

# Financial Planning for Nonprofits: Budgeting for Impact

## *Episode 11 Companion Blog*

I've sat in more board rooms than I can count where the financial presentation was treated as the part of the meeting you get through before the real conversation starts. Numbers go up on the screen, eyes glaze over, everyone nods toward the next agenda item. I've been that consultant who had to figure out how to change that dynamic, and what I've learned over the years is that the problem usually isn't the board members. It's what we're putting in front of them, and more often, it's what nobody is willing to say out loud.

Will and I talked about this at length before we recorded Episode 11, because we both see it from different angles. My angle is the strategic and organizational side: I've been in these rooms across organizations of every size and type, and the pattern is remarkably consistent. Will's angle is the technology and systems side, where financial blind spots often show up differently but stem from the same root cause: nobody connected the numbers to the mission. A budget is your strategic plan translated into dollars. When those two things don't speak to each other, you end up with what I call hope budgeting, where the revenue column is essentially a wish list and the expense column is a prayer.

This blog goes deeper than the episode. Into why certain patterns persist, what it actually looks like to break them, and what changes when financial leadership finally takes hold.

## The Reality Behind the Numbers

About half of all nonprofits operate with fewer than three months of cash reserves. That's not a fringe group of underfunded grassroots organizations; it's roughly half the sector. Research from Oliver Wyman, SeaChange Capital Partners, and GuideStar found that somewhere between seven and eight percent of U.S. nonprofits are technically insolvent, meaning their liabilities exceed their assets. Another thirty percent face potential liquidity issues. Add those together and nearly forty percent of the sector is either already in trouble or one bad quarter away from it.

These numbers matter because they reveal something important about how the sector has treated financial management. For too long it's been positioned as an administrative responsibility — something that lives with the bookkeeper or the finance committee — rather than a leadership responsibility that belongs to everyone in a governance role. I've walked into organizations where the executive director couldn't tell me how much cash they had on hand without calling the bookkeeper. That's not a criticism of those leaders. It's a symptom of a sector that has historically treated financial management as someone else's job. If you're leading an organization, the finances are yours. Not every journal entry, not every line item, but the big picture.

The Giving USA 2025 report showed total U.S. charitable giving exceeded \$592 billion, with individuals driving about sixty-six percent of all donations. Corporate giving hit an all-time high. Will and I talked about those as genuine bright spots in the episode, because they are. But that money isn't distributed evenly across the sector. A relatively small number of large organizations receive a disproportionate share of it. For the average small to mid-size nonprofit, the competitive landscape is real and the margins are thin; which is exactly why financial health isn't optional. It's the work underneath all the other work.

## Revenue Diversification: The Non-Negotiable

The rule I give every client is non-negotiable in my mind: no single revenue source should exceed twenty-five to thirty percent of your total budget. If more than half your revenue comes from one government contract, one foundation relationship, or one major donor, you don't have a revenue concentration issue. You have a survival risk. Those are different problems.

The 2025 Nonprofit Finance Fund survey found that eighty-four percent of nonprofits receiving government funding anticipated cuts, and sixty-five percent expected reductions greater than ten percent of their government revenue. That's not a hypothetical. Those are real leaders looking at their actual budgets and watching a hole form in real time.

A healthy revenue mix draws from streams that don't all move in the same direction at once: individual giving from small and major donors, monthly recurring gifts (which are gold for their predictability and retention rates), foundation grants, corporate partnerships, earned income through fees for service or training programs, and planned giving. Will and I will be doing dedicated episodes on each of these streams in the future, because each one has its own strategy and relationship dynamics worth exploring properly.

Two organizations from the episode illustrate how different approaches can arrive at the same underlying principle. charity: water made a radical commitment early in their history: one hundred percent of public donations fund clean water projects directly, with all operating costs covered separately by a dedicated group of private donors. It created a level of donor trust that most organizations can only dream about. Habitat for Humanity took an entirely different path; their ReStore outlets generate earned income that funds a significant portion of operations at many affiliates, with several carrying little to no government funding dependence as a result. Two completely different models. Same core principle: you're never dependent on one thing to keep the lights on.

