



CPAs & ADVISORS

# Building and Maintaining Operating Reserves

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# Presenters

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# Housekeeping

## *Additional Information*

<b>Learning Objective</b> To provide attendees with an overview of strategies to manage operating reserves.	<b>Instructional Delivery Methods</b> Group Internet-based
<b>Recommended CPE</b> 1 CPE Credit	<b>Recommended Fields of Study</b> Specialized Knowledge
<b>Prerequisites</b> None required	<b>Advance Preparation</b> None
<b>Program Level</b> Basic	<b>Course Registration Requirements</b> None
<b>Refund Policy</b> No fee is required to participate in this session.	<b>Cancellation Policy</b> In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.
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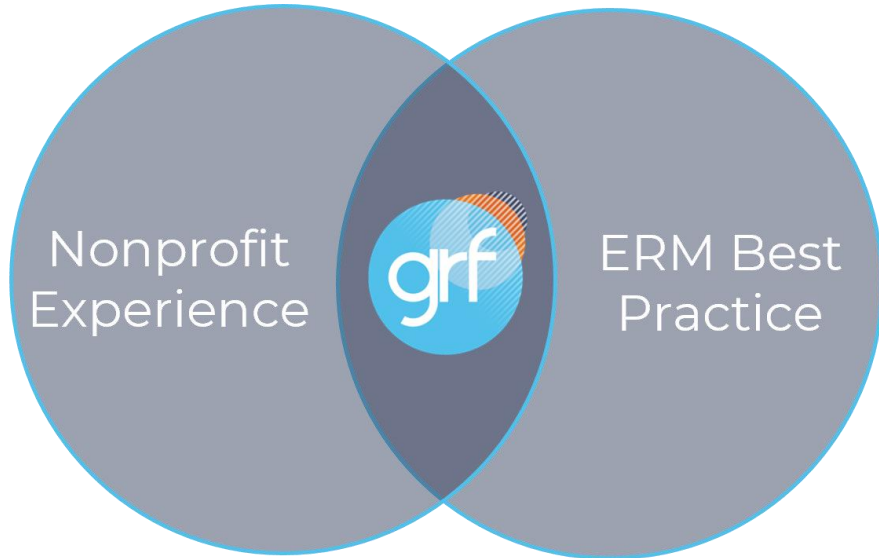


# Highlights and Objectives

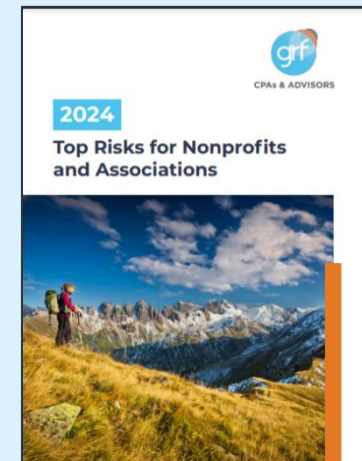
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- Firm Background
- Understanding Nonprofits need for better risk oversight
- Techniques for identifying and managing risks
- Risk based operating reserves
- Developing next steps & tips for response

