



## State of the Arts: Financial Realities in Challenging Times

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**Presented to:**

**Managers Council for Member Companies with Budgets from \$750,000-\$2.9 Million**

**Managers Council for Member Companies with Budgets of \$749,000 or Less**



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# Session Goals



- Discuss the “state of the sector,” based on NFF’s national arts survey
- Engage you in a discussion about the impact of a changed and changing economy on your companies
- Explore how arts organizations are responding
- Share some best practices around sound financial planning and management

# Overview: Nonprofit Finance Fund® (NFF)



NFF connects nonprofit finance to nonprofit success. We're a nonprofit 501(c)(3) serving thousands of nonprofit and funders since 1980

- Over \$205 million in loans; over \$1 billion in capital leveraged for nonprofits
- Over 500 customized financial consultations
- Hundreds of partnerships and thought leadership to advance financial awareness and friendlier funding practices across the sector

**"We're in the business of helping nonprofits run better."**

–Clara Miller, NFF  
President and CEO

## **Serving nonprofits nationwide from several local offices**

- Northeast: Boston, New York
- Mid-Atlantic: Philadelphia, Washington, DC, Newark, NJ
- Midwest: Detroit, Chicago
- West Coast: San Francisco, Los Angeles

## National Arts Index 1998-2008 Americans for the Arts

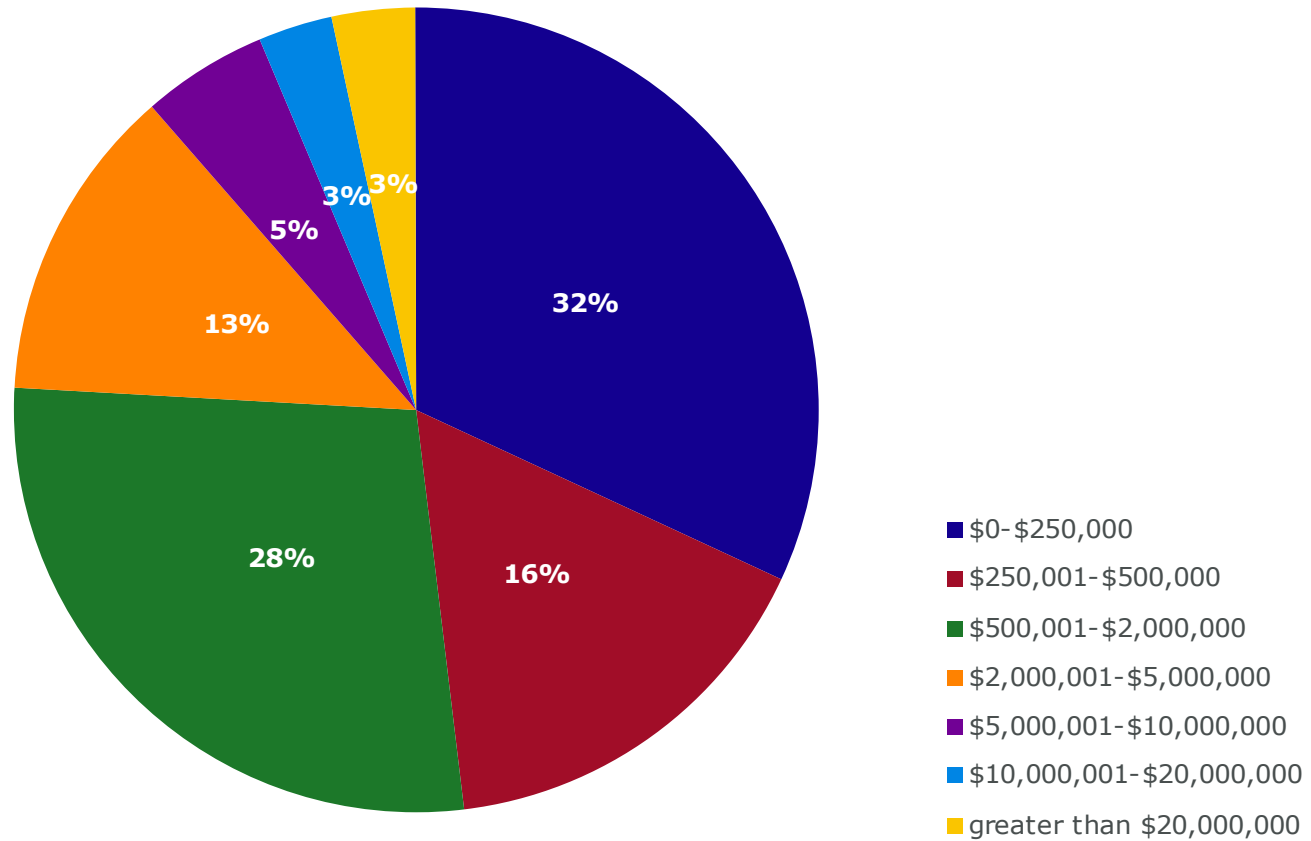
### Traditional model is struggling

- Foundation and corporate giving has declined for the past 7 years
- Attendance at mainstream arts organizations is in steady decline
- An arts organization is created every 3 hours, yet 1 in 3 is in deficit

