

Behind the Headlines – NFP Organizations

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Bio

Lou Mezzina joined KPMG in 1974 and was an Audit Partner from July 1, 1986 – April 30, 2014. He was the National Industry Director of the firm's Higher Education and Other Not-for-Profit Organization's practice from 2002 – 2014, and continued to support that practice as a Senior Advisor through March 2019.

I am nothing if not technology savvy and I am no stranger to AI including ChatGPT... the following three slides present the outline generated by ChatGPT for this presentation.

“Creating a presentation on ‘Behind the Headlines – NFP Organizations’ can be an informative and engaging way to shed light on the inner workings and significance of Nonprofit Organizations (NFPs). Here’s an outline for your presentation:

- Slide 1 Title
- Slide 2 Introduction
- Slide 3 What are NFP Organizations?
 - Mention their mission, which is nonprofit-driven but focused on serving a cause or community
- Slide 4 Types of NFP Organizations
- Slide 5 Importance of NFPs
 - Highlight their crucial role in addressing social issues and gaps in the public and private sectors
 - Provide examples of significant NFP achievements

- Slide 6 Funding Sources
 - Discuss where NFPs get their funding, including donations, grants, and fundraising events.
 - Emphasize the importance of financial transparency
- Slide 7 Challenges Faced by NFPs
 - ... such as fundraising difficulties, competition for resources, and regulatory hurdles
- Slide 8 Impact Measurement
 - Explain how NFPs measure their impact and effectiveness...
- Slide 9 Behind the Scenes
 - Take the audience behind the headlines by discussing day-to-day operations, including staff, volunteers, and management.
 - Share real-life stories...

- Slide 10 Case Studies
- Slide 11 How to Get Involved
- Slide 12 Transparency and Accountability
 - Stress the importance of transparency and ethical practices.
 - Mention the role of oversight and governance in ensuring accountability.
- Slide 13 Challenges Ahead
- Slide 14-16 Q&A; Conclusion, Thank You

Remember to use visuals, statistics, and engaging examples to make your presentation informative and compelling. Tailor the content to your audience's knowledge and interests to ensure a successful presentation.”

The Future of Work: How not to lose out to AI... “I asked ‘Chat’ this question: “**What thinking skills can humans do better than you can do?**” Here is ChatGPT4’s answer: ‘*While I can process and analyze vast amounts of information quickly, there are several thinking skills that humans excel at compared to AI models like me. Here are a few areas where human thinking skills surpass mine:*

1. *Creativity and Innovation: Humans possess a remarkable ability to think creatively, generate original ideas, and come up with innovative solutions to problems. While AI models can assist with creative tasks, such as generating ideas or designs, humans still have the capacity to think outside the box and make novel connections.*
2. *Emotional Intelligence: Humans have a deep understanding of emotions, both within themselves and in others. This emotional intelligence allows for empathy, intuition, and the ability to navigate complex social interactions. While AI models can recognize and analyze emotions to some extent, they lack the genuine emotional experience and nuanced understanding that humans possess. Contextual Understanding: Humans excel at understanding and interpreting complex and ambiguous situations, incorporating context, cultural nuances, and tacit knowledge. Human thinking encompasses a broader understanding of the world, which enables them to make informed decisions and judgments based on a variety of factors.*
3. *Contextual Understanding: Humans excel at understanding and interpreting complex and ambiguous situations, incorporating context, cultural nuances, and tacit knowledge. Human thinking encompasses a broader understanding of the world, which enables them to make informed decisions and judgments based on a variety of factors.*
4. *Moral Reasoning and Ethical Decision-Making: Humans possess a sense of morality and the ability to reason about ethical dilemmas. They can consider diverse perspectives, apply values and principles, and make moral judgments in complex situations. AI models can assist with ethical analysis, but ultimately, the responsibility for making ethical decisions lies with humans.*
5. *Adaptability and Flexibility: Humans are highly adaptable and can quickly adjust their thinking and behavior in response to new situations or unexpected challenges. They possess cognitive flexibility, enabling them to switch between tasks, think critically, and adapt their problem-solving approaches as needed.*
6. *Intuition and Gut Feelings: Humans often rely on intuition or gut feelings, which can provide valuable insights or guide decision-making. While AI models operate based on algorithms and data-driven analysis, they lack the intuitive sense that humans possess.*

It’s important to recognize that AI and humans have complementary strengths. By leveraging the unique thinking skills of both humans and AI, we can achieve more effective and well-rounded problem-solving and decision-making processes.”

Source: ceoworld.biz, June 18, 2023

5 Legal Issues When it Comes To NPOs and Chat... “many trade and professional associations and nonprofits are turning to AI technology to enhance their operations and decision-making processes and benefit their members and clients...the use of AI raises several important legal issues that must be carefully considered and worked through: **Data Privacy** - AI systems rely on vast amounts of data to train and improve their algorithms, and nonprofit leaders must ensure that the data they collect is used in accordance with applicable federal, state, and international privacy laws and regulations... Remember that data (such as confidential membership information) that is inputted into an AI system such as ChatGPT will no longer remain confidential and protected and will be subject to the AI system’s most-current terms of use/service... **Intellectual Property** - AI systems can generate new works of authorship...You must ensure that you have the necessary rights and licenses to use and distribute these works, as well as being transparent about who/what created such works... **Discrimination** - AI systems can inadvertently perpetuate bias and discrimination... You must ensure that AI systems do not discriminate on the basis of race, ethnicity, national origin, gender, age, disability, or other legally protected characteristics, and must take steps to identify and address any biases that may be present in their algorithms... **Tort Liability** - If an AI system produces inaccurate, negligent, or biased results that harm members or other end users, your organization could potentially be held liable for any resulting damages. **Insurance** - You need to ensure that your organization has appropriate insurance coverage in place to protect against potential liability claims in all of these areas of legal risk. Note that traditional nonprofit directors and officers (D&O) liability and commercial general liability insurance policies may be – and likely are – insufficient to fully protect organizations in all of these areas.”

Source: The Non Profit Times, May 25, 2023

By Jeffrey S. Tenenbaum, Esq.

Only 15% of Organizations Actively Incorporate Generative AI: Weekly Stat... “As the hype around AI continues to build, a sense of realism on the adoption timeline seems to be setting in... While the incorporation into strategy is low, the hype has indeed triggered interest among finance leaders. Almost half (42%) of all respondents said they are experimenting with AI, and nearly a quarter (24%) said they are reading and talking about GenAI. Roughly two-thirds of surveyed CFOs say less than 1% of next year’s budget will be spent on AI and about one-third of CFOs project 1% to 5%... While nearly a fifth (17%) said it’s too soon to tell where their organization is on their GenAI journey, very few are taking a passive approach... not a single CFO said they were in charge of the transition themselves. Fifty-nine percent of CFOs assigned their technology leader to GenAI ownership. Nearly a third (30%) said they dispersed it to multiple groups within IT and business... The struggle for quality talent, an area that hits close to home for finance teams, is the biggest challenge CFOs must overcome when adopting and deploying generative AI technologies. Nearly two-thirds (63%) of all respondents said talent resources and capabilities were their biggest barrier in this area.”

Source: [cfo.com](https://www.cfo.com), September 13, 2023

EXPLAINER

A Primer on A.I.

Terms and Concepts Nonprofits Need to Know

THE CHRONICLE
OF PHILANTHROPY

With
Support
From



Microsoft

Responsible AI for Accelerating Mission Outcomes

The Microsoft Tech for Social Impact team is focused on four areas where we see the greatest potential for AI to deliver concrete benefits for nonprofits of every size and degree of technical expertise:

- **Engaging with donors and supporters:** The ability of AI to analyze, assess, and predict donor behavior will help nonprofit employees be more effective by identifying donors who are most likely to contribute to campaigns and causes, at what level, and at what frequency.
- **Transforming program effectiveness:** AI-powered services including speech and language recognition will enable program participants to find what they need from nonprofits far more quickly and allow caseworkers and volunteers to identify and deliver services that lead to the best outcomes with far greater accuracy.
- **Improving mission outcomes:** From responding to natural disasters and humanitarian crises to addressing climate change, improving the health of communities, and expanding education opportunities for children and adults, AI will usher in a new era of effectiveness and success for nonprofits around the world.
- **Strengthening cybersecurity:** The worldwide rise in cyber threats poses new dangers for us all, but nonprofits can be particularly vulnerable because they often lack the resources to safeguard the data that makes it possible for them to operate. To truly tip the scale in favor of nonprofits, organizations need to be able to detect patterns and behaviors that are not obvious to the human eye and inform their response with the latest and most advanced security practices.

The NFP Sector

How many nonprofits are there in the US?... “Nonprofit organizations play a significant role in the US economy. In 2022, there were 1.97 million nonprofits operating in the US, including 1.48 million 501(c)(3) tax-exempt organizations, according to the IRS.

501(c)(3)s are the most common tax-exempt organization in the US.

