



2014 State of the Nonprofit Sector Survey: Arts & Culture Results

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Based on a nationwide survey of nonprofit leaders conducted by Nonprofit Finance Fund, January-February 2014.

Presented to:
Council of New Jersey Grantmakers



Agenda

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Program Trends

Financial Health & Management Actions Taken

Grantmaking Trends

Conclusion: Looking Ahead & Tips for Cultural Grantmakers



About Nonprofit Finance Fund (NFF)

Tailored Investments, Strategic Advice, Accessible Insights

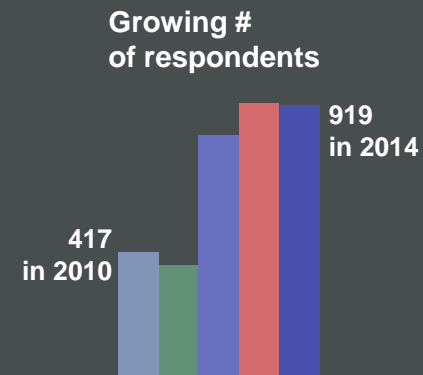
Since 1980, we've helped funders, nonprofits, and other mission-driven organizations connect money to mission. Our services help great organizations stay in balance, so that they're able to adapt to changing financial circumstances and grow and innovate when they're ready.

As a leading community development financial institution, NFF has provided over \$330 million in loans and access to additional financing via grants, tax credits, and capital to support over \$1.4 billion in projects for thousands of organizations.

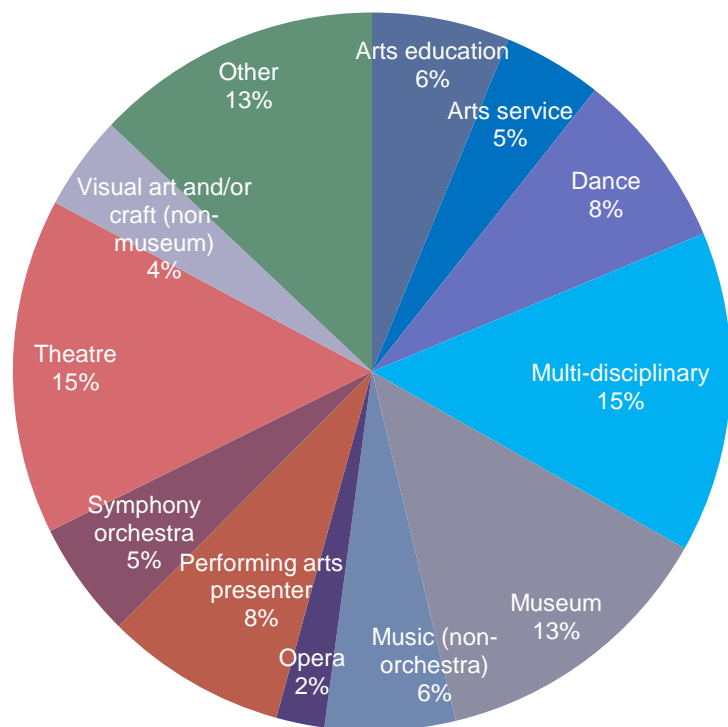
Since our founding, NFF has been helping arts and cultural organizations solve their financial challenges and plan for a more vibrant, healthy future. We have worked with more than 1,300 arts organizations across the country, from small neighborhood-based community centers to large performing arts organizations and museums.



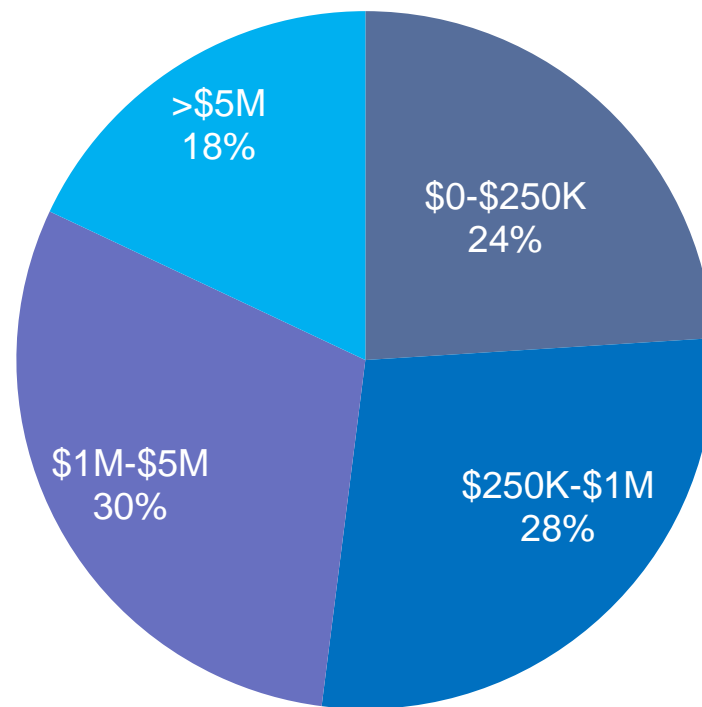
Of 5,019 total respondents, 919 organizations identified as Arts, Culture, & Humanities. Organizations represent a wide range of sub-sectors and budget sizes.



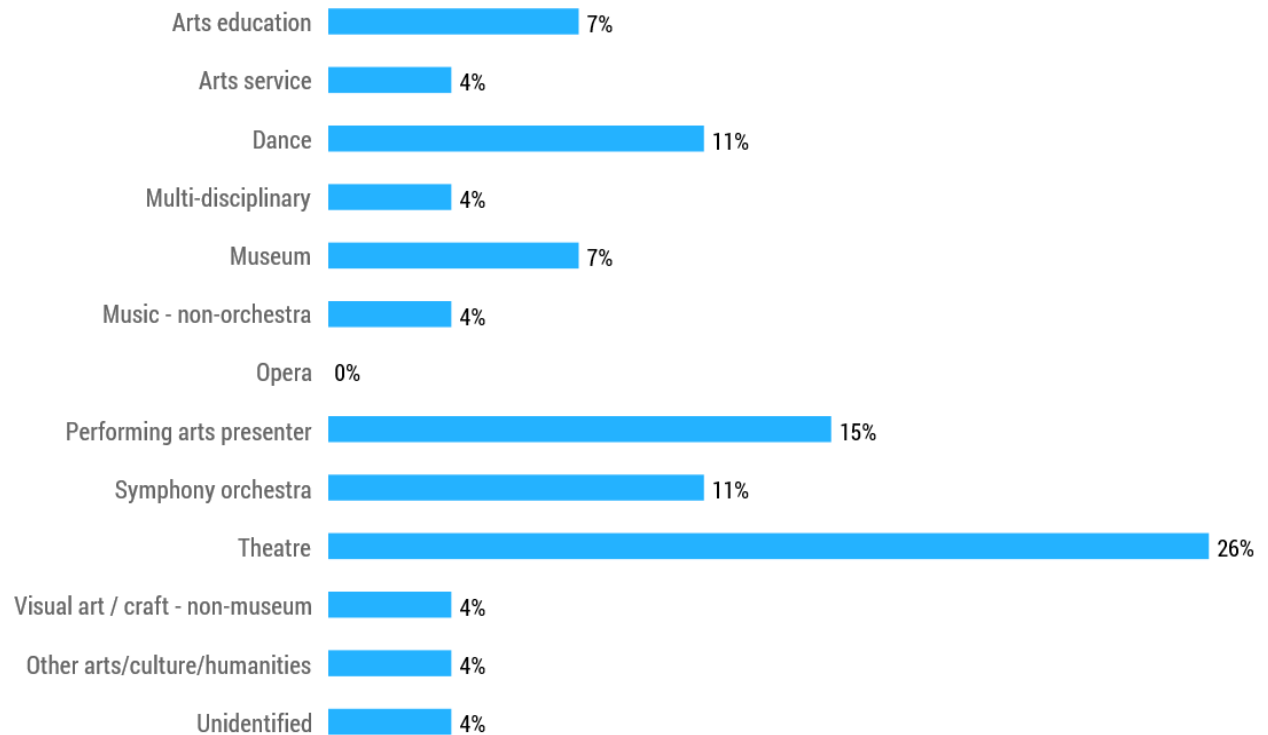
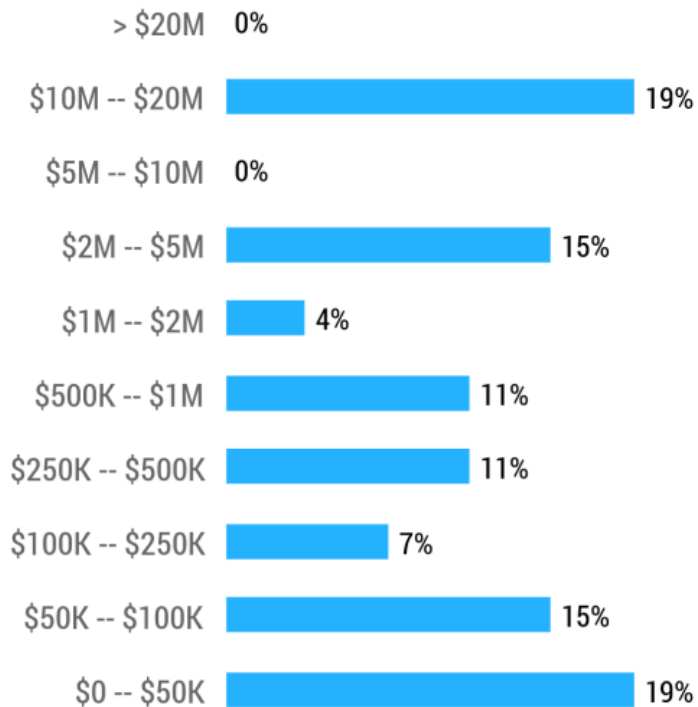
Arts Respondents, by Sub-Sector



