



Guiding

# Principles Practices

for

# Nonprofit Excellence in Maine

M | A | N | P  
Maine Association  
of Nonprofits

Our sincere thanks to  
Healey and Associates for their generous  
sponsorship of this fourth edition of the  
*Guiding Principles + Practices for Nonprofit  
Excellence in Maine.*



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# Introduction

“This is the **most comprehensive list of nonprofit “best practices”** that you will find anywhere in the country. A commitment to aligning your nonprofit’s policies and procedures around these best practices helps to **advance your organization’s mission** and contributes significantly to long-term sustainability.

—Douglas Woodbury,  
MANP Board Member,  
Retired CFO,  
MANP Member Organization

## Purpose

The nonprofit sector is continually challenged to be more transparent, efficient and effective. **Guiding Principles + Practices for Nonprofit Excellence in Maine is a tool to help nonprofits evaluate and address issues of capacity and accountability as they strive to build the foundation for true mission achievement.**

► **Capacity** generally refers to an organization’s level of ability to achieve its stated mission. Many factors affect capacity, including the life cycle stage of the organization, a sudden increase or decrease in funding, skill level of staff, changes to staff or governance, and a variety of other factors.

► **Accountability** generally refers to an organization’s ability to answer questions regarding appropriate expenditure of funds and/or service impacts and outcomes that demonstrate progress toward its mission.

Adherence to *Guiding Principles + Practices for Nonprofit Excellence in Maine* is not mandatory, though specific practices are required by Maine or federal law, and are noted as such. There is no certification or accreditation process; it is not designed as a report card. Simply, *Guiding Principles + Practices for*

*Nonprofit Excellence in Maine* provides a **planning and assessment framework** that raises the bar for nonprofit performance. It is intended as a tool for nonprofits to live up to the challenge posed by Stephen Covey and other thought leaders: “Begin with the end in mind.”

**Most nonprofits will not demonstrate full adherence to all Guiding Principles immediately**, nor will they have every Guiding Practice reflected in their operations. The Principles and Practices should provide a basis for each organization (board, staff and other constituents) to make a conscious comparison and determination of what will best move them forward in ensuring that the organization operates with integrity and its programs and services are of the highest possible quality.

In addition to this tool, many national umbrella organizations, sub-sector networks, and professional networks have developed support materials targeted to their individual constituencies. It is worth your time to identify key resources and industry standards for your field of focus.

## Applicability of Principles + Practices

Because most members of the Maine Association of

Nonprofits are **501(c)(3) public charities**, these Guiding Principles and Practices are tailored to the particular needs of those organizations. Other kinds of organizations, including 501(c)(4)s and 501(c)(3) private foundations, are subject to somewhat different legal requirements. Therefore, although much of the content of the *Guiding Principles + Practices* and the companion *Maine Basic Infrastructure Checklist* apply to these latter organizations as well, extra care should be taken to ensure compliance with all relevant laws and regulations.

## History

In 2005, the Maine Association of Nonprofits (MANP) began researching potential models for nonprofit standards. After an extensive review of existing tools, MANP decided that the *Principles and Practices for Nonprofit Excellence*, first created by the Minnesota Council of Nonprofits and later adapted by the Michigan Nonprofit Association, not only provided the appropriate guidance to assist Maine's nonprofits in building their internal capacity, but also mirrored MANP's philosophy regarding standards programs. Both organizations generously granted their permission for their documents to be used as models for the creation of Maine's own nonprofit standards.

In 2006, the Maine Community Foundation agreed to share in the developmental funding of the *Guiding Principles +*

*Practices for Nonprofit Excellence in Maine* and the *Basic Infrastructure Checklist* and to promote their usage. MANP contracted with a Maine-based lawyer to review the tools and make appropriate adaptations based on Maine law. Once the necessary legal changes were made, MANP identified over fifty content experts throughout the state and contacted them to request their assistance with the adaptation of the tool. Participating experts provided useful feedback and recommendations for how to ensure that the tools truly met the needs of Maine's nonprofit sector.

In the fall of 2006, MANP published the *Guiding Principles + Practices for Nonprofit Excellence in Maine* and *Basic Infrastructure Checklist*. MANP has developed complementary resources described on page six, and the original tools have now been revised in 2007, 2009, and 2012 to reflect changes in the nonprofit environment, enhancements by other state associations, and the feedback of local partners.

## What's New?

In this fourth edition, we have expanded the Practices in all Principle areas to reflect emerging best practices, added a new Principle called "Public Benefit and Accountability," integrated Practices from a previously included Principle area entitled "Transparency + Accountability" into other areas of the document, and re-titled some Principle areas to better reflect their content.

## Definitions

- ▶ A "**Principle**" is a broad statement that defines a suggested ethical or managerial direction for a nonprofit organization.
- ▶ A "**Practice**" is a suggested method to achieve the principles.
- ▶ Whenever the term "**must**" is used, federal or Maine state laws exist that require all 501(c)(3) nonprofit organizations to conform to that practice. Throughout this document, legal requirements are denoted with a star (\*) followed by ME for Maine law or US for federal law or ME/US for both.
- ▶ The term "**should**" means that the practice is not required by law, but is generally recommended depending upon the nature, resources, and developmental stage of the nonprofit organization.
- ▶ In this guide the terms "**charitable organization**," "**nonprofit organization**" and "**nonprofit**" are used interchangeably to refer to nonprofit organizations that qualify for tax exemption under 501(c)(3) of the Internal Revenue Code.

## Related Programs + Tools

- ▶ **The Basic Infrastructure Checklist** addresses accountability requirements for all 501(c)(3) public charities incorporated or operating in Maine. This resource serves as a desk-top reference for accountability, providing a framework of nonprofit legal requirements as well as recommended practices in management and recordkeeping.
- ▶ **Guiding Principles + Practices: Organizational Self-Assessment Workbook** is a version of the *Guiding Principles + Practices for Nonprofit Excellence in Maine* in workbook format, to help your management team and/or board reflect your organizations practices, identify areas for improvement, and plan next steps.
- ▶ **MANP's Online Resource Library** is an extensive collection of guides, links, articles and tools to support nonprofits in working towards best practices. The Resource Library is organized by the same Principle topic areas outlined in this document.
- ▶ **MANP Education Programs** are built on the foundation of these Principles + Practices, and our education programs are grouped by the same Principle topic areas.
- ▶ MANP has a variety of **member benefits** and organizational partners to provide members with nonprofit management support, and pro bono legal, accounting and risk management assistance. For more information please visit [www.NonprofitMaine.org](http://www.NonprofitMaine.org).

### We have **restructured the Practices within each Principle to more clearly delineate those that are legally required.**

Many Practices relate to more than one Principle area, and we now cross-reference Practices where relevant, and encourage thorough review of the document, rather than duplicating Practices across sections.

Some readers use this document to determine whether an organization is operating legally, so we have also incorporated information about what to do if you suspect fraud or wrong-doing by a Maine nonprofit.

### How to Use this Guide

Aspiring toward greater efficiency and effectiveness will bring credibility to an organization in the eyes of the public, funders, community partners, staff, volunteers, and the audience it serves. **MANP encourages nonprofits to develop a thoughtful and strategic process for organizational self-assessment**, and hopes that *Guiding Principles + Practices for Nonprofit Excellence in Maine* and related tools can be valuable resources in this process. Keep in mind that there are a variety of lenses through which an organization can see and use these publications, such as legal

compliance, risk management, strategic planning, and organizational development.

Here are some suggestions for maximizing these resources to assess your organization:

- ▶ **Complete the Maine Basic Infrastructure Checklist** to make sure your records, filings and policies are up to date and in order.

- ▶ **Review this document, Guiding Principles + Practices for Nonprofit Excellence in Maine © 2012, with your board and staff.** Keep in mind that this publication is focused on **excellence**; the Principles and Practices do not represent minimum standards, other than those delineated as legally required. The value of adopting any practice should be measured against the time and effort it would take to create, implement and maintain that practice. If appropriate, make a long-term commitment to adopt the Principles and to develop a plan to institute the Practices.

- ▶ **Use the Guiding Principles + Practices Organizational Self-Assessment Workbook with key staff and board leaders to reflect on your current practices, identify priorities and develop an action plan for improvement.** As part of this process, consider your organization's developmental stage, and how work toward specific Principle areas relates to short and long term strategic goals for mission achievement.

▶ **Visit the MANP website** ([www.NonprofitMaine.org](http://www.NonprofitMaine.org)) to find supplemental resources, articles, guides, training opportunities and more.

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

## Closing Thoughts

*Guiding Principles + Practices for Nonprofit Excellence in Maine* will **continue to evolve and change** as we learn more about nonprofit effectiveness and discover promising ways for nonprofits to adapt and advance in our dynamic culture.

## We value the voice and experience of our nonprofit

**partners** in maintaining the integrity and utility of *Guiding Principles + Practices for Nonprofit Excellence in Maine* and encourage you to share your thoughts as you put theory into practice in your daily work. Comments and questions can be directed to MANP's Executive Director at (207) 871-1885 or [ExecutiveDirector@NonprofitMaine.org](mailto:ExecutiveDirector@NonprofitMaine.org).

## Legal Accountability

All nonprofit organizations operating in the state of Maine should be aware of and in compliance with all legal requirements pertaining to nonprofit management, reporting and governance. As noted earlier, throughout this document, legal requirements are denoted with a star, followed by ME for Maine law or US for federal law or ME/US for both. These designations were accurate as of the publication of this document, but laws do change and nonprofits are encouraged to stay abreast of legislative actions that may impact operations.

