A Guide to Further Building, Managing and Using Nonprofit Reserves in 2026

July 2026

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Goals for Today

- Determine your organization's overall capital needs
- Understand how reserves can differ from other forms of capital
- Calculating the reserves you need
- Developing Board-Approved reserve policies
- Communicating with external stakeholders about reserves

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Presenters

Dana Britto

Principal at Cultivar Consulting and NFC moderator

Ruth McCambridge

Co-Founder and Director of Content Nonprofit Financial Commons

Robert S. Mermelstein

Chief Financial Officer, Pittsburgh Botanic Garden

Padmini Srinivasan

Chief Financial Officer, *Point Blue Conservation Science*

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Poll Questions

1. How many months of expenses can currently be covered by your organization’s unrestricted liquidity?
   a. More than 6 months
   b. 3-6 months
   c. 1-3 months
   d. Less than one month

2. In the context of your org’s current risks and opportunities, does this feel sufficient?
   a. Yes
   b. No
   c. Maybe
   d. Not Sure

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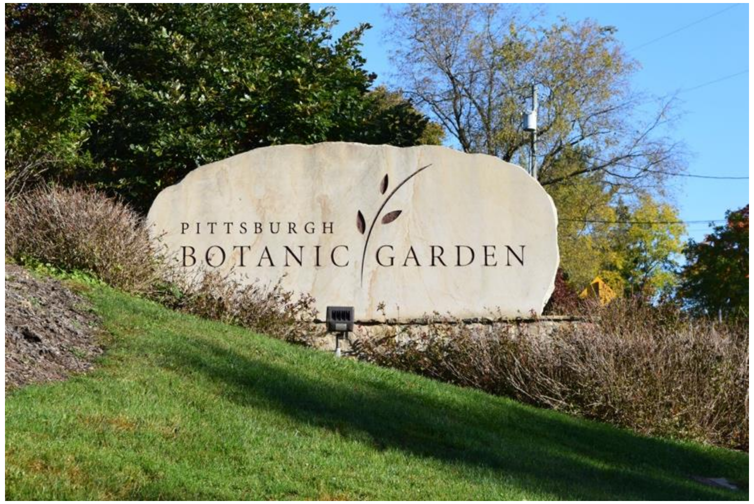
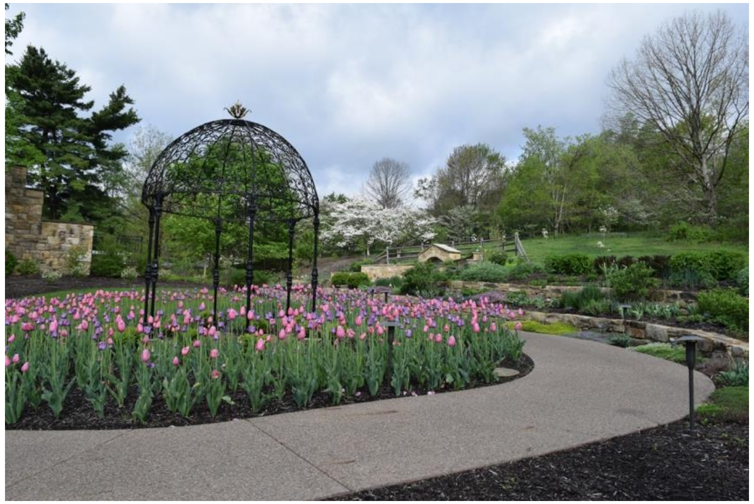
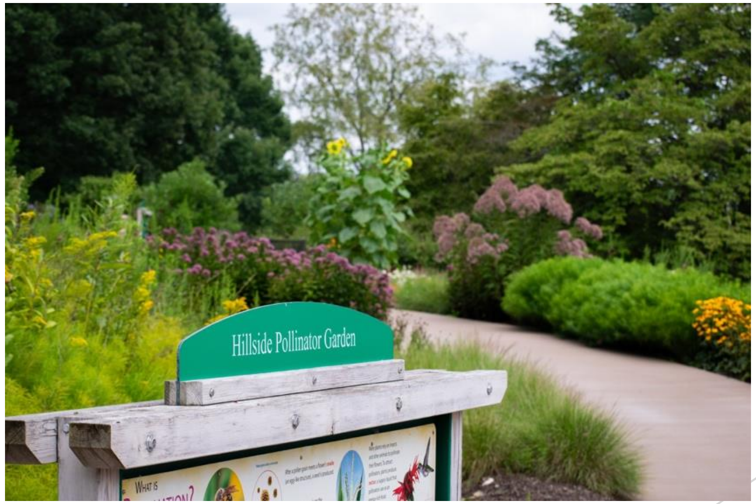
Robert S. Mermelstein Interview







