

## Los Angeles Arts Nonprofits: Turning Data into Action

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Presented by

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# Overview: Nonprofit Finance Fund® (NFF)



NFF, a nonprofit 501(c)(3), has served thousands of nonprofits and funders since 1980. Our impact:

- Over \$250 million in loans, \$30 million in re-grants and \$1.4 billion in leveraged capital
- Over 1000 customized financial consultations
- Hundreds of partnerships and publications advancing financial awareness and friendlier funding practices for all nonprofits

## Serving the nation from several local offices

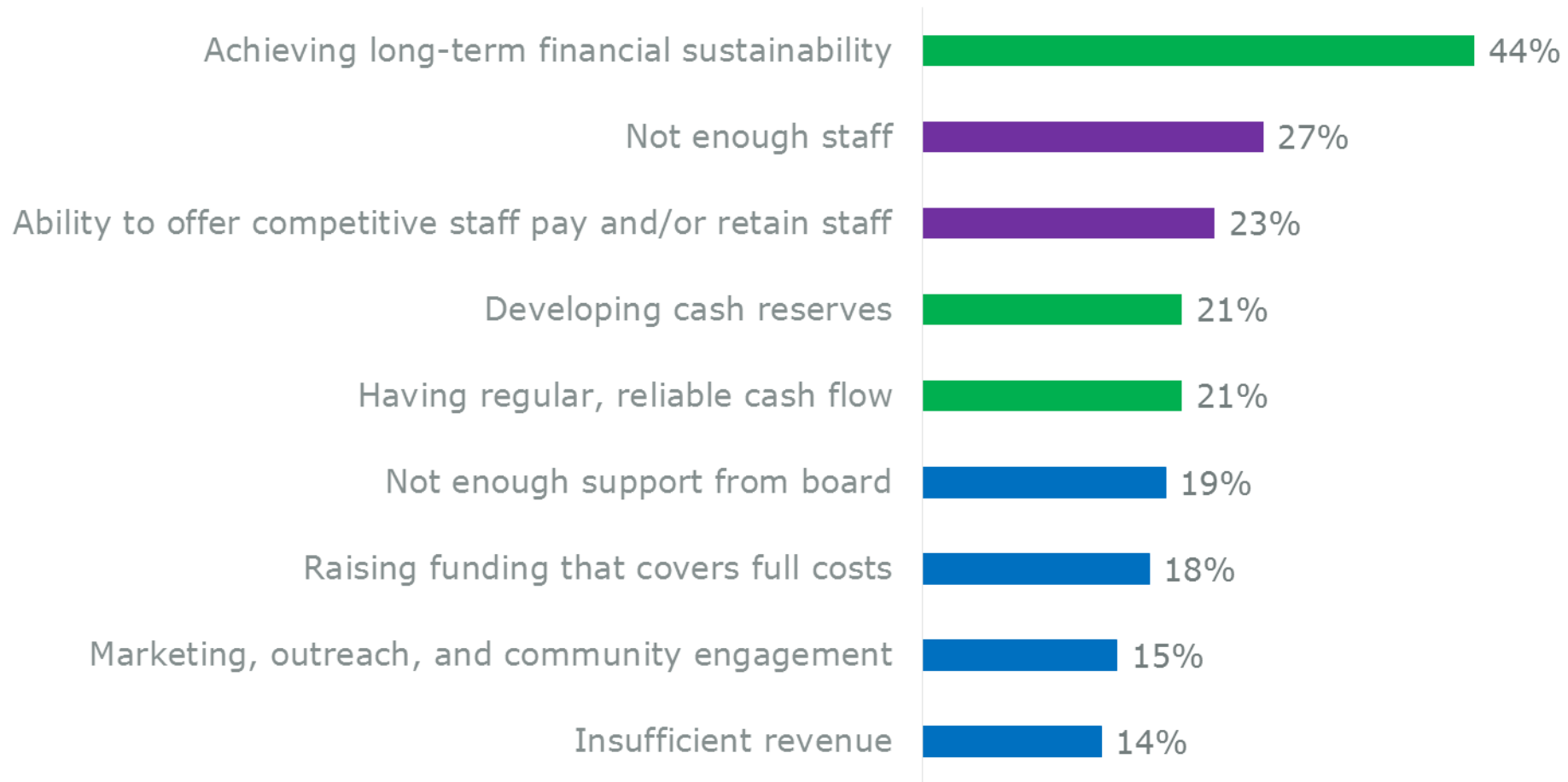
- **Northeast: Boston and New York City**
- **Mid-Atlantic: Philadelphia**
- **West Coast: San Francisco and Los Angeles**

