

# state of the Sector



*Since 2005, the Jessie Ball duPont Fund has tracked the size, composition and financial health of the nonprofit sector that serves Florida's First Coast, developing a body of data that now covers 1,360 nonprofits over a 10-year period from 1998-2008.*

*Through this analysis, we have come to better understand the sector, observing its ups and downs, and watching long-term trends.*

*In this edition of the State of the Sector, we examine the way the sector has changed in the last decade, and get the first look at the impact of the current recession on these important community organizations.*

## KEY FINDINGS

**Sector Size:** The number of active nonprofits in the five-county area doubled in 10 years — from 495 to 998. Nonetheless, the sector remains thin when compared with other communities.

**Sector Composition:** Health and human service organizations comprise about one-third of the sector. Other fields are growing fast, however: arts & culture, environment and animal protection, sports and religion, among them.

**Financial Health:** Typically, one out of three nonprofit operates in the red each year. In times of economic distress, however, that percentage soars. In fiscal 2008, more than 42% of First Coast nonprofits operated in the red.

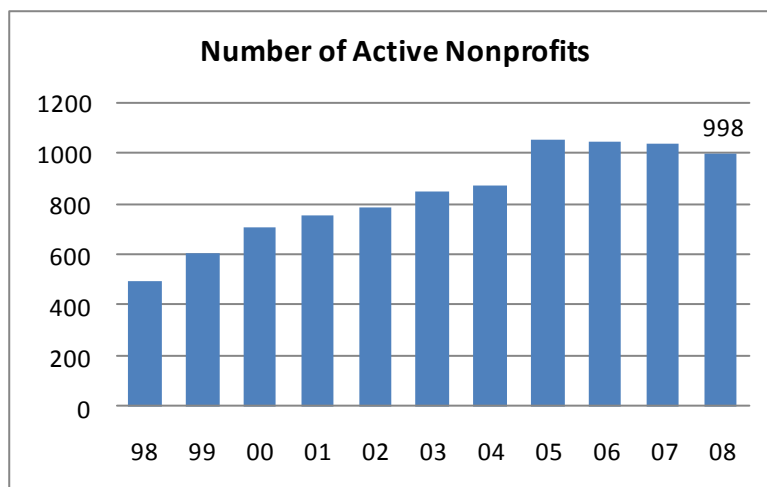
## *Nonprofits on the First Coast — A Growing Sector, but Still Fragile*

By many measures, the nonprofit sector on Florida's First Coast appears to be thriving.

In the last decade, the number of organizations has grown almost steadily. The Nonprofit Center of Northeast Florida has come into being, providing not only resources, but a common voice for the sector. Nonprofits now are viewed as a political force in the region. In fact, a nonprofit CEO is among the current leading candidates for mayor of the City of Jacksonville.

Indeed, all of these are positive signs.

But to fully appreciate the sector's potential going forward, it is important to take a deeper look at how the sector has changed in the past 10 years, and where it now finds itself.



## UNDERSTANDING GROWTH

The number of nonprofits in the five counties of Florida's First Coast (Baker, Clay, Duval, Nassau and St. Johns) more than doubled between 1998 and 2008, going from 495 to 998 — a 102% growth rate. That is slightly lower than

the 109% growth rate experienced by the comparable cohort of nonprofits nationwide, according to the National Center for Charitable Statistics. (See Methodology & Terminology).

What accounts for this growth?

No doubt, part of the robust growth

## METHODOLOGY & TERMINOLOGY

The State of the Sector report is based upon analysis of 1,363 501(c)(3) nonprofits based Baker, Clay, Duval, Nassau or St. Johns counties, Florida, that filed Form 990 with the IRS at any time from 1998-2008.

The IRS requires that any 501(c)(3) with annual revenues of \$25,000 or more file a Form 990 for that year.

Churches and religious congregations are not required to file, though some do. Those that choose to file are included in this analysis.

Private foundations are excluded from this analysis.

This analysis categorizes nonprofits by their primary field of work, using fields compatible with the National Taxonomy of Tax-Exempt Entities.

