



Burritt on the Mountain

ALABAMA NONPROFITS // THE STATE OF THE SECTOR



Community Food Bank of Central Alabama



The Red Barn



TABLE OF CONTENTS

List of Figures	5
Introduction.....	7
The Nonprofit Sector in Alabama	9
What is a nonprofit?.....	9
The Size of the Sector.....	9
Finances	11
Age.....	12
Services	13
Staffing.....	14
The Health of Alabama’s Nonprofit Sector	15
Respondents.....	15
Board of Directors.....	16
CEOs	17
Organizational Documents	19
Advocacy and Lobbying.....	22
Engagement	23
Collaboration.....	25
Institutional Membership.....	26
Impact	26
Conclusion	27

Alabama Nonprofits: The State of the Sector
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Research and analysis conducted by the Public Affairs Research Council of Alabama





LIST OF FIGURES

Figure 1. Alabama Nonprofits by IRS Subsection – May 2023	10
Figure 2. Alabama Nonprofit Income Distribution	11
Figure 3. Revenue Mix, 2022	11
Figure 4. Age Distribution of 501(c)(3) nonprofits in Alabama	12
Figure 5. Alabama Nonprofits by NTEE Code.....	13
Figure 6. Alabama Nonprofits by Staffing Size	14
Figure 7. Responding Organizations’ Sectors	15
Figure 8. Budget Ranges of Responding Organizations	16
Figure 9. Nonprofit CEO Experience	17
Figure 10. Nonprofit CEO Experience	18
Figure 11. Nonprofit CEOs’ Civic Engagement	18
Figure 12. Clarity of Mission Statements.....	19
Figure 13. Frequency of Mission Statement Review	19
Figure 14. Clarity of Strategic Plan.....	20
Figure 15. Frequency of Strategic Plan Revision	20
Figure 16. Clarity of Theory of Change.....	21
Figure 17. Other Policies in Place.....	21
Figure 18. Alabama Nonprofits Engaged in Advocacy Work	22
Figure 19. Engagement with Local School Officials.....	23
Figure 20. Engagement with City or County Officials.....	23
Figure 21. Engagement with State Legislators.....	24
Figure 22. Nonprofit Civic Engagement	24
Figure 23. Engagement with the Business Community.....	25
Figure 24. Involvement with Nonprofits.....	25
Figure 25. Involvement with Nonprofits with Similar Missions.....	26
Figure 26. Nonprofit Institutional Memberships	26



INTRODUCTION

Nonprofit organizations are an essential part of life in Alabama and across the US. They provide affordable healthcare, cultural experiences, education, environmental protection, food, and shelter. In comparison, these critical public services are the same services that governments in other nations often provide. Since the 1980s, public sentiment across the political spectrum has been to shrink the size of the federal government but maintain high levels of service. The solution has been to shift services from federal, state, and local governments to nonprofits. In response, nonprofit organizations have become critical providers of our public services.

Cities and states, whether for financial or ideological reasons prefer to contract with nonprofits for these services or, in some cases, refrain from providing such services, knowing the nonprofit community will assume the task. In other cases, nonprofits are formed to provide more nuanced services or serve specific communities that government or other private services may overlook. Regardless, Alabamians depend on nonprofit organizations—likely far more than they realize.

Consequently, a healthy and vibrant nonprofit sector is vital to the flourishing of our state and our communities. This report, the first of its kind in Alabama, explores the health of the nonprofit sector in Alabama. Based on national data from the Independent Sector, Urban Institute, and others, state-level data from the I.R.S., and survey data collected and analyzed by the Public Affairs Research Council of Alabama, this report paints a picture of the current organizational health of Alabama's nonprofits. It illustrates the management and leadership challenges that exist.

The Alabama Association of Nonprofits is dedicated to supporting nonprofits and their leaders because our vision is for Alabama to have a healthy, responsive nonprofit sector that improves the quality of life for all its citizens. By understanding management and leadership challenges, we can help nonprofits become even healthier. And with healthier nonprofits come healthier communities.

Here's to a thriving Alabama,

A handwritten signature in blue ink that reads "Danielle".

Danielle A. Dunbar
Executive Director



THE NONPROFIT SECTOR IN ALABAMA

What is a nonprofit?

The term ‘nonprofit’ is misleading at best. Strictly speaking, the term refers to any organization defined in section 501 of the I.R.S. code. In other words, the term *nonprofit* is a tax designation. While factually correct, describing an organization simply as a ‘nonprofit’ is as uninformative as calling a business an ‘LLC.’” A more nuanced definition relies on a nonprofit’s three so-called “nos”: no coercion of participation, no clear ownership, and no profit. However, each of these is misleading. American law understands that nonprofit organizations are owned by the entire community and held in trust by directors. That is why boards of directors are sometimes called trustees. Likewise, while nonprofits do not distribute surplus income to shareholders, organizations that do not make a profit—technically a net surplus—will not remain long in business.

Nonprofit organizations are formed and disbanded every day. Not every nonprofit must file paperwork or financials with state or federal agencies, most notably houses of worship. Reporting requirements vary by size and type of organization. There is often considerable lag in reporting to agencies such as the I.R.S. and agencies’ public disclosure of data. Moreover, there is no robust way to search Form 990 data. Thus, assessing nonprofits’ number, size, finances, and overall health is not an exact science.

The most current, if not the most complete, nonprofit data are provided by the I.R.S. Exempt Organization Master File¹, or Master File for short. The Master File, updated monthly, contains the most recent data collected from Form 990 filings. It does disclose all data provided on the 990. However, it does offer a near-real-time glimpse of the sector at the state, region, or national level.

The Size of the Sector

As of May 30, 2023, the IRS Master File cites 24,952 nonprofit organizations in Alabama. However, this number is misleading in two significant ways.

First, not every nonprofit is a 501(c)(3) nonprofit. A 501(c)(3) nonprofit is what most people think of as a nonprofit organization; however, there are 34 other types, such as trade unions, member associations, and political action committees. These other categories comprise almost 20% of the sector. See Figure 1.

¹ <https://www.irs.gov/charities-non-profits/exempt-organizations-business-master-file-extract-eo-bmf>

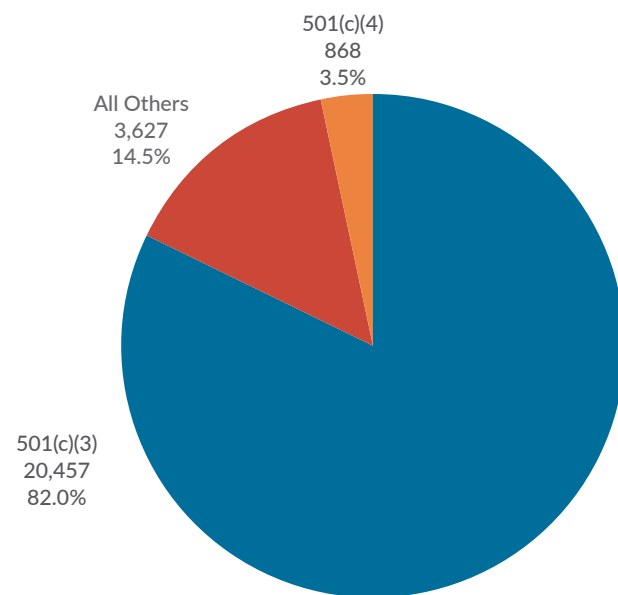


Figure 1. Alabama Nonprofits by IRS Subsection- May 2023

Among those 501(c)(3) organizations, many have not filed a Form 990 in years, and many others report \$0 in income, assets, or both. These factors indicate that the organizations are not operating and are thus excluded from further analysis.

Conversely, sector-wide data are often skewed by a few extremely large organizations. Among the 501(c)(3) organizations, 180 (8.8%) report income over \$10 million. These organizations, primarily universities, hospitals, and foundations, employ hundreds, if not thousands. They hold significant fixed assets (land and buildings) and maintain large cash reserves. While few in number, these organizations' data can skew our understanding of the sector. They are not what most people think of when imagining a nonprofit, nor are they the focus of the Alabama Association of Nonprofitis (AAN). Therefore, those organizations are also excluded from this report.

When all the above factors are considered, the number of organizations analyzed drops to 5,578. See Table 1, below.

Criteria	Number
All Alabama nonprofits	24,952
501(c)(3) nonprofits	20,457
Filing a Form 990 in 2021, 2022, or 2023	13,763
Reporting at least \$1 in assets	5,862
Reporting at least \$1 in income	5,758
Reporting less than \$10 million in income	5,578

Table 1. Criteria for Inclusion in the Report

Finances

INCOME

Financial data are based on filings in 2022. According to IRS data, 5,068 501(c)(3) nonprofits filed a Form 990 that year, excluding 144 organizations with incomes greater than \$10 million. Total reported revenue was \$2.85 billion. The average income was \$655,251, and the median was \$165,344. The significant gap between the average and median income suggests that the data is skewed by a few large organizations, even after those earning over \$10 million are excluded.

As Figure 2 illustrates, 72% of the nonprofits have an income of less than \$500,000, and 83% have an income of less than \$1 million.

