

THE NEWSLETTER OF THE BDO NONPROFIT & EDUCATION PRACTICE

NONPROFIT **STANDARD**



SUCCESSFULLY COMMUNICATING SUCCESS: THREE APPROACHES FOR NONPROFITS

By James D. Woods, Ph.D. & Chris W. Johnson

The Great Recession profoundly impacted the nonprofit sector. During an era in which both government funding and overall charitable giving declined, many organizations were forced to decrease their services in order to survive. At the same time, others did not fare the economy's dire straits, and were forced to shut their doors for good.

Nonetheless, the industry, as a whole, fared better than the for-profit sector. Between 2007 and 2010, nonprofit employment increased 4 percent, and wages increased 6.5 percent, while both employment and wages in the for-profit sector decreased by about 8 percent, according to the 2012 Nonprofit Almanac from the Urban Institute. While nonprofit employment and wages did

increase, this growth did not come from new nonprofits. Between 2008 and 2012, the number of organizations with revenues over \$50,000 declined 1 percent, and charitable giving to organizations also fell, according to the same study. As it turned out, much of the growth was realized by borrowing or spending reserves.

Now, the U.S. economy continues to slowly improve, and appears to be on track for moderate growth in 2015. Nonprofits are on more solid footing as they look to build upon their recent success, and the industry overall may continue to outpace the for-profit sector's growth. The 2015 Nonprofit Employment Practices Survey by Nonprofit HR found that 49 percent of organizations increased their staff in 2014 and 50 percent

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plan to create new positions in 2015. For comparison, CareerBuilder's 2015 jobs forecast found that only 36 percent of for-profit businesses plan on increasing positions this year.

Even though the improving economic environment may provide a solid foundation for nonprofits' growth, a positive economic climate is not enough to secure success for individual organizations. Their success—to a large extent—depends upon the goodwill and trust of their supporters, both of which are built and affirmed through the organization consistently doing impactful work, and then communicating the results to key stakeholders. Success demands this effective communication, and yet, although most organizations understand this need, many struggle to provide the types of messages that actually generate this goodwill and trust.

In today's landscape, nonprofits of all shapes and sizes are competing with their messages in a crowded space for a limited pool of supporters, donors and funding. The challenge boils down to determining *which* type of information to communicate to supporters. Donors and funding organizations increasingly demand to know whether a particular nonprofit is the best recipient of their time and money, which means nonprofits must clearly, consistently and convincingly demonstrate that they are achieving their stated goals.

The challenge, therefore, becomes more complex. Nonprofits must first *define* success, and then determine which information can capture that success. With an aligned, mission-focused vision of what success *does* signify, there are three distinct dimensions along which organizations can characterize it: efficiency, effectiveness and impact.

EFFICIENCY

Generally, efficiency is a measure of the inputs required to generate outputs. It has become common knowledge that maximizing output per unit of input is a good goal in most situations, and our society measures and reports the efficiency of a wide range of processes. For example, we describe the efficiency of automobiles by reporting how many miles they can travel on a gallon of fuel, and we attach labels to appliances indicating

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the estimated energy cost over a year so that consumers are informed in their purchasing decisions.

Nonprofits also face pressures to be efficient, although measuring their efficiency in a meaningful way is a constant challenge. Whereas the profit motive paradigm drives a for-profit organization to be efficient and provides a clear measure of its efficiency, this does not transfer to the nonprofit realm, in which organizations' goals are diverse and often multi-dimensional.

This inconsistency and complexity means that many measures of efficiency for nonprofits reflect narrow definitions, and provide only limited information about the nonprofit's success in maintaining a certain level of efficiency. For example, most nonprofits calculate efficiency—at least to a certain extent—based on overhead ratios. One of these common and simple quantitative measures is the ratio of the money spent directly on the organization's cause to the money it raised from donations. High percentages indicate that donors' money is being used efficiently, because relatively fewer funds are being spent on overhead.

