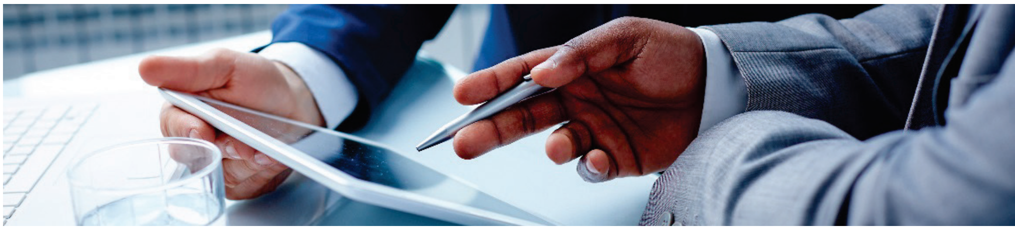
GOVERNANCE SERIES



This governance series is intended to help nonprofits and other organizations pursue success through understanding the role and obligations of a fiduciary. It is vital that both those who fulfill the role and those who appoint them understand their fiduciary duties for the overall health of an organization.

THE IMPORTANCE OF INVESTING FOR NONPROFIT ORGANIZATIONS

"The trustees of endowed institutions are the guardians of the future against the claims of the present. Their task is to preserve equity among generations."

— James Tobin, Nobel-Prize-Winning Economist, Yale University

Most nonprofits in existence – foundations, endowments, charitable organizations, etc. – have specific missions tied to larger philanthropic purposes.

A community foundation is likely to be tied to the development or welfare of a specific geographic area and its residents. Endowments may exist to provide scholarships for a certain type of student or to fund specific areas of study within a university setting. Charitable organizations may be concerned with improving the lives of a portion of the community that falls beneath the definition of poverty or providing funds for disaster relief or medical research for a specific medical condition.

Nonprofit organizations – regardless of their purposes or missions – must continue to exist in order to fulfill those missions.

How do they do that? There are many factors involved, but the one we focus on here is the financial health of the organization.

Most organizations, including nonprofits, rely on generously provided money or assets. These dollars may have been gifted to them from one large donor or through the organization's persistent fundraising efforts.

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How do nonprofits use these assets?

It depends. Many nonprofits invest them in order to generate all or a portion of their organization's operating income for a given year while also funding scholarships or capital improvements, such as new classrooms or a cardiac care wing.

With rare exception, the missions of most nonprofits are structured so the organization will need to exist for a very long time – if not forever. Even those that fulfill their mission – consider The March of Dimes funding a polio vaccine leading to a cure – can identify a new mission (prevention of birth defects and infant mortality) to continue their good work.

Higher education, healthcare, and the costs of research continue to rise every year. Therefore, it is critical these institutions achieve "intergenerational equity; this simply means that they manage their funds so that they grow so as to have the same economic impact tomorrow as they are having today.

That's the true meaning behind Tobin's quote at top: trustees, or those who sit on investment committees or boards for nonprofit institutions have to guard not just against decisions that could adversely affect the organization's funding for one, five, or 10 years from now, they have to be cognizant of making decisions that could impact the funding decades from now!

Given the importance, how do nonprofits seek to ensure that the dollars entrusted to them go to fulfill their organizations' missions now and well into the future?

They set up a governance structure, which includes an investment committee, to oversee the responsible and prudent investment and disbursement of their generously donated assets.

If you find yourself on an investment committee, you are part of the governance of your nonprofit's investment program and you have a very important role to play.

QUESTIONS

What specifically does your nonprofit fund with the proceeds of its investment portfolio?

Does your nonprofit have plans for specific capital projects that it needs to fund?

Given your nonprofit's mission/purpose, do you think there are industries in which it should not invest? (For example, if it is a foundation created from a tobacco settlement, it would likely be inappropriate for the foundation to invest in tobacco companies.)

If you were to address an audience of your nonprofit's donors, what do you think they would say is most important to them in terms of the investment program or its outcomes?

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