Nell Edgington

Build a Nonprofit Financing Plan

A Social Velocity Step-By-Step Guide
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A Social Velocity Step-By-Step Guide, No. 4
What is a Financing Plan?

A financing plan, unlike a traditional fundraising plan, is an integrated, thoughtful, and strategic way to help a nonprofit raise enough money to achieve its programmatic and organizational goals. When you finance, instead of fundraise for, your nonprofit you are developing a long-term strategy for bringing enough money in the door to achieve your mission.

Financing means that instead of asking the question:

“How much can we accomplish with what we can raise?”

you start asking the question:

“How much should we raise to accomplish our goals?”

A financing plan differs from a fundraising plan in a number of ways. Unlike a fundraising plan, a financing plan:

- Raises all of the necessary revenue AND capital required to achieve the goals of the strategic plan
- Includes ALL activities that bring money in the door (individual donors, foundation grants, earned income, corporate sponsorships, government contracts, loans, etc.)
- Fully integrates them into an overall strategy and execution plan
- Supports the short AND long term goals of the organization
- Funds the programs AND infrastructure (systems, planning, staff, technology) of the organization
- Employs money-securing activities that are in line with, not opposed to, the core competencies and mission of the organization

With a clear financing plan, your nonprofit will bring more money in the door, in a more sustainable way, ultimately bringing you closer to achieving your mission and creating change in your community.
How to Use This Guide

This guide is designed to help you build a financing plan for your nonprofit. It is divided into 8 sections that should be completed in order. I strongly recommend you involve other staff and board in the creation of your financing plan so that it becomes an organization-wide financing plan embraced and executed by everyone in your organization, instead of solely the executive or development director.

Here are the sections of this guide:

1. Align Money, Mission and Competence
2. The Financing Plan Framework
3. Create Revenue Goals
4. Create a Capital Goal
5. Create a Fundraising Infrastructure Goal
6. Operationalize the Plan
7. Monitor the Plan
8. Next Steps
Section 1: Align Money, Mission and Competence

Those nonprofit organizations that are most successful have aligned three key elements:

1. **Mission** (what you exist to do)
2. **Core Competencies** (what you do better than anyone else in the world), and
3. **Money** (your financial engine).

An organization in alignment looks like this:

![Diagram showing the alignment of Mission, Core Competencies, and Money]

The mission is supported by the organization’s core competencies, which both feed into how the organization brings money in the door.

When one or two of these three elements are out of alignment, chaos can ensue.

Therefore in order to move your nonprofit toward alignment you must connect your strategic plan to your financing plan. It is important that you understand the costs of achieving the goals set out in your strategic plan (expenses) and how you will pay for them (revenue) as well as how you will fund any organization building that might need to happen for your strategic plan to be successful (capital).

Which brings us to an important discussion about types of money. Before you can create a financing plan for your nonprofit, you must understand a critical distinction between two kinds of money in the nonprofit sector:

- **Revenue is the day-to-day money required to run the organization.** For a homeless shelter, revenue buys meals, beds, sheets, job training programs, staff time.
• **Capital is the one-time infusion of money that builds or grows an organization.** For a homeless shelter, capital purchases a better system for gathering data on clients, a donor database, a Development Director, a program evaluation.

If you do have a strategic plan, take a hard look at the goals of that plan and create a future projection (3 or more years) of the costs necessary to make that plan come to fruition. If your nonprofit doesn’t have a strategic plan, you should strongly consider creating one. But in lieu of a strategic plan, simply project what you think your organization’s costs will be over the next 3 or more years.

Your projection of expenses for your organization (based on your strategic plan) could look something like this:

<table>
<thead>
<tr>
<th>Expenses</th>
<th>FY 2013</th>
<th>FY 2014</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff &amp; Benefits</td>
<td>$525,000</td>
<td>$551,250</td>
<td>$606,375</td>
</tr>
<tr>
<td>Rent &amp; Utilities</td>
<td>$26,000</td>
<td>$27,300</td>
<td>$30,030</td>
</tr>
<tr>
<td>Materials</td>
<td>$35,000</td>
<td>$36,750</td>
<td>$40,425</td>
</tr>
<tr>
<td>Marketing &amp; Website</td>
<td>$45,000</td>
<td>$47,250</td>
<td>$51,975</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>$20,000</td>
<td>$21,000</td>
<td>$23,100</td>
</tr>
<tr>
<td>Professional Services</td>
<td>$50,000</td>
<td>$52,500</td>
<td>$57,750</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$701,000</strong></td>
<td><strong>$736,050</strong></td>
<td><strong>$809,655</strong></td>
</tr>
</tbody>
</table>

Go ahead and create a 3-year expense projection for your organization.

