

Principles & Practices

for Nonprofit Excellence in Colorado



Developed
by
Colorado Nonprofits
for
Colorado Nonprofits



Colorado
NONPROFIT
Association

Serving nonprofits. Strengthening communities.



Dear Colorado nonprofit employees, board members, and volunteers:

Colorado nonprofit organizations are vital to our citizens, providing essential services and opportunities throughout the state, thereby assuring a brighter future for all Colorado communities. Colorado is fortunate to have numerous nonprofits that direct time, effort and money to support a diversity of interests and goals. We applaud the Colorado Nonprofit Association and the Colorado nonprofit community for developing these *Principles and Practices for Nonprofit Excellence in Colorado* to help each nonprofit achieve excellence in pursuing its particular mission.

As the entities responsible for regulating charities and nonprofits in Colorado, we appreciate the guidance provided in this publication. 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 commend your service to the people of Colorado, and we hope these *Principles and Practices* prove a valuable resource to you in providing that service.

Sincerely,

A handwritten signature in blue ink that reads "John W. Suthers".

John W. Suthers
Attorney General

A handwritten signature in blue ink that reads "Mike Coffman".

Mike Coffman
Secretary of State



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Our heartfelt thanks to these outstanding corporate citizens
for their generosity in sponsoring the Principles and Practices program.



"I"
Experience Listens. Be Heard.™

Preamble

With help and guidance from many leaders of Colorado's nonprofit, government, and private sectors, the Colorado Nonprofit Association has developed these *Principles and Practices for Nonprofit Excellence in Colorado* to assist Colorado's charitable organizations in building their capacity while enabling them to demonstrate their accountability and transparency.

These *Principles and Practices* are 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.

Educational Resource

These *Principles and Practices* recognize that good organizational practices are primarily implemented through education and self-regulation. Thus, *Principles and Practices for Nonprofit Excellence in Colorado* is intended to serve as an educational resource to improve the efficiency, transparency, and accountability of Colorado charitable organizations.

Flexibility

Colorado is enriched by the great diversity of its many charitable nonprofit organizations and it is recognized that the implementation of these *Principles and Practices* will take different forms and occur at different levels given the nature, resources, and life cycle of each nonprofit organization.

These *Principles and Practices* are also designed to be flexible to allow for differences between large and small organizations. It is important to note that some organizations will have acceptable reasons to deviate from some of the specified practices. Such exceptions need not imply a lack of transparency and accountability, but may warrant conversation among the organization's leadership.

Many nonprofit organizations already adhere to strict best practices programs, and there are numerous programs in specific nonprofit subsectors. For that reason, this set of *Principles and Practices* should be evaluated as another tool to increase transparency and accountability, to be considered alongside other programs that may already exist for specific types of nonprofits.

Building a Plan for Implementation

While Colorado has a diverse community of charitable organizations, it is also important to note the great diversity of best practices in the nonprofit sector and to acknowledge that no one set will fit all organizations. Each nonprofit organization should conduct a careful organizational assessment, including evaluating its own nonprofit life cycle, to establish where it is, and where it wants to be.

Most charitable organizations will not be able to fully adhere to all of these Principles immediately, nor will every Practice be reflected in their current operations. These *Principles and Practices* are intended as a basis for each organization (board, staff, and other constituents) to make a conscious determination of what will best move it forward and ensure that its programs and services are of high quality.

Introduction

Recent hearings held by the United States Senate Finance Committee have fueled the debate about the appropriate balance between self-regulation and government oversight of the charitable nonprofit sector. Between 2003 and 2007, Committee Chair Sen. Max Baucus (D-Montana) and Ranking Member Sen. Charles Grassley (R-Iowa) were particularly instrumental in moving forward laws regulating 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 also 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 and federal levels, there seems to be substantial movement toward increased government regulation of nonprofits. In response, the Colorado Nonprofit Association has worked to strengthen relationships with the offices of the Colorado Secretary of State and the Colorado Attorney

General. These relationships should help ensure that any future regulation at the state level is well-informed, effective, and mindful of impacts on nonprofits of all sizes.

However, to preserve the independence of the charitable nonprofit sector, many issues of concern may be addressed more appropriately and effectively by ensuring that the sector can demonstrate an appropriate level of self-governance, transparency, and accountability. To this end, the Colorado Nonprofit Association has engaged leaders of Colorado's nonprofit, government, and private sectors in this extensive statewide project to develop principles and practices for the nonprofit sector in Colorado.

These *Principles and Practices for Nonprofit Excellence in Colorado* are based on the fundamental values of efficiency, transparency, and accountability. The numerous management practices provide specific guidelines for individual organizations to evaluate and improve their operations, governance, human resources, advocacy, financial management, and fundraising.

