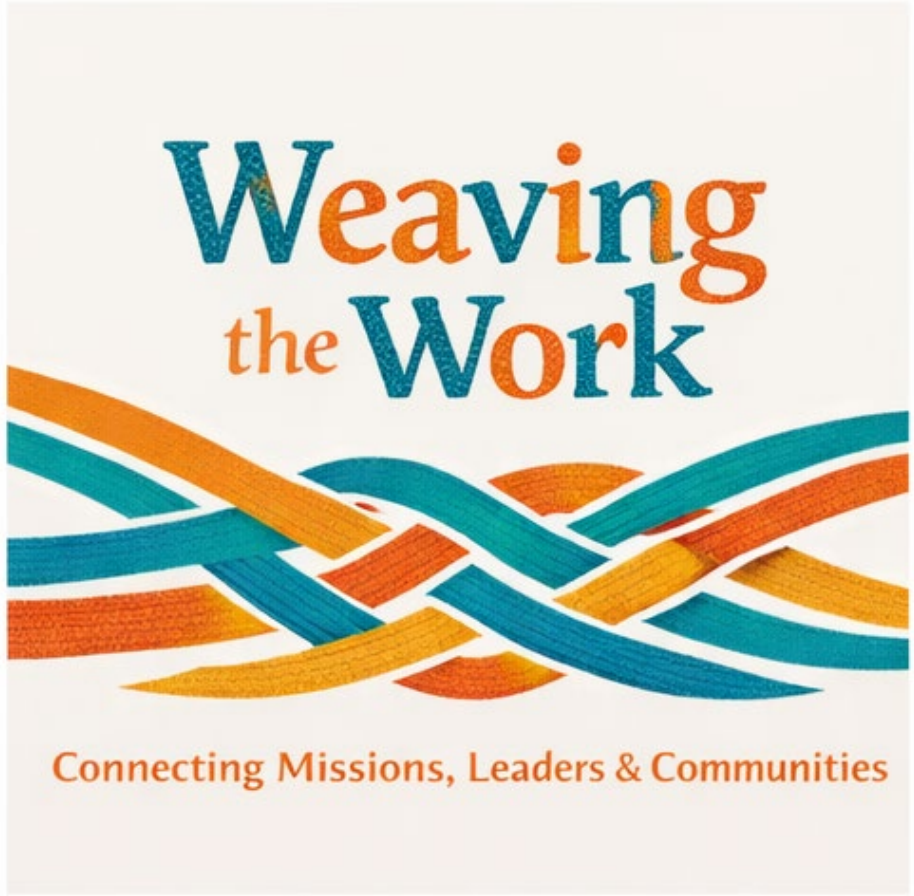
Financial Forecasting for Executive Directors



Friday, October 23rd, 2026
9:45am-10:35am *Pacific Time*

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Who We Are – Speaker



Neal Mizushima (he/him)

Executive Director,
Nonprofit Association of Washington



Michael Travis

Founder,
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Goals for Today

- Understand how to use financial data and key financial indicators for strategic decision-making
- Know how to engage boards and staff in financial discussions
- Gain confidence in leading financial planning, budgeting, and forecasting, as well as learning more about where to get further support

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Beyond the Numbers: The ED's Financial Role



Strategic Financial Interpretation
EDs interpret financial data to align decisions with nonprofit missions and goals.

Effective Financial Communication
EDs communicate financial realities clearly to stakeholders to build trust and transparency.

Role Distinction and Collaboration
Defines the ED's role versus finance staff and board, promoting effective teamwork.

Proactive Financial Leadership
EDs use financial insights proactively to ensure mission support and sustainability.

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Cash vs. accrual: the difference is timing

Same transaction. Different recognition date.

CASH BASIS

Record when money moves.

REVENUE When payment is received

EXPENSES When cash is paid

HIGHLIGHTS Simpler, easy to track cash flow

WATCH-OUT Timing can blur period performance

ACCRUAL BASIS

Record when activity occurs.

REVENUE When it is earned or promised

EXPENSES When it is incurred

HIGHLIGHTS Accurate picture of financial position

WATCH-OUT Requires tracking receivables and payables

Key Financial Indicators for Nonprofit Health

Operating Reserve Ratio
Indicates ability to sustain operations during revenue shortfalls with financial reserves.

Months of Cash on Hand
Measures how many months the organization can cover expenses with available cash.



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Program Efficiency Ratio
Shows proportion of funds spent directly on programs versus overhead costs.

Revenue Diversity Index
Assesses risk from reliance on limited funding sources and income variety.

Burn Rate
Tracks the rate at which the organization uses its financial resources over time.

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Key Financial Indicators for Nonprofit Health

Operating Reserve Ratio
Calculated by dividing unrestricted reserve funds by annual expenses and multiply by 12 for months of coverage. As an example, an organization with $500,000 in reserve and $2,000,000 in annual expenses (then x 12), can cover operations for 3 months.

Months of Cash on Hand
Calculated by dividing total cash on hand by total monthly operating expenses. As an example, an organization with $120,000 cash and $40,000 monthly expenses can sustain for 3 months.