Visit the following websites for a summary of applicable laws, links to helpful resources, and to download forms:

- ▶ **Maine Attorney General**  
[www.maine.gov/ag](http://www.maine.gov/ag)
- ▶ **Maine Department of Labor**  
[www.maine.gov/labor](http://www.maine.gov/labor)
- ▶ **Maine Department of Professional and Financial Regulation**  
[www.maine.gov/pfr](http://www.maine.gov/pfr)
- ▶ **Maine Secretary of State Bureau of Corporations**  
[www.maine.gov/sos/cec/corp/nonprofit.html](http://www.maine.gov/sos/cec/corp/nonprofit.html)
- ▶ **Internal Revenue Service**  
[www.irs.gov/charities](http://www.irs.gov/charities)

# Overview of Guiding Principles

## Public Benefit + Accountability

Nonprofits have a special ability to organize the energy and ideas of a community in order to achieve together what individuals cannot achieve alone. By tapping into the values, interests and relationships of individuals, nonprofits can mobilize their supporters and the larger community to realize their vision, while also building trust between communities and bridging relationships among diverse constituencies. Nonprofits are most effective when they are flexible and responsive to change, and actively engaging constituents as thought partners. Unlike government entities, nonprofits can focus on very local, specific or new matters and need not wait for community-wide consensus to begin their work.

Nonprofits have an ethical obligation to understand their role as entities that engage and inspire individuals and communities for public benefit, and to conduct their activities with transparency, integrity and accountability. 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, while protecting sensitive or confidential information.

## Governance + Leadership

Nonprofit boards of directors are responsible for defining the organization's mission, vision and values and for providing overall leadership and strategic direction to the organization. They are responsible for maintaining the ethical and legal integrity of the organization. Nonprofit boards actively set policy and ensure that the organization has adequate resources to carry out its mission, and that its activities and expenses align with mission focus. Nonprofit boards have a responsibility to evaluate their own effectiveness, as governing bodies, in upholding the public interest(s) served by the organization.

The effectiveness of a nonprofit depends in large part on the board's ability to recruit a talented and visionary professional to fill the role of chief executive, and on a collaborative relationship between the board of directors and this chief executive. Mission-achievement requires strong communication and a balance of power and authority between the board of directors and the chief executive. The Board requires the power and independence to carry out its legal and fiduciary responsibilities and to oversee and evaluate the performance of the chief executive. The chief executive needs sufficient authority to manage the organization and exercise leadership in the broader community.

## Public Policy + Advocacy

Nonprofit organizations play a central role in the democratic process by providing a means for public participation and promotion of the common good. To the extent possible, nonprofits should engage in public policy and advocacy activities to promote community interests. In addition, nonprofits should encourage and support constituent participation in these efforts. Open communication and consultation between policy makers and constituents of nonprofit organizations contribute to the creation and effective implementation of well-informed policies.

## Evaluation

As entities that serve the public, nonprofit organizations have an obligation to demonstrate their value to the public good. The public has a stake in nonprofit performance and is entitled to information regarding organizational results. Nonprofits should regularly measure their performance both in terms of effectiveness, such as outcomes and results of services, and efficiency, such as service delivery systems, and should share such information with their constituents and the general public. Nonprofit evaluation should be appropriate to the size and activities of the organization, and evaluation data should be used to

continually improve the quality of processes, programs and activities.

## Strategic + Operational Planning

Strategic planning is a cyclical process that defines a nonprofit's overall direction, and the activities and strategies to be employed in fulfilling its mission. Operational planning is a process that details measurable objectives, specific activities and budget. Nonprofits lay the groundwork for mission sustainability when they have a clear vision and goals for the future, include input from constituents, and form specific strategies for reaching these goals.

## Strategic Alliances

Strategic alliances can take many forms, including both informal arrangements for sharing information and resources, strengthening policy initiatives, and increasing operational efficiency, as well as more formal arrangements such as joint ventures, partnerships, consolidations, or mergers with nonprofit and for-profit entities. Informal and formal alliances can help to strengthen individual nonprofit capacity and the capacity of the sector as a whole. Nonprofits should seriously assess strategic alliances with public, private, and charitable organizations for viability

and risk prior to engaging in an alliance. Nonprofits should initiate and promote cooperation and coordination whenever feasible to maximize the resources available to the communities they serve.

## Financial Management

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

## Staff + Volunteer Management

Effective management of human resources is essential for creating successful organizational results. Consistent, fair, human resources management enhances staff morale and promotes cooperation. Nonprofit organizations should exercise fair and equitable human resource and volunteer management practices that attract and retain qualified individuals – paid and unpaid – capable of implementing its programs and services. Compensation

should reflect internal equity and external competitiveness within the organization's financial means. Nonprofits have an obligation to adhere to ethical, legal employment practices and to provide a safe work environment. Nonprofit organizations should establish specific policies and practices that promote accountability, collaboration and results that lead the organization to the achievement of its mission.

## Resource + Fund Development

Nonprofit organizations play an important societal role in serving as the vehicle by which philanthropy occurs. They act as the intermediary between donors and beneficiaries and have an ethical obligation to ensure proper handling of funds to carry out their missions. Nonprofit fundraising should be conducted according to the highest ethical standards with regard to solicitation, acceptance, recording, reporting and use of funds. Nonprofits should adopt clear policies for fundraising activities to ensure responsible use of funds for designated purposes, and open, transparent communication with donors and other constituents.

## Marketing + Communications

Effective marketing and communications is central to the success of an organization's mission, goals

and activities. Internal communication is essential to motivate, inform, and counsel employees and volunteers and to set the stage for excellent external communications. External communication is necessary to attract and retain constituents and to raise public consciousness, understanding, response to, and funding of the organization.

## Technology

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

# Public Benefit + Accountability

## Principle

Nonprofits have a special ability to organize the energy and ideas of a community in order to achieve together what individuals cannot achieve alone. By tapping into the values, interests and relationships of individuals, nonprofits can mobilize their supporters and the larger community to realize their vision, while also building trust between communities and bridging relationships among diverse constituencies. Nonprofits are most effective when they are flexible and responsive to change, and actively engaging constituents as thought partners. Unlike government entities, nonprofits can focus on very local, specific or new matters and need not wait for community-wide consensus to begin their work.

Nonprofits have an ethical obligation to understand their role as entities that engage and inspire individuals and communities for public benefit, and to conduct their activities with transparency, integrity and accountability. 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, while protecting sensitive or confidential information.

*Please note: There are other sections in this document that include Practices relevant to this topic. Be sure to review the entire document.*

## Legally Required Practices

- 1) A nonprofit must meet all federal and state requirements for public disclosure. Federal law requires a 501(c)(3) nonprofit to provide the IRS Form 1023 and the last three years' information returns (IRS Form 990 or its variants, redacted to maintain donor confidentiality). Disclosure requirements under state law vary according to whether the organization has members. \*ME/US
- 2) A nonprofit must preserve certain records pertaining to federal or state investigations or pending or current lawsuits, and destruction of such records may be a violation of federal criminal and civil law. See related Practice of Excellence concerning document retention policy. \*US
- 3) A nonprofit must be aware of and comply with any licensure requirements that govern services it provides. \*US/ME

## Practices of Excellence

- 1) A nonprofit should have a written document retention and destruction policy, which includes guidelines for handling electronic files and voicemail, back-up procedures, archiving of

documents, and regular check-ups of the reliability of the system. The policy should list all categories of documents and the specific retention period for each. Although a document retention and destruction policy is not a state or federal legal requirement, the IRS now asks whether an organization has such a policy on the Form 990, and a negative answer is a potential trigger for closer scrutiny.

- 2) A nonprofit should use its resources responsibly for the purpose of serving the public interest.

- 3) Nonprofits have a responsibility to establish and regularly measure clearly defined levels of performance in their activities and to share those results with the public. A nonprofit should provide multiple means for the public to contact the organization to request information or provide input.

- 4) A nonprofit should produce annually a publically-available report as an exercise in organizational reflection and transparent communication. The format and formality of this annual report (different from the Annual Report filed with the Maine Secretary of State) should be consistent with available resources and may vary significantly among organizations of different sizes. Items to include:

- ▶ an explanation of the organization's mission, activities, and results;

▶ an explanation of how individuals can access programs/services;

▶ overall financial information, including income and expense statements, balance sheet, and functional expense allocation; and

▶ a list of board members, management staff, supporters and donors.

5) A nonprofit should ensure that information regarding fees and services is readily available to the public. When charging for services, nonprofits should price equitably and take into account the consequences of denial of services due to an individual's inability to pay.

6) A nonprofit should ensure confidentiality and nondiscriminatory service to its volunteers, constituents, and donors.

7) A nonprofit should adhere to the established industry standards for its sector, subsector and particular activity area(s). Nonprofits should review and consider "Codes of Ethics" for their industry, and consider formal adoption of a particular code or the development of a hybrid code unique to their organization.

8) A nonprofit should conduct its activities with procedural fairness when making decisions that impact constituents and the community.

9) A nonprofit should encourage the development

of emerging leaders and provide opportunities for individuals and the community as a whole to sharpen and strengthen leadership skills.



*The tool was very useful in helping us organize our thought process, identify areas for operational improvement, and **frame some important strategic questions** for us to work on.*

— Christopher St. John,  
Executive Director,  
MANP Member Organization

# Governance + Leadership

## Principle

Nonprofit boards of directors are responsible for defining the organization's mission, vision and values and for providing overall leadership and strategic direction to the organization. They are responsible for maintaining the ethical and legal integrity of the organization. Nonprofit boards actively set policy and ensure that the organization has adequate resources to carry out its mission, and that its activities and expenses align with mission focus. Nonprofit boards have a responsibility to evaluate their own effectiveness, as governing bodies, in upholding the public interest(s) served by the organization.

The effectiveness of a nonprofit depends in large part on the board's ability to recruit a talented and visionary professional to fill the role of chief executive, and on a collaborative relationship between the board of directors and this chief executive. Mission-achievement requires strong communication and a balance of power and authority between the board of directors and the chief executive. The Board requires the power and independence to carry out its legal and fiduciary responsibilities and to oversee and evaluate the performance of the chief executive. The chief executive needs sufficient authority to manage the organization and exercise leadership in the broader community.

