



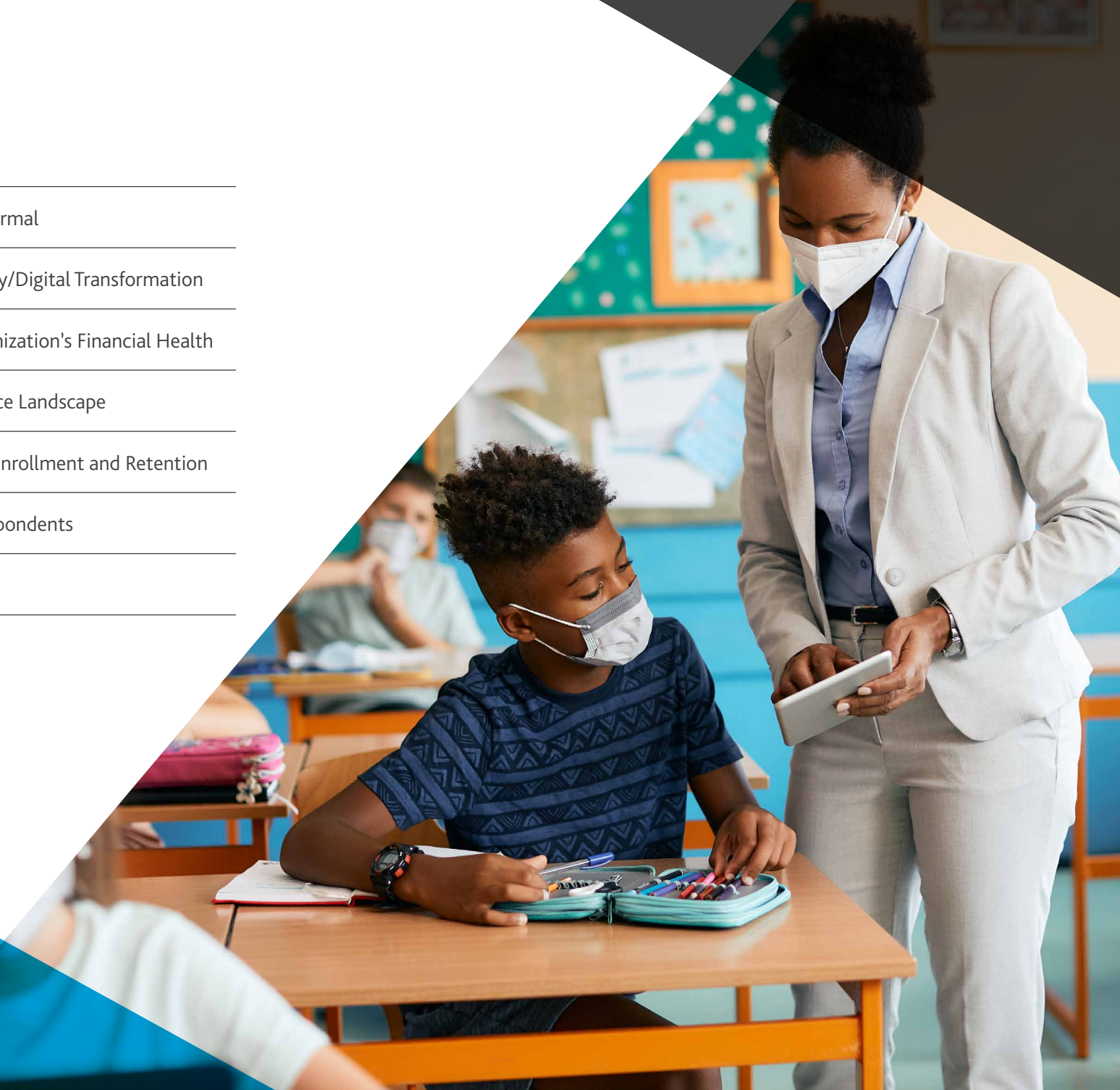
**NONPROFIT STANDARDS:
A BENCHMARKING SURVEY**

Education Organizations Snapshot



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Adapting to a New Normal

Education organizations have the power to shape the future. While they may share slightly different missions, colleges and universities, elementary and secondary schools, technical and trade schools, and educational support service providers all do essential work to help the next generation reach their full potential.

Throughout the COVID-19 pandemic, many of these education organizations had to pivot their operations to align with a new normal — from shifting to online or hybrid learning to engaging donors in new ways.

For some, canceled fundraising events and programs, decreased morale, and lost revenue or funding compounded pre-existing student enrollment and retention challenges brought on by lower birth rates, a decreasing number of international students, the rapidly rising costs of attendance, and student loan debt, among other factors.

While the COVID-19 pandemic has imposed many challenges, it also prompted adaptations that can lead to lasting improvements. From accelerated investments in technology to new partnership opportunities, some education organizations found silver linings amid disruption.

However, it's clear that the impacts of COVID-19 won't subside quickly. Organizations will need to continue to adapt and reflect on the changes they've made to maximize their mission's success.

At BDO, we're proud to work alongside organizations that continue to evolve with the shifts in community needs and push our world forward. That's why we created **Nonprofit Standards**, an annual benchmarking survey for the nonprofit industry. Now in its fifth year, the survey includes **this education organization snapshot** to guide education organization leaders — all with unique goals — in driving data-backed decisions that support and enhance their critical work.

Education organizations haven't had an easy year, as COVID-19 exacerbated pre-existing enrollment and retention challenges. We hope this survey arms your organization with the tools you need to continue providing life-changing educational opportunities to those you serve.

ADAM COLE

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Nonprofit & Education Practice



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About the BDO *Nonprofit Standards* Benchmarking Survey: Education Organizations Snapshot

Nonprofit Standards is an annual national benchmarking survey of nonprofit organizations across a variety of sectors, including health and human services, education, grantmakers, and public charities. 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.

