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How Much Should My Nonprofit Target for Reserves?



DISCLAIMER

This presentation summarizes the results of an informal, non-scientific study compiled by analyzing the results of 702 surveys completed by nonprofit finance executives. This presentation is for information purposes only. Participant responses have not been verified. Data analysis was performed by Raffa Wealth Management. When stating “nonprofit responses” it should be noted that all responses are limited to the nonprofits that participated in the survey. No broader implications should be assumed.

Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product referenced directly or indirectly in this report, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your nonprofit’s portfolio. Moreover, you should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from Raffa Wealth Management, LLC or from any other investment professional. To the extent that you have any questions regarding the applicability of any specific issue discussed above to your nonprofit’s unique situation, you are encouraged to consult with Raffa Wealth Management, LLC or the professional advisor of your choosing.

This information was gathered from reliable sources but we cannot guarantee accuracy. Any performance related information is based on participant responses and have not been verified. Past performance is not an indication of future results and any investment can lose value.

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TARGET RESERVES

When it comes to Reserves, how much is enough?



6 Months?



12 Months?



A percentage of
your budget?

It Depends!



WHAT ARE INVESTMENT RESERVES?

HOW ARE RESERVES DEFINED?

- The unrestricted net assets as reported on the Statement of Financial Position.
- The accumulated net surpluses of the organization.
- Total cash available after payment of current liabilities.
- Investments held in a reserve fund investment account.



WHAT ARE RESERVES FOR?

WHAT IS THE PURPOSE OF RESERVES?

- To ensure that the organization has adequate funds available in the event of an unanticipated catastrophic event or business situation significantly reduces revenue and threatens the financial viability of the organization.
- To cover unbudgeted and extraordinary expenditures brought about by unanticipated challenges and as a source for emergency funding.
- To enhance the purchasing power of funds held for future expenditure and to maintain the financial stability of the association.
- To provide a source of capital for the research and development of new products and services and to reinvest into the organization.



STUDY ON NONPROFIT INVESTING

SIXTH ANNUAL STUDY ON NONPROFIT INVESTING (SONI)

- In February of last year, over 500 nonprofit finance executives completed a survey about their organization's investment policies and results.
- Raffa Wealth Management has analyzed the results of the survey and prepared the 2018 SONI report for review.



Budget Size	Public Charity	Association	Overall
<\$2M	78	25	103
\$2-10M	168	71	239
>\$10M	116	51	167
Total	362	147	509

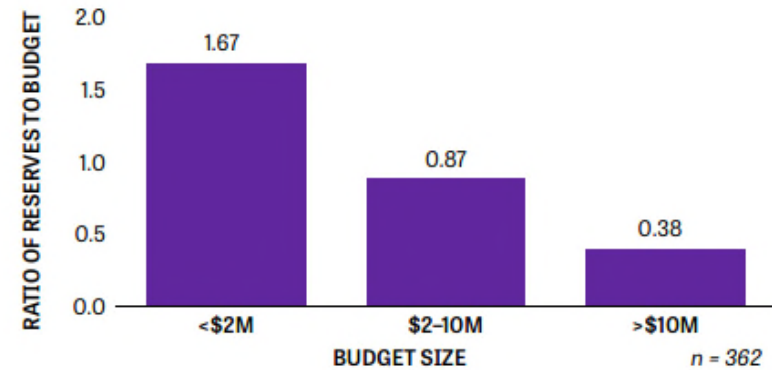


BUDGET AND RESERVE BALANCES

2018 SONI RESULTS

- What is your nonprofit organization's current total annual operating budget?
- What are your organization's total investment reserves?

