

# Risk Management ESSENTIALS

Tips, Knowledge and Tools for Nonprofit Organizations



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## THE FUNDRAISING RISK ISSUE



## Top 5 Fundraising Risks: What You Need to Know and Do

By *Melanie Lockwood Herman*

The expression ‘no money, no mission’ reminds each of us that fundraising is *fundamental* to the health and survival of every nonprofit organization. Whether you raise funds from institutional or individual donors, planned giving or celebratory events, attracting financial support is both essential and risky to the success of your mission.

Like any activity worth pursuing, fundraising—in every form—produces interesting risks (possibilities). There is no such thing as zero-risk fundraising. Putting that impossibility aside, let’s explore 5 top

fundraising risks and corresponding ‘must know’ and ‘must do’ strategies.

### 1. Donor Dissatisfaction

The risk of donor dissatisfaction can grow as you achieve fundraising success. The larger your volume of donors, the greater the risk that one of those contributors will become unhappy with someone or something at your nonprofit.

#### What to know:

- *No two donors—despite demographic similarities, contribution levels, or*

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## Top 5 Fundraising Risks: What You Need to Know and Do CONTINUED FROM PAGE 1

*relationships to your mission—are exactly alike.* If you've met one donor, you've met one donor!

- **You can never know exactly what a donor will do.** Today's convivial donor could become your dissatisfied, vocal detractor tomorrow.
- **Stewarding donors with care and grace is essential to fostering mission support beyond the donation.**

### What to do:

- **Resolve to stop making assumptions about why someone supports your nonprofit and what aspects of your work—or recognition—are meaningful.** It's hard to know what attracts someone to your mission, especially for nonprofits with thousands of financial supporters. But learning what you can about the answers to those questions is fruitful. What is an individual donor's personal 'why' for supporting our mission? What recognition of their support do they desire?
- **Identify and monitor 'key risk indicators' of looming donor dissatisfaction.** What signs and signals do you see when you look at donor data up close, or when you step back? A dear friend consistently contributed \$500 per month to a nonprofit whose mission she admired. She stopped making those donations six months ago. Crickets from the nonprofit, which has a four-person development team.
- **Express warm appreciation to any and every departing donor.** Perhaps your long-time donor can no longer afford to support your work. Or an institutional donor's priorities have shifted, and their financial support must as well. Convey your gratitude for the donor's support and leave a lasting positive impression. "We deeply appreciate all you have done to support our work and hope our

paths will cross again in the future! We welcome any questions or connections at any time, including inquiries unrelated to financial support. Our door is open!"

## 2. Unrealistic Fundraising Goals

This risk plagues the nonprofit sector. It is fueled by pressure, from our Boards and ourselves, to keep up with rising expenses and beat our best results, year over year.

**"Today's convivial donor could become your dissatisfied, vocal detractor tomorrow."**

Without any data or insights to suggest that we can raise 5 or 10% more, we plug overly-optimistic projections into our budgets and hope for the best.

### What to know:

- **It's ok to acknowledge when you simply, honestly don't know.** "We saw that 10% of our donors decreased their total support last year, but we do not know the reasons why. We have identified three practical ways to learn the real reasons a donor might decide to decrease their support. We are going to implement those strategies this year and report back what we're learning mid-year." I've attended many development team presentations where I sensed I was being given a plausible—but not evidence-based—explanation for a fundraising target.

### What to do:

- **Before identifying financial targets and goals in your key revenue or fundraising streams, identify what you don't know.** Say your nonprofit knows that 5% of long-time contributors increased their

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## Top 5 Fundraising Risks: What You Need to Know and Do

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total support last year while 10% decreased the amounts they are giving. But you don't know what inspired the donors who upgraded or downgraded their level of giving to do so. Personal circumstances? Fondness for one of our programs or allure of another mission? General worries about economic conditions?

