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Welcome

This compendium of Nonprofit Quarterly articles was assembled to support your thinking and action while you monitor the current chaos in the world’s financial system and try to read how it will pan out. You will find the articles contained here to be useful in good times and bad. Most of them, however, provide insight into managing finances in tough times. We’ve included one story of how an organization survived the devastating impact of hurricane Katrina as well as one about the impact of 9/11 on nonprofits in lower Manhattan. Each article has lessons that we hope will be useful to you—no matter what happens with the economy.

A quarterly magazine, even one as great as NPQ, can’t provide the kind of real-time response our readers need to interpret these rapid changes and their implications. Therefore, we are redoubling our efforts to keep you informed via our Web site and e-newsletters.

NPQ has worked hard to make its Web site a go-to place on developments in our political and economic environment (www.npqmag.org). Going forward, NPQ will make every attempt to ensure that we provide the analysis you need of current events as they happen. We’ll work to be your early-warning system. As you may know, NPQ has hosted a number of reader sound-offs. Some of the topics include philanthropy and nonprofits, but increasingly we will also host discussions about political shifts that affect our communities more broadly.

Readers tell us that they appreciate the fearlessness and “edge” with which we approach our work, and this will be carried through to our online venue. We want to promote honest, sometimes even uncomfortable, dialogue about the difficult issues of our time. We will rely on the knowledge of experts to seed discussions but also depend deeply on you, our readers, to inform and ground the discussion of topics, including legislative proposals, philanthropic policies, and the bright new ideas that have made their way into the sector.

Visit us at www.npqmag.org and send your feedback to feedback@npqmag.org. We’d love to hear your suggestions for topics and on how we can make the site more useful and provocative.

Ruth McCambridge
Editor in Chief
Articles on surviving
Coastal Family Health: Built to Last

by the editors

In mid-2005, with patients numbering more than 30,000, Coastal Family Health Center (CFHC) had developed into a complex operation. Its nine sites were spread throughout the Mississippi Gulf Coast in a mix of buildings and trailers. Providing medical and dental services, and with a mission to serve all seeking treatment without regard for ability to pay, CFHC was funded, as most community health centers are, by a mix of sources, including patient payments, private health insurers, and government grants. Their patients had their own complex issues—CFHC provided specialized services to those living with AIDS and to those without a home. Most of the center’s patients were uninsured.

Under the leadership of CEO Joe Dawsey, Coastal was in pretty good shape. It was operating on a $10 million annual budget, and although it had only $500,000 in reserves, it owned all of its buildings. In 2004, 175 staff members completed 104,000 patient visits, according to records. Dawsey, who previously led a community health center in Alabama, was hired into the position five years earlier after the organization had started running a serious deficit. Most of the management team was at odds with the board and had left within a short period. Since then the organization has stabilized and expanded. One of the members of the board which hired Dawsey said that she had known for years that executive leadership was wanting at the organization. “We had had a number of lawsuits filed by staff,” she said. “He brought fairness and order, and we have not had one since [then] that I can recall.”

On August 27, 2005, Dawsey and other staff, left the administrative offices in Biloxi for the weekend. They were preparing to batten down the hatches for the coming storm, making sure that they picked everything up off the floor and covered the desks and computers in case the roof leaked. Dawsey also took some extra precautions like making sure he had contact information for key staff. He also backed up the practice management system (which included digitized patient files, such as billing information and payroll) off-site in two different locations. By early Saturday, however, he realized that if the storm

“The door itself was open,” Dawsey says about his return on August 30, and he was unprepared for the damage he would find. “A desk was jammed against it, so I had to break through. When I did get inside, the mud was probably six or eight inches deep.
were as strong as predicted, a loss in power could delay payroll. So he and other staff returned to the office to write checks. Then he went home to Mobile to wait out the storm.

**Inconceivable Chaos**

“The door itself was open,” Dawsey says about his return on August 30, and he was unprepared for the damage he would find. “A desk was jammed against it, so I had to break through. When I did get inside, the mud was probably six or eight inches deep on the floor, and the furniture was just scattered everywhere. Everything had been ruined. In that building, all that was left were the top two shelves of the pharmacy. A couple of other staff people were there just standing outside. I don’t know how to describe it except that they were in shock. Not just because of this, but because their own homes had been flooded. One of those people and I drove over to the Biloxi clinic and it was even worse. Water and mud and stuff was up over the top of it, and everything in that building was ruined. Then we went over to the Gulfport clinic, and the roof had been blown off. So we kept going to visit Vancleave, where there was some damage, but not as bad.”

And it was not just the physical infrastructure of CFHC that was gone, the patient files and billing information had been destroyed in both the original and backup locations.

Dawsey considered it his first order of business to try to contact all of the employees, most of whom were without phone service for several days. Dawsey’s own home phone worked for a few days before it went out, and he started to receive calls from staff members who had evacuated. “Just about all of them were doctors,” he says. “They were all over the country.” Whenever he heard from anyone, he asked those who had remained to make a record of the details so they could piece together a contact list. It took a month to track everyone down.

**Extraordinary Commitment**

While Dawsey was attempting to locate staff, the remaining board began to filter back into the area. At 73, Karlyn Stephens was the founder of the organization. Her family had not evacuated, having been through a number of previous scares. “It was me, my husband, my son, my daughter, my son-in-law, and the dog,” she said. “The storm started getting really bad, and at some point we went to the second floor of the house, but then our neighbor’s roof blew off and that knocked our roof off, so we swam for it” to an oak tree where everyone—including the dog—spent the next 10 hours clinging to the branches.

“It was loud and cold,” she says. “We watched the house crumble, and we couldn’t really talk to one another. We just had no idea what to expect next.” Stephens’s son, who is 45 and retarded, also has diabetes. “But he hung on,” she says, and as soon as people came to their rescue, she headed to a shelter. But the shelter had no medication, so the Stephenses headed to the hospital to get Josh’s blood levels tested. “We couldn’t get the help,” she says. “They were busy doing triage, and dead bodies were lying around. It was an unimaginable scene, but I knew I needed to get Josh the help he needed, and there were no pharmacies left.”

The family decided to head to Alabama, then returned a few days later, and Stephens drove directly to Coastal Family Health. “My cell phone, along with everything else, was
gone,” she says. “Joe and the optometrist and a few others were there trying to organize things.” It never occurred to Stephens that the center wouldn’t rebuild, even with its massive challenges, and she was surprised when someone had asked the question.

**Working with What You’ve Got**

The skeleton crew at Coastal Health set to work opening up free care clinics wherever there was a safe site. Dawsey describes the process: “The first one we opened was Leakesville. They had a generator up there, and we opened it with one practitioner and one clerk. The sheriff had to give us the fuel for the generator and for those employees so they could come to work. We just had to move fast and patch everything together. People started calling from New York, like the Children’s Health Fund, [which] was volunteering to help staff a clinic site. We opened three more sites within the next week or so, but there was still no contact from the state or the feds. By the second week, we had five sites going—working with our reserves, contributions, and volunteers.”

Iris Toche, a patient who received care at CHFC said, “After the storm, I needed my meds. So I went to where Coastal used to be, and of course that was just completely gone. It was all gutted out; there was nothing there. I called the open number they had posted, and they told us that they had relocated two or three blocks down the road. . . . Somebody had donated a trailer, and they opened up in that little trailer. So I went down there and got what I needed. . . .

“Of course it was the same old story: ‘How did you do? Are you OK?’ ‘How are ya?’ One of the ladies in there, she had lost everything. She said ‘There ain’t nothin’ left. Girl, there’s nothin.’ But there was something left; she was there working. I guess, it was just a relief for her to have a place to go.”

Dawsey says, “We were getting all kinds of donations as far as medicines and so forth.” “Payroll was our only expense, because there was no place to buy supplies anyway. Finally, about three weeks later, we heard from the state and FEMA [the Federal Emergency Management Agency]. At one point, we were operating about 25 different locations, and we were not the only ones providing health care in the area. There was the Red Cross and the Salvation Army, and maybe a hospital in Kentucky would send a team down and set up a site, but there was no coordination whatsoever.”

Stephens describes the first call to the Department of Health and Human Services, the organization’s major funder. After hearing about the clinics’ destruction, a contract officer told Dawsey that he supposed that meant CFHC wouldn’t need as much money as previously. “Of course we let them know that was not the case and that we intended to take care of everyone who walked in the door”—or, rather, the tent flap. Coastal went on providing free care from September through the following June out of trailers, tents, and in shared space.

Through all of this, a steady stream of patients found the center wherever it provided services. Donna Young is a self-described member of the “over-the-hill gang” living on fixed income. Young says when Hurricane Katrina hit, the office she used to go to on Division Street was completely demolished. “Everybody had nowhere to turn, and then Coastal came back real fast,” she says. “They were working under extremely limited cir-
cumstances, but they managed to keep the doors open and got medicines and provided a lot of other help for people like me who didn’t know where to turn.”

The funding picture was continuously shifting, but Dawsey kept pushing on every front. In November, Dawsey says, he got a call from a state Medicaid contract officer, who let Dawsey know that a long-disputed bill to the tune of more than $900,000 was cleared for payment. “I was smiling through the mud! Then she said, ‘The check should be cut Friday.’ Well, then Friday, she called and said the person who was to cut the check was on leave. I was thinking, ‘A state agency [has] only one person who can write a check?’ But anyways, that kind of thing went on for five weeks. I kept calling her, and it was always something else. And then in the end, they denied owing us that amount. They actually said, ‘Well, if you can prove that we owe it to you, . . .’ They had found out that we had lost all of our records. So we had no way of proving anything.”

In the wake of the storm, this was not the only officially delivered slap in the face to CFHC. Over this period, most of the center’s financing came from new sources. In January 2006, CFHC got a new federal allotment, but insurance payments did not kick back in until 2007, almost two years after the storm. The organization received money from foundations and individuals, but the largest operating donation it received was from the Middle Eastern country of Qatar, a small but wealthy Muslim country, which gave a total of $3.4 million.

During the first year of rebuilding, Stephens says that the board, normally comprising 15 people, operated with a core of three or four decision makers. “I am usually a stickler for process,” she says, “but Joe needed backup on the enormous numbers of decisions CFHC was faced with. Thank goodness he’s not someone who acts like a maverick; he’s a consulter. So those of us who were there, we did it.”

Attracting the necessary mix of resources to keep afloat in a confusing environment required that the organization be as high profile as possible not just in the region but across the country. Dawsey describes the center’s best decision in the days following Katrina as that of involving volunteers. “You know, Hands On group, Project Hope, AmeriCares. There’s several different groups, and I started working with these people who would come in and leave, and they would take the message back out. They would start meeting with other people. That was what I did; just contact the volunteers that would come down here, and they would take the message back out, call me back with different funders they’d found.”

