



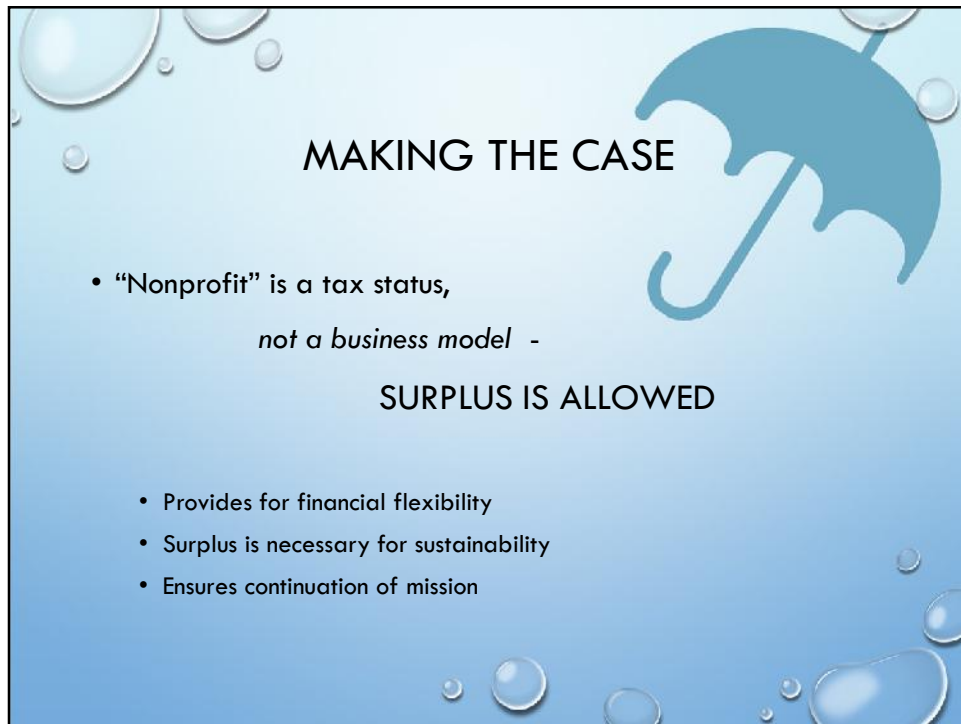
WHY RESERVES?

- Study* findings
 - 80% of organizations have less than 6 months of cash available
 - 35% reported having 3 months or less of operating cash
 - 15% organizations have less than 1 month

* 2014 State of the Sector Survey - by Nonprofit Finance Fund (NFF)

WHAT COULD HAPPEN?

- An unexpected shortfall in revenue
- Unexpected demands on your resources
- Unanticipated opportunities to provide more services, establish new collaborations
- Less than perfect judgment and foresight
- A change in direction is called for
- Normal day-to-day fluctuations in income and expenses
- Seasonal factors



MAKING THE CASE

- “Nonprofit” is a tax status,
not a business model -

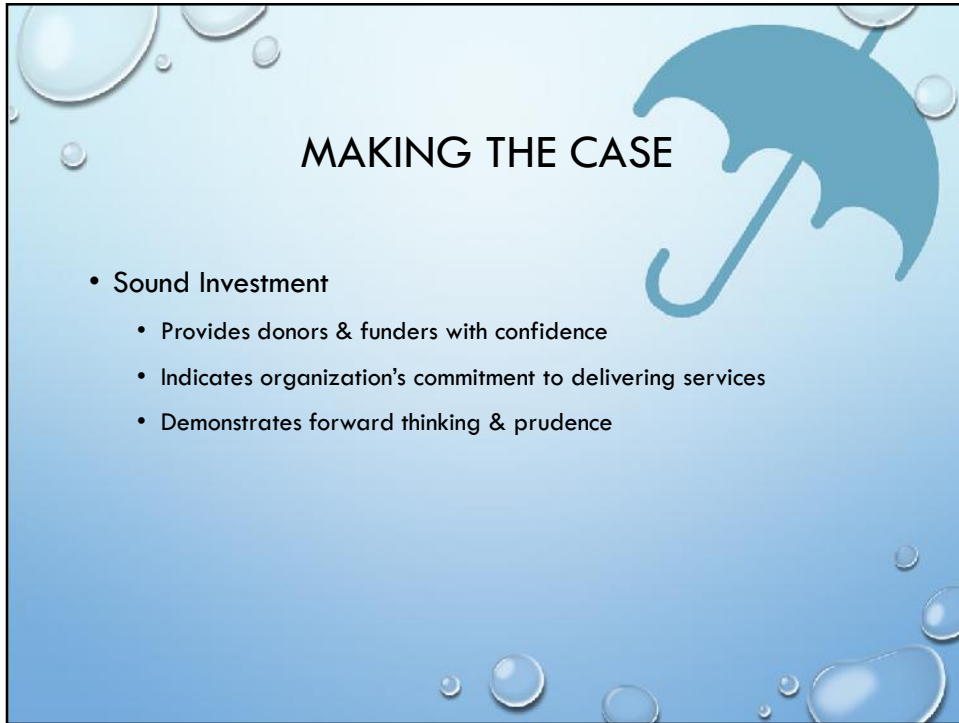
SURPLUS IS ALLOWED

- Provides for financial flexibility
- Surplus is necessary for sustainability
- Ensures continuation of mission



