

Why Review Telecom Expenses



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What is Telecom?



Types of telecom services include:

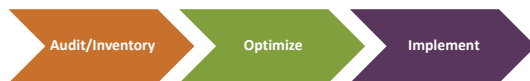
- Local phone service
- Long distance
- Data services (Internet and Wide Area Network)
- 3rd party conferencing (e.g. WebEx, GoToMeeting, etc.)
- Wireless (cell phones, hot spots, tablets)



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The Process of Uncovering Errors



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Landline

- Local phone service
- Long distance
- Data services (Internet and Wide Area Network)
- 3rd party conferencing (e.g. WebEx, GoToMeeting, etc.)

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Common Errors: Landline

Audit/Inventory

- 1. Double-billing/Inactive Services**
 - Location no longer in service
 - End of life technology
 - Invest in tag and locate
- 2. Tax/Surcharge/Fee Discrepancy**
 - Federal Excise Tax
 - Misc. Sales Tax
 - State USF
 - PCCC Fees

Optimize

- 3. Unpublished Plans**
 - Consult with peers
 - Host meetings with carriers
- 4. Promotional Discounts**
 - Host meetings with carriers


Implement

- 5. Monitor**
 - Ensure errors are remedied and repeat errors do not occur by monitoring accounts

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Wireless

- Cell phones (basic and smart)
- Hot spots
- Tablets

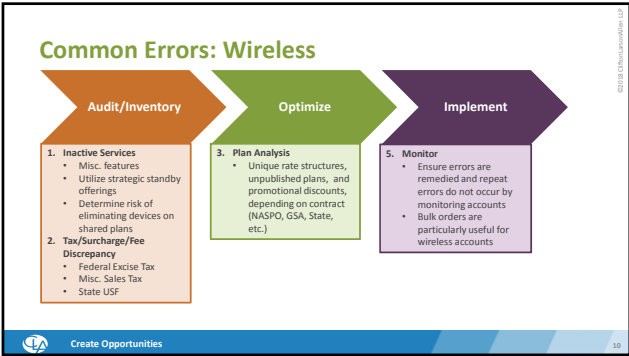
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How to Get Started

- Gather invoices and contracts
- Utilize historical data (i.e. prior inventories/reports)
- Request a feasibility study

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Learning Objectives

- Identify cybersecurity trends and tactics hackers are using
- Recognize common email phishing attacks and information security weaknesses
- Outline strategies that can be used to mitigate risks related to phishing, ransomware, and other costly data breaches

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Agenda

- Explain popular social engineering techniques
- History of email and overview of how it works
- Popular phishing attacks
- Phishing demonstrations

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Social Engineering

What is it and popular attack techniques

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Social Engineering

- Hacking the human
 - Simply put, Social Engineering is the exploitation of human nature
 - Psychological manipulation of people into performing actions or divulging confidential information
 - Pre-text Calls
 - Email Phishing
 - Manipulation of Physical Security
- Highest risk for these attacks?
 - New employees
 - Contractors
 - Executive assistants



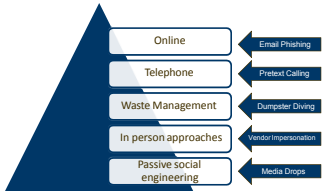


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Several different attack vectors



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Information Gathering

- The **information gathering** process is critical. The internet can provide a host of information essential to performing a successful social engineering attack
- Google images
 - Facility access, entrances
 - Type of access control used
 - Employee information
- Social Media
- Information is a dangerous weapon. Adds legitimacy where there is none

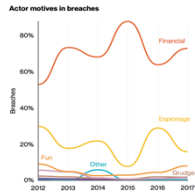


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Motives

- Motivators include:
 - financial gain
 - corporate espionage
 - curiosity
 - state-sponsored hacking
 - hacktivism and pure entertainment



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Tailgating

- Gaining access to a physical access facility by means of coercion or manipulation or simple entry
- Total bypass of physical security
- Employees and vendors avoid confrontation
- Attributed to deficient or lack of access restriction, lack of security awareness



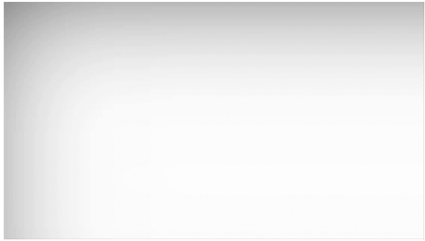
"Cigarettes are a social engineer's best friend."



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Tailgating




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Vendor Impersonation

- Attempting to gain access by posing as a trusted source
- Used to gain **trusted** access to restricted areas
- Typically uses a pre-text (Call or email)
- Fake identification is often provided on first contact
 - Business cards can be faked easily
- Simple call back is best defense
 - One minute of convenience can stop a potential breach




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Phone Calls

- Objectives:
 - Gain sensitive information
 - Persuade employee to perform an action outside of their job function
- Iterative process
- Prior information gathering is critical
- Successful due to misunderstanding or failure to apply administrative policies





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Phone Calls




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Dumpster Diving

- Looking for information discarded by company employees
- Typically done after hours
- Reconnaissance has likely been done prior to attack
- Attributed to lack of access restrictions, deficient disposal procedures



"One man's trash is another man's treasure."



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Introduction to Email Protocols

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Simple Mail Transfer Protocol (SMTP)

- Created in 1982
- Was not designed with security
- Two main components relevant to spoofing emails
 - SMTP Envelope
 - SMTP Letter



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SMTP Service

- SMTP Envelope
 - The “behind the scenes” communication between two systems
 - Used to route and deliver email



MAIL FROM: Some User <SomeUser@company.com>
RCPT TO: Poor Victim <PoorVictim@nonprofit.com>



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SMTP Service

- SMTP Letter
 - What the end user sees
 - FROM field does NOT need to be the same as the Envelope MAIL FROM field
 - Also supports the “Reply-To” field



FROM: Different User <DifferentUser@company.com>
TO: Poor Victim <PoorVictim@nonprofit.com>
Reply-To: Prince George <PrinceGeorge@nigeria.com>



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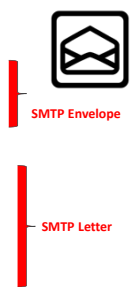
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SMTP Service

Connected to relay.mail.cogentco.com (38.9.52.2).
MAIL FROM: <SpoofedPerson@company.com>
250 OK
RCPT TO: <david.anderson@claconnect.com>
250 Accepted
DATA
354 Enter message, ending with "." on a line by itself
FROM: <OtherPerson@organization.com>
TO: <david.anderson@claconnect.com>
Subject: Please send money \$\$\$
Reply-To: <YetAnotherAddress@domain.com>

Please send me money. I'm totally legit. :)

250 OK id=1b0Uc-0005QR-6u



SMTP Envelope

SMTP Letter

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SMTP Service

From: OtherPerson@organization.com Sent: Wed 5/11/2016 11:46 PM
To: Anderson, David J
Cc:
Subject: Please send money \$\$\$

Please send me money. I'm totally legit. :)


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SMTP Service

From: OtherPerson@organization.com [mailto:OtherPerson@organization.com]
Sent: Wednesday, May 11, 2016 11:46 PM
To: Anderson, David J
Subject: [External] Please send money \$\$\$

Please send me money. I'm totally legit. :)

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Email Phishing

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What is Phishing?

- Simply put:
 - Convince someone to perform an action that will benefit the attacker
- What is that action?
 - Visit a malicious website
 - Download and open a malicious file
 - Provide confidential information (Password, Account Number, etc.)
 - Wire money out of the organization

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Types of attacks

- Traditional Attack (Spamming) – Attacker targets a large amount of users
- Spear Phishing – A custom message is built for a specific target
- Whaling – “C-level” executives or management is specifically targeted

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Spoofed Internal Source

- Hackers are becoming more sophisticated with their email phishing attacks everyday.
- It is becoming more common for an email phishing message to appear to come from a trusted internal source.



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Spear Phishing: Spoofed Internal Source

A **spoofed** internal email in Outlook will appear with the email address as:

LASTNAME, FIRSTNAME <USERNAME@email.com>

External message shows the full email address

A **legitimate** internal email will appear as:

LASTNAME, FIRSTNAME or
FIRSTNAME LASTNAME

Internal message shows only the alias



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Types of attacks

- Ransomware
 - CryptoWall, CryptoLocker, etc.
 - Encrypt all data, hold it “ransom” for \$\$
 - ◊ Data on local machine and on network
 - Attackers are putting much more time and effort into these types of attacks over the last year
 - Starting to target other operating systems, like Macs

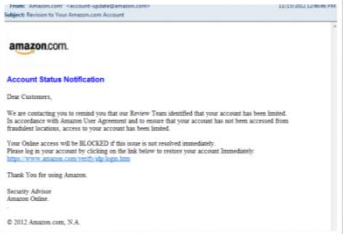


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Spotting a Malicious Link




The link requests the user to visit a website to perform account maintenance.

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Uncovering a Malicious Link

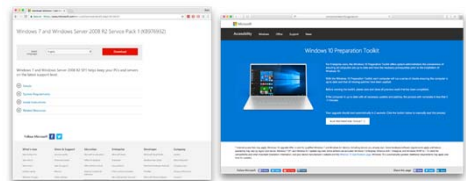
1. Hovering over a link with your mouse will show the true path of an email link.



2. This link appears to go to Amazon but is actually going to a malicious site.

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Fake vs. Real



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How to Protect Yourself

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Protect Against Email Phishing

- Harden email gateway (spam filter)
 - Block potentially malicious file attachments (e.g. ZIP, RAR, HTA, JAR)
 - Flag Office documents that contain Macros as suspicious
 - Prevent your organization's domain from being spoofed
 - ◊ Sender Policy Framework (SPF)
 - ◊ Custom rule to evaluate SMTP Letter FROM field
 - Flag emails that originate from the Internet
 - ◊ E.g. Modify subject line to say 'External'

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Protect Against Email Phishing

- Continue to Train Employees and Members
 - Train employees how to spot odd wire requests
 - ◊ Politely challenge the request and ask if it has been verified through proper channels (NOT email)
 - Provide educational material and training to business members
 - ◊ Provide sample policies/guidelines for organizations that don't have them
 - ◊ Hold events for business members that discuss cyber security
 - ◊ Explain simple controls to implement (limits, two-step/two-factor, etc.)
 - ◊ Make sure request is not authorized via email

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Staff Security Awareness

- Learning how to identify phishing emails and malicious websites is key to protecting yourself online:
 - Don't trust attachments
 - Don't trust links
 - Ensure you are visiting the website you think you are visiting
 - Don't browse the web/check email as an administrator
 - If something looks odd...
--> CHECK IT BEFORE YOU CLICK IT!



