

Chapter 4: Financial Diversification and Volatility in the Nonprofit and Voluntary Sector

The funding landscape is changing across the nonprofit and voluntary sector. We see this in new funding structures and practices, the ideas and values of which are reflected in the everyday relationships between nonprofit and voluntary sector organizations and their funders. The emerging funding regime is not only affecting the capacity of organizations to generate and deploy financial resources – that is, their financial capacity – it is also affecting all facets of nonprofit and voluntary organizations and their pursuit of mission.

The next two chapters provide an overview of our study findings based on our focus group consultations with over 100 organizations and our in-depth written survey of 51 nonprofit and voluntary organizations. In this chapter, we examine the financial health of participating organizations in detail, as well as the size and scope of the organizations that participated in our study. These data provide the base for the discussion which follows looking at the impacts of the changing funding regime – embedded in changing types and forms of funding – on nonprofit and voluntary organizations and the ways in which they are responding.

Together, our quantitative and qualitative findings paint a complex picture of a sector struggling to cope with change. The emerging funding regime represents both opportunities and challenges for nonprofit and voluntary organizations. New ideas about the importance of outcome evaluations and partnerships have galvanized exciting new developments and collaborations. Greater self-sufficiency through new earned income opportunities holds the potential of financial gains for some organizations. At the same time, evidence gathered from our focus groups and written survey reveals that organizations are struggling with higher levels of financial uncertainty and volatility, even as they have sought – largely successfully – to diversify and augment their funding base. Arts organizations, groups serving ethnocultural communities, and employment centres are all struggling with similar issues, issues related to the changing sources and mechanisms of funding.

4.1 Participating Organizations: Who are they and what do they do?

In Chapter 2, we noted that there is no one definition of the nonprofit and voluntary sector. The boundaries between the nonprofit and voluntary sector, state and private market are very “fuzzy.” One researcher has described the sector as “a loose and baggy monster” (Kendall and Knapp, 1995: 66). Moreover, the very diversity of the nonprofit and voluntary sector can be said to be its only definitive feature. Some organizations in a particular field of service (such as the arts for example) may well have more in common with government or business organizations in the same field than they do with other nonprofit and voluntary organizations in other areas of the sector. Understanding the experience of various subsectors is an important goal of this study. Is the impact of the growth in project funding, for example, the same in social services as in recreation and sport? Are large organizations better equipped to deal with financial insecurity?

However, as we noted earlier in this report, we did not look at all organizations in the nonprofit and voluntary sector. For the purposes of this study, we were interested in what Lester Salamon has called “public benefit organizations.” These are organizations that “exist primarily to serve others, to provide goods and services (including information and advocacy) to those in need or otherwise to

contribute to the general welfare” (Salamon, 1995: 54). (A more detailed description of our methodology is provided in Appendix A.)

We have excluded “funding agencies” such as the United Way and philanthropic foundations because, for the purposes of our study, these organizations have more in common with public and private sector funders than with nonprofit and voluntary organizations reliant on funding from these sorts of organizations. As well, we are excluding “member-serving organizations” such as the Canadian Medical Association, the Canadian Automobile Association and co-operatives. These groups, like business and labour groups and professional associations, are largely organized to pursue the interests of their members.

We have excluded “religious organizations” including those that pursue “essentially sacramental and religious functions” (Salamon, 1995: 54). While religious groups make up the largest single group of charitable organizations – an estimated 40.8% in 1999 (Sharpe, 2001: 18-19) – they rely extensively on a pool of private donors to finance their operations¹ and, in that sense, can be said to be member-serving organizations. These are not clear divisions. Certainly many religious organizations and unions, for example, are involved in “public benefit” work (See Handy and Cnaan, 2000; Hiemstra, January 1999). On the other hand, who can say that volunteers donating their time and energy on behalf of public benefit organizations are not self-interested. In surveys, volunteers state that one of the reasons they volunteer is to gain experience and community connections – or simply because it makes them feel good.² Thus, the distinction between public serving and member serving is not always clear. However, we have decided to exclude groups whose primary mission is to serve their members, and are heavily reliant on funding from members, in order to narrow the focus of our study to groups that might share the same types of opportunities and challenges in the pursuit and management of their financial resources.³

In addition, we have also excluded a select number of “public benefit organizations” – namely, universities and hospitals – which are transfer payment agencies almost exclusively reliant on government funding and regulation. The degree of control that governments exercise over these organizations raises questions about their independence and challenges their very inclusion in the nonprofit and voluntary sector. From our perspective, however, the biggest dilemma in including these groups in a funding study of nonprofit and voluntary organizations is that their size has been shown to skew the analysis of nonprofit and voluntary sector activity. Certainly, the scale of their fundraising activity dwarfs those of many other nonprofit and voluntary sector groups, as our portrait of the nonprofit and voluntary sector in the Appendix reveals.

It is also important to note that we have focussed largely on “formal” nonprofit and voluntary organizations. These are groups that have an “institutional” presence: they tend to be incorporated (96.0% of our survey respondents are incorporated; N=50), have established governance structures, and employ at least one paid staff. As such, they are good candidates to include in our study to explore the current dynamics of funding. This means that the true “grassroots” groups have not been included in the study. These groups rely almost exclusively on volunteer labour, do not tend to be incorporated, and typically have limited financial resources.⁴ One author has described these grassroots groups as the “dark matter ignored in prevailing ‘Flat Earth’ maps of the sector.” He estimates that the number of grassroots associations in the United States is roughly 30 per 1,000 population (Smith, 1997). In Canada that would result in a count of 940,000 grassroots associations.

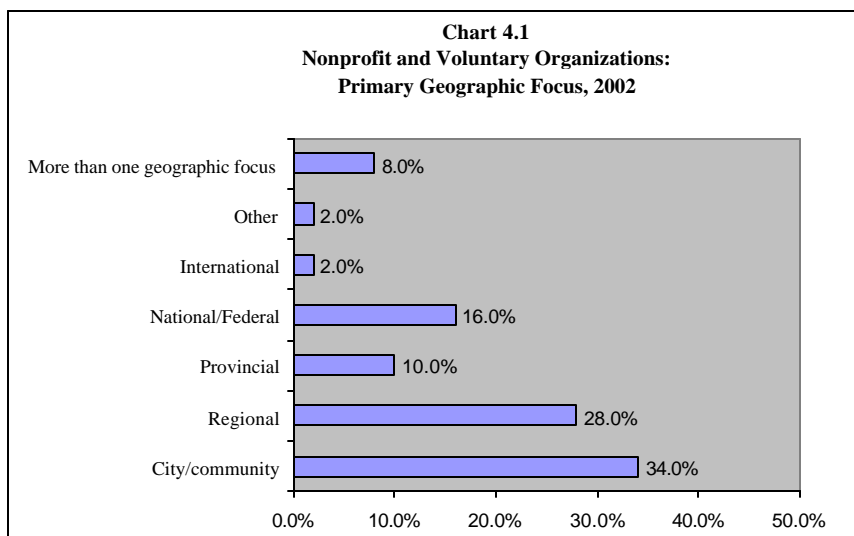
Certainly, many grassroots groups face the same types of struggles over funding that are documented in our study, but care should be taken in drawing broad conclusions about the nonprofit and voluntary sector as a whole.

Finally, we would like to draw your attention first, to the size and composition of our sample and secondly, to the time frame of our study. In addition to an extensive literature review and key informant interviews with people knowledgeable about funding in the nonprofit and voluntary sector, we conducted 11 focus groups with organizations across the country and administered a written survey. We approached host organizations from different regions and different subsectors to organize our focus groups. Hosts were asked to invite a broad cross-section of groups to attend our sessions, based on established selection criteria. Focus group participants, in turn, were asked to complete a written survey providing general information on the organization and its finances over the past five years, from 1997 to 2001. In total, 104 questionnaires were distributed and 51 responses were received, for a response rate of 49%. Given the small size of this sample, there are limits as to the inferences that this study will support. As well, it is important to note that the organizations that chose to attend the focus groups and to subsequently complete the survey clearly thought that funding for the nonprofit and voluntary sector was an important issue, and thus, cannot be said to be broadly representative. Still, we believe that the survey findings, in conjunction with the other sources of information gathered for this project, provide an accurate and telling picture of funding trends in the nonprofit and voluntary sector today.

With regard to the time frame, broadly speaking, Canada experienced positive economic growth through much of the period from 1997 to 2001. Indeed, 1997 marked a turnaround after years of stagnant economic performance following the deep recession of the early 1990s. For nonprofit and voluntary organizations, there was increasing government support after a period of severe cutbacks and restructuring.⁵ Among individual Canadians, average after-tax income – and the monetary value of charitable donations – rose between 1997 and 2000 as well.⁶ It is important to keep in mind that all groups, and certainly all regions of the country, did not experience the growth of the late 1990s to the same degree. Indeed, among many nonprofit and voluntary groups, the level of financial insecurity has persisted as governments and other funders have restructured their funding mechanisms. But for many in the nonprofit and voluntary sector, the economic climate of the late 1990s was on average, relatively positive. The current period of economic instability, however, is beginning to be felt throughout the nonprofit and voluntary sector as key funders – notably foundations and corporate donors – have been impacted by the meltdown of the equity market. Government funding has also become increasingly uncertain as the pressures on governments, particularly provincial and municipal governments, have grown.

