

## **Creative Trust: Frequently Asked Questions about Working Capital**

### **What is working capital?**

Working capital is defined as the difference between current assets (cash and other assets which could be readily converted into cash) and current liabilities (payables, debts, and other obligations which must be met in the short-term). Adequate working capital is an indicator of financial health. Without working capital, arts organizations suffer from persistent cash crunches and have trouble meeting financial obligations.

### **Why not raise endowments, instead of working capital?**

Working capital is the basis of sound financial health for any arts organization. For larger, more established arts organizations investment in endowed capital is often an appropriate addition to their capital base; for many smaller companies, it is not realistic without first addressing the fundamentals.

No organization should dedicate funds, management, or board time to endowment development until its annual revenue objectives are consistently being met. Thus, working capital, and some knowledge of its importance and uses, is the first order of business in any effort to sustain a community of arts organizations.

### **Shouldn't well-run companies be able to eliminate deficits and build working capital on their own?**

With limited personnel and a mandate to sustain and improve their artistic work, it is not realistic to expect mid-size organizations to divert energy to raising funds for working capital. This is where Creative Trust comes in.

The Trust provides the opportunity to build capital reserves without siphoning off the personnel and resources the companies need to direct at their two central objectives: raising annual operating funds and building their creative mandates.

### **Does the performing arts community support the Working Capital for the Arts program?**

Creative Trust was in the unique position of being a stabilization program that was begun from the inside with those who are most fully involved in the sector crafting a program uniquely suited to the needs of mid-size companies in Toronto.

Companies involved in Creative Trust found the concept of Working Capital for the Arts to be energizing and empowering. They wanted to participate, were eager to develop new skills, and were open to change—if that change ultimately allowed them to devote more of their energies to training new talent, producing fine art, and bringing their productions to the community.

### **How does a gift to Creative Trust differ from a gift to one or more of the companies participating in the program?**

Gifts to participating companies' on-going operations are an essential component of their funding picture, providing vital support to the art that appears on their stages. However, a one-time gift to Creative Trust provides a critical base for that work to continue, and is an investment in the future.

It provides capacity-building assistance to a group of companies in the community, giving them the tools they need to continue to make creative contributions to the artistic environment.