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 sector.
- The third is to increase public understanding of the role and contributions of the charitable nonprofit sector in Colorado.

These *Principles and Practices* are designed to serve as guidelines for all charitable nonprofits to implement practices that are legal, ethical, and effective. They are not meant to be used by funders or government as a "litmus test" to evaluate charitable organizations, nor are they 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.

Definitions

The following terms are used throughout this document:

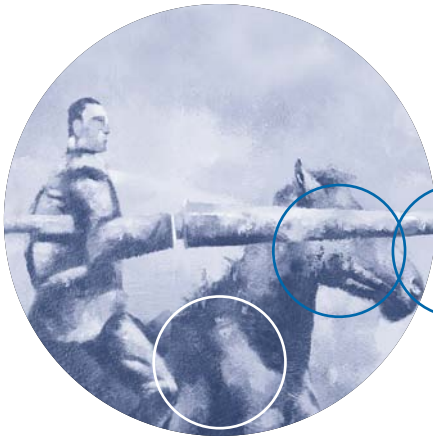
- A "Principle" is a broad statement that defines a suggested ethical or managerial direction for a nonprofit organization.
- A "Practice" is a suggested method to achieve the principles.
- Whenever the term "must" is used, federal or Colorado state laws exist that require all 501(c)(3) charitable nonprofit 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, "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 that are required by law 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 life cycle of the nonprofit organization.
- In this document, 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 web sites for summaries of applicable laws and links to helpful resources, and to download 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.). This publication was written by over 20 of Colorado's top corporate attorneys, many of whom specialize in representing Colorado nonprofit organizations.



Governance

Principles

A nonprofit's governing body is responsible for defining the organization's mission and for providing overall leadership and strategic direction to the organization. Each nonprofit board should

- 1) actively set policy and see that the organization has adequate resources to carry out its mission;
- 2) provide oversight and direction for the chief executive and be responsible for evaluating his/her performance; and
- 3) evaluate its own effectiveness as a governing body and as representatives of the community in upholding the public interest served by the organization.

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

- ▶ *Directors must 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,*
 - *complying with federal and state law,*
 - *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 things as attending board meetings regularly, entering discussions, reading minutes, learning about the organization's programs, maintaining a careful oversight of finances, and questioning unclear or troubling activity (CRS § 7-128-401).

▶ *A nonprofit director must meet the duty of loyalty by placing the interests of the organization before his or her private interests and avoiding the use of organizational opportunities for personal gain. (CRS § 7-128-401).*

Practices

Board Composition

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 and strategic direction, annual budget and key financial transactions, compensation practices and policies, and fiscal and governance policies.
2. **Board Composition** – A nonprofit board should be comprised of diverse individuals who are committed to representing the best interests of the organization and its mission.
3. **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 corporation's bylaws.

4. **Board Size** – ► *While Colorado law allows nonprofit corporations to have as few as one director, the number of directors must be stated in, or fixed in accordance with, the organization's bylaws (CRS § 7-128-103). However, to allow for sufficient deliberation and diversity of perspectives, nonprofit boards should consist of no fewer than five individuals.*
5. **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).*
6. **Staff Serving on Boards** – Opinions differ on whether any staff members should serve on the board of directors. If staff does serve, no more than one employee of the organization (typically the chief executive) should serve as a voting member of the board, and he/she should not serve as the chair, vice-chair, secretary or treasurer.

Board Characteristics

7. **Board Representation, Diversity, and Inclusiveness** – A nonprofit organization should strive toward board representation that reflects the organization's constituents and the community it serves. In addition, board members should value diversity and understand the role of participation and inclusion in the effectiveness of the organization.
8. **Board Nomination** – The board should establish a process for 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). The board of a nonprofit organization should include members with the diverse skills, background, expertise, and experience necessary to support the organization's ability to fulfill its mission. The board should also include some individuals with financial literacy.
9. **Expectations of Board Members** – To demonstrate their personal stake in support of the organization, board members should volunteer time, raise external funds, and make financial contributions to the nonprofit.

10. **Independence of Board Members** – A substantial (at least two-thirds) majority of the board members of a public charity should be independent – that is, neither they themselves, nor anyone related to them (as a spouse, sibling, parent or child), nor anyone they reside with, should
 - a) be compensated by the organization as an employee or independent contractor;
 - b) have their compensation determined by individuals who are compensated by the organization; or
 - c) receive, directly or indirectly, material financial benefits from the organization, except as a member of the nonprofit class served by the organization.
11. **Compensation of Board Members** – Other than paid staff, 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)).*

Board Responsibilities

12. **Federal, State, and Local Laws** – ► *A nonprofit organization should be knowledgeable about and must 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.*
13. **Board Orientation and Communication** – Board members should be provided with an orientation to the work of the organization and should receive ongoing training. The board should also establish an effective, systematic process for educating and communicating with board members to ensure that the board carries out its oversight functions, and that individual members are aware of their legal and ethical responsibilities, and are familiar with the programs and activities of the organization.
14. **Board Review and Evaluation of Itself** – The board of a nonprofit organization 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 and operational structure to ensure it is effectively supporting the organization's current goals and objectives.

