

# Financial Scenario Planning in a Changing Environment

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## *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.*

# Financial Planning

## Practices: Financial Planning

### 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

### Budget

- **Annual** financial plan for an organization
- A **detailed** projection of expenses and revenues based on **prior year history**
- Used to **prioritize available resources** and manage performance

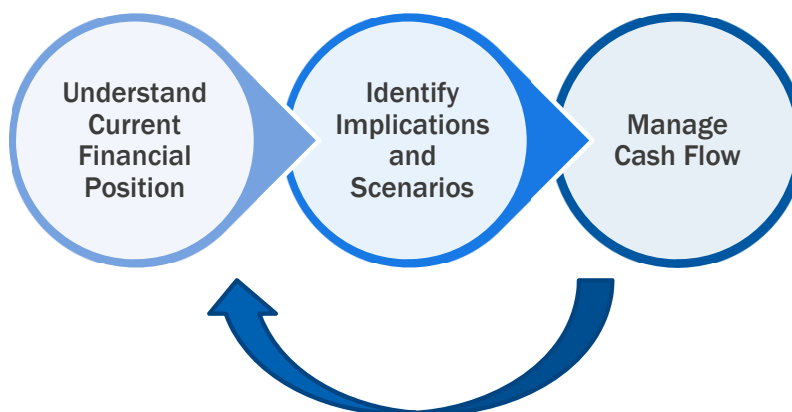
### Scenario Plan

- Alternate projection of financial results across a **different time horizon** (i.e. 6-18 months)
- A higher-level projection, based on **assumptions** about **key drivers** of revenues and expenses
- Used to **inform decisions** in response to internal or external disruptions

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## Scenario Planning

## 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



## Understand the Current Position

### 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

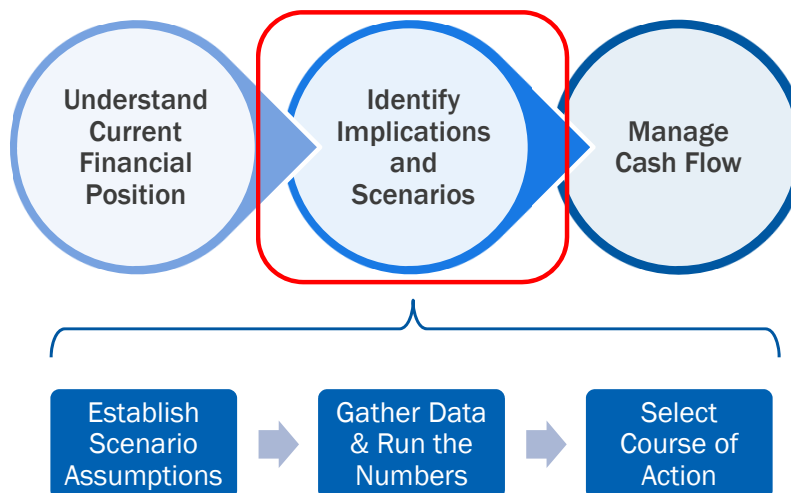
- **Time and Purpose Restricted**
  - Can we meet the donor requirements?
  - Would funder consider releasing requirements?
- **Endowments – market value**

## *Poll Question:*

*How has understanding  
your financial position  
helped you plan?*

# Establish Scenario Assumptions

## Scenario Planning



## 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?

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## 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?

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# 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 with they last?
- Immediate? Temporary? Permanent? Unknown?


# Define Three High Level Scenarios


## Best/Most Innovative

 Run half season of (in person) summer program in 2020


 School districts open in fall 2020 (in person program resumes)


## Moderate/Most Likely

 Cancel summer program in 2020; resume in 2021

 School districts open in fall 2020 (in person program resumes)

## Worst/Plan B

 Cancel summer program in 2020; resume in 2021

 School districts open in winter '21 (explore moving fall program to virtual)

# Gather Data and Run the Numbers

## Gather Data & 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 100%	Moderate 80%	Worst 60%
Program/ Department/ Function	Funding Source	Total Possible Revenues (Current Year Portion only)	Likelihood of Receipt (%)	Revenue Scenarios		
				Best Case	Moderate Case	Worst Case
Pre-Kindergarten Program	Government Contract A	\$ 275,000	100%	275,000	275,000	275,000
	Government Contract B	\$ 75,000	75%	75,000	75,000	
	Grant from Foundation A	\$ 40,000	50%	40,000		
	VARIABLE: Earned program revenue	\$ 75,000	n/a	75,000	60,000	45,000
	VARIABLE:					
FY Expense Budget for Pre-Kindergarten Program		\$ 400,000				
			Revenue Subtotal	\$465,000	\$410,000	\$320,000
			Expense Budget	\$400,000	\$400,000	\$400,000
			Surplus /Deficit	\$65,000	\$10,000	(\$80,000)

