

State of the Arts Study in Delaware

**Presented by
Nonprofit Finance Fund**

**In Partnership with
Delaware Division of the Arts
The Welfare Foundation**

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Special Thanks

Delaware Division of the Arts

The Welfare Foundation

Delaware Arts Organizations



Agenda

1. Methodology & Overview of the Sample
2. Key Findings & Questions for Consideration
3. Question & Answer



Methodology

- IRS Form 990 Data
 - Only publicly available source of financial information for nonprofit organizations
 - Reliable data source, especially for mid-sized to large organizations
- Selection Criteria
 1. National Taxonomy of Exempt Entities (NTEE) Code “A” for “Arts, Culture, & Humanities” and guidance from the Delaware Division of the Arts
 2. Delaware-based
 3. Availability of consecutive data for each year between 2001 – 2005



Limitations of Form 990 Data

- Self-reported data
- Data can often overstate revenue and surplus figures
 - No distinction between “unrestricted” and “restricted”
 - No distinction between “operating” vs. “non-operating” revenue

Example of “non-operating” revenue: funds earmarked for capital expenditures, such as a major facility project.



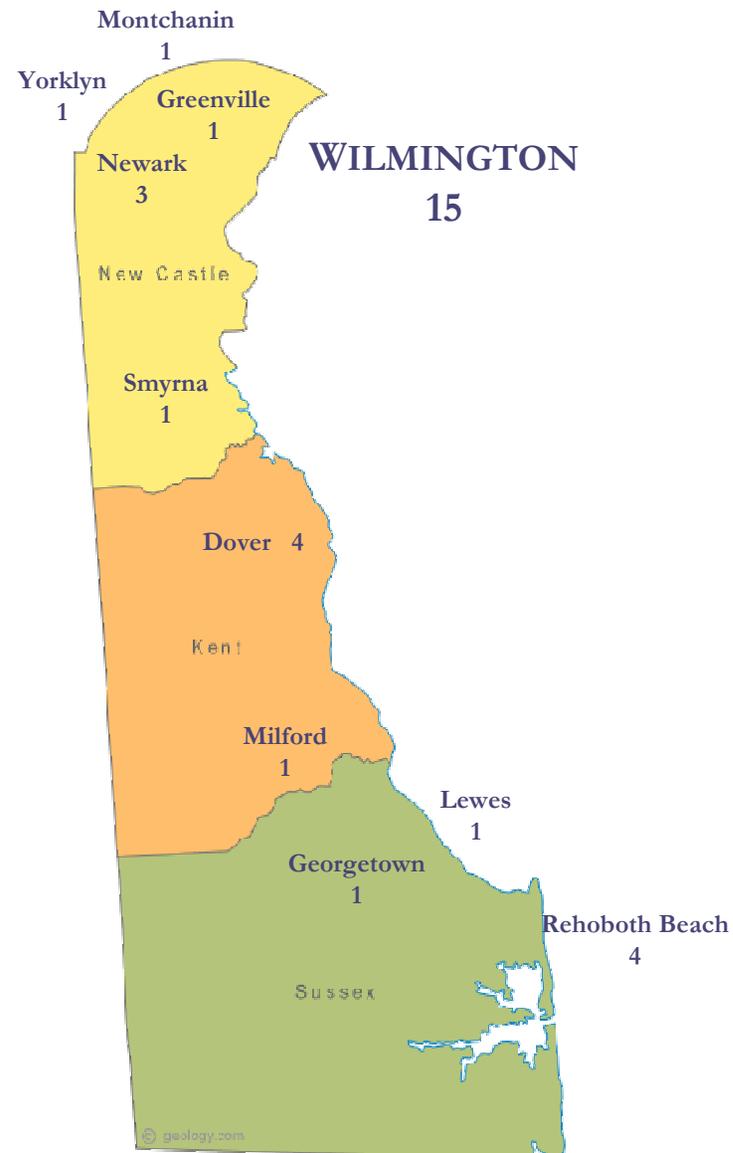
The 33

Brandywine Baroque Inc
Brandywiners Ltd
Center For The Creative Arts Inc
Christina Cultural Arts Center Inc
City Theater Company
Coastal Concerts Inc
Delaware Art Museum
Delaware Center For Contemporary Arts
Delaware Chamber Music Festival
Incorporated
Delaware Childrens Theatre
Delaware Institute For The Arts In
Education
Delaware Music School Inc
Delaware Performing Arts Center Inc
Delaware Symphony Association &
Foundation
Delaware Theatre Company
Dickinson Theatre Organ Soc Inc

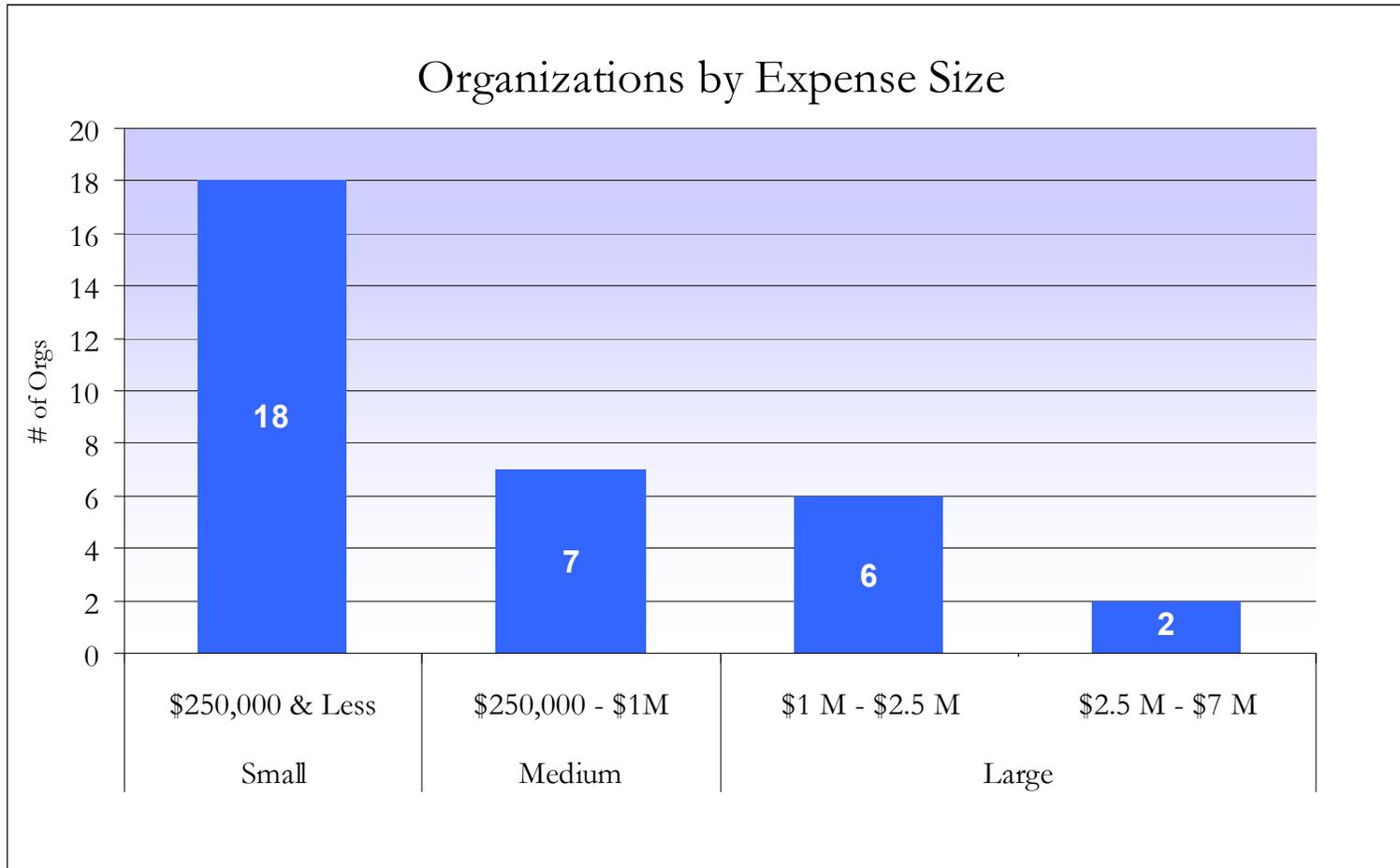
Dover Art League
El Centro Cultural Inc
Friends Of The Capitol Theater Inc
Grand Opera House
Henlopen Theater Project Inc
Mid-Atlantic Ballet Academy
Newark Symphony Orchestra Inc
Opera Delaware
Rehoboth Art League Inc
Rehoboth Beach Film Society
Rehoboth Summer Childrens Theatre
Sewell C. Biggs Trust
Smyrna-Clayton Heritage Association
Society For Preservation &
Encouragement Of Barbershop Quartet
Singing Americans
VSA Arts Of Delaware Inc
Wilmington Drama League Inc
Wilmington Music School



