

**CULTURAL
HERITAGE**

INTRODUCTION TO ACCOUNTING FOR NON ACCOUNTING PEOPLE

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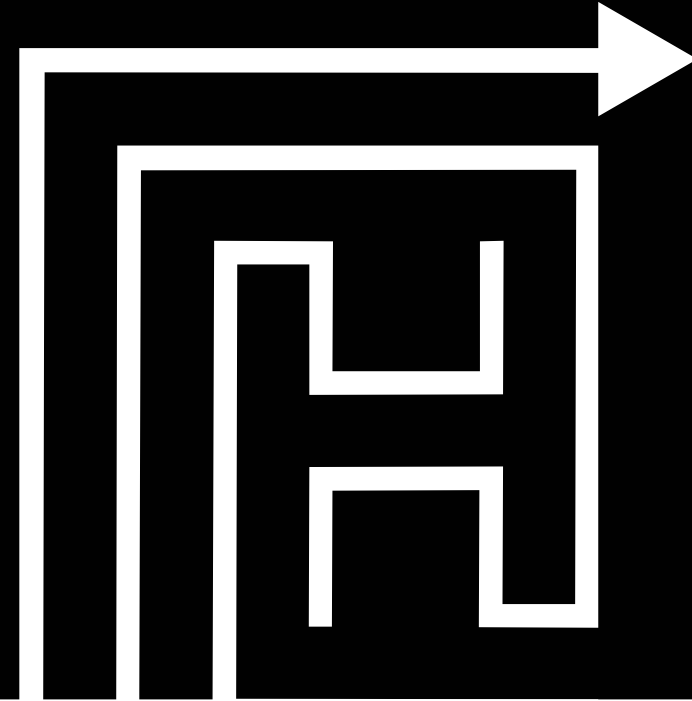


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Nothing is costless

Or can exist without financial resources

Not even in art organizations



A focus on the financial viability of an art organization is fundamental:

- To understand whether/how it sustains itself
- For the external: to assess the solidity, feasibility of an idea; to assess its profitability or its financial resource needs
- For the internal: to make projections and ease decision making



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01



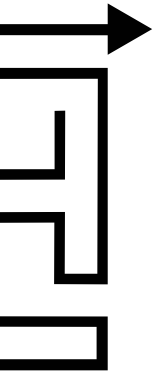
**COSTS
(OR EXPENDITURES)**

Why a focus on costs?

In art organizations (value-based, mission-driven) decisions are often made with little regard for costs.

But art organizations should be planning to generate revenues enough to at least cover costs.

This requires a great deal of skill in controlling costs and wisely using scarce resources.





COST:

**THE MONETARY MEASURE
OF THE RESOURCES EMPLOYED**

(OR TO BE EMPLOYED)

FOR SOME GOAL

Main types of costs

- Fixed costs
- Variable costs



Fixed costs

All those costs whose total amount does not vary with the modifications of the volume of activity realized.



NUMBER OF CAKES SOLD	TOTAL FIXED COST (€ monthly rent)
1	1000 €
2	1000 €
10	1000 €
100	1000 €
200	1000 €

Note: They are not stable. FC may modify in the long run, but for events other than the modifications of the volume of activity (e.g. decisions regarding new hires, increases in rents, technological innovations, etc.)

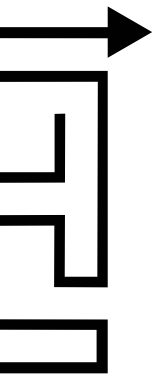
Fixed costs

In practice, for art organizations:

- All those costs that will not change whether you do any performances, or if the museum is not open to the public
- What it takes to keep the organization functioning (all those costs related to the basic operation of the arts organization)



the workspace, rent, equipment, utilities, and core personnel costs, etc...

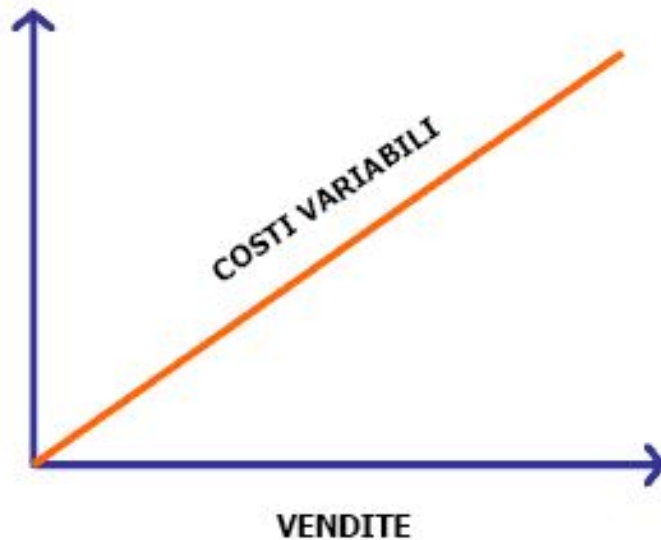


Variable costs

If the activity increases by 10%, then variable costs too increase by 10%

All those costs whose total amount varies proportionally with the volume of activity realized

Note: it should be clear what is the **cost driver**

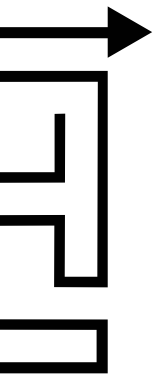


NUMBER OF CAKES SOLD	UNIT VARIABLE COST (€ ingredients/cake)	TOTAL VARIABLE COST
1	2 €	2 €
2	2 €	4 €
10	2 €	20 €
100	2 €	200 €
200	2 €	400 €

Variable costs

In practice, for art organizations:

- are typically those costs incurred in support of the programming.
- When performers, technicians, designers, and other specialized staff are hired for a given production, project, or event (assuming a season of several shows or exhibitions) these costs are variable according to the volume of activity (e.g. number of rehearsals/number of performances/number of opening days, etc.)
- The variability lies in the fact that you control these costs by selecting the scope and scale of the production For example, if you decide to do an opera with a large chorus you would increase your personnel costs.



Variable costs

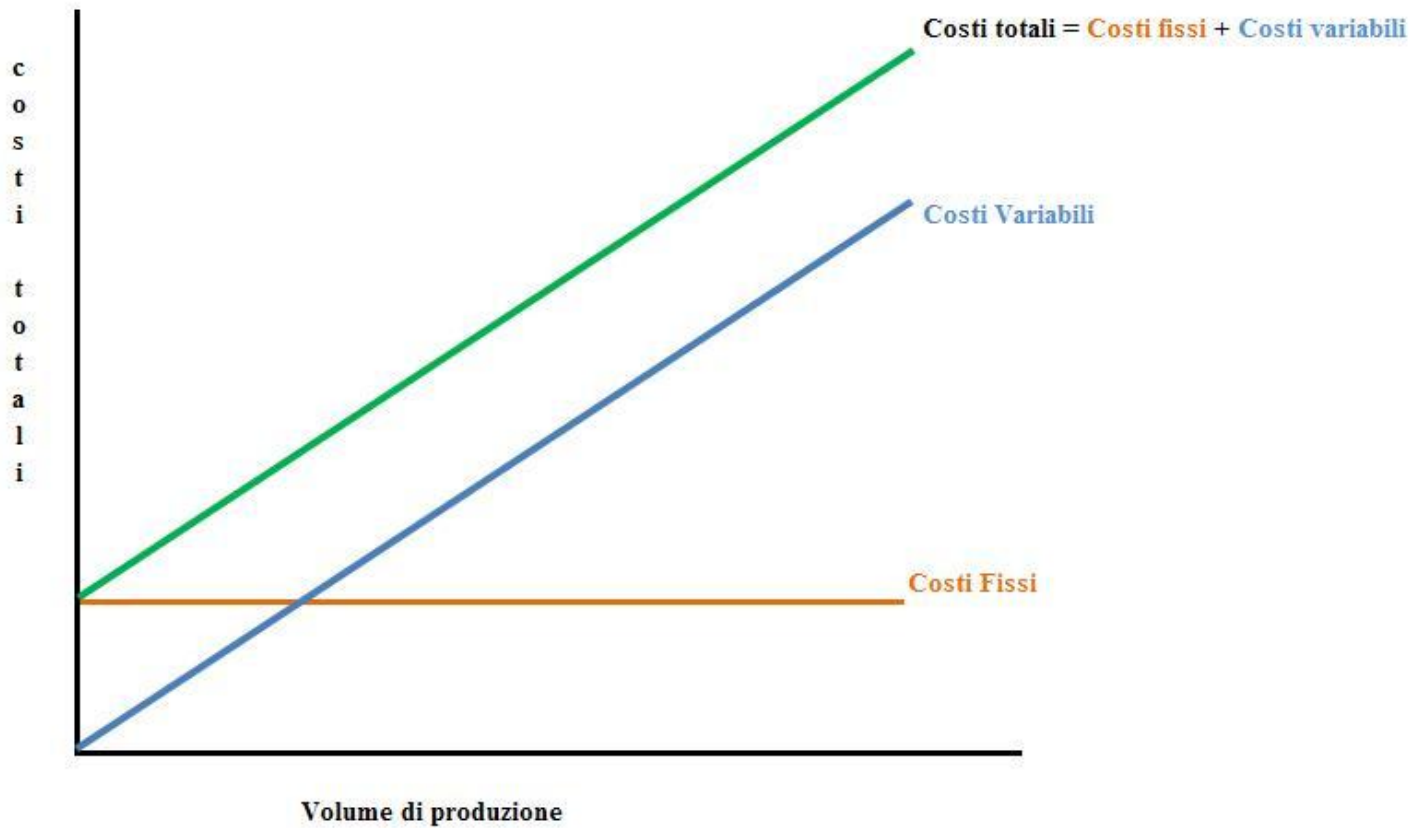
In practice, for art organizations:

- are typically those costs incurred in support of the production of a work of art
- When performers, technicians, designers, and other personnel are hired for a given production, project, or event (as in the case of theatrical productions or exhibitions) these costs are variable according to the number of rehearsals/number of performances.
- The variability lies in the fact that you control these costs by selecting the scope and scale of the production. For example, if you decide to do an opera with a large chorus you would increase your personnel costs.

Exemplary VC for a performing art company:

- ✓ Materials for the scenery
- ✓ Costumes
- ✓ Phone calls
- ✓ Paint
- ✓ Labour to produce the show... (e.g. hired actors, technicians, etc.)

Fixed + variable costs



02



**REVENUES
(OR INCOME)**



REVENUE:

THE MONEY GENERATED

FROM NORMAL OPERATIONS

(SALES OF GOODS OR SERVICES)

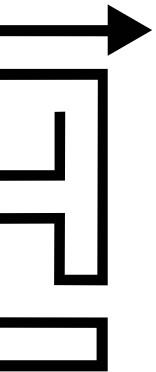
OR OTHER SOURCE OF INCOME

Revenue streams

- Many art organizations operate without making enough money to sustain themselves from the revenues collected solely from admissions to performances/exhibitions/other services
- Often deliberately underprice their product, because they make what they do more widely available and affordable to people in the community
- Their «business» is essentially to fulfill their cultural mission



Revenues from normal operations
(sales) cannot suffice



Revenue streams

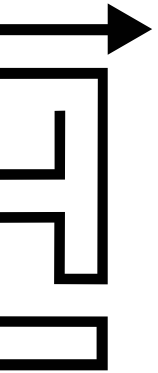
Sales

Tickets (subscriptions, single tickets, group tickets, family tickets...)

Fees for service

Membership dues

BUT ALSO...



Revenue streams

Sales

Tickets (subscriptions, single tickets, group tickets, family tickets...)
Fees for service
Membership dues

BUT ALSO...

Other earned income

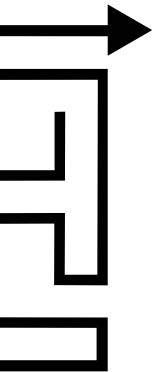
Sales of products/services (e.g. from gift shop or cafeteria)
Space/equipment rentals
Education

Public funding

Grants and contracts (direct contributions to specific activities and programmes)
Transfers (mandated by law, general support)
Indirect payments (reimbursement for services, tax exemptions, vouchers...)

Private giving (donations)

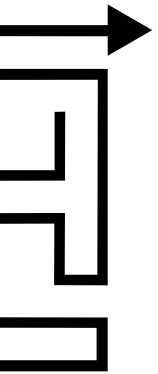
Foundation giving
Corporate sponsorships
Individual giving



Revenue streams

These are different **mechanisms** of revenue generation for art organizations.

Each mechanism, moreover, can tap on more or less **sources** of revenue.

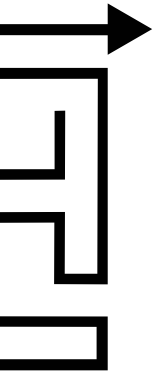


Revenue streams

HOW

FROM
HOW
MANY?

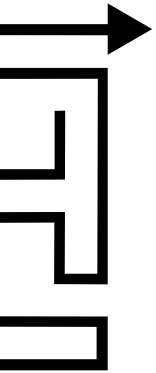
	Mechanisms	Sources
A. Market -based	A1. Sales of goods and services to the general public**	Portfolio of customers involved/ number of goods or services offered
	A2. Fees from the beneficiaries of the social enterprise	Portfolio of beneficiaries with purchasing power/types of fees considered
	A3. Cause-related marketing	Existing campaigns/number of products and services included in these
B. Non-market	B1. Donations in cash or in-kind	Base of donors (personal, company, multilateral)
	B2. Public resources (credit lines, contracts for service provision, contributions or subsidies)	Foreign, national, state and local governments
	B3. Internal budget from companies (generation or mobilization of resources unlinked to the SE)	Business units or subsidiaries that constitute part of the financing scheme



Revenue streams

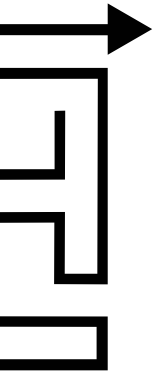
The diversification/dependence matrix

MECHANISMS	Diversification	Moderate Diversification	Significant Diversification
	Dependence	Significant Dependence	Moderate Dependence
		Dependence	Diversification
		SOURCES	



Revenue streams

- Economic value may enhance cultural value
- Revenue streams can show **dependent** patterns (relying only on one or very few different mechanisms and sources) or **diversified** patterns (relying on several mechanisms and several sources)
- Dependency is (almost) always a weakness □ what if that mechanism or source or revenue suddenly disappears?
- Diversification of revenue mechanisms and sources is advisable to reduce risk
- ... but too much diversification could bring the art organization adrift □ art organizations should always consider the alignment between their revenue strategy and their core mission/value proposition



03



**RELATING COSTS TO
REVENUES**

Careful financial management is of vital importance for art organizations.

We overviewed costs and revenues structures in art organizations

□ let's look now at how they relate and what for

- Budgeting
- Break-even analysis





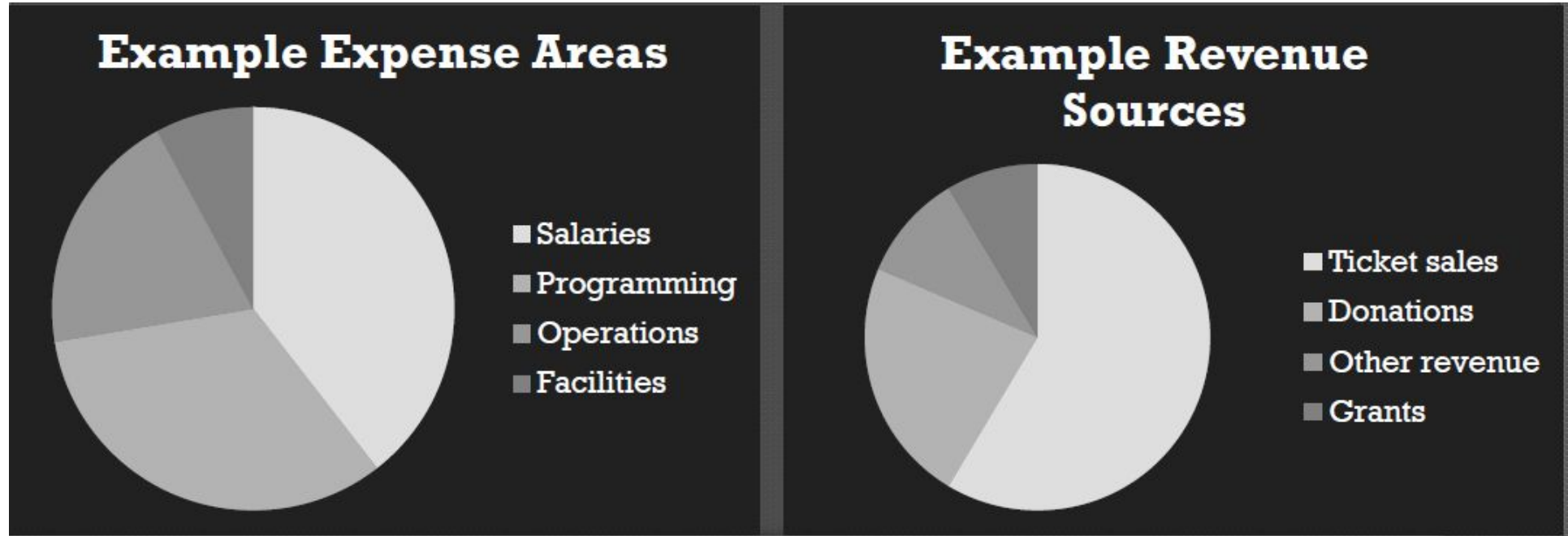
BUDGETING:

THE FUNCTION OF PROGRAMMING

QUANTITATIVE TARGETS

(TYPICALLY OF COSTS AND REVENUES)

Which costs and revenues items for an art org?



