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NONPROFIT CHARITABLE ORGANIZATIONS: A 501(c)(3) GROUP PORTRAIT

The Internal Revenue Service (IRS) receives annual reports from tax-exempt nonprofit charitable organizations on Form 990. Periodically the IRS Office of Statistics of Income conducts an analysis of the data on these forms. Such analyses were conducted for 1975 and 1982. The 1982 analysis, available in January 1986, is the main source of information used in this Note.

There are many differences in the analyses for 1975 and 1982 which limit the possibilities for direct comparisons. For example, Form 990 was revised several times between 1975 and 1982. In addition, the 1975 study used a processing-year concept which sampled 1975 returns filed and processed during 1976. The 1982 study used a tax-year concept in which 1982 returns were sampled regardless of when they were processed. Further, the 1975 study covered all Internal Revenue Code (IRC) 501(c) subsections, while the 1982 study focused on IRC 501(c)(3) and 501(c)(4) organizations. (This Note uses only data about the IRC 501(c)(3) organizations.) Finally, the 1975 analysis classified organizations by principal activity as well as stratifying the sample on levels of receipts. In the 1982 analysis, however, the sample was stratified by assets, and data on principal activity were not included because the activity question had been dropped from Form 990.

Identifying The Arts - The data on the Form 990 does not allow for separating out data on arts organizations or arts activities of other nonprofit organizations. The activity codes used in 1975 were very broad and general. In the 1982 analysis, these activity codes were no longer available. An even more basic problem is that arts activities are conducted by many organizations that do not regard art as their primary activity. This includes schools, organizations such as YMCAs and YMHAs, and other publically supported organizations. In other words, art activities are conducted in many kinds of 501(c)(3) organizations that do not designate themselves primarily as arts organizations. For these reasons, this Research Division Note should be understood as a group portrait of the aggregate of 501(c)(3) organizations in which arts organizations and arts activities of the other nonprofit organizations cannot be broken out.

Numbers Of Nonprofit Charitable Organizations - In 1982, 264,890 organizations were recognized by the IRS as nonprofit charities. However, only 75,738 filed a Form 990. More details about the filers are in Tables 1-4. There are several reasons for the small numbers of filers. In 1982, an organization was granted an exemption from filing if its gross receipts were less than \$25,000. Religious organizations of all sizes were exempt from filing, although a few did file on a voluntary basis and a small number of them are reflected in the data tables. Therefore, the data used in this Note is from the Form 990s submitted by the 75,738 filers who are almost entirely non-religious organizations with receipts above \$25,000.

Provisions Of IRC 501(c)(3) - Organizations that are tax exempt under this section of the code conduct a wide variety of activities that further their exempt purposes and such organizations exist in many sectors of the economy. This tax status is typically granted for purposes that are religious, charitable, scientific, educational, testing for public safety, etc. 'Charitable,' for purposes of the IRC, means that the services provided by an organization are pro bono publico (for the public benefit). Numerous benefits accrue to organizations that obtain this status, such as: 1) exemption from federal income tax on income earned while pursuing an exempt purpose, 2) exemption from most state and local income and real estate taxes, 3) exemption from federal unemployment tax, 4) selective exemption from excise taxes, and 5) significantly reduced postage rates. Moreover, private contributions to these organizations are encouraged by the statute allowing gifts to be deducted in calculating the taxable income of the donor.

Finances - In 1982, total revenue of Form 990 filers was \$196.3 billion, reflecting an 82 percent real growth since 1975. Total assets and total expenses experienced similar growth during this period. The group portrait shows much variation in revenue sources. Chart 1 shows that the reliance of organizations on contributions for revenue varies inversely with total assets. In other words, the organizations with the greatest assets depend least on contributions and most on revenues generated from their program services. The overall share of revenues represented by contributions is 21 percent. The smallest organizations in terms of assets are the most dependent on contributions.

