

**William G. Baker, Jr. Memorial Fund
Capitalization Study Summary – September 2011**

Situation

Concerned about the perennial undercapitalization in the arts and culture industry, the William G. Baker, Jr. Memorial Fund (the Baker Fund) engaged Cool Spring Analytics in the summer of 2011 to analyze the capitalization levels and trends of the Baker Fund's arts and culture grantees. With a focus on how its grantmaking might respond to grantees' needs given the changes in the economic environment, the Fund wanted to understand the magnitude of the impact of the economic downturn in 2008 and whether organizations were in financial crisis.

Process

We reviewed financial data for 29 organizations ranging in expense size from \$47,000 to \$28 million. The data was provided by the Cultural Data Project (CDP), as entered by each organization to the CDP website for fiscal years from as early as 2005 through 2010. We reported trends in the aggregate, by four groups defined by budget size, and for each individual organization. Based on the findings of the financial analysis, we provided recommendations on how to strengthen the Baker Fund's focus on capitalization issues while continuing to support operations; advised on changes to the Baker Fund application information concerning capitalization; and facilitated a discussion on whether to provide incentives for organizations to improve their capital structures.

Findings

The last three years were difficult for cultural organizations. The decline in the capital markets affected the investments of organizations and their funders. This climate highlights capitalization weaknesses that might not be as clear in an 'up' economy. Not surprisingly given the economic climate, the cultural organizations' capital position was fragile overall. Total capitalization declined 10% from 2006 to the most recent year (2009/2010), however the financials of only a few organizations suggested that they may be in financial distress.

- Although total unrestricted working capital and investments declined 9-10%, more than 80% of the organizations had positive unrestricted working capital. Working capital was thin, however, with more than half having working capital ratios of less than two months of expenses.
- Debt, including external and internal borrowing, doubled since 2006.
- Only the largest organizations were reinvesting in their property. Midsize organizations (budgets of \$1 million to \$5 million) acquired or expanded their property in recent years, though made minimal annual reinvestment in their property and equipment.
- Program revenue declined 5%, while unrestricted contributed revenue increased over 30%.
- The capitalization structure and levels varied considerably by size of organization:
 - The smaller organizations, with expenses under \$1 million, had the highest working capital as a percentage of total net assets and of expenses. Working capital was predominantly in cash, rather than receivables or other current assets, which was not surprising since small organizations need cash in the bank to program.
 - Organizations with budgets between \$1 million and \$5 million showed the most vulnerability on their balance sheet: the highest percentage of fixed assets of any group, with low working capital and minimal investments.
 - The largest organizations, with budgets over \$5 million, reported the highest percentage of net assets in endowment investments, including unrestricted endowment funds that can provide a potential resource in difficult times. They had an average of one month of working capital. All owned buildings and equipment and have been reinvesting in them on a regular basis.

Outcome

Based on the findings of the study, the Baker Fund added a reserves grant option to their granting program for cultural organizations with budgets under \$5 million. Organizations awarded operating or project grants by the Baker Fund have the option to request an additional grant for working capital or for fixed asset replacement reserves, provided that they match the reserves grant dollar for dollar.