Still Climbing the Mountain

As Dawsey describes the organization now, you hear exhaustion in his voice. He is, he admits, tired. Although CFHC has rebuilt the organization’s information systems by installing a state-of-the-art health information technology system and is on good financial footing, the organization currently has six building projects underway. These projects, says Dawsey, are broadly overseen by him with the help of someone who would normally work as a facilities manager. He expects this reconstruction phase to take another 18 months.

Meanwhile Dawsey has all of the problems that other health centers are experiencing...
only intensified. Staff has built back up to 122 from the original 175, but recruitment is a major problem. Staffing may be more difficult in the storm-damaged Gulf region than elsewhere, but it is a system-wide concern. “The center director in Mobile called me this morning to say they are having a terrible time, because the hospitals are hiring all of the doctors, and he cannot pay competitive salaries. That is something all community health centers are going to have to face together.”

Meanwhile the organization is having cash flow issues related to multilayered approval processes for federal payments that flow through state agencies. Considering Dawsey’s past experience with the $900,000 bill that remains unpaid by the state, this...
truly requires a suspension of hard-won caution. “I don’t even want to think about the possibilities,” he says.

**A Region Traumatized**

And then there is what Dawsey refers to as the region’s “mental health problem,” which is not, he assures, confined to the patients. “I’ve had more complaints in the past three months than I have had in the past 10 years,” he attests. “There is a lot that leads to this. People’s expectations were raised when we were doing free care. They still expect to be seen on an entirely free basis, without paperwork and on an immediate basis, which is not always possible. But generally, I think that tempers are short on both sides—staff and patients.”

Stephens describes the whole Gulf Coast region as “clinically depressed.” She includes herself in that diagnosis, saying that it is much more difficult for her to keep things ordered in her mind now. “We are an area full of open wounds and still reeling from the injustice of the whole thing,” she explains. But Stephens is as passionate as ever about Coastal Family Health Center’s mission. “When I started organizing for the center in 1972,” she recalls, “the area was first in the nation in infant mortality and last in life expectancy. The adult illiteracy rate was 48 percent, and there was little access to health care for low-income people “Health care should be a right in this country,” she says.

She tells what is for her an iconic CFHC birthing story that began when a woman and her pregnant 13-year-old daughter, who was in labor, showed up at the door of the United Church of Christ mission she and her husband ran. “I actually thought the girl was retarded,” she said. “She was in renal failure and when I asked her questions she just vaguely looked at me without answering. The mother had taken her to three doctors’ offices and a hospital and they had been turned away at each place and the mother was in a panic. The only thing I could think to do was to have the mother take her to the hospital and refuse to leave. She was scared that they would arrest her, but I figured both the hospital and the cops would be too afraid of the liability issues if they did not pay attention. The girl did finally have her baby in the hospital and she and her baby came out healthy. I decided then that something had to be done and eventually part of that organizing produced Coastal Health.”

**Vision for the Future**

In “Legacy of Disaster: Health Centers and Katrina One Year Later,” the National Association of Community Health Centers reports that the states of Louisiana and Mississippi were ranked 49th and 50th, respectively, for health-care infrastructure. That shaky foundation was eroded yet further when some 6,000 physicians in the counties and parishes affected by Katrina were displaced, according to the report. Some 25 percent of these missing physicians had specialized in primary care. Before Hurricane Katrina, Mississippi was rated highest in the proportion of low-income people in the population and first in the nation in the percentage of adults with high blood pressure. It ranked second in the percentage of adults with diabetes. Now, of course, there are the heightened needs caused by stress, unemployment, and unstable living conditions—not to mention the respiratory
problems that were caused by mold and demolition. What also hits health centers such as CHFC, according to Dawsey in an interview in Mississippi’s Clarion-Ledger, is that the demographics are changing. “Pre-Katrina, the pediatric side helped balance out the uncompensated care, because most children have some kind of insurance. But now we don’t get a lot of that business. The children have left.”

A dedicated core of people never considered giving up at Coastal Family Health Center. Individuals—board members, doctors and other health professionals relocated in troubling numbers but Coastal Family Health had not finished its work and so it remains. In the context of the nation’s health-care crisis, Coastal Health is critical in two ways, says Stephens. “First, we have to be here for people today and tomorrow, but also our ability to maintain and act quickly and effectively in the midst of all of this is testimony to the strength of community health centers as a cost-effective and flexible health network that can do what it takes to meet the community where it’s at. The country needs to look at this as a model for the delivery of primary health care overall. We stand as a lesson and a model in the middle of the national health-care crisis.”

Has your organization ever survived a disaster? Tell us about it at feedback@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140306.
The proposed cuts could mean outright purging of some government-funded programs, the elimination of specific sites, or across-the-board cuts.

The headline “Budget Threatens Human Services” stood out from the front page of the New York Nonprofit Press. The publication’s May 2003 issue cataloged the ways in which underserved New Yorkers—young people, seniors, people with AIDS, among others—will bear the brunt of the continued disinvestment in the social infrastructure and the inability (or unwillingness, depending upon where you stand) of private philanthropy to step into the breach.

Forest Hills Community House (FHCH), the poster child for bad things happening to good organizations, predicted a budget decrease of more than $1 million. In “Bringing Down the House, a Case Study in Cuts,” in the same issue, choices facing the leadership of Community House are starkly representative of the budget options presented to many of us. The proposed cuts could mean outright purging of some government-funded programs, the elimination of specific sites, or across-the-board cuts. When speaking of the nationally renowned Beacon program, the FHCH director of school-based youth development centers laments, “It cuts to the heart of the design. If it is only operating 15 hours a week, it doesn’t really do what the model intended.”

One could argue that we’ve been here before. Indeed, back in the early and mid-1990s (the last time we all experienced financial crisis), we saw a flood of books and guides, as well as funder and consultant-driven initiatives aimed at helping nonprofits through hard times. Some of us have turned back to these books for guidance. Others are just losing sleep.

The current data clearly demonstrates that most organizations are operating with little or no cushion. We see this financial situation more often than not with our clients. We advise that the strategies developed now in response to this economic downturn should actually be integrated into everyday management practices. Nonprofit leaders need to be vigilant about navigating their agency’s financial path—a path that is sometimes treacherous. Here’s how, in practice, we’ve integrated that basic tenet into the Community Resource Exchange’s consulting work for over 300 clients each year.
Re-evaluate Programs and Services

While program assessment is probably not where many of us would start when faced with significant budget problems—we generally expand fundraising first, then get more serious about controlling costs—our public purpose requires us to think first about program. Specifically, we need to analyze what programs are most critically needed. An ironic twist in these times is that some of the programs most attractive to your funders may be those that are least aligned with your mission or with what the community thinks is important. Eliminating programs that are mission-critical because of financial difficulties can cause other profound organizational problems, such as loss of attractiveness to the communities we serve, loss of morale among staff and board members, etc.

In times of scarce resources, we need to evaluate each program in terms of its fit with (1) our community’s needs and (2) our agency’s capacity to deliver the service in a quality and cost-effective way. In other words, serving a community well does not always equate to saving a particular program within but it does equate to finding the best overall solution.

This may be the time to push forward and find a more suitable home for a program that your community needs—but your agency is not best suited to implement. This alternative is appropriate when your organization’s mission and core competencies and the purpose of the particular program no longer fit, or when there is another organization where the program fits better (for reasons having to do with a better resource mix or program synergies). The board of a Brooklyn-based youth development organization, for example, noted that participation in its girls’ program had dramatically dropped off as more Muslim families moved into the neighborhood, while its boys programs seemed to be holding their own. After speaking with residents and new community-based organizations, they decided that it made more sense to support the development of a girls’ program within an indigenous organization.

While moving a program to another agency or shutting it down completely are hard choices to make, programs that aren’t a good fit are often a drain on management, staff, energy and time. Moves like this will prune your organization to its best shape, and free the time and talent of key leadership people to focus on providing a vital, high-quality program mix—ultimately allowing for even stronger fundraising.

A deep and honest analysis could also lead to a decision to close altogether. Over the course of a four-hour retreat bolstered by feedback from key volunteers and program participants, the board and staff of an organization focused on women’s health issues assessed their ability to meet their organization’s mission and decided to go out of business. They developed a set of key questions, interviewed some people one-on-one and held meetings with groups of others. They realized that even before the projected budget cuts, their program model was not sufficient to meet their mission. They chose to make their curriculum—and other materials they considered most valuable assets—available to others, celebrating all that they had accomplished.

Advocate, Advocate, Educate

If you believe in the worth of your programs for the community, and those programs are at
If you believe in the worth of your programs for the community, and those programs are at risk of not being funded, now is the time to involve your stakeholders in taking ownership.

risk of not being funded, now is the time to involve your stakeholders in taking ownership. Notify your constituents—including board members, staff, and private donors—of the potential impact of proposed initiatives on your services. Help them develop advocacy strategies and to develop information necessary to take the case to key officials and the media.

Of course, this should not be new to you. Advocacy should be a core competency of nonprofit management. We should not try to activate only when we are under attack in some way. We are all affected by late payments of government contracts, the reluctance of the foundation community to provide general operating support, and the unwillingness of all funders—public and private—to cover the true administrative costs of programs, services and accounting in all the ways required. These are only a few of the issues with which we all struggle. As an industry that has a major financial impact on the country, we can have influence through our local and national sector advocacy organizations to challenge the basic rules under which we operate.

More broadly, we need to understand that advocacy should be central to what we do—whatever our programs or services. Our voices are often the only way that the needs of the communities we serve are brought to the table.

**Analyze Expenses and Cut Costs**

While you are assessing programs and beating the advocacy drum, it’s also critical to step back and look at all organizational costs. Staff and rent are normally an organization’s largest expenses, with everything else trailing far behind. With the exception of personnel, be prepared to revisit every service agreement—phone system and services, copier, and bottled-water delivery—to ensure the agency is getting the most for its money and to locate opportunities for savings. Also, look to achieve economies of scale through collaboration; explore joint-purchasing with neighboring organizations, and share or reduce your share of office space.

Maximize your fringe-benefit dollars, which is not to say cut benefits or increase employees’ share dramatically (a practical impossibility when salaries are likely to be frozen). Instead, analyze patterns of employee use, and consider moving to a plan that allows choices among a variety of benefits. Also, consider the use of a HMO-only plan if there is not much out-of-network use by staff.