15. **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:
 - Planning
 - Policy approval
 - Hiring of, supervising of, and annual performance review of the Chief Executive Officer or equivalent
 - Setting of compensation structure
 - Fundraising, and
 - Financial management.
16. **Frequency of and Attendance at Board Meetings** – Board meetings should be held at least on a quarterly basis and regular attendance should be expected.
17. **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).* Minutes of board meetings and records of actions taken without a meeting should be kept contemporaneously.
18. **Board Review of Organization** – The board should periodically review the organization's articles of incorporation, bylaws, corporate policies, and mission statement, and amend them as needed to reflect organizational growth and development.
19. **Committees** – 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.
20. **Conflict of Interest Policy** – Each board should have a conflict of interest policy that includes a disclosure form, which is signed by board members annually, and procedures for managing conflicts of interest and handling situations in which public and private interests intersect. The policies 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.
21. **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 his/her performance as well as industry standards. ► *Both Colorado law and federal income tax laws prohibit the payment of more than reasonable compensation (CRS § 7-133-102; IRC § 4941 and 4958).* 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. A public charity that follows each of these three steps can position itself to create a rebuttable presumption that the compensation is reasonable:
 - 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.
 - Comparable comparisons: 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.



Planning

Principles

Organizational planning is a process that defines the overall direction, activities, and strategies to be employed 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 include input from constituents and should be intentional and ongoing to position organizations to achieve their goals.

Practices

Mission

1. **Mission Statement** – A nonprofit should 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. **Review of Mission** – Originally defined by its incorporators, a nonprofit's mission 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.

Community Input

3. **Soliciting Input from Community** – In planning for its activities, a nonprofit organization should be responsive to community needs. It should solicit input from a variety of sources, such as board, staff, community members, and other constituents. 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. **Communication with Other Nonprofits** – 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, and to determine the need for services and the best use of community resources.

Strategic Plan

5. **Strategic Plan** – A nonprofit should periodically create a written strategic plan for implementation of its activities.
 - a) The strategic plan should reflect the results of an environmental assessment that includes information on strengths and weaknesses/challenges facing the organization, as well as opportunities for, and perceived threats to, mission achievement.
 - b) The strategic plan should include clearly defined goals and objectives that are set by the organization to achieve its mission.

Operational Plan

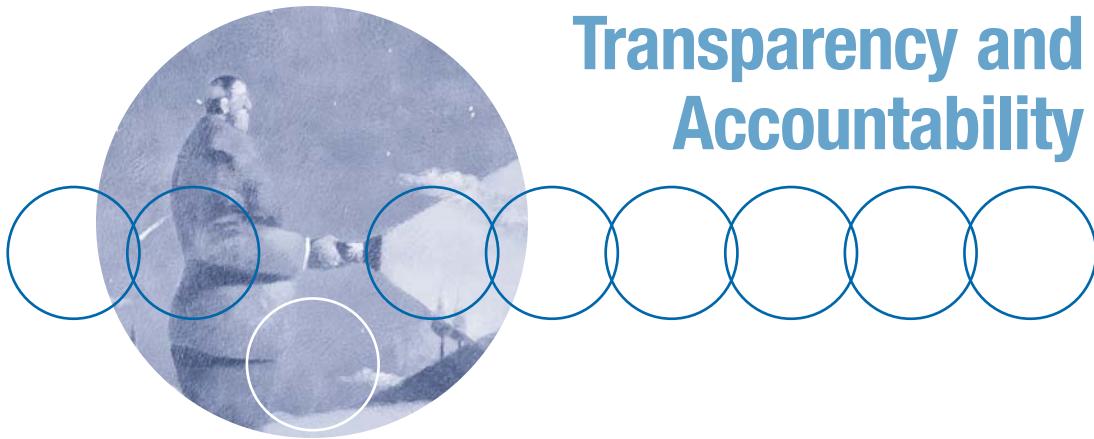
6. **Operational Plan** – A nonprofit organization should annually create a written operational plan which specifies how its activities will be implemented.
 - a) The operational plan should clearly define specific program, financial, personnel and evaluation activities; delineate timelines; and assign specific responsibility for implementation.
 - b) The operational plan should be a useful management tool for evaluating activities and outcomes and should be tied to an approved budget.
 - c) The operational plan should provide a framework for regular progress reports and should be reviewed and/or updated regularly by staff and the board of directors.

