SCENARIO PLANNING
FINANCIAL PLANNING IN UNCERTAIN TIMES

Presented By:

DANOSKY & ASSOCIATES
Consulting for Nonprofit and Business

The Community Foundation for Greater New Haven

VALLEY COMMUNITY FOUNDATION

Introductions

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About Today's Seminar

- Housekeeping:
  - Everyone's devices are muted to diminish background noise
  - You will find a bar where you can ask a question or respond to a poll
  - There are several polls we will be asking you, look for them as we go.
  - We will also be asking you a few questions during the session. Answer them using the Q&A box on the bar
  - We will be recording this and will make it available through the Foundation.

Poll

How many ZOOM conference calls or webinars have you been on so far this week?

Q&A

What's your favorite non-work ZOOM activity?

Who is participating in this webinar?

- Question 1:
  - How many of you are on the front lines of providing some type of human service support during this crisis – food, transportation, health, childcare, animal shelters – anything that might challenge your existing resources?
  - How many of you are organizations that are not providing direct service – but are helping people cope, such as libraries, cultural organizations, museums, historical organizations, etc.
- Question 2:
  - How many hold financial positions?
  - How many are Executive Directors?
  - Any Board members?
  - Other?

Stressful times!

When dealing with COVID – 19 ….Take care of yourself!

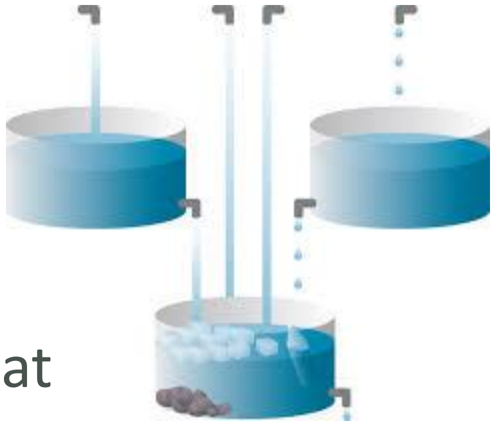
- 1. Eat well
- 2. Get exercise
- 3. Talk to family and friends
- 4. Take breaks
- 5. Use healthy coping mechanisms
- 6. Get your information from reliable sources
- 7. Stay calm
- 8. Don't let your nonprofit's financials get the best of you.

We will get through this!

