



# 2023 Florida State and Local Government Training Academy

Thursday, May 18, 2023

Lakeland, Florida

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# Welcome, Housekeeping, and Introductions

- CPE certificates will be emailed within 4 weeks following today's presentation to the email that was used to register. Recommended CPE of 7 credits total will be given to those in full attendance of today's CPE session from 8:30-4:15pm.
- All presentations will be available at the [CLAconnect.com](https://CLAconnect.com) under the **past events** page by the end of next week.





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# Grants Management: Current Events and Best Practices



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# Learning Objectives

- At the end of the session, you will be able to:
  - Identify ways to evaluate your organization's need to improve the grants management business process
  - Recognize key considerations used to determine what digital solutions would work for key business processes
  - Identify next steps to start simplifying grant management and enabling higher compliance with laws and regulations
  - Identify lessons learned and success stories that can be applied to future programs





# The Importance of Effective Grant Compliance

# Grant Lifecycle: The Entire Process of a Grant



# Effective Grant Compliance

Effective grant compliance relies on having:

An in-depth understanding of the grant requirements

Proper policies and procedures in place

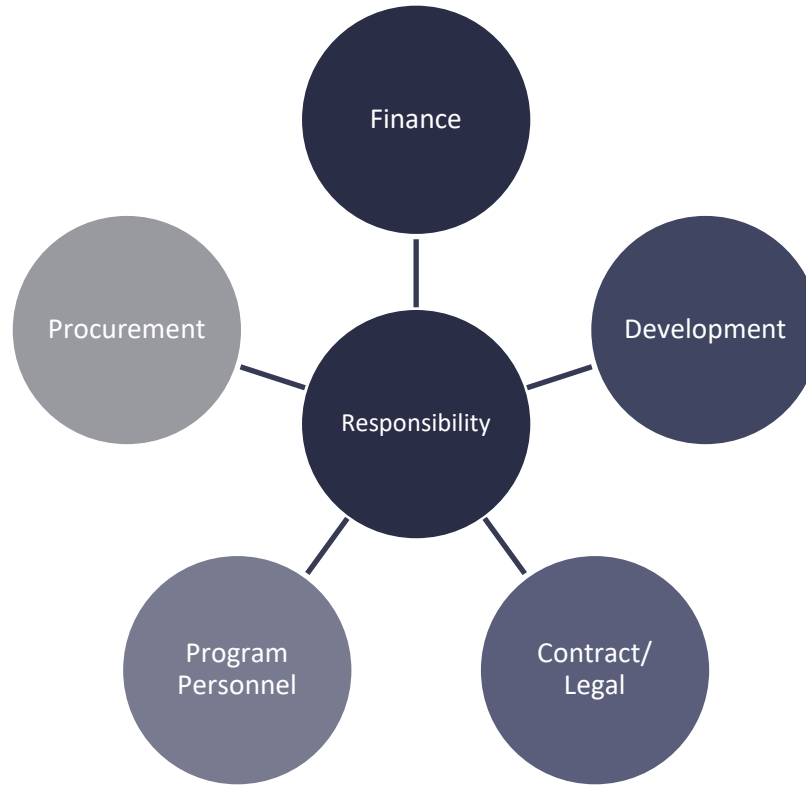
Strong internal controls

Resources and personnel





# Grant Compliance Responsibility





# Grants Management Best Practices

# Grants Compliance

Read through  
grant  
agreement for  
terms and  
conditions

Read through  
Uniform  
Guidance &  
OMB  
Compliance  
Supplement

Obtain Proper  
Training



# Checklists

Develop checklists for all aspects of the grant process, such as:

Procurement

Grant application process

Preparation for the single audit

Subrecipient risk assessment and monitoring

Submission of financial and program reports

Grant close-out



# Policy Review and Revisions



Document proper internal controls over compliance



Document compliance requirements



# Policy Review and Revisions



Designate key individual or team to monitor your policies over federal programs.



