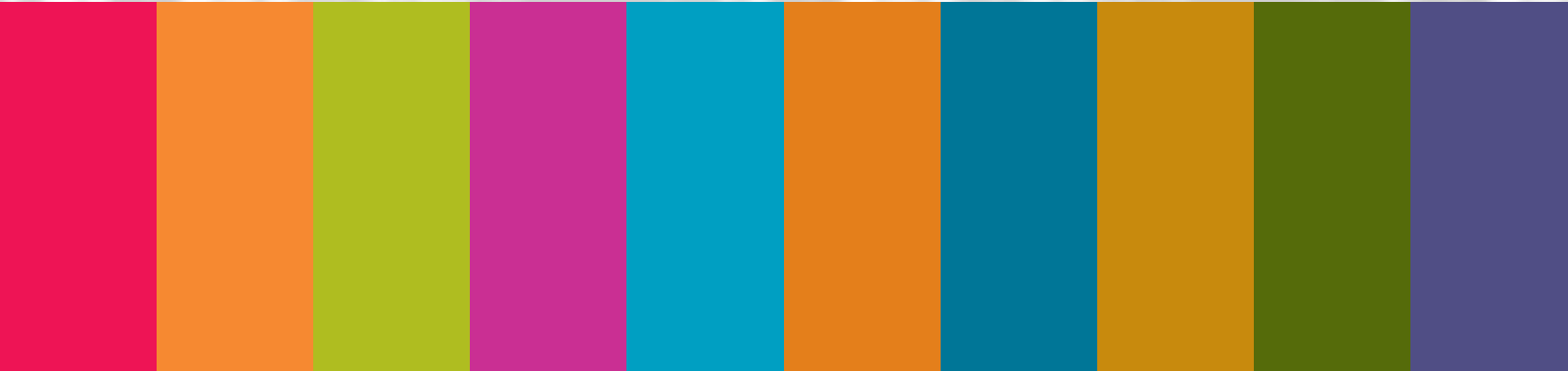


**PERFORMING ARTS  
RESEARCH COALITION**

The Finances and Operations  
of Nonprofit  
*Performing Arts*  
Organizations in  
2001 and 2002

**HIGHLIGHTS AND EXECUTIVE SUMMARY**



**PERFORMING ARTS  
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**The Finances and Operations of  
Nonprofit Performing Arts Organizations  
in 2001 and 2002:**

**Highlights and Executive Summary**

Roland J. Kushner, Kushner Management Advisory Services  
Thomas H. Pollak, The Urban Institute

The performing arts have a central place in American life. Approximately one-third of adults attend live performances in the arts each year and, in 2001, consumers spent more on performing arts events than on either movie tickets or sporting events.<sup>1</sup> Professional nonprofit companies and arts presenters account for much of this activity.

The financial and operational management of these organizations is largely invisible to their audiences and donors. Nonetheless, they are vitally important to sustaining the vitality of the field, and they are the focus of this summary report.

This report is the product of a unique collaboration among five major performing arts service organizations to combine data they collect from their members into a cohesive portrait of the nonprofit professional performing arts field.<sup>2</sup> In 2000, the American Symphony Orchestra League, Association of Performing Arts Presenters, Dance/USA, OPERA America, and Theatre Communications Group joined forces as the Performing Arts Research Coalition (PARC), to improve the collective capacity of the performing arts field to gather and use information. The first major product of the collaboration was *The Value of the Performing Arts in Five Communities*, an analysis of household survey data collected in 2002.<sup>3</sup> PARC also sought to develop a common set of financial, operational, and administrative questions for the national service organizations to ask their member organizations in their annual membership surveys. Using these data for fiscal years 2001 and 2002, PARC assembled a data set that includes the country's leading performing arts organizations, as well as hundreds of smaller professional community-level organizations.

The data collected by this project permit managers and observers of nonprofit professional producing companies and presenters to take a common perspective on how they are financed and operated, to compare organizations of different disciplines and different size, and to explore changes from year to year. Compared to data from other sources, the financial and operational data are far more detailed and, unlike information from the IRS or the Economic Census, include financial and operational information on organizations hosted by universities as well as freestanding organizations.

In the first two years of the project, we gathered data from 1,469 surveys. This included 797 organizations for fiscal 2001 and 672 for fiscal 2002, with 477 responding in both years. All are professional nonprofit performing arts companies and presenters, including most of the leading institutions in symphony, opera, dance, and theatre fields.

