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INDIANA UNIVERSITY

Measuring the Financial Health of Mid-sized Nonprofits

Researched and written by:

Indiana University Lilly Family School of Philanthropy

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[American Cabaret Theatre](#), Indianapolis, IN

[Dallas CASA](#), Dallas, TX

[Habitat for Humanity of Metro Denver](#), Denver, CO

[The Magic House](#), St. Louis, MO

[Meals of Hope](#), Naples, FL

[Miss Porter's School](#), Farmington, CT

[Sequoia Riverlands Trust](#), Visalia, CA

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Executive Summary

Although the roughly 1.5 million nonprofits across America make meaningful contributions to our community and civic life, their financial health is not always guaranteed. Considerable research has focused on the well-being of nonprofits in the aggregate or on large and small organizations. Mid-sized nonprofits, defined here as having assets between \$5 million and \$75 million, have attracted less attention. *Measuring the Financial Health of Mid-sized Nonprofits* addresses that gap; explores the size, scale, and scope of what we call the “missing middle”; and suggests measurements that nonprofit leaders may consider to guide their organizations toward financial health.

A single set of benchmarks for nonprofit health does not exist. Review of the academic literature suggests that a composite measurement is impossible due to the complex nature of the nonprofit sector and the challenges in creating a financial health index that applies across subsectors. For example, sources of revenue vary across subsectors and organization size, making comparison difficult. In response, this study uses six distinct measures and looks at organizations' success in each. The six measures used are administrative ratio, months of spending, debt margin, operating surplus as a percentage of assets, debt service coverage ratio (DSCR), and primary reserve ratio. These were selected because: (1) they are available and commonly used in both academic literature and practice; (2) they can be compared across asset levels to get a better picture of financial health regardless of size; and (3) there is consistency around definitions commonly applied for each value.

This report contributes new insights about mid-sized nonprofit financial health relative to that of its larger and smaller counterparts. Analyzing more than 800,000 IRS Forms 990 from more than 170,000 nonprofit organizations, this study finds that mid-sized nonprofits (8.8% of the sample) differ from smaller and larger organizations. These mid-sized nonprofits tend to have higher levels of liquid assets, adequate months of spending, and a low debt ratio—meaning that they are more cautious with their finances. Mid-sized nonprofits qualified as healthy (secure) in a greater portion of measurements used in this study (69.4%) than small (63.6%) and large (65.3%) nonprofits.

Additional findings from the data analysis include:

1. Mid-sized nonprofits more closely resemble large nonprofits with regard to endowments, with 55.0% reporting the presence of an endowment, compared with 64.9% of large and 11.8% of small nonprofits.

2. Investment income represents a low share of revenue, with large nonprofits generating 6.5%, compared with mid-sized nonprofits at 2.8% and small nonprofits at 1.0%.
3. A greater percentage of mid-sized nonprofits have found the “healthy” administrative ratio (54.5%) compared to small (44.3%) and large (51.6%) nonprofits.
4. With regard to one measure of liquidity—operating surplus as a percentage of assets—mid-sized nonprofits (44.6%) fall between small (47.5%) and large (42.0%).
5. Nearly two-thirds of mid-sized and small nonprofits have a debt margin below 20%. In contrast, 49.4% of large nonprofits have a debt margin below that figure.

Measuring the Financial Health of Mid-sized Nonprofits highlights measurable differences between mid-sized nonprofits and their peers. The report includes a summary of research on financial health and analysis of data from IRS Forms 990, along with case studies and examples of best practices. The case-study interviews illustrate how practitioners think about nonprofit financial success in terms of mission alignment, liquidity issues, revenue diversification, and leveraging assets to generate additional revenue. This study contributes new knowledge about how those factors, combined with organizational size, affect financial health. Through a comprehensive look at nonprofit financial health, this study seeks to deepen understanding about measurements of financial health for organizations of all sizes and to provide practical advice to nonprofit leaders to ensure that they have a range of tools to achieve financial success.

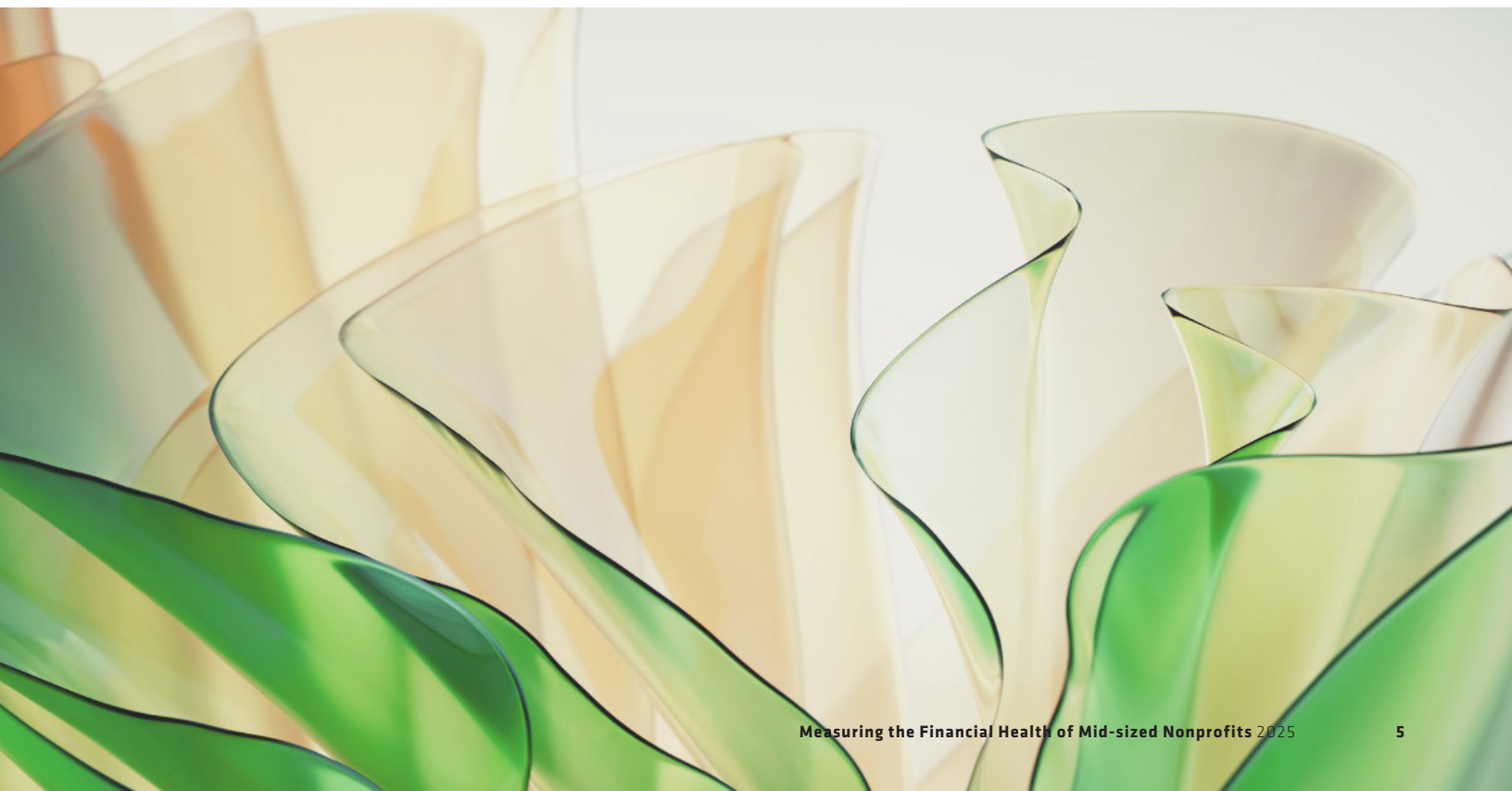
Research Questions

Many factors influence financial success for mid-sized nonprofits. Overarching issues such as board governance, risk tolerance, human resources limitations, and financial literacy of the board and staff affect how an organization approaches financial matters. Specific issues such as the need for liquidity, revenue diversification, the presence and size of an endowment, reliance on government funding, fundraising ability, and general economic conditions also shape how nonprofits address financial health.

This project is especially timely as nonprofits once again face a challenging landscape. Over the last 45 years, and even more so in the last five, nonprofits have weathered erratic government funding, recessions, congressional scrutiny of their endowments and tax-exempt status, and a global pandemic. Despite these concerns, many nonprofit organizations of all sizes remain resilient, adapting to the pressures to survive and, in many cases, thrive.

This project focuses on these issues through the lens of two broad research questions:

1. What types of organizations constitute the “missing middle”? What is the size, scope, and scale of these organizations?
2. How do we define financial success for mid-sized nonprofits? Which best practices and pieces of practical advice can be shared across the philanthropic sector?



Key Themes from the Academic Literature

Four themes emerged from this review:

1

The nonprofit sector is large and diverse. Organizations across subsectors build their income streams from different revenue sources. Varying missions, goals, and funding models make it difficult to define and compare financial health. Measurement is further complicated by nonprofits' double bottom line of financial returns and social returns. **A universal best practice for organizational effectiveness is unlikely** (Herman and Renz, 2008).

