BAKER NEWMAN NOYES

2021 Accounting & Business Update

October 27, 2021

Healthcare Industry

Accounting & Business Update

Eric Wetherell & Denis Houle

10.27.2021

BAKER NEWMAN NOYES

Who We Are

BAKER NEWMAN NOYES

Our experienced healthcare advisory team works across the continuum of care including regulatory compliance, reimbursement, revenue management and financial forecasting. We pride ourselves on staying current on federal and state laws and regulations to assist you in making proactive, objective and timely decisions.

Eric Wetherell

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Agenda

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1. Price Transparency
2. No Surprises Act
3. American Rescue Plan
4. ACA Supreme Court Ruling
5. Other Potential Healthcare Industry Impacts
6. IPPS Final Rule
7. OPPS Proposed Rule
8. Provider Relief Funds

BAKER NEWMAN NOYES

Price Transparency

Price Transparency

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- Original deadline for compliance: 1/1/2021
- All non-governmental hospitals are required to
  - Display in a machine-readable format on their website (or downloadable file)
    - Charges
    - Negotiated rates by payer
    - Cash discount (if applicable)
    - De-identified minimum and maximum negotiated rates
  - Display 300 “shoppable” services in a consumer friendly format on their website or have a compliant software solution
  - Non-compliance will result in a $300 per day per facility penalty
- As of June 30 (180 days), this could be as much as $54,300 per hospital

Price Transparency (Continued)

BAKER NEWMAN NOYES

Enforcing Compliance

- CMS has issued over 250 citation letters informing hospitals of non-compliance
- Common issues include:
  - Missing "Effective Date" on the file
  - Missing negotiated rates for certain charges
  - Not including key charges such as "Room and Board"
  - Missing "De-identified Minimum and Maximum" rates
  - Missing "Cash Discount" rates

Price Transparency (Continued)

FY 2022 OPPS Proposed Rule Penalty Increase

- For hospitals with 30 or fewer beds, the $300 penalty per facility per day would stay in place
- The $300 per facility per day penalty would increase by $10 for every bed up to 550 beds
- Larger hospitals with 550 beds or more could receive penalties up to $5,500 per day, totaling up to $2 million per year

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No Surprises Act

No Surprises Act

BAKER NEWMAN NOYES

- Enacted as part of the Consolidated Appropriations Act, 2022
- **CMS Interim Final Rule published 7/1/2021 (CMS-9909-ICF) - Requirements Related to Surprise Billing: Part I**
  - Effective Date: 1/1/2022
  - Provides federal protections against surprise billing and limits out-of-network cost sharing
  - Protects participants, beneficiaries, and enrollees in group health plans, group and individual health insurance coverage from surprise medical bills when they receive emergency care, non-emergency care from non-participating providers at participating facilities, and air ambulance services from nonparticipating providers

No Surprises Act (Continued)

- If an organization currently practices balance billing for emergent situations, this would no longer be allowed after 1/1/2022
  - Non-emergent situations: Provider can seek consent to waive their balance billing protections
  - Providers must publicly disclose and inform patients about their surprise billing protections
- Each organization needs to be aware of other providers that may not be contracted with the organization's contracted payers
  - Example: Radiologist or Anesthesiologist who is not contracted with a payer the hospital is contracted with
    - It should be the insurance company's responsibility to process as an in-network benefit
    - Hospital customer service representatives need to be aware and be able to help the patient resolve the issue

No Surprises Act (Continued)

BAKER NEWMAN NOYES

- Requires insurers to pay or provide notice of denial within 30 days of receiving a clean claim
- Notices of balance billing must be given at least 72 hours before the date of the appointment
- If the appointment is scheduled less than 72 hours in advance, notice must be given on the day the appointment is made

No Surprises Act (Continued)

Balance Billing Prohibitions

- Balance billing is prohibited for emergency care under the No Surprises Act
- If a patient receives emergency care out-of-network, the additional charge must be settled between the provider and the health plan, not charged to the patient

Patient Cannot be Balance Billed For:

- Ancillary services for emergency medicine, anesthesiology, pathology and neonatology
- Items and services provided by assistant surgeons, hospitalists and intensivists
- Diagnostic services, including radiology and lab services

No Surprises Act (Continued)

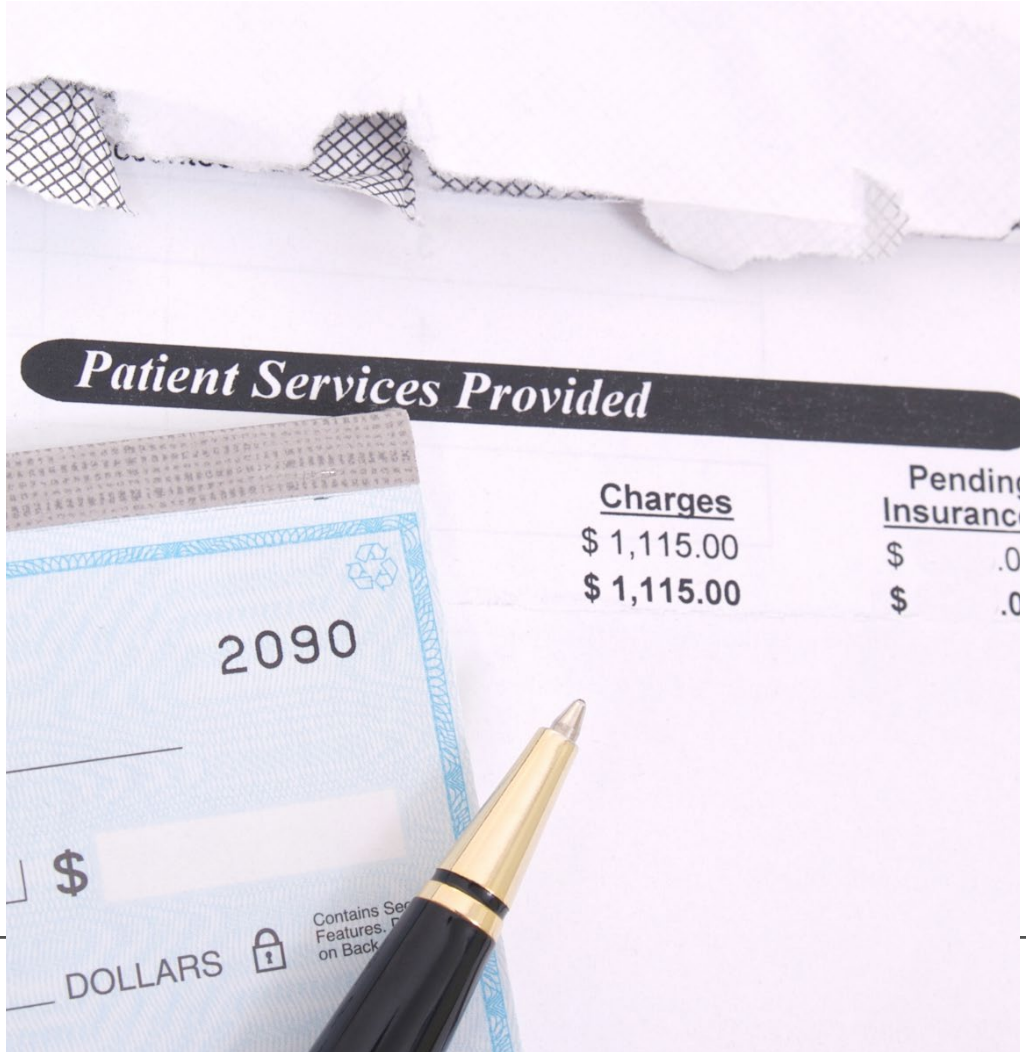
BAKER NEWMAN NOYES

Balance billing is allowed for post-stabilization services when the following criteria are met

- Patient is able to travel to an in-network facility that is within a reasonable distance without using medical or emergency transportation (Patient's socioeconomic factors must also be considered when determining what is reasonable)
- Patient is deemed fit to travel and still chooses to receive post-stabilization care out-of-network

No Surprises Act (Continued)

BAKER NEWMAN NOYES



Surprise Billing vs. Balance Billing

- A “**surprise medical bill**” is an unexpected bill from a provider that occurs when a patient receives care from a provider or facility out-of-network (which is often unknown to the patient)
- “**Balance billing**” is when the patient is billed for the difference between the provider’s billed charges, the amount paid by the plan and the cost sharing paid by the individual, which may come as a surprise to a patient

No Surprises Act (Continued)

- **Requirements Related to Surprise Billing: Part II – Published 9/30/2021**
  - Effective Date: 1/1/2022 (Open for Comments until 12/6/2021)
  - Includes a process for settling payment disputes between out-of-network providers or facilities and health plans
  - Before the independent dispute resolution process is initiated, both parties must enter a 30-day "open negotiation" period to determine a rate of payment. If negotiations fail, either party can then initiate the dispute resolution process
  - Once initiated, parties are required to jointly select an independent dispute resolution entity (HHS will choose one, if one cannot be jointly selected)

No Surprises Act (Continued)

BAKER NEWMAN NOYES

- Next, the disputing parties will submit their proposed payment rates and supporting documentation to the resolution entity
- The appropriate payment amount is the median rate negotiated by insurers for the service in the patient's geographical area
- Providers and facilities must give uninsured patients a "good faith estimate" of charges expected after an item or service is scheduled, or upon the patient's request
- This estimate must include charges expected for the item or service scheduled, as well as any other items or services that "would reasonably be expected" to be part of the scheduled item or service

BAKER NEWMAN NOYES

American Rescue Plan

American Rescue Plan – Rural Healthcare Providers

BAKER NEWMAN NOYES

- American Rescue Plan Act of 2021 (Public Law 117-2 – 3/11/2021): $1B allocated to rural providers for COVID-19 testing, vaccination and treatment
- Allocation of Funds
  - $460M: Rural Health Clinic COVID-19 Testing & Mitigation Program
    - >4,600 rural health clinics
    - Maintain / increase testing, expand access and mitigate spread
  - $398M: Small Rural Hospital Improvement Program
    - ~1,730 small rural hospitals / critical access hospitals
    - Testing and mitigation efforts

American Rescue Plan – Rural Healthcare Providers (Continued)

BAKER NEWMAN NOYES

- Allocation of Funds (cont’d)
  - $100M: Rural Health Clinics that apply through the Rural Health Vaccine Confidence Program
    - Support / resources for medically underserved rural communities
    - Reduce lags compared to more populated areas
- Medicare-Certified Rural Health Clinics can join the Rural Health Clinic COVID-19 Vaccine Distribution Program
  - In addition to the weekly allocation, receive vaccines directly from the Biden Administration