# ERM Thought Leaders

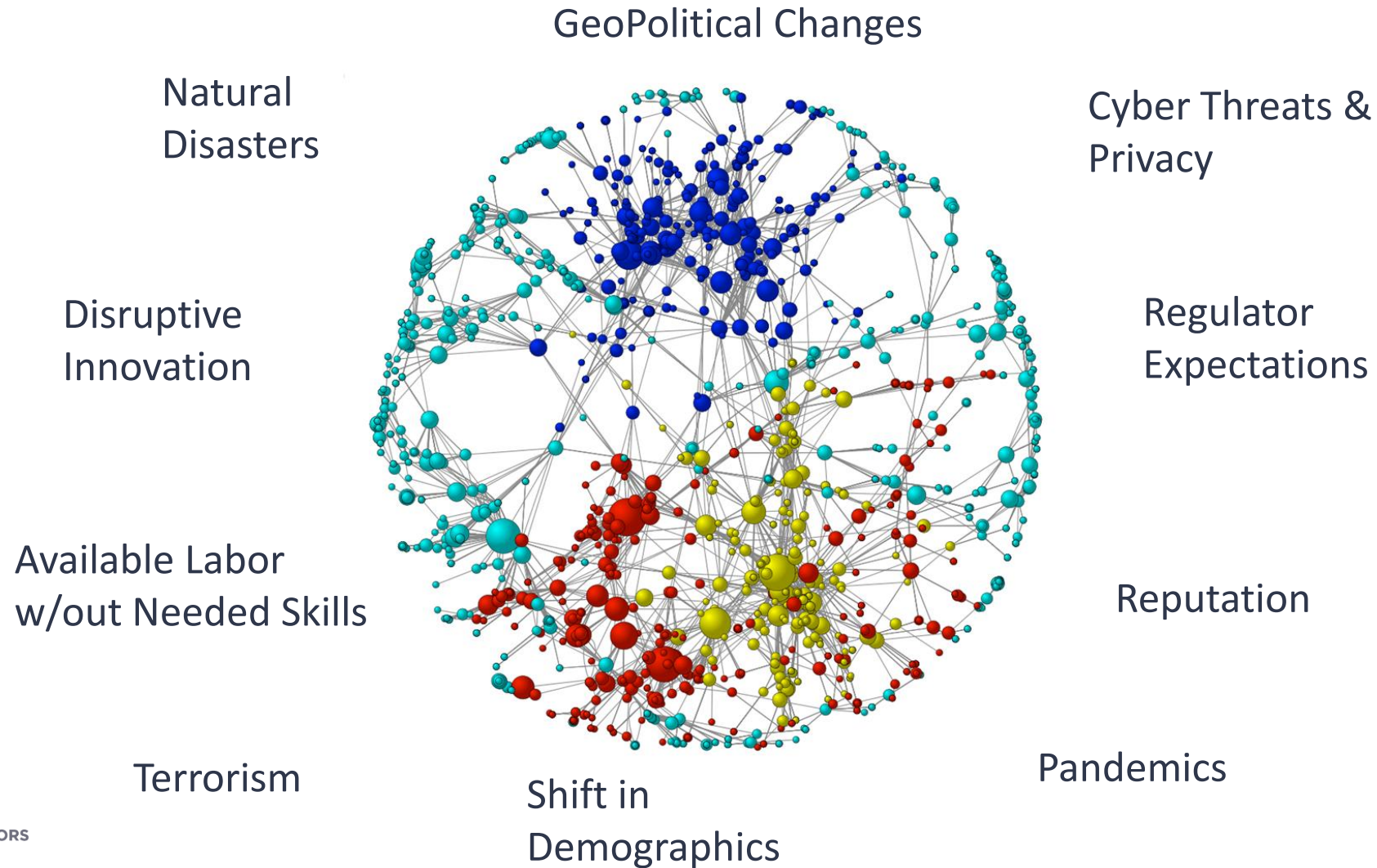


## Thought Leadership



# Understanding Nonprofits Need for Better Risk Oversight

# Growing Uncertainty



# What is a significant Risk to your Organization?

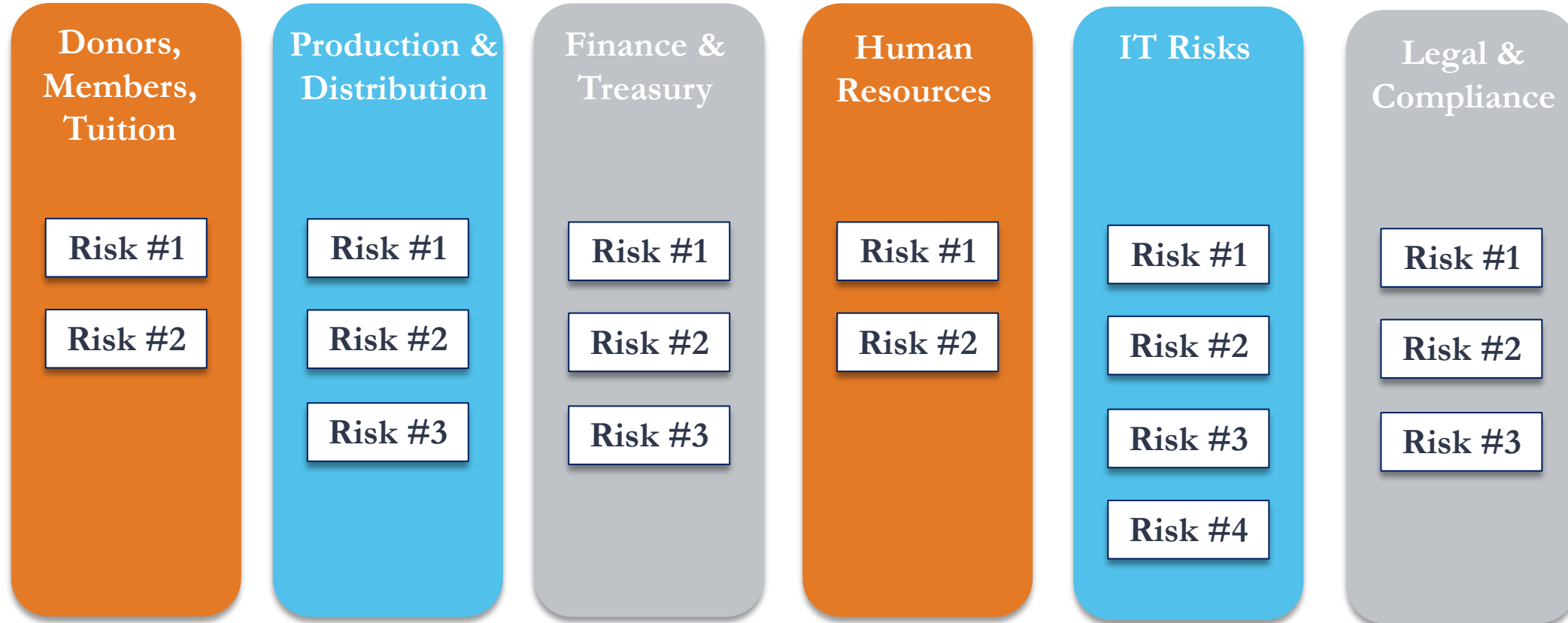
Viewpoints Differ Re: “Significant Risk”

<b>Board member</b>	<b>0</b>
<b>CEOs</b>	<b>13</b>
<b>CFOs</b>	<b>1</b>
<b>CTOs/CIOs</b>	<b>17</b>

WHO IS CORRECT?



