SCHNEIDER DOWNS
Big Thinking. Personal Focus.

State of the Not for Profit Industry

LAUREN WEDDELL –
ASSURANCE SHAREHOLDER

Agenda

- Welcome!
- NonProfit Sector
- Trends in Giving
- Economic and Industry Developments
- What Keeps Us Up at Night?
- Celebrate Our Successes!

NonProfit Sector

Pennsylvania Non Profits

State Profile
- Over 63,000 NPOs
- Employs 727,200, over 15% of the workforce
- Almost $132 billion in annual revenues
- Holds assets of over $306 billion
- People give $6.5 billion each year to charity

Trends in Giving

Highlights from Giving USA 2019:
- $427.71 billion to charity
- Strong growth in donations from corporations and foundations
- Individual donations decreased as a percentage of total giving to 68% (from 70%)
- Uneven growth by sector

Economic and Industry Developments

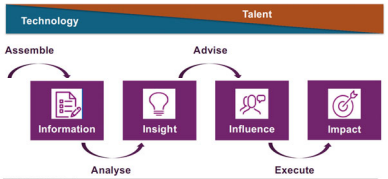
- Economic Indicators
- Revenue Streams
- Employment and Talent Pool
- Outsourcing and Shared Services
- Cybersecurity
- Accounting Standards
- Tax Cut and Jobs Act

What Keeps Us Up at Night??

- Technology
- Talent
- Data
- Cyber Threats
- Mission Advancement and Future Preparedness
- Appropriate Level of Communication to Stakeholders
- Navigating Collaboration Opportunities
- Liquidity and Financial Stability
- Compliance

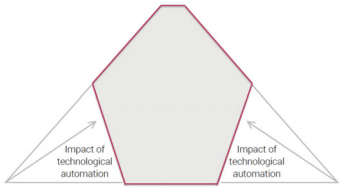
Technology & The Finance Function

The essential building blocks to operate in a digitized world



AICPA Not-for-Profit Industry Conference

Evolving Shape of Finance



AICPA Not-for-Profit Industry Conference

Celebrate our Successes!

- Leading the way in diversity and inclusion
- Developing talented leaders
- Making an impact in our communities and neighborhoods
- Changing lives

SCHNEIDER DOWNS
Big Thinking. Personal Focus.

The Merger Process – Common Challenges and Issues

JOEL M. ROSENTHAL, CPA, CVA
SHAREHOLDER

CHRISTIE B. TILLAPAUGH, DIRECTOR
COHEN & GRIGSBY, P.C.

Introductions

- Speakers
  - Christie Tillapaugh – Co-Chair of Non Profit and Tax-Exempt Group – Cohen & Grigsby, P.C.
  - Joel Rosenthal CPA, CVA – Practice Unit Leader of Advisory Services – Schneider Downs & Co., Inc.
- Purpose of Session
  - Provide insight into pitfalls and best practices for Not for Profit Mergers
- Agenda
  - Brief introduction to industry trends
  - Best Practices
  - Financial Considerations and Due Diligence
  - Q & A

Recent Trends

- Significant consolidation among non profits expected to continue
  - Thousands of local nonprofits in Allegheny County and Southwest PA
  - Overlapping or complementary organizations (i.e. programmatically and geographic footprint)
  - Limited resources of the nonprofits
  - Competition for limited resources
  - Reductions in charitable giving

Common Reasons to Merge

- Mission
- Debt
- Trend towards consolidation in sector
- Sudden change in circumstances
  - Government regulation
  - Funding
  - Priorities
  - Population needs
  - Leadership
  - Expertise

Best Practices

1. Understand Your Organization's Readiness
   - What are your aspirations (short and long-term)?
   - How will you fund explorations?
   - How will you fund implementation?
   - Set your organization's goals and ideal partners clearly at the beginning

Best Practices

2. Understanding the Deal Structure and Implications early on
   - What does a "merger" mean for the organization from a business perspective?
   - What does a "merger" look like from a legal perspective?
   - The answers are different, and having an understanding of both is equally important
   - The term "merger" is frequently used for a range of different legal deal structures
   - If not "merger" ready in the traditional sense, what other options are there?

Best Practices

3. Preparing and Supporting the Team

- Reasonable and Appropriate Process
  - Build a reasonable and appropriate **timeline** informed by legal and finance (i.e. fiscal years, quarter end, approvals needed)
  - Identify reasonable and appropriate **milestones** for key business decisions
  - Set aside **working time** of key team members
  - Coordinate **resources** to avoid doubling the work and the effort
- Identify and Collect Resources Efficiently – Examples
  - Organized data room
  - If possible, a common and well-vetted due diligence checklist
  - A project leader, manager or facilitator
- Communication Plan
  - Regularly calendared meetings with the right people
  - An efficient method for communicating across the group
  - Who needs to know what, when and how much?
  - When and how will key stakeholders learn of this?

Best Practices

4. Identify roadblocks early
   - What stakeholders need to be informed early on?
   - What leadership and input will be necessary?
   - What organizational, operational or staff changes are required?
   - What funding sources may be lost?
   - What third-party approvals are necessary? When?
   - What legal issues exist? What is the impact of these legal issues on the deal structure or business case?
     - Examples: Benefits issues, ongoing litigation, environmental liability, restricted gifts, non-compliance with laws found, unionized work force, cyber-security risk or other threats
   - What costs will be triggered by the deal?
     - Examples: Severance, change of control payments, early termination fees
   - What cost savings need to be achieved, and how will these be unlocked?
     - Examples: Termination of leases or contracts, migration to new software, changes in workforce and benefits (i.e. will contracts need to be terminated, and if so, can that be done to achieve cost savings)

Best Practices

5. Start early to develop and track a successful integration plan
   - If certain cost savings are needed and identified, are these being tracked in an orderly manner to achieve them?
   - What key milestone dates need to be set now? (i.e. transition to new fiscal year end or termination of certain benefits or plans)
   - Who will be responsible for tracking these dates?
   - How will these key items be communicated and by whom? (i.e. payoff of a lender or reduction in work force)
   - What key staff will be necessary to secure the desired outcomes?
   - What challenges are anticipated through different cultures, systems and processes? (i.e., changes in holiday/vacation, migration to new accounting software, relocation of certain staff)
   - What interruptions do I anticipate and what can I do to limit these?
   - What type of reserves or surpluses will be necessary to fund the deal and integration?

Financial Considerations

1. Mission vs. Financial objectives
   - How do you bridge differences?
   - Board Issues – non-financial board members

2. Resources
   - People – Finance, HR, C – Suite, Legal
   - System capabilities
   - Advisors

Financial Considerations

3. Defining "cash flows" – EBITDA
   - Operating income vs. EbITDA
   - Unrestricted funds
   - Restricted funds
   - Cap Ex
4. Evaluating Financial synergies
   - Cost savings
   - Program revenue impact
   - Consolidation of facilities
5. Evaluating uncertainty in revenue sources
   - Gov't funding
   - Contributions
   - Reimbursements

Financial Considerations

5. Contract issues – Financial impact
   - Financial
   - Employment contracts
   - Severance agreements
   - Leases
   - Revenue sources
6. Identification of "off-book" liabilities
7. Wage and benefit harmonization

2019 Not-For-Profit Symposium

July 30, 2019

Tax Developments

Eugene J Logan, Tax Shareholder
elogan@schneiderdowns.com

SCHNEIDER DOWNS
Big Thinking. Personal Focus.

Agenda

1. Overview of Tax Reform
2. Alternative Investments
3. Other Tax Developments
4. Other Hot Topics

Agenda

1. Overview of Tax Reform
   - Taxation of Qualified Transportation Fringe Benefits
   - Silo-ing of Unrelated Business Income
   - Net Operating Loss Limitations
   - Excise Tax on Covered Employees Paid in Excess of $1 million
   - Excise Tax on Private Colleges' and Universities' Net Investment Income
   - Tax Reform Impact on Charitable Giving
2. Alternative Investments
3. Other Tax Developments
4. Other Hot Topics

Overview of Tax Reform

- Taxation of Qualified Transportation Fringe Benefits
- Silo-ing of Unrelated Business Income
- Net Operating Loss Limitations
- Excise Tax on Covered Employees Paid in Excess of $1 million
- Excise Tax on Private Colleges' and Universities' Net Investment Income
- Tax Reform Impact on Charitable Giving

Reasoning Behind the Tax

- Parity
- IRC §512(a)(7) Added – [UBTI] of an organization shall be increased by any amount for which a deduction is not allowable . . .
- Effective for benefits provided after 12/31/17

What is a Qualified Transportation Fringe Benefit?