BAKER NEWMAN NOYES

ACA Supreme Court Ruling

ACA Supreme Court Ruling

BAKER NEWMAN NOYES

- On 6/17/2021, the Supreme Court ruled 7-2 to uphold the Affordable Care Act (ACA)
- This included the 340B program (established in 1992)
  - Requires drug manufacturers participating in Medicare Part B or Medicaid to offer discounts to many DSH hospitals
  - The ACA added critical access hospitals, and the following hospitals that meet a specific DSH adjustment percentage threshold
    - Children's hospitals
    - Freestanding cancer hospitals
    - Sole community hospitals
    - Rural referral centers

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Other Potential Healthcare Industry Impacts

Disruptors

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- **Walmart**
  - Partnered with EPIC – 2022 rollout
  - Hiring 150,000 employees to support health strategy (including clinics)
  - Goal to open 4,000 primary care “supercenters” in stores by 2029
- **Amazon Care**
  - On demand virtual care – Enables employees or employer partners to connect with medical professionals within 60 seconds
  - In-person care – Dispatching medical professionals to patient homes for range of services (blood draws, listening to lungs, prescription delivery).
  - Seeking expansion to all 50 states
- **Google**
  - Continuing to develop predictive analytics and AI models to support preventative care

COVID-19 Vaccine Mandate – Staffing Impact

BAKER NEWMAN NOYES

- Many organizations have experienced significant staffing challenges throughout the pandemic
- Recent Federal vaccine mandate will likely add to existing staffing challenges for nurses and allied support workers
- Estimated 1 in 8 medical professionals will not receive the vaccine, creating further staffing challenges
- Northwell Health (NY) fired 1,400 unvaccinated employees
- National Guard troops deployed to support hospitals in California due to severe staffing shortages

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IPPS Final Rule

IPPS Final Rule

- Published 8/2/2021
- MSDRG: Payment rates based on FY2019 claims data and FY2018 cost report data (pre-COVID)
- Medicare Wage Index
  - Reinstate non-budget-neutral imputed rural floor
  - If reclassify as rural, minimum of 1 year
  - Urban hospitals that reclass as rural will be eligible for geo-reclass
- Hospital Market Basket
  - 2.7% increase in IPPS operating payments for general acute care hospitals (if participate in quality reporting / meaningful users of EHR)

IPPS Final Rule (Continued)

- GME / IME
  - The Proposed Rule would have:
    - Expanded training / retention of physicians in underserved areas
    - Additional 1,000 Medicare-funded GME residency positions ($1.8B in additional funding) / phased in beginning in FY2023
    - These provisions have been deferred to a later time
  - IME formula multiplier: 1.35 (~5.5% IPPS payment increase)
- National Adjusted Operating Standardized Amounts:
  - 2.5% increase / 1.3% increase in Federal Capital Payment Rate
  - Above assumes meaningful use of EHR and quality data submission

IPPS Final Rule (Continued)

- DSH: $10.7B funding (~$1.4B less than 2021)
- Interim Uncompensated Care Payments: Based on FY2018
- Rate Reporting Requirement Change
  - Rescinded FY2022 requirement to disclose privately negotiated Medicare Advantage rates for IPPS and long-term care hospitals
  - Would implement new GME slots (increase provider workforce in rural / other underserved areas)
  - CMS quality-based programs would be updated
  - The requirement would have added 64,000 hours

BAKER NEWMAN NOYES

OPPS Proposed Rule

OPPS Proposed Rule

BAKER NEWMAN NOYES

- Proposed rule released on July 19, 2021
- OPPS payment rates increase 2.3%
- CMS to utilize CY2019 data to set CY2022 rates (CY2020 skewed due to COVID-19)
- Inpatient-Only list elimination has been halted
- No Change to 340B payment policy

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Provider Relief Funds (PRF)

PRF Reporting Requirements

BAKER NEWMAN NOYES

- On June 11, 2021, HHS published changes to the reporting requirements for those organizations who received Provider Relief Funds, superseding the guidance provided on January 15, 2021
- The PRF supports healthcare providers in the battle against the COVID-19 pandemic. Through the CARES Act, the federal government allocated $178 billion in payments:
  - General Distributions
    - Phase 1: $46.02B / >320,000 providers
    - Phase 2: $5.98B / 60,832 providers
    - Phase 3: $24.50B / 97,433 providers
    - Phase 4: $17.00B
    - Targeted Distributions (high-impact areas, rural, SNFs, safety net hospitals, children's hospitals, American Rescue Plan Act, etc.)

PRF Reporting Requirements (Continued)

BAKER NEWMAN NOYES

Period of Availability of Funds

- PRF recipients must only use payments for eligible expenses including services rendered, and lost revenues during the period of availability (deadline to use funds)
- Recipients who received one or more payments exceeding $10,000 in the aggregate during a Payment Received Period are required to report in each applicable Reporting Time Period as indicated in the Table below

	Payment Received Period (Payments > $10,000 in Aggregate Received)	Deadline to Use Funds	Reporting Time Period
Period 1	4/10/2020 – 6/30/2020	6/30/2021	7/1/2021 – 9/30/2021
Period 2	7/1/2020 – 12/31/2020	12/31/2021	1/1/2022 – 3/31/2022
Period 3	1/1/2021 – 6/30/2021	6/30/2022	7/1/2022 – 9/30/2022
Period 4	7/1/2021 – 12/31/2021	12/31/2022	1/1/2023 – 3/31/2023

PRF Reporting Requirements (Continued)

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60-Day Grace Period – Reporting Period 1

- The September 30, 2021 Reporting Period 1 deadline has not changed, however in response to challenges providers are facing given the COVID-19 surges and natural disasters around the country, a 60-day Grace Period was put into place. This allows providers to come into compliance with their PRF reporting requirements should they have failed to meet the September 30, 2021 deadline
- While you will be out of compliance if you do not submit your report by September 30, 2021, recoupment or other enforcement actions will not be initiated during the 60-day Grace Period (October 1 – November 30, 2021)
- The grace period began on October 1, 2021 and will end on November 30, 2021
- Providers should return unused funds as soon as possible after submitting their report. All unused funds must be returned no later than 30 days after the end of the Grace Period (December 30, 2021)
- This Grace Period only pertains to the Reporting Period 1 report submission deadline. There is no change to the Period of Availability for use of PRF payments

PRF Reporting Requirements (Continued)

BAKER NEWMAN NOYES

Guidelines for use of PRF funds

- PRF funds can be used in the following manner and order:
  - Healthcare related expenses attributable to coronavirus that are not reimbursed, or obligated to be reimbursed, by other sources
  - PRF payment amounts not fully expended on healthcare related expenses attributable to coronavirus are then applied to patient care lost revenues

PRF Reporting Requirements (Continued)

BAKER NEWMAN NOYES

Summary of Data to be Reported

- Reporting Entity Overview
  - TIN, business Name, address, etc.
- Subsidiary Information
  - TINs (eligible health care providers), amount of targeted distributions to/by the Parent
  - Acquired / divested subsidiary information (TINs, effective dates, % of ownership, etc.)
- Interest Earned on PRF Payment(s)

PRF Reporting Requirements (Continued)

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Summary of Data to be Reported (continued)

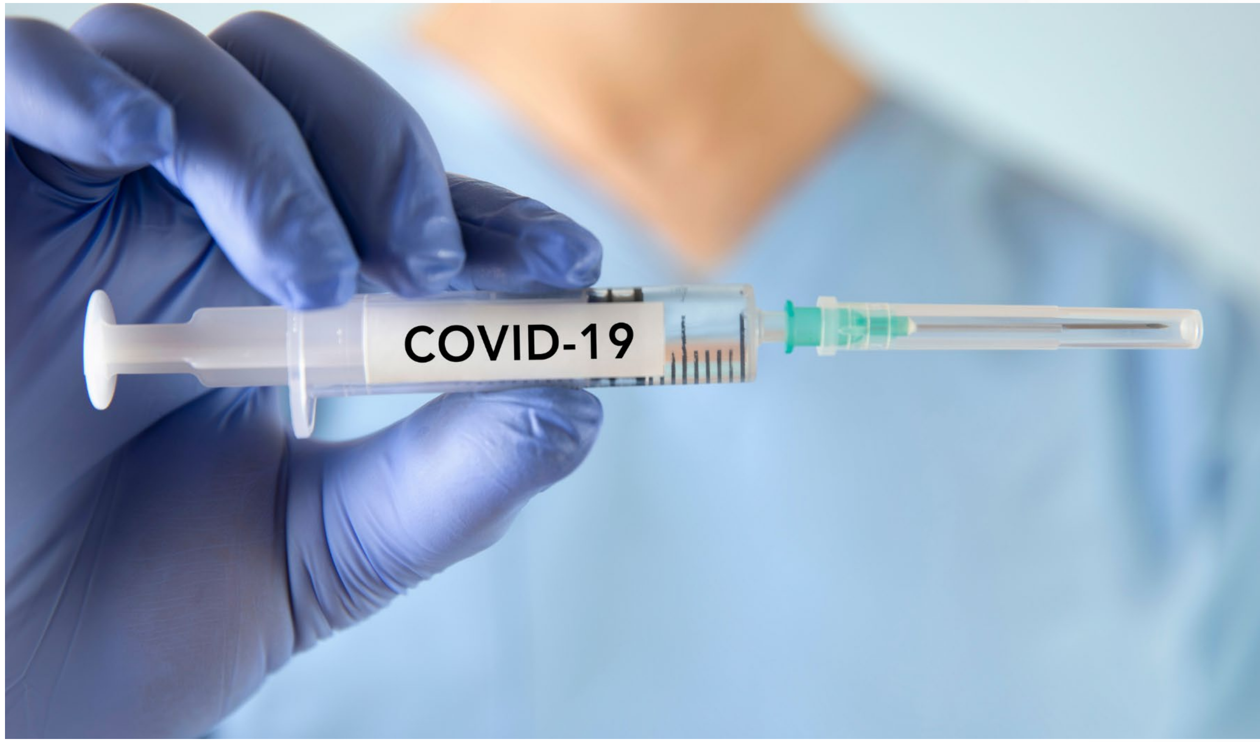
- Tax and Single Audit Information
- Other Assistance Received (SBA, FEMA, CARES Act, etc.)
- SNF and Nursing Home Infection Control Distribution Payments
  - Use (testing costs, staff hired, providing services to residents, etc.)
  - G&A Expenses (mortgage/rent, insurance, personnel, etc.)
  - Health Care-Related Expenses (supplies, equipment, IT, facilities, etc.)
- Use of General / Other Targeted Distribution Payments: $10,000-$499,999 in payments (total G&A and health care-related expenses)

PRF Reporting Requirements (Continued)

BAKER NEWMAN NOYES

Summary of Data to be Reported (continued)