This education organization snapshot takes a closer look at the data from the organizations surveyed that identified as education organizations. Through this overview, we hope to provide a valuable baseline for similar organizations looking to understand how their peers are navigating industry challenges.

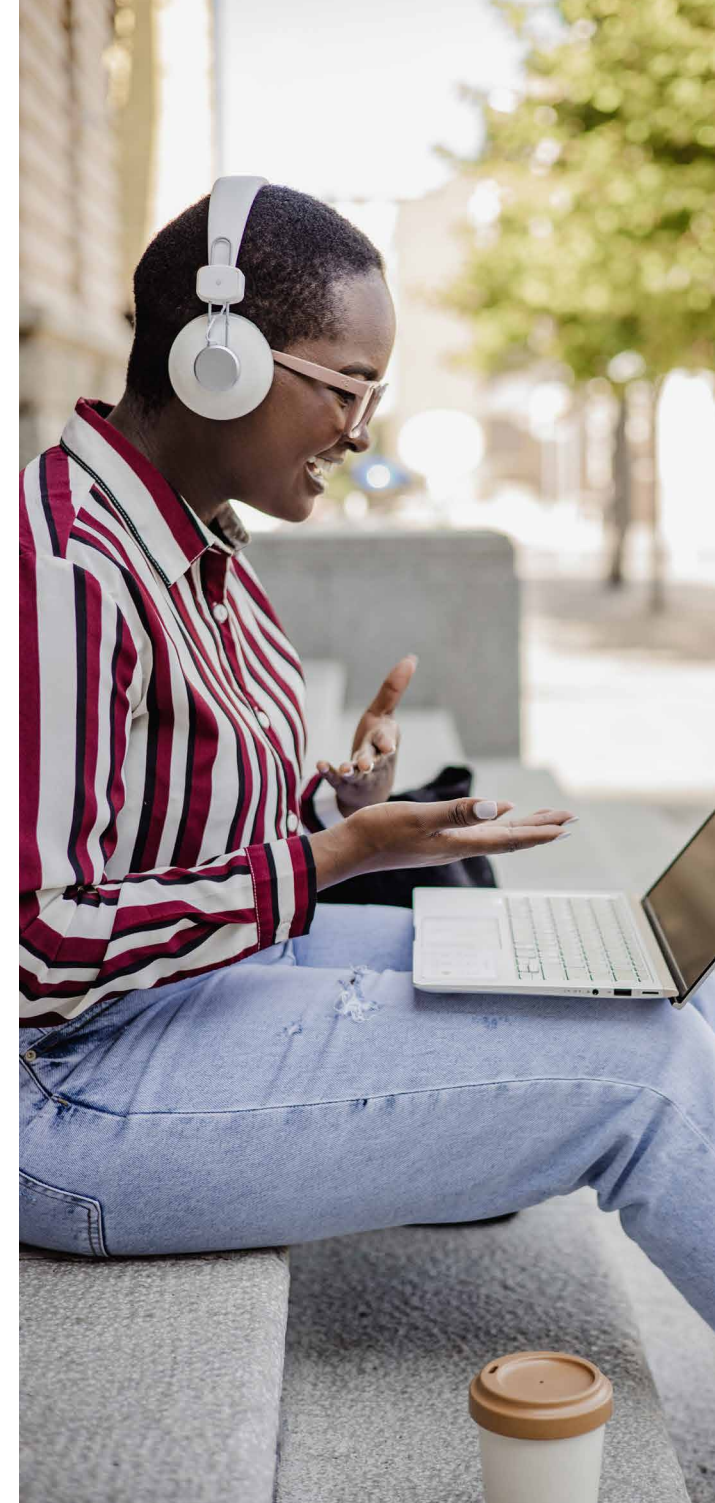
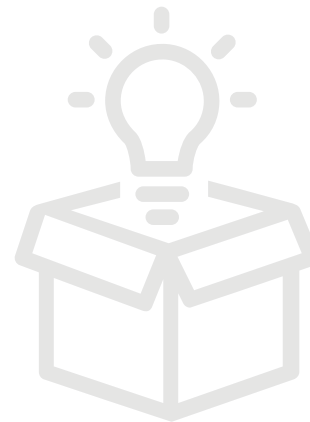
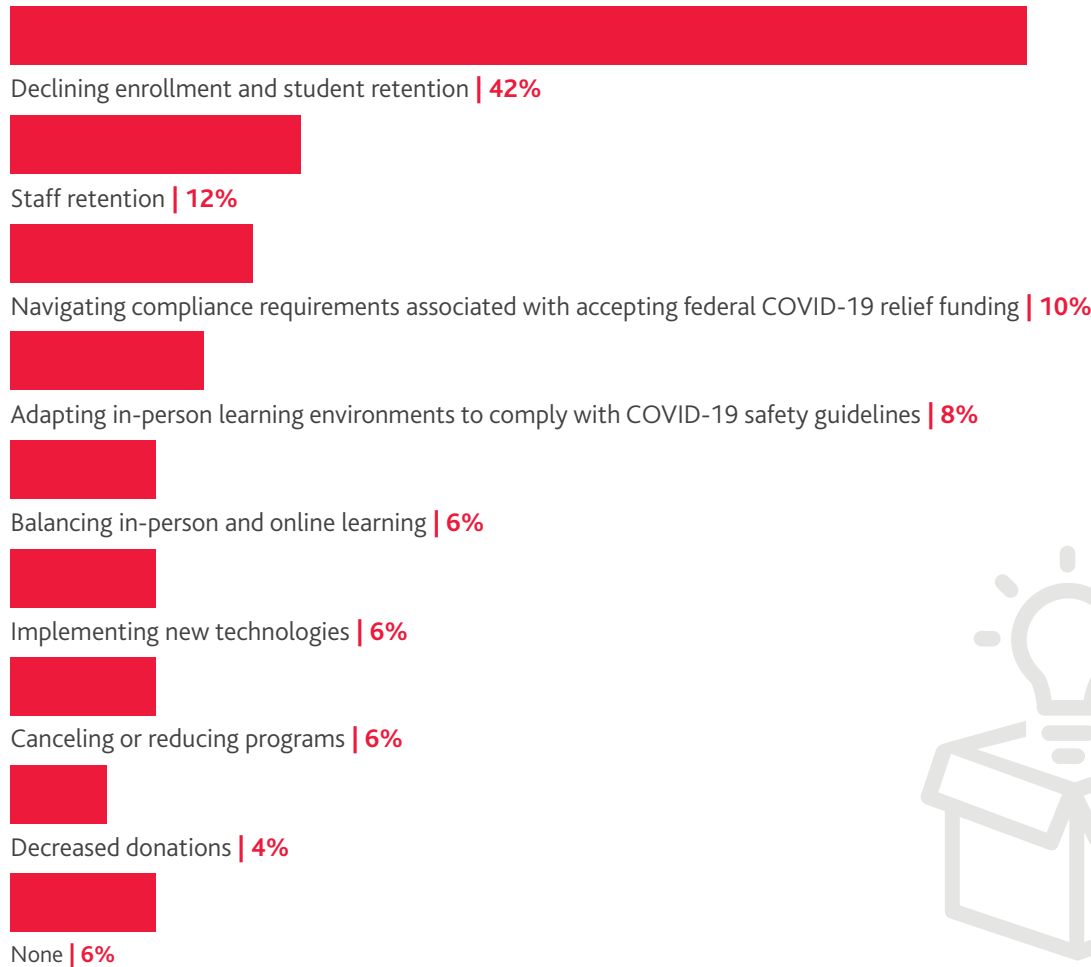
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New Challenges and Opportunities