- IRC § 132(f)(1) - Qualified Transportation Fringe Benefit
  - Commuter highway vehicles
  - Transit pass
  - Qualified parking
- QTFBs may be provided:
  - In-kind (employer hands out mass transit pass)
  - Bona fide cash reimbursement (employee turns in receipt)
  - Compensation reduction agreement (similar to health FSA)

IRS Notice 2018-99

- Released in December 2018
- Interim Guidance for Parking Expenses
- Expense of Providing Benefit – NOT FMV
- Determination Dependent On:
  - Taxpayer pays a third party for employee parking spots
  - Taxpayer owns or leases all or a portion of a parking facility
- Notice Does Not Address:
  - Office lease that does not apportion the lease cost to parking
  - Multi-tenant facilities where all tenants share equal access to parking

IRS Notice 2018-99: Payments to Third Parties

- Increase in UBTI is the annual cost paid to third parties up to 2019 pre-tax cap of $265 (2018 cap of $260) per employee
- Amounts in excess of the pre-tax cap are treated as compensation to the employee and NOT treated as UBTI

Payments to Third Parties - Example

- Pays for all employees to park in City garage
  - 28 Employees
  - Tax Year 10/31/2018
  - Cost of Parking - $280 per employee for each month
  - Tax Impact
    - $15 per month must be reported on W-2
    - $265 per month for each employee is taxable income to the organization
  - Estimated Income of $89,400, Tax of $18,700

Payments to Third Parties - Example

- Pre-tax parking benefit provided to employees
- Parking paid for Executive Director, $220 per month
- Tax Year 3/31/18 (3 months)
  - Taxable Income $660
  - Tax $140

Payments to Third Parties - Example

- Pre-tax benefits provided to employees
  - Calendar year end taxpayer
  - Taxable Income $269,500 (Parking $233,000, Bus $36,500)
  - Tax $48,930

IRS Notice 2018-99: Expenses of Owned or Leased Parking Facilities

- Reasonable Method
  - Four step process deemed reasonable
  - Using the value is not a reasonable method
  - Method must allocate expenses to reserved employee spots; otherwise it is not considered reasonable
- Terms Defined
  - Parking Facility
  - Parking Expenses
  - General Public
- Excluded Depreciation
- Can Aggregate Lots if in Same Region

IRS Notice 2018-99: Expenses of Owned or Leased Parking Facilities

Four Step Method Provided in Notice

1. Allocate UBTI expense to reserved employee spots
2. Determine applicability of public use exception
3. Allocate non-UBTI expenses to reserved non-employee spots
4. Allocate remaining expense based on typical usage of remaining spots

Expenses of Owned or Leased Parking Facilities - Example

- Owned lot used by employees and patrons
- Expense of owning lot $27,500
- 12 of 156 spots identified as reserved for employees
- 122 of 156 spots used by other employees on a normal business day during normal business hours
- Primary use 78.2% employee use
- Tax $4,516

Expenses of Owned or Leased Parking Facilities - Example

- Owned lot used by employees and patrons
- Expense of owning lot $42,000
- 6 of 78 spots identified as reserved for employees
- 42 of the remaining 72 spots used by the public (Public use on these spots, no tax)
- Employee reserved use 7.7%
- Tax $678

Expenses of Owned or Leased Parking Facilities - Example

- Owned lot used by employees and public
- Determined over 50% public usage = NO TAX
- Bus Passes provided Pre-Tax
  - Income $57,000
  - Tax $11,970
- Changed policy to Post-Tax effective 1/1/19

Expenses of Owned or Leased Parking Facilities - Example

- Tax Year 9/30/2018
- Owned lot used by employees and public
- Employee pre-tax deductions were $200,000 from 1/1/18 - 9/30/18
- Switched employees to post-tax deductions as of 9/1/18
- Employee pre-tax bus passes $215,000
- Impact of Notice 2018-99:
  - Only had reserved spots in calculation
  - Based on cost of lots – taxable parking costs $6,800
  - Total taxable expenditures (parking & buses) - $221,800
  - Tax of $46.578

Form 990-T Reporting

- Joint Committee on Taxation estimated $200 million will be paid in tax for 2018

Form 990-T (2018)

Part II	Total Unrelated Business Taxable Income
33	Total of unrelated business taxable income computed from all unrelated trades or businesses (see instructions)
34	Amounts paid for disallowed fringes
35	Deduction for net operating loss arising in tax years beginning before January 1, 2018 (see instructions)
36	Total of unrelated business taxable income before specific deduction. Subtract line 35 from the sum of lines 33 and 34
37	Specific deduction (Generally $1,000, but see line 37 instructions for exceptions)
38	**Unrelated business taxable income.** Subtract line 37 from line 36. If line 37 is greater than line 36, enter the smaller of zero or line 36

Repealing IRC § 512(a)(7)

- Economic Mobility Act of 2019
  - Ways and Means Committee Chairman Rich Neal (D-MA) added to bill
- Lessening Impediment from Taxes (LIFT) for Charities Act
  - Announced on February 28th
  - Bipartisan Support
- Stop the Tax Hike on Charities and Places of Worship Act (H.R. 1223)
  - D-SC James Clyburn (Mid-February)
- Nonprofits Support Act (H.R. 513)
  - R-Texas K. Michael Conway (January)

Overview of Tax Reform

- Taxation of Qualified Transportation Fringe Benefits
- Silo-ing of Unrelated Business Income
- Net Operating Loss Limitations
- Excise Tax on Covered Employees Paid in Excess of $1 million
- Excise Tax on Private Colleges' and Universities' Net Investment Income
- Tax Reform Impact on Charitable Giving

Silo-ing of Unrelated Business Income

- Unrelated business taxable income must be separately computed for separate trades or business
  - i.e. deductions of one unrelated trade or business cannot offset income for another unrelated trade or business for the same taxable year ("silo-ing")
- Notice 2018-67
  - First Guidance Related to EO Provisions
  - No Bright-Line Test for Trade or Business
    - Rely upon reasonable, good-faith interpretations of the IRC
    - Indicates use of NAICS 6-digit codes will be considered reasonable
  - Investment in Partnership with UBTI
    - Can aggregate UBTI from single partnership if –
      - De Minimis test (less than 2% ownership)
      - Control test (less than 20% ownership and no control)
  - Transition rule for partnership acquired before August 21, 2018

Overview of Tax Reform

- Taxation of Qualified Transportation Fringe Benefits
- Silo-ing of Unrelated Business Income
- Net Operating Loss Limitations
- Excise Tax on Covered Employees Paid in Excess of $1 million
- Excise Tax on Private Colleges' and Universities' Net Investment Income
- Tax Reform Impact on Charitable Giving

Changes to NOL Rules

- 80% Limitation on Post-12/31/17 Losses
- Post-12/31/17 are indefinitely carried forward. No Carryback
- Limitations on the Amount of NOL Allowed
- Losses prior to TCJA still allowed in full
  - Protection for QTF tax

Overview of Tax Reform

- Taxation of Qualified Transportation Fringe Benefits
- Silo-ing of Unrelated Business Income
- Net Operating Loss Limitations
- Excise Tax on Covered Employees Paid in Excess of $1 million
- Excise Tax on Private Colleges' and Universities' Net Investment Income
- Tax Reform Impact on Charitable Giving

Excise Tax on Compensation of Covered Employees

- Report covered employees paid in excess of $1 million for remuneration or excess parachute payments
- Taxed at 21%
- Notice 2019-09
  - Calculation is based on payments made in the calendar year ending with or within the taxable year
  - Common-law employers liable for tax
  - Payments to related entity for services rendered are included

Overview of Tax Reform

- Taxation of Qualified Transportation Fringe Benefits
- Silo-ing of Unrelated Business Income
- Net Operating Loss Limitations
- Excise Tax on Covered Employees Paid in Excess of $1 million
- Excise Tax on Private Colleges' and Universities' Net Investment Income
- Tax Reform Impact on Charitable Giving

Excise Tax on Net Investment Income

- 1.4% Tax on Net Investment Income of Private Colleges and Universities
- Private Colleges and Universities subject to tax
  - More than 500 tuition-paying students
  - Assets of at least $500k per full-time student
  - Applies to institutions with more than 50% of tuition paying students located in the U.S.
- Assets of related organizations treated as assets of the college or university

Overview of Tax Reform

- Taxation of Qualified Transportation Fringe Benefits
- Silo-ing of Unrelated Business Income
- Net Operating Loss Limitations
- Excise Tax on Covered Employees Paid in Excess of $1 million
- Excise Tax on Private Colleges' and Universities' Net Investment Income
- Tax Reform Impact on Charitable Giving