*Please note: There are other sections in this document that include Practices relevant to this topic. Be sure to review the entire document.*

## Summary of Legal Responsibilities of Nonprofit Boards

It is the job of a board member to ensure that the organization is faithfully fulfilling its charitable purpose. Board members are responsible for governing the organization. Maine law imposes two primary duties on board members, which would be used in court to determine whether a board member acted improperly:

► **Duty of Care:** The duty of care describes the level of competence that is expected of a board member: by Maine law, a board member must act with such care as an ordinarily prudent person would employ in a similar position and under similar circumstances. \*ME

► **Duty of Loyalty:** This duty is a standard of faithfulness, and by Maine law means that a board member must act in the best interests of the organization. This means that a board member can never use information obtained as a member for personal gain. By Maine law officers of the board must act in the best interests of the organization and its members. \*ME

## Legally Required Practices

- 1) A nonprofit corporation must have a governing board of at least three directors, including a president (or chairperson), a secretary, and a treasurer. \*ME
- 2) A nonprofit's board of directors must ensure compliance with all legal and other required reporting procedures and should periodically review this compliance. \*ME/US
- 3) A nonprofit's board of directors or its designees must review and approve the overall salary structure for the organization. All compensation must be deemed as reasonable within industry standards. See related Practice of Excellence #25. \*US
- 4) A nonprofit that annually compensates any director or officer more than \$250,000 and receives more than 25% of its budget through public funding must publically publish such compensation. \*ME
- 5) No more than 49% of the individuals on the board of directors of a public benefit corporation may be financially interested persons, as defined in the Maine Nonprofit Corporation Act. \*ME
- 6) A nonprofit board must abide by its Bylaws (and in the absence of an applicable Bylaws provision, the Maine Nonprofit Corporation Act) regarding meetings and decision making procedures,

such as what constitutes a quorum and when and how voting without a meeting is acceptable. \*ME

7) A nonprofit with members must hold a member meeting at least annually and comply with all laws regarding what constitutes a quorum and when and how votes can be cast. \*ME

8) A nonprofit must not make any loans to directors or officers. \*ME

## Practices of Excellence: Nonprofit Boards

1) A nonprofit should hold board meetings at least on a quarterly basis and regular attendance should be expected.

2) A nonprofit's board should at a minimum of every three to five years review the organization's Articles of Incorporation, bylaws, corporate policies, and mission, vision and values statements and amend as needed to reflect organizational growth and development.

3) Although Maine law allows for fewer members, a nonprofit's board should be made up of at least five persons unrelated to each other or to staff, to ensure appropriate deliberation and diversity. Furthermore, a substantial majority (at least two-thirds) of a nonprofit's board members should be independent – that is, neither they themselves, nor anyone related to them (as a spouse, sibling, parent or child), nor anyone they

reside with should be compensated by the organization as an employee or independent contractor; have their compensation determined by individuals who are compensated by the organization; or receive, directly or indirectly, material financial benefits from the organization, except as a member of the nonprofit class served by the organization.

4) If staff membership on a nonprofit's board is deemed necessary, inclusion should be limited to the chief executive, who should not serve as the Chair, Vice-Chair, Secretary or Treasurer. Staff members who serve on boards are typically ex-officio members without official voting status.

5) A nonprofit's board should be comprised of individual volunteers who are committed to representing the best interests of the organization and its mission, and who have the diverse skills, background and experience to meet the nonprofit's needs. The board should include at least one individual with financial expertise (not necessarily a CPA). Periodically the board should review its size, composition, and operational structure to ensure it is best able to support the organization's goals and objectives.

6) A nonprofit's board should establish a process for selecting new board members that will ensure it has the necessary skills and abilities and an adequate infusion of new ideas and community perspectives, while preserving

institutional memory. Board recruitment should align with and support achievement of the organization's strategic plan. Term limits for board members and officers should be considered.

7) A nonprofit organization should strive for board representation that reflects the organization's constituents and the community it serves. In addition, board members should value cultural competency, diversity, and inclusiveness as essential to improving the organization, and should endeavor to build their capacity for culturally competent responsiveness and equity.

8) A nonprofit should provide board members with a job description with clearly stated expectations, orientation to the history and the current programs and issues affecting the organization, governing and planning documents, policies, and an overview of board responsibilities. Board members are responsible for fully understanding their legal and fiduciary responsibilities to the organization and to the public.

9) A nonprofit's board members should carry out their responsibilities in the areas of: strategic planning; policy approval; hiring of, supervising of, and annual performance review of the chief executive or equivalent; setting of compensation structure; fundraising; and financial oversight. Larger boards should organize committees or task forces as needed to effectively structure their

roles and responsibilities. Each committee should have a charter or other clear statement of its authority and purpose.

10) A nonprofit's board should establish an effective, systematic process for educating board members to ensure that each member is equipped with the information needed to carry out oversight functions, act on all legal, ethical and fiduciary responsibilities, and be knowledgeable of all programs and activities of the board.

11) A nonprofit's board should engage in substantive dialogue about mission impact in order to strengthen the organization's programs and services, including determining which programs are consistent with the organization's mission and monitoring their effectiveness.

12) A nonprofit's board should review and approve new or revised fiscal and governance policies.

13) A nonprofit's board assumes overall responsibility for ensuring sufficient funds are raised to carry out the organization's mission, meet budgets and maintain adequate reserves.

14) A nonprofit should outline clear expectations and/or a policy for board member giving, as well as personal solicitations and relationship-building to support fund development. To demonstrate personal stake in the organization, a nonprofit's board members should volunteer their time,

# Governance + Leadership

assist in raising external funds, and make financial contributions to the nonprofit. One hundred percent of board members should give financially to the organization to the best of their ability.

15) A nonprofit's board should annually review and approve an annual budget for the organization, ensuring that expenditures are in alignment with mission focus. While each board must determine the appropriate budget needed to achieve its mission, various industry benchmarks provide target ranges of 65-80% of expenditures for programs, and 20-35% for administration, fundraising and evaluation.

16) A nonprofit's board should review and approve financial reports at least quarterly, review and approve year-end financial statements, and review and approve federal and state filings. The board should also review and approve significant financial transactions, contracts and leases, and ensure that appropriate financial controls are in place. Although board review of the Form 990 prior to its submission is not a federal legal requirement, the IRS asks on the Form 990 whether such a review has occurred, and a negative answer is a potential trigger for closer scrutiny.

17) A nonprofit should strive to maximize operational efficiencies in order to reduce environmental impact and increase cost-savings.

18) A nonprofit's board should have documented rationale for the chief executive's total compensation and stay informed of compensation levels of other key personnel. A nonprofit board's process for determining compensation of top management should include comparability data and substantiation of the process, and as salaries rise, nonprofits should consider an independent review. Although an executive compensation policy is not a state or federal legal requirement, the IRS now asks whether an organization has such a policy on the Form 990, and a negative answer is a potential trigger for closer scrutiny.

19) A nonprofit's board should annually conduct a formal performance review of the chief executive, and a summary of the results of the review should be communicated to the entire board. The chief executive's performance should be assessed in light of organizational accomplishments. The board should ensure that the chief executive has the moral and professional support he or she needs to further the goals of the organization.

20) A nonprofit's board should establish an organizational transition or succession plan to maintain daily operations in the event of a change in executive or board leadership.

21) A nonprofit's board should ensure effective organizational planning, actively participating in and approving strategic planning

efforts of the organization, and monitoring the plan's goals.

22) A nonprofit's board should conduct a regular risk assessment and establish appropriate risk management strategies, including the purchase of appropriate levels of insurance, to prudently manage organizational liabilities. Funding agencies sometimes require various insurance policies. If an organization has one or more employees, a Directors and Officers policy that includes Employment Practices Litigation coverage is especially useful.

23) A nonprofit's board members' responsibilities should extend outside the board room. Board members should act as liaisons between their organization and the community on a regular basis to enhance the organization's public standing by sharing information about the mission and program outcomes, garnering support from the community, and soliciting input from community constituents about needs and expectations of the organization.

24) A nonprofit's board members (who are not employees) should receive no monetary compensation from the organization, except reimbursement for reasonable out-of-pocket expenses. If compensation is paid, it must be reasonable in amount (see Legally Required Practices section above). Board member compensation may void applicability of federal and state statutes providing

immunity for board members' personal liability.

25) A nonprofit should document meetings and actions of the governing body and any committee with authority to act on behalf of the governing body and, as appropriate and required by law, provide information to the public that describes any decisions and decision-making processes.

26) To institutionalize legal compliance, a nonprofit should establish a clear conflict-of-interest policy that requires disclosure of relationships, nepotism, and interested-party transactions. The policy should include a disclosure form to be signed annually by board members and staff or volunteers with decision-making authority, and procedures for managing conflicts of interest and handling situations in which public and private interest intersect. The policies should include an obligation of each individual to disclose all material facts and relationships and refrain from voting on any matter when there is a conflict of interest. Although a conflict of interest policy is not a state or federal legal requirement, the IRS now asks whether an organization has such a policy on the Form 990, and a negative answer is a potential trigger for closer scrutiny.

27) A nonprofit's board should regularly evaluate itself with an eye toward ensuring the effectiveness of the board while also improving governing practices.

28) A nonprofit's board and chief executive should create clear expectations and shared understandings of mutually supportive and complementary roles.

### Practices of Excellence: Nonprofit Chief Executive

29) A nonprofit's chief executive should provide an organization and staff with vision and leadership, which should stem from a strong commitment to mission.

30) A nonprofit's chief executive should develop future leadership, both on the staff and board, and also cultivate external relationships, serving as an organizational representative and advocate.

31) A nonprofit's chief executive should exercise responsible financial stewardship, providing leadership to and management of fundraising, following the highest ethical standards, ensuring accountability and compliance with the law, managing operations, overseeing staff and ensuring the quality and effectiveness of programs.

