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Fine Arts Fund: Urban Trustee For A Legacy

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The Fine Arts Fund

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By Constance T. Barcelona

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Humankind is never more uniquely human than in its yearning for some sense of beauty amid the random events of a lifetime. Animals give no evidence of artistic hunger, although many are strongly social and most are subject to elation and despair. People are different. From recorded time music has swelled with triumphal marches and lilted through elegant salons; it also has wailed with the mourners, abandoned souls and slaves on the delta. Ritual dance has marked spring plaintings, fall harvesting, weddings, victories, the start of the hunt. Greek dramatists and worldwide generations of their successors have highlighted the human condition. Graphic and sculptural arts appeared simultaneously, recording the beauty of Venus and Mona Lisa, but also, alas, commemorating Guernica; the raptures and the horrors of the human spirit.

Artistic expression parallels the drive for food and shelter and family. It springs from hunger and surfeit alike and is surpassed only by the pervasiveness of the quest for religion, whose protege it has often been over history. The arts are a legacy. Yet enjoyment of that legacy by the average individual, and its perpetuation, requires more money than most people ever amass singly so fulfillment of the artistic legacy depends on either patronage or communal subsidy.

Time was when regents and great families in Europe subsidized museums and music and the performing arts but, even so, the peasantry had little access to such artistic display. And in the United States until very recently the free enjoyment of the arts remained a privilege limited to the wealthy. On occasion, the pageantry and glamor still occur, but more and more Americans in raincoats and sturdy work shoes are peopling art shows and symphony concerts. The ready availability of the arts in some cities is due to an aggressive plan to fund the arts so that all who wish to can enjoy them.

The Fund

In spite of their spiritual and otherworldly beauty the arts must struggle for representation in a very worldly and competitive manner. Money granted for the ballet cannot be used again for the opera. Coppelia must yield occasionally to Carmen, or the other way around, and the walls of the museum cannot be left bare, either. A practical solution emerges with a central agency to raise funds, maintain the funds, and then allocate them as fairly as possible. Accounting must be accurate, with full cognizance of unrestricted and restricted funds, and restrictions on uses of income from the funds.

As a last generation of immensely wealthy patrons dies away, and with it, to some extent, the tradition of patronage, the need for civic sponsorship of the arts becomes urgent. Old money has been diluted in many instances but there is an abundance of new money to be wooed and won for community enrichment. Community betterment involves several worthy causes such as charitable subsidy or educational endowment or cultural support. Mutations of the Community Chest, or United Appeal, or Red Feather Agency appear almost everywhere, as do dedication ceremonies for a new wing for the engineering building at the local campus, or a new building for the college that produced a highly successful graduate, each addition named, of course, for the prime benefactor.

The Fine Arts Fund is not so typical. Of some 3,000 communities in the United States that could be classed as urban, only fifty have such a central fund raising agency. The smallest cities so graced are Hutchinson, Kansas, and Decatur, Illinois. Larger ones include Milwaukee, St. Louis, Ft. Worth and Cincinnati, and the latter is used as reference for this article.

The Fund itself is the revenue raising subsidiary of a governing committee, or central institute, composed of an array of community leaders who are elected for five year terms, and eligible for reelection. Institute membership with its prestige and responsibility may typically be shared by the president emeritus of the local university, board chairmen from Fortune 500 industrial and financial entities that have home offices in the city, the archbishop of the diocese, and prominent professional people. In addition, the mayor serves ex officio. A broad constituency of influence is thus achieved, along with an aura of solidarity and power. The institute acts as an elegant umbrella for those artistic groups it selects to sponsor.

The Cincinnati Institute of Fine Arts is the oldest of fifty similar sponsoring committees across the United States, having been established in 1927. It supervises a General Fund, a Property Fund, various endowment funds, the Taft Museum Fund, and the Fine Arts Fund.

