2010 State of the Arts

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Overview:
Nonprofit Finance Fund® (NFF)

NFF connects nonprofit finance to nonprofit success. We're a nonprofit 501(c)(3) serving thousands of nonprofit and funders since 1980

- Over $205 million in loans; over $1 billion in capital leveraged for nonprofits
- Over 500 customized financial consultations
- Hundreds of partnerships and thought leadership to advance financial awareness and friendlier funding practices across the sector

"We're in the business of helping nonprofits run better."

–Clara Miller, NFF President and CEO

Serving nonprofits nationwide from several local offices

- Northeast: Boston, New York
- Mid-Atlantic: Philadelphia, Washington, DC, Newark, NJ
- Midwest: Detroit, Chicago
- West Coast: San Francisco, Los Angeles

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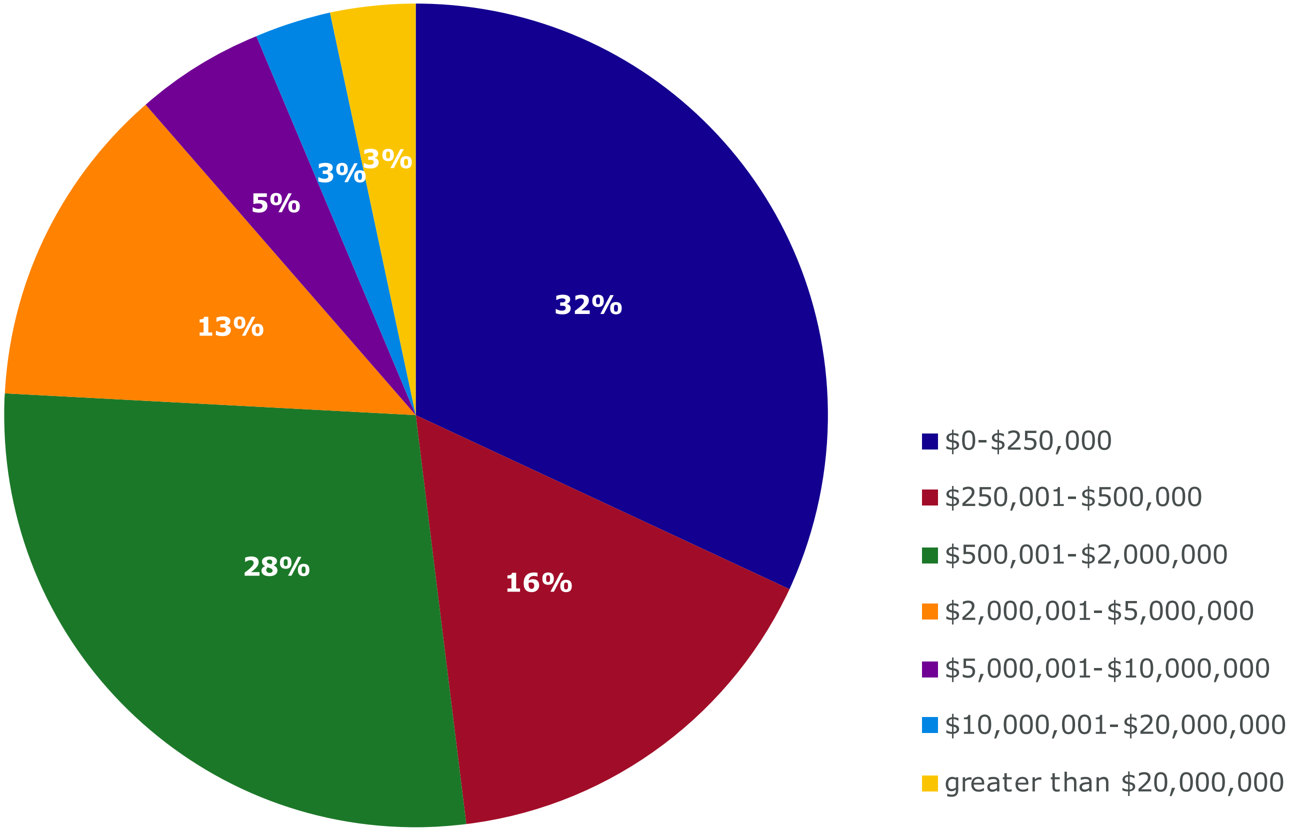
417 Arts & Culture Organizations Responded