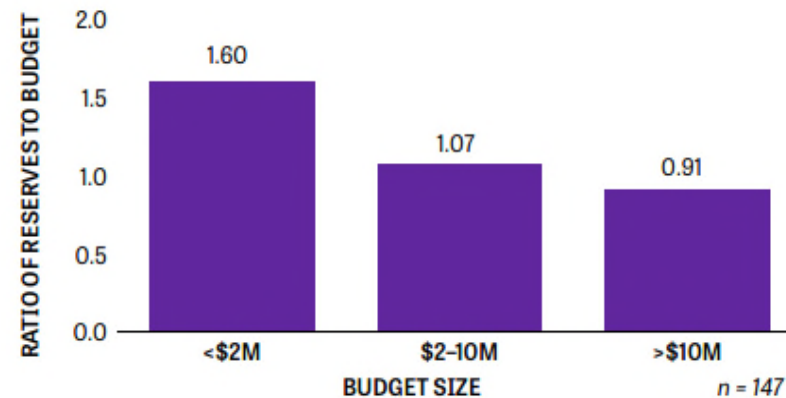
Public Charities



– Short/intermediate term investments,

– Long term investments

Associations

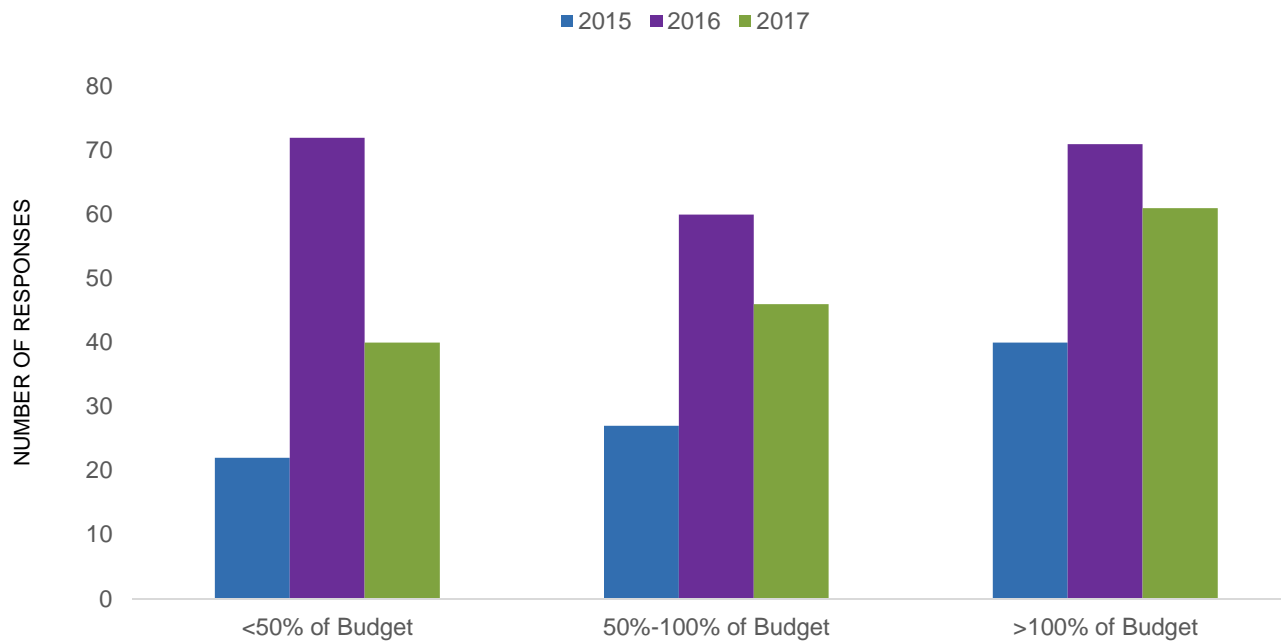




INVESTMENT RESERVES VS. BUDGET

