Whither the Turn? The Ambiguous Nature of Nonprofits' Commercial Revenue

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According to popular accounts, the nonprofit sector has become increasingly commercialized in recent years. This article reviews the empirical literature on the commercialization trend and discusses why it is regarded as significant by scholars of civil society. It then provides fresh analyses of nonprofit revenue streams and concludes that, contrary to conventional wisdom, there has not been a "commercial turn," if this is to be understood as a new material reliance on earned, non-donated income by nonprofit organizations throughout the sector.

> *Massive change is occurring in the nonprofit sector. Seemingly isolated events touching the lives of virtually everyone are, in fact, parts of a pattern that is little recognized but has enormous impact; it is a pattern of growing commercialization of nonprofit organizations.*
> –Burton A. Weisbrod in *To Profit or Not to Profit: The Commercial Transformation of the Nonprofit Sector*

Scholars from disciplines across the social sciences, humanities and law have long been interested in civil society, that social space where human association is not coerced by state or market pressures (Smith and Grønbjerg 2006). Indeed, over the course of the past half-century a diverse and active community of researchers has coalesced to study all things nonprofit, philanthropic and voluntary, complete with its own professional associations (e.g., Association for Research on Nonprofit Organizations and Voluntary Action, the International Society for Third Sector Research), annual conferences and specialty journals (e.g., *Nonprofit and Voluntary Sector Quarterly*, *Nonprofit Management and Leadership*, *Voluntas*) (see Smith 2003). Advanced repeatedly in essays, journal articles and books, one of the tenets of contemporary scholarship on civil society is that the nonprofit sector has become increasingly commercialized in recent decades – meaning that nonprofit organizations have relied more and more on *earned* income – and with profound consequence.

The contention that reliance on commercial sources of revenue has increased in recent years, while much discussed, has not received adequate scrutiny. This article questions the commercialization assumption by treating it as a hypothesis that can be tested.

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Background

Social scientists who study nonprofit organizations have recently written about the sector's "commercial turn" (Frumkin 2002:146), generally understood as nonprofits' increased reliance on earned income to support their missions, as opposed to, say, donations or grants. According to these accounts, the nonprofit sector is undergoing "major" (Backman and Smith 2000:370), "profound" (Young and Salamon 2002:423), and "massive" (Weisbrod 1998:1) changes. Many have commented on nonprofits' increasing reliance on commercial activities (Austin, Gutierrez, Ogliastri and Reficco 2007; Dees 2004; Skloot 1987; Tuckman and Chang 2006) – the "largest and fastest growing source of revenue for private, nonprofit organizations" (Young 1998:195) and "the dominant force shaping the nonprofit sector."(Anheier 2005:211) In fact, they conclude, "the scope, scale, and variety of the commercial engagement of the nonprofit sector appear to have undergone a quantum leap over the past decade or more."(Young and Salamon 2002:424) Statements such as these work together to construct an image of organizations across the sector increasingly generating earned income to fund their operations. While more nuanced treatments of the topic (e.g., Galaskiewicz and Bielefeld 1998) and suggestions to the contrary (Foster and Bradach 2005; Grønbjerg and Paarlberg 2000; Hall and Burke 2006) are incidental and rare, these dissenting observations beg for further analysis.

Modern democratic societies value nonprofit organizations because of the diversity of contributions they are thought to make (see Salamon 1999; Wuthnow 1991): providing important social services to beneficiaries, guarding values and establishing venues where people can express their collective interests, channeling advocacy (thus constituting a source of extra state power), and creating and maintaining social capital. The assertion that nonprofits have become more reliant on commercial revenues has become a point of great interest both inside and outside of the scholarly community because of what the trend means for the future of civil society. Some, for example, worry that attention to market forces, signified by changing reliance on earned income, will alter one of the defining characteristics of nonprofit organizations – namely, that they operate largely outside of the for-profit marketplace and are therefore not subjected to market pressures in the same way that businesses are. They fear the "commodified nightmare" (Fourcade and Healy 2007), where engagement with markets fosters profit-seeking at the expense of social good, and they are eager to reassert the "bright line" (Husock 2006) dividing for-profit and nonprofit practice (see Eisenburg 2004; Lipman and Schwinn 2001). Others, however, feel differently. They welcome the efficiency and competition that market forces will presumably bring to the nonprofit sector, and they are happy to see the demise of old, parochial conventions that aim to keep civil society and the marketplace separate from each other (see Dart 2004; Wallace and Willhelm 2006; and Young and Salamon 2002). Their conviction is that integrating these two worlds bodes well for nonprofit organizations' abilities to sustainably achieve their missions.

