

BREAKING THE BARRIERS

WHAT CAN NONPROFITS DO?

Many survey respondents indicated that they are investing in audience development by collecting data on audiences and visitor preferences, offering participatory programming, and implementing new pricing models. While these strategies require an upfront investment of time and resources, not all of them will necessarily result in financial gains. The following tips are designed to help arts organizations consider long-term balance sheet health while addressing short-term mandates to adapt.

- 1 Articulate your needs.** When crafting your financial strategy and fundraising goals, remind supporters that innovation, new programs, and growth all require capital investment above and beyond normal program costs.
- 2 Ensure that the financial impact of program adjustments are fully reflected in the budget.** Many respondents reported trying new strategies in response to the interests of their communities. Tying these adjustments to expenses and tracking their impact on the bottom line is the next step to ensure ongoing success.
- 3 Seek funding for the full costs of a project,** which means more than just salaries and materials. This should also include budgeting for realistic overhead and contingencies—particularly for new programs. Exercise extreme caution when deciding to pursue projects that are not fully funded.
- 4 Use general operating support (GOS) and unrestricted funds to finance current operations or to build savings.** These funds are precious and are often needed to close the gap or cover the full cost of your other programs. Resist the temptation to use GOS to seed new projects or pursue growth.
- 5 Track progress toward strategic mission and business goals and plan for scenarios before they occur.** Consider and plan for what will happen if projected revenue fails to materialize or expenses exceed expectations.
- 6 Distinguish between your revenue and capital needs:** Capital (for one-time projects or special purposes) and revenue (for ongoing program) needs are different—but equally important. Calculate how much of each you need to achieve your multi-year capitalization strategy. Help your supporters understand the numbers behind your mission.
- 7 Talk to your peers at sector convenings and conferences.** Learn what strategies have worked for them when communicating with donors about general operating support or other enterprise investments.

WHAT CAN FUNDERS DO?

As audiences age and disruptive technologies continue to proliferate, arts nonprofits must experiment with new strategies to build and engage with their audiences. But experimentation is risky and many arts organizations are operating with no room for error. The most informed fundraising asks and best-laid plans fail if the funding community doesn't respond with funding that matches an organization's specific needs. Here are some tips to start breaking down the systemic barriers highlighted within this report.

Be clear about the role (and limitations) of your funding and set expectations accordingly. Increase transparency about the types of funding that you provide and the typical profile of a successful applicant. Share information about the grant reporting requirements with all applicants.

Be realistic about the investments necessary to adjust a program, both now and for the long term. Initiate a dialogue with your grantee about program changes and clarify whether the project intends to break-even as a result of the changes, or will require ongoing grant subsidy well into the future.

Work to understand and fund the full cost of the programs you support. What are the associated overhead expenses of producing a show (like renting or maintaining the theater)? Or producing an annual audit? For example, if you only support nonprofits who can provide audited financial statements, help support the related audit expense.

Continue to give unrestricted support. By articulating and tracking the outcomes you seek rather than monitoring specific expenses, you can encourage healthier finances and programs.

Talk with grant applicants about their business models and their balance sheet health. Encourage honest dialogue about their potential need for debt reduction, working capital, longer-term savings or funds for periodic risk-taking and change.

Understand when you are supporting program needs and when you're supporting enterprise needs. When nonprofits do the hard work to make their case for capital needs, it's up to funders to step in and support it. Consider offering grants that are specifically structured to meet these purposes, such as working capital, operating reserves, or investments in artistic and organizational change.

Initiate conversations with other funders about the financial health of cultural groups in your funding area. Share your learning with peers to encourage broader change.

FILTER THE DATA YOURSELF WITH NFF'S ONLINE SURVEY ANALYZER

The results we've highlighted here represent only a small glimpse into the complete data set. See an interactive database of 2014 results at survey.nff.org, where you can filter results by geographic areas, sub-sectors, expenses, and more. We hope you'll share your thoughts with the community by posting your results on Facebook or Twitter. Visit nff.org/survey to learn more about the Survey and see results from previous years. For ongoing explorations of the results, visit our Social Currency blog at nff.org/blog. Questions? Email us at research@nff.org.

ABOUT NONPROFIT PROFIT FINANCE FUND

Nonprofit Finance Fund® (NFF®) unlocks the potential of mission-driven organizations through tailored investments, strategic advice, and accessible insights. Since 1980, we've helped funders, nonprofits, and other 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 (CDFI), NFF has provided over \$287 million in loans and access to additional financing via grants, tax credits and capital in support of over \$1.4 billion in projects for thousands of organizations nationwide.

