s journey towards excellence!

Principles & Practices for Nonprofit Excellence in Kentucky

GOVERNANCE:

A nonprofit board of directors is the organization's steward and is responsible for developing and maintaining public trust. A board of directors can be effective in fulfilling its goals and expectations only if a clear and common understanding of its roles and responsibilities is established and cultivated. A nonprofit board is responsible for defining and furthering the organization's mission, as well as providing overall leadership and strategic direction to the organization. A nonprofit board actively sets policy and ensures that the organization has adequate human and financial resources to carry out its mission. The board provides oversight and direction for the executive director/CEO and is responsible for evaluating that person's performance, as well as approving appropriate compensation. A nonprofit board also has a responsibility to evaluate its own effectiveness as a governing body in upholding the public interests served by the organization.

PLANNING:

Organizational planning is a process that defines a nonprofit's overall direction, activities and strategies to fulfill its mission. Nonprofits have a duty to engage in sound planning, define a clear vision for the future and specify goals, objectives and strategies to implement such plans. Planning should generally incorporate input from stakeholders and should be intentional and ongoing.

TRANSPARENCY AND ACCOUNTABILITY:

As organizations that serve the public, nonprofits have an obligation to conduct their activities in ways that are accountable and transparent to their constituents. Nonprofits should engage in ongoing efforts to openly convey information to the public about their missions, activities and decision-making processes. This information should be easily accessible to the public and should create external visibility, public understanding and trust in the organization.

FINANCIAL MANAGEMENT:

Nonprofits have an obligation to act as responsible stewards in managing financial resources. Nonprofits must comply with all legal requirements related to financial matters. Organizations should adhere to sound accounting principles that ensure fiscal responsibility and build public trust. Nonprofits should use financial resources to accomplish their missions in an effective, efficient manner and should establish clear policies and practices to regularly monitor how funds are used.

FUNDRAISING:

Nonprofits play an important societal role in serving as the vehicles through which philanthropy occurs. Nonprofits act as the intermediaries between donors and beneficiaries and are obligated 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 for designated purposes and open, transparent communication with donors and other constituents.

COMMUNICATIONS:

Effective branding, marketing and communication are central to the success of an organization's mission, goals and activities. Internal communication is essential to motivate, inform and counsel employees and volunteers as well as to set the stage for excellent external communication. External communication is necessary to attract and retain constituents; increase public understanding of and commitment to the organization; and raise funds for the organization.

HUMAN RESOURCES:

Effective management of human resources is essential for creating successful organizational results. Nonprofit organizations should exercise fair and equitable human resource practices that attract and retain qualified individuals. Nonprofits must adhere to all employment laws and provide a safe work environment. Nonprofit organizations should establish specific policies and practices that promote mutual cooperation to advance the organization's interests and that reflect appropriate industry standards for compensation and benefits.

VOLUNTEER ENGAGEMENT:

Effective volunteer engagement can be critical to the success of a nonprofit. Volunteers can help an organization maximize results in working toward its mission. Nonprofit organizations should exercise fair and equitable volunteer management practices that attract and retain qualified individuals. An effectively-managed volunteer program can build an organization's efficiency, enhance community engagement and increase the community's awareness of issues and resources through a knowledgeable pool of ambassadors, advocates and donors.

INFORMATION AND TECHNOLOGY:

A nonprofit has an obligation to manage information with attention to confidentiality, safety, accuracy, integrity, reliability, cost-effectiveness and legal compliance. A nonprofit should incorporate appropriate technology into its work to improve its efficiency, efficacy and accuracy in the achievement of its mission.

STRATEGIC ALLIANCES:

The effectiveness of nonprofits depends on successful relationships with other community organizations. Strategic alliances can take many forms – partnerships, coalitions, collaboration, cooperation or coordination – and these relationships can serve a variety of purposes including resource sharing, influencing policy and improved operational efficiency. Strategic alliances can strengthen the capacity of individual organizations and the sector as a whole. Nonprofit organizations should be open to strategic alliances and, when appropriate, should partner with others to enhance their capability to achieve desired results. Nonprofits should work to promote cooperation and coordination among a variety of entities to avoid unproductive duplication of services and to maximize the resources available to the communities they serve.

PUBLIC POLICY AND ADVOCACY:

Nonprofits play a central role in the democratic process by providing a means for public participation and promotion of the common good. As entities that serve the public, nonprofit organizations should engage in public policy and advocacy activities to promote constituent, organizational and sector interests. Nonprofits can serve as a critical educational resource for policymakers and the public and can influence public policy attitudes to support mission fulfillment.

RISK MANAGEMENT:

Risk is any uncertainty about a future event that threatens an organization's ability to accomplish its mission. A risk management program provides a framework for balancing and understanding risks and for empowering staff and board to make good choices in addressing them. A nonprofit should identify and manage internal and external risks as they apply to its core assets: people, property, income and goodwill.

EVALUATION OF RESULTS:

As entities that serve the public, nonprofit organizations have an obligation to evaluate their effectiveness and demonstrate their value to the public. Nonprofit evaluation should be appropriate to the size and purpose of the organization and evaluation data should be used to continually improve the quality of processes, programs and activities. The public has a stake in nonprofit performance and is entitled to information regarding results. Nonprofits should regularly measure performance against a clear set of goals and should share such information with constituents.

BUILDING A GREENER SECTOR:

Nonprofits should strive to make a positive impact on the environment through increased energy efficiency, wise water use and re-use, waste reduction and recycling. Implementing environmental best practices will allow an opportunity to improve operational efficiency, share social responsibility efforts with partners and constituents, raise employee morale and reduce costs.



GOVERNANCE

A nonprofit board of directors is the organization's steward and is responsible for developing and maintaining public trust. A board of directors can be effective in fulfilling its goals and expectations only if a clear and common understanding of its roles and responsibilities is established and cultivated. A nonprofit board is responsible for defining and furthering the organization's mission, as well as providing overall leadership and strategic direction to the organization. A nonprofit board actively sets policy and ensures that the organization has adequate human and financial resources to carry out its mission. The board provides oversight and direction for the executive director/CEO and is responsible for evaluating that person's performance, as well as approving appropriate compensation. A nonprofit board also has a responsibility to evaluate its own effectiveness as a governing body in upholding the public interests served by the organization.