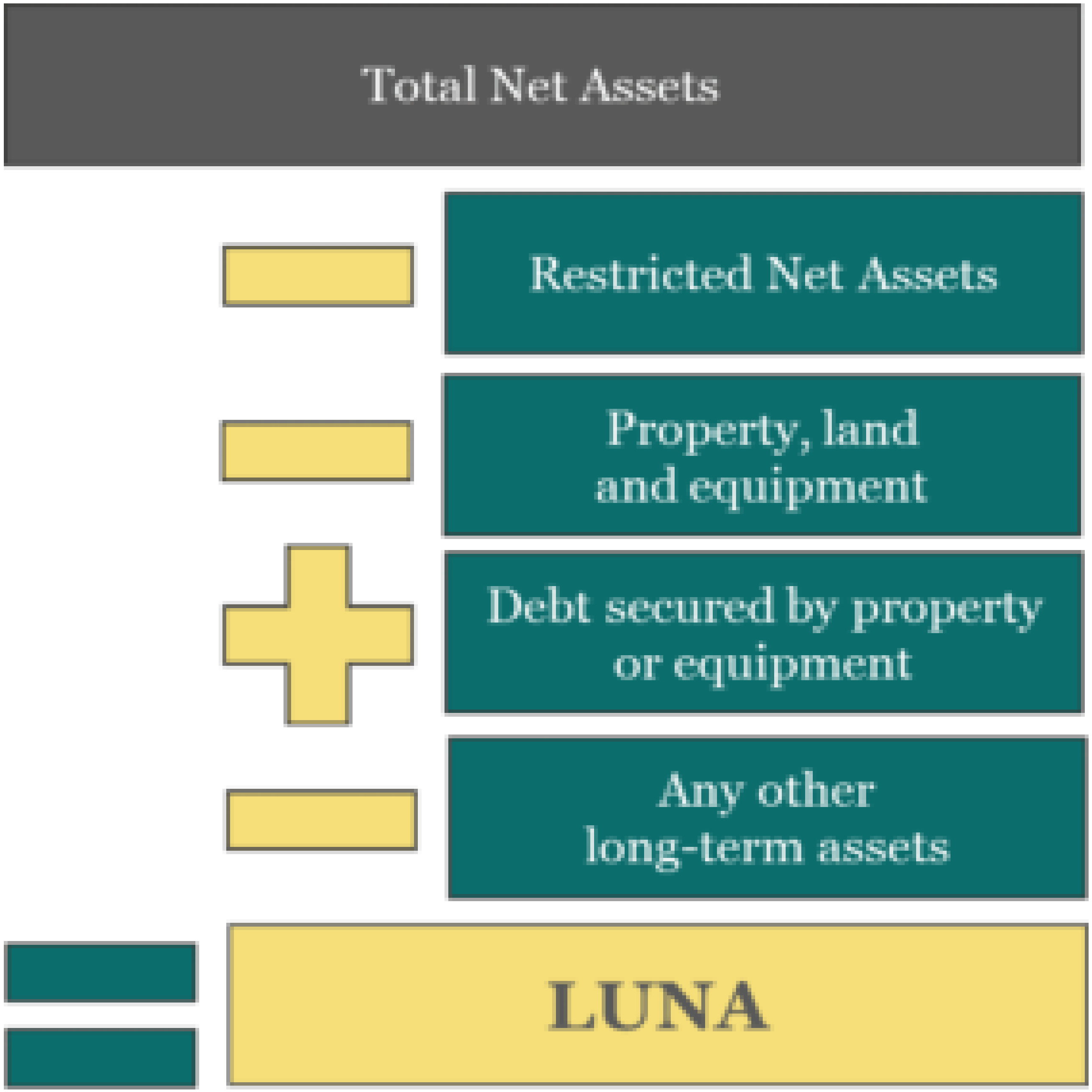
Where do you begin in all of this

- Where are you now? – Understand your current financial situation.
  - What are your Liquid unrestricted assets?
  - What are your current revenue and expenses?
  - What is your burn rate in terms of months?
  - What does your current cash flow look like?
  - Is staying the normal course an option – Not really!

Liquid Unrestricted Net Assets



- LUNA is the portion of unrestricted net assets that could be converted to cash relatively easily (may or may not include board designated funds, based on accessibility).
- It also refers to the funds available for purposes such as supplying working capital, guarding against downturns, and pursuing new opportunities.
- Unrestricted – unavailable net worth = operating reserve
  - Operating reserve / average monthly operating exp = Months of Luna


Total Net Assets
Restricted Net Assets
Property, land and equipment
Debt secured by property or equipment
Any other long-term assets
LUNA

Prioritize your programs

- What is essential to fulfill your mission?
- What are services that could be put on hold?
- What are services that could be delivered differently?
- What are programs that could be referred to another organization whose primary mission it is?

Cash Flow Analysis

- Short term
- Weekly
- Monthly
- Quarterly – to end of 2020

- 1. Start with what you know
- 2. Estimate your revenue
- 3. Estimate your expenses
- 4. Don’t forget the extraordinary expenses

Cash Flow Projection: **Charity Organization**

Current Month	**January**
Current Cash Balance	**$2,175**
Annual Operating Expenses	

	Jan	*Feb*	*Mar*	*Apr*	*May*	*TOTAL*
CASH RECEIPTS						
Contributions & Support						
Individual contributions	600	250	450	375	800	**$ 2,475**
Government Contracts						
Federal			2,500			**$ 2,500**
Other Revenue						
Program service fees	4,000	4,150	5,000	2,000	2,150	**$ 17,300**
Total Cash Receipts	**$4,600**	**$4,400**	**$7,950**	**$2,375**	**$2,950**	**$ 22,275**
CASH DISBURSEMENTS						
Monthly operating expense estimate	3,175	3,000	4,115	3,100	3,985	**$ 17,375**
Adjustments (+ / -)						**$ -**
Total Cash Disbursements	**$3,175**	**$3,000**	**$4,115**	**$3,100**	**$3,985**	**$17,375**
Excess (Shortfall) from operations	**$1,425**	**$1,400**	**$3,835**	**($725)**	**($1,035)**	**$4,900**
CAPITAL AND FINANCING						
Cash Receipts						
Cash received from loans/financing						**$ -**
Cash Disbursements						
Repayment of loan principal	100	100	100	100	100	**$ 500**
NET CASH EXCESS (SHORTFALL)	**$1,325**	**$1,300**	**$3,735**	**($825)**	**($1,135)**	**$4,400**
ROLLING CASH BALANCE	**$3,500**	**$4,800**	**$8,535**	**$7,710**	**$6,575**	