- Use of General / Other Targeted Distribution Payments: $500,000+ in payments
  - G&A Expenses (mortgage/rent, insurance, personnel, etc.)
  - Health Care-Related Expenses (supplies, equipment, IT, facilities, etc.)
- Net Unreimbursed COVID-19 Expenses During Period of Availability (total G&A and health care-related expenses)



PRF Reporting Requirements (Continued)

BAKER NEWMAN NOYES

Summary of Data to be Reported (continued)

- Lost Revenues Attributable to COVID-19: 3 Methods
  - Difference between 2019 & 2020 actual patient care revenue (Medicare Part A/B, Medicare Part C, Medicaid/CHIP, commercial, self-pay & other)
  - Difference between 2020/2021 budgeted and actual patient care revenue (Medicare Part A/B, Medicare Part C, Medicaid/CHIP, commercial, self-pay & other); budget approved prior to 3/27/2020 / attestation
  - Alternate methodology

PRF Reporting Requirements (Continued)

BAKER NEWMAN NOYES

Summary of Data to be Reported (continued)

- Personnel, Patient and Facility Metrics
  - Personnel by labor category (FT, PT, contract, furloughed, separated & hired by clinical & non-clinical)
  - Patient metrics (admissions, OP visits: in-person/virtual, ED visits, # of facility stays for residential facilities)
  - Staffed beds (Med/Surg, critical care and other)
- Complete a survey re: impact of payments during Period of Availability

Requesting a Phase 3 Payment Reconsideration

- HRSA published detailed information about how the PRF Phase 3 payments were calculated
- Providers who believe their PRF Phase 3 payment was not calculated correctly according to this methodology will now have an opportunity to request reconsideration
- Providers may not revise or correct their submitted application

Requesting a Phase 3 Payment Reconsideration (Continued)

Required Steps for Reconsideration Request

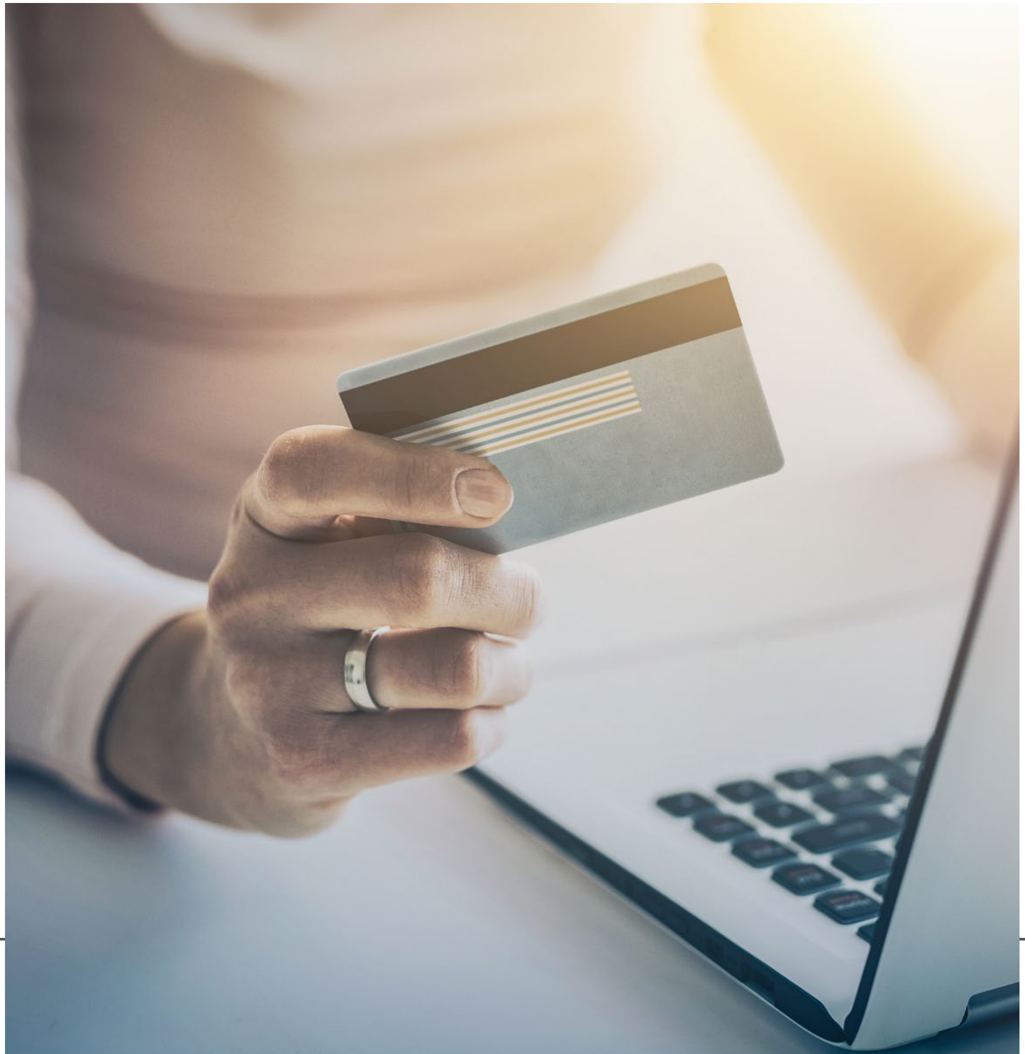
- Step 1: Review the detailed PRF Phase 3 calculation methodology so that you understand how the payment was calculated
  - HRSA will only consider reconsideration requests from providers who believe their Phase 3 payment calculation was incorrect
  - HRSA will not consider reconsideration request that would require a change to the payment methodology or policy
- Step 2: Complete the PRF Reconsideration Request Form
- Step 3: Submit the completed form on-line by the submission deadline – 11:59:59 pm EST on November 12, 2021

Requesting a Phase 3 Payment Reconsideration (Continued)

Phase 3 Payment Calculation: Summary

- The greater of 88% of losses (i.e., losses in revenue net of expenses) for the 1st & 2nd quarters of 2020, or 2% of net patient revenue from a provider's application, minus prior PRF payments, and applying risk mitigation/cost containment safeguards
- Approach reflected a decision to take self-reported revenue losses and expenses into account, while also ensuring consistency and fairness to applicants that had not received the 2% of annual patient care revenues in the first two phases

Requesting a Phase 3 Payment Reconsideration (Continued)



Phase 3 Payment Calculation: Summary (continued)

- HRSA employed several pre-payment risk mitigation/cost containment safeguards
- These safeguards included adjusting payments to providers where applications triggered a flag for concerns, such as significant deviations between claimed quarterly and annual revenues or expenses or reporting figures outside of the expected range related to similar providers

Requesting a Phase 3 Payment Reconsideration (Continued)

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Phase 3 Payment Calculation: Summary (continued)

- The full calculation methodology comprises the follow seven steps:
  - A. Calculating 2 Percent of Annual Patient Care Revenue
  - B. Calculating Initial Loss Ratio and Provider-Type Loss Ratios
  - C. Capping Loss Ratios and Other Pre-payment Value Adjustments
  - D. Calculating 88 Percent of Adjusted Losses
  - E. Selecting the Greater of Calculated ‘A’ or ‘D’
  - F. Deducting all Prior PRF Payments from Result of ‘E’
  - G. Flagging and Conducting Manual Review of Flagged Potential Payments

https://www.hrsa.gov/provider-relief/payment-reconsideration

Requesting a Phase 3 Payment Reconsideration (Continued)

BAKER NEWMAN NOYES

Completing the PRF Reconsideration Request Form

- Ensure the “Contact Information” and “Application Information” matches the Phase 3 application
- Complete all required fields in the PRF Reconsideration Request Form (via DocuSign)
- Do not include information beyond the PRF Reconsideration Request Form. HRSA will only review your original submitted application and will request any clarifying information, as needed

Requesting a Phase 3 Payment Reconsideration (Continued)

DocuSign Envelope ID: D0172396-1E71-47F2-AD2F-A96F3BFC1107

Reconsideration Form

Instructions: Use this form to request Provider Relief Fund Phase 3 payment reconsideration.

Prior to submitting this form:

- ✓ Review the Phase 3 Methodology, click here before submitting a reconsideration request to clarify how your Phase 3 payment was calculated. HRSA will only consider reconsideration requests from providers who believe their Phase 3 payment calculation was incorrect. HRSA will not consider reconsideration requests that require a change to methodology.
- ✓ **Ensure the information below matches the original Phase 3 application submission**; HRSA will not be able to process your reconsideration request without this information.
- ✓ Complete all required fields in this form. **HRSA must have all of this information** in order to quickly and accurately retrieve your application materials for review.

Submission Deadline: You must submit a completed PRF Reconsideration Request Form by 11:59:59 pm EST on 11/12/2021.

If the steps above are not followed, or if the application is submitted after the submission deadline, HRSA will not be able conduct a review of the reconsideration request.

Requesting a Phase 3 Payment Reconsideration (Continued)

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Application Information

Contact Person Name: ______________________

Contact Person Title: ______________________

Contact Person Phone Number: ______________________

Contact Person Email: ______________________

Application Envelope ID: ______________________

Tax ID Number on Application: ______________________

Tax ID Number on Tax Return attached to application (if different) ______________________

Additional Tax ID Numbers included in application: ______________________

Name as shown on application: ______________________

Business Name (if different): ______________________

Street 1: ______________________

Street 2: ______________________

City: ____________ State: ____________ Zip: ____________

Requesting a Phase 3 Payment Reconsideration (Continued)

BAKER NEWMAN NOYES

Reasons for requesting reconsideration

Please provide a clear and concise justification for the reconsideration request, indicating why you think your payment determination was incorrect. You should reference the Phase 3 methodology information posted on the PRF website to support your request.

Reasons for requesting reconsiders:

I agree that the submission of a PRF Reconsideration Request to HRSA does not guarantee an approval of, or adjustment to, payment. Any correction to payment determinations is subject to the availability of funds.

Phase 4 General Distribution & ARP Rural Payment

Overview

- HHS is making $25.5 billion in new provider relief funding available to healthcare providers
- HRSA is using a single application portal to make $8.5 billion in American Rescue Plan Act (ARP) Rural payments and $17 billion in PRF Phase 4 General Distribution payments
- The application is now open for both and will close on October 26, 2021 at 11:59 p.m. ET.

https://www.hrsa.gov/provider-relief/future-payments/phase-4-arp-rural

Questions?

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An Overview of Uniform Guidance Audits Specific to:

Provider Relief Funds

Julie Paquette

10.27.21

BAKER NEWMAN NOYES

Today's Presenter

Julie began her career at Baker Newman Noyes in 2006. She is a senior manager in the firm's assurance practice, specializing in the healthcare and nonprofit industries, as well as employee benefit plans.