- **Pinpoint and disclose assumptions behind each fundraising target.** Use the notes section of budget working papers to describe, in words any reader will understand, what led you to choose the target in each category (e.g., individual giving, government grants, philanthropic grants, etc.).

### 3. Missed Opportunities to Upgrade

While vacationing with a dear friend who leads an amazing nonprofit, I pleaded with her to ask all her regular donors to consider giving more in the coming year. I was delighted to learn that a percentage of

those asked to do so responded positively and no donors rebuffed the ask.

#### What to know:

- **It's not unusual to assume that people are contributing the most they can—or want—to give.** That assumption stops us from asking every donor to consider giving more. Asking for money remains a delicate undertaking. Humble, experienced fundraising professionals will acknowledge that the fear of rejection accompanies every ask.

#### What to do:

- **Identify multiple 'whys' behind your ask for greater support this year that will resonate with donors and funders.** When you're vague, you leave the 'why' open to the donor's imagination. Consider A/B testing your clear, unapologetic but truthful 'why' statements to gain helpful insights. A colleague told me he receives an annual letter from the President of a valued vendor that

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**“Pinpoint and disclose assumptions behind each fundraising target.”**

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**Top 5 Fundraising Risks: What You Need to Know and Do**  
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**“In a fundraising fantasy world, all donations are fully unrestricted, and available to spend as wise leaders deem appropriate.”**

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says, “This year we provided an across-the-board 3% cost of living increase to our hard-working team. We are increasing our monthly rates by 2% to help offset that cost. We believe in our people and we hope you see and experience their commitment and professionalism in every interaction with you. If you want to share concerns—or accolades—about our team or a specific member, please contact me directly. I would love to hear from you.”

- *Identify the networks in which your donors participate and, when appropriate, ask for introductions to other potential donors.*

#### **4. Failure to Meet Donor Requirements**

In a fundraising fantasy world, all donations are fully unrestricted, and available to spend as wise leaders deem appropriate.

In the real world of nonprofit finance and fundraising, most nonprofits receive support in three different forms:

1. Unrestricted donations that can be spent on core programs, infrastructure and administration costs, or set aside in a rainy-day fund.
2. Restricted grants and donations that must be spent for specific purposes and often within a specific timeframe.
3. Technically unrestricted donations that have strings attached.

#### **What to know:**

- *Don't assume a donor providing an unrestricted donation isn't expecting something in return.* Perhaps it's displays of gratitude or an opportunity a stranger might not receive (a guided tour, an invite to a program, etc.). Or it could be something you cannot provide (e.g., preference in your bidding process for contracted work).

## Top 5 Fundraising Risks: What You Need to Know and Do

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### What to do:

- **For restricted funds, track use of the funds and meet all official reporting requirements.** Ascertain additional related informal donor expectations to the restricted funds—and gauge whether you can meet them.
- **For unrestricted funds, know your donors.** Take time to learn what expectations they have generally in relation to your organization as well as any assumptions that may be implied in their donation.

## 5. Contributor Catastrophe

The origins of the phrase “guilt by association” dates to the 1940s and 1950s and refers to the practice of assuming the guilt or culpability of an individual based on the company they keep. As we wrote in *Manage Risk With Intention This Year*, “...when nonprofit teams gather to engage in blue-sky thinking about mission-advancing possibilities, they almost always mention the emergence or arrival of a generous, high net worth donor.” Recent experience has shown us that connection to a once-prominent, once-respected philanthropist can spell disaster for their “associates” when illegal or appalling conduct comes to light.

### What to know:

- **You can never know everything about the past conduct—nor predict the future behavior—of a generous donor.**
- **It is a mistake to ascribe admirable character to an individual—or moral superiority to an institutional donor—simply because they have provided financial support to your worthy mission.**

### What to do:

- **Be prepared.** As part of your crisis communication planning, develop a clear, straightforward plan that outlines your steps and key considerations should you learn about potential donor misconduct. Consider creating a decision tree.