These measures can be helpful, but they are one-dimensional. They tell nothing about the broader benefits created by the nonprofit, and instead focus solely on the relative amount of money that it spends. Not surprisingly, many in the industry believe that relying on these measures harms nonprofits, hence the movement against the so-called "overhead myth." Realistically, to reduce overhead expenses and improve the ratio, a nonprofit can cut costs without regard to the benefits generated from the expenditures. But if the organization fails to invest in the infrastructure necessary to support its efforts, its ability to accomplish its goals will be negatively impacted.

Some organizations have addressed the shortcomings of efficiency ratios by presenting more complex measures of efficiency, which typically reflect quantitative information about how effective the organization is at achieving its goals against more specific expense allocations. For example, along with overhead costs, they may report the number of activities documented and measured, or the increase in the number of members served in a given time period. The closer the measures align with the organization's goals, the more meaningful they prove to be. For instance,

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if a nonprofit provides low interest loans to businesses, then information about the number of loans and their repayment rates may be critical telltales of their success.

Unfortunately, even these more complex measures have their limitations, and may not adequately describe an organization's real success. Oftentimes, they suffer from the same problem as simple overhead ratios: they fall short in providing a full quantitative and qualitative explanation of the benefits a nonprofit has created in pursuit of its mission. In the example of the low interest loans organization, it would again be difficult—even for very complex measures—to accurately portray the benefits gained by those who received the loans or the benefits generated in the community by the low interest loan program.

EFFECTIVENESS

One way of overcoming the limitations of quantitative efficiency measures is to provide qualitative information about the success of the nonprofit. Most nonprofit organizations understand the importance of telling stories about how their work has benefited specific individuals or communities. But many are still figuring out how to do so effectively.

The key advantage of storytelling is that it is able to elicit emotion and inspire action through affirming nonprofits' impacts with easily understood evidence. Stories are tangible, and they tend to be more compelling and memorable than simple recitations of an organization's financial statistics. Nonprofits' audiences crave proof points around outcomes, but proof is only part of the pie. Supporters, donors and funders also require motivation—an emotional link—to continue contributing to an organization's mission.

Stories provide that emotional link, and they are therefore a powerful tool—not only for communicating success, but also for building upon it. It is therefore not surprising that more nonprofits have been doubling down on their content marketing, or the creation and sharing of relevant and valuable information that attracts, educates and inspires audiences, participants and supporters.

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Chris is a director in BDO Consulting's Houston office. His core technical strengths include economic and financial analysis. He helps clients by assessing damages in complex commercial litigation and intellectual property disputes, valuing intellectual property and complex financial instruments, and conducting economic analyses to determine the impact of major events, policy changes and corporate initiatives.



These economic analyses include the development of models to understand the impact of different forms of stimulus—either on markets, industries and organizations, or on local economies. He has conducted economic impact studies for some of the largest events hosted in the U.S., including the College Football Playoff National Championship Game, the Final Four and the 50th Annual Academy of Country Music Awards. He has also consulted with the Houston Super Bowl LI Bid Committee to help them understand the potential future impact of Super Bowl LI to be hosted in Houston in 2017.

Chris received his B.A. in Economics from Trinity University and M.S. in Economics from Texas A&M University. He is a Certified Valuation Analyst and a Certified Fraud Examiner.

Content marketing communicates successes, but it can also bolster advocacy through increasing awareness and educating stakeholders. To do so, the stories it tells should focus on the people or causes that an organization's mission supports, the success and outcomes achieved through its programs and/or the people that work and volunteer at the organization itself. On one hand, this approach provides direct recognition for the contributions of an organization's donors, supporters, volunteers, employees and vendors. On the other hand, it aims to provide meaningful and memorable stories of impact and outcomes, which will ultimately boost engagement, support and retention of key stakeholders.

Two other linchpins to this approach are dedication and consistency. Once a content marketing program is established, the nonprofit needs to commit to producing a continuous stream of content and regularly engage with its audiences on different traditional, digital and/or social media platforms. This commitment in turn keeps stakeholders dedicated and interested in

supporting the organization's mission and success moving forward.

