

Webinar

Operating in a Changing World Part II




Facilitated by

Michael Kass, Consultant
Nonprofit Finance Fund

April 13, 2021
1 pm ET



Acknowledgment of Indigenous Territories



*“Land acknowledgments are
a stepping stone to honouring
broken treaty relationships.”*

- We invite you to acknowledge the Indigenous Territory you are joining us from:

<https://native-land.ca/>

Meeting Agreements

Contribute to a meaningful learning experience

- Every experience is valid; we are here as peers to learn from each other
- Invitation to share freely and candidly, and ask questions
- Take care of your needs first

Nonprofit Finance Fund: Where Money Meets Mission

NFF envisions a world where capital and expertise come together to create a more just and vibrant society

We unlock the potential of mission-driven organizations through

- **Tailored investments**
- **Strategic advice**
- **Accessible insights**

Guided by our Core Values



NFF Team for Part 1 – Webinar Series



Learning Goals



Explore the impact the pandemic has had on the Not-for-profit sector generally & cultural organizations specifically



Deepen our understanding of 'capital structure' and how it impacts our organizations' futures



Learn how to assess our organizations' financial health and align decisions with real-time data

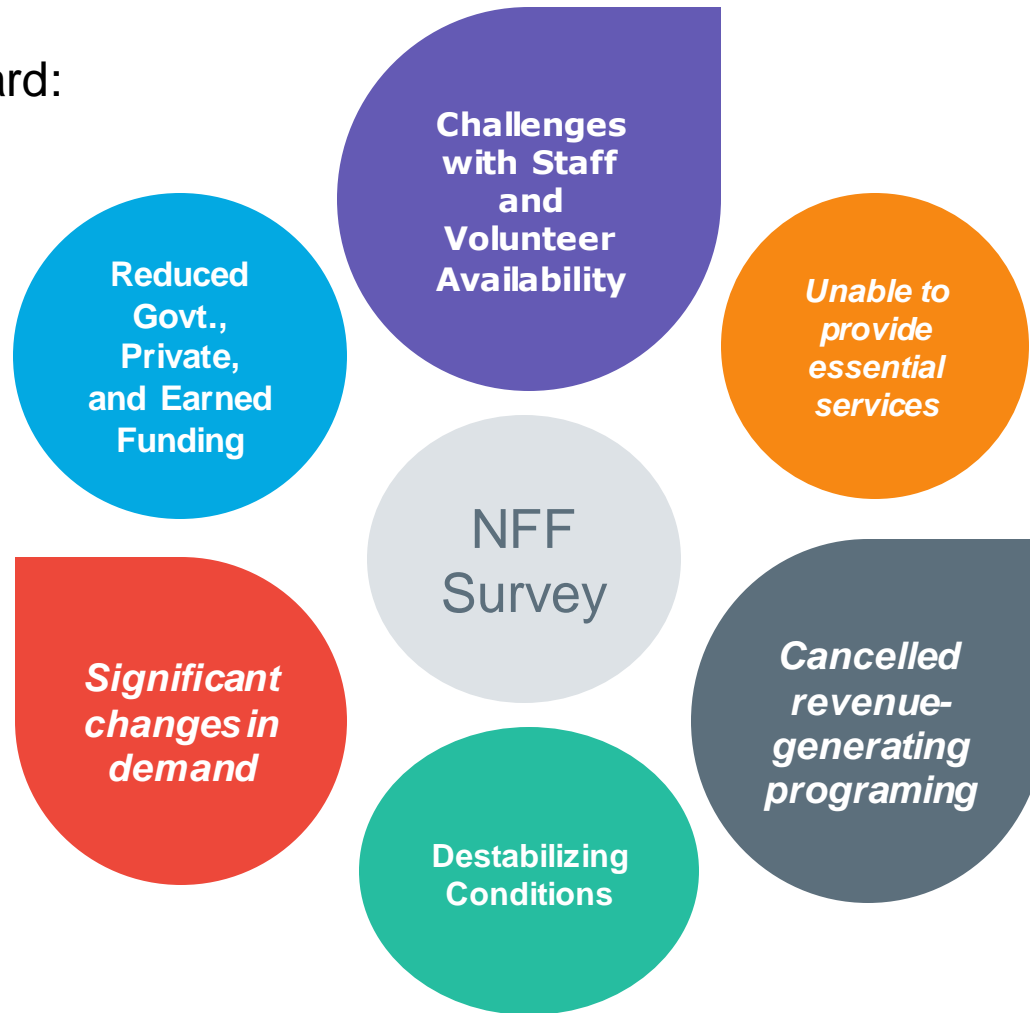
Opening Space for Humanity

Conversations about Financial Management do not take place in a vacuum

- *The Past Year Has Taken a Toll*
- *There is No Precedent*
- *There is No Right Way to Feel or React*
- *There IS an Invitation to Slow Down*

NFF 2020 Survey: How has the COVID-19 pandemic affected your organization?

What we heard:



1/3 NPOs had less than one (1) month of cash before the crisis

2/3 of NPOs indicated they were facing crisis just weeks into this

For more information visit: <https://nff.org/covid-19-survey-results>

Arts & Culture in the Pandemic: National Perspective

- 35% of organizations have laid off staff
- 30% have reduced payroll
- 39% have accessed reserves (if they had them)
- 63% increased their online presence