Arts Respondents, by Operating Expense



The 27 arts & culture respondents in New Jersey represent a range of sizes and disciplines.



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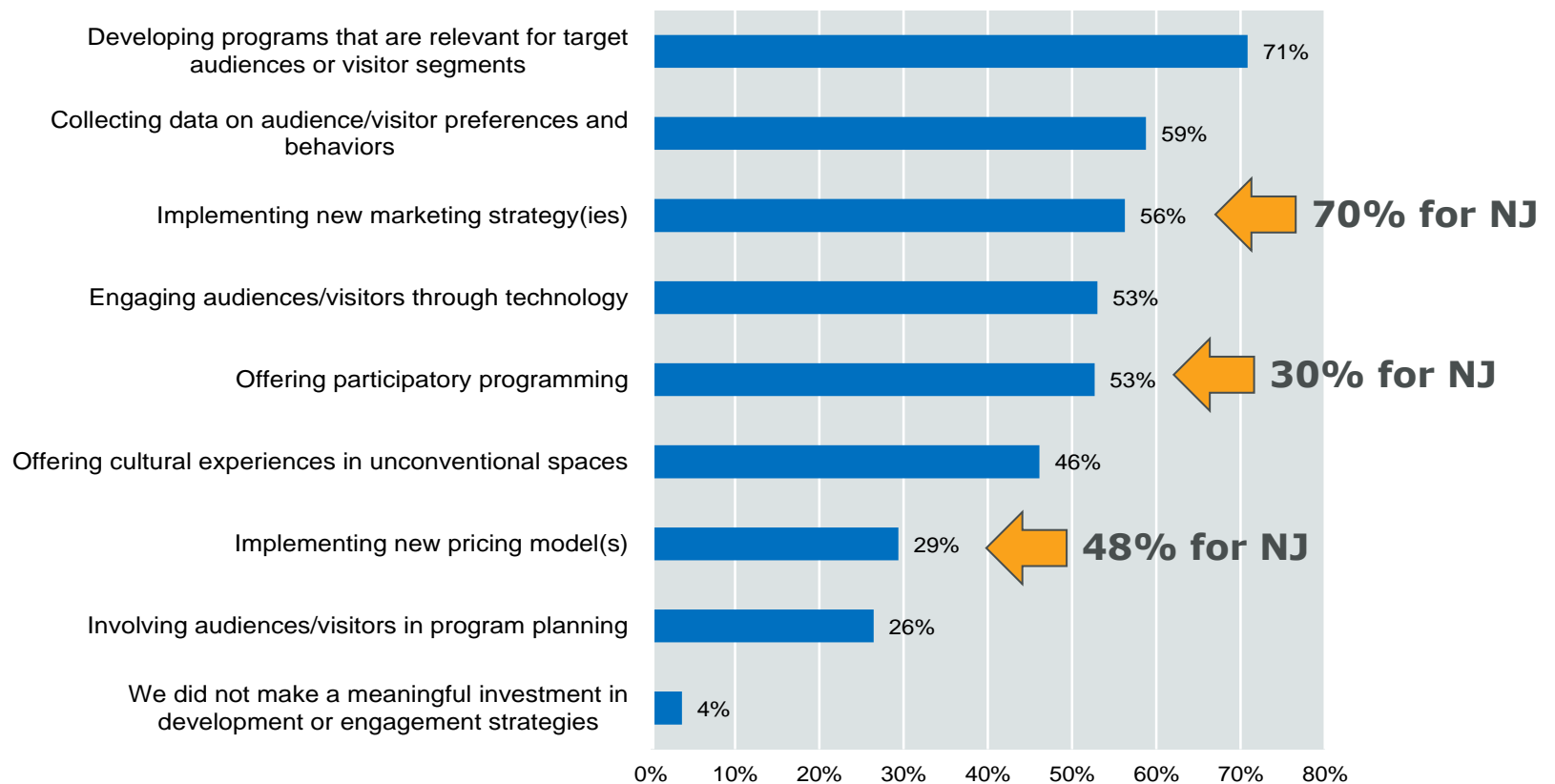
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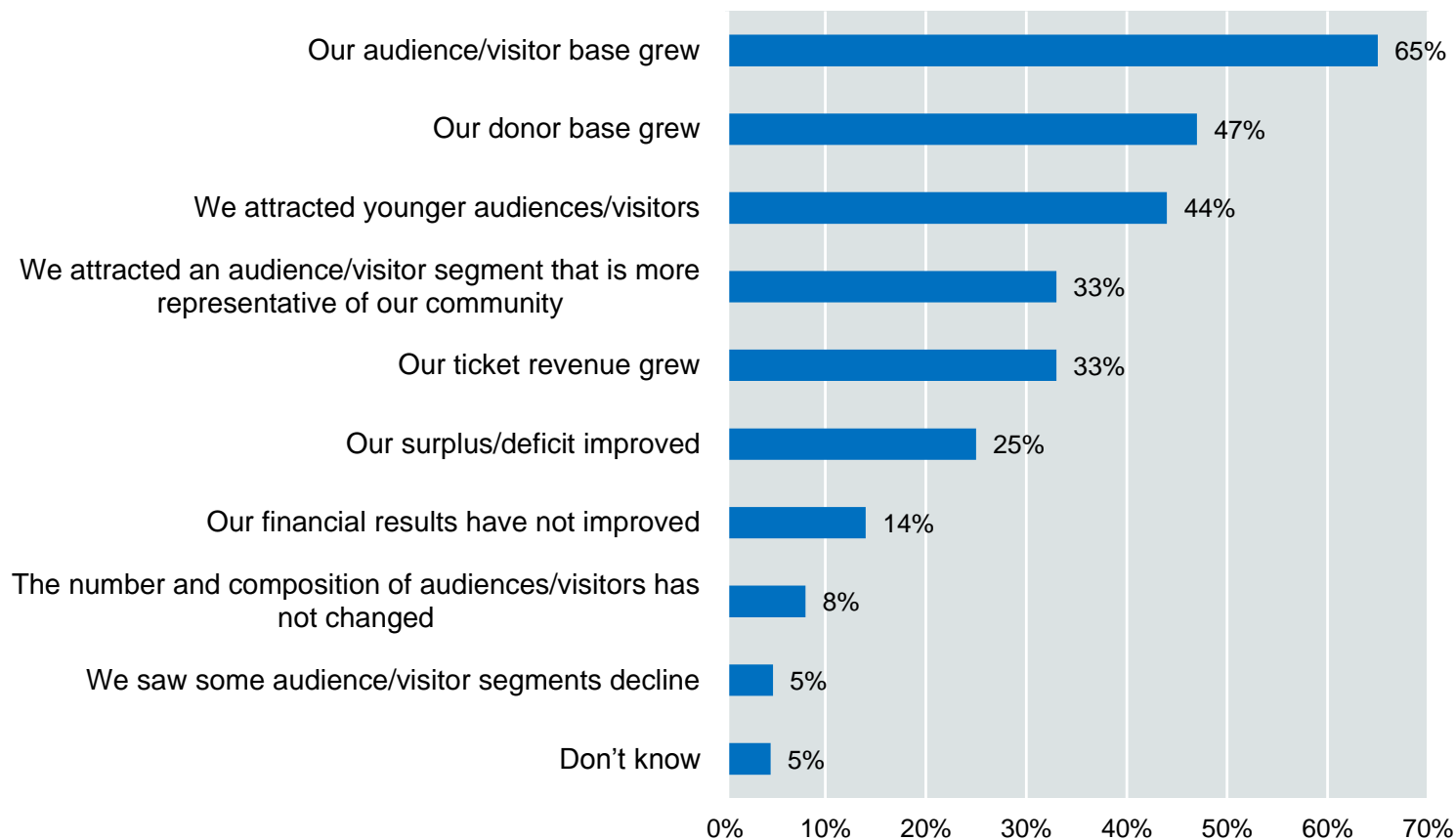
Arts & culture organizations are pursuing a range of strategies (e.g., program adaptation, data collection, targeted marketing) to build and engage their audience/visitor base.

