

State of the Sector

10th Anniversary Report: Nonprofit Finances Improving, But There Are Many Miles to Go to Regain Lost Ground

Midway through this decade, and well beyond the Great Recession, the nonprofit sector in Northeast Florida is showing improved financial health, though progress is slow.

Fewer organizations are operating in the red and some of the largest organizations are seeing positive revenue and asset growth.

But individual giving in Northeast Florida remains soft, despite upbeat national reports. And that, undoubtedly, is proving a drag on the nonprofit sector.

These are among the findings of the 2015 State of the Sector report, a periodic look at the size, characteristics and financial health of those 501(c)3-

designated organizations based in Baker, Clay, Duval, Nassau and St. Johns counties.

The State of the Sector research began in 2005 as a collaborative project of the Jessie Ball duPont Fund and the Nonprofit Center of Northeast Florida. To date, the study has collected and analyzed data on more than 1,600 organizations dating back to 1998.

The goal is to provide the proverbial 30,000-foot view of the sector, while recognizing its diversity and the varying roles played by different types of nonprofit organizations.

The health of the nonprofit sector is as critical to our economic well-being and quality of life as the health of other sectors of our economy -- housing, transportation, manufacturing and so forth.

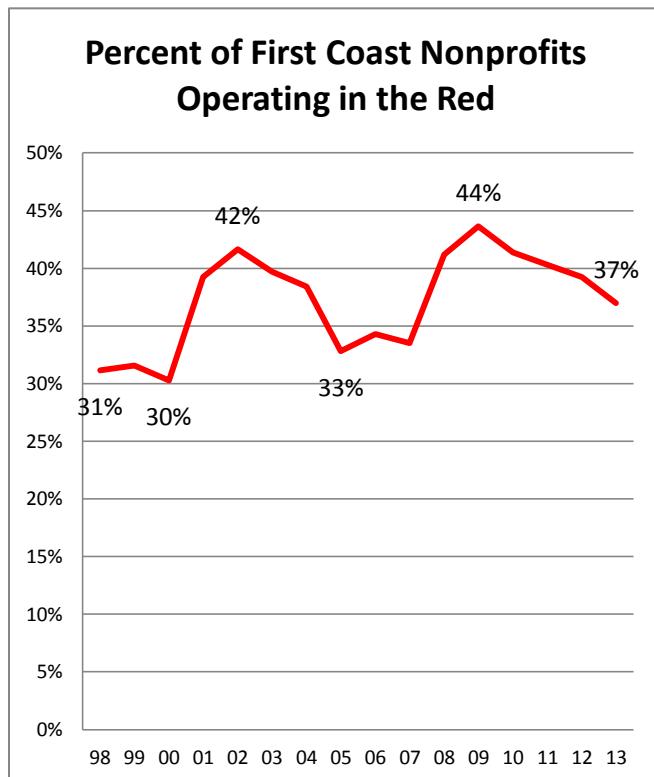
During 2013, the latest year for which comprehensive data are available, nonprofits in the five counties:

- Generated \$6.8 billion in revenues;
- Incurred \$5.7 billion in expenses;
- And employed at least 12% of the private work force.

Equally important, these are the organizations that provide most of our health care, much of our education and the majority of our recreation and cultural activities.

And they are the ones that provide the safety net that catches us when we are at our most vulnerable -- when we are hungry, abused, abandoned, homeless or dying.

We depend on their unflagging good work, and our community's health depends upon their health. In that respect, the State of the Sector reflects the state of our community.



WHAT IS A NONPROFIT, AND HOW ARE NONPROFITS COUNTED?

A nonprofit organization is considered formed for the purpose of benefitting society rather than for making and distributing profits. Nonprofits may earn a profit, but they may not distribute that profit, or equity, to any individual -- there are no shareholders, no equity investors, no individual owners.

In the United States, the IRS determines an organization's nonprofit status. The IRS recognizes many different types of nonprofits, from churches to political organizations, private foundations and, the most familiar, charitable organizations.

This study examines only those organizations to which the IRS has given a 501(c)(3) classification -- generally, the charitable nonprofits for whom your contributions are tax deductible -- and which are required to file an informational tax return Form 990-EZ or Form 990 with the IRS.

The number of nonprofits is determined by the number of organizations filing these returns with the IRS in any given year.

The Context

Everything occurs in context. A picture out of context can be meaningless, or, worse yet, misleading. In considering Northeast Florida's nonprofit sector, it is important to consider Northeast Florida -- how it has changed and evolved in recent years.

The region, home to 1.4 million people, is a mix of somewhat dense urban areas -- in the center of Duval County -- surrounded by heavily populated suburbs and bedroom communities that spread primarily south and east into Clay and St. Johns counties. Baker and Nassau counties are more rural (though Nassau County has a stretch of high-wealth neighborhoods along the coastline). There also are large rural areas in Clay and St. Johns counties, and a few on the outskirts of Duval County.

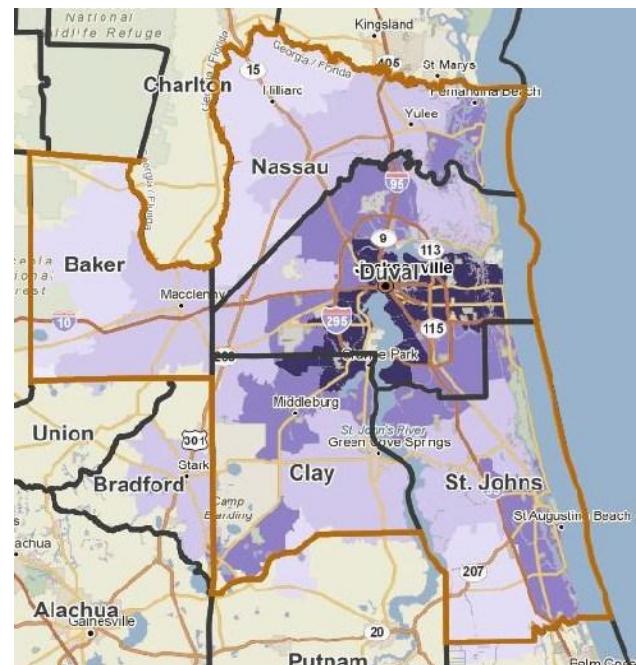
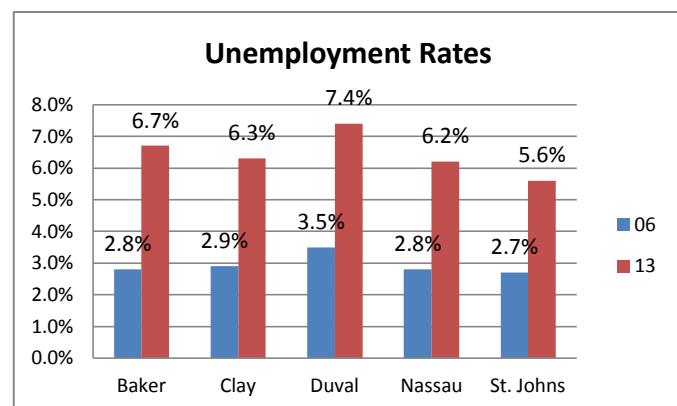
From 2006-2013, population in the region grew about 9%, and while Duval County added the most people, St. Johns County grew the fastest -- by a healthy 25%.

