

## FEBRUARY, 2007

### Stopgap and Emergency Funding

on-the-go!  
e-TA

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A service of the Corporation for National and Community Service - Resource and Fund Development Initiative

## Dear “Stopgap Funding” Colleague,

Financial emergencies can happen to anyone. The first rule is “be prepared”. The second rule is “do not panic”.

In this issue of On-the-Go eTA, you will find information on how to prepare for financial set-backs, because they will happen eventually. In addition, there are some tips on how to respond with stopgap funding in financial crisis. Topics include Preparing for Budget Shortfalls and Implementing Stopgap Funding Strategies, Creating a Cash Flow Budget, and Securing a Line of Credit / Loan.

If you are having trouble reading this issue, click on the link at the top of this page to download a printable edition.

Do you have questions about emergency or stopgap funding? Any other needs? Contact us through [LEADline@CampaignConsultation.com](mailto:LEADline@CampaignConsultation.com). Access previous issues of On-the-Go eTA by clicking on the title at the right.

## Preparing for Budget Shortfalls and Implementing Stopgap Funding Strategies

So much can happen to derail the best laid financial plans -- weather disaster, unexpected client needs, shocking loss of a significant funder, delayed reimbursements from contracts, etc. You can avoid most budget shortfalls by planning in advance. There also are steps you can take to respond with stopgap funding strategies as shown by the tips below

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steps below.

<b>Preparing for Budget Shortfall</b>	
<b>1. Develop a cash flow budget</b>	Review a cash flow budget, (explained later) at least every 6 months, to help forecast changes to anticipated cash flow and expose potential shortfalls.
<b>2. Work with your volunteer leaders to develop a three-point plan</b>	Your stakeholders – volunteer leadership, major donors, banking vendor, etc. – will appreciate your diligence by asking their advice in developing a three-point budget shortfall plan of response occurring as a result of emergencies, disasters, etc.
<b>3. Establish an Emergency Fund</b>	Save your money and establish a “Rainy Day Fund”. This emergency fund should have at least a 3-month operating balance.
<b>4. Obtain a Line of Credit</b>	A Line of Credit is a pre-established loan authorization with a specified borrowing limit. The line of credit is extended by a lending institution to an organization based on its creditworthiness. Prepared by a lender most familiar with your operation, this preparatory step should be done when your financials are healthy.
<b>5. Build Diverse Streams of Funding</b>	Cultivating multiple streams of funding from government, foundations, corporations and individual donors is critical to ensuring that your program does not rest on one funding entity alone – leaving it vulnerable to fiscal disaster.
<b>Implementing Stop Gap Funding Strategies</b>	
<b>1. Draw from Emergency Fund</b>	Use your “Rainy Day Fund” to keep your services humming, giving you time to correct the shortfall.
<b>2. Activate your line of Credit</b>	You have prepared for it, now use it!
<b>3. Create an</b>	This is an “all hands” team of

## Share Square

Treat fundraising volunteer leadership like they are partners in knowledge regarding the good, the bad and the ugly and they will rise to the occasion. Transparency is the rule especially in times of crisis.

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<b>emergency Resources Now! team</b>	volunteer leaders and friends working to help the organization close the funding gap.
<b>4. Inform major supporters, volunteer leadership, etc. immediately</b>	No one likes surprises; keep your stakeholders informed. With advance warning, their influence can help close the funding gap through relationships with foundation and other funders.
<b>5. Secure a Challenge Grant</b>	Major funding stakeholders can pool and attract resources from funders and issue a Challenge Grant to be matched at whatever percentage by funds raised through your organization's donor database.
<b>6. Mail an emergency fund appeal</b>	Sending a mail appeal (to a previously responsive fundraising database) which features a Challenge Grant could encourage increased support in this emergency. P.S. Avoid the emergency "we're about to close our doors" jargon. It does not build donor confidence. Even though donors may respond once to an emergency appeal, they will not give again to the same appeal.
<b>7. Delay Payments to Vendors</b>	If you are really in a bind you may wish to negotiate a payment schedule with vendors. Perhaps you will be able to extend payment to 60 or 90-day schedule.

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## Creating a Cash Flow Budget

You expected to end the budget year with a surplus. Why then, are you now facing bills due and no money in the bank? The issue may be cash flow management. You have plenty of money on paper, but the timing of receipts is at odds with your expenses.

Creating a cash flow budget (in addition to your annual budget) and then reviewing it every three to six months throughout the year can help you avoid shortfalls.

Although developing a cash flow budget is an extra step in financial management, you will be able to forecast any shortfalls and at the same time maximize organization

*Don't loose sight  
of the root word  
of "emergency."  
It's "emerge."*

Jo Nelson Booze, American Educator

resources. Again, your volunteer leadership are key in helping you draft and later approve the cash flow budget.

[Click Here to see steps to create a Cash Flow Budget and a sample budget to assist in developing your own cash flow budget.](#)

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## Securing a Line of Credit / Loan

Loans can sometimes be used in response to a financial emergency. If a cash flow shortage is the result of an entirely unexpected occurrence, such as damage to property or loss of a major funder, it may be possible to find an emergency funder in a foundation or individual who has confidence in your ability to repay the funds at a later date.

