



# Grantmakers in the Arts

Supporting a Creative America

## Capitalization and Community

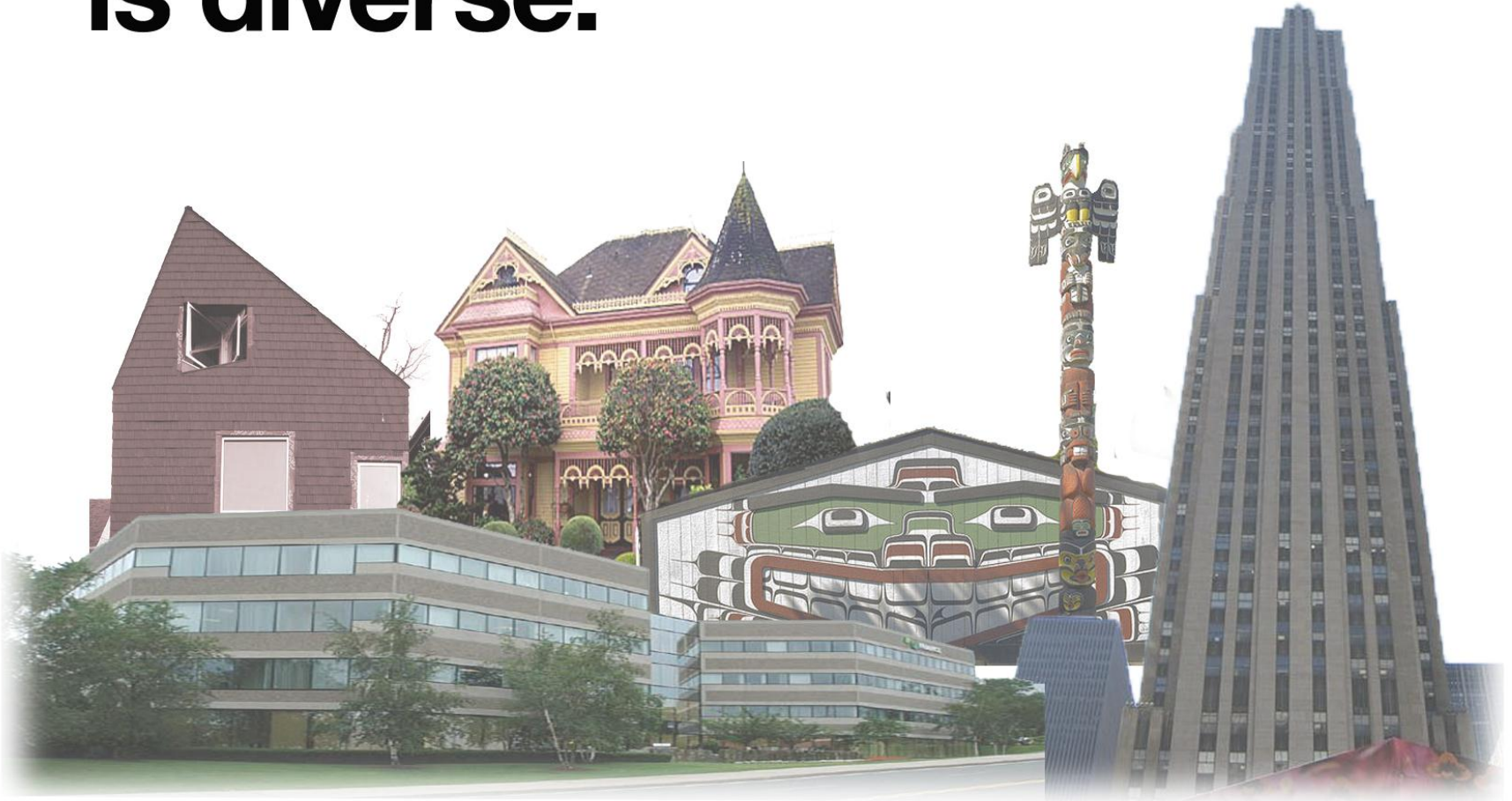
National Capitalization Project

[www.giarts.org](http://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





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# What Is Capitalization?

