NONPROFIT LEADERSHIP CENTER

Rules of the Road…

- To minimize background noise and distractions, all lines will be muted for the duration of the webinar.
- This session is being recorded and will be available on our website for future viewing.
- We warmly welcome your questions. Please type them in the chat box. The trainer will answer questions at the end of the presentation.
- We’re looking forward to a productive, engaging session and thank you so much for your participation!

NONPROFIT LEADERSHIP CENTER

INVESTMENT POLICY BEST PRACTICES:

What Every Nonprofit Leader Should Know

YOUR PART-TIME CONTROLLER®
The *NONPROFIT* accounting specialists™

PRESENTER

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ASSOCIATE

Your Part-Time Controller, LLC

LEARNING OBJECTIVES

At the end of today's presentation, you should be able to understand:

1. Reasons why nonprofits invest.
2. Investment policy best practices.
3. Key accounting and reporting considerations related to Florida Uniform Prudent Management of Institutions Funds Act ("UPMIFA") for Florida nonprofits.

AGENDA

01

NONPROFIT INVESTMENTS

Overview of why nonprofits invest

02

INVESTMENT POLICIES

Overview of best practices to consider when creating an investment policy

03

FLORIDA UPMIFA

Overview of key accounting and reporting considerations

01

NONPROFIT INVESTMENTS

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NONPROFIT INVESTMENTS

01

Donor-restricted gifts for endowment

A nonprofit receives an endowment gift. Usually, earnings from the endowment gift can be used for restricted purposes. The endowment principle itself should be preserved. Endowment gifts fall under UPMIFA statutes.

02

Excess cash

A nonprofit has cash balances that exceed its operating expenses. Therefore, it opens an investment account to earn investment income on its unrestricted cash.

03

Board-designated

A nonprofit's board requires that the organization invest unrestricted assets in anticipation of a future expense, such as a building improvements.

04

Short-term investments

A nonprofit has an "emergency" liquid funds readily available, in case unexpected expenses arise that impacts cash flow.

SCENARIO 1 – DONOR-RESTRICTED ENDOWMENT

The nonprofit We Love Cats and Dogs is having some cash flow issues. The nonprofit’s monthly lease will increase at the end of the year, and it realizes that the organization cannot sustain paying its high rent. One of their generous donors provided a $1,000,000 contribution, with the **restriction that the nonprofit has to keep the principal in perpetuity but can use the earnings to help pay for rent**. What recommendations would you give to their CFO?

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RECOMMENDATIONS:

We Love Cats and Dogs has received a generous donation! It would be in their best interest to **keep the principle in a safe investment with predictable returns**. The nonprofit will have **to factor in future rent increases** and **be careful to not be too aggressive** with their investments.

SCENARIO 2 – EXCESS CASH

The nonprofit We Love Cats and Dogs has been successful fundraising and sticking to its budget for the past few years. The nonprofit has a lean staff, who are all working at full capacity. The nonprofit has enough cash to fund its operations for the next three years. Out of the blue, the nonprofit received a **$25M unrestricted donation for general use**. What are some things that the nonprofit should consider?

NONPROFIT INVESTMENTS

SCENARIO 2 – EXCESS CASH

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CONSIDERATIONS:

The nonprofit's staff and Board should **collaborate to create an investment policy** that will further the nonprofit's mission. The sooner the nonprofit can create an investment policy, form an investment committee, and select an investment advisor, the sooner it can put the $25M donation to work and start generating investment income.

SCENARIO 3 – BOARD-DESIGNATED UNRESTRICTED FUNDS

Recently, the nonprofit We Love Cats and Dogs has been incurring excessive repair costs for its van, and it seems the repairs are happening more frequent as well. The ED and the board agree that the van is on its last legs and will need to be **replaced** in the next three to five years. The anticipated cost for a new van is $75K. The nonprofit currently has **only $50K available to purchase a van.** What recommendations would you give to this nonprofit?

