

## APPENDIX I

# *Michigan's Nonprofit Sector*

Michigan's nonprofit sector involves a wide range of services and activities that make a significant difference in the quality of life in the state. The sector commonly is recognized for its public spirit, service to others, altruism, and ideals. Nonprofit action can occur unobtrusively, between individuals, or very publicly and visibly, through the work of statewide, national, or international organizations that meet complex health, education, or cultural needs.

### **DEFINING THE NONPROFIT SECTOR**

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The nonprofit sector is most easily defined by what it is not: *for profit*. The most frequently used definition is that of the Internal Revenue Service (IRS): The IRS classifies organizations as nonprofit under section 501 of the tax code, requiring them to operate for charitable, religious, scientific, literary, or educational purposes. Two special cases are allowed: (1) testing for public safety and (2) prevention of cruelty to children and animals. Nonprofit organizations are prohibited from devoting the majority of their resources to affecting legislation or participating in political campaigns.

In Michigan, nonprofits may be incorporated under the Nonprofit Corporations Act, to “. . . carry out any lawful purpose or purposes not involving pecuniary profit or gain for its directors, officers, shareholders, or members.” Internal Revenue Service recognition or Michigan incorporation is necessary for a nonprofit to claim exemption from Michigan tax liability. Nonprofits seeking donations also must satisfy the requirements of the Charitable Organizations and Solicitations Act, which defines a charitable organization as “. . . a benevolent, educational, philanthropic, humane, patriotic, or eleemosynary organization of persons which solicits or obtains contributions solicited from the public for charitable purposes.” Recognition as a Michigan charitable trust is required for all charitable organizations except hospitals, schools, religious organizations, and organizations funded by the United Way.

The legal and government definitions tend to capture only the largest and most active nonprofit organizations, but Michigan's nonprofit sector far exceeds the officially recognized set of organizations. There are thousands of local and informal groups undertaking nonprofit action that do not need or have legal recognition. Any formal analysis of the sector must rely on valid data, and this can be gathered only in regard to organizations that meet the legal definition of a

nonprofit. This means that much of the nonprofit sector is statistically invisible; nevertheless, the data that can be collected offer insight into the scale, structure, and character of Michigan nonprofits.

### **MICHIGAN NONPROFITS IN ACTION**

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Nonprofit organizations in Michigan provide a wide range of services. Among the major categories are the following:

- *Arts and amusement* nonprofits include radio and television broadcasting, dance education, orchestras, amusement services, museums, and art galleries
- *Recreation* nonprofits include camps and membership hotels
- *Health* nonprofits include producers of medical instruments, doctors and other health practitioners, nursing and personal care facilities, hospitals, medical laboratories, and home health care services (health nonprofits employ more people than any other component of the state's nonprofit sector)
- *Education* nonprofits include elementary and secondary schools, colleges and universities, libraries, and vocational schools
- *Social services* include individual and family services, job training, child daycare services, and residential care services (social service nonprofits are the second largest employer in Michigan's nonprofit sector)
- *Membership* organizations include business associations; professional, labor, civic, and social organizations; and religious groups

The level of nonprofit activity varies from place to place in the state. This geographic variation is important because where we live often determines the type and range of services available to us. Southeastern Michigan and major metropolitan areas host a full range of nonprofit services in the health, social services, arts, education, and recreation, while less populous and more remote areas have a limited range of nonprofit services.

### **ECONOMIC FORCE**

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Nonprofit organizations, through employment and spending, are important to the Michigan economy. In 1992, tax-exempt entities in the state raised and spent more than \$17 billion and employed a quarter of a million workers.

Nonprofit finances derive from many sources, such as fees for services, grants, and donations from the public, corporations, and foundations. Donated resources often allow nonprofits to reduce the cost of their services, permitting more people at all income levels to benefit. A 1997 survey found that 85 percent of respondents stated that they or a family member contributes to the nonprofit sector. Public policy can influence giving patterns; more than half of those surveyed stated that they would contribute more if the state tax credit for contributions were expanded.

## APPENDIX I: MICHIGAN'S NONPROFIT SECTOR

In 1992 (latest data available), the nonprofit sector employed almost 250,000 workers, approximately 6 percent of Michigan's total work force and an increase from 4 percent in 1987. It is telling that the public perception of the size of the sector is far greater than it really is. The 1997 survey found that more than 80 percent of respondents believe the sector to be more than one-fifth of the work force.

### TRUST AND CONFIDENCE

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As changes in the role of government place new expectations on the nonprofit sector, it is reassuring to know that Michigan residents place a good deal of trust in nonprofit organizations and see them as a positive force in their life. In 1997 three-quarters (75 percent) of Michigianians expressed "strong" or "some" agreement with a statement that nonprofits are honest and ethical in their use of funds. Moreover, roughly four of five (83 percent) believe that nonprofits are more effective in providing services now than they were five years ago.

### CONCLUSION

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The nonprofit sector is an important vehicle in delivering services that people and communities see as important to themselves and others. The continuing growth of the sector is testimony to its dynamism in face of changing economic, social, and political conditions.

### FOR ADDITIONAL INFORMATION

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(202) 736-5831  
[www.aspenist.org](http://www.aspenist.org)

Center for Nonprofits  
and Philanthropy  
[www.urban.org/ar96/ar96j.htm](http://www.urban.org/ar96/ar96j.htm)

Chronicle of Philanthropy  
[www.philanthropy.com](http://www.philanthropy.com)

Council of Michigan Foundations  
One South Harbor Avenue, Suite 3  
Grand Haven, Michigan 49417  
(616) 842-7080  
(616) 842-1760 FAX  
[www.novagate.com/~cmf](http://www.novagate.com/~cmf)

Independent Sector  
1828 L Street, N.W., Suite 1200  
Washington, DC 20036  
(202) 223-8100  
[www.indepsec.org](http://www.indepsec.org)

Internet Nonprofit Center  
[www.nonprofits.org](http://www.nonprofits.org)

Michigan League for Human Services  
300 North Washington Square, Suite 401  
Lansing, Michigan 48933-1293  
(517) 487-5436  
(517) 371-4546 FAX  
[www.pilot.msu.edu/user/mlhs](http://www.pilot.msu.edu/user/mlhs)

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Charitable Statistics  
*http://nccs.urban.org*

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United Way of Michigan  
300 North Washington Square  
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