# Traditional Approach to Risk Management



“Silo” or “Stove-Pipe” Risk Management

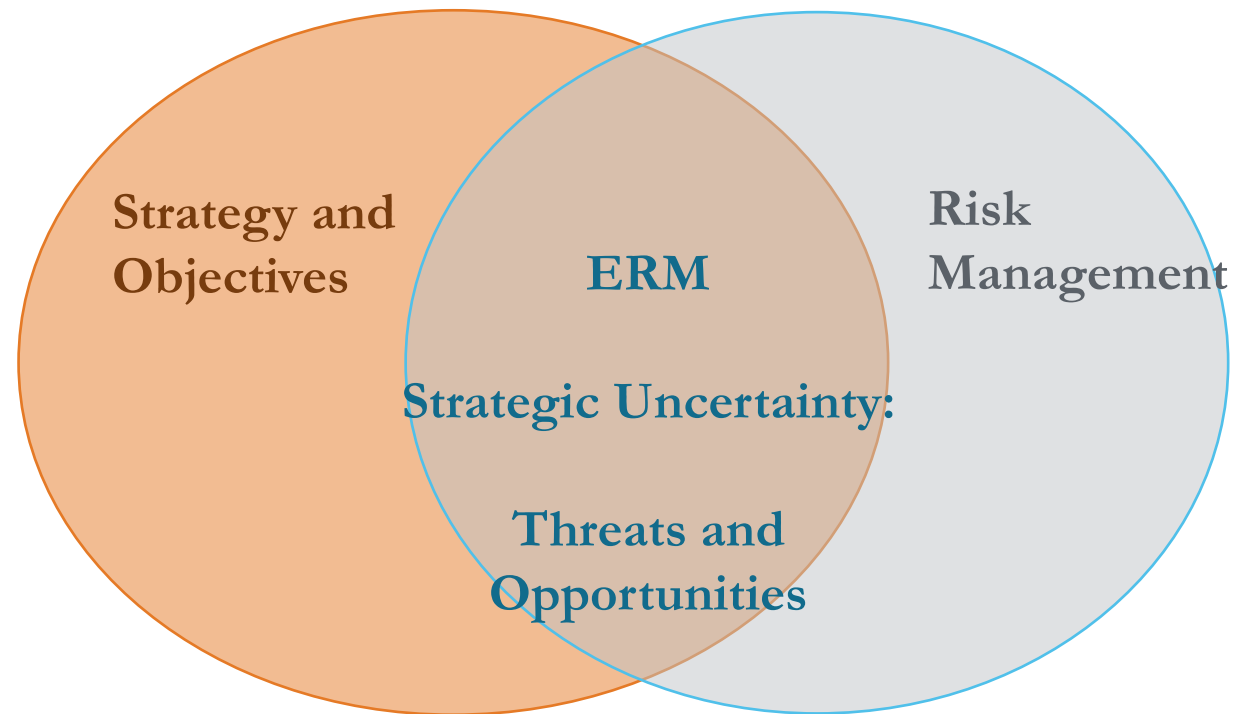
Source: NC State ERM Initiative



# Understanding the Need for Better Risk Oversight

## *Intersection of Risk and Strategy*

ERM integrates **strategic planning** and **risk management** to improve responses to uncertainty, organizational resilience, and mission fulfillment.



TOP RISKS	STRATEGIC INITIATIVE #1	STRATEGIC INITIATIVE #2	STRATEGIC INITIATIVE #3	STRATEGIC INITIATIVE #4	STRATEGIC INITIATIVE #5
Risk #1	X	X			
Risk #2				X	
Risk #3	X				
Risk #4	X	X	X	X	X
Risk #5	X				
Risk #6		X		X	
Risk #7	X		X		
Risk #8			X		