While the pandemic has challenged education organizations in many ways, a plurality of those surveyed (42%) anticipate that declining enrollment and retention — which has only been amplified by students debating the value of remote learning and deferring plans during COVID-19 — will be their biggest challenge in the next year.

However, BDO has seen some education organizations, such as Historically Black Colleges and Universities (HBCUs), increase their enrollment and retention rates, in part due to recent social justice movements.


















Which one of these will be your biggest challenge during the next 12 months?



Education organizations are planning to activate a variety of strategies in the coming months, both to combat declining enrollment and retention as well as to tackle other challenges.



Which strategies are you planning to pursue in the next 12 months?

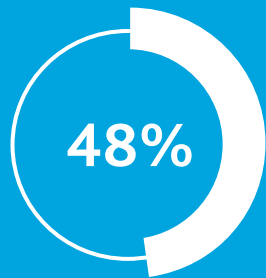
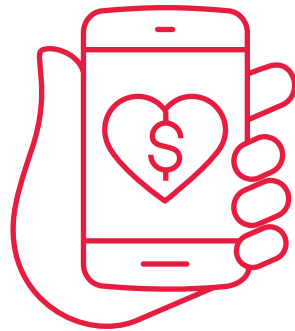
 Increasing alumni engagement efforts (to encourage donations)	59%	 Discounting tuition	22%
 Reforecasting budgets	51%	 Keeping tuition the same	10%
 Introducing campaigns to encourage enrollment	43%	 Eliminating online offerings	10%
 Raising tuition	41%	 Merger/acquisition/strategic partnership	10%
 Expanding online offerings	39%	 Reducing student financial aid	10%
 Diversifying revenue streams (e.g., leasing space to other organizations, adding hotels)	37%	 Permanently closing	0%
 Increasing student financial aid	31%	 Outsourcing student financial aid functions	0%
 Remote/hybrid model	27%	 None of these	4%
 Automating operations (digital transformation)	27%		

Investing in Technology/Digital Transformation

Although some education organizations began building out online offerings before the onset of the pandemic, historically, this sector has relied on physical facilities and in-person instruction to deliver on its mission. When the COVID-19 pandemic emerged, everything changed. Many education organizations had to reimagine how they taught their students, significantly increasing their dependence on technology as they transitioned to remote or hybrid learning models.

69%

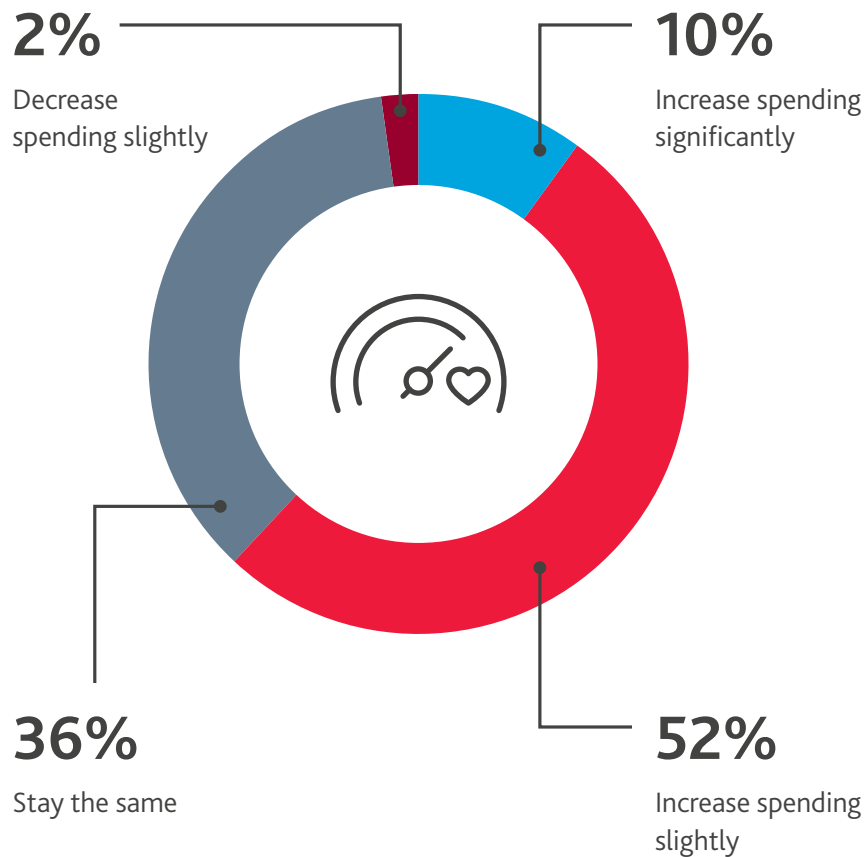
of education organizations **accelerated** their investments in technology as a result of the pandemic



