Financial Scenario Planning in a Changing Environment

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July 16, 2020

Financially resilient organizations

Stay focused on the long-term while continually assessing and responding to current needs. They understand and are able to tell their financial story.
What is Financial Planning?

A process to define how an organization’s strategy will be funded

Ideally, this process is:

• Ongoing
• Team-based
• Focused on the future but responsive to the present
• Structured to allow for recalibration and course correction
## Budgeting vs. Scenario Planning

<table>
<thead>
<tr>
<th>Budget</th>
<th>Scenario Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Annual</strong> financial plan for an organization</td>
<td>• Alternate projection of financial results across a different time horizon (i.e. 6-18 months)</td>
</tr>
<tr>
<td>• A <strong>detailed</strong> projection of expenses and revenues based on <strong>prior year history</strong></td>
<td>• A higher-level projection, based on <strong>assumptions</strong> about <strong>key drivers</strong> of revenues and expenses</td>
</tr>
<tr>
<td>• Used to <strong>prioritize available resources</strong> and manage performance</td>
<td>• Used to <strong>inform decisions</strong> in response to internal or external disruptions</td>
</tr>
</tbody>
</table>

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### Scenario Planning
Understand Current Financial Position
Understand the Current Position

**What We Own**
- Cash
- Receivables
- Investments
- Fixed Assets

**What We Owe**
- Bills Due
- Line of Credit
- Deferred Revenue
- Debt (short-and long-term)

**Our Net Worth**
- With Donor Restrictions
- Without Donor Restrictions

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**Balance Sheet**

- **Cumulative result** of an organization’s financial activity from its inception
- Source of **key financial health indicators** such as liquidity, debt, and reserves
- Shows how much **financial flexibility** an organization has
Understand the Current Position

Without Donor Restrictions (Unrestricted)
- Board Designated Funds
  - What is its purpose?
  - Willing to redirect?
- Liquid Unrestricted Net Assets (LUNA)
  - How much are our liquid reserves?
  - How many months of operations can they cover?

With Donor Restrictions
- Time and Purpose Restricted
  - Can we meet the donor requirements?
  - Would funder consider releasing requirements?
- Endowments – market value

Poll Question:
How has understanding your financial position helped you plan?
Establish Scenario Assumptions

Scenario Planning

- Understand Current Financial Position
- Identify Implications and Scenarios
- Manage Cash Flow

- Establish Scenario Assumptions
- Gather Data & Run the Numbers
- Select Course of Action
Preparing for Scenario Planning

• Bring together a small group of senior decision makers to establish parameters within which scenarios should be developed
  • Executive Director / CEO
  • Lead staff in Finance, Program, and HR/Talent
  • Board Chair
  • Board Finance Committee Chair
  • Outside expertise?

Preparing for Scenario Planning

• Document context
  — Identify key external opportunities and threats
  — Articulate current knowns and unknowns of your organization’s situation

• Outline organizational capabilities
  — Agree on organizational strengths and weaknesses, both programmatic and financial
  — Understand business model drivers
Scenario Planning: Key Questions

What will be the impact on our programs?
What will be the impact on our workforce and operations?
What will be the impact on financial health?

Identifying Broad Options

Have or will any of our activities pause / stop?
Are any activities increasing? Are new activities needed?
Do we need to change the delivery method of activities?
What is core to our mission and should be maintained?
Scenario Planning

Identify Broad Scenarios and Time Horizon

Potential Scenarios:
- Narrow down to broad scenario and develop best, moderate and worst case

Time Horizon:
- When will changes take effect?
- How long will they last?
- Immediate? Temporary? Permanent? Unknown?

Define Three High Level Scenarios

<table>
<thead>
<tr>
<th>Best/Most Innovative</th>
<th>Moderate/Most Likely</th>
<th>Worst/Plan B</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ Run half season of (in person) summer program in 2020</td>
<td>$ Cancel summer program in 2020; resume in 2021</td>
<td>$ Cancel summer program in 2020; resume in 2021</td>
</tr>
<tr>
<td>School districts open in fall 2020 (in person program resumes)</td>
<td>School districts open in fall 2020 (in person program resumes)</td>
<td>School districts open in winter '21 (explore moving fall program to virtual)</td>
</tr>
</tbody>
</table>
Gather Data and Run the Numbers

Gather key data. Use your current year budget and year-to-date actuals as a starting point.

Where are you in your fiscal year? Identify the timeline in which an alternate financial plan will be put into place.

Run the numbers. Model the financial implications of each scenario and draft an accompanying narrative.
Defining the Resource Scenarios

What is in Jeopardy?

- Earned Revenue
- Special Event Income
- Individual Contributions
- Government Contracts
- Investment Income
- In-Kind Donations

What Can We Access?

- Existing reserves, if available, to invest in maintaining operations
- External resources such as SBA loans and philanthropic relief funds
- Restricted program grants that could be converted to general operating
- New grant funds from funders you currently partner with
- Potential to invest in new income-generating programs or activities

Revenue Scenario Planning

Revenue Analysis Worksheet

Variable Revenue Assumption: Best  50%  30%  0%

<table>
<thead>
<tr>
<th>Program Department/Function</th>
<th>Funding Source</th>
<th>Total Possible Revenue (Expenditure basis only)</th>
<th>Likelihood of Receipt (%)</th>
<th>Revenue Scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Best Case</td>
</tr>
<tr>
<td>Pre-Kindergarten Program</td>
<td>Government Contract A</td>
<td>$275,000</td>
<td>100%</td>
<td>275,000</td>
</tr>
<tr>
<td></td>
<td>Government Contract B</td>
<td>$75,000</td>
<td>75%</td>
<td>75,000</td>
</tr>
<tr>
<td></td>
<td>Grant from Foundation A</td>
<td>$40,000</td>
<td>50%</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td><strong>VARIABLE Earnings program revenue</strong></td>
<td>$75,000</td>
<td><strong>VARIABLE</strong></td>
<td>75,000</td>
</tr>
</tbody>
</table>

| FY Expense Budget for Pre-Kindergarten Program | $400,000 |

Revenue Surplus: $460,000 | $410,000 | $360,000
Expense Budget: $400,000 | $400,000 | $400,000
Surplus/Deficit: $60,000 | $10,000 | $40,000