By Geography



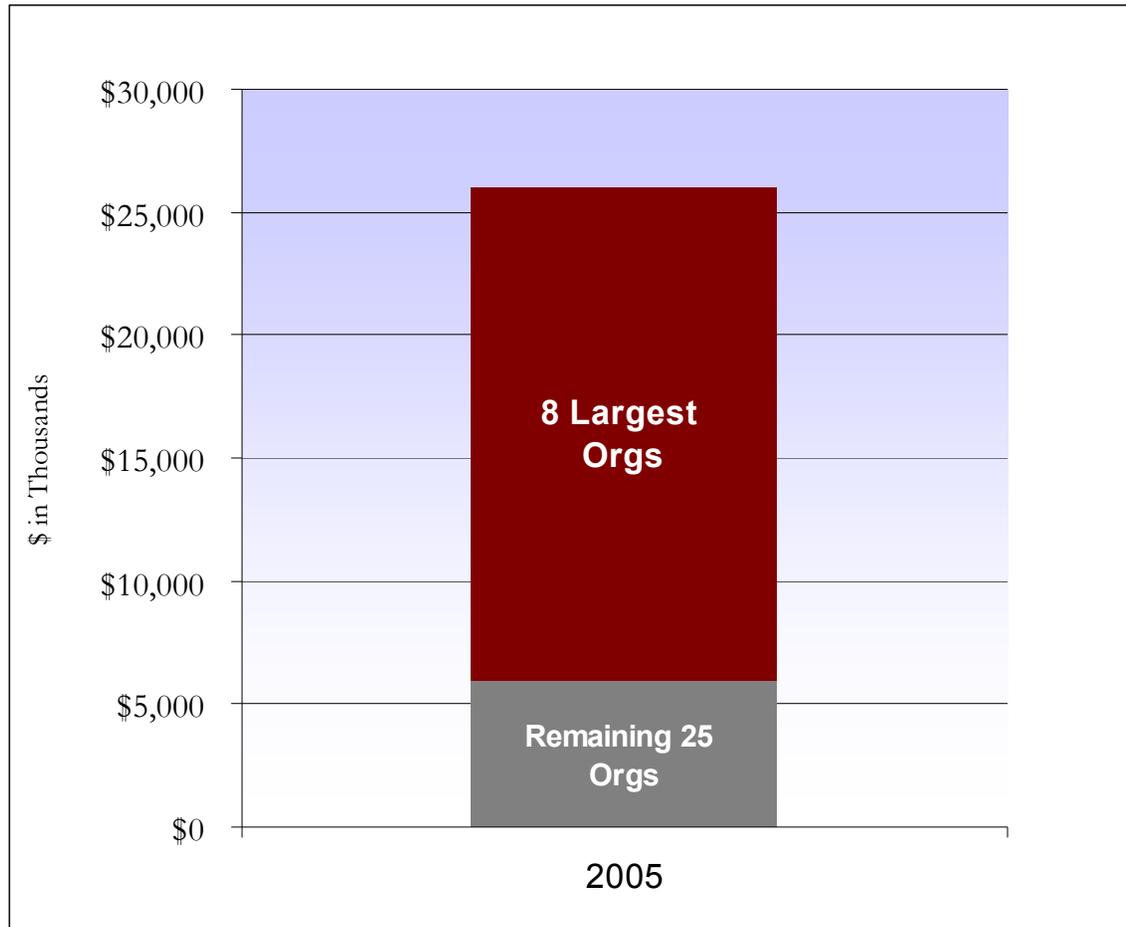
By Budget Size



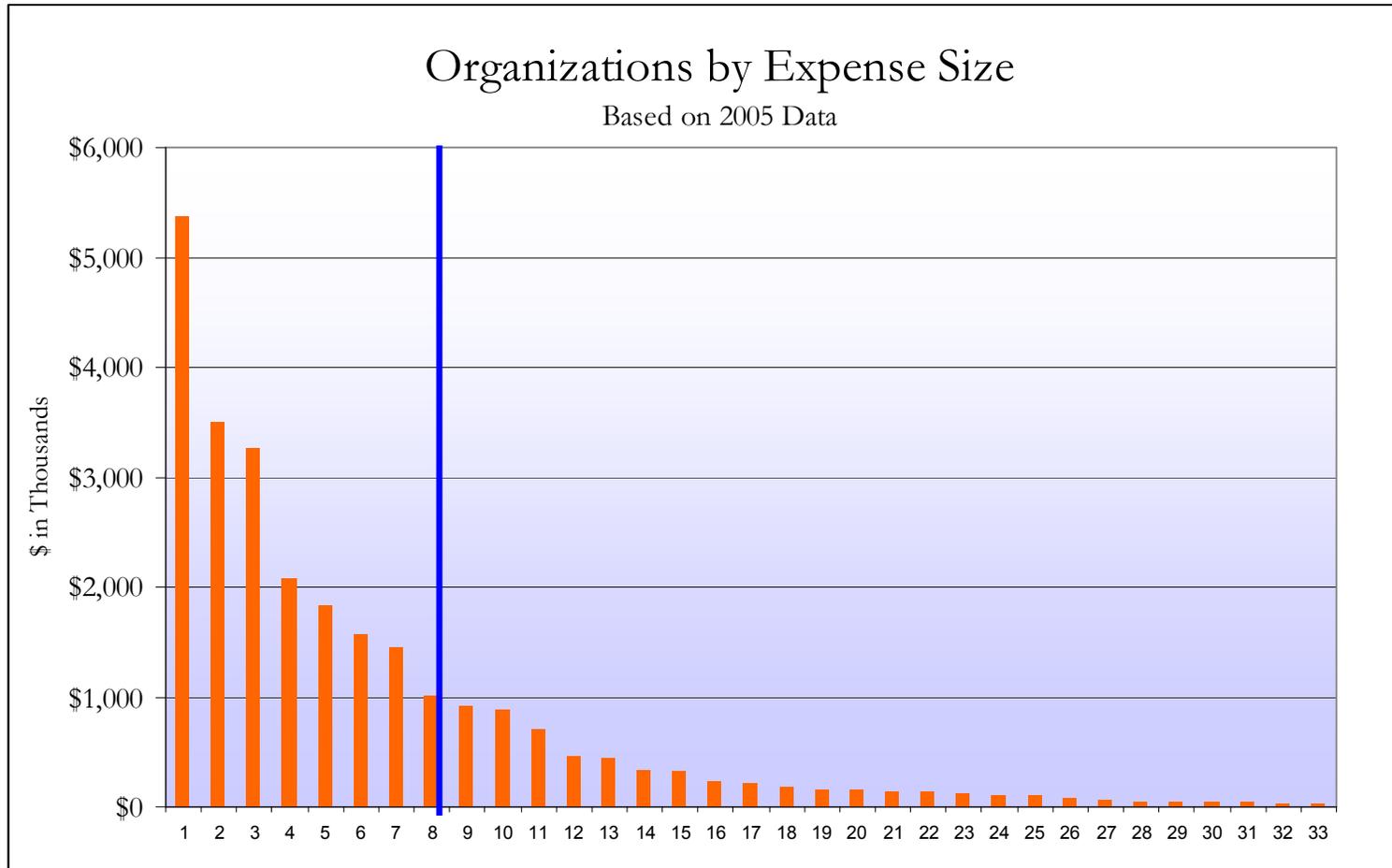
Notes: (1) Budget categories are based on information from The Alliance For the Arts; (2) Figures are based on 2005 data.



\$26 Million in Expenses in 2005



8 Largest: Operating Budget Size \$1 Million+

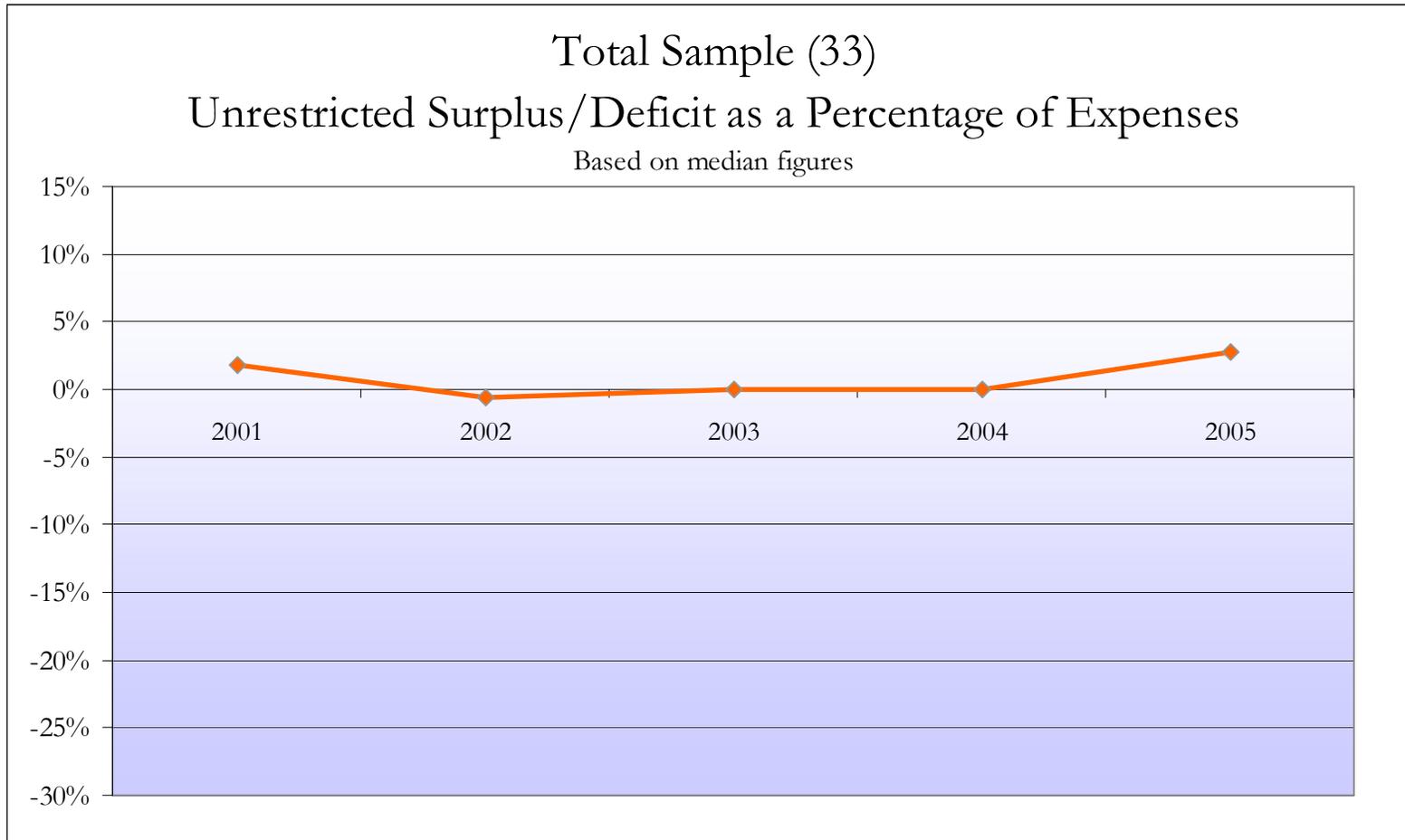


Key Finding #1

Organizations narrowly covered operating expenses on a yearly basis.



