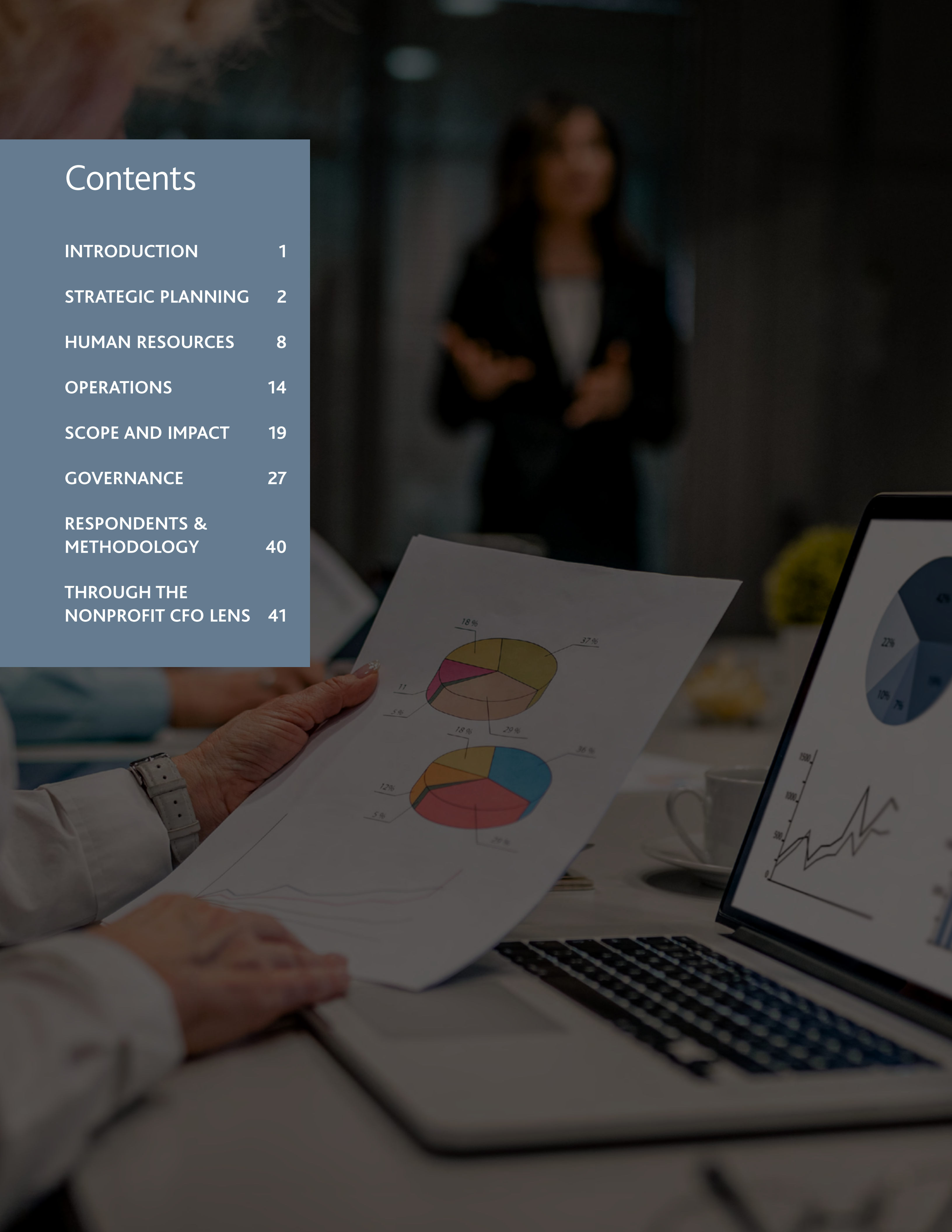
NONPROFIT STANDARDS

A BENCHMARKING SURVEY



Contents

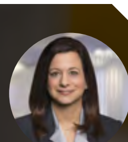
More than a century of experience working with nonprofits has given BDO a unique window into the change-making work of the diverse nonprofit sector. Our clients regularly tap into that knowledge base. One of the most frequent questions we hear is, ***"How does my organization compare with my peers?"***

The BDO Institute for Nonprofit Excellence[SM] annual benchmarking survey, *Nonprofit Standards*, offers an answer to that persistent question and provides leaders with actionable insights to drive their nonprofits forward. The survey is designed to give nonprofits a useful barometer to measure performance across a variety of areas, including strategic planning, human resources, operations, scope and impact, and governance matters.

No two nonprofits are the same—every organization is shaped by its unique history, mission, size, goals, and community—but the sector shares a unifying commonality. Whether we're working with a CFO of a health and human services organization, an Executive Director of a museum, or the CIO of a private foundation, the people powering the world's nonprofits share a common drive: advancing their organization's mission.

Insight into peers' metrics and practices is an important resource to help accomplish that goal. We hope this benchmarking survey informs conversations among nonprofit leadership teams and boards about bridging financial gaps and updating policies to keep pace with a rapidly changing world.

LAURIE DE ARMOND AND ADAM COLE
Co-Leaders of BDO's
Nonprofit & Education practice



Introduction

Nonprofit Standards is a national benchmarking survey of 100 nonprofit organizations across a variety of sectors, including health and human services, higher education, public charities, and private and community foundations. The survey was fielded by Market Measurement, a market research consulting firm.

In its second year, ***Nonprofit Standards*** includes more precise drilldowns by annual revenue to narrow the peer groups for more meaningful comparisons. While intended to provide a valuable baseline analysis for organizations of all sizes and types, it would be impossible to capture the variety and diversity of the entire nonprofit sector. For the purposes of this survey, nonprofits are categorized in three groups according to their annual revenues:

- **Midrange organizations:** Annual revenues under $25 million
- **Upper-midrange organizations:** Annual revenues between $25 million and $75 million
- **Large organizations:** Annual revenues of $76 million or greater

For more information, visit the BDO Institute for Nonprofit Excellence[SM] Resource Center.

Strategic Planning

OPERATING RESERVES

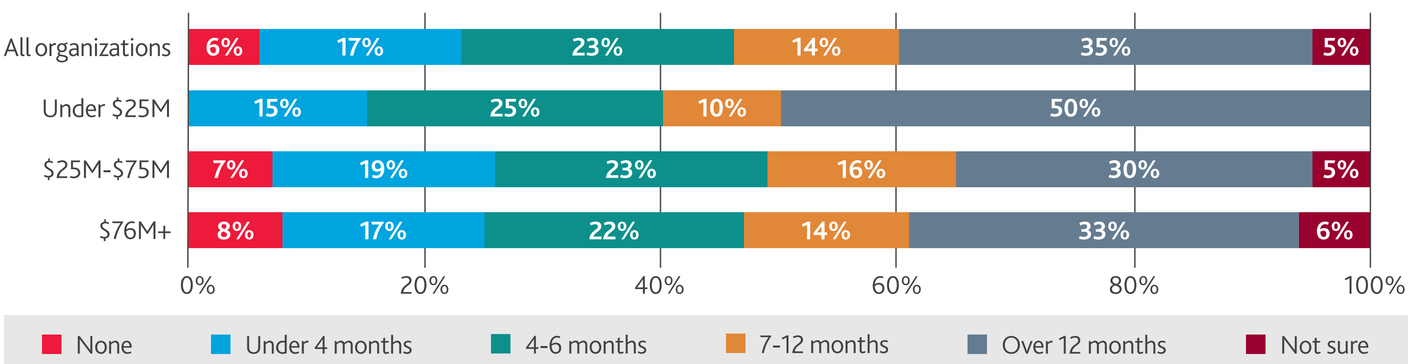
When organizations encounter funding disruptions or lose a major donor, a healthy supply of operating reserves (liquid, unrestricted net assets) is a critical fiscal safety net to keep programs up and running. Liquidity is not a one-size-fits-all metric: The "right" amount of operating reserves varies according to organization size, sector, and scope. With that in mind, establishing at least six months of operating reserves is a prudent target for the sector overall.

About half of organizations surveyed (49 percent) surpass that 6-month target, while the remaining 51 percent fall short.

Just six percent of nonprofits have no operating reserves.

Midrange nonprofits have more robust operating reserves than their larger counterparts. Half of midrange nonprofits have more than 12 months of liquid, unrestricted net assets, and another 10 percent have between seven and 12 months. While midrange organizations have a stronger supply of operating reserves, this does not necessarily signify that those nonprofits have lower operating costs. Instead, it could be an indication that midrange organizations are less likely to tie up their reserves in illiquid assets.

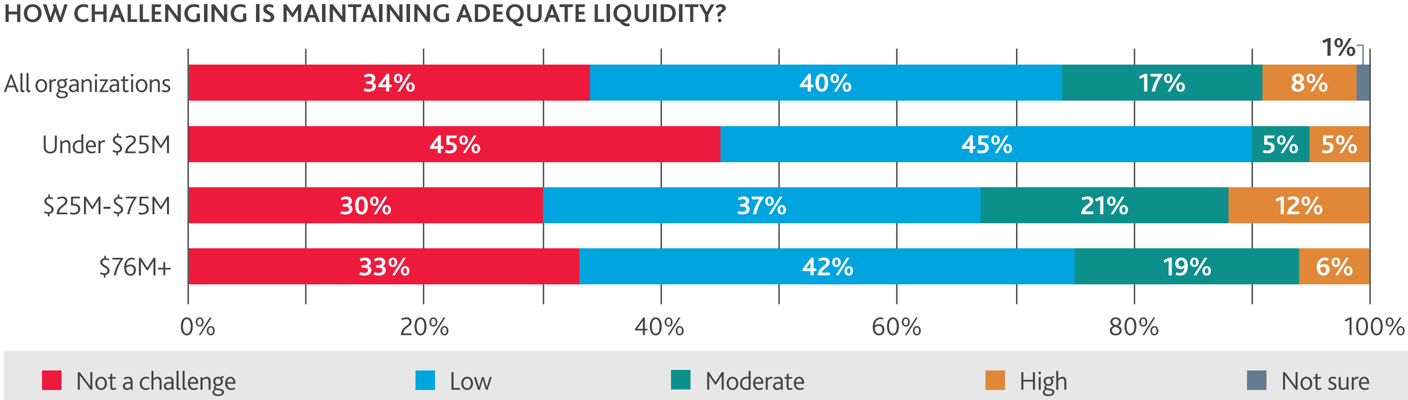
QUANTITY OF OPERATING RESERVES MAINTAINED



While our findings demonstrate that many nonprofits may have gaps in their fiscal safety nets, few nonprofit leaders consider maintaining adequate liquidity to be a significant challenge for their organization in the next year. About one-third (34 percent) say maintaining adequate liquidity poses no challenge and another 40 percent rank it as a low-level challenge.

Midrange organizations are the least concerned: 90 percent say it is a low-level challenge or not a challenge. Upper midrange and large organizations are more likely to consider it a high or moderate challenge, ranked by 33 percent and 25 percent, respectively.

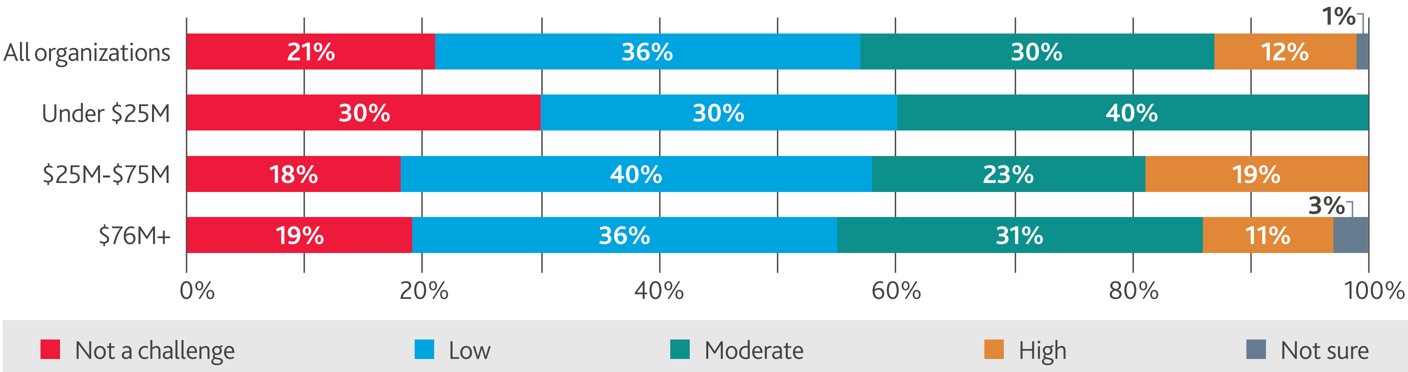
HOW CHALLENGING IS MAINTAINING ADEQUATE LIQUIDITY?



FUTURE PLANS: CHANGES TO PROGRAM OFFERINGS

Forty-two percent of nonprofits report that the inability to meet demand for their services will be a high- or moderate-level challenge in the next year, while 21 percent say it is not a challenge.

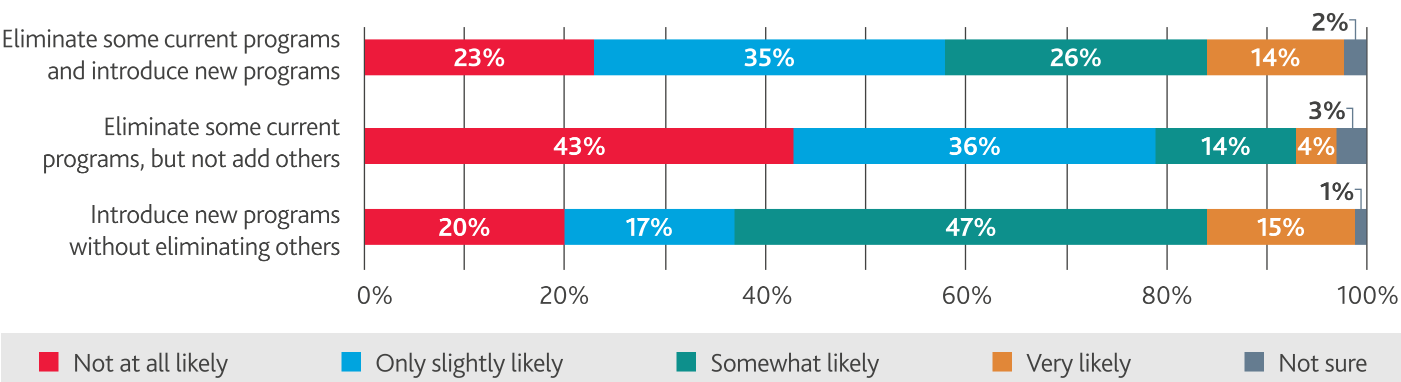
IS THE INABILITY TO MEET DEMAND FOR YOUR SERVICES A CHALLENGE?



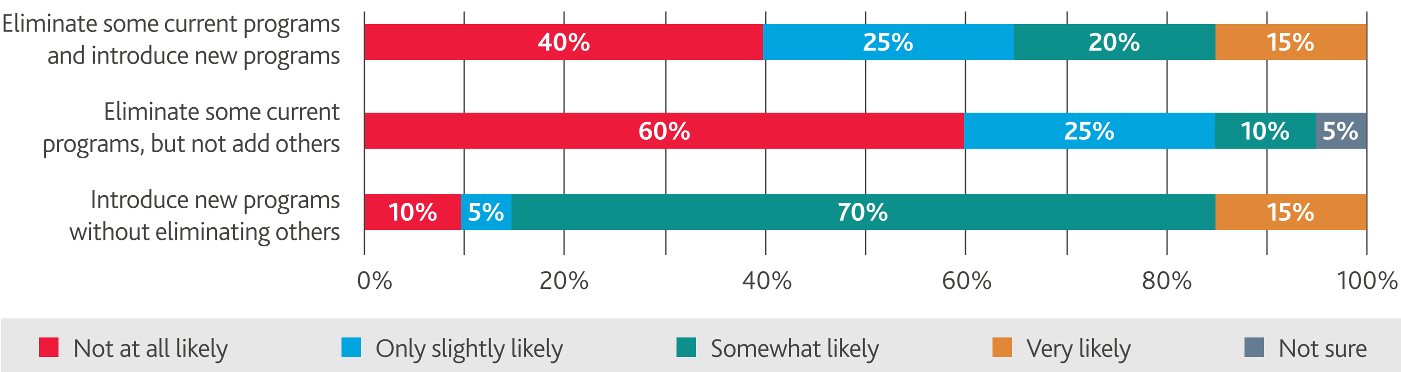
When asked how program offerings might evolve to meet the needs of their constituents, nonprofits are more likely to expand their offerings than constrict services. Forty-seven percent of nonprofits say it is somewhat likely they will introduce new programs without eliminating others, while 15 percent consider it to be a very likely next step.

Organizations are also looking for opportunities to refine their offerings: 40 percent say it is somewhat or very likely they will eliminate some current programs and introduce new ones. Across the board, few nonprofits plan to downsize their services and eliminate some current programs without adding others. Just 18 percent select that as a somewhat likely or very likely occurrence in the next two years.

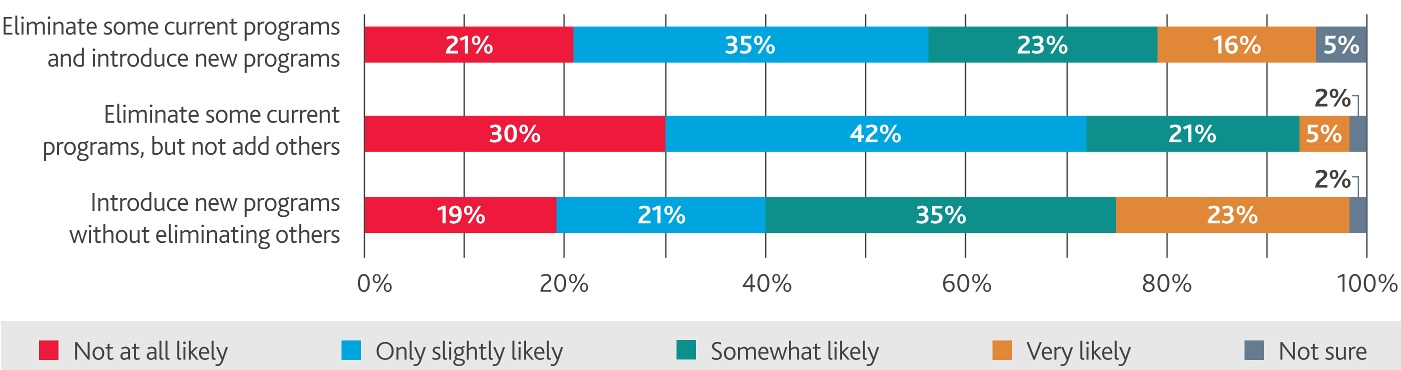
WHAT PROGRAM-RELATED CHANGES ARE IN YOUR SHORT-TERM PLANS? (ALL ORGANIZATIONS)



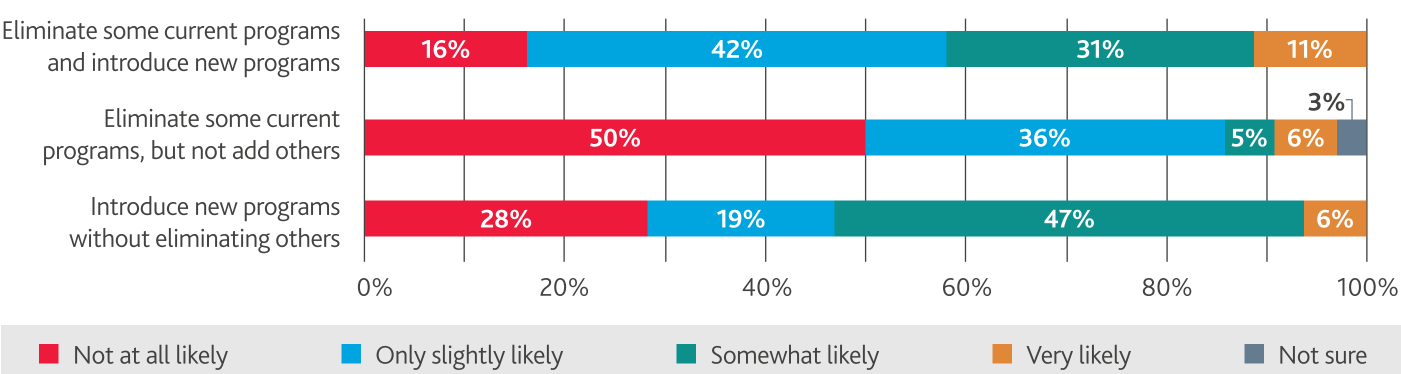
WHAT PROGRAM-RELATED CHANGES ARE IN YOUR SHORT-TERM PLANS? (UNDER $25M)



WHAT PROGRAM-RELATED CHANGES ARE IN YOUR SHORT-TERM PLANS? ($25M-$75M)



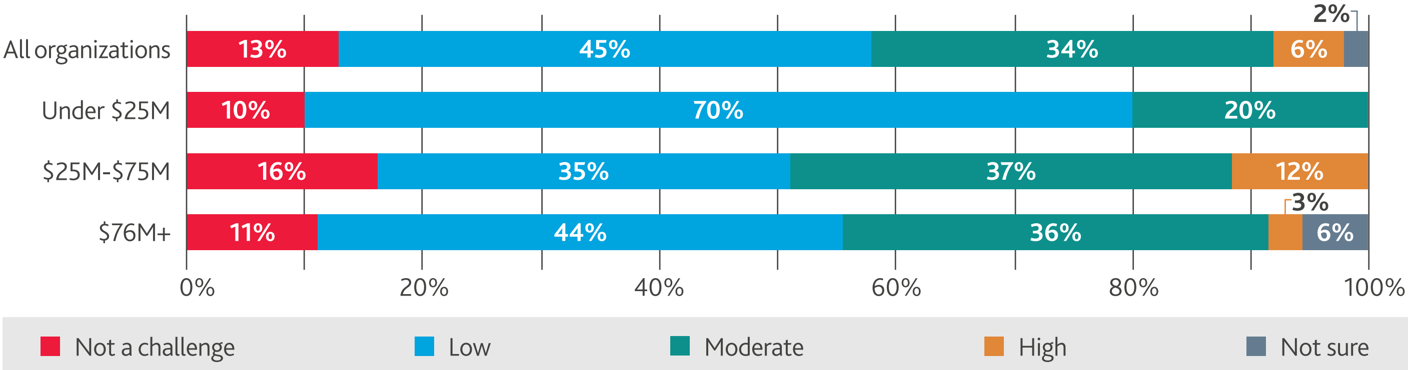
WHAT PROGRAM-RELATED CHANGES ARE IN YOUR SHORT-TERM PLANS? ($76M+)



MANAGING GROWTH

Perhaps with this outlook for potential program expansion in mind, 40 percent of respondents indicate managing growth is a high or moderate challenge for nonprofit boards.

IS MANAGING GROWTH A CHALLENGE FOR YOUR ORGANIZATION?



FUTURE PLANS: OUTLOOK FOR MERGERS AND STRATEGIC PARTNERSHIPS

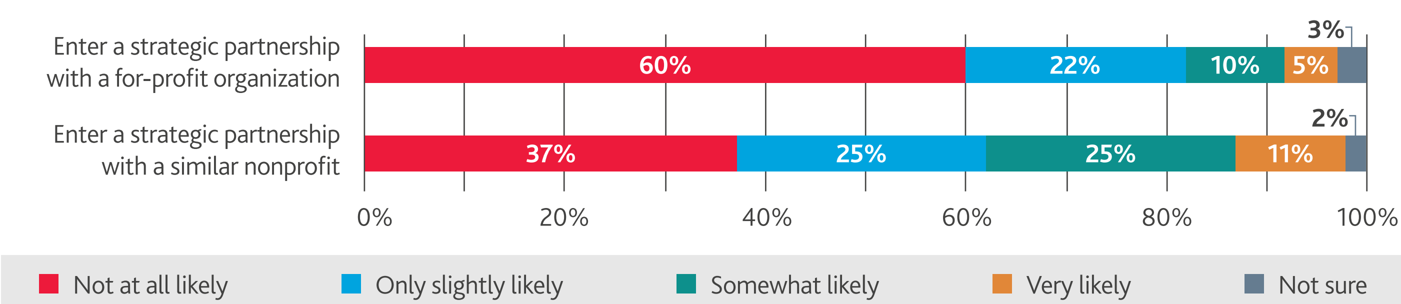
Are mergers or strategic partnerships on the near-term horizon for nonprofits?