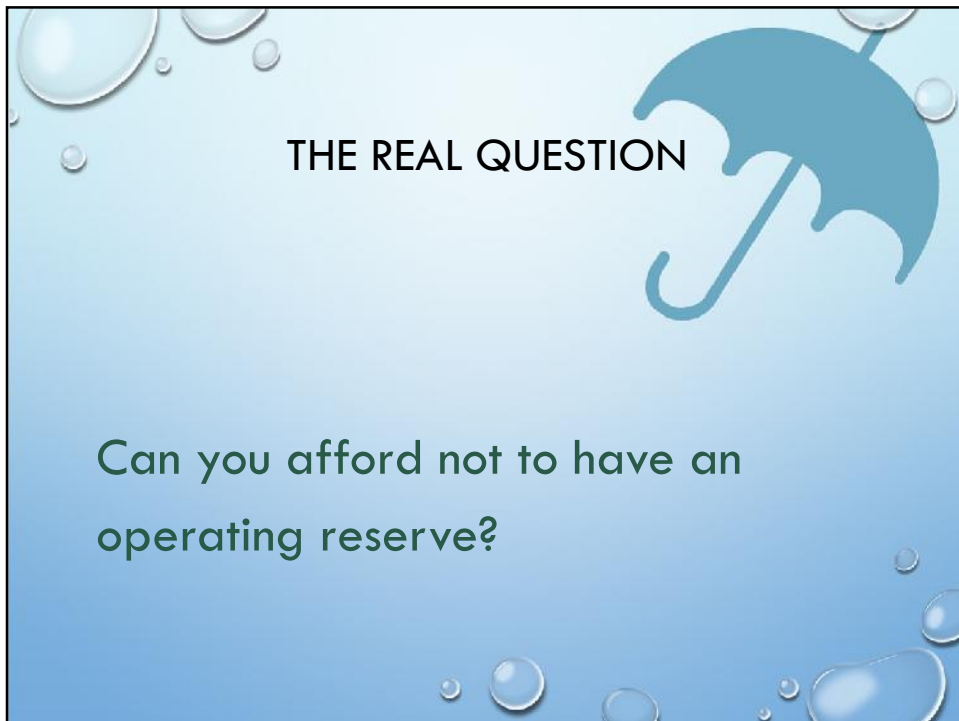
MAKING THE CASE

- Improves Cash Management, Reduces Stress
 - Reduces burn-out related to cash flow challenges, asking too much of staff
 - Helps reduce the need for lines of credit



MAKING THE CASE


- Sound Investment
 - Provides donors & funders with confidence
 - Indicates organization's commitment to delivering services
 - Demonstrates forward thinking & prudence



THE REAL QUESTION

Can you afford not to have an operating reserve?

Assets	Current Assets: - Cash & cash equivalents - Receivables (short term) - Inventories - Prepaid expenses
	Fixed Assets: - Furniture & equipment - Plant, property - Accumulated depreciation
	Other Assets: - Deposits - Long-term investments - Long-term receivables
- Liabilities	Current Liabilities: - Accounts payable - Accrued expenses - Payroll liabilities - Deferred revenue - Refundable advances - Line of Credit - Current portion of a loan
	Long Term Liabilities: - Bond - Mortgage - Loan (over 1 year)
	Unrestricted Temporarily restricted Permanently restricted
= Net Assets	



STATEMENT OF FINANCIAL POSITION



DEFINING OPERATING RESERVES

<p>Available</p> <ul style="list-style-type: none"> • Unrestricted net assets available for use • Saving accounts 	<p>Not Available</p> <ul style="list-style-type: none"> • Equity in fixed assets: The value of fixed assets net of mortgage, notes that are secured by the assets • Non-Current assets: Long-term pledges, inventory, prepaid expenses, deposits held by others
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DEFINING OPERATING RESERVES



Board Designated –

Can be a fixed or percentage amount of funds set aside for a specific purpose

Undesignated –

Funds that can fluctuate up or down based on day-to-day changes in normal cash flow activity

HOW MUCH DO YOU NEED?



It depends!

CALCULATING THE RATIO



Number of Months

$$= \frac{\text{available funds-operating reserve funds}}{1/12 \text{ annual expenses}}$$

Example: \$600,000 annual exp/12 months = \$50,000/month

\$75,000 available funds/\$50,000 = 1.5 months

CALCULATING THE RATIO



Percentage %

$$= \frac{\text{available operating funds}}{\text{annual operating expenses}}$$

Example: \$75,000 available funds/\$600,000 annual expenses = .13 or 13%

NFF'S MONTHS OF LIQUIDITY: RULE OF THUMB SCHEDULE

Months of Expenses covered by Liquidity	Operating Situation
<1 month	Crisis – Scrambling for cash, delaying payments, transferring funds
<3 months	Cash is tight – Using lines of credit, delaying payments
3-6 months	Room to breathe – rainy days covered, engaging in strategic thinking & planning
6+ months	Handling risk – able to withstand large challenges (funding cuts, facility repairs, recession challenges)

HOW VOLATILE IS YOUR FUNDING?

