

INSIGHTS FOR NON-PROFITS | ANU@JOINSIPARTNERS.COM



First and foremost...

The work carried out by non-profits at both grassroots and higher levels holds great importance in shaping our changing world. We are deeply honored to support these organizations in their growth and assist in establishing a strong financial foundation. In this issue, we delve into a critical aspect of non-profit management: charting a course through the financial seas.

To set the stage, let us consider the current landscape: As reported by urban.org, the United States is home to approximately 1.8 million non-profit organizations, encompassing public charities, private foundations, and various other entities. Of these, 501(c)(3) non-profits constitute approximately 75% of the sector and account for an estimated expenditure of around \$1.94 trillion. Established non-profit organizations typically operate under a governance structure led by a board of directors, supported by a dedicated staff responsible for day-to-day activities, and complemented by fundraising teams diligently seeking resources.



From a financial standpoint, non-profits often adopt a dual account structure, comprising a reserve account serving as a financial safety net and an operating account to cover regular expenses and ongoing program activities.

Data from urban.org indicates significant impacts on nonprofits in 2020, from the COVID-19 pandemic, with about 40% reporting decreased total revenue and an average reduction of 31% in revenue and 7% in paid staff. The pandemic disrupted nonprofit services, resulting in a substantial decline in program-related income.

The pandemic emphasized the need for a robust safety net, as non-profit managers navigated the challenge of balancing budgets amid shrinking revenue.

"Non-profit organizations play a vital role in serving local communities, and their health and well-being are crucial for the broader community's welfare."

These findings underscore the vital need for nonprofits to plan for disruptions, emphasizing the importance of strategies, such as building reserves and implementing contingency plans, to enhance resilience and mitigate future challenges.



Reserve Accounts

What's an adequate amount?

Building reserves is essential for non-profit organizations to ensure long-term sustainability and financial stability. A well-defined reserve policy can guide effective decision-making. When it comes to setting target reserve levels, non-profits often consider factors like annual expenses or a specific number of months of operating costs. The decision on maintaining reserves, however, depends on a variety of factors specific to each organization's unique circumstances.

Non-profit organizations often aim to have reserves covering three to six months of operating expenses. Investing such reserves, earmarked for unforeseen events, in less volatile assets can provide valuable flexibility during uncertain times. Regular monitoring and periodic reassessment of reserve levels are necessary to adapt to changing circumstances and align with the organization's evolving needs and objectives.

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