Once you’ve done that, we will talk in Section 2 below about how you start to create a financing plan to meet these expenses.
Section 2: The Financing Plan Framework

Your final financing plan will be made up of goals, objectives and an operational plan. Here’s how the financing plan framework breaks down.

Goals
Your final financing plan will have approximately 5 broad goals. These goals come in three types: revenue goals, a capital goal, and a financing infrastructure goal. Below is what differentiates these three types of goals. And don’t worry if this is still a little muddy, I will go into more detail and give you some examples a little later in the guide.

1. **Revenue Goals**
   Remember, revenue is the day-to-day money you need to meet the expenses of your strategic plan. You will have 1 revenue goal for each revenue source that is appropriate to your organization:
   - Private dollars (foundations, corporations, individuals)
   - Public dollars (government grants)
   - Earned Revenue (sale of goods or services)

   Your revenue goals will make up 3 of the 5 goals of your final financing plan.

2. **Capital Goal**
   Remember, capital is the one-time organization-building money you need to fund special or infrastructure-related purchases within your strategic plan. So it might be the money you need for a program evaluation, or a new data-gathering system, a new database, etc. If you require capital investments to make your strategic plan a reality, one of the goals of your financing plan will be a capital goal.

3. **Financing Infrastructure Goal**
   This goal is not a money goal, but rather an activity goal. If you want to significantly grow the revenue that flows to your nonprofit you will have to make some improvements to the financing infrastructure of your organization. This means you might want to add additional development staff, buy a new donor database, upgrade your website, create marketing materials, etc. One of the goals of your financing plan should focus on what improvements you will make to the internal systems, staffing and technology you use to bring money in the door.

Objectives
Each of these goals will be broken down into objectives (or pieces) to make them achievable. For example, you might have a revenue goal that describes how much private money you will raise. You would then break that total private revenue goal into the individual donor, corporate donor and foundation grant objectives necessary to achieve that goal.

Operational Plan
Once you establish your goals and objectives you will break each objective into the activities, deliverables, people responsible, and due date. This becomes your very tactical operational plan with which you will execute on and monitor the financing plan. It ensures that the goals and objectives actually come to fruition.

So let’s get started creating your financing plan.
Section 3: Create Revenue Goals

There are three types of revenue that flow to the nonprofit sector:

- **Private dollars** (individual gifts, foundation grants, corporate support)
- **Public dollars** (federal, state, county, city government grants)
- **Earned income** (sales of goods or services, fee-for-service)

In order to create the revenue goals of your financing plan you need to analyze each of these three areas to determine what you are currently bringing in the door in each of the three areas and the potential for increases in any.

So, going back to your nonprofit’s strategic plan, answer these questions:

1. What are the costs (expenses), each year of your strategic plan?
   Remember, you answered this above in Section 1 in your expenses projection.
2. In order to meet or exceed these costs how much revenue do you need each year?
3. Break that revenue into its sources:
   - Private
     - Individual
     - Foundation
     - Corporate
   - Government
   - Earned income

With this information in hand you are ready to add revenue to the expense projection you created in Section 1 above. Your full revenue and expense projection for your strategic plan might look like this:

<table>
<thead>
<tr>
<th></th>
<th>FY 2013</th>
<th>FY 2014</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals</td>
<td>$250,000</td>
<td>$262,500</td>
<td>$288,750</td>
</tr>
<tr>
<td>Corporations</td>
<td>$75,000</td>
<td>$78,750</td>
<td>$86,625</td>
</tr>
<tr>
<td>Government</td>
<td>$300,000</td>
<td>$315,000</td>
<td>$346,500</td>
</tr>
<tr>
<td>Earned Income</td>
<td>$15,000</td>
<td>$15,750</td>
<td>$17,325</td>
</tr>
<tr>
<td>Foundations</td>
<td>$150,000</td>
<td>$157,500</td>
<td>$173,250</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>$790,000</td>
<td>$829,500</td>
<td>$912,450</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff &amp; Benefits</td>
<td>$525,000</td>
<td>$551,250</td>
<td>$606,375</td>
</tr>
<tr>
<td>Rent &amp; Utilities</td>
<td>$26,000</td>
<td>$27,300</td>
<td>$30,030</td>
</tr>
<tr>
<td>Materials</td>
<td>$35,000</td>
<td>$36,750</td>
<td>$40,425</td>
</tr>
<tr>
<td>Marketing &amp; Website</td>
<td>$45,000</td>
<td>$47,250</td>
<td>$51,975</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>$20,000</td>
<td>$21,000</td>
<td>$23,100</td>
</tr>
<tr>
<td>Professional Services</td>
<td>$50,000</td>
<td>$52,500</td>
<td>$57,750</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>$701,000</td>
<td>$736,050</td>
<td>$809,655</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$89,000</td>
<td>$93,450</td>
<td>$102,795</td>
</tr>
</tbody>
</table>
The revenue goals of your financing plan, then, come directly from this projection. So in the example above, the revenue goals and objectives of this financing plan would be:

1. **Goal 1**: Raise $548,625 annually from private sources by 2015
   1. Objective 1: Raise $288,750 from individuals by 2015
   2. Objective 2: Raise $86,625 annually from corporations by 2015
   3. Objective 3: Raise $173,250 annually from foundations by 2015

2. **Goal 2**: Raise $346,500 annually from government sources by 2015
   1. Objective 1: Raise $120,500 from county grant by 2015
   2. Objective 2: Raise $226,000 from federal grant by 2015

3. **Goal 3**: Raise $17,325 annually from earned income sources by 2015
   1. Objective 1: Raise $5,000 from t-shirt sales
   2. Objective 2: Raise $12,325 from classes

Using the revenue and expense projection you created above, create the revenue goals and their objectives for your nonprofit’s financing plan.

Next let’s talk about how you add a capital goal to your financing plan.
Section 4: Create A Capital Goal

Go back to your nonprofit’s strategic plan and think about how your organization might need to change in order to achieve the goals of the strategic plan. Is it realistic to think that you can achieve everything within that strategic plan without making some one-time investments in the organization in terms of new technology, systems, planning, revenue-generating staff, training, consulting, etc? If your answer is “Yes” then you probably don’t need a capital goal in your financing plan. However, if your answer is “No” then you probably do need one.

If you do want to include a capital goal in your financing plan, here’s what you need to do:

1. Looking at the below categories, what aspects of our organization must change to achieve our strategic plan?
   - Technology
   - Systems
   - Planning
   - Revenue-Generating Staff
   - Expertise/Knowledge of Staff

2. What one-time purchases could you make to improve these aspects?

3. Research and list the items and their approximate cost.

So you might come up with a capital budget that looks something like this:

<table>
<thead>
<tr>
<th>Capital Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Donor Database</td>
<td>$20,000</td>
</tr>
<tr>
<td>Development Director</td>
<td>$150,000</td>
</tr>
<tr>
<td>Program Evaluation</td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$220,000</strong></td>
</tr>
</tbody>
</table>

Let’s be clear about including staff as a capital cost. The money to support the salaries of most staff members, because they are an on-going expense, is not considered a capital investment. An exception is a Development Director or other revenue-generating staff position because within 12-18 months of being on board, the hope is that a revenue-generating person is bringing enough new money in the door to cover their salary many times over. But you would need capital to pay for the first 12-18 months of that position. Therefore in the example above, $150,000 is the salary and benefits of a new Development Director for the first 18 months of their employment.