HISTORIC SONI RESULTS

Associations

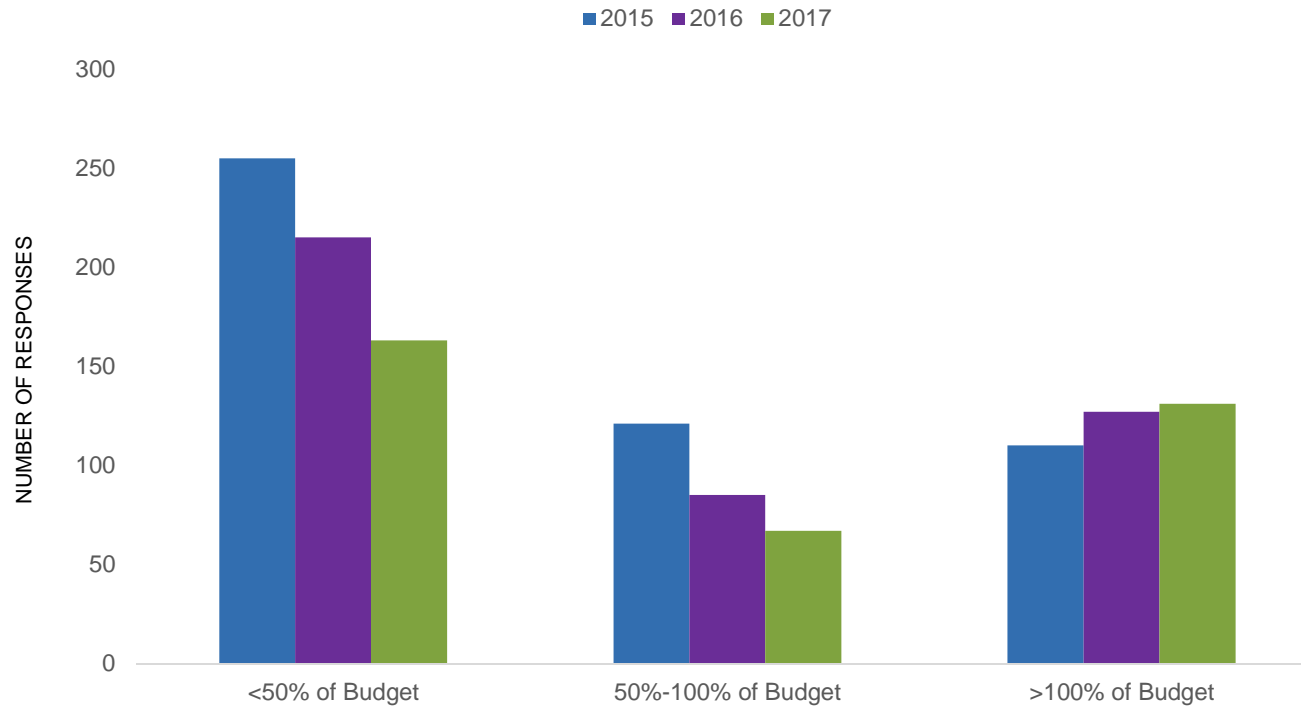




INVESTMENT RESERVES VS. BUDGET

HISTORIC SONI RESULTS

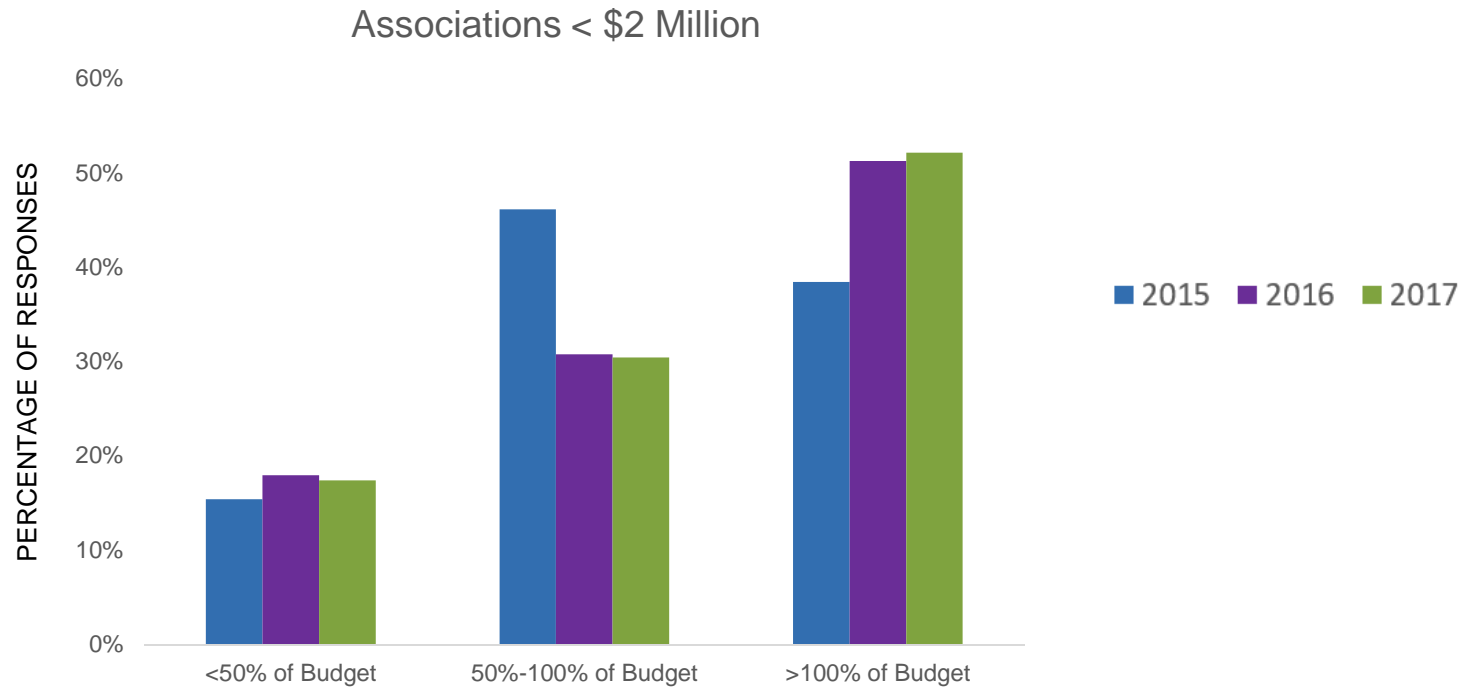
Public Charities





INVESTMENT RESERVES VS. BUDGET