- **Err on the side of caution before re-branding or creating long-term forms of recognition.** Nonprofits around the globe have spent countless sums re-branding, renaming and re-decorating programs and facilities after learning concerning information about a past donor. Ask: how costly or difficult would it be to walk back this recognition should disturbing information come to light in the future?

## Bonus Risk

If it seems too good to be true... you’re probably on a super slippery path to being scammed.

### What to know:

Awareness of the top fundraising scams is a must to protect your mission, assets and reputation. Examples include:

- **The Fake Donation Overpayment scam:** If your nonprofit hasn’t received an out-of-the-blue offer from a far off ‘philanthropist,’ you’re in the minority. This scam often begins with an email indicating the sender’s intent to send a donation and request to confirm the mailing

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**“For restricted funds, track use of the funds and meet all official reporting requirements.”**

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address. The scam continues with the receipt of something that looks like a check, followed by a quick request (before the fake check clears) to wire the amount of the mistaken overage.

- **Copycat websites:** Fraudsters solicit donations from websites that have

very similar names to a legitimate nonprofit—possibly yours.

- **Investment “opportunity” frauds:** This scam begins with the promise of a grant or investment opportunity. The telltale sign it’s fraudulent is the request for an administrative fee to finalize or process the award, grant or contract.

### What to do:

- **Be prepared to investigate any incoming, large donation that is completely unexpected.** Never hastily ‘return’ a portion of a donation prior to a full investigation of the circumstances.
- **Notify in-house or external counsel immediately** if you learn from any constituent about the possibility of a copycat website site attempting to fool donors into thinking they are contributing to your mission.
- **Be a skeptic.** Legitimate philanthropies never request or require an up-front administrative fee from grantees. This is not a trend, it’s a trick.

Fundraising can be effective, and even fun, if you always keep the mission of your nonprofit top of mind. But you can never eliminate concerning risks (possibilities) from your fundraising efforts. The most effective sector leaders know that taking time to understand the risks is always a safer path to success than scrambling the jets at the first sign of a check.

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Melanie Lockwood Herman is executive director of the Nonprofit Risk Management Center. She began her career many moons ago as a development director for a small nonprofit. She welcomes your questions about fundraising risks and your tried-and-true strategies for building resilience at [Melanie@nonprofitrisk.org](mailto:Melanie@nonprofitrisk.org) or 703-777-3504.

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## Is This Money Worth The Cost?

By Rachel Sams

When your development director mentions the funding opportunity at a meeting, pulses quicken. The donor's name rings out. It's a large corporation that's made several major grants recently to organizations your team knows. The company has a reputation for funding innovative, boundary-breaking nonprofit projects, and asking for data-verified evidence of impact.

Your team has been toying with the idea of launching a new service that's adjacent to your current offerings, but outside your expertise. Community data shows the need is there. Your visionary CEO wants to jump in, but several senior leaders fear your organization isn't the right one to provide these services.

Will this new donor provide the missing piece to help your nonprofit launch a new service that will expand your reach and deepen your community ties? Or will chasing this money pull you away from

your mission and community into projects you can't deliver well—topped off with a heap of new paperwork?

Since the beginning of philanthropy, nonprofits have had to weigh tough decisions about whether a possible funding source is worth the risk. Many nonprofits are having more of these conversations now, with drastic cuts in nonprofit funding and burdensome, confusing executive orders. Numerous leadership and board meetings include serious discussion about funding possibilities teams would have automatically dismissed as too risky a few years ago.

In those initial moments of excitement—or fear—it can be difficult to know how to evaluate the upside and downside risks a new funding opportunity presents. But while every funding opportunity is different, a simple framework can help you evaluate the risks of them all. We offer guidelines you can use or adapt to guide your team through challenging

decisions about funding. You can use them to evaluate a variety of opportunities, from corporate partnerships to foundation support to individual donations to whether to host a new fundraising event. We can't supply the answers, but simple question prompts can help your organization reach the best decisions for your needs and circumstances.

