

National Assembly of State Arts Agencies - 2008

Briefing Session Assessing the Fiscal Health of Grantees

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September 12, 2008



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NONPROFIT FINANCE FUND (NFF)

- **NFF connects nonprofit finance to nonprofit success**
- **Serving thousands of nonprofit and funder clients nationwide since 1980**
 - \$175 million in loans in support of over \$1 billion in projects
 - Over 500 customized financial consultations with the Nonprofit Business Analysis
 - Hundreds of strategic partnerships to advance the nonprofit sector
 - Thought-leadership to advance friendlier funding practices across the nonprofit sector
- **Experts in nonprofit finance**
 - Nearly 30 years of experience as a 501(c)(3) Community Development Financial Institution (CDFI)
- **Serving nonprofits nationwide from seven local offices**
 - Northeast: Boston, New York
 - Mid-Atlantic: Philadelphia, Washington, DC, **Newark, NJ**
 - Midwest: Detroit
 - West Coast: San Francisco

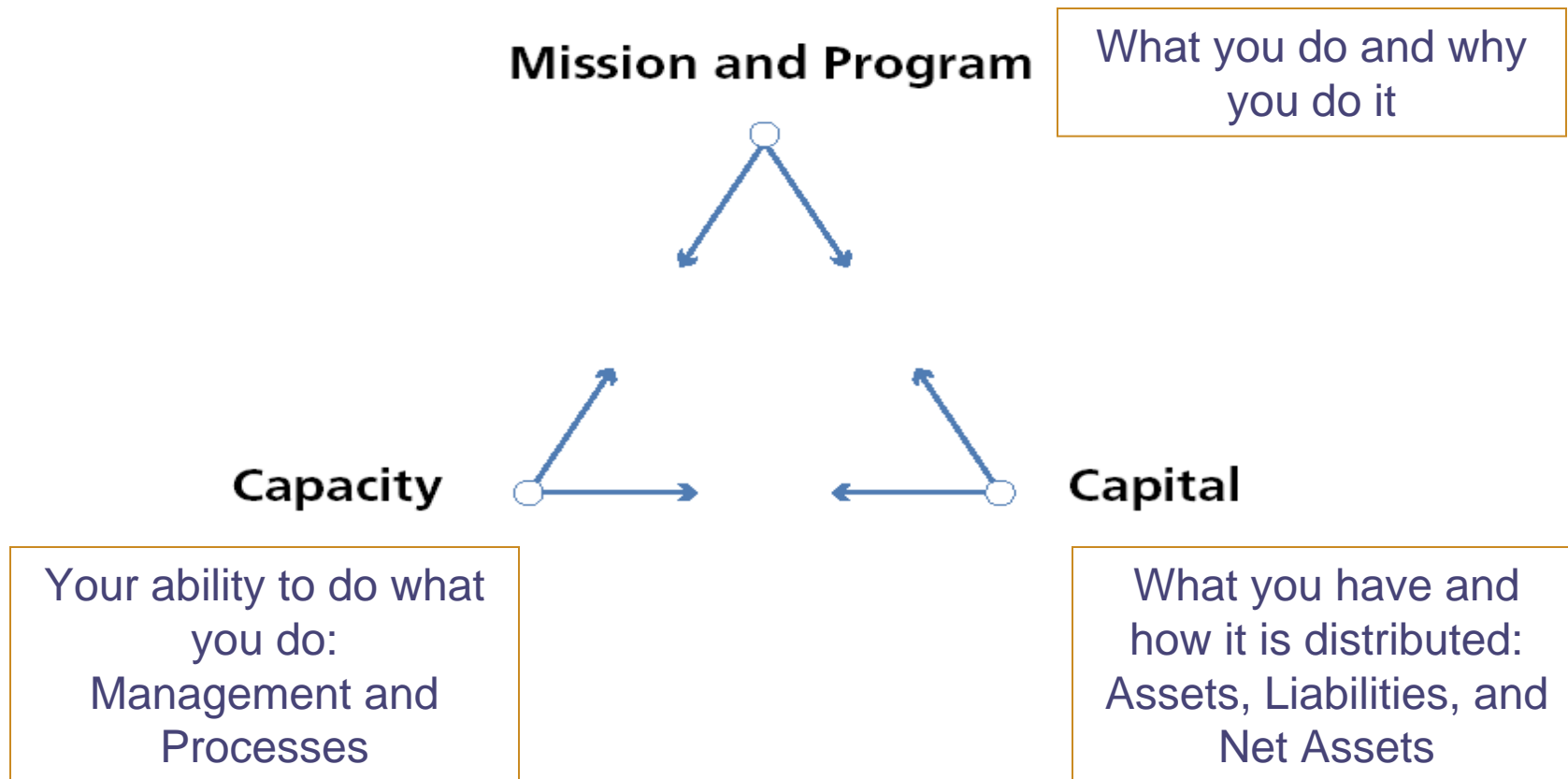


“We’re in the business of helping nonprofits run better.”

– Clara Miller, NFF President and CEO

THE TRIANGLE: A BALANCING ACT

Establishing and maintaining a balance among these three critical components is essential to an organization's long-term health and viability.



NONPROFIT BUSINESS ANALYSIS (NBA)

- **The Audit Review & Financial Summary helped to identify which groups could benefit from the NBA**
- **The NBA is a one-on-one consultation using a proprietary financial analysis tool. It provides:**
 - An in-depth examination of a nonprofit's financial strengths and weaknesses
 - A fresh, independent perspective to help organizations balance financial considerations with program goals
 - Clear visuals and helpful tips to help an organization better communicate its financial situation to stakeholders
- **Clients benefit from:**
 - One-on-one collaborative engagement with nonprofit financial experts
 - Clear and easy-to-use reports, illuminating a five-year financial picture
 - Trend analyses, charts and recommendations to communicate financial needs to stakeholders
 - Technical assistance to reinforce lessons from the NBA



ASSESSING FINANCIAL HEALTH

*How do this year's numbers compare with last year's?
What trends do you see? What are the anomalies?*

- 1. Profitability & Savings:** *Does the agency cover its costs? How large are surpluses/deficits relative to revenue? Is the agency saving? If so, is it enough?*
- 2. Revenue Dynamics:** *Where does the organization's money come from? Are they diversified; at risk? Do revenue streams appear reliable/consistent?*
- 3. Cost Dynamics:** *What levers does the agency have in its control to manage expenses? How hard is it to tighten the belt? Is management responsive to operating changes and prepared to make difficult decisions? Has the agency made all of the cuts that it can?*
- 4. Liquidity:** *Does the agency have enough cash to cover current obligations? How well are they managing receivables? Are they asking others to "pay the bills"?*
- 5. Long-Term Health of Balance Sheet:** *Is the distribution of assets appropriate, given the core business? Is the organization investing in its fixed assets? How "leveraged" are they? What is the composition of net assets? How much is unrestricted and liquid?*