# Understanding the Need for Better Risk Oversight

## ERM Frameworks

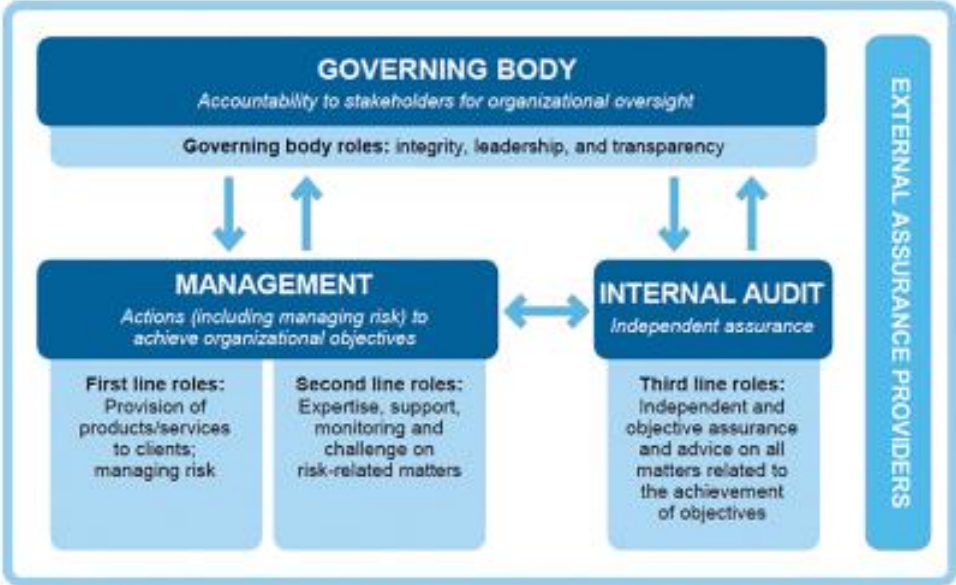


# IIA - Three Lines Model

The Three Lines of Defense Model



The IIA's Three Lines Model



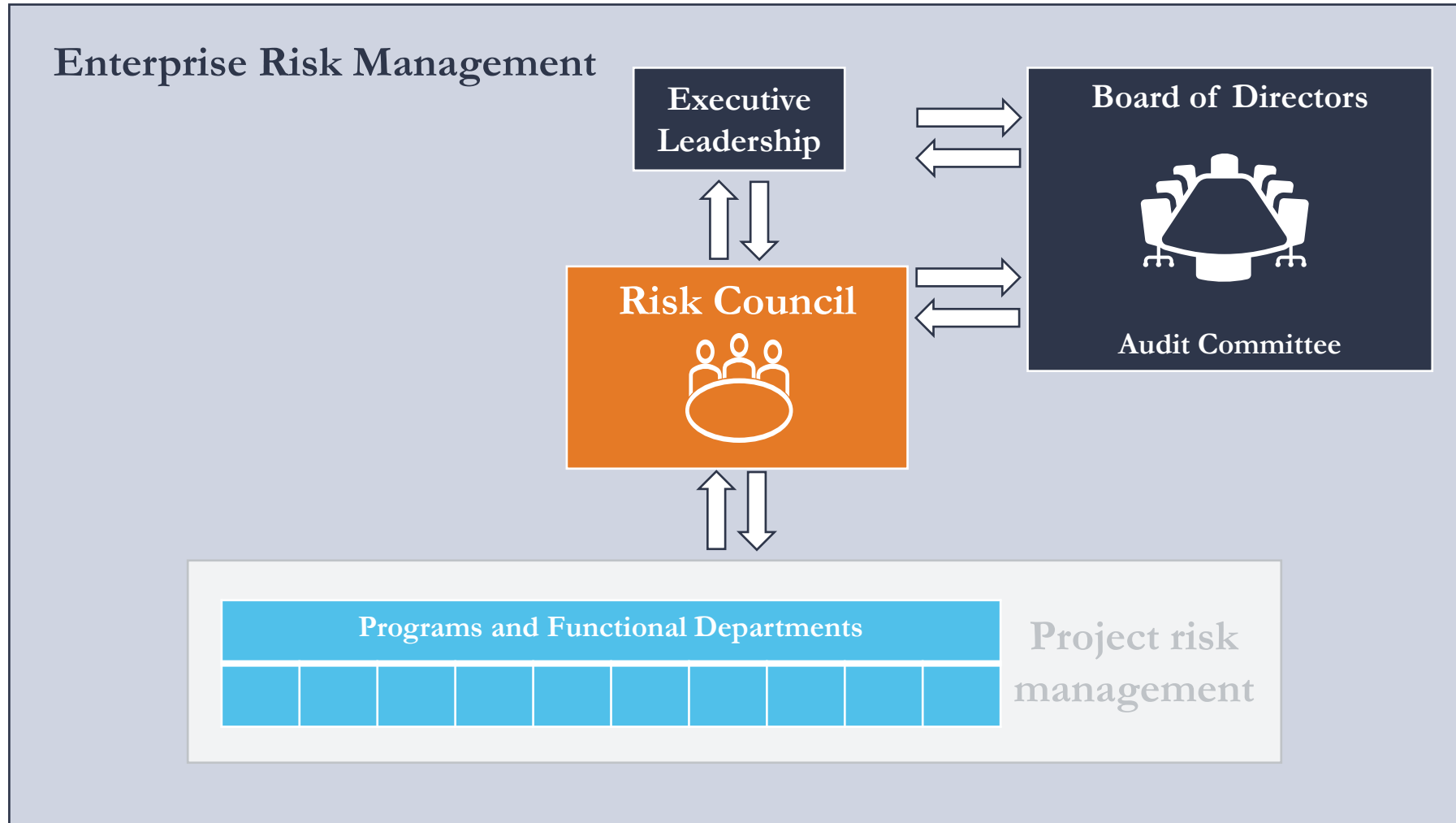
KEY: ↑ Accountability, reporting | ↓ Delegation, direction, resources, oversight | ↔ Alignment, communication coordination, collaboration

Source:

<https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>



# ERM Example Structure



# Benchmarking ERM

## *State of Risk Oversight*



Source: <https://erm.ncsu.edu/resource-center/2025-the-state-of-risk-oversight-an-overview-of-enterprise-risk-management-practices-16th-edition/>

# Benchmarking ERM

## Who is Responsible for Risk Oversight?

Percentage of Respondents					
If Board delegates formal responsibility of risk oversight to a subcommittee, which committee is responsible?	Full Sample	Large Organizations	Public Companies	Financial Services	Not-for-Profit Organizations
Audit Committee	42%	53%	51%	19%	64%
Risk Committee	33%	36%	45%	60%	14%
Executive Committee	15%	9%	2%	17%	14%
Corporate Governance Committee	5%	2%	2%	2%	3%
Other	5%	0%	0%	2%	5%

Source: <https://erm.ncsu.edu/resource-center/2025-the-state-of-risk-oversight-an-overview-of-enterprise-risk-management-practices-16th-edition/>

# Benchmarking ERM

## Number of Top Risks Reported to Board

Percentage of Respondents					
NUMBER OF TOP RISKS REPORTED TO BOARD	Full Sample	Large Organizations (Revenues > \$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Less than 5 risks	43%	7%	7%	29%	41%
Between 5 and 9 risks	26%	38%	38%	24%	33%
Between 10 and 19 risks	28%	51%	47%	46%	24%
20 or more risks	3%	4%	8%	1%	2%

Source: <https://erm.ncsu.edu/resource-center/2025-the-state-of-risk-oversight-an-overview-of-enterprise-risk-management-practices-16th-edition/>

# Polling Question #1

Are you still listening?

