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Managing the “Rainy Day” Fund

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Some associations are sitting on considerable reserves, a combination of savings and property. Ask why they have amassed the assets one might hear, “It is our rainy day fund.”

The purpose of the savings is described with varied perspective:. “The leaders before us saved the money and it is our job to protect it.” “We shouldn’t spend it in case we have a crisis.” Or, “We don’t give it much thought, it’s just there.”

An organization’s reserves are part of its strength. Leaving excessive funds untouched may not be the wisest decision. Strong reserves do build confidence and support sustainability.

Reserves are intended to benefit the membership and advance the mission. When an expenditure is essential, I’ve heard boards tell the executive director, “We can’t afford that, it’s not in the budget,” although the savings were flush.

Building Reserves

Prudent boards find ways to add to savings each year. A common benchmark for reserves is an amount equal to fifty percent of the annual income. Some associations have policies prescribing a minimum and maximum for savings in relation to the budget.

Several factors affect savings, including environmental challenges, indemnification expectations, government regulation and whether or not an office is rented or owned. A board should consider the reserves in relation to the strategic plan.

Strategic Use of Reserves

Richard Vincent, Executive Vice President at AGC of Kentucky describes this scenario to facilitate wise use of savings.

During our recent strategic planning session our board of directors adopted a goal of building upon the strengths of our organization to create a showcase chapter. One of the strategies identified to accomplish this goal was to determine how best to utilize our

reserves.

We already had a well-defined investment account policy that has served the association very well. This, coupled with consistent fiscal discipline, established a solid financial foundation for our organization. With this foundation in place we sought to develop parameters for what became our “Strategic Reinvestment Initiative”. This initiative would allow us to leverage reserves for the benefit of member firms and the industry we serve.

When considering this action our paramount concern was the preservation of long-term financial security. The primary points of consideration were:

- Ensuring good financial stewardship of the association’s resources by recommending a responsible, sustainable policy for Board consideration.
- Consideration of the current and future needs of the association to maintain a competitive market presence and deliver impactful member services/industry accomplishments.
- Adherence to the vision of protecting our member’s equity in the organization while capitalizing on opportunities to provide them with a return on their investment.
- Maintaining resources and flexibility for current and future Boards.

In setting out to create guidelines that would meet the expectations above we also kept in mind the overall goals of the policy. Specifically, the current and future funding of strategic plan initiatives and other opportunities that deliver value to our constituency.

Strategic Reinvestment Initiative Policy

Annually AGC of Kentucky will reinvest 4 percent of the long-term investment account balance into specific activities identified as priority in our strategic plan. An additional 2 percent may be utilized under certain circumstances but will automatically sunset the following year. The percentages, determined through consultation with our financial advisors, are based upon the three year rolling average account balance. In order to be automatically reauthorized the account must meet minimum balance requirements.

Without implementation of this initiative, aligning financial resources to fund strategic plan goals would have forced tough decisions. With the launching of this policy we are

able to demonstrate to members that our reserves are being reinvested to address current industry issues while maintaining safeguards for the future.

In summary, the amount of reserves and their use is a strategic decision. When the board meets and leaves savings untouched they are making an unstated decision.

It is worth noting that through IRS Form 990, members and stakeholders have access to know how the board is building or using reserves. (Be sure to rely on professionals for advice regarding savings, policies and expenditures.)

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Note: Bob Harris, CAE, provides free governance tips and templates at www.nonprofitcenter.com.