TCJA Impact on Charitable Giving: The Bad

- TCJA Impact on Itemizers
  - Doubling of standard deduction ($12,000 to $24,000 for MFJ)
  - Elimination of many itemized deductions (home equity, 2% deductions, moving expenses)
  - Cap on state and local tax deductions
- Changes to Estate Tax
  - Temporarily Doubles Estate and Gift Exemption ($22.4M for married couples)
  - Will greatly decrease the taxable estates
  - Impact on lifetime giving

TCJA Impact on Charitable Giving: The Good

- Charitable Contributions still deductible
- Gifts of appreciated property still deductible at fair market value
- Direct transfers from IRAs still allowed ($100K per year) – 2015 PATH Act
- Increased cash contribution limits from 50% of AGI to 60% of AGI
- Elimination of the Pease Limitation will help large donors
- Large donors still itemizing

TCJA – Charitable Giving: The Impact

- Charitable giving up 5% in 2018
  - Surprise, surprise!
- As expected many taxpayers no longer itemizing
  - Expected drop of 10% to 35%
  - Do taxpayers realize yet?
  - Economy/mission
- Continued increase to DAF giving
  - Bunching of deductions

TCJA – Charitable Giving: The Report

- Giving USA 2019
  - Record giving for 2018
  - Giving from individuals declined 1.1% (or 3.4% adjusted for inflation)
  - Giving from foundations was up 7.3%
  - Giving from corporations was up 5.4% (impact of lower tax rate?)
  - Bequest giving was flat

TCJA – Charitable Giving: The Report

- Giving USA 2019
  - Giving to Education and religion decreased a by 1.3% and 1.5% respectively
  - Giving to human services, health organizations and arts/culture was flat
  - Giving to international affairs, environmental and animal organizations increased significantly

Agenda

1. Overview of Tax Reform
2. Alternative Investments
3. Other Tax Developments
4. Other Hot Topics

Alternative Investments

Area of High Risk & Exposure for Tax

- Significant Penalties
  - Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation
    - Up to 10% of FMV of property transferred, limited to $100k
  - Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships
    - $10,000 for each missed filing, limited to $50k
  - FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR)
    - $10,000 per each violation

Alternative Investments

Documents Used by Tax

- Alternative Investment Schedule
- Financial Statements of Funds
- Schedules K-1 or Tax Information Statements
- Subscription Agreements

Where Tax Reports

- Form 990, Schedule F, Statement of Activities Outside the United States
- Form 990-T – Unrelated Business Income and Foreign Filings
- State Forms – Unrelated Business Income

Agenda

1. Overview of Tax Reform
2. Alternative Investments
3. Other Tax Developments
4. Other Hot Topics

Other Development - Wayfair

- Income tax exemption is NOT sales tax exemption
- No physical presence required (other thresholds)
- Ruling does not change WHAT is taxed, rather WHO
- Each state has different laws
- PA Effective 7/1/19 - $100,000 in gross sales
- Ensure annual compliance

Other Development - Wayfair

- States Win – Example Maryland New Revenues

Month	Registrants	Sales/Use Tax Remitted
Nov 2018	442	$ 5,900,000
Dec 2018	621	$ 8,300,000
Jan 2019	1,145	$12,100,000
Feb 2019	1,075	$ 6,400,000
	3,283	$32,700,000

Other Developments – DAF Notice

- Notice 2017-73, some guidance and insight on the IRS's view on DAF issues
  - Issue #1 – Tickets, dinners and other benefits
    - No help here
  - Issue #2 – The Pledge
    - Interesting change in position
    - How is it monitored?
  - Issue #3 – Public Support Treatment on grants from a DAF
    - Recording keeping could be an issue

Other Developments – DAF Notice

- Notice 2017-73, some guidance and insight on the IRS's view on DAF issues
  - Issue #1 – Tickets, dinners and other benefits
    - No help here
  - Issue #2 – The Pledge
    - Interesting change in position
    - How is it monitored?
  - Issue #3 – Public Support Treatment on grants from a DAF
    - Recording keeping could be an issue

Other Developments – Rev Proc 2018-38

- Allows organizations to redact Schedule B Information identifying donors
- Doesn't apply to 501(c)(3) or 527 organizations
- Montana and New Jersey filed court cases challenging this rule change
- California continues to be involved in litigation on Federal Schedule B, could go to Supreme Court

Current Developments – Legislative Watch

- College Bribery Scandal
- Senate Finance Committee Probes Nonprofit Hospitals
- Issues with Syndicated Conservation Easements
- "For the People Act"
- Universal/Above the Line Charitable Deduction

Agenda

1. Overview of Tax Reform
2. Alternative Investments
3. Other Tax Developments
4. Other Hot Topics

Other Hot Topics

- State Solicitation Initial and Annual Registrations
  - States getting more aggressive/sophisticated
  - Fundraisers are requiring (organization should inquire back
  - Penalties/fees are usually nominal
- PA Sales Tax Exemption Applications/Renewals
  - Purely Public Charities
  - Renewals every 5 years
  - State is actually looking at renewals and questioning/denying exemption
- Review of Annual Conflict of Interest Questionnaires & Conflict of Interest Policies
  - Enforcing and monitoring?

Other Hot Topics

- Review of Donor Acknowledgement Letters
  - IRS has won many big cases on issues with Acknowledgement letters
  - Also applies to donations of property
  - Partnerships can be required to receive
  - Additional information on quid pro quo helpful after tax reform
- State Payroll Registrations
  - Online working opportunities
  - States very aggressive
  - Issue with over registering

Other Hot Topics

- Grant Making Due Diligence
  - Foundation contributions and required distributions on the rise
  - Staffing and experience are difficult to maintain
- Filing for IRS Tax Exempt Status for New Entities – Form 1023
  - 6 or more months wait on applications
  - Form 1023EX, IRS is finding a balance
- IRS budget increase and hiring
  - EO to increase staff by 170
  - 30% of EO staff to retire in next 3-4 years
  - Data driven examinations and communications
  - Referrals or claims still about 50% of all audit activity

TAX HUMOR

BREAK

SCHNEIDER DOWNS
Big Thinking. Personal Focus.

2019 Accounting Standards Update

KIMBERLY GRIFFITH, SHAREHOLDER

SHANE GASTECKI, SENIOR MANAGER

Agenda

- ASU 2016-14 – NFP Financial Reporting Model
- ASU 2014-09 – Revenue Recognition
- ASU 2018-08 – Contributions
- ASU 2016-02 - Leases
- ASU 2018-13 – Fair Value Measurement Hierarchy
- ASU 2019-03 – Definition of Collections
- ASU 2019-06 – NFP Goodwill and Intangibles
- ASB Update – Auditors' Report

ASU 2016-14 – NFP Financial Reporting Model

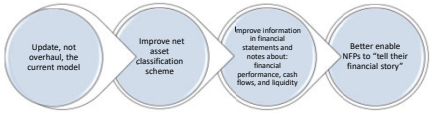
NFP Financial Reporting Model

Effective Date
- Fiscal years beginning after **December 15, 2017**
  - December 31 Year-ends - effective for **December 31, 2018**
  - May 31/June 30 Year-ends - effective for **May 31/June 30, 2019**

Transition Type
- Retrospectively to all periods presented with the option to omit the following for comparative statements:
  - Analysis of expenses by both natural classification and functional classification
  - Disclosures about liquidity and availability of resources

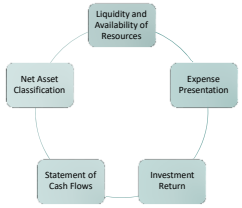
Adoption
- Disclose the nature of any reclassifications or restatements and their effect, if any, on changes in the net asset classes for each year presented

NFP Financial Reporting Model



Issued August 18, 2016, ASU No. 2016-14

Overview of Significant Impacts



Net Asset Classification

Objectives:
- Better information for users to understand what portion of the net assets can be used in operations

Key changes:
- Three classes moves to two classes – "With donor restrictions" and "Without donor restrictions"
  - Reasonable alternatives are permitted for titles
- Designations are now required to be more prominently disclosed – either on the face or in the accompanying notes (board or other-self imposed limitations)
- Underwater endowments will now be reported as a component of "with donor restrictions" category

Underwater Endowments

Key changes:
- Requires any underwater amounts to be included in net assets with donor restrictions. Organizations (particularly those subject to outside of PA) will recognize an accounting change
- Requires disclosure of market value of underwater assets
- Continued emphasis on disclosures on the ability to spend from underwater funds and any current appropriations from underwater funds

Liquidity and Availability of Resources

Objectives:
- Provide all users with a better understanding of liquidity and financial flexibility

Key changes:
- **Qualitative** information (in the notes) about how the NFP manages its liquid resources
- **Quantitative** information (in the notes or in the statement of financial position):
  - Availability to meet cash needs for general expenditures within one year of the statement of financial position date
  - Availability could be impacted by:
    - Nature
    - External limits (laws, donors, contracts)
    - Internal limits (board designations)

Expense Presentation

Objectives:
- To permit users to understand the types of expenses, allocation of resources and cost of services provided

Key changes:
- Schedule of **both** functional and natural expenses in one location
  - Functional Expense Classification – Group according to the purpose for which costs are incurred (Program, Supporting: Management and General and Fundraising)
  - Natural Expense Classification – Group according to the purpose for which costs are incurred (Salaries and Wages, Supplies, Rent, Interest, Depreciation, etc.)
- Must include all types of expenses (except investment related)
- Requires disclosures on methodology used to allocate expenses

Other Areas Impacted

Presentation of the Investment Return

Key changes:
- Investment returns are to be reported net of all related external and direct internal expenses.
- Will improve comparability and minimizes the cost/difficulty of identifying embedded fees.
- Will require a comparative reclassification.