Source: Byrnes, W. (2014). *Management and the Arts*. Routledge

Budget Structure

Budgets are typically created to integrate with the accounting system used by an organization. Chapter 10 will go into more detail on this, but there is a relationship between what is called the Chart of Accounts and the budget.

Elements of budget

- Income sources from sales other revenue streams
- Separate line item estimates for donations followed by grants
- Summary expenses are shown, but typically organized around chart of accounts and functional areas (e.g. marketing, production, etc.)

Summary Budget - Theater Company				
INCOME	Current Year Budget	Proposed Budget Next Fiscal Year	\$ Change	% Change
Subscription Ticket Sales	817,000	970,000	153,000	18.7%
Single Ticket Sales	602,000	600,000	(2,000)	-0.3%
Group Sales	58,000	60,000	4,000	7.1%
SUBTOTAL Sales	1,475,000	1,630,000	155,000	10.5%
Advertising	77,000	85,000	8,000	10.4%
Concessions	58,000	65,000	9,000	16.1%
Gift Shop Income	15,000	14,000	(1,000)	-6.7%
Postage	16,000	23,000	7,000	43.8%
Costume & Scenery Rentals	3,500	2,500	(1,000)	-28.6%
Space/Equipment Rentals	7,000	5,000	(2,000)	-28.6%
Education	5,200	8,000	2,800	53.8%
Miscellaneous	6,500	5,000	(1,500)	-23.1%
Surcharges on Ticket Sales	17,000	18,000	1,000	5.9%
SUBTOTAL Other Income	203,200	225,500	22,300	11.0%
TOTAL EARNED INCOME	1,678,200	1,855,500	177,300	10.6%
DONATED INCOME	Current Budget	Proposed	\$ Change	% Change
Individuals	250,000	300,000	50,000	20.0%
Corporations	100,000	125,000	25,000	25.0%
Foundations	100,000	125,000	25,000	25.0%
Producers	75,000	100,000	25,000	33.3%
Special Events	205,000	250,000	45,000	22.0%
Matching Contributions	250,000	300,000	50,000	20.0%
TOTAL DONATED INCOME	980,000	1,200,000	220,000	22.4%
GOVERNMENT FUNDING	Current Budget	Proposed	\$ Change	% Change
State Grants	48,000	45,000	(3,000)	-6.3%
Community Grants	94,000	100,000	6,000	6.4%
Federal Grants	0	0	0	
TOTAL GOVT FUNDING	142,000	145,000	3,000	2.1%
TOTAL INCOME	2,800,200	3,200,500	400,300	14.3%
EXPENSES	Current Budget	Proposed	\$ Change	% Change
Artistic Salaries/Fees/Expens	872,045	1,080,000	187,955	21.6%
Technical Salaries/Fees/Expe	615,907	665,000	49,093	8.0%
Production Cost	139,669	150,000	10,331	7.4%
Administrative Salaries/Fees/E	152,409	160,000	7,591	5.0%
Marketing Salaries and Expen	542,522	652,500	109,978	20.3%
Development Salaries and Exp	162,942	192,500	29,558	18.1%
Special Events & Receptions	128,000	88,000	(40,000)	-31.3%
Concessions	35,858	40,000	4,142	11.6%
Gift Shop Expenses	6,435	6,500	65	1.0%
Occupancy (Utilities, etc.)	70,352	75,000	4,648	6.6%

Budget Distribution by Projects

INCOME	Current Year					TOTAL
	Regular Season	Touring	Education Program	Building Fund	Special Events	
Subscription Ticket Sales	617,500	163,500	0	0	0	817,000
Single Ticket Sales	48,500	120,400	0	0	0	602,000
Group Sales	36,400	11,200	8,400	0	0	56,000
Advertising	61,500	15,400	0	0	0	77,000
Concessions	47,500	8,400	0	0	0	56,000
Gift Shop Income	12,000	3,000	0	0	0	15,000
Interest	12,800	3,200	0	0	0	16,000
Costume & Scenery Rentals	3,500	0	0	0	0	3,500
Space/Equipment Rentals	7,000	0	0	0	0	7,000
Education	0	0	5,200	0	0	5,200
Miscellaneous	6,500	0	0	0	0	6,500
Surcharges on Ticket Sales	12,000	0	0	0	5,000	17,000
SUBTOTAL	1,334,500	325,100	13,600	0	5,000	1,678,200
DONATIONS & GOVT FUNDING						
Individuals	100,000	0	0	50,000	100,000	250,000
Corporations	45,000	25,000	25,000	5,000	0	100,000
Foundations	40,000	10,000	40,000	10,000	0	100,000
Co-producers	45,000	15,000	15,000	0	0	75,000
Special Events	0	0	0	0	205,000	205,000
Matching Contributions	200,000	50,000	0	0	0	250,000
State Grants	0	25,000	23,000	0	0	48,000
City/County Grants	29,000	30,000	36,000	0	0	94,000
Federal Grants	0	0	0	0	0	-
SUBTOTAL	459,000	155,000	138,000	65,000	305,000	1,122,000
TOTAL	1,793,500	480,100	151,600	65,000	305,000	2,800,200

Budget with project areas

To better track programmatic expenses by functional or project areas, a budget can be created that shows revenue and cost allocations across the organization. This budget also has a variance section showing surpluses or (deficits).

Column for regular season revenue and expenses

Cost allocations by areas (touring, education, building, etc.)

Variance report shows (deficit) in education, but overall budget shows a surplus

EXPENSE	Current Year					TOTAL
	Regular Season	Touring	Education Program	Building Fund	Special Events	
Artistic Salaries/Fees	557,745	175,000	110,800	0	8,500	872,045
Technical Salaries/Fees	389,407	125,000	95,000	0	6,500	615,907
Production Cost	95,569	28,000	15,000	0	-	139,669
Administrative Salaries/Fees	64,059	30,500	16,000	7,600	16,250	152,409
Marketing Salaries & Expenses	425,000	102,000	10,000	0	5,522	542,522
Development Sal. & Expenses	72,942	10,000	5,000	10,000	65,000	152,942
Special Events & Receptions	9,000	0	0	12,000	107,000	128,000
Concessions	35,858	0	0	0	0	35,858
Gift Shop Expenses	3,735	1,200	-	0	1,500	6,435
Occupancy (Utilities, etc.)	70,352	-	-	-	-	70,352
Contingency	25,051	1,500	1,500	0	3,500	33,551
TOTAL EXPENSES	2,169,358	475,200	272,300	29,600	212,772	2,759,700

Source: Byrnes, W. (2014). *Management and the Arts*. Routledge



BREAK-EVEN POINT:

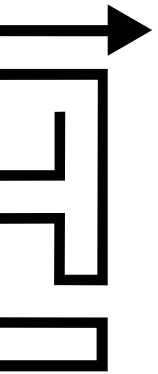
THE AMOUNT OF ACTIVITY

IN CORRESPONDENCE TO WHICH

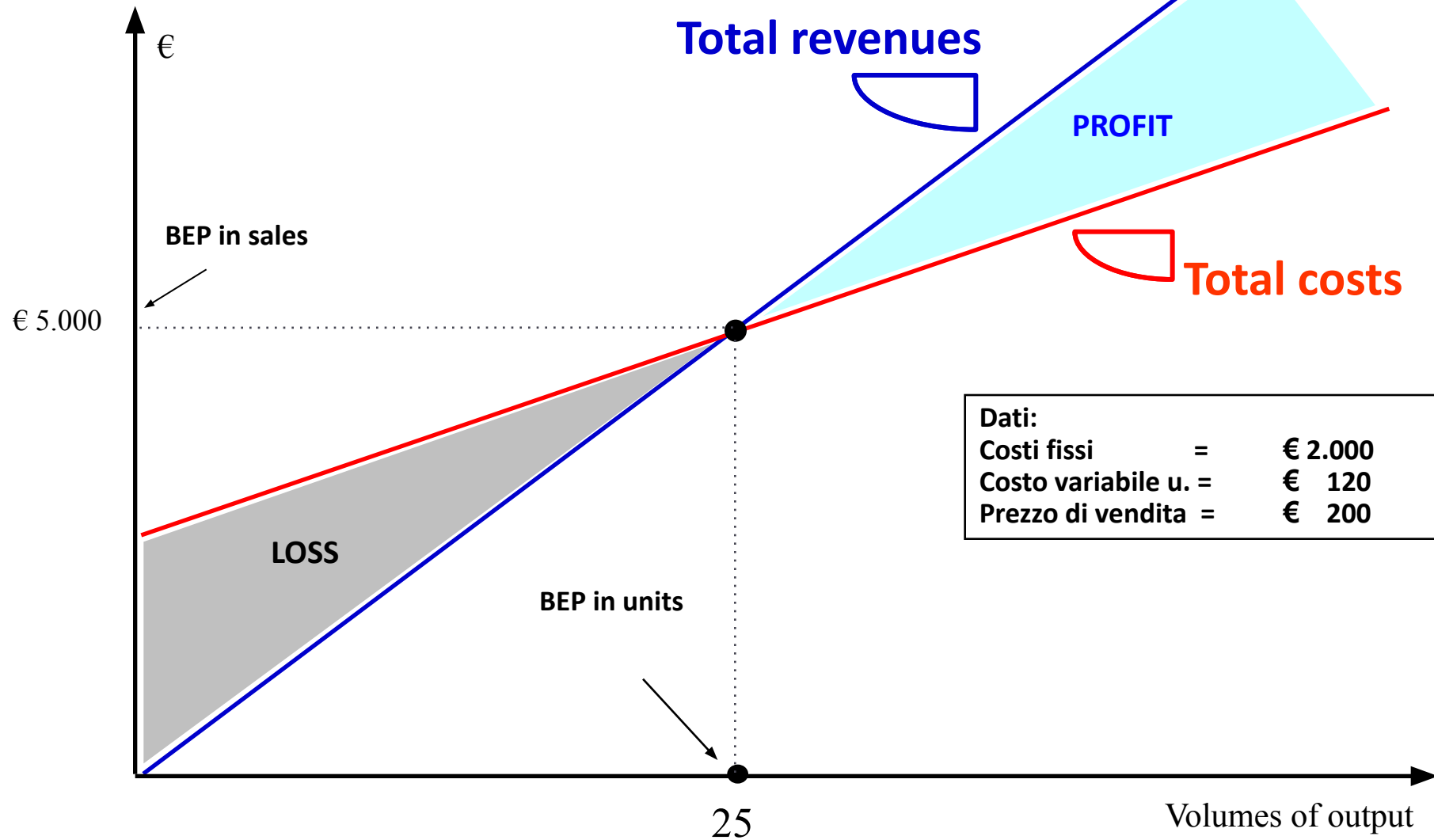
TOTAL REVENUES = TOTAL COSTS

BREAK-EVEN POINT (BEP)

- If I realize lower volumes of activity (e.g. less shows than the BEP), I incur in a **LOSS**
- if I realize higher volumes of activity (e.g. more shows than the BEP), I generate a **PROFIT**



BREAK-EVEN POINT (BEP)



BREAK-EVEN POINT

An example of a performing art group that charges 14\$ to an event in a 500 seat theatre that sells an average of 60% of its seating capacity.

Most of its costs are fixed (25,000 \$ of salaries, stage facilities, building, etc.). Only a small portion of its cost varies with the number of performances (variable costs amounts are hypothetical – e.g. lights, cleanings, security).

What is relevant to note?

Production Profit and Loss

(Assumes \$14/ tkt)

Output - # Perfs	Fixed Costs (FC)	Variable Costs (VC)	Total Costs (TC) = (FC)+(VC)	Avg Cost (AC) = (TC)/Output	Total Rev @ 60% cap of 500 seats	Profit or (Loss)
1	\$ 25,000	\$ 500	\$25,500	\$25,500	\$ 4,200	\$ (21,300)
2	\$ 25,000	\$ 750	\$25,750	\$12,875	\$ 8,400	\$ (17,350)
3	\$ 25,000	\$ 1,250	\$26,250	\$8,750	\$ 12,600	\$ (13,650)
4	\$ 25,000	\$ 2,000	\$27,000	\$6,750	\$ 16,800	\$ (10,200)
5	\$ 25,000	\$ 3,000	\$28,000	\$5,600	\$ 21,000	\$ (7,000)
6	\$ 25,000	\$ 4,250	\$29,250	\$4,875	\$ 25,200	\$ (4,050)
7	\$ 25,000	\$ 5,750	\$30,750	\$4,393	\$ 29,400	\$ (1,350)
Profit point begins at the eighth performance						
8	\$ 25,000	\$ 6,500	\$31,500	\$3,938	\$ 33,600	\$ 2,100
9	\$ 25,000	\$ 7,500	\$32,500	\$3,611	\$ 37,800	\$ 5,300
10	\$ 25,000	\$ 8,800	\$33,800	\$3,380	\$ 42,000	\$ 8,200
11	\$ 25,000	\$ 10,000	\$35,000	\$3,182	\$ 46,200	\$ 11,200
12	\$ 25,000	\$ 11,500	\$36,500	\$3,042	\$ 50,400	\$ 13,900
13	\$ 25,000	\$ 13,000	\$38,000	\$2,923	\$ 54,600	\$ 16,600
14	\$ 25,000	\$ 14,500	\$39,500	\$2,821	\$ 58,800	\$ 19,300
15	\$ 25,000	\$ 14,500	\$39,500	\$2,633	\$ 63,000	\$ 23,500
16	\$ 25,000	\$ 14,500	\$39,500	\$2,469	\$ 67,200	\$ 27,700
17	\$ 25,000	\$ 14,500	\$39,500	\$2,324	\$ 71,400	\$ 31,900
18	\$ 25,000	\$ 14,500	\$39,500	\$2,194	\$ 75,600	\$ 36,100
19	\$ 25,000	\$ 14,500	\$39,500	\$2,079	\$ 79,800	\$ 40,300
20	\$ 25,000	\$ 14,500	\$39,500	\$1,975	\$ 84,000	\$ 44,500

Note: Variable costs are hypothetical

Source: Byrnes, W. (2014). *Management and the Arts*. Routledge

BREAK-EVEN POINT

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Only after 8 performances, the group begins to make more money than its costs to produce each performance of the event

Note: Variable costs are hypothetical

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BREAK-EVEN POINT

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16	\$ 25,000	\$ 14,500	\$39,500	\$2,469	\$ 67,200	\$ 27,700
17	\$ 25,000	\$ 14,500	\$39,500	\$2,324	\$ 71,400	\$ 31,900
18	\$ 25,000	\$ 14,500	\$39,500	\$2,194	\$ 75,600	\$ 36,100
19	\$ 25,000	\$ 14,500	\$39,500	\$2,079	\$ 79,800	\$ 40,300
20	\$ 25,000	\$ 14,500	\$39,500	\$1,975	\$ 84,000	\$ 44,500
Note: Variable costs are hypothetical						

After 16 performances, the group begins to makes more money than the original investment of 25,000 \$ FC + 500 \$ VC

BREAK-EVEN POINT

Average cost (or unit cost = TC/output) go down significantly as the number of performances goes up

An example of a performing art group that charges 14\$ to an event in a 500 seat theatre that sells an average of 60% of its seating capacity.

Most of its costs are fixed (25,000 \$ of salaries, stage facilities, building, etc.). Only a small portion of its cost varies with the number of performances (variable costs amounts are hypothetical – e.g. lights, cleanings, security).

What is relevant to note?