The Fine Arts Fund that functions under Institute aegis was not started until 1949; by 1978 it had eight official beneficiaries including the symphony, the opera, the ballet, two art museums, the legitimate stage playhouse, a contemporary arts center, and the May Festival which is a choral/symphonic expression indigenous to Cincinnati and perpetuating a strong cultural tradition of that city.

Ancillary benefits from the Fund are available on an occasional basis through the "Projects Pool" for special projects sponsored by ethnic or cultural groups. For instance, support was provided for a program of dancing for a school for the deaf; for a creative expression festival for a group of handicapped children, for a local school for the performing arts, and for a three day residency by a performing artist at a neighboring community. Beneficiaries of the Projects Pool do not enjoy consistent year-in, year-out support as do the eight primary members sheltered by the Fund, but they are eligible for special grants when a proposed activity seems of merit. In 1980 the Projects Pool awarded forty grants ranging from $300 to $5,000.

Resource Provision

The annual drive for funds uses the same techniques as the drive for charity support by the United Appeal. A preliminary campaign is addressed to corporate donors and special gift donors who are not routinely approached through places of employment. Special gifts come from affluent and philanthropic members of the community, sometimes retired and sometimes from the city's great families. The donors may represent as few as three percent of the total contributors, but they provide a substantial part, perhaps as much as half, of total dollars ultimately collected.

The president of the Cincinnati Institute of Fine Arts thinks that the real hope for the future of fine arts funding lies in expansion of employee contributions. He works to enlist the corporation of corporate employers and partners in professional firms in approaching their employees, without pressure. He is confident that the people of his community care about the quality of life for themselves and their children, and will support the arts. He also considers the payroll deduction program the only economical way to raise funds since the cost/benefit ratio for door-to-door solicitation is unfavorable. At Cincinnati the payroll deduction plan for the Fine Arts is just beginning, unlike the United Appeal campaign which is well established.

In addition to the proceeds of the fund raising campaign, revenues arise from investment income, less distribution of restricted endowment income, and from capital gains resulting from sale of properties held by the Institute, as well as gifts and bequests, both restricted and unrestricted. In the preceding year Cincinnati received funds from the National Endowment for the Arts on a challenge, or matching funds, basis. These are being held in trust until the matching funds are completely collected.

Specific revenue raising activities are pursued by each of the eight Fund beneficiaries, all of whom are subject to the fund-raising guidelines of the Institute. The symphony, the ballet, the art museums, the playhouse and the May Festival all have loyal supporters who activate special events such as auctions, raffles, bazaars, pre-event suppers and post-event dances, and quasi-social meetings with the artists. Income from such special-interest activities goes directly to the befriended artistic group and is not channeled through the Fine Arts Fund.

Ironically, affiliation with the Fund as beneficiary may impose constraints on the single-minded supporters of one arts group. It is conceivable that a single group like a symphony orchestra could sever ties with the Fund and mount an active campaign for civic support.

Assessment of the success of a museum, theatre, ballet or symphony is a subjective process.

Symphonies are expensive to maintain and growing more so, as evidenced by the rash of strikes among musicians in some symphony cities. It may be that a smaller city can ill afford even its fine professional orchestra, much less other art forms, but if symphony sponsors are sufficiently powerful and if their campaign wins popular approval then most of a city's available dollars could be preempted by the symphony orchestra.

In this milieu the Fine Arts Institute tries to effect a fair distribution of scarce means to several arts groups through its Fine Arts Fund. Participating beneficiaries give tacit, if unenthusiastic, consent to the revenue raising restrictions imposed by the Fund.

Allocation of Funds

Allocation involves hard choices, as always. Structured within the Institute is a Budget and Allocations Committee composed of four Institute board members who have no service affiliation with any of the eight beneficiary groups. They are people of established community prestige, as is the entire membership of the Institute, so there is a certain noblesse oblige to their decision process. Although they are not haunted by choices among relative degrees of human deprivation, as are the distributors of United Appeal funds, still they can be faced with the opprobrium or approval of their own peer group in what is a very subjective process.

Allocation of funds from the Projects Pool is done by a second group of Institute members, separately from the allocations to the principal Fund beneficiaries.

