

Research Report

MARYLAND NONPROFITS – *stay informed*

FIELD OF DREAMS

A Report on Survival and Growth in the Nonprofit Sector



Maryland Nonprofits Research Report

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In the movie, *Field of Dreams*, the protagonist, Ray Kinsella, hears a voice that says, “If you build it, he will come.” In response, Kinsella creates a baseball diamond and Shoeless Joe Jackson appears. Each year, hundreds of caring, well-meaning citizens of Maryland hear a similar call, “If you build a nonprofit, money will come.” Maryland isn’t Hollywood, and the reality is that many, many nonprofits are created, but it appears that many of them do not attract the level of funding needed to survive and thrive.

WATCHING DREAMS COME TRUE OR NOT

Maryland is one of the few states that does not have a separate corporate charter for nonprofits. Because of this, we can only estimate the number of organizations that take the first step of becoming a non-stock corporation. There are about 3,000 non-stock corporations formed annually in the State. We estimate that about half of these are formed with the intent of eventually becoming a nonprofit organization that is recognized by the Internal Revenue Service.

We do closely track those organizations that the IRS recognizes as exempt. The IRS has a master file of all nonprofits that can be accessed by the public. We have made it a practice of accessing the file on a monthly basis in order to identify the new nonprofits in the State. Over the past ten years the increase in nonprofits has been dramatic with approximately 1,000 new nonprofits being added to the master file annually. Nearly half of the more than 20,000 nonprofits in the state are less than a decade old.

Nonprofits in Maryland per IRS database		
1995	2000	2005
11,943	15,613	20,804

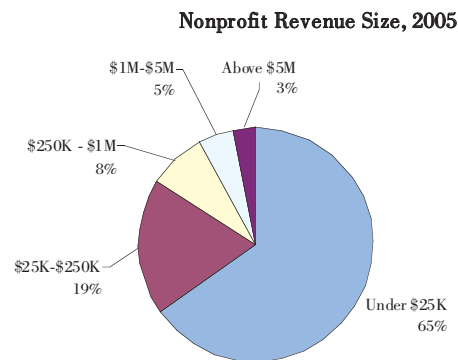
For each new nonprofit, capital is required. This capital is both in the form of financial capital and social capital. The cost of filing fees for incorporation with the State and for application for exempt status with the IRS currently ranges between \$250 and \$1,000 depending on the size and complexity of the new entity being formed. In addition, it takes time to complete the filing documents, either volunteer time or time with a price tag attached. These organizations all need a board of directors of at least three individuals. Even if every board member only spent an hour a month on the nonprofits activities, the 1,000 new nonprofits would utilize 36,000 hours annually.

All nonprofits, except religious congregations, with an annual gross income over \$25,000 are required to file an annual Form 990 that provides revenue and expense information. A data set was generated using ten years of data (1995-2005) from the 990 which was compiled and made available from the National Center for Charitable Statistics, a project of the Urban Institute, as well as data from the IRS master file and information collected by Maryland Nonprofits.

RESEARCH FINDINGS

NONPROFITS BY REVENUE SIZE

The Form 990 information from 2005 was analyzed to determine the make-up of the nonprofit sector by size. Nearly two-thirds of the nonprofits either filed 990’s with revenue under \$25K or did not file at all. Nineteen percent had revenues between \$25K and \$250K, the size of a nonprofit that can hire three or four staff.



There are a lot of nonprofits in Maryland but most of them operate with limited revenue.

THE DISAPPEARING NONPROFIT

The 11,938 nonprofits that were around in 1995 were analyzed to determine where they were financially ten years later. The first thing discovered was that a quarter of them disappeared – meaning that they were no longer on the IRS master file in 2005. A move out of state, a merger or reorganization resulting in a new employee identification number (EIN) would cause the organization to “disappear” from Maryland. However, a review of the data shows that disappearance is more likely to be at the lowest revenue levels. Organizations with limited financial resources are less likely to move, less likely to be involved in legal restructuring, and are more likely to disappear due to a lack of funding.

Revenue size in 1995	Total nonprofits on 1995 IRS master file	Number that disappeared by 2005	Percent disappearing
Under \$25K	7,655	2,373	31%
\$25K-\$250K	2,410	485	20%
\$250K-\$1M	954	150	16%
\$1M-\$5M	631	78	12%
Above \$5M	288	21	7%
All Revenue Size	11,938	3,107	26%

THE DISAPPEARING NEW NONPROFIT

Between 1995 and 1999, 4,772 new nonprofits were started. Five years of 990's were reviewed for each of these start-ups. More than half of the organizations never grew to \$25K in annual revenues that triggered the filing of a 990. There are many all-volunteer nonprofits that are successful with annual revenues below the \$25K filing threshold; however, anecdotal evidence gathered from the staff of Maryland Nonprofits indicates that most organizations are becoming nonprofits with the hope of having revenues much larger than \$25K.

