



ADVISORY
BOARD
for the ARTS

Transforming Arts Organizations Worldwide

Separate Endowment Entities: Prevalance and Satisfaction

May 2023

About the ABA Endowment Report

ABA analyzed the 990s for 100 arts organizations to gather financial information and identify those with an endowment that is separate from the performing entity.

Twenty-five of the 100 analyzed organizations had a separate endowment entity, most of them in the form of a foundation. Five of the 21 ballets we analyzed had separate endowment entities. About one third of analyzed operas and orchestras had separate entities. Less than 10 percent of analyzed theatres had separate endowment entities.

ABA deployed a survey to the 25 organizations with separate endowment entities—typically to the CFO—to understand the purpose, perceived value and challenges associated with a separate endowment entity. We received 8 responses: 2 Ballets, 4 Operas, 1 Symphony, and 1 Theater.

The following report provides analysis of responses, divided the report into the following sections:

I. Fulfillment of Original Purpose

- Purpose of separation
- Assessment of whether endowment has served its original purpose

II. Current Value and Challenges

- Current perception of the value of having separate entities
- Assessment of the current relationship between the two entities

III. Use of the Endowment

- Current endowment draw
- Use of the endowment as part of financial borrowing arrangements

I. Fulfillment of Original Purpose

Purpose of Separation Is To Protect Assets from Bad Management

Q: In one or two sentences, please describe what the purpose for separating the endowment from the endowed organization was.

Protection & Prevention

“Protection of assets. Under the legal umbrella of the Ballet Foundation.”

“There was an expectation by the lead initial donor that the endowment was separate. The rationale was that the separate endowment would assure the funds were managed completely discretionarily outside the organization to not further influence ongoing annual giving and operations of the organization and to be a true third-party contributor to the organization.”

“Per the originating donor’s recommendation for the purpose of stronger controls to prevent overspending.”

Control

“To remove control from the benefactor.”

“The main reason was to ensure that the funds weren’t in the control of the organization. Many foundations have been stripped of their funds by bad management.”

“So the endowment board could control the outflow of money to the Ballet.”

