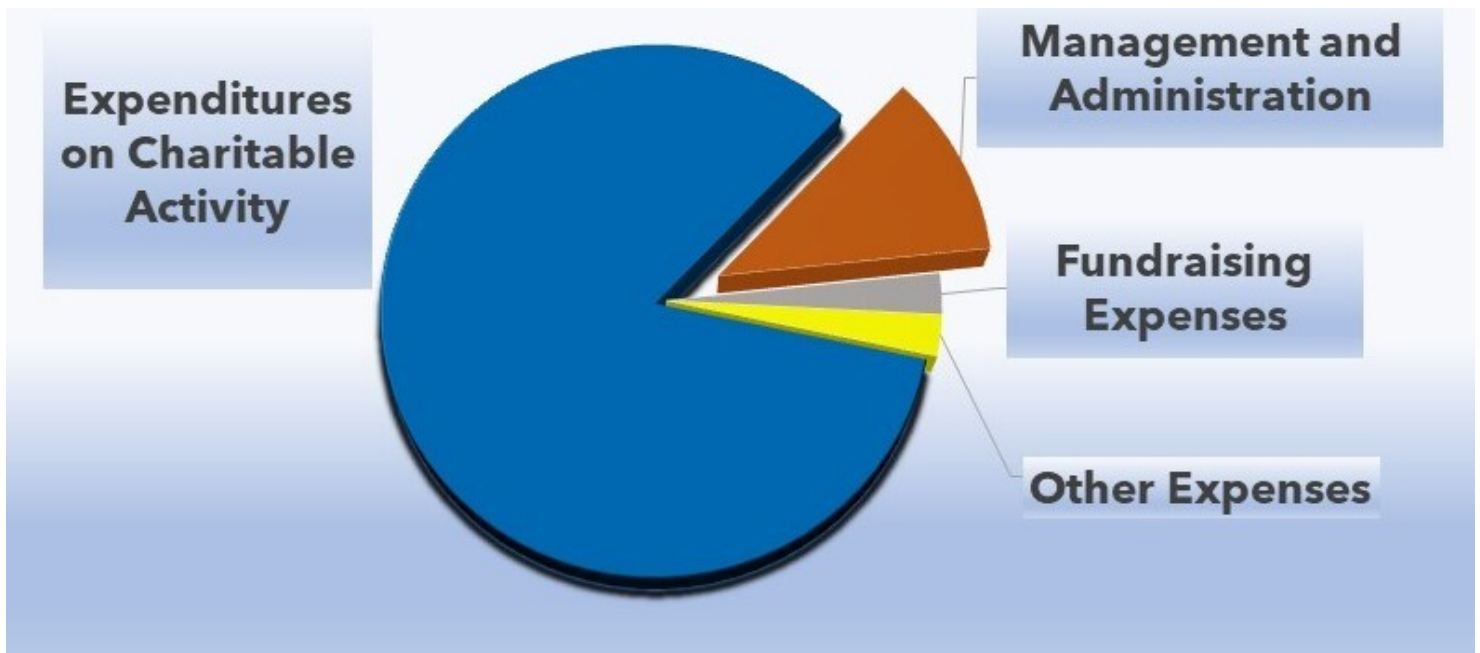




# CHARITY EXPENSE REPORTING



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## EXECUTIVE SUMMARY

The goal of a Charitable Organization should be to provide maximum community impact on a social issue at a reasonable cost. The expenses associated with operations, promotion, and fundraising are important financial inputs to meeting this goal. The administration of these expenses must be a top priority of the Charitable Organization's management. Its donors and regulator want to ensure there is competent administration of expenses.

In this report we examine the expenses of Canada's Charitable and Philanthropic Sector to understand how it is performing on these obligations.