### How we experience the arts is changing

- Arts creation by the general public is increasing
- Local, culturally specific arts groups are more likely to be in surplus
- Technology is changing our access and consumption of the arts

## Annual operating expense

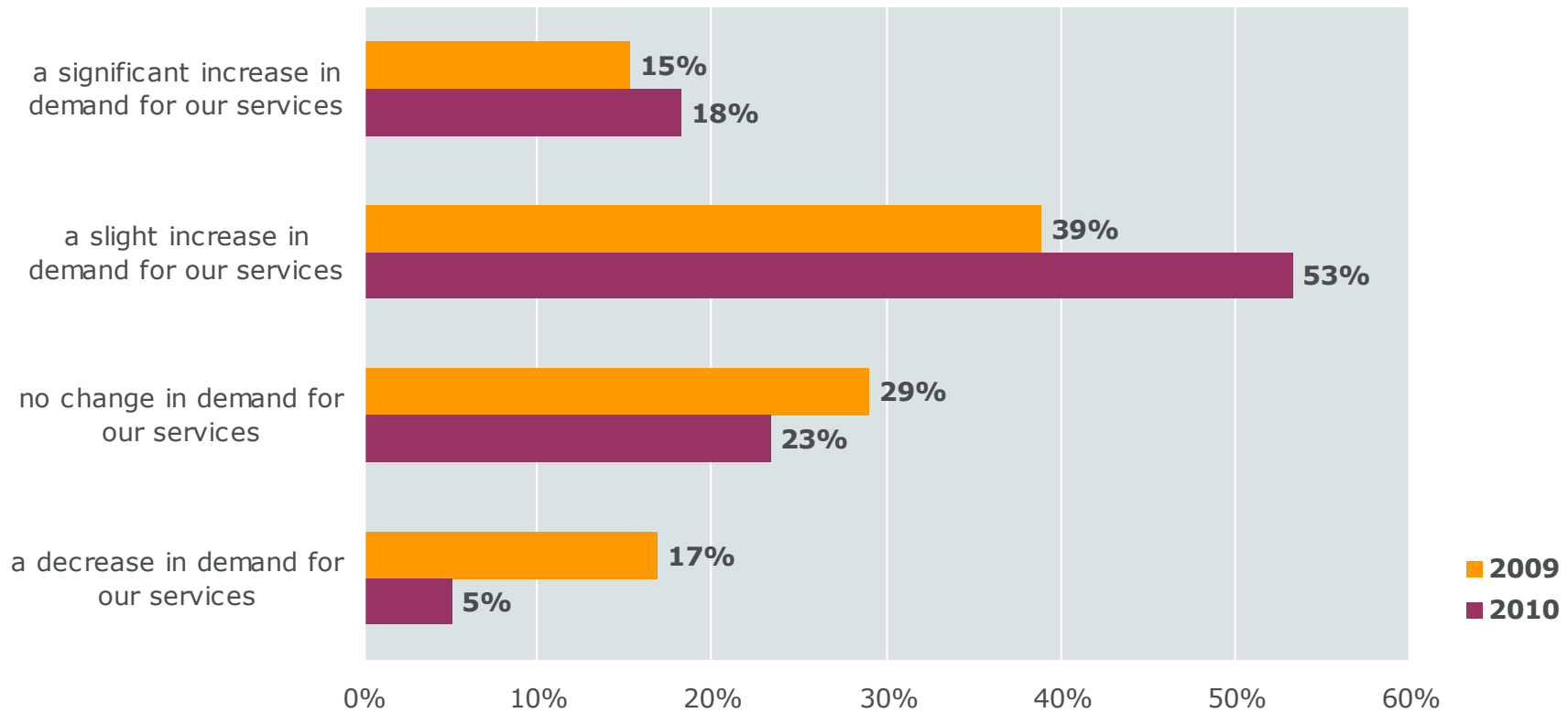


