Forecasting a Foggy Future
Objectives

At the end of this session, participants will be able to:

- Implement long-term, multi-scenario financial models to enrich leadership and governance decision making
- Apply methods to democratize the financial modeling process
- Communicate financial information effectively to governance
“The budget is not just a collection of numbers, but an expression of values and aspirations.” – Jacob J. Lew
As Shutdown Crawls On, Artists And Nonprofits Fear For Their ‘Fragile Industry’

Nonprofit sector leaders say "uncertainty and change" are 2019 given.

Shutdown squeezes funding, increases need for D.C.-area

Nonprofits Aim to Recover After Shutdown Disaster

Some local nonprofits are seeing fewer donations in wake of federal tax law changes
Creating Long Term Financial Models
Multi-Scenario Modeling

What is a financial model?

Why make a financial model?

Where do we start modeling?
What is a multi-scenario financial model

A multi-scenario model is a mathematical representation of key financial and operational relationships. It is used to analyze:

◦ how an organization will react to different economic situations and
◦ in estimating the outcome of financial decisions before committing any funds.
Why make a financial model?

- Prioritize initiatives
- Identify risks or obstacles in advance
- Prepare for change
Where to start? – Engage the Stakeholders

- Goals
- Boundaries
- Model
- Priorities
- Expectations
Where to start? – Identify the “What if’s”

Define Risks

- Outcome
- Financial
- Both

Define Opportunities

- Outcome
- Financial
- Both
Elements of successful models

- Clear targets/expectations
- Keep it simple
- Flexibility/Scalability
- Transparency
How far out are you modeling financial data?
Case Study: Background

A need for long term budget projections

Prior 3 years - major investments in its infrastructure from its long-term reserves

A number of strategic initiatives under investigation

Concerns over potential loss or reduction in revenue
Case Study: Process

3 potential scenarios:

Positive
- Retain all of the existing revenues up for renewal and org will be awarded 2 new grants currently in the application process

Neutral
- Retain all of the existing grants up for renewal but org will not be awarded additional grants to start the new programs

Negative
- The primary federal grant’s funding is reduced by 30% and org is not awarded any of the new grants for which it has applied
Case Study: Process

Model of 5 year projections for each of the strategic initiatives, which included:

- 2 New Programmatic Offerings
- A Rebranding initiative
- Expanding into new countries
- Partnering with other like minded organizations
- Seeking out new granting organizations
Modeling to the Rescue!
Case Study: Outcomes

Change in Net Assets

Year 1  Year 2  Year 3  Year 4  Year 5

Scenario 1  Scenario 2  Scenario 3
Case Study: Outcomes

Negative Scenario: 5+ Years of deficit spending

Neutral Scenarios: A declining bottom line

Based on these outcomes, we re-prioritized their strategic investments
Case Study: Outcomes

- Focus on developing/funding one of the new programs
- Concentrate on expanding into new countries
- Indefinitely delay the second program
Key Take Aways

Provided objective data – eliminate “pet projects”
Allowed leadership to prioritize its initiatives
Partnered with others outside of the finance dept
Leveraged technology to develop the models
Democratizing Financial Modeling
Keys to Democratization

- Feedback
- Alignment
- Accessibility
- Engagement
Organizational Alignment

- Leadership sets framework and provides guidance
- Model structured around institutional priorities
- Define boundaries. What’s in and what’s out?
- Integrate model into core planning cycle
- Assess organizational structure and tools
- Plan your strategy for tough conversations
Resources vs. Goals
Staff Engagement

Engagement of leadership from step 1
Seek input on process development
Develop a stakeholder mentality at the program level
Full aspiration budgeting... in a prioritized manner
Facilitate information sharing and process guidance
Use the model/budget as an active management tool
Performance measured against plan
Communication
Training
Feedback

Outreach and open feedback loops
Debrief
Integrate lessons learned
Continual process improvement
Sharing Forecasts of a Foggy Future
Communicating Uncertainty Effectively

- Document/share assumptions
- Clearly map the budget to the strategic plan
- Clearly identify the risks in the model
- Discuss the game plan for addressing deviations from forecast/budget
- Identify/disclose budget priorities (what gets cut when the going gets rough)
- Create touchpoints throughout the year
Session Code *Weather*