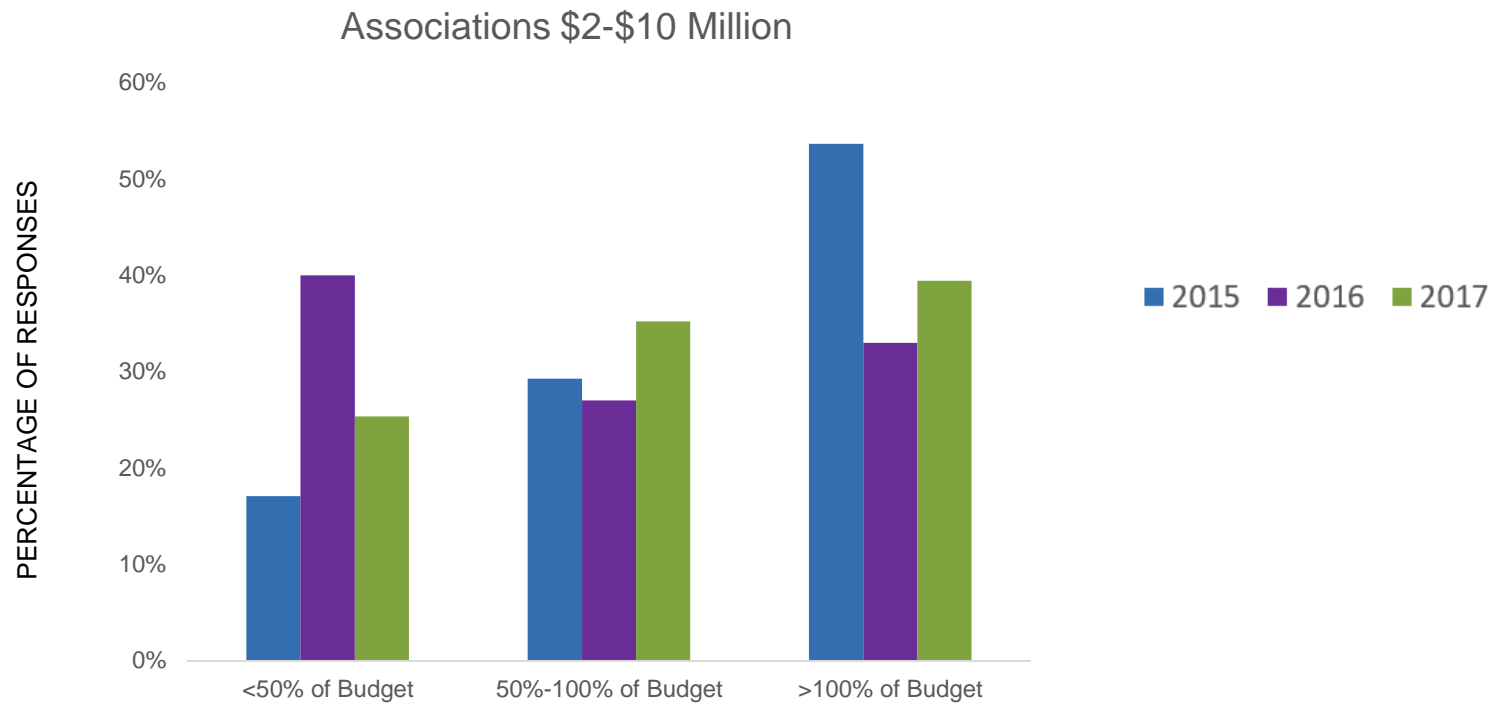
ASSOCIATIONS





INVESTMENT RESERVES VS. BUDGET

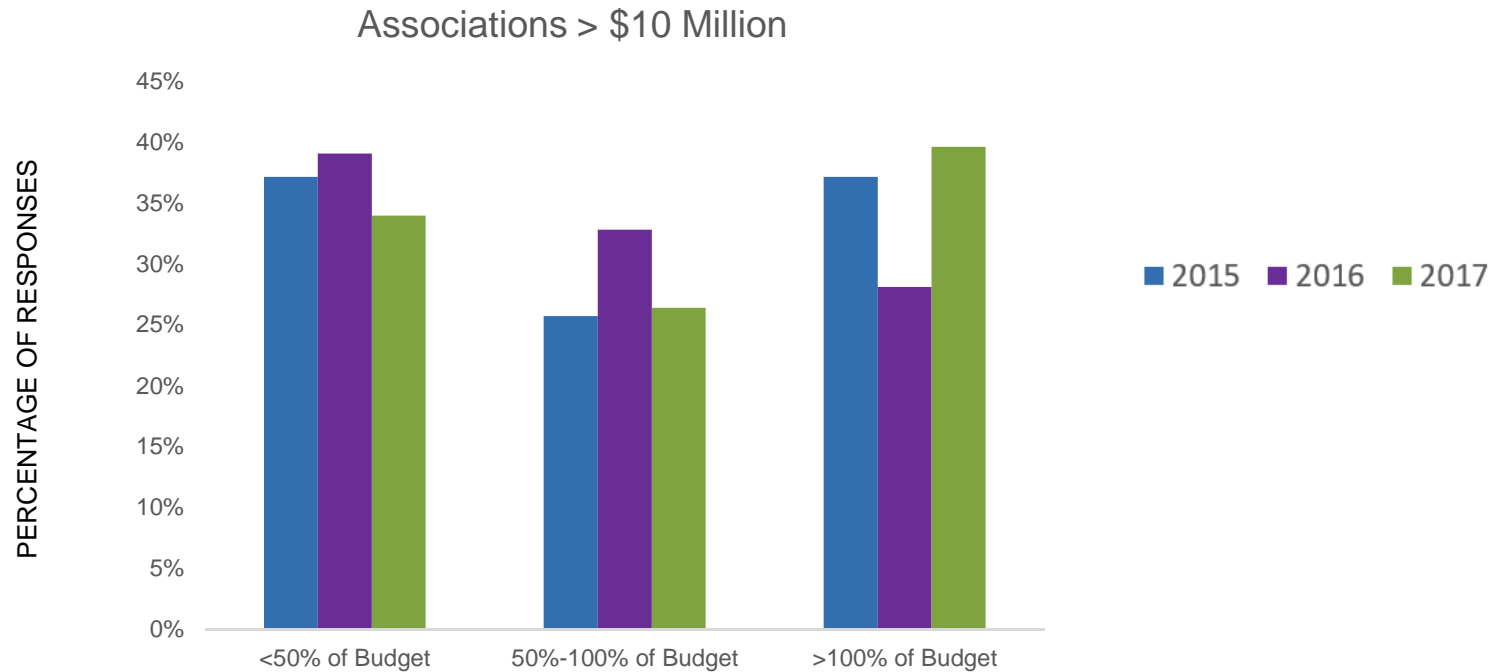
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INVESTMENT RESERVES VS. BUDGET