But just as we grew total population, we also grew the number of people living in poverty -- by a whopping 38% or more than 55,000 people -- a result, no doubt, of the Great Recession.

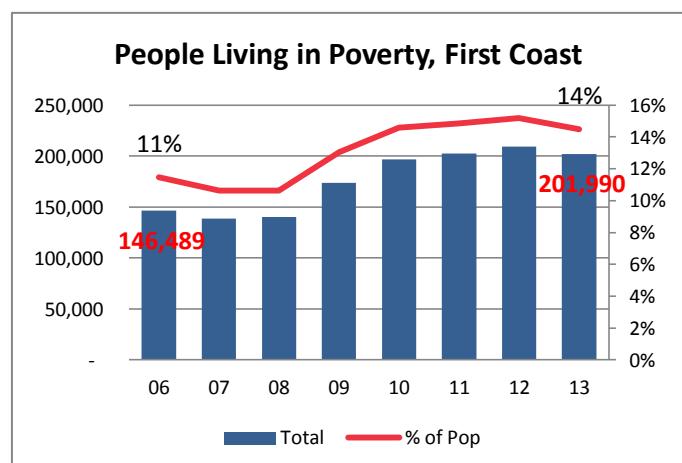
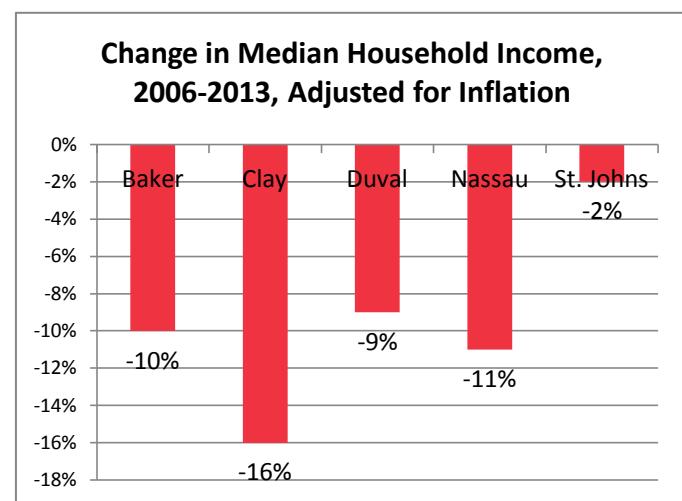
Concurrently, unemployment also grew. In 2006, only Duval had a jobless rate greater than 3%; by 2013, only St. Johns had an unemployment rate below 6%.

It is no surprise then that median household income across the region is down, when adjusted for inflation.

How do these trends impact nonprofits? More people to serve, more people in need and fewer discretionary dollars to support nonprofit work.



Population density across the First Coast: the darker the color, the more dense the population. (PolicyMap)



How Many Nonprofits On the First Coast?

In 2013, the most recent year for which full data is available, the IRS received reports from 1,022 nonprofits located in the five counties of Northeast Florida -- Baker, Clay, Duval, Nassau and St. Johns.

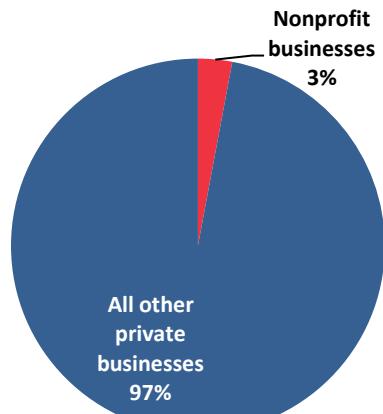
Those nonprofits comprise a very small portion -- 3% -- of all non-farm businesses operating on the First Coast. Yet they are an important part of the economy and contribute significantly to our quality of life.

Through the years, it appears the number of nonprofits in our community has increased substantially. But most of the increase between 1998 and 2005 was compliance-related. Better education within the sector, the introduction of electronic filing options and more effective oversight resulted in more nonprofits reporting to the IRS in a timely manner.

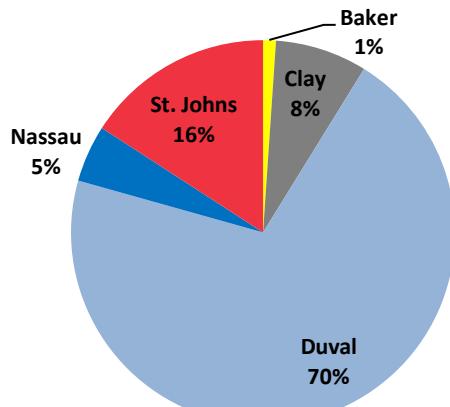
Since 2006, the number of nonprofits in Northeast Florida has held relatively steady at about 1,000. There is much change within that universe, however, as organizations move away, others move in, entities merge or go out of business, and new startups enter the market.

Of the 945 nonprofits that reported in 2006, 284 -- 30% -- have either moved, gone out of business, or not reported for 2013 as of this study. Meanwhile, 361 other organizations have joined the sector, either through relocation or new start-ups. If that churn rate seems high, remember that 50% of for-profit businesses fail before their fifth anniversary, according to the Small Business Administration.