How are arts organizations developing and engaging audiences/visitors?



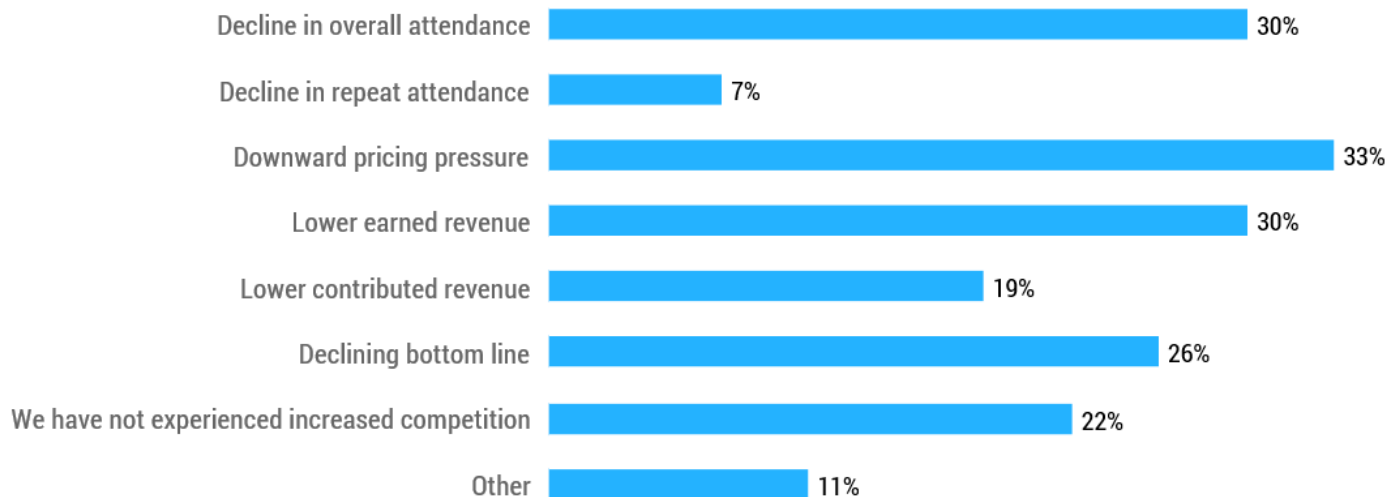
65% of arts respondents report growth in their audience/visitor base as a result of engagement strategies. However, only 25% reported a corresponding improvement in overall finances.

Results from audience/visitor development



NJ respondents also report much higher impact from increased competition in the marketplace than their national peers; as a result, respondents are employing an array of strategies.

Impact from Increased Competition (NJ)



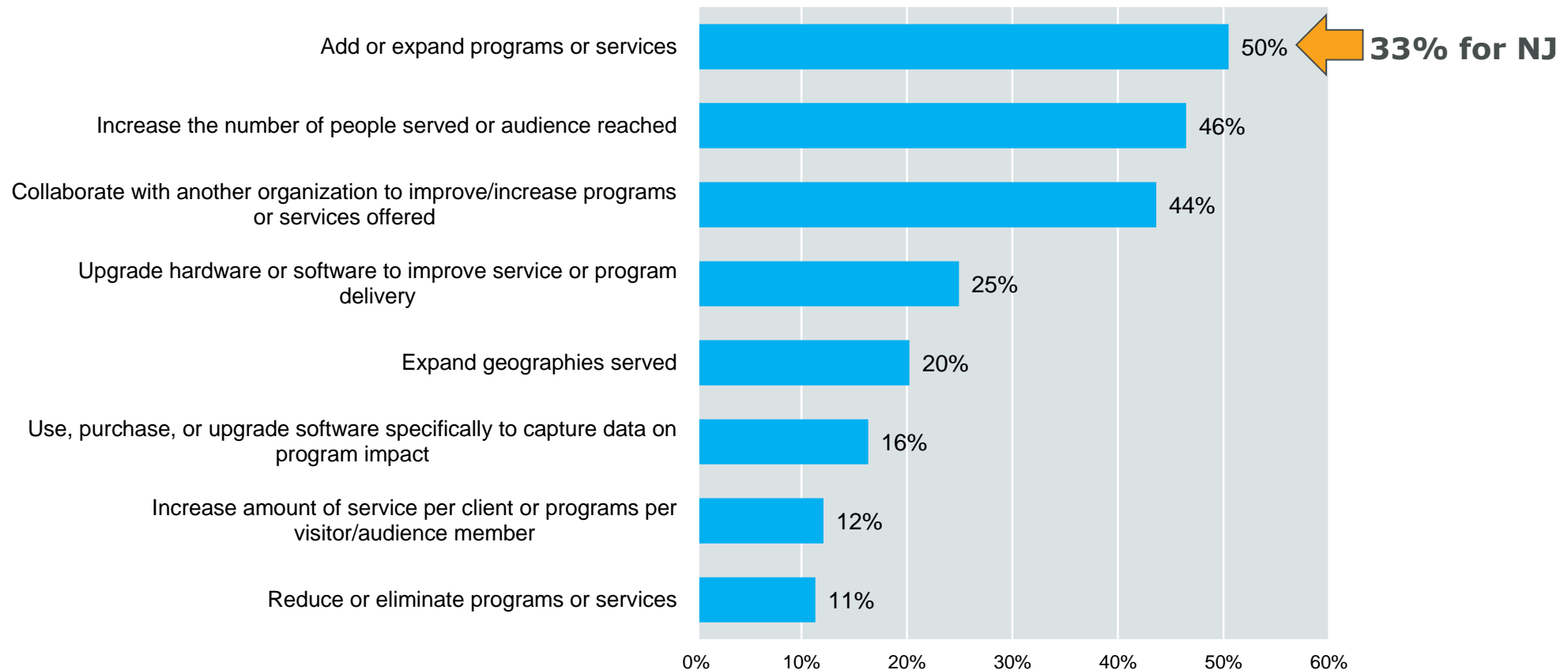
Strategies Employed to Respond to Increased Competition

- Adapted audience/visitor engagement strategy
- Collaborated with another organization
- Invested in new technology/ social media
- Lowered prices
- Narrowed or changed program focus
- Narrowed or changed target audience/visitor base



Financial challenges notwithstanding, program and audience expansion continued apace for many.