**48% of 417 Arts & Culture Respondents <\$500,000**  
**28% between \$500,000 and \$2,000,000**

# Is Demand For the Arts on the Rise?



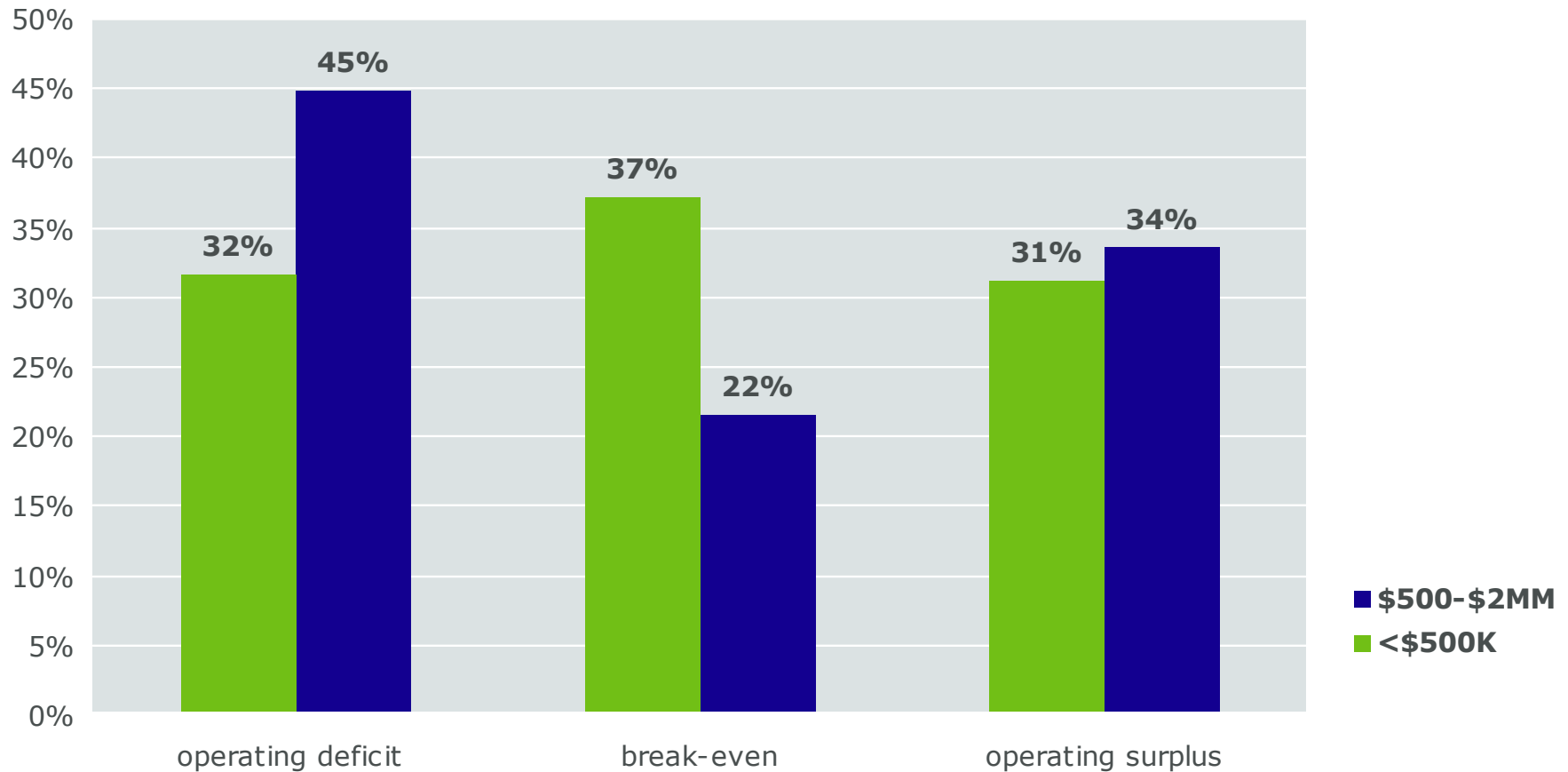
## Service Demand in 2009 & 2010 All Organizations <\$2MM