Most respondents from small- to mid-sized nonprofits



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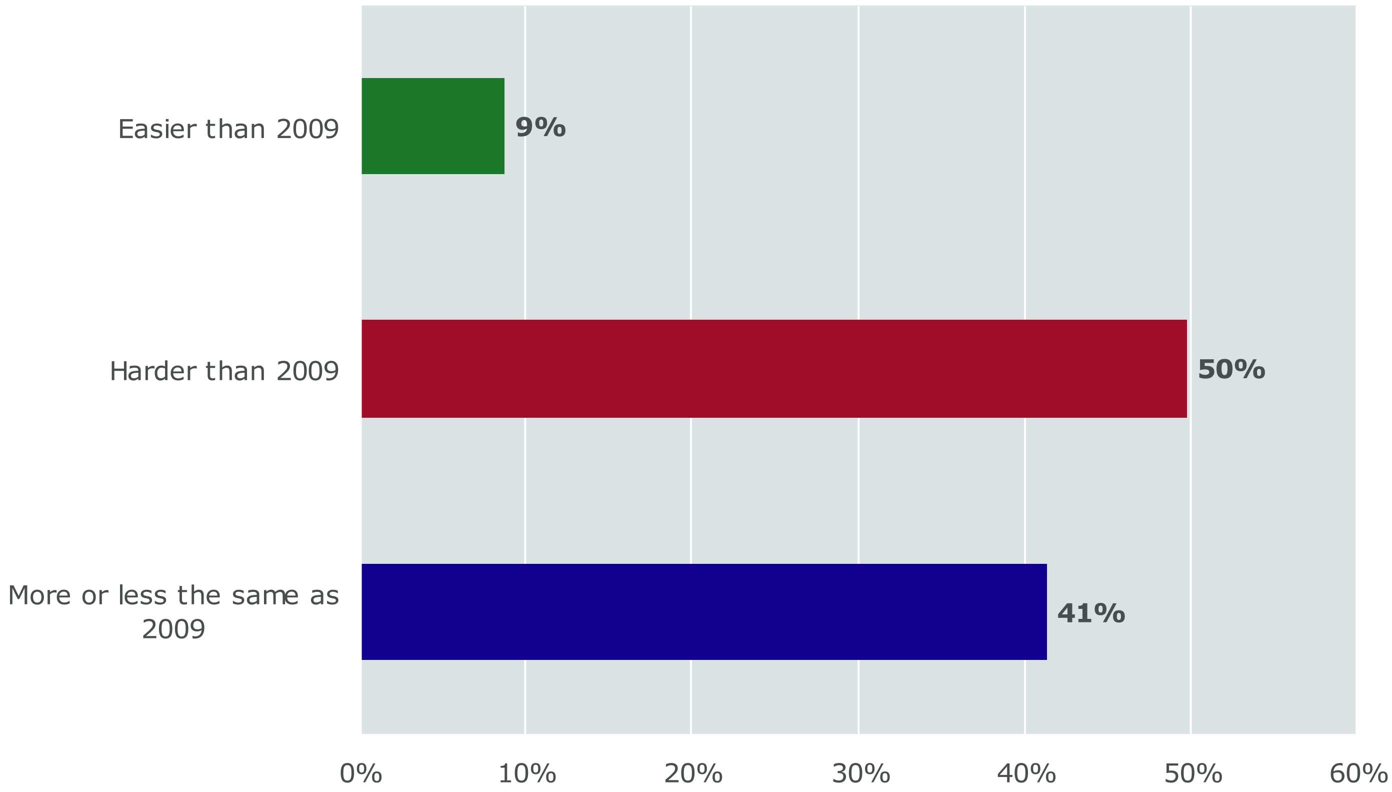
What is the Financial Outlook for 2010?

