nonprofit agendas

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News for Nonprofits

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Not as simple as A, B, C

Put ample effort into your board meeting minutes

Board meetings are the most crucial activity of your board of directors. And minutes of those meetings are among the most important documents your organization will ever produce. But is your nonprofit doing all it should in preparing its minutes? And is it done in a way that will protect your nonprofit against future problems?

Different states have different rules about board meetings and minutes, so check with your attorney to ensure that you're meeting those requirements. Here are some general best practices to consider when drafting the minutes.

WHAT TO INCLUDE

Starting with the basics, meeting minutes should cover such fundamentals as the date and time, whether it was a special or regular meeting, and the names of directors in attendance as well as names of directors who didn't attend. The minutes also should include:

- Whether a quorum was reached,
- Any board actions (motions, votes for and against, resolutions and so on),

- Whether any board members left and re-entered the meeting — for example, in a case of a possible conflict of interest, and
- Any abstentions from voting or discussions.

Additionally, include in the minutes summaries of key points from reports presented to the board and of alternatives considered for important decisions. For example, describe how you evaluated bids for contractual work on a building project. And here's an important component: The minutes should record action items — that is, follow-up work that will be needed and who'll be responsible. Last, all information in the minutes should be presented clearly and succinctly. (See "Style counts" below.)

Style counts

Many not-for-profits today strive for transparency. But your board isn't being open about its transactions if its meeting minutes are so abbreviated, or muddled, that only the keenest insider can understand the full meaning.

The person assigned to take minutes at your organization's board meetings should produce minutes that are a clear, accurate and complete report of all actions taken. Simple and unambiguous wording works best.

With that goal in mind, it's a good idea to have a second person review the meeting minutes. That person (as well as the original writer) should ask, "Would this report make sense if I hadn't been at the meeting, and had been unfamiliar with the issues addressed? Would I be able to see at a glance the information provided and decisions made?" A good way to make your minutes reader friendly is to use the journalism ingredients of *who, what, where, when* — and, if needed, *why.*

HOW MUCH IS ENOUGH?

There isn't a particular requirement about how much detail should be recorded in your minutes. But attorneys often advise their clients to include enough information so that the minutes can be offered as evidence that an action was properly taken and that directors fulfilled their fiduciary duties.

Conversely, your minutes *shouldn't* include any information that, if examined, could be used against your organization. When in doubt about the depth of detail to include in your minutes, consult your attorney.

EXECUTIVE SESSIONS

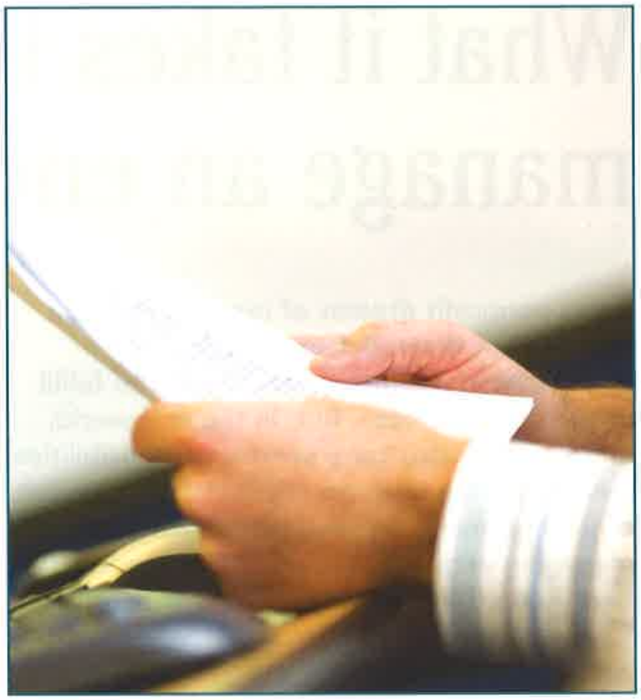
Executive sessions are handled differently from normal board meetings. At times, your board likely will meet "behind closed doors" to discuss particularly sensitive or confidential issues, such as key person salaries or a staff termination. Details of these sessions shouldn't be included in the board meeting minutes, although a notation that the board moved to an executive session should be made.

If your organization is ever audited by the IRS, your meeting minutes likely are among the first documents the agency will request to see.

Details of an executive session can be communicated to board members in some other form. Nonprofit attorneys sometimes advise their clients *not* to label this communication as "minutes."

TIMING IS IMPORTANT

Generally, your minutes should be ready for inspection by the next board meeting *or* within 60 days of the date of the original meeting, whichever comes first. IRS Form 990 asks whether there is "contemporaneous" documentation of the board and board



committee meeting minutes or written actions. IRS rules don't impose a penalty for "non contemporaneous" documentation. But the agency is clearly placing importance on the timeliness factor.

