



## 2014 State of the Nonprofit Sector Survey Arts & Culture

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Based on a nationwide survey of nonprofit cultural leaders conducted by Nonprofit Finance Fund, January-February 2014.



# Table of Contents

## About Nonprofit Finance Fund & the Survey

**Program Trends: Demand, Engagement, & Competition**

**Financial Health & Management Actions Taken**

**Grantmaking Trends: Dynamics of Private & Public Funding**

**Measuring Impact**

**Conclusion: Looking Ahead & Tips for Cultural Nonprofits**



# 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. As a leading community development financial institution, NFF has provided over \$287 million in loans and access to additional financing via grants, tax credits, and capital to support over \$1.4 billion in projects for thousands of organizations.

Since our founding, 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.

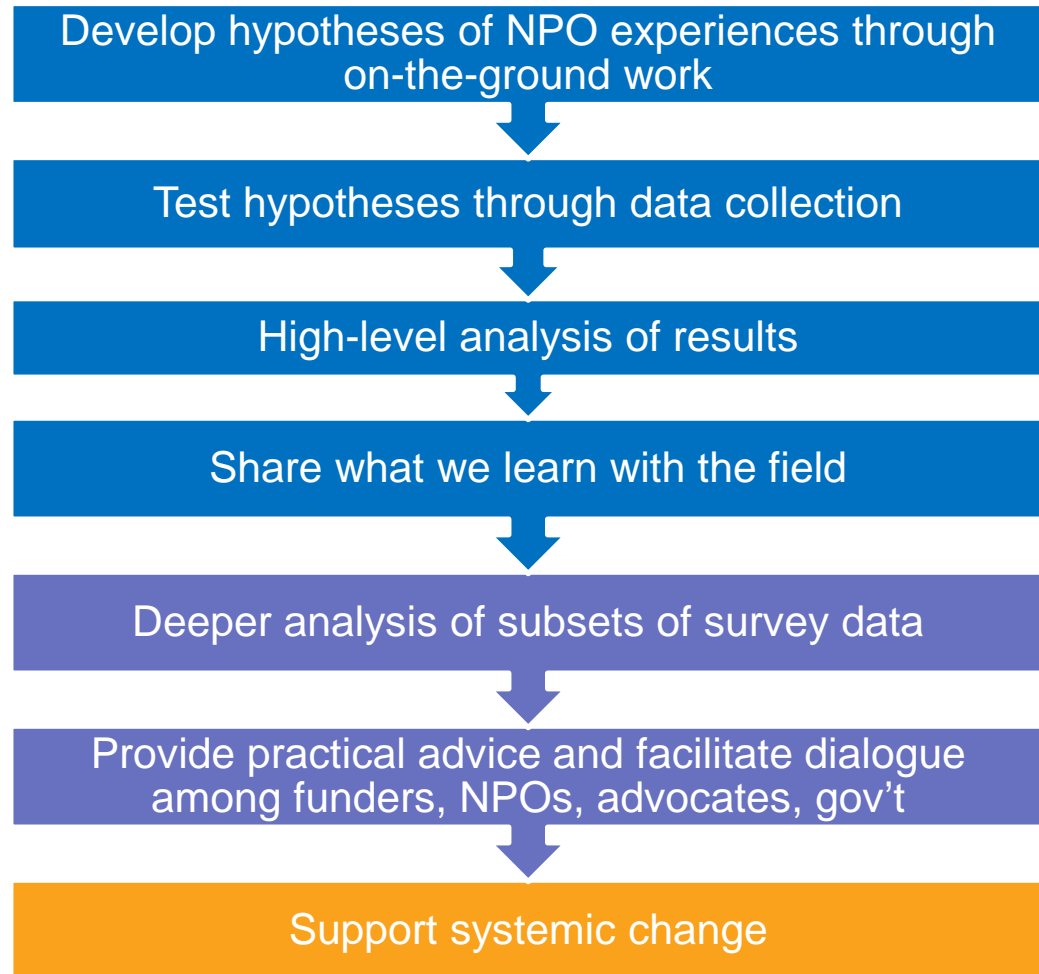


# NFF's Annual Survey: Linking Practice, Data, and Action

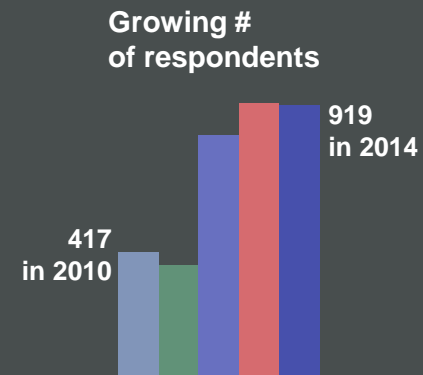
**Phase 1:** Building on NFF's Advisory & Lending practice, we develop survey content, collect unbiased data, and share what we learn with the field.

**Phase 2:** Our data analysis informs our Advisory & Lending practice, in a feedback loop of learning.

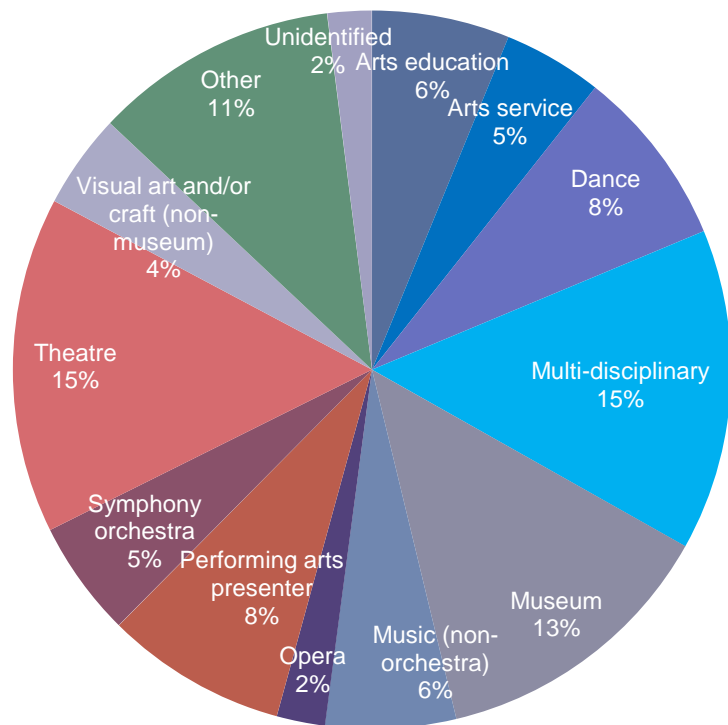
**Phase 3:** We work with experts, advocates, funders and others to put the data in service of systems-level change.



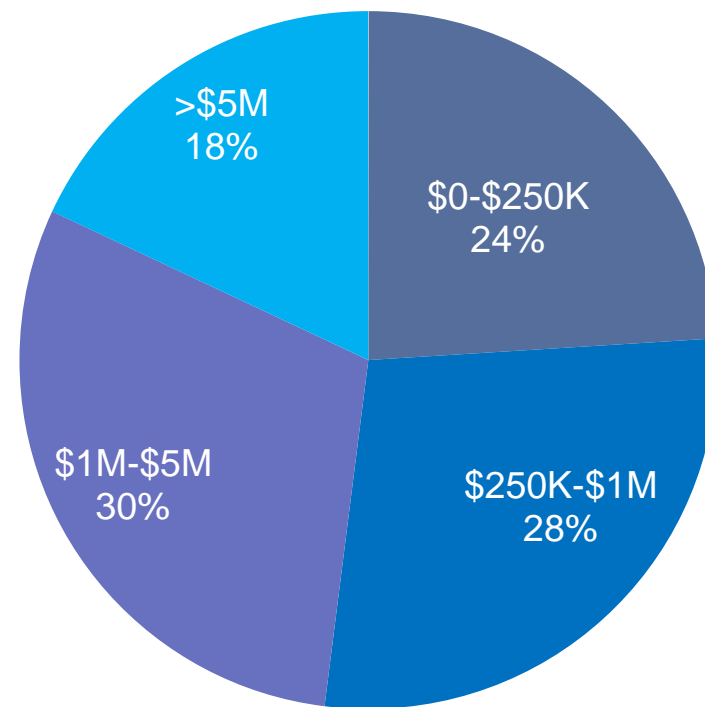
Of 5,019 total respondents, 919 organizations identified as Arts, Culture, & Humanities. Organizations represent a wide range of sub-sectors and budget sizes.



Arts Respondents, by Sub-Sector



Arts Respondents, by Operating Expense



# Table of Contents

**About Nonprofit Finance Fund & the Survey**

**Program Trends: Demand, Engagement, & Competition**

**Financial Health & Management Actions Taken**

**Grantmaking Trends: Dynamics of Private & Public Funding**

**Measuring Impact**

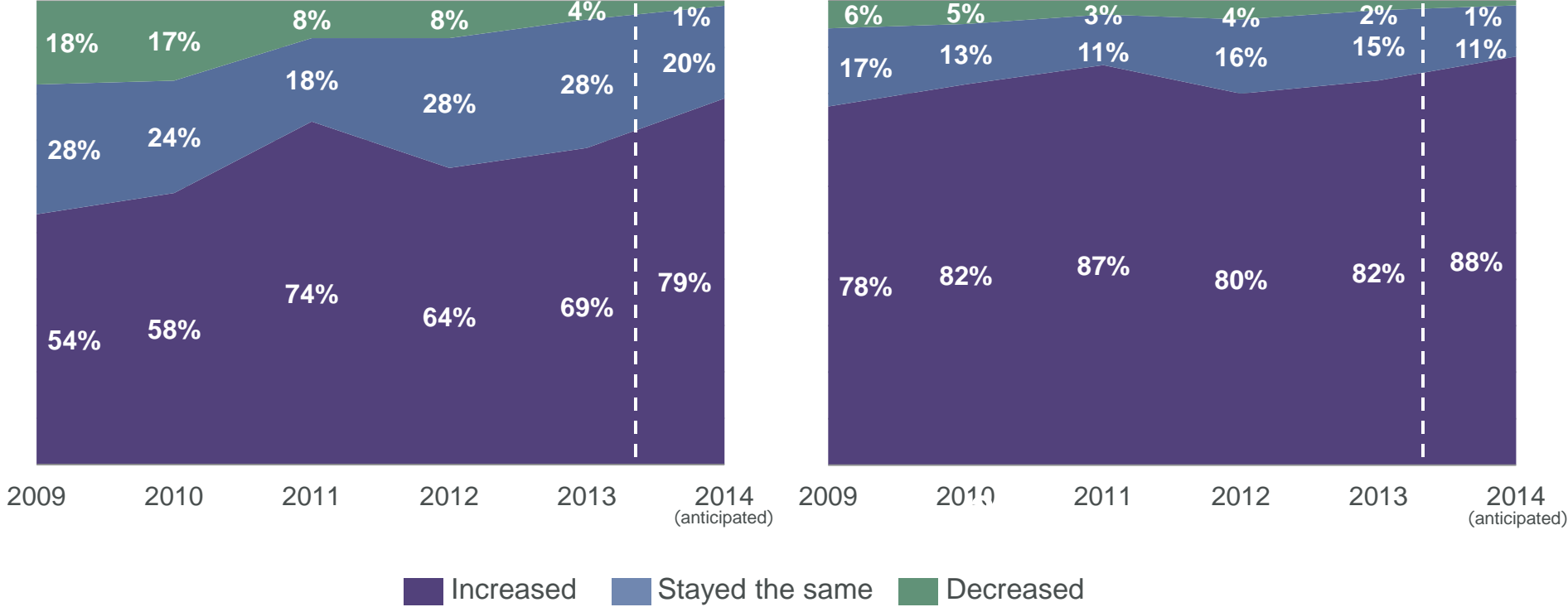
**Conclusion: Looking Ahead & Tips for Cultural Nonprofits**



# Program demand among arts & culture respondents continues to grow, but at a slower pace than across the nonprofit sector.

