
Nonprofit Operating Reserve Policy Template

Free download from [Holdings](#) — AI-native business banking for nonprofits

Instructions: Replace all [BRACKETED TEXT] with your organization's information. Present to your Finance Committee for review, then to the full board for adoption.

[ORGANIZATION NAME]

Operating Reserve Policy

Adopted by the Board of Directors on: [DATE]

Effective Date: [DATE]

Last Reviewed: [DATE]

Next Review Date: [DATE — recommend annually]

1. Purpose

The purpose of this Operating Reserve Policy is to ensure the financial stability of [ORGANIZATION NAME] (the "Organization") by maintaining adequate liquid reserves to sustain operations during periods of financial disruption, including but not limited to:

- Temporary declines in revenue or delayed grant payments
- Unanticipated increases in operating expenses
- One-time, unbudgeted expenses of a nonrecurring nature
- Economic downturns that reduce contributed or earned income
- Loss of a major funding source
- Emergency facility repairs or technology failures

This policy establishes guidelines for the target level of reserves, how reserves are built, the conditions under which reserves may be accessed, and the plan for replenishment after a draw-

down.

The Board of Directors recognizes that maintaining operating reserves is an act of fiscal responsibility and stewardship, ensuring the Organization can continue to fulfill its mission during periods of financial uncertainty.

2. Definitions

Operating Reserves: Board-designated unrestricted net assets set aside to stabilize the Organization's finances by providing a financial cushion against unexpected events, loss of revenue, or unbudgeted expenses.

Average Monthly Operating Expenses: Total annual unrestricted operating expenses (excluding depreciation and in-kind expenses) divided by twelve.

Board-Designated: Unrestricted net assets that the Board of Directors has formally set aside for a specific purpose. These funds remain legally unrestricted but carry a board-imposed limitation on their use.

3. Reserve Target

3A. Target Amount

The Organization shall maintain operating reserves equal to **[6] months of average monthly operating expenses** (the "Target").

3B. Calculation

The Target shall be calculated as follows:

...

Total Annual Unrestricted Operating Expenses: \$ _____

Less: Depreciation & Amortization: \$ _____

Less: In-Kind Expenses: \$ _____

= Adjusted Annual Operating Expenses: \$ _____

÷ 12 = Average Monthly Operating Expenses: \$ _____

× [6] Target Months = RESERVE TARGET: \$ _____

...

3C. Minimum Threshold

The Organization shall at all times strive to maintain a minimum reserve balance equal to **[3] months of average monthly operating expenses** (the "Minimum").

If reserves fall below the Minimum, the Executive Director shall notify the Board of Directors within [30] days and present a replenishment plan.

3D. Annual Recalculation

The reserve Target and Minimum shall be recalculated annually during the budget approval process, based on the upcoming fiscal year's projected operating expenses.

Current Year Calculation:

| Component | Amount |
|--|---------------|
| Annual unrestricted operating expenses | \$ _____ |
| Less: depreciation & in-kind | (\$ _____) |
| Adjusted annual operating expenses | \$ _____ |
| Average monthly operating expenses | \$ _____ |
| Minimum Reserve (3 months) | \$ _____ |
| Target Reserve (6 months) | \$ _____ |

4. Building Plan

The Organization shall build reserves through the following mechanisms:

4A. Annual Budget Allocation

A minimum of **[5]%** of the annual unrestricted operating budget shall be allocated as a reserve contribution line item. This allocation shall be treated as a required expense, not a discretionary one.

4B. Revenue-Based Contribution

[3]% of all unrestricted revenue received shall be deposited into the reserve fund on a [monthly/quarterly] basis.

4C. Windfall Policy

When the Organization receives unbudgeted, unrestricted income exceeding **[\$5,000]** (including but not limited to: unexpected donations, asset sale proceeds, insurance settlements, or budget surpluses), **[50]%** of such windfall shall be deposited into the reserve fund until the Target is met.

4D. Year-End Surplus

The first **[50]**% of any annual operating surplus shall be deposited into the reserve fund until the Target is met. The disposition of the remaining surplus shall be determined by the Board.

4E. Building Timeline

| Milestone | Target Date | Amount |
|----------------------------------|-------------|---------|
| Reach 1 month operating expenses | [DATE] | \$_____ |
| Reach Minimum (3 months) | [DATE] | \$_____ |
| Reach Target (6 months) | [DATE] | \$_____ |

5. Draw-Down Criteria

Operating reserves may only be accessed under the following conditions:

5A. Qualifying Events

- Revenue shortfall exceeding **[15]**% of quarterly budgeted revenue
- Loss or significant reduction of a funding source representing more than **[20]**% of annual revenue
- Emergency expenses exceeding **[\$10,000]** not covered by insurance or budgeted contingency
- Natural disaster, public health emergency, or other force majeure event affecting operations
- Cash flow timing gap due to delayed grant or contract payments (with confirmed future receipt)

5B. Authorization Levels

| Draw-Down Amount | Authorization Required |
|-------------------------|--|
| Up to \$[10,000] | Executive Director, with Finance Committee notification within [7] days |
| [\$10,001] – \$[50,000] | Executive Director + Finance Committee Chair, with full Board notification within [14] days |
| Over \$[50,000] | Full Board of Directors approval (may be conducted via emergency meeting or electronic vote) |

5C. Documentation

Every draw-down from reserves shall be documented in writing and include:

- Date of draw-down
- Amount drawn
- Qualifying event description
- Expected duration of need
- Replenishment timeline
- Authorization signatures

5D. Restrictions

Operating reserves shall NOT be used for:

- Funding new programs or initiatives (use the annual budgeting process)
- Capital expenditures (use a separate capital reserve or campaign)
- Covering chronic operating deficits without a corrective action plan
- Loans to staff, board members, or related parties