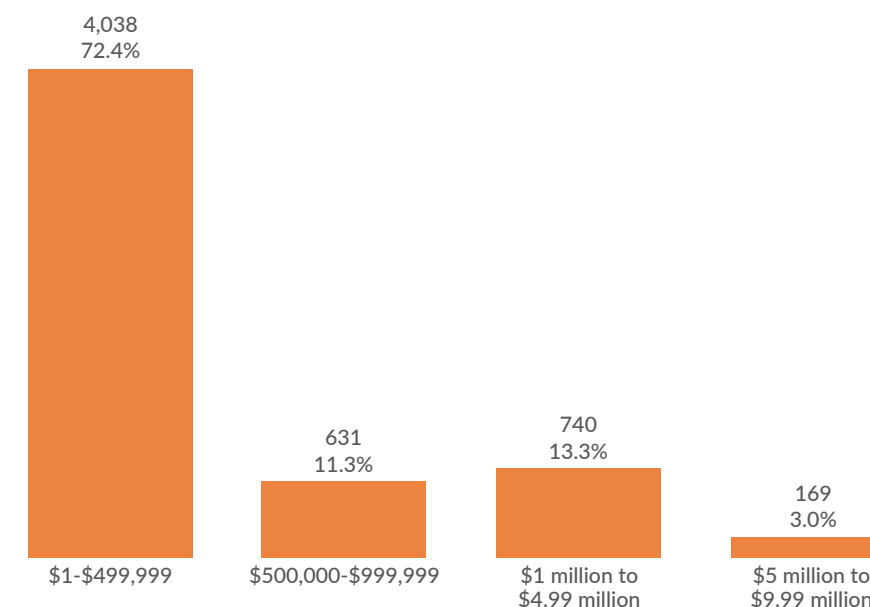


Figure 2. Alabama Nonprofit Income Distribution

REVENUE MIX

Contributions comprise 59.9% of total revenue, with earned income accounting for 30.9%. See Figure 3. Of course, the figures vary by the nature of the organization.

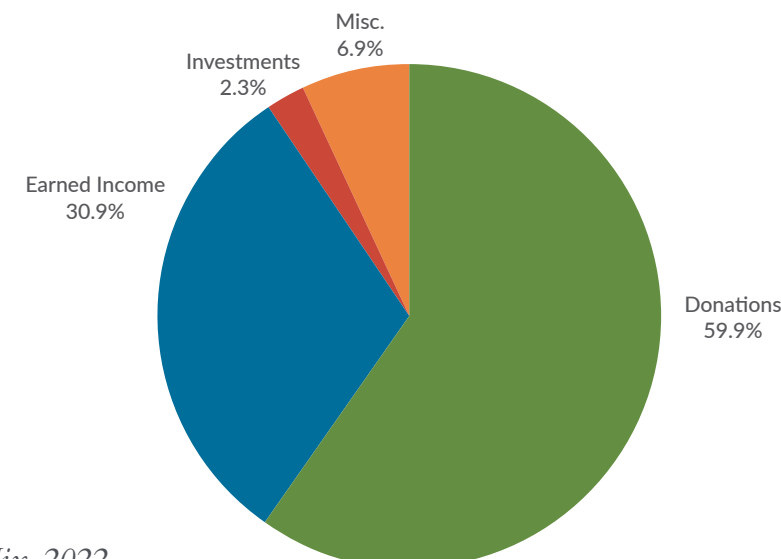


Figure 3. Revenue Mix, 2022

EXPENSES

Expenses totaled \$2.4 billion in 2022. A more detailed analysis of expenditures and analysis of functional expenses is beyond the scope of this report.

NET REVENUE

With a total income of \$2.8 billion and expenses of \$2.4 billion, the state's 501(c)(3) nonprofits generated a net surplus (profit) of \$455.5 million. These figures translate to an average of \$11,190 and a median of \$104,431. While perhaps interesting, these sector-wide numbers are not inherently meaningful.

When we look at individual organizations, we see that 66.3% reported a net surplus, 3% reported a net surplus of \$0, and 30% reported a net deficit.

In other words, just under a third of Alabama's nonprofits lost money in 2022. While the smallest reported loss was \$5, the average loss among those reporting a loss was \$65,175, and the median was \$17,262.

As with all organizational metrics, the data vary considerably by service area, mission, and size. The financial impact of COVID-19, both positive and negative (especially PPP loans), is unclear.

Age

The average age of these organizations is 22, with a median age of 19, meaning out of 5,000+ nonprofits, at least half were formed since 2004. Figure 4 illustrates that 31% were founded in the last ten years and 72% in the previous thirty years. Less than 1.5% are older than seventy.

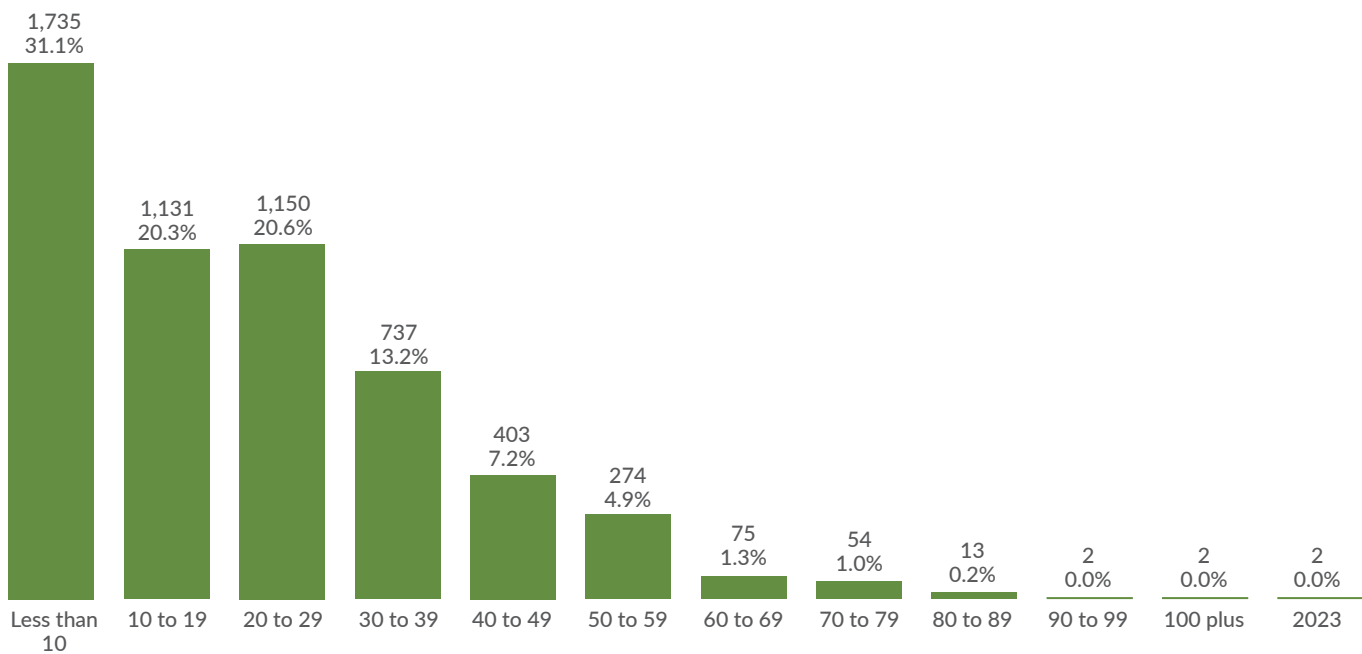


Figure 4. Age Distribution of 501(c)(3) nonprofits in Alabama

Services

I.R.S. data allow some sense of the services provided through NTEE codes. The I.R.S. lists 604 different NTEE codes. These codes allow a general understanding of a nonprofit's area of service, if not its mission and actual services. In the most recent data available, 81% of organizations have an NTEE code. It is unclear why the others do not. Examining the codes of the 81%, we see a reasonably even distribution—the largest category, Philanthropy, Volunteerism, and Grantmaking, comprise 17% of the organizations—human services, education, religion, and arts and culture round out the top five.