For our organization, 2010 will be:



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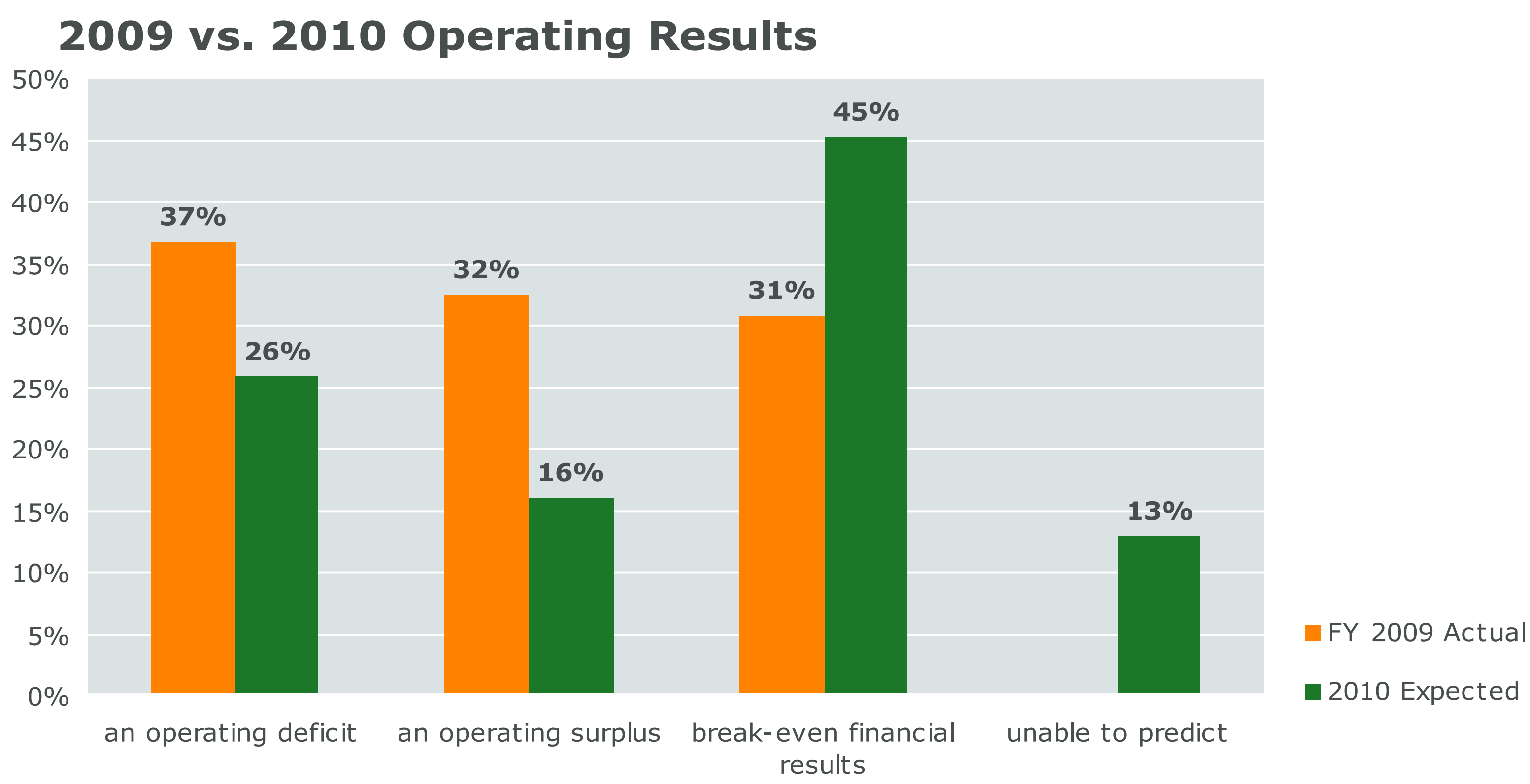
How do Organizations Expect to End the Year?

