

**Feasibility Assessment: Measuring Financial Trends in
Thurston County's Nonprofit Sector**

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Executive Summary

Nonprofit directors in Thurston County lack a measure to gauge the financial health of nonprofits, including trends in donor giving, government and private contributions, program revenues, and services provided. This report studies the feasibility of creating such a measurement index. The purpose of a financial index for nonprofit organizations is to communicate with the public – especially potential donors – regarding the general trends in financial support, services needed in the community, local charitable giving, and the nonprofit sector’s ability to meet community needs. Rather than oblique, general statements encouraging community support for a given cause, the local nonprofit community could point to trends of giving and their ability to fulfill local service requests – trends drawn from consistently-gathered data series over time.

The purpose of this study is to determine the feasibility of designing a database that will include a stratified, non-random, purposeful sample of institutions from the local nonprofit sector. Because there is no nonprofit fiscal index specific to Thurston County, it is useful to look at studies and literature that exist regarding the financial health of nonprofit organizations. It is especially important to include a discussion of what is being done elsewhere on a micro level to discuss the economic impacts of nonprofits on a specific state, county or locality. Lastly, we will look at the Consumer Price Index (CPI) and refer to available literature to discern if its ‘basket of goods’ model is an appropriate framework with which to construct a fiscal index of nonprofit health in Thurston County.

As discussed below, we find that such a measurement index and database would be feasible undertakings for improving communication between the nonprofit sector and citizens of Thurston County. Specifically, we pose three recommendations:

- that the index be constructed from a stratified, non-random, purposeful sample of twenty 501(c)(3) charitable nonprofit organizations that focus their service areas on Thurston County;
- that the database be hosted at a graduate academic institution as a long-term partnership with the local nonprofit sector with graduate students determining the actual index rating; and
- that selected nonprofits be surveyed annually for numbers of service requests, clients served, and contributions received; that public economic data such as employment and wages be refreshed every 2 years; and that an in-depth qualitative survey be given every 4 years to directors of the non-profits selected.

Through examples discussed in the report, we find that other communities have successfully measured economic impacts from their local nonprofit organizations. This suggests that there are models to emulate when considering creation of a Thurston County measurement tool. However, the examples also show the difficulty of measuring data for which there is not a standard reporting system already in place.

Terms Used in Report

For the specific purposes of this assessment, we define several terms used throughout this report:

- **Nonprofit Organization:** These organizations are classified under the 501(c) section of the federal tax code and can include not-for-profit non-charitable organizations. These nonprofits are exempt from paying federal income tax.
- **Charitable Organization:** These organizations are classified specifically under the 501 (c)(3) section of the federal tax code and are inherently charitable organizations. The charitable organizations are exempt from paying federal income tax and donations to their organizations are also tax deductible to the donor.
- **Local Nonprofit Sector:** The local nonprofit sector as we will refer to it in this study is limited to charitable organizations which operate and provide services in Thurston County, Washington.
- **Fiscal Health:** Fiscal health is the overall financial condition of the local nonprofit sector (example: good health would mean that the local nonprofit sector yielded more total revenue than expenditures). When referring to fiscal health in this study, we speak generally to local nonprofits as a whole and not to any specific institution(s) operating within the county.

- **Fiscal index:** The fiscal index will be the actual tool that local nonprofit development officers can utilize in communicating with media and community members as to the general fiscal health of the local nonprofit sector. We are making recommendations regarding the construction of an index that will be able speak with a level of accuracy as to whether financial trends such as charitable giving in the local nonprofit sector are up or down.
- **Consumer Price Index (CPI):** The CPI is an inflationary indicator that measures the change in the cost of a fixed basket of products and services including housing, electricity, food, and transportation. The CPI is published monthly and is also referred to as the cost-of-living index. We examined certain components of the CPI and recommended whether taking those components when compiling an index would be feasible.
- **Community Benefit:** The idea that an organization's claimed charitable activities are found to primarily benefit people living within certain local geographical boundaries.
- **Social Capital:** Social capital consists of the stock of active connections among people. One of the studies reviewed defines social capital as the trust, mutual understanding, and shared values and behaviors that bind community members and make cooperative action possible.