IMPACT

These first two dimensions of success have relatively narrow focuses. Quantitative measures of efficiency focus on the internal operations of an organization, whereas qualitative success stories focus on the specific actions and outcomes it has achieved. A third option—economic impact studies—provides yet a broader perspective into a nonprofit's impact.

Generally, economic impact studies quantify the effect that an economic event has had—or will have—within a regional economy. Economic events include activities such as the opening of a new hospital system, a change in policy or law, or a trade show. Essentially, the studies measure how spending associated with an economic event flows through a regional economy using metrics such as spending, tax revenues, job creation and labor income. In the case of nonprofits, to quantify the economic impact of an organization in terms of dollars, one examines the economic effect of spending

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that can be linked to the nonprofit. This activity is divided into two components, direct spending and secondary spending.

Direct spending is the money spent directly by nonprofits or visitors in the regional economy due to the activity of the nonprofit. The direct spending is re-circulated throughout the regional economy, creating what is called “secondary spending.” Secondary spending measures subsequent rounds of spending in the regional economy, and is divided into two parts, indirect and induced spending. Indirect spending represents gains in industries in the regional economy where the direct spending occurred. For example, when demand for services at a nonprofit hospital grows, patient payments increase (direct spending), and the hospital must subsequently increase its spending on supplies and personnel resources (indirect spending) to keep pace. Induced spending represents increases in regional spending due to increased income associated with direct spending. For instance, if the hospital’s employees work overtime to keep up with the increased demand, the money they spend in the regional economy with their extra earnings is induced spending.

When conducting an economic impact study, economists first gather information about the direct spending associated with the nonprofit. This information may come from the organization’s financial statements, surveys of people that use or benefit from the nonprofit or from analysis of macroeconomic information. Estimates of secondary spending

are created through the use of input-output models that trace the spending through the regional economy by accounting for industry interactions. These interactions are the spending by each industry to acquire inputs, such as raw materials and labor, which are necessary to produce outputs, such as goods and services, used within the regional economy. These models also account for the various outflows from the region to the rest of the nation’s economy, which are commonly referred to as “leakages” since they represent funds that are leaving the regional economy. The more spending that is focused on goods and services produced in the regional economy, the lower the leakage. Finally, estimates of direct spending and input-output models are used to calculate secondary spending.

To quantify the economic impact in terms of jobs, one determines the number of positions that can be linked to the nonprofit. Similar to a spending analysis, the number of jobs can be divided into direct jobs, indirect jobs and induced jobs. Direct jobs are the number of employees working at the organization in a specific region. Continuing the nonprofit hospital example, direct jobs are those held by the hospital staff, whereas indirect jobs are held by employees at the organizations and companies that supply and support the hospital. The increased wealth of employees generated through the salaries in direct and indirect jobs creates demand of additional goods and services. These additional goods and services are provided by individuals that hold induced jobs.

These studies also offer nonprofits—charities, in particular—the ability to understand the economic impact for those that benefit from their services most directly. For instance, analyzing a food bank’s impact can shed light on how the organization’s services are contributing financially to the employment, health and education of specific members within a community. It is well-documented that hunger and food insecurity can hinder a child’s success in school and subsequent employment. Improving success in school leads to better grades and, ultimately, gainful employment. A nonprofit’s spending to assist the child’s family therefore supports the regional economy through spending by the recipient. Providing food for children also reduces illness, which minimizes time that parents have to be away from work, and can lead to reductions in medical services provided by other charitable organizations. An economic impact study examines and quantifies all of these direct expenditures, and then calculates the total economic impact by estimating the secondary spending in the economy.