Cash Flow Projection:	**Charity Organization**							
Current Month	**May**							
Current Cash Balance	**$2,133**							
	Week 1	**Week 2**	**Week 3**	**Week 4**	**Week 5**	**Week 6**	**Week 7**	**Week 8**
Anticipated Cash Inflows								
Contributions	500		75	300	215		*150*	
Prgram fees	2,500	2,200	2,000	2,100	3,000	1,800	2,000	1,900
Government Contracts	1,500					15,000		
Grants		2,500		1,000				
Event Revenue								
Endowment funds								
Total Cash Receipts	4,500	4,700	2,075	3,400	3,215	16,800	2,150	1,900
Anticipated Cash Outflow								
Salaries	3,000		3,000		3,000		3,000	
Benefits		450		450		450		450
Program Costs	500	440	400	420	600	360	400	380
Rent expense	2,000				2,000			
Credit Card Payments				2,500				2,500
Adjustments (+ / -)								
Total Cash Disbursements	5,500	890	3,400	3,370	5,600	810	3,400	3,330
Excess (Shortfall) from operations	**(1,000)**	**3,810**	**(1,325)**	**30**	**(2,385)**	**15,990**	**(1,250)**	**(1,430)**
CAPITAL AND FINANCING								
Cash Receipts								
Cash received from loans/financing								
Cash Disbursements								
Repayment of loan principal	100	100	100	100	100	100	100	100
NET CASH EXCESS (SHORTFALL)	(1,100)	3,710	(1,425)	(70)	(2,485)	15,890	(1,350)	(1,530)
ROLLING CASH BALANCE	**1,033**	**4,743**	**3,318**	**3,248**	**763**	**16,653**	**15,303**	**13,773**

Revenue

- Government funding
- Grants
- Service/Fee based income
- Donations – corporate and individual
- Events income
- Endowments
- In-kind
- Other
- Understand the impact to each of them

Evaluate – Revenue

- 1. Evaluate each revenue stream and adjust
- 2. Will this funding be guaranteed?
- 3. Will it rebound in a few months?
- 4. Will the funding be lost for the rest of the year?
- 5. How dependent am I on each revenue stream?

- Thoughtful discussions around all of these questions.

Financing

See links to resources at end

- Paycheck Protection Program
- EIDL loans
- Funds for the PPP and EIDL are currently exhausted but a new wave of funding is here…..will it last?
- Other local support
- Line of Credit

Question - Where is your organization right now?

- On the front line – full throttle!
- Experimental
- Steady
- Hibernation
- Redirecting
- Possibly shutting down
- Don't really know?

Why scenario planning

1. Stories about how the future might unfold.
2. Prepares nonprofits for downturns and opportunities
3. Allows organizations to respond quickly
4. Doesn't matter the size of your organization

When not to use it --

- If you have faulty, misleading or sloppy data
- No perfect scenario – endlessly trying new combinations
- Wait and see scenario – doing something is usually better than doing nothing.

Poll

How many of you are currently doing scenario planning?

How many of you want to do scenario planning now?

What if –
The Art of Scenario Planning for Nonprofits

Most common application of scenario thinking

1. Setting strategic direction
2. Catalyzing Bold Action
3. Accelerating collaborative learning
4. Alignment and Vision

(Not mutually exclusive)

Scenario Planning

- Best Case Scenario
- Moderate Case Scenario
- Worst Case Scenario – think through disruptions

Do not create endless scenarios

Be thought provoking

Teamwork

- I'll create the scenarios then bring it to the board – NO!
- Set up task force
- Board involvement
- Management involvement
- Not a one person exercise

SCENARIO PLANNING IN ACTION For ABC Co.

DEFINE	EXPLORE	CREATE	COMMUNICATE	ACT	EMBED
Prioritize Objectives	**Provoke** New thinking	**Establish** Scenario framework	**Create** Scenario documents and outputs	**Test** Current strategies	**Establish** Ongoing strategic conversation
Decide Focal issues	**Brainstorm** Spectrum of issue	**Build** Scenario logic	**Enable** People to experience the scenarios	**Generate** Strategic options	**Build** Systems to monitor weak signals
Set Time horizo	**Identify** Vital driving forces	**Generative** Compelling narratives	**Generate** Discussion of implications	**Define** a core strategy robust against scenarios	**Build** Responsiveness to change
Define Scope	**Research** Key themes	**Ensure** Internal consistency		**Establish** Contingent strategies	
Name Core and extended scenario teams	**Distinguish** Certainties and uncertainties				
	Test preliminary scenario frameworks				

Drivers ?