Distributions from the Fine Arts Fund and General Funds are at the

The arts should be available for the enjoyment of the entire city.

discretion of the Board of Trustees. Endowments and similar funds are distributed in accordance with the restrictions of the gift instruments.

Financial statements and budget projections prepared by beneficiaries are only one part of the criteria for funds allocation decisions. Attendance and popular acceptance might be deemed a sign of achievement but standing room only signs are not a paramount objective of the cultural program. "Annie" will crowd the concert hall better than a performance of "Aida;" however, a substantial portion of the city's dwellers prefer to hear Verdi and similar classical composers frequently and to induct younger members of their families into the delights of fine music. Similarly, a season of frothy plays might bring smiles to almost everyone, especially to those who count the box office receipts but adherence to a trivial repertoire discriminates against people who would like to consider the probing qualities of drama by Eugene O'Neill or Arthur Miller, or the enigma and paradox of a Pinter play.

Minority considerations enter into the allocation decision, and the cultural elite are only one minority group. Racial and ethnic groups are also considered in allocation of The Fine Arts Fund. Fund beneficiaries are expected to provide exposure to the arts for everyone in the city who has a yearning, even occasionally, for something beyond popular television and the movies. Such is the democratic dream; unfortunately there never is enough money available for all of the arts or all of the interests.

Politics and controversy might seem inevitable in such a subjective terrain. Abstention from political considerations gives evidence of the highly ethical posture of the Institute's members, and that of the Budget and Allocations Committee.

Controversy is inevitable, however, especially as it feeds in from members of the community who are unappreciative of modern free form sculpture, or offended by what they perceive to be obscenity or vulgarity in graphic arts and the theatre. When objections become significant in number the artistic group itself, whether museum or theatre, will presumably have to respond. The Cincinnati Institute of Fine Arts and the Budget and Allocations Committee of the Fine Arts Fund refrain from dictating policy, and from involvement with management of any of the sponsored arts groups.

Financial Reporting

The Institute and seven of its beneficiaries prepare formal financial statements which are audited annually by certified public accountants. The eighth beneficiary, the Taft Museum, is wholly owned by the Institute so its fund is reported as part of the Institute group, as is the Fine Arts Fund.

Statement of Financial Accounting Concepts No. 4: *Objectives of Financial Reporting by Nonbusiness Organizations,* (FASB December, 1980) indentifies users of financial reports of nonbusiness organizations to be: (a) resource providers, (b) constituents, (c) governing and oversight bodies and, (d) managers. The Institute and its resource raising arm, the Fine Arts Fund, represent the first two groups and to some extent group (c), but only in an oversight capacity inasmuch as they scrupulously avoid direct supervision of any of their beneficiaries. Institute members are substantial, but by no means exclusive, donors to the arts and provide the impetus for fund raising from the community at large.

The auditor's certificate for the Cincinnati Institute of Fine Arts reads: "No accounting controls exist with regard to solicitation of contributions and pledges for the 1980 Fine Arts Fund prior to the initial entry of the contribution or pledge in the accounting records. Accordingly, it was impracticable to extend our examination beyond the receipts or pledges recorded."

Statement of Financial Accounting Concepts No. 4 presents as a first objective:

> *Financial reporting by nonbusiness organizations should provide information that is useful to present and potential resource providers and other users in assessing the services that a nonbusiness organization provides and its ability to continue to provide those services.*

Financial statements by individual beneficiaries of the Fine Arts Fund might be considered feasibility statements, and certainly must be thought of as stewardship reports. However, assessing the services of a ballet company, the legitimate theatre, symphony orchestra or contemporary arts museum requires infinitely more subjective judgment than appraisal of a store or factory. Assessment of cultural services may be even more difficult than appraisal of performances by hospitals and colleges in that the two latter are considered necessary to our level of civilization, while enjoyment of the arts is a discretionary luxury.

