Financial Comparisons of the Nonprofit Sectors in Indianapolis and Eight Metropolitan Areas

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Current research at the Center is focused on investment strategies to enhance the quality of life in Indiana communities. Because nonprofit organizations make vital contributions to communities, the Center conducts ongoing research on the nonprofit sector. This report is one result of that research. It is also part of a larger agenda in which Center analysts are comparing Indiana and Central Indiana with eight other regions around the nation.

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EXECUTIVE SUMMARY

This analysis is part of a larger research agenda comparing Central Indiana with eight regions. The Metropolitan Statistical Area (MSA) is the level of geography used in this report. We present data for the Indianapolis MSA along with data for the MSAs of Austin, Cincinnati, Cleveland, Columbus, Kansas City (Missouri), Nashville, Raleigh-Durham, and Sacramento. The comparisons in this report show:

- The average population of the nine metropolitan areas is 1,568,687. Indianapolis ranks fifth in population size with 1,607,486 people.
- Per 10,000 people, Nashville has the fewest service-providing nonprofits (42) and Kansas City has the most (57). Indianapolis ranks second with 56 organizations per 10,000 people.
- Per 100,000 people, Sacramento has the fewest foundations (6) and Cleveland has the most (51). Indianapolis is in the middle of the distribution with 20 foundations per 100,000 people.
- By category, the highest percentage of nonprofits in all nine MSAs was in the human services category. Austin had the smallest proportion of human services organizations (29 percent) and Columbus had the largest (41 percent). Indianapolis had the second highest percentage of human services organizations (36 percent).
- The average of the total nonprofit income within each MSA is $5.4 billion.
- The average income of the nonprofits in the Indianapolis MSA is $3.9 million, third highest among the nine MSAs.
- Total contributions to nonprofits for the nine areas are $11.1 billion, for an average of $1.2 billion. Indianapolis ranks fifth with total contributions of $1.1 billion. Per capita, Indianapolis ranks sixth with $659 in contributions.
- Total nonprofit expenditures are $42.4 billion for an average of $4.7 billion. Indianapolis ranks second in expenditures with $5.4 billion. Per capita, Indianapolis ranks third with expenditures of $3,359.
- Total salaries paid by nonprofits for all areas is $15.2 billion, for an average of $1.7 billion. Indianapolis ranks fourth in nonprofit salary expenditures with $1.8 billion. Per capita, Indianapolis ranks fifth with $1,091.
- Because of the influence of Lilly Endowment, Inc., Indianapolis foundations rank first in assets, revenues, and grants paid. With the inclusion of Eli Lilly and Company Foundation, Indianapolis ranks first in contributions to foundations.

- Indianapolis nonprofits rank fifth in average equity balance. When considering the service subsectors across all MSAs, the health subsector has the highest average equity balance.
- When evaluating the sources of income for nonprofits, Indianapolis nonprofits rank fourth in percentage of income received from contributions (45 percent), fifth in percentage of income from program revenue (28 percent), and fourth in percentage of income from other revenue (26 percent). When considering the service subsectors across all MSAs, religious nonprofits are the most reliant on contributions.
- Indianapolis ranks third in average financial operating margin (6.9 percent). When considering the service subsectors across all MSAs, the religion and public/societal benefit categories have the top ranks in operating margin (10.8 and 10.6 percent).
- Indianapolis has the second least financially vulnerable nonprofit sector. When considering the service subsectors across all MSAs, the public/societal benefit categories is the least vulnerable.
- Indianapolis is tied for most solvent with 84 percent of its nonprofits showing current ratios over 2.0. When considering the service subsectors across all MSAs, the education category is the most solvent—89 percent of education nonprofits have a current ratio over 2.0.

INTRODUCTION

The nonprofit sector in the United States is large and rapidly growing (Schwinn, 2003),and is an important part of metropolitan America.An earlier report issued by the Center for Urban Policy and the Environment (Center) documented the importance of the nonprofit sector for the Central Indiana area (Bielefeld & Linders, 2003). In this report, we extend our examination of Indianapolis by including it in a comparative analysis of nine metropolitan areas. This analysis focuses on a number of financial aspects of the nonprofit sector in these areas.

Methodology

This analysis is part of a larger research agenda by the Center to compare Central Indiana with eight comparison regions. These regions were selected on criteria including population size, economic structure, geographic location,presence of a state capital,and presence of a major research university. The comparison regions include four from the Midwest and four from elsewhere in the country. An earlier Center report (Kirlin,2003) provides information on the regions and the rationale for the comparative urban agenda.Each region contains a major metropolitan area, and this analysis compares the nonprofit sectors in these urban areas. These eight comparison regions include the MSAs of Austin, Texas;Cincinnati,Cleveland, and Columbus, Ohio; Kansas City, Missouri;Nashville, Tennessee; Raleigh-Durham,North Carolina;and Sacramento, California.[1]

The nonprofit data used in this report were drawn from year 2000 information provided to the Internal Revenue Service (IRS) by nonprofit organizations.All nonprofits (other than churches) with annual revenues of $5,000 or more are required to register with the IRS. These registrations provide the total number of nonprofits in a given area.In addition,nonprofit organizations that have annual revenues of $25,000 or more are required to annually submit a Form 990 or Form 990-PF to the IRS. These forms provide a variety of operational and financial data. While the "990-filing" organizations account for only about one-third of all of the nonprofit organizations registered with the IRS,they account for about 93 percent of the financial activity of the entire nonprofit sector (Toepler, 2003). This is important because nationwide data from the IRS are available only for these organizations.So while this report does not include all nonprofit organizations in the nine regions, the data present an accurate picture of the major financial aspects of the sector in these areas and, therefore, do contribute to the understanding of the third sector in these communities.

In addition,this report is based on data from "public charities"—those nonprofit organizations granted federal tax exemption under IRS section 501(c)(3). These

[1] The U.S. Office of Management and Budget revised the definitions for MSAs in June 2003,affecting many MSA boundaries including those of the Indianapolis MSA. These analyses use the former definition.

organizations provide services and funding for human and social services in the areas of education, arts and culture, health, youth, family, elderly, community, and religion. These nonprofits are also eligible to receive tax-deductible contributions from individuals and corporations. Nationwide, they comprise 63 percent of the more than 1.4 million nonprofits registered with the IRS in 2002 (Schwinn, 2003, p. 39). In addition, they account for approximately 90 percent of the financial and employment activity of the entire nonprofit sector (Weitzman, Jalandoni, Lampkin, & Pollak, 2002, pp. 3–51).

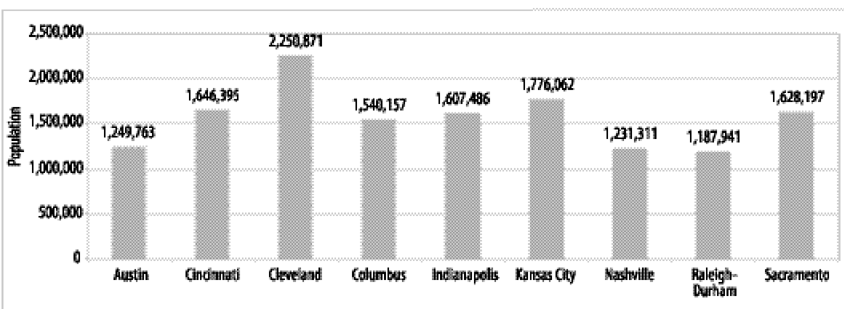
The IRS data used in this report were obtained in late 2002 and early 2003 from the National Center for Charitable Statistics (NCCS), which is part of the Urban Institute in Washington, D.C. The financial data were drawn from the IRS Form 990s filed for 2000.