		Production Profited/Loss		(Assumes \$14/ tkt)	
	Total Costs (TC) = (FC)+(VC)	Avg Cost (AC) = (TC)/Output	Total Rev @ 60% cap of 500 seats	Profit or (Loss)	
	\$ 25,500	\$ 25,500	\$ 4,200	\$ (21,300)	
	\$ 25,750	\$ 12,875	\$ 8,400	\$ (17,350)	
3	\$ 25,000	\$ 1,250	\$ 12,600	\$ (13,650)	
4	\$ 25,000	\$ 2,000	\$ 16,800	\$ (10,200)	
5	\$ 25,000	\$ 3,000	\$ 21,000	\$ (7,000)	
6	\$ 25,000	\$ 4,250	\$ 25,200	\$ (4,050)	
7	\$ 25,000	\$ 5,750	\$ 29,400	\$ (1,350)	
Profit point begins at the eighth performance					
8	\$ 25,000	\$ 6,500	\$ 33,600	\$ 2,100	
9	\$ 25,000	\$ 7,500	\$ 37,800	\$ 5,300	
10	\$ 25,000	\$ 8,800	\$ 42,000	\$ 8,200	
11	\$ 25,000	\$ 10,000	\$ 46,200	\$ 11,200	
12	\$ 25,000	\$ 11,500	\$ 50,400	\$ 13,900	
13	\$ 25,000	\$ 13,000	\$ 54,600	\$ 16,600	
14	\$ 25,000	\$ 14,500	\$ 58,800	\$ 19,300	
15	\$ 25,000	\$ 14,500	\$ 63,000	\$ 23,500	
16	\$ 25,000	\$ 14,500	\$ 67,200	\$ 27,700	
17	\$ 25,000	\$ 14,500	\$ 71,400	\$ 31,900	
18	\$ 25,000	\$ 14,500	\$ 75,600	\$ 36,100	
19	\$ 25,000	\$ 14,500	\$ 79,800	\$ 40,300	
20	\$ 25,000	\$ 14,500	\$ 84,000	\$ 44,500	
Note: Variable costs are hypothetical					

WHAT FOR?

- To understand costs and revenues dynamics simulate scenarios make decisions
- How can profit (or the break-even) be met?

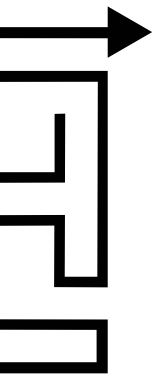
✓ by acting on revenues

- ✓ increasing the price/differentiating price offerings
- ✓ increasing the number of shows (more volumes of output)

✓ by acting on costs

✓ by acting both on revenues & costs

- ✓ Reducing variable costs
- ✓ Reducing fixed costs



04

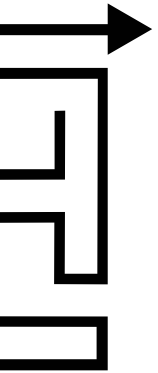


FINANCIAL REPORTING (essentials)

Financial reporting

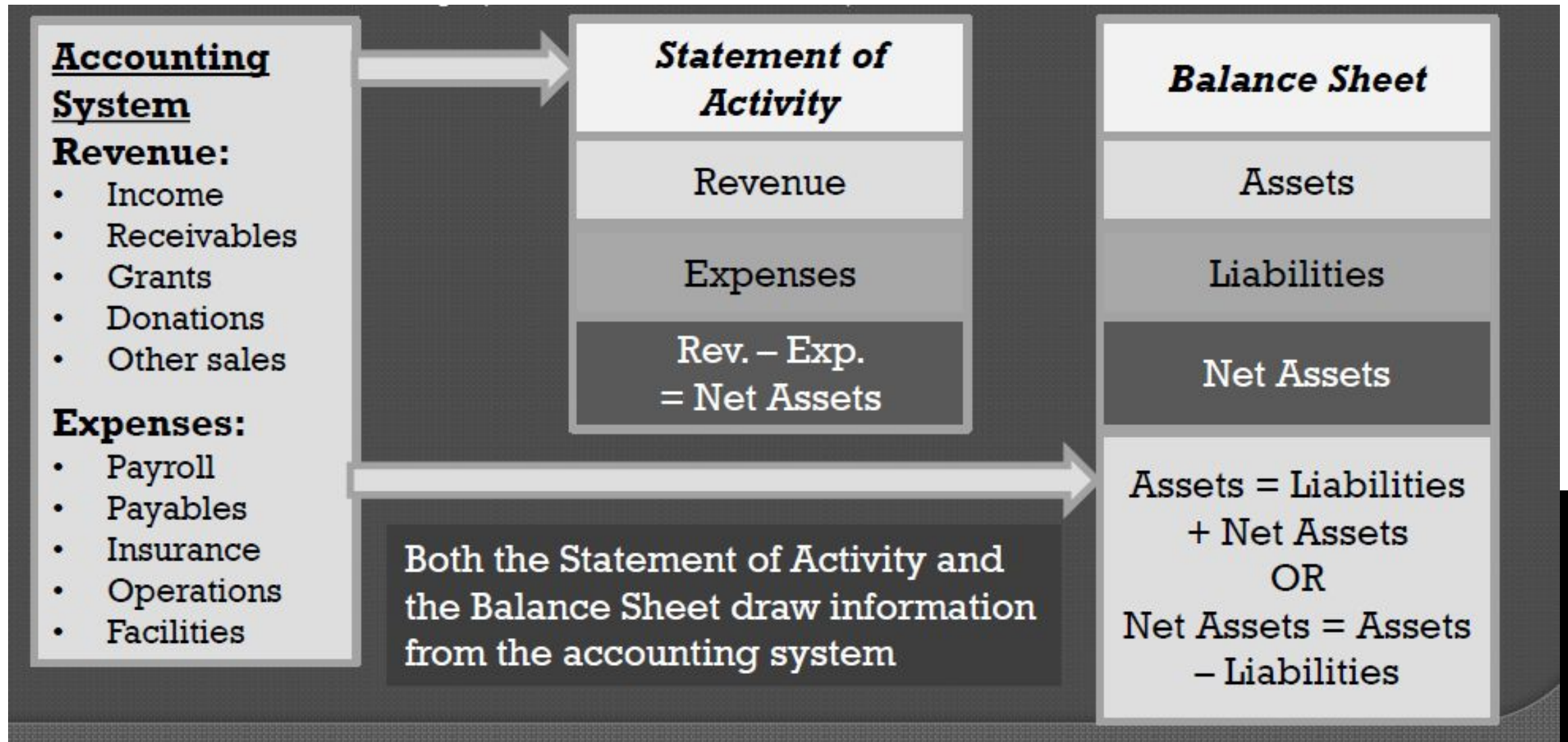
In addition to the accounting system producing weekly and monthly budget reports on the income, expenses and commitments of the arts organization, the information also feeds into annual two major reports:

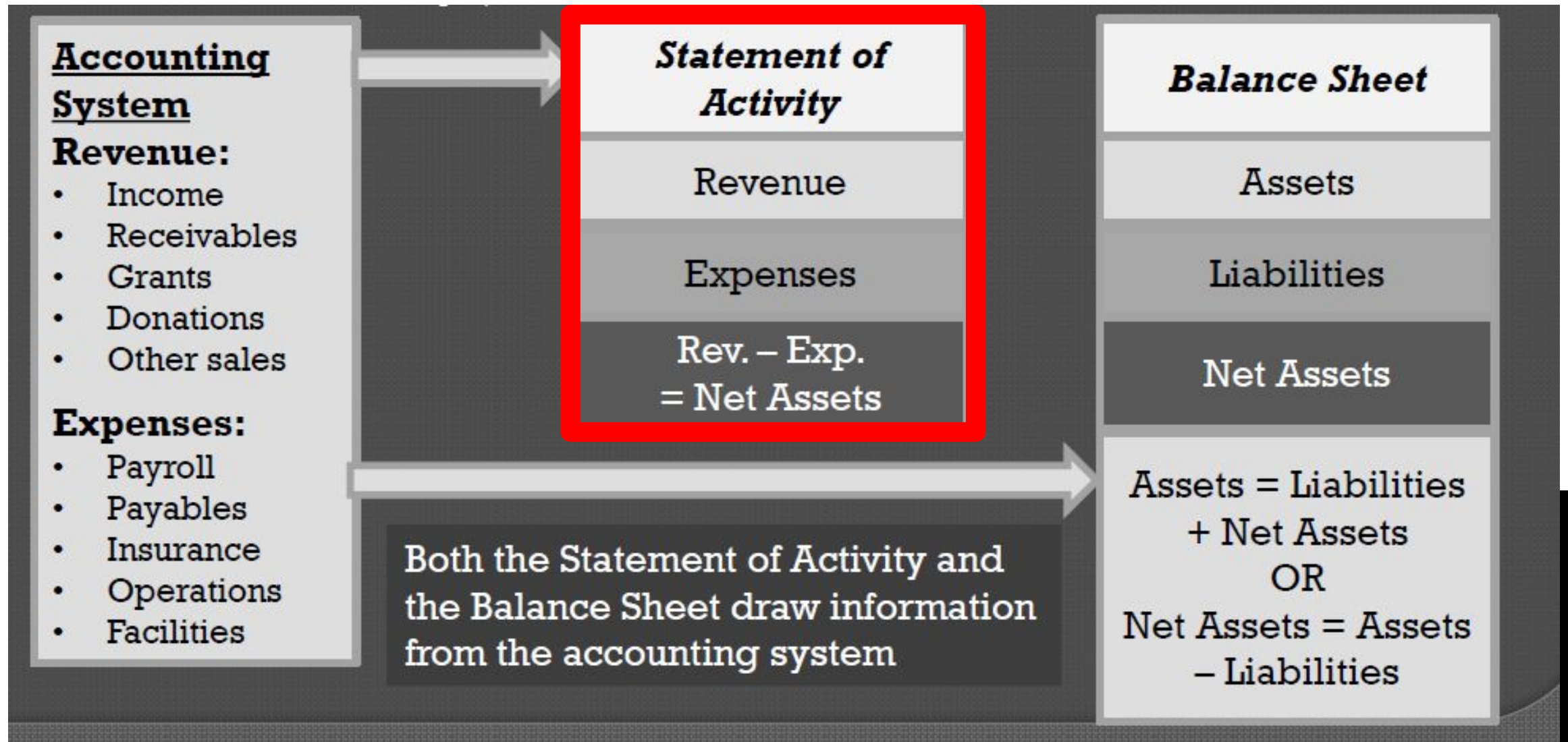
- the **statement of activity** (income statement)
- the **balance sheet**



Focus on:
Statement of Activity
(or income statement)

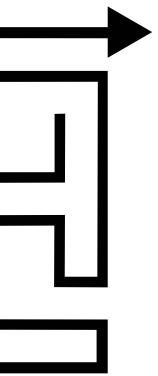






What does it show?

- Depicts the annual revenues (income) and costs (expenditures) for the organization.
- Shows the dynamic of the construction/erosion of the economic value over a year.
- The breakdown of costs and revenues allows the reader to see how the organization arrived at its financial condition at the end of the year.
- the difference between revenues and costs summarizes the profit/loss generated (surplus/deficit)



Statement of Activity and Changes in Net Assets - Theater Company

	Unrestricted Funds		Temporarily Restricted Funds	Temporarily Restricted Funds	As of June 30	
	Operating Fund	Gala Fund	Building Fund	21st Century Fund	Current Year TOTAL	Last Year TOTAL
Revenue						
Ticket Sales	1,475,000	0	0	0	\$1,475,000	\$1,425,826
Other Income	198,200	5,000	0	0	\$203,200	\$198,522
Fundraising	567,000	305,000	65,000	43,000	\$980,000	\$895,636
Grants	142,000	0	0	0	\$142,000	\$125,000
Total Revenue	\$2,382,200	\$ 310,000	\$ 65,000	\$ 43,000	\$2,800,200	\$2,644,994
Expenses						
Staff Salaries	1,602,511	30,250	7,600	0	\$1,640,361	\$1,510,963
Productions	139,669	0	0	0	\$139,669	\$142,895
Marketing	537,000	5,522	0	0	\$542,522	\$535,892
Development	87,942	65,000	10,000	0	\$162,942	\$154,258
Special Events	9,000	107,000	12,000	0	\$128,000	\$135,250
Concessions	35,858	0	0	0	\$35,858	\$27,801
Gift Shop	4,935	1,500	0	0	\$6,435	\$7,259
Occupancy	70,352	0	0	0	\$70,352	\$64,895
Contingency	30,061	3,500	0	0	\$33,561	\$28,569
Total Expense	\$2,517,328	\$ 212,772	\$ 29,600	0	\$2,759,700	\$2,607,881
Changes in Net Assets						
	\$ (135,128)	\$97,228	\$35,400	\$43,000	\$40,500	\$37,103
Net Assets - Beginning of Year						
	\$80,940	\$125,898	\$79,600	\$7,000	\$293,438	\$145,897
Board Designated Fund Transfers						
	\$ 100,000	\$ (100,000)	0	0	\$0	\$0
Net Assets - End of Year						
	\$45,812	\$123,126	\$115,000	\$50,000	\$333,938	\$183,000
<p>NOTE: The Board approves a transfer of \$100,000 from the Gala Fund to the Operating Fund to cover the deficit of \$ (135,128). See Figure 9.6 as the source for the Statement of Activity numbers. The "Current Year Total" in Figure 10.11 equals the "Current Year Budget" number in Figure 9-6. The numbers on the bottom line or the "Net Assets - End of Year" appear in Fig 10.10, Balance Sheet, on the line "Total Net Assets."</p>						