Program-related Actions Taken in 2013



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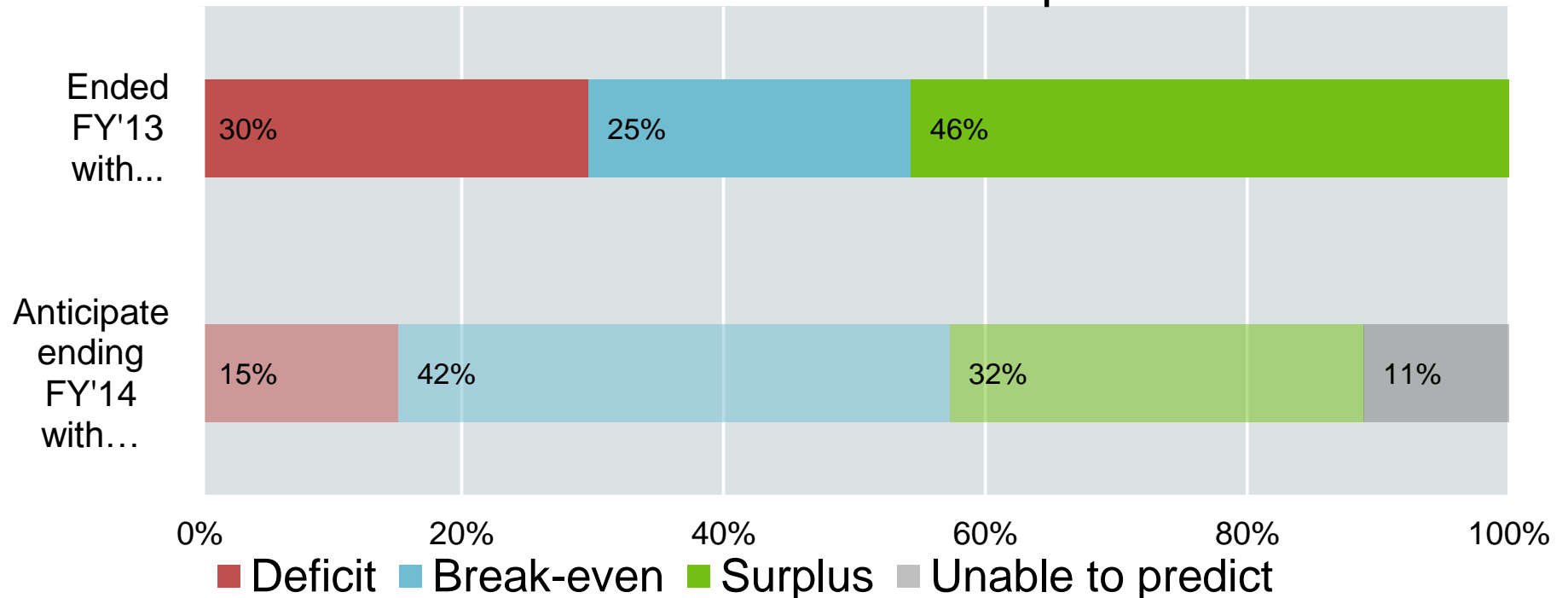
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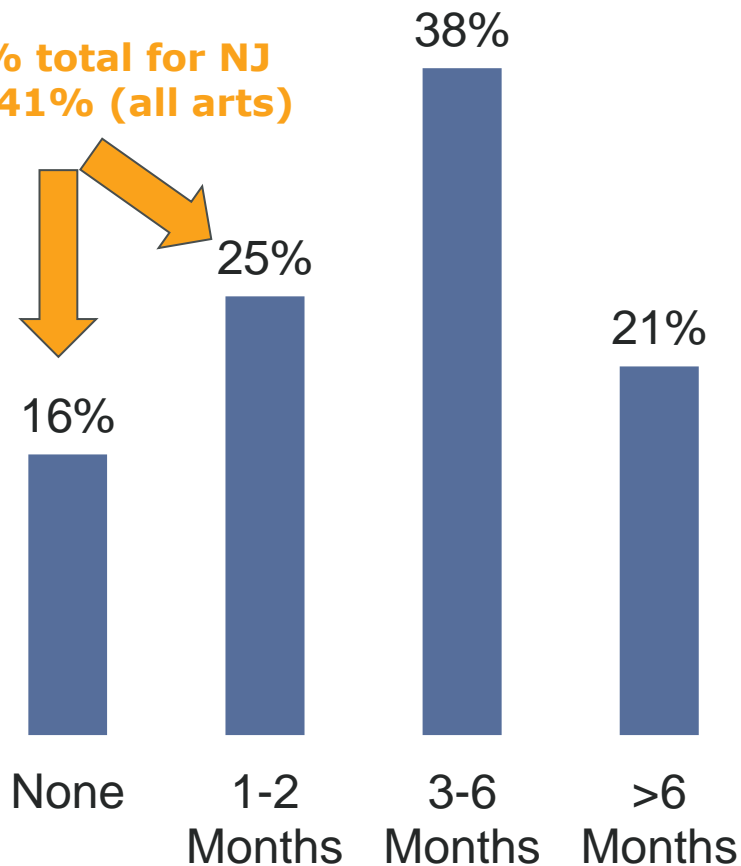
71% of arts & culture organizations reported break-even or better operating results in 2013.

Financial results: FY 2013 vs. anticipated FY 2014



Despite improving annual results, 41% of arts & culture groups persistently report having fewer than 3 months of cash (and 61% have 3 months or less).

56% total for NJ vs. 41% (all arts)



25% say they added to reserve funds, while 17% said they drew down reserves.

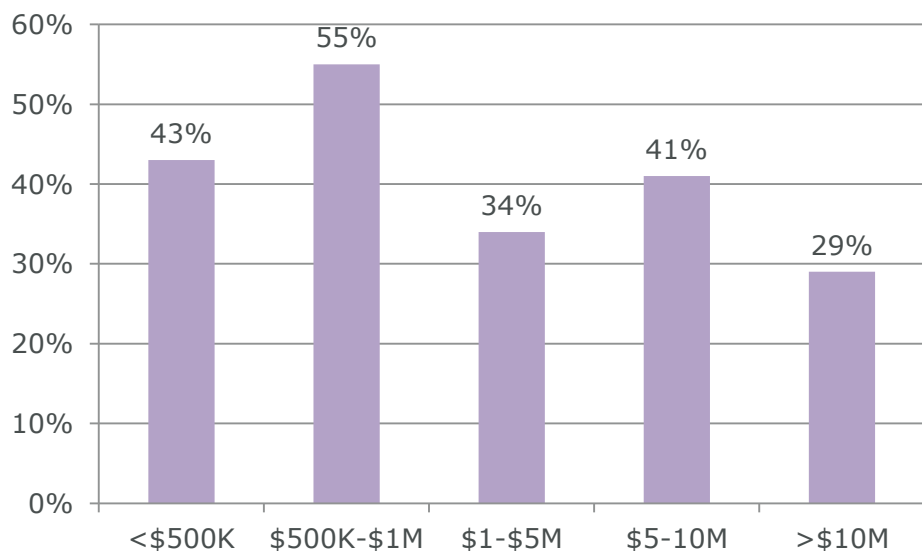
Cash may be restricted or earmarked to future programs or time periods. NFF strongly recommends that organizations also calculate months of liquid net assets to understand the funds actually available to pay the bills:

$$\begin{aligned} \text{Months of Liquid Net Assets} = & \\ & \text{Unrestricted Net Assets} \\ & - \text{Prop \& Equip (PE)} \\ & - \text{Associated PE Debt} \\ & \text{Monthly Expenses} \end{aligned}$$

