

Strong Balance Sheets, Vibrant Art: Capitalization concepts and tools to help your organization thrive

Rebecca Thomas
Vice President
Strategy & Innovation
Nonprofit Finance Fund

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Why Capitalization Matters



Great art is often created without lots of money and can be enjoyed for many years.

Great arts organizations without the right kinds and amounts of money, however, often struggle to see another day.

“A strong balance sheet means artistic freedom.”

--Megan Wanlass Szalla,
Executive Director, SITI Company

What is Capitalization?



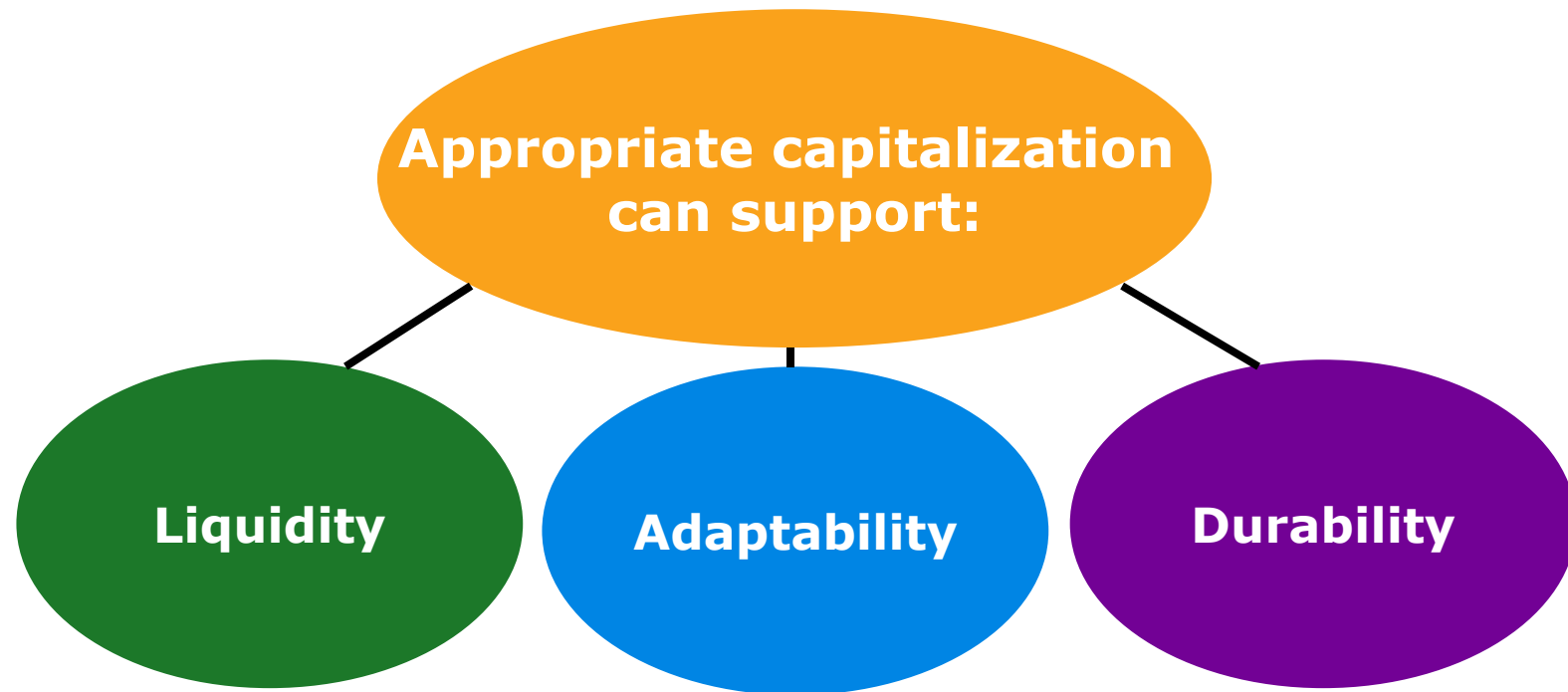
The alignment of financial resources to support your mission

Having the cash to execute your strategy

Found on the balance sheet

Influenced by your business model

Requires a long-term view



Does the organization have adequate cash to meet its operating needs?

Does the organization have flexible funds that allow for adjustments?

Does the organization have access to funds to address a variety of future needs?