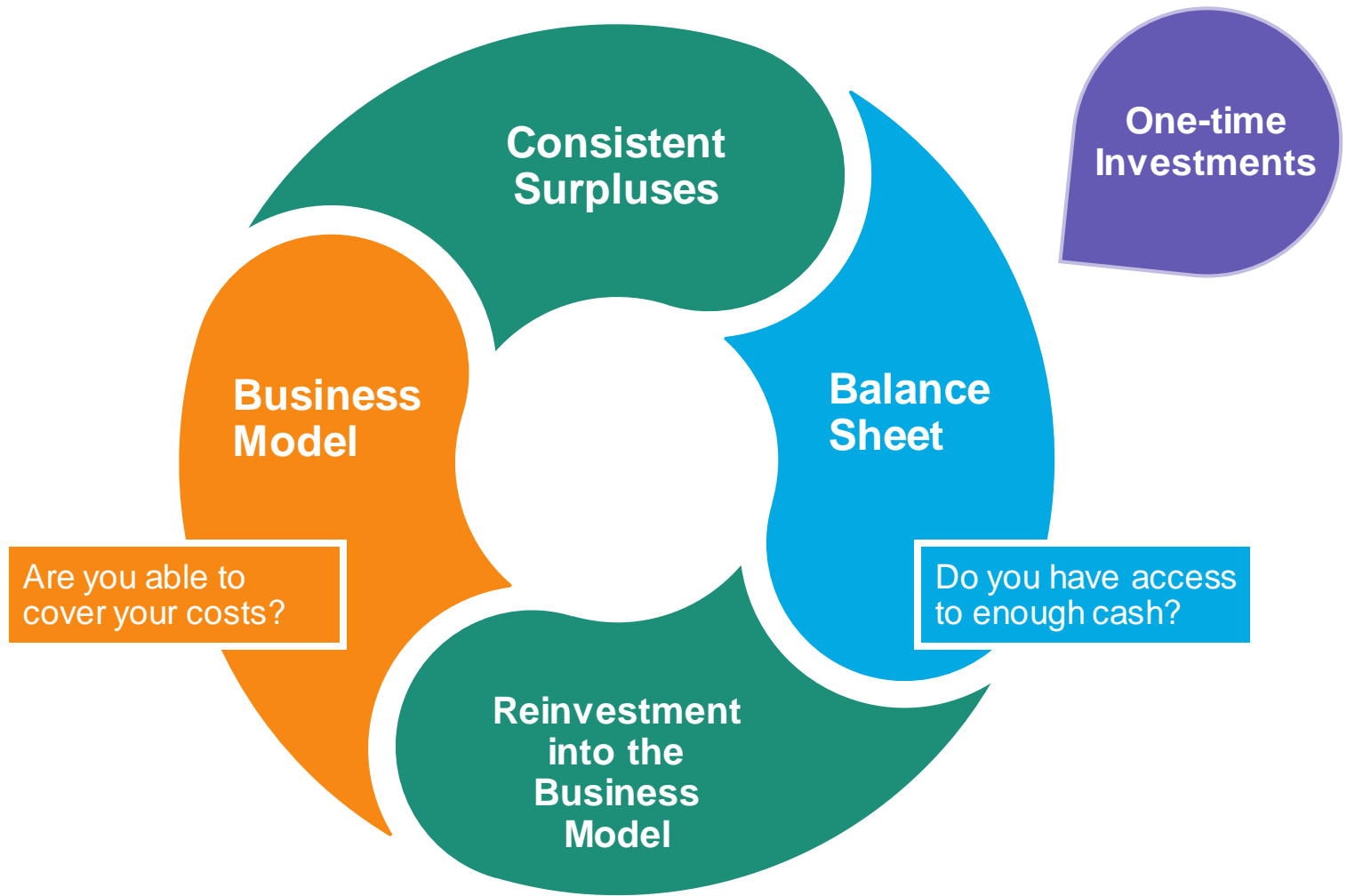
Assessing Your Strengths

It's important to understand the full set of strengths and resources we bring into a situation:

- **Relationships & Reputation** – our partnerships, networks and reputation, and access to community resources
- **People & Skills** – the skills, expertise, experiences of staff, board and volunteers
- **Data & Know How** – how we know what we do works, how we understand our mission impact
- **Financial** – the alignment of financial resources to pay for what we do - delivering and supporting the mission in the immediate and longer term



Surpluses Support Mission Success



What Does Capital Structure Look Like?

Business Model
Annual results of operations



Capital Structure
Snapshot of overall financial health



