



NATIONAL CENTER FOR  
CHARITABLE STATISTICS

*a program of the Center on Nonprofits and Philanthropy at the Urban Institute*

# Guide to Using NCCS Data

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## Table of Contents

Table of Contents.....	1
Going to the Source: An Introduction to IRS Forms and Databases .....	2
Business Master File of Exempt Organizations (BMF) and Forms 1023 and 1024.....	4
Return Transaction Files, the Statistics of Income (SOI) Sample Files, and the Form 990 .....	5
NCCS Core Files.....	7
National Nonprofit Research Database.....	8
Financial Data.....	9
Limitations of the Data and Recommended Error Checking Procedures.....	9
Definitions of Financial Measures .....	11
Definitions of Return Years .....	12
Year-to-Year Comparisons: A Word of Caution .....	14
From Arts to Cemetery Companies: Classification .....	15
Introduction to the National Taxonomy of Exempt Entities (NTEE-CC) .....	15
NTEE System Background.....	15
North American Industrial Classification System (NAICS) .....	16
Using Nonprofit Program Classifications (NPC) for Program-Level Research.....	16
Other NCCS Definitions .....	16
Public Charities and Private Foundations .....	16
Operating, Supporting, and Mutual Benefit Public Charities .....	19
Non-Reporting Organizations and Zero-Fileers .....	20
Out-of-Scope Organizations.....	21
Bibliography .....	23

## Going to the Source: An Introduction to IRS Forms and Databases

NCCS derives its data files primarily from information that tax-exempt nonprofit organizations file with the Internal Revenue Service. IRS databases offer the most comprehensive standardized data on tax-exempt organizations but have significant limitations. The purpose of this guide is to acquaint the researcher with these data, to discuss their limitations, and to develop strategies for working within these limitations.

The data produced by NCCS are intended for use by researchers and policy-makers in their quantitative analyses, and as a springboard for more in-depth survey or case study research. While NCCS employs a range of data checking procedures, our limited resources do not permit systematic in-depth verification of every record. If your focus is on individual organizations or on categories where a few large organizations account for the majority of financial activity or resources, we strongly advise that you include inspecting financial data for dominant individual organizations as part of your analysis plan.

The IRS releases three types of exempt organization database files on a regular basis:

**1. The IRS Business Master File (BMF)** is a cumulative file containing descriptive information on all active tax-exempt organizations. Data contained on the BMF are mostly derived from the IRS Forms 1023 and 1024 (the applications for IRS recognition of tax-exempt status) and are updated each month. The November 2005 BMF contains 50 descriptive variables and two financial variables (assets and income) for 949,113 organizations under subsection 501(c)(3) and 464,595 organizations under other subsections of the 501(c) code. The BMF is posted on the IRS website monthly and NCCS downloads the file several times a year and makes it available through the Data Web. Although it is available to the public on the IRS web site, it is difficult to use and the NCCS version is set up in a researcher-friendly format.

**2. The IRS Return Transaction Files (RTF)** are a convenient source of financial data for all organizations that file IRS Forms 990, Form 990-EZ, or Form 990-PF – forms that are typically filed on an annual basis. The files contain up to 60 financial variables, depending on the year, transcribed from the Forms 990 by the IRS and are produced annually. Organizations not required to file Form 990, including religious organizations and those with less than \$25,000 in gross receipts, are generally excluded from the file. NCCS does not distribute these files, but instead distributes the NCCS Core Files, which are based upon the RTF.

**3. The IRS Statistics of Income Sample Files (SOI)** are produced annually by using information from organizations' Form 990. The SOI files include more than 300 variables for all 501(c)(3) organizations with \$30 million or more in assets (\$10 million in earlier years) and all organizations filing under sections 501(c)(4) through 501(c)(9) with \$10 million or more in assets and a sample of a few thousand smaller organizations per year that is selected to represent the entire universe of nonprofit organizations.

Additional files have been created by NCCS based on the IRS databases:

**1. The NCCS Cumulative Master File (Master)** is a cumulative list of 501(c) organizations from the BMF. It is primarily used to locate the Employer Identification Number (EIN) for an

organization when only the organization's name is known. Some fields in the BMF are unavailable for older organizations. Unlike the BMF files, this file contains information on any “dead” organizations that NCCS is aware of dating back to 1989.

**2. The NCCS Core Files (Core)**, produced annually since **1989**, combine descriptive information from the BMF and financial variables from the RTF after they have been cleaned by NCCS. Only organizations required to file Form 990 are included in the files. The Core 2004 for public charities (called NCCS Core PC) contains 113 variables for 303,077 organizations. Additional files are prepared for private foundations (called NCCS Core PF) and organizations under subsections other than 501(c)(3) (called NCCS Core 501(c) others).

**3. The NCCS-GuideStar National Nonprofit Research Database (NNRD or “digitized data”)** is a cumulative listing of public charities filing Form 990 and Form 990-EZ from FY 1998 to FY 2003. As with the NCCS Core files, only organizations required to file with the IRS are included. The latest fiscal year of National Nonprofit Database, fiscal year 2003, contains over 350 variables on over 254,000 organizations. Unlike the Core files, the data are maintained in a series of cumulative files, one for each major section of the form.

#### Distribution of Fiscal Years in the “Digitized Data”

Fiscal year (ending year)	Public Charities	
1998	191,895	13.8%
1999	220,453	15.9%
2000	231,285	16.7%
2001	245,268	17.7%
2002	245,332	17.7%
2003	254,247	18.3%
Total	1,388,480	100.0%

Note that the number of organizations by year does not follow a smooth trend line like the Core files. In FY 1998, the year when the IRS began scanning Form 990s, a number of organizations were probably missed. The number of organizations in 2001 and 2002 is virtually identical, an oddity that appears to be attributable to data processing, not to any reality within the nonprofit sector. These potential problems may pose a problem for some types of aggregate analysis but should not be an issue for panel or other types of analyses.

**4. The 1992 IRS Form 990 Parts 3 & 8 Supplement**, transcribed from Form 990 by NCCS, contains descriptions of the program service accomplishments and income-producing activities of more than 100,000 501(c)(3) public charity organizations and 20,000 501(c)(4) organizations.

**5. Trend Analysis Files** have been created to assist in longitudinal studies. The **Core Trend Files** (one for public charities, another for private foundations, with a third planned for “other exempt organizations”) combine a small number of variables from every Core file for every year into a single long, narrow file with one record for each unique EIN-Core File Year combination. NCCS also created a **1990-1996 Longitudinal File** based on fiscal years, with imputed values for 990 entries that are missing or probably in error. Each record contains key variables for a single organization spanning the six-year period. This file is available on special request only.