Often requires a shift in nonprofit and funder practices around money

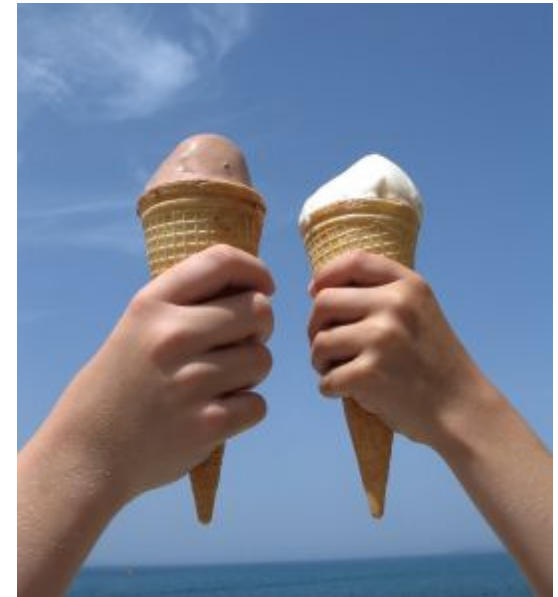
Revenue and Capital are Different

Revenue Characteristics

- Tends to be reliable and repeatable
- Covers annual costs of programs & operations
- Pays an organization to do what it does

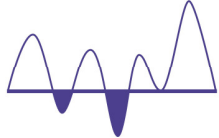
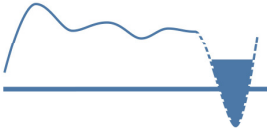




Capital Characteristics

- Tends to be episodic in nature
- Pays for extraordinary needs of the organization related to liquidity, adaptability, and durability
- Can supports ongoing generation of net revenue