Distribution of Organizations - By far the greatest number of 1982 Form 990 filers (50,738) were 'publicly supported organizations.' They are over 10 times the number of hospitals (5,021). However, in 1982, hospitals had nearly twice as much in total assets and reported more than twice as much in total expenses. Schools (8,335) were second to hospitals in the concentration of financial aggregates such as assets and revenues. More of these details are in Tables 3 and 4.

Sources of Contributions - Information is obtained on the Form 990 for three types of contributions. The first type consists of contributions given directly to organizations by the public (including foundations and businesses). The second type are the contributions received through indirect public support, which is defined as United Givers Campaigns, United Arts Funds and similar contribution solicitation programs that serve as intermediaries between the public and the organizations. The third type are contributions in the form of gifts and grants received from government agencies. As noted earlier, contributions represent 21 percent of the total revenues received by the 75,738 organizations in this 501(c)(3) group portrait. The distribution of this 21 percent is 9 percent from direct public support, 2 percent from indirect public support, and 10 percent from government grants. (Conversion of the 21 percent to a base of 100 percent changes the percentages to 43 percent direct public support, 11 percent indirect public support, and 48 percent government grants.) However, the cross tabulation of these data by asset size of organizations in Table 1 shows large differences between the small and the large organizations. Charts 1 and 2 show that contributions are 68 percent of revenues and

