

RESEARCH REPORT

Funding Structure of AA NH/PI Nonprofits

Fiscal Models and Government Support

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Executive Summary

The following analysis provides a baseline understanding of the fiscal structure of nonprofits that primarily serve Asian American and Native Hawaiian/Pacific Islander (AA NH/PI) communities and an overview of funding sources. We broadly discuss patterns regarding the use of government resources and contextualize the fiscal health of the sample by comparing capacity indicators of AA NH/PI organizations with those of a broad set of similar matched nonprofits.

The nonprofits in this study are important service providers, gathering places, and advocates for and representatives of AA NH/PI communities. For leaders and donors interested in their financial sustainability, this study provides a baseline analysis of nonprofits' fiscal health before the COVID-19 pandemic and an overview of the ways in which their financial structures are distinct from those of the rest of the nonprofit sector.

The key takeaway from our study is that during the prepandemic period, AA NH/PI nonprofits had fiscal health profiles that were very similar to a matched sample of other nonprofits operating in the same service areas. These results suggest that AA NH/PI nonprofits have levels of managerial sophistication and philanthropic support similar to those of the broader nonprofit sector, with the caveat that they are growing slightly faster than peer organizations. Higher levels of organizational slack are also a function of more overhead spending and administrative capacity, which often occurs when organizations are investing in fundraising or expansion.

Funding Structure of AA NH/PI Nonprofits: Fiscal Models and Government Support

This report provides a baseline understanding of the fiscal structure of nonprofits that primarily serve Asian American and Native Hawaiian/Pacific Islander (AA NH/PI) communities and an overview of which types are currently accessing government funding. Our analysis highlights features of these nonprofits' financial models, placing special emphasis on what we can learn about access to government funding through IRS 990 forms and the fiscal health of AA NH/PI nonprofits relative to similar nonprofits serving other communities. Although our ability to separate federal funding from other types of government funding on the forms is limited, we broadly discuss patterns regarding the nonprofits' use of government resources.

This report draws from a sample of 360 nonprofits generated by The Bridgespan Group using a systematic search of proprietary nonprofit databases and media sources for AA NH/PI nonprofits. The search initially identified a total of 605 nonprofits; the sample was filtered to show the subset of organizations with annual expenses between \$100,000 and \$35 million, and these nonprofits were then matched to IRS tax data. We include a final set of 360 organizations in this report.

Our analysis uses IRS 990 tax data, drawing from the Business Master File, Statistics of Income (SOI) 990 extracts, a custom 990 electronic filers database, and core files maintained by the National Center for Charitable Statistics at the Urban Institute.¹

Organizations by Mission Type

Nonprofit subsectors and activity codes help illustrate the various services provided by the organizations in the sample, as well as their missions or programmatic focuses. The following tables summarize nonprofit missions according to two distinct activity classifications. Table 1 represents a custom taxonomy of activity types generated by Bridgespan, while table 2 organizes the sample using the National Taxonomy of Exempt Entities (NTEE), a standard set of mission codes assigned by the IRS.

Service providers are the dominant group within the sample, though there are also several arts, advocacy, membership, and media organizations present.

TABLE 1

Bridgespan Categorizations of Nonprofit Activity Types

Nonprofit types	N	%
Service providers	151	0.42
Advocacy and organizing	103	0.29
Membership	50	0.14
Narrative and media	42	0.12
Philanthropy	8	0.02
Research	6	0.02

Source: Bridgespan categorizations.

TABLE 2

National Taxonomy of Exempt Entities Classification of Nonprofits by Mission Code

NTEE code	N	%
Human services	124	0.34
Public interest	97	0.27
Arts	67	0.19
Health	28	0.08
Education	22	0.06
Religion	12	0.03
International	5	0.01
Environment	3	0.01
Mutual benefit	2	0.01

Source: Business Master File NTEE classifications.

Organizations by Tax-Exempt Purpose

The sample primarily comprises organizations with 501(c)(3) tax-exempt status, or traditional charitable-sector nonprofits (table 3). This group includes civic associations, human services organizations, community and recreational centers, and community foundations. Examples include the Japanese American Citizens League, Chinese Language School of Columbia, Silicon Valley Chinese Association Foundation, Asian Cultural Community Center, and Asian Culture and Media Alliance.

501(c)(4) organizations can be organized for broad social welfare purposes but often have an advocacy focus or operate as political action committees (PACs). Examples in the sample include PIVOT: The Progressive Vietnamese American Organization, San Diego Asian Americans for Equality, and Asian Pacific Americans for Progress (PAC).

501(c)(6) organizations include chamber of commerce entities and business trade associations. Examples in the sample include the Asian Business Association of San Diego, Asian Real Estate Association of America, and Asian McDonald's Operators Association.

TABLE 3
Nonprofits by Tax-Exempt Status

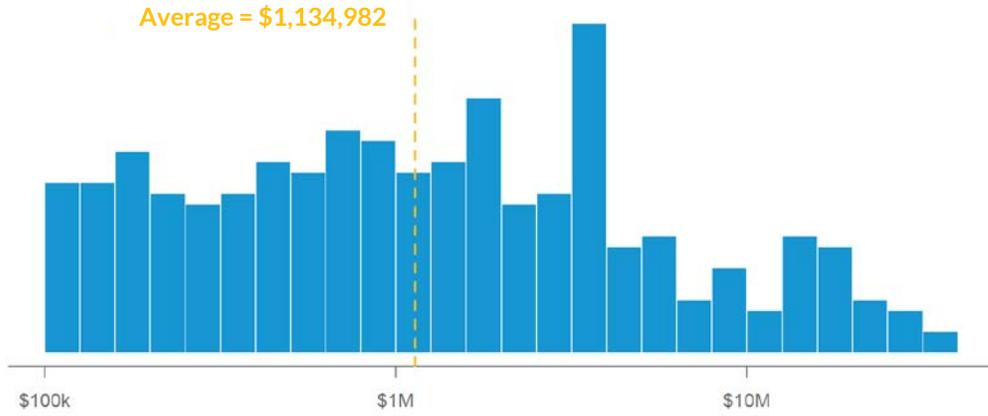
Category	Purpose	N	%
501(c)(3)	Public charities	333	0.92
501(c)(6)	Commerce/trade	23	0.06
501(c)(4)	Advocacy/PAC	2	0.01
501(c)(5)	Labor/agriculture	1	0.00
501(c)(8)	Fraternal society	1	0.00

Source: Business Master Files.

Organizations by Budget Size

The median nonprofit in the sample has revenues of \$1.134 million a year, with an interquartile range of \$362,000 to \$3.4 million. The largest organizations in the sample are museums, health centers, and community economic development organizations, including the Chong-Moon Lee Center for Asian Art and Culture (which had a \$32.5 million budget in 2019), the South Cove Community Health Center (\$32 million), the Chinese-American Planning Council (\$31 million), and the Pacific Asian Consortium in Employment (\$28 million).

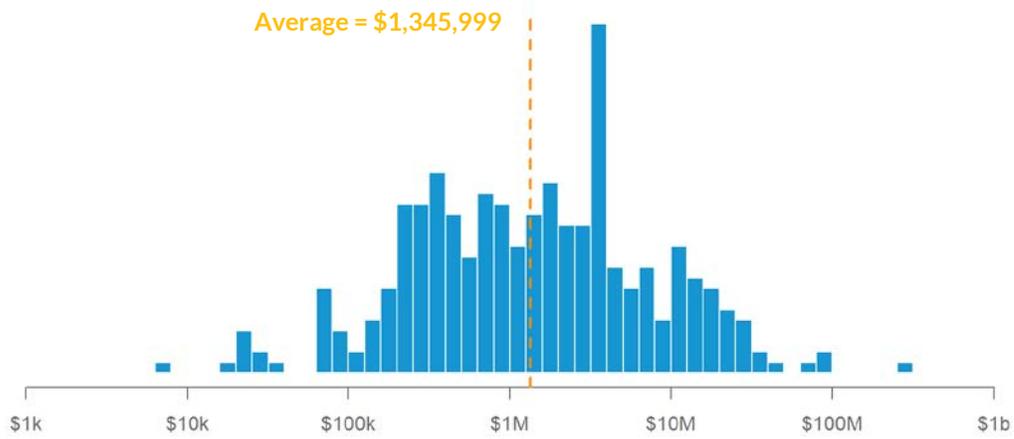
FIGURE 1
Nonprofit Size Measured by Total Expenses in 2019



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Source: IRS 990 electronic filers database.