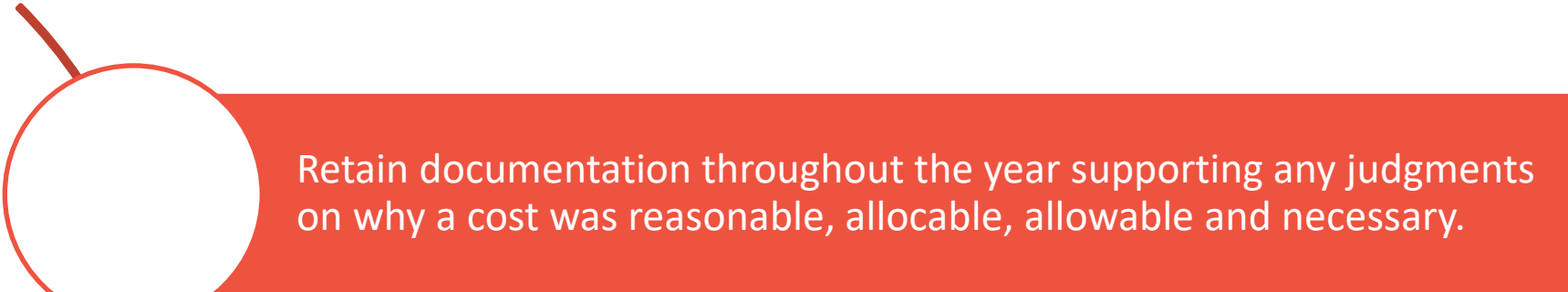
Regularly review policies for compliance and educate employees on changes to policies. Encourage open dialogue regarding questions and decision making.



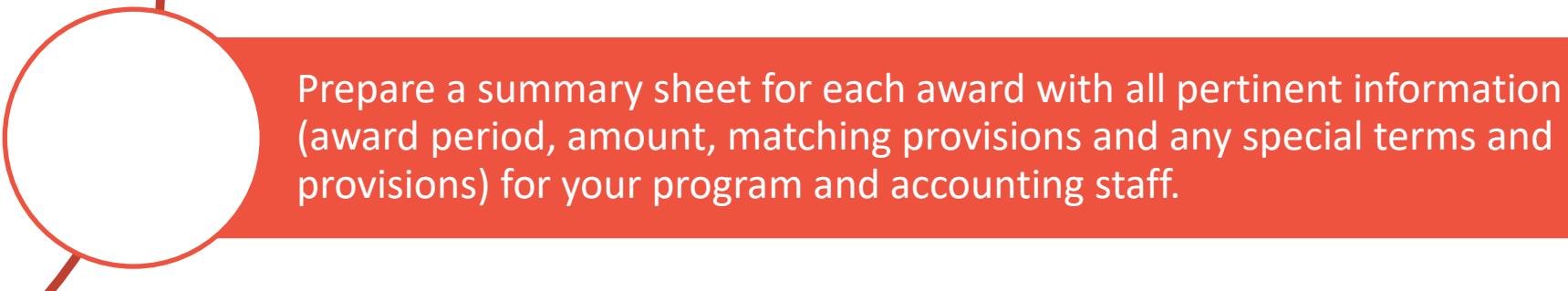
Make sure policies are easily accessible for all employees involved and that they know that they are responsible for reviewing these.



# Documentation is your friend



Retain documentation throughout the year supporting any judgments on why a cost was reasonable, allocable, allowable and necessary.



Prepare a summary sheet for each award with all pertinent information (award period, amount, matching provisions and any special terms and provisions) for your program and accounting staff.



# Schedule of Expenditures of Federal Awards (SEFA) Tips & Completeness



# Schedule of Expenditures of Federal Awards (SEFA)

## Assistance Listing Number

- Replaces Catalog of Federal Domestic Assistance (CFDA) Number

## Clusters

- Include sub-total for the cluster

## Pass-Through Grants

- Identify pass-through agency
- Include identification number

## Totals

- Total by Assistance Listing Number
- Total by Federal agency

## COVID-19 Awards

- Must be separately identified

# SEFA Presentation

Example: Assistance Listing No. 14.218 Community Development Block Grant with COVID-19 funding and regular entitlement funding.

Presentation would be as follows:

<u>Federal Grantor/Pass through Grantor/ Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<b><u>Federal Awards</u></b>				
<b>U.S. Department of Housing and Urban Development</b>				
COVID-19 Community Development Block Grant	14.218		\$ 1,000,000	\$ -
Community Development Block Grant	14.218		3,000,000	500,000
Total Community Development Block Grant			<u>\$ 4,000,000</u>	<u>\$ 500,000</u>

COVID-19 notations should also be included in the Data Collection Form.



