

How a Grant-Making Foundation Utilizes Charitable Statistics

Conference on Charitable Statistics

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I. Introduction

The Mellon Foundation uses charitable statistics for three primary purposes:

- (1) To identify areas where Foundation grantmaking is likely to be particularly effective;
- (2) To understand the likely impact of the Foundation's grantmaking in the context of funding from other sources (including other foundations, the government, and individuals);
- (3) To analyze policy issues affecting the not-for profit sector.

Given the short period of time, it is not possible to discuss every source of data on not-for-profits that comes to play in these purposes, but it is perhaps useful to discuss two of the primary national sources -- the Foundation Center and the IRS files -- in order to provide a more concrete sense of how foundations use charitable statistics. In addition, I would also like to comment briefly on micro data -- specifically audits, annual reports, and 990s -- produced at the level of the institution.

II. Foundation Center Databases

The material published, compiled, and maintained by the Foundation Center is of course a valuable asset to grantseekers

as they attempt to answer questions such as: Which foundations would be likely to consider funding a specific project? What is the process for applying to particular foundations for funding?

But beyond that, foundations also make regular (and significant) use of the Foundation Center's resources¹, often with quite different objectives. Examples of questions addressed by foundations include:

- What is the Mellon Foundation's role in relation to other foundation funders in a particular program area?
- How have the number and focus of grants to a particular institution (or set of institutions) changed over time?
- What is the magnitude of support from all foundations in a specific area?

It is perhaps instructive to consider several specific examples:

1. Testimony on the FY 1989 appropriation to the National Endowment for the Humanities; this presentation includes a comparison of NEH funding with private foundation funding in the humanities.
2. Comment on the Department of Education's "Nondiscrimination in Federally Assisted Programs: Title VI of the Civil Rights Act of 1964: Proposed Policy Guidance", March 4, 1992; this material includes an assessment of the distribution and level of foundation support for minority-

¹ The Mellon Foundation uses both the Grants Index and the Foundation Directory in three forms: published volumes, Dialog on-line searches, and direct requests to the Foundation Center.

targeted programs in higher education.

Comments (To be discussed in the context of trenchant examples)

1. The "inputs" -- annual reports and other material provided by foundations -- to the Foundation Center databases matter enormously. Clear and direct descriptions of grants (in annual reports) are imperative. Are there mechanisms to encourage more responsible reporting?

2. Are there ways to refine the taxonomy and search criteria so that they are more useful for researchers (or foundation users) without diminishing the utility of the database for grantseekers?

III. IRS Data: Business Master File Data²

I would like to begin by applauding the partnership between the NCES and the IRS. [Explain why this has been effective and improved the quality of data.]

It is easy to skip too quickly past the "nuts and bolts" use of this database; it is important to note that this basic listing of organizations (presented in the Cumulative List of Organizations) tells foundations to which organizations they can make grants without assuming expenditure responsibility.

This database also helps foundations consider the changing "demographics" of public charities:

- How has the number of public charities changed over time?

² This discussion includes both the data published directly by the IRS and the transformation of this data by the NCES.

Are there different trends by field or by region?

- What can be said about the changing form of organization of not-for-profits? Has there been substantial growth in the relative number of supporting organizations and/or subsidiary organizations?
- While the emergence of new organizations is relatively easy to measure, how should we account for organizations that "exit"?

Empirical questions such as these lead to important policy issues regarding the regulation of not-for-profits and the incentives which should encourage the vitality of these organizations.

Comments

1. There are problems -- particularly related to outdated codes and inconsistent classification -- with some of the data elements in the Business Master File which need to be corrected. [Note work of Ted Bozovich and his staff.]

2. The "stock" nature of the Business Master File makes it difficult to understand what has happened to a group of organizations over time. Is it possible add a longitudinal dimension to this resource at minimal cost? [Note year-to-year comparison in Nonprofit Almanac.]

3. Integration of the NTEE taxonomy with the BMF and other data sources maintained by the IRS is desirable.

IV. Micro Data

Case-by-case observations of not-for-profits within our grantmaking sphere and the universe more broadly defined suggest that the financial health of many of these institutions is problematic. As a foundation, many of these organizations (often those with important programmatic missions) come to us seeking emergency funding when their finances reach a critical juncture.

Because emergency funding is not a desirable course of action (and there is no way that a foundation can respond favorably to all claims of financial emergency), it is important to consider more generally the factors which affect financial and managerial health.

To this end, a number of questions related to the forma and availability of financial reports merit consideration. Examples include (also give relevant illustrations):

- Do financial statements obscure important information which is needed by funders (and other constituents) in order to provide appropriate assistance?
- Are there accounting practices which encourage (inhibit) sound financial management? Similarly, are there reporting conventions (either 990s or audits) which obscure an organization's true financial health?

Without clear and comparable financial data, it is difficult -- if not impossible -- to distinguish between institution-specific problems and systemic problems. [Note the data collection and analysis which accompanied the recent series of

grants to independent research libraries.]

Comments

1. Are there fundamental changes in fund accounting which should be considered in order to present a more realistic picture of institutional financial health? [Note the work of Gordon Winston at Williams.]

2. Market valuation of investments (particularly endowment) is necessary in order to evaluate changes in an institution's financial wealth.