

IRE RESERVES

OPTIONS + RECOMMENDATIONS

6.5.15

OVERVIEW

We, like most established nonprofits, companies and governments, keep operating reserves set aside in the event of an emergency. Their purpose is to cover costs in the short-term as we either wait for new revenue to arrive or until we come up with a long-term plan to balance the books.

We currently do not have a written policy that sets goals for the size of our reserves or rules for how those reserves can be spent. We do have a number of reserve funds that provide some cushion, so there is no urgent need driving this discussion. Rather, as we have recovered from the recession and begun to again grow, we have faced discussions about what size reserve we should keep and whether any of it should be invested.

As a reminder: members of the Board of Directors could be found personally liable for the debts of the institution should it go broke.

BEST PRACTICES

Nonprofit experts don't have a one-size-fits-all recommendation for the size of a reserve. Their primary recommendation is simply to have a policy. After that, they recommend that an organization have between three and six months of cash in the bank. To figure out where we fall on that spectrum, we need to understand the volatility of our cash flow throughout the year. How likely are we to need a significant cash boost in an emergency?

Specifically, how dependent are we on a small number of donors? And do we have tight periods of the year where we struggle to make payroll while we wait for revenue?

CURRENT STATUS

We currently have three accounts that hold excess funds that could be tapped for operating reserves. They are:

* *Reserve Fund*: a cash reserve that earns a small amount of interest, but is available immediately for crisis.

* *Extra Endowment Interest*: Earnings from the endowment that could've been pulled out for our annual budget, but have not. This remains in the endowment, where it has earned between 5 percent to 8 percent a year, but those returns could be flat or even negative in some years.

* *Excess Cash*: Unspent money left over from previous budgets, that could be used in an emergency but, unlike a reserve, is also tapped to help pay for ongoing expenses, like the addition of a new position.

Reserve Fund:	\$250,000
Extra Endowment Interest:	\$88,000
<u>Excess Cash:</u>	<u>\$120,000</u>
Total:	\$393,000

Taken together, it represents 25 percent of our operating budget, or 3 months. This means we already have a solid base. However, because Excess Cash can be spent on things beyond emergencies, it isn't a "reserve" in a true sense.

(We have not included DocumentCloud in the annual budget because those are restricted funds that come from their own stand-alone grant. This is in line with advice given by accounting firm Grant Thornton -- see below for link to report.)

OUR CASH VOLATILITY

We do not rely on a handful of small donors for our revenue. Our largest revenue sources are membership dues, conference attendance and sponsorship, and a mix of grants we receive that fund specific programs.

However, our expenses and revenue flow are not constant. Much of our revenue comes in the second half of the fiscal year (January-June), when both conferences are held. Our biggest expense -- payroll, which represents more than 2/3s of our overall expenditures -- must be paid in four quarterly checks to the university. In the past, cash flow issues made those fall/winter payments difficult. We revamped the way we plan and budget several years ago and those payments are not an issue now, but those are the potential pressure points where a drop in revenue could become an issue.

HISTORY

In the 2008 and 2009 fiscal years, we did draw down on cash that had been maintained as a type of reserve fund, outside of the endowment. As we entered 2010, there was \$130,000 remaining in that fund. Today that fund stands at \$250,000 and has been officially designated as a reserve fund by the Board. (This does not include the available money in the endowment or the excess cash-on-hand referred to above.)

RECOMMENDATION

We have three recommendations:

1) The board establish a floor of three months and a ceiling of six months as its reserve goals. We recommend that IRE set aside a minimum amount of excess revenue or growth in its annual budget to continue growing this reserve until it hits six months.

The need is not urgent, and it should not consume potential areas of growth, but it should be a priority, especially in these good years. We also should be mindful of not setting reserves too high, and unnecessarily restricting the organization's annual operations.

A full proposed policy can be found at the bottom of this document.

2) The executive director bring true reserves up to 3 months, or 25 percent of the budget at the close of the 2015 budget, which will be this fall. We are estimating a surplus for the year. Beyond that surplus, we're estimating that we would need to transfer \$20,000 from the Excess Cash fund to reach that goal.

The Excess Cash fund would then still be able to provide the executive director with some flexibility, but not be considered a part of the reserve funds. The distinction is important: Reserve funds would only be tapped in the case of emergency and require board notification.

3) The full board should consider and adopt an investment policy for its reserve funds at the annual fall retreat.

RECOMMENDED READING

* Guidestar: [Does Your Nonprofit Have a Rainy Day Fund?](#)

* Basic explainer + links: [How much cash should my nonprofit have in its operating reserve?](#)

* Advice from accounting firm Grant Thornton: [Maintaining Sufficient Reserves to Protect Your Not-For-Profit Organization](#)

* Sample policy: [Colorado Nonprofit Association](#)

* Deeper reading: [White paper from The Nonprofit Operating Reserves Initiative Workgroup](#)

PROPOSED POLICY LANGUAGE

Modelled after the Colorado Nonprofit Association

OPERATING RESERVE AND INVESTMENT POLICY

The following Policy has been adopted by the Board of Directors and is to be shared with the treasurer and any active portfolio managers responsible for investing unrestricted assets of the organization:

A. Policy Statement

The primary objective of this policy is to establish an operating reserve for Investigative Reporters and Editors that will permit the organization to continue to operate during difficult financial times. Some examples for use of operating reserve funds are as follows:

1. Maintain current level of operations while IRE addresses longer term solutions to potential operating problems.
2. Maintain current level of operations while IRE fundraises for substitute funds should a major funder not renew their funding. The primary investment objective of this policy is capital preservation and liquidity.

B. Operating Reserve

IRE will maintain an operating reserve that will be no less than 3 months (minimum) and no more than 6 months (maximum) of the annual operating budget. The operating reserve will be reviewed by the Board of Directors at least annually to see if the organization is in compliance with this policy.

A minimum of 50% of the increase in unrestricted net assets from the current year will be added to the operating reserve until the maximum reserve balance has been achieved. An amount should be built into the annual budget to build the operating reserve to the desired level. The operating reserve funds will be invested in accordance with the Investment Policy adopted by the Board. Earnings from the operating reserve investments will be added to the balance until the maximum reserve balance is achieved. Once the maximum balance is achieved, then the earnings can be used for general operations. Any spending of the operating reserve corpus must be approved in advance by the Board.