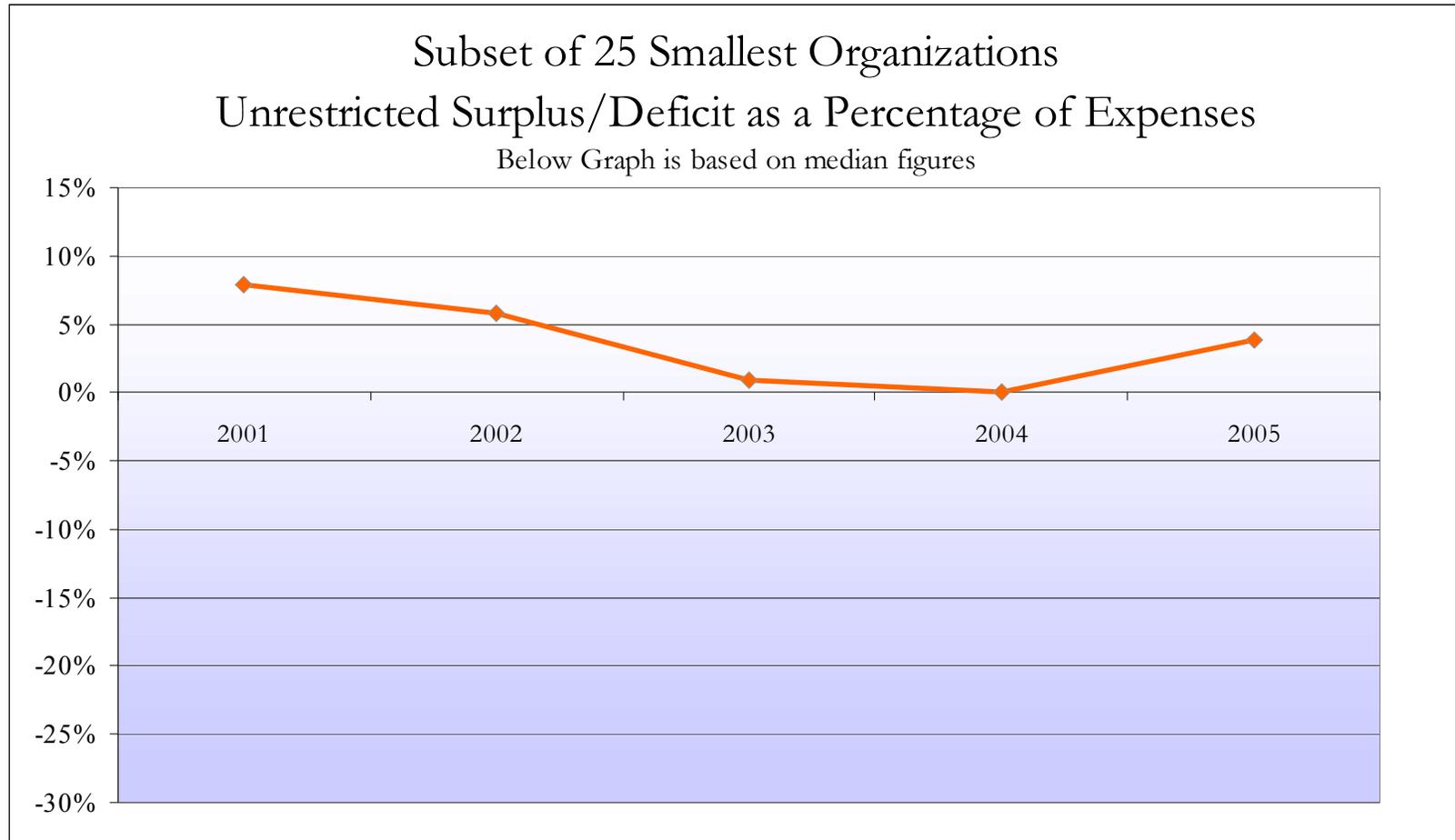
Narrow Margin For Error



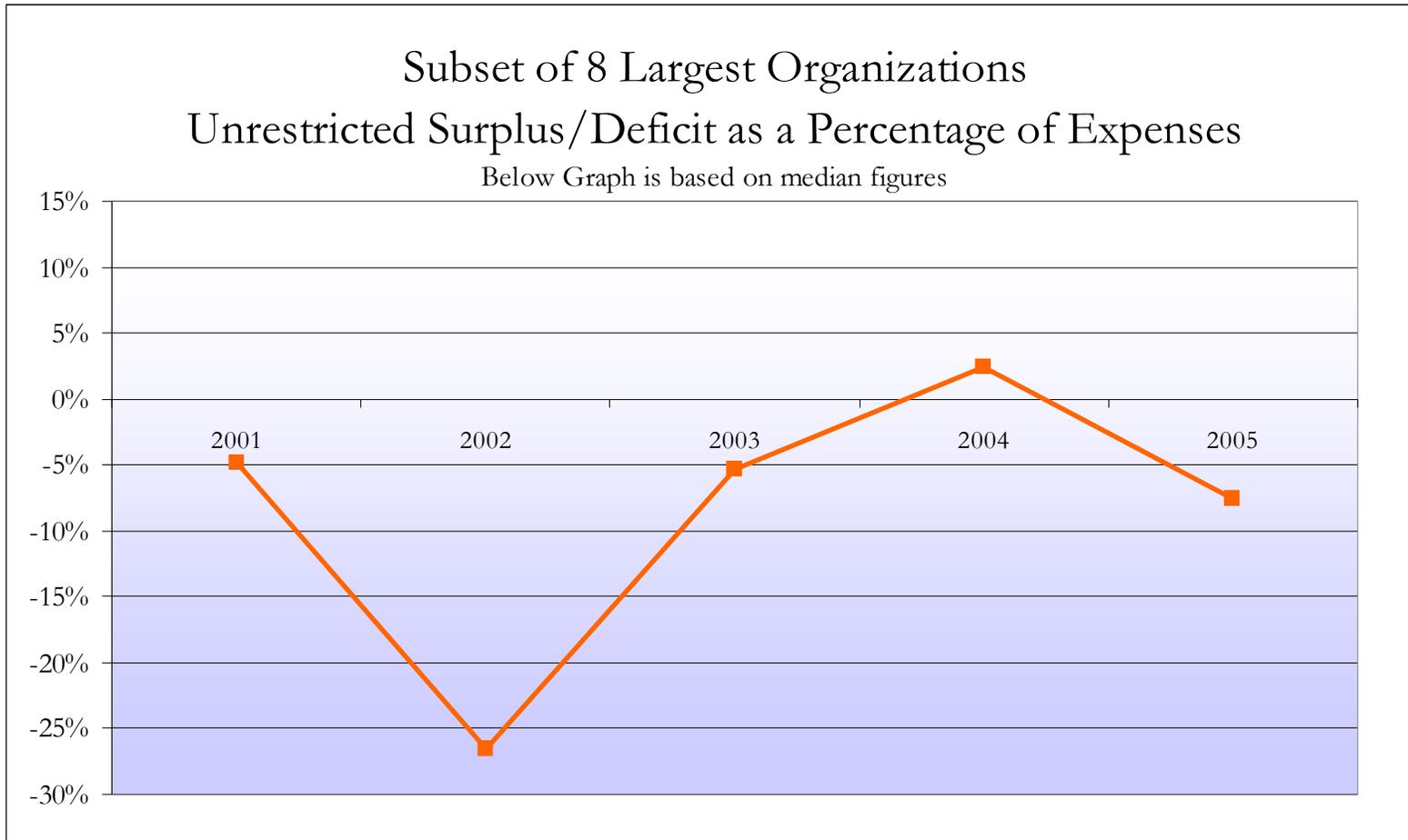
Notes: (1) The “unrestricted surplus/deficit” is defined as the change in unrestricted net assets; (2) In the cases in which organizations did not report restricted categories of net assets, NFF assumed that “total net assets” were unrestricted.



