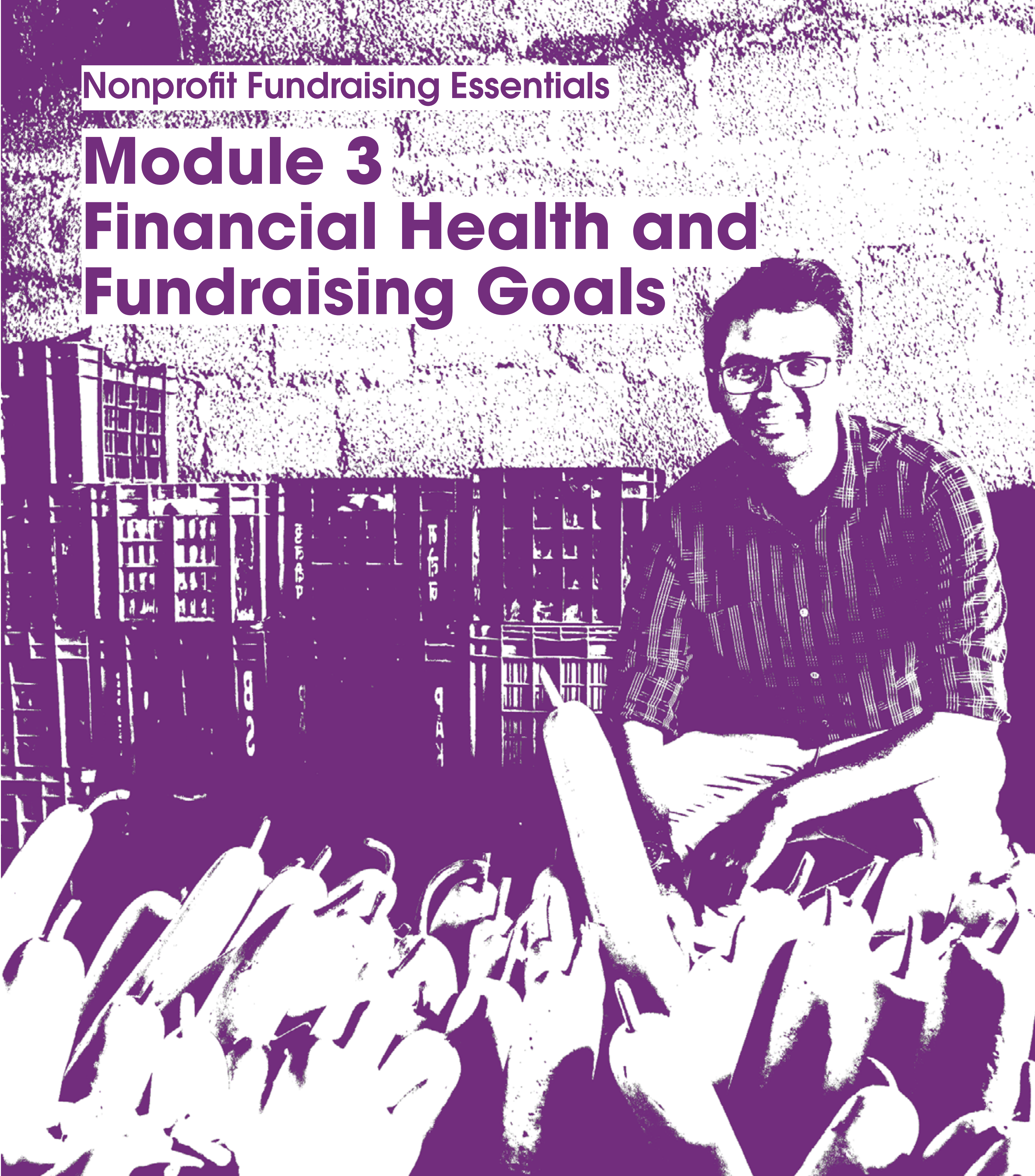
Nonprofit Fundraising Essentials

Module 3
Financial Health and Fundraising Goals



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INTRODUCTION TO THE MODULE

You've made it halfway through the course — great work! Let's reflect on what you've accomplished so far:

In Module One, you reviewed your mission, theory of change, and impact. You learned that an entrepreneurial mindset will help your nonprofit experiment with new revenue streams and adapt to unexpected changes.