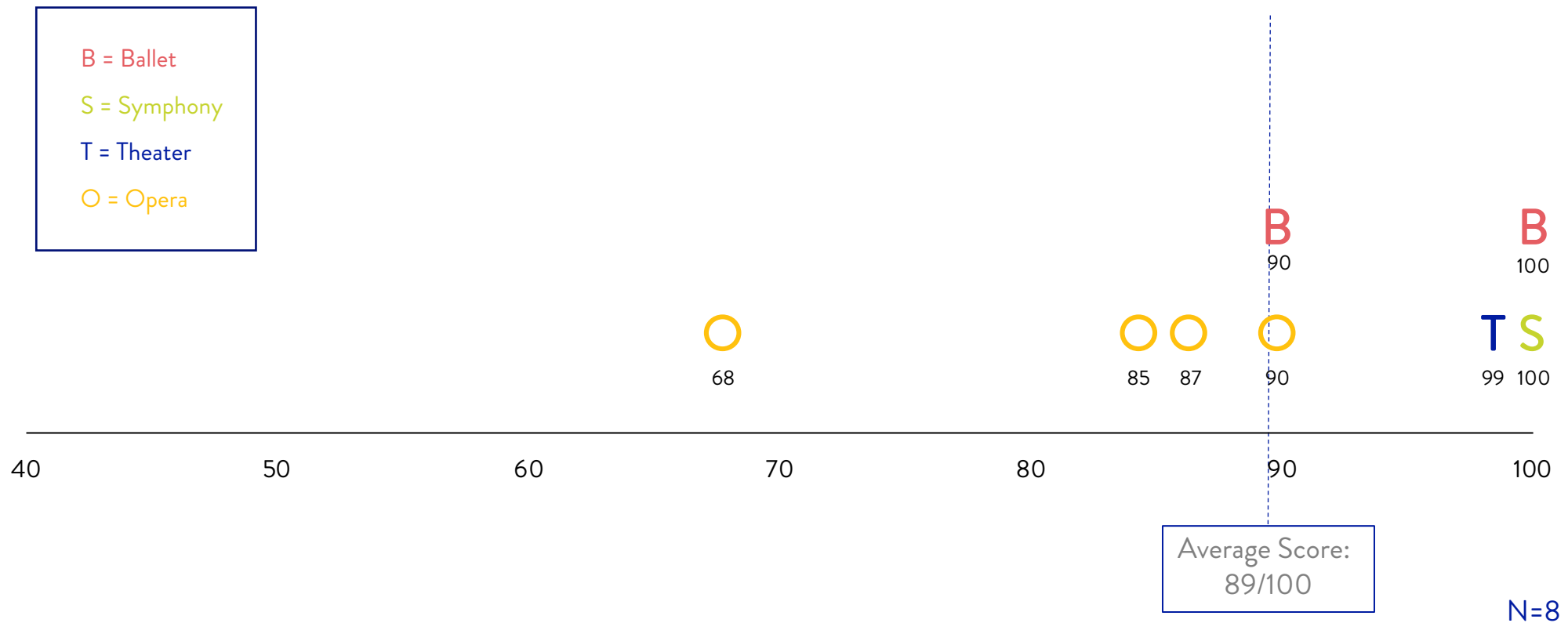
Best Practice

“Best business practice to keep funds separate. Better oversight through different boards, although the endowment board is composed mostly of members of the organization’s board.”

“Trust and best practice”

Most Believe Separating the Endowment Has Served Its Purpose

Q: To what degree is the separation serving the purpose that you intended to achieve through separation? (0-100)



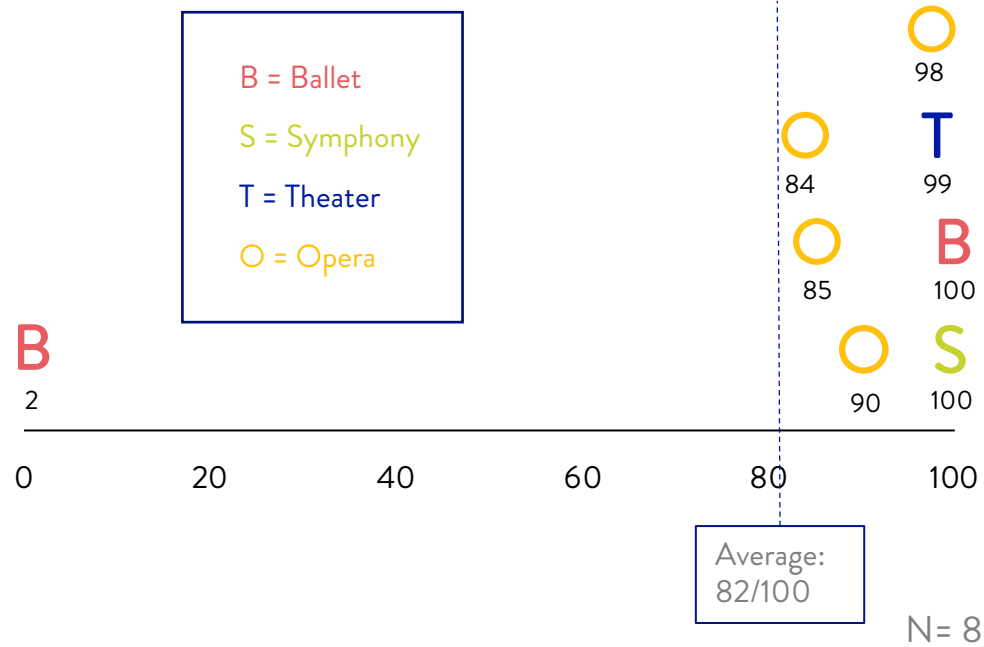
Most Respondents Find Value in Having a Separate Endowment Entity

Q: Regardless of the original purpose, please briefly describe your perception of the value your organization sees in having a separate endowment entity.