THE LEGAL DUTIES OF NONPROFIT BOARDS OF DIRECTORS:

Directors of nonprofit organizations are held to basic legal duties as a matter of state law, common law and federal law. All of a nonprofit organization's powers are exercised by its board of directors, who direct the management of the organization. KY US

The core fiduciary duties include:

1) **Duty of Care** – A director of a nonprofit organization shall discharge his/her duties as a director, including those performed as a committee member:

- in good faith;
- with the care that an ordinarily prudent person in a similar position would exercise under similar circumstances; and
- in a manner the director reasonably believes to be in the best interests of the organization. KY

The duty of care entails a duty of reasonable inquiry. Each director is obligated to ask questions and demand information to allow him/her to have sufficient information and understanding to make decisions he/she reasonably believes are in the nonprofit's best interests. KY

2) **Duty of Loyalty** – Directors are obligated to exercise an undivided and unselfish loyalty to the organization they serve. Directors must exercise their obligations and powers in the best interests of the organization and its charitable mission, not in their own interests or in the interests of another person or entity, even if charitable in nature (see Financial Management). KY

3) **Duty of Obedience** – Directors are obligated to further the mission of the organization they serve, to be faithful to its purposes and goals and to act in conformity with all laws affecting the organization. KY

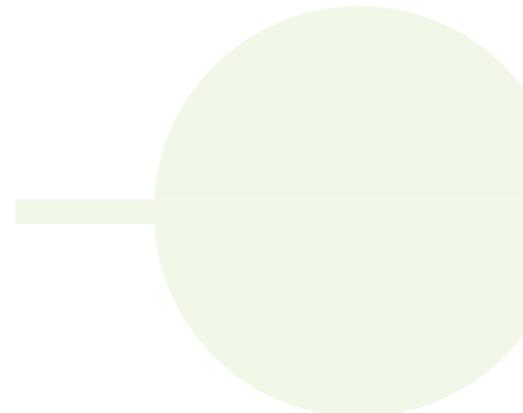
RECOMMENDED BEST PRACTICES:

- 1 Nonprofit boards should be comprised of individuals who are committed to representing the best interests of the organization and its mission. All boards should strive toward representation that reflects the organization's constituents.
- 2 Although the law requires a minimum of three (3) board members (KY), it is recommended that a nonprofit board of directors has at least five persons to ensure appropriate deliberation and diversity of membership. The size of the board should be appropriate to the nature and scope of the organization.
- 3 Nonprofit boards should be comprised of individuals who are not related by blood, marriage or domestic partnership, except in unusual circumstances, which should be fully disclosed to and approved by the full board. Such relationships between board members and staff should also be avoided.
- 4 Staff members should not serve as voting members of the board of directors.
- 5 To ensure broad participation and diversity, board members should have staggered term limits. Common term lengths are two 3-year terms or three 2-year terms, with a limit of six years.
- 6 Nonprofit organizations should have the positions of chair and secretary of the board of directors, elected by the board. KY Additional officers of the board frequently include a vice-chair and a treasurer, also elected by the board. These positions and their duties should be outlined in the organization's bylaws. It is recommended that no one occupy more than one board officer position at the same time.

- 7 Although Kentucky law only requires one meeting of the board of directors annually (KY), board meetings should be held at least quarterly and directors should be expected to attend regularly.
- 8 A nonprofit may not lend money to or guarantee an obligation of a director or officer of the nonprofit. KY
- 9 Although monetary compensation for board members is not prohibited by law, board members should not receive monetary compensation for their board duties, other than reimbursement for board-related expenses. A policy outlining appropriate guidelines for reimbursement should be approved by the board. Expense reimbursement should be supported by appropriate documentation/receipts and be presented for payment in a timely manner.
- 10 A substantial majority of the board of directors of a nonprofit, usually meaning at least two-thirds of the members, should be independent. US The Internal Revenue Service defines independent individuals as those:
 - who are not compensated by the organization as an employee or independent contractor;
 - whose compensation is not determined by individuals who are compensated by the organization;
 - who do not receive, directly or indirectly, material financial benefits from the organization except as a member of the charitable class served by the organization; and
 - who are not related to (as a spouse, sibling, parent or child) or do not reside with any individual described above.
- 11 Nonprofit board members are responsible for making decisions in the best interest of the organization. While conflicts of interest will arise, nonprofits should have a written conflict of interest policy that includes 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 disclosure form of interests that could give rise to conflicts should be signed annually by board members (as well as staff and appropriate volunteers) and procedures for managing conflicts of interest and handling situations in which interests intersect should be in place. (See Financial Management.)
- 12 A nonprofit corporation shall keep as permanent records minutes of all meetings of its board and committees and financial and membership information. KY
- 13 For boards that must follow open meetings law, sessions closed to the public should be conducted in accordance with Kentucky law. KY
- 14 To fulfill his or her duties, a board member may rely on information and reports received from officers or employees reasonably believed to be reliable and competent, as well as on professional advisors (e.g., attorneys and certified public accountants) and other persons with regard to matters reasonably believed to be within the person's professional or expert competence. A board member may also rely on a committee of the board of which he/she is not a member as to matters within its responsibility if the board member reasonably believes the committee merits confidence. KY
- 15 The Kentucky Office of the Attorney General has duties and responsibilities relating to charitable assets held as institutional funds or held in charitable trusts. Nonprofits should observe any legal obligation to provide notice to the Office of the Attorney General concerning a release or modification of a restriction on the management, investment or purpose of an institutional fund. Nonprofits should provide timely notice to the Office of the Attorney General of any action seeking a modification or termination of a charitable trust or any action in which the trustee of a charitable trust seeks instructions from a court regarding the trustee's powers and duties. KY
- 16 If the nonprofit has members, the manner of election or appointment, qualifications and voting rights shall be set forth in the Articles of Incorporation or bylaws. If there are no members, that fact shall be set forth in the Articles of Incorporation or bylaws. KY Care should be taken to distinguish between members with voting rights (to elect board members and/or officers), members with membership rights and "members" whose connection with the nonprofit is financial or other support.
- 17 At least annually, the board should review the organization's bylaws, mission statement and governance policies and amend as needed to reflect organizational growth and development.
- 18 Board member responsibilities must include an understanding of the mission, program and activities, finances, fundraising and operating environment of the organization. The board is responsible for determining the organization's mission, monitoring programs and services, ensuring adequate financial and human resources exist to fulfill the mission and provide financial oversight to ensure resources are used wisely and in accordance with the law.
- 19 The board should establish a process for selecting new board members that will ensure adequate infusion of new ideas and community perspectives while preserving institutional memory.
- 20 Boards should articulate prerequisites of membership to prospective board members, including a clear position description outlining expectations.

