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Fi360

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John Hancock[®] Investment Management



The Financial Predicament of Nonprofits

AND THE KEYS YOU HOLD TO UNLOCK
Positive, Systemic Change

PRESENTERS:

Vanessa Bechtel, President & CEO

Bonnie Gilles, Chief Financial Officer

Ventura County Community Foundation

A QUICK INTRODUCTION TO THE ***VENTURA COUNTY COMMUNITY FOUNDATION***

Our Mission:

To promote and enable philanthropy to improve our community. For Good. For Ever.



A QUICK REFRESHER OF A **FIDUCIARY**

“Someone who is providing investment advice or managing the assets of another person and stands in a special relationship of trust, confidence and/or legal responsibility.”


-- As published by Fi360 in their Prudent Practices Handbook



MORE ON FIDUCIARY DUTY

*“Once funds have been donated for a specific purpose, charities have a **fiduciary duty** to spend those funds on that purpose.”*

*--As published by Tania Ibanez, Senior Assistant
California Attorney General Charitable Trust Section*



A QUICK REFRESHER ON **LIQUID UNRESTRICTED NET ASSETS (LUNA)**

“How much unrestricted cash a nonprofit has to pay its bills.”

-- As published by the Nonprofit Finance Fund



FINANCIAL HEALTH

The average nonprofit in Los Angeles has 11 weeks of cash! With Payroll Protection Program Loan (PPP), the average nonprofit will run out of cash by September 17th.

“Ego prevents meaningful conversations and consolidation. Optimism and hope do not serve well in times of financial crisis.”

-- As shared by John Kobara, key leader in philanthropy


RECOVERY POST 2008 RECESSION

In 2014, 50% of nonprofits had revenues that were at 49% of their 2007 level.

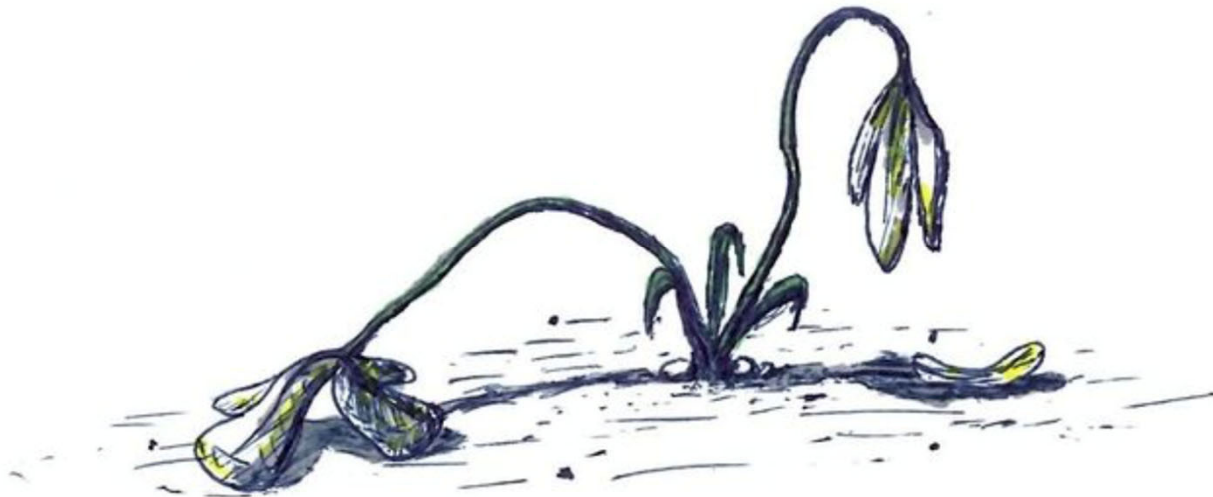
-- As studied by the California Community Foundation



TODAY'S AGENDA

- A few case studies!
 - Key risks to consider when advising organizations that have negative unrestricted assets or very limited reserves.
 - How risks impact those who give
 - How risks impact those served
 - How risks impact the nonprofit system as a whole
 - What options exist to help
 - How professional advisors can use their expertise to improve the financial health of our local nonprofits.
- 