At issue, therefore, are not commercial revenue streams *per se* but competing ideas about the market's deleterious or productive influence on civil society at large (see Eikenberry and Kluver 2004; Frumkin 2002). It is not surprising, then, that observers on both sides of the debate acknowledge that the stakes are high and the potential consequences of commercialization significant.

Data and Analysis

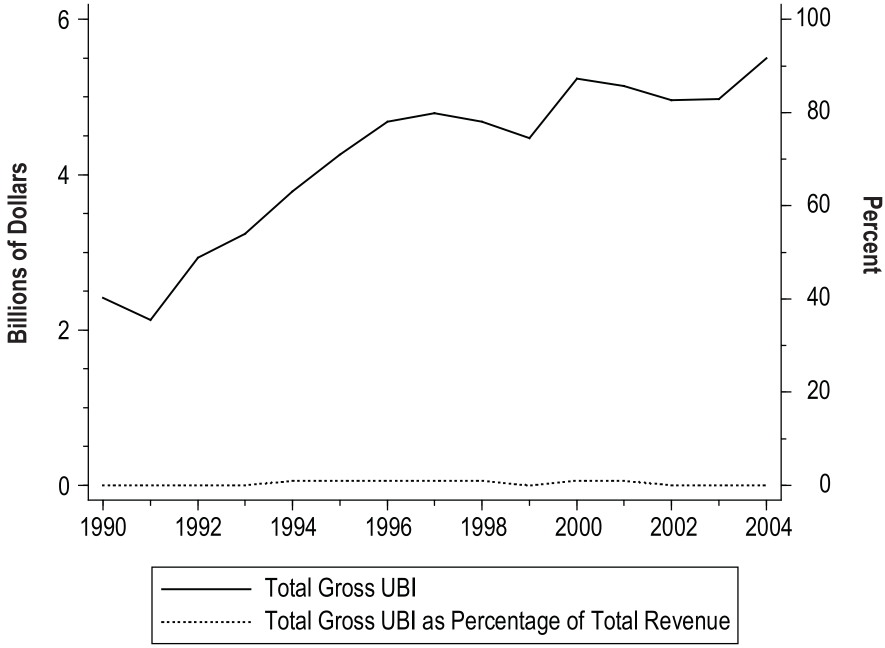
Let us define commercial activity as selling a good or service for income (cf., Skloot 1987; Tuckman and Chang 2006). To operationalize commercial activity in nonprofit organizations, I look at "commercial revenues," the earned, non-donated income that nonprofits generate. This is not a legal definition but a catch-all term. Scholars have not agreed on what specifically constitutes commercial revenue, and they variously refer to it as business income, commercial income, commercial share, fee income, earned income, profit-motivated income or program service revenue – often measured in slightly different ways. By examining three of the indicators used frequently in the literature, my aim is to transcend questions about what is or is not commercial income and to simply see what each tells us about commercialization in the sector.

Unrelated Business Income

One way to trace nonprofits' dependence on commercial income is to assess their changing reliance on "unrelated business income," which nonprofits report to the Internal Revenue Service when in excess of $1,000 (cf., Cordes and Weisbrod 1998; Frumkin 2002). Although often difficult to measure, the IRS defines unrelated business income as "income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purpose that is the basis for the organization's exemption."(Internal Revenue Service 2007:3-4) For example, revenue earned by an art museum for selling reproductions of work in the museum's collection contributes importantly to the organization's goal of making fine art familiar to the public and is therefore not considered unrelated business income. On the other hand, revenue earned from selling souvenir items of the city in which the museum is located does not contribute directly to the organization's educational purposes and is therefore taxable income (see Internal Revenue Service 2007 for more on this and other examples).

If nonprofits have made a turn towards the market, then we would expect unrelated business income to reflect this. Frumkin (2002), for example, makes the case that the sector is becoming commercialized by showing that total unrelated business income in the sector increased by more than 250 percent from 1991 through 1997. Yet aggregate unrelated business income as a percentage of aggregate total revenue has remained constant over time for public charities and private foundations, hovering at roughly half of 1 percent or less since the early 1990s.[1,2] See Figure 1.

Figure 1. Unrelated Business Income for Public Charities and Private Foundations



Source: Data used for this figure were collected, cleaned and made available by the IRS through its Statistics of Income Bulletin (Arnsberger, Ludlum, Riley and Stanton 2008).
Note: Point estimates are based on samples, with dollar values adjusted to constant 2004 dollars. Total revenues for charitable organizations were computed by adding total revenues from public charities and private foundations. To calculate unrelated business income as a percentage of total revenue, this value was then divided into the IRS's estimate of gross unrelated business income for public charities and private foundations.