Literature Review

This review will present some of the relevant studies, papers, and articles that discuss the impacts of charitable organizations within their communities. We separate the discussion between examples of community-based studies, and literature regarding the Consumer Price Index. We evaluated several community-based studies for focus and methodology, and reviewed literature regarding the economic impacts of a community's nonprofit organizations on the local economy. We also reviewed the methodology and reasoning behind the CPI to evaluate whether it could be used as a model for our purposes.

Review of Community-Based Studies

An article penned by Reiner and Wolpert (1981) discusses the contribution of the nonprofit sector to metropolitan Philadelphia. The authors use empirical evidence and theoretical constructs to observe the relationship between philanthropy and metropolitan growth or decline. Reiner and

Wolpert conclude that detailed analysis paralleling economic growth or decline with that of local economies **is feasible and productive** for showing a relationship to nonprofit giving.

The Giving USA Foundation has published an annual report since 1954 that presents the national impacts of philanthropy across the nation. This report (2006) aims to estimate the amount of support given to various segments of the nonprofit sector on a national level. This publication includes a great deal of data from the most recent survey, as well as in-depth findings regarding change over time, and outlying factors that influence total giving in a certain year. The report provides a good example of reporting trends over time, and the type of messaging that the local nonprofit sector may wish to emulate. However, the methodologies and data sources used would likely **not be helpful to local calculations**, due to the unique nature of the panel data and the national-level macroeconomic data used to inform the study's calculations.

Literature Relating to the Consumer Price Index

Arguably, the CPI is successful at measuring the average price of consumer goods and services purchased by households. This index produces *monthly* data on changes in the prices paid by urban consumers for a representative basket of goods and services. As a part of our study, we are contemplating whether a similar methodology could be effectively implemented to measure the fiscal health of Thurston County's nonprofit community on a *yearly* basis. We looked at the literature relating to the strengths and weaknesses of the CPI system while contemplating whether this unique index can be applied in measuring the economic strength of nonprofits locally.

Boskin (1997) completed the first extensive external evaluation of the nation's CPI price statistics since 1961. He concluded that due to substantial changes in costs of living in the United States and the unstable nature of the nation's gross domestic product, the CPI index has been updated with bias and has not been done considering every facet of American society. Boskin recommends reweighting the consumption basket more frequently and increase the pace of

sampling so that new products enter more quickly enabling the collected prices to be more representative of current market activity.

Jouts (1999) summarized the possible motivations of official CPI food forecasters. He compared the forecasts of 1997 and 1998 and discusses three possible scenarios that these forecasters were asked to consider. He concludes that the forecasts for certain food forecast items reflect the differences in emphasis, intuition, and modeling techniques of the different forecasters. The motivations of these forecasters have important policy implications. Other articles (Bourassa, 1998 and Cage, 1998) have proposed new methodologies for constructing a more representative and inclusive consumer basket of goods.

A review of the literature concerning CPI methodology and studies concerning the fiscal health of the nonprofit world has revealed that constructing an effective measuring tool will not be an easy undertaking. Macro-level studies have shown that the vast numbers of nonprofits make it difficult to accurately gauge the health of the sector. Non-uniform reporting standards for the different sectors make it difficult to measure fiscal health on a smaller, local or county-wide level. Motivations and the political ideology of CPI forecasters make it difficult to accurately compile a representative sample of goods and services. This difficulty will exist for analysts attempting to construct an index that represent the nonprofit sector. Debate will surround which institutions will represent whole sectors of the local nonprofit economy. As a result of these concerns, **we cannot recommend the use of the Consumer Price Index as a frank model for a local nonprofit index.** However, we can look to the CPI as an example of a stratified sampling group, regularly reviewed and updated, to provide a methodology for keeping the index up-to-date and relevant to the county's economy.