FIGURE 2
Nonprofit Size Measured by Total Assets in 2019



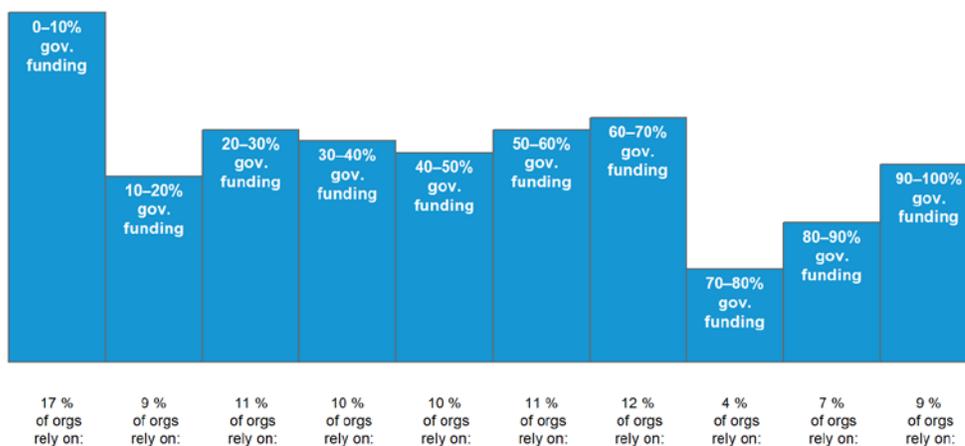
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Source: IRS 990 electronic filers database.

Government Funding

The financial data used for our analysis derive primarily from IRS 990 tax forms. Government funding is an important component of fiscal health for nonprofits because it can have a large impact on operations; however, it can be tricky to measure on 990 forms because state, local, and federal grants are all aggregated and reported as government grants. Additionally, government contracts and revenue from programs such as Medicare or housing vouchers appear as earned income on the 990 forms and are indistinguishable from other forms of earned income. We can, however, use the aggregated government grant support field to highlight patterns in receipt of government funding in the sample. As shown in figure 3, government funding is a significant source of support for nonprofits. Approximately one-third of nonprofits in the sample receive government grants.

FIGURE 3
Reliance on Government Funding
Proportion of each organization's funding derived from government grants



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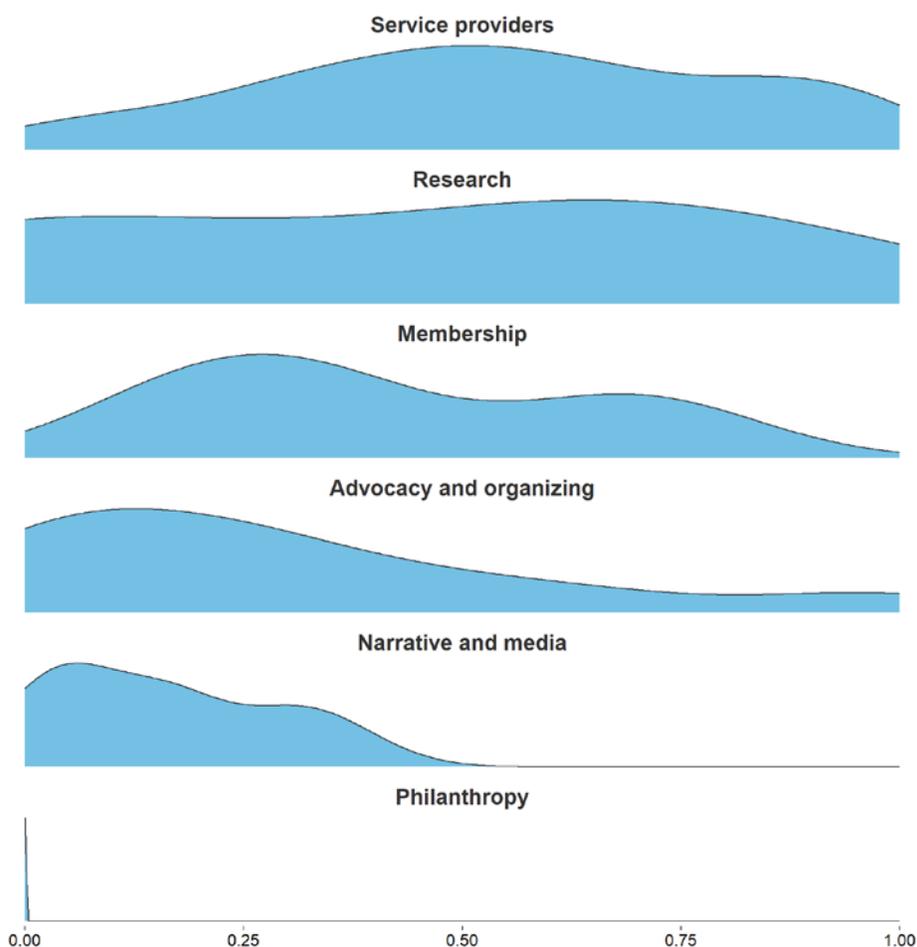
Source: IRS 990 electronic filers database.

Among the organizations that have tapped into government sources of funding, we do not identify a single model of government reliance. Of the AA NH/PI nonprofits in our sample that receive grants, government funding accounts for 40 percent of the total budget for the median case. Reliance on government sources, however, varies from 5 to 100 percent with no clear modal strategy.

Government Funding by Organizational Type

As shown in figure 4 and table 4 below, there is significant variation in the level of government grants across organizational type. Service providers and research organizations have the highest reliance on government sources (measured by government grants as a proportion of total revenue). Advocacy and media organizations do receive some government funding, but it tends to be a much smaller proportion of their total revenue. Interestingly, there seems to be a bimodal distribution for membership organizations, with most receiving a small proportion of revenue from government grants but a smaller group generating more than half of their revenue from government grants.

FIGURE 4
Proportion of Total Revenue Derived from Government Funding by Organizational Activity Type



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Source: Author's calculations using the IRS 990 electronic filers database.

TABLE 4

Proportion of Funding from Government Sources by Organizational Type

Organization type	25th percentile	Median	75th percentile	N
Services providers	0.349	0.525	0.765	151
Advocacy and organizing	0.046	0.230	0.432	103
Membership	0.268	0.348	0.524	50
Narrative and media	0.043	0.153	0.270	42
Philanthropy	0.0001	0.0002	0.0003	8
Research	0.024	0.541	0.648	6