Share of Revenue Growth

A second place to look for evidence of the commercial turn is the *Nonprofit Almanac*. The 2002 edition of the *Almanac* reports on financial trends for organizations in the "independent sector" from the 1970s to the 1990s. As the authors define it, the independent sector includes all 501(c)(3) charitable organizations (i.e., public charities, private foundations and religious organizations) and 501(c)(4) civic leagues and social welfare organizations.[3] Because there is no single data source on revenue patterns for such a wide swath of organizations, the *Almanac*'s authors culled information from a variety of sources (see Hodgkinson and Weitzman 1989; Weitzman, Jalandoni, Lampkin and Pollak 2002).

Salamon, one of the most widely cited writers on the topic, bases his conclusions about the commercialization of the nonprofit sector on data provided in the

Table 1: Revenue from Private Sector Payments

	% of Total Revenue from Private Sector Payments[a]					% Growth Attributable to Private Sector Payments
	1977	1982	1987	1992	1997	1977-1997
Health services	49.1	49.1	51.8	48.3	46.9	45.3
Education and research	52.9	53.0	55.3	57.0	56.1	60.9
Social and legal services	9.7	15.2	18.9	17.5	18.9	23.9
Arts and culture	29.4	29.2	30.0	24.4	27.9	27.3
Civic, social and fraternal	11.9	13.8	12.8	20.4	20.7	35.1
All of independent sector[b]	37.5	38.7	40.8	39.1	37.5	37.4

Source: Weitzman et al. (2002): tables 4.2 and 4.3
[a]Private sector payments include income from dues, fees and charges for services.
[b]The independent sector includes charitable organizations, religious congregations and organizations and social welfare organizations.

Almanac. After observing that the number of registered 501(c)(3) and 501(c)(4) organizations increased by 115 percent and revenues grew by 144 percent between the 1970s and 1990s, Salamon asks: To what revenue source may we attribute these increases (Salamon 2002:30-31)? He points to reliance on fee income as the culprit: "fees and charges account for nearly half (47 percent) of the growth in nonprofit revenue between 1977 and 1997 – more than any other source. Clearly," he concludes, "market forces have penetrated into the nonprofit sector." (See also Salamon 1995.)

In reassessing the *Almanac* data, I find that Salamon's analysis does not provide conclusive evidence of a *new* commercial reliance on fees and charges. Table 1 shows aggregate estimates of private sector payments for independent sector organizations from 1977 to 1997.[4]

Notably, the sector overall did not change its reliance on earned income during these years, causing Foster and Bradach (2005) to call into question Salamon's assertion that commercial income surged during the 20-year period. But Salamon's (2002) argument is more nuanced. Dividing the increase in commercial revenues by the total increase in nonprofit revenues results in a value that represents the share of growth attributable to the revenue type. Taken alone, the estimates in Table 1, Column 6 appear to support his conclusions. But what Salamon's appraisal fails to emphasize is the extent to which the actual sources of revenue growth match *what we should have expected* based on our prior understanding of the sector's revenue mix. Without knowledge of future developments, our best guess in 1977 would likely have been that 37.5 percent of revenue growth over the next 20 years would be attributable to commercial activity because this is the extent to which nonprofits relied on commercial revenues at that point in time. In fact, this prediction would have been accurate: increases in fees, sales and charges actually accounted for 37.4 percent of total revenue growth in the sector from 1977 through 1997. Thus, even though commercial revenue is the most substantial source of revenue growth for nonprofits (the point that Salamon emphasizes), this should not come as a surprise because commercial sources have been one of the most significant sources of funding for nonprofits since at least the 1970s. At the sector level, therefore, there is not clear evidence that nonprofits have turned to the market. Indeed, they were already there. Analysis based on the 2008 edition of the *Almanac* shows largely the same patterns, although data for this edition were collected using a different methodology, making comparison difficult. (See the appendix for details.)

Looking closer at some subsectors – such as the Social and Legal Services subsector and the Civic, Social, and Fraternal subsector – revenue growth from earned income increased more than we might have expected given these nonprofits' 1977 funding patterns (although still more modestly than prior research implies). Perhaps most worrisome to those concerned about the deleterious effects of commercialization is the apparent trend among the former group of nonprofits – community development and social change organizations, youth groups and senior citizens' organizations, among others – because the beneficiaries of these nonprofits may be particularly vulnerable to increases in fees and charges. Using finer-grained data below, I attempt to tease out trends among many of these types of organizations.