Surpluses may be harder to come by. In last year's survey, 37% ended 2008 with a surplus, versus 32% in 2009. Only 16% predict doing so in 2010.



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What Are Organizations' Revenue Expectations for 2010?

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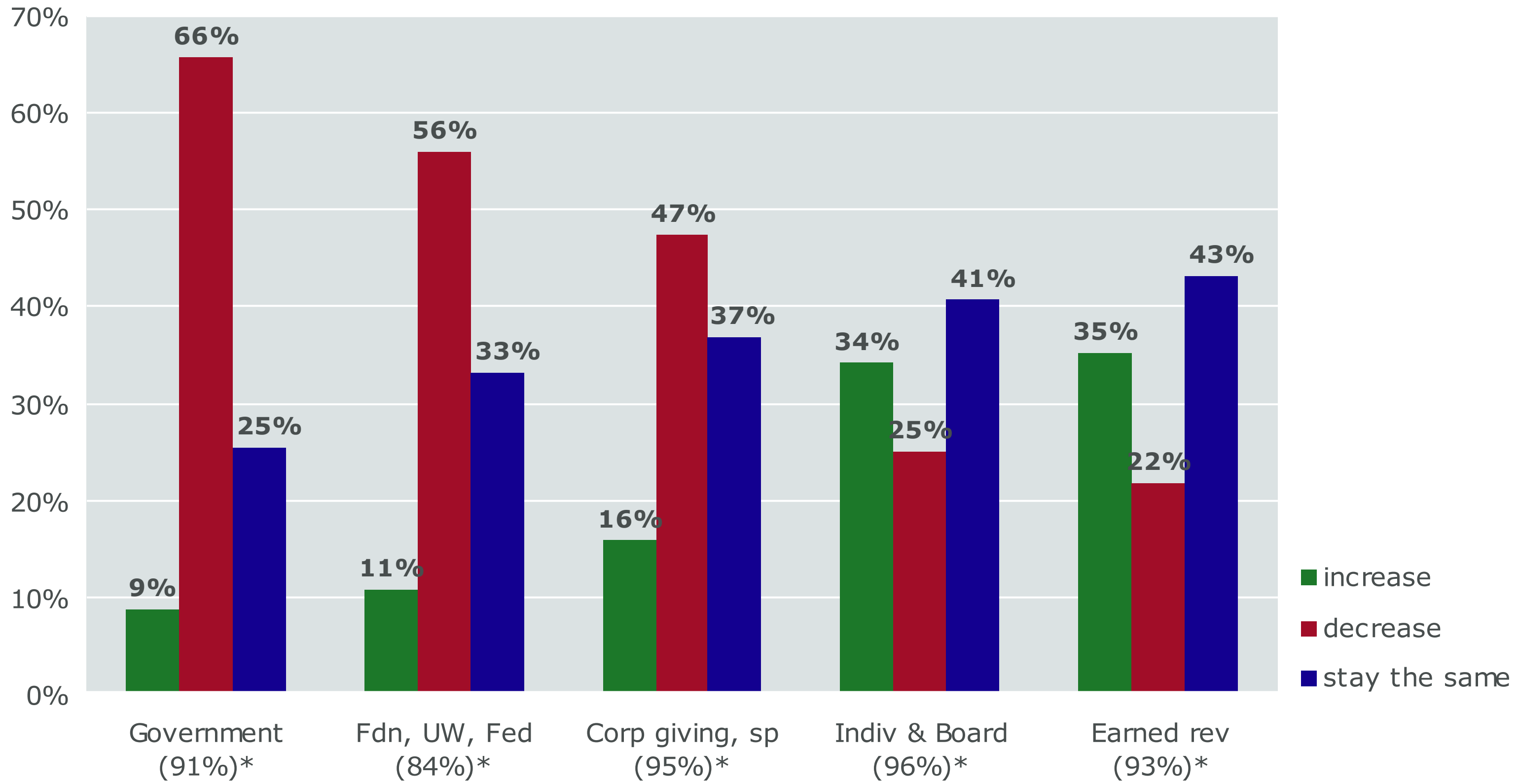
Respondents are most worried about government, foundation, and corporate giving

