



Grantmakers in the Arts

Supporting a Creative America

Capitalization and Community

National Capitalization Project

www.giarts.org

DEVELOPED IN PARTNERSHIP WITH
NONPROFIT FINANCE FUND AND TDC



Our funding community is diverse.



We agreed...



**To a set of common principles
and behaviors in grantmaking, educating
themselves about the urgency of the issue
and discussing the subject candidly with
grantees.**

- **Encourage surpluses and operating reserves - breakeven is not enough.**



- **Be certain that we all understand the importance of capital reserves and healthy balance sheets and embed good capitalization principles in conversations with grantees**



- **Encourage organizations with untenable business models to take steps to adjust how they do business**

- **Whenever possible, offer general operating support**
- **At the very least all funding, including project support, should be targeted to core mission activities and not draw financial or human resources away from the organizations' stated purposes.**
- **Ideally, project support should be at a level that fully funds the activity, including all of its indirect costs.**

WHY DOES CAPITALIZATION MATTER?

- Healthy capitalization provides the resources to help organizations address current audience and marketplace challenges
- Capitalization is the glue that helps connect:
 - Organizational mission, vision and strategy
 - Investment in the art
 - Ability to take risk

“A strong balance sheet means artistic freedom”

-Megan Wanlass, ED, SITI Company

KEY TERMS

Capitalization: Having the cash to execute strategy

Capital vs. Revenue – both are necessary

- **Capital:** to change organizational structure or direction
- **Revenue:** to conduct and sustain day-to-day activity

Capital markets: Where organizations seek funding and funders find outlets for their investments

Risk: The chance that a desired result may not materialize



KEY TERMS

Business model: how an organization makes and spends its money in service of its mission. It is influenced by:

- Artistic vision and strategy
- Local market
- Time horizon and lifecycle stage
- Business drivers (audience, facility, and other fixed costs)

It comprises:

- Revenue composition (earned and contributed)
- Revenue predictability and reliability
- Expense composition (employees, artists, occupancy, etc)
- Surplus size and reliability

**AN EFFECTIVE BUSINESS
MODEL CONTRIBUTES TO
SURPLUSES AND SAVINGS**

A SAMPLE BALANCE SHEET

Statement of Financial Position

FYE 06/30/08 (\$ in thousands)

Assets		Liabilities	
→ Cash	396	Payables	157
Receivables	65	LOC	114
Prepaid Expenses	15		
Other	6		
Property & Equipment	607		
Long-Term receivables	20	Total Liabilities	271

Net Assets

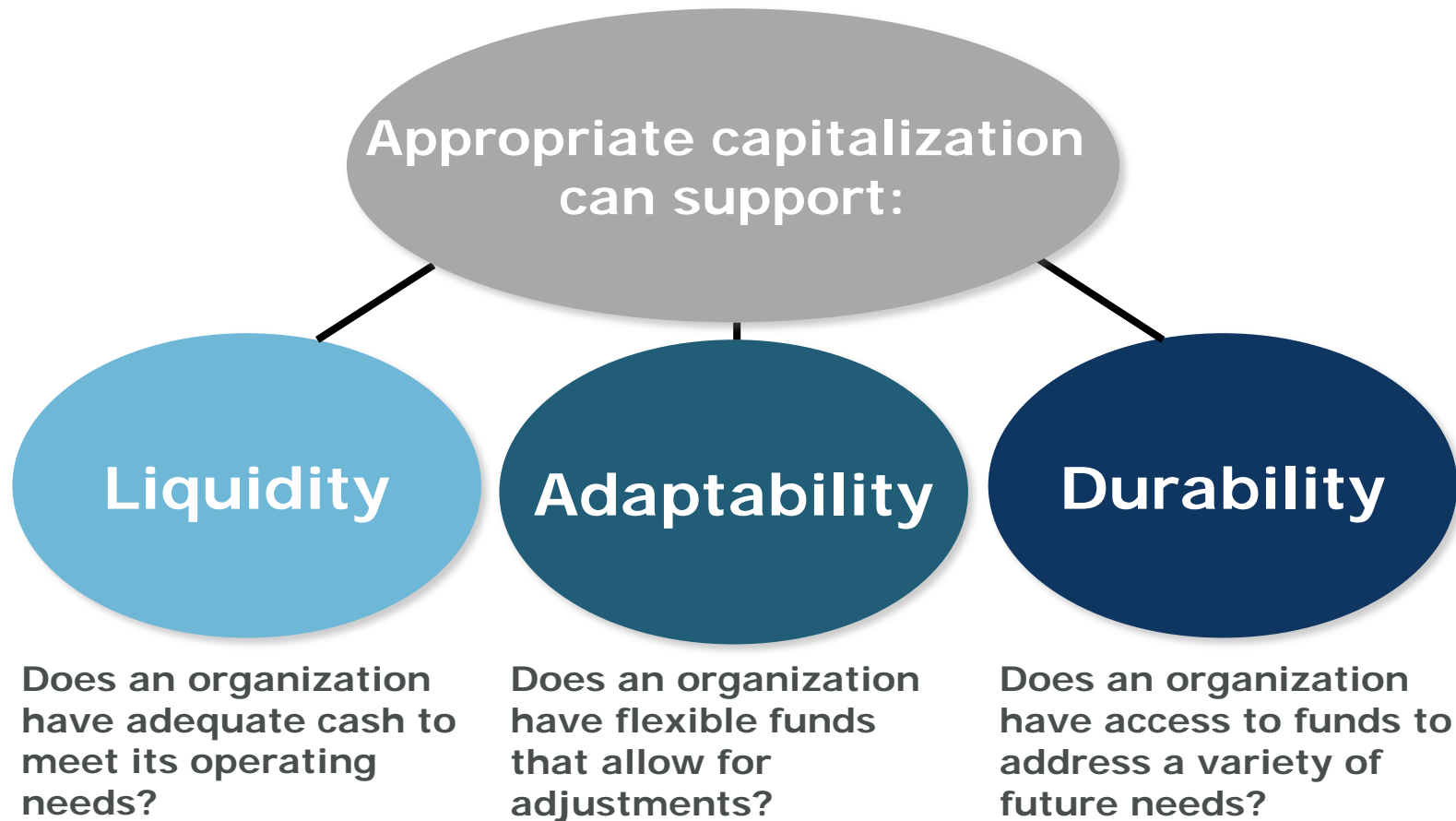
Unrestricted:

→ Liquid/Undesignated	-19
Reserves	—
→ P & E	607
Total Unrestricted	588
Temporarily Restricted	250
Permanently Restricted	0
Total Net Assets	838

Total Assets **\$1,109**


**Total Liabilities
& Net Assets** **1,109**

UNDERSTANDING NONPROFIT CAPITALIZATION

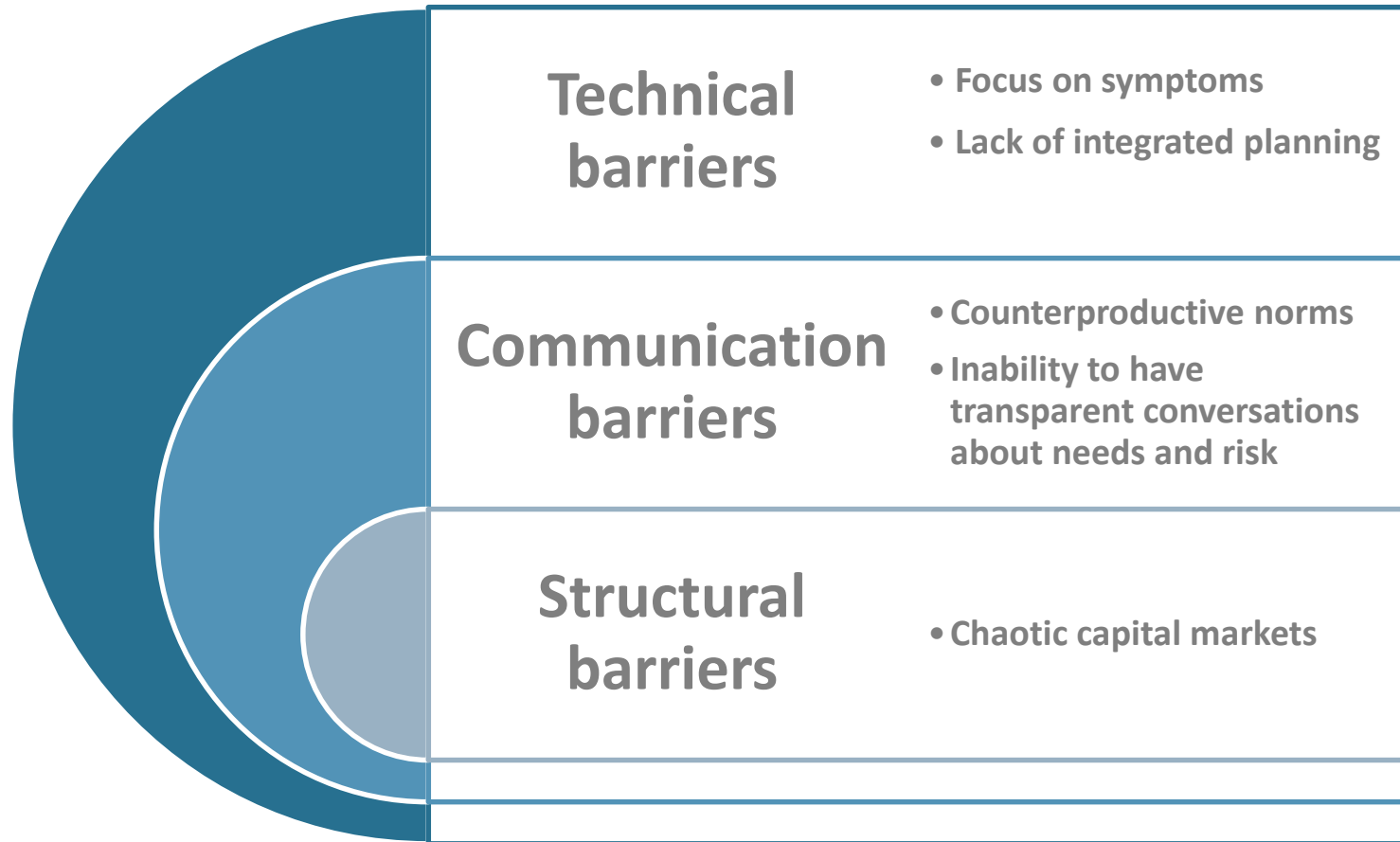


Capitalization is found on the balance sheet

Capital ADDRESSES DISTINCT Needs

	Capital Types	Function of each	Addresses:
	Working & Operating	Addresses cash flow timing issues; protects against unexpected downturns in the business	Liquidity
	Risk & Opportunity	Supports design and testing of strategic artistic or business opportunities; offsets one-time risks	Adaptability
	Change	Funds investments in changing the business and/or program delivery model in ways that generate more reliable revenue net of full costs	Adaptability
	Recovery	Allows an organization to address a historical mistake or chronically undercapitalized operations	Durability
	Facilities & Equipment	Supports acquisitions or upgrades, or can be used to accumulate reserves to meet future facility and equipment needs	Durability
	Endowment	Provides ongoing operating funds through investment income	Durability

BARRIERS TO CAPITALIZATION



TECHNICAL BARRIERS

LACK OF INTEGRATED PLANNING

Bad Planning

- Strategy and financial planning occur independently
- Lacks strong understanding of market realities
- Not supported by data

Good Planning

- Integrates program, organizational and capitalization strategies
- Defines need for capital until sufficient revenue can be generated
- Connects mission activities with the resources to support them
- Considers the organization's market and resources
- Informed by data and analysis

COMMUNICATION BARRIERS

COUNTERPRODUCTIVE NORMS

Funders

