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How Nonprofits and Local Governments Can Leverage Sustainability Tax Credits

By Jesse Tsai, CPA, JD, and Nic Nunn-Faron, GRI Certified Sustainability Professional

When examining the availability of tax credits, organizations in the nonprofit and local government space typically disregard the opportunity as inapplicable to their organizations. To tax-exempt entities, the concept of leveraging credits to lower their tax burden may seem at odds with their tax status. However, to help build a more sustainable and equitable future, the federal government has made some tax credits available to these organizations to facilitate their work. As community-leading organizations, exempt entities have historically been the primary drivers of economic and sustainable development. Therefore, it only makes sense for the funding to be made available to those most familiar with it.

A HISTORIC MOMENT

On Aug. 16, 2022, President Biden signed the Inflation Reduction Act (IRA) into law, representing the largest investment in climate action in American history. It is estimated that the IRA's provisions will help reduce carbon emissions throughout the country by 40%. Facilitating the work of both for-profit and community-leading organizations, the ultimate goal is to mitigate the effects of climate change across the country.

Through the IRA, Section 6417 was added to the Internal Revenue Code (IRC). The section provides for a monetization of applicable tax credits, referred to as "elective pay" in the IRC and commonly known as "direct pay." Direct pay allows tax-exempt entities to claim some tax credits, which can be treated as a refundable payment against federal income taxes, effectively providing a dollar-for-dollar cash grant in the amount of the tax credit.

Nonprofits, state and local governments, Indian tribal governments, Alaska Native Corporations and rural electrical cooperatives have each been identified as entities eligible

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to receive this benefit. Direct pay has created a powerful funding mechanism for organizations seeking to finance sustainability projects.

WHAT CREDITS ARE ELIGIBLE?

Not all federal tax credits are eligible for direct pay. Eligible credits are those introduced or expanded through the IRA, and which are meant to support investment in renewable energy or green technologies.

Eligible credits include the following:

- Energy credit (Section 48)
- Clean electricity investment credit (Section 48E)
- Renewable electricity production credit (Section 45)
- Clean electricity production credit (Section 45Y)
- Commercial clean vehicle credit (Section 45W)
- Zero-emission nuclear power production credit (Section 45U)
- Advanced manufacturing production credit (Section 45X)
- Clean hydrogen production credit (Section 45V)
- Clean fuel production credit (Section 45Z)
- Carbon oxide sequestration credit (Section 45Q)
- Credit for alternative fuel vehicle refueling/recharging property (Section 30C)
- Qualifying advanced energy project credit (Section 48C)

HOW DOES IT WORK?

To claim the credit, applicable entities must first complete a prefiling registration process with the IRS that results in a credit registration number. The appropriate tax forms must be completed (for example, Form 3468 and Form 3800 for an energy credit) and included on an original, timely filed return (including extensions) with the direct pay election.

Organizations that already file an annual tax return would continue to file that return with the appropriate tax credit form. Organizations that do not normally file an annual information return with the IRS, would utilize a Form 990-T.

ISSUES FOR CONSIDERATION

While direct pay offers a powerful funding mechanism for sustainability projects, there are several outstanding issues that require further guidance. One such issue involves joint venture partnerships. A partnership cannot make a direct pay election, even if all partners qualify as applicable entities in their own right. Partners are also not permitted to individually claim direct pay because they are not the direct owners of the property or activities generating eligible credits. This poses a challenge for project funding, as many tax-exempt entities often collaborate with private partners who contribute expertise or capital to bring sustainability projects to fruition.

Another issue involves the treatment of qualified progress expenditures. Filers are generally allowed to claim a credit for qualifying progress expenditures incurred in tax years preceding the year a project is placed in service. This provision enables earlier benefits for multiyear projects. The proposed regulations under Section 6418 recently clarified that tax credits for qualified progress expenditures may not be transferred. However, the proposed regulations under Section 6417 notably do not include similar language. It is not clear whether this omission was a technical oversight or if the government intended to allow a direct pay election for qualified progress expenditures.

In conclusion, it is crucial for applicable entities that previously had no use for federal tax credits to now consider monetizing these credits, which can provide cash for sustainability projects. By assessing whether their investments or activities qualify for a credit eligible for direct pay, applicable entities can unlock the potential to generate funds for their sustainability initiatives.

With the IRS planning to launch the prefiling registration portal by the end of 2023, it is important for applicable entities to proactively gather the necessary documentation to support their credits. By preparing to complete the appropriate tax form with a valid registration number, entities can ensure compliance and seize the opportunity to access cash for their sustainable projects. The right collaboration can help with the process so entities receive the necessary support. Utilizing the direct pay option allows these entities to make a lasting impact by helping communities thrive every day.

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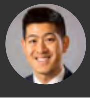

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CECL Is Here – Helping You Prepare

By Amy Duffin, CPA

Nonprofits have endured the challenges of adopting several new accounting standards over the last several years. Now, after a lengthy deferral period, the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments), commonly referred to as CECL or "Current Expected Credit Losses," is upon us. Subsequent ASUs were issued related to CECL, which are all codified in the Accounting Standards Codification (ASC) Topic 326.

A BRIEF BACKGROUND ON CECL

What items are impacted by CECL?

The extent of CECL applicability depends upon the financial assets held by each organization. Generally, financial assets measured at amortized cost, like trade receivables, cash equivalents, contract assets that result from revenue transactions or other income, loan/notes receivable, loans to officers and employees, financing receivables and program-related investments, are required to be assessed under the CECL model. Financial assets that are measured at fair value, equity method investments, and related party loans and receivables between entities under common control, are not. Contributions and pledge receivables (receivables associated with revenue recorded under FASB ASC Topic 958-605) are not in the scope of CECL.

What is changing with CECL?

Prior to CECL, organizations utilized an incurred loss model. The incurred loss model is largely based on historical losses whereby a loss is recognized only after a loss event has occurred or is probable. In other words, an allowance for doubtful accounts was recorded based primarily on past experience. Under CECL, however, entities will estimate credit losses over the entire "contractual term" of the instrument from the date of initial recognition of that instrument through the end of its term. Now, instead of an allowance for doubtful accounts, organizations will have an allowance for credit losses.

CECL's objective is to provide financial statement users with an estimate of the amount the entity expects to collect on these assets. The CECL model removes the threshold of "probable" and requires recognition of credit losses when such losses are "expected." That is, even though a credit loss event may not have occurred yet, lifetime losses would still be recorded on Day One (i.e., origination or purchase of the asset) under CECL based on the expected future losses.

The following chart provides a summary of the changes from the incurred loss model to the expected loss model.

	EXISTING GUIDANCE	NEW CECL MODEL
When to recognize credit losses	When probable that loss has been incurred, generally subsequent to initial recognition of the asset	When losses are expected, in almost all cases upon initial recognition of the asset
Period to consider	Not an explicit input to incurred loss model	Contractual term
Information to consider	Historical loss and current economic conditions	Historical loss, current economic conditions, reasonable and supportable forecasts about future conditions (with reversion to historical loss information for future periods beyond those that can be reasonably forecast)
Unit of Account	Pooling generally not required, but permitted	Pooling required when assets share similar risk characteristics

WHAT ARE THE ELEMENTS OF CECL?