GOVERNANCE

- 21 All board members should be provided with an orientation to the work of the organization and their responsibilities as board members. New member orientation should include clearly stated expectations of membership, a history of the organization, financial overview and a description of current programs. Board members should fully understand their roles and responsibilities to the organization. They should be prepared to articulate the organization's mission and vision; and describe its programs to the public. Ongoing education for board members is encouraged.
- 22 Nonprofit board members should understand the organization's financial statements and annual tax filings well enough to ask questions that enable them to understand the financial condition of the organization and meet their fiduciary responsibilities.
- 23 The board should review the annual tax filings prior to submission to the Internal Revenue Service.
- 24 Annually, the board should review and approve a budget for the organization. Some organizations measure nonprofit effectiveness by the percentage of resources allocated to programs versus administration and fundraising costs. Measuring organizational impact in relation to the best use of the organization's assets is the role of the board of directors. Each board should determine the appropriate budget needed to achieve its mission.
- 25 Board members are expected to volunteer time, make an annual personal financial contribution and actively engage in efforts to raise funds from external sources to demonstrate their personal stake in the organization.
- 26 Boards should organize committees and task forces as needed to effectively carry out their roles and responsibilities and effectively facilitate the work of the board. The responsibilities of each committee, the range of authority delegated to the committee and their requirements for reporting to the full board of directors should be outlined in writing.
- 27 The board, led by the board chair, should be provided an opportunity to evaluate itself regularly through a self-assessment of individual members and the board as a whole.
- 28 The board of directors, along with staff, should actively participate in overall planning for the organization.
- 29 Nonprofit board members generally do not manage the day-to-day affairs of the nonprofit, typically delegating that function to paid staff or other volunteers. Board members must, however, exercise reasonable and prudent oversight with respect to corporate officers, agents and employees to whom daily affairs are delegated.
- 30 The board should support and evaluate the executive director/ CEO with outcome-based performance reviews at pre-determined intervals, at least annually. The chief executive's performance should be assessed in light of organizational accomplishments and the total compensation package (salary, raises, bonuses and other benefits) should reflect his/her performance as well as industry standards.
- 31 The board of directors should establish a temporary organizational transition or succession plan to maintain daily operation during the time of change in executive or board leadership.



PLANNING

Organizational planning is a process that defines a nonprofit's overall direction, activities and strategies to fulfill its mission. Nonprofits have a duty to engage in sound planning, define a clear vision for the future and specify goals, objectives and strategies to implement such plans. Planning should generally incorporate input from stakeholders and should be intentional and ongoing.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit must have a clearly defined, written mission statement that guides 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.
- 2 As part of ongoing planning, a nonprofit's mission statement should be reviewed by the board periodically to consider societal and community changes. This review should determine whether the mission is still relevant and/or whether it should be adapted to address evolving needs of its target constituents and the community at large.
- 3 In planning for its activities, a nonprofit should be responsive to community needs and should solicit input from a variety of stakeholders such as staff, board members, consumers and other constituents.
- 4 Organizational planning should be intentional and ongoing.
- 5 A nonprofit should consult with counterparts in its field to determine the need for services and the best use of community resources.
- 6 As part of its overall strategic plan, a nonprofit should create an action plan for implementation of its activities:
 - The plan should reflect the results of an environmental scan that includes information on strengths and weaknesses/ challenges facing the organization, as well as opportunities for and perceived threats to mission achievement.
 - The plan should include clearly defined goals and objectives and articulate measurable outcomes.
 - The plan should clearly define specific activities, timelines for completion and the person(s) responsible for implementation.
 - The plan should be a useful management tool for measuring activities and outcomes and should be tied to a solid budget.
 - The plan should provide a framework for regular progress reports and should be reviewed and/or updated regularly (at least annually).
 - The plan should be flexible enough to allow the board of directors and staff to adapt to unforeseen changes and take advantage of unanticipated opportunities.
- 7 Continuity planning, disaster planning and business planning are all valuable exercises for prudent preservation of assets, insuring the continuity of leadership in times of crisis or planned leadership transition. Additionally, because revenue streams of nonprofits are often dependent upon external factors beyond the nonprofit's control, thoughtful business planning can help a nonprofit weather economic storms and ensure sustainability.



TRANSPARENCY AND ACCOUNTABILITY

As organizations that serve the public, nonprofits have an obligation to conduct their activities in ways that are accountable and transparent to their constituents. Nonprofits should engage in ongoing efforts to openly convey information to the public about their missions, activities and decision-making processes. This information should be easily accessible to the public and should create external visibility, public understanding and trust in the organization.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit must comply with all legal and other required reporting requirements. KY US
- 2 A nonprofit has a financial obligation to use its resources responsibly for the purpose of serving the public interest. Financial audits and/or independent financial reviews should be approved by the organization's board and, where required, certified by the executive director/CEO and the chief staff financial officer of the organization.
- 3 A nonprofit has a responsibility to establish clearly defined performance goals, regularly measure its progress in achieving the goals and share the results with the public.
- 4 A nonprofit has a responsibility to adhere to its field's established professional standards (if applicable).
- 5 Stakeholders of nonprofits should be provided with ongoing opportunities to interact with the board and management regarding the organization's activities. A nonprofit should provide multiple ways (mail, phone, email, fax) that it can be contacted by the public to request information or provide input.
- 6 In serving the public trust, a nonprofit should produce an annual report that contains information regarding activities and performance. The annual report should include:
 - an explanation of the organization's mission, activities and results;
 - an explanation of how individuals can access programs/ services;
 - overall financial information, including income and expense statements, balance sheet and functional expense allocation; and
 - a list of board members, management staff, supporters and donors.
- 7 A nonprofit is encouraged to engage stakeholders in the development and discussion of approaches, goals and effectiveness in carrying out its mission.
- 8 To promote overall accountability within the sector, a nonprofit should openly communicate with other nonprofits to share and gather information on lessons learned and best practices.
- 9 Nonprofits should establish a conflict of interest policy for board, staff and appropriate volunteers that includes: disclosure of relationships, nepotism, interested party transactions and confidentiality issues, as well as procedures for managing conflicts of interest. This policy should be reviewed and signed annually by each individual.
- 10 A nonprofit should have specific procedures in place with protections for reports of financial or other misconduct. A "whistleblower" policy is recommended to ensure compliance with the Sarbanes-Oxley Act of 2002. US
- 11 A nonprofit should ensure the provision of nondiscriminatory and, as appropriate, confidential service to its stakeholders. Employees and board members should review and sign off on the organization's written policy(ies) on this subject and the nonprofit should provide training for board, staff and other volunteers, if applicable.
- 12 A nonprofit must make information available to the public as required by federal and state law. The Internal Revenue Service requires that a nonprofit make available the three years' most recently filed information returns (Form 990, 990EZ, 990T or 990N and Form 1023) in accordance with regulations. US

In Kentucky, the following are public documents and should be updated as required by applicable law: KY