Statement of Cash Flows

Key changes:
- Permits both the indirect and direct methods of presenting the statement of cash flows.
- No longer required to disclose reconciliation to the indirect method if the direct method is used.

Accounting for Releases from Restriction

Key changes:
- Requires the placed-in-service approach for reporting the expiration of restrictions unless there is an ongoing donor stipulation or restriction.
- No longer permitted to use the method of releasing items from restriction over the estimated useful life.
- Organizations will be required to restate to release those remaining net assets at adoption.

Common Issues

LIQUIDITY

ENDOWMENTS

FUNCTIONAL EXPENSES

ASU 2014-09 – Revenue Recognition

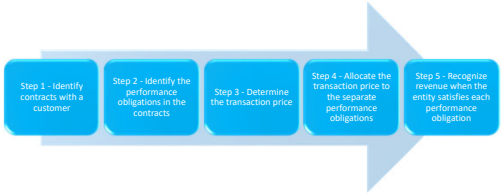
Revenue Recognition

Effective Date
- Public entities - 2018
- Nonpublic entities – 2019

Transition Type
- Retrospective (restate the face) OR;
- Modified retrospective (disclose prior year impacts in footnotes)

Adoption
- Disclose the nature of any reclassifications or restatements and their effect

A Theory Based 5-Step Model



Example Step 1 Issues

Modifications

Identify contracts with a customer

Change Orders

Example Step 2 Issues

Warranties

Design and Build

Maintenance

Installation

Identify the performance obligations

Future Discounts

Upfront Fees

Custodial Services

Loyalty Programs

Example Step 3 Issues

Volume Rebates

Discounts

Coupons

Right of Return

Determine the transaction price

Performance Bonuses

Price Protection Guarantees

Financing

Example Step 4 Issues

Allocating Observable Price

Allocate the transaction price

Allocating Unobservable Price

Allocating Discounts

Example Step 5 Issues

Customized Product

Recognize revenue

Stand Ready Obligation

Payment Terms

Specified Quantity

Transportation

Private Company Disclosure Requirements

Contracts with Customers

Disaggregation of revenue

Contract balances

Assets recognized

Performance obligations

Significant judgements

Transition disclosures

ASU 2018-08 – Contributions

Background

Originated with issuance of ASU 2014-09

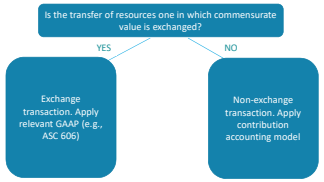
Clarifies longstanding diversity in practice in classifying grants and contracts, particularly governmental entities

Applies to all entities, including not-for profit organizations and business entities that receive or make contributions of cash and other assets

- Excludes transfer of assets from government agencies to business entities

Step 1: Exchange vs. Non-exchange

First step in FASB decision framework:



Step 1: Exchange vs. Non-exchange (Continued)

ASU 2018-08 clarifies that an exchange transaction is a reciprocal transfer in which each party receives and sacrifices approximately commensurate value

- Goods or services provided directly benefit the resource provider for its own use
- Resource provider obtains proprietary rights or other privileges, such as a patent.

Indicative of Exchange	Indicative of non-exchange
Expressed intent by both parties is to exchange goods or services that are of commensurate value.	Recipient solicits assets from the resource provider without the intent of exchanging goods or services of commensurate value
Both parties agree on the amount of assets transferred in exchange for goods and services that are of commensurate value.	Resource provider has full discretion in determining the amount of the transferred assets.
Contractual provisions provide for the assessment of penalties beyond the amount of assets transferred if the recipient fails to perform.	Penalties assessed for failure to comply with the terms of the agreement are limited to the delivery of assets/services already provided and the return of unspent funds.

Step 1: Exchange vs. Non-exchange (Continued)

Special considerations for government grants

- Previously typically classified as exchange transactions (government doesn't make contributions)

If the primary benefit of the activity is received by the general public, rather than the government itself, the arrangement is not an exchange of commensurate value. Therefore, the transaction is non-exchange.

- May not result in significant impact, especially for cost-reimbursement

Government third-party payors (Pell grants, Medicaid/Medicare)

- Appear similar to grants, but actually outside of scope of grants guidance.

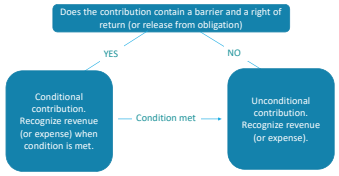
Step 1: Exchange vs. Non-exchange - Example

Example:

- Pharma Co conducts new drug research using its own scientists, but also funds research conducted by NFP entities and biotech companies to speed the development of new drugs. Pharma Co enters into a research agreement with Research Institute. Under the arrangement, Pharma Co has the right to review Research Institute's research and has the right of first refusal to license any compounds discovered. If Pharma Co opts not to license the compounds, Research Institute can look for other buyers.
- **QUESTION: Is the arrangement between Pharma Co and Research Institute an exchange transaction?**

Step 2: Conditional vs. Unconditional

Second step in FASB decision framework:



Step 2: Conditional vs. Unconditional (Continued)

In order to be conditional, a grant/contribution must both:

- Require the recipient overcome a barrier
- Release grantor/donor from obligation to transfer resources

Emphasizes neither the likelihood that a barrier will be met nor the resource provider's intent to enforce a right of return should be considered.

Eliminates "remote" stipulation

Step 2: Conditional vs. Unconditional (Continued)

BARRIERS TO ENTITLEMENT
Measurable performance related or other barrier • Output, outcome, or level of service must be achieved • Specific events (quantifiable/measurable)
Limited Discretion • Competitive bids/proposals • Follow specific guidelines (allowable costs)
Stipulations must relate to the purpose of the grant • Routine reports on how funds were spent is not a condition • Audit requirement is not a condition • Budget requirement is not a condition • Addresses trivial/administrative stipulations

Right of return

- If recipient does not overcome barrier, donor or grantor is released from obligation

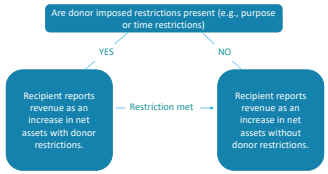
Step 2: Conditional vs. Unconditional - Example

Example:

- Shelter House A receives a 3-year Core Support Grant from a foundation that is for general operating funding. The agreement contains a right of return requiring that assets be reimbursed to the foundation if the funds are not used during the 3-year grant term. The first payment is made upon signing the grant agreement, remaining payments are contingent upon an annual review and check-in with foundation program officer.
- **QUESTION: Is this contribution conditional or unconditional?**

Step 3: Restricted vs. Unrestricted

Third step in FASB decision framework:



Condition vs. Restriction

Restriction
Limitation on the activity to be performed; the specified activity is narrower in scope than the mission of the company.

Condition
Limitation on how the activity is conducted, or measurable barrier contingent on future performance or event. Related to the purpose of the agreement.

Condition vs. Restriction - Example

Example:

- Mr. Billionaire promises NFP Org $500,000 towards Program A if NFP Org can raise a matching amount from other contributors.
- **QUESTION: Are the stipulations in Mr. Billionaire's promise conditions or restrictions?**

Effective Dates

	NFP conduit bond obligors and public business entities	All other entities
Resource recipients	Annual periods beginning after June 15, 2018, including interim periods	Annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019
Resource providers	Annual periods beginning after December 15, 2018, including interim periods	Annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020

No additional recurring disclosures have been added in the new guidance.