# Common SEFA Errors to look out for

- COVID-19 programs not properly identified or separated
- New programs missing
- SEFA does not tie to financial statements – may contain mathematical errors
- Non-monetary programs not properly reported
- Formatting issues



# Properly Formatted SEFA Example

ORGANIZATION NAME  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2021

Federal Agency/Program/Cluster	Assistance Listing Number	Pass-Through Entity	Pass-Through / Grantor Number	Total Federal Expenditures	Passed Through to Subrecipients
<b>Department of Commerce</b>					
Coastal Zone Management Estuarine Research Reserves	11.420	Department of Natural Resources	P06-PY20-A-432	\$ 890,000	\$ 890,000
<b>Total Department of Commerce</b>				<u>890,000</u>	<u>890,000</u>
<b>Department of Defense</b>					
Community Economic Adjustment Assistance for Advance Planning and Economic Diversification	12.614	Economic Recovery Center	436799	375,000	375,000
<b>Total Department of Defense</b>				<u>375,000</u>	<u>375,000</u>
<b>Department of Labor</b>					
WIOA Cluster					
WIOA Adult Program	17.258	N/A		458,800	355,450
WIOA Adult Program	17.259	State Department of Labor	P00P94-SQ-PY18-Y, P06-SQ-PY19-Y	255,000	27,555
Dislocated Worker Formula Grants	17.278	State Department of Labor		700,050	625,380
WIOA Cluster total				<u>1,413,850</u>	<u>1,008,385</u>
<b>Total Department of Labor</b>				<u>1,413,850</u>	<u>1,008,385</u>
<b>Department of Treasury</b>					
COVID-19 - Coronavirus Relief Fund	21.019	Department of Budget	2050-2021-A45	2,675,000	-
<b>Total Department of Treasury</b>				<u>2,675,000</u>	<u>-</u>
<b>Department of Housing and Urban Development</b>					
Housing Voucher Cluster					
Section 8 Housing Choice Vouchers	14.871	N/A		58,000	-
Mainstream Vouchers	14.879	N/A		178,000	-
Housing Voucher Cluster total				<u>236,000</u>	<u>-</u>
CDBG Entitlement Grants Cluster					
COVID-19 - Community Development Block Grants/Entitlement Grants	14.218	N/A		313,094	-
Community Development Block Grants/Entitlement Grants		N/A		466,657	-
Total Community Development Block Grants/Entitlement Grants				<u>779,751</u>	<u>-</u>
CDBG Entitlement Grants Cluster total				<u>779,751</u>	<u>-</u>
<b>Total Department of Housing and Urban Development</b>				<u>1,015,751</u>	<u>-</u>
<b>Total Expenditures of Federal Awards:</b>				<u>\$ 6,369,401</u>	<u>\$ 2,173,385</u>





# Procurement Requirements per the Uniform Guidance – Key Reminders

# Must vs. Should

When the Uniform  
Guidance References:

MUST = Requirement

SHOULD = Best Practice,  
Suggestion,  
Recommendation



# Procurement (200.318(B))

Entities must maintain oversight to ensure that contractors perform in accordance with the

terms

conditions

and specifications

of their contracts or purchase orders

# I – Procurement §200.318(H)

Organizations must award contracts only to responsible contractors:

Contractors must possess the ability to perform successfully under the terms and conditions of a proposed procurement.

Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.



# Suspension and Debarment

Checks for contracts over \$25,000 should be made on the EPLS site – ([www.sam.gov](http://www.sam.gov)).



Also add in the clause in the procurement contract.



Keep documentation.



Best practice recommendation is to do this on every procurement with federal funds!



# Procurement Records (200.318(I))

For ALL procurements:

- Detail history of the procurement [different for each procurement method]
- Rationale for method of procurement
- Selection of contract type
- Contractor selection or rejection
- Basis for contract price



# Competition (200.319)

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Some of the situations considered to be restrictive of competition include but are not limited to:

- (1) Placing unreasonable requirements on firms in order for them to qualify to do business;

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- (2) Requiring unnecessary experience and excessive bonding;

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- (3) Noncompetitive pricing practices between firms or between affiliated companies;

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- (4) Noncompetitive contracts to consultants that are on retainer contracts;

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- (5) Organizational conflicts of interest;

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- (6) Specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance or other relevant requirements of the procurement; and

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- (7) Any arbitrary action in the procurement process.