In Module Two, you explored different sources of nonprofit funding. In the workshop, you assessed your past fundraising performance, researched peer organizations, and selected new funders and revenue streams to pursue.

You learned that fundraising isn't just about "selling" — it's about partners working together to achieve a shared mission. To gain the trust of a potential partner, you need to demonstrate that their donation will be used thoughtfully, and that your nonprofit will be financially sustainable in the long term.

This module will provide an introduction to common pain points when it comes to nonprofit finances. You will learn to:

+ Discuss the "financial health" of your nonprofit with potential funders
+ Understand your organization's funding needs and set fundraising goals
+ Create project budgets that are reasonable and cover your full costs

By understanding the resource needs of your organization, you will be prepared to write a stronger "case for support" and pitch to donors in Module Four.

REFLECTION

+ How would you describe your confidence in discussing your nonprofit's finances and resource needs?

DISCUSSING YOUR FINANCIAL HEALTH WITH DONORS

In Module Two, you selected new funders or revenue streams to pursue. In Module Four, you will learn how to engage these donors and write a "case for support," which persuasively describes how you will use a donor's resources to achieve results.

Nonprofits that can clearly and accurately explain their financial story and resource needs are prepared to make a stronger case for support, according to the Nonprofit Finance Fund.[1] Donors will have greater trust in your proposal budgets and your organization's ability to thrive in the long-term.

Your nonprofit's "financial story" consists of these elements:[2]

+ **Revenue:** Your revenue should be predictable and reliable.
+ **Expenses:** You are transparent, understand the full costs of your work, and account for these costs in your budgets.
+ **Profitability:** You have a consistent surplus that allows you to pay debts, purchase equipment or infrastructure, and fund savings or growth.
+ **Liquidity:** Your nonprofit can meet obligations and respond to risks and opportunities with available cash.
+ **Financial planning:** Your nonprofit can plan for the future and access timely and accurate financial data.
+ **Balance sheet:** Your balance sheet represents the difference between everything you own (assets) and owe (liabilities) at a moment in time.

Why is it important for a nonprofit to be able to discuss its financial health — even for team members who are not directly involved with preparing budgets and managing finances?

After three years of growing Anza, a business incubator in Tanzania, co-founder Krupa Patel was invited to her first meeting with a regional family foundation. She jumped onto a bus and traveled to a coffee shop several hours away to meet with the program officer.

"By this point, we had a lot more clarity around our programs and the methods we used to support our entrepreneurs," Krupa said. "However, I couldn't respond to any of their technical questions."

Many of the funder's questions focused on the nonprofit's finances, including its operating budget and the percentage of self-generated income.

1- Nonprofit Finance Fund, Financial Self-Assessment
2- Nonprofit Finance Fund, Financial Self-Assessment; Nonprofit Finance Fund, Top Indicators of Nonprofit Financial Health

"You could see they were not surprised, but perhaps more concerned," she said. "I remember getting so flustered and thinking, this is way too early to start talking to these large, formal foundations!"

Funders want to know that you are financially sustainable and will continue delivering results in the long term — and not only for the duration of a grant.

"Charities should be clear and honest about their finances," said Flora Craig, Head of Grants at the Garfield Weston Foundation, in an interview with I.G. Advisors.[3] She emphasized that the foundation was especially interested in a nonprofit's "sustainability beyond the period of time when we might be giving them a grant."

No foundation wants to be in a position where a nonprofit is dependent on them, she explained, or risks closing its doors if the foundation does not offer another grant.

Nonprofits can expect to answer questions about their financial health in both informal conversations and grant proposals. It is part of a funder's "due diligence," or the process of assessing an organization before deciding whether to provide funding.

Typically, the first conversation with a funder will focus on your mission, theory of change, impact, and project activities. If you progress to a second or third conversation, you should be prepared to discuss your costs and financial health.