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<sup>1</sup> NEA Research Note #81, pp. 1 & 7 (July 2003); NEA Research Note #83, p.1 (July 2003)

<sup>2</sup> This study does not include all performing arts disciplines (chamber, choral, jazz, gospel and early music are but a few examples) nor non-professional community-level theatre, dance, presenting, or opera companies. Not all performing arts organizations are members of their respective national service organization; therefore, this data almost certainly undercounts the performing arts section as a whole.

<sup>3</sup> This and subsequent reports are available on PARC's website, <http://www.operaamerica.org/parc/>.

Based on this sample, we estimate that the fields represented by these organizations accounted for approximately \$8 billion of economic activity and total paid attendance of approximately 115 million people in 2002. Excluding the arts presenters from the estimate, the four other fields had combined expenses of \$4.2 billion and attendance of 82 million.<sup>4</sup> Of these expenses, the organizations providing the project with data accounted for nearly 68 percent of the total.

The context of the report is an especially dynamic time period, marked by a dramatic decline in stock market values, a recession, and the attacks of September 11, 2001. These changes affected many elements of the operating environment of the performing arts, including audience demand, philanthropic and government support, and endowment values. For these reasons, changes between these two years should not be seen as necessarily signaling a long-term trend. At the same time, the level of change in those two years provides a context for seeing how this field responded to very dynamic operating conditions.

## Highlights

- The organizations in this study presented 152,000 performances to paying audiences of 71 million, in 2001 and 2002 combined.
- Of the dollars spent by nonprofit performing arts organizations, 62 percent are for program expenses in performance and education.
- Half of the total income from the performing arts organizations sampled is contributed by private and public sources.
- Only about nine percent of total funding comes from public sources (of which 85 percent comes from state and local government).
- From 2001 to 2002, income and expenses for the average organization stayed relatively stable, but expenses grew faster than income.

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<sup>4</sup> Estimates of the total economic activity and audience of the sector are presented with and without arts presenters. The latter estimate eliminates potential double-counting of presenter activities (e.g., if a presenter is presenting a symphony or dance company) and weaknesses in our estimate of the total activity of the presenting field. Accurate estimates of revenue, expenses and attendance require both an accurate knowledge of the number of organizations in the field by size and type, and that a statistically significant number of organizations in each category complete the survey. Since many arts presenters are hosted by universities or have other functions in addition to presenting the performing arts, precisely identifying the scope of this population is more challenging than for the other disciplines, which are composed primarily of freestanding nonprofit organizations. Further, too few of the largest arts presenters, accounting for the majority of revenue and attendance, completed the survey so estimates for this group are, by necessity, less precise than for the other organizations.

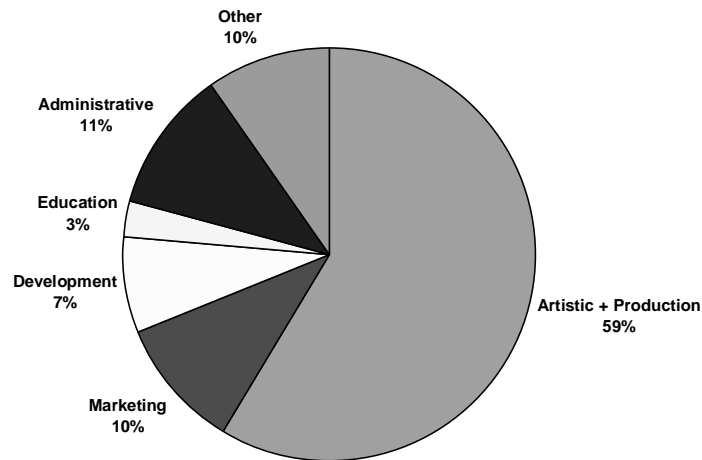
- Net incomes declined and debt increased, while financial market pressures drove down investment income.
- Half of the organizations in both years reported losses.

## Summary of Findings

**Performing Activity.** In total, the sampled organizations presented 69,000 performances in 2001 and 83,000 in 2002 to audiences. About nine percent of these were free performances. For organizations reporting both years (the “two-year group”), paid attendance remained steady overall. However, organizations with comparatively smaller budgets (under \$5 million) attracted larger audiences, while the largest (over \$10 million) saw declines.