Explore job-sharing with other organizations, use consultants rather than adding full-time staff (particularly if the work is time-limited or seasonal), and if work patterns allow, cut the work week from five to four days for some or all staff. On the other hand, a move from a seven-hour to an eight-hour day would provide the agency with additional manpower—without a corresponding increase in costs. Participation from staff on such measures will be important so that you don’t risk a costly loss in morale, which can seriously impact productivity.

Maximize productivity: This means knowing what each person costs (salary, benefits and share of overhead) and comparing that number to an analysis of the worth of the product from that activity. This is, as any manager knows, not a straight dollar-to-dollar exercise. There are, in many organizations, unpaid activities that are critical to our overall performance.
Don’t automatically take an axe to the administrative and technological infrastructure that you’ve built up over the years. But do eliminate redundancies and position overlap, if they exist. We caution nonprofits to not immediately assume that client-services staff is somehow better than administrative staff. You need both types of staff to operate well in this time of ever-increasing emphasis on accountability. Maintain systems and maximize use of the information they provide to inform ongoing discussions about program quality, productivity and efficiency. Determine your information needs for marketing and fundraising efforts.

Finally, note that collaboration was not a major theme under this category. While collaboration can be an effective strategy for improving services to the community, programmatic collaboration rarely results in cost savings—unless you are combining within a tight network that already exists.

**Doing More with Less**

Following the last financial crisis, most savvy nonprofit leaders heeded the advice to diversify, diversify, diversify their agency’s funding base to minimize the financial and service disruption caused by funding cutbacks from any one source. Many organizations developed fee-for-service capacities, either for current services or for new business ventures. During this down-cycle, however, most institutional funders (government, foundations and corporations) and individual donors are decreasing their giving, which suggests that the advice should have been diversify and save for a rainy day. So what do we do now?

What’s hopeful about these times is the willingness of some funders to think a bit differently about how we each do our work. Some funders are exceeding the government-mandated five percent payout floor that many foundations have interpreted as a ceiling. Others are making what they term “institution building investments” in organizations considered central to the foundation’s ability to fulfill its mission.3 J.P. Morgan-Chase recently added a new project-funding effort that provides unrestricted project support and multi-year grants to some of its core nonprofit partners. These moves demonstrate that the foundation and corporate community are listening, and we need to be talking with them at every opportunity about our organizations’ challenges.

However, the above are more macro foundation-driven strategies and somewhat out of our control. What are the strategies we want them to consider for our own grants? We might inquire whether a supportive funder would consider a two-year grant instead of one. Or ask to convert a project grant to a general operating grant, or at the very least, adding the true administrative costs to the grant. Assuming the absence of a reserve of dollars that supports deficit funding, you should turn down grants or contracts that don’t pay for themselves—or will likely cost you even more money to implement.

When all is said and done, your organization’s budget-balancing efforts will be supported by leaders who are making strategic decisions guided by timely information, rigorous analysis and a vision for common good. While it seems antithetical, now is the time for you to invest in building and sustaining your capacity to lead. We encourage you to seek out mentors, executive coaching opportunities, books and any other source of advice.
that will better enable you to face the options that your organization has for its immediate future. Remember that what you do now will have many future consequences—including some that may not be immediately obvious. Try to thoroughly think these through with your stakeholders’ involvement, even while you are poised to move quickly and decisively.

Endnotes
2. Strategic Alliance Fund, an initiative of the United Way of New York City; New York Nonprofit Management Assistance Collaborative, formed by CRE; Cause Effective, Lawyers Alliance for New York; Nonprofit Finance Fund to help groups with downsizing, dissolutions and mergers; and a publication that has become an instant classic in the field, Coping with Cutbacks: The Nonprofit Guide to Success When Times Are Tight, by Emil Angelica and Vincent Hyman.

About the Author. Denice Williams is deputy director of Community Resource Exchange, a leading provider of management assistance to nonprofit organizations focused on addressing issues of poverty and AIDS in New York City. CRE is embarking on a self-evaluation study of 500 client relationships to better understand what factors contribute to short-term improvements and/or change in client capacity and performance.
Budget Cuts and Sudden Overhead Conundrums

by Emil Angelica

I know you don’t want to hear that tough times occur in cycles, and I do recognize the alarming “perfect storm” elements of our current economic situation. But as bad as things may be right now, it’s important to remember that we’ve been through tough times before, and if we look back we may be able to glean some useful lessons that will help us in the here and now.

During a period of declining revenue in the mid-90s, as Vince Hyman and I were preparing to write Coping with Cutbacks, we surveyed and interviewed nonprofit leaders around the country to find out how they planned to cope. One of our more interesting findings was that while 50 percent of respondents expected to cut expenses, only 20 percent believed they would need to reduce services as part of this reduction.

What is the meaning of this discrepancy? Is there so much waste endemic to the sector—such overwhelmingly high administrative costs, for instance—that cuts, even when they’re in the double digits, are negligible? Of course not!

When hit with cutbacks, we could just cut services. But doing so often has real human consequences that are hard to turn away from or live with. Instead, nonprofit managers often try to make cuts skillfully to minimize the effect on clients and customers. Despite our best efforts, however, there are times when cuts in programs are impossible to avoid. Far from having a lot of slack to play with, most nonprofits, particularly small to mid-sized ones, generally run on a very thin margin of administrative infrastructure. This, unfortunately, often causes overhead costs to rise in proportion to program costs, at least temporarily, when unavoidable cutbacks in programs occur. This is the last thing we want to explain to funders in an increasingly competitive environment. If this is happening in your organization, the following discussion of why it’s happening and what to do about it may be helpful.

There are three obvious reasons why overhead may increase when your overall budget is cut:

• If you’re a small organization and are trying to make cuts in management, you may not have a lot of opportunities or areas in which to make them. Staff salaries and...
benefits tend to dominate overhead costs. If you have one or two managers in an organization, and a program that constitutes nearly a quarter of your funding is eliminated and you lose another 5 percent of your budget in foundation grants, it’s kind of hard to lop off part of a manager. Additionally, good stewardship would have you spending more time, not less, on fundraising and other overhead activities until you’ve exhausted all options for keeping your programs alive.

- A second reason has to do with where you may be in your organization’s life cycle. If, for instance, you’re in the stage where you’re spending money to build internal systems—often remedially—it’s a very bad time to make overhead cuts of any significance. Very likely you’ve gotten a sense of the risk that the lack of adequate financial and human resource and documentation systems poses for the organization and its relationship to funders and regulators. It’s pretty clear you can’t just stop short of what needs to be done.

- The third reason is that in small organizations, some of your more critical and high-profile staff are probably in management positions. The last thing you may want to do at this point is to lose stars or relinquish the relationships that key staff have crafted and kept in play.

Over time, of course, most organizations will figure out strategies to rebalance overhead with total budget.

Look for Hidden Opportunities
You may be able to achieve some gains during this difficult period. If you’ve been considering changes to your organization’s structure, this may be the time to make them. For example, if you’ve had to reduce the number or size of your programs, you can often restructure your staff to reflect the need for less management. Sometimes this shift can actually enhance programs. Perhaps a manager can now spend more time in direct programming, or one manager can replace two by supervising more programs, thereby improving cooperation and coordination as well as cutting costs. Be sure to involve every program manager in fundraising—and to correctly attribute the part of fundraising that is program planning to your program budgets rather than central administration.

Some organizations will look to partnering strategies. If program cuts result in reduced workloads for your bookkeeper or receptionist, consider sharing the position with another organization. I have also seen organizations effectively share program staff, such as intake workers or job development specialists. Similarly, unused space in a building may be rented out to similar or complementing organizations to supplement your budget.

Alternatively, managers can look at outsourcing previously in-house functions if doing so will provide a significant cost savings. Again using the example of financial staff, you may wish to investigate back-office service providers, though the transition will entail some costs, even if only in terms of managers’ time and attention.

As you consider cutting overhead, keep the following cautionary concepts in mind:

Accountability: Analyze your organization’s ability to measure and report what difference you’ve made in the world. As you make cuts in your current overhead, you don’t want to damage your ability to report to funders in the future. If you slow down or eliminate the development or maintenance of financial reporting or evaluation systems, you
could hamper your ability to compete for funds. Stakeholders outside the sector will still expect you to be accountable.

Restricted Funds: While you might want to cut expenses in management systems, you need to make certain that your grants or contracts don’t require you to spend funds to strengthen fundraising, reporting/evaluation or system development. You’ll need to meet your obligations to the funders unless you can get their prior approval to redirect the money for direct service.

Good Management Principles: When reducing overhead consider the basic principles of good management before you make cuts:

- Make certain there are regular and consistent methods of communication among staff, volunteers and supervisors—cleaning up communication messes can be costly.
- Don’t cut corners on checks and balances—they’ve been built in for a reason.
- Don’t expect managers to supervise too many staff—having more than 10 direct reports to a single supervisor can cause problems.
- Don’t cut costs by violating what you say you’ll do in contracts and agreements with funders, in your bylaws, board policies or management policies.

Internal and External Messages: Whenever you make cuts in overhead such as training, travel, evaluation, fundraising, and newsletters, you’re sending a message to staff, clients, the public, and funders. You want to be sure these cuts are not viewed as a statement of major financial problems or a misstatement of what is important to the organization. Internally this can cause you to lose your best staff, and externally you may lose donors or funders.

But the truth is many smaller organizations will find they don’t have a lot of wiggle room, and what they do have usually needs serious study and consideration in terms of potential cost savings versus weakened capacity. This means you need some leeway.

**Talking with Funders**

You may need to talk with your funders to get the time you need to make the right decisions. Here are some suggested topics and approaches:

- Funders who remain with you after an entrenchment need to understand the totality of conditions placed on the organization’s funding. You may have already had advisors blithely advise you to “analyze all your activities and eliminate the least important and effective”—thus assuming a whole lot more flexibility than is likely to exist. It may well be, in fact, that your most mission-critical programs have been de-funded and that marginal activities endure. It is probably worthwhile to let your most sympathetic funders know about any problems with the new mix so they can help you adjust.

- If you’re building new systems and have folded their development into your overhead, negotiate to have some portion of those costs considered as one-time expenses.

- Finally, remind your funders that in solving any current imbalance you must take into account the future viability of the organization if their investment is to be guarded. Urge them to be patient and to invest strategically in your capacity to make decisions that will help and not ultimately undermine your ability to serve your mission. If you do find yourself needing special funding for a transition stage, the best sources are past funders.
who have a deeper investment in the organization as well as knowledge of its development trajectory, traditions and values.

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Managing Financial Uncertainty

by Thomas Raffa and Robert J. Cocchiaro

In the past 12 months, we have seen significant declines in the stock market, an increase in the rate of unemployment, terrorist attacks, and actions to bolster our economy by the Federal Reserve System through numerous interest rate cuts. Some organizations have received significant contributions for victim assistance programs and similar activities. Other organizations have seen funding reductions from private foundations, with reduced distributions as a result of the current bear market, reduced membership receipts as members seek more value from their membership dollar, and redirection of charitable giving as a result of September 11.