Everyone on your team who is engaged in fundraising should be able to answer these basic questions:

+ What is your organizational budget?
+ What is your project budget?
+ What is the size of your team?
+ What are your operating reserves?
+ What are your overhead costs as a percentage of your organizational budget?

If you cannot answer these questions, sit down with your Chief Financial Officer (or whoever manages your finances) until you feel confident about your responses.

Of course, all fundraisers have experienced moments of being caught off guard — you might even be thinking of one right now! By anticipating questions about your financial health, you will be ready for more productive discussions with donors in the future.

REFLECTION

+ Imagine you are sitting down with a potential donor. How would you describe your nonprofit's financial health?

3- I.G. Advisors, What Donors Want: Philippa Charles & Flora Craig, Garfield Weston Foundation

UNDERSTANDING YOUR RESOURCE NEEDS

You learned that nonprofits that understand their financial health can make a stronger case for support. Now, you're ready to have transparent conversations that gain the trust of potential donors.

In this section, you will learn how to assess your nonprofit's **resource needs**. You'll see how your annual budget and strategic priorities will help you define fundraising goals that are specific and measurable.

Note: *This reading assumes that your nonprofit has prepared an annual budget in the past. If you are a beginner, there are several excellent guides and templates in the Additional Resources.*

	Forecast for FY 2020[4] (Current year)	Budget for FY 2021 (New year)
REVENUE		
Individual gifts		
Foundations		
Corporations		
Government		
Membership fees		
Fundraising events		
Earned income		
Total Projected Revenue		
EXPENSES		
Salaries and benefits		
Consultants		
Rent		
Utilities		
Office supplies		
Other program expenses		
Total Projected Expenses		
Reserves		
Operating Surplus/Deficit		

4- FY refers to fiscal year. Many nonprofits create budgets for 12-month "fiscal years," rather than calendar years. This is meant to account for the surge in donations that often occurs at the end of the year and to reduce the bookkeeping burden during the holidays.

To create your fundraising goals, let's start at the beginning: your annual budget (or "operating budget").

A budget is a plan for how a nonprofit will spend its limited resources to achieve its mission over a defined period of time.[5] At a basic level, an annual budget is made up of **revenue** and **expenses**.[6]

Most nonprofits begin preparing an annual budget about 3–6 months before the start of the new fiscal year.[7] Your current year's progress and your expectations and goals for next year will inform your new budget.

Your team will start by updating a forecast — or estimate — of your revenue and expenses for the remainder of the current year. With insights from this forecast, you can prepare a more accurate budget — or plan — that lists all of your revenue and expenses for the upcoming year.

Generally, you should only include a funder or revenue stream in your annual budget if you are confident of receiving the funds. Be sure to include every cost associated with your programs and administration, from salaries and office supplies to meals and airfare.
After you have entered all of your revenue and expenses, the difference is your **operating surplus** or **deficit**. This figure illustrates your existing resources and funding gaps.

However, fundraising isn't *only* about filling the gap between revenue and expenses. There are other factors to consider when setting your fundraising goals, for example:

+ **Are you dependent on a single donor or grant?** If so, your team should diversify your revenue to reduce the harm of losing the funding unexpectedly.
+ **Is your cash flow reliable?** If the flow of cash in and out of your nonprofit is unpredictable, you might be unable to pay salaries on time and make important program-related purchases. Consider if you can change the timing of donations and grants or reduce costs through donated goods and services.[8]
+ **Do you have reserves set aside for unexpected disruptions?** If you don't have enough reserves to cover 3–6

5- Nonprofit Finance Fund, Making Your Budget the Backbone of Your Nonprofit
6- Nonprofit Finance Fund, Budgeting Basics
7- Many nonprofits create budgets for 12-month "fiscal years" (beginning on July 1st, for example), rather than calendar years. This is meant to reduce the bookkeeping burden during the holidays and allow nonprofits to plan for the surge in donations that often occurs at the end of the year.
8- More resources on managing cash flow: Propel Nonprofits, Cash Flow Management

months of operating expenses, you may want to seek out opportunities to raise more unrestricted funding. This could include individual donors, earned revenue, or flexible grants.