First Coast Businesses, 2013

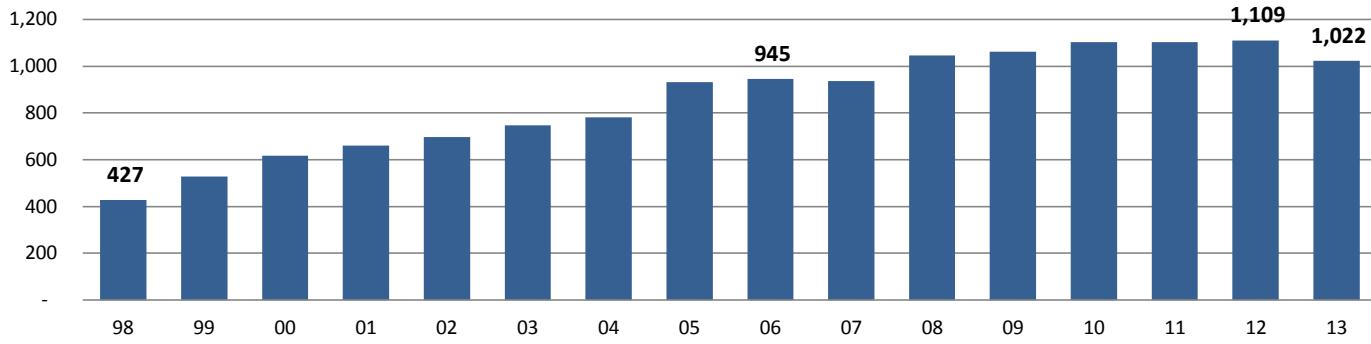


Nonprofits by County*, 2013



*A nonprofit's location is determined by the address listed on the organization's tax return, and may not represent its total service area.

Number of Reporting Nonprofits, First Coast



Nonprofits Diverse In Size and In Mission

Financially, First Coast nonprofits range from huge to tiny.

Eleven organizations had 2013 revenues of more than \$100 million. Thirty-four took in less than \$10,000.

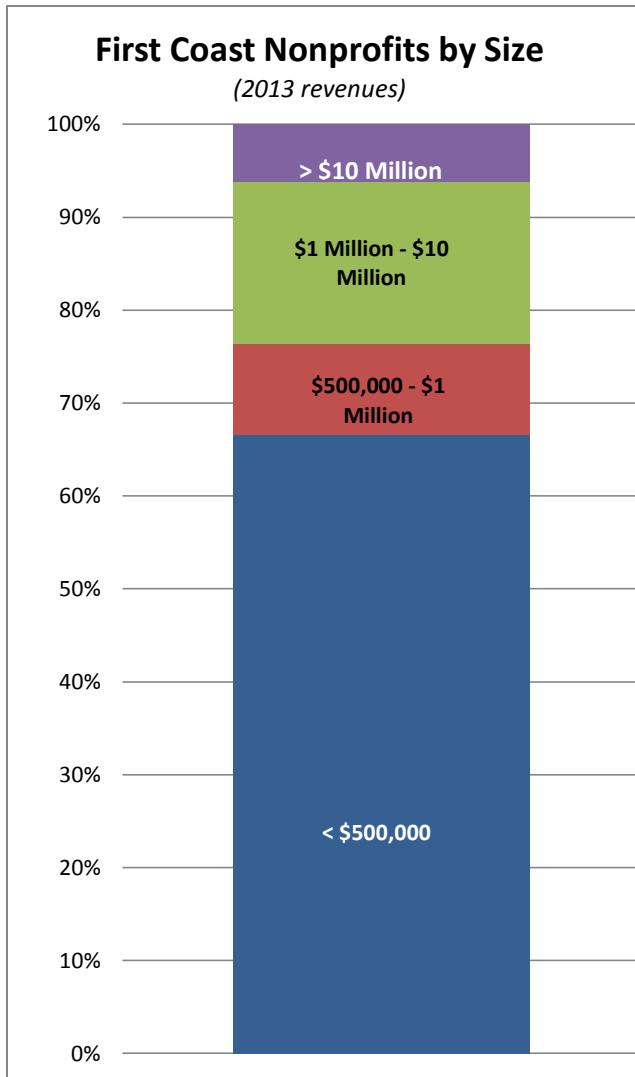
As in the for-profit world, the vast majority of organizations are small, and like small, for-profit businesses, the challenges are many.

While size doesn't determine quality of service, it can be a factor in community impact and financial sustainability.

Smaller organizations typically have a more limited service footprint, meaning they are less likely to develop broad networks of supporters who can provide funding and advocacy on their behalf, attract funding from foundations or receive government contracts.

In Northeast Florida, 66% of the nonprofits reporting in 2013 had revenues of less than \$500,000.

At the other extreme, the local sector also includes a host of major community institutions, notably colleges, universities and state-of-the-art hospitals. These "Eds & Meds," as they often are called, have enormous community impact, enormous budgets and enormous revenue-generating capacity.