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**“Will chasing this money pull you away from your mission and community into projects you can't deliver well?”**

## Is This Money Worth The Cost?

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### A Framework to Evaluate Fundraising Risk

Here's a flexible fundraising risk evaluation framework to customize for your nonprofit.

**Alignment:** Does this funding opportunity benefit our mission, strategy and goals, or pull us away from them?

Questions to consider:

- Does the funder share our values? What makes us say so? How thoroughly have we investigated our assumptions about that?
- Which strategic goal or priority could/would be bolstered by pursuing this opportunity? Are there potential downsides or unintended consequences (e.g., drawing the team away from focus on multiple priorities)?
- If this is an internal opportunity (adding a new fundraiser, etc.), do the event type and purpose reflect our mission and values?
- What long-term benefit would this opportunity provide our clients and community?

**Readiness:** Do we have the resources to meet the demands of this funding opportunity?

- What do we understand this funding opportunity requires of us in terms of programming, reporting, communication and more? What are the 'unknowns' we could discover?
- Does our staff have the time to do the additional work this funding opportunity would require? What new systems or expertise might be required? How can we obtain them? How would those systems or expertise benefit or cost us beyond this relationship?
- What could we stop or pause doing to make room for this new endeavor? Would that be an acceptable tradeoff?

**Money:** What would it cost us to

pursue and participate in in this funding opportunity, and how much financial benefit would it bring to the organization?

- What are our upfront costs for this funding opportunity (new systems, staff time)?
- What is our expected financial return or potential loss? What is a reasonable range (from loss, to breaking even, to possible net income)? What is our contingency plan if the return is less than expected?
- How reliant will we become on this funding opportunity? Are we within our level of comfort for support on one funding source?

**Consequences:** What unexpected downsides could result from pursuing this funding?

- What are the explicit terms of this funding? What are possible unspoken or implied expectations? How difficult would those terms be to comply with? What might be the unintended consequences of complying with them?
- What are possible legal and regulatory implications of accepting this funding? Are we prepared to address them?
- How would our constituents (clients, community, board, partners) view us if every detail of the terms of this relationship or funding opportunity became public tomorrow?
- How could we continue this work if this funding suddenly disappeared? What would be the consequences of losing the support? How might we plan for those consequences?

### Go Beyond Urgency

You know the dance. Maybe your development team hears about the funding opportunity through word-of-mouth. Perhaps an RFP hits your inboxes. A corporate giving executive you know—or one you don't—wants to meet. A contact card comes in from a fundraising event with a name you've been trying to get

“Does this funding opportunity benefit our mission, strategy and goals, or pull us away from them?”

## Is This Money Worth The Cost?

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a meeting with for years: *I want more information.* Wherever the lead comes from, you swing into action: researching the person or organization, drafting talking points for the conversation, considering what an ask might look like.

Nonprofits have a history of treating funding opportunities with urgency. Funding opportunities have never been unlimited, and as the pool of funding for nonprofits ebbs and flows, a sense of scarcity and competition can arise. For many nonprofits, the fundraising train never stops.

Urgency can be good—to a point. It can help our organizations achieve and maintain momentum. But when urgency overshadows critical thought about whether to pursue an opportunity, the risk of pursuing funding that doesn't align with your mission increases. You might overestimate how well a funding possibility fits with your mission. You might

be too generous in your assessment of how ready your team is to do the work a funding opportunity requires, including the costs and staff time to apply or compete for it. And you may underestimate the reputational risk a donor or company presents, including the risk of a partnership that—even if the donor or organization brings no controversy—simply doesn't fit community needs.

A smart fundraising risk evaluation framework goes beyond mere caution. It helps you evaluate how ready your organization is to go the distance on a funding opportunity, and how well it would suit your mission and benefit all parties to do so.

