Building a Culture of Capitalization in Your Organization

Nonprofit Finance Fund®
Where Money Meets Mission®

THE KRESGE FOUNDATION

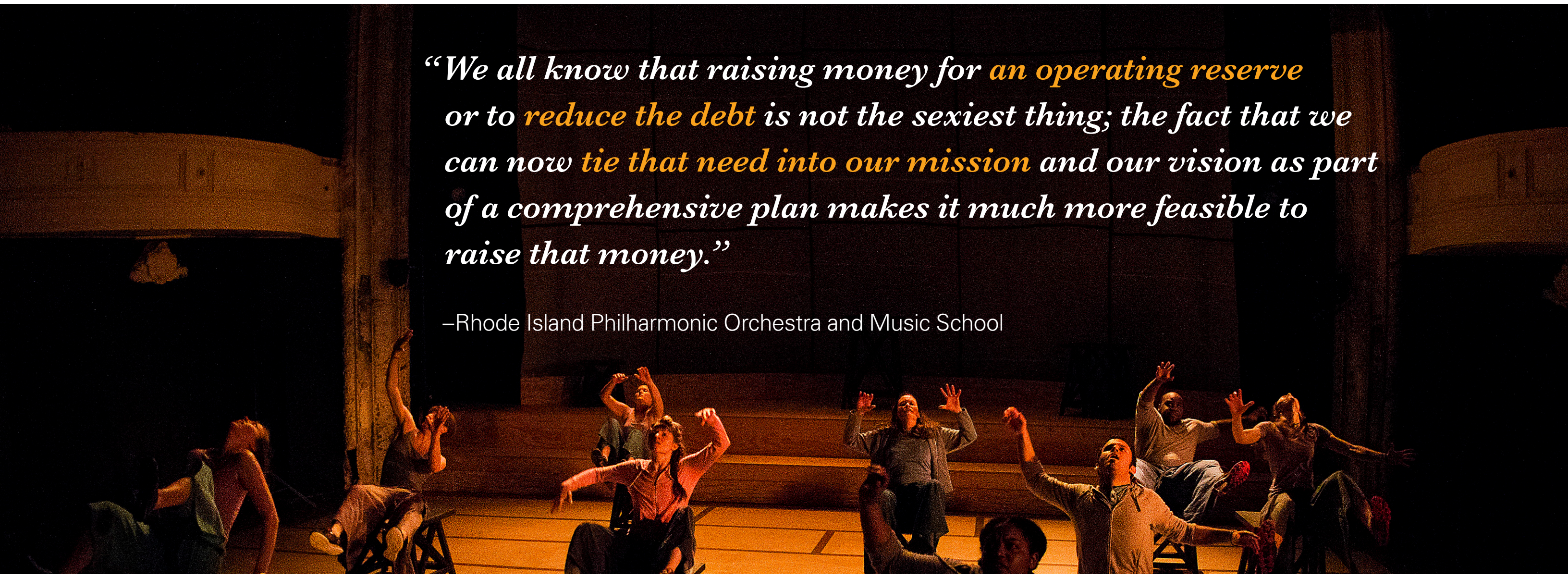
Courtesy of **JOSE MATEO BALLET THEATRE**
Photograph by Gary Sloan

Sharing Lessons Learned

The Kresge Foundation is committed to an ongoing discipline of analysis and learning, ultimately using those lessons to inform both its work and the larger field. Between 2010 and 2012, the Arts and Culture Program made 36 capital grants focused on Institutional Capitalization. In mid-2013, the Kresge Foundation sought Nonprofit Finance Fund's assistance in evaluating the effectiveness of these investments.

The resulting report contains findings on trends and themes for the entire cohort, including: models of success and characteristics of organizations with weaker results, an assessment of why the program did or did not produce the desired results, and recommendations for funders interested in supporting capitalization. These lessons will continue to inform the work of the Arts and Culture Program as it pursues new strategic priorities, and the full report is available on both the Kresge and NFF websites.

Courtesy of **CLEVELAND PUBLIC THEATER (THE GORDON SQUARE THEATER)**
Photograph by Steve Wagner Photography



> ***"We all know that raising money for an operating reserve or to reduce the debt is not the sexiest thing; the fact that we can now tie that need into our mission and our vision as part of a comprehensive plan makes it much more feasible to raise that money."***
>
> –Rhode Island Philharmonic Orchestra and Music School

Summary Findings

As a result of Kresge funding, grantee organizations are largely thinking in multi-year cycles and taking great strides to plan for long-term financial health. They are increasingly engaged in the following best practices:

- Budgeting for surpluses
- Developing capital budgets based on systems replacement plans
- Planning to create or grow cash reserves
- Developing policies for these reserves
- Asking for flexible reserves as part of capital campaigns

Although some organizations were previously engaged in these practices, many have adopted them due to Kresge grant requirements. For many grantees in the cohort, achieving improvements in financial health will take some time to materialize. Many organizations struggle with difficult choices about the size and scope of the organization given the demand of their audiences and the propensity of their donors to give. Moreover, institutional and individual donors rarely provide the flexible capital that would support grantees in their efforts to right-size and adapt. Very few funders are making capital grants outside of facility acquisition and endowment.

