Financial Planning and Operating Reserves

A nonprofit is a business--a business whose profits are used for a public purpose rather then personal gain, but nonetheless a business. Prudent management includes strategic planning, financial planning and establishing a reserve policy. Doing this normally requires that board members work with a certified financial planner or the association's accountant in developing a sound financial plan for helping the organization realize its goals.

A. Accumulating Undesignated Funds

Nonprofit organizations should not be accumulating funds without a purpose. Funds should be designated and expended for the purpose that the nonprofit exists to serve. Accumulating funds without a designated purpose is inconsistent with the principles of being a nonprofit. Nonprofit organizations are *public benefit* corporations. An organization's tax-exempt status could be called into question if funds were collected and not expended to benefit the organization purpose.

B. Cash Reserves

Two types of cash reserves should be considered: operating reserves and other reserves. All such reserves should be budgeted and programmed on paper for ease of administration and to comply with IRS guidelines.

<u>1) Operating Reserve</u>: This reserve would ensure the ongoing operations of the organization should some unexpected occurrence interrupt normal revenue sources. In normal circumstances, a common operating reserve guideline is:

Nonprofits without paid staff:	Reserve of 25% (or three months) of operating funds
Nonprofits with paid staff:	Reserve of 50% (or six months) of operating funds.

Long-range programming operating reserves are normally established for programs and projects that can not be funded through annual revenues. For example, items to be considered in long-range programming could include:

1. Restocking and increasing inventory
2. Publishing programs
3. Developing theme-related interpretive products
1. Acquisition of museum specimens
2. Acquisition of interpretive equipment
3. Ability to pay staff salaries and benefits or provide severance pay to employees in the event of a financial emergency.

<u>2) Other Reserves</u>

Other types of reserve may be necessary because the organization will require capital for a larger, or longer term, project than normal operating revenue can address. Strategic planning will identify if such reserve (s) is/are required.

<u>Endowments:</u>

Although not classified as a reserve, an endowment is a fund established by the organization or a bequest of a gift to provide for a permanent income for the nonprofit organization. Often the endowment creator will specify that a percentage of the income is to be added to the principal so the endowment can keep up with inflation. There are various types of endowments and ways of establishing them. Professional assistance is usually needed to ensure that the donor's and the organization's interests are well served.

C. Long-range Financial Planning

Long-range financial planning (three years to as many as five years) is essential to protect the association's assets, and ensure a productive operation. Long-range programming funds may be transferred into investment opportunities such as insured accounts at savings and loan organizations, or transferred into certificates of deposit. There should be clear documentation regarding the intent for use of this money.

D. Administrative Overhead

Developing a guideline that would be appropriate to all cooperating associations and nonprofit organizations under all circumstances is difficult if not impossible. For a general estimate, the U.S. Council of Better Business Bureaus Standards for Charitable Solicitations guidelines state, *"a reasonable percentage requires that at least 50% of total income from all sources be spent on programs and activities directly related to the organization's purposes".* Most cooperating associations have a much better return due to the significant advantages they have over other nonprofit organizations such as low or no cost office and sales space. The assistance of state park personnel in selling the items is also a big advantage.

It is in the interest of the cooperating association and the DPR to make every effort to contribute the greatest amount of support for the furtherance of educational, interpretive and resource management programs. Nonprofit organizations have the responsibility of using the public's (donors) money in a prudent manner for the purpose in which it was intended.

E. Fundraising Overhead

The Council of Better Business Bureaus Standards for Charitable Solicitations guidelines state *"a reasonable use of funds requires that fund raising costs not exceed 35% of related contributions".* This general guideline may be useful in evaluating the effectiveness of a fundraising program but does not apply to all situations. As with administrative overhead, cooperating associations have some significant advantages that other nonprofit organizations do not have.

F. Fiscal Operations

Cooperating associations must conduct their fiscal operations in accordance with accepted business practices, as well as complying with a variety of annual reporting requirements. Annual reports contain information about corporation assets and liabilities, principal changes in assets and liabilities, revenue or receipts, and expenses or disbursements. All associations submit financial reports that can be readily understood with simple scrutiny and standard practices.