

Navigating the Financial Crisis

A broad economic crisis can magnify a nonprofit's pre-existing financial difficulties. The tips below are helpful for sound financial planning in all economic situations. However, in unstable times, they become even more vital. Getting through such crises 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 nonprofits 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 affect overall financial health most 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."

Make sure cash deposits are insured or distributed among banks and investments are varied.

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 with best and worst case scenarios:

- Assume cash will arrive late and bills must be paid sooner than expected; plan accordingly.
- Plan your response to unanticipated or worse-than-expected revenue shortfalls.
- Ensure that cash flow projections are performed on a regular basis (monthly, weekly).

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 with board and staff about any possible cuts to program or personnel expenses.

Investigate options for renegotiating payables, debt, or leases.

Consider postponing large investments in infrastructure, including facility projects.