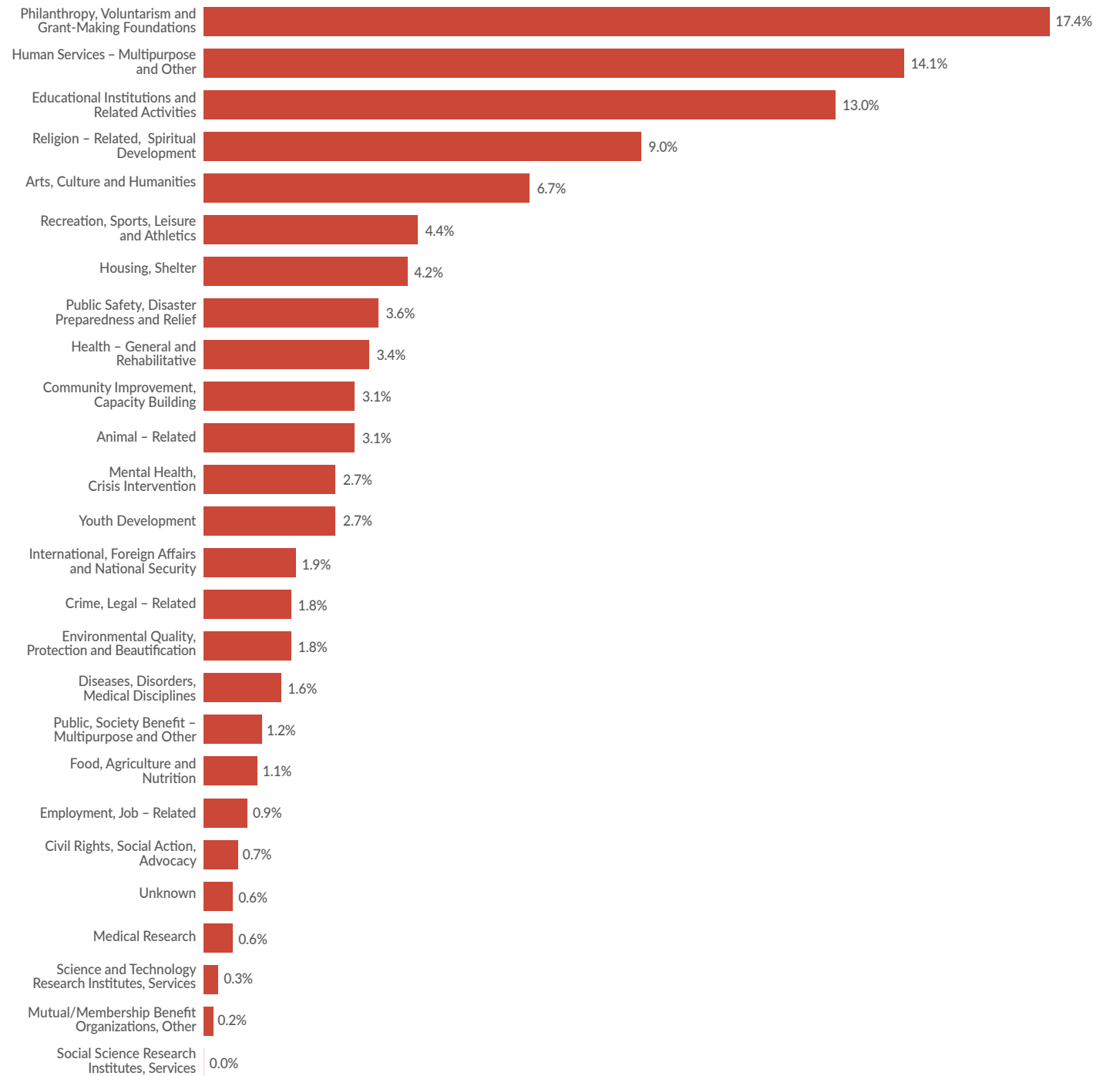


Figure 5. Alabama Nonprofits by NTEE Code

Staffing

Nonprofits are essential employers, but employment data in Form 990s are limited. The most recent filings indicate that Alabama nonprofits employed 34,815 people in the most recent year. For perspective, the Alabama Department of Labor reported 2,120,500 people employed in Alabama in 2022. Based on these data, 1.6% of employed Alabamians worked for 501(c)(3) nonprofits.²

Figure 6 lists employment ranges and the number of organizations falling in those ranges. A full 53% of organizations entered no employment data in their most recent filings. Those organizations are excluded from the chart and discussion. Organizations that entered the number of employees as 0 are included.

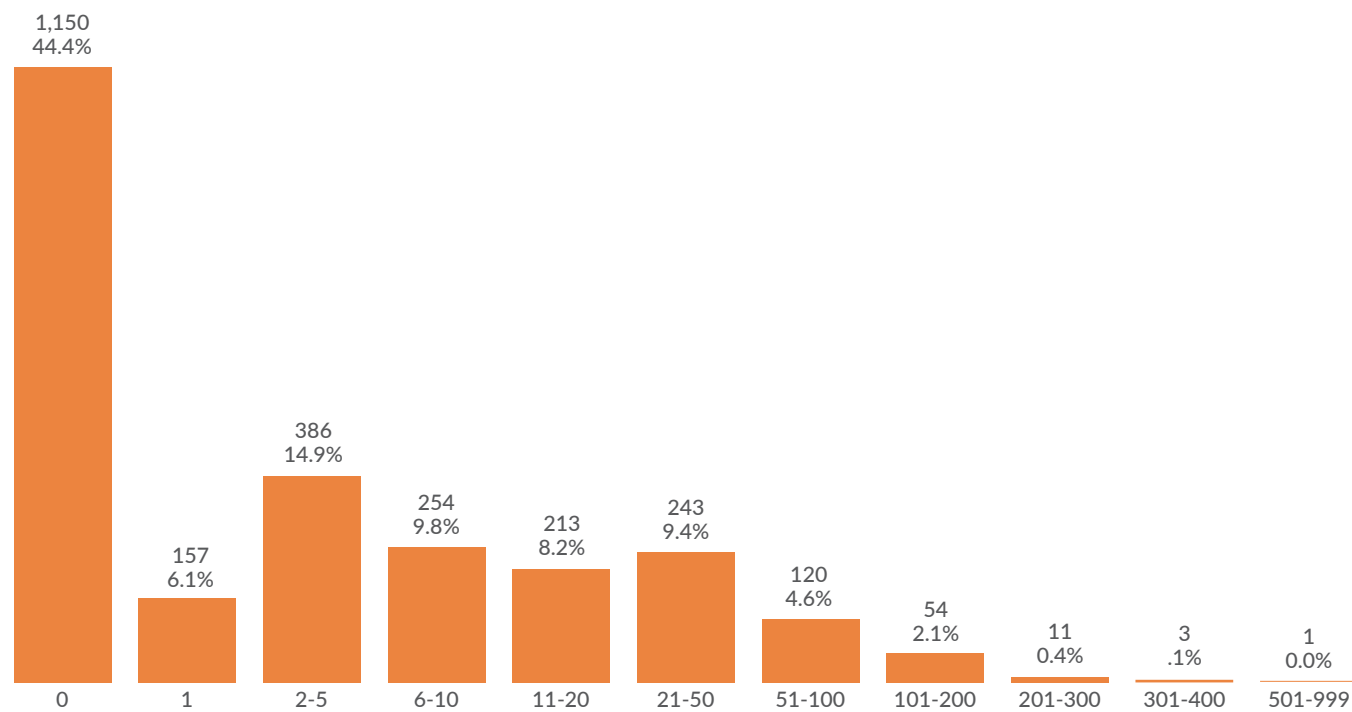


Figure 6. Alabama Nonprofits by Staffing Size

The average organization employed 13. Just over 44% of organizations reported no employees. Again, this reflects those organizations that entered 0 on their most recent 990, not those that skipped the question entirely. The second largest staff band is two to five employees, representing almost 15% of the organizations. Only 7.2% of organizations report more than 51 employees.

²Based on current BLS available at data https://www.bls.gov/oes/current/oes_al.htm#00-0000. The numbers overlap to an extent. BLS data tracks employment by industry, not tax code. Many nonprofit employees work in business and financial occupations. When all 501(c)(3) nonprofits are included, the employment figure climbs to over 99,500, representing 4.7% of Alabamians working in 2022, roughly equivalent to the number of people employed in all business and financial occupations.



THE HEALTH OF ALABAMA'S NONPROFIT SECTOR

Understanding the size and scope of the nonprofit sector in Alabama is essential – but perhaps not as important as understanding the health and vitality of the sector. Assessing the health and vitality of the sector cannot be done by simply analyzing readily available financial data. A more in-depth analysis is required to fully understand the sector's health.

The Alabama Association of Nonprofits (AAN) partnered with the Public Affairs Research Council of Alabama (PARCA) to develop and execute a survey of nonprofit executives. The survey was developed by PARCA staff with extensive experience in the nonprofit sector. It was informed by academic literature and tested with the 2023 Nonprofit Executive Leadership Institute (NELI) cohort.

Respondents

The survey collected responses from 263 unique organizations, reflecting approximately 4.4% of Alabama's 501(c)(3) nonprofits. One hundred forty-one respondents, 76.6%, are current Alabama Association of Nonprofits members. This figure represents 26.7% of the current AAN membership. We theorize that AAN members align better with best practices and enjoy more intentional and professional governance and leadership than the average nonprofit. Thus, the following data may *overestimate* the relative health of the entire sector.

GEOGRAPHY

Responding organizations reflect 23 counties, with the largest number located in Jefferson County. Mobile, Montgomery, Madison, and Shelby Counties round out the top five. For comparison, an estimated 26.3% of Alabama 501(c)(3) nonprofits are headquartered in Jefferson County.

SECTOR

Respondents represented 17 different sectors of service. The top five sectors—human services, health, education, children and youth services, and arts, culture, and humanities—comprised 61.8% of responses.

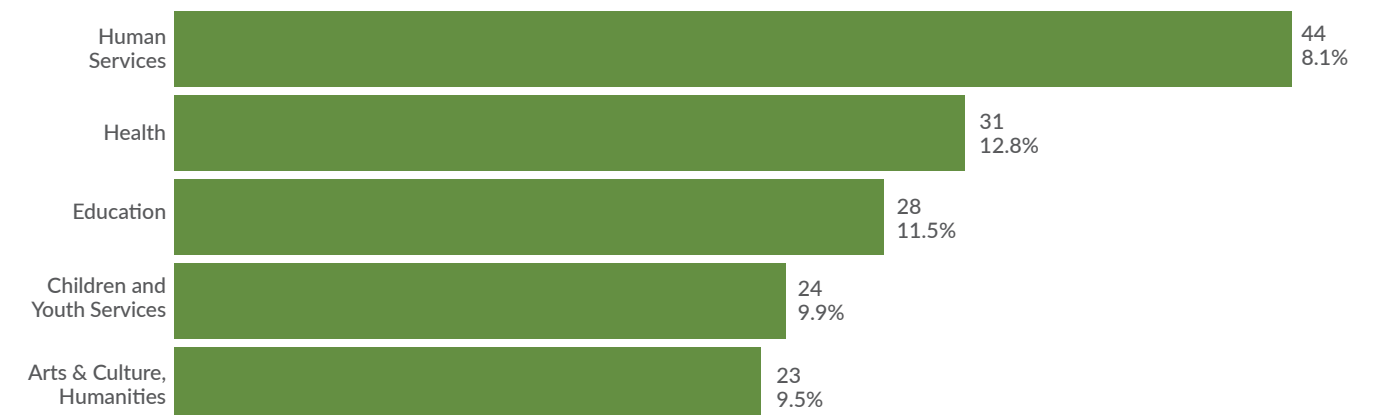


Figure 7. Responding Organizations' Sectors

BUDGET

Organizations that responded to the survey reported budgets similar to the overall sector, with 35.8% reporting budgets less than \$500,000 and 57.2% with budgets less than \$1 million. See Figure 8.

