Welcome!
A few housekeeping items

This webinar is being recorded.

Can’t hear us?
Try joining by phone. Hit the ^ next to the microphone icon in the bottom left corner and select Switch to Phone Audio for dial-in.

How do I ask questions during the session?
Type your questions in the chat box anytime. Or, ask your question aloud when we pause for questions. Questions will be addressed thought out the webinar.

Can I get the slides?
Yes! The slides and full recording will be emailed to everyone after the session.
How am I / are we in relationship with the indigenous people on whose land I / we reside?

How can we be in stronger relationship?
The Current State and Immediate Needs
An interactive webinar

Presented By:
Claire Knowlton
Director
Bre Onna Mathis
Manager
July 13, 2021
Nonprofit Finance Fund
Where Money Meets Mission

NFF envisions a world where money and knowledge come together to support just and vibrant communities

Advancing missions and social progress through

- Financing
- Consulting and partnerships
- Knowledge sharing

Guided by our Core Values

- Equity in Action
- Rigor Without Attitude
- Responsiveness
- Leading By Doing
- Generosity of Spirit
- Core Values
Agenda

Opening

Data from the field
How has COVID impacted the organizations on this call?

Monitoring and managing financial health in times of uncertainty
Can emergency funding support long-term financial health? How can we check our financial pulse?

Cash flow projections
Understanding liquidity needs as a base-line for financial decision-making

Closing
Small Group Energizer
What is the earliest memory you have about money?

- In groups of three
- Introduce yourself
- Share an early memory about money
- 3m per person
The Impact of COVID-19 on the Arts & Cultural Sector of the United States

Americans for the Arts surveyed arts organizations and agencies of all types, genres, sizes, and tax statuses for nearly a year to capture the human and financial impact of the coronavirus on America’s arts sector.

OVERVIEW

3/13/2020 to 2/15/2021

1 National Financial Loss
$15.2B
Estimated National Loss

2 Audience Spending
$15.5B
Estimated Loss to Local Businesses

3 Audience Loss
488M
Estimated Loss in Attendance

2,144 ORGANIZATIONS
$338,250,451 TOTAL FINANCIAL LOSS
$53,000 MEDIAN LOSS

11% NOT CONFIDENT OF SURVIVAL

68% EXPECT SEVERE FINANCIAL IMPACT

© 2021 Mapbox © OpenStreetMap

Source: Americans for the Arts

Region: All, State: None, County: All, City: All, Zip Code: All, Discipline: All, Budget: All, Legal Status: All, Mission to Serve BIPOC/ALAANA Communities: All
How has the COVID-19 pandemic affected your organizations?
Themes from the registration survey for this webinar series (June-July 2021)

- Staff exhaustion, departures
- Lost Earned Revenue
- Lay-offs, wage cuts
- Uncertainty
- When (and will) audiences come back?
- Financially stable, but for how long?
Quantitative Data From The Registration Survey

COVID Related Funding

<table>
<thead>
<tr>
<th>COVID Funding Relative to Expenses Budget</th>
<th>Number of Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>[0%, 25%]</td>
<td>35</td>
</tr>
<tr>
<td>(25%, 50%)</td>
<td>44</td>
</tr>
<tr>
<td>(50%, 75%)</td>
<td>6</td>
</tr>
<tr>
<td>(75%, 100%)</td>
<td>0</td>
</tr>
<tr>
<td>&gt; 100%</td>
<td>4</td>
</tr>
</tbody>
</table>

COVID Negatively Impacted Earned Revenue

- Strongly Agree/Agree, 85%
- Neutral, 11%
- Strongly Disagree/Disagree, 3%

Conditions Are Too Uncertain: Cannot set plans beyond 3-6 months

- Strongly Agree/Agree, 33%
- Neutral, 51%
- Strongly Disagree/Disagree, 16%
Planning Beyond Covid-19 Webinar Series
Join any or all. Catch-up with the recordings and resources later.