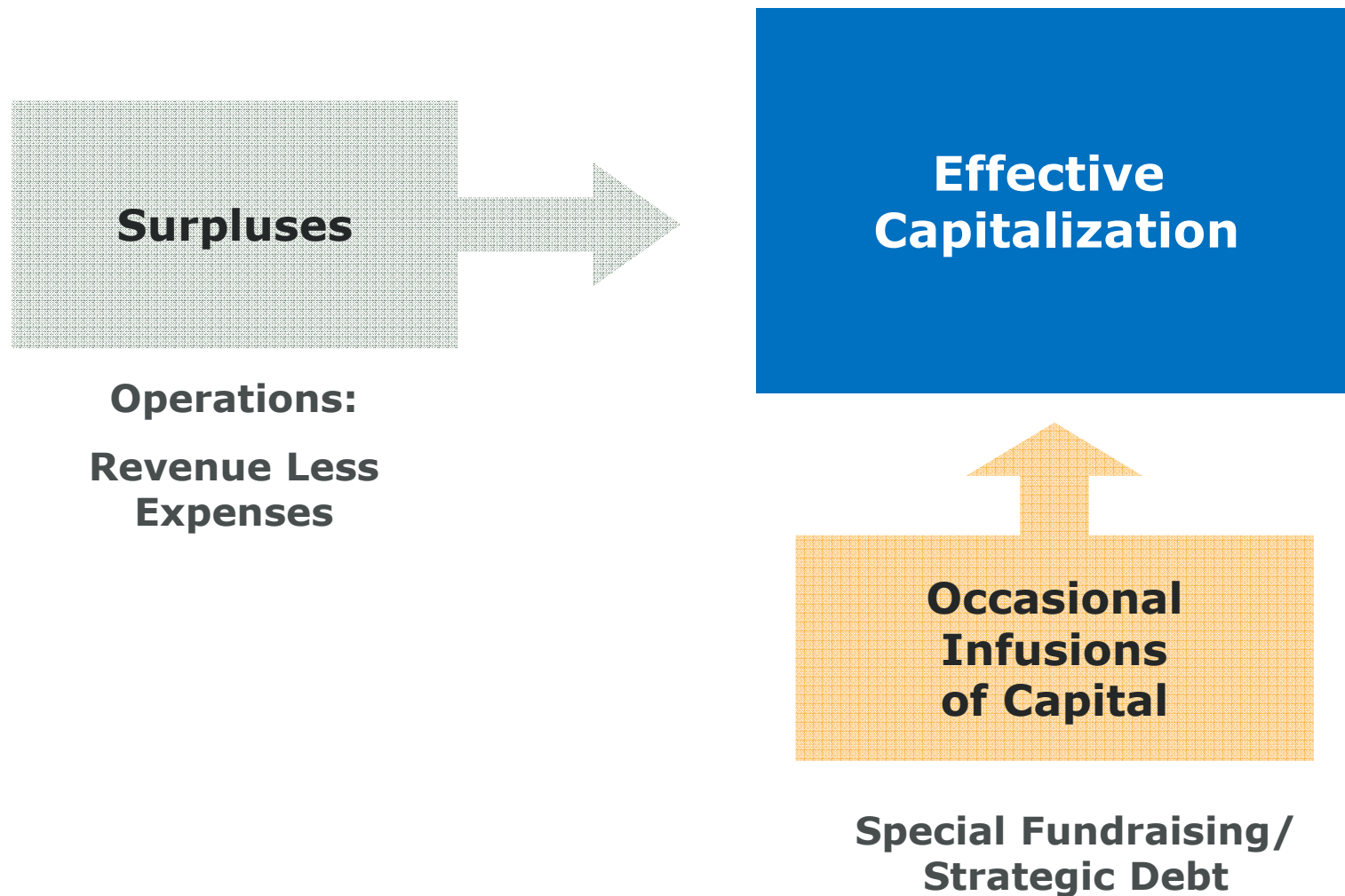


Arts organizations need both revenue and capital to thrive!

Different Kinds of Capital Address Different Needs

	Capital Types	Function of each	Addresses:
	Working	Allows the organization to bridge revenue timing gaps	Liquidity
	Risk & Opportunity	Absorbs unforeseen funding losses or unexpected, extraordinary expenses	Adaptability
	Change	Funds investments in infrastructure and capacity associated with changes in business model, may cover deficits until programs and operations can support themselves	Adaptability, Durability
	Recovery	Allows an organization to address a historical mistake or chronically undercapitalized operations	Durability
	Facilities & Equipment	Supports acquisitions or upgrades, or can be used to accumulate reserves to meet future facility and equipment needs	Durability
	Endowment	Provides ongoing operating funds through investment income	Durability

Where Can Organizations Obtain Capital?



What does a well capitalized organization look like?



1. Operating revenue regularly exceeds expenses
2. Risks are appropriately managed
3. Fixed asset expenditures are funded predictably
4. Innovation and change are possible
5. High quality programs are delivered consistently

How are arts organizations in New England actually faring?



- NFF's 4th annual state of the sector survey shows resiliency in the face of continued financial hardship
- New England arts organizations (205 in our survey) show only slightly better financial results than nonprofits nationally
- "Business as **UN**usual" approaches are needed for organizations to survive and thrive in a new environment

"While the situation is looking up, it is still an uphill battle."

Explore and filter the survey data yourself:
<http://nonprofitfinancefund.org/state-of-the-sector-surveys>

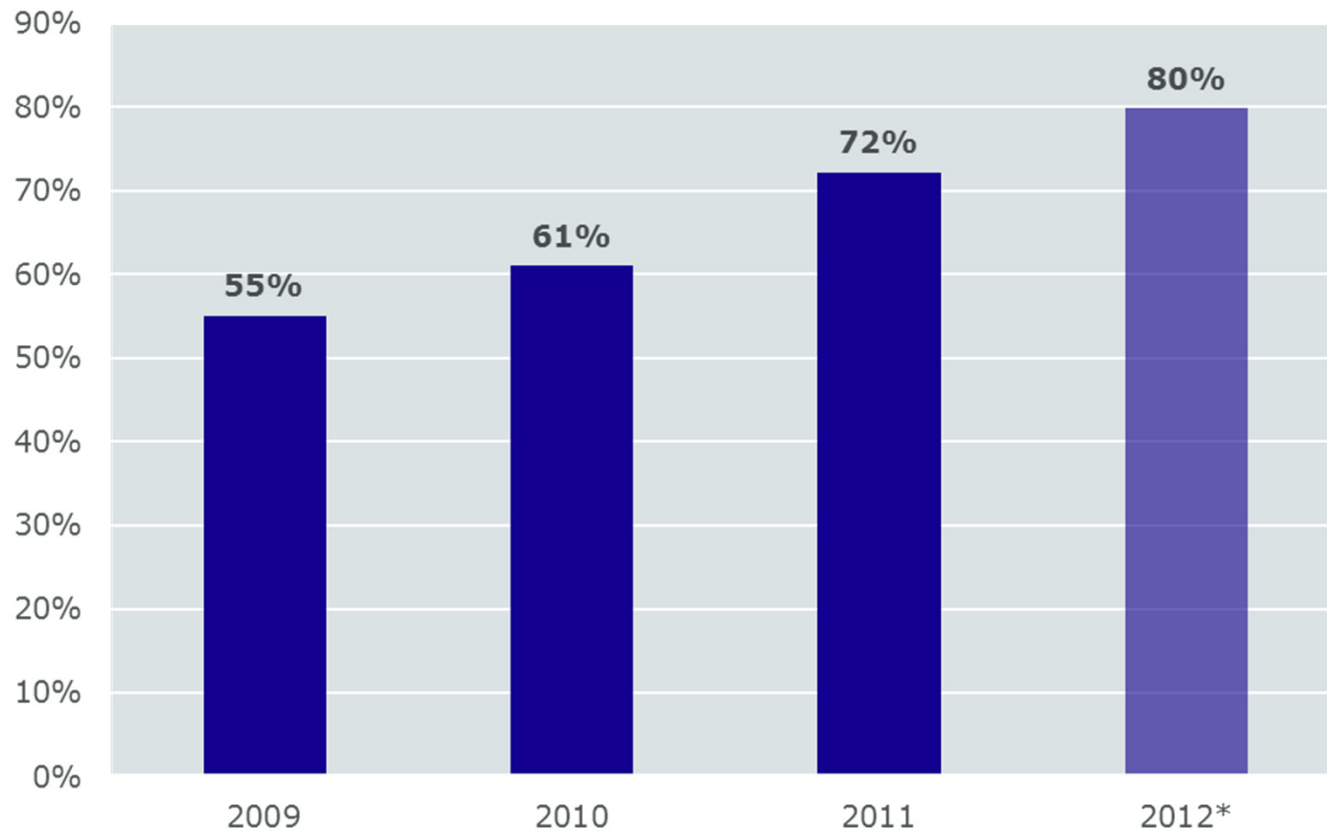
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Demand for programs among NE Arts Organizations is Rising