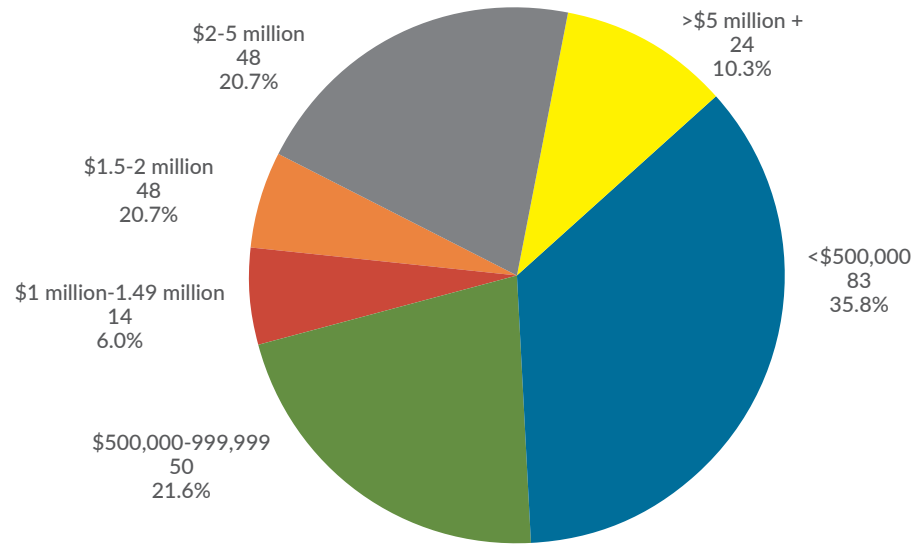


Figure 8. Budget Ranges of Responding Organizations

Board of Directors

Active and engaged boards of directors are essential to the health of individual nonprofits and the overall vitality of the sector. As mentioned above, board members serve as nonprofits' caretakers on the public's behalf.

DEMOGRAPHICS

Respondents reported an average board size of 15 and a median of 13. Just over half (50.3%) of board members are female, 49.6% are male, and 0.1% are non-binary or report another gender. While most reported board members are female, the gender gap is less than the general population – overall, 51.4% of Alabamians are female.

Compared to the population, white people are overrepresented on boards, as board chairs, and as Executive Directors/CEO. The gap is most significant for Executive Directors, with 83% white compared to the white population of Alabama at 68.9%. Only 10% of executives are Black or African American, compared to 26.8% of the population.

	Alabama ³	Boards of Directors	Board Chairs	Executive Directors
African American or Black	26.8%	20.2%	19.7%	10.3%
White	68.9%	79.5%	79.6%	83.1%
Asian	1.6%	1.0%	NA	NA
Native American	0.07%	0.1%	NA	0.7%
Hispanic/Latino/Latina	4.9%	4.7%	1.5%	1.5%

³<https://www.census.gov/quickfacts/fact/table/AL/PST045222>

BOARD CHAIRS

	Alabama ⁴	Board Chairs	Executive Directors
25-34	12.8%	2.2%	2.2%
35-44	12.5%	20.4%	11.9%
45-54	12.2%	20.4%	22.2%
55-64	13.0%	35%	45.2%
65-74	10.8%	17.5%	15.6%
75-84	3.5%	3.6%	2.2%

CEOs

Leading any organization is challenging, and perhaps more so leading a nonprofit organization. As Harvard Business School professor Dutch Leonard frequently says, society has left the nonprofit sector with the most difficult problems to solve, the least resources, and the fewest markers of success.

The health and vitality of Alabama's nonprofit sector rests with its CEOs.

AGE

As indicated above, 63% of Alabama's nonprofit CEOs are 55 or older. They are also highly experienced.

EXPERIENCE

Two-thirds of executive directors report more than 15 years of experience in the nonprofit sector, the orange bar below. Almost 20% have more than 15 years of executive director experience, the blue bar below, and 23% have been in their current role for more than 15 years, the gray bar below.

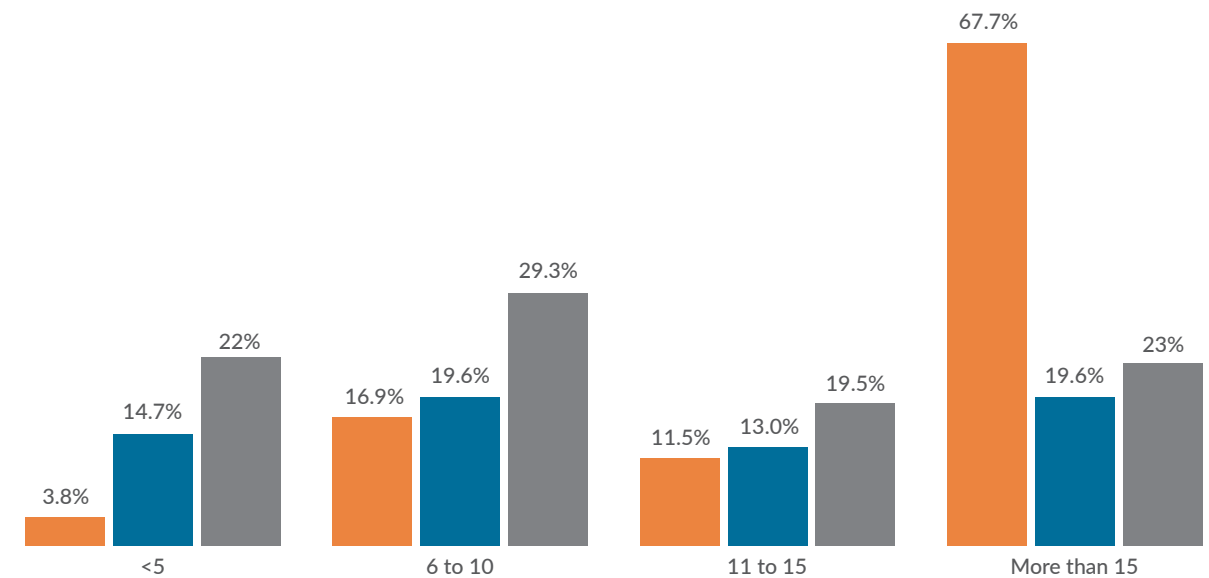


Figure 9. Nonprofit CEO Experience

EDUCATION

Nonprofit CEOs are also highly educated. Thirty-eight percent have earned a Bachelor's degree, and 55% have a graduate degree. In comparison, among all Alabamians over 25, the numbers are 16.5% and 10.2%⁵, respectively.

⁴U.S. Census Bureau, 2022 American Community Survey 1-Year Estimates

⁵U.S. Census Bureau, 2017-2021 American Community Survey 5-Year Estimates

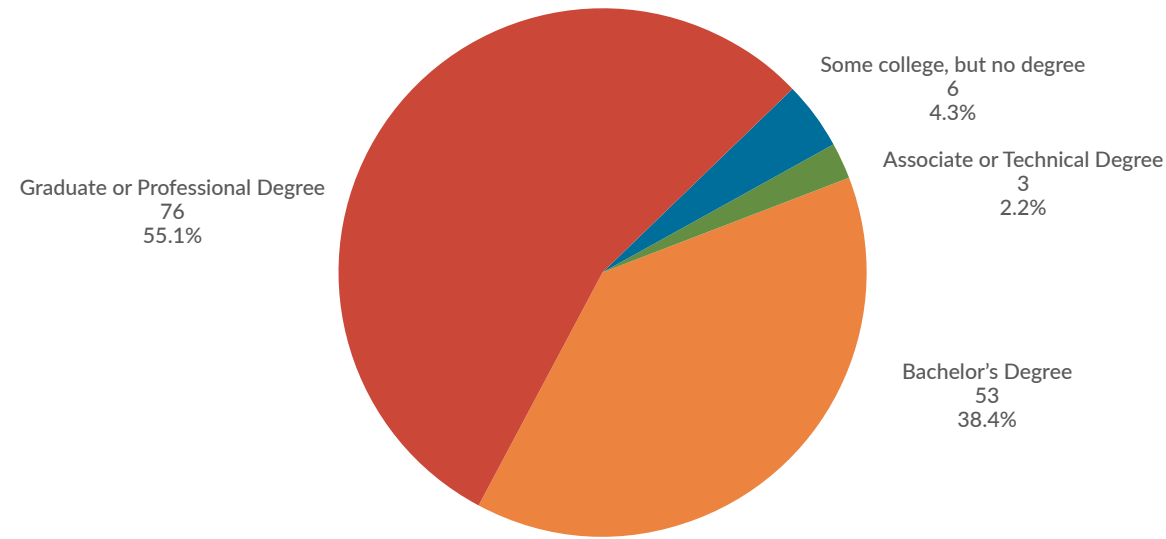


Figure 10. Nonprofit CEO Experience

CIVIC ENGAGEMENT

Nonprofit CEOs must manage the demands of many different, often competing, stakeholders. Allocating time is a crucial skill. Survey data suggests that relatively few CEOs invest in formal or informal networks to support themselves or their organizations.

As indicated in Figure 11, just over half (51.9%) of CEOs are engaged in a peer group of nonprofit leaders, and less than a third are involved with a local civic organization.