Strategic Partnerships

When it comes to collaboration, nonprofits are far more likely to enter strategic partnerships with similar nonprofits than with for-profit companies. Thirty-six percent of nonprofits indicate it is very likely (11 percent) or somewhat likely (25 percent) they will enter a strategic partnership with a similar nonprofit in the next two years.

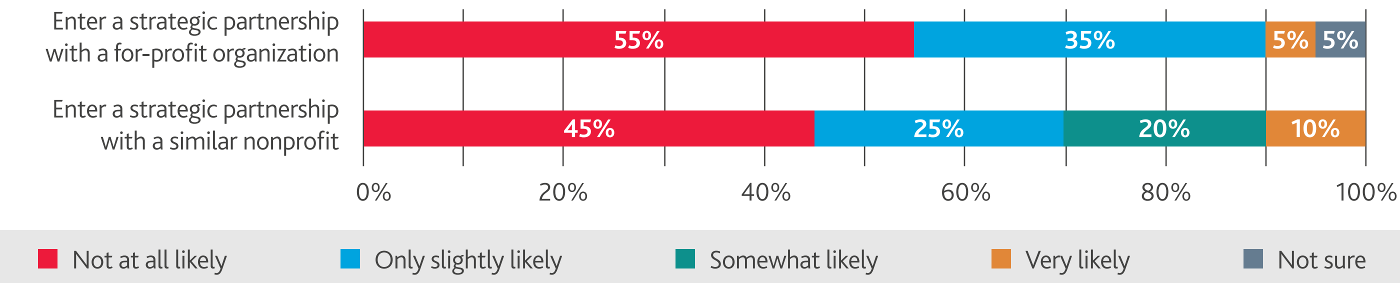
Conversely, 60 percent of nonprofits say it is not at all likely they will partner with a for-profit in the same timeframe.

WHAT IS THE LIKELIHOOD YOU WILL FORM A STRATEGIC PARTNERSHIP? (ALL ORGANIZATIONS)

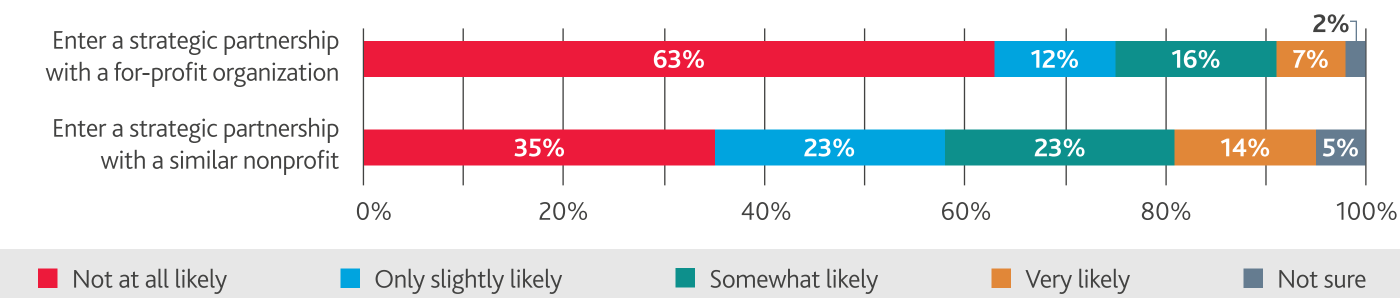


Upper midrange organizations appear the most likely to partner with for-profits: 23 percent say it is either very likely or somewhat likely.

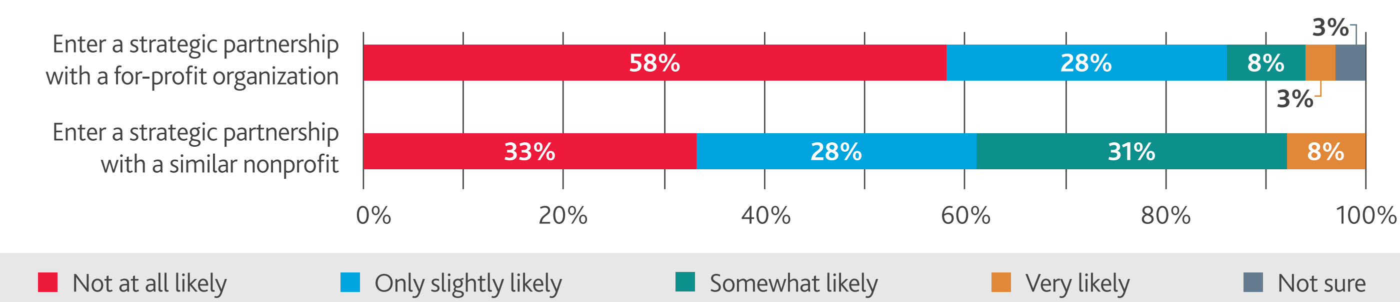
WHAT IS THE LIKELIHOOD YOU WILL FORM A STRATEGIC PARTNERSHIP? (UNDER $25M)



WHAT IS THE LIKELIHOOD YOU WILL FORM A STRATEGIC PARTNERSHIP? ($25M-$75M)



WHAT IS THE LIKELIHOOD YOU WILL FORM A STRATEGIC PARTNERSHIP? ($76M+)

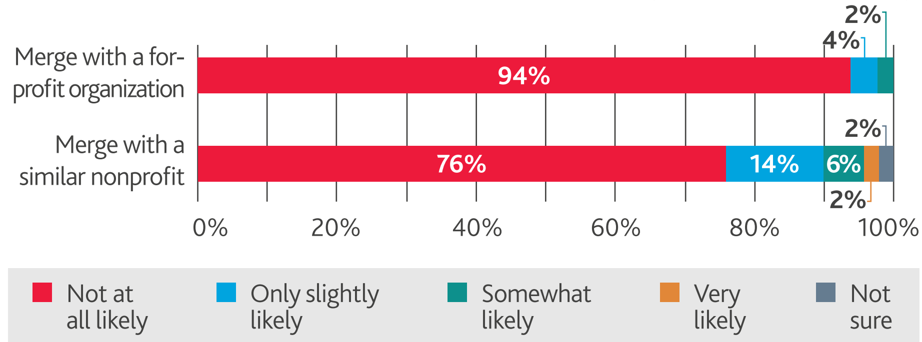


Mergers

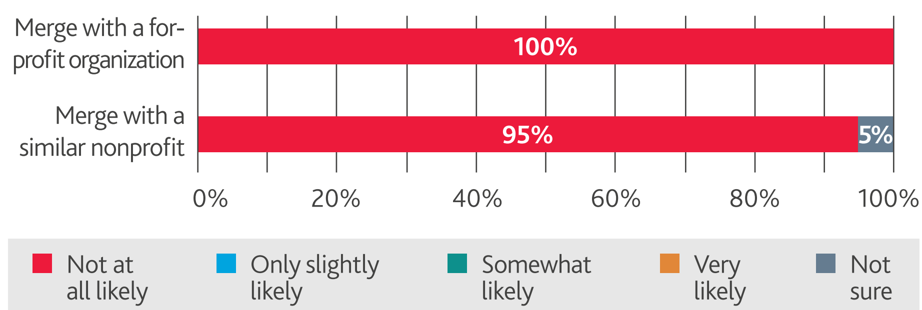
For better or for worse, mergers are largely not on nonprofits' radars. A little more than three-quarters (76 percent) say merging with a similar nonprofit is not at all likely. Not surprisingly, the chances of mergers with for-profits is even more slim. An overwhelming majority (94 percent) agree that merging with a for-profit is not at all likely.

Large and upper-midrange nonprofits are more likely to consider merging with another nonprofit organization than their midrange counterparts who almost unanimously say it's not in the cards.

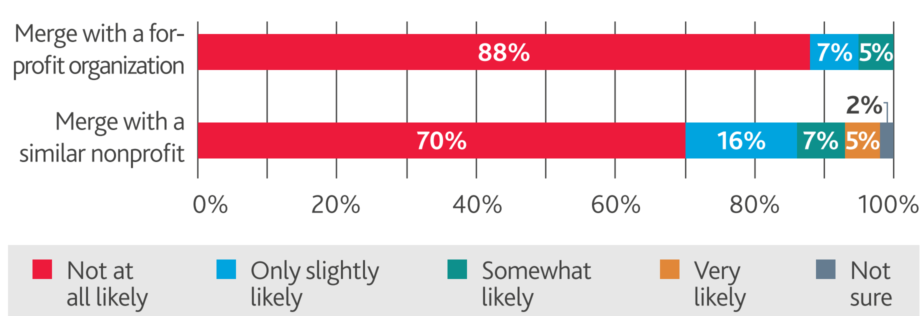
WHAT IS THE LIKELIHOOD YOU WILL ENTER A MERGER? (ALL ORGANIZATIONS)



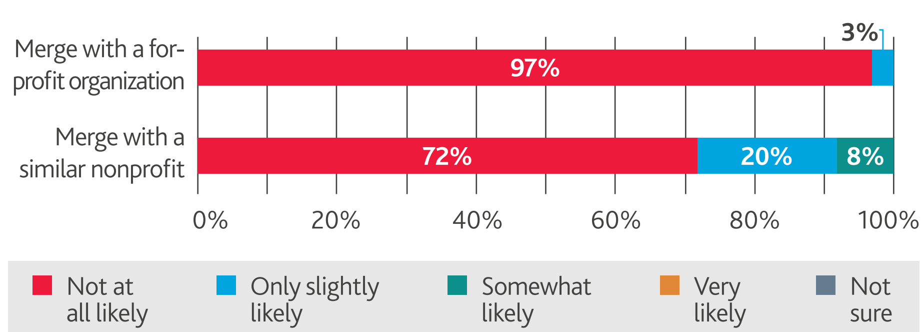
WHAT IS THE LIKELIHOOD YOU WILL ENTER A MERGER? (UNDER $25M)



WHAT IS THE LIKELIHOOD YOU WILL ENTER A MERGER? ($25M-$75M)



WHAT IS THE LIKELIHOOD YOU WILL ENTER A MERGER? ($76M+)

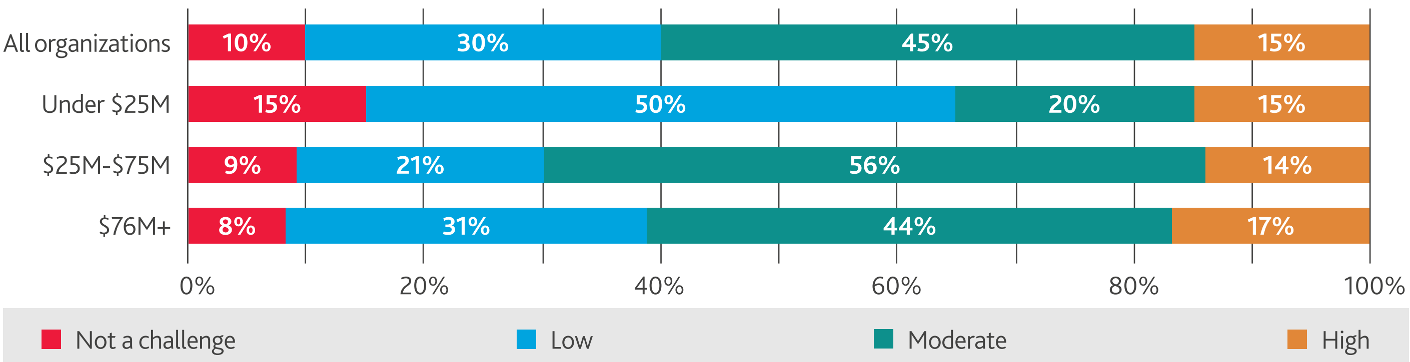


Human Resources

STAFF RETENTION AND RECRUITMENT

A strong workforce is an essential element of any effective nonprofit organization. Staff retention and recruitment continues to be a key priority and obstacle for the sector, cited as a high or moderate challenge by 60 percent of respondents. While the clear majority of large and upper-midrange organizations consider retention and recruitment to be a high or moderate challenge, surprisingly, half of midrange organizations say that it is a low-level challenge.

HOW MUCH OF A CHALLENGE IS STAFF RETENTION & RECRUITMENT?

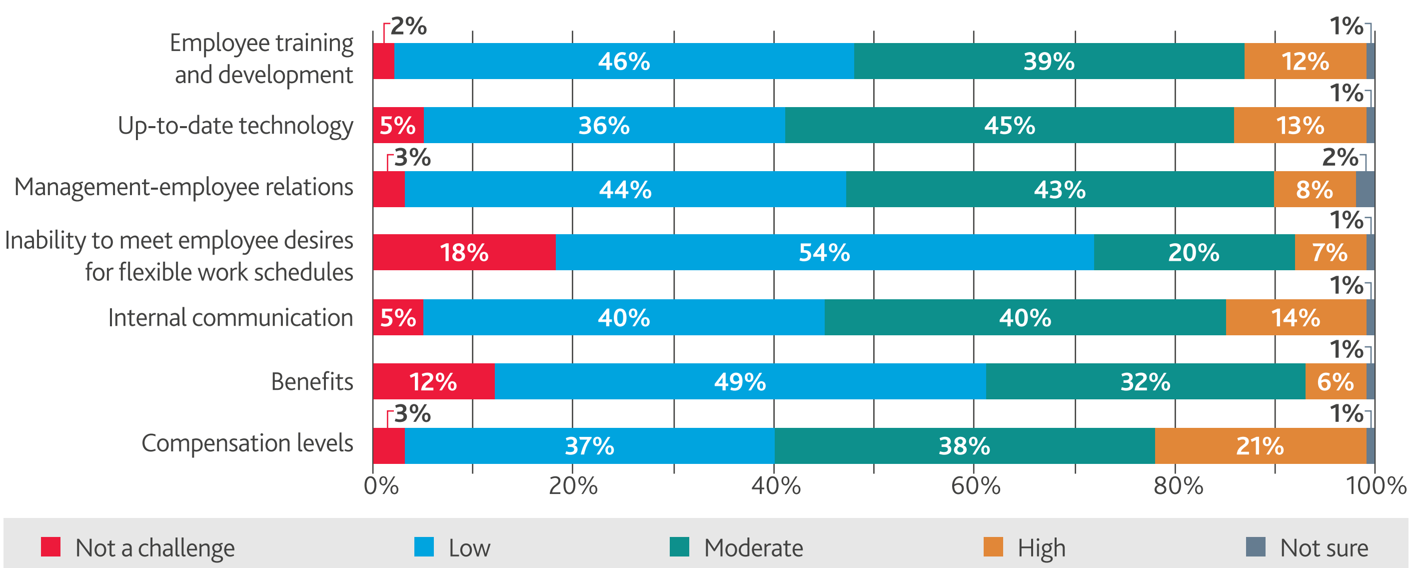


EMPLOYEE SATISFACTION ISSUES

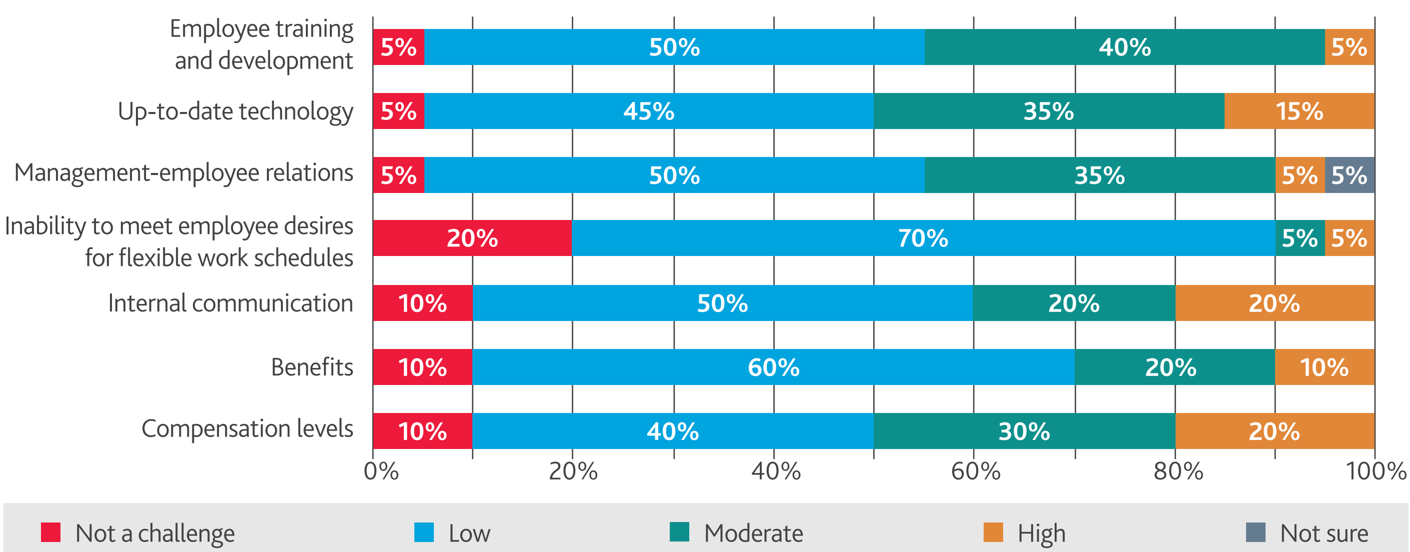
As nonprofit executives evaluate employee satisfaction issues, maintaining competitive compensation levels is the leading challenge. Nearly one-quarter (21 percent) consider compensation to be a high-level challenge. An additional 38 percent say it is a moderate-level challenge. Among upper-midrange organizations, compensation is a larger challenge—marked as a high-level challenge by 28 percent and a moderate challenge by 42 percent.

Availability of up-to-date technology is the second-leading employee satisfaction issue, ranked by 58 percent of nonprofits as a high- or moderate-level challenge. Additional top challenges include internal communication (54 percent), management-employee relations (51 percent), and employee training and development (51 percent).

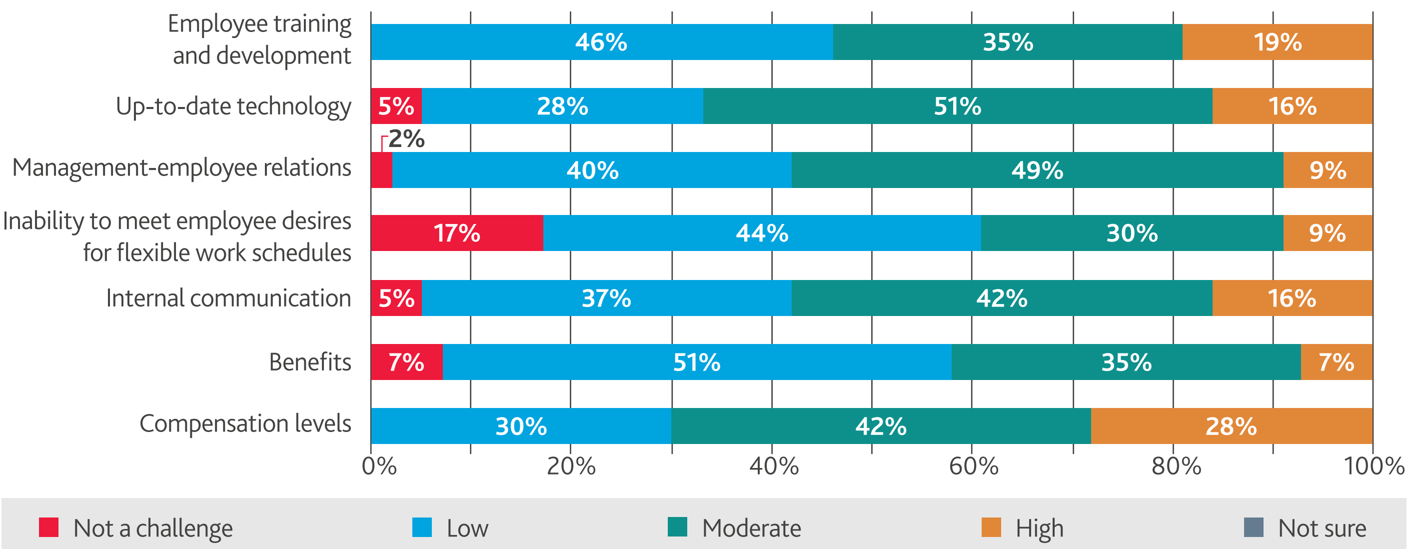
HOW CHALLENGING ARE EACH OF THE FOLLOWING EMPLOYEE SATISFACTION ISSUES? (ALL ORGANIZATIONS)



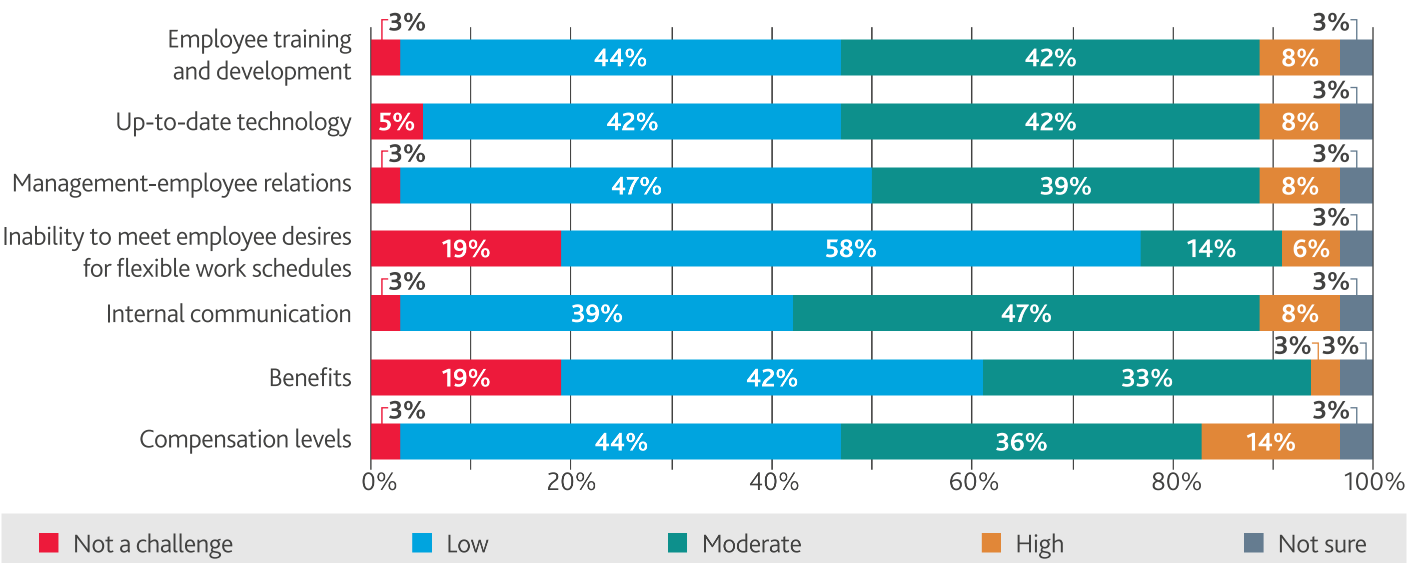
HOW CHALLENGING ARE EACH OF THE FOLLOWING EMPLOYEE SATISFACTION ISSUES? (UNDER $25M)



HOW CHALLENGING ARE EACH OF THE FOLLOWING EMPLOYEE SATISFACTION ISSUES? ($25M-$75M)



HOW CHALLENGING ARE EACH OF THE FOLLOWING EMPLOYEE SATISFACTION ISSUES? ($76M+)