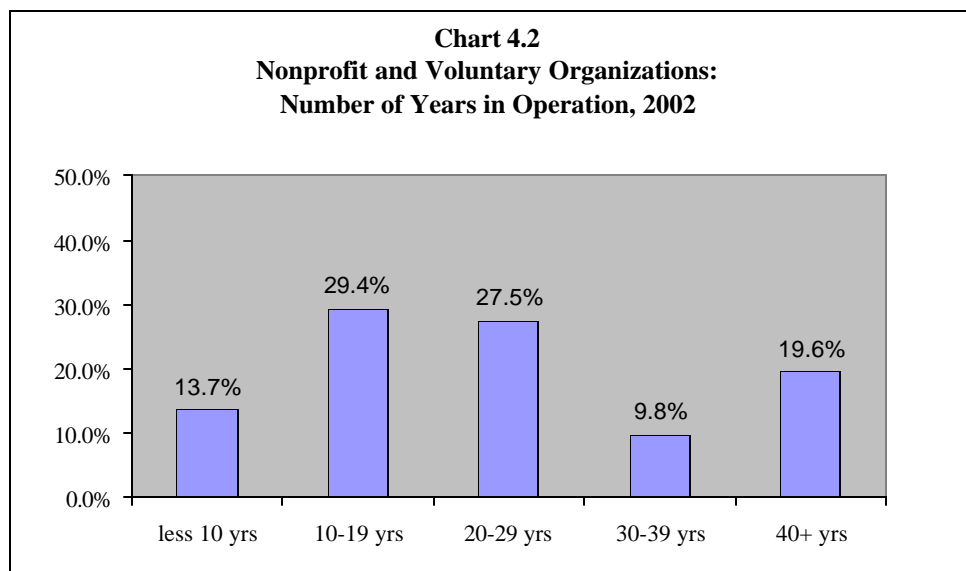
Age, Geographic Focus, Legal Status

The nonprofit and voluntary organizations that were surveyed for this study are a diverse group. As noted above, the large majority of groups surveyed were incorporated (96.0%). Over half are registered charities with the Canada Customs and Revenue Agency (55.1%); another 20.4% are registered as nonprofit organizations, and 22.4% are registered as both nonprofits and charities (N=49). The groups surveyed are largely community-based: 34.0% identify city/community/neighbourhood as their geographic focus of operation. Another 28.0% stated that they served a regional audience, including rural municipalities. Ten per cent were provincial in orientation, while another 16.0% had a national or federal focus. Only 2.0% of the sample were international organizations and another 8.0% had more than one geographic focus (N=50).



Source: CCSD Funding Study (N=50)

The age span of nonprofit and voluntary organizations was wide, as one might expect. The large majority of organizational respondents were well established. Over 85% have been in existence for more than 10 years. The largest group (29.4%) was started 10 to 19 years ago in the 1980s, while another one-quarter of organizations (27.5%) were started 20 to 29 years ago (N=48). The fact that over half of the organizations surveyed were started during the 1970s and 1980s is not surprising. There was a marked increase in government support for nonprofit and voluntary organizations, particularly through the 1970s (See Pal, 1997; Phillips, 1991). One-fifth of the organizations surveyed were over 40 years old. All of these groups have had a great deal of experience weathering changing funding environments.

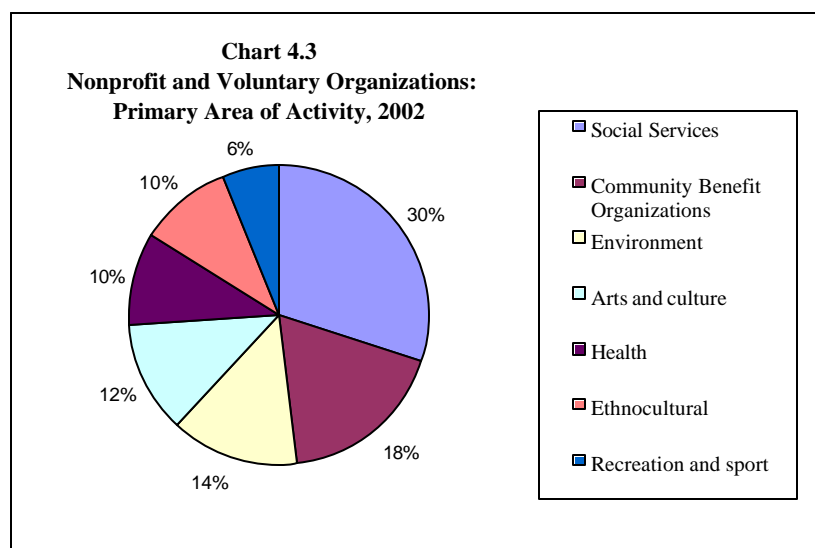


Source: CCSD Funding Study (N=48)

Programs and Activities

The nonprofit and voluntary groups surveyed for this project are active in a wide variety of areas. Chart 4.3 shows the breakdown of our respondents according to their primary area of activity. The largest group of nonprofit and voluntary organizations surveyed worked in social services (30.0%), followed by community benefit organizations (18.0%) and environmental groups (14.0%). Twelve per cent of the groups surveyed were involved in the arts; organizations that serve ethnocultural communities and community-based health services each made up 10.0% of respondents. Recreation and sports groups made up 6.0% (N=50). In the absence of national data, it is difficult to say how closely this group of nonprofit and voluntary organizations mirrors the composition of the nonprofit and voluntary sector across Canada. The new *National Survey of Nonprofit and Voluntary Organizations*, expected in 2004, will provide the first comprehensive portrait of the nonprofit and voluntary sector in all of its diversity.

In addition to asking about their main area of activity, the organizations were also asked to indicate the types of services or programs that they deliver and to indicate the top three in order of importance to their organization. Table 4.1 presents the diversity of activities, ranked from top to bottom according to the number of times organizations in the study selected each task. (All organizations indicated more than one activity or service so the total in the table exceeds 100%.) The two most common activities reported were organizing events, supervising or coordinating activities (90.5%) and providing information (90.5%). Three-quarters of the organizations indicated that they were involved in distributing information (76.2%) and providing public education (76.2%). By contrast, one-quarter were directly involved in providing care (23.8%), while only 7.2% were involved in making items. One-quarter of these groups also indicated that they were involved in activities not captured on the survey (N=48). Other activities included: production of live theatre; project management; community organizing; collection and distribution of food donations; knowledge brokering; and provision of low-cost services.



Source: CCSD Funding Study (N=50)

Table 4.1
Nonprofit and Voluntary Organizations: Types of Activities and Programs, 2002

Activities	All Activities* (% of organizations)	Primary Activity (% of organizations)
make items	7.2	-
provide care	23.8	12.5
other	26.2	12.5
professional consulting	31.0	-
research	45.2	4.2
lobbying government	45.2	6.3
provide goods & services to members	57.1	22.9
promote ideas	59.5	2.1
stimulate voluntarism	61.9	8.3
fundraising	61.9	2.1
provide advice	64.3	2.1
publish, distribute information	76.2	-
public education	76.2	18.8
provide information	90.5	2.1
organize events, supervise or coordinate activities	90.5	6.3

* Total will exceed 100%.

Source: CCSD Funding Study (N=48)

We then asked the respondents to indicate which of the many activities and services they provided was the most important to their organization. The findings are presented in the second column. Over one-fifth (22.9%) of organizations indicated that providing goods and services to their members was

their most important activity. Another 18.8% of groups indicated that providing public education was their main activity, while 12.5% stated that their main activity was providing care.⁷

In addition to asking about the range of programs and services offered, we asked the nonprofit and voluntary organizations approximately what proportion of their organization's efforts was devoted to programming or service delivery and what proportion was devoted to advocacy or public educational work. Predictably, the range of responses was quite wide. Nonprofit and voluntary sector organizations surveyed indicated that they devoted over half of their time to programming or service delivery, ranging from groups that devoted one-fifth of their time to this activity to those that reported spending all of their time engaged in service delivery. The trimmed mean – that is, the average of the middle 90% of groups – was 70.8%. In addition, organizations indicated that they devoted an average of 11.9% to promoting advocacy or public policy dialogue. Given the restrictions applied to charitable organizations that they commit no more than 10% of their time to advocacy-related work, this division of organizational effort could have been expected. An average of 14.1% of the groups' time was spent on other tasks (N=48).

Paid Staff and Volunteers

The scale of nonprofit and voluntary sector activity in Canada is very wide and extremely diverse. Organizations that rely exclusively on volunteers to pursue their goals stand side by side with very large organizations with staff complements numbering in the thousands. Some might rightly argue that a large hospital has less in common with a citizen's group promoting the preservation of local wetlands than the hospital does with a large for-profit organization in the business of providing care. One of the key distinctions is the presence of paid staff. It is a key turning point in the “institutionalization” of community-based nonprofit and voluntary groups.