Your nonprofit likely has fundraising approaches you've used for a long time. Some of those approaches may work well for you. Others may feel limiting or frustrating. The framework can help—but

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**“A smart fundraising risk evaluation framework goes beyond mere caution. It helps you evaluate how ready your organization is to go the distance on a funding opportunity, and how well it would suit your mission and benefit all parties to do so.”**

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## Is This Money Worth The Cost?

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only if you use it! Your team will probably need some time to incorporate the fundraising risk framework into decision-making. Here are some ways to work it into your process.

- Include the framework as a checklist for discussion in the fundraising team, senior leadership team, or committee meetings where decisions are made.
- Document how you used the framework and the decisions you made in your CRM, meeting minutes, or wherever you keep track of important fundraising information.
- Practice! As you use the framework, note what you like about it and

what may not feel quite right for your organization. Make any needed adaptations to the framework to make it work for you.

- Talk about the framework. Explain it to top leadership, board members, and even funders, and share how it factors into your decisions.

## Good Decisions Don't Dodge Risk—They Weigh It

All fundraising decisions carry potential downsides, upsides, and consequences. That can make them feel weighty. They are—but a thoughtful, flexible framework helps your team carry that weight with

confidence. As you use the framework, we hope you'll find that your team's confidence in decisions about pursuing or accepting funds will grow. The framework doesn't guarantee you'll make the right decisions every time, but it should help guide your team toward a decision that reflects your values. That's a process you can learn from—no matter how it plays out—and replicate what works.

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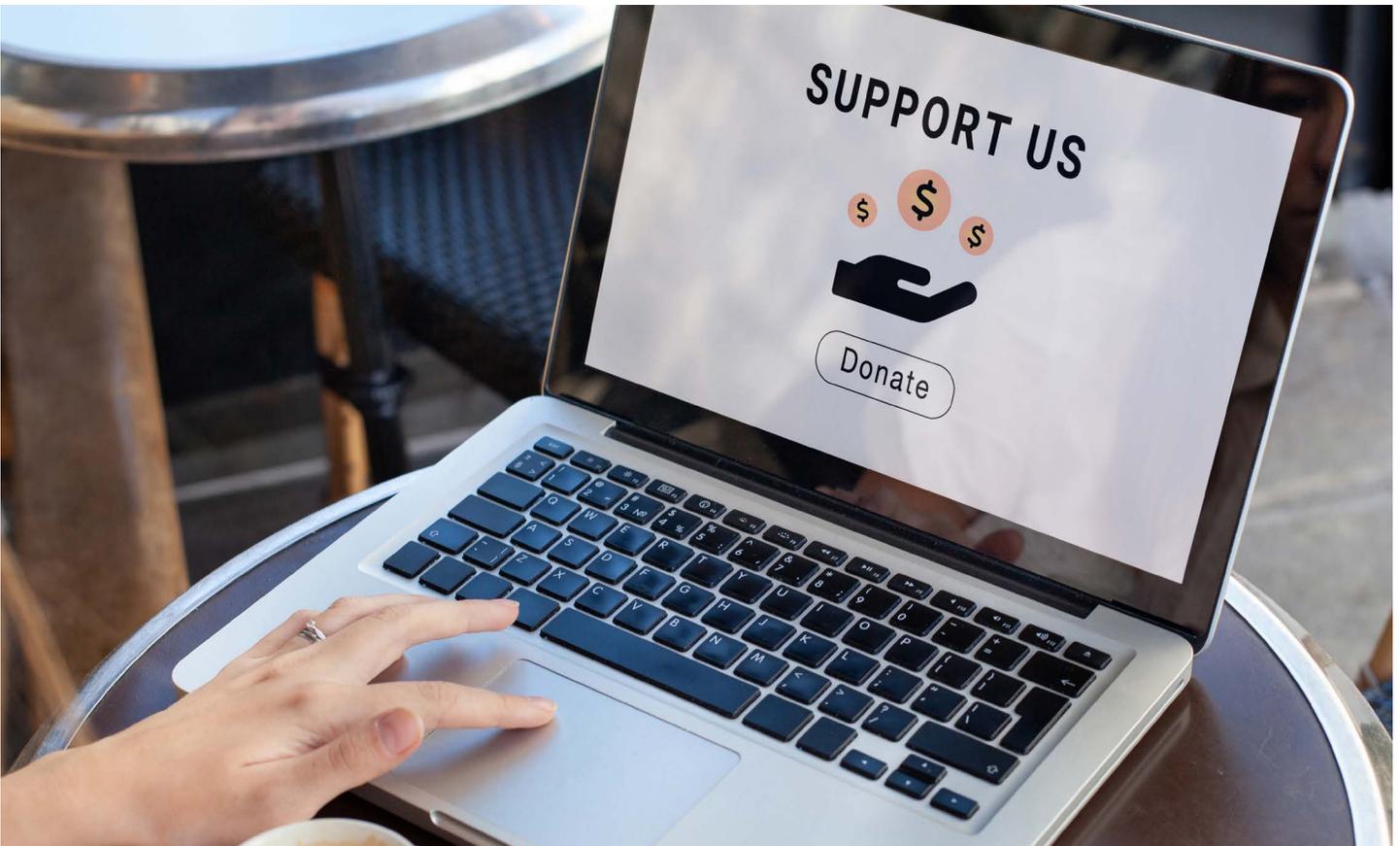
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## Donor Stewardship: The Risky Business of Gratitude