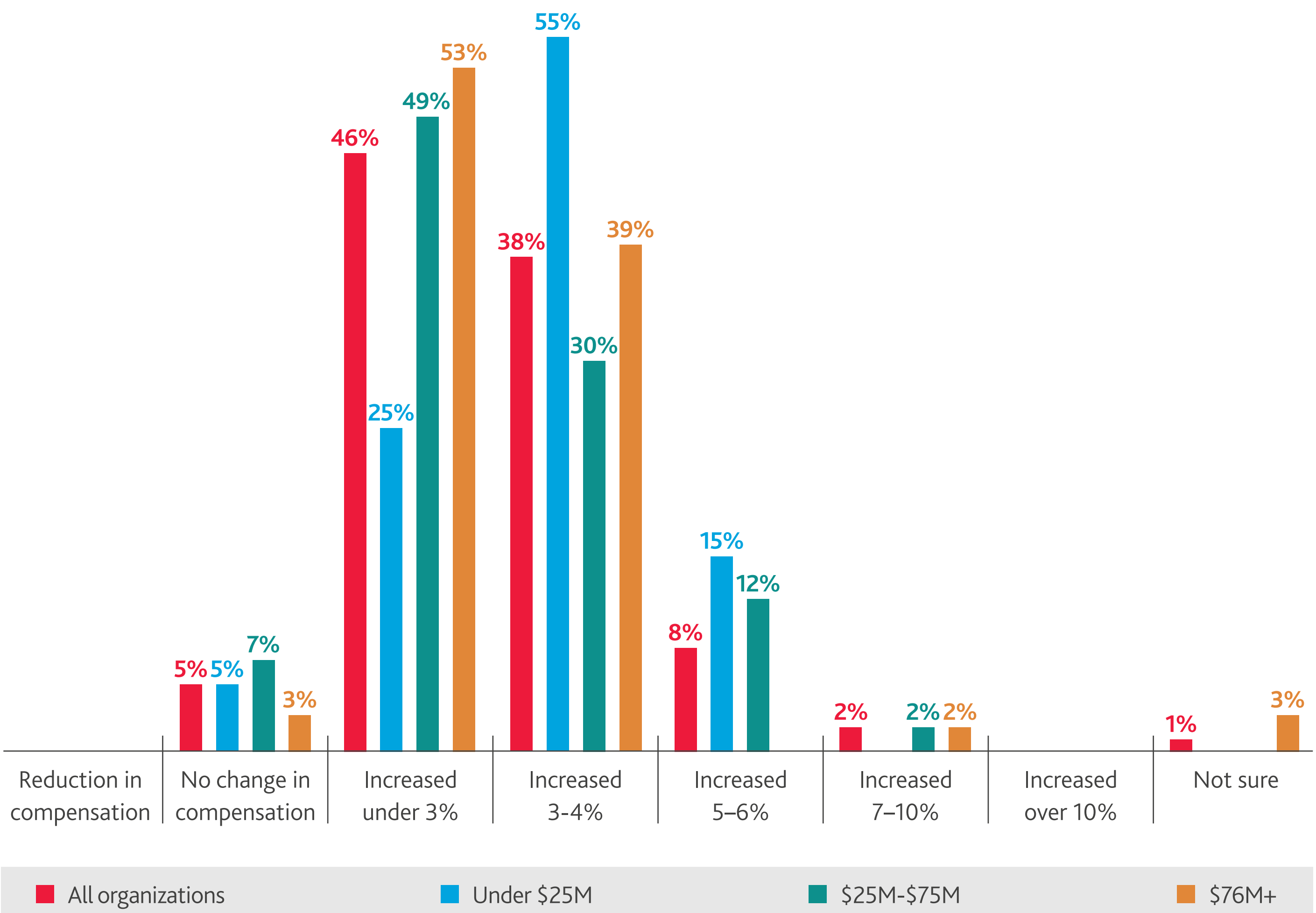


COMPENSATION

When it comes to compensation levels, overall a plurality of nonprofits (46 percent) increased employee compensation at a rate of under three percent. Another 38 percent increased compensation between 3 to 4 percent. No organizations increased over 10 percent.

Fifty-five percent of midrange organizations increased average employee compensation between 3 to 4 percent, indicating marginally larger increases than their larger counterparts.

AVERAGE CHANGE IN EMPLOYEE COMPENSATION IN THE LAST FISCAL YEAR

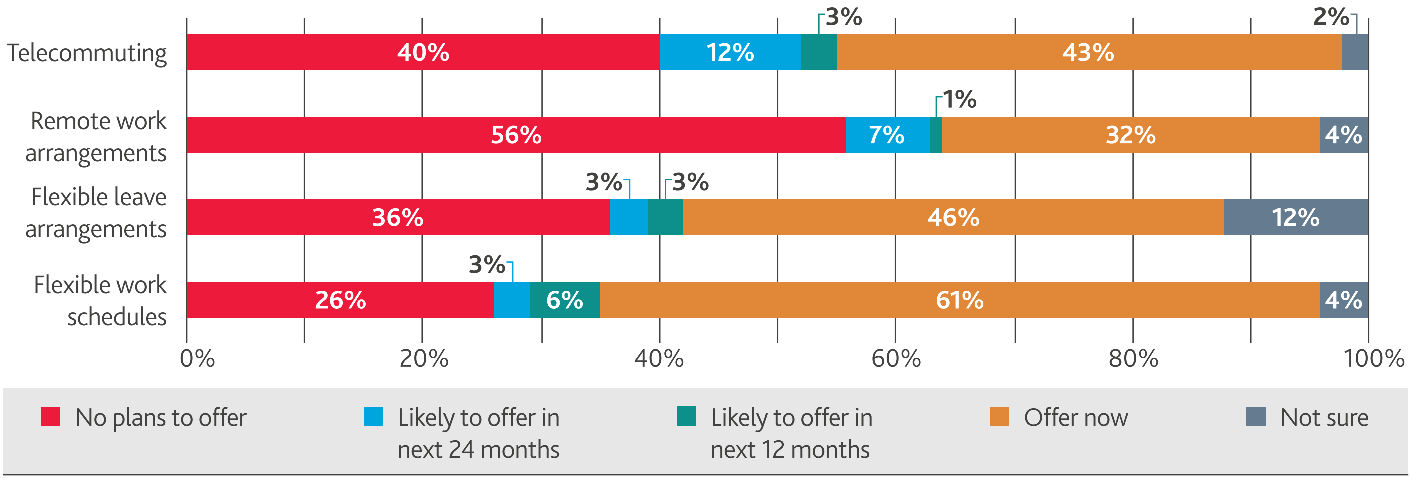


FLEXIBLE WORK ARRANGEMENTS

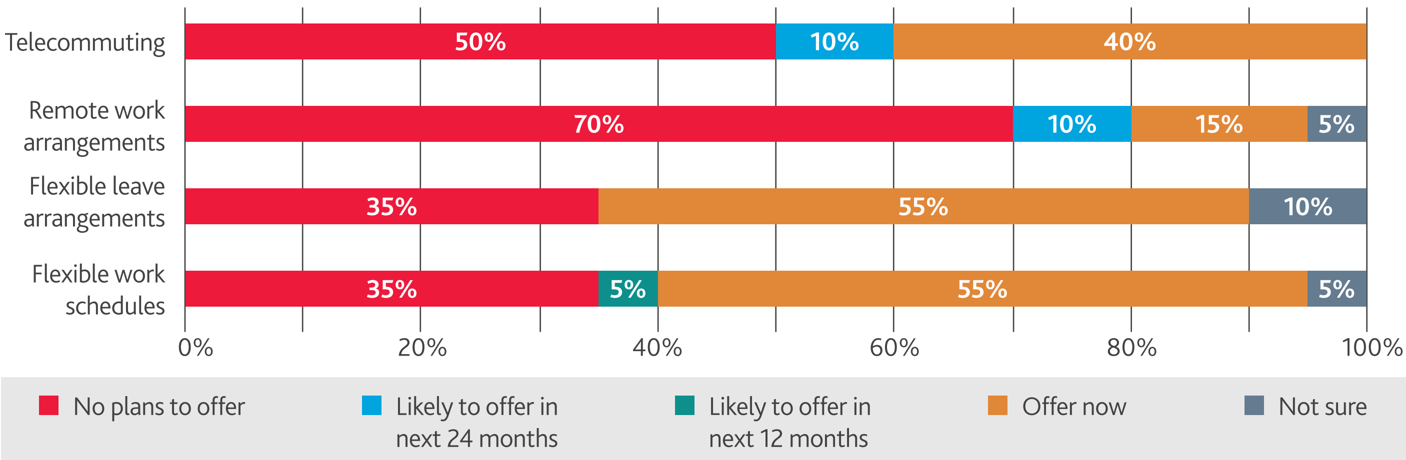
For 18 percent of nonprofits, meeting employees' demands for flexible work options is not a challenge. Another 54 percent consider it to be a low-level challenge. This likely reflects the fact that many organizations have flexible work policies already in place, and may feel they are adequately addressing employee demand.

The most commonly offered arrangement is flexible work schedules (61 percent), followed by flexible leave arrangements (46 percent), telecommuting (43 percent), and remote work arrangements (32 percent).

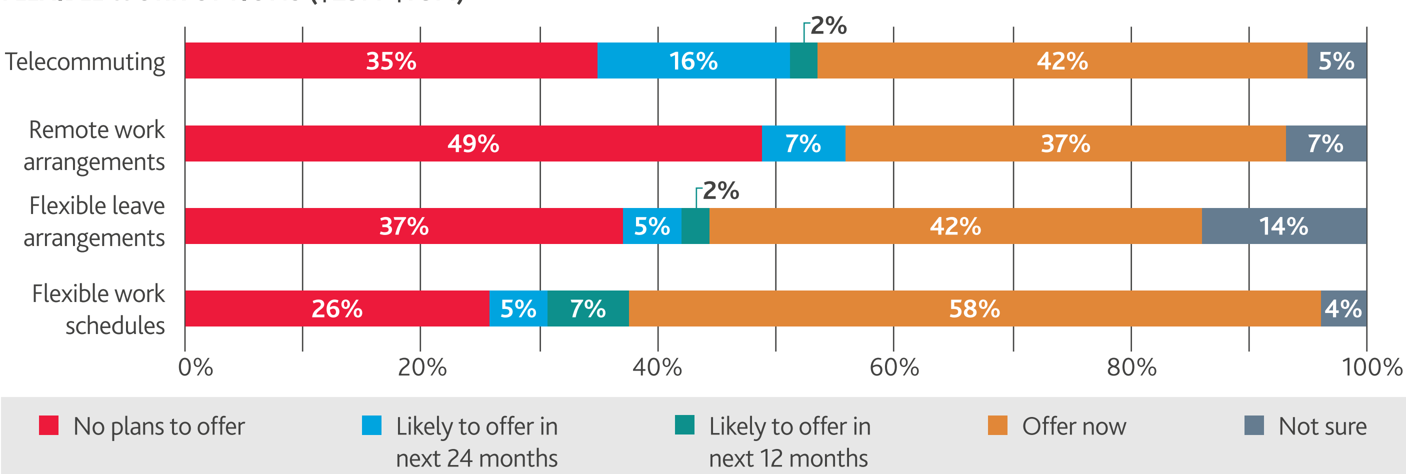
FLEXIBLE WORK OPTIONS (ALL ORGANIZATIONS)



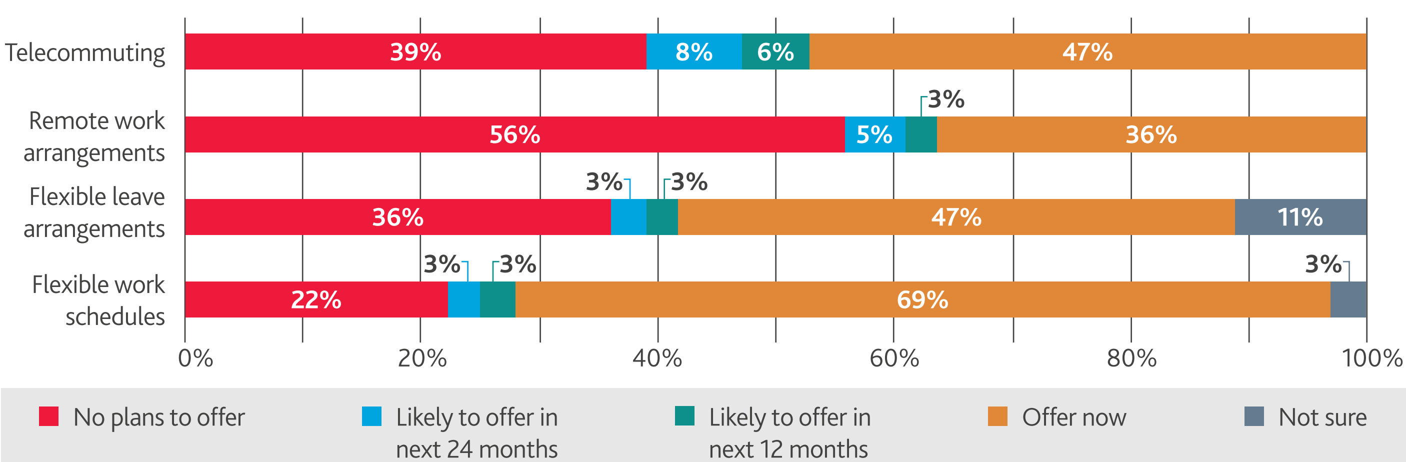
FLEXIBLE WORK OPTIONS (UNDER $25M)



FLEXIBLE WORK OPTIONS ($25M-$75M)



FLEXIBLE WORK OPTIONS ($76M+)

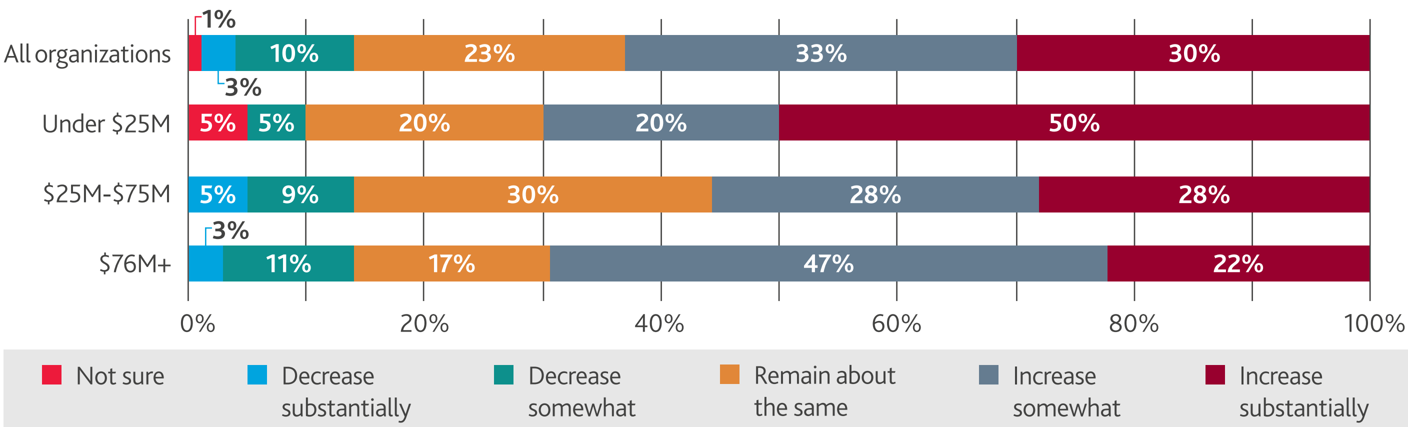


Operations

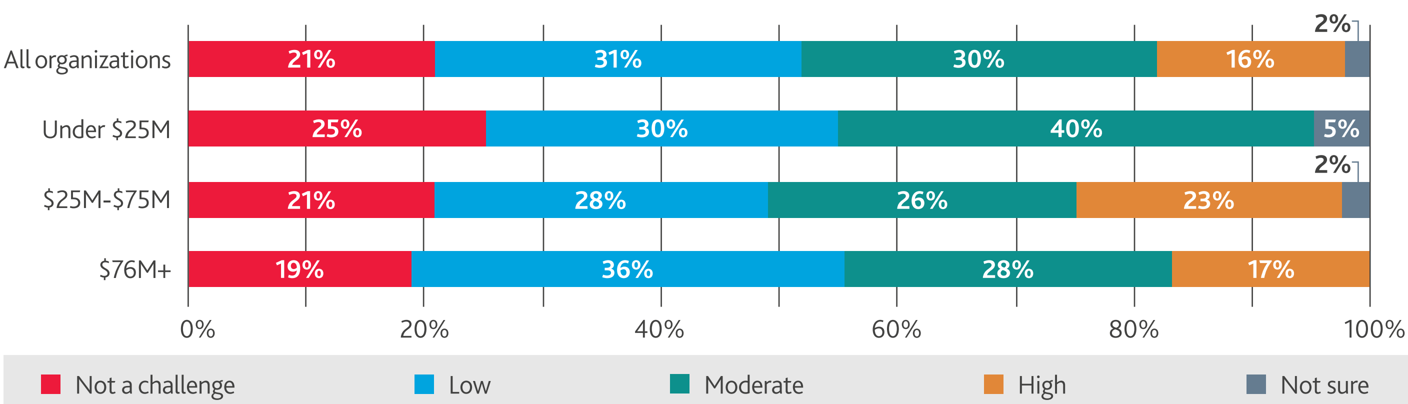
A nonprofit's capacity to serve their constituents and maintain their programming is dependent on a sustained revenue stream, and most organizations surveyed this year appear to be healthy. Almost two-thirds of nonprofits (63 percent) experienced revenue increases in the last fiscal year. Thirty percent saw a substantial increase and 33 percent say revenue increased somewhat. Revenues stayed static for about one-quarter (23 percent), and just 13 percent reported a decrease.

Midrange organizations report the rosiest financial results: Half experienced a substantial increase in revenue during the last fiscal year. Respondents in the midrange revenue group are also less concerned than their counterparts with declining revenue or funding in the year ahead. While 40 percent identify declining revenue or funding as a moderate challenge, none of them rank it as a high-level challenge. Among all organizations, 30 percent consider declining revenue to be a moderate-level challenge and 16 percent rank it as a high-level challenge.

DID YOUR REVENUE INCREASE OR DECREASE LAST FISCAL YEAR?



HOW MUCH OF A CHALLENGE IS DECLINING REVENUE OR FUNDING?



FUNDING SOURCES

Nonprofits rely on a myriad of different funding sources to power their programs and advance their missions. How much of their funding is reliant on each source? Fees for service and investment income comprise the largest portion of nonprofits' overall funding mix, accounting for an average of 25.8 percent and 24.8 percent of nonprofits' funding sources, respectively. Individual contributions is the third largest funding source, averaging 13.9 percent of nonprofits' funding. Government and foundation grants accounted for an average of 9 percent and 7.6 percent, respectively.

While not the top funding source, individual contributions still make up a critical piece of nonprofits' funding. Many nonprofits fear changes in the new tax law, including the increase in the standard deduction, may lead to a reduction in giving. The Tax Policy Center estimates that charitable giving could **decline** by 5 percent in 2018. At the end of this fiscal year, the funding mix could shift if this forecast proves true.

Among different revenue groups, midrange organizations rely heavily on investments. Organizations with annual revenues below $25 million receive an average of 51.1 percent of their overall funding from investments—by far the leading funding source for that revenue segment.

Why are investments such a large funding source for midrange nonprofits? As is the case for private foundations that rely heavily on investment income, midrange organizations likely have less annual funding than the larger groups, so investments may make up a greater proportion of that funding. A higher percentage of investment income used for funding may not be indicative of better yields or management of investments.

FUNDING SOURCES: ABOUT WHAT PERCENT OF YOUR FUNDING CAME FROM EACH OF THE FOLLOWING SOURCES?

Fee for Service	Mean
All organizations	**25.8%**
Under $25M	19.3%
$25M-$75M	25.6%
$76M+	29.9%

Investments	Mean
All organizations	**24.8%**
Under $25M	51.1%
$25M-$75M	21.7%
$76M+	14.8%

Individual Contributions	Mean
All organizations	**13.9%**
Under $25M	13%
$25M-$75M	15%
$76M+	13.1%

Government Grants	Mean
All organizations	**9%**
Under $25M	1.8%
$25M-$75M	12.6%
$76M+	8.4%

Foundation Grants	Mean
All organizations	**7.6%**
Under $25M	14.3%
$25M-$75M	6%
$76M+	5.5%

Fundraising/Special Events	Mean
All organizations	**6.9%**
Under $25M	3.4%
$25M-$75M	11.4%
$76M+	3.1%

Corporate Contributions	Mean
All organizations	**6.3%**
Under $25M	3.9%
$25M-$75M	7.8%
$76M+	5.9%

Membership Dues	Mean
All organizations	**4.6%**
Under $25M	2%
$25M-$75M	4.9%
$76M+	5.6%

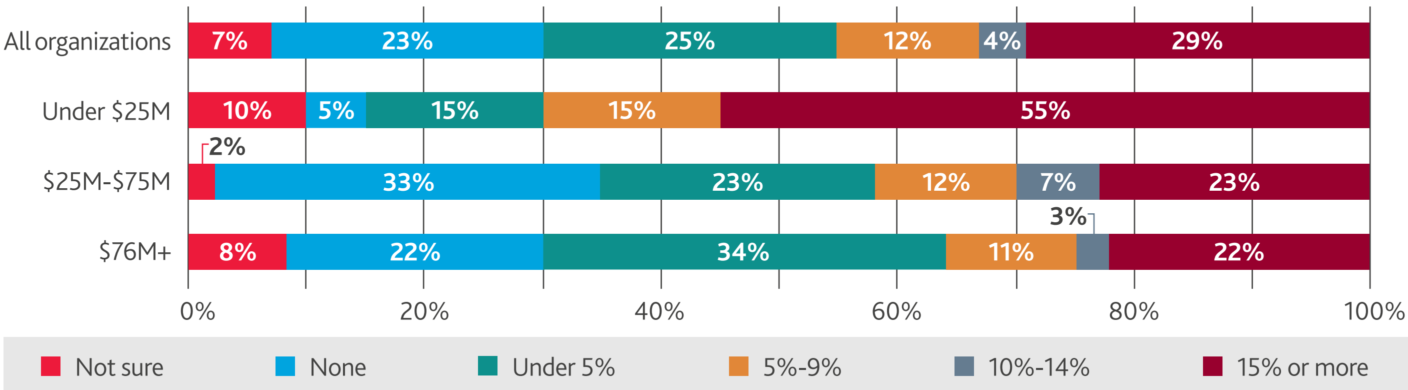
Conferences/Meetings	Mean
All organizations	**2.1%**
Under $25M	0.4%
$25M-$75M	1.4%
$76M+	4.1%

Publications	Mean
All organizations	**1.1%**
Under $25M	0%
$25M-$75M	0%
$76M+	3%

INVESTMENTS

For more than a quarter of nonprofits (29 percent), investment income funds 15 percent or more of the organization's operating budget. When it comes to allocating those investments, 87 percent of organizations have an investment policy.

WHAT PERCENTAGE OF YOUR OPERATING BUDGET IS FUNDED THROUGH INVESTMENT INCOME?



Equity and mutual funds are the number one investment vehicle for nonprofits. Across all organizations, nonprofits allocate an average of 43 percent of their investments to equity and mutual funds. Bonds or fixed income investments and alternative investments are the next most popular choices for nonprofits, with an average allocation of 22.6 percent and 15.4 percent, respectively.