6. Replenishment Plan

When reserves are drawn below the Target:

| Reserve Level After Draw-Down | Replenishment Timeline |
|-------------------------------------|--|
| Between Minimum and Target | Restore to Target within [24] months |
| Below Minimum | Restore to Minimum within [12] months ; restore to Target within [24] months |
| Below 1 month of operating expenses | Emergency: Board must approve a corrective action plan within [30] days |

Replenishment shall be funded through:

- Increased annual budget allocation (temporary increase to [8-10]%)
- Dedicated fundraising effort
- Expense reduction plan
- Combination of the above

7. Investment Guidelines

7A. Objectives

Reserve funds shall be invested with the following priorities (in order):

- **Preservation of principal** — reserves must not lose value
- **Liquidity** — funds must be accessible within [5] business days
- **Yield** — earn a reasonable return consistent with priorities 1 and 2

7B. Permitted Investments

| Investment Type | Maximum Allocation | Notes |
|--|--------------------|-------------------------------------|
| FDIC-insured savings accounts | 100% | Preferred for simplicity and safety |
| Money market accounts (FDIC-insured) | 100% | |
| U.S. Treasury bills (\leq 6 months) | Up to 40% | Only for funds above Minimum |
| Certificates of deposit (\leq 6 months, FDIC-insured) | Up to 40% | Only for funds above Minimum |

7C. Prohibited Investments

Operating reserve funds shall NOT be invested in:

- Equities (stocks) or equity mutual funds
- Corporate bonds rated below investment grade
- Real estate or real estate funds
- Cryptocurrency or digital assets
- Any instrument with a maturity exceeding 12 months
- Any instrument not insured by the FDIC or backed by the U.S. government

7D. Account Structure

Reserve funds shall be held in a **separate, dedicated account** clearly labeled as "[ORGANIZATION NAME] Operating Reserve." This account shall be:

- Separate from daily operating accounts
- Accessible by the Executive Director and [Treasurer/Finance Committee Chair]
- Reported as a distinct line item in monthly financial statements

8. Reporting & Review

8A. Quarterly Reporting

The [Executive Director / Finance Director] shall report the following to the Board of Directors at each regular board meeting (at minimum quarterly):

- Current reserve balance
- Reserve balance as a percentage of Target
- Months of operating expenses covered
- Any draw-downs since last report
- Status of any active replenishment plan

8B. Annual Review

This policy shall be reviewed annually as part of the budget approval process. The annual review shall include:

- Recalculation of Target and Minimum based on projected expenses
- Assessment of building plan progress
- Review of investment performance
- Any recommended policy amendments

8C. Reporting Template

| Metric | Current | Target |
|-------------------------|---------------------------|------------|
| Reserve balance | \$_____ | \$_____ |
| % of Target achieved | _____% | 100% |
| Months of coverage | _____ | [6] months |
| Draw-downs this quarter | \$_____ | — |
| Replenishment status | [On track / Behind / N/A] | — |

9. Board Resolution

RESOLVED, that the Board of Directors of [ORGANIZATION NAME] hereby adopts this Operating Reserve Policy, effective [DATE], and directs the Executive Director to implement the policy's building plan, reporting requirements, and investment guidelines.

FURTHER RESOLVED, that the Board designates \$[AMOUNT] of current unrestricted net assets as the initial operating reserve fund, to be held in a separate account and managed in accordance with this policy.

| | |
|-------------------------------|-------|
| Board Chair Signature: | _____ |
|-------------------------------|-------|

| | |
|----------------------------------|-------|
| Board Chair Name (Print): | _____ |
| Date: | _____ |
| Secretary Signature: | _____ |
| Secretary Name (Print): | _____ |
| Date: | _____ |

Appendix: Reserve Target Worksheet

Use this worksheet to calculate your organization's reserve target:

Step 1: Determine Adjusted Annual Operating Expenses

| Expense Category | Annual Amount |
|------------------------------------|-----------------|
| Salaries & wages | \$ _____ |
| Employee benefits | \$ _____ |
| Payroll taxes | \$ _____ |
| Rent / occupancy | \$ _____ |
| Utilities | \$ _____ |
| Insurance | \$ _____ |
| Program supplies | \$ _____ |
| Technology / software | \$ _____ |
| Professional services | \$ _____ |
| Travel | \$ _____ |
| Communications / marketing | \$ _____ |
| Other operating expenses | \$ _____ |
| Total Operating Expenses | \$ _____ |
| Less: Depreciation | (\$ _____) |
| Less: In-kind expenses | (\$ _____) |
| Adjusted Operating Expenses | \$ _____ |

Step 2: Calculate Targets

| Metric | Calculation | Amount |
|------------------------------------|---------------|----------|
| Average monthly operating expenses | Adjusted ÷ 12 | \$ _____ |
| Minimum reserve (3 months) | Monthly × 3 | \$ _____ |
| Target reserve (6 months) | Monthly × 6 | \$ _____ |

Step 3: Assess Current Position

| Metric | Amount |
|--|------------|
| Current unrestricted net assets | \$ _____ |
| Less: net fixed assets | (\$ _____) |
| Less: other committed funds | (\$ _____) |
| Available for reserve designation | \$ _____ |
| Gap to Minimum | \$ _____ |
| Gap to Target | \$ _____ |

This template is for informational purposes and does not constitute financial or legal advice. Consult with a nonprofit financial advisor or attorney before adopting. Customize all bracketed values to your organization's circumstances. Holdings is a financial technology company, not a bank. Banking services provided by i3 Bank, Member FDIC.

© 2026 Holdings, Inc.

[Try Holdings Free →](#)

Zero fees · 3.49% APY · Up to \$3M FDIC