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<tr>
<td>School districts open in fall 2020 (all in person classes resume)</td>
<td>School districts open in fall 2020 (in person program resumes)</td>
<td>School districts open in winter ’21 (moving fall virtual)</td>
</tr>
<tr>
<td>Run full season of fall program in person in 2020</td>
<td>Run half season of fall program virtually in 2020</td>
<td>Cancel fall program in 2020; resume in 2021</td>
</tr>
<tr>
<td>Individual contributions remain at historical levels</td>
<td>Individual contributions decline by 20% this year, 10% next year</td>
<td>Individual contributions decline by 30% this year, 50% next year</td>
</tr>
</tbody>
</table>

### Select Course of Action
Scenario Planning

- Understand Current Financial Position
- Identify Implications and Scenarios
- Manage Cash Flow

- Establish Scenario Assumptions
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Act, Engage and Communicate

- Determine best strategy to engage board finance committee as well as full board to understand scenarios considered and ultimate options to be presented for board approval
- Define critical check points for the board once the scenario is implemented (no less than quarterly)
- Determine roles and responsibilities for operationalizing the scenario plan
- Create an internal and external communication plan
Manage Cash Flow

- Develop cash flow projections: Weekly, monthly, quarterly
- Consider financing?: Intended to cover delayed cash receipts, not operating deficits
- Sources of financing:
  - Existing credit lines
  - Low interest loans or Bridge loans
  - CARES Act incentives

Resources
Leading Through a Crisis

www.fmaonline.net/COVID-19


COVID-19 Response Resources

This page gathers the latest thinking, resources, and support for you in managing your nonprofit’s finances (or supporting your grantees as they do), amid the rapid changes and uncertainty we are all facing in 2020.

What follows is a framework for nonprofits responding to the COVID-19 crisis. This frequently-updated page will compile resources to support you in carrying out your nonprofit’s responsibilities.

FMA COVID-19 Response Resources

https://www.fmaonline.net/COVID-19

FMA PPP Toolkit
Tools for the CARES Act Payroll Protection Program (PPP), updated as information changes http://fmaonline.net/ppptoolbox/


Community Foundation Public Awareness Initiative list

Candid, Funds for coronavirus relief https://candid.org/explore-issues/coronavirus/funds

What is the difference between a furlough, a layoff and a reduction in force?
https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qapages/furloughlayoffreductioninforce.aspx

The Coronavirus Crisis Doesn’t Have to Lead to Layoffs
https://hbr.org/2020/03/the-coronavirus-crisis-doesnt-have-to-lead-to-layoffs

Resources: Current Environment

In collaboration with the Wallace Foundation, FMA has created a library of tools and resources to help organizations become “fiscally fit”

Four Topic Areas: Planning | Monitoring | Operations | Governance

Planning Resources for Nonprofit Financial Management
Good planning finds the most effective ways to deploy your organization’s resources – and meet your overall objectives. Materials here include help with budgeting, cost calculations and cash projections.

Strategizing the Budget Development Process
Cash Flow Projection Template

<table>
<thead>
<tr>
<th>Monthly</th>
<th>July</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cash Receipts</td>
<td>$2,602,560</td>
<td>$366,422</td>
<td>$365,701</td>
<td>$473,362</td>
<td>$681,423</td>
<td>$600,963</td>
</tr>
<tr>
<td>Total Cash Disbursements</td>
<td>$2,848,680</td>
<td>$345,256</td>
<td>$345,400</td>
<td>$218,024</td>
<td>$214,590</td>
<td>$214,583</td>
</tr>
<tr>
<td>Excess (Shortfall) from operations</td>
<td>$125,116</td>
<td>$193,300</td>
<td>$11,582</td>
<td>$(75,327)</td>
<td>$(28,450)</td>
<td>$(6,875)</td>
</tr>
</tbody>
</table>

**CAPITAL AND FINANCING**

- Cash Receipts
  - Cash received from loans/financing
  - Transfers from savings/investments
- Cash Disbursements
  - Capital purchases
  - Repayment of loan principal
  - Transfers to savings/investments

<table>
<thead>
<tr>
<th>Monthly</th>
<th>2020Q1</th>
<th>2020Q2</th>
<th>2020Q3</th>
<th>2020Q4</th>
<th>2021Q1</th>
<th>2021Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET CASH EXCESS (SHORTFALL)</td>
<td>$17,188</td>
<td>$190,216</td>
<td>$8,560</td>
<td>$(28,939)</td>
<td>$(25,428)</td>
<td>$(12,857)</td>
</tr>
<tr>
<td>ROLLING CASH BALANCE</td>
<td>$374,883</td>
<td>$565,098</td>
<td>$573,658</td>
<td>$544,719</td>
<td>$570,347</td>
<td>$557,290</td>
</tr>
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**FMA**

- Established in 1999 to serve not-for-profit organizations around the country
- Provides customized financial management, accounting, software, organizational development, and other consulting services
- Works directly with organizations or through funder-supported management and technical assistance programs

FMA exists to build a community of individuals with the confidence and skills to lead organizations that change the world

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