MEMO

Attachment J

girl scouts
building girls of courage
confidence and character

Date: January 12, 2018

To: Board of Directors

From: Victoria Nilles, Governance Task Group Chair

Subject: Recommendations on Board Policy Change

In preparation for the January board meeting, please review the following recommendation on a board policy revision that is being brought to you by the Governance Task Group.

Policy 2.4.5 – Asset Replacement: In September 2017, the board noted that we were out of compliance with Policy 2.4.5 (Asset Replacement Funding). At that time, we reported that the asset replacement fund was $5.8 million or 31% of accumulated depreciation. The current policy calls for the funding to be no less than 35% nor greater than 50% of accumulated depreciation. In light of the gap, the Governance Task Group reviewed the policy, the history of the policy, and options for revisions. The following information is provided as background:

- The purpose of the asset replacement fund is to have resources available for routine capital expenses, as well as one-time improvement projects.
- Funding depreciation is not a standard practice for nonprofits – it is “best in class” according to auditors. Most nonprofits do not have the funds to set aside dollars for future capital expenditures. We are unaware of available benchmarks and our auditors are in agreement that there are no standard guidelines.
- Until 2010, surplus funds were usually invested in the asset replacement fund. After 2010, the board established the pension liability fund and surplus funds were placed in that fund to ensure we had the dollars to pay the large pension liability each year.
- GSUSA has a charter requirement that we have 6-12 months of operating reserves. There is no policy on asset replacement.

After looking at past performance and spending patterns, we project that annual capital expenses of approximately $500,000 per year can be anticipated. Using a worst-case scenario, we would project a fund of $4 million to be sufficient for at least seven years. We expect to have enough in our pension liability fund to handle all annual payments until the liability is paid in full. Therefore, any additional surplus funds can be directed to the asset replacement fund.

Therefore, using this information, we recommend the following wording for Policy 2.4.5:

> “Financial planning for any fiscal year or the remaining part of any fiscal year shall not deviate materially from the board’s Ends priorities, risk fiscal jeopardy, or fail to be derived from a multi-year plan. Further, without limiting the scope of the foregoing by this enumeration, he or she shall not plan an asset replacement fund that is less than $4 million. This fund shall be evaluated any time that it falls below $4 million or at least biennially to determine if the fund continues to be reasonably adequate, but not excessive to meet its stated purposed.”