2010 Revenue Expectations

Excludes 'Not Applicable' Responses



*Percentage of respondents receiving revenue from this source. ***Figures shown in the graph exclude responses marked "Not Applicable" for this question.***

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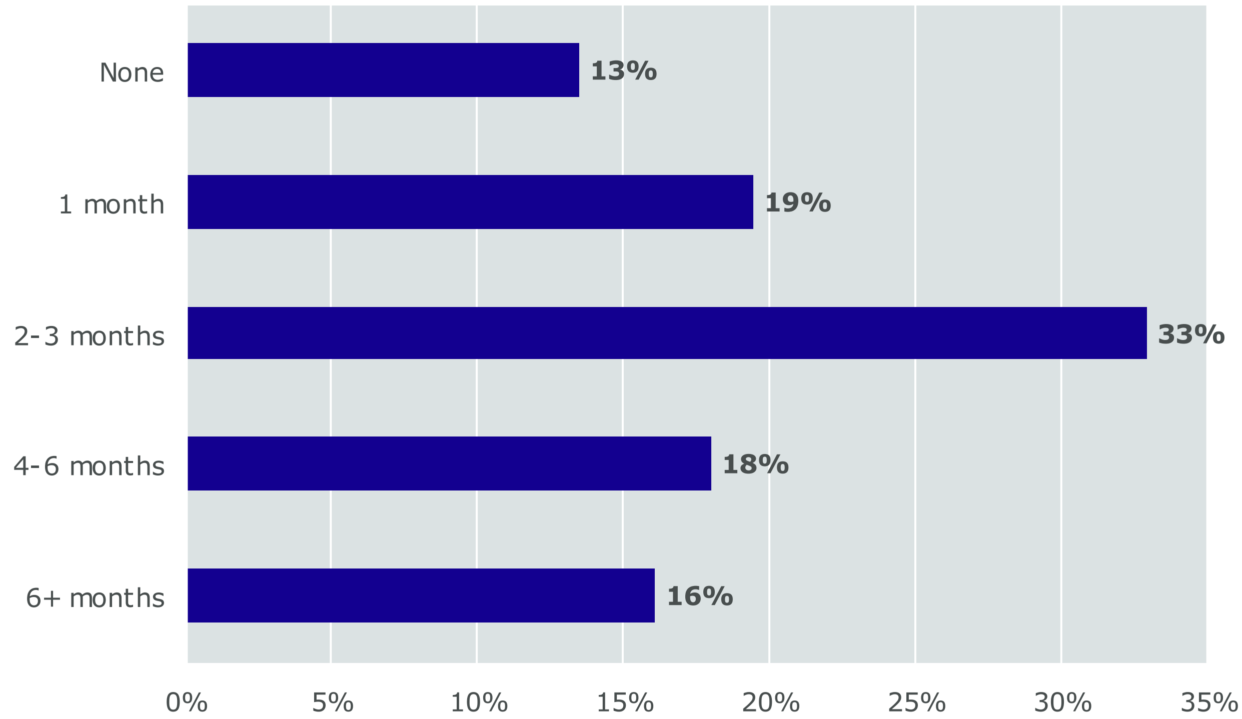
How Many Months of Cash Are Set Aside?