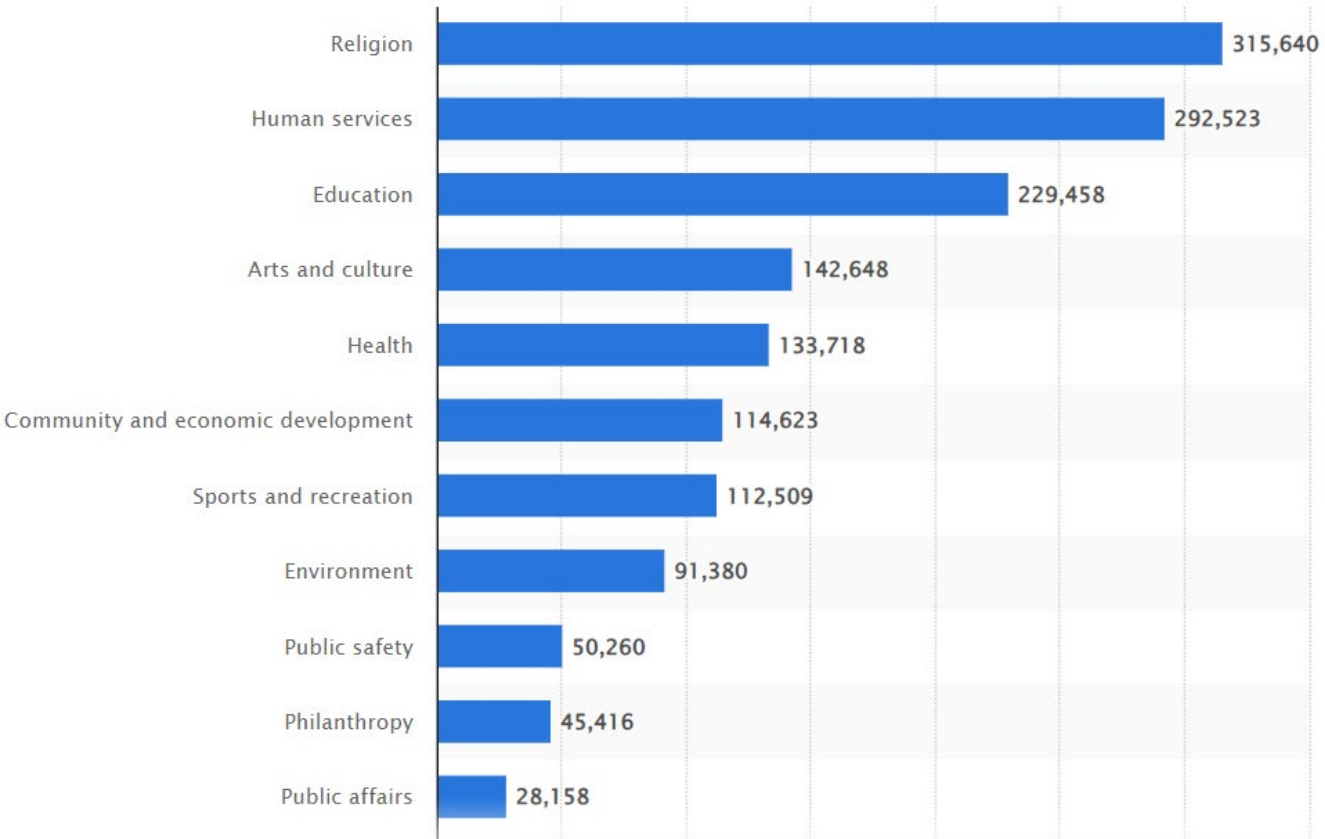
The most common types of tax-exempt organizations in fiscal year 2022

IRS classification	Type of organization	Number of organizations
501(c)(3)	Charitable and religious organizations	1,480,565
501(c)(4)	Social welfare organizations	74,735
501(c)(6)	Business leagues	60,580
501(c)(7)	Social and recreation clubs	47,837
527	Political organizations	45,325
501(c)(5)	Labor and agriculture organizations	44,566
501(c)(8)	Fraternal beneficiary societies	38,907
501(c)(19)	Veterans' organizations	26,614

Source: [Internal Revenue Service](#) •

Source: [usafacts.org](#), November 16, 2023

Number of public charities in the United States in 2021, by subsector



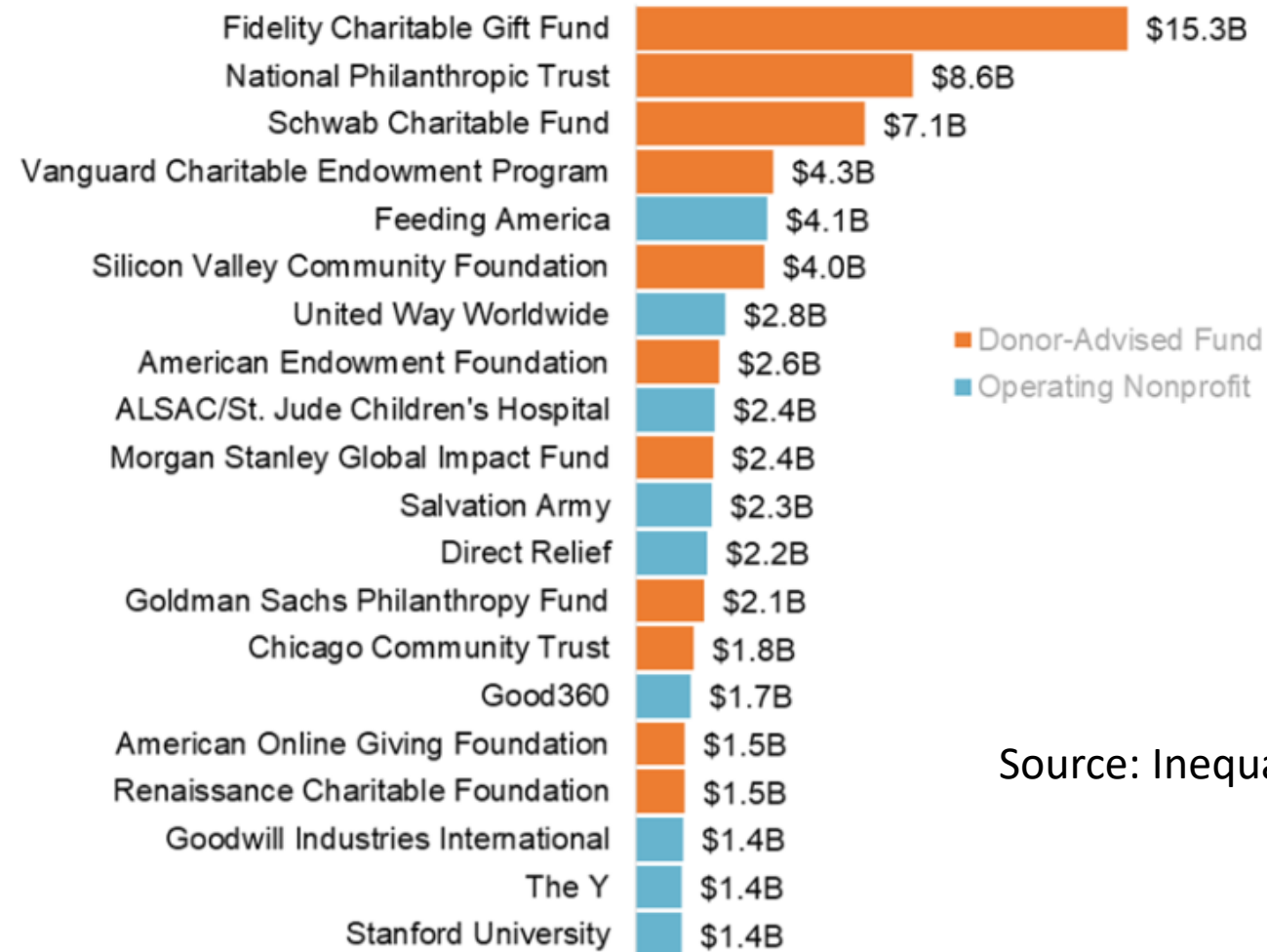
Source: Statista, 2023

Almost 90% have annual revenue less than \$500,000 and only 3% have annual revenue of over \$5 million.

Source: TeamStage – 15 Interesting Nonprofit Organizations Statistics and Facts, 2023

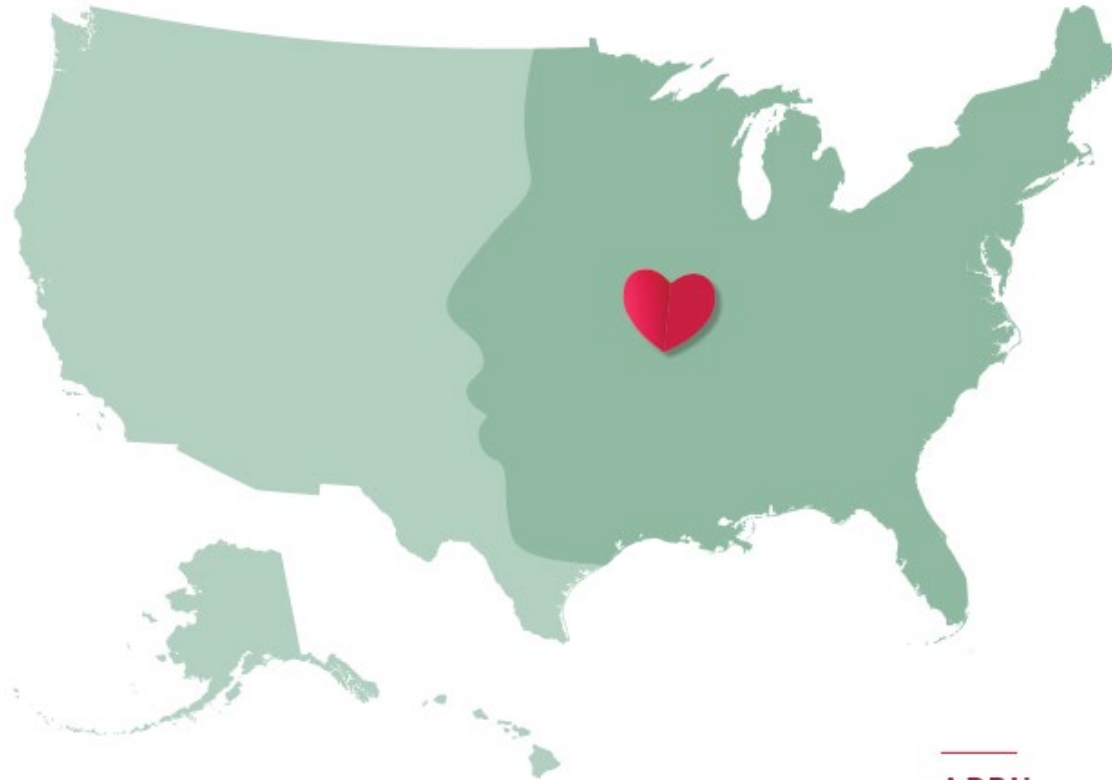
More than Half of America's 20 Top Public Charities Are Donor-Advised Funds