POPULATION AND THE NONPROFIT SECTOR IN NINE MSAs

Figure 1 shows the total populations of all counties in each of the nine MSAs included in this analysis.[2] These nine MSAs all can be classified as medium size. The combined total population for all nine areas is 14.1 million, for an average of 1.6 million people per metropolitan area. The actual population range is from 1.2 million people in Raleigh-Durham to 2.3 million people in Cleveland. Other smaller sites include Nashville and Austin.

The Indianapolis metropolitan area ranks fifth in the size distribution, with a larger population than Austin, Columbus, Nashville, and Raleigh-Durham, and a smaller population than Cincinnati, Cleveland, Kansas City, and Sacramento.

Figure 1: **Indianapolis Ranks Fifth in Population Size Among the Comparison Regions, Year 2000**



Service-providing nonprofits

The nonprofit sector can be divided roughly into two categories: (1) organizations providing services to beneficiaries, and (2) foundations (nonprofits that provide funding only). We will examine the first category in this section. The total number of service-providing nonprofits in the nine metropolitan areas is 72,313, for an average of 8,035 organizations per site. This is the number of service-providing nonprofits with gross receipts of $5,000 or more that are required to register with the IRS. The number includes 14,077 organizations that filed a Form 990 with the IRS, an average of 1,564 filers per site. These are organizations with $25,000 or more in annual gross receipts. The number includes some, but not all religious congregations in the areas, as these do not need to register with the IRS, although some choose to do so.

Figure 2 (see page 6) shows the number of service-providing nonprofit organizations per 10,000 people in each metropolitan area as well as the subset of nonprofit Form 990 filers. Without taking population into account, the total number of service-providing nonprofits in the nine metropolitan areas varies by a factor of 2.3

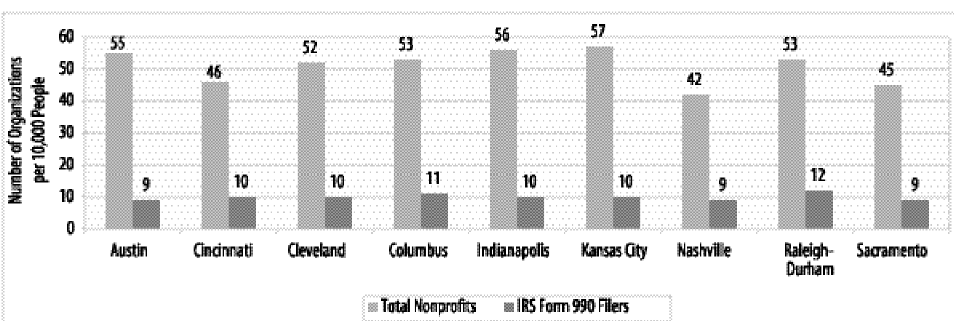
[2] This information was obtained from Census 2000 Summary File 3.

from a low of 5,192 in Nashville to 11,786 in Cleveland. The Indianapolis non-profit sector ranks third in size with 9,000 organizations.

When taking metropolitan population into account, the sector still varies, although not by as much. The smallest nonprofit sector is still in Nashville, with 42 organizations per 10,000 people, and the largest is in Kansas City with 57 organizations per 10,000 people. Indianapolis ranks second with 56 nonprofits per 10,000 people, and Austin is close behind with 55.

The total number of Form 990 filers in the nine metropolitan areas ranges from 1,160 in Nashville to 2,248 in Cleveland. Indianapolis ranks fourth with a total of 1,581 Form 990 filing nonprofits. Taking population into account, the range for the number of 990 filers is from 9 organizations per 10,000 people in Austin, Nashville, and Sacramento, to 12 organizations per 10,000 people in Raleigh-Durham. Indianapolis has 10 organizations per 10,000 people, as do Cincinnati, Cleveland, and Kansas City.

Figure 2: **Indianapolis Ranks Second in Number of Service-Providing Nonprofits Among the Comparison Regions, Year 2000**

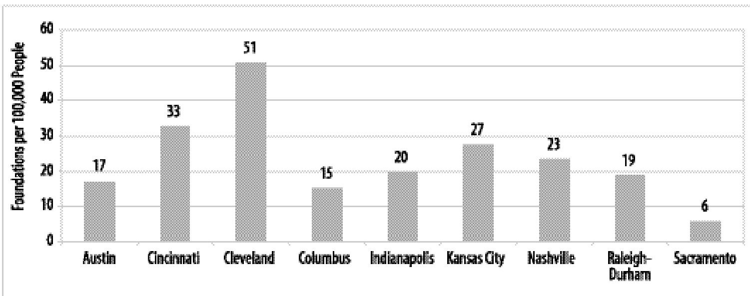


Foundations

In all nine metropolitan areas, there are a total of 3,552 foundations, an average of 395 foundations per area. The number of foundations ranges from 97 foundations in Sacramento to 1,144 in Cleveland. Indianapolis ranks fourth with 318 foundations.

Figure 3 shows the number of foundations per 100,000 people in each area. This number varies considerably, ranging from 6 foundations per 100,000 people in Sacramento to 51 foundations per 100,000 people in Cleveland. Indianapolis ranks fifth with 20 foundations per 100,000 people, more than Austin, Columbus, Raleigh-Durham, and Sacramento, and fewer than Cincinnati, Cleveland, Kansas City, and Nashville. Given that foundations are likely to provide resources to nonprofits in their area, this variation could have consequences for how much money is available locally to the service-providing nonprofits in these areas. Foundation finances are examined on pages 13 to 15.

Figure 3: **Indianapolis Ranks Fifth in Number of Foundations per 100,000 People Among the Comparison Regions, Year 2000**



TYPES OF NONPROFITS

Nonprofits often are categorized based on the types of services they provide. The NCCS has developed a useful taxonomy for this purpose, called the National Taxonomy of Exempt Entities (NTEE). A description of the NTEE can be found at the NCCS's Web site: http://nccs.urban.org/ntee-cc/summary.htm. See Appendix A for descriptions of categories.

Table 1 shows the percent of nonprofits in each of six major NTEE service categories plus an "other" category in the nine metropolitan areas. The "other" category includes nonprofits providing environmental, animal related, international/foreign affairs/national security, mutual/membership benefit, and unknown services.

The largest numbers of nonprofits in each metropolitan area are in the human services category, providing services for which the nonprofit sector traditionally has been best known. The percentages vary, however, from 29 percent in this category in Austin to 41 percent in Columbus. The educational category has the second highest percentages of organizations in all of the metropolitan areas except Cleveland. Here the numbers vary from 16 percent in Columbus and Nashville to 23 percent in Raleigh-Durham. Somewhat smaller percentages are found in health (12 to 17 percent) and the public/societal benefit (10 to 19 percent) categories.

The percentages then decline for the remaining categories. The arts/culture/humanities portion of the sector is fairly consistent at between 8 and 11 percent. The religion related portion ranges from 3 to 7 percent, except in Nashville where 12 percent of the nonprofits are religion related. It should be noted, however, that most churches are not registered with the IRS and therefore do not appear in these data.