THE IRS CONNECTION

If your organization is ever audited by the IRS, your meeting minutes likely are among the first documents the agency will request to see. Keep in mind that any attachments, exhibits and reports can be considered part of the minutes.

In addition to providing proof of tax compliance, meeting minutes can serve as evidence in court. For example, if someone alleges that the board made a poor financial decision, board meeting minutes can be used to present the financial data and reasoning used to make that decision.

REASONS ENOUGH

Your board meeting minutes deserve special attention for numerous reasons. They're the history of your organization in a nutshell — or at least the board's role in it. Retain your board meeting minutes as permanent records, and make sure that your nonprofit's changing leadership knows how to retrieve past minutes if necessary. *

What it takes to manage an endowment

Every nonprofit dreams of receiving a large endowment that will keep it financially worry-free in the future and allow it to fulfill its mission with ease. But, in the real world, endowments also carry serious responsibilities, created by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). When managing endowments, nonprofit leaders must keep the following realities in mind.

AN INVESTMENT POLICY DRIVES FUND MANAGEMENT

Every endowment should have a comprehensive investment policy that drives the management of the fund. According to UPMIFA, investment decisions must be made in relation to the non-profit's overall resources and purposes. And the endowment investment policy should be different from the policy for other investments of the organization.

"Prudent" investment decisions must consider the entire portfolio and be made as part of an investment strategy with risk and return objectives reasonably suited to the fund and the organization. UPMIFA also permits "only investment costs that are appropriate and reasonable." (UPMIFA applies only to "true" endowments funded by donors, not "quasi" endowments created by boards.)

The endowment's objectives should guide its investments and management. For this reason, it's important not to simply adopt a generic objective but to articulate an objective that reflects the organization's own circumstances. For many not-for-profits, the primary goal is to preserve and grow funds for the organization's long-term stability while providing a predictable contribution to support current activities. As a living document, the investment policy can change over time as objectives or other factors change.

ASSET ALLOCATION IS KEY

The investment policy will include an optimal asset allocation. The nonprofit's investment committee must analyze the risk and return of potential investments (including stocks, bonds and alternative investments such as hedge funds and private equity) to determine the best mix and to obtain the total desired return. To maintain flexibility for responding to changes in the investment environment, it's best to establish ranges for each asset class instead of set percentages. The investment committee should review performance quarterly and adjust the allocations accordingly.

YOUR SPENDING POLICY: A CRUCIAL COMPONENT

The investment policy should include a *spending* policy for the endowment, setting a percentage that can be spent annually. The spending policy will impact the performance of the fund, as well as its ability to fulfill the donor's intent.

UPMIFA sets standards for endowment fund spending. It provides that an organization can spend as much of a fund as it determines to be prudent for the "uses, benefits, purposes and duration" for which the fund is established.

UPMIFA's seven criteria to guide annual spending decisions are: 1) duration and preservation of the endowment, 2) the purposes of the organization and the fund, 3) general economic conditions, 4) effects of inflation/deflation, 5) expected total return from income and appreciation, 6) the organization's other resources, and 7) the organization's investment policy.

An investment committee can meet quarterly to review performance.

Unlike its predecessor, the Uniform Management of Institutional Funds Act, UPMIFA allows nonprofits to adopt a "total return" strategy that bases the spending rate on the endowment's total value (including appreciation) rather than on only income. To ensure reasonably consistent cash flows, many organizations using a total return spending policy apply "smoothing" mechanisms to minimize the effect of market volatility. An organization might, for example, use a three- or five-year rolling average calculation.

BENCHMARKS GAUGE PERFORMANCE

The investment policy should include benchmarks for evaluating the performance of investments and managers, too. Performance should be assessed over both full market cycles (seven to ten years) and the shorter time periods that compose them.

An investment committee can meet quarterly to review performance, consider recommendations for changes to the investment strategy and rebalance asset allocation as necessary.

GAAP REQUIRES DISCLOSURES

Whether or not it's covered by UPMIFA, every endowment must make certain financial statement disclosures under Generally Accepted Accounting Principles (GAAP). Among these are descriptions of the organization's endowment spending — and investment — policies, and of the nature and types of permanent or temporary restrictions on the endowment net assets. You also must report:

- The governing board's interpretation of the law(s) underlying the organization's net asset classification of donor-restricted funds,
- The composition of the endowment by net asset class at the end of the period, in total and by type of endowment fund, with donor-restricted funds shown separately from board-designated endowment funds, and
- The aggregate amount of the deficiencies for all donor-restricted endowment funds where the fair value of the assets at the reporting date is less than the level required by donor stipulations or law.