- **Losses:** breaking even = victory
- **Surpluses:** organization doesn't need my money
- **Reserves:** nonprofits can do without; they'll get by
- **Risk:** I am looking for positive impact, need to know it will work

Organizations

- **Losses:** breaking even = victory
- **Surpluses:** provide breathing room
- **Reserves:** funders won't provide them; I'll ask for money I can get
- **Risk:** I'll tell a positive story; funders don't want to hear about risks

COMMUNICATION BARRIERS

OPAQUE CONVERSATIONS

Funders

- **Restricted project money:** protects impact
- **Organizations' new ideas:** I want to help, but I'm cautious
- **Foundations' new ideas:** grantees must fit my strategy
- **Partnership:** I should participate in strategy and management to steward my investment
- **Pricing:** I'll fund part of this work; someone else can do the rest

Organizations

- **Restricted project money:** is better than no money, but where will the overhead come from?
- **Organizations' new ideas:** funding is usually slow
- **Foundations' new ideas:** I can contort the work to fit the initiative
- **Partnership:** only significant commitments can buy real influence
- **Pricing:** I'll have to do it for less; I have no other funding options

STRUCTURAL BARRIERS CHAOTIC CAPITAL MARKETS

Participants

- Capital markets include institutions, major donors, individuals, consumers, and government
- Foundations often shape markets
 - Others absorb counterproductive norms and ineffective practices
 - Organizations respond by chasing ideas, not impact

Dynamics

- In business, success is defined and measured by financial return
- In nonprofit world, success can be difficult to measure, leads to:
 - Inefficiency
 - Inadequate resources for promising opportunities