Table 1: **Human Services Nonprofits Are the Most Prevalent Type in All the Comparison Regions, Year 2000**

MSA	Arts/Culture/ Humanities	Educational	Health	Human Services	Public/Societal Benefit	Religion Related	Other
Austin	11%	22%	13%	29%	13%	4%	8%
Cincinnati	10%	18%	16%	35%	12%	5%	5%
Cleveland	9%	17%	15%	30%	19%	4%	5%
Columbus	9%	16%	13%	41%	13%	3%	5%
Indianapolis	8%	19%	15%	36%	12%	6%	5%
Kansas City	9%	19%	17%	30%	15%	7%	4%
Nashville	8%	16%	13%	34%	11%	12%	6%
Raleigh-Durham	10%	23%	13%	32%	14%	3%	5%
Sacramento	9%	19%	12%	36%	10%	4%	10%

In Indianapolis, the nonprofit sector has a relatively large percentage of human services, educational, and health providers and a relatively small percentage of public/societal benefit and arts/culture/humanities providers. The data show that 36 percent of Indianapolis nonprofits are human services providers (tied for second highest percentage with Sacramento), 19 percent are education providers (tied for third highest percentage with Kansas City and Sacramento), and 15 percent are health providers (tied for third highest percentage with Cleveland). On the other hand, 12 percent are public/societal benefit providers (the third lowest percentage) and 8 percent are arts/culture/humanities providers (the lowest percentage). However, the percentage differences between the metropolitan areas are often small and there are ties between metropolitan areas.

It can be concluded from these figures that in each of the nine MSAs, nonprofits are providing the expected kinds of services. Communities vary, however, in terms of the relative numbers of nonprofits in particular service areas—resulting in the areas being more or less "provider rich" in particular types of services. Two important questions are: To what degree are communities with fewer nonprofit providers of a given type in need of these organizations? And do these communities have other facilities (such as public agencies) that provide their citizens with services? The examination of these questions is beyond the scope of this study.

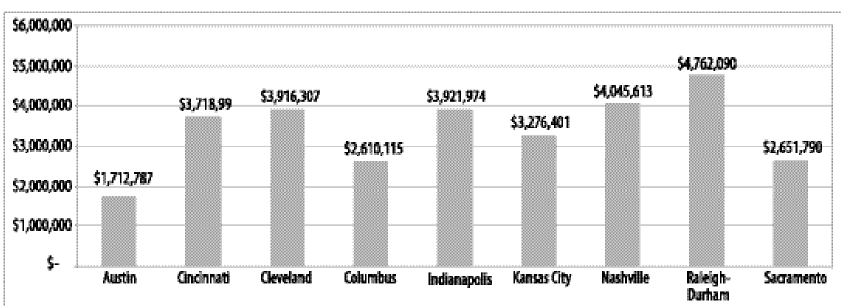
BASIC FINANCIAL PICTURE OF THE NONPROFIT SECTOR IN NINE MSAs

In this section, we will examine a number of basic financial measures, including income, expenditures, salaries, and gifts to and from nonprofits and foundations. These measures present a picture of the financial scope of the nonprofit sector and the contributions that the sector makes in each metropolitan area. Once again, the data are from the 14,077 nonprofits and 3,552 foundations with gross receipts of $25,000 or more.

Income of service providers

Income (or total revenue) can be found on line 12 of IRS Form 990. The sum of the income of all service-providing nonprofits in nine metropolitan areas is $48.5 billion for an average total nonprofit sector income of $5.4 billion in each metropolitan area. It is useful to examine the average income of the nonprofits in the metropolitan area for an indication of whether the nonprofit sector in that area is composed of large or small organizations. Figure 4 shows the average income of nonprofit organizations in each metropolitan area. The Raleigh-Durham area has the highest average nonprofit income ($4,762,090) and Austin has the lowest ($1,712,787). The average nonprofit income for the Indianapolis area is $3,921,974 (ranking third), which indicates that Indianapolis has a number of large nonprofits.

Figure 4: **Indianapolis Ranks Third in Average Nonprofit Income Among the Comparison Regions, Year 2000**



An important aspect of income is the amount of money that nonprofits receive in donations from their communities. Contributions to nonprofits are found on line 1d of IRS Form 990. IRS data, however, do not distinguish between contributions from individuals, corporations, and government. If we assume that federal contributions are relatively similar in each area, the contribution amount can provide us with an indication of the degree of local support for the sector.

Table 2 shows that total contributions for all areas is $11.1 billion for an average of $1.2 billion in total contributions for each area.The nonprofits in Raleigh-Durham receive the most in contributions ($2.3 billion) while those in Austin receive the least ($631 million). Total contributions to nonprofits in Indianapolis rank fifth.On a per capita basis, contributions to the nonprofits range from $444 in Sacramento to $1,966 in Raleigh-Durham.Indianapolis, with $659 in contributions per person, ranks sixth.

Table 2: **Contributions to Indianapolis Nonprofits Exceeds $1 Billion, Year 2000**

MSA	Contributions	Contributions Per Person
Austin	$631,220,949	$505
Cincinnati	$1,152,286,072	$700
Cleveland	$1,901,312,923	$845
Columbus	$965,674,783	$627
Indianapolis	$1,059,800,868	$659
Kansas City	$1,359,680,453	$766
Nashville	$998,871,000	$811
Raleigh-Durham	$2,335,289,110	$1,966
Sacramento	$722,928,578	$444
Total	**$11,127,064,736**	

Expenditures and salaries of service providers

Nonprofit expenditures and salaries paid provide an indication of the financial contributions these organizations make to their communities. While no precise figures exist on the proportion of nonprofit spending that goes to the metropolitan areas in this study, a recent study of nonprofits in Michigan (Public Sector Consultants, 1999) found that 77.4 percent of their expenditures (excluding wages and salaries) was spent on the purchase of goods and services from Michigan firms.It seems safe to assume that a large portion of expenditures are spent in the communities where the organizations are located.

Table 3 shows the total and per capita expenditures and salaries for the nonprofits in the metropolitan areas. The sum of all nonprofit expenditures of the nonprofit providers in all nine metropolitan areas is $42.4 billion for an average of $4.7 billion in each area. Total nonprofit expenditures range from $1.8 billion in Austin to $7.9 billion in Cleveland. Nonprofit expenditures in Indianapolis rank second at $5.4 billion.On a per capita basis, total nonprofit expenditures range from $1,409 in Austin to $4,532 in Raleigh-Durham. The per capita total expenditures of Indianapolis nonprofits rank third at $3,359.

The sum of all salaries paid by the nonprofit providers in all nine metropolitan areas is $15.2 billion for an average of $1.7 billion in each area. Total salaries range from $697 million in Austin to $3 billion in Cleveland. Salaries paid by Indianapolis providers total $1.8 billion, ranking fourth. On a per capita basis, the total salaries paid range from $558 per person in Austin to $1,463 per person in Raleigh-Durham. Total salaries per capita of Indianapolis providers rank fifth at $1,091 per person.

Table 3: **Total Expenditures and Salaries of Nonprofits in Nine MSAs Exceed $57 Billion, Year 2000**

MSA	Expenditures	Expenditures per Person	Salaries	Salaries per Person
Austin	$1,761,366,747	$1,409	$697,349,324	$558
Cincinnati	$5,170,357,795	$3,140	$1,954,663,090	$1,187
Cleveland	$7,893,431,624	$3,507	$3,022,143,760	$1,343
Columbus	$4,066,703,112	$2,640	$1,431,991,258	$930
Indianapolis	$5,399,347,407	$3,359	$1,754,079,975	$1,091
Kansas City	$4,985,860,482	$2,807	$1,887,094,170	$1,063
Nashville	$4,012,209,160	$3,258	$1,646,466,880	$1,337
Raleigh-Durham	$5,383,586,395	$4,532	$1,737,689,240	$1,463
Sacramento	$3,692,219,825	$2,268	$1,109,889,955	$682
Total	**$42,365,082,547**		**$15,241,367,652**	

Foundation financial measures

Foundations are important community assets, collecting and dispersing resources to nonprofits. As pointed out above, there are 3,552 foundations in the nine metropolitan areas. We examine the assets, revenues, and grants paid by the foundations using data found on the IRS Form 990-PFs in this section. The data used from the 990-PF include total assets fair market value (Part II, line 16c), total revenue (Part I, line 12), and contributions, gifts, grants paid (Part I, line 25).

