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Rainy Days: Viewing Operating Reserves in the Current Economy

A lot of not-for-profits are seeing less revenue coming in coupled with greater demand for their services. As a result, they're struggling to cover expenses. If your organization is in this situation, you may already have turned to your operating reserves for needed cash — and you may see no end in sight.

But before you tap further into your nest egg, take pause: Consider the purpose, nature and limits of these unrestricted funds.

What are they?

Operating reserves are a specified balance of unrestricted net assets that can be used for operating purposes in dire situations. Primarily, they provide financial protection from unexpected revenue shortfalls or increased expenses.

Enough funds to cover three months of operating expenses is often viewed as the bare minimum to keep in reserves. But if your not-for-profit is more dependent on contributions and grants than on program service fees and membership dues, your reserves may need to provide for a longer period, such as six months to a year.



How should they be used?

One could argue that, if operating reserves are savings for a rainy day, now is a stellar time to use them. Indeed, operating reserves currently are helping many not-for-profits “break even” as they meet operating expenses and fund programs to fulfill their missions. But it's crucial that you take a broader perspective.

Most not-for-profits already have cut costs significantly, if not dramatically. Many organizations, for instance, have

frozen staff salaries — or even reduced them — rather than let people go. Others have cut programs that, while desirable, aren't essential to their mission.

If your leadership isn't willing to alter the budget to trim spending, it may be putting your organization in the position of going through its reserves quickly. You shouldn't expect to continue to draw from your reserves simply to keep operating at the same level as you did before the recession.

Rather, you might need to not only cut costs, but revise your budgeting. Consider, for example, creating a two-year budget for weathering the economy along with a contingency plan — a “Plan B” — if results are worse than expected.

Looking ahead

It would be dangerous to view the current economy as a temporary situation that can be managed just by tapping into your operating reserves. While no one can predict how long the recession will last, the recovery isn't expected to be speedy. A Plan B that identifies additional cuts can enable you to act quickly if the downturn lasts longer than anticipated. **h**

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