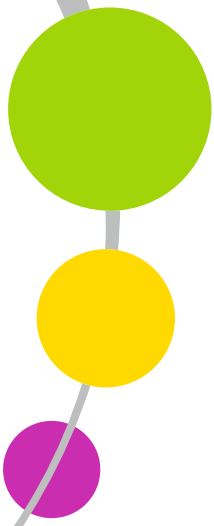
2nd edition

PRINCIPLES & PRACTICES

for Nonprofit Excellence in Kentucky



KENTUCKY NONPROFIT NETWORK

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Dear Colleagues:

Welcome to the 2nd edition of our Principles & Practices for Nonprofit Excellence in Kentucky Guide! First published in 2012, this new edition and accompanying resources reflect the tremendous growth and expansion of our sector and includes updates on the laws governing nonprofits.

Building on KNN's nearly 18 years as serving as the state's source of education and resources for nonprofit leaders, volunteers and partners, the Principles & Practices resources are one of our core services to Kentucky's nonprofit community. These resources exist because KNN believes a stronger, more effective nonprofit sector provides better services to its constituencies; strengthens Kentucky communities; and enhances the organizational experience for this and the next generation of nonprofit leaders. The Principles & Practices program exists to strengthen nonprofits in a competitive and demanding environment.

This Guide is the centerpiece of the Principles & Practices for Nonprofit Excellence in Kentucky program – designed to help your organization ensure legal compliance and identify strengths and challenges to effectively accomplish your mission and plan for the future.

A very special thanks to the partners who shared their time and expertise to contribute to and review this edition. And a thanks to our sponsors – their generosity is an expression of their investment in KNN and a stronger nonprofit sector serving Kentucky's communities.

We hope you find this document and the accompanying resources effective tools for facilitating healthy dialogue, encouraging continuous learning and promoting informed decision-making. Every nonprofit seeks to have positive impact, remain relevant, achieve sustainability and operate with accountability that maintains the public's trust. The Principles & Practices for Nonprofit Excellence in Kentucky is your tool for doing just that.

Let's get started!

Danielle

Danielle Clore
Executive Director/Chief Executive Officer
Kentucky Nonprofit Network

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About the Principles & Practices for Nonprofit Excellence Resources

The Principles & Practices for Nonprofit Excellence in Kentucky resources are a self-help tool for nonprofits striving to achieve excellence. The resources are designed to meet the needs of all nonprofit organizations – large and small. The intent is to provide nonprofit staff and board leaders with a reference to navigate responsibilities and accountability, whether a nonprofit is just getting started or is well-established.

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

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

The recommended practices outline the highest standards. 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's most appropriate for each unique organization is important.

The Principles & Practices program was developed for organizations registered as tax-exempt charitable nonprofits under section 501(c)(3) of the Internal Revenue Code, though the information and concepts apply broadly and may be helpful for all types of nonprofit organizations.

The Principles & Practices for Nonprofit Excellence in Kentucky tools cover fourteen areas of nonprofit management and include:

- Principles and Practices for Nonprofit Excellence in Kentucky Guide – this Guide is the centerpiece of the program, outlining the legal requirements for operating a 501 (c)(3) charitable nonprofit in Kentucky and the recommended best practices for organizational excellence.
- Organizational Planning & Implementation Workbook – the companion Workbook helps your organization assess your compliance with legal requirements and facilitates creation of a workplan for best practices implementation.
- Knowledge building resources and educational opportunities– KNN's Member Information Center includes sample policies; links to additional resources; access to webinars and workshops; and more to support implementation.
- Consultant referral – KNN consultant members actively supporting the Principles & Practices tools are available to assist.
- Best Practices Partnership – helps organizations communicate their commitment to implementing recommended best practices for organizational excellence and mission impact.

Please note, this Guide and the accompanying resources are not intended as a substitute for the wisdom of directors, staff and advisors of organizations. This Guide is not meant to be construed as legal advice and is not a substitute for an organization's consultation with an attorney or other advisors.

Using this Guide

The Principles & Practices for Nonprofit Excellence in Kentucky Guide is the centerpiece of the Principles & Practices program.

Definitions of languaged used frequently in the Guide:

- 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.
- The terms "charitable organization," "nonprofit organization" and "nonprofit" are used interchangeably and refer to nonprofit organizations that are tax-exempt under section 501 (c)(3) of the Internal Revenue Code.
- "Must" means that a federal and/or Kentucky law exists that requires 501 (c)(3) organizations to conform. 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 specific organizations.

Note that this Guide is not intended to be legal advice and is not a substitute for an organization's consultation with an attorney or other advisor.

The Best Practices Partnership

Nonprofit organizations using the Principles & Practices for Nonprofit Excellence in Kentucky resources to strengthen their accountability, transparency and overall effectiveness are encouraged to participate in the Kentucky Nonprofit Best Practices Partnership as a way to communicate their commitment to their constituents. The Partnership includes voluntary use of a partnership seal and an online listing of charitable nonprofits making the commitment to promote and implement best practices that encourage effective and ethical operations that are impactful and best meet community needs. Visit https://www.kynonprofits.org/learn/best-practices-partnership to learn more.

Navigating the Resources

step 1



Understand the Guide

Start by familiarizing yourself with the fourteen sections of the Guide. Your organization may establish an ad hoc committee or may assign different sections of the Guide to various committees for review. It's recommended that board and staff members review together.

step 2



Use the Workbook to Assess and Determine Priorities

The Organizational Planning & Implementation Workbook was developed to support organizations working through the Guide. Specifically, it is designed to help organizations first ensure they are complying with all applicable state and federal laws. Next, the Guide helps organizations identify strengths, areas needing improvement and areas that simply are not applicable, or at least not applicable at this time in the organization's development. The Workbook also allows organizations to assign persons responsible and identify priorities by adding needed timelines. Again, it is recommended that board and staff members utilize the Workbook together.

step 3



Use the Resources & Implement to Build Capacity

Organizations may find some practices are easy to implement while others take time. Some practices may not be appropriate for some organizations at this stage of their organizational development and some may never be appropriate. KNN's Member Information Center includes a number of resources to assist organizations – examples, templates and more explanation of certain issues. Also, educational events and consultants are available to assist organizations with specific issues. Remember, working toward a stronger, healthier and more sustainable nonprofit is an ongoing process and one size does not fit all. A great feature of the Principles & Practices for Nonprofit Excellence in Kentucky tools is that YOU set the pace.

step 4



Ongoing Review & Communication

An annual or biannual review of the Guide and Workbook can be useful in making sure an organization continues to move forward and learn from the self-evaluation process. The Guide and Workbook can also be useful tools for onboarding new board members and staff in leadership positions, as well as reviewing progress/status during annual board retreats. Also remember to communicate successes to the organization's stakeholders such as volunteers, donors, funders, those serves so that they might support the organization's journey toward excellence.



Becoming a Best Practices Partner

Organizations using the tools and resources are encouraged to consider participating in the Best Practices Partnership as a way to communicate their commitment to achieving excellence.

Governance



Guiding Principle: Nonprofit organizations excel at achieving their mission when their boards of directors are fully engaged and provide visionary, strategic leadership; assure adequate financial and human resources exist to accomplish the mission; and provide effective oversight and sound stewardship of assets. Carrying out these responsibilities, the board of directors should always maintain focus on the organization's overarching mission and, as applicable, delegate management to capable staff leadership. The board is responsible for evaluating an executive's performance, as well as approving appropriate compensation. A nonprofit board also has a responsibility to evaluate its own effectiveness as the governing and fiduciary body carrying out its responsibilities and upholding the public interest(s) served by the organization.

LEGALLY REQUIRED PRACTICES:

Members of the governing body, typically the board of directors (but also sometimes referred to as the board of trustees), must be aware of their legal fiduciary duties, which include the duty of care, the duty of loyalty and the duty of obedience. Kentucky law requires directors to carry out their duties to the nonprofit in good faith; with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and in a manner they reasonably believe to be in the best interest of the nonprofit. (KY) (US)

Duty of Care – To successfully carry out their duty of care on an informed basis, each director is obligated, when appropriate, to inquire into the business and affairs of the organization or into actions to be taken/decisions to be made by the organization. To be informed, the director should maintain familiarity with the organization's mission, industry, operations, finances and personnel. The director must also be familiar with the organization's governance documents, as well as regularly attend board meetings.

Duty of Loyalty – A nonprofit board member's duty of loyalty requires that she/he adhere to her/his legal and ethical duties to the organization and not compromise these duties on account

of personal or outside interests that may conflict with those of the organization.

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. A board member also has a duty of confidentiality to the organization she/he serves.

Board Meetings and Decision-Making

- A nonprofit board of directors must hold at least one meeting annually. (KY) However, a minimum of quarterly meetings is a reasonable expectation, and is a best practice.

- A nonprofit board of directors must have three members at a minimum. (KY) A range on the maximum number of members should be stated in the articles of incorporation and/or bylaws to provide flexibility. The exact number of directors (within the range outlined in the articles and/or bylaws) should be established by resolution of the board. External considerations may specify additional requirements for board membership, including the number of board members, specific expertise required and/or qualifications to serve.