Table 4 (page 14) shows the metropolitan total and per capita amounts for assets, revenues, and grants paid. Indianapolis numbers are strongly influenced by Lilly Endowment, Inc. (LEI), which reported assets of $15.6 billion, revenue of $612 million, and grants paid of $583 million. Results for Indianapolis are presented both including and excluding LEI.

Total assets held by all of the foundations in this study is $35 billion, an average of $3.9 billion in total foundation assets per metropolitan area. The range of total assets is from $304 million in Sacramento to $17 billion in Indianapolis. Per capita, the range is from $187 per person in the Sacramento MSA to $10,844 per person in the Indianapolis MSA. Indianapolis ranks third without LEI for a sum total of $1.8 billion in assets ($1,145 per person, fourth).

Total revenues of all the foundations in these study areas are $4 billion, an average of $452 million in total foundation revenues per metropolitan area. Table 4 shows that total revenues range from $67 million in Sacramento to $1 billion in Indianapolis. On a per capita basis, the range is from $41 per person in Sacramento to $684 per person in Indianapolis. If we exclude LEI, Indianapolis ranks third with $488 million in revenue ($303 per capita, second).

Total grants paid by foundations in all nine metropolitan areas are $1.8 billion for an average of $204 million in total grants paid per metropolitan area. Total grants paid ranges from $12 million in Sacramento to $779 million in Indianapolis. On a per capita basis, the range is from $7 per person in Sacramento to $484 per person in Indianapolis. Excluding LEI, Indianapolis ranks third with a total of $195 million in grants paid ($121 per capita).

Table 4: **Indianapolis Foundations' Assets, Revenues, and Grants Paid Are the Highest Among the Comparison Regions When Including Lilly Endowment, Inc., Year 2000**

MSA	Assets	Assets per Person	Revenues	Revenues per Person	Grants Paid	Grants Paid per Person
Austin	$908,055,551	$727	$368,755,240	$295	$48,601,326	$39
Cincinnati	$1,776,250,042	$1,079	$467,070,189	$284	$155,517,271	$94
Cleveland	$5,402,271,846	$2,400	$674,056,303	$299	$374,454,130	$166
Columbus	$601,417,853	$390	$117,327,304	$76	$66,747,963	$43
Indianapolis	$17,432,099,832	$10,844	$1,099,624,624	$684	$778,570,883	$484
Indianapolis w/o LEI*	$1,840,399,958	$1,145	$487,588,623	$303	$195,280,883	$121
Kansas City	$5,974,277,048	$3,364	$923,144,375	$520	$267,654,640	$151
Nashville	$1,084,808,304	$881	$136,555,656	$111	$57,354,785	$47
Raleigh-Durham	$1,484,505,030	$1,250	$219,204,428	$185	$72,260,582	$61
Sacramento	$304,431,899	$187	$66,641,030	$41	$11,645,943	$7
Total	**$34,968,117,406**		**$4,072,379,149**		**$1,832,807,523**	

* *Not included in totals.*

One significant aspect of revenue or income is the degree to which contributions flow into foundations. Foundations report the revenues they receive from contributions on line 1 of IRS Form 990-PF. This form, however, does not allow us to distinguish between government, corporate, and individual gifts.

Total contributions to the foundations in all nine metropolitan areas are $1.1 billion for an average of $125 million per area. Table 5 shows the total contributions going to the foundations in each metropolitan area and the per capita amounts. The range of contributions is from $34 million in Raleigh-Durham to $333 million in Indianapolis. Per capita, the range is from $22 in Sacramento to $207 in Indianapolis. The contributions in Indianapolis are high because of Eli Lilly Company and Foundation (a separate foundation from LEI), which reported contributions of $150 million on its Form 990-PF. In this case, LEI figures were modest ($137,537). Table 5 shows Indianapolis both with and without Eli Lilly Company and Foundation (ELCF).[3]

[3] The Eli Lilly Foundation is a subsidiary of Eli Lilly and Company. Lilly Endowment, Inc., is entirely separate.

Table 5: **Individual, Corporate, and Government Contributions to Foundations Are the Highest in Indianapolis Among the Comparison Regions, Year 2000**

MSA	Contributions	Contributions per Person
Austin	$62,737,529	$50
Cincinnati	$291,638,276	$177
Cleveland	$118,988,058	$53
Columbus	$56,687,237	$37
Indianapolis	$332,704,320	$207
Indianapolis w/o ELCF*	$182,704,199	$114
Kansas City	$143,440,607	$81
Nashville	$52,312,408	$42
Raleigh-Durham	$33,533,661	$28
Sacramento	$35,214,022	$22
Total	**$1,127,256,118**	

* *Not included in totals.*

FINANCIAL PERFORMANCE INDICATORS

Analysts have proposed a variety of financial measures to assess nonprofit performance with considerable debate in recent years over their utility and appropriate use. A recent review (Ritchie & Kolodinsky, 2003) considers 16 measures and several dimensions of performance—and the authors acknowledge that this does not exhaust the options. In this report, we focus on several financial measures that have been suggested and used by academics and practitioners. The goal is to use these measures to shed light on several aspects of the financial state of the nonprofit sector in the metropolitan areas. The remaining sections of this paper are based only on the data from service providers. Foundations are not included in the analysis.

Tuckman and Chang (1991) assert that financial vulnerability should be studied because the nonprofit sector is large, growing rapidly, affects many people, and impacts employment. (Financial vulnerability is defined as a situation where an organization will likely have to cut back its service offerings immediately when it experiences a financial shock.) Tuckman and Chang (1991, p. 450) comment:

> "Four criteria are used to identify nonprofits with the least flexibility to withstand financial shocks. Financial flexibility is assumed to exist if an organization has access to equity balances, many revenue sources, high administrative costs, and high operating margins. Organizations that lack flexibility are assumed to be more vulnerable than organizations with flexibility."

While there are no data relating vulnerability to death or survival, Tuckman and Chang (1991, p. 451) contend that "our methodology can identify the nonprofits that are likely to be the first to feel the financial pressure."

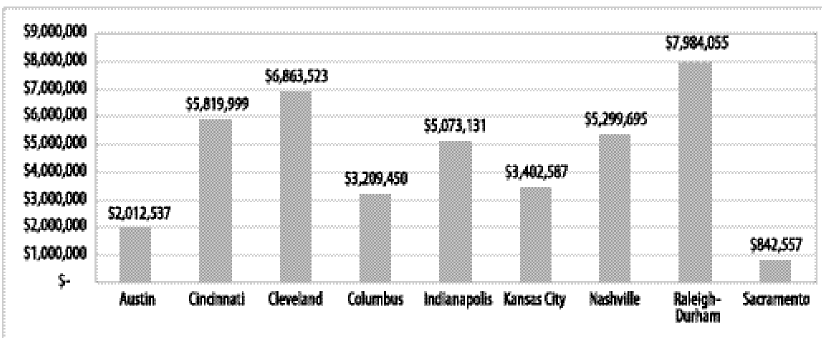
For the nonprofits in these nine MSAs, we examine a number of the measures suggested by Tuckman and Chang, including equity balances, revenue concentration, and operating margins. The data obtained from NCCS do not include the items needed for computing administrative costs. In addition, we examine financial vulnerability and financial solvency.