% of Organizations Reporting an Increase in Demand for Services



* indicates % of organizations anticipating an increase in demand for services in 2012



To Keep Up, Many are Expanding Programmatically and Operationally



- 56% added/expanded programs
- 53% collaborated with another organization to improve/increase services
- 50% hired staff for new positions
- 45% served more people
- 40% gave raises

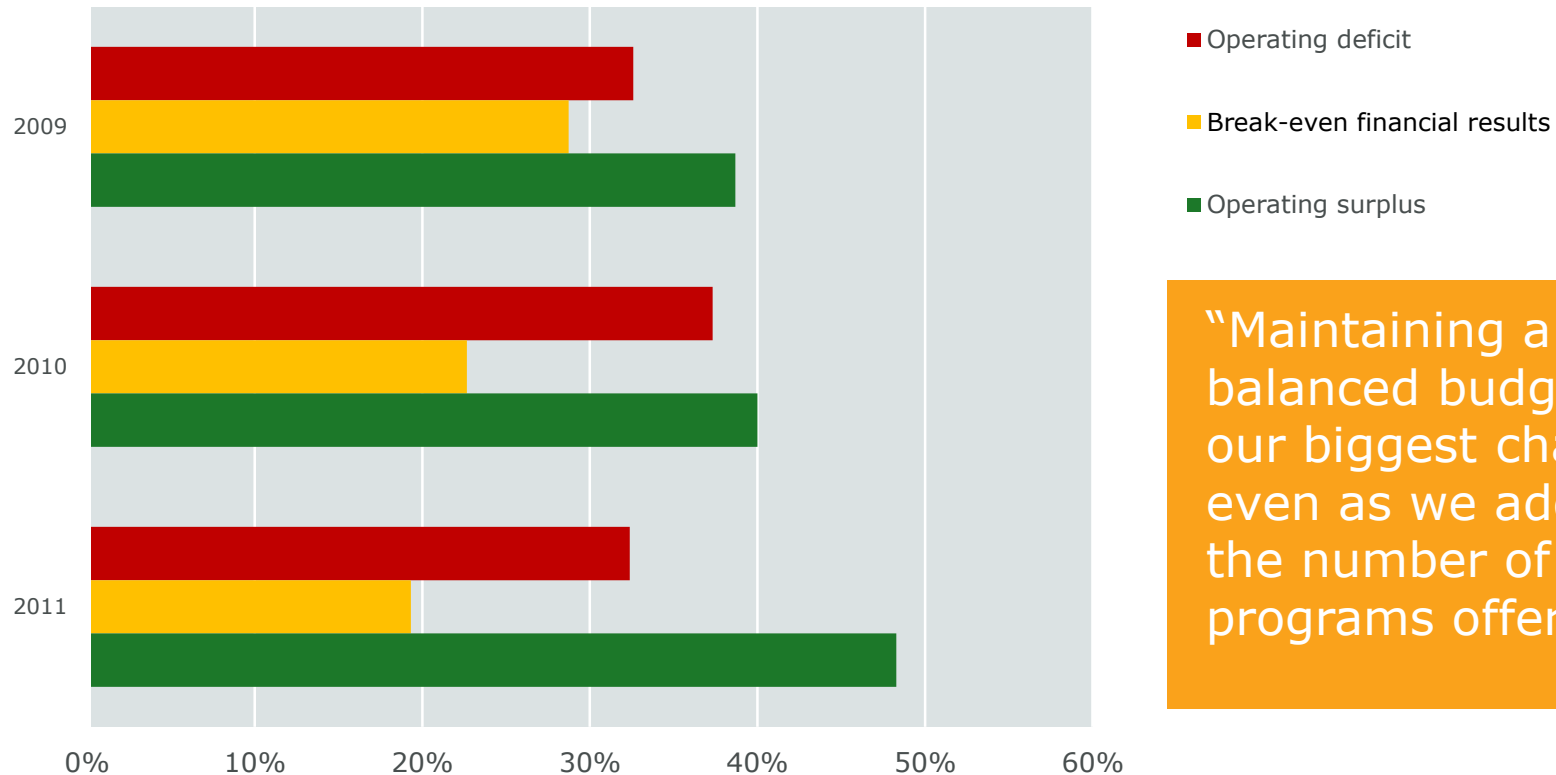
“We're poised for a year of growth at our organization. After staffing changes and a contraction in staffing numbers in the previous year, we're trying to find the best ways we can to do more with less, and to expand our capacity sustainably while strengthening the support of our core team.”



