

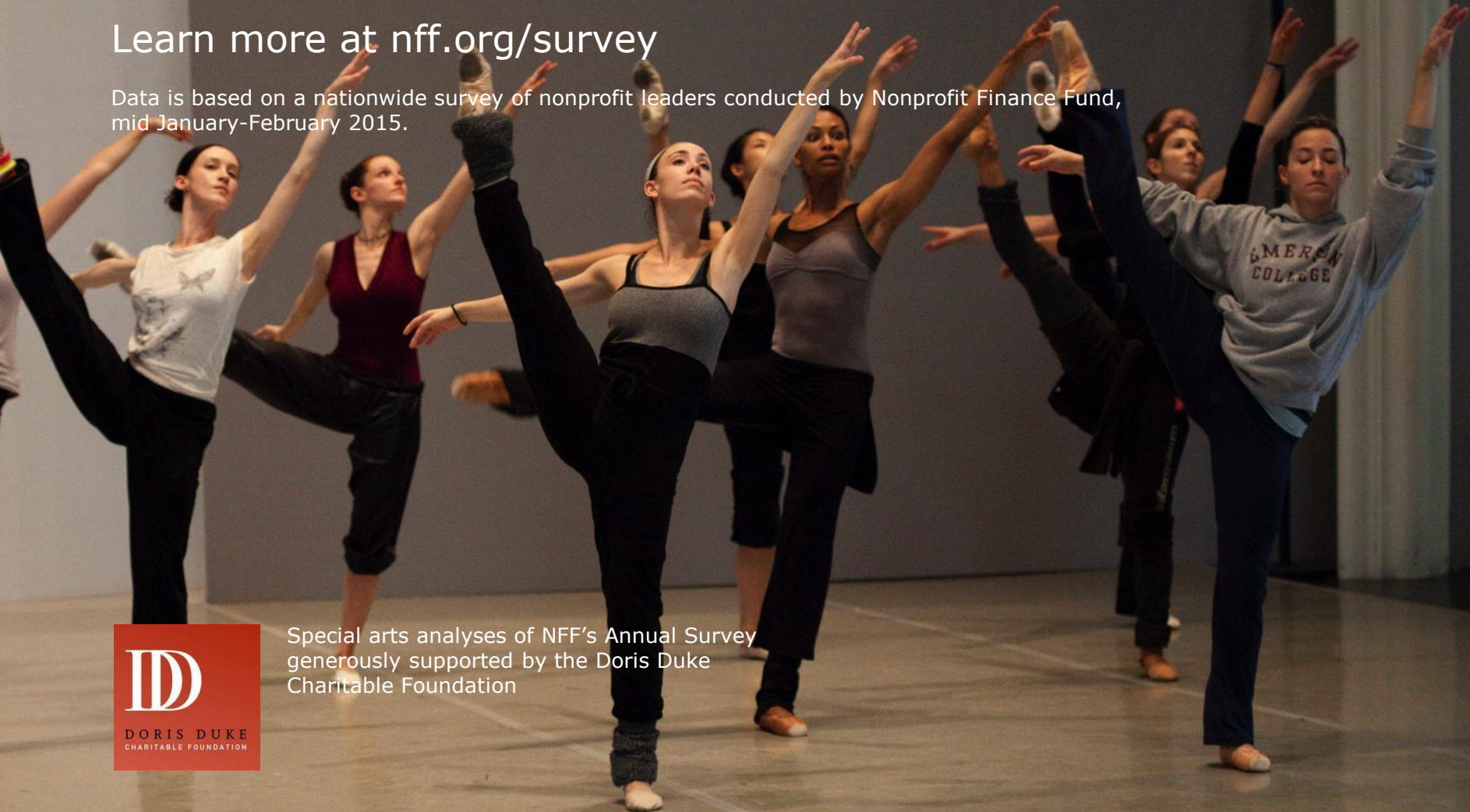
Nonprofit Finance Fund® 2015 State of the Nonprofit Sector Survey



Special Supplement: Arts & Culture Sector

Learn more at nff.org/survey

Data is based on a nationwide survey of nonprofit leaders conducted by Nonprofit Finance Fund, mid January-February 2015.



Special arts analyses of NFF's Annual Survey
generously supported by the Doris Duke
Charitable Foundation

Photo credit: Jose Mateo Ballet Theatre

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About Nonprofit Finance Fund (NFF): Tailored Investments, Strategic Advice, Accessible Insights



Since 1980, we've helped funders, nonprofits, and other mission-driven 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. A leading community development financial institution (CDFI) with over \$300 million in assets under management, NFF has provided \$575 million in financing and access to additional capital in support of over \$1.5 billion in projects for thousands of organizations nationwide.

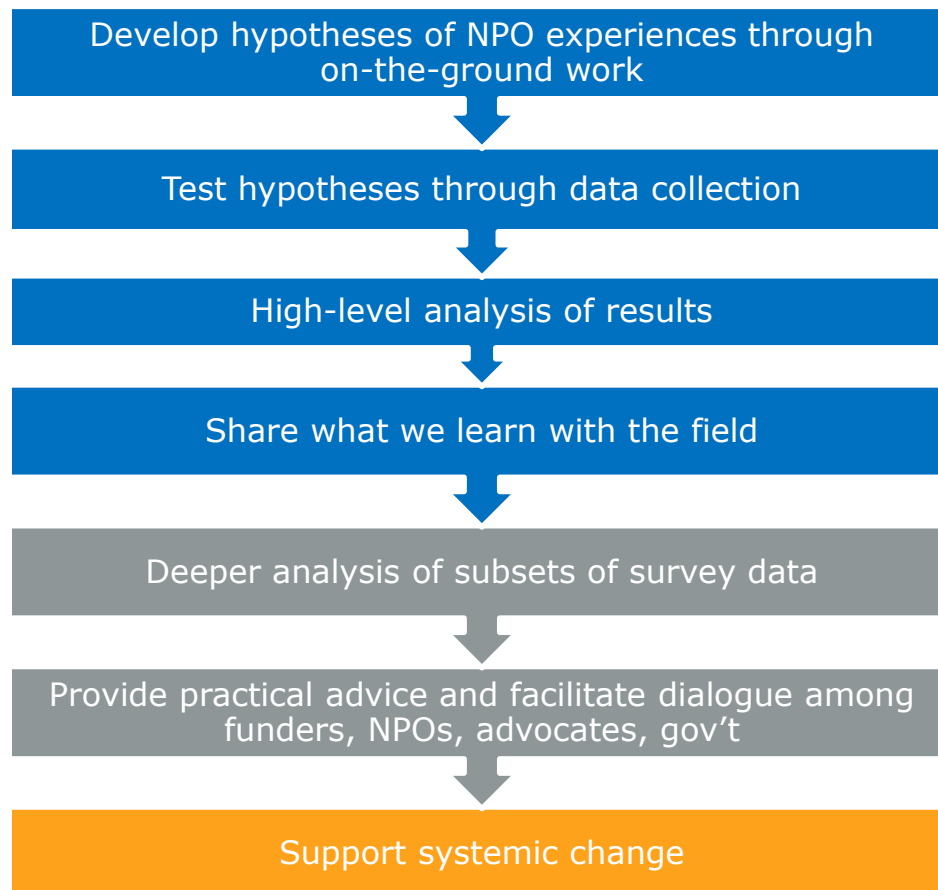
For more than three decades, NFF has been helping arts and cultural organizations solve their financial challenges and plan for a more vibrant, healthy future. We have worked with more than 1,300 arts organizations across the country, from small neighborhood-based community centers to large performing arts organizations and museums.

NFF's Annual Survey: Linking Practice, Data, and Action

Phase 1: Building on NFF's Advisory & Lending practice, we develop survey content, collect unbiased data, and share what we learn with the field.

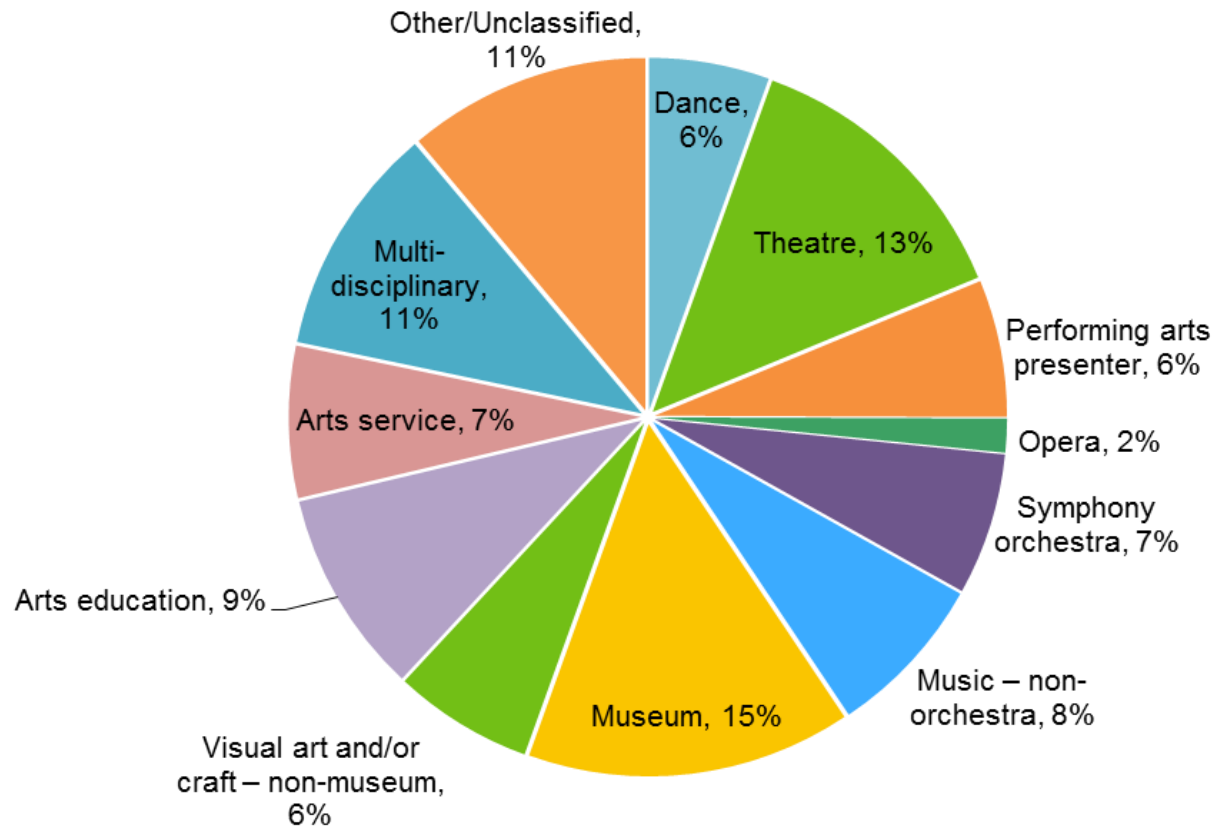
Phase 2: Our data analysis informs our Advisory & Lending practice.