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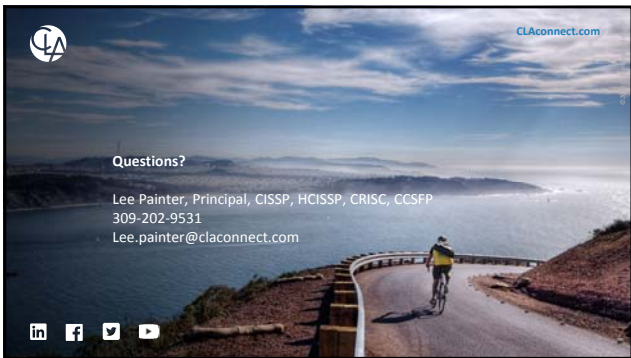


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Questions?


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GASB Update

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Learning Objectives

- Outline the new accounting standards affecting state and local government accounting and reporting
- Explain the dates of implementation
- Determine some of the challenges relating to implementation
- Identify other GASB projects on the horizon



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New Standards

- Effective for years beginning after June 15, 2018
 - GASB 83 – *Certain Asset Retirement Obligations*
 - GASB 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*



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New Standards (continued)

- Effective for years beginning after December 15, 2018
 - GASB 84 – *Fiduciary Activities*
 - GASB 90 – *Majority Equity Interests and Amendment of GASB Statements No. 14 and No. 61*
- Effective for years beginning after December 15, 2019
 - GASB 87 – *Leases*
 - GASB 89 – *Accounting for Interest Cost Incurred before the end of Construction Period*



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GASB 83


Certain Asset Retirement Obligations

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83 Overview and Applicability (Continued)

- Legally enforceable liability associated with retirement of a tangible capital asset
- Does **not** apply to:
 - Obligations arising from the plan to sell/dispose of a tangible asset
 - Obligations associated with preparation of a tangible asset for an alternative use
 - Obligations for pollution remediation, such as asbestos removal, that result from the other-than-normal operation
 - Obligations associated with maintenance
 - Cost of a replacement part that is a component
 - Landfill closure and postclosure care
 - Conditional obligations to perform asset retirement activities

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83 Recognition and Measurement

- Recognize when:
 - Incurrence of liability
 - ◊ External obligating event
 - Approval of federal, state, or local laws or regulations
 - Creation of a legally binding contract
 - Issuance of a court judgment
 - ◊ Internal obligating event
 - Contamination
 - Abandonment
 - Reasonably estimable
 - ◊ Current value of outlays expected to be incurred
- Deferred outflow of resources

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83 Recognition and Measurement (Continued)

- Assess and adjust value at least annually
 - Inflation or deflation
 - Price increases or decreases
 - Changes in technology
 - Changes in legal or regulatory requirements
 - Changes in the type of equipment, facilities, or services that will be used



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83 Notes to the Financial Statements

- General description – associated tangible asset and source of obligation (law, contract, etc.)
- Methods and assumptions used to measure the liability
- Estimated remaining useful life
- How associated legally required funding and assurance provisions are being met
 - Surety bonds, insurance policies, letters of credit, guarantees by other entities
- Amount of assets restricted for payment of the liabilities



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GASB 84

Fiduciary Activities


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84 Fiduciary Activities


- Potential Changes to Current Statements
 - Possibly more custodial funds (formerly agency funds) based on control of assets, for example:
 - ◊ Fiscal host situations
 - ◊ Student activity funds
 - ◊ Activities currently accounted for as private purpose trust when a trust doesn't exist
- Some things currently reported as fiduciary may need to be reported as governmental or business type activities. For example:
 - Contractor deposits
 - Student activity funds (own source revenues)

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84 Fiduciary Activities (Continued)


- Specific Issues
 - Fiduciary Fund types
 - ◊ Pension trust (includes other employee benefits also)
 - ◊ Investment trust funds
 - ◊ Private purpose trust funds
 - ◊ Custodial funds (formerly agency funds)

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84 Fiduciary Activities (Continued)

- Specific Issues
 - Requires two statements for all fiduciary fund types
 - ◊ Statement of Net Position
 - ◊ Changes in Fiduciary Net Position for all fund types
 - Liabilities are recorded only when an event has occurred that compels the government to disburse fiduciary resources
 - Clarify whether a business-type activity engaging in fiduciary activities should present fiduciary fund financial statements
 - ◊ May report assets with offsetting liability, that otherwise should be reported in a custodial fund in the statement of net position of the business type activity, if the liability is to be held for three months or less
 - ◊ If reported within the fund and significant, the additions and deletions should be reported separately as cash inflows and outflows in the operating portion of the statement of cash flows

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84 Fiduciary Activities (continued)

- Appendix C of GASB 84 includes a flowchart to aid in the application of the provisions of GASB 84

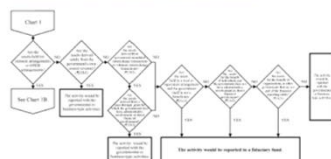
84 – Chart 1

Chart 1—Flowchart for Evaluating and Reporting Potential Fiduciary Activities



84 – Chart 1a

Chart 1A—Flowchart for Evaluating and Reporting Potential Fiduciary Activities



84 – Chart 1b

Chart 1B—Flowchart for Evaluating and Reporting Potential Fiduciary Activities (Postemployment Benefit Arrangements)

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GASB 87

Leases

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87 Overview

- GASB No. 87 now requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases, and establishes a single model for lease accounting.
- Retroactive adoption required, if practical for all periods presented (i.e. restate opening net position). If *impractical* (**NOT inconvenient**), must disclose reasons.

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87 Key Changes

- **Lease Definition:** Contract that conveys control of a nonfinancial asset for a period of time in an exchange or exchange-like transaction
- **Lease Term:** Period during which lessee has a noncancelable right to use the asset, plus:
 - Options to extend if reasonably certain
 - Unexercised options to terminate if reasonably certain
 - Fiscal funding or cancellation clause – should only affect the lease term when it is reasonably certain that the clause will be exercised



87 Key Changes (Continued)

- **Short-term leases:** Maximum possible term of 12 months or less.
 - Recognized as outflows of resources or expense (lessee) or inflows of resources or revenue (lessor)
- **Exclusions:**
 - Intangible assets (oil/gas/mineral rights)
 - Biological assets (timber, living plants, animals)
 - Inventory
 - Service Concession Arrangements
 - Leases financed with outstanding conduit debt
 - Supply contracts



87 Key Changes (Continued)

- **Contracts that transfer ownership:** Contract that transfers ownership but does not contain termination options should be reported as a financed purchases (lessee) or sale (lessor)
- **Lease incentives:** Payments made to/on behalf of, the lessee for which the lessee has the right to offset its obligation to lessor, or other concessions
- **Contracts with Multiple Components:** Lease and non-lease components should be accounted for separately. Contracts with multiple underlying assets should be accounted for separately
- **Contract combinations:** Contracts entered at or near the same time with the same counterparty should be evaluated to determine if they represent a single contract



Lessee - Initial Recognition

- *Intangible right to use lease asset*: Lease liability + lease payments made to lessor before commencement of lease + costs to place asset into service (excluding debt issuance costs)
- *Lease liability*: Present value of contractual lease payments (fixed) using implicit or incremental borrowing rate



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Lessee - Subsequent Recognition

- *Intangible right to use lease asset*: Amortize/depreciate over the shorter of the useful life or lease term
- *Lease liability*: Difference between lease payment and interest expense reduces liability
- *Interest expense*: Amortize the discount using an effective interest model
- *Amortization/depreciation expense*: Amortize in systematic and rational manner over shorter of lease term or useful life



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Lessee - Financial Reporting and Disclosure

- *Governmental funds*: Expenditure and other financing source in the year of commencement, subsequent lease payments reported consistent with the debt service payments for long term debt
- *Disclosures*:
 - General description
 - Total amount of lease assets (by major class) and related accumulated amortization
 - Amount of outflows related to variable and other payments
 - Principal and interest requirements to maturity
 - Commitments under leases before commencement of the lease term
 - Components of any loss associated with an impairment



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Lessor - Initial Recognition

- *Lease Receivable*: Present value of contractual lease payments (fixed) using rate implicit in the lease, reduced by any amounts determined to be uncollectible
- *Deferred inflow of resources*: Lease receivable + lease payments received at or before commencement – incentives



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Lessor - Subsequent Recognition

- *Lease Receivable*: Difference between lease payment and interest income reduces the receivable
- *Deferred inflow of resources*: Reduced by amount amortized to lease revenue
- *Interest income*: Amortize using effective interest model
- *Lease revenue*: Systematic and rational amortization of the deferred inflow of resources



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Lessor - Financial Reporting and Disclosure

- *Governmental funds*: Recognize lease receivable and deferred inflow of resources. Should NOT derecognize underlying asset, but continue to depreciate/evaluate for impairment
- *Disclosures*:
 - General description
 - Total amount of revenues (if not obvious from face of statements)
 - Total amount of revenues from variable payments
 - Existence, terms and conditions of options by lessee to terminate the lease or abate payments, when the lessor has issued debt secured by lease payments



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Lessor - Financial Reporting and Disclosure (Continued)

- If ongoing operations consist primarily of leasing assets to others, include schedule of future payments (principal and interest).
- When a lessor has one or more regulated leases, there are additional required disclosures (see paragraphs 42 and 43 of the standard).



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**GASB 88**

Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

88 Overview

- Defines debt for purposes of disclosure in notes to financial statements.
- Establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings



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Definition of Debt for Disclosure Purposes

- Liability that arises from a contractual obligation to pay cash (or other assets in lieu of cash) in one or more payments to settle an amount that is fixed at the date the obligation is established
- Interest to be accrued and subsequently paid (such as interest on variable-rate debt) or interest to be added to the principal amount of the obligation (such as interest on capital appreciation bonds) does not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established
- Does NOT include: leases (except for contracts reported as financed purchase of the underlying asset), or accounts payable



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Additional Disclosures

- Include disclosures already required by existing applicable GASB statements
- Separate disclosures relating to direct borrowings/placements from other debt
- Amount of unused lines of credit
- Assets pledged as collateral for debt
- Terms specified in debt agreements related to significant
 - Events of default with finance-related consequences
 - Termination events with finance-related consequences
 - Subjective acceleration clauses



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GASB 89

Accounting for Interest Cost Incurred before the End of a Construction Period

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89 Overview

- Establishes accounting requirements for interest cost incurred before the end of a construction period.
- Interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.
- Interest cost will no longer be capitalized as part of the HIS



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GASB 90

Majority Equity Interests, an Amendment of GASB Statements No. 14 and No. 61

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90 Overview

- Defines majority equity interest
- Specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment
- Changes should be applied retrospectively, except for provisions related to:
 - Reporting a majority equity interest in a component unit
 - Reporting a component unit if the government acquires a 100 percent equity interest.