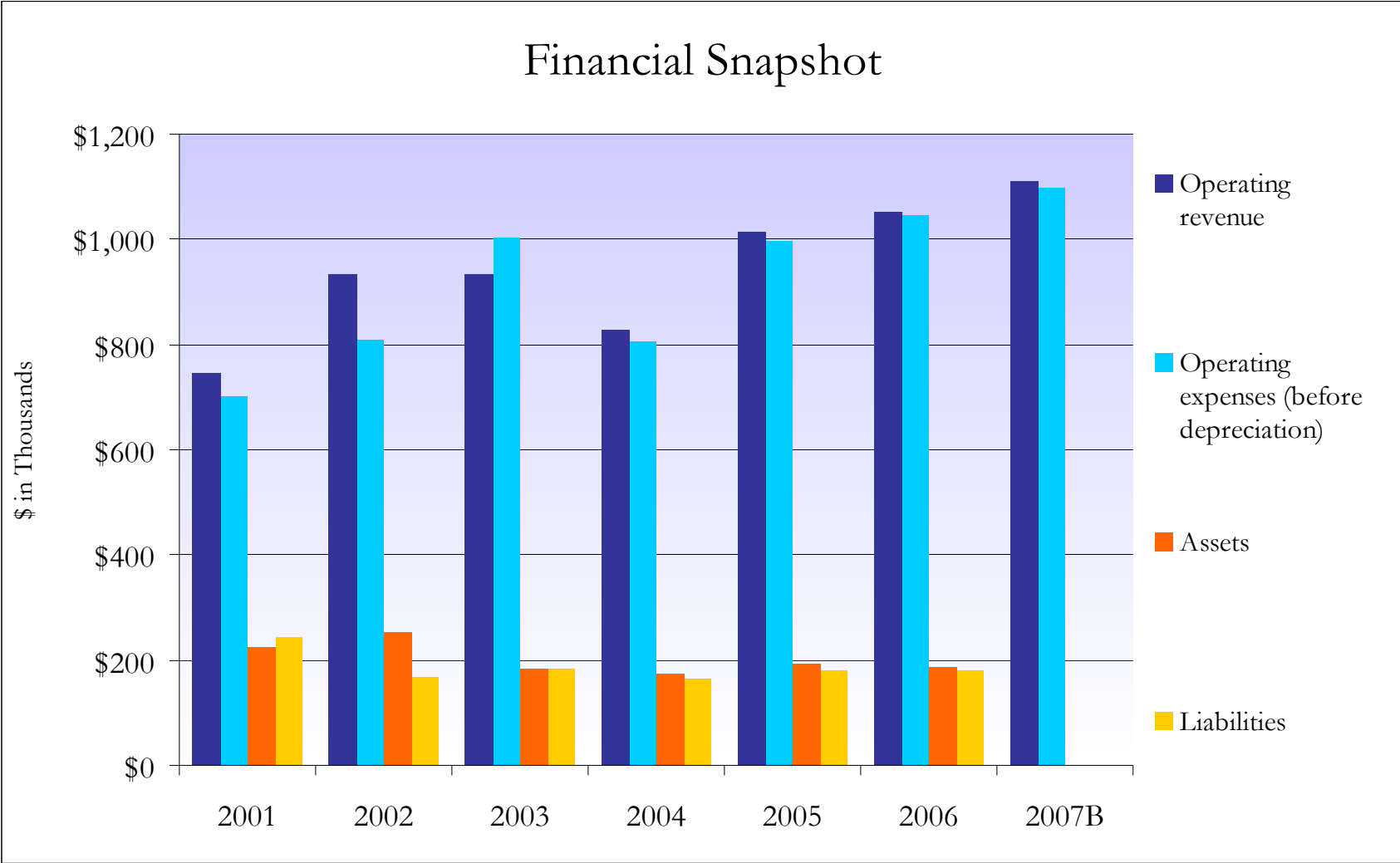


ARTS & CRAFTS SCHOOL

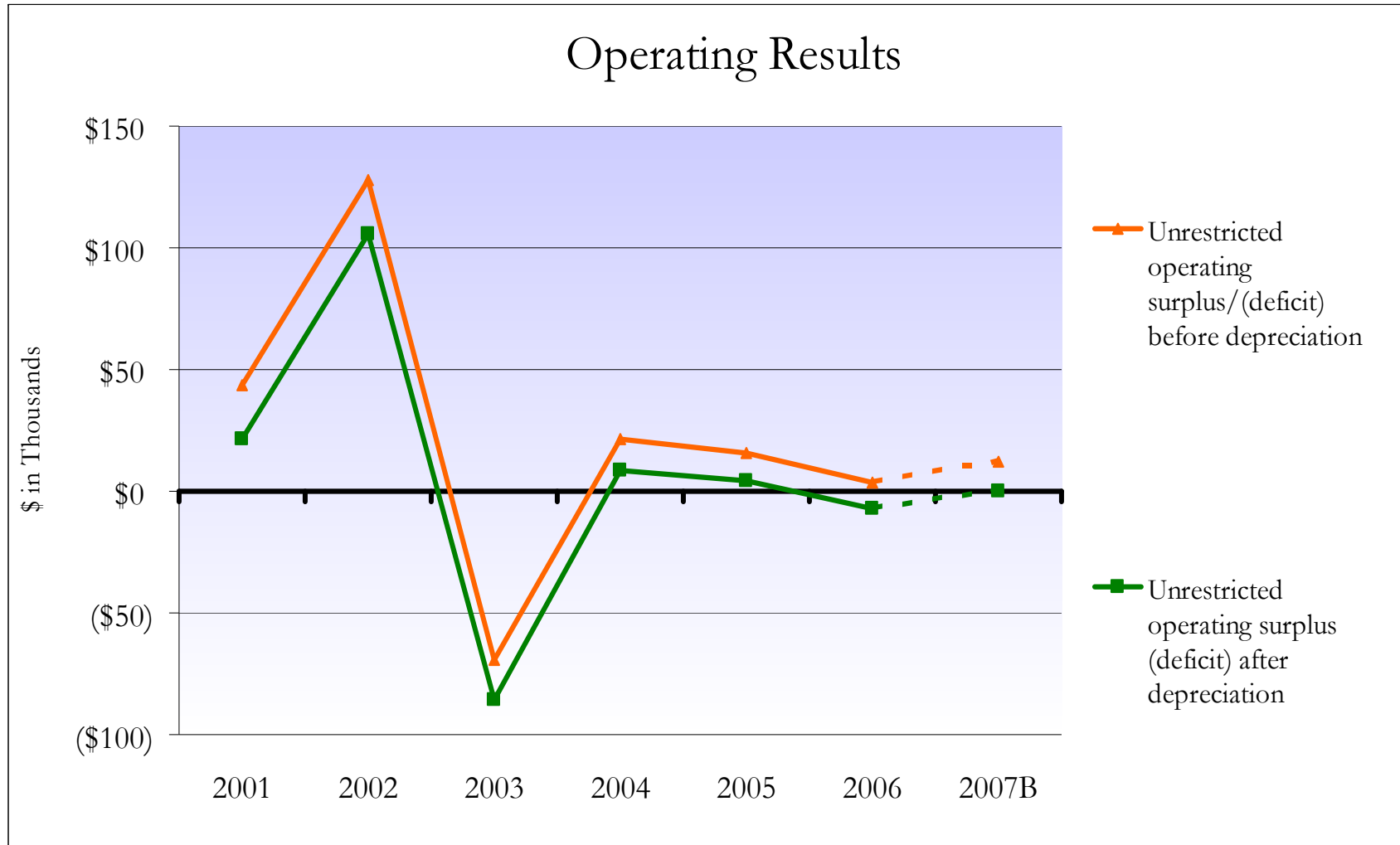
- Operating deficits in the past had completely eroded ACS's liquid net assets
- Recent modest operating surpluses helped to improve the organization's financial position, but they were not large enough to significantly increase cash reserves
- Responsibility for the upkeep of leased historic buildings consumed significant financial and human resources
- Lack of accurate financial data on programs limited management's ability to make sound business-based decisions



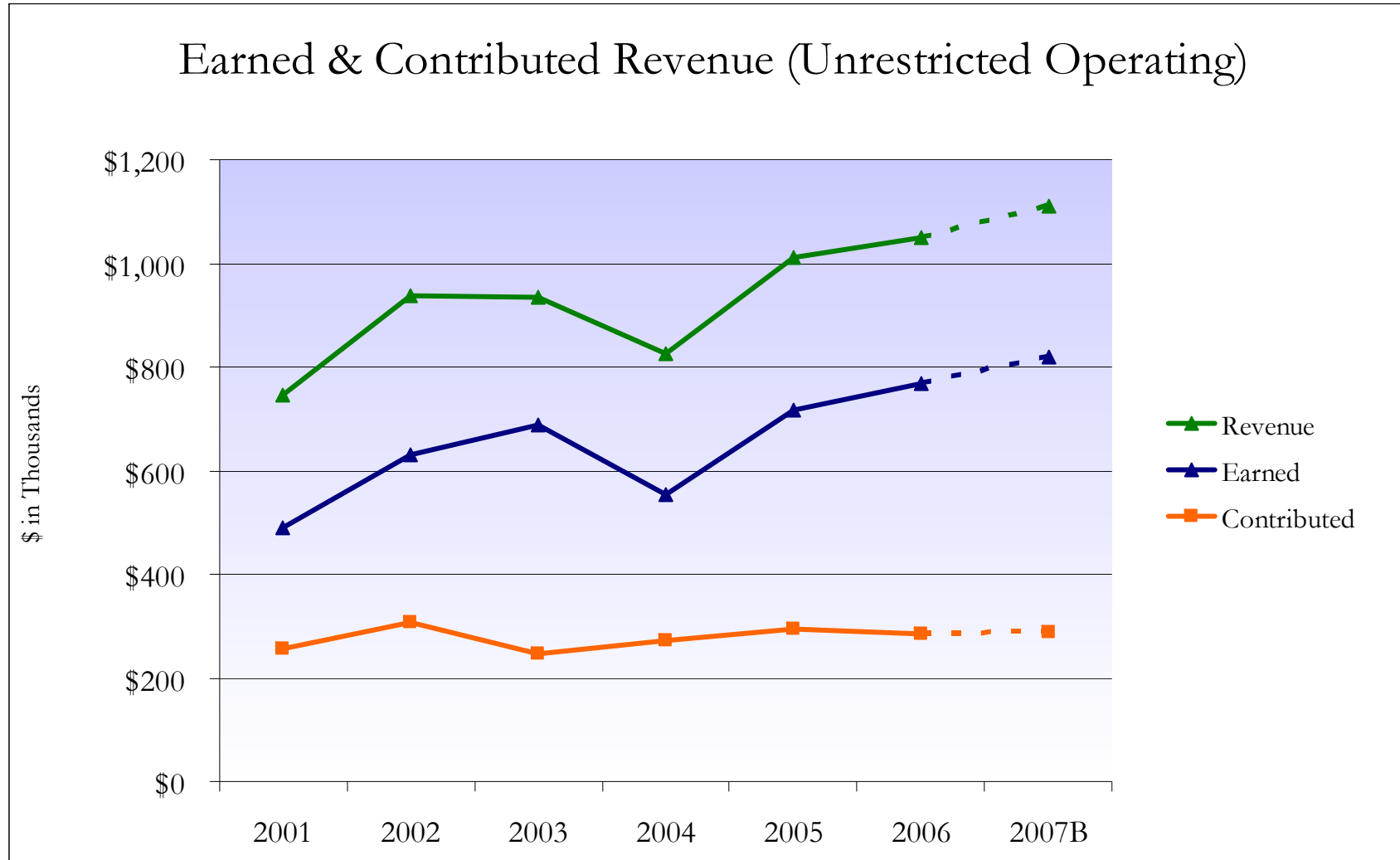
OVERVIEW – ARTS & CRAFTS SCHOOL



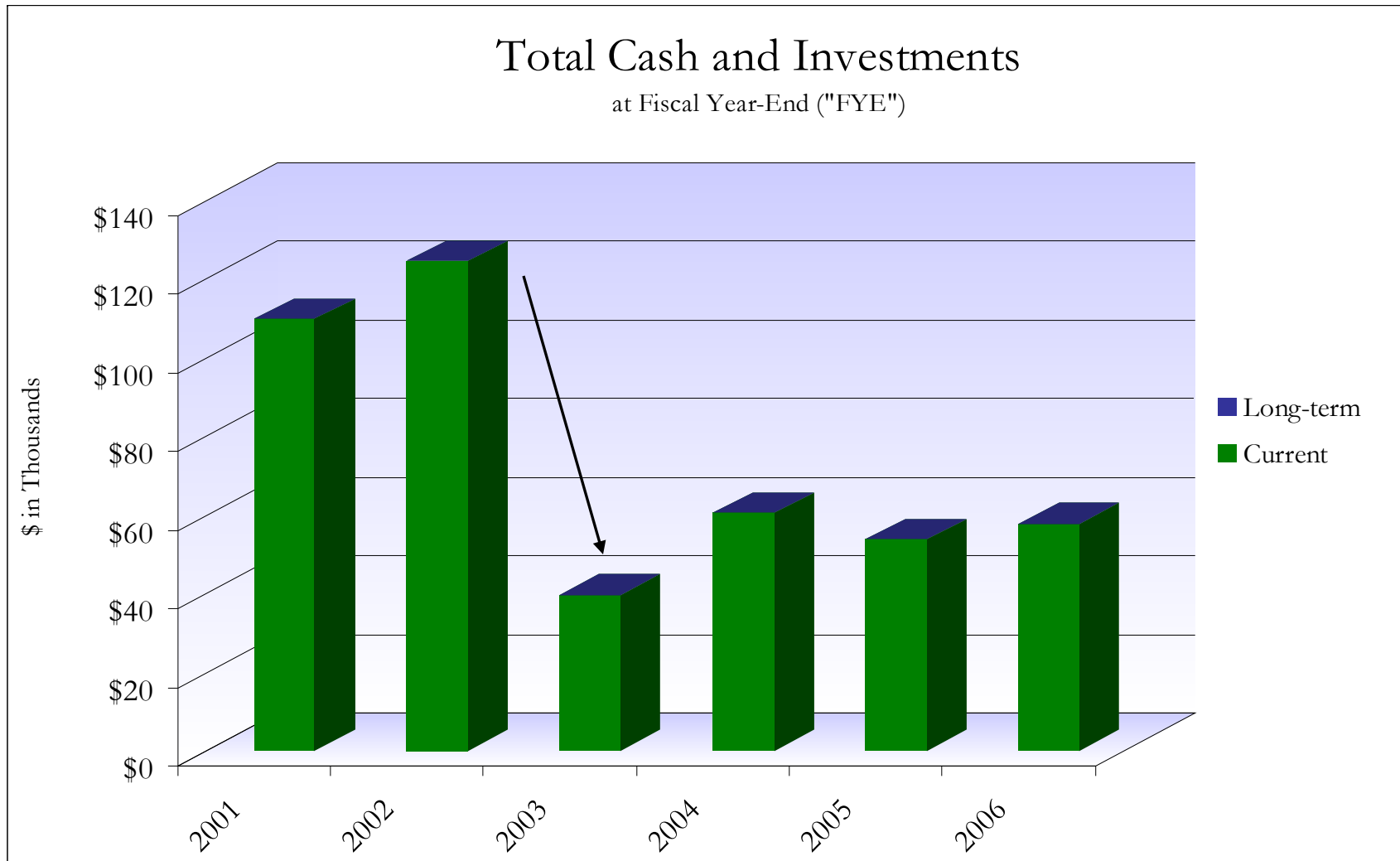
Revenue has just barely covered expenses (pre-depreciation) since 2004