2

Internal and external factors may affect nonprofit financial health. Internally, a lack of financial literacy among boards and staff, inadequate human resources to address increasingly complex financial instruments and markets, staff transitions, funding issues, and conflicts between the board and staff can affect financial health. External shocks from political challenges to recessions to the global pandemic affect nonprofits' financial health in different ways.

3

The study of nonprofit finance itself is evolving as the nonprofit sector landscape shifts. **The nonprofit sector has been moving from a focus on programs and services (what they do) to an emphasis on impact (the results they achieve).** To realize this shift, nonprofits "need to move from an operations frame to a wealth frame, focused on financial resilience and the creation of social value and impact over time" (Bell and Ellis, 2016).

4

The strategies and plans that nonprofits develop for crises also allow them to plan for long-term financial success. **Resilient nonprofits think long term, ensure liquidity and fluidity, and build reserves to allow for flexibility in times of financial fluctuations** (Salamon, 2015).

One scholar suggests that nonprofit financial health is integrally related to the organization's overall purpose, as indicated by the following approach:

"Start with a mission; connect the nature of the benefits you are providing with the constituencies who care about these benefits and are willing to support them; diversify income sources to manage risk and to adequately reflect the multifaceted nature of your mission; monitor your financial health; build endowments and other assets to support mission effectiveness and financial health; and integrate financial decisions into the basic strategic thinking for the organization (Young, 2007)."

Existing research on nonprofit financial health

A single set of benchmarks measuring nonprofit financial health remains elusive. Different studies examine and emphasize different, and often very specific, aspects of nonprofit finance, such as fiscal performance, liquidity, public support, administrative ratio, revenue diversification, income portfolio, or the roles of equity, debt, and reserves, among others. Moreover, tools vary based on short-term and long-term financial health (Zimmerman, 2024).

Definitions and discussion of the six measurements used in this study follow. The six measurements used are administrative ratio, primary reserve ratio, months of spending, debt margin, Debt Service Coverage Ratio (DSCR), and operating surplus as a percentage of assets.

Administrative and Primary Reserve Ratios

Nonprofit research has used a variety of ratios to measure organizational and financial performance. A brief discussion of administrative ratio and primary reserve ratio follows.

The administrative ratio is the total management, general, and fundraising expenses divided by the total expenses (Grizzle, Sloan, and Kim, 2015). It does not include program service expenses. For this study, a healthy administrative ratio is defined as 10%–30%. A high administrative ratio implies overspending on non-program-related expenditures, and a low administrative ratio can lead to underinvestment in the necessary infrastructure of the nonprofit (Stuhlinger, 2022). Higher administrative costs suggest greater oversight and higher and less volatile revenues (Mayer, Wang, et al. 2014). One study concluded that “[s]pending on overhead, far from a ‘necessary evil,’ is the basis for mission effectiveness” (Urban Institute and Indiana University Center on Philanthropy, 2004).

The primary reserve ratio indicates how long an organization can operate without additional revenue using only unrestricted assets. For this study, primary reserve ratio is defined as $(\text{Total Assets} - \text{Total Liabilities}) / \text{Total Expenses}$ with the healthy rule of thumb being greater than or equal to 40%.

Reconsidering Overhead Costs and the Administrative Ratio

This report includes the administrative ratio as one measure of financial health, with a healthy dose of caution. Historically, overhead has been viewed negatively. Some nonprofits move expenses around to achieve a low administrative ratio because they perceive that donors, funders, and watchdog agencies value lower ratios (Urban Institute and Indiana University Center on Philanthropy, 2004). But an administrative ratio that is too low has consequences for nonprofit effectiveness. It hampers nonprofits’ ability to plan for crises and financial shocks. Investing in personnel, technology, and more efficient buildings enables nonprofits to grow, to better leverage assets, to be more nimble and more responsive to new opportunities. Scholars refer to the challenge of finding the right administrative ratio for a nonprofit as the “Goldilocks principle” – not too much, not too little, but just right (Young and Searing, 2022).

That “just right” ratio will vary across subsectors, by the life stage of the nonprofit, the type of nonprofit and its donor base, age, geographic location, and the ecosystem in which it operates. It may take time for various stakeholders to agree on the right ratio and achieve it. In the end, however, it will allow.

CASE STUDY

American Cabaret Theatre, Inc. (dba The Cabaret)

Indianapolis, IN

Subsector: Arts

Build better and stronger, not bigger

The American Cabaret Theatre is an arts organization dedicated to elevating and promoting the cabaret art form by entertaining, educating, and engaging audiences and artists through world-class performances. Founded in 1988, it restructured with a new business model in 2009, following a change in leadership and the pressure of the Great Recession. The Cabaret has an annual budget of \$1.6 million and net assets of \$1.9 million. Three sources provide most of the revenue: gifts, contributions, and sponsorships (33%); ticket sales (31%); and grants/ government funding (26%). Shannon Forsell, Artistic Director and CEO, said, “Organizations can rebuild. It can happen if you are really intentional. Be nimble, be methodical. You can do it.” Forsell, who has served in her role for 17 years, and Molly Griffin, Business and Finance Director, participated in the conversation.

For The Cabaret, financial success means having both sufficient annual funds to produce a stellar product and sufficient reserves for stability when the unexpected happens. Performances occur in an intimate 200-seat venue with 90% of shows at capacity. Leadership considered moving to a 400-seat theatre, but decided to stay with the smaller venue, with a small infrastructure that allows the organization to be more nimble and flexible. Their audience has also reported that they prefer the more intimate atmosphere.

The new strategic plan focuses on building stability and sustainability by increasing the operating reserves and endowment. The Cabaret recently invested in their first full-time Business and Finance Director, who has created stability and clearly communicated financial and business strategies. Following the pandemic, the organization was also able to recruit a seasoned development professional. Although this position has temporarily increased overhead, the Chief Advancement Officer has expanded fundraising capacity, and the nonprofit anticipates that it will pay for itself in 2026, as well as freeing the CEO to think more strategically. With these personnel investments, the nonprofit has created a dynamic and enterprising team.

This small nonprofit has two endowments, both of which are managed by the local community foundation. The Cabaret engages an investment firm to help manage the operating and capital reserve funds with the guidance of the nonprofit's finance committee.

Through strong fiscal management, robust fundraising, and taking full advantage of government support and a low-interest federal Small Business loan, The Cabaret came out ahead after the pandemic, even after being closed for 18 months. The board of directors and staff leadership assess financial risk on a regular basis. To help ensure sustainability, The Cabaret has an operating reserve of six months plus a capital reserve fund for furniture and equipment. Because sustainability is the primary goal for The Cabaret, staff are intentional on ensuring that the organization not only survives but thrives.

Best advice received from someone on the finance committee: Treat the staff well, and periodically review compensation and benefits packages.

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Treat the staff well, and periodically review compensation and benefits packages.



Months of spending

Months of spending is a common tool used to measure a nonprofit's liquidity. Based on unrestricted reserves and/or liquid assets, it refers to how many months the nonprofit can operate at the current level of spending without new income. Consensus among researchers and common practice suggests that at least three months of spending should be held in reserve, but preferably at least six months (Calabrese, 2018). Too little available cash affects nonprofits negatively when a financial shock occurs. Too much available cash suggests that the nonprofit may not be reinvesting by adding personnel, updating technology, improving buildings, or expanding programs.

Debt margin

Debt margin refers to the amount of debt a nonprofit can take on without exceeding legal or financial limits. This term is used infrequently in the academic literature. In this study, it refers to the total liability divided by the total assets at the end of the year. Based on discussion with this project's Advisory Council, more than a 20% debt margin suggests a highly leveraged nonprofit.

Debt Service Coverage Ratio (DSCR)

The debt service coverage ratio refers to the nonprofit's ability to meet its debt obligations from its operating cash flow. For this study, DSCR refers to tax exempt bond liabilities plus mortgages, divided by operating revenue.¹ The common understanding of a healthy DSCR, which this study uses, is that revenue exceeds debt liabilities.

Operating surplus

The operating surplus, excess income over expenses, is one way that the financial performance of a nonprofit is measured (Bowman, 2024). For nonprofits that use the GAAP (Generally Accepted Accounting Principles), the annual surplus to achieve resiliency should be no less than 3.4% multiplied by the total assets, excluding land (Bowman, 2024).

Over time, scholars and legislators have questioned whether a nonprofit's surplus can be too much of a good thing. Three theories about nonprofit surpluses are that: 1) expenses should equal revenue and result in a zero balance; 2) surpluses should be used for future investment and can offset market volatility; and 3) surpluses give managers satisfaction (Tuckman and Chang, 1992). Tuckman and Chang further argue that surpluses allow managers to meet future needs, hedge against uncertainty and risk, and increase independence from funders (Tuckman and Chang, 1992).w

¹ In other financial literature, DSCR is typically defined with debt in the denominator, such that a DSCR in excess of 100% is healthy. The analogous nonprofit reference used in this paper defines it inverted, with debt in the numerator, such that a healthy DSCR is below 100%. Given this discrepancy, and since the inflection point is the same (100%), we define "healthy" here, such that it's agnostic to the exact formula used, as "with revenue in excess of debt liabilities."

Revenue diversification and endowments are also considered here because both contribute to financial health but are complex to measure. For example, the revenue mix varies substantially across subsectors, making cross-sector comparisons impossible. Moreover, there is no agreement on what the “right” mix of revenue should be for individual organizations and within each sector. Inclusion of revenue mix here underlines the various ways nonprofits generate and use it to help achieve financial sustainability.