Methodologies of Nonprofit Impact Studies

As part of this feasibility assessment, we reviewed various studies of nonprofit impact on states and communities in order to determine various aspects of their methodologies, including their basic aims, questions posed, and data sources used. In the past ten years a small number of locally-based studies have been completed to assess the economic impact of nonprofits on a state's or community's economy. These locally-based studies have measured the economic contribution of nonprofits employing techniques that provide a static, moment in time glimpse of the sector's health. Generally, these studies focus heavily on the amount of money nonprofits inject into the local economy through paid employment and program revenues, with lighter treatment of noneconomic data such as volunteer hours and clients served. The studies reviewed, and their stated aims, are listed below. Following this section, Table 1 compiles the general questions posed within these studies, and Table 2 compiles the basic data sources used to answer these questions.

Studies reviewed:

Iowa: The Impact of Charitable Nonprofit Organizations in Iowa's Economy and Quality of Life.

This report, directed by a gubernatorial task force, is meant to "assess the economic and programmatic impact of the charitable nonprofit sector in Iowa" on an annual basis (p. 3). The study focuses exclusively on 501(c)(3) charitable organizations in Iowa.

Colorado: Return on Investment: The Economic Impact of the Nonprofit Sector in Colorado

This report focuses exclusively on the plain economic aspects of the nonprofit sector in Colorado, including its size and economic impact in the state, as well as its net contribution to the state economy. The report also attempts to catalog the complete economic flow of moneys into and through nonprofit organizations. The study excludes any review of services given or other non-economic impacts. The study found that although Colorado's nonprofits play a pivotal role in the state's social and economic wellbeing, it trails its counterparts in most neighboring states. The report contends that this is largely due to reduced state funding and a comparatively low rate of charitable giving by Colorado residents as compared to national rates of giving.

New York (Capital Region): *A \$4 Billion Growth Industry that Cares: the Impact of the Nonprofit Sector on the Capital Region of New York State.*

Rather than examining a statewide economic impact, this study focused exclusively on the metropolitan area surrounding Albany, NY. While it does not explicitly state its aims, the study's executive summary outlines findings in a number of economic and qualitative matters. In addition to economic impact, the study gauges sectors most reliant on nonprofit participation and residents' attitudes toward charitable organizations. It reviews job creation and other plain economic factors. This study calculated the indirect economic activity attributable to region via a tool called gross metropolitan product, a regional gauge similar to the gross national product.

Vermont: *Not the Non-Sector: The Facts about the Charitable Nonprofit Community in Vermont.*

This study broadly examines the scope and economic impact of the nonprofit sector in the state. Further the study catalogs qualitative factors of nonprofit organizations, including residents' volunteer and philanthropy efforts and nonprofits' contributions to quality-of-life in the state. This study looks at theoretical and empirical studies (Boris and Lampkin, 2001 and Gronbjerg, 2001), discusses the idea of social capital, and argues that community benefits are indicators of a successful culture of charitable giving in Vermont. Kimberly concludes that the accumulation and successful integration of a giving culture and social capital contribute to the economic and non-economic benefits provided by charitable organizations in Vermont.

New Mexico: *The Economic Impact of Nonprofit Organizations in New Mexico.*

This study focuses on economic impacts, especially employment and wages, in New Mexico's economy. The study also places a value on the amount of volunteer effort within nonprofit organizations, as a contribution to economic activity. This report used tax reporting data from most of its major nonprofits (excluding religious entities because they are not required to report to the IRS) to apply existing methodologies regarding the employment impact of nonprofits to speak to the statewide economic impacts of nonprofits as a whole.

Questions Addressed and Data Sources Used in Local Studies

Table 1 catalogs the general questions addressed in the studies above. Each study included information on nonprofit employment and wages, while only two discussed non-economic or qualitative aspects of nonprofits in the region.