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# §200.320 Methods of Procurement (5 methods)

Method	Dollar Threshold
Micro-purchase	Not to exceed micro-purchase threshold (\$0 - \$10,000)
Small purchase procedure	Greater than micro-purchase, not to exceed the Simplified Acquisition Threshold (\$10,001 - \$249,999)
Sealed bid	Greater than the Simplified Acquisition Threshold (\$250,000 and greater)
Competitive proposal	Greater than the Simplified Acquisition Threshold (\$250,000 and greater)
Noncompetitive proposal (Sole Source)	Greater than micro-purchase threshold (\$10,000 and greater)





# Subrecipient vs. Contractor Determination

# Subrecipient Monitoring and Management (200.330-332)



Subaward is for the purpose of carrying out a portion of a federal award and creates a federal assistance relationship.



Subrecipient: determines eligibility, has performance measured in relation to objectives of program, has responsibility for programmatic decision making; and uses the Federal funds to carry out a program for a public purpose.



# Subrecipient Monitoring and Management (200.330-332)

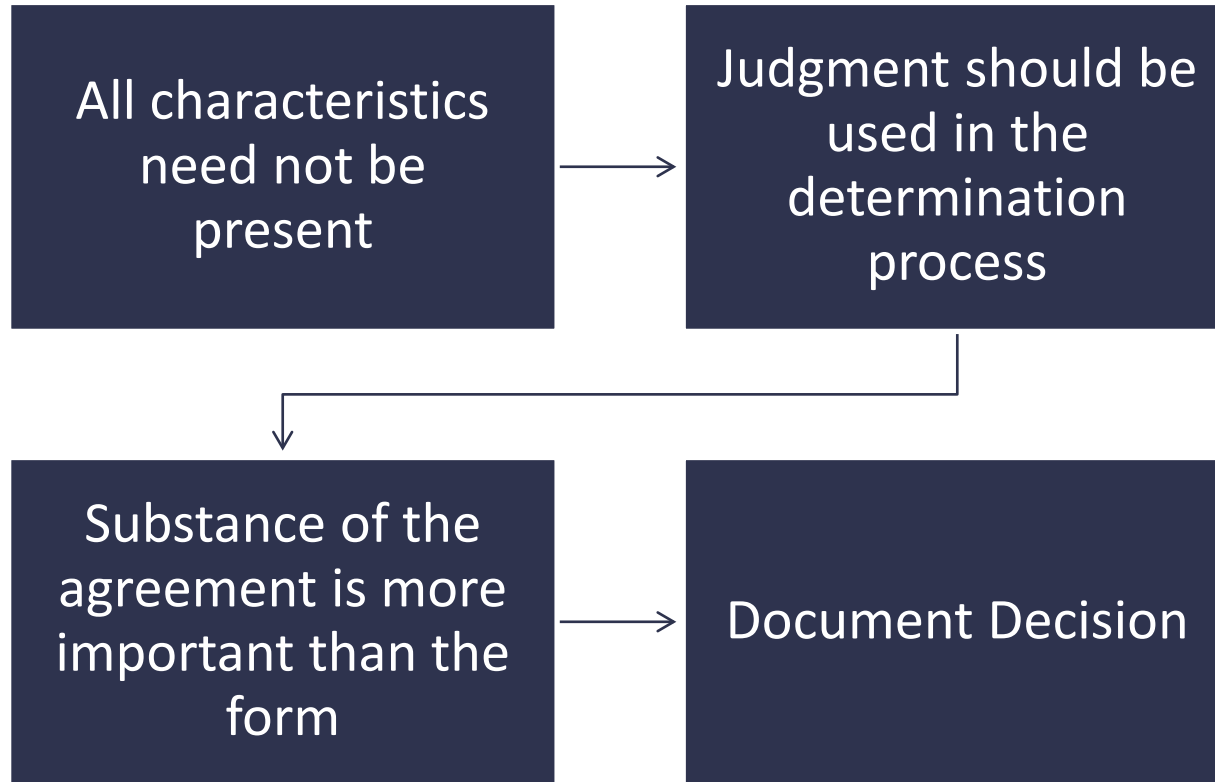


Contract is for the purpose of obtaining goods and services for the non-federal entity's own use and creates a procurement relationship.