Citations

* "Arts & Economic Prosperity IV." Americans for the Arts. Accessed 7/1/2014. <<http://www.americansforthearts.org/by-program/reports-and-data/research-studies-publications/arts-economic-prosperity-iv/national>>.



STATE OF THE ARTS & CULTURE SECTOR 2014 SURVEY

2014 Survey Arts & Culture features generously supported by:



Photo courtesy of NFF client, Alvin Ailey American Dance Theatre. Visit alvinaley.org

A CASE FOR SUPPORT, DRIVEN BY DATA

For decades, the arts, culture, and humanities sector has worked to quantify its impact on our society in order to make a data-driven case for support. Extensive research and better access to data have helped demonstrate what those close to the sector already knew: in addition to the cultural enrichment they provide to us, arts & culture nonprofits create jobs, support economic growth, and contribute to community revitalization. In 2010 alone, nonprofit arts & culture organizations generated an estimated \$61.1 billion for the American economy. Innovative collaborations between nonprofits and funders continue to better define the important role that these organizations can play in transitioning communities out of poverty. Yet, funding is nonetheless increasingly competitive. And insufficient funding is only one of the challenges that cultural nonprofits face in their efforts to survive and thrive.

Nonprofit Finance Fund's annual nonprofit survey, which chronicles the challenges facing the nonprofit sector, received 919 responses from arts, culture, and humanities organizations. The picture painted by this survey data reminds us of how far we have come. But it also points toward the work that remains to be done if we truly value the organizations that exist to enrich our lives and communities. While many have developed and carried out new, creative ways to engage audiences, visitors and

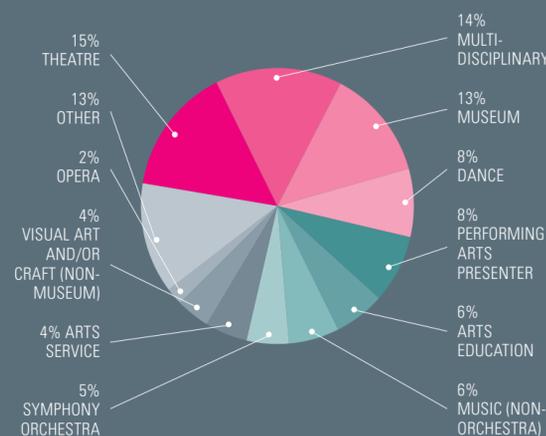
supporters, those strategies have not necessarily resulted in greater financial resilience. And while half of arts respondents reported expanding their programs last year, funding restrictions continue to leave many grappling with challenges like uneven cash flow, few or no reserves, and aging or under-resourced facilities.

This report focuses on systemic barriers within the arts funding system—as well as the actions and strategies that arts organizations are taking to cope with those barriers, while adapting to a world in artistic flux. We also ask: what targeted changes can arts supporters make that would foster, rather than stymie, effective arts organizations?

"More and more, gifts and grants have restrictions and some even prohibit any indirect or overhead support. Collectively we have to help the donor community know that programs cannot be offered without being able to contribute to our indirect costs."
— Science Center, Washington, D.C.

PROFILE OF RESPONDENTS

ARTS & CULTURE RESPONDENTS BY SUB-SECTOR



FINANCIAL RESULTS: FY '13 VS. ANTICIPATED FY'14



MONTHS OF CASH



BARRIERS TO SUCCESS

In a rapidly changing world, where new technology and evolving audiences transform how art is made and shared every day, arts & culture organizations must be adaptable and innovative in their programs and business models. This flexibility demands that organizations have a healthy capital structure, which means having the right amounts (and types) of resources to execute a strategy over a sustained period of time—not just meeting the needs of today and tomorrow. Unfortunately, nearly half of respondents cited “achieving long-term financial sustainability” as their number one challenge. A number of organizations also struggle to keep manageable levels of cash on hand: 11% of respondents reported that having reliable, regular cash flow was one of their organization’s top challenges; 16% cite the development of reserves as their number one challenge.

Why does it seem that arts organizations are perpetually struggling to reach stable ground? After all, every organization—for-profit and nonprofit, arts and non-arts—must deal with internal challenges that they can partially control and external challenges over which they have far less say. In our work with cultural groups, we typically encounter four systemic barriers that unnecessarily hinder these organizations.