# Smaller Organizations Fared Better in 2009



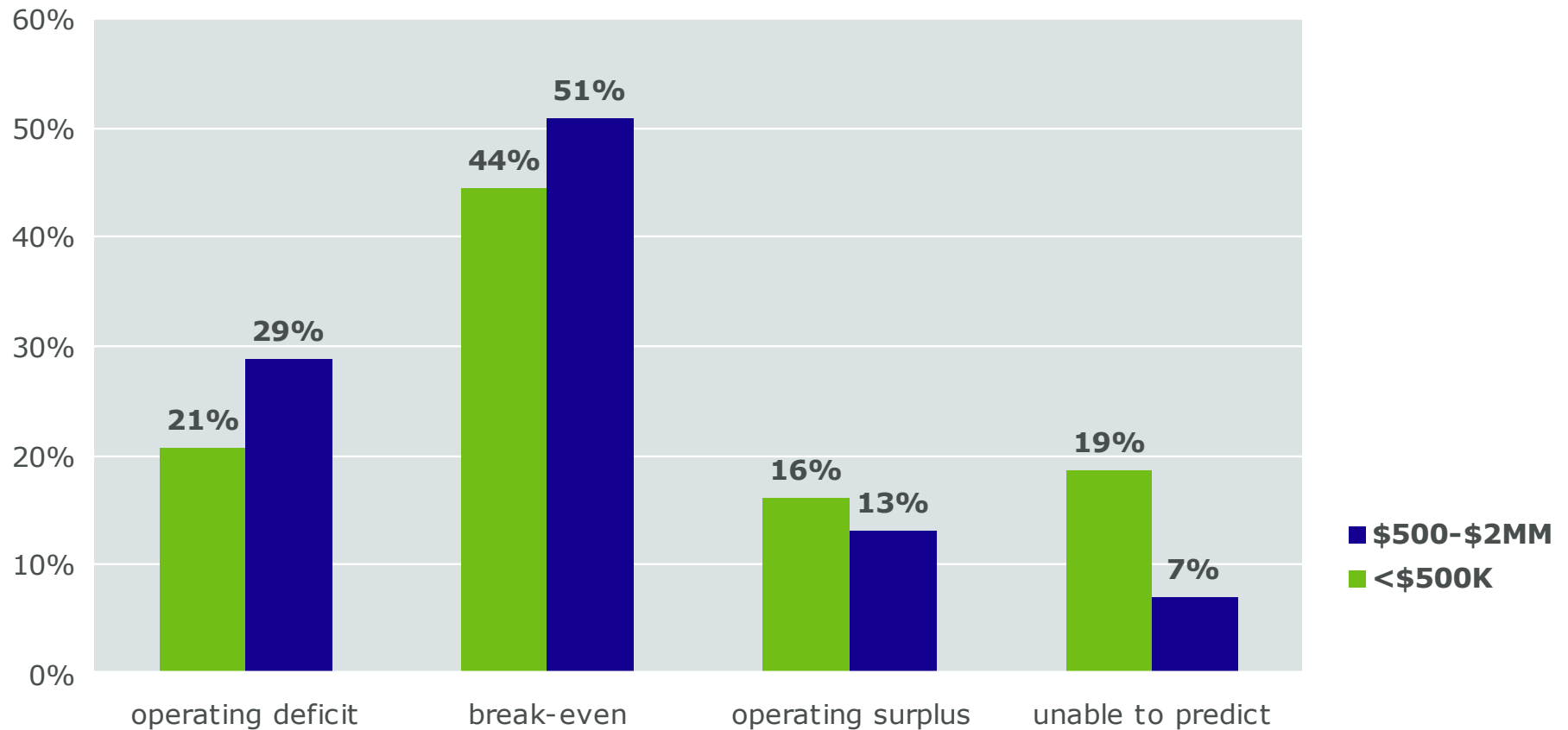
## Finished FY 2009 with:



# Mid-sized Groups Are Expecting a More Difficult 2010



## Expected for 2010:

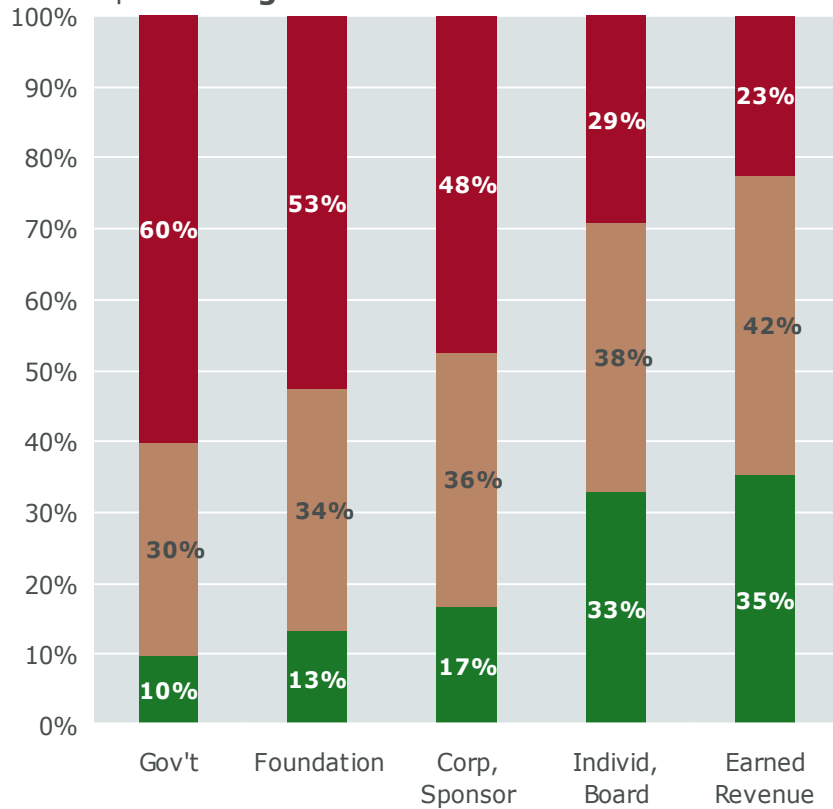


# Can Individual Giving and Earned Revenue Replace Institutional Support?

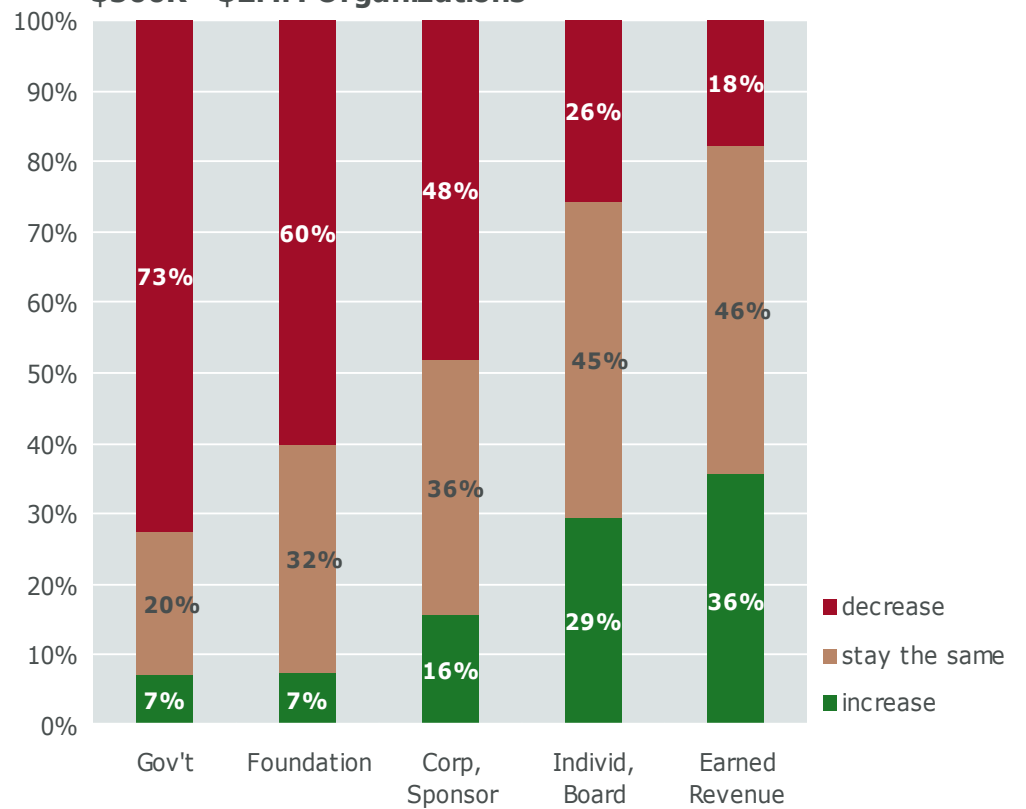


## 2010 Revenue Expectations

### <\$500K Organizations



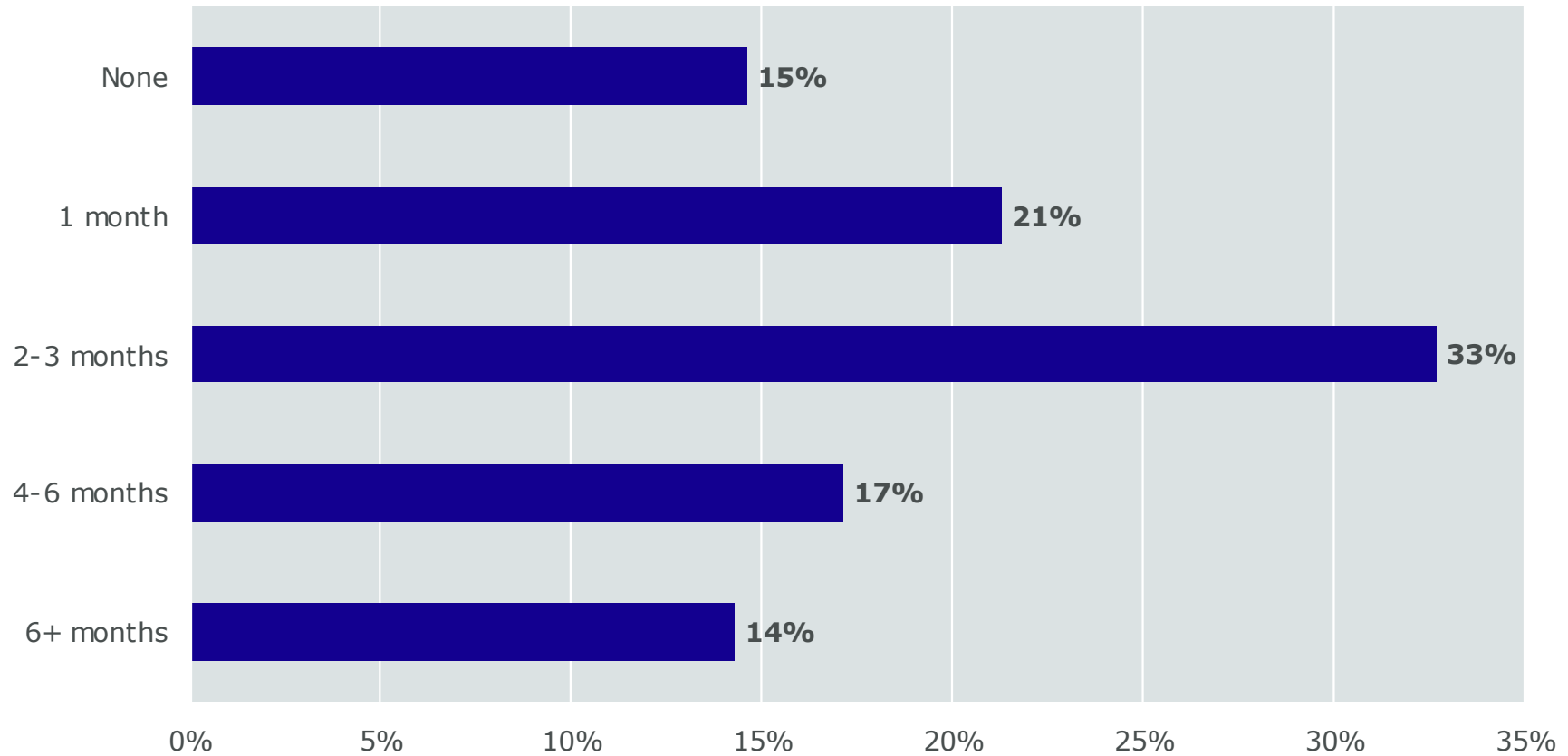
### \$500K - \$2MM Organizations



# How Much Risk Can You Withstand?



## Months of cash All Organizations



# Months of Liquidity: How Much is Right For You?



## Impact of Liquidity on Operations\*

Months of Expenses Covered by Cash	Operating Situation
0	<b>Crisis</b> – Scrambling for cash, delaying payment to vendors, overdrawing checking account.
1-3 months	<b>Cash is tight</b> – Relying on line of credit, delaying payment to vendors.
3-6 months	<b>Room to breath</b> – Can do some long-term thinking. Little room for “rainy days.”
6+ months	<b>Handles risk</b> – Able to withstand increasingly more shocks such as large facility repairs, funding cuts and possibly recessions.

\* These should be used only as a loose guideline; they can vary greatly depending on numerous factors, e.g. % of revenue from gov’t contracts.

