IN 2010, GRANTMAKERS IN THE ARTS CONVENED THE NATIONAL CAPITALIZATION PROJECT IN RESPONSE TO A GROWING NATIONAL CONVERSATION AMONG FUNDERS OF ALL STRIPES, LARGE AND SMALL, ABOUT THE NEED TO MORE EFFECTIVELY SUPPORT AND STABILIZE THE ARTS NONPROFIT SECTOR.
A HEALTHY NONPROFIT HAS THE RESOURCES TO ACHIEVE ITS MISSION AND GOALS. IT HAS THE ABILITY TO ACCESS CASH NECESSARY TO COVER ITS SHORT- AND LONG-TERM OBLIGATIONS, TO WEATHER DOWNTURNS, AND TO TAKE ADVANTAGE OF OPPORTUNITIES TO INNOVATE.

THIS IS TRUE FOR SMALL ORGANIZATIONS AND LARGE ONES. IT IS TRUE REGARDLESS OF WHETHER THEY HAVE A BUILDING OR AN ENDOWMENT OR NOT. EXACTLY HOW THIS PLAYS OUT FINANCIALLY WILL DIFFER DEPENDING ON THE ORGANIZATION’S BUSINESS MODEL, WHERE IT IS IN ITS GROWTH LIFE CYCLE, ITS MISSION AND CORE VALUES. WHAT’S KEY, HOWEVER, IS THAT SUSTAINABLE BUSINESS PRACTICES HAVE TO ALIGN WITH THE ORGANIZATION’S MISSION.

So, after years of asking for break-even budgets, now they’re telling us it’s OK to end up with money in the bank?

Not only is it OK, it’s a good idea. And funders are able to help make this happen. Well...actually...we’re going to have to work together to make this happen.

So, it is kind of like a person having a job and a checking account for day-to-day expenses and a savings account for unexpected large expenses—like the hot water heater blowing up?

Why am I not believing this?
SO...GETTING BACK TO THE CHANGING-THE-GAME PART... GIA HAS COME UP WITH A HANDFUL OF COMMON PRACTICES FOR FUNDERS, DESIGNED TO HELP GRANTEES BECOME MORE FINANCIALLY HEALTHY. WE KNOW THAT FUNDERS ARE A DIVERSE LOT, AND EVERYONE WON'T BE ABLE TO APPLY ALL THESE IDEAS ACROSS THE BOARD.

AND FUNDERS ARE NOT GOING TO CHANGE THE GAME ALONE. ARTS NONPROFITS NEED TO BECOME MORE FINANCIALLY SAVVY AS WELL.

These common practices are spelled out on the next few pages.

Whoa!... Chill, dude. Small organizations are probably the most likely to benefit from these approaches. It takes big organizations a long time to go under. A community-based org. can disappear in a matter of months.

Something tells me I'm not going to like this. If they are encouraging surpluses, doesn't that mean larger grants, and doesn't that mean fewer grants, and doesn't that leave small organizations and organizations of color with the short end of the stick, just like always?

I'm covering my ears now! I can't hear you. I'm singing my happy song!

La la la la la la la...
Having some funds in reserve allows us to take risks on unknown playwrights. If ticket sales are low for one show, we’re not out of business. It takes time to build our reputation and audience.

Last year we had one new play that became a hit. Knowing that we had money in the bank made our board a little more gutsy about extending the run.

Or, I suppose you could just do Private Lives over and over....

Our mission is to stage new works representing the diverse cultures in our city. We all know these plays can be tough to market.

Common Practice: Funders can encourage surpluses and operating reserves. Financial health hinges on the generation of surpluses that can be used by an organization to successfully achieve its mission. There is a perception in the eyes of many funders that the presence of surpluses or reserves is an indicator of low need. This is one perception that we can change.
Get real, grasshopper. The art you make costs money, and the best way to ensure you can make it is to make sure your organization simply uses good business practices.

Are the funders going to tell us what to do?

No. Individual organizations’ needs vary, and they still need to manage their own affairs.

Why did you mention grasshoppers? Now I’m hungry.

Balance sheets are boring. I want to make ART! Our mission is to make ART!
The recession already has many arts nonprofits thinking in these terms.

Why did you mention cows? Now I'm hungry again!

Doctor Kevorkian, I presume?

Gimme a break! Right-sizing is a marketing term, and the economy has raised the bar on the need for marketing sophistication. In this case, it means taking a hard look at what's truly realistic and adjusting programming accordingly.

And not assuming that everything we're doing has to continue... business as usual. Bingo! No sacred cows. No business as usual.

Why did you mention cows? Now I'm hungry again!

Common practice: funders can encourage organizations to right-size. By encouraging organizations to right-size (not simply to down-size), we are asking them to take a close look at their marketplaces and position and scale themselves accordingly. We encourage organizations to think comprehensively about their place in their local arts market.
Wait a minute! Some funders are totally clear that they don’t provide general operating support. They have policies that have been in place for years.

Yep. These common practices aren’t going to be applicable to every funder in every circumstance. They are put out there in an effort to improve arts philanthropy overall. Take what you can use from this information and apply it where it works.

So, I can just skip this page and go on to the next one?

As you like. But don’t lose the big idea here - the overall financial health of the grantee organization always needs to be part of the conversation.

Common Practice: Funders can offer general operating support. We all agree that financially healthy organizations require unrestricted operating support. Operating support provides organizations with the flexibility to address what they determine to be their highest need and allows them to respond to changes in their environments.
You know, it would also be great if funders fully funded projects that they initiate — rather than say, “Here’s a great idea for you to do and here’s half the money it will take to do it...”

So, does this mean that grantmakers want to see all the costs of a project, including overhead and staff salaries?

Pinch me, I think I’m dreaming.

That’s the idea. And here’s how they can do it:

- Understand the total cost of projects and the real cost to organizations.
- Fund the full request.
- Fund to include overhead.

Wow! I am totally lovin’ this!

COMMON PRACTICE: FUNDERS CAN PROVIDE PROJECT SUPPORT THAT IS TARGETED TO GRANTEE’S CORE MISSION AND FULLY FUNDED. IN THE BEST OF ALL WORLDS, FUNDERS PROVIDE SUPPORT WHERE GRANTEES’ AND FUNDERS’ INTERESTS ALIGN AND ORGANIZATIONAL CAPACITY EXISTS. IF A PROGRAM SUPPORTS FUNDERS’ GOALS, BUT WOULD BE A PROGRAMMATIC OR MISSION STRETCH FOR AN ORGANIZATION, IT SHOULD BE SUPPORTED ADEQUATELY TO ENSURE THAT CORE COMMITMENTS ARE NOT COMPROMISED.
Yes, the Jackdaw Foundation has been providing support for our season year after year. We plan and budget for it. True enough, but you need to keep in mind that even though it seems like ongoing core support, those are individual annual grants, and they might change their priorities at some point.

Wouldn’t they tell us?

In the best of all worlds, yes. That’s the point. Funders should talk straight to their grantees. Call them up. Take their calls when they call you.

NOTE
1. Primum non nocere is a Latin phrase that means “First, do no harm.” Often mistakenly attributed as part of the Hippocratic Oath, it has been in use since at least 1860. For physicians, the phrase has been a hallowed expression of hope, intention, humility, and recognition that human acts with good intentions may have unwanted consequences.

There’s a more detailed paper on capitalization and an extensive literature review at www.giarts.org/article/national-capitalization-project