32) A nonprofit's chief executive should support board members in fulfilling their responsibilities, engage the board in planning, and take the lead on implementation.



Participating in the MANP Principles + Practices program was **an enlightening experience** for us...  
*Honestly, some members of our Board wish we had this document years ago!*

—Benjamin Burden,  
Board President,  
MANP Member Organization

# Public Policy + Advocacy

## Principle

Nonprofit organizations play a central role in the democratic process by providing a means for public participation and promotion of the common good. To the extent possible, nonprofits should engage in public policy and advocacy activities to promote community interests. In addition, nonprofits should encourage and support constituent participation in these efforts. Open communication and consultation between policy makers and constituents of nonprofit organizations contribute to the creation and effective implementation of well-informed policies.

## Legally Required Practices

- 1) A nonprofit must not engage in more than insubstantial lobbying activities. A nonprofit must know and understand the tax law limits on the amount of permissible lobbying. Organizations that engage in lobbying activities should be aware of the IRC 501(h) election. \*US
- 2) Nonprofits that engage in lobbying activities may be subject to state and federal reporting requirements. If so, the nonprofit must file accurate and timely reports on their lobbying activities and comply with all laws governing politics and elections. \*ME/US
- 3) Federally funded nonprofits that engage in lobbying activities must organize their legislative work so that no federal funds are used for this purpose. \*US
- 4) A nonprofit receiving funds from the state must abide by any contractual restrictions on lobbying or advocacy activity. \*ME
- 5) A nonprofit must not make a contribution or expenditure in connection with a candidate, a political committee that supports or opposes a candidate, or a political party and must not engage in any activity that promotes or discourages a vote on behalf of any individual candidate. \*US

## Practices of Excellence

- 1) Nonprofits should assist their staff and constituencies in developing skills and learning about opportunities for public and civic engagement.
- 2) Nonprofits should promote nonpartisan efforts to encourage voting and other participation in federal, state and local policy making.
- 3) Nonprofits whose constituencies are affected by government actions should provide nonpartisan resources, information and public forums for discussion about the effects of various policy choices.
- 4) Nonprofits should ensure board, staff and volunteers who act on behalf of the organization are well aware of the federal, state and local laws governing lobbying, advocacy, and electioneering.
- 5) A nonprofit should encourage board members, staff, volunteers, and friends to act as advocates and ambassadors for the organization and the entire charitable nonprofit sector. A nonprofit should ensure that individuals authorized to act as ambassadors have appropriate knowledge about the programs and activities of the organization and are prepared to speak on its behalf when appropriate.
- 6) Nonprofits should maintain a sound understanding of the

current public policy environment in their activity area and the resulting impacts on the communities they serve.

7) To the extent allowed by tax law and funding restrictions, a nonprofit should participate in and support the formation and amendment of public policy consistent with the organization's mission. Nonprofit organizations should take appropriate public positions on relevant issues while working and communicating with other organizations to inform the public about these issues.

8) If engaged in public policy and advocacy activities, nonprofits should adopt a written policy to guide the scope and focus of the work and the time and resources to be allocated to those activities.

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

10) A nonprofit should ensure that board and staff distinguish between personal opinion and organizational positions. This is especially important when publishing information online or in print. A nonprofit may be held accountable for

statements made by a board or staff member.

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

12) Nonprofits should join together around policy issues to strengthen their impact on public policy.



*In my role as an interim director, I have brought these **foundational documents** to each client while working to ensure a successful leadership transition and **building the organization's capacity to be a strong voice for their constituents.***

—Jim Pierce,  
Contracted Interim Executive  
Director + Nonprofit  
Consultant

# Evaluation

## Principle

As entities that serve the public, nonprofit organizations have an obligation to demonstrate their value to the public good. The public has a stake in nonprofit performance and is entitled to information regarding organizational results. Nonprofits should regularly measure their performance both in terms of effectiveness, such as outcomes and results of services, and efficiency, such as service delivery systems, and should share such information with their constituents and the general public. Nonprofit evaluation should be appropriate to the size and activities of the organization, and evaluation data should be used to continually improve the quality of processes, programs and activities.

## Legally Required Practices

There are no laws specifically governing nonprofit evaluation practices, however there are applicable legal requirements listed in the Public Benefit + Accountability and Governance + Leadership sections, and there are Practices throughout this document that relate to this topic. Be sure to review all sections.

## Practices of Excellence

1) A nonprofit should always strive to improve processes, programs and results to increase its impact relative to its mission, and should have defined, ongoing and sustainable procedures in place for evaluating its programs, procedures, and outcomes in order to best serve its constituents.

2) Evaluation should be used to inform planning processes, including strategic planning, and to justify expenditures as appropriate.

3) A nonprofit should develop a thorough understanding of the community in which it operates, and consider the value of a periodic formal community needs and assets evaluation to achieve this aim.

4) A nonprofit should conduct evaluations in ways that are culturally sensitive and appropriate to the

communities they serve.

5) A nonprofit should take into account and respond to the experience, needs and satisfaction of stakeholders, such as clients, community members, board, staff, and funders. The input should be inclusive of a broad range of views and perspectives and should play an integral role in the organization's decision-making process. A nonprofit should have a grievance procedure to address complaints.

6) A nonprofit should determine performance measurements in advance to allow for adequate infrastructure and involvement to create an environment for successful review. A nonprofit's performance measures should be realistic, specific, measurable and appropriate to the mission, size and scope of the organization's activities as well as reflect the interests of its constituents.

7) When possible, a nonprofit's evaluation measures should reflect those generally accepted within the field, allowing for local comparisons against benchmarks established from rigorous studies.

8) A nonprofit's performance measures should be appropriate to the activity being assessed, and tracked over time to inform efforts for continuous improvement. Measurement should include:

► information on effectiveness, i.e. impact(s) on identified community (constituent) needs;

▶ information on the fidelity of the delivered programming (was the programming delivered as planned; and, if not, why not?);

▶ information on the efficiency of the program;

▶ both qualitative and quantitative data, when possible.

9) A nonprofit's data collection practices should protect individuals and the information collected from individuals, so as to never cause harm to those individuals.

10) A nonprofit should appropriate adequate resources to ensure that evaluation is ongoing.

11) A nonprofit should seek guidance and assistance from independent, external evaluators when appropriate and feasible. These evaluators should follow the national Guiding Principles for Evaluators set forth by the American Evaluation Association.

12) A nonprofit should train its personnel in evaluation methods to improve their understanding and encourage their utilization of data developed from evaluation activities.

13) Evaluation results should be communicated to a broad range of constituents and stakeholders (staff, board, clients, foundations, public, etc.) in promotional or information materials at least annually.

14) A nonprofit should share relevant lessons learned with other nonprofits and funding sources.

15) A nonprofit should assess the usefulness and accuracy of current evaluation practices and change them as needed in order to establish more successful processes to improve program effectiveness.



*We used the Guiding Principles + Practices for Nonprofit Excellence in Maine to self-assess and that has **shown us how we can continue to strengthen our organization** and increase its effectiveness.*

—Jane Morse, Nancy Nellis,  
Organization Committee  
Co-Chairs,  
MANP Member Organization

# Strategic + Operational Planning

## Principle

Strategic planning is a cyclical process that defines a nonprofit's overall direction, and the activities and strategies to be employed in fulfilling its mission.

Operational planning is a process that details measurable objectives, specific activities and budget. Nonprofits lay the groundwork for mission sustainability when they have a clear vision and goals for the future, include input from constituents, and form specific strategies for reaching these goals.

*Please note: There are other sections in this document that include Practices relevant to this topic. Be sure to review the entire document.*

## Legally Required Practices

1) A nonprofit must report any material changes to its organizational purpose and activities to the IRS (via the Form 990, if applicable). Additionally, a nonprofit must report changes to its Articles of Incorporation to the Maine Secretary of State.  
\*ME/US

## Practices of Excellence

1) A nonprofit should have a clearly defined, written mission statement that guides the overall aims and activities of the organization. A nonprofit may also consider a vision statement and a value statement.

▶ A mission statement is a succinct expression of an organization's core purpose: what you do and why.

▶ A vision statement is a brief, motivating expression of an organization's aspirations and the impact it will make.

▶ A value statement affirms the principles that underlie all organizational activities.

2) Originally defined by its incorporators or its initial board, a nonprofit's mission, vision, and value statements should guide the work of the

board and of the organization. They should be periodically reviewed by the board 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 target constituents and the world at large.

3) A nonprofit's board of directors and staff should be able to articulate a shared vision and goals for the organization that can guide the establishment of objectives and strategies.

4) In planning for and evaluating its activities, a nonprofit should solicit input from a variety of sources such as participants, volunteers, donors, board members, staff and other stakeholders, and should welcome new ways of thinking about solutions.

5) A nonprofit should consider issues within the context of larger communities and systems.

6) A nonprofit's planning should address the organization's challenges and opportunities and reflect on: the needs of constituents; changing demographics; community issues, trends and conditions; the funding environment; the political and regulatory climate; best practices; and emerging technology.

7) A nonprofit should periodically create a mission-driven, written strategic plan to guide organizational growth and implementation of activities.

- ▶ The plan should include overarching, measurable objectives that are reasonably attainable given staffing, resources (financial, facility, etc.) and the scope of the plan and it is the board's responsibility to ensure that the necessary resources are in place to achieve them.

- ▶ The plan should be flexible enough to allow the board of directors and staff to adapt to unforeseen changes and take advantage of unanticipated opportunities.

- ▶ The plan should provide a framework for regular progress reports and should be reviewed annually and updated at least every three to five years.

8) A nonprofit should write an annual operating plan, which aligns with the strategic plan and is tied to the annual budget. The plan should clearly identify goals and performance measures, define specific activities and responsibilities, and provide a framework for regular progress reports and updates.