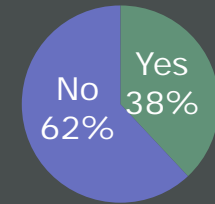
**Program Demand: Arts**

**Program Demand: Non-Arts**

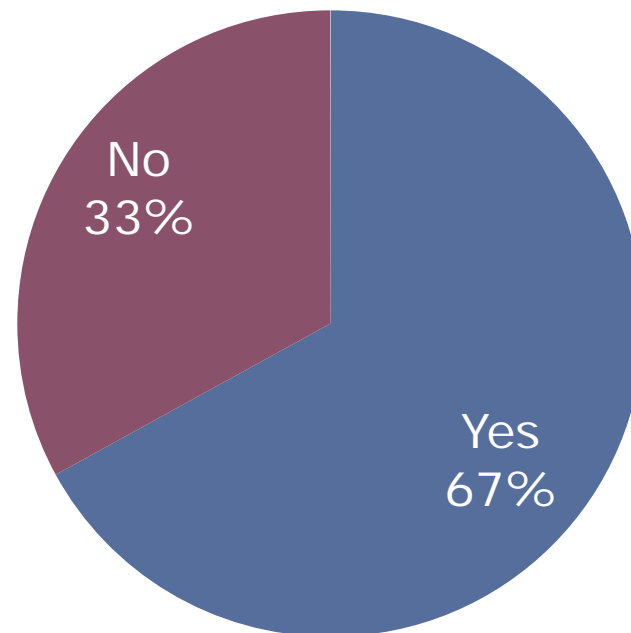


**A majority of cultural organizations are keeping up with rising demand for their programs.**

Organizations Met Demand (excluding arts)?



**Were you able to meet demand?**





# Organizations report increasing demand for programming that is interactive, affordable, and appealing to all ages.

“Audiences want programming that is participatory and affordable. Trends are the same everywhere: reduced reliance on the ‘experts’ and increased self-propelled activity.”

- Arts service nonprofit, California

“Audiences are demanding free programs that contain social components and interactive elements. They want programs that cater to a variety of age ranges, so that they are able to bring their family.”

- Museum, Florida

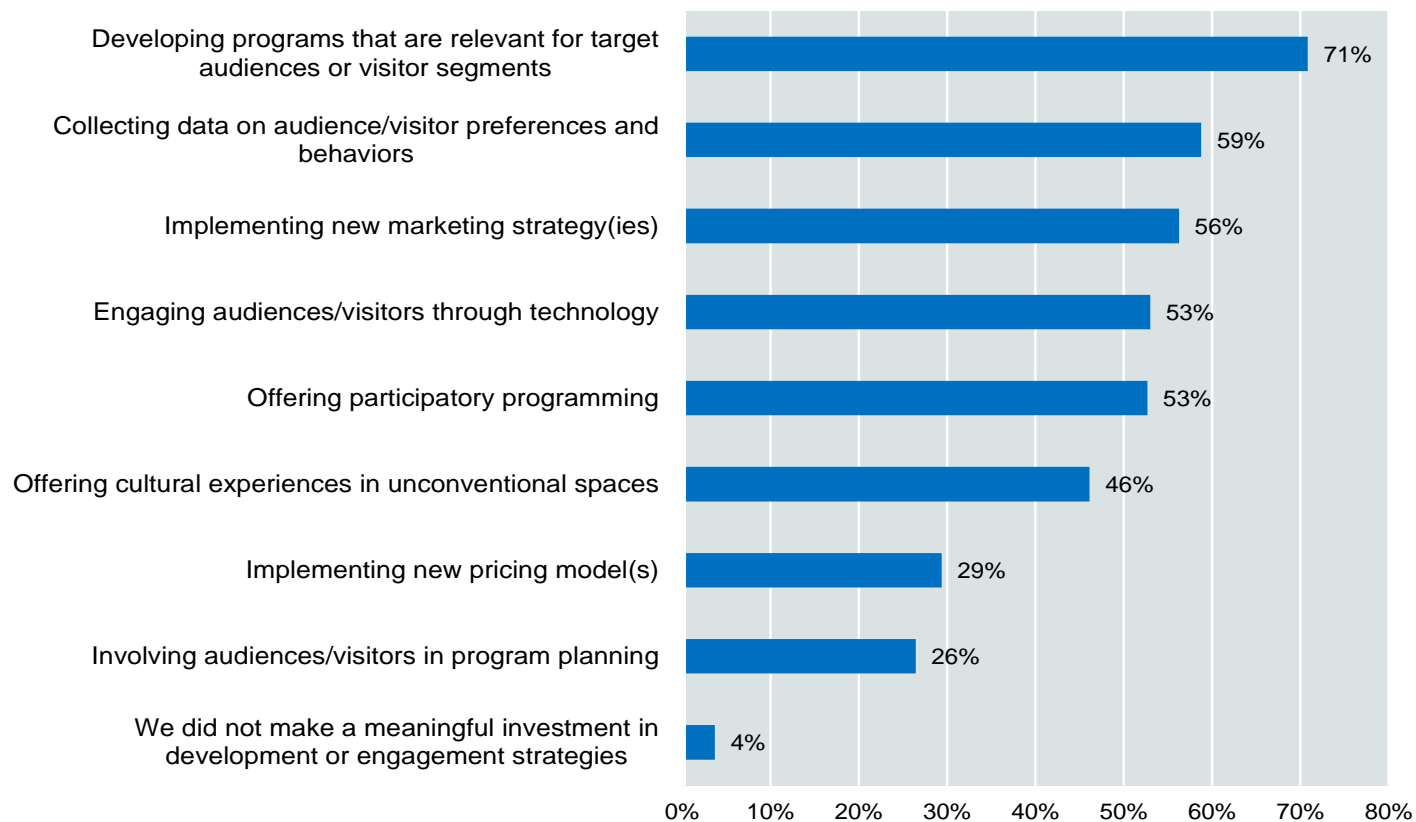
“Participatory programs are in high demand. People want to be actively involved. I think it's an extension of the fact that everyone can participate in everything (YouTube, Facebook, Twitter). The power of authoritative institutions is being called into question.”

- Museum, Georgia



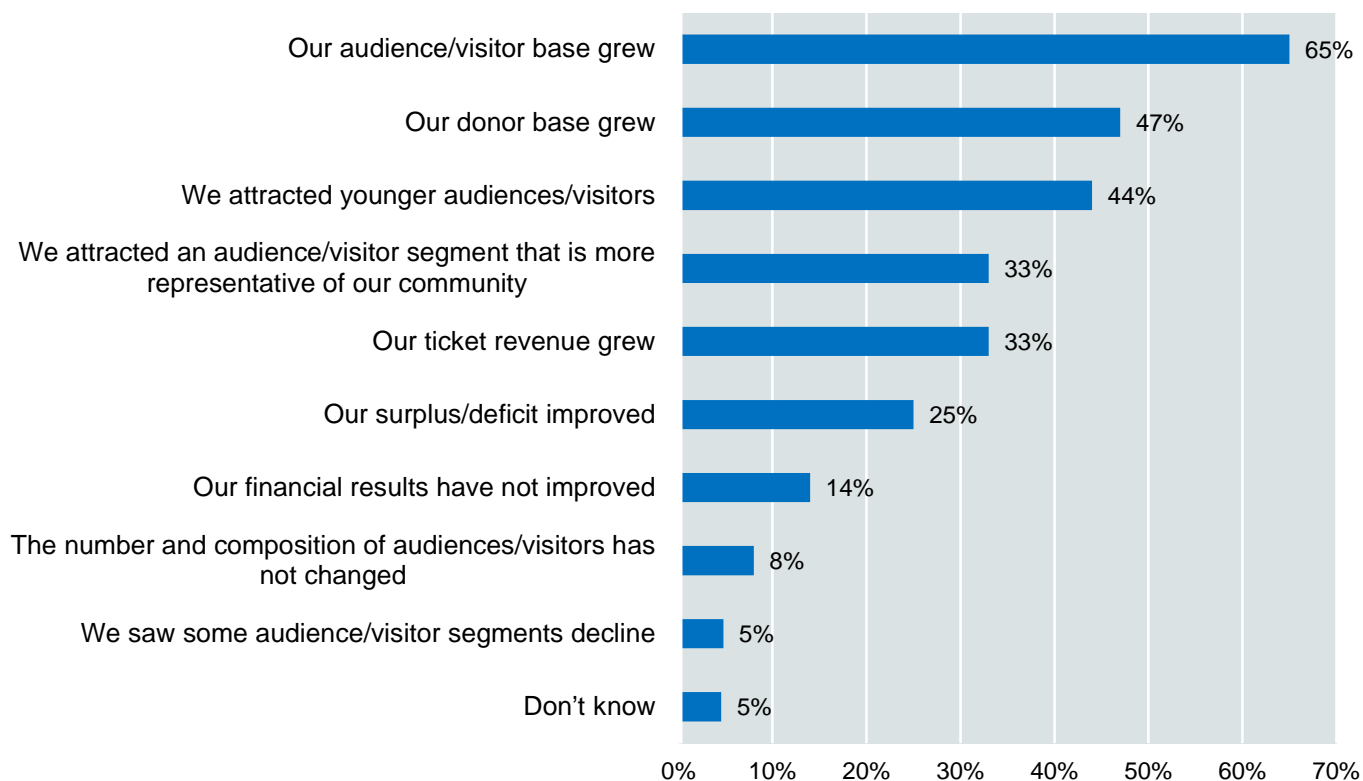
# Arts & culture organizations are pursuing a range of strategies (e.g., program adaptation, data collection, targeted marketing) to build and engage their audience/visitor base.

## How are arts organizations developing and engaging audiences/visitors?



**65% of arts respondents report growth in their audience/visitor base as a result of engagement strategies. However, far fewer report positive financial return on their investments.**

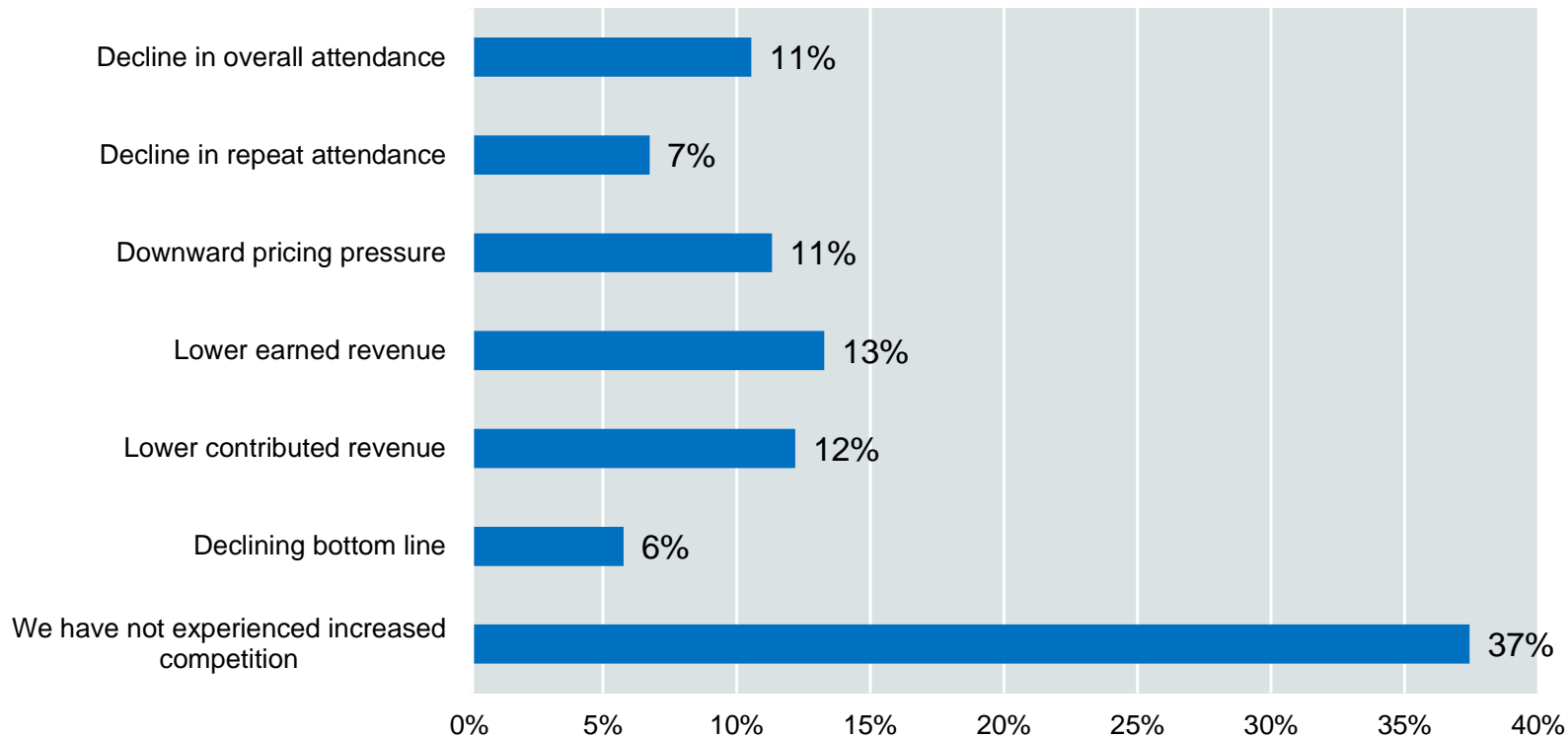
### Results from audience/visitor development



# Organizations do not feel overly threatened by competition from other arts and non-arts experiences. Of those who did experience competition, <15% reported financial ramifications.

