

Finance for the Arts in Canada

Volume 2: Financial Management

Table of Contents

1. FINANCIAL PLANNING CYCLE

Financial Planning in the Arts

A Model Financial Planning Cycle

Steps in the Financial Planning Cycle

Appraise Your Strategic Plan

Develop the Operating Plan

Draft the Annual Budget

Secure Board Approval in Principle

Prepare Major Funding Proposals

Revise Program and Budget Based on Funding Results

Secure Board Final Approval on Revised Plan

Launch Your Activities – Implement the Plan

Review and Update Periodically

Final Report and Evaluation

Organizational Factors that Affect Planning Success

Strengths, Weaknesses and Common Variations

Planning Deadlines Often Collide with Peak Programming Activity

Timing of Funding Information

The Last Word Goes to Accounting

2. BUDGETING

Budget Overview

What's Your Budget?

Budget Format

Types of Budgets

Operating, or Annual, Budget

Project Budget

Capital Budget

Cash Budget

The Operating Budget as an Expression of the Strategic Plan and the Operational Plan

The Budget as a Policy Document

The Budget as a Pro Forma Income Statement

Scarcity... Get Used to It!

Budget Process: Roles, Responsibilities and Timeline

Benefits of Budgeting

The People Dimension: Qualities of a Good Budgeting Process

Internal Influences on Budgeting

External Influences on Budgeting

Research as a Key Tool in Budget Preparation

Methods for Getting Started

Start from Revenues

Start from Expenses

Work from "Knowns" to Estimates

Work from Most Important to Least Important

Start from Last Year's Budget

Combine These Approaches

Tips and Techniques

Budget Conservatism

Highballs and Lowballs: Making Budget Estimates

Reasonability Calculations

Grant Requests and Multiple Budget Versions

“Plugging” the Budget

How to Finesse a Bottom-Line Problem

An HR Dimension of Budgeting

Some Deficits may be OK

Spending Money to Make Money

3. CASHFLOW

Definition of Cashflow Planning

The Basic Process

Cash In is Not Revenue; Cash Out is Not Expense

Drivers of Cashflow Planning

Roles, Responsibilities and Timeline

Benefits of Cashflow Planning

The Cashflow Document

Cashflow Projection How-To

Setting a Cash Safety Margin

Shaping the Cashflow Plan and Adhering to the Safety Margin

Relationship between the Financial Planning Cycle and Cashflow

Relationship between Programming and Cashflow

Relationship between the Operating Budget and Cashflow

Relationship between Balance Sheet Accounts and Cashflow

Profit Is Not Cash

Factors That Make Cashflow a Challenge for Nonprofit Arts Organizations

Cyclical Cashflow Problems

Cash-Poor Periods

Cash-Rich Periods

4. MANAGING SUCCESSFULLY THROUGHOUT THE YEAR

Approaching Financial Management

Cultivating Good Routines

The Whole and the Sum of the Parts

Revising the Budget

Evaluate Accounting Actuals as a Basis for Planning

Trend Analysis

Variance Analysis

Year over Year Difference

Hard and Soft Numbers

Direct and Indirect Revenues and Expenses

Incremental Revenues and Expenses

Fixed and Variable Costs

Fixed Costs

Variable Costs

Stair-Step Costs

Breaking Even

5. STRUCTURE, PROCESS AND MORE: HOW STANDARDS PLUS GOOD PRACTICE CAN COMMUNICATE MEANING

Writing for an Audience: Meeting Your Readers' Needs

Managers and Staff

Board of Directors

Members

Public Funders

Private Funders

Lenders

Taxation and regulatory authorities

Designing the Chart of Accounts

Structuring Income Statement Accounts

Finding the Right Level of Detail

Recording Revenues and Expenses by Nature vs. Function

Strategies for Ordering Revenues and Expenses

How It Works When You Get It Right

Structuring Balance Sheet Accounts

Organizing Assets

Organizing Liabilities

Organizing Net Assets

Managing Asset and Liability Detail: Subledgers

Internally Prepared Statements and Reporting

Optimizing your “Tech Stack” for Financial Reporting

Non-Numerical Strategies for Delivering Reports

Externally Prepared Statements and Reporting

Notice to Reader, or Compilation Engagement

Review Engagement

Audit

Statement of Cash Flows

Statement of Changes to Net Assets

Standardized Correspondence
Engagement Letter
Management Representation Letter
Management Letter
Establishing Policy for Financial Reporting

6. NET ASSETS

Two Ways to Define Net Assets
Gross to Net Calculation
Sum of Operating Results
The Equivalence of These Two Calculations
Revenues and Expenses as an Elaboration of Net Assets
The Mechanics of the Closing Entry
The Planning Application: The Perils of Balanced Budgets
The Scenario
Year One
Year Two
Year Three
Commercial Business and the Equity Section
Nonprofit Organizations and the Net Assets Section
Externally Restricted
Internally Restricted
Unrestricted
Net Assets Invested in Capital Assets
Organizing the Net Assets Section
Illustrating the Utility of Nonprofit Net Assets Presentation

Considerations for Building Restricted Funds

7. RATIO ANALYSIS

Definition of a Ratio and Ratio Analysis

Quick Review: Calculating and Expressing Ratios

A Note on Percentages

Internal and External Uses of Ratio Analysis

Calculating Revenue and Expense Ratios

Evaluating Revenue and Expense Ratios

Making Observations

Drawing Conclusions

Tips And Techniques for Analysing Operating Statement Ratios

A More Complex Presentation

Past year comparison

Year to Date Actuals, and Percentage of Budget Year to Date

Projected Actuals

Percentage Variance to Budget

Surplus or Deficit to Total Budget

Accumulated Surplus or Deficit to Total Budget

Current Ratio, or Working Capital Ratio

Percentage Games

More Ratios!

Quick Ratio, or Acid Test Ratio

Debt to Equity Ratio

Return on Equity Ratio

8. ACHIEVING FINANCIAL HEALTH

What Is Financial Health?

The Secret to Achieving Financial Health

Healthy Operations

Nonprofit Capital Structure

Evaluating Statements for Financial Health

Indicators of Financial Health on the Balance Sheet

Net Assets

Working Capital

The -day view

Cash and Deferred Revenue

Indicators of Financial Health on the Income Statement

Operating Result: Surplus or Deficit

Related Revenue and Expense Items

Revenue Mix

Expense Mix

Year over Year Comparatives

Year Over Year Change to Balance Sheet Accounts

Assessing areas of Strength and Weakness

Risk Management

Risk Management Basics

External Risk Factors

Internal Risk Factors

Protecting Assets

Strategies for Dealing with Risk

Create a Risk Scorecard as the Basis for a Risk Management Plan

Financial Risk Reduction Strategies

Addressing Deficit Situations

Operating deficit vs. accumulated deficit

One-time project

One-time project in the context of an ongoing operation

Capital project deficit

A bad year

Long-term sustainability problems

Financial Health Checklist