Revenue diversification

Nonprofits generate revenue primarily through earned revenue, grants, contributions, investment income, and government funding. The income mix varies across subsectors and organization size. The arts may have more earned income through ticket sales and private philanthropy. Human services agencies may rely more on government funding. Education institutions may rely on earned income through tuition, government grants, and their endowment (Young, 2007). Scholars debate how revenue diversification affects nonprofits. One argument is that revenue diversification helps achieve financial stability but may not yield more benefits than costs. Does the nonprofit have enough staff with the right training to manage multiple revenue streams (Mayer, Wang, et al., 2014)? Another perspective finds that nonprofits with the least amount of diversification are at risk (Tuckman and Chang, 1991).

Research on nonprofits' financial conditions in response to COVID-19 found that nonprofits with higher equity ratios and greater revenue diversification were in a better position to manage financial shocks (Hoang, Maher, and Nkrumah, 2024). Higher operating surpluses, reserves, and contributions helped reduce budget cuts and enabled nonprofits to move from a reaction stage to a more intentional/strategic action stage toward sustainability and endurance.

Understanding the percentage of the endowment that is restricted vs. unrestricted is essential to gain the full measure of a nonprofit's financial health and to avoid the perception that a nonprofit is flush when most of the endowment is in restricted funds.

Endowments

The most common perception about why endowments exist is that they provide a perpetual source of income in support of the nonprofit's mission. In an analysis of nonprofit assets, it is important to distinguish between endowed organizations and those without endowments, because their financial behavior may differ. Nonprofits without endowments can build up non-endowment funds such as liquid reserve or strategic investment funds to seed innovative and experimental programs (Young and Searing, 2022). Unrestricted endowments offer nonprofits expanded sources of income, stability, and credibility; a complement to annual fundraising; the ability to attract talent; independence; flexibility; and expanded strategies for campaigns (MacDonald, 2024). Endowments reported on IRS Forms 990 include three types of assets: true endowment (permanently restricted); term endowment (temporarily restricted); and quasi-endowment (board designated unrestricted funds).

Restricted endowments cannot be used at the discretion of managers or boards. If the donor of a restricted gift is still living, that donor may agree in writing to release the gift restriction. Borrowing by using restricted funds as collateral is difficult; lenders may be unwilling to accept them since they cannot claim them in the event of bankruptcy (Calabrese and Ely, 2017).

As with other facets of nonprofit finance, scholars have different perspectives on endowments. While some argue that nonprofits, such as higher education, should use the funds now rather than preserve them for intergenerational equity, more research is needed to explore this tension. Others advocate for using endowment income as a tool to help protect nonprofits from financial shocks.

CASE STUDY

Meals of Hope, Inc.

Naples, FL

Subsector: Human Services

Grow program revenue for greater impact and sustainability

Founded in 2007, Meals of Hope is a human services organization focused on hunger relief. With a 2025 budget of \$15.5 million and total assets of \$12.3 million, Meals of Hope runs three programs: an operation that packed 13.65 million meals in 2024; a backpack program that prepared 130,000 food packages in 2024 for needy children to eat during the weekend; and 12 food pantries that serve 4,000 families every week in southwest Florida. They announced their first capital campaign in conjunction with their upcoming 20th anniversary. The \$4.5 million goal is to purchase \$1 million in food, reduce the mortgage on a new 18,000-square-foot building, set aside \$1 million for operational growth, and create a board-designated endowment (quasi-endowment). Stephen Popper, Founder and CEO of the organization, brings more than 20 years' experience in the for-profit sector to his work.

For Popper, financial success is the ability to be self-sustaining. Although Meals of Hope receives grants and some philanthropic support, its primary source of income comes from distribution of the packed meals, i.e., program fees. Volunteers for Meals of Hope pack meals in every state except Hawaii; meals stay in the local community where they were packed. For example, the 150,000 meals packed in Pittsburgh went to the Greater Pittsburgh Food Bank. To achieve the goal of sustainability, they recently started to franchise the meal-packing component. They created a for-profit B Corps entity, Meals of Hope Logistics, to award the franchises. All income from the franchises generates a revenue stream for the nonprofit.

The organization's revenues and expenses have fluctuated over the past five years. During COVID, Meals of Hope never closed. They received government funding but recognized that it was a short-term investment. Liquidity is a key measurement for Popper and the board. Meals of Hope has accounts in several banks to stay within FDIC limitations (\$250,000 per depositor) and does not invest in CDs so that it can access funds when needed. They do not have a goal for how much to keep liquid. Popper's general philosophy is "as long as we are doing good in the community and figure out a way to do it, the money will follow." This approach bore fruit as Meals of Hope recently received an unsolicited and unrestricted \$3 million gift from a philanthropist who had not previously supported the nonprofit.

Popper pays careful attention to overhead. Purchase of a large new warehouse with ample refrigerator and freezer space made possible the consolidation from two smaller warehouses to one larger. He advocates for unrestricted grant dollars. Sometimes, grant funding is only for new programs or to buy food. While helpful, Popper remarked that such funding does not pay the light bills and other operating costs.

Meals of Hope is a unique nonprofit in the hunger relief ecosystem because of its broad scope. It compares changes in revenue, liabilities, and net worth year-to-year but cannot compare itself to other hunger-relief organizations because its scope is much broader. Popper says that most food pantries have no more than two sites; Meals of Hope runs 12 sites across southwest Florida. At Meals of Hope, Popper stated that 93% of expenses go to programs, a figure that he says demonstrates that the organization is a good steward of its money.

Best advice about finances received:

It is imperative not to get overextended financially but at the same time, you must look at taking care of the needs in the community. Operate as close to a for-profit business as possible but with a big heart.

Across all nonprofit subsectors with endowments, this study found endowments most common among arts organizations (25.3%), followed by education (23.8%) and the environment (19.9%). The overall presence of an endowment ranges somewhat narrowly, from 10.5% (religion) to 25.3% (arts). Across all nonprofits sampled, an average of 17% have endowments.

Investment income provides a small source of revenue for most nonprofits.

This study found the percentage of investment income by subsector ranged from 2.3% for the international subsector to 11.5% for the education subsector. It averaged 4.9% across all nonprofits.

The Great Recession of 2008–09 demonstrated that nonprofits that relied heavily on endowment income as a major source of revenue became financially constrained when the stock market fell dramatically. For instance, museum budgets that were dependent on endowment income faced a tsunami of challenges, as the experience at the Indianapolis Museum of Art demonstrated. Before the recession, the museum had taken 7% or 8% out of the endowment, which funded more than 70% of its operating budget (Goldstein, 2018). Spending more than 7% of the fair market value of the endowment suggests imprudence, according to UPMIFA, the Uniform Prudent Management of Institutional Funds Act (Calabrese and Ely, 2017). A new director told the board that “by 2018, we had to be at five percent, period” (Goldstein, 2018). Moreover, the portfolio of the Getty Trust in Los Angeles lost \$1.5 billion in 2008. The Metropolitan Museum of Art’s endowment went from \$2.9 billion to less than \$2.1 billion. As a result, many museums rethought their revenue diversification model and began changing or increasing admission fees to reduce reliance on the endowment (Rizzo, 2010).

Investment income can aid risk management and help cover shortfalls. It is used to manage large, fixed costs such as maintaining physical plants or real estate. Yet, in a volatile economic environment, endowment income is not without risk. Nonprofits that rely solely on endowment income are as vulnerable as any other nonprofit dependent on any one source of income (Young, 2007). A significant endowment is not enough to guarantee financial health.

Other than for universities, limited research exists on investment practices and performance in the nonprofit sector. A study using IRS e-filer data found that nonprofits underperformed market benchmarks between 2009 and 2017 (Qu, 2020).

In one study, researchers found that 19.6% of nonprofits reported owning marketable securities. These are typically long-term assets. While the balance sheet may suggest that the nonprofit is highly liquid, the assets may be restricted and designated for specific programs (Bowman, Calabrese, and Searing, 2018).

Other factors that affect financial health

When examining other factors that affect financial health, limited research addresses organizational size. Most studies analyze nonprofits in the aggregate; a few examine issues within a subsector. Factors that also affect financial health are discussed below.

Organizational factors

Research generally finds that the age, size, and nonprofit sophistication, as well as where the nonprofit is in its life cycle affect its financial health. Older nonprofits may have several revenue streams with loyal donors, a proven track record that generates trust with the community and funders, and ample financial reserves. Larger nonprofits may also have dedicated finance staff, larger boards, and more access to capital.

Newer and smaller organizations may have the capacity to manage only one income source because of limited staff expertise and size. These organizations may have liquidity issues and limited reserves, making them more vulnerable to financial shocks.

Governance

A nonprofit's board of directors' legal governing responsibilities are duty of loyalty, duty of obedience, and duty of care (BoardSource, n.d.). One of the board's essential roles is financial oversight and accountability. Revisions to IRS Forms 990 in 2008 included disclosure of governance policies because a "well-governed charity is more likely to . . . safeguard charitable assets . . . than one with poor or lax governance" (Harris, Petrovits, and Yetman, 2015). The updated IRS Form asks about outsourced management and an audit committee, whether policies exist for whistleblower protection, conflicts of interest, documentation maintenance, and proxies for monitoring by boards of directors. Although these policies do not directly address financial health, they may serve as a proxy for the organization's maturity, sophistication, and commitment to accountability. They indicate awareness of best practices and inspire donor confidence.