Given the diversity of nonprofit organizations and their varying definitions of success, economic impact studies provide a unique opportunity to pinpoint an organization’s direct economic contributions in terms of spending and jobs, and then contextualize it within the very community it serves. In other words, while efficiency measures quantify an organization’s internal use of funds, impact studies determine an organization’s external contributions. Each specific organization requires its own unique analysis, but the approach is entirely versatile and adaptable—regardless of a nonprofit’s size, and regardless of whether it is a public charity, private foundation, international NGO, cultural and arts organization, trade association, health and human services provider, or institution of higher education.

LOOKING AHEAD

Our current economic environment provides an opportunity for nonprofits to recover financially, but it does not guarantee their success. Now more than ever, long-term and sustainable growth requires that nonprofits build goodwill and trust of their supporters



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through demonstrating the positive impact of their work in meaningful ways. To do so, nonprofits should maintain a dynamic and differentiated approach when it comes to communicating their success to key stakeholders. This involves a combined focus on both the quantitative measures of efficiency and the qualitative stories of the organization's outcomes and benefits within the community it serves.

Not to be overlooked in this mix, however, is the option for a more robust economic analysis of a nonprofit's work. This extends beyond the isolated outcomes that an organization's programs achieve. It shifts the lens of success outwards—toward the community and the regional economy at large—in order to quantify a nonprofit's contributions to spending, revenues and jobs. In doing so, these studies provide a powerfully tangible proof point around the real economic value that a nonprofit delivers to a community.

As those in the industry know, this total value can be quite large. But historically, nonprofits have not had the processes and tools at their disposal to quantify its full scope, and then leverage those insights in order to build on their successes. Looking ahead, the economy will hopefully continue its gradual upswing, but competition for funds and advocates will remain entrenched, prompting more nonprofits to reevaluate what they are communicating to their key audiences in order to bolster support. As a profound opportunity to demonstrate impact within a community, economic impact studies are still a largely untapped approach, but we expect to see more organizations waking up to their full potential in the months and years ahead. Those who do should find themselves at a real advantage.

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THE OVERHEAD MYTH CONVERSATION CONTINUES & EVOLVES

By Matt Cromwell, CPA

On May 19, 2015, InsideNGO held its "Summit III: Unraveling the Overhead Myth, Examining Solutions of Play" seminar. This was the third in the series that began in January 2014 (see [here](#) for my synopsis of the inaugural meeting). BDO was again proud to serve as a resource for this seminar held in Washington, D.C. The purpose of these events is to bring together key decision makers within the international development arena to move forward a resolution to the continued overhead pressures being applied by donors, and discuss how to mitigate those pressures. During this third session, InsideNGO invited several key foundations who serve as donors within the development space.

Mr. Jacob Harold, Chief Executive Officer of Guidestar, kicked off the event with a poignant discussion about the need for organizations to measure and report outcomes to their stakeholders. The context of these comments established that some donors are "better" than others, and some organizations are "better" than others. Mr. Harold noted that often times, these decisions of "better than another"—and, in turn, providing that donor dollar, are often based on information that is not complete, or even worse, not accurate. As he discussed, in order to relay its messaging to a given audience, an organization must provide accurate and transparent data. Mr. Harold spent time walking through specific types of impact reporting that organizations can adopt. He also delved into Guidestar's new rating scale, which further promotes increasing transparency among organizations in a system that provides organizations with bronze, silver, gold and platinum ratings.

Doug Schenkelberg, Vice President of Strategy and Policy at the Donor Forum—a donor resource located in Chicago, Ill.—presented about how the Donor Forum, specifically, is taking steps to move the overhead conversation forward. Most notably, his organization is out in front promoting the

need for informed donors and advocates, and is also moving towards a full funding model.

There were also two compelling panel discussions at the event that were focused on the real costs of performing programs, transparency considerations of full load rates and the continuing negative impact of accepting program grants that don't support full cost considerations. The speakers touched on factors that impact giving among key donors, such as when a recipient cannot accurately portray the "full" costs of its organization's performance to stakeholders. Similarly, many donors are concerned about organizations that lack cash reserves, as well as general liquidity issues such as unrestricted assets, cash flow and their impact on negotiations.