## How has increased competition impacted your organization?

(selected all that apply)



# Arts & culture organizations cite some of the *positive* effects of competition: stronger programs, a more engaged audience, and opportunity for collaboration.

“A rising tide raises all boats. If people are interested in experiencing the arts, that helps us.”

- Theatre, California

“As we become the dominant cultural organization in our community, we experience the inverse of competition—opportunities to be generous to struggling organizations.”

- Museum, California

“More activity in the field of experimental arts only strengthens our programs and builds a more open & educated audience.”

- Theatre, New York

“We cooperate with other organizations to build audiences for all of us.”

- Orchestra, Utah



# Table of Contents

**About Nonprofit Finance Fund & the Survey**

**Program Trends: Demand, Engagement, & Competition**

**Financial Health & Management Actions Taken**

**Grantmaking Trends: Dynamics of Private & Public Funding**

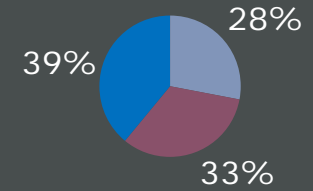
**Measuring Impact**

**Conclusion: Looking Ahead & Tips for Cultural Nonprofits**

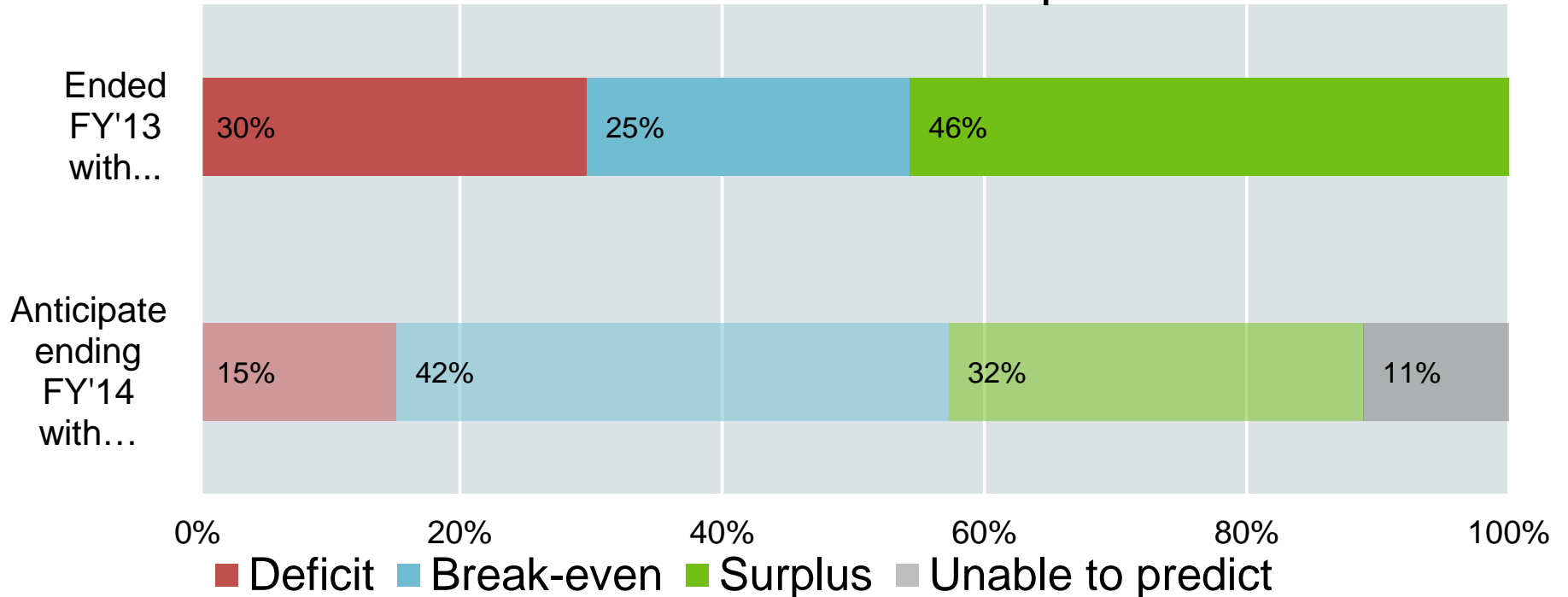


# 71% of arts & culture organizations reported break-even or better operating results in 2013.

Ended FY2013 (non-arts):  
 ■ Deficit ■ Break-Even ■ Surplus

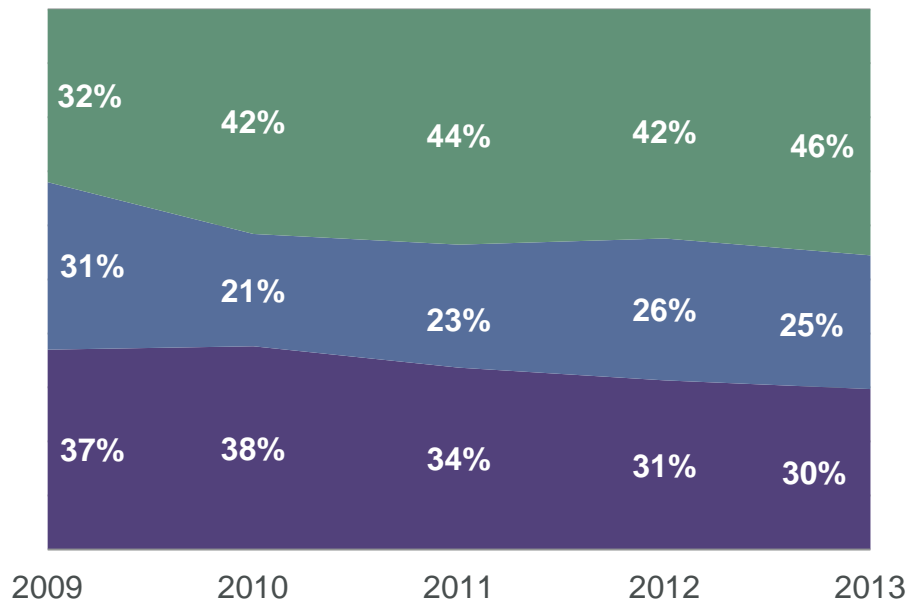


## Financial results: FY 2013 vs. anticipated FY 2014

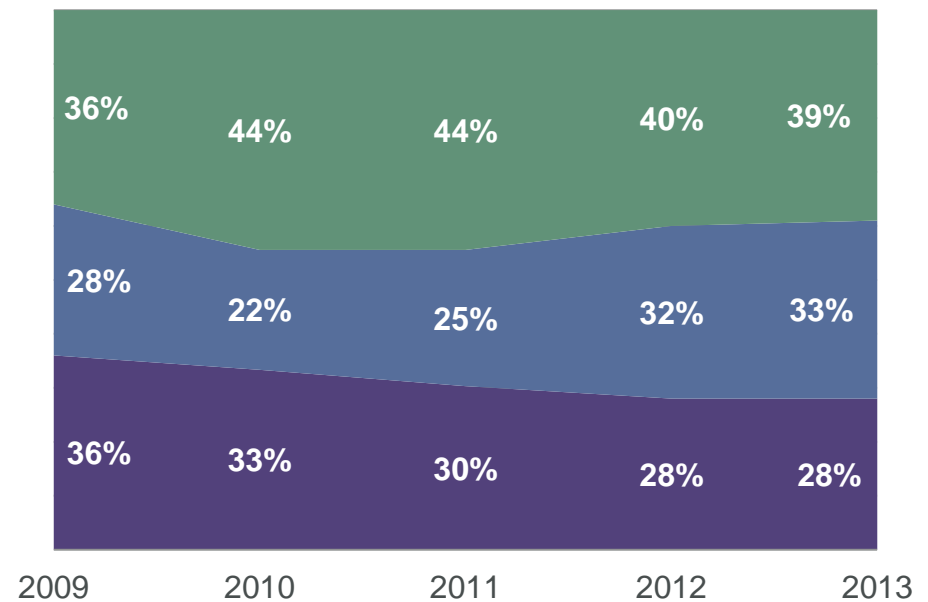


# Trend data show declines in the percentage of arts organizations reporting deficits.

**Arts Respondents:  
ended the year with...**



**Non-arts Respondents:  
ended the year with...**



■ Deficit ■ Break-even ■ Surplus

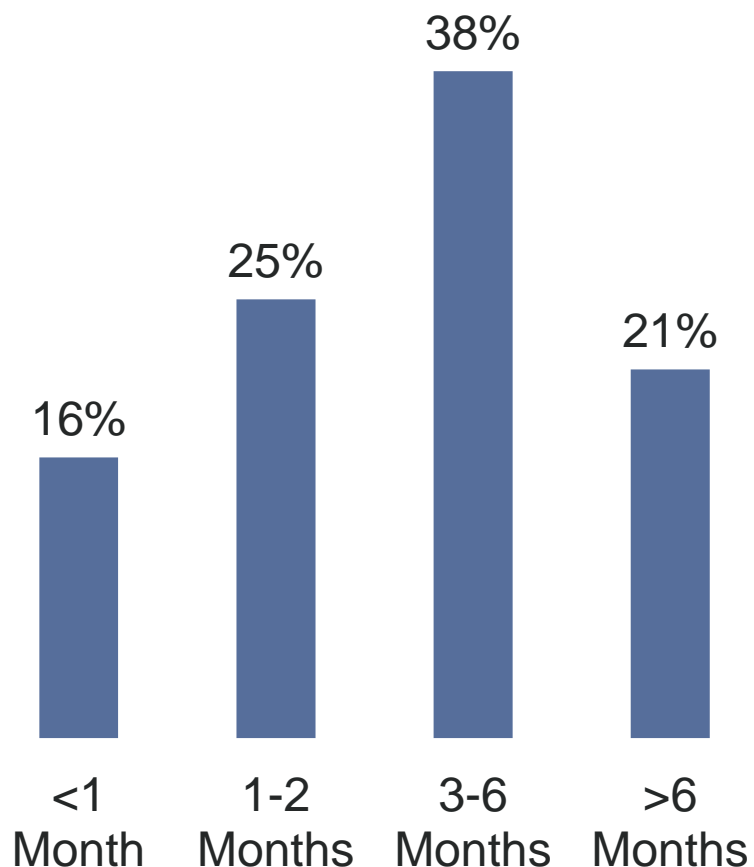




# Despite improving annual results, 41% of arts & culture groups persistently report having fewer than 3 months of cash.

## Months of cash (non-arts):

11%: <1 month  
22%: 1-2 months  
46%: 3-6 months  
21%: >6 months



**25% say they added to reserve funds, while 17% said they drew down reserves.**

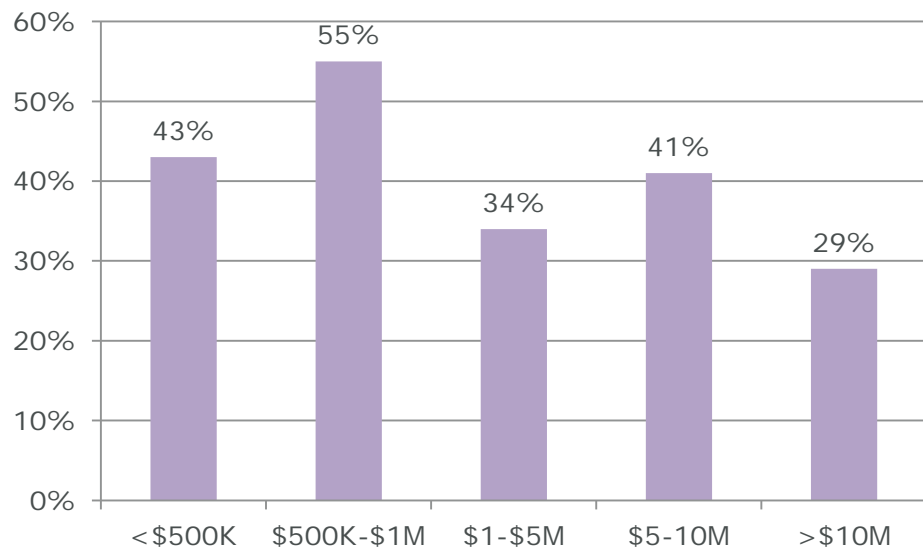
**Cash may be restricted or earmarked to future programs or time periods. NFF strongly recommends that organizations also calculate months of liquid net assets to understand the funds actually available to pay the bills:**