ASU 2016-02 - Leases

Overview and Background

1.25 trillion of off-balance sheet operating lease commitments for SEC registrants*

Lessee
- Most lease assets and liabilities are off-balance sheet
- Limited information about operating leases

Lessor
- Lack of transparency about residual values
- Consistency with leases and revenue recognition guidance

* Estimate according to the 2005 SEC report on off-balance sheet activities

Overview

	Non-public entities	Public entities
Effective Date	Periods beginning after December 15, 2019 (*) *FASB has issued proposal to defer one year – final decision expected late summer/fall	Periods beginning after December 15, 2018
Transition type	Retrospective with certain practical expedients	
Early adoption permitted?	Yes	
Key provisions: • Operating vs. finance leases • Finance lease criteria similar to old capital lease criteria, however with some changes • Operating leases recorded on the balance sheet at present value of estimated lease payments • Accounting for finance leases similar to today's accounting for capital leases • Short-term lease exemption		

Key Provisions

Definition of a lease:
- Conveys the right to control the use of an **identified asset**, for a **period of time** in exchange for **consideration**
- Excludes leases of inventory, assets under construction, intangible assets, biological assets, and explore for or use minerals, oil, natural gas, and similar non-regenerative resources

Lease term:
- Includes any non-cancelable periods, and any renewal options reasonably certain to exercise

Lease payments:

Fixed payments, including in-substance fixed payments	Exercise price of a purchase option*	Payments for penalties for terminating the lease**	Variable lease payments that depend on an index or rate	Residual value guarantees – amounts probable of being owed (lessees only)

* Include only if reasonably certain of exercise

** Include unless reasonably certain not to be exercised

Key Provisions (Continued)

Non-lease components:
- Non-lease components are identified and accounted for separately under other applicable *Generally Accepted Accounting Principles* (GAAP) (i.e. maintenance activities/CAM)
- Lessees allocate consideration in the contract to lease and non-lease components, on a relative standalone price basis, unless practical expedient is elected
- Lessees can make a **policy election** (by class of underlying asset) to account for each lease component and its related non-lease component as a **single lease component**

Lease Classification - Operating vs. Finance

At lease commencement, a lessee and a lessor classify a lease using the following criteria:

1. The lease transfers ownership of the underlying asset to the lessee by end of the lease term
2. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise
3. The lease term is for the major part of the remaining economic life of the underlying asset*
4. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset
5. (New criterion) The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of lease term

* Not applicable for leases that commence at or near the end of the underlying asset's economic life

Lessee Recognition and Measurement

	Finance lease	Operating lease
Initial recognition and measurement	Initially measure the right of use (ROU) asset [1] and lease liability at the present value of the lease payments not yet paid	
Subsequent measurement – lease liability	Use the effective interest method using the discount rate determined at lease commencement [2] to recognize interest expense and reduce the lease liability for the payments made	Measure the lease liability at the present value of the remaining lease payments using the discount rate determined at lease commencement [2]
Subsequent measurement - ROU asset	Amortize the ROU asset, generally on a straight-line basis, over the shorter of the lease term of its useful life; and record any impairment of the ROU asset	Measure the ROU asset at the amount of the lease liability and adjust for cumulative prepaid or accrued rents (i.e., uneven rent payments), any lease incentives received, lessee initial direct costs; and record any impairment of the ROU asset
Income statement effect	Generally "front-loaded" expense Interest expense and amortization expense are recorded and presented separately	Generally straight-line expense A single lease expense is recognized

[1] Initial measurement of ROU asset also includes the lessee's initial direct costs and prepayments made to the lessor less lease incentives received from the lessor
[2] As long as a reassessment has not occurred.

Transition Considerations

Effective Date for Calendar-Year Companies		
Public business entities and certain other entities*	**All other entities**	**Early adoption**
2019 and interim periods within that year	2020 and interim periods in 2021^	Yes

^FASB expected to **DELAY** the effective date for private companies one additional year (**calendar-year 2021**)

Standard is applied as of the beginning of the earliest comparative period presented in the financial statements (unless the practical expedient is elected)

- Practical Expedient - Transition method provided allowing entities to initially **apply the new leases standard at the adoption date** (no retroactive application)

* Public business entities, not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an-over-the-counter market, and employee benefit plans that file or furnish financial statements with or to the SEC.

Transition Considerations (Con't.)

All entities may elect to apply *all* of the following practical expedients (elected as a package and applied to *all* leases) not to reassess:

- Whether contracts are or contain leases
- Lease classification
- Initial direct costs (i.e., whether those costs would have qualified for capitalization under the new leases standard)

All entities can also elect for all leases to (1) use hindsight in determining the lease term when considering lease options to extend or terminate the lease and to purchase the underlying asset and (2) assess impairment of ROU assets

- Election could be made separately or in conjunction with the package of practical expedients above

Updates to the ASU

ASU 2018-01 - Land Easement Practical Expedient for Transition to Topic 842

- Allows for a practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840

ASU 2018-10 - Codification Improvements to Topic 842, Leases

- 16 targeted areas of improvement

ASU 2018-11 - Targeted Improvements

- Allows entities to initially apply the new leases standard at the adoption date (such as January 1, 2019, for calendar-year-end public business entities)

Strategies for an Efficient Implementation

- ✓ Educate organizational personnel
- ✓ Identify all leases and accumulate data
  - ✓ Organize records
  - ✓ Review contracts for embedded leases
  - ✓ Review for classification as finance or operating
- ✓ Make accounting policy elections
  - ✓ Risk free rate or incremental borrowing rate?
  - ✓ Capitalization thresholds below which lease assets and liabilities are not recognized
- ✓ Implement a lease management system
- ✓ Evaluate practical expedients available

Common Questions Being Asked Now

1. Discount rate considerations
2. Lease extension term considerations
3. Treatment of non-lease components
4. Treatment of variable lease components (additional rent tied to sales volume)
5. How to estimate rent escalations tied to indexes at inception (such as CPI)
6. Impairment considerations

ASU 2018-13 – Fair Value Measurement Hierarchy

Changes to the Disclosure Requirements for Fair Value Measurement

Effective Date
- Public and nonpublic: years beginning after 12/15/19

Transition Type
- Prospective for changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop level 3 measurements and the narrative description of measurement uncertainty.
- Retrospective for all other amendments

Early Adoption
- Permitted

Fair Value Measurement (Continued)

Removes:

The amount and reasons for transfers between level 1 and level 2 of the fair value hierarchy.

The policy for timing of transfers between levels.

The valuation processes for level 3 fair value measurements.

For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring level 3 fair value measurements held at the end of the reporting period.

Fair Value Measurement (Continued)

Modifies:

In lieu of a rollforward for level 3 fair value measurements, a nonpublic entity is required to disclose transfers out of and into level 3 and purchases and issues of level 3 assets and liabilities.

For investments in certain entities that calculate NAV, an entity is required to disclose the timing of liquidation of an investees' assets and the date when restrictions from redemption might lapse only if the investee has communicated the entity or announced the timing publicly.

The amendments clarify the measurement uncertainty disclosure to communicate information about the uncertainty in measurement as of the reporting date.

Fair Value Measurement (Continued)

Adds (optional for non-public entities):

The changes in unrealized gains and losses for the period included in other comprehensive income for recurring level 3 fair value measurements held at the end of the reporting period.

The range and weighted average of significant unobservable inputs used to develop level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

ASU 2019-03 – Definition of Collections

Updating the Definition of Collections

- **Effective Date**: Effective for annual periods after December 15, 2019
- **Transition Type**: Prospective adoption
- **Other**: Early adoption is permitted

Updating the Definition of Collections

Works of art, historical treasures, or similar assets that meet all of the following criteria:

Current Definition	New Definition
• Held for public exhibition, education, or research in furtherance of public service rather than financial gain.	• Held for public exhibition, education, or research in furtherance of public service rather than financial gain.
• Items are protected, kept unencumbered, cared for, and preserved.	• Items are protected, kept unencumbered, cared for, and preserved.
• Items are subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections.	• Items are subject to an organizational policy that requires the proceeds of items that are sold to be for the acquisitions of new collection items ***that direct care of existing collections, or both.***

ASU 2019-06 – NFP Goodwill and Intangibles

Goodwill and Other (Topic 350) Business Combinations (Topic 805), NFP Entities (Topic 958)

- **Effective Date**: Effective immediately
- **Transition Type**: Prospective adoption
- **Other**: If a NFP adopts the accounting alternative under Topic 805, it must also adopt the accounting alternative described above within Topic 350. However, if a NFP elects the accounting alternative within Topic 350, it is not required to elect the alternative afforded within Topic 805.

Goodwill and Other (Topic 350) Business Combinations (Topic 805), NFP Entities (Topic 958)

All not-for-profit (NFP) entities can amortize goodwill on a straight-line basis over 10 years or less in certain circumstances.

NFP's will perform a test for impairment only if there is a triggering event and they will also have the option to perform the test at a more global entity level.

Customer related intangible assets that cannot be sold or licensed independently from other business assets and non-competition agreements are included into goodwill, with certain exceptions.