20 U.S. Public Charities Receiving the Most Contributions in 2021



Source: Inequality.org, September 7, 2023

WHAT AMERICANS THINK ABOUT PHILANTHROPY AND NONPROFITS

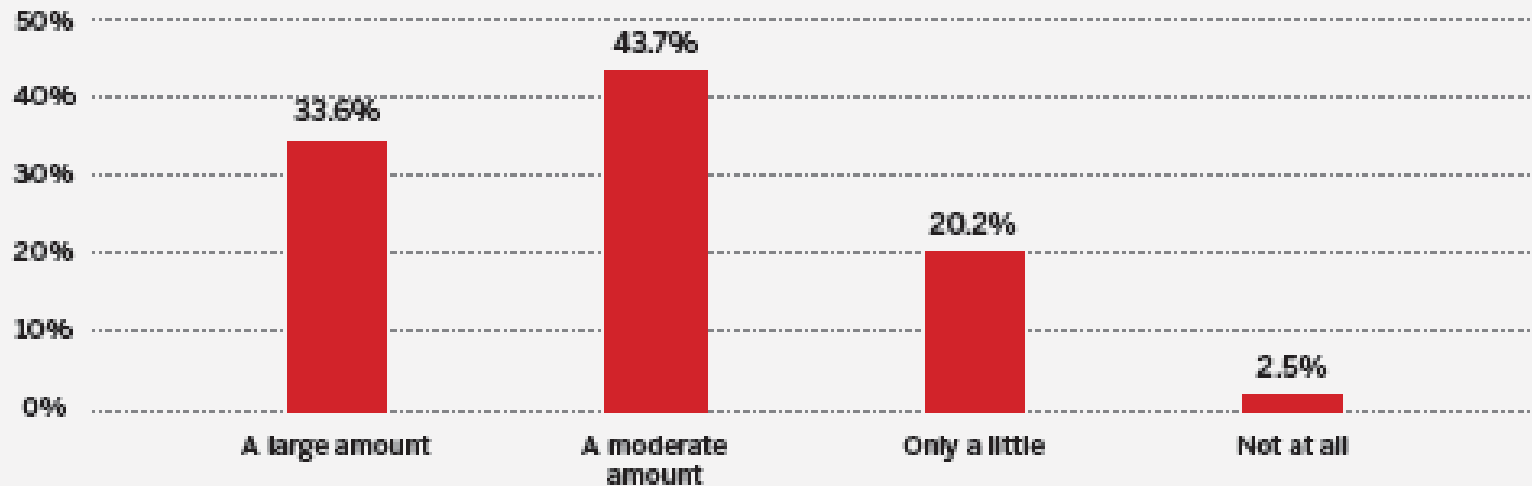


**APRIL
2023**

KEY FINDINGS

1. Americans generally define philanthropy as the giving of time and/or money to nonprofit organizations.
2. Americans trust nonprofits more than government or business, but levels of trust in all three sectors of society are low.
3. Americans do not know much about the philanthropic sector nor are they aware of many nonprofit entities or the rules that govern their activities.

How much does society as a whole benefit when Americans donate money to charity?





2023

Nonprofit Workforce Survey Results

Communities Suffer as the Nonprofit Workforce
Shortage Crisis Continues

Key Findings

- Nearly three out of four nonprofits (74.6%) completing the survey reported job vacancies.
- More than half of nonprofits (51.7%) reported they have more vacancies now compared to before the COVID-19 pandemic, and nearly three out of ten (28.1%) have longer waiting lists for services.
- The nonprofit jobs most commonly unfilled are those that interact with the public the most. Almost three out of four respondents (74.0%) reported vacancies in their program and service delivery positions, and two out of five (41.1%) reported vacant entry-level positions.
- Seven out of ten nonprofits (70.5%) anticipate charitable giving to decrease or remain flat in 2023, while 68.7% of nonprofits anticipate the number of donors to decrease or remain unchanged.

- Nationwide survey in Spring 2023
- More than 1600 respondents from all 50 states and the District of Columbia

Barriers Creating Nonprofit Workforce Shortages

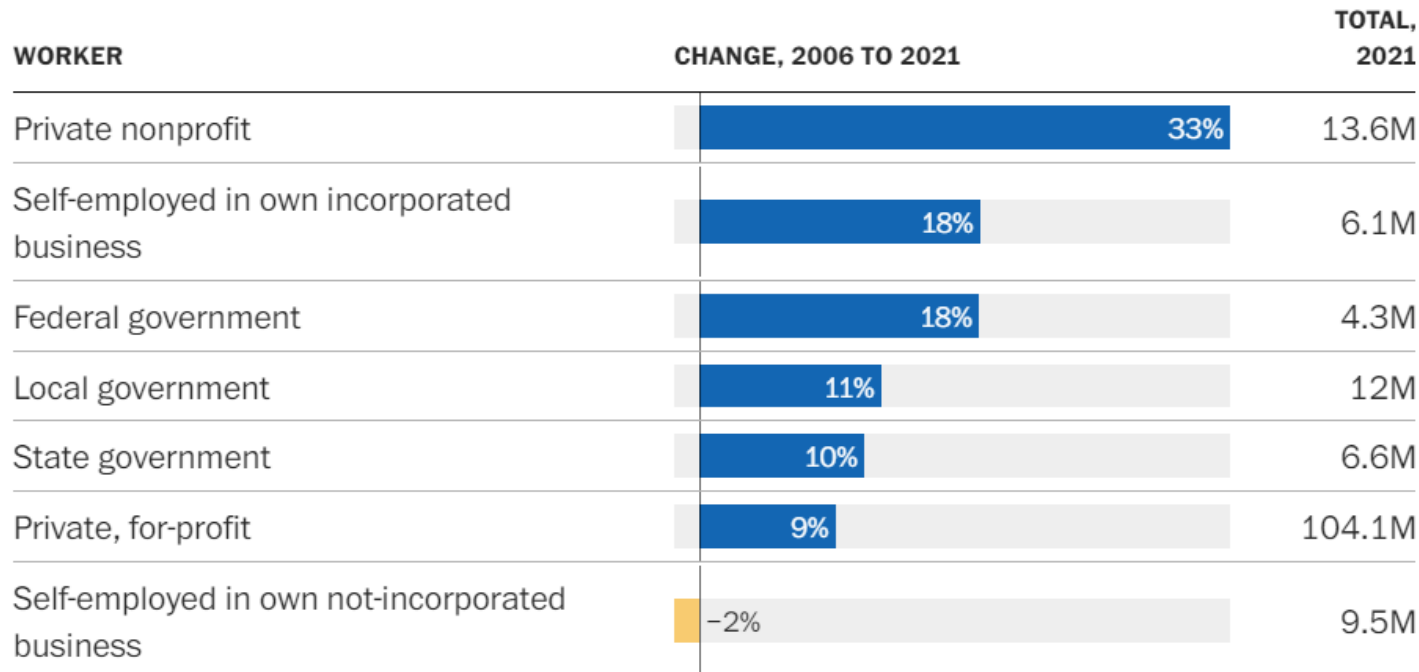
Nonprofits responding to the 2023 survey identified the following barriers to recruiting and retaining nonprofit staff:

- Salary competition was the most frequently cited challenge, having been identified by nearly three out of four respondents (72.2%).
- Two-thirds of those completing the survey (66.3%) named budget constraints/insufficient funds as a factor, which, of course, impacts salary competition.
- More than half (50.2%) pointed to stress and burnout.
- One out of five respondents (20.6%) identified challenges caused by government grants and contracts as a major cause of nonprofit workforce shortages.
- The lack of available, affordable child care continues to be a major problem impacting recruitment and retention, according to 14.6% of respondents.

The real reason America's nonprofit sector is seeing massive growth, and more!... "Because it turns out that nonprofits have never been a bigger part of the U.S. economy..."

Nonprofits have grown far faster than any other segment

Employment by class of worker



Source: Census Bureau's American Community Survey

DEPARTMENT OF DATA / THE WASHINGTON POST

continued

Continued

States with the most nonprofit workers

Private nonprofit employment, 2017-2021

STATE	NONPROFIT SHARE OF EMPLOYMENT	NONPROFIT WORKERS
D.C.	19.5%	73,069
Vermont	16.1%	53,914
Maine	13.8%	94,177
Massachusetts	13.3%	487,956
Pennsylvania	12.3%	771,519
Rhode Island	11.8%	65,399
Minnesota	11.6%	345,604
New Hampshire	11.5%	85,102
New York	11.1%	1,071,640
South Dakota	11.1%	49,556

[+ Show 42 more](#)

Note: Includes D.C. and Puerto Rico, which are not states.

Source: Census Bureau's American Community Survey

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Industries with the most nonprofit workers

Nonprofit employment by industry, 2017-2021

INDUSTRY	TOTAL NONPROFIT EMPLOYMENT	SHARE OF SECTOR IN NONPROFITS
Hospitals	2,741,627	38.1%
Colleges and universities	1,182,749	26.8%
Elementary and secondary schools	1,140,108	12.8%
Religious organizations	1,099,810	96.7%
Other membership organizations	987,309	98.2%
Other health services	856,015	17.6%
Other social services	754,394	40.2%
Child day-care services	323,605	21.7%
Nursing and personal care facilities	280,880	16.9%
Residential care facilities, without nursing	276,872	26.0%

[+ Show 5 more](#)

Source: Census Bureau's American Community Survey via IPUMS

DEPARTMENT OF DATA / THE WASHINGTON POST

Source: Washington Post, May 12, 2023

Analyzing Fundraising in an Uncertain Economy — in 5 Charts

OCTOBER 31, 2023

The *Chronicle* commissioned a new, exclusive survey of 1,000 fundraisers to find out the trends they're seeing, where they think fundraising is headed, and what's keeping them up at night. It uncovered striking successes and notable apprehension as development professionals grapple with inflation, staffing issues, and donors' worries about the economy.