Last October, our firm organized a workshop, “Weathering Funding Reductions,” that brought together leadership from 70 nonprofit organizations to collaborate around a central question: “How will giving be impacted across time by the current realities and how will my organization be impacted directly?” The result of this workshop was the identification of several fundamental strategies from nonprofit organizational leaders who have experienced past crises or navigated their organizations through uncertain times.

Open Communication and Protect Trusted Relationships
This should be your number one priority. Communicate the situation frequently and openly with your staff, board, funders, donors, and suppliers. Ask for the same open communication from them, especially about potential reductions in funding. New relationships with donors and funders take time to establish. Focus on existing relationships and building trust with these stakeholders. Engage donors in other capacities (such as volunteering) to expand relationships in non-financial areas. Communicate what your organization is accomplishing to anchor their support.

Focus on Your Core Mission and Strengths
The organization’s financial resources should be expended on activities that are mission-critical—activities that support what the organization was established to do. Organiza-
Organizations and their leadership may need to bring the board and staff together to refocus their efforts around the organization’s mission. This involves identifying the organization’s activities (such as programs and member services) and evaluating them against the mission. You should decide if it is worthwhile to expend valuable financial and human resources on activities that are outside your core mission.

**Prioritize Activities**

Organizations and their leadership may have to enact an almost ruthless prioritization of their activities to focus on what is critical in achieving the mission. Strengths and weaknesses need to be reviewed even when carrying out mission-critical activities. If there is another organization that is better at delivering the service or program, consider partnering or transferring the entire program to it. What is important is outcomes and long-term survival. The reverse is also true. Determine what your organization is best at and focus on or expand that area by shifting resources.

Program reductions should be one of the last steps an organization takes (see next section for ideas on other ways to cut back). Start with non-mission-critical programs—evaluate the impact and cost of less mission-critical activities and consider curtailing them. Be certain to consider the indirect costs associated with operating the program or service you are evaluating. On the one hand, such costs can be significant and make the decision to cut easier. However, will the program reduction mean that administrative positions can be curtailed or eliminated? Could infrastructure requirements (office space and equipment, accounting systems, and so on) be reduced or restructured for an additional cost savings? Or will the reduced demand for indirect services cause other inefficiencies that must be weighed as a factor in cutting non-mission-critical programs?

Organizations also should be on the lookout for mission creep, pet projects from board members or staff that do not necessarily further the organization’s primary mission. Some of these drain financial resources while many are “silent killers” because they may use up few direct dollars but take up valuable staff time.

**Make Realistic Contingency Plans**

Take a hard look at your organization’s situation. Organizations must identify and evaluate their risks from reduced funding. Review the major sources of revenue and assess which are most likely to be impacted and by how much. This may involve contacting major funders and reviewing historical trends. With this information you must plan for the best, most likely, and worst case scenarios for your organization and develop strategies to deal with each one. Involve your board and make the hard decisions now, so that you can react quickly to any crises. Create a budget or financial plan for each scenario and identify what costs you can curtail or delay while delivering on your mission. Your strategies in the face of risky funding may include advocacy, especially in league with strategic partners, to keep funding secure. (See the Advocating box.) If you are reliant on federal funding or state and local pass-throughs of federal funds, engage the donor agency so that you may evaluate the effects of September 11, the current war and other redirection of federal dollars that may affect your future funding levels.
If you are confident that all such risks are minimal, begin developing a contingency plan for future years by establishing an operating reserve and annually contributing to it. For organizations that are fortunate enough to have even a reasonable reserve, now may be the time to use, but use it wisely.

**Develop Resources Aggressively**

During times of economic uncertainty, organizations must be aggressive and steady with their fundraising efforts in terms of raising dollars and recruiting volunteers. Take steps to draw closer and ask more from those who have given before and have a special place for your organization. Focus on your organization’s outcomes and accomplishments when fundraising. Do not just tell them how much you need to raise, show them what you have done in the past and what you will do tomorrow with the money raised. Increase volunteer recruitment efforts to leverage your financial resources. Identify key areas where you may need to expand your strengths, like volunteer recruitment, retention, and management.

**Engage Strategic Partnerships**

Establish or enhance strategic partnerships. Foster open lines of communication with organizations that are complementary to your organization’s mission. Find a common ground and focus on identifying overlaps and each organization’s strengths and weaknesses. Find ways to capitalize on each other’s strengths so both organizations can deliver on their missions. Examples of this are co-location of meetings and conferences or partnering and resource sharing to carry out social programs.

**Manage Cash Flow**

There are several steps every organization can take to curtail expenses without eliminating entire programs, activities, or people. Some things to avoid are across-the-board expense reductions or the elimination of staff across all departments. This may work temporarily, but it is not a long-term solution because it does not consider the organization’s ability to deliver on its mission. Following are some of specific areas on which to focus.

Know your true expenses and revenues. Financial information is the most critical piece of information you will need to manage your costs. You need to know the true costs of each of your programs and activities, and how your actual revenue and expenses compare to your budget.

Eliminate or delay unnecessary expenses such as travel, entertainment, and training. Look for ways to accomplish the same result in a less expensive way. Consider approaching vendors for payment terms to delay expenses previously incurred but not yet paid or for upcoming expenditures that cannot be avoided. Printers will frequently allow payment terms to keep your business. Your auditor may be able to reduce the fees if you allow them to complete the work during a period that is slower for them. On a larger scale, landlords may be willing to forgive some rent now in exchange for extending the terms of the lease in the future. A debtor may be willing to do the same.

Review compensation and benefits by carefully considering salary freezes. Keep
raises to a minimum, defer bonuses, or reduce unnecessary perks. Benefit programs can also be reviewed for cost savings and might entail changes in health insurance options and increased deductibles.

Delay purchases of capital assets (furniture and equipment) as long as it does not adversely impact your mission-critical activities. If an item is mission-critical, consider other sources of financing such as leasing or explore in-kind donations.

Review investment strategies to ensure portfolio diversification focusing on a more stable investment mix. In a turbulent market, nonprofits should take fewer risks to guard against potential costs and restraints associated with declining portfolio values.

Offer incentives and discounts to get cash in the door. Offer reduced rates to participants who register early for conferences and other workshops in order to speed up cash flow. The costs of offering the incentives should be weighed to ensure they are offset by the benefits of the accelerated cash flows.

Review vendor contracts for supplies and other items to make sure you are getting the most competitive price. Get several competitive bids for the same service or item. Monitor your cash flow daily and keep an updated cash flow projection to identify potential shortfalls. Prioritize payments and pay those bills that are critical to your organization first. If you are one of those groups on the edge, make certain that the first dollars in cover your payroll and related taxes and benefits. Once you have a few payrolls covered, then look to pay the other necessary expenses in some logical order: utilities, rent, and so on.

If you do not have a line of credit, consider getting one while your organization is financially healthy. But be certain to obtain a solid understanding of your financial needs prior to signing your organization on for additional debt that may strap it in the years to come. Know the difference between temporary trouble with cash flow—a case in which a line of credit can be an invaluable tool—and the problem of overall decreased revenue for the foreseeable future. Repaying a deficit in installments over a period of time (typically years) can have real effects not only on your budget but also on your ability to carry out your mission. Many funding sources resist helping to pay back previously incurred debt. This means that in order to pay back the loan, you would have to use precious unrestricted income, which many agencies count on to provide some margin for flexibility. This is often bad news for an organization’s ability to stay responsive to constituents—not to mention keep up with infrastructure upgrades and so on.

This is not to say that debt is bad; you simply need to distinguish when it is appropriate, and obtain the right form and amount of the loan for the circumstances, always identifying the source of repayment. Having the assets to collateralize the loan should not be considered sufficient comfort to borrow. But once the determination to borrow is made, do not wait, as it is true that “When you need credit the most you can’t get it.”

Conclusion

There are no golden answers to navigating uncertain times; only experience-based strategies and tactics that will help your organization make the right choices. These strategies are at the core of sound financial management during good times. They are even more critical during these uncertain times.
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Improving Cash Flow Management In Challenging Times: A Primer

by Murray Dropkin

The current environment demands a well-planned, intensive and aggressive approach to managing cash flow.

In the Winter 2002 issue, in her article entitled “Spinning Straw into Gold,” Ruth McCambridge accurately summarized the difficult financial situation many nonprofits are experiencing today. After taking some of the actions described in the article, such as accelerating fund raising, the next step in financial planning is to improve budgeting and cash flow forecasting. Budgeting and cash flow are linked as very important parts of financial management.

Effective cash flow management is the step you take after you have a sound budget. Cash flow forecasting is about thoroughly understanding the timing of your organization’s actual receipt of cash, related to the income you identified in your budget, and the payout of cash relating to expenses identified in your budget. To convert your budgets to accurate cash flow forecasts, you need to add a time frame both to the transactions that generate income and to those that relate to paying expenses. In addition, you need to understand and identify transactions that affect cash flow, such as borrowing money or paying back loans.

A Deteriorating Financial Environment

The recession, which is more than three years old, has turned into a depression for some nonprofit organizations. Federal, state and local governments have curtailed funds for some programs, producing a cascade effect that reduces income and, therefore, cash flow. Depending on the location of your nonprofit organization, there may have also been great pressure for additional services. Corporate and private donors have cut back on their contributions, or may have retargeted them. Foundations have for the most part suffered their third straight year of declining investment portfolios, which directly affects the amount of money they have available to give away.

A Perennial Challenge

For the 35-plus years that I have been a member of the accounting profession, clients have consistently begun engagements by asking about one aspect before all others: How does
my cash look? Have you got any ideas on how I can improve cash flow? Can you get the bank to give me a loan?

Optimizing cash flow management is one of the most important tasks in achieving overall financial health. This concept applies to individuals, businesses and nonprofit organizations alike. The current environment demands a well-planned, intensive and aggressive approach to managing cash flow.

**Effective Cash Flow Management**

Obviously, an organization’s success in earning income in excess of its expenses will be an important factor in its cash flow and overall financial health. Please note that it is legal and ethical for a nonprofit organization to have income over expenses. Creating surplus monies for your organization will help ensure its ability to prosper in the future. However, making money alone will not ensure satisfactory cash flow. An organization may be profitable, based on its financial statements, yet still be unable to pay bills when they come due.