Financial management challenges at the board level may include a board's sole focus on budget vs. actual costs rather than policy and strategy. A board may pay excessive attention to compliance with funding. One scholar found that large organizations approach financial health through strategic planning, and "poorly run and/or resource-starved organizations" neither collect information about the organization's financial health nor discuss it (Young, 2007).

Internal and external shocks

Nonprofits experience both internal and external financial shocks. Internal shocks may include staff transitions, funding issues, conflicts between the board and the staff, and fraud. Over the past 45 years, numerous external shocks ranging from political challenges to recessions to a pandemic have affected nonprofits. One scholar states, however: "Recessions and bad luck do not cause financial crises; incompetence and poor planning do" (Bowman, 2024). In such financial crises, unrestricted cash and cash equivalents can solve a cash shortage as nonprofits can pull from them rather than borrowing from a bank. Greater financial flexibility allows for better planning, a more certain budget process, and less vulnerability to financial shocks (Mayer, Wang, et al., 2014).

The COVID-19 pandemic upended all aspects of nonprofit operations differently by subsector. Hoang, Maher, and Nkrumah (2024) bridge two strands of research—fiscal analysis and resiliency literature—to examine how the nonprofit's financial condition influences its response strategies during a crisis. They argue that responses during a crisis are influenced by preexisting conditions of nonprofit revenue strategies and financial capabilities and found that during COVID, prior-year financial capacity affected the nonprofit's response strategies. Nonprofits with higher equity ratios and greater revenue diversification were better placed to withstand financial shocks.

In a study of small and mid-sized nonprofits during the pandemic, researchers found that higher operating surpluses, reserves, and contributions helped reduce budget cuts and enabled the nonprofits to move from a reaction stage to a more intentional strategic action stage of stability and sustainability (Hoang, Maher, and Nkrumah, 2024).

CASE STUDY

The Magic House

St. Louis, MO

Subsector: Arts

Leveraging opportunities to ensure the future

The Magic House, a children's museum in St. Louis, MO, opened in 1979 in a 5,500-square-foot Victorian mansion to provide children with hands-on learning experiences in a unique educational environment. The museum has grown to 65,000 square feet, operating in two locations and attracting more than 500,000 visitors annually. Three expansions and a new building focused on STEM activities have propelled the museum's growth. With a current annual budget of about \$8.5 million, a \$10.5 million endowment, and net assets of \$37 million, the museum maintains its original entrepreneurial spirit, and an engaged 35-member board has started thinking more about revenue diversification to ensure that it stays in the black. Beth Fitzgerald, longtime President and CEO, brings perspective and insights about the museum's evolution over time. CFO Cheryl Darr joined the conversation for the case study.

The Magic House assesses financial success by year-to-year sustainability, a budget that is in the black, and a growing endowment. In addition to a board willing to take calculated risks, several opportunities have been inflection points for the nonprofit's managed growth and are ensuring the museum's future.

The first occurred in 2007 when the neighboring condominium complex owners approached the museum and asked it to buy them out. The board knew that the museum needed more space and purchased the building. Hit hard by the Great Recession, in 2011 the board decided to start an endowment with a goal to secure the future. Over time and a couple of campaigns, they raised nearly \$7.5 million, paid off their bond payments, and today have a board-designated endowment valued at \$10.8 million.

A second opportunity enabled the museum to work closely with the family of a donor's original bequest for a garden in order to create a building reserve fund for maintenance and replacement needs. Combining the five-year Kresge Foundation initiative matching grant program for capital needs and the original \$1 million bequest, the museum was able to set aside funds for building maintenance, a fiscal game changer.

Then, early in 2025, a national foundation awarded a \$2.5 million five-year grant to The Magic House. The funder paid the entire grant amount in a lump sum. The Magic House developed a five-year budget, withdrew a small initial amount for the first exhibit, and invested the remaining grant funds to create an additional revenue stream until grant funds are needed for new phases of the project.

The museum holds three to six months of expenses in cash to address budget fluctuations and keeps funds in money markets to ensure liquidity. Currently, paid admission to the museum provides about 30% of the museum's annual budget, although leadership is closely monitoring the current dual realities of increasing expenses and fewer tourism dollars. Instead of pulling from reserves, the museum conducted a special membership campaign in the summer to drive revenue. Another strategy to diversify revenue streams, portable traveling exhibitions created by the museum, generate about \$500,000 revenue annually.

Best piece of advice received from an investment advisor:

The Magic House has many corporate partners that generously support the museum. A board member advised the CEO not to worry too much when a corporation gets purchased because new opportunities for partnerships arise in its place.

Data Analysis and Results

This study used a panel sample of 501(c)(3)s which e-filed their IRS Forms 990 every year for fiscal years 2019–2023. The result was a sample of 170,611 public charities with IRS Forms 990 data in every year (853,055 total observations). This pooled sample of matched data allows for a longer-term picture, minimizing the effects of single-year anomalies at both an organizational and macro level.

This study defined the size of nonprofits using a time-invariant three-category definition. “Small” nonprofits were defined as having investable assets under \$5 million at least once during 2019–2023 and never more than \$75 million. “Mid-sized” nonprofits were defined

as having investable assets greater than \$5 million and less than or equal to \$75 million every year during 2019–2023. “Large” nonprofits were defined as having investable assets greater than \$75 million at least once in 2019–2023. In this study, mid-sized nonprofits represented 8.8% of the sample. For more detail about the sample, please see the Appendix.

Financial sustainability measurements

Review of the academic literature found that definitions for nonprofit finance terms varied among studies. A summary of the six financial sustainability measurements used in this study are in Table 1.

Table 1. Definitions of financial sustainability measurements used in this study²

Measurement	Definition	“Healthy” Rule of Thumb
Administrative Ratio	(Total Management & General Expenses, Including Fundraising)/Total Expenses	10%–30%
Months of Spending	12 * (Unrestricted Net Assets - (Land Building EOY - Taxexemptbondliabeoy - Mortgage Notes EOY) / (Total Exp - Depreciation)	3+ Months
Debt Margin	Total Liabilities EOY/Total Assets EOY	<=20%
Operating Surplus as % of Assets	(Total Revenue – Total Expenses) / Assets	>=3.4%
Debt Service Coverage Ratio (DSCR)	(Tax Exempt Bond Liabilities + Mortgage)/ Operating Revenue	<=100% (See Footnote On Page 9)
Primary Reserve Ratio	(Total Assets – Total Liabilities)/Total Expenses	>= 40%

² “Healthy” rules of thumb vary depending on the source. Moreover, nonprofit research has borrowed some rules from the for-profit world. Although many nonprofit researchers discuss administrative ratios, few define the parameters. Sanchez at Warren Averett states that the ratio should be less than 35% (see references for link to site). Conventional wisdom, along with the project’s advisory council, finds that 3+ months of spending is adequate. The project’s advisory council identified the debt margin rule of thumb. Bowman references the operating surplus as a % of assets. The debt service coverage ratio (<https://www.investopedia.com/terms/d/dscr.asp>) comes from the broader investing world. The primary reserve ratio is applied in higher education. The U.S. Department of Education Composite Score Regulations under 34 CFR 668.172 identifies minimum acceptable thresholds.

Results

Distribution of nonprofits by asset size in this study differs from other studies because of the nature of the study's sample, as noted in the Appendix.

Mid-sized nonprofits, identified here as those with assets between \$5 million and \$75 million, represented 8.8% of the sample.

DISPLAY 1: OVERALL DISTRIBUTION BY ASSET SIZE OF NONPROFITS IN THIS STUDY

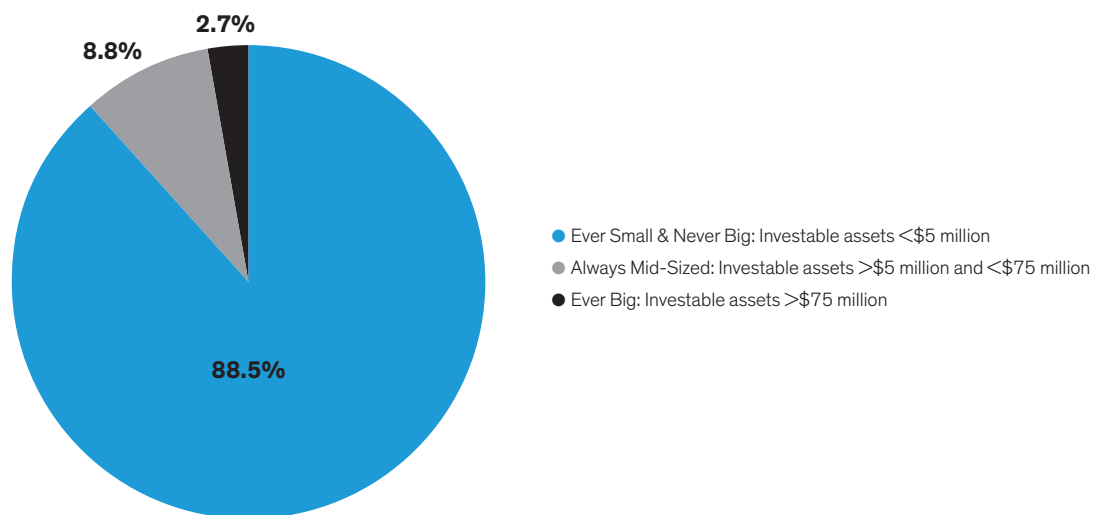


Table 2. Distribution of Organizations, by Subsector & Asset Size

Subsector, by # of Orgs	Small	Mid-sized	Large
Arts	8.8%	6.7%	4.9%
Education	15.6%	23.3%	27.6%
Environment	4.8%	4.0%	2.0%
Health	11.4%	19.9%	36.0%
Human Services	33.7%	22.3%	9.1%
International	2.2%	1.8%	2.0%
Public Society Benefit	10.2%	12.8%	15.2%
Religion	5.9%	3.0%	1.6%
Unknown	7.6%	6.2%	1.7%

The relationship between nonprofit board size and financial health has been insufficiently studied; however, some research finds that larger boards positively affect fundraising. This study found that the mid-sized nonprofit's voting members on the board are solidly between the

small and large nonprofits, with an average of 16.0 for wd, 10.4 for small, and 20.4 for large. The large nonprofits were the oldest (average formation date was 1974) in the study, and the small nonprofits (average founding date was 1994) were the youngest.