How Fundraising Is Faring in 2023

The *Chronicle* asked 1,000 fundraisers how much money their organizations have raised since the start of the calendar year compared with the same period last year.



Likelihood of Meeting Fundraising Goals

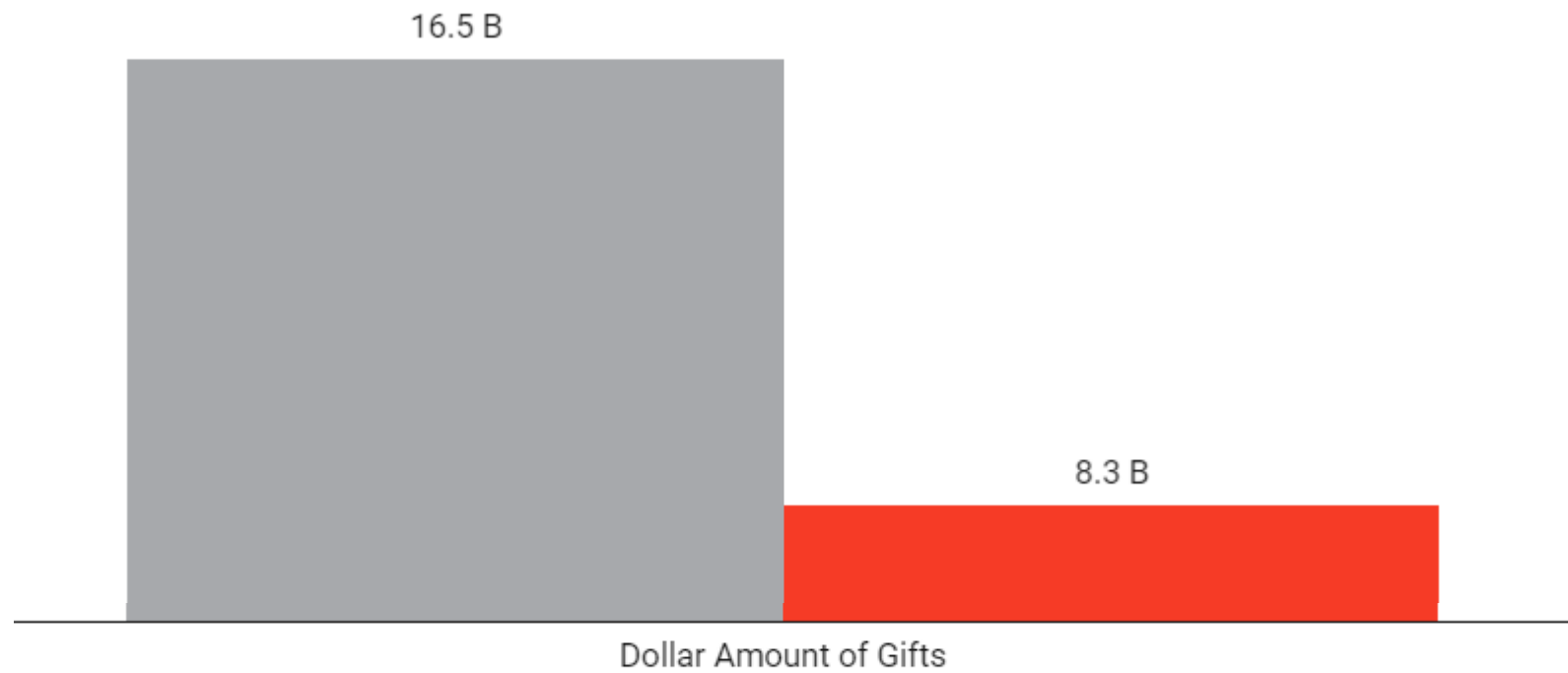
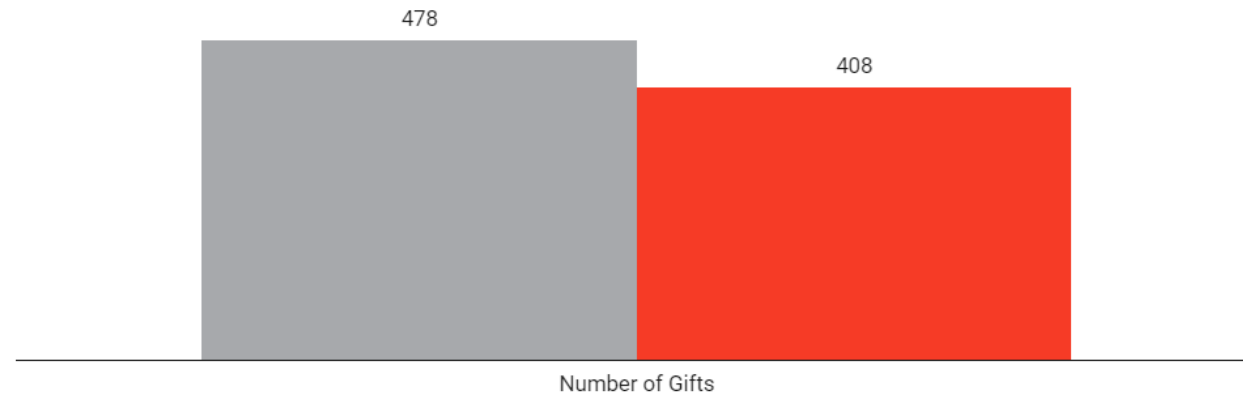
The *Chronicle* asked 1,000 fundraisers how likely their organizations were to meet their fundraising goals this year.



Big Gifts 2022 vs 2023

Donations of \$1 million or more were down significantly in the first nine months of 2023 compared with the previous year, according to an analysis of the *Chronicle's* database of big charitable gifts.

■ Jan. 1 to Oct. 15, 2022 ■ Jan. 1 to Oct. 15, 2023



New Poll: Overwhelming Support for Nonprofit Policy Priorities and Public Engagement... “Key Insights:

1

87% of voters support restoring the universal charitable deduction permanently for all taxpayers including 51% of voters who strongly support this giving incentive.

2

8 in 10 voters (82%) support expanding the universal charitable deduction to up to \$4,500 for all Americans, including at least 80% of Republicans, Democrats, and Independents.

3

Over half of voters (53%) would give more if they were able to claim the charitable deduction, including 61% of Black voters and 69% of Hispanic voters.

5

84% of voters support extending federal business tax credits for offering employees child care, retirement plans, or paid family leave to nonprofit employers, including at least 80% of Republicans, Democrats, and Independents.

Source: Independent Sector, September 13, 2023

Let's revisit two topics

The Student-Loan Forgiveness Program That More Nonprofit Workers Should Know About... “First passed in 2007 and designed to encourage people to work for nonprofits or the government, PSLF offers student-loan forgiveness to people who’ve spent a decade repaying their debt while working for a nonprofit or government employer, but uptake for years had been dismal... with a streamlined application process and far more flexibility to receive credits for past payments, more than 700,000 public service workers have had nearly \$51 billion in student debt erased, compared with fewer than 10,000 before 2021.... As of 2022, fewer than 15 percent of the estimated 9 million workers eligible for PSLF have filed the paperwork necessary to apply... The premise of PSLF was simple: Spend 10 years working for a qualifying employer — that is, a nonprofit or government — while paying off your student loans each month for a total of 120 repayments, and the government will forgive the rest.”

Source: Chronicle of Philanthropy, October 30,

2023

See also *How Millions of Borrowers Got \$127 Billion in Student Loans Cancelled*

NYTimes November 11, 2023

Coalition: Proposed Overtime Rule Would Hurt Nonprofit

Sector.... “A coalition that includes ASAE sent letters to House and Senate lawmakers requesting that the Department of Labor withdraw its proposed overtime pay regulations. According to ASAE, the proposed rules would require dramatic changes to the budgets and organizational structures of nonprofit employers... proposed rule would require employers to pay overtime to workers who make less than about \$60,000 per year. That’s up considerably from the current threshold set in 2019... of \$35,568. This issue is especially important to associations because many, if not most, association employees hold roles that qualify them as exempt from overtime, provided the salary basis and salary level tests are met. ASAE believes that the reclassifications resulting from a higher minimum salary could harm currently exempt junior and mid-level employees, who would have to be reclassified from salaried professionals to hourly wage earners, due to the need for associations to control overtime costs.

Supreme Court’s Ruling Striking Down Race-Conscious College Admissions Could Have Sweeping Impact on Nonprofits and Philanthropy... “In a long-anticipated decision, the U.S. Supreme Court ruled Thursday against university policies that take race into account for admissions, in two cases that some legal experts say will create roadblocks for foundations and charities that work to promote diversity in their grant-making and hiring decisions... The decision could curtail much of the work nonprofits do to promote diversity, wrote Akilah Watkins, president of ... Independent Sector, in an email... Watkins said nonprofits need to study the full implications of the ruling before making any changes in their work. Kathleen Enright, president of the Council on Foundations, said she was disappointed by the court’s ruling... she said the council will work to help its members support diversity ‘within the confines of the law.’... Gene Takagi, a lawyer who advised nonprofits, called the decision ‘disappointing’ but expected. While the opinion is open to interpretation, nonprofits will have to keep careful watch on their diversity efforts, he suggested. The end result, he feared, will be that charities and philanthropies will hold back.”