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Definition of Equity Interest

- Equity interest - financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government.
- Explicit and measurable - government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable.
- Does NOT include a government's residual interest in assets that may (on dissolution) revert to the government for lack of another equitable claimant.



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Majority Equity Interests in Legally Separate Orgs

- If the government's holding meets the definition of an investment in paragraph 64 of Statement No. 72 - Report as an investment and measure using equity method as described in paragraphs 205-209 of Statement No. 62, EXCEPT FOR
- Special purpose governments engaged in only fiduciary activities, a fiduciary fund, or an endowment - measured in accordance with the requirements of paragraph 64 of Statement No. 72 (i.e. Fair Value).
- The legally separate org should NOT be reported as a component unit.



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Majority Equity Interests in Legally Separate Orgs (Continued)

- If the government's holding does NOT meet the definition of an investment in paragraph 64 of Statement No. 72 -
 - holding of the majority equity interest results in the government being financially accountable for the organization
 - government should report the legally separate organization as a component unit
 - should be reported as an asset of the government or fund that holds the equity interest, measured using the equity method in accordance with [paragraphs 205-209 of Statement 62](#),
 - If blended - eliminate asset and net position associated with the equity interest




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Reporting a Component Unit If a Government Acquires a 100 Percent Equity Interest


- Component unit should measure its assets, deferred outflows of resources, liabilities, and deferred inflows of resources in accordance with the provisions of [paragraphs 29–42, 44, and 45 of Statement No. 69](#), Government Combinations and Disposals of Government Operations, as amended, at the date on which the government acquires the 100 percent equity interest.
- Consideration provided should include the net resources exchanged to complete the acquisition of the 100 percent equity interest plus the balances of any equity interest asset and deferred outflow of resources recognized prior to the completion of the acquisition in accordance with paragraph 8.
- Net position acquired should be equal to the net position of the component unit after measuring assets, deferred outflows of resources, liabilities, and deferred inflows of resources in accordance with the provisions of [paragraphs 29–36 of Statement 69](#).

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Other Implementation Guidance

Implementation Guide 2018-1

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Implementation Guide (IG) 2018-1


- Effective for reporting periods beginning after 6/15/18
- Topics covered:
 - Pensions – employer accounting and reporting
 - OPEB – Plan reporting
 - Tax abatement disclosures

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Current GASB Projects

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Current Exposure Drafts

- Conduit Debt Obligations - Currently in Exposure Draft Re-deliberation Period, final standard expected May 2019
- Proposed Implementation Guide of the Governmental Accounting Standards Board Implementation Guidance Update—2019
- Implementation Guide – Fiduciary Activities – final guide expected May 2019

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Revenue and Expense Recognition

- Invitation to Comment re-deliberations stage
- Exposure draft expected December 2021
- Final statement expected March 2023

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Financial Reporting Model

- Preliminary Views comment period
- Exposure draft expected June 2020
- Final statement expected February 2022



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Other Projects

- Conceptual Framework - Recognition
- Conceptual Framework – Disclosure Framework
- Public-Private Partnerships, Including Reexamination of Statement 60
- Subscription Based IT Arrangements
- Implementation Guides
 - GASB 87 (Leases)



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On the Horizon

- Deferred Compensation Plans
- Going Concern Disclosures
- Compensated Absences – Reexamination of Statement No. 16
- Prior Period Adjustments, Accounting Changes, and Error Corrections – Reexamination of Statement No. 62.




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GASB Resources and Providing Feedback

- Website: <http://gasb.org/>
- Respond during comment periods
 - GFOA
 - NASBA
 - Write your own comment letter

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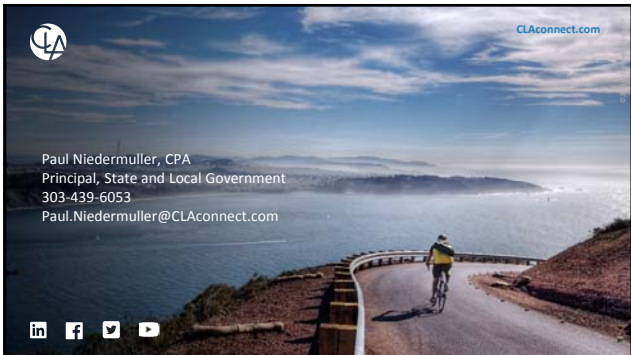



Questions?





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Learning Objectives

- Identify new and proposed FASB Accounting Standards Updates (ASUs) and effective dates
- Recognize the new standards
- Determine which new standards apply, and under what circumstances
- Identify implementation considerations, challenges, and approaches

Agenda

- Implementing Major Standards: NFP Financial Statements, Revenue Recognition, Leases
- Grants & Contracts to NFPs
- Other Recent ASUs
 - Improving the Presentation of Net Periodic Pension Cost and Net Post Retirement Benefit
 - Financial Instruments – Recognition and Measurement, Credit Losses, Hedge Accounting
 - Cloud Computing Arrangements
- Other FASB Projects
 - Balance Sheet Classification of Debt
- Q&A

Upcoming Effective Dates: The “Big Three” for NFPs

Not-for-Profit Financial Statements Revenue Leases

CY 2018* (All) CY 2018* (Public) / CY 2019* (Non-public) CY 2019* (Public) / CY 2020* (Non-public)

*for FYs beginning in those years

NOTE: *Public* for Revenue and Leases includes NFPs with publicly-traded conduit (or direct) debt

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FASB Implementation Web Portal

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

HOME STANDARDS PROJECTS MEETINGS REFERENCE LIBRARY NEWS & MEDIA ABOUT US

Public Home > FASB Updates > Implementing New Standards

IMPLEMENTING NEW STANDARDS

As an important part of the Board's mission of developing high-quality standards, it is essential to ensure that the public understands the Board's process and the impact of its standards. The Board accomplishes this by ensuring preparedness and other practitioners in their understanding and ability to successfully apply new standards.

as part of continuing preparation for a recently and

IMPLEMENTATION OUTCOMES FOR MAJOR STANDARDS

- Revenue Recognition
- Credit Losses
- Hedge Accounting
- New Standards

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Presentation of Financial Statements of NFP Entities

ASU 2014-16

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Effective Date, Early Adoption, and Transition

Effective Date: For fiscal years beginning after 12/15/2017 (e.g., CY 2018, FY 2018-19)

Early Adoption: Permitted, but must apply the regular transition provisions.


Transition:

- For year of adoption: apply all provisions.
- For comparative years presented: apply all provisions, except can choose not to present:
 - Analysis of expenses by nature and function*, and/or
 - Disclosures around liquidity and availability of resources
- *unless already required to do so under current GAAP




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NFP Financial Statements ASU – Key Objectives (recommended by FASB’s NFP Advisory Committee (NAC))

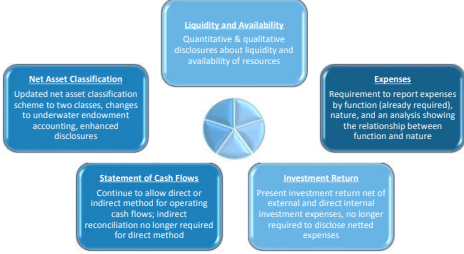


Issued August 18, 2016, ASU No. 2016-14




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Key Provisions of ASU 2016-14 (Phase 1)



Phase 2 folded into Financial Performance Reporting Research Project




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Liquidity and Availability of Resources

NFPs required to provide:

Qualitative information on how an NFP manages its liquid available resources and its liquidity risk (in the notes)

Quantitative information that communicates the availability of an NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year (on the face and/or in the notes)

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Availability Disclosure

Quantitative information either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of an NFP's financial assets at the date of the statement of financial position to meet cash needs for general expenditures within one year of the date of the statement of financial position

Availability of a financial asset may be affected by

- Its nature
- External limits imposed by donors, laws, and contracts with others
- Internal limits imposed by governing board decisions.

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Example – NFP with Deficiency in the Composition of Assets to Comply with Donor-Imposed Restrictions

	Option 1	Option 2
Cash	\$ 1,050	\$ 1,050
Receivables	3,250	3,250
Total financial assets	4,300	4,300
Receivables scheduled to be collected in more than one year	(2,200)	(2,200)
Contractual or donor-imposed restrictions:		
Donor contributions restricted to specific purposes	(1,750) *	(1,950) *
Funds restricted by lender	(120)	(120)
Financial assets available to meet cash needs for general expenditures within one year	\$ (1,880)	\$ -


* Donations restricted for purposes more limited than general expenditures total \$3,750.

Codification references:

958-210-50-2 An NFP shall disclose the following, if applicable, in the notes to the financial statements and may include that information in qualitative disclosures on the availability of an NFP's financial assets in accordance with paragraph 958-210-50-1A(b):

b. The fact that the NFP has not maintained appropriate amounts of cash and cash equivalents to comply with donor-imposed restrictions (see paragraph 958-450-50-3)

958-450-50-3 If the noncompliance results from a not-for-profit entity's (NFP) failure to maintain an appropriate composition of assets in amounts needed to comply with all donor restrictions, the amounts and circumstances shall be disclosed.

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Reporting of Investment Return - Examples


- Direct internal investment expenses involve the *direct conduct* or *direct supervision* of the strategic and tactical activities involved in generating investment return. The following are some examples:
 - CIO's Compensation: Potentially all of expense
 - CFO's Compensation: Potentially a partial allocation of expense
 - Investment Accountant's Compensation: Potentially a partial allocation of expense
 - CIO's Travel Expenses to Visit Fund Managers: Potentially all of expense
 - Accountant Performing Endowment Allocations: None

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Revenue Recognition (Topic 606)

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GAAP Model for Revenue Recognition


Core Principle:

Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

Steps to apply the core principle:

1. Identify the contract(s) with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when (or for) a performance obligation is satisfied

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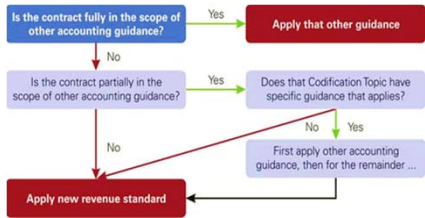
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Major Changes Relative to Current Guidance

- Focus is now on the contract rather than on transactions of certain types or within certain industries
- Variable consideration and constraints on revenue
- Licenses
- Recognition and measurement guidance applies to transfers and sales of nonfinancial assets to non-customers (Topic 610)
- Guidance on accounting for costs to obtain and fulfill a contract with a customer, if not addressed in other topics (Subtopic 340-40)
- Disclosures



Determining the Application of Topic 606



AICPA Revenue Recognition Guide

- Chapter 7: Health Care Entities
 - Self pay patients
 - Medicaid/Medicare payments (and subsequent audits)
 - CCRC: entrance fees and other issues
- Chapter 8: Not-for-Profit Entities
 - Subscriptions and membership dues
 - Tuition and Fees
- Examples included in guide