are planning to invest in new technologies this year.

However, half of education organizations (51%) report that investing in technology to improve systems and efficiency will represent a high/moderate challenge during the next 12 months. Implementing the right digital transformation strategy can help mitigate risks — such as the growing threat of cyberattacks on schools — and reduce costs. As they look to advance their technology usage, many education organizations are ramping up spending on information technology (IT).

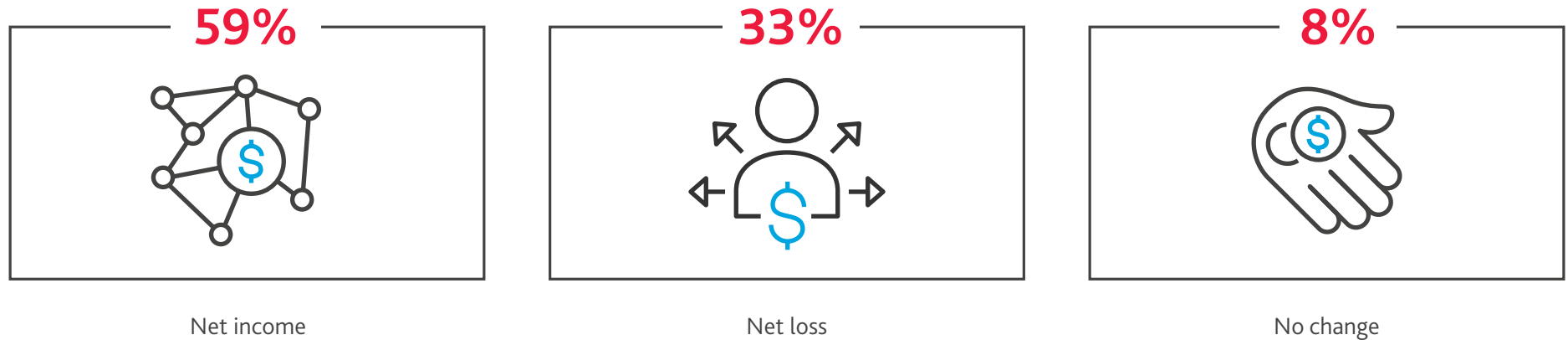
How are you currently adjusting spending in your IT department?



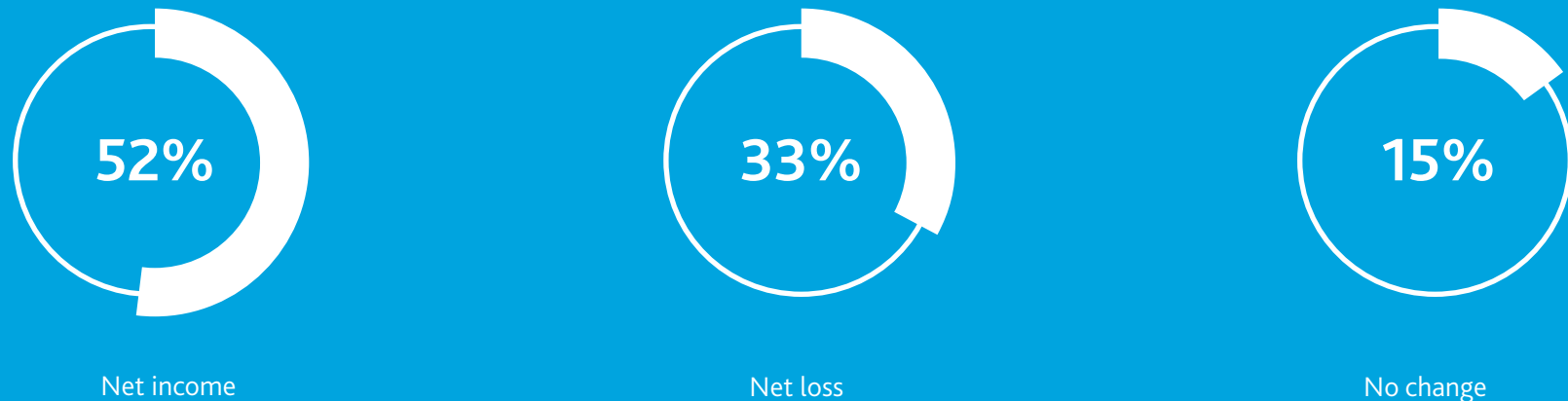
Supporting Your Organization's Financial Health

During the course of the pandemic, some education organizations were crippled by a loss of revenue, be it from lower levels of alumni financial support or declining room and board payments as more students learned virtually. While some education organizations fared well — 59% reported net income during their most recent fiscal year — challenges still lie ahead.

During the most recent fiscal year, what were the financial results of your organization's operations?














In the next fiscal year, what financial results do you anticipate your organization will experience?