government grants are 80 percent of the contributions received by organizations with assets below \$100,000. At the upper end of the asset scale, contributions represent only 13 percent of total revenues and government grants are only 42 percent of these contributions. For organizations with assets below \$1,000,000, government grants are far more important than contributions from the public. However, above \$1,000,000 in assets, the relationship shifts and public support is more important than the government grants share of contributions.

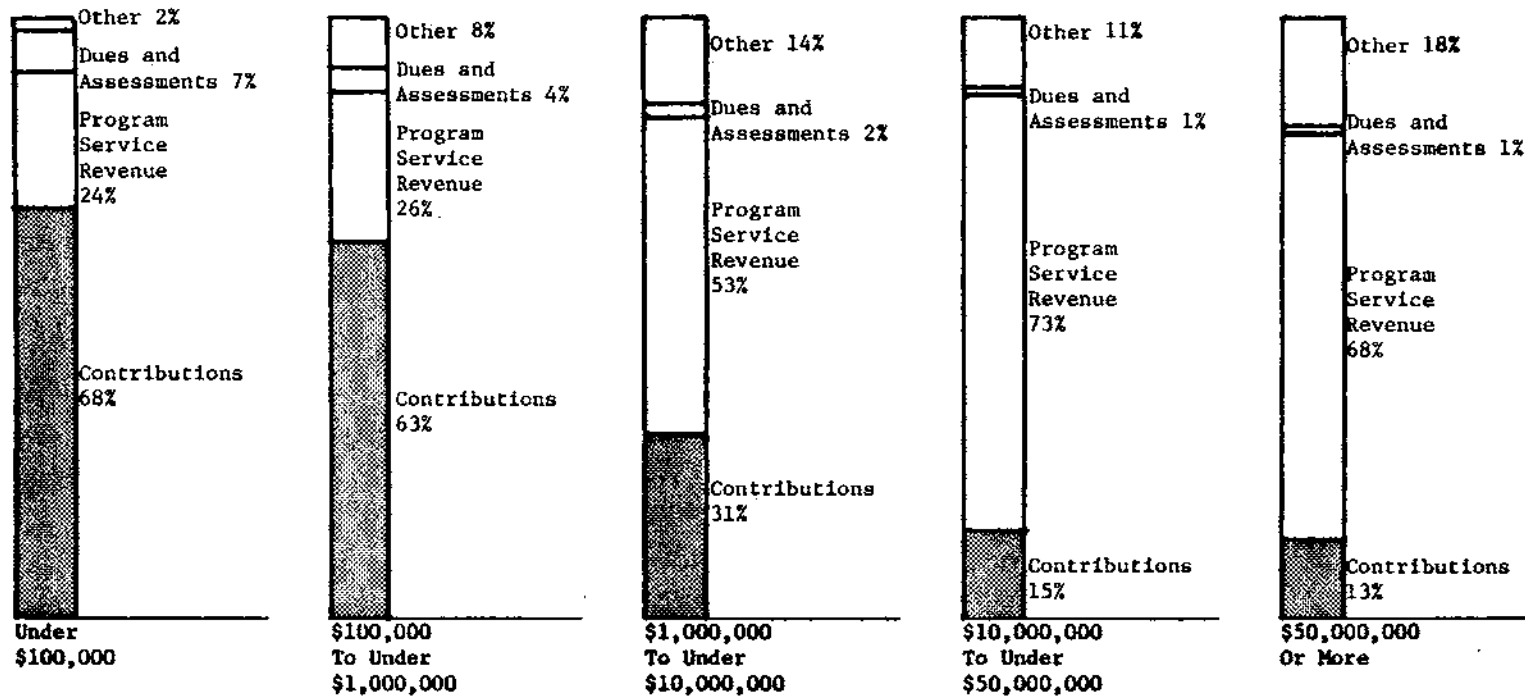
Program Service Revenue and Expenses - In the performing arts, program service revenue is called earned income; and for literary magazines and small presses it is publication sales. In general, Form 990 combines all such income sources under the heading of program service revenue. Overall, program service revenue of 501(c)(3) organizations was 63 percent of total revenue in 1982. As in the case of contributions, the proportion of total revenue from program service revenue changes substantially with the asset size of organizations. This is illustrated in Chart 1. Program service revenue is less than a quarter of total revenues for the smallest asset size organizations and over two-thirds of the total revenues for the largest asset size organizations. Chart 3 shows that on the expense side, program costs are very nearly the same proportion of total expense for organizations of all asset sizes. For each of the five asset size groups shown in Chart 3, program costs are above 80 percent. The range is 81 to 86 percent.