Disclosure

Disaggregation of revenue

Information about contract balances

Remaining performance obligations

Interim requirements

- Qualitative and quantitative* disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors
- Opening and closing balances *
- Amount of revenue recognized from contract liabilities *
- Explanation of significant changes in contract balances *
- Transaction price allocated to remaining performance obligations *
- Quantitative or qualitative explanation of when amounts will be recognized as revenue *
- Quantitative disclosures *

* for public entities only, including conduit debt obligors

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Revenue Recognition – Effective Dates

New (deferred) effective dates

- CY 2018 (FY 2019) for public entities* (including interim)
- CY 2019 (FY 2020) for nonpublic entities (no interim, just annual period; interims in subsequent years)
- Early adoption permitted, but not before the original effective date


Previous effective dates

- CY 2017 (FY 2018) for public entities* (including interim)
- CY 2018 (FY 2019) for nonpublic entities (no interim, just annual period; interims in subsequent years)
- Nonpublic entities permitted to adopt early, but no earlier than public entities

* Public entities include NFPs with publicly traded direct or conduit debt

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ASU 2016-02 Leases

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Lease Definition and Core Principle

A lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration

A lessee should recognize the assets and liabilities that arise from leases

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Leases (Topic 842; ASU 2016-02) – Lessee

Accounting Overview

	Balance Sheet	Income Statement	Cash Flow Statement
Financing Lease	Right-of-use (ROU) asset Lease liability	Amortization expense Interest expense	Cash paid for principal and interest payments
Operating Lease	Right-of-use (ROU) asset Lease liability	Single lease expense on a straight-line basis	Cash paid for lease payments

Classification is similar to that in Topic 840, Lease

Recognition and measurement exemption for short-term leases

Entities other than public business entities may use risk-free rates as practical expedient for measurement of all lease liabilities

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Identifying a Lease

(The new primary determinant for on/off balance sheet treatment)

Lease contracts in the scope of Topic 842 involve

- An identified asset
 - That is explicitly or implicitly specified
 - Supplier has no practical ability to substitute and would not economically benefit from substituting the asset
- The right to control the use during the lease term
 - Decision-making authority over the use of the asset
 - The ability to obtain substantially all economic benefits from the use of the asset

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Implications: We Have a Lease...Now What?

- Virtually all leases will require balance sheet recognition as a right-of-use (ROU) asset and lease liability
- The lease classification (operating or finance) will impact the amount and timing of lease income or expense in the income statement
- Balance sheet accounting is identical for operating and finance leases
 - Record a right-of-use asset and a lease liability
- Activities (income) statement accounting is a little more complex

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Leases – Additional Simplifications

- ASU 2018-01: Land Easement Practical Expedient for Transition to Topic 842
- Proposed ASU: Lease – Targeted Improvements
 - Adding cumulative effect option for transition
 - Practical expedients for lessors not to separate lease from non-lease components
 - ◊ Already allowed for lessees
 - Comment period ended February 5, 2018; final ASU being issued in June
- FASB currently considering some additional practical expedients for lessors.

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Activities (Income) Statement

Finance Lease	Operating Lease
<ul style="list-style-type: none">• Interest expense using the effective interest method• Amortization is recorded on the right-of-use asset• The periodic expense at the beginning of the lease term will generally be greater than the corresponding cash payments, but will decline over the lease term as the lease liability is reduced	<ul style="list-style-type: none">• Total lease expense is recorded on a straight-line over the lease term: add interest expense (effective interest method) plus amortization of the ROU asset• Unlike a finance lease, amortization of the ROU asset is calculated as the difference between the straight-line expense and the interest expense on the lease liability for a given period

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Activities (Income) Statement

Finance Lease	Operating Lease
<ul style="list-style-type: none">Interest and amortization expense should generally be presented separately in the income statementThe right-of-use asset is tested for impairment in accordance with ASC 360	<ul style="list-style-type: none">Lease expense is presented as a single line item in operating expense in the income statementThe right-of-use asset is tested for impairment in accordance with ASC 360

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How to Determine Lease Classification

- Finance Lease** if **ANY** of the following 5 criteria are met:
 - Transfer of ownership at end of lease term
 - Option to purchase is reasonably certain
 - Lease term is a major part of the economic life of the asset
 - The present value of the lease payments is substantially all of the fair value of the asset
 - The asset is of a specialized nature
- Operating Lease** if **NONE** of the above criteria are met

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Lease Classification Implementation Guidance

- The ASU eliminates the old "bright-line rules"
 - Lease term is for 75 percent or more of the economic life of the asset
 - The present value of the lease payments (including any guaranteed residual value) is at least 90 percent of the FV of the leased asset
- Implementation guidance indicates that entities may use thresholds similar to those they currently use; therefore, practice may not be significantly altered

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Components within a lease

- Lease accounting is applied at the lowest component level
- After determining the lease and nonlease components, a reporting entity should consider whether the lease contains more than one lease component.
- Lessee option not to separately account for nonlease components; examples:
 - Property taxes and insurance
 - Common area maintenance (CAM) of leased office space, such as cleaning and landscape services
 - In a lease of specialized equipment to a hospital, the operational or maintenance services that may be provided by the supplier



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Transition

- Modified retrospective approach; upcoming FASB ASU will add option for reflecting the change as of the beginning of the year of adoption
- Must recognize ROU Asset & Liability
- Practical Expedients
 - Identification
 - Classification
 - Use of hindsight



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Effective Date

- Public Entities: Fiscal years beginning after December 15, 2018, including interim periods within those fiscal years
- All Other: Fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020
- Early application permitted



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Leases – Getting Ready

Inventory of leases – *What’s out there? Know your leases.*


Materiality – *How modern is your capitalization policy?*

Debt covenants – *To what extent will capitalizing your operating leases affect covenants based on leverage ratios?*



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Grants & Contracts to NFPs

Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made

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Scope

Applies to **all entities** (NFPs and business entities) that receive or make contributions unless otherwise indicated.

Excludes transfers of assets from the government to business entities.

Applies to both contributions received by a recipient and contributions made by a resource provider. *The intent is simply that both apply the same guidance, the entities do not need to track each other's accounting to achieve the same reporting results.*

The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within the Scope of Subtopic 958-605 is not a factor for determining whether an agreement is within the scope of that guidance.



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Issue 1: Reciprocal (Exchange) vs. Nonreciprocal (Nonexchange/Contribution) Transactions

Who Receives the Benefit?

Current Practice

EXCHANGE

Direct Commensurate Value to Resource Provider | Specified Third Parties | General Public

Clarification

EXCHANGE | NONEXCHANGE

Direct Commensurate Value to Resource Provider | Specified Third Parties (Governmental Resource Provider, a 3rd Party, Power and Control, or a General Customer) | General Public

Follow Topic 606 (or other, such as Leases) | Follow Topic 958-605

*The resource recognized would actually be the underlying contract's patient service revenue, tuition revenue, etc.
**We focus on whether or not there is a "benefit/expense obligation" could even ultimately include some contracts where the general public is the primary beneficiary.

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Issue 1: Reciprocal vs. Nonreciprocal Transactions: Key Clarifications to the Scope of Subtopic 958-605

The final ASU will clarify and refine existing guidance in Subtopic 958-605 by adding paragraphs that would clarify the scope of the Subtopic as well as illustrative examples.

- The resource provider is **not** synonymous with the general public, even a governmental entity. If a resource provider receives value indirectly by providing a societal benefit, this would be considered a nonreciprocal transaction.
- If the primary beneficiary of a grant or contract is a third party, an NFP must use judgment to determine if the transaction is reciprocal or nonreciprocal.
- Furthering a resource provider's mission or "feel good" sentiment does not constitute commensurate value received.
- The type of resource provider should not override the substance of the transaction.

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Issue 2: Conditional vs. Unconditional Contributions
For a Donor-Imposed Condition to Exist:

Final ASU

- A right of return/release must exist; and
- The agreement must include a barrier
 - Indicators and examples to help in determination

Alternative Rejected

- A right of return/release must exist
- Would have required a **probability** assessment about whether it is likely a recipient NFP will fulfill the stipulations

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Indicators that a barrier may exist

The inclusion of a measurable performance-related barrier or other measurable barrier	The extent to which a stipulation limits discretion by the recipient on the conduct of an activity	The extent to which a stipulation is related to the purpose of the agreement	The Board decided to remove the additional actions indicator that was originally proposed

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Indicators that a barrier may exist (continued)

Measurable Barrier <ul style="list-style-type: none">Specified level of serviceSpecified outcomeMatchingOutside event or occurrenceMay be achieved in milestone (step-wise) fashion	Limited Discretion <ul style="list-style-type: none">More specific than the general activity being conducted and/or restricted time-frameRequirement to incur only qualifying expenses based on specific criteriaRequirement to hire specific individualsRequirement to adhere to specific protocol(s)	Related to Purpose of the Agreement <ul style="list-style-type: none">Stipulations that relate directly to the mission purpose of the agreement<ul style="list-style-type: none">Report on research study findingsLEED certification for new buildingExcludes trivial or administrative stipulations and requirementsReport on grant expendituresAnnual audit

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NFP Revenue Recognition Decision Process

```
graph TD
    Q1{Transaction in which each party directly receives commensurate value?}
    Q1 -- Yes --> R1[Reciprocal transaction. Apply Rev. Rec. (ASC 606) or other guidance.]
    Q1 -- No --> Q2{Conditions present (i.e., right of return/release and barrier)?}
    Q2 -- Yes --> R2[Conditional-Recognize revenue when condition is met]
    Q2 -- No --> Q3{Restrictions present (i.e., limited purpose or timing)?}
    Q3 -- No --> R3[Unconditional and without restrictions (unrestricted)]
    Q3 -- Yes --> R4[Unconditional and restricted]
    Q2 -.->|Meeting of Conditions| Q3
```


*Includes third-party payments on behalf of identified customers. These do not create new revenue.

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Scope – More on “Symmetry”

Applies to both contributions received by a recipient and contributions made by a resource provider. *The intent is simply that both apply the same guidance, the entities do not need to track each other’s accounting to achieve the same reporting results.*


- Grantors (e.g., foundations) must follow same guidance in determining if grants are (1) exchange or nonexchange transactions, and (2) conditional or unconditional
- Not required to mirror judgment/accounting treatment used by the grantee organization
- Not required to obtain information from grantees relating to their overcoming of the barriers but can use judgment.

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Scope – More on Terminology

The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within the Scope of Subtopic 958-605 is **not** a factor for determining whether an agreement is within the scope of that guidance.