A PERSONAL STORY





CONSIDER THE FOLLOWING:

- 7-8% of nonprofits are technically insolvent with liabilities exceeding assets
 - 30% face potential liquidity issues with minimal cash reserves and/or short-term assets less than short-term liabilities
 - 30% have lost money over the last three years
 - ~50% have less than one month of operating reserves
 - Just restoring currently insolvent nonprofits to solvency would require an injection of \$40 to \$50 billion dollars (before COVID-19)
 - **1/3rd have no plans to deal with their financial challenges.**
-

3 EXAMPLES TO CONSIDER

EXAMPLE #1

Compensation decrease=
-\$ 540,547 or 23%

		Prior Year	Current Year
Revenue	8 Contributions and grants (Part VIII, line 1h)	2,798,824	3,054,009
	9 Program service revenue (Part VIII, line 2g)	434,097	428,572
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	47	41
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	28,672	38,685
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	3,261,640	3,521,307
Expenses	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)	0	0
	14 Benefits paid to or for members (Part IX, column (A), line 4)	0	0
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	2,397,220	1,856,673
	16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0
	b Total fundraising expenses (Part IX, column (D), line 25) ▶696,166		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	1,342,168	1,352,489
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	3,739,388	3,209,162
	19 Revenue less expenses Subtract line 18 from line 12	-477,748	312,145
Net Assets or Fund Balances		Beginning of Current Year	End of Year
	20 Total assets (Part X, line 16)	4,727,088	4,921,227
	21 Total liabilities (Part X, line 26)	3,673,102	3,555,096
	22 Net assets or fund balances Subtract line 21 from line 20	1,053,986	1,366,131

Net Assets Increase =
\$312,145 or 30%

A CLOSER LOOK - ASSETS

Cash Equivalents Increase
=\$311,623 or 85%

Part X Balance Sheet			
Check if Schedule O contains a response or note to any line in this Part X <input type="checkbox"/>			
		(A) Beginning of year	(B) End of year
Assets	1 Cash—non-interest-bearing	241,464	1 544,382
	2 Savings and temporary cash investments	127,712	2 136,417
	3 Pledges and grants receivable, net	402,125	3 529,582
	4 Accounts receivable, net		4
	5 Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L		5
	6 Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Complete Part II of Schedule L		6
	7 Notes and loans receivable, net		7
	8 Inventories for sale or use	22,628	8 22,628
	9 Prepaid expenses and deferred charges	35,409	9 16,257
	10a Land, buildings, and equipment cost or other basis. Complete Part VI of Schedule D	10a 8,276,322	
	b Less accumulated depreciation	10b 4,604,361	
		3,897,750	10c 3,671,961
	11 Investments—publicly traded securities		11
	12 Investments—other securities. See Part IV, line 11		12
	13 Investments—program-related. See Part IV, line 11		13
	14 Intangible assets		14
	15 Other assets. See Part IV, line 11		15
	16 Total assets. Add lines 1 through 15 (must equal line 34)	4,727,088	16 4,921,227

Total Assets Increase=
5%

A CLOSER LOOK - LIABILITIES

Accounts payable and accrued expenses decrease
= -\$57,511 or 22%

Liabilities	17	Accounts payable and accrued expenses	263,256	17	205,745
	18	Grants payable		18	
	19	Deferred revenue	151,200	19	143,538
	20	Tax-exempt bond liabilities		20	
	21	Escrow or custodial account liability Complete Part IV of Schedule D . . .		21	
	22	Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L		22	
	23	Secured mortgages and notes payable to unrelated third parties . . .	3,255,706	23	3,205,813
	24	Unsecured notes and loans payable to unrelated third parties		24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D	2,940	25	0
	26	Total liabilities. Add lines 17 through 25	3,673,102	26	3,555,096