 - Lobbying disclosure filings
 - Annual registration with the Kentucky Secretary of State
 - Charitable registration with the Kentucky Office of the Attorney General
- 13 A nonprofit should have a written policy regarding document retention and periodic destruction that includes guidelines for handling electronic files and voicemail, as well as back up procedures, archiving of documents and regular inspections of the reliability of the system that are consistent with applicable laws and industry best practices. Retention policies are applicable, as indicated in the Sarbanes-Oxley Act of 2002. US

FINANCIAL MANAGEMENT

Nonprofits have an obligation to act as responsible stewards in managing financial resources. Nonprofits must comply with all legal requirements related to financial matters. Organizations should adhere to sound accounting principles that ensure fiscal responsibility and build public trust. Nonprofits should use financial resources to accomplish their missions in an effective, efficient manner and should establish clear policies and practices to regularly monitor how funds are used.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit must ensure that it has the appropriate financial policies, procedures and reporting mechanisms in place to demonstrate compliance with all legal and financial regulations.
- 2 A nonprofit has a legal and ethical obligation to ensure that assets are used solely for the benefit of the organization and not for personal or other gain; funds are spent responsibly; and funds are dispensed according to the funders' wishes and requirements. KY US
- 3 Nonprofit board members should understand the organization's financial statements and annual tax filings well enough to ask questions that enable them to understand the financial condition of the organization and meet their fiduciary responsibilities.
- 4 The nonprofit board of directors should establish a finance committee composed of knowledgeable members to provide more detailed oversight of the organization's finances.
- 5 Nonprofits should adopt written financial policies to monitor major expenses including payroll, travel, investments, expense accounts, contracts, consultants and leases. Policies and procedures should be reviewed and updated as needed, at least annually or more often if significant changes occur.
- 6 Annually, the board should review and approve a budget for the organization. Some organizations measure nonprofit effectiveness by the percentage of resources allocated to programs versus administration and fundraising costs. Measuring organizational impact in relation to the best use of the organization's assets is the role of the board of directors. Each board should determine the appropriate budget needed to achieve its mission.
- 7 A nonprofit should generate accurate and relevant financial reports that include the comparison of actual to budgeted revenue and expenses and identify and explain any significant variances. These reports should be provided to the board of directors for regular review and discussion, no less than quarterly.
- 8 A nonprofit should create and adopt a balanced budget. In the event that a budget deficit occurs, the board should be aware of this expected outcome and should participate fully in determining a plan to restore the budget to a balanced state.
- 9 A nonprofit should consider bequests, planned gifts and pledges when determining the annual budget and should not include these dollars in budgeting for program expenditures until the gift is actualized.
- 10 A nonprofit should strive to establish and maintain a financial reserve equal to three to six months of operating expenses.
- 11 A nonprofit should ensure separation of financial duties to serve as a system of checks and balances to prevent theft, fraud and inaccurate reporting. This system should be appropriate to the size of the organization's financial and human resources.
- 12 A nonprofit that invests should have a board-approved investment policy, ensuring responsible investment of funds in accordance with all legal requirements. This policy should be reviewed and updated regularly.
- 13 A nonprofit with annual total revenues in excess of \$1 million should subject its financial reports to an annual audit by an independent certified public accountant. A nonprofit with total annual revenues between \$250,000 and \$1 million should consider an annual financial review with an independent CPA. Financial audits or independent reviews should be approved by the organization's board, the executive director and chief financial staff person/CFO of the organization. Note: some funders may establish other thresholds for audits and review.
- 14 The board should consider designation of an audit committee that does not share members with and works independently of the finance committee. The audit committee should hire the auditor, oversee the audit process and meet with the auditor to review the audit's content. The audit committee should include financial experts and staff should not serve as voting members. The auditor should meet with the organization's board separately from management staff and the board audit committee should approve the financial report.

FINANCIAL MANAGEMENT

- 15 Nonprofits must complete the appropriate annual filing with the Internal Revenue Service (Form 990, 990-EZ, 990-N or 990-PF) in a timely manner. US
- 16 The nonprofit board of directors should review the IRS Form 990 before filing. A nonprofit executive director/CEO and chief financial staff person should verify and certify the form before it's submitted to ensure accuracy. A nonprofit should openly communicate the annual reporting information contained in its IRS Form 990 to constituents and others who request such information.
- 17 Nonprofits must adopt specific procedures that allow individuals to report financial misconduct without consequence. A "whistleblower" policy is recommended to ensure compliance with the Sarbanes-Oxley Act of 2002. US
- 18 A nonprofit board must strictly prohibit financial loans to officers and members of the board. KY
- 19 A nonprofit board should strictly prohibit financial loans to organizational personnel.
- 20 Nonprofits should adopt a policy addressing a transparent, competitive selection process for the procurement of goods and services. The policy should outline the circumstances under which quotes or competitive bids are required and the process to be followed, as well as guidance as to when contracts require board approval. If goods and/or services are to be procured from an officer or director, thus creating a potential conflict of interest transaction, all information must be fully disclosed to the board and the board must vote to approve the transaction. KY
- 21 Nonprofits are encouraged to include persons with an appropriate understanding of financial and legal matters on their board of directors and to continually educate board members about the organization's financial reporting and budgeting process. Nonprofits should seek professional services when key financial or legal matters arise.



