# Financial Literacy for Arts Organizations

Building Resilient, Sustainable Cultural Institutions

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# Session Objectives

- Improve nonprofit financial literacy
- Understand key indicators and benchmarks
- Understand what financial sustainability is

# Not-for-Profit

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# Cannot Make a Profit

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# Nonprofit Financial Statements

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*Financial and Operational Business Consulting*

# Why Do Financial Statements Matter?

- Financials are public information via Form 990
- What story is your financial report telling?
  - Are you financially healthy?
  - Can you sustain current programs?
  - Are you resilient or are you vulnerable?
  - Do you have capacity to pursue new opportunities or expand existing programs?
- People fund winners vs. losers

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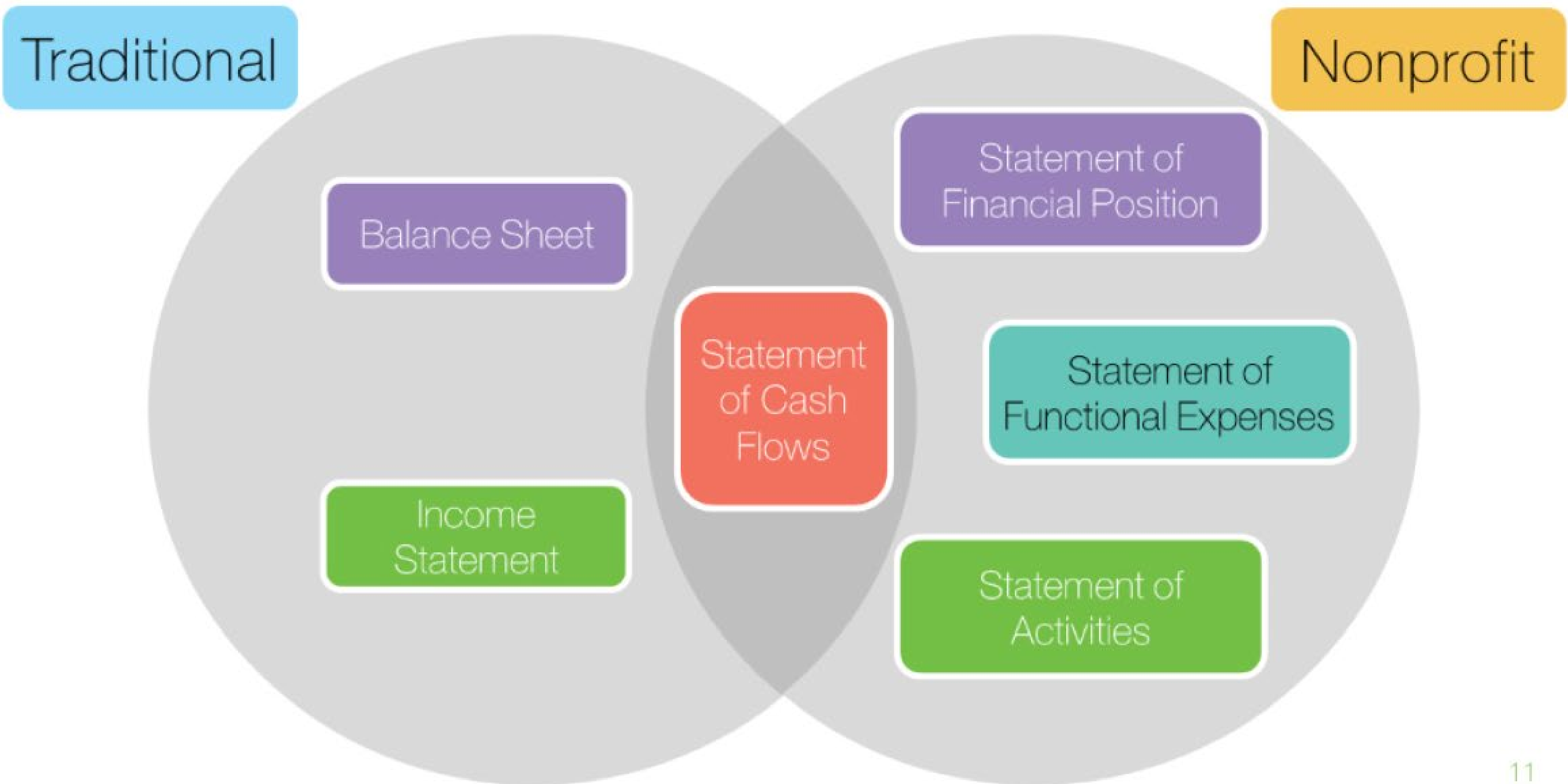
# TYPES OF FINANCIAL STATEMENTS