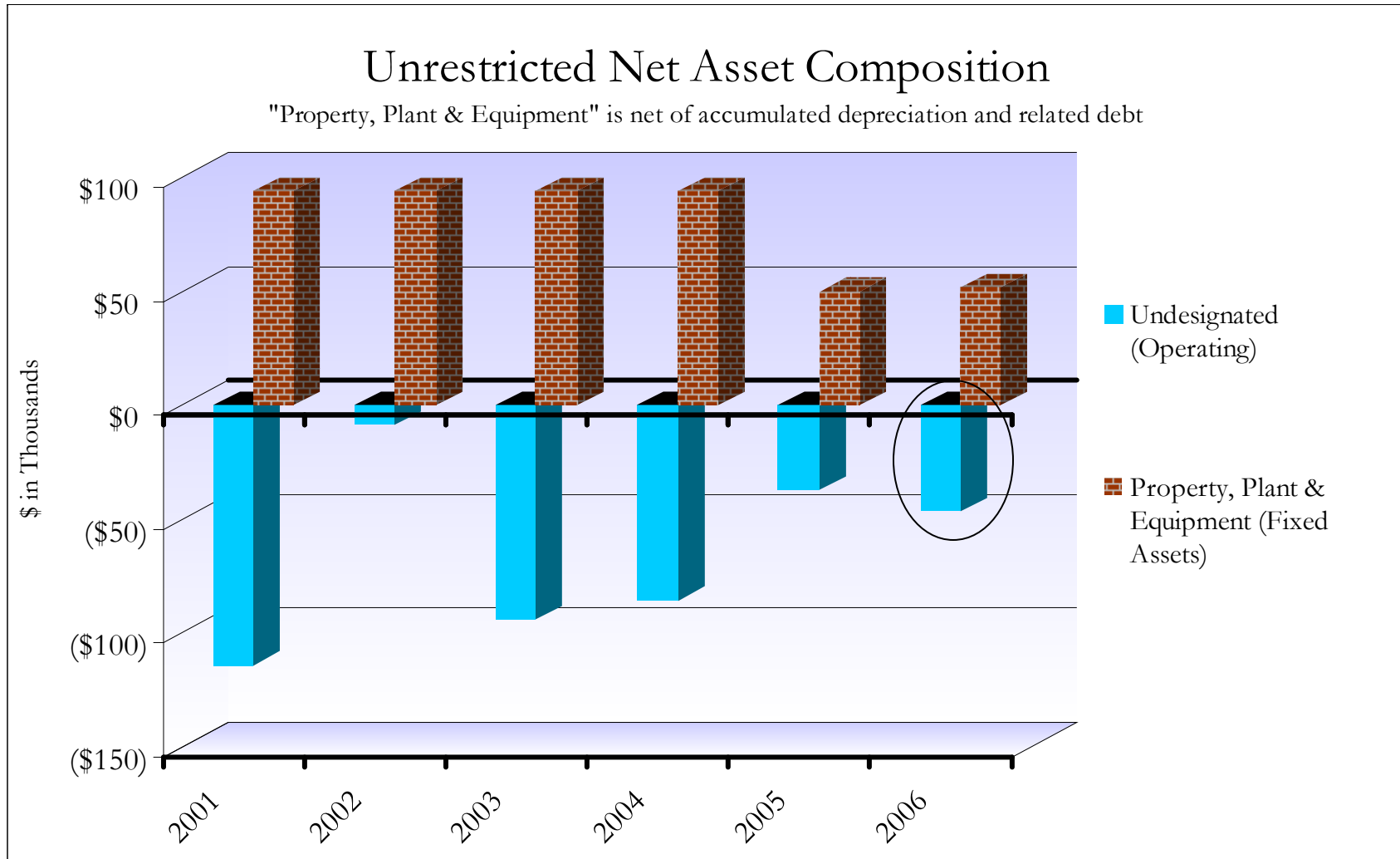
Total revenue is largely driven by earned revenue



Cash was used to fund the deficit in 2003 and has not been replenished



ACS has no cushion in terms of unrestricted liquid net assets



Note: The undesignated portion of unrestricted net assets represents net assets owned free and clear and available to management for operations. As represented here, all of ACS's unrestricted net assets are made up of Property, Plant, and Equipment.

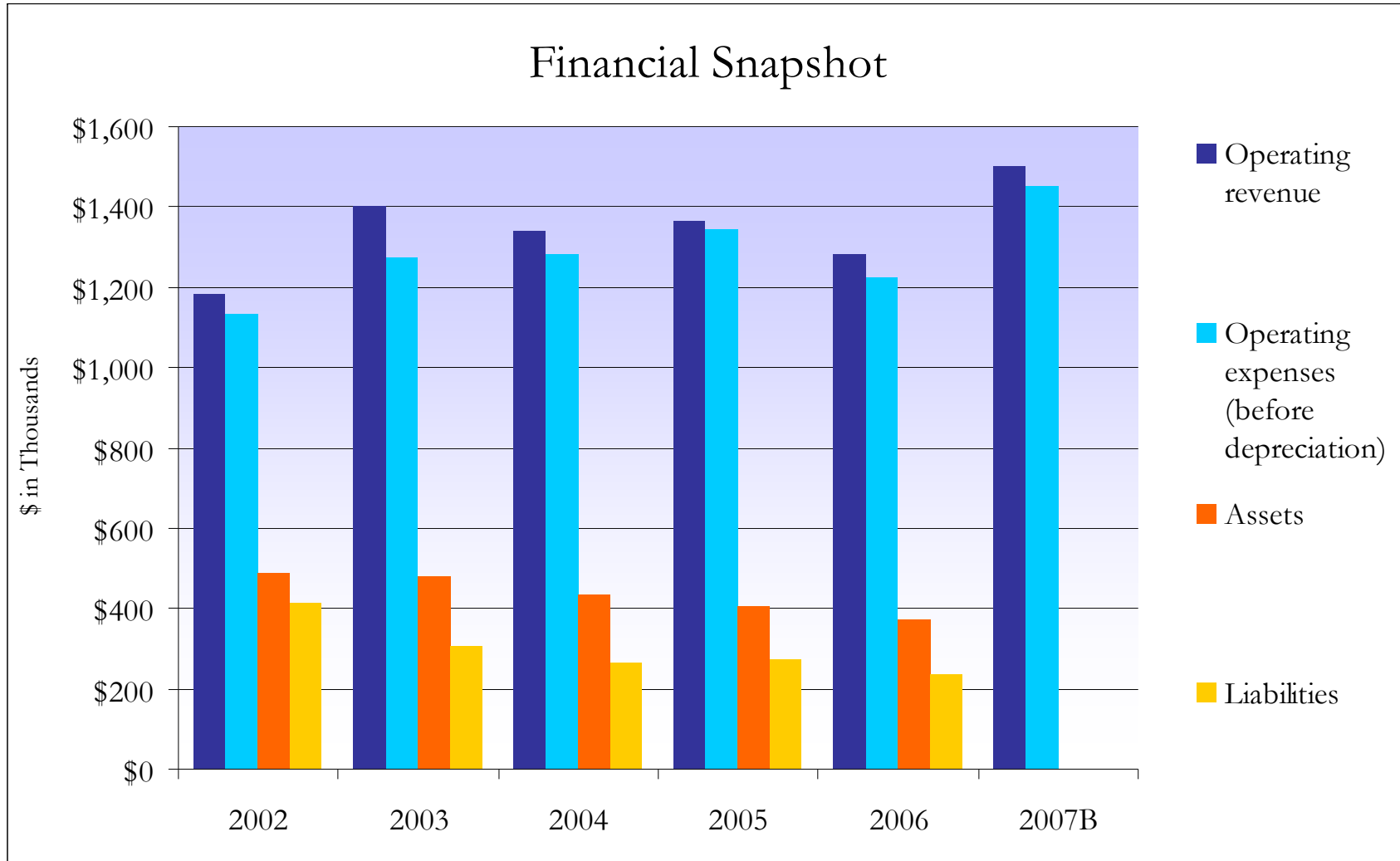


CLASSIC DANCE COMPANY

- CDC was generating small pre-depreciation operating surpluses each year. However, liquidity was extremely low
- Closer examination revealed that cash surpluses were being used to invest in fixed assets and pay down debt
- In addition, an old payroll tax liability had been carried on the books for at least 10 years and may have been a factor in the inability of the organization to attract and retain board members



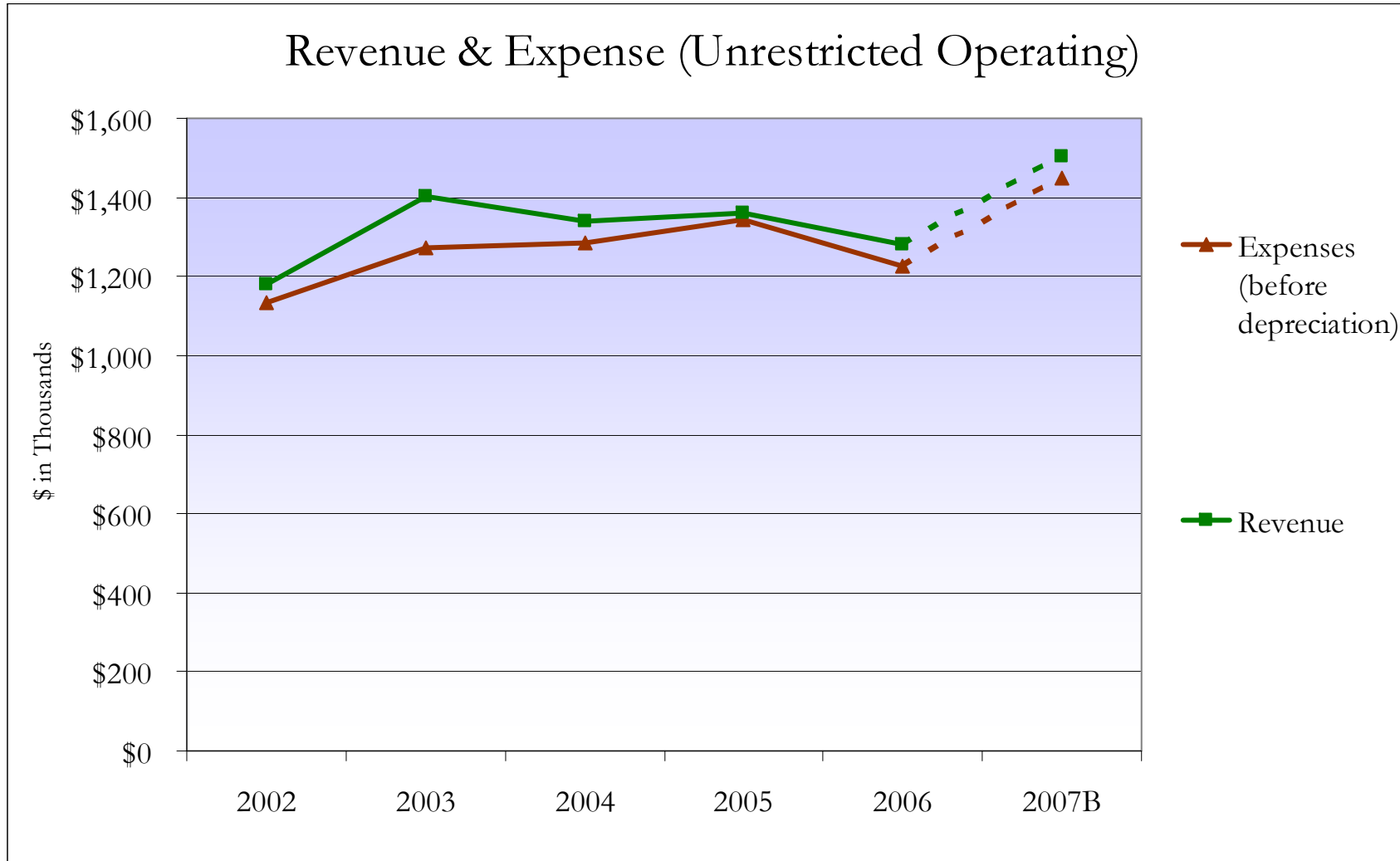
OVERVIEW – CLASSIC DANCE COMPANY



Note: Years in this document refer to fiscal years ended 06/31. 2007 is based on the budget and referred to in graphs as 2007B.



CDC KEPT EXPENSES CLOSELY ALIGNED WITH OPERATING REVENUE



OBSERVATIONS & NEXT STEPS: LIQUIDITY

Observation:

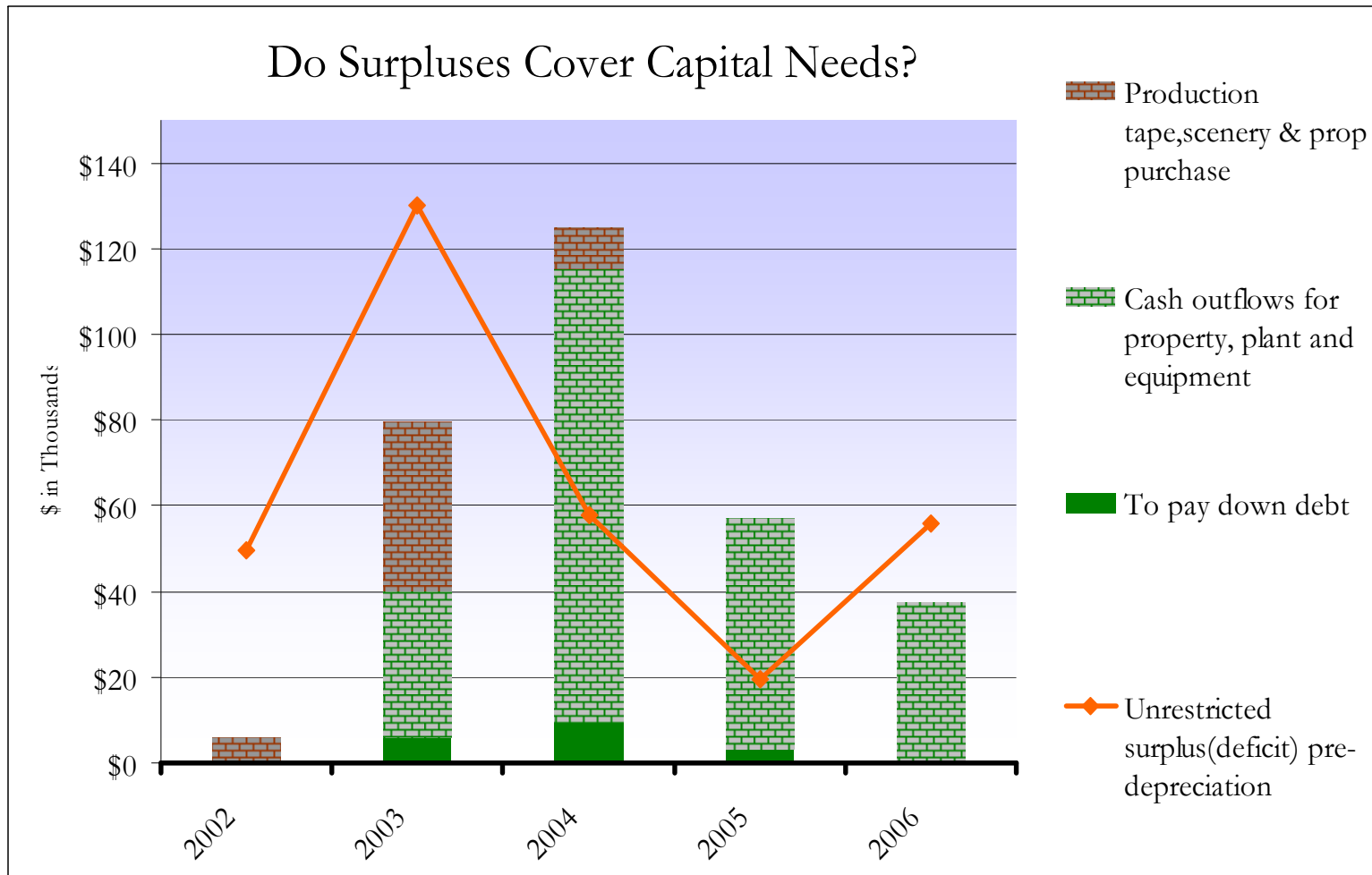
While Classic Dance Company has generated modest surpluses each year, it has used surplus cash to pay off debt associated with leasehold improvements and to pay for capital expenditures. As a result, it has not accumulated cash “savings” and has limited liquidity to provide as cushion for risk.

Next Step:

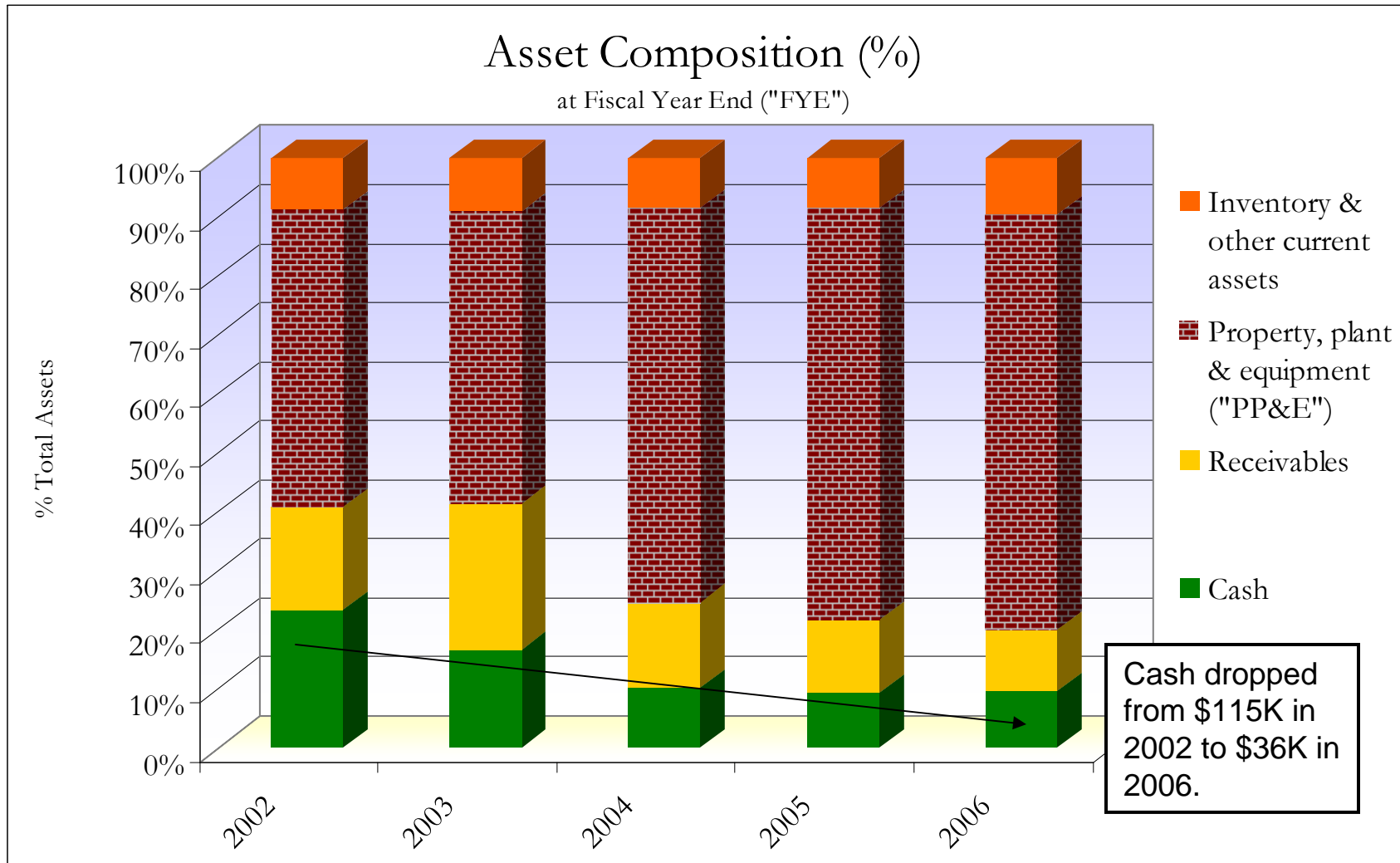
NFF encourages CDC to target (and manage to) annual operating surpluses **large enough** to cover its required annual investments in improvements, costumes, props and sets. Providing for such a cash outlay would require “saving” an additional \$58,000 per year. To generate one month of cash (that can serve as a source of working capital, buffer against “rainy days” and/or seed new opportunities) would require another \$100,000.



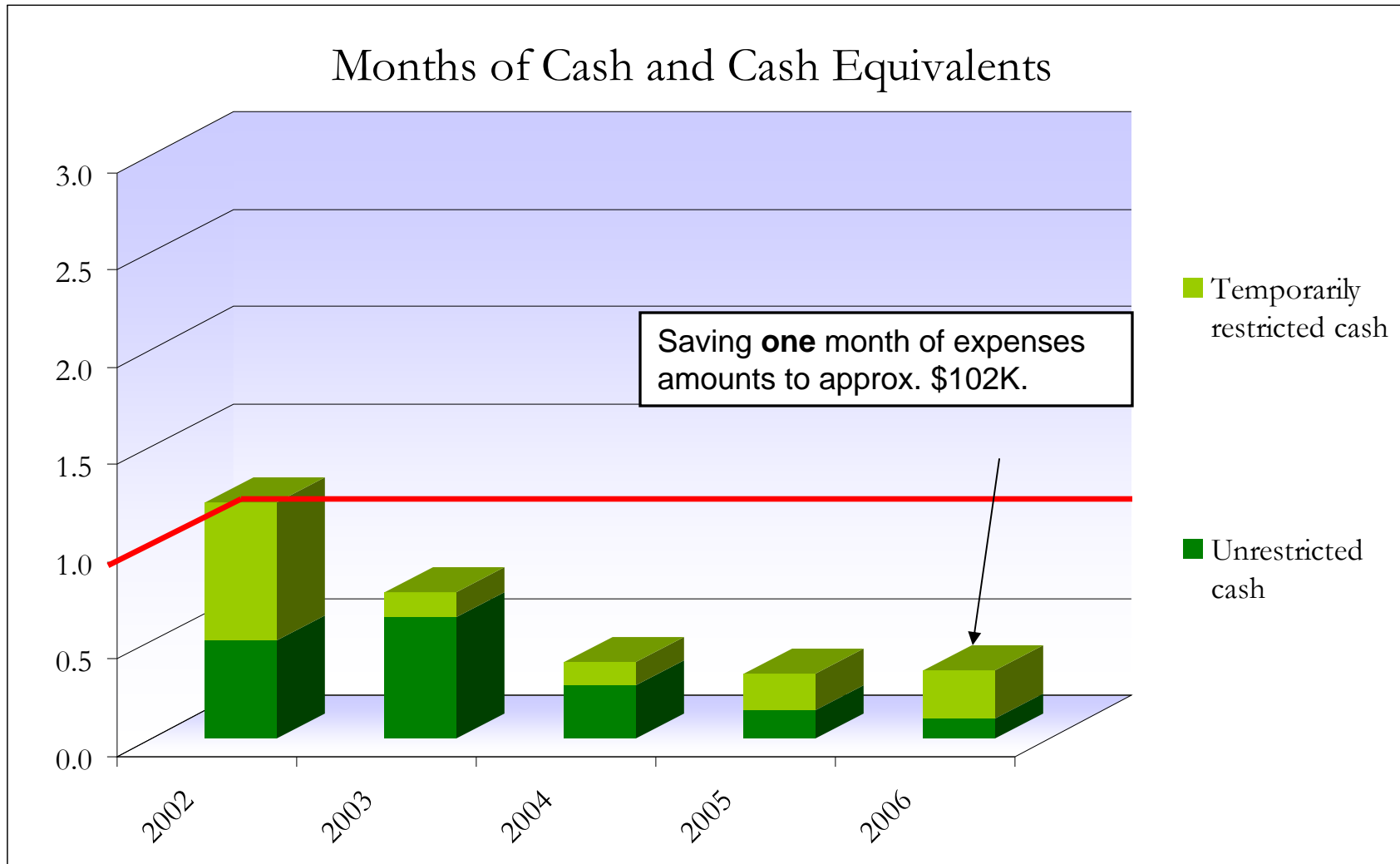
IN SOME YEARS THE CASH OUTLAY TOWARDS DEBT REPAYMENT & CAPITAL EXPENDITURES EXCEEDED TOTAL SURPLUSES GENERATED