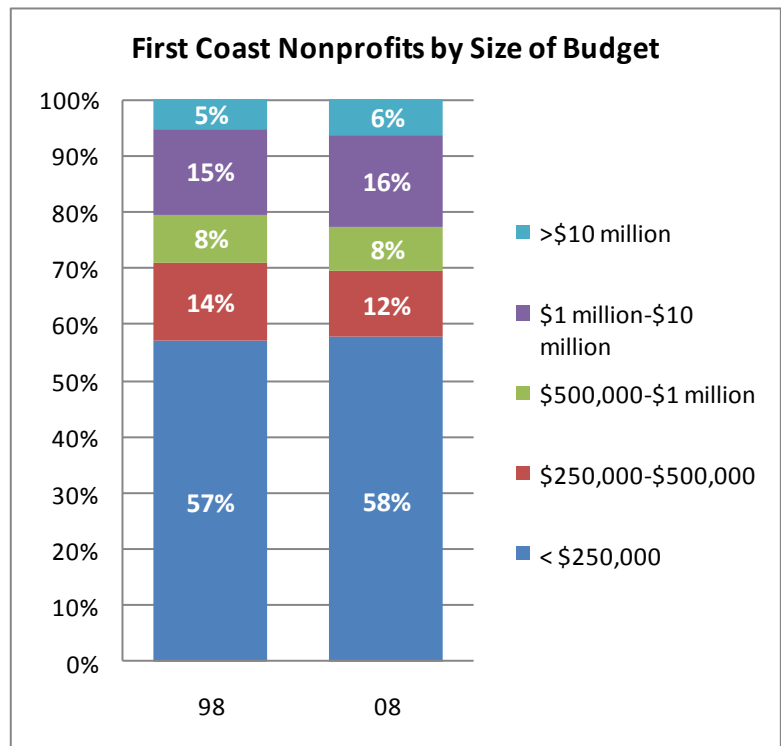
The class of **ALL NONPROFITS** represents all 1,363 entities included in the database.

The class of **CORE NONPROFITS** represents all entities except institutional nonprofits (colleges, universities, hospitals, full-service nursing homes and their supporting organizations, and charitable trusts). This is done to avoid distortions to the data caused by the disproportionate share of revenues and assets generated and held by these institutional entities.

Financial health is determined by the ratio of revenues to expenses: a ratio of 1.0 or higher means the organization operated in the black; a ratio of less than 1.0 means the organization operated in the red.

A measure of sector health is the percentage of all organizations that operated in the red in a given year.

All data comes from IRS FORM 990.



seen in the number of nonprofits — locally and nationally — is compliance driven. This study, like countless others, determines the number of nonprofits by counting those that have filed an informational tax return—Form 990—with the IRS. Nonprofits today are far more attentive to IRS filing requirements than they were in 1998, and since 2003, nonprofits have been able to file the 990 electronically. So, some of the growth in numbers unquestionably reflects an increase in reporting rather than an increase in the number of organizations.

But compliance is only part of the reason for growth in the sector. Other factors include government’s decision to shift provision of many social services to the nonprofit sector; the growing interest among retiring baby boomers and Gen Y in community service activities; and the technological changes that have simplified processes for starting and operating nonprofit organizations.

What does nonprofit growth look like on the First Coast?

The pace of growth is fairly even across the region, with the exception of Baker County, where the sector is extremely small (only 11 active nonprofits in 2008.)

The “core” of the sector — which excludes institutional nonprofits such as colleges, universities, hospitals, full-service nursing homes, and charitable trusts— is growing faster than the sector as a whole. This is not surprising given the relative difficulty of establishing a new university or hospital.

Startup nonprofits tend to be small with limited budgets.

It is no surprise, therefore, that 50% of First Coast nonprofits had operating budgets of less than \$174,128 in 2008. And fewer than one in four had an operating budget of \$1 million or more.

***So, while growth in the sheer number of nonprofits suggests a robust sector, closer examination reveals a sector with many units, but relatively few with the capacity to have broad reach and weather economic turmoil.***