Phase 3: We work with experts, advocates, funders and others to put the data in service of systems-level change.



906 Arts, Culture, & Humanities organizations responded, representing a wide range of sub-sectors.

Arts & Culture Sub-Sectors



The vast majority of respondents had budget sizes ranging from \$0 - \$5 million annually.

FY2014 Operating Expense

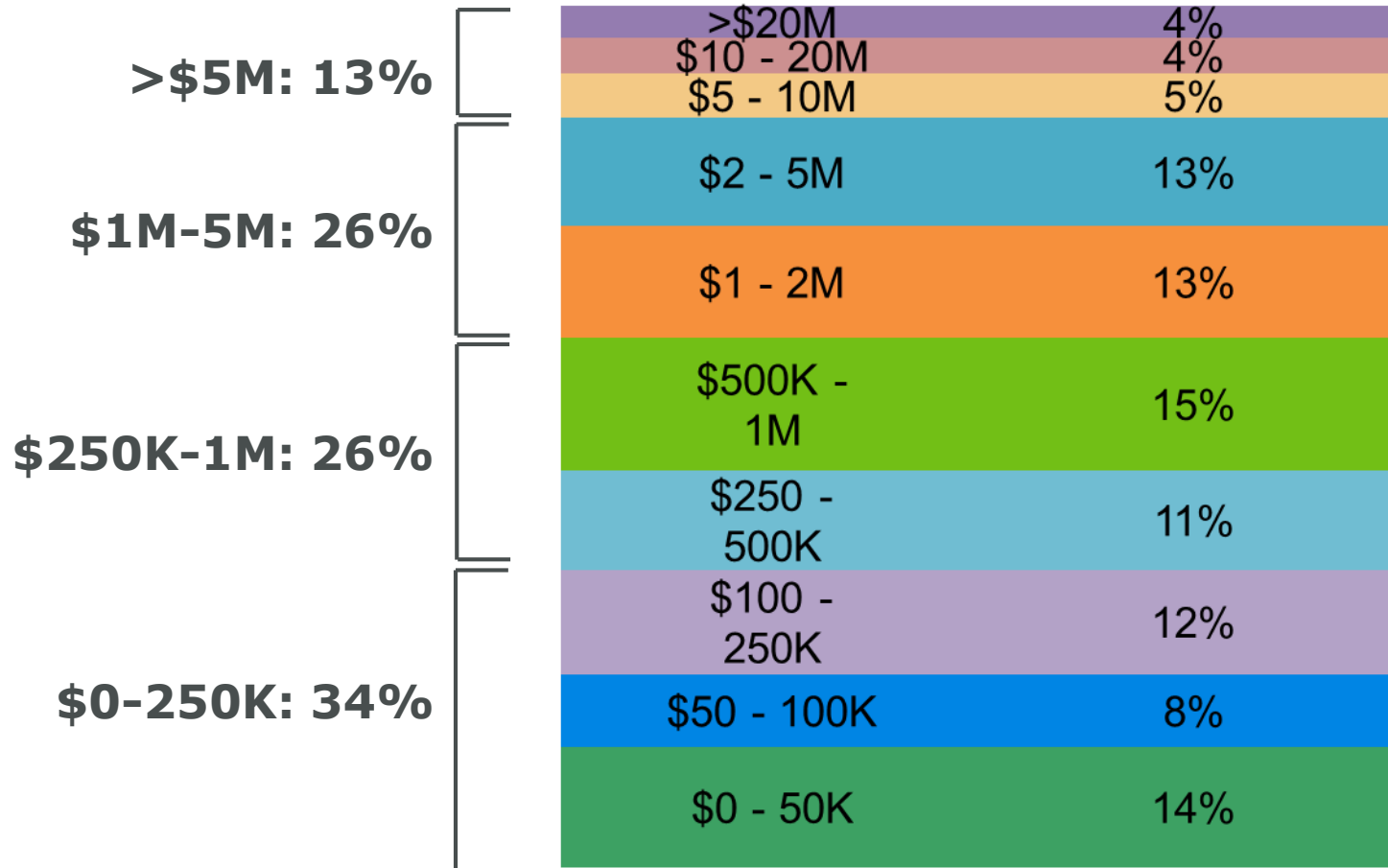


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86% reported making meaningful investments in activities intended to build and engage their audience/visitor base.

In 2014, my NPO made a meaningful investment in... (selected top 3)



Respondents identified the following investments to engage / develop audiences

(Respondents selected top 3 investments)	Arts	Arts Ed	Multi-disciplinary	Museum	Music, non-orchestra
Data collection on audience/visitor preferences and behaviors to inform programs	32%	17%	33%	45%	38%
Data collection on audiences and visitors to inform fundraising	14%	6%	11%	9%	20%
Engaging audiences/visitors through technology	31%	33%	38%	35%	40%
Participatory programs	33%	44%	41%	38%	22%
Programs for specific target audiences or visitor segments	37%	42%	33%	49%	18%
Audiences/visitors involvement in program planning	7%	9%	8%	9%	2%
New marketing strategy(ies)	33%	23%	27%	20%	42%
Implementation of new pricing model(s)	8%	8%	5%	8%	4%
Cultural experiences in unconventional spaces	27%	14%	42%	21%	38%
Arts education programs or partnerships with schools	52%	70%	44%	44%	42%
Other	5%	6%	7%	5%	2%

Of the 86% of respondents who reported meaningful investments in audience-building activities...

The demand for participatory programs continues to grow, with a third (33%) making investments in this area.

"While we still have a significant audience of traditional museum goers who are interested in a curated exhibition that features great work and scholarly analysis, we have a growing audience that is more interested in creating art, or participating in curatorial processes, or even seeing their own art on display."

-Museum, CA



Photo credit: Steppenwolf Theatre Company

Of the 86% of respondents who reported meaningful investments in audience-building activities...

More than half (52%) indicated that these efforts were in arts education or partnerships with schools. School funding dynamics vary significantly by region.

The org has "experienced the greatest demand for its In-School Program, which provides choral music instruction to nearly 3,300 singers in 72 schools. This includes a demand for developing In-School Program partnerships [...], as well as increased presence in schools with whom [we] currently partner. For the former, the trend driving this demand is need for arts learning experiences for students in the absence of on-staff arts educators in [our] public schools."

-Music (non-orchestra), IL



Photo credit: Siti Company

Respondents increasingly discussed the ways that engagement with arts and culture can be used to meet civic objectives.

Cultural nonprofits also reported that they are increasingly providing:

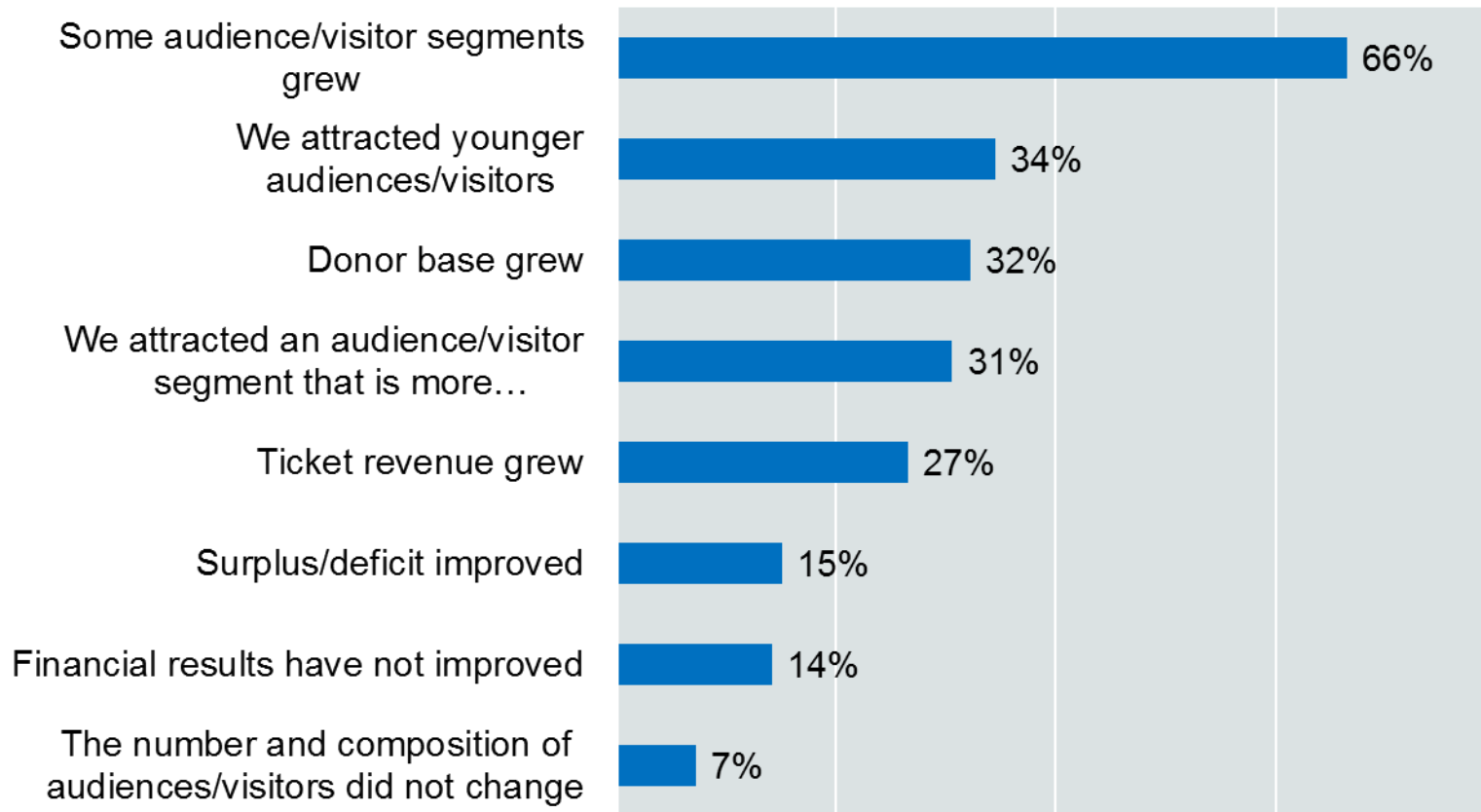
- Collaborations with social service agencies.
- Employment for artists and art workers.
- Access to free computers, long-distance learning, 3-D printing.
- Early childhood education and programming.