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# Stmt. of Financial Position

- **A photograph** of your organization
- For-profit comparison: Balance Sheet
- This is what the organization owns, $ they owe others and $ others have committed to paying/giving them
- Information provided:
  - Liquidity
  - Donor restrictions
  - Net assets (i.e., equity)

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# Net Asset Classes

## Net Assets

| | | | |
|---|---|---|---|
| OLD ~~Current~~ GAAP | Unrestricted | Temp. Restricted | Perm. Restricted |
| Revised GAAP | Without Donor Restrictions* | With Donor Restrictions* | |
| + | | | |
| Disclosures | Amount, purpose, and type of board designations ** | Nature and amount of donor restrictions | |

* NFPs may choose to disaggregate further

** New disclosure requirement

**Birmingham Bloomfield Art Center, Inc.**
**Statement of Financial Position**
**June 30, 2024**
**(With Summarized Comparative Information for June 30, 2023)**

| | | 2024 | | 2023 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ | 1,869,201 | $ | 1,805,798 |
| Receivables | | 81,567 | | 104,227 |
| Donated rent receivable | | 56,000 | | 56,000 |
| Investments | | 473,661 | | 422,322 |
| Total current assets | | 2,480,429 | | 2,388,347 |
| Donated rent receivable - net of current portion | | 285,137 | | 311,392 |
| Equipment and leasehold improvements - net | | 1,530,379 | | 1,566,060 |
| Collections | | 20,000 | | 20,000 |
| **Total assets** | $ | 4,315,945 | $ | 4,285,799 |
| **Liabilities and net assets** | | | | |
| Current liabilities | | | | |
| Trade accounts payable | $ | 60,766 | $ | 49,518 |
| Accrued liabilities and other | | 10,811 | | 10,432 |
| Deferred revenue | | 179,371 | | 177,630 |
| Total current liabilities | | 250,948 | | 237,580 |
| Net assets | | | | |
| Without donor restrictions | | | | |
| Undesignated | | 3,473,015 | | 3,418,822 |
| Board designated | | 75,000 | | 75,000 |
| Total without donor restrictions | | 3,548,015 | | 3,493,822 |
| With donor restrictions | | | | |
| Purpose restrictions | | 108,543 | | 97,505 |
| Time-restricted for future periods | | 359,887 | | 404,892 |
| Purpose and passage of time | | 48,552 | | 52,000 |
| Total with donor restrictions | | 516,982 | | 554,397 |
| Total net assets | | 4,064,997 | | 4,048,219 |
| **Total liabilities and net assets** | $ | 4,315,945 | $ | 4,285,799 |

Liquid assets: anything easily converted to cash

ALL receivables, including pledges and grants

What you owe

Undesignated Net Assets minus Fixed Assets = $1,922,636 Undesignated

**ABC Foundation**
**Statement of Financial Position**
**As of December 31, 2018**

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $47,130 |
| Investments for current use | 65,600 |
| Contributions receivable, net—current | 145,000 |
| Inventories | 12,560 |
| Total current assets | $270,290 |
| Buildings and equipment (net of accumulated depreciation of $985,000) | $3,097,220 |
| Contributions receivable, net—noncurrent | 246,800 |
| Endowment investments | 4,452,000 |
| Total assets | $8,066,310 |
| **Liabilities** | |
| Accounts payable | $32,350 |
| Deferred revenue | 630 |
| Current portion of debt | 26,500 |
| Other current liabilities | 2,500 |
| Total current liabilities | $61,980 |
| Long-term debt | $1,110,000 |
| Total liabilities | $1,171,980 |
| **Net assets** | |
| Without donor restrictions | $3,049,800 |
| With donor restrictions | $3,844,530 |
| Total net assets | $6,894,330 |
| Total liabilities and net assets | $8,066,310 |

