

# BRIEFING POINTS

## Highlights of the *Minnesota Nonprofit Sector Study - An Analysis of the Minnesota Nonprofit Sector: Challenges and Opportunities, March 2010*

### STUDY DESIGN AND PURPOSE

- The Minnesota Nonprofit Sector Study is designed to examine financial characteristics of a sample of Minnesota's nonprofit organizations, including public charities and private foundations, in an attempt to derive objective measures of performance. Our work was guided by the research literature that suggests a good starting point is to examine financial efficiencies within the money flow of organizations. Therefore, we used Internal Revenue Service (IRS) records to examine trends in the relationship between financial inputs such as revenue and assets relative to expenses, specifically those dedicated to direct services.
- Because the number of IRS Form 990s and 990-PFs from which we could gather the information we would need were large, we refined our sample by only analyzing public charities and private foundations with \$100,000 or more in assets. In Minnesota there were 4,544 public charities (Form 990) and 1,168 private foundations (Form 990-PF) which met our criteria.
- The Minnesota nonprofits were grouped into eight definable categories which were based upon the mission goals of the organizations. For example, charities such as technological institutes fell under the education category while research and public policy institutions fell under the public and societal benefit category.
- Our proportional sample of Minnesota public charities was twofold. First, it consisted of 100 public charities based on a two-stage proportional sample of a) type of organization and b) assets. The 100 Minnesota private foundations were proportionally sampled based on assets. These two samples served as our dataset from which we analyzed the nonprofit sector in Minnesota and formulated recommendations based on our findings.

### KEY FINDINGS

#### ***Public Charities***

- Resources among the public charities in Minnesota are highly concentrated.
  - The top 10 public charities accounted for 42 percent of the Minnesota public charities' total assets and 28 percent of the total revenue.
  - Health and medical public charities accounted for only 15 percent of the total number of public charities but contained 48 percent of the total assets held by the public charity nonprofit sector.
  - The majority 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.
  - Private contributions are heavily concentrated within the arts and education nonprofit sectors.
- Management and general expenses among public charities are low.
  - The administrative cost ratio for the Minnesota public charities sector is 15 percent; this is significantly less than 25 percent, which is the baseline used by the federal government to define an efficient nonprofit organization.
- Financial performance among Minnesota's public charities is mixed.
  - While only two categories failed to meet the short-term survivability ratio, half of the organizations had little or no protection against fluctuations in revenue.

- Those categories most dependent upon contributions as a source of revenue have the lowest efficiency for attaining those contributions.

### **Private Foundations**

- Foundation resources are highly concentrated and revenue and expense streams differ markedly from public charities in both source and magnitude.
  - The top 10 private foundations held 54 percent of total foundation assets and 30 percent of the revenue.
  - In contrast to public charities, the majority of assets within foundations were from securities (i.e., corporate stocks, bonds, and government obligations).
  - Nearly 63 percent of the revenue generated by foundations was from securities, whereas the primary source of revenue among public charities was from program services.
  - Eighty-three percent of foundation expenses were for charitable contributions, gifts, and grants.
- Management and general expenses among private foundations are low.
  - The administrative cost ratio for the Minnesota private foundations sector is 17 percent; this is significantly less than 25 percent, which is the baseline used by the federal government to define an efficient organization.
- Financial performance among Minnesota's sample of 100 private foundations is currently low.
  - Overall, private foundations failed to meet the short-term survivability test.
  - Private foundations had limited protection against fluctuations in their revenue stream.
  - The lack of protection against fluctuations in their revenue stream and heavy reliance upon securities for the majority of their revenue makes private foundations heavily tied to systematic changes in the market.
  - Minnesota private foundations contribute more of their assets toward their mission goals than the average private foundation nationally.

## **RECOMMENDATIONS**

Based on the findings from our analysis, we offer the following four 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 which allows charities and foundations to work collectively in order to improve visibility and efficiencies.
2. A research effort should be undertaken to explore the implications of public charities relying heavily upon contributions, especially those with low efficiency ratios. This will help determine whether long-term survivability or mission goals are likely to be attained when revenue streams fluctuate greatly.
  - Inquiries should be made both within the charities and with the public itself to ascertain whether public interest in specific categories makes a difference in efficiency ratings for contributions.
3. Support systems should be considered to offer technical assistance to nonprofit organizations that are struggling, especially those with low survivability.
4. Nonprofit organizations should be individually analyzed to find in which categories their weaknesses lie (i.e., survivability, efficiency, or mission) and then find a means of addressing these weaknesses so that they can forecast a means of accomplishing their mission goals over an extended period of time without short-term survivability issues driving long-term mission goals.