“Our organization is seeing an increasing demand in family-friendly programming and educational resources for pre-K children. [...] In response to this, we have begun co-creating new curriculums around Asian art for pre-K students, and to intensify our family program offerings on the weekends.”

-Museum, CA

66% reported that investments generated audience/visitor growth.

What was the impact of audience development activities? (selected top 3 investments)



Not surprisingly, most organizations did not report immediate financial return on their investments.



15% indicated that the investments led to an improvement in the organization's surplus/deficit.

Nearly the same amount (14%) indicated that financial results did not improve—which is to be expected.

Investments take time to materialize and not all investments will have a financial return, particularly in the same fiscal year that investments are made.

"We see a demand for an increasing variety of free entertainment programs and activities. Free ticket programs seems to be popular with arts funders, especially corporate funders."

-Theater, MN

Audience and funder expectations are not always aligned with an organization's financial realities.

We see an "increased interest in 'audience extras' that provide insight into the productions we present. People are interested in being educated about what they see. There is also an expectation that these services are free of charge."

-Theater, NJ



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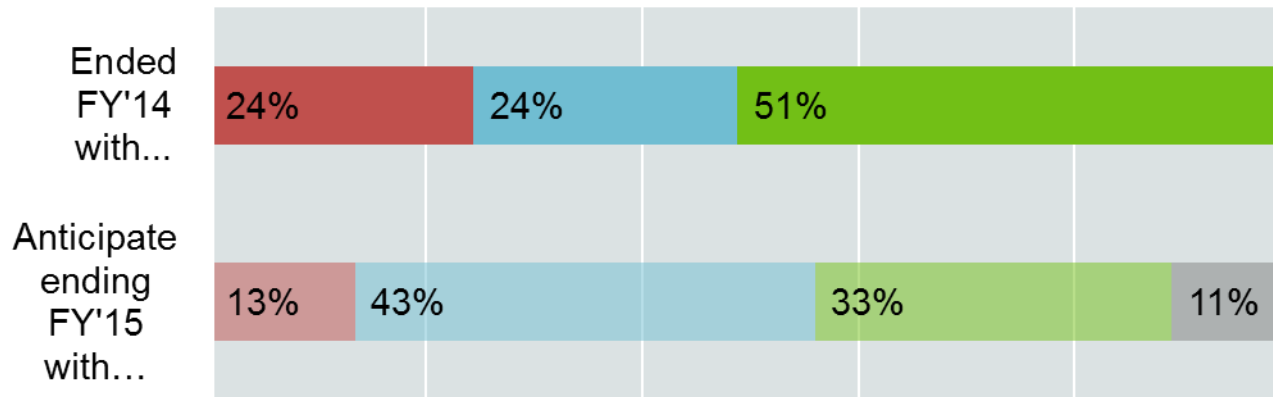
Grantmaking Trends: Dynamics of Private & Public Funding

Measuring Impact

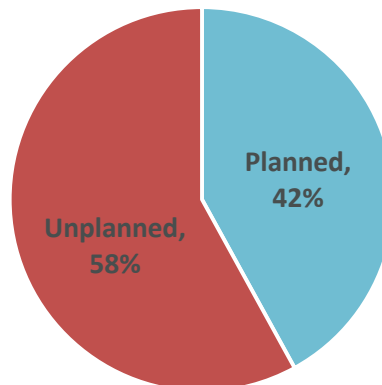
Conclusion: Tips for Cultural Nonprofits & Their Supporters

75% of arts & culture organizations reported break-even or better operating results in 2014.

Financial results: FY 2014 vs. anticipated FY 2015
 ■ Deficit ■ Break-even ■ Surplus ■ Unable to predict



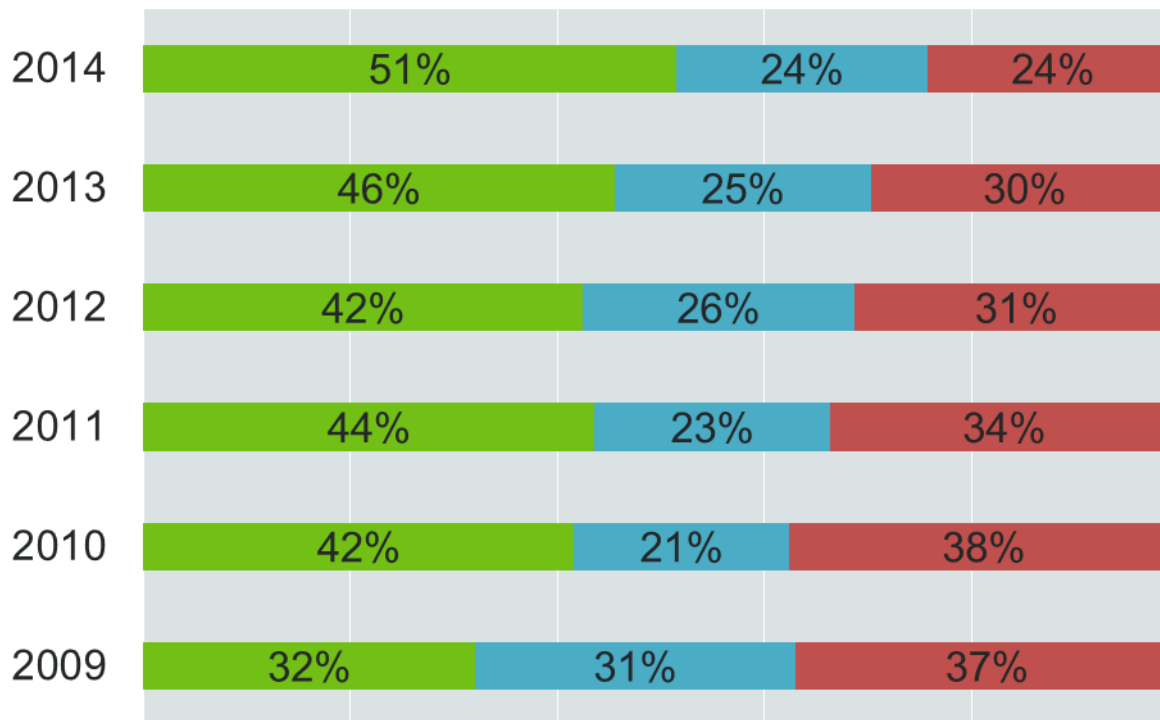
This deficit was...



Trend data show more arts respondents reporting surpluses and less reporting deficits over time.

Financial Results

■ Surplus ■ Break-even ■ Deficit

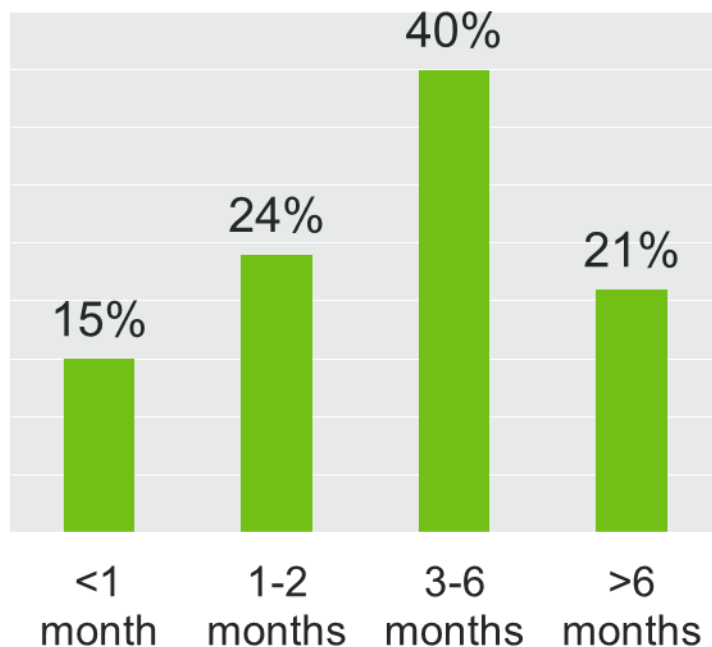


"We have ended the last three years with a surplus, but they are temporarily restricted funds [...] to program implementation. They do not cover the full cost of running programs or building infrastructure to be better or more efficient."