## How Many Nonprofits Is Enough?

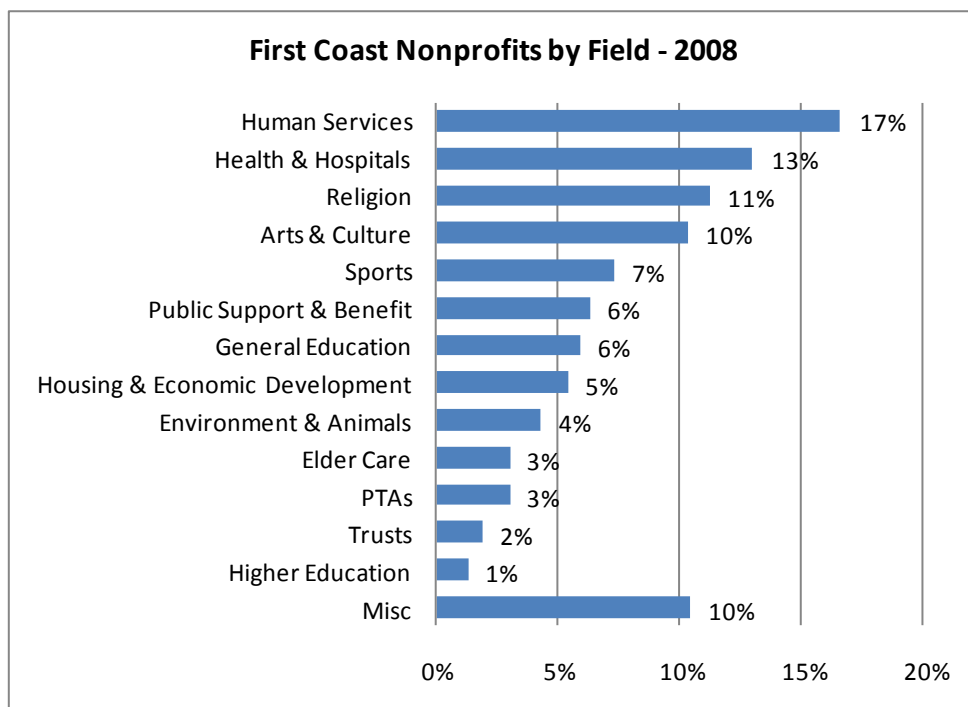
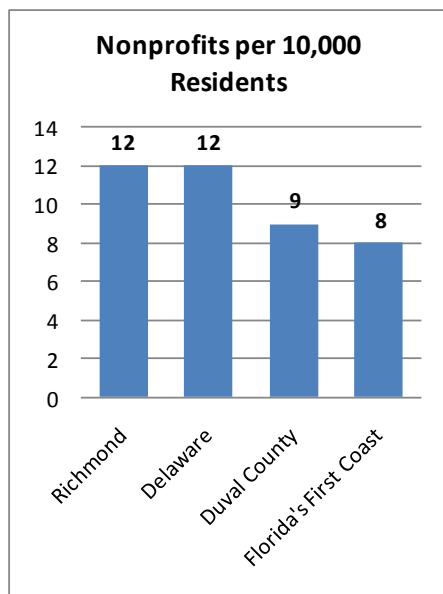
Regardless of the size of a community's nonprofit sector, a common complaint is "there are too many nonprofits!"

There is no magic formula to suggest the optimum number of nonprofits for a given place. It is instructive, however, to compare the size of the nonprofit sectors across communities.

Richmond, Virginia and the State of Delaware are two communities in which the nonprofit sector has been closely studied. Though these communities differ, they have many similarities with Duval County, Florida.

Richmond is a core city with two primary suburban counties and a population of 798,000. Delaware, though a state, is comprised of only three counties, with a population of 873,000. Duval County is a sprawling municipality with a population of 850,000.

Delaware and Richmond each is home to about 12 nonprofits per 10,000 residents. Duval County, however, is home to roughly 9 nonprofits per 10,000 residents. For the entire First Coast, there are about 8 nonprofits per 10,000 residents.



## Who Makes Up the Sector?

### Health & Human Services Are Dominant

Almost one third of the nonprofits on the First Coast work in the fields of health and human services—295 of the 998 entities that were active in 2008. This includes 37 entities that are classified as hospitals, full-service nursing homes and their supporting organizations.

These organizations are significantly larger, with greater capacity. The median budget in 2008 for general health organizations—excluding hospitals and nursing homes—was \$434,657. For human services organizations, the median budget was \$373,488.

The fact that religious organizations comprise the third largest group of nonprofits is a reflection of the deep, faith-based culture that exists in the South, and influences the First Coast. In Delaware, for example, religious organizations comprise less than 3% of the state's nonprofits.

Religious organizations are among the fastest growing subsectors of nonprofits — 60 new organizations were

added during the decade (compared with 88 human service organizations and 31 health nonprofits), for a growth rate of 115%. (While many faith-based organizations offer extensive community-service programs, the ones in this category list as their primary mission evangelism, religious education and related topics.) In general, religious nonprofits tend to be small, with a 2008 median budget of \$122,954.

The region added 56 Arts & Culture nonprofits during the decade and 40 Sports nonprofits. The latter are predominantly, though not exclusively, youth sports organizations, ranging from Pop Warner Football to community-based athletic associations.