**NFF:**  
“...arguably the most influential voice in the ongoing effort to reshape thinking and practice about nonprofit capitalization.”

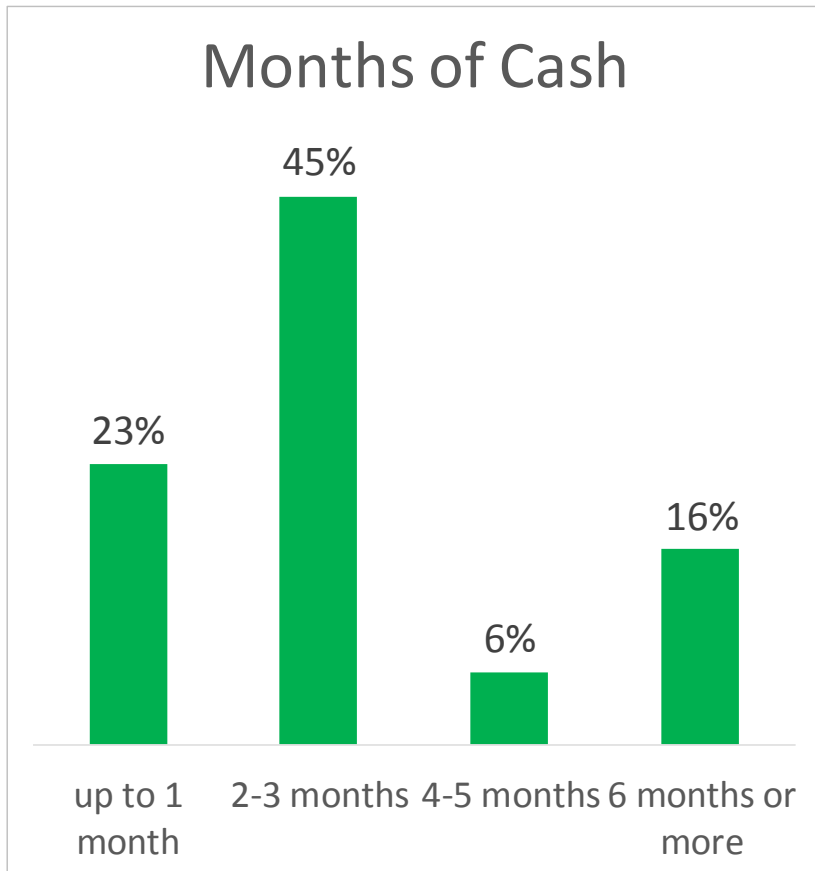
*-The Nonprofit Times*

# Financial Sustainability, Cash Flow and Staffing are Top Concerns

## The Greatest Challenges Facing My Organization Are:



# 78% of Responders Have Less Than 3 Month of Cash on Hand



Calculating Months of Cash:

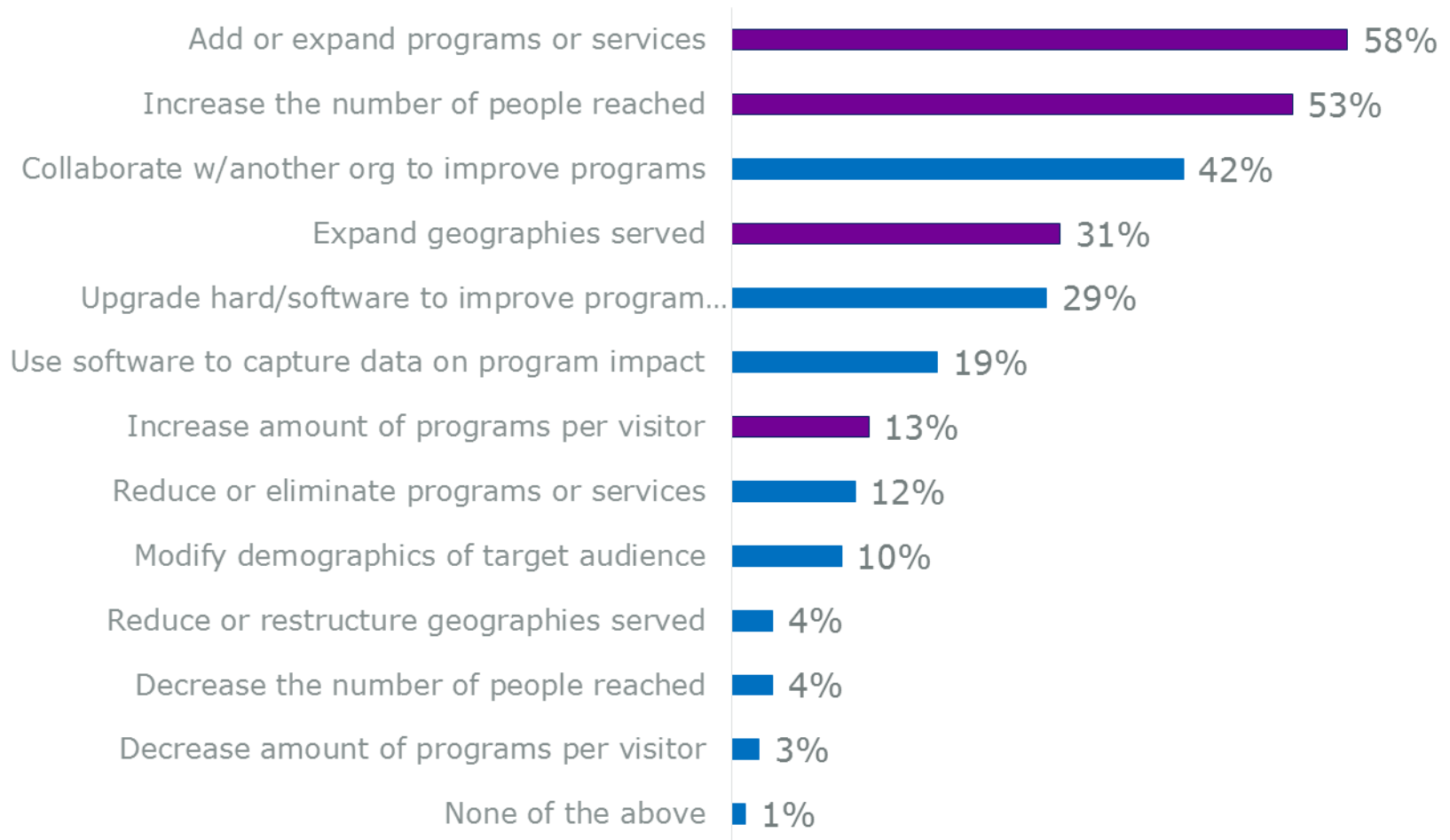
$$\frac{\text{Total Cash on Hand}}{(\text{Annual Expenses}/12)}$$

Calculating Months of Unrestricted Liquid Net Assets:

$$\frac{\text{Unrestricted Net Assets} - (\text{Fixed Assets} - \text{Related Debt})}{(\text{Annual Expenses}/12)}$$