We provide analytical insight through the following studies:

- All of our analysis will include Total Expenses for all Charitable Organizations for each of the five years from 2016 to 2020. We will exclude the dominant Core Healthcare sector in some analysis.
- Total Expenses as a percentage of Total Revenue for all Charitable Organizations in each of the five years from 2016 to 2020.
- Expense Allocations between Charitable Activities, Management & Administration, Fundraising Expenses, and Other Expenses for all Charitable Organizations.
- A comparison of this 2020 Expense Allocation with 2016.
- A comparison of this 2020 Expense Allocation between Small Charities and Large Charities.
- Total Expenses for all Charitable Organizations by Charity Category in 2020.
- The breakdown of Charity Expenses for all Charitable Organizations by type of expense for 2020 compared to 2016.
- The percentage change in each type of expense reported by all Charitable Organizations between 2016 and 2020.
- The percentage change in each type of expense reported by Small Charities compared to Large Charities between 2016 and 2020.
- The Management Expense Ratio for all Charitable Organizations for each of the five years from 2016 to 2020.
- The Management Expense Ratio for all Charitable Organizations by Category of Charity for each of the five years from 2016 to 2020.
- The Fundraising Expense Ratio for all Charitable Organizations for each of the five years from 2016 to 2020.
- The Fundraising Expense Ratio for all Charitable Organizations by Category of Charity for each of the five years from 2016 to 2020.

### Principle conclusions of the Report

- Total Expenses for the sector have been growing moderately at 2.7 per cent per annum over the five-year period of 2016 to 2020, or 1.8 per cent excluding the dominant Core Healthcare category. The recent global COVID health pandemic appears to have accelerated the growth rate of expenses
- This has been coincident to a deteriorating ratio of Total Expenses to Total Revenues over the same Covid crisis period.
- The bulk of expenses, at 88 per cent in 2020, incurred by Charitable Organizations went to cover the provision of their charitable activities.

- On a positive note, all the expense increases over the five-year period of 2016-2020 went to Expenditures on Charitable Activities.
- Large Charities dominate the sector in terms of expenditures, accounting for 95 per cent of Total Expenses in 2020. Small Charities spend a greater proportion on Management and Administration.
- The Core Healthcare category of Charitable Organization accounts for the largest expenditures in the sector. Compensation accounts for the greatest overall expense at 57 per cent in 2020, though the largest percentage growth in expenses between 2016 and 2020 was Donated Services.
- The magnitude of Other Expenses, the third largest line item for expenses, raises the issue as to whether the CRA should be adding additional expense categories.
- We found significantly more restraint in the growth of expenditures in Small than in Large Charities.
- The overall Management Expense Ratio for Canada's Charitable and Philanthropic Sector was 7.4 per cent in 2020 and consistently declined in our study period.
- The Fundraising Expense Ratio is higher than the Management Expense Ratio at 17.9 per cent in 2020. We found concern with the wide differences in the Fundraising Expense Ratio between the categories of charities.

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## PREVIOUS RESEARCH REPORTS

- June 2021: Overview of the Canadian Charitable Sector
- July 2021: The Impact of COVID on Canada's Charitable Sector
- August 2021: The Canadian Donor Advised Fund Market
- September 2021: Measuring the Efficiency of the Canadian Charitable Sector
- October 2021: The Veritas 500 Ranking of the Fastest Growing Charities in Canada
- November 2021: Charitable Gifts-in-Kind: Donations with Impact
- December 2021: The Use of External Fundraisers
- January 2022: Analysis of the Methods of Fundraising Used by Canada's Charities
- February 2022: Real Estate Investment in Canada's Charitable Sector
- March 2022: Government Funding to Canadian Charities
- April 2022: Inter-Charity Donations in Canada



## Our Vision

We will participate in a thriving Canadian philanthropic sector where the most impactful charities with the highest governance standards are celebrated and supported by donor capital.

## Our Mission

The Veritas Foundation aims to be Canada's authoritative source for participating in the country's charitable sector and evaluating its effectiveness and impact.



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