65% of respondents have 90 days or less of cash available:



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What Actions are Planned for 2010?

Actions	Planning for 2010	Taken in 2009
Engage board	66%	65%
Collaborate on programs	54%	59%
Freeze hires and salaries	28%	53%
Rely on more volunteers	49%	44%
Develop contingency budget	46%	41%
Add/expand programs	39%	41%
Reduce/eliminate programs	22%	38%
Reduce staff or salaries	13%	36%
Use reserve funds	23%	34%
Hold conversations with funders	35%	32%
Delay vendor payments	18%	31%
Reduce staff hours	12%	29%
Reduce benefits	9%	24%
Speed up collection of receivables	21%	20%
Expand geographies served	19%	18%
Reduce or refinance occupancy costs	12%	14%
Collaborate on expenses	24%	13%
Change mission or vision	12%	7%
Sell assets	5%	4%
Restructure/reduce geographies served	2%	3%
Merge	1%	1%
Other	9%	11%
None- business as usual	5%	4%

Nonprofits are responding creatively to keep services going. In 2010, more groups are planning to expand programs and geographies than to cut them. Many are engaging with their Boards, and collaborating on programs.

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What makes you proudest about how your nonprofit responded to 2009 financial challenges?

We had just started construction on our capital project at the beginning of 2009 and we were able to mobilize our staff, kids, parents and our community to have our project be finished.

Secured a $100,000 unsecured line of credit to help stabilize cash flow.

Cut programming, in-house printing, outsourced phone/ box office/email, reduced ticket prices.

We reduced our costs dramatically without impacting what our audience saw on stage and without impacting the quality of our student instruction.

We are very fiscally organized and well able to understand and predict our operational and program costs.

Cut back on the few discretionary expenses we have; worked to keep staff morale up in the face of salary freezes, benefit cuts and vacancies. We were able to provide a high level of service in spite of problems.

Re-examination of expenses… and creative collaborations with partners to share costs while expanding program options.

We continued to publish books at the same level as in previous years, despite having a smaller staff, believing that if we are less visible we will quietly die away.

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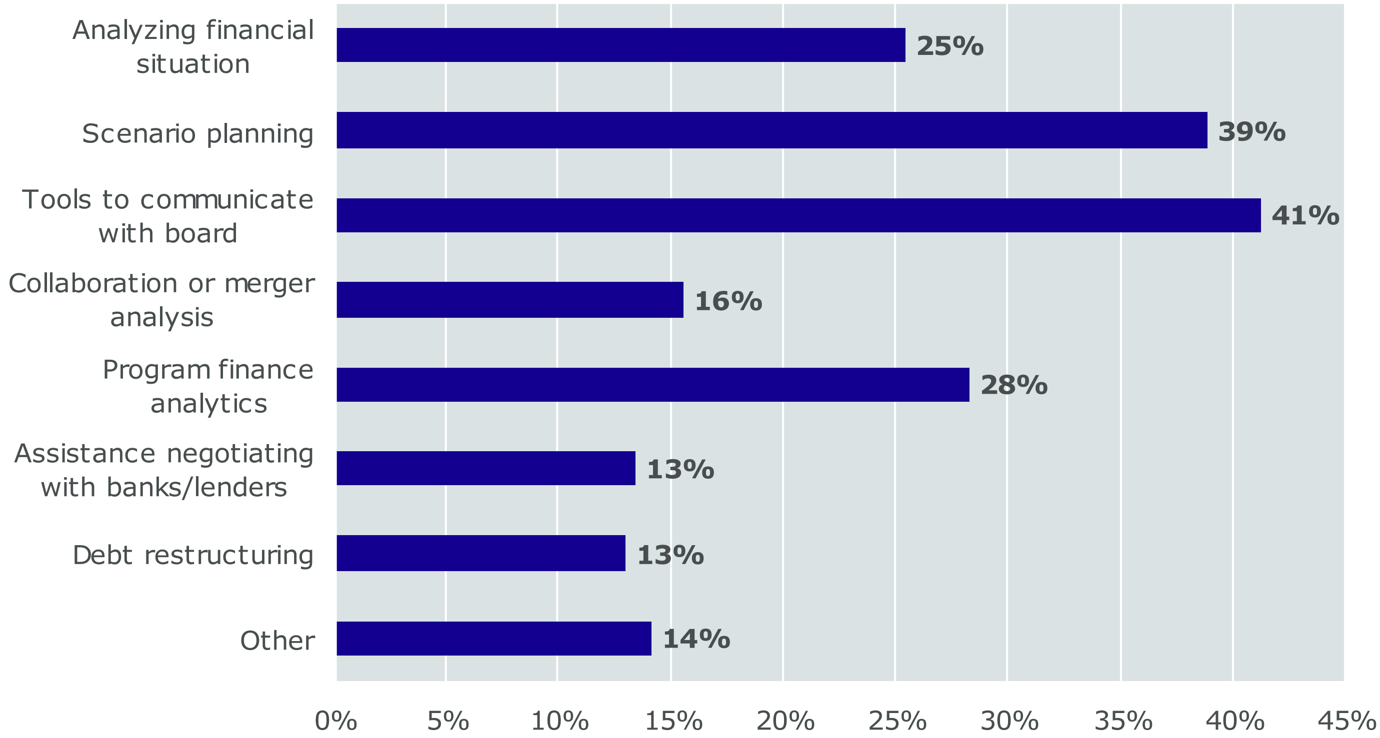
What Type of Technical Assistance Would Be Helpful?