The Current State and Immediate Needs
July 13, 2021
Know your financial position and cash flow
Determine your priorities

Budgeting and Scenario Planning
July 20, 2021
Identify risks and opportunities
Bolster budget visibility to enable nimble decision-making
Add scenarios to navigate the uncertain

Financial Storytelling and Communication
July 27, 2021
What do your staff, board, funders, and community need to know to best support the organization?
Assessing Your Strengths
Understand the full set of strengths and resources of your organization

- **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
Comprehensive Financial Health
Emergency COVID funds are one-time infusions. Can they be reinvestments?

Healthy Business Model
Consistent Surpluses
Reinvestment into the Business Model
Healthy Capital Structure
One-time infusions

exhibited on the income statement
exhibited on the balance sheet
1. **Liquidity** - Cash to meet day-to-day operating needs. *Includes cash and lines of credit.*

2. **Adaptability** - Flexible funds for growth or change. *Includes reserves.*

3. **Durability** - Future needs for the long-term. *Includes endowments and buildings.*

Prioritize Use of Cash by Quantifying Types of Need

Build financial health over time, in order
## Financial Pulse Check
### Three Measures of Financial Health

<table>
<thead>
<tr>
<th>Indicators</th>
<th>What It Shows</th>
<th>Where to Find the Data*</th>
<th>How to Calculate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Results</strong> (surplus or deficit)</td>
<td>Business model performance: Your ability to <strong>cover operating expenses with revenue</strong> from your core business model</td>
<td>Income Statement**</td>
<td><strong>Operating Revenue</strong> – <strong>Operating Expenses</strong></td>
</tr>
<tr>
<td><strong>Months of Cash</strong></td>
<td>Liquidity: How long you can keep covering day-to-day expenses if no additional cash is received</td>
<td>Balance Sheet*** and Income Statement**</td>
<td><strong>Total Cash</strong>&lt;br&gt;(<strong>Total Expenses / 12</strong>)</td>
</tr>
<tr>
<td><strong>Months of Available Net Assets (ANA)</strong></td>
<td>Availability: The portion of net assets truly available for use, free of donor restrictions or assets that are difficult to turn into cash</td>
<td>Balance Sheet and Income Statement</td>
<td><strong>Net Assets W/out Restrictions</strong> – <strong>Equity in P&amp;E</strong>&lt;br&gt;(<strong>Total Expenses / 12</strong>)</td>
</tr>
</tbody>
</table>

* For current information, use internal financials from your accounting system. For historic information, you can use audited financials and/or IRS form 990 filings

** Or Statement of Activities or Profit & Loss

*** Or Statement of Financial Position
Statement of Financial Position
At June 30, 2021 ($ in thousands)

Assets
- Cash 583
- Receivables 50
- Fixed assets, net of accum. deprec. 462
Total Assets 1,095

Liabilities
- Accrued expenses 83
- PPP loan, forgiveable 165
- Mortgage 300
Total Liabilities + Net Assets 1,095

Net Assets
- Without donor restriction 452
- With donor restriction 95

Statement of Activities
Year ended June 30, 2021 ($ in thousands)

Income
- Foundations grants 783
- Individual gifts 248
- Ticket sales 7
Total Income 1,038

Expenses
- Personnel 800
- Occupancy 209
- Other 49
Total Expenses 1,058

Change in Net Assets (20)
Activity: Calculate Your Months of Cash and Available Net Assets

Take ten minutes to use the tool on your own

The Excel based tool is attached to the calendar invitation for this webinar

You will need:
• income statement
• balance sheet for your organization
Impact of PPP on Months of Available Net Assets Calculation
Considering forgivable loans

• Appears as a liability until it is forgiven
• In nearly all cases, PPP loans will be forgiven
• Predict what ANA will look like for your organization by adding your PPP liability to your Net Assets Without Donor Restriction and running the months of ANA calculation
**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, cash flow planning 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>
Does Art Center Have Enough Cash to Meet Their Liquidity Needs?
Art Center set the goal of adding $150k to their working capital in 2021

<table>
<thead>
<tr>
<th>Art Center’s Past Cash Position (source: audited financials)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Dec 31, 2019</td>
</tr>
<tr>
<td>----</td>
</tr>
<tr>
<td>Cash Balance (in thousands)</td>
</tr>
<tr>
<td>Months of Cash</td>
</tr>
</tbody>
</table>