Membership Dues and Assessments and Other Sources of Revenue - Overall, membership dues and assessments comprise a fairly small share of revenues of 501(c)(3) organizations. As in the case of contributions, membership dues and assessments are smallest for the large asset size organizations. On the other hand, the remainder category of 'other revenue' is important for organizations of large asset size. Aggregated under 'other revenue' are such revenue sources as: interest on savings and temporary cash investments, gross rents, rentals, gains or losses on securities, gross sales, etc.

Sources of Information - This Note reflects several helpful conversations with John Sullivan and Cecilia Hilgert, Statistics of Income Branch, Internal Revenue Service; and the following report: Laura M. Heuchan, "Nonprofit Charitable Organizations, 1982," SOI Bulletin, Vol. 5, No. 3, Winter 1985-86.

Chart 1

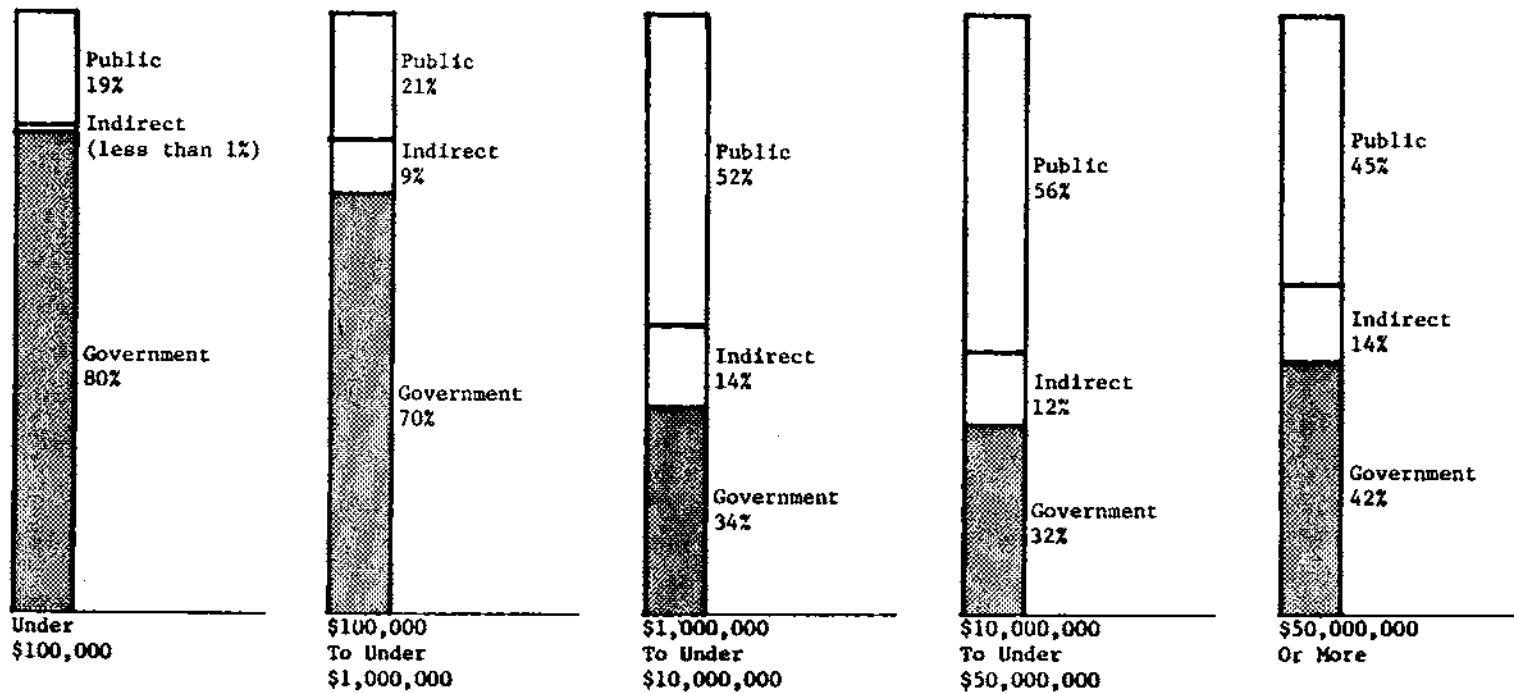
REVENUE COMPONENTS OF 501(c)(3) ORGANIZATIONS