Program Service Revenue and its Variants

A final way to make commercialism operational is to investigate nonprofits' program service revenue or a variant (see Cordes and Weisbrod 1998; Foster and Bradach 2005; Segal and Weisbrod 1998). "Program service revenue" includes income earned from fees, sales and charges generated through the pursuit of an organization's exempt purposes (Internal Revenue Service 2006:24, 27). Importantly, it does not include contributions, gifts and grants, regardless of whether these come from governments, organizations or individuals. Example sources of program service revenue include school tuition, admissions costs to museums and concerts, royalties from educational publications, and registration fees for conferences or conventions. Program service revenue also includes payments on behalf of individuals using Medicare and Medicaid, as well as receipts based on government contracts (in contrast to government contributions and grants, which are not considered program service revenue). If nonprofit organizations have made a turn towards the market, we would expect to find that program service revenue as a percentage of total revenue has increased over time.

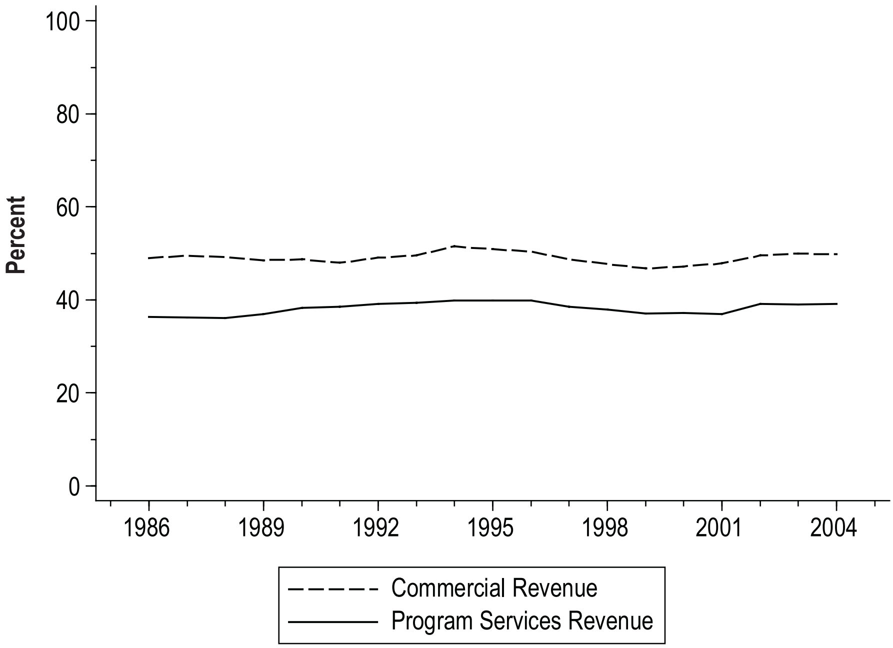
Although nonprofits are not required to pay taxes on income related to their charitable activities, most are required to register with the IRS and then submit yearly Form 990 statements thereafter. In collaboration with the National Center for Charitable Statistics at the Urban Institute, the IRS makes these data available to the public in the form of the Statistics of Income Sample Files. The SOI Files include data on all large (variously defined across the years of study) Form 990-filing nonprofits and a random sample of smaller ones, stratified and weighted by asset level (National Center for Charitable Statistics 2006).[5] They contain detailed information on nonprofits' financial activities.

The NCCS datasets provide the most comprehensive longitudinal data available on nonprofit finances (Gordon, Greenlee and Nitterhouse 1999; Lampkin and Boris 2002), and IRS and NCCS staffers work with the data to make them suitable for analysis. Even so, these data are not without weaknesses (Froelich 1997; Froelich, Knoepfle and Pollak 2002; Lampkin and Boris 2002). For example, not all nonprofit organizations are required to file Form 990. Most small organizations (i.e., with less than $25,000 in annual revenues) and religious organizations are exempt from doing so, and organizations with gross receipts less than $100,000 and total assets less than $250,000 may opt to file a simplified Form 990-EZ. Thus findings based on the NCCS data may be biased towards larger organizations. Furthermore, the quality of the data has improved over time, meaning that files from earlier years are likely to contain more errors than files from later years (Gordon, Greenlee and Nitterhouse 1999; Lampkin and Boris 2002). Finally, it is likely that affiliated organizations are inconsistent in whether they report financial activity in one form for all of the organizations or in a separate form for each (Wing and Hager 2004). Notwithstanding these shortcomings, recent analysis of IRS data suggests that for studies such this, SOI data are consistent with data collected from nonprofits' audited financial statements (Froelich, Knoepfle and Pollak 2002), and researchers continue to use them widely for analysis. The scholarly consensus seems to be that the limitations of the data do not warrant abandoning them altogether. The breadth of analysis that they make possible is unmatched, but the known problems and limited scope of coverage suggest that caution should be used when drawing conclusions.