Moreover, 70% of education organizations surveyed report that variability in revenue or funding will represent a high or moderate challenge during the next 12 months. As they seek to strengthen their financial health, education organizations should try to maintain a healthy variety of funding sources.

During the past fiscal year, about what percentage of your organization's funding came from each of the following sources?

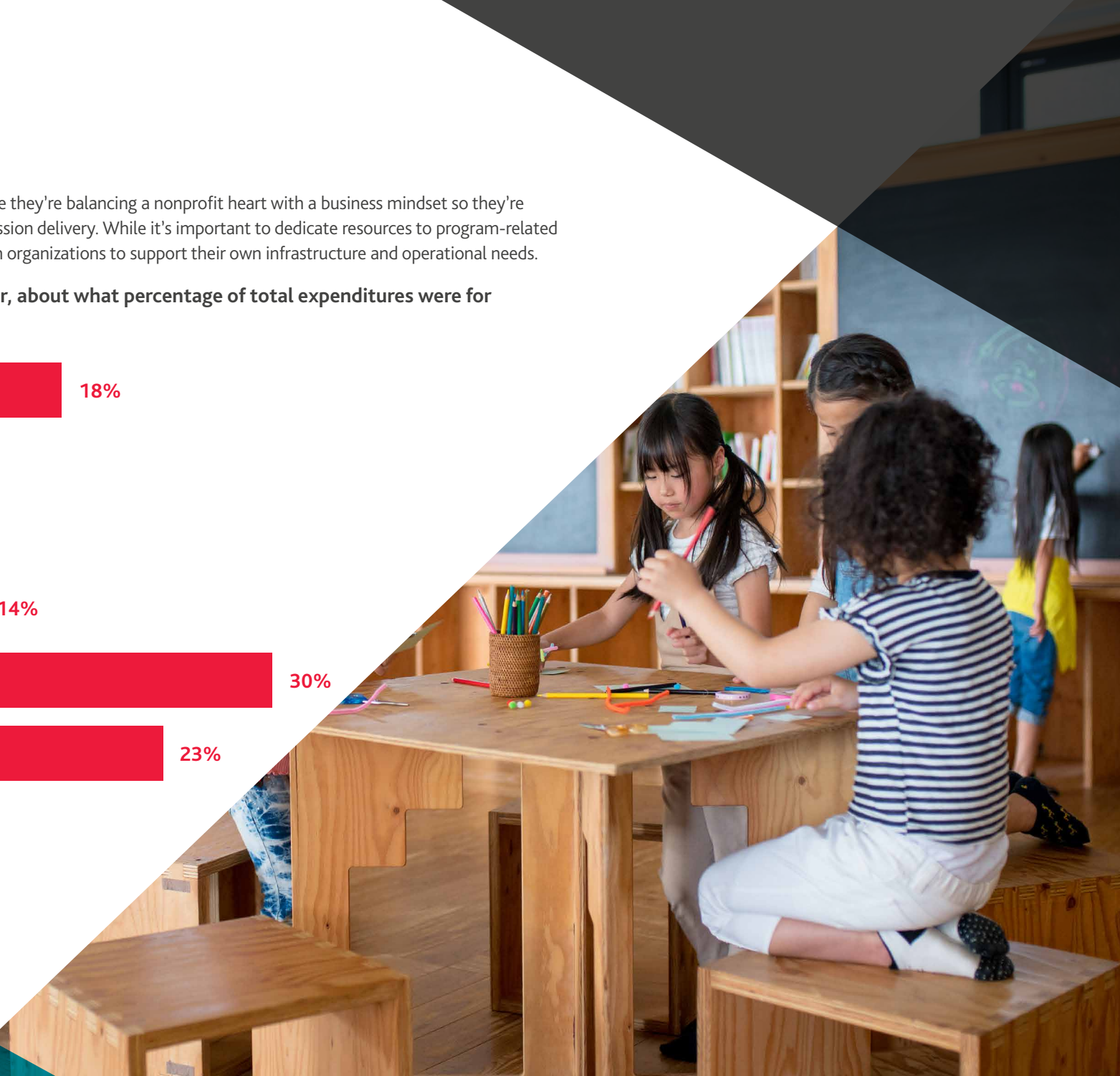
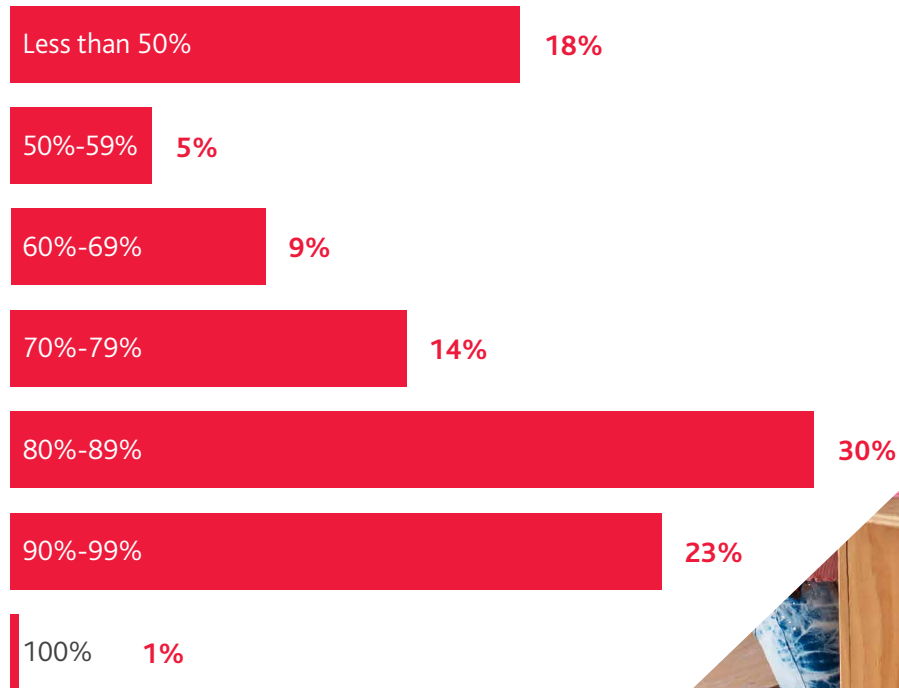
-  Fee for Service | **32.29%**
-  Investments | **13.13%**
-  Individual Contributions | **9.85%**
-  Government Grants | **7.74%**
-  Fundraising/Special Events | **3.41%**
-  Corporate Contributions | **3.3%**
-  Foundation Grants | **3.26%**
-  Membership Dues | **3.02%**
-  Conferences/Meetings | **1.87%**
-  Publications | **0.06%**
-  Other | **16.19%**