A. *Yes*

B. *No*

# Techniques for Identifying and Managing Risks

# Global Risk Trends

## What are the top 5 risks your organization faces?

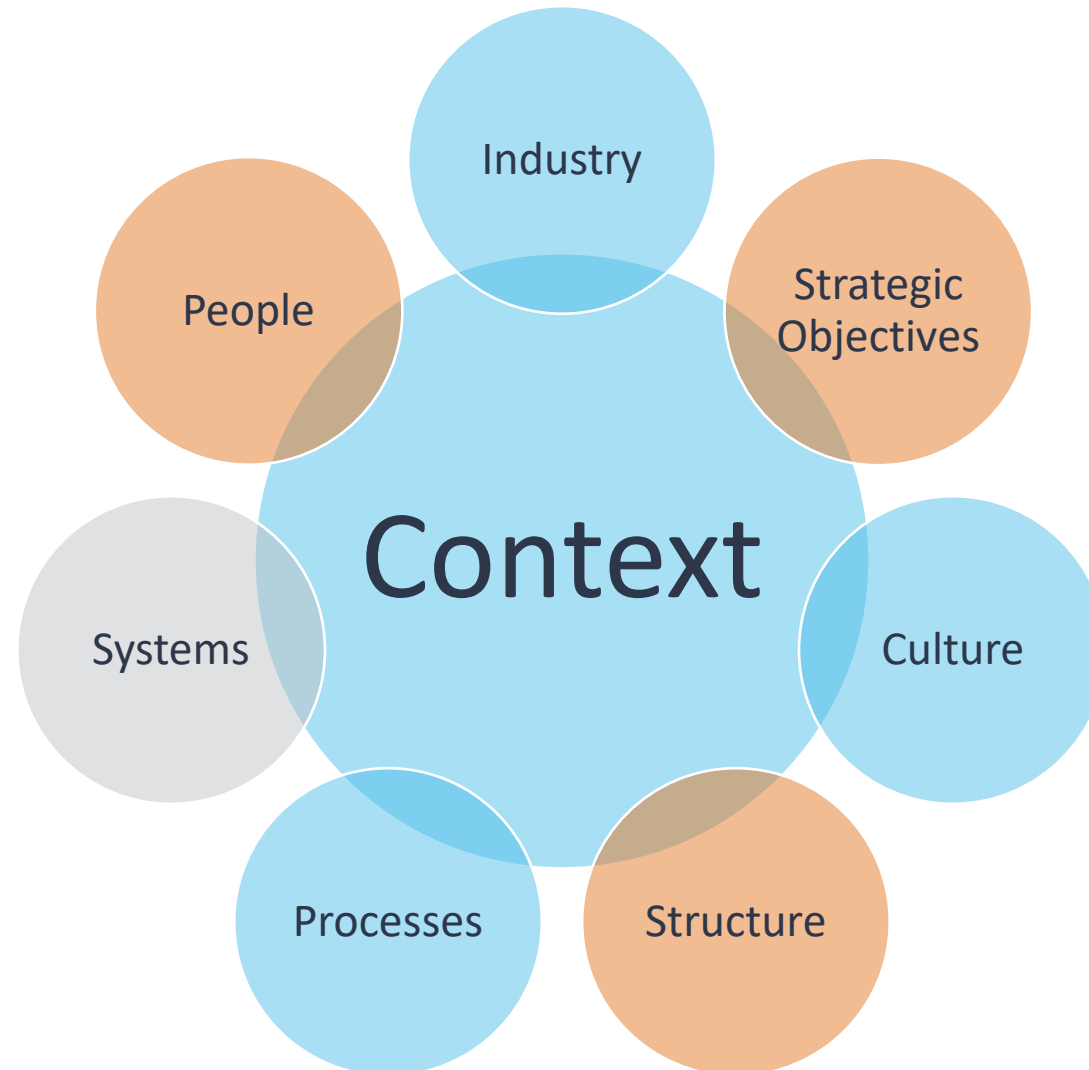
Last Year's Risk		Current Year's Risk		Risk Expectations in 3 Years		
1	Cybersecurity	73%	1	Cybersecurity	73%	
2	Human capital	51%	2	Business continuity	51%	
3	Business continuity	47%	3	Human capital	49%	
4	Regulatory change	39%	4	<b>Digital disruption (including AI)</b>	39%	
5	<b>Digital disruption (including AI)</b>	34%	5	Regulatory change	38%	
6	Financial liquidity	32%	6	Market changes/competition	32%	
7	Market changes/competition	32%	7	Financial liquidity	31%	
8	Geopolitical uncertainty	30%	8	Geopolitical uncertainty	30%	
9	Governance/corporate reporting	27%	9	Governance/corporate reporting	25%	
10	Supply chain (including third parties)	26%	10	Organizational culture	24%	
11	Organizational culture	26%	11	Fraud	24%	
12	Fraud	24%	12	Supply chain (including third parties)	23%	
13	Communications/reputation	21%	13	<b>Climate change/environment</b>	23%	
14	<b>Climate change/environment</b>	19%	14	Communications/reputation	20%	
15	Health/safety	11%	15	Health/safety	11%	
16	Mergers/acquisitions	6%	16	Mergers/acquisitions	6%	
				1	Cybersecurity	69%
				2	<b>Digital disruption (including AI)</b>	59%
				3	Business continuity	47%
				4	Human capital	42%
				5	<b>Climate change/environment</b>	39%
				6	Regulatory change	37%
				7	Geopolitical uncertainty	31%
				8	Market changes/competition	30%
				9	Financial liquidity	25%
				10	Supply chain (including third parties)	24%
				11	Governance/corporate reporting	22%
				12	Fraud	21%
				13	Organizational culture	20%
				14	Communications/reputation	15%
				15	Health/safety	10%
				16	Mergers/acquisitions	9%