SCENARIO 3 – BOARD DESIGNATED UNRESTRICTED FUNDS

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RECOMMENDATIONS:

The nonprofit has **two ways to finance the purchase of the van.** The first is to **borrow** the funds and repay the loan over time. The second is to create a **board-designated fund.** The nonprofit can invest the $50K and then determine how much additional contributions and investment income will be needed to increase its funds by another $25K over the next three to five years.

SCENARIO 4 – SHORT TERM INVESTMENTS

The nonprofit We Love Cats and Dogs has an **excess $500K that is sitting in its checking account**. The nonprofit would like to keep these funds **liquid** in case it experiences a large unexpected expense. What are some options for this nonprofit to consider?

NONPROFIT INVESTMENTS

SCENARIO 4 – SHORT TERM INVESTMENTS

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OPTIONS TO CONSIDER:

The nonprofit can move the funds to two separate banks and park $250K at each institution to stay in line with the **FDIC threshold.** Keep in mind the $250K FDIC limit is per banking institution, and not per account.

The nonprofit can also move the $500K to an **investment account and invest in safe and liquid investments.** The investments would not fall under the FDIC. SIPC (Securities Investor Protection Corporation) covers investors up to $500K in case of brokerage failures.

02

INVESTMENT POLICIES

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INVESTMENT POLICY ELEMENTS

Examples of what to include an investment policy statement (IPS)[1] are:

1. **Statement of Purpose** – Describes the entity, why the document exists, and its intended use.
2. **Investment Objectives** – Clearly states the investment objectives with respect to return, income, and risk.
3. **Spending Policy** – Establishes expected distributions from the portfolio including the spending rate and the calculation methodology.
4. **Asset Class Guidelines** – Identifies specific asset classes permissible to include in the portfolio and establishes asset allocations ranges and targets for each asset class.
5. **Strategic Asset Allocation** – Describes the process for determining an appropriate strategic asset allocation for the organization’s funds and explains the importance of diversification.
6. **Rebalancing** – Outlines the processes by which the portfolio will be rebalanced to strategic target allocations.
7. **Duties and Responsibilities** – Defines the roles and responsibilities of the oversight committee, custodian, and investment advisor.
8. **Implementation** – States the general criteria for evaluating and selecting investment manager(s) and/or investment strategies.
9. **Performance Review** – Describes the process for reviewing performance at periodic intervals and defines the appropriate benchmarks against which to evaluate performance.
10. **Investment Policy Review** – Affirms the document was reviewed, possibly revised, and approved within the past year.

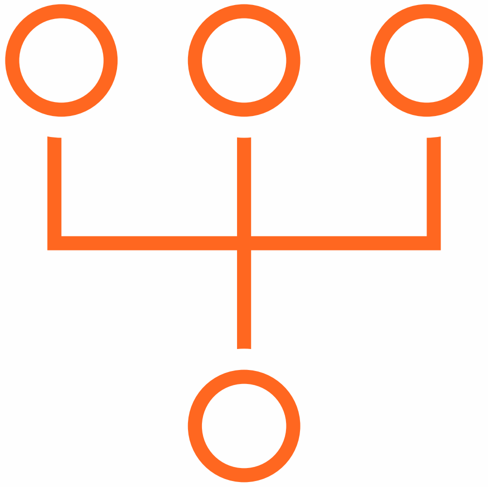
1 From eCIO, “Elements of an Effective Investment Policy Statement”.

SPENDING POLICY

Establishes **expected distributions** from the portfolio including the **spending rate** and the **calculation methodology.**

- Nonprofits typically **pool** their investments, which means one investment account includes funds from multiple sources.
- **Issues can arise** when donors require different treatments with their endowment gifts.
- Accounting must be **accurate** and **timely** to identify any potential funds that are underwater.

ASSET CLASS GUIDELINES



Identifies specific asset classes permissible to include in the portfolio and **establishes asset allocations and targets** for each asset class.

- The **investment advisor** will help determine which assets are acceptable to achieve your objectives.
- Alternative Investments, such as Hedge Funds (HF) and Private Equity (PE), usually require large initial investments and charge higher fees.