Total liabilities decrease= 4%


A CLOSER LOOK – NET ASSET BREAKDOWN

Increase in temporarily restricted
net assets
= \$604,350 or 35%

Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.				
	27	Unrestricted net assets	-740,934	27	-1,041,818
	28	Temporarily restricted net assets	1,748,635	28	2,352,985
	29	Permanently restricted net assets	46,285	29	54,964
	Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34.				
	30	Capital stock or trust principal, or current funds		30	
	31	Paid-in or capital surplus, or land, building or equipment fund		31	
	32	Retained earnings, endowment, accumulated income, or other funds		32	
	33	Total net assets or fund balances	1,053,986	33	1,366,131
	34	Total liabilities and net assets/fund balances	4,727,088	34	4,921,227

Total net assets increase
=\$312,145 or 30%

HOW CAN THERE BE NEGATIVE UNRESTRICTED ASSETS?

- Once funds have been donated for a specific purpose, charities have a fiduciary duty to spend those funds only on that purpose. (E.g., Bus. & Prof. Code, § 17510.8.)
 - In this case, the organization is inappropriately using restricted assets to pay their unrestricted bills (like salaries and benefits).
- 

From the "Assets" section of your **Statement of Financial Position** (Balance Sheet), enter the following information:

Property (Plant) and Equipment (may be called "Fixed Assets"), **net of accumulated depreciation** \$ 3,694,589

If your balance sheet includes any other illiquid, non-current assets (such as equity in a private company, alternative investments, art collections, etc.), enter their value here (*note, this is unusual*): []

If you have a mortgage: from the "Liabilities" section of your **Statement of Financial Position** (Balance Sheet) enter the following information:

Current portion of mortgage payable \$ 120,743

Non-current portion of mortgage payable \$ 3,085,070

If your balance sheet includes any *non-mortgage* debt used to finance fixed assets or other illiquid assets, enter that Liability amount here: (*note, this is unusual*) []

From the "Net Assets" section of your **Statement of Financial Position** (Balance Sheet), enter the following information:

Total Unrestricted Net Assets \$ (1,041,818)

If any portion of the Unrestricted Net Assets amount entered in line 31 is **board-designated** for something other than operations, enter that amount here: []

From the "Total" column of your most recent audited or year-end **Statement of Activities** (Profit & Loss), enter the following information:

Total Expenses \$ 3,209,162

Your organization's liquid unrestricted net asset balance is **-\$1,530,594**

This is the equivalent of **0.00** months' worth of operating expenses, or approximately **0** days' worth of operating expenses.

Months' worth of
operating expenses=
0.00

Days' worth of
operating expenses=
0

Liquid
unrestricted net
asset balance=
-\$1,530,594

AB-2327 CHARITABLE ORGANIZATIONS

- **12599.8.** *For any year that the balance sheet of a charitable organization shows that it holds restricted net assets, while reporting negative unrestricted net assets, the organization shall provide an explanation of its compliance with its charitable trust responsibilities and proof of directors' and officers' liability insurance coverage to the Attorney General's Registry of Charitable Trusts.*

*Approved by California Governor -
September 23, 2012. Filed with Secretary of
State - September 23, 2012*

LIQUIDITY AND AVAILABILITY FOOTNOTE – ASU 2016-14

Requires footnote disclosure of nonprofit organization's liquidity and available resources:

- Quantitative presentation – show me the money!
 - Qualitative footnote – explain the presentation and provide any additional information to assist the reader understand the organizations liquidity
 - One caveat: technical guidance on this footnote is not explicit on what to present so the interpretation is up to the presenter and their auditor
-

FISCAL MANAGEMENT IS VITAL

UNDERSTANDING DUTY OF CARE

- Board members may be accountable for the loss or misuse of charitable assets if it resulted from deficient or nonexistent internal controls, or lack of due care or reasonable inquiry.
 - An effective internal control system includes an annual budget:
 - A realistic budget should be developed early enough so that the entire board can be involved in its review and approval before the beginning of the fiscal year.
 - An effective budget separates unrestricted assets from restricted assets so Board members can ensure donations are being stewarded appropriately.
-