- **Capitalization** = alignment of balance sheet resources with short-term & long-term mission and impact goals
- **Balance sheet needs** = items beyond the income statement



Under-Capitalized



Mis-Capitalized

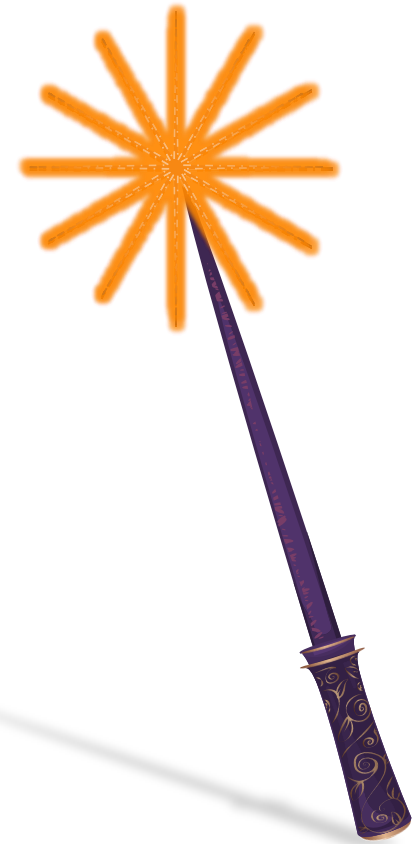


Well-Capitalized

Capital Structure in a Perfect World

If you have a **magic wand**

- Paying bills and managing cash flows is a breeze
- You're not worried about equipment breaking; you can easily make repairs or replacements
- You've got a plan for any debt
- You're excited by new opportunities, not burdened
- A strong safety net protects from the unexpected and risks inherent in your revenues or programs



Why Capital Structure Matters: Financial Risk Capacity

An organization's ability to **mitigate risk** is influenced by the resources it has on hand.