Program Efficiency Ratio
Calculated by dividing program expenses by total expenses multiplied by 100. As an example, if $300,000 of $400,000 total expenses are program costs, the ration is 75%

Revenue Diversity Index
A simple approach to this is to look at all of the revenue sources for the organization (including grants, contracts, earned income, donations, etc.) and see if any are over 10%. Then track them and at year end, see what the impact of losing one or all would be.

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Stories from the field: Operating Reserve Ratio

Riverbend Youth Arts

- $1.2M budget; $180K in unrestricted savings
- Largest grant ($240K/year) delayed 4 months
- Reserve ratio: **15%** (about 1.8 months), and the cushion runs out by December
- **Takeaway:** Reserves buy time when shocks hit. Common target: 3–6 months (25–50%)

Question: What disruption could your reserves not survive?

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Stories from the field:
Months of Cash on Hand

Harbor Community Food Pantry

- Strong balance sheet, but $310K is owed by the county, paid 90+ days late
- Only $68K in the bank vs. $85K monthly expenses = **0.8 months**
- Can't cover payroll without a bridge loan
- **Takeaway:** "Rich on paper" isn't the same as cash in the bank

Question: How long do your funders take to pay you?

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Stories from the field: Program Efficiency Ratio

A Tale of Two Literacy Programs, both with $800,000 budgets

- **Bright Pages: 92% program.** Volunteer bookkeeper, audit findings, 60% tutor turnover
- **Open Book: 78% program.** Invested in finance, data, and fundraising; grew 30% and serves 40% more students
- **Takeaway:** Higher isn't always better. Underinvesting in infrastructure weakens the mission. Typical healthy range: 65–85%

Question: What does your "overhead" make possible?

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Stories from the field: Revenue Diversity Index

Meadowlark Senior Services

- Meadowlark: 70% from one state contract, index **0.47**
- Peer (Willow Care): balanced mix, index **0.74**
- 20% state cut = 14% budget loss for Meadowlark vs. 7% for Willow Care
- **Takeaway:** Concentrated revenue means concentrated risk, but each new stream has a cost to maintain

Question: If your largest funder left tomorrow, what share of your budget goes with it?

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Forecasting: Burn Rates

Gross Burn Rate
Formula: Gross Burn Rate = Total Operating Expenses (e.g., salaries, rent, marketing)
Calculation: Sum all cash outflows for a given period (e.g., salaries, rent, software subscriptions, utilities).
Example: A company spends $100,000 in one month. Its gross burn rate is $100,000.

Net Burn Rate
Formula: Net Burn Rate = Gross Burn Rate – Monthly Revenue
Calculation: Subtract the cash coming in (from sales) from the cash going out (gross expenses) for a specific period.
Example: If a company's gross burn rate is $100,000 and it brings in $30,000 in revenue, its net burn rate is $70,000 ($100,000 - $30,000).

Alternative Calculation
Formula: Monthly Burn Rate = (Starting Cash - Ending Cash) / Number of Months
Calculation: Take the difference in cash on hand over a set period and divide it by the number of months in that period.
Example: A company had $160,000 in cash three months ago and now has $100,000, its monthly burn rate is $20,000 (160,000 - 100,000 = 60,000; 60,000/3 = $20,000)

Stories from the field:
Burn Rate / Monthly Net Income Trend

Community Clinic

- Spring losses are normal (donations arrive in Nov/Dec)
- But Jan–Jun losses: **–$14K last year vs. –$60K this year**
- Average $10K/month loss with $150K cash = **15 months of runway**
- **Takeaway:** Watch the trend and compare to the same months last year, not one month alone

Question: Could you tell a normal slow season from real decline?

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Financial Planning as a Leadership Tool

Strategic Leadership Role
Financial planning is a key leadership function beyond routine bookkeeping for executives.

Budgeting as Strategy
Budgeting aligns financial resources directly with organizational goals and strategic plans.

Strategic Budget Components
Includes contingency planning and multi-year forecasting to prepare for uncertainties.

Practical Financial Tools
Tools like dashboards, rolling forecasts, and cash flow projections enhance decision-making.



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Building Financial Culture in Your Org



Engage Non-Finance Staff
Involve all staff in budget ownership to foster shared responsibility for financial success.

Partner with Board
Collaborate with board members to improve financial literacy and clear data presentation.

Leadership by Example
Executive Directors should lead open financial discussions and integrate finance into decisions.

Build Financial Insight Culture
Create an organizational culture valuing financial knowledge to boost performance and resilience.

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Trends That We're Hearing About

- More and more organizations closing down
- Grantors are expecting more sophisticated financial information before approving their grant-making
- Grantors and pass-through organizations are starting to look closer at historical use of funds and grant classification

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Next Steps for Your Organization

Mindset Shifts
Effective financial leadership requires key mindset changes for strategic success.

Strategic Financial Management
Financial management is a strategic function essential to mission achievement.

Actionable Steps
Participants commit to one practical financial action within 30 days.

Supportive Resources
Follow-up tools include dashboards, forecasting sheets, and ratio trackers.

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Questions?



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