Arts managers expressed interest in technical assistance



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Conclusions

For most arts and culture organizations, 2010 will be as difficult or more difficult than 2009.

Despite difficult financial circumstances, nonprofits are going to great lengths to maintain–or increase–service levels.

There is some optimism for 2010. For example, fewer nonprofits are planning to reduce staff-related costs. Is a function of improving conditions or drastic cuts made in 2009?

Nonprofits reach out to peers in times like these. More than half are collaborating on programs.

Responses to several questions indicate that nonprofits are looking to make the best use of their Boards to help them manage through economic change.

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Operating Within A Flawed System

The Realities and Challenges of Nonprofit Finance

1. The Subsidy Business
2. Covering the Full Cost
3. Fundraising Hierarchy
4. Capital vs. Reliable Revenue

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Subsidy Business: Built-in Dependency

Nonprofits lose a buck on every "widget" creating a built-in dependency for "subsidy."

When growth or change occurs, one of two things happen:

- more subsidy (one-time and ongoing)
- financial chaos

Common subsidy businesses include:

- Sweat equity (underpaying, overworking, using volunteers)
- Fundraising
- Investment income
- Real estate (rental income)
- Earned income ventures

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Covering the Full Cost: What's the Real Gap?

In the for-profit world, everybody is fine with covering full costs with revenue... including overhead and profits! They are seen as a **necessary and regular** part of the business.

12-ounce latte = $3.00

Overhead & Profit
74%

Direct Cost
26%

"Charities exist to provide programs and services. They fulfill the expectations of givers when they allocate most of their budgets to providing programs. Charities fail givers expectations when their spending on programs is insufficient."

-Charity Navigator Website "How Do We Rate Charities?"

