

## *Contingency Planning and Budgeting*

*David Gray, CFP*

### *The Sky is Falling*

*Everyone is scared, hoarding money.*

Foundations

Corporations

Individuals

*Are you prepared?*

What are you going to do when it gets ugly?

Do you have a number of “what if” budget scenarios?

Have you plugged these into your cash flow model?

The Sky is Falling...Or is it?

And does it matter?

“COST DISEASE”

*Performing Arts, the Economic Dilemma: A Study of Problems Common to Theater, Opera, Music, and Dance.* Baumol and Bowen, 1966

“DEATH TO THE MIDDLE!”

*The Performing Arts in a New Era,* Rand, 2001

What's the impact?

*Less Money for everyone.*

*Working harder to stay in the same place.*

Is your business model likely to survive?

*Subscriptions?*

*Donations and grants?*

*Doing everything in house?*

Cyclical vs. Systemic

Will you recognize the difference between your regular business cycle and a broader sector changing shift?

How do you monitor your operation? Will this system help you recognize the signs?

Who are your peers? What are they up to? Who is in trouble and why?

How do you know you are in trouble?

*What does going broke actually look like?*

*Do you anticipate a cash-flow challenge annually? Is this the one you planned for?*

Impact on cash flow.

*Going broke is a process.*

*What are the signs?*

*What leads to demise?*

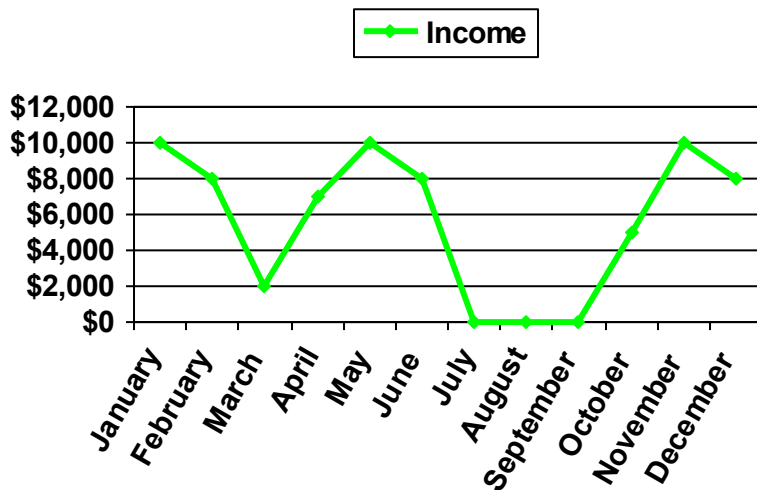
*A change in timing of income or expenses.*  
*A change in amount of income or expenses.*  
*Misidentifying the nature of your challenge.*

Ten signs that your organization has cash flow trouble

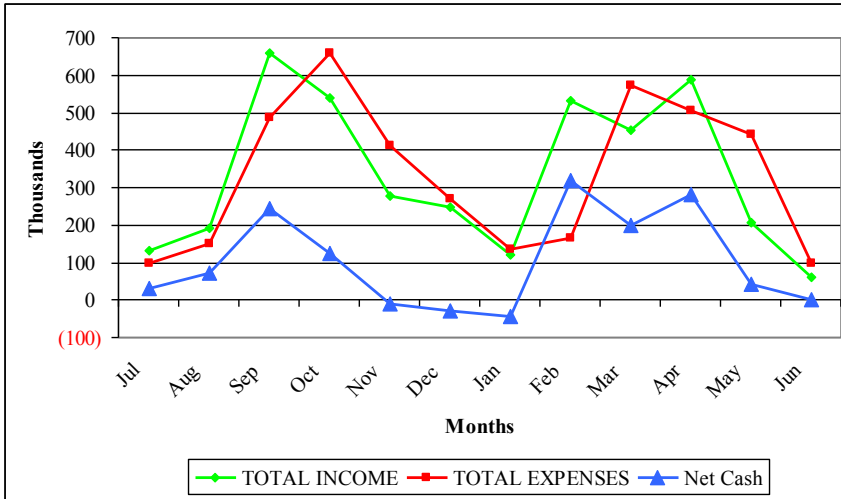
- Your accounts payable list is getting longer.
- You provide weekly updates to key board members about your organization's cash position.
- You rush to greet the mailman to see if any checks have come in.
- You are on target with your budget projections but you still need to ask the Board members to make emergency donations.
- Some of the outstanding bills are way past due.
- The bank just called to let you know that you have maxed out your credit line.
- You have asked the Finance Director if you can temporarily borrow from your endowment funds.
- Staff members envy their colleagues in the safe secure financial services sector.
- Vendors are calling to see when they are going to get paid.
- Your paycheck bounced.