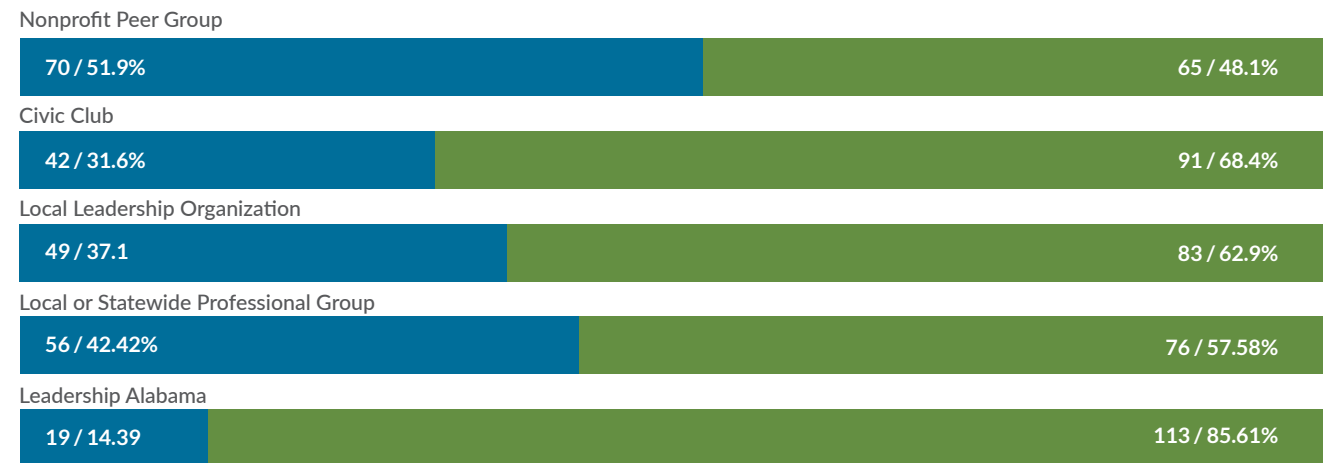


Figure 11. Nonprofit CEOs' Civic Engagement

Unlike local leadership programs or Leadership Alabama, in which limited slots are filled via competitive application, civic clubs are generally eager for new members. Peer groups can be self-created and self-sustaining.

These may be opportunities CEOs should consider.

Organizational Documents

MISSION STATEMENTS

The nonprofit sector is a mission-driven community. Organizations are formed to pursue a mission. They must declare that mission when incorporating and seeking federal tax exemption. They must report to the I.R.S. how they continue to pursue that mission. Mission statements are required for incorporation at the state level and tax exemption declaration at the federal level, and 97% of organizations report having a mission statement. The remaining 3% of organizations are unlikely to lack a mission statement. More likely, the mission does not play a prominent role in the organization's day-to-day life, and respondents are unaware of its existence.

The mission statement is meant to guide the board and staff in decision-making. Hence, clarity is important. Almost 85% of respondents report that their organization's mission statement is extremely or somewhat clear. See Figure 12.

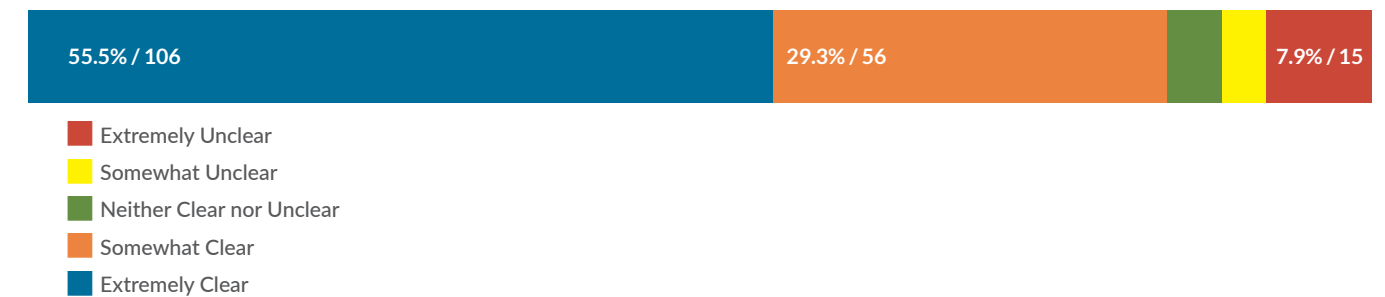


Figure 12. Clarity of Mission Statements

Boards should review missions occasionally to ensure that the statement reflects the organization's purpose and self-understanding and that the language continues to resonate with key stakeholders. More than 56% of organizations report reviewing their mission statement every three to five years.

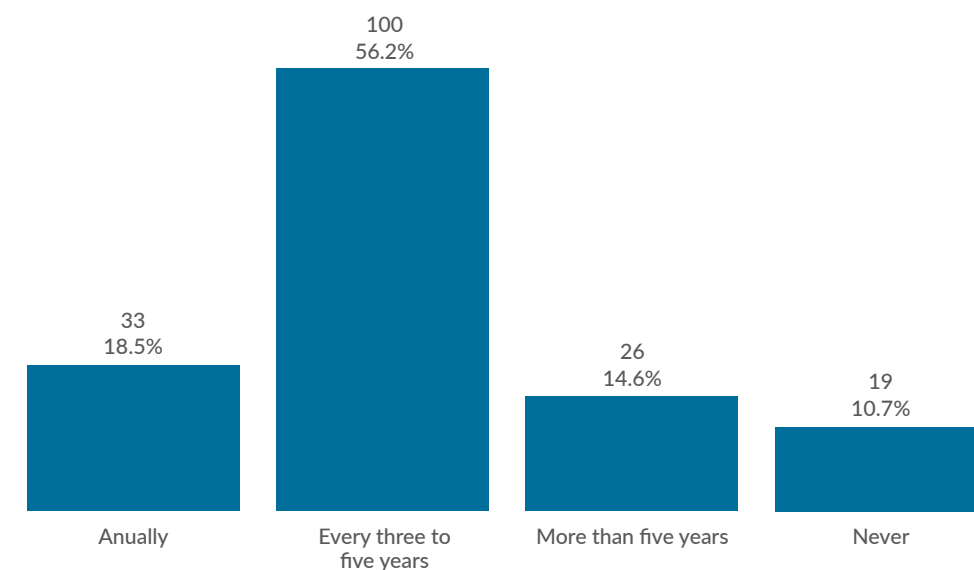


Figure 13. Frequency of Mission Statement Review

STRATEGIC PLANS

Strategic plans are designed to identify and communicate an organization’s most important goals and the action plans designed to achieve those plans. A strategic plan is an important indicator of professionalism and commitment to the mission. However, the plan must be clear, instructive, and periodically updated.

Less than 75% of organizations report having a strategic plan, and only 75% report that the plan is clear or extremely clear (Figure 14). Conversely, 61% of organizations update their plan every three to five years (Figure 15).

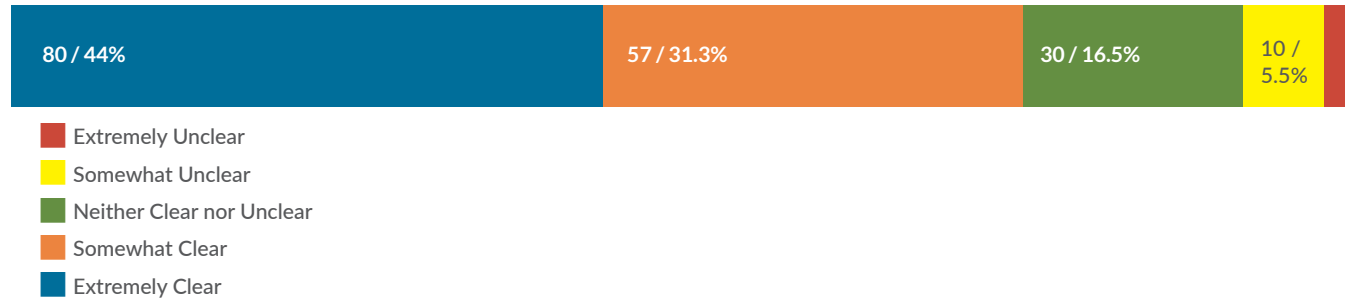


Figure 14. Clarity of Strategic Plan

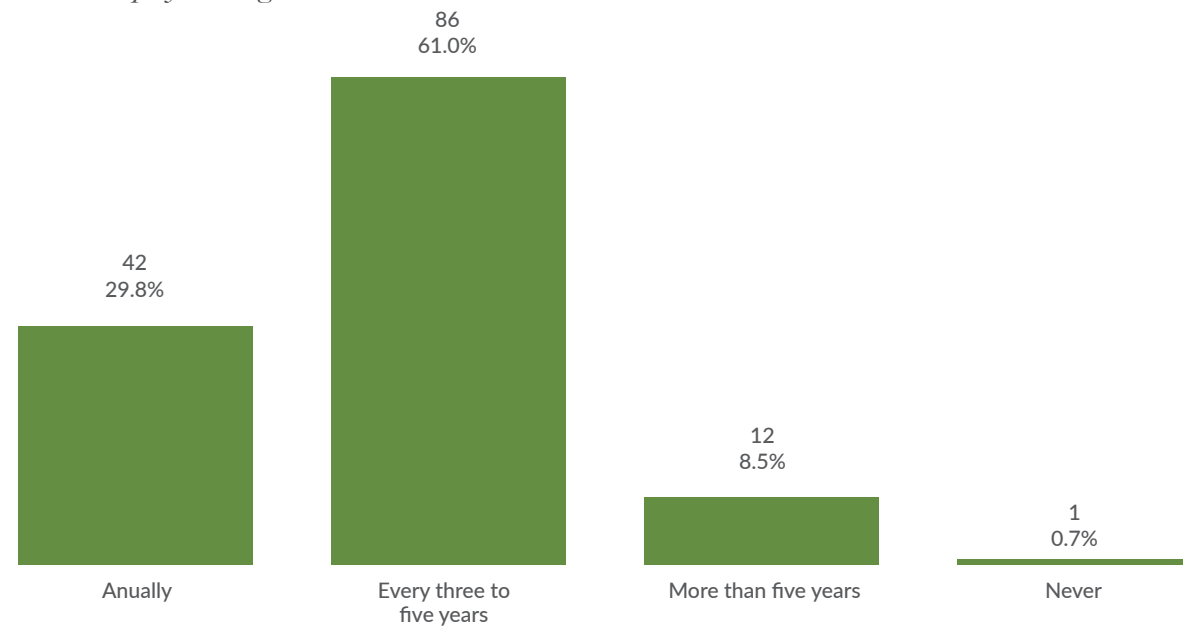


Figure 15. Frequency of Strategic Plan Revision

THEORY OF CHANGE

Formal theory of change statements help articulate the rationale for a nonprofit. A theory of change defines the problem or condition the organization seeks to address, how the organization’s services will affect change, and the result of that change once realized. Theories of change range from very simple to very complex, can articulate short and long-term changes, and suggest direct and indirect effects of change. In other words, they seek to explain why, how, and to what end the organization pursues its mission.