Endowments

This study finds endowments present in all sizes of nonprofits and across all subsectors. Overall, 17.0% of the nonprofits in this study had an endowment (Table 3). The larger the nonprofit size, the greater likelihood it has an endowment, though there is a significant jump between organizations with assets under \$5 million and those with more. The nonprofit mission may explain some of this difference—education organizations, which have the second-highest endowment rate of 23.8%, are disproportionately represented among larger nonprofits, while human services, which have the second-lowest

endowment rate of 11.8%, are disproportionately represented among smaller nonprofits.

As with endowments, mid-sized nonprofits more closely resemble larger nonprofits regarding governance policies. Among mid-sized nonprofits, 94.5% have conflict-of-interest policies, in contrast to 68.9% of small nonprofits. Similar data exist in policies about whistleblowers, document retention, and CEO compensation. (See the Appendix for details.) This may be a proxy for professionalism or sophistication, contributing to stronger financial health.

Table 3. Mean presence of an endowment*

Overall	Small	Mid-sized	Large
17.0%	11.8%	55.0%	64.9%

*Interpreted as provided any answer to EOY endowment amount, including \$0

Table 4. Mean presence of an endowment by subsector*

Arts	Education	Environment	Health	Human Services	International	PSB	Religion	Unknown
25.3%	23.8%	19.9%	18.5%	11.8%	12.4%	17.9%	10.5%	14.9%

*Interpreted as provided any answer to EOY endowment amount, including \$0

Tools to measure nonprofit financial health

While this study focused on six measurements of financial sustainability, a nuanced analysis of revenue diversification is also a useful point of comparison.

Revenue diversification

The revenue mix for nonprofits across all subsectors by organizational size demonstrates the difficulty in analyzing the nonprofit sector as a whole. For example, Table 5 shows that each size category receives most of its income from program services (e.g., fees), and the percentage of total income from program services increases with size (on average). “Other Revenue Sources” is a modest share for all

sizes of nonprofits, and, surprisingly, investment income is relatively insignificant for both small and mid-sized nonprofits (on average) but meaningful (6.5%) for large nonprofits. Conversely, contributions (including donations and government grants), as a share of revenue, are inversely related to size, declining from 40.9% for small to 32.7% for mid-sized and only 15.8% for large nonprofits. The larger percentage of investment income revenue by the mid-sized and large organizations hints at their stronger ability to manage financial shocks, budgetary shortfalls, and risk. It also allows them to be more flexible and able to adjust to changes more quickly.

CASE STUDY

Sequoia Riverlands Trust

Visalia, CA

Subsector: Environment

*Endowment-rich but restricted funds;
growing cash reserves*

Sequoia Riverlands Trust (SRT) is a regional nonprofit land trust whose mission is to conserve the lands and waters of California's heartland. It was founded in 2000 from a merger of three smaller land trusts. SRT holds more than 50,000 acres of protected land in fee title or conservation easement. About 80% of the total assets and endowment are restricted, primarily in land and income limited to protection of that land. The organization has recently made progress creating a new culture focused on abundance rather than the residual attitude of scarcity. Fundraising revenue has almost tripled with income from special events, corporations, and individuals. Phil Daubenspeck, the Chief Investments and Partnerships Officer, shared his insights for the case study.

At this point in the SRT's life cycle, increasing unrestricted funds is the key to financial success. For much of its history, SRT operated through grants and restricted funds. SRT's goal is to be 50% funded through unrestricted sources, thus creating more stable revenue streams. This year, SRT is at 70% restricted and 30% unrestricted. To achieve this goal and revamp the organizational culture, SRT has focused on stakeholder development, fundraising, and hiring a new investment-management firm.

SRT also addressed their investment strategy and willingness for risk. Their new investment firm, whose values are more closely aligned with SRT's, walked the board investment committee through levels of risk and the concomitant expected rate of return. The committee developed an investment policy, which included risk management, recommending that investments return between 6% and 10% annually, with an overall goal of 8%.

Current returns are up at least 25–30% over previous performance. The Executive Director, Chief Investments and Partnerships Officer (Daubenspeck), and the finance director work closely with the investment advisor and share strategies for increasing investment income regularly with the board.

Currently, SRT analyzes changes in revenue and liabilities on a year-to-year basis. Given that several of their programs are grant-funded, they evaluate a program's impact when funding is reduced, cut, or the grant ends. In one case, they reduced the number of program sites from 12 to 4 to right-size the program to accommodate the budget change.

SRT is in a growth phase. They have not experienced any recent financial shocks; rather, they have attracted more funding in the last 2.5 years, growing the \$1.5 million budget to \$3.8 million. SRT strives for an administrative ratio near 30%. The organization aims to have 3–6 months of spending available. In addition, some funds in the unrestricted endowment are invested differently and are more quickly accessible. SRT also keeps cash reserves at a bank and uses these dollars to pay salaries between grants. They prefer not to carry debt. The goal is not to dip into reserves right away if a need arises but to use a line of credit. The line of credit and a mortgage are the only two debts at the organization.

Best advice received from an investment advisor:

Build a budget that is realistic but also has room for growth. Look at a baseline first, evaluating what you can count on and what has been consistent for 2–3 years. Then envision what you can practically achieve in that timeframe.

Table 5. Aggregate percentage of revenue by source and organizational size

% of revenue from:	Overall	Small	Mid-sized	Large
Contributions*	23.0%	40.9%	32.7%	15.8%
Government Grants*	9.2%	20.0%	15.3%	4.8%
Donations*	12.1%	18.1%	14.7%	9.8%
Program Services	70.2%	55.7%	62.4%	76.0%
Investment Income	4.9%	1.0%	2.8%	6.5%
Other Revenue Sources	1.9%	2.4%	2.1%	1.7%

*Contributions here refers to Part I, line 8 of IRS Form 990, labeled “Contributions and grants,” which includes revenue sources from government grants, federated campaigns, membership dues, and “All other,” which is commonly used as a proxy for donations. The two line items under contributions here are both components of contributions.

Table 6, an analysis of revenue sources by subsector, clearly shows that most subsectors are primarily reliant on contributions (except for Education, Health, and Unknown). This finding is contrary to what might be expected, given the relatively small shares of income from contributions overall by size in Table 5. The apparent contradiction is resolved by combining the following pieces of information: Health and Education are the two largest subsectors in terms of total income. They also earn a larger share of their total income from program revenue than all the other subsectors (except Unknown). This data yields the results in Table 5 showing that program services is the key source of income (62.4%) for Mid-sized nonprofits and that contributions generate only about one-third (32.7%) of their

total revenue. However, in Table 6 when the same data for the sources of income are examined by subsectors, contributions play a major role in total revenue for most subsectors but a much smaller role for education and (especially) health. If each subsector was approximately the same size in terms of total revenues, Tables 5 and 6 would look much more alike. Given the differences in both the overall revenue sizes of education and health and given the reliance on different sources of income, Tables 5 and 6 look quite different from each other. This is vivid evidence of why it is important to dissect the data in a number of different manners to truly understand what is happening in the nonprofit sector generally and the Mid-sized nonprofits specifically.