Table 1: Questions addressed	IA	CO	NY	VT	NM
Employment and wages					
• FTE employment in nonprofit sector	X	X	X	X	X
• Wages earned in nonprofit sector	X	X	X	X	X
Revenues, expenditures, assets					
• Total revenues (from services)	X	X	X	X	
• Total expenditures	X	X		X	
• Total assets (ie. real estate)	X	X		X	
• Sector as % of state/region economy		X	X		X
Community support /Organizational strength					
• Volunteer hours	X		X	X	X
• Donations given	X		X	X	
• Revenue from outside state/region		X	X		X
• Number nonprofits over time (trend)	X		X		
Non-economic impact					
• Services provided (types, number served)			X	X	
• Opportunities available			X	X	

Each of the above studies relied on two major data sources for their evaluations: the Internal Revenue Service’s Form 990, and state employment data. The 990 is a particularly rich source of information. Every nonprofit organization with gross receipts of \$25,000 or more must complete this form annually. The form directly requests data on:

- Direct and indirect public support (lines 1a, 1b, and 1c);
- Government contributions (line 1d);
- Earned income and program service revenue (line 2);
- Membership dues (line 3);
- Interest earned (lines 4 and 5);
- Event income (line 9c);
- And other sources of income (lines 6c, 7, 8d, 10a, and 11).

Table 2 catalogs the different basic data sources used in each of the reviewed studies.

Table 2: Data sources

	IA	CO	NY	VT	NM
Federal tax data					
• IRS 1023 form (\$5,000 gross receipts)	X				
• IRS 990 report (\$25,000 gross receipts)	X	X	X	X	X
Employment and community data					
• State employment/workforce department	X	X	X	X	X
• Quarterly Census of Employment and Wages (U.S. Bureau of Labor Statistics)		X			
• Census data		X	X		
Other sources					
• Bureau of Economic Analyses (state activity)		X			
• State data on charitable organizations			X	X	
• Study-specific data (ie. survey, interviews)		X	X	X	

Creating an Index for Thurston County

To develop recommendations for creating a local nonprofit index, we must evaluate several considerations, including: which organizations should be included in such an index; what to measure in the index, and how to best gather the data; and which organizations should host or be responsible for the index. We take each of these questions in turn, and discuss our concerns and recommendations for each.

Which organizations should be included in a local nonprofit index?

There are several considerations in choosing which organizations to include in a measurement index. One consideration is the amount of data-gathering necessary, the availability of resources to gather that data, and the sources for that data. Our colleague Hannah Steinweg (2008) found that Thurston County hosts more than 700 nonprofit organizations that meet IRS requirements to file the Form 990, with more than 90 of those organizations having over \$100,000 in revenue. Due to the difficulty of gathering data from so many organizations, we recommend choosing a representative sample of organizations for the index. This sample should be stratified by a set of categories, such as those used in the Combined Fund Drive or United Way campaigns. We discuss a detailed set of categories in Appendix 1 of this report.

Aside from the categorical choices to be made, there are several considerations in choosing whether to include certain types of organizations, including religious, advocacy, and grant making organizations.

Religious Organizations: Religious organizations, such as churches, are not required to report income and expenditure data to the federal government, and as such are not represented in a data set focused solely on government records (i.e. tax records). However, some service organizations such as hospitals and schools are religiously affiliated, and to exclude them would allow for a limited picture of nonprofits' impacts. To exclude all religiously affiliated organizations in Thurston County would eliminate from consideration the region's largest hospital, several continuing care facilities, a handful of private schools, a university, and myriad other organizations. Researchers will need to carefully consider the costs and benefits of including or excluding organizations based on religious affiliation.