**Total expenditures** to create the performances and sustain the organizations that completed surveys in either year equaled \$2.90 billion in fiscal 2001 (FY01) and \$2.92 billion FY02. Sixty-two percent of these dollars were used for direct program costs in performance and education, with the balance used for marketing, resource development, and administrative costs. The average increase of 1.2 percent from FY01 to FY02 barely exceeded inflation in that time period.<sup>5</sup> Figure 1 shows the allocation of funds over all areas:

Figure 1. Uses of Funds by Performing Arts Organizations in Fiscal 2001 and 2002



While overall expenses were flat, there was some change between FY01 and FY02 in how funds were used. For organizations in the two-year group, education spending

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<sup>5</sup> The Chained Consumer Price Index rose 0.8 percent between June 2001 and June 2002, a period roughly corresponding to the period covered by FY 2002 for most organizations included in this report.

dropped more than 11 percent, but development spending grew by one third. Table 1 shows the year-to-year comparison:

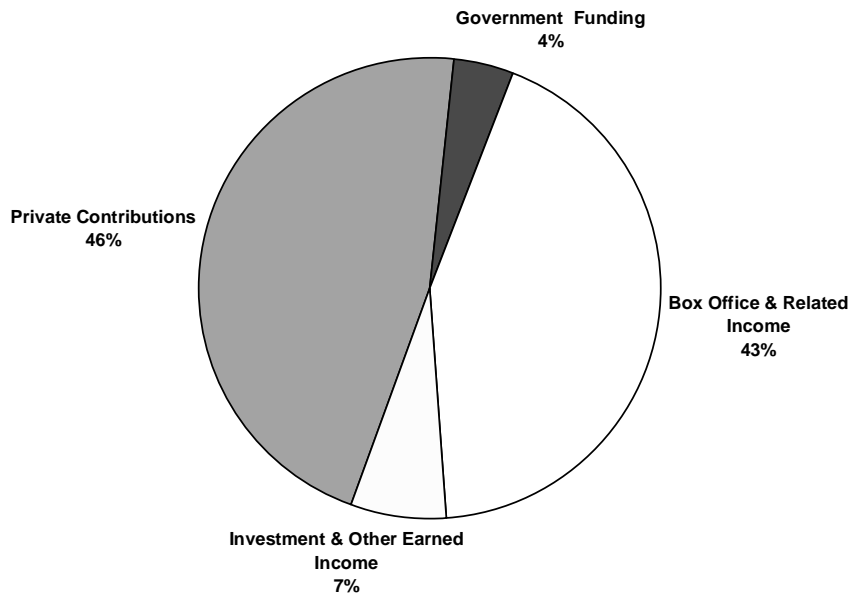
**Table 1: Changes in Uses of Funds<sup>6</sup>**

	Artistic + Production	Marketing	Development	Education	Administrative	Other	Total
2001 Mean	4,005,326	669,297	430,756	181,169	688,839	579,523	6,554,910
2002 Mean	3,965,612	666,250	574,827	160,764	707,024	606,098	6,680,575
Percentage Change	(1.0)	(0.5)	33.4	(11.3)	2.6	4.6	1.9

Note: 378 organizations reported expenses in both years.

**Sources of Funds and Total income.** The sample of organizations reporting in the survey had total receipts in FY01 and FY02 of \$2.75 billion and \$2.94 billion, respectively.<sup>7</sup> Combining both years, Figure 2 shows the major sources of funds. Revenue was evenly split between earned income (box office and related income plus investment and other earned income) and contributions from both private and government sources.

**Figure 2. Sources of Revenue, Fiscal 2001 and 2002**



<sup>6</sup> Note that some numbers presented in the tables may not add due to rounding and anomalies in the survey data.

<sup>7</sup> Unlike revenue reported elsewhere, these numbers include only income received from or earned in the current year, and do not include restricted income received in prior years and released in the current year.

For the two-year group, total income increased by 1.2 percent. Table 2 shows how the various sources of income changed in different ways between the two years. For the 378 organizations reporting in both years, there were small increases in box office receipts, but precipitous declines (44 percent) in investment and “other” earned income, reflecting the difficult financial markets in that time period. Despite a 17 percent decline in government funding, overall funding grew as a result of a 10 percent increase in private support (the largest category of total income).