Data Dictionaries for these files are available on the NCCS website.

**6. The NCCS NTEE Master File** is a cumulative list of organizations' Employer Identification Numbers (EINs) and their NTEE classifications. To date, NCCS, the Foundation Center, the IRS, and others have assigned NTEE codes to nearly 800,000 organizations.

### ***Business Master File of Exempt Organizations (BMF) and Forms 1023 and 1024***

The Business Master File (BMF) is a cumulative file that contains basic information drawn from IRS Forms 1023 and 1024 for all “**active**” (see below) and **registered** tax-exempt organizations. Form 1023, used by 501(c)(3) organizations, and Form 1024, used by non-501(c)(3) organizations, are used in applying for recognition of their tax-exempt status. The BMF includes the name and address of each organization, whether it must meet the public support test, when it obtained tax exempt status, what type of return it files, when its fiscal year ends, and other descriptive information. It also includes the ruling date, which is the date the organization received recognition of its tax exempt status. Ruling dates prior to 1965 are unreliable predictors of trends and that a ruling date does not necessarily coincide with the date on which the organization was formed (Bowen, 201-201).

As of May 2006, there were more than 1.4 million “active” organizations that had obtained recognition of their tax-exempt status from the IRS. These include nearly 955,000 501(c)(3) public charities and private foundations and nearly 464,00 organizations covered by other subsections of 501(c). Most 501(c)(3) organizations must file Form 1023 in order for the IRS to recognize their 501(c)(3) status. Others, including many religious organizations, are not required to register with the IRS, but they are recognized as having 501(c)(3) status because of the nature of their activities. All 501(c)(3)s are exempt from paying federal taxes (and usually state and local taxes as well). A blank Form 1023 is available in PDF format from both the NCCS and IRS websites.

Certain types of public charities are not required to obtain official recognition of their 501(c)(3) status. These organizations, unless they voluntarily choose to register, are not included in the IRS databases. The IRS Code, Section 508(c)(1) describes the **two categories** of organizations exempted from registering.

- ❑ Public charities or other exempt organizations with **less than \$5,000 in gross receipts**. All private foundations, regardless of their levels of gross receipts, must obtain recognition; see *Other NCCS Definitions*, below, for the difference between public charities and private foundations.)
- ❑ **"Churches, their integrated auxiliaries, and conventions or associations of churches."** Generally, churches and their conventions or associations are easily identified in our files. An estimated 341,000 churches were exempt from registering with the IRS in the early 1990's (Hodgkinson and Weitzman, 37). However, only 91,000 of these congregations have registered and are included in the BMF. An "integrated auxiliary" is a term used by the IRS and is defined precisely in IRS documents. (See *Identifying Faith-based Organizations in NCCS Databases (Method Note)* in the NCCS Knowledgebase for more details). Probably the most common type is a parochial school

that is affiliated with a congregation. For more information on religious organizations, see *Non-Reporting Organizations and Zero-Filers* in this guide.

**What is an “active” organization?** The BMF does contain some inactive organizations. Postcards are mailed by the IRS every three years to verify that organizations still exist. The term “active” here means the organization is providing services. While this eliminates some defunct organizations, the BMF probably overstates the number of registered, functioning nonprofits at a given time. Definitions of inactive or defunct organizations may vary depending on the research question. For example, Bielefeld found in his study that some dormant organizations returned to life (Galaskiewicz and Bielefeld 1998).

In 1994, the IRS examined errors in a sample of 501 (c)(3) organizations in the BMF that do not file the Form 990, and found that twenty-one percent of the organizations had either ceased operations or could not be found (Internal Revenue Service 1994). Twenty-seven percent of the records for organizations actually located listed an incorrect address. NCCS recommends incorporating a process for cleaning the addresses into any survey project using BMF data, especially if organizations that do **not** file the Form 990, 990-EZ, or 990-PF are included. Online Yellow Pages are one source for current addresses.

### ***Return Transaction Files, the Statistics of Income (SOI) Sample Files, and the Form 990***

Exempt organizations report financial information to the IRS annually on the Form 990. Many state governments also require organizations to register annually, although the forms and criteria for reporting may differ. Fewer organizations are required to file with states than the IRS, but some religious organizations (probably a very small number) may only file with the state agency. In 2003, more than 254,000 public charities filed Form 990 or Form 990-EZ (shortened version for smaller organizations) with the IRS, and 74,000 private foundations filed Form 990-PF (private foundation version). (The 254,000 excludes approximately 70,000 organizations that were **not** required to file a 990 or 990-EZ but did so anyway. See discussion of *Zero-Filers* in this guide.)

**The IRS Return Transaction File.** The IRS annually records selected information from Form 990 in the Return Transaction File (RTF). The Statistics of Income (SOI) division of the IRS creates an extract from the RTF as a population from which to select their research sample. Since a substantial percentage of organizations receive filing extensions, each year this extract includes the most recently filed return for an organization that was filed in the last three years and that covered a tax period within the last three years. If an organization files two returns in a calendar year, only the most recent is included. Amendments and duplicate returns are excluded. To see an example of the latest core file (“Core 2004 PC” file) with the distribution of fiscal years, refer to the section “Core Files and ‘Circa Years’” under *Definitions of Return Years* of this guide.

In recent years, the RTF extract has included over 60 of the more than 300 financial variables on the Form 990 as well as organization EINs. It does not include name, address, or any other descriptive information. Since IRS officials primarily use the RTF for regulatory purposes, they have not constructed the file for use as research data. As a result, the RTF data entry process is geared toward speed and data entry errors occur. While the IRS produces the RTF annually,

NCCS typically only distributes the NCCS Core file, based upon the RTF but reviewed for quality. Information on the Core file is available in the next section.

**IRS Statistics of Income (SOI) Files.** The Statistics of Income (SOI) Division of the IRS annually creates sample files of 501(c) organizations. These files, which are available from IRS and NCCS, have included over 15,000 501(c)(3) filing organizations since 2000. Separate samples are created for the Form 990-EZ and Form 990-PF filers and are also available from IRS and NCCS. The SOI files only include non-501(c)(3) organizations in the (c)(4) to (c)(9) range. (In 1994, SOI also completed a special study of Form 990-PF filers, including the entire universe of returns.)