In order to implement CECL appropriately, organizations must follow the model outlined by CECL, which allows for management judgment throughout each step. The importance of management's documentation of those judgments and estimates is key to the implementation and continued compliance with this standard. The graphic below provides an outline of each of the elements of CECL.

Components of CECL Model

Historical Loss Information

Segments or pools are created based on common characteristics. A combination of both internal and external information, including macroeconomic variables, are used to establish a relationship between historical losses and other variables.

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Current Conditions

To reflect current asset-specific risk characteristics, adjustments to the historical data will need to be considered. These adjustments are usually done through a combination of both qualitative and quantitative factors.

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Reasonable & Supportable Forecasts

The forecast period to project expected credit losses should be reasonable and supportable. Document the rationale and provide evidence supporting the reliability and accuracy of economic scenarios and forecasts.

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Revision to History

Entities are to revert to historical loss information when unable to make reasonable and supportable forecasts. The reversion method applied must be well documented and is not a policy election.

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Expected Credit Loss

The results should represent the current expected credit loss over the remaining contractual term of the financial asset or group of financial assets.

LET'S DISCUSS EACH CECL CALCULATION COMPONENT. ▶

Historical Loss Information

Generally, historical credit loss experience of financial assets with similar risk characteristics provides a basis for an organization's assessment of credit losses according to ASC 326-20-30-8. While organizations are accustomed to gathering historic loss information, ASC 326-20 introduces the concept of portfolio segmentation or pooling, which is likely new for most nonprofit organizations. CECL requires management to measure expected credit losses on a collective (pool) basis when similar risk characteristics exist. When similar risk characteristics do not exist, CECL requires management to measure each financial asset with different risk characteristics individually. Management should document the rationale for the selection of each pool. Management is also required to revisit the pools when information arises that suggests a particular financial asset or assets may no longer exhibit similar risk characteristics. ASC 326-20-55-5 provides a list of potential risk characteristics an organization may consider when identifying pools. The list is not meant to be all inclusive, and management may identify other risk characteristics to develop pools of financial assets. Management should document the rationale for the selection of each pool.

- Internal or external (third-party) credit score or credit ratings
- Risk ratings or classification
- Loan purpose
- Collateral type
- Size
- Effective interest rate
- Term
- Geographical location
- Industry of the borrower
- Vintage
- Historical or expected credit loss patterns
- Reasonable and supportable forecast periods

To illustrate the concept of pooling and the CECL model, let's walk through an example of what this analysis might look like for a nonprofit organization with membership dues that are recorded as revenue under ASC Topic 606. We will continue with this example as we discuss each of the elements of the CECL model.

Facts of the Example:

ABC NFP provides services to their members. The members are homogeneous and have the same risk characteristics. Members are given payment terms of 90 days. ABC NFP has tracked historical loss information for its membership dues receivable and compiled the following historical credit loss percentages:

Historical Loss Percentage	Aging Category
0.3%	Current
8%	1 – 30 days past due
26%	31 – 60 days past due
58%	61 – 90 days past due
82%	More than 90 days past due

In the example above, because the members have similar risk characteristics that management considers homogenous, a single pool of all members was used by ABC NFP to analyze the accounts receivable balance associated with membership dues. There could be instances where organizations may pool members based on type of member (i.e., large corporate members versus individual members) or by geographic location of members (i.e., international members versus members based in the United States), just to name a couple of examples. The method is based on management's judgment and the rationale for the pooling method should be documented.

The example above outlines historical loss percentages in an aging model that the organization is using as the basis for its CECL analysis. The historical loss percentage is another estimate within the model that management must determine and document. Management might choose to use a specific historic period to calculate the percentages. For example, assuming the makeup of members has not changed since the inception of the organization, management may choose to use historical loss information from the inception of the membership program. Or perhaps management may choose to use an average of the prior five or 10 years, excluding the years impacted by the COVID-19 pandemic due to the effect on its members. The important point is that the standard does not prescribe a "right" or "wrong" method. Instead, management must make these determinations and document the rationale for the method chosen.

Current Conditions

Once the historical loss information is determined, management must evaluate if any adjustments are needed to make the information current. The standard indicates that an organization should not solely rely on past events to estimate expected credit losses. The standard goes on to describe that, when an organization uses historical loss information, it shall consider the need to adjust historical information to reflect the extent to which management expects current conditions and reasonable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. For example, are payment terms for the current period different than the historical period used in the analysis? In our ABC NFP example for membership dues, the organization would need to consider the current make-up of the types of members and their "creditworthiness" compared to the creditworthiness of the types of members included in the historical analysis. Another factor ABC NFP may consider is the payment terms. Perhaps historical payment terms were 90 days, and in the current year, ABC NFP changed the payment terms to 120 days. In this case, ABC NFP would need to determine how the impact of the change in payment terms affects their historical analysis. Perhaps ABC NFP would need to add another aging category to the historical analysis determination to capture the change in payment terms.

Reasonable and Supportable Forecasts

The next phase in the CECL model is for organizations to determine the reasonable and supportable forecast period and the related forecasts made in order to estimate credit losses. This is not an optional element of the standard — an organization must develop estimates for reasonable and supportable forecasts and document the rationale for the forecasts made as well as the period(s) being forecasted. These judgments are inherently subjective and complex and may result in a high degree of estimation uncertainty. The adjustments to historical loss information may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency or other factors that are associated with credit losses on the financial asset or in the group of financial assets). This is yet another reason it is imperative for organizations to document their rationale for all of the judgments and estimates being used to develop the expected credit losses.

Let us continue with our example for ABC NFP and introduce a few more facts:

- ABC NFP believes that the historical loss information is a reasonable basis to determine expected credit losses for membership dues receivables held at the reporting date because the risk characteristics of its current members and its current credit practices have not changed significantly over time.

  Why is this fact pattern important for the CECL model?

  This particular fact pattern is demonstrating that there are no adjustments necessary for the "current conditions" element of the CECL model. Current practices, for purposes of this example, are not different than historical practices; therefore, management documented in its CECL analysis that no adjustments for current conditions are necessary.

- However, ABC NFP has determined that the reasonable and supportable forecasted economic conditions have improved. The unemployment rate has decreased as of the most recent reporting period, and ABC NFP expects the unemployment rate to continue to decrease over the next 90 days.

  Why is this fact pattern important for the CECL model?

  Management is required to consider reasonable and supportable forecasts. In this particular example, management has chosen to use the unemployment rate as its means to forecast over the contractual period. For purposes of this example, let's assume the members are individuals and the contractual period is 90 days, which is equivalent to the payment terms. The use of unemployment data as a way to forecast expected credit losses is a reasonable and supportable forecast because members are individuals. As the unemployment rate declines, more individuals are employed and would, in theory, be able to pay for their membership dues. In management's view, there is enough economic data available to support the expectation the unemployment rate will continue to decline. An organization needs to document these conclusions and sources of economic data as part of its CECL analysis

- ABC NFP estimates the effect of the decrease in the unemployment rate will impact the loss rate by a 10% decrease in each aging bucket. Management's estimate was developed based on its knowledge of past experience for which there were similar improvements in the economy.