Asset Size of Organizations

Chart 2

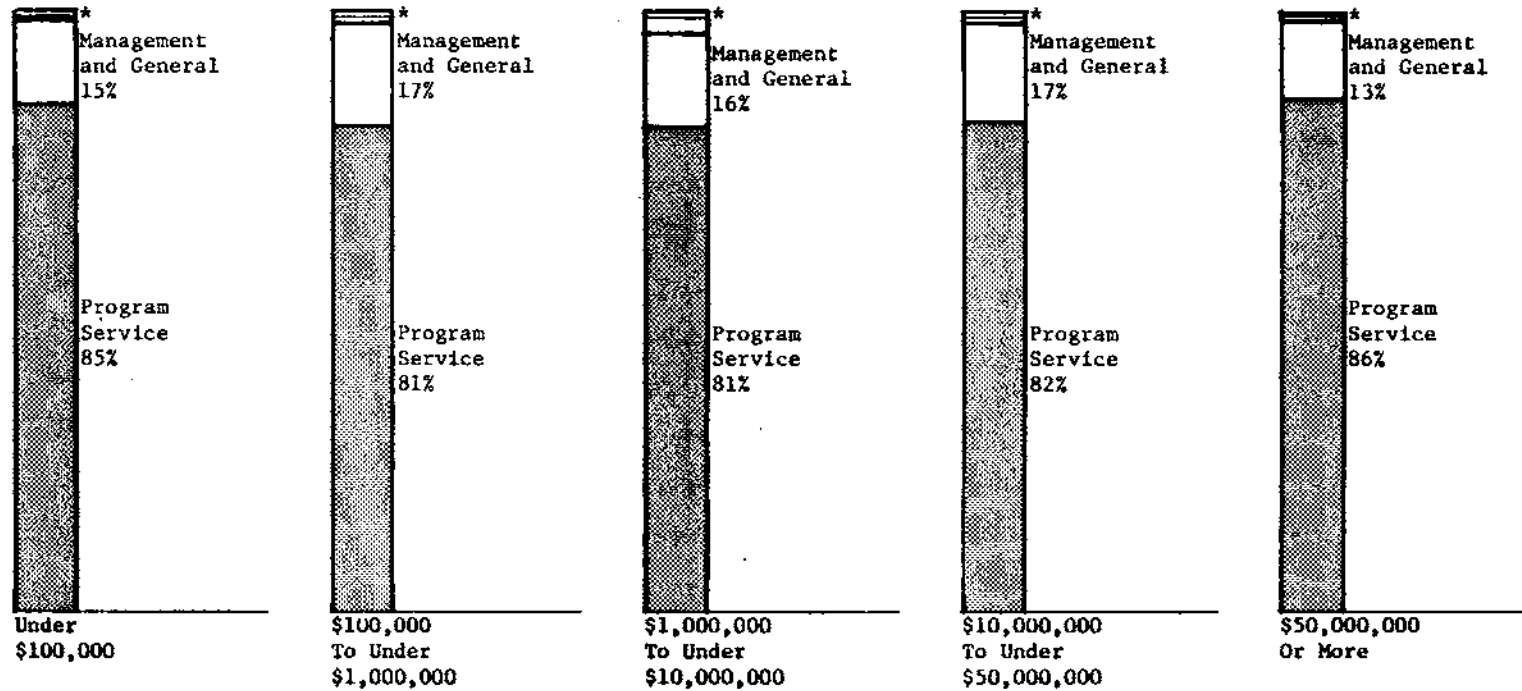
GOVERNMENT GRANTS AS A SHARE OF CONTRIBUTIONS TO 501(c)(3) ORGANIZATIONS



Asset Size of Organizations

Chart 3

PROGRAM SERVICE AS A SHARE OF EXPENSES OF 501(c)(3) ORGANIZATIONS



Asset Size of Organizations

*Fund raising and Payments to affiliates (see tables for data)

Table 1

REVENUES REPORTED BY IRC 501(c)(3) ORGANIZATIONS, 1982
 (all figures are estimates based on samples—money amounts are in thousands of dollars)

Items	Total	Asset Size of Organizations						
		\$1 To Under \$25,000	\$25,000 To Under \$100,000	\$100,000 To Under \$500,000	\$500,000 To Under \$1,000,000	\$1,000,000 To Under \$10,000,000	\$10,000,000 To Under \$50,000,000	\$50,000,000 Or More
		Returns of 501 (c)(3) Organizations	75,738	14,902	14,902	23,075	6,043	12,595
Total Assets	\$279,638,066	\$163,682	\$859,303	\$4,520,081	\$4,266,804	\$43,533,996	\$74,300,485	\$151,993,712
Total Revenues	\$196,305,700	\$774,536	\$2,826,490	\$9,019,977	\$5,222,087	\$31,380,246	\$57,279,516	\$89,802,846
Total Contributions, Gifts and Grants	21%	56%	71%	59%	70%	31%	15%	13%
Direct Public Support	9	28	9	13	14	16	8	6
Indirect Public Support**	2	*	*	6	4	5	2	2
Government Grants	10	27	61	41	51	11	5	5
Program Service Revenue	63	47	18	30	17	53	73	68
Membership Dues and Assessments	1	16	4	4	4	2	1	*
Other	14	-19	7	7	9	14	11	18

* Less than 1%.