INVESTMENT VEHICLES

#1 Equity/Mutual Funds	Mean
All organizations	**43%**
Under $25M	47.3%
$25M-$75M	46.5%
$76M+	36%

#2 Bonds/Fixed Income	Mean
All organizations	**22.6%**
Under $25M	17.7%
$25M-$75M	22.3%
$76M+	25.7%

#3 Alternative Investments	Mean
All organizations	**15.4%**
Under $25M	18.3%
$25M-$75M	15.2%
$76M+	14%

#4 Cash or Cash Equivalents	Mean
All organizations	**14.8%**
Under $25M	3.4%
$25M-$75M	18.2%
$76M+	16.4%

#5 Other Investments	Mean
All organizations	**6%**
Under $25M	8.9%
$25M-$75M	4.5%
$76M+	6.6%

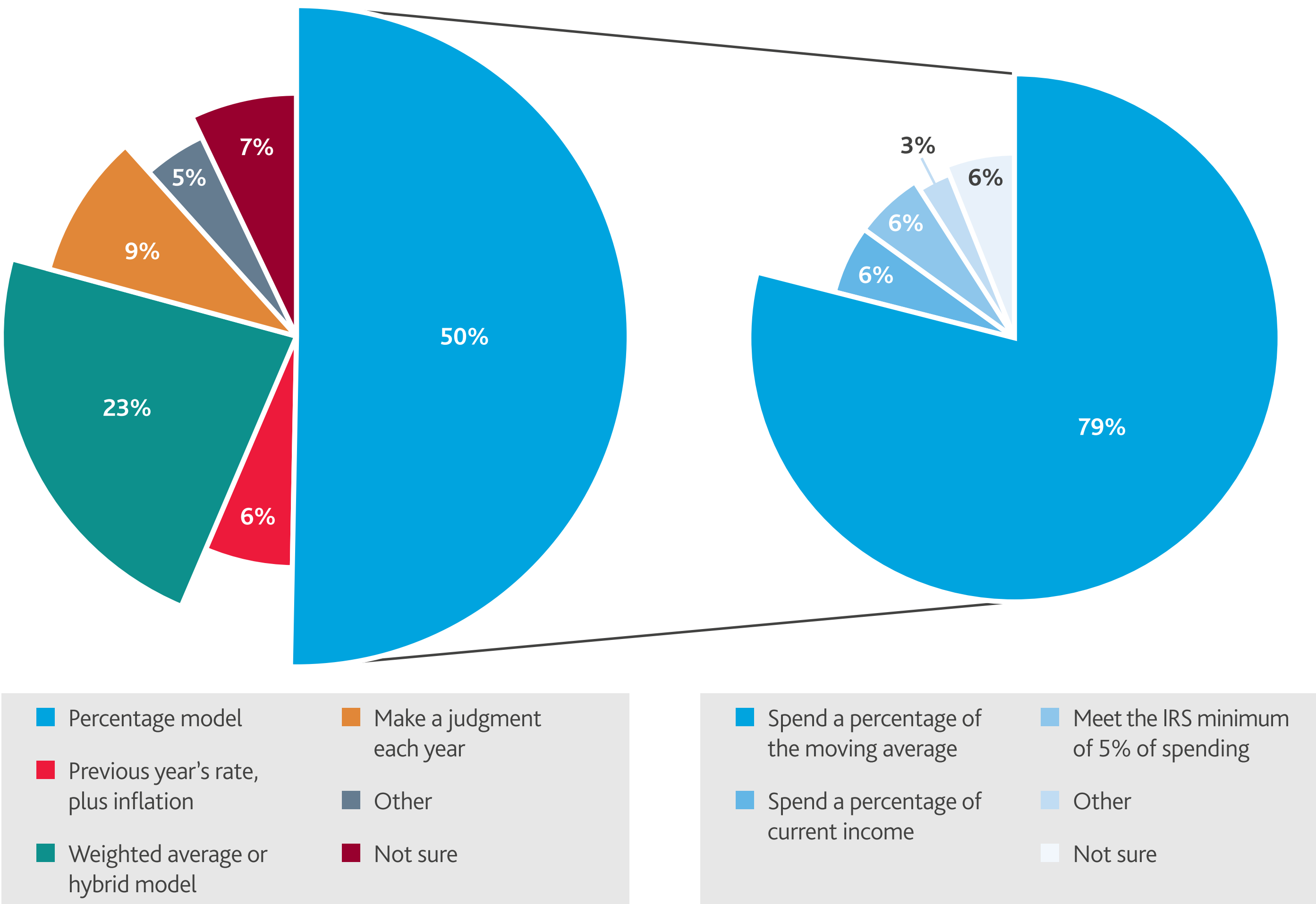
#6 Certificates of Deposit	Mean
All organizations	**3%**
Under $25M	3.6%
$25M-$75M	4.6%
$76M+	0.6%

SPENDING POLICY

About two-thirds (66 percent) of nonprofits surveyed have a spending policy, and half of those organizations use a percentage model. About 4 in 5 organizations (79 percent) that use a percentage model spend a percentage of the moving average each year.

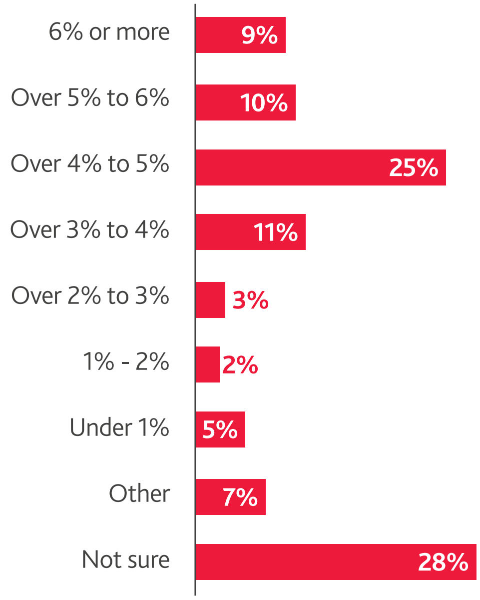
TYPE OF SPENDING POLICY (ALL ORGANIZATIONS)

BASIS FOR SPENDING POLICY PERCENTAGE MODEL (AMONG ALL ORGANIZATIONS WHO USE THIS MODEL)

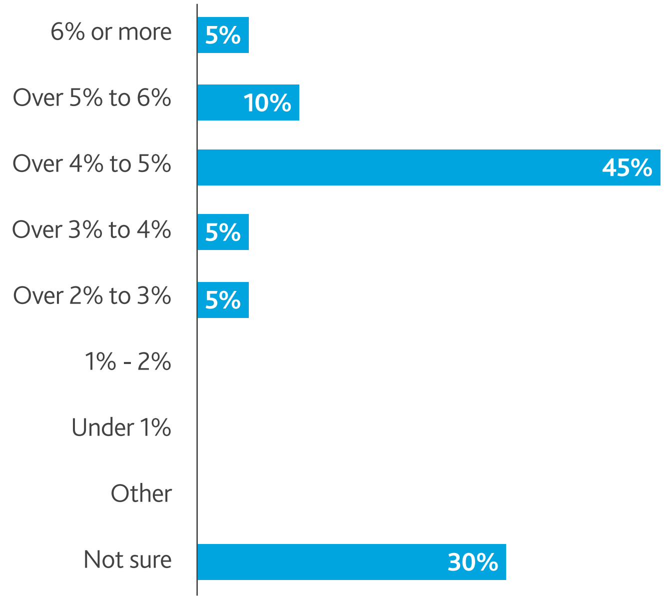


A spending rate between four to five percent was the most common spending rate last fiscal year, cited by a quarter of nonprofits. While this spending rate was consistent across all revenue levels, large nonprofits had a marginally higher spending rate. Fourteen percent of large organizations had spending rates of six percent or more.

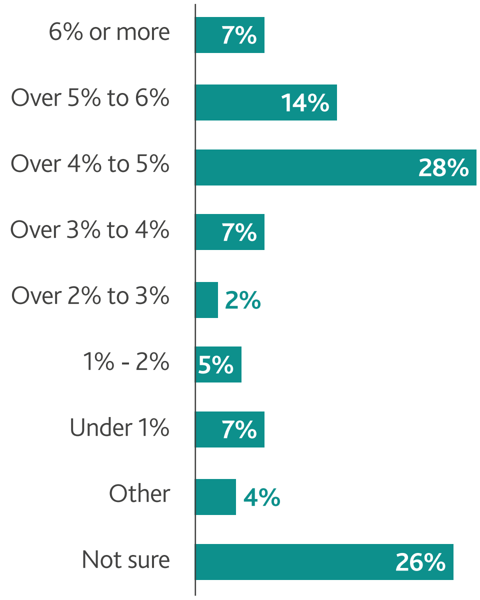
SPENDING RATE FOR THE LAST FISCAL YEAR (ALL ORGANIZATIONS)



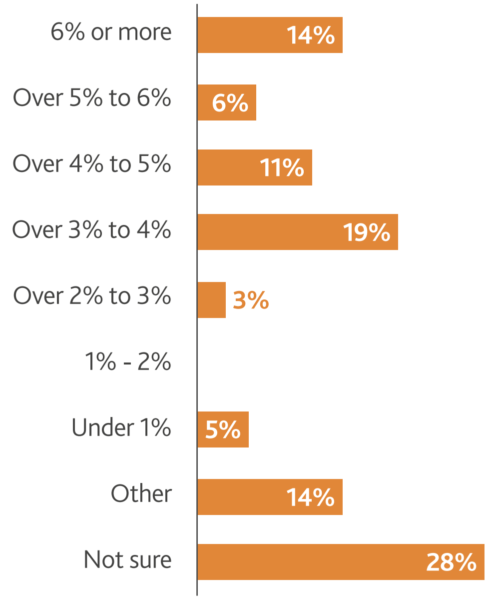
SPENDING RATE FOR THE LAST FISCAL YEAR (UNDER $25M)



SPENDING RATE FOR THE LAST FISCAL YEAR ($25M-$75M)



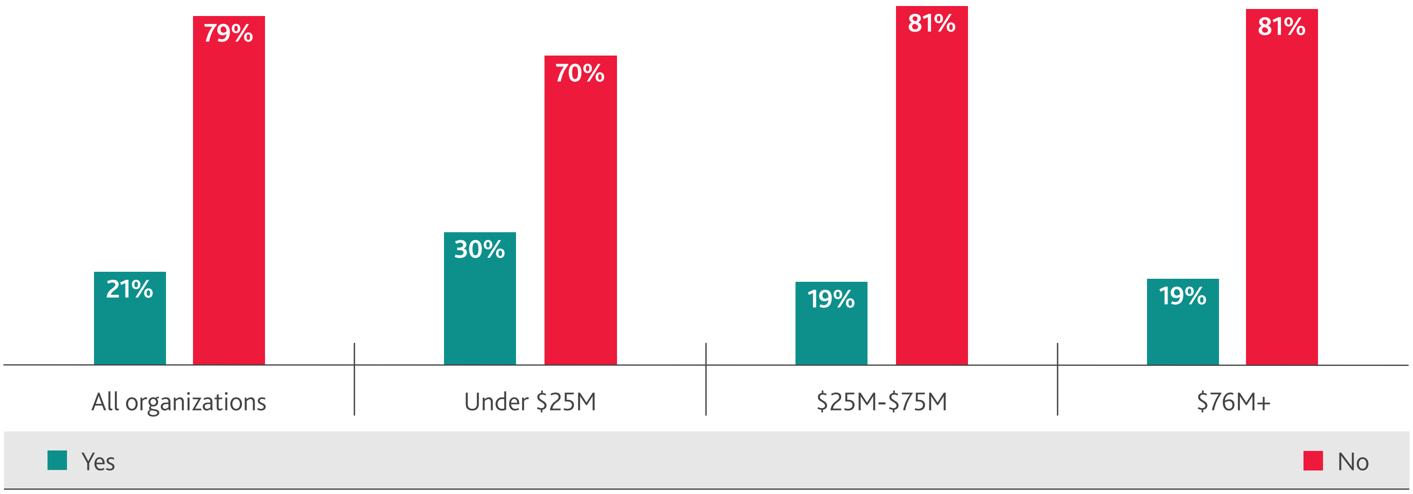
SPENDING RATE FOR THE LAST FISCAL YEAR ($76M+)



Scope and Impact

Most nonprofits (79 percent) did not expand the scope of their mission in the last fiscal year. In the uncertain political and economic climate, many organizations could be taking a wait-and-see approach before pursuing mission-expansion.

DID YOU EXPAND THE SCOPE OF YOUR MISSION IN THE LAST FISCAL YEAR?



EXPENDITURES TO PROGRAM-RELATED ACTIVITIES

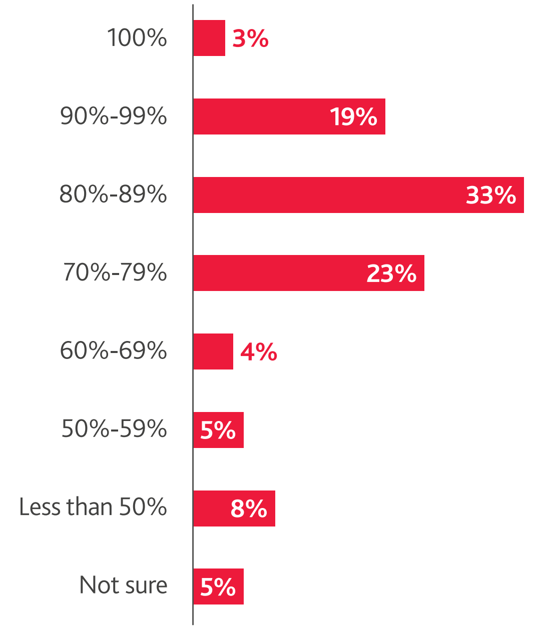
Nonprofits spend an average of 77 percent of their total expenditures on program-related activities—a metric many nonprofit watchdogs use to determine financial efficiency. This aligns with [Charity Navigator's findings] that 7 in 10 nonprofits spend at least 75 percent of their budget on programs and services.

While organizations are under pressure to minimize overhead and prioritize programmatic spending, more isn't always better and the "right" level of spending varies greatly by organization type. Falling on either end of the spectrum—underfunding or over-allocating—can both be causes for concern. About 1 in 5 nonprofits (19 percent) report spending between 90 to 99 percent on program-related expenses.

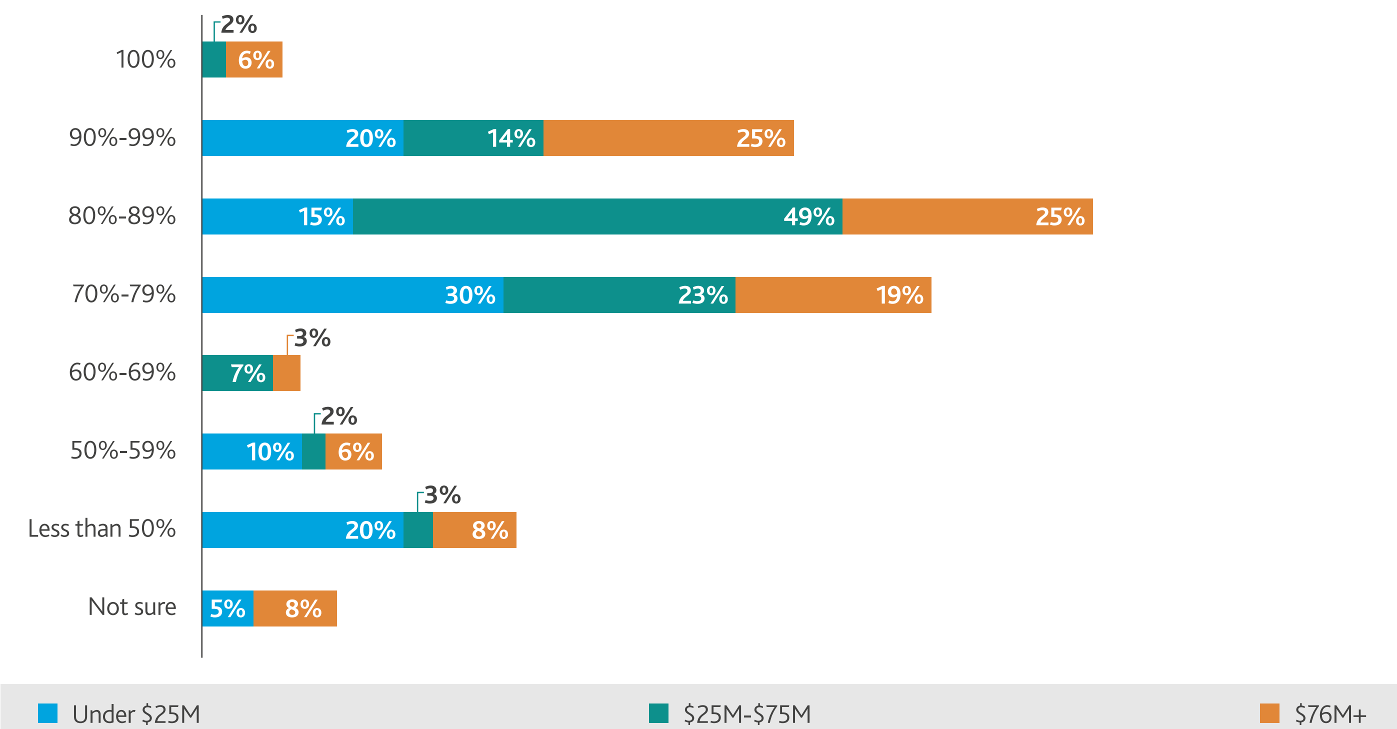
This type of high programmatic spending could mean that organizations are underfunding necessary infrastructure—new technology, employee training, and fundraising expenses—a phenomenon known as "the starvation cycle." The prevalence of restricted donations could also be a contributing factor to the high program-related spending.

Expenditures	Mean
All organizations	**77%**
Under $25M	68%
$25M-$75M	80%
$76M+	78%

PERCENTAGE OF TOTAL EXPENDITURES USED FOR PROGRAM-RELATED ACTIVITIES (ALL ORGANIZATIONS)



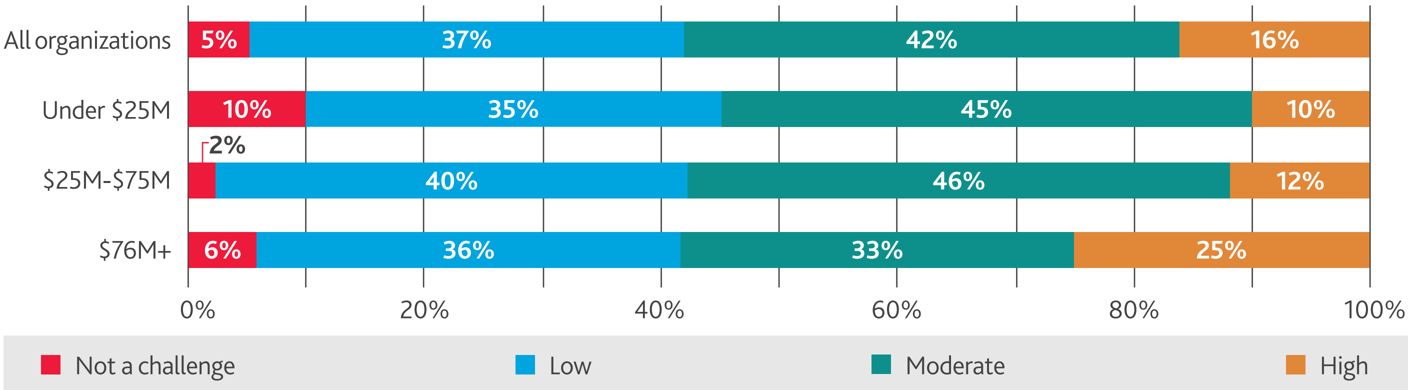
PERCENTAGE OF TOTAL EXPENDITURES USED FOR PROGRAM-RELATED ACTIVITIES (REVENUE BREAKOUT)



OVERHEAD COSTS

Sixteen percent of all organizations categorize rising overhead costs as a high-level challenge, and 42 percent consider it to be a moderate-level challenge. One quarter of large organizations say it is a high-level challenge.

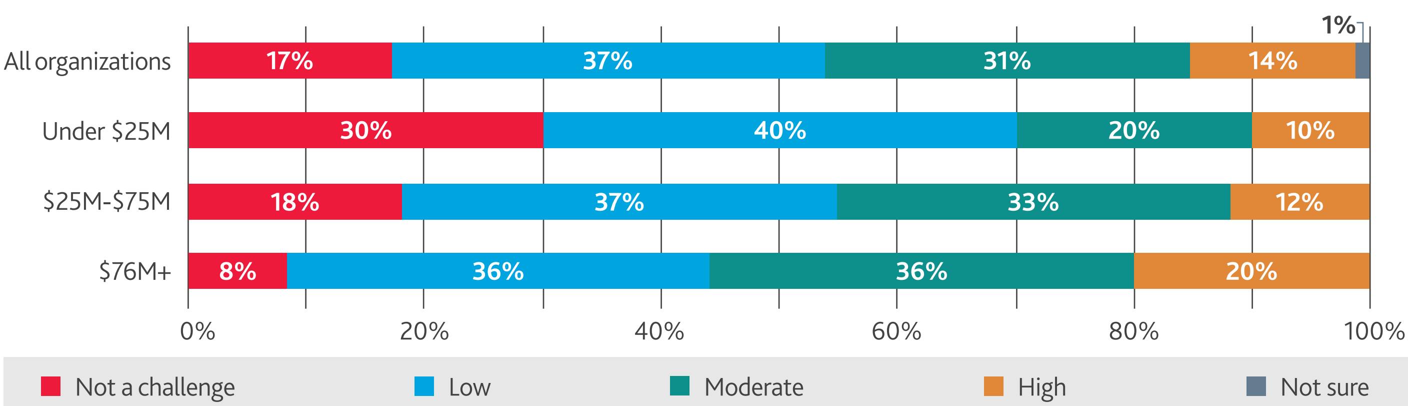
HOW CHALLENGING ARE RISING OVERHEAD COSTS?



CHANGING REGULATORY LANDSCAPE

Getting in compliance with new regulations can put a strain on nonprofit resources, and this past year has seen no shortage of changes. Forty-five percent of nonprofits say that the time and effort required to deal with government regulations and legislative changes will pose a moderate or high-level challenge to their organization in the next year.

DOES THE TIME & EFFORT REQUIRED TO DEAL WITH GOVERNMENT REGULATIONS & LEGISLATIVE CHANGES CREATE A CHALLENGE?



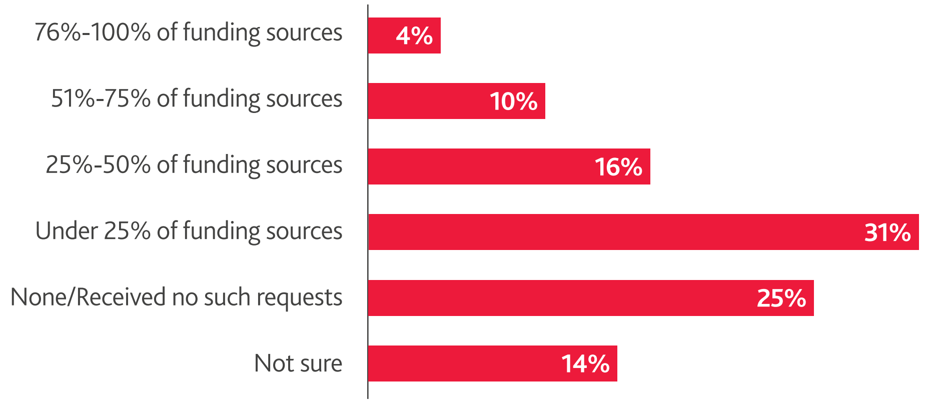
The plethora of changes in the new tax reform law and the trifecta of financial accounting changes looming—including revenue recognition, lease accounting, and changes to the presentation of nonprofit financial statements—immediately come to mind, but international regulations are also adding to the changes afoot. The EU's General Data Protection Regulation (GDPR), for example, has implications for many nonprofits. Any organization that serves constituents in the EU or accepts donations from individuals are within the regulation's scope.

Large organizations consider the changing regulatory landscape to be a greater challenge than their smaller counterparts: 56 percent of organizations with annual revenues above $76 million say it poses a high or moderate challenge. Conversely, 30 percent of midrange nonprofits do not view the time and effort required to deal with government regulations and legislative changes as a challenge.