  Why is this fact pattern important for the CECL model?

  The reasonable and supportable forecasts element of the model requires an organization to quantify the forecasts to include in the calculation of expected credit losses. In the example, ABC NFP determined that the loss rate would decrease by 10%. ABC NFP may have calculated the 10% by looking back to prior years when the unemployment rate was low and comparing the overall uncollectible accounts to a set of years when unemployment was high. On a percentage basis, that calculation yielded an approximate 10% difference in uncollectible accounts. The rationale for this method and the calculations that support the 10% loss rate decrease need to be documented as part of the CECL analysis.

Reversion to History

An organization should revert to historical loss information that is reflective of the contractual term of the financial asset or group of financial assets, adjusted for prepayments, for periods beyond which the organization can make reasonable and supportable forecasts of economic conditions. Reversion to history does not mean an organization can skip the current conditions and reasonable and supportable forecast elements of the CECL model and immediately revert to history. The key takeaway when considering reversion to history is the period beyond which reasonable and supportable forecasts can be obtained or determined. Generally, we believe organizations should be able to forecast at least one year from the contractual starting period of the financial asset, if not more. This is, again, a judgment management must make and document as part of its CECL analysis. In following with our ongoing example of ABC NFP and its membership dues receivables, the contractual term of the membership dues is 90 days. Management has determined it can reasonably forecast a 90-day period, so no reversion to history was necessary in this example.

In contrast, let's consider a different example for an organization that has a 15-year note receivable. That organization may determine it can reasonably forecast three years; so, for the remaining 12 years, the organization will utilize a reversion to historical loss information to estimate the expected credit losses.

Entities are to revert to historical loss information when they are unable to make reasonable and supportable forecasts over the contractual term, adjusted for prepayments. The reversion technique applied must be well documented and may not be a policy election. Therefore, the organization must separately evaluate each pool of assets when determining which reversion technique is most appropriate.

Examples of reversion techniques that might be used are immediate reversion and straight-line reversion. Immediate reversion is accomplished by reverting to the full historical loss rate at the point that forecasts are no longer reasonable and supportable, whereas straight-line reversion is accomplished by adjusting the reasonable and supportable forecasted loss rate in increments to revert back to the historical loss rate and will require judgment as to the length of time over which the straight-line period should be. Other reversion techniques may be used as long as they are rationale and systematic.

Expected Credit Loss

The final element of the CECL model is calculation of the expected credit loss. The standard does not prescribe a specific methodology for measuring the allowance for expected credit losses. For example, an organization may use discounted cash flow methods, loss-rate methods, roll-rate methods, probability-of-default methods or methods that utilize an aging schedule, just to name a few. Organizations need to document the rationale for the selection of the calculation method as well as the calculations themselves.

To complete our example for ABC NFP, the following is a chart to show how the organization arrived at the expected credit loss recorded as of the end of the reporting period.

ABC NFP utilized an aging schedule method by applying the loss rate after the 10% decrease to the member dues receivable balance at the end of the reporting period.

ZERO LOSS

Now that we have made our way through the basics of the CECL model, there's another principle of the standard that's worth mentioning. It is not uncommon for an organization to deem receivables or other financial assets to be fully realizable. Based on this, organizations may want to simply not record any expected credit losses for certain financial assets. Unfortunately, the CECL model does not allow us to jump directly to the conclusion of zero loss without walking through the model. An organization's estimate of expected credit losses shall include a measure of the expected risk of

Aging Category	Historical Loss Percentage	Loss Rate after 10% Decrease	Membership Dues Receivable Balance at Reporting Period End	Expected Credit Loss Estimate
Current	0.3%	0.27%	$5,984,698	$16,159
1 – 30 days past due	8%	7.2%	$8,272	$596
31 – 60 days past due	26%	23.4%	$2,882	$674
61 – 90 days past due	58%	52.2%	$842	$440
More than 90 days past due	82%	73.8%	$1,100	$812
			$5,997,794	$18,681

credit loss even if that risk is remote, regardless of the method applied to estimate credit losses. An organization is not required to measure expected credit losses on a financial asset (or group of financial assets) in which historical credit loss information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that nonpayment of the amortized cost basis is zero.

In other words, a remote risk of loss does not mean there is zero loss, so we would expect there to be some estimated expected credit loss, albeit potentially a minimal amount. If an organization performs the assessment based on the CECL requirements, and, after documenting the history, current conditions, and reasonable and supportable forecasts, determines the estimated loss is zero, the organization has sufficiently proven no estimated expected credit loss is required.

ADOPTION DATE AND ADOPTION OPTIONS

CECL is effective for nonprofit entities for fiscal years beginning after Dec. 15, 2022. Thus, the standard is effective beginning with Dec. 31, 2023 year-ends.

The standard requires organizations to adopt on a modified retrospective basis through a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. So, in the year of adoption of CECL, organizations will need to complete their credit loss analysis twice — once as of the date of adoption and once at the end of the fiscal year. For example, an organization that has a Dec. 31 fiscal year-end will need to perform its CECL analysis as of Jan. 1, 2023, and again as of Dec. 31, 2023. On Jan. 1, 2023, the organization will increase or decrease net assets without donor restrictions for the adjustment made to either increase or decrease the allowance for doubtful accounts. The historical allowance for doubtful accounts is renamed allowance for expected credit losses. In years subsequent to adoption, organizations will be required to reassess their CECL analysis as of the end of their reporting period.

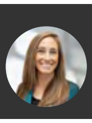
WILL MY FOOTNOTE DISCLOSURES BE IMPACTED BY CECL?

Yes. There are significant new CECL-related disclosure requirements that could be rather voluminous depending upon the composition of an organization's financial assets measured at amortized cost that are impacted by CECL. Organizations will need to disclose a description of the method used to develop expected credit losses, a description of the accounting policies and methodology to estimate the allowance for credit losses, a discussion of the relevant risk characteristics for each segment of the portfolio, among other items. In order to ensure the organization has met all of the disclosure requirements, ask your auditors for a copy of the disclosure checklist or utilize the ASU to assist you early on in the financial statement preparation process.

A DOCUMENTATION EXERCISE

For organizations with significant financial assets measured at amortized cost, the implementation of CECL, along with the ongoing requirements of the standard will take time. While your financial statements may not have a material change in the amount previously recorded as the allowance for doubtful accounts, and now recorded under the expected credit loss model, the documentation associated with the estimates and judgments to arrive at the expected credit loss balance is necessary to demonstrate compliance with this new standard.

BDO has published a practice aid, titled "CECL for Non-Financial Institutions," that can be accessed on **www.bdo.com** at this **link**.



For more information, contact Amy Duffin, Nonprofit Industry Assurance Technical Director, at aduffin@bdo.com.

Endnote

1 FASB ASC 326-20-30-9

Do You Know Who Is Watching?

By Amy Guerra, CPA

The chorus of a popular '80s song says, "I always feel like somebody's watching me." Not-for-profit entities (NFP) have their financial information available on a variety of platforms including, but not limited to, the NFP's website, the public inspection copy of its Form 990, and perhaps on its state attorney general's website, if the NFP solicits donations from the public. This public exposure of financial information might have NFPs feeling like somebody's watching them, and they would be correct!