- How stable are the funds donated from primary sources?
- Are pledges predictable?
- How reliable & consistent are grants & contracts?
- How reliable are the funds from fundraising events?
- How many economic/fundraising challenges can your community handle?

ABILITY TO ADJUST SPENDING?

- Role in community crisis situations?
- Dependence on key person
- Downsize quickly & still deliver services?
- Long-term financial commitments? Debts?
- Staffing load & flexibility?
- Could technology upgrades free up staff for program or other work?

CALL TO ACTION

Work with your board to establish a written operating reserve policy that defines:

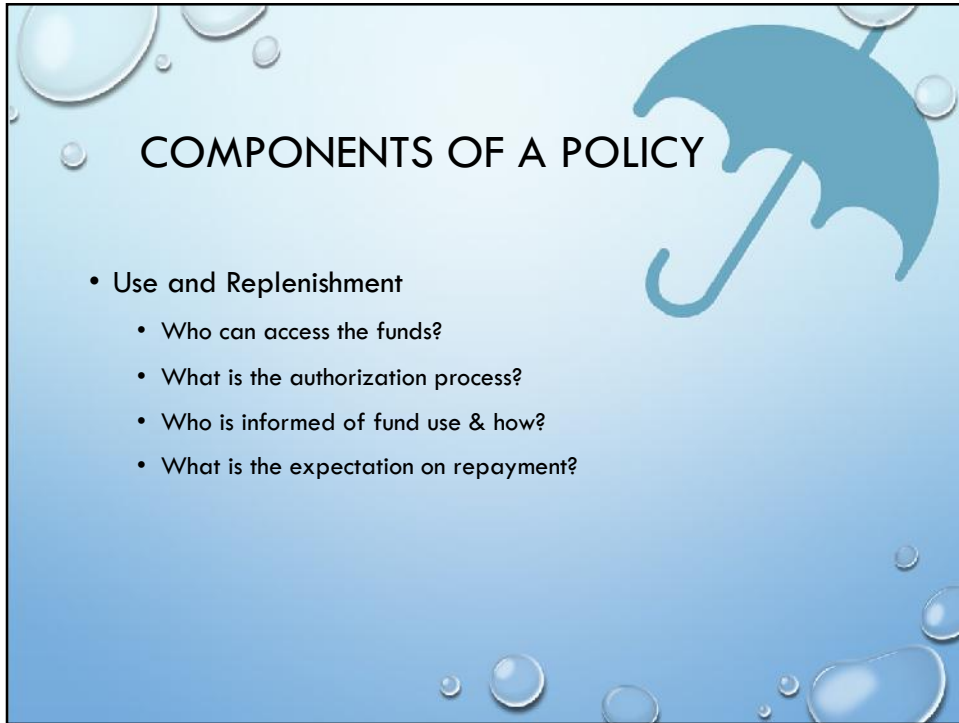
- What's adequate for you
- When/how funds can be used
- Who has the authority to determine when to access
- How the reserve will be replenished

CALL TO ACTION

- Develop a long-term strategy for how you will raise the funds
- Develop reserve goals & evaluate the process (quarterly?)
- Give consideration to what happens after the goal is reached
- Communicate goals reached to board & donors
- Formulate new campaign based on the next set of goals

COMPONENTS OF A POLICY

- Statement of Purpose
 - Reasons for creating reserve
 - What funds can/will be used for
- Fund establishment
 - Start date?
 - Starting balance?
 - Target amount?
 - Investment policy?



COMPONENTS OF A POLICY

- **Use and Replenishment**
 - Who can access the funds?
 - What is the authorization process?
 - Who is informed of fund use & how?
 - What is the expectation on repayment?



COMPONENTS OF A POLICY

- **Management**
 - Who is responsible for managing funds?
 - How will funds be stored? Recorded?
 - What are the liquidity requirements/considerations?
- **Board Role**
 - Can Finance Committee monitor? How often?



COMPONENTS OF A POLICY

- Board Role
 - Can Finance Committee monitor?
 - How often should they monitor?
 - How will the board be updated?
 - How often will the policy and fund situation be reviewed and re-assessed?



STRATEGIES FOR BUILDING RESERVE

- Secure a strong, active, fundraising oriented board
- Practice conservative budgeting that emphasizes liquidity
- Set & keep a goal of not passing deficit based budgets
- Begin building a cushion into your annual budget

STRATEGIES FOR BUILDING RESERVE



- Maximize in-kind gifts for day-to-day operations, special events and programs
- Add a reserves line item into your budget and actively seek donations for it
- Establish a policy that designates all (or a portion of) unexpected gifts for the reserve
- Require board approval to access funds

STRATEGIES FOR BUILDING RESERVE



- Work with current donors to secure non-cash gifts or planned gifts that can be put towards a reserve.
Example: Stock or real estate