Statewide Advocacy Organizations: By virtue of the fact that Thurston County hosts the seat of state government, a disproportionate number of the county's nonprofit organizations are focused on advocacy efforts at a state level and do not directly serve the Thurston County area. Many advocacy organizations base their operations from Olympia for proximity to the State Legislature, the Governor, and other state officials. The economic data for these organizations could significantly skew the index results. It could also be misleading to include such organizations if the index is presented to the public as focusing on charitable, service-oriented organizations that serve Thurston County.

Grant making Organizations: Some organizations, such as grant making foundations, and public benefit funds such as the Combined Fund Drive and the United Way, have dual purposes in the nonprofit sector. These organizations function as both recipients and donors, taking in donations from individuals and groups, and giving away money to support other local nonprofit

organizations. Researchers must take care to clearly show the flow of money *through* these organizations, lest numbers on either side of the ledger appear inflated.

Recommendation #1: We recommend the index focus on a stratified, non-random, purposeful sample of 501(c)(3) charitable nonprofit organizations that focus their service area on Thurston County.

What data should be gathered, and how would it best be gathered?

As discussed in our review of other community-based reports, many groups rely on government tax and employment data to calculate economic impacts. Researchers have two choices for gathering this data. They may choose to ask individual organizations for the data, specifically referencing a line or entry number from the required forms. Researchers may also choose to get the data from a government or aggregate source. The data may be accessible in aggregate form from several organizations, such as Guidestar.com and the National Center for Charitable Statistics. Each of these aggregating organizations presents strengths and challenges in regard to time-lapse, cost, and other factors. Future researchers will want to evaluate costs closer to the time of decision, since we cannot predict what local resources will be available for this project.

In our review of other community-based studies, we found that economic data such as employment and wages earned were readily available to researchers. **However, gathering non-economic data such as volunteer hours and clients served was a far more involved task.** For instance, one challenge mentioned in our discussions with local nonprofit directors was the lack of consistent response to a survey used to gauge local nonprofit economic activity. In 2005, South Sound Partners in Philanthropy (SSPP) attempted to compile basic information from its member organizations, but the effort suffered from incomplete and inconsistent responses. While survey data can be shaped to complement and enhance economic data from government sources, the index

should limit the use of surveys to gather data from the sample group to prevent its being compromised by inadequate response.

However, it is precisely this non-economic data that the nonprofit sector needs to communicate effectively with the public. Local nonprofit organizations need to be able to communicate annually how many people are requesting their services, and how well public and private contributions are sustaining those service levels. Data regarding service requests and charitable donations will be perceived as out-of-date if it is more than one year old.

As a result of these findings, we recommend that economic data regarding employment and wages be gathered on a two-year cycle from publicly-available data sources. This will provide only a limited picture of economic impact, so we further recommend that the index include survey data on relevant trends. A short-format survey to selected organizations should be issued annually, focusing on total numbers of service requests, clients served, and contributions. A more detailed survey could be used as well, but not more frequently than every 4 years.

Recommendation #2: We recommend annually surveying selected organizations for numbers of service requests, clients served, and contributions received. We recommend public economic data such as employment and wages be refreshed every 2 years, with qualitative survey data gathered every 4 years from directors of the non-profits selected.

Which organization should bear responsibility for hosting the index?

Another challenge to the use of a local nonprofit index is the need for its regular maintenance, both in annually compiling the data for the index, and in regularly reviewing and updating the sample cohort and methodology. There are a handful of organizations in Thurston County that may be able and interested in maintaining the index, but there appears to be

differences in the relative strength, long-term stability, and general interest of these organizations. Each organization also brings inherent issues in regard to how the measurement will be perceived by the public and the nonprofit community. Researchers contemplating this index would do well to carefully review which organization will “own” it over the long-term.

One possible host organization would be a large umbrella group such as South Sound Partners in Philanthropy or the United Way of Thurston County. Such organizations often get their strength from high-level representation and interest from member nonprofit organizations. However, the structure and cohesiveness of these groups can vary depending on levels of involvement, varying resources, and a confederation-style organization. Also, researchers cannot ignore the inherent conflict and competition both between and within such groups.