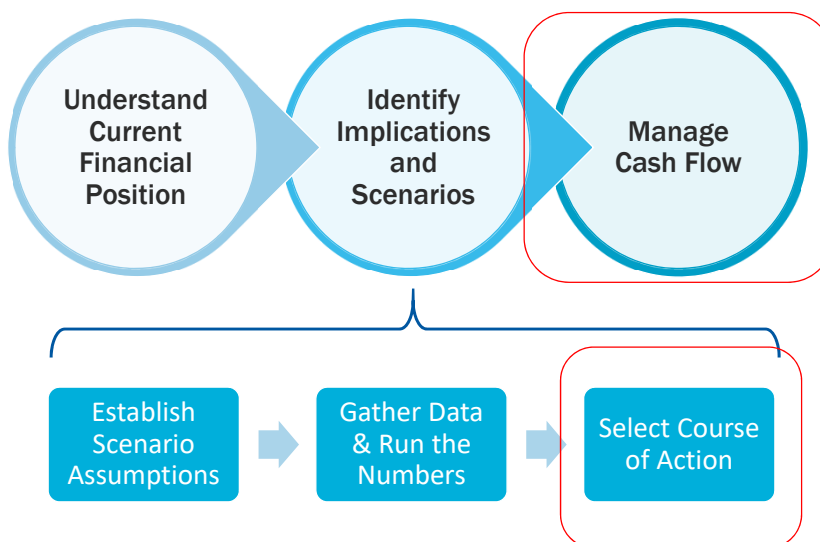
<https://www.wallacefoundation.org/knowledge-center/resources-for-financial-management/pages/revenue-analysis-worksheet.aspx>

## Define Three High Level Scenarios

Best/Most Innovative	Moderate/ Most Likely	Worst/ Plan B
 School districts open in fall 2020 (all in person classes resume)	 School districts open in fall 2020 (in person program resumes)	 School districts open in winter '21 (moving fall virtual)
 Run full season of fall program in person in 2020	 Run half season of fall program virtually in 2020	 Cancel fall program in 2020; resume in 2021
 Individual contributions remain at historical levels	 Individual contributions decline by 20% this year, 10% next year	 Individual contributions decline by 30% this year, 50% next year

## Select Course of Action

## Scenario Planning



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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

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## Resources

# Leading Through a Crisis

[www.fmaonline.net/COVID-19](http://www.fmaonline.net/COVID-19)

<https://www.wallacefoundation.org/news-and-media/blog/pages/managing-nonprofit-finances-during-the-coronavirus-crisis.aspx>

Wallace

WALLACE BLOG

## Managing Nonprofit Finances During the Coronavirus Crisis

Financial management expert Hilda Polanco suggests key considerations for nonprofits

OFIT FINANCIAL MANAGEMENT

Author:  
Jennifer Gill



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FISCAL STRENGTH FOR NONPROFITS

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### COVID-19 Response Resources

A MESSAGE TO NONPROFITS AND FUNDERS

This page gathers FMA's latest thinking and tools to support you in managing your nonprofit's finances (or supporting your grantees as they do) amidst the rapid changes and uncertainty we are all facing in 2020.

Hilda Polanco's [recent letter](#) offered a **framework for nonprofits** organizing a response to the COVID-19 crisis. This frequently-updated page will compile resources to support you in carrying out your response within that framework, with resources vetted and recommended by FMA.

Most recent update 3.31.2020 6:30PM ET

#### TAKE STOCK

Start by reading [this interview with the Wallace Foundation](#), in which Hilda addresses the top questions on every nonprofit leader's mind right now. Below are links to key resources referenced in the article.

1. **Monitor your cash flow and examine your reserves** – The goal of this fiscal inventory is to both understand your current position, and then be prepared to communicate your financial story to your key donors and funders.

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Nonprofit organizations face unprecedented financial challenges because of the COVID-19 pandemic. With nationwide restrictions on public gatherings, theatres have

## Resources: Current Environment

- FMA COVID-19 Response Resources [www.fmaonline.net/COVID-19](http://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/>
- National Council of Nonprofits <https://www.councilofnonprofits.org/nonprofits-and-coronavirus-covid-19>
- Community Foundation Public Awareness Initiative list  
Community Foundation response funds, updated daily  
<https://www.commfoundations.com/blog/2020/3/11/community-foundations-nationwide-launch-efforts-to-help-communities-affected-by-the-coronavirus>
- Candid. Funds for coronavirus relief  
<https://candid.org/explore-issues/coronavirus/funds>
- Council on Foundations: <https://www.cof.org/news/covid-19-resource-hub>



## Resources: Current Environment

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

### StrongNonprofits.org

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**

The Wallace Foundation / Knowledge Center / Resources for Nonprofit Financial Management

Resources for Nonprofit Financial Management

Search Financial Management Resources

Overview | **Planning** | Monitoring | Operations | Governance | All Resources

**SHOW:**

- ☒ General Resources
- ☒ Tools and Templates
- ☒ Case Studies

**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.

[Strengthening the Budget Development Process](#)

# Cash Flow Planning Tool

## Cash Flow Projection Template

[www.strongnonprofits.org](http://www.strongnonprofits.org)

	Current Yr Budgeted	July	Aug	Sep	Oct	Nov	Dec
<b>Total Cash Receipts</b>	\$2,892,560	\$356,422	\$426,701	\$230,383	\$188,433	\$258,953	\$204,699
<b>Total Cash Disbursements</b>	\$2,816,563	\$234,251	\$233,492	\$218,821	\$214,360	\$230,503	\$214,524
<b>Excess (Shortfall) from operations</b>		\$122,171	\$193,209	\$11,562	(\$25,927)	\$28,450	(\$9,825)
<b>CAPITAL AND FINANCING</b>							
<i>Cash Receipts</i>							
Cash received from loans/financing							
Transfers from savings/investments							
<i>Cash Disbursements</i>							
Capital purchases							
Repayment of loan principal							
Transfers to savings/investments							
	36,442	2,983	2,993	3,002	3,012	3,022	3,032
<b>NET CASH EXCESS (SHORTFALL)</b>		\$119,188	\$190,216	\$8,560	(\$28,939)	\$25,428	(\$12,857)
<b>ROLLING CASH BALANCE</b>		\$374,883	\$565,098	\$573,658	\$544,719	\$570,147	\$557,290

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- 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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