EXAMPLE #2

Unrestricted net assets decrease
= -\$337,178 or 24%

Net Assets or Fund Balances		2014		2015	
Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.					
27	Unrestricted net assets	1,428,601	27	1,091,423	
28	Temporarily restricted net assets	20,201,803	28	19,780,024	
29	Permanently restricted net assets	30,802,236	29	32,891,239	
Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34.					
30	Capital stock or trust principal, or current funds		30		
31	Paid-in or capital surplus, or land, building or equipment fund		31		
32	Retained earnings, endowment, accumulated income, or other funds		32		
33	Total net assets or fund balances	52,432,640	33	53,762,686	
34	Total liabilities and net assets/fund balances	57,139,381	34	57,938,657	
Form 990 (2014)					

Total net assets increase
= \$1,330,046 or 3%

ONE YEAR LATER

Unrestricted net assets decrease
= -\$637,831 or 59%

Net Assets or Fund Balances		2015		2016
Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.				
27	Unrestricted net assets	1,091,423	27	453,592
28	Temporarily restricted net assets	19,780,024	28	19,207,864
29	Permanently restricted net assets	32,891,239	29	32,641,526
Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34.				
30	Capital stock or trust principal, or current funds		30	
31	Paid-in or capital surplus, or land, building or equipment fund		31	
32	Retained earnings, endowment, accumulated income, or other funds		32	
33	Total net assets or fund balances	53,762,686	33	52,302,982
34	Total liabilities and net assets/fund balances	57,938,657	34	56,050,237

Form 990 (2015)

Total net assets decrease
= -\$1,459,704 or 3%

TWO YEARS LATER

Unrestricted net assets decrease
= -\$45,361 or 10%

Net Assets or Fund Balances		2016		2017
Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.				
27	Unrestricted net assets	453,592	27	408,231
28	Temporarily restricted net assets	19,207,864	28	20,748,470
29	Permanently restricted net assets	32,641,526	29	35,903,056
Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34.				
30	Capital stock or trust principal, or current funds		30	
31	Paid-in or capital surplus, or land, building or equipment fund		31	
32	Retained earnings, endowment, accumulated income, or other funds		32	
33	Total net assets or fund balances	52,302,982	33	57,059,757
34	Total liabilities and net assets/fund balances	56,050,237	34	61,736,002

Form 990 (2016)

Total net assets increase
= \$4,756,775 or 9%

Calculating Liquid Unrestricted Net Assets (LUNA)

Enter the following information from audited or internal financial statements

From the "Assets" section of your **Statement of Financial Position** (Balance Sheet), enter the following information:

Property (Plant) and Equipment (may be called "Fixed Assets"), **net of accumulated depreciation** \$ 114,430

If your balance sheet includes any other illiquid, non-current assets (such as equity in a private company, alternative investments, art collections, etc.), enter their value here (**note, this is unusual**): \$ -

If you have a mortgage: from the "Liabilities" section of your **Statement of Financial Position** (Balance Sheet) enter the following information:

Current portion of mortgage payable \$ -
Non-current portion of mortgage payable \$ -

If your balance sheet includes any **non-mortgage** debt used to finance fixed assets or other illiquid assets, enter that Liability amount here: (**note, this is unusual**) \$ -

From the "Net Assets" section of your **Statement of Financial Position** (Balance Sheet), enter the following information:

Total Unrestricted Net Assets \$ 1,428,631

If any portion of the Unrestricted Net Assets amount entered in line 31 is **board-designated** for something other than operations, enter that amount here: \$ -

From the "Total" column of your most recent audited or year-end **Statement of Activities** (Profit & Loss), enter the following information:

Total Expenses \$ 1,450,000

Your organization's liquid unrestricted net asset balance is **\$1,314,201**
This is the equivalent of **10.88** months' worth of operating expenses,
or approximately **331** days' worth of operating expenses.