Organizations that find themselves unable to pay their bills often have not devoted proper attention to planning and monitoring both the nature and timing of cash inflows and outflows. A cash flow forecast for a fiscal year should be based on the organization’s budget, adjusted for the timing of actual receipt and disbursement of cash for each item in the budget. An accurate, detailed cash flow forecast, especially when used in conjunction with a detailed operating budget, will allow organizations to anticipate potential cash flow difficulties and quickly take effective remedial steps. If action is not taken quickly, the organization may be forced to borrow money to continue operations. This will result in additional expenses (interest) that would have been unnecessary with better cash flow planning. Of course, it is far better to borrow money than miss a payroll.

The fact that nonprofits typically rely on more than one revenue stream makes cash flow management a complicated task. Cash flow management issues and the strategies developed to address these issues will be contingent on the types, characteristics, sources, restrictions and requirements related to the income within an organization’s cash flow. For example, nonprofits that depend on grants for their primary source of income will find that their budgeting, cash flow planning, and cash flow management will probably be easier than for organizations that rely primarily on contributions or membership dues.

**Various Sources of Income**

The IRS reports that the majority of nonprofits in the United States count one or more of the following three sources as a primary revenue stream:

- **Grants**, from both governmental and private sources.
- **Contributions**, from both private donors and corporations, and involving both cash and non-cash assets.
- **Fees for services**, also known as program service fees.

Nonprofit organizations also depend on income from interest income, rent, membership dues and special events. Each of these revenue streams has its own unique cash flow considerations.
Grants: Nonprofits can be given grants by private grantors and by governmental/public grantors to fund for general use or specific activities. Grant agreements can directly—or by reference—require nonprofits to meet broad requirements, each of which may affect cash flow planning and management, and must be considered in developing cash flow forecasts and budgets. One of the most important aspects of cash flow management for grant-funded organizations is a thorough understanding of all grant conditions. When policy changes or tax receipts fall, government grants can stop. If your local bank is acquired by one of the giant banks that now exist, you could lose that source of grants, for example.

Income from Gifts or Contributions: Many organizations receive significant income from donors. An important cash flow concern related to donations is that donors may place activity and timing restrictions on how a nonprofit uses gifts or contributions. Additionally, donors may make pledges of support that will not be received until a later date, and often only after the organization meets a specified goal or fulfills a condition. For example, those organizations that counted on contributions from Wall Street firms have found themselves with reduced contributions, as businesses have moved temporarily or forever to New Jersey or other geographical areas.

Thus, effective cash flow management in organizations that depend upon contributions will require the following capabilities and procedures:

- The ability to identify and track individual donations, gifts and contributions for which use and/or timing are restricted.
- Careful review of the organization’s past experience with their donors (becoming familiar with seasonal differences and other patterns in giving can yield a wealth of relevant cash flow information).

Program Service Fees or Fees for Service: Some organizations count income earned by providing goods or services as a significant revenue stream. This type of income stream may be one of the most complex in terms of cash flow planning and management. For example, organizations that generate fees for services must have financial management systems in place that can quickly and accurately perform billing and collections, information management, and reporting and analysis functions.

Suggestions to Improve Cash Flow

Budget a Surplus
The first step in improving your cash flow is to improve your budget planning and budget process. Be sure to be as inclusive as possible in putting together your budget team—in this way you will get more complete information about anticipated problems and you will get more participation in terms of fundraising and the ability to control the timing of expenditures properly.

In addition, make sure that you budget a surplus, especially in difficult times. We understand that this concept may sound difficult or impossible, especially in bad times. It is perhaps a difficult political decision to sell. How do you budget a surplus when you may be laying off staff or closing a program? How do you justify it?

Well, you justify it because you want to survive and prosper in the future. Note: If your organization only receives cost reimbursement-type grants, you cannot follow this advice,
but we would offer different advice: diversify and get some unrestricted money, to augment your autonomy as well as your budgetary flexibility. If you do not spend a dollar in a cost reimbursement grant you do not earn it. It’s important to properly spend your entire cost reimbursement grants when possible. Such grants are less common than they were. Assuming that some of your money comes from non-cost reimbursement grants, the sale of services or merchandise, and donations and dues, you can legally budget a surplus.

By budgeting a surplus, you accomplish the following: if your income projections are off 10 percent, and if you have budgeted a surplus of 15 percent, then your organization will still have a surplus at the end of the year—if you did not overspend the expense budget. Budgeting a surplus will protect you from a bad revenue or cost projection, and build up your economic power over the years. Perhaps every year, if you budget a 10 percent surplus, you will eventually have enough money to buy a building instead of renting space. Budget an additional surplus of 10 percent to improve your working capital or to set up an investment account for those rainy days that come along in our private and organizational lives.

**First Budget Policies, Then Cash Flow Policies**

One key point we would like you to take away from this article is that budgeting and cash flow are different, interrelated disciplines, both of which demand proper attention. Review your financial policies in the areas of budgeting and cash flow.

You should have specific criteria in your policies that clearly determine when an item of revenue can be shown in the official budget and when it cannot. For example, an optimistic board member is positive that their employer’s foundation will be glad to give your organization $10,000 in the coming budget year. That money should not be budgeted until your organization receives written acknowledgement that the contribution is official, and not just a kind wish by your board member. Different types of income need to be evaluated in terms of their respective safety for budgeting. If last year you received seven major corporate or foundation gifts (and you have maintained good communications with them and they have confirmed another contribution), then you may feel safe in budgeting the money. Of course, if Enron was one of those seven contributors, we would suggest not putting that contribution in your budget.

We have heard a number of stories over the past year regarding grants being made at lower levels than originally agreed to, so it may be a time to be particularly cautious in your budget assumptions.

The next step in your financial planning is to develop clear cash flow policies. This means that you pay careful attention to historical data in regard to the timing of revenues and expenditures, and that you limit those situations in which you do not know when or how much revenue will come in or when expenses will need to be paid.

In terms of revenue, you need to also systematically ensure, for instance, that the letter confirming that wonderful new $10,000 contribution has a specific date by which payment will be made. If you think the award letter triggers a check to you, and that particular organization cuts checks only the day before its fiscal year ends, you may have
Many nonprofits have monies that are restricted for endowment or other very particular purposes. In the end, the donor’s stated intention—or in the case of an endowment, the legal instrument—will determine how these revenues must be used.

**Be Mindful of Restricted Funds**

The word restricted has a number of different meanings in the nonprofit world. We cannot address all of them in this article. The main caution here is that many nonprofits have monies that are restricted for endowment or other very particular purposes. In the end, the donor’s stated intention—or in the case of an endowment, the legal instrument—will determine how these revenues must be used. Income from an endowment designated for a particular employee’s salary or to pay for capital improvements to a particular building must be used (usually under state law) for that purpose and no other. A donation to fund a summer youth program is supposed to be used for that purpose. So your budgeting, cash flow policies and accounting procedures need to ensure adherence to restrictions placed on donations.

While many training sessions for fundraising suggest that you quantify what specifically will be paid through a donation, these tactics should be used advisedly. Too much restricted money limits your flexibility. One fundraising strategy that has worked well is to quantify in the solicitation that half of your donation will go to the “Children’s Shelter.” So the balance can be used for other purposes necessary for the organization’s operations.

**Monitor Performance**

The first step in monitoring your financial performance is to prepare your budget (versus actual financial reports) each month. See Sample Management Report—Income and Expenses on page 42.1 The report, we hope, is self-explanatory, but we will make a few observations.

The first three columns give the users information on the performance of the organization which compares the total budget for the year versus year-to-date financial information. The second three columns compare the nine-month prorated budget to financial information for those nine months. These three columns are the most important, since budget items either under or over budget clearly inform management what is going on inadvertently created a cash flow problem (for instance, by hiring too early for the program being funded). Similarly, you need to plan on lags in contract reimbursements. Policies about payments for work performed under public contracts can be very quirky. Always confirm expectations regarding the timing of cash receipts in writing.

You also need to document the flow of cash over time. For instance, you need to know what the timing was for responses to the direct mail over the last two holiday seasons or how membership dues tend to filter in, or, if you are in a fee-for-service environment, when what proportion of bills are paid so that you can judge when that cash is likely to be in hand. In a situation where cash collections are sliding overall, of course, you need to be more conservative about what you expect. Keep an eye on what is happening around you.

Obviously, you also need purchasing policies that tie approval of purchased items over a certain dollar amount to what you are likely to have in your budget. It’s not productive to only monitor cash inflow without monitoring cash outflow.

Your cash flow policies should also identify the methodology and timing of your cash flow reporting.
Ideas for Avoiding and Dealing with Cash Flow Problems

1. Review and revise budget, cash flow and financial reporting policies.
2. Train all staff in those new or revised policies.
3. Learn to budget a surplus.
4. Learn to effectively monitor financial and cash flow activities on a monthly basis.
5. Do the paper work to create a letter of credit or an actual loan or mortgage, depending on your financial circumstances.
6. Ask your bookkeeping department to slow down bill paying as much as practical.
   Never stop paying required payroll taxes and fringe benefits.
7. Consider keeping positions that are currently vacant open for a longer period.
8. Instead of layoffs, consider asking employees to cut their hours, so perhaps four employees work the hours of three employees in normal times.
9. Consider laying off part-time staff.
10. Ask donors or grantors to accelerate payment of funds due you.
11. Make sure reports required by grantors or clients are going out on time so you can be paid on time.
12. Consider staff layoffs, or sales of property that you no longer need or use.
13. Look for new sources of income.
15. Consider stopping some elements of operations.
16. Consider recruiting volunteers to handle certain staff functions.
financially. For example, contributions are under budget by $23,235 and the organization is still showing a projected surplus of $17,152—because management seems to have under spent most of the expense categories, obviously having paid attention to prior reports, which indicated a shortfall in contributions.

Your software may not be able to emulate this design exactly, but should come close. Of course, if you export data to a spreadsheet, you could emulate the exact design. If your financial staff says that is too complicated, calmly replace them with competent people, since this is a simple design for a competent professional. If your financial records have been properly set up, this report is a simple monthly task.

Many other reports are illustrated in our book on budgeting. The exact design you ultimately choose will depend on your organization’s size and needs.

The next step is preparing a cash flow forecast. Please see Sample Quarterly Cash Flow Forecast on page 43.2 Again, the report is self-explanatory, and may need to be more carefully adapted to your organization’s needs than the first budget report. This report will take more than an hour to prepare, but since it’s only a quarterly exercise, it can still be done, and is imperative for good cash flow planning. We have a number of different reports in the actual Cash Flow Management book, which will help your organization whether you have a $100,000 budget or a $10 million budget.