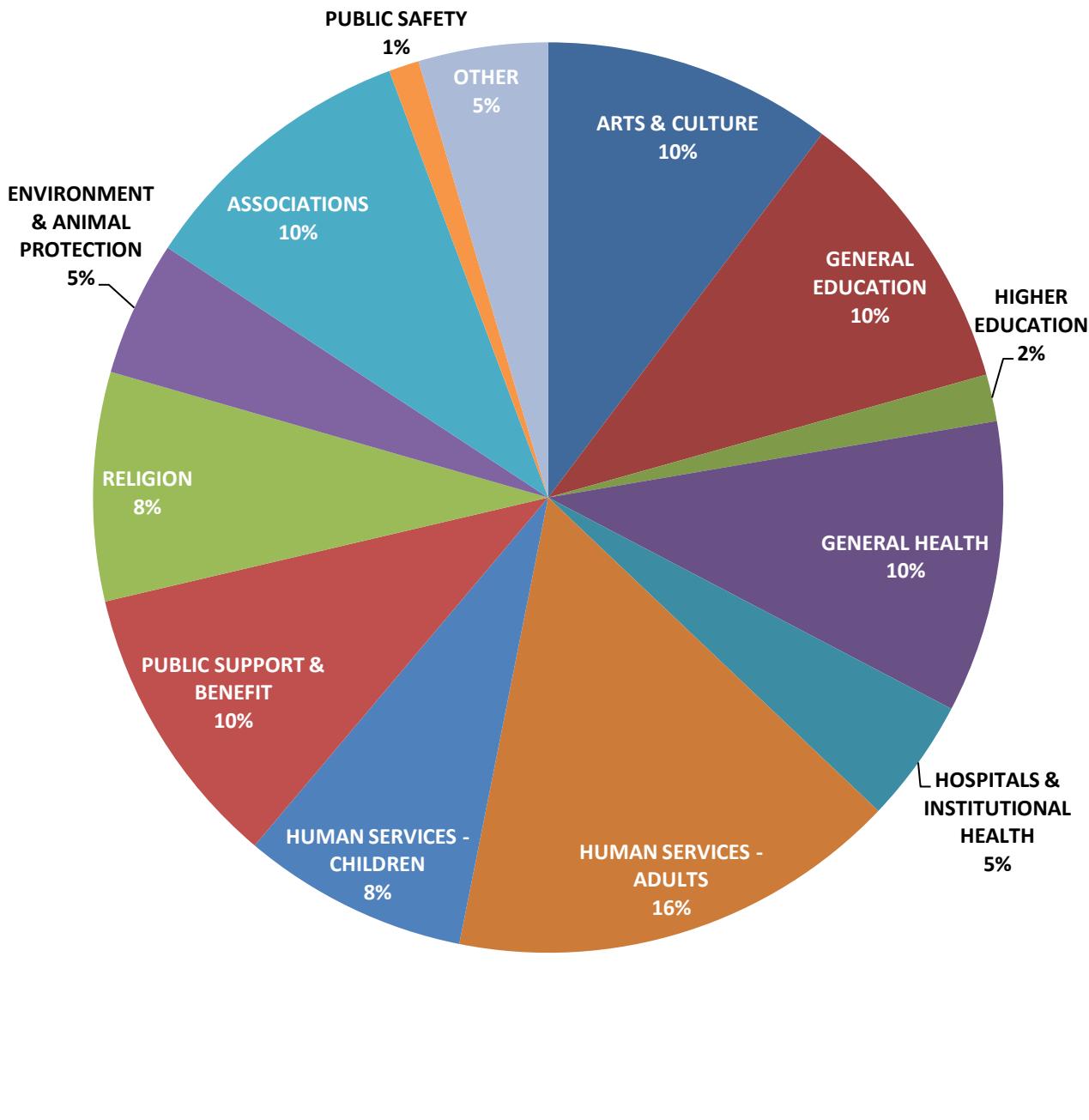
LARGEST NONPROFITS, INCLUDING "ED & MEDS" (ranked by 2013 revenues)

1	Nemours Foundation
2	Southern Baptist Hospital (Baptist Health)
3	Mayo Clinic Jacksonville
4	St Lukes Hospital Association AKA Mayo Clinic Florida
5	St Vincents Medical Center Inc
6	University of Florida Jacksonville Physicians
7	Wounded Warrior Project, Inc.
8	Flagler Hospital
9	St Lukes - St Vincents Healthcare Inc
10	Baptist Medical Center Beaches
11	Jacksonville University
12	Community Hospice of Northeast Florida
13	Flagler College Inc
14	St Vincents Health System Inc
15	Baptist Medical Center Nassau

LARGEST NONPROFITS, EXCLUDING "ED & MEDS" (ranked by 2013 revenues)

1	Wounded Warrior Project, Inc.
2	The Community Foundation for Northeast Florida
3	Duval County School Readiness (Early Learning) Coalition
4	Family Support Services of North Florida
5	Hope Heritage Foundation
6	YMCA of Florida's First Coast
7	Episcopal Children's Services Inc
8	Dechomai Asset Trust
9	The Blood Alliance Inc
10	Mental Health Resource Center
11	Bolles School
12	Lutheran Social Services of Northeast Florida
13	Goodwill Industries of North Florida
14	United Way of Northeast Florida
15	Pace Center for Girls Inc.

First Coast Nonprofits by Field, 2013



The sector also is widely diverse in mission. From hospitals to nursing homes, animal shelters to homeless shelters, athletic programs to reading programs, our nonprofit sector includes one of almost every flavor.

Unique to our community is the large number of religious organizations. These are not churches but nonprofits who list their primary mission as ministry or evangelism. They comprise 8% of the total sector and reflect the strong faith-based culture typical in the South.

Employees, Volunteers And Economic Impact

In 2013, nonprofit organizations in Northeast Florida employed more than 58,000¹ individuals, making the nonprofit sector among the largest sectors of the local economy in terms of employment.

2013 Employment by Sector Baker, Clay, Duval, Nassau & St. Johns	
Finance, Insurance, Real Estate	68,954
Nonprofits	58,000
Transportation, warehousing, utilities	41,508
Construction	38,443
Manufacturing	35,743

This amounted to about 12% of all private employment in the region.

Nationally, estimates are that nonprofits provide slightly more than 10% of all private employment. Northeast Florida's proportion might be a bit higher because of the high concentration of large health care institutions, most of which are nonprofit organizations.

Among the 10 largest private employers in the region, four are nonprofit health care institutions: Baptist Health, with more than 8,000 employees; Mayo Jacksonville, almost 5,000; St. Vincent's Healthcare, 4,000; and UF Health Jacksonville, 3,500. In all, area nonprofit health care institutions employ more than 33,600 workers.

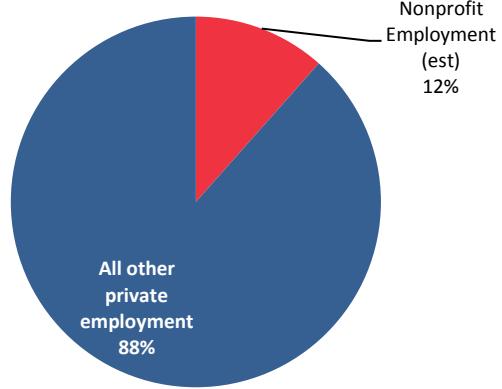
With a collective payroll of more than \$2.7 billion, the region's nonprofit employers pay an average wage of about \$46,000. Three-quarters of that payroll comes from health care institutions.

Employees are not the only human resource of value to nonprofits.

In Northeast Florida, nonprofits report that they benefited from the help of more than 153,000 volunteers in 2013.

Independent Sector, a network of nonprofits, foundations and corporations, estimates that an hour of volunteer time in Florida is valued at \$21.61. Volunteering in America reports that the average Florida volunteer contributes 29.8 hours per year. Thus we can estimate the value of this

First Coast Employment, 2013



Northeast Florida Nonprofits By the Numbers

Nonprofit Employment	58,000+
Nonprofit Payroll	\$2.7 Billion+
Average Wage	\$46,000
Community Volunteers	153,000+
Value of Volunteer Time	\$98.7 Million

volunteer labor in Northeast Florida nonprofits at \$98.7 million in 2013.