**Unrestricted net assets  
– (property & equipment – associated debt)  
/ (total expenses / 12)**

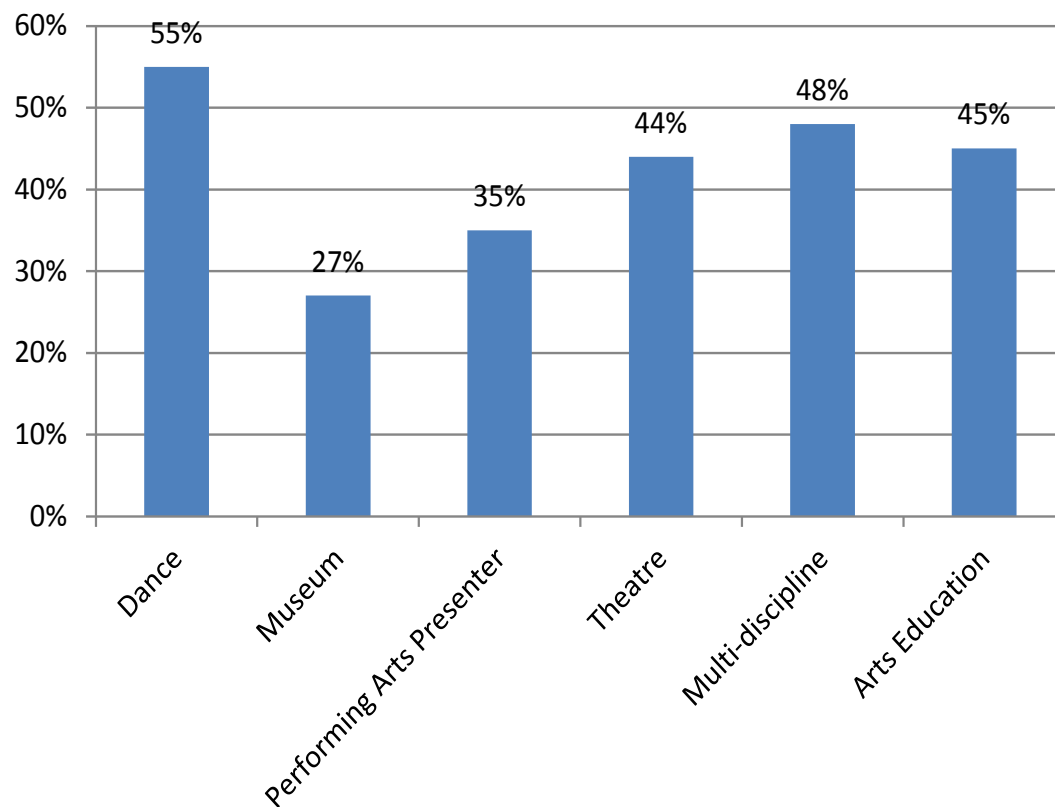


# Liquidity is a greater concern for organizations with smaller budgets. Trends vary by artistic discipline, with museums & performing arts presenters reporting more cash than theatres and dance companies.

**% arts groups reporting <3 months of cash**  
(by budget size)



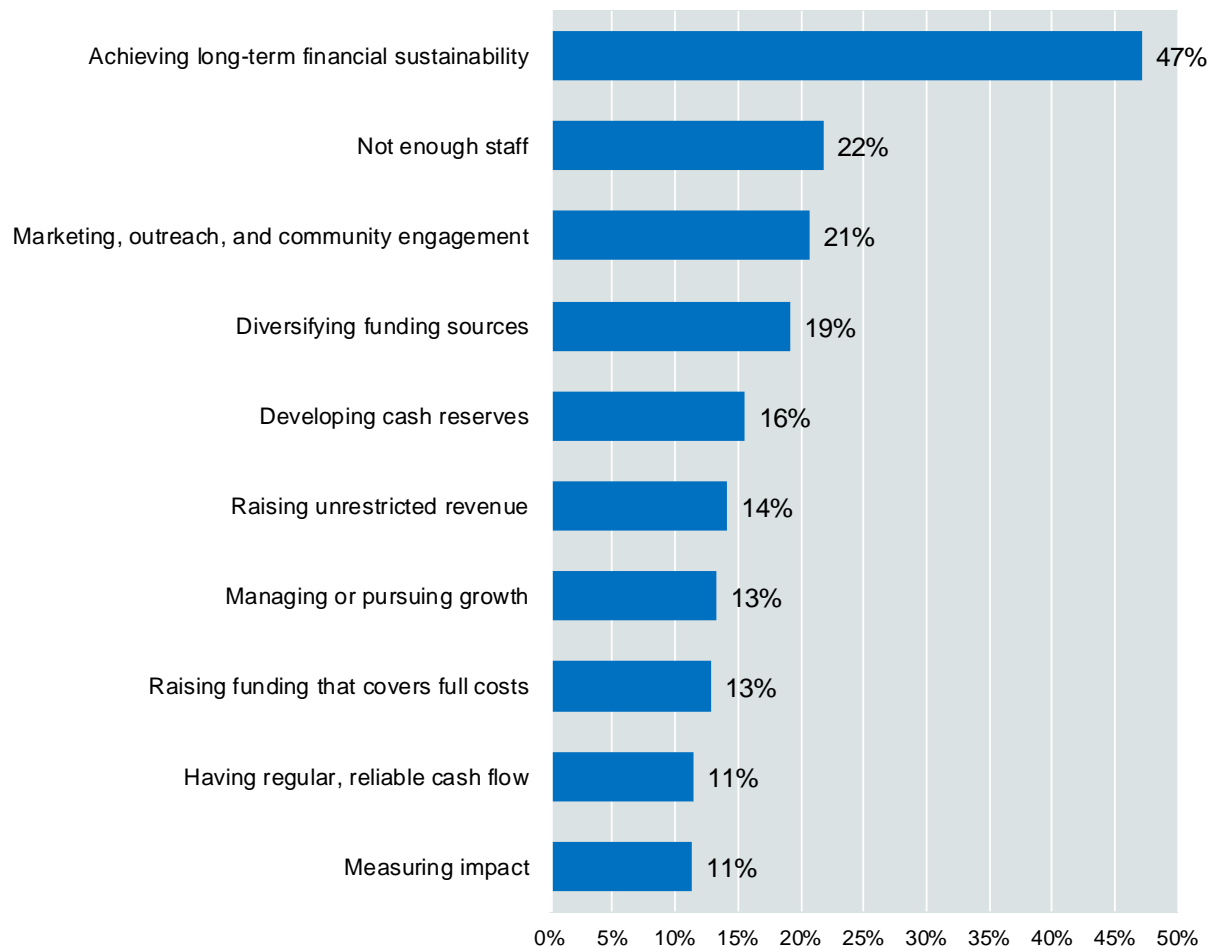
**% reporting <3 months of cash**  
(by organization type)



# Nearly 50% of arts respondents cite “achieving long-term financial sustainability” as their greatest challenge.

## Greatest Challenges Arts Respondents are Facing

(respondents chose up to 3)



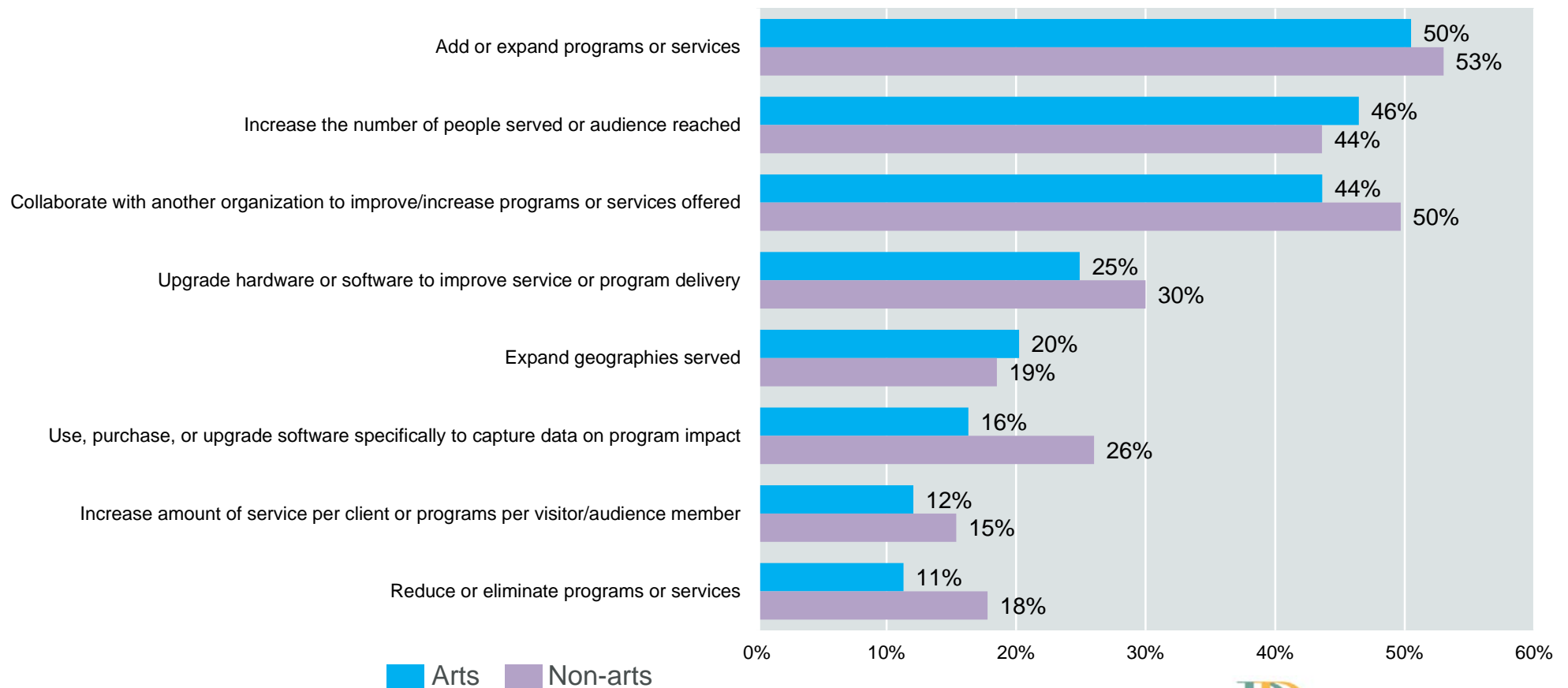
"The local economy is still struggling. This will make it a challenge for us to balance our need for additional revenue for long-term sustainability with our wish to keep prices low for our customers who can't afford much for entertainment."