Many of the organizations in our study started out as grassroots groups, operating from a “church basement,” but are now established organizations with paid staff. Over 90% of organizations surveyed for this project had paid staff in 2002 (N=50). This ranged from groups that had no paid staff, to an organization with a staff complement of 131. In 2002, nearly half of the groups surveyed had five to 19 paid employees (44.0%), one-quarter (24.0%) had fewer than five and over one-fifth (22.0%) had 20 or more. Ten per cent had no employees. On average, the groups in our study had 10 staff members (N=50).⁸ Health and community benefit organizations tended to have the largest staff complements, while recreation, sport, arts and cultural groups, as well as environmental groups surveyed for this study, were more likely to have between 5 and 19 staff members. Social service groups and organizations serving the ethnocultural community ranged from very small to comparatively large. Not surprisingly, the number of paid staff was directly related to the size of the organization as measured by total revenues.

Overall, organizations in this survey reported an increase in employment between 1997 and 2002. From Table 4.2, we see that there were fewer organizations with no paid staff in 2002 compared to 1997, the proportion falling by over half. At the same time, the share of organizations with between five to 19 staff members grew by 24 percentage points, more than doubling. The proportion with more than 20 employees grew by 22.2%, from 18.8% to 22.0%. And as we will see in the next section, most organizations also experienced an overall increase in revenues over the 1997-2001 period, clearly a factor in the increase in staffing levels evident here.⁹

Table 4.2: Distribution of Nonprofit and Voluntary Organizations by Number of Employees, 1997 and 2002

Total Number of Employees	1997 (%)	2002 (%)	Percentage share increase / decrease (%)
none	24.0	10.0	-14
under 5	38.0	24.0	-14
5 to 19	20.0	44.0	24
20 or more	18.0	22.0	4
trimmed mean (#)	7.2	10.2	
median (#)	4.0	7.0	

Source: CCSD Funding Study (N=50)

The two tables below provide a more detailed snapshot of employment among the respondent organizations, by looking at the changing composition of their labour force. Most of the job increases in this sample of nonprofit and voluntary organizations were full-time jobs. The average number of full-time jobs was 4.6 in 1997 and 7.2 in 2002 (See Table 4.4). We see that the percentage share of organizations with no full-time staff fell over this period, while the percentage share of organizations with more than five full-time staff grew. At the same time, part-time employment grew as well but not by as much. The average in 1997 was 1.9, rising to 2.2 in 2002. The percentage share of organizations with no part-time staff actually dropped, while those with 1 to 5 part-time staff grew by almost 50%.

The growth of “good jobs” was also evident when we examined the proportion of permanent versus contract positions over this period. There was a significant gain in the average number of permanent positions in the organizations surveyed, from 4.7 in 1997 to 7.4 in 2002. The percentage share of organizations with no permanent staff positions fell by 10 percentage points, while those with over five permanent positions grew by the same percentage share. But as with part-time employment, we also see an increase in the proportion of contract positions. The average for survey respondents stayed the same at 2.1, but the proportion of organizations with between one and five contract positions grew by 10 percentage points.

By way of comparison, the employment rate grew by 2 to 3 percentage points a year over this time period, tapering off after 2000 when employment growth fell to 1.1%. One would then expect to see increases in employment in the nonprofit and voluntary sector as well. As we see, there has been growth in full-time and part-time employment, as well as in permanent and contract positions, consistent with overall trends in the economy and the overall increase in aggregate revenue among this group of nonprofit and voluntary sector organizations (data presented below).

Table 4.3: Distribution of Nonprofit and Voluntary Organizations by Number of Full-time and Part-time Employees, 1997 and 2002

Employment Status	1997 (%)	2002 (%)	Percentage share increase / decrease (%)
number of full-time staff (perm + contract)			
none	30.0	16.0	-14
under 5	36.0	38.0	2
over 5	34.0	46.0	12
average mean (#)	4.6	7.2	
median (#)	2.0	4.0	
number of part-time staff (perm + contract)			
none	50.0	32.0	-18
under 5	34.0	50.0	16
over 5	16.0	18.0	2
trimmed mean (#)	1.9	2.2	
median (#)	0.5	2.0	

Source: CCSD Funding Study (N=50)

Table 4.4: Distribution of Nonprofit and Voluntary Organizations by Number of Permanent and Contract Employees, 1997 and 2002

Employment Status	1997 (%)	2002 (%)	Percentage share increase / decrease (%)
Number of permanent staff (ft + pt)			
none			
under 5	30.0	20.0	-10.0
over 5	34.0	34.0	--
	36.0	46.0	10.0
trimmed mean (#)	4.7	7.4	
median (#)	3.0	4.0	
number of contract staff (ft + pt)			
none			
under 5	56.0	44.0	-12.0
over 5	24.0	34.0	10.0
	20.0	22.0	2.0
trimmed mean (#)	2.1	2.1	
median (#)	0.0	1.0	

Source: CCSD Funding Study (N=50)

Nonprofit and voluntary organizations draw on volunteers as well as paid staff. Volunteers are critical to the nonprofit and voluntary sector. While many organizations become more “institutional” and “professional” over time, volunteers continue to play key roles in governance, programs and services, communications, fundraising and outreach.¹⁰ The availability of volunteers is especially important in a context of reduced resources; nonprofit and voluntary organizations do report turning to volunteers in their efforts “to do more with less.”¹¹ That said, recruiting, training, and retaining skilled volunteers is very time consuming and costly. Like any resource, an organization may or may not be able to make use of it. The presence of volunteers represents its own challenges and opportunities for organizations pursuing their mission within the confines of the new funding regime.

In our sample, 96.0% of respondents reported that they benefited from volunteer labour (N=50). On average, the responding organizations “employed” an average of 93.5 volunteers in 2002, an increase of 31.7% from 1997.¹² Recreation, sport, arts and cultural groups reported the highest number of volunteers in 2002, followed by community benefit organizations. Ethnocultural associations reported having the fewest volunteers: 60% relied on 25 volunteers or less in 2002. Smaller organizations tend to have fewer volunteers – as opposed to what one might think – while larger organizations – those with revenues over \$500,000 were more likely to report having 100 or more volunteers in the past year. While smaller organization might well benefit from having volunteers given the size of their budgets and the availability of paid staff, it is clearly the larger organizations in our study that appear to have the capacity to recruit and manage volunteers.

In Table 4.5, we see that the distribution of volunteers has changed somewhat. Responding organizations seem to have benefited from an increase in the number of volunteers contributing to their organizations over the past five years. This is consistent with the finding that nearly half of the organizations surveyed (47.8%) stated that they experienced increased turnover of volunteers over this period, compared to 15.2% that stated that volunteer turnover had decreased, and 37.0% that reported no change (N=46). Overall, these findings suggest that the groups surveyed for this project have been successful in recruiting and retaining volunteers.

Table 4.5: Distribution of Nonprofit and Voluntary Organizations by Number of Volunteers, 1997 and 2002

Number of Volunteers	1997 (%)	2002 (%)	Percentage Share Increase / Decrease (%)
less than 25	34.1	29.3	-4.8
25 to 49	17.1	17.1	0.0
50 to 99	26.8	24.4	-2.4
over 100	22.0	29.3	7.3
trimmed mean (#)	71.0	93.5	
median (#)	34.0	50.0	

Source: CCSD Funding Study (N=41)

Taken together, these data suggest that nonprofit and voluntary sector organizations are engaged in a wide variety of activities, many of whom have been in operation for many, many years. This

group of nonprofit and voluntary organizations has a secure base of paid employees and works with many volunteers in their communities. It is important to keep in mind that the organizations surveyed for this study do not necessarily reflect the experiences of all nonprofit and voluntary organizations. The project identified well-established organizations, particularly those with an interest in nonprofit and voluntary sector funding. That said, as the next section and our extensive consultations reveal, broad indicators of stability such as the number of full-time employment positions or organizational longevity do not necessarily indicate a stable financial situation.

4.2 Participating Organizations: How are they faring financially?

We turn now to an analysis of the financial situation of nonprofit and voluntary organizations participating in our study. The central goal of this project is to explore *how* funding affects organizational capacity to generate and sustain the resources necessary to meet mission. This section looks at the level and composition of funding among nonprofit and voluntary organizations participating in this study, a key step in this task. To this end, we asked study participants to help us answer a number of questions:

- How have levels of funding changed?
- Are nonprofit and voluntary organizations diversifying their sources of income?
- What is the current mix of funding sources and mechanisms?
- How has the mix of funding sources and mechanisms changed over time?

Our findings reveal that with few exceptions, this group of nonprofit and voluntary organizations has experienced positive financial health as measured by their increase in aggregate income. Indeed, participating groups have been very successful in diversifying their income bases. At the same time, these global trends mask more disquieting findings, namely marked volatility of organizational income from year to year and higher levels of financial uncertainty. These findings are clearly linked to the proliferation of contract and project funding – as seen in the changing mix and value of income sources and mechanisms – as well as intensified competition for resources, both of which are characteristic of Canada’s new funding regime. The ramifications of the financial volatility and uncertainty for organizations and the sector as a whole are explored in the next chapter.

How have levels of funding changed?

At the outset, we noted that the organizations participating in this study all had financial resources at their disposal. Looking first at assets, nine out of ten organizations surveyed for this project (88.0%) indicated that they had assets worth between \$1,400 to \$4,251,800 (N=41). The average value of organizational assets was approximately, \$370,000. However, the trimmed mean, that is the average of the middle 90% of organizations, is a better reflection of the average assets held. Using this measure, average assets for our group of respondents was \$250,000. The median was \$100,000. (The median is a measure of central tendency; it represents the mid point at which 50% of organizations have incomes below this point, and 50% of organizations have incomes above it.) Less than half indicated that they had any debt (42.0%), the average value of which was \$257,000. The trimmed mean of debt value was \$121,000, the median, \$24,000. The level of debt reported ranged from \$2,000 to \$2,955,400 (N=19).