Risk Management and Disaster Management

7. Risk Management Plan and Disaster Management Plan –

A nonprofit organization's board of directors 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, and programmatic content and material. As risks are identified, the organization should develop a plan to mitigate those risks. Purchasing general liability, property, and directors and officers liability insurance, and other types of insurance or endorsements as needed, should be considered, and ► *nonprofits must purchase workers' compensation insurance (CRS § 8-14.5-40)*. The plans should be reviewed with the board of directors on an annual basis.

8. **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. ► *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)*.



Transparency and Accountability

Principles

Nonprofits have an ethical obligation to their constituents and the public to conduct their activities with transparency and accountability. Nonprofits should regularly and openly convey information to the public about their mission, activities, accomplishments, and decision-making processes. Information from a nonprofit organization should be easily accessible to the public, and should create external visibility, public understanding, and trust in the organization.

Practices

Accountability

1. **Reporting Requirements** – ► *A nonprofit must comply with all legally required reporting procedures.*
2. **Performance Goals** – A nonprofit should establish, achieve, and regularly measure clearly defined levels of performance in its activities and share those results with the public.
3. **Industry Standards** – Each nonprofit should adhere to the established industry standards that apply to its particular activity area.

Accessibility and 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 public. Full disclosure of executive compensation, including compensation received from subsidiary and related entities of the organization, should also be available on request. ► *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 previous three years (IRC § 6104(b));*
- *Annual Tax Return (usually an IRS Form 990-T) for the previous three years if the organization has unrelated business income (IRC § 6104(d)); and*
- *IRS Form 1023 or 1024, Application for 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(d)).*

A nonprofit organization should also make information available on the methods it uses to evaluate the outcomes of its work and is encouraged to share the results of those evaluations.

6. **Annual Reports** – A nonprofit should produce an annual report (printed and/or web-based) that contains information on its 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 its programs and services;
 - overall financial information, including income and expense statement, balance sheet, and functional expense allocation;
 - a list of board members, management staff, and, when appropriate, contributors; and
 - an evaluation detailing extent of accomplishment of stated goals and other notable accomplishments.

Solicitation of Community Input

7. **Public Meetings and Public Information** – Nonprofit organizations are encouraged to hold public 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. They should make meeting agendas and descriptions of significant decisions available to those who request them.
8. **Working with Other Nonprofits** – Nonprofit organizations should actively work with other organizations to avoid duplication of services.

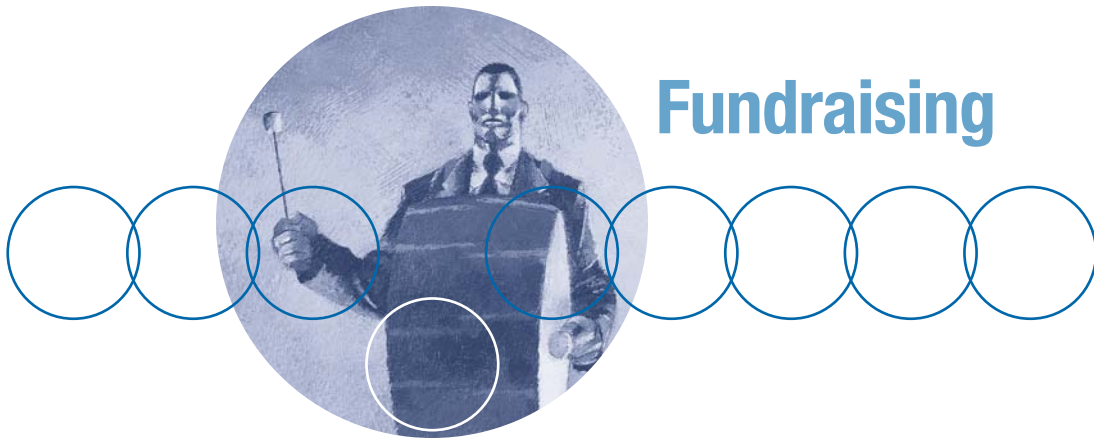
Fairness and Equity Practices

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

11. **Code of Ethics** – A nonprofit organization should have a formally adopted, written code of ethics with which all of its trustees, staff, and volunteers are familiar and to which they adhere.