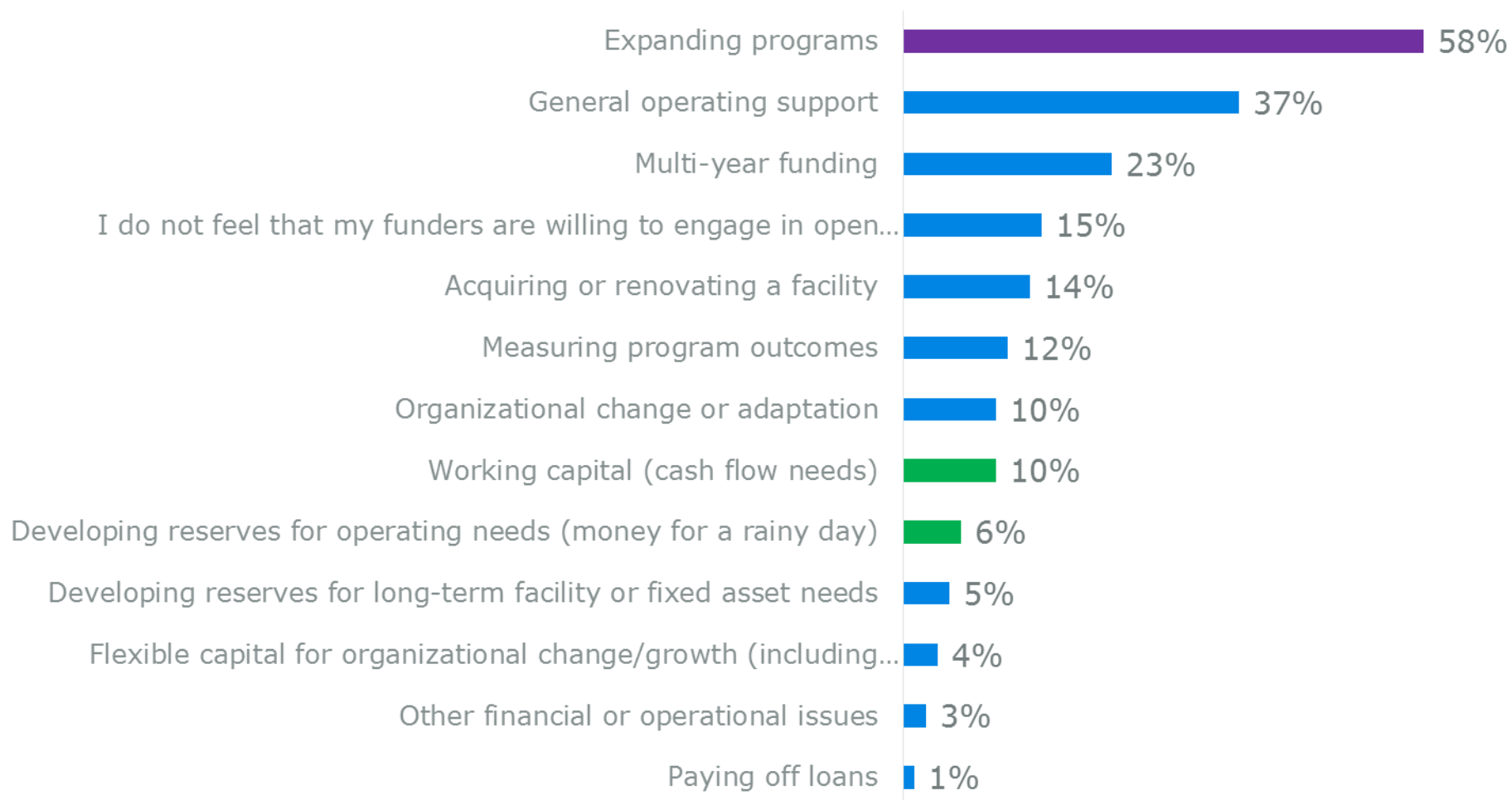
# Despite Challenges, Nonprofits are Expanding Programs

