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Nonprofit Strategies



SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

Reserve Needs Differ By Group

By Barry VanderKelen

What level of operating reserves is adequate? Many nonprofits have been dipping into reserves to maintain programs during these challenging economic times. Organizations need reserves to cope with deferred payments of receivables. But having too much in reserve may give donors the wrong impression of the financial health of the organization.

I corresponded about this with Frank Kurre, national managing partner, not-for-profit industry practice for the accounting firm GrantThornton. Kurre says that the standard for reserves of three-to-six months of operating expenses does not apply to all nonprofits.

Schools and colleges need higher levels of reserves to maintain their physical plants; the same is true for organizations that own residential facilities.

Membership organizations are often pressured by their members to maintain low dues structures and not build a high level of reserves.

Reserve needs vary depending on the complexity of an organization, such as requirements of lenders, contingencies, and obligations to employees.

Kurre suggests that many factors that analysts use in evaluating public companies should also be considered when evaluating nonprofits: purpose of the organization; strength of the balance sheet; and not penalizing organizations for building prudent reserves.

After considering the cash flow, facilities and program needs, a board of directors may decide that six months of operations is adequate, while others may determine that 10 percent of the annual budget is the right amount.

The Urban Institute studied more than 2,600 nonprofits in Washington, D. C., earlier this year and found that 57 percent had less than three months of operating reserves, and 28 percent had no reserves. Organizations that have closed in the past few years typically held less than one month of operations in reserve.

Organizations that survive these tough times must build adequate reserves in preparation for the next recession.

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Resource Use

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

Nonprofit Business Column of The Tribune

The San Luis Obispo Tribune publishes a column every other week in the Business section dedicated to the business practices of nonprofit orgs. Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes the bi-

weekly column to help strengthen nonprofit organizations in the community. Each column is reprinted here as a one-page handout for use by local organizations. Barry can be reached at 543-2323 or by e-mail at barry@slocf.org.