Most organizations had assets of less than \$100,000 (46.3%), while another 34.1% had assets between \$100,000 and \$500,000, and 19.5% had assets over \$500,000. Similarly, the majority had

debt loads below \$100,000 (57.9%). Organizations serving ethnocultural communities had the lowest level of assets, as reported by survey respondents. Social service groups had the highest. With regard to debt, the number of respondents was too small to break down by subsector.

In 2001, the nonprofit and voluntary organizations surveyed administered approximately \$50.2 million in total, with an average of \$1,046,100.¹³ However, these data are misleading. As with the discussion of paid staff, the range of income was quite wide, from \$5,400 to \$7.9 million. The presence of a number of large nonprofit and voluntary organizations serves to push up the average. The median income of the organizations surveyed was actually substantially lower at \$276,600. If we look at the 5% trimmed mean, we see that it was \$779,400 in 2001 (N=48).

The size of the annual budget is an important indicator of the size of an organization and – studies have shown – the capacity of organizations to adapt to a changing environment.¹⁴ In our survey, the organizations appear to be larger than average as measured by income.¹⁵ We see that 18.8% of organizations had annual revenues of \$100,000 or less in 2001; 45.8% had revenues between \$100,000 and \$500,000 and the final group (35.4%) had revenues over \$500,000 (N=48) (data not shown). Roughly one-third of organizations surveyed, then, had revenues of more than \$500,000 in 2001, compared to only 15% of the organizations surveyed in a comparable Manitoba study.¹⁶ The bias towards larger organizations evident in these data should be kept in mind when interpreting the results of the study.

Nonprofit and voluntary sector organizations in different subsectors or fields of service tend to have different sized budgets. In 2001, health groups in our sample of organizations – shown in Table 4.6 – had the highest incomes on average, while organizations serving ethnocultural communities had the lowest (N=48). However, looking at median incomes tells a somewhat different story. Health groups again tended to have the highest incomes. Half of the health groups surveyed had incomes above \$1,349,700, while half had incomes below this point. Environmental organizations, however, had the lowest median incomes at \$197,000. This suggests that there is a wide variation in incomes among environmental groups in our sample, with a number of high-income organizations pulling up the average for the subsector. With the exception of ethnocultural organizations, the variation in budget size within each subsector would appear to be greater than variation in budget size between groups.

Table 4.6: Nonprofit and Voluntary Organization, Average and Median Income by Subsector, 2001

Field of Service / Subsector	Trimmed Mean (\$)	Median (\$)
health	2,202,600	1,349,700
social services	902,800	218,800
recreation, sport, arts and culture*	573,200	259,000
environment	860,700	197,000
community benefit	898,400	375,000
ethnocultural	373,500	299,000

Rounded to nearest \$100. For the purposes of this financial analysis, we have collapsed recreation and sport organizations with the arts and culture organizations in order to create a larger grouping to facilitate analysis. Source: CCSD Funding Study (N=48)

In order to get a sense of how nonprofit and voluntary organizations have managed financially over the past five years, we asked about the organization's income in 1997, 1999 and 2001 (the most recent fiscal year).¹⁷ Thirty-two organizations provided information for these three points in time. This period, by and large, was a period of economic growth and we see that the nonprofit and voluntary organizations in this survey have done well, experiencing positive levels of growth.¹⁸ Aggregate income increased by a third (36.8%) between 1997 and 2001, the bulk of the increase happening between 1997 and 1999 (data not shown). Even taking inflation into account (assuming an annual 2.0% growth in the consumer price index over this period), these gains are very strong. By way of comparison, real government expenditures between 1997 and 2001 (net debt charges) increased by roughly 20 per cent.

Similarly, the change in average income and median income was positive: average incomes – as measured by the trimmed mean – increased by 78.8% between 1997 and 2001, while median incomes increased by 39.0% as shown in Table 4.7. The substantial increase in average incomes was directly related to very large increases experienced by a few organizations. However, the fact that median incomes rose as well, suggests that the majority of organizations experienced growth through this period. The most marked growth occurred between 1997 and 1999.

Table 4.7: Nonprofit and Voluntary Organizations, Average and Median Income, 1997, 1999, 2001 (constant dollars)

Income	1997 (\$)	1999 (\$)	2001 (\$)	Change in Income (%)		
				1997-2001	1997-1999	1999-2001
trimmed mean	475,300	641,300	735,700	78.8	52.6	24.4
median	189,600	256,400	275,300	39.0	19.5	6.3

Rounded to nearest \$100. Fiscal years presented may vary slightly. Please note that the data presented for three points in time is based on a sample of 32 organizations, those that provided data for each year.

Source: CCSD Funding Study (N=32)

The growth in income is also revealed in Table 4.8. The share of low-income groups in our sample fell by 6.2 percentage points between 1997 and 2001. The proportion of middle-sized organizations – those with incomes between \$100,000 and \$499,999 – also fell between 1997 and 1999, but surged ahead in 2001 by 6.2 percentage points. The proportional share of groups with large incomes grew by 6.3 points between 1997 and 1999, and then fell by 3.2 points for an overall percentage point gain of 3.1 for this five year period.

Table 4.8: Percentage Distribution of Nonprofit and Voluntary Organization by Income Category, 1997, 1999, 2001 (constant dollars)

Income Category	1997 (%)	1999 (%)	2001 (%)
under \$100,000	25.0	21.9	18.8
\$100,000 to \$499,999	46.9	43.8	50.0
over \$500,000	28.1	34.4	31.3

Source: CCSD Funding Source (N=32)

Among our respondents, organizations in the health field and in the recreation, sport, arts and culture group all experienced a decline of aggregate income between 1997 and 2001 of 24.0% and 9.1% respectively. By contrast, community benefit organizations doubled their aggregate income. Social service and environmental groups also experienced large gains in aggregate income, whereas organizations serving ethnocultural communities experienced a smaller – yet still significant – gain of 25.4% over this period (data not shown). Given the small numbers of organizations in each subsector within our sample, however, the experience of one or two can dramatically affect the overall results in this kind of analysis. This is certainly true when we look at environmental groups. One group in particular had a dramatic proportional increase in income, going from \$3,000 annual income to \$170,000 over this period, as they secured contract funds. The increase in income among the organizations reported here, then, should also be interpreted with caution.

Another way to analyse the data is to look at the number of winners and losers over the five-year period. Between 1997 and 2001, of the 32 organizations that provided complete data, 26

experienced a gain in income – that is roughly eight out of ten. One-fifth experienced a decline, the majority of which were in the recreation, sport, arts and culture field. Most organizations experienced gains in the period between 1997 and 1999; there were 27 income “winners” in this period, compared to 21 in the period between 1999 and 2001.

Overall, most nonprofit and voluntary organizations surveyed in this study were very successful in generating financial resources through the late 1990s and early years of the new century. As the economy improved, so did the balance sheets of many of the groups. Yet, these same groups also report that they have been affected by cuts in funding from government sources and non-government sources. Three-quarters (75.5%) of nonprofit and voluntary organizations have been affected by cuts in government funding, while over half (55.1%) stated that they had also been affected by reductions in funding from foundations, individuals, corporations and the like (Table 4.9). Of those surveyed, ethnocultural organizations, as well as recreation, sport, arts and cultural groups were more likely to report having experienced cutbacks from government and non-government sources, consistent with the reductions in aggregate income for the latter reported above.

Table 4.9: Percentage of Nonprofit and Voluntary Organizations Reporting Cutbacks from Government and Non-government Funders, by Subsector, 2002

Field of Service / Subsector	Organizations Reporting Cutbacks in Funding	
	from government sources (%)	from non-government sources (%)
health	80.0	40.0
social services	66.7	46.7
recreation, sport, arts and culture	90.0	70.0
environment	50.0	66.7
community benefit	77.8	44.4
ethnocultural	100.0	80.0
Total	76.0	56.0

Source: CCSD Funding Study (N=50)

Similarly, six out of ten nonprofit and voluntary organizations surveyed were unsatisfied with their current level of funding: 22.7% were “very unsatisfied”, and 38.6% were “unsatisfied”. Only one-quarter (25.0%) said they were “satisfied” (no organization claimed to be “very satisfied”). The remaining group (13.6%) stated that they were neither satisfied nor unsatisfied (N=44). With the exception of social service groups, the majority of respondents were “very unsatisfied” or “unsatisfied” with their level of funding. Over 80% of environmental groups and organizations serving ethnocultural communities expressed their dissatisfaction with funding levels. These sentiments were echoed in our focus groups as well.

On first reading, these findings seem somewhat contradictory given the fact that most groups in our survey have experienced gains in income. However, these groups have also experienced a great deal

of turmoil in their funding situations. The sheer size of the income shifts involved is certainly a warning sign and an important finding from this study. Looking at the “winners” and “losers” over the 1997-2001 period again, we see huge income gains and losses. In Table 4.10, we identify two groups: “stable” organizations where income gains or losses between 1997 and 2001 were 10 per cent or less and “volatile” organizations where income gains or losses were 25 per cent or more, adjusted for inflation. Over five years, 25.0% of organizations experienced a relatively stable income situation. By contrast, 56.3% had income swings of more than 25 per cent, that is, over half of the organizations surveyed experienced significant volatility of income. Volatility in income was greatest among social service and environmental organizations.