Document Protection and Destruction

12. **Document Protection** – A nonprofit organization should establish and implement policies and procedures to protect and preserve the organization's important documents and business records.
13. **Document Destruction Policy** – A nonprofit organization should have a written, mandatory document retention and destruction policy or schedule, which includes guidelines for handling electronic files and voice mail, back-up procedures, archiving of documents, and regular checkups of the reliability of the system. ► *Documents involved in litigation or a government investigation must be retained (18 USC § Section 1519 – a.k.a. Sarbanes-Oxley).*



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

Accountability to Donors

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 (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 § 6-15-104.3 (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 organization should provide appropriate training and supervision of the people soliciting funds on its behalf to ensure that they understand their responsibilities and ► *applicable federal, state and local laws, particularly disclosure requirements for donors (CRS § 6-16-105, 105.3), and that they do not employ techniques that are coercive, intimidating, or intended to harass potential donors.*
5. **Public Trust** – A nonprofit organization should conduct its fundraising activities in a manner that upholds the public's trust in stewardship of contributed funds.
6. **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.
7. **Donor Restrictions** – ► *A nonprofit organization must comply with specific conditions placed upon donations (CRS § 15-1-1103-1109).*
8. **Acknowledgment to Donors** – ► *A nonprofit must send a written acknowledgment to donors who make a "quid pro quo" donation in excess of \$75 (that is, a payment made partly as a contribution and partly for goods and/or services) (IRC § 6115(a)). Nonprofits must provide a receipt for contributions in cash (including those paid by check or credit card) of \$250 and above (IRC § 170(f)(8)(A)). Good donor stewardship would indicate a practice of acknowledging all charitable gifts to the organization.*

9. **Donor Confidentiality** – A nonprofit organization should strive for a balance between publicly recognizing nonprofit contributions and maintaining donor confidentiality 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.
10. **Communication with Donors** – A nonprofit should regularly communicate with donors regarding its activities and should make such information available through multiple outlets.

Policies

11. **AFP Code of Ethics** – A nonprofit board and executive 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. This includes ensuring that compensation for fundraising personnel and contractors should not be based on a percentage of funds raised or other commission-based formulas.
12. **Board's Role In Fundraising** – A nonprofit's board assumes overall responsibility for raising sufficient funds to meet the organization's budgeted objectives.
13. **Acceptance of Gifts** – A nonprofit should adopt clear policies regarding the acceptance of personal gifts from any constituent to staff members, board members, and volunteers.
14. **Declining Gifts** – A nonprofit should decline gifts or in-kind donations 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.
15. **Application of Funds Raised** – A nonprofit should apply a high percentage of each dollar raised to programs and services in accordance with practices of comparable organizations and representations made to contributors and the public.
16. **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.
17. **Gift Policy** – A nonprofit should have policies in place that govern the receipt, disposal, and management of gifts and grants.

Financial Management



Principles

Nonprofits have an obligation to act as responsible stewards in managing 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.

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 an explanation for significant variances.
2. **Board Review of Financial Statements** – Nonprofit board members should understand how to read and interpret financial statements.
3. **Separation of Duties** – A nonprofit organization should ensure separation of financial duties as a check and balance system.
4. **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 prohibit loans to key personnel.

Compliance

5. **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.*
6. **IRS Information Returns** – A nonprofit's Chief Executive Officer and Chief Financial Officer (or equivalent) should review and approve the IRS Form 990 or 990-PF to ensure it is accurate, complete, and filed on time with the IRS. The board of directors should be familiar with IRS Form 990 and should be provided with a copy of the completed IRS Form 990 in a timely manner as well.
7. **Audits** – A nonprofit organization should have a qualified independent Certified Public Accountant audit or review the financial statements annually in a manner appropriate to the organization's size and scale of operations. The independent financial audit or review should be reviewed and approved by the board of directors as a means to ensure, among other things, that the organization responsibly used its resources toward its mission and to benefit the community.
8. **Audit Committee** – The board should designate an audit committee to hire the auditor, oversee 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. This audit committee need not be independent of the organization's finance committee.
9. **Auditor** – In the process of the audit, the auditor should be given the opportunity to meet with the organization's board separately from management staff, and the board audit committee should approve the financial report.

10. **Reporting of Misconduct** – 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 “whistle blower policy” (18 USC Section 1107 – a.k.a. Sarbanes-Oxley).*

Openness and Fidelity

11. **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(d)).*
12. **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.
13. **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).*

Financial Responsibilities

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

15. **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.
16. **Expenses** – A nonprofit organization should spend the majority of its annual budget on programs in pursuance of its mission. An organization should also provide sufficient resources for effective administration of the organization, and, if the organization solicits contributions, for appropriate fundraising activities.
17. **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 or traveling on behalf of the organization, including the types of expenses that can be paid for or reimbursed and the documentation required. Such policies should require that travel on behalf of the organization is to be undertaken in a cost-effective manner. 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 they, too, are conducting business for 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. 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 constituents so that they can effectively work together to advance the organization's mission.