-Arts Education Organization, MN

40% of respondents indicated that they held 3 to 6 months of cash. Nearly the same amount (39%) reported less than 3 months.

Cash on hand



Cash may be restricted or earmarked for future programs or time periods.

NFF strongly recommends that organizations also calculate months of liquid net assets to understand the funds actually available to cover day-to-day expenses. The calculation is:

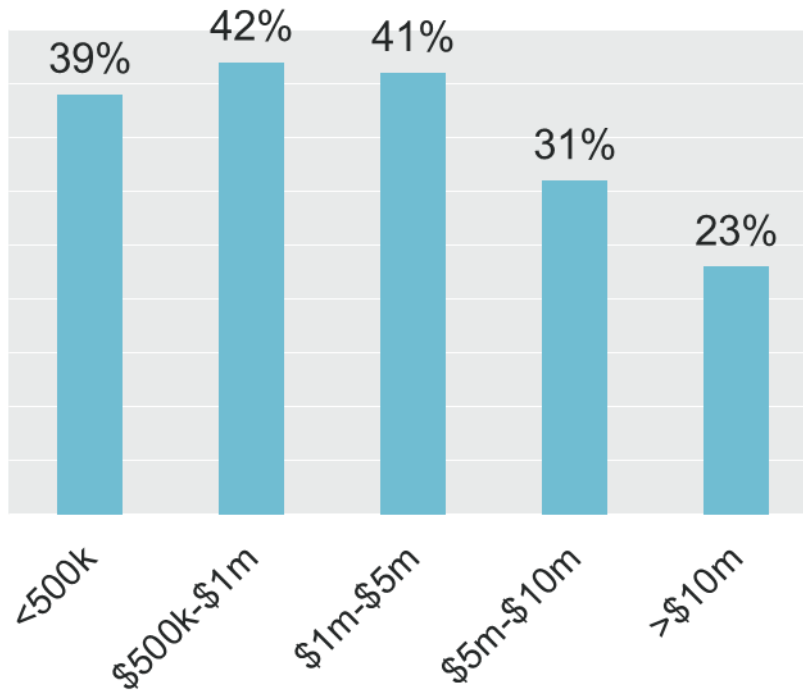
**[Unrestricted Net Assets –
(P&E - P&E debt)]**

(Annual Expenses / 12)

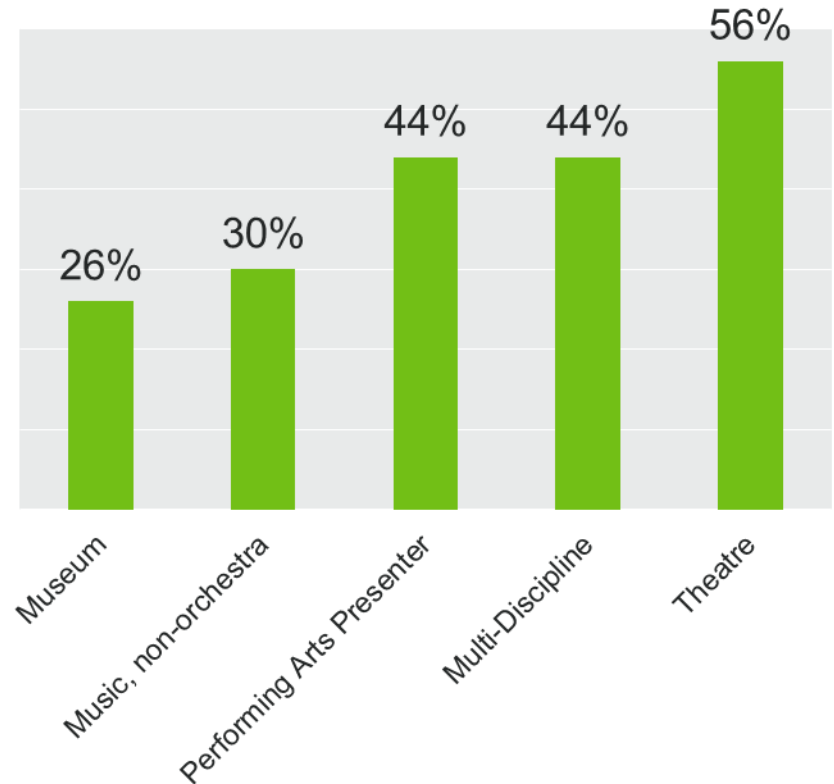
Liquidity is a greater concern for smaller organizations. Trends vary by discipline, with museums reporting more cash than theaters and dance.



% respondents reporting less than 3 months of cash (by budget size)

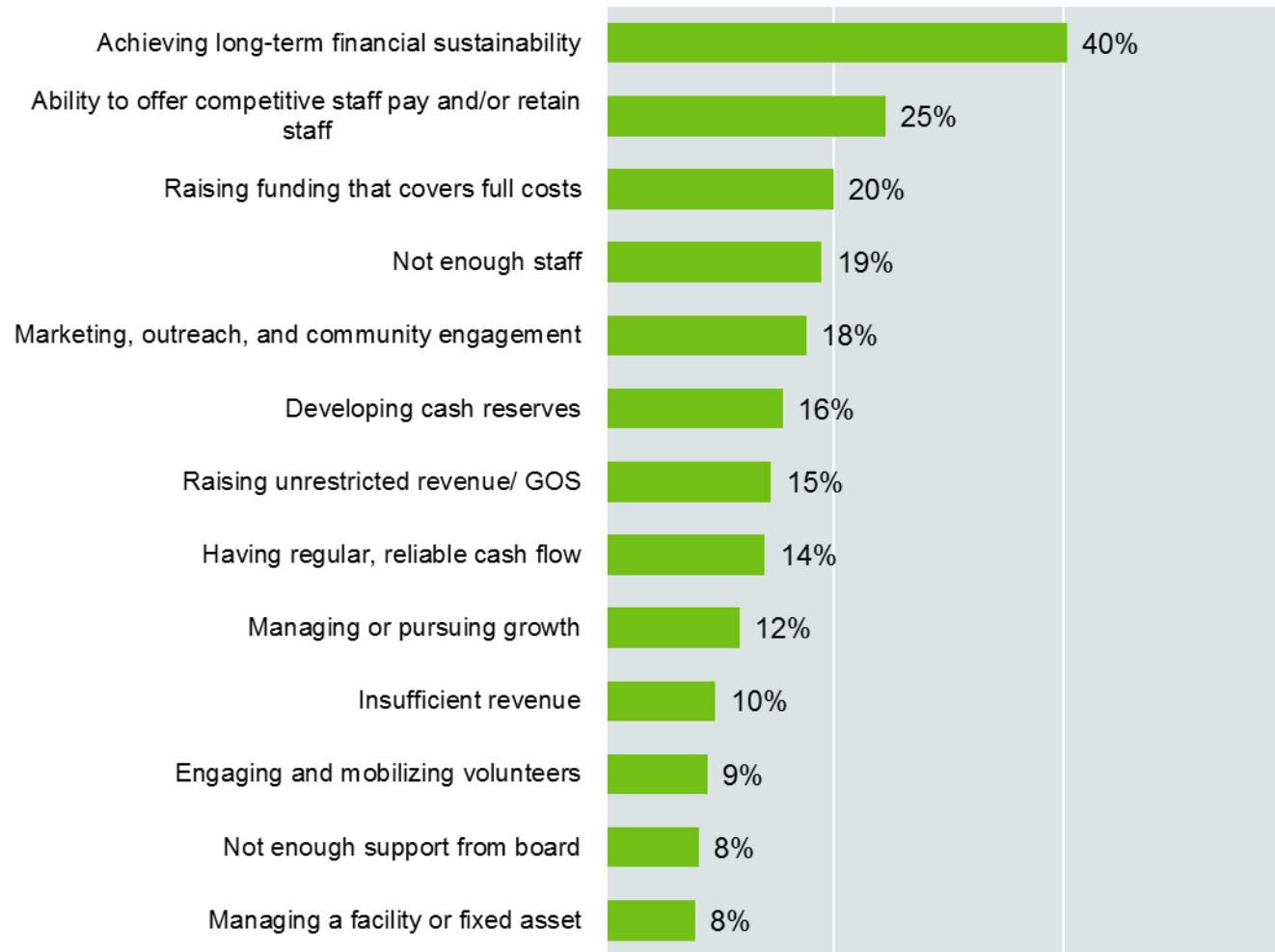


% respondents reporting less than 3 months of cash (by organization type)



40% of respondents cited “achieving long-term financial sustainability” as their greatest challenge.

Top challenges that arts nonprofits are facing (selected up to 3)



Arts leaders described their challenges.

"Maintaining the excellent office staff we currently have with such low salaries and no benefits is high on the list at present. We are pursuing fundraising much more vigorously and giving raises as best we can."

-Dance, LA

"We are trying to eliminate a debt resulting from bad decisions made a decade ago. Growing the organization in a responsible way, with stable funding for staff is a great challenge in an environment where cultural programming is undervalued."

