SMU'S NATIONAL CENTER FOR ARTS RESEARCH (NCAR)
RELEASES NEW REPORT ON BOTTOM LINE HEALTH OF
U.S. ARTS AND CULTURAL ORGANIZATIONS

Study shows that burden of rising expenses in the sector is greatest barrier to financial sustainability

Smaller, more nimble organizations with lower fixed costs have higher chance of financial success

Dallas (SMU), December 14, 2017 - The National Center for Arts Research (NCAR) at Southern Methodist University today released a new report detailing financial health of arts organizations in the U.S. The report, available online, examines organizational **bottom lines** using data collected from over 4,800 organizations between 2013 and 2016. Overall, the report shows that **it has become increasingly difficult for arts and cultural organizations to break even**, a trend that is particularly alarming given the current period of economic growth in the U.S. The Bottom Line Report examines trends by organizational size, sector, and geography. Following earlier data releases on marketing and fundraising trends, staffing, and expenses, this is the latest edition of NCAR's reports on the U.S. cultural sector, which provide information that allows arts leaders to benchmark and make evidence-based decisions to overcome challenges and increase their impact.

"As we all know, the arts are heavily labor intensive and salaries naturally rise over time, but the technology-driven productivity increases that drive efficiencies in many industries just don't apply, making the cost of doing business in the arts a challenge—a phenomenon recognized for decades as 'Baumol's cost disease,'" said Dr. Zannie Voss, director of NCAR. "As with all NCAR's work, this report is designed to help organizations and the individuals and institutions that support them better understand the state of the field, rethink traditional operating models, and spark new strategies that advance the financial sustainability of the field."

The central question raised in this report is: "**Are organizations bringing in enough revenue to cover their expenses?"** Looking at unrestricted surplus (before depreciation), the average organization saw an unrestricted surplus of 2.1% of expenses in 2016. In the same year, overall operating bottom line (before depreciation) was 0.4% of expenses—virtually break-even. However, surpluses fell to a **negative** 4.2% when factoring in depreciation**, meaning that the average organization is not reserving sufficient funds to repair and replace their fixed**

assets, which can lead to future challenges, particularly for organizations with high levels of fixed assets.

The report examines bottom line using these three measures—unrestricted surplus before depreciation, operating surplus before depreciation, and operating surplus after depreciation—in order to provide a full and accurate picture of how arts organizations are tracking. As illustrated above, typically the most positive view of revenue, and therefore the "bottom line," is "unrestricted surplus," the bottom line figure that appears in most financial audits and accounts for operating revenue plus some non-operating funds such as investment gains or losses and capital campaign proceeds. By contrast, the "operating surplus" paints a more realistic and conservative portrait of performance since it removes all non-operating funds. The report examines the operating bottom line before and after depreciation to show whether organizations are generating surpluses sufficient to cover the estimated annual wear and tear on their fixed assets (such as buildings).

Revenue growth fell short of expense growth

From 2013 to 2016, the average organization's bottom line steadily slid from surplus to deficit, no matter which of the three measures are used, reflecting growth in revenue that did not keep pace with growth in expenses. This reveals a deeply entrenched "cost disease," described above, that prohibits many arts organizations from thriving financially. Most arts sectors experienced a similar growth rate in expenses, outpacing inflation by around 10-15%. Notable exceptions are the Art Museum and Dance sectors, whose expenses both before and after depreciation grew by more than 20%.

Breaking even requires nimbleness to adjust expenses to align with revenue realities. High fixed costs present obstacles. Organizations that are able to course-correct to adjust expenses to align with revenue realities have a higher chance of breaking even.

- Smaller-budget organizations, with lower fixed assets and less fixed costs, demonstrate the highest surpluses by all measures, continuing a four-year upward trend. Conversely, larger organizations tend to end the year with deficits, continuing a four-year negative trend.
- Across all sectors, small organizations buck the overall sector trend—i.e. even in sectors where bottom lines trended downward, the smaller-budget organizations within the sector actually grew, sometimes by over 50%.

- The 5 sectors with comparatively lower average budgets—**Arts Education, Community, Music, Theater, and General Performing Arts—averaged a positive bottom line in 2016**. Operating bottom line trended upward for the Music, Theater, and General Performing Arts sectors from 2013 to 2016.
- On the other end of the spectrum, **Art Museums and Symphony Orchestras ended 2016 with a negative bottom line**, continuing a four-year downward trend. These sectors have high levels of fixed costs in buildings and labor, respectively.
- Organizations in small and very small markets recorded the highest bottom lines across all measured geographic clusters. These markets' organizations average slightly lower expenses than those in other markets, and only organizations in the smallest markets reported a net surplus across all bottom line measures.

Voss stated, "NCAR's next report will take a look at working capital and access to available cash. It may turn out that organizations with high fixed costs and fixed assets also have sufficiently high levels of cash reserves to cover annual shortfalls and future asset repair and replacement. If not, organizations might consider how they can become more nimble if a break-even budget is a goal. What aspects of their operations can they rent rather than own? Which resources are essential to permanently control versus outsource on an as-needed basis? Are there alternative ways of operating that can lead to opportunities for greater revenue generation or expense reduction without compromising mission fulfillment? If the desired future state is a reversed trend, reaching that state will likely require more flexibility than many organizations currently have."

For more findings, further detail on trends by sector, size, and geography, and more information on implications of this report, please visit the NCAR website.

About NCAR

In 2012, the Meadows School of the Arts and Cox School of Business at SMU launched the National Center for Arts Research (NCAR). The vision of NCAR is to act as a catalyst for the transformation and sustainability of the national arts and cultural community. The goals of the Center are to unlock insights on: 1) arts attendance and patronage; 2) understanding how managerial decisions, arts attendance, and patronage affect one another; and 3) fiscal trends and fiscal stability of the arts in the U.S., and to create an in-depth assessment of the industry that allows arts and cultural leaders to make more informed decisions and improve the health of their organizations. To work toward these goals, NCAR integrates data from DataArts and its Cultural Data Profile[1], TRG Arts, and other national and government sources such as Theatre Communications Group, the League of American Orchestras, the National Endowment for the Arts, the Census Bureau, and IRS 990s. NCAR makes its findings available free of charge to arts leaders, funders, policymakers, researchers, and the general public.

NCAR develops reports based on this uniquely comprehensive set of arts organizations' data. It assesses the industry from multiple perspectives, including sector/art form, geography, and size of the organization, and it determines what drives health from the organization's conditions and its community's characteristics. Recent publications include a white paper on how distance influences arts attendance, diversity and equity in the arts, a white paper dispelling the myth that the arts are elitist, and reports on the health of the U.S. arts and cultural sector. In July 2016, NCAR launched the KIPI Dashboard, a free online diagnostic tool that allows arts organizations to benchmark their individual performance in nine finance and operations categories against their peers.

For more information, please visit the NCAR website at smu.edu/artsresearch.

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[1] DataArts is a nonprofit organization that empowers the arts and cultural sector with high-quality data and resources in order to strengthen its vitality, performance, and public impact. For more information, visit www.culturaldata.org.