**Clarity on Unrestricted Net Assets (Net assets without donor restriction): EXCLUDE fixed assets!**

Unrestricted Net Assets minus Fixed Assets = ($47,420) Unrestricted

Donor Restrictions

Net Assets

**The Wharton Institute for the Performing Arts, Inc. and Subsidiaries**

Consolidated Statement of Financial Position
June 30, 2025
(with comparative amounts at June 30, 2024)

| | 2025 | 2024 |
|---|---|---|
| **ASSETS** | | |
| Cash, cash equivalents and restricted cash | $ 776,443 | $ 413,032 |
| Grants receivable, net | 31,490 | 723,616 |
| Pledges receivable, net | 781,531 | 792,153 |
| Contributions receivable | - | 100,000 |
| Accounts receivable | 44,447 | 41,524 |
| Prepaid expenses and other assets | 29,685 | 37,628 |
| Investments | 11,963 | 10,726 |
| Property and equipment, net | 90,772 | 108,575 |
| Right of use asset - operating leases, net | 1,040,254 | 1,097,529 |
| Security deposits | 67,130 | 67,130 |
| Total Assets | $ 2,873,715 | $ 3,391,913 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities | | |
| Accounts payable and accrued expenses | 169,848 | $ 183,460 |
| Deferred revenue | 529,470 | 474,629 |
| Security deposits payable | 1,600 | 1,600 |
| Lease liabilities | 1,117,711 | 1,138,775 |
| Line of credit | 99,976 | 99,976 |
| Long-term debt | 588,502 | 636,520 |
| Total Liabilities | 2,507,107 | 2,534,960 |
| Net Assets (Deficiency) | | |
| Without donor restrictions | (493,614) | (145,828) |
| With donor restrictions | 860,222 | 1,002,781 |
| Total Net Assets | 366,608 | 856,953 |
| | $ 2,873,715 | $ 3,391,913 |

Undesignated Net Assets minus Fixed Assets = ($584,386) Undesignated

Debt

# Statement of Activities

- **A movie** of your organization
- For-profit comparison:  Income Statement
- This is how much $ the organization has earned and how and where they have spent their $
- Information provided:
  - How the organization earns money – the source of its revenue and the diversification of its revenue
  - Investment performance
  - How an organization utilizes (spends) it resources
    - Program expense versus supporting services
  - Operating within constraints of resources?

# Diversification of Revenue

Investment Performanc

Utilization of Resources

Program Vs Supporting Svcs

| | Without Donor Restrictions | With Donor Restrictions | 2024 | 2023 |
|---|---|---|---|---|
| **Revenue and support** | | | | |
| Tuition and classroom fees | $ 1,032,603 | $ - | $ 1,032,603 | $ 980,937 |
| Gallery and exhibition sales | 156,857 | - | 156,857 | 148,767 |
| Contributions and grants | 156,213 | 46,045 | 202,258 | 286,111 |
| Contributions of nonfinancial assets | 35,449 | - | 35,449 | 32,345 |
| Membership fees | 53,095 | - | 53,095 | 52,437 |
| Fundraising events | 128,541 | - | 128,541 | 117,148 |
| Investment return | 63,746 | - | 63,746 | 37,161 |
| Other income | 22,030 | - | 22,030 | 16,456 |
| Total revenue and support | 1,648,534 | 46,045 | 1,694,579 | 1,671,362 |
| Net assets released from restriction | 83,460 | (83,460) | - | - |
| **Total revenue and support and net assets released** | 1,731,994 | (37,415) | 1,694,579 | 1,671,362 |
| **Expenses** | | | | |
| Program services | | | | |
| Education | 1,077,897 | - | 1,077,897 | 1,031,235 |
| Gallery and exhibition sales | 326,447 | - | 326,447 | 324,958 |
| Total program services | 1,404,344 | - | 1,404,344 | 1,356,193 |
| Support services | | | | |
| Management and general | 113,654 | - | 113,654 | 104,295 |
| Fundraising | 134,672 | - | 134,672 | 127,906 |
| Membership development | 25,131 | - | 25,131 | 22,910 |
| Total support services | 273,457 | - | 273,457 | 255,111 |
| **Total expenses** | 1,677,801 | - | 1,677,801 | 1,611,304 |
| **Change in net assets** | 54,193 | (37,415) | 16,778 | 60,058 |
| **Net assets - beginning of year** | 3,493,822 | 554,397 | 4,048,219 | 3,988,161 |
| **Net assets - end of year** | $ 3,548,015 | $ 516,982 | $ 4,064,997 | $ 4,048,219 |

