



FY 2027 Institutional and Financial Stabilization Grants for Arts Organizations

ADDITIONAL GUIDANCE FOR CASH RESERVE, WORKING CAPITAL FUND, AND RECOVERY CAPITAL PROJECTS

This document is also available [in Spanish](#).

The Cultural Trust's Institutional and Financial Stabilization (IFS) grants can support a wide range of eligible projects and expenses. These include recovery capital and establishing or growing a cash reserve or working capital fund. When the Cultural Trust makes grants for cash reserves, working capital funds, or recovery capital, the grant funds are not expended on specific project expenses or activities. Rather, the only project activities are:

- For projects proposing the creation or growth of a cash reserve or working capital fund, depositing the grant funds in a cash reserve or working capital account
- For projects requesting recovery capital, either depositing the recovery capital funds into the appropriate organizational account or using them to pay a creditor, depending on the details of the proposal.

Because these projects function a little differently from typical project-based grants, this additional guidance is available to clarify what constitutes an eligible project, explain the specific support materials required within these project categories, provide additional context to the evaluation criteria, and more.

If you have further questions about the cash reserve/working capital fund or recovery capital project categories, please contact Cultural Trust or Arts Council staff for additional assistance:

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I. Cash Reserve/Working Capital Fund Guidance

What is the difference between a cash reserve and a working capital fund?

Both cash reserves and working capital funds increase an organization's liquid, unrestricted capital, but they serve different purposes. A working capital fund is utilized regularly in the course of ordinary operations. It serves to smooth out uneven cash flow over the course of the year. By contrast, a cash reserve is designated for a specific purpose and is *not* intended to be utilized regularly in the course of ordinary operations. The specific purpose of a cash reserve might be to address unplanned expenses, maintain operations in the event of an emergency (such as a pandemic), or to fund future maintenance and repairs for a facility. Many organizations think of a cash reserve as a "rainy day fund."

Cash reserves, working capital funds, and funds that serve both purposes are sometimes referred to more generally as "operating reserves."

What is the difference between working capital and general operating support?

General operating support (GOS) is funding that grows an organization's revenue and increases its operating budget. GOS is intended to be spent down by the organization over the course of a year, and an organization can typically apply for this kind of support each year.

Working capital addresses cash flow issues, not revenue issues. Working capital is not budgeted to specific line items in the operating budget; instead, it is a separate pool of cash that can be tapped into when the timing of planned revenue does not align with planned expenses. For example:

- If seasonal ticket sales make up a large portion of an organization's revenue, the organization may be cash poor during its slow season and struggle to pay expenses on time. If the organization has a working capital fund, it can draw down on the fund to cover expenses during cash-poor times of year, then replenish the working capital fund once ticket revenue comes in.
- Or, if an organization has received a reimbursement-based grant for a construction project, it needs to pay its contractors before it receives reimbursement from the grant funder. If the organization has a working capital fund, it can draw down on the fund for the outlays, then replenish the working capital fund after it has received reimbursement for the expenses through the grant.

A working capital fund functions as an internal line of credit, frequently being drawn down upon and then replenished.

What is the "project" for a cash reserve/working capital fund grant?

For the purposes of Cultural Trust cash reserve/working capital fund grants, the "project" is the act of establishing/growing the fund — that is to say, depositing the grant funds into an account in accordance with the organization's cash reserve/working capital fund policy. For the purposes of your grant application, the subsequent use of the fund is *not* considered part of the project activities, though it should be considered in discussing the intended purpose of the fund and the potential impact of the project on your organization. Therefore, the length of time to complete the project is considered the time it will take to create the account (if applicable) and deposit the grant funds. Subsequent reporting on the grant will require reflection on how the fund was used.

What support materials are required for a cash reserve/working capital fund project application?

REQUIRED: All applicants for cash reserve/working capital fund projects must submit Board-adopted organizational policies for managing and replenishing the reserve/fund. Per Section II below, panelists rely upon the cash reserve/working capital fund policy to evaluate the project plan and the project's impact and sustainability, so be sure to include sufficient detail. A copy of your organization's existing bylaws will not satisfy this requirement. The policies must be specific to the management and replenishment of the cash reserve/working capital fund.

