Know your Reserves

We often talk about wanting to "build a reserve" or funders sometimes ask, "How much reserves do you have?" This worksheet walks you through the steps to know what your reserves are currently, and then how to project what they should be and how that relates to budgeting.

<u>Step 1: Find your reserves from your Audit or 990</u>
When we talk about reserves, we are actually talking about your Unrestricted Net Assets. Those are the funds that have been built up over the years when you have run a surplus and are used only when you run a deficit.

To find out how much reserves you started the year with, which is another way of saying how much Unrestricted Net Assets did you have at the end of last year, you need to look at either your audit or 990 from last year.

Audit:
Look at the Statement of Financial Position [which is another name for the Balance Sheet].
The Net Assets section should be at the bottom of the page.
Look for your Ending Year Unrestricted Net Assets and enter in the box below.

990:
Look at page 4 Balance Sheets [note that the 2008 990 that you'll file next year has a different format so the Balance Sheet will be on a later page].
Look at Column B, which is the End of Year Column, and then look toward the bottom of the page for the Net Assets or Fund Balances section.
Look for the Unrestricted Net Assets line [line 67 in the pre-2008 990] under Column B and enter the figure in the box below.

Beginning of the Year Unrestricted Net Assets

Now that you know what you started with, you can project what you will end the year with.

<u>Step 2: Calculate the $ Amount of Surplus or Deficit you are actually projecting based on your best income and expense projections</u>

Total Projected Income		Total Projected Expenses		= Projected Surplus or Deficit
	-		=	

<u>Step 3: Calculate your Current Unrestricted Net Assets</u>

Beginning of the Year Unrestricted Net Assets [From Step 1]	plus Projected Surplus OR minus Projected Deficit [From Step 2]		= Current Unrestricted Net Assets
		=	

Now that you know your current level of Unrestricted Net Assets, you can determine if they are at a healthy level. Since your Unrestricted Net Assets represent your cushion, a good guideline to start with is that they should be at least worth 1 month of your expense budget and ideally worth 3 months.

Step 4: Calculate your monthly budgeted expenses

Total Budgeted Expenses		**Divided by**	**=**	**Monthly Expenses**
______	÷	**12**	=	______

Step 5: Calculate the $ Amounts of Your Minimum and Ideal Reserves

Monthly Expenses		**Multiplied By Minimum Guideline**		**= $ Minimum Reserve Level**
______	**X**	**1**	=	______

Monthly Expenses		**Multiplied By Ideal Guideline**		**= $ Ideal Reserve Level**
______	**X**	**3**	=	______

Step 6: Compare your Current Unrestricted Net Assets [from Step 3] to the guidelines from Step 5

If your Current Unrestricted Net Assets are below the Minimum Reserve amount calculated in Step 5, then go to Step 7.

If your Current Unrestricted Net Assets are higher than the Minimum but less than the Ideal Reserve amount calculated in Step 5, then go to Step 8.

If your Current Unrestricted Net Assets are higher than your Ideal Reserve amount, then congratulate yourself!

Step 7: Calculate the $ Amount of Surplus Needed to Get to Your Minimum Reserve Level

$ Minimum Reserves from Step 5		**Minus Current Unrestricted Net Assets**		**= Surplus Needed in Budget to Reach Target**
______	**-**	______	=	______

Step 8: Calculate the $ Amount of Surplus Needed to Get to Your Ideal Reserve Level

$ Ideal Reserves from Step 5		**Minus Current Unrestricted Net Assets**		**= Surplus Needed in Budget to Reach Target**
	-		=	

Now that you know how much it will take to get to your target, you also have to understand that a surplus can only be generated from unrestricted income —like donations, bank interest, fee-for-services. So if your surplus needed is $20,000 but you only receive $15,000 in donations and interest, then you can only generate a maximum of $15,000 of surplus. That's why donations and other non-foundation sources of income are so critical in planning a budget.