9) A nonprofit should create written plans for specific areas of work such as fund development, communications, technology, succession planning, risk management and disaster planning, or ensure these topics are addressed in strategic and

operation plans. See the relevant sections of this document for further details on best practices related to these types of plans.



*The information we gained from using Guiding Principles + Practices for Nonprofit Excellence in Maine will **enhance our strategic planning process.***

—Rachel Phipps,  
Project Director,  
MANP Member Organization

# Strategic Alliances

## Principle

Strategic alliances can take many forms, including both informal arrangements for sharing information and resources, strengthening policy initiatives, and increasing operational efficiency, as well as more formal arrangements such as joint ventures, partnerships, consolidations, or mergers with nonprofit and for-profit entities. Informal and formal alliances can help to strengthen individual nonprofit capacity and the capacity of the sector as a whole. Nonprofits should seriously assess strategic alliances with public, private, and charitable organizations for viability and risk prior to engaging in an alliance. Nonprofits should initiate and promote cooperation and coordination whenever feasible to maximize the resources available to the communities they serve.

## Legally Required Practices

1) If serving as a fiscal sponsor of another entity, a nonprofit must carefully establish and manage the relationship (preferably with a written agreement) so that it has full discretion and control over the funds and does not serve as a conduit.  
\*US

## Practices of Excellence

1) A nonprofit should pursue strategic alliances as a means to help achieve goals, improve effectiveness and efficiency, maximize the impact of charitable resources, strengthen community connections with constituents and others, and improve services. Strategic alliances should only be made between competent and functioning organizations.

2) A nonprofit should stay aware of and coordinate with other organizations providing similar or complementary services in their communities, and a nonprofit's board should regularly conduct an environmental scan of similar-service organizations to assess relationships and discuss possible strategic alliances. 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 to avoid duplication of services.

3) When appropriate, a nonprofit should foster relationships with state, regional, and national associations, government entities, and businesses to support the advancement of its mission. A nonprofit should work to establish communication channels, mutual understanding and natural alliances among the government, nonprofit and for-profit sectors to take advantage of the total resources of the community.

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

5) A nonprofit should only undertake responsibility of fiscal sponsorship for another organization with board approval and full knowledge of its legal obligations and liabilities.

6) Nonprofits should carefully consider whether a potential alliance is in line with the strategic goals of the organization; the impact on the brand and image should be positive. A nonprofit should be sure it has the internal capacity to perform its agreed upon role prior to entering into a strategic alliance. Strategic alliances should never be made purely to meet funding challenges.

7) Nonprofits that have local chapters, branches, or affiliates should have written policies and procedures governing the activities of these strategic

allies to ensure operations are consistent with the umbrella organization's mission, policies and procedures. Although this kind of policy is not a state or federal legal requirement, the IRS now asks whether an organization has such a policy on the Form 990, and a negative answer is a potential trigger for closer scrutiny.

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

9) Nonprofits should carefully consider all potential legal and financial risks that may result from collaborative endeavors, such as challenges to exemption and incorporation status, risks such as exposure to anti-trust laws and anti-kickback laws, and implications for contractual relationships, patient choice requirements, licensing requirements, employment laws, and unrelated business income tax (UBIT).

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

11) Nonprofits entering into a collaborative arrangement should strongly consider whether legal counsel would be beneficial to educate and protect all entities involved.



The Guiding Principles + Practices helped us realize that we can't continue to exist in the same way we have in the past and it **focused us on the need to strengthen our collaborations** and seek out new partners.

—MaryBeth Sullivan,  
Executive Director,  
MANP Member Organization

# Financial Management

## Principle

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

Please note: There are other sections in this document that include Practices relevant to this topic. Be sure to review the entire document, with particular attention to Public Benefit + Accountability and Governance + Leadership.

## Legally Required Practices

1) A nonprofit must comply with all legal financial obligations. \*ME/US Review the Basic Infrastructure Checklist to learn about required and recommended policies, procedures and reporting mechanisms.

2) If the nonprofit is a public charity by virtue of the public support test, the organization must ensure that it meets the requirements of this test from year to year. \*US

3) A nonprofit must ensure that its assets are used solely for the benefit of the organization, and not for personal or other gains. \*ME/US

4) A nonprofit must have a system in place that allows individuals to report financial misconduct, without harmful consequence for doing so. See Financial Management Practice of Excellence #4 for further recommendations. \*US

5) A nonprofit must strictly prohibit financial loans to members of the board or to organization personnel. \*ME

6) A nonprofit must not allow personal use of its funds or business credit

cards as any such transaction may constitute private inurement or an excess benefit transaction under the intermediate sanctions rules. \*ME/US

7) Nonprofits that solicit, accept, or obtain contributions from the public for any charitable purpose in the State of Maine must be licensed with the State Department of Professional and Financial Regulation as either a charitable organization or an exempt charitable organization and must update that license annually. A fundraising report is required with the annual filing for charitable organizations. Nonprofits that solicit in other states may face additional licensing requirements. \*ME

8) A nonprofit has a legal and ethical obligation to expend grant and donor funds responsibly and to ensure that funds are dispensed according to the funders' wishes and requirements, in accordance with the Maine Uniform Prudent Management of Institutional Funds Act, as applicable. The nonprofit's financial system must support a segregation of funds in order to track grants and donations with the corresponding expenses. \*ME/US

9) A nonprofit must comply with all financial reporting and tax laws, including withholding and payment of federal and state income taxes and Social Security payroll taxes. \*ME/US

10) A nonprofit's board and/or the person responsible for fiscal oversight within the

organization should be familiar with and meet the filing requirements of the IRS Form 990 (or 990-EZ, 990-PF or 990-N). Note: Although board review of the Form 990 prior to its submission is not a federal legal requirement, the IRS asks on the Form 990 whether such a review has occurred and a negative answer is a potential trigger for closer scrutiny. \*US

11) A nonprofit organization must manage and invest funds prudently and in compliance with conditions attached to funding. \*ME

12) A nonprofit that receives Federal dollars, whether directly or passed through another agency, must comply with the Office of Management and Budget (OMB) Circulars A-133, A-110 and A-122. If a nonprofit expends more than \$500,000 in Federal funds for its operations, it must have a Single Audit. \*US

## Practices of Excellence

1) A nonprofit should follow U.S. generally accepted accounting practices (known as GAAP), especially those codified by the Financial Accounting Standards Board (FASB) and/or the Governmental Accounting Standards Board (GASB) for nonprofit entities.

2) A nonprofit should have written policies and procedures governing internal controls that ensure separation of financial duties to serve as a checks and balances system to prevent theft, fraud or

inaccurate reporting to the greatest extent possible. This system should be appropriate to the size of the organization's financial and human resources.

3) A nonprofit should have procedures to monitor, record, and report on assets received, held and expended.

4) In order to institutionalize legal compliance, a nonprofit should have written "whistleblower" policies and procedures to establish procedures for

- ▶ submission of concerns regarding questionable accounting matters;

- ▶ receipt, retention, and treatment of complaints received; and

- ▶ protection from retaliation of those reporting concerns.

This policy is intended to encourage and enable employees, board members, officers, and volunteers to raise concerns for investigation and appropriate action. Although a written policy is not a state or federal legal requirement, the IRS now asks whether an organization has such a policy on the Form 990, and a negative answer is a potential trigger for closer scrutiny.

5) A nonprofit should generate accurate, timely and relevant financial reports which include the comparison of actual to budgeted revenue and expense, and which identify



*The Guiding Principles + Practices for Nonprofit Excellence has helped drive our organization to a level of **institutional structure and transparency** that is normally very difficult for a small non-profit to achieve. By clearly listing out legal requirements and professional recommendations, MANP allowed us to simply focus on implementing those policies and our procedures.*

—Ian Yaffe,  
Executive Director,  
MANP Member Organization

# Financial Management

and explain any significant variances. The reports should include a narrative and clear, bulleted essential findings. These reports should be provided to the board of directors for regular review and discussion, on a quarterly basis at a minimum.

6) A nonprofit's board members should receive appropriate training on how to read and interpret financial statements, enabling board members to be actively engaged in reviewing financial statements, and providing fiscal oversight.

7) A nonprofit should have a written conflict-of-interest policy. See Governance + Leadership Practice #26.

8) A nonprofit's board of directors should review and approve an annual budget for the organization prior to the beginning of each fiscal year. While each board should determine the appropriate budget needed to achieve its mission, consideration should be given to applicable industry benchmarks for expenditures on programs, administration and fundraising.

9) A nonprofit should spend the majority of its annual budget on programs in pursuance of its mission. An organization should also provide sufficient resources for effective administration of the organization, including evaluation and technology costs (funding technology depreciation), and, if the organization solicits contributions, for appropriate fundraising activities.

10) A nonprofit should normally plan for a balanced budget. In the event that a budget deficit occurs, the board should be aware of this expected outcome and should participate fully in determining a plan to identify resources to restore the budget to a balanced state or meet cash flow demands.

11) A nonprofit should plan, establish and maintain a financial reserve at a level determined by the organization's management and board to adequately support its operations, and should have a feasible plan for dealing with sudden withdrawals of major funding sources. A recommended target for reserves is three to six months of operating expenses.

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

13) A nonprofit should fully understand "temporarily restricted" funds under Financial Accounting Standards Board (FASB) nonprofit accounting, and know when funds are appropriate to be released for use in the budget to offset expenses.

14) A nonprofit should work towards diversifying its funding sources as much as possible in an effort to strengthen the organization's sustainability and public support ratio, and to lessen the impact that

would be caused by losing a significant amount of its funding from any one source.

15) A nonprofit should monitor cash flow regularly to avoid bank overdrafts and acquiring a reputation for improper management of funds.

16) A nonprofit with annual total revenues in excess of \$1,000,000 should subject its financial reports to an annual audit by a Certified Public Accountant (CPA) with nonprofit experience. A nonprofit with total revenues in excess of \$250,000 but below \$1,000,000 should have a CPA provide at least an annual review of its finances. The actual trigger for an audit is the Board's decision and should be based on the internal controls in place, the nature of the types of funding sources received, technical abilities of the accounting staff and level of board oversight.