(It is important to note that this calculation does not distinguish where the volunteer contributes his or her time, and it can be assumed that a good portion of those hours are volunteered in churches and faith communities, which are not included in this review of the nonprofit sector.)

While health care institutions benefitted from some volunteer engagement, the vast majority of volunteer hours -- 96% -- are spent with community-based nonprofits.

¹ See Methodology

How Financially Healthy Are Our Nonprofits?

Nonprofit organizations are businesses, first and foremost. While they may be driven by mission rather than desire for profit, they must maintain their financial health if they are to survive.

In the simplest terms, financial health means bringing in enough money to pay your expenses and set aside some extra for reserves. (How much extra? It depends on cash flow, reliability of revenue streams and a host of other factors. But experts all agree: Each nonprofit should maintain an appropriate reserve fund based on its needs.)

But where does that income come from?

SOURCES OF REVENUE

Nonprofits' business models differ from those of for-profits. In the for-profit world, the more goods you produce, the more services you provide, the more revenue you earn. That is not always the case in the nonprofit world. Much of a nonprofit's revenue is unrelated to the volume of work/services provided. When more people need meals at the local soup kitchen, it drives up expenses but does not necessarily have a positive impact on income.

In general, nonprofits derive revenue from three primary sources:

Fees for Services: Examples include museum admissions, school tuitions, private insurance payments to

hospitals, or the resale of excess building materials by a Habitat for Humanity chapter.

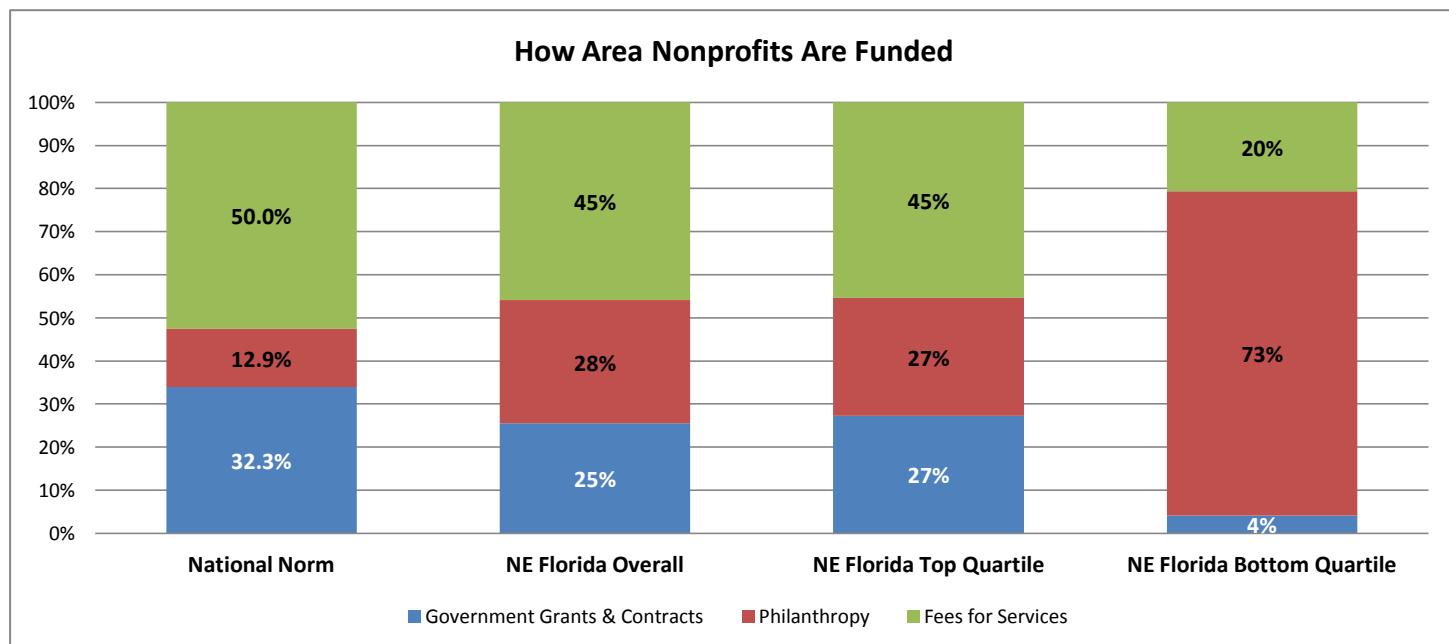
Philanthropy: Charitable contributions from foundations, corporations and individuals, with gifts from individuals making up the vast majority of this category.

Government Grants & Contracts: Local, state and federal governments provide a wide array of funding for nonprofit organizations, through both grants and contracts for provision of services. For example, government may provide grants to arts or recreational organizations to enhance the quality of life in a community. Government may contract with nonprofits to provide early learning opportunities for children, affordable housing for families or community redevelopment services for blighted neighborhoods.

According to the National Council of Nonprofits, the typical nonprofit receives about half of its income from fees for services, about a third from government sources and less than 15% from philanthropy. (The remainder comes from investments and an array of other minor sources).

Here in Northeast Florida, however, nonprofits rely more heavily on revenue from philanthropy, as the charts below show.

Northeast Florida's largest nonprofits -- those in the top quartile based on 2013 revenues -- typically receive 27% of their revenue from philanthropy, more than twice the national norm. They also receive slightly less than the norm in fees for services and government funds.



In the bottom quartile -- Northeast Florida's smallest nonprofits in 2013 revenues -- philanthropy accounts for almost two-thirds of revenue. In many respects, this is not surprising. These organizations have budgets of less than \$50,000 a year -- they are not likely to attract government funding. Their fees for services tend to be membership or admission fees. They are dependent on individual contributions and the occasional small grant.

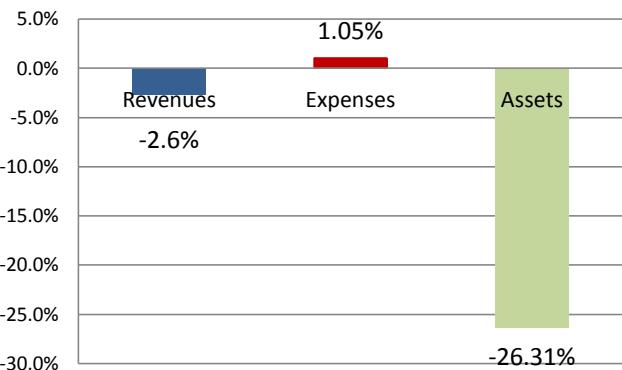
IS REVENUE UP OR DOWN?