Since 2000, SOI files for 501(c)(3) entities have included all organizations with \$30 million or more in total assets (\$10 million before 2000), plus a random sample of smaller organizations stratified and weighted by asset level. Thus, all organizations with total assets (end-of-year) of more than \$10 million (prior to 2000 or 2001) or \$30 million (more recent files) are included with a weight of 1. Weights for other organizations are designed to match populations of 6 other asset classes. These are presented in the following table:

**Distribution of SOI 2002 Public Charity 990 Returns by Asset Levels and Weight**

Asset Levels	Number of Records	Record Weight	Population Count
Less than \$250,000	1,185	96	113,760
\$250-499,999	486	49	23,814
\$500-999,999	1,726	15	25,890
\$ 1 mil. to under \$2.5 mil.	1,542	9	13,878
\$2.5 mil. to under \$5 mil.	1,890	5	9,450
\$5 mil. to under \$10 mil.	3,294	2	6,588
Over \$10mil.	6,787	1	6,787
Total	16,910	N/A	200,167

Forty percent of the 16,910 records in the 2002 SOI 501(c)(3) file were large organizations with assets of \$30 million or more. While the RTF contains no more than 60 financial variables, the SOI file includes over 300 financial and programmatic variables from the Form 990.

Unlike the process used for entering RTF data, the staff of the SOI Division enters every number twice and takes great care to avoid data entry errors and to resolve inconsistencies on individual forms. Further, SOI editors – the staff responsible for entering the data – also redistribute amounts from the “other” categories – other revenue, expenses, assets and liabilities – to the appropriate line items, when possible. (“Other expenses,” the most problematic of these categories, accounts for 25% of total expenses. See the *NCCS Knowledgebase entry on “The Reporting of “Other Expenses” in Part II of the Form 990 (Technical Note)”* for details.) Because of this careful input method, NCCS uses the SOI files to cross-check and correct financial data in the RTF for the annual Core files.

Keep in mind that the year designation on SOI files is based on the **starting** year for the return, which is NOT necessarily its fiscal year. For example, in the 1999 SOI file, 66 percent of the

returns (unweighted) were for fiscal year 2000—most of those with a July-June fiscal year. Weighted, the percentage drops to 54 percent. Please note also that the 1999 file includes a few returns dated 1998 for large organizations that the IRS believed should be included in the sample but that had missing or un-filed returns.

### **NCCS Core Files**

The NCCS Core files are based on the Internal Revenue Service's annual Return Transaction Files (RTF). They contain data on all 501(c)(3) organizations that were required to file a Form 990 or Form 990-EZ and complied. The IRS does not keypunch financial data for approximately 80,000 organizations that filed Form 990 but that were **not** required to do so because they had less than \$25,000 in gross receipts or are congregations. NCCS also excludes a small number of other organizations, such as foreign organizations or those that are generally considered part of government. (See discussion of *Non-Reporting Organizations and Zero-Filers* and *Out-of-Scope Organizations*.)

To create the Core file, NCCS first verifies and corrects if needed the financial data in the RTF using the SOI-coded return and manually reviews organizations' 990s on GuideStar ([www.guidestar.org](http://www.guidestar.org)) when necessary. This process is complicated by the fact that the RTF and SOI files have different methods of recording an organization's financial year. The records in the RTF are dated by the year in which the organization's fiscal year begins. SOI, on the other hand, records the month and year of the end of an organization's fiscal year (see *Definitions of Return Years*). To match the organization and the correct fiscal year for the two sets of files, the SOI records are modified to correspond to the dates used in the RTF. Because a single RTF contains data for three fiscal years, three SOI sample files must be used to update each one. Using SOI files, NCCS successfully updated over 10,000 records from the RTF that went into the Core 2001 public charity file. Although this number represents only 4 percent of the organizations in the RTF, it includes 59 percent of the revenue and expenses and nearly 70 percent of the assets. A value of "S" in the Core file for the variable VERIFY indicates those returns verified by the SOI files.

Next, NCCS matches records from the BMF to records in the RTF. Because the Return Transaction Files do not contain descriptive information such as name and address, combining BMF with RTF presents more information on the organizations in the files.

Finally, NCCS enhances the data by adding several useful fields.

- ❑ Classification for each organization using the National Taxonomy of Exempt Entities Core Codes (NTEE-CC).
- ❑ Using a zip code-to-county crosswalk, FIPS state and county codes are assigned for approximately 90 percent of the organizations.
- ❑ Several financial variables, including total revenue are calculated from various income items (the IRS started including it after 1997); levels of gross receipts (RINCCD); total revenue (RREVCD); expenses (REXPCD); and assets (RASCD) of each organization.

- ❑ Variables resulting from NCCS verification of the internal and external consistency of each return.

### ***National Nonprofit Research Database***

The National Nonprofit Research Database includes all Forms 990 and Forms 990-EZ filed by 501(c)(3) organizations that are required to file with the IRS. The specific requirement is that all 501(c)(3) public charities with \$25,000 or more in gross receipts are included. The forms received by the IRS are scanned and saved as images by IRS. IRS provides the images to NCCS and Philanthropic Research Inc. (GuideStar) which keys in the data from the images to create a database. NCCS then prepares the research files from the data provided by GuideStar.

NCCS first created a unified structure that incorporates Forms 990 and Forms 990-EZ in a single database. Next, large-scale errors in financial variables were corrected (typically errors over \$1,000,000 and a difference of more than 25 percent from expected value, i.e. value of components versus totals). Then NCCS adds organization level descriptive variables such as the NTEE-CC classification and geographic identifiers such as county (FIPS) codes and MSA codes.

While one would assume that all organizations required to file would be included in the research files, in practice certain organizations are not in the database. For example about 30,000 990s were not in the NNRD, but were in the NCCS Core 2000 file. The reason for this difference is found in the methods for constructing the files. For the NNRD, the literal fiscal year (the year in which the filing period ends) is used. For the NCCS Core files, a “Circa Year” is used. This “Circa Year” includes all the returns received by the IRS in a certain calendar year as well as returns of organizations that have filed in the previous two years, but do not appear in the present years files. In practice, this should not impact most analysis at the aggregate level very much, but a researcher might assume that the figures presented, while fairly accurate representations, are likely a bit small with the NNRD. Researchers can choose to use a variable called “LATEST” to select only the most recent filing. In addition, researchers should not always assume that the NNRD dataset can always be used to find accurate information on a specific organization.

