

# USMS Reserve Funds Policy Executive Summary

## Background

A sub-committee of the USMS Finance Committee consisting of the following individuals was established in early 2016: Jon Blank, Jeanne Ensign, Harry Greenfield, Peter Guadagni, Susan Kuhlman and Homer Lane, Chair.

Their charge was to develop a draft of a policy regarding the use of Operating Reserves at USMS. The sub-committee went to various internet sites to gather some different perspectives on this issue including: Nonprofits Assistant fund, Executive Service Corps, the National Council of Nonprofits, and a 2008 white paper from the Nonprofit Operating Reserves Initiative Workgroup.

These all touted the idea that appropriate Operating Reserves is an organizational imperative for nonprofit financial stability. Multiple surveys indicated many nonprofits have inadequate reserves and suggested that a minimum operating reserve ratio at the lowest point during the year should be 25% or three months of the annual expense budget. In fact a 2015 State of the Sector report revealed that over half of the nonprofits had less than this suggested minimum and only 23% of the responding institutions had more than 6 months of cash in reserve.

The good news for USMS is that due to the judicious control of expenses over the years and increasing revenues we have historically had more than adequate reserves. (Over the two-year period 2014-2015, calculated quarterly, USMS has had a high of fifteen (15) and a low of ten (10) months in reserve. The one-month average expense over that period was \$244,000).

The idea was then raised that perhaps some of our accumulated resources should be designated for potential use to allow USMS to provide seed funding for new ideas or innovations.

## Key Policy Elements

The proposed policy has four key components.

- 1) It designates two types of Reserve Funds: an Operating Reserve and an Opportunity Reserve;
- 2) It defines specifically the elements of the Operating Reserve Ratio computation and sets a threshold level of six months in order to maintain USMS in the top quartile of nonprofits. It also specifies that this will be monitored on a quarterly basis and what should be done if we fall below this threshold for two consecutive quarters;
- 3) It defines how requests to use the Opportunity Reserve should be submitted and ultimately approved; and
- 4) Finally it recommends that based on the USMS current financial circumstances that the Opportunity Fund should start with a balance of \$600,000.

## Conclusion

This policy has the potential to allow discussion to be centered on the merits of a project rather than how it will be funded, and for the most part take the balanced budget vs. deficit budget discussion off the table.