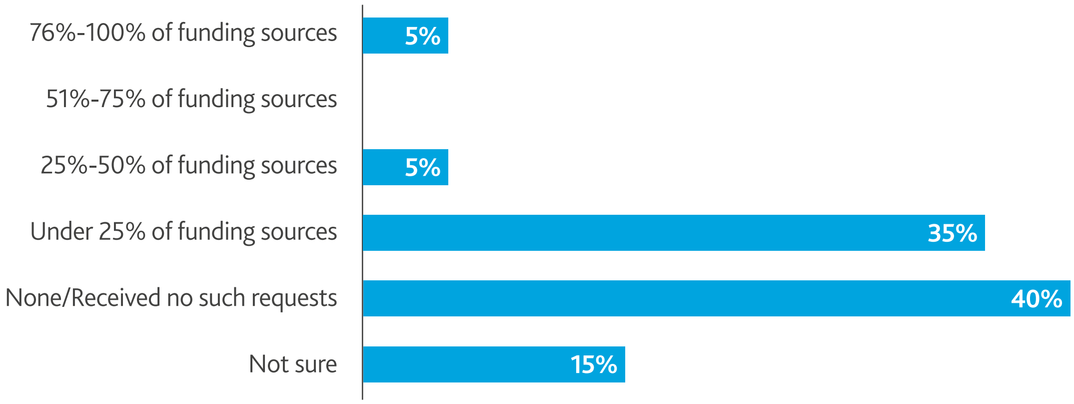
REPORTING IMPACT

The vast majority (93 percent) of organizations communicate impact outside of their organization and many are under increased pressure to demonstrate results and provide further transparency. Sixty-one percent say that some portion of their funders have required more information than was previously required, meaning organizations may be facing additional administrative burdens. When comparing revenue levels, upper-midrange nonprofits were the most frequent recipients of such requests. More than three-quarters (77 percent) of this group indicate some portion of funders required more information on impact.

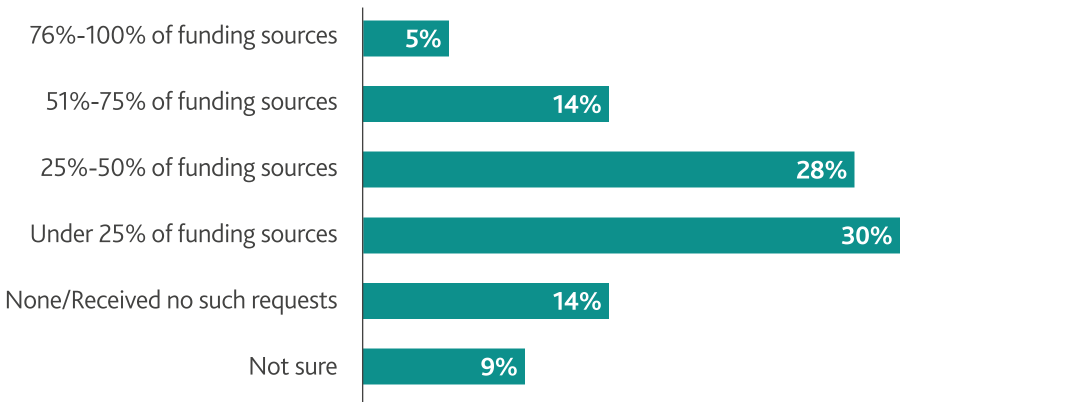
PERCENT OF FUNDING SOURCES THAT REQUESTED MORE INFORMATION ON OUTCOMES AND IMPACTS (ALL ORGANIZATIONS)



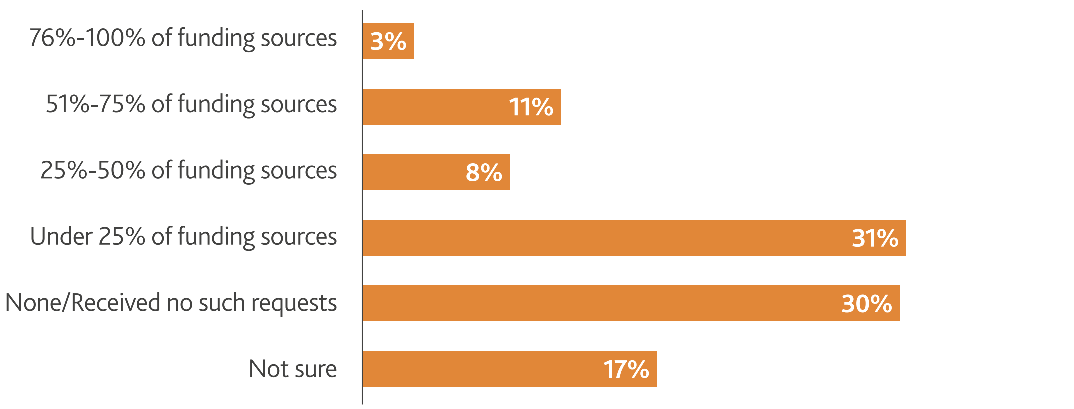
PERCENT OF FUNDING SOURCES THAT REQUESTED MORE INFORMATION ON OUTCOMES AND IMPACTS (UNDER $25M)



PERCENT OF FUNDING SOURCES THAT REQUESTED MORE INFORMATION ON OUTCOMES AND IMPACTS ($25M-$75M)



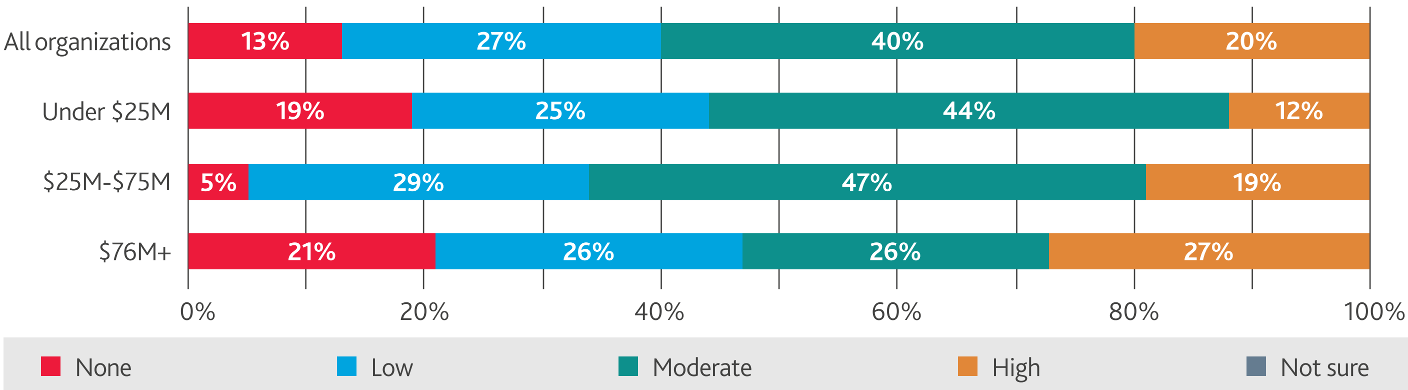
PERCENT OF FUNDING SOURCES THAT REQUESTED MORE INFORMATION ON OUTCOMES AND IMPACTS ($76M+)



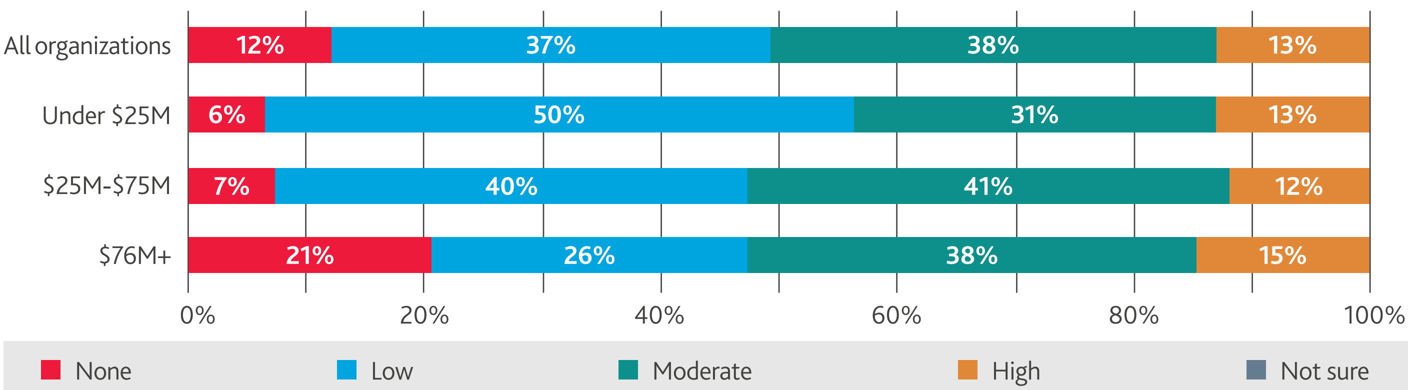
CHALLENGES RELATED TO REPORTING IMPACT

When it comes to reporting impact, the two areas most commonly identified as high or moderate challenges include no consistent framework for measuring and reporting impact (60 percent), and the lack of adequate technology to gather data on impact (58 percent). These are closely followed by human resources constraints (51 percent), lack of clear program objectives or key performance indicators (KPIs) to measure against (48 percent), and inadequate financial resources (43 percent).

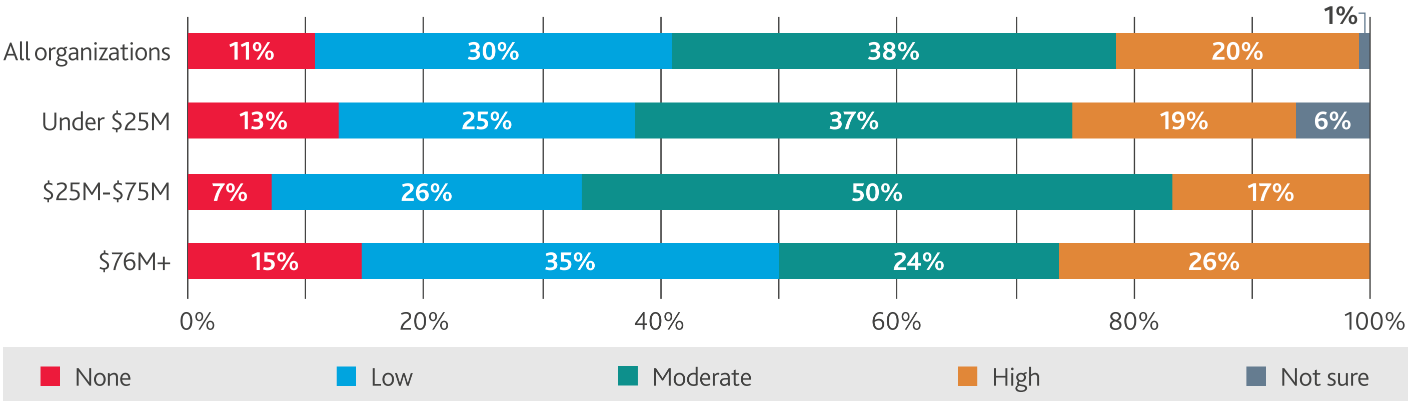
LEVEL OF CHALLENGE: NO CONSISTENT FRAMEWORK FOR MEASURING IMPACT AND REPORTING IT



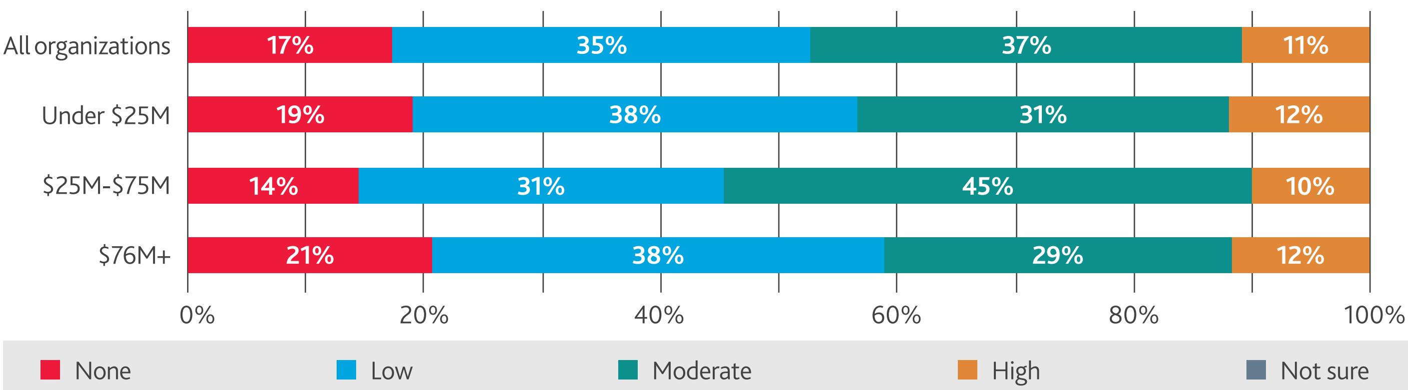
LEVEL OF CHALLENGE: NOT ENOUGH HR TO GATHER DATA ON IMPACT



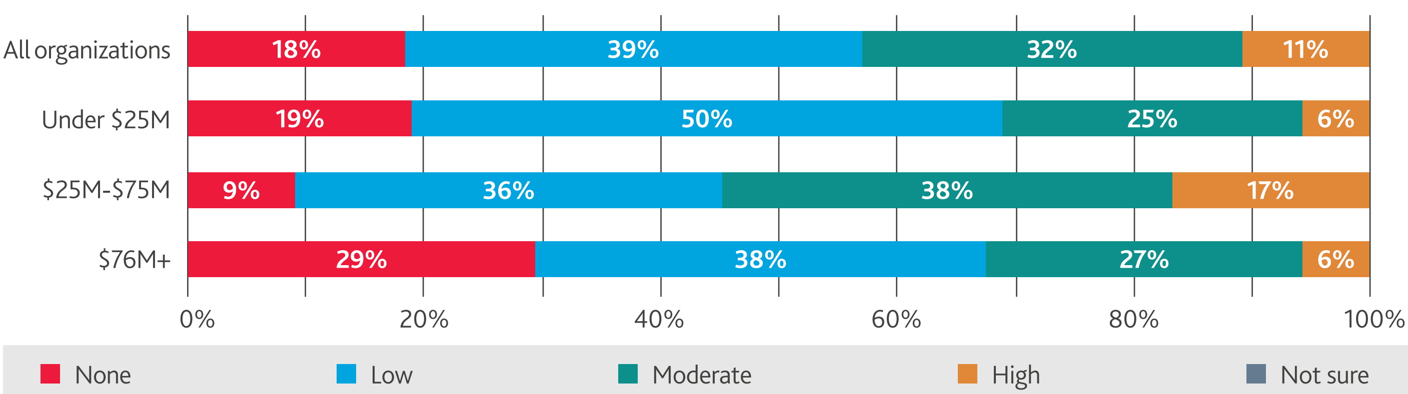
LEVEL OF CHALLENGE: LACK OF ADEQUATE TECHNOLOGY TO GATHER INFORMATION ON IMPACT



LEVEL OF CHALLENGE: LACK OF CLEAR PROGRAM OBJECTIVES AND/OR KPIS TO MEASURE AGAINST



LEVEL OF CHALLENGE: INADEQUATE FINANCIAL RESOURCES TO PUT TOWARDS REPORTING

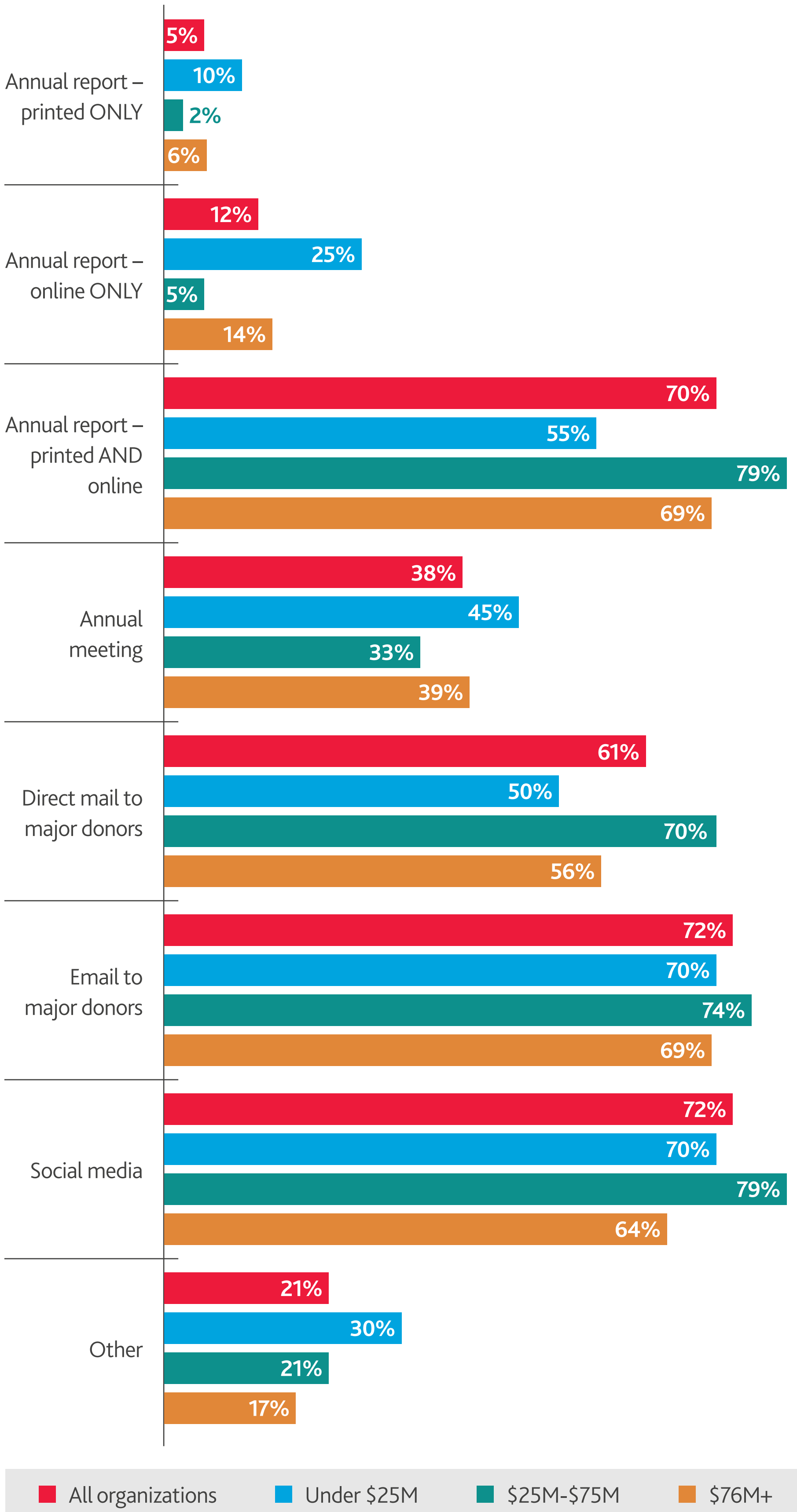


REPORTING METHODS

Annual reports remain the most popular vehicle for communicating outcomes with external stakeholders, distributed either online or in print by 87 percent of nonprofits surveyed.

Social media is becoming a more widely used method to communicate outcomes with external stakeholders and is tied with email in popularity. Nearly three-quarters (72 percent) communicate via social media—nearly double the 38 percent of organizations who leveraged the platforms last year.

METHODS OF COMMUNICATING WITH EXTERNAL STAKEHOLDERS

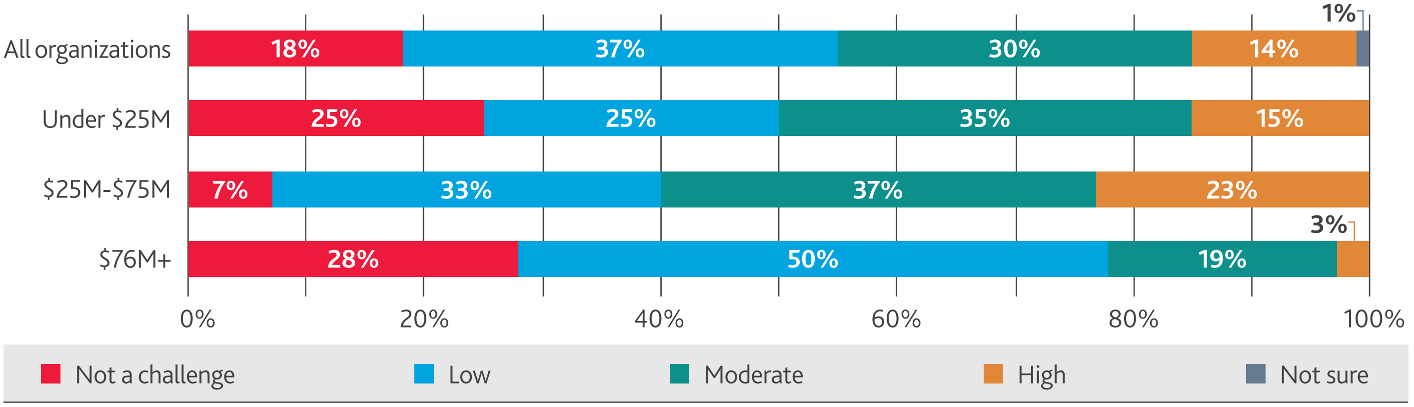


Governance

NONPROFIT BOARDS

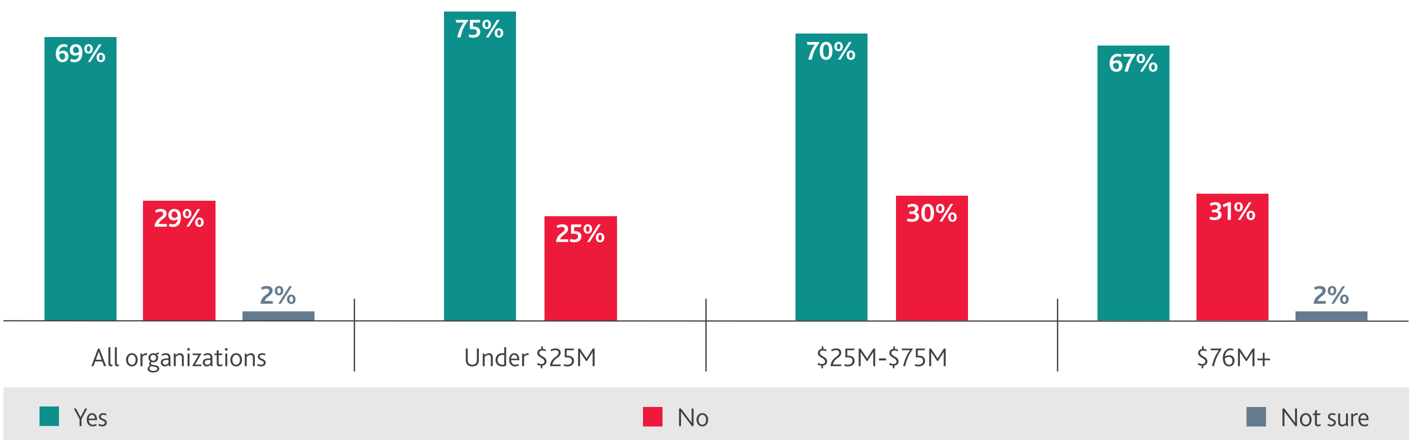
Strong nonprofit boards are integral to the sustainability and continued growth of the organization, but finding the right mix of members isn't always easy. Forty-four percent of organizations report that attracting quality leadership and board members is a high or moderate level challenge.

HOW MUCH OF A CHALLENGE DO YOU FACE WITH ATTRACTING QUALITY LEADERSHIP AND BOARD MEMBERS?