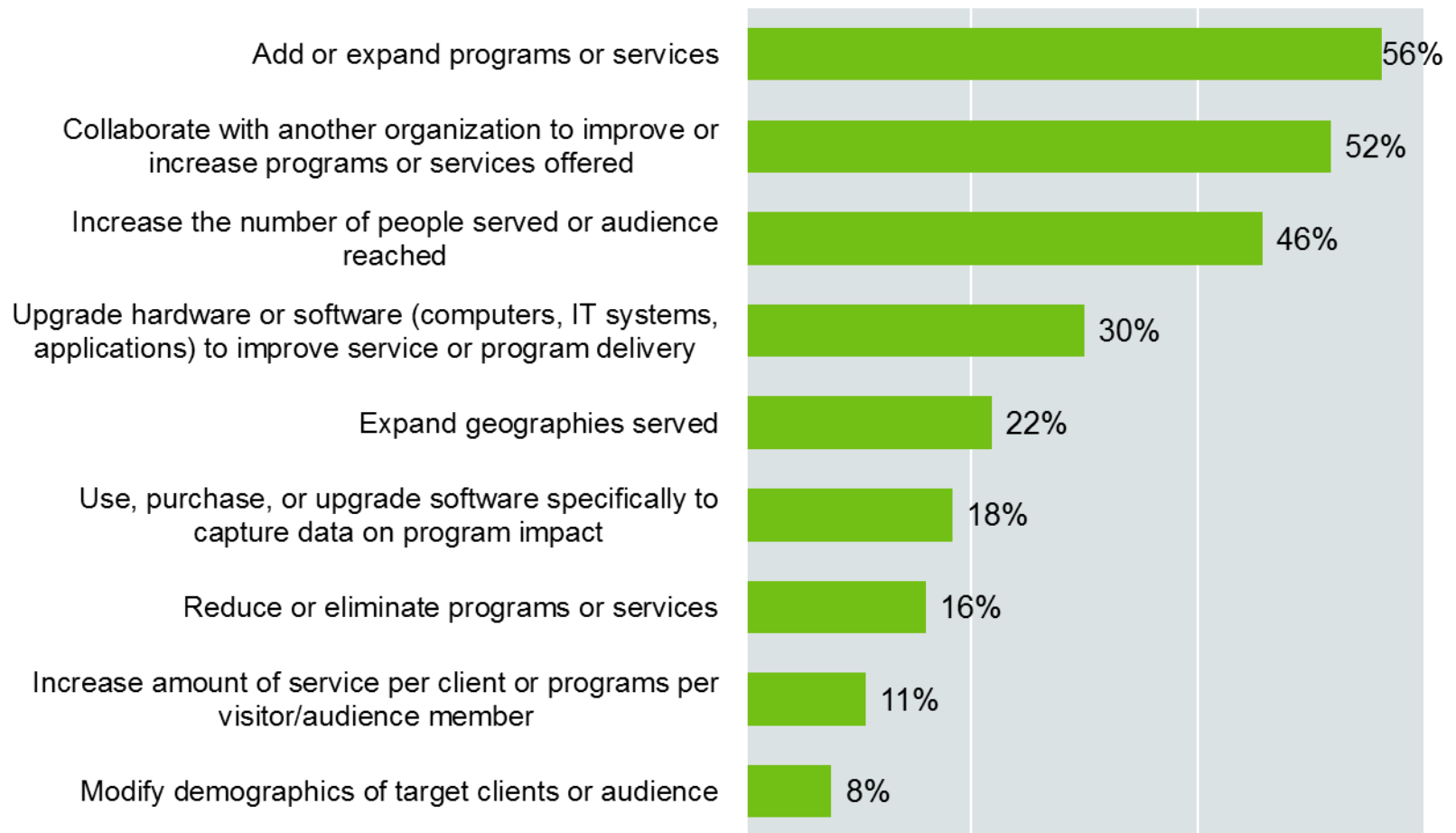
-Museum, NY

"Our organization's greatest current challenge is achieving long-term financial stability and modeling sustainable growth."

-Museum, CA

Despite financial challenges, many added or expanded programs or services.

Program & Service-related actions taken in last 12 mos. (selected all that applied)



Roughly a third were involved in outcomes measurement, advocacy, and long-term planning efforts.

Operations & Finance actions taken in last 12 mos. (selected all that applied)



Arts leaders discussed actions taken to address their key challenges.

"Making the case in our community that cultural organizations are important economic drivers. We have created an economic impact statement and are seeking [...] opportunities to educate elected officials."

-Museum, MA

Developing a "comprehensive operations assessment and a resulting long-range Business Plan, the organization's first."

-Museum, CA

"We endeavor to stay on top of current trends through audience research [...] and through implementing new marketing strategies."

-Theater, OR

Despite challenges paying competitive salaries, the most popular staff-related actions were hiring and investments in professional development.



Staff-related actions taken in last 12 months (selected all that applied)

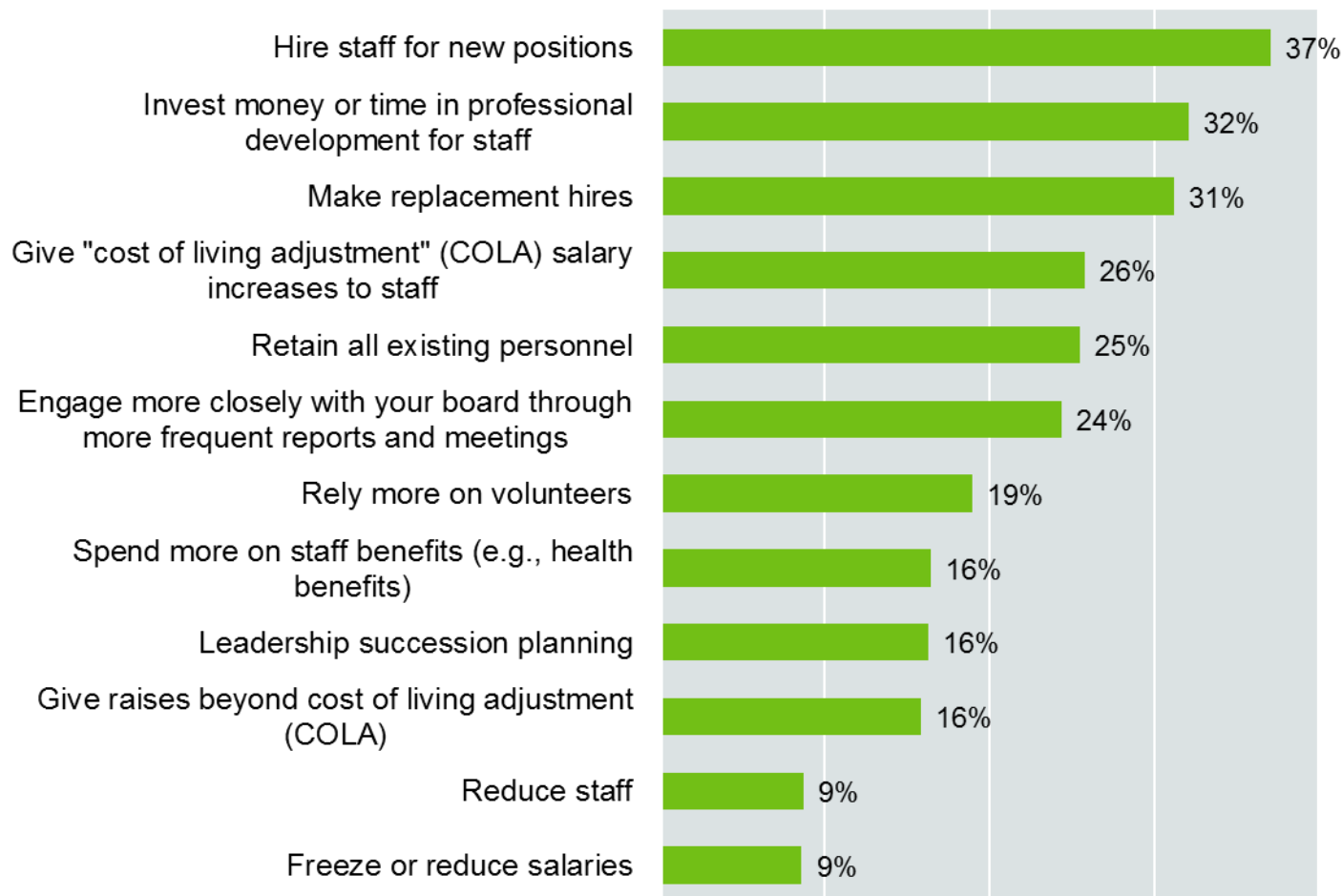


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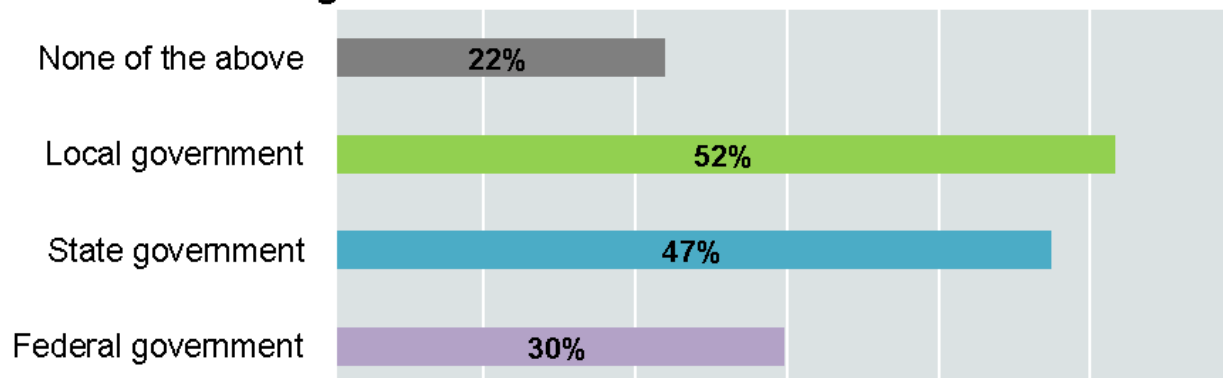
Respondents continue to report easier dialogue on program expansion than longer-term needs.