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Determining Capital Needs

Importance of Liquid Unrestricted Net Assets

- Liquid Unrestricted Net Assets represent capital that is:
  - NOT subject to donor restrictions
  - NOT owed to liabilities
- LUNA is critical for ensuring the ability to:
  - Cover day-to-day operating needs
  - Set aside additional capital for other designated reserves

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Key Liquidity Calculations

Months of Cash = $\dfrac{\text{Total Cash}}{\text{(Total Expenses*/12)}}$

Months of Liquid Unrestricted Net Assets (LUNA) = $\dfrac{\text{Net Assets w/o restrictions - (Total Fixed Assets – Mortgage Liabilities) – (Board Designate Reserves)}}{\text{(Total Expenses*/12)}}$

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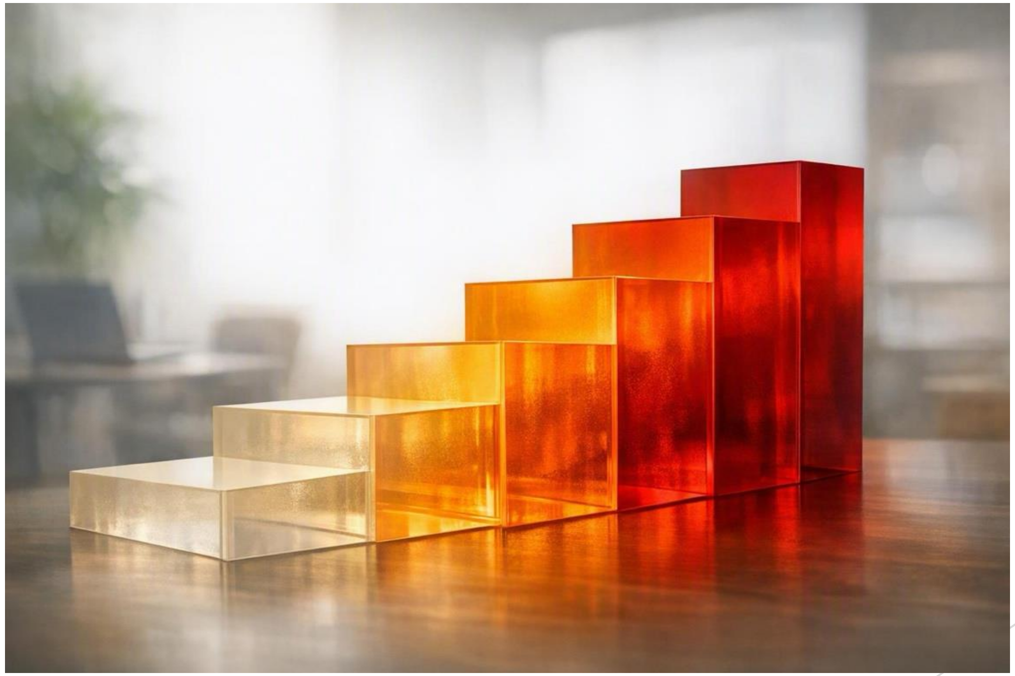
Risk Rises When Likely Impact and Response Timing Converge

From monitoring to immediate action

A shared visual scale helps boards, staff, and funders calibrate response without over- or under-reacting.