Potential and existing donors look at an NFP's financials to understand how the entity is doing overall and how donations are spent on program services before committing to donate. Watchdog organizations also review and assess this information. A watchdog organization is typically a nonprofit group that monitors the activities of governments, industry or other organizations and alerts the public when actions that go against the public interest are detected. It is important that management and those charged with governance understand the watchdog organizations, the rating platforms and the methodologies behind those ratings. There are many of these organizations, but this article will focus on three prevalent organizations: Charity Navigator, Candid and the Better Business Bureau Wise Giving Alliance.

These three watchdog organizations have an enrollment process for nonprofits. Once the application is approved, the nonprofit may provide pertinent information that will be used by the watchdog organization to provide information to the public.

CHARITY NAVIGATOR

Charity Navigator's mission is to make impactful giving easier for all by providing free access to data, tools and resources to guide philanthropic decision-making. Charity Navigator's methodology involves ratings, curating lists and providing alerts.

Ratings

Charity Navigator focuses on two objectives in its approach to ratings: helping others and celebrating the work of charities. The types of charities assessed by this watchdog organization are 501(c)(3) tax-exempt organizations, which are U.S.-based organizations commonly referred to as public charities.

Eligible charities receive a zero- to four-star rating determined by the weighted sum of the organization's individual beacon scores. Charity Navigator's Encompass Rating System™ provides a comprehensive analysis of charity performance across four key domains, referred to as "beacons." The beacons are as follows:

- **Impact and Results** – determines if a nonprofit is making good use of resources to address the issues it aims to solve.
- **Accountability & Finance** – evaluates a nonprofit's accountability and transparency as well as its general financial health, and includes measures of stability, efficiency and governance.
- **Leadership & Adaptability** – evaluates the nonprofit's leadership practice and ability to respond to change.
- **Culture & Community** – evaluates the nonprofit's overall culture and its connectedness to the constituents and community it serves.

Charity Navigator established this more encompassing rating system to fairly assess nonprofits across domains that influence organizational performance and success. By expanding the assessment beyond financial metrics, donors are provided with a more holistic understanding of nonprofit performance.

To be eligible for an overall rating, organizations must have an Impact & Results score and/or an Accountability & Finance score. Nonprofits that do not or are unable to earn an Impact & Results or Accountability & Finance score at the time of application can still earn scores for Culture & Community and Leadership & Adaptability. Charity Navigator's rating system is not established to be all or nothing. It is designed to provide potential donors with as much meaningful information about the organization as is available.

The breakdown of the ratings is outlined below.

Rating	Score	Assessment	Description
★★★★	90+	Great	Exceeds or meets best practices and industry standards across almost all areas. Likely to be a highly-effective charity.
★★★☆	75 – 89	Good	Exceeds or meets best practices and industry standards across some areas.
★★☆☆	60 – 74	Needs improvement	Meets or nearly meets industry standards in a few areas and underperforms most charities.
★☆☆☆	50 – 59	Poor	Fails to meet industry standards in most areas and underperforms almost all charities.
☆☆☆☆	< 50	Very poor	Performs below industry standards and well underperforms nearly all charities.

Source: Charity Navigator

Curated Lists

To help donors navigate their giving options, Charity Navigator compiles lists of charities divided into three distinct categories:

- **Where To Give Now** – aims to respond to donors' and media's existing interest in certain trending topics. The charity needs to have a three- or four-star rating, have clear and concentrated efforts responding to the issue as described on its website, and if facing a specific crisis, allows donors to designate their donations to the crisis-specific efforts.
- **Popular Charities** – highlights some curated groups of ratings and is often a popular area of interest for donors. These are the most searched for, visited and supported on Charity Navigator.
- **Best Charities** – aims to highlight exciting giving opportunities that donors may not be aware exist. To be included, a charity needs to have a three- or four-star rating and has to run a particularly impactful program based on specific criteria.

Alerts

When a charity is reported to engage or confirmed to have engaged in misconduct or questionable practices, Charity Navigator posts an alert on the charity's profile page to raise awareness and help inform donors' giving. In issuing an alert, Charity Navigator's Alert Issuance Committee considers the following:

- Credibility (based on a media outlet that Charity Navigator deems reliable) and timeliness of information
- Nature, scope, and seriousness of the allegations or convictions
- Whether or not the allegations have been proven
- Other factors on a case-by-case basis

Charity Navigator has the following four levels of alerts:

- **Review Before Proceeding** – this alert is issued if matters of concern relating to the organization have been reported, but to Charity Navigator's knowledge, no legal proceeding has commenced, or the matter is not of a legal nature.
- **Proceed with Caution** – this alert is issued if a credible media outlet has reported that a government agency or a private third party has filed charges or brought a claim as part of a pending legal proceeding, alleging that the organization or its managers have engaged in illegal conduct, including but not limited to financial wrongdoing, discrimination or violation of data security laws.
- **Proceed with Increased Caution** – this alert is issued if a credible media outlet has reported that the organization is engaged in bankruptcy proceedings or the organization has been found, through a legal proceeding, to have engaged, or have managers who have engaged, in illegal conduct including but not limited to financial wrongdoing, discrimination or violation of data security laws.
- **Giving Not Recommended** – this alert is issued if the organization lacks 501(c)(3) status or a credible media outlet has reported that the organization or any of its managers have engaged in substantial fraud or misrepresentation relating to the organization's charitable purposes or activities, as determined through a legal proceeding.

For more information, please visit **Charity Navigator**

CANDID

Candid, a nonprofit that provides comprehensive data and insights about the social sector, was formed with the 2019 merger of GuideStar and Foundation Center. GuideStar was a public charity that collected, organized and presented information about every IRS-registered nonprofit organization. The Foundation Center collected and communicated information on U.S. philanthropy, conducted research on trends in the field and provided education and training on the grant-seeking process. Candid continues to operate both of these arms.

Candid's mission is to find where the money nonprofits spend comes from, where it goes and why it matters. To fulfill this mission, Candid works with nonprofits to identify funders who support the organization's work by listing their information in its Foundation Directory. On the flip side, funders use GuideStar to verify and research nonprofits aligned with their focus.

Foundation Directory

Candid's Foundation Directory gives nonprofits access to information allowing them to be smart and strategic with funding requests. Nonprofits can choose from the Essential or Professional plan. The Foundation Directory allows nonprofits to enter a search phrase. The search returns a results page with Grantmakers, Grants and Recipients. Grantmaker profiles provide a powerful summary overview of the funder's work along with all the pertinent details nonprofits need to find and approach great prospects.