*Can we determine if Art Center’s goal is appropriate?*
Cash Flow Projections Reveal Cash Needs Throughout the Year
Example 1: Art Center has adequate cash for liquidity
Cash Flow Projections Reveal Cash Needs Throughout the Year

Example 2: Art Center has cash flow challenges

<table>
<thead>
<tr>
<th>Monthly Cash Balance 2021 (in 000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
</tr>
</tbody>
</table>

Negative cash balance: ($140k) low point
Increased Working Capital Prevents a Cash Flow Crisis
Example 2: Adding $150k meets Art Center’s cash flow needs

Monthly Cash Balance 2021 (in thousands)

- Additional $150k of working capital covers summer low point
The Importance of Cash Flow Projections
A separate document from your budget

A cash flow projection gives you:
• A visual landscape of cash flowing in and out
• Greater visibility into if/when cash will fall short of monthly expenditure needs
• A case for maintaining or building working capital to an appropriate level

Projecting cash is a real-money exercise
• Compare the cash you expect to have with the bills you pay each month
• “Cash in” is not always the same as revenue, and
• “Cash out” is not always the same as expense
• Keep in mind that restricted cash may need to be monitored separately
A Sample Cashflow Tool with Step-by-Step Instructions is Available
nff.org/covid-19-tools-and-resources-nonprofits#tools
A Basic Example for Cash Flow Projections
Add more complexity to this simple form if needed (or don’t!)

<table>
<thead>
<tr>
<th></th>
<th>January</th>
<th>February</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Cash Balance</strong></td>
<td>$120</td>
<td>$130</td>
</tr>
<tr>
<td>Program Fees</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Foundation Grants</td>
<td>$45</td>
<td></td>
</tr>
<tr>
<td><strong>Total Cash In</strong></td>
<td>$95</td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>$40</td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td>$45</td>
<td></td>
</tr>
<tr>
<td><strong>Total Cash Out</strong></td>
<td>$85</td>
<td></td>
</tr>
<tr>
<td>Net Cash</td>
<td>$10</td>
<td></td>
</tr>
<tr>
<td><strong>Total Ending Cash Balance</strong></td>
<td></td>
<td>$130</td>
</tr>
</tbody>
</table>
## Optional Added Complexity: Isolate Restricted Cash

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Beginning Total Cash</strong></td>
<td>$120</td>
<td>$130</td>
</tr>
<tr>
<td><strong>Beginning Unrestricted Cash</strong></td>
<td>$100</td>
<td>$90</td>
</tr>
<tr>
<td>Program Fees</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Foundation Grants</td>
<td>$20</td>
<td></td>
</tr>
<tr>
<td>Net Assets Released from Restriction</td>
<td>$5</td>
<td></td>
</tr>
<tr>
<td><strong>Total Unrestricted Cash In</strong></td>
<td></td>
<td>$75</td>
</tr>
<tr>
<td>Personnel</td>
<td>$40</td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td>$45</td>
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<tr>
<td><strong>Net Unrestricted Cash</strong></td>
<td></td>
<td>($10)</td>
</tr>
<tr>
<td><strong>Ending Unrestricted Cash Balance</strong></td>
<td></td>
<td>$90</td>
</tr>
<tr>
<td>Temporarily Restricted Cash In</td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td>Temporarily Restricted Cash Released</td>
<td>($5)</td>
<td></td>
</tr>
<tr>
<td><strong>Net Temporarily Restricted Cash</strong></td>
<td></td>
<td>$20</td>
</tr>
<tr>
<td><strong>Total Net Cash</strong></td>
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</tr>
<tr>
<td><strong>Total Cash Balance</strong></td>
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<td>$130</td>
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</table>
# 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 or delay** expenses

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

## Borrow cash
- Draw on an external line of **credit** or bridge loan, if appropriate
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Head, Heart, Feet

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<th>Heart</th>
<th>Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>What did you learn from this workshop?</td>
<td>How did this workshop make you feel?</td>
<td>What actions will you take?</td>
</tr>
</tbody>
</table>

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Thank You!

Discover more resources

https://nff.org/covid-19-tools-and-resources-nonprofits

Keep in touch

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