** United Givers Campaigns, United Arts Drives, and similar intermediary solicitation programs.

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Table 2

EXPENSES REPORTED BY IRC 501(c)(3) ORGANIZATIONS, 1982
 (all figures are estimates based on samples--money amounts are in thousands of dollars)

Items	Total	Asset Size of Organizations						
		\$1 To Under \$25,000	\$25,000 To Under \$100,000	\$100,000 To Under \$500,000	\$500,000 To Under \$1,000,000	\$1,000,000 To Under \$10,000,000	\$10,000,000 To Under \$50,000,000	\$50,000,000 Or More
Returns of 501 (c)(3) organizations	75,738	14,902	14,902	23,075	6,043	12,595	3,251	967
Total Assets	\$279,638,066	\$163,682	\$859,303	\$4,520,081	\$4,266,804	\$43,533,996	\$74,300,485	\$151,993,712
Total Expenses	\$181,298,552	\$970,925	\$2,761,297	\$8,681,310	\$5,004,304	\$29,330,345	\$53,254,786	\$81,295,584
Program Services	84%	70%	90%	81%	81%	81%	82%	86%
Management and General	15	30	9	16	18	16	17	13
Fundraising	*	*	*	1	*	2	*	*
Payments to Affiliates	*	*	*	1	*	*	*	*

* Less than 1%.

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Table 3

NUMBERS OF IRC 501(c)(3) ORGANIZATIONS BY ASSET CLASSES, 1982

[All figures are estimates based on samples]

Type of organization ^{1/}	Under \$100,000	\$100,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 under \$10,000,000	\$10,000,000 under \$50,000,000	\$50,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)
Church ^{2/}	960	480	102	436	35	6
School	3,364	1,922	717	1,331	754	245
Hospital	480	961	102	1,547	1,408	521
Government unit	480	--	--	204	12	3
Hospital research	--	480	--	43	18	4
Organization supporting a public college	--	480	307	215	42	11
Publicly supported organization	22,593	15,863	4,097	7,338	726	118
Organization supporting charitable organizations	960	1,922	512	1,245	208	43
Organization testing for public safety	--	--	--	--	--	1
Not reported	960	961	204	231	44	15

^{1/}This classification was derived from Schedule A (Form 990), Part IV, entitled "Reason for Non-Private Foundation Status."

^{2/}Churches are not required to file a Form 990. Most of the organizations in this category either filed voluntarily or misreported their type of organization. This estimate is, therefore, not inclusive of the majority of religious organizations.

Table 4

BALANCE SHEET AND INCOME STATEMENT ITEMS BY IRC 501(c)(3) ORGANIZATION, 1982

[All figures are estimates based on samples--money amounts are in millions of dollars]

Type of organization ^{1/}	Number of returns	Total assets	Total liabilities	Total revenue	Total expenses
	(1)	(2)	(3)	(4)	(5)
Total	75,733	\$279,632	\$116,771	\$196,300	\$181,294
Church ^{2/}	2,022	2,837	915	1,517	1,255
School	8,335	73,524	13,685	35,224	29,843
Hospital	5,021	93,839	45,797	91,855	87,278
Government unit	701	1,182	443	1,242	1,201
Hospital research	546	1,296	229	560	523
Organization supporting a public college	1,057	3,400	338	1,860	1,343
Publicly supported organization	50,738	56,737	22,812	45,620	43,042
Organization support- ing charitable organizations	4,893	42,418	30,764	15,586	14,267
Organization testing for public safety	1	104	13	93	85
Not reported	2,419	4,295	1,775	2,743	2,457

^{1/}This classification was derived from Schedule A (Form 990), Part IV, entitled "Reason for Non-Private Foundation Status."

^{2/}Churches are not required to file a Form 990. Most of the organizations in this category either filed voluntarily or misreported their type of organization. This estimate is, therefore, not inclusive of the majority of religious organizations.