FUNDRAISING

Nonprofits play an important societal role in serving as the vehicles through which philanthropy occurs. Nonprofits act as the intermediaries between donors and beneficiaries and are obligated 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 for designated purposes and open, transparent communication with donors and other constituents.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit must comply with all local, state and federal laws and regulations concerning fundraising practices. KY US
- 2 A nonprofit should create and implement a comprehensive fund development plan utilizing various fundraising strategies to ensure diverse sources of contributions to support the mission of the organization.
- 3 A nonprofit board and its executive leaders should be familiar with the Association of Fundraising Professionals' Code of Ethical Principles and Standards of Professional Practice and ensure that all fundraising professionals acting on behalf of the organization adhere to these principles and standards.
- 4 A nonprofit organization must register with the Kentucky Office of the Attorney General, Consumer Protection Division before conducting any fundraising activity. KY
- 5 A nonprofit must comply with all charitable solicitation laws (including registration if applicable) when soliciting funds from donors in other states. MULTI-STATE LAW
- 6 Any professional fundraiser or fundraising consultant working on behalf of a nonprofit must be licensed with the Kentucky Office of the Attorney General, Consumer Protection Division. KY
- 7 Compensation of fundraising professionals and consultants should not be based on a percentage of funds raised or on other commission-based formulas. A nonprofit should closely monitor any individual or organization soliciting funds on its behalf to ensure adherence to donor intent as well as sound, ethical fundraising practices.
- 8 A nonprofit must comply with laws concerning games of chance/charitable gaming. A Kentucky charitable gaming license must be obtained before conducting any gaming activity (e.g. raffle, bingo, etc.). KY US
- 9 A nonprofit has a legal and ethical obligation to expend funds responsibly and must ensure that funds are dispensed according to the funders' wishes and requirements. KY US
- 10 A nonprofit's board assumes overall responsibility for raising sufficient funds to meet the organization's budgeted objectives. According to their means, nonprofit board members should make financial contributions to the nonprofits they serve and should actively engage in activities that raise funds from external sources.
- 11 A nonprofit organization's fundraising communications should include clear, accurate, honest information about the organization, its activities and the intended use of funds being solicited.
- 12 A nonprofit should have a written plan and appropriate policies regarding stewardship of donors. A nonprofit should regularly communicate with donors regarding its activities and should make this information available through multiple outlets.
- 13 A nonprofit should promptly acknowledge and thank donors and, in the process, assist donors in fulfilling their federal gift substantiation requirements. US
- 14 A nonprofit should work toward achieving a balance between publicly recognizing charitable contributions and maintaining donor confidentiality when needed. Nonprofits should not share or trade donor names with others unless given permission by the donor.
- 15 To maintain the public's trust, a nonprofit should seek only the funds it needs to reasonably work toward achieving its mission over the foreseeable future. As a means of sustainability, endowment and reserve funds may be established to advance the organization's mission. Any such endowment funds should be managed and invested prudently. KY
- 16 A nonprofit should have policies in place that govern the receipt, disposal and management of charitable gifts and grants. A nonprofit has an obligation to decline funds or in-kind donations that would bring about adverse conditions for the organization and gifts given for purposes outside the scope of its mission. A gift acceptance policy should guide the organization in accepting gifts in question and outline a process for respectfully declining gifts when necessary.

COMMUNICATIONS

Effective branding, marketing and communication are central to the success of an organization's mission, goals and activities. Internal communication is essential to motivate, inform and counsel employees and volunteers as well as to set the stage for excellent external communication. External communication is necessary to attract and retain constituents; increase public understanding of and commitment to the organization; and raise funds for the organization.

RECOMMENDED BEST PRACTICES:

- 1 All organizational communications should adhere to the highest ethical and professional standards, as well as any industry-specific standards that may exist and should include transparency, fairness and honesty. These standards should be clearly stated in writing and should be part of the orientation of all employees and volunteers.
- 2 A nonprofit should have a clearly defined, written communications plan guiding both internal and external communications and supporting the organization's comprehensive organizational plan. It should be strategic and central to all organizational planning; it should demonstrate accountability to constituents and the public.
- 3 A communications plan should include goals, target audiences, key messages, strategies, tools, intended outcomes and a means to evaluate its impact.
- 4 A communications plan should include an integrated strategy using branding, public and media relations, advertising and non-traditional marketing. Specific strategies and tools may include special events, fundraising campaigns, exhibit opportunities, internet visibility, social media, news releases, opinion editorials, etc. Each strategy should be assessed for appropriateness to the mission of the organization and the resources available.
- 5 A nonprofit communications plan should ensure that the organization is communicating in a clear and timely manner with those who request information. Constituents of nonprofits should be provided with ongoing opportunities to interact with the board and management regarding the organization's activities and a system should be in place for promptly and respectfully responding to grievances or complaints.
- 6 A nonprofit should identify its spokesperson(s) who is/are authorized to make public statements about a given issue. All internal constituents should be aware of who is designated as the spokesperson(s).
- 7 A nonprofit must make information available to the public as required by federal and state law. The Internal Revenue Service requires that a nonprofit make available the three years' most recently filed information returns (Form 990, 990EZ, 990T or 990N and Form 1023) in accordance with regulations. US
- 8 In serving the public trust, a nonprofit should produce an annual report that contains information regarding activities and performance. The annual report should include:
 - an explanation of the organization's mission, activities and results;
 - an explanation of how individuals can access programs/ services;
 - overall financial information, including income and expense statements, balance sheet and functional expense allocation; and
 - a list of board members, management staff, supporters and donors.
- 9 A nonprofit should encourage internal communication that welcomes alternative perspectives, invites and encourages participation at all levels, minimizes defensiveness and builds and maintains camaraderie. Management should solicit actively, listen carefully and respond respectfully to the views of internal constituents.
- 10 Internal communication should be guided by clear policies and practices, regularly scheduled and attended meetings, regularly printed and/or e-mailed informational updates, a forum for suggestions and reports on meetings of the board of directors and its committees.
- 11 External communication should be guided by a managed, consistent and researched strategic plan. Branding, marketing and public relations efforts must be unified so they send a consistent, persuasive message to all target audiences including clients, employees, supporters, media and other stakeholders

12 A nonprofit should develop a media relations strategy that:

- includes an updated list of all relevant major newspapers, weeklies, television, radio and internet news sources;
- builds relationships with individual reporters and becomes a resource for local media; and
- coordinates messages to the media, ensuring that communications are well-rehearsed, brief, timely and newsworthy.

13 A nonprofit should have a written plan for communication with the media, public and internal constituencies in time of crisis. The crisis communication plan should identify roles, responsibilities and tasks for key staff leaders and include the following:

- updated contact list of management, staff and board members;
- contact information for local and state media;
- scenarios for several types of crises & key messages for each;
- sample news releases;
- potential media questions and answers; and
- an updated media kit about the organization (mission, vision, values, management biographies, short history of the organization, key list of funding sources, etc.)

14 A nonprofit should have a written policy and procedures for developing public statements and positions on issues, clearly identifying the primary organizational spokesperson(s) who is authorized to make public statements. These statements and positions should represent the full range of views of the organization's constituencies. All internal constituents should be aware of the statement and position policy.

15 A nonprofit should openly communicate with other nonprofits to share and gather information on lessons learned and best practices.

16 Information provided to policy makers, the media and the general public becomes a matter of public record. Therefore, a nonprofit should ensure that the information is timely and accurate and that the social and political context of the information is clear to avoid misunderstanding or manipulation of the message.