1. Identify key factor
2. Determine possible outcomes – try to assign estimates and rough probabilities
3. What are the risks?
4. How will your organization be affected?
5. Analyze and identify the best path – pros and cons
6. What programs should be protected and prioritized
7. What programs should be postponed, reduced or eliminated

Revenue Analysis Worksheet

	Best	Moderate	Worst
Variable Revenue Assumption:	100%	75%	50%

Program/ Department/ Function	Funding Source		Total Possible Revenues (Current Year Portion *only*)	Likelihood of Receipt (%)	Revenue Scenarios: Best Case	Moderate Case	Worst Case
Program 1	Grant XYZ		$ 5,000	75%	5,000	5,000	
	Corporate donation		$ 2,000	100%	2,000	2,000	2,000
	VARIABLE:	Donations	$ 500	n/a	500	375	250
	VARIABLE:				-	-	-
for Program 1	**$ 3,000**		**Revenue Subtotal**		**$7,500**	**$7,375**	**$2,250**
			Expense Budget		**$3,000**	**$3,000**	**$3,000**
			Surplus /Deficit		**$4,500**	**$4,375**	**($750)**

Program/ Department/ Function	Funding Source		Total Possible Revenues (Current Year Portion *only*)	Likelihood of Receipt (%)	Best Case	Moderate Case	Worst Case
Program 2	Service fee		$ 5,000	75%	5,000	5,000	
	Event		$ 2,500	50%	2,500		
	VARIABLE:	Donations	$ 1,000	n/a	1,000	750	500
	VARIABLE:				-	-	-
for Program 2	**$ 2,000**		**Revenue Subtotal**		**$8,500**	**$5,750**	**$500**
			Expense Budget		**$2,000**	**$2,000**	**$2,000**
			Surplus /Deficit		**$6,500**	**$3,750**	**($1,500)**

What circumstances will cause the trigger?

- Example - If revenue falls 10% we will do x
- Example - If revenue falls 25% we will do x y and z
- Build these decisions into model
- Monitor

Expenses

- Labor –
  - Employees - at least 70% of budget
  - Layoff or furlough
  - Part-time employee
  - Consolidate positions
- Rent /utilities
- Other

Types of Expenses

- Fixed Expenses – building rent, insurance or executive director salary
- Variable – utilities or cost of program materials that change with sales.
- Semi variable – wages

Expenses

- Besides labor restructuring what else can I do?
- How can I conserve cash?
- Can I repurpose a facility?
- Our services are needed – how do we accommodate the demand?
- How do I deal with the financial increase in technology because everyone is now working from home!