Julie Paquette

Assurance Senior Manager

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Today's Objective

BAKER NEWMAN NOYES

Provide
- an update on guidance related to reporting on provider relief funds

Give
- an overview of Uniform Guidance and Single Audits and what to expect when going through a UG audit

Talk
- about potential audit steps related to the PRF uniform guidance audit

Today's Agenda

BAKER NEWMAN NOYES

1. Introduction
2. UG Audit Overview & Preparation; Anticipated testing related to Provider Relief Funds
3. Questions

Summary of Some Aspects of The Cares Act (signed into law March 2020)

BAKER NEWMAN NOYES

Provider Relief Fund

- Qualifies as federal funding and triggers compliance audit requirements
- Various distributions to health care providers April 2020- present
- Multiple CFDAs have been identified – they are summarized in a future slide in this presentation

What is a Single Audit & Uniform Guidance?

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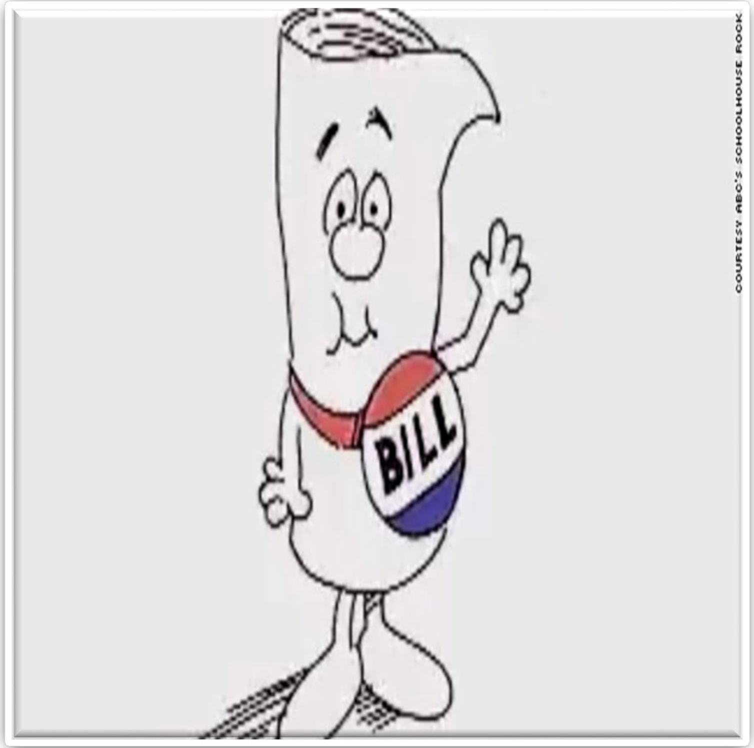

Act of Congress – the Single Audit Act Amendments signed into Law in 1996

Enacted to streamline and improve the effectiveness of audits of federal awards and to reduce the audit burden on states, local governments, and not-for-profit entities

Detailed implementation requirements for single audits contained in federal regulation

Uniform Guidance - Current regulation that implements the Single Audit Act

Where is Information & Guidance Located

How to access the Uniform Guidance - Codified in Title 2 of CFR, Subtitle A, Chapter II, Part 200 (www.federalregister.gov)

How to access the Compliance Supplement - Office of Federal Financial Management (https://www.whitehouse.gov/omb/management/office-federal-financial-management)

Another good resource – AICPA Accounting and Auditing Guide – (https://future.aicpa.org/cpe-learning/publication/government-auditing-standards-and-single-audits-audit-guide)

Single Audit Requirements & Program Specific Audit Option

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When is a single audit required?

- When a non-federal entity expends $750,000 or more of federal awards (either direct or indirect awards) in their fiscal year
- Implications for a consolidated entity

What is a program specific audit?

A **program-specific audit** is allowed when the grantee or sub recipient expends federal awards under only one federal **program**.

Objectives of a Single Audit

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The main objective of a Single Audit is to determine if the entity has complied with direct and material compliance requirements for each major program

- Is used by federal funding agencies and pass-through entities to assess organizations
- Is used as a tool for federal agencies to address problems at the grantee level or to make broad changes/improvements to federal programs
- Provides assurance to financial statement users regarding compliance and information about a non-federal entity's internal control over compliance

Scope of a Single Audit

Conducted in accordance with both GAAS and GAGAS

Auditor provides an opinion on whether financial statements are presented fairly

Auditor gains understanding of and tests internal control over compliance

Auditor opines on compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs

Auditor responsible for following up on prior audit findings

Auditee Responsibilities

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- Auditee responsibilities include identifying federal awards and arranging for the single audit.
- Auditee is required to ensure the single audit is performed and submitted timely
- Auditee is required to prepare the Schedule of Expenditures of Federal Awards (SEFA) accurately and timely and to follow up and take corrective action on audit findings
- Auditee is required to prepare a Corrective action plan to address findings
- Auditee is required to provide the auditor with access to the following:

Personnel → Accounts → Books → Records → Supporting documentation → Other information as needed

Auditee Responsibilities (Continued)

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- Maintain internal control over federal programs
- Comply with federal statutes, regulations, and the terms and conditions of the federal awards
- Evaluate and monitor compliance with statutes, regulations and the terms and conditions of federal awards
- Take prompt action when noncompliance identified
- Safeguard protected personally identifiable information

Auditee Responsibilities (Continued)

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1. Identify and Audit major programs
2. Determine whether the SEFA is stated fairly in all material respects in relation to the auditee's financial statements as a whole.
3. Understand internal control over federal programs and plan the audit to support low assessed level of control risk of noncompliance for major programs and perform testing of internal control over compliance
4. Determine whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs
5. Compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance
6. Auditor must follow-up on prior audit findings
7. Report current year findings resulting from compliance and internal control over compliance testing
8. Auditor must complete and sign specified sections of the Data Collection Form

Timing Requirements

Fiscal Year-End	Original Deadline	Extended Deadline
9/30/20	6/30/21	12/31/21
12/31/20	9/30/21	3/31/22
3/21/21	12/31/21	6/30/22
6/30/21	3/31/22	9/30/22

Schedule of Expenditures of Federal Awards (SEFA)

BAKER NEWMAN NOYES

SEFA Prepared by management; It should be reconciled to accounting and other records used in preparing the financial statements or the financial statements themselves

Auditor uses the schedule to base the performance of risk assessments and selection of major programs.

Completeness and accuracy are critical to avoid missed programs

Auditor issues an opinion as to whether the SEFA is fairly stated in all material respects in relation to the financial statements as a whole (referred to as in-relation-to opinion)

In-relation-to opinion not same as an “audit” opinion
Auditor is responsible for determining whether auditee includes all required SEFA elements

SEFA Required Elements

BAKER NEWMAN NOYES

List individual federal programs by federal agency

For a cluster of programs, provide the following:

- cluster name
- individual federal programs within the cluster of awards expended must be shown either by federal award or by federal agency and
- major subdivision within the federal agency

For federal awards received as a sub recipient, provide the following:

- The name of the pass through entity and identifying number assigned by the pass through entity
- Total federal awards expended for each individual federal program and the CFDA number or other identifying number when CFDA not available
- For a cluster of programs also provide the total for the cluster
- Include the total amount provided to sub recipients from each federal program

SEFA Examples, Tools, & Checklists

BAKER NEWMAN NOYES

- AICPA Auditee SEFA Practice Aid. The GAQC Practice Aid titled, Auditee Practice Aids: The Schedule of Expenditures of Federal Awards, assists auditees in their important role of preparing the SEFA and ensuring it includes all required elements and is prepared accurately and completely. The Practice Aid reflects the requirements of the Uniform Guidance and includes two different auditee tools within the document. The first assists auditees in accumulating information about their federal programs and the second is a disclosure checklist. (https://www.aicpa.org/content/dam/aicpa/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards/downloadabledocuments/auditee-practice-aids-sefa-uniform-guidance.pdf).
- See also the Government Audit Quality Resource Center (https://www.aicpa.org/interestareas/governmentalauditquality/resources/auditeeresourcecenter.html) for additional auditee information.

PRF-Amounts to be Reported on SEFA

Year End	What is included on the SEFA
Before 6/30/21	No PRF funds
6/30/21 through12/30/21	Total expenditures and lost revenues from the Period 1 report submission to the PRF Reporting Portal
12/31/21 through 6/29/22	Total expenditures and lost revenues from BOTH Period 1 and Period 2 report submissions to the PRF Reporting Portal
6/30/22 or after	SEFA reporting guidance to be provided at a later date on 2022 Supplement

Reporting Periods-Defined

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Reporting Portal Period	Payment Received (exceeding $10,000 in aggregate)	Period of Availability	Deadline to Use Funds	PRF Portal Reporting Time Period
Period 1	April 10, 2020 to June 30, 2020	January 1,2020 to June 30,2021	June 30, 2021	September 30, 2021 (grace period through November 30)
Period 2	July 1, 2020 to December 31,2020	January 1,2020 to December 31,2021	December 31,2021	March 31,2022
Period 3	January 1,2021 to June 30, 2021	January 1,2020 to June 30,2022	June 30,2022	September 30,2022
Period 4	July 1, 2021 to December 31,2021	January 1,2020 to December 31,2022	December 31,2022	March 31,2023

CARES Act Programs

BAKER NEWMAN NOYES

Assistance Listing number (also referred to as CFDA#) and federal agency name	Assistance Listing title or description and link to https://beta.sam.gov/ section	Does the Assistance listing indicate that UG applies?
59.073 (Small Business Administration (SBA))	Payment Protection Program (PPP)	No
93.498 (Health and Human Services (HHS))	Provider Relief Fund	Yes
21.019 (Treasury)	Coronavirus Relief Fund (CRF)	Yes
84.425 (Education)	Education Stabilization Fund which is comprised of Education Stabilization Fund	Yes
10.130 (Agriculture)	Coronavirus Food Assistance Program (CFAP)	No
16.034 (Justice)	Coronavirus Emergency Supplemental Funding Program	Yes
21.018 (Treasury)	Coronavirus Relief - Pandemic Relief for Aviation Workers	No
32.006 (Federal Communications Commission or FCC)	COVID-19 Telehealth Program	Yes
59.072 (SBA)	Economic Injury Disaster Loan Emergency Advance	No

CARES Act Programs (Continued)

BAKER NEWMAN NOYES

Assistance Listing number (also referred to as CFDA#) and federal agency name	Assistance Listing title or description and link to https://beta.sam.gov/ section	Does the Assistance listing indicate that UG applies?
59.008 (SBA)	Disaster Assistance Loans (Economic Injury Disaster Loans)	Yes
59.074 (SBA)	Office of Entrepreneurial Development (OED) Resource Partners Training Portal (RPTP)	No
84.184C (Education)	NEW 7/21/20: CARES Act Project SERV	Yes
93.461 (HHS)	Uninsured COVID Testing and Treatment	Yes
93.527 (HHS)	Grants for New and Expanded Services under the Health Center Program	Yes
93.665 (HHS)	Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	Yes
93.697 (HHS)	Rural Health Clinic Testing	Yes

Provider Relief Funds-CFDA 93.498 Testing Requirements

Requirement	Subject to testing (Yes/No)
Activities allowed or unallowed	Yes
Allowable costs/ Cost principles	Yes
Cash management	No
Eligibility	No
Equipment Real Property Management	No
Matching, level of effort, earmarking	No
Period of Performance	No
Procurement Suspension and Debarment	No
Program income	No
Reporting	Yes
Subrecipient Monitoring	No
Special tests and Provisions	Yes

Activities Allowed

- All distributions to prevent, prepare for and respond to coronavirus, domestically or internationally. (Note: Auditors are not expected to test the funding reported as lost revenues to determine if it was expended only for federally defined allowable activities.)
- Expenses include:
  - Building or construction of temporary structures
  - Leasing of properties
  - Medical supplies and equipment
  - Personal protective equipment and testing supplies
  - Increased workforce and trainings
  - Emergency operation centers, retrofitting facilities and surge capacity

Activities Allowed

- Additional terms and conditions for Skilled Nursing Facility Infection Control Distribution

Activities Unallowed

- Funds may not be used to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse.