CASH AT FISCAL YEAR END HAS BEEN LIMITED DUE TO THE INVESTMENT OF SURPLUSES IN FIXED ASSETS



CASH AT EACH FISCAL YEAR END HAS BEEN SUFFICIENT TO COVER < 2 WEEKS' EXPENSES; NFF RECOMMENDS 1-3 MONTHS OF CASH

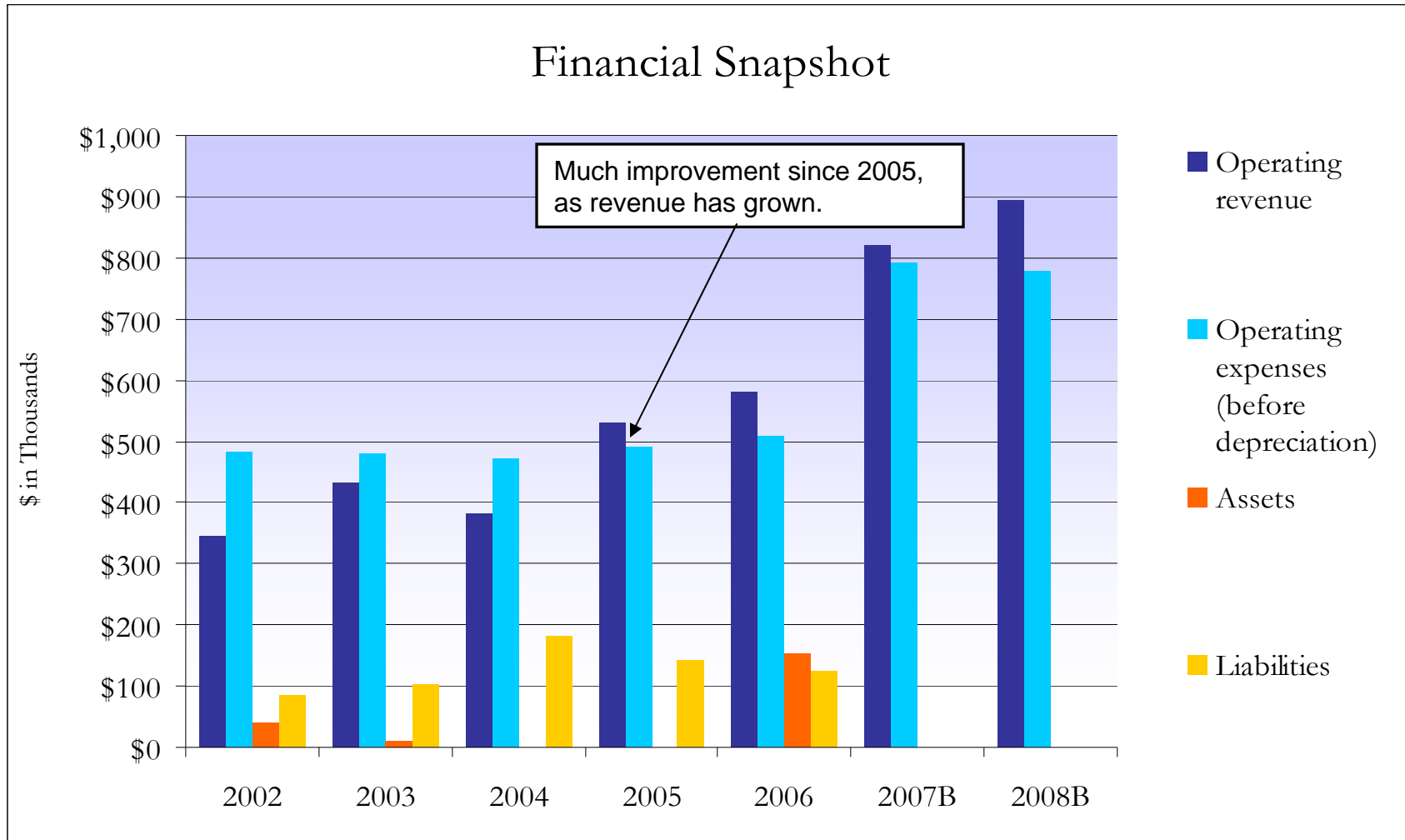


SMALLTOWN SYMPHONY

- Smalltown Symphony (SS) had virtually no assets in 2004 and 2005 after at least 3 years of deficit operations
- By stabilizing expenses and following a new model of fee-for-service concerts (vs. ticket sales), SS began to generate surpluses starting in 2005
- However, NFF discovered that 3 SS senior staff were working full-time hours for part-time pay and the Music Director was spending significant time seeking endowment contributions
- Recommendations included developing a realistic budget reflecting true staff salary needs and a de-emphasis on endowment gifts in favor of unrestricted donations



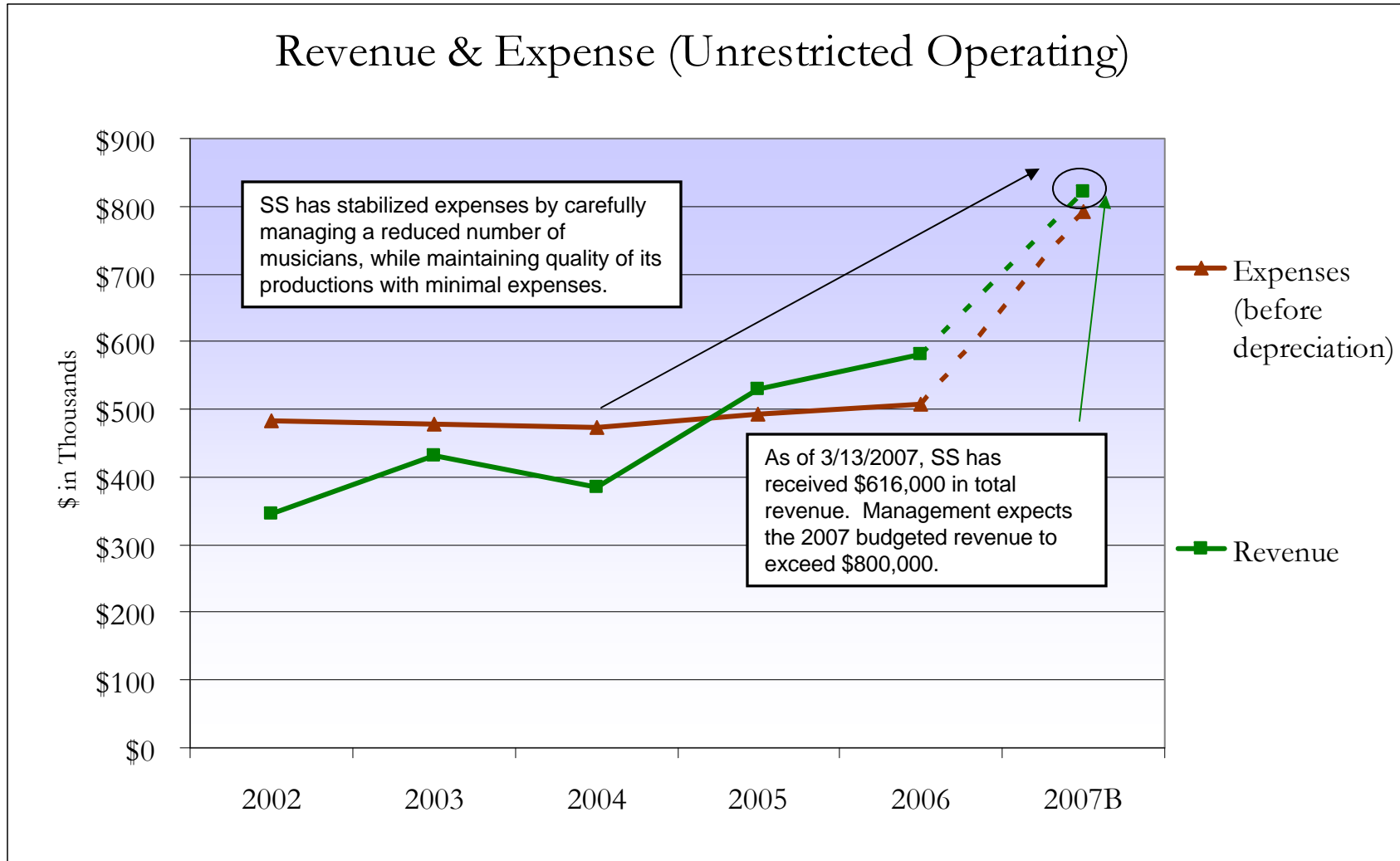
OVERVIEW – SMALLTOWN SYMPHONY



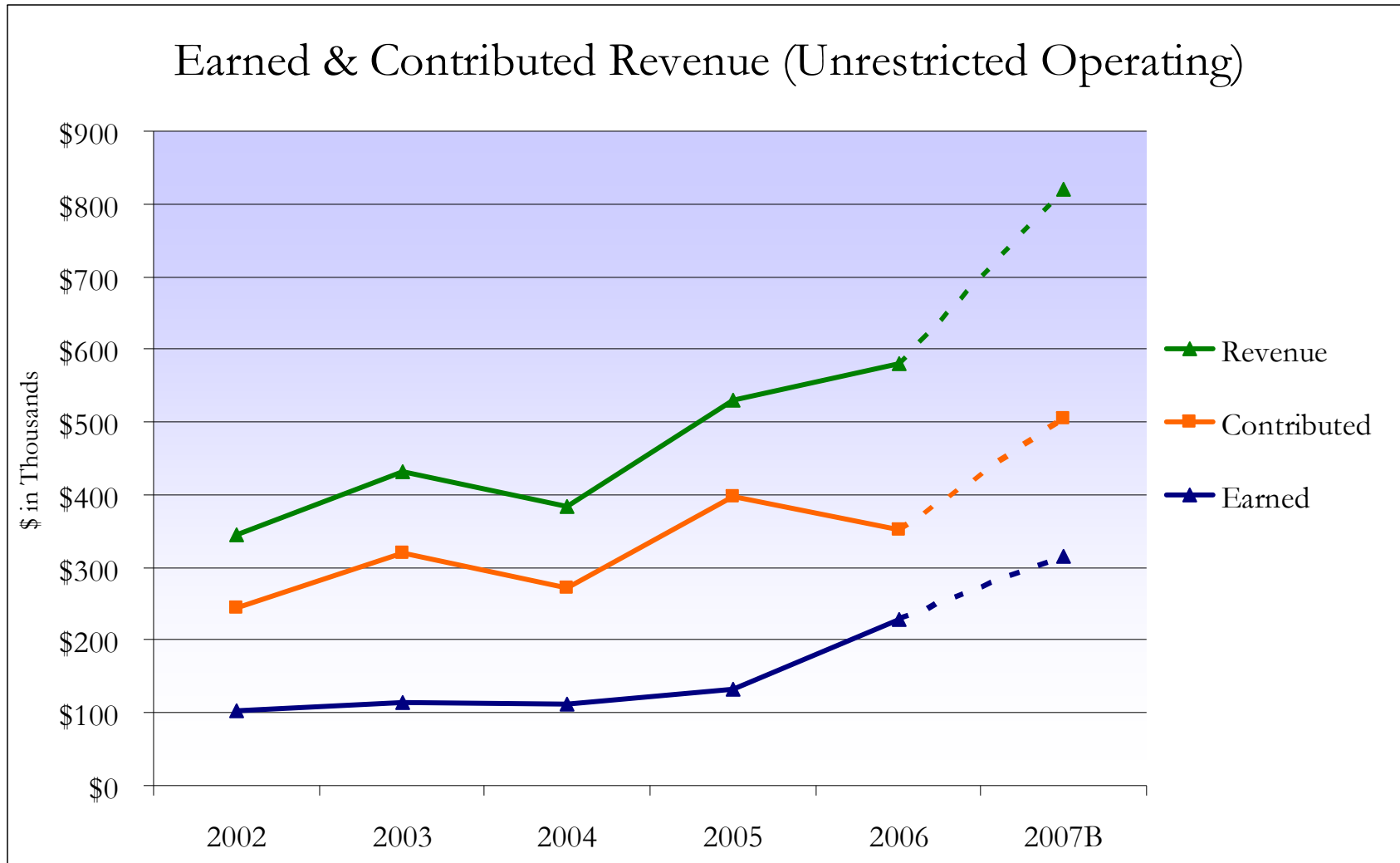
Note: Years in this document refer to Fiscal Years, which end 6/30. 2007 and 2008 data is based on the budget prepared by management and referred to in graphs as 2007B and 2008B.