2014: Days'
worth of
operating
expenses
=331

2014: Months'
worth of
operating
expenses
=10.88

2014: Liquid
unrestricted
net asset
balance
=\$1,314,201

Calculating Liquid Unrestricted Net Assets (LUNA)

Enter the following information from audited or internal financial statements

From the "Assets" section of your **Statement of Financial Position** (Balance Sheet), enter the following information:

Property (Plant) and Equipment (may be called "Fixed Assets"), **net of accumulated depreciation** \$ 75,203

If your balance sheet includes any other illiquid, non-current assets (such as equity in a private company, alternative investments, art collections, etc.), enter their value here (**note, this is unusual**): \$ -

If you have a mortgage: from the "Liabilities" section of your **Statement of Financial Position** (Balance Sheet) enter the following information:

Current portion of mortgage payable \$ -
Non-current portion of mortgage payable \$ -

If your balance sheet includes any **non-mortgage** debt used to finance fixed assets or other illiquid assets, enter that Liability amount here: (**note, this is unusual**) \$ -

From the "Net Assets" section of your **Statement of Financial Position** (Balance Sheet), enter the following information:

Total Unrestricted Net Assets \$ 408,231

If any portion of the Unrestricted Net Assets amount entered in line 31 is **board-designated** for something other than operations, enter that amount here: \$ -

From the "Total" column of your most recent audited or year-end **Statement of Activities** (Profit & Loss), enter the following information:

Total Expenses \$ 1,579,057

Your organization's liquid unrestricted net asset balance is **\$333,028**

This is the equivalent of **2.53** months' worth of operating expenses, or approximately **77** days' worth of operating expenses.

2017: Days' worth of operating expenses =77

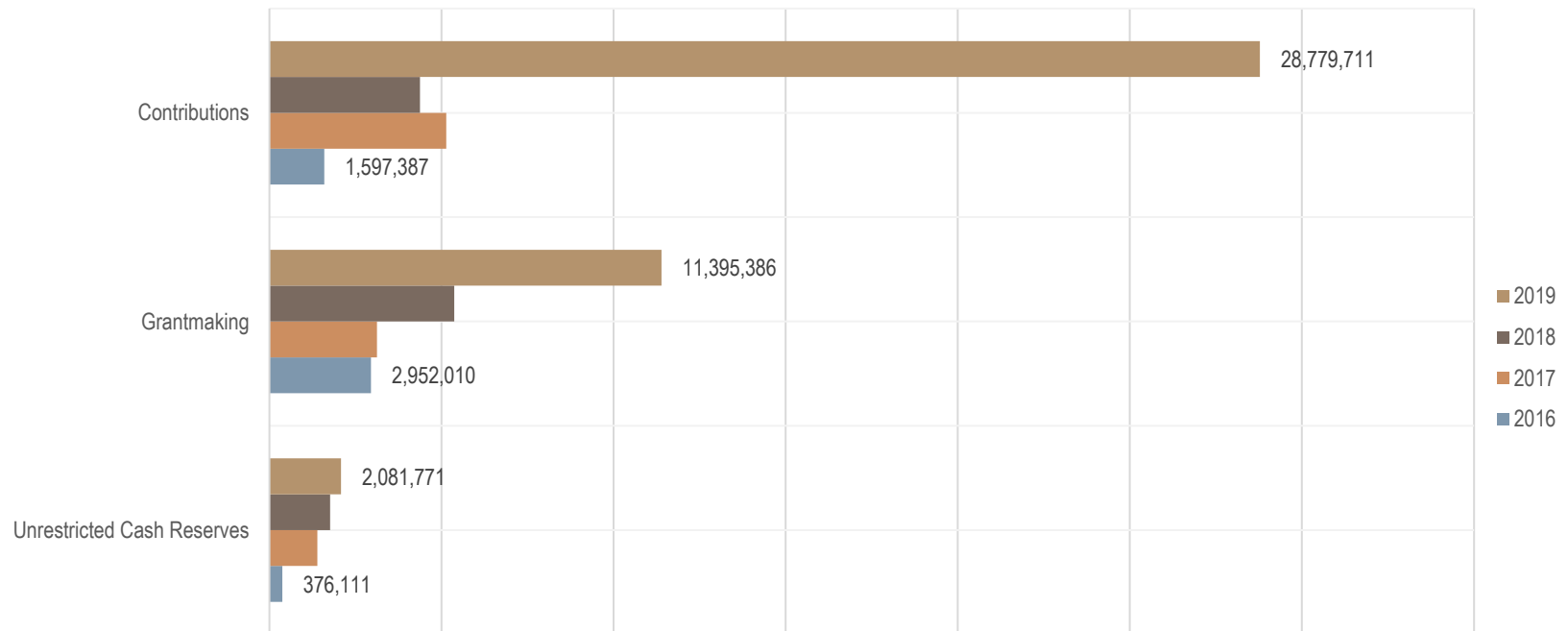
2017: Months' worth of operating expenses =2.53