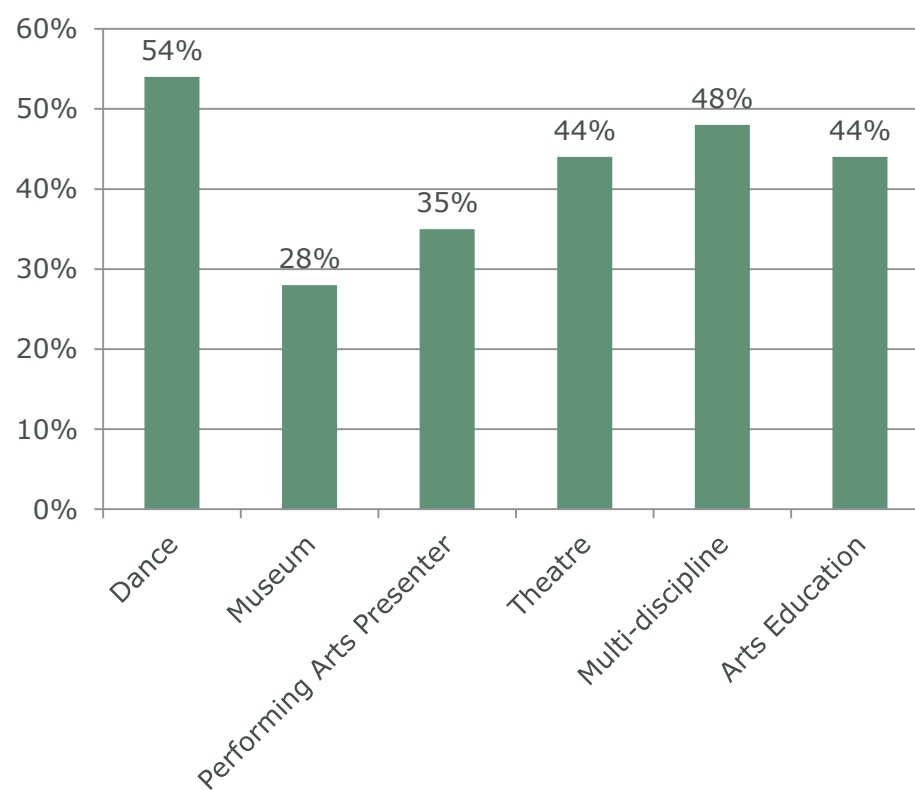


Liquidity is a greater concern for organizations with smaller budgets. Trends vary by artistic discipline, with museums & performing arts presenters reporting more cash than theatres and dance companies.

% reporting <3 months of cash
(by budget size)



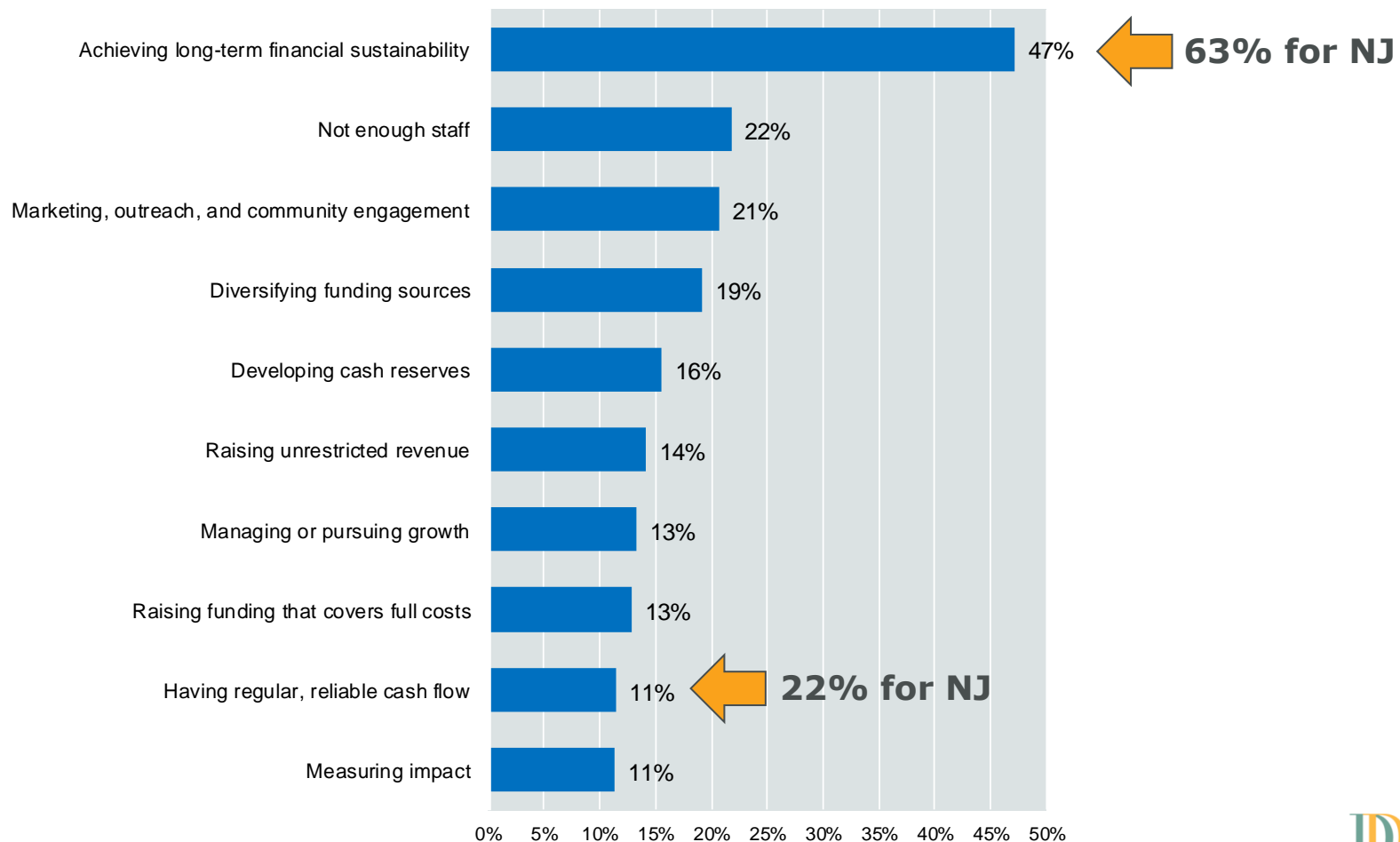
% reporting <3 months of cash
(by organization type)



Nearly 50% of arts respondents cite “achieving long-term financial sustainability” as their greatest challenge. NJ organizations also cite cash flow as a key challenge.