	Start-ups between 1995-1999	Percent
Never filed a 990 and were no longer on IRS master file after 5 years	701	15%
Did not file a 990 during the 5 year period	2,147	45%
Filed a 990 at least once during the 5 year period	1,924	40%

THE RICH GET RICHER

The 11,938 nonprofits were then examined with regard to their growth over a ten-year period. This was done by determining the revenue size in 1995 and in 2005. The following chart shows that larger organizations are more likely to grow than the smaller ones.

Revenue size in 1995	Total nonprofits on 1995 IRS master file	Number that grew to beyond current revenue category by 2005	Percent growing beyond current revenue category
Under \$25K	7,655	863	11%
\$25K-\$250K	2,410	469	19%
\$250K-\$1M	954	339	36%
\$1M-\$5M	631	181	29%
Above \$5M	288	NA	NA

THE MARYLAND NONPROFITS EFFECT

Organizations that become members of Maryland Nonprofits are less likely to fail and more likely to grow than those that don't. Although this data does not prove that membership in Maryland Nonprofits contributed directly to an organization's success, it does show that organizations that are more successful pick Maryland Nonprofits.

Revenue size in 1995	Percent disappearing by 2005 All Nonprofits	Percent disappearing never a member of Maryland Nonprofits	Percent disappearing that was a member at any time from 1995-2005
Under \$25K	31%	32%	12%
\$25K-\$250K	20%	22%	6%
\$250K-\$1M	16%	20%	7%
\$1M-\$5M	12%	18%	3%
Above \$5M	7%	10%	0%

Revenue size in 1995	Percent growing beyond current revenue category by 2005	Percent growing never a member of Maryland Nonprofits	Percent growing that was a member at any time from 1995-2005
Under \$25K	11%	9%	49%
\$25K-\$250K	19%	15%	45%
\$250K-\$1M	36%	29%	48%
\$1M-\$5M	29%	24%	37%
Above \$5M	NA	NA	NA

IMPLICATIONS FOR THE SECTOR

A new nonprofit is a risky business. Starting a nonprofit requires social capital in the form of volunteers and board members and philanthropic capital in the form of donations. Individuals who have the dream need to realize that success is not automatic. Good ideas should be able to find homes in existing organizations. Larger established organizations should be open and accepting of new programmatic ideas that come from external sources and provide an incubator-type environment to grow these projects. Foundations and other funders should be aware of the risk of investing in start-up organizations. The foundation community should instead be supportive of funding new ideas in existing nonprofits and this should be done without penalizing the existing nonprofit by ceasing to fund their on-going, proven operations.

Unlike the for profit sector where job creation and GNP is occurring in smaller start-up organizations, the growth in nonprofits appears to be coming from the mid to larger sized organizations. Investment in this part of the sector rather than start-ups may well show the greatest return in terms of program effectiveness and fiscal responsibility.

BACKGROUND INFORMATION

In the fall of 2005, Maryland Nonprofits partnered with the University of Maryland Baltimore County (UMBC) to offer classes that would enable students to receive a graduate level certificate in nonprofit studies. One of the unexpected benefits of the partnership was that Maryland Nonprofits staff began to interact with graduate students who were trained in research methodology and who were looking for projects to showcase their new analytic skills.

Maryland Nonprofits has access to a mountain of data about the nonprofits in Maryland. UMBC had a student, Jesse Austell, who was looking for a capstone project, liked working with large databases, and most importantly, was deeply committed to the nonprofit sector. This was a winning combination.

We want to thank Jesse Austell for his invaluable contributions in performing the data analysis in this report. The report was authored by Maryland Nonprofits' staff member, Nancy Hall.

ABOUT MARYLAND NONPROFITS

Maryland Nonprofits' mission is to strengthen and support nonprofits' ability to serve the public, while promoting the highest standards of ethics and accountability in nonprofit governance and management. Maryland Nonprofits strives to increase recognition of, trust in and support for the nonprofit sector and to expand the influence of the nonprofit sector on issues that impact the people and communities it serves. For more information, see www.marylandnonprofits.org or contact us at 1-877-273-6367.

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