Expenditures

Education organizations should make sure they're balancing a nonprofit heart with a business mindset so they're financially healthy enough to support mission delivery. While it's important to dedicate resources to program-related offerings, it's equally critical for education organizations to support their own infrastructure and operational needs.

During your most recent fiscal year, about what percentage of total expenditures were for program-related activities?

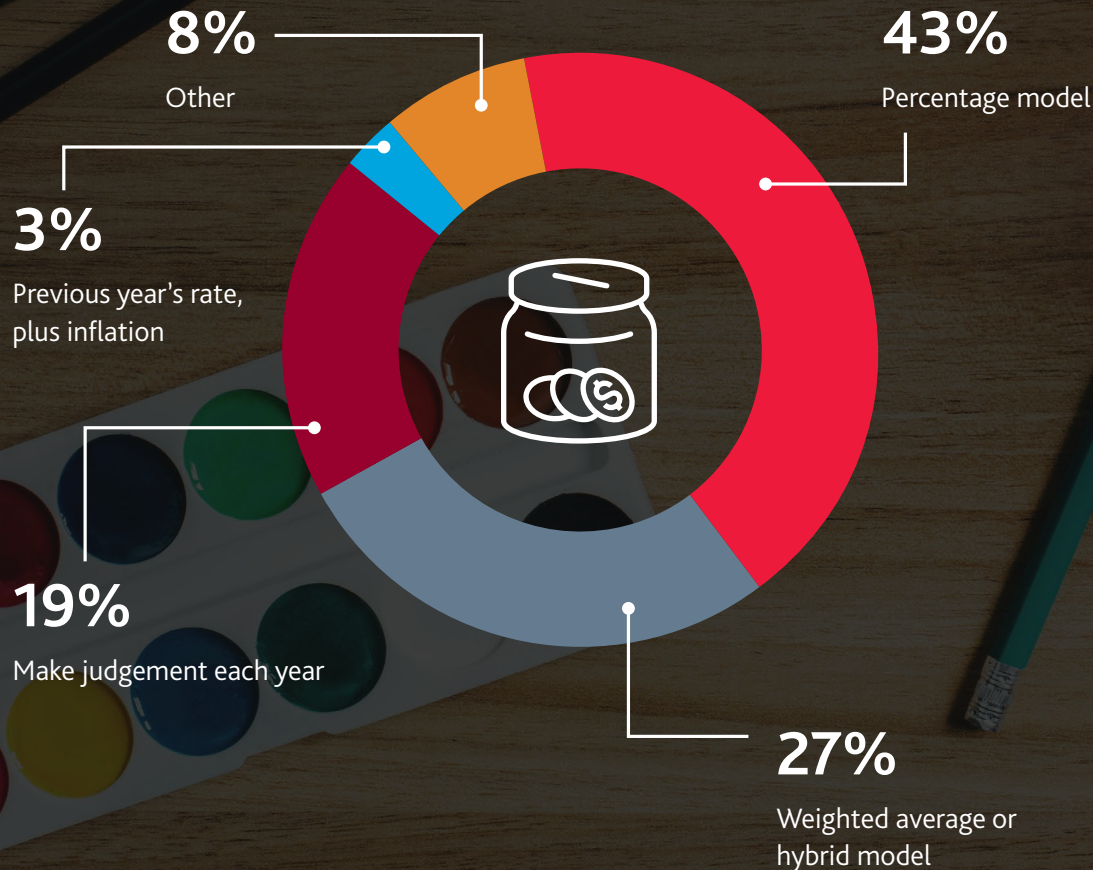


Spending Policies

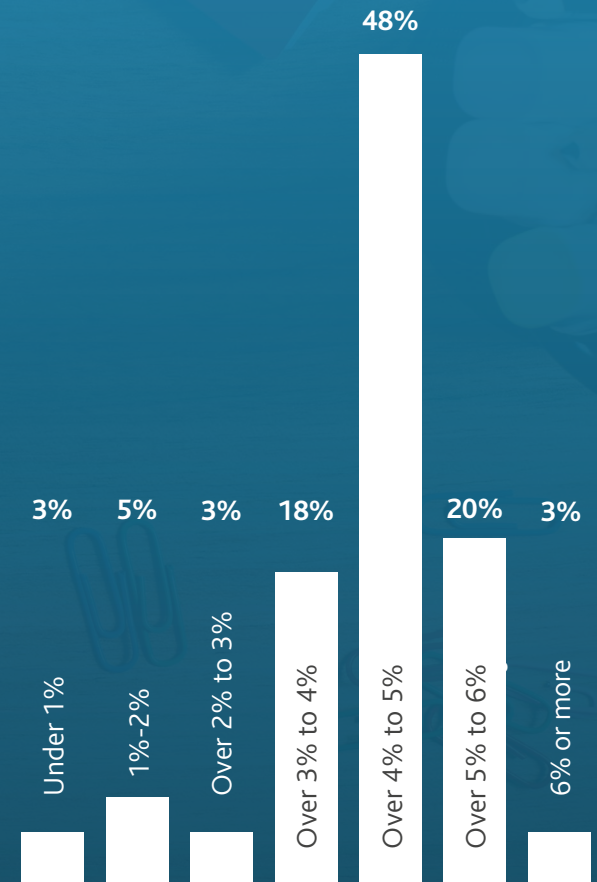
Over the past year, the economy has gone through a series of ups and downs. To ensure that they're set up to weather such fluctuations, it's imperative for education organizations to periodically reassess their financial practices and update them as needed.