Contractor: Provides the goods and services normally, provides similar goods or services to many different purchasers; provides goods or services for the benefit of the pass-through entity.

# Subrecipient/Contractor Determination







# Best Practices for Grant Management and Common Audit Findings

# Procurement

- Inadequate support for sole source vendor
- Lack of supporting documentation in the vendor file
- Lack of documentation to support contractor's suspension and debarment status



## PROCUREMENT CHECKLIST

To comply with CLIENT NAMESs Federal Procurement Standards Policy, 2 CFR 200 Uniform Guidance, and other contractual requirements, completion of this form is required.

This form must be retained by the Project Manager with all supporting documentation upon completion of the purchase. Failure to do so will result in noncompliance with Federal requirements.

Project Name and Code: \_\_\_\_\_

Describe the goods and services being procured:

### SELECT WHICH METHOD OF PROCUREMENT YOU ARE FOLLOWING:

**Small Purchase** (\$10,001 - \$249,999)

List the two quotations/proposals solicited and received.

	<u>Vendor/Contractor Name</u>	<u>Item/Service</u>	<u>Total Cost</u>	<u>Other Consideration:</u>
1	_____	_____	_____	_____
2	_____	_____	_____	_____

**Simplified Acquisition** (\$250,000 and above)

Reference: CRF 200.320 as your guide for additional procurement requirements

Competitive Proposal process used  Sealed Bid process used

List the three bids/proposals solicited and received.

	<u>Vendor/Contractor Name</u>	<u>Item/Service</u>	<u>Total Cost</u>	<u>Other Consideration:</u>
1	_____	_____	_____	_____
2	_____	_____	_____	_____
3	_____	_____	_____	_____

### Check the reason you chose this vendor/contractor for this purchase:

- Vendor/contractor was the lowest bidder.
- Vendor/contractor provided the best evaluated responsible offer (other than low bid).\*
- Vendor/contractor establishes or maintains essential research, development, or technical capacity. \*
- Compatibility with other components of a system already exist.\*
- Only vendor/contract that meets pre-established performance characteristics.\*
- Vendor/contractor specifically identified within award documentation.\*
- Other. \*



\* REQUIRES EXPLANATION. Also, attach any/all supporting documentation.

Price/Cost Analysis based on:

- Adequate price competition
- Catalog/market pricing
- Historical pricing
- Other. \*
- Comparison to similar items \*
- Cost/benefit analysis \*
- Award specifically identifies

\* REQUIRES EXPLANATION. Also, attach any/all supporting documentation.

**Sole Source (Noncompetitive Procurement)**

- Item/service only available from this source.\*
- An unusual and compelling urgency precludes full and open competition.\*
- Approval from granting agency received.\*
- Other. \*

\* REQUIRES EXPLANATION. Also, attach any/all supporting documentation.

*2 CRF Part 200 requires that grantees take affirmative steps to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible. Were any of the following groups solicited for this purchase?*

- Small
- Minority
- Women-owned
- Labor-surplus Area

If not solicited, explain why not:

If solicited and not selected, explain why not:

- Suspension/Debarment checked online (<https://www.sam.gov>)

Name of vendor/contractor selected for work: \_\_\_\_\_

- Contract/agreement executed
- Form W-9 rec'd
- Insurance certificate rec'd

Date

Preparer Print & Sign: \_\_\_\_\_

Project Manager Print & Sign: \_\_\_\_\_



# Subrecipient Monitoring

Subaward does not contain required information

Subs are not monitored timely

Lack of written procedures over subrecipient process

Inadequate monitoring documentation maintained

Lack of proper identification of noncompliant subrecipients and noncompliance remedies



# Time and Effort

Lack of written procedures for budgetary reporting of time and effort process

Lack of documentation to support allocation of hours/pay (COVID-19 or Federal Disaster)

Lack of documentation to support adjustments to employee hours charged to the grant



# Internal Control

Internal control structure is not documented or consistently performed

Lack of written procedures

Lack of documentation to support review and approvals (electronic process)





# ARPA CSLFRF Updates

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# American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)

- \$1.9 Trillion Covid Aid Bill. Signed into law on March 11, 2021.
- Final Rule took effect on April 2022.
- Period of Performance: Funds must be used for costs incurred on or after March 3, 2021, funds must be obligated by December 31, 2024, and expended by December 31, 2026.
- <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>