- Board members should be notified in advance of the time, place and date of board meetings. How the notices are delivered and how far in advance of a meeting they must be delivered should be set out in the nonprofit organization's bylaws. If the bylaws are silent, notice must be sent to the board member no less than two days in advance of the meeting. Such notice can be waived and will be deemed waived if a board member actually attends the meeting (unless he or she attends the meeting solely to object to the lack of proper notice). (KY)

- Board members may use remote communication technology to participate in board and committee meetings. Technology must permit all board members to simultaneously communicate with one another during the board and/or committee meeting. (KY)

- A nonprofit's bylaws should define what constitutes a quorum of its board, which is usually a majority of the full board. If the

bylaws or articles of incorporation are silent, state law mandates that a majority must be present to achieve a quorum. A nonprofit organization's bylaws may also outline certain actions of the board that require a supermajority vote. Kentucky law prohibits voting by proxy by an organization's board members. (KY)

- If a nonprofit organization is a membership organization, certain board votes may also require the approval of the organization's members. The organization's articles of incorporation and/or bylaws should outline the manner of election or appointment, qualifications and voting rights and procedures, which may include meeting via remote communication. If the organization has no members, that fact should be stated in an organization's articles of incorporation or bylaws. Care should be taken to distinguish between members with voting rights (the right to elect board members and/or officers, for example), members with nonvoting membership rights and "members" whose connection with the nonprofit is financial or other support. (KY)

- The board of directors may act by unanimous written consent, provided that the vote is unanimous among all board members eligible to vote and all board members "sign" the consent document. "Sign" can include a signed document or an electronic signature - email or fax. (KY)

- Clear policies and procedures should be established to provide for the removal of a board member (for example, a board member who is not able to fulfill his/her individual responsibilities, does not abide by the rules set by the board for itself or engages in illegal or unethical behavior). The procedures for removal, if any, must be outlined in the organization's articles of incorporation or bylaws. (KY)

- A nonprofit board of directors may enhance its work as a full board by delegating functions to standing committees of the board and can also benefit from establishing advisory committees and ad hoc or short-term committees. Board committees must include at least two board members (KY). Advisory committees do not require any board members, although it is a best practice to have at least one board or staff member serve to assure effective communication and alignment with the organization's board of directors.

- Most committees should not have the authority to legally or financially bind the organization. If a committee has that authority,

it should be clearly expressed in the organization's bylaws. While a board committee can have non-board members, such individuals cannot vote on any matter that binds the nonprofit organization. (KY) To account for this, bylaws should be drafted so that the vote of any committee members who are not members of the board of directors cannot override the votes of board members. (KY)

- A board member is permitted to rely on information, opinions, reports or statements, including financial statements, if prepared or presented by officers or employees of the corporation, legal counsel, public accountants or other professionals or experts, or a committee of the board of which he or she is not a member, if the director honestly believes that the person presenting such information is reliable and merits confidence. (KY)

Compliance and Reporting

- A nonprofit board of directors should create a culture of compliance and establish practices that require a nonprofit to comply with applicable state and federal laws, regulations, reporting and annual filing requirements.

    - Most organizations that are exempt from income tax under section 501(c) must file an annual information return (Form 990 or 990-EZ) or submit an annual electronic notice (Form 990-N) with the Internal Revenue Service, depending upon the organization's gross receipts and total assets. (US)

    - The informational return should be reviewed by the board of directors in advance of its filing each year and signed by an authorized officer as of the date the return is filed. Some organizations, such as churches and governmental organizations, are not required to file the annual informational return.

    - A Kentucky nonprofit must file an annual report each year with the Secretary of State. Failure to do so will result in the corporation's administrative dissolution. (KY)

    - A nonprofit raising funds/soliciting donations in Kentucky is required to register annually with the Kentucky Office of the Attorney General Consumer Protection Division. (KY) A nonprofit raising funds/soliciting donations in other states may be required to register in those states as well.

- A nonprofit engaged in lobbying activities must register and file required reports with the appropriate authorities in Kentucky (Legislative Ethics Commission, Executive Branch Ethics Commission). Federal reporting must be included on an organization's IRS Form 990. Organizations may elect to measure their lobbying activities under section 501(h)'s bright-line rules by filing IRS form 5768. (KY) (US)

- Federal income tax law prohibits the payment of more than reasonable compensation to board members, executive staff and other influential individuals. (US) To reduce its possible exposure to penalties relating to unreasonable compensation, the board should follow federal guidelines to create a rebuttable presumption that the compensation paid is reasonable. The IRS Form 990 specifically asks whether these rebuttable presumption rules were followed. The process should include:

    - Independent approval: An independent governing body (or a committee acting on behalf of the governing body) should approve the compensation arrangement. Usually this is the conflict-free members of the board or a compensation committee of the board.

    - Comparables: The board or committee should obtain and rely upon appropriate comparability data prior to approving the arrangement. Such data may come from salary surveys/studies, from organizations that specialize in such issues or review of similar organizations (including viewing their IRS Form 990) and can vary depending on the organizations' size, location, focus area and other factors.

    - Documentation: The board or committee should adequately document the basis for its determination concurrently with making that determination in the minutes of the meeting where the compensation was approved.

- A nonprofit must maintain permanent records, including minutes of all meetings of its board of directors and meetings of committees of the board. The minutes should reflect who is present, whether a quorum exists, any resolutions approved and other significant matters discussed (such as the presentation of financial reports). If

the organization is a voting membership organization, a permanent record of members eligible to vote must be maintained. (KY)

- Certain nonprofit organizations must provide the public with access to their records. For nonprofits governed by the Open Records Act, after a written request is received, the organization must respond, in writing, and within three (3) days (not including Saturdays, Sundays or legal holidays). If the nonprofit organization denies all or any part of a request, it must inform the requester upon which of the Open Records Act exemptions it is relying and it must explain how the exemptions apply to the record. (KY)

- Certain nonprofits are governed by the Open Meetings Act and therefore, board meetings of these organizations must be open to the public. In these instances, all meeting dates, times and locations for such organizations must be posted at the organization's headquarters and the meeting location. The organization must also provide notice to news media that have requested advance notice of meetings. (KY) Notwithstanding these requirements, there are certain board discussions from which the media and public may be excluded.

- The Kentucky Office of the Attorney General has duties and responsibilities relating to charitable assets held as institutional funds or held in charitable trusts. A nonprofit must 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. A nonprofit must 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)

RECOMMENDED BEST PRACTICES:

- A nonprofit board of directors should be comprised of individuals who are committed to representing the best interests of the organization and its mission. All boards should strive toward board representation that reflects or supports the organization's constituents.

- For most nonprofit organizations, an independent board is advisable. Depending on the organization, public charities should strive for at least two-thirds of the board being independent and, especially where there are a number of non-independent board members, adhering to a strong conflict of interest policy. One measure of this is provided by the IRS in the Form 990, which defines an "independent" board member as those individuals:

  - receiving no compensation as an officer or other employee from the organization or a related organization;

  - who are independent contractors whose total compensation from the organization or a related organization does not exceed $10,000 for the year; and

  - 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, as well as, those who reside with any individual described above.

- Although the law requires a minimum of three (3) board members (KY), the size of a board generally should be larger. This helps to ensure appropriate deliberation and diversity of membership. The size of the board should be appropriate to the nature and scope of the organization.

- A nonprofit board of directors should establish a consistent process for selecting new board members that will promote infusion of new ideas and community perspectives while preserving institutional memory. A nonprofit should strive toward board representation that reflects the diversity of the community and the organization's constituency. In addition, board members should commit to cultural competency, diversity and inclusiveness as fundamental in advancing the organization's mission. The process should consider one's lived experience, involvement with the organization, professional and technical competencies, time availability, educational experience, and capacity to make and help secure monetary donations and other resources to support the organization's mission.

- A nonprofit board of directors should aspire to maintain transparency in operations and decision-making. At the same time,

the goal of transparency must be balanced with the reasonable needs of the organization, including legitimate confidentiality considerations.

- Employees should not serve as voting members of the board of directors. If an organization's chief executive officer serves on the board, clear guidelines should be established to outline if voting is permitted and when that individual can be excluded from certain executive sessions. Any staff member serving on the board should not serve as an officer.

- A nonprofit board should articulate duties and obligations to prospective board members, including a clear position description outlining expectations, including attendance and any expectation of financial contributions.

- All nonprofit board members should be provided with a board orientation, which should include an introduction to the history, work and mission of the organization and their responsibilities as board members. Orientation should include clearly stated expectations and responsibilities of members, a financial overview, description of current programs/strategic plan, sharing of the most recent IRS Form 990 and a copy of the organization's articles of incorporation, bylaws and conflict of interest policy. Board members should fully familiarize themselves with their expected roles and responsibilities to the organization and should be prepared to articulate the organization's mission and vision.

- A nonprofit board should commit to a continuous, effective process of ongoing education for all of its members.

- Board member responsibilities should include an understanding of the mission, program and activities, finances, fundraising, and operating environment of the organization. The board is responsible for ensuring the organization maintains focus on its 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 is compliant with all applicable laws.

- Nonprofit board members should understand the organization's financial statements and annual tax filings well enough to assess them and if necessary and appropriate, ask intelligent questions.

- A nonprofit board of directors should establish term limits to ensure diversity in skills, experience and leadership succession. To ensure broad participation and preserve institutional memory, board members should have staggered terms. Although not a legal requirement, common term lengths are two 3-year terms or three 2-year terms, with a limit of six years.

- A nonprofit should have officers of the board who are elected by the board members. These typically include the positions of chair, vice chair, treasurer and secretary. These positions and their duties should be outlined in the organization's bylaws. It is recommended that no one individual occupy more than one board officer position at the same time and if there are no term limits for board membership, that term limits exist for board officers. The chair of the board is typically charged with calling meetings, appointing members to committee and other leadership functions. Each board member has one vote.

- A nonprofit board of directors may establish an executive committee (typically made up of board officers). While an executive committee's role and authority may vary, executive committees are most commonly used only to address any emergency situations that occur between board meetings. Like all board committees, an executive committee's role and authority should be outlined in the organization's bylaws. Boards should use caution in regularly convening an executive committee, as doing so often disenfranchises the full board of directors and could threaten an excluded director's ability to remain informed. To address emergency situations between regularly scheduled board meetings, boards may instead conduct a meeting by phone (or using technology where all board members can simultaneously communicate) or utilize unanimous written consent to vote.

- Attendance requirements and expectations should be clearly communicated with all board members. Board members should prepare for meetings by reading the minutes from the previous meeting, the agenda and any additional information provided, including executive director and committee reports.

- The board of directors may act by unanimous written consent, provided that the vote is unanimous among all board members eligible to vote and all board members "sign" the consent document.

