# Being a good fiduciary

3 key considerations for
community foundation board members

There are a few questions that you, as a community foundation board member, can consider to help ensure you're meeting your foundation's needs. To start with, what keeps you up at night? Are you worried about your foundation's level of spending each year? Or perhaps you feel that your foundation is taking on unnecessary risks in its efforts to support the overall mission? Or maybe you're concerned about whether you have adequate in-house resources to help you fulfill your fiduciary responsibilities? Ensuring you are up to date on best practices for fulfilling your duties is critical. In this short article, we provide guidance on three areas that are key to your organization's success.

## 1. Board engagement

Good governance plays a key role in your community foundation's success, and since your board ideally pulls from a broad cross section of the community, it's important that you have strong participation from and interests aligned with the community you serve. However, recruiting, engaging, and retaining capable and passionate board members who are aligned with your mission can be daunting. It can be challenging to identify prospective board and committee members (particularly investment committee members) with the requisite expertise and/or experience within the community. Strong leadership is essential for your success. Some suggestions on how to best strengthen your board's recruitment, retention, and education practices are:

- Identify the skills already represented on your board and the skills not adequately represented, and proactively recruit prospective board members with the desired skills.
- Engage with the community to cultivate future board members and committee members through local events. An example of local engagement might include partnering with the area colleges, universities, and other non-profit organizations to address common issues facing the community. This kind of outreach can create opportunities to identify and nurture future leadership.
- Introduce term limits for board members, which should help to both stabilize board representation and prevent board members from rolling off at the same point in time.
- Ensure that the board meets on a regular basis throughout the year and that each meeting has a targeted agenda that includes an education topic. Use this time to keep board members informed of key trends and issues in their community, such as demographic trends, as well as education about capital market conditions that may impact the foundation's investment program.
- Finally, consider enhancing your board members' expertise by sending them to conferences focused on board engagement, skill building, and leadership development. They can then apply those newly learned skills to the management of your foundation.

## 2. Managing spending

Community foundations must carefully balance spending assets for philanthropic purposes, managing their operating costs, and preserving the purchasing power of their assets. Achieving this balance can be challenging in the current market environment. Spending too much may impact the future value of your foundation's assets and may inhibit your ability to continually support your community's programs, whereas spending too little for current programs may impede your efforts to meet today's community needs—and run counter to your spending obligations.

To effectively meet the community's needs, you should understand your ongoing spending obligations and how much your organization relies on your investment program to

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support those spending obligations. Here are some questions to consider:

- Do you have a fixed or variable spending requirement year on year? And how often do you review your spending targets?
- What is your mix of restricted and unrestricted fundraising? And how much of each of those pools will be managed within your existing investment portfolio?
- What is your time frame for spending your assets? Are there restrictions within your donor-advised funds that will require you to pull heavily from your unrestricted pool at any point?
- Do you rely heavily on your investment returns to meet your annual spending obligations? How much do you rely on your investment returns to fund your operating expenses?
- How much do you rely on fundraising to increase your contributions to the investment portfolio?

The answers to these questions may surprise you. It is important that your board and investment committee are aligned on how you wish to approach your spending needs. Determining an appropriate spending rate and extent of reliance on investment returns is just one part of the story. The other critical part is ensuring that you are achieving the returns you need to meet your spending obligations. Ensuring that your investment provider(s) are aware of—and that their investment strategies are aligned with—your spending needs is critical to your ability to effectively meet those needs.

## 3. Risk management

Finally, risk management continues to be a crucial component of a robust investment program, as well as a key driver of operational success. Risk management is broader than just the management of the risks inherent in your investment program. There are also other kinds of risks to be aware of, such as the sudden loss of funding, reputational risk, and key-person risk. These broader enterprise-wide risks can be best understood and managed by implementing an enterprise-wide risk-management approach. To do this, your organization will need to develop the following:

- **A risk-governance framework** that takes into account the culture, decision-making, and governance structures within an organization.
- **A risk-measurement process** to identify risks across the entire organization, placing some measurement parameters around those risks, and monitoring and evaluating them on a regular basis.

When thinking about just your investment program, a successful risk-management approach hinges on your ability to manage your community's assets amidst constantly changing market environments and opportunities, while ensuring that you are always monitoring and managing downside risk. A few process guidelines that can help you along the way include:

- Establishing a common belief system by understanding which risks you are reasonably comfortable with and willing to take. This includes defining what risk means to you, both in terms of the nature and size of risk (e.g., liquidity risk, downside risk, reputational risk, etc.).
- Documenting your beliefs in your investment policy statement (IPS). These beliefs should be revisited and reviewed on a regular basis (say, annually), not just after a risk event has occurred.
- Establishing unambiguous accountability for specific decisions and processes for risk management and ongoing compliance—who owns what?

### In conclusion …

Most community foundations want to grow and thrive in perpetuity. In order to do that, you need to ensure that you are doing the best you can to achieve these goals. Strong governance, spending, and risk-management programs can help you stay focused and ahead of the curve.

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First used: February 2015. Revised: August 2021 AI-28977-08-24