



Published on National Council of Nonprofits (<https://www.councilofnonprofits.org>)

Original URL: <https://www.councilofnonprofits.org/running-nonprofit/administration-and-financial-management/operating-reserves-nonprofits>

Operating Reserves for Nonprofits

Reports such as the Nonprofit Finance Fund's [State of the Sector](#) reveal year after year that a minority of nonprofits responding have more than 6 months of cash in reserve. In fact, many nonprofits report that they have less than three months of operating reserves on hand. This may be the reality for many nonprofits, but that does not mean that it is optimal.

Many nonprofit boards adopt policies to maintain an operating reserve because it is prudent to have some cash set aside “for a rainy day.” It may be that the nonprofit’s roof unexpectedly needs replacing, a long-term funding stream unexpectedly dries up, or anticipated program revenue is not as high as projected. Those who lived through the recent recessions and the COVID-19 pandemic well understand the forces that can unexpectedly emerge, often at the same time the demand for a nonprofit’s services are increasing. When the unexpected financial shortfall occurs, having cash reserves to tap can help a nonprofit sustain itself and continue to meet its mission even in very tough times.

How much cash does your nonprofit need in reserve?

[E]very nonprofit needs to have adequate cash balances available to support the timing of payroll and other expenses, as well as to pay for unanticipated costs or increases. It's a myth, however, that a single standard applies for all nonprofits.

– *Kate Barr, President & CEO, Propel Nonprofits*

Each nonprofit needs to determine the appropriate level of cash reserves for its own operations. No standard policy will be an exact fit for your organization.

Developing a Cash Reserves Policy

As the governing body with fiduciary oversight to ensure the financial sustainability of the nonprofit, the board of directors may adopt a “reserves policy.” When developing an appropriate policy for your nonprofit, consider including guidance on (i) how much money the nonprofit will set aside at all times, (ii) defining the types of circumstances that will result in assets in reserve being used, (iii) the process the nonprofit will go through to make the determination whether or not to dip into reserves, (iv) the process and timeframe for repayment into the reserve account, and (v) whether there should be any directions, restrictions, or limitations on what the money held in reserve may be used for.

Related Insights & Analysis

- [Investment Policies for Nonprofits](#)
- [Where Should My Nonprofit Keep Its Operating Cash?](#)

Additional Resources

- [Clear the Fuzzy Thinking about Reserves](#) (Propel Nonprofits)
- [Nonprofit Operating Reserves and Policy Examples](#) (Propel Nonprofits)
- If the board is ready for a deeper dive, a monograph produced by the Urban Institute in collaboration with the United Way Worldwide, [Operating Reserve Policy Toolkit](#) is a bit dated but will help board members understand the concept of an "operating reserve ratio."
- [Understanding reserves](#) (Video: Propel Nonprofits)

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