My org can have open dialogue with funders about:
(selected all that applied)

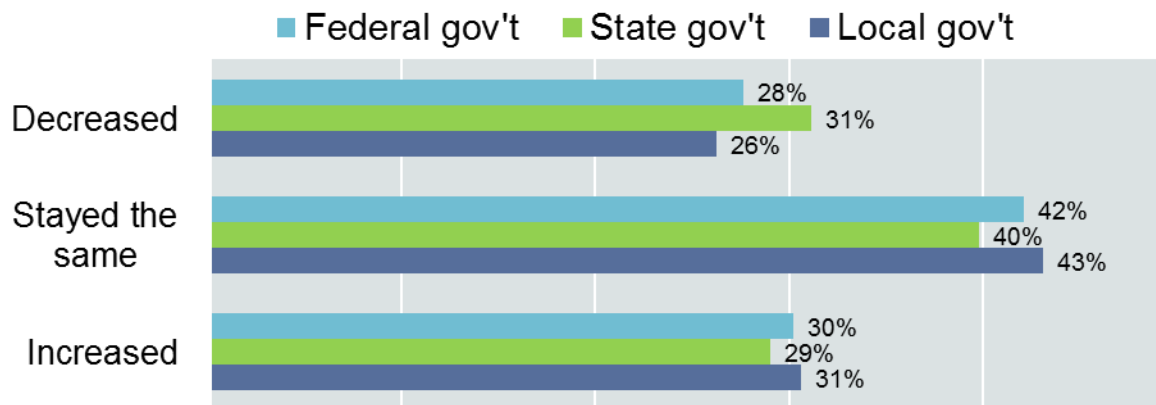


Roughly 20% of respondents received no government funding. Those that did reported increases and decreases at similar rates.

Do you receive funding/contracts from any of the following sources?



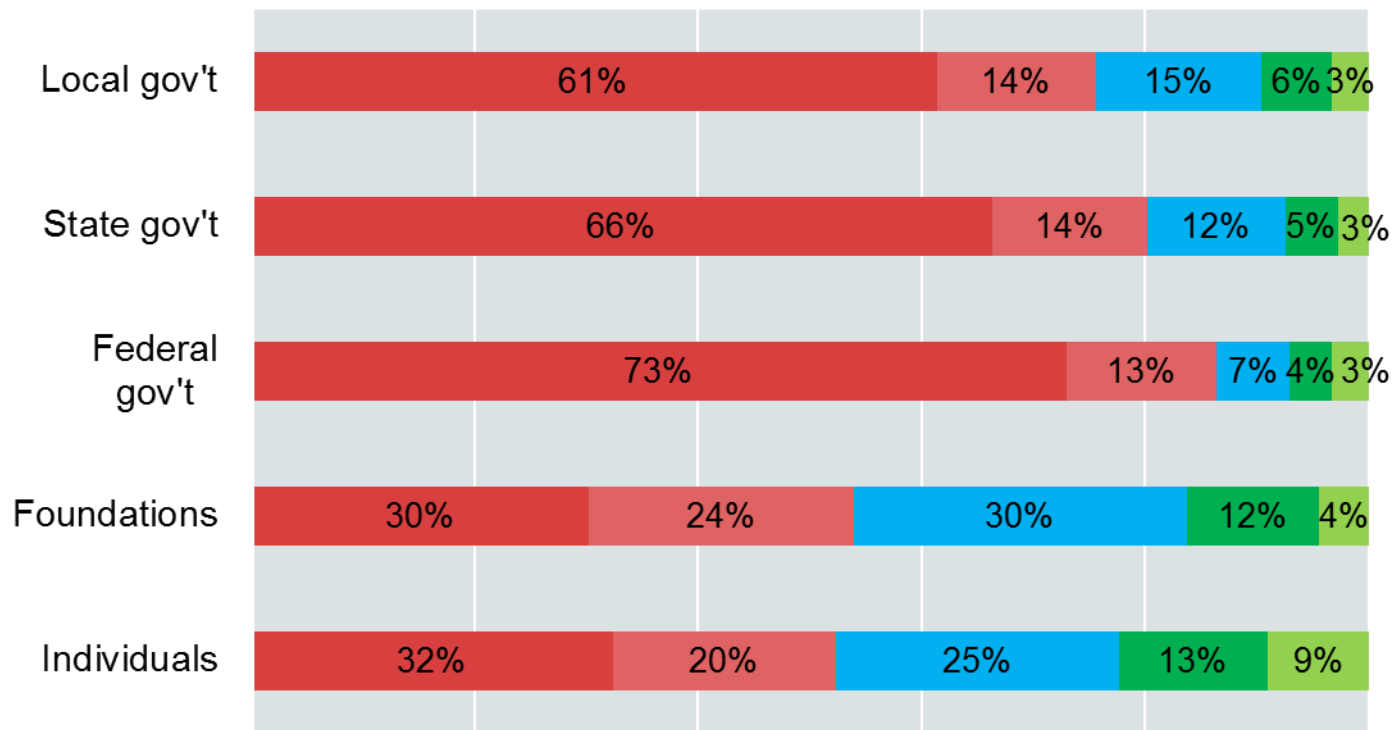
In the last 3 years, has the amount of gov't funding decreased, stayed the same, or increased (as a percentage of total revenue)?



Full cost funding remains most attainable from individuals and foundations. Government sources “never” or “rarely” cover full costs of programs.

How often do funders cover the full costs of programs they intend to support?

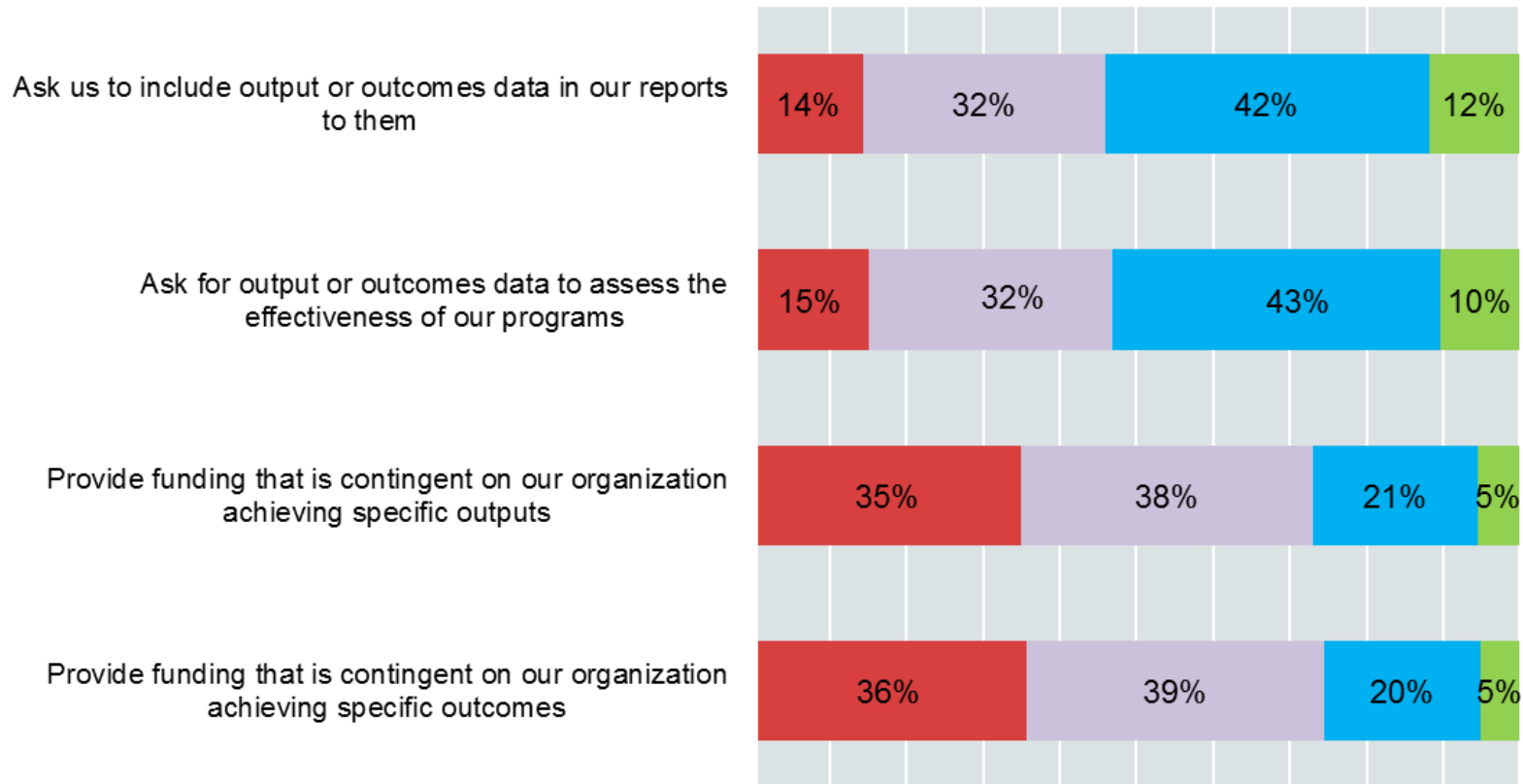
■ Never ■ Rarely ■ Sometimes ■ Often ■ Always



While many arts funders require reporting on outputs and outcomes...