- Theatre, Oregon



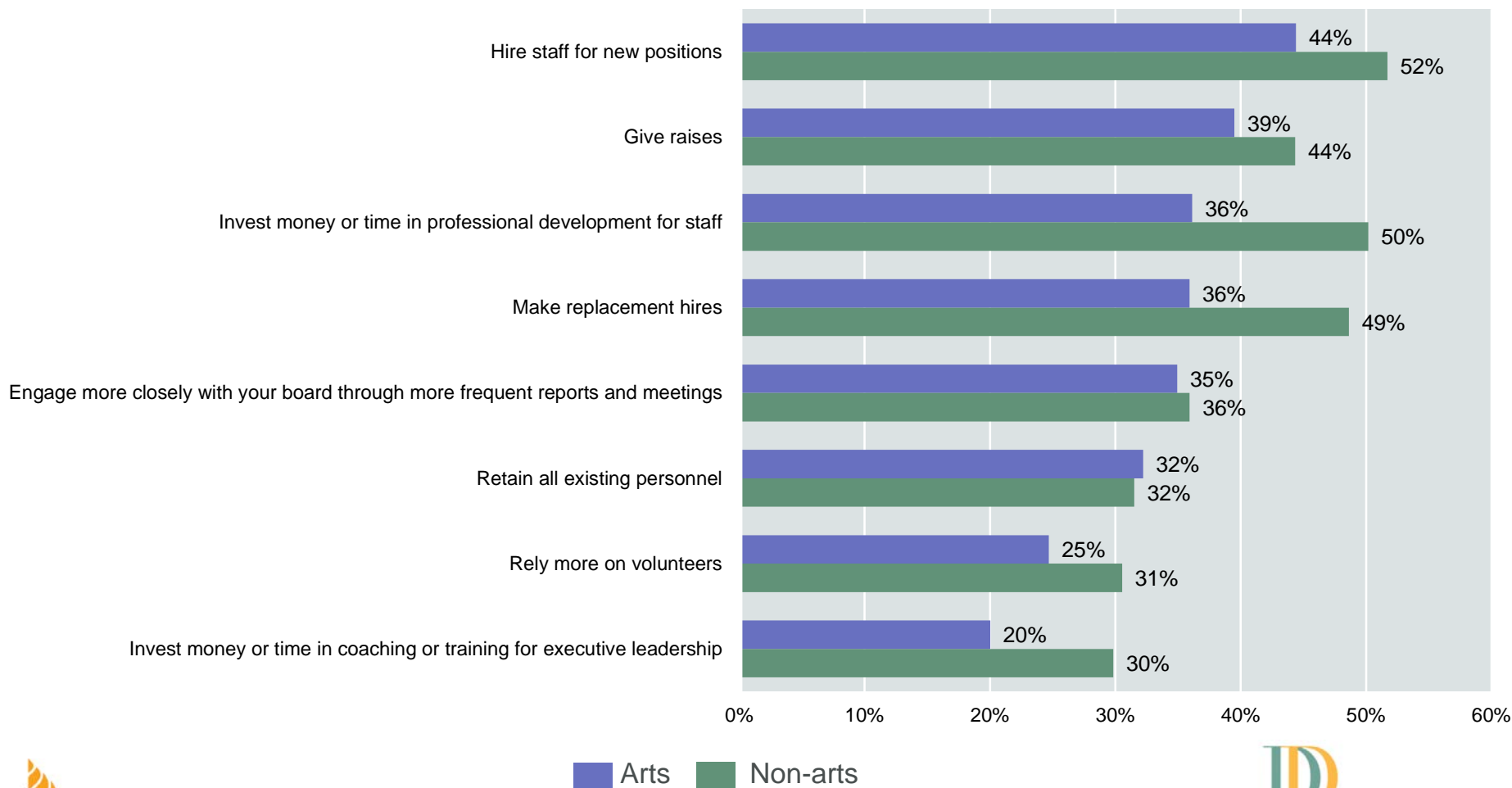
# Financial challenges notwithstanding, program and audience expansion continued apace for many. (Notably, collaboration is less prominent in the arts than other sectors.)

## Program-related Actions Taken in 2013

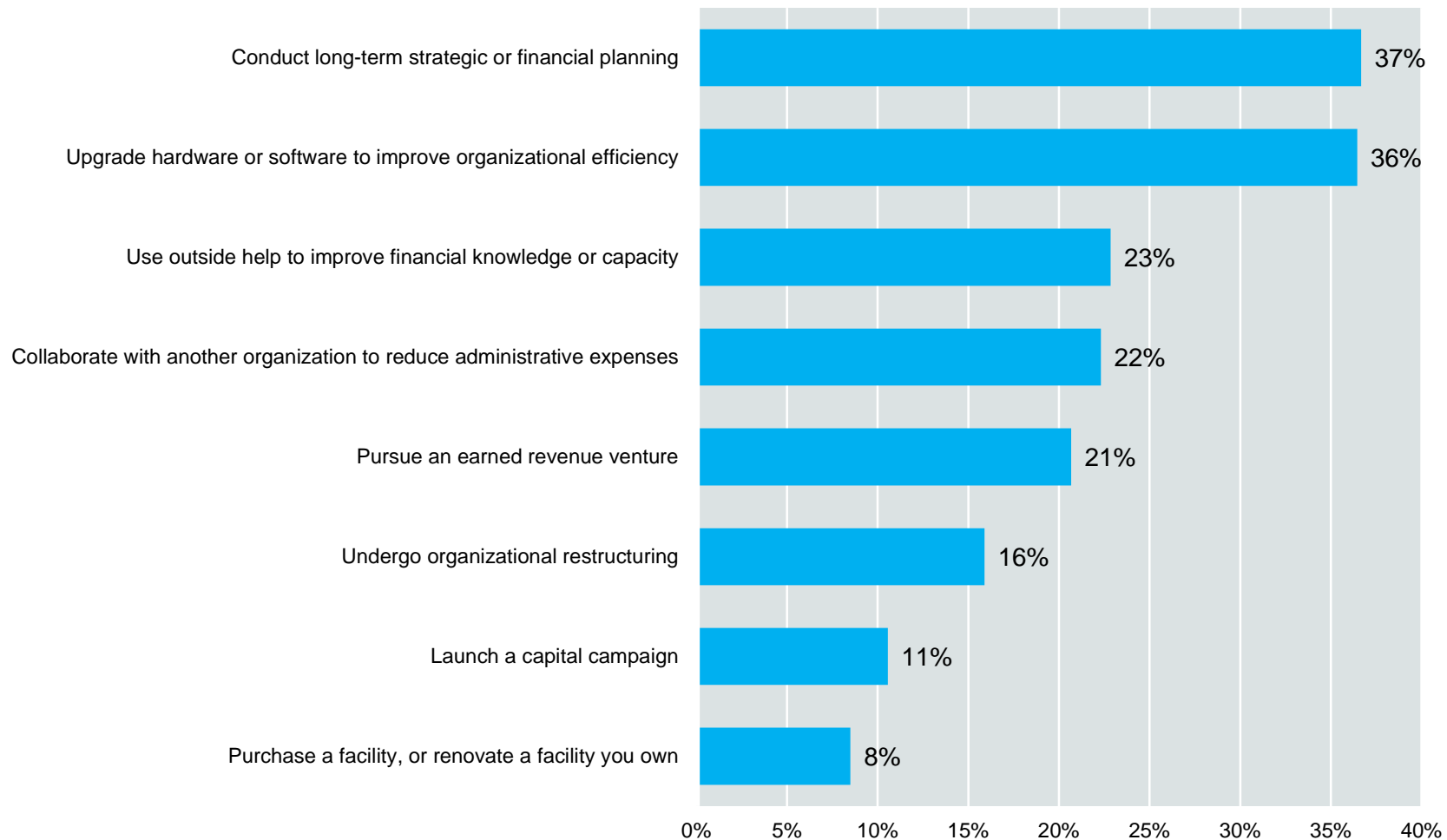


However, arts & culture nonprofits invested less in personnel (through hiring, salaries & professional development) than the greater nonprofit sector.

### Personnel-related Actions Taken in 2013



# What top management strategies did arts & culture groups undertake to improve their situation? Many focused on planning. Few launched capital campaigns or purchased/renovated facilities.



# Table of Contents

**About Nonprofit Finance Fund & the Survey**

**Program Trends: Demand, Engagement, & Competition**

**Financial Health & Management Actions Taken**

**Grantmaking Trends: Dynamics of Private & Public Funding**

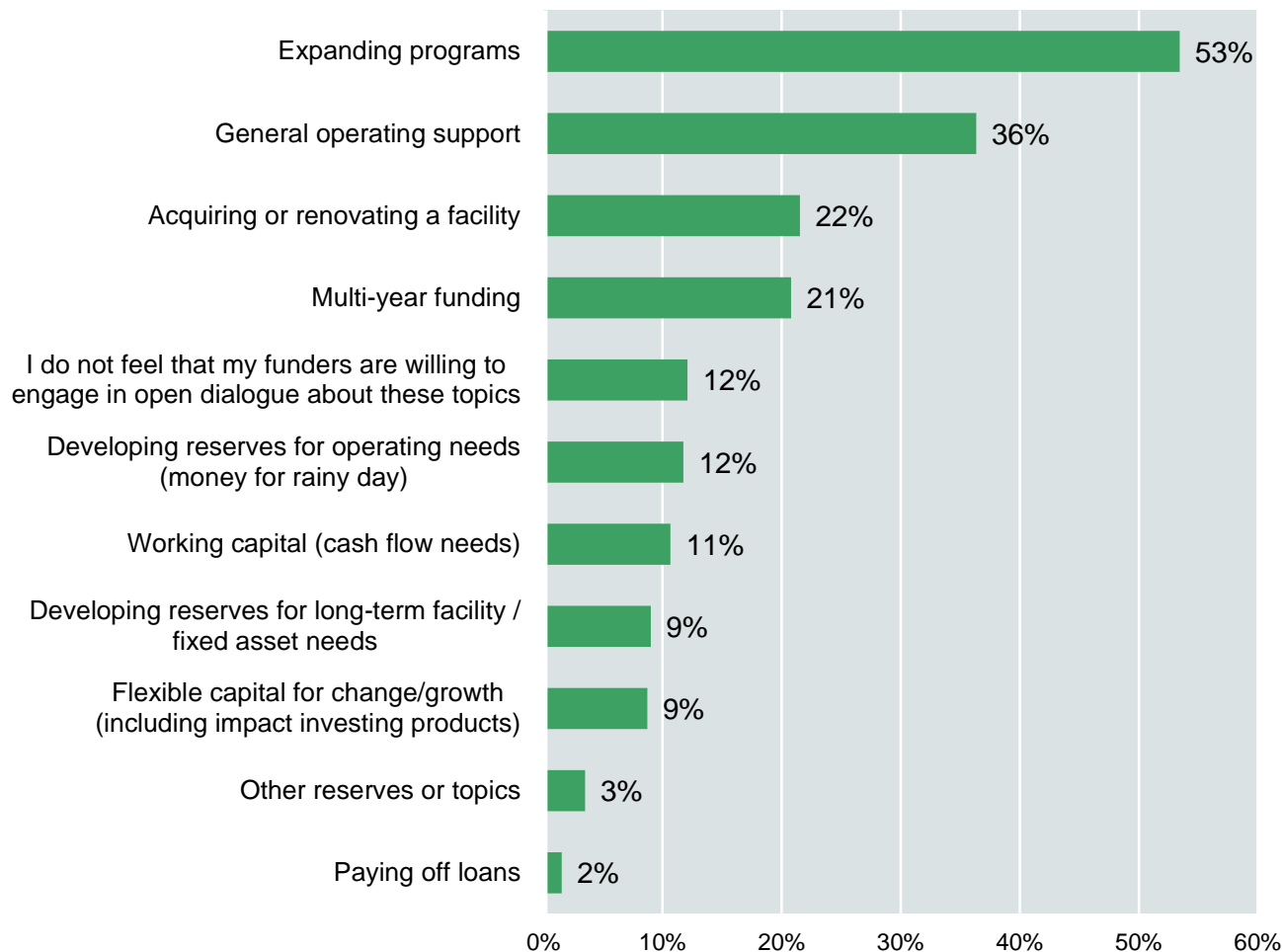
**Measuring Impact**

**Conclusion: Looking Ahead & Tips for Cultural Nonprofits**



# Addressing unhealthy finances will require more candid grantmaker-grantee dialogue. Respondents report comfort in talking to funders about program expansion, but not long-term financial needs.