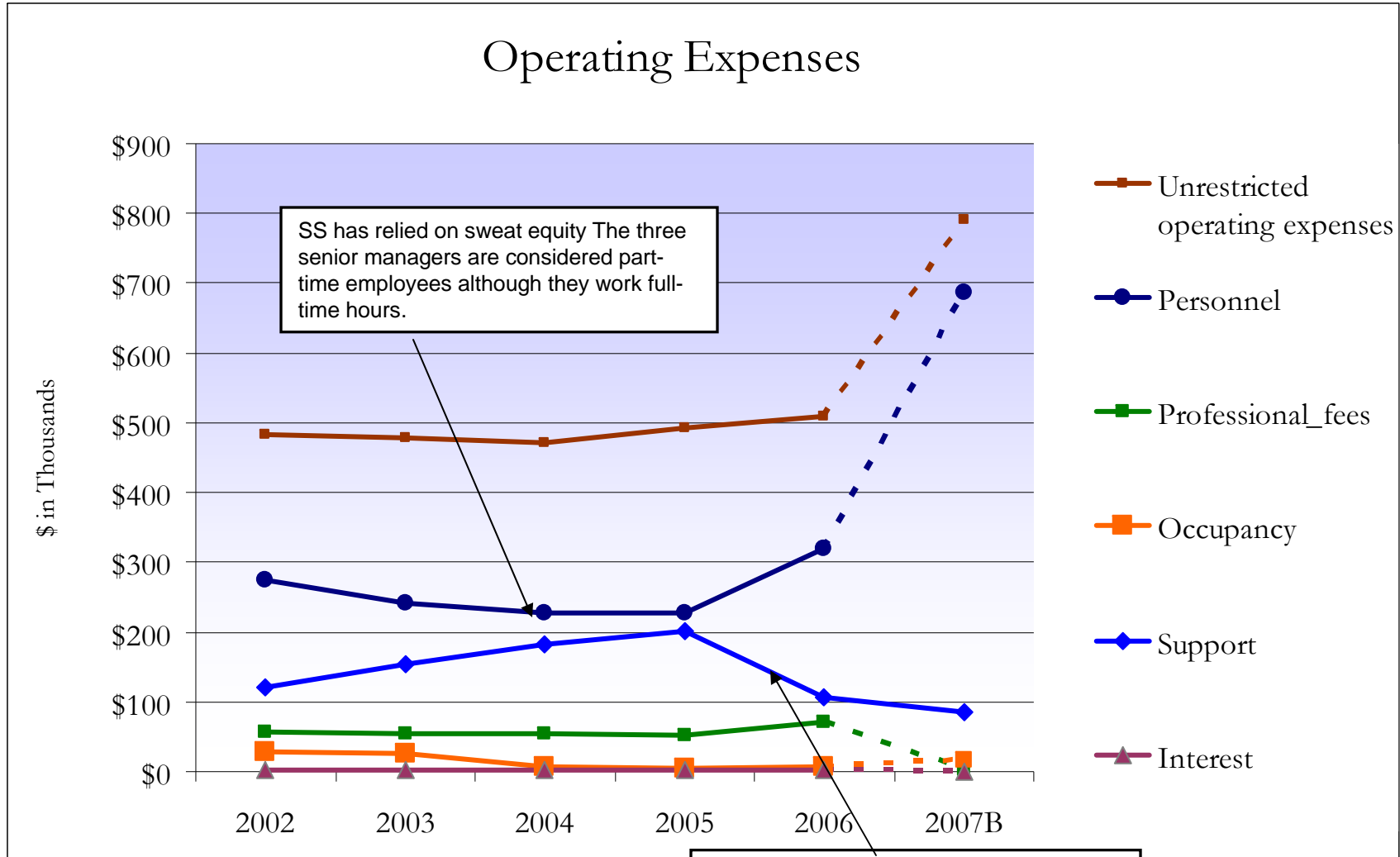
Operating revenue has grown by more than 25 % each year between 2004 and 2006.



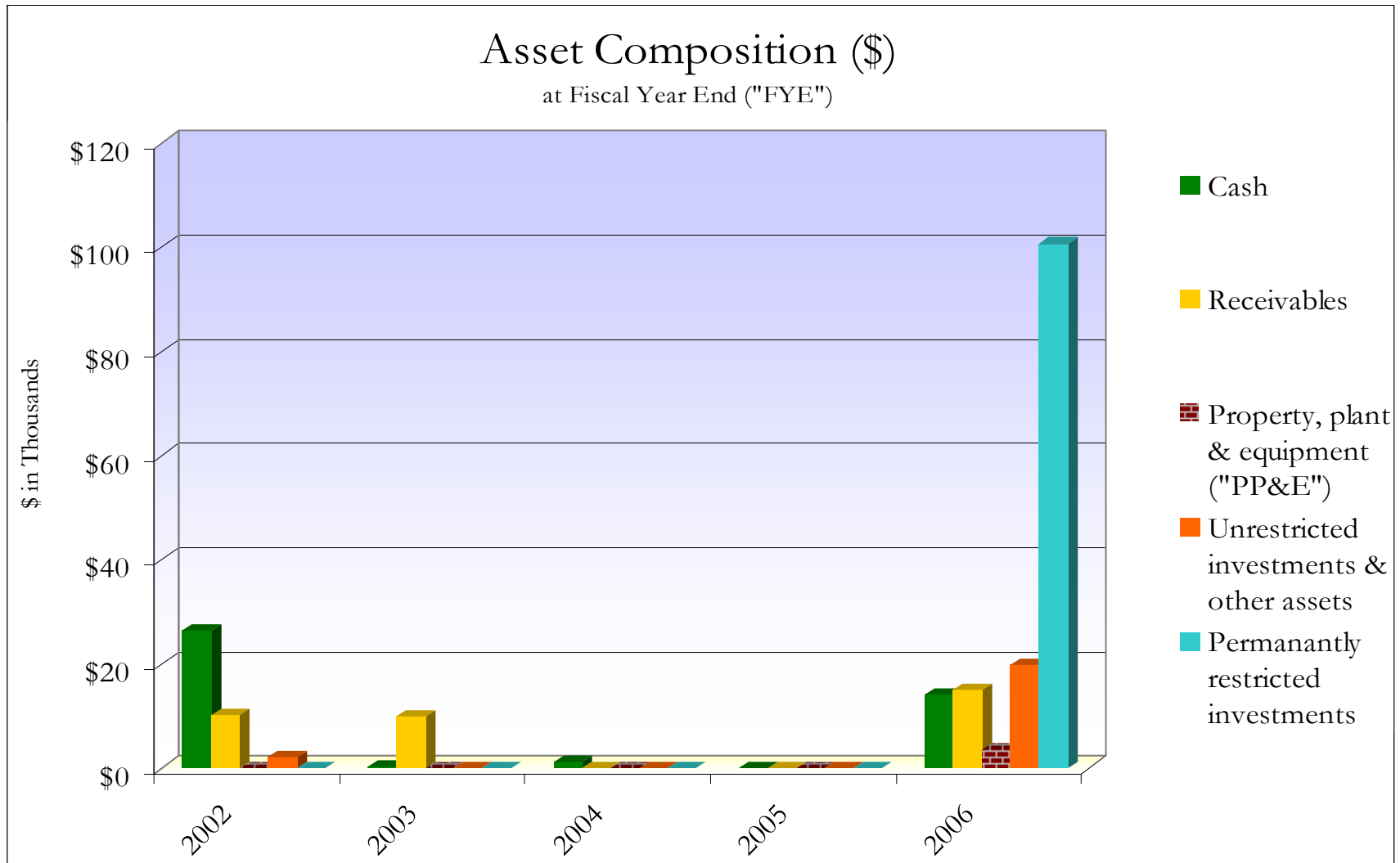
Earned income consisting of ticket sales and concert fees has jumped in the last two years



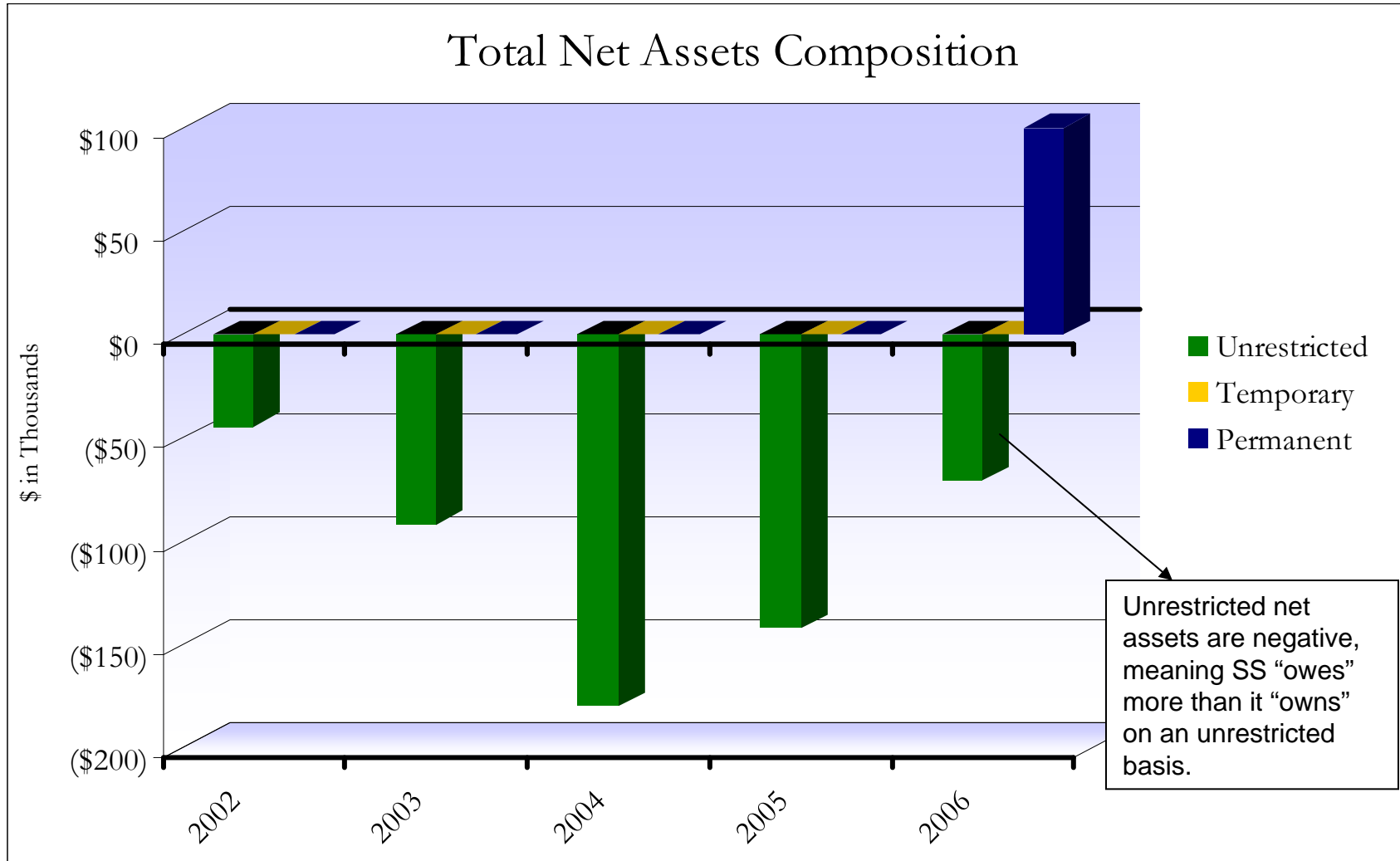
Careful management resulted in relatively flat expenses from 2002 to 2006



SS asset base was minimal until 2006; the endowment of \$100,000 received in 2006 now dominates the balance sheet.



For Smalltown Symphony, unrestricted net assets represent the true reserve the organization has.