This update does not change the existing guidance in issued under FASB ASU 2014-02 or ASU 2014-18.

Impact should be limited. Who is impacted?

Auditing Standards Board Update – Auditors' Report

Proposed Auditors' Reporting Model

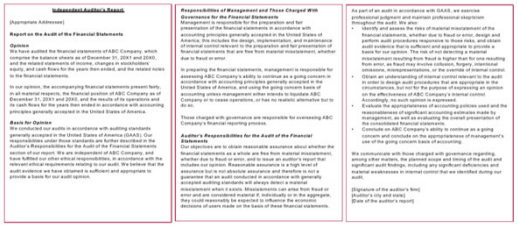
Proposed Effective Date – Periods ending on or after December 15, 2020 (**Calendar year end 2021**)

- Early adoption is not permitted

Found that users value "pass/fail" nature of opinion, but want:

- More transparency
- More information – areas of higher risk, judgement, significant transactions
- More description of responsibilities

Example



Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of ABC Company, and have fulfilled our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing ABC Company's ability to continue as a going concern in accordance with accounting principles generally accepted in the United States of America, and using the going concern basis of accounting unless management either intends to liquidate ABC Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing ABC Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

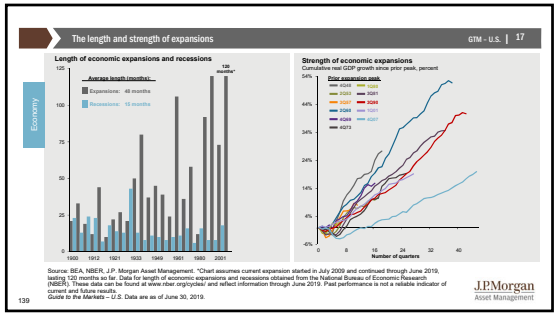
As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

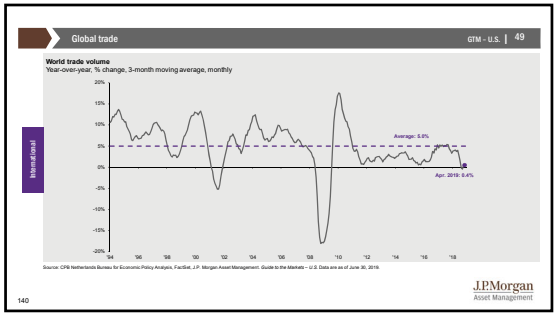
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
- Conclude on ABC Company's ability to continue as a going concern and conclude on the appropriateness of management's use of the going concern basis of accounting.

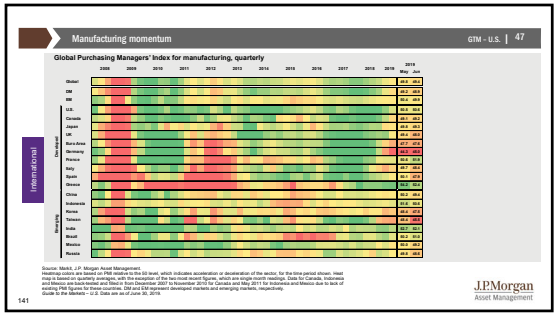
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies and material weaknesses in internal control that we identified during our audit.

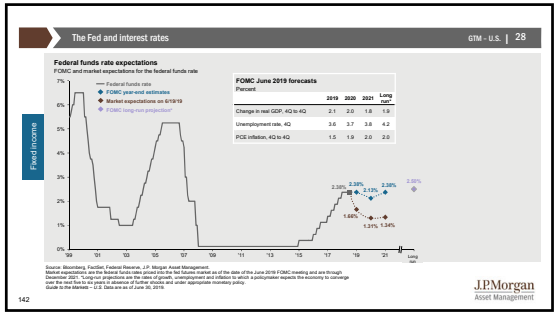
[Signature of the auditor's firm]
[Auditor's city and state]
[Date of the auditor's report]

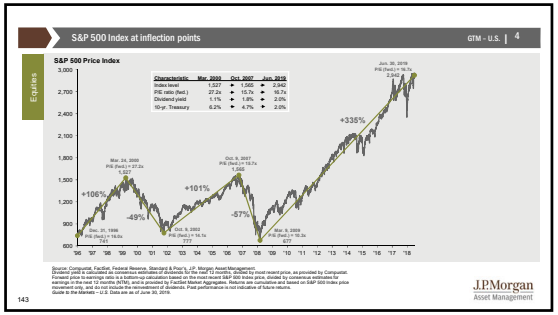
Lunch

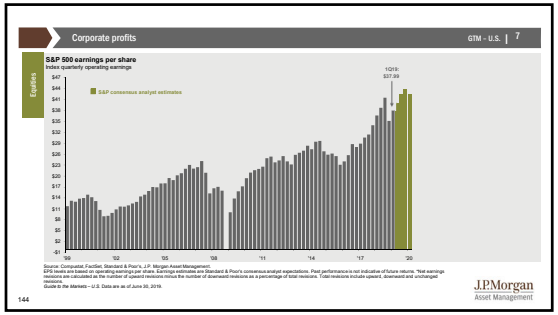

The length and strength of expansions
GTM - U.S. | 17
Economy
Length of economic expansions and recessions
Average length (months):
Expansions: 48 months
Recessions: 15 months
120 months*
Strength of economic expansions
Cumulative real GDP growth since prior peak, percent
Prior expansion peak
Number of quarters
Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through June 2019, lasting 120 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at www.nber.org/cycles/ and reflect information through June 2019. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of June 30, 2019.
139
J.P.Morgan
Asset Management

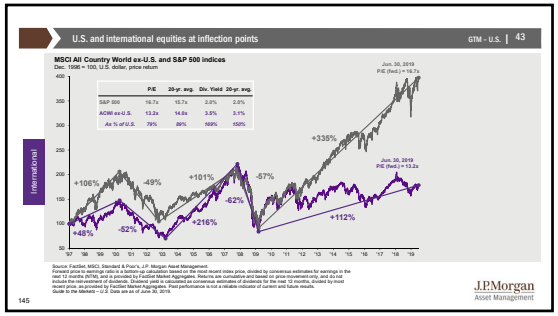

Global trade
GTM - U.S. | 49
International
World trade volume
Year-over-year, % change, 3-month moving average, monthly
Average: 5.0%
Apr. 2019: 0.4%
Source: CPB Netherlands Bureau for Economic Policy Analysis, FactSet, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of June 30, 2019.
140
J.P.Morgan
Asset Management

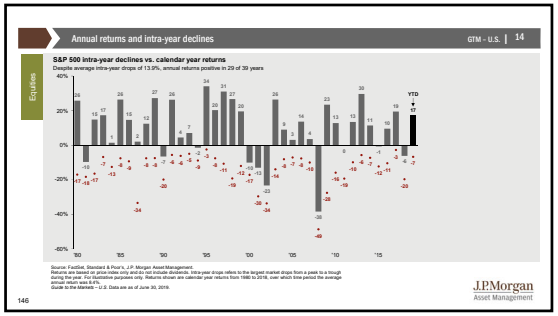

Manufacturing momentum
GTM - U.S. | 47
International
Global Purchasing Managers' Index for manufacturing, quarterly
Source: Markit, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of June 30, 2019.
141
J.P.Morgan
Asset Management

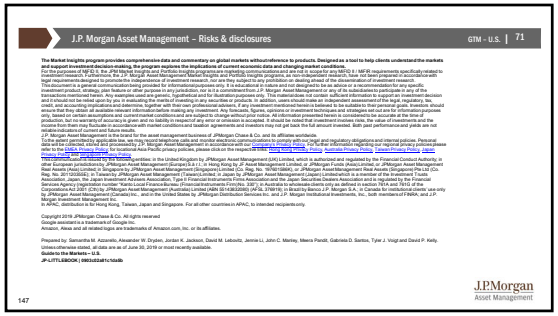

The Fed and interest rates
GTM - U.S. | 28
Fixed income
Federal funds rate expectations
FOMC and market expectations for the federal funds rate
Federal funds rate
FOMC year-end estimates
Market expectations on 6/18/19
FOMC long-run projection*
FOMC June 2019 forecasts
Percent
2019 2020 2021 Long run
Change in real GDP, 4Q to 4Q 2.1 2.0 1.8 1.9
Unemployment rate, 4Q 3.6 3.7 3.8 4.2
PCE inflation, 4Q to 4Q 1.5 1.9 2.0 2.0
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are the federal funds rates priced into the fed futures market as of the date of the June 2019 FOMC meeting and are through December 2021. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the medium term in the absence of further shocks and under appropriate monetary policy.
Guide to the Markets – U.S. Data are as of June 30, 2019.
142
J.P.Morgan
Asset Management


S&P 500 Index at inflection points
GTM - U.S. | 4
Equities
S&P 500 Price Index
Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of June 30, 2019.
143
J.P.Morgan
Asset Management


Corporate profits
GTM - U.S. | 7
Equities
S&P 500 earnings per share
Index quarterly operating earnings
S&P consensus analyst estimates
Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of June 30, 2019.
144
J.P.Morgan
Asset Management







Not-for-Profit Gameshow

ETHICS FOR THE BEWILDERED, PERPLEXED,CONFUSED, SKEPTICAL, ETC……

- The Challenge of Ethical Perception
- Rest's Four-Component Model:
- 1. Moral Sensitivity (Moral Awareness)
- 2. Moral Judgment (evaluating possible solutions)
- 3. Moral Motivation (Moral Intention)
- 4. Moral Courage (The Courage to Act)

A WILLIE SUTTON PRIMER

ETHICS: THE COMPLIANCE-BASED APPROACH

- Compliance-based ethics is the product of rules, regulations, codes, laws, etc., intended to govern conduct.
- Law and Ethics- Law tells us what we have the right to do; ethics helps us to understand what the right thing is to do.
- Law establishes a standard of conduct; a moral minimum standard.
- Law does not require that we do our best; it simply asks that we not do our worst.