## My organization can have open dialogue with funders about...



“We launched a special campaign dedicated to risk capital. It is a hard case to make, and fundraising has been slow but steady. But it's really proving to be a game changer. The case is that we need support that works outside the bounds of our annual budget so we can say 'yes' to different kinds of projects.”

- Theatre, Washington, DC



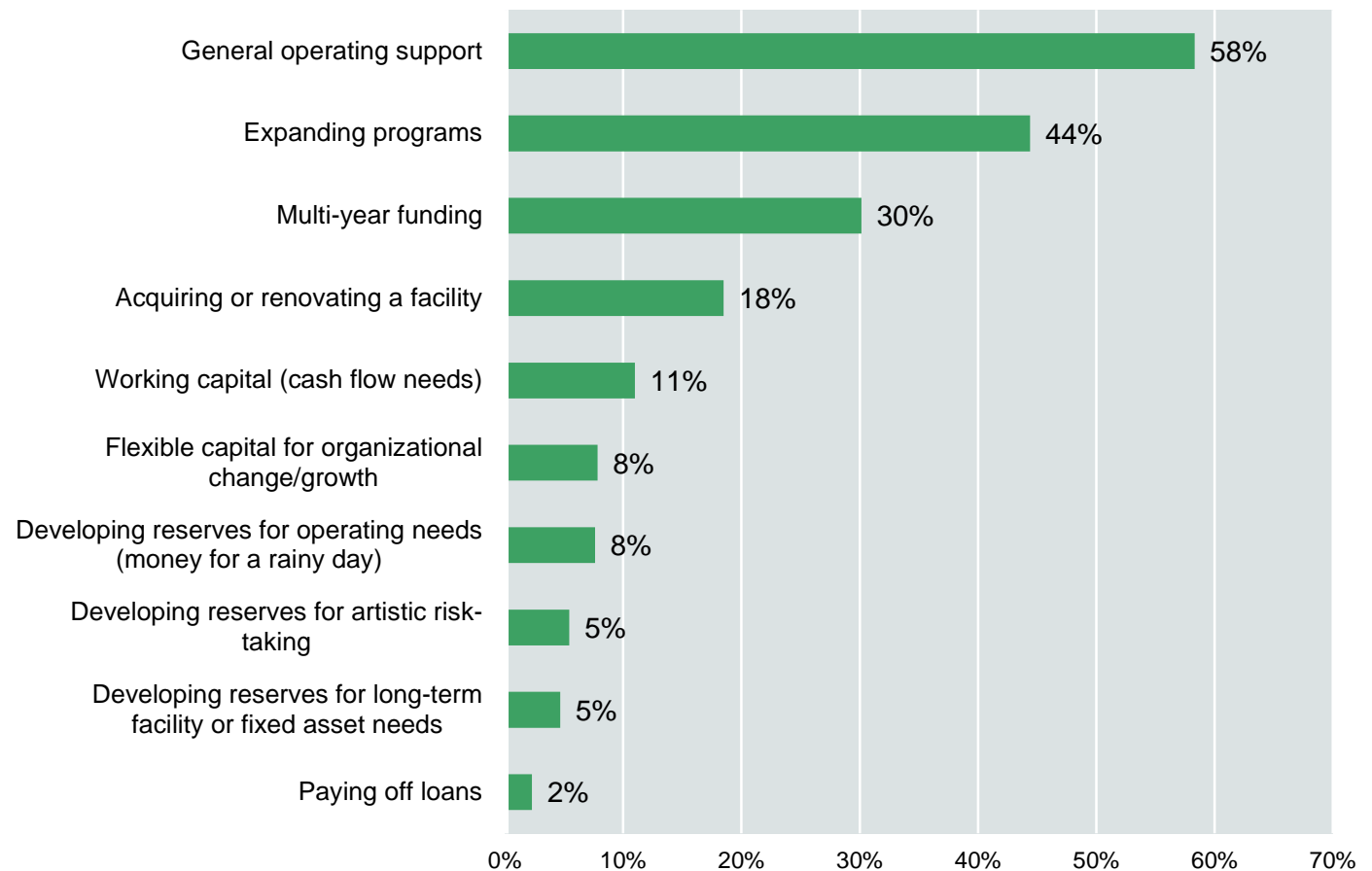


# General operating support & grants for expanding programs were the most common types of funding received. Far fewer organizations received funding for flexible capital and reserves.

“The most helpful funding is multi-year, significant general operating support with partners that have a committed relationship with our institution.”

- Theatre,  
New York

## Funding received in the past year



**It can be easier to make a compelling case for growth than for investments in capacity & capital. But program expansion often undermines financial health.**

“The plan of ‘we’re going to grow our way out of this problem’ is often a poor one.”

-Arts nonprofit, Massachusetts

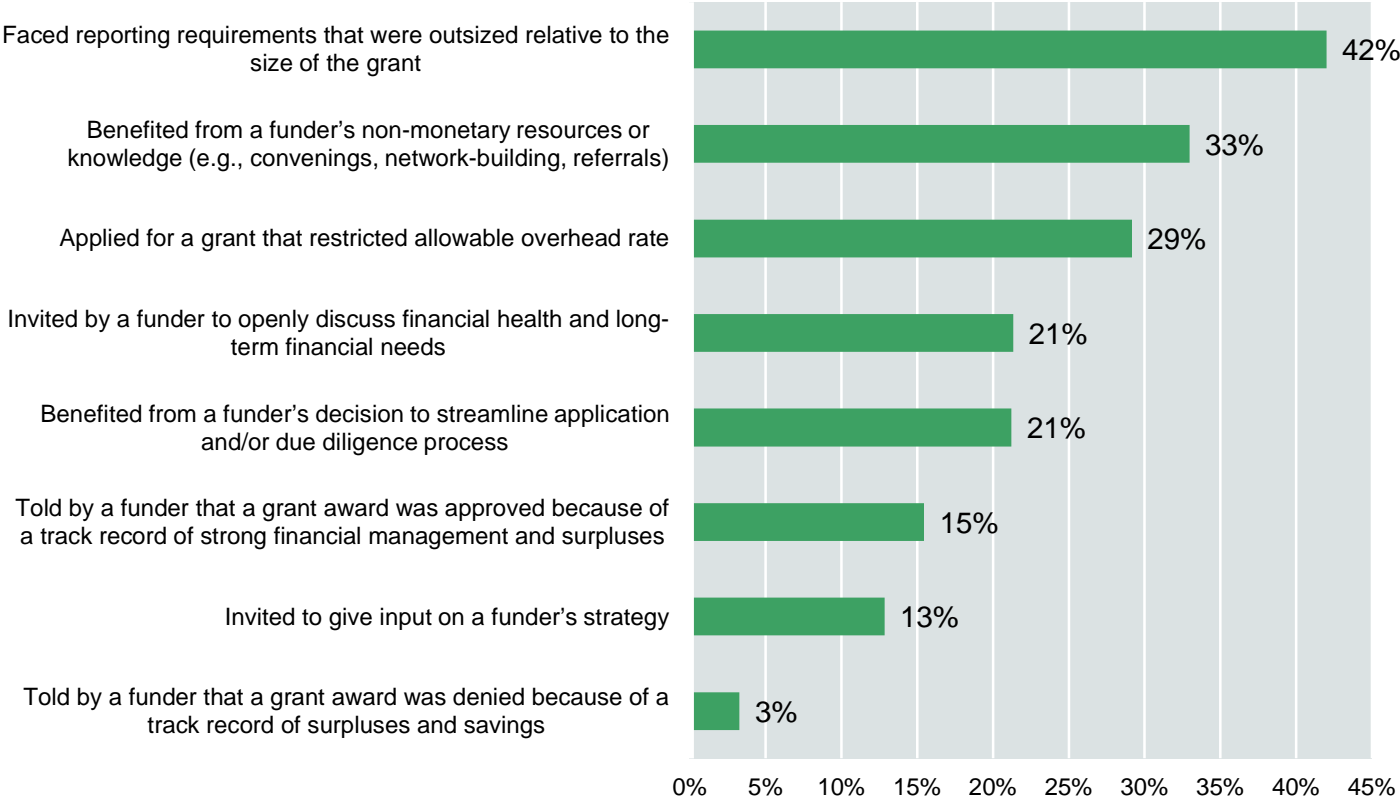
“Our current strategic plan doesn’t focus on growth. It focuses on getting better at what we do and going deeper into what we do. It’s hard to get funders excited about this message.”

- Youth arts nonprofit, Massachusetts



# Cultural organizations report experiencing grantmaking practices both conducive to, and disruptive of, effective planning and management.

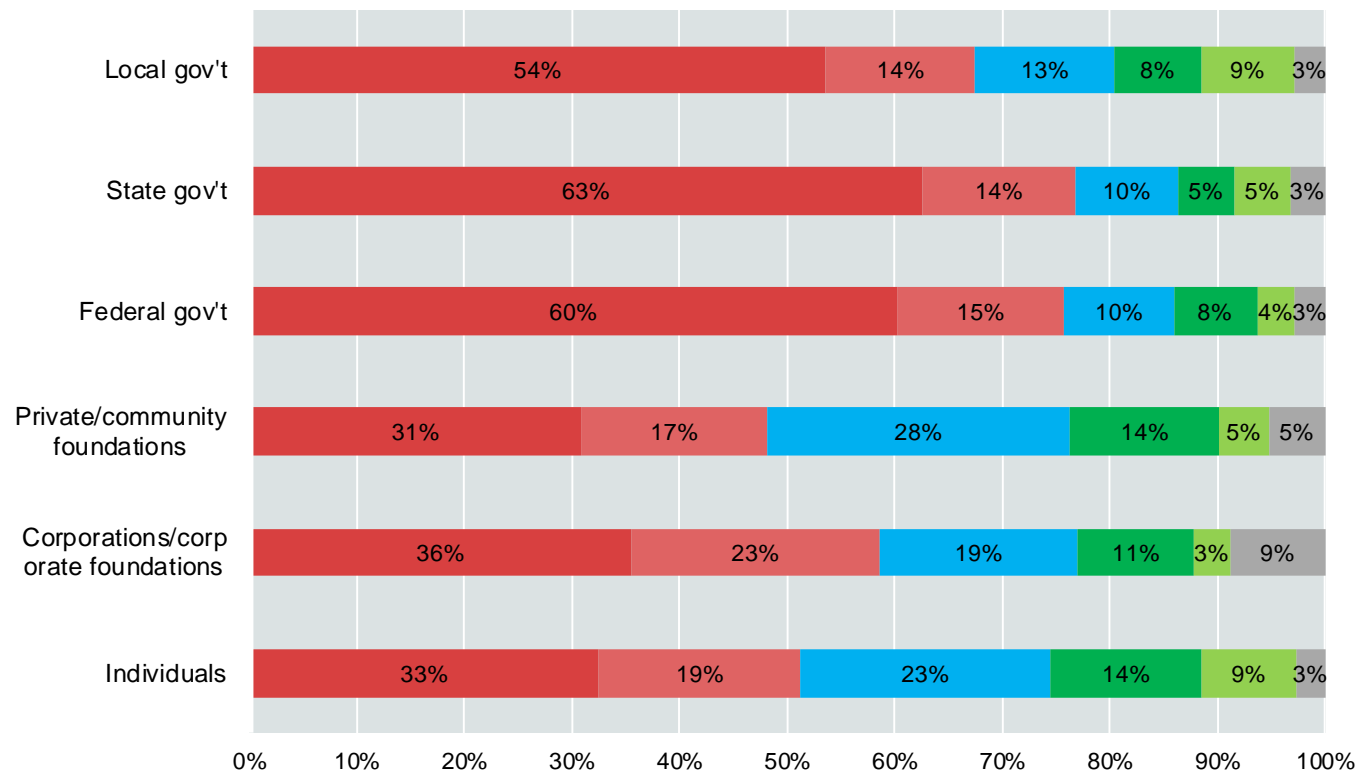
## Grantmaking practices experienced in the past year



# While more than 40% of respondents say private philanthropists rarely or never pay full program costs, government is even less likely to offer full cost coverage.

