



Legal & Financial Stewardship
for Association Leaders

***Financial & Legal Stewardship For
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Part II

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*Hey Google, Write Me a Speech About the Ethical and Legal Issues Surrounding a Non-Profit's Use of Artificial Intelligence....

Key Components of Generative AI

- Neural Networks
 - Relies on deep learning neural networks, especially Generative Adversarial Networks (GANs) and Variational Autoencoders (VAEs), which learn patterns from data and generate new, similar data.
- Training Data
 - Generative AI models are trained on enormous amounts of data, including most of the text on the internet, allowing them to learn intricate patterns and create meaningful outputs
- Creativity and Diversity
 - Once it learns the features of the data it is fed (i.e., music, video, images, speech) it can be prompted to create more
 - Realistic images, human-like text, innovative designs, presentations, memos, papers, data analysis, financial forecasts, diagnosis
- Generative AI system can process all different types of media

*This presentation was created by a human....

Examples of Generative AI

- **Text Generation**

- *Chatbots*: AI-powered chatbots like ChatGPT generate human-like responses in real-time conversations.
- *Content Creation*: Generative AI can create blog posts, articles, marketing content, and other forms of written content.

- **Image Generation**

- *DeepArt*: This tool uses generative algorithms to transform photographs into artworks imitating different artistic styles.
- *GANs in Art*: Generative Adversarial Networks (GANs) are used to create original artworks and designs.

- **Video Generation**

- *Deepfake Videos*: Generative AI can be used to create realistic videos where faces or voices are manipulated, raising ethical concerns.
- *AI-Generated Animation*: Generative models create animations, enhancing the efficiency of the animation industry.

Examples of Generative AI

- **Music Composition**

- *Magenta Studio*: Developed by Google, Magenta Studio uses AI to generate music and assists musicians in their creative process.
- *Jukedeck*: It's an AI-powered music composition tool that generates royalty-free music for various purposes.

- **Product Design**

- Autodesk's *Generative Design*: It uses algorithms to explore all possible permutations of a design, optimizing for various factors like strength, weight, and cost.
- Fashion Design: Generative AI is used in fashion to create unique designs and patterns.

- **Healthcare**

- Drug Discovery: Generative models assist in discovering new drug compounds by generating molecular structures that could be potential medicines.
- Medical Imaging: AI generates synthetic medical images for research and training purposes.
- Treatment Plans: creation of personalized treatment plans

Risks, Challenges & Ethical Considerations

- Data Privacy & Security
- Intellectual Property
 - Plagiarism
 - Copyright
- Employee Misuse, Accuracy & Reliability
- Ethical Issues & Compliance
 - Bias (equity & civil rights issues)
 - Job displacement
 - Compliance with laws
- Risk Assessment / AI Policy

Data Privacy & Security

- Are your members/authors/content providers/employees using third-party generative AI solutions?
 - OpenAI/ChatGPT, Stability AI, Dall-e
- What are the risks?

Intellectual Property

- Exposure of IP
- Content creation
 - Is it based on others IP?
 - Who owns what's created?
 - Plagiarism
 - Copyright infringement/lawsuits

Employee Misuse, Accuracy & Reliability

- Employee Misuse
 - Plagiarism
- Accuracy & Reliability
 - Lawyer cites nonexistent cases in legal brief
 - Google ad for its Bard AI chatbot
 - Meta generative AI bot Galactica
- Lack of transparency
- Reputational Damage & Business Liability

Ethical Issues & Compliance

- Bias (equity & civil rights issues)
 - Inscrutability
- Job displacement
- Regulatory Compliance
 - The Civil Rights Acts of 1964 and 1991, The Americans with Disabilities Act, The Genetic Information Nondiscrimination Act, The Health Insurance Portability and Accountability Act, Computer Fraud and Abuse Act (CFAA), Electronic Communications Privacy Act, The Copyright Act, Child Pornography and Prevention Act of 1996, The Family Educational Rights and Privacy Act (FERPA), The Fair Housing Act, The EU Greater Data Privacy Regulation (GDPR), New York Cybersecurity Regulations, Workplace AI recruitment selection regulations in New York, Illinois and Maryland, Individual US State consumer privacy and breach notification laws

Holy Sh*\$@T...What do we do?