Yet Many Arts Groups Are Still Struggling to get to Breakeven (>50%)



% of Organizations by Operating Results



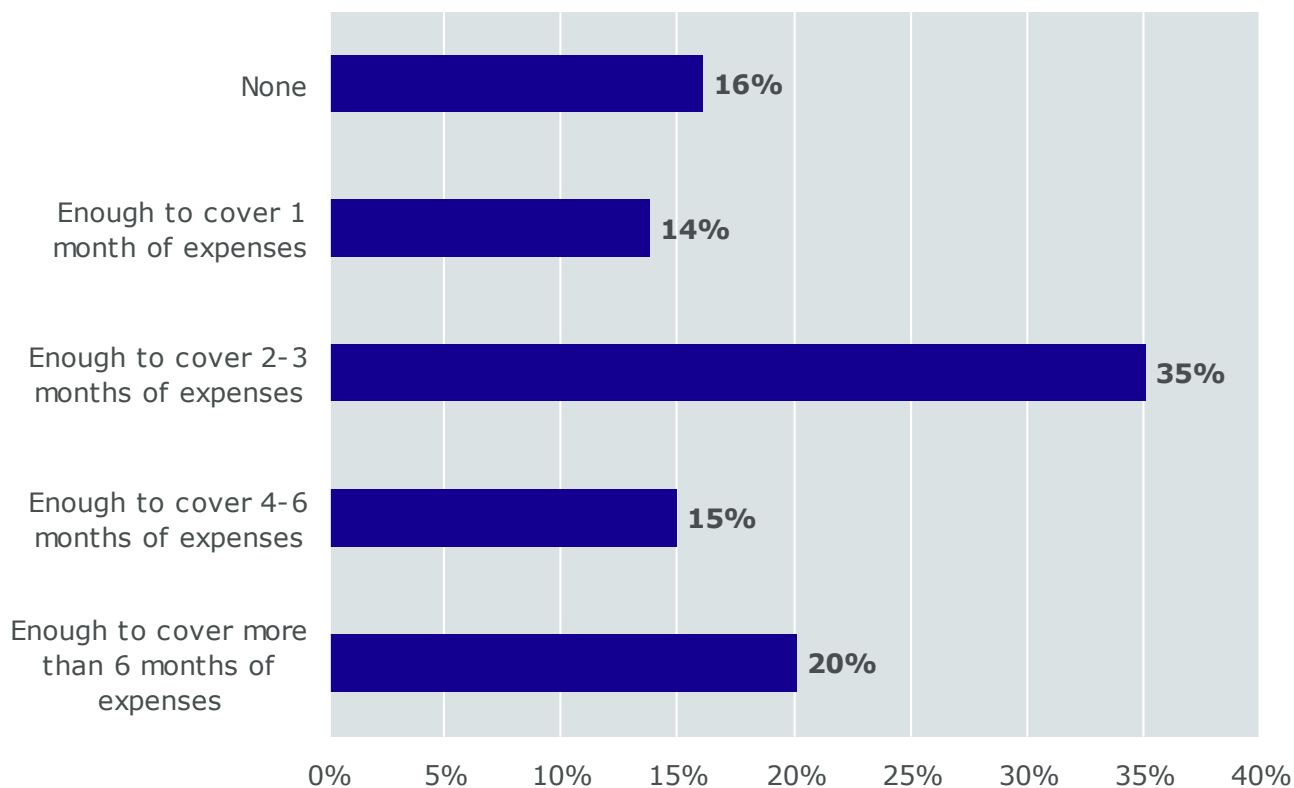
“Maintaining a balanced budget is our biggest challenge even as we add to the number of programs offered”



Most are Getting By, but Cash Isn't Adequate for Growth, Risk & Adaptation



Months of cash:



30% have one month or less!