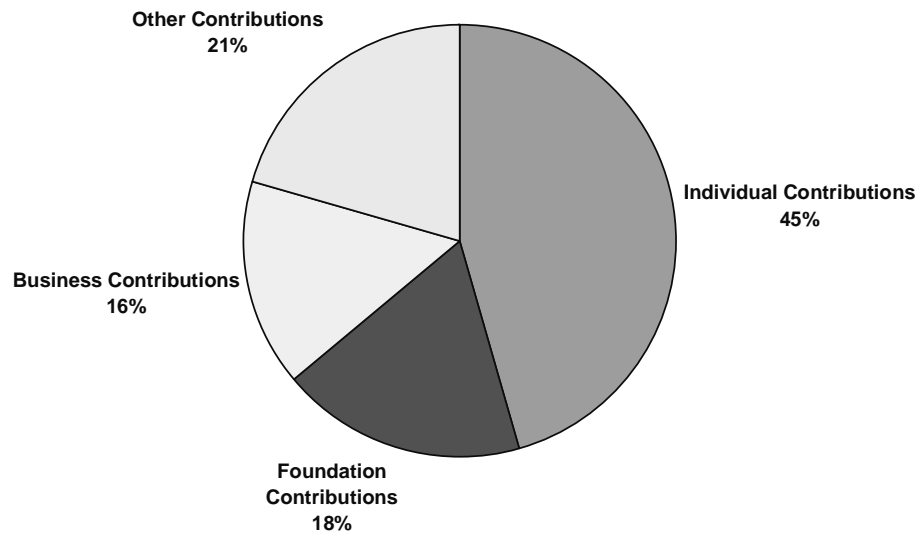
**Table 2: Changes in Sources of Funds**

	Private Contributions	Government	Box Office & Related Income	Investment & Other Earned	Total Income
2001 Mean	3,097,758	305,857	2,962,590	534,546	6,886,660
2002 Mean	3,400,781	253,681	3,011,766	300,720	6,966,948
Percentage Change	9.8	(17.1)	1.7	(43.7)	1.2

Note: 378 organizations reported in both years

**Private Contributions.** As shown in Figure 3, private giving makes up over 90 percent of total contributed support for the performing arts, with public funding generating only a small share. The major sources of private giving include individuals, foundations, and businesses. Figure 3 also shows the relative weight of each of these major sources in private giving in 2001 and 2002. The “Other” category combines several smaller sources (gifts in kind, special event proceeds, guild and volunteer association giving) together.<sup>8</sup>

**Figure 3. Sources of Private Contributions, Fiscal 2001 and 2002**



<sup>8</sup> Excluding funds transferred out of temporary restriction, which is why total contributions are less in Table 3 than in Table 4.

In the two-year group, donations from individuals grew more than 41 percent, offsetting major declines in both total business and foundation contributions, as shown in Table 3. In some cases unusual events contributed to these changes: a large one-time foundation grant to an opera in FY01, and a large one-time individual gift to a symphony in FY02. As a result, total business and foundation giving declined by more than a third, but the typical organization saw only slight losses.<sup>9</sup> The sharpest declines were experienced by organizations with budgets over \$10 million.

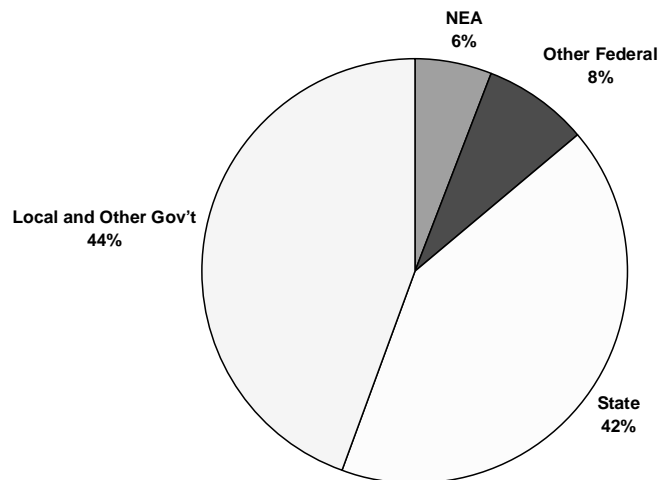
**Table 3: Changes in Private Contributions**

	Individual Contributions	Foundation Contributions	Business Contributions	Other Contributions	Total
2001 Mean	1,085,294	600,670	512,334	550,694	2,748,992
2002 Mean	1,533,405	392,905	341,739	536,225	2,824,274
Percentage Change	41.3	(34.6)	(33.3)	(2.6)	2.7

Note: 378 organizations reported in both years

**Government Support.** In these two years, federal sources provided only 14 percent of total public support while 42 percent came from state sources and 44 percent from local and other sources. For the two-year group, NEA funding increased slightly and support by states and smaller government units declined considerably, as these government units started to feel the impact of the recession, reduced tax revenue, and rising security costs. As with private giving, the largest drop in dollar amounts occurred at the largest organizations; the median organization reported increases of approximately three percent from these sources after adjusting for inflation. Figure 4 shows the sources of government funding, and Table 4 shows the changes from year to year.