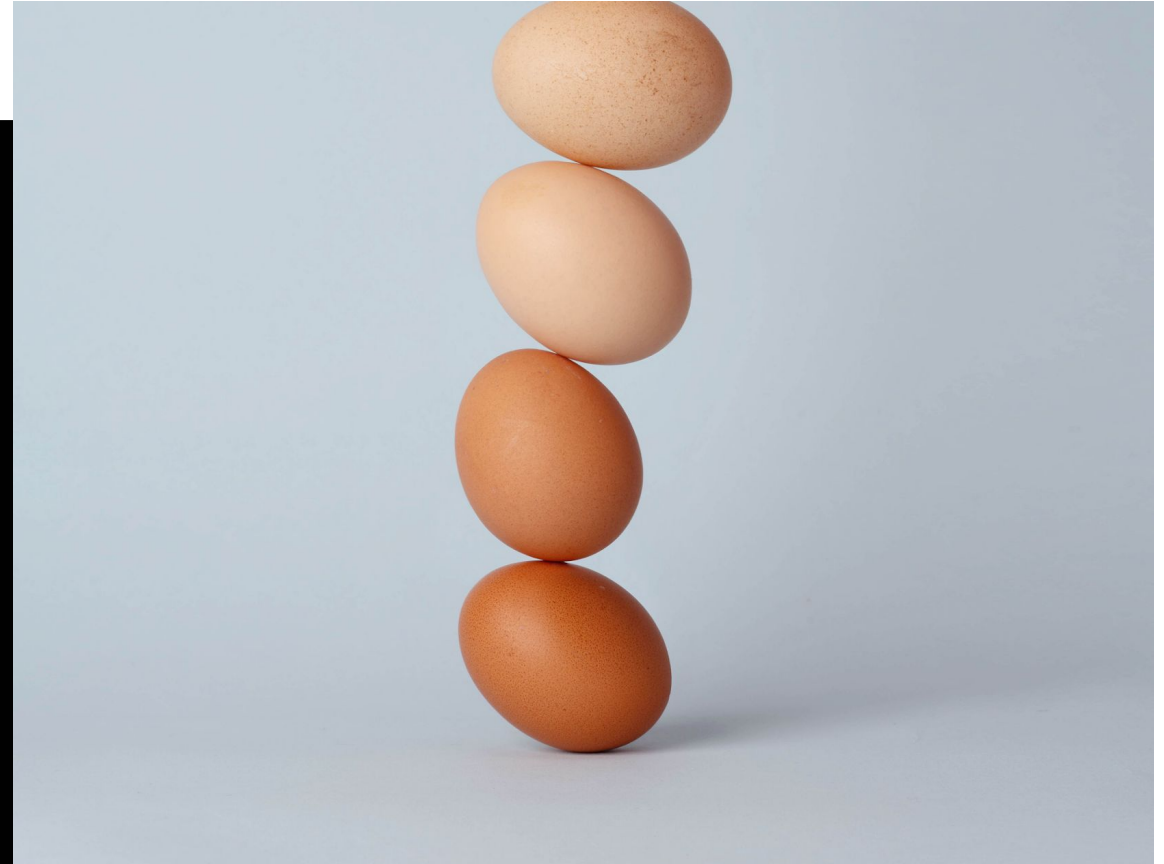
Quick Review of Statement of Activity

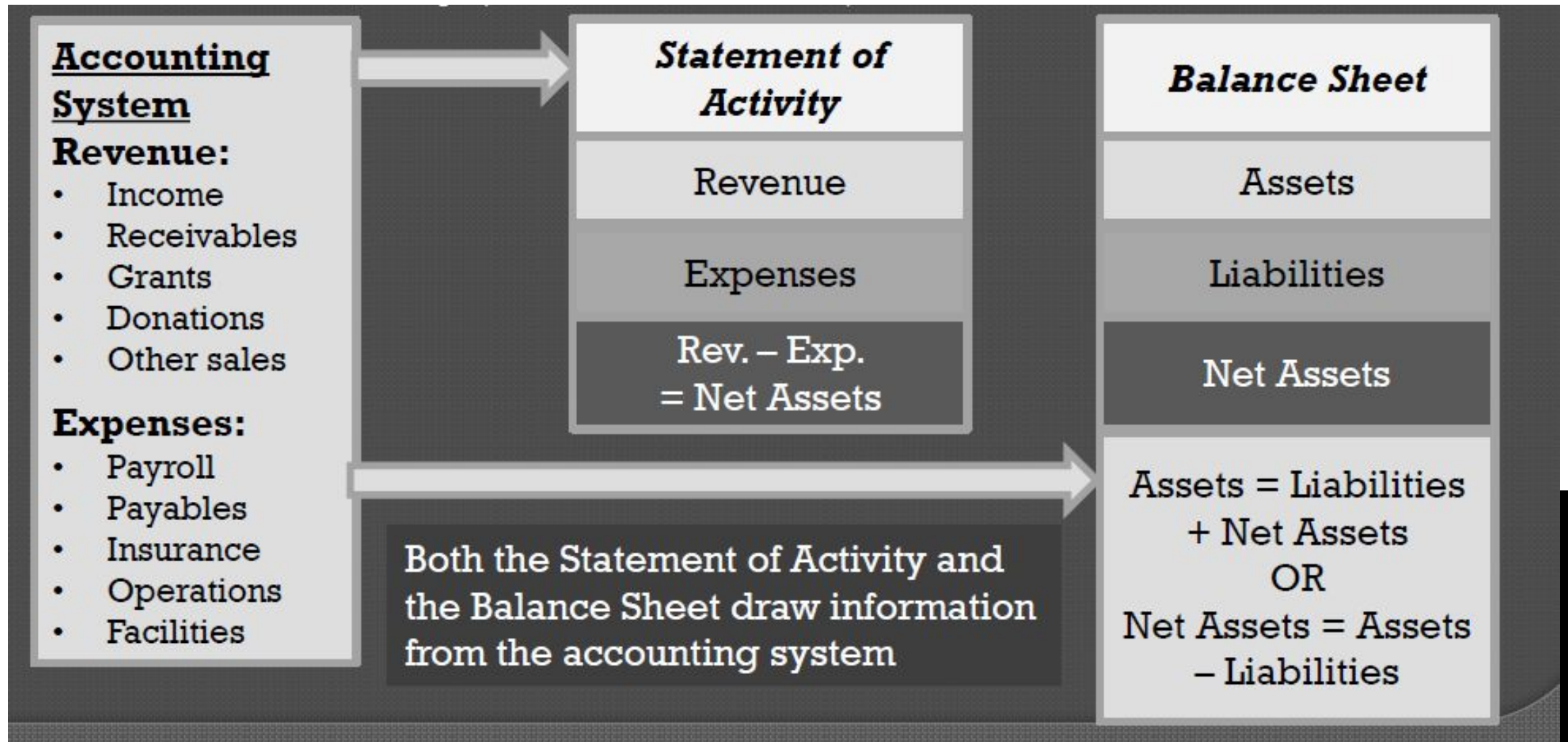
In nonprofit accounting the term net assets or surplus replaces "profit." In this example, the net, surplus or profit is \$40,000 and is arrived at by subtracting the total expenses from the total revenues.

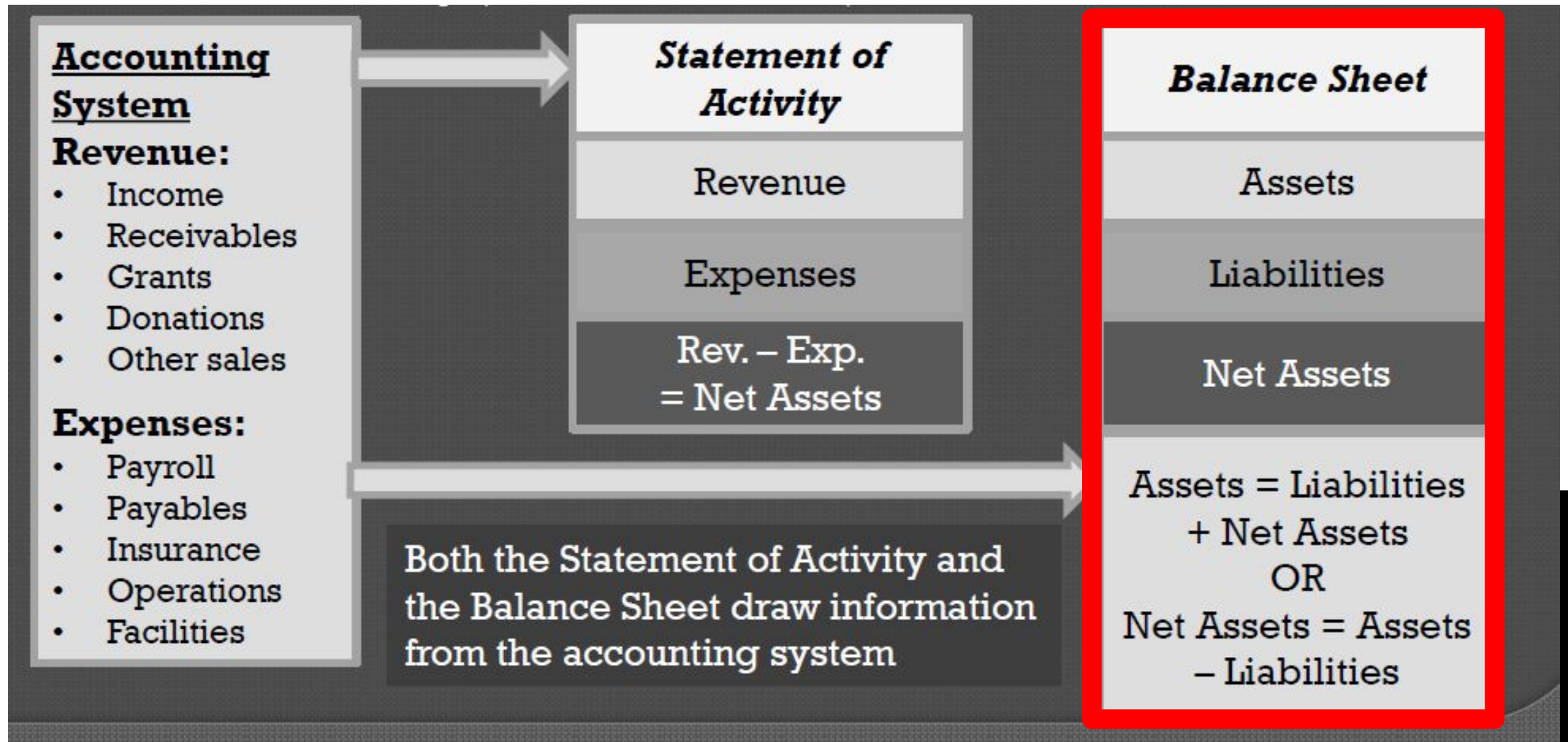
At the beginning of the fiscal year the organization had a significant "profit" from the year before, a total of \$293,438.

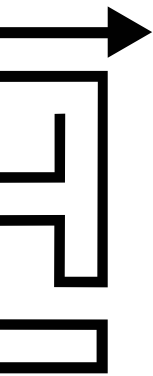
The operating fund ended the year with a deficit of \$(135,128). The Gala Fund netted \$97,228 this year and started with \$125,809 from last year. The board made a fund transfer so the operating budget ended with a surplus.