Whereas the analysis of unrelated business income looked at public charities and private foundations, and the *Almanac* analysis considered the entire "independent sector," here I focus exclusively on operating public charities (thus excluding mutual benefit organizations and support organizations, such as private foundations – see note 1 – and federated funders). I pay particular attention to those operating in the following subsectors: Arts, Culture and Humanities; Education; Environment and Animals; Health; Human Services; International, Foreign Affairs; and Public and Societal Benefit.[6] Using the SOI data, I track two measures of earned income over time: *program service revenue* (taken from line 2 of Form 990) and *commercial revenue* as defined by Kerlin and Pollak (2006).[7] Kerlin and Pollak add dues and assessments, income from sales of inventory, and revenue from special events to program service revenue under the argument that the sum of all of these provides a more comprehensive indicator of nonprofits' commerciality. Figure 2 presents program service and commercial revenue as a proportion of total revenues from 1986 to 2004 for the selected public charities.

As Figure 2 reveals, nonprofits on average have not substantially changed their reliance on earned income since at least the mid-1980s. Of course, looking at the

Figure 2. Commercial and Program Service Revenue as a Percentage of Total Revenue for Average Nonprofit



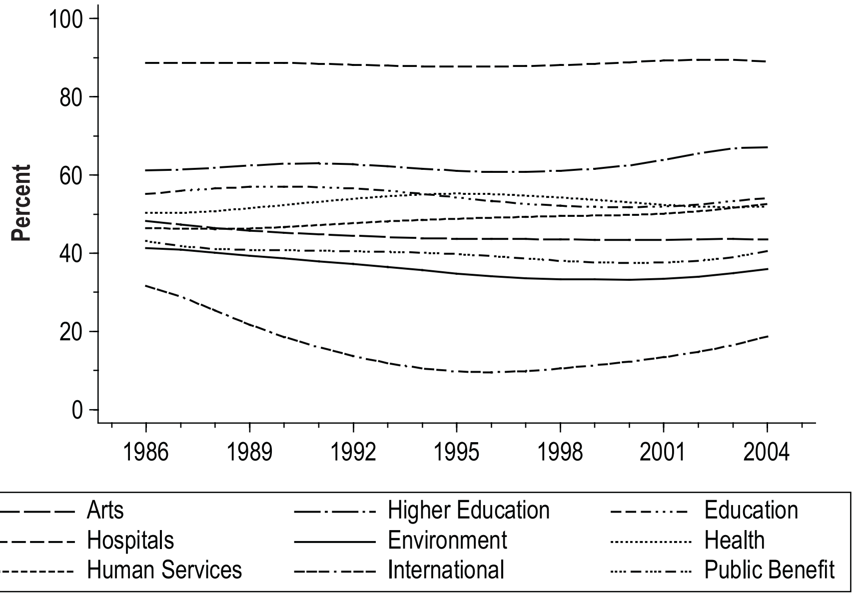
Source: Data come from the Statistics of Income Sample Files, made available by the National Center on Charitable Statistics.
Note: The average number of yearly observations used for calculating the percentages of Commercial Revenue is 9,962; for Program Service Revenue it is 9,963.

entire sector might mask trends taking place within the major subsectors. Thus, I computed for each subsector the yearly average of commercial revenue as a proportion of total revenue. Figure 3 shows a locally weighted regression of commercial revenue on year for each subsector.[8,9] (The trends for program service revenue are similar to those presented here.)

As with the combined data, Figure 3 does not provide compelling support for the commercial turn hypothesis: the lines are generally flat. Much to the contrary of popular notions, the trends in reliance on earned income across the years of analysis are unremarkable in terms of upward change. Where there is an increase, such as in the Human Services subsector or for institutions of higher education (during the late 1990s and early 2000s), the total change over time is quite modest.