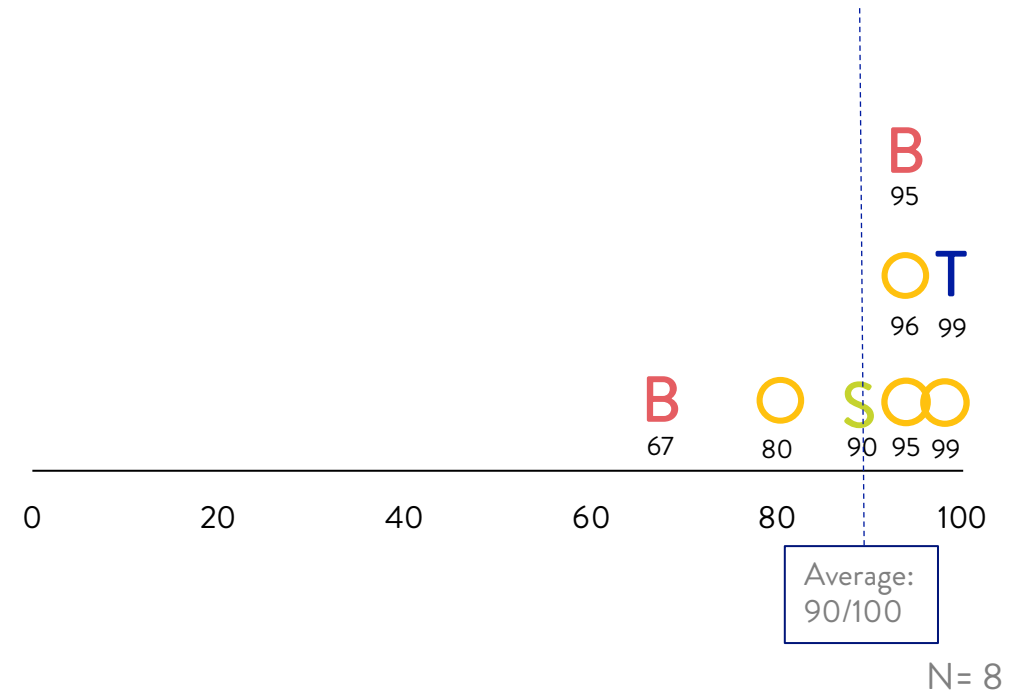
Protection of Assets	Union Relations	Healthier Administration	Donor Communications	Counterpoint
<p>“Protection of assets should the organization proper run into financial or legal hardship.”</p> <p>“The organization and endowment’s money is not ‘mixed,’ which creates more stability and oversight, protecting the endowment for its intended purpose.”</p>	<p>“The musician’s union has asked the Symphony to pull money from the foundation to increase wages in the last 3 contract talks. It has been very helpful to the Organization to tell the musicians that the Organization can’t pull extra money (rob) the endowment, because they don’t control it.”</p>	<p>“Honestly, it’s also easier record-keeping and financial management.”</p> <p>“We value having investment professionals keeping a strong eye on the endowment’s performance. We can more easily recruit board members because the Foundation meets less frequently and has a tighter focus.”</p> <p>“More board and community involvement.”</p>	<p>“There is value in having a source of funding that is separate so as to not cannibalize annual giving.”</p>	<p><i>“At this point, I don’t see the value of the separate entity. An investment committee of the Ballet board can manage the Endowment and rid ourselves of the extra entity.”</i></p>

Respondents Generally Believe Separation Is Healthy and Functional

Q: To what degree do you believe the separation of the two entities serves the financial health of the endowed organization? (0-100)



Q: How would you assess the relationship between the endowment/foundation and the arts entity it endows? (0-100)



For every organization, there is an overlap of members between their board and the endowment board.