+ **Do you intend to scale your programs or geography?** New programs for strategic growth often fall under an "innovation" line in your budget. You should raise more unrestricted funding, which will provide your nonprofit the flexibility and autonomy to keep innovating and become a leader in your field.

ASSESSING YOUR OPERATING SURPLUS OR DEFICIT

Some new founders wonder: Is a nonprofit allowed to have a surplus? In fact, a surplus is an indicator of good financial management. It allows nonprofits to pay debt, ease cash flow, and increase reserves. Unlike a for-profit company, a nonprofit's surplus must eventually be invested back into the mission.

In contrast, a deficit could be a sign of poor financial health, unless it was intentional. For example, if your leadership decided to invest in a new program, strengthen your fundraising capabilities, or take on other expenses that are expected to result in future benefits, then a short-term deficit could be a good financial decision.

To assess your surplus or deficit, here are three questions to discuss as a team:

+ If you have a surplus, does it seem reasonable? If it is higher than expected, make sure that you have captured all your costs accurately.
+ Is your surplus too low? If you are barely covering your costs, create a plan for any unexpected expenses that could arise during the year.
+ If you are running a deficit, was it intentional or unplanned? Examine the budget to see where money could be saved and what items could be cut.

SETTING FUNDRAISING GOALS

Now you're ready to set fundraising goals. By setting measurable goals and milestones, your team members will stay accountable and your organization will have the resources it needs to deliver its programs.

In the previous section, you found the difference between your expected revenue and expenses. This figure illustrates the "deficit," or funding gap, that must be filled for your nonprofit to cover its operating costs.

Of course, your cash flow is not always so easy to manage and predict.[9] In Module Two, you learned about the timelines and constraints of different funding sources:

+ Individual donors may take 12–18 months to cultivate
+ Multi-year grants are often paid in installments

Furthermore, most nonprofits want to invest in innovation to strengthen their programs and become leaders in their field. To do this, you will need to raise unrestricting funding.

Creating fundraising goals is both an art and science. Start with your funding gap. Identify other needs, such as diversifying your revenue streams, launching new programs, or building your reserves. Be realistic about the size and capabilities of your team.

The best goals are specific, measurable, attainable, relevant, and timebound ("SMART").

+ **Specific:** Your goal is clearly defined and easily understood.
+ **Measurable:** You can measure whether you have achieved your goal.
+ **Attainable:** Your goal should be ambitious, but realistic for your team.
+ **Relevant:** Your goal should advance your mission.
+ **Timebound:** You have a deadline for achieving your goal.

Here is an example of fundraising goals for an education nonprofit with an annual budget of $350,000. The nonprofit has historically depended on funding from foundations and corporations, and wants to diversify its revenue streams and invest in program innovation.

+ Renew three foundation and corporate grants for a total of $330,000 to continue delivering core education intervention through 2021

9- You can find a cash flow template and other articles in the Additional Resources.

+ Raise $25,000 from high-net-worth donors before March 2021 to support research and development on a new distance learning program
+ Contribute $10,000 to emergency reserves

Next, you can break down these organizational goals into individual goals and action plans. For example, each of these goals could contribute to raising $25,000 from high-net-worth donors:

+ Bring in three individual donors at $10,000 each
+ Carry out research to build a pipeline of 30 prospective donors
+ Meet with three prospective donors every week

For ambitious programs that will take place over many years, it can be helpful to start with a multi-year fundraising goal (or "campaign") and then create smaller annual targets. This will allow you to plan ahead and strengthen your fundraising capabilities along the way.

Remember, you will inevitably experience failures and hear "no"s in your journey. To deliver your programs and fund future growth, your nonprofit should build a robust pipeline and consistently seek out new sources of funding.

PREPARING A GRANT PROPOSAL BUDGET

Your nonprofit understands its overall fundraising goals for the coming year. However, if you are raising money for a specific project, you also need to be deeply familiar with that project's expenses and how they contribute to your impact.