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| | Without Donor Restrictions | With Donor Restrictions | 2024 | 2023 |
|---|---|---|---|---|
| **Revenue and support** | | | | |
| Tuition and classroom fees | $ 1,032,603 | $ - | $ 1,032,603 | $ 980,937 |
| Gallery and exhibition sales | 156,857 | - | 156,857 | 148,767 |
| Contributions and grants | 156,213 | 46,045 | 202,258 | 286,111 |
| Contributions of nonfinancial assets | 35,449 | - | 35,449 | 32,345 |
| Membership fees | 53,095 | - | 53,095 | 52,437 |
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| **Expenses** | | | | |
| Program services | | | | |
| Education | 1,077,897 | - | 1,077,897 | 1,031,235 |
| Gallery and exhibition sales | 326,447 | - | 326,447 | 324,958 |
| Total program services | 1,404,344 | - | 1,404,344 | 1,356,193 |
| Support services | | | | |
| Management and general | 113,654 | - | 113,654 | 104,295 |
| Fundraising | 134,672 | - | 134,672 | 127,906 |
| Membership development | 25,131 | - | 25,131 | 22,910 |
| Total support services | 273,457 | - | 273,457 | 255,111 |
| **Total expenses** | 1,677,801 | - | 1,677,801 | 1,611,304 |
| **Change in net assets** | 54,193 | (37,415) | 16,778 | 60,058 |
| **Net assets - beginning of year** | 3,493,822 | 554,397 | 4,048,219 | 3,988,161 |
| **Net assets - end of year** | $ 3,548,015 | $ 516,982 | $ 4,064,997 | $ 4,048,219 |

**Operating Within Constraints of Resources?**
(also consider % from investment gains/losses)

Matching revenue to expenses

# Stmt. of Functional Expenses

- There is no for-profit comparison
- Provides more detail on how $ was spent
- Tells you expenses by program/activity, "overhead"
- Shows the relationship between functional and natural expenses

# Definitions

- **Program Services:** Activities that result in goods and services being distributed to beneficiaries, customers or members that fulfill the purpose of mission for which the NFP exists
- **Supporting Services:** Expenses for activities not directly related to the purpose for which the organization exists.
  - **Fundraising:** All activities that constitute an appeal for financial support
  - **Membership Development:** Solicitation of new members and membership dues, membership relations, and similar expenses
  - **Management and General:** All other not classified as Program, Fundraising or Membership Development



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# Stmt of Functional Expenses:

## Natural expense versus functional expense

| | Program Services | | | Support Services | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Education | Gallery and Exhibition Sales | Total Program Services | Management and General | Fundraising | Membership Development | Total Support Services | **2024** | 2023 |
| Salaries and wages | $ 278,074 | $ 75,810 | $ 353,884 | $ 67,085 | $ 78,995 | $ 14,313 | $ 160,393 | **$ 514,277** | $ 467,013 |
| Employee benefits | 5,336 | 1,455 | 6,791 | 1,287 | 1,516 | 275 | 3,078 | **9,869** | 6,952 |
| Payroll taxes | 23,123 | 6,304 | 29,427 | 5,578 | 6,569 | 1,190 | 13,337 | **42,764** | 39,006 |
| Instructor fees | 369,166 | - | 369,166 | - | - | - | - | **369,166** | 360,018 |
| Occupancy | 76,748 | 39,599 | 116,347 | 2,414 | 3,837 | 1,188 | 7,439 | **123,786** | 129,892 |
| In-kind rent expense | 34,720 | 17,914 | 52,634 | 1,092 | 1,736 | 538 | 3,366 | **56,000** | 56,000 |
| Telephone | 4,040 | 1,101 | 5,141 | 975 | 1,148 | 208 | 2,331 | **7,472** | 8,645 |
| Bank charges | 36,123 | 5,611 | 41,734 | - | 11,333 | 1,836 | 13,169 | **54,903** | 48,763 |
| Advertising and promotion | 49,765 | 7,867 | 57,632 | - | 15,613 | 2,530 | 18,143 | **75,775** | 72,332 |
| Training, meetings and dues | 3,084 | 841 | 3,925 | 3,659 | 876 | 159 | 4,694 | **8,619** | 7,554 |
| Outside services | - | - | - | 21,343 | - | - | 21,343 | **21,343** | 20,172 |
| Model fees | 11,699 | - | 11,699 | - | - | - | - | **11,699** | 12,127 |
| Scholarships | 3,225 | - | 3,225 | - | - | - | - | **3,225** | 5,715 |
| Program activities and materials | 68,854 | 16,144 | 84,998 | - | - | - | - | **84,998** | 95,270 |
| Artists' commission and awards | - | 102,657 | 102,657 | - | - | - | - | **102,657** | 106,417 |
| Office supplies | 8,878 | 2,420 | 11,298 | 2,190 | 2,522 | 457 | 5,169 | **16,467** | 15,842 |
| Equipment maintenance | 2,999 | 817 | 3,816 | 723 | 852 | 154 | 1,729 | **5,545** | 5,518 |
| Information technology | 19,534 | 5,325 | 24,859 | 4,712 | 5,549 | 1,005 | 11,266 | **36,125** | 24,775 |
| Total functional expenses before depreciation | 995,368 | 283,865 | 1,279,233 | 111,058 | 130,546 | 23,853 | 265,457 | **1,544,690** | 1,482,011 |
| Depreciation | 82,529 | 42,582 | 125,111 | 2,596 | 4,126 | 1,278 | 8,000 | **133,111** | 129,293 |
| Total functional expenses | $ 1,077,897 | $ 326,447 | $ 1,404,344 | $ 113,654 | $ 134,672 | $ 25,131 | $ 273,457 | **$ 1,677,801** | $ 1,611,304 |

# Unique Financial Aspects

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# Donor Restricted Funds

- Restricted **only** by donor
- Types of restrictions:
  - Time
  - Purpose
  - In Perpetuity (endowment)
- Use of funds must be as directed by donor
- How do you change or eliminate a restriction?

# Accounting for Contributions

- Receiving donations with restrictions
- Full donation recorded in income when granted
  - Multi-year pledges or grants
  - Difference in cash flow versus rev recognition
- Tracking expenses for restricted gifts
  - Maintain documentation/calculations
  - Maintain receipts/support
  - Reporting to funders

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## Potential Effect of Large Multi-Year Grant on Nonprofit Bottom Line

**Year 1**

| Revenue | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| Large Multi-Year Grant | | 750,000 | 750,000 |
| Revenue Released from Multi-Year Grant | 250,000 | (250,000) | - |
| All Other Revenue | 600,000 | | 600,000 |
| **Total Revenue** | **850,000** | **500,000** | **1,350,000** |
| | | | |
| **Expenses** | | | |
| Program Expenses of Multi-Year Grant | 250,000 | | 250,000 |
| All Other Expenses | 550,000 | | 550,000 |
| **Total Expenses** | **800,000** | **-** | **800,000** |
| | | | |
| **Change in Net Assets** | **50,000** | **500,000** | **550,000** |