  HFs and PEs may have lock up periods.
- Should be **periodically reviewed**.

DUTIES & RESPONSIBLITIES

Defines the **roles and responsibilities** of the **oversight committee, custodian, and investment advisor.**

- Developing the initial investment statement policy **can take time**.
- Consider **balancing work loads** between the nonprofit's day-to-day staff and the investment committee/board of directors.
- **Educating** the staff, investment committee, and board of directors is key.

IMPLEMENTATION

States **the general criteria for evaluating** and **selecting** investment manager(s) and/or investment strategies.

- Investment manager typically selects the custodian.
- Manager and custodian may be the same firm.
- Custodian **reports and statements can vary.**
- **Changing managers** may require transferring assets between custodians.
- **Committee/staff must coordinate** across multiple managers.

REVIEW & AMENDMENT

Affirms the document was **reviewed, possibly revised, and approved** within the **past year**.

- The IPS should be **broad** enough where it doesn't need to be edited.
- The IPS should be **updated** to address any recurring issues.
- The **nonprofit is responsible** to be in compliant with all regulations.

03

FLORIDA UPMIFA

Uniform Prudent Management of Institutional Funds Act

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UPMIFA – TOP 5 FAQ

What is **UPMIFA?**

What qualifies as an **endowment** under UPMIFA?

If there's a **conflict between the donor gift instrument and UPMIFA,** which one should I follow?

Does UPMIFA require nonprofits to **hire an investment advisor** to manage its investments?

Does UPMIFA require nonprofits to **report endowment gifts?**

WHAT IS UPMIFA?

- UPMIFA: Uniform Prudent Management of Institutional Funds Act
    - **Governs how nonprofits manage** and **spend** donor-restricted endowments.
- **Adopted by 49 states** since its introduction in 2006 (replacing UMIFA).
- Unlike UMIFA, UPMIFA allows spending below the original gift amount, **if prudent.**
- Spending decisions must align with **donor intent** and be considered prudent (see UPMIFA Paragraph 4(a)).

WHAT QUALIFIES AS AN ENDOWMENT UNDER UPMIFA?

- An endowment fund is a **donor-restricted** gift that is **not fully expendable** right away.
- Funds internally designated by the organization do not count.
- A **gift instrument** includes any written record—like a donation letter or solicitation—that sets the terms of the gift.

IF THERE'S A CONFLICT BETWEEN THE DONOR GIFT INSTRUMENT AND UPMIFA, WHICH ONE SHOULD I FOLLOW?

- **Donor intent prevails.** If the gift instrument specifies how the endowment should be used, follow it.
- If silent, UPMIFA applies, allowing the institution to spend what's prudent for the fund's purpose.

DOES UPMIFA REQUIRE A NONPROFIT TO HIRE AN INVESTMENT ADVISOR TO MANAGE ITS INVESTMENTS?

- **No.** UPMIFA allows delegation of investment management, but hiring an advisor is optional.
- Delegation can be to external agents or internal committees/officers if prudent.

DOES UPMIFA REQUIRE NONPROFITS TO REPORT ENDOWMENT GIFTS?

- UPMIFA doesn't require reporting, but **state laws may** (e.g., FL audit threshold >$1M revenue).
- **Audited financials** must include an endowment note.
- **Form 990** also reports endowment activity in Schedule D, Part V.

KEY TAKEAWAYS

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1. Nonprofits invest for various reasons. Discuss how your organization can use investments to further its mission.

2. Nonprofits must create an investment policy that is aligned with its mission.

3. Nonprofits must prudently manage its investments as required by UPMIFA. Nonprofits will report endowment activity on its annual audited financial statements and Form 990.

RESOURCES

eCIO. "Elements of an Effective Investment Policy Statement (with IPS checklist).
https://www.getecio.com/resources/elements-of-an-effective-investment-policy-statement

"617.2104 Florida Uniform Prudent Management of Institutional Funds Act." 2012.
https://www.flsenate.gov/Laws/Statutes/2012/0617.2104

Questions or Comments?

Thank you for joining us for this session!

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