Finally, be sure to include a reconciliation of beginning and ending endowments, in total and by net asset class.

NOT JUST A DREAM

One of the most important roles of your board of directors is managing your endowment funds. Guided by good stewardship, the endowment will contribute to your nonprofit's financial health and stability — no longer a dream, but a reality. ❋

How could this fraud have been prevented?

Joe Doe, a beloved associate program director, worked at a nonprofit social service agency for 15 years. When the executive director retired and he was passed over, Joe stayed on with the organization. During the transition between executive directors (EDs), he took on interim ED duties. His responsibilities included signing privileges for the agency's accounts.

When a new ED was hired, she couldn't figure out why the not-for-profit didn't have a positive bottom line. The organization's revenue streams included rent from tenants in its building and it had been financially healthy in previous years. While Joe was initially helpful in responding to her inquiries, as time went on he became evasive in his answers, stopped attending staff meetings, and took on an extremely low profile.

UH-OH

One day, the new director came across some paperwork that included bank wire transfer instructions for a small checking account and a line-of-credit statement from an area bank. An investigation into these documents revealed that, while acting as interim director, Joe had deposited advance rental payments into the checking account and made withdrawals on a regular basis. During that time, he also opened the line of credit, deposited the proceeds in the checking account and withdrew those amounts as well.

After a two-week investigation, the nonprofit determined that Joe had embezzled approximately $1 million. By that time, Joe had fled the country unnoticed.

IMPLEMENTING CONTROLS

This sad scenario, which caused severe reputational and financial damage to the nonprofit, could likely have been prevented if the following policies and practices had been in place:

- All bank statements should be delivered unopened to a member of management or the board who has no signing authority.
- The finance committee — with members knowledgeable in finance and accounting — should review monthly bank reconciliations and financial statements and question any transactions that are new or unusual.
- New bank accounts, both depository and loan accounts, should be approved by the board prior to opening.

Additionally, employees should be trained to be alert to changes in employee behaviors and possible motivations for fraud. In this case, the fraudster felt entitled to become the next executive director. His fraudulent acts — at first involving small sums — began shortly after he realized he wouldn't be appointed to the position.

GETTING EXPERT ADVICE

Do you ever wonder if your operation may be too lax in terms of presenting opportunities for inside fraud? If so, you may want to ask your CPA to review your controls and offer suggestions for improvement. ✱

FASB PROPOSES MAJOR FINANCIAL REPORTING CHANGES

The Financial Accounting Standards Board (FASB) has developed a new set of accounting standards that, if passed, will greatly alter the way non-profits prepare their financial statements. Some financial professionals say that proposed Accounting Standards Update No. 2015-230 — *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities* — represents the biggest change in nonprofit accounting standards in 20 years.

The draft proposes changes to the presentation of net assets requiring only two classes instead of three, one with restrictions and one without, both on the statement of financial position and on the statement of activities. It also would require changes to the reporting of operating activities on the statements of activities and cash flows. And investment income generally wouldn't be included in the results of operations. Another change would require nonprofits to present on their statements of activities a uniform measure of operations — reflecting their mission and the availability of funds.

Additional financial statement disclosures would be required, including more information on board restrictions, liquidity of assets and expenses by both their nature and function. Also proposed are changes to the presentation and disclosure of investment income, under-water endowment funds, methods used to allocate costs, and expirations of restrictions.

Critics of the proposed standards say that they differ from the Generally Accepted Accounting Principles now in use, and that compliance could be costly. The FASB asserts that the benefits of the new rules — easier-to-understand financial statements and greater transparency — would outweigh any downsides. No effective date for the proposed standards has been set.

Nonprofits and concerned individuals may comment on the draft by August 20, 2015. You can see the full proposal, and questions for which the FASB is seeking input, at fasb.org. (Click on "Reference Library" and "Exposure Drafts & Public Comment Documents" to reach the link.) ✱

MOST NONPROFITS RELY ON MULTIPLE INCOME SOURCES

More than one-third of U.S. charities (39%) receive over half of their income from contributions or grants from individuals, foundations or corporations. So concludes information revealed during a National Index of Nonprofit Board Practices survey, which also found that 72% of charities now have earned income streams. And 21% of charities depend on earned income for more than 50% of their revenue. The survey also found that 65% of charities receive government funding. And 22% of charities rely on government funding for more than half of their revenue.

How diverse are your income sources? If one of them dried up, would your organization remain financially stable? ✱

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Please contact us today to discuss your specific needs.

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