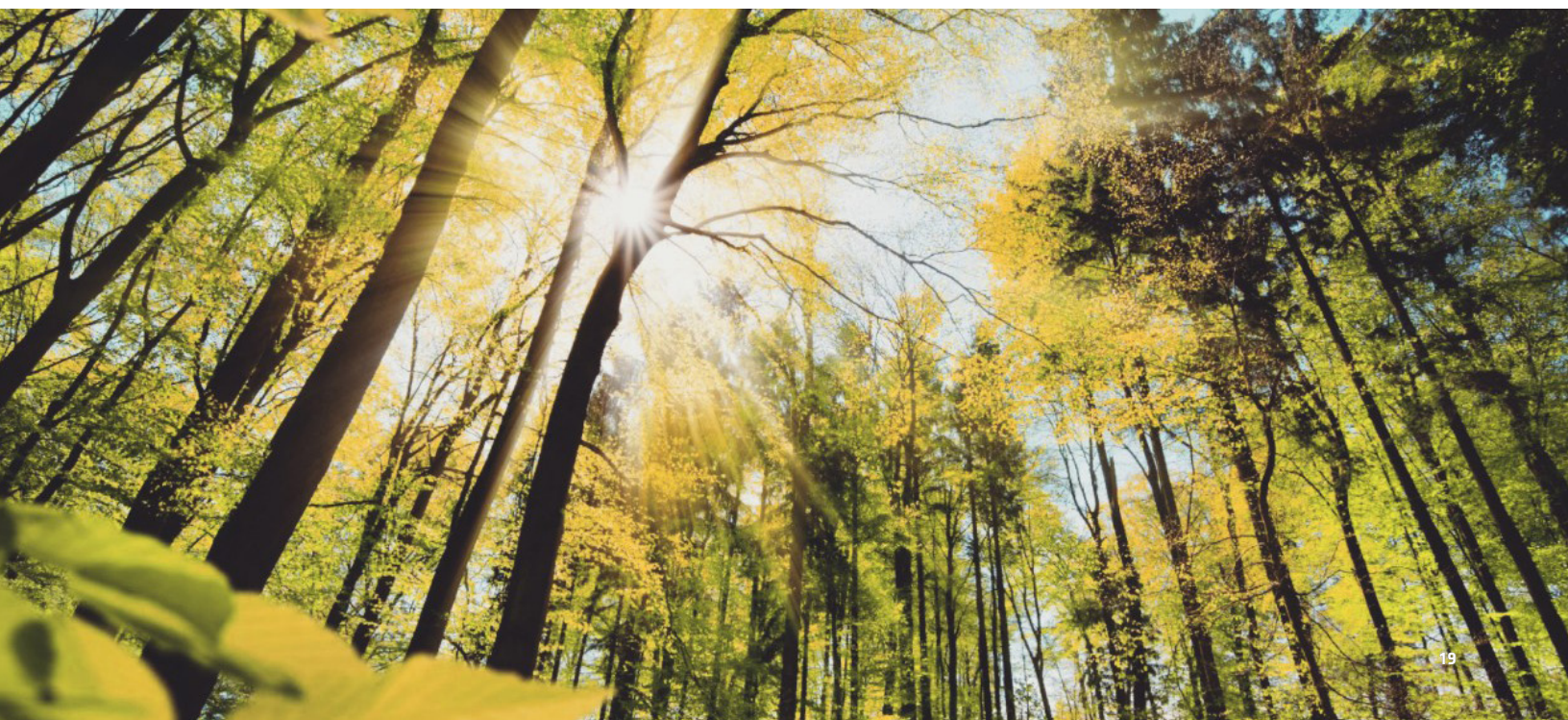


Table 6. Aggregate percentage of revenue by source and subsector

	Arts	Education	Environment	Health	Human Services	International	Public Society Benefit	Religion	Unknown
% of revenue from									
Contributions*	61.9%	28.2%	68.9%	7.2%	48.2%	91.7%	69.3%	45.6%	25.0%
Government Grants*	17.3%	12.8%	13.2%	3.5%	24.7%	20.4%	17.3%	6.1%	14.2%
Donations*	38.6%	13.9%	51.2%	2.3%	21.1%	68.3%	49.4%	36.3%	9.0%
Program Services	25.6%	58.5%	23.5%	88.2%	46.6%	5.5%	19.3%	44.6%	71.6%
Investment Income	8.4%	11.5%	4.3%	2.7%	2.8%	2.3%	9.8%	6.8%	2.0%
Other Revenue Sources	4.0%	1.8%	3.2%	1.8%	2.4%	0.6%	1.6%	3.1%	1.4%

*Contributions here refers to Part I, line 8 of IRS Form 990, labeled "Contributions and grants," which includes revenue sources from government grants, federated campaigns, membership dues, and "All other," which is commonly used as a proxy for donations. The two line items under contributions here are both components of contributions.

Liquidity

Liquidity is a distinct characteristic of mid-sized nonprofits. The primary measurement of liquidity highlighted in this study is months of spending. Conventional wisdom suggests that between 3 and 12 months of spending is adequate. Half the mid-sized nonprofits (50.6%) in this study have more than 12 months of spending, suggesting that they may be saving for a rainy day or new program, hedging against a crisis, or not investing adequately in infrastructure or technology improvements (Table 8). This finding was not dissimilar from larger organizations, where 55% held more than 12 months of spending in reserve.

Looking specifically at liquid assets as a share of all assets in Table 7, mid-sized organizations report the highest percentage on average, 73% (compared with 66% and 67% for small and large, respectively).

Financial sustainability measurements

Earlier in the report, mid-sized organizations looked much more akin to large organizations; here the results are mixed. For example,

while they fall between small and large organizations on debt margin and debt service coverage ratios, they are far closer to smaller organizations. In other financial measurements, such as spending in the "Goldilocks" zone for administrative purposes and the primary reserve ratio, they exceed both smaller and larger organizations. In general, nonprofit organizations of all sizes typically are in the healthy range of the chosen variables.

Analysis of data from IRS Forms 990 found that mid-sized and small nonprofits are more risk-averse and less willing to take on debt. Nearly two-thirds of mid-sized and small nonprofits have a debt margin less than 20%. In contrast, 49.4% of large nonprofits have a debt margin below 20%. Larger nonprofits may be more willing to take on greater debt because they have greater liquidity or reserves to cover the cost. Around 90% of mid-sized and large nonprofits had primary reserve ratios in excess of 40%, compared with only 73% of small nonprofits in the study. This highlights an important distinction: small nonprofits may feel less able to take on debt, while mid-sized nonprofits are able, but not willing, to increase their debt margin.

Table 7. Mean percentage of assets in liquid form

Overall	Small	Mid-sized	Large
66.9%	66.3%	72.9%	67.4%

Table 8. Measurements of financial sustainability by size of organizational assets

	Overall	Small	Mid-sized	Large
Administrative ratio				
Too low (<10%)	44.0%	44.9%	36.0%	42.5%
Just right (10–30%)	44.3%	43.0%	54.5%	51.6%
Too high (30+%)	11.7%	12.1%	9.5%	6.0%
Months of spending				
Too little (<3)	38.6%	40.2%	28.0%	28.3%
Just right (3–12)	26.7%	27.6%	21.5%	16.6%
Excessive (12+)	34.7%	32.2%	50.6%	55.1%
Debt margin				
<20%)	65.1%	65.7%	63.8%	49.4%
Operating surplus as % of Assets				
>3.4%	47.5%	48.0%	44.6%	42.0%
DSCR				
Revenue greater than tax-exempt debt & mortgages	92.8%	93.0%	92.3%	89.7%
Primary Reserve Ratio				
>= 40%	74.7%	72.7%	90.5%	88.7%

Given all that, the nonprofit sector could be considered “healthy” overall based on these financial sustainability measurements. Pooling the six measurements together and calculating the percentage of indicators for which each organization is in the healthy range (see

Table 9), this study finds that **a majority of organizations are in the healthy range, with the share of mid-sized organizations slightly greater than small or large nonprofits.**

Table 9. Percentage of organizations within healthy ranges of financial sustainability by size of organizational assets

	Overall	Small	Mid-sized	Large
Percent of indicators in Table 8 in “healthy” range	64.2%	63.6%	69.4%	65.3%

CASE STUDY

Habitat for Humanity of Metro Denver

Denver, CO

Subsector: Human Services

Leveraging all resources to generate revenue

Habitat for Humanity of Metro Denver [Habitat Denver] is the third-largest affiliate by production in the North American division of the global Habitat for Humanity network. Its mission is to bring people together to build homes, community, and hope. It has an annual budget of \$43 million and net assets of \$53 million. After a recent turnover, the new leadership is committed to a 20% increase in cash reserves to about \$10 million, so they can invest in larger partnerships, be more nimble and flexible, take advantage of opportunities, and manage the budget fluctuations related to the construction cycle. Habitat Denver has a history of innovation that other Habitat affiliates do not. The organization plans to expand its scope, offering an affordable lending solution to buyers not just of Habitat-built homes but any home across Colorado, starting with homeowners who fall below the 80% AMI limit. Will Stratton, Chief Financial Officer, is a solutions-oriented person who says his job is “putting together a puzzle where the pieces are constantly shifting.”

Habitat Denver’s financial strategy is always guided by their mission. Since the need for affordable housing is greater than current supply, they move quickly to respond to new opportunities. One example is the mortgage receivable strategy, which allows Habitat Denver to sell loans below market and invest that cash at a 5% return rate. Another strategy was their 2020 merger with The Colorado Community Land trust. Habitat Denver keeps and owns the land their houses are built on and has the right to repurchase the houses when the owners vacate. A third strategy monitors unequal return on investment, making sure they always “deliver the maximum amount of good for the capital spent.”

As Habitat Denver expanded its program offerings, CFO Stratton and the committee engaged in lively conversations about overhead costs, especially growing personnel costs. Working with an investment advisor, they tightened guidelines for their operating reserves and added new policies.

A significant financial shock resulted from poor stewardship of a \$13.5 million gift from MacKenzie Scott, which ended up generating a \$6.5 million deficit. From this experience, Habitat Denver now has a

policy for large gifts and how they can be spent. The policy states that the “large gift strategy will position transformational contributions as long-term capital, where the principal is preserved and only the return is deployed, ensuring that every dollar is stewarded and directly tied to measurable progress/programs.”