Despite their value, theories of change are far less common than mission statements and strategic plans. Only 28% of organizations reported a formal theory of change. That said, just under 82% of respondents indicate their theory of change is somewhat or extremely clear. See Figure 16.

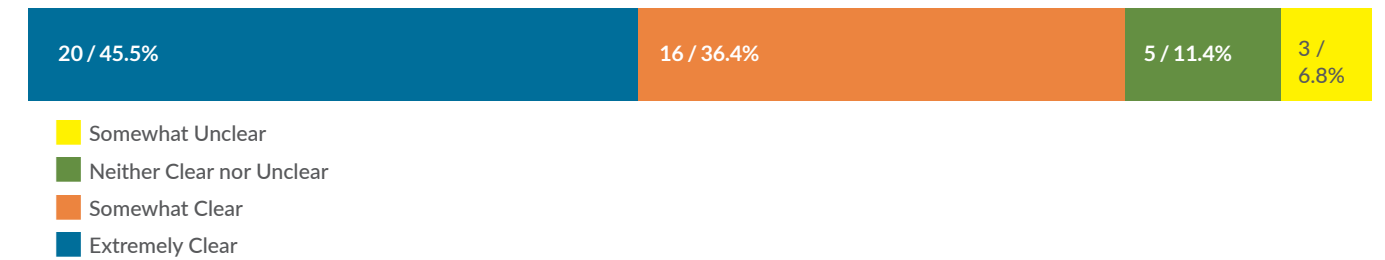


Figure 16. Clarity of Theory of Change

SUMMARY

	In place	Somewhat or Extremely Clear	Frequency of Updates
Mission Statement	97%	84.8%	3-5 years (56.2%)
Strategic Plan	75%	75.3%	3-5 years (61%)
Theory of Change	28%	82%	NA

Table *: Organization Documents, Clarity, and Updating

Mission statements are not the only policies a healthy organization should have. As indicated in Figure 17, 83% of organizations have an organizational chart, 44% have a crisis management plan, 64% have policies about lobbying, and almost 73% have DEI policies.

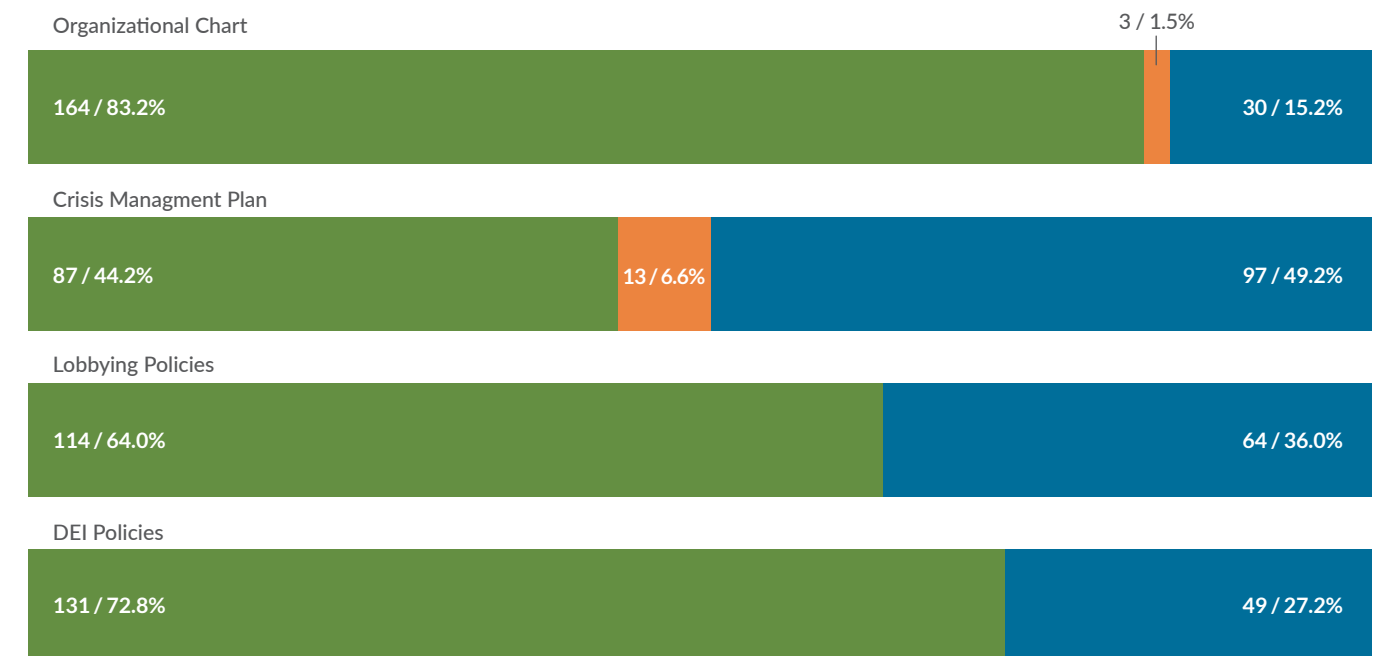


Figure 17. Other Policies in Place

As summarized in the report's first section, most 501(c)(3) nonprofits in Alabama are small--the average staff size is 13, and the median is 1--and many organizations are flat. In small and flat organizations, organizational charts are not as necessary.

Almost 2/3 of organizations report policies regarding lobbying. However, it is unclear the nature of these policies. Policies may clarify that an organization does not engage in lobbying activities or describe the nature of allowed lobbying actions.

Perhaps surprisingly, almost 73% report some DEI policy.

Conversely, only 44% report any crisis management policy in place. The COVID-19 pandemic and natural disasters in the Southeast demonstrate the need for such policies; their lack is a risk.

Advocacy and Lobbying

Generally, nonprofits exist to create or resist change--to increase or decrease a given behavior, outcome, or status. In most cases, public policy is important in effecting these changes. As mentioned, nonprofit organizations play an important, sometimes indirect, role in establishing and implementing public policy. Consequently, almost 58% of responding organizations report engaging in advocacy work.

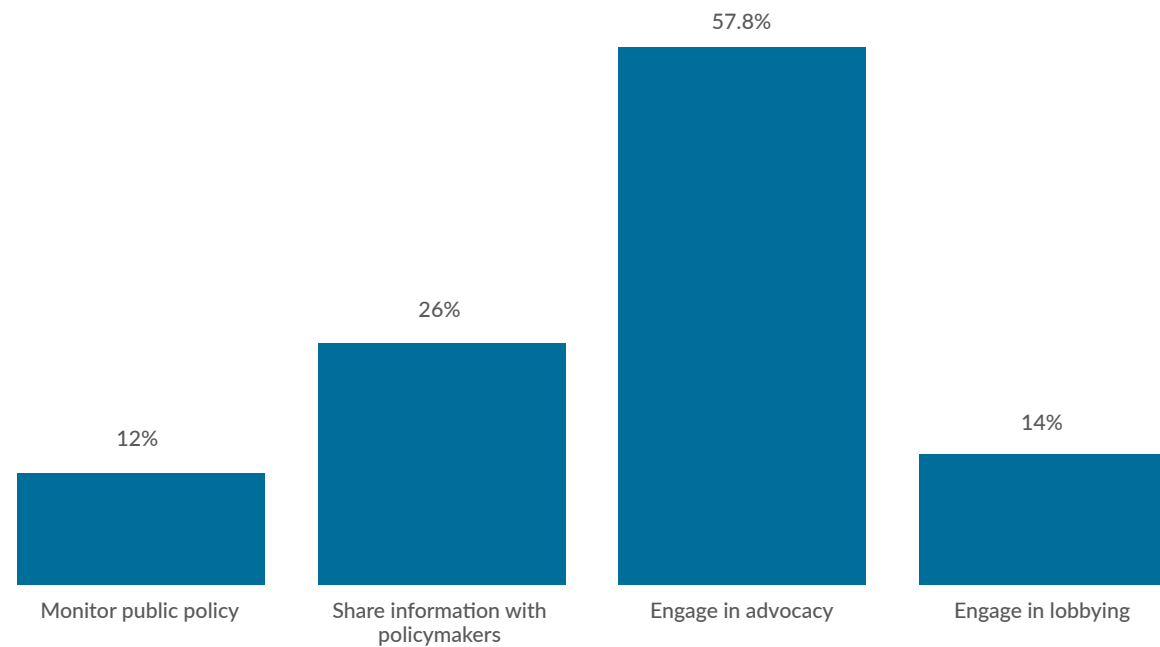


Figure 18. Alabama Nonprofits Engaged in Advocacy Work

Advocacy encompasses many formal and informal activities, and respondents were not asked to define their advocacy work further. However, the most aggressive form of advocacy work is direct lobbying of policymakers concerning policy issues. There is widespread and erroneous belief that nonprofits cannot engage in lobbying. There are limits and reporting requirements, but 501(c)(3) nonprofits have more ability to lobby than many realize. Still, only 14% of Alabama nonprofits report engaging in active lobbying.

Engagement

Regardless of the mission, nonprofit organizations cannot exist independently of others.

Almost 47% of nonprofit organizations report engagement with local school officials a few times a year.