"Sign" can include a signed document or an electronic signature - email or fax. When unanimous written consent with electronic signatures is used (such as email), a best practice is for all board members to be copied on all votes. Whether a signed document, faxes or emails are used, a copy of the votes should be attached to the minutes of the next board or committee meeting.

- 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, including travel to and from board meetings. 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.

- 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 any requirements for reporting to the full board of directors should be documented.

- It is often the case that a board committee does the detail work on a particular matter and has its committee chair present to communicate any recommendations and answer any questions at the full board meeting. Items recommended by a committee for board approval that typically do not require discussion can be placed in a “consent agenda” to ensure a more efficient meeting process.

- A nonprofit should have a written conflict of interest policy. The policy should require board members to disclose, on an annual basis, the identity of other organizations they own or serve in a fiduciary capacity and any other actual or perceived conflicts of interests. These disclosures should be reviewed by the other board members and members should be reminded to update their disclosures as needed. The policy should also outline procedures for managing conflicts as they arise (recusal from voting, etc.).

- Periodically, the board should review its size, composition and operational structure to ensure the board is best able to support the organization’s mission, direction and strategic goals. The board

should systematically evaluate how well it is discharging its own duties by regularly assessing its own performance and using the findings to improve its operations and governance practices.

- The board should periodically review the organization's bylaws, mission statement and governance policies and amend as needed to reflect organizational growth and development. It is recommended that an attorney review the organization's bylaws when major revisions are proposed.

- The board should review and approve new or revised fiscal and governance policies including a conflict of interest policy, whistleblower policy, document retention and destruction policy, personal giving and gift acceptance policies and an executive compensation policy. The Form 990, a publicly available document, requires organizations to disclose whether they have most of these policies in place.

- The board, led by the board chair, should be provided an opportunity to intentionally evaluate itself regularly through a self-assessment of individual members and the board as a whole. The self-assessment process may be informal with the board chair or may use a more formal survey process. The opportunity should provide board members to assess his/her own performance in relation to expectations; the board's effective use of time and talents of its members; particular interests a board member may have in the coming year; and provide an opportunity to express other concerns.

- The board of directors, along with staff, should actively participate in overall planning for the organization.

- To demonstrate their commitment to the organization, board members should volunteer their time, assist in developing external sources of funds and donate financially to the organization. Nonprofits should strive toward 100 percent of board members making a meaningful personal financial gift annually, based on means. Time, fundraising and personal giving expectations should be clearly communicated in writing to all prospective board members during recruitment. Current board members should be regularly reminded about their commitment so they may reassess if the commitments remain adequate and/or relevant.

- Board members are typically uniquely positioned to raise funds on behalf of the organization. To do this effectively, a nonprofit should provide those board members with appropriate training and support materials, and actively encourage an appropriate role and responsibility to ask others to support the mission of the organization.

- The board of directors should actively serve as an ambassador for the organization, encouraging others to engage as donors and/or volunteers, as appropriate, and actively advocating on behalf of the organization, when needed.

- The board should engage in short-term and long-term succession planning for the chief executive, board members and key staff to ensure strong leadership and accountability for the organization during planned and unplanned times of transition.

- 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 should, however, exercise reasonable and prudent oversight with respect to corporate officers, agents and employees to whom daily affairs are delegated.

- 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. A nonprofit board should utilize survey data and comparable salary and benefit resources to assure the organization is, to the extent possible, an employer of choice.

- A board member is free to oppose a particular action or decision of the board and vote against it, however once the decision is approved by the board, the opposing member should follow it without public objection or criticism. A board member in consistent disagreement with the general direction of the organization and decisions of the board of directors should consider resignation.

Transparency & Accountability



Guiding Principle: 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.

LEGALLY REQUIRED PRACTICES:

- A Section 501(c)(3) nonprofit must make its last three Internal Revenue Service informational returns available to the public (Form 990, 990EZ, 990T or 990N) as well as its Form 1023. An organization may post these documents on their website for compliance or may provide electronic or printed copies upon request. (US)

  o The informational return should be reviewed by the board of directors in advance of its filing each year and signed by an authorized officer as of the date the return is filed. Some organizations, such as churches and governmental organizations, are not required to file the annual informational return.

- A Kentucky nonprofit must file an annual report with the Secretary of State – listing the names of its officers and the board members as of the date of filing. (KY) This report and the organization's articles of incorporation are posted on the Secretary of State's website.

- A nonprofit raising funds/soliciting donations in Kentucky is required to register annually with the Kentucky Office of the Attorney General Consumer Protection Division by submitting a copy of its Form 990. (KY) A nonprofit raising funds/soliciting donations in other states may be required to register in those states as well.

- A nonprofit engaged in lobbying activities must register and file required reports with the appropriate authorities in Kentucky (Legislative Ethics Commission, Executive Branch Ethics Commission). (KY) Federal reporting must be included on an organization's IRS Form 990 and may be filed using Form 5768 (election under 501(h)). (US)

- If a nonprofit organization is an organization with member voting rights, members may have the right to inspect its records. This right can be outlined/limited to the extent provided in the organization's articles of incorporation or bylaws. (KY)

RECOMMENDED BEST PRACTICES:

- A nonprofit has an obligation to use its resources responsibly for the purpose of serving its charitable mission. Financials, whether audited or unaudited, should be reviewed by the organization's board or a committee of the board (such as its finance committee) and, where required, approved by the full board. Also, where required, the financials should be certified by the executive director/CEO and the chief staff financial officer of the organization.

- A nonprofit organization should maintain a conflict of interest policy for board members, executive staff and independent contractors that includes: disclosure of relationships, any instances of nepotism, interested party transactions and confidentiality issues, as well as procedures for managing conflicts of interest. The policy should require annual completion of conflict disclosure forms that are subject to appropriate review by other board members. Individuals should be given the opportunity to update disclosure forms as needed.

- A nonprofit must be familiar and comply with the laws and regulations that are industry specific, such as health care.

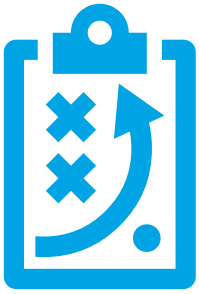
- A nonprofit is encouraged to engage stakeholders in the development and discussion of approaches, goals and effectiveness in carrying out its mission. A nonprofit should provide multiple ways (mail, phone, email, fax) that it can be contacted by the public to request information or provide input.

- In serving the public trust, a nonprofit should at least annually make information available that summarizes their activities, accomplishments, performance and vision for the future. Whether online or in print, the annual report should attempt to bring the organization's mission to life with stories, photos, infographics, etc. and include:
  - overall financial information, including income and expense statement, balance sheet and functional expense allocation;
  - an explanation of the organization's mission, activities and impact;
  - an explanation of the organization's outreach efforts and ways in which constituents may access the program(s); and
  - a list of board members, staff, volunteers and, when appropriate, contributors.
- 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.
- A nonprofit should ensure an accessible, nondiscriminatory atmosphere and, when appropriate, ensure confidentiality with respect to its stakeholders.
- A nonprofit should have a clear privacy policy that can be easily located on its website to provide transparency to donors and the public about how their personal information is used and make data security practices known to interested parties who may ask for it.
- 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.
- A nonprofit's website should be up-to-date and used to communicate its commitment to transparency, including information about its mission, current activities, board and staff members, as well links to its IRS Forms 990, articles of incorporation and bylaws.

- A nonprofit should establish and maintain a culture of compliance and have specific policies and procedures, such as internal controls and whistleblower policies in place to protect the organization from financial misconduct.

- A nonprofit with a social media presence should establish guidelines that outline appropriate interaction among the online community members and the consequences for violations.

Planning



Guiding Principle: 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:

- A nonprofit should have a clearly defined, written mission statement that accurately describes the organization's core purpose. The mission statement should be linked to the values of the organization and its aspirations.

- A nonprofit should have a clear, motivating message about its vision for the future. The statement could be external and address the impact of the accomplishment of its mission or could be internal and focused on the organization and its future.

- A values statement (or statements) is an addition that reflects those core beliefs or principles that drive the work of the organization. It should describe how the nonprofit, and all employees and volunteers, will conduct its work by highlighting core characteristics.

- A nonprofit's mission, vision and values should be reviewed by the board periodically to consider societal and community changes. This review should determine whether these statements are still relevant, and/or whether they should be adapted to address evolving needs of its constituents and the community.

- A nonprofit should engage in appropriate planning activities, depending on the time and resources available. Strategic planning can be done with internal resources or facilitated by an external consultant should the organization desire the benefit of additional objectivity and expertise to facilitate the planning process. The desired outcome of a strategic planning process

is a clear direction for the organization as defined in a series of measurable goals.

- Strategic planning aligns multiple parties on an organization's desired future. The process creates a shared vision among the governing board, senior leadership team, clients and other stakeholders. By thoughtfully and appropriately engaging all parties, the organization should be stronger. Planning surveys, focus groups, task forces and personal interviews are useful tools for eliciting views.

- A strategic plan should serve as a roadmap, guiding the organization to where it should go and what needs to be accomplished. Once completed, the strategic plan should be reviewed often and regularly updated with implementation markers. The plan should not only guide the organization, it should also serve as a filter, enabling leadership to intentionally select those opportunities that will take the mission to its destination.

- A nonprofit should plan two-to-three years into the future and review its strategic plan throughout each year. While a longer-term perspective is necessary for some large goals, most planning focuses on the upcoming twelve or fifteen months because the nonprofit environment changes rapidly.

- A nonprofit should have a thorough and up-to-date understanding of the community it serves, including constituent needs, changing demographics, funding changes, competitor services, political/regulatory environments, government services, emerging technology and applicable trends. To promote overall success within the sector, a nonprofit should look to other nonprofits to share and gather information on lessons learned, best practices, effective resource allocation and prevention of unnecessary duplication of services.