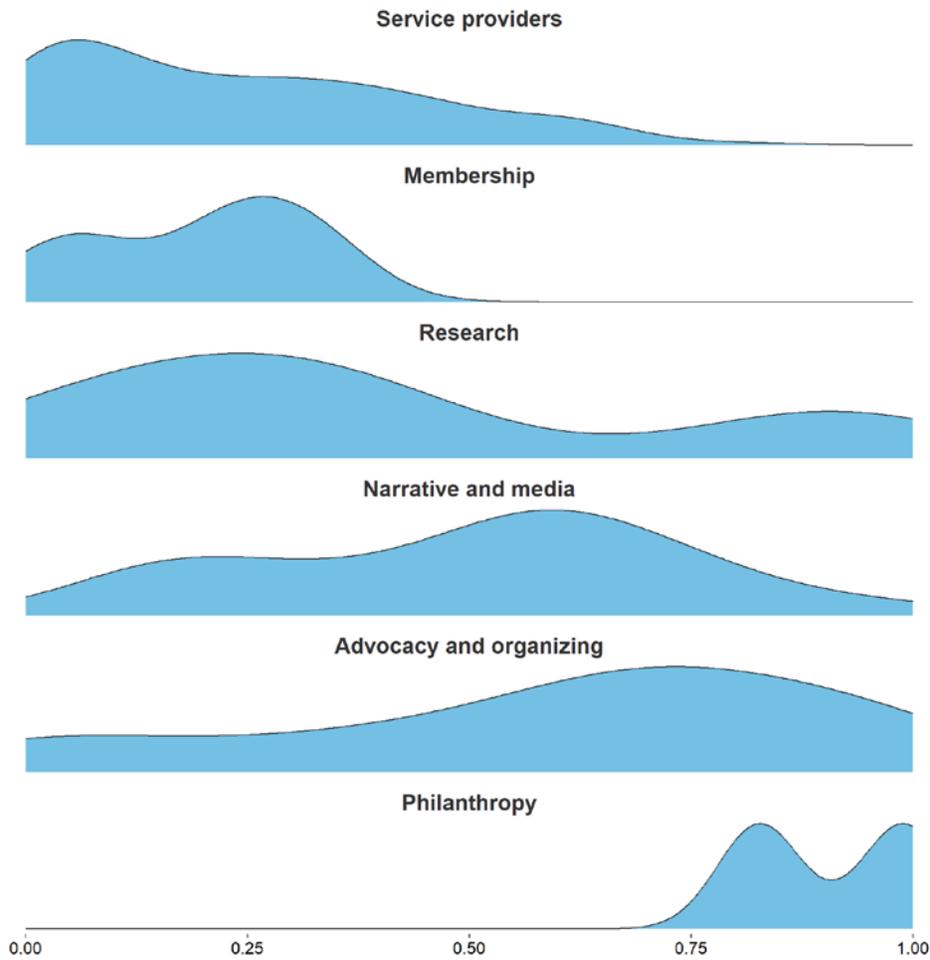
Source: IRS 990 electronic filers database.

Reliance on Contributions

Contributions include all foundation grants and donations from individuals, independent of government grants. The pattern regarding reliance on contributions is approximately the inverse of the distribution of government grants received by organizations. Service providers, for example, are heavily reliant on government funding but have low levels of contributions (figure 5, table 5).

FIGURE 5

Proportion of Total Revenue Derived from Contributions by Organizational Activity Type



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Source: Author's calculations using the IRS 990 electronic filers database.

TABLE 5

Proportion of Funding from Contributions by Organization Type

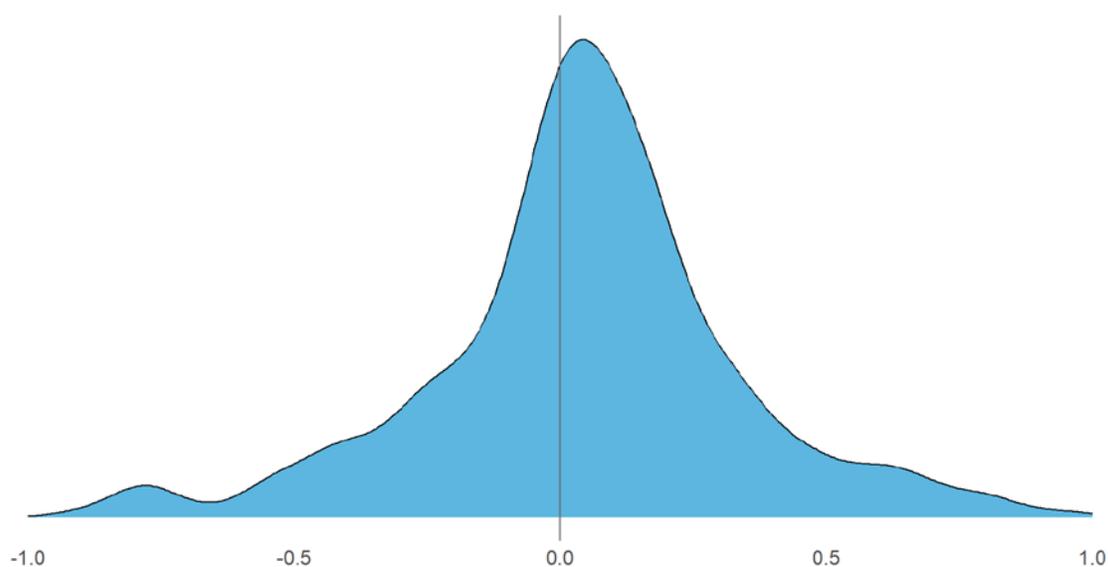
Organization type	25th percentile	Median	75th percentile	N
Service providers	0.06	0.20	0.38	151
Advocacy and organizing	0.38	0.67	0.81	103
Membership	0.14	0.22	0.27	50
Narrative and media	0.32	0.56	0.64	42
Philanthropy	0.87	0.91	0.95	8
Research	0.24	0.38	0.91	6

Source: IRS 990 electronic filers database.

Fiscal Structure

In this section, we examine some basic indicators of financial sustainability for AA NH/PI nonprofits in the sample. For example, the median revenue growth of nonprofits in the sample is 6.5 percent a year—a reasonable rate of expansion. However, the interquartile range is -6.7 percent to 21.7 percent annual growth over the period, representing a large range of outcomes. In other words, some organizations experienced contractions in programs and others expanded their operations by 20 percent.

FIGURE 6
Revenue Growth of AA NH/PI Nonprofits, 2018–19



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Source: Author's calculations using the IRS 990 electronic filers database.

Approximately 37 percent of organizations in the AA NH/PI sample have negative revenue growth rates. Stated differently, about a third of organizations experience a decline in total resource acquisition in any given year.

Negative revenue growth should be interpreted as a measure of volatility in funding sources more than an indication of risky behaviors by organizations or lack of business acumen since year-to-year changes in the funding environment are a perennial challenge in the nonprofit sector. Organizations can diversify their revenue portfolios (Hung and Hager 2019) or increase their government grant portfolios (Thornton and Lecy 2023) to limit volatility, but there is typically a trade-off between volatility and

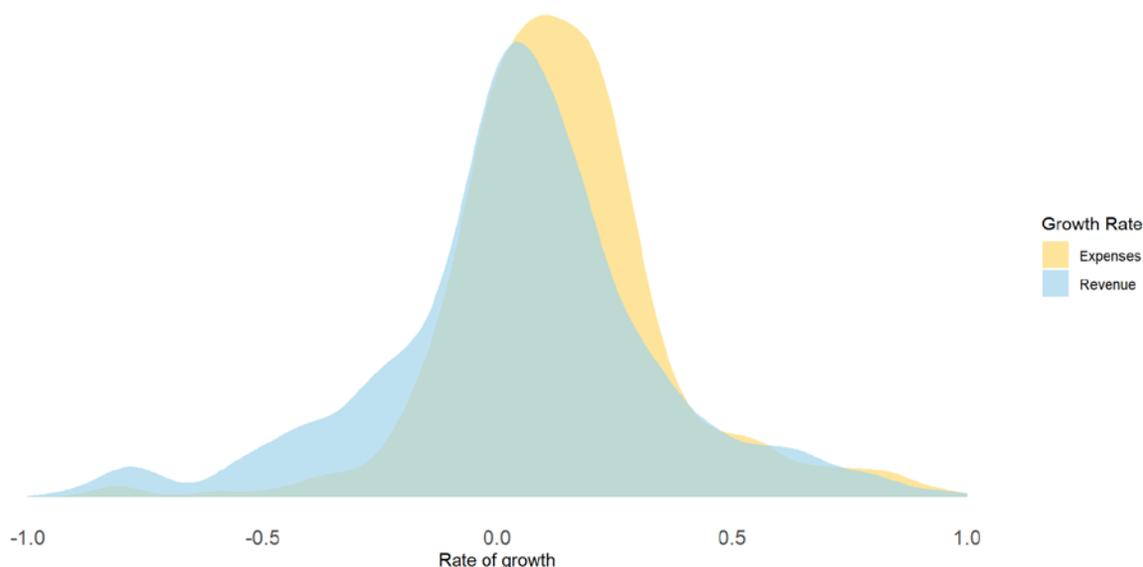
growth potential: nonprofits with diverse revenue portfolios tend to experience lower year-to-year fluctuations in funding but have lower overall rates of growth.