**Year 2**

| Revenue | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| Large Multi-Year Grant | | - | - |
| Revenue Released from Multi-Year Grant | 250,000 | (250,000) | - |
| All Other Revenue | 675,000 | | 675,000 |
| **Total Revenue** | **925,000** | **(250,000)** | **675,000** |
| | | | |
| **Expenses** | | | |
| Program Expenses of Multi-Year Grant | 250,000 | | 250,000 |
| All Other Expenses | 600,000 | | 600,000 |
| **Total Expenses** | **850,000** | **-** | **850,000** |
| | | | |
| **Change in Net Assets** | **75,000** | **(250,000)** | **(175,000)** |

**Year 3**

| Revenue | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| Large Multi-Year Grant | | - | - |
| Revenue Released from Multi-Year Grant | 250,000 | (250,000) | - |
| All Other Revenue | 725,000 | | 725,000 |
| **Total Revenue** | **975,000** | **(250,000)** | **725,000** |
| | | | |
| **Expenses** | | | |
| Program Expenses of Multi-Year Grant | 250,000 | | 250,000 |
| All Other Expenses | 625,000 | | 625,000 |
| **Total Expenses** | **875,000** | **-** | **875,000** |
| | | | |
| **Change in Net Assets** | **100,000** | **(250,000)** | **(150,000)** |

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| | Without Donor Restrictions | With Donor Restrictions | 2024 | 2023 |
|---|---|---|---|---|
| **Revenue and support** | | | | |
| Tuition and classroom fees | $ 1,032,603 | $ - | $ 1,032,603 | $ 980,937 |
| Gallery and exhibition sales | 156,857 | - | 156,857 | 148,767 |
| Contributions and grants | 156,213 | 46,045 | 202,258 | 286,111 |
| Contributions of nonfinancial assets | 35,449 | - | 35,449 | 32,345 |
| Membership fees | 53,095 | - | 53,095 | 52,437 |
| Fundraising events | 128,541 | - | 128,541 | 117,148 |
| Investment return | 63,746 | - | 63,746 | 37,161 |
| Other income | 22,030 | - | 22,030 | 16,456 |
| Total revenue and support | 1,648,534 | 46,045 | 1,694,579 | 1,671,362 |
| Net assets released from restriction | 83,460 | (83,460) | - | - |
| **Total revenue and support and net assets released** | 1,731,994 | (37,415) | 1,694,579 | 1,671,362 |
| **Expenses** | | | | |
| Program services | | | | |
| Education | 1,077,897 | - | 1,077,897 | 1,031,235 |
| Gallery and exhibition sales | 326,447 | - | 326,447 | 324,958 |
| Total program services | 1,404,344 | - | 1,404,344 | 1,356,193 |
| Support services | | | | |
| Management and general | 113,654 | - | 113,654 | 104,295 |
| Fundraising | 134,672 | - | 134,672 | 127,906 |
| Membership development | 25,131 | - | 25,131 | 22,910 |
| Total support services | 273,457 | - | 273,457 | 255,111 |
| **Total expenses** | 1,677,801 | - | 1,677,801 | 1,611,304 |
| **Change in net assets** | 54,193 | (37,415) | 16,778 | 60,058 |
| **Net assets - beginning of year** | 3,493,822 | 554,397 | 4,048,219 | 3,988,161 |
| **Net assets - end of year** | $ 3,548,015 | $ 516,982 | $ 4,064,997 | $ 4,048,219 |

Matching revenue to expenses

# Assessing and Reporting on Financial Health

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**“Data is valid only when viewed in the context of the single, specific organization for which it has been computed.”**

# Monitor the metrics that matter to **your organization**.

# Key Indicators

- Liquidity (how many months of operations do we have in cash?)
- Where are we actual to budget?
  - Where are we forecasting to end the year?
- How diverse is our revenue?
- How much of our revenue is restricted?
- Donor retention rate
  - > 55% is good
  - Sector average is 40% - 45%

# Key Indicators – the Arts

- SMU DataArts Analytic Tools
  - https://culturaldata.org/services/cultural-data-profile/
- Industry-specific measurements:
  - Attendance
  - Revenue and Cost per patron/seat
  - Earned revenue / Program cost
  - Capacity utilization
  - Subscription/membership growth