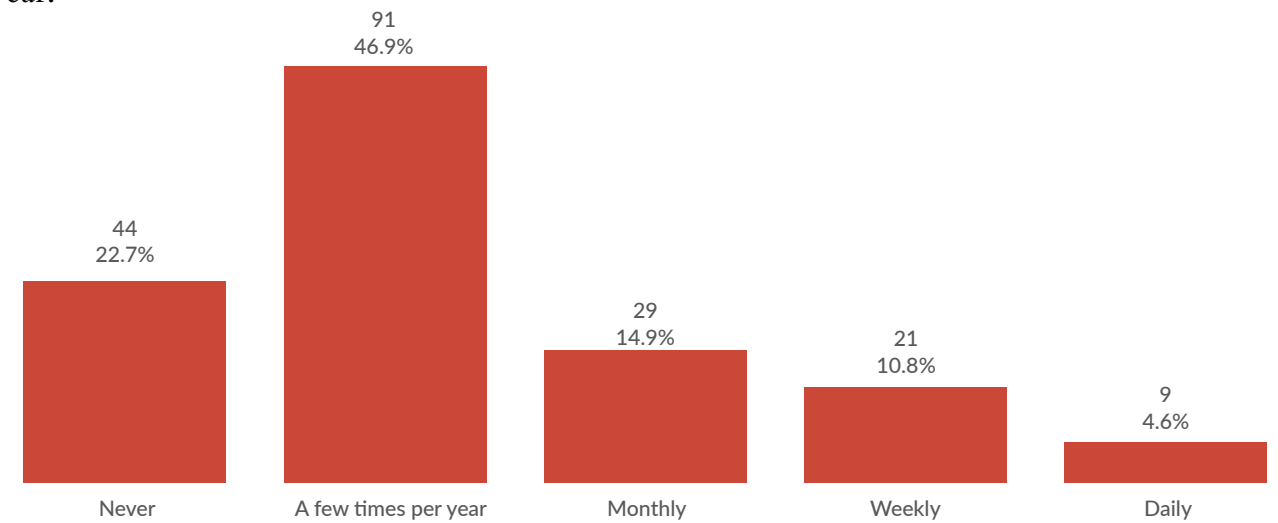


Figure 19. Engagement with Local School Officials

Figure 19 indicates the importance of school leaders to the Alabama nonprofit sector and the converse. Almost 50% of organizations have occasional engagement with school leaders -- and 26% have weekly or monthly engagement. These data are across all nonprofits, not just those focused on children or education.

A slightly smaller percentage of respondents, 44.4%, report engaging city or county officials a few times per year or monthly. See Figure 20. Similarly, 70.5% engage with state lawmakers at the same frequency. See Figure 21.

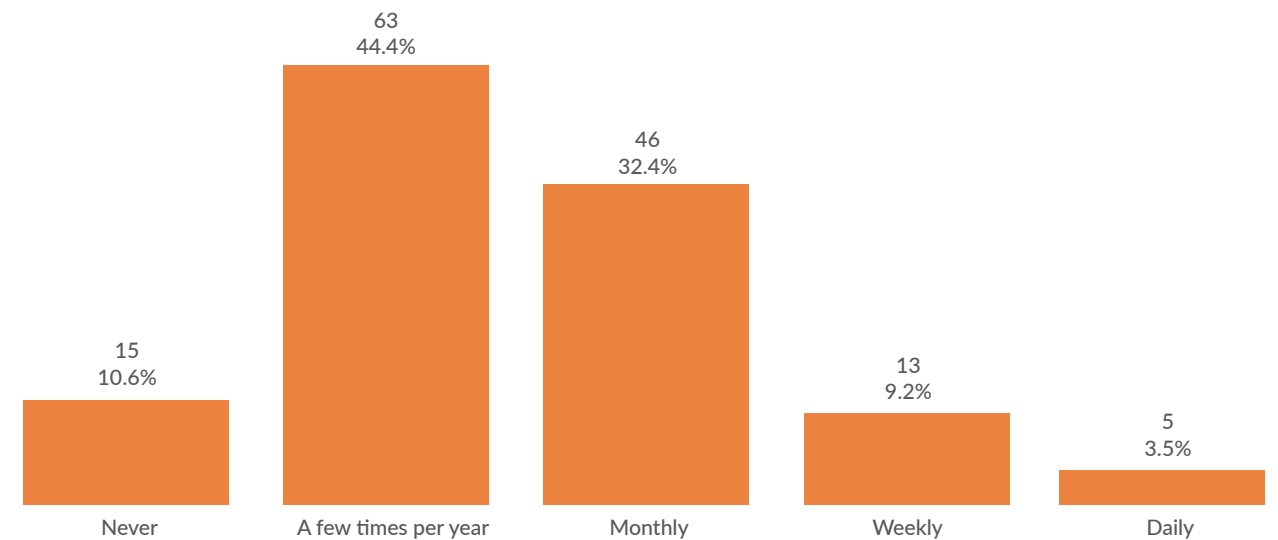


Figure 20. Engagement with City or County Officials

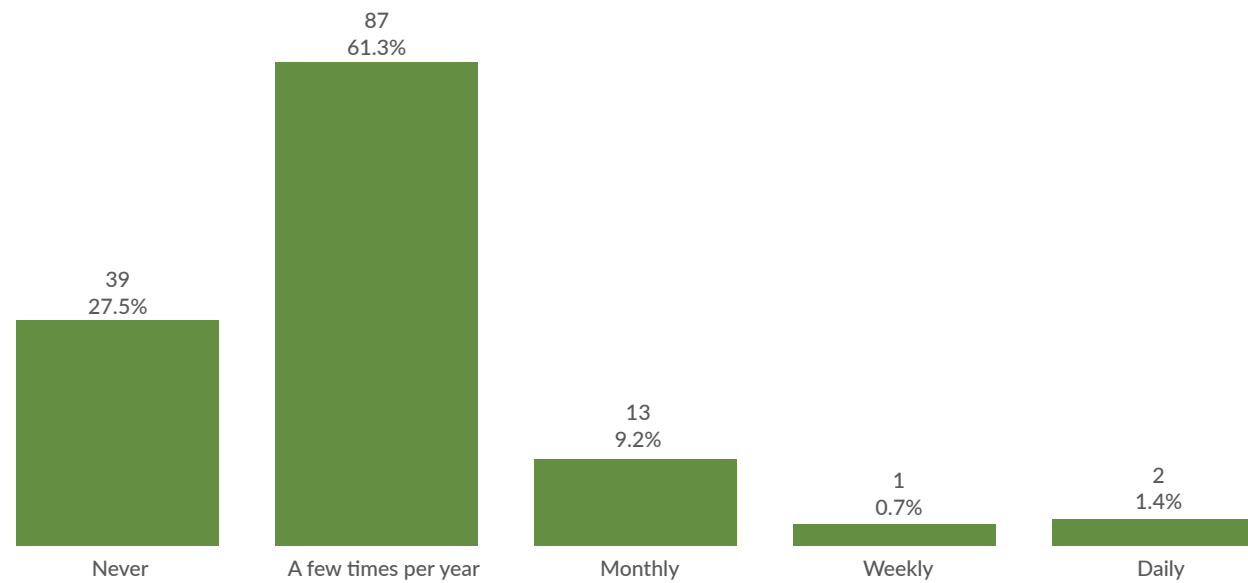


Figure 21. Engagement with State Legislators

Nonprofits engage with the Governor’s Office and federal legislators less frequently. Sixty-three percent of nonprofits report never engaging the Governor’s Office, and 58% report never engaging Alabama senators or members of Congress.

Alabama nonprofits report moderate political engagement and appear more engaged with civic organizations. See Figure 22 below.

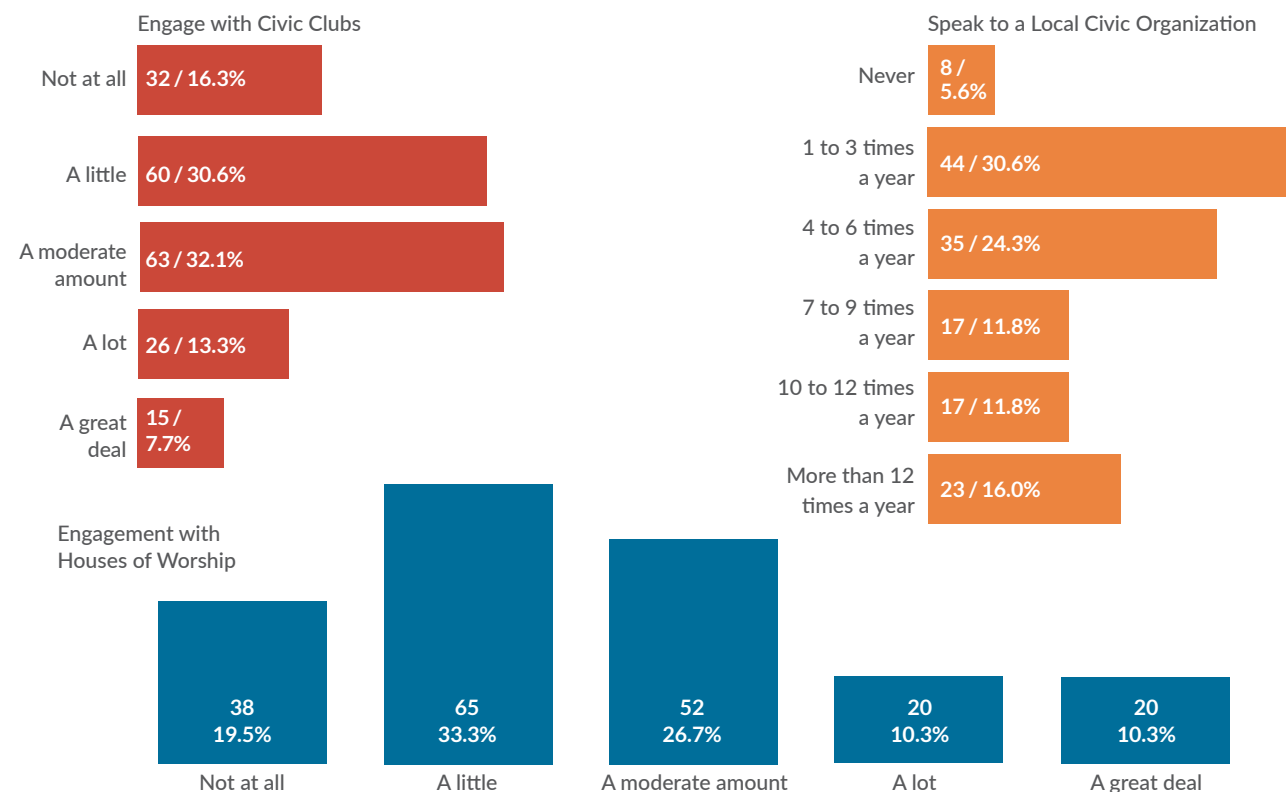


Figure 22. Nonprofit Civic Engagement

Almost a third of nonprofits report moderate engagement with civic organizations, and 20% report a lot or a great deal of engagement. Less than 6% report never speaking to a civic organization meeting, such as a Kiwanis or Rotary Club, and almost 28% report speaking ten times a year or more. Just over