Unlike the SOI and the NCCS Core files, the NNRD attempts to cover almost all items on the Form 990 for almost all filers. In practice, the database includes all items in most financial sections and the non-financial items are covered more selectively. Certain non-financial items, such as the Part III data on an organization’s statement of purpose or specific program information, as well as data from Part VI of the form and Schedule A, are included based upon their usefulness to the research community. The NNRD database provides the fullest understanding of organization activities that currently exists. The chart below illustrates the differences between the Core files and the Digitized Data:



<b>Dataset Characteristics</b>	<b>NCCS Core Files</b>	<b>NCCS NNRD, v2005b</b>
Number of Organizations per year	289,000 (fy 2003)	254,000 (fy 2003)
Years Covered	Circa 1989-Circa 2004	Fiscal 1998- Fiscal 2000
Number of Variables per Year	up to 140	approximately 350
Types of organizations covered	Public charities, private foundations & other exempt orgs.	Public charities only
<b>Coverage of Form 990 public charity files</b>		
Header – Address and Contact Info	Some Variables	All Variables
Part I – Revenue & Expenses	Major Variables	All Variables
Part II – Functional Expenses	Major Variables	All Variables
Part III – Program Services	None	All Variables
Part IV – Balance Sheets	Major Variables	All Variables
Part IV-A and Part IV-B – Audited Financials	None	None
Part V – Officers, Directors, etc.	None	All Variables
Part VI – Other Information	Some Variables	Most Variables
Part VII – Income Producing Activities	Some Variables	Some Variables
Part VIII –Relationship of Activities to Purpose	None	None
Part IX – Taxable Subsidiaries	None	Some Variables
<b>Coverage of Schedule A:</b>		
Part I – Compensation of Employees	None	All Variables
Part II – Compensation of Contractors	None	None
Part III – Statements About Activities	Some Variables	All Variables
Part IV –Non-PF Status, Support Schedule	Most Variables	None
Part V – Private School Questionnaire	None	None
Part VI – Lobbying Expenditures	Some Variables	Some Variables
Part VII – Information Regarding NON-501(c)(3)s	None	None

## Financial Data

### *Limitations of the Data and Recommended Error Checking Procedures*

Financial data in the nonprofit database files should be used with caution. While NCCS performs some data checks, errors still exist. We strongly advise checking outliers and finances of large individual organizations before publishing analyses of the data sets.

In addition to the potential data-entry errors discussed above, researchers have questioned the reliability of the underlying data on the Form 990, Form 990-EZ, or Form 990-PF. Preparers, especially in small nonprofit organizations, may not fully understand the complexities of the financial entries. Organizations may also shift expenses from one category to another to obtain desired ratios. While studies have shown aggregate measures to be reliable, financial entries

requiring exclusions or multiple calculations are less so. (For a more detailed discussion, see Froelich, Knoepfle, and Pollak 2000).

A four-stage error checking process is recommended. When using financial data, it is important to keep in mind that there is an enormous range in size between the smallest and the largest nonprofit organizations. A single hospital or university in a small state may account for more than 20 percent of the nonprofit revenues or assets within the state. Thus, if data on the nonprofit sector are being aggregated, the finances of any dominant organizations should be reviewed.

First, the researcher should identify large organizations that dominate analytic categories. When studying the sector as a whole, any inaccuracy, accounting change, or anomaly in the financial reports of a single large hospital, for instance, can mask the financial trends of thousands of small human service organizations.

Such misleading data may also be found within individual subsectors. For example, one large arts organization in New England accounts for a substantial percentage of the income for the region's nonprofit arts community. When the way it accounted for some income was changed from one year to the next, the aggregate data then seemingly indicated a "trend" for the entire arts and culture subsector in New England.

Second, geographic information and NTEE classifications should be verified for accuracy (or, at minimum, plausibility). On relatively rare occasions, a parent organization will file returns for multiple affiliates. These affiliates may use the legal address of the parent organization, thus inflating the number of organizations and nonprofit activity in a particular city. (Jackson, MS, Los Angeles, CA, Pittsburgh, PA, and Missoula, MT are four known cases where this has occurred.) NCCS has verified the consistency of zip codes and states in many of its major files. However, it is still possible that some cases have eluded us. (Some Core files, for example, might contain incorrect state abbreviations.) As of Fall 2006, the NCCS team is in the process of fixing the remainder of the files that have inconsistencies between state and zip code values.

As discussed later in this guide, NTEE codes should also be checked carefully for organizations that have a large impact on your analysis. NCCS can provide researchers with online tools for facilitating this review.

Third, financial data outliers (if they are likely to meaningfully affect your analysis) and "suspicious" dominant organizations should be checked, one return at a time. Perusal of a Form 990 (and its attachments) on GuideStar or the Foundation Center may be sufficient. In other cases, it is often most efficient to call an organization directly and ask for clarification about its Form 990 data. Another approach is to obtain financial or programmatic information from other sources. Data on higher education institutions and hospitals, for example, may be acquired from some states, the Centers for Medicare & Medicaid Services, or private sources. However, these data, in our experience, are often more difficult to match and compare than researchers initially expect, especially if they lack EINs. (NCCS can provide sophisticated name and address matching programs to help in this case.) Some state charity offices also make their data available.

Fourth, adjustments should be made to the data where appropriate. If accounting changes or corporate transactions (mergers, spin-offs, etc.) are the cause of financial anomalies, one may choose to impute financial measures to account for the effect of the transactions. If simple errors in data entry are found, they should be corrected. In order to improve the quality of our data, NCCS would appreciate feedback (ideally in electronic format) on errors identified and adjustments made so that our master files can be updated for future research.

### ***Definitions of Financial Measures***

The meaning of some financial items on the Form 990 (and in the Core and Digitized Data) is clear but for other items, a researcher simply must consult the Form 990 instructions or other documentation to understand the information that is being collected. Sometimes a term may sound obvious – “government grants” or “dues and other membership fees,” to name two – but mean something very different from what one would assume.

In describing the finances of nonprofit organizations, NCCS typically uses three principal measures: public support, total expenses, and total assets. These are described in greater detail below. Refer to the ***NCCS Guide to Form 990 Line Items*** for further details on other items.