25 Smallest: Slightly Better Results



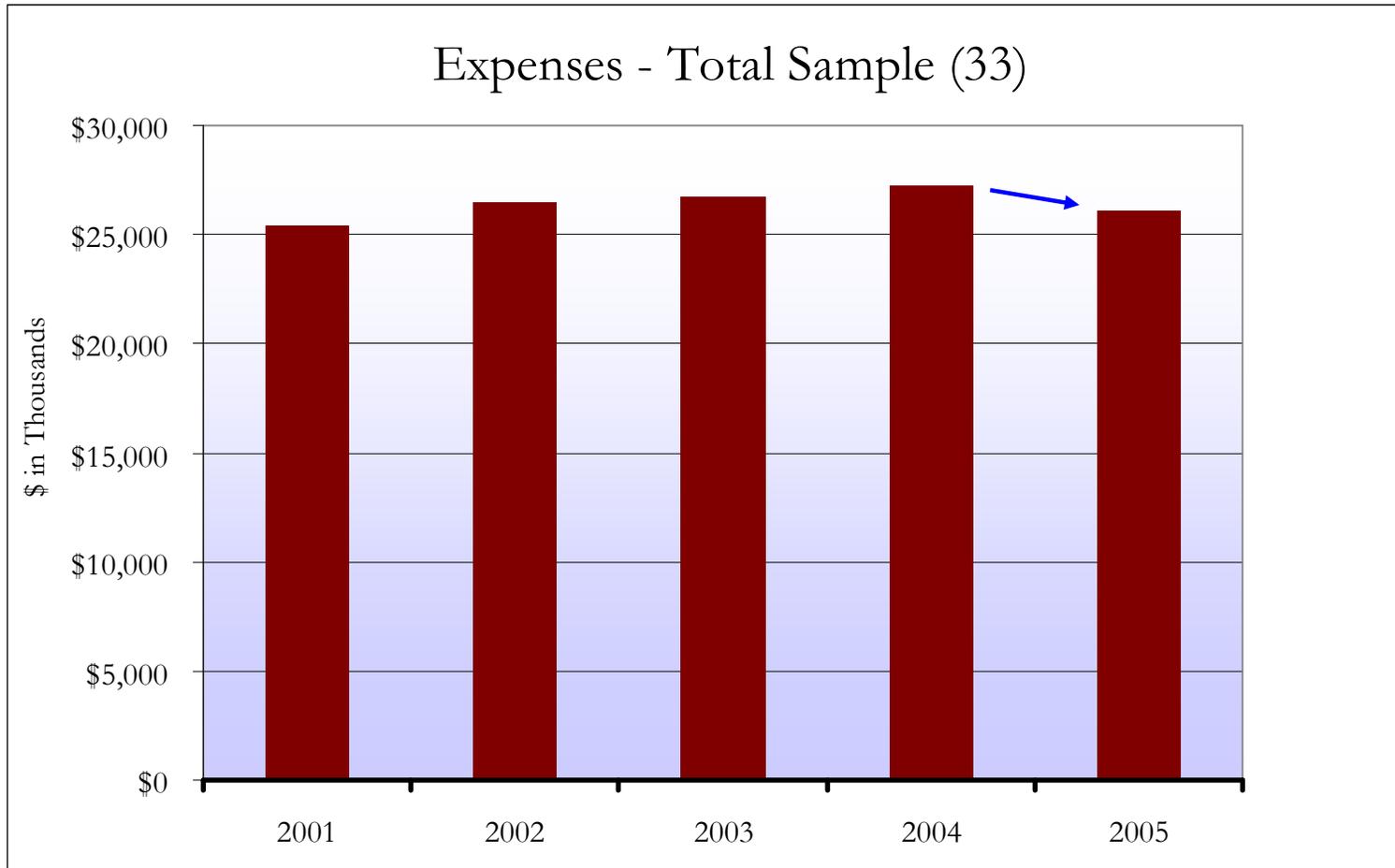
8 Largest: More Severe Struggles



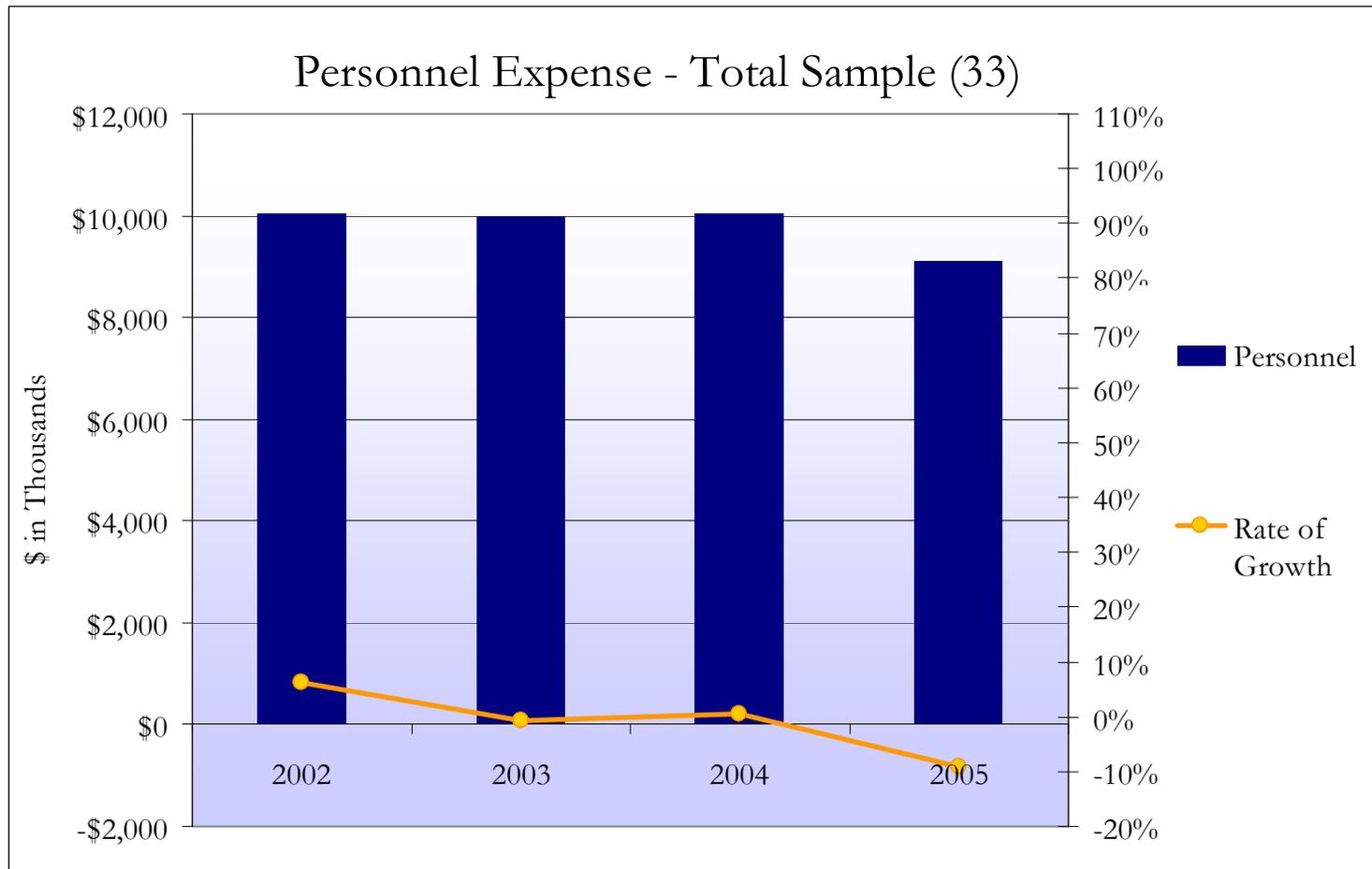
Key Finding #2

Expense growth was less than the rate of inflation. The most prominent area cut was personnel-related expenses.

Total Expenses



Personnel Costs Cut by 9% in 2005



Notes: (1) Another key area of expense reduction in 2005 was "supplies" and "occupancy and maintenance" which both fell by 4% in 2005; (2) As a percentage of total expenses, personnel remained between 35% - 38%.