- The strategic plan document should be aspirational and:
  - reflect the results of an environmental assessment that includes information on strengths and challenges facing the organization, as well as opportunities for, and perceived threats to, mission achievement;

  - include clearly defined, reasonably achievable, measurable goals and objectives that are set by the organization to achieve its current organizational priorities;
  - clearly define specific activities, timelines for completion and the person(s) responsible for implementation;
  - be a useful management tool for measuring activities and outcomes and tied to a solid budget;
  - provide a framework for regular progress reports and reviewed and/or updated regularly (at least annually);
  - be flexible enough to allow the board of directors and staff to adapt to unforeseen changes and take advantage of unanticipated opportunities; and
  - identify any additional sub-plans that require specialized work.

- A nonprofit should annually create a written operational plan, which aligns with the strategic plan and specifies how its activities will be implemented on an annual basis – or even quarterly basis, to whatever extent is beneficial. The operational plan should:
  - clearly define specific program, financial, personnel and evaluation activities;
  - delineate timelines;
  - assign specific responsibility for implementation;
  - clearly identify goals and performance measurements;
  - be tied to an annual approved budget;
  - provide a framework for regular progress reports;
  - be reviewed and updated regularly by staff and board members; and
  - include outcomes reporting for program, financial, human resources and other key performance indicators of the organization.
- Continuity planning, disaster planning and business planning are all valuable exercises for prudent preservation of assets, ensuring leadership continuity in times of crisis or planned leadership transition. Additionally, because revenue streams are often dependent upon external factors beyond the nonprofit's

control, thoughtful business planning can help a nonprofit weather economic storms and ensure sustainability.

- A nonprofit should craft and regularly update a succession plan for all key positions. The plan should outline how to ensure leadership continuity in the event of a key change in personnel within the organization and should include how to cover the necessary workload, pull together a team and ensure the success of a new leader. A succession plan should include:
  - a staff management program that is focused on recruitment, retention and development for long-term organizational success;
  - a replacement program plan that ensures strong leadership, accountability and service provision during periods of transition; and
  - sufficient resources in the development of a talent pipeline within the organization.
- A nonprofit should also craft and regularly update these plans:
  - fund development plan that supports the strategic plan
  - ongoing communication plan for both internal and external audiences and a crisis communication plan
  - facilities plan
  - technology plan

Financial Management



Guiding Principle: Nonprofits have an obligation to act as responsible stewards in managing their financial resources, as well as 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.

LEGALLY REQUIRED PRACTICES:

Filing and Reporting

- Most organizations that are exempt from income tax under section 501(c) must file an annual information return (Form 990 or 990-EZ) or submit an annual electronic notice (Form 990-N) with the Internal Revenue Service, depending upon the organization's gross receipts and total assets. (US)

- A Kentucky nonprofit must file an annual report each year with the Secretary of State. Failure to do so will result in the corporation's administrative dissolution. (KY)

- A nonprofit raising funds/soliciting donations in Kentucky is required to register annually with the Kentucky Office of the Attorney General Consumer Protection Division. (KY) A nonprofit raising funds/soliciting donations in other states may be required to register in those states as well.

- A nonprofit must be aware of the federal rules for tax on unrelated business income of exempt organizations and file IRS Form 990-T if the organization is subject to the tax. (US)

- A nonprofit must comply with all federal, state and local financial reporting and tax laws. This includes withholding and payment of payroll taxes and any federal, state and/or local taxes. (KY) (US)

- A nonprofit should review the IRS regulations in order to determine whether it must pay federal excise taxes. (US)

- A nonprofit regularly engaging in the sale of merchandise in a manner that competes with a for-profit entity must register with the Kentucky Department of Revenue for a sales and use tax account and collect and remit sales tax as required. (KY)

- A nonprofit that has 100 or more eligible participants in the organization's retirement plan must have an audit performed by an independent CPA firm and file the extended Form 5500, unless exempted by the 80-120 Rule. (US)

Financial Accountability

- A nonprofit has a legal and ethical obligation to ensure that assets of the organization should be used for the benefit of the organization and not for personal or other gain; and that funds are spent responsibly as any reasonable person would. Funds received as a contribution must be dispensed according to the funder’s wishes and requirements. (KY) (US)

- A nonprofit must establish and maintain a culture of compliance that assures the appropriate financial policies, procedures and reporting mechanisms are in place to demonstrate compliance with all legal and financial regulations and manage all funds according to any requirements as set by funders, donors and regulators. (KY) (US)

- Various roles within a nonprofit must have financial management responsibilities appropriate for the size of the organization, including the board of directors, treasurer, finance committee, audit committee, staff/management, chief financial officer and/or controller. Each role has a responsibility to understand the financial statements and perform key oversight functions. (KY) (US)

- A nonprofit must not engage in excess benefit transactions. Federal law prohibits transactions and other financial relationships between a nonprofit and its board members, key executives and other influential persons (as well as their family

members and controlled businesses) and imposes penalties on those who violate this law. (US)

- A nonprofit must adhere to procurement regulations as defined by the Office of Management and Budget (OMB) Uniform Guidance when purchases are made using federal funds. (US)

- A nonprofit that processes, stores or transmits credit card holder data must comply with Payment Card Industry Data Security Standard (PCI). (US)

- A Kentucky nonprofit must not lend money to or guarantee financial loans to members of the board of directors or officers. (KY) If a board member or officer approves such a loan, such individual(s) will be personally liable for its repayment if the funds are not recovered from the debtor.

RECOMMENDED BEST PRACTICES:

Budgets and Financial Reporting

- A nonprofit's annual informational return to the IRS (Form 990, Form 990-N or Form 990-EZ) should be reviewed by the board of directors in advance of its filing each year and signed by an authorized officer as of the date the return is filed. Some organizations, such as churches and governmental organizations, are not required to file the annual informational return.

- The board should annually review and approve the organization’s budget to ensure that expenditures are in alignment with the organization’s mission. Depending on the size of the nonprofit, the board or the appointed finance committee should review financial reports periodically – quarterly, at a minimum.

- A nonprofit should generate accurate and relevant financial reports that include the comparison of actual to budgeted revenue and expenses to 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.

- A nonprofit should understand all the costs associated with its services. Whether negotiating indirect rates for government contracts or when seeking grants from private foundations or other donors, ensuring the recovery of full costs is essential to a nonprofit's financial sustainability.

- A nonprofit should have appropriate financial management software to record and track revenues, expenses, assets and liabilities including:
  - cash
  - in-kind contributions
  - payroll
  - capital leases
  - revenues (both program services or from support)
  - contracts
  - investments
  - liabilities
  - accounts and pledge receivables
  - gift restrictions
  - endowment funds

- A nonprofit should strive to build sufficient operating reserves. Maintaining financial reserves equal to three to six months of operating expenses is recommended, though the amount could vary depending on organization needs.

- In the event of a budget deficit, the board of directors should be prepared to participate fully in determining a plan to address the deficit. Likewise, in the event of a budget surplus, the board should participate fully in determining the best use of funds to further the mission of the organization.

- A nonprofit should include bequests, planned gifts and pledges when determining the annual budget and should not consider these dollars in budgeting for program expenditures until the gift is actualized.

- A nonprofit should separately track fundraising and development costs; revenue generated from advertising and any lobbying expenses for state and federal reporting purposes.

- A nonprofit should periodically reconcile its accounts such as cash, investments, accounts receivables and payables.

- A nonprofit should backup financial data on a periodic basis and perform backup restoration tests.

Financial Oversight

- A nonprofit's board of directors should include persons with an appropriate understanding of financial and legal matters and have appropriate procedures to continually educate board members regarding the organization's financial reporting and budgeting processes. A nonprofit should seek professional services when key financial or legal issues arise.

- 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. Organizations should offer educational opportunities and/or resources for board members.

- The nonprofit board of directors should establish a finance committee composed of knowledgeable members to provide detailed oversight of the organization's finances.

- A nonprofit should seek to ensure that proper accounting systems and internal controls are in place to detect and prevent fraud and embezzlement including, as appropriate, background checks for employees and volunteers and insurance coverages. The board and key staff should consider developing a matrix or list to clearly delineate the spending and decision-making authority of staff throughout the organization and the types and amounts of decisions that require board approval. This information should be shared with the board, staff and the nonprofit's banking entities should be notified as to the authorized individual(s).

- A nonprofit 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.

- A nonprofit should ensure there is a separation of financial duties within their processes 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.

- 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.

- A nonprofit with annual total revenues in excess of $1 million should consider an annual audit of its financial statements by an independent certified public accountant. A nonprofit with total annual revenues between $500,000 and $1 million should consider a review of its financial statements by 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 that some funders may establish other thresholds for audits and review.

- A nonprofit that has an annual financial statement audit should consider designation of an audit committee that does not share members with and works independently from the finance committee. The audit committee should hire the independent 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 audit committee should approve the audit report.

- A nonprofit that is not required to have an audit of its financial statements by an independent CPA should have clearly defined, written procedures for systematic review of its financial information.

- A nonprofit should develop systems for accounts payable and receivable that ensure invoices are sent and received in a timely manner.

- A nonprofit should have adequate insurance covering risks associated with its operations.

Financial Transparency

- A nonprofit should accept funds and negotiate contract terms that align with the organization's mission.

- A nonprofit organization should adopt a written conflict of interest policy to establish procedures that will offer protection against charges of impropriety involving officers, directors or trustees. The policy should require board members to annually disclose actual or perceived conflicts of interest and the board of directors should review the disclosures. Board members should have an opportunity to update their disclosures throughout the year.

- A nonprofit 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 management and board approval. If goods and/or services are to be procured from an officer, director or any other related party, thus creating a potential conflict of interest transaction, all information should be fully disclosed to the board and the board must vote to approve the transaction.

- A nonprofit should have processes in place in order to track restrictions and ensure that restrictions are maintained when required by donors/funders.