Funding Hierarchy: "Easier" Money is Higher Risk Money for Enterprise

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It's easier and cheaper to raise money for…

Highest Risk

Capital and/or Program Expansion
(build a building, start a new program, expand services)

than for…

Program Continuation
(business as usual without growth)

than for…

Overhead
(administrative expenses: systems, staffing, etc.)

than for…

Capital Maintenance: Physical and Organizational
(depreciation, R&D, retraining of staff)

Lowest Risk

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Nonprofit Commerce Is Different

In the for-profit sector, investors and buyers have explicit, well understood roles:

- Buyers pay full cost for value
- Investors provide capital for financial return
- Equity investors serve to protect the organization from being exploited or overextended

In the nonprofit sector, these roles are murkier:

- Traditional buyers do not/cannot cover fully loaded costs
- Funders/Donors are called upon to serve the dual role of buyer and investor
- There is no “equity ethic” in the sector:
  - Costs are questioned
  - Revenue is insufficient and/or inflexible
  - Easy money for the most risky undertakings

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A New Concept for the Field

There are two main flavors $$ inflows: Capital (Build) and Revenue (Buy)

They play different roles in an enterprise

- **C**apital is for **C**hange (adaptation, growth)
- **R**evenue funds **R**egular operations (routine)

The distinction is NOT what you get in return for your grant but what your money is designed to accomplish.

Both Capital and Revenue are necessary for mission success

The "Right" Money

The "right" money is recurring, reliable, and flexible

It covers full costs and meets full enterprise needs

Nonprofit leaders have a responsibility to:

- Accept that not all revenue opportunities are worthy of pursuit
- Manage costs in the context of revenue reality
- Articulate cases for revenue and capital based on the full range of business needs

Funders have a responsibility to understand these needs and define what role their money will play

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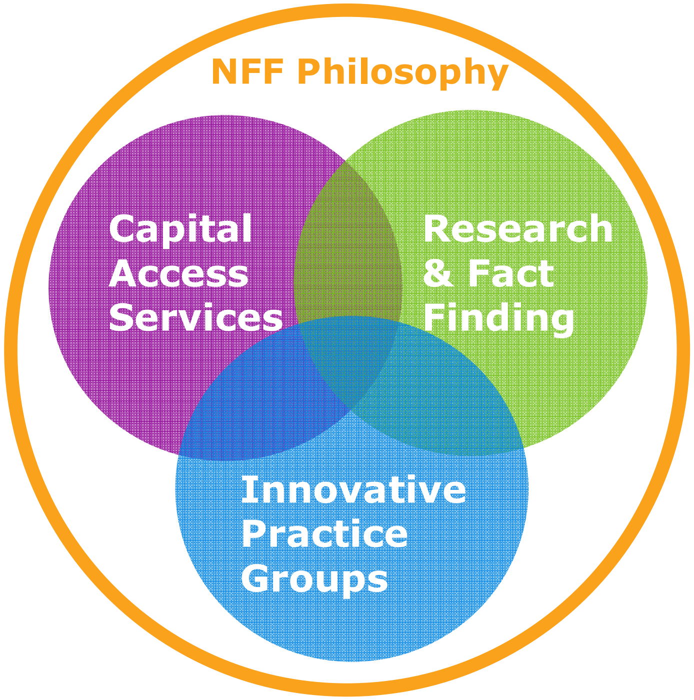
NFF Funder Services: Informed by Our Philosophy on Nonprofit Finance



Philosophy and Guiding Principles

- Embrace whole enterprise perspective
- Provide access to all kinds of capital
- Integrate financial / economic context into grantmaking strategy
- Build knowledge of social capital markets

Capital Access Services

- Program- and Mission-related Investment Services
- Syndication and Participation Loans
- Philanthropic Equity Services
  - NFF Build/Buy Funding Method℠
  - NFF Capital Partners: Customized Support
- Catalyst Funds
- Building for the Future℠

Innovative Practice Groups

- Full or Half-Day Workshops
- Two-day Hands-on Financial Clinics

Research & Fact Finding

- Portfolio Scans and Cohort Analyses of selected nonprofit subgroups, based on geographies, subsectors, budgets, etc.
- Research and Thought Leadership

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Thank you.

For the full survey results, please visit our web site, nonprofitfinancefund.org

For questions related to the survey, please contact Jen Talansky at 212.868.6710.

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