Allowable Costs/Cost Principles

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- Charges to the PRF must be necessary, reasonable, accorded consistent treatment and conform to the limitations and exclusions of the terms and conditions of the award.

The PRF Frequently Asked Questions referenced under Availability of Other Information above provides additional guidance and examples (https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/faqs/index.html).

Reporting

BAKER NEWMAN NOYES

- PRF portal launched on July 1, 2021
  - Auditors are expected to test this special reporting for fiscal years ending on or after June 30,2021

Reporting (Continued)

- Key line items
  - Nursing Home infection control expense for payments received during the payment period
  - Provider Relief Fund expenses (excluding SNF infection control expense)
  - Calculation of lost revenue
    - 3 methods
      - 2019 Actuals
      - 2020 Budgeted
      - Alternative method

Special Tests And Provisions

Out-of-network Patient Out-of-pocket Expenses

Compliance requirements

The Recipient certifies that it will not seek to collect from the patient out-of-pocket expenses in an amount greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider

Audit Objectives

Determine whether provider billed out of network patients with a presumptive or actual case of COVID-19, for out of pocket expense in an amount greater than what the patient would have otherwise been required to pay if care had been provided by an in network provider

Suggested audit procedures

Review the recipient's billing and collection policies and procedures applicable to patient out-of- pocket expenses for patients with a presumptive or actual case of COVID-19

Test a sample of out of network cases with presumptive or actual case of COVID-19 to assess whether the patient was assessed the out-of-network charge

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Materiality in a Single Audit

Financial statement materiality vs. single audit materiality

Financial statement materiality relates to the financial statements being audited

Single audit materiality is determined for each individual major program and generally lower than financial statement materiality

Materiality for reporting audit findings

Relates to each compliance requirement for each major program

Single audit materiality factors

Nature of the compliance requirements

Nature and frequency of noncompliance identified

Needs and expectations of federal agencies and pass-through entities

Submission Process and Requirements

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Auditor's report on the financial statements of the organization

Auditor's in-relation-to reporting on the SEFA

Organization's financial statements

Organization's SEFA

Auditor's report(s) on internal control over financial reporting and on compliance and other matters to meet GAGAS requirements

Auditor's report on compliance and internal control over compliance

Major programs

Auditor's schedule of findings and questioned costs

Includes summary of auditor results and findings

Entity's summary schedule of prior audit findings

Entity's corrective action plan

The reporting package and a form summarizing the audit (DCF – see next slide) are submitted electronically to the FAC

Data Collection Form (DCF)

BAKER NEWMAN NOYES

- Joint responsibility of auditee and auditor
- Completed electronically on the Federal Audit Clearinghouse Web site
- Summary of the single audit reporting including audit opinions and other findings
- Includes contact information for auditee and auditor
- Includes SEFA information, references to findings, and relevant compliance requirements
- Electronic signature of both auditee and auditor

More Steps to Take in this Changing Environment

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1. Identify responsible parties to oversee implementation of these complex pronouncements
2. Set appropriate goals, timetables, accountability, and track progress towards implementation
3. Evaluate IT Systems and resources to ensure they meet the requirements to capture, track, summarize, and report the data needed to account and report under these standards
4. Involve external advisors and professionals early
5. Have good up-front communication with lenders and other users of your financial statements

Thought Leadership

BAKER NEWMAN NOYES

We publish a variety of service and industry-related newsletters and blogs, including our BNN Briefing, which includes audit, tax and general business updates. For more information, visit www.bnncpa.com/resources.

Questions?

BAKER
NEWMAN
NOYES

BAKER NEWMAN NOYES

Thank You!

October 2021

Fully Invested in Better Outcomes

Planning with Purpose at AllianceBernstein

Blake Poole Vice President—New England

Margaret Borrasso Director—Foundation & Institutional Advisory

Chris Clarkson Director—Wealth Strategies

About [A|B]

Assets Under Management

$742 Billion

History

50+

Years helping clients reach their financial goals

Private Wealth AUM

$116 Billion

Diversity and Inclusion

Corporate Responsibility

We Act Responsibly

- Environmental Stewardship
- Social Responsibility
- Corporate Governance

We Invest Responsibly

- Responsible Investing

Offices

51 cities in
25 countries

Research Analysts

298

Revenue

100%

From investment research and management

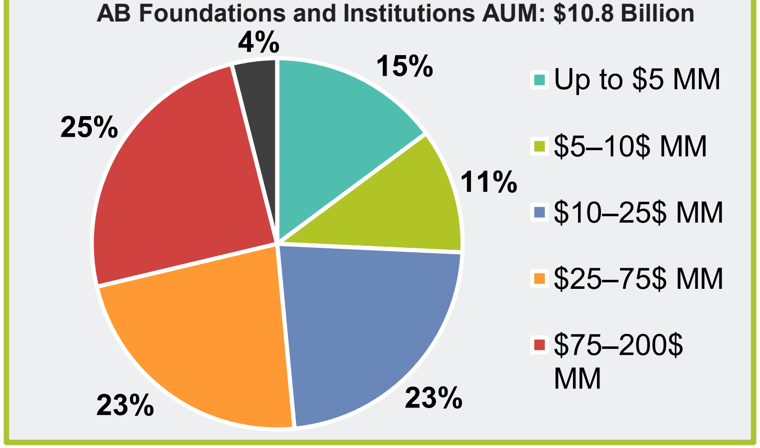
Debt

$0.00

Long-term debt on Bernstein's balance sheet

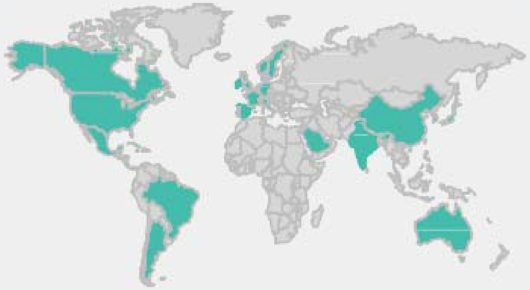
As of September 30, 2021. The number of research analyst reference relates to all analysts working at AllianceBernstein L.P. affiliated subsidiary companies. Please note, Bernstein Research does not provide investment management services to Bernstein Private Wealth Management clients.
Source: AB

We Serve Foundations and Institutions of All Kinds and Sizes



Bernstein serves as a fiduciary partner for organizations to successfully grow their portfolio as well as their impact.

We partner with clients in cities and countries all over the world



As of June 30, 2021
AUM is in US Dollars. Source: AB

Build Back Better Act

Individual Income Tax Proposals[1]

Ordinary Income Tax Rate

Increase top marginal rate to 39.6%

- Effective after December 31, 2021, for taxpayers with taxable income over
  - $400,000 for single filer
  - $450,000 for married joint filer
  - $225,000 for married filing separately
  - $12,500 for trusts and estates

Capital Gains Tax Rate

Increase top long-term rate to 25%

- Effective for gains realized after September 13, 2021, for taxpayers in the top marginal tax bracket[2]
- The 20% maximum long-term capital gain rate would apply through September 13, 2021[3]
- For pass-through entities, determination is made at the entity level for dividends, gains and losses[4]

New 3% Surcharge Tax

Effective after December 31, 2021, for taxpayers with modified adjusted gross income (MAGI) over $5 million[5] and estates and trusts with MAGI over $100,000

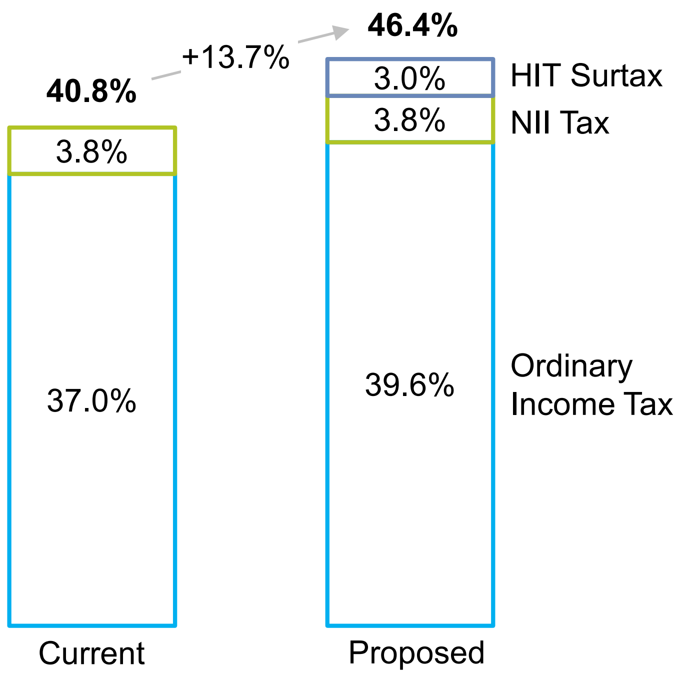
1. Sources: *Amendment in the nature of a substitute to add Subtitle I, Legislative Recommendations Relating to Funding Our Priorities,* https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/NEAL_032_xml.pdf; *Section-by-Section of Subtitle I,* https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SubtitleISxS.pdf
2. In 2021, the 25% rate would be substituted for the 20% maximum rate without changing the actual bracket (i.e., $501,601 or more for married filing jointly and $445,851 or more for single filer)
3. In addition, a special rule applies the 20% capital gains rate for binding contracts entered prior to September 13, 2021 (and which is not modified thereafter in any material respect). Sec. 138202(f)(2) of the Amendment in the nature of a substitute to add Subtitle I.
4. Sec. 138202(f)(4) of the Amendment in the nature of a substitute to add Subtitle I.
5. The modified adjusted gross income threshold for married individuals filing separately is $2.5 million.

