

## Nonprofit Financial Health Webinar Series



This three-part webinar series was conducted in Sept-Oct 2014 by **The Moody's Foundation**, Indiana University **Lilly Family School of Philanthropy** (School), and the Urban Institute's **National Center for Charitable Statistics** (NCCS). This series features important nonprofit financial issues and context, building on the following research:

- Analyses of Form 990 data, conducted by NCCS, on the impact of the Great Recession on nonprofits, the state of nonprofit governance, and the use of debt by public charities;
- A survey of nonprofits with an annual revenue between \$100,000 and \$100 million on financial knowledge and strategies, conducted by the School;
- The Moody's rating methodology of not-for-profit organizations.

### Webinar #1: Lessons for the Future: The Impact of Recession, and Nonprofit Financial Knowledge

*This webinar highlights the impact of the Great Recession on nonprofits and how they responded, nonprofits' financial expertise, and the strategies they use in financial management.*

#### **Highlights from NCCS analysis of the Great Recession's impact on the charitable sector**

- **Most organizations survived the recession, but its impact was clearly noticeable.** According to NCCS analysis, the percentage of organizations shutting their doors jumped from 4.2% before the recession to 5.0% during and afterwards. Smaller organizations were the most vulnerable to closure.
- **The only year from 2006-11 where more organizations lost revenue than gained revenue was 2008-09.** However, nonprofits clearly felt the impact of the nascent recession in 2007-08.

#### **Highlights from the School's survey of financial knowledge and strategies**

- **Faced with the Great Recession, organizations stayed afloat most effectively by:**
  - Reducing spending
  - Reviewing priorities/reducing programs
  - Reducing personnel
- **Nonprofits used different sets of indicators for financial and programmatic decision-making**, and the use of indicators varied by subsector.
  - Overall, the "changes or forecasts in charitable giving" indicator was most regularly used for financial decision-making, and "poverty rate" was most regularly used for programmatic decision-making.

### Webinar 2: Nonprofit Governance and the Role of the Board in Financial Management

*This webinar focuses on the role of the nonprofit board and governance in nonprofits' financial health.*

#### **Highlights from NCCS analysis in "The State of Nonprofit Governance" report**

- **Many nonprofits have strong governance and oversight practices in place.** In 2010, more than 60 percent of organizations had a conflict of interest policy, an independent audit and a compensation review and approval process for their chief executive.
- **The following organizational characteristics appear to be most significant to good governance:**
  - **Size:** The larger an organization is, the likelier it is to employ recommended governance practices.
  - **Board independence:** For 82.9% of organizations, at least two-thirds of board members are not a staff member or contractor. The exceptions fare much worse among all six major types of internal oversight mechanisms.

#### **Highlights from the School's survey of financial knowledge and strategies**

- **Board review of internal policies** in 2010 differed from board review over the period from 2007 to 2009, and varied by size of the organization.
- **Top 3 financial management functions that nonprofit boards actively participated in were:**
  - Financial accountability
  - Strategic planning
  - Internal audit and risk management

**Key insights from Moody's ratings of not-for-profit organizations**

- **Moody's rating methodology assesses the credit risk of nonprofit organizations** (other than those providing healthcare and education). It serves as a reference tool to help nonprofits and stakeholders understand organizational financial health and evaluate credit profiles.
- **The rating methodology is based on six main analytical factors and related ratios, including:**
  - Market Position
  - Operating Performance
  - Balance Sheet and Capital Investment
  - Governance and Management
  - Legal Security and Debt Structure
  - Other Credit Specific Considerations
- **Assessments of governance and management are particularly important when a nonprofit is facing strategic changes. The assessments analyze the following five sub-factors:**
  - Board and Senior Management Composition,
  - Oversight and Disclosure Practices,
  - Short- and Long-Term Planning,
  - Self-Assessment and Benchmarking,
  - Government and Stakeholder Relations.

**Webinar 3: Recent Trends in Nonprofit Balance Sheets and Capital Investment**

*This webinar discusses nonprofits' financial structure and their use of debt to meet capital needs.*

**Highlights from NCCS analysis on the use of debt by public charities [forthcoming]**

- **Relatively few public charities use debt.** Less than one in three (29%) public charities had any debt at all in 2012. Larger, well-established charities with more reliable cash flows and collateral to secure the debt are more likely to use debt.
- **There may be a "Goldilocks zone" of debt.** The highest rate of closure between 2003 and 2012 occurred among organizations with debt levels greater than 67% of assets (24%). However, organizations with a small amount of debt saw a notably lower closure rate (14%) than those with no debt at all (21%).

**Key insights from Moody's ratings of not-for-profit organizations**

- **Balance sheet and capital investment matter most.** Among the six rating factors evaluated in the Moody's rating methodology, the balance sheet indicator is weighted most heavily.
  - Nonprofits with substantial financial reserves are better positioned to weather prolonged periods of economic and market volatility, increasing probability of debt repayment even in periods of stressed operations.
  - A nonprofit's debt profile reflects its strategy of balancing the cost of capital with the potential balance sheet and operational risks of external financing.

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**Indiana University Lilly Family School of Philanthropy:**

<http://www.philanthropy.iupui.edu/moodysnccs-webinars>

**National Center for Charitable Statistics at the Urban Institute:**

<http://nccs.urban.org/projects/index.cfm>

**If you would like to interview one or more of the panelists, please contact one of the following:**

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