## Support Public Health Response

Fund COVID-19 mitigation efforts, medical expenses, behavioral healthcare, and certain public health and safety staff



## Replace Public Sector Revenue Loss

Use funds to provide government services to the extent of the reduction in revenue experienced due to the pandemic



## Water and Sewer Infrastructure

Make necessary investments to improve access to clean drinking water and invest in wastewater and stormwater infrastructure



## Address Negative Economic Impacts

Respond to economic harms to workers, families, small businesses, impacted industries, and the public sector



## Premium Pay for Essential Workers

Offer additional support to those who have and will bear the greatest health risks because of their service in critical infrastructure sectors



## Broadband Infrastructure

Make necessary investments to provide unserved or underserved locations with new or expanded broadband access



# ARPA SLFRF Update: “ARPA Flex”



In Dec. 2022, Congress passed the final 2023 budget through the Consolidated Appropriations Act of 2023, which included a significant provision to make the SLFRF program more flexible, “ARPA Flex”.



## What’s changing:

- Treasury has decided to keep the Standard Allowance election (of up to \$10M, not to exceed the award allocation) portion of the reporting portal open for recipients through April 2023, which will permit recipients to update their prior revenue loss election.



# ARPA SLFRF Update: “ARPA Flex”

The ARPA Flex provision provides additional flexibility for states, tribes, and local units of government to spend up to \$10 million or 30% of the total ARPA funds received on the following newly eligible SLFRF grant expenditures:

- ***Emergency relief from natural disasters***, including temporary emergency housing, food assistance, financial assistance for lost wages, or other immediate needs.
- ***Transportation infrastructure*** eligible projects and matching funds.
- Any program, project, or service that would also be eligible under HUD’s ***Community Development Block Grant program***.

# Subrecipient vs. Beneficiary vs. Contractor – Common Issues with CSLFRF



Subawards usually are silent about whether the entity receiving the funds is a subrecipient, beneficiary, or contractor.



Subaward originally states that the entity is a subrecipient and then the Pass-Through-Entity (PTE) informs the entity (sometimes much later) that it really is a beneficiary (or vice versa).



Subaward states that the entity is a subrecipient, but the entity believes it is really a beneficiary based on the facts and circumstances.



# Tips for Dealing with Subrecipient vs. Beneficiary vs. Contractor Issues

Auditees should go back to PTE to make the determination if none has been made.

Auditees should get something in writing form from the PTE, especially if the PTE is changing the designation such that the potential exists for the wrong major program to be tested or affect whether a single audit is even required.

If the PTE does not provide the designation or tells the auditee to make designation – review auditee’s analysis.

Documentation of the process and conclusion reached is critical for both auditees and auditors.



# Another Quick Federal Grant Update

## DUNS is done!

- Effective April 4, 2022 the use of DUNS numbers was replaced with Unique Entity Identifier (UEI)
- SAM.gov has assigned UEI and has issued guidance to getting your UEI



# Resources and Links

- CLA's State and Local Government website:  
<https://www.claconnect.com/en/industries/state-and-local-government>
- 2 CFR Part 200, Uniform Guidance, link:  
<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>
- Treasury's website for COVID-19 related programs:  
<https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments>



# Questions?



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# Ethical Challenges in Business Decisions



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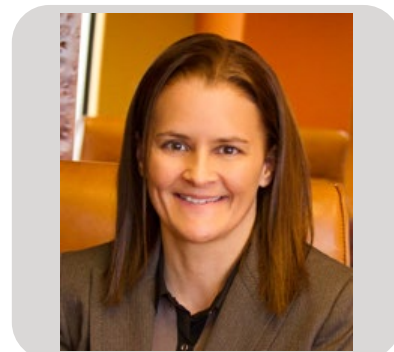
# Learning Objectives

- Recognize the need for ethics in business to help mitigate risks to the organization.
- Describe case examples of ethical violations that lead to fraud.
- Identify and describe the attributes of a highly ethical organization.

# Speaker Introduction

Signing Director  
*CLA's Forensics Practice*

Over 21 years of experience leading fraud investigations, forensic accounting projects, and litigation support services for large government organizations, education institutions, nonprofits, and commercial businesses.