It depends on where you look.

At the median, Northeast Florida's nonprofit sector between 2006-2013 experienced a small decline in revenue, a small increase in expenses and a significant decline in assets. Part of that asset decline likely is due to erosion of asset value during the Recession. But part of it also is likely due to the consumption of assets (reserves) to balance budgets during difficult years.

While this is the story at the median, it is not a universal story. Just as large nonprofits have a different revenue mix than small nonprofits, so they have had different experiences with revenue growth in recent years.

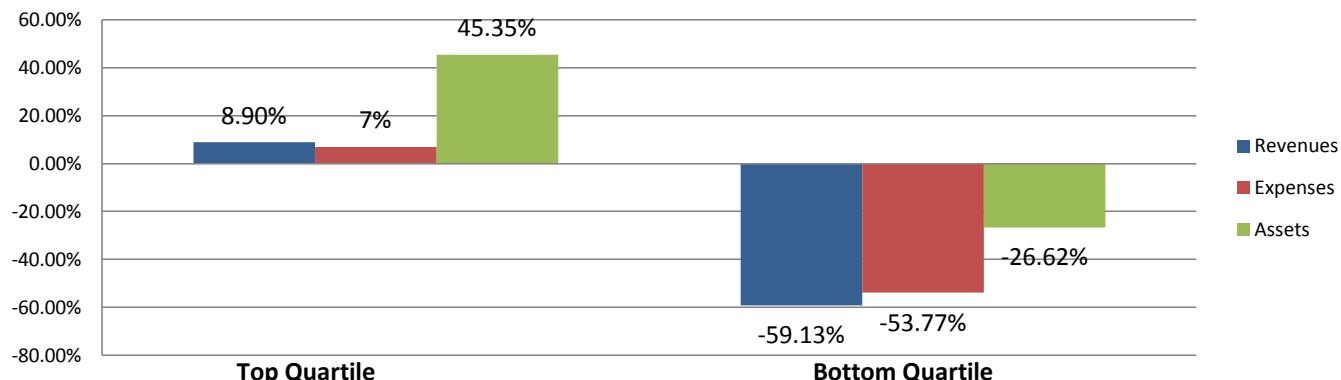
Change in Median Nonprofit Finances, 2006-2013, Adjusted for Inflation



Larger nonprofits -- those in the top quartile in revenues -- have experienced revenue and asset growth, and expenses have grown modestly. In short, these nonprofits have managed to maintain financial balance.

At the opposite end of the spectrum, nonprofits with smaller revenues have had quite a different experience. While they have succeeded at cutting expenses, they have seen excessive revenue declines and a drop in assets.

Northeast Florida Nonprofit Changes in Revenues, Expenses & Assets, 2006-2013, Adjusted for Inflation



THE BOTTOM LINE

When a nonprofit brings in enough money to cover its expenses, it is operating in the black. When it does not, it operates in the red.

Using that simple principle, the State of the Sector research has tracked the proportion of nonprofits operating in the red since 1998.

A decade of research in numerous other communities, as well as in Northeast Florida, has yielded two "rules of three":

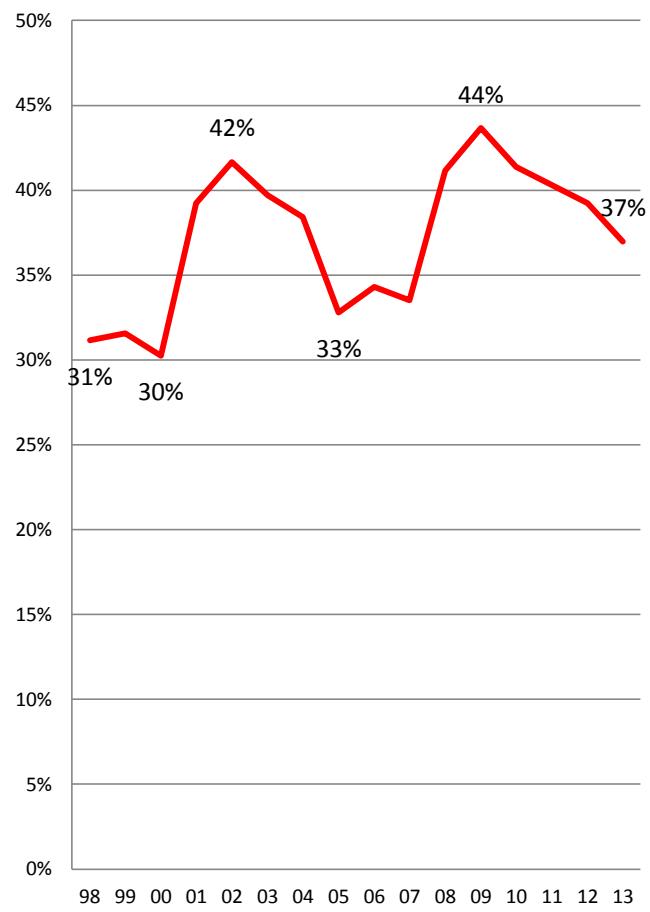
- Even in the best of times, about one in three nonprofits will operate in the red in any given year;
- Any given nonprofit is likely to operate in the red one out of every three years.

In times of economic distress, however, nonprofits struggle, as the chart at right shows.

During the recession that followed the September 11, 2001 attacks on America, nonprofit finances struggled, and in 2002, 42% of Northeast Florida's nonprofits operated in the red. But only three years later, nonprofits were back in familiar territory -- with about 33% operating in the red.

The experience of the Great Recession, however, has been more lasting. In 2009, at the worst of the recession, 44% of nonprofits operated in the red. But now, four years later, we still see a high proportion of nonprofits operating in the red. While the trendline is going in the right direction, recovery has been slow and is not yet complete.

Percent of First Coast Nonprofits Operating in the Red



Disappearing Donors And the Decline in Giving

In a community where nonprofits are, perhaps, overly dependent on philanthropy as a source of revenue, the trends in individual giving are significant. The philanthropy revenue stream includes gifts from foundations and corporations and individuals -- and studies repeatedly show that individual giving accounts for about three-quarters of that total.