## Program-Related Actions Taken



# Dialogue with Funders Does Not Address Greatest Needs

My organization can have open dialogue with funders about:



# How Can We Address the Issues Cited by Survey Respondents?

- Own your financial story
- Tell your financial story – honestly and unapologetically
- Know and ask for your organization's *full costs*

# Nonprofits Need Profits: Break-even is Never Enough

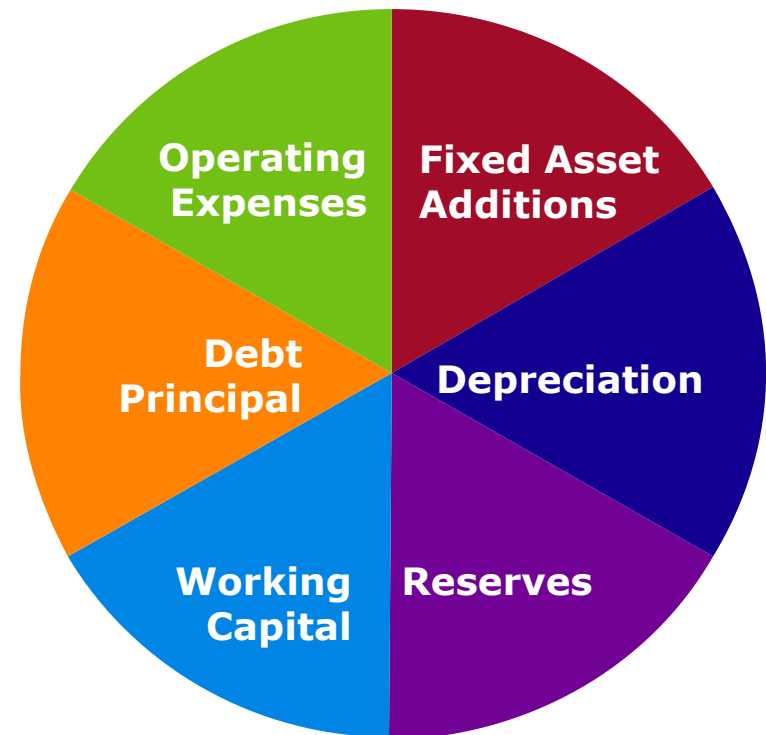
**Like any organization, nonprofits need to cover the full cost of delivering programs**

- Tax Status vs. Business Model
- Full costs > Operating Expenses > Program Expenses

## **Full costs include:**

- Total operating expenses
- Depreciation
- New building/equipment
- Debt repayment
- Savings for the future

***Surpluses are necessary  
to pay for Full Costs!***





## Nonprofits can...

- Budget and manage to operating surpluses. Track progress against budget and plan for scenarios before they occur.
- Understand the specific expenses and revenue that result from new program investments.
- Seek funding for the full costs of projects/programs (including depreciation, debt service, savings for working capital). Use general operating support or unrestricted funds to help close the gap and cover full costs – not to start new programs!
- Prioritize building working capital and reserves for periodic risk-taking and change.
- Clearly communicate financial goals, priorities and timeline in the context of your mission.
- When planning programs that tie directly to civic objectives (art in schools, job training, etc.) prepare to report on outcomes.

## Funders can...

- Continue to give unrestricted support.
- Work to understand the full costs of programs you support.
- Be realistic about the resources required to grow or change a program—now and for the long term.
- Encourage integrated planning that links program, operations, and finances to strategy.
- Reward rather than penalize surpluses.
- Seed reserves for liquidity, risk-taking, and change.
- Engage in dialogue with your staff, grantees, and peer funders about capitalization principles as a means to artistic freedom.

## Thank you

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