**Emilie  
Deveraux**

CFE





# Ethics in Business

# Ethical Leaders Start at Home

## Personal Ethics

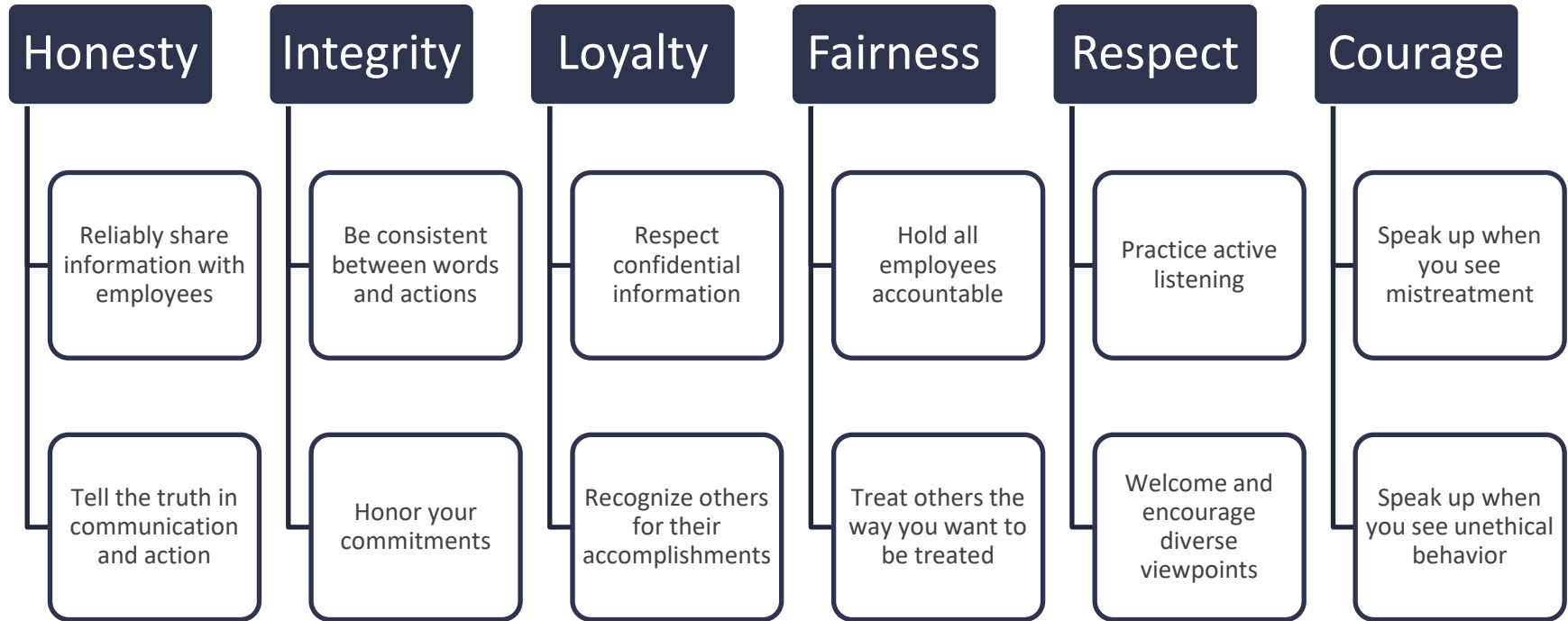
- Values
- Moral choices
- What we do when no one is looking
- Can change over time or by situation or role
- Defined by:
  - Faith, spirituality
  - Upbringing, family
  - Laws, civil rights, academia

## Business Ethics

- Personal Ethics
  - Values of the employees
- Organizational Culture
  - Tone at the top
  - History of the company
  - Perception of what is acceptable
- Organizational Systems
  - Policies and rules in place
  - Regulatory oversight
  - Code of ethics and how it's monitored and enforced



# Principles of Ethics in Business





# Why is Ethics Important in Business?

- Helps employees make good decisions; leads to happier, more satisfied employees.
- Reduces liability.
- Ensures high quality customer service.
- Most importantly, keeps everyone off the front pages!

# Breakdowns in Business Ethics

## Moral Muteness

- Not speaking up when witnessing unethical behavior
- Unwillingness to discuss ethics
- Discussing practices/decisions in a way that obscures your moral position and ethical beliefs (Bird & Walters, 1989)

## Ethical Fading