Practices

Employment Practices

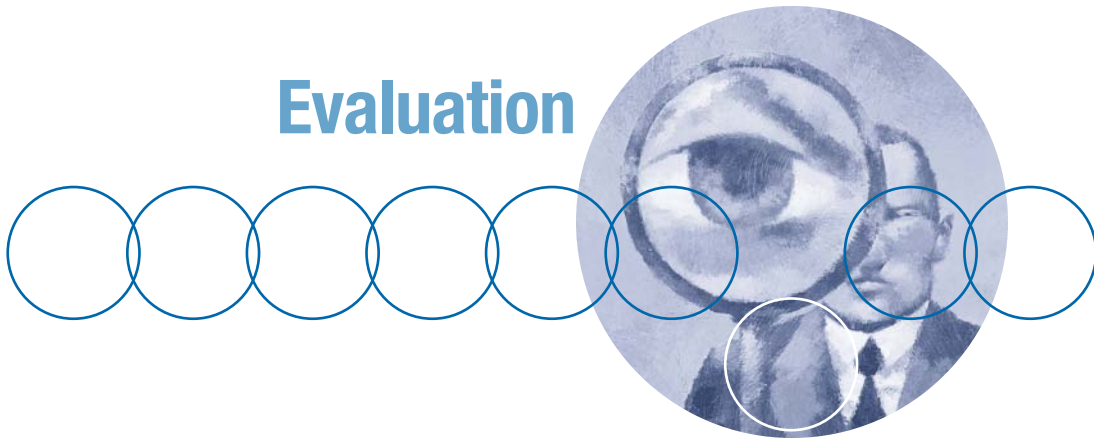
1. **Federal, State, and Local Laws** – ► *A nonprofit organization must comply with all federal, state, and local employment laws when hiring and employing personnel.*
2. **Qualities of Employees** – A nonprofit organization should utilize skilled and diverse individuals and volunteers who are suitable for the positions they occupy and are committed to the goals, values, and objectives of the organization. To better serve their constituents, organizations should ensure that employees and volunteers obtain new skills and understand new regulations pertaining to their area of expertise.
3. **Diversity and Inclusiveness** – A nonprofit organization should strive toward employing personnel and volunteers who reflect the diversity of the community and their constituency. Nonprofits should strive to include diverse voices and opinions in decision making and at all levels of the organization.
4. **Work Environment** – A nonprofit should continually work to provide a safe and healthy work environment.
5. **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.
6. **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 or volunteers with decision-making authority, and procedures for managing conflicts of interest and handling situations in which public and private interests intersect.
7. **Procedures for Reports of Violations** – A nonprofit should adopt specific procedures for personnel with protections for reports of violations of organizational policy or applicable laws, ► *and must ensure that those making such reports are protected from repercussions (18 USC Section 1107 – a.k.a. Sarbanes-Oxley).*
8. **Leadership Succession and Transition** – A nonprofit organization should have mechanisms, including succession plans, to handle transitions in leadership and other key positions.
9. **Background Checks** – A nonprofit should consider conducting background checks on employees, volunteers, independent contractors, and paid solicitors. This is particularly true if their positions involve working with children or vulnerable adults, performing financial duties or serving in other sensitive areas.

10. **Employee Records Retention** – A nonprofit should establish both employee and volunteer records retention guidelines and procedures that are consistent with applicable laws and best industry practices.
11. **Staff Compensation** – A nonprofit organization should balance its need for careful stewardship of funds with its responsibility to provide market-based and livable compensation to its employees. A nonprofit's board should periodically review its overall compensation structure, using industry-based surveys of salaries and benefits. The board should establish guidelines on employee benefits, which may include
 - a) medical insurance;
 - b) retirement plans;
 - c) sick leave;
 - d) maternity/paternity leave;
 - e) vacation and other paid time off; and
 - f) other benefits as may be appropriate.

Training, Development and Retention

12. **Job Descriptions and Other Resources** – A nonprofit organization should provide volunteer and paid personnel with clear, current job descriptions and the resources they need to produce quality work.
13. **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.
14. **Development of Staff** – A nonprofit should support the education and development of personnel and should provide them with opportunities for growth and advancement.
15. **Benefit Programs** – To the extent of its ability, a nonprofit should provide personnel with adequate benefits and the opportunity to financially contribute to retirement plans.
16. **Feedback from Staff** – A nonprofit organization should be open to input from paid and volunteer personnel regarding the organization's activities and results on a continual basis.

Evaluation



Principles

Nonprofit organizations have proven to be highly effective at a wide variety of tasks that benefit society. An essential responsibility of every nonprofit organization is to assess the impact of its actions and to act upon this information. The public has a stake in nonprofit performance and is entitled to information regarding organizational results. Nonprofits should regularly measure their performance against a clear set of goals and objectives. They should share this information with their constituents and the public and use it to continually improve the quality of their processes, programs, and activities.