► The board should meet in executive session with the auditor and should accept or make a motion to approve the final audit report. Larger nonprofit organizations should establish an audit committee of the board that does not share members with and works independently of the finance committee. This committee should meet with the auditor separately from management staff and should accept the final audit report.

► Financial audits and reviews should be approved by the organization's board and accepted formally by the executive director and CFO

of the organization. The chief executive and the organization's board are ultimately responsible for financial statements.

► The State of Maine and the federal government have their own audit requirements that organizations should be aware of when they receive funding.

► Organizations should also be aware of any requirements from donors.

17) Larger nonprofits should establish contract management policies and procedures, including bidding systems and evaluation and monitoring tools.

18) A nonprofit should establish and implement a policy that provides clear guidance on the appropriate use of business credit cards. The policy should also provide consequences for unsubstantiated expenses incurred and personal use of the credit card. Procedures should be implemented that give management oversight of staff credit card expenditures and board oversight of expenditures by the chief executive.

19) A nonprofit should establish and implement policies that meet IRS "Accountable Plan" standards and that provide clear guidance on its rules for paying or reimbursing expenses incurred by anyone conducting business or traveling on behalf of the organization, including the types of expenses that can be paid for or reimbursed and the documentation

required. Such policies should require that travel and other expenditures on behalf of the organization be undertaken in a cost-effective manner. Although an expense reimbursement policy is not a state or federal legal requirement, the IRS now asks whether an organization has such a policy on the Form 990, and a negative answer is a potential trigger for closer scrutiny.

20) A nonprofit that accepts credit cards should comply with PCI DSS (Payment Card Industry Data Security Standards). The types of transactions and methods used by the nonprofit will determine the level at which they need to comply.

21) A nonprofit should determine if it is exempt from Maine Sales and Use Tax.

22) A nonprofit with investments should adopt and periodically review a sound investment policy.



*So many of Maine's nonprofits are small; they carry out their missions without the support of in-house human resources, finance, legal, marketing or planning departments. Yet, as public charities they owe it to the public and their constituents to **operate at the highest standards possible.** MANP's Guiding Principles + Practices for Nonprofit Excellence in Maine is an **invaluable tool** that every nonprofit leader and board member should revisit regularly.*

—Stephanie Eglinton,  
Program Officer,  
Maine Foundation

# Staff + Volunteer Management

## Principle

Effective management of human resources is essential for creating successful organizational results. Consistent, fair, human resources management enhances staff morale and promotes cooperation. Nonprofit organizations should exercise fair and equitable human resource and volunteer management practices that attract and retain qualified individuals – paid and unpaid – capable of implementing its programs and services. Compensation should reflect internal equity and external competitiveness within the organization's financial means. Nonprofits have an obligation to adhere to ethical, legal employment practices and to provide a safe work environment. Nonprofit organizations should establish specific policies and practices that promote accountability, collaboration and results that lead the organization to the achievement of its mission.

*Please note: There are other sections in this document that include Practices relevant to this topic. Be sure to review the entire document, with particular attention to those related to compensation policy in the Governance + Leadership section.*

## Legally Required Practices

1) A nonprofit must comply with all local, state and federal employment laws in hiring, promotion, compensation and discipline practices. This includes having a definitive equal opportunity statement and Workers Compensation Insurance, among other steps. See the Basic Infrastructure Checklist for further details. \*ME/US

2) A nonprofit must take steps to ensure that its environment is safe from preventable hazards that might result from working conditions, the operation of public facilities or practice with potentially dangerous clients. \*ME/US

3) A nonprofit must comply with Maine and federal anti-harassment laws. Organizations with 15 or more employees must (and smaller organizations should) establish and operate consistent with a written harassment prevention policy that defines harassment, provides examples, notes how investigations are conducted and explains how employees can report suspected harassment. \*ME/US

4) A nonprofit must maintain certain personnel records for each employee (and in some cases briefer volunteer-specific records) and comply with rules regarding their confidentiality in storage and access and which outlines the terms under which employees may review or add to their contents. See Basic Infrastructure Checklist for further details. \*ME/US

5) A nonprofit must accurately classify each worker as an employee or independent contractor for the purpose of Maine unemployment tax, Maine workers compensation law, federal payroll taxes and Maine and federal income tax withholding requirements. For nonprofits that offer stipends to workers, such as clients receiving a stipend as a part of a work program, classifications may vary and organizations should seek the opinion of the Maine Department of Labor in classifying these workers. \*ME/US

6) Every employer, including nonprofits, must ensure that if employees report an apparently illegal or prohibited act, the complaint will be entertained on its merit and that no retaliation will arise out of reporting such an act. To institutionalize this compliance, a nonprofit should have a written whistleblower policy. See Financial Management Legally Required Practice #4 for more detail. \*ME/US

7) Nonprofits must ensure that background checks on new hires are completed

according to state and federal regulations and any applicable funder contracts, to protect vulnerable populations such as minor children, the disabled or elderly service recipients.

\*ME/US

## Practices of Excellence

1) A nonprofit should have a written conflict-of-interest policy that governs staff and volunteers with decision-making authority, as well as board members. See Governance + Leadership Practice #26.

2) A nonprofit should have a staffing structure that clearly defines the positions and the relationships necessary to implement the nonprofit's goals, objectives and mission.

3) A nonprofit should employ competent individuals who are suitable for the positions they occupy (paid or unpaid) and committed to the mission, vision and values of the organization.

4) A nonprofit should strive toward employing personnel and engaging volunteers who reflect the diversity of the community that they serve, as appropriate for program effectiveness. Nonprofits should strive to include diverse voices and opinions in decision-making and at all levels of the organization.

5) The board should establish policies on employee benefits, which may include:

▶ Medical and dental insurance;

▶ Life and disability insurance;

▶ Retirement plans; Group membership benefits;

▶ Paid leaves: sick leave, vacation time, personal time, and other paid time off;

▶ Unpaid leaves: Family Medical Leave, maternity, legislative service and jury duty.

6) A nonprofit should adopt a set of specific, but separate, policies and procedures for personnel and volunteers that are within legal guidelines, address effective practices of risk management, and are approved by the Board. The Basic Infrastructure Checklist contains a list of recommended policies and procedures.

7) A nonprofit's personnel policies should reflect the goals of the organization and the needs of employees. Nonprofits should have a clear process through which policies are reviewed annually and approved by the board. These policies serve to provide guidance to staff on the carrying out of their assigned duties and help the chief executive to ensure organizational activities are consistent with the best practice as articulated by the board.

8) A nonprofit should have a formal orientation program for new employees and volunteers which includes,

among other things, 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.

9) A nonprofit should provide staff and volunteers with clear, current job descriptions and the tools they need to produce quality work. They should also set measurable objectives with realistic expectations, as well as clear and consistently applied procedures for evaluating performance. Nonprofits should have procedures in place to fairly and legally address performance concerns to ensure employee conduct is competent and respectful of both fellow employees and persons served. A record of an employee's evaluations, along with employee's signature and comment, should be kept in the employee's personnel records.

10) A nonprofit should support and encourage the education and development of paid and unpaid personnel and should provide them with opportunities for personal growth, skill development and advancement to the extent possible with respect to budget limitations.

11) A nonprofit should have a system in place for the succession of employees and volunteers to support consistency over time and organizational sustainability.

12) A nonprofit should solicit and use input from paid and volunteer personnel regarding the organization's activities and results on a continual basis.

13) Unpaid and stipend staff should be treated in the same professional manner as paid staff. The volunteer's knowledge and experience should be respected and utilized in the same way as a paid employee.

# Resource + Fund Development

## Principle

Nonprofit organizations play an important societal role in serving as the vehicle by which philanthropy occurs. They act as the intermediary between donors and beneficiaries and have an ethical obligation to ensure proper handling of funds to carry out their missions. Nonprofit fundraising should be conducted according to the highest ethical standards with regard to solicitation, acceptance, recording, reporting and use of funds. Nonprofits should adopt clear policies for fundraising activities to ensure responsible use of funds for designated purposes, and open, transparent communication with donors and other constituents.

*Please note: There are other sections in this document that include Practices relevant to this topic. Be sure to review the entire document.*

## Legally Required Practices

1) A nonprofit must comply with charitable solicitation laws in each state where it raises funds, including those raised online. In Maine a nonprofit must file an annual charitable solicitation registration (or annual exemption paperwork) and an annual fundraising activity report with the Maine Department of Professional and Financial Regulation. \*ME

2) A nonprofit that seeks to raise money through gaming, auctioneering or raffle activities must comply with state and IRS rules and laws related to these activities. \*ME/US

3) A nonprofit's fundraising communications must include clear, accurate, and honest information about the organization, its activities and the intended use of funds, and should clearly identify the organization. \*ME

4) A nonprofit must comply with written substantiation and disclosure requirements as outlined in IRS Publication 1771. \*US

5) A nonprofit must use funds according to donor intent. Donated funds must be clearly categorized as unrestricted, temporarily restricted or permanently restricted in the

organization's financial statements and communications in accordance with the donor or grantor wishes/stipulations. If an organization is unable or unwilling to agree to the specific conditions set by the donor, it must respectfully decline the gift. \*ME/US

6) A nonprofit must ensure that any professional fundraisers that work on its behalf (employees of the nonprofit excepted) are licensed with the Maine Department of Professional and Financial Regulation, and are classified appropriately as employees or independent contractors. See Legally Required Practice # 5 in the Staffing + Volunteer Management section. \*ME/US

7) A nonprofit that collaborates with a for-profit business to raise over \$10,000 in funds in a calendar year must ensure that it and the business complies with the commercial co-venture provisions of the Maine Charitable Solicitations Act. \*ME

## Practices of Excellence

1) A nonprofit should promptly acknowledge and thank donors for every gift, regardless of amount, including in-kind donations.