Source: Chronicle of Philanthropy, June 29, 2023

The Legal Assault on Corporate Diversity Efforts Has

Begun... “Conservative legal activists successfully challenged the use of affirmative action by universities. Now they are going after diversity initiatives widely deployed across American corporations. **Some companies are already reconsidering their efforts...** They are arguing that companies are violating rules against race- and sex-discrimination... Companies have long relied on rationales similar to those buttressing affirmative action at universities—that there are benefits to diversity. By dismissing that rationale, the high court weakened the justification for other programs that promote it. **‘Anything a company’s doing that is treating someone differently because of their race, even if it’s a small part of the decision-making process, is going to be scrutinized.’”**

Source: wsj.com August 8, 2023

What is your opinion of diversity, equity and inclusion (DEI) efforts at your company?... “Our reader poll today asks: What is your opinion of diversity, equity and inclusion (DEI) efforts at your company?”

- They’re great! Everyone needs to feel respected, fairly treated and included **41.78%**
- They’re okay. I get the principle but sometimes it doesn’t work as intended **34.23%**
- They’re a distraction. We have more important issues to deal with **8.00%**
- They detract from our work environment and aren’t helpful **8.88%**
- They’re really bad and don’t have a place in our work environment **7.11%**

75% of you feel DEI efforts are important in the workplace.”

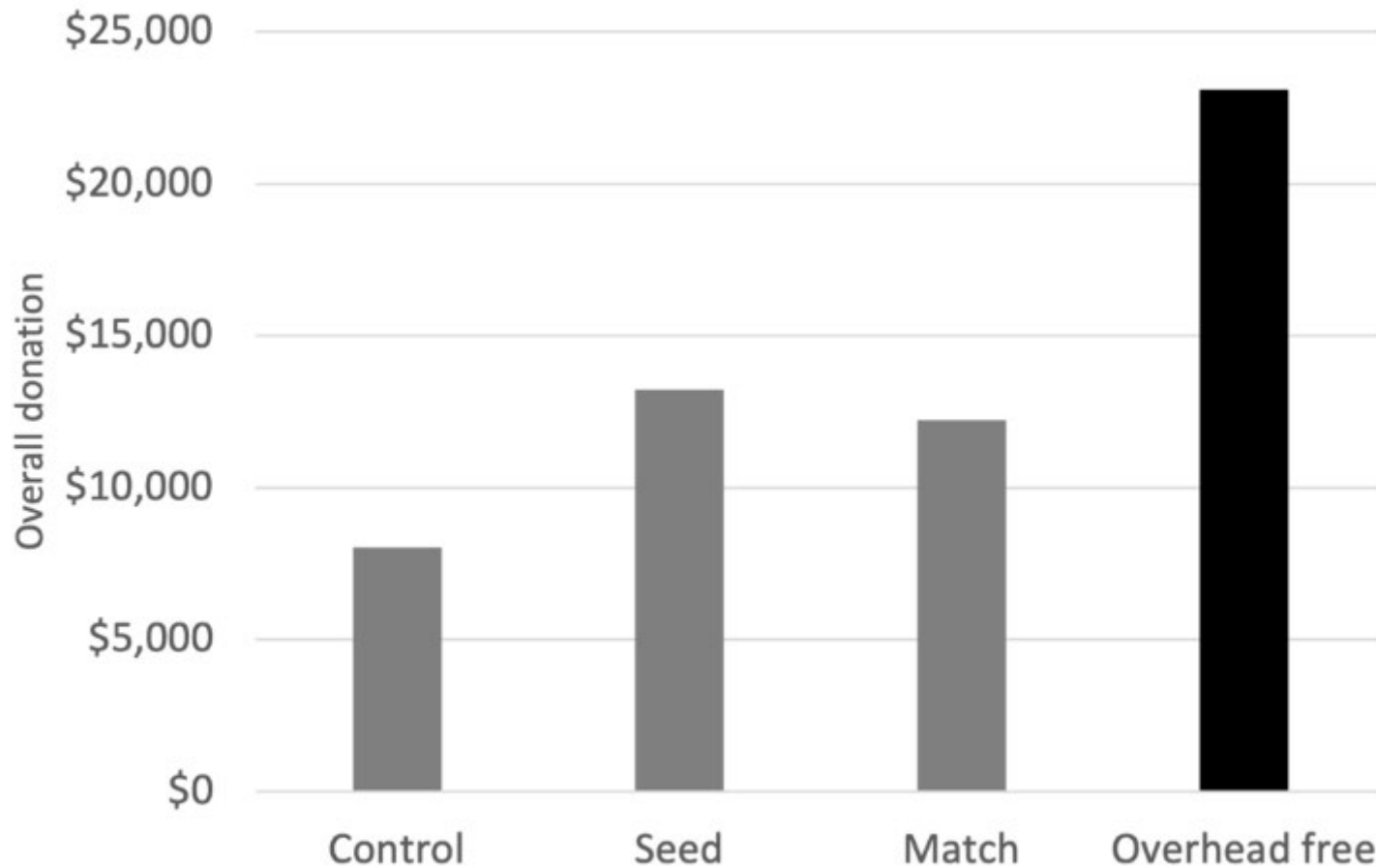
Source: SmartPulse Poll in *SmartBrief on Leadership*, August 8, 2023

DEI Initiatives Post-SFFA: Considerations for Boards and Management... “It is no secret that American corporations face vigorous — and often conflicting — demands concerning diversity, equity and inclusion (DEI) initiatives... **Managing the tension between proponents and opponents of DEI programs and initiatives is particularly complex because of the range of stakeholders involved...** Corporate policies and initiatives aiming to promote equity and inclusion and eliminate bias across the workforce and supply chain that were lawful prior to *SFFA* remain lawful after the Court’s decision... **Setting DEI goals is not *per se* illegal provided the means by which such objectives are pursued are legally permissible.** For example, care needs to be taken to ensure that goals are not accomplished through quotas and other mechanistic tools that utilize race or gender or other protected categories as a “tiebreaker” — or where an individual’s race, color, religion, sex or national origin is otherwise explicitly factored into employment decision-making... Employment decisions, including hiring, compensation and promotion, should instead focus on permissible considerations such as the challenges an individual has overcome, the contributions the individual has made to the company’s success, and the perspectives and background that an individual may bring to bear on the company’s long-term business success... The Supreme Court’s decision in *SFFA* has not altered the fiduciary obligations of employers nor has it redrawn the permissible legal contours of DEI initiatives. We nonetheless expect companies to continue facing heightened scrutiny from all sides”

Source: Harvard Law Forum on Corporate Governance, August 9, 2023

The Psychology of Overhead Aversion—and What It Means for Charitable Work... “you pass someone familiar sitting in first class. It’s the CEO of the charity you just donated to. How do you feel?... you’d probably feel resentful and maybe a little mad. You might even regret sending that check... You’re not alone. Many people don’t like charities with high levels of overhead costs—expenses that aren’t directly attributed to the primary objective, including the CEO’s travel expenses... **Why are people so averse to paying overhead costs in the first place?”**

Source: behavioralscientist.org, March 20, 2023



Overall donation in four types of donation incentives. Source: [Gneezy, Keenan, & Gneezy \(2014\)](#) and [Gneezy \(2023\)](#)

Incentivizing potential donors by informing them that overhead costs would be covered by an initial donation significantly increased the number of people deciding to donate and the total donation amount compared with the seed and matching incentive approaches.

Nonprofits May Need to Spend a Third of Their Budget on Overhead to Thrive — Contradicting a Donor Rule of Thumb...

“Nonprofits that spend more on information technology, facilities, equipment, staff training, program development, and fundraising tend to be more successful than those that skimp on these “overhead expenses.” But many donors are reluctant to support groups that spend heavily on those priorities because they associate high overhead costs with wasted money and bad management. Because this problem is of concern to donors and charities alike, we — two scholars of public administration — set out to identify the point beyond which spending more on overhead stops enhancing an organization’s operations... Our findings cast doubt on a common rule of thumb, embraced by some prominent groups that monitor and evaluate charities, that nonprofits with lower overhead ratios are better than those with higher ratios... we encourage nonprofit leaders and funders to find more meaningful ways to assess whether a nonprofit is worthy of a donor’s dollars than calculating the share of their budget spent on overhead.”

Can the new film 'UnCharitable' change people's minds about overhead at nonprofits?... "A new documentary "UnCharitable," ... tells the story of longtime advocate Dan Pallotta... [who] has long argued that nonprofits are unfairly pressured to cut salaries, lower operating costs and delay long term investments, which all degrade organizations' abilities to accomplish their missions... In 2013, three of the largest agencies teamed up to challenge what they called the "overhead myth," writing an open letter to donors that was followed the next year by a letter to nonprofits. The agencies urged donors to consider the results and impact of a charity when deciding where to donate, not just the percentage of their revenue spent on administrative costs and fundraising."

Source: AP News, October 20, 2023

Here are nine options for using “UnCharitable” to incite a revolution:

- “1. Get your entire board to watch the movie, together, if possible.
2. Schedule a special staff meeting and get your entire team to watch the movie, again, together, if possible.
8. Are you in charge of a business or nonprofit conference? Use the movie as keynote speaker content at the next conference.”

Source: UnCharitableMovie.com, accessed November 27, 2023

Charity Navigator Stars Can Boost Donations — but Nonprofits Might Game the System... “I analyzed data drawn from Charity Navigator’s ratings for roughly 9,000 charities from 2002 to 2019... I found that donors do reward charities for improving their rating, as long as they wind up with one of its two highest ratings. Specifically, if a charity’s rating rises from two to three stars or from three to four stars, its donations rise by about 6 percent. Larger charities — that is, those with net assets of more than \$5.6 million — benefit even more. Their donations grow 9 percent for an increase in rating from three to four stars and 12 percent for an increase from two to three stars... Earning a top-notch rating has become so important that some organizations may be trying to manipulate their financial data to achieve it. During the years for which I was able to review the data, Charity Navigator still rated charities only according to their financial health, accountability, and transparency. It has since added new categories, including information on impact, leadership, and culture. The rating service added these because they thought they were factors that donors might care about. While leadership and culture should be harder to game, I believe it’s possible that charities will see measuring impact as another opportunity to distort their activities toward things that are easier to measure or that will help improve their rating.”