# 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)

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

### Net Assets

Unrestricted:

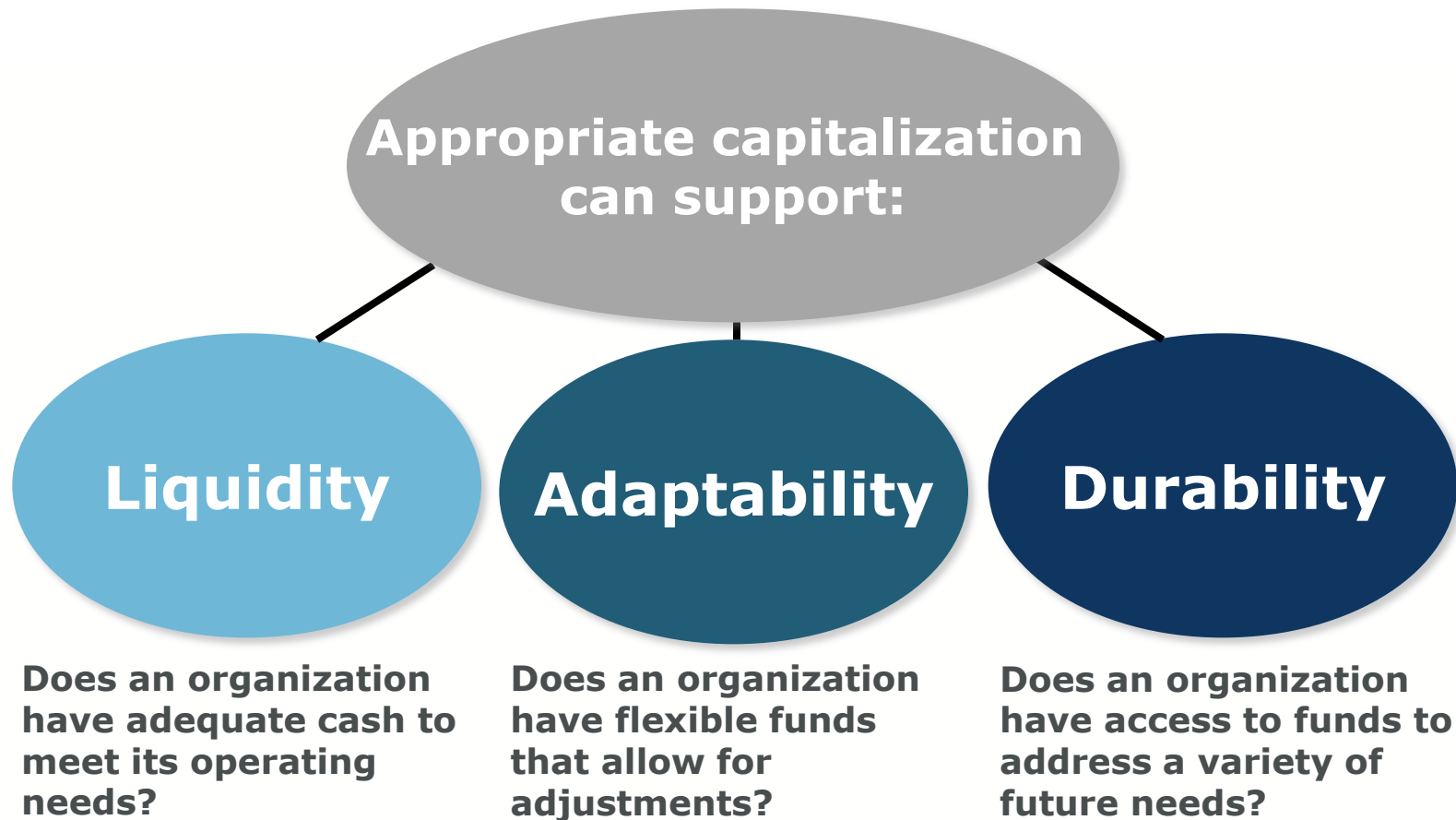
Liquid/Undesignated	-19
Reserves	-
P & E	607
<b>Total Unrestricted</b>	<b>588</b>
Temporarily Restricted	250
Permanently Restricted	0
<b>Total Net Assets</b>	<b>838</b>

**Total Assets** **\$1,109**

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



# UNDERSTANDING NONPROFIT CAPITALIZATION



**Capitalization is found on the balance sheet**

# REVENUE AND CAPITAL SERVE DIFFERENT PURPOSES

## Revenue funds Regular Operations



- Covers annual, full costs of programs and operations
- Pays your organization to do what it does
- Keeps the lights on!

