



Is the Board Liable for Investment Losses?

When the stock market dips, are board members culpable for the money lost?

Q: Our nonprofit organization received a gift of \$100,000 last year to fix our building's roof. The board invested the gift while the market was going up, but it's now worth only about \$70,000. Is the board liable to make up the difference when we start the project shortly?

A: Your question is an interesting one that raises a lot of issues. If you're asking about personal liability for the loss, directors are generally not personally liable for market losses on prudent investments. If they were personally liable in this economic climate, a lot of good people would be jumping out of windows.

The board has a fiduciary duty to monitor the investments, but that doesn't necessarily mean board members need to change investments if there's a prudent reason for keeping them as they are. Prudent-investor laws generally say that "prudence" should be judged not in terms of the ultimate results but according to the information board members had at the time they made their decisions. The key to self-protection is continued vigilance.

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With volunteer protection statutes and director limitation of liability laws, directors aren't normally liable even for imprudent investments in the absence of gross negligence, willful misconduct, or self-dealing.

As a practical matter, however, if the cost of your

project remains the same, the organization has to come up with the additional resources to undertake the job. You can't use these temporarily restricted funds for other purposes.

The problem illustrates the value of having different investment policies that depend on the time horizon for expending the investment. Many organizations will invest solely in bank CDs, money market funds (although even some of them have been suspect lately), or short-term Treasuries or other bonds if the funds will be needed for a project within a year or so. They believe that the volatility of the stock market is just too great even in more normal times to assure that the funds will be there when needed. If the money won't be spent for four or five years, they may assume the risk of stock market volatility for part of the fund. But the stock market is better suited to permanently restricted and quasi-endowment funds where the infinite time horizon and historically greater returns make the long-term risk-reward calculation more favorable. ■

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To make certain your investment choices are prudent ones, see these Nonprofit World articles at www.snpo.org: "Investment Guidelines for Nonprofits" (Vol. 13, No. 1), "Rule Requires Board Members to Be Expert Investors" (Vol. 14, No. 1), and "How Responsible Is Your Investing?" (Vol. 20, No. 6).

How Much Detail Is Needed in a Thank-You Letter?

When you acknowledge donors, how much information should you include?

Q: We know it's important to thank donors promptly. Our question concerns how much "administrative detail" needs to be included in the letter. Should the amount be mentioned? If part of the gift is for one purpose (dues) and another part is for a different purpose, must we include that information in our thank-you letter? Is it important to mention the particular appeal the donor responded to? We have tended toward including *more* rather than *less*, consequently complicating the process so much that the goal of promptness is being thwarted.

It's wise to look for ways to simplify the process.

A: I think you're on the right track. It would be ideal to include all the donor history information pertaining to a gift — what you call "administrative

detail" — but if that's slowing down your acknowledgments, it's wise to look for ways to simplify the process.

To my mind, there are only three essential bits of information in a personalized thank-you: the donor's name and address; amount of the gift; and the date you received it. If you can squeeze out those basic bits of information and get your acknowledgments into the mail without delay, you'll probably be better off. ■

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Also see, "12 Ways to Say Thank You" (Vol. 16, No. 6) and "Can You Acknowledge Donors Via E-Mail?" (Vol. 19, No. 4) at www.snpo.org.