Tools for Funders

Candid offers various tools funders can use to research the operations and financials of nonprofits. Nonprofits must have an account with Candid to access this information. Once approved, the nonprofit can tell its story through its profile. The Candid platform is driven by each nonprofit and the information it decides to showcase. Using the profiles created by the nonprofits, Candid provides the following tools for funders:

- **GuideStar Pro** – Funders use Candid's nonprofit profiles for research, due diligence and, increasingly, as part of the grant application process. They can search for information on more than 1.8 million nonprofits, including mission, vision, values, programs, leadership, staff and board demographics, and finances.
- **Charity Check** – This allows funders to validate nonprofits' status and ensure compliance with Charity Check, which is compliant with all IRS requirements. Get alerts on nonprofit status changes and monitor organizations. Funders can quickly understand key elements of a nonprofit's operations through Candid's Seals of Transparency, which is part of the Charity Check. These include:
  - **Bronze Seal** – awarded to nonprofits with a profile that includes its mission and contract details, donation information and leadership information.
  - **Silver Seal** – awarded to nonprofits with a profile that includes the information at the bronze seal level and additional information regarding program information, grant maker status and brand details (website, social media, logo).
  - **Gold Seal** – awarded to nonprofits with a profile that includes the information at the silver seal level and its audited financial report or basic financial information, and its board chair names along with leadership demographics.
  - **Platinum Seal** – awarded to nonprofits with a profile that includes the information at the gold seal level and includes its strategic plan or strategy and goal highlights, and at least one metric demonstrating its progress and results.
- **Data Integration and Partnerships** – Candid provides comprehensive social sector data through its application programming interfaces and custom data services. Candid also partners directly with organizations that value transparency.
- **Improve Your Community Foundation's Performance** – Council on Foundations Insights helps members assess and improve their community foundation's organizational performance through peer benchmarking. Candid also creates connections to others in the field who are interested in sharing knowledge and increasing impact.

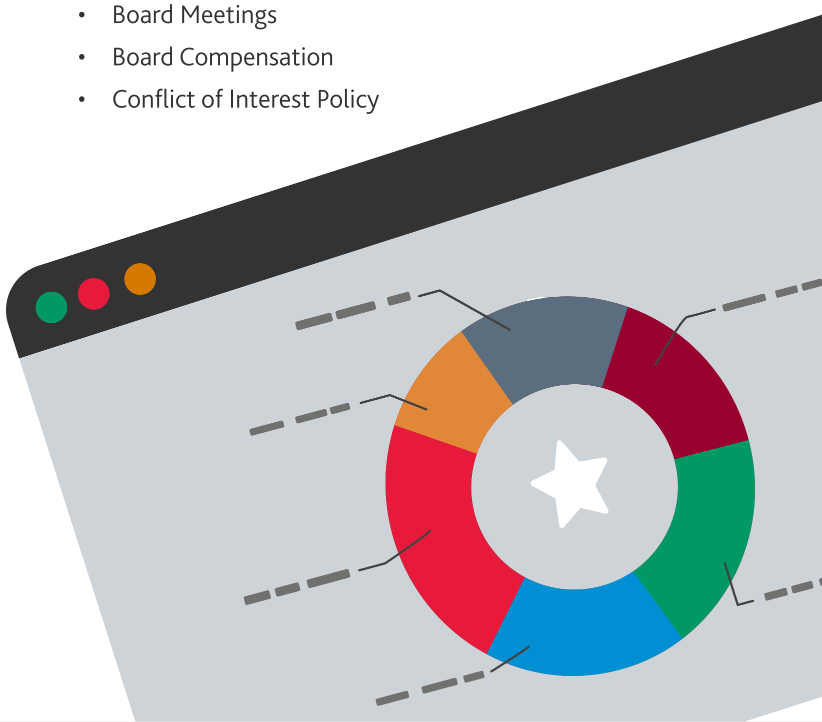
For more information, please visit **Candid**

BETTER BUSINESS BUREAU WISE GIVING ALLIANCE

The Better Business Bureau (BBB) Wise Giving Alliance (WGA) is a standards-based charity evaluator that seeks to verify the trustworthiness of charities publicly soliciting donations. The BBB WGA helps charities build trust and donors give wisely.

The BBB WGA's foundation is the BBB Charity Standards, 20 standards addressing four themes. Following are the four themes and an overview of each theme and its corresponding standards. For each of the 20 standards noted below, the BBB WGA assigns a finding of (1) standard is met, (2) standard is not met, or (3) unable to verify.

- **Governance and Oversight** – The governing board has the ultimate oversight authority for any charitable organization. The standards noted here seek to ensure that the volunteer board is active, independent and free of self-dealing. To meet these standards, the nonprofit will have:
  - Board Oversight
  - Board Size – Minimum of five voting members
  - Board Meetings
  - Board Compensation
  - Conflict of Interest Policy



- **Measuring Effectiveness** – The effectiveness of a nonprofit in achieving its mission is of the utmost importance. It's key that potential donors know that when they give to a nonprofit, their money is going to have an impact. This is why a section of the BBB WGA's standards require that nonprofits set defined, measurable goals and objectives, put a process in place to evaluate the success and impact of its programming, and report on the nonprofit's progress. To satisfy the requirements the nonprofit must have the following:
  - Effectiveness Policy
  - Effectiveness Report
- **Finances** – While the BBB WGA believes that a nonprofit's finances tell only part of the story of how they are performing, the finances can identify nonprofits that may be demonstrating poor financial management and/or questionable accounting practices. The finance standards seek to ensure that the nonprofit is financially transparent and spends its funds in accordance with its mission and donor expectations. If the nonprofit has the following they must be provided:
  - Program Expenses – at least 65% of total expenses are on program
  - Fundraising Expenses – no more than 35% of contributions spent on fundraising
  - Accumulating Funds
  - Audit Report
    - Audit report if gross income exceeds $1 million
    - A review by a certified public accountant if gross income is less than $1 million
    - Internally produced financial statements if gross income is less than $250,000
  - Detailed Expense Breakdown
    - Accurate Expense Reporting
  - Budget Plan

There are cases where an organization that does not meet the first three standards under "Finances" may provide evidence to demonstrate its use of funds is reasonable and complies with the standards we have established — and we consider them accordingly.

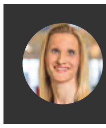
- **Solicitations and Informational Materials** – A fundraising appeal is often the only contact a donor has with a nonprofit and may be the sole impetus for giving. This section of the standards seeks to ensure that a nonprofit's representations to the public are accurate, complete, and respectful. If the nonprofit has the following they must be provided:
  - Accurate Materials
  - Annual Report
  - Website Disclosures
  - Donor Privacy Policy
  - Cause Marketing Disclosures
  - Complaints Records

The BBB WGA also provides a list of charities in alphabetical order. Donors may locate a nonprofit on this list and pull up the charity review published by BBB WGA. The report provides information on the nonprofit, including the finding on each of the 20 standards, including the purpose and programs of the nonprofit, information on governance and staff, fundraising, tax status and financial information.

Finally, the BBB WGA provides "Tips for Donors." This includes publications to help the donor in its charity donation decisions. While it's ultimately the donor's decision, the BBB WGA recommends donors avoid or be extremely cautious when contributing to nondisclosure charities. Charities that do not provide BBB WGA with any of the requested information needed to complete a charity evaluation are called "nondisclosure charities." While this could be benign, some of these charities could also be hiding something by choosing not to disclose.

For more information, please visit Better **Business Bureau Wise Giving Alliance**

While nonprofits may feel like someone is always watching with so much exposure to their financial information, watchdog groups, including Charity Navigator, Candid, and the BBB Wise Giving Alliance are working to help donors and nonprofits. Nonprofits should see watchdog organizations as another outlet to provide access to their mission and provide a holistic understanding of the operations of the nonprofit.