- Risk Assessment/Internal Audit
 - What are your risks
 - What are your employees/authors/members doing
 - What policies & procedures should be adopted
 - Determine controls
- Legal Considerations
- PR
- Educate Employees
- Adopt an AI Policy

AI Policy

- **Adopt an AI Policy**
 - Permitted only if all data is anonymized?
 - May not be used for communications
 - Specify what AI tools may or may not be used
 - Are any tools strictly prohibited?
 - Consider blocking access
 - Require employees to sign agreements re: use of AI
 - Speaker/author/content creator agreements should address use of AI
- Free policy, whitepapers & other resources available at <https://plurilock.com/resources/>

Essential Financial Policies for NFPs

- Form 990
- Investment
- Audit
- Internal Controls
- Record Retention
- Insurance

Mitigating Risk

- Implement policies, programs and procedures to manage risk and minimize exposure

Establishing and Memorializing Policies

- Board motions
- Formal adoption of specific policy
- Keeping track – policy manuals

Periodic Review and Update

- To reflect current practices
- To be consistent with bylaws
- To be consistent with state incorporation laws
- To modernize and streamline

Board Review of Form 990

- Have a formal policy requiring Board review and facilitate such review
- Allows a “yes” answer on Form 990
- Be prepared to accurately and fully complete Form 990 (Hint: read the instructions!)
- Report full and complete financial information and activities in a timely manner
- Public availability of 990 and other governance documents

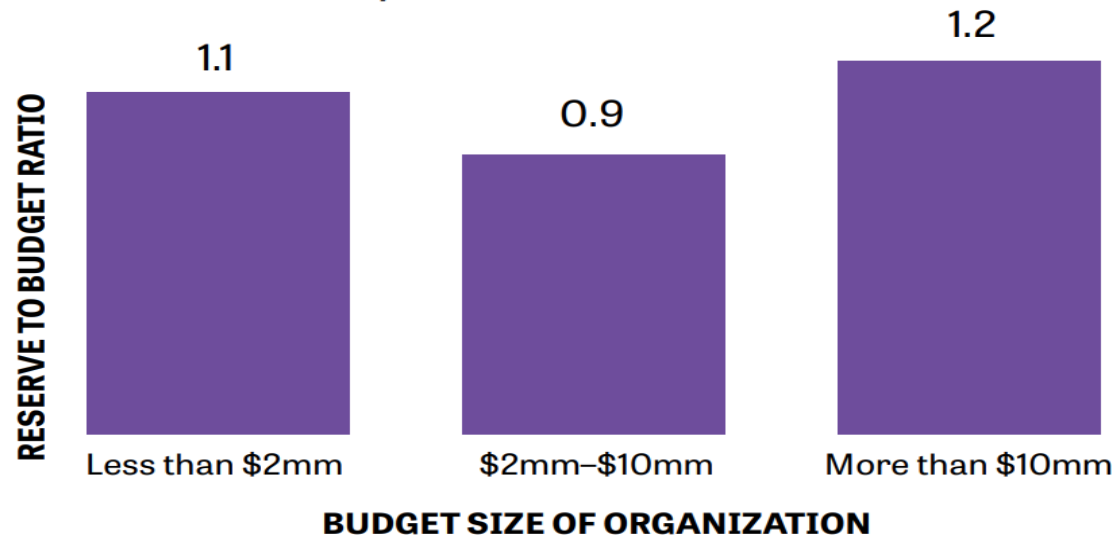
Investment Policy

- Establish basic investment objectives
- Adopt an asset allocation model
- Establish any investment restrictions
- Role of outside investment advisers

HOW MUCH TO HOLD IN RESERVE?

One of the key questions SONI looks to answer each year is, “How much do associations hold in reserve?” The median results from SONI have held consistent year over year showing that associations hold about 12 months of budgeted expenses in reserve.

