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# Nonprofit Strategies



SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

## Nonprofits should be cautious with investments

*By Barry VanderKelen*

In my last column, the members of the fictional finance committee of a nonprofit were discussing ways to invest the operating reserve of the organization. Every member had an idea of what to invest in, all yielding potentially more than the current bank account. A few readers have commented that they have recently participated in similar conversations.

The purpose of presenting the committee's deliberations was to show how quickly well-intentioned people can get into trouble. Almost every committee member had an idea of what to do, yet few had any idea what exactly they would be investing in. This is a recipe for losing a lot of money quickly.

The finance committee has been entrusted with the organization's money. In this fiduciary role, the committee members must act prudently. The California Corporations Code states that when making investments, organizations must "avoid speculation, looking instead to the permanent disposition of the funds, considering the probable income, as well as the probable safety of funds."

The committee's discussion will be greatly aided by the organization's investment policy. The policy spells out what investments are permissible and which ones are to be avoided; how investment decisions will be made; and how to monitor and evaluate investments. The policy protects both the organization and the people making investment decisions.

The committee must also consider the standards of care for investing contained in the Uniform Prudent Management of Institutional Funds Act. The standards include considering the general economic conditions; the tax consequences of an investment; the expected rate of return; and the other resources of the organization. Boards and committees must act in good faith and with the care of an ordinary prudent person.

Of the six committee members, only one person urged caution. When it comes to investing, everyone should listen carefully to that person.

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### Resource Use

- Support nonprofit leadership
- Board development/training
- Strategic planning

### Nonprofit Business Column of *The Tribune*

Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes a bi-weekly column to help strengthen nonprofit organizations in the community.

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Each column is reprinted as a one-page handout for use by local organizations. Barry can be reached at 543-2323 or by e-mail at [barry@sloccf.org](mailto:barry@sloccf.org).