

Highlights of the 2009 Nonprofit Sector Study: An Analysis of the Impact of the Nonprofit Sector in North Dakota

PURPOSE: This study examines financial characteristics of a sizeable sample of the largest public charities and private foundations within North Dakota in an attempt to derive objective measures of performance.

STUDY DESIGN: Data were collected from the IRS, specifically Form 990 (Return of Organization Exempt from Income Tax) available from the IRS Business Master File from the National Center for Charitable Statistics at the Urban Institute and from Form 990-PF (Return of Private Foundations) available from the Foundation Center. In most cases, the latest year for which data were available was 2007. Our sample included North Dakota's top 100 public charities and 66 foundations based on assets. Three financial performance scores (i.e., fiscal, mission, and sustainability) were developed for public charities and one performance score (i.e., financial) was derived for private foundations based on various ratios of expenditures to revenue/assets. We used these scores to examine trends in financial performance by various characteristics of nonprofit organizations such as organizational type and levels of revenue, assets, and expenditures.

KEY FINDINGS

Public Charities

1. Resources among the public charities in North Dakota are highly concentrated.

The resource base within the nonprofit sector is heavily concentrated within the top tier of charitable organizations.

- In 2007, there were 650 public charities in North Dakota representing an estimated \$3.9 billion in assets.
- The top 100 public charities, which was our study sample, held 84 percent of total assets within the nonprofit sector in the state.
- The top 10 public charities accounted for 59 percent of total assets, 66 percent of total revenue, and 67 percent of total expenditures of the sample.
- The concentration of public charitable resources is largely centered within health care. Within our sample, public charities representing health care accounted for 61 percent of total assets, 77 percent of total revenue, and nearly 80 percent of expenditures.

Revenue streams among public charities are highly concentrated.

- Nearly 86 percent of total revenue within our sample was received as payment for program services such as admissions to museums, tuition received by schools, government fees or contracts, and payment to hospitals for medical services.
- Less than 5 percent of revenue was generated from either private contributions or government grants.

The distribution of private contributions to public charities is heavily concentrated.

- More than 70 percent of the private contributions in our sample were donated to educational institutions.
- Contributions to health care and human services charities combined comprised only 15 percent of donations within our sample.

2. Management and general expenses among public charities are relatively high.

- The second largest expense category among public charities is management fees and general expenses, accounting for 12 percent of total expenditures within our sample.

3. Financial performance among our sample of North Dakota’s public charities is mixed.

Fiscal Performance

The fiscal health of our sample of public charities was measured by combining four financial ratios together: 1) total revenue ÷ total expenses, 2) (total revenue–total expenses) ÷ total revenue, 3) (total revenue–total expenses) ÷ total assets, and 4) total contributions ÷ total expenses. One can interpret this score as a broad composite of a public charity’s expenditures relative to its worth or its revenue.

- 48 percent of public charities in our sample are financially weak relative to 32 percent that have very robust fiscal performance scores.
- Public charities in health care and human services, two of the largest charity types, have the lowest fiscal performance scores.
- Public charities with revenue and expenditures above \$10 million had the lowest fiscal performance scores, most of which were in health care.

Mission Performance

Mission performance was comprised of three ratios that offer a composite of contributions a public charity receives relative to its worth or its revenue and the distribution of those revenues to programs. These ratios were: 1) program revenue ÷ total revenue, 2) total contributions ÷ total revenue, and 3) total contributions ÷ total assets.

- Public charities in our sample uniformly contributed a high proportion of their revenue to programs. However, the revenue stream for a significant proportion of nonprofit organizations comes from program payments relative to contributions (i.e., gifts, grants, or other contributions). The main exception is nonprofits in the fields of education and community improvement/public social benefit whose revenues from contributions are high.

Sustainability Performance

Sustainability is an assessment of financial health based on the diversity of funding and the breadth of the public charity’s financial portfolio. The ratios used in this measure were: 1) total revenue ÷ total assets, 2) net assets ÷ total assets, 3) direct public support ÷ total assets, and 4) total securities ÷ total assets.

- There is a high degree of sustainability among public charities in North Dakota, regardless of the type of charity.
- Sustainability is positively related to revenue and expenditures. Those charities with the largest revenue or expenditure stream had the highest sustainability scores.

Private Foundations

1. Foundation resources are highly concentrated and revenue /expense streams differ markedly from public charities in both source and magnitude.

- In 2007 there were 104 foundations; we analyzed the top 66 with assets of \$100,000 or more.
- The top 10 foundations in our sample held 81 percent of total foundation assets in our sample, 81 percent of the revenue, and 76 percent of foundation spending.
- In contrast to public charities, the majority of assets within foundations are from securities (i.e., corporate stocks, bonds, and government obligations).
- Nearly one-third of the revenue generated by foundations was from contributions, whereas the primary source of revenue among public charities is from program services.
- Foundations rely heavily on revenue from capital gains. It was the second leading source of revenue in our sample.
- 74 percent of foundation expenses were for charitable contributions, gifts, and grants.

2. Management and general expenses among private foundations are relatively high.

- Operating and administrative expenses accounted for 26 percent of our sample’s foundation expenses.

3. Financial performance among our sample of North Dakota’s 31 private foundations is strong.

We were limited in our ability to analyze financial performance among foundations due to a small sample size (31 of the 66). Our only performance measure (i.e., financial performance) was comprised of six ratios: 1) total revenue ÷ total assets, 2) total revenue ÷ total expenses, 3) (total revenue–total expenses) ÷ total revenue, 4) total contributions ÷ total expenses, 5) total contributions ÷ total assets, and 6) total contributions ÷ total revenue.

- Financial performance is negatively correlated with the level of assets. Foundations with larger assets tend to have lower median performance scores.
- Financial performance is slightly correlated with revenue but negatively correlated with expenditures. Foundations with greater revenue streams but fewer expenditures tend to have higher financial performance scores.

Recommendations

Based on the findings from our analysis we offer the following recommendations for consideration.

1. Efforts should be made to leverage resources and experience within the nonprofit sector, especially since resources in the nonprofit sector are highly concentrated.
 - A collaborative dialogue should be developed among nonprofit organizations.
 - A formal collaborative structure should be considered that allows charities and foundations to work collectively in order to improve visibility and efficiencies.
2. A research effort should be undertaken to examine if the relationship between contributions to revenue stream (i.e., what we measured as mission score) has a consequence on efficiencies within public charities.
 - Inquiries should be made about differences in strategic planning, marketing, and organizational structure.
 - Examine how contributions impact management and marketing strategies.
 - Interview staff and management within the nonprofit sector.
3. Support systems should be considered to offer technical assistance to nonprofit organizations that are struggling, especially those with low fiscal performance scores.
4. Objective data regarding nonprofit performance should be triangulated with alternative sources of information.

Citation

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