It is possible that aggregating to the level of subsector still masks trends within the various categories of organizations within the subsectors, what I refer to here as subfields. While there is insufficient room to consider all of these here–and the limited number of observations available for some of the subfields introduces challenges to

Figure 3. Commercial Revenue as a Percentage of Total Revenues for Average Nonprofit



Source: Data come from the Statistics of Income Sample Files, made available by the National Center on Charitable Statistics.
Note: The average number of yearly observations used for calculating the percentages are: Arts (N = 696); Hospitals (2,115); Education, excluding Higher Education (914); Higher Education (933); Environment (250); Health, excluding Hospitals (1,500); Human Services (2,925); International (127); and Public Benefit (502).

interpretation (see note 5)–I briefly examine organizations within the Health and Human Services subsectors because some observers contend that commercialization might negatively affect vulnerable clients of organizations within these fields. While this analysis should be considered exploratory in nature, Table 2 provides a snapshot of each subfield within the Health and Human Services subsectors. Values in the first seven columns show mean commercial revenues as a percentage of total revenues for the specified years. Column 8 shows the average number of observations used to calculate the means, and columns nine and ten summarize these trends with the estimated slope, calculated by regressing the 19 averages (from 1986 to 2004) on the year variable. Finally, column 11 estimates the relative size of the particular subfield as a percentage of organizations within the subsector, and column 12 estimates the relative size of the subfield in terms of total revenue.

The slopes in columns nine and ten show that organizations in the Health and Human Services subsectors both increased and decreased their reliance on

Table 2: Mean Commercial Revenue as a Percentage of Total Revenues for Operating Health and Human Services Public Charities

	Mean Commercial Revenue as a Percentage of Total Revenues for Each Subfield								Slope (1986-2004)[b]		Distribution (1998)[c]	
	1986	1989	1992	1995	1998	2001	2004	N[a]	CR	PSR	% of Organizations	% of Revenues
Health Subsector												
Health care	63.9	65.9	73.8	73.4	69.5	63.1	63.7	2,990	-.11	-.09	59	93
Mental health & crisis intervention	43.0	42.7	46.3	43.8	48.9	48.2	55.3	243	.43*	.53*	25	4
Diseases, disorders & medical disciplines	40.2	38.7	35.6	62.1	42.7	38.9	31.6	125	.09	.23	11	2
Medical research	28.2	21.6	37.3	39.3	26.5	38.3	32.3	87	.56	-.06	4	1
Human Services Subsector												
Crime & legal-related	28.6	26.6	32.1	15.4	20.3	21.9	29.9	66	-.21	-.06	4	4
Employment	61.3	56.2	55.3	63.4	58.2	59.1	56.1	126	.05	-.05	6	7
Food, agriculture & nutrition	44.1	46.7	36.3	47.5	37.2	32.9	31.1	40	-.56*	-.53	3	3
Housing & shelter	50.5	53.7	58.5	56.7	56.6	58.4	61.0	625	.45*	.41*	19	9
Public safety, disaster preparation & relief	40.1	27.0	31.8	46.0	32.6	40.7	29.1	45	.10	.65*	3	1
Recreation & sports	67.4	68.2	71.9	79.3	70.3	72.0	69.6	164	.32	1.13*	11	6
Youth development	31.9	37.8	31.2	39.8	32.8	37.4	38.7	163	-.01	.39*	7	4
Human services	43.1	41.3	41.8	47.4	45.6	43.9	49.5	1,614	.32*	.38*	47	66

Source: Data come from the Statistics of Income Sample Files and the 1998 Core Data File, provided by the National Center for Charitable Statistics and IRS.
Note: More detail on the classification system used by the NCCS, as well as examples of organizations that fit into each category, can be found on the NCCS website (http://nccsdataweb.urban.org/tools.php).

[a]Unweighted number of observations for the calculation of yearly means, averaged across the seven years.

[b]Slopes were estimated by regressing the average commercial (or program service) revenue on year (1986 to 2004). CR = Commercial Revenue; PSR = Program Service Revenue; * $p < .05$

[c]The first of these columns is the distribution of the number of organizations in each subfield. Values are based on sample estimates derived from the SOI Sample Files. For example, in 1998 approximately 59 percent of the organizations in the Health subsector were organizations in the Health Care subfield. The second column is based on an analysis of aggregate revenues of public charities, based on the 1998 Core Data File. For example, in 1998 approximately 93 percent of all revenues in the Health subsector came from organizations in the Health Care subfield.