HUMAN RESOURCES

Effective management of human resources is essential for creating successful organizational results. Nonprofit organizations should exercise fair and equitable human resource practices that attract and retain qualified individuals. Nonprofits must adhere to all employment laws and provide a safe work environment. Nonprofit organizations should establish specific policies and practices that promote mutual cooperation to advance the organization's interests and that reflect appropriate industry standards for compensation and benefits.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit must comply with all local, state and federal employment laws in hiring and employing personnel. KY US
- 2 A nonprofit and its board must establish and abide by a broad and encompassing equal opportunity employment policy. US
- 3 A nonprofit should employ skilled individuals who are suitable for the positions they occupy (paid or unpaid) and committed to the goals, values and objectives of the organization.
- 4 A nonprofit should strive toward employing personnel who reflect the diversity of the community, as appropriate for program effectiveness.
- 5 A nonprofit organization should provide all staff with clear, current job descriptions and the tools they need to produce quality work.
- 6 Nonprofits should conduct background checks on employees, particularly if their positions involve working with vulnerable populations, performing financial duties or handling other sensitive matters.
- 7 Nonprofits should have a formal orientation program for new employees. It should include, at a minimum, the history and mission of the organization, personnel policies and procedures, criteria for standards of performance and all state and federally mandated employee training programs.
- 8 A nonprofit should maintain a personnel file for each employee, as well as a separate confidential/medical file.
- 9 If the nonprofit employs staff, the board of directors should review its overall compensation structure, using industry-based surveys of salaries and benefits. The board should set reasonable and competitive compensation for the organization's chief executive. The board should establish policies on employee benefits, which may include:
 - health insurance;
 - retirement plans;
 - sick leave, family leave, vacation and other paid time off; and
 - other benefits as may be appropriate.
- 10 A nonprofit should adopt a set of policies and procedures for personnel. All employees should receive a copy of these policies and procedures and should submit a signed acknowledgement of such.
- 11 A nonprofit should establish employee and volunteer records retention policies and procedures that are consistent with applicable laws and best industry practices, as referenced in the Sarbanes-Oxley Act of 2002. US
- 12 Nonprofits should establish a conflict of interest policy for employees that include: disclosure of relationships, nepotism, interested party transactions and confidentiality issues, as well as procedures for managing conflicts of interest. This policy should be reviewed and signed annually by all employees.
- 13 Nonprofits must adopt specific grievance procedures for personnel with protections for reports of violations of organizational policy or applicable law. A "whistleblower" policy is recommended to ensure compliance with the Sarbanes-Oxley Act of 2002. US
- 14 A nonprofit should support the education and professional development of personnel and should provide them with opportunities for growth and advancement.
- 15 A nonprofit should annually evaluate the job performance of staff, providing guidance, articulating goals, objectives and expectations; it should also provide clear and equitable procedures for taking disciplinary action.
- 16 A nonprofit should have a system in place for the succession of key employees, most notably for the executive director and key board leadership.

VOLUNTEER ENGAGEMENT

Effective volunteer engagement can be critical to the success of a nonprofit. Volunteers can help an organization maximize results in working toward its mission. Nonprofit organizations should exercise fair and equitable volunteer management practices that attract and retain qualified individuals. An effectively-managed volunteer program can build an organization's efficiency, enhance community engagement and increase the community's awareness of issues and resources through a knowledgeable pool of ambassadors, advocates and donors.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit should develop a volunteer engagement plan that addresses the following elements:
 - Purpose statement – identify what benefit the organization will receive from the effective use of volunteers; all members of the organization (including board members) should recognize the role that volunteers play in achieving its mission.
 - Organizational assessment – assess the organization's readiness for volunteers. Ensure that staff members recognize the purpose and role of volunteers; current staffing is sufficient to effectively support and manage a volunteer program; and the organization is aware of liability and risk issues as well as insurance needs.
 - Budget – ensure the organization has the financial resources to support a volunteer program.
 - Roles and responsibilities – roles, responsibilities and relationships between staff and volunteers should be clearly delineated and communicated to avoid confusion and potential human resource law violations.
- 2 A written position description should be created for all regular volunteer positions within the organization. This position description should be shared with potential volunteers during the recruitment process and should be used as a tool for ongoing feedback and evaluation related to volunteer performance.
- 3 Volunteer recruitment activities should be targeted and specific, clearly identifying the work to be done, the hours to be committed and the intended impacts of the volunteer activity.
- 4 Nonprofits should implement effective screening procedures and conduct background checks on volunteers to ensure the safety of constituents and minimize potential liability to the organization, particularly if their positions involve working with vulnerable populations, performing financial duties or handling other sensitive matters.
- 5 Volunteer assignments should be made with careful consideration of the volunteer's skills, needs and interests.
- 6 A nonprofit should construct an intentional system for orientation and training of volunteers wherein the volunteers clearly understand the limits of their work, as well as the latitude they may have for decision-making on behalf of the organization. Each volunteer should clearly understand how his/her role is directly related to advancing the mission of the organization. Resources for orientation and training include:
 - a current manual of policies and procedures that is accessible for all volunteers, including attendance policies, confidentiality policies, grievance procedures and other key information to minimize risk and maximize effectiveness;
 - a system whereby volunteers are trained with the specific skills and knowledge needed to perform their volunteer role; and
 - an ongoing orientation/communication plan to keep volunteers apprised of changes within the organization as well as enhanced opportunities for volunteer involvement.
- 7 The volunteer program should be structured so that each volunteer has a direct connection to an identified supervisor and understands who to communicate with in the event the supervisor is absent. The volunteer should meet with his/her supervisor prior to fulfilling any duties to ensure roles and expectations are clear.



VOLUNTEER ENGAGEMENT

- 8 The nonprofit organization should have clearly articulated and documented accountability and discipline procedures for volunteers that address lack of performance as well as policy violations.
- 9 The nonprofit organization should have a thoughtful recognition system which provides individual and group recognition and celebrates the impact of volunteers (dollar value of time invested as well as issue impacts and outcomes).
- 10 Volunteer performance should be evaluated regularly (at least annually) with the supervisor through a formal process (appropriate for the role and scope of service the volunteer provides). Evaluation should include discussing current strengths, areas for improvement and mission impact. Additionally, if a volunteer is not effectively performing his/her duties, a process should exist for thoughtful reassignment and/or release of the volunteer. One-time (or episodic) volunteers may be evaluated in much less detail.
- 11 The volunteer program as a whole should be evaluated annually to assess cost and benefits of the program, to document impact on mission achievement and to direct future volunteer initiatives.
- 12 Nonprofits should establish a conflict of interest policy for appropriate volunteer positions that includes disclosure of relationships, nepotism, interested party transactions and confidentiality issues, as well as procedures for managing conflicts of interest. This policy should be reviewed and signed annually by all appropriate individuals.
- 13 Nonprofits should adopt procedures that provide volunteers with an opportunity to raise concerns or express complaints without fear of retaliation and to ensure compliance with organizational policy or applicable law.

The above recommended practices are adapted from training materials of the Points of Light Institute, promoted and sustained through the work of Volunteer Centers of Michigan.