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

■ Never ■ Rarely ■ Sometimes ■ Often ■ Always ■ N/A



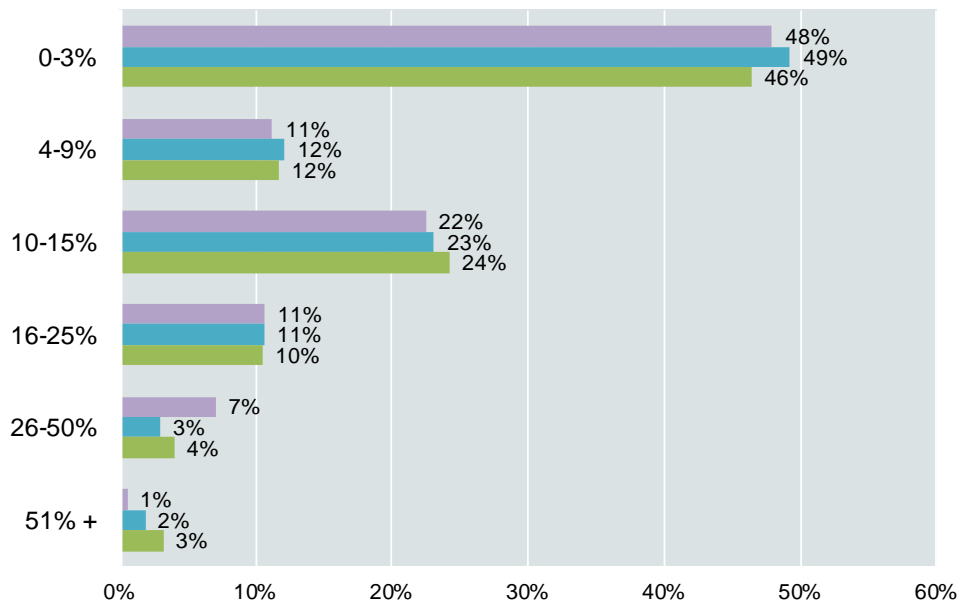
“We have not generated adequate unrestricted operating support to maintain our operations. More and more gifts and grants have restrictions, and some even prohibit any indirect or overhead support. Collectively, we have to help the donor community know that programs cannot be offered [if they don't] contribute to our indirect costs.”

- Science center, Washington

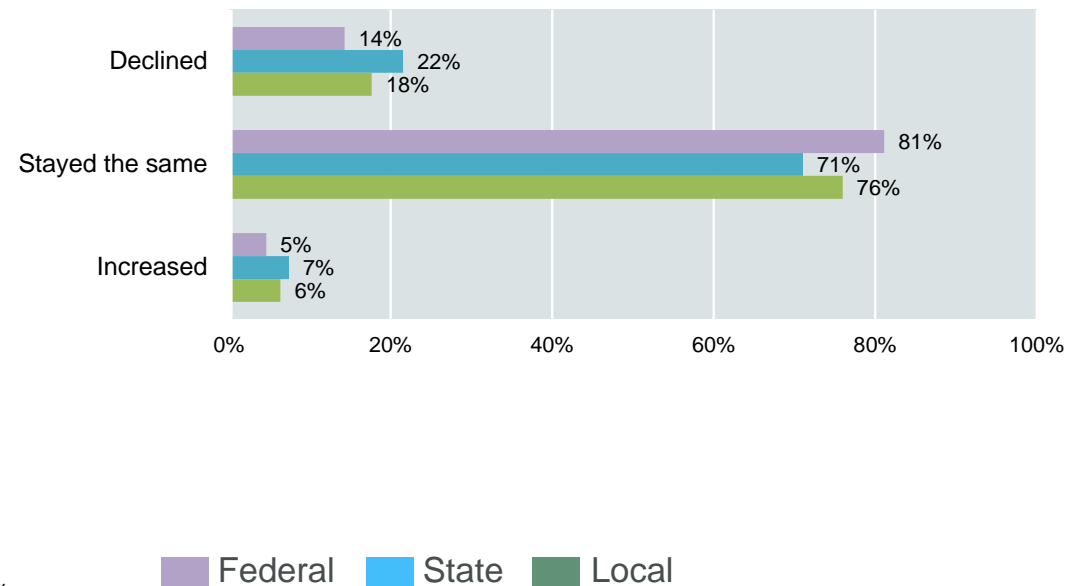


# Indirect cost rates from the government remain quite low. More organizations report declining than increasing rates.

**In 2013, what was your indirect cost rate that government paid?**

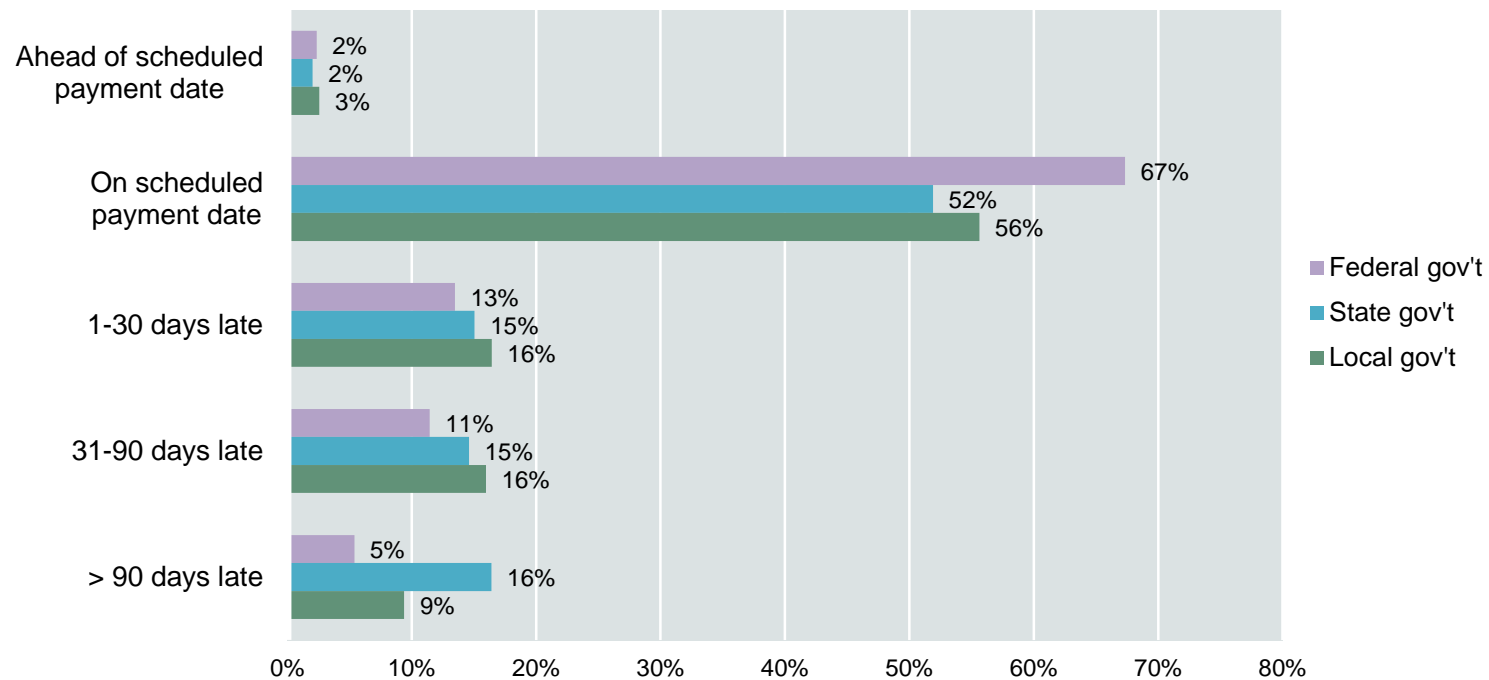


**In the last 5 years, has the indirect cost rate that government paid declined, stayed the same, or increased?**



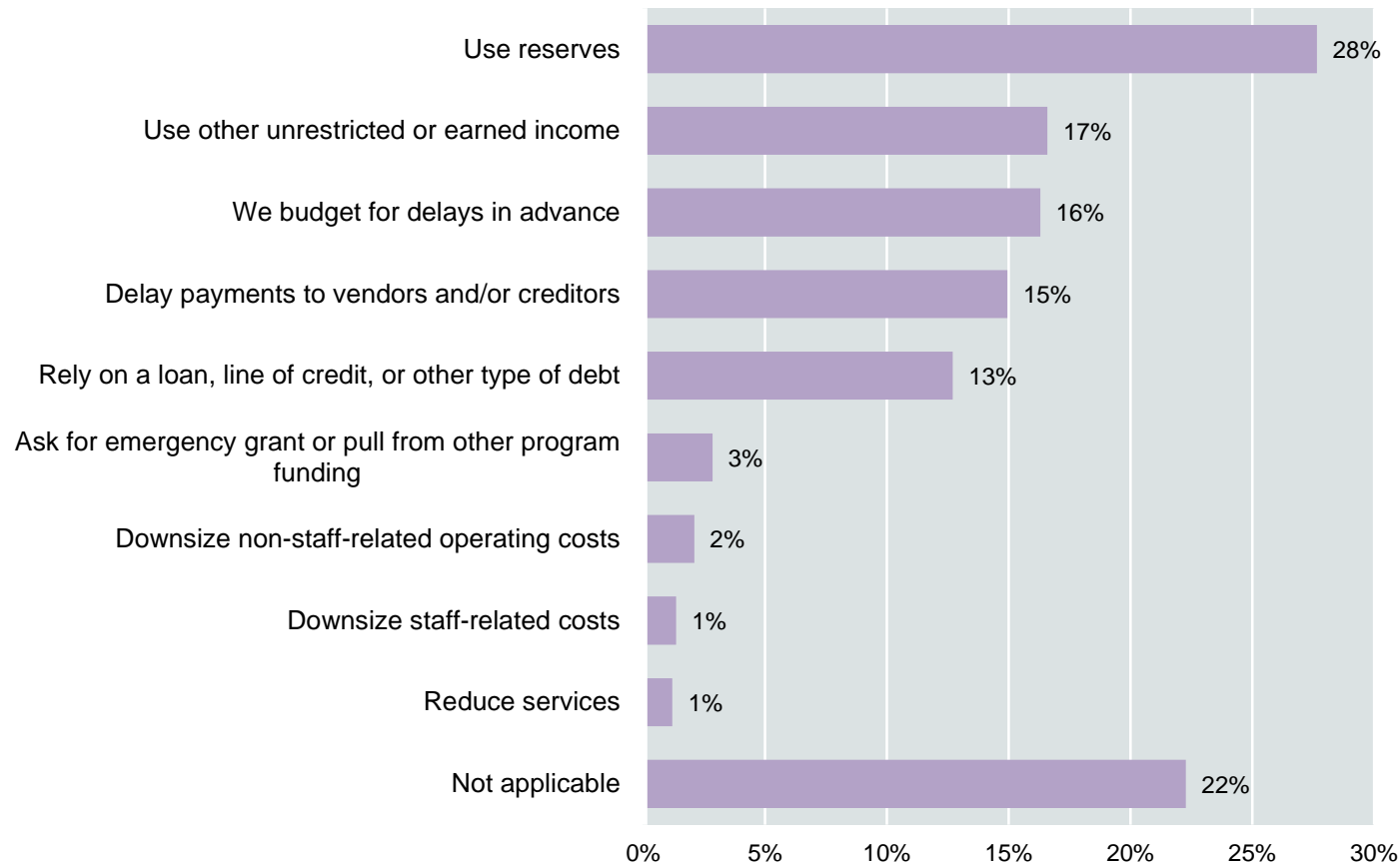
# More than 40% of organizations report that government funding at the state and local levels arrives late.