Table 4.10: Percentage of Nonprofit and Voluntary Organizations by Stability / Volatility of Aggregate Income, 1997 – 2001

1997–2001 (%)		1997-1999 (%)		1999-2001 (%)	
Stable	Volatile	Stable	Volatile	Stable	Volatile
25.0	56.3	25.0	43.8	34.4	46.9

Stable income = income gains or losses equal to or less than 10%; Volatile income = income gains or losses equal to or more than 25%.

Source: CCSD Funding Study (N=32)

The volatility of income reveals the “feast or famine” conditions that exist for many in the nonprofit and voluntary sector today. While some groups have been pushed aside all together, forced to close their doors, many others – including those surveyed in this study – are struggling year to year to create a base of financial security in a context of fluctuating income, related in large part as we will see below to surges in project income. The theme of financial uncertainty was raised time and again in the focus groups. Almost every respondent (95.7%) reported that funding reliability and certainty was an issue for their organization (N= 46). Six out of ten (59.1%) reported that the current sources of funding were not stable or reliable (N= 44), and 53.1% noted that they were less certain about the renewal of their funding today than they were five years ago (N= 49). Indeed, groups that experienced the greatest swings in income were also more likely to report concern about funding instability than groups with more stable funding histories: 66.7% compared to 57.1% (N=27). These data illustrate the contention that while the amount of funding is obviously critical, *how* nonprofit and voluntary organizations are funded is equally, if not more, important in many cases. The very uncertainty of funding is evidence of the emerging funding regime and the growing dominance of the project or contract sources of funding.

Are nonprofit and voluntary organizations diversifying their sources of income?

Nonprofit and voluntary sector organizations derive their income from a variety of sources: donations, government grants and payments; membership fees; income from commercial ventures; income from other nonprofit organizations such as foundations or religious organizations. (In addition to direct payment from these sources, nonprofit and voluntary organizations are also heavily dependent upon in-kind support from individuals and businesses in their communities as well governments and other charitable organizations.) Although this list of income sources may

seem extensive, not all organizations are able – or in fact want – to take advantage of each source. There are different funding patterns or mixes evident across the nonprofit and voluntary sector, each linked to the diverse structures, mandates and services of nonprofit and voluntary organizations. As well, the ability of organizations to pursue different funding sources is also uneven. What is certain, as is evident from our survey and focus group findings, is that nonprofit and voluntary organizations are juggling an increasingly diverse and complex mix of funding sources and mechanisms.

In our survey, 87.5% of organizations surveyed received income from government sources, while over 90% raised funds from private sources, including individual donations, private foundations, religious organizations, and the United Way. What is also interesting to note is the extent to which nonprofit and voluntary groups are involved in income generation activities – that is, the selling of goods and services to members, other commercial activities such as museum gift shops, or investments. Among survey participants, 75% relied on income from earned income activities.¹⁹

Looking at a breakdown of sources, we see that over half of the organizations received grant income from government sources (56.3%), while seven out of ten (70.8%) had project or program funding. Only one out of eight (12.5%) derived income from contracts that were competitively tendered. And one-quarter (27.1%) received income from a public foundation such as the Alberta Sport, Recreation, Parks and Wildlife Foundation in 2001 (N=48).

Overall, the greatest number of nonprofit and voluntary groups in this study received income from private sources. Over half (56.3%) received individual donations in 2001 and 10.4% had an endowment which produced an income stream. Six out of ten generated revenues from fundraising activities in 2001. One-third of nonprofit and voluntary organizations surveyed received United Way funding, while 43.8% were successful in securing funds from private foundations, the bulk of which in the form of project or program funding. Looking at corporate donations, 43.8% of organizations received philanthropic donations from corporations; a smaller number (25.0%) received sponsorship dollars.

Over half (58.3%) of the organizations received income from membership dues or fees. At the same time, over one-third (37.5%) generated income through commercial activities and private investments such as rental properties or securities.

In brief, the overwhelming majority of organizations surveyed relied on government sources of funding as well as private giving. Earned income was also a stream of revenue for three-quarters of the groups.

Table 4.11: Percentage of Nonprofit and Voluntary Organizations Claiming Each Source of Income, 2001

Income Source	% of Organizations Claiming Each Source
Government Funding (N=42)	
Grants	56.3
Contributions	70.8
contracts	12.5
public foundations	27.1
other government funding	10.4
Subtotal	87.5
Private Giving (N=44)	
individual	56.3
corporate	43.8
union	6.3
endowment	10.4
sponsorship	25.0
united way	33.3
private foundations	43.8
fundraising	60.4
other private giving	20.8
Subtotal	91.7
Earned Income (N=36)	
fees / dues	58.3
commercial activities	37.5
investments	31.3
other earned income	16.7
Subtotal	75.0
Other Income	4.2

Source: CCSD Funding Study

The following income concentration / diversification typology provides a snapshot of the funding diversity of nonprofit and voluntary organizations. Sample organizations were divided into four groups according to the number of income sources by subsector. It is important to note that this typology does not necessarily capture all of the income sources that particular organizations have. Rather, it counts the number of different types of income sources – 19 of which are listed in Table 4.11 – organizations identified in the survey. For example, an organization might have a number of contracts with one level of government or another, yet in our table this source is only counted once.

This is not just a decline in the value of grant income. There was a real decline in the number of organizations actually drawing grant income.

Table 4.12: Percentage of Nonprofit and Voluntary Organizations Claiming Each Source of Income, 1997, 1999, 2001

Income Source	1997 (%)	1999 (%)	2001 (%)
Government Funding			
Grants	62.5	68.8	53.1
Contributions	65.6	75.0	81.3
Contracts	18.8	12.5	18.8
public foundations	9.4	37.5	34.4
other govt funding	9.4	12.5	12.5
Subtotal	87.5	96.5	93.5
Private Giving			
Individual	46.9	50.0	62.5
Corporate	31.3	43.8	50.0
union	3.1	6.3	6.3
endowment	3.1	6.3	15.6
sponsorship	9.4	21.9	21.9
united way	31.3	37.5	37.5
private foundations	25.0	43.8	46.9
fundraising	56.3	62.8	68.8
other private giving	25.0	25.0	28.1
Subtotal	78.1	90.6	93.8
Earned Income			
fees / dues	50.0	53.1	59.4
commercial activities	43.8	43.8	46.9
investments	34.4	37.8	40.6
other earned income	21.9	18.8	24.9
Subtotal	68.8	75.0	78.1
Other Income	3.1	3.1	6.3

Source: CCSD Funding Study (N=32)

Overall, organizations relying on government sources of funding increased from 87.5% in 1997 to 93.5% in 2001. It is interesting to note that the number of organizations relying on government sources increased by 9.0 percentage points between 1997 and 1999, and then fell back 3.0 percentage points between 1999 and 2001. By contrast, there was a consistent increase in the numbers of organizations identifying earned income sources, from 68.8% in 1997 to 78.1% in 2001. This finding illustrates the growing impact of commercialization in the nonprofit and voluntary sector, as increasing numbers of organizations pursue earned income opportunities, above and

beyond the pursuit of government contract and project work. The largest increase was in the number of groups tapping private sources: 15.7 percentage points. Among the organizations surveyed, organizations are now as likely to have funding from private giving sources as from government sources.

The pattern of income diversification is evident when we look at the income concentration / diversification typology over time as well (Table 4.13). Earlier, we identified four groups of organizations based on their number of income sources. Organizations that were “highly concentrated” in 1997 were more likely to have “concentrated” or “diversified” funding profiles in 2001. The organizations that had between three and five funding sources and between six and eight funding sources – described here as having “concentrated” or “diversified” funding – were less likely to have experienced change. Two-thirds of these groups had the same funding profile in 2001. However, over one-third of groups described as “concentrated” did become more diversified. Among “diversified” organizations that experienced change, an equal number increased and decreased their number of income sources.

4.13: Distribution of Nonprofit and Voluntary Organizations by their Number of Income Sources, 1997, 2001

Income Concentration / Diversification Typology, 2001	Income Concentration / Diversification Typology, 1997			
	Highly Concentrated (%)	Concentrated (%)	Diversified (%)	Highly Diversified (%)
Highly Concentrated	16.7	-	-	-
Concentrated	66.7	63.6	16.7	-
Diversified	16.7	18.2	66.7	-
Highly Diversified	-	18.2	16.7	100.0

- = no cases.

Source: CCSD Funding Study (N=32)

Looking at individual sources of income, more organizations received income from four particular sources: public foundations, private foundations, corporate philanthropy, and government contributions; these are all significant sources, by and large, of project funding. The number of nonprofit and voluntary organizations in our survey successfully applying to public foundations increased by 266.0%: one-third (34.4%) of participating groups claimed public foundation income in 2001, up from 9.4% in 1997. The number of organizations claiming private foundation income increased as well over this period by 87.6%. Almost half of organizations had income from private foundations in 2001. Similarly, there was an increase in organizations receiving income from corporations – both donations (59.7% increase over the five years) and sponsorships (133.0% increase over the five years). (Keep in mind that only one-fifth of participating groups claimed sponsorships as a funding source in 2001, up from one-in-ten five years ago.)