Practices

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.
2. **Improvement** – A nonprofit organization should have a regular system for investigating ways to improve its services, programs, and internal processes in order to best serve its constituents.
3. **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.
4. **Feedback from the Public** – A nonprofit organization should be open to hearing from and having comprehensive discussions with members of the public who may question the organization's effectiveness.

Measurement

5. **Procedures** – A nonprofit should have defined, ongoing, and sustainable procedures in place for evaluating its

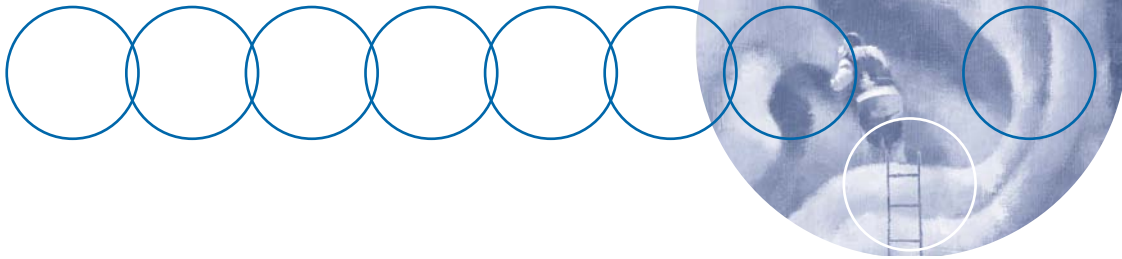
programs, procedures, and outcomes in relation to its mission.

6. **Evaluation** – Nonprofit evaluation should be ongoing and should include input from a wide variety of stakeholders including staff, volunteers, board, funders, constituents, and community members. 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 operational plan.
7. **Performance Measures** – Performance measures should be realistic, specific, measurable, and appropriate to the size and scope of the organization and to its constituents.
 - a) Measurement should include information on satisfaction, activities, results, and community input.
 - b) Measurements may include both qualitative and quantitative data.
 - c) Measurement should include data on efficiency and effectiveness.

End Uses

8. **Confidentiality** – Evaluation information collected from individuals should be kept confidential unless consent for its release is given by the individual.
9. **Culturally Sensitive Evaluations** – A nonprofit should conduct program evaluations in ways that are culturally sensitive and appropriate for the community served.
10. **Evaluation Results** – Evaluation results should be used to strengthen and improve nonprofit organizations, programs, and activities by incorporating evaluation findings into strategic planning processes.
11. **Communication of Results** – Evaluation results should be communicated to a broad range of constituents including staff, board, clients, foundations, the public, etc.

Civic Engagement and Public Policy



Principles

All nonprofit organizations are affected by governmental action, whether directly in their program areas or more generally in areas such as fundraising, employment, or other operational issues. As appropriate, nonprofit organizations should engage in public policy and advocacy activities to promote constituent, organizational, and sector interests.

Nonprofit organizations can play a critical role in the democratic process by providing a means for individuals to deliberate on public policies and decisions that affect them. As appropriate, nonprofit organizations should work to promote broad public participation in public policy and advocacy efforts and should provide assistance to the public in these efforts. Open communication and consultation between policy makers and constituents of nonprofit organizations contribute to well-informed policies and the effective implementation of them.

► *It is important to note that private foundations are prohibited from lobbying, and other 501(c)(3) public charities must adhere to both state and federal laws and regulations when lobbying or engaging in political activity. An organization may support or challenge a piece of legislation or an issue, but must not support or oppose any elected official or candidate for public office (IRC § 501(c)(3)).*

Nonprofits should also know and understand the IRS limits upon the amount of lobbying in which they may engage. Organizations that engage in lobbying activities should understand and consider the IRS 501(h) election. The practices recommended below pertain only to nonpartisan public policy issues.

Practices

Promoting Participation

1. **Public Policy Participation** – A nonprofit organization should participate in the determination and formation of public policy and advocate publicly on behalf of its mission and organizational values.
2. **Civic Engagement** – A nonprofit should assist its constituencies in developing skills and learning about opportunities for public and civic engagement.
3. **Public Policy Environment** – A nonprofit organization should maintain a sound understanding of the current public policy environment in its activity area and the resulting impacts on the communities it serves. Thus, organizations should take appropriate public positions on relevant issues while developing coalitions and communicating with other organizations to inform the public about these issues.
4. **Proactive Approach** – A nonprofit should proactively develop specific strategies to address key issues facing the sector and should include its constituents in those efforts.