According to the survey data, over three-quarters of education organizations (79%) have a spending policy, but the type they use varies.

Which of the following choices best describes your spending policy?



Spending rate for most recent fiscal year

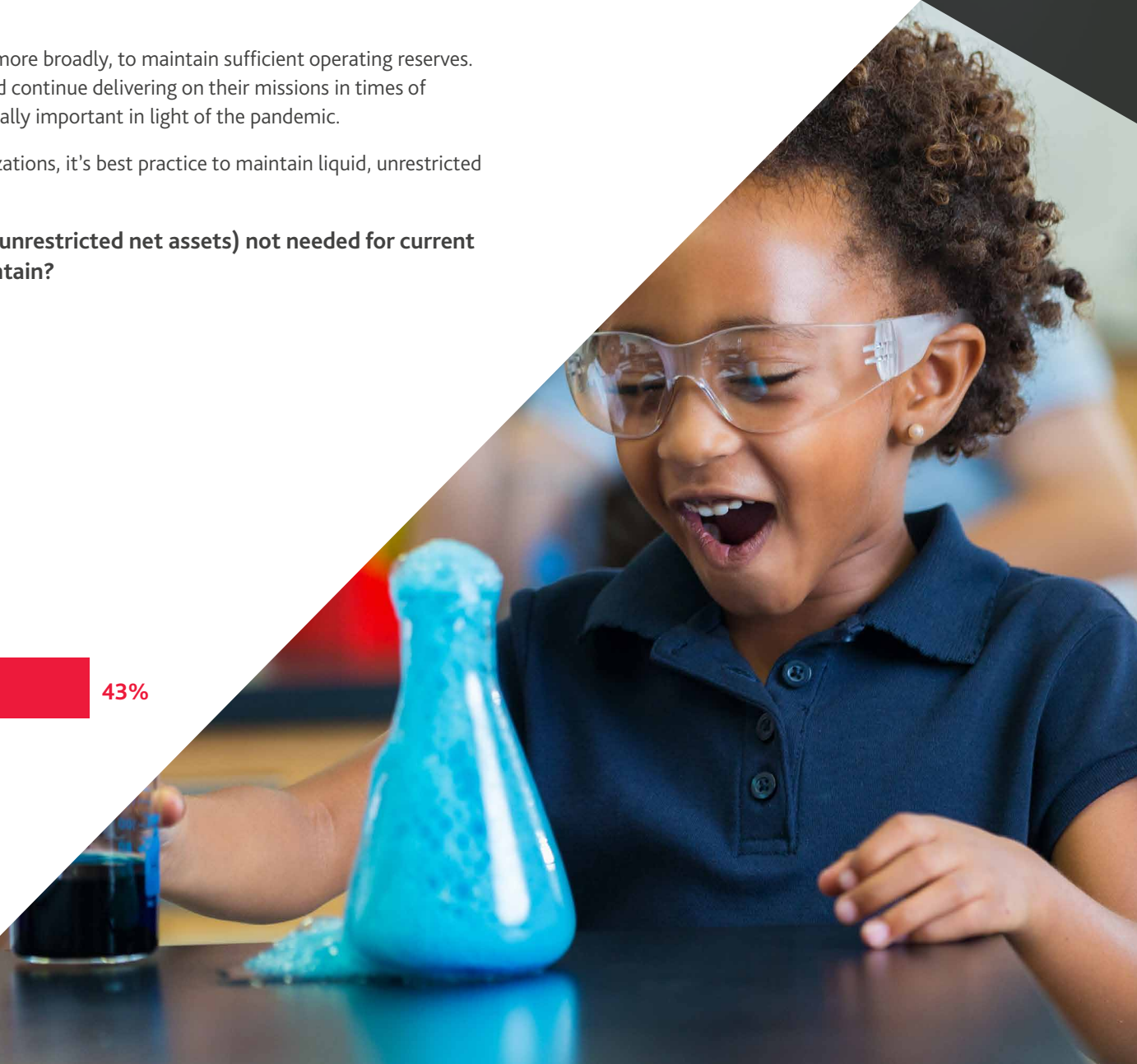
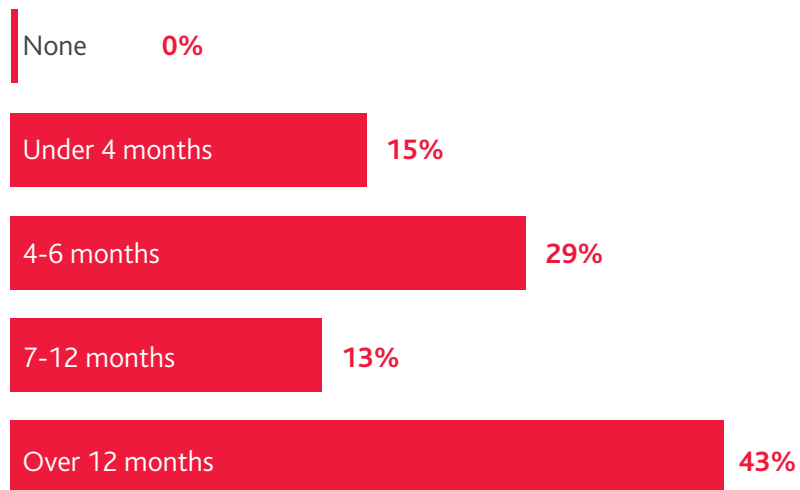


Liquidity: Staying Afloat in Times of Uncertainty

It's essential for education organizations, and nonprofits more broadly, to maintain sufficient operating reserves. Having cash on hand can allow organizations to adapt and continue delivering on their missions in times of economic uncertainty — something that's become especially important in light of the pandemic.