half (51.8%) report little or no engagement with houses of worship. Such should not be surprising. Congregations are often interested in the work of human or social services nonprofits. However, they are rarely engaged with organizations pursuing other types of missions.

The final area of engagement is engagement with the business community. Almost half (46.6%) of responding organizations report little or no engagement with small businesses in their communities—likewise, 62.3% report little or no engagement with their local chamber of commerce. See Figure 23.

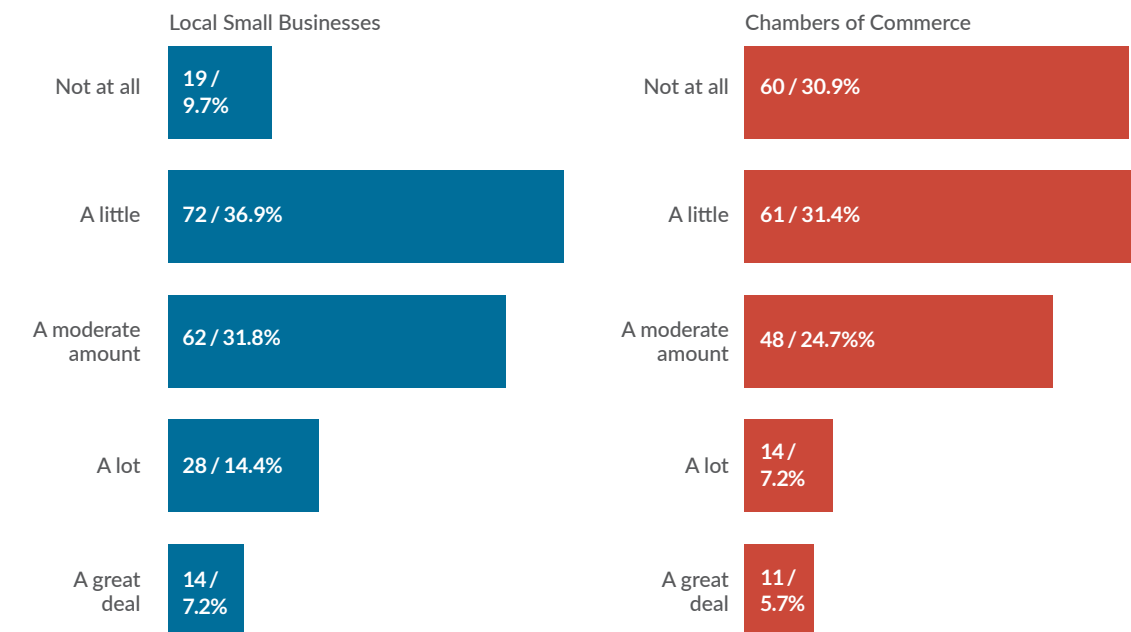


Figure 23. Engagement with the Business Community

Local chambers vary in organization and operation, but there may be an opportunity for nonprofits to seek greater engagement with a local chamber and cultivate relationships with business and political leaders.

Collaboration

Nonprofits rely on formal and informal collaborations. Only 1.5% of responding organizations report no engagement with other nonprofits, and 3% report no engagement with organizations with like missions. 51% report significant engagement with nonprofits, and 56% report significant collaborations with organizations with like missions. See Figures 24 and 25.



Figure 24. Involvement with Nonprofits

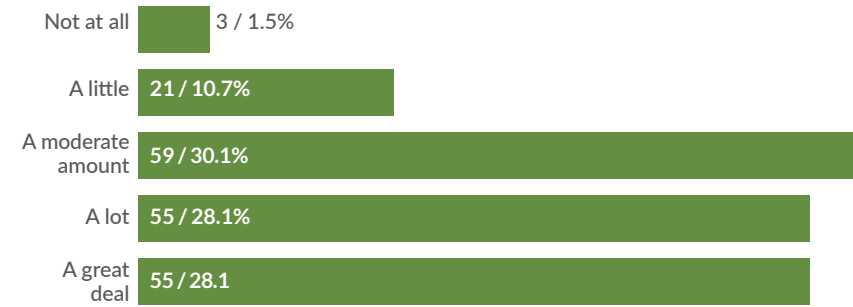


Figure 25. Involvement with Nonprofits with Similar Missions

Institutional Membership

Different from collaborations, institutional memberships, usually at a cost, promise some benefit to the nonprofit, its board, staff, or clients.

More than 75% of responding organizations report membership in AAN, but just over ¼ are members of other industry groups. Slightly more than half are members of national associations.

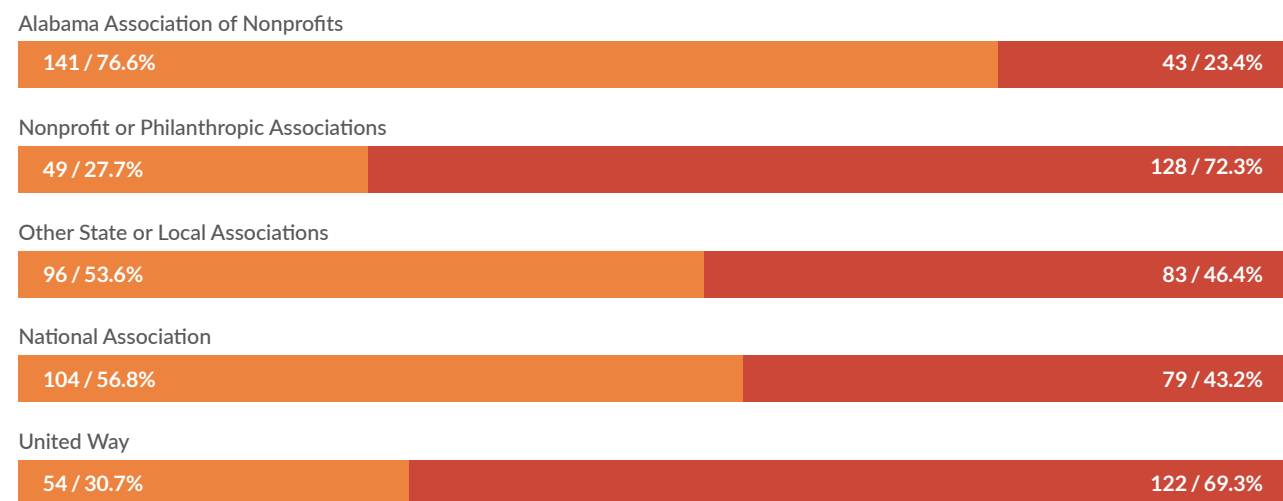


Figure 26. Nonprofit Institutional Memberships

Impact

Assessing an organization’s impact is important for internal and external audiences. Impact measurement informs how an organization’s resources can be used most efficiently. Supporters can use measurement to see the effect of their involvement. Increasingly, institutional funders require impact assessments from partner organizations. Consequently, 85% of organizations report conducting some impact measurement, with staff observation (77%) and client data analysis (70.3%) as the most common impact measurement methods.

Conclusion

Alabama nonprofits play a critical role in providing essential human services and services that enhance quality of life. The health and vitality of the sector is vital to ensure a thriving Alabama. This research serves as a foundation for assessing and tracking those indicators. As mentioned above, more than 76% of survey respondents are members of Alabama Association of Nonprofits (AAN). We theorize that AAN members align better with best practices and enjoy more intentional and professional governance and leadership than the average nonprofit. Thus, the data may overestimate the relative health of the entire sector.

This report suggests...

- ...that Alabama nonprofits are a significant economic engine, but not all organizations are financially secure.
- ...that 30% of Alabama nonprofits lost money in 2022.
- ...there is potential for improvement in the clarity and timeliness of organizational documents.
- ...there is potential for improvement in the diversity of nonprofit leadership.
- ...there is potential for improvement in nonprofits’ engagement with the broader community, especially political and business leadership.
- ...there is potential for enhanced connection between leaders, between organizations, and between organizations and professional associations.

FUTURE RESEARCH

Future reports will include tracking data over time, indicating whether the sector is trending positively or negatively. We also expect to increase the number of organizations participating in the survey, thereby creating a more robust picture of the sector, including analyses of nonprofit staff beyond the Executive Director/CEO position.

Finally, future reports will explore institutional inequity, seeking to understand the relative financial and social capital and service capacity of rural organizations compared to urban organizations, organizations with diverse boards compared to those with less diverse boards, and organizations led by people of color or women compared to those led by white or male executives.





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