If an organization has...

- Plenty of unrestricted cash and receivables
- A fully available line of credit
- Sufficient reserves available to management
- Little to no wear-and-tear of fixed assets
- Reoccurring surpluses

...then it has **high capacity for risk or change.**

What are your organization's main risks?

Financial Pulse Check:

Three Measures of Financial Health

Indicators	What It Shows	Where to Find It	How to Calculate
1. OPERATING SURPLUS/ DEFICIT <i>Business Model Performance</i>	Your ability to cover operating expenses with revenue from your core business model. <i>Reflects the business model's strength</i>	Income Statement <i>Audit, IRS Filing, internal statements, budgets</i>	Operating Revenue – Operating Expenses
2. MONTHS OF CASH <i>Liquidity</i>	How long you can cover short term obligations and day-to-day expenses. <i>Best measure of solvency</i>	Balance Sheet <i>P&L (for expenses) Audit, IRS 990 Filing, Internal Financials, Bank Statements</i>	$\frac{\text{Total Cash}}{(\text{Total Expenses} / 12)}$
3. MONTHS OF AVAILABLE NET ASSETS (ANA) <i>Availability</i>	How much of net assets is truly available for use (less restricted cash and outstanding obligations). <i>Better measure of accessible resources</i>	Balance Sheet <i>P&L (for expenses) Audit, IRS 990 Filing, internal Financials</i>	$\frac{\text{Total Net Assets Without Restrictions} - (\text{Equity in P\&E})}{(\text{Total Expenses} / 12)}$

Sample Balance Sheet

Calculating Months of Cash

	2020
Assets	
Cash and cash equivalents	389,242
Receivables	325,600
Investments	26,286
Property & equipment, net	1,219
Total Assets	742,347
Liabilities	
Accounts payable	98,645
Deferred revenue	33,252
Total Liabilities	131,897
Net Assets	
Net Assets Without Restrictions	235,040
Net Assets With Restrictions	375,410
Total Net Assets	610,450
Total Liabilities & Net Assets	742,347

Operating Expenses
 Operating Expenses/12 months
 = **Average Monthly Expenses**

\$867,110
\$867,110 / 12
\$72,259

Total Cash /
 Average Monthly Expenses
 = **Months of Cash**

\$389,242
\$72,259
5.4



Activity: Calculating Your Months of Cash and Available Net Assets

Cash: Measuring Liquidity

Your ability to cover short term obligations and day-to-day expenses

$$\text{Months of Cash} = \frac{\text{Total Cash}}{(\text{Total Expenses} / 12 \text{ month})}$$

Available Net Assets: Measuring Available Resources

Your true safety net; ability to mitigate risk and pursue opportunities

$$\text{Months of Available Net Assets (ANA)} = \frac{\text{Total Net Assets Without Restrictions} - \text{P\&E equity}}{(\text{Total Expenses} / 12 \text{ monthly})}$$

Question: How Much Cash *Should* We Have?

The “right” amount of cash for an organization will depends on cash cycles, but below is how various levels might “feel”:

Months of Expenses	Operating Situation
< 1 month	Cash management is key – Decisions influenced by access to cash, may be delaying paying vendors or even staff, access to lines of credit very helpful, cash flow planning is a crucial tool.
< 3 months	Cash may feel tight at times – May have some periods of low cash, may limit acting on opportunities, lines of credit may be useful at times.
3-6 months	Room to breathe – Can do some longer-term thinking, some funds for short-term “rainy days” but building more may support financial security
6+ months	Handles risk – Able to withstand increasingly financial shocks such as large facility repairs, funding cuts and possibly recessions.