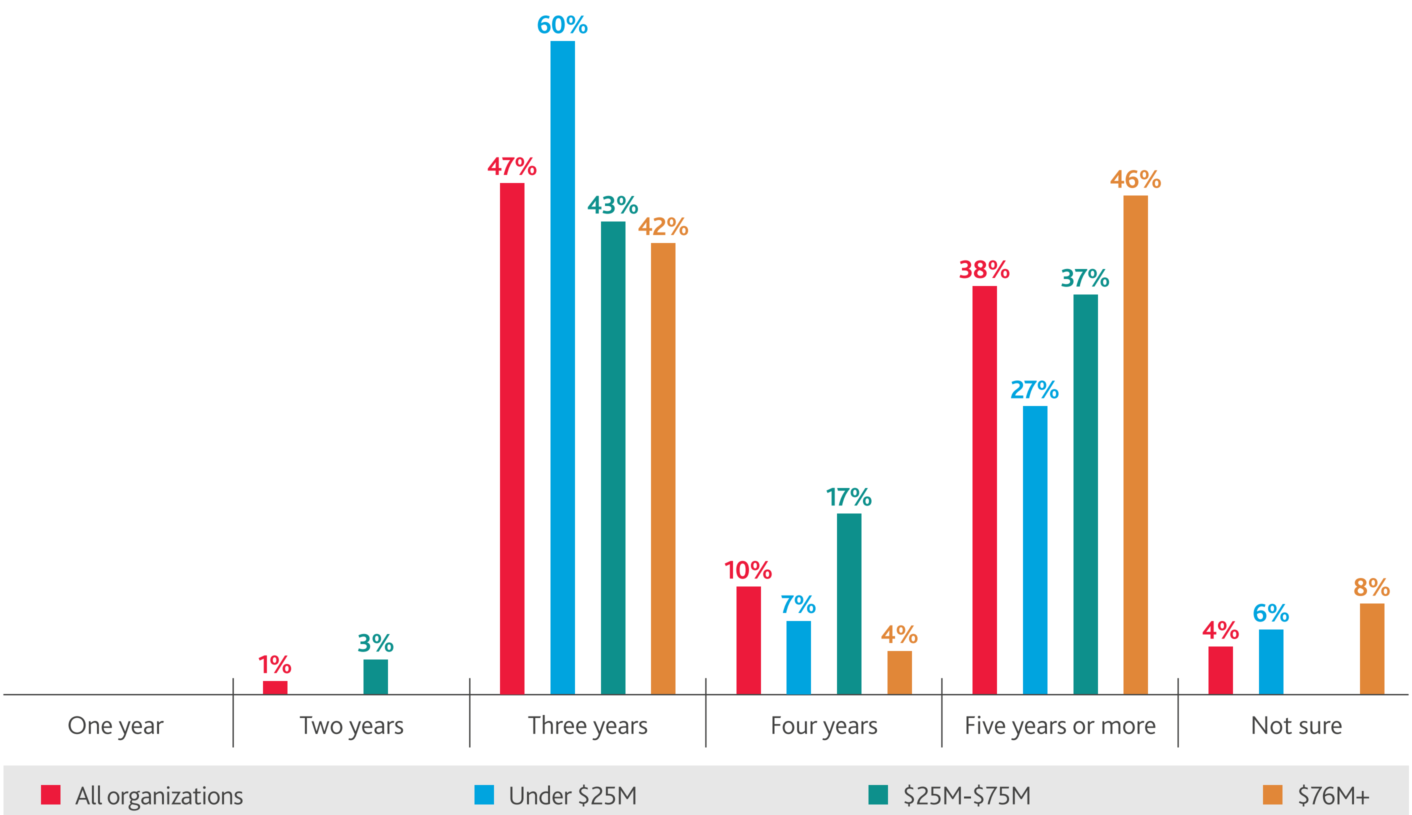


BOARD PRACTICES

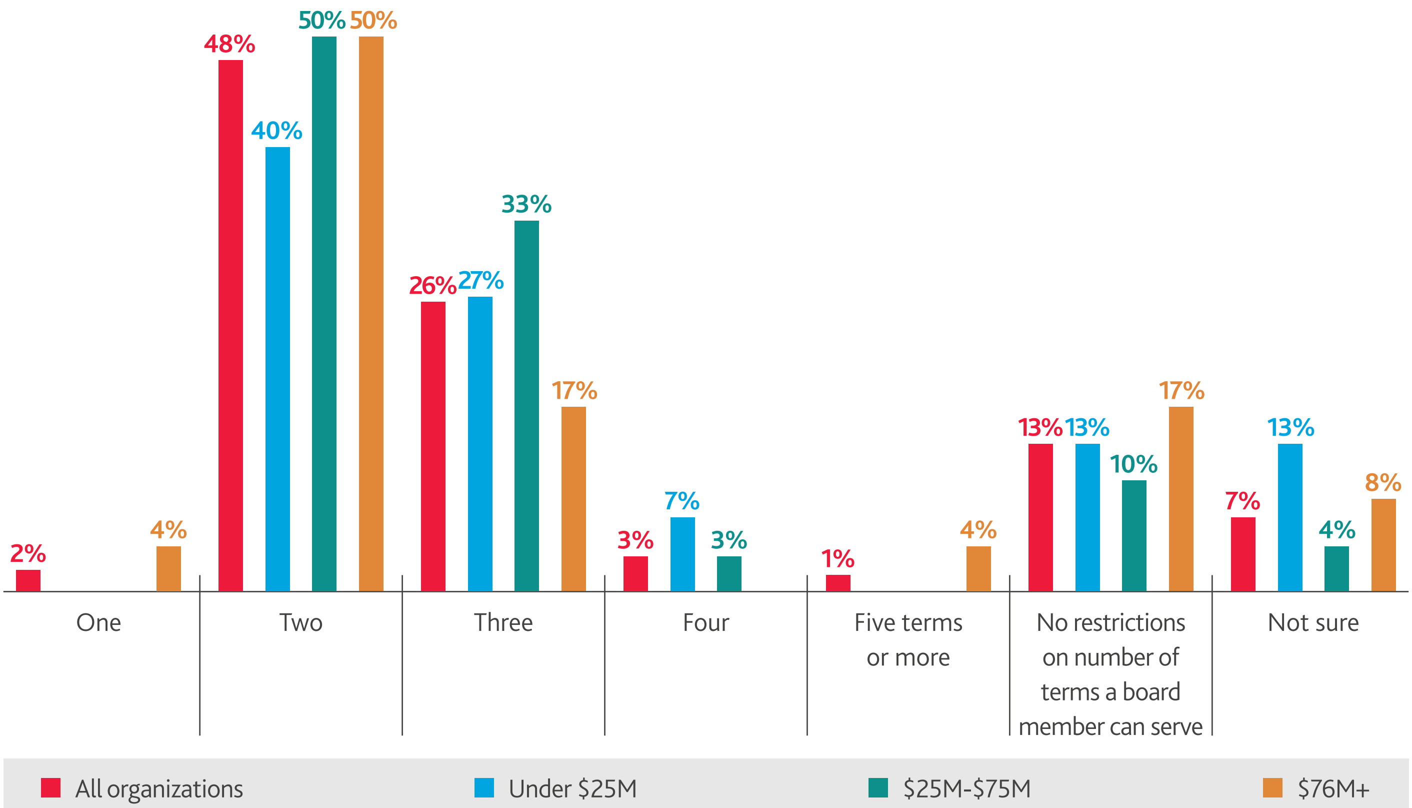
DO YOU HAVE TERM LIMITS FOR BOARD MEMBERS?



WHAT IS THE TERM LIMIT FOR BOARD MEMBERS?



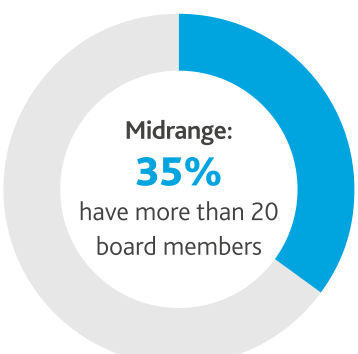
HOW MANY TERMS CAN A BOARD MEMBER SERVE?

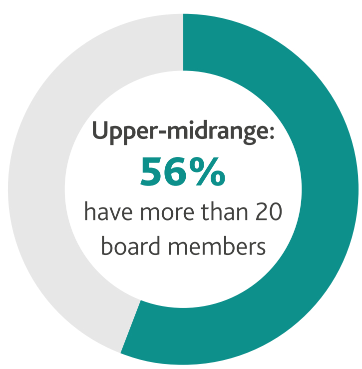


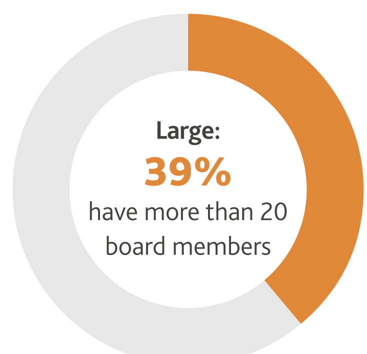
BOARD SIZE

Nearly half of nonprofits (45 percent) have more than 20 board members.

This is the most common board size across all revenue levels.







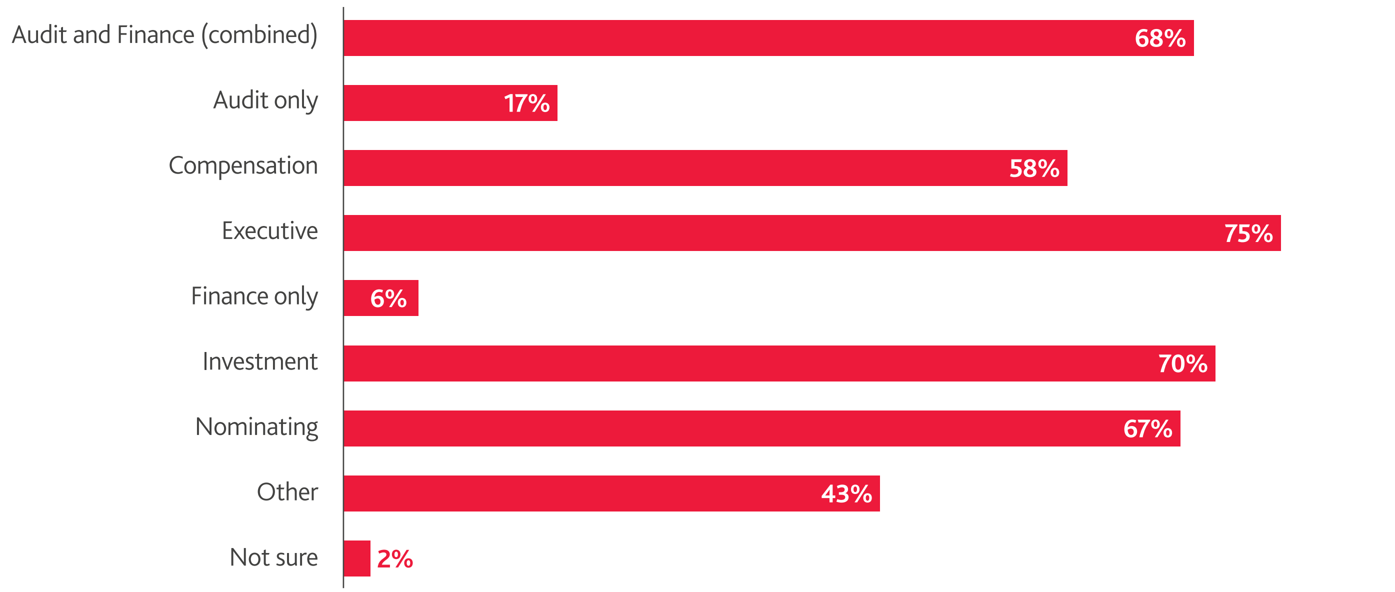
Sixteen percent of all organizations have between 16 to 20 board members.

BOARD COMMITTEES

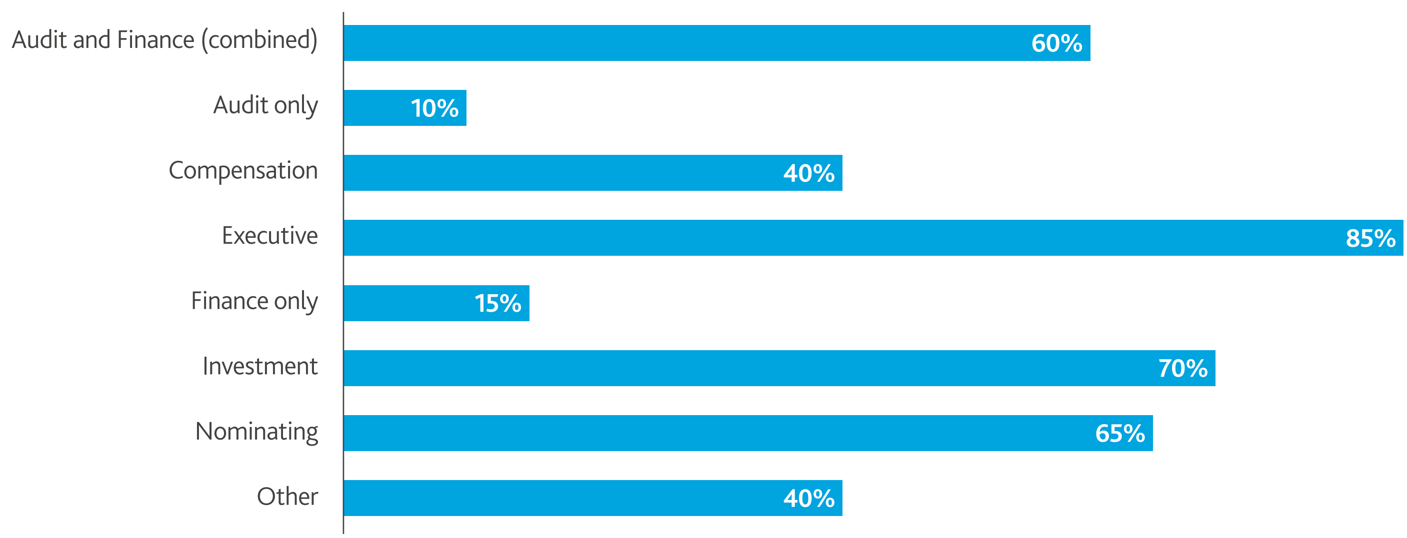
A majority of organizations across all revenue levels have nominating, investment, executive, and audit and finance board committees. Upper-midrange and large organizations more commonly have compensation committees on their boards: 60 percent and 67 percent, respectively. Just 40 percent of midrange nonprofits have an established compensation committee.

Many organizations (43 percent) have committees beyond the categories listed. Other committees include: M&A, human resources, marketing, education, program-related investments development, public relations, real estate, community and donor relations, quality and outcomes, grants, and strategic planning.

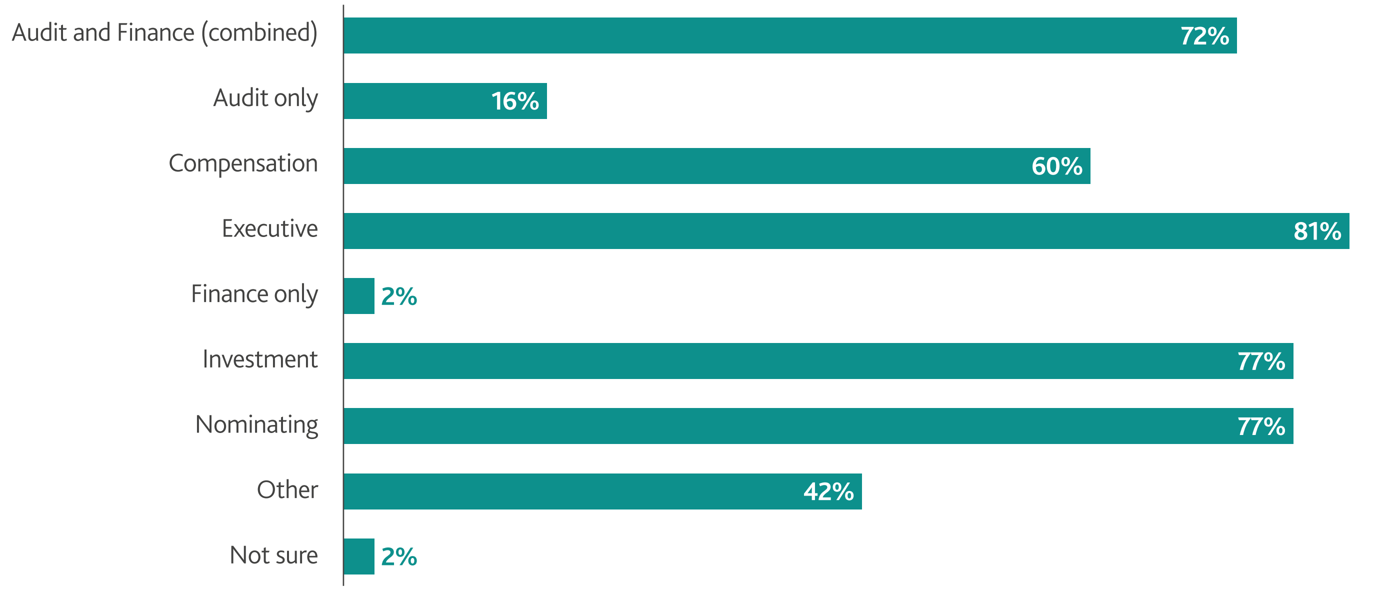
BOARD COMMITTEES (ALL ORGANIZATIONS)



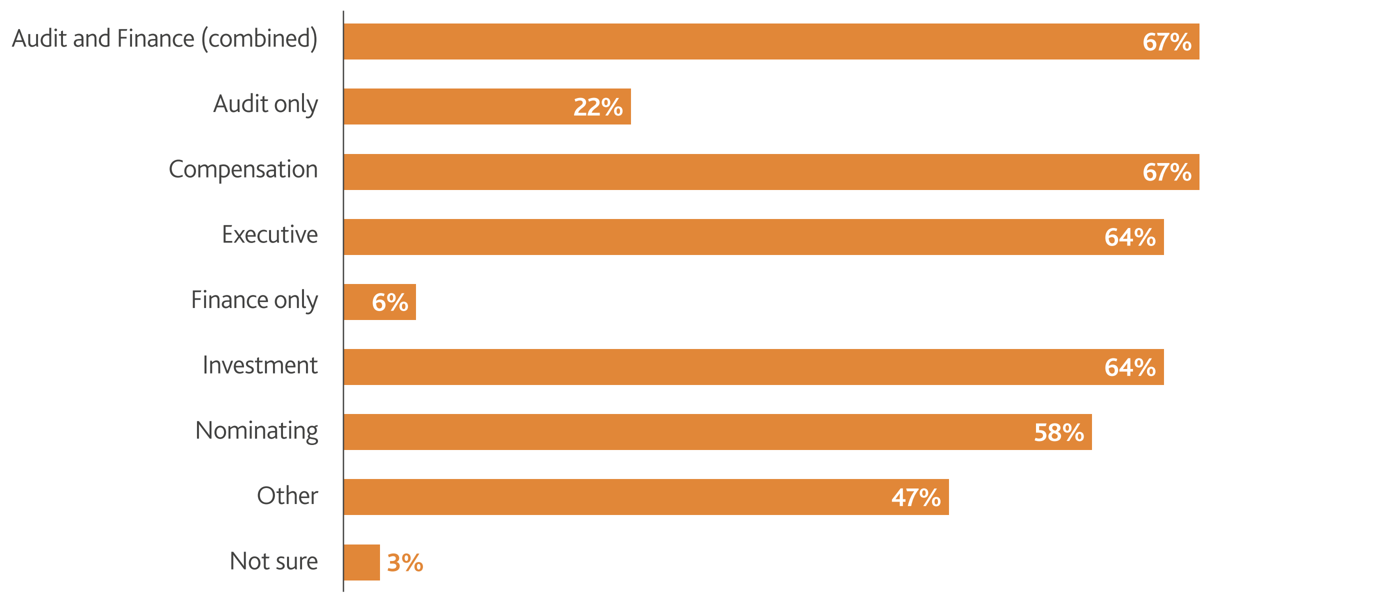
BOARD COMMITTEES (UNDER $25M)



BOARD COMMITTEES ($25M-$75M)



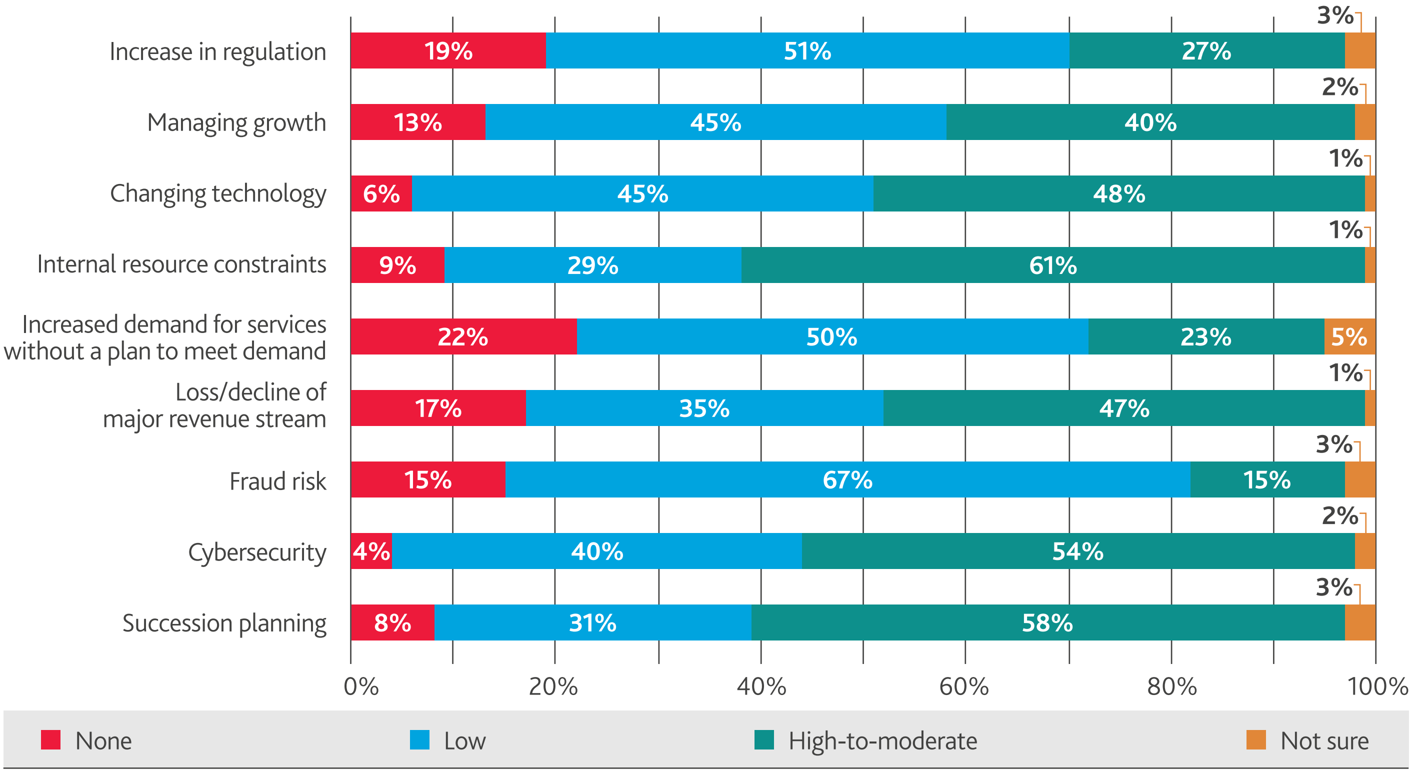
BOARD COMMITTEES ($76M+)



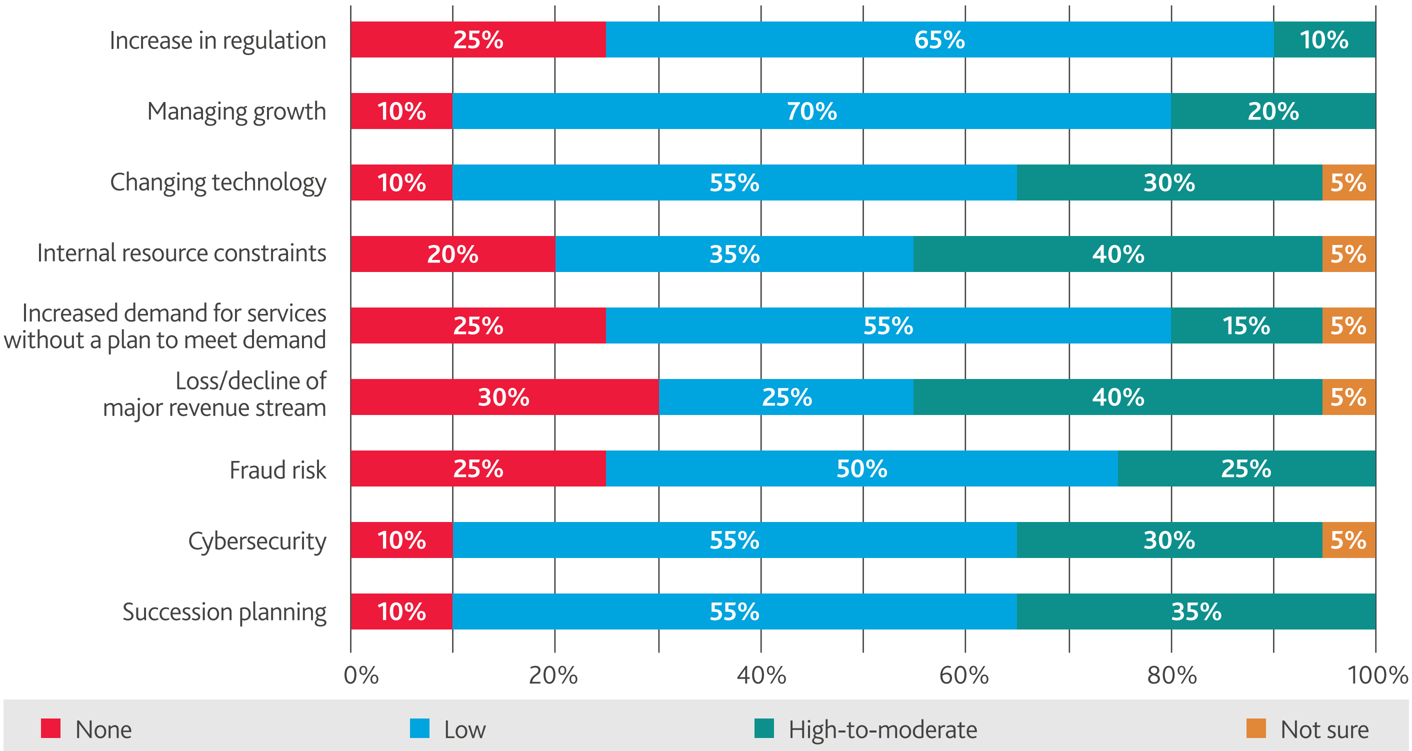
BOARD CHALLENGES

Among all nonprofit organizations, the top challenges for nonprofit boards are internal resource constraints (cited as a high or moderate challenge by 61 percent of respondents), succession planning (58 percent), cybersecurity (54 percent), changing technology (48 percent), and loss or decline of a major revenue stream (47 percent).