Equity balance

Tuckman and Chang (1991, p. 451) contend that "nonprofits with large amounts of equity are in a better position to borrow funds than nonprofits with little or no equity. Equity is the amount left over when a nonprofit's liabilities are subtracted from its assets." This measure was applied to the nonprofits in the nine metropolitan areas by subtracting the organizations' end-of-year liabilities (line 66b on Form 990) from their end-of-year assets (line 59b).[4] Figure 5 shows the average equity balance of the non-profits in each area. The range is from $842,557 in Sacramento to $8.0 million in Raleigh-Durham. The nonprofits in Indianapolis are in fairly good shape according to this measure. The equity balance average in Indianapolis is $5 million, ranking fifth among the comparison areas.

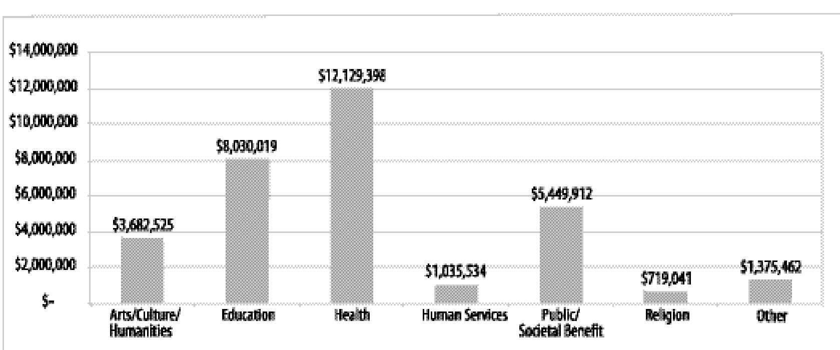
[4] For this measure, a relatively small number of organizations (123) indicated negative assets or liabilities. The NCCS advises that, based on the way Form 990 can be completed, negative assets can be considered to be positive liabilities, and vice versa (http://nccs-dataweb.urban.org/FAQ/detail.php?linkID=136&category=11&xrefID=1345). The negative values in our data were recoded according to this rule.

Figure 5: **Indianapolis Ranks Fifth in Average Equity Balance Among the Comparison Regions, Year 2000**



To get an indication of how nonprofits providing various services are faring, we also calculated this measure by subsector (for all metropolitan areas combined). Figure 6 shows the averages within each service category. The range is from $719,041 (religion category) to $12.1 million (health category). It is noteworthy that the average equity balance of human service providers is low ($1 million). This may be problematic given the important services these organizations provide, and should be investigated further.

Figure 6: **The Health Subsector Has the Highest Average Equity Balance, Year 2000**



Financial concentration

The concentration of income is another indicator of a nonprofit's financial situation. It can be risky for an organization to be highly dependent on one source of income. If this source of income declines, the organization may have problems (or at least delays) developing alternative funding. If an organization receives a large percentage of its income from one or two funders or from one type of revenue, the organization potentially may be at risk financially.

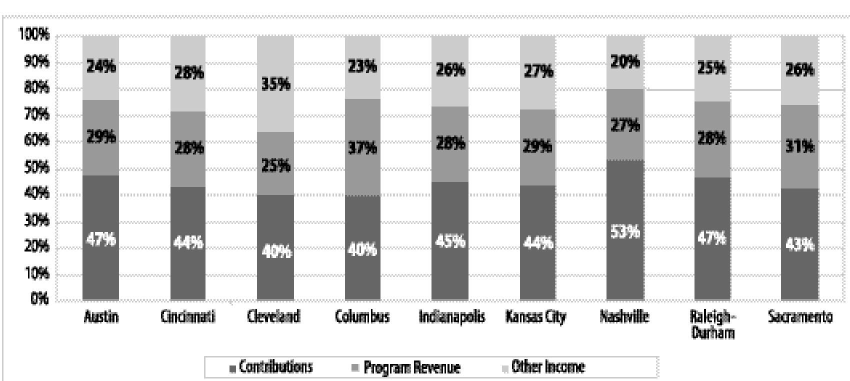
For each organization, we used Form 990 data to compute the degree to which total income came from three categories (or types) of income. The three categories are: contributions (line 1d); program revenue (line 2); and other revenue (lines 3 [membership dues], 4+5+7 [investment income], 6c [net rental income], 9c [special events], 10c [sales of inventory], 11 [other revenue]). We divided the income in each category by the total income to determine the percentage of each type of revenue.[5] The results are shown in figures 7 and 8.

[5] For this measure, some organizations (330) had negative values for some income categories (usually other revenue). These values were recoded to zero to reflect the fact that they did not contribute to income concentration. In addition, a small number (24) of organizations had zero total income. These were removed from the analysis.

One important note is that the contributions category includes both private contributions and government grants. IRS Form 990 does provide a way for nonprofits to break out these revenues. Given that these two types of income are likely to involve quite different fundraising practices and spending consequences, the relative reliance on either may be an important factor for an organization and should be considered in a more detailed study of the nonprofit sector.

Figure 7 shows the average percentage of income that the nonprofits in each metropolitan area obtain from contributions, program service revenue, and other sources. It shows that the funding distribution in most metropolitan areas is fairly consistently spread among the three categories. In these metropolitan areas, the reliance on contributions varies from 40 percent in Cleveland and Columbus to 53 percent in Nashville. In

Figure 7: **Concentration of Income Is Well Distributed in Indianapolis, Year 2000**

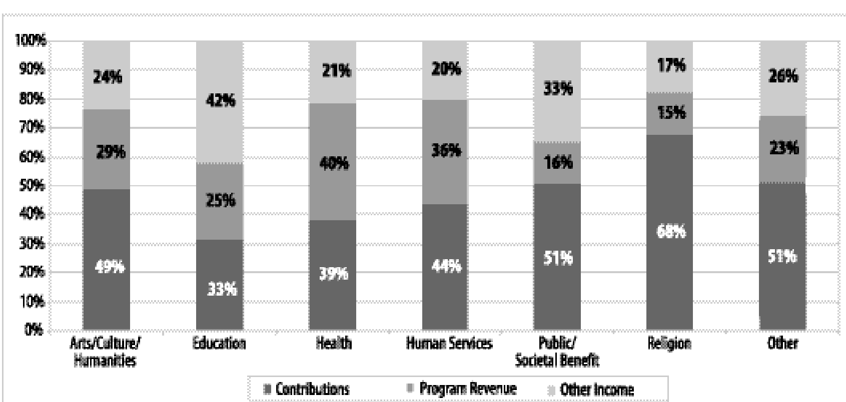


Indianapolis, 45 percent of nonprofit income is from contributions, ranking fourth highest. In addition, Indianapolis also ranks fourth in the percent from other revenue (26 percent) and fifth in the percent from program revenue (28 percent). For this measure, it is good for an organization or sector to have middle ranks on the percentages, as a very high rank would indicate a relatively heavy reliance on one type of funding.

There also is some noteworthy variation within the "other income" category. When we examined this category in more detail, we found that membership dues ranged from 4 to 8 percent, investment income ranged from 3 to 19 percent, and special events revenue ranged from 6 to 10 percent. The remaining components of other income (rental income, sales of inventory, and other revenue) varied by only 1 percent.