## When do you receive payments from the government?



# Organizations are creatively managing payment delays to avoid reducing services or cutting critical expenses.

## How do Arts Organizations Manage Delays in Government Payments?



# Table of Contents

**About Nonprofit Finance Fund & the Survey**

**Program Trends: Demand, Engagement, & Competition**

**Financial Health & Management Actions Taken**

**Grantmaking Trends: Dynamics of Private & Public Funding**

**Measuring Impact**

**Conclusion: Looking Ahead & Tips for Cultural Nonprofits**

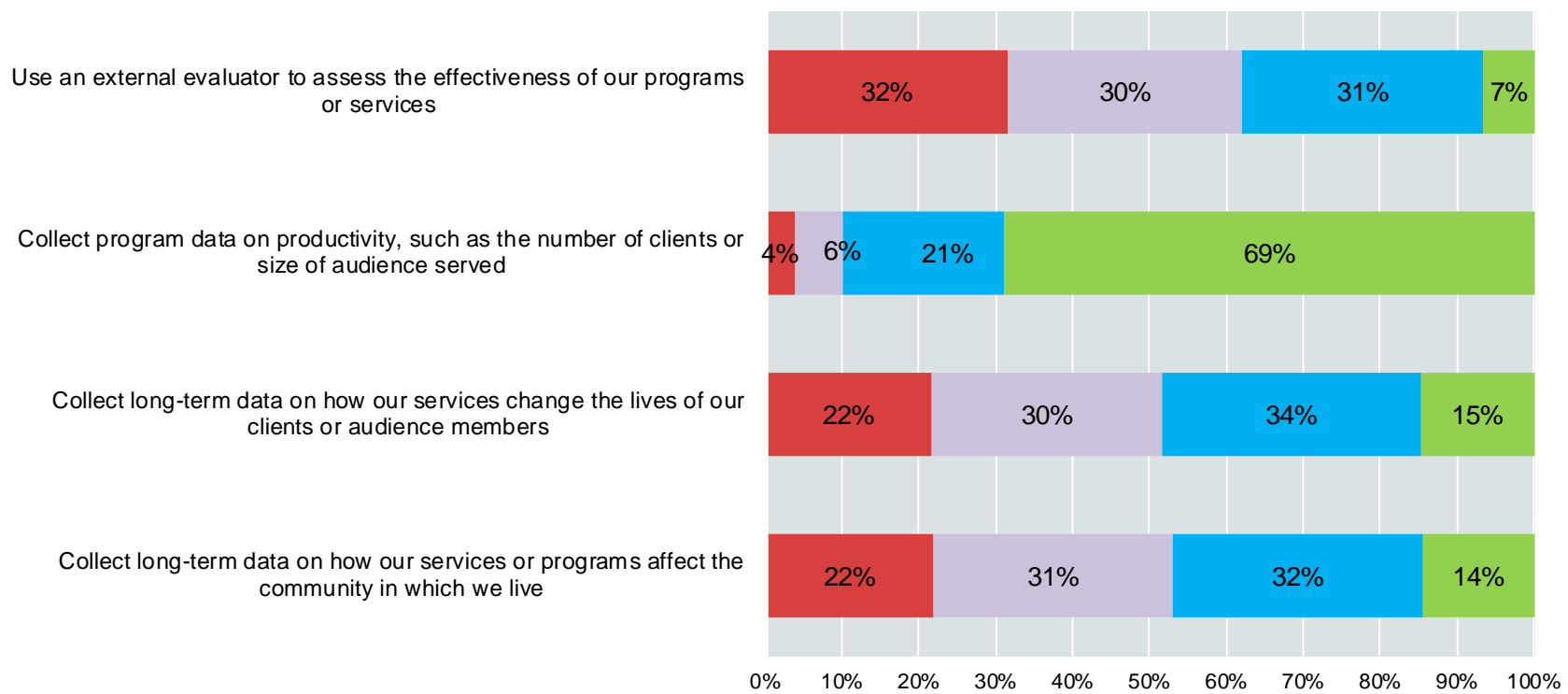




# Proving impact becomes increasingly important in an uncertain philanthropic marketplace. The arts & culture sector measures outcomes data less frequently than the broader nonprofit sector.

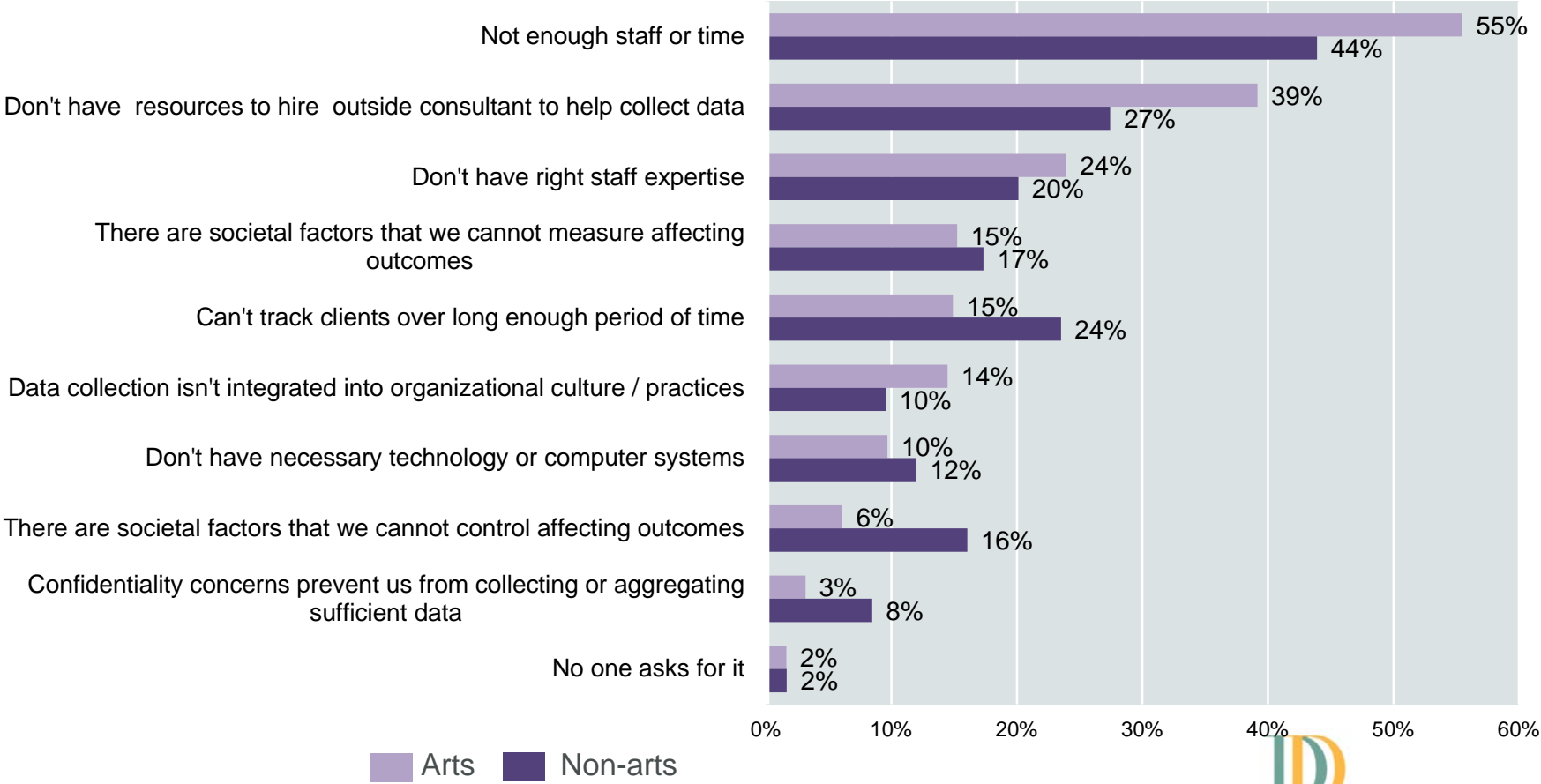
## How often does your organization pursue the following (related to program impact)?

■ Never ■ Rarely ■ Sometimes ■ Regularly



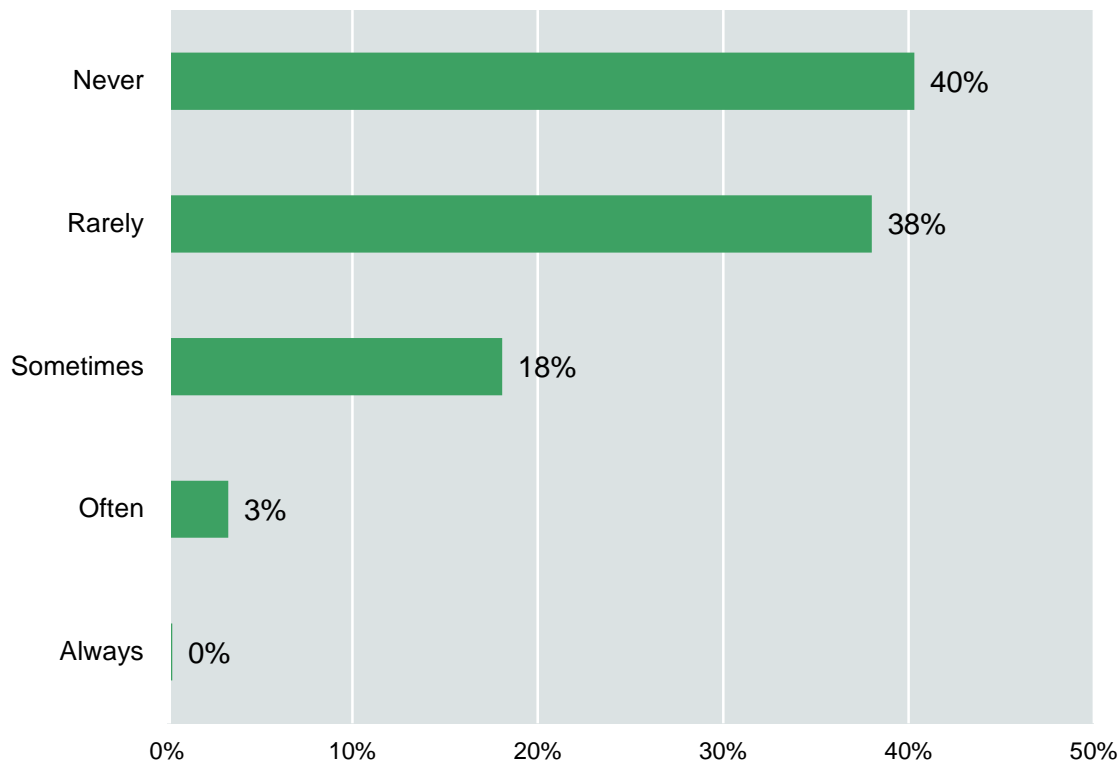
# Measuring impact is especially difficult for arts & culture respondents given the challenges of measurement and limited staff capacity.

## What are barriers to collecting, using, or improving how your organization measures the long-term impact of programs?



# 78% say funders rarely or never cover the costs associated with impact measurement.

## How often do funders cover the costs associated with impact measurement?



# Table of Contents

**About Nonprofit Finance Fund & the Survey**

**Program Trends: Demand, Engagement, & Competition**

**Financial Health & Management Actions Taken**

**Grantmaking Trends: Dynamics of Private & Public Funding**

**Measuring Impact**

**Conclusion: Looking Ahead & Tips for Cultural Nonprofits**



# Looking Ahead: Steps cultural nonprofits & their funders can take to propel change

## Nonprofits:

- Develop strategies that integrate financial planning with operational and program planning,
- Understand and seek funding for the full costs of projects/programs,
- Budget and manage to operating surpluses,
- Prioritize working capital and savings for periodic risk-taking and change, and
- Clearly communicate your financial goals, priorities and timeline in the context of your art-making.

## Funders:

- Encourage integrated planning that links program, operations, and finances to strategy,
- Fund projects and programs at full costs,
- Reward rather than penalize surpluses,
- Seed reserves for liquidity, risk-taking, and change, and
- Engage in dialogue with your staff, grantees, and peer funders about capitalization principles as a means to artistic freedom.



# Nonprofit Finance Fund

## Where Money Meets Mission ®

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- [research@nffusa.org](mailto:research@nffusa.org)

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