INFORMATION AND TECHNOLOGY

A nonprofit has an obligation to manage information with attention to confidentiality, safety, accuracy, integrity, reliability, cost-effectiveness and legal compliance. A nonprofit should incorporate appropriate technology into its work to improve its efficiency, efficacy and accuracy in the achievement of its mission.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit should have information systems in place that provide timely, accurate and relevant information. These systems should be appropriate to the size of the organization.
- 2 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 assessment and provide for allocation of sufficient resources to maintain and service the systems, as well as allow for needed upgrades. A nonprofit should also ensure that its support agreements are kept up-to-date.
- 3 A nonprofit should designate responsibility for maintaining the organization's information systems to more than one staff member, volunteer or board member; one person should be primary and at least one should be back-up.
- 4 A nonprofit should have technology use, security and compliance policies that address staff use and that prescribe how all organizational information is gathered and stored, how accuracy is maintained, how and what information is backed up and to whom information is made available. Policies should also address confidential information and privacy, with appropriate procedures to limit access to data. These policies should cover, at a minimum:
 - securing user id and password;
 - protection against computer virus or mal-ware infection;
 - legal notice at logon indicating system is to be used for authorized purposes only;
 - securing unattended workstations; and
 - securing portable devices such as laptops, personal digital assistants (pda's), cell phones, etc.
- 5 A nonprofit should have a written policy regarding document retention and periodic destruction that includes guidelines for handling electronic files and voicemail, as well as back up procedures, archiving of documents and regular inspections of the reliability of the system that are consistent with applicable laws and industry best practices. These policies are applicable, as indicated in the Sarbanes-Oxley Act of 2002. US
- 6 A nonprofit should implement good technology practices, including:
 - regular backups with off-site storage, preferably stored in multiple locations, along with accurate reporting of successful and failed backups;
 - anti-virus software to perform daily automatic updates;
 - firewall;
 - an organized website that provides up-to-date, accurate information that is in compliance with copyright, privacy and other laws;
 - a secure server that networks staff workstations for data and file sharing; and
 - a policy notifying all employees and volunteers that their organizational computer usage may be monitored.
- 7 A nonprofit should maintain and implement a business continuity plan. The plan should include hardware and software inventory for insurance purposes. Off-site recovery should include back-up copies of software installation, key data and information and should allow for remote and/or alternative access in the event of an emergency (where applicable).
- 8 A nonprofit should invest in appropriate telecommunications equipment, up-to-date, compatible computer hardware and software and connectivity to enhance its ability to achieve its mission.
- 9 A nonprofit investing in technology should allocate sufficient resources to train its staff, board and volunteers in the appropriate use of its technology systems. All staff should have current training to use those systems that are relevant to their work.
- 10 Nonprofits must protect against identify theft of information in their physical and electronic records. A policy addressing identify theft protection should:
 - limit the use of social security numbers;
 - include procedures for destruction of records containing personal information; and
 - include a process, in the event of a security breach, for notifying all individuals whose personal information was compromised.
- 11 A nonprofit should monitor ongoing technological developments that have the potential to impact its information systems or ability to fulfill its mission.

STRATEGIC ALLIANCES

The effectiveness of nonprofits depends on successful relationships with other community organizations. Strategic alliances can take many forms – partnerships, coalitions, collaboration, cooperation or coordination – and these relationships can serve a variety of purposes including resource sharing, influencing policy and improved operational efficiency. Strategic alliances can strengthen the capacity of individual organizations and the sector as a whole. Nonprofit organizations should be open to strategic alliances and, when appropriate, should partner with others to enhance their capability to achieve desired results. Nonprofits should work to promote cooperation and coordination among a variety of entities to avoid unproductive duplication of services and to maximize the resources available to the communities they serve.

RECOMMENDED BEST PRACTICES:

- 1 Decisions regarding strategic alliances should reflect the goals of the participating organizations and impact the brand and image of the organizations positively.
- 2 A nonprofit should carefully consider how entering into strategic alliances will affect all parties involved. Special consideration should be given to ensure any financial and reimbursement agreements are in the best interest of the organization. Written agreements and adequate safeguards to protect all partners should be in place.
- 3 A nonprofit should know about and understand the services provided by other organizations in its community and/or service area, regularly identifying organizations providing similar or complementary services and assessing its relationship to these organizations.
- 4 Nonprofits are encouraged to promote other organizations' services to enhance consumer choice and most appropriately meet client needs.

- 5 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.
- 6 When appropriate, a nonprofit should foster relationships with similar organizations and state, regional and national associations to support advancement of its mission.
- 7 Nonprofits should work to establish natural alliances and mutual understanding with government and businesses to leverage the total resources of the community.
- 8 When appropriate, larger nonprofits should assist smaller nonprofits through strategic alliances and resource sharing.



PUBLIC POLICY AND ADVOCACY

Nonprofits play a central role in the democratic process by providing a means for public participation and promotion of the common good. As entities that serve the public, nonprofit organizations should engage in public policy and advocacy activities to promote constituent, organizational and sector interests. Nonprofits can serve as a critical educational resource for policymakers and the public and can influence public policy attitudes to support mission fulfillment.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit should advocate publicly and engage in advocacy and lobbying on behalf of its mission and organizational values, as well as for the sector as a whole on issues that affect all charitable nonprofits. Lobbying and advocacy activities are legal under federal and state law (some limits exist and some funders restrict use of their funds for lobbying purposes).
- 2 A nonprofit should consider both the 501(h) election and the “insubstantial part” rule related to financial expenditures for lobbying to determine which reporting mechanism is most appropriate for the organization. US
- 3 A nonprofit should encourage its board of directors, staff, volunteers, donors and other constituencies to act as advocates and ambassadors for the organization and the nonprofit sector in public policy efforts.
- 4 Nonprofits are encouraged to join together around policy issues to strengthen their impact on public policy.
- 5 A nonprofit that engages in lobbying activities is subject to state and federal reporting requirements and must file accurate and timely reports on lobbying activities with the Internal Revenue Service and the Commonwealth of Kentucky Legislative and Executive Branch Ethics Commissions. KY US
- 6 A nonprofit engaged in promoting public participation in voting and in federal, state and local policymaking must ensure the activities of the organization are nonpartisan. US
- 7 Nonprofit board and staff members, acting on behalf of the organization, are prohibited from endorsing candidates for office. US
- 8 Nonprofits receiving federal or state funds must organize their legislative work so that federal or state funds are not used for lobbying activities. US
- 9 A nonprofit should continuously maintain a sound understanding of the current policy environment and the resulting consequences for the public, their organization and the nonprofit sector.
- 10 A nonprofit should have a written public policy and advocacy plan defining how decisions are made, as well as the scope of activity, time, constituents to engage and resources to be allocated to advocacy and public policy work.
- 11 Information provided to policy makers, the media and the general public becomes a matter of public record. Therefore, a nonprofit should ensure that the information is timely and accurate and that the social and political context of the information is clear in order to avoid misunderstanding or manipulation of the message.



