

## How Can Cash Reserves Help?

### **Cash Reserve vs. Unrestricted Net Assets: Is There A Difference?**

The quick answer is that a cash reserve (sometimes called an “operating reserve”) is just that — cash. Going a little deeper, it is a portion of your net assets that is unrestricted and relatively liquid (i.e., funds that are not permanently or temporarily restricted by donor-imposed stipulations).

This cash reserve is typically built using unrestricted contributions, investment income and/or intentionally budgeting to create a surplus.

An organization’s board of directors usually determines the amount and purpose for cash reserves. For example, it may establish an operating reserve to continue program services after a long-time corporate donor drops off. Other reserves may be established for future construction or to develop an endowment fund.

### **What It’s Not**

Funds that shouldn’t be considered part of an operating reserve include:

- Endowments and temporarily restricted funds.
- Illiquid fixed assets, such as your buildings and equipment.

### **Where It Goes**

Cash reserves appear on a nonprofit’s statement of financial position (balance sheet) when the board has voted to designate net assets for a cash reserve. Likewise, “unrestricted net assets” appears as a required line item in the balance sheets of financial statements prepared in accordance with generally accepted accounting principles (GAAP) and on IRS Form 990.

### **How Much Is Enough?**

Determining how much should be in your operating reserve depends on your organization and its operations. A generally accepted benchmark is that reserves should cover three to six months of operating expenses.

Nonprofits are generally advised to avoid accumulating more than a year’s worth of expenses in reserves (cash not designated by the board for specific purposes). Such a large nest egg may be viewed skeptically.

We can help you set up policies and procedures for establishing, maintaining and administering a prudent operational reserve. Please contact one of our nonprofit team members.

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