Not to be missed, InsideNGO's Chief Operating Officer, Tom Dente, provided the initial results of an InsideNGO poll of its members. The results outlined the key funding shortfalls by size of the international development organization, and depicted the dramatic funding shortfalls across the international development spectrum.

Above all, the day's discussions yielded several key takeaways, including:

1. Constructive dialogue must continue as the predominant views on overhead are evolving in new and dynamic ways.
2. Additional transparency by recipients is necessary; recipients must be able to address true costs required to perform.
3. There are strong and well-founded concerns across the industry about the dramatic toll that these shortfalls are taking on those international development organizations that rely on grants to carry out their important missions.

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WHY NONPROFITS NEED TO MEASURE & MONITOR PROGRAM IMPACT AND OUTCOMES

By Adam Cole, Patrick Pilch, and Dr. David Friend

More nonprofits are waking up. From stringent regulations and government scrutiny around tax-exempt status and grant compliance, to increasingly intense competition for funds, organizations of all shapes and sizes are realizing the need to implement strong measurement and monitoring programs.

In May 2015, as part of the BDO KNOWLEDGE Nonprofit & Education webinar series, we delivered a session on the “*what*,” “*why*” and “*how*” behind this need (to view the full webinar recording, click [here](#)). As we explained, the healthcare sector has been a bellwether for enhanced measurement within the last several years, as its institutions are heavily focused on clinical outcomes as drivers of financial results, prompted by the need to corroborate these outcomes to regulators and payers.

The rest of the nonprofit industry has followed suit. Nearly all organizations now face increased demand for their services, despite simultaneous resource shortfalls and heightened competition for funding. What measurement and monitoring practices offer nonprofits is the ability to stay ahead of this challenging situation. Through providing them with insightful and actionable data, organizations can affirm to funders and regulators alike that their programs and investments are aligned with their missions, and generate meaningful impact for the communities they serve.

With that in mind, here is a closer look into four specific reasons for why nonprofits should double down on their measurement and monitoring programs:

TAX-EXEMPT STATUS

Increasingly, organizations are going to have to re-demonstrate that they meet the requirements for tax-exempt status. In many cases, their actions may be appropriate, but

they have failed to document them, and if challenged by a taxing authority, they could face a significant problem. If and when an organization faces this opposition, its credibility increases if it can demonstrate a five-year track record of outcomes, as opposed to suddenly scrambling to compile and report outcomes that fail to demonstrate insightful trends.

COMPETITION

There are hundreds of thousands of nonprofits in the U.S., and while each contributes in its own unique way, there is considerable overlap in services, as well as cutthroat competition for limited funds. Every day, organizations vie for influence through their mission and messages. To stay ahead, think as though you were your grantors and donors. They don't want to fund overhead; they want to help you create an impact, and donors are increasingly viewing their gifts not as donations outright, but as a social impact investment. It's therefore critical that your organization demonstrates and communicates how its funds are used to pursue the mission, as well as the outcomes your programs generate.

PERFORMANCE

An organization's longevity does not determine or guarantee its sustainability. With rapid changes in funding sources and regulations reshaping the industry, there is a greater need for tight financial and budgeting models in order to preserve margins and maintain alignment between an organization's performance and mission. Strong measurement and monitoring programs put in place a disciplined approach to collecting and analyzing operational performance to avoid liquidity issues, while also demonstrating to funders how grants and other funds are being deployed and delivering returns. This allows organizations to more strategically define desired outcomes, assess the current state and gaps, and then create and implement a plan to drive more mission-focused results.



GOVERNANCE

Regardless of your nonprofit's type, its board has a fiduciary responsibility to maximize the impact of its programs. Its onus extends to preserving financial and staffing resources through attracting and retaining the right levels of funding, with the ultimate goal of improving performance margins and ensuring the long-term sustainability of the organization. Strong measurement and monitoring enable and improve its ability to do so. Not only do these programs provide insightful and actionable data with which boards can benchmark their financials and become more efficient, they also keep boards engaged with the organization and the pursuit of its mission.