- **Low** monitor conditions
- **Watch** prepare options
- **Elevated** prioritize mitigation
- **High** activate response
- **Critical** act immediately



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Board Designated Reserve

- Represents Unrestricted Net Assets (typically outside of LUNA) that are **designated** by the Board for specific uses
- ***Make sure you have sufficient LUNA to manage day-to-day cash flow needs first!***

Potential Types of Reserves

- “Rainy Day”
- Facility Maintenance
- Program experimentation/improvements

Building & Maintaining Reserves

Building LUNA & Reserves

1. Ensure and monitor your ability to cover your costs on an **unrestricted basis**

Unrestricted Revenue (including releases) –
Expenses =
Unrestricted Operating Surplus/(Deficit)

Over time, surpluses help increase LUNA, deficits reduce LUNA

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Building LUNA & Reserves, Continued

2. When possible, consider a targeted fundraising campaign or specific funder ask
   - *Carefully evaluate what you need to raise for operations vs. what you are raising for reserves*

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How much do we need?

Should be informed by:

- Regular **cash flow needs**
- Revenue and expense **risks**
- Strategic **goals and priorities**

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How much working capital do I need?

- For **LUNA**
  - Aim for a minimum of 3 months
  - Develop and assess 12-month cash flow projections, with a focus on any low cash periods anticipated
  - Assess trends in expenses

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How much do I need for reserves?

For a “Rainy Day” Fund

- Assess and quantify revenue sources that are ending and/or at most risk
- Determine how much capital you can set aside without jeopardizing necessary LUNA

For a Facility Reserve

- Assess deferred maintenance needs and depreciation
- Know costs for the most critical repairs or improvements

For a Program Reserve

- Assess what systems and staffing might be needed to strengthen program delivery
- Determine which programmatic investments might be ongoing vs. short-term

Creating a reserve policy

Clear, written reserve policies are critical for:

- Ensuring sufficient **clarity**, for both staff and Board, around the purpose and use of reserves
- **Communicating with funders and external stakeholders** around the intended purpose of this capital

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Creating a Reserve Policy, Continued

A reserve policy should be able to answer the following questions:

- *Why does this reserve exist and what is it intended to be used for?*
- *What is the target amount for this reserve annually and how is this amount determined?*
- *What is the process for communicating and approving the use of reserve funds?*
- *What is the expectation for the replenishment of any funds used?*
    - *By what timeframe should funds be replenished?*
    - *What sources can be used for replenishments? (ex/earned income, unrestricted contributions, etc.)*

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Other Capital Considerations

Exploring Change Capital

To be used to cover planned deficits material changes intended to adjust your business model to help ensure your ability to generate surpluses

Might include investments in staffing and/or systems

Typically is intended to be fully spent down

<u>Needs to be accompanied by a robust business plan that demonstrates a pathway to profitability after a certain amount of time</u>

Important Considerations Around Traditional Endowments

Endowments can provide meaningful, ongoing support operations *if the corpus is substantial*

- Need to prioritize LUNA and reserves first
- Likely requires very significant fundraising that could deplete funds needed for operations

With an average draw of 3-5%, you would need to raise an endowment ***between ~$2 and $3.3 million to produce ~$100K annually for operations***

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Padmini Srinivasan Interview

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Q&A

Resources and Wrap Up

Webinar recording, resources and slides will be emailed to everyone

From Nonprofit GPS
Financial Risk Assessment: A 3-Level Model for Nonprofits in 2025
https://npgps.org/financial-risk-assessment-3-level-model/

From Propel Nonprofits
Operating Reserves With Nonprofit Policy Examples
https://nonprofitfinancials.org/resources/operating-reserves-with-nonprofit-policy-examples/

Nonprofit Reserves – What, Why, When, and How (Much?) Webinar Video
https://propelnonprofits.org/resources/nonprofit-reserves-what-why-when-and-how-much-webinar-video/

From Strong Nonprofits
A collection on navigating uncertainty
https://wallacefoundation.org/toolkit/strongnonprofits-toolkit?s=navigating_uncertainty

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