BUILDING FINANCIAL RESILIENCE THROUGH A CRISIS

ELLIE HENG QU, PHD
CENTER FOR NONPROFITS AND PHILANTHROPY, THE BUSH SCHOOL OF GOVERNMENT AND PUBLIC SERVICE
OVERVIEW

• Assess current financial challenges
• Understand your organization’s cash position
• Manage short-term cash shortage
• Build long-term sustainability
• Q&A
RESOURCES


GOOD READS


WHAT ARE THE IMMEDIATE FINANCIAL CHALLENGES FACING NONPROFITS?
WHAT ARE THE IMMEDIATE FINANCIAL CHALLENGES FACING NONPROFITS?

• Significant disruptions to revenue streams
  • Cancelled fundraising or revenue-generating events
  • Delayed fee for service reimbursement
  • Reduced individual donations

• Unanticipated operational costs
  • Tech costs of transitioning to remote work
  • PPE for on-site employees
  • Cleaning services for facilities
  • Temporary replacement workers

• Increasing demand for services for some organizations
HOW LONG CAN YOUR ORGANIZATION LAST WITHOUT ADDITIONAL INCOME?

Understand your organization’s liquidity position
UNDERSTAND YOUR ORGANIZATION’S LIQUIDITY POSITION

1. The current ratio measures an organization’s ability to pay off its current liabilities with its current assets such as *unrestricted* cash/cash equivalents and accounts receivable.

\[
\text{Current Ratio} = \frac{\text{current assets}}{\text{current liabilities}}
\]

- You want to have a current ratio of at least 1, and preferably greater. The higher the ratio, the better the organization’s liquidity position.
UNDERSTAND YOUR ORGANIZATION’S LIQUIDITY POSITION

• 2. The quick ratio measures an organization’s ability to meet its short-term obligations with its most liquid assets

\[
\text{Quick Ratio} = \frac{\text{current assets} - \text{inventory} - \text{prepaid expenses}}{\text{current liabilities}}
\]

• Your organization's quick ratio should not be less than 1
UNDERSTAND YOUR ORGANIZATION’S LIQUIDITY POSITION

- Alternatively, the following measures how many months of savings your organization has if it operates at its current rate and receives no additional income.

\[
\text{Quick Ratio} = \frac{\text{current assets} - \text{inventory} - \text{prepaid expenses}}{\text{total monthly expenses}}
\]
UNDERSTAND YOUR ORGANIZATION’S LIQUIDITY POSITION

3. Does your organization have rainy day funds (operating reserves)? If so, how long will it last?

- Less than 25% percent of the nonprofits had more than 6 months of cash in reserve.
- The majority of the nonprofits had less than 3 months of operating reserves.
- About 10% had less than 30 days of cash on hand. This may be the reality for many nonprofits, but that does not mean that it is optimal.

CASH FLOW PROJECTION

• An accurate projection shows if and when the organization will face cash shortages
• Map expected revenue and expenses at the beginning of each month
• Separate unrestricted from temporarily restricted funds
• A template
WHAT TO DO IF EXPECTING A CASH SHORTAGE?

Breakout session
MANAGING CASH SHORTAGE

In the short term, ask if there is an opportunity to:

- Use operating reserves
- Accelerate collection of receivables
- Work with funders to offer flexibility in meeting grant requirements, expediting payments, and/or converting restricted to unrestricted funds
- Work with vendors to delay payments
- Work with lenders to provide temporary loan relief
- Cut down non-mission-essential expenses
MANAGING CASH SHORTAGE

*Financing options

- COVID-specific loans via CARES Act
  - Paycheck Protection Program (PPP), qualifying expenses may be forgiven (e.g. payroll expenses, interest on debt, utilities)
  - Economic Injury and Disaster Loan (EIDL), covering a broader range of expense but loans must be repaid
- Lines of credit, working capital loans from commercial banks
- Low-interest loans (e.g. PRIs, MRIs) from foundations or CDFIs
MANAGING CASH SHORTAGE

In the mid term, see if there is an opportunity to:

- Convert in-person fundraising events to online campaigns
- Apply for COVID-19 relief funds
- Look for corporations to donate digital devices for recipients or staff
- Deliver a traditional program online
- Reach out to board members, community supporters, major donors, and institutional funders
WHAT WOULD YOUR ORGANIZATION DO DIFFERENTLY TO BE MORE PREPARED?

From short-term survival to long term sustainability
Nonprofits & NGOs

How One National Nonprofit Is Adapting to COVID-19

Lessons learned at Friends of the Children about maintaining stability in service during this crisis and the next one.

By Terri Sorensen | May 11, 2020

Terri Sorensen (@terri_sorensen) is the chief executive officer of Friends of the Children, a national organization that is impacting generational change by empowering youth who face the greatest obstacles through relationships with professional mentors.
• Prioritizing stability & working to ensure employee well-being.
• Aggressively tracking and applying for dozens of national and local funds created to support nonprofits through this crisis.
• Leaning on funders:
  • several funders are offering more flexibility in meeting grant requirements
  • requesting expedited delivery from funders for payments that were already in process or due in the near future.
  • maintaining relationships with current funders by making personal phone calls to share stories of hope and challenges.
• New fundraising: launching aggressive digital fundraising campaigns
• Looking for tech companies to donate digital devices for our youth
• Preparation begins before the crisis, by raising enough capital, diversifying funding streams, ensuring strong community support
FROM SHORT-TERM SURVIVAL TO LONG TERM SUSTAINABILITY

SHORT-TERM SURVIVAL
• Use operating reserves
• Accelerate collection of receivables
• Work with funders to offer flexibility in meeting grant requirements, expediting payments, and/or converting restricted to unrestricted funds
• Work with vendors to delay payments
• Work with lenders to provide temporary loan relief
• Cut down non-mission-essential expenses
• Financing

LONG-TERM SUSTAINABILITY
• Build adequate rainy-day funds
• Monitor and maintain a liquidity target
• Develop a cash budget to project and monitor cash flows regularly
• Diversify revenue sources
• Diversify fundraising
• Strengthen community support
• Build a business model that makes sense financially and socially
ASSESS YOUR BUSINESS MODEL

LET’S CHAT!

Questions or comments?
SCENARIO BUDGET PLANNING

• Use scenario planning to help the management respond to unpredictable situations
• Base, best, worst scenario
• A template