

Non-Profit Legal Matters

Getting Out of the Storm: Survival and Endurance Through A Recession

Few things instill fear like the looming uncertainties of an economic recession. While non-profit organizations were not directly involved with the subprime debacle and financial sector meltdown, they are in no way immune from the ailing economy.

From shrinking funding bases and increased demand for services to depleted endowment, non-profits are facing significant challenges to their day-to-day operations and even their ability to survive. As a result, many non-profits have no choice but to adjust their budgets and expenditures, and to develop creative efficiencies. If they don't, the consequences could be catastrophic, including closure and dissolution.

The good news is that there are a large number of options non-profit organizations can pursue to help limit the impact and otherwise cope with the decreased funding the recession is may bring. To help non-profits get to safe harbor, below are a few tips and suggestions that can help maintain fiscal health and stave off further hardships. You might wish to think about how each may work within your organization, then develop and implement a strategy for deploying those that are likely to bring it meaningful benefits.

- Improve cash flow.
 - Non-profits, like most businesses, can better manage cash flow to help keep creditors at bay and ensure prompt receipt of revenue. Some specific strategies include:
 - Project expenses and revenue 30 to 60 days in advance to provide clear expectations and minimize stressful surprises.
 - Wait 30 to 45 days to pay bills to delay cash outlays.
 - Negotiate discounts for paying bills within 10 days.
 - Shop wisely. For example, buy supplies during sales and stock up when prices are low, shop the Internet for bargains, and use vendors that provide discounts to non-profits.
- Cut costs.
 - Nonprofits tend to focus more on their programs and less on the costs. But often there are considerable savings to be had by finding savings and cutting unnecessary expenditures. Professional firms can help achieve these benefits. [Click her for referrals.](#)

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- Revenue Enhancement
 - Explore the ways your organization may not be optimizing its revenues such as worked and services not billed, missed opportunities to “sell” more services or goods, bundled pricing, etc.
- Improve Collections
 - Aggressively pursue late payers and nonpayers. Cut off customers that do not pay their bills on a timely basis and offer incentives for quick payments (e.g., 2% discount for payment within 15 days of invoice)
- Accept Credit Cards
 - Often the ability to accept credit cards, whether through your own merchant account or a third party such as PayPal, both increases your customers and revenue base, and increases payment rates (though there is a cost of about 2.5% of total charges)
- Renegotiate leases.
 - In this unstable real estate market, landlords are especially apt to avoid vacancies. Non-profits can save enormous costs by renegotiating their leases. To explore this option, you can speak to a tenants’ real estate agent (landlord’s pay their commissions). Sheryl Mazirow, one of the great referral sources we have for our clients, has an excellent article on this topic. [Click here to download.](#)
- Move to less expensive or smaller space.
 - If a lease renegotiation is not an option, explore moving to another building or part of town. The monthly overhead savings from such a move could improve cash flow, help pay vendors, and give you enough financial breathing room to retain your employees. Just be sure to check the terms of your current lease before vetting this option.
- Share space with other nonprofits.
 - If an organization has more space than it needs, especially with the economic downturn, this option may provide benefits to everyone. Consider sharing some office services as well.
- Share administrative operations with other non-profits..
 - If you can share operations with other local non-profits or non-profits in your same sector, the efficiencies and economies of scale could result in substantial and immediate savings. This option works especially well if the organizations are sharing space as well.
- Sell unused assets.
 - Just as you are trying to save money, so are other non-profits and businesses. Your old items (sold at reasonable, not bargain, prices) could result in unexpected funds while providing savings to others. However, if many others are doing the same thing, resale prices may be too low to warrant selling.
- Consolidate or close some programs.
 - If certain programs are underperforming, whether in terms of the services provided or revenue, selective closure or consolidation can cut expenses while helping the organization as a whole to survive.

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- Swam Programs
 - If an allied organization does some things better than yours and your organization does some things better than the other, consider transferring or swapping these programs to achieve more efficiencies, improve revenue and stabilize costs.
- Merger
 - Two organizations engaged in similar activities may realize significant economies of scale and improved outcomes by merging. In other situations, a merger with a larger, more financially stable nonprofit, may permit an otherwise faltering organization to continue to deliver services to its constituents.
- Pursue “Failed Donation” claims
 - Nonprofits’ D&O insurance policies often include a failed donation provision. That is, your insurer may cover a pledge that is not honored if bankruptcy, reorganization, unemployment or incapacitation prevents a donor from satisfying her written pledge of funds or property.
- Across-the-board pay cuts.
 - This often is a better option than terminating (i.e., laying off) some employees. It usually is better for morale and avoids having to fill in gaps left when some employees are terminated. Be sure first to consult with your employment attorney or H.R. consultant before undertaking either this option or termination of employees. Click here for referrals.
- Terminate employees.
 - This can be a drastic and extraordinarily difficult decision. But, sometimes it is necessary to keep an organization afloat.
- Reorganize with a Chapter 11 Bankruptcy
 - If your organization is saddled with sizeable debt but would be capable of surviving if that debt could be reduced, a reorganization in bankruptcy may do the trick. Consult a bankruptcy attorney to help assess this option. Click here for referrals.
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To discuss economic survival further and to learn more about how non-profits can save money in lean economic times, please contact us at 818.623.9898 or law@lfnp.com. You can also visit us on the web at www.lfnp.com.