2) A nonprofit should have policies in place that govern the receipt, acknowledgement, use and management of charitable gifts, grants and in-kind donations, and should stay

current on any revisions made to reporting standards and forms. Nonprofit organizations should implement clear policies, based on the organization's exempt purpose, to determine whether accepting a gift would compromise the ethics, financial circumstances, mission focus, or other interests of the organization, and should decline funds that do so. Nonprofits should consider an additional policy regarding acceptance of personal gifts from any constituent to staff members, board members, and volunteers.

3) A nonprofit board and executive should be familiar with professional standards, such as the Association of Fundraising Professionals' *Code of Ethical Principles and Standards of Professional Practice* and *A Donor Bill of Rights* and the ePhilanthropy *Code of Ethical Online Philanthropic Practices*, and ensure that all fundraising professionals acting on behalf of the organization behave ethically.

4) A nonprofit should prepare an annual Resource Development Plan that involves research and consideration of all potential sources of support (grants, donations, sponsorships, earned income, in-kind donations, etc.) and includes fund development techniques appropriate to various programs, projects, services and fund types. The plan should include measureable goals, appropriate staffing and resources to achieve these goals, and a process for monitoring progress toward goals throughout the year.

5) A nonprofit should establish appropriate systems to collect and manage current, historical and potential donor data, and consider maintaining a formal donor database.

6) A nonprofit should diversify its funding sources to reduce the risk associated with the loss or reduction of particular funding streams.

7) A nonprofit should regularly communicate with donors regarding its activities and should make such information available through multiple outlets, and in response to requests.

8) A nonprofit should balance publicly recognizing donors with maintaining donor confidentiality. Sharing or trading donor names with others without permission is unethical. Personal information about potential donors collected in prospect research should remain confidential.

9) A nonprofit should support the professional development of its resource development staff and volunteers to ensure knowledge of traditional and innovative practices in fundraising, philanthropy, and earned income development.

10) A nonprofit should not compensate fundraising personnel and consultants based on a percentage of funds or on other commission based formulas.

11) A nonprofit that uses online fundraising strategies should exercise due diligence in vetting and selecting any third party

vendors or processors to ensure their capabilities can support other fundraising best practices, as well as to assess the stability of the provider, and its ability to ensure the security of donor data. A nonprofit should also evaluate the impact of outside vendors' presence on their brand.

# Marketing + Communications

## Principle

Effective marketing and communications is central to the success of an organization's mission, goals and activities. Internal communication is essential to motivate, inform, and counsel employees and volunteers and to set the stage for excellent external communications. External communication is necessary to attract and retain constituents and to raise public consciousness, understanding, response to, and funding of the organization.

*Please note: There are other sections in this document that include Practices relevant to this topic. Be sure to review the entire document.*

## Legally Required Practices

1) A nonprofit must comply with the CAN-SPAM Act. \*US

## Practices of Excellence

1) A nonprofit's organizational marketing and 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, especially in an age of social media in which users inside and outside organizations generate content together. These standards should be clearly stated in writing and should be part of the orientation of all employees and volunteers.

2) A nonprofit should establish and promote a clear brand. An organization's brand reflects its reputation, character and actions, and an organization's brand identify includes its logo, graphic standards, messaging, and tone. A nonprofit should establish policies and procedures governing the use of its brand identity elements to ensure consistency.

3) A nonprofit should have plans for achieving its marketing goals that

support the organization's strategic plan. Marketing and communication should be integrated with all organizational planning, and should demonstrate accountability to constituents and the public.

▶ A nonprofit should have clearly defined, written marketing goals. These goals should define measurable outcomes for response to the organization's programs, services, volunteer engagement, and fund development efforts.

▶ A marketing and communications plan should include target audiences, key messages, pricing, distribution, customer service, communications tools and techniques, and a means to evaluate results.

▶ Communications tools and techniques should take into consideration target audiences' preferred methods of communication.

▶ The plan should establish regular formal and informal strategies for gathering input from target audiences, community members and key groups/organizations, and identify how this input will be considered and incorporated as appropriate.

▶ The plan should also ensure that an organization is making the appropriate information available to the public and communicating in a clear and timely manner with those who request information. (See "Public Benefit and Accountability" for more information)

► The plan should be shared and regularly reviewed with staff, board and key volunteers of the organization.

► It should be updated regularly to ensure the plan stays current with the organization's priorities, communication trends, and technological capabilities.

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

5) A nonprofit's internal communications should include regularly scheduled and attended meetings, regular printed and electronic informational updates, an understood forum for suggestions, reports on meetings of the board of directors and its committees, recognition and social events. Written policies and procedures are useful for creating consistency and accountability for internal communication standards.

6) A nonprofit should have in place a social media use policy that balances personal freedoms with recognition that staff members' online presence impacts perception of the organization.

7) A nonprofit should clearly define the line of communication between staff and the board of directors, as well as appropriate methods for conveying information, processes, concerns, and accomplishments, and orient staff and board members about this topic.

8) A nonprofit should have a clear process for developing public statements and positions on issues. A nonprofit should ensure all staff, board members and other volunteers are aware of the nonprofit's public statements, positions and media coverage, and encourage them to build awareness through word-of-mouth when appropriate.

9) A nonprofit should have a policy outlining expectations for how board and staff distinguish between personal opinion and organizational positions, especially when publishing information online or in print. A nonprofit may be held accountable for statements made by a board or staff member.

10) As a risk management strategy, a nonprofit should have a written policy and procedure to guide external and internal communications in crisis or emergency situations. All internal constituents should be aware of the policy and procedures.

11) A nonprofit should identify key spokespersons that are authorized to make official public statements on behalf of the organization, and ensure processes to provide appropriate, accurate and timely

information for those individuals to use for internal and external communications. All internal constituents should be aware of who the spokesperson(s) is/are.

12) A nonprofit should encourage board members, staff, volunteers and friends to act as ambassadors and advocates for the entire organization and its position on issues, and should provide ambassadors with concise messaging (an elevator speech) to facilitate their promotion of the organization.

13) A nonprofit should consult copyright or trademark requirements restricting use of others' work and should copyright or trademark organizational materials as appropriate, including considering copyright commons.

14) A nonprofit should seek technology solutions that allow the greatest segmentation and personalization of messaging to the organization's range of target audiences.

15) A nonprofit should make all non-confidential information regarding its mission, program activities and finances available to the public.

► All basic information about the organization, including the Form 990, annual reports, information regarding services and fees, contact information and financial statements should be easily available on the organization's website and by request.

► Individuals should be provided with clear channels for contacting the organization to request information or provide input.

► Constituents of nonprofits should be provided with ongoing opportunities to interact with the board and management regarding the organization's activities.

16) A nonprofit should respond promptly and respectfully to grievances or complaints from stakeholders. A written policy should be considered to support this practice.

17) A nonprofit should establish and implement a clear policy regarding confidentiality of certain communications, images, and personal information. Sensitive, private, or confidential information should not be shared without express consent.

# Technology

## Principle

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

## Legally Required Practices

There are no legally required practices in this section, but please note that there are other sections in this document that include Practices relevant to this topic. Be sure to review the entire document.

## Practices of Excellence

- 1) A nonprofit should have information systems in place that provide timely, accurate, and relevant information to facilitate workflow.
- 2) In order to ensure cost-effective and appropriate use of relevant technology, a nonprofit should integrate technology planning into its short and long-term strategic and operational plans and consider the value of a separate more detailed technology plan. This planning should include an assessment of what systems are needed to effectively meet the organization's mission, as well as funds to make necessary, ongoing, technology upgrades. A nonprofit should fund technology depreciation.
- 3) A nonprofit should have a resourced and intentional website and social media presence.
- 4) As appropriate to its technology resources, a nonprofit should have a policy that addresses personal use of the organization's information and technology, and a social

media use policy that balances personal freedoms with recognition that staff members' online presence impacts perception of the organization.

5) A nonprofit should ensure that secure or confidential information is appropriately protected and not taken from the organization in any manner unless expressly authorized. To safeguard against these risks, a nonprofit should strongly consider written security policies that prescribe how critical organizational information is gathered and stored, how accuracy is maintained, how and what information is backed up, and who is authorized to view or manipulate that data. Written policies should address remote access, if applicable.

6) A nonprofit should designate responsibility for maintaining the organization's information systems to more than one staff person, volunteer, or board member. One person should be primary and at least one should be back-up.

7) A nonprofit's staff, volunteers and board members should all have current training to use those technology and information systems that are relevant to their work and should know to whom to report problems and ideas. Sufficient resources should be allocated for this purpose.

8) A nonprofit that accepts credit cards should comply with PCI DSS (Payment Card Industry Data Security Standards). The types of transactions and methods used by the nonprofit will

determine the level at which they need to comply.

9) A nonprofit should publish on its website its security and privacy policies related to information gathered on its website.

10) A nonprofit should have off-site back-up of key data and software information and should allow for remote and/or alternative access in the event of an emergency. This back-up should be checked periodically to ensure it is functioning properly.

11) A nonprofit should create a catastrophic recovery plan that includes whom to call, hardware/software vendor account numbers and contact information, insurance company information, and hardware serial numbers, and should ensure that all information technology support agreements are up-to-date and include disaster recovery protections.

12) A nonprofit should invest in appropriate telecommunications equipment (such as fixed and mobile communication devices), compatible computer hardware and software, Internet access, website and email hosting and any other technology infrastructure deemed appropriate to enhance and streamline its ability to achieve its mission.

13) A nonprofit organization should develop computer networking and remote access strategies that are appropriate to the size of the organization.

14) In addition to those items listed above, minimum technology recommendations include:

- ▶ virus protection (updated regularly);
- ▶ firewall;
- ▶ and anti-spyware.