**Projections**
The size and complexity of your organization should determine the exact time frames you will use in your monitoring of cash flow. If you have one checking account and a budget under $100,000, the bookkeeper should give you a daily or weekly cash balance. This one-page report should include, for example, when the next payroll is due and any significant bills which will come due in the foreseeable future. If you have a million-dollar budget and five different revenue sources, a formal cash flow forecast for six months or a year in the future would be a great tool. Essentially, a cash flow forecast is prepared by taking your budget and then ascribing to both income and expenses the timing of their actual receipt and payout. Of course, the longer the period you try to project, the more difficult the task.

If you have a lot of cash, then cash flow planning is easy. If you’re chronically short of cash, you really need to dedicate more time and effort to doing a better cash flow projection.

**Act Promptly**
The first commandment of effective cash flow planning is to do it sooner rather than later. The old saying “A stitch in time saves nine” applies to this situation, because good cash flow projections provide an early warning system. As soon as you realize your contributions are coming in under projection, it’s time to consider what action you can take to increase revenues, but also what you will have to do if the trend continues. You will begin to sort such questions as “Do you really need that small branch office we set up when things were going well?” and “Can we break the lease and eliminate a chunk of expenses without impairing the overall mission?”

Of course, you must always be careful that you do not cancel a program or location that is at the core of your mission. You will need time to think through alternatives, and
good cash flow projections will give you that time.

**Establish a Line of Credit**
Since it’s difficult to always be accurate in projecting cash flow, we suggest our clients have a standby line of credit. Once the line is established and approved by your bank, you can draw it down as needed and pay it off when not needed, reducing interest expense. Never use a line of credit for a capital purchase unless you have a grant or guaranteed funding in the near future. Most banks demand that you reduce a line of credit to zero for at least one month each year. Of course, this discussion assumes that your organization will be approved for the line of credit by a bank, which of course is not always the case.

**If Needed, Obtain Training**
Helping nonprofits improve cash flow can be a complicated and labor-intensive task. It requires substantial knowledge of relevant environmental, organizational and financial issues. A key step in any cash flow improvement effort is for those directly involved in the process to obtain proper training and education. Beyond that, all staff, management and board members of nonprofits should focus and understand their respective roles in effective cash flow management. Staff members at all levels need to understand their decisions have a direct impact on the organization’s cash flow. This situation may be easily avoided when proper policy guidelines exist and when they are understood and supported by all staff members.

When nonprofits and their boards, consultants, finance and management executives, and all involved staff understand the relevant issues and actively participate in ongoing cash flow management, cash flow will always be significantly improved. Good Luck.

**Endnotes**
1. This budget report is reprinted from *The Budget-Building Book for Nonprofits*, (Jossey-Bass) co-authored by myself and Bill LaTouche. Also, please visit my website Dropkin.com for a free software product based on this book which was designed to help organizations prepare better budgets.
2. This cash flow spread sheet is reprinted from *The Cash Flow Management Book for Nonprofits* (Jossey-Bass) co-authored by myself and Allyson Hayden.

**About the Author.** Murray Dropkin (CPA, M.B.A) is managing partner of Dropkin & Company, Certified Public Accountants, and president of CMS Systems, Inc. He has worked with organizations ranging in size from $250,000 to a billion dollars. He is the co-author of Guide to Auditing Nonprofit Organizations (Practitioners Publishing Company), The Budget-Building Book for Nonprofits (Jossey-Bass), The Cash Flow Management Book for Nonprofits (Jossey-Bass) and the editor of The Nonprofit Report, a newsletter published by Warren, Gorham & Lamont. His e-mail is murray@dropkin.com.
**Sample Management Report—Income and Expenses**

**ABC Nonprofit**


<table>
<thead>
<tr>
<th></th>
<th>ANNUAL BUDGET</th>
<th>YEAR TO DATE</th>
<th>DIFFERENCE</th>
<th>PRORATED BUDGET</th>
<th>YEAR TO DATE</th>
<th>DIFFERENCE</th>
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<tr>
<td><strong>Support and revenue:</strong></td>
<td></td>
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<tr>
<td>Contributions</td>
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<td>$147,638</td>
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<td>12,355</td>
<td>(1,645)</td>
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<td>Conferences and Seminars</td>
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<td>1,500</td>
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<td>Interest</td>
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<td>3,160</td>
<td>(840)</td>
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**Total support and revenue:** $216,851 $148,245 (68,606) $162,638 $148,245 (14,393)

<table>
<thead>
<tr>
<th><strong>Expenses:</strong></th>
<th></th>
<th></th>
<th></th>
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<td>Salaries</td>
<td>115,000</td>
<td>73,250</td>
<td>41,750</td>
<td>86,250</td>
<td>73,250</td>
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<td>Fringe</td>
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<td>14,712</td>
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<td>Professional</td>
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<td>4,693</td>
<td>8,307</td>
<td>9,750</td>
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<td>Travel</td>
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<td>721</td>
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<td>2,279</td>
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<td>Seminars</td>
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<td>746</td>
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<td>Office</td>
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<td>6,581</td>
<td>10,875</td>
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<td>Utilities and telephone</td>
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<td>4,730</td>
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<td>6,000</td>
<td>4,730</td>
<td>1,270</td>
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<td>Supplies and postage</td>
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<td>4,983</td>
<td>3,517</td>
<td>6,375</td>
<td>4,983</td>
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<td>Insurance</td>
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<td>750</td>
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<td>1,683</td>
<td>3,750</td>
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<td>970</td>
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<td>Training</td>
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<td>368</td>
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<td>Refunds</td>
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<td>(85)</td>
<td>0</td>
<td>85</td>
<td>(85)</td>
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<td>Miscellaneous/Contingency</td>
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<td>562</td>
<td>438</td>
<td>750</td>
<td>562</td>
<td>188</td>
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**Total Expenses** $200,000 $118,455 81,545 $150,000 $118,455 31,545

Excess (deficiency) of support and revenue over (under) expenses: $16,851 $29,790 $12,939 $12,638 $29,790 $17,152

# Sample Quarterly Cash Flow Forecast

**ABC Nonprofit**  
Quarterly Cash Flow Forecast  
Fiscal Year 2000

<table>
<thead>
<tr>
<th></th>
<th>FIRST QUARTER</th>
<th>SECOND QUARTER</th>
<th>THIRD QUARTER</th>
<th>FOURTH QUARTER</th>
<th>TOTAL</th>
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<tr>
<td><strong>Opening Cash Balance</strong></td>
<td>$270,649</td>
<td>$8,504</td>
<td>$(114,984)</td>
<td>$(135,469)</td>
<td>$270,649</td>
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<td><strong>Cash Inflows:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue 1</td>
<td>$941,558</td>
<td>$912,592</td>
<td>$962,785</td>
<td>$1,001,296</td>
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<td>Revenue 2</td>
<td>400,156</td>
<td>361,994</td>
<td>358,374</td>
<td>379,876</td>
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<tr>
<td>Revenue 3</td>
<td>306,001</td>
<td>285,293</td>
<td>290,999</td>
<td>285,645</td>
<td>1,167,938</td>
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<td>Revenue 4</td>
<td>235,385</td>
<td>215,111</td>
<td>225,866</td>
<td>232,642</td>
<td>909,004</td>
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<tr>
<td>Revenue 5</td>
<td>188,306</td>
<td>179,041</td>
<td>188,889</td>
<td>185,111</td>
<td>741,347</td>
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<td>Revenue 6</td>
<td>164,767</td>
<td>148,295</td>
<td>154,968</td>
<td>160,392</td>
<td>628,422</td>
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<tr>
<td>Revenue 7</td>
<td>117,689</td>
<td>111,358</td>
<td>114,698</td>
<td>118,139</td>
<td>461,884</td>
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<td><strong>Total Cash Inflow</strong></td>
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<td>$2,213,684</td>
<td>$2,296,579</td>
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<td><strong>Total Cash Available</strong></td>
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<td>$2,181,595</td>
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<tr>
<td><strong>Cash Outflows:</strong></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>Payroll</td>
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<td>$1,067,750</td>
<td>$1,080,655</td>
<td>$1,060,765</td>
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<td>Rent</td>
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<td>60,000</td>
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<td>62,500</td>
<td>250,000</td>
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<td>Other Costs</td>
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<td>487,500</td>
<td>467,575</td>
<td>425,750</td>
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<td>Capital Purchases</td>
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<td>—</td>
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<td>40,000</td>
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<td>Loan Repayments</td>
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<td>99,667</td>
<td>99,667</td>
<td>101,567</td>
<td>406,827</td>
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<td><strong>Total Cash Outflow:</strong></td>
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<td>$2,317,064</td>
<td>$2,224,386</td>
<td>$9,494,629</td>
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<td><strong>Closing Cash Balance:</strong></td>
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<td>$(114,984)</td>
<td>$(135,469)</td>
<td>$3,246</td>
<td>$3,246</td>
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From Funders to Funders: Advice on Giving in Hard Times

by the editors

“Do we play this shell game now common in the foundation world, where we start something, only to try to pawn it off to other foundations?”
– Emmett Carson, Minneapolis Foundation

This article is directed to our readers who are funders—a divergence from our usual focus. It is the result of suggestions made by readers. We of course expect it will be of interest to the rest of our readership as well. To get a sense of how the job of philanthropists needs to adjust to the current time, we asked Emmett Carson, president and CEO of the Minneapolis Foundation; Sandra Mikush, assistant director of the Mary Reynolds Babcock Foundation in Winston-Salem, NC; and Gary Yates, executive director of the California Wellness Foundation in Woodland Hills, Calif., to share their thoughts about funding in economically difficult times.

Overall Grants Levels

One of the more active debates in the foundation community has revolved around the issues of payout versus asset-building and maintenance. This debate has recently heated up as a result of Sec. 105 of HR 7, the Charitable Giving Act of 2003 (the House version of the Senate’s recently passed CARE Act), which would require foundations to pay out at least five percent of their assets—excluding administrative costs, which are currently included in the five percent calculation. This exclusion would be new. Our interviewees did not address this bill directly, but did comment about whether foundations should reduce their grant making in bad economic times—particularly when they have felt impacts within their own endowments.

As Emmett Carson comments, “We increased payout when times were good. Our board’s decision at that time was that we should never develop a bigger asset base as our primary goal. With that, we made the decision to give out more when times were good, and understood that we would not be able to maintain this additional giving during an economic downturn.”

Both Gary Yates and Sandra Mikush, on the other hand, say that their foundations...
need to do what they can to counter the impact of the economic downturn with grantees. The California Wellness Foundation is maintaining grant making at the level it was at in 2000, even though that will mean a reduction of assets. As Yates says, “The State of California has a $35 billion budget deficit. We can’t begin to solve that problem, but we shouldn’t add to it by giving less. I don’t know how long we can maintain this level—but certainly for one, two, maybe three years.”