Source: <https://www.theiia.org/globalassets/site/foundation/latest-research-and-products/risk-in-focus/2025/2025-global-briefing-en-riskinfocus.pdf>



# Understand the Organizational Context

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# Key Risk Identification Techniques

Objectives  
Based

Past Events

Internal  
Analysis  
and  
Surveys

Process  
Flow  
Analysis

Scenario  
Based

Current  
Events

Facilitated  
Workshop  
and  
Interviews

Risk  
Inventory



# Focus Tends to Be on the “Known Risks”

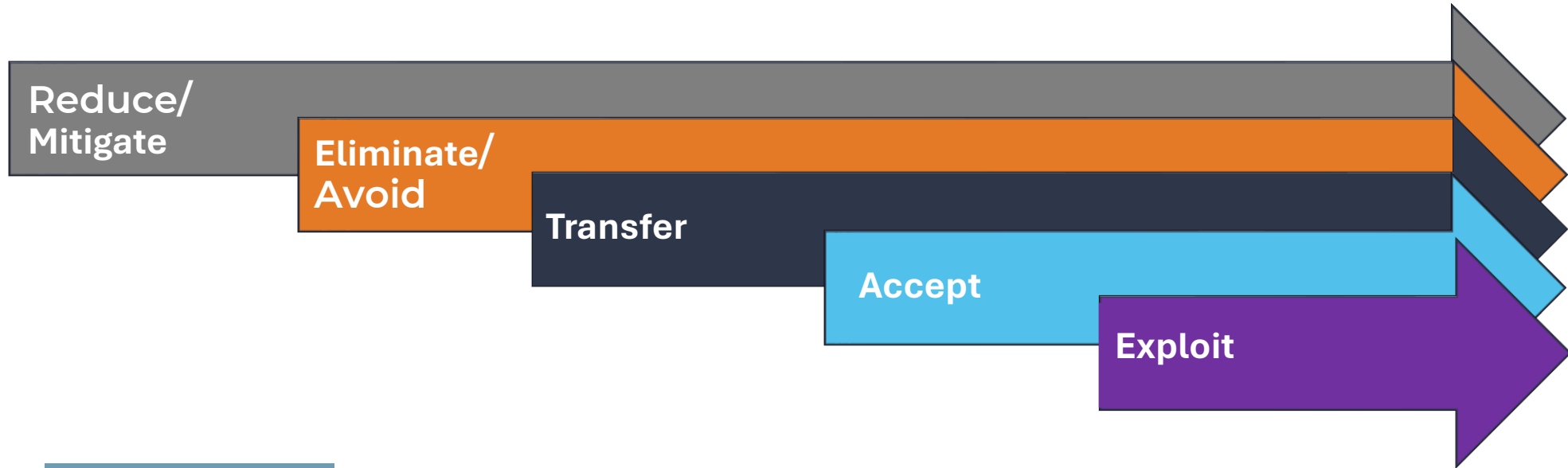
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- *Known, knowns*
- *Unknown, but Knowable*
- *Unknown, Unknowable*



# Benchmarking ERM

## Example Response



# Monitor and Report

## Management Handling Plans

RISK STATEMENT		DATES		
Cause		Status	<b>Open</b>	
Risk		Opened		
Impact		Approved		
Management effectiveness score		Closed		
RISK CLASSIFICATION		HANDLING PLAN		
Executive Owner		Description of Task	Owner	Status
Risk Manager				
Handling Approach	<b>Mitigate</b>			
INHERENT RISK RATING	CURRENT	TARGET		
Impact Rating (1-5)				
Likelihood Rating (1-5)				
Risk Score				
INTERRELATED TOP ENTERPRISE RISKS				

## Independent Assurance



# Benchmarking ERM

## Monitor and Report

### KPI vs. KRI

KPI - Effectiveness
<b>Act</b> as an decision making tool by providing key dimensions of performance
<b>Provide</b> a backward looking view on past data to identify lessons learned
<b>Signal</b> to management areas where there is a hindrance of the achievement of goals

VS

KRI – Risk Exposure
<b>Act</b> as an input to a risk owner’s risk assessment, thus making the assessment more reliable and informative
<b>Alert</b> management of trends that may adversely affect the achievement of goals or may forecast the likelihood of a risk occurrence
<b>Signal</b> to management if corrective action needs to be taken based on KRI performance

**KPI** is a **backward** looking indicator, and a **KRI** is a **forward** looking indicator. KPI tracks how well you did, and a KRI attempts to predict where you are going.