SPEAKING OF CODES – FROM THE GRAVE OF ENRON

- The Vision and Values Statement
- The capital V Values - Respect, Integrity, Communication and Excellence
- We treat others as we would like to be treated ourselves
- We do not tolerate abusive or disrespectful treatment
- Ruthlessness, callousness and arrogance don't belong here

THE VALUES PROPOSITION

- Giving Voice to Values (Mary Gentile)
- "Most people would like to act on their values and would like to work for an organization that supports that."
- The GVV Question: "What if I were going to act on my values? What would I say and do? How could I be most effective?"
- GVV starts from a place of respect - not teaching, preaching or imposing values, but appealing to our widely-shared values (honesty, fairness, compassion, tolerance, etc).

VALUES BASED DECISION-MAKING

- Tell me about your values
- How many of you have values?
- How do you know what they are and if they are your values?
- Think about a time when you acted on your values or a value, and what did you risk?
- Recall a situation when you did not act on your values and explain why not.
- Do you feel comfortable acting on your values in your current role?
- Is there a difference between personal and professional values?

UNDERSTANDING VALUES

- Our beliefs inform our values and should be reflected in the decisions that we make and the actions that we take (i.e. in what we actually do).
- Our values, if applied consistently, become our principles.
- Principles are expensive. If they were cheap, everyone would have them.
- To act in a way that is consistent with your values or principles may cost you something. You may pay a price. You may have to pay more than you think you can afford.
- Why bother? Because to ignore your values/principles is to deny yourself, to deny who you are.

THE VALUE OF VALUES

- Our values provide an anchor in uncertain or turbulent times. In those situations in which there is no clear answer, our values give us something to hold on to, so as to preserve the best of who we are.
- All that stands between us and those who would hope to corrupt us, to use us to advance their own agenda, is what we believe in, what we value and how far we are willing to go to protect and defend those values.

THE NATURE OF AN ETHICAL DILEMMA

- An ethical dilemma is not a choice between right and wrong; it is often a choice between right and right.
- An ethical dilemma is a conflict of values.
- Kidder's Four Ethical Paradigms:
- Truth v. Loyalty
- Individual v. Community
- Short-Term v. Long-Term
- Justice v. Mercy

WHY GOOD PEOPLE DO BAD THINGS AT WORK (WHERE SITUATIONAL FACTORS GO HEAD TO-HEAD WITH OUR VALUES).

- Meeting expectations of peers, superiors, subordinates, clients, family
- Distractions
- Scripts Information – too much, too little, inaccurate, contradictory
- Moral Exclusion
- The Phenomenon of Bounded Rationality:
- Time
- Limitations of the mind
- Information – too much, too little, incomplete, inaccurate, contradictory

HERBERT SIMON - BOUNDED RATIONALITY

- Our ability to make rational decisions/choices is limited by these factors. Accordingly, our decisions don't produce optimal results, but rather results that are satisficing (good enough).

OUR ENDURING QUANDARY

- It isn't hard to do the right thing, what's hard is knowing what the right thing is to do.
- OR
- It isn't hard to know what the right thing is to do. What's hard is doing it.
- It is often a choice between the hard right and the easy wrong.

WHAT WOULD ARISTOTLE DO?

- Approaches to Decision-Making:
- What will produce the best outcome for the most people? What will advance the common good?
- It is the outcome-based approach to decision making. The belief that the ends justify the means. A good result or outcome for most, trumps all other concerns.
- The rules (principles)/means-based approach holds that:
- a. What we achieve or hope to achieve must conform to universally recognized principles. Standards must be regarded and respected in achieving a desirable outcome.
- b. How we achieve a desired result (the means by which it is achieved matters as much (or more) as the result.

THE CATEGORICAL IMPERATIVE IN 2019

- In contemplating a decision that challenges you, ask yourself this question: Would you want your decision to become a rule, standard or principle by which everyone would conduct themselves? In other words, would you be willing to universalize your decision? And would you want to live in that world?

- Ethics is an attempt to answer this question: How shall I live my life?
- Who will define me? Those for whom I have the highest regard or those for whom I have little or no regard or respect?

THE ETERNAL QUESTIONS

- As we struggle to address problems that don't seem to lend themselves to a simple resolution, we ask ourselves, "what shall I do?"
- But rather than approaching these often confounding situations with a transactional mindset, perhaps we would do better to approach these dilemmas by asking this: who shall I be? How would I like to be regarded by others? What qualities of character should I be committed to cultivating? This approach takes the measure of one's whole life. Who am I? What do I believe? What is my purpose?

BE A MENSCH

SCHNEIDER DOWNS
Big Thinking. Personal Focus.

Robotic Process Automation (RPA)

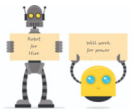
2019

Big Thinking. Personal Focus.

RPA Defined

What is RPA?

- A class of software tools used to automate tasks, streamline workflows and/or create efficiency between systems where there is no application integration.
- RPA provides improved accuracy, reduced cycle time and increased productivity in processing transactions
- RPA is technology agnostic



What can RPA do for Your Business?

- Free up your workforce to focus on more valuable initiatives
- Improve efficiency and accuracy
- Get more work done faster
- Reduce cost
- Eliminate routine/mundane tasks creating a more fulfilling employee experience
- Identify exceptions and anomalies in processes

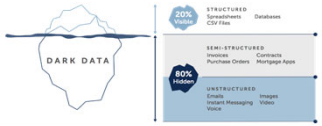
Characteristics of the Best Processes to Automate

- Data is digital (exists in a database, spreadsheet, etc.)
- Processes are rule-based and stable
- Tasks are manually intensive or have significant volume
- The User Interface is consistent
- Manual intervention is minimal
- Benefits produced by the bot outweigh the cost of development

Bots are "Virtual Workers" that …

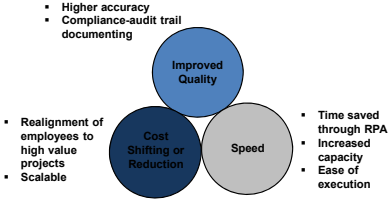
- Work 24/7 with no vacation, holiday, sick or personal days
- Don't make clerical mistakes
- Can easily scale to adjust for workloads
- Are typically less expensive than outsourcing (including overseas)
- Limit access to sensitive data providing more secure environment

Bots and Data Analysis



- Leverage Machine Learning and AI to extract data into a form you can use in business processes
- Bots can watch and learn how to interpret data by interacting with your workers

Value Proposition



Sample Not-for-Profit Bot Use Cases

Financial:
- Accounts Payable
- Accounts Receivable
- Bank Reconciliation
- Vendor Management

Human Resources:
- Onboarding
- Terminations
- Regulatory (e.g. clearances)

Fundraising/Development:
- Automate campaigns
- Integrate data between fundraising and financial systems

Other:
- Automate reporting functions
- Converting unstructured data (e.g. information on websites) to structured data

Level of Effort

- Initial Investment
  - Bot development typically takes anywhere between 2 to 8 weeks
    - Timing includes business process documentation, development and testing
- On-going Effort
  - Bots require supervision to ensure they run properly
  - Updates will be needed if/when interfaces change

Bot Demonstration

SCHNEIDER DOWNS
Big Thinking. Personal Focus.

SCHNEIDER DOWNS
Big Thinking. Personal Focus.