By Elyzabeth Joy Holford

Donor stewardship is more than sending a thank-you note or posting an annual report on a website; it is the deliberate, ongoing process of building and maintaining trust with those who invest in nonprofit work. It is a vital, mission-critical function, yet it carries significant, and often underestimated, risks. These risks span financial, reputational, legal, and ethical domains, and a failure to manage them effectively can lead to more than just a dip in the donor retention rate; it can imperil the future of an organization. This article explores three of the top risk management issues associated with donor stewardship.

### The Human Factor: A Primary Source of Risk

Human factors are often strengths, and also areas of vulnerability, in every nonprofit. This is especially true in donor stewardship

because it involves establishing and sustaining relationships which, by their nature, are unpredictable. At the same time, it also involves money that has been entrusted to your organization. Maintaining healthy relationships with donors can be complex because money often blurs professional, ethical, and personal boundaries, potentially leading to conflict.

Another human risk factor associated with stewardship is simply taking long-term donors for granted. It is easy to fall into a routine with reliable supporters, assuming their commitment is unwavering. The risk here is not just that they might stop giving (a significant financial risk in itself), but that their disengagement can turn into active dissatisfaction. A disgruntled donor and/or group of donors who feel ignored or undervalued may share

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**“Donor stewardship is a vital, mission-critical function, yet it carries significant, and often underestimated, risks.”**

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their negative experience, which can bring backlash for the organization.

Another source of human-centric risk arises when donors seek ego-booster or ask for undue influence. Accepting a gift that comes with strings that benefit the donor more than the mission, or that grants an individual inappropriate control over

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**“Reputation risk is real and requires constant vigilance and careful nurturing of an organization’s reputation.”**

the organization's direction, can create significant governance and ethical risks. The desire to meet or exceed fundraising targets can make it harder to see the potential long-term liabilities of such arrangements.

**Restricted Funds: The Peril of Improper Use**

One of the most concrete and legally perilous risks in donor stewardship relates to restricted gifts. When a donor specifies that their contribution must be used for a particular program or project, the nonprofit enters a legally binding agreement to do just that. The improper use of these funds, even if accidental, can lead to legal action, demands for the return of the gift, and the public perception of unethical behavior.

**Reputation: The Uninsurable Asset**

Reputation risk is real and requires constant vigilance and careful nurturing of an organization’s reputation. Our ever-evolving culture of instantaneous, viral communication heightens the likelihood and potency of this risk. A single negative post or online comment—if ignored or mishandled—can spiral into a public relations crisis, diminishing past organizational successes and jeopardizing future fundraising efforts. Risks to reputation in stewardship include:

- *Lack of transparency:* Being perceived as secretive about financials, program

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impact, or executive compensation can quickly erode trust.