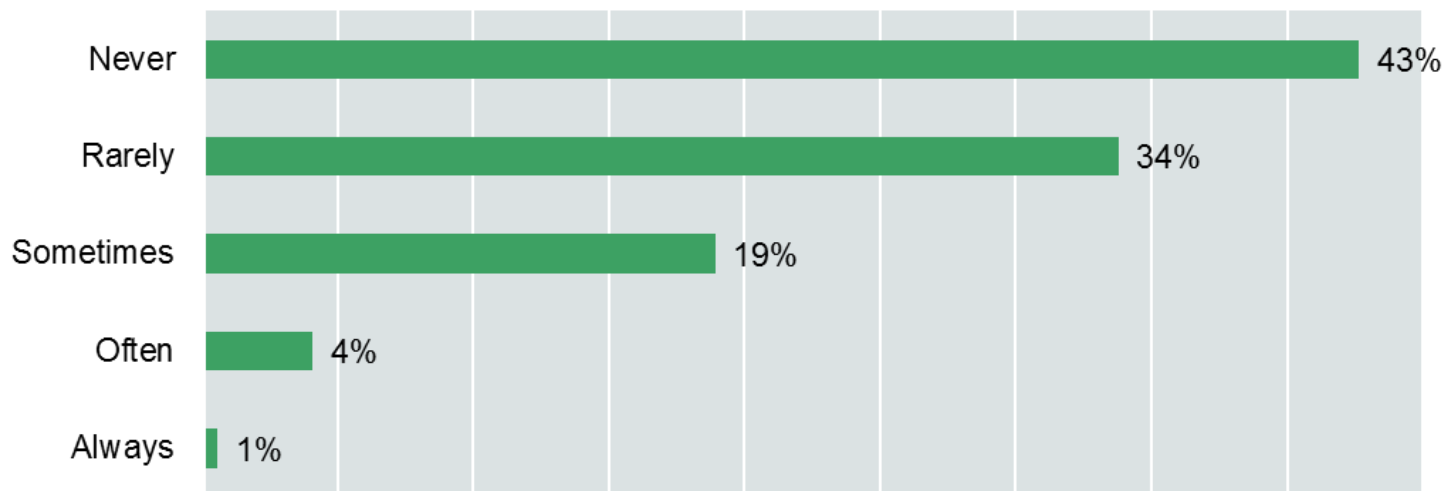
Impact measurement practices: Estimated portion of funders that....

■ None ■ Less than half ■ Half or more ■ All



...many “never” or “rarely” provide funding in support of these efforts.

How often do funders cover the costs associated with measuring program outputs or outcomes?



We seek funding to “provide more opportunities through our organization [...] for lifelong learning, and this is dependent in part on providing better data to funders about outcomes and impacts.”

-Humanities organization, MD

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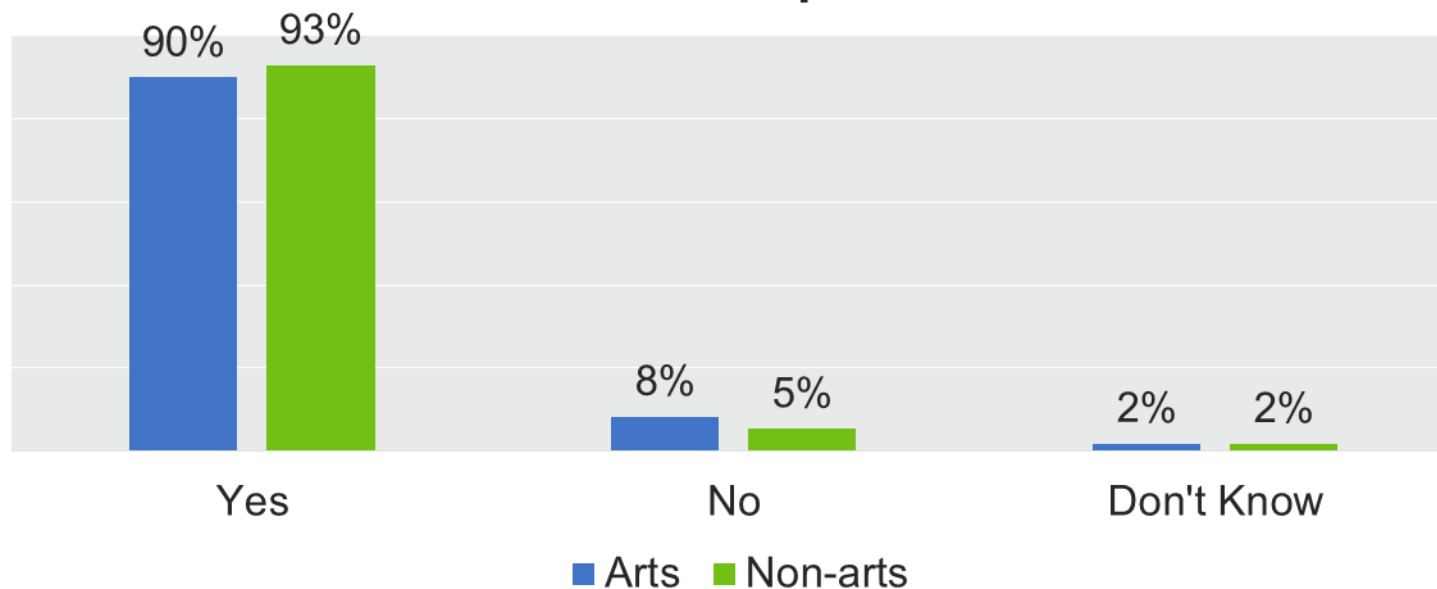
Measuring Outcomes

Conclusion: Tips for Cultural Nonprofits & Their Supporters

The vast majority of both arts and non-arts survey respondents are collecting output data.

Output data = quantitative measures of program productivity or volume, such as number of people served or activities carried out

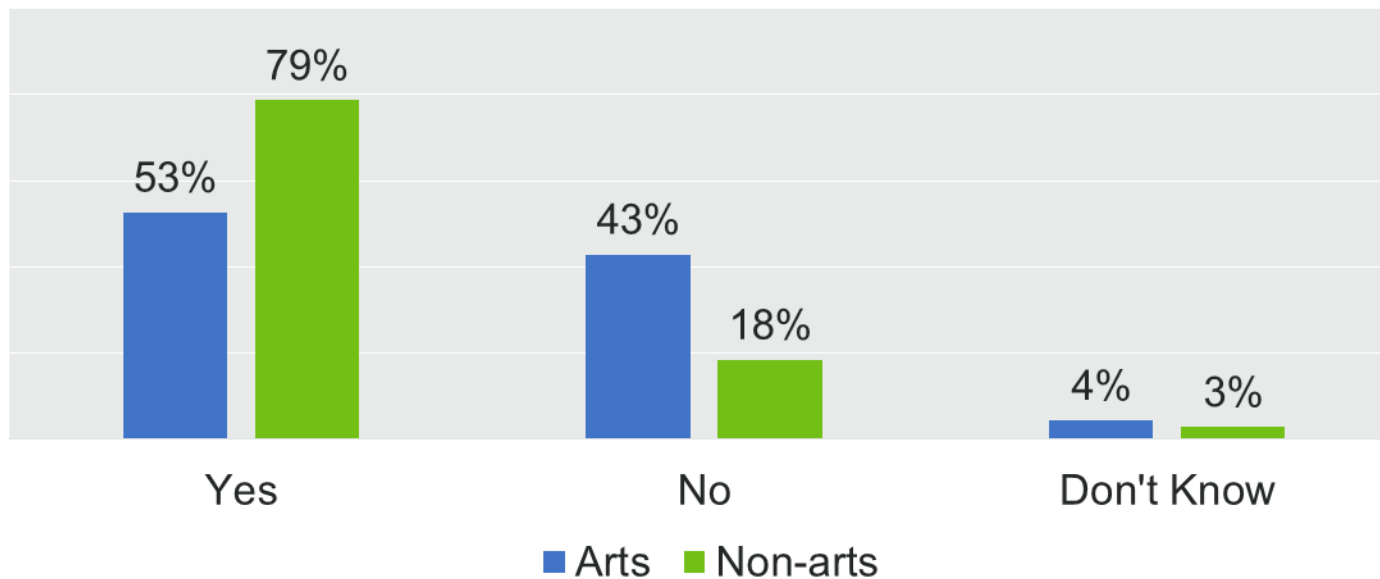
Collects output data?



Non-arts respondents report significantly higher rates of outcomes data collection.

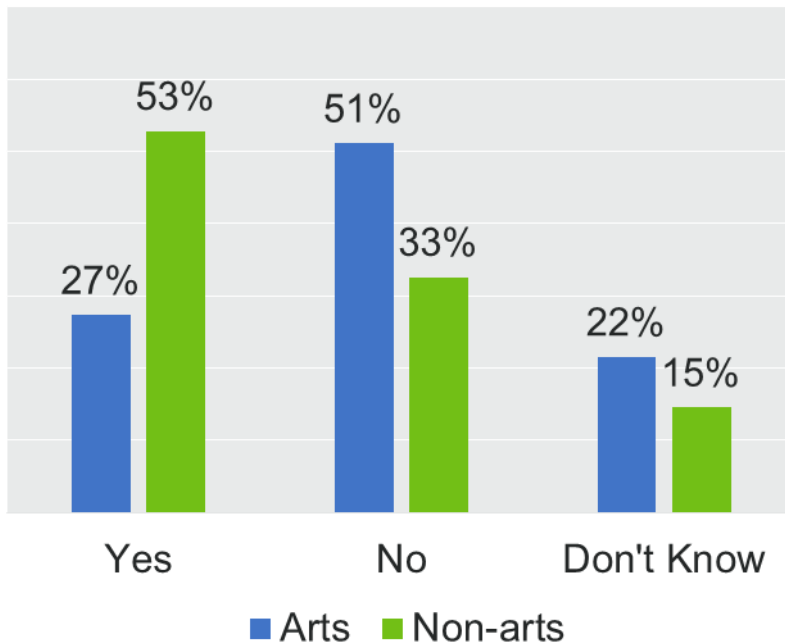
Outcomes data = qualitative and quantitative measures of how services meaningfully change the lives of constituents (changes in knowledge, skills, attitudes, behavior, etc.)