Source: Chronicle of Philanthropy, June 5, 2023, Jennifer Mayo, assistant professor of economics at the University of Missouri - Columbia

With 200,000 Nonprofits Rated, the New Charity Navigator Aims High, Falls Short...

“This week, Charity Navigator is introducing the latest tweak in a ratings system... Most notably, it promises to rate a group’s impact and determine which groups do the most good for the dollar... The latest changes strip overhead and fundraising-expense metrics from the ratings...

Some see a ripple effect, with Charity Navigator’s impact rating giving nonprofits incentive to do more to evaluate outcomes — and grant makers to pay for that work... Yet so far, three years after incorporating impact into its ratings, Charity Navigator’s ambitions outstrip what it can do — indeed, what any ratings service can do. Despite marketing that touts “a comprehensive analysis of charity performance,” its scores remain a work in progress, with stars assigned based on limited data for all but a few groups. Only about 6,000 groups are scored in at least three of the four assessment areas: finance, leadership, culture, and impact. Just 549 nonprofits are scored in all four”

Inside Charity Navigator's Ratings

Number of groups with scores in each of the system's four assessment areas.

Accountability and Finance	209,155
Culture and Community	31,713
Leadership and Adaptability	10,890
Impact and Results	2,204

Source: Chronicle of Philanthropy, September 21, 2023



Rating Methodology Guide

Last updated: September 2023

In this guide, you will find in-depth information about the evaluation framework and the applied methodology we use to rate charities. Additionally, you will discover answers to frequently asked questions.

We update this document on a rolling basis, as needed and whenever new methodologies are released, to ensure it is up-to-date.



Personal Emails Aren't Private on Corporate Devices... “Private-sector employees typically have no right to privacy for work email, though different state privacy laws govern whether employers can access a worker's personal email. Some states require employers to give notice before monitoring email or deploying keylogging software that tracks what employees type. For financial and legal reasons, many businesses monitor employee use of their computers, networks and email servers to protect proprietary information and prevent data breaches. The federal Electronic Communications Privacy Act and Stored Wire Electronic Communications Act generally allow businesses to track what employees do on company-owned devices and networks in the normal course of business. For example, employers can use keylogger software to flag when someone uses certain words that might signal harassment or abusive behavior. However, employers "can't just willy-nilly go look... Workers do have a reasonable expectation of privacy for their personal emails, except when the messages are downloaded onto or stored on a company-owned device”

Source: shrm.com, June 26, 2023

How to Write an Acceptable Use Policy... “In most businesses—if not all—the internet plays a crucial role in daily activities... If employees do not use the internet with best practices, it can cause exponential harm to an organization's ability to operate. Employees should know acceptable use policies for workplace technology and what happens if they violate these rules. This is where a written acceptable use policy (AUP) comes in. An acceptable use policy is a document outlining how employees are supposed to use the organization’s assets. It also describes what will happen if they should breach this agreement. In basic terms, an AUP is a document the employee signs that states how they are to utilize the business’s computers and internet... An acceptable use policy is essential to IT security protocol and should be created with the IT department...Here is a list of common actions an AUP could restrict employees from doing:

- Accessing social media accounts
- Using personal messaging applications
- Accessing e-commerce and other shopping sites
- Accessing unsafe or inappropriate websites
- Using video streaming websites and apps”

Source: [allbusiness.com](https://www.allbusiness.com), accessed on November 27, 2023

The following was excerpted from ASAE's website on 12/4/23:

- Sustainability for Associations: Online Seminar Series
- Unlock a Better Website Experience for Your Members (article December 4, 2023)
- DEI Is Fundamental to Successful Board Leadership (article May 8, 2023)
- Three Key Steps for Nonprofit Risk Assessment and Management (article November 29, 2023)
- Break Down Generational Barriers in the Workplace (article November 28, 2023)

Review of Registrant Financials

Organization #1

- 9/30/22 6/13/23 assets \$376M expenses \$310M
- Despite a \$155M endowment, no operating measure is presented
Change in net assets: 2022 - \$28.7M and 2021 + \$37M
Excluding investment return: 2022 + \$10.4M and 2021 + \$7.2M

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”). ■ is required under these principles to report revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of ■ are classified and reported as follows:

Excerpted from Microsoft FY 2023 10-K

Accounting Principles

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Organization #1 continued

NOTE 4 - LIQUIDITY AND AVAILABILITY OF RESOURCES

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 71,055	\$ 69,428
Accounts receivable on sponsored programs, net	51,017	37,518
Contributions receivable due within one year	3,719	1,050
* Undesignated investments	33,007	80,224
	<hr/>	<hr/>
Total financial assets available within one year	158,798	188,220
Liquidity resources:		
Bank line of credit (undrawn)	10,000	10,000
	<hr/>	<hr/>
Total financial assets and resources available within one year	<u>\$ 168,798</u>	<u>\$ 198,220</u>
	* Investments	221,823
	Endowment	183,118
	<u>33,280</u>	<u>38,705</u>

Organization #1 continued

NOTE 5 - FINANCIAL INSTRUMENTS

	2022			
	Level 1 Quoted Price in Active Markets	Level 2 Other Significant Observable	Level 3 Significant Unobservable Inputs	Total
Short term investments	\$ 17	\$ -	\$ -	\$ 17
Equity securities				
US	70,944	-	-	70,944
International	46,810	-	-	46,810
Commodities	1,389	-	-	1,389
Debt securities:				
Bond funds	49,017	-	-	49,017
Sub-total	168,177	-	-	168,177
Investments measured at net asset value				20,565
Total investments	168,177	-	-	188,742
Beneficial interest in perpetual trusts	-	-	2,827	2,827
Total	\$ 168,177	\$ -	\$ 2,827	\$ 191,569

Organization #1 continued

NOTE 9 - ENDOWMENT NET ASSETS

In accordance with current New York State law, ■ is required to preserve the fair value of the original gift as of the gift date for any gifts that are required to be maintained in perpetuity in accordance with the direction of the applicable gift instrument... Gift amounts required to be held in perpetuity were \$5,791 and \$3,555 as of September 30, 2022 and 2021, respectively.

The remaining portion of the donor-restricted endowment funds that is not required to be held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by ■ in a manner consistent with the standard of prudence prescribed by law, at which time, those amounts are reclassified to net assets without donor restrictions. ■ has interpreted NYPMIFA to permit spending from endowments with a deficit in accordance with prudent measures required under law. There were no underwater endowment funds as of September 30, 2022 and 2021.

Organization #2

- 12/31/22 6/7/23 assets \$95M expenses \$115M
- 14 line items under “ASSETS” seems excessive. This burdens the SOCF as well.

The expenses that are allocated include the following:

Expense	Method of Allocation
Program services	Direct
Personnel and related costs	Time and effort
Travel	Time and effort
Rent	Square footage/functional time and effort
Depreciation	Cost center/functional time and effort
Maintenance and repairs	Direct functional
Management and administration	Direct functional
Materials and supplies	Direct functional
Postage and telecommunications	Direct functional
Professional services	Direct functional
Promotion and advertisement	Direct functional
Publication and printing	Direct functional
Transportation, handling and warehousing	Direct functional
Other	Direct functional

Organization #2 continued

	<u>2022</u>		
Cash and cash equivalents	\$ 19,043,987		
Investments	57,775,137	(Increase) decrease in net amounts due from affiliates	(2,992,863)
Net amount due from affiliates	4,962,695	(Increase) decrease in amounts due from government agency	2,488,409
Loans to affiliates	57,710	(Increase) decrease in other receivables	(512,619)
Amount due from government agency, net of allowance	1,022,073	(Increase) decrease in contributions receivable	(661,570)
Other receivables	735,323	(Increase) decrease in inventories	(1,341,450)
Contributions receivable, net of allowances	1,301,665	(Increase) decrease in prepaid inventory	(99,717)
Inventories	2,413,326	(Increase) decrease in prepaid expenses	(247,687)
Prepaid inventory	99,717	(Increase) decrease in agency funds - asset	(896,031)
Prepaid expenses	612,986	(Increase) decrease in contributions receivable - long term	(693,249)
Furniture and equipment, net of accumulated depreciation	354,270	Increase (decrease) in accounts payable	(211,892)
Agency funds	2,648,055	Increase (decrease) in accrued expenses	(1,114,737)
Contributions receivable - long term, net of allowances	3,285,556	Increase (decrease) in amounts due to affiliates	312,890
Loans to affiliates - long term	<u>317,482</u>	Increase (decrease) in amounts due to government agency	2,880,604
Total assets	<u>\$ 94,629,982</u>	Increase (decrease) in amounts due to other	(1,782,667)
		Increase (decrease) in agency funds - liability	<u>896,011</u>

Organization #2 continued

Note 10 Contributions Receivable...

	<u>2022</u>	<u>2021</u>
<u>Less than one year</u>		
Estates and installments	\$ 1,294,165	\$ 632,595
Split-interest agreements	7,500	7,500
Contributions receivable - short term	<u>\$ 1,301,665</u>	<u>\$ 640,095</u>
<u>One to five years</u>		
Estates and installments	\$ 1,812,415	\$ 719,884
Split-interest agreements	1,473,141	1,872,423
<u>More than five years</u>		
Estates and installments	-	-
Contributions receivable – long term, net of allowances	<u>\$ 3,285,556</u>	<u>\$ 2,592,307</u>
 Total contributions receivable - short term and long term	 <u><u>\$ 4,587,221</u></u>	 <u><u>\$ 3,232,402</u></u>

Organization #3

- 6/30/22 3/27/23 assets \$35M expenses \$36M
- Only one year presented (auditor change)

BASIS OF ACCOUNTING

The consolidated financial statements have been prepared on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses are recognized when the obligations are incurred.

CASH EQUIVALENTS

As required under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 230, *Statement of Cash Flows*, the Organization considers highly liquid investments purchased with maturities of three months or less to be cash equivalents.