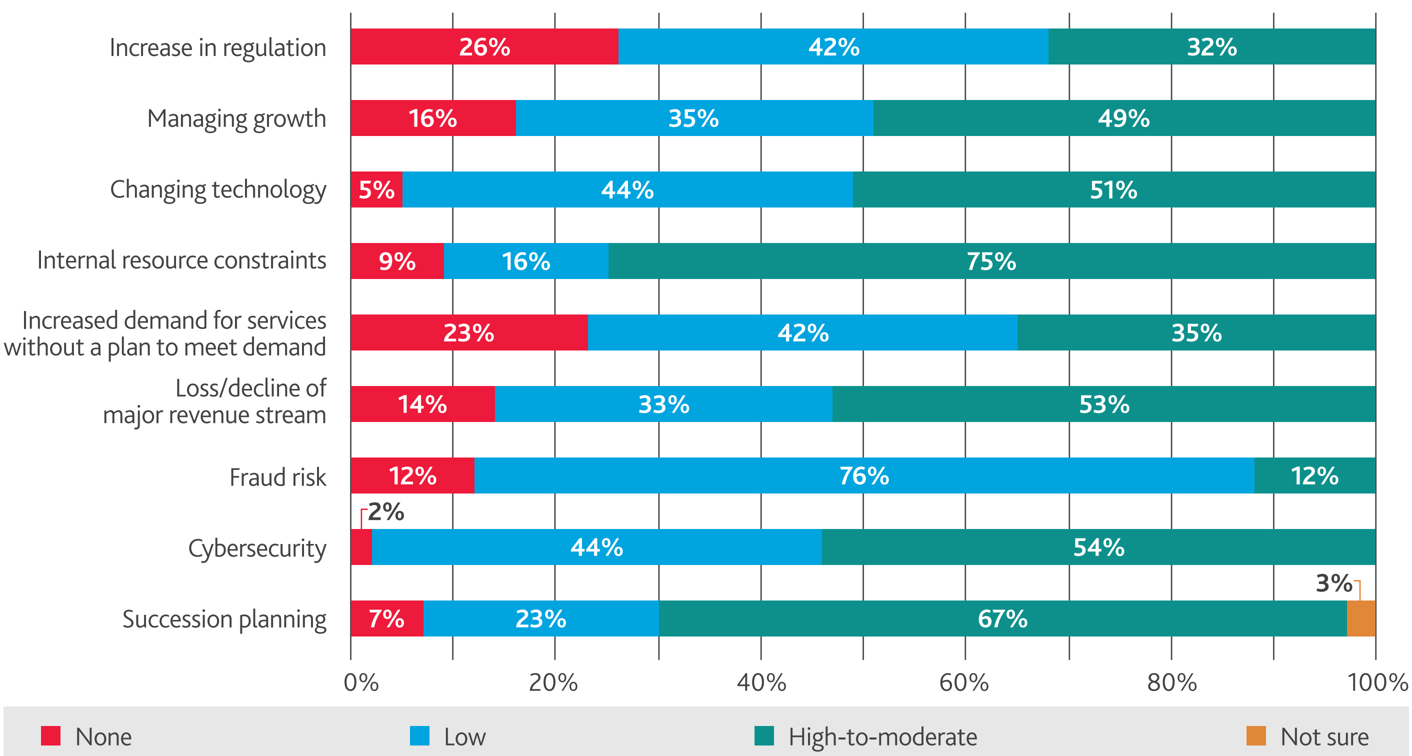
HOW CHALLENGING ARE EACH OF THE FOLLOWING ISSUES FOR YOUR BOARD? (ALL ORGANIZATIONS)



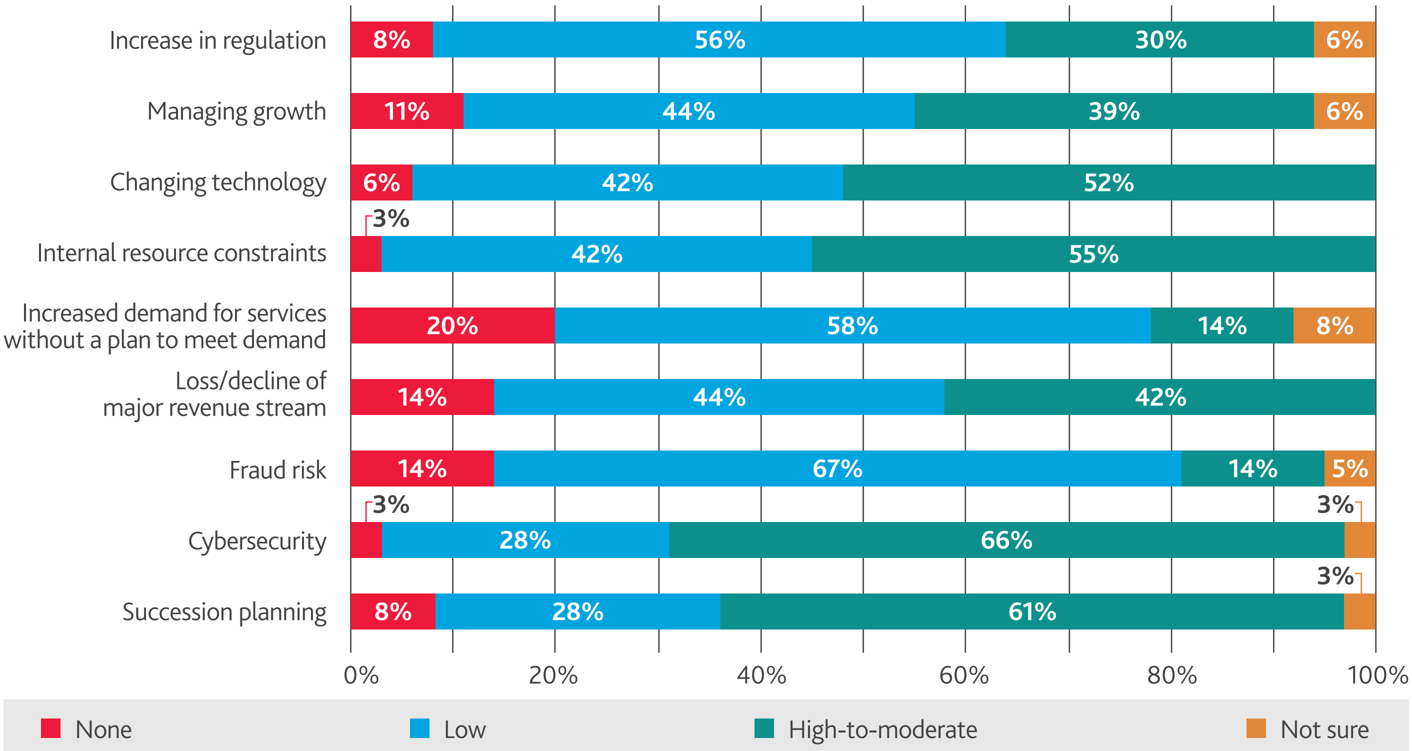
HOW CHALLENGING ARE EACH OF THE FOLLOWING ISSUES FOR YOUR BOARD? (UNDER $25M)



HOW CHALLENGING ARE EACH OF THE FOLLOWING ISSUES TO YOUR BOARD? ($25M-$75M)



HOW CHALLENGING ARE EACH OF THE FOLLOWING ISSUES TO YOUR BOARD? ($76M+)



GOVERNANCE PRACTICES

TO WHICH OF THE FOLLOWING DO YOU DISTRIBUTE AN ANNUAL CONFLICT OF INTEREST STATEMENT?

	Members of the governing board	Management	All employees	Volunteers	Do not produce an annual conflict of interest statement	None of the above	Not sure
All organizations	93%	74%	46%	13%	3%	1%	3%
Under $25M	95%	75%	45%	15%			5%
$25M-$75M	93%	70%	40%	14%	5%	2%	
$76M+	94%	81%	56%	11%	3%		3%

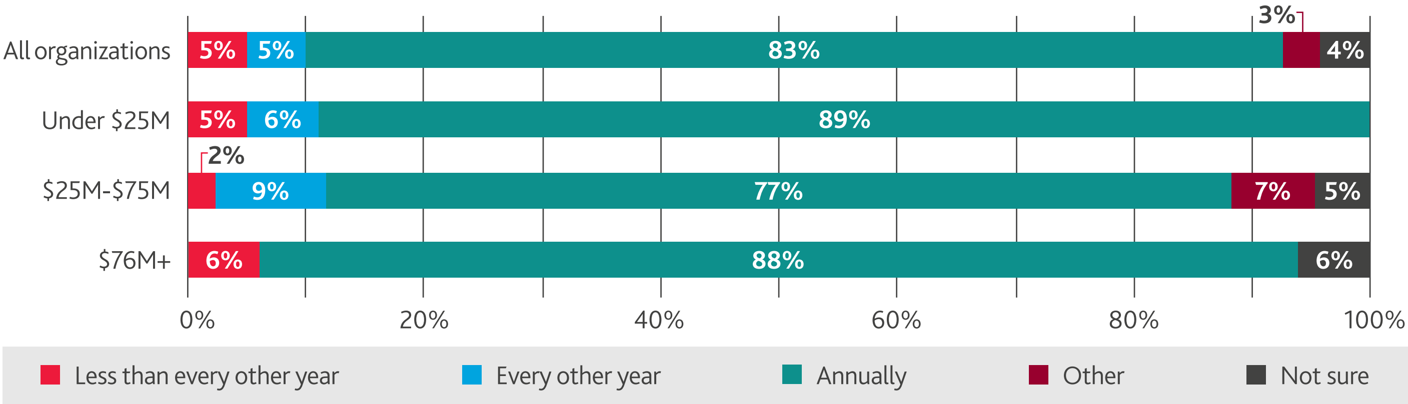
WHO IS THE FINAL ARBITER OF A CONFLICT OF INTEREST?

	Governing board	Audit committee	Internal legal counsel	External legal counsel	President / Executive Director	Other
All organizations	45%	14%	10%	6%	11%	3%
Under $25M	45%	10%		10%	15%	5%
$25M-$75M	49%	16%	7%	7%	9%	2%
$76M+	42%	14%	19%	3%	11%	3%

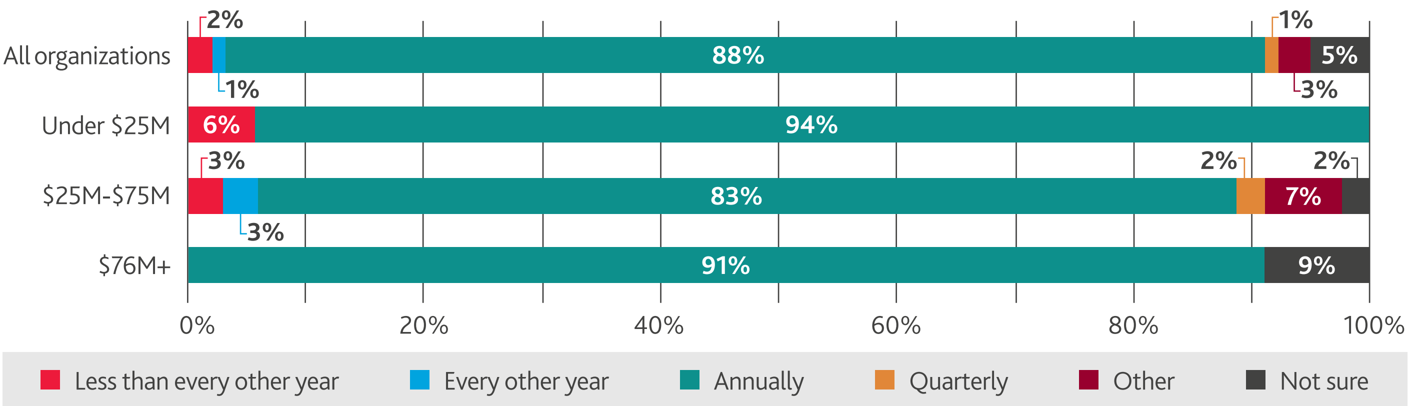
POLICIES FOR BOARD REVIEWS OF EXECUTIVE DIRECTOR COMPENSATION AND PERFORMANCE

Nearly all nonprofits (94 percent) require independent board members to evaluate the Executive Director's compensation and performance. These reviews are most commonly conducted on an annual basis.

HOW FREQUENTLY ARE THE EXECUTIVE DIRECTOR'S COMPENSATION REVIEWS PERFORMED?



HOW FREQUENTLY ARE THE EXECUTIVE DIRECTOR'S PERFORMANCE REVIEWS CONDUCTED?



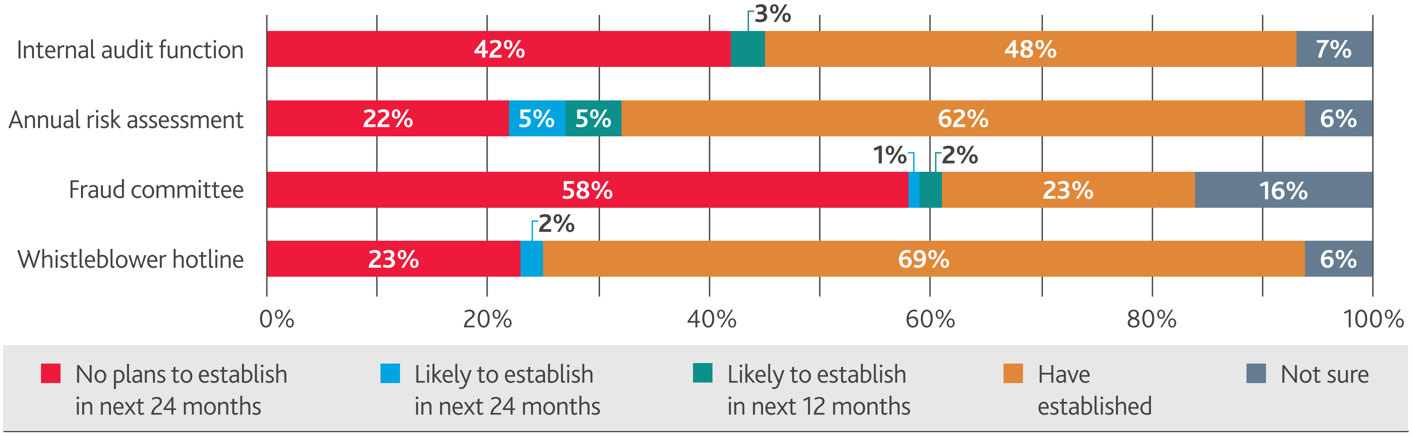
FRAUD RISK MANAGEMENT

Identified as a high- or moderate-level challenge for nonprofit boards by just 15 percent of respondents, fraud risk management is nonetheless a necessary and important charge. Many organizations may not believe they're at risk, but in reality, nonprofits are often victims of fraudulent activities. A 2017 Institute of Management Accountants **survey** found that nearly 1 in 5 nonprofits (19 percent) report some type of fraud from 2012 to 2017.

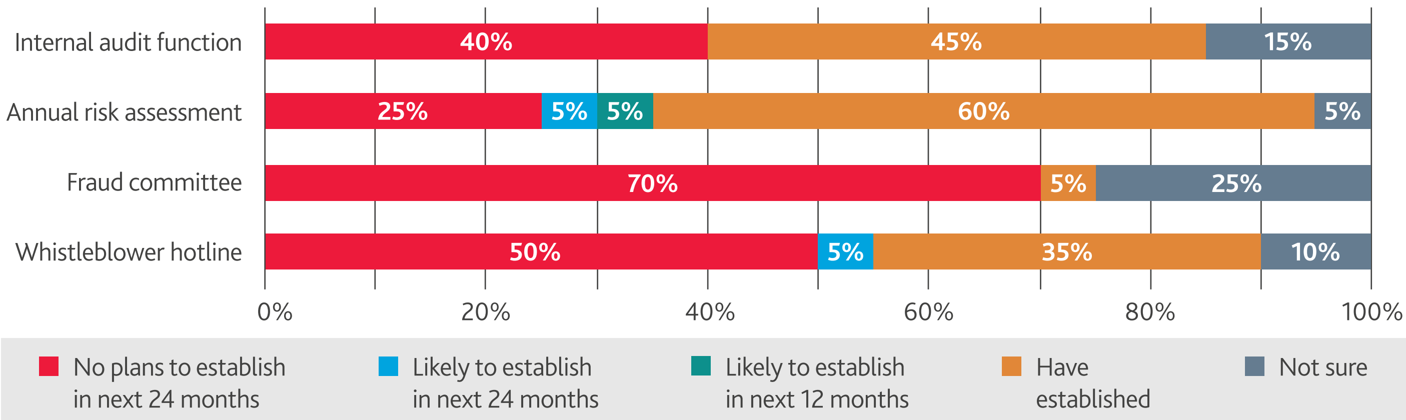
Nonprofits take varied approaches to combating fraud. About 7 in 10 nonprofits (69 percent) have a whistleblower hotline in place—the most common method of fraud risk management. Among midrange organizations, that number drops: Only 35 percent have established a whistleblower hotline.

The other leading fraud risk management efforts are annual risk assessments (62 percent), internal audit functions (48 percent), and fraud committees (23 percent).

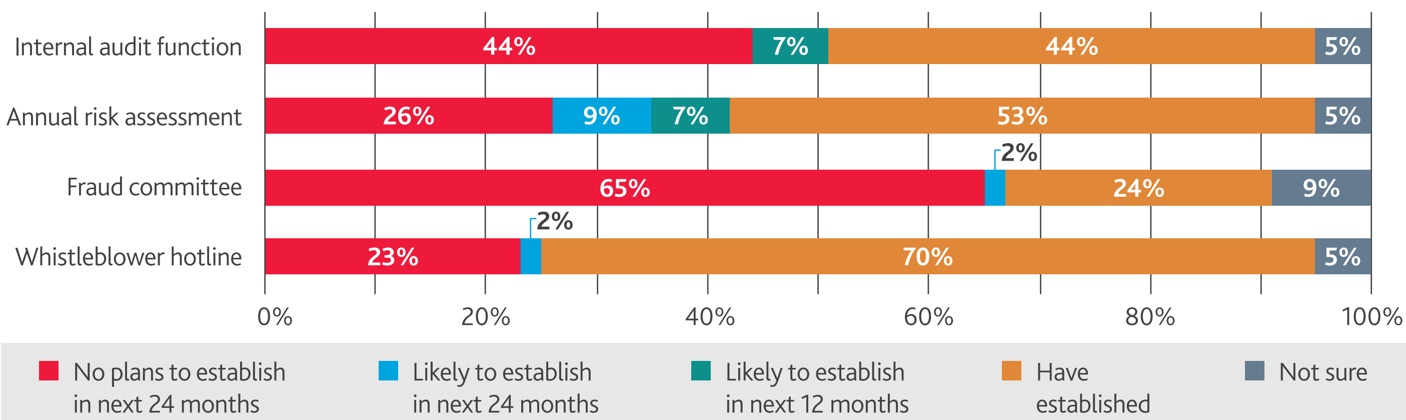
FRAUD RISK MANAGEMENT (ALL ORGANIZATIONS)



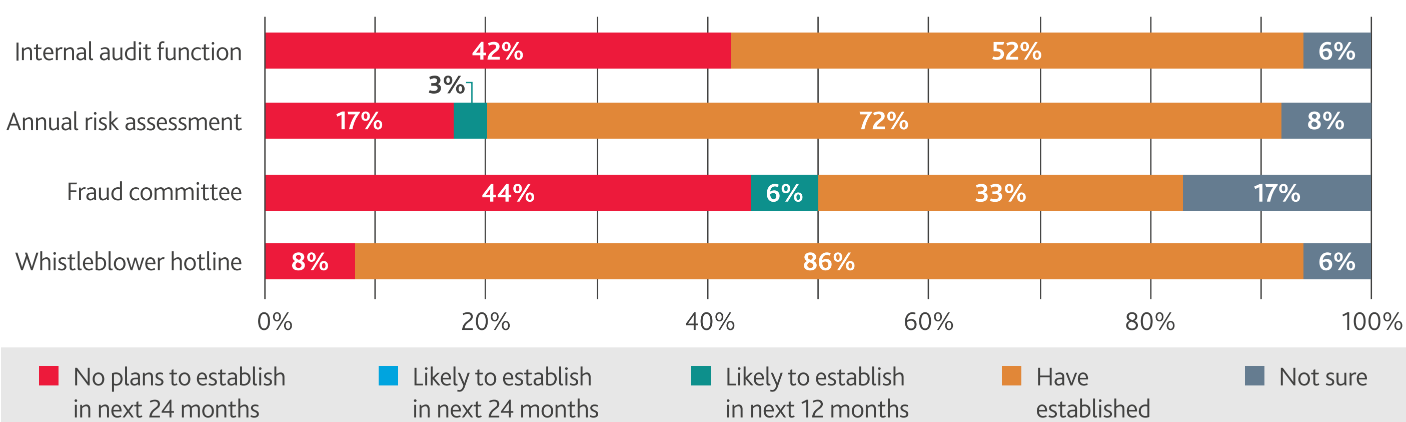
FRAUD RISK MANAGEMENT EFFORTS (UNDER $25M)