commercial revenues, depending on the subfield. For those that are positive, the slopes almost never show a value greater than one, meaning an average increase of 1 percentage point per year, and they are rarely greater than .5. The exception is the Recreation & Sports subfield (and only when looking at program service revenue). Organizations in the Mental Health & Crisis Intervention, Housing & Shelter, and Human Services subfields have also experienced consistent upwards growth, although not as noticeably. Mental health treatment facilities, such as community and residential centers, appear to be an important part of the trend in the first group of organizations. They make up roughly a third of all organizations in the Mental Health & Crisis Intervention subfield, according to 1998 estimates (not shown here), and their reliance on commercial revenues has increased from about 50 percent in the late 1980s to 60 percent in the early 2000s. More than four-fifths of Housing & Shelter organizations are involved in housing development, construction and management (e.g., low-income housing, senior citizens' housing, etc.), and they have also, on average, increased their reliance on commercial revenues (from 55% in 1986 to roughly 65% in the early 2000s). Within the Human Services subfield (one category of the Human Services subsector), growth in reliance on commercial revenues is most obvious for residential care and adult day programs (e.g. group homes, hospices, supportive housing for older adults, etc.), which make up less than a fifth of the organizations in the subfield. In the late 1980s, they relied on commercial revenues for slightly lower than 60 percent of their revenues. By the early 2000s, this had increased to more than 70 percent.

Discussion and Conclusion

In summary, I find little support for a commercial turn, insofar as this is meant (and it usually is) as a generalizing statement about nonprofit organizations throughout the sector. Only when we drill down deep into the subfields do we find anything that looks like an upward trend among some types of organizations. Organizations in some subfields have changed their reliance on commercial revenues, but they are exceptional.

All told, the strongest evidence for a commercial turn comes from the *Almanac* data, where Social and Legal Services nonprofits have apparently increased their reliance on private sector payments more than we would expect based on historical patterns. But these trends are muted, or at least ambiguous, in the SOI data where we would expect to find a parallel pattern. One plausible explanation has to do with the fact that the *Almanac* estimates are based on aggregates, not averages. It is possible that some large Social and Legal Services organizations increased substantially their reliance on earned income while, on average, the rest of the sector did not change at all (or only minimally), thus giving the appearance of a more general upward trend.

Perhaps the most reliable and telling tests of the commercial turn hypothesis come from the SOI files, primarily because they provide organization-level data. I included the *Almanac* analysis in order to get a handle, albeit a rough one, on pre-1980 revenue patterns, which are lacking in the SOI data. I analyzed unrelated business income because nonprofits' business activities are so often discussed in the context of a commercial turn – usually as evidence for it. Although reaching back further in time is difficult, Hall and Burke (2006:(2)844) have done so and conclude that "most nonprofit organizations except the truly charitable ones have historically depended more on earned income than on donations," suggesting again that reliance on commercial revenues is not a new phenomenon. In the end, the patchwork of investigation leaves us rather empty-handed when it comes to finding strong support for the commercial turn hypothesis. After triangulating with a variety of data sources and methods of analysis, one is impressed by the obvious ambiguity of nonprofits' commercial activities. Insofar as commercial revenues are concerned, no clear upward trend emerges.

I have revisited data and analyses that scholars have used to argue the case for a commercial turn in the nonprofit sector. Given the constraints of data availability and quality, I have shown that the commercial turn hypothesis, taken as a general statement about nonprofit organizations, inaccurately characterizes the sector. I find no evidence of a sector-wide reorientation to earned income, and I find ambiguous support for the commercial turn hypothesis at the level of subsector and subfield. Unfortunately, these data sources and methods of analysis that I have relied upon are not comparable in every way. Neither are the data themselves ideal. But these observations serve only to strengthen my argument, and the burden falls upon scholars eager to make the commercialization claim to find concrete evidence for it.

Notes

1. Public charities and private foundations are two different types of 501(c)(3) charitable organizations, where "501(c)(3)" refers to the section of the Internal Revenue Code that specifies for what purposes (e.g. charitable, religious, educational, scientific, etc.) an organization may be designated as not only tax exempt but eligible to receive tax deductable donations. Private foundations – such as the Gates or Ford foundations – are distinct in that they typically have a single major source of funding (compared to broad public support, as in the case of public charities) and concentrate primarily on making grants to other charitable organizations and individuals. See http://www.irs.gov/charities/index.html.
2. Frumkin's numbers are slightly different than those that I show here because he reported current dollars and I report constant (2004) dollars (with adjustments based on the Bureau of Economic Analysis's chain-type price index for Gross Domestic Product – see Arnsberger et al. (2008) notes to tables 2, 4 and 7).
3. On charitable organizations, see note 1. Although the distinctions are sometimes vague, 501(c)(4) social welfare organizations typically have fewer legal restrictions placed on them than charities. The former's ability to participate more substantially in lobbying is notable in this regard (but is not the only difference between the two types of nonprofits). Social welfare organizations are tax exempt but cannot receive tax deductible donations.