If you have ever applied for funding from an institution, you are probably familiar with grant proposals. A **grant proposal budget** (or "project budget") outlines all the costs related to delivering a project that you have proposed.

Project budgets should be accurate, complete, and include a justification of costs. If provided, use the template provided by the funder.[10]

No matter what your job title is, if you are listed as the point of contact on a grant proposal, you should be prepared to discuss every aspect of that proposal — from the activities and outcomes to the lines on the budget.

"It tends to be fundraisers who send over an application," said Flora Craig, Head of Grants at Garfield Weston Foundation, in an interview with I.G. Advisors.[11] "If I call them up to talk through the budget, I expect them to know the budget really well."

"It feels a bit alarming when someone says, 'Oh, I don't know, I'll have to come back to you when I've spoken to someone else,'" she explained. "It makes you wonder — if these figures aren't clear enough to you, then how can they be clear enough to us?"

10- You can find examples and project budget templates in the Additional Resources.
11- I.G. Advisors, What Donors Want: Philippa Charles & Flora Craig, Garfield Weston Foundation

REVENUE

To get started, state the amount of money that you are requesting from the funder. (If relevant, include any "matching funders" or other contributions to the program.)

EXPENSES

Next, list all of the direct costs, which are specifically dedicated to the project. These often include salaries, travel expenses, materials and supplies, equipment, and consultants hired for the project.

Personnel	$112.000
Taxes and benefits	$20.000
Travel	$6.000
Program supplies	$12.000
Consultants	$30.000

Salaries are usually the greatest expense in a project budget. Full-time employees are often listed with a percentage to note the amount of time dedicated to the project.

Executive Director (15%)	$25.000
Program Manager (40%)	$32.000
Program Associate (100%)	$55.000

Now take a closer look: Have you captured all of your direct costs in detail? For example, travel alone could include airfare, taxis, hotel rooms, meals, insurance, translation services, vaccines, visas, and other expenses taken on for the project.

Next, you should allocate your **shared costs**. These are costs that support the general operation of your organization:

+ Rent
+ Utilities
+ Telephone and internet

Shared costs would take place, to some degree, even if the project did not exist. However, these costs — such as laptops for writing reports and electricity to light your office — are essential in order to deliver the project successfully.

Therefore, shared costs must be "allocated," or divided and distributed in a way that fairly reflects their contributions to the project. This is often done by multiplying the cost of rent, utilities, or supplies by the percentage of time your staff spends on the program.

Some funders will not provide additional support for **administrative costs**, such as human resources, finance, legal, and fundraising salaries. Others will reimburse at a fixed rate, which is known as "indirect cost recovery." Follow the guidelines shared by the funder to determine how to include these costs in your project budget.[12]

BUDGET NARRATIVE

A spreadsheet cannot tell the full story of your budget. Add a "budget narrative" to provide justification for each of your expenses. In other words: What do you need and why?

"We look for a budget that is reasonable in relation to the outcomes," said Lynda Mansson, Director General of the MAVA Foundation. "That can be hard to judge sometimes, but when you've seen a lot of project proposals, you gain the ability to calibrate."

12- Here is an example of a project budget template and indirect cost policy from the MacArthur Foundation.

A budget narrative usually consists of at least a one-sentence description for each item. Here are a few examples:

+ "The director will spend 10% of her annual time developing communication materials, managing the team, and corresponding with the donor."
+ "We used the average government per diem rate of $160/day. We are assuming meals will be covered for five days total, which includes costs during travel days."

As you write your narrative, consider these questions:

+ How will this expense help achieve the project's objectives?
+ Have you selected the most cost-effective option?

REFLECTION

+ Think of the last time you submitted a project budget. How was it received? Would you change anything about it today?

FINISHING MODULE THREE

Great work! You've reached the end of the module.

You've learned how to:

+ Discuss the "financial health" of your nonprofit with potential funders
+ Understand your organization's funding needs and set fundraising goals
+ Create project budgets that are reasonable and cover your full costs

In preparation for Workshop Three, you should review the workshop activities, and then explore the additional resources on budgets and cost allocation as needed.

Now, it's time to schedule your team meeting and get ready for Workshop Three!