Greatest Challenges Arts Respondents are Facing

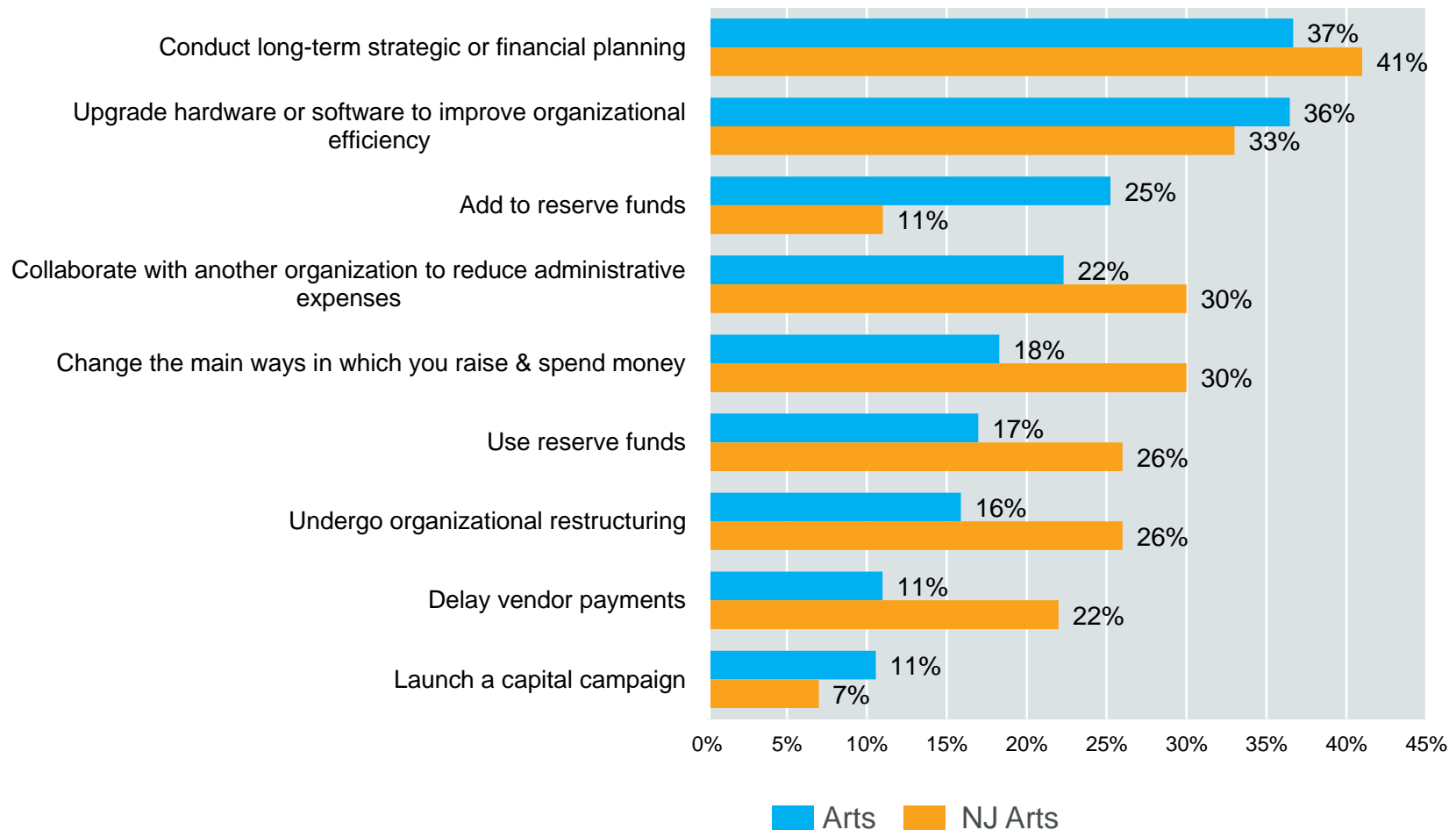
(respondents chose up to 3)



Many arts and culture leaders focused on planning to improve their situation. Few launched capital campaigns or purchased/renovated facilities.

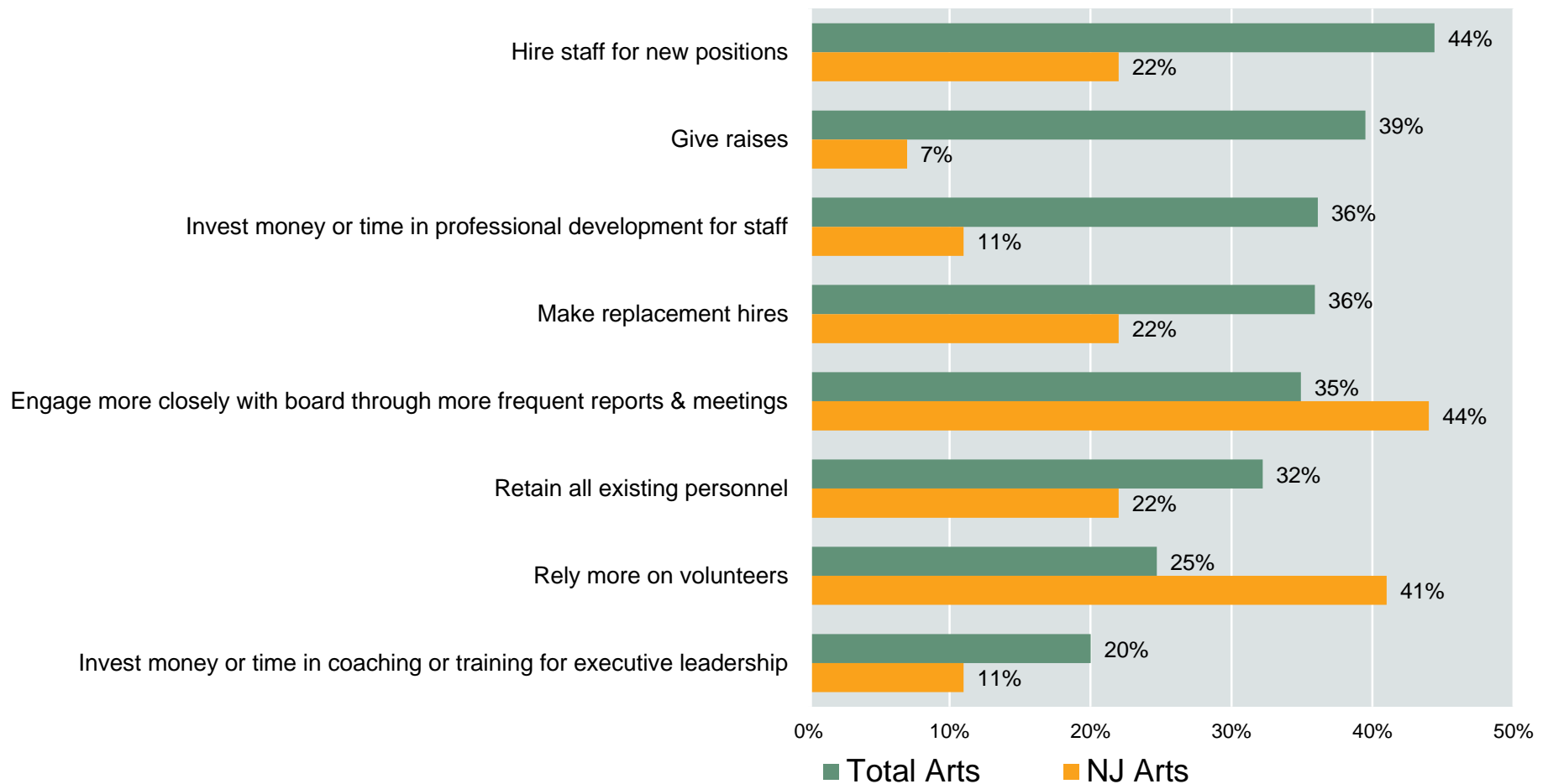
Organizational Management Actions Taken

(check all that apply)



However, arts & culture nonprofits invested less in personnel (through hiring, salaries & professional development) than the greater nonprofit sector.