Most Common Challenge Is Confusion among Stakeholders

Q: Please describe any challenges you've encountered due to the separation of the two entities.

Stakeholder Confusion Highlighted by Survey Respondents

Donors

Donor confusion is probably the biggest obstacle right now.

Logistics of receiving donations for the appropriate entity.

Financiers

Also in dealing with Banks on Financing we have to make sure they are looking at both entities

Musicians and Board

The only issue we have is the musicians and some Symphony board members don't understand that it is a separate 501c.

Stakeholders Generally

The only confusion on occasion is that the endowment board really is a separate entity, even if most of the board members of the endowment serve on both boards. The organization's board does not need, nor do they have the authority, to authorize transfer of funds or any other business related to the endowment.

Counterpoint

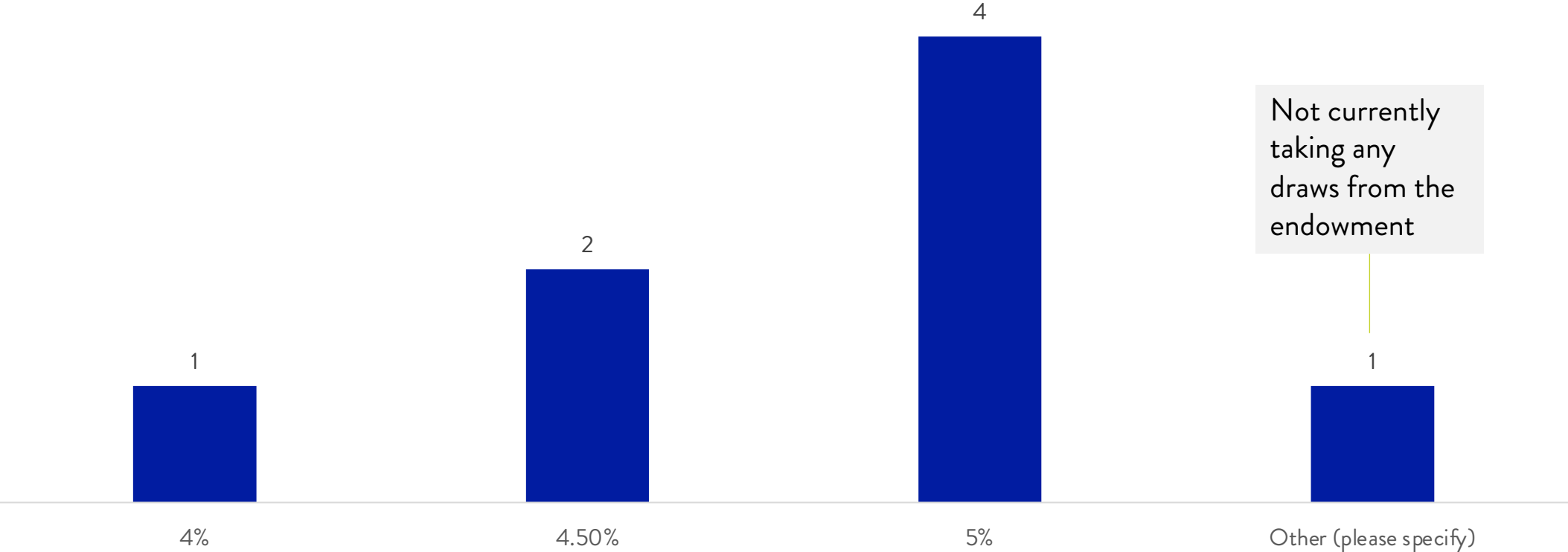
ABA spoke with one organization that formerly separated its endowment, but which has since re-integrated the endowment foundation into the arts organization.

“We felt that Management and our Board could more effectively drive Endowment growth by having direct responsibility for the Endowment Fund.”