Figure 4. Government Funding, Fiscal 2001 and 2002



<sup>9</sup> The “typical organization” refers to the median value. By definition, half of all organizations report values larger and half smaller than the median.

**Table 4: Changes in Government Funding**

	NEA	Other Federal	State	Local and Other Government	Total
2001 Mean	16,585	28,390	122,641	138,241	305,857
2002 Mean	17,138	18,469	108,508	109,566	253,681
Percentage Change	3.3	(34.9)	(11.5)	(20.7)	(17.1)

Note: 360 organizations reported receiving one or more kinds of government funding in both years.

**Net Income.** Net income is the difference between an organization’s income and expenses. Fully half of all organizations reported a loss in both FY 2001 and 2002, highlighting the financial challenges that many organizations face. Earlier sections of this summary show expenses increasing faster than revenue. As a result, total net income fell from 5.3 percent of budget in FY01 to 4.2 percent of budget in FY02. Table 5 shows these changes for the two-year group. Because the declines in revenue were most pronounced in the larger organizations, those companies displayed the largest declines in net income.

**Table 5: Changes in Net Income**

	Total Income	Total Expense	Net Income	Net Income as % of Expense
2001 Mean	5,786,542	5,531,607	291,313	5.3
2002 Mean	5,875,538	5,644,754	237,225	4.2

Note: 459 organizations reported in both years

**Assets and Liabilities.** The change in their balance sheets accentuate the vulnerability faced by these organizations.<sup>10</sup> The liabilities of the performing arts organizations grew nearly eleven percent, significantly more than their assets, which grew only 0.7 percent, roughly equal to the rate of inflation (see Table 6). This pattern held true for the typical (median) organization as well as for the group’s totals. The cumulative effect is that the relationship between debts and assets changed for the worse.

Total net assets declined by three percent after accounting for inflation. Those assets that are indicators of long-term strength, such as permanently restricted (endowment) and temporarily restricted (typically multi-year grants and contributions) assets, both increased less than three percent. However, unrestricted net assets, which provide the most flexibility to arts organizations and their leaders, declined by nine percent.

<sup>10</sup> Excluding symphony orchestras, which did not report on balance sheet information until FY 2002.

**Table 6: Balance Sheet and Net Assets**

	Assets & Liabilities			Types of Net Assets		
	Total Assets	Total Liabilities	Total Net Assets	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets
2001 Mean	12,150,487	2,687,800	9,462,686	3,816,976	2,077,562	3,568,075
2002 Mean	12,234,204	2,975,152	9,259,053	3,473,979	2,118,993	3,664,371
Percentage Change	0.7	10.7	(2.2)	(9.0)	2.0	2.7

Note: 200 organizations reported balance sheet data in both years, and between 111 and 200 organizations reported net asset data.

**Operating Measures.** We identified four measures of operating activity to help understand how these organizations raise and expend resources. Two of them focus on fundraising and sales, a third examines the real costs of performing acts activities, and a fourth looks at the utilization of seating capacity.

*Development efficiency* is calculated as the amount of contributions raised per dollar spent on fundraising and development. For the combined pool of respondents in both years, development efficiency was \$7.93 with larger organizations tending to have lower returns per dollar spent. The two-year group saw a marked decline of 16 percent over the two-year period from \$7.81 in FY 2001 to \$6.55 in FY 2002. This had two causes: a more difficult contributions environment, and increases in development expenditures by arts organizations that reported to us. In future years, we hope to see how development spending in one year affects contributions in future years.

*Marketing efficiency* is defined as performance revenue earned per dollar spent on marketing. For the group as a whole, it was \$3.19, while for the two-year group, it improved from \$2.72 to \$2.85. This increase of nearly five percent occurred even while marketing expenditures were substantially flat. There is no significant difference in marketing efficiency between small, medium, and large organizations.

*Program margin* is a third measure of operating activity. This is the ratio of box office income to the sum of artistic and production expense. The program margin indicates how much of the core artistic programming is financed by revenue from audiences. For the overall pool, box office revenues covered only 73.3 percent of total production costs – and none of the marketing, development, education, administrative, or other costs of sustaining performing arts institutions. Organizations with budgets between \$1 million and \$10 million had program margins close to 80 percent, while those that were smaller and larger had program margins closer to 70 percent.