Revenue growth rates of AA NH/PI nonprofits were slightly higher than, but not significantly different from, those of other similar-sized nonprofits in the sector. The AA NH/PI nonprofits had median revenue growth rates of 6.5 percent compared with 3 percent for similar nonprofits, and 37 percent had negative annual growth compared with 40 percent for typical nonprofits. Rates of growth can be volatile, so a conservative interpretation of these findings is that AA NH/PI nonprofits are not worse off than the typical nonprofit and are potentially growing faster.

Growth of Assets and Expenses

Revenue growth on its own can be misleading if it is outpaced by an organization's growing expenses or other debt obligations. The rate at which expenses are increasing in an industry is therefore an important fiscal constraint to track. During periods of expansion, for example, organizations may take on debt to increase market share, such as through investments in new facilities or paid advertising. In general, expenses grew faster than revenue for AA NH/PI nonprofits from 2018 to 2019 (figure 7).

FIGURE 7
Revenue Growth Compared with Expenses for AA NH/PI Nonprofits, 2018–19

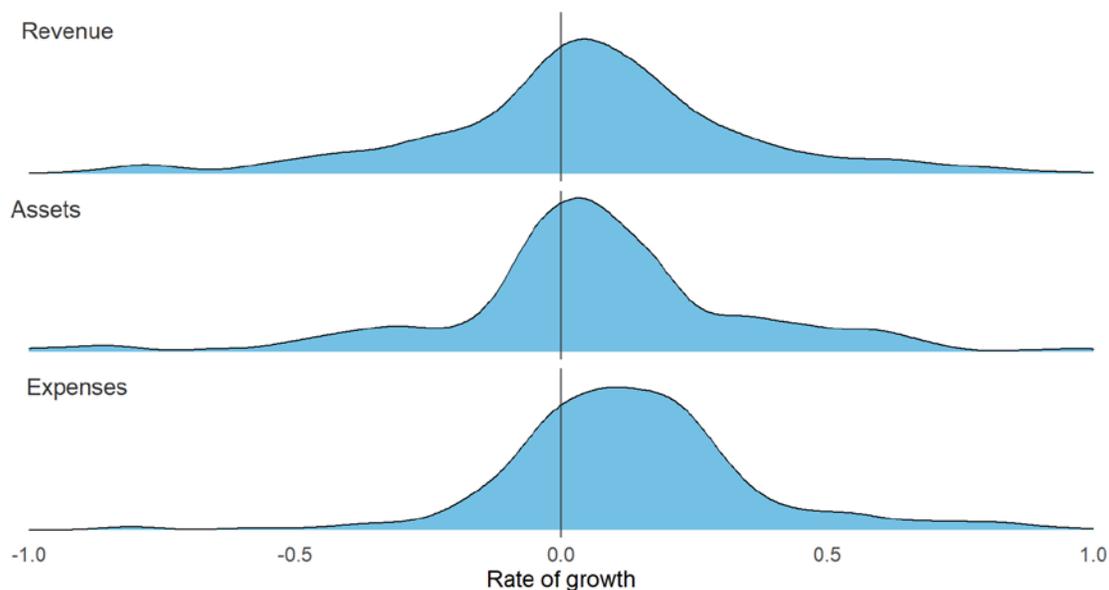


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Source: IRS annual extract of tax-exempt organization financial data.

Growth of assets follows a similar pattern as growth of revenue. Most organizations experienced modest growth in assets and revenues; approximately one-third of organizations experienced a contraction of assets in any given year; and for the typical nonprofit, expenses grew at slightly faster rate than the rate of revenues or expenses during the 2018–19 period.

FIGURE 8
Growth of Revenue, Assets, and Expenses for AA NH/PI Nonprofits, 2007–18

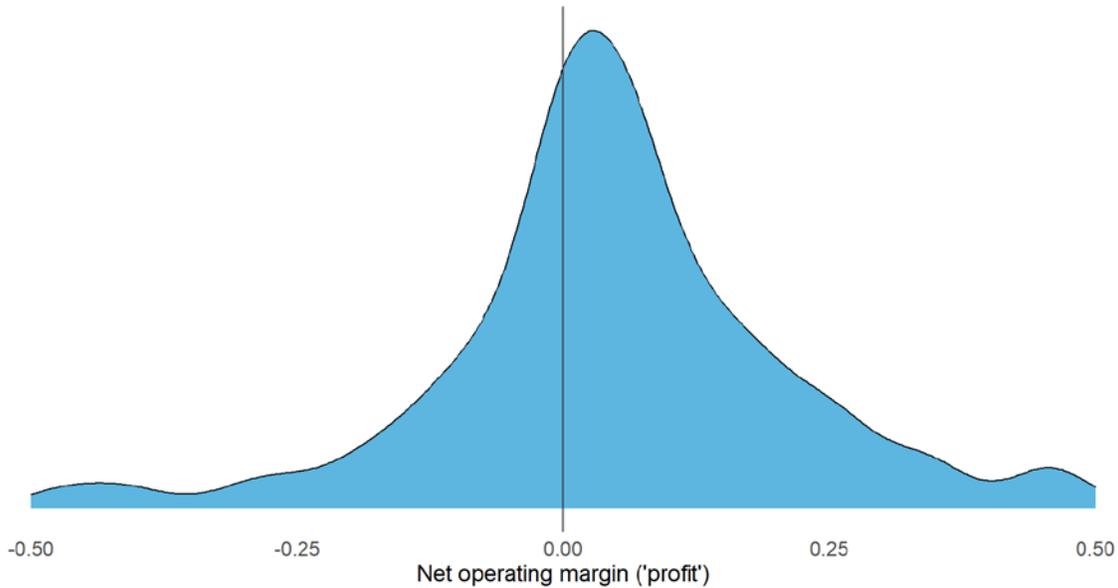


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Source: IRS annual extract of tax-exempt organization financial data.

The net operating margin, or profit margin, captures the relationship between revenue and expenses in an organization. In total, the median nonprofit in the sample had a 4.5 percent net operating margin, and 33 percent of the sample had net margins of less than zero, meaning the organization's expenses exceeded their revenue in the year measured (figure 8).

FIGURE 9
Distribution of Net Revenues for AA NH/PI Nonprofits



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Source: IRS annual extract of tax-exempt organization financial data.

Yet it is not uncommon for fiscally stable nonprofits to experience negative net margins because of the lumpiness of grants and government contracts. For example, if a nonprofit receives a grant to support a program for two years, it may appear to have a large revenue surplus in the first year and a deficit in the second. However, this is purely an accounting artifact because of the timing of the arrival of grant dollars during the fiscal year (figure 9).

Net income serves as a proxy for revenue slack, an important measure of internal budgeting stability. In any given year, approximately one-third of nonprofits log negative net income, negative growth in revenue, or negative profit margins. However, these statistics are not problematic for organizations that are logging comparable revenue surpluses in the other two years.

At the organizational level, it is best to use a rolling average of several years of revenue and several years of expenses to smooth out noise caused by the lumpy revenue sources. But in the aggregate, the proportion of organizations in a sample experiencing negative net income can be a useful proxy for the health of a population of organizations and the fiscal stress they may be experiencing.

Differences by Subsector

Financial sustainability varied significantly across nonprofit industries in the sample (table 6). In general, nonprofits with advocacy- or media-focused missions experienced the most fiscal pressures during the study period, as did those with a national scope of operations compared with nonprofits operating at a local or regional level (table 7).

TABLE 6
Growth in Revenue by Organization Type

Organization type	25th percentile	Median	75th percentile	N
Service providers	-0.001	0.10	0.20	151
Advocacy and organizing	-0.20	-0.01	0.26	103
Membership	-0.08	0.08	0.23	50
Narrative and media	-0.11	0.01	0.17	42
Philanthropy	-0.17	0.06	0.41	8
Research	0.05	0.06	0.10	6

Source: Author's calculations using the IRS 990 electronic filers database.