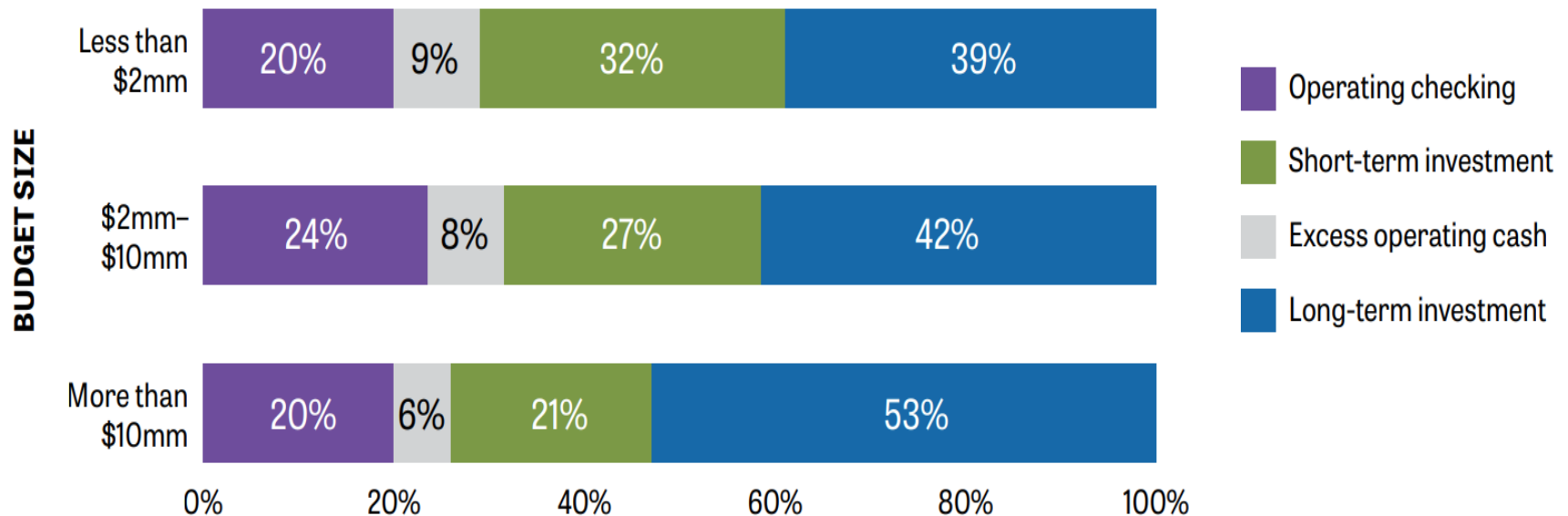
Reserve to Budget Ratio by Budget Size, Median *SONI 2022, 74 responses*



*Study on Nonprofit Investing (SONI) for Associations conducted by Raffa Investment Advisers (RIA), a Washington, DC-based firm that provides investment advisory services to associations.

How Much of an Organization's Total Cash Assets Are Held in Operating, Short-term and Long-term Accounts, Average

SONI 2022, 131 responses



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Audit / Review

- Provide for an annual outside independent financial review or audit overseen by a committee without the influence of insiders (such as the CEO)
- Audit vs. review
 - \$\$ considerations
 - Depends on size of org

Internal Financial and Accounting Controls

- Keep accurate financial records
- Establish who is authorized to sign checks, execute contracts and open the mail (since checks come in as well as go out)
- Establish effective internal financial and accounting controls and procedures

Record Retention

- Establish retention periods for each kind of record
- Mandate that records can only be destroyed in accordance with the written policy
- Include special rules for “records hold”
- Establish policies on good records creation (which applies to everything from minutes, and what goes in them, to using care when sending e-mails)

Insurance

- Establish coverage and retention limits and risk reduction procedures such as use of indemnification, releases, waivers and disclaimers
- Consider obtaining insurance for risks that can't be avoided
 - General liability coverage
 - Directors & Officer's coverage
 - Liquor liability
 - Event insurance