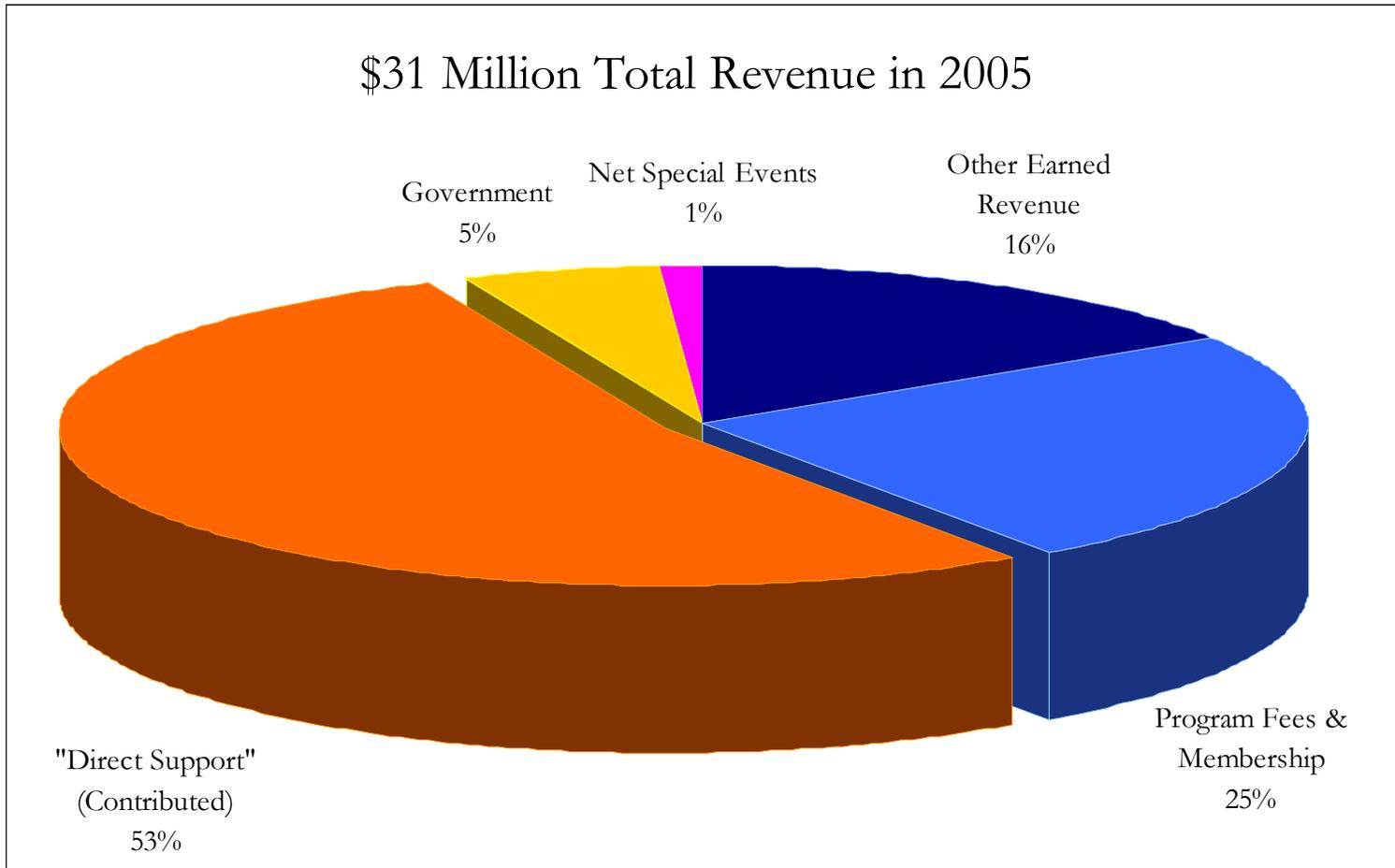


Key Finding #3

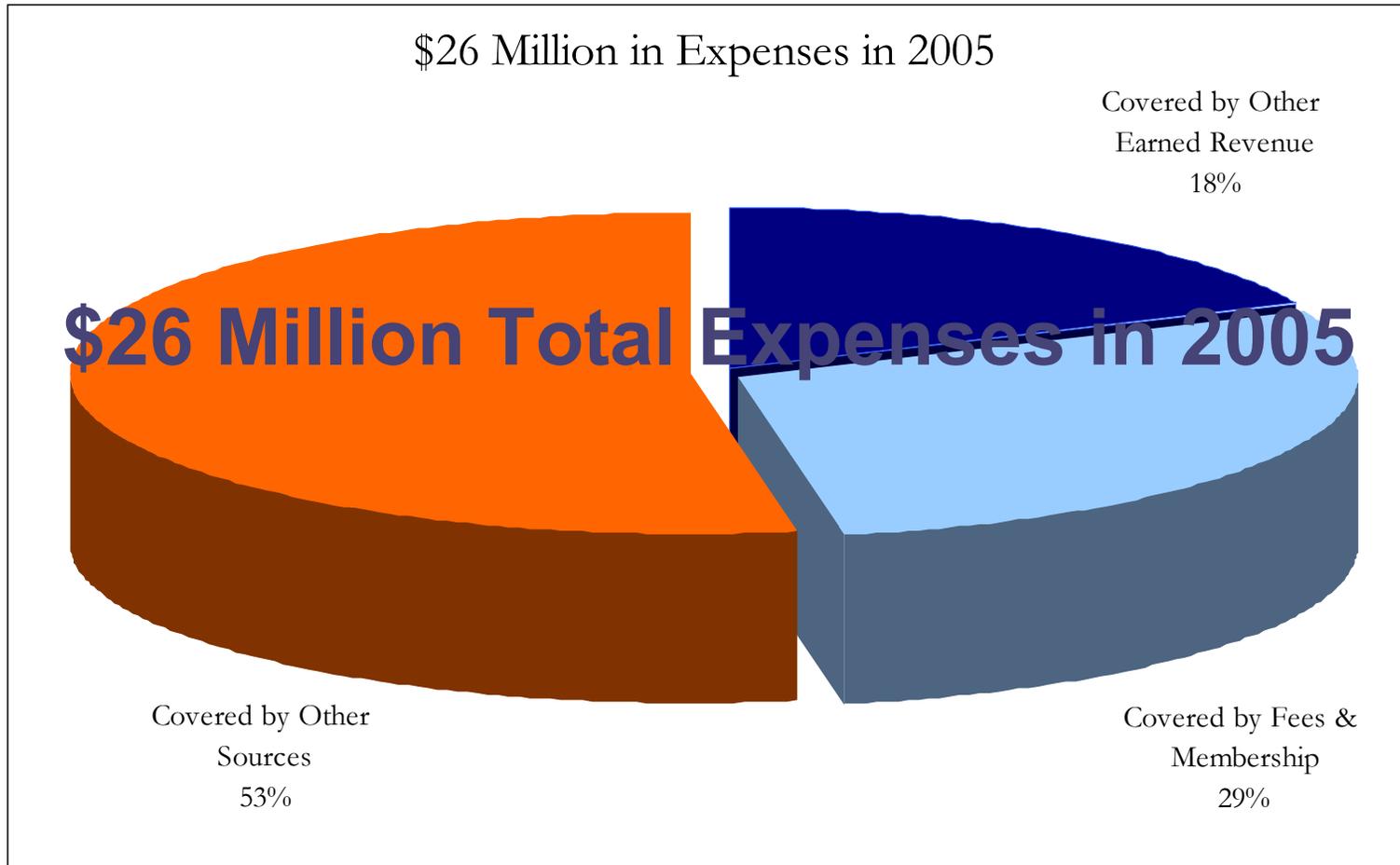
Organizations cannot rely on single-source funding and must generate revenue from a combination of sources to cover annual expenses.



\$31 Million Total Revenue in 2005



Contributed Dollars Covered Half of Total Expenses



Note: Graph is based on aggregate figures.

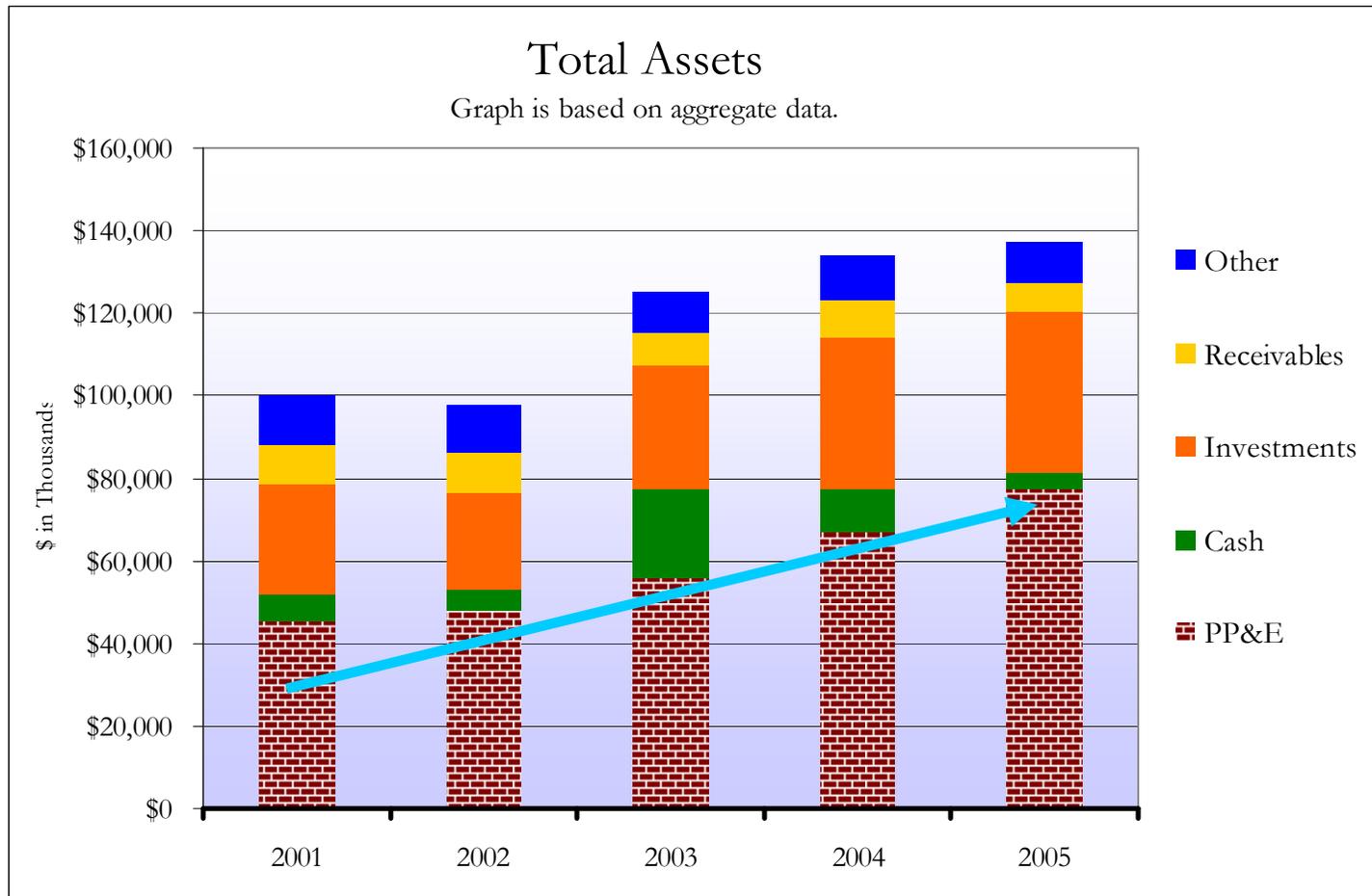


Key Finding #4

While one-half of the sample owned a facility, with few exceptions, there were no new significant facility investments.