- A nonprofit should adopt specific procedures that allow individuals to report financial misconduct without consequence. A "whistleblower" policy is recommended.

Fundraising



Guiding Principle: 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 concerning 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. A nonprofit should conduct its fundraising activities in a manner that upholds the public's trust in stewardship of contributed funds.

LEGALLY REQUIRED PRACTICES:

Filing and Reporting

- A nonprofit must comply with all local, state and federal laws and regulations concerning fundraising practices. (KY) (US)
- A nonprofit organization must register with the Kentucky Office of the Attorney General, Consumer Protection Division before conducting any fundraising activity and must maintain annual registration if raising funds. (KY)
- A nonprofit must comply with all charitable solicitation laws (including registration if applicable) when soliciting funds from donors in other states. (MULTI-STATE LAW)
- Any fundraising consultant or compensated non-employee raising funds on behalf of a nonprofit must be registered and licensed with the Kentucky Office of the Attorney General, Consumer Protection Division. (KY)

- A nonprofit must follow federal laws concerning Do-Not-Call lists (US) and Kentucky law regarding telephonic solicitations. (KY)

- 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)

- A nonprofit must adhere to the Payment Card Industry (PCI) Security Standards for handling credit card information. (US)

- 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, including any restrictions imposed by the donor. (KY) (US)

- A nonprofit should promptly acknowledge and thank all cash and in-kind donors gifts and, in the process, assist donors in fulfilling their federal gift substantiation requirements. A written acknowledgment must be provided to donors who make single contributions of $250 or more (monetary or in-kind). (US)

- Nonprofits must provide written acknowledgment to donors who make 'quid pro quo' contributions of $75 or more in which there is a benefit provided to the donor. (US)

- Nonprofits must not engage in excess benefit transactions with donors. (US)

- Nonprofits must not trade or sell contact information for any donor without prior permission from that donor. (US)

RECOMMENDED BEST PRACTICES:

- 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.

- 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.

- 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. (See additional resources.)

- 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.

- 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.

- A nonprofit should have a written plan and appropriate policies regarding stewardship of donations. A nonprofit should regularly communicate with donors regarding its activities and should make this information available through multiple outlets, including timely thank you notes/acknowledgements and/or grant reports that not only account for the financial investment, but also articulate the mission outcomes and community impact.

- 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.

- A nonprofit should develop clearly defined, written policies and procedures for grant seeking and grant management.

- A nonprofit should submit complete, accurate and timely reports to grant funders.

- The board of directors should develop a clearly defined, written policy that protects donor information. A nonprofit should respect donor requests regarding recognition of their contributions and the handling of personal information (e.g., requests for anonymity, frequency and method of communication).

- A nonprofit should have a system for consistent record keeping of all gifts received.

Human Resources



Guiding Principle: 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 advance the organization's mission and values and that reflect appropriate industry standards for compensation and benefits.

LEGALLY REQUIRED PRACTICES:

- A nonprofit must comply with all local, state and federal employment laws in hiring and employing personnel. (KY) (US)
- Under federal law, the following types of discrimination are prohibited: age, disability, equal pay/compensation, genetic information, harassment, national origin, pregnancy, race/color, religion, retaliation, sex and sexual harassment. (US)
- A nonprofit and its board must establish and abide by a broad and encompassing equal opportunity employment policy. (US)
- A nonprofit may be required by law to conduct background checks for new hires depending on the specifics of the job description (i.e., working with children). (KY) (US)
- Under federal law, employers are explicitly prohibited from screening prospective employees for disabilities or requiring medical examinations in advance of a job offer. Nonprofits may ask if an accommodation is necessary to perform a specific job duty, and if the answer is yes, then the nonprofit may ask what the accommodation would be. (US)
- A nonprofit should include both employee and volunteer records retention guidelines and procedures in its records retention policy that are consistent with applicable laws. A nonprofit must

maintain confidentiality of all employee personnel files, with limited access generally through locked files. Employee personal health information (PHI) must be kept strictly confidential, in a locked file. Written records containing employee PHI must be filed separately from the personnel file. (KY) (US)

- Nonprofits are governed by certain federal and state requirements to provide the following:
  - Worker's Compensation coverage for all employees
  - W-2 and K-2 earnings statements annually
  - A COBRA notice for terminating employees, as applicable
  - OSHA compliance and reporting regarding workplace safety, including access to MSDS sheets for all hazardous materials in use
  - Annual Child Health Insurance Program (CHIP) and Woman's Health Cancer Rights notices, as applicable; and
  - Affordable Care Act (ACA) statements annually
- A nonprofit must pay minimum wage under applicable local, state and federal law. In addition, it must correctly classify positions as exempt, nonexempt, independent contractor or employee in accordance with state and federal wage and hour laws, and pay any overtime afforded to the employee, if applicable. (KY) (US)
- An employer may not consider a worker as both an employee and an independent contractor, providing both a W-2 and a 1099 for similar work. (US)
- A nonprofit that utilizes interns should be familiar with the Fair Labor Standards Acts (FLSA). An organization may choose to pay no compensation at all or may provide a stipend (e.g., a small amount of money paid for the entire summer, meals or transportation). Under the FLSA, an unpaid intern is considered a volunteer. Nonprofits may engage unpaid interns only if the work they do is similar to the work of a volunteer. If the unpaid intern's job involves work the organization would normally pay someone to do, the intern must be paid according to FLSA requirements. (US)

RECOMMENDED BEST PRACTICES:

- A nonprofit should have a comprehensive and regularly updated employee handbook and should consider having an attorney review the employee handbook every three to five years, unless significant legal changes have occurred.

- A nonprofit should employ skilled individuals who are suitable for the positions they occupy (paid or unpaid); reflect the diversity of the community; and are committed to the goals, values and objectives of the organization.

- A nonprofit organization should provide all staff with clear, current and written job descriptions and the tools they need to produce quality work. Job descriptions should set forth the essential functions of the positions, qualifications required and physical demands.

- A nonprofit should have a formal orientation program for new employees. It should include, at a minimum, information concerning employee safety, 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.

- A nonprofit should create and maintain an organizational chart that outlines roles, positions and reporting chains within the organization.

- If a nonprofit employs staff, the board of directors should review its overall compensation structure (also known as a salary scale), using industry-based surveys of salaries and benefits. The board should set reasonable and competitive compensation for the organization's chief executive and approve reasonable and competitive salary ranges for other positions. The board should establish policies on employee benefits that treat all employees fairly and equitably, which may include:
  - o health insurance;
  - o retirement plans;
  - o sick leave, family leave, vacation and other paid time off; and
  - o other benefits as may be appropriate.

- A nonprofit should strive to be an employer of choice by providing, to the extent possible, a competitive salary and benefits that attract and retain talented staff.

- A nonprofit should include the available compensation when posting open positions and should not require potential candidates to include salary history in their application packet.

- A nonprofit should adopt a set of policies and procedures for personnel, including but not limited to sexual harassment, equal employment opportunities, retaliation and a complaint procedure that provides multiple avenues to file a complaint. All employees should receive a copy of these policies and procedures and should submit a signed acknowledgement of such.

- A nonprofit should provide anti-harassment training to its board and employees at least every other year. The training should be mandatory and attendance should be recorded in documentation. Anti-harassment training should cover all types of harassment based on race, color, religion, sex, national origin, age, disability, etc. Training should include instructions for a complaint process, what board and management are responsible for, confidentiality, employee rights, etc.

- A nonprofit should establish a conflict of interest policy for employees that includes: disclosure of relationship, 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.

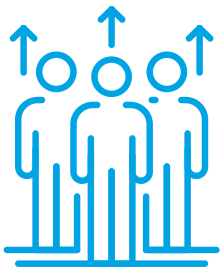
- A nonprofit should develop clearly defined, written whistleblower and grievance policies to protect employees. They should define the chain of command and appropriate communication mechanisms that employees use (e.g. phone, email, in person).

- A nonprofit should support the education and professional development of personnel and should provide them with opportunities for growth and advancement.

- A nonprofit should provide ongoing performance-related feedback and a performance evaluation at least annually, analyzing the job performance of staff, providing guidance, articulating goals, objectives and expectations. It should also provide clear and equitable procedures for taking disciplinary action.

- A nonprofit should have a system in place for the succession of key employees, most notably for the executive director and key leadership positions, during planned and unplanned times of transition.

Diversity, Equity & Inclusion



Guiding Principle: Nonprofits have a responsibility to offer inclusive programs and services that aim to increase equity in their communities. Organizations that actively implement equitable and inclusive governance and operating practices are demonstrating an awareness of and commitment to social justice and are well-positioned to make strong business cases for their important work.

LEGALLY REQUIRED PRACTICES:

- A nonprofit must comply with all applicable federal, state and local employment laws and regulations, such as the federal Americans with Disabilities Act, federal Occupational Safety and Health Act, state statutes on public breastfeeding and workplace pumping, etc. (KY) (US)

- A nonprofit must ensure that nondiscriminatory services and organizational practices are provided in accordance with state and federal law. For example, a nonprofit must assure that translation services are available to clients who request them. (KY) (US)

RECOMMENDED BEST PRACTICES:

- A nonprofit should clearly define "diversity," "equity" and "inclusion" as they pertain to the organization's mission, values and strategic goals.

- A nonprofit should articulate their commitment to diversity, equity and inclusion, and leverage these principles for strategic mission fulfillment.

- A nonprofit should create a strategy for fostering relationships with diverse networks in order to broaden the pool of qualified candidates for employment, board membership and other volunteer roles, and commit to doing so prior to making hiring or volunteer nomination decisions.

- A nonprofit should consider lived experience, involvement with services, and professional and technical competencies, in addition to educational experience, when recruiting new employees, board members and other volunteers.

- A nonprofit should consider not asking questions on the initial application for employment related to criminal history in order to receive the maximum number of qualified applicants for the position.

- A nonprofit should work to identify and eliminate any form of discrimination in the workplace – intentionally removing any policies or practices that exclude people due to differences in social identity and access.