# Identifying and Evaluating Trends

- Revenue mix (diversification)
- Ratios
- Positive/growing/sustained net assets
  - Unrestricted versus restricted
  - Multiple years of deficits?
- Operating expenses (rate of growth)
- Endowment Spending Rate
  - UPMIFA prudent spending recommendation: Not to exceed 7% of total return

# Revenue Diversity

- Contributed Revenue:
  - Grants, Corporate Giving, Individual Giving, Sponsorships, Events
- Earned Revenue:
  - Tickets, memberships, classes, rentals
- Investment or Endowment Income



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# Funding Diversity

- Does the organization have a diversity of funding sources?
  - What is diverse?
    - Contributions vs Earned vs Investment or Endowment
  - Is there a fundraising strategy?
  - Diversity of <u>contributed</u> funds – type and source
  - Are you highly dependent upon a certain funder or funding source? If so, are you identifying opportunities to become more self sufficient?
    - Risk of classification as a private foundation

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# Key Financial Ratios

- Current and Quick Ratios
- Spendable Assets (Net Assets without Donor Restriction MINUS Fixed Assets)
- Debt to Spendable Assets
- **Percentage of Expenses Spent Towards Programming**
- **Efficiency of Fundraising**

# Ratio Cheat Sheet

- See handout – guide to calculating from Form 990

# Ratios – What They Indicate

| Ratio | Formula | What it indicates |
|---|---|---|
| Current Ratio | Current Assets / Current Liabilities | Ability to pay current liabilities as they mature (higher number is better) |
| Quick Ratio | Cash and Cash Equiv / Current Liabilities | Ability to pay current liabilities with only cash and cash equivalents (higher number is better) |

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# Ratios – What They Indicate

- Balance spent on **mission** (program) in relation to total expenses (higher number is better)
  - At least 65% - 70%

$$\frac{\text{Total Program Expenses}}{\text{Total Expenses}}$$

Program services to total expense

- Relationship between overhead expenses to total expenses (lower is better)
  - No more than 30% - 35%

$$\frac{\text{Total Fundraising, Mgmt \& General Expenses}}{\text{Total Expenses}}$$

Supporting services to total expense

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# Ratios – What They Indicate

- **Efficiency** of fundraising (lower number is better)
  - Cost per $100 raised
  - Factors affecting fundraising costs

$$\frac{\text{Total Fund-Raising Expenses}}{\text{Total } \textbf{Related} \text{ Contributions}}$$

FR Expense to Funds Raised



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# Ratios – What They Indicate

**Debt to Unrestricted Assets**

$$\frac{\text{Total Liabilities}}{\text{Unrestricted Net Assets}}$$

- Long-Term financial risk (lower number is better)
  - <1.0 low risk
  - 1.0 – 2.0 moderate risk
  - >2.0 high risk
- Borrowing capacity
- Strategic flexibility

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# Liquidity

- Months of operations in cash

Total cash in bank (do not include long term investments) – restricted cash

-------------------------------------------

Total operating costs / 12

- What is the right amount for your org?

# Months of Cash on Hand

- Target: what is the appropriate target for YOUR organization?
  - Revenue volatility
  - Timing of cash flows
  - Asset-heavy operations
- In general:
  - <1 month:  High Risk
  - 1-3 months: Vulnerable
  - 3-6 months: Healthy
  - More than 6 months:  Strong

## Birmingham Bloomfield Art Center, Inc.
### Statement of Financial Position
### June 30, 2024
### (With Summarized Comparative Information for June 30, 2023)

| | 2024 | 2023 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,869,201 | $ 1,805,798 |
| Receivables | 81,567 | 104,227 |
| Donated rent receivable | 56,000 | 56,000 |
| Investments | 473,661 | 422,322 |
| Total current assets | 2,480,429 | 2,388,347 |

| | Program Services | | | Support Services | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Education | Gallery and Exhibition Sales | Total Program Services | Management and General | Fundraising | Membership Development | Total Support Services | 2024 | 2023 |
| Total functional expenses before depreciation | 995,368 | 283,865 | 1,279,233 | 111,058 | 130,546 | 23,853 | 265,457 | 1,544,690 | 1,482,011 |
| Depreciation | 82,529 | 42,582 | 125,111 | 2,596 | 4,126 | 1,278 | 8,000 | 133,111 | 129,293 |
| Total functional expenses | $ 1,077,897 | $ 326,447 | $ 1,404,344 | $ 113,654 | $ 134,672 | $ 25,131 | $ 273,457 | $ 1,677,801 | $ 1,611,304 |