Personnel-related Actions Taken in 2013



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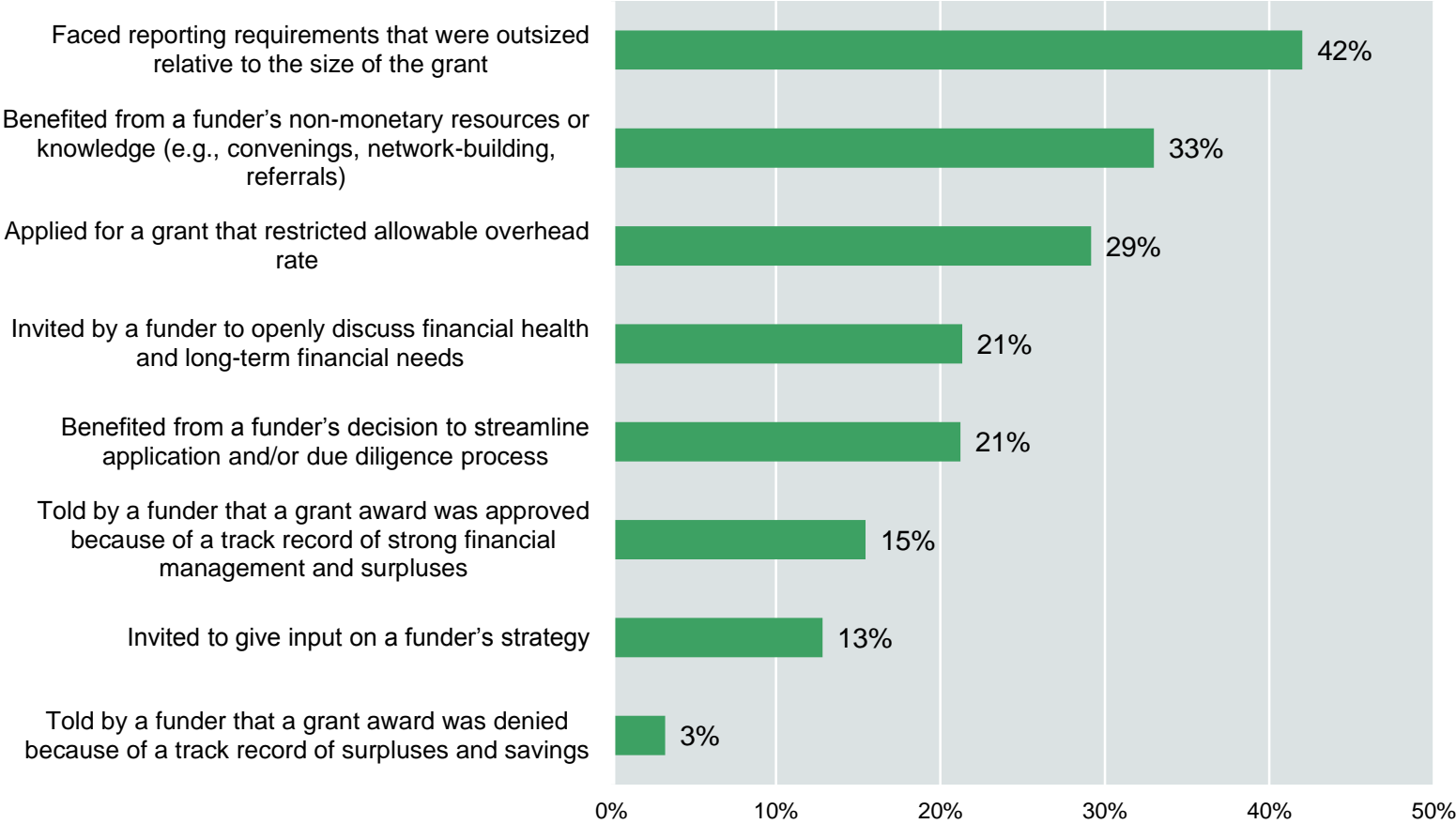
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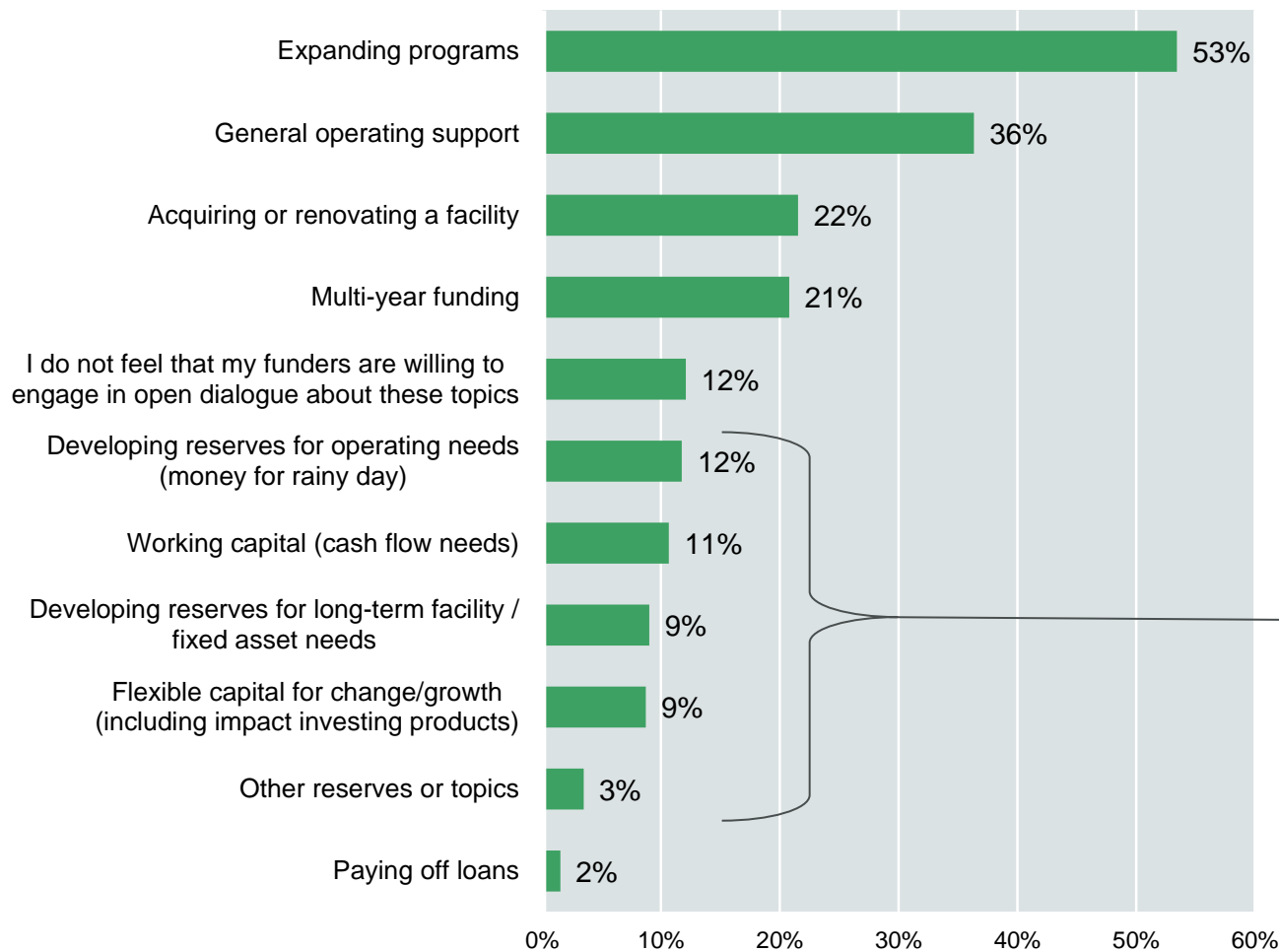
Cultural organizations report experiencing grantmaking practices both conducive to, and disruptive of, effective planning and management.