The Habitat Denver leadership assesses risks from multiple points, all of which relate to liquidity. Underwriting criteria have tightened. A smaller group of the finance and audit committee developed an investment policy that includes risk management. Stratton commented that the board focuses on preservation of assets and is comfortable with 4% returns on investments.

Habitat Denver both watches net assets closely and keeps the mission central to their work: they ask how much cash is on hand and how many families they are serving. They continue to focus on increasing operating numbers, increasing cash on hand, and cutting programs that operate at a loss.

Best advice received:

A former Habitat Denver CFO told Mr. Stratton, “It’s all about the cash flow, having enough liquidity to cover expenses, especially because of the variances in the construction cycle.”

Discussion

This study shows that mid-sized nonprofits tend to look more like large organizations, though not universally. Two measurements, liquidity and low debt, are distinct characteristics of mid-sized nonprofits. Liquidity, a defining factor across the case-study organizations regardless of size, provides peace of mind for nonprofits. Reserves protect against cash-flow issues and enable the nonprofit to fulfill the mission without taking on debt. “Having enough cash to pay bills is the most significant indicator of immediate financial health” (Zimmerman, 2024).

Limited research exists exploring the relationship between board size and financial success, a gap that may stem from data-collection challenges. This study found that mid-sized nonprofit board size more closely resembles that of large organizations, with between 16 and 20 board members on average, compared with 11 on average for small organizations. The larger board size may contribute to stronger financial health for those nonprofits.

Interviews with seven nonprofits enriched this study. Among other findings, board members with the right expertise matters. At The Magic House, the board’s entrepreneurial spirit has driven much of its expansion and financial growth. At Dallas CASA, board members’ expertise has helped ensure sustainability. Most of the interviewees volunteered that a fully engaged board makes a big difference in their financial success.

These case studies highlight the importance of experienced personnel in the nonprofit’s business office. Once the American Cabaret Theatre (the smallest case-study organization) moved from a part-time contracted bookkeeper to a full-time professional Business and Finance Director, the organization benefited from detailed and informative reports to guide its financial strategies. At the other end of the spectrum, the largest case-study organization, Miss Porter’s School, has a six-person business office, including a CFO and Controller, and benefits from the expertise of an external Outsourced Chief Investment Officer (OCIO) who helps fully leverage their assets. As an organization’s assets grow, there is

greater need for financial expertise in the business office as The Magic House’s experience illustrates.

This study affirmed that revenue sources vary widely across subsectors, making comparisons difficult. Yet revenue diversification cannot be overlooked as a factor driving financial success. Organization size plays a role, suggesting that larger organizations are better able to manage diverse sources of revenue, whereas small organizations may lack the capacity to do so. In this study, nonprofits of all sizes generate the largest percentage of income from program service revenue with large nonprofits generating 76.0%, mid-sized creating 62.4%, and the small organizations earning 55.7%. The case-study nonprofits that rely on program service income are diversifying revenue streams to help ensure sustainability, such as increasing auxiliary revenue and leveraging assets.

The larger the organizational size, the more likely it is to have an endowment, with a significant jump between organizations with assets under \$5 million (11.8%) to those with \$5–\$75 million (55.0%). A more modest increase to 64.9% was seen in those organizations with assets in excess of \$75 million. The case studies echo this finding. For instance, as The Magic House grew, it started an endowment “to secure the future.” When Dallas CASA created its endowment, it set up a separate nonprofit, the Dallas CASA Endowment Fund. This allowed the endowment fund board to have a different set of investment policies and provided protection against liability exposure.

Understanding the percentage of restricted and unrestricted funds in the endowment is critical to obtaining an accurate picture of the nonprofit’s financial health. For example, at Sequoia Riverlands Trust, most of the endowment is restricted because it is in land with dedicated dollars to protect it. Although the net assets of \$41 million make the organization look healthy, efforts are under way to better balance restricted and unrestricted dollars to manage cash flow and create a more stable financial position.

Research finds that nonprofits can cushion against financial shocks with strategic planning, strong financial management, liquid reserves, and diversified revenue streams, which react differently in times of crisis. Although “resiliency” is a term often associated with disasters or financial shocks, more recent scholarship suggests that the tools used for building resilient organizations also apply to organizations that maintain resiliency over time (Young and Searing, 2022). Nonprofits at risk of financial failure have low net assets, little or no administrative slack, a small surplus margin, and few sources of revenue (Tuckman and Chang, 1991). This was the case with the original American Cabaret Theatre and why the current leadership is laser-focused on sustainability strategies.

The case-study nonprofits’ focus on growing assets (both endowed and otherwise), liquidity, months of spending, and diversified revenue streams suggests that they are able to withstand financial shocks. Their experiences during the pandemic demonstrate their resiliency. Two of the case-study nonprofits indicated that they came out ahead financially by the end of the pandemic. These resilient nonprofits think long term, ensure liquidity and fluidity, and build reserves to allow for flexibility in times of financial fluctuations (Salamon, 2015). They focus on “long-run efficiency, properly interpreted, factoring in risks, while making provisions for being surprised and having the capacity to adapt to whatever new circumstances present themselves” (Young and Searing, 2022).

Study implications for nonprofits, funders, and advisors

Nonprofits, funders, and advisors might consider these factors to help improve the financial health of even more organizations.

01

Nonprofit boards are vital partners in ensuring financial success. Collaborating with staff in thoughtful visioning and strategic planning can help the organization fulfill its mission more effectively now and in the future.

02

Nonprofit budgets must balance realistic expectations with aspirational goals that help the nonprofit grow, refresh, and remain viable.

03

Nonprofits must invest in themselves to stay abreast of new technologies, strengthen staff, ensure the right level of expertise for the organization’s life stage, and take advantage of new opportunities.

04

For funders especially, unrestricted gifts offer the most flexibility and imply trust, addressing mid-sized nonprofits’ primary concerns of liquidity and debt avoidance.

05

Nonprofits that effectively weathered COVID offer practical paths for all nonprofits to pursue. Higher operating reserves, financial flexibility, and for some, greater revenue diversification help nonprofits move toward resiliency and an era of abundance.

CASE STUDY

Dallas CASA

Dallas, TX

Subsector: Human Services

Staying financially healthy and strong to fulfill the mission

Dallas CASA (Court Appointed Special Advocates) was founded in 1980 as one of three pilot programs to protect children, restore childhood, and help victims of abuse and neglect achieve their full potential. Over the last six years, Dallas CASA has served more than 7,500 children with 2,800 volunteer advocates. With an annual budget of \$10 million and net assets of \$63 million, Dallas CASA has a diverse revenue stream. Current sources of revenue are federal, state, and county government 39%; investment/endowment 23%; events 22%; individuals 9%; corporations/foundations 7%. Dallas CASA, along with 900 independent CASA programs in the national network, is volunteer-driven. Events both raise money and, equally important, raise awareness about becoming a volunteer advocate. Dallas CASA has had an endowment for many years and has focused on revenue diversification. Kathleen LaValle, an attorney for 30 years, has been involved with the nonprofit since 2002, serving as a board member and board chair before becoming President and CEO in 2014. Kevin Barnes has been CFO of Dallas CASA for two years. LaValle and Barnes were interviewed.

Dallas CASA's commitment to their mission, financial acumen, and staff and board constancy contributes to their sound financial position. Their success has these components: the resources to accept 100% of court appointments to Dallas County child welfare cases; nine months (currently \$7.8 million) in operating reserve; endowment draw at a level to make them less reliant on federal and state funding; and the ability to offer competitive salaries and benefits to sustain employee tenure.

The highly engaged 40-member board has an unusual structure that allows 10 consecutive three-year terms before rolling off a year. This continuity allows Dallas CASA to set and meet long-range goals. They have a good combination of longer-serving board members and those who have joined more recently.

The Dallas CASA Endowment Fund, a separate nonprofit with its own board, is a structure that LaValle says challenges a "fundamental assumption that social service organizations should spend down to the last penny every year and not have any kind of reserve other than a prudent amount of reserves." The endowment fund board has its

own set of investment policies and a set of directors who are experts in prudent investment strategies. Revenue that exceeds expenses and the required operating reserve is periodically moved to the endowment. The endowment draw is never more than 4.5%. They did not need to draw more than the standard distribution from the endowment, even during the pandemic.

LaValle credits Dallas CASA's extremely strong financial policies in part to ExxonMobil executives' long involvement in the organization, which has brought a high level of expertise. In addition, because Dallas CASA is a stakeholder in the court system, there is excellent transparency and accountability. Liquidity is less of a concern, LaValle said, because the nonprofit can meet its current obligations from cash and operating reserves. She recognizes that they are in a fortunate position. State funding is strong. Texas state government looks favorably on public/private partnerships.

Best advice received from someone on a finance committee or investment advisor:

Pay attention to the wisdom of committee members: When electric wiring was damaged by lightning, a committee member asked, "Did you reach out to your insurer?" And "Pay attention to your mission, but make sure you are not over- or underspending."

