



Navigating the Financial Crisis: Tips for Nonprofits

A broad economic crisis can magnify a nonprofit's pre-existing financial difficulties. Getting through such a crisis requires communication, transparency, and planning rather than "fake it 'til we make it" behavior. In preparation for a possible recession, NFF recommends a two-part strategy: assess your organization's potential financial risks, then create a plan to respond to those risks.

Assessing Risk: How might the recession affect business?

- **Determine possible reductions, delays, or losses of particular revenue streams**
 - Government contracts or grants
 - Foundation and corporate giving
 - Individual donations and special events
- **Conduct program economics analysis**
 - Know whether surpluses in some programs are subsidizing deficits in others
Assess which program results impact overall financial health most substantially and evaluate their mission impact
 - Consider whether demand for specific programs will increase or decrease in a recession
- **Assess current levels of liquidity, using multiple measures**
 - Months of expenses covered by cash
 - Working capital – current assets less current liabilities
 - Liquid net assets –not all unrestricted net assets are available for general operations
- **Determine availability /use of any reserve funds for “rainy days”**
- **Assess possible risk for cash deposits and investments**

Addressing Risk: Plan a response to recession-related challenges.

- **Keep internal lines of communication open**
 - Ensure that organizational decision-making processes are sufficiently agile
 - Clarify financial responsibilities of management and board
 - Assess board's ability and willingness to cover possible revenue shortfalls and/or tap into existing cash and investments
- **Budget conservatively w/ best and worst case scenarios**
 - Assume cash will arrive later than you think and bills must be paid sooner than expected
 - Plan your response to unanticipated or worse-than-expected revenue shortfalls
 - Ensure that cash flow projections are performed on a regular basis (monthly, weekly).
 - Develop a strategy to address timing mismatches
- **Stay in front of funders**
 - Be candid about the impact of the economic climate and your specific strategy to adjust
 - Emphasize your commitment to mission and the urgency of need your programs address
 - Thank donors frequently, and make outreach personal
 - If your organization offers services that will lessen the negative impact of a recession, approach government funders more aggressively for support
- **Diversify revenue with caution**
 - Consider new revenue streams but be aware of risks related to new lines of business
- **Reevaluate growth plans**
 - Reconsider any plans for program expansion or development of new programs
 - Assess current programmatic priorities in light of program economics analysis
 - Communicate w/ board and staff regarding any possible cuts to programs or personnel
- **Investigate options for renegotiating payables, debt, or leases**
- **Consider postponing large investments in infrastructure, including facility projects**