Similarly, Mikush comments, “We’d rather not cut grants unless this downturn is enormously protracted and we have to really rethink our strategy, but for the short term—for two or three years—we won’t cut grants. In fact, we actually budgeted a seven percent increase in grants for 2003 over 2002, although our endowment has gone down. Granted, we’ve been fortunate to have received an estate gift, so we only felt about half of the loss we would have ordinarily experienced. We have also chosen to tighten our non-grant expenses—something we can control.”

Yates is concerned that many larger foundations are reducing grant dollars. “The Chronicle of Philanthropy several months ago looked at the difference in funding between 2001 and 2002 of roughly the top hundred foundations. The grant dollars decreased by 20 percent—that represents hundreds of millions of dollars and will have a negative impact on the nonprofit sector.

Mikush puts a slightly different spin on it. As she explains, “Most of our grantmaking is three to five years, rather than the one-to-two-year grants, so we can’t arbitrarily cut our grantmaking program. Our grantees are not typically health and human service agencies—they’re grassroots groups that address racism and poverty. They’ve always struggled, and when times get tough, they may rely on volunteers, they may cut their salary in half and get another job. But they don’t stop doing what they’re doing.”

“When it takes a couple hundred years to create the deep problems of racism and poverty, a five-year demonstration project does not effectively change them. It’s going to take a 20- to 50-year effort to create change in regions like the Mississippi Delta. I would love to see more long and deep investment in communities. I think there is more chance of this happening when local and statewide funders stay for the long haul.”

Emphasize Core Operating, Multi-year Commitments and Foundation Flexibility

Yates and Mikush also agreed on the issue of providing more core operating support to organizations in which they have an investment. As Yates comments, “When nonprofits face reduced revenues and services for the populations that they serve, the concept of funding core operating support becomes really important.” Again, he is concerned that larger foundations are not setting a good standard, saying, “When you look at the large foundations in the country, only about ten percent of their funding goes to core-operating support.”

“The California Wellness Foundation changed the focus of its grantmaking three years ago, not in reaction to the suppressed economy, but as a result of a decade of interactions with grantees,” he continues. “It now emphasizes core operating support funding over project funding. Say a foundation’s goal is to improve healthcare access, and its choice is to primarily fund specific, innovative project work while other funding erodes. Does any

“Those clinics that received core operating support over a five-to-seven year period are much stronger today, and able to cope with the depressed economy and government dollar flow than they would have been had that money not been available.”

-- Gary Yates, California Wellness Foundation
funder really believe that organizations will be able to do creative work with a weakening—and increasingly less functional—nonprofit organizational system? The answer is obviously no.”

“Some people think of operating support as a blank check—that’s not what I’m talking about,” Yates says. “Our core operating support grants are negotiated with three outcome objectives, determined by the grantee. It may go to keeping the lights on and the doors open, expanding their funding base, building a new MIS system and so on. Those kinds of objectives can, in fact, be measured, and they are sometimes critically important to the whole body of work for which the organization is responsible.

“Strategically speaking, a strong nonprofit sector in the area of health and human services is the only way our foundation is going to achieve its overall mission of improving the health of the people of California,” he says.

“We’ve put tens of millions of dollars into the community clinic system here in California, and most of it is very flexible, so that the various associations and the clinics themselves can determine what the best use of their dollar is. The evaluations of that work are absolutely clear. Those clinics that received core operating support over a five-to-seven-year period are much stronger today, and able to cope with the depressed economy and government dollar flow than they would have been had that money not been available.

“So much of what foundations ask nonprofits to do with project-based funding is on the edge of—if not beyond—their core mission. Yet, with really effective projects, when the funding source dries up, nonprofits go back to their roots, back to their core mission. That is their priority. That’s why they exist. And I think there’s a real disconnect there.

“Too many of us in philanthropy think we know how nonprofits should do their work,” Yates continues. “It’s an incredible phenomenon—this belief that nonprofits don’t work very well. Many foundations focus on this innovative, creative-approach thing because they think they have a better way of doing nonprofit business. Having worked in the sector for 25 years before I went into philanthropy, I believe most nonprofits are actually quite efficient and effective.

“To exhibit that belief, we make multiple-year grants, and award the entire amount immediately. They have the flexibility to use it for their operations during, say, that three-year period. Giving people the cash in hand when cash flow is extremely tight for nonprofits is an important thing to think about right now.”

The California Wellness Foundation has also taken other steps to make grantees’ lives easier, simplifying both their application process and how people approach them for funds. Three years ago, the organization moved from quarterly reporting to annual reporting—indeed, a one-page report. As Yates comments, “The quality of the work has not dropped off a bit, nor has the efficacy of the work or the good stewardship of the foundation funds.”

Sandra Mikush emphasized the need to respond to changing conditions for grantees by, among other things, not making it hard on them when they try to renegotiate the terms of a grant. “You are shooting yourself in the foot if you’re not responding to changes, and not making investments in organizational learning—and an organization’s ability to adapt as a result of what it’s learning. And we shouldn’t send any messages to the contrary in our funding or our interactions. The bottom line is the Mary Reynolds Babcock Founda-
tion is always open to revisions. We don’t want our behavior to be the reason an organization doesn’t do what they ought to be doing. That’s doing harm.

“Even more important is to acknowledge that the groups doing the work on the ground are the experts,” she says. “We are here to facilitate that, to help make the change happen that these folks know how to do; all of our policies emanate from that belief. It’s that core belief that underlies the fact that we are open to operating support and that we’re open to flexibility within grants, that we are willing to make long-term investments in organizations, to build their own capacity to do whatever it is they do.”

**Convening**

Mikush believes that you can always multiply the value of your grant by convening grantees. “We have a long history of convening grantees, which costs money—especially because we work regionally. The grantees help in the planning and we focus on peer exchange. Once you have the right general focus and you get all the right people in the room, all you have to do is close the door and good things will happen.

“When people come from communities where no one else does what they do and, all of a sudden, they’re in the room with dozens of people who do what they do, that’s an amazingly powerful experience to an isolated worker for racial/economic justice in the South,” she says. “An opportunity to share and learn from others is really valuable, especially in tough times.”

**Advocacy**

All three funders emphasized the value of advocacy and public policy-oriented funding. Carson of the Minneapolis Foundation described what he calls a faulty paradigm that speaks to this need. “One fundamental challenge for foundations today is the fact that we have long operated under the belief that innovative programs piloted by foundations would be adopted by government,” he says. “That paradigm, at least in this period of time, is not true. There is no belief, or little belief, that innovative programs will be taken on by state, municipal, local or federal government. If that’s true then, in the context of the way the world works, what are we doing when we focus on innovative projects? Are we just creating models that then sit on the shelf? Do we play this shell game now common in the foundation world, where we start something, only to try to pawn it off to other foundations? We have a musical-chairs game going on with innovative projects.”

Yates concurs, “This is a paradigm which everyone knows is outdated, but many of us still function as if it is in full effect—that foundations will act as the R&D for government… in truth, there’s no capital resource to pick these things up when foundations want to walk away from them. I think one of the untold truths in the philanthropic industry is that most of the creative project grantmaking we do is not sustained.”

Carson connects this back to advocacy by saying, “Our other option, too often under-used, is for foundations to become more engaged in public policy, where those decisions are being made about what to support and why to support those things. Foundations have been reluctant in general to engage in support of advocacy organizations as fully as we might.”
“In North Carolina,” Mikush says, “some foundations have been working together on state budget issues and have been very outspoken about the need to have fairly radical budget reform in the state. Several retired foundation leaders have played prominent roles in the citizen blue ribbon panels which address budgetary issues—including looking at tax policy.”

But beyond direct involvement in advocacy, the Mary Reynolds Babcock Foundation sees its primary role in public policy change to be in the funding of state policy work of grassroots groups, she says. “Our advocacy funding is all over the map, addressing everything from environmental racism to welfare reform, or local living-wage ordinances. I would emphasize the necessity of all foundations making investments in nonprofits’ ability to be involved in state policy work—it’s frankly more important than ever.”

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Lessons from Crisis: New York City Nonprofits Post-September 11

by Dennis Derryck and Rikki Abzug

Daycare and after-school programs shut tight. Switchboards at hospitals and clinics were down everywhere—and patients couldn’t reach offices even if those health operations managed to open with skeleton crews. Meals on Wheels stalled. Volunteer recruitment—except for emergency relief—ground to a halt. Meetings, events, and fundraisers were canceled. Programs and buildings were destroyed. Workers were distraught or absent. And some of our neighbors died.

Yet, even before September 11, New York City nonprofit organizations were not strangers to crisis. Whole sub-sectors of the nonprofit world exist to deal with other peoples’ crises—from poverty to political persecution, from hurricanes to heart disease. Organizations (and sometimes the whole sector) have learned from their own scandals and financial crises. But to what extent New York City nonprofit organizations were prepared to deal with the crisis of the attacks on the World Trade Center on September 11 was an empirical question that demanded immediate attention. Further, the lessons learned by New York City nonprofit organizations needed to be gathered to afford some semblance of precedent for a country and sector previously insulated from such terror.

As much of the American public rallied around the government, which rallied around the airlines and financial world, we wondered who would rally around the neighborhood-based nonprofits. We embarked on our own down-home, seat of the pants study designed specifically to give voice to organizations often overlooked as victims themselves. What follows is a snapshot of New York City’s nonprofit organizations struggling to get back on their feet after the one-two punch of terrorist attack and free-fall economy.1

By design, it documents only the first two months of relief and recovery—beginning approximately two weeks after the Towers fell. This preliminary data offers tentative yet substantive suggestions for crisis management (and organizational damage containment) at the organizational, organizational network, and inter-sector levels. We started with the voice of immediate impact and will continue to track these organizations through the

As much of the American public rallied around the government, which rallied around the airlines and financial world, we wondered who would rally around the neighborhood-based nonprofits.
While the initial shock of the attacks altered almost all organizations’ operating climates to some degree, the intermediary impact of the bleak economy is starting to have rather targeted effects. For the city’s large nonprofit institutions, continued public and private support is easing the transition to the new economic regime; for the small and mid-sized nonprofits, the safety net is less evident.

Inter-organizational Ties Prove Important

Contrary to popular press, some monies for recovery did become available relatively quickly. For nonprofits providing services, the September 11th Fund made both grants and loans available through three coordinating organizations with traditions of assessing organizational needs. The New York Community Trust, Seedco, and the Nonprofit Finance Fund were ready to cut checks for organizations with demonstrated need. But these resources were not highly publicized, so knowledge of such pools of funds became a critical factor in gaining access. One sure route to this knowledge was inter-organizational connections to those groups in the know—often umbrella groups.