- There is **no expectation** for recipients or makers to call their grants “contributions” in their statements. They will likely continue to call them “grants and contracts,” “government grants,” or other suitable label.
- Rather, recipients and makers are simply using the guidance in the **contribution model** in Subtopic 958-605 (-720) to determine revenue (expense) recognition for transactions that are nonexchange (nonreciprocal) transactions.


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Barrier Indicator #1: Measurable Performance-Related or Other Measurable Barrier

Examples of these include –

- Measurable Performance-Related:
 - Specified level of service
 - Specific output or outcome
- Other Measurable:
 - Matching
 - Outside Event

The ASU also illustrates that these may be achieved in milestone (step-wise) fashion.

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Specified Level of Service (example presented in the GAAP Update session)

- Grant from Private Foundation to NFP D to provide specific career training to disabled veterans.
 - Conditional because of a specified level of service (at least 8,000 veterans trained, with minimums of 2,000 per quarter) on which entitlement depends, coupled with a right of release. Likelihood of serving those minimums not considered.



Example – Specific Output

- NFP F receives a 2-year grant in the amount of \$500,000 upfront to be used to expand its operations
 - The agreement indicates that NFP F must expand its facility by at least 5,000 square feet to accommodate additional animals by the end of the 2 years
 - The grant contains a right of return if the minimum expansion target is not met



Example – Conclusion

- NFP F determines that this grant is conditional
 - The grant includes a measurable barrier (5,000 additional square feet) that must be achieved by NFP F **to be entitled** to the assets
 - The grant includes a right of return for unused assets or unmet requirements



Example - Stipulations

- NFP H is a recreational organization that provides various sports programs to children that live in the community. NFP H receives an upfront grant in the amount of \$40,000 from a foundation to be used toward its tennis program
 - Consistent with grant proposal, grant awarded includes stipulations about how NFP H should use the assets (for example, to hire 10 tennis instructors, or to provide a summer camp for 9 weeks)
 - Grant does not specify that NFP H's entitlement to the \$40,000 is dependent upon meeting any of the stipulations in the agreement as long as the funds are used toward the tennis program
 - The grant contains a right of return for funds not spent on the tennis program



Example - Conclusion

- NFP H determines that this grant is unconditional
 - The grant does not contain a barrier to overcome to be entitled to the transferred assets
 - While the grant agreement contains stipulations for how NFP H could spend the \$40,000, the agreement does not specify that entitlement to the transferred assets is dependent upon meeting any of the stipulations
 - Because the stipulations in the grant agreement were not required to be met to be entitled to the funding, the agreement does not contain a barrier to overcome




Example – Milestones

- NFP I (a museum) receives a \$1 million multi-year promise to give to be used for a new wing on the existing museum building
 - The agreement includes a specific building requirements, including square footage and that the new wing must be environmentally friendly with Leadership in Energy and Environmental Design (LEED) certification
 - The first installment of the gift will not be paid until NFP I submits architectural designs that meet the building requirements
 - Additional installments of the grant will be paid in specified increments upon meeting specific requirements of the grant agreement. If the building is not built in compliance with the grant agreement, the donor is released from its obligation to make installment payments



Example – Conclusion

- NFP I determines that this agreement is conditional
 - NFP I is not entitled to the assets until milestones are met (for example, an architectural plan including square footage and LEED certification)
 - The agreement includes a release of the resource provider's obligation to transfer assets if the stipulations are not met
 - The likelihood of meeting a milestone is not a consideration when assessing whether the contribution is conditional

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Barrier Indicator #2: Limited Discretion on The Conduct of an Activity

More specific than the general activity being conducted or the time frame in which the contribution must be used

Examples of this include –


- Requirement to incur only qualifying expenses that are based on specific requirements
- Requirement to hire specific individuals as part of the workforce
- Specified protocol that must be adhered to

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Limited Discretion (examples from above)

- Grant to University D from Federal Government
 - University D determined that it should account for this research grant as conditional. The grant agreement limits University D's discretion on the conduct of the research as a result of the specific requirements on how the assets may be spent (qualifying expenses), and there is a right of return and release
- Grant to NFP E from Corporate Foundation
 - NFP E determined that the grant is unconditional. While there was right-of-return language in the agreement, there was no additional requirements limiting how NFP E had to conduct the research on gluten-related allergies

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Additional Example – Limited Discretion

- NFP G is a university that is conducting a capital campaign to build a new building to house its school of mathematics. NFP G receives an upfront grant in the amount of \$10,000 from a private foundation as part of its capital campaign
 - The agreement contains a right of return requiring that the assets be reimbursed to the resource provider if the assets are not used for the purposes outlined in the capital campaign solicitation materials
 - The resource provider does not include any specifications in the agreement about how the building should be constructed



Example – Conclusion

- NFP G determines that this grant is unconditional
 - The agreement places limits only at the level of what activity is being funded (for example, the assets can be used toward the new building)
 - The resource provider does not include any specifications about how the building should be constructed, and the agreement only indicates that NFP G use the grant for the purpose outlined in the capital campaign materials
 - This contrasts, for example, with the requirements for LEED certification on which payment to NFP I (the museum) is conditioned under the promise to give in the example on slides 32-33



Barrier Indicator #3: Related to the Purpose of the Agreement

Excludes trivial or administrative stipulations

Examples of being related/unrelated to the purpose –

- Yes: a report conveying the research findings on a grant for basic research
- No: a report indicating how grant moneys have been spent (for example, in the grant from the Corporate Foundation to NFP E for research on gluten-related allergies)
- No: a requirement for an annual audit in accordance with OMB guidelines (for example, the research grant from the federal government to University D)



Subjective Termination Clauses

- Example foundation grant agreement –
 - Grant is to fund a specific project at the NFP during a specific time period. Specific amount to be paid, foundation must approve in writing any budget cost category change or more than 10%. Annual payments are made during the grant term after delivery of annual progress reports
 - “Payments are subject to your compliance with this agreement, including your achievement of the milestones and reporting deliverables. The foundation may modify payment dates or amounts and will notify you of any such changes in writing”
 - “The foundation may modify, suspend, or discontinue any payment of grant funds or terminate this Agreement if the foundation is not reasonably satisfied with your progress on the project. Any grant funds that may not have been for the project upon expiration or termination of this Agreement must be returned promptly to the foundation”
- Does the barrier to entitlement exist in this agreement?



Right of Return / Release

- Donor-Imposed Condition (revised Master Glossary definition):
 - A donor stipulation (donors include other types of contributors, including makers of certain grants) that represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised. Failure to overcome the barrier gives the contributor a right of return of the assets if has transferred or gives the promisor a right of release from its obligation to transfer its assets
- The agreement need not use those exact words, and the right may be communicated in another document referenced by the agreement
 - e.g., Federal cost circulars; a foundation’s standard terms and conditions



Right of Return / Release – Wording Examples

- “Payments are subject to your compliance with this Agreement, including your achievement of the milestones required under this Agreement”
- “Please note that a condition has been placed on a portion of this grant as stated in the Grant Agreement. Once this grant condition has been met and before payment of conditional funds can be made, we require that the document entitled Conditions Met Report be completed and submitted to the Foundation’s before, if possible, but no later than two weeks after the stated conditional deadline. When you have met the conditions of the grant and there is an actual need for these funds, please complete and submit the Progress Report found on the Foundation’s website”



Right of Return / Release – Wording Examples, continued

- “Funds awarded under this Agreement shall be used solely to reimburse the Organization for expenses incurred expressly and solely in accordance with the Project Budget and the Scope of Work. The Foundation shall reimburse the Organization for its actual and authorized expenditures incurred in satisfactorily completing the Scope of Work and otherwise fulfilling all requirements specified in this contract in an aggregate amount not to exceed \$100,000.00.”



Example - Sponsorship

- NFP M receives a sponsorship from a donor. The sponsorship is specifically for an event that NFP M will host in the future. The donor receives no direct value in return for the sponsorship. The sponsorship agreement is silent as to what happens if NFP M cancels the event.
- *Does the sponsorship agreement include a right of return?*



Ambiguous Donor Stipulations

Determining whether a contribution is conditional or unconditional can be difficult if it contains donor stipulations that do not clearly state whether both:

- One or more barriers exist
- The right to receive or retain payment or delivery of the promised assets depend on meeting those barriers.

It may be difficult to determine whether those stipulations are conditions or restrictions. In cases of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional shall be presumed to be a conditional contribution.



Simultaneous Release

The simultaneous release option allows an NFP to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This election must be applied consistently to all restricted contributions and investment returns. The final ASU will create two "buckets" for restricted: (1) amounts initially conditional and (2) all other.


Current GAAP

One bucket

Forthcoming

Restricted/conditional bucket

Restricted/other bucket

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Simultaneous Release - Example

- NFP E runs an animal shelter and has a fiscal year end of 12/31.
- NFP E is awarded a matching grant of \$100,000 on 12/1/2018 to be used specifically towards the construction of a new dog playroom.
 - The agreement indicates that for NFP E to be entitled to and receive the assets, the NFP must raise an additional \$100,000 of funding from other sources. NFP E will receive payment on the grant when the 1:1 match is met.
- NFP E's progress on the grant is as follows:

Grant date

Match Requirement Met


Completion of Dog Playhouse

1/1/19

12/31/19


CT 2019
(NFP E's Fiscal Year)

- NFP E has elected the simultaneous release option only for those restricted amounts that were initially conditional. Does this grant qualify for that "bucket"?

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Simultaneous Release - Conclusion

- NFP E determines that the grant does qualify for that bucket.
 - Prior to the match being met, the grant was a conditional contribution.
 - Once the grant becomes unconditional (when the matching requirement is met), NFP E recognizes the revenue as donor-restricted because the purpose of the grant is narrower than NFP E's overall mission.
 - The restriction is met (by completing the dog playroom) in the same period in which the revenue was recognized.
- Note that the grant award date isn't what's relevant here. What's relevant is the date on which the revenue was recognized – i.e., the date on which the condition was met.

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Contribution Disclosures

Recipients

- No additional recurring disclosures have been added in the guidance.
- Guidance in Topic 958 includes disclosures for unconditional and conditional promises to give.
- For conditional promises to give, recipients are required to disclose:
 - The total of the amounts promised
 - A description and amount for each group of promises having similar characteristics


Resource Providers

- No additional recurring disclosures have been added to the guidance.
- Guidance in Topic 958 includes a cross reference to the disclosures in Topic 450, Contingencies, and in Topic 470, Debt.
- Resource providers also are required to provide information about unconditional promises to give.