Following the steps outlined above, create a capital budget, if necessary, for your strategic plan. Once you have that, create a capital goal to include in your financing plan. In the example above, the resulting capital goal would be:

**Goal 4:** Raise $220,000 in capital

Now let’s talk about your financing infrastructure goal.
Section 5: Create A Financing Infrastructure Goal

If the revenue in your financial projection in Section 3 above is increasing more than 5-10% each year, you probably need to make some changes to the back-end infrastructure you employ to bring revenue in the door. Unlike the previous goals in your financing plan, this goal is not a money goal. Rather it is an activity goal. It describes what changes you will make to your financing infrastructure in order to meet your revenue and capital goals.

But in order to determine what changes you need to make to your financing infrastructure you first need to assess its effectiveness.

Go through these questions with your revenue-generating staff and be brutally honest:

- **Staff and Board**
  - Do we have enough staff to raise the revenue we require?
    - The rule of thumb is that it takes 1 full time person to bring in $500,000 per year. This includes anyone in the organization who touches donors, prospects, earned income customers, grantors, etc.
  - In order to meet our revenue goals does that staff need any training, coaching or other outside assistance?
  - Is our board helping to bring money in the door? If not, could they benefit from training or other outside guidance?

- **Technology/Systems**
  - Is the technology we employ for bringing money in the door (donor database, prospect research tools, earned income invoicing software, etc.) effective or do we need to upgrade it?
  - Are the systems we use to acquire, retain and upgrade donors effective or could they be upgraded?

- **Marketing**
  - Is our use of marketing (website, brochures, social media) clear, compelling and effective?

- **Other**
  - Are there any other improvements we need to make in how we bring money in the door?

Using your answers to these questions create a financing infrastructure goal and its corresponding objectives. It might look something like this:

**Goal 5: Improve our financing infrastructure in order to meet our revenue and capital goals**

1. Objective 1: Increase the staff and board’s ability to bring money in the door by adding positions and training
2. Objective 2: Add key technology
3. Objective 3: Improve the quality and effectiveness of our marketing efforts
Now that you’ve created all of the goals and objectives of your financing plan put them together. In the example I’ve been using, the final goals and objectives of my financing plan would look like this:

**Fiscal Year 2013-2015 Financing Plan**

1. **Goal 1**: Raise $548,625 annually from private sources by 2015  
   a. Objective 1: Raise $288,750 from individuals by 2015  
   b. Objective 2: Raise $86,625 annually from corporations by 2015  
   c. Objective 3: Raise $173,250 annually from foundations by 2015

2. **Goal 2**: Raise $346,500 annually from government sources by 2015  
   a. Objective 1: Raise $120,500 from county grant by 2015  
   b. Objective 2: Raise $226,000 from federal grant by 2015

3. **Goal 3**: Raise $17,325 annually from earned income sources by 2015  
   a. Objective 1: Raise $5,000 from t-shirt sales  
   b. Objective 2: Raise $12,325 from classes

4. **Goal 4**: Raise $220,000 in capital

5. **Goal 5**: Improve our financing infrastructure in order to meet our revenue and capital goals  
   a. Objective 1: Increase the staff and board’s ability to bring money in the door by adding positions and training  
   b. Objective 2: Add key technology  
   c. Objective 3: Improve the quality and effectiveness of our marketing efforts

Now let’s talk about how you make these goals and objectives a reality.
Section 6: Operationalize the Plan

If you truly want your financing plan to come to fruition, you need to create an operational plan each year. The operational plan breaks each objective of your financing plan into all of the activities needed to make that objective happen and then attaches each of those activities to a deliverable, due date and person responsible.

While the goals and objectives of your financing plan can exist within a Word document, once you get to the operational level of your plan, you probably want to move to an Excel document, a project management software, or a Google spreadsheet. My preference is a Google spreadsheet because staff can access the operational plan at any time and from anywhere, and you don’t have to worry about version control as individual staff members continually update their pieces of the plan.

The columns of your spreadsheet should include:

- Goal
- Objective
- Activity
- Deliverable (what you will have in your hands when the activity is complete)
- Lead (main person responsible for completing this activity)
- Others Involved (other people that will contribute to this activity)
- Date Due (when you would like the activity complete)
- Date Complete (when the activity actually was completed)

Once you have created your spreadsheet, go back through the objectives of your financing plan and for each one list all of the activities that will need to happen this year to make that objective a reality. Keep in mind that you will create a new operational plan each new year of the plan.