- ❑ **Public support**, collected from the Form 990, line 1d or Form 990-EZ, line 1, includes private gifts and contributions (both cash and in-kind) and government grants. There is evidence, however, that some organizations may be treating revenue from government programs inconsistently. The rules that determine whether government revenue should be called a government grant, another type of public support, or program service revenue (line 2 on the Form 990) can be difficult to interpret. The magnitude of this problem has not yet been determined.
- ❑ **Total expenses** is obtained from line 17 of the Form 990 or Form 990-EZ, and equals the sum of program, fundraising, management, and general expenses, as well as payments to affiliates.
- ❑ **Total assets** include real estate, accounts receivable, pledges receivable, grants receivable, inventories, and other assets. This variable is collected from the IRS Form 990, line 59 or Form 990-EZ, line 25 and represents the total assets at the end of the organization's fiscal year. The instructions for the Forms allow organizations to choose whether they report investment assets according to cost or end-of-year market value. Total assets should not be confused with net assets (total assets minus total liabilities).
- ❑ **Gross receipts** while not itself an item on the 990 form, is the total of "Rental Expenses" (line 6b) + "Cost or other basis and sales expenses" (line 8b)+ "Direct special event expenses other than fundraising expenses" (line 9b) + "Cost of goods sold" (line 10b) + "Total Revenue" (line 12).

### **Definitions of Return Years**

The term "return year" is one of the more difficult concepts to understand and use in creating a snapshot of nonprofit organizations. It can be defined in four different ways: 1) the year in which the IRS processed the Form 990 returns, i.e., the **IRS return processing year**; 2) the end of the filing organization's **fiscal year**; 3) the **Start Year** (also called **Tax Year**) of a reporting organization's fiscal year; and 4) the central time period (or year) for the data, designated as "**circa year**" (or profile year in the *State Nonprofit Almanac* 1997).

**Fiscal vs. Start Years.** For example, Organization "X" has a fiscal year that begins January 1, 2003, and ends December 31, 2003. It files its Form 990 return for that year by the May 15, 2004, IRS deadline. The return's Start or Tax Year and Fiscal Year are both 2003 and its Processing Year is 2004. The fiscal year for Organization "Y" runs from July 1, 2003, to June 30, 2004. Its Start or Tax Year will be 2003 but its Fiscal Year and Processing Year will be 2004.

Most managers and accountants think in terms of organization fiscal years. The IRS, in contrast, focuses on the Start/Tax Year in both naming the IRS SOI files and in determining what version of the Form 990 to use. Thus, Organization "Y" with its fiscal year beginning in 2003 and ending in 2004 would use the IRS form with the "2003" in the upper right corner, since this reflects its Start/Tax Year.

The following table shows the distribution of public charities in the NCCS Core 2004 PC file by the ending month of their fiscal year. More than half of the returns have calendar (January through December fiscal years that coincide with the calendar year). Of the remainder, the vast majority have fiscal years ending in June. However, since these tend to be larger organizations, they account for a larger share of both total expenses (39.7%) and assets (46.1%) than the "calendar year" filers.

End Month of FY	Public Charities		Total Expenses (in dollars)		Total Assets (in dollars)	
	918	0.3%	454,232,931	0.0%	666,050,605	0.0%
00	5	0.0%	945,821	0.0%	232,316	0.0%
01	1,337	0.4%	2,157,342,601	0.2%	2,588,239,336	0.1%
02	1,646	0.5%	1,753,335,972	0.2%	3,747,540,376	0.2%
03	5,892	1.9%	17,824,432,927	1.7%	39,683,163,578	2.0%
04	3,932	1.3%	8,066,283,040	0.8%	16,561,406,752	0.9%
05	7,783	2.6%	20,724,535,450	2.0%	63,162,721,453	3.3%
06	86,816	28.6%	406,551,928,409	39.7%	895,168,315,070	46.1%
07	6,252	2.1%	6,079,820,936	0.6%	19,911,994,522	1.0%
08	10,456	3.4%	36,638,321,725	3.6%	101,055,863,064	5.2%
09	19,702	6.5%	136,594,774,558	13.3%	189,216,803,067	9.7%
10	2,794	0.9%	3,706,297,492	0.4%	6,373,275,890	0.3%
11	1,203	0.4%	1,788,686,122	0.2%	4,177,322,933	0.2%
12	154,341	50.9%	381,109,852,184	37.2%	599,753,566,018	30.9%
Total	303,077	100.0%	1,023,450,790,168	100.0%	1,942,066,494,980	100.0%

**Core Files and “Circa” Years.** The Core files include the most recent return for each organization that filed in the last three calendar years and that covered one of the last three fiscal years. They include Forms filed for previous years by late filers and organizations with filing extensions. Therefore, the NCCS Core 2004 PC file includes returns for organizations with fiscal years that ended as early as December 2002 and go through November 2005. These returns cover fiscal years 2002 through 2005, though over 70 percent in that file are from 2004. Moreover, about 81% have fiscal years that end between June 2004 and June 2005. These organizations accounted for 76% of the expenses and 81% of the assets for organizations included in the file.

#### Distribution of Start and Fiscal Years for the NCCS Core 2004 PC File (“circa year 2004”)

Start year when fiscal year began (yyyy) (STYEAR)	Public Charities	
2002	18,571	6.1%
2003	130,274	43.0%
2004	154,232	50.9%
Total	303,077	100.0%

Fiscal Year when year ended (FISYR)	Public Charities	
2002	9,120	3.0%
2003	39,560	13.1%
2004	214,579	70.8%
2005	39,818	13.1%
Total	303,077	100.0%

If a substantial portion of financial data in the Core files related to earlier years, the analysis of that data would be slightly skewed because data from earlier years are not adjusted for inflation. However, the distribution of returns discussed above suggests that possible bias resulting from combining different fiscal years is minimal.

If a researcher wanted to compile a database that contained a complete set of returns covering a single fiscal year, it would be necessary to extract records from several Core files. To create a Financial Year 1992 file, for example, roughly one-quarter of the records would need to be extracted from the 1992 Core files, two-thirds from the 1993 Core files, and the remaining records from the 1994 and 1995 Core files.

### ***Year-to-Year Comparisons: A Word of Caution***

When making year-to-year comparisons, especially financial comparisons, it is important to keep in mind that the Core files from the 1990s include only organizations that filed within a given IRS processing (i.e., calendar) years. Analyzing files based on processing year can result in missing organizations that may not file a return in an individual processing year because extensions were requested and granted by IRS. For example, an organization with a fiscal year beginning July 1 files its FY 1992 return in August 1992. In 1993, it received a filing extension and filed the organization's FY 1993 return in January 1994. Later that same year, it filed its FY 1994 return on time in August. In this case, the organization would file returns for FY 1992 and 1993 but no return would be filed during calendar year 1993, the processing year used in the database.