Personal Cash-Flow Example: Erratic Income

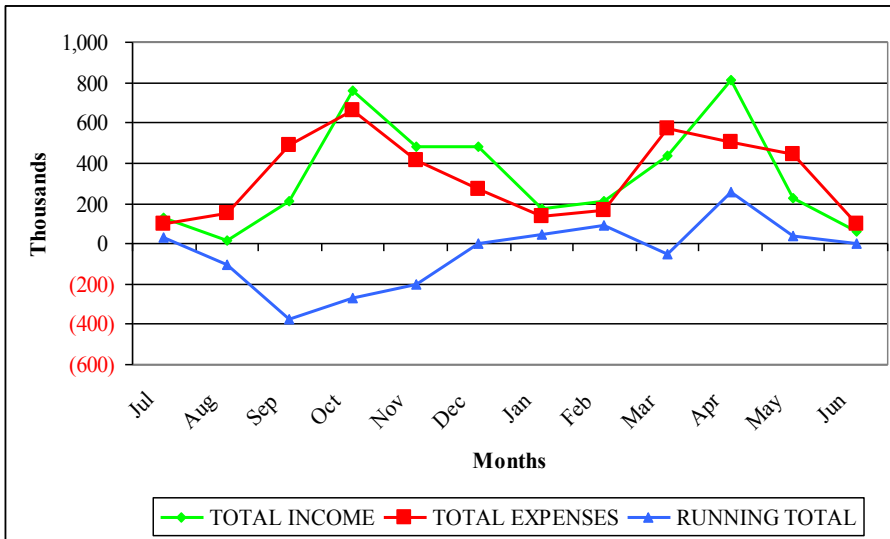
Annual = \$68,000 Performer pay  
 Performance Pay = 25 weeks @ \$2000 each = \$50,000  
 Rehearsal Pay = 18 weeks @ \$1000 each = \$18,000  
 Lay-Off Pay = 13 weeks @ 0 each = 0  
 Total income = 68,000



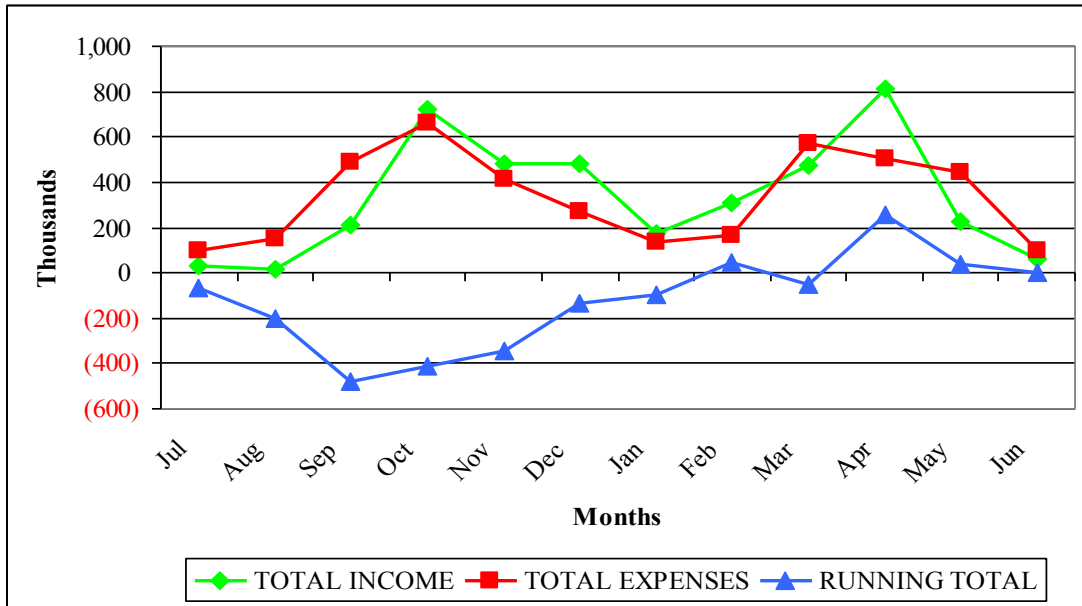
Subscription Theater: Cash-Flow:



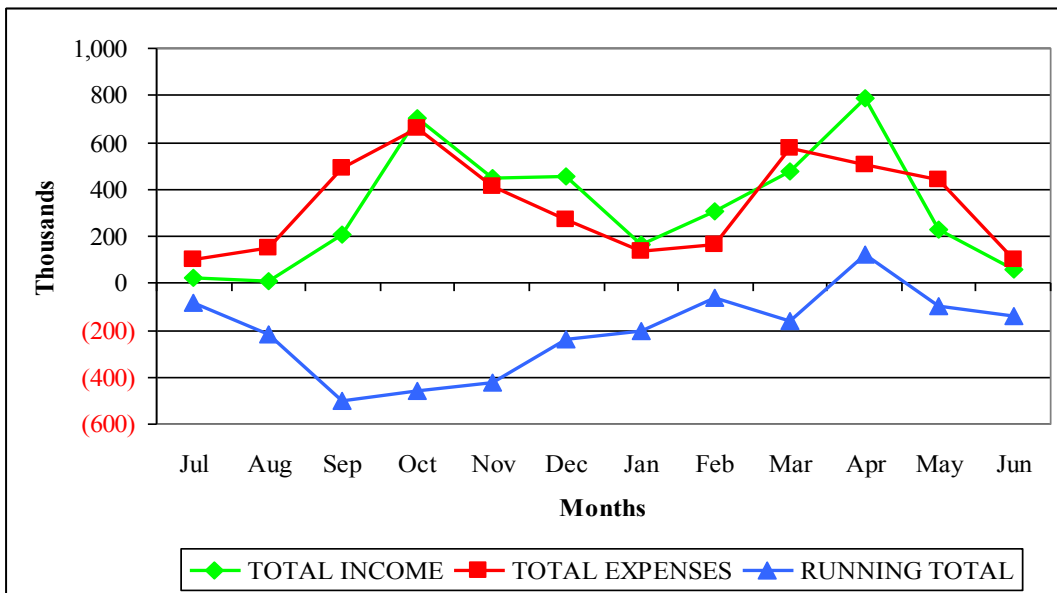
Non-subscription Theater Cash Flow:



### A Change in Grant Timing



### 10% Reduction in Individuals and Foundations



What can you do about it?

*Earn More*

*Spend Less*

*Borrow*

Short Term

Long Term

Earn More

*Sell more*

*Excess capacity that can be “rented” to others?*

*Beg more*

*Recapitalize*

*Do you have assets with value?*

Kaiser Model

*Michael Kaiser*

*Patron Saint of Artistic Directors*

*Invest in your product*

*Making a cheaper, less appealing product will not draw customers.*

*“You can’t save your way to success.”*

Spend less

Prioritize with the Board.

*Around the World in 80 Days* example

Slow your payables – speed up your receivables.

Adjust Staffing

Reduce staff, pay, hours, etc.

Recapitalize?

*Do you have assets that can be turned into cash?*

*Land or buildings?*

*Theatrical assets that can be sold or rented?*

Borrow

*Are there vendors (landlords) who can be patient?*

*Do you have collateral?*

*Does a supporter have collateral?*

*Gift timing:*

Converting a loan into a gift for tax purposes

Long Term?

*Can someone else do all the non-mission stuff?*

*Can your mission be fulfilled while sharing services/staff, etc.?*

*Are you the most efficient method of fulfilling the mission?*

*What happens to the world if your mission is not fulfilled?*

Who has the passion?

*The mission has to matter to someone*

Ideally more than one someone

*Someone may have to tell the passionate person that they are delusional...*

The Outcome?

*Winners and losers*

*Visionaries will find alternatives to folding: mergers, reorganizations, consolidations, etc.*

Thank You