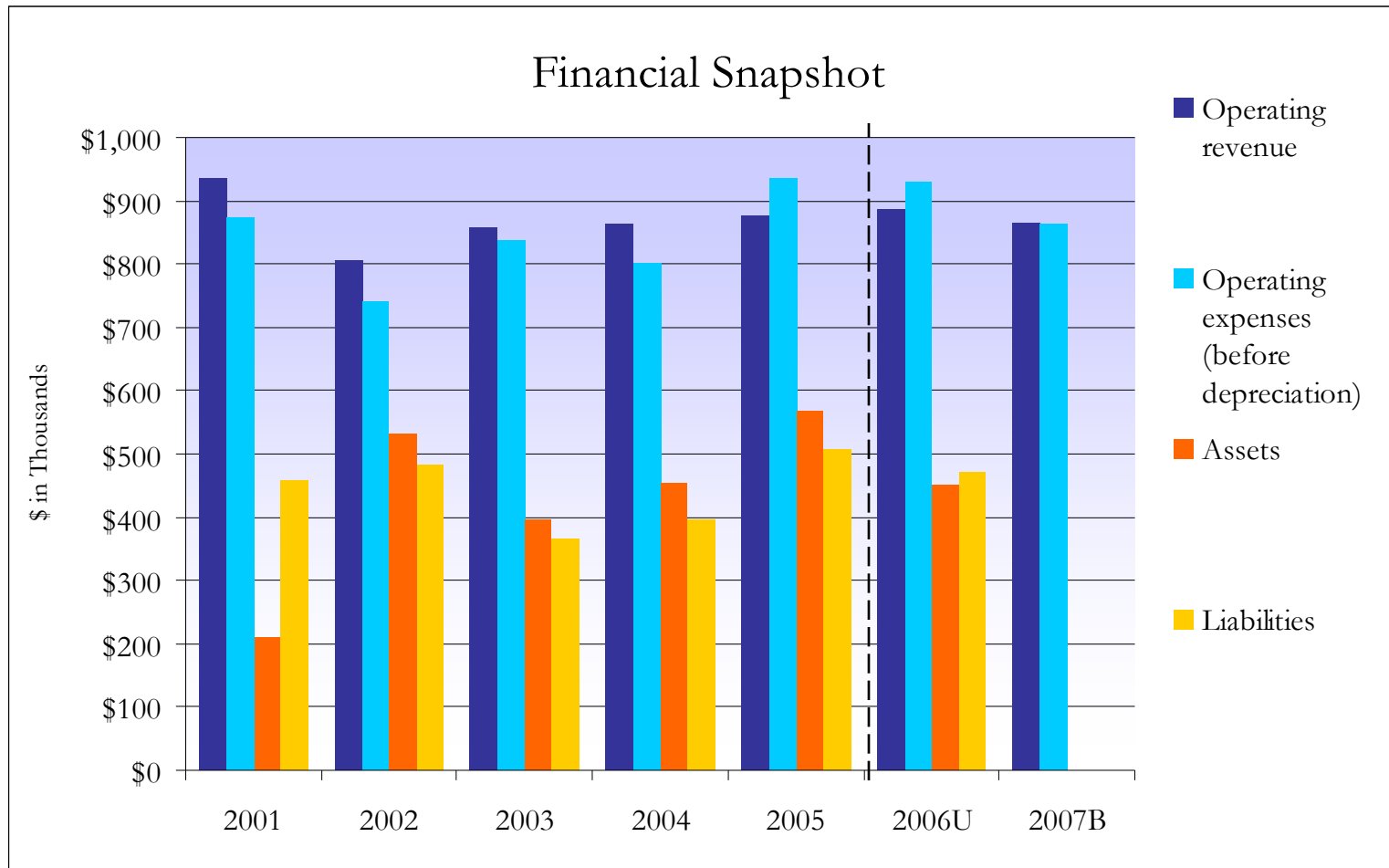


MUSICAL THEATRE COMPANY

- MTC depended heavily on earned revenue to finance its operations, but subscriptions were decreasing
- The historic building that MTC occupied consumed a significant amount of financial resources. In addition, financial statements may have combined operating and capital revenue, obscuring the theatre's true operating performance
- Subscription dollars for next year were used to fund current year expenses
- Recommendations included the urgent need to produce accurate, timely financial statements and generate operating surpluses in order to build reserves and return to financial health



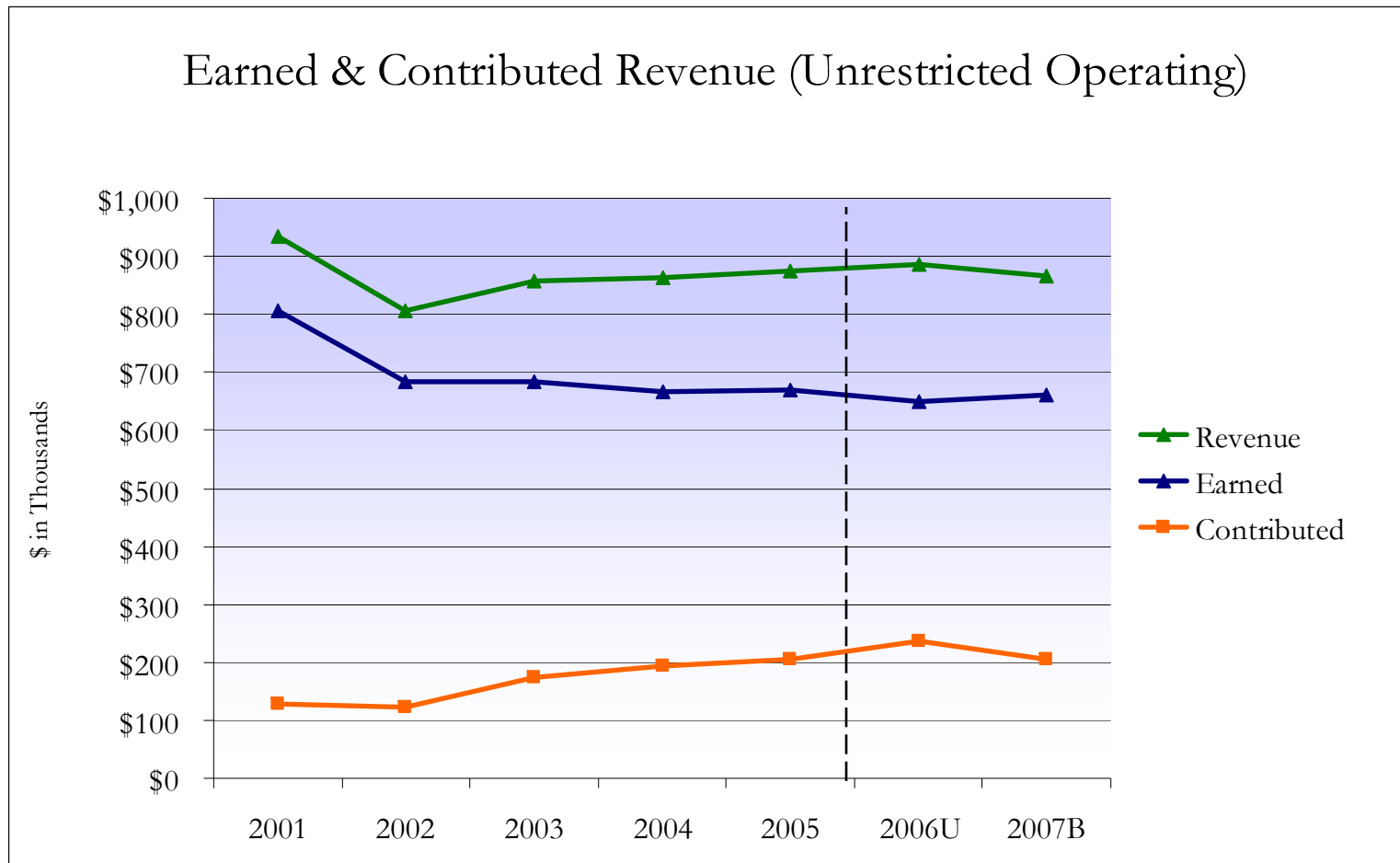
OVERVIEW – MUSICAL THEATRE COMPANY



Note: Years in this document refer to Fiscal Years, which end 12/31. 2006 data is unaudited and is referred to in graphs as 2006U. 2007 data represents the budget for that year and is referred to in graphs as 2007B. 2007B does not include assets and liabilities.

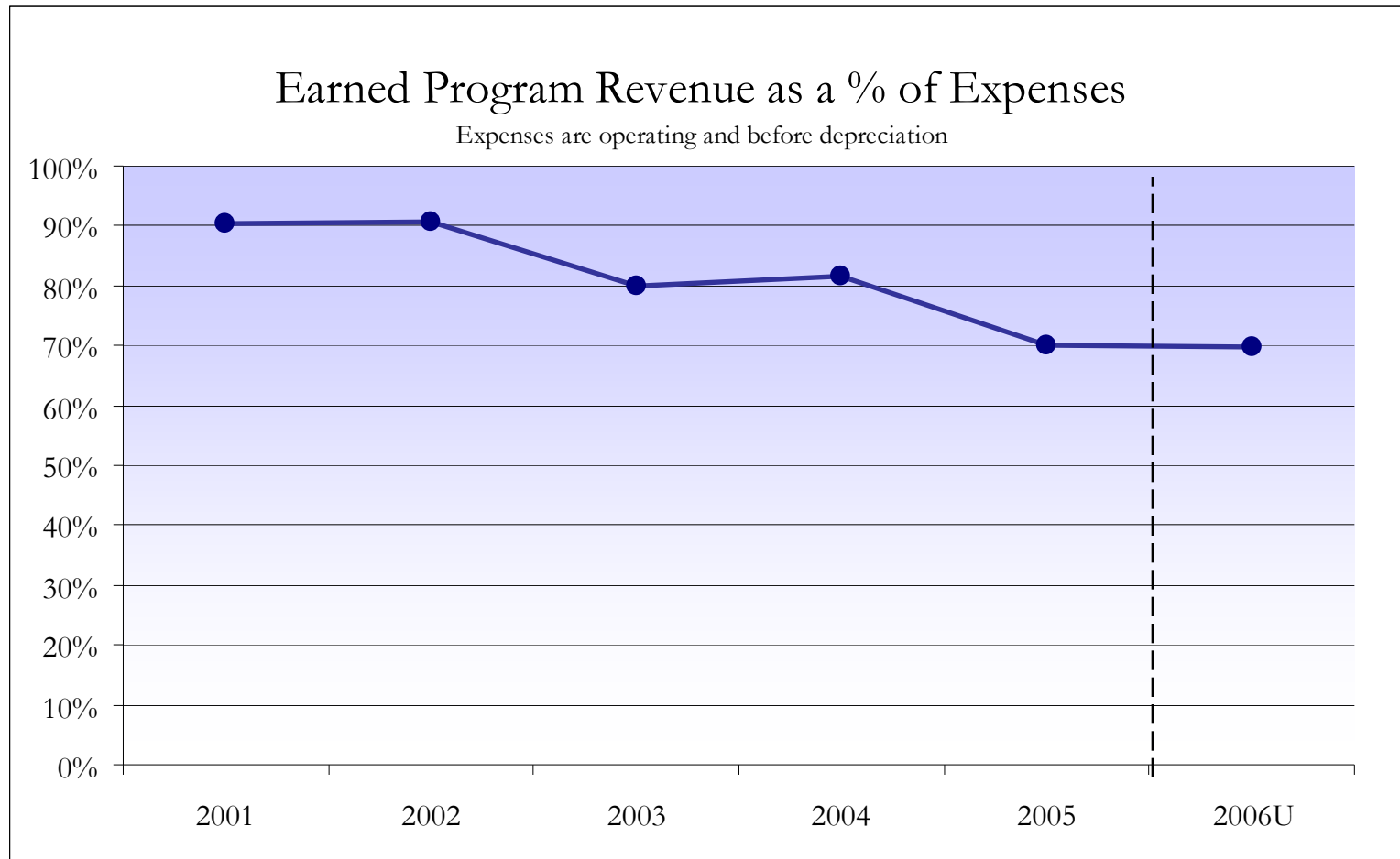


Earned revenue from theatre operations is the primary source of the organization's unrestricted operating revenue



