

Nonprofits from page 9

a five-year decline in government funding. That decline has left its mark on Ninth District nonprofits. In Rapid City, nonprofits addressing youth, mental health, domestic violence, substance abuse and other services have been affected, Parker said. While the dollar amounts of lost funding might not always seem large, “for them it was substantial. Those programs have really struggled.”

Kate Barr, head of the Nonprofits Assistance Fund in Minneapolis, said the social services sector “is still really playing catch-up” because of rising service demands and poor funding. Programs serving people with disabilities, for example, are seeing more clients (profiled in the January *fedgazette*), while funding—typically from federal and state governments—is not keeping pace. Because the service delivery model in most of these programs is very labor intensive, productivity and program efficiency gains over time tend to be very small, Barr said. “So the costs are not in balance with the resources.”

Sertich, from the Northland Foundation, said the erosion of public funding “continues to have a strong impact” in northeastern Minnesota. Programs serving children and youth lost significant operating funding from government, he said, and many organizations sought support from area grantmakers. But Sertich added that “the scale of support that the federal and state governments can provide is difficult to replace by local governments, philanthropy and community giving.”

A foundation of individuals

Compounding lagging government funding has been an apparently slow recovery of charitable donations from individuals and foundations.

The biggest pot of charitable giving comes from individuals. In Minnesota, individuals account for three-quarters of charitable contributions, according to the Minnesota Council of Nonprofits (MCN), and most states see relatively similar levels. As a result, said Sertich, in Duluth, “many nonprofits are looking to increase their individual giving programs, particularly those that have traditionally relied on public funding and contracts.”

But individual giving has been sluggish since the recession, at least according to some sources. Available data on charitable contributions are sparse, and not particularly timely. IRS tax returns through 2012 show that cash and noncash charitable contributions nationwide have grown modestly every year since the end of the recession, but remain below pre-recession levels on an inflation-adjusted basis (see Chart 2). In Minnesota, individual giving rebounded from \$3.8 billion in 2009 to \$4.1 billion by 2012. But giving remains well below the \$4.4 billion peak in 2007 (see Chart 3).

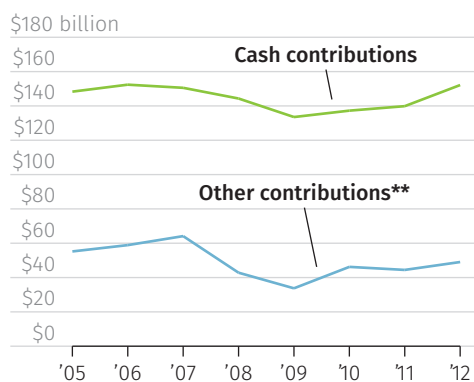
To put increased individual giving in a broader context, a large proportion of total charitable giving—roughly one-third, according to Giving USA—goes to reli-

Continued on page 12

Individual giving remains sluggish

CHART 2

Cash and noncash charitable deductions on IRS returns
Inflation-adjusted*



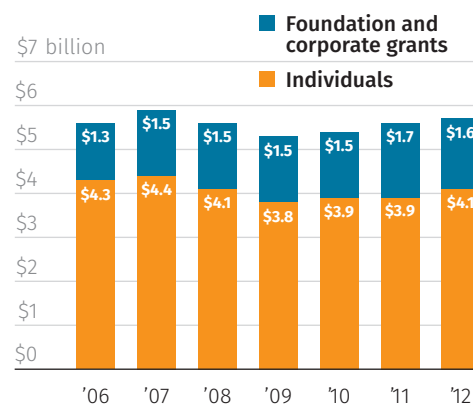
* Using PCE Index
** Includes donations of securities, real estate and other noncash items of value

Source: IRS and author's calculations

A little more charitable

CHART 3

Charitable giving in Minnesota
Inflation-adjusted*



*Using CPI as published in MCF report
Source: Minnesota Council on Foundations

A world of nonprofits

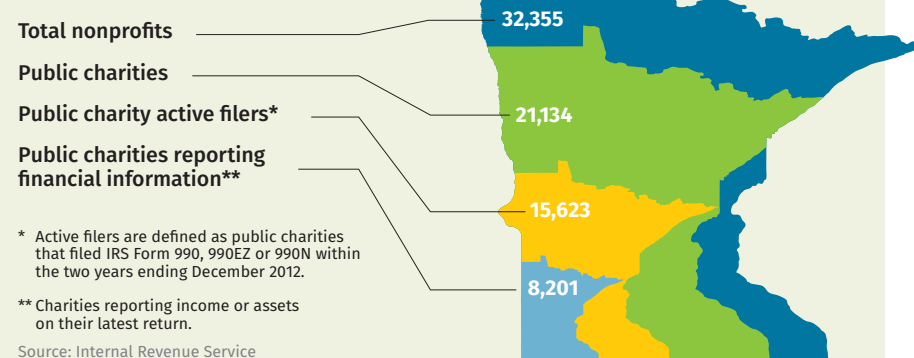
Tracing the arc of nonprofits since the Great Recession comes with a host of caveats. For example, this umbrella term covers organizations involved in most everything: health care, human services, the arts, higher education, the environment, public and international affairs, sports, animals, religion and science. It encompasses multibillion-dollar organizations along with hundreds of thousands of groups with diverse missions that have neither revenue nor assets.

As a result, the term nonprofit itself is a bit of a misnomer—“a kind of fiction ... because the components are so varied,” said Kate Barr, executive director of the Nonprofits Assistance Fund.

Data on the sector are improving, but they're significantly less robust than those on the overall private economy and its many sectors like finance or manufacturing. Part of the measurement problem stems from the way nonprofits are defined and categorized; they're ubiquitous, yet largely hidden from view. For example, Minnesota has more than 32,000 registered nonprofits, but many have no staff or income; fewer than one in three reports any revenue or assets to the Internal Revenue Service.

Nonprofits come in a plethora of forms, thanks to carve-outs in the federal tax code. The most familiar (and largest) category of nonprofits is 501(c)(3)—tax-exempt organizations that can accept tax-deductible contributions. This category includes most public charities and private foundations.

Nonprofits in Minnesota



* Active filers are defined as public charities that filed IRS Form 990, 990EZ or 990N within the two years ending December 2012.

** Charities reporting income or assets on their latest return.

Source: Internal Revenue Service

There are dozens of additional classes of tax-exempt, noncharitable organizations, most of them narrow and small: social and fraternal clubs, farming and political organizations, business and civic groups.

Public charities make up slightly more than half of all nonprofits, and about two-thirds of those have reportable revenue or assets. The number of charitable groups is also growing, rising almost 30 percent from 2003 to 2013 in the Ninth District and nationwide.

The ranks of noncharitable organizations, on the other hand, shrank by 26 percent in the district and 24 percent in the nation over this period. This downward trend among noncharities started well before the recession, driven by a long-term decline in social, fraternal and civic groups (like Rotary) once common in communities.

Among all nonprofits, there are also revenue haves and have-nots. Despite the impression that nonprofits—especially charities—survive on donations, in fact the sector takes in almost 70 percent of its revenue from fees paid by either government or private sources. A disproportionate chunk of this revenue is earned by health care providers and higher education institutions (“eds and meds” in nonprofit-speak).

Where possible, the main article focuses on trends among public charities and foundations, excluding noncharitable nonprofits. Among charities, the discussion (particularly from expert sources) centers on nonprofits other than health care and higher education.

—Ronald A. Wirtz