REVENUE RECOGNITION

Unconditional contributions and grants are recorded as revenue and support when received or unconditionally promised. Unconditional contributions and grants are considered available for unrestricted use unless specifically restricted by the donor.

Organization #3 continued

NOTE 10 - INCOME TAXES

The Organization has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, Income Taxes. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization evaluated its uncertainty in income taxes for the year ended June 30, 2022, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status; and there are currently no examinations pending or in progress. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of June 30, 2022, the Organization had no accruals for interest and/or penalties.

Organization #4

- 3/31/22 7/11/23 Assets \$202M expenses \$17M
- S.O.F.E. has 18 line items 10 largest represent 94% of total

From Report Cover

**Consolidated Financial Statements
Including Uniform Guidance Reports ***
and Independent Auditor's Report**

March 31, 2022 and 2021

12. Allocation of Expenses from Management and General Activities

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include direct salaries, fringe benefits, consultants, subcontracts, travel, meals, and entertainment, meeting, equipment, professional services, rent, depreciation and amortization, communications, supplies and software, legal, and other expenses, which are allocated on the basis of estimates of time and effort.

Organization #5

- 6/30/22 3/7/23 assets \$93M expenses \$32M
- Total revenue and support: 2022 \$22.9M 2021 \$64.7M
 Grants: 2022 \$18.2M 2021 \$41.5M
- S.O.F.E. reports 22 line items; 6 greater than \$1M equal 94%

	<u>2022</u>
Assets	
Cash and cash equivalents	\$ 21,439,691
Investments	59,055,116
Accounts receivable	138,971
Grants and contributions receivable, net	10,959,075
Prepaid expenses and security deposits	952,813
Property and equipment, net	<u>408,656</u>
Total assets	<u><u>\$ 92,954,322</u></u>

2. Liquidity and Availability

Cash and cash equivalents	\$ 21,439,691
Short-term investments	1,857,108
Accounts receivable	138,971
Grants and contributions receivable – due within one year	7,635,473
Less: corpus of endowments	<u>(19,182,895)</u>
Total available for general expenditures	<u><u>\$ 11,888,348</u></u>

Revenue and Support

Advertising Costs

The Organization expenses advertising costs as incurred. There were no advertising expenses during the year ended June 30, 2022.

- Grants
- Net investment return
- Income from cash equivalents
- Contributions, net of unrealized promises

Organization #6

- 9/30/22 3/6/23 assets \$55M expenses \$120M
- Statement of Activities and Changes in Net Assets however in footnotes, references are to “statement of activities”

BASIS OF ACCOUNTING

The financial statements are presented on the accrual basis of accounting whereby revenue is recognized when earned, unconditional support is recognized when received, and expense are recognized when incurred.

INVESTMENTS

records investments in securities at fair market value with the resulting gains and losses reported in the statement of activity. The fair market value of investments traded on a securities exchange is determined based on quoted market prices for those investments.

Organization #6 continued

(2) INVESTMENTS

At September 30, 2022 and 2021, investments consisted of the following:

	2022		2021	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Certificates of deposit	<u>\$ 618,100</u>	<u>\$ 618,100</u>	<u>\$ 646,150</u>	<u>\$ 646,150</u>

(3) FAIR VALUE of FINANCIAL INSTRUMENTS

The following inputs used to value

investments as of September 30 are as follows:

	2022			
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
Investments				
Certificate of Deposit	<u>\$ 618,100</u>	<u>\$ -</u>	<u>\$ 618,100</u>	<u>\$ -</u>

PROPERTY AND EQUIPMENT

[The organization]: requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount at which the carrying value of the assets exceeds the estimated fair value. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less the costs to sell.

Organization #7

- 3/31/23 8/25/23 assets \$67M expenses \$85M

Property and Equipment and Accumulated Depreciation and Amortization

Leasehold improvements are amortized using the straight-line method over the remaining life of the lease. The Organization capitalizes all property and equipment purchased with a cost in excess of \$5,000 and a useful life of more than one year. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support or expenses in the accompanying combined statement of activities. Major additions are capitalized; conversely, expenditures for minor repairs and maintenance that do not improve or extend the lives of the respective assets are expensed when incurred. Construction in process is capitalized at costs and starts to depreciate once the asset is placed in service.

Classification of Net Assets

Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Organization at the discretion of management and the Boards of Directors (the Boards).

Organization #7 continued

9. Fair Value Measurement

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of March 31, 2023:

2. Investments

Investments consisted of the following as of March 31, 2023:

Money market accounts	\$ 922,140
Certificates of deposit	12,591,710
Mutual funds	714,605
U.S. Treasury securities	8,420,966
Common stock	35,982
Cash	<u>10,008</u>
Total Investments	<u>\$22,695,411</u>

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Investments:				
Money market funds	\$ 922,140	\$ 922,140	\$ -	\$ -
Certificates of deposit	12,591,710	-	12,591,710	-
Mutual funds	714,605	714,605	-	-
U.S. Treasury securities	8,420,966	-	8,420,966	-
Common stock	35,982	<u>35,982</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents	<u>10,008</u>			
Total Investments	22,695,411	1,672,727	21,012,676	-
Beneficial interest in trusts	<u>259,085</u>	<u>-</u>	<u>-</u>	<u>259,085</u>
Total Assets	<u>\$22,954,496</u>	<u>\$ 1,672,727</u>	<u>\$21,012,676</u>	<u>\$ 259,085</u>
Liabilities:				
Charitable gift annuity payable	\$ 129,819	\$ -	\$ 129,819	\$ -
Total Liabilities	<u>\$ 129,819</u>	<u>\$ -</u>	<u>\$ 129,819</u>	<u>\$ -</u>

Organization #8

- 6/30/22 12/16/22 assets \$27M expenses \$62M

Basis of presentation: The financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this ASC topic, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

The net assets, revenues, expenses, gains and losses of the Organization are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Valuation of long-lived assets:^{*} The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

^{*}Property and Equipment, Net = \$655,000

Organization #9

- 6/30/22 11/23/22 assets \$529M expenses \$86M

	2022			2021 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and support:				
Investment return designated for operations	\$ 15,560	\$ 6,068	\$ 21,628	18,893
Grants and contracts	2,704	28,826	31,530	20,791
Contributions	5,064	33,624	38,688	26,176
				2021 Total
Non-operating activities:				
Investment return (loss) in excess of amounts designated for operations:				
Realized and unrealized (loss) gain on investments				
	\$ (19,885)	\$ (9,008)	\$ (28,893)	104,928
Interest and dividends	1,271	-	1,271	454
Investment income allocation	(15,560)	(6,068)	(21,628)	(18,893)
Total investment return (under) in excess of amounts designated for operations	(34,174)	(15,076)	(49,250)	86,489
Change in net assets	(30,989)	(9,670)	(40,659)	71,171

Organization #9 continued

	Program Services							
	Economic Studies	Foreign Policy Studies	Global Economy and Development	Governance Studies	Institutional Initiatives	Metropolitan Policy	Press	Web and Communications
Total – operating expenses	14,014	10,629	11,950	10,124	1,463	9,630	2,012	4,599
Allocated costs:								
Information technology	1,049	797	887	666	110	701	-	-
Web and communications	839	637	709	533	88	561	-	(3,367)
Management and administration	2,462	1,869	2,080	1,563	257	1,644	-	-
Total expenses	\$ 18,364	\$ 13,932	\$ 15,626	\$ 12,886	\$ 1,918	\$ 12,536	\$ 2,012	\$ 1,232

	Supporting Services					2022 Total	2021 Total
	Management and General		Facility Services	Total Management and General	Fundraising		
	Administration	Information Technology Services					
Total – operating expenses	11,216	7,623	324	19,163	2,845	86,429	84,197
Allocated costs:							
Information technology	-	(4,210)	-	(4,210)	-	-	-
Web and communications	-	-	-	-	-	-	-
Management and administration	(9,875)	-	-	(9,875)	-	-	-
Total expenses	\$ 1,341	\$ 3,413	\$ 324	\$ 5,078	\$ 2,845	\$ 86,429	\$ 84,197

Organization #9 continued

Basis of accounting: financial statements are presented on the accrual basis of accounting. In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), unconditional gifts and grants, including promises to give, is recorded when received, other revenue is recognized when earned, and expenses are recognized when the obligations are incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC). As required by the Non-Profit Entities topic of the Codification, Financial Statements of Not-for-Profit Organizations, is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

Organization #10

- 6/30/22 11/17/22 assets \$30M expenses \$59M
- Classified SOFP – why?
- SOFE has 20 line items; 6 largest represent 93% of expenses
- *Note 1. Organization* covers 7 pages

Basis of Accounting

The accompanying financial statements of XXXXXXXXX have been prepared on the accrual basis of accounting.

Investments

Investment purchases are initially recorded at cost or, if contributed to , at their fair values on the date of contribution. Investments are reported at their fair values in the statements of financial position, and unrealized gains and losses are included in the statements of activities.

Organization #10 continued

also receives significant airtime and billboard space for PSAs, which are measured and reported at fair value. During the years ended June 30, 2022 and 2021, donated goods and services recognized in the financial statements totaled \$39,932,562 and \$33,482,458, respectively. Over 95% of the amounts recognized represent airtime and billboard space. Radio and TV airtime is valued using a combination of actual and estimated utilization reporting from TV Access which identifies the number of stations airing PSAs for Nielsen tracked stations and based on the National Association of Broadcasters (NAB) average airing value, assuming 3 releases per PSA and a 50% reduction for non-reporting stations. Billboard space is valued using reporting from TV Access which details total impressions and flips per month with a dollar value associated. There are no restrictions on the usage of the donated airtime and billboard space.