4. My values differ slightly from Salamon's mainly because I use aggregate private sector payments (defined by the *Almanac* as dues, fees for services and charges) as a percentage of aggregate total revenue, while Salamon relied on "fee income," which adds endowment and investment income, as well as an undefined category of "other" income, to private sector payments (Weitzman, Jalandoni, Lampkin and Pollak 2002:90-92).

5. For example, the SOI file for 2002 includes data on all organizations with $10 million or more in assets, each assigned a weight of 1. Records from six other asset categories were randomly sampled and assigned weights accordingly–with a decreasing proportion of organizations sampled for each successively smaller asset class (e.g., half of the records in the $5 to $10 million asset category were sampled and assigned a weight of 2; a fifth of the records in the $2.5 to $5 million asset category were sampled and assigned a weight of 5; etc). That small organizations are weighted more heavily than large ones, and are therefore asked to bear considerable analytical burden, suggests caution should be used when examining subfields with a limited number of observations (e.g., the smaller of the subfields presented in Table 2).

6. This classification comes from the National Taxonomy of Exempt Entities developed by the Urban Institute. The categories do not match those used in the *Almanac* (2002), which uses a different classification system (i.e., SIC/NAICS).

7. Data were downloaded from the NCCS through a university subscription in November of 2007 and later cleaned by the author. When computing percent of total revenues from program services, I look only at organizations that had positive total revenues and non-negative program service revenues. When computing percent of revenues from commercial revenues, I consider all organizations with positive total revenues, regardless whether commercial revenues were negative, zero or positive. The reader should keep in mind that to the extent that government payments dominate program service revenue, changes in other types of program service revenue may be difficult to trace. Unfortunately, the quality of data is questionable when examining its component parts.

8. The subsectors vary considerably in size. Figure 5.4 of the *Almanac* (Weitzman, Jalandoni, Lampkin and Pollak 2002) shows that of the more than 220,000 reporting public charities in 1998, Arts, Culture and Humanities organizations made up 11% of the total number (and 4% of total assets held by all charities); Education, 16% of the total number (and 29% of assets); Environment and Animals, 3% (and 1% of assets); Health, 15% (and 44% of assets); Human Services 35% (and 11% of assets); International and Foreign Affairs, 1% (and less than 1% of assets); and Other, 19% (and 11% of assets).

9. To draw a locally weighted regression line, many linear regression equations are estimated–one for each data point, where each successive data point and only a few of the observations near it are included in the calculations. The estimated coefficients from each regression are used to predict the observed values of the respective dependent variables, and the predicted values are then plotted and connected. The result is a nonlinear line that "follows" the data (cf., Cleveland 1979; StataCorp 2007). I use the technique simply to smooth out year-to-year sampling fluctuations, thus allowing the lines from multiple subsectors to be condensed in the same figure. Raw percentages are available upon request. For Figure 3, the dependent variable is percent of revenues from commercial income; the independent variable is year.

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Appendix

For the financial variables considered in this paper, the 2008 edition of the *Nonprofit Almanac* uses the Bureau of Economic Analysis's estimates of nonprofit institutions serving households. The organizations examined, as well as how they are classified, are different from those used in previous editions of the *Almanac*, making comparison of the data difficult. The table below presents private sector payments to public charities in five subsectors and the sector overall using the 2008 edition of the *Almanac*. Data in the first six columns come directly from the Appendix to Chapter 4. The seventh column was calculated by the author using the methods described above for Table 1.

Appendix Table: Revenue from Private Sector Payments

	% of Total Revenue from Private Sector Payments[a]						% Growth Attributable to Private Sector Payments
	1992	1995	1997	2000	2002	2005	1992-2005
Arts, culture and humanities	32.8	31.4	30.2	28.1	32.3	29.2	25.2
Education	62.4	56.8	53.8	54.9	63.7	56.0	49.0
Environment and animals	31.7	25.3	22.8	21.7	26.1	23.8	17.8
Health care	52.9	47.3	49.3	55.1	56.3	56.4	59.8
Human services	36.7	36.4	37.7	38.7	41.5	41.2	45.5
International	8.6	8.9	13.0	7.8	6.9	5.6	.8
All public charities	50.8	45.4	45.3	47.8	51.2	49.3	47.8

Source: Wing et al. (2008), Appendix to Chapter 4