## Three Approaches That Actually Work

When I sit down with a client to build a budget, the first question I ask isn't about money at all. It's: what are you trying to accomplish this year? What does success look like twelve months from now? The budget should flow from the strategic plan, not the other way around. Too many organizations open last year's spreadsheet, adjust some numbers, and call it done. That's not strategic budgeting. That's arithmetic carrying last year's assumptions forward, including the ones that may no longer be true.

**Zero-based budgeting** starts from zero and requires every expense to answer one question: does this still serve the mission? Not did it serve the mission three years ago, not does it feel like something we're supposed to do; does it serve the mission right now? Will and I both use this exercise with clients, and from the technology side he sees it play out in a particularly revealing way. Technology expenses accumulate over time without anyone really evaluating them. Subscriptions auto-renew. Platforms that made sense three years ago sit mostly unused. He has sat with organizations paying for software nobody had logged into in two years; one had three separate project management tools running simultaneously because nobody had paused to consolidate. Zero-based budgeting forces that conversation.

**Scenario planning** is non-negotiable for any organization operating in an uncertain funding environment, which is all of them. You build three versions of your budget: best case assumes all revenue projections come in as planned, worst case assumes your single largest revenue source drops by twenty to thirty percent, and most likely sits somewhere in the middle as your realistic

operating expectation. The value isn't in having three numbers. It's in having already thought through what you'd do in each scenario before you're actually living in one. One of my clients had role-played their worst-case scenario six months before it happened. When a major state contract was cut, they pulled out the document and had a plan on the table within forty-eight hours. No panic, no emergency board meeting at midnight. Just execution. That kind of calm doesn't come from being naturally unflappable; it comes from doing the thinking ahead of time.

**Full-cost budgeting** means accounting for the true and complete cost of running your programs, including indirect costs, overhead, and the administrative infrastructure that makes everything else possible. Too many nonprofits underprice their programs because they're only counting direct costs. Staff time that isn't tied to a specific program but still supports it. Facilities. Communications. Organizational leadership and board governance. If those costs aren't captured in program budgets, you're subsidizing programs out of money that doesn't exist. Will makes the same observation about technology projects: an organization will budget for the software license but not for the staff time to implement it, the training, the data migration, the ongoing maintenance. The cost was always there; they just didn't account for all of it. And eventually that catches up with you.

## What Your Board Actually Needs to See

Most financial reports are designed to satisfy audit requirements, not to support governance decisions. They show what happened. Boards need to understand what's happening and what might happen. Those are different documents requiring different information.

I tell boards there are four questions they should be able to answer after every financial review. How many months of operating reserves do we currently have? What percentage of our revenue is coming from each source, and has that concentration changed? Are we running a surplus or deficit on operations, and is that sustainable? What is our plan if our largest single revenue source is reduced by thirty percent? If your financial presentation doesn't answer those four questions, it isn't fully serving the board's fiscal governance responsibility.

The board's job isn't to do the accounting. It's to ask the right questions and evaluate whether the answers represent sound stewardship of the mission. Financial oversight is a leadership skill, not a technical one. Will shared a moment in the episode that captures exactly what this looks like in practice: a finance committee had just presented quarterly financials, everything on track, expenses within budget, nothing alarming on the surface. A retired accountant on the board asked one question — what percentage of next quarter's revenue is already secured versus projected? The room got very quiet. Nobody knew. A significant portion of grant revenue hadn't been formally awarded yet; it was in the budget because the executive director felt good about the relationship. One question from one prepared board member changed the entire conversation that day.

In 2016, FASB released ASU 2016-14, the first major overhaul of nonprofit financial reporting since 1993. It simplified net asset categories, required expenses to be presented by both type and function, and added liquidity disclosure requirements. Organizations now have to explain what financial resources are available to meet cash needs over the next twelve months. Even the regulatory framework is pushing organizations toward the kind of transparency that good governance requires. For board members newer to nonprofit finance, *Budgeting and Financial Management for Nonprofit Organizations* by Weikart, Chen, and Sermier is one of the most practical books I've found, written for leaders rather than accountants.

