



## WHEN IT RAINS...

If your organization were faced with unanticipated and significant expenditures or loss of revenues, do you have enough available and unrestricted reserves to keep going? It might not seem like a priority to have a “rainy day fund” if an organization struggles with day-to-day expenses; nevertheless, such a fund should be part of your program to manage risks that include economic downturns, natural disasters, acts of terrorism, or other crises.

Kate Barr, president and CEO of [Propel Nonprofits](#), suggests that the first step should be to determine what a rainy-day fund would be used for, if you had one. She suggests three “buckets”:

- **Repair and replacement of fixed assets** – “Things break and need to be upgraded, from computer networks to furniture, roofs and heating systems. Building funds, or repair and replacement reserves, are a tool for accumulating cash for non-routine maintenance or replacement of fixed assets. Some of these expenditures can be prepared for by developing a systems replacement plan, while others are unexpected. Cash is needed in either case.”
- **Unexpected external problems** -- “Protect and stabilize the nonprofit in case of unexpected, often external, problems. This is the classic ‘rainy day fund’ or operating reserve. Scenarios would include the sudden loss of a previously reliable funding source, unexpected delays in the timing of grants or revenue, or an unusual decrease in special-event or other earned revenue.”
- **Invest for the future** – “Prepare for and respond to long-term changes in organizational strategy or in the community or market. Opportunity reserves allow a nonprofit to invest in program redesign or to pilot an expansion, seed-fund an innovation, test out new marketing or development ideas, or bring on staff capacity that will pay off in the future. More than anything, having internal reserves for opportunities makes a nonprofit an investor in its future.”

How much does an organization need in these three reserve buckets? Kate says, “Organizations have different obligations and commitments. There is a spectrum of risks. Some organizations are more likely to take on a big new opportunity than others...The first step in developing useful nonprofit reserves is to ask ‘why,’ ‘when’ and ‘what if’ questions. What buckets does your organization need, why do you need them, and how would reserves maintain, protect, stabilize, and prepare the organizations to achieve mission in the community?” The answers will help determine the appropriate amount of reserves.

How about your organization? How have you, or would you, fill the buckets?

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