TABLE 7
Growth in Revenue by Organizations' Geographic Scope

Geographic focus	25th percentile	Median	75th percentile	N
Local	-0.04	0.07	0.23	218
State/regional	-0.04	0.10	0.27	61
National	-0.23	-0.01	0.17	81

Source: Author's calculations using the IRS 990 electronic filers database.

Nonprofit size did not have much impact on financial sustainability: all size categories had median revenue growth rates of approximately 7 percent. Smaller organizations did, however, experience more volatility, as evidenced by a larger interquartile range (table 8). Not surprisingly, larger organizations are much less likely to experience negative growth periods as they tend to have a larger portfolio of revenues that can smooth out some of the volatility.

TABLE 8

Growth in Revenue by Organization Size

Budget size (\$)	25th percentile	Median	75th percentile	N
100K–1M	-0.15	0.07	0.27	166
1M–10M	-0.04	0.07	0.22	149
10M–100M	0.001	0.07	0.13	40

Source: Author’s calculations using the IRS 990 electronic filers database.

Financial Benchmarking

The final section of this report benchmarks the financial performance of AA NH/PI nonprofits against a set of matched nonprofits that are similar in size and working in the same industries (based on NTEE subsector codes) (see box 1 for key findings). We made this comparison to get a sense of the financial strength of AA NH/PI nonprofits relative to comparable organizations during the prepandemic period. This comparison provides a point of reference for future studies seeking to understand the impact of the pandemic on these organizations or to determine if fundraising support for AA NH/PI nonprofits has been effective. We examine two types of metrics: indicators of vulnerability and measures of fiscal health.

BOX 1

Key Findings of AA NH/PI Financial Performance

Our analysis reveals that AA NH/PI nonprofits are distinct from other nonprofits in a couple of ways, but in general, their financial health did not differ in the period before the pandemic. They tend to rely more on donations and grants than on earned revenue, which is perhaps unsurprising given their strong ties to an identity group. They also seem to have slightly higher levels of financial and organizational slack. Overall, their fiscal health is comparable to that of similar nonprofits.

Source: Author’s analysis of data used in this report.

Financial Indicators Used

The first set of indicators measures **organizational vulnerability**, using fiscal slack as a proxy for whether a nonprofit can withstand a financial shock caused by a transition in leadership, loss of a

revenue source, delay of payments, or an external shock such as a recession. Three metrics are reported below:

- days of cash on hand
- self-sufficiency ratio
- profit margin

The second set of indicators is a composite of financial variables that paints a more holistic picture of the **internal fiscal structure** of the organizations. We combined 13 accounting ratios to form 4 distinct dimensions of fiscal health and then compared AA NH/PI nonprofits with other nonprofits along the following dimensions:

- growth
- leverage
- solvency
- organizational slack

These indicators are used to assess AA NH/PI nonprofit performance against a comparison set of equivalent nonprofits through a matching process (Iacus, King, and Porro 2013) that identifies organizations of the same size (log of total expenses) and in the same industry classifications (NTEE codes) as AA NH/PI nonprofits. This process ensures that AA NH/PI nonprofits are only compared with similar nonprofits so that observed differences in financial performance are based on meaningful differences in the study sample rather than resulting in apples-to-oranges comparisons of organizations of different sizes and industries.

Organizational Vulnerability

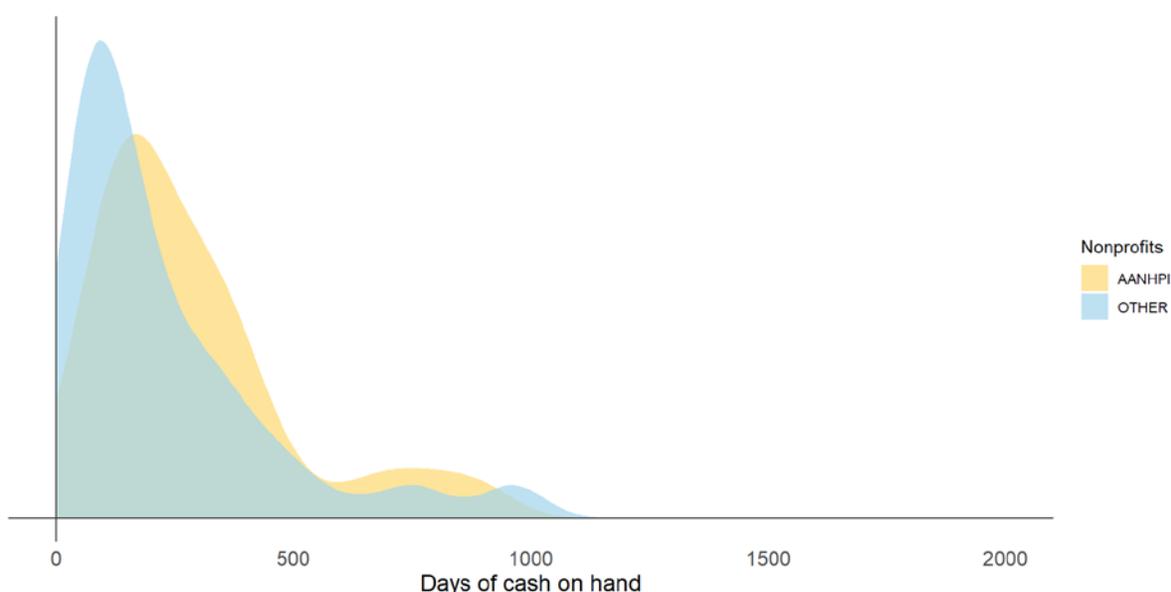
Organizational vulnerability metrics can gauge whether nonprofits are operating at such a thin margin that external shocks could cause significant financial distress. The ratios selected—days of cash on hand, the self-sufficiency ratio, and net operating margin—help convey whether the population of organizations had sufficient savings, autonomy, and revenue to achieve some level of financial sustainability.

Days of Cash on Hand

This metric measures the number of days that an organization can continue to pay its operating expenses using available cash equivalents and without receiving additional revenue. Cash is measured as liquid savings + short-term investments + current receivables. Daily operating expenses are measured as (operating expenses + debt – depreciation) / 365. The resulting measure is a proxy for how long an organization could operate if it experienced a large disruption in payments or support.

FIGURE 10

Distribution of Days of Cash on Hand for AA NH/PI Nonprofits Compared with a Sample of Similar Nonprofits



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Source: Author's calculations using the IRS 990 electronic filers database.

The median AA NH/PI nonprofit has 190 days of cash on hand, meaning it has approximately six months of operating expenses available as liquid capital that could be used to smooth revenues or fill a gap in funding. AA NH/PI nonprofits are marginally better off than the median comparable nonprofit, which has 160 days of cash on hand, or a little more than five months of support (figure 10).

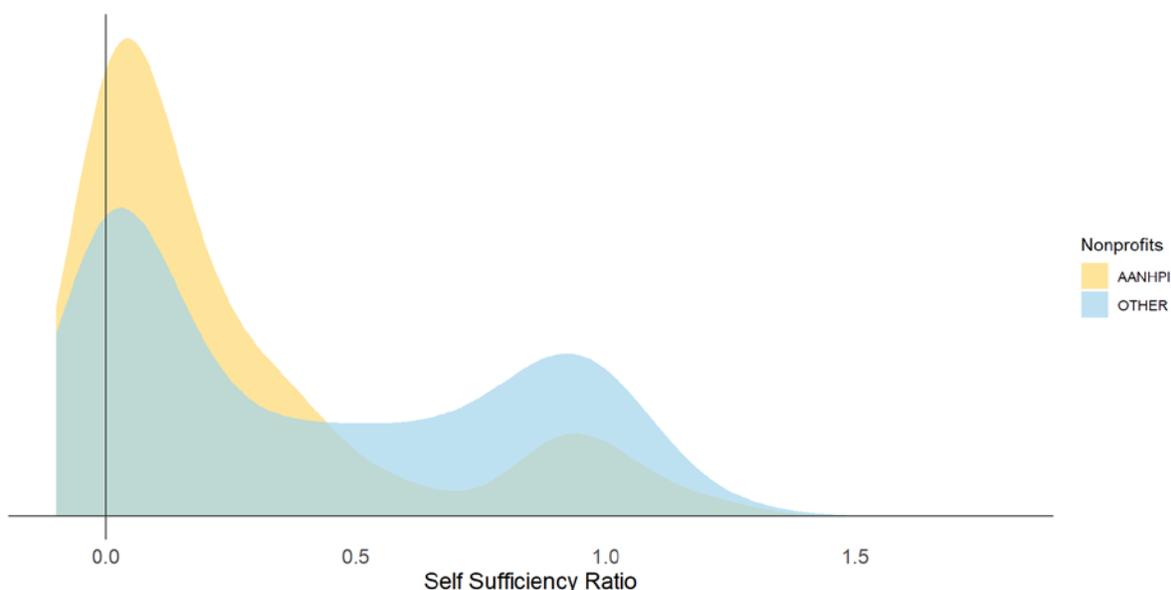
Having less than three months of cash on hand is sometimes used as an indicator of vulnerability to fiscal shock. Only 16 percent of AA NH/PI nonprofits in the sample had less than three months' worth of cash on hand, while 28 percent of the comparison sample had low levels of cash reserves. AA NH/PI nonprofits fared better on this indicator.

