

Financial Risk Self-Assessment




DETERMINING YOUR FINANCIAL RISK PROFILE

This tool aims to support nonprofit organizations as they navigate a period of uncertainty. Answer the questions below for a “gut check” and conversation starter related to your financial risk profile in the next six to twelve months and potential next steps, recommendations, and resources.

One-Point Questions <i>These questions relate to core financial practices and risks related to revenue concentration and mix. For every “yes” answer in this section enter one (1) point, and for each “no” answer enter zero (0).</i>		0 or 1 Point
1. Does more than 30% of your funding come from one source? (for example, a single foundation or government contract, 3 or fewer individual donors)?		
2. Is the majority of your funding restricted?		
3. Does your board ever go more than 3 months without reviewing financial reports?		
4. Are purchases often made without prior approval (i.e., related to travel, contracting, etc.)?		
5. Do you find that your planning practices do not effectively support your decision making in a time of uncertainty?		
Subtotal		
Three-Point Questions <i>These questions address organizational disruptions as well as reserves, debt, and liquidity to determine organizational solvency. For every “yes” answer in this section enter three (3) points, and for each “no” answer enter zero (0).</i>		0 or 3 Points
6. Are any of your programs at risk of being affected by external factors (beyond funding) in a way that would jeopardize their impact or effectiveness?		
7. Have you had to use restricted funding to cover operating expenses unexpectedly?		
8. Do you have less than 3 months of Liquid Unrestricted Net Assets (LUNA)? (LUNA is different from cash on hand and is often referred to as operating reserves. If you receive a significant amount of restricted funding, cash on hand will not accurately indicate your level of operating reserves. For more information, read an article on LUNA , or click here to download an excel tool to calculate LUNA.)		
9. Do you have any significant financial obligations, outstanding debts, or a fully extended line of credit that you are concerned about paying down?		
10. When looking ahead to the next 6-12 months, do you anticipate cash flow shortages?		
11. Are you experiencing disruptions with required annual reporting such as missed audits, 990s, or other regulatory filings?		
12. Does management lack the financial information they need to make decisions (i.e., developing budgets and managing cash flow)?		
Subtotal		
Ten-Point Questions <i>These questions reflect significant financial difficulties that the organization may face. For every “yes” answer in this section enter ten (10) points, and for each “no” answer enter zero (0).</i>		0 or 10 Points
13. Is more than 50% of your revenue already lost, cancelled, or in danger of being lost in the next 3-6 months?		
14. Are you having difficulty making payroll or paying your vendors?		
15. Are you in danger of defaulting on loans and/or not being able to repay your line of credit?		
Subtotal		
<i>Add up your total and refer to the explanation below for results and resources.</i>		Total

RISK PROFILE AND RELATED RESOURCES

Your total score from above will place your organization into one of the following financial risk categories. This framework can provide a directional starting point for your risk assessment; however, it is important to recognize that additional factors may influence your overall risk profile beyond what the scoring captures. Furthermore, this assessment should not be viewed as a one-time exercise. The nonprofit landscape is dynamic and leaders should expect ongoing changes in their organization’s risk profile driven by external pressures and/or internal developments.

0 - 8 Points	9 - 17 Points	18+ Points
<p>Minimal Expected Impact: Maintain Current Operations</p> <p>Either no changes to revenue/ programs OR minor funding decreases for some. Limited risk from internal practices and procedures</p>  <ul style="list-style-type: none"> • Programs are sustained or moderately reduced. • Focus on minimizing expenses that do not significantly impact mission activities and planning for sustainability. 	<p>Significant Areas at Risk: Business Model Recalibration</p> <p>Moderate funding decreases from one or multiple revenue streams or other critical program impacts</p>  <ul style="list-style-type: none"> • Programs may scale down while core services are prioritized. • Undertake cost reduction strategies. • Explore new revenue streams and strategies. • Look into opportunities to collaborate with others. Consider outsourcing or sharing HR, IT, finance functions or physical space to reduce costs. 	<p>Existential Redefinition: Alternative Operating Model or Restructuring</p> <p>Substantial funding decreases from primary revenue sources or other existential threats</p>  <ul style="list-style-type: none"> • Dramatic restructuring might include moving to fiscal sponsorship, transferring program(s) to another organization, or merging with another nonprofit. • If other options are not feasible, winding down operations and dissolving the organization might be necessary.