Each of the eight established beneficiaries of the Fund is required to submit an annual budget projection, supplemented with a narrative explanation of the year's activities and planned activities for the year ahead. Financial statements and budgets of participating arts groups are then reviewed by the Institute's Budget and Allocations Committee, within the constraints of an inflationary economy. The Committee looks for reasonable costs, indexed to price level changes, and for sales revenue that is proportionate to similar activities in other cities.

Significant Accounting Policies

As the umbrella organization for financial support of arts in the community the Cincinnati Fine Arts Institute acts as trustee for endowed funds, a General Fund, and the Fine Arts Fund, and owns the Taft Museum and the Cincinnati Symphony. Ownership of the Symphony is one of form rather than substance because assets are limited to some office furnishings. The Taft Museum, on the other hand, is housed in a residence of great historic value and contains art objects of immeasurable quality. The accounts of the Symphony are not included with Institute holdings because operating control of the orchestra is under a separate Board of Trustees.

The accounts of the Institute are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions placed on use of resources. Funds are classified according to activities or specified objectives, with indication of any restriction on the use of such funds or the revenues they may generate.

Deeds of gift for endowment funds often specify restrictions that the principal be invested in perpetuity, and that the income be either unrestricted and for general purpose, or restricted for specific use as indicated by the donor. Restrictions of either principal or income are observed in the financial accounting, with full disclosure of resources and distributions for each of the funds.

In 1944 a consolidated investment pool was established for the various funds under Institute supervision, with each fund receiving participating units based on the market value of the securities, or cash equivalent, invested in the pool. Additional investments receive additional pool units based on market value at the time of addition. Revenue from investments is recognized when earned, and allocated to participating investors on the basis of pool units owned.

Ownership of the Taft Museum places an immensely valuable art collection in the trust of the Cincinnati Institute of Fine Arts. The museum building and building improvements are not depreciated in the accounts, as the asset is an historical landmark. The land and building are recorded at values established by an independent appraisal in 1932.

Art objects are not included as assets in the balance sheet of the Institute in conformity with practices at similar institutions. The art collection of the Taft Museum must be perpetually maintained and preserved unimpaired in conformity with the terms of the original gift instrument. It is the intent of the Institute to preserve the Taft Museum building and art collection in perpetuity.

International Accounting

P. Pacioli's Law:

Wrong Accounting Results in Wrong Behavior

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Department Editor's Note: We are pleased to print below the acceptance speech given by Prudence Pacioli, an indirect descendant of the famous 15th century monk, when she was presented with the Accountant of the Year Award by the Professional League of Accountants in Generally Unprofitable Enterprises (PLAGUE) in an unidentified Eastern capital. Ms. Pacioli's speech is especially suitable for this issue, since all accounting in socialist countries is governmental accounting due to government ownership of all enterprises.

Dear Colleagues: Thank you very much for electing me PLAGUE Accountant of the Year for 1980. Last year was a really gratifying year for our organization, because more and more enterprises became unprofitable, resulting in a tremendous increase in our membership and making our slogan "PLAGUE in every business" very popular.

For the topic of my acceptance speech I chose Pacioli's Law which I discovered recently. Pacioli's Law, as formulated by me, states that "the wrong accounting results in the wrong behavior." The opposite is, however, *not* necessarily true. Correct accounting does not always, or even frequently, result in correct behavior due to the interference of Murphy's Law (If anything can go wrong, it will.[1]) or Pudder's Law (Anything that begins well, ends badly. Anything that begins badly ends worse.[2])

The Collection of Evidence

I discovered Pacioli's Law the way any scientist discovers the laws that govern the operation of our universe. I observed various business phenomena and then looked for the guiding principle which shaped and explained these events.

The first piece of evidence I collected, quite accidentally, when I received delivery of a dishwasher from the Drab Department Store in early 1980. I had signed the customer order list in 1978 and paid the full price for it, as requested, in July 1979.

In anticipation of the arrival of the dishwasher I had collected an assortment of dishes, mostly my own, which I promptly deposited neatly inside the machine as soon as it was properly hooked up. When I