Between 2006 and 2013, the latest year for which individual giving data is available, the number of donors in Northeast Florida fell by 15%. Almost 26,000 fewer people made charitable contributions. (Northeast Florida fared better than the State of Florida as a whole, where the number of donors dropped 22% in the period.)

No matter how generous a community may be, it is tough to make up for that kind of donor loss. The generous donors in Northeast Florida could not fill the gap. Between 2006 and 2013, charitable contributions made by donors in the five counties dropped by \$75 million, after adjusting for inflation.

So what happened?

The most obvious answer is the Great Recession. But the numbers tell a more nuanced story, one that may be instructive as we think about giving by individuals in the future.

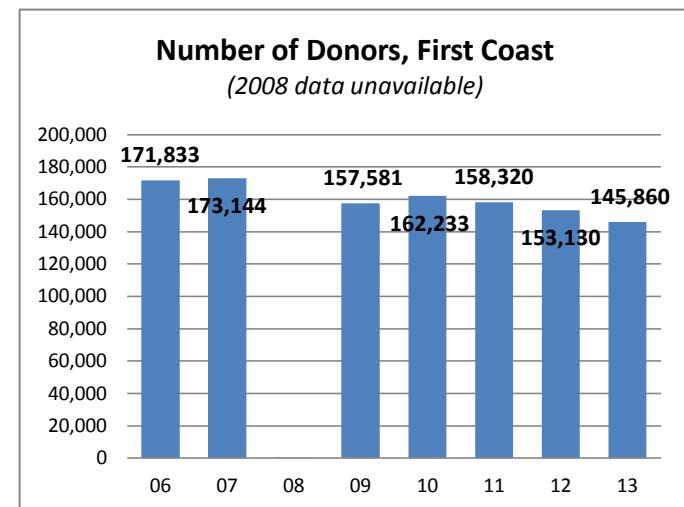
WHO ARE THE DONORS?

Typically, donors are thought to be very wealthy individuals who make large gifts to charity, and that belief is valid. But it is only part of the story.

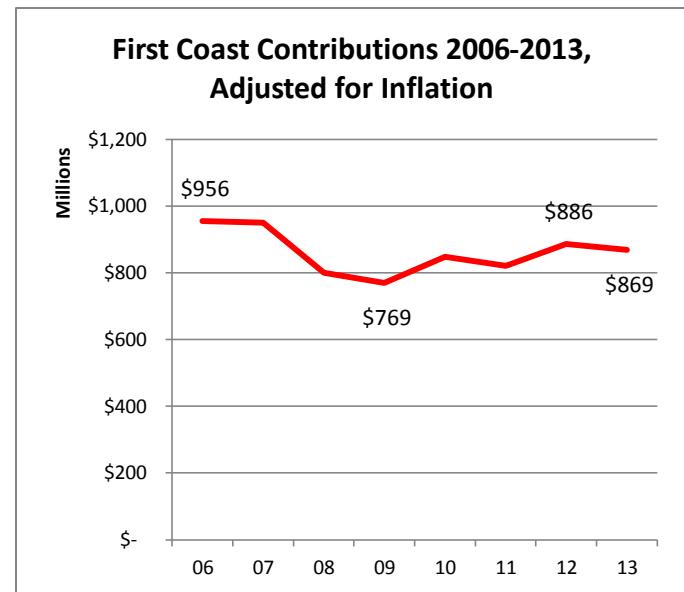
We can divide our donor universe into three distinct groups based on donors' Adjusted Gross Income:

- High-wealth donors, whose AGIs are greater than \$200,000;
- Mid-wealth donors, whose AGIs are \$100,000-\$200,000;
- Low-wealth donors, whose AGIs are less than \$100,000.

In 2006, before the Recession, Northeast Florida's low-wealth donors collectively gave \$330 million -- 40% of all charitable giving and \$19 million more than the amount given by the region's high-wealth donors.



Surprised?



Low-wealth donors' individual gifts were smaller -- \$2,832 on average, compared with an average gift of \$19,958 for a high-wealth donor. But there were many, many more low-wealth donors -- more than seven times the number of high-wealth donors. They made up in volume what they lacked in wealth.

There is another important distinction between low-wealth and high-wealth donors. Low-wealth donors' income comes predominantly from wages and salaries: almost 80 cents of every dollar in income is wage & salary income. For high-wealth donors, the income mix is quite different: only about 50 cents of every dollar comes from wages and salaries; the remainder comes from investment earnings and other non-wage sources.

What about those donors in the middle? In the aggregate, they give the smallest amount (\$186 million in 2006).

Their average gift was about \$4,656. Only 25-30% of their income comes from non-wage sources. And there are about 2.5 times as many mid-wealth donors as high-wealth donors.

THE RECESSION'S UNEVEN IMPACT

When the Great Recession struck, virtually everyone was affected, but not in the same way.

Low-wealth donors felt the punch in their paychecks. Wage freezes, pay cuts, furloughs and layoffs hit this group hard because they are so much more dependent on their paychecks. And they typically have less discretionary income.

Between 2006 and 2013, more than 31,600 of these donors stopped giving, resulting in a drop of more than \$70 million (inflation-adjusted) in contributions from this group of donors alone.

High-wealth donors also felt the impact of the Recession. But they felt it both in their paychecks and in their investments. And while the number of high-wealth