How significant is this problem? The 1996 Business Master File (BMF) included 12,546 organizations that had received tax-exempt status prior to 1991 and had filed returns in 1995 but not in 1993. Nearly 4,000 of these organizations had expenses (a rough proxy for gross receipts) of less than \$25,000 in 1994. Assuming that their expenses were at this same level in fiscal year 1992, they would not have been required to file Form 990. However, 2,601 of the organizations had expenses of \$100,000 or more in 1994, and 498 had expenses of \$1 million or more. Among these large organizations, it seems doubtful that many would have failed the gross receipts test two years earlier.

On the other hand, 15,305 organizations filed in 1993 but did not file in 1995, including 772 that had expenses of more than \$1 million in 1993. Perhaps some of them merged or went out of business; others may have received filing extensions. Of these organizations, 4,224 were dropped from the Business Master File. They, presumably, had dissolved, merged, or ceased active functioning. About 44 percent of the 15,305 organizations (6,716 of them), actually filed returns covering fiscal years 1994, 1995, and 1996, but they didn't file any of them in 1995. Care should be taken in making assumptions that organizations with missing returns no longer exist. A cursory review of the records, for example, shows that a prominent university which accounted for a substantial percentage of all assets for reporting public charities in one state in 1993 did not file in 1995, yet the university is alive and well.

## From Arts to Cemetery Companies: Classification

### *Introduction to the National Taxonomy of Exempt Entities (NTEE-CC)*

Developed in the mid-1980s, the NTEE-CC system is a hierarchical mixed notation (letters and numbers) organization classification system of 630 centile level codes, collapsible into 26 major groups, collapsible into 10 major categories:

Major Category	Major Groups		Major Category	Major Groups
Arts	A		International	Q
Education	B		Religion-related	X
Environment & Animals	C, D		Mutual benefit	Y
Health Care	E, F, G, H		Public & societal benefit (other)	R, S, T, U, V, W
Human Services	I, J, K, L, M, N, O, P		Unknown or unclassified	Z

At present, nearly 800,000 records are coded with an NTEE. A description of the NTEE system is available on the NCCS web site. (We also have used an automated system to classify the remaining one million organizations that have been registered during the past twenty years. These classifications are maintained in a file that is not publicly released.)

Our NTEE classifications come from several sources and use various types of information. Approximately 106,000 organizations were classified by NCCS (formerly based at Independent Sector) based on an assessment of program descriptions contained in Parts 3 and 8 of the Form 990. Because program descriptions were only available for some organizations, the rest were classified based on additional research, including information in nonprofit directories and other data contained on Forms 990 and 1023. The Exempt Organization Division of the IRS adopted the NTEE system and began adding codes for new organizations in the 1995 Business Master File. A confidence level of A, B, or C is assigned to each organization classification to identify the general level of confidence that we have in the accuracy of the code. A confidence level of A, for example, indicates that there is at least a 90 percent probability that the major group classification is correct.

### ***NTEE System Background***

To update and assess how well the NTEE is meeting users' needs, NCCS periodically convenes the NTEE Oversight Committee, consisting of representatives of organizations using the coding system. The committee monitors NTEE use and makes decisions about revisions to the system. The NTEE Advisory Committee, a group of university researchers, classification experts, and users of NTEE codes, makes recommendations to the NTEE Oversight Committee.

During the summer of 1997, NCCS staff sent questionnaires requesting general improvements, and specific changes to committee members and NTEE users across the country. Based on these responses and consultations with the original designers of the system, an overhaul in three parts was recommended. Many surveys and analysis of inter-coder reliability point to the sheer number of groupings as problematic. Based on frequency cutoffs, a new version of NTEE

was created. The new system, called NTEE-CC (Core Codes) has just over 400 possible codes. The new system was adopted in 1999 after testing by NCCS and Foundation Center staff. A revision of NTEE-CC was completed in May 2005, after recommendations from users were considered and approved by the NTEE Oversight Committee. The manual, definitions, and classifications tools on the NCCS web site are updated to reflect these changes.

### ***North American Industrial Classification System (NAICS)***

The North American Industrial Classification System (NAICS) (rhymes with “cakes”) was created by the federal government in the mid-1990s to replace the 1930s-era Standard Industrial Classification System (SIC) and is intended to encompass the whole of economic activity on the continent. Standard analyses by the U.S. Census Bureau, the Bureau of Labor Statistics (BLS) and the Bureau of Economic Analysis (BEA) use NAICS. Crosswalks between the NTEE codes and the much broader NAICS codes have been developed to permit the IRS and researchers to group organizations using this system as well. The crosswalk is available on the NCCS web site.

### ***Using Nonprofit Program Classifications (NPC) for Program-Level Research***

The NTEE system is used for classifying organizations, not programs. For studies that seek to examine particular types of programs (especially when the programs tend to be small), organization classifications are the best starting point but other sources should be used as well.

In order to facilitate this type of programmatic research, NCCS developed the Nonprofit Program Classification (NPC) System to provide a means for capturing and classifying the actual program activities reported on Part III of the Form 990. While the type of organization is indicated by its NTEE classification, many organizations have multiple programs, services, and activities.

The Nonprofit Program Classification (NPC) System classifies the actual activities of each organization, as reported on Part III of its Form 990. The major groups for this classification system mirror those of the NTEE system, but the codes tend to be more specific in nature. In addition, organizations are also allowed to have multiple program codes based on the types of programs they provide.

For example, if a community center has 15 different projects from literacy to recreation to drug prevention, these can each be given a separate code under NPC while its NTEE-CC identifier will remain "P28 Community Center."

## **Other NCCS Definitions**

### ***Public Charities and Private Foundations***

The IRS separates 501(c)(3) organizations into two categories: public charities and private foundations. Public charities are 501(c)(3) organizations that receive significant public support or fall into another category that entitles them to automatic public charity status. Public charities



are the main focus of NCCS databases and account for nearly 90 percent of all 501(c)(3) organizations. Unless a public charity falls under one of the filing exceptions below, it is required to file IRS Form 990.