Distilled below are key findings and takeaways for nonprofits working to build balance sheet strength.

Recommendations for Nonprofits

PLANNING

Start with education. Building a strategy is only possible when managers and staff share an understanding of capitalization vocabulary, best practices and strategies. (A terms sheet may be helpful to ground the vocabulary.) Artistic leaders are critical participants in planning sessions, given their understanding of the connections between program ambitions and financial health.

Include the board and other donors. Strong knowledge about capitalization at the staff level is not enough. Trustees influence fundraising priorities and serve as a pipeline to the major donor community. As such, board education and buy-in about capitalization (beyond facilities and endowments) is necessary for the development of a solid plan. Since other individual donors will be critical to the success of any capital investment, think about aiming your educational efforts at this audience, too.

Revisit key concepts when onboarding staff and trustees. Turnover and transitions are a given, but they can be disruptive if new leadership is unfamiliar with core capitalization concepts. Successful organizations incorporate capitalization strategy and vocabulary into the onboarding of new staff and trustees.

Engage in realistic, integrated planning. Organizational planning efforts link vision to strategy, and strategy to a financial roadmap with balance sheet goals. A strong capitalization plan is grounded in a clear understanding of an organization's historical and current financial situation. It sets targets for the types and amounts of capital resources needed to achieve long-term business and savings goals.

Right size the plan. Capital needs should be quantified in the capitalization plan. Organizations require enough capital to cover the one-time cost of any major change, as well as the temporary deficits incurred during the transition period. Organizations undertaking business model change should also conduct a marketplace analysis grounded in evidence of demand among donors and audiences. For organizations with facilities and/or other fixed assets, a realistic assessment of long-term repair and re-investment needs is a critical component.

Courtesy of **CLEVELAND PUBLIC THEATER (THE GORDON SQUARE THEATER)**
Photograph by Steve Wagner Photography

Courtesy of **EAST BAY CENTER FOR THE PERFORMING ARTS**

FUNDRAISING

Use the plan! Organizations need different kinds of capital at different phases of their development. Grounding your asks in a well-articulated plan helps donors understand the types of capital needed by your organization. All nonprofits require working capital as a first order of business—to manage cash flow and handle everyday risk. Organizations in crisis also need capital to repair a structural deficit and pay off accumulated debts. Stable organizations may benefit most from cash reserves to navigate a rainy day and support periodic risk taking. Organizations embarking on any kind of business model change need flexible, multi-year capital to cover temporary deficits as they adapt their operating model.

PRIORITY / GOAL	% GOAL ACHIEVED	
1. RETIRE DEBT ON BUILDING		
GOAL = $900,000		
2. CAPITAL PROJECTS		
GOAL = $750,000	*53%*	$395,000
3. RESERVES		
GOAL = $500,000 **BUILDING** (Kresge Request)	*0%*	
GOAL = $500,000 **OPERATING**	*0%*	
4. ENDOWMENT		
GOAL = $5,000,000	*60%*	$3,000,000
TOTAL FUNDS TO RAISE = $3,355,000 **TOTAL GOAL** = $7,650,000 **TOTAL SECURED** = $4,295,000		

The Center of Creative Arts (COCA) created this infographic depicting the organization's capital needs for the next five years. Staff used this key communication tool in fundraising for the facility and operating reserves, and staff members credit these communications with helping them to transition a $250,000 pledge for fixed assets to a pledge for operating reserves.

Re-imagine the capital campaign, which can have utility far beyond bricks and mortar. Organizations may be more successful fundraising for the flexible forms of capital mentioned above if the asks are integrated into a more typical capital campaign (i.e., an operating reserve is packaged alongside exciting facility projects or a major organizational milestone, with a traditional anniversary gala). The graphic to the left, used by Center of Creative Arts, provides an example of succinct, effective messaging for a multi-layered capital campaign.

Explore the role of challenge gifts. Raising capital is often easier when others are visibly on board. Some organizations may be more successful raising flexible capital—like an operating or risk reserve—from their boards and other major donors if the investment is structured as a challenge. Larger, one-time, institutional gifts are great for PR; they can be seen as a major "stamp of approval" and leveraged to rally individual supporters.

IMPLEMENTATION

Continue to monitor progress against the plan. Balance sheet change—especially when it is associated with a plan to grow or adapt programs and operations, merge, or restructure—is not easy, even for the most sophisticated organizations. While sound planning is critical, implementation requires a willingness to make data-informed decisions along the way.

Engage in open dialogue with funders. Frank conversation with funders and individual donors is key to helping supporters understand true financial needs. Using simple, clear terms and compelling graphics are excellent ways to frame a conversation about capitalization progress and challenges.

Be patient! Becoming a well-capitalized organization is a journey, not a destination. It is a long-term endeavor and unexpected events along the way (economic downturns, loss of a major funding source, leadership change and board turnover, etc.) can have tremendous impact on realizing balance sheet goals. Patience is essential to implementing a long-term strategy.