Self-Sufficiency

The self-sufficiency ratio measures the proportion of revenue generated from product sales (such as museum tickets) or fees for services paid directly by clients or insurance. It is a proxy for the level of independence from more idiosyncratic or volatile revenue streams, such as grants, charitable contributions, royalties, and sales of old inventory that rely more heavily on external stakeholder decisions outside of their control, fluctuate with the economy, and are not highly correlated with expenses. It is operationalized as the fraction of earned revenue divided by total expenses. The ratio captures the proportion of revenue that comes directly from commercial revenue or fees for services, as opposed to donations or grants. The ratio is a proxy for resource independence, with a higher ratio indicating more revenue self-sufficiency.

FIGURE 11

Self-Sufficiency Ratio for AA NH/PI Nonprofits Compared with a Matched Sample of Similar Nonprofits, Showing Lower Reliance on Earned Revenue Sources



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Source: Author's calculations using the IRS 990 electronic filers database.

On this measure, AA NH/PI organizations do not perform as well. The median AA NH/PI nonprofit in the sample had a self-sufficiency ratio of 0.06, compared with 0.24 for the median comparison group, meaning AA NH/PI nonprofits rely more heavily on contributions and grants than their counterparts do. Similarly, 81 percent of AA NH/PI nonprofits have a self-sufficiency ratio below 0.5, compared with 67

percent of comparison nonprofits. These metrics suggest that AA NH/PI nonprofits are slightly more dependent on donations than are other nonprofits (figure 11).

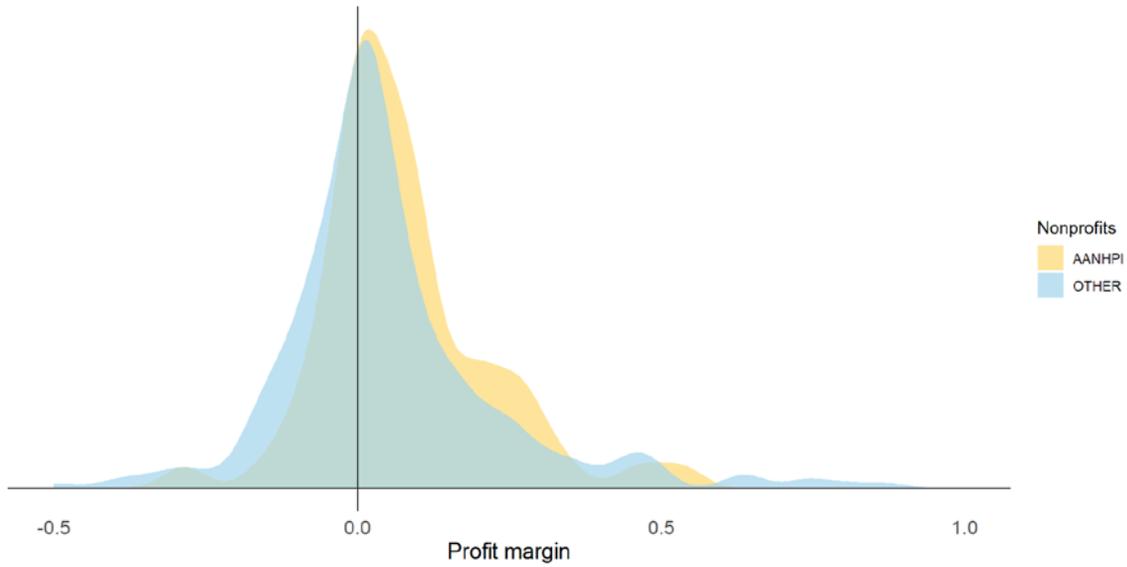
There are pros and cons of low self-sufficiency scores. Earned revenue is typically considered more reliable, but having more donative revenue sources in a portfolio can also indicate that a nonprofit has more sources of funding. Diversification of revenue streams is associated with greater financial stability over time, but revenue diversification also has trade-offs such as increased operational complexity and diminished growth rates. Greater reliance on donations is only problematic if it causes operational challenges that can compromise a nonprofit's sustainability.

However, when we compare profit margins and the growth of assets across groups, we see that AA NH/PI nonprofits are running budget deficits at lower rates than their counterparts (figure 12). They have a median profit margin of 0.031, compared with 0.018 in the comparison group. Only 37 percent of AA NH/PI nonprofits have negative net margins, compared with 41 percent of the comparison sample. Similarly, the median rate of annual net asset growth is 7.6 percent for AA NH/PI nonprofits and zero for the comparison set.

Thus, the good news is that despite relying more on idiosyncratic or philanthropic sources, AA NH/PI nonprofits appeared to be slightly more fiscally sustainable than similar-sized nonprofits in the 2018–19 period. But lower self-sufficiency scores indicate that they might be more beholden to philanthropic stakeholders or more vulnerable during periods of economic downturn.

FIGURE 12

Profit Margin of AA NH/PI Nonprofits Compared with a Matched Sample of Similar Nonprofits, Showing Slightly Higher Net Operating Margins than Those of the Comparison Set

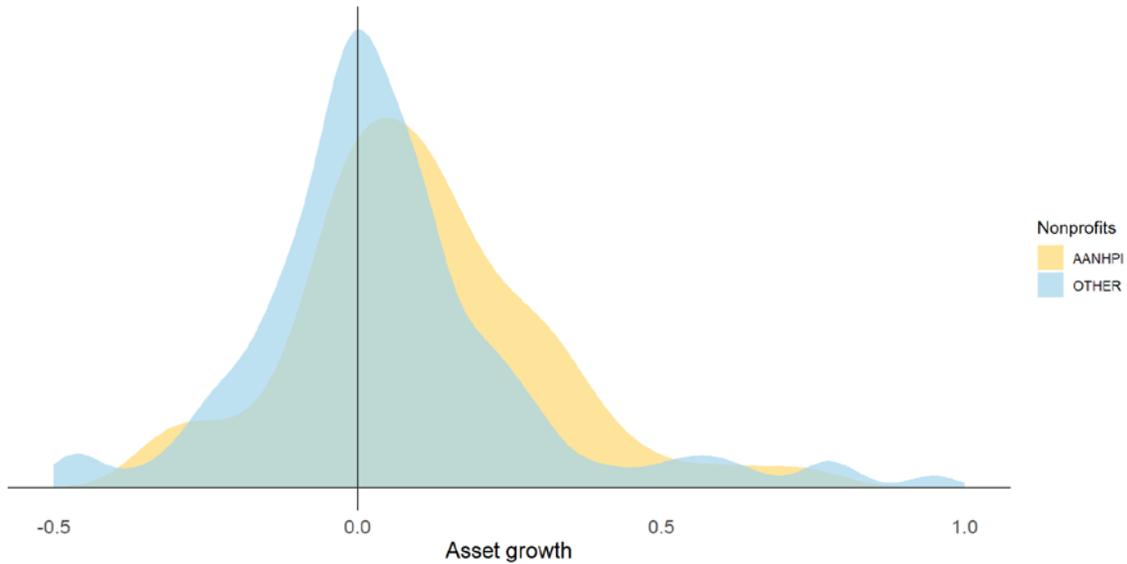


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Source: Author's calculations using the IRS 990 electronic filers database.

