NPQ’s Illustrated

Nonprofit Economy: 2nd Edition

This second edition of NPQ’s Illustrated Nonprofit Economy opens up the financing of the nonprofit sector. Based on 2009 data, the chart features the ten major sources of revenue for U.S. nonprofits in the top row, the ten major activity areas of charitable organizations in the bottom row, and lines, or pipes, indicating the relative amount of money flowing from each source to each activity area. The chart is based on data produced in cooperation with the National Center for Charitable Statistics, a program of the Center on Nonprofits and Philanthropy at the Urban Institute, as well as on Internal Revenue Service data from individual tax returns and nonprofit Form 990 and 990-PF filings by 501(c)(3) public charities and private foundations, and categorized using the national taxonomy of tax-exempt entities. Revealing the size and diversity of the nonprofit economy, NPQ’s Illustrated Nonprofit Economy depicts the various flows into the nonprofit sector, with 650,000 U.S. nonprofits, $1.5 trillion in revenue, 13 million employees, and 61 million volunteers.

The width of each pipeline is proportional to the dollar amount of the revenue stream (streams of $1 billion or less are not shown). The emerging picture is a complex set of revenue sources, with variations depending on activity area.

Each funding source—individuals, investments, government, and fees for service—has inherent characteristics, with distinct acquisition costs and conditions for recipients. (Often the funding sources with the fewest conditions are the most expensive to acquire—such as individual small donations—while federal funding is free to submit but arduous to receive.) A central issue not depicted in the chart is each revenue source’s downstream effect on organizations—let alone the cumulative effect of multiple (and sometimes contradictory) sources of funding.

For many nonprofit managers, this complexity is a defining fact of life, particularly for nonreligious activity areas that generate less revenue than do hospitals and nursing homes, colleges, and universities. Organizations active in health, human services, or community services frequently face convoluted combinations of funding sources, each with its own set of transaction costs, qualifications, timelines, policies, and so on.

For nonprofit managers who have moved from the business world, the reality that such a small portion of nonprofit funding is unrestricted and that each source can have completely different but equally elaborate preconditions for funding can be a shock. Nonprofit funders themselves are also often unfamiliar with these varying conditions of other funding sources, and naively assume that a large part of an organization’s other resources are somehow unrestricted. NPQ has published several tools for organizations to analyze the particular dynamics of revenue sources, including the reliability/autonomy matrix (NPQ winter 2005 issue) and cohort analysis (NPQ spring 2006 issue) to map the funding and expenditure contours of similarly situated organizations (by size, activity, geography, and age).

Finally, the chart rounds out the landscape with two additional views of the ten activity areas: total assets and ten-year revenue growth, which generally mirror the distribution of annual resources in the larger chart.

—Jon Pratt, NPQ contributing editor