Cyber Security and Technology Update

ERIC WRIGHT
SHAREHOLDER
TECHNOLOGY ADVISORS

Discussion Topics

1. Cyber Security Update
2. Privacy Laws
3. Graham Leach Bliley Act (GLBA) – New Single Audit Requirement for Higher Ed
4. New PCI Compliance Requirements
5. Robotic Process Automation (RPAs)

CYBERSECURITY TOPICS

- Passwords
- Phishing
- Administrative Permissions
- Anti-Virus
- Encryption
- Data Governance
- Network Segmentation
- Security Monitoring
- Patching
- Physical Security

Passwords

There is a new standard in the industry, 8 characters is no longer considered safe.

Time to "crack" an 8 character password scenarios:

- Upper and lower case only — 5 hours
- Upper, lower case with a number or special character — 5 months

Time to "crack" a ten character password

- Upper and lower case only — 4 months

Time to "crack" a twelve character password

- Upper and lower case only — 200 years

Passwords

Password	Year	Time to Crack
Pirate10	2010	9 months 1 week
Pirate15	2015	7 months 1 week
Pirate19	2019	5 months 1 week

Phishing

Still the number one method in which hackers gain access to system

Focus on security awareness training

Consider using advance threat technology, if the security awareness training is not working

Administrative Privileges

Both Server and Workstation administrative privileges should be limited to those who need such rights

Do not forget about restricting administrative privileges to your databases

Anti Virus

Not all Anti-Virus products are the same

Blind Spots

- Default exclusions (certain files types, certain folders, etc.) can be exploited by attackers

Signature-based detections ONLY

- Can be evaded by basic obfuscation techniques

Encryption

Where possible, your databases should be encrypted

The transmission of data should be encrypted

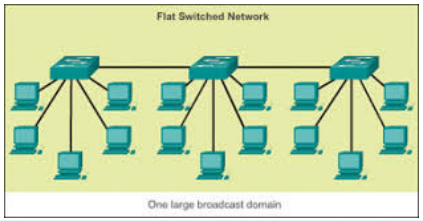
Any portable devices should be encrypted

Data Governance

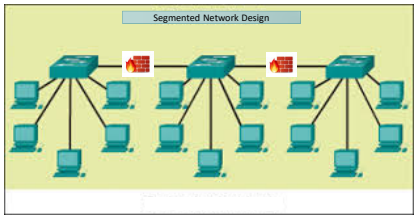
You need to inventory and understand where your sensitive information resides.

Who has access to the sensitive information and is it a requirement of their job

Network Segmentation – Flat Design



Network Segmentation – Segmented Design



Security Monitoring

System Logs
- Ensure all desired logs are being collected properly

Network Traffic
- Network traffic should be monitored with effective rulesets to alert on specific activity thresholds

Configuration/Design
- Ensure specific detection capabilities for each intended attack scenario
- Validate capabilities with routine attack simulations

Patching

Are there any systems on our network not receiving security patches?"

"Do we run our own internal vulnerability scans?"

"Are we also patching applications and databases?"

"Do we have a process in place for emergency patching?"

Physical Security

Who has physical access to your servers and wiring closets

Are the servers and wiring closets locked

Are visitors to your offices escorted throughout their visit

Privacy Laws

California Consumer Privacy Act (CCPA) goes into effect on 1/1/2020

Privacy Laws are moving east, 5 other states have similar legislation in front of their congressional bodies

CCPA is very similar to GDPR with minor differences, the biggest being that non-profit organizations do not have to comply with the law.

The legislation in front of the New York and Massachusetts legislations eliminates many of the exclusion criteria in the CCPA

Graham Leach Bliley Act (GLBA)

New requirements being imposed by the Department of Education to protect the security of student financial aid information

As part of the single audit requirement, Auditor are required to include in their audit the schools compliance with certain provisions of GLBA

What does this Mean:

Graham Leach Bliley Act (GLBA)

Designating an employee or employees to coordinate the information security program.

Identifying reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction or other compromise of customer information, and assessing the sufficiency of any safeguards in place to control these risks.

Designing and implementing information safeguards to mitigate the risks identified in the required risk assessment, and regularly testing and monitoring the effectiveness of those safeguards.

Overseeing service providers by taking reasonable steps to select and retain service providers that are capable of implementing and maintaining appropriate safeguards for the customer information at issue.

Evaluating and adjusting the information security program in light of changed circumstances.

PCI Update

Multi Factor Authentication is required for all non console admin access and any remote user with access to card holder information

External Penetration Testing is now a required annually

Internal and external vulnerability scans are required quarterly

Robotic Process Automation (RPA)

Technically it is the application of technology, governed by business logic and structured inputs, aimed at automating business processes.

Virtual Employee, that works 7x24x365

Often referred to as "Bots"

Robotic Process Automation (RPA)

What makes a process a candidate for automation:

- Should be repetitive process and rules based
- The process is prone to human error
- Access to multiple systems
- Low fault tolerance
- High volume of transactions
- Time intense

Robotic Process Automation (RPA)

Examples:

SCHNEIDER DOWNS
Big Thinking. Personal Focus.

Top Mistakes
Nonprofits Make

MICHAEL VON LEHMAN
DIRECTOR, SCHNEIDER DOWNS MERIDIAN

Overview

Schneider Downs Meridian Introduction

Eight Common Nonprofit Mistakes:

Financial Mistakes

- Developing a budget that is too aggressive
- Confusing surplus with positive cash flow
- Creating an improper debt structure
- Building too big and/or raising too little

Strategic Mistakes

- Focusing on mission above all else
- Measuring the wrong outcomes
- Misunderstanding the market
- Making decisions based on assumptions, not facts

Schneider Downs Meridian

Schneider Downs Meridian was created to provide clients with award-winning consulting services in the areas of management consulting, corporate restructuring and debt financing. Additionally, our experience includes having served in the capacity of Court-appointed Receiver, Examiner and Trustee.

Our clients range from closely-held businesses to large publicly-traded corporations across the country, but typically are middle-market businesses with sales between $10 million and $500 million. They encompass a wide range of industries, including not-for-profits, manufacturing, construction, distribution and service.

The foundation of our success is a constant attention to detail, a focused approach to solving the problems of our clients, a commitment to results, and the ability to pull from our depth of knowledge. Over the years, our professionals have gained an enviable reputation for our thoroughness, financial expertise, negotiating skills, presentation expertise, and the ability to quickly assess and address the obstacles impeding our client's success.

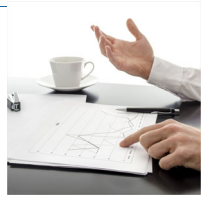
Financial Mistakes

Budgets are too aggressive both in revenue and expenses

Nonprofits are typically too optimistic when budgeting for revenue and donations. At the same time, they set an expense budget to match those revenues.

Confusing profits for positive cash flow

If an organization is break-even but has $1 million of debt payments due, its cash flow will be a loss of $1 million, despite the statement of activities showing no loss.



Financial Mistakes

Improper debt structure

Nonprofits, out of desperation, will start using their line of credit to finance long-term assets. In addition, nonprofits will carry too much debt, affecting their cash flow and ability to operate.

Building too big and/or raising too little

Organizations raise too little money, forcing them to incur debt to complete projects. Now, in addition to the additional costs of maintaining the new asset, they also have to service the related debt.

Strategic Mistakes

Focusing on mission at the expense of all else

Not-for-profits need to find a balance between the mission and remaining financially viable. An organization cannot serve its community or employees if it does not exist. Think about mission and value to the community over long periods of time, rather than at any particular moment.

Misallocation of resources

Are your assets being deployed in the most efficient manner? Is your building too big? Are your offices too expensive? Are you investing in programs with little value, both financially and in the community?

Strategic Mistakes

Misunderstanding your market

Not-for-profits, as with any enterprise, needs to fully understand the market they compete in and/or serve.

Scenario 1

Making decisions based on assumptions, not facts

Introducing a new location or program? What analyses have been performed to back that strategic decision?

Scenario 2

Schneider Downs Meridian

Please contact us with any questions you may have regarding this presentation or client needs.

Michael T. Von Lehman, CTP
Director
Phone: (412) 697-5248
Email: mvonlehman@schneiderdowns.com

William R. Frederick
Senior Associate
Phone: (412) 697-5845
Email: wfrederick@schneiderdowns.com

In 2019, both Michael Von Lehman and William Frederick were honored by the Turnaround Management Association's Turnaround of the Year for a not-for-profit. The prestigious award was the result of their work with Life'sWork of Western PA.

SCHNEIDER DOWNS MERIDIAN

SCHNEIDER DOWNS
Big Thinking. Personal Focus.

Thank you for attending today's Not-for-Profit Symposium.

PLEASE BE SURE TO TURN IN YOUR EVALUATION TO THE REGISTRATION TABLE.