The income concentration of nonprofits in the various subsectors (across all metropolitan areas) also is examined here. Figure 8 shows that religious nonprofits are the most reliant on contributions (68 percent). This is followed by public/societal benefit and other service providers (51 percent). On the other hand, education (33 percent) and health (39 percent) nonprofits are the least reliant on contributions. Health providers are most reliant on program revenues (40 percent) and education providers are most reliant on other income (42 percent). Another noteworthy finding is that human services providers are fairly reliant on program service revenue (36 percent, second to the health category). There also is some variation within the "other income" category. When we examined this category in more detail, we found that membership dues ranged from 2 to 7 percent, investment income ranged from 4 to 21 percent, and special events revenue ranged from 2 to 21 percent. The remaining components of other income (rental income, sales of inventory, and other revenue) varied little.

Figure 8: **The Religion Subsector Relies the Most on Contributions as a Source of Income, Year 2000**



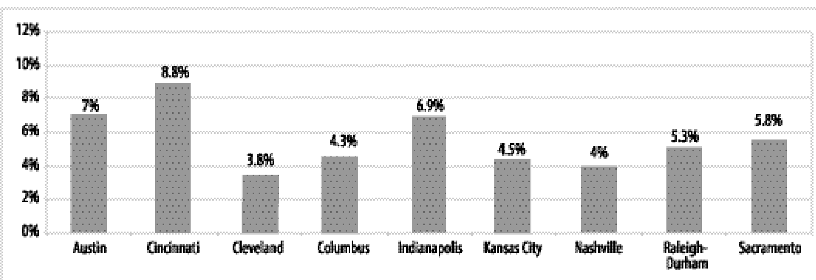
Operating margin

According to Tuckman and Chang (1991, p. 453), "a nonprofit's operating margin is defined as its revenues less its expenditures, divided by its revenues. This shows the percentage that its net income represents of its revenues . . . . The larger the percentage, the larger the potential surplus that a nonprofit has to draw on if its revenues subsequently start to decline." This measure was calculated using the IRS Form 990 values for total revenue (line 12) and expenditures (line 17).[6]

Figure 9 shows the average percentage of the nonprofits' operating margin in each MSA. The range is from 3.8 percent in Cleveland to 8.8 percent in Cincinnati. In Indianapolis, the percentage was high (6.9 percent, the third highest value), indicating that the Indianapolis nonprofit sector is in good shape on this measure.

[6] For this measure, a few organizations (67) had negative total revenue. For these organizations, the absolute value of total revenue was used in the denominator of the calculation so that the measure had the low value that is appropriate. In addition, six organizations reported negative expenditures. According to the NCCS information (see footnote 3 on page 18), these values are likely to be errors. These organizations were, consequently, excluded from the analysis.

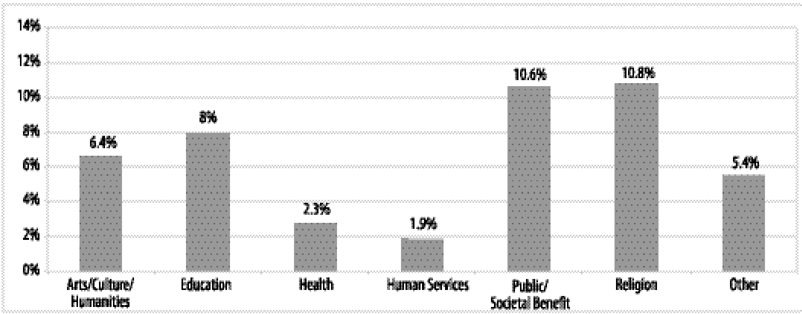
Figure 9: **Indianapolis Ranks Third in Average Operating Margin Among the Comparison Regions, Year 2000**



The values in the figure do not reflect the operating margins of two organizations, one in Cincinnati and the other in Nashville. These organizations were atypical in that they had essentially no revenues and very large expenditures. The calculations of their margins resulted in negative percentages in the ten and hundred thousand range. These values would have reduced the average operating margins in their metropolitan areas to below zero. They were, consequently excluded from figures 9 and 10.

Figure 10 (page 22) shows the average operating margins for each nonprofit subsector. The average operating margins in the subsectors range from 1.9 percent in the human services categories to 10.8 percent in the religion category (followed closely by the public/societal benefit category). Nonprofits in the education category are also in relatively good shape on this measure. Those in the health category, on the other hand, are at about the same low level as human service providers. This indicates that they expended nearly all revenues in the given year.

Figure 10: **The Religion Subsector Has the Highest Average Operating Margin, Year 2000**



Financial vulnerability

Pollak and Pettit (1998) measure vulnerability by considering net worth as a percentage of total expenses. They contend (Pollack & Pettit, 1998, p. 9) that this "captures the extent to which organizations can continue to provide services in the absence of new income." Their measure of vulnerability is computed by dividing net worth (assets minus liabilities) by expenditures. This measure was computed using Form 990 end-of-year assets (line 59b), end-of-year liabilities (line 66b), and expenditures (line 17).[7]

Since a ratio of less than one indicates more expenditures than net worth, and a ratio greater than one indicates higher net worth than expenditures, the higher the number, the better off (less vulnerable) the organization (and metropolitan area). Figure 11 shows the median values of this calculation. The median values indicate that in each metropolitan area, nonprofit expenditures are, on average, greater

[7] For this measure, negative assets and liabilities were recoded as specified in note 3 and organizations with negative expenditures were excluded as specified in note 5. Also, we assumed $1 in expenditures for any organization reporting zero expenditures to avoid a zero in the denominator of the fraction.

Figure 11: **Indianapolis Ranks Second Least Vulnerable in Median Financial Vulnerability Among the Comparison Regions, Year 2000**

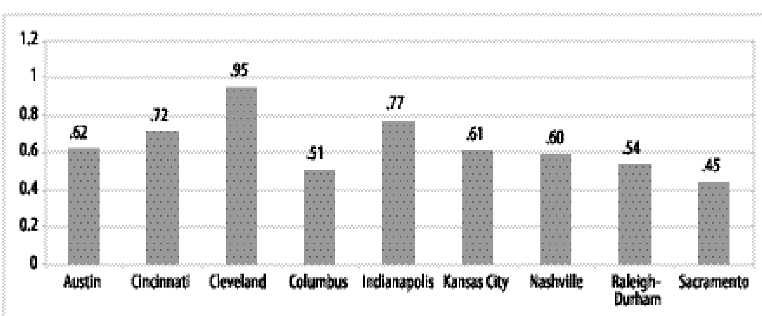
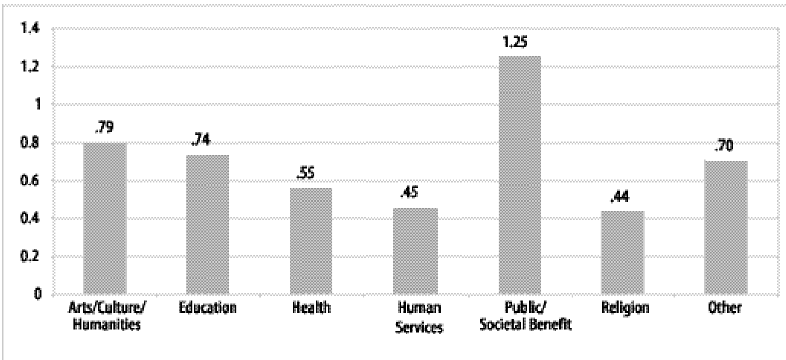


Figure 12: **The Public/Societal Benefit Subsector Is the Least Financially Vulnerable, Year 2000**



than net worth. The Cleveland area has the highest ratio at .95,indicating that these nonprofits, on average, are the least vulnerable. Sacramento has the lowest ratio at .45.Indianapolis has the second highest ratio at .77,indicating that the nonprofits did comparatively well on this measure. Median values are presented on this measure because they seem more reliable than the averages, which showed extreme variation and were, consequently, difficult to interpret (they ranged from -870 in Nashville to 41,587 in Kansas City).