Cash Flow Projections

Visibility into the timing of cash

A visual landscape of cash flowing in and out

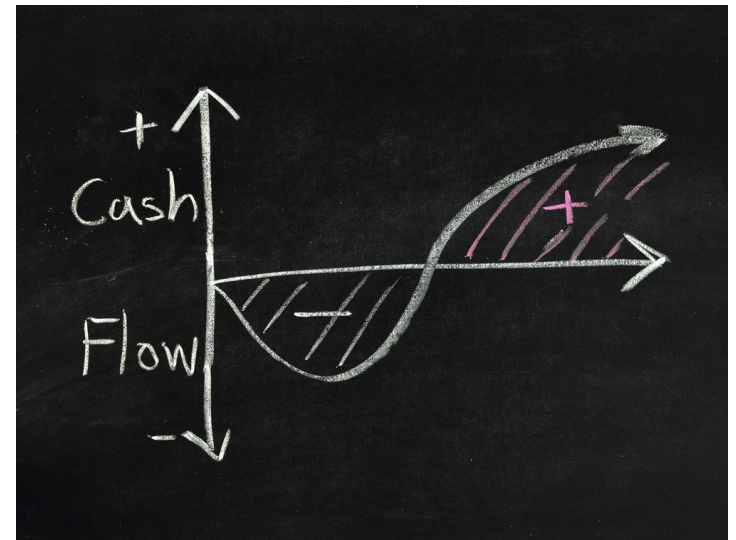
- This provides better understanding of the organization's ability to tolerate risk
- Less uncertainty about whether cash will be available to meet future operating and balance sheet needs when they arise

Insight into Cash Flow vs. Cash Issues

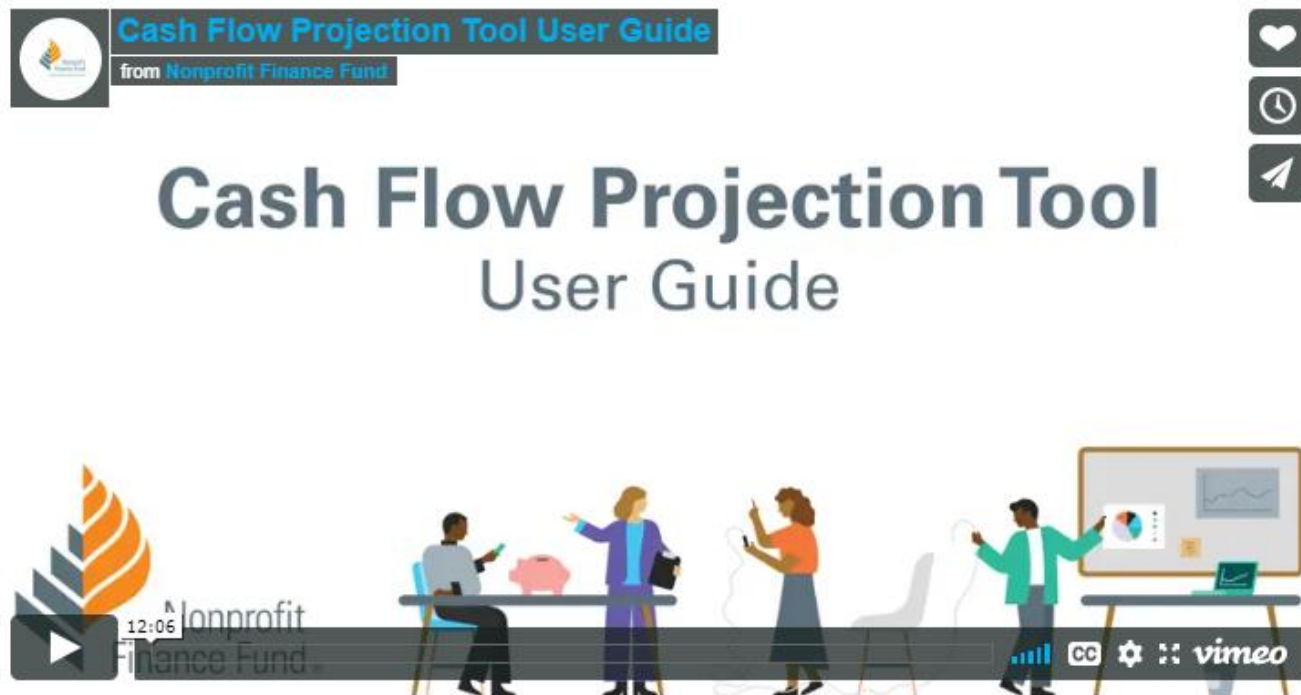
- Cash Flow issues - a temporary lack of cash due to timing of receipts
- Cash issues - a loss of funding that produces a cash shortage with no predictable end date