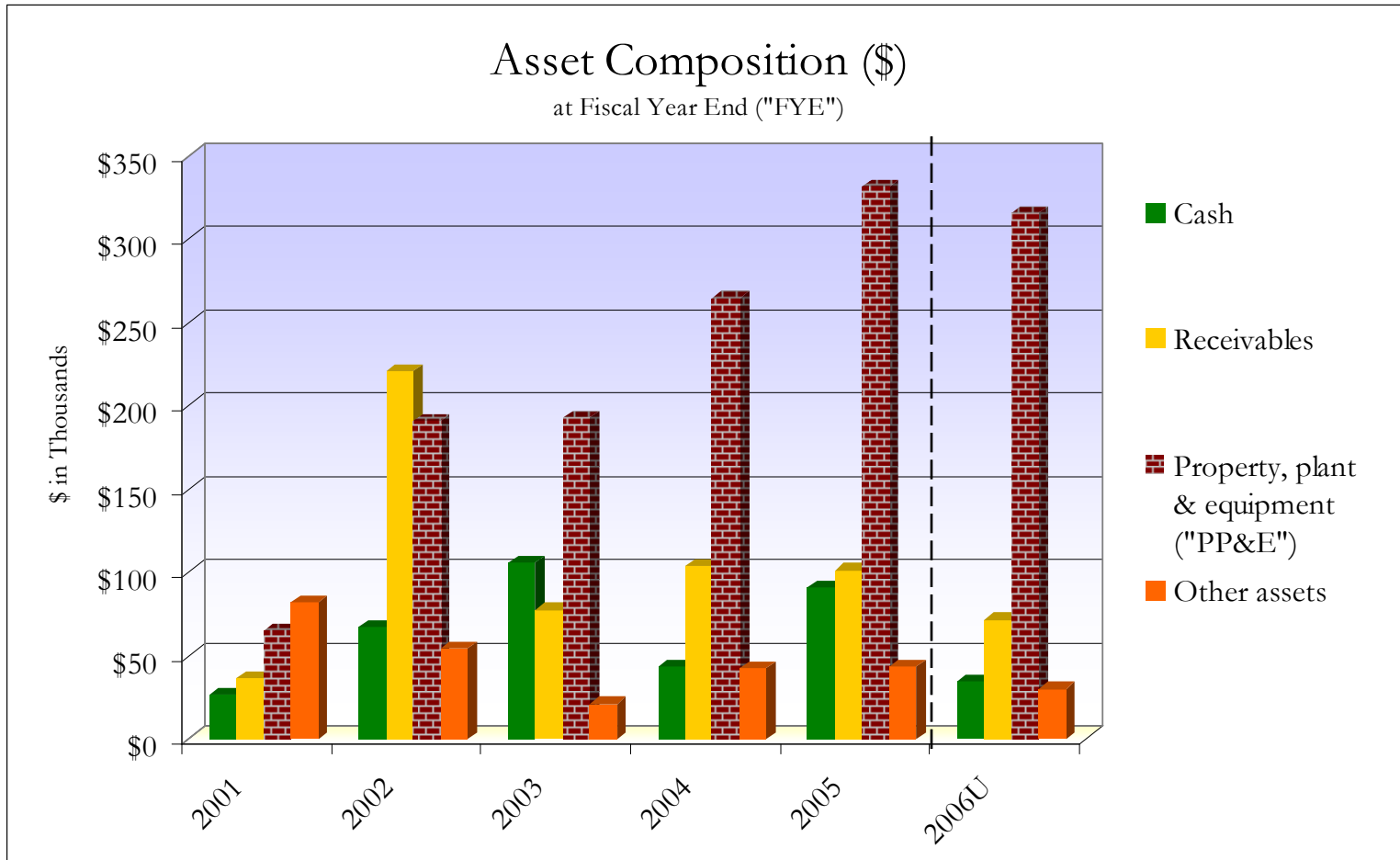
Earned revenue also includes revenue derived from a summer camp and children's programs

While earned revenue covered 90% of expenses in 2001, coverage has declined to only 70%, thereby increasing the need for contributed revenue



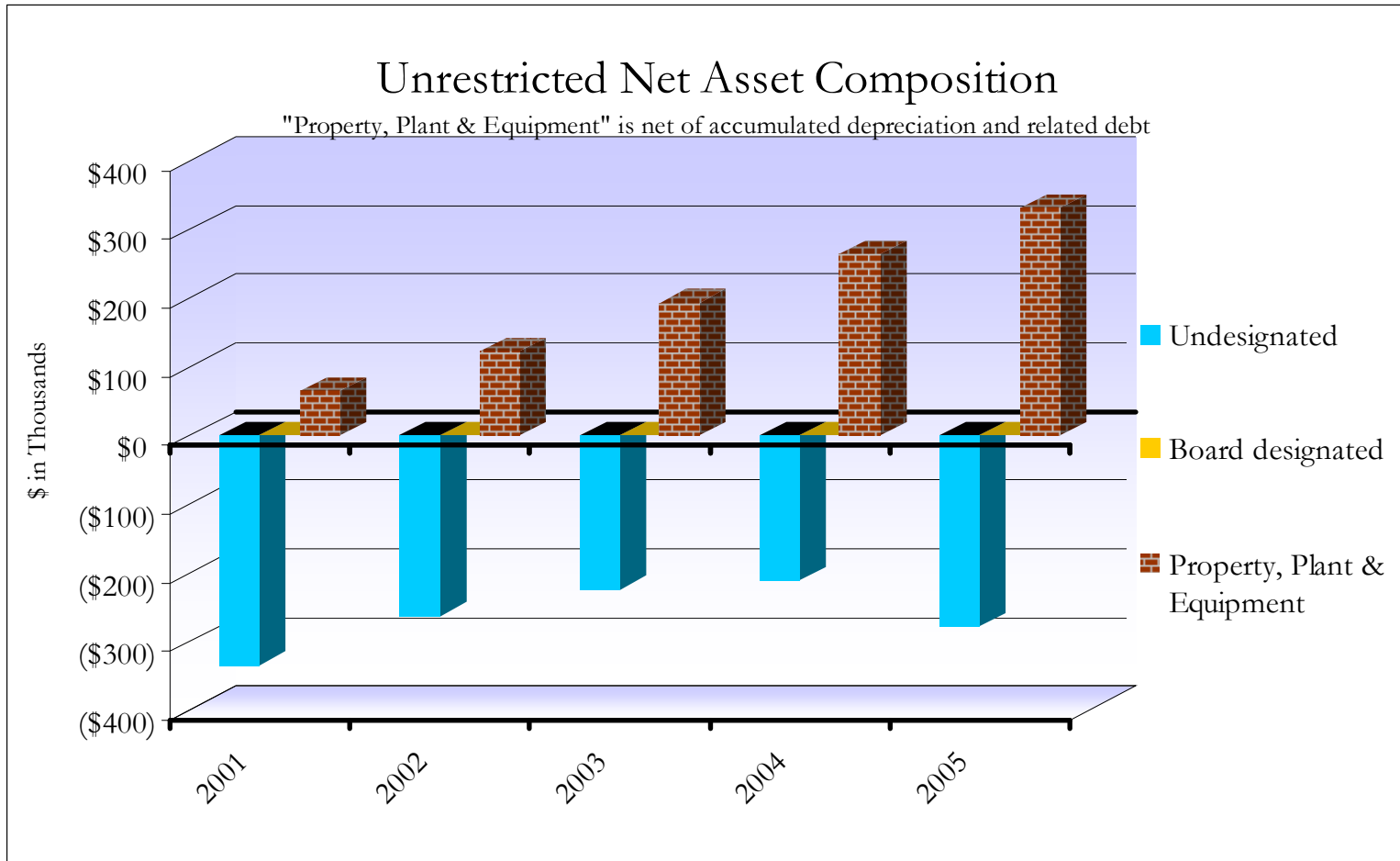
Management reported greater difficulty in selling subscriptions as purchasing patterns have shifted and general market demand for subscriptions has declined

As MTC has made investments in its historic building, PP&E has become the largest component of the organization's asset base

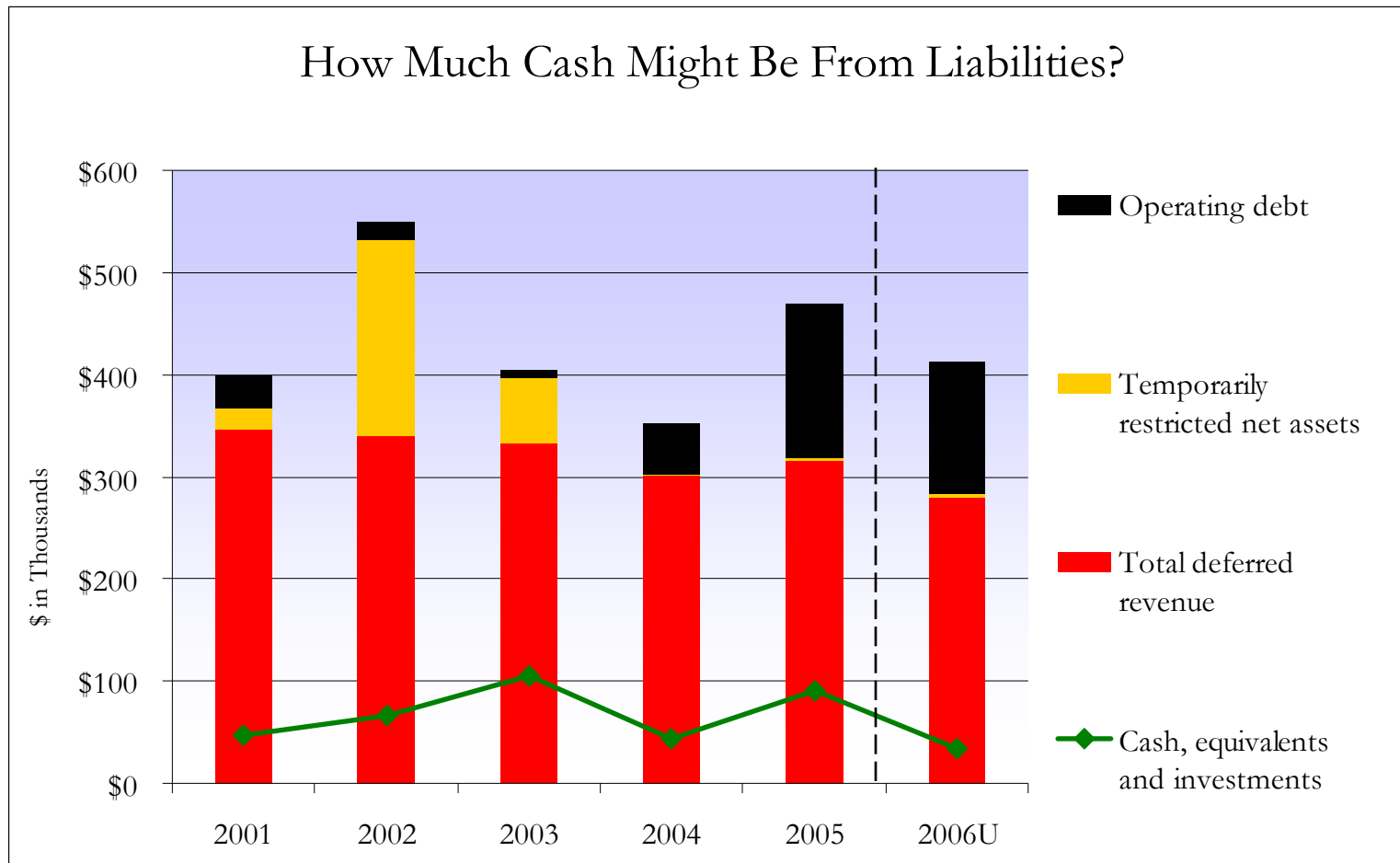


Note: Other assets include prepaid expenses, inventory, and intangible assets net of accumulated amortization

The liquid portion of unrestricted net assets remains negative given recent operating results and increases in fixed assets



Most of the cash on hand appears to be from deferred revenue from theatre subscriptions



Management reported the need to cover this year's expenses with next year's revenue

Questions?

- Questions about the Nonprofit Business Analysis?
- Other ways to help arts organizations – Workshops, Financial Leadership Clinics, Systems Replacement Plans



FINANCIAL EXPERTISE: NONPROFIT FINANCE TUTORIALS

NFF tutorials aim to give nonprofits the tools they need to communicate their financial story and understand how financial decisions can strengthen program and mission

- **Nonprofit Finance Workshops**

- Linking Money to Mission: A Balancing Act
- Facilities Projects: Funding and Financing Strategies
- Growth and Nonprofit Organizations: Achieving Impact and Stability

- **Financial Leadership Clinic**

- What every nonprofit leader needs to know about the role finance plays in supporting nonprofit mission and program
- An opportunity to bring key staff and board members together to examine the crucial financial underpinnings of an organization
- A chance to gain in just two days:
 - A greater understanding of nonprofit finance
 - Customized financial analysis of the organization
 - An insider look at the financials of similar nonprofit organizations



FACILITIES SOLUTIONS: SYSTEMS REPLACEMENT PLAN (SRP)

- **The SRP gives the organization a practical plan to take care of its building for the next 20 years, so that it can continue to safely house its mission and programs**
- **The SRP is an assessment of the 20-year repair and replacement needs and costs for a nonprofit facility:**
 - Provides a comprehensive facilities analysis by engineers, architects or construction consultants
 - Forecasts the necessary replacement of specific systems and equipment, presuming routine maintenance
 - Details a year-by-year breakdown of proposed costs and savings
- **Who can take advantage of the SRP?**
 - Nonprofits that own buildings
 - Nonprofits with a long-term lease that are responsible for all repairs and replacement



FOR MORE INFORMATION

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“Thank you ... I presented our SRP at our Board meeting and the entire Board was impressed. We now have an important tool to help with capital improvement expense planning. I hope we can work together on another project in the future.”

– Avis Anderson, *Executive Director*
The Monmouth Museum



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