NEXT STEPS BY RISK PROFILE

The following recommended financial management practices and relevant tools have been tailored by risk profile. This list is not comprehensive, and many practices are relevant across categories.

Minimal Expected Impact: Maintain Current Operations
<p>For this lowest level of risk, you are able to maintain current operations, though you should strengthen your ability to weather future uncertainty by continuing or instituting the following practices:</p> <ul style="list-style-type: none"> • Ensure regular review of financial statements and/or management reporting, including statement of financial position, statement of activities, and budget vs. actuals by program and organization-wide, to enable decision-making: <ul style="list-style-type: none"> ➤ Monthly review with staff leadership ➤ Quarterly review with Board of Directors • Develop a year-end forecast, to project how you might end the fiscal year and allow for course corrections • Update your rolling cash flow projections on a monthly basis to reflect your expected cash inflows and outflows for the fiscal year and support cash flow management and predict potential shortfalls. • Use the nonprofit budget template to ensure visibility into revenue and expenses by program and function. • Complete a financial health analysis to see a snapshot of your organization’s financial health and identify key fiscal health indicators such as months of LUNA and months of cash on hand. • Build or maintain an operating reserve. Refer to the reserve fund template & guide for strategies on developing reserves and sample policies and worksheets.

Significant Areas at Risk: Business Model Recalibration

In this category, your organization will want to undertake a business model recalibration to focus on the provision of core services. This may include scaling down programs, reducing staffing and/or infrastructure expenses, or outsourcing finance, HR and/or IT functions. Understanding your revenue and expenses by program is critical, as is developing real-world scenarios to support informed decision-making. Practically, you should:

- Review and refine your budget using the [nonprofit budget template](#) to identify the bottom line of each program or activity to inform decision-making on recalibration options, including potential program wind-down or transfer in case the risk increases
- Review your cost structure to understand fixed vs. variable expenses and where you might be able to reduce costs. Depending on your funding situation, you may need to reduce staffing and/or infrastructure.
- Explore revenue diversification alternatives. For example, earning legal fees when government subsidy decreases or charging for afterschool activities to a percentage of the population.
- Monitor [cash flow projections](#) closely (updating on a monthly basis) to understand your expected cash inflows and outflows for the fiscal year and anticipate potential shortages.
- Develop a [year-end forecast](#) to model anticipated variances from your budget, understand projections through fiscal year end and enable course corrections.
- Complete a [financial health analysis](#) to get a snapshot of your organization's financial health and identify KPIs such as months of LUNA and months of Cash on Hand.
- Assess existing programs using a [mission matrix map approach](#), to understand the financial and mission-related impact of activities and enable strategic decision-making around organizational priorities.
- If you are evaluating different paths forward or anticipating additional external impacts, use the [scenario plan identification tool](#) to document up to three options for the organization to maintain its core services. Complete a [scenario planning financial model](#) to provide an understanding of revenue and expense implications within each scenario to support decision-making.

Existential Redefinition: Alternative Operating Model or Restructuring

When facing existential redefinition, it will be key to keep a close eye on your financial position while also exploring options that prioritize the preservation of your mission-based work. As you undertake this process, it is critical to focus on your organization's goals and crafting a new structure that is aligned with those goals. Refer to the **Business Model Recalibration practices above** as well as the [Playbook for Nonprofits Facing Revenue Adversity](#). Practically, you should:

- Complete a [year-end forecast](#) to understand realistic projections through fiscal year end.
 - Refine your [cash flow projections](#) to determine the organization's level of runway.
 - Explore potential structural transitions. There are myriad ways to structure an impact-driven organization. Clear-cut answers and obvious paths forward are rare, but thoughtful, creative leaders are abundant in the nonprofit ecosystem. Potential transition options include:
 - Moving into a fiscal sponsorship relationship, which will reduce the need for an independent back-office, allowing you to focus more fully on fundraising and programmatic work
 - Transferring programs or assets to other organizations who are mission-aligned
 - Entering into an integrated partnership (for example, a merger or acquisition)
- In some cases, leaders may consider winding down the operations of the organization, ensuring a responsible approach that is considerate of staff, program participants, and partners along with meeting all legal and financial requirements.

Nonprofit GPS draws on the grounded experience of Nonprofit Financial Commons and BDO's Nonprofit and Grantmaker Advisory practice, as well as the tools provided at [StrongNonprofits.org](#).

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