Financial Levers

- Expense
- Revenue
- Cash and Reserves
- Cash Flow
- Capital expenditures

	Charity ABC						
	Cash flow - worst case scenario						
Key Assumptions	Starting operating Cash	$ 38,500.00	$ 39,305.00	$18,610.00	$16,915.00	$11,220.00	$ 6,025.00
Use reserve $28K, LOC 25K							
Line of credit	Total Available credit				$25,000.00	$25,000.00	$25,000.00
Revenues	Amount Rec. - Scenario	Apr	May	June	July	Aug	Sep
Grants	$ 6,500.00	$ 3,000.00	$ 1,000.00			$ 500.00	$ 2,000.00
Program fee	$ 120,000.00			$15,000.00	$20,000.00	$20,000.00	$15,000.00
Donations	$ 7,500.00	$ 1,500.00	$ 2,000.00	$ 1,000.00	$ 500.00	$ 500.00	$ 500.00
Total Revenue to be received	$ 134,000.00	$ 4,500.00	$ 3,000.00	$16,000.00	$20,500.00	$21,000.00	$17,500.00
Expenses	Amount paid -scenario	Apr	May	June	July	Aug	Sep
Wages	$ 180,000.00	$ 20,000.00	$ 20,000.00	$20,000.00	$20,000.00	$20,000.00	$20,000.00
Benefits	$ 16,200.00	$ 1,800.00	$ 1,800.00	$ 1,800.00	$ 1,800.00	$ 1,800.00	$ 1,800.00
Payroll taxes	$ 15,480.00	$ 1,720.00	$ 1,720.00	$ 1,720.00	$ 1,720.00	$ 1,720.00	$ 1,720.00
Program supplies	$ 15,500.00			$ 2,000.00	$ 2,500.00	$ 2,500.00	$ 2,500.00
Insurance	$ 900.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Telephone and internet	$ 675.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00
Total Expenses	$ 228,755.00	$ 23,695.00	$ 23,695.00	$25,695.00	$26,195.00	$26,195.00	$26,195.00
Surpus/Deficit from operations	$ (94,755.00)	$ (19,195.00)	$ (20,695.00)	$ (9,695.00)	$ (5,695.00)	$ (5,195.00)	$ (8,695.00)
Ending cash balance prior to use of reserve		$ 19,305.00	$ 18,610.00	$ 8,915.00	$11,220.00	$ 6,025.00	$ (2,670.00)
Reserve fund opening balance		$ 28,000.00	$ 8,000.00	$ 8,000.00	$ -	$ -	$ -
Reserve Funds drawdown		$ 20,000.00	0	$ 8,000.00			
Ending Reserve fund balance		$ 8,000.00	$ 8,000.00	$ -	$ -	$ -	$ -
Ending operating account balance		$ 39,305.00	$ 18,610.00	$16,915.00	$11,220.00	$ 6,025.00	$ (2,670.00)
Is cash balance within available credit?		yes	yes	yes	yes	yes	yes
By how much		$ 39,305.00	$ 18,610.00	$16,915.00	$36,220.00	$31,025.00	$22,330.00

Charity ABC – worst case scenario

Charity ABC	Sept. 2020
Beginning Balance 4/1	$ 38,500.00
Reserve Funds	$ 28,000.00
Revenue	$ 82,500.00
Expenses	$ (151,670.00)
Ending Balance 9/30	$ (2,670.00)
Line of Credit	$ 25,000.00
Balance Used	$ (2,670.00)
Amount available on LOC	$ 22,330.00

Who do I approach?

1. Approach donors
2. Approach Foundations - Can you escalate a grant?
3. Approach vendors – revise payment terms
4. Approach landlord – negotiate!
5. Approach bank – build on established relationship for funding
6. Approach board – Can we change board designated funds
7. Approach management – freeze discretionary spending

SURVIVE

- Have enough cash
- Keep staff and volunteers
- Keep current clients and customers
- Preserve donors and funders
- Maintain status

THRIVE

- Increase self reliance and long-term resources
- Strengthen staff and volunteers
- Build loyalty with clients
- Strengthen donors/funders
- Improve your standard

Nonprofits' Response

Communicate your plan

Express your financial needs

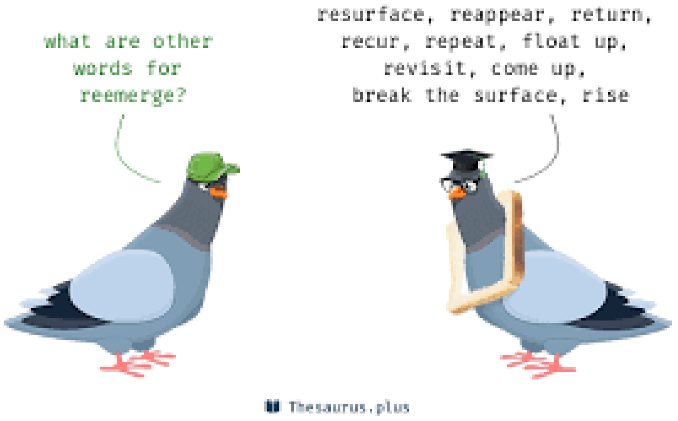
Understand the timeline

Stick to the plan but be flexible

PLAN AHEAD

How will we emerge stronger

- Management and boards need to work hand in hand
- Financial scenario planning is a tool for understanding uncertainty
- It creates new sources of hope
- Your organization will emerge stronger by using it



Financial Controls - Working from home

- Still maintain strong approval processes for expenses
- Be timely with reporting / responses
- Good communication
- Embrace the cloud
- Segregation of duties

Closing Thoughts

It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change ……

Charles Darwin

References

- Paycheck Protection Plan –
- https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program

- EIDL Loan
- https://www.sba.gov/sites/default/files/articles/EIDL_Information_and_Documentation_-_3-23-2020.pdf

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