NONPROFIT *FiscalFitness*

your newsletter about issues in the nonprofit business world

Blackbaud.

July 2009

Editor's Note

The recent enactment of the Uniform Prudent Management of Institutional Funds Act in 43 states now allows nonprofits in those states to spend from an “underwater” endowment, but it also means they likely need to revise a number of policies.

In this month's issue of *Nonprofit Fiscal Fitness,* Rebeka Mazzone, Director of the Rhode Island practice of Accounting Management Solutions, Inc., discusses the details of the Act, what it means for nonprofits, and next steps your organization can take.

printer friendly
» Download the PDF
» View It Online

table of contents

Registration is Now Open for Blackbaud's 2009 Conference for Nonprofits

You don’t want to miss Blackbaud’s 2009 Conference for Nonprofits. Register now! With more than 100 sessions covering topics such as development, financial management, donor prospecting, and technology, this year's Conference is *the* place to learn and network with your nonprofit peers. Program details are available on the Conference website — your “go-to” resource for all Conference information.

REGISTER TODAY!

To help nonprofit professionals attend this milestone event focused on nonprofit technology and to mark the 10th anniversary of the annual Conference for Nonprofits, we are giving away 10 complimentary registrations through our scholarship fund and the Get Social! Contest. Check out the details here.

get SOCIAL!

back to top

The Uniform Prudent Management of Institutional Funds Act
By Rebeka Mazzone

Many Nonprofits May Now Tap “Underwater” Endowments, But They Must Do So Carefully

Recent enactment of the Uniform Prudent Management of Institutional Funds Act — known as UPMIFA — in 43 states now allows nonprofits in those states to spend from an “underwater” endowment, but it also means they likely need to revise a number of policies.

Most significantly, the new law updates an older law, called UMIFA, by eliminating a historic dollar value (HDV) “floor” in favor of more guidance on “prudent” behavior. In general, UPMIFA allows you to spend from an “underwater” endowment — that is an endowment whose market value has fallen below the amount restricted by the donor as long as, by law in Rhode Island, you determine that this is a prudent step to take.

UPMIFA allows nonprofits to spend from “underwater” endowments, but their boards must ascertain that such action is “prudent” based on seven specific factors. In addition, the board-approved spending policy must be based on the average market value of investments over the last 12 quarters or more. Consideration also must be given to recent major market fluctuations to determine if an average of 12 quarters is prudent or if a longer period of time should be used to help smooth the fluctuations.

Since many nonprofits have a June 30 fiscal year end, having the law take effect as of this past June 30 was especially critical in allowing spending on underwater endowments for the fiscal year just ended.

Each State Has Its Own Version

Nonprofits need to understand that while UPMIFA seeks to make the law regarding endowment management uniform, each state adopts it own version.

Before dipping into its endowment, every nonprofit should understand the unique requirements of its state. For example, a recommended provision providing a rebuttable presumption of prudence for a 7% spending level was not adopted by all states.

UPMIFA only applies to permanently restricted endowments, which are restricted by the donor or law. The difference between permanently restricted and other endowments is an important distinction since many boards create endowments using unrestricted funds, which are called quasi-endowments. UPMIFA does not apply to quasi-endowments. UPMIFA also does not generally apply to certain trusts or foundations, as many of these amounts are not permanently restricted.

Along with the proposed UPMIFA law, The Financial Accounting Standards Board (FASB) issued a Staff Position (FSP FAS 117-1), which requires significant new disclosures for all permanently restricted endowments, even in states which have not adopted UPMIFA.

Among other points, the FSP provides that unless stated otherwise in the gift instrument, the assets in the endowment fund are restricted until appropriated and expended. This means that all realized and unrealized gains and losses have an implied time restriction and are temporarily restricted until appropriated, usually by a spending policy, and used for a restricted purpose.

This FSP applies retroactively and requires all previously unappropriated earnings to be reclassified from unrestricted to temporarily restricted. This change will have a large impact on balance sheets and, therefore, debt covenants.

Next Steps for Nonprofits

Accounting Management Solutions recommends that nonprofits consider the following actions in light of UPMIFA, consulting legal counsel as needed:

- Develop or revisit your gift acceptance policy.
- Train your board and finance/investment committee on the new standards of prudence.
- Update policies and procedures to include UPMIFA’s seven standards of prudence.
- Update spending policy and calculation of spending, including the amount of spending from underwater endowments; determine whether these changes require changes to your asset allocation policy.
- Update your portfolio performance, monitoring, and fiduciary duties.
- Calculate the amount of accumulated earnings to be reclassified based on your interpretation of the law. Create or update unitization schedules to properly reflect the required changes, and train staff regarding these changes.
- Make necessary changes to your accounting system and processes to accommodate the new requirements.
- Discuss the impact of these changes with your board, management, lenders, accreditation or other agencies and other interested parties.
- Obtain amendments to debt covenants where necessary.
- Discuss all proposed changes and calculations with your auditors before the audit starts.

- Prepare new required footnote disclosures.

About Rebeka Mazzone
Rebeka Mazzone is the director of the Rhode Island practice of Accounting Management Solutions, Inc., New England's largest provider of outsourced financial management and accounting services. She is one of 40 professionals dedicated to serving the higher education and not-for-profit industries. The firm currently provides services to more than 200 not-for-profit clients. She has more than 13 years of experience providing financial accounting and consulting services to for-profit and not-for-profit clients.

For more information, please contact Rebeka Mazzone in Rhode Island at 401-374-3222*, Michael Whitney in New York at* 347-554-1783*, or Patrick Kavey in Boston at* 781-419-9228.

back to top

Latest and Greatest

web seminars

The Financial Edge®
Looking for new nonprofit accounting software? Join us to learn about The Financial Edge – our mission critical accounting information system that provides the reports and analyses you need to effectively support decision making.

August 20, 2:00 p.m. ET

Solve Your Paper Filing Needs
Join us to learn more about PaperSave, a comprehensive electronic storage system and audit trail for all your source documents that also offers peace of mind.

August 21, 1:00 p.m. ET

in the news

IRS Releases Training Materials on Governance Matters
The Internal Revenue Service has publicly released educational materials on governance matters that it has been using recently to train its agents and employees.

Read the entire article.

52% of Charities Saw Drop in Spring Donations, Survey Finds
Just over half of charities saw a drop in donations between March and May of this year, the same portion as reported a decline between October and February, according to a survey by the nonprofit watchdog group Guidestar.

Read the entire article.

resources

The Baudcast

This episode's panel discusses the Facebook® URLs, social media and the climate bill, SocialBrite®, List of Change®, Summer of Social Good®, Beth's Blog, Collecta®, and more. Featuring Chad Norman, Melanie Mathos, Frank Barry, Michael Sola, and Joe Meehan.

Download episode 28.

A Cheat Sheet For A Down Economy
Stop worrying about the economic mess and start doing something concrete about it!

View all white papers.

Blackbaud

Blackbaud, Inc. | 2000 Daniel Island Drive | Charleston, SC 29492 | 800.443.9441

If this email was forwarded to you and you would like to receive a free subscription, please visit www.blackbaud.com/profile/adduser.aspx and create an account. You'll be able to opt in to receive *Nonprofit Fiscal Fitness* and other Blackbaud publications at the bottom of the form. Once you create an account, you can manage your subscriptions at http://subscribe.blackbaud.com.

The information contained herein should not be construed as legal or professional advice. If you have questions about how this newsletter's content applies to your organization, you should seek advice from appropriate professional counsel.