*I have been struck by how the Principles have influenced my work. They have certainly spurred me to **make adjustments** to how we operate as an organization (i.e updating our social media plan ) as well as **take on the bigger picture issues** (i.e. developing and adopting a succession plan with our board). In sum, they continue to serve me and my organization well.*

—Barbara Ginley,  
Executive Director,  
MANP Member Organization

# Addressing Fraud or Misconduct

*Note: No one should rely on this guide as legal advice, and we encourage you to consult a qualified attorney for advice on any particular situation. Consulting with an attorney will help you understand your rights and the options available to you throughout each of the steps described.*

## Before Reporting

### Be cautious

Whether one is certain of wrong-doing or just suspects misconduct, it is very important to be thoughtful about how to address one's concerns.

Be very careful about saying anything in public, by email or online that might damage the reputation of the organization or people who work there. A person risks both personal and legal challenges if his/her understanding of a situation is wrong or cannot be substantiated.

Understand available protections. Federal and Maine law prohibits all employers, including nonprofits, from retaliating against employees who “blow the whistle” on any suspected violation of law, or on any practices that risk someone's health or safety. In addition, Maine law provides that employees of a nonprofit corporation may not be terminated for contacting a Board director, and such contact between employees and directors cannot be prohibited. Many organizations have a “whistleblower protection policy” in place that applies to these concerns. Staff or board members are advised to determine whether their

organization has a policy in place and what procedures may exist to help someone report a concern.

### Learn About Appropriate Nonprofit Practices and Resources to Prevent Fraud/Misconduct

It is important to recognize that actions by an organization that one does not agree with or approve of are not necessarily illegal. An important step in any case of suspected fraud or misconduct is to educate oneself before making a report. There are many resources available to help nonprofit staff, leaders and board members learn about legal responsibilities as well as best practices in nonprofit management. In addition to this document, the following are helpful resources:

▶ The Maine Attorney General's office has compiled **links to sections of Maine law relevant to public charities**: <http://www.maine.gov/ag/consumer/charities/laws.shtml>.

▶ **Maine Attorney General's Guide for Board Members of Charitable Corporations** [www.maine.gov/ag/consumer/charities/guide\\_charities.shtml](http://www.maine.gov/ag/consumer/charities/guide_charities.shtml) This guide is meant to help board members understand their rights and responsibilities during service to a charitable organization.

▶ **Association of Fundraising Professionals Code of Ethics** [www.afpnet.org/Ethics/EnforcementDetail.cfm?itemnumber=3261](http://www.afpnet.org/Ethics/EnforcementDetail.cfm?itemnumber=3261)

▶ Visit **MANP's Resource Library** at [www.NonprofitMaine.org](http://www.NonprofitMaine.org) to find information about nonprofit legal compliance as well as a range of other resources that describe and support nonprofit management best practices.

▶ Contact **MANP's Help Desk** via our website, [www.NonprofitMaine.org](http://www.NonprofitMaine.org). MANP's staff can suggest resources to help one determine whether a situation of concern is an instance of poor management or illegal activity.

### Gather information

Public charities are required to make a number of organizational documents public. While these documents may not contain evidence of misconduct, it's worth reviewing them. If someone finds the reports are incomplete or nonexistent, or if they contain information that is easily demonstrated to be false or misleading, these can be good starting points for calling for official investigation. Documents that one may want to review include:

▶ **Corporate filings** An organization's **Articles of Incorporation** and the corporation's **State of Maine Annual Report** (which includes basic information about the organization's directors and officers) can be requested by visiting the Maine Bureau of Corporations “Interactive Corporate Services” at <https://icrs.informe.org/nei-sos-icrs/ICRS> and searching for the nonprofit by name. There is a fee per document ordered.

▶ Many organizations create a public annual report (different from the State of Maine Annual Report listed above) and make this available on their websites and a few post their Articles of Incorporation and/or Bylaws online as well.

▶ For membership organizations, minutes, Bylaws, and all books and records of accounts of the organization must be made available for inspection to any voting member for all legitimate purposes. Good faith investigation of suspected misconduct is generally considered a legitimate purpose.

### ▶ Fundraising-related records

Most organizations that solicit contributions from the public should be licensed in Maine, and organizations that solicit contributions in other states may need to register in those as well. Maine's Charitable Solicitations Act makes publicly available a variety of fundraising-related records that must be filed. These include an **annual registration application**, an **annual fundraising activity report**, and **contracts with professional fundraisers**, which are available upon request from the Office of Professional and Occupational Regulation. An individual can look up charitable organizations that have filed for a license in Maine at <http://pfr.informe.org/almsonline/almsquery/welcome.aspx> to see their license history and if any disciplinary action has been taken against them.

### ► Federal records

Certain federal tax records must be disclosed, and copies must be provided for a reasonable fee upon request (usually immediately for in-person request and within 30 days in the case of written requests). These include the **IRS Form 1023** (the original application for 501(c)(3) status), the **IRS's 501(c)(3) determination letter**, and **the IRS Form 990 for the three most recent years**. These documents can be requested from the IRS (usually for free, see IRS Form 4506-A). Form 990s are available on Guidestar ([www.guidestar.org](http://www.guidestar.org)) for free if you register. More details on these federal disclosure requirements can be found in IRS Publication 557, pages 13-15. In general the disclosed information includes: the names and address (can be work addresses or simply the address of organization) of the organization's officers and directors; the names and compensation levels of the top five employees paid more than \$100,000 annually; gross income for the year; dues received from members; expenses; the organization's balance sheet; and total contributions, including gifts, grants, and government contracts. However, for reasons of privacy, charities are not required to publicly disclose the attachment to the 990 that includes an itemized list of all contributions of over \$5,000, or any trade secrets.

## Addressing Your Concerns

If after gathering information concerns remain, there are a few options:

### Work to Solve the Issue Internally

Concerned parties should consider trying to raise matters directly. The Executive Director or Board President may be the most appropriate person to approach, but any trusted board member or leadership team member can be a good starting place. It is a good idea to request a private meeting and come prepared with specific concerns and any evidence that has been gathered. Those raising the issues should be clear that they are doing so because they wish to see them resolved rather than because they are seeking to place blame. Staff or board members should be sure to be familiar with any organizational policies and procedures regarding the submission of complaints and/or whistleblower protection.

### Seek a Change in Leadership

A common complaint in the nonprofit world involves an Executive Director or Board President who is mismanaging the organization, whether or not fraud or misconduct is suspected. Board directors and organizational members have certain rights under most bylaws and under the Maine Nonprofit Corporation Act that can be effective in forcing leadership change, such as calling a special

meeting of the Board (or of the members, if it is a membership organization).

### Make a Formal Report

It may be more appropriate, or feel safer, to make a complaint or report to the appropriate government entity. Concerned parties may wish to consult with an attorney before doing so, to better understand the implications for them, the organization, and any other individuals involved in the suspected wrongdoing. The process for reporting a complaint depends on the type of misconduct one suspects:

#### ► Inappropriate Charitable Solicitation

If someone believes the organization has violated the public trust in relation to **charitable solicitations** (activities related to asking the public for money, selling products, using the charity's name to entice sales) they can submit a complaint to the Maine Department of Professional and Financial Regulation, Office of Professional And Occupational Regulation at [www.maine.gov/pfr/professionallicensing/complaint\\_form.htm](http://www.maine.gov/pfr/professionallicensing/complaint_form.htm) (under licensing board, choose "charitable solicitations").

#### ► Violations of the Maine Nonprofit Corporation Act

If someone suspects violations of the Maine Nonprofit Corporation Act (Title 13-B M.R.S.) they can submit a complaint to the Maine Attorney General's Consumer Protection Division at [www.maine.gov/ag/consumer/complaints/index.shtml](http://www.maine.gov/ag/consumer/complaints/index.shtml). Common concerns include mismanagement of funds,

conflict of interest transactions, board composition problems, or board members not exercising appropriate "duty of care."

#### ► Violations of State Gaming Laws

Reports about violations of gaming laws (such as illegal raffles, gambling activities, etc.) should be reported to the Maine State Police at (207) 624-7210.

#### ► Federal Tax Law Violations

If someone suspects violation of federal tax laws, such as unreasonable compensation, excess benefit transactions (i.e., transactions in which an insider derives an undue benefit), or excessive lobbying or campaign activities, they can submit a report to the Internal Revenue Service (IRS) at [www.irs.gov/charities/article/0,,id=131651,00.html](http://www.irs.gov/charities/article/0,,id=131651,00.html).

## Share Your Experience

There are a number of charity and business watchdog organizations that allow members of the public to submit comments about organizations, such as:

► GuideStar:  
[www.guidestar.org/rxg/give-to-charity/review-a-charity.aspx](http://www.guidestar.org/rxg/give-to-charity/review-a-charity.aspx)

► Better Business Bureau Wise Giving Alliance:  
[www.bbb.org/us/Charity-Complaints/](http://www.bbb.org/us/Charity-Complaints/)

► Charity Navigator:  
[www.charitynavigator.org/](http://www.charitynavigator.org/)  
(registered users may submit reviews)

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Mainers count on nonprofits and Maine nonprofits count on the Maine Association of Nonprofits (MANP). Since 1994, MANP has grown to be the state's comprehensive resource for the tools, knowledge, and connections nonprofits need to be effective and well-run.

MANP is the voice of Maine's nonprofit sector and convenes funders, government, and businesses to shape responses to pressing issues and opportunities facing Maine.

MANP provides nonprofit executives, staff, board members and volunteers with:

- ▶ Answers to nonprofit management questions;
- ▶ Workshops and in-depth leadership training;
- ▶ Connections to the statewide nonprofit community and updates on national trends;
- ▶ Data on the economic and social significance of the Maine nonprofit sector;
- ▶ Advocacy on issues and policies important to all nonprofits;
- ▶ Best practice standards, organizational assessment tools, MANP guidebooks and other recommended resources; and
- ▶ A high traffic job board for posting and finding jobs in the Maine's nonprofit community.

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