Leading Edge Impact

NPO SOLVENCY & SUSTAINABILITY

Many nonprofit organizations (NPO) of all sizes today are struggling to achieve or maintain solvency (ability to pay obligations) and financial sustainability (long-term ability to deliver and grow mission.) Even large NPO are undergoing reductions in force (RIF), and mergers are emerging on the scene.

Managing for solvency and sustainability is a key leadership responsibility no matter your NPO size. Below we outline key data needed. If you need help with these, reach out at **info@leadingedgeimpact.com**.

FINANCIAL STATEMENTS

Financial planning and accounting are the start. These include a budget and periodic reports of:

- Activity Statement (Profit & Loss): Revenue, expenses, and net revenue over a period of time
- Statement of Financial Position (Balance Sheet): Assets, liabilities, and equity at a point in time

Traditional financial statements are valuable snapshots to evaluate certain aspects of financial health. However, managing for solvency and sustainability requires far more data as follows.

ROLLING CASHFLOW PROJECTION

In our opinion, the single-most important financial tool to evaluate solvency and sustainability is an 18- to 24-month rolling cashflow projection. This is a worksheet with columns by month and rows reflecting cash on hand at the start of each month, plus anticipated revenue, less anticipate expenses, and resulting balance. Each month's resulting balance rolls forward to the next month.

This tool helps identify impacts of changed assumptions—e.g., revenue doesn't materialize, or expenses are higher than anticipated—and predict at what point an organization becomes unable to reach or sustain a desired level of operations.

In audit terms, a NPO able to meet its obligations on time well into the future is a "going concern."

DONOR PIPELINE

A donor pipeline is akin to a sales funnel; it portrays anticipated repeating and new revenue. A well-developed pipeline considers the value of recurring donors (less churn rate), value of new solicitations in progress, estimated timing of new revenue, and the probability that donations are received in the amounts and timing assumed. All of this is material to developing the realistic cashflow projection above.

Probability is perhaps the most significant part of the equation; optimism inflates, while pessimism (conservatism) tethers reality. It is wise to take macro factors like inflation or new global crises into account when revising probabilities. Also, new money in a determined timeframe is *only* realistic once conversations have occurred and relationships are initiated. Potential introductions to new donors and prospect research should not appear on the report.

DONOR LTV & CHURN

Understanding individual donor lifetime value (LTV) and "churn" (attrition) rates are key to informing a realistic pipeline and cashflow projection: how much does the average donor give and for how long do they tend to support, as well as how fast do they leave the organization. As above, data to inform a conservative, not an overly optimistic view, can help avoid solvency and sustainability surprises.