The Environment and Animal Protection field, though a small part of the overall sector, is growing rapidly. During the decade, 27 new organizations were added to this field—a 169% growth rate. Among the new players are the St. Johns Riverkeeper and the North Florida Land Trust.

# Nonprofit Financial Health — A 10-Year Roller-Coaster Ride

Nonprofit organizations on the First Coast and elsewhere live financially close to the bone. Consequently, they are particularly vulnerable to the ups and downs of markets and the economy.

Couple that vulnerability with life on the financial edge and you have a recipe for high volatility and financial instability among the very organizations to which communities look in times of trouble.

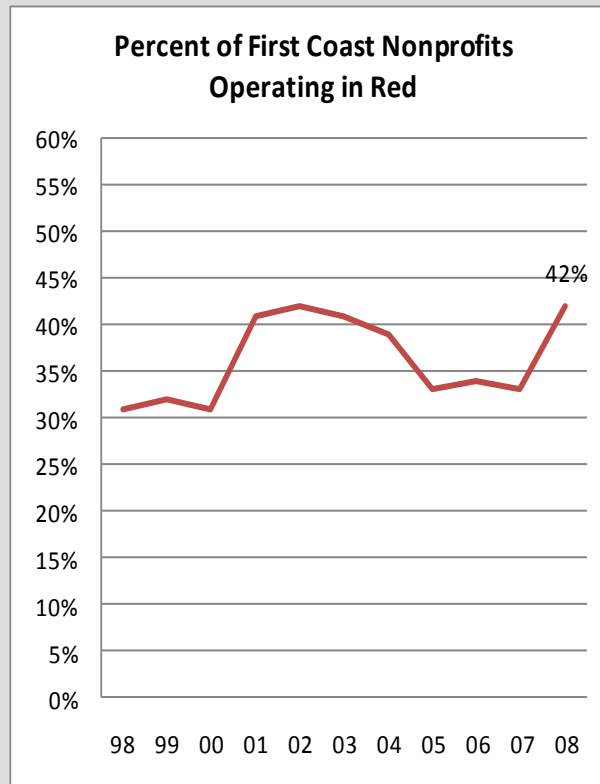
Even in the late 1990s, a halcyon time by today's standards, one out of three First Coast nonprofits were operating in the red.

As the economy has weathered two recessions in this decade, nonprofits on the First Coast have seen their bottom lines get bloody.

At the depths of the recession of 2001-2002, 42% of First Coast nonprofits were operating in the red. During the next five years, financial healing occurred until, in 2007, the number operating in the red was down to 33% — within a percentage point or two of where the sector was in 1998.

Then came the economic meltdown of 2008. By the end of that year, 42% of First Coast nonprofits were in the red — a stunning number when you realize that significant portion of the sector operates on a July-June fiscal year, meaning their fiscal 2008 results were in *before* the market collapsed began in the third quarter.

Add to that the fact that more than



*The percent of nonprofits operating in the red spiked in 2001, with the recession that accompanied the attacks of Sept. 11. Though nonprofits generally grew healthier from 2002–2007, the sector never achieved the level of financial health it experienced in the late 1990s. With the recession of 2008, the percent of nonprofits operating in the red soared again—with results expected for 2009 expected to be worse.*

44% of First Coast nonprofits reported a decline in assets between 2006 and 2008, and you have a sector in financial distress. (Again, the 2009 results are expected to be worse.)

AVERAGE RESULTS FOR CORE NONPROFITS ON THE FIRST COAST		
	1998	2008
<b>Revenues</b>	\$1,073,612	\$1,837,577
<b>Expenses</b>	\$1,031,930	\$1,786,479
<b>Assets</b>	\$738,392	\$1,205,291

These results notwithstanding, First Coast nonprofits do appear to have grown financially during the decade.

As the table indicates, the average revenues, expenses and assets for First Coast core nonprofits increased handsomely during the decade. Revenues were up 71% and expenses were up 73%, with average assets growing 63%. (Inflation for the period was 32%.)

The challenge for nonprofits lies in balancing the revenue and expense lines, and creating adequate reserves to provide a financial cushion during finan-

cial downturns.

Much of nonprofits' vulnerability comes from the squeeze that they experience during tough times: demand for services goes up at the same time that charitable giving—and often government spending—goes down.

Increasingly, nonprofits are developing alternative revenue streams—in particular for-profit ventures—to supplement their income and provide a financial buffer.

The data of the last 10 years suggests that those are wise strategies.