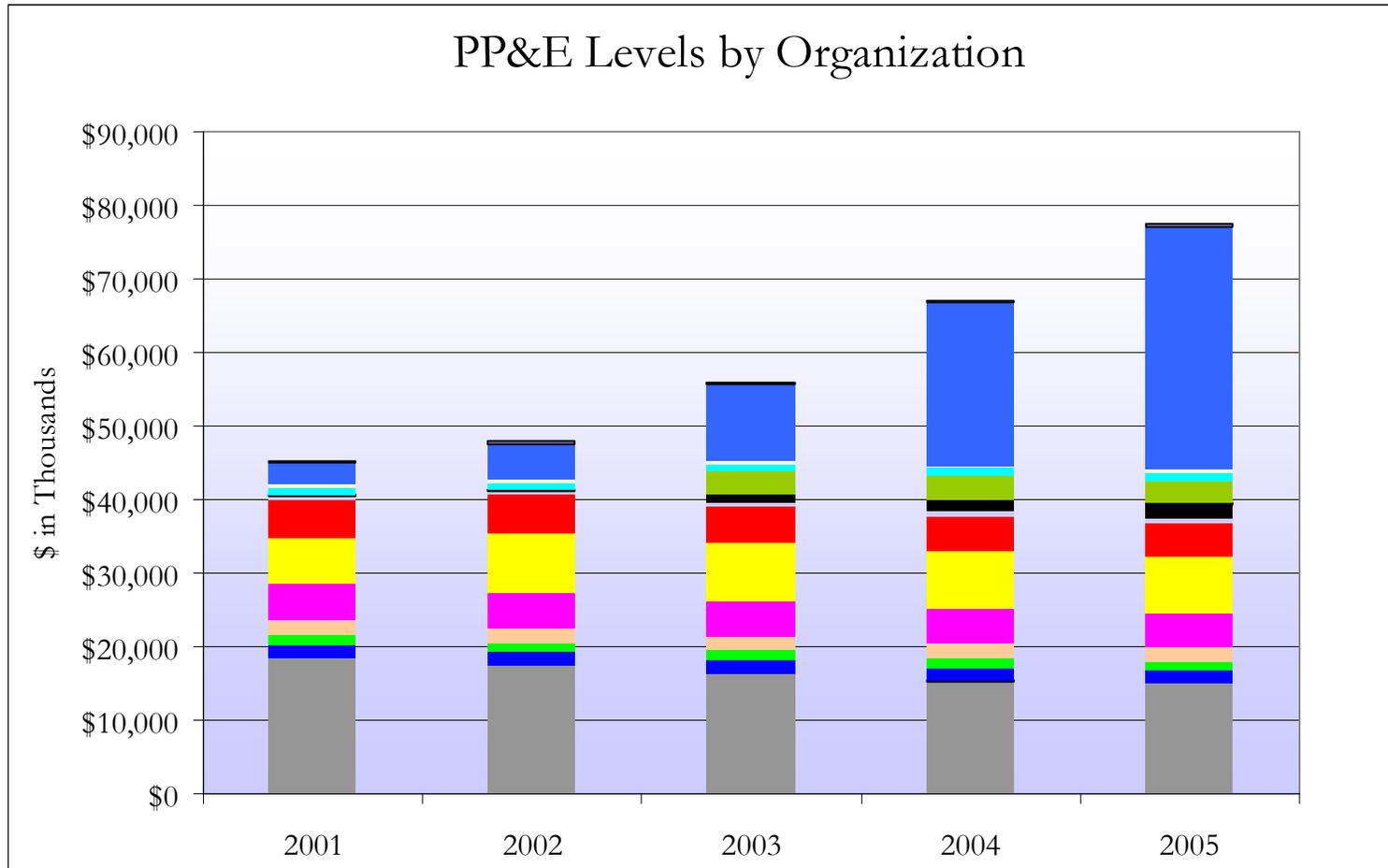
37% Growth of Total Assets



Note: "PP&E" is defined as "property, plant & equipment" and is denoted in bricks above.