- A nonprofit should create an environment, through inclusive leadership, where regular, open communication is a priority; internal information is shared appropriately; and employees, board members and other volunteers are encouraged to share their diverse perspectives.

- A nonprofit should define their compensation philosophy, balancing internal equity with market-based research and livable wages for all employees.

- A nonprofit should promote education and professional development and provide equitable opportunities for growth and advancement of employees.

- A nonprofit should ensure supervisors hold regular one-on-one meetings with each employee who reports to them.

- Nonprofit leaders should provide employees with regular, ongoing performance-related feedback at least monthly and evaluate the job performance of each employee at least annually.

- A nonprofit should follow clearly defined and equitable procedures when taking disciplinary action.

- A nonprofit should respond to ideas, concerns and feedback from employees and volunteers, with a commitment to fully understanding their perspective and taking action if necessary.

- A nonprofit should develop and implement procedures that allow employees and volunteers to informally express concerns and formally report and rectify grievances with a neutral external third party, if necessary.

- A nonprofit should support employees who disclose a disability and request a reasonable accommodation beyond what is required by the Americans with Disabilities Act.

- A nonprofit should ensure that services are accessible to clients (e.g., sliding scale fees, flexible office hours) and should make this information publicly available (e.g., website, signage, communication from employees).

- A nonprofit should provide a space on forms for individual self-identification in addition to any preset categories that are necessary for reporting purposes (e.g., male, female, Hispanic).

- A nonprofit should make every effort to provide materials in the preferred language of most of its clients, if not English, in a manner they understand and find useful (e.g., written, oral, video).

- A nonprofit should ensure services meet the specific needs of clients by regularly evaluating programs and services.

Communications



Guiding Principle: 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. Engaging the community through external communication is necessary to advance the organization's mission, protect the organization's brand, attract and retain constituents, increase public understanding of and commitment to the organization and raise funds for the organization.

LEGALLY REQUIRED PRACTICES:

- A nonprofit should strive for honesty and accuracy in all communications, avoiding claims that are exaggerated or that defame others. In certain instances, accuracy is legally required. (US)

- A nonprofit must make information available to the public as required by federal and state law. The Internal Revenue Service requires nonprofits to provide, upon request, copies of the three most recently filed annual informational returns (Forms 990, 990EZ, 990PF, 990-N and the organization's application for tax-exemption). An organization may also post these documents online. (US)

- A nonprofit must adhere to antispam laws in email communications. (US)

- A nonprofit must honor donor requests for privacy and anonymity, unless they violate the law or the nonprofit's policies and procedures. (US)

- A nonprofit must adhere to laws regarding copyrights and trademarks. Use of photos from the internet without consent from the photographer and/or proper attribution could be an infringement on copyrighted material. (US)

- Certain nonprofits are governed by the Kentucky Open Meetings Act and therefore, the board meetings of these organizations must be open to the public. In these instances, all meeting dates, times and locations for such organizations must be posted at the organization's headquarters and the meeting location. The organization must also provide notice to news media that have requested advance notice of meetings. (KY)

- Certain nonprofits are governed by the Kentucky Open Records Act, and therefore, these organizations must be responsive to record requests received from the public. If the Open Records Act applies, then once a written request is received, the organization must respond, in writing, and within three (3) days (not including Saturdays, Sundays or legal holidays). If the nonprofit organization denies all or any part of a request, it must inform the requester upon which of the many Open Records Act exemptions it is relying and it must explain how the exemptions apply to the record. (KY)

RECOMMENDED BEST PRACTICES:

- 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.

Branding

- A nonprofit should establish and promote their brand both internally and externally to support and strengthen its reputation and build equity that is consistent with its mission.

- A nonprofit should unify branding, marketing and public relations efforts through consistent communications tactics such as key messages, language and tone, logo and visual identity.

- A nonprofit should develop and implement a set of brand standards that provide the rules and guidelines for using the organization's brand elements such as fonts, logos, graphics, photography, messaging and other assets. A nonprofit should copyright or trademark organizational materials as appropriate.

Communications Planning

- A nonprofit should have a clearly defined written communications plan and policies guiding both internal and external communications. The plan should integrate with and support the organization's comprehensive organizational strategy. It should outline the distribution of a consistent message to all target audiences including clients, employees, supporters, media, and other stakeholders. It should demonstrate accountability to constituents and the public.

- A communications plan should include tangible/measurable objectives, target audiences, key messages, strategies, activities timeline, and budget parameters.

- A communications plan should include an integrated strategy for branding, public and media relations, advertising and non-traditional marketing. Specific tactics to support these strategies 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, target audiences and the resources available.

- A 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.

External Communications

- In serving the public trust, a nonprofit should at least annually make information available that summarizes their activities, accomplishments, performance and vision for the future. Whether online or in print, the annual report should attempt to bring the organization's mission to life with stories, photos, infographics, etc. and include:
  - overall financial information, including income and expense statement, balance sheet and functional expense allocation;
  - an explanation of the organization's mission, activities and impact;
  - an explanation of the organization's outreach efforts and ways in which constituents may access the program(s); and
  - a list of board members, staff, volunteers and, when appropriate, contributors.
- A nonprofit should have a written policy or 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 and trained on the statement, positions, policies and procedures and the designated spokesperson(s).
- 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.
- 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 all media providers and becomes a resource for local media; and
  - coordinates messages to the media, ensuring that communications are well-rehearsed, brief, timely and newsworthy.

- 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;
  - clear identification of who will function as the organization's spokesperson in a time of crisis and clear instructions about how and when to defer comment to that individual;
  - contact information for local and state media;
  - scenarios for several types of crises and 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.)
- A nonprofit should openly communicate with other nonprofits to share and gather information on lessons learned and best practices.
- To the extent appropriate and necessary, a nonprofit should provide materials in alternative languages or offer translation services for non-English speaking, blind and/or deaf constituents.

Internal Communications

- A nonprofit should encourage internal communication that welcomes alternative perspectives, invites and encourages participation at all levels, minimizes defensiveness and builds and maintains camaraderie and a sense of community. Management should solicit actively, listen carefully and respond respectfully to the views of internal constituents.
- 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.

- A nonprofit should foster a culture of philanthropy, arming constituents with the resources and information necessary to extend outreach and support as ambassadors of the organization's mission. Tactics specific to this strategy should be incorporated into the overall communications plan.

Digital & New Media Communications

- The use of social media should engage the community, including participants in programs and services, supporters and volunteers, opinion leaders, the media and elected officials.

- Maintain a regular and consistent presence on social media platforms through the development of an editorial calendar that includes evergreen, mission-oriented messaging, but also timely and relevant organizational updates.

- Identify a plan and/or representative to respond to inquiries and grievances raised on social media platforms in a timely and appropriate manner.

- A nonprofit should develop and maintain a digital and social media policy that guides how the organization engages with social media platforms, provides expectations for staff, board members and volunteers regarding social media activity, and protects its interests.

- A nonprofit's website should act as a primary resource for constituents to obtain information relevant to their needs. The website's design should take into consideration the user's journey and experience to optimize the platform's usability and functionality.

- A nonprofit should maintain an understanding of trends in online communications and develop a process for how to incorporate new strategies into its communications plan.

Public Policy & Advocacy

Guiding Principle: 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, a nonprofit organization should engage in public policy and advocacy activities on behalf of its mission, those they serve and their organizational values. Nonprofits should also advocate for the sector as a whole on issues that affect all charitable organizations. Nonprofits can serve as a critical educational resource for policymakers and the public, as well as influence public attitudes to support mission fulfillment. Advocacy and lobbying activities are legal under federal and state law.



Advocacy broadly defined is the active support of an idea or a cause and, while definitions vary, can include the following activities:

- Civic Engagement: Organizing the community around an issue, nonpartisan registering of voters, or meeting with government officials to share information about an organization's work.
- Direct Lobbying: Communication with a legislator to express a view about specific legislation.
- Grassroots Lobbying: Communication with the public to express a view about specific legislation with a call to action, such as urging the public to contact their legislators.
- Education/Not Lobbying: Nonpartisan analysis, study or research that presents all sides of an issue; responses to written requests for assistance from committees or other legislative bodies; challenges to or support for legislative proposals that would change the organization's rights or right to exist; examinations and discussions of broad social, economic and similar problems.

LEGALLY REQUIRED PRACTICES:

Election Activity/Political Campaigns

- A nonprofit must not make financial contributions to political campaigns and must not endorse or oppose candidates for public office. (US)

- Nonprofit staff or board members are permitted to endorse or support candidates on their own time, but must not endorse or oppose candidates on behalf of the organization. (US)

- A nonprofit engaging in election-related activity (debates, candidate forums, scorecards, etc.) must remain nonpartisan and follow federal guidelines. (US)

Lobbying

- Lobbying is legal and appropriate. A nonprofit must adhere to limits on lobbying activities under Section 501(c)(3) of the Internal Revenue Code. Lobbying means communicating directly, or urging the public to communicate, to support or oppose legislation before a legislative body or voters.

- There are exceptions to what is considered lobbying activities (and not treated as lobbying expenses) including: (US)
  - discussion of broad social and economic issues without expressing a view on pending legislation or calling for action;
  - nonpartisan analysis or research that may express a view on legislation but has no call to action and is widely disseminated;
  - technical advice to a legislative body or committee at the invitation of that body or committee;
  - "self-defense" communications on legislation affecting an organization's existence, powers, duties, tax-exempt status or deductibility of contributions; and
  - membership communications that reflect a view on legislation of direct interest to the organization and its members but do not encourage direct or grassroots lobbying.