## Polling Question #2

Are you still listening?

A. *Yes*

B. *No*

# Risk Based Reserves

# Correlating ERM to Reserves

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- Discuss one common approach on targeting reserves for non-profits and associations.
- Outline opportunities, risks, and discuss scenarios for establishing reserve levels.
- Review a sample reserve target.

## Targeting Reserves

*Bull's Eye versus Shot in the Dark*



# Correlating ERM to Reserves



# Scenario Identification

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- Identify potential opportunities and risks (ERM)
- Qualitative assessment of identified opportunities and risks
  - Likelihood
    - High-event likely to occur with-in **XX** years
    - Medium-event possibly will occur with-in **XX** years
    - Low-event remote chance to occur with-in **XX** years
  - Magnitude
    - High-financial impact greater than **\$XXX**
    - Medium- financial impact **\$XXX- \$XXX**
    - Low- financial impact less than **\$XXX**
- Quantitative – assignment of a numerical value to each risk





# Benchmarking

- Benchmarking similar organizations by size and/or industry may be helpful but should not be the sole factor in determining your target reserve.
- Each organization's structure, revenue streams, and risks are different.

	2023	2023	2023
	Expense (millions)	Liquid Reserve (millions)	Ratio
Council of Landscape Architectural Registration Boards (CLARB)	\$ 4.2	\$ 4.6	110%
Association of Collegiate Schools of Architecture (ASCA)	\$ 2.8	\$ 2.6	93%
Constructions Specifications Institute (CSI)	\$ 7.9	\$ 6.3	80%
Society of American Military Engineers (SAME)	\$ 10.7	\$ 8.0	75%
Construction Management Association of America (CMAA)	\$ 5.0	\$ 3.1	62%
Construction Financial Management Association (CFMA)	\$ 8.8	\$ 5.1	58%
American Road and Transportation Builders Association (ARTBA)	\$ 10.0	\$ 4.7	47%
Design Build Intitute of America (DBIA)	\$ 11.7	\$ 1.4	12%
The above chart takes a small sample of nonprofit organizations supporting various elements of the architecture and construction industries and calculates the ratio of their reserve as a percentage of their annual expenses.			
All of the above information is publically available and obtained from the most recently published Form 990.			



# Benchmarking

- How much is too much?
- IRS has not successfully challenged accumulation of reserves in exempt organizations.
- Only private foundations are required to expend at least 5% of the value of their endowment in furtherance of charitable purposes.
- Appropriate amount of reserve depends on individual organization's event identification and risk appetite.
- Type of organization and nature of revenue streams must be considered.
- Let's examine various reserve models structured based on sources of revenues and timely availability of additional cash.



# Individual Membership Reserve Model

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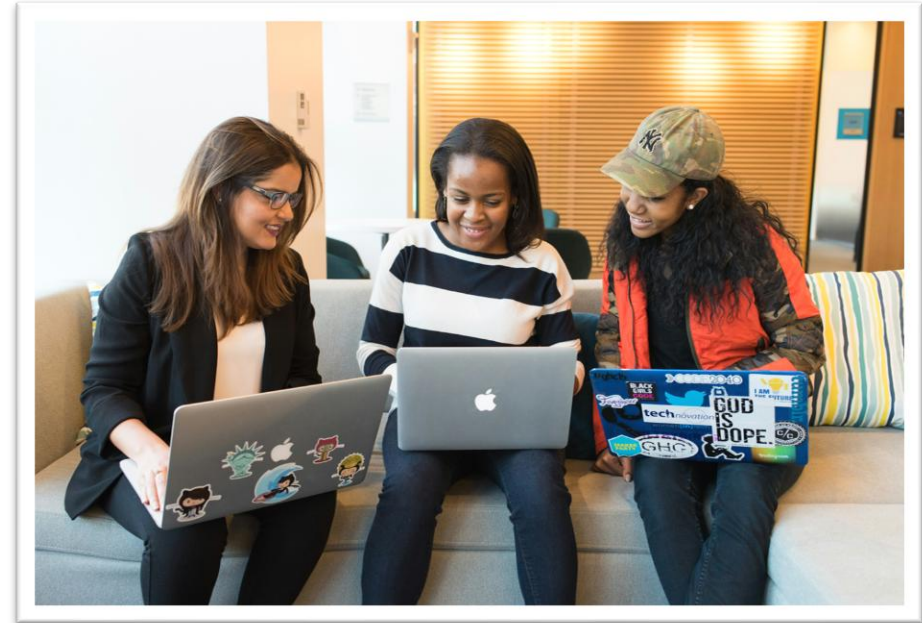
- Individual Membership Association
  - 501(c)(3) association with diverse funding streams
  - Individual memberships (35%), meetings (20%), publications (16%)
  - \$11 million in annual revenue
  - Annual dues come from 19,000 individual members
  - Average annual dues payment per member is \$120
  - Maintains a liquid reserve of one years of operating expenses



# Individual Membership Reserve Model

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- Individual Membership Association
  - Association positions itself to provide continued services to its constituents should an unexpected event occur.
  - Mitigates the need for immediate staff reductions
  - Funding model requires the Association to maintain a healthy reserve