## Capital is for Liquidity, Adaptability and Durability

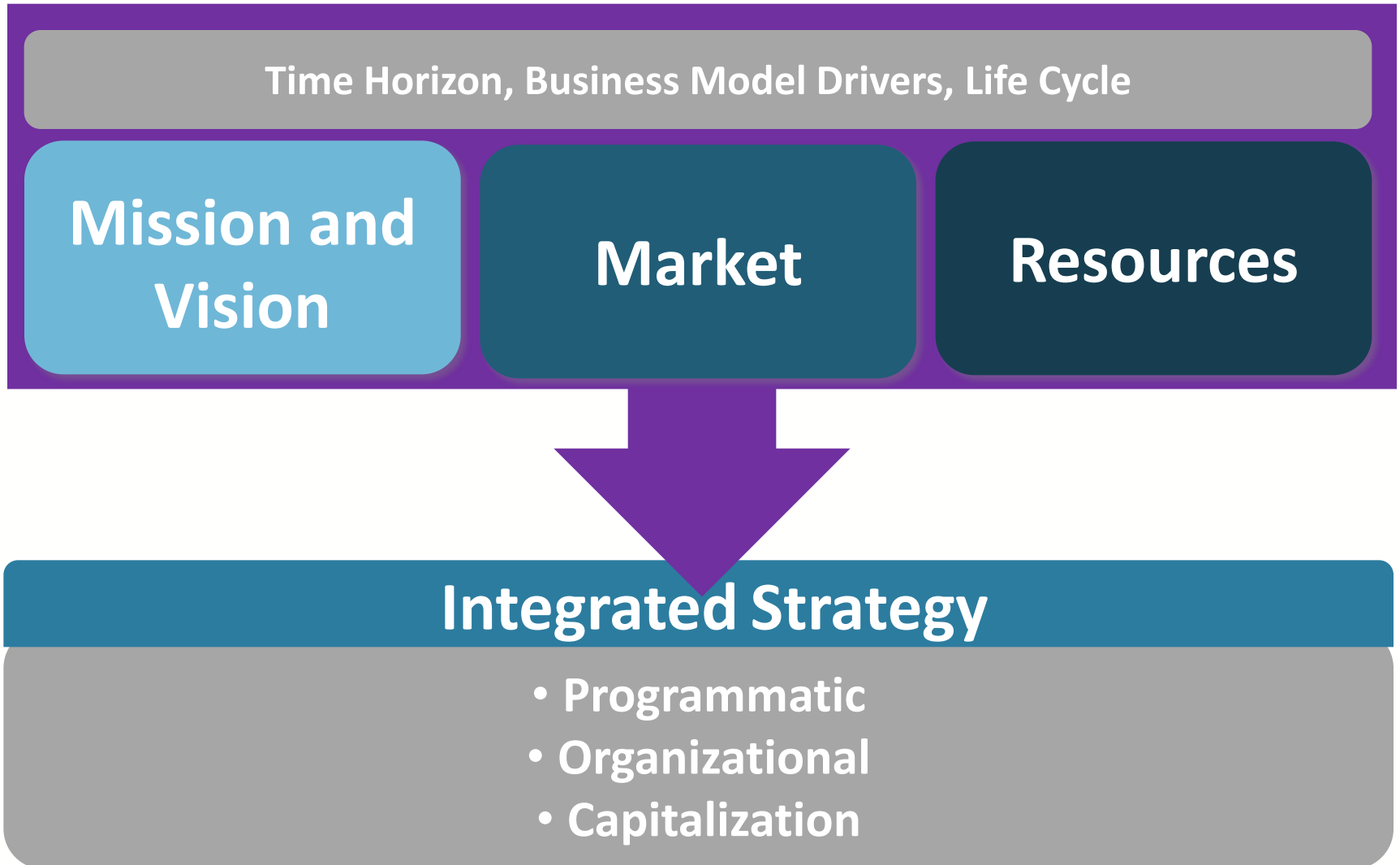
- Can be for recovery, expansion, contraction, quality improvements and more
- Pays for changing what an organization is capable of doing
- Builds reliability of future audiences/donors (and/or supports to realign costs)

**Organizations need both revenue and capital to thrive!**

# CAPITAL ADDRESSES DISTINCT NEEDS

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

# INTEGRATED, HOLISTIC PERSPECTIVE



# BARRIERS TO CAPITALIZATION

