

NewsFlash

by Linda Swerling

May 10, 2011 – Even though nonprofits are focused on pursuing their charters and not on making profits, they often face the same financial challenges that for-profit organizations do.

NONPROFIT IN FINANCIAL CRISIS

Situation

A nonprofit in the science arena with revenue of \$12 million from contributions, grants, and interest discovered financial negligence on the part of the executive director and CFO. Because the organization appeared to be in serious financial trouble, the board realized they needed to take immediate action.

Problem

The board made the decision to terminate the executive director and CFO. On the recommendation of a board member, they called in Level II Solutions to:

- Assess the extent of the problem
- Manage the financial situation
- Oversee the office until an interim executive director came on board

Solution

The objective of the engagement was to create stability within the organization, bring the accounting up-to-date, establish budgets for income and spending, and help the interim executive director rebuild donor confidence.

Finances

On our first day, we discovered the CFO had shredded all records, statements, and files. There were no log-ins, passwords, or other information. The accounts payable aging was well over 90 days and unusually high. And, the payroll was due that Wednesday.

- Using a trusted payroll provider, we set up and paid everyone on time.
- Because of signing privileges, a board member and I worked together on the phone with the bank to figure out what accounts existed and discovered many had negative balances.

- Literally waiting for the mail to arrive and gathering whatever lay around the office, we worked on recreating the financial structure.
- The CFO had not been taking collection calls so vendors and suppliers began to think this was a bad debt situation. We spoke with each vendor to renegotiate affordable payment terms.
- Met with the auditors to ensure the annual required audit and filings, which were currently overdue, would be finalized and completed asap.

Staff and Office

- Group and individual meetings took place to discuss current responsibilities and projects.
- Set up rules and policies for inclement weather, sick days, and administrative tasks, e.g., cleaning the kitchen.
- Set guidelines and limits for spending on office supplies and administrative services.
- Structured volunteer efforts with pre-defined tasks and tracking attendance with sign-in sheets.

The Board of Directors

- Provided an assessment report and next steps.
- Gave updates and projections as work progressed.
- Once he arrived, partnered with interim executive director during the transition.

Results

The turnaround proceeded smoothly with everyone working hard.

- Created a new, realistic budget for the nonprofit to use going forward.
- Staff confidence stabilized.
- Vendors and suppliers' overdue balances were paid down.
- The bank became secure that the cash flow was under control.
- Communication with the donors improved.

If you sit on a nonprofit board or work for one and want help analyzing your financials and operations, please contact us at 617-277-0222 or linda@level2solutions.com.