NOTE 5. FAIR VALUE DISCLOSURES (CONTINUED)

Assets and liabilities measured at fair value on a recurring basis have been categorized into a hierarchy based on the observable and unobservable inputs used to determine fair value as of June 30, 2022 and 2021:

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Investments				
Cash and cash equivalents	\$ 1,690,055	\$ 1,690,055	\$ -	\$ -
Mutual and exchange-traded funds				
Equities	9,797,038	9,797,038	-	-
Fixed income	3,581,537	3,581,537	-	-
Non-traditional	498,541	498,541	-	-
	<u>\$ 15,567,171</u>	<u>\$ 15,567,171</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interest in charitable trusts	<u>\$ 5,390,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,390,168</u>
Obligations under charitable gift annuities	<u>\$ 1,354,435</u>	<u>\$ -</u>	<u>\$ 1,354,435</u>	<u>\$ -</u>

Organization #10 continued

NOTE 12. ENDOWMENT

Interpretation of Relevant Law

The Board has interpreted the Washington D.C. Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, classifies as permanently restricted net assets (a) the original value of gifts donated to

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2022 and 2021 were as follows:

	2022		
	With Temporary Donor Restrictions	With Perpetual Donor Restrictions	Total
Endowment net assets, beginning of year	<u>\$ 477,060</u>	<u>\$ 1,235,295</u>	<u>\$ 1,712,355</u>
Appropriation for expenditure	<u>(943,095)</u>	<u>-</u>	<u>(943,095)</u>
Total investment return	<u>-</u>	<u>-</u>	<u>-</u>
Contributions	<u>729,869</u>	<u>(729,869)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 263,834</u>	<u>\$ 505,426</u>	<u>\$ 769,260</u>

Organization #11

- 8/31/22 10/16/23 assets \$72M expenses \$18M

	Year Ended August 31					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions	\$ 7,072,246	\$ 57,223,170	\$ 64,295,416	\$ 12,540,086	\$ 2,708,225	\$ 15,248,311
In-kind donations - legal	849,940	-	849,940	902,074	-	902,074
Paycheck Protection Program loan forgiveness	1,155,217	-	1,155,217	876,856	-	876,856
Settlement agreement fees	530,792	-	530,792	-	-	-
Interest and dividend income	232,791	-	232,791	9,095	-	9,095
Net assets released from restrictions	<u>7,573,178</u>	<u>(7,573,178)</u>	<u>-</u>	<u>4,609,811</u>	<u>(4,609,811)</u>	<u>-</u>
Total Support and Revenue	<u>17,414,164</u>	<u>49,649,992</u>	<u>67,064,156</u>	<u>18,937,922</u>	<u>(1,901,586)</u>	<u>17,036,336</u>

Excerpted from FN 1

In the fall of 2021, XXXXX launched a six-year growth project with the support of multi-year funding... In support of this project, XXXXX was granted a total of \$53M to be utilized in six years.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Slides 68-72 are excerpts from MIT's FY 2023
financial statements

TABLE 5. INVESTMENTS*(in thousands of dollars)*

	Level 1	Level 2	Level 3	NAV	Total Fair Value
Fiscal Year 2023					
Cash and short-term investments	\$ 313,843	\$ -	\$ -	\$ -	\$ 313,843
US Treasury	1,727,353	-	-	-	1,727,353
US government agency	-	34,263	-	-	34,263
Domestic bonds	6,916	1,221,061	146,166	-	1,374,143
Foreign bonds	377	249,784	-	-	250,161
Common equity:					
Domestic	155,930	1	233,650	-	389,581
Foreign	1,635,001	49,884	23,965	-	1,708,850
Equity:**					
Absolute return	-	-	-	4,671,478	4,671,478
Domestic	-	-	-	2,191,364	2,191,364
Foreign	-	-	-	2,135,508	2,135,508
Private	-	-	-	10,544,528	10,544,528
Real estate*	1,231	-	3,486,773	1,499,767	4,987,771
Real assets*	8,159	-	346	262,770	271,275
Split-interest agreements	-	-	81,355	-	81,355
Other	-	-	12,245	-	12,245
Derivatives, assets/(liabilities)	43	(842)	-	-	(799)
Investments, at fair value	\$ 3,848,853	\$ 1,554,151	\$ 3,984,500	\$ 21,305,415	\$ 30,692,919

F. Net Borrowings (continued)

MIT maintains an interest rate swap agreement to manage the interest cost and risk associated with a portion of the variable rate debt included in Table 15 above. Under the agreement, MIT pays a fixed rate of 4.91 percent and receives a payment indexed to the Securities Industry and Financial Market Association (SIFMA) index on a notional amount of \$125.0 million. The notional amount of this derivative is not recorded on MIT's Consolidated Statements of Financial Position. As of June 30, 2023, and 2022, the swap agreement had fair values of (\$17.3) million and (\$25.5) million, respectively, included in the Accounts payable, accruals, and other liabilities line item on the Consolidated Statements of Financial Position. Fair value is measured using Level 2 inputs as defined in Note B. This swap had net gains of \$8.2 million and \$22.5 million in fiscal 2023 and 2022, respectively.

H. Functional Expense Classification

TABLE 18. EXPENDITURES BY FUNCTIONAL CLASSIFICATION

<i>(in thousands of dollars)</i>	General and administrative	Instruction and unsponsored research	Sponsored research	Total
Fiscal Year 2023				
Compensation	\$ 593,496	\$ 669,520	\$ 1,011,039	\$ 2,274,055
Other operating	187,315	508,481	694,717	1,390,513
Space-related	213,671	238,846	221,189	673,706
2023 Total	\$ 994,482	\$ 1,416,847	\$ 1,926,945	\$ 4,338,274

Expenses are presented by functional classification in alignment with the overall mission of the Institute. Each functional classification displays all expenses related to the underlying operation by natural classification. Natural expenses attributable to more than one functional expense category are allocated using reasonable cost allocation techniques. Depreciation and utilities, rent, and repair expenses are allocated directly and/or based on square footage. Interest expense on indebtedness is allocated to the functional categories that have benefited from the proceeds of the associated debt.

J. Components of Net Assets and Endowment (continued)

MIT's endowment consists of approximately 4,700 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds that function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Executive Committee has interpreted the Massachusetts-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing MIT to appropriate for expenditure or accumulate so much of an endowment fund as MIT determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established,

subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Executive Committee. In accordance with UPMIFA, the Executive Committee considers the following factors in deciding to appropriate or accumulate endowment funds:

- i. the duration and preservation of the fund
- ii. the purposes of MIT and the endowment fund
- iii. general economic conditions
- iv. the possible effects of inflation and deflation
- v. the expected total return from income and the appreciation of investments
- vi. other resources of MIT
- vii. the investment policies of MIT

J. Components of Net Assets and Endowment (continued)

TABLE 28. CHANGES IN ENDOWMENT NET ASSETS

<i>(in thousands of dollars)</i>	Without Donor Restriction	With Donor Restriction	Total
Fiscal Year 2023			
Endowment net assets, July 1, 2022	\$ 7,152,758	\$ 17,587,104	\$ 24,739,862
Investment return:			
Net Investment income	(1,262)	4,531	3,269
Realized and unrealized gains/(losses)	(79,123)	(186,683)	(265,806)
Total investment return	(80,385)	(182,152)	(262,537)
Contributions	-	129,034	129,034
Appropriation of endowment assets for expenditure	(325,542)	(767,739)	(1,093,281)
Other changes:			
Net asset reclassifications and transfers	65,731	36,597	102,328
Endowment net assets, June 30, 2023	\$ 6,812,562	\$ 16,802,844	\$ 23,615,406

Excerpts from ASU 2016-14

- Amendments to Master Glossary

~~Unrestricted Support~~

Board-Designated Endowment Fund

In rare circumstances, a board-designated endowment fund also can include a portion of net assets with donor restrictions. For example, if an NFP is unable to spend donor-restricted contributions in the near term, then the board sometimes considers the long-term investment of these funds. See **Endowment Fund**.

Board-Designated Net Assets

Net assets without donor restrictions ~~Unrestricted net assets~~ subject to self-imposed limits by action of the governing board. ~~Board-designated~~ **Designated** net assets may be earmarked for future programs, investment, contingencies, purchase or construction of fixed assets, or other uses. Some governing boards may delegate designation decisions to internal management. Such designations are considered to be included in board-designated net assets.

958-30-45-2 Under many **charitable gift annuity** agreements, the assets received from the donor are held by the NFP as part of its general assets and are available for its ~~unrestricted~~ general use. The contribution portion of a charitable gift annuity agreement shall be recognized as ~~unrestricted support~~ revenue without donor restrictions if both of the following criteria are met:

Excerpts from ASU 2016-14, continued

958-205-05-10 Subsection 4(a) of the Uniform Prudent Management of Institutional Funds Act of 2006 provides that, unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. For related guidance, see

958-205-45-1 This Subtopic specifies certain basic information to be reported in financial statements of not-for-profit entities (NFPs). The requirements generally are no more stringent than requirements for business entities. The degree of aggregation and order of presentation of items of assets and liabilities in statements of financial position or of items of revenues and expenses in statements of activities of NFPs, although not specified, generally should be similar to those required or permitted for business entities. Particular formats for a statement of financial position, a statement of activities, or a statement of cash flows, are neither prescribed nor prohibited in part because similar prescriptions and proscriptions do not exist for business entities.

958-205-45-4 A complete set of financial statements of an NFP shall include a statement of financial position as of the end of the reporting period, a statement of activities and a statement of cash flows for the reporting period, and accompanying notes to financial statements. ~~In addition, a voluntary health and welfare entity shall provide a statement of functional expenses.~~

Excerpts from ASU 2016-14, continued

[Excerpt from sample notes to financial statements]

Note E

Investments are carried at fair value, and realized and unrealized gains and losses are reflected within investment return, net, in the statement of activities.

Interpretation of Relevant Law

~~The Board of Trustees of NFP A has interpreted~~ NFP B is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions as requiring the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The

Thank You

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