Build Back Better Act

Individual Income Tax Proposals (Continued)

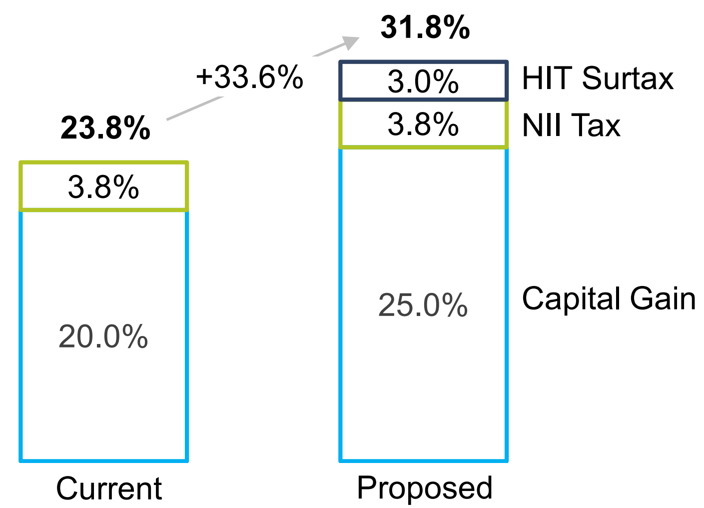
Top Effective Ordinary Income

Tax Rate



Top Effective Capital Gains

Tax Rate[1]



1. The effective capital gain tax rate for 2021 under the proposal would be 28.8% since the 3.0% High-Income Taxpayer Surtax does not apply until 2022.

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CARES Act Charitable Provisions Extended Through 2021

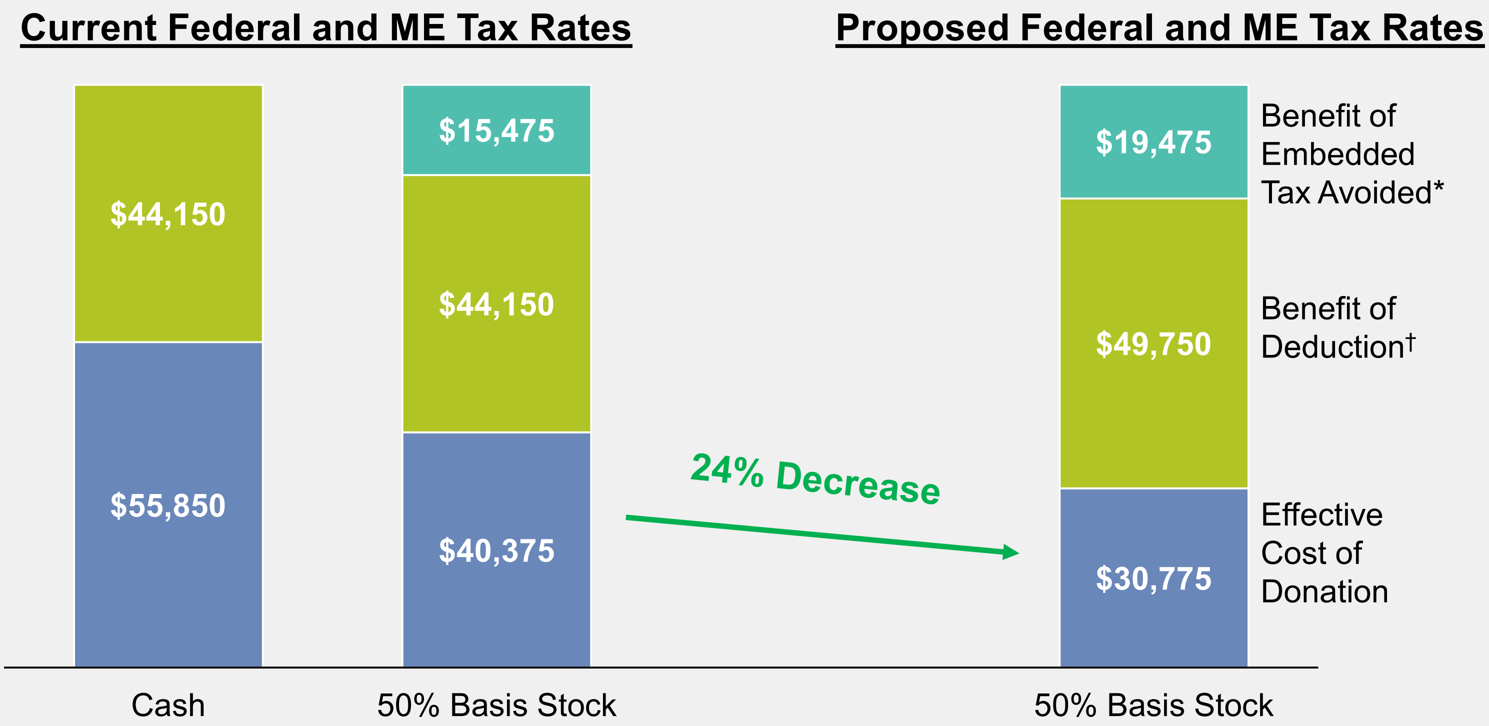
The stimulus bill passed in December, the Consolidated Appropriations Act of 2021, extended several provisions from the CARES Act to incentivize charitable giving.

	New Provision	Limitations
Individuals	▪ Ability to deduct cash donations increased from 60% to 100% of income for 2021 ▪ Donors who use the standard deduction can deduct an additional $300 per person ($600 for married couple filing jointly) for cash contributions to a public charity in 2021 (Up from $300 per tax return in 2020)	▪ Cash gifts only ▪ Eligible on gifts to public charities only ▪ Not eligible on gifts to DAFs, supporting orgs and private foundations
Corporations	▪ Ability to deduct charitable contributions increased from 10% to 25% of income ▪ Ability to deduct donations of food inventory increased from 15% to 25% of income	

Source: H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act, Consolidated Appropriations Act of 2021, AB

Gifts of Appreciated Stock Will Be Even More Attractive Under Proposed Tax Changes

$100,000 Gift
Donor in Top Income-Tax Bracket



For illustrative purposes only. Bernstein does not provide tax, legal or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions. Deduction limited to 60% of AGI in year of gift for cash or 30% of AGI in year of gift of appreciated publicly traded stock to a public charity. Under current tax regime, benefit of deduction assumes full use of deduction against income otherwise taxed at 37% federal and 7.15% ME tax rates. Current rates for stock gain are assumed to be 23.8% federal and 7.15% ME. Under proposed tax regime, benefit of deduction assumes full use of deduction against income otherwise taxed at 39.6% federal, 3% surtax, and 7.15% ME tax rates. Proposed rates for stock gain are assumed to be 31.8% federal and 7.15% ME.

Accelerating Charitable Efforts Act Overview

+ Bipartisan legislation proposed by Senator Angus King (I-ME) and Senator Charles Grassley (R-IA) on June 9, 2021, would add several new restrictions to Donor Advised Funds (DAFs) and Private Foundations, with the goal of ensuring funds flow more quickly to charities.

+ The Act generally separates DAFs into three groups:
  - **Qualified DAFs**, which must distribute contributed funds within 15 years. Donor is not allowed a deduction for a contribution of a non-publicly traded asset until the sponsoring organization sells the asset.
  - **Nonqualified DAFs**, which must distribute contributed funds within 50 years. Donor is not allowed a deduction until the DAF distributes the contribution and deduction is limited to amount of distribution. Deduction for contribution of any non-cash asset is limited to sale proceeds.
  - **Qualified Community Foundation DAFs**, limited to assets under $1 million, or are required to distribute at least 5% annually.

+ Private foundations are incentivized to increase the amount and pace of distributions.
  - Distributions from foundations to DAFs no longer qualify for 5% required distribution, unless passed through to public charities by end of following year.
  - Administrative expenses for foundation managers related to major contributors no longer qualify for 5% required distribution.
  - No 1.39% excise tax if foundation distributes 7%, or limits its life to 25 years with no distributions to other private foundations.

+ Provisions on deductions to DAFs apply to contributions after date of enactment. Rules on private foundations are effective in tax years beginning after date of enactment.

Source: Accelerating Charitable Efforts Act, https://www.king.senate.gov/imo/media/doc/ace_act.pdf

Current Landscape as Timely Catalyst for Fundraising

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Ready-Made Donor Content from Your Bernstein Team

In our work with private clients, we've developed a standing resource library related to charitable giving. Besides educating donors, these insights can also support the fundraising efforts of nonprofits or raise awareness for foundation grantees.

Currently, the uncertainty surrounding tax increases is really resonating. We hope you will leverage the content below to get in front of donors early and turn conjecture into gifts by offering compelling solutions.

Feel free to customize what follows in emails, newsletters, or other donor outreach strategies. You can let us know what other angles might prove useful to you by emailing FulfillingYourMission@Bernstein.com.

Uncertainty Lingers… but Many Charitable Giving Strategies Prevail!

This year's giving season comes with a new wrinkle: the potential for tax hikes. But amid the unknowns, many sound and stable giving strategies remain.

For donors who are looking to successfully navigate an evolving tax landscape, we've identified three top techniques that continue to deliver:

- **Contributions of Appreciated Stock**: Help yourself—while helping others—by making charitable gifts in the most tax-efficient way possible. Donors will receive a charitable income tax deduction for a gift of stock, subject to AGI limitations, while permanently avoiding embedded capital gains that may otherwise trigger costly future tax liabilities.
- **Qualified Charitable Distributions**: Unlike last year, RMDs must be made in 2021. Individuals over age 70½ can satisfy the RMD requirement by donating up to $100,000 from their IRA (provided the gift goes directly to a charity, not to a DAF or private foundation). Donors taking the standard deduction can use the qualified charitable distribution (QCD) option.
- **Charitable Bequests**: Legislative changes may also impact the estate tax landscape, prompting many donors to revisit their estate plans. This presents an important opportunity to evaluate how your charitable goals, and the organizations you support, may fit into your lasting legacy.

With Philanthropy In Flux, Several Giving Strategies Still Shine

For illustrative purposes only
*Subject to AGI limitations
Source: AB

Now Is the Time

Identifying the best donation strategies takes time, as does coordination with tax and investment advisors. To ensure a smooth and effective year-end gift, an early start is advisable.