Facility Growth Was Driven by 1 Key Player

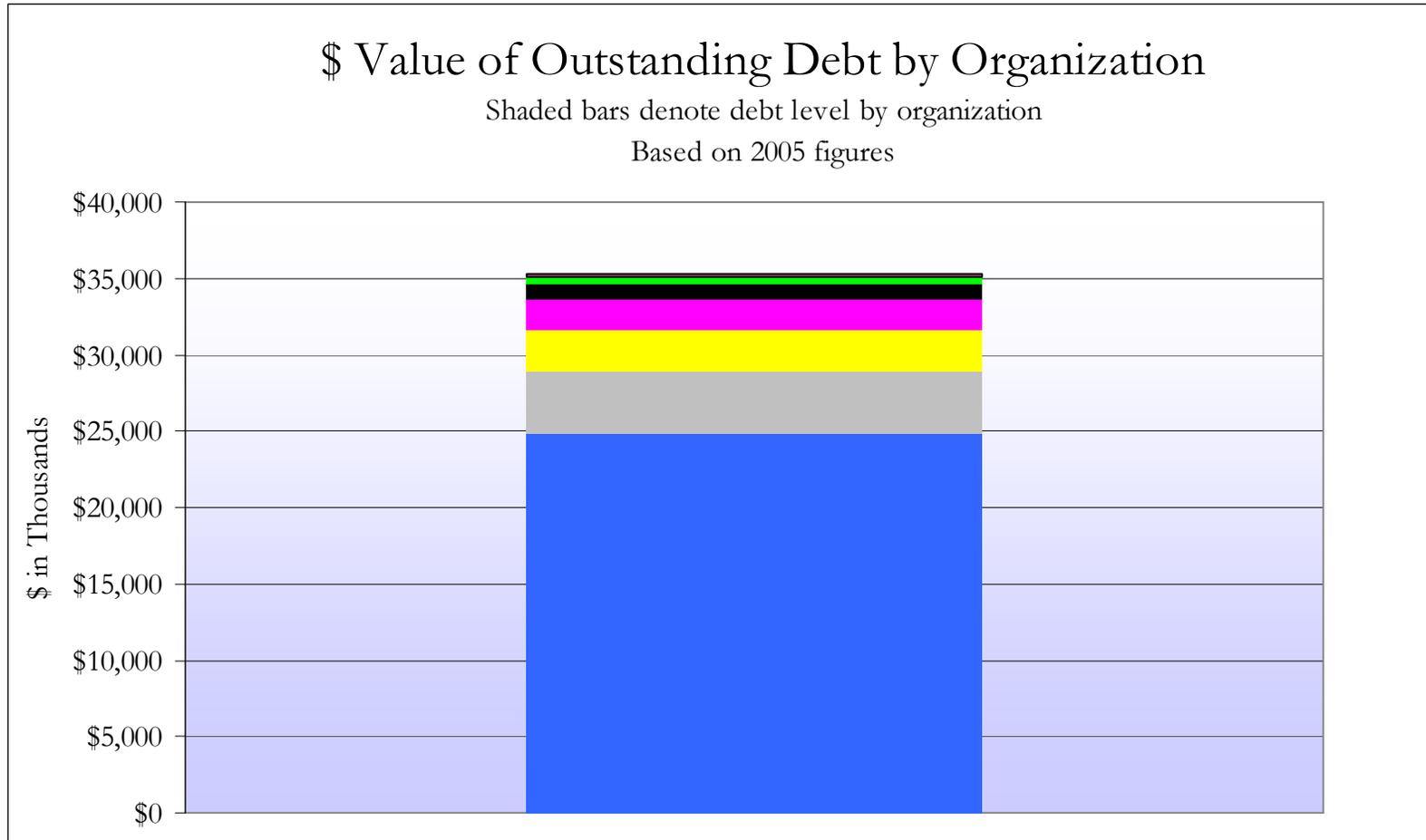


Key Finding #5

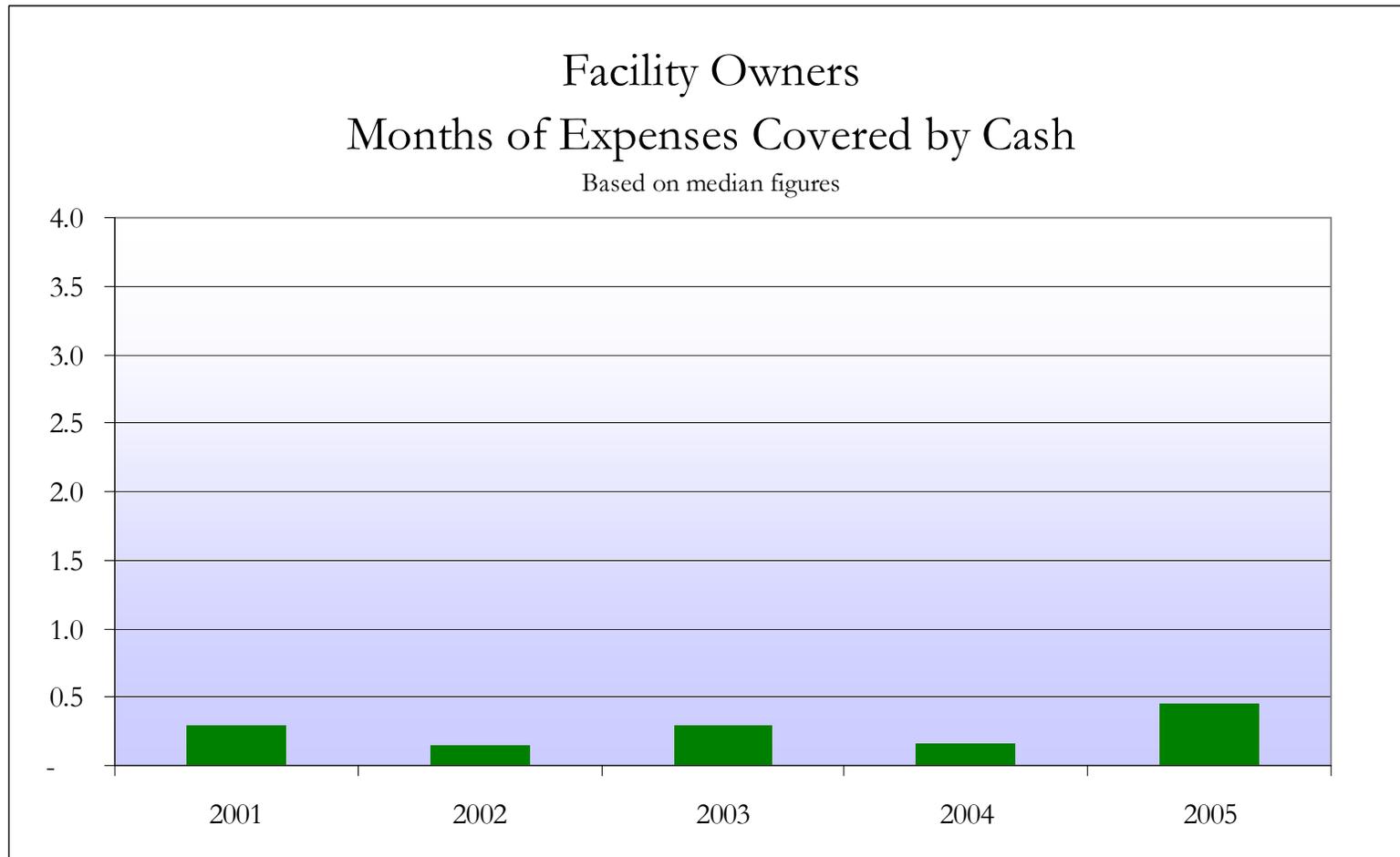
Organizations that owned facilities generated more debt, had less cash on hand, and experienced more financial volatility than those that leased space.