III. Use of the Endowment

Most Organizations Draw between 4% and 5%

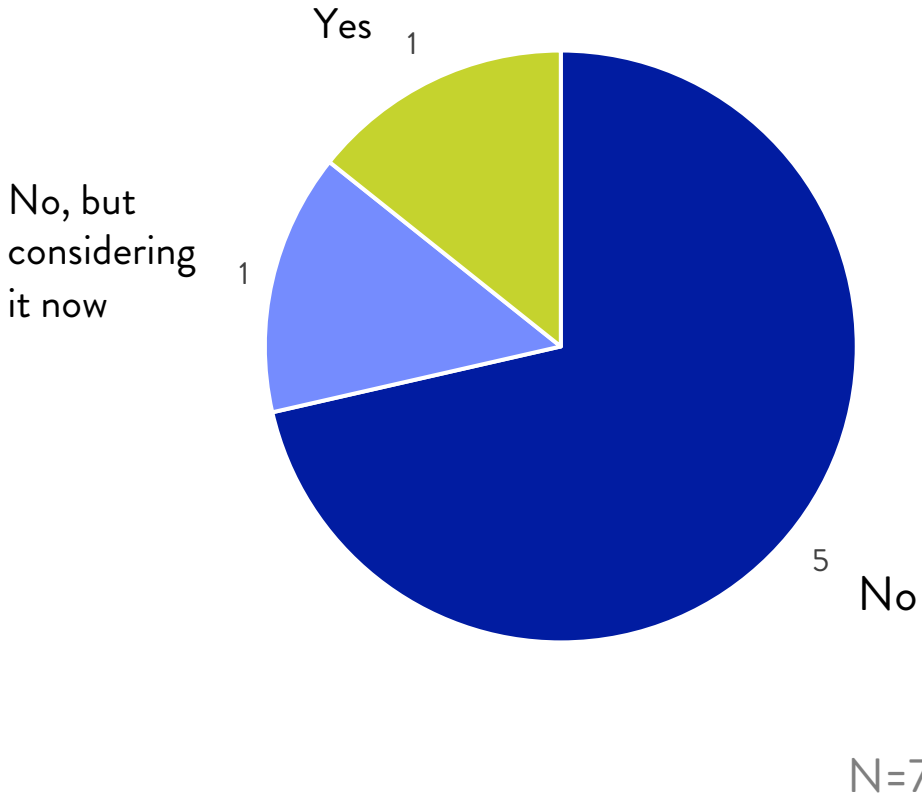
Q: What is your standard endowment draw?