Collect outcomes data?



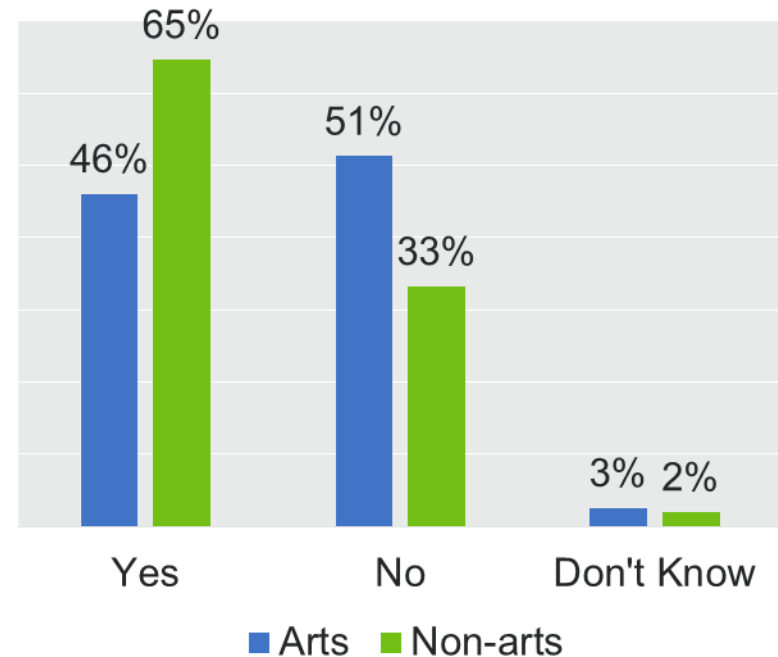
Although not a strict rule, having a theory of change and dedicated staff for data collection/analysis are correlated with effective outcomes measurement.

Has a theory of change or logic model?



A theory of change shows the links between a defined target population, an organization's activities, and the expected outcomes.

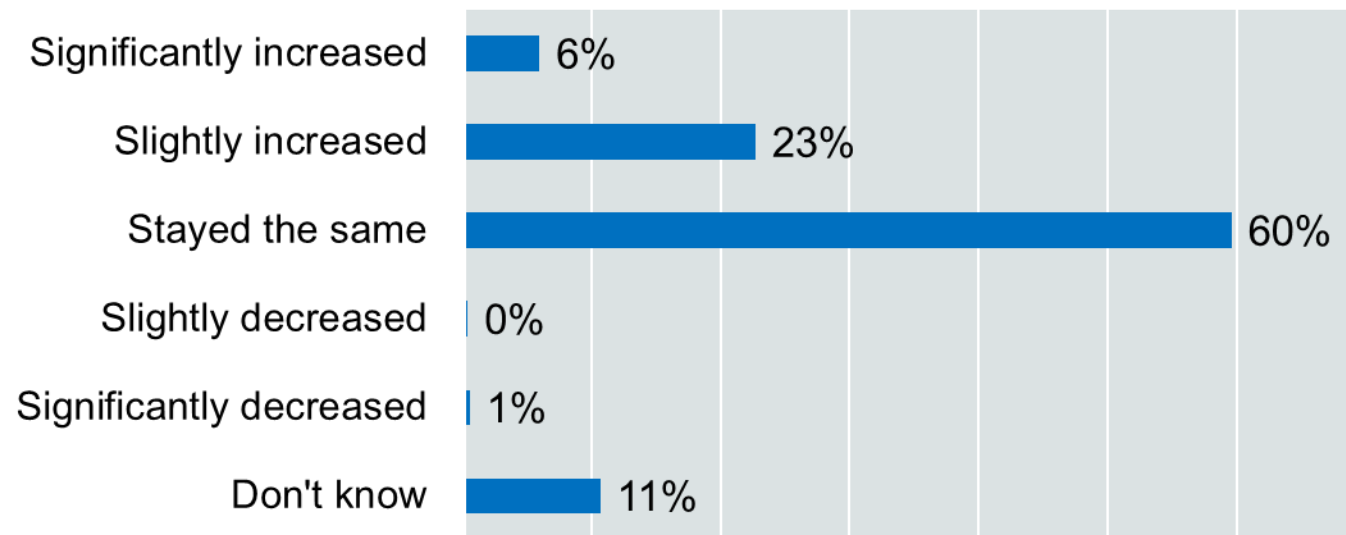
Staff dedicated to collect & analyze data?



"Dedicated" staff includes full-time staff that are partially dedicated to outputs and outcomes assessment.

29% of respondents indicated that measurement requests from funders increased last year.

In 2014, the number of funders asking us to measure or provide program outputs or outcomes...



Requests for arts nonprofits to report on outputs and outcomes will likely continue to increase, particularly when cultural activities are tied to other civic objectives, such as education and training.

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How can we address the systemic, field-wide barriers cited by survey respondents?

Nonprofits can...

- Budget and manage to operating surpluses. Track progress against budget and plan for scenarios before they occur.
- Understand the specific expenses and revenue that result from new program investments.
- Seek funding for the full costs of projects/programs (including depreciation, debt service, savings for working capital). Use general operating support or unrestricted funds to help close the gap and cover full costs – not to start new programs!
- Distinguish between revenue (routine) needs and capital (extraordinary) needs. Prioritize building working capital and reserves for periodic risk-taking and change.
- Clearly communicate financial goals, priorities and timeline in the context of your mission.
- When planning programs that tie directly to civic objectives (art in schools, job training, etc.) prepare to report on outcomes.

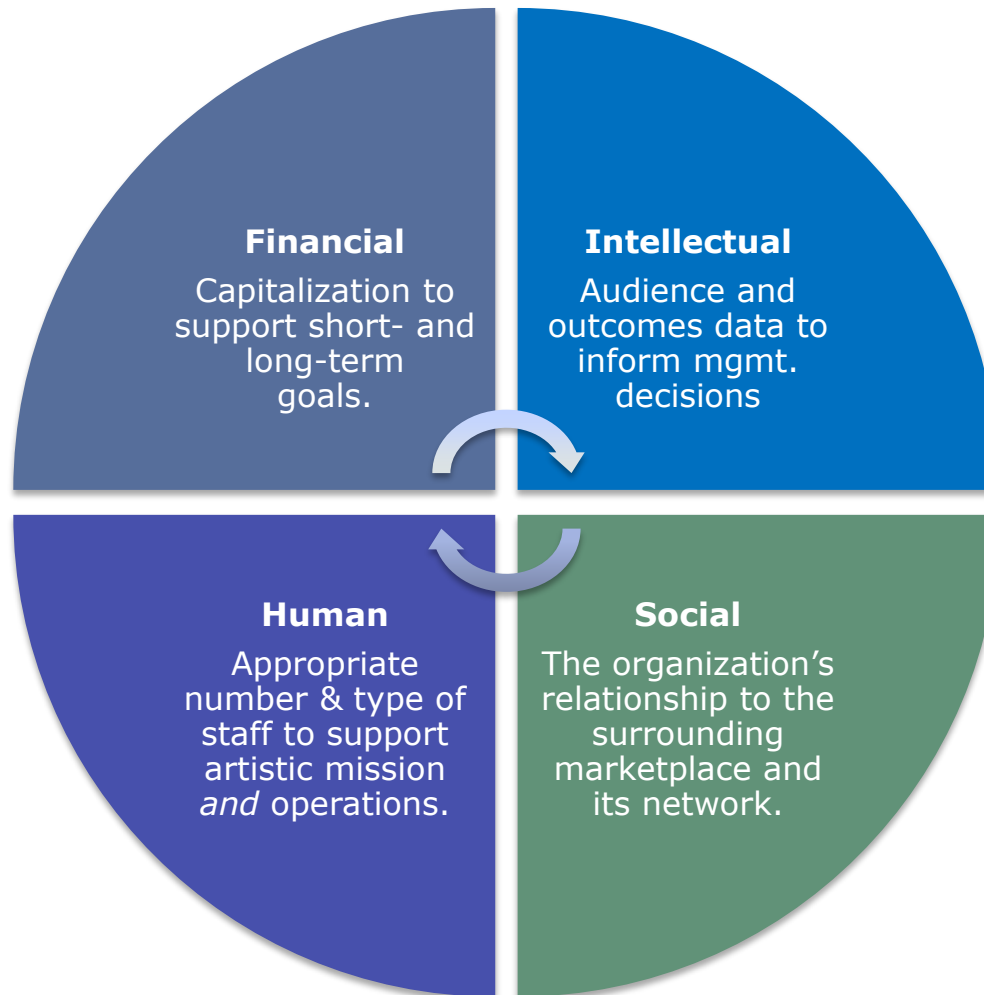
How can we address the systemic, field-wide barriers cited by survey respondents?

Funders can...

- Continue to give unrestricted support.
- Work to understand the full costs of programs you support.
- Be realistic about the resources required to grow or change a program—now and for the long term.
- Encourage integrated planning that links program, operations, and finances to strategy.
- Reward rather than penalize surpluses.
- Seed reserves for liquidity, risk-taking, and change.
- Engage in dialogue with your staff, grantees, and peer funders about capitalization principles as a means to artistic freedom.

Organizations that are most successful in balancing money & mission priorities engage in ongoing and integrated planning, considering 4 types of capital.

Nonprofits and their supporters can work to bring these types of capital together:



Further reading...

Interact with the data yourself at: survey.nff.org

Visit our Arts Resource Page:
<http://nonprofitfinancefund.org/partnerships/artsandculture>

Learn more at:

- <http://nff.org/survey>
- research@nffusa.org

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