The increase in the number of organizations relying upon private and public foundations and corporate philanthropy is an important finding from this study. Diversification of income sources is well advanced among Canadian nonprofit and voluntary organizations. However, the most

significant trend – certainly in terms of its financial impact on organizations discussed below – is the decline in the number organizations drawing grant income from government and the increase in organizations reliant on government contribution or project funding. Between 1997 and 2001, the percentage of organizations relying on grants fell from 62.5% to 53.1%, a decrease of 15.0%. There had been an increase in organizations relying on grants between 1997 and 1999, but these gains were more than eroded by 2001, as grant sources were cut back. On the other hand, organizations relying on contributions steadily increased, from 65.6% of organizations in 1997 to 81.3% in 2001. This represents an increase of 23.9% in the number of organizations relying on government contribution income. The growing prevalence of project funding, **both** from government and non-government sources, is a key factor behind the volatility of income reported earlier.

What is the current mix of funding sources and mechanisms?

The previous section examined the number of income sources that nonprofit and voluntary organizations have. Next, we look at the changing mix of funding sources and mechanisms. What proportion of the total funding envelope do individual sources of income represent? What are the dominant sources of income and how is this changing?

In Table 5:11 we showed the number of organizations relying on the various sources of income. Table 4.14 shows the importance of government as a source of funding for nonprofit and voluntary organizations participating in this study: 60.7% of aggregate annual income of these organizations came from government sources in 2001, including public foundations (N=48). One fifth (18.8%) came from private giving and another fifth (20.5%) came from earned income.²¹

On average, the organizations surveyed received far larger sums of money from government sources compared to private giving and earned income: \$455,700 compared to \$146,300 and \$143,500. Of nonprofit and voluntary organizations reporting government income, half received less than \$168,300 while half received more. The median value of private giving and earned income was \$64,500 and \$32,000 respectively (see Table 4.15).

When we look at each individual source in the table, we see that contributions – here defined as government project or program funding – and contracts that have been competitively tendered made up two-thirds (67.8%) of aggregate government funding. By contrast, grants constituted a little over one-quarter (27.7%). Public foundations made up 4.0% of government funding in 2001 among organizations surveyed.

Interestingly, among government sources, the average value of contract income was the highest (\$400,300). While only six organizations had contract income, the value of these awards was very high, pushing up the average for the entire category. The trimmed mean of contribution (project / program funding) agreements – a much more common funding vehicle – was significantly lower at \$287,900. Average grant income was \$93,800. Again, the median value of these sources was lower than the average value, suggesting the wide differences in the value of government funding among the responding organizations (See Table 4.15).

Table 4.14: Distribution of Income of Nonprofit and Voluntary Organizations by Source of Income, 2001

Income Source	Distribution of Income, Major Source (%)	Distribution of Income, All Sources (%)
Government Funding		
grants	27.7	16.8
contributions	58.9	35.8
contracts	8.9	5.4
public foundations	4.0	2.4
other govt funding	0.4	0.2
Subtotal	100.0	60.7
Private Giving		
individual	8.3	1.6
corporate	7.6	1.4
union	1.1	0.2
endowment	1.1	0.2
sponsorship	7.9	1.5
united way	16.1	3.0
private foundations	35.3	6.6
fundraising	12.3	2.3
other private funding	10.3	1.9
Subtotal	100.0	18.8
Earned Income		
fees / dues	32.9	6.7
commercial activities	58.0	11.9
investments	2.2	0.5
other earned income	6.8	1.4
Subtotal	100.0	20.5
Other Income		0.05

Source: CCSD Funding Study (N=48)

Under private giving, there are many possible income sources. Among the organizations surveyed, private foundations provided the largest share of funds by a substantial margin: private foundations formed about one-third (35.5%) of aggregate private income. The average value of private foundation awards was \$65,700 but the median value was \$13,000. Thus, only a few among the 21 that received funding from private foundations received a substantial amount.

The United Way was the second largest source of private funds at 16.1%, followed by fundraising initiatives undertaken by the individual organizations (12.3%). The United Way was a key source of income for groups in receipt of these funds; the average value of allocations from this source was higher than other private awards at \$78,800. The median value of United Way funding was \$57,900 for the 16 groups in receipt of this funding, suggesting that most of these groups received a significant allocation.

Corporate donations provided the second smallest share of aggregate income at 7.6%, while sponsorships accounted for a slightly larger proportion (7.9%). Overall, corporate donations were 1.4% of the aggregate income of survey participants, a figure that reveals the very low levels of monetary support that private corporations provide to the nonprofit and voluntary sector in Canada.²²

Earned income is also a very important source of income for nonprofit and voluntary organizations, accounting for 20.5% of aggregate income. Of this source, commercial activities constituted the largest individual source of revenue, followed by dues and membership fees. This is somewhat surprising in that commercial activities among nonprofit and voluntary groups are not thought to be that common at this time. Over one-third of our participants reported income from commercial activities, making up 58.0% of aggregate earned income revenues. While many more organizations claimed membership fees as a source of income (58.3%), revenues from this source made up just one-third of aggregate earned income revenues. The average value of monies generated from commercial activities was almost three times higher than the average value of membership fees: \$172,600 compared to \$66,100. One can speculate that income from membership fees is low because nonprofit and voluntary organizations – particularly public interest groups as compared to mutual benefit groups – tend to charge relatively low fees. Certainly, focus group participants lamented that income from memberships rarely covered the costs associated with serving members.

Table 4.15: Nonprofit and Voluntary Organizations, Average and Median Income by Source, 2001

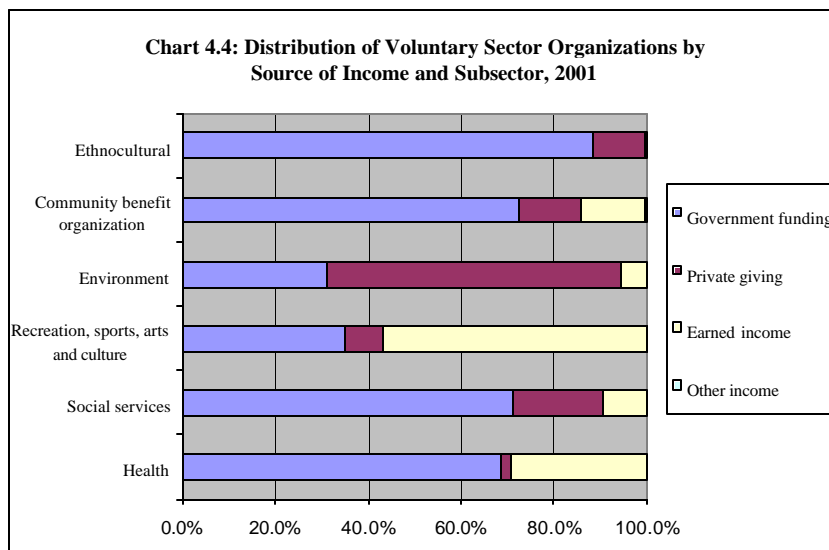
Income Source	Median (\$)	Trimmed Mean (\$)	Aggregate Value (\$)
Government Funding			
grants	65,000	93,800	8,310,100
contributions	65,000	287,900	17,655,000
contracts	232,700	400,300	2,678,300
public foundations	25,000	64,500	1,198,700
other govt income	18,000	24,100	121,400
Subtotal	168,300	455,700	29,963,500
Private Giving			
Individual	8,000	15,900	766,200
Corporate	15,500	27,700	706,700
union	30,000	N/A	103,000
endowment	5,000	18,400	98,200
sponsorship	15,000	52,200	734,900
united way	57,900	78,800	1,496,100
private foundations	13,000	65,700	3,272,100
fundraising	18,000	28,400	1,136,200
other private giving	22,300	68,200	955,100
Subtotal	64,500	146,300	9,268,500
Earned Income			
fees / dues	12,500	66,100	3,318,800
commercial activities	25,500	172,600	5,856,100
investments	6,000	12,600	227,000
other earned income	9,500	73,900	689,900
Subtotal	32,000	143,500	10,091,800
Other Income	11,500	N/A	22,900

Rounded to the nearest \$100. N/A = insufficient case count.

Source: CCSD Funding Study (N=48)

When we look at the funding mix of each of our subsectors in Chart 4.4, there are predictable differences. Health, social service and community benefit organizations rely on government sources for over half of their annual budgets. In the case of organizations serving ethnocultural communities, government is the source of almost 90% of their income. By contrast, recreation and sport groups as well as arts and cultural organizations derive the largest share of their income from earned income sources.²³ Environmental groups in this study relied primarily upon private giving to fund their activities. This finding is at odds with one from an earlier study that found that

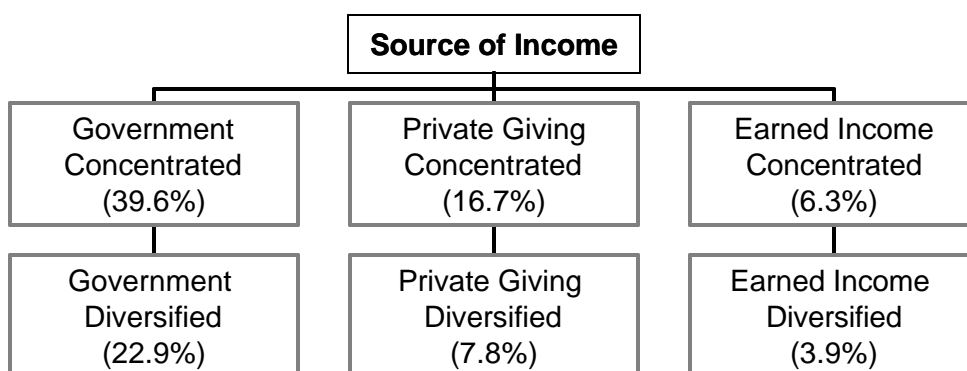
government was the principle source of funding for environmental organizations (Browne and Landry, 1996: 30).