Umbrella and other intermediary organizations immediately sent out communiqués to their networks through phone, fax and e-mail trees to assess damage and need. Umbrella organizations were able to match one organization’s needs (for temporary space, for instance) with another organization’s resources. Foundation grantees often had access to

Impartial Impact

The immediate organizational impact of tragedy was swift, hard, and widespread—almost every organization we contacted in the month after the attacks reported some level of impact. Our research suggested that financial and personal resources currently available to nonprofits are no insurance against or insulation from catastrophic events. Indeed, initial impact seemed impervious to organizational age, budget size, staff size, type of organization, sources of funding or revenue—whether government contracts or fee-for-service were prevalent, for instance. Almost 80 percent of responding small and medium-sized New York City nonprofits reported being impacted by the events of September 11; just under a quarter of those responding had sites below 14th Street in Manhattan—right by Ground Zero.

Once we moved beyond the immediate impact (in both distance and time) we started to see signs of differential recovery and differential adjustment to the newly austere climate. Seventy percent of our small and medium-sized nonprofits (average age of 34 years, average size of 65 staff members, average budget of $5+ million) that were impacted saw signs of recovery within two months, yet some organizations closer to Ground Zero are still struggling to survive. For every news report of an American Red Cross or Salvation Army flooded with donations, we found small human service organizations flooded with new demands at the same time facing staff and hour cuts. For every large cultural institution rethinking major capital projects, we found small museums and arts organizations cutting staff and programming.

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knowledge and additional funding from their foundation grantors. All of this left the unaffiliated small and medium-sized organizations still reeling from the immediate impact.

It could also be argued that organizational networking and affiliation might have provided respite from the very uneven change in client participation that we discovered in our study. Just under half of responding organizations (46 percent) reported a change in client attendance or participation rate. Almost 30 percent reported an increase in client participation, while three-fourths reported a decrease in client participation (the numbers do not add up to 100 percent because some respondents saw increases in some programs and decreases in others). Organizational resources did not necessarily match the new needs—the organizations seeing the most new clients were not necessarily those with enough staff to handle the volume. Affiliation and communication with other organizations could have further matched client demand to organizational supply. Indeed there were some feelings of ill will when the Red Cross tried to recruit new caseworkers without first exploring options of partnering with neighborhood non-profits that had caseworkers available.

The short-term costs of non-affiliation clearly included delayed or no access to recovery resources—including funding and extra staffing. The long-term impact of non-affiliation continues to plague these organizations in issues as diverse as contracting negotiations, supplier negotiations, knowledge sharing and leverage, and advocacy. A major implication of these observations is that nonprofit organizations need to consider the benefits of affiliation, federation, networking, and knowledge sharing so they do not have to face crises alone.

Further Limitations: Tight Margins and Contract Restrictions

So what does the economic future look like for small and medium-sized neighborhood nonprofits? It’s not pretty, according to the source. Almost 60 percent of the organizations in our sample agreed that the World Trade Center attack had had an economic impact on the agency. Another 28 percent weren’t sure (only 12 percent did not believe that the attacks had an economic impact). Almost 40 percent of organizations defined this economic impact as immediate loss of revenue, loss of fee-for-service, or low to no attendance. Decreased ability to fundraise was cited by 31 percent of organizations. Delays in funding and checks were cited by 33 percent of organizations—often leading to cash flow problems. Financial losses across our survey respondents were reported in the thousands, tens of thousands, and millions of dollars.

We should also note that since performance-based government contracts are reimbursed after services are provided, any interruption in such service can have tremendous financial impact. Two-thirds of the organizations in our survey stated they have such government contracts.

The dollar losses would be particularly hard-felt by those nonprofit organizations that operated on extremely tight margins even before September 11. Most nonprofits (some by contract) have little or no cash reserves or fund balances from year to year. Many report yearly deficits. Indeed, deficit spending is too often a characteristic of a relatively healthy nonprofit in a healthy economy.

Deficit spending with suspended cash flow (due to the absence of fee-paying clients
or inability to complete line-item budgetary requirements for client volume), no access to bridge capital, and a deteriorating economy are three factors that when blended are a recipe for disaster. That recipe has been mixed many times in the nonprofit sector in New York City since September 11, with critical city human services at stake even as the demands from terror victims and recession victims grow.

Indeed, just over a third of our respondent organizations noted a new population in the community now seeking the organization’s services and over a quarter reported that these demands were for services not currently provided. These new clients’ needs include: jobs, housing, placement for orphans, counseling, mental health care, pastoral care, information, education, and resources in Spanish. With organizations unable to finesse the funds to cover the services, the big question becomes how to pay for services for which no likely contracts are forthcoming? Loans and grants have traditionally provided the answers to these types of shortfalls and both have become available from some of the September 11 funds. The Nonprofit Finance Fund expanded its mission to allow for direct grants to cover organizational loss. Of course, loans have been more plentiful than outright grants and may turn out to be quite dangerous for small nonprofits due to unforgiving reimbursement structures.

So what recourse should these organizations have under the terms of the contracts that bind them? For organizations to rebound from crisis, flexibility and organizational slack are keys to shock absorption. Contracts that stipulate by line items rarely allow the creative problem-solving necessary to respond quickly to turbulent environments and therefore end up leaving organizations vulnerable. Rethinking the structure of contracts to allow creative problem-solving and the ability to respond to a rapidly changing environment is one concrete suggestion to come out of our inquiry. Couple this reform with increased access to forgiving loans, or better yet, pools of grant money, and nonprofits will find the road back to health a bit less daunting.

The Role of the Board in Crisis
Whose responsibility is it ultimately to get the organization back on the route to financial stability? That’s where the board comes in. Boards will likely have to consider the impact of the crisis on mission, programs, funding, and so on. In fact, the Alliance For Nonprofit Governance published a comprehensive checklist for boards in the face of crisis that was available on their Web site within a few weeks of September 11. Our survey results suggest that boards of our small and medium-sized neighborhood nonprofits may not have been as proactive as is recommended in times of crisis. While 38 percent of responding organizations responded that their boards had met as a result of the attacks on the World Trade Center, that leaves over 60 percent whose boards did not meet as a direct result of this crisis. We expected that more boards would have met. When can an organization call on its board for help, if not in a crisis? And if the board is to lead the organization through crisis, it must be there to help execute real-time.

Gleaning Lessons
In a world where neighborhood-based nonprofit organizations increasingly operate close to or even over the margin, dependent on monies from on the one hand “clients” and on
the other hand government contracts, it should not surprise us that these organizations were no more insulated from devastating market forces and concomitant rigid government demands and delays than their for-profit counterparts. Yet Congress has not been contemplating a bailout of the nonprofit sector. So what can be done short of a full-tilt government bailout? We recount our recommendations at three levels: organizational, organizational network, and inter-sector.

Our research suggested to us that resources available to nonprofits (the various funding streams and personal relationships) are no proof against catastrophic events. Organizations that had existing affiliations to a larger network of organizations certainly used the connections to find assistance. A key lesson then is that nonprofit organizations need to consider the benefits of affiliation, federation, or networking as well as active governing boards so they do not have to face crises alone.

From the vantage point of organizational networks (including the affiliated organizations and nonprofit intermediaries, such as funders) we can make further suggestions. The resources available to nonprofits to recover from such substantial revenue loss are quite limited. The enumerated limitations, however, provide a blueprint for potential management and policy changes to better ready the sector for future disaster. Non-profits cannot easily raise prices, productivity, roots (to move to greener pastures), or even debt. Loans to replace losses will be neither forthcoming nor fortuitous until we can more generously account for the true assets of the organizations and the sector. Further, in critical times, we must acknowledge that grants, and not loans, may be the only way to get nonprofits back on the road to sustainability. Intermediary organizations (foundations, associations) serving individual non-profits or networks of nonprofits need to recognize this circumstance and be prepared to offer grants to ensure recovery.

Finally, our survey of organizations in crisis is also quite revealing of these same organizations in stasis. In stasis these nonprofit organizations are increasingly structured between the poles of for-profit client contracts and performance-based government contracts—truly inter-sector. Our neighborhood nonprofits increasingly operate like businesses, with earned income generated through fees for service (almost two-thirds in our survey) and performance-based contracts (two-thirds). The government finances few of the services provided under these contracts up front, so cash flow remains an ongoing problem in the absence of reserves and the ability to borrow.

Many performance-based contracts are designed for harder to serve populations. Non-profits are now seeing new clients who do not meet traditional qualifications and the resources that organizations have cannot be used to serve this newer population. If, for example, an organization is seeing new clients with depression and anxiety, yet it does not have the funding (often contracts) to hire mental health professionals to deal with these new populations, then the organization must either borrow from other program areas and less restricted funding, or turn away these newcomers. Yet these organizations are the last to turn people away. In serving this new population, organizations are competing against themselves and having to make choices that they should not have to make. When funds are diverted from existing programs to service new immediate demands, the existing programs are handicapped.
What recourse should these organizations have under the terms of performance-based contracts? Our final suggestion is to advocate for reforms in contracting regimes to afford organizations the critical resources to retool, recover, and respond quickly and creatively.

We hope that the information provided here will help inform the way we all think about building capacity within the sector—there is still much to learn. Just as management schools and theories are extolling the virtues of flexibility, networking, and organizational learning in readying organizations for quickly changing operating environments, nonprofits are finding themselves less able to adopt any of these practices. Certain characteristics of funding encourage and cause rigidity, such as the new performance contracting and the more longstanding traditions of providing highly compartmentalized funding and chronically overlooking the need for adequate organizational slack and infrastructure. As we have seen here, networking and flexibility keep organizations informed and more powerful with regard to managing the context in which they work.

Endnotes
1. The full report, “The WTC Tragedy Ripple Effect Devastates Neighborhood Nonprofits,” covers study methodology, frequencies of impact, covariates of impact, and an extended discussion of lessons gleaned. We received 123 usable surveys by November 10, approximately two months after impact, for a response rate of about 20 percent. The profile that emerges is one of neighborhood organizations largely founded in the 1960s with substantial numbers of staff employed to manage and administer government and fee-for-service contracts, in the name of providing essential human services to communities. For the full report see (www.newschool.edu/milano/rebuild_nyc/nonprofits911.pdf)

2. This survey is indebted to funding by the Packard Foundation and partnerships with New York’s Federation of Protestant Welfare Agencies, the Hispanic Federation, the NYC AIDS Housing Coalition, the Environmental Justice Community, Youth Organizations NYC, the Supportive Housing Network, and the Haitian American Alliance, all of whom gave generously of time and technology.

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