# Grant-based Reserve Model

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- 501(c)(3) organization primarily funded by federal grants
- Cost reimbursable grants from two federal agencies accounted for 75% of annual revenue
- \$20 million in revenue, minimal reserves and reliance upon line of credit to bridge cash flow short-falls
- Launched a robust fundraising campaign to create a reserve to sustain the organization's mission through a variety of mechanisms:
  - Board committee launched the campaign which developed revenue diversification through educational initiatives, private grants and an annual gala
  - Created and grew an endowment where only a certain percentage of the average balance was permitted to be drawn upon annually
  - Leveraged the community and professional connections of board members to solicit large contributions



# Exam Profit Center Reserve Model

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- 501(c)(6) organization that administers a certification program
  - Nearly all revenue earned through administering an examination
  - \$12 million in annual revenue
  - High volume of small dollar transactions (over 90,000 individual transactions annually)
  - Revenue model doesn't facilitate ability to quickly address cash needs thus it maintains a liquid reserve of greater than one year of operating expenses



# Geographic Expansion

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- Multi-entity association/ \$60 million in assets/ \$30 million annual budget
  - Largest source of revenue is the domestic show (\$20 million) held annually in the U.S.
  - Using reserves, they purchased an 80% interest in an European-based organization running a similar show.
  - Strategy was to advance core service offerings outside of the U.S. and appeal to an international market.
  - Retained the services of the minority member to assist with running the show in Europe.



# Current Operating Environment

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- Political uncertainty
- Loss of grant funding
- Meeting cancellations/ reduction in attendance
- Decline in members
- Office space considerations
- Cybersecurity
- Availability of lines of credit
- Financial markets- revisiting investment policies
- Endowment draws
- Succession planning
- Domino impact of these events- "contagion factor"



# Polling Question #3

Are you still listening?

A. *Yes*

B. *No*

# Sample Reserve Policy

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The Association's current policy is to maintain \$7.4 million in the long-term reserve fund to finance long-term projects, invest in new opportunities, and to maintain stability in event of reduced revenues or planned deficits.

## Qualitative assessment of identified opportunities and risks

- Likelihood
  - High-event likely to occur with-in 3 years
  - Moderate-event possibly will occur with-in 3 years
  - Low-event has a remote chance of occurring with-in 3 years
- Magnitude
  - High-financial impact greater than \$1 million
  - Moderate- financial impact between \$500,000- \$1 million
  - Low- financial impact less than \$500,000



# Identified Strategic Opportunities

Likelihood Magnitude		Description of Opportunity	Gross amount of potential opportunity	Year of Projected Occurrence		
				2021	2022	2023
Medium	High	Potential purchase of trade show	\$ 2,000,000	-	-	2,000,000
Medium	Low	Enhancement of educational program offerings	\$ 400,000	-	200,000	200,000
Medium	Low	Additional membership recruitment initiative (international)	\$ 400,000	-	200,000	200,000
Medium	Low	Hiring of additional staff to support above initiatives	\$ 240,000	40,000	120,000	80,000
<b>Total Projected Opportunity Reserve Target</b>			<b>\$ 3,040,000</b>	<b>\$ 40,000</b>	<b>\$ 520,000</b>	<b>\$ 2,480,000</b>



# Identified Risks

Likelihood Magnitude		Description of Risk	Gross amount of potential risk	Year of Projected Occurrence		
				2021	2022	2023
High	High	Increased lobbying efforts due to potential Congressional legislation impacting our industry	\$ 1,800,000	600,000	600,000	600,000
Medium	High	Decline in investment portfolio	\$ 1,200,000	400,000	400,000	400,000
High	Medium	IT security and keeping up with technological advancements	\$ 750,000	250,000	250,000	250,000
Medium	Medium	Anticipate loss of membership revenue due to industry consolidation	\$ 600,000	200,000	200,000	200,000
<b>Total Projected Risk Reserve Target</b>			<b>\$ 4,350,000</b>	<b>\$ 1,450,000</b>	<b>\$ 1,450,000</b>	<b>\$ 1,450,000</b>



# Reserve Summary

- The below shows a summary of the current and targeted reserve amounts based on the previous example:

<b>Actual reserves at December 31, 2020</b>	<b>\$ 6,000,000</b>
<b>Total expenses for the year ended December 31, 2020</b>	<b>\$ 10,000,000</b>
<b>Actual reserve ratio</b>	<b>60%</b>
<b>Proposed strategic opportunities reserve</b>	<b>\$ 3,040,000</b>
<b>Proposed risk reserve</b>	<b>4,350,000</b>
<b>Targeted reserve by December 31, 2023</b>	<b>\$ 7,390,000</b>
<b>Actual reserves at December 31, 2020</b>	<b>\$ 6,000,000</b>
<b>Proposed increase over the next 3 years</b>	<b>1,390,000</b>
<b>Total estimated reserve target at December 31, 2023</b>	<b>\$ 7,390,000</b>
<b>Targeted reserve ratio</b>	<b>74%</b>



# Conclusion

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- The overall level of risks and opportunities facing non-profits continues to increase:
  - Evolving IT technology and risks
  - Member and constituent needs
  - Loss of grant funding
  - Financial considerations
  - World and domestic events
- These risks and opportunities require non-profits to maintain a reasonable long-term reserve to ensure it is able to meet the needs of its constituents.
- Consider having a risk management committee that reviews these risks and opportunities periodically throughout the year
- Align your level of long-term reserves with potential opportunities/ risks.



# Questions?

*Contact Us*

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