BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

MONEY *notes*

Congratulations, You've Been Asked to Join a Nonprofit Board

Here's what you need to know about being a fiduciary steward.

It's a tremendous honor and privilege to be asked to serve on a nonprofit board—a genuine opportunity to give back to your community in a very meaningful way. But before you say yes to taking on a nonprofit leadership role, take a few minutes to reflect on whether it's the right organization and the right time; and gauge whether you have the bandwidth to devote the time and resources required.

- Think about your purpose for joining *this* particular organization. Is it a personal 'passion project' for you where you genuinely want to make an impact? Or is it more of an opportunity to network with other business leaders? While there's certainly nothing wrong with the latter, make sure the commitment required will justify the benefits gained.
- Assess whether your particular professional expertise aligns with, and will advance, the organization's charitable mission. Make sure there are enough synergies to allow you to make a difference and feel like a valuable contributor.
- Get a clear understanding of the organization's expectations for board membership. Is there an anticipated monetary commitment? How frequently does the board meet? Will you also be expected to serve on one or more committees?

Perhaps even more important, however, is the need to research the nonprofit's track-record of success in delivering on its mission and its current financial state. Is it financially sound? Has the tenure of previous board members been long and productive? Have past donors had a positive experience?

Becoming a good fiduciary

Along with ensuring that you and the nonprofit are well-aligned, it's also important you fully understand

[continued]

the various regulations that will govern your duties and responsibilities as a fiduciary steward. Specifically, you'll need to familiarize yourself with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Adopted by every state but Pennsylvania (which relies on the older but similar Uniform Management of Institutional Funds Act), UPMIFA regulations govern the prudent management and investment of any charitable funds. They encompass three key operational areas and are designed to help clarify the duties of anyone involved in managing a charitable organization and investing its funds.

1. **Risk management and personal liability**—Board members have a fiduciary responsibility for their nonprofit's operations. This means you're obligated to take proactive steps to mitigate risks and reduce the chance that the organization could be derailed by an unanticipated event. Make sure the organization has most, if not all of, the following written policies, and that you take time to review them carefully before assuming your board duties:
   a. *Confidentiality / Conflict of Interest Policy* which lays out policies and procedures for acknowledging any potential conflicts of interest and abstaining from voting whenever such a conflict exists. It also sets limits on how (and with whom) board members may share information, and establishes rules for maintaining the confidentiality of any personal or sensitive information you may acquire during your board service.
   b. *Document Retention and Destruction Rules* govern the record retention responsibilities of staff, volunteers, board members, and outsiders for maintaining and documenting the storage and destruction of the organization's documents and records. It should also identify which documents need to be retained and for how long.
   c. *Executive Compensation Policy* (not that common in most nonprofits) establishes formulas to ensure a fair and reasonable (but not excessive) compensation for all of the nonprofit's highly compensated employees and consultants.
   d. *Gift Acceptance Policy* guides the nonprofit in determining the types of gifts it can accept, and educates the staff and board about critical issues that certain types of gifts (such as real estate, life insurance policies, and stocks) can trigger.
   e. *Investment Policy Statement* sets out a clear roadmap for managing your organization's investments and spending over time, as well as defining its investment philosophy and process.
   f. *Whistleblower Protection Policy* encourages staff and volunteers to come forward with credible information on illegal practices or violations of organizational policies, specifies they will be protected from retaliation, and identifies staff, board members, or outside parties to whom such information can be reported.

Before agreeing to join any nonprofit board, take time to carefully review the organization's bylaws, articles of incorporation, and audited financial statements. In addition, check to see they carry enough "directors and officers (D&O) liability insurance" to cover any costs, settlements, or judgments arising out of wrongful act allegations and lawsuits. This is especially important since individual board members can potentially be held personally liable for an organization's actions. It is also a good idea to review the indemnification language in the bylaws.

2. **Investment duties**—UPMIFA also outlines several key mandates for those board members who will be responsible for managing and investing a nonprofit's charitable funds. You must always consider the nonprofit's charitable purposes and the purposes of the funds. And when a donor places restrictions on the use of funds, you must strive to adhere to those restrictions.

   In managing and investing the nonprofit's funds, you must act in good faith and with the care of 'an ordinarily prudent person.' If you possess special skills or expertise, you must employ those in carrying out your duties. You also have a duty to minimize costs, and to investigate the accuracy of all information before making decisions (e.g., grant requests).

[continued]

3. **Endowment spending limitations**—While most individual states don't specify a cap on endowment spending, you are required to ensure that your nonprofit's spending is prudent. Some states, however, do restrict how much can be prudently spent each year. Depending on the state, these caps typically range between 5% and 9%.

Keep in mind that your fiduciary responsibilities as a nonprofit board member are subject to the particular written policies of the organization, as well as state and national regulations. And from time to time, those rules, requirements, and restrictions may be subject to revision. Therefore, it's important to stay abreast of any changes, and alter your behaviors and activities accordingly.

We're here to help

There are many ways to serve a nonprofit, and board membership isn't the right choice for everyone.

Serving on a nonprofit board can be an incredibly positive, fulfilling, and life altering experience. Just make sure it's the right fit for your skill set and passion; and that you take your seat at the table fully aware of not only the current financial and operational state of the organization, but also of your obligations under the law.

Have specific questions regarding your fiduciary duties and/or best practices in nonprofit management and corporate governance? Contact your BLBB advisor (215.643.9100) or Nicole Tell, Executive Director of BLBB Charitable, the giving arm of BLB&B Advisors, (215.634.9001) regarding our Philanthropic Advisory Services to help you weigh the various considerations in order to make a more informed decision.

L to R: Robb Parlanti, Doug Huntley, Ed Barnes, Clif Haugen, John Lawton, John Armstrong, Laura Brewer, Dean Karrash, Bob Johnson, Brian Gallagher, Brianna Barnes March, Nick Bucci, Bob Flood, Chris Perry

BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964℠

www.BLBB.com
215.643.9100

Mailing address
P.O. Box 1010, Montgomeryville, PA 18936

Street address
103 Montgomery Avenue, Montgomeryville, PA 18936