- Activities to influence legislation must be an "insubstantial part" of a nonprofit's organizational activities under 501(c)(3). For a nonprofit that does not elect to take advantage of Section 501(h) (discussed below), the IRS determines if a nonprofit's lobbying activities are substantial based on all the applicable facts and circumstances. A nonprofit must report its lobbying activities on

its annual IRS Form 990 information return. The IRS considers a variety of factors, including time devoted by both compensated and volunteer workers and expenditures devoted by the organization to the activity, when determining if the lobbying activity is substantial. (US)

- A nonprofit must be aware of funding source limitations when they engage in lobbying. For example, nonprofits that receive state or federal funding are not allowed to use these specific funds for lobbying. Some private foundations may also restrict use of their funds. (KY) (US)

501(h) Election

- Section 501(h) of the Internal Revenue Code allows a nonprofit's limit on lobbying to be measured based on expenditures rather than the "insubstantial part" limit. Under the 501(h) election, a nonprofit must report both direct and grassroots lobbying activities on its annual information return and limit grassroots lobbying expenditures to no more than set limits of total lobbying expenditures. (See additional resources.) (US)

- A nonprofit that elects to use the IRS 501(h) Expenditure Test must file IRS Form 5768 any time during the tax year for which it is to be effective. It will remain in effect until revoked by the nonprofit. (US)

- A nonprofit that does not make the 501(h) election is allowed to lobby but must ensure lobbying could not be considered a "substantial part" of the organizational activities; otherwise tax-exempt status may be jeopardized. (US)

- 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.

Compliance, Filing and Reporting

- A nonprofit and employees lobbying on the organization's behalf must comply with all state laws and regulations, including registration and regular reporting with the Kentucky Legislative Ethics Commission and Executive Branch Ethics Commission, as required. (KY)

- Federal lobbying registration and quarterly reports are required if a person makes at least one lobbying contact on behalf of the organization, an employee devotes 20 percent of their time lobbying in a quarter, and the organization spends more than $13,000 on lobbying in a quarter. (US)

- A nonprofit must report lobbying expenses annually on IRS Form 990, Schedule C. (US)

RECOMMENDED BEST PRACTICES:

- A nonprofit should maintain a sound understanding of current public policy related to their mission, clients, community and the nonprofit sector as a whole.

- A nonprofit should consider taking organizational positions on policy issues that are important to their mission and affect their constituents or the services they provide to the community.

- A nonprofit should develop a clearly defined, written policy clarifying the scope of their advocacy work and their priorities, which provides the organization the ability to quickly engage in public policy outreach when needed.

- A nonprofit should build relationships with legislators and their staff and share information about organizational activities that may be impacted by public policies.

- A nonprofit should form strategic partnerships with other organizations around relevant policy issues impacting their mission, those they serve and the sector at large, including engagement and membership with its state association of nonprofits.

- A nonprofit should educate stakeholders (board of directors, employees, volunteers, donors and community members) on how public policies impact their organization and constituents and encourage their participation in the organization's advocacy activities.

- 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. (See "Stand for Your Mission" in additional resources.)

- A nonprofit should provide training to those participating in advocacy on behalf of the organization.

Civic Engagement

- A nonprofit should consider promoting awareness of elections and issues, including holding nonpartisan candidate forums and distributing candidate questionnaires.

- A nonprofit should encourage and facilitate voter registration and voting in federal, state, county and city elections, but should refrain from demonstrating a bias in support of or opposition to any candidate running for public office or political party. Note that some federal funding sources prohibit spending those funds for voter registration activities.

Volunteer Engagement



Guiding Principle: Volunteers are a critical resource for some nonprofit organizations. They can build nonprofit capacity by bringing ideas, energy and expertise that advance an organization's mission. Nonprofits have an obligation to act as responsible stewards of the skills and time volunteers bring to the organization and should exercise fair and equitable volunteer management practices that attract and retain qualified individuals. An effectively-managed volunteer program can enhance an organization's efficiency, strengthen community engagement, and increase the community's awareness of issues and resources through a knowledgeable pool of ambassadors, advocates and donors.

LEGALLY REQUIRED PRACTICES:

- A nonprofit must understand and follow the legal requirements surrounding use of volunteers within an organization, including appropriate policies, procedures and documentation that legal requirements are being met. (KY) (US)

- A nonprofit must pay employees for all hours worked. Employees cannot serve as unpaid volunteers when performing duties for which they would otherwise be paid. (US)

- Volunteers may be financially reimbursed for items that follow IRS rules on reimbursing employees or volunteers for business-related expenses. The IRS rules for reimbursement require that: (US)
  - o any expenses being reimbursed are incurred for a nonprofit business purpose
  - o the volunteer adequately accounts for the expenses within a reasonable period of time—no more 60 days after the expense was incurred, and
  - o the volunteer returns any amounts received in excess of the actual expenses incurred within a reasonable period of time—no more than 120 days after receipt of the excess money.

- A volunteer who receives a stipend must be treated the same as paid staff and payroll tax contributions must be withheld from their pay. This applies to in-kind benefits as well, which must be assigned fair market value. If the stipend is over $500 a year or 20% more than what an employee would be paid, the payment must be reported on IRS Form 1099-MISC. (US)

RECOMMENDED BEST PRACTICES:

- Before developing a volunteer engagement strategy or enhancing its engagement efforts, a nonprofit should conduct an assessment of the organization's readiness for volunteers. The assessment should determine whether budget and staffing are sufficient to effectively engage and support volunteers, whether policies and practices are in place for effective engagement and whether there are resources to address liability and risk issues, insurance needs and other requirements of an effective volunteer engagement strategy.

- A nonprofit should understand and follow all state and federal rules regarding liability and risk issues, as well as, insurance needs for all volunteers.

- Once readiness is determined, a nonprofit should develop a volunteer engagement plan that consists of:
  - Purpose statement – identify what benefit the organization will receive from the effective engagement of volunteers; all members of the organization (including board members) should recognize the role that volunteers play in achieving its mission.
  - Budget – ensure the organization has the financial resources to support a volunteer program, including appropriate liability insurance protection.
  - Roles and responsibilities – clearly delineate and communicate roles, responsibilities, and relationships between staff and volunteers to maximize impact and ensure compliance with labor laws.
  - Resources – provide references to policies and procedures to ensure best practices are implemented routinely.

- Organizational commitment to engagement should be clearly articulated and demonstrated by such practices as including volunteer engagement in the organization-wide strategic plan, ensuring that the volunteer engagement professional has representation on the senior leadership team, and senior leadership actively talking about volunteer engagement when discussing organizational goals and strategy.

- A written position description should be created for all 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.

- 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.

- A nonprofit should implement effective screening procedures and conduct background checks on regular, reoccurring 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.

- Volunteer assignments should be made with careful consideration of the volunteer's skills, needs and interests.

- A nonprofit should construct an intentional system for orientation and training of volunteers. Before starting, the volunteer should 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 their 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 to all volunteers, including attendance policies, confidentiality policies, grievance procedures and other key information to minimize risk and maximize effectiveness
  - an ongoing orientation/communication plan to keep volunteers apprised of changes within the organization as well as enhanced opportunities for volunteer involvement.

- A nonprofit should clearly communicate expectations of paid staff around engagement and support of volunteers through job descriptions, new employee orientations, training on how to effectively engage volunteers and ongoing supervision and support.

- A nonprofit's volunteer program should be structured so that each volunteer has an identified supervisor and understands who to communicate with in the event the supervisor is absent. The volunteer should meet with their supervisor prior to fulfilling any duties to ensure roles and expectations are clear.

- Volunteer performance should be evaluated regularly (at least annually) with the supervisor or volunteer leader 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. The volunteer should be provided with an opportunity to assess his/her own performance; whether or not the volunteer feels the organization is effectively using his/her skills, talents and expertise; and the extent to which the volunteer experience is rewarding and fulfilling. If a volunteer is not effectively performing their duties or does not find the current volunteer position rewarding, a process should exist for thoughtful reassignment and/ or release of the volunteer. While evaluation of one-time (or episodic) volunteers may be less formal, supervision and feedback is still valuable.

- A nonprofit should have clearly articulated and documented accountability and discipline procedures for volunteers that address lack of performance as well as policy violations.

- A nonprofit 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).

- The volunteer strategy should be evaluated annually to assess cost and benefits of the program, to document impact on mission achievement and to direct future volunteer engagement initiatives.

- A nonprofit 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.

- A nonprofit 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.

Information & Technology



Guiding Principle: A nonprofit should gather and manage information in a manner that values and ensures security, sensitivity, confidentiality, safety, accuracy, integrity, reliability, cost-effectiveness and legal compliance. A nonprofit should invest in appropriate technology to enhance organizational capacity and thereby improve its efficiency, effectiveness and accuracy in achieving its mission.

LEGALLY REQUIRED PRACTICES:

- A nonprofit should have a mandatory written policy or schedule on document retention and destruction with guidelines for handling all types of documents, including electronic files and voicemails. The policy should also include procedures for backing up or archiving documents, and regularly checking the reliability of the document handling procedures. A nonprofit organization must retain documents involved in litigation or a government investigation. (US)

- A nonprofit handling health information and billing either the government or private insurance for provided services must comply with all the security and privacy rules of the HIPAA/ HITECHJ Act. Nonprofits, regardless of size are not exempt from these rules. (US)

- A nonprofit who accepts credit card payments for donations or services must also comply with the Payment Card Industry-Data Security Standards (PCI-DSS). (US)

- A nonprofit handling personally identifiable information (PII) must have a policy to inform affected individuals whose unencrypted personal information was acquired by an unauthorized person. (KY)

RECOMMENDED BEST PRACTICES:

Strategy, Governance and Risk Management

- A nonprofit should attempt to include an individual(s) on their board of directors who have experience with managing information technology environments in order to provide perspective to the board and executive director, and to ensure the IT provider (internal or external) are functioning in the best interest of the nonprofit.

- A nonprofit should should include Information Technology in its strategic plan. The IT plan should consider the hardware, software and personnel necessary to support the nonprofit for the next several years. This plan/strategy should consider the most cost-effective means to achieve the nonprofit's objectives, including lease vs. buy decisions, insource vs. outsource, on-premise vs. subscription-based models.

