

Surviving Financially in Today's Economy

In these particularly uncertain economic times, many nonprofits may be facing 2009 with more dread than optimism. Regardless of industry, size, or type of work, community based nonprofits are faced with a variety of crucial challenges in 2009:

- ☑ **Maintaining their mission**
- ☑ **Offsetting unanticipated funding loss**
- ☑ **Keeping their doors open**

To find some answers, we enlisted the help of our fellow co-workers at McCrory & McDowell and you, our readers in the nonprofit community. The result:

Seven Essential Financial Questions to Ask Yourself Now!

1. How do we do the same, or more, with less? All organizations should be as prudent as possible during this economic downturn. What is some possible low-hanging fruit?

▶ **Personnel.**

- i. Reduce or restructure benefits, such as vacation and sick leave, medical co-pays, or medical insurance premiums. Explore options to reduce costs to the organization by asking employees to pay a portion, or by raising deductibles.
- ii. Put your 401K match on hold.
- iii. Consider offering retirement incentives.
- iv. Explore staff who may be interested in early retirement, unpaid leave, job-sharing, or moving to a part-time or contract status. Redesign roles and responsibilities.
- v. Suggest your employees take one to two weeks of unpaid leave.
- vi. Consider cutting back to a four-day work week.
- vii. Temporarily cut wages and defer payment of the balance to a later date. Consider salary or hiring freezes. Eliminate year-end bonuses.
- viii. Explore staff working from home one day a week using their own equipment, close the facility, and turn down the thermostat.
- ix. Layoffs are a difficult decision to make. However, personnel costs are a major expense and cuts may need to be considered.

▶ **Contracts/Vendors**

- i. Review your vendor contracts and software costs.
- ii. Explore alternative server options that may be less expensive.
- iii. Inquire about an early-payment discount.
- iv. Re-negotiate payment schedules with your vendors and offer smaller but regular payments.
- v. Send your audit and insurance out for bid.

▶ **Invoicing.**

- i. Invoice promptly. Contact slow payers. Ask for an advance or pre-payment of out-of-pocket expenses.
- ii. Call slow-payers. Work out a payment plan if necessary. Charge interest for late payments
- iii. Offer a discount to early-payers.

▶ **Incidental Expense Management.**

- i. Tighten purchasing policies and spending. Little expenses add up quickly.
- ii. Limit or eliminate travel and conferences.
- iii. Choose webinars or teleconferencing for meetings.
- iv. Cut out snacks at meetings.
- v. Replace paper newsletters and board reports and packets with electronic versions.
- vi. Ask board members to chip in for the cost of meeting refreshments.

▶ **Transportation.**

- i. Examine your transportation costs and cut travel and parking expenses.
- ii. Is your service delivery efficient or can you consolidate routes?

▶ **Facility Management**

- i. Renegotiate your rent if possible.
- ii. If you own your building, sit down with your banker and see if you might renegotiate the mortgage terms.
- iii. Go green. Conservatively adjust thermostats, use timers, or turn off lights when not in the office. Monitor your cost savings and let everyone in the organization (and your funders) know how much you are saving.
- iv. Identify unused space for sub-lease.
- v. Explore moving to less expensive space or cohabitating with another organization.
- vi. Have a "Project Saturday" where staff, board, and volunteers do minor maintenance, office moves, or clean-up. (Great idea from the Fieldstone Alliance.)

▶ **Shared Services**

- i. Are there opportunities for shared services with other organizations such as personnel administration, financial management, development, training, purchasing, and marketing? Is it possible to provide these services for a fee?

▶ **Internal Controls.**

- i. Review your internal controls. Unfortunately when people's financial situations become more complicated, the temptation of expensing personal items or "keeping the change" may mount. Beware of potential situations which could lend themselves to embezzlement or other fraud.

2. How do we work with what we've got? When considering your options, be strategic and involve your employees and stakeholders in decision-making and keep them informed whenever possible.

- ▶ **Funding.** Is there a way to 're-purpose' those restricted funds? Meet with your funders and discuss potential opportunities. Your current funders may also award small discretionary grants through senior staff. Additionally, determine your eligibility for emergency grant funds.
- ▶ **Endowments.** Is it time to dip into your endowment? Can any funds be released? What are the policies and procedures for spending your endowment?
- ▶ **Assets.** Are there opportunities to sell some of your assets? Review useful and idle assets. Reevaluate or redirect your investments.
- ▶ **Reserves.** Is there an option to spend down your operating reserve to meet unbudgeted expenses or cash flow issues?
- ▶ **Debt management.** Explore options such as short-term loans, a line of credit, nonprofit loan funds, and loans from foundation emergency loan pools. Can you borrow against future revenue commitments (i.e. government grants or individual pledges)?
- ▶ **Morale.** Pay attention to employee morale, which may fall along with revenues, pledged funding, and bank balances. Consider setting aside "time-out" space in the office, giving employees the opportunity to reflect and be quiet. At the same time make sure you are getting the proper rest and nutrition.
- ▶ **Talent.** Identify where talent exists and cultivate it. Are you fully utilizing your low (or zero) cost interns and volunteers? Find ways to harness out-of-work skilled volunteers. Look into regional partnerships that provide alternative forms of staff, primarily internship programs. Examine the marketplace talent pool. Is it time to upgrade internally? Such opportunities have the capacity to bring fresh and energetic ideas into your organization.
- ▶ **Board of Directors.** Your board is there to help you raise and save money by appealing to their own contacts or by sponsoring a project or event. This is a time to increase the engagement of your board!