Why does your organization measure and monitor its programs and impact?

For more information, contact Adam Cole, partner, at acole@bdo.com, Patrick Pilch, managing director and national leader, The BDO Center for Healthcare Excellence & Innovation, at ppilch@bdo.com, or Dr. David Friend, managing director, BDO Consulting at dfriend@bdo.com.

BDO PROFESSIONALS IN THE NEWS

BDO professionals are regularly asked to speak at various conferences due to their recognized experience in the industry. You can hear BDO professionals speak at these upcoming events:

JULY

Matt Cromwell and **Andrea Wilson** will be presenting a session entitled "The COSO Environment" at the InsideNGO annual conference scheduled for July 28 – 30 in Washington, D.C.

AUGUST

Laura Kalick and **Michael Sorrells** will be conducting a session entitled "Red Flags on the Form 990" at the American Society of Association Executives annual meeting on Aug. 11 in Detroit, Mich.

NONPROFIT FACTS: DID YOU KNOW....

- The total number of donor-advised funds in 2013 topped 217,000, up almost 6 percent over 2012, according to the 2014 Donor-Advised Fund Report by the **National Philanthropic Trust**.
- According to the **National Center for Charitable Statistics**, there are nearly 2 million nonprofit organizations registered in the United States.
- The **Internal Revenue Service** approved 94,365 applications from organizations seeking 501(c)(3) status in fiscal year 2014, more than double the number approved in the previous two years, according to the IRS's 2014 Data Book.
- The **Nonprofit Research Collaborative's** 2015 Nonprofit Fundraising Study found that 73 percent of organizations met their fundraising goals in 2014.
- According to the **Organization for Economic Cooperation and Development**,



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The BDO Institute for Nonprofit ExcellenceSM provides a complimentary educational series that is designed specifically for busy professionals in nonprofit and educational institutions.

Our **2015 BDO KNOWLEDGE Nonprofit and Education Webinar Series** will keep you abreast of trends, issues and challenges that are impacting the nonprofit environment. We invite you to take part in this program with members of your organization, including board members. All webinars are conveniently scheduled from 1:00 to 2:45 p.m. Eastern Time and offer two hours of CPE credit.

Stay tuned to the *Nonprofit Standard* blog or refer to www.bdo.com for further details and registration information.

The 2015 calendar of events currently scheduled is below.

9/10/2015	Annual Nonprofit Tax Update	REGISTER NOW
10/8/2015	Annual Nonprofit Audit and Accounting Update	REGISTER NOW
11/4/2015	Nonprofit Entity Risk Management – How to Manage Risk to Ensure Success	<i>[Registration link coming soon]</i>

the largest donor country by volume in 2014 was the United States, which spent \$32.7 billion, followed by Britain, Germany, France and Japan.

- According to the Donor Engagement Study from **Abila**, 71 percent of donors are mostly concerned that their money is being used wisely. Other top priorities include: the organization having a good reputation (69 percent); the donor has a strong belief in the nonprofit's mission and cause (68 percent); and the donor's support makes a difference (53 percent).
- According to the **2015 State of the Nonprofit Sector Survey**, 47 percent of organizations reported finishing 2014 with a surplus income, compared to 24 percent with a deficit.
- According to an article by **AssociationsNow**, Give Local America has become a leading springtime nonprofit fundraising campaign. On May 5, 2015, more than 9,000

nonprofits in 180 communities raised \$68 million in a 24-hour time period.

- According to a **Nonprofit Finance Fund** survey, 79 percent of nonprofits reported an increase in demand for service offerings in 2014.
- According to a report by the **Charitable Giving Fund**, the demand for advice on philanthropic giving is on the rise, with 73 percent of respondents reporting a desire for free or low-cost philanthropic guidance from professional advisors.

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BDO 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 2,000 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.

In addition, BDO's Institute for Nonprofit ExcellenceSM (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 for upcoming local events and webinars.

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