OPTIONAL:

- Applicants intending to use their proposed funds for working capital (including those proposing a dual-purpose fund) are strongly encouraged to submit a cash flow projection. A cash flow projection is a key tool to help an organization understand and anticipate its cash flow challenges. Because a cash flow projection maps the timing of expected income and expenses, typically on a monthly basis, it can give reviewers a more accurate picture of an organization's working capital needs than end-of-year financial documents.
- Applicants intending to use their proposed funds as a cash reserve (including those proposing a dual-purpose fund) are encouraged to upload additional materials supporting the organization's capacity to replenish the fund if it is drawn down. Such materials could include organizational planning documents, reports of past fundraising success, or other relevant materials.

How do I create a cash reserve/working capital fund policy?

There are many resources and templates available online to help you create a cash reserve/working capital fund policy that is appropriate and realistic for your organization. The following resources offer a starting point for developing your reserve policy, but you should work with your organization's leadership and financial management team, and consult other resources as necessary.

- [Nonprofit Operating Reserves and Policy Examples](#) (Propel Nonprofits)
- [Developing your Reserve Fund Policy – A Template and Guide for Nonprofits](#) (BDO USA)
- [Operating Reserve Policy Toolkit for Nonprofit Organizations](#) (National Center for Urban Statistics, Center on Nonprofits and Philanthropy at the Urban Institute, and United Way Worldwide)

How do I create a cash flow projection?

There are many resources and templates available online to help you create a cash flow projection for your organization. The following resources offer a starting point, but you should work with your organization's financial management team and consult other resources as necessary.

- [Cash Flow Management](#) and [Cash Flow Template](#) (Propel Nonprofits)
- [StrongNonprofits Toolkit: Cash Flow](#) (Wallace Foundation)
- [Video: How to Create a Cash Flow Projection to Manage Cash Flow for Optimal Nonprofit Health](#) (Nonprofit Finance Fund)

II. Interpretation of Evaluation Criteria As Applied to Cash Reserve/Working Capital Fund Requests

1. Stability/Capacity Challenge:

- The applicant articulates a specific, real, and significant challenge to the organization's stability/capacity.
- The organization demonstrates thoughtful strategic and financial planning in identifying the challenge and prioritizing its resolution.

2. Project Plan:

- The project plan is clear, detailed, and specific, demonstrating a firm understanding of the mechanics of the project.

For projects requesting cash reserve/working capital funds:

- The applicant makes clear the purpose of the fund and demonstrates a firm understanding of the type of fund they intend to establish or grow, including whether the fund is to function as a working capital fund or cash reserve, or both.
 - The timing and circumstances under which the organization intends to draw on the fund are clear and specific.
 - The details about how the fund will be (or is) financially organized, managed, expended, and replenished are clear and specific.
 - The target size – total dollar value – of the cash reserve/working capital fund (including but not limited to the Cultural Trust funds request) is clear.
- The proposed project budget and activities are realistic, reasonable, and appropriate to execute the project.

For projects requesting cash reserve/working capital funds: The proposed size of the cash reserve/working capital fund (including but not limited to the Cultural Trust funds request) is realistic and reasonable. The board policies for management and replenishment of the fund are realistic, reasonable, and appropriate.

- The applicant has the necessary infrastructure, capacity, and organizational commitment in place to support the project or provides a reasonable plan for obtaining the needed resources.

For projects requesting cash reserve/working capital funds:

- The applicant has the necessary infrastructure, capacity, and organizational commitment in place to support the project.
- If applicable, the applicant has the necessary infrastructure, capacity, and organizational commitment to achieve the total dollar value of the fund proposed, over and above the requested Cultural Trust funds, or provides a reasonable plan for obtaining the additional funds.

3. Project Impact and Sustainability:

- The proposed project has a high likelihood of improving the organization's stability/capacity by resolving the identified challenge.

- The applicant demonstrates that the project's benefit will be long-term and, if applicable, that the organization has a sufficient plan to sustain the gains from the project independent of future Cultural Trust support.