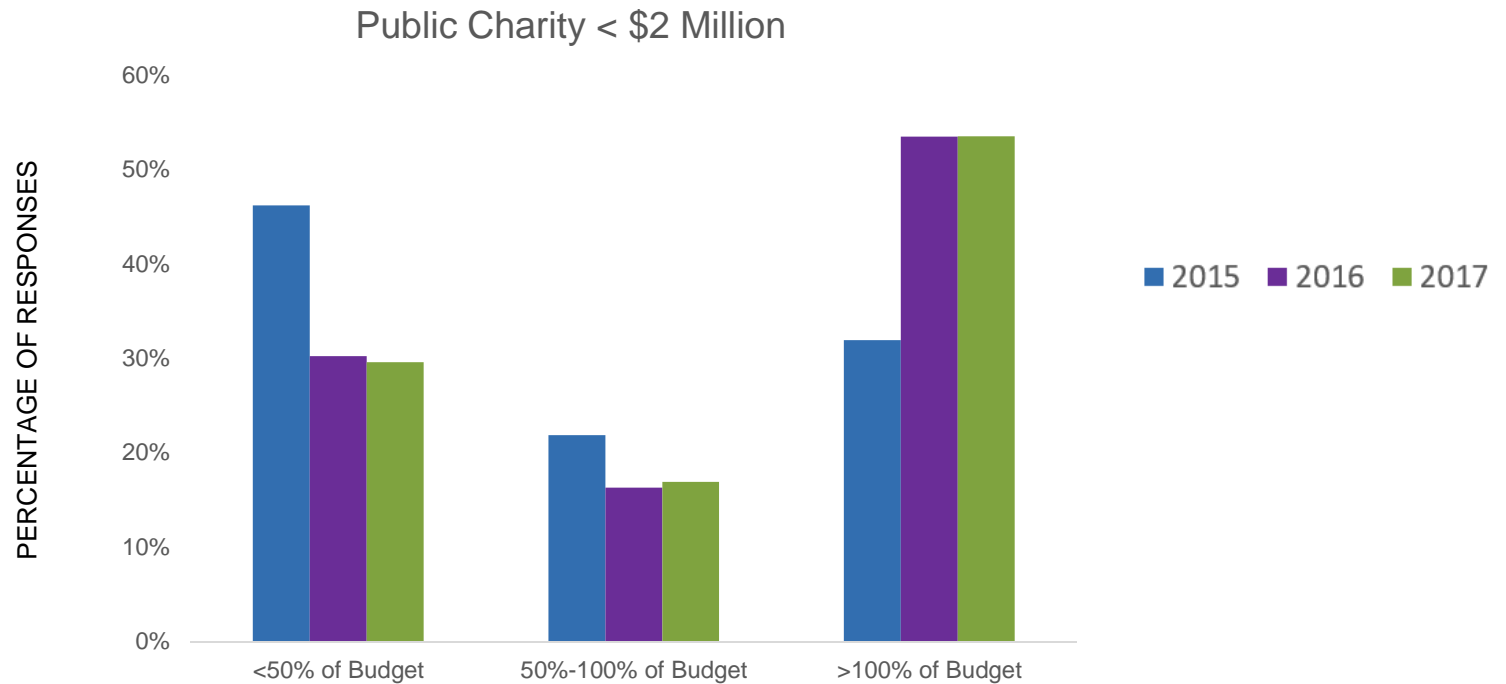
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INVESTMENT RESERVES VS. BUDGET