Another possible host would be a government or quasi-government organization such as the county small business administration, economic development council, or similar group. While these organizations would likely have the expertise and resources to successfully manage the index over time, there may be significant conflicts between government requirements and the necessary flexibility found in nonprofit organizations.

A third option is to host the index within a local academic institution. Thurston County boasts several higher education institutions, from two year schools such as South Puget Sound Community College to graduate institutions at The Evergreen State College and St. Martin’s University. This option would maximize the strengths found in the knowledge base of the academy, provide development opportunities for future nonprofit leaders, and integrate the index into a stable, long-term organization. The inherent challenge would be to maintain a relevant product and workable partnership with the local nonprofit community through disparate cohorts of students and faculty.

Our experience with this project as a long-term academic research effort certainly affects our choices in recommending that this project continue within Evergreen’s Masters of Public Administration program. However, we do find that the institution’s independence would bring credibility to the measurement, as well as provide hands-on service learning opportunities for future MPA students and nonprofit leaders. Further, we believe the strong academic resources will be necessary in the first few iterations as the measurement and sampling methodologies are perfected.

Recommendation #3: We recommend that the database be hosted at a graduate academic institution as a long-term partnership with the local nonprofit sector. Specifically, we recommend that this project be offered as a recurrent opportunity for graduate research so that the actual index rating can be delivered.

Conclusion

We find the index to be a feasible undertaking, given our recommendations above. However, future researchers will need to consider the resources they have available to dedicate to this endeavor, with a special focus on sustainability over time so as to provide useful, relevant data to citizens and potential donors in the longer term. Specifically, we pose three recommendations:

- that the index be constructed from a stratified, non-random, purposeful sample of twenty 501(c)(3) charitable nonprofit organizations that focus their service areas on Thurston County;
- that the database be hosted at a graduate academic institution as a long-term partnership with the local nonprofit sector with graduate students determining the actual index rating; and
- that selected nonprofits be surveyed annually for numbers of service requests, clients served, and contributions received; that public economic data such as employment and wages be refreshed every 2 years; and that an in-depth qualitative survey be given every 4 years to directors of the non-profits selected.

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Appendix 1: Nonprofit Categories

To achieve a valid stratified sample, nonprofit organizations would need to be categorized in some manner. One methodology would be to use the service-sector model as demonstrated in several studies. Many of the studies we reviewed followed a category structure similar to that used in the annual Giving USA (2006) report, summarized below:

- **Religion** – sectarian organizations, not including non-denominational mega-churches or faith-based organizations that provide other services such as health care (a hospital) or education (a sectarian school) (p. 107)
- **Education** – including colleges and universities, scholarship funds, private K-12 schools, tutoring programs, private libraries, supporting fundraising organizations (such as “Friends of St. Michael’s School”), vocational and adult education organizations, and educational service organizations. (p. 121)
 - *In some studies, this sector is split in to “education” and “higher education”*
- **Foundations** – active, grant making foundations (p. 131)
- **Health** – nonprofit organizations providing health care services, mental health care, crisis intervention; or education, treatment, research and support for specific medical conditions and diseases. (p. 135)
 - *In some studies, this sector is split in to “hospital” and “other health services”*
- **Human services** – public protection, disaster relief, social services, basic needs (food, shelter), job training and employment, youth development, and recreation. (p. 144)
- **Arts, culture and humanities** – including museums, performing arts, historical societies, and other such activities.
- **Public society benefit organizations** – includes organizations that collect contributions for distribution to other nonprofit agencies, such as the United Way or the Combined Federal Campaign. (p. 163)
- **Environment and animals** – organizations working for land conservation, pollution abatement, species preservation, animal rescue, and environmental education. (p. 173)
- **International affairs** – international relief and development aid, international exchange, international security, and international human rights. (p. 180)