3. Are all of our programs really necessary and serving their intended purpose? What would happen if you stopped providing certain services? Which programs are crucial, could be restructured, closed down or expanded? Is anyone else doing it better? What is the cost/benefit of individual programs?

4. **Are we in crisis?** If your organization is and/or potentially may be facing a financial shortfall, first determine the nature and size of the problem. Ask yourself:

- ▶ **What's the range of the budget shortfall?**
- ▶ **Is this shortfall short-term or long-term?**
- ▶ **Is this a cash flow or balance sheet issue?**

It is not always easy to ask for help. However, do not exacerbate a situation by avoiding a problem because you haven't yet found a solution. Secondly, don't make a knee-jerk action. "Haste makes More Waste!" Examine your long-term and short-term strategies and objectives, and how these plans impact operational decision-making.

- ▶ Fieldstone Alliance prudently advises not to make knee-jerk actions, but rather use a "stop, step back, and check the long view" process to help avoid these responses that use up energy but don't really advance your cause.
- ▶ Engage your board. Ask for some of the financially savvy folks to take a look at your financials and to recommend some cost-saving or revenue producing options.
- ▶ Don't have the talent on the board? Enlist outside counsel in a ½ day cost management brainstorming session.
- ▶ Blue Avocado, the online magazine for community nonprofits, suggests, "Instead of worrying, try a few scenario exercises: Let's imagine that by next quarter we've heard our biggest grant won't be renewed. What will we wish we had done three months before?" Come up with optional scenarios and recommendations. Prepare one budget that can be enacted if funding comes through as planned and another in case funding falls through. Examine your cash flow projections over the next three months. Determine your options.
- ▶ If your organization decides to declare an emergency, recognize this as a unique opportunity for change. Allow yourselves to break out of the old mold, provide new vision to your employees and become energized by bold and creative new ideas.
- ▶ Take a hard look. Do you need to consider merging before your situation further weakens the potential to advance the mission?
- ▶ If you fear going into significant debt, choose a date to close.

5. **What do our supporters think?** Now is the time to evaluate your organization and your essential services from your constituents' perspective. Your clients, funders, partners, donors, peers, and friends may have some interesting things to say about you. Considering they are the people who are going to keep you afloat, perhaps it is time to get a barometer reading of your perception in the community?

6. **But we still have to fundraise, right?** Right. Money may not be as free flowing as it was previously, but folks still believe in supporting a cause and a mission. So make sure you understand your organizational vision and clearly communicate it to your constituencies.

- ▶ **Prospect research.** You may be able to locate prospects for individual and corporate donations, including in-kind contributions (i.e. furniture).
- ▶ **Fundraising.** Is it time for a mini phone-a-thon or other inexpensive fundraising efforts? Take advantage of electronic technology to expedite receipt of gifts. Focus your strategies

and turn your attention to your multi-year, individual and major gifts donors. Tell them your situation and ask for help. Treat them well with a personal touch and keep them engaged.

- ▶ **Resource management.** If your budget permits, engage a consultant to perform a development audit. Organizations that examine themselves internally are more likely to maintain their current levels of revenue with greater potential for increased funding support.
- ▶ **Cash flow management.** Call your funders and see if you can get grants in the door quicker than promised. For example, if you are in the first year of a three year grant, request that the total monies be converted to a two year grant.
- ▶ **Earned income.** Can your constituents afford to pay more for your services? Are there untapped markets in need of your services? Are there opportunities to sell your organization's intellectual property by way of consulting services?

7. How can we remain marketable without breaking the bank?

- ▶ **Don't forget about the power of social media.** Think Facebook. Think Twitter. Online PR and search engines present unprecedented marketing opportunities.
- ▶ **Seek low-cost marketing and public relations opportunities.** Write letters to the editor or create public service announcements that speak to your organization's top services and issues. Include your fundraising appeals in local business mailers.

Please call if we can be of assistance in organizing or conducting an analysis or facilitating a consensus discussion.

Sources:

Dewey & Kaye requested suggestions from our readers for managing tips amidst the current economic outlook. This article is the result of your helpful suggestions. We thank you for your time and insight.

We also incorporated ideas put forward by the following thought leaders:

1. Joanne Fritz. "Saving Money Is as Important as Increasing Revenue." Joanne Fritz. <<http://nonprofit.about.com/od/nonprofitmanagement/tp/cuttingcosts.htm>>.
2. Jan Masaoka. "And Now for Something Different About Nonprofits and the Economy." <<http://www.blueavocado.org/content/and-now-something-different-about-nonprofits-and-economy-1109>>.
3. Fieldstone Alliance. "20 Cost Cutting Ideas for Nonprofits." <http://www.fieldstonealliance.org/client/tools_you_can_use/01-22-09_cost_cutting_ideas.cfm#list>.
4. Fieldstone Alliance. "20 Emergency Funding Sources for Nonprofits." <http://www.fieldstonealliance.org/client/tools_you_can_use/12-16-08_emergency_funding.cfm?disccode=TOOL012209>.