4 SYSTEMIC BARRIERS TO SUCCESS

- 1 MISMATCHED FUNDING
- 2 MISSING DIALOGUE
- 3 MISALIGNED REPORTING REQUIREMENTS
- 4 FUNDING FALLS SHORT OF FULL COSTS

1 MISMATCHED FUNDING

A critical piece of a healthy capital structure is building financial reserves. They’re a necessary part of doing business, whether for operations, facilities, artistic risk-taking, or to protect against unexpected crises. Yet organizations often struggle to obtain or even discuss these types of funding.

2 MISSING DIALOGUE

Our survey data suggests that most nonprofits feel uncomfortable even broaching the topic of reserves with their funders. In our advisory work, some nonprofits express fear that budgeting to a surplus or planning for reserves will result in funders withdrawing their support.

3 MISALIGNED REPORTING REQUIREMENTS

Funders often neglect to support the costs associated with managing the grant itself, such as reporting requirements, proposal writing, funder updates and impact measurement. NFF uses the term “net grants” to describe the total grant amount minus the costs organizations incur to manage the grant. (For example, a grant of \$50,000 with reporting requirements that cost \$10,000 is a net grant of \$40,000). Funders should consider supporting their own requirements for compliance—and ensure that these requirements are right-sized for the grant award.

4 FUNDING FALLS SHORT OF FULL COSTS

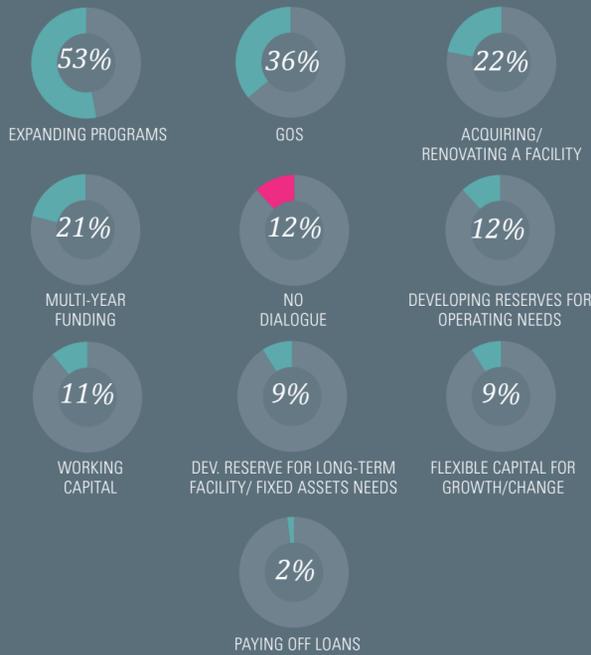
Planning for long-term capitalization begins with an organization’s ability to truly cover the full costs of its programming. Unfortunately, we often find in our work that the funding nonprofits receive falls incredibly short of true costs. In some cases, the sources of this problem are limitations on overhead spending or the financial management challenges associated with program-restricted grants. In other cases, nonprofits themselves do not know the true costs of delivering services and underestimate the full enterprise costs that are associated with service delivery.

TOP CHALLENGES FACING ARTS & CULTURE NPOS



Top items shown above. Additional challenges not displayed: 7%: Insufficient revenue 6%: Engaging and mobilizing volunteers 4%: Meeting community demand for services or programs 4%: Pursuing program innovation 4%: IT concerns 4%: Adapting to changing community demographics 2%: Delays in gov’t funding 1%: Adapting to changes due to Affordable Care Act 5%: Other

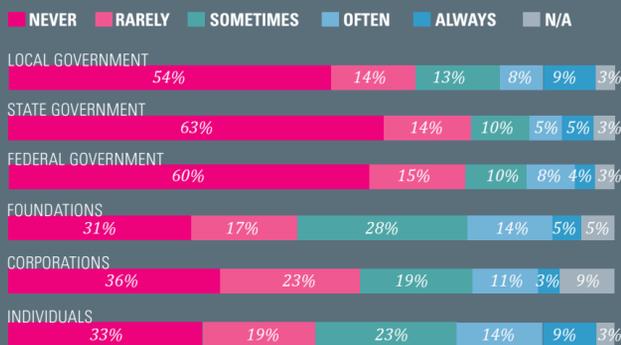
MY NONPROFIT CAN HAVE OPEN DIALOGUE WITH FUNDERS ABOUT...