For more information, contact Amy Guerra, Healthcare and Nonprofit Industry Assurance Technical Director, at aguerra@bdo.com.

Component Unit Determination and Reporting

By Sam Thompson, CPA

Proper determination and reporting of component units is essential for complete and accurate financial reporting. However, complexity in this area poses a challenge to governments in identifying and assessing the component units and the correct presentation. This article provides an overview of the accounting standards defining the financial reporting entity, the types of component units and criteria for each, and financial reporting requirements for component units to assist with this process.

Note – The authoritative guidance presented herein for component unit determination and reporting requirements is found in GASB Codification Section 2100, Defining the Financial Reporting Entity, and Section 2600, Reporting Entity and Component Unit Presentation and Disclosure.

BACKGROUND

Government entities come in all shapes and sizes and provide a variety of public services. The proliferation of government entities over time has resulted in many relationships with related but legally separate organizations. Robust financial reporting that upholds the tenet of accountability requires certain separate organizations be included with others if certain conditions are present.

Integral to financial reporting is the proper identification and presentation of government entities that meet the definition of a primary government or a component unit.

PRIMARY GOVERNMENT

A single government with an elected governing body is referred to as a primary government. A primary government is any state government or general-purpose local government (such as a city or county). Another type of government (referred to as a special-purpose government) may also be considered a primary government if it meets all the following criteria[1]:

Criteria	Definition
Separately elected governing body	Governing body separately elected by citizens in a general election (as opposed to being appointed or elected by a governing body)[2]
Legally separate	Organization created as a body corporate and politic, or otherwise possesses the corporate powers that would distinguish it as being legally separate from the primary government (such as the capacity to have a name, the right to sue or be sued individually without recourse to another government unit, right to buy, sell, lease, or mortgage property in its own name)[3]
Fiscally independent	Authority to do all the following without substantive approval[4] by a primary government: ▶ Determine its budget ▶ Levy taxes, set rates or charges ▶ Issue bonded debt[5]

Q: Is the requirement for a state agency to review a government's bond offering for compliance with state laws concerning debt service coverage an example of substantive approval that would indicate the government is not fiscally independent?

A: **No,** the requirement is compliance oriented in nature and alone does not suggest the government lacks the authority to issue debt without approval by another government.

COMPONENT UNITS

A special-purpose government that is not a legally separate organization is reported as part of the government entity that has legal authority over it. A legally separate organization that does not meet the other criteria required for a primary government may be a potential component unit. Whether the legally separate organization is a component unit hinges on whether there is another government that has financial accountability over the organization.

Financial Accountability

Financial accountability arises when a primary government has the power to appoint a simple majority of a potential component unit's governing board[6,7] **in combination** with either the (1) ability to impose its will[8] on that potential component unit or (2) if the potential component unit provides specific financial benefits[9] to or imposes specific financial burdens[10] on the primary government. Financial accountability may also arise if the potential component unit is fiscally dependent upon the primary government and the potential component unit provides specific financial benefits to or imposes specific financial burdens on the primary government. There is one other situation where a primary government is financially accountable for a legally separate organization: if the primary government holds a majority equity interest in a legally separate organization that does not meet the definition of an investment.[11]

The following table summarizes the potential criteria and the possible combinations necessary to establish financial accountability:

Criteria 1	Criteria 2
Fiscal dependence	Financial benefit or burden relationship
Power to appoint voting majority of board	Financial benefit or burden relationship
Power to appoint voting majority of board	Ability to impose will
Majority equity interest	Does not meet the definition of an investment

Component Units Where the Primary Government is Not Financially Accountable

While financial accountability between a primary government and a legally separate organization is integral to a component unit relationship, it is possible for a legally separate organization for which the primary government is not financially accountable to be presented as a component unit if the nature and significance of the relationship is such that exclusion would cause the reporting entity's financial statement to be misleading under the **misleading to exclude** criteria.

A legally separate, tax-exempt organization should be reported as a component unit if all the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units or its constituents.
- The primary government (or its component units) is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources an individual organization receives or holds that the primary government is entitled to, or has the ability to otherwise access, are significant to that primary government.[12]

Misleading to Exclude

A legally separate organization not meeting the required criteria of a component unit should still be reported as a component unit if exclusion would cause the financial statements to be misleading. Whether the exclusion of a potential component unit would cause the financial statements to be misleading is a matter of professional judgment. Consideration should be given to the nature and significance of the relationship between the primary government and potential component unit.[13] Organizations that are closely related to or financially integrated with the primary government should be evaluated.[14]

COMPONENT UNIT REPORTING

Financial statements of the reporting entity should provide an overview of the entity yet allow users to distinguish between the primary government and its component units. An organization that is a component unit of a financial reporting entity may have component units of its own. The component unit financial data that are incorporated into a reporting entity's financial statements should include the data from all its component units. In effect, the provisions of GASB Cod. Sec. 2100 should be applied in layers "from the bottom up." At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government.[15]

Presentation

Component units that are not fiduciary in nature are presented either discretely or are blended as though they are part of the primary government. As such, non-fiduciary component units are referred to as either discretely presented or blended component units. A component unit is typically discretely presented unless it meets a combination of specific criteria for blending. There are five scenarios that result in a component unit being presented as blended[16]:

Scenario	Criteria present
1	The component unit's governing body is substantially the same as the governing body of the primary government and a financial benefit or burden relationship between the component unit and primary government exists
2	The component unit's governing body is substantially the same as the governing body of the primary government and management of the primary government has operational responsibility[17] for the component unit
3	The component unit provides services entirely or almost entirely to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government
4	The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government
5	The component unit is a not-for-profit corporation in which the primary government is the sole corporate member

The blending of component units results in the financial data of a component unit being presented in a manner similar to the balances and transactions of the primary government. As such, the funds of a blended component unit are presented as funds of the primary government except for a blended component unit's general fund, which is reclassified as a special revenue fund in the primary government's financial statements. Proprietary-type entities (for example, hospitals and utilities) that present only a single column in their financial statements with blended component units are allowed to consolidate the blended component unit balances with accompanying note disclosures presenting the amounts blended.[18]

Discretely presented component unit information is presented as separate columns and rows on the face of the financial statements. Individual discretely presented component units should be classified as either major or nonmajor. Whether a discrete component unit is major is based on the nature and significance of its relationship to the primary government[19]. Major discretely presented component units should be reported as separate columns and rows on the statements of net position and activities or may be combined and reported as a single column or row on the face of the financial statements, with either a combining statement of major component units reported in the basic financial statements after the fund financial statement, or condensed financial statements presented in the notes to the financial statements. Nonmajor component units should be aggregated and presented in a single column. Whether a combining statement of nonmajor component units is included is optional. If presented, it should be presented as supplementary information.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its own component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.[20]

Q: Should a primary government report the component units **of a component unit** as its own?

A: **No.** A component unit of a financial reporting entity may have its own component units. While a component unit's financial data incorporated into the financial reporting entity's financial statements should include data from all its component units, the definition and display provisions apply from the financial reporting entity's point of view and do not have visibility to a lower level.