1,869,201

1,677,801 / 12 = $139,817

= 13.4 months of operations in cash

***** without consideration of donor restrictions*****

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## Birmingham Bloomfield Art Center, Inc.
### Statement of Financial Position
### June 30, 2024
### (With Summarized Comparative Information for June 30, 2023)

| | | 2024 | | 2023 |
|---|---|---|---|---|
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| Donated rent receivable | | 56,000 | | 56,000 |
| Investments | | 473,661 | | 422,322 |
| Total current assets | | 2,480,429 | | 2,388,347 |
| With donor restrictions | | | | |
| Purpose restrictions | | 108,543 | | 97,505 |
| Time-restricted for future periods | | 359,887 | | 404,892 |
| Purpose and passage of time | | 48,552 | | 52,000 |
| Total with donor restrictions | | 516,982 | | 554,397 |

| | Program Services | | | Support Services | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Education | Gallery and Exhibition Sales | Total Program Services | Management and General | Fundraising | Membership Development | Total Support Services | 2024 | 2023 |
| Total functional expenses before depreciation | 995,368 | 283,865 | 1,279,233 | 111,058 | 130,546 | 23,853 | 265,457 | 1,544,690 | 1,482,011 |
| Depreciation | 82,529 | 42,582 | 125,111 | 2,596 | 4,126 | 1,278 | 8,000 | 133,111 | 129,293 |
| Total functional expenses | $ 1,077,897 | $ 326,447 | $ 1,404,344 | $ 113,654 | $ 134,672 | $ 25,131 | $ 273,457 | $ 1,677,801 | $ 1,611,304 |

1,869,201 – 516,982 = $1,352,219

1,677,801 / 12 = $139,817

= 9.7 months of operations in cash

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# Financial Sustainability

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# What is Financial Sustainbility

- It is NOT:
  - Having a large endowment
  - Never experiencing financial challenges
  - Eliminating all risk
- It IS having the capacity to:
  - Deliver mission consistently
  - Invest in future opportunities
  - Adapt to Change
  - Recover from Setbacks
  - Support artistic excellence over time

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# The Four Pillars of Sustainability

- Revenue Diversity
  - Avoiding dependence on single source
- Cash Flow
  - Ensuring adequate liquidity
- Reserves
  - Building resilience and flexibility
- Strategic Planning
  - Aligning resources with mission and priorities

# What is a Reserve?

- Operating reserve
  - An unrestricted fund balance set aside to stabilize a nonprofit's finances by providing a cushion against future unexpected cash-flow shortages, expenses or losses.
  - What is a reasonable amount?

# Operating Reserve

- Target: what is the appropriate target for YOUR organization?
  - Revenue volatility
  - Timing of cash flows
  - Asset-heavy operations
- In general:
  - <1 month:  High Risk
  - 1-3 months: Vulnerable
  - 3-6 months: Healthy
  - More than 6 months:  Strong



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# How to build a reserve

- Dedicate windfalls
- Budget surpluses
- Build incrementally
- Create reserve policies (to create discipline)

# Takeaways and Next Steps

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# Key Takeaways

- Pay attention to the key indicators and take action
- Financial stewardship enables artistic excellence
- The stronger our finances become, the more freedom we have to pursue our mission
- Financial sustainability makes mission possible

# Reflection Exercise

- Consider your organization
- Which sustainability strategy offers the greatest opportunity?
  - Revenue diversification
  - Membership growth
  - Sponsorship development
  - Reserve building
  - Scenario planning
- What action can you take?

# QUESTIONS?

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