CASE STUDY

Miss Porter's School

Farmington, CT

Subsector: Education

Endowment: a marker of endurance to fulfill the mission

Founded in 1843, Miss Porter's, an independent secondary school with about 350 boarding and day students, educates young women to become informed, bold, resourceful, and ethical global citizens. The school's budget is \$29 million and net assets are \$220 million, of which \$170 million is in an endowment. Both the head of school and the CFO are in their 18th year of leadership. That consistency has imbued a culture of innovation and differentiation from their competitors, which contributes to their educational, programmatic, and financial success. The 21-member board, which is 90% women, is fully engaged. Accountability, transparency, and regular communications contribute to the strong level of trust among all stakeholders. Mission is central to everything they do, including thinking about their financial health. Christine Pina, Chief Advancement Officer; Michael Bergin, CFO; and Lisa Gilmore, Controller, participated in the discussion.

Although the largest nonprofit of these case studies by asset size, Miss Porter's is equally concerned with meeting its revenue and mission goals. With roughly 62% of the budget from tuition, 24–25% from endowment, and 10–13% from the annual fund, they strive to have a modest surplus at the end of the year that can be returned to the reserves. In recent years, Miss Porter's implemented an intentional strategy to diversify revenue streams. They leveraged their facilities, increasing auxiliary revenue to 6–8% of revenue with services like onsite child care and a summer camp program.

Liquidity is as important to Miss Porter's as it is to the smaller nonprofits. Donor giving patterns can be erratic and students whose families can afford full tuition may be difficult to recruit. The school tracks cash on hand, keeps three months in reserves, and has a \$2 million line of credit "as a fallback." Because of the school calendar, there are peaks and valleys in cash, whereas the expenses are generally consistent month over month. As a result, the Controller asks, "How do I make what I've received last?"

Philanthropic support is pivotal to Miss Porter's financial success. The advancement office has successfully encouraged donors to shorten their pledge payment terms from five years to three years, an approach

that benefits cash flow. Fundraising for the endowment is a priority. Miss Porter's donors fully support the mission and are increasingly willing to talk about the endowment—especially unrestricted funds—because the school's leadership emphasizes financial sustainability.

The business office works with a range of external professional advisors. The CFO and Controller manage those responsibilities. Miss Porter's has invested roughly \$24 million in private equity funds, about 14% of the \$170 million endowment. The investment policy concentrates on liquidity and investment earnings to exceed the annual draw. They have been "very careful and fastidious" about the debt margin. The interviewees concurred that the greater the purchasing power of the endowment, the greater the hedge against inflation. To Miss Porter's School, the endowment is a marker of endurance, of staying power, and of confidence. Pina cautioned, however, that fundraising alone cannot "get you out of a jam. You have to concentrate on the business of your organization."

Best advice received from someone on a committee or investment advisor:

Full enrollment is the best hedge in any economy. In fundraising, be patient, be persistent, and be present, recognizing that no means maybe 'not now.' Patience and persistence may result in a bigger gift.

Conclusion

Pinpointing financial success—or even characterizing it as sustainable or efficient—is not easily accomplished for nonprofits. Instead, successful organizations with different missions or stages of development use a variety of metrics to measure their financial success. While every nonprofit is unique and financial health is difficult to distill, this study suggests that mid-sized charities are in better financial shape than small or large ones. The mid-sized category had the highest percentage of charities (measured by asset-size classification) meeting the financial sustainability measurements in this study overall (69.4% vs. 65.3% for the large and 64.2% for the small nonprofits).

For the sake of comparison and relative context, this study compared small (88.5% of the sample) and large (2.7% of the sample) organizations with mid-sized (8.8% of the sample fell into this group of always greater than or equal to \$5 million in assets and less than or equal to \$75 million in assets). In making these comparisons, the mid-sized more closely resemble the small in a few ways: they had small debt margins and similar DSCR scores. Along other measurements, the mid-sized were more like the large nonprofits: percentage with endowments; the percentage of best practice in board governance in place; the administrative spending to total spending ratio; and the months of spending money available (reserves). By other fiscal and governance measures, the mid-sized truly fell in between: the age of the charity; the number of board members; operating surpluses; and allocations of revenue sources.

Measuring the Financial Health of Mid-sized Nonprofits has tried to capture some of that breadth while comparing a range of different sizes of organizations. Some broad findings emerge. Organizations in the sample measured as “healthy” on about two-thirds of the examined metrics. Compared by size, mid-sized organizations slightly overperformed, with organizations on average hitting 69%

of the metrics (compared with 64% and 65% for smaller and larger organizations, respectively). This seems to stem from a certain level of risk-aversion on the part of mid-sized organizations, such as maintaining lower debt margins with a higher level of available assets.

Financial success is unlikely to be comparable between nonprofits using a universal measurement. Unlike for-profit organizations where profit is a shared goal, nonprofits seek diverse outcomes and approach their finances accordingly. While most measurements related to fiscal health do seem to improve with the size of the organization, this is not unanimous, and even then, the differences between small and large organizations tend to be slight. The “missing middle” provides a unique profile of professional, asset-rich organizations that approach their finances cautiously.

While this study enhances understanding of mid-sized nonprofit financial health compared with larger and smaller counterparts, further research is needed to fill knowledge gaps. Relying on IRS Forms 990 to fill these gaps is challenging, as it was designed for tax purposes, not research. New data sets could examine the relationship between an organization’s asset size, board size, and stakeholders’ attitudes toward risk and their impact on financial health.

To position themselves for the long term and to avoid financial distress in times of crisis, nonprofits need adequate liquidity and reserves, diversified income portfolios, the ability to leverage their assets, an entrepreneurial culture, and the ability to track financial activity easily—both year-to-year and over a longer time frame. As nonprofits now face multiple challenges at any given time, they must reposition themselves as resilient organizations, able to manage today’s challenges and tomorrow’s opportunities with flexibility, nimbleness, and strategic leadership.

Appendix

Size and scope of the nonprofit sector

A common framework is to divide society into three sectors—government, business (or private), and nonprofit. The nonprofit sector provides services and programs where and when government or market forces do not. Nonprofits represented 5.2% of gross domestic product (GDP), contributed more than \$1.4 trillion to the United States economy, and employed 9% of the workforce in 2023. (Miller, 2024)

Nonprofit organizations are commonly divided into eight subsectors: arts, education, environment, health, human services, international, public society benefit, and religion. For calendar year 2023, Candid lists 1.6 million registered 501(c)(3) charitable organizations and 144,484 private and community foundations. Most of those nonprofits (84%) have budgets less than \$1 million. Four percent (71,000) have budgets ranging between \$1 million and \$4.9 million, and 2.8% (45,000) have budgets greater than \$5 million (Candid, 2024). The data set for this study includes approximately 170,000 nonprofits, including about 15,000 mid-sized nonprofits with assets ranging from \$5 million to \$75 million.

Sample

Only 501(c)(3)s e-filers (approximately two-thirds of all nonprofits filing IRS Form 990s) were used so that each variable analyzed could be available for each organization in each year and minimize issues with missing data. The findings are based on descriptive analysis only. Definitions for each of the sustainability measurements used, when not a direct reporting of a line item from IRS Form 990, are included in Table 1. Subsector information was defined using NTEE data from the Business Master File.

Definitions of organizations by asset size used in this study

As this study is examining only organizations filing an IRS Form 990 in five consecutive years, the sample organizations will be larger than any study examining the full nonprofit system and likely biases the data toward more stable organizations. This study focuses on those organizations with the most data available, which represents a minority of nonprofit organizations by number but a large majority by dollar.

Table 10. Mean Presence of Governance Policies by Organizational Size

	Overall	Small	Mid-sized	Large
Do they have a policy about:				
Delegation of management duties	5.9%	5.9%	6.1%	6.4%
Material diversion or misuse	0.1%	0.1%	0.1%	0.2%
Conflict of interest	71.9%	68.9%	94.5%	98.5%
Whistleblowers	53.9%	49.6%	85.3%	95.1%
Document retention	56.9%	52.8%	86.5%	94.6%
Compensation process of the CEO	48.1%	44.8%	71.9%	78.5%

Description of Case Studies

The seven case studies offer an on-the-ground lens into some of the distinct practices that shape nonprofit financial health. They document the unique nature of individual nonprofits and give meaning to the adage “When you have seen one nonprofit, you have seen one nonprofit.” There is no “one size fits all” in these different vignettes, but liquidity, cash reserves, and endowments, as well as staff and board stability, contributed positively to sustainability. Furthermore, the measurements the interviewees use to assess financial health align with those used in the academic literature: the ability to meet the

mission, liquidity, endowment, and risk analysis. Note, however, the notion of a dual bottom line—finance and impact—that differentiates nonprofits from for-profit organizations.

The partners in this study identified the organizations for the case studies. To better understand how mid-sized nonprofits might differ from smaller and larger organizations, the case studies include one small and one large nonprofit along with five mid-sized organizations.

Table 11. Case study organizations by subsector and asset size

	Size	Subsector	Net assets
American Cabaret	Small	Arts	\$1.9 million
Meals of Hope	Mid-sized	Human services	\$12 million (total assets)
Magic House	Mid-sized	Arts	\$37 million
Sequoia Riverlands Trust	Mid-sized	Environment	\$41 million
Habitat for Humanity of Metro Denver	Mid-sized	Human services	\$53 million
Dallas CASA	Mid-sized	Human services	\$63 million
Miss Porter's School	Large	Education	\$220 million

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