FIGURE 13

Net Asset Growth of AA NH/PI Nonprofits Compared with Similar Nonprofits, Showing a Slightly Higher Rate of Asset Expansion



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Source: Author's calculations using the IRS 990 electronic filers database.

Taken together, the AA NH/PI nonprofits appear slightly better off than the comparison group on vulnerability metrics. They rely more heavily on donations, which can limit their financial independence. But they also have more cash on hand and larger net operating margins than their counterparts. About one-third of the AA NH/PI sample fares poorly on the vulnerability metrics (negative net margins, shrinking net assets, low cash on hand), a proportion similar to that of the nonprofit sector as a whole. The median AA NH/PI nonprofit, however, is slightly better off than the comparison sample as a whole (figure 13).

Overall Fiscal Health Metrics

Financial accountants warn against evaluating financial performance using a small number of accounting ratios because there may be idiosyncratic reasons for some organizations scoring high or low on specific metrics. With regard to the nonprofit sector specifically, financial ratios developed for large commercial firms might be mismatched to nonprofit business models, especially given the large heterogeneity in revenue structure across subsector.

To address these concerns, this section presents a composite set of indicators that is designed to be more holistic. Thirteen different accounting ratios are combined using principal component analysis to generate four unique dimensions of fiscal health.² This approach smooths the volatility inherent to single metrics and generates a more reliable score by reducing idiosyncratic variance across ratios.

Principal component analysis creates scales through weighted combinations of correlated input variables. The subsequent analysis uses the following four measures of financial sustainability, each of which has been converted to a scale of 1 to 100. The dominant factors in each metric are listed below. More details on the principal component analysis are provided in the appendix .

Growth potential refers to ratios that capture the relationship between revenue and expenses and rates of revenue expansion over time, including:

- one-year asset growth
- net profit margin
- operating margin
- one-year revenue growth

Debt leverage includes ratios that capture levels of financial capital relative to debt and the ability of an organization to service the debt, with factors including:

- debt-to-equity ratio
- debt management ratio
- equity ratio

Solvency ratios capture aspects of financial flexibility that can be important when responding to abrupt changes in the economy or revenue streams, and include:

- self-sufficiency ratio
- land-to-assets ratio
- asset-to-revenue ratio
- debt-to-asset ratio
- equity ratio

Organizational slack refers to higher overhead spending and more revenue conversion to savings, suggesting that an organization is investing in its managerial infrastructure and long-term financial sustainability as opposed to strategies that save money in the short term but decrease organizational capacity to evolve and increase vulnerability to shocks. Factors include:

- administrative expense ratio
- program efficiency ratio
- asset-to-revenue ratio
- land-to-assets ratio

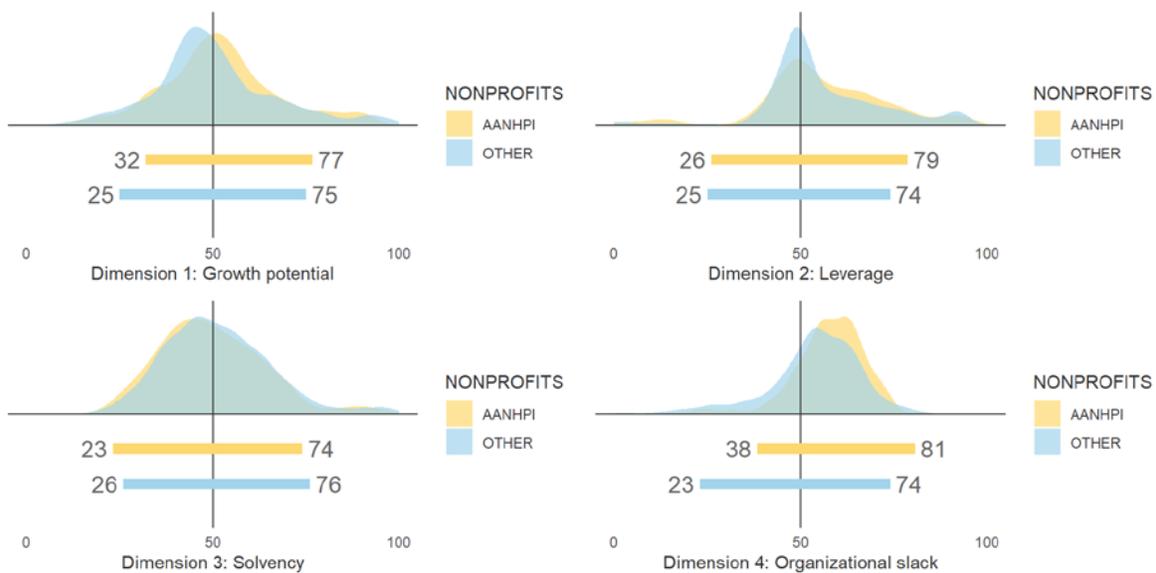
As in the above analysis, the AA NH/PI nonprofits are benchmarked against a match sample of nonprofits that are similar in size and mission or industry (NTEE category). Like the conclusions above, the takeaway from the benchmarking is that AA NH/PI nonprofits have fiscal health scores that closely align with those of their matched counterparts.

Figure 14 compares the four dimensions of fiscal health between the AA NH/PI nonprofits in the sample and the matched comparison group. The bands represent the interquartile range of each distribution as a visual comparison of fiscal performance across the two groups.

The graph highlights the similarities between the two groups and shows that the median scores and interquartile ranges for all nonprofits are quite similar on all metrics except organizational slack, on which AA NH/PI nonprofits score slightly higher. This suggests that the fiscal health of AA NH/PI organizations is not that different from sector benchmarks.

FIGURE 14

Comparison of Four Fiscal Health Metrics Between AA NH/PI and Similar Nonprofits



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Source: Author’s calculations using the IRS 990 electronic filers database.

Notes: All four metrics are on a scale of 1 to 100, and the bands represent the interquartile range of the distributions. AA NH/PI nonprofits have similar levels of fiscal health as the comparison set of organizations.

The main takeaway from this high-level, holistic approach is that AA NH/PI nonprofits are not significantly different from the matched sample of similar-sized nonprofits. In the previous section, we observe small differences in individual financial ratios. The conundrum is making information actionable by deciding how much weight should be placed on individual ratios. This aggregated approach is designed to average groups of ratios to reduce noise and avoid placing too much weight on any idiosyncratic datapoint. Once complete, AA NH/PI nonprofits as a whole do not appear to be financially disadvantaged or distinct when compared with other similar nonprofits in the prepandemic period.

From a practical perspective, these results would suggest that this group of organizations is not in a more dire financial state than typical nonprofits, and a tailored approach to financial capacity building may not yield better results than general management practices promoted in the sector. Stated differently, nonprofits serving AA NH/PI communities have levels of managerial sophistication and philanthropic support similar to those of the broader nonprofit sector.

This is not to say that subtle differences are not meaningful, fundraising niches do not exist, or AA NH/PI nonprofits cannot tap into resources distinct to their communities. Our analysis also does not explore the relationship between demands for services and nonprofits’ capacity in AA NH/PI

communities; in other words, similar levels of fiscal health among nonprofits do not suggest that communities have similar needs and that access to services is comparable across communities. Rather, our findings suggest that AA NH/PI nonprofits were not experiencing excess financial stress in the pre-pandemic period and therefore have solid foundations from which to build in their future work.

Conclusion

This report provides an overview of the fiscal health of a sample of 360 AA NH/PI nonprofits with revenues between \$100,000 and \$35 million. The median organization in the sample has annual expenses of \$1.1 million and assets of \$1.3 million. Although it is difficult to fully characterize the use of all government funding sources given the data limitations, it is clear that there is a wide range of reliance on government grants. The types of organizations most likely to generate the majority of their funds from government grants are service providers, research organizations, and membership nonprofits. Advocacy and media nonprofits are more likely to rely on contributions and other grants as their primary source of revenue.