Focus on:
Balance sheet









Accounting System

Revenue:

- Income
- Receivables
- Grants
- Donations
- Other sales

Expenses:

- Payroll
- Payables
- Insurance
- Operations
- Facilities

ASSETS = property or resources owned by the organization. When money is received in the form of revenues or gifts, or even receivables, it is classified as an asset that adds to the organization overall worth

Revenue

Expenses

Rev. – Exp.
= Net Assets

Both the Statement of Activity and the Balance Sheet draw information from the accounting system

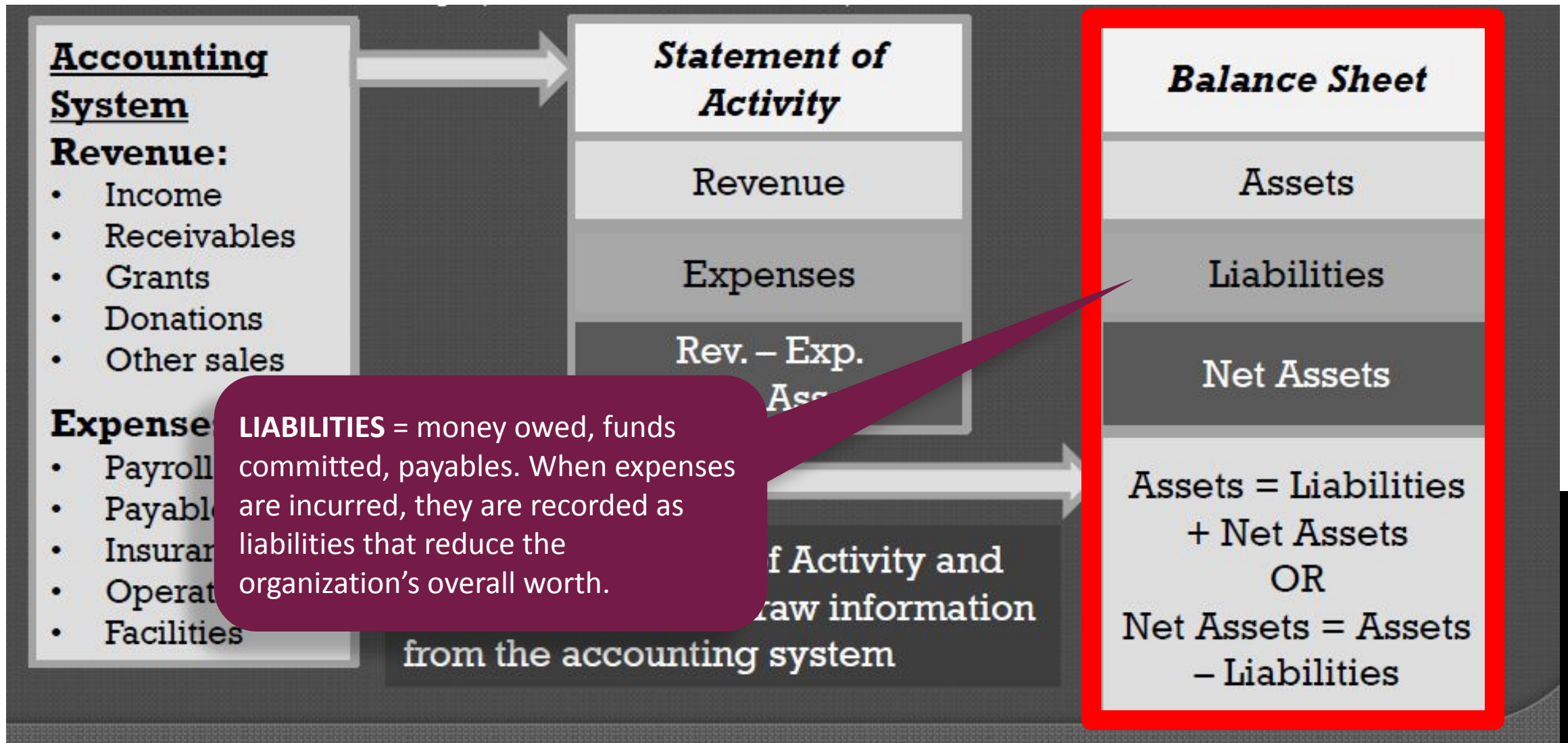
Balance Sheet

Assets

Liabilities

Net Assets

Assets = Liabilities
+ Net Assets
OR
Net Assets = Assets
– Liabilities



Theater Company Balance Sheet

Balance Sheet as of June 30

ASSETS = LIABILITIES + NET ASSETS

Assets	Unrestricted Funds		Temporarily Restricted Funds		Current Year TOTAL	Last Year TOTAL
	Operating Fund	Gala Fund	Building Fund	21st Century Fund		
Cash	\$70,812	\$106,000	\$100,000	\$50,000	\$326,812	\$144,000
Accounts receivable	2,800	19,626	15,000	-	37,426	12,000
Shop Equipment	25,000	0	0	0	25,000	22,000
less depreciation	(9,000)	0	0	0	(9,000)	(3,000)
Office equipment	25,000	0	0	0	25,000	20,000
less depreciation	(12,568)	0	0	0	(12,568)	(4,000)
Scenery & Costume Inventory	35,000	0	0	0	35,000	40,000
TOTAL ASSETS	\$137,044	\$125,626	\$115,000	\$50,000	\$427,670	\$231,000
Liabilities						
Accounts payable	\$47,299	\$2,500	\$0	\$0	\$49,799	\$18,000
Accrued payroll and taxes	18,933	0	0	0	18,933	6,000
Bank notes payable	25,000	0	0	0	25,000	24,000
TOTAL LIABILITIES	\$91,232	\$2,500	\$0	\$0	\$93,732	\$48,000
Net Assets						
Unrestricted net assets	\$45,812	\$123,126	\$0	\$0	\$168,938	\$33,000
Temporarily restricted net assets	\$0	\$0	\$115,000	\$50,000	\$165,000	\$150,000
TOTAL NET ASSETS	\$ 45,812	\$ 123,126	\$115,000	\$50,000	\$333,938	\$183,000
Total Liabilities & Net Assets	\$137,044	\$125,626	\$115,000	\$50,000	\$427,670	\$231,000

NOTE: Assets increased, Liabilities increased, and Net Assets increased. The "Total Net Assets" shown above come from the "Statement of Activity" (Fig. 10.11) bottom line and are listed as "Net Assets - End of Year."

Quick Review of Balance Sheet

The Balance Sheet reflects the financial health of an organization at a specific date. The total assets start with most "liquid assets such as cash to assets that can be converted to cash at some point. The same timing applies to liabilities (what the organization owes) with current fiscal year liabilities listed first.

This example shows an organization that increased its assets from the previous year at \$231,000 to \$427,670 this year.

The total liabilities increased to \$93,732 but net assets increased to \$333,938 so the organization is in fairly solid financial shape. The Temporary Restricted Assets need to be considered in the financial snapshot. Only \$168,938 of the total net assess are not restricted.

Source: Byrnes, W. (2014). *Management and the Arts*. Routledge

05

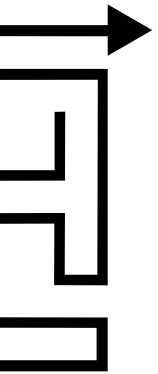


CONCLUSIONS

Numbers tell a lot

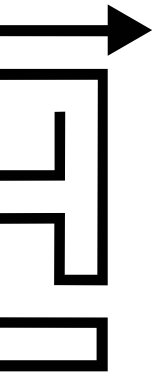
A close look at financial numbers is useful to:

- Clarify the internal economy of an art organisation
- Going beyond the façade/rhetoric of value creation
- As a starting point, to formulate specific questions



And should be kept under control

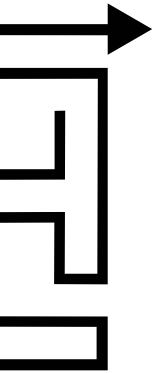
- Careful financial management is vital for art organizations
- Important to know the essentials, in order not to be swept away by it
- Numbers tell a lot, and should be kept under control (and not only by number specialists!)
- Here provided the essential elements to at least read and understand a budget or a financial report
- Much can be said, based on this, of an entity's internal economy and its conditions of sustainability and durability



References

Byrnes, W. (2014). *Management and the Arts*. Routledge

Anheier, H.K (2014), *Nonprofit Organizations: Theory, Management, Policy*, London, Routledge



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