# Investment Policies for Nonprofits

The board of directors of a nonprofit has a fiduciary responsibility to protect the assets of the nonprofit and ensure that the assets are used to further the nonprofit's mission.

A prudent way to serve as fiduciaries of a nonprofit's assets may be to invest some portion of the nonprofit's cash in investment vehicles such as stocks and bonds, money market funds, CDs, and other financial instruments.

Many nonprofits maintain a day-to-day "working capital" fund for routine expenses and transactions, plus an operating reserve that is built up for a rainy day or an unexpected expense. There are different ways to calculate the amount of operating reserves a particular nonprofit should have on hand, but in general these funds should be fairly liquid, meaning they can be reliably and easily converted to cash.

Working capital and operating reserve funds are often kept in FDIC-insured bank accounts, certificates of deposit, or money market deposit accounts.

Funds with a longer-term horizon such as endowments, board restricted reserves, capital campaign funds, and other restricted funds are often invested so that they can grow while they are not being used.

However, any investment carries a certain amount of risk. Being prudent means taking into consideration that investments usually take time to grow.  Investing too much of a nonprofit's cash in long-term investments won't allow the nonprofit access to the cash, if needed in the short term.

Before your nonprofit invests some portion of its funds, the board should develop a sound approach to investing by defining the nonprofit’s objectives for investing, identifying the nonprofit’s risk tolerance, and **adopting an investment policy.**

The board can also delegate day-to-day responsibility for the nonprofit's investments (while retaining oversight responsibility) to a committee and/or an outside professional fund manager. Or, the full board can accept responsibility for monitoring and managing the performance of investments. (Ownership of real property, such as a building used by the nonprofit, is also considered part of an investment portfolio.)

## Practice Pointers

There are three potentially competing interests for any funds that a nonprofit invests:

(1) protecting the value of the initial invested assets;

(2) growing those assets to increase their value; and

(3) maintaining access to the assets, in the event the nonprofit needs to tap into the funds for cash flow needs.

Some investments may also be restricted for specific purposes, not to be used for short term cash flow needs. An investment policy can address all of these issues, as well as define who is accountable for investment-related activities. Investment policies may also address the nonprofit's commitment to socially responsible investments, spending policy, cash thresholds, and asset allocation.

Of course, there is almost always a risk that any particular investment will not grow at all, but in fact lose value. To mitigate such risks, many nonprofits consider the need to diversify investment vehicles, and many hire professional investment managers to monitor market values and benchmarks, provide advice, and carry out the purchase, sale, or trade of investments.

Evaluating the performance of the investment portfolio and the investment manager’s performance is also the responsibility of the board of directors (or the board may delegate this authority to an investment committee of the board).

The fiduciary responsibility for oversight of the nonprofit's assets may require redirecting investments that are not performing well, but generally the role of the board is to authorize the risk profile and asset allocation; re-evaluate the goals and performance of investments in conjunction with potential shifts in goals and needs of the organization; and authorize the day-to-day management of investments.

## Related Insights & Analysis

- Budgeting for Nonprofits
- Financial Literacy for Nonprofit Boards
- Financial Management

## Additional Resources

- Sample investment policy for a nonprofit operating in New York state (courtesy of the New York Council of Nonprofits)
- Sample investment committee charter (Vanguard)
- Elements of a clearly defined investment policy statement (Russell Research)