# Responses to Risk: The Top 10



## Actions Planned for 2010

<\$500K Organizations	
<b>Engage board</b>	<b>62%</b>
<b>Rely on more volunteers</b>	<b>59%</b>
<b>Collaborate on programs</b>	<b>56%</b>
Add/expand programs	38%
Hold conversations with funders	35%
Develop contingency budget	35%
Collaborate on expenses	24%
Freeze hires and salaries	22%
Use reserve funds	22%
Expand geographies served	21%

\$500K-\$2MM Organizations	
<b>Engage board</b>	<b>64%</b>
<b>Collaborate on programs</b>	<b>58%</b>
<b>Develop contingency budget</b>	<b>58%</b>
Rely on more volunteers	45%
Add/expand programs	43%
Hold conversations with funders	34%
Freeze hires and salaries	31%
Speed up collection of receivables	29%
Collaborate on expenses	29%
Use reserve funds	22%

# A Framework for Navigating in a Changed and Changing Economy



## Assess your exposure and risk

- How might your revenue and expenses be affected?
- Understand the strength of your balance sheet

## Address risk: Plan your response

- Identify and quantify your options
- Know when to implement Plan B (before you have to)

## Communicate early and often

- Involve staff, funders and your board

# Tips and NFF Resources

## How do this year's numbers compare with last year's? What trends do you see?

- **Profitability & Savings:** Does your company cover its costs? How large are surpluses/deficits relative to revenue? Is your company saving? If so, is it enough?
- **Revenue Dynamics:** Where does your company's money come from? Is it well diversified or at risk? Do the revenue streams appear relatively reliable/consistent?
- **Cost Dynamics:** What does your company spend on operating activities (e.g., salaries, occupancy)? Are expenses adjusted in line with revenue changes?
- **Liquidity:** Does your company have enough cash to cover current obligations? How well are you managing receivables? Are you delaying payment to vendors?
- **Health of Balance Sheet:** Are your company's assets appropriate for its core business? Is your company investing in its fixed assets? How "leveraged" are you? How much of your net assets are unrestricted and liquid?

# Sound Financial Management: What Does It Look Like?



- Operating results are consistently **positive**
- Balance sheet is **strong** and right for your business
- You can **anticipate and prepare** for cash flow shortfalls
- You can **predict** year-end results accurately
- Internal systems allow you to **adjust quickly** to unexpected financial developments
- Your board **understands** the organization's financial condition and how it relates to artistic decisions
- You can **evaluate** the reliability and longevity of your most important sources of revenue
- You **calculate** and raise revenue to cover the full, all-inclusive costs of your program

# Sound Financial Planning Starts with Good Budgeting



- 1. Uses well-grounded/conservative numbers**
  - Reflects external & internal realities
  - Tends to be in line with peer organizations
  - Less revenue than you think you'll get
  - More expenses than you think you'll need
- 2. Reflects strategic goals and priorities**
  - Program
  - Staffing
  - Operating infrastructure
  - Future growth or changes
- 3. Provides a clear summary overview**
  - Revenue by each main category
  - Expenses by each main category
- 4. Has backup detail**
  - Revenue and expenses by line-item
  - Fundraising/Gift pipeline
  - Clearly states assumptions and unknowns
- 5. Knows that cash  $\neq$  revenue; total revenue  $\neq$  operating revenue (accrual)**
  - Focuses on unrestricted dollars, including \$ to be released from restriction
  - Separates operating \$ from amounts received for one-time or unusual items
- 6. Features balance sheet needs and goals**
  - Plans for surpluses of sufficient size to manage risk & pursue opportunity, including:
    - Pay down debt
    - Repair/replace property & equipment
    - Save as working capital
    - Establish/build reserves
- 7. Reflects risk and anticipates appropriate responses**
  - Includes Plan B reflecting various scenarios
- 8. Adaptable to different audiences**
  - Executive management
  - Program management (staff)
  - Funders
  - Board
- 9. Tells us what happened and why**
  - Shows variance – actual results vs. original plan
  - Includes notes
- 10. Is pretty**
  - Legible—e.g., font size not too small
  - Formatted to direct the reader to key items—e.g., bold the totals and surplus/deficit
  - Set print area

# Additional NFF Resources



**For additional resources on financial planning and management, members of DanceUSA have access to NFF financial webinars:**

<http://www.nonprofitfinancefund.org/webinars/metlife.php>

- Critical Elements of Nonprofit Finance
- Cash Flow Planning
- Sound Financial Planning
- Accessing and Managing Credit