For projects requesting cash reserve/working capital funds:

- The applicant instills confidence that they can maintain and replenish the fund past the period of the grant, in accordance with board policies.

4. Cultural Trust Support:

- The Cultural Trust's support will significantly benefit the quality and/or outcome of the project.

III. Recovery Capital Guidance

What is recovery capital?

Recovery capital helps an organization recover financially from a crisis that has damaged its capital base or created a financial cliff that threatens its stability.

What kind of projects are eligible within this project category?

Recovery Capital applicants may ask for funds to pay debts, rebuild depleted working capital, or replenish a depleted cash reserve.

To be eligible for Cultural Trust support, the crisis resulting in the need for recovery capital must be a one-time event or specific, discrete challenge. The applicant must clearly identify the specific circumstances that depleted the organization's financial resources and (if applicable) caused it to take on debt.

What kinds of projects are NOT eligible within this grant category?

Per the grant guidelines, the following projects are not eligible:

- Addressing a recurring operating deficit.
- The repayment of government loans.

What is the “project” for a recovery capital grant?

For the purposes of Cultural Trust recovery capital grants, the “project” depends on the purpose for the recovery capital. For a debt reduction/elimination application, the “project” is paying the creditor. For a working capital/cash reserve replenishment application, the “project” is depositing the recovery capital funds into the appropriate organizational account. Therefore, the length of time to complete the project is considered the time it will take to pay the creditor or deposit the grant funds.

What specific support materials are required for a recovery capital project application?

REQUIRED: The grant narrative must include an explanation of the crisis that resulted in the need for recovery capital, steps the organization has already taken to address the crisis, and the steps it will take in the future to avoid or prepare for a similar crisis. As a required support material, applicants must upload documentation supporting the organization's efforts to address the issue and prevent or prepare for its recurrence. The specific materials required will depend upon the specific circumstances that resulted in the need for recovery capital. They could include organizational planning documents, reports of past fundraising success, board-adopted organizational policies for managing and replenishing cash reserves/working capital funds, letters of support from key partners specifically addressing the plan to address the crisis, or other relevant materials. Per Section IV below, panelists rely on these support materials to evaluate the project's impact and sustainability, so be sure the materials you provide are robust and detailed.

IV. Interpretation of Evaluation Criteria As Applied to Recovery Capital Requests

1. Stability/Capacity Challenge:

- The applicant articulates a specific, real, and significant challenge to the organization's stability/capacity.
- The organization demonstrates thoughtful strategic and financial planning in identifying the challenge and prioritizing its resolution.

2. Project Plan:

- The project plan is clear, detailed, and specific, demonstrating a firm understanding of the mechanics of the project.

For projects requesting recovery capital: The project plan demonstrates a firm understanding of what exactly the organization will do with the grant funds. This may include being expended to pay down a debt, or being deposited in organizational accounts for specific purposes, such as cash reserves, working capital, or to eliminate a deficit resulting from the identified stability challenge.

- The proposed project budget and activities are realistic, reasonable, and appropriate to execute the project.

For project requesting recovery capital: The amount of funding (including but not limited to the Cultural Trust funds request) is realistic and reasonable to address the challenge.

- The applicant has the necessary infrastructure, capacity, and organizational commitment in place to support the project or provides a reasonable plan for obtaining the needed resources.

For projects requesting recovery capital:

- The applicant has the necessary infrastructure, capacity, and organizational commitment in place to support the project.
- If the grant funds alone are not sufficient to address the crisis that the recovery capital is intended to address, the applicant provides a reasonable plan for obtaining the remaining funds required.

3. Project Impact and Sustainability:

- The proposed project has a high likelihood of improving the organization's stability/capacity by resolving the identified challenge.
- The applicant demonstrates that the project's benefit will be long-term and, if applicable, that the organization has a sufficient plan to sustain the gains from the project independent of future Cultural Trust support.

For projects requesting recovery capital: The applicant instills confidence that they have addressed or will address the underlying crisis that prompted the need for recovery capital, and that they will avoid or effectively manage the recurrence of a similar crisis in the future.

4. Cultural Trust Support:

- The Cultural Trust's support will significantly benefit the quality and/or outcome of the project.