In addition to your generous gifts of time, talent, and treasure, donors and volunteers like you to have another way to help us: your testimonials! Please share this informative email and encourage others to make their year-end gifts today.

DONATE HERE

[Insert Your Organization's Donation Link]

If you have questions about this information or about making your year-end gift to [Insert Your Organization's Name], please contact OFFICER at OFFICER@ABC.com or at XXX-XXX-XXXX.

The above guidance is excerpted from Bernstein's recent blog How to Make the Most of Year-End Charitable Giving in 2021. You may cite this blog or link to it in your materials if you'd like to provide donors with additional background information. Questions? Contact FulfillingYourMission@Bernstein.com.

Fundraising: Questions for Fiduciaries

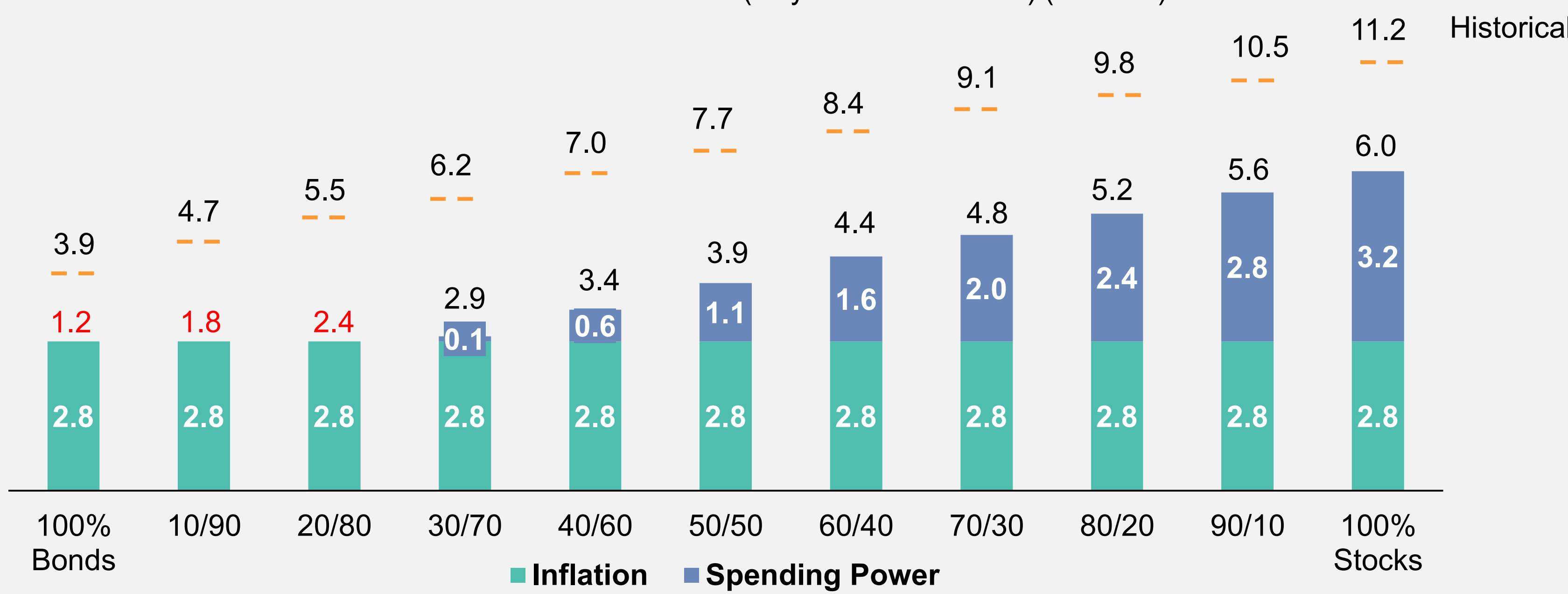
- What is the role of fundraising in current and future cash flows?
- What is the Board's involvement in fundraising?
- How are you messaging your mission internally and externally, particularly in times of transition?

Fundraising: Actions for Fiduciaries

- 2020 Giving USA trends
- Leverage giving data
- Seize the moment to innovate

Lower Expected Returns Pressure Sustainable Distributions

Median 10-Year Projected Returns for Indexes
vs. 10-Year Historical Returns (July 2011-June 2021) (Percent)



Probability of 20% Loss:*

100% Bonds	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100% Stocks
<2%	<2%	2%	5%	10%	18%	27%	37%	47%	56%	64%

Projected pretax 10-year compound annual growth rate. Stocks modeled as 16.2% U.S. value, 16.2% U.S. growth, 12.0% U.S. diversified, 6.0% U.S. small-mid cap, 21.2% developed foreign markets, 8.1% emerging markets, 9.6% US Low Vol Equity, 10.7% high-risk international. Bonds modeled as 50% diversified intermediate term taxable bonds and 50% global intermediate taxable bonds (hedged). Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 10 years as of June 30, 2021. **Data do not represent past performance and are not a promise of actual future results or a range of future results.** See Notes on Wealth Forecasting System at the end of this presentation for details.

*Data indicates the probability of a peak-to-trough decline in pre-tax, pre-cash-flow cumulative returns of 20% over the next 10 years. Because the Wealth Forecasting System uses annual capital markets returns, the probability of peak-to-trough losses measured on a more frequent basis (such as daily or monthly), may be understated. The probabilities depicted above include an upward adjustment intended to account for the incidence of peak-to-trough losses that do not last an exact number of years.

Historical compound return calculated from July 1, 2011, through June 30, 2021, with equities represented as follows: 60% S&P 500, 32% MSCI EAFE, and 8% MSCI EM; bonds represented as follows: 100% Barclays Global Aggregate Bond Index—Hedged. Source: Barclays, MSCI, Standard & Poor's and AB

Cash Considerations

De-Risked Leading to Excess Cash

- Complete Wealth Forecasting Analysis to determine strategic asset allocation
- Complete Alternatives Impact Analysis to examine trade-offs between illiquid alternatives
- Determine investment preferences (e.g. lower volatility, responsible or passive equities)
- Determine market entry strategy for equity, fixed income, and alternatives

Cash Passively Built Up

- Advise and confirm Strategic Allocation
- Determine whether new cash is tactical or strategic
- Confirm liquidity and volatility preferences
- Confirm desired risk/return profile of new investments
- Advise on pace of investment

Recent Windfall from Donors

- Define size of liquidity reserve, core, and surplus portfolios
- Complete Wealth Forecasting Analysis to define risk budget volatility
- Complete Alternatives Impact Analysis to examine trade-offs between illiquid alternatives
- Determine investment preferences (e.g. lower volatility, responsible or passive equities)
- Determine market entry strategy for equity, fixed income, and alternatives

Endowments of all Sizes are Invested in Alternatives

	Total Institutions	Over $1 Billion	$501 Million - $1 Billion	$251 Million - $500 Million	$101 Million - $250 Million	$51 Million - $100 Million	$25 Million - $50 Million	Under $25 Million
Total Institutions	705	111	80	83	171	134	82	44
U.S. equities	12.89%	9.99%	22.05%	20.30%	29.27%	30.88%	37.86%	42.39%
Non-U.S. equities	13.25%	12.74%	15.62%	15.20%	15.17%	14.45%	13.91%	11.88%
Global equities	7.29%	7.34%	5.56%	8.76%	7.95%	9.01%	6.37%	5.03%
Marketable alternatives	19.98%	21.11%	17.48%	17.58%	12.83%	9.13%	5.59%	3.97%
Private equity	9.31%	10.80%	4.99%	3.38%	1.60%	0.93%	0.43%	0.46%
Private venture capital	13.52%	14.76%	10.56%	9.81%	5.76%	4.60%	1.83%	2.08%
Fixed income	12.35%	10.98%	15.03%	16.55%	20.49%	25.35%	28.60%	30.85%
Real assets	11.40%	12.28%	8.71%	8.42%	6.93%	5.65%	5.41%	3.33%

Source: NACUBO – TIAA 2020 Study of Endowments

The Reality of Alternative Investments

Risks Specific to Alternatives

Liquidity Shortfall Risk

- In accounts with illiquid investments, regular spending can cause significant drift from original allocation over time, since spending typically is sourced from liquid portfolios while illiquid portfolios remain untouched
- Illiquid alternative asset allocation should account for Liquidity Shortfall risk to ensure account will always have sufficient liquidity to support spending

Allocation Drift Risk ("DR")

- Illiquid investments tend to experience different return patterns than traditional investments
- Accounts with especially strong or weak illiquid alternative investment performance may experience dramatic swings in their exposure to illiquid investments without the opportunity to rebalance

Timing of Reporting/Valuation

- Potential delays in performance reporting up to a quarter or more
- Additional information needed by audit team for valuation of non-publicly traded assets
- Filing of K-1's for certain investments

As of 6/1/2020
Historical analysis is not necessarily indicative of future results. US Equity Markets Represented by S&P 500. There is no guarantee that any estimates or forecasts will be realized.
Source: AB

QUESTIONS?

CONTACT INFO

Blake Poole	617-788-3712
Kevin McAuliffe	617-788-3731

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Notes and Disclosures

Notes on Wealth Forecasting System

1. Purpose and Description of Wealth Forecasting System

AB’s Wealth Forecasting Analysis is designed to assist investors in making their long-term investment decisions as to their allocation of investments among categories of financial assets. Our planning tool consists of a four-step process: (1) Client-Profile Input: the client’s asset allocation, income, expenses, cash withdrawals, tax rate, risk-tolerance level, goals and other factors; (2) Client Scenarios: in effect, questions the client would like our guidance on, which may touch on issues such as when to retire, what his/her cash-flow stream is likely to be, whether his/her portfolio can beat inflation long-term, and how different asset allocations might impact his/her long-term security; (3) The Capital-Markets Engine: our proprietary model that uses our research and historical data to create a vast range of hypothetical market returns, which takes into account the linkages within and among the capital markets, as well as their unpredictability; and finally (4) A Probability Distribution of Outcomes: based on the assets invested pursuant to the stated asset allocation, 90% of the estimated ranges of probable returns and asset values the client could experience are represented within the range established by the 5th and 95th percentiles on “box-and-whiskers” graphs. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not guarantee results or establish the boundaries for all outcomes. Estimated market returns on bonds are derived taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long bonds by a reasonable amount, although this is in no way a certainty. Moreover, actual future results may not meet AB's estimates of the range of market returns, as these results are subject to a variety of economic, market and other variables. Accordingly, the analysis should not be construed as a promise of actual future results, the actual range of future results or the actual probability that these results will be realized. The information provided here is not intended for public use or distribution beyond our private meeting. Of course, no investment strategy or allocation can eliminate risk or guarantee returns.