2017: Liquid unrestricted net asset balance = \$333,028

EXAMPLE #3

- **A decrease of 72% in our annual budget in first six months!**
 - **Initially reducing staff from 22 to 5 (with only 3 fulltime).** Staffing back to 9 after three years.
 - **Budgeted for two negative standard deviations** in market returns (as if every year was 2008). This helped us build over 1 year of reserves.
 - **Hundreds of in-person meetings to build and restore trust.**
 - **All policies and internal controls were redone by external consultant.**
-

AN **AWESOME** COMEBACK




THE CLOSING LETTER

“This letter will confirm that Ventura County Community Foundation (VCCF) has met all of the requirements set forth in the Corrective Action Letter dated February 6, 2017. Accordingly, the Attorney General’s Office has closed its investigation.

The current management and VCCF board are commended for self-reporting concerns related to VCCF’s endowment funds and investment policies. VCCF’s management fully cooperated with this office by producing all requested records and relevant accounting documentation and reports.

Thank you for your professional courtesy and cooperation during the course of the investigation.”

--- Jami L. Cantore, Deputy Attorney General for Xavier Becerra, Attorney General,
State of California



XAVIER BECERRA
Attorney General

State of California
DEPARTMENT OF JUSTICE



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December 6, 2017

Vanessa Bechtel, President
Ventura County Community Foundation
4001 Mission Oaks Blvd.
Camarillo, CA 93012

RE: Ventura County Community Foundation

Dear Ms. Bechtel:

This letter will confirm that Ventura County Community Foundation (VCCF) has met all of the requirements set forth in the Corrective Action Letter dated February 6, 2017. Accordingly, the Attorney General's Office has closed its investigation.

The current management and VCCF board are commended for self-reporting concerns related to VCCF's endowment funds and investment policies. VCCF's management fully cooperated with this office by producing all requested records and relevant accounting documentation and reports.

Thank you for your professional courtesy and cooperation during the course of the investigation.

Sincerely,

A handwritten signature in blue ink that reads "Jami L. Cantore".

JAMI L. CANTORE
Deputy Attorney General

For XAVIER BECERRA
Attorney General

LA2016501389


IDENTIFYING WARNING SIGNS

The Four Horsemen of the Nonprofit Financial Apocalypse

- Clara Miller (Published in Nonprofit Quarterly)


1. Too Much Real Estate
2. Too Much Debt
3. “Underwater Balances” and Negative Liquidity
4. Torturous Labor Economics

“And despite seemingly robust balance sheets, many organizations are starved for the capital needed for adaptation to a rapidly changing economy. If the recession has taught us anything, its that net assets is not the same as ‘cash when you need it’.”