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Conditional Contribution Disclosures - Recipients

- 958-310-50-1** Recipients of **unconditional promises to give** shall disclose the following:
 - The amounts of promises receivable in less than one year, in one to five years, and in more than five years
 - The amount of the allowance for uncollectable promises receivable
 - The discount that arises if measuring a **promise to give** at present value, if that discount is not separately disclosed by reporting it as a deduction from contributions receivable on the face of a statement of financial position pursuant to paragraph 958-310-45-1
- 958-310-50-4** Recipients of **conditional promises to give** shall disclose both of the following:
 - The total of the amount promised
 - A description and amount for each group of promises having similar characteristics, such as amounts of promises conditioned on establishing new programs, completing a new building, and raising matching gifts by a specified date.

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Contribution Disclosures – Resource Providers


- 958-450-20-50** In conformity with Section 450-20-50, the notes to financial statements may have to include information about loss contingencies
- 958-405-50-1** In addition to disclosures required by Section 450-20-50, the notes to financial statements shall include a schedule of unconditional promises to give that shows the total amount separated into amounts payable in each of the next five years, the aggregate amount due in more than five years, and for unconditional promises to give that are reported using present value techniques, the unamortized discount
- 720-25-25-1** This Subtopic does not require disclosures for makers of promises and indications of intentions to give because Topics 450 and 470 provide the relevant standards

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Effective Date

Recipients*		Resource Providers	
Annual periods beginning after June 15, 2018, including interim periods: <ul style="list-style-type: none">Public Business EntitiesNFP that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on exchange or an over-the-counter market.	Annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019: <ul style="list-style-type: none">All Other Entities	Annual periods beginning after December 15, 2018, including interim periods: <ul style="list-style-type: none">Public Business EntitiesNFP that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on exchange or an over-the-counter market.	Annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020: <ul style="list-style-type: none">All Other Entities

- *Effective dates generally the same as Topic 606 (Revenue Recognition). The Board delayed the effective date for public entities that are recipients, so as to avoid confusion about possible restatements.
- The standard will allow for early implementation.

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Transition Approach

Effective Date


A


B

Existing Agreements

New agreements

- Modified Prospective
 - Apply to all agreements:
 - Existing at the effective date (only apply to the portion of existing agreements not previously recognized)
 - Entered into after the effective date
- No restatement of prior amounts recognized
- Retrospective Application Permitted


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Other Recent ASUs

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Financial Instruments – Recognition & Measurement Amendments to current GAAP (Topic 825; ASU 2016-01)

- Targeted improvements, effective CY 2019 (FY 2019-20):
 - Financial Assets**
 - Equity investments (other than those under the equity method) measured at each reporting period at fair value through net income, with key exception: those without readily determinable fair value only marked to observable price changes
 - Financial Liabilities**
 - Fair value change resulting from own credit for financial liabilities measured under fair value option will be recognized through other comprehensive income (OCI)*
 - Disclosures**
 - Entities other than Public Business Entities (includes all NFPs) no longer required to disclose fair value of financial instruments not recognized at fair value on B/S*

* Can early adopt these provisions

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ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

Contributions (pledges) receivable are excluded


Trade receivables and student loans (and other programmatic loans) receivable are included

CECL model not expected to result in significant impact on most entities that aren't financial institutions

- Likely already taking CECL considerations into account for their trade and loan receivables

More noteworthy for Healthcare NFPs is the change for Available-for-Sale (Other-than-Trading) Debt Securities: now an allowance approach

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ASU 2016-15 Classifications of Certain Cash Receipts and Payments

- Debt prepayment or extinguishment costs
- Settlement of zero-coupon bonds
- Contingent consideration payments made after a business combination
- Proceeds from the settlement of insurance claims
- Proceeds from the settlement of life settlement contracts
- Distributions received from equity method investees
- Beneficial interests in securitization transactions
- Application of the predominance principle

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ASU 2016-18 Restricted Cash in the SOCF

- SOCF must explain the change in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents
- Restricted cash and cash equivalents must be reflected in the beginning and ending totals of cash in the SOCF
- Must disclose the SOFP line items and amounts with unrestricted and/or restricted cash and cash equivalents
- The ASU does not define "restricted" cash or cash equivalents

Effective CY 2019

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Improving the Presentation of Net Periodic Pension Cost & Net Periodic Postretirement Benefit Cost—ASU No. 2017-07

Background

- Net benefit cost contains several components with different nature
- No GAAP guidance on presentation
- Reduced predictive value and usefulness of information to users
- Board added project

Presentation of net benefit cost in the income statement (retrospective application)

- Service cost in the same line item or items as other current employee compensation costs
- Remaining components in a separate line item or items outside operating items, if applicable

Capitalization of only service cost in assets (prospective application)

ASU No. 2017-07 is effective December 31, 2019

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Hedge Accounting – Key Simplifications in ASU 2017-12 CY 2019

The concept of separately recording “ineffectiveness” will be eliminated.

SIFMA rate will now be among the indexes eligible to be designated in a hedge of interest rate risk.

Hedge Documentation – Initial quantitative effectiveness test can now be performed anytime before issuance of next financial statements (instead of immediately after entering the hedge).*

Only important for healthcare NFPs with a performance indicator

*Public NFPs (those that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market) have 3 months to document hedging relationships.


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Hedge Accounting – Key Simplifications

Shortcut Method – Long-haul method may be used if use of the shortcut method was not or no longer is appropriate.

Critical Terms Match – When hedging a group of forecasted transactions, the timing of the derivative and transactions can be considered to “match,” if the transactions occur and derivative matures within a 31-day period.

Qualitative Testing – Allowed after an initial qualitative test at hedge inception if certain conditions are met.

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Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract – ASU No. 2018-15


Background – Diversity in Practice


Follow guidance in ASC 350-40 (internal use software) to determine which costs you can implement

- Costs to develop software, yes
- Costs for training, no

Amortize over term of hosting agreement in same account as fees

ASU No. 2018-15 is effective December 31, 2020


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Other FASB Projects to watch

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Balance Sheet Classification of Debt

Key Changes

Classification Principle

Debt would be classified as noncurrent if either of the following criteria are met as of the balance sheet date:

- Liability is contractually due to be settled more than one year after the balance sheet date.
- Entity has contractual right to defer settlement of liability for at least one year after the balance sheet date.

Waivers of Debt Covenant Violations

The amendments would continue to require an entity to classify debt as noncurrent when there has been a debt covenant violation if the entity receives a waiver that meets certain conditions before the financial statements are issued.

Separate Line Item Presentation

The amendments would require separate presentation in a classified balance sheet for debt that is classified as noncurrent because of a waiver of a debt covenant violation obtained after the balance sheet date.

Refinancing After the Balance Sheet Date

The amendments would prohibit an entity from considering a subsequent refinancing when determining the classification of debt as of the balance sheet date.


Subjective Acceleration Clause (SAC)

The SAC would affect classification of debt only when it is triggered (no probability assessment).

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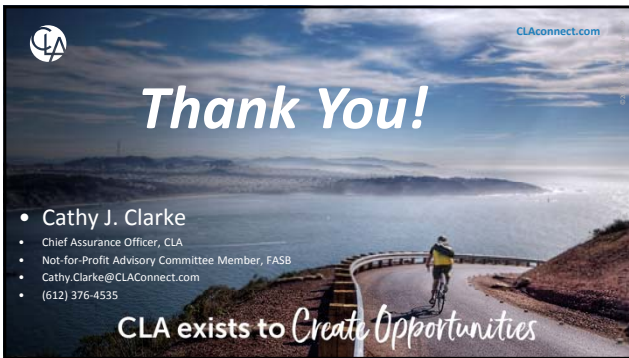
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Thank You!

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CLAconnect.com






FBI



Michael Bobbitt
Supervisory Special Agent

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Learning Objectives

At the end of this session you will be able to:

- Identify the FBI's mission and its priorities
- Outline red flags around public corruption and ways the FBI addresses this

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The Federal Bureau of Investigation


Established 1908

- 34 Special Agents

Today

- 13,000 Special Agents
- 37,000 Employees
- 56 Field Offices
- 60 Legal Attaché Offices
- \$9 billion budget

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The Federal Bureau of Investigation

Priorities

- Protect the US from terrorist attacks
- Protect the US from foreign intelligence operations and espionage.
- Protect the US from cyber intrusions
- Combat public corruption
- Protect civil rights
- Combat transnational/national organizations
- Combat white collar crimes
- Combat violent crimes


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The Federal Bureau of Investigation

Public Corruption Program

- What is public corruption?



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The Federal Bureau of Investigation

Public Corruption Program

- Subprograms
 - Corruption of Federal Public Officials
 - Corruption of State and Local Public Officials
 - FCPA
 - Perjury
 - Obstruction of Justice
 - Election Crimes
 - Fraud Against the Government

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The Federal Bureau of Investigation

Public Corruption Program


- Initiatives
 - Border Corruption
 - Foreign Influence
 - Campaign Finance & Election Crime
 - Prison Corruption
 - Public Contract Corruption
 - Tax Increment Financing

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The Federal Bureau of Investigation

- Public Contract Corruption
 - US Government
 - \$1 billion per day
 - 11 million contracts a year
- \$6.3 billion annual loss (5%)
 - FAGT vs PC



The Federal Bureau of Investigation

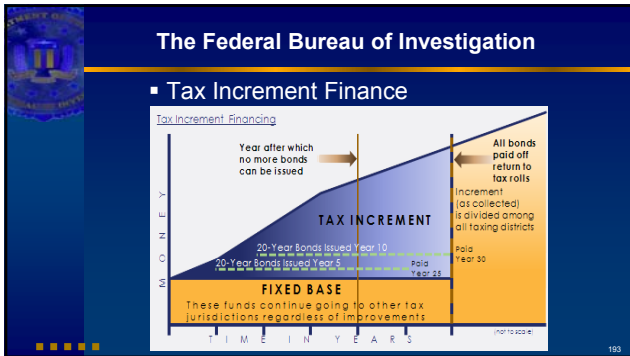
- Public Contract Corruption
 - Is this an emerging trend/threat?
- We need your help
 - Please call the FBI



The Federal Bureau of Investigation


- Public Contract Corruption
 - RED FLAGS Tri-Fold





- The Federal Bureau of Investigation**
- Tax Increment Finance
- How does a TIF District work?
 - Are they vulnerable?
 - First in 1952
 - ~ 6,000 TIFs, \$20 billion annually
- 194


- The Federal Bureau of Investigation**
- Mail & Wire Fraud (18 USC 1341 & 1343), up to 20 years, up to \$1M fine
 - Honest Services Fraud (18 USC 1346)
 - Hobbs Act – Extortion (18 USC 1951)
 - Conspiracy (18 USC 371), 5 year max.
 - Bribery, Theft, Kickbacks, Misapplication (18 USC 666)
 - Travel Act (18 USC 1952)
 - Money Laundering (18 USC 1956 / 1957)
 - False Statements (18 USC 1001)
 - State/local charges
- 196