- **Poor communication strategies:** Infrequent contact with donors or messaging that is misleading, incomplete, confusing, or later disproved can result in perceptions that the organization is mismanaged or corrupt.
- **Mishandling of negative feedback:** Failure to respond to critical comments allows rumors and accusations to fill the silence. Smart leaders respond promptly and with care to negativity, demonstrating a commitment to improvement and accountability.

### Manage Stewardship Risk Through Close Attention to Details

Donors expect organizations to stay mission-focused and to stay in touch. They also expect nonprofits to use funds efficiently for program costs, making financial transparency and perceived efficiency paramount. Stewardship is the primary mechanism for managing these perceptions. To do this, nonprofits should:

- **Establish a gift acceptance process:** This formalizes the process for evaluating and accepting major gifts, ensuring the organization can realistically meet donor expectations and/or requirements.
- **Clarify donor requirements in writing:** A gift acceptance agreement holds both parties accountable and provides clarity for everyone involved on how the funds will be used.
- **Implement strong internal financial controls:** Managing both restricted and unrestricted gifts requires robust internal controls, accurate bookkeeping, proper financial oversight, and meticulous financial reporting. These systems must support accurate tracking and reporting on

restricted funds to ensure compliance and transparency.

- **Demonstrate that donors matter:** Cultivate a genuine curiosity about donors' motivations, expectations, and evolving interests, ensuring that communications to donors are personalized and meaningful, not generic and automated.
- **Provide clear and transparent communication (the "what"):** Regularly inform donors about the impact their specific, restricted gift is making, linking the financial commitment directly to mission outcomes.
- **Personalize both the channel and the content of communications (the "how"):** Generic, impersonal

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**“Donors expect organizations to stay mission-focused and to stay in touch.”**

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communication can make donors feel like "ATMs," leading them to seek out organizations that make the effort to create a more lasting impression. Pay attention. Ask your donors how they prefer to receive updates. Listen to them and customize your messaging, bearing in mind donor preferences and channel conventions.

- **Develop a "culture of reflection":** Proactive communication and a commitment to openness are the bedrocks of stewardship. Create an environment in which feedback from donors, even critical feedback, is invited and acted upon, rather than dismissed or fumbled.
- **Engage governance in stewardship:** The board bears ultimate responsibility

for risk governance. Be sure development-related reports to committees and the full board provide the opportunity to review the systems, policies, and processes involved in donor stewardship to ensure that appropriate guidelines are in place and are being followed.

### The Opportunity in Uncertainty

Risks associated with donor stewardship, while significant, are not reasons to freeze up. Rather, they serve as a call to action for stronger systems, better policies, and deeper human engagement. In other words, these are situations organizations can understand, evaluate, and prepare for, even amid uncertainty. By embracing a robust, thoughtful approach to the risks in donor stewardship—from managing restricted funds and human relationships to safeguarding reputation—nonprofits can transform potentially damaging pitfalls into opportunities. The process is not just about mitigating downside risks. It is also about building stronger, more resilient organizations that can attract a steadily growing constituency of supporters, including donors who want to help nonprofits make a more profound impact on the communities they serve.

Effective risk management in donor stewardship is, in essence, a practice in organizational integrity. It aligns actions with values and demonstrates to every contributor, regardless of the size of their gift, that their trust is a precious asset, managed with the highest degree of care and accountability. This is a bold risk worth taking.

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Elyzabeth Joy Holford is Assistant Executive Director at the Nonprofit Risk Management Center. Reach her with thoughts and questions about this article at [elyzabeth@nonprofitrisk.org](mailto:elyzabeth@nonprofitrisk.org) or (703) 777-3504.