Source: CCSD Funding Study (N=48)

The size of the organization as measured by their annual budget also seems to have an impact on the funding mix. Middle- and large-income groups were much more likely to be dependent upon government sources for their funding: 60.7% and 61.1% respectively. By contrast, organizations with total incomes under \$100,000 per year were more likely to rely on private giving: 58.7% of their funding came for private sources (data not shown). The other interesting finding is that larger organizations are more likely than smaller ones to generate earned income. Given the infrastructure necessary to pursue earned income opportunities, it is perhaps not surprising that larger groups dominate in this area.

Based on these data, three dominant funding patterns are evident among the nonprofit and voluntary organizations surveyed.²⁴ The largest group of nonprofit and voluntary groups (39.6%) fit a “government-concentrated” funding profile, here defined as relying on government sources for more than 65 per cent of their total income. The next largest group (22.9%) can be described as having a “government-diversified” funding profile, where between 45 and 65 per cent of their total income comes from government sources, but they also depend to a significant extent on other income sources. Lastly, 16.7% of voluntary groups are characterized by their high dependence upon private giving; these groups derive more than 65 per cent of their total income from private sources. Only very few (6.3%) were primarily dependent upon earned income as their major source of income (N=48).

Figure 4.2: Funding Profiles

Note: 2.1% of organizations relied in equal measure on the three major sources of funding.
Source: CCSD Funding Study (N=48)

The majority of community benefit groups and organizations serving ethnocultural communities surveyed had government concentrated funding profiles (55.6% and 100% respectively). By contrast, the majority of environmental groups (57.1%) surveyed were “private giving concentrated”. Organizations from other subsectors of the nonprofit and voluntary sector exhibited a range of different funding profiles. Larger organizations – those with total annual incomes over \$100,000 were more likely to have “government-concentrated” funding, whereas smaller groups were more likely to have a “private giving-concentrated” funding profile (data not shown). Very small samples sizes, however, compromises the generalizability of these data.

How has the mix of funding sources and mechanisms changed over time?

In Table 4.14, we saw that government was the largest source of nonprofit and voluntary sector funds in 2001: 60.7% of aggregate income came from government sources. This proportion has changed little over the past five years. In Table 4.16, we see that the proportion of government funding has grown slightly between 1997 and 2001, from 58.5% to 60.5%. The proportion of earned income has declined slightly, from 22.8% to 20.4%, while the proportion of private giving has remained essentially unchanged. Similarly, when we look at the patterns of funding dependence, there has been little change in the funding profile of nonprofit and voluntary organizations surveyed. The majority of organizations characterized as “government-concentrated” and “government-diversified” – the two dominant funding profiles, experienced no change between 1997 and 2001 (data not shown).

Table 4.16: Distribution of Nonprofit and Voluntary Organizations by Income by Source, 1997, 1999, 2001, N=32

Income Source	1997	1999	2001
	% of All Sources	% of All Sources	% of All Sources
Government Funding			
grants	8.1	5.4	4.3
contributions	34.8	42.5	44.1
contracts	15.0	10.2	8.4
public foundations	0.3	2.0	3.5
other govt funding	0.3	0.3	0.4
Subtotal	58.5	60.4	60.5
Private Giving			
individual	3.5	2.1	2.0
corporate	0.6	2.1	1.9
union	0.0	0.0	0.2
endowment	0.0	0.0	0.3
sponsorship	0.2	3.5	1.9
united way	3.3	3.0	3.4
private foundations	3.4	2.6	3.5
fundraising	3.8	2.5	2.8
other private income	3.8	3.4	2.9
Subtotal	18.6	19.3	18.9
Earned Income			
fees / dues	5.0	4.9	4.7
commercial activity	15.7	13.7	13.7
investments	0.6	0.6	0.6
other earned income	1.5	0.9	1.4
Subtotal	22.8	20.1	20.4
Other Income	0.1	0.1	0.1

Source: CCSD Funding Study (N=32)

There are, however, notable changes within the various major funding sources. Looking at government funding, the aggregate value of grant income and consequently, its proportional share of government funding fell between 1997 and 2001. In 1997, grants made up 13.8% of government funding, falling to 7.0% of government funding by 2001 – a loss of almost 50%. By contrast, the number one source of income – contributions / project funds – continued to grow in importance. The proportional share of contributions grew from 59.6% to 72.5%, an increase of 21.6%. Next, funding from competitive contracts actually fell during this period from 25.6% of government funding to 13.8% over the five-year period. In that there has been an increased emphasis on sources

of earned income generally, competitive contracts would not appear to figure prominently for this group of nonprofit and voluntary organizations. The other notable trend within government funding was the growth in the share of funds from public foundations, from 0.5% of government funding in 1997 to 5.8% in 2001. This finding is not surprising in light of the fact that governments are increasingly using public foundations to allocate funds to a variety of nonprofit and voluntary organizations.

For the most part, there was little change in the importance of various funding sources under private giving and earned income, with one or two exceptions. Among the organizations surveyed, the proportion of income derived from individual donations fell between 1997 and 2001, from 18.9% of private giving to 10.4%. At the same time, the proportional share of corporate donations rose quite significantly, from 3.4% to 9.8%, reaching 1.9% of aggregate organizational income in 2001. Similarly, there was a surge in sponsorship dollars, from 0.9% of private giving in 1997 to 18.1% in 1999, and then back down to 10.2% in 2001. This is related to an anomalous spike in income of one of the organizations surveyed. The share of funding from private foundations and fundraising activities tended to oscillate, going down and then up. However, the share of income from United Ways was relatively flat for those organizations in receipt of this funding. There was also little change in both the share of income derived from membership fees and from commercial activities.

We see greater change in the funding mixes of the different subsectors over time. Table 4.17 shows that the funding mix or profile of ethnocultural organizations and social service groups was fairly stable through our five-year period of study. However, the same cannot be said of organizations in other subsectors. For example, the share of income from government among health groups declined between 1997 and 2002, private giving assuming greater importance in the process. The share of government funding among recreation, sports, arts and cultural groups also declined as the share of earned income increased. The funding mix among environmental groups and community benefit organizations surveyed was even more erratic. The proportion of government funding for environmental groups, for example, fell by roughly ten percentage points between 1997 and 2000, only to increase by sixteen percentage points between 2000 and 2002. The increase in project funding – identified above – was clearly one of the key reasons behind the changing mix of income sources among environmental groups.

Table 4.17: Distribution of Nonprofit and Voluntary Organizations by Source of Income and Subsector, 1997, 2000, 2002

Subsector	Source of Income (%)					
	Health	Social services	Recreation and arts	Environment	Community benefit	Ethno cultural
1997						
government	59.1	68.7	42.7	45.6	67.0	94.3
private giving	38.9	19.1	5.1	53.2	20.1	5.7
earned income	2.0	12.2	52.1	1.2	12.9	0.0
1999						
government	54.1	70.3	36.0	35.5	78.4	97.6
private giving	43.9	16.5	5.9	63.3	13.8	2.4
earned income	2.0	13.2	58.2	0.9	7.8	0.0
2001						
government	52.8	65.9	34.8	51.3	74.2	96.0
private giving	45.3	22.5	6.6	47.6	10.7	4.0
earned income	1.9	11.6	58.6	1.1	15.1	0.0

Source: CCSD Funding Study (N=32)

The changing proportion of specific income sources is one piece of the financial puzzle. It is also important to consider how the value of these different sources and mechanisms has changed over time as well. We noted above that there has been an increase in the aggregate level of funding for this group of nonprofit and voluntary organizations between 1997 and 2001. Indeed, there has been an increase in the level of funding from each source of income. Over this period, the value of government funding and private giving increased by over half – 55.2% and 52.5% respectively – and funding from earned income sources increased by a third (34.2%). For all sources, most of the increases were registered between 1997 and 1999.

However, the aggregate data obscures some important differences among individual sources of income. The value of grant income fell for organizations surveyed by 20.9%, while the value of contributions increased by 89.7% (data not shown). Aggregate income from public foundations increased by a stunning 1,760.7% between 1997 and 2001, from \$60,000 to \$1,115,900 in constant dollars. Funding from the United Way also increased for this group of nonprofit and voluntary organizations by 55.5% as did aggregate income from private foundations (53.6%). The total value of corporate donations increased significantly, from \$135,600 in 1997 to \$593,500 in 2001. By contrast, individual donations fell by 15.9%, from \$751,400 to \$632,200. All income sources grouped under earned income increased, including income from commercial activities. It is interesting to note that aggregate revenues from earned income were \$3,337,700 in 1997, jumping to \$4,365,400 by 2002. This group of nonprofit and voluntary organizations appear to have met with some success in expanding into commercial activities.