The Federal Bureau of Investigation

- FBI Cyber Program
 - Cyber Intrusions
 - National Security
 - Criminal – Monetized
 - Computer Facilitated Crimes
 - Business Email Compromise
 - Spearphishing
 - Social Engineering
 - Darkweb / Elicit Commerce

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Questions

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SINGLE AUDITS:

TOP 10 FINDINGS AND TIPS TO AVOID THEM

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Learning Objectives

At the end of this session you will be able to:

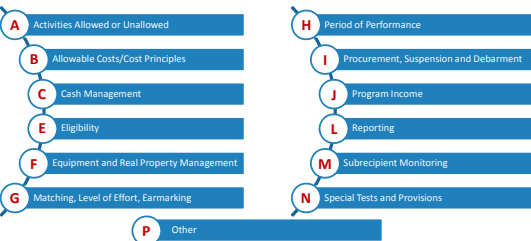
- Identify common Single Audit findings and their root cause
- Describe the federal requirements surrounding audit testing areas
- Develop controls to avoid Single Audit findings



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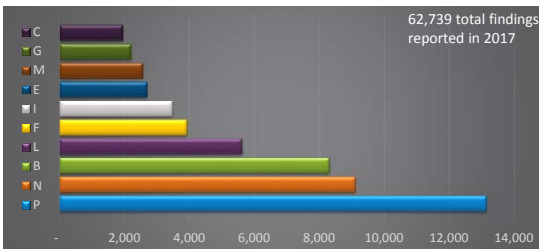
Compliance Areas Subject to Testing



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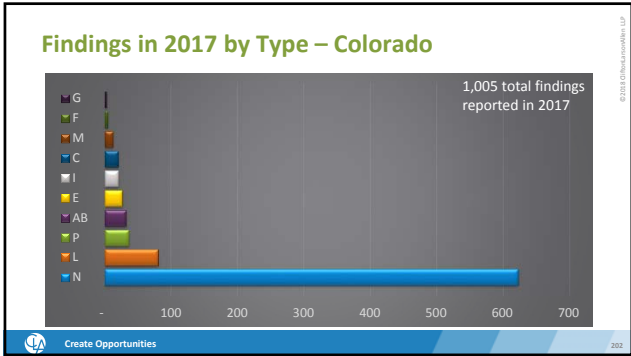
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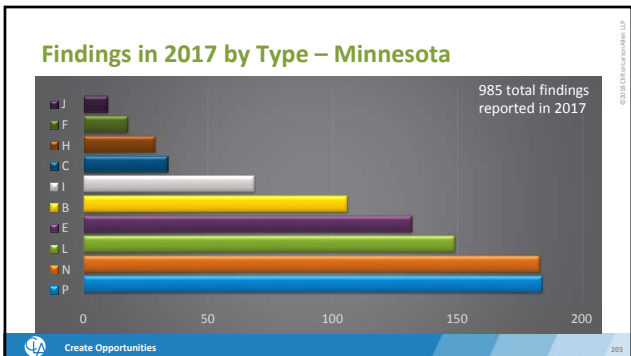
Findings in 2017 by Type – Nationwide

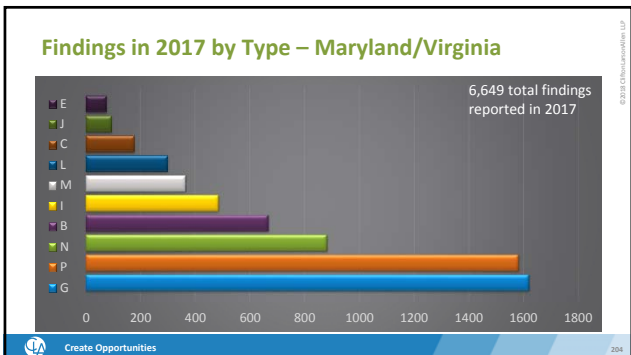


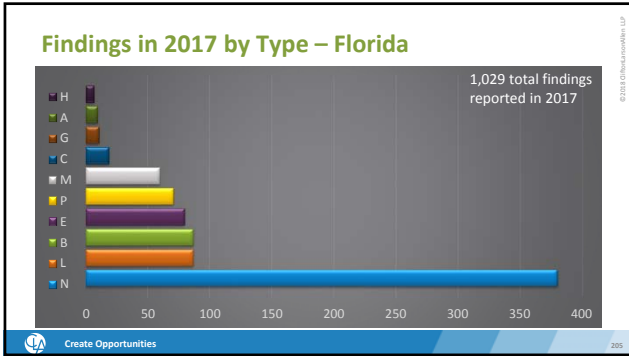
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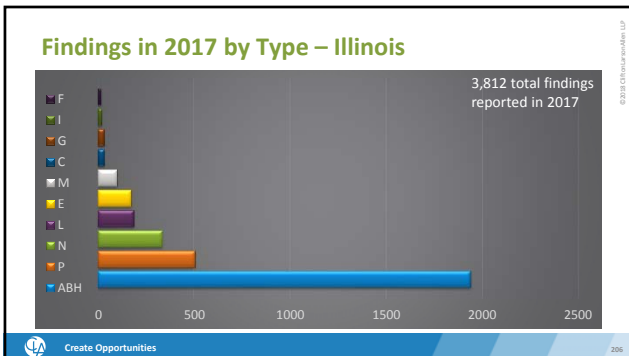
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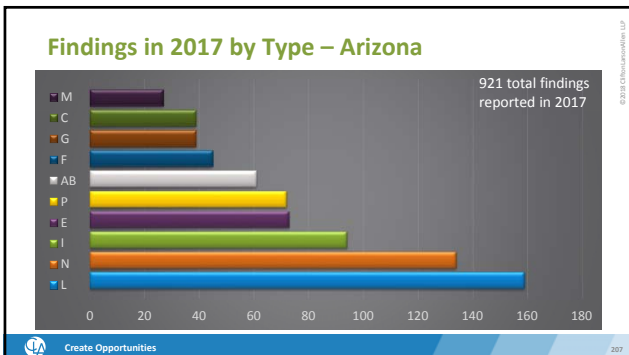















#1 – Internal Controls

Lack of evidence or documentation of internal controls occurring


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Internal Control Requirements

2 CFR section 200.303 *requires* that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal controls designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.



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Examples of Control Types:


Authorization	Management Review	Reconciliation
Segregation of Duties	System Access	Configuration / Account Mapping Controls
Interface / Conversion Controls	Exception / Edit Report	Key Performance Indicator


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How can we combat these findings?

- Ensure policy and procedure manuals include controls
 - Findings often occur due to personnel turnover or inexperience
- Retain documentation as evidence
 - Supervisor signature or initials and dates
 - System generated approval stamp
 - E-mail response with approval
- Communicate and Monitor
 - What could go wrong?
 - Consider what is in place to make sure information is right?




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#2 – Special Tests and Provisions

Certain activities performed by contractors or systems where compliance responsibilities are not executed accurately or timely.


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Examples Observed:

- Student Financial Aid
 - National Student Clearinghouse – student status error clearing
- Medicaid Cluster
 - Managed Care Organizations – Provider Eligibility
- Reliance on Information Systems
 - SOC1 Report End User controls


Remember: You cannot delegate compliance!




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How can we combat these findings?

- Understand compliance requirements and responsibilities
- Internal Controls: Communicate and Monitor
 - Periodic review of contractor’s procedures and policies
 - ◊ Similar to subrecipient monitoring
 - Ensure contractor has not made significant changes to jeopardize your reliance and compliance
 - Periodic audits
 - Review SOC1 reports for deficiencies and ensure strong end-use controls

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#3 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Unallowed or unnecessary costs charged to the Federal Program

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2 CFR 200, Subpart E (Cost Principles)

Code	Description
§200.420	Considerations for selected items of cost
§200.421	Advertising and public relations
§200.422	Advisory councils
§200.423	Alcoholic beverages
§200.424	Alumni/ae activities
§200.425	Audit services
§200.426	Real estate
§200.427	Bonding costs
§200.428	Collection of employer payments
§200.429	Commencement and convocation costs
§200.430	Compensation—personal services
§200.431	Compensation—fringe benefits
§200.432	Conferences
§200.433	Contingency provisions
§200.434	Contributions and donations

Examples of costs with guidance outlined in the regulations


<https://gov.ecfr.io/cgi-bin/ECFR>

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How can we combat these findings?

- Flag federal expenditures for review
- Ensure qualified personnel are reviewing expenditures
 - Personnel may be trained to ensure proper documentation is retained, but do they understand the particulars of the grant activities and uniform cost principles?
 - Trained at a minimum to:
 - ◊ Understand cost principles
 - ◊ Know what expenditures to expect for grant
 - ◊ Gauge whether expenditures should be paid with federal awards or from the general fund / operating budget
 - ◊ Understand how to research if questions arise



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#4 – Reporting

Periodic reports not submitted timely


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How can we combat these findings?

1. Request written extension from Federal Agency
2. Ensure personnel are cross-trained in the event of absences
3. Set internal deadlines
 - CLA TIP: Start with due date and move backward



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#5 – Equipment / Real Property Management

Property is not properly inventoried, usually due to system limitations

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Non-Federal Entities *Other than States* Must Include...

1. Description of the property,
2. Serial number or other identification number,
3. Source of funding for the property (including FAIN),
4. Who holds title,
5. Acquisition date,
6. Cost of the property,
7. Percentage of Federal participation in the project costs for the Federal award under which the property was acquired,
8. Location of the property,
9. Use and condition of the property, and
10. Any ultimate disposition data (*including the date of disposal and sales price of the property*)

(2 CFR section 200.313(d)(1))



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How can we combat these findings?


1. Implement form or checklist for Federally purchased equipment and real property containing necessary information
2. Incorporate data fields into your organization's capital asset system if possible
3. Verify your policies and procedures address Federal requirements for equipment and real property



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#6 – Procurement / Suspension and Debarment

Suspension and Debarment of subrecipient and contractors is not properly checked or documented


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Suspension and Debarment Checks

- The non-Federal entity must verify that the entity ... is not suspended or debarred or otherwise excluded from participating in the transaction (2 CFR section 180.300).
- Allowable verification:
 - Checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/>
 - Collecting a certification from the entity, or
 - Adding a clause or condition to the covered transaction with that entity




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How can we combat these findings?


- Review contracts in place and collect certifications or add addendums to contracts in place
- If checking SAM exclusions:
 - Add to policies/procedures when to perform checks
 - Designate a “watch dog” to ensure checks are performed
 - Keep copies (printouts or screenshots) of your checks



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#7 – Eligibility

Case files or records do not contain sufficient documentation to support eligibility determination

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How can we combat these findings?