RISK MANAGEMENT

Risk is any uncertainty about a future event that threatens an organization's ability to accomplish its mission. A risk management program provides a framework for balancing and understanding risks and for empowering staff and board to make good choices in addressing them. A nonprofit should identify and manage internal and external risks as they apply to its core assets: people, property, income and goodwill.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit's risk management program should identify internal and external risk as a way to anticipate and manage future events. The executive director/CEO, in conjunction with financial/administrative staff and the board, should initiate a risk management program.
- 2 The risk management program should evaluate and prioritize mission-critical functions of organizational risk, providing strategies, techniques and approaches to secure them. All plans should be updated regularly, as needed.
- 3 To protect its assets, a nonprofit should obtain appropriate insurance coverage, including general liability and directors and officers insurance.
- 4 Nonprofits should conduct background checks on employees and volunteers to ensure the safety of constituents and minimize potential liability to the organization, particularly if their positions involve working with vulnerable populations, performing financial duties or handling other sensitive matters.
- 5 To ensure that risk management becomes an integral part of the organization's life, nonprofits should develop a business continuity plan and train staff and volunteers accordingly.



EVALUATION OF RESULTS

As entities that serve the public, nonprofit organizations have an obligation to evaluate their effectiveness and demonstrate their value to the public. Nonprofit evaluation should be appropriate to the size and purpose of the organization and evaluation data should be used to continually improve the quality of processes, programs and activities. The public has a stake in nonprofit performance and is entitled to information regarding results. Nonprofits should regularly measure performance against a clear set of goals and should share such information with constituents.

- 6 Evaluation results should be used to strengthen and improve the nonprofit organization's programs and activities by incorporating evaluation findings into strategic planning processes.
- 7 A nonprofit should share the results of its evaluation with all interested stakeholders, including relevant lessons learned with other nonprofits and funding sources.
- 8 A nonprofit should train its personnel in evaluation methods so as to improve their understanding and utilization of information developed from evaluation activities.

RECOMMENDED BEST PRACTICES:

- 1 A nonprofit should have defined, ongoing and sustainable procedures in place for evaluating its programs, procedures and outcomes in relation to its mission.
- 2 A nonprofit should regularly receive input from and monitor the satisfaction of its stakeholders, feedback should be used to evaluate its programmatic and organizational effectiveness and a grievance procedure should be in place to address complaints. Stakeholders include staff, board, volunteers, funders, community members, partners and other key constituents.
- 3 Personal information collected from stakeholders should be kept confidential.
- 4 Performance measures should be realistic, specific, measurable and appropriate to the size and scope of the organization and its constituents.
- 5 Measurement should include information on satisfaction, activities, results and community input, as well as data on program efficiency and effectiveness. It may also include qualitative and quantitative data.
- 6 A nonprofit organization should consider utilizing external evaluators as appropriate and feasible.



BUILDING A GREENER SECTOR

Nonprofits should strive to make a positive impact on the environment through increased energy efficiency, wise water use and re-use, waste reduction and recycling. Implementing environmental best practices will allow nonprofits an opportunity to improve operational efficiency, share social responsibility efforts with partners and constituents, raise employee morale and reduce costs.

RECOMMENDED BEST PRACTICES:

- 1 Nonprofits should develop an energy efficiency and conservation policy to help the organization define its environmental goals and create a culture of awareness about the benefits of better managing energy use.
- 2 Nonprofits should encourage all employees to implement simple steps to conserve energy in the workplace.
- 3 Nonprofits should contact the local utility provider for information about energy efficiency programs and services, including:
 - Receiving an on-site commercial energy inspection to provide information on where heating and cooling demands are highest and provide recommendations for energy savings;
 - Participation in the utility company's energy efficiency programs;
 - Becoming an ENERGY STAR® partner by committing to save 10 percent of the organization's energy use each year; and
 - Learn about rebate opportunities to help offset the costs of making the organization's equipment more energy efficient.
- 4 Nonprofits should establish a green purchasing policy for the organization, including purchasing only ENERGY STAR® equipment and appliances.
- 5 Nonprofits should implement efforts and utilize tools that ensure wise use of energy, include energy efficient lighting, weatherization and heating and cooling system maintenance.
- 6 To reduce waste, nonprofits should buy in bulk; avoid over-packaged items; purchase items made with durable, re-usable material when possible; recycle and reuse items; and purchase post-consumer recycled products.

- 7 Nonprofits should start a recycling program at the office and work with the local county solid waste coordinator to determine what items are accepted for recycling by a local recycling program. If the county offers recycling, nonprofits should acquire recycling bins for indoor and outdoor use.
- 8 Nonprofits should implement simple steps to impact water quality, such as proper handling and disposal of fats, oils and grease; use of rain barrels; appropriate routing of down spouts; use of pervious surfaces to slow water run-off; and environmentally friendly lawn care and landscaping practices.
- 9 Nonprofits should conduct a water use audit to identify problems or inefficiencies and have a smoke test done by the local municipal water and sewer district to maintain sanitary sewer lines.





ABOUT THE KENTUCKY NONPROFIT NETWORK

The Kentucky Nonprofit Network is an association of Kentucky nonprofits. The Network serves as a statewide resource for board members, staff and other leaders; is an information center on effective nonprofit organizational practices; and is an advocate for the nonprofit sector as a whole. KNN was founded in February 2002 and is an outreach program of the Department of Community and Leadership Development at the University of Kentucky College of Agriculture.

The Kentucky Nonprofit Network exists to serve, strengthen and support the Commonwealth's nonprofit organizations through education, networking opportunities, consulting services and information sharing. Through quality programs and services that encourage nonprofit collaboration, effectiveness, accountability and innovation, the Network partners with nonprofits across Kentucky to strengthen communities.

Learn more about the Kentucky Nonprofit Network, including membership, by mail at Kentucky Nonprofit Network, PO BOX 24362, Lexington, KY 40524; by phone at (859) 963-3203; by email at emailus@kynonprofits.org or on the web at www.kynonprofits.org.



ABOUT THE KENTUCKY NONPROFIT BEST PRACTICES PARTNERSHIP

The Kentucky Nonprofit Best Practices Partnership is a commitment made by nonprofit organizations, their leaders and the Kentucky Nonprofit Network to promote and implement best practices that encourage efficient, effective and ethical operations to best meet community needs. The Partnership includes the voluntary use of a partnership seal and an online listing of charitable nonprofits committed to continuous improvement through use of the Principles & Practices for Nonprofit Excellence in Kentucky program as general guidelines for strengthening the accountability, transparency and overall management of their organization. Visit www.kynonprofits.org to learn more about becoming a partner.

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