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/](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

- Equity in Action
- Rigor Without Attitude
- Responsiveness
- Generosity of Spirit
- Leading By Doing
- 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:

- Reduced Govt., Private, and Earned Funding
- Challenges with Staff and Volunteer Availability
- Unable to provide essential services
- Significant changes in demand
- Destabilizing Conditions
- Cancelled revenue-generating programing

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

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
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

Consistent Surpluses

Reinvestment into the Business Model

Balance Sheet

Business Model

Are you able to cover your costs?

Do you have access to enough cash?

One-time Investments
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

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

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

### Calculating Months of Cash

<table>
<thead>
<tr>
<th>Assets</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>389,242</td>
</tr>
<tr>
<td>Receivables</td>
<td>325,600</td>
</tr>
<tr>
<td>Investments</td>
<td>26,286</td>
</tr>
<tr>
<td>Property &amp; equipment, net</td>
<td>1,219</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>742,347</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>98,645</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>33,252</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>131,897</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets Without Restrictions</td>
<td>235,040</td>
</tr>
<tr>
<td>Net Assets With Restrictions</td>
<td>375,410</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>610,450</td>
</tr>
</tbody>
</table>

| Total Liabilities & Net Assets | 742,347 |

---

**Operating Expenses**: $867,110

**Operating Expenses/12 months**

\[
\frac{867,110}{12} = \$72,259
\]

**Average Monthly Expenses**

\[
\$72,259
\]

**Total Cash**

\[
\$389,242
\]

**Average Monthly Expenses**

\[
\$72,259
\]

**= Months of Cash**

\[
5.4
\]
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

 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

 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 depend on cash cycles, but below is how various levels might “feel”:

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

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

Do not spend cash
- Negotiate favorable payment plans with vendors and lenders
- Minimize expenses

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

Borrow cash
- Draw on an external line of credit or bridge loan, if appropriate
## Strategies for Managing Cash Flow

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### Receive cash

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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.
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?
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

- **Op in Changing World**
  - Parts 1 + 2

- **Cash Flow Planning**

- **Understanding Your Mission & Money Mix**

- **Understanding Full Cost**

- **Telling Your Financial Story**

- **Financial Planning**
  - Parts 1 + 2

- **Strategic Budgeting & Scenario Planning**

- **Managing Risk & Opportunities**

- **Partnerships & Collaboration**

Dates:
- April 4, April 13, April 27, May 4, May 11, May 18, May 25, June 1, June 8, June 15, June 22
Thank You!
nff.org
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@NFFSocialImpact

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