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# Where Should My Nonprofit Keep Its Operating Cash?

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Although the exact amount varies from organization to organization, nonprofits are often advised to keep between 3 and 6 months of operating funds on hand as [cash reserves](#), if possible.

Funds that will be used in the longer-term are sometimes [invested](#) in less liquid, often higher-risk instruments.

It's unlikely a nonprofit would want its 3 to 6 months' cash reserves to be at any risk at all. These funds should be very "liquid," meaning able to be converted to cash quickly, if needed.

Most bank and credit union deposits are insured to a certain extent, but what are the limits and what can nonprofits do to minimize risk?

We spoke with Curtis Klotz, CPA, Chief Learning Officer at [Diverge Finance Cooperative](#), who discussed several kinds of insured accounts and strategies nonprofits can use to keep their operating cash safe and perhaps even earn a small return.

Klotz said because his firm is currently acting in a financial leadership role for more than 10 nonprofits, he's been getting numerous calls due to the current environment in which [two large banks](#) have failed. "All nonprofit boards are interested in what's going on with this right now," according to Klotz. "They're all asking, 'Are we okay? Do we need to do anything? Do we need to move our money?'"

Klotz's advice to his clients: "Yes, you want to be cautious. There are many options readily available, and it may be a good time to think about using them."

This article is not investment advice from the National Council of Nonprofits or from Curtis Klotz; rather, it aims to illuminate some lesser-known financial instruments. Having this background can help nonprofit leaders be more familiar with different options when they seek specific advice from their professional advisors.

**Nonprofit leaders should check with their organization's CPA, financial advisor, and banker to determine the best path for their organization's specific situation.**

Klotz pointed out that the size of the nonprofit matters in sorting through the options. For smaller nonprofits, there are relatively simple solutions. For nonprofits with larger deposits, there are different methods of spreading the risk.

Most U.S. banks pay insurance premiums to the Federal Deposit Insurance Corporation (FDIC) to automatically insure each customer's deposits for [up to \\$250,000](#). The insurance covers deposits, not accounts. So, if a nonprofit has an operating account of \$225,000 and another account of \$125,000 at the same bank, the maximum amount covered is \$250,000,

Klotz doesn't necessarily recommend moving deposits to larger banks at present, especially if your nonprofit has a relationship with a community bank. However, it's worth double-checking to make sure your nonprofit's bank or banks are FDIC-insured using the [FDIC BankFind Suite](#) page.

Deposits in credit union accounts are insured by the [National Credit Union Administration \(NCUA\)](#), also [up to a total of \\$250,000](#).

For those who would benefit from additional background information before speaking with their professional advisors, here are some available options that Klotz outlined:

## **For smaller nonprofits with around \$250,000 to \$500,000 in cash:**

- For nonprofits with multiple accounts having deposits that total under \$250,000, as long as their bank is FDIC-insured, there's not much to be concerned about, according to Klotz.
- For nonprofits that have accounts with deposits in the range of \$250,000-\$500,000, it's worth asking, "Should we keep one account in one bank and one in the other?" You may want to find another FDIC-insured bank or NCUA-insured credit union you'd like to work with and establish a savings account there, for example.
- Klotz recommends that if you do establish accounts at multiple banks, make sure you can set up electronic transfer between accounts. You want each institution to have the ability and infrastructure to support easy electronic transfers between them, either for free or low-cost. "You don't want to be writing checks between your bank accounts," according to Klotz.
- At this level, you can still "manually" spread your money between two or three banks, ensuring the deposits within each bank stay within FDIC insurance limits.

## **For nonprofits with more than around \$500,000 in operating cash:**

- **Insured Cash Sweep (ICS) Accounts.** Once your active operating accounts and cash reserves reach a certain level, many banks offer what's called an "insured cash sweep" account. The bank connects an instrument to your existing checking or savings account(s), which they use to literally "sweep" the money out into other FDIC-insured institutions. It's all behind the scenes. "Say you have \$750,000 in that insured cash sweep account, the ICS would automatically spread that money into at least three institutions, all FDIC insured, which protects your entire account balance," explained Klotz. "Depending on how much you retain in your original account, from your point of view it could look like your original account has nothing. The balance shows up under the ICS. If you need the money, they literally 'sweep' it back in to make sure the bills you paid are covered."[\[1\]](#)

- **Certificates of Deposit (CDs) - manually managed.** “Especially if you have cash reserves with a somewhat longer-term horizon, you can purchase CDs and potentially earn a bit higher interest until the cash is needed,” according to Klotz. Each CD is FDIC-insured up to \$250,000, although the insurance only extends up to \$250,000 per account holder per institution. As long as your total deposits (checking, savings, CDs, etc.) at any one bank are \$250,000 or lower, your risk is minimized. “It’s a little clunky,” Klotz said, “but you could manually take your cash reserves and set up new accounts anywhere you want to buy a CD. It requires more time and effort because you have to set up a new account at each new bank and for each new CD, have your CEO sign, and you might need a board resolution for each one depending on your nonprofit’s financial policies.”

Klotz recommends that his clients “ladder” CDs to take advantage of the current good interest rates while not tying up all their cash for the long term. (“[Laddering](#)” CDs means investing in several different CDs with staggered maturity dates. Longer-term CDs usually pay higher rates, so investing some funds in those can earn more interest, while investing in shorter-term CDs that pay lower rates keeps some cash more accessible.)

- **Certificates of Deposit (CDs) - purchased through an investment bank.** There’s a more streamlined way to invest in multiple CDs, according to Klotz: “Many nonprofits, especially if they already have some reserves invested in more traditional markets or instruments, may have an investment advisor they work with, or may have access to custodial accounts at a brokerage institution. Many of those institutions also offer brokered CD accounts. Basically, you set up an investment account, and then you can pick CDs from many different banks, ladder them, and manage it all in that one account. As long as you only place up to \$250,000 in CDs at any one bank, all of the money in the brokered CD account would be FDIC insured.”

## Related Insights & Analysis

- [Financial Management for Nonprofits](#)
- [Investment Policies for Nonprofits](#)
- [Operating Reserves for Nonprofits](#)

## Additional Resources

- [Cash Management Opportunities and Needs for Nonprofits in Today's Unique Landscape](#) (CLA, March 22, 2023)
  - [How to be confident about your cash balances](#) (Propel Nonprofits, March 22, 2023)
  - [Where We Bank Matters](#) (Leap of Reason Ambassadors Community)
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[1] Klotz added that these insured cash sweep accounts might not be very satisfying to anyone who's concerned about the ethics of the bank you use, since you don't control what banks your cash is swept into.

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