For example, consider a county (primary government) reporting a discretely presented component unit (county hospital). The county hospital also has a component unit (medical center). The county would include the medical center's financial data in its financial statements as part of the county hospital but would not report the medical center as a component unit.

CHALLENGES IN IDENTIFYING POTENTIAL COMPONENT UNITS

Identifying potential components units can be difficult. Relationships between organizations may lack transparency. What is written in terms of documentation may be ambiguous and open to interpretation. Moreover, relationships between organizations are dynamic and susceptible to change.

The following are some of the more common developments that can change relationships between organizations:

- New or amended legislation
- Changes in bylaws or articles of incorporation
- Modifications to organizational structures
- Changes in financing relationships
- Issuance of debt
- Acquisition or dissolution of an entity

Q: Once a component unit, always a component, correct?

A: **Incorrect.** The criteria presently requiring a legally separate organization to be presented as a component unit can change. Governments must remain cognizant of potential changes in relationships between organizations and reassess when necessary.

TIPS FOR ENSURING COMPLETE AND ACCURATE COMPONENT UNIT PRESENTATION

Governments should view the completeness and accuracy of component unit presentation in their financial statements as an integral part of financial reporting. To accomplish this, governments should ensure processes and controls over component unit presentation are properly designed and operating effectively. This consists of, but is not limited to:

- Establishing written policies and procedures for evaluating potential component units
- Creating and maintaining an organizational tree
- Reviewing bylaws and articles of incorporation for statements pertaining to the ability to:
  - Appoint or remove members of the governing body
  - Hire, reassign or terminate employees
  - Enter or amend contracts
  - Issue debt
  - Approve, reject or modify budgets
  - Modify or set rates
  - Abolish the entity
- Consulting with legal counsel and officials with oversight authority to clarify ambiguous positions or divisions of authority
- Evaluating the criteria of component units currently presented and ensure such presentation is in accordance with generally accepted accounting principles
- Reviewing the financial statements disclosures of potential component units

For more information, contact Sam Thompson, Government Industry Assurance Technical Director, at sthompson@bdo.com.

Endnotes

1 GASB Cod. Sec. 2100.112
2 GASB Cod. Sec. 2100.112
3 GASB Cod. Sec. 2100.114
4 When assessing fiscal independence, only the requirement for substantive approval by another government, as opposed to ministerial or compliance approvals, is relevant for determining fiscal independence. Ministerial or compliance approvals, which are akin to general oversight in nature, are common and alone do not prevent fiscal independence
5 GASB Cod. Sec. 2100.115
6 If financial decisions require the approval of more than a simple majority, the primary government is not accountable for the organization.
7 A primary government's appointment authority should be substantive. A primary government's appointments cannot be considered substantive if there are limitations or restrictions over their ability to independently select and appoint board officials (e.g., by restricting the potential appointees to individuals from a pool of pre-determined candidates)
8 The ability to significantly influence the programs, projects, activities, or levels of services performed or provided by an organization
9 Legal entitlement to, or the ability to otherwise access, the resources of an organization
10 An obligation, legal or otherwise, to finance the deficits of, or provide financial support to, an organization; an obligation in some manner for the debt of an organization; or an obligation, legal or otherwise, to make contributions to an organization that is a defined benefit pension plan that is administered through a trust that meets the criteria in paragraph .101 of GASB Codification Section Pe5 or a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of Section Po50
11 GASB Cod. Sec. 2100.120
12 GASB Cod. Sec. 2100.142
13 GASB Cod. Sec. 2100.140
14 GASB Cod. Sec. 2100.143
15 GASB Cod. Sec. 2100.100d
16 GASB Cod. Sec. 2600.113
17 Management of a primary government has operational responsibility for a component unit if it manages the activities of the component unit in essentially the same way it manages its own programs, department, or agencies (GASB Cod. Sec. 2600.113a)
18 GASB Cod. Sec. 2600.115
19 A component unit is considered major if (a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered essential to the financial statement users, (b) there are significant transactions with the primary government, (c) there is a significant financial benefit or burden relationship with the primary government (GASB Cod. Sec. 2600.108)
20 GASB Cod. Sec. 2100.145

How Can AI Technology Create Value in Higher Education?

By Jackie Bernal, CIA, and David Clark, CIA, CFE, CRMA

Incredible advances in technology in recent years have enabled organizations to connect with and serve stakeholders in new and increasingly efficient ways. This includes leveraging artificial intelligence (AI) and chatbot technologies to revolutionize higher education operations, offering many benefits to institutions and their various stakeholders.

In the past few years, we have seen higher education institutions hone their competitive edge by harnessing AI capabilities to increase efficiencies, make data-driven decisions, improve student support, create personalized learning experiences and increase inclusivity in learning. Below, we explore areas where higher education institutions have taken advantage of such technology and the associated benefits.

AI CAN IMPROVE OPERATIONAL EFFICIENCY

The education programs that define colleges and universities would not be possible without sizable and complex back-office structures, the magnitude of which is hard to grasp without intimate knowledge of university operations. From recruitment to research services, human resources to legal, and finance to facilities, there are numerous behind-the-scenes processes in place to ensure faculty and students have a positive, seamless experience. Administrative processes, especially those lacking automation and modernization, can be fraught with inefficiencies, delays and human errors that have the potential to negatively impact the college's financials and faculty and student experiences.

There are multiple use cases for how AI has helped colleges and universities increase efficiency and decrease costs related to back-office functions. These include:

Improving Recruitment and Retention Efforts

College recruitment and enrollment efforts can be costly, challenging and inefficient. To address these inefficiencies, many colleges and universities are leveraging AI to generate models that target potential students based on specific criteria and demographic characteristics. These solutions allow schools to identify, collect and analyze relevant data to isolate and recruit students with the highest likelihood of attending, which has helped schools save countless hours and dollars related to analyzing data and contacting prospective students with little to no chance of matriculating. As a result, schools have increased enrollment (or at least the related yield) and decreased recruiting costs.

Similarly, using AI chatbots has been shown to help significantly decrease "summer melt,"[1] which is when students admitted to a school fail to matriculate for the upcoming year. Studies show that the need to jump through administrative hoops is an important driver of such decisions for newly admitted students.

In recent years, some institutions have utilized AI chatbots to reduce the melt. After introducing a chatbot in 2016, one such institution saw a 22% decrease in summer melt by 2020. The university partnered with a student engagement platform to develop and implement a smart text messaging capability available 24/7 to answer questions regarding admissions and enrollment, financial aid applications, placement exams and class registration. The chatbot even reaches out to students via text when they have not completed tasks by certain dates.

Identifying and Targeting Key Donors

Higher education institutions can automate and optimize their fundraising practices to engage alumni and donors more effectively. By studying donor history and preferences, AI algorithms can predict the likelihood of future giving. These predictions can then be used to group donors and tailor communication and fundraising strategies accordingly.

In addition, AI can segment prospects or donor data based on similarities such as geography, age, major in college, graduation year and other factors. This can help customize fundraising strategies to better engage and retain donors. Higher education institutions can also tap into AI language generation models such as ChatGPT to generate emails, thank you or stewardship letters, fundraising ideas and proposals.