## The Conversations That Changed Everything

Two stories from the episode that still stay with me.

The first is one I think about whenever a client tells me their signature fundraiser is untouchable. I worked with a nonprofit running a deficit for three consecutive years. Their annual gala, black tie, silent auction, the full production, was beloved by everyone. Board members looked forward to it all year. When I calculated the true cost, including staff time across four months of planning, venue, catering, entertainment, printed materials, AV setup, and the post-event acknowledgment process, they were barely breaking even in a good year. In one particular year, they actually lost money on the event. Nobody knew because nobody had done the real math. They tracked gross revenue and they tracked direct expenses, but staff time was never captured, and that's where the real cost was hiding.

When I put the full analysis in front of the board, there was a long silence. The board chair said, "We've been celebrating this event every year." And I said: yes, and every year it has been costing you money you don't have. To their credit, they responded well once the shock wore off. We restructured the gala into a simple cultivation dinner for major donors and redirected the staff capacity into launching a monthly giving program. Within eighteen months, that program was generating three times the net revenue the gala had ever produced. The gala had been a tradition. The monthly giving program became a foundation. What made the difference wasn't the data alone; data rarely changes minds by itself. It was delivering the data with genuine respect for what people had built.

The second is one I think about whenever a client tells me their relationship with a major funder makes them secure. I worked with a direct service nonprofit getting fifty-five percent of their operating revenue from a single state contract. Eight-year relationship. Excellent rapport with the program officer. Everyone felt secure. When I asked the executive director what the plan was if that contract didn't renew, she looked at me like I'd suggested something outlandish. There was no plan. We spent six months building a real diversification strategy: new individual donor cultivation, a fee-for-service training program they'd discussed for years but never launched, two new foundation relationships. Slow, deliberate work that some on the team questioned as unnecessary. Two years later, that state contract was cut by thirty percent as part of a broader budget reduction. They absorbed the hit without a single program cut or layoff, because we'd reduced their dependence on that contract from fifty-five percent down to thirty-five percent.

Nobody celebrated the preparation when they did it. Everyone was grateful for it when the call came in.

## Where to Go From Here

Financial trouble in this sector is almost never about bad intentions. It's about disconnection, between what an organization says it's doing and what its budget actually reflects. The gala nobody wanted to question. The contract nobody wanted to imagine losing. The program costs nobody wanted to add up. Close that gap and almost everything else becomes more manageable.

A few resources worth knowing: Candid ([candid.org](https://candid.org)) has free nonprofit financial data including their U.S. Social Sector Dashboard showing sector-wide financial health trends. The National Council of Nonprofits ([councilofnonprofits.org](https://councilofnonprofits.org)) has financial management tools and their Nonprofit Impact Matters report. Will and I have linked both on the Resources page at [missiondrivenpod.com](https://missiondrivenpod.com).

## Download Your Free Resource

Will and I created a Financial Foundation Workbook to accompany this episode. It includes:

- A step-by-step reserve calculator
- A revenue diversification tracker with three scenario columns
- Scenario planning templates for best case, most likely, and worst case
- A board financial health checklist built around the four questions from this episode
- Zero-based budgeting review prompts by expense category
- A 90-day next steps action table

Download it now at [missiondrivenpod.com](http://missiondrivenpod.com)

## Let's Keep the Conversation Going

If this episode put something on your mind, a number you've been avoiding, a conversation you've been putting off, or a strategy that's working for your organization, we want to hear about it.

- Podcast/blog feedback: [contact@missiondrivenpod.com](mailto:contact@missiondrivenpod.com)
- Support for your organization: [contact@thescanlandgroup.com](mailto:contact@thescanlandgroup.com) or visit [thescanlandgroup.com](http://thescanlandgroup.com)

From our family, including Gracie, Moody, and Diamond, who have absolutely no concept of money but very strong opinions about the pet food line item in the grocery budget, to yours: keep leading with heart, keep showing up with purpose, and keep creating a world where everyone belongs.

Until next time, stay focused, stay mission-driven.