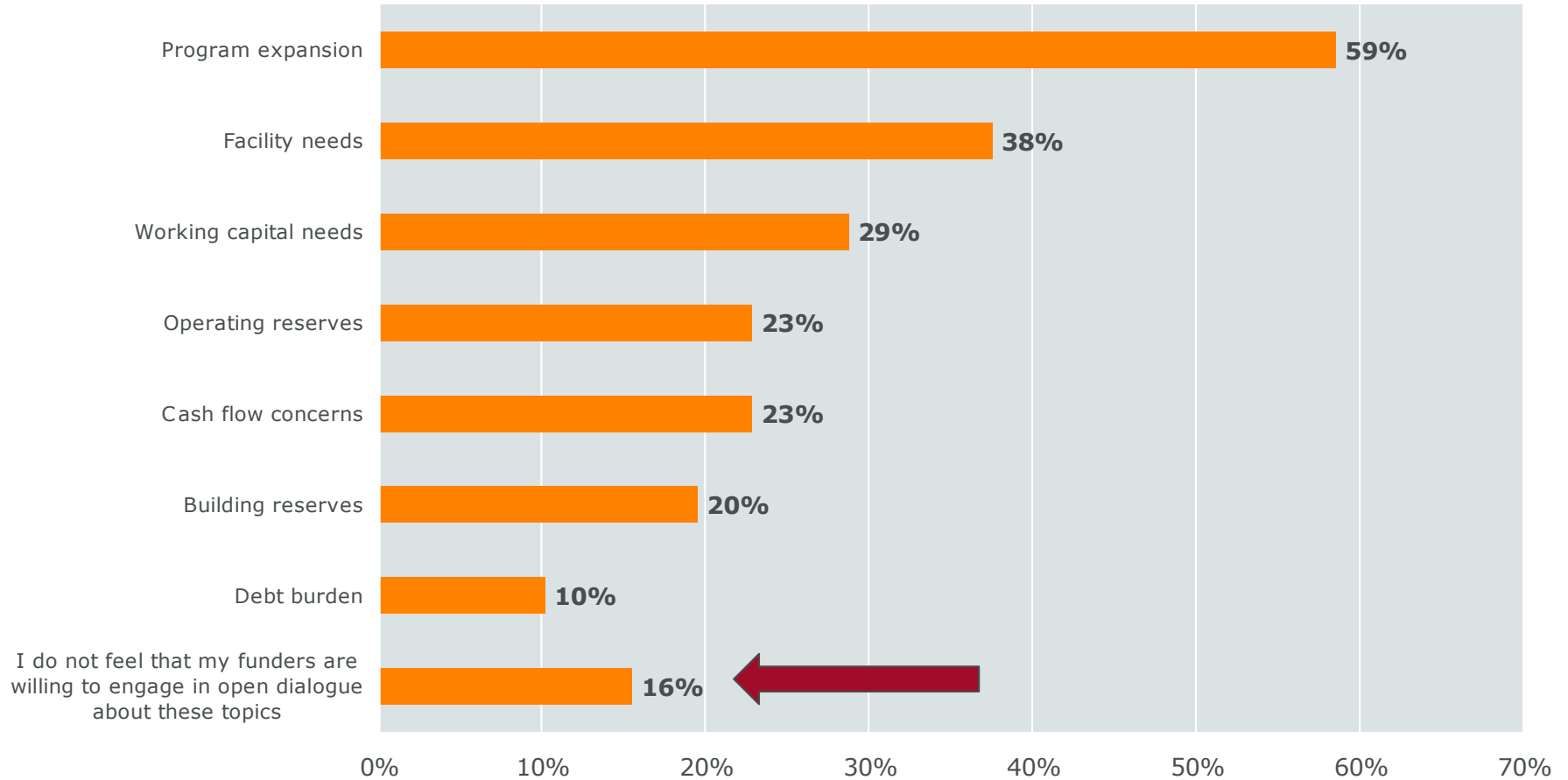
65% cover three months or less, vs. 69% in 2010



Arts Orgs Feel Uncomfortable Discussing Capitalization With Funders



My NPO can have open dialogue with funders about:



But the conversations – and funding models – are changing



- Coordinated funder dialogue at local and regional levels:
 - GIA National Capitalization Project
 - *Conversations on Capitalization & Community*

- Norms are (incrementally!) shifting as funders increasingly embrace and encourage:
 - capacity building for financial literacy and capitalization
 - capitalization convenings
 - general operating support
 - surpluses and reserves
 - risk taking and repositioning

New Tool Can Help Advance the Capitalization Conversation



A new online suite of reports, created by NFF and powered by CDP, provides cultural organizations' staff, boards, funders and stakeholders with:

- 1) knowledge about business and capitalization dynamics
- 2) language for communicating financial story and resource needs
- 3) insights to inform future planning and decision making
- 4) a starting place for dialogue, exploration and learning

Components of the FHA



1. Dashboard
2. Graphs & Educational Guide
3. Financial Statements

Dashboard ?