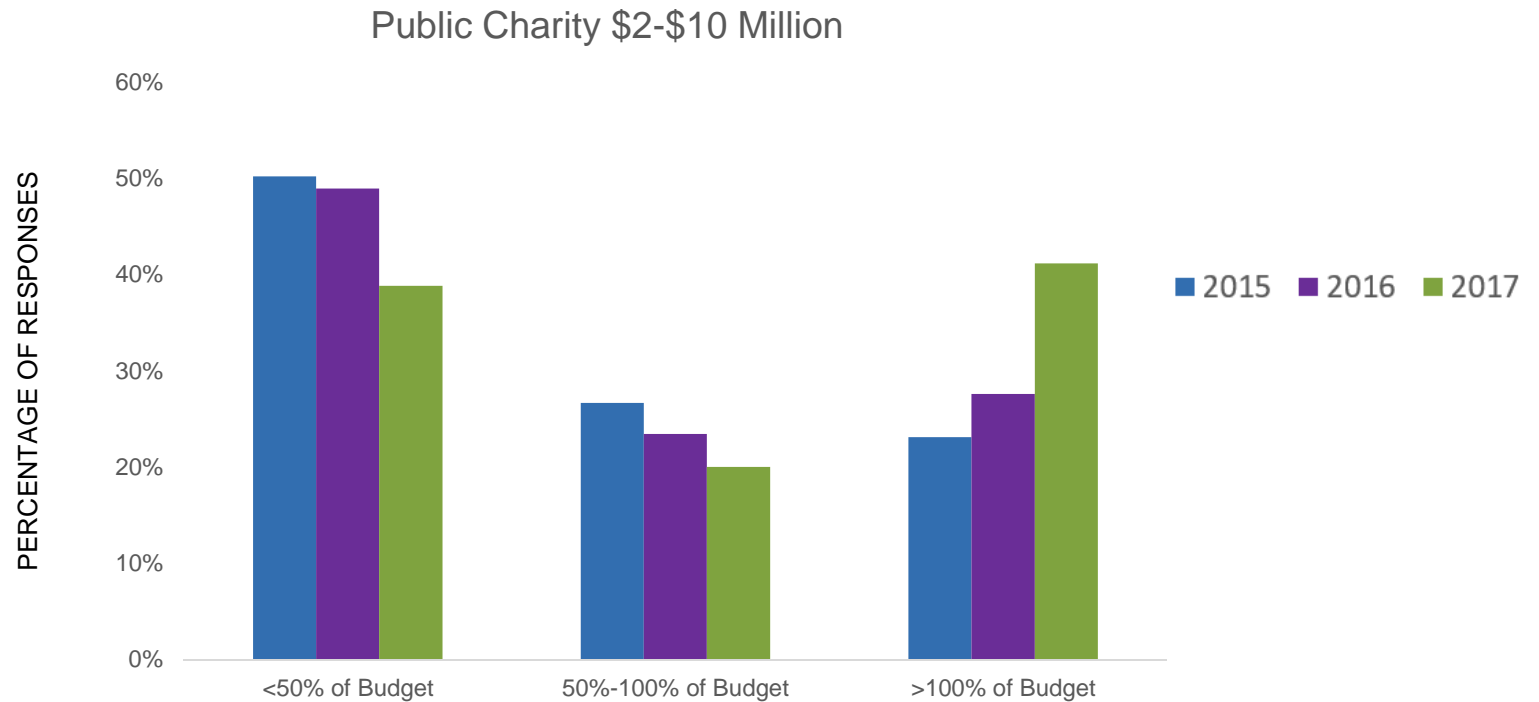
PUBLIC CHARITIES





INVESTMENT RESERVES VS. BUDGET

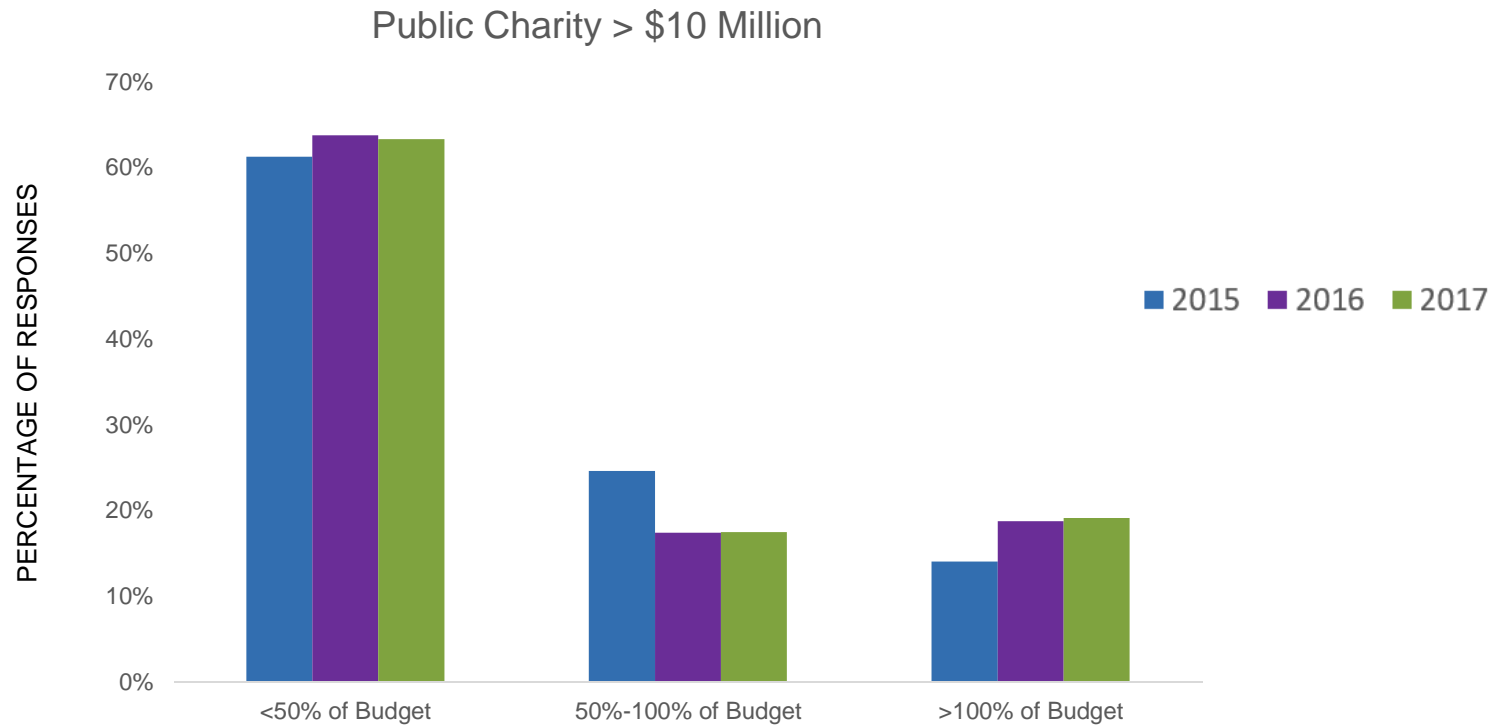
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INVESTMENT RESERVES VS. BUDGET

PUBLIC CHARITIES





RISKS AND OPPORTUNITIES

HOW IS YOUR ORGANIZATION STRUCTURED?

- How diversified are your income streams?
- How reliable are the income streams?
- How long will it take to cut costs?