1. Ensure policy and procedure manuals include clause for obtaining and retaining information
2. Develop a checklist of documents to collect/retain
3. Have supervisor review checklist and ensure documents were properly obtained or if not, rationale is documented






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#8 – Subrecipient Monitoring

Risk assessment of subrecipients not properly completed or documented

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Grantor's Responsibility: Determining the Subrecipient's Risk

Pass-through entities must evaluate each subrecipient's risk of noncompliance

Prior experience	Results of previous audits	New personnel or new or substantially changed systems	Extent and results of Federal awarding agency monitoring
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How can we combat these findings?

1. Tool developed by CLA for use by the public:
 - Subrecipient Risk Assessment Matrix Workbook:
<http://www.claconnect.com/resources/tools/cla-uniform-guidance-workbook-helps-with-subrecipient-risk-assessment>
2. If not using CLA tool, document elsewhere:
 - Consider elements of the COSO Framework for the subrecipient
 - Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring
 - Conclude why subrecipient qualified to run component of program
3. Always have at least one person review or re-perform risk assessment
 - Be cautious of "group think"

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#9 – Cash Management

Expenditures were not paid prior to receiving funds (for reimbursement-basis draws)

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Compliance Requirement



When entities are funded on a reimbursement basis, program costs must be paid for by non-Federal entity funds before submitting a payment request (2 CFR section 200.305(b)(3)).

Note: This includes payments to subrecipients



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How can we combat these findings?

1. Ensure policies and procedures contain guidance and controls
2. Request support for payments made by subrecipients
3. Ensure expenditures are reconciled against accounts payable
4. Have qualified personnel reviewing cash draw requests
 - Trained to understand regulations
 - Trained to check expenditures against payments made



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#10 – Period of Performance

Grant expenditures charged are based on grant award not period of performance

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Compliance Requirements

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (2 CFR section 200.309).

Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award (2 CFR section 200.343(b)).



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Award Date vs. Period of Performance

Example 1:

The enclosed Application for Federal Assistance for grant [REDACTED] Modification #5 [REDACTED] Amendment #5) titled, "[REDACTED]" is approved effective November 13, 2017, with a total Federal share in the amount of \$225,000.00. The performance period of this grant award is February 18, 2015 through September 30, 2018.

Example 2:

The enclosed Application for Federal Assistance for grant [REDACTED] Modification #0 [REDACTED] Amendment #0) titled, "[REDACTED]" is approved effective July 1, 2017, with a total Federal share in the amount of \$600,558.15. The performance period of this grant award is July 1, 2017 through June 30, 2018.



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How can we combat these findings?

- Utilize the grants module in accounting system if available
- If not available, create entity-wide forms, spreadsheets, and reports to track and control grant activity and evaluation

Entity Totals:	1965	1471	2660	1961	1114	5191	5986	11942
Full Month Totals:	1965	1471	2660	1961	1114	5191	5986	11942
Week 34 8/27/18								
Monday								
Tuesday								
Wednesday								
Thursday								
Friday								
Saturday								
Sunday								
Weekly Totals:								
Monday	488							488
Tuesday		488						488
Wednesday			488					488
Thursday				488				488
Friday					488			488
Saturday						488		488
Sunday							488	488
Weekly Totals:	488	488	488	488	488	488	488	3408
Entity Totals:	1965	1471	2660	1961	1114	5191	5986	11942
Full Month Totals:	1965	1471	2660	1961	1114	5191	5986	11942



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Questions?



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CLA Grant Compliance Resource Center

Compliance and Documentation: Cornerstones of Effective Grants Management	Four Key Considerations for Complying With Uniform Guidance Procurement Rules	CLA's Uniform Guidance Workbook Helps with Subrecipient Risk Assessment	Grant Program Workbook: Understanding Your Grant, Compliance, and Internal Controls
Uniform Guidance Brings New Rules for International Entities	Uniform Guidance Changes: Personal Services and Fringe Benefits	How to Monitor Subrecipients of Higher Education Grants	How Uniform Guidance Will Impact Your Single Audit
Use DOE's Top 10 Findings to Prepare Your School for the Next Audit	Preparing for a DOE Onsite Review of Your Federal Student Aid Program	OMB's Compliance Supplement Can Make Your Single Audit Easier	The Hidden Costs of Grant Noncompliance for Governments

<http://www.claconnect.com/resources/tools/resources-to-ease-the-burden-of-grant-compliance>

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CLA Grant Compliance Resource Center

Indirect cost rate proposal preparation or review	Grant report preparation	Subrecipient monitoring assistance	Training on understanding compliance requirements
Training on Uniform Guidance implications	Grant management policies and procedures development and implementation	Single audit preparation	Organizational capacity assessment for new grant opportunities
	Grant application review	Assistance responding to inquiry letters from awarding agencies	

<http://www.claconnect.com/resources/tools/resources-to-ease-the-burden-of-grant-compliance>

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Thank you!

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in f t y

**Finance Department
Assessments: Identifying and
Implementing Efficiencies**

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Learning Objectives

1. Identify key symptoms of a faltering finance function
2. Recognize how to shape conversations to achieve support for conducting a Finance Department Assessment
3. Recognize how this approach helped a local organization increase its efficiency and effectiveness

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Introductions

Around the Room

- Roles
- Size and type of organizations
- What are you hoping to learn?

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Do you have these questions...

Do we have the right staff?
Do we have the right accounting and financial software?
Are we operating efficiently and effectively?
How do we go paperless?
Why are our financial reports not being completed timely every month?
Why does our staff not rely upon the financial information they receive?
Why are our managers tracking information outside of the Finance Department?
Does everyone have high staff turnover in the Finance Department?
Why is it so hard to modify or create reports?
How can we be more transparent and nimble as an organization?
Is excel the right tool to track information and prepare reports?

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What have you done to try and remedy?

- Process mapping
- Department restructure
- Outsource specific pieces
- Change/add systems
- Training
- Others?


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What we have learned....


- Often the “issues” raised are symptoms of deeper dysfunction. The dysfunction often stems from a combination of **structure**, **process**, and **systems**.
- Addressing one component alone may remedy the challenge(s) for the short-term but is usually not an effective, long-term solution.

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Example of Issues Versus Deeper Dysfunction




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CLA approach to Finance Department Assessments

Structure	• Critically review roles and responsibilities, job descriptions and skill set needed, staff capacity and workload, reporting structure, team culture, and other structural components.
Process	• Walk through all core finance processes to identify bottlenecks, opportunities for automation, spots with likely errors, controls concerns, and redundancy. This includes everything from entering an invoice to budgeting and reporting.
Systems	• Seek to understand the key components of the core finance systems, how the systems are structured, where the general ledger is and is not integrated with other systems, and where the organization isn't using systems, but could to help automate or streamline.


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Important things to consider

- Engage all finance and related staff in the process
- Frame the discussions as a way for everyone to help shape the future of the finance function; not as an “audit” or restructuring.
- Gain insight from users of the financial outputs too
- Once you identify opportunities for improvement, go the next step and develop an actionable, **yet realistic plan** to implement the changes.

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CASE STUDY
Full Service Municipal Government



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Background and Situation

- Full-service municipality located in Southeast
- Total budget of approximately \$59 million
- Recently migrated to new ERP system
- Difficulty with Finance Director role and in recruiting
- Significant conflicts among Finance staff
- Reconciliations not being completed timely, or at all

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Known Challenges

- Initial conversation about pain points highlighted:
 - City Manager does not have a consistent Finance Director and Department needs a strong leader with expertise
 - Conflicting and untraditional responsibilities in job descriptions
 - Consistent financial statements not being provided to leadership
 - Audit was still incomplete 11 months after fiscal year end



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Approach

- Conversations with City Manager about the purpose, process and limits.
- Before being on-site, review documents including org chart, chart of accounts, management and board financials, policies and procedures.
- Communicate preliminary plan for on-site meetings, including expectations, process and steps, so management and staff are prepared and feel included from the beginning.
- First day of fieldwork: Meet first with City Manager to listen, learn and discuss the process again to ensure we are in agreement.



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Approach - Continued

- Individual conversations with all Finance staff, Human Resources and Risk Management Director, and other key staff.
 - *Key point – be flexible and have a conversation if possible, instead of reading from a set list of questions. Let people know we are here to help.
- Request other information as deemed appropriate during conversations.



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Approach - Continued

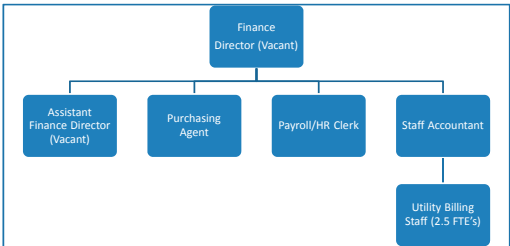
- Conversation on key findings and thoughts with City Manager, where feedback is provided on the process, and we discuss next steps.
- Meeting with City Manager on preliminary thoughts and suggestions to ensure we are on the right path, make any adjustments as needed and prepare draft report with attachments for review.
- Finalize report and deliver to appropriate leadership and City Council.



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Existing Finance Org Structure



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What we learned

- Lack of a strong, consistent Finance Director in place hindered the organization for key finance functions such as audit, budget and financial analysis/planning.
- City budgeted for Assistant Finance Director type role.
- Tremendous lack of trust among several staff and major conflicts occurring.
- Further exacerbated by overlap of responsibilities, poorly aligned position structures and subsequent accommodations to try to solve a symptom of the problem.
- HR Department was going to request another FTE to replace the loss of their partial FTE due to accommodations being made for staff.
- City Clerk and Deputy City Clerk have capacity and ability to absorb traditional clerk functions being currently handled by Finance.



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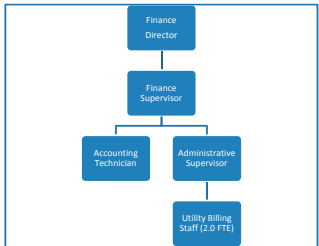
258

Recommendations

- Restructure Finance Department based on updated position descriptions.
- With the position description updates, also review compensation.
- Finance Department requires more than one layer of leadership and supervision.
- Can utilize capacity in another department to assist in realignment of work.
- Organization should advertise for 5 positions after the restructure is completed, even though staff currently occupy 3 of the 5 FTE count in the City. Sends a strong message of "Organization first", and provides staff an opportunity to assess their career path.
- Decrease by 0.5 FTE instead of 2.0 FTE increase originally being discussed before assessment.



Proposed Finance Organizational Structure



*Payroll-HR Clerk moved from Finance Department to HR Department but will have significant interaction with Finance.



Summary

- Finance Director will be able to delegate work to Finance Supervisor to allow for strategic and long range financial management.
- Organization will realize significant dollar savings by decrease in 0.5 FTE instead of potentially increasing by 2.0 FTE.
- With the recommendations, internal controls will be enhanced, including better segregation of duties and moving work to the correct level of staff.