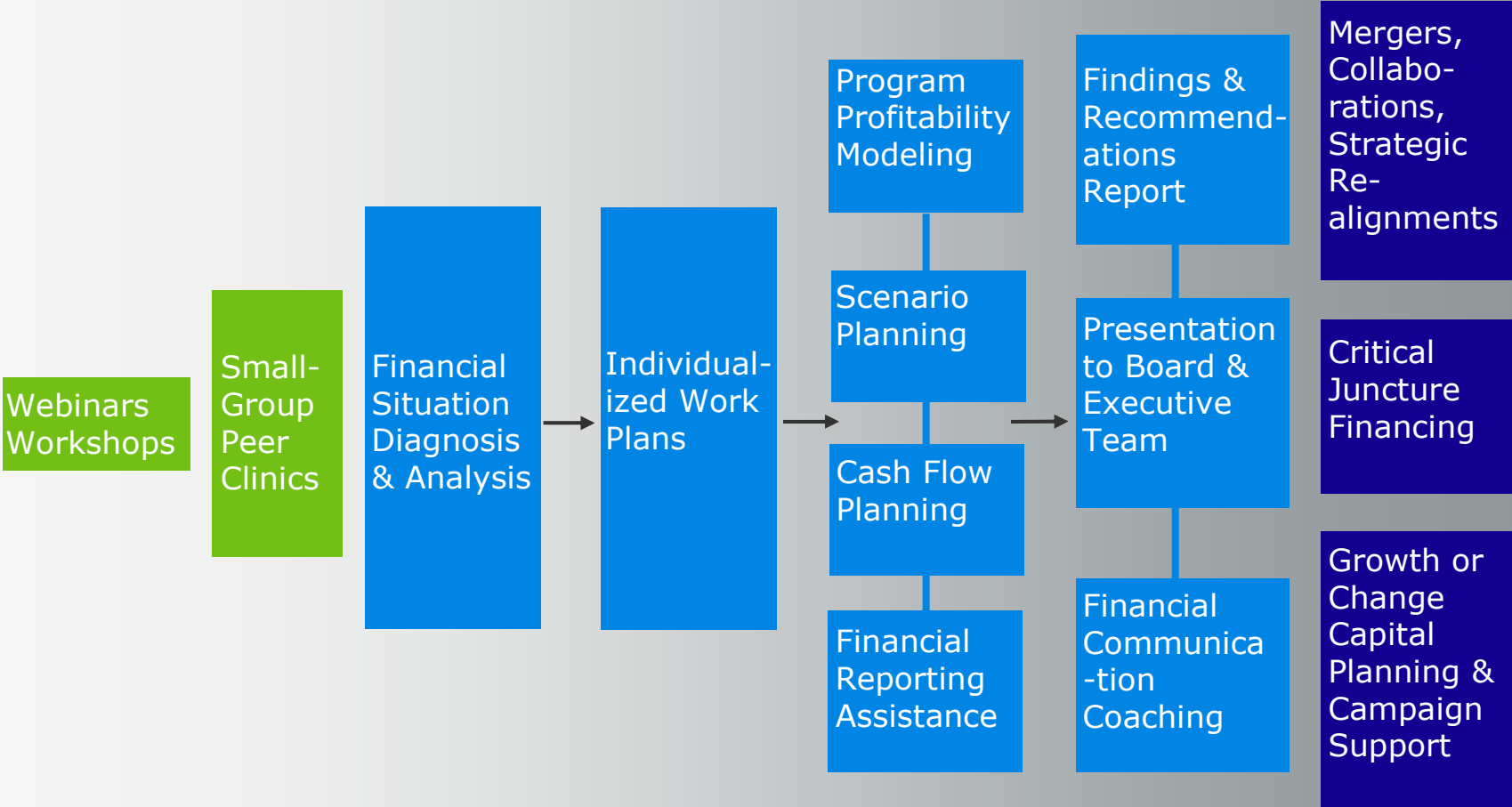
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# NFF: What We Do



<b>Financing</b>	<b>Financial Consulting</b>
Loans and Lines of Credit New Markets Tax Credits Program-Related Investment Services	Situation Analysis & NBAs Program Profitability Modeling Scenario Planning Financial Reporting Assistance Strategic Collaboration Planning Clinics and Workshops Growth Capital Services
<b>Long-Term Facility Management</b>	<b>Thought Leadership &amp; Partnership</b>
Systems Replacement Plans Building For the Future Facilities Planning Workshop	Nonprofit advocacy Studies of the nonprofit economy Tips and resources

# NFF's Package of Services: Tools for Tough Times



**Introductory Services**

**Core Financial Planning & Strategic Management Support**

**Long-term, Customized Engagements**

**Thank you!**

**To learn more about NFF:**

- **Visit** our website: [nonprofitfinancefund.org](http://nonprofitfinancefund.org)
- **Sign up** for news and updates through our website
- **Join us** on Twitter! [twitter.com/nff\\_new](https://twitter.com/nff_new)

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