1. A church, an interchurch organization of local units of a church, a convention or association of churches, an integrated church (such as a men's or women's organization, religious school, mission society, or youth group).
2. Church-affiliated organizations that are exclusively engaged in managing funds or maintaining retirement programs.
3. A school below college level affiliated with a church or operated by a religious order.
4. A mission society sponsored by, or affiliated with, one or more churches or church denominations, if more than half of activities are conducted in, or directed at persons in foreign countries.
5. An exclusively religious activity of any religious order.
6. A state institution whose income is excluded from gross income.
7. An organization that is described as an instrument of the United States and is exempt from federal income taxes.
8. A private foundation exempt under section 501(c)(3) and described in section 509(a)-Use Form 990-PF (described below).
9. A black lung benefit trust described in section 501(c)(21).
10. A stock bonus, pension, or profit-sharing trust that qualifies under section 401.
11. A religious or apostolic organization described in section 501(d).
12. A foreign organization whose annual gross receipts from sources within the U.S. are normally \$25,000 or less.
13. A governmental unit or affiliate of a governmental unit.
14. A political organization that is
  - a. A state or local committee of a political party;
  - b. A political committee of a state or local candidate;
  - c. A caucus or association of state or local officials;
  - d. An authorized committee of a candidate for federal office;
  - e. A national committee of a political party;
  - f. A United States House of Representatives or United States Senate campaign committee of a political party committee;

- g. Required to report under the Federal Election Campaign Act of 1971 as a political committee; or
  - h. An organization described under section 6033(g)(3)(G)
15. An organization whose annual gross receipts are normally \$25,000 or less.

Approximately 70 percent of the 501(c)(3) organizations listed in the IRS Business Master File are required to meet the public support test (Organizations must show that they normally receive 1/3 of their support from the public, which includes support from the government and foundations. Organizations can also meet the public support test if 10 percent of their support is from the public and it receives not more than 1/3 of its support from investment income and unrelated business taxable income). The remaining organizations obtained public charity status because they are medical care providers, congregations or religious organizations, educational institutions, governmental units, or “single organization support organizations” such as fundraising auxiliaries that support other public charities (Hopkins, 401).

There are two IRS codes, which are not necessarily consistent, that can be used to identify the reason why an organization qualified for public charity status. The Foundation Code (FNDNCD) field reflects the organization’s type at the time it obtained recognition of its exempt status from the IRS. The Core files also contain the REASON code (for Reason for Non-Private Foundation Status), which specifies the box that the organizations checked on Part IV of Schedule A of the Form 990 or 990-EZ.

**Private Foundations.** Most private foundations are organizations created to distribute money to public charities or individuals, and most have substantial investments that are used to fund their giving. Private grant-making foundations face strict guidelines requiring them to distribute at least five percent of their assets each year. All private foundations must file IRS Form 990-PF – there is no threshold size.

Private foundations include **operating foundations**, which represented about 4 percent of all private foundations and held about 4.5 percent of total assets in fiscal year 2003. These foundations function much like public charities and operate their own programs. Giving money to other organizations or individuals plays a minor role or may be absent altogether. Unlike public charities, however, they do not have to meet the public support test or fall within any of the other categories (hospitals, churches, educational institutions, or governmental units) to maintain tax-exempt status.

**Public foundations** – a NTEE code, but not a category with any legal meaning -- are considered public charities. Like most other public charities, they are required to demonstrate broad public support. **Community foundations**, the most typical type of public foundation, serve particular geographic regions and pool donations from many donors.

**Failed public charities** are organizations created with the intention of becoming public charities, but which failed to meet the public support test and instead became private foundations. Failed public charities are subject to the same requirements as other private foundations and must file IRS Form 990-PF. Organizations such as the Foundation Center that focus on private grantmaking foundations typically exclude these organizations since, as a

practical matter, they are very different from other private foundations, despite their identical legal status.

**Group Filers** are organizations with incorporated chapters, affiliates, or subordinate organizations that receive group exemption status from the IRS and file a group return form (Stevenson, Pollak, and Lampkin 1997). The group exemption status saves the organization from applying for tax-exempt status for each of its affiliates. However, even if the institutions have group exemption status, most of them do **not** file a group return form, but rather a Form 990 for themselves only, while their affiliates file separate IRS tax returns (ibid.). The Business Master Files (BMFs) contain group identification numbers assigned by the IRS for all entities under group exemption status. Based on the 1996 BMF, in 1992 there were only 332 group returns of 501(c)(3) entities covering as many as 31,404 affiliates. Over 60 percent of these affiliates (19,222 organizations) were located in a state different from the state that the "parent" organization indicated on the group return. (For more information refer to "Appendix C: Group Exemptions and Group Returns" of the *State Nonprofit Almanac 1997*). Group returns are very easy to identify: The organization name literally includes the words "GROUP RETURN."

### ***Operating, Supporting, and Mutual Benefit Public Charities***

Reporting public charities are divided into (1) operating public charities, (2) supporting public charities, and (3) mutual benefit public charities, identifiable through Core file variable LEVEL3. If NCCS data are being used for financial analysis, we recommend that the separation between these three groups be maintained in order to avoid double counting of finances and to distinguish these fundamentally different types of organizations. (Non-501(c)(3) organizations -- so-called *other exempt organizations* -- can also be grouped into these three categories but, unlike public charities, the vast majority are *mutual benefit organizations*.)

**Operating public charities** may engage in a variety of activities ranging from research and education to health care and anti-poverty work. They represent about 85% of filing organizations with values other than zero in at least one of the financial variables. **Supporting public charities**, such as United Way organizations or grantmaking community foundations, distribute funds to operating public charities. Both operating and supporting public charities function for the primary benefit of the general public. Together, they account for more than 90 percent of all reporting public charities.

The primary rationale for distinguishing between operating and supporting public charities is to avoid double counting of funds. The definition of supporting public charities used in the *Nonprofit Almanac*, therefore, does not include organizations that provide non-financial support to nonprofit organizations. Thus, an association of human services organizations that provides technical assistance and public policy analysis for its member 501(c)(3) organizations is considered an operating public charity.

**Mutual Benefit Organizations** are "essentially providers of private services to paying customers" (Weisbrod, 76). In 1992, these organizations received less than one percent of their revenue from contributions, gifts, and grants. Among the 548 mutual membership benefit organizations in that year, the category with the greatest number of organizations (209) was insurance providers and services (NTEE category Y20). Most of these 209 organizations were

self-insurance trust funds created by nonprofit organizations to provide themselves with liability insurance and workers compensation coverage. Two New York-based organizations, known jointly as TIAA-CREF, which provide pension and retirement benefits to employees in educational and research organizations, accounted for most of the assets and expenses within the mutual benefit category. With combined assets of \$113 billion in 1992, TIAA-CREF dwarfed all of the other organizations in this category. In 1998, however, both TIAA and CREF had given up their tax-exempt status.