Grantmaking practices experienced in the past year



Addressing unhealthy finances will require more candid grantmaker-grantee dialogue. Respondents report comfort in talking to funders about program expansion, but not long-term financial needs.

My organization can have open dialogue with funders about...

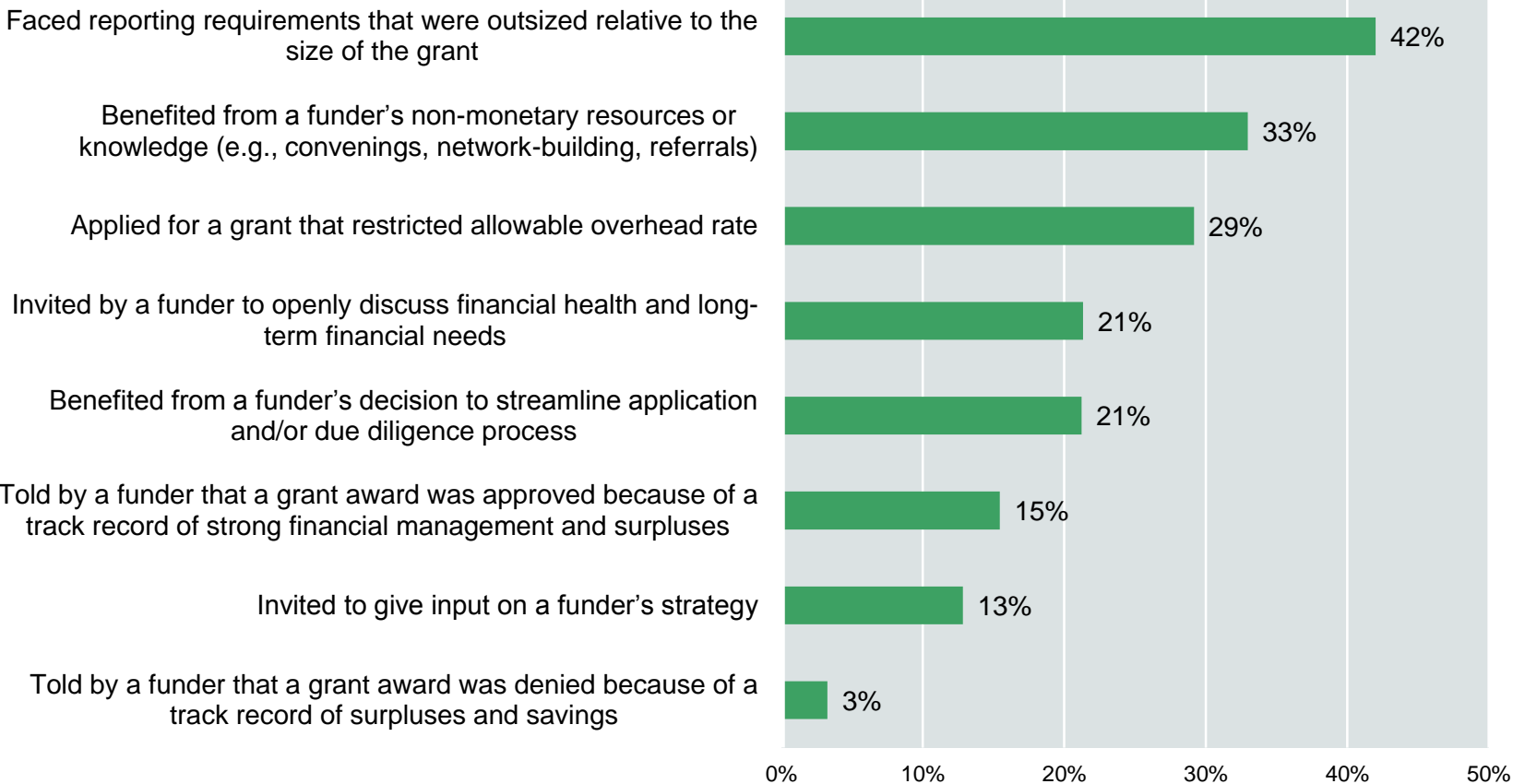


Development of reserves remains a challenge and nonprofits have difficulty engaging supporters in a dialogue about their reserve needs.



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Grantmaking practices experienced in the past year



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Looking Ahead: Steps cultural nonprofits & their funders can take to propel change

Nonprofits:

- Develop strategies that integrate financial planning with operational and program planning,
- Understand and seek funding for the full costs of projects/programs,
- Budget and manage to operating surpluses,
- Prioritize working capital and savings for periodic risk-taking and change, and
- Clearly communicate your financial goals, priorities and timeline in the context of your art-making.

Funders:

- Encourage integrated planning that links program, operations, and finances to strategy,
- Fund projects and programs at full costs,
- Reward rather than penalize surpluses,
- Seed reserves for liquidity, risk-taking, and change, and
- Engage in dialogue with your staff, grantees, and peer funders about capitalization principles as a means to artistic freedom.



Propelling Change: Tips for Cultural Grantmakers

1. Encourage planning that links strategy and program goals to finances

An organization's mission and goals should drive its business model and balance sheet, not the other way around. Program and organizational strategy should be accompanied by a strategy and roadmap for finances and metrics for assessing progress along the way.

2. Get beyond break-even: fund for operating surpluses

The healthiest organizations develop and implement savings plans that strengthen their balance sheet each year. They prioritize working capital and operating reserves *before* facilities and endowments.

3. Be clear about your chosen role: Are you a “buyer” (a source of ongoing revenue) or a “builder” (a source of periodic capital)?

Funders can play one or both of these necessary roles, but each requires a different investment strategy. Buyers are supporting ongoing programs and business operations, not structural change. Builders' investments are most successful when the organization is already generating recurring surpluses.



Propelling Change: Tips for Cultural Grantmakers

4. If you are provides revenue or program support (as a “buyer”), fund programs and projects at full cost, supplemented by unrestricted support.

Funders who invest in program expansion without supporting related operating costs are encouraging organizations to overextend. If you make project grants, consider a reasonable provision for administrative costs and savings. By tracking the outcomes you seek rather than specific expenses, you can encourage healthier finances and programs.

5. If you are a providing capital (as a “builder”), fund the organization’s most pressing capital needs first.

Encourage and support organizations to address their liquidity needs first by prioritizing working capital to manage cash flow cycles and operating reserves to absorb regular operating risk. Consider funding artistic risk-taking (with risk capital) and organizational change (with change capital) once short-term liquidity needs have been met. If you make facility-related grants, consider seeding or adding to reserves that support their ongoing care and periodic refurbishment. Consider supporting board-designated reserves as an alternative to endowments.



Propelling Change: Tips for Cultural Grantmakers

6. Talk with applicants about their business models and their balance sheet.

Ask applicants about their financial strategy, near- and long-term. Encourage honest dialogue about the need for debt reduction, working capital, longer term savings and funds for periodic risk-taking and change. Even if you don't provide capital, make clear how your policies and practices reinforce healthy finances.

7. Talk about capitalization principles with other funders

Consider pooling capital resources with like-minded grantmakers to increase the likelihood of impact. Initiate conversations with other funders about the capitalization condition of cultural groups in your area. Share your learning with peers to encourage broader change in practice.



Nonprofit Finance Fund

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Learn more at:

- <http://nff.org/survey>
- research@nffusa.org

Interact with the data yourself at:

- survey.nff.org

Visit our Arts Resource Page:

<http://nonprofitfinancefund.org/partnerships/artsandculture>

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