Improving Facilities Operations Through Data-Driven Decisions

Big data is also adding value by helping universities make decisions that optimize costs. At one university, a water irrigation program coordinator reduced the time spent managing sprinkler systems from eight hours to only 30 minutes daily. Moreover, this university saves $1 million each year from decreasing water usage from 176 million gallons to 35 million. How was this achieved? None other than AI: the university invested in an automated water landscaping system that processes data and decides how to manage the campus's water irrigation. With the help of AI, the water irrigation program coordinator and his team can "identify problems and make changes very quickly."[2]

PREDICTIVE ANALYTICS CAN OFFER TAILORED STUDENT SUPPORT AND COMMUNICATIONS

With the decline in college enrollment and graduation, it is imperative that schools think of innovative ways to support and retain their students. AI has great potential to improve the student experience. And while AI chatbots will never completely replace person-to-person interaction, they can do wonders to fill the gap. AI's capabilities can provide individualized support to students, identify those who are at risk and make for a more inclusive environment.

Personalizing Learning Experiences

One of the most promising aspects of AI in higher education is its potential to customize learning for each student. By analyzing data on individual learning styles, preferences and progress, AI can tailor educational content to create individualized educational experiences for all students.

A college-level AI teaching assistant named Jill Watson demonstrates this unique capacity. In an online course, Knowledge-Based Artificial Intelligence, Professor Ashok Goel used Jill to respond to about 100,000 questions that students posted on the class forum. By doing so, Jill helped the professor achieve "personal attention at scale," reaching more students than would have been feasible with only human aid.[3]

Another institution is also taking advantage of AI technology to create a personalized learning experience. This school partnered with IBM Research to build a virtual environment in which students can learn and practice Mandarin. With the computational architecture in place, the school launched the course, "AI-Assisted Immersive Chinese." In the digitized language immersion experience, students learn Chinese by interacting with computer-generated characters and receiving feedback from them.[4]

These projects demonstrate the future of education, one in which students can have deeper understanding of material and greater satisfaction with learning outcomes. The possibilities are endless.

Identifying At-Risk Students

A public research university is using behavioral intelligence and predictive AI — with a 10-year dataset of student records — to improve student retention, provide support and predict performance outcomes.[5] In one instance, a student realigned his academic goals after a computer program notified his academic advisor that the student's B-average GPA was not likely to sustain him in the school's Nursing Program. So, his advisor helped him shift toward another major of interest in which he would stay on track to graduate.

This university has even developed and implemented engagement campaigns supported via text messaging. These campaigns target students to remind and encourage them to participate in academic activities and instruction that may add to their academic success, non-classroom activities of potential interest and administrative processes and deadlines that could impact their education.[6]

Making Learning Accessible and Inclusive

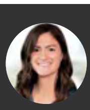
AI and chatbots provide higher education institutions with the opportunity to enhance their accessibility and inclusivity. AI-powered tools can serve students with various needs by providing additional support: speech-to-text, text-to-speech, visual representations and many other adaptive technologies.

At another public research university, students can receive assistive technology resources to make learning more accessible. The Student Disability Resource Center's Assistive Technology Lab offers various tools to assist students with disabilities ranging from hearing or visual impairments to learning challenges. This includes note taking and recording apps, speech-to-text tools, and text-to-speech technologies. The center also works with instructors to create an inclusive learning environment, such as guidance on using "Blackboard Ally," which creates alternative versions of content to make it more accessible according to the way each student learns.[7]

CONCLUSION

As AI technologies continue to evolve, educational institutions need to acknowledge, understand and, as they see fit, leverage the capabilities of AI and chatbots to improve the student experience. By doing so, schools can create more efficient, engaging and inclusive learning environments, position themselves at the forefront of educational innovation and better prepare students for the future. Investing in students' educational experiences is an investment in the future.

Article adapted from the Nonprofit Standard blog.



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David Clark, Higher Education Advisory Services Managing Director, at dclark@bdo.com.

Endnotes

1 Successful AI Examples in Higher Education | EdTech Magazine
2 How A.I. Is Infiltrating Every Corner of the Campus (chronicle.com)
3 Meet Jill Watson: Georgia Tech's first AI teaching assistant | Georgia Tech Professional Education (gatech.edu)
4 AI-assisted Immersive Classroom To Be Used in First Credit-Bearing Course | News & Events (rpi.edu)
5 Predictive analytics are boosting college graduation rates, but do they also invade privacy and reinforce racial inequities? (hechingerreport.org)
6 How Georgia State University uses Behavioral Intelligence to improve student retention and persistence - Mainstay
7 Assistive Technology - Student Disability Resource Center | University of South Carolina (sc.edu)

Nonprofits Pivot from Survival to Resilience: **BDO 2023 Nonprofit Standards Benchmarking Survey**

By Andrea Espinola Wilson and Adam Cole, CPA

The **BDO 2023 Nonprofit Standards Benchmarking Survey** of more than 250 nonprofits highlights a crucial shift in the nonprofit sector towards strategic resilience, marking a departure from the reliance on recent federal funding. Data from our annual survey reveals that in response to economic uncertainties, nonprofits are prioritizing digital transformation (42%), cost reduction (38%), and seeking new funding sources (36%) as their top concerns for the next 12 months. Despite a decrease in revenue for 44% of surveyed nonprofits in the latest fiscal year, 69% anticipate an increase in the coming year.

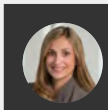
The nonprofit industry has continually turned crisis into opportunity, and this year is no different. While less than half (44%) of surveyed nonprofits saw increased revenue in their most recent fiscal year, 69% anticipate revenue will increase in the next fiscal year. Nearly all (99%) surveyed organizations say they have expanded or shifted their mission scope in the past 12 months, with more than half doing so to address emerging needs among the populations they serve. Organizations are also focused on efficiency and strengthening bottom lines, identifying digital transformation, cost reduction and finding new revenue and funding sources as their highest priorities over the next 12 months.

Even in the face of economic uncertainty, nonprofits are showcasing their determination amid a decline in giving and higher costs. Investment in technology is a priority in the coming year. More than half (59%) of nonprofits plan to increase their technology spending in the next 12 months, and 57% plan to select and/or implement a new enterprise resource planning (ERP) system within the same time frame.

The report also delves into increased donor scrutiny surrounding ESG topics. Just over half (51%) of nonprofits say funders and donors have asked for more information on ESG strategy in the past 12 months, while 42% said they are seeing an increase in requests for information on environmental impact and reduction strategies.

Now in its seventh year, Nonprofit Standards examines emerging challenges and opportunities facing nonprofit leaders, offering data-backed insights they can use to further their missions and sustain their organizations into the future. The survey includes an **overview of the nonprofit sector** as well as breakout reports for **health and human services organizations**, **higher education institutions**, **grantmakers and their recipients**, **public charities**, **international nongovernmental organizations (INGOs)** and **organizations with more than $75 million in revenue**.

How does your organization compare to peers?
BENCHMARK YOURSELF. ▶



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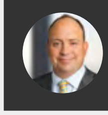

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