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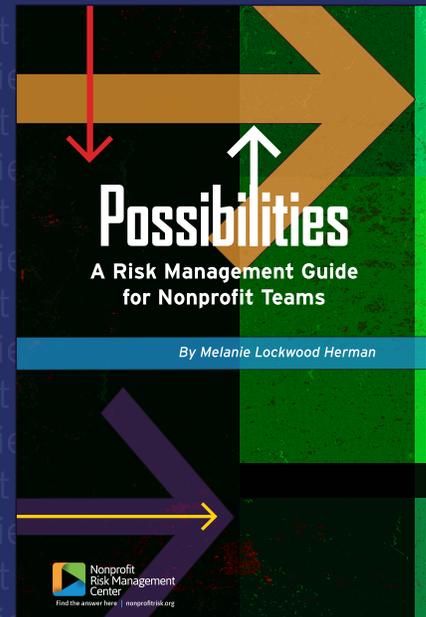
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## NRMC's Newest Publication: *Possibilities*

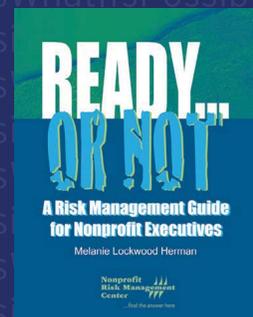
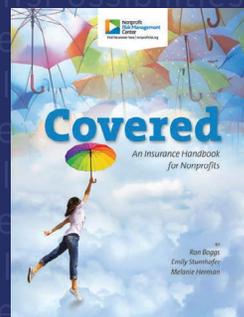
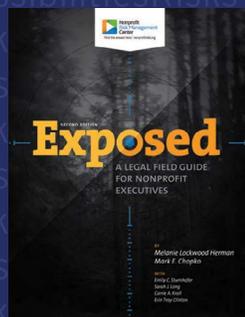
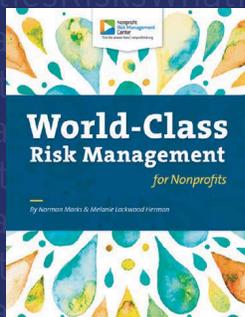
The NRMC team believes risks are simply possibilities: no more, no less. And you can take steps to understand, evaluate, and prepare for a possibility—even, and especially, when you don't know exactly how the possibility will play out. That's why NRMC Executive Director Melanie Herman has written *Possibilities: A Risk Management Guide for Nonprofit Teams*.

- Non-member price: \$40
- NRMC Affiliate Member price: \$36
- Bulk orders of 10 copies or more: \$32 each

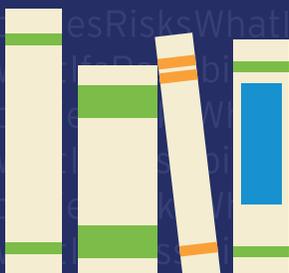
Available in paperback or ePub format



## NRMC Favorites Available in eBook Format



Visit [www.nonprofitrisk.org/products](http://www.nonprofitrisk.org/products) to purchase these titles and many others on niche risk management topics for nonprofits.





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# Risk Management ESSENTIALS

Tips, Knowledge and Tools for Nonprofit Organizations

## PLEASE ROUTE TO:

- Executive Director
- Director of Volunteers
- Risk Manager
- Legal Counsel
- Human Resources
- Finance/Administration

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## NEW AFFILIATE MEMBERS

Learn more about NRMC's Affiliate Member program at [nonprofitrisk.org/affiliate-membership](http://nonprofitrisk.org/affiliate-membership). NRMC would like to welcome our new Affiliate Members.

- American Art Therapy Association
- Compass Family Services
- Global Methane Hub
- Heifer International
- HomeFirst
- League of Conservation Voters
- Meliore Foundation
- National Network of Abortion Funds
- Rainforest Alliance
- Seattle Foundation
- Signal Centers
- Uganda Red Cross Society
- UMOS
- Union of Concerned Scientists
- Windward Fund