The Mutual Benefit public charities are an anomaly among public charities but typical in other exempt organization categories. Almost all of the Mutual Benefit exempt organizations belong in non-501(c)(3) categories specifically intended for organizations that serve their members. Most prominently, these include trade associations (501(c)(6)) and social and recreational clubs (501(c)(7)).

### ***Non-Reporting Organizations and Zero-Fileers***

As already noted, two broad categories of public charities are not required to file Form 990. The first category generally includes organizations with less than \$25,000 in gross receipts, although the filing exemption threshold is slightly higher (up to a maximum of \$37,500) during the first three years of an organization's existence. Gross receipts is not a line item on the Form 990, but can be calculated from data on the Form 990. It is equal to gross income without subtractions for costs and expenses of inventory, asset sales, or rentals.

The second category of filing exemption covers religious organizations, as explained in the earlier section, *Business Master File of Exempt Organizations (BMF) and Forms 1023 and 1024*. Congregations, mission societies, organizations with "exclusively religious activities," and conventions or associations of churches are automatically excluded from the Form 990 filing requirements. This exemption also applies to most schools below the college level that are affiliated with congregations or religious associations. Other religious organizations must qualify as integrated auxiliaries for exception from the IRS filing requirement.

Religious organizations that receive the majority of their revenue from serving the general public, however, must obtain recognition from the IRS and are subject to Form 990 filing requirements. Religious colleges and universities, including Catholic University of America and Kentucky Christian College, health organizations, such as the Sisters of Mercy hospital chain, and human services organizations, such as Lutheran Social Services, fall into this category. About 15,000 religious organizations were required to file Forms 990 in circa 2001.

Although most religion-based organizations are not required to obtain IRS recognition of their tax-exempt status or to file annual information returns, many have obtained recognition and some file returns. Over 130,000 organizations, representing 15 percent of all registered 501(c)(3) organizations in the 2003 BMF, had obtained IRS recognition but were listed as not required to file because they were churches or related organizations. Most of these organizations were likely churches. But even assuming that all these organizations were churches, this number represents roughly 30 percent of the 341,000 religious congregations estimated to exist in the early 1990s (Hodgkinson and Weitzman, 1996, p. 39).

Typically, when an organization that is not required to file a Form 990 or Form 990-EZ does so anyway, the IRS enters the EIN, but not the financial information, in its database. All of the financial information for these filers is recorded as "zero" in the RTF. These organizations are called "**zero-filers**" and are generally excluded from the Core files and other NCCS analyses. In the 2001 RTF, there were about 42,000 public charity zero-filers and approximately 26,000 under other subsections of 501(c).

### ***Out-of-Scope Organizations***

Out-of-scope organizations are those that are included in the IRS databases but excluded in NCCS analyses of the data; in 2001, NCCS considered 935 reporting 501(c)(3) public charity organizations out-of-scope, based on their meeting one of the following five criteria:

- Foreign organizations (192 organizations)
- Organizations operating in US Territories or overseas (31 organizations)
- Organizations without geographic identifiers (633 organizations), though we tend to think these are US-based organizations.
- Organizations deemed to be out of scope by *Independent Sector* (45 organizations).
- Governmental organizations (34 organizations)

The first three categories, foreign organizations, organizations in US territories, and organizations without geographic identifiers, are easily recognized. Independent Sector staff identified the 45 additional out-of-scope entities in the third category through in-depth organization research. The fifth category, classifying out-of-scope governmental organizations, proves the most difficult and requires a two-step process. The first step is to develop criteria for determining out-of-scope governmental units. The second is to identify the organizations that meet the criteria. IRS regulations state:

A state or municipal instrumentality may qualify under section 501(c)(3) if it is organized as a separate entity from the governmental unit that created it and if it otherwise meets the organizational and operational test of section 501(c)(3). Examples of a qualifying instrumentality might include state schools, universities, or hospitals. However, if an organization is an integral part of the local government or possesses governmental powers, it does not qualify for exemption. A state or municipality itself does not qualify for exemption. (IRS, *Tax-Exempt Status for Your Organization*, p. 14.)

At first glance, differentiating between governmental and private nonprofit organizations appears to be an easy task. Unfortunately, the IRS Business Master File and Return Transaction File do not include any variables that clearly distinguish one from the other. Only in the SOI file, which contains variable E019 (collected from Form 990 Schedule A, Part VI), are determinations easily made. This field on the Form 990 asks organizations for the reason they are not private foundations. If an organization identifies itself as "a Federal, state or local government or governmental unit," it is designated as out-of-scope.

Often, the lines between governmental and private nonprofit organizations are not clear. For example, state colleges and universities are considered governmental organizations and are considered out-of-scope. Foundations and alumni associations affiliated with public universities, on the other hand, are in scope because they are established to receive private funds and fulfill a supporting role for their associated public institution.

The issue of out-of-scope determination is further complicated by the fact that a growing number of organizations are "quasi-governmental." This is particularly true of hospitals. For example, the Hospital Administrative District 4, a 501(c)(3) organization in Maine was created in the mid-1970s by 12 towns, all with their own tiny hospitals that were so small they were located in houses. The towns asked the state legislature to establish a unified hospital district, which then built a single hospital, Mayo Regional, to replace the small ones. The District is governed by a board of representatives from each of the towns. It receives some funds from private donations. Should such an entity be considered in or out-of-scope? The name, Hospital Administrative District 4, sounds like a governmental entity, yet it has an independent board of directors, receives tax-deductible private contributions, and has established 501(c)(3) status.

The National Association of Public Hospitals has identified seven legal structures used by public hospitals. Similar structures are found, albeit less frequently, among libraries and in the fields of public transportation, education, and economic and community development. The structures vary from semi-independent commissions to legislatively created public benefit corporations and hospital authorities to contracts with existing independent nonprofit corporations.

In the *Nonprofit Almanacs*, hospital districts, including the Hospital Administrative District 4, were considered out-of-scope and excluded from analyses. Other districts, authorities, and commissions (e.g., Central Texas Housing Authority) and organizations that appeared to be governmental and had more than \$100 million in total expenses were also excluded. Arguably, many more of the 206 smaller authorities and a small number of districts could have been excluded as well. As the example of the Maine hospital district shows, however, even an organization that appears by its name to be governmental can have attributes of public charities.

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