- Nonprofits should perform an annual IT risk assessment to determine "what can go wrong" with the confidentiality, availability or integrity of data and systems and to determine if controls are sufficient to lower any perceived risks to an acceptable level.

- Nonprofits should assess the risks key technology vendors pose to the confidentiality, availability and integrity of your information and systems.

- A nonprofit should monitor ongoing technological developments that have the potential to impact its information systems or ability to fulfill its mission.

Day-to-Day IT Operations

- IT operations and processes should be well documented to ensure supportability of infrastructure, network and systems in the event of a loss of a key IT staff member or vendor.

- 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.

- A nonprofit should maintain an up-to-date inventory of all IT assets (PCs/workstations, servers, switches/routers, firewalls and software licenses).

- A nonprofit should ensure that a system monitoring capability exists to ensure the continued availability of the network and information systems environment.

- A nonprofit should make a determination as to how much data could be lost in the event of a disaster and develop backup policies and technologies to meet those recovery point objectives.

- A nonprofit should ensure backup data is stored in a secured, off site facility or in the cloud. The restorability of the backups should be tested occasionally.

- A nonprofit should ensure they are utilizing supportable technology to ensure a vendor can provide support in the event of a serious issue. A nonprofit should not continue operating on unsupportable hardware or software.

- A nonprofit 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.

- A nonprofit should have a policy regarding software updates and security patching that emphasizes patches be applied to software as soon as possible, once received from software vendors.

Information Security

- A nonprofit should have a robust set of information security policies communicated to staff that address the agencies policy regarding:
  - Authorized and unauthorized use of information systems
  - Use of social media as a nonprofit representative
  - Email and internet usage
  - Access requests and reviews of access periodically

  - Identification and authentication rules including password length and complexity (the longer and more complex the password, the better)
  - Software patching
  - Workstation security
  - Bring Your Own Device (phones, tablets, PCs) and Mobile Device Management
  - System Monitoring
  - Incident response including detailed incident response plans
  - Data classification and corresponding protection requirements (e.g., Personal Health Information (PHI) must be encrypted in transit and at rest).
  - Data usage and capture (if the organization does not need PHI or Personally Identifiable Information (PII) it should not collect/save it)
  - Confidential data handling
  - Data backup and recovery
  - Data disposal

- A nonprofit should ensure that access to the organization's information is limited to only those with a need to know. Access to information should require supervisory approval.

- Access lists should be reviewed regularly to ensure individuals who have left the organization have had their access removed.

- Portable workstations and other devices should be physically secured.

- A nonprofit allowing their employees or volunteers to utilize their personal devices to access the nonprofit's systems or information should require that mobile device management software be installed to ensure data can be centrally wiped from the device if it is lost or stolen.

- A nonprofit should not permit employees to have administrative access to their workstations to reduce the risk of malicious software being introduced into the environment.

- A nonprofit should have a documented and tested incident response plan in the event of a malware or ransomware situation, or some other critical event that requires a coordinated response.

- A nonprofit allowing remote access into systems, should require the use of two factor authentication and utilize virtual private network solutions to encrypt all data traffic.

- A nonprofit should have next generation firewalls to protect their network perimeter and next generation anti-virus/malware protection.

- A nonprofit should disable USB drives on workstations to reduce the risk of data loss.

- A nonprofit should assess the technical vulnerabilities of their network perimeter and internal network, at least annually, to determine if easily exploitable technical vulnerabilities exist.

- A nonprofit should train their employees and volunteers annually on the agencies policies and about safe computing practices.

Risk Management



Guiding Principle: Risk is any uncertainty about a future event that threatens a nonprofit 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:

- 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.

- 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, and should include, as appropriate:
  - Workplace Safety
  - Legal Compliance
  - Governance
  - Insurance Program Oversight
  - Information Security
  - Fiscal Oversight and Fraud Protection
  - Employment Practices
  - Youth Protection
  - Volunteer Management
  - Reputation

- To protect its assets, a nonprofit should obtain appropriate insurance coverage, including general liability and directors and officers (D&O) insurance. Other policies that should be considered:
  - Non-owned auto
  - Cyber security
  - Child accidents
  - Surety bonds for staff with access to organizational assets
- A nonprofit 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.

- To ensure that risk management becomes an integral part of the organization's life, a nonprofit should develop a business continuity plan and train staff, board members and other volunteers accordingly.

(See additional resources for more information.)

Strategic Partnerships



Guiding Principle: The effectiveness of nonprofits depends on successful relationships with other community organizations. Strategic partnerships can take many forms – coalitions, collaborations, cooperation or coordination, and formal alliances or corporate restructuring, such as mergers or acquisitions. These relationships can serve a variety of purposes including resource sharing, influencing policy and improving operational efficiencies. Strategic relationships can strengthen the capacity of individual organizations as well as the entire sector. Nonprofit organizations should be open to joining others, when appropriate, to enhance their capability to achieve desired results. They 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.

LEGALLY REQUIRED PRACTICES:

- A nonprofit must ensure that neither their assets nor their income improperly benefit a taxable entity (i.e., individual or for-profit business) or provide private inurement to a disqualified individual when forming partnerships. (US)

RECOMMENDED BEST PRACTICES:

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.

- Decisions regarding partnerships should reflect the goals of the participating organizations and positively impact the brand and image of the organizations; and all partnerships should be fully transparent in nature to ensure public trust.

- A nonprofit should carefully consider how entering into a strategic partnership will impact all parties involved. Special

consideration should be given to assessing internal capacity to effectively participate in collaboration, as well as ensuring 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. Agreements should be reviewed by attorneys representing both organizations.

- A nonprofit should establish and monitor accountability processes and agreements that allow for changing or ending partnerships.

- A nonprofit should ensure that any charitable organizations with which they collaborate are registered with the Kentucky Office of the Attorney General, in good standing with the Secretary of State, are not disqualified partners and have not had their 501(c)(3) status revoked by the IRS.

- A nonprofit should promote other organizations' services to enhance consumer choice and most appropriately meet client needs.

- 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.

- A nonprofit should respect partners' trademarks and copyrighted materials in all interactions, including fair payment for use of such materials, as appropriate.

- When appropriate, a nonprofit should foster relationships with similar organizations and state, regional and national associations to support advancement of its mission.

- Nonprofit collaborations should leverage partnerships to access and expand diverse funding opportunities.

- A nonprofit should work to establish natural alliances and mutual understanding with government entities and businesses to leverage the total resources of the community.

- When appropriate, larger nonprofits should assist smaller nonprofits through partnerships and resource sharing.

Evaluation of Results



Guiding Principle: As entities that serve the public, nonprofit organizations have an obligation to evaluate their effectiveness and demonstrate their value. Evaluation should be appropriate for 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 share the information with stakeholders.

LEGALLY REQUIRED PRACTICES:

- Nonprofits must keep client information confidential unless the individual has explicitly given consent for its release. (US)
- Nonprofits must ensure that all ethical guidelines and state and federal regulations are followed when conducting any research or evaluation involving human subjects. (KY) (US)

RECOMMENDED BEST PRACTICES:

- A nonprofit should have defined, ongoing and sustainable procedures in place for evaluating its programs, procedures and outcomes.
- A nonprofit should regularly receive input from clients and stakeholders to evaluate its programmatic and organizational effectiveness. Stakeholders include staff, board, volunteers, funders, community members, partners and other key constituents.
- A grievance procedure should be in place to address complaints and ensure compliance.
- Performance measures should be realistic, specific, measurable and appropriate for the size and scope of the organization and its constituents.

- Evaluation should include both qualitative and quantitative methods. Measurement may address client satisfaction, program activities, outcomes and information on efficiency and effectiveness.

- Evaluation results should be used to strengthen and improve the nonprofit's programs and activities. Evaluation findings should be a key source for strategic planning.

- A nonprofit should share the results of its evaluation with all interested stakeholders, including funders. A "lessons learned" section not only helps others in the field, but also enhances trust between organizations.

- A nonprofit should train its staff and volunteers in appropriate evaluation methods. By improving their understanding of evaluation processes, they can better apply the information gathered from the data collection.

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Additional Resources

Association of Fundraising Professionals Code of Ethics:
https://afpglobal.org/ethicsmain/code-ethical-standards

Internal Revenue Service, Charities and Nonprofits:
https://www.irs.gov/charities-and-nonprofits

Internal Revenue Service Sliding Scale Regarding Lobbying Expenses:
https://www.irs. gov/charities-non-profits/measuring-lobbying-activity-expenditure-test

Kentucky Nonprofit Network, Fundraising Registration:
https://www.kynonprofits.org/learn/fundraisingregistration

Kentucky Nonprofit Network, Ongoing Nonprofit Compliance:
https://www.kynonprofits. org/learn/nonprofitcompliance

Kentucky Nonprofit Network, Stand for Your Mission Advocacy Resources for Board Members: www.kynonprofits.org/advocate/standforyourmission

Kentucky Nonprofit Network, Starting a Nonprofit:
https://www.kynonprofits.org/learn/starting-a-nonprofit

Kentucky Nonprofit Network, Volunteer Management Initiative:
https://www.kynonprofits.org/learn/volunteermanagementinitiative

Kentucky Secretary of State, Annual Reports:
https://www.sos.ky.gov/bus/business-filings/Pages/Annual-Reports.aspx

Kentucky Office of the Attorney General, Consumer Protection Division, Charitable Giving: https://ag.ky.gov/consumer-protection/charity/Pages/default.aspx

Kentucky Office of the Attorney General, Consumer Protection Division, Registration Requirements for Charitable Organizations:
https://ag.ky.gov/consumer-protection/charity/Pages/registration.aspx

National Council of Nonprofits: https://www.councilofnonprofits.org/

Nonprofit Risk Management Center:
https://nonprofitrisk.org/ (KNN members receive discounts on many resources)

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KNN exists to empower nonprofits and strengthen Kentucky.

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