WHAT ARE YOUR OPPORTUNITIES?

- Are there potential opportunities to grow member value or further your reach?
- How long before the opportunity is incorporated into the budget?



RISK/OPPORTUNITY ASSESSMENT

Go through the risk/opportunity assessment process to determine:

- What are our risks?
- How likely are they to occur?
- What is the magnitude and the dollar impact of those risks?
- What are the potential new programs, strategic initiatives, or other opportunities that the organization could take on?



SAMPLE RISK ASSESSMENT #1

Sample Risk #1: A revenue shortfall from budget.

Example: Revenue from the annual conference fell short of expectations. The donor drive wasn't as strong as projected.

Result: A reduction in income, but you still have set costs you must pay before making cut backs.

Impact for Assessment: How vulnerable are your income streams to a potential shortfall?



SAMPLE RISK ASSESSMENT #2

Sample Risk #2: An Economic Recession

Example: During the financial crisis and years after from 2008-2012, the organization had a total net operating loss of \$2.9M.

Result: The organization's loss over that time period can be discounted back to provide an estimate for the potential decline seen in particularly negative economic environment.

Impact for Assessment: Look at how your organization performed in the past. How did it perform during the Financial Crisis in 2008/2009?



SAMPLE RISK ASSESSMENT #3

Sample Risk #3: Membership/Donor Decline

Example: Membership renewal has been declining so far this year, and the trend shows no signs of stopping. A large donor can no longer make donations to your organization.

Result: A 20% reduction in budgeted membership dues was applied to the current dues income.
A 10% decline in donations driven by the loss of the large donor.

Impact for Assessment: What has been the largest amount of annual membership decline in the past? How reliant on one member or one donor is your organization? What could you foresee happening in the future?



SAMPLE RISK ASSESSMENT #4

Sample Risk #4: Negative change in Organization's Reputation

Example: Unfavorable press about members, or the organization itself has negatively impacted the reputation of the organization as a whole.

Result: A fall in revenue due to negative press, or falling short of stakeholder expectations.

Impact for Assessment: How would this impact operations? What would need to be done to repair the organization's image?



SAMPLE RISK ASSESSMENT #5

Sample Risk #5: Change in leadership and succession planning

Example: The executive director of 20 years is stepping down suddenly.

Result: If an executive director or important leader within the organization left, the potential decline in donations/revenue could be significant. A search firm could also be needed to find a replacement resulting in some one-time costs.

Impact for Assessment: How dependent is your organization on executives? While a new executive director may not seem like a current issue, there is always the possibility that a search could be required.



SAMPLE RISK ASSESSMENT #6

Sample Risk #6: Regulation/Legislative Challenges

Result: A change in law or potential change in law that negatively impacts your members or impacts the donations your organization receives.

Impact for Assessment: Could a change in law significantly impact how your organization operates? Are there pending legislative or regulatory issues that your organization will need to increase lobbying efforts for?



SAMPLE RISK ASSESSMENT #7

Sample Risk #7: Insurance Deductibles

Result: A fraudulent donation was made, or a fire partially destroys the office and your organization needs to pay a deductible to cover a portion of the loss.

Impact for Assessment: What are the total deductibles you would owe before insurance would cover the additional losses?



SAMPLE RISK ASSESSMENT #8

Sample Risk #8: Legal issues

Result: Your organization faces litigation. Your organization needs to hire counsel to fight or settle the issue.

Impact for Assessment: Could your organization face a lawsuit for any activities it's involved in? What are the costs of hiring counsel?



SAMPLE RISK ASSESSMENT #9

Sample Risk #9: Contingency for an unforeseeable event

Result: Your organization should hold a small percentage of budget for contingencies.

Impact for Assessment: There is always the potential that other costs could pop up down the line that currently aren't considered.



SAMPLE OPPORTUNITY ASSESSMENT

#1

Sample Opportunity #1: Office expansion/Internal technology upgrade/Team expansion

Example: Membership is growing and so the organization must grow to support new members.

Result: Your organization might need to expand its office space and add two employees over the next 18 months. It would cost roughly \$250K and be budgeted for after the initial expansion.

Impact for Assessment: Could your organization need new office space soon? When was the last time your technology was upgraded? Is your organization at capacity and will need to add talent to continue to deliver its services?



SAMPLE OPPORTUNITY ASSESSMENT

#2

Sample Opportunity #2: Cost to bring a program in house

Example: A proprietary service is brought fully under the organization's management that is currently being supported by a third party.

Result: A one time cost to create the infrastructure to operate the program in house.

Impact for Assessment: Are there any programs/services that your organization could take over the full operation of? What are the costs associated with doing so?



SAMPLE OPPORTUNITY ASSESSMENT

#3

Sample Opportunity #3: New program/revenue stream

Example: A new opportunity to engage members and/or donors.

Result: Your organization is publishing a new journal that will increase member participation and ad revenue.

Impact for Assessment: What are the costs associated with pursuing this new revenue stream?



SAMPLE OPPORTUNITY ASSESSMENT

#4

Sample Opportunity #4: New technology

Example: A new website that allows donors to see how their money is being used. A centralized database that members can use to deliver more customized solutions for their clients.

Result: Your organization needs to hire tech developers to create this new service for donors/members that will increase engagement and add value.