Advocacy and Public Policy

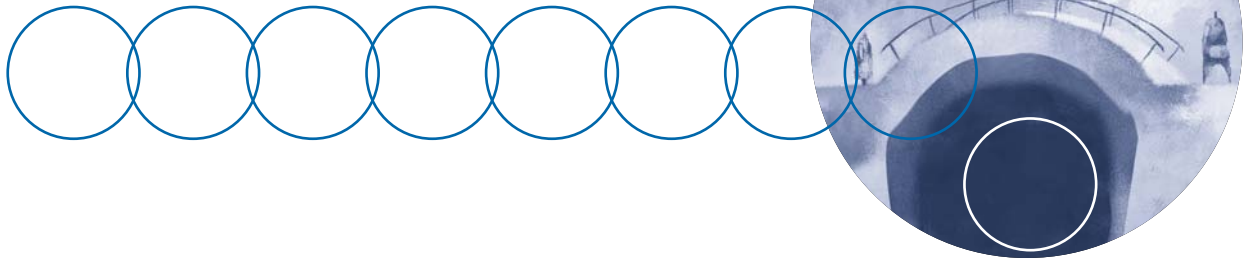
5. **Public Policy and Advocacy Plans** – A nonprofit organization should have written public policy and advocacy plans that define how decisions are made, as well as the scope of activity, time, and resources to be allocated to advocacy and public policy work.
6. **Public Forums** – Nonprofit organizations whose constituencies are affected by government actions should conduct public forums for discussion or provide venues for constituents to express concern about the effects of all of the various policy choices.

7. **Encouraging Voting and Participation** – Nonprofits should assist their constituencies in public and civic engagement by encouraging voting and other citizen participation in local, state, and federal policy-making efforts.

Lobbying

8. **Reporting of Lobbying Activities** – ► *A nonprofit that engages in lobbying activities subject to state and federal reporting requirements must file accurate and timely reports on its lobbying activities with the IRS (on its Form 990) and with the Office of the Colorado Secretary of State (CRS § 24-6-303).*
9. **Lobbying by Organizations Supported by Federal Funds** – ► *Federally funded nonprofits that engage in lobbying activities must organize their legislative work so that no federal funds are used for this purpose (OMB Circular A-122).*
10. **Collaboration** – Nonprofits should join together around policy issues to strengthen their impact on public policy.

Strategic Alliances



Principles

The effectiveness of nonprofit organizations depends on successful relationships with other community institutions. Regardless of form – partnership, collaboration, cooperation or coordination – these relationships, or strategic alliances, can serve a variety of purposes, including resource sharing, policy influence, and improved operational efficiency. They strengthen both the capacity of individual organizations and the sector as a whole. Nonprofits should be open to strategic alliances and, when appropriate, should partner with other organizations to strengthen their capacity to achieve desired results. Nonprofits should initiate and promote cooperation and coordination among a variety of entities to maximize the resources available to the communities they serve.

Practices

Strategy

1. **Strategic Alliances** – A nonprofit should be open to strategic alliances as a means to help achieve goals, improve effectiveness and efficiency, and/or strengthen community connections with clients and others.
2. **Careful Selection of Alliances** – Decisions regarding alliances should be in line with the strategic goals of an organization and should impact the brand and image of the organization positively. A nonprofit should carefully consider how entering into strategic alliances will affect all parties involved.

Coordination

3. **Chapters or Affiliates** – A nonprofit organization that has 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.
4. **Similar or Complementary Organizations** – A nonprofit should stay aware of and coordinate with other organizations providing similar or complementary services in its community. On a regular basis, a nonprofit's board should conduct an environmental assessment to identify organizations providing similar services and to assess the relationship of their nonprofit to those organizations.
5. **Cooperation of Nonprofits** – The work of nonprofits can exist in both cooperative and competitive environments. Having a variety of nonprofit organizations is positive and healthy for a community because it provides for a continuum of approaches, leadership opportunities, individual choices, and customization at the local level.
6. **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.
7. **Assisting Other Nonprofits** – When possible and appropriate, larger nonprofits should assist other nonprofits in the community through alliances and sharing of resources and expertise, particularly assisting the smaller or neediest organizations.

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- *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations*, October 2007, Panel on the Nonprofit Sector (convened by Independent Sector), Washington, D.C.
- *Iowa Principles and Practices for Charitable Nonprofit Excellence*, ©2006 The Iowa Governor's Nonprofit Task Force
- *Guiding Principles and Practices for Nonprofit Excellence in Maine*, ©2006 Maine Association of Nonprofits
- *Guide for Colorado Nonprofit Organizations*, ©2007 Continuing Legal Education in Colorado, Inc.
- *Good Governance Practices for 501(c)(3) Organizations*, 2006, Internal Revenue Service.

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