FRAUD RISK MANAGEMENT EFFORTS ($25M-$75M)



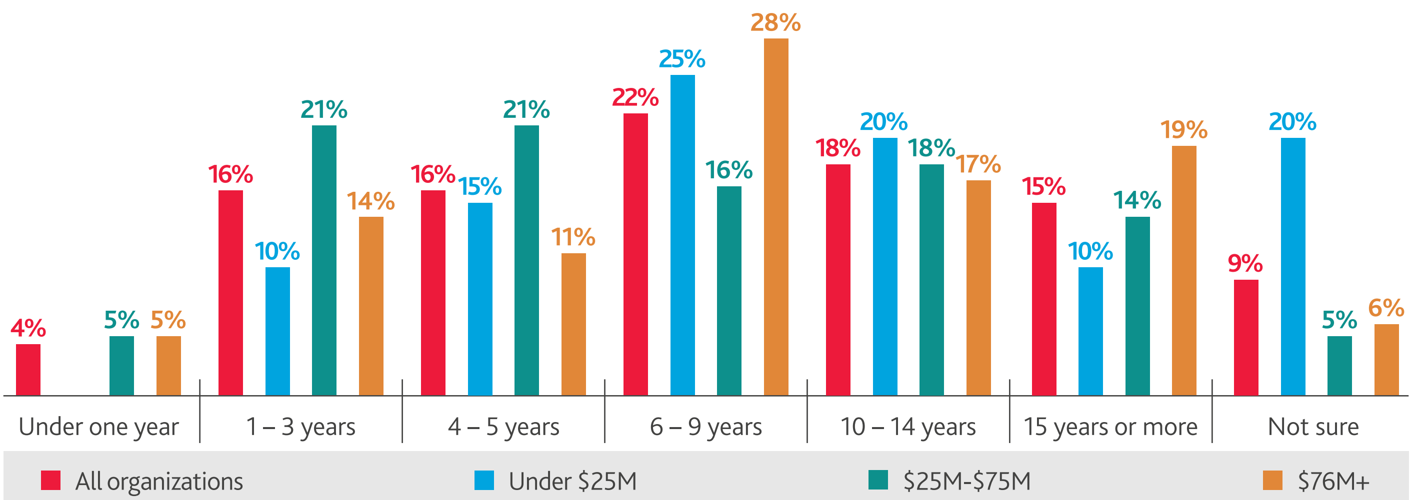
FRAUD RISK MANAGEMENT EFFORTS ($76M+)



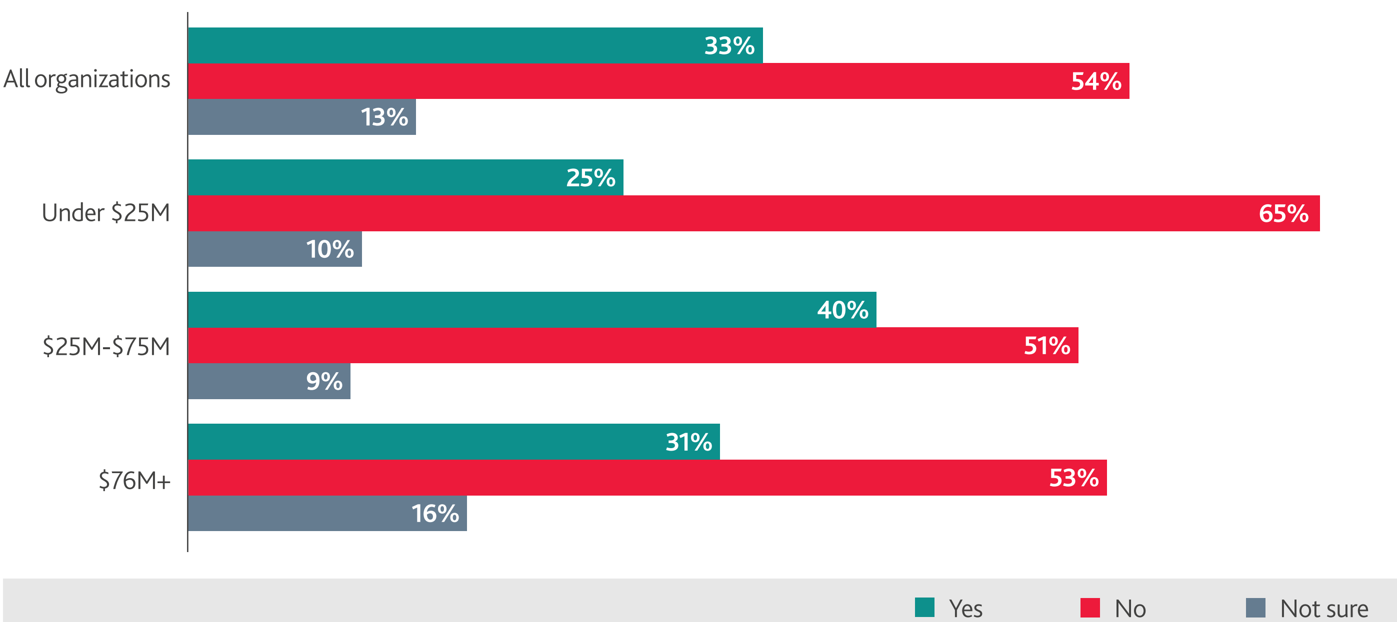
AUDIT FIRM AND AUDIT PARTNER ROTATION

Nonprofits have engaged their current audit firms for an average of 8.5 years, a tenure that is relatively consistent across revenue groups. Fifteen percent have engaged the same audit firm for 15 years or more. While not all respondents were familiar with their organizations' policies around audit firm rotation, about one-third (33 percent) do have a formal policy in place. Across all revenue groups, the most common policy is a mandatory competitive bid process after a period of five years or more—a practice maintained by 55 percent of nonprofits.

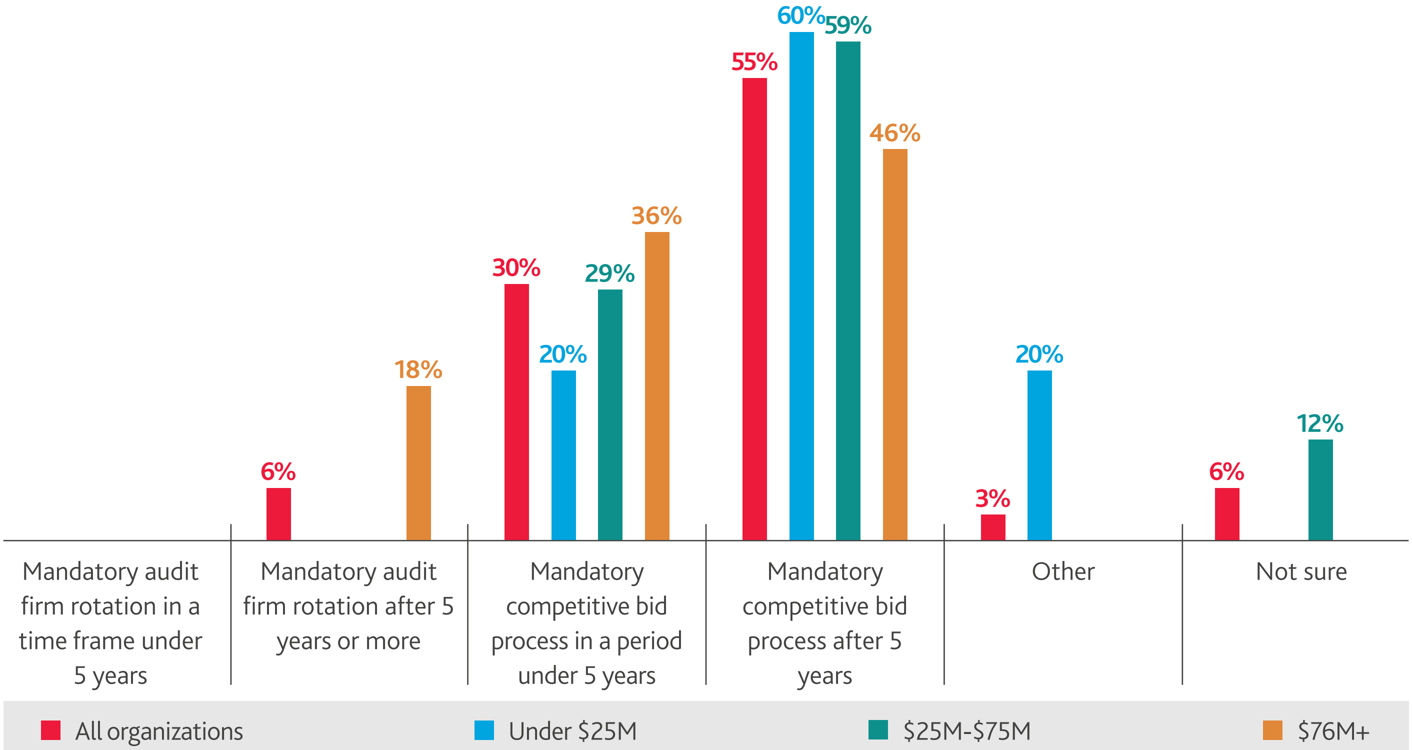
HOW LONG HAS YOUR ORGANIZATION ENGAGED ITS CURRENT AUDIT FIRM FOR ANNUAL AUDITS?



DOES YOUR ORGANIZATION HAVE A POLICY REQUIRING AUDIT FIRM ROTATION AND/OR COMPETITIVE BIDDING?

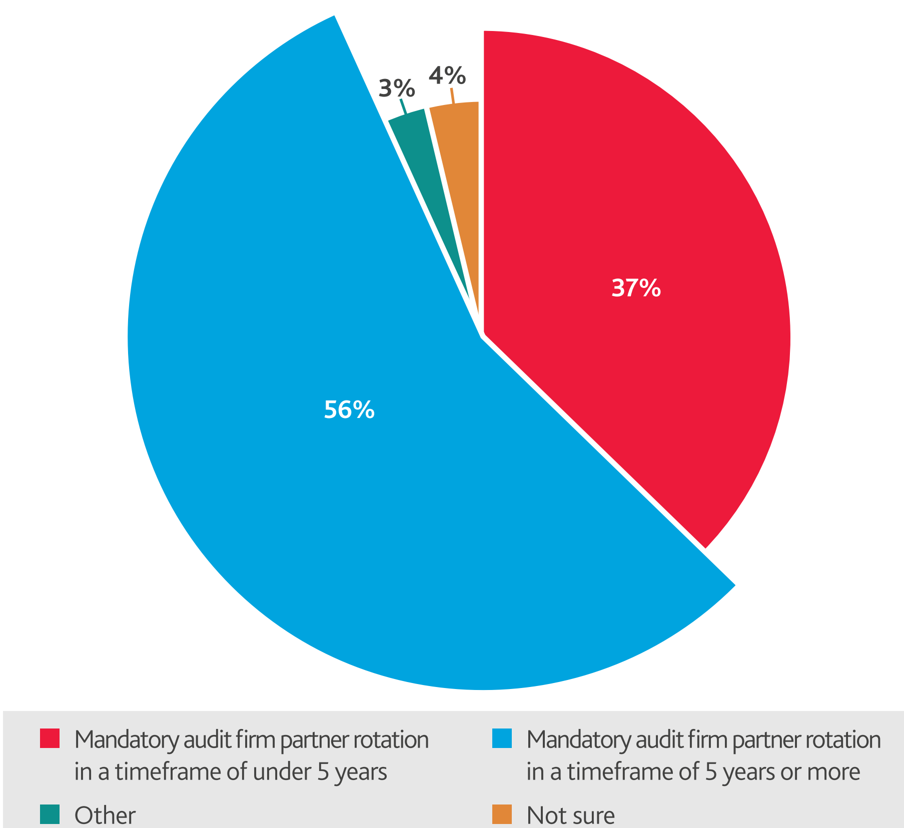


WHICH BEST DESCRIBES YOUR POLICY REGARDING AUDIT FIRM ROTATION?



Less than one-third (27 percent) of nonprofits have a policy on audit firm partner rotation. Among those respondents, a mandatory audit firm partner rotation after five years is the most common policy.

POLICIES ON AUDIT FIRM PARTNER ROTATION (ALL ORGANIZATIONS)



Respondents & Methodology

REVENUE & ASSETS

Survey respondents have an average annual revenue of **$85.43 million** and total assets average **$164.65 million**.

Average total revenue	
Under $25M	20%
$25M-$50M	27%
$51M-$75M	16%
$76M-$99M	5%
$100M-$200M	20%
Greater than $200M	11%
Not sure	1%

Total assets	
Less than $5M	1%
$5M-$9.9M	1%
$10M-$24.9M	5%
$25M-$49.9M	6%
$50M-$99.9M	19%
$100M-$199.9M	16%
$200M or more	44%
Not sure	8%

SECTORS

Public charities and community foundations	26%
College/University	13%
Health and human services provider	13%
Private foundation	9%
Cultural or arts organization	8%
International NGO	4%
Faith-based organization	4%
Environmental organization	2%
Other	21%

SCOPE OF ORGANIZATIONS' WORK

	All organizations	Under $25M	$25M-$75M	$76M+
Local	17%	40%	12%	11%
Regional	30%	45%	32%	19%
National	27%	5%	26%	39%
International	26%	10%	30%	31%

Through the Nonprofit CFO Lens

About half (48 percent) of the survey respondents are nonprofit chief financial officers (CFOs). As the primary stewards of an organization's fiscal health, CFOs have a unique view into nonprofits' operations and challenges.

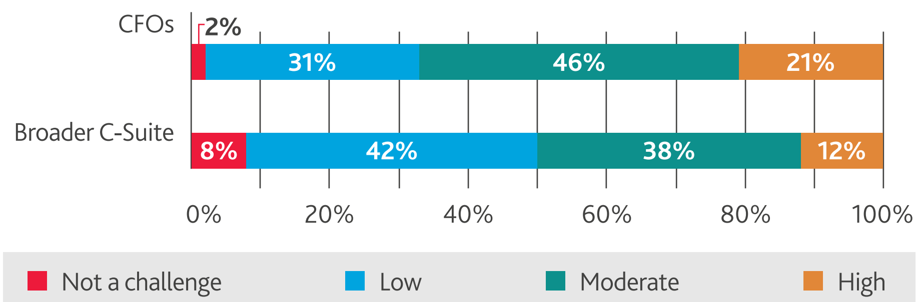
For the purposes of this comparative analysis, the other 52 percent of respondents are categorized as other C-Suite executives. Positions encompassed in this group include CEOs, Executive Directors, and Presidents (25 percent cumulatively) and a small number of other title levels, including General Counsel, CIOs, COOs, Directors, and Vice Presidents.

CFOS' PERCEPTION OF FINANCIAL AND REGULATORY CHALLENGES

Overhead

CFOs consistently weigh financial challenges more heavily than other nonprofit C-Suite executives. About two-thirds of CFOs (67 percent) consider rising overhead costs to be a moderate or high-level challenge in the next year. Among the broader C-Suite, 50 percent say the same.

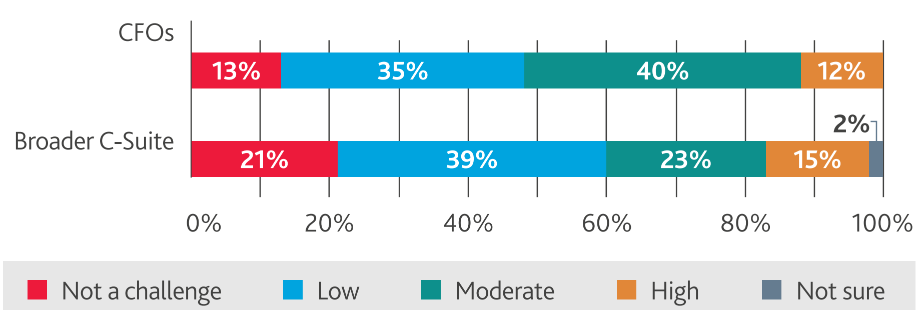
HOW CHALLENGING ARE RISING OVERHEAD COSTS?



Tax Reform, Regulations, and Legislative Changes

Responding and complying with new government regulations and legislative changes likely falls under the CFOs' purview. Unsurprisingly, 52 percent of CFOs rank this area as a high or moderate challenge in the next year, compared to 38 percent of the broader C-Suite. Following the passage of the tax reform law, nonprofit financial executives were tasked with assessing the impact of the legislation, implementing the necessary changes, and determining the most beneficial structures for the year ahead. Beyond tax reform, nonprofits are in varying stages of implementing accounting changes to revenue recognition, lease accounting, and the presentation of nonprofit financial statements. While the deadline for public companies to be in compliance with revenue recognition has since past, private organizations are facing a fast-approaching deadline (calendar year 2019).

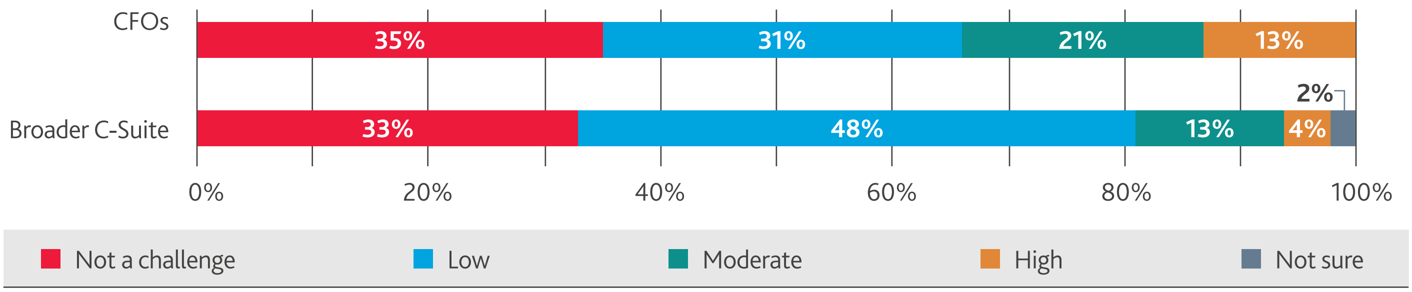
DOES THE TIME & EFFORT REQUIRED TO DEAL WITH GOVERNMENT REGULATIONS & LEGISLATIVE CHANGES CREATE A CHALLENGE?



Liquidity

Thirty-four percent of CFOs say maintaining adequate liquidity is a high or moderate challenge, compared to just 17 percent of the other nonprofit leaders. While CFOs place a greater emphasis on shoring up a supply of operational reserves (liquid, unrestricted net assets) than their C-Suite counterparts, 35 percent of CFOs say maintaining adequate liquidity is not a challenge.

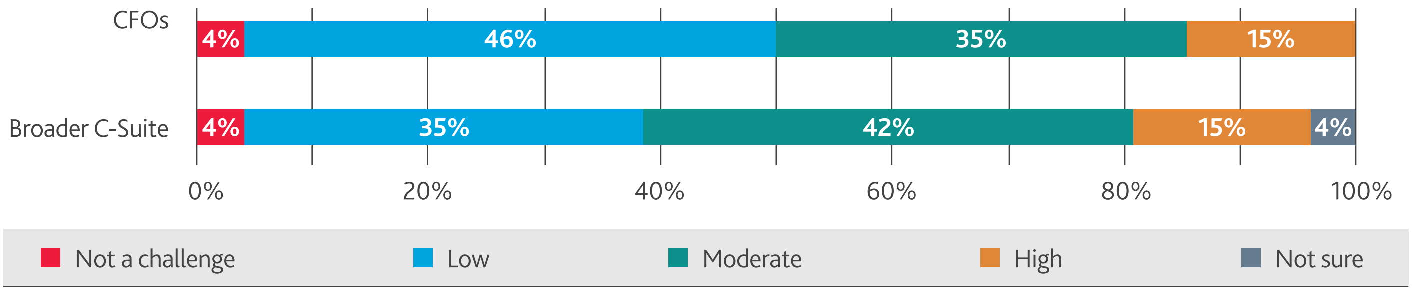
HOW CHALLENGING IS MAINTAINING ADEQUATE LIQUIDITY?



BEYOND FINANCE: CFOS COULD BE OVERLOOKING TECH-RELATED CHALLENGES

CFOs are more likely to consider cybersecurity a low-level challenge—nearly half of CFOs (46 percent) categorize cyberthreats as such, compared to 35 percent of other nonprofit executives. While information technology (IT) is often not under CFOs' immediate responsibilities, the security of financial technology systems—including donor databases—is a crucial element of a nonprofit's overall cyber hygiene. There also could be a disconnect between nonprofit leadership and their boards on the issue of cybersecurity, as anecdotally, protecting organizations from cyberthreats is consistently on board agendas. A CFO's role might primarily live within the organization's finance arm, but as veterans of the nonprofit space know well, an effective leader in the dynamic nonprofit world is a jack of all trades.

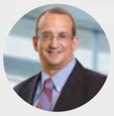
HOW GREAT A CHALLENGE IS CYBERSECURITY FOR YOUR BOARD?



For more information on BDO USA's service offerings, visit the BDO Institute for Nonprofit Excellence℠ Resource Center or contact one of the following leaders:

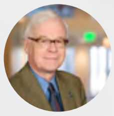
LAURIE DE ARMOND
Partner and National Co-Leader,
Nonprofit & Education Practice
703-336-1453 / ldearmond@bdo.com

ADAM COLE
Partner and National Co-Leader,
Nonprofit & Education Practice
212-885-8327 / acole@bdo.com



WILLIAM EISIG
Executive Director,
BDO Institute for Nonprofit Excellence℠
703-336-1401 / weisig@bdo.com

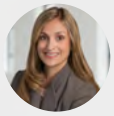
MARC BERGER
Director, Nonprofit Tax Services,
BDO Institute for Nonprofit Excellence℠
703-336-1420 / mberger@bdo.com



DICK LARKIN
Director, National Nonprofit
Assurance Practice, BDO Institute for
Nonprofit Excellence℠
703-336-1500 / dlarkin@bdo.com

LEE KLUMPP
National Assurance Partner, BDO Institute
for Nonprofit Excellence℠
703-336-1497 / lklumpp@bdo.com

TAMMY RICCIARDELLA
Director, National Nonprofit
Assurance Practice, BDO Institute for
Nonprofit Excellence℠
703-336-1531 / tricciardella@bdo.com



ANDREA WILSON
Partner, Nonprofit & Education
Advisory Services, BDO Institute for
Nonprofit Excellence℠
703-752-2784 / aewilson@bdo.com

NONPROFIT & EDUCATION PRACTICE

For 100 years, BDO has provided services to the nonprofit community. Through decades of working in this sector, we have developed a significant capability and fluency in the general and specific business issues that may face these organizations.

With more than 2,800 clients in the nonprofit sector, BDO's team of professionals offers the hands-on experience and technical skill to serve the distinctive needs of our nonprofit clients—and help them fulfill their missions. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful nonprofit organization.

Please see **www.bdo.com/industries/nonprofit-education/overview** for more information.

BDO INSTITUTE FOR NONPROFIT EXCELLENCE℠

BDO Institute for Nonprofit Excellence℠ (the Institute) has the skills and knowledge to provide high quality services and address the needs of the nation's nonprofit sector.

Based in our Greater Washington, DC Metro office, the Institute supports and collaborates with BDO offices around the country and the BDO International network to develop innovative and practical accounting and operational strategies for the tax-exempt organizations they serve. The Institute also serves as a resource, studying and disseminating information pertaining to nonprofit accounting and business management.

The Institute offers both live and local seminars, as well as webinars, on a variety of topics of interest to nonprofit organizations and educational institutions. Please check BDO's web site at **www.bdo.com/resource-centers/institute-for-nonprofit-excellence** for upcoming local events and webinars.

ABOUT BDO USA

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 550 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 73,800 people working out of 1,500 offices across 162 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: **www.bdo.com**.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

People who know Nonprofits, know BDO.