*Capacity utilization*, as an operating measure, is the percentage of total available seats that are sold. For all the organizations, that figure is 81 percent. Capacity utilization trended upwards with size, with the largest organizations selling over 80 percent of their available seats and organizations with budgets over \$1 million typically selling more than 75 percent of their seats.

**Liquidity and Solvency.** To help understand the financial situation of the organizations, we identified several key measures of their liquidity and overall solvency. These ratios include the current ratio (current assets to current liabilities), availability of working capital (current assets minus current liabilities) to pay expenses, net assets as a percentage of total assets, and debt to net assets. Table 7 shows these comparisons for the two-year group.

**Table 7: Liquidity and Solvency Measures**

	Current Ratio	Working Capital as % of Total Expenses	Net Assets as % of Total Assets	Debt to Net Assets
2001 Mean	1.98	26.4%	51.3	28.4%
2002 Mean	1.33	9.8%	45.5	32.1%
Percentage Change	(32.8)	(63.1)	(11.3)	13.1

Note: Between 186 and 216 organizations reported liquidity and solvency data in both years

The dramatic declines in the current ratio and in working capital available for expenses point to potentially serious liquidity problems. In the short term, some organizations were at risk of ceasing operations altogether. The broader financial base available for activities was also pressured as net assets declined. The overall weight of debt increased, although this took place while interest rates were declining, sometimes rapidly.

**Volunteer Mobilization.** Like all other sectors of nonprofit activity, the performing arts depend critically on volunteers to provide governance, other forms of skilled technical work, and general support service. We gathered information on how many volunteers assisted the arts in these different ways (Table 8). Eighty-five percent of organizations used an average of 178 volunteers per year in a variety of technical, administrative, and audience service activities. More than half of organizations that completed this section of the survey reported using volunteers in artistic roles. These organizations were supported, on average, by 34 people on advisory or governing boards.

**Table 8: Use of Volunteers**

	Volunteer Roles		
	Board	Artistic	Other
Percent reporting volunteers	100%	51.5%	85.3%
Average number of volunteers for those reporting volunteers	34	60	178

Notes: Table 8 only includes the 838 surveys that reported board members and only freestanding organizations are included.

## **Overview and Conclusion**

This summary of key facts and trends affecting the performing arts sector during this dynamic time period shows that the field continued to receive strong support from audiences, contributors, and volunteers in difficult circumstances. However, the high percentage of organizations running deficits, and the decline in investment income and government support along with gradual increases in expenses are evidence of significant challenges to the financial health of the sector.

Like so many other nonprofit organizations, the financial standing of performing arts organizations is affected by the business cycle, alternately thriving and suffering as the economy expands and contracts. What is less clear, and what we hope to explore in a continuation of the PARC study, is how the sector is faring in a constantly changing economy. This particular two-year picture opens the window; a clearer picture of trends in the sector will begin to emerge as data is collected in future years.

## **About The Authors**

Roland J. Kushner is Director of Kushner Management Advisory Services of Bethlehem, PA, providing services in strategic management, organizational development, business planning, and economic research and analysis.

Thomas H. Pollak is a Senior Research Associate with the Center for Nonprofits and Philanthropy and Assistant Director of the National Center on Charitable Statistics at the Urban Institute in Washington, DC.

For further information on PARC, please contact:

Performing Arts Research Coalition

c/o OPERA America

1156 15th St., NW, Suite 810

Washington, DC 20005-1704

(202) 293-4466 x 214

[parc@operaamerica.org](mailto:parc@operaamerica.org)

For discipline specific information, please contact:

Patrick Madden, Association of Performing Arts Presenters, [pmadden@artspresenters.org](mailto:pmadden@artspresenters.org)

Jack McAuliffe, American Symphony Orchestra League, [jack@symphony.org](mailto:jack@symphony.org)

John Munger, Dance/USA, [jrmdance@aol.com](mailto:jrmdance@aol.com)

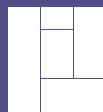
Marc A. Scorca, OPERA America, [marc@operaamerica.org](mailto:marc@operaamerica.org)

Chris Shuff, Theatre Communications Group, [cshuff@tcg.org](mailto:cshuff@tcg.org)

# PERFORMING ARTS RESEARCH COALITION

1156 15<sup>TH</sup> Street, NW, Suite 810, Washington, DC 20005

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