Overall, these organizations have experienced success in increasing income from various income sources. While they have registered gains in all areas with the exception of grants, competitively

tendered contracts, and individual donations, their greatest success has been in sustaining and in fact increasing project dollars even as other sources of government funding fell. The percentage increase in the aggregate value of the other sources may appear large, but funding from contributions continues to dwarf other sources in terms of real dollars and as a part of the total funding mix (see Table 4.15).

4.3 Conclusion

In sum, this analysis reveals a mixed picture of the financial health of nonprofit and voluntary organizations surveyed in this study. There has been positive financial gain for most as these organizations have successfully diversified their funding streams.²⁵ In particular, organizations have been relatively successful in securing project or contribution dollars – both from government and public and private foundations. A significant number have increased their sources of earned income, a select few making headway in commercial ventures. At the same time, the proportional share of earned income declined slightly compared to income from government and private giving sources. Overall, there is a general and sustained shift away from traditional sources of core support for nonprofit and voluntary organizations such as grants, private donations, or even memberships, to project or contract based forms of funding from government and non-government sources.

The large-scale increase in project based funding, and income diversification more generally, is altering the mix and dynamics of funding within the nonprofit and voluntary sector. While the majority of organizations we surveyed posted positive balance sheets, these organizations and the many others to which we spoke reported high levels of financial uncertainty and instability associated with the growing dominance of project based funding and the erosion of support for core organizational tasks and functions. The volatility of their funding was certainly evident as many organizations surveyed experienced surges of project income over our period of study. However, their capacity to carry out and sustain their activities was compromised, according to study participants, by the typically short-term character of project funding, the high costs related to securing and administering these funds, intensive oversight and accountability requirements, and strict limitations on the expenditure of funds. The demands of juggling multiple funding sources have similarly undermined the financial capacity of nonprofit and voluntary organizations. While the experiences of this sample of Canadian nonprofit and voluntary organizations varied by subsector, region and funding mix, concerns about project based funding were paramount among all. Financial growth for many in the nonprofit and voluntary sector through the late 1990s and early 2000s came at a cost. We turn to a detailed examination of these costs in the next chapter.

Endnotes

¹ In 1994, places of worship received over 80% of their revenues from private giving and member contributions (Hall and MacPherson, 1997).

² The decision to contribute to an organization is a complex one. In 2000, the *National Survey on Volunteering, Giving and Participating* (NSGVP) reveals that almost all volunteers (95%) of all volunteers agreed that the reason they volunteer is to help a cause they believe in. Eighty-one per cent also stated that they wanted to put their skills and experience to good use. A little less than one-quarter stated that they volunteered in order to improve their job opportunities (Hall, McKeown and Roberts, 2001: 43).

³ It should be noted that many faith organizations are active in the provision of social services, for example, and are subject to the same types of funding pressures as the organizations surveyed in this study. However, we have elected to exclude all faith based organizations to narrow the focus of our study.

⁴ According to one study, 60% of all nonprofit and voluntary organizations have one paid staff person or less (Sharpe, 1994: 16).

⁵ Other recent studies of nonprofit and voluntary organizations examine the period through the mid 1990s when governments and many other funders were reducing levels of financial support following the economic recession of the early 1990s. The pictures painted in those studies predictably differ, as cutbacks were keenly felt throughout the nonprofit and voluntary sector. The conclusions with regard to global funding trends, however, are similar. (See United Way of Greater Toronto, 1996; Reed and Howe, 1999a; Hall and Reed, 1998).

⁶ The percentage of the population who made charitable gifts to organizations was the same in 1997 and 2000, but the total amount of donated increased by an estimated 11%, to \$4.9 billion. Donors in 2000 made fewer donations in 2000 than in 1997, but the average value of those donations was higher (\$259 in 2000 compared to \$239 in 1997) (Hall, McKeown and Roberts, 2001: 13).

⁷ In another study, Browne and Landry found that: 64% of groups were involved in organizing events; 50% were engaged in fundraising, providing advice and information, and educating the public; 40% promoted ideas. Only 13% of the organizations surveyed lobbied provincial governments, while 7% lobbied federal and municipal governments. (Browne and Landry, 1996: 22).

⁸ We have used the trimmed mean here, that is, the average of the middle 90% of organizations. In this way, we exclude groups with very large staff complements in order to give a more accurate reflection of all groups in the sample.

⁹ Not surprisingly, organizations reporting a decline in revenues between 1997 and 2001 were more likely to report have less than five staff members, or no staff members at all.

¹⁰ According to the NSGVP, most volunteering events and most volunteer hours were directed toward five types of organizations. Arts, culture and recreation (including sports) accounted for the highest percentage of volunteer events (23%) and volunteer hours (26%). These were followed by social service organizations (20% of events and 20% of hours), religious organizations (14% and 16%), education and research organizations (13% and 11%), and health organizations (13% and 9%). Other types of organizations (including environmental groups and international development) accounted for the remaining 17% of both events and hours (Hall, McKeown and Roberts, 2001: 40).

¹¹ See Howe and Reed, 1999b; Social Planning Council of Ottawa-Carleton, 1998; Municipality of Metropolitan Toronto, *et. al.*, 1997.

¹² The trimmed mean was used here again to derive the average number of volunteers among organizations surveyed.

¹³ Because the fiscal years of participating organizations differed, these data may represent 2001-02 or 2001. We have elected to use 2001 in the text to refer to the last fiscal year.

¹⁴ See Mark Alan Hager, “Explaining Demise Among Nonprofit Organizations,” PhD Thesis, Department of Sociology, University of Minnesota, 1999. This study reports on the closure of nonprofit organizations and explores the variety of explanations as to why. Drawing on a variety of analytical techniques including extensive interviews and event history analysis, the author concludes that being small and/or relatively young are “risk factors” for organizational failure. Similarly, loss of key personnel and the liability of expanding programs and organizational capacity beyond the capability of management also threaten the sustainability of nonprofit organizations.

¹⁵ Brown, Troutt and Boame state that the 101 Manitoba-based nonprofit organizations surveyed in their study had expenditures ranging from \$1,000 to \$3.5 million with average expenditures of approximately \$365,000 and a median expenditure of \$150,000 (Brown, Troutt and Boame, 2000: 203).

¹⁶ Betsy Troutt and Laura Brown conducted a similar survey of nonprofit and voluntary organizations in 1995. In their sample of 101 groups, 39% had revenues of less \$100,000, 47% had revenues of between \$100,000 and \$499,999, and only 15% had revenues greater than \$500,000. See note 15.

¹⁷ We asked participants to give us financial information for the most recent fiscal year, and then two years ago, and five years ago. Because the fiscal years of all of the organizations differ, financial information for the most recent fiscal year may be for 2001 or 2001-2002. There will be similar discrepancies between data for two years ago (1999 or 1999-2000) and five years ago (1997 or 1997-98). In the text, we use 2001, 1999 and 1997 for simplicity’s sake.

¹⁸ Real GDP grew between 1997 and 2001 by 16.4%. At the same time, the consumer price index rose 8.2 points (Statistics Canada, *Canadian Economic Observer*, Historical Data Supplement 2000/01, July 2001.)

¹⁹ In a 1996 study, Browne and Landry also showed the extensive range of income sources among nonprofit and voluntary organizations. Our own analysis of the 1999 charities data reveals that organizations in our survey have greater involvement with government funders than reported by Browne and Landry: 87.5% in our study compared to 79% in this study. There were notable differences in the reliance on individual donations (56.3% compared to 84%), United Way income (33.3% compared to 3%), fundraising revenues (60.4% compared to 82%), and commercial activities (37.5% compared to 50%) (Browne and Landry, 1996: 31).

²⁰ It is very difficult to ask for and receive complex organizational financial information on a survey instrument of this type. The authors made a decision to ask about 19 different possible income sources, cognizant that this approach would result in a bias towards greater funding concentration.

²¹ The proportion of government funding at 60.7% is equivalent to the estimate presented in Hall and MacPherson based on 1994 charities data (Hall and MacPherson, 1997).

²² David Sharpe found that corporations provided roughly 1% of nonprofit and voluntary sector revenues in 1994 (Sharpe, 1994).

²³ Please note that arts and cultural organizations tend to rely more heavily on government sources for income than do recreation and sport groups. In 1994, arts and cultural charities derived 50% of aggregate annual income from government sources, 10% from private giving, and 40% from earned income sources such as box office receipts. Recreation groups received 27% of aggregate income from government, 15% from private giving, and 58% from earned income. These differences have been hidden because we have had to collapse these two subsectors for the purposes of our analysis. (Hall and MacPherson, 1997).

²⁴ Hall presents a typology of funding profiles in his 1995 article, "Funding Charities: Dependency on Government and Implications of Cutbacks." He divides charities into four groups: government-concentrated funding; government-diversified funding; earned income-diversified funding; and donations-concentrated funding.

²⁵ Organizations working in the arts, culture, sport and recreation field and those serving ethnocultural communities were more likely to have experienced income losses between 1997 and 2001 according to our survey data.