

## OPERATING RESERVES

### *What are Operating Reserves?*

Operating reserves are unrestricted fund balances. They are similar to retained earnings or equity in other businesses. These funds are developed as a result of operating income exceeding operating expense over a period of time. The net operating income (or balances) from one fiscal year are added to the congregation's operating reserve, while operating at a deficit in a given fiscal will result in a reduction to the congregation's operating reserve.

### *How do operating reserves function?*

Operating reserves can provide cushion to help an organization survive lean periods and any unexpected events that could drain funds. Operating reserves can help congregations:

- Survive operating shortfalls caused by economic conditions or unexpected disruption in cash flow: i.e., several Sundays of inclement weather which subsequently affect weekly offerings;
- Enhance their capacity to develop new programs or discontinue or retool current programs;
- To obtain favorable financing terms, should that be necessary or desirable; and
- Achieve even distribution of support for programs and ministries.

### *What is the appropriate level of operating reserves?*

There is no set answer to this question, but following are a few factors that congregations might take into account:

- When income is derived primarily from a predictable, broad-based membership or body of contributors the level of operating reserves may generally be lower than if income is derived primarily from a few large contributions.
- If cash flow is irregular, operating reserves should generally be higher than if cash receipts are consistent throughout the year. Seasonal swings in income and expenses should be identified and tracked so they can be anticipated.
- If expenses are primarily fixed or predictable, reserves can generally be lower.
- If the congregation owns fixed assets or equipment that is likely to require renewal or replacement, operating reserves may need to be higher. It is advisable to develop a plan so that as fixed assets age, replacement and repairs can be funded.
- Reserves should be higher for congregations with long-term debt, payables, and deferred income, since significant liabilities reduce operating flexibility and increase the risk of penalties and interest for late payments.

Most non-profit organizations maintain an operating reserve of approximately 30% of their annual operating budget, or enough to cover all expenses if income completely ceased for three to four months. That might be a good place to start the discussion. The portion of mission support income passed on to the respective synod for synod and churchwide ministries should be subtracted from operating expenses before calculating.