The fiscal health of AA NH/PI nonprofits appears similar to that of the broader population of nonprofits. Roughly a third of the sample appears to be in some state of financial distress based on indicators such as negative net operating margins, expenses growing faster than revenues, fewer days of cash on hand, and a reduction in net assets. Further work could help uncover the characteristics of nonprofits with low and high levels of fiscal health to determine which types of AA NH/PI nonprofits are most likely to experience fiscal distress (appendix A).

Overall, however, when compared with a matched sample of similar nonprofits measured by size and mission or industry, AA NH/PI nonprofits performed slightly better on measures of fiscal health in the pre-pandemic period (2018–19). Their fiscal health scores are more or less equivalent to the broader population of nonprofits on most dimensions, but they are slightly more dependent on donations (lower self-sufficiency ratios) and have higher organizational slack.

There is no evidence that AA NH/PI nonprofits are less financially sustainable than the broader population of nonprofits despite serving a minority population group, and some indicators such as operating margins and organizational slack suggest they are slightly better off than the comparison group. These findings represent a useful benchmark of organizational health during the pre-pandemic period.

Appendix A. Identifying Dimensions of Fiscal Health

We created the fiscal health scores by combining 13 financial operating ratios into an index with 4 unique dimensions using principal component analysis (PCA).

The financial operating ratios were created using IRS 990 data obtained for electronic filers in the “fiscal” package in R³. Many of the ratios were highly skewed with irregular tails, so we used several transformations to produce comparable levels. All ratios were Winsorized at the 5th and 95th percentiles to account for outliers. We applied log transformations to ratios that demonstrated high skew, and then converted all ratios to z-scores before applying PCA. Principal components were extracted using varimax rotation, which ensures that the resultant factors are uncorrelated and thus describe distinct features of the internal financial structure of the nonprofits. A four-factor model provides the best fit and explains 54 percent of the total variance of the 13 unique financial ratios. Factor loadings are reported in table A.1.

TABLE A.1

Factor Loading Scores

Item	RC1	RC2	RC3	RC4	h ² ¹	u ² ²	com ³
One-year asset growth	0.82				0.67	0.33	1
Net profit margin	0.69				0.51	0.49	1.1
Operating margin	0.69				0.48	0.52	1
One-year revenue Growth	0.67				0.45	0.55	1
Debt-to-equity ratio		0.92			0.84	0.16	1
Debt management ratio		0.88			0.8	0.2	1.1
Debt-to-asset ratio			0.84		0.8	0.2	1.3
Equity ratio		0.45	-0.75		0.8	0.2	1.8
Self-sufficiency ratio			0.52		0.28	0.72	1.1
Land-to-assets ratio			0.38	-0.32	0.29	0.71	2.6
Asset-to-revenue ratio			-0.38	0.31	0.33	0.67	3.1
Administrative-expense Ratio				0.77	0.59	0.41	1
Program efficiency ratio				0.46	0.22	0.78	1
SS loadings	2.16	1.9	1.88	1.14			
Proportion variance	0.17	0.15	0.14	0.09			
Cumulative variance	0.17	0.31	0.46	0.54			
Proportion explained	0.31	0.27	0.27	0.16			
Cumulative proportion	0.31	0.57	0.84	1			

Source: Author's calculations using the IRS 990 electronic filers database.

Notes: Factor loading scores with values below 0.3 are suppressed in the table for visual acuity. Each factor is comprised primarily of variances from three to five variables. RC1 = growth potential, RC2 = leverage, RC3 = solvency, and RC4 = organizational slack.

¹ h² is the communality score—sum of the squared factor loadings for each question.

² u² is the uniqueness score.

³ com is complexity (1-h²), an information score that is generally related to uniqueness.

We applied the following labels to the four factors generated by the analysis based on the primary component variables, with an attempt to provide intuition into the variance represented by each scale:

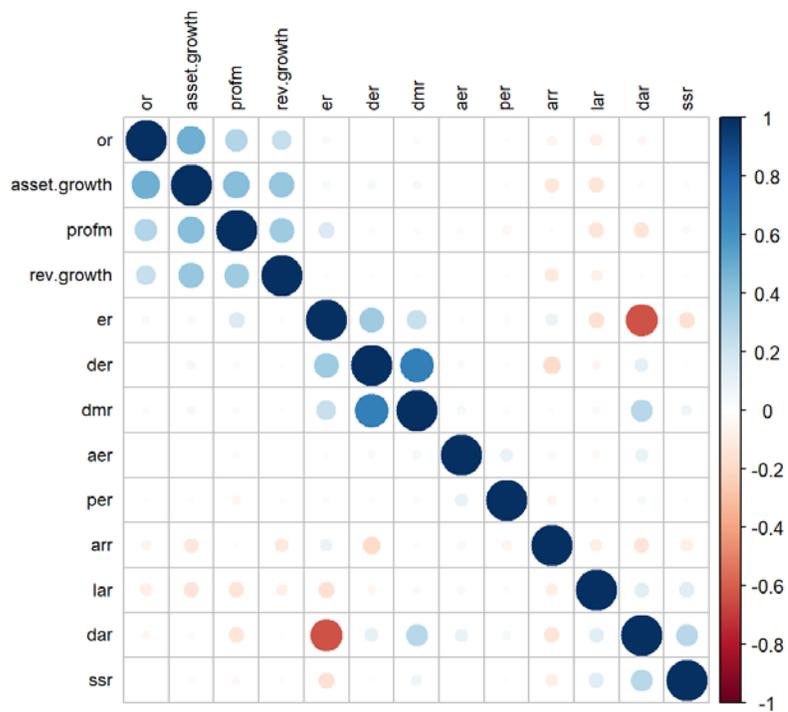
- Dimension RC1: Growth potential
- Dimension RC2: Leverage
- Dimension RC3: Solvency
- Dimension RC4: Organizational Slack

Note that the first component, RC1, explains approximately 17 percent of the total variance of the 13 financial ratios; RC2 explains 15 percent; RC3 explains 14 percent; and RC4 is a more attenuated factor, explaining only 9 percent of the variance. Thus, growth (RC1) and leverage (RC2) appear to be

the most coherent and predictive indicators. Organizational slack (RC4) is a meaningful indicator but contributes less to the overall fiscal health assessment.

Since the input variables used in the principal component analysis had been converted the z-scores, the resulting scales all have ranges of approximately -3 to +3. Before the analysis, they were re-scaled to indices ranging from 1 to 100 so that the interquartile ranges would be more directly comparable and interpretable.

FIGURE A.1
Correlation Matrix of the 13 Financial Ratios Used to Generate the Scales



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Source: Author's calculations using the IRS 990 electronic filers database and financial metrics available in the "fiscal" package.

Notes

- ¹ The data we used in this study are from the following sources: The Exempt Organizations Business Master File Extract (BMF) is available for download from the IRS at <https://www.irs.gov/charities-non-profits/exempt-organizations-business-master-file-extract-eo-bmf>; “IRS 990 SOI Tax Stats - Annual Extract of Tax-Exempt Organization Financial Data,” <https://www.irs.gov/statistics/soi-tax-stats-annual-extract-of-tax-exempt-organization-financial-data>; “NCCS Core Files, cleaned and augmented versions of the IRS SOI annual extracts,” <https://nccs-data.urban.org/>; and “IRS 990 Electronic Filer Data,” <https://docs.opendata.aws/irs-990/readme.html>.
- ² The methodology groups ratios into sets of highly correlated metrics and then creates a single weighted composite from each group. Principal component analysis also produces a set of indicators that are orthogonal or uncorrelated. Individual metrics can be highly correlated; thus, there is significant redundancy when using a set of indicators. Principal component analysis simplifies interpretability by producing a small set of independent dimensions from the common variance of the larger set, isolating the signal from the noise.
- ³ See the R package “fiscal” for documentation on indicators: <https://github.com/Nonprofit-Open-Data-Collective/fiscal>.

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