Revenue & Full Cost

Earnings Financial Statements

Balance Sheet Trends ?

	FY 2009	FY 2010	FY 2011
Assets			
Current assets			
Cash	\$15,713	\$10,719	\$4,007
Receivables	0	0	9,798
Prepaid expenses & other	0	0	0
Total current assets	15,713	10,719	13,805
Investments	0	0	0
Fixed assets (net)	134,425	146,455	114,906
Non-current assets			
Pledges receivable - non-current	0	0	0
Grants receivable - non-current	0	0	0
Other - non-current assets	0	0	0
Interfund balances	0	0	0
Total non-current assets	\$0	\$0	\$0
Total assets	\$150,138	\$157,174	\$128,711
Liabilities & Net Assets			
Liabilities			
Current Liabilities			
Accounts payable & other	(\$509)	\$330	\$3,992
Loans & other debt	0	0	0
Deferred revenue	0	0	0
Total current liabilities	(509)	330	3,992
Non-current liabilities			
Grants payable - non-current	0	0	0
Mortgages payable - non-current	0	0	0
Other loans & notes - non-current	0	0	0
Other - non-current liabilities	0	0	0
Interfund balances	0	0	0
Total non-current liabilities	0	0	0
Total liabilities	(\$509)	\$330	\$3,992
Net Assets			
Unrestricted	\$150,647	\$156,844	\$124,719
Temporarily restricted	0	0	0
Permanently restricted	0	0	0
Total net assets	\$150,647	\$156,844	\$124,719
Total liabilities & net assets	\$150,138	\$157,174	\$128,711

NFF-CDP Financial Health Analysis: Dashboard



Dashboard ?

- Three-year perspective
- Key indicators of an organization's financial situation:
 - Profitability
 - Full Cost
 - Balance sheet
 - Liquidity
- Definitions of terms and easily accessed formulas

Overall Annual Performance	FY 2009	FY 2010	FY 2011
Total expenses (before depreciation)	\$154,572	\$207,416	\$230,456
Expense growth (annual)	n/a	34%	11%
Unrestricted surplus/deficit before depreciation *	(\$33,386)	(\$15,388)	(\$886)
Unrestricted surplus/deficit as a % of expenses	-22%	-7%	0%
Unrestricted surplus/deficit after depreciation *	(\$45,416)	(\$25,150)	(\$10,644)

Revenue and Estimated Full Cost **	FY 2009	FY 2010	FY 2011
Total unrestricted revenue	\$121,186	\$192,028	\$229,570
Estimated full cost	n/a	\$217,178	\$240,214
One month of savings	\$12,881	\$17,285	\$19,205
Additional revenue required to meet full cost and achieve one month of savings	n/a	\$42,434	\$29,848

Health of Balance Sheet and Liquidity	FY 2009	FY 2010	FY 2011
Cash and investments (excluding permanently restricted)	\$15,713	\$10,719	\$4,007
Gross fixed assets	\$228,513	\$228,513	\$228,513
Accumulated depreciation as % of gross fixed assets	41%	36%	50%
Liabilities as % of assets	~0%	~0%	3%
Months of working capital	1.2	0.6	0.5
Months of cash and investments (excluding permanently restricted)	1.1	0.6	0.2

~0% signifies a value of less than +/- 0.5%.

* Unrestricted Revenue may include both operating revenue and capital. Please see the section titled "Separating Operating Revenue from Capital".

** NFF calculates full cost as the sum of: 1) operating expenses, 2) annual debt repayments, 3) depreciation expense, and 4) fixed asset purchases. While nonprofits rarely cover full costs every year, NFF encourages you to consider which of these items should be included in your annual planning.

