
How Dire was the Metro Arts and Film's Financial Condition?

Posted by Mark Hager - 2008/02/11 19:28

First read the whole case, and then join the discussion! Case available at http://www.nonprofitquarterly.org/images/fbfiles/files/The_Ultimate_Question.pdf

Nonprofits certainly need money to keep them running, but financials are just one aspect of a complicated combination of history, personalities, and environmental conditions that determine an organization's future.

How much did Metro Arts and Film's (MAF) financial condition contribute to its demise?

Here's the handout that Peter refers to:

http://www.nonprofitquarterly.org/images/fbfiles/files/Ultimate_Question_Balance_Sheet.pdf

Peter didn't think that the financial condition was bad enough to justify closure.

What do you think?

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Re:How Dire was the Metro Arts and Film's Financial Condition?

Posted by Kate Barr - 2008/02/13 04:00

Mark, Thanks for including the one page financial report to accompany the case study. For me, financials tell an interesting part of the story. Looking at the MAF financial trends, I don't think they look all that bad. Revenue is destiny, as NPQ's cover said a few issues ago, and MAF's income trends are revealing. While government grants have declined (a notoriously restrictive and onerous type of income), the income earned from program fees (an unrestricted, flexible type of income) has mushroomed. Growth in program fees are an indication that MAF is meeting needs in the community that people are willing to pay for - a very good sign. The large fundraising campaign results in a single year are another sign that with effort and attention the community is open to supporting the mission and programs. With a different story line, the financial information could be good news, but the director, Jackie, saw only doom and failure.

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Re:How Dire was the Metro Arts and Film's Financial Condition?

Posted by Mark Hager - 2008/02/13 17:55

Kate Barr wrote:

but the director, Jackie, saw only doom and failure.

And almost everybody in the room voted with her. What else do we see in the case that helps us understand how the financial summary fits in?

I think that people tend to think that nonprofits close because they run out of money. In my mind, that's similar to the conclusion that people die because of lack of oxygen to the brain. While that's technically true, it doesn't tell us much. There's almost always some reason (among hundreds!) why we're in that condition. Same with nonprofits. Lack of money is just a final state. There's a hundred different things that conspire to bring an organization to that condition, and that's where the real story is.

I'm hoping for a discussion about how the financials fit into the larger picture. Through the history of this case, I've always been struck that the board didn't really care about the financial summary. They either didn't understand it, or weren't engaged enough to try to make sense of it. OR maybe they understood all too well, and the organizations was legitimately ready to fold. The financials are just part of the story, but I think that seeing how they fit in is an important part of the case.

Mark

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Re:How Dire was the Metro Arts and Film's Financial Condition?

Posted by Joanna Schmolke - 2008/02/14 05:15

And lets remember that the organization did not yet have debt owed to outside parties. Though not having a cash reserve is a dire situation to be in, it is potentially reversible. As described by Kate in her posting, other income streams were healthy, even though state funding had been cut. With some revamping of programs, it would have been possible for the organization to pull through. However, I don't know if the board members as they are described in the case study would have been dedicated enough to help staff pull off the necessary fundraising. A similar board meeting, with more burnt out staff and board, dealing with greater debt at hand, would possibly take place in the near future.

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Re:How Dire was the Metro Arts and Film\'s Financial Condition?

Posted by Rebecca Barker - 2008/02/17 18:39

After looking at the balance sheet, I agree that the financials don't look that bad. There's definitely problems. But the board's finance committee needs to play out a few different scenarios to see what, if anything, they could do to turnaround the organization. It seems that program fees and membership dues would be easy lines to increase with a little bit of work. The community support was there, but the Board was not seeing it. I think this organization should have gotten a more qualified financial person and development person on staff to make some changes in a positive direction.

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Re:How Dire was the Metro Arts and Film\'s Financial Condition?

Posted by Ben Lentz - 2008/02/18 00:55

Reviewing their balance sheet you can see how the previous ED grew the organization significantly from 1992 – 1997 while building a cash reserve and financial stability. During this rapid time of growth I wonder if the board and ED took time to assess the work they had done and strategically planned out their next steps. The 5 years that follow show continued growth in program expenses but an inability to continue a surplus or cover expenses. The final 5 years from 2002 – 2007 indicate a realization that they were in trouble but their response may have been too late. Expenses were reduced significantly in each program area but fundraising efforts fell flat. They needed to capitalize on additional earned income in areas of membership dues and reconnect with the North End Community College to reestablish their relationship with the faculty to resume offering classes. There are a lot of factors that lead to the demise of MAF but I believe a lack of strategic financial planning and ongoing assessment is essential for any organizations survival.

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Re:How Dire was the Metro Arts and Film\'s Financial Condition?

Posted by Joanna Schmolke - 2008/02/21 02:58

Good point about considering various scenarios in order to pick the best solution to follow through with. This board was only willing to vote on option A or option B: To close or to stay open. For this very reason, the decision was too abrupt. In other organizations that I have either experienced or studied, the closing of the organization is not just decided in one meeting. Rather, the organization takes a look at various options that could be implemented instead of closing. If they are devoted to the community, they really owe it to the public to explore all of their options before removing the programming entirely.

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Re:How Dire was the Metro Arts and Film\'s Financial Condition?

Posted by Mark Hager - 2008/02/21 23:07

Joanna: I know that I write the case as if everything appears to happen very abruptly, but I think we should expect that there'd been a good deal of introspection in the organization over the past several years. When MAF was running into the ground, the board really had to take stock of the situation before deciding to fire the founding director. I think that many board (and staff) members were hopeful about the future as they searched for and then employed a new executive director, but not particularly optimistic. I think a lot of the disinterest or negative energy among the board was the result of a lot of thinking about an unhealthy organization for a long time. All this to say that the decision might not have been as abrupt as the case might suggest. It was a long time coming.

Mark

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Howdy

Posted by orasngo - 2008/04/08 16:33

I have already given two cousins to the war and I stand ready to sacrifice my wife's brother.

-- Artemus Ward

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