Key Risks to Consider

RISKS TO THE NONPROFIT


- Lack of stability to vital programs and community they serve
 - Virtually no margin for error
 - Possible Personal Legal risk for Chief Executive Officer/ Executive Director
 - Possible Personal Legal risk for Board of Directors
 - Inability to recruit top talent for key positions
 - Bankruptcy
 - No opportunity for thoughtful wind-down given lack of resources to fund the associated one-time costs
 - Hardworking staff may lose paychecks or pensions
 - Inability to provide effective or efficient services to clients
 - Potential impact of rising interest rates just make things worse
 - Uncertainty around government funding levels and sources compound the problem
 - Tax code changes reduce incentives for philanthropic funding for bailout gifts
- 

ACCORDING TO SPECIAL STUDY IN NONPROFIT QUARTERLY


*“Unfortunately, distressed or zombie nonprofits have few options for recovery. Unlike for-profits, they cannot attract funders with reduced price, seniority, or other advantageous terms. Nor are there any specialized nonprofit turnaround funders to evaluate and assume financial risks. In fact, most private funders run at the first sign of trouble, creating a nonprofit version of a run on the bank. A nonprofit’s best hope, if trouble comes, is to hobble along. This can mean hollowing out the program, freezing salaries, reducing headcount, borrowing from vendors, using restricted cash for impermissible purposes, and begging existing supporters (including board members) for support. **The potential for impact becomes almost nil.**”*

<https://nonprofitquarterly.org/2017/11/09/special-feature-financial-health-philadelphia-area-nonprofits/>

RISKS TO THE DONOR EXPERIENCE

- Little to no impact from their gift, or worse
 - A breakdown of trust
 - Reliving the grief from the loss of a loved-one, or worse
 - Stress and anger
 - Disempowerment
 - Apathy
 - Losing appetite for all future charitable giving
 - Backlash from family and/ or friends
 - Worry and fear
 - The impact of litigation
 - And, so much more...
- 


RISKS TO THOSE SERVED

- Consider the child who will go home to an abusive environment
 - The veteran who can't get the help they need and deserve
 - A talented youth who won't go to college
 - Hunger
 - An lacking support system that prevents upward mobility and change
 - Inconsistent support
 - Unsophisticated and untrained support
 - Confusion and feeling like stuck in perpetual "groundhog day"
 - Disenfranchisement
 - Disempowerment
- 

Mitigating Risk




MITIGATING RISK

- Transparency, transparency, transparency!
 - Further research to better define the scope of the problem. See Philadelphia example
 - Dissecting the safety net for our most vulnerable
 - More robust disaster planning
 - Executive education
 - More robust Board training around this issue
 - Donor education
 - Run “What If” scenarios
 - Better utilization of data and use of statistics in the budgeting process
 - Making it safe to ask for help
 - Building in a process of accountability
- 

What can we do?




CONSIDER 7s

- Strategy
 - Structure
 - Systems
 - Skills
 - Style
 - Staff
 - Shared values
- 

TRUE BELIEVERS

- Keeping the doors open at all costs
- Passion before economics

AS PROFESSIONAL ADVISORS

- Serve as a key advisor
 - Live and breathe the value of being a fiduciary of public funds
 - Teach
 - Incorporate prudent practices
 - Be unpopular and challenge assumptions
 - Analyze
 - Speak up and ask questions
 - Identify warning signs – think the Four Horsemen
 - Be informed
 - Work with you clients so they have impact
 - Understand the full complexity of philanthropy
- 

DUTY OF CARE
DUTY OF LOYALTY
DUTY OF OBEDIENCE



ER DUG #P HP EHU#IIG XFIDU\ #G XWIV

- Duty of Care: Actively participate, attend board meetings, be knowledgeable in the unique attributes of your nonprofit, provide strategic direction and oversee management.
 - Duty of Loyalty: Operate in the interest of the nonprofit and NOT for to further a personal agenda.
 - Duty of Obedience: Know the laws and regulations that apply to your nonprofit. This includes federal, state, and the IRS. Understand the underlying operating agreements such as by-laws and board manuals. Know what you *may* do versus what you *must* do.
-

a beautiful dream

Questions



THANK
YOU