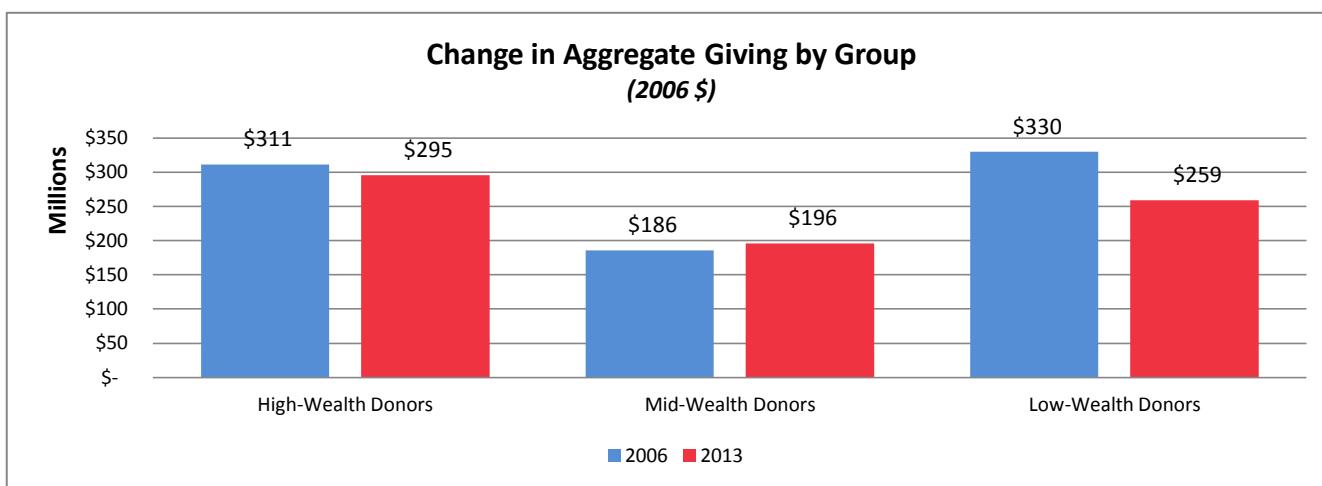
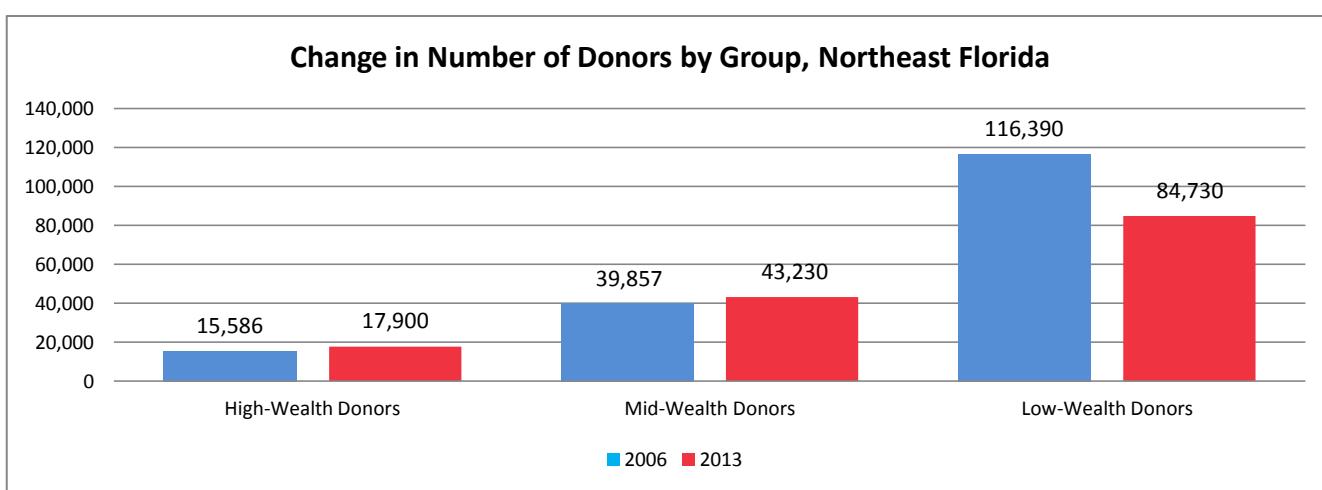
donors actually increased by 2,314 between 2006-2013, their aggregate giving dropped by \$15.6 million (inflation adjusted).

It was the middle group of donors who stepped into the breach. Mid-wealth donors increased not only their number -- +3,373 -- they increased their giving, by \$10.5 million (inflation adjusted).

THE BROAD GIVING POOL

Northeast Florida's experience with individual giving during the Great Recession reinforces what many say is the need for communities to develop broad cultures of giving, encouraging charitable giving from people at all income levels, no matter the size of the gift.

Whether or not Northeast Florida will recapture the generosity of low-wealth donors remains to be seen. Given what we know about real changes in income across the region, it may be some time before these generous people of modest means can resume their major role in the region's philanthropic landscape.



METHODOLOGY

The State of the Sector research is based upon data found in the informational tax returns (Forms 990 and Forms 990EZ) filed with the Internal Revenue Service by 501(c)3 organizations located within the five counties of Baker, Clay, Duval, Nassau and St. Johns.

Not included in this universe of organizations are private foundations (which file a 990PF) or organizations designated by the IRS as other types of nonprofits (i.e. fraternal societies, social clubs and political action committees).

Nonprofit classifications are based on the organization's stated mission, its IRS classification and/or local knowledge.

The source for all documents is Guidestar, Inc.

While the research captures data on all organizations that file, there are many 501(c)3 organizations that are not included:

- Those local chapters of national organizations that choose to file a consolidated tax return, such as the American Red Cross, Salvation Army and LISC. In these cases, only the national office files with the IRS, so there are no filings from the local offices. Not all national organizations choose this option, so organizations such as YMCA, Boy Scouts and Girl Scouts are included because they file IRS returns by chapter.
- Most churches and religious congregations. While some churches choose to file, churches and congregations generally are not required to file with the IRS.

- Many faith-based nonprofits, such as Downtown Ecumenical Services Council or Riverside Presbyterian Day School, which fall under the umbrella of a church and thus are not required to file.

Data on nonprofit employment and volunteerism is based on information reported by nonprofits on Form 990. It is worth noting that many organizations known to employ paid staff or have volunteers fail to comply with this reporting requirement.

Data on Individual Giving comes from the Internal Revenue Service, which publishes zip-code-level data on individual tax returns.

Individual giving data reflects those contributions that are reported to the IRS, through Schedule A of Form 1040. By definition, this data omits contributions made by tax filers who do not itemize their deductions or who choose not to declare their contributions to the IRS.

Two important facts to note about giving data:

First, not all of the reported contributions went to support 501(c)3 nonprofits. The data reflect all giving by tax filers, whether the gifts were made to a 501(c)3 nonprofit or to a church or other house of worship. Nationally, we know that roughly 1/3 of all giving goes to support "religion," whether as practiced by a nonprofit or a congregation.

Second, not all of the reported gifts stayed in Northeast Florida. The data reflects the actions of Northeast Florida donors, but the gifts could support the local YMCA or an alma mater in Iowa, Oregon or Maine.

The State of the Sector research project is underwritten by the Jessie Ball duPont Fund. Data compilation is managed by Jacksonville University's Division of Social Sciences under the direction of Dr. Ray Oldakowski. Data analysis and report preparation is by Mary Kress Littlepage, KBT & Associates. The Nonprofit Center of Northeast Florida is custodian of the research and distributes it throughout the region.



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