Then for each activity, list the deliverable (the final product) that will let you know that the activity has been completed. Add a person responsible for carrying out the activity and a date due so you have a timeframe.

If you have various staff members who will be leading activities in this operational plan, make sure that they create their own pieces of the operational plan. In other words, don’t create the operational plan by yourself, but rather have each person add his or her parts to the overall plan.

When you are done, the operational plan will probably have hundreds of rows, depending on how many activities need to occur to execute on your financing plan.
Just a few rows of a sample operational plan could look like this:

<table>
<thead>
<tr>
<th>Goal</th>
<th>Objective</th>
<th>Activity</th>
<th>Deliverable</th>
<th>Lead</th>
<th>Others</th>
<th>Date Due</th>
<th>Date Complete</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sources</td>
<td>Individuals</td>
<td>Compile list of annual donors in Excel</td>
<td>Excel spreadsheet</td>
<td>Terry Betty</td>
<td>3/12/12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Sources</td>
<td>Individuals</td>
<td>Enter donor information into Salesforce</td>
<td>Salesforce report</td>
<td>Mark Bob, Joe</td>
<td>7/19/12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned Income</td>
<td>Book sales</td>
<td>Create 2 new book products</td>
<td>New books</td>
<td>Joan</td>
<td>5/12/12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>County</td>
<td>Meet with county commissioner</td>
<td>Meeting</td>
<td>Jim Angela</td>
<td>6/19/12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section 7: Monitor the Plan

It is important that you create a system for monitoring whether the plan is being implemented. You want to monitor the plan at both the staff and board levels.

Staff Level

At the staff level, every staff member whose name is present anywhere in the “Lead” column should be going into the operational plan on at least a monthly basis to update what they did last month and review what they need to focus on in the coming month. Here’s how this process could work:

- At the beginning of each month, the executive director (or development director if you have one) should devote a single development team meeting to progress on the operational plan.
- A few days prior to this regular meeting, the executive director (or development director) should ask each team member to go into their sections of the operational plan and update/revise the plan as needed (modify activities, add completed dates, etc.) for the last month and the current month.
- At the team meeting devoted to the operational plan, each team member should report to the group on their progress on their sections of the operational plan.

Board Level

At the board level, provide an update at every board meeting on progress towards the goals and objectives of the financing plan. In addition to the monthly financial statements your board should already be receiving, you could create a dashboard (preferably one page) that is separated into sections by financing plan goal. Include trends and updates about each goal in its section. For example, the private revenue goal section could include a pie chart or bar graph demonstrating progress toward individual, foundation and corporate dollars to date. Share the dashboard with the board at every meeting and use it as a way to generate discussion about progress so far on the financing plan.

It is critically important that you set up regular checkpoints on progress on the plan. Otherwise your financing plan will simply sit on the shelf gathering dust.
Section 8: Next Steps

I’ve given you a start at creating your nonprofit’s financing plan. A financing plan is an instrumental building block to creating a financially sustainable nonprofit organization.

After you have completed this guide, here are some things you can do next:

- If you got stuck and would like some help to get back on track, email info@socialvelocity.net.

- If you don’t have a strategic plan to connect to your financing plan, take a look at the Strategic Plan consulting service I provide or read the A Community for Education case study and the Forte case study to see how a strategic planning process looks.

- If you need help figuring out what’s holding your nonprofit back from bringing more money in the door, take a look at the Financial Model Assessment I provide nonprofits.

- If you need some advice and guidance about implementing your financing plan, check out the Coaching I provide nonprofits.

- Check out the other Social Velocity Step-by-Step Guides here.

I hope you found this Guide helpful. As always, I welcome your feedback or questions about any Social Velocity tool. Please email info@socialvelocity.net with questions, comments or feedback.

Good luck!

This guide was designed to help you transform your nonprofit. If you want a more customized approach, or need help engaging more board, staff and donors in the change process, call (512) 694-7235 or email info@socialvelocity.net to schedule a free consultation with Nell Edgington.

Social Velocity is a management consulting firm that helps nonprofits become more strategic, sustainable, and above all, more effective at creating social change.