NFF-CDP Financial Health Analysis: Detailed Reports, Education & Insights

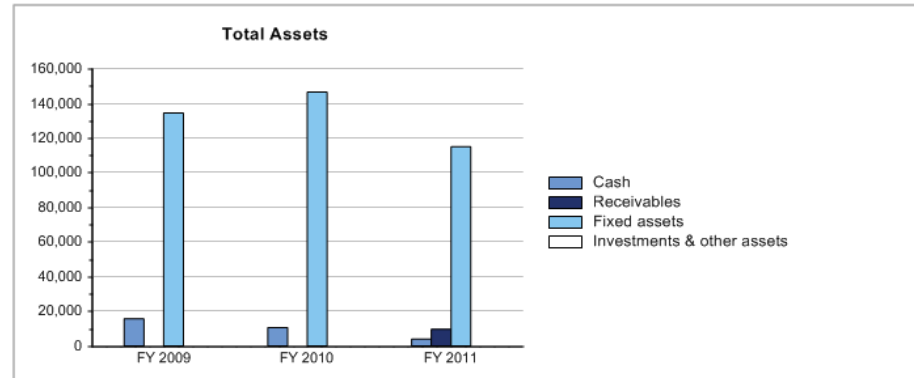


- NFF perspective on how to read and interpret important financial information
- Graphs offer detailed analysis of trends over time
- Probing questions provoke conversation about what the data means for your nonprofit

Health of Balance Sheet & Liquidity Asset Composition

How Has Asset Distribution Changed Over Time?

This graph illustrates your organization's assets grouped by major category. The assets that comprise the balance sheet often influence business decisions and impact liquidity. Organizations with significant land, buildings and equipment and/or receivables often need more cash than those with less complex asset structures. Balance sheet complexity often, but not always, grows along with organizational size.



Hide Chart Data ?

Total Assets	FY 2009	FY 2010	FY 2011
<i>Data Profile line items included in calculations</i>			
Current Assets			
Cash & cash equivalents	\$15,713	\$10,719	\$4,007
Accounts receivable	0	0	7,913
Pledges receivable - current	0	0	1,885
Non-Current Assets			
Fixed assets - land	\$58,513	\$58,513	\$58,513
Fixed assets - building	120,000	120,000	120,000
Fixed assets - furniture, fixtures & equipment	50,000	50,000	50,000
Accumulated depreciation	(94,088)	(82,058)	(113,607)
<i>Calculations included in chart</i>			
Cash	\$15,713	\$10,719	\$4,007
Receivables	\$0	\$0	\$9,798
Fixed assets	\$134,425	\$146,455	\$114,906
Investments & other assets	\$0	\$0	\$0

Accessing the Financial Health Analysis report on CDP



To learn more, visit:

<http://www.culturaldata.org/nff/>

On the page you'll find:

- Video preview
- Sample report

Not in the CDP?

Financial SCAN, developed in partnership with GuideStar, is available to all organizations that file the IRS Form 990.

www.guidestar.org/financialscan

When logged in to your CDP account:

- Click MY REPORTS button
- Select *Nonprofit Finance Fund Financial Health Analysis*

A screenshot of the CDP account interface. The page is divided into several sections: "MY GRANT PROGRAMS" (with a sub-section "Recently Viewed" showing "Financial Health Analysis" and "Sample Pool"), "ORGANIZATIONS" (with a search bar and "Recently Viewed" showing "Sample Choir"), "ANALYTICS" (with options "Select Program / Organization", "Select Organization", and "Select Report"), and "COMPLETED EXPORTS" (with a description "Explore these reports, developed in collaboration with e and analysis of CDP data."). On the right side, there is a "Select Report" section with "Current Organization: Sample Choir" and a list of report types: "Annual Report", "Program Activity", "Personnel", "Unrestricted Activity", "Program Revenue & Marketing Expense", "Contributed Revenue & Fundraising Expense", and "Balance Sheet". At the bottom, there is a "MY ACCOUNT" section with links for "CONTACT", "HELP", and "LOGOUT", and two buttons: "BACK" and "CONTINUE". The "Select Report" section is circled in orange, and the "Nonprofit Finance Fund Financial Health Analysis" option is selected with a radio button.

Effective capitalization requires:

- A business model that reliably covers its full costs
- A balance sheet that is appropriately liquid and flexible

Capitalization doesn't happen overnight:

- Know where you are today
- Plan where you want to be
- Make your case for the capital you need
- Adapt to revenue realities
- Monitor progress and course correct
- **Keep your eye on the prize: excellent art!**

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<http://nonprofitfinancefund.org/partnerships/artsandculture>

- See our recent webinar, featuring the work of Alvin Ailey Dance Foundation and The Wooster Group
- Read our *Case for Change Capital* series
- Watch videos of how Steppenwolf and Center Theatre Group are using change capital
- Check out our Arts & Culture case studies
- Read our blogs dedicated exclusively to the arts
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Get in
Touch!



Rebecca Thomas, Vice President
617.204.9772

Rebecca.thomas@nffusa.org

**Give me your business card.
I'll add you to our arts email list.**