Impact for Assessment: What are the costs associated with creating the new service?
How long will it take before it becomes cash flow positive?



SAMPLE OPPORTUNITY ASSESSMENT

#5

Sample Opportunity #5: Marketing campaign

Example: An organization wants to start a new advertising campaign to improve brand recognition.

Result: Your organization will need capital to invest in the new marketing materials and distribution avenues.

Impact for Assessment: What are the total costs associated with the developing the campaign? Will any portion be budgeted?



SAMPLE OPPORTUNITY ASSESSMENT #6

Sample Opportunity #6: New Accreditation

Example: Your organization wants to start a new certification for your industry.

Impact for Assessment: What are the costs associated with building out the new certification? How long will it take to become cash flow positive?



SAMPLE OPPORTUNITY ASSESSMENT

#7

Sample Opportunity #7: International expansion

Example: An organization wants to expand services abroad

Impact for Assessment: If your organization wants to add international members or have an international presence, what are the costs associated with expanding internationally?



SAMPLE OPPORTUNITY ASSESSMENT #8

Sample Opportunity #8: Strategic Plan

Example: A new campaign or initiative that is driven by the strategic plan.

Impact for Assessment: What have been the costs historically for initiatives driven by the strategic plan? Will anything be budgeted? What are the potential costs and over how many years is the plan?



RISK/OPPORTUNITY ASSESSMENT OF SAMPLE ORGANIZATION

		Total	
	Description of Risk/Opportunity	Risk/Opportunity	Needed Funds
1	Economic recession - impact on operations	\$ 560,000	\$ 448,000
2	Loss of large member	\$ 225,000	\$ 75,000
3	Impact to operations from a decline in business reputation	\$ 735,805	\$ 245,268
4	Impact to business due to change in leadership/Succession Planning	\$ 387,000	\$ 129,000
6	Legislative issues	\$ 162,000	\$ 81,000
7	Insurance deductibles	\$ 715,000	\$ 35,750
8	Contingency for unforeseeable event	\$ 100,000	\$ 100,000
9	Office expansion	\$ 200,000	\$ 75,000
10	Bring program in house	\$ 1,000,000	\$ 400,000
11	New marketing campaign	\$ 250,000	\$ 200,000
12	New accreditation	\$ 1,000,000	\$ 750,000
Total risk and needed funds		\$ 5,334,805	\$ 2,539,018
Budgeted NOI			\$ (150,000)
20% Deduction for concurrence			\$ (507,804)
15% Loss on Reserve portfolio			\$ 315,000
Total Estimated Reserve Need			\$ 2,196,215
Actual Reserves 10/31/18			\$ 2,100,000
Amount below Reserve need			\$ (96,215)



RISK/OPPORTUNITY ASSESSMENT OF SAMPLE ORGANIZATION

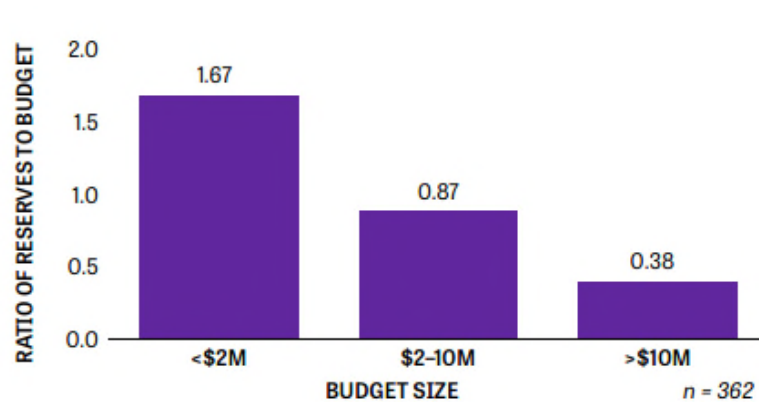
Draft Reserve Policy:

- What are your organization's reserves for?
- Document process to calculate target reserve
- What will your organization do if reserves are above/below target?
- How often will your organization complete the review?

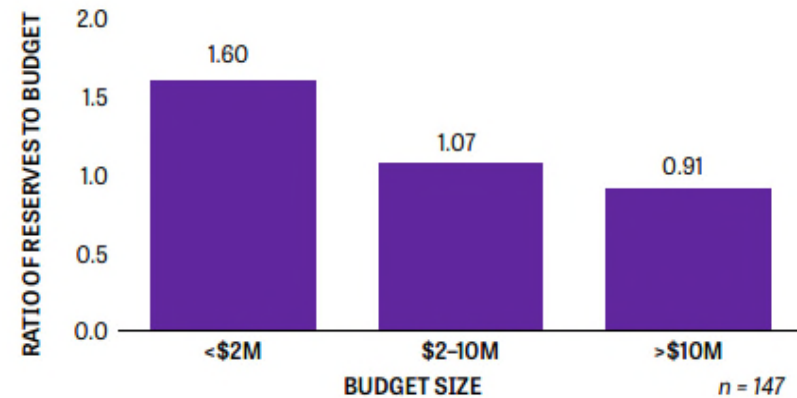


KEY TAKEAWAYS

1. Respondents to the SONI Survey had the following breakdown of reserves vs budget:



Public Charities



Associations

2. Six to twelve months is just a starting point – need to go through an assessment
3. Outline process in Reserve Policy.