2. Rebalancing

Another important planning assumption is how the asset allocation varies over time. We attempt to model how the portfolio would actually be managed. Cash flows and cash generated from portfolio turnover are used to maintain the selected asset allocation between cash, bonds, stocks, REITs and hedge funds over the period of the analysis. Where this is not sufficient, an optimization program is run to trade off the mismatch between the actual allocation and targets against the cost of trading to rebalance. In general, the portfolio allocation will be maintained reasonably close to its target. In addition, in later years, there may be contention between the total relationship’s allocation and those of the separate portfolios. For example, suppose an investor (in the top marginal federal tax bracket) begins with an asset mix consisting entirely of municipal bonds in his/her personal portfolio and entirely of stocks in his/her retirement portfolio. If personal assets are spent, the mix between stocks and bonds will be pulled away from targets. We put primary weight on maintaining the overall allocation near target, which may result in an allocation to taxable bonds in the retirement portfolio as the personal assets decrease in value relative to the retirement portfolio’s value.

3. Expenses and Spending Plans (Withdrawals)

All results are generally shown after applicable taxes and after anticipated withdrawals and/or additions, unless otherwise noted. Liquidations may result in realized gains or losses, which will have capital-gains tax implications.

Notes on Wealth Forecasting System

4. Modeled Asset Classes

The following assets or indexes were used in this analysis to represent the various model classes:

Asset Class	Modeled as:	Annual Turnover Rate
Municipal Cash	Municipal money-market securities	100%
Intermediate-Term Taxables	Taxable bonds with maturity of 7 years	30%
US Diversified	S & P 500 Index	15%
US Value	S & P / Barra Value Index	15%
US Growth	S & P / Barra Growth Index	15%
US Low Vol Equity	MSCI US Minimum Volatility Index	15%
Developed International	MSCI EAFE Unhedged	15%
Emerging Markets	MSCI Emerging Markets Index	20%
US SMID	Russell 2500	15%
High-Risk Intl	Country Fund	15%
Global Intermediate Taxable Bonds Hedged	7-year 50% Sovereign and 50% Investment Grade Corporate Debt of Developed Countries	30%

5. Volatility

Volatility is a measure of dispersion of expected returns around the average. The greater the volatility, the more likely it is that returns in any one period will be substantially above or below the expected result. The volatility for each asset class used in this analysis is listed on the Capital-Market Projections page at the end of these Notes. In general, two-thirds of the returns will be within one standard deviation. For example, assuming that stocks are expected to return 8.0% on a compounded basis and the volatility of returns on stocks is 17.0%, in any one year it is likely that two-thirds of the projected returns will be between (8.9)% and 28.8%. With intermediate government bonds, if the expected compound return is assumed to be 5.0% and the volatility is assumed to be 6.0%, two-thirds of the outcomes will typically be between (1.1)% and 11.5%. AB's forecast of volatility is based on historical data and incorporates AB's judgment that the volatility of fixed income assets is different for different time periods.

6. Technical Assumptions

AB's Wealth Forecasting System is based on a number of technical assumptions regarding the future behavior of financial markets. AB's Capital Markets Engine is the module responsible for creating simulations of returns in the capital markets. These simulations are based on inputs that summarize the current condition of the capital markets as of June 30, 2021. Therefore, the first 12-month period of simulated returns represents the period from June 30, 2021, through June 30, 2022, and not necessarily the calendar year of 2021. A description of these technical assumptions is available on request.

Notes on Wealth Forecasting System

7. Tax Implication

Before making any asset allocation decisions, an investor should review with his/her tax advisor the tax liabilities incurred by the different investment alternatives presented herein including any capital gains that would be incurred as a result of liquidating all or part of his/her portfolio, retirement-plan distributions, investments in municipal or taxable bonds, etc. AB does not provide tax, legal, or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

8. Tax Rates

AB's Wealth Forecasting Analysis has used the following tax rates for this analysis:

Taxpayer	Scenario	Start Year	End Year	Federal Income Tax Rate	Federal Capital Gains Tax Rate	State Income Tax Rate	State Capital Gains Tax Rate	Tax Method Type
	A	2021	2030	0.0%	0.0%	0.0%	0.0%	No Tax
	B	2021	2030	0.0%	0.0%	0.0%	0.0%	No Tax
	C	2021	2030	0.0%	0.0%	0.0%	0.0%	No Tax
	D	2021	2030	0.0%	0.0%	0.0%	0.0%	No Tax

The federal income tax rate represents AB's estimate of either the top marginal tax bracket or an "average" rate calculated based upon the marginal rate schedule. The federal capital gains tax rate is represented by the lesser of the top marginal income tax bracket or the current cap on capital gains for an individual or corporation, as applicable. Federal tax rates are blended with applicable state tax rates by including, among other things, federal deductions for state income and capital gains taxes. The state income tax rate represents AB's estimate of the 'average' rate calculated based upon the applicable state's marginal tax schedule. Where an applicable state tax code permits the exclusion of a portion of capital gain income from gross income for purposes of calculating state income tax such exclusions have been included in the calculation.

9. Endowments

The Endowment is modeled as a non-taxable permanent fund bestowed upon an institution to be used to support a specific purpose in perpetuity. The endowment may receive an initial donation and periodic funding from either the personal portfolio modeled in the system or an external source. Annual distributions from the endowment may be structured in a number of different ways, including: 1) an annuity or fixed dollar amount, which may be increased annually by inflation or by a fixed percentage; 2) a unitrust, or annual payout of a percentage of endowment assets, based on a single year or averaged over multiple years; 3) a linear distribution of endowment assets, determined each year by dividing the endowment assets by the remaining number of years; or 4) the greater of the previous year's distribution or any of the above methods. These distribution policies can be varied in any given year.

BERNSTEIN

Nonprofit Tax Updates

Accounting & Business Update

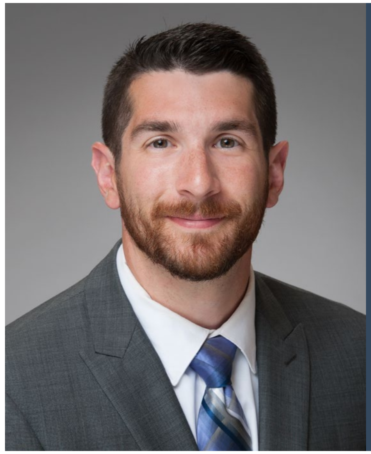
Nicholas Porto

10.27.2021

BAKER
NEWMAN
NOYES

Your Presenter

Nick is a principal in the tax practice at Baker Newman Noyes specializing in tax-exempt organization compliance services for public charities and private foundations primarily in Maine, New Hampshire, Vermont, Massachusetts and New York.



Nicholas Porto

Nonprofit Tax Principal

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Topics to Be Discussed

1. Mandatory e-file for Form 990-T
2. Accelerating Charitable Efforts (ACE)
3. IRS Priority Guidance Plan for 2021

Mandatory E-File of Form 990-T

BAKER NEWMAN NOYES

- Taxpayer First Act enacted on July 1, 2019.
- In March of 2021 the IRS announced that they began accepting e-filed 2020 990-Ts
- 2020 Form 990-T with a due date on or after April 15, 2020 must be electronically filed.
- Paper filing a 990 or 990-T required to be e-filed is considered a non-filing.

Accelerating Charitable Efforts (ACE) Act

- Proposed legislation introduced June of 2021 by Senators Angus King (I-ME) and Chuck Grassley (R-IA)
- Currently a stand-alone bill
- Attempts to address perceived abuse by some in charitable sector of “hoarding” charitable assets.

Is There a Need?

BAKER NEWMAN NOYES

- Asset growth of DAFs and PFs
  - DAFs hold more than $140B in assets
  - PFs hold more than $1.2T in assets
- Distributions from DAFs to DAFs
- Media and Congressional Attention

Impact to Private Foundations

BAKER NEWMAN NOYES

- Charitable Disbursements to DAFs do not count towards payout requirement unless DAF distributes within one year.
- Salaries and other administrative expenses of disqualified persons do not count towards payout requirement.
- PFs can avoid excise tax on net investment income if they distribute 7% of assets
- PFs can also avoid excise tax if they are set up to liquidate within 25 years.

Impact to Donor Advised Funds

BAKER NEWMAN NOYES

- 15 year DAF – donors only get tax benefits for gifts to DAFs if funds are distributed within 15 years (or advisory privileges released)
- 50 year DAF – donors would get capital gains and estate tax benefits at time of donation but only get income tax deduction after funds are distributed from DAF
- Payout rule

Impact to Community Foundations Sponsoring DAFs

BAKER NEWMAN NOYES

- Qualified Community Foundations
  - Formed for the purpose of understanding local geographic needs
  - At least 25% of assets are not DAF accounts.
- No requirement to track accounts under $1M in assets
- Donors also would get tax benefits at time of donation if DAF has over $1M in assets and also requires 5% annual payout.

Impact to Publicly Supported Public Charities

BAKER NEWMAN NOYES

- Donations from DAFs treated as if coming from one single donor
  - For 2% limitation test, the donations from the DAF do not get favorable treatment as other 170(b)(1)(A)(vi) organizations normally do.
  - Favorable treatment if DAF sponsor can indicate distribution is not from a DAF or a person with advisory privileges.
- If DAF identifies the donor to the DAF the PC can treat as if coming from that individual donor

IRS Priority Guidance Plan for Exempt Orgs

BAKER NEWMAN NOYES

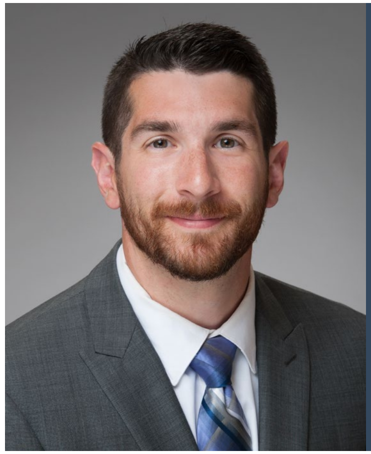
- Guidance to revise process for Group Exemption Letters (Notice 2020-36 published in May of 2020)
- Final 509(a)(3) supporting organization regulations (proposed regulations published in February of 2016).
- Section 512 Regulations regarding allocation of expenses for UBI purposes
- Guidance under self-dealing regulations for private foundations with an investment in a partnership with disqualified persons also as partners.
- Excise taxes on donor advised funds

Questions?

BAKER
NEWMAN
NOYES

Your Presenter

Our nonprofit and healthcare teams thrive on solving complex challenges and delivering results with accuracy, integrity, and confidence.



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BAKER NEWMAN NOYES

Thank You!