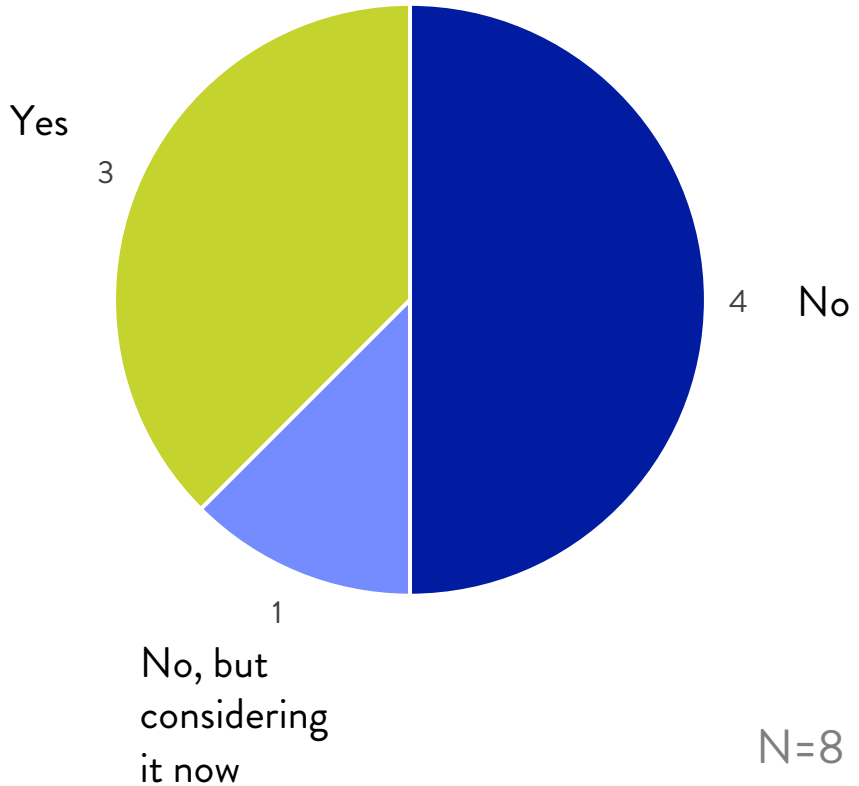
N= 8

Most Organizations Have Taken a Standard Endowment Draw

Q: In the past five years, has the organization spent endowment funds above and beyond the standard draw?

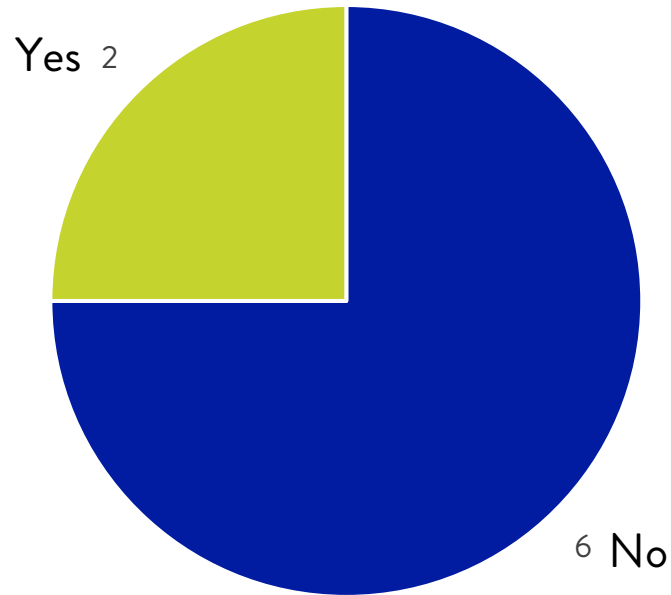


Q: In the past five years, has the organization chosen to draw less than the standard amount from the endowment?



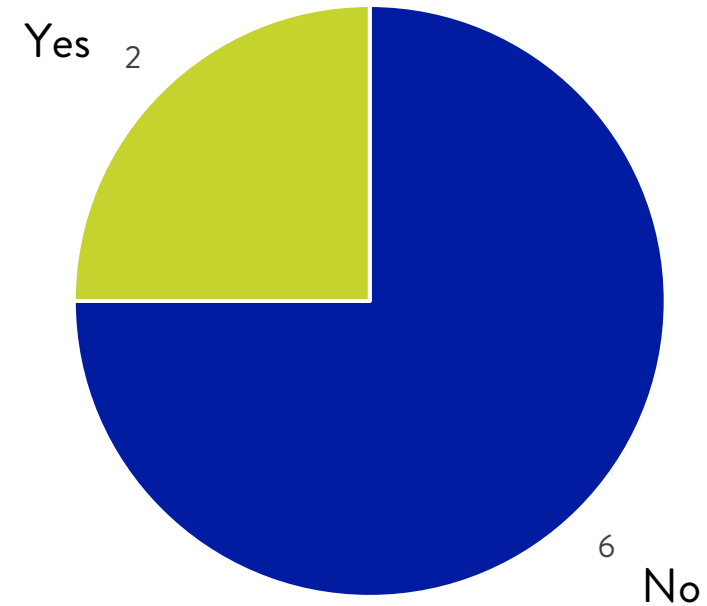
A Quarter of Respondents Have Used the Endowment for Borrowing Purposes

Q: In the past five years, has the organization borrowed funds from the endowment?



N=8

Q: In the past five years, has the organization used the endowment as collateral for loans?



N=8



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