Some organizations open a line of credit to help manage cash flow issues as a result of seasonal programs, delays in program or service reimbursements after services are delivered, etc. At time of application, the organization should be in good financial health, have a positive cash flow and be creditworthy. A bank executive with whom you have done business successfully will issue a line of credit with a specified borrowing limit. The line of credit allows borrowers to access funds without having to re-apply each time a draw is made.

In all cases, lenders are going to ask you to demonstrate a clear plan for repaying any debt. Once you have determined the amount you wish to borrow and you have made a plan for repaying the debt, you will need to meet with the lender to confirm the terms of payment. Always secure all terms in writing and obtain legal advice. As always, include your leadership volunteers in the decision to pursue and the approval of a loan/line of credit response.

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### Let us know

Do you have questions or insights to share about stop-gap funding?

Contact us at [LEADline@CampaignConsultation.com](mailto:LEADline@CampaignConsultation.com) (LEADline is sponsored by the Corporation for National and Community Service through its Resource & Fund Development Initiative.) We would be happy to answer questions or to give you more support.

Thank you for your interest in On-The-Go eTA. We encourage you to [send this and other issues of OTG eTA to friends and colleagues](#) who would benefit from

the information. Also, if you're on information-overload, you may request [email removal](#). Otherwise OTG e-TA will be back soon with another edition.

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*Details from above:*

## Steps to Creating a Cash Flow Budget:

[Click Here and refer to the Sample Cash Flow Budget for practical applications of these principles and a blank form you can use to create your own budget.](#)

1. Begin with last year's budget and your checkbook. List, month by month, all of your income in one column and all of your expenses in another.
2. Identify those expenses that recur every month and are roughly fixed in amount, such as salaries and rent.
3. Do the same with income, noting regularly anticipated revenues such as income from program fees or from a special event.
4. Now create an informed budget from last year's information, starting in the current month with actual expenses and income and using "best guess" figures for the next five months. The next five months are your "projected income and expenses."
5. At the end of each month you will show a positive or negative balance. If you have a positive balance at the end of any month, be sure to carry that over to the next month in the income column as "beginning cash balance."
6. In those months where you show a negative balance, identify any expenses that can be moved to another month. Also, discuss with your staff and advisory committee, steps that can be taken to increase income to these months. This may take the form of adjustments to your annual fund drive, changing the timing of a special event, activating a line of credit, or other measures suggested in this issue of On-the-Go eTA. There may be additional expenses incurred with any of these measures, so be certain to consider these as you develop your cash flow budget.

By constantly reviewing and adjusting your cash flow budget, you should, over time, develop a pattern that enables you to manage your cash so that you have income

at the best times to match your expenses. Program planning will be able to maximize your mission.

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## Resources

*National ASK to Sustain Institute*, sponsored by Corporation for National and Community Service, provided by Campaign Consultation, Inc. 1998, 2002

*Resources Now! National Institute*, sponsored by Corporation for National and Community Service, provided by Campaign Consultation, Inc. 2006 - present

Support Center for Nonprofit Management at <http://www.supportctr.org>

*Financial Management for Public, Health, and Not-for Profit Organizations*. Finlker, Steven A., Prentice Hall, Upper Saddle River, New Jersey. 2001.

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## Additional Learning Products and Services

### **LEADline:**

*(Learning Experiences At a Distance)* LEADline is designed to give information fast. Have a resource & fund development question? Use LEADline and within 24 hours you will receive response and advice from a fundraising professional.

### Contact us

[LEADline@CampaignConsultation.com](mailto:LEADline@CampaignConsultation.com)

### **GIZMOs:**

*(Giving Information for Zooming Money Objectives)*  
Gizmos are resource and fund development tools for you and your volunteers. They are tangible products in packets, pocket brochures, CD-Roms, games, etc. They feature a myriad of fundraising topics such as **The Power of Direct Mail**, an interactive cd-rom and detailed companion booklet on developing your direct mail program.

To order, contact us through [LEADline@CampaignConsultation.com](mailto:LEADline@CampaignConsultation.com)  
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Everyone who comes to a Resources Now! National Institute gets a free subscription to the Chronicle for a year. Participants in CNCS Campaign Consultation workshops receive the latest issue free of charge plus a \$20 discount on one year's subscription.

### ***Workshops/Clinics:***

The Corporation for National and Community Service (CNCS), through its T/TA service provider Campaign Consultation, Inc., offers a three-hour workshops and clinics for those interested in mastering key skills need to write for individual donors.

### ***Online Courses/Webinars:***

Web course delivery of topics pertinent to resource development such as — **Build Fundraising Volunteer Champions** and **Cause Related Marketing and Corporate Partnerships**.

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- [September 2006 Fundraising Events](#)
- [Mid-August 2006 Volunteer Fundraisers](#)
- [August 2006 Reach Out and Touch](#)

## *Communication*

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- *July 2006 Ask Major Donors*
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- *June 2006 Individual Donors*

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