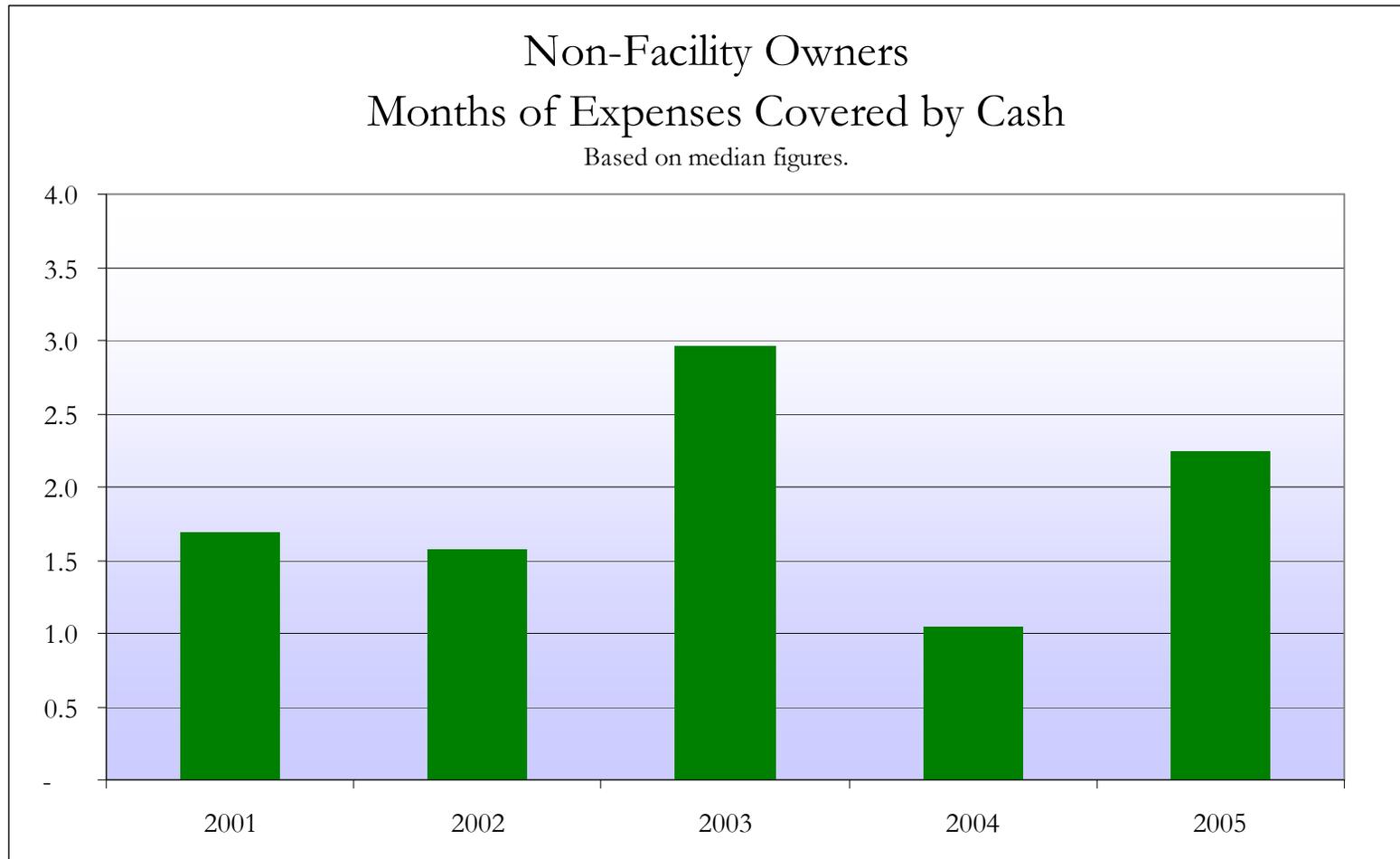
Outstanding Debt



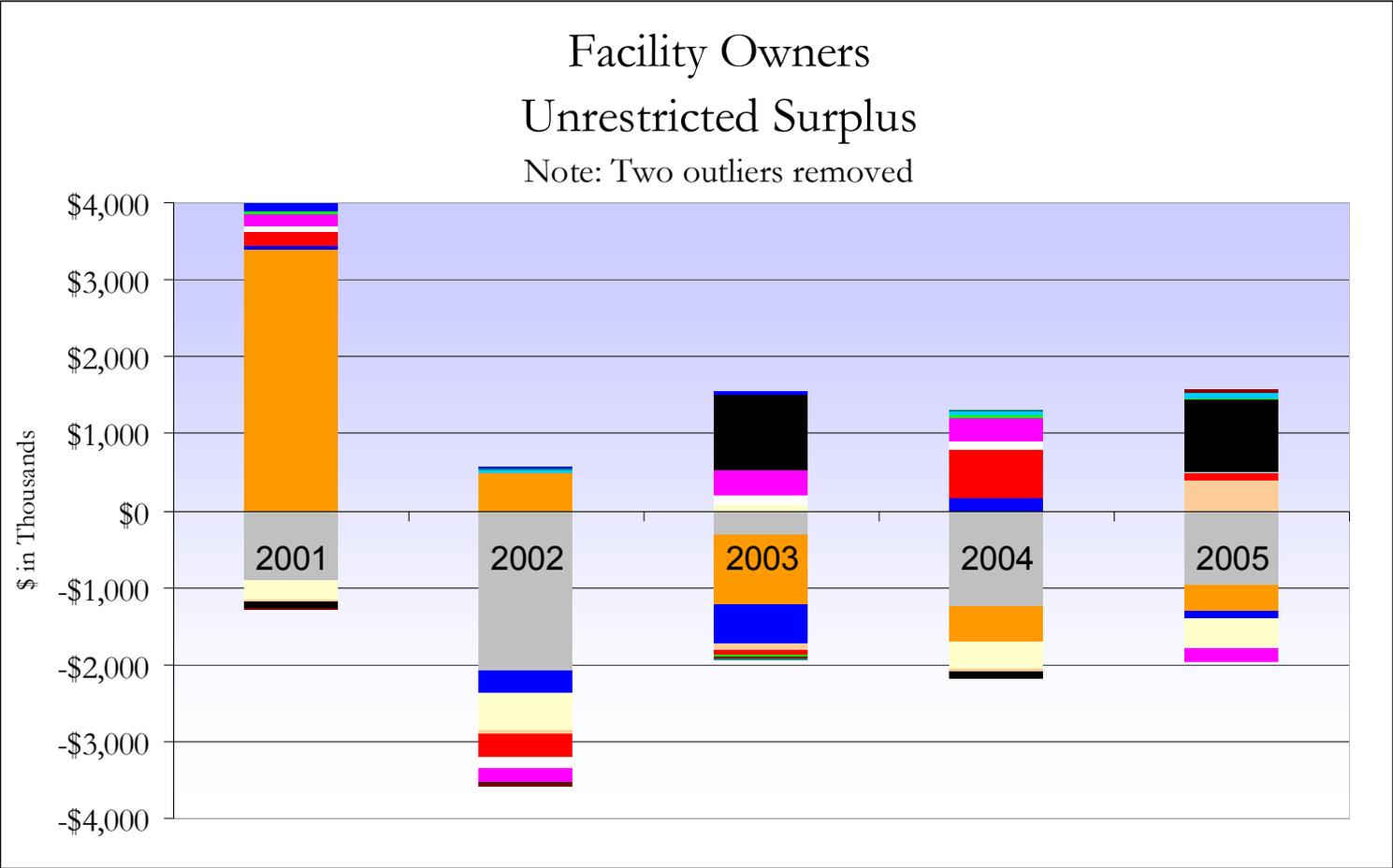
Facility Owners – Cash Cushion



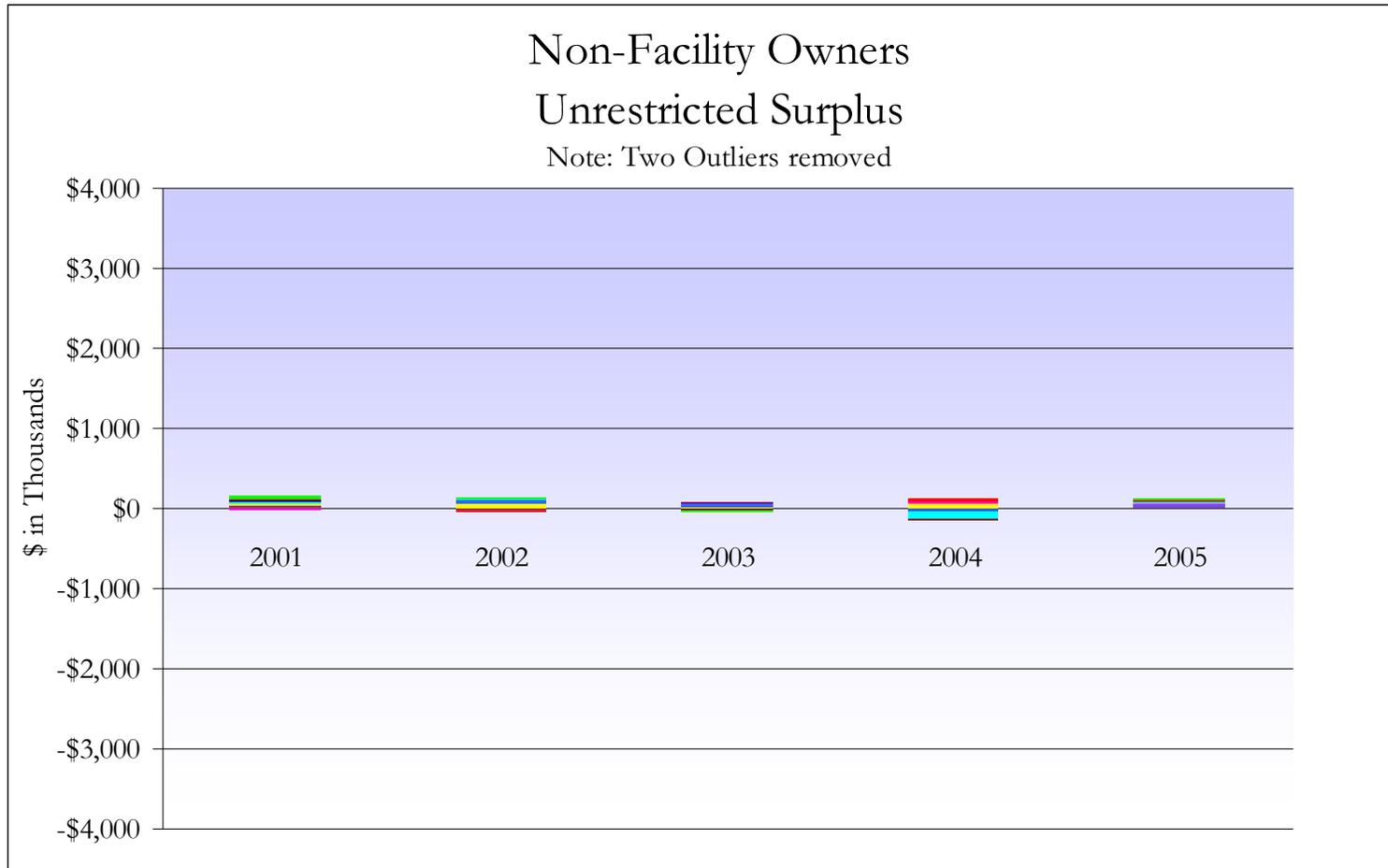
Non-Facility Owners – Cash Cushion



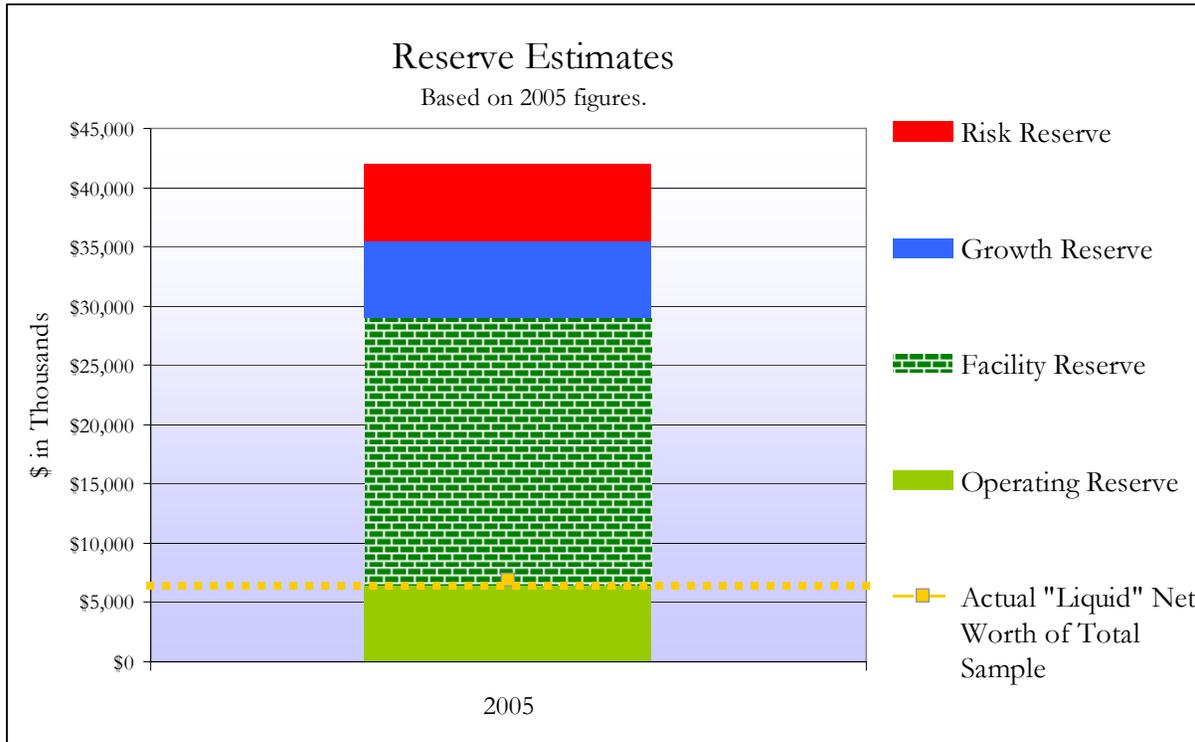
Facility Owners – Unrestricted Surplus



Non-Facility Owners – Unrestricted Surplus



What might it take to fully capitalize the organizations in this study?



In the graph above, NFF removed from the "liquid" net worth calculation any investments restricted to debt covenants.

Based on 2005 figures, one estimate for full capitalization of the 33 organizations in this analysis would be \$42 million (for discussion purposes only). This figure compares to the \$6M in the sample's actual "liquid net worth" at FYE 2005.

CALCULATIONS FOR RESERVE OPTIONS:

Operating Reserve

Equal to 3 months of operating expenses.

Facility Reserve

Equal to value of accumulated depreciation of the total sample.

Growth Reserve

Equal to 3 months of operating expenses.

Risk Reserve

Equal to 3 months of operating expenses.

Questions For Consideration



Questions For Consideration

1. What does Delaware want from its arts community? Who is willing to pay to keep arts organizations strong and sustainable in order to reap the benefits they can offer? How do arts groups compete for funds with those who raise money for other important needs, such as education and human services?
2. Are thin margins hampering innovation and creativity? Have arts organizations cut back too much on capacity?
3. How can potential donors and the organizations themselves be educated to understand the capital needs of the arts world, allowing them to make important financial decisions regarding facility ownership, reserved income, sustainable growth and expanded reach of their services?
4. What additional alternatives need to be explored to support sustainability for the arts? What underlying structural and operational issues need to be addressed in order to build capacity for arts organizations and leverage available funding resources?



Question & Answer



**For more information about NFF, visit our
website:**

nonprofitfinancefund.org