GRANTMAKING PRACTICES EXPERIENCED IN 2013

- 42% FACED REPORTING REQUIREMENTS OUTSIZED RELATIVE TO SIZE OF GRANT
- 33% BENEFITED FROM FUNDERS NON-MONETARY RESOURCES
- 29% APPLIED FOR GRANT THAT RESTRICTED ALLOWABLE OVERHEAD
- 21% BENEFITED FROM STREAMLINED APPLICATION/DUE-DILIGENCE PROCESS
- 21% INVITED TO DISCUSS LONG-TERM FINANCIAL NEEDS
- 15% APPROVED DUE TO STRONG FINANCIAL MGMT/SURPLUS TRACK RECORD
- 13% INVITED TO GIVE INPUT ON FUNDER STRATEGY
- 3% DENIED BECAUSE OF A TRACK RECORD OF SURPLUSES AND SAVINGS

HOW OFTEN DO FUNDERS COVER THE FULL COSTS OF PROGRAMS THEY INTEND TO SUPPORT?



WORKING AROUND THE BARRIERS

We join with othes in the creative community in pressing for systemic change in how nonprofits are supported. But in the meantime, arts organizations are finding ways to navigate around these barriers. Respondents shared hundreds of stories describing the strategies they’ve used to achieve their goals. Some core themes emerged in the actions taken in 2014.

RESPONDENTS TELL US THEY ARE...

REDUCING COSTS & MANAGING CREATIVELY

- Launching capital campaigns for a range of needs, including risk reserves and facility upgrades.
- Reducing facility costs, by co-locating or moving to more affordable spaces.
- Diversifying revenue. Strategies include pursuing earned revenue (through ticket sales, restaurants, and gift shops) and refining fundraising approaches with individual donors.
- Using technology to improve efficiency in marketing, development, and sales; integrating database platforms; and exploring web-based tools.
- Exploring new ways to market programs through advertising, social media, and website redesigns.
- Involving the entire staff in improving the visitor experience, such as training all staff in customer service, cross-promoting programs, and more.
- Exploring the role of arts in community development by initiating creative placemaking programs or leveraging economic incentives available in certain geographies.

LISTENING, RESPONDING & INNOVATING IN PROGRAMS

- Partnering on programs.
- Listening to audiences, through visitor surveys and other learning opportunities, and adapting programs and pricing in response.
- Listening to the community at large, adapting programming to demographics, income data, and cultural factors.
- Adapting to the interests of younger audiences, introducing casual programming, more dialogue, and participatory programming.
- Introducing lower-cost options in programs, creating shorter performances or other ways to engage audiences with limited resources.
- Engaging school systems—from K-12 to universities—by providing discounts, space for rehearsals or recitals, or integrating into curricula.

“We have transformed our facility from being our exclusive home to a home for a half-dozen resident companies.... This shift will, over time, help to reverse a structural deficit that we’ve struggled with since purchasing our facility in 2004.”

—Theatre, OR

“We have launched a creative placemaking initiative for our once-barren downtown neighborhood.”

—Performing Arts Presenter, FL

“...we have moved to a new ticketing system, database and marketing software and are in the final stages of interfacing all three through existing and [new] APIs....”

—Theatre, CA

“We are better marketing our cultural programs to increase attendance. We are experimenting with participatory programming... to attempt to engage the growing number of music lovers who prefer ‘doing’ to ‘listening.’”

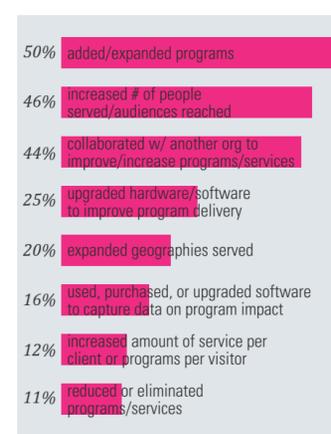
—Music (non-orchestra), PA

“[We have] expanded... programs that partner with community organizations; launched a new art education program that targets low-income students and merges arts education with the more widely supported STEM (science, technology, engineering, and math) curriculum....”

—Museum, CA

TOP ACTIONS TAKEN BY ARTS & CULTURE RESPONDENTS IN PROGRAMS, MANAGEMENT & STAFF

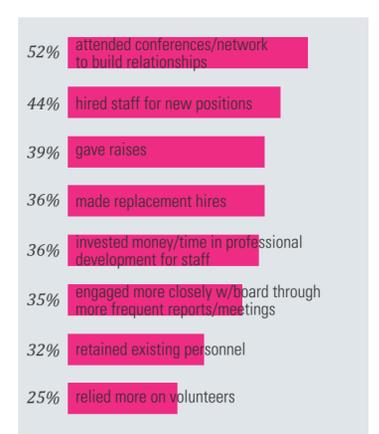
PROGRAMS



MANAGEMENT



STAFF



HOW ARE ORGS INVESTING IN AUDIENCE DEVELOPMENT?



RESULTS OF INVESTMENTS