When considering the vulnerability of the nonprofits in the various subsectors, Figure 12 shows that the public/societal benefit providers are the least vulnerable, and the only subsector with higher net worth than expenditures.Religion related organizations are the most vulnerable (but not by much).It also shows that arts/culture/humanities and education providers are also in good shape, while human service providers have a low ratio.

Financial solvency

According to the Charities Review Council (2001, p. 4–6),the current ratio is the most recognized measure of liquidity.This ratio indicates how well an organization's current assets cover its current liabilities. The organization's current ratio should be at least 2:1 (assets to liabilities). This measure is calculated by dividing an organization's end-of-year assets (line 59b) by its end-of-year liabilities (line 66b).[8]

Figure 13 (page 24) shows the percentage of organizations in each metropolitan area that have at least a 2:1 current ratio and the percentage of organizations that have less than a 2:1 current ratio. The most solvent metropolitan areas are those

[8] For this measure, negative assets and liabilities were recoded as specified in note 3. Also, we assumed $1 in liabilities for any organization reporting zero liabilities to avoid a zero in the denominator of the fraction.

that have the most nonprofit organizations with a current ratio greater than 2.

As Figure 13 shows, the percentages of organizations with at least a 2:1 current ratio varies from 72 percent in Columbus to 84 percent in Austin, Cleveland, and Indianapolis. All of the other metropolitan areas were between 80 and 82 percent.

Figure 13: **Indianapolis Ties for First in Financial Solvency Among the Comparison Regions, Year 2000**

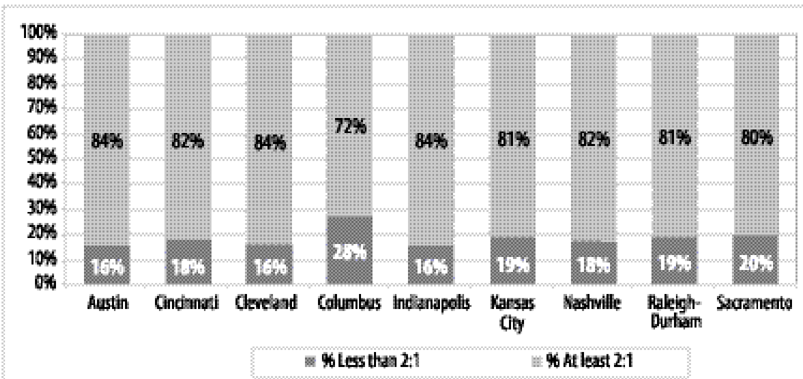
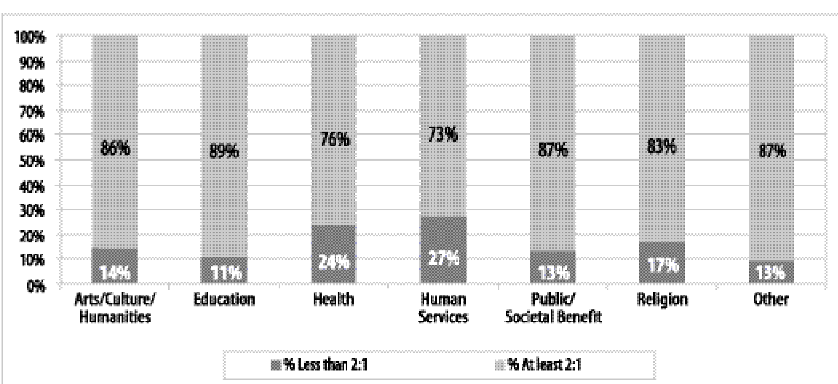


Figure 14 shows financial solvency by nonprofit subsector. The most solvent subsector is the education category, where 89 percent of the providers have a current ratio of at least 2:1. The public/societal benefit, arts/culture/humanities, and other subsectors also have relatively high proportions of providers with 2:1 current ratios (87,86, and 87 percent, respectively). The least solvent subsector is human services, where 27 percent of the providers have a current ratio that is less than 2:1. The health subsector also has a relatively large number of providers with a current ratio of less than 2:1 (24 percent).

Figure 14: **The Education Subsector Is the Most Financially Solvent, Year 2000**



CONCLUSION

A robust nonprofit sector is an important resource for a metropolitan area. In this report, we examine the size and financial health of the nonprofit sector in the Indianapolis MSA and eight comparative metropolitan areas. These factors should influence how well the sectors in these areas can make contributions to their communities. Our findings indicate that the Indianapolis MSA scores high on most indicators, and they document the relative advantage that the nonprofit sector gives to this community. The sector ranks lower on several factors, however, and this should also be considered in the overall assessment of the local nonprofit sector.

The summary in Table 6 (see page 27) is provided to give readers a concise overview of the findings in order to make generalizations easier. It should be noted, however, that whenever information is condensed, some details will be lost. In this case, what is not shown in the table is the magnitude of the differences between the ranks—these differences could be large or small. Those interested in this can find these differences in the sections of the report where the indicators are discussed.

The rankings in Table 6 provide a profile of some of the strengths and weaknesses of the nonprofit sector in each metropolitan area, and each profile could be analyzed in detail. In this summary, we highlight the findings for the Indianapolis MSA relative to all other sites. An interpretation of the rankings in Table 6 is provided in the comments below.

The Indianapolis nonprofit sector has a relatively large number of service-providing nonprofit organizations compared with the other metropolitan areas. It does not rank high, however, on the number of foundations. Given the financial performance of the foundations sector here, though, this may not be as big a problem as it might be in other areas. In terms of the types of services being provided, the local nonprofit sector has relatively high proportions of human services, education, health, and religious providers. This is positive for the community, as each of these types of nonprofits provide important services to community residents. On the other hand, the relative proportion of arts/culture/humanities nonprofits is low.

The average incomes and expenditures per capita of local nonprofit service providers rank relatively high, indicating that the sector contains a fair number of large organizations who contribute to the local Indianapolis economy through their expenditures. Salaries paid by and contributions to local nonprofits, however, rank in the middle to lower portion of the distribution. The degree to which this may or may not be problematic should be investigated further.

The Indianapolis MSA ranks first on foundation assets, revenues, and grants paid. This is clearly one of our comparative advantages, and the contributions that major foundations have made to the local community are well recognized.

In terms of the sources of income for local nonprofit service providers, the average percentages of income derived from the three income categories are in the middle range of the distributions among the comparison areas. As these percentages add up to 100 percent in each area, this indicates that local providers have diversified their funding.

In terms of other financial performance indicators, the Indianapolis nonprofit sector does very well in terms of operating margin, lack of vulnerability, and solvency. This indicates that the sector is relatively financially healthy on these counts. The local sector scores in the middle range, however, for equity balance. This may point to an area where more investigation would be useful.