While no one approach is perfect for all education organizations, it's best practice to maintain liquid, unrestricted net assets to cover at least six months of operating costs.

How many months of operating reserves (liquid, unrestricted net assets) not needed for current operations does your organization currently maintain?



Indirect Costs

For some education organizations, narrowing the gap between revenue and the true cost of operating is a balancing act. When it comes to indirect costs, or costs that aren't directly tied to programming, two key factors tend to play a role:



Sometimes, the foundations that support education organizations **lack clarity on how much indirect costs** impact these institutions' financial health.



There's a **wide diversity** in what organizations consider an indirect cost. Additionally, some organizations **don't have a complete understanding** of their own indirect cost rate.

This can lead to a “lower is better” mentality, leaving education organizations vulnerable to economic volatility. Even the 45% of education organizations surveyed that report having a strong understanding of their indirect costs should consider how they can achieve greater indirect cost coverage.

45%



have a **standardized policy** on cost categorizations (a thorough understanding of their overall indirect cost rate) and **communicate it to donors**

23%



generally use the **suggested indirect cost rate** provided by donors

16%










have **little understanding** around their indirect costs


An Evolving Compliance Landscape

In any given year, education organizations navigate a number of regulatory requirements, including compliance with labor standards, federal financial aid, safety and health codes and much more. With a new administration in office, continued legislative and regulatory changes may be on the horizon. In his first months of office, President Biden has already extended a pause of student loan payments, proposed a tuition-free community college plan and forgiven \$3 billion in student loans.


Many education organizations relied on COVID-19 funding — especially from the Higher Education Emergency Relief Fund (HEERF) — to stay afloat during the pandemic, adding another layer of complexity to their compliance needs. It's critical for education organizations that spent COVID-19 aid to stay on the pulse of updates surrounding the use and reporting of these funds.

From which, if any, of these did you receive COVID-19 relief funding?

-  Higher Education Emergency Relief Fund (HEERF) | 65%
-  Paycheck Protection Program (PPP) | 41%
-  Disaster relief grants from government agencies (e.g., FEMA) | 12%
-  Provider Relief Fund (PRF) | 4%
-  Economic Injury Disaster Loan (EIDL) | 2%
-  Other | 6%
-  Did not rely on COVID-19 relief funding | 14%

53% 

of education organizations believe the Biden administration's policies will have a highly or somewhat positive impact on their revenue.

52% 

report that the time and effort required to deal with government regulations and legislative changes will represent a high or moderate challenge during the next 12 months.

Spotlight on Student Enrollment and Retention

Even before the pandemic, education organizations were contending with a number of variables that weighed heavily on student enrollment and retention, including declining birth rates, more strict student visa policies, greater international competition, tuition hikes and more. COVID-19 only compounded the impacts these factors have on education institutions, as prospective and current students debated the value of an online or hybrid experience and faced their own financial hardships.

While a plurality of those surveyed (42%) identify declining enrollment and student retention as their biggest challenge over the next 12 months, education organizations are pursuing a variety of strategies to encourage enrollment.

Which strategies are you pursuing to encourage enrollment?



Introducing campaigns to encourage prospective students to enroll | 69%



Adding new degree offerings | 45%



Introducing campaigns to encourage previously enrolled students to finish their degrees | 37%



Discounting tuition | 33%



Increasing flexibility of acceptance requirements | 18%



Keeping tuition flat | 10%



Increasing flexibility of grading system | 0%



None of the above | 14%



Looking Ahead

As education organizations navigate the impacts of COVID-19, they must strive to stay financially healthy enough to continue nurturing the minds and hearts of generations to come.

Education organizations have the power to change the future. We hope our findings enable you to better understand your organization's unique challenges and opportunities so you can continue pointing the way toward a brighter tomorrow.

MICHAEL DANNAR
Assurance Office Managing
Partner



Methodology and Respondents



This year's **Nonprofit Standards** Benchmarking Survey was fielded by Market Measurement, a market research consulting firm, in June 2021.

This snapshot of the data takes a closer look at the responses from the 53 organizations that described themselves as education organizations.

Education organizations self-identified as colleges and universities, elementary and secondary schools, technical and trade schools, organizations that provide educational support services, and similar organizations.

Revenue

Under \$25M	20%
\$25M-\$50M	40%
\$51M-\$75M	12%
\$76M-\$99M	10%
\$100M-\$200M	14%
Greater than \$200M	4%

Title or Position

Chief Financial Officer (CFO)	47%
Chief Executive Officer (CEO)	15%
Executive Director	8%
Report directly to one of the executives outlined above	8%
Director of Finance	8%
Controller	4%
Other	11%

Assets

Less than \$5M	2%
\$5M-\$9.9M	0%
\$10M-\$24.9M	4%
\$25M-\$49.9M	9%
\$50M-\$99.9M	17%
\$100M-\$199.9M	28%
\$200M or more	40%

Scope of Work

Regional	33%
National	29%
Local	21%
International	17%



BDO NONPROFIT & EDUCATION PRACTICE

For more than 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 nearly 5,000 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.

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

BDO INSTITUTE FOR NONPROFIT EXCELLENCESM

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 website at www.bdo.com/resource-centers/institute-for-nonprofit-excellence for upcoming local events and webinars.

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