Budget \neq Cash Flow budgets cannot show the ebbs and flows of cash

Can show monthly, weekly or even daily

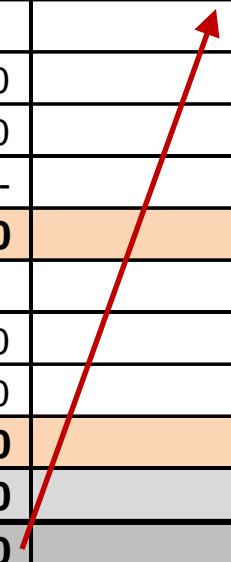


A Sample Cashflow Tool with Step-by-Step Instructions is Available
at: <https://nff.org/covid-19-tools-and-resources-nonprofits#tools>



Basic Example: Cash Flow Projection

<i>In thousands</i>	Jan-18	Feb-18
Beginning cash balance	120	140
Cash receipts		
Admission/ticket sales	40	
Foundation grant	110	
Net assets released from restriction	-	
Total cash receipts	150	
Cash spent		
Payroll	40	
Rent	90	
Total cash spent	130	
Net cash in/(out)	20	
Ending cash balance	140	



Strategies for Managing Cash Flow

Options available to nonprofits

Have cash

- Internal cash **reserves** built from unrestricted operating surpluses
- Approach **funders** to ease restrictions on existing revenue

Receive cash

- Approach funders for accelerated/**advanced** payments
- Change the **timing** of particular events or annual appeals
- **Conversion** of funds (ticket revenue to donations)

Do not spend cash

- Negotiate favorable payment plans with **vendors and lenders**
- **Minimize** expenses

Borrow cash

- Draw on an external line of **credit** or bridge loan, if appropriate



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Review: Learning Goals



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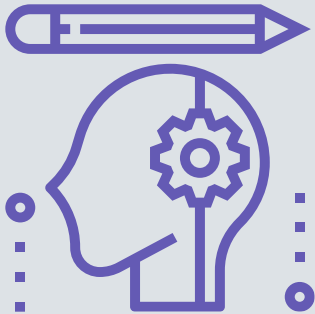
Learn how to assess our organizations' financial health and align decisions with real-time data

Check-Out

Please share via voice or chat your response to any of all of the following questions:

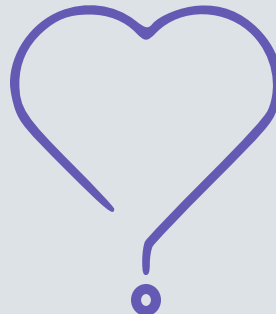
Head

What did you **learn** from today's session?



Heart

How did today's session make you **feel**?



Feet

What **actions** will you take to bring this back to your organization and community?



Up Next

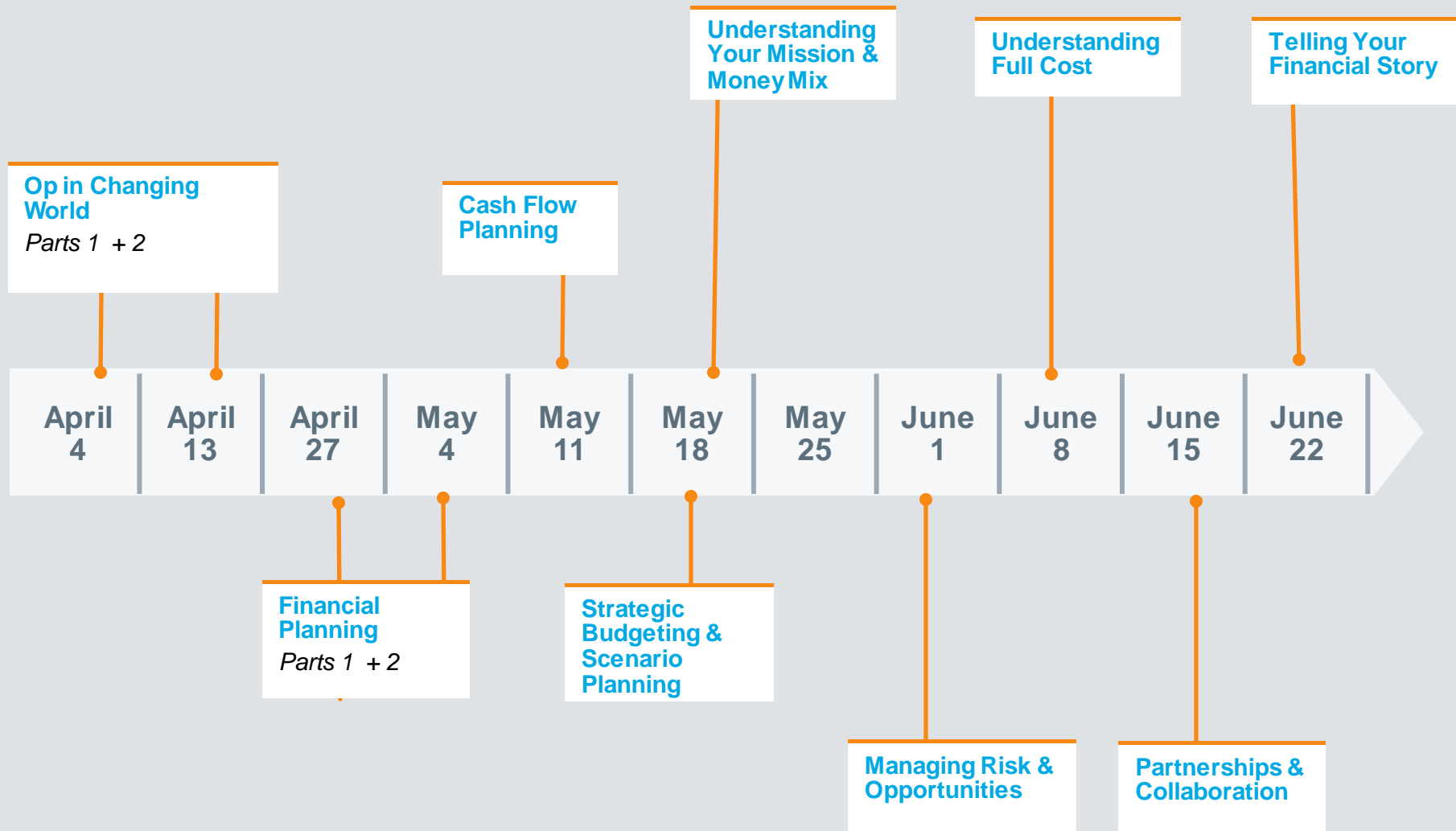
Budgeting Basics

April 27, 2021, 1 – 2 pm EST

In order to plan effectively, nonprofit leaders must understand how their organization's past income and expense dynamics influence its present and future finance picture. In this webinar, NFF will cover how to read income and profit/loss statements as well as how to assess an organization's revenue and expense picture. You will learn key terms for forecasting revenue and expenses and best practices for budgeting for restricted revenue and one-time or episodic revenue and expenses.



Upcoming Sessions



Thank You!

nff.org

investinresults.org

@nff_news

@NFFSocialImpact

Kristine Alvarez
kalvarez@nff.org

Michael Kass
mkass@nff.org