Table 6: **Summary of Ranks**

	Austin	Cincinnati	Cleveland	Columbus	Indianapolis	Kansas City	Nashville	Raleigh-Durham	Sacramento
SIZE INDICATORS									
Total MSA population,2000 (2000 MSA definitions)	7	3	1	6	5	2	8	9	4
Number of service-providing nonprofits per 10,000 people	3	7	6	4	2	1	9	4	8
Number of Form 990 filers per 10,000 people	7	3	3	2	3	3	7	1	7
Number of foundations per 100,000 people	7	2	1	8	5	3	4	6	9
SUBSECTOR CATEGORY OF SERVICE-PROVIDING NONPROFITS									
Arts/culture/humanities organizations	1	2	4	4	8	4	8	2	4
Education organizations	2	6	7	8	3	3	8	1	3
Health organizations	5	2	3	5	3	1	5	5	9
Human services organizations	9	4	7	1	2	7	5	6	2
Public/societal benefit organizations	4	6	1	4	6	2	8	3	9
Religion related organizations	5	4	5	8	3	2	1	8	5
Other organizations	2	4	4	4	4	9	3	4	1
INCOME AND EXPENDITURES OF SERVICE-PROVIDING NONPROFITS									
Average income of service-providing nonprofits	9	5	4	8	3	6	2	1	7
Contributions to nonprofits per capita	8	5	2	7	6	4	3	1	9
Expenditures of nonprofits per capita	9	5	2	7	3	6	4	1	8
Salaries of nonprofit employees per capita	9	4	2	7	5	6	3	1	8
FOUNDATION FINANCES									
Foundation assets per capita	7	5	3	8	1	2	6	4	9
Foundation revenue per capita	4	5	3	8	1	2	7	6	9
Foundation grants paid per capita	8	4	2	7	1	3	6	5	9
Contributions to foundations per capita	5	2	4	7	1	3	6	8	9
FINANCIAL PERFORMANCE INDICATORS									
Average equity balance	8	3	2	7	5	6	4	1	9
Average percent of contributions as an income source	2	5	8	8	4	5	1	2	7
Average percent of program revenue as an income source	3	5	9	1	5	3	8	5	2
Average percent of other revenue as an income source	7	2	1	8	4	3	9	6	4
Average operating margin of service-providing nonprofits	2	1	9	7	3	6	8	5	4
Median vulnerability of service-providing nonprofits	4	3	1	8	2	5	6	7	9
Financial solvency (current ratio greater than 2) in service-providing nonprofits	1	4	1	9	1	6	4	6	8

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APPENDIX A

Explanation of Nonprofit Categories Used in This and Other Reports by the Center for Urban Policy and the Environment

As discussed briefly in this paper, researchers often categorize nonprofit organizations based on the types of services they provide. The National Center for Charitable Statistics (NCCS) developed a useful taxonomy for this purpose, called the National Taxonomy of Exempt Entities (NTEE). (A detailed description of the NTEE can be found at the NCCS's Web site: http://nccs.urban.org/ntee-cc/summary.htm)

For the statistical analyses in this study, Center researchers used IRS data. We therefore needed to categorize the nonprofit organizations based on the established NTEE major group codes. The NTEE categories that we used are as follows:

1. Arts/Culture/Humanities;
2. Education;
3. Health (Healthcare, Mental Health/Crisis Intervention, Diseases/Disorders/Medical Disciplines, Medical Research);
4. Human Services (Crime/Legal Related, Employment, Food/Agriculture/Nutrition, Housing/Shelter, Public Safety/Disaster Preparedness/Relief, Recreation/Sports, Youth Development, Human Services);
5. Public/Societal Benefit (Civil Rights/Social Action/Advocacy, Community Improvement/Capacity Building, Philanthropy/Voluntarism/Grantmaking Foundations, Science/Technology, Social Science, Public/Societal Benefit);
6. Religion; and
7. Other (Environment, Animal Related, International/Foreign Affairs/National Security, Mutual/Membership Benefit, Unknown).

Note that these categories are different from the categories used in two earlier reports published by the Center for Urban Policy and the Environment *(The Role of the Nonprofit Sector in the Indianapolis Area* and *The Nonprofit Sector Plays a Vital Role in Central Indiana Urban Areas).*

Because the categories employ different data sets with slightly different definitions and service types, the only categories in this report that are directly comparable with those used in the two earlier reports are the Arts/Culture/Humanities, Education, and the Religion categories. Since the other categories (Health, Human Services, Community, Public/Societal Benefit, and Other) differ slightly, they are not directly comparable.

For the two earlier papers, we based our research on a local survey. The service categories used were based on the NTEE major group codes, however they were not equivalent. In this local survey, we used some subcodes of the major groups in order to examine a more comprehensive list of human service types.

The categories used in the local survey included:

1. Arts/Culture/Humanities;
2. Educational;
3. Health (General/Rehabilitative, Mental Health/Crisis, Disease Treatment);
4. Religion;
5. Human Services (Employment Training/Procurement, Food/Agriculture/Nutrition, Housing/Shelter, Recreation/Sports/Leisure/Athletics, Youth Development, Children/Youth Services, Family Services, Personal Betterment, Residential/Custodial, and Independence of Specific Groups); and
6. Community (Environmental Quality, Animal Related, Crime/Delinquency Prevention, Public Safety/Disaster Preparedness/Relief, Emergency Assistance, Neighborhood or Community Improvement, Civil Rights/Social Action/Advocacy, International/Foreign Affairs/National Security, Philanthropy/Voluntarism/Grant Making, Science or Technology Research/Social Sciences, and Public Services).

APPENDIX B

n Numbers

Following are the numbers (*n* numbers) of nonprofits organizations that are used in the figures and tables in this report.

FIGURES

Figure 1: total population = 14,118,183

	Austin	Cincinnati	Cleveland	Columbus	Indianapolis	Kansas City	Nashville	Raleigh-Durham	Sacramento
Figure 2 (Total Nonprofits)	6,854	7,607	11,786	8,188	9,000	10,169	5,192	6,258	7,259
Figure 2 (IRS Form 990 Filers)	1,187	1,565	2,248	1,713	1,581	1,737	1,160	1,465	1,421
Figure 3	215	542	1,144	236	318	488	288	224	97
Figure 4	1,187	1,565	2248	1,713	1,581	1,737	1,160	1,465	1,421
Figure 5	1,187	1,565	2,248	1,713	1,581	1,737	1,160	1,465	1,421
Figure 7	1,184	1,564	2,244	1,708	1,580	1,734	1,155	1,460	1,419
Figure 9	1,187	1,562	2,248	1,712	1,580	1,737	1,159	1,464	1,420
Figure 11	1,187	1,563	2,248	1,712	1,580	1,737	1,160	1,464	1,420
Figure 13	1,187	1,565	2,248	1,713	1,581	1,737	1,160	1,465	1,421

	Humanities	Arts/Culture/ Education	Health	Human Services	Public/Societal Benefit	Religion	Other
Figure 6	1,262	2,535	1,961	4,582	1,861	704	778
Figure 8	1,261	2,527	1,959	4,571	1,859	703	776
Figure 10	1,261	2,533	1,960	4,581	1,859	704	778
Figure 12	1,262	2,535	1,960	4,581	1,859	704	778
Figure 14	1,262	2,535	1,961	4582	1,861	704	778

TABLES

	Austin	Cincinnati	Cleveland	Columbus	Indianapolis	Kansas City	Nashville	Raleigh-Durham	Sacramento
Table 1	1,144	1,525	2,190	1,659	1,547	1,678	1,133	1,426	1,381
Table 2	1,187	1,565	2,248	1,713	1,581	1,737	1,160	1,465	1,421
Table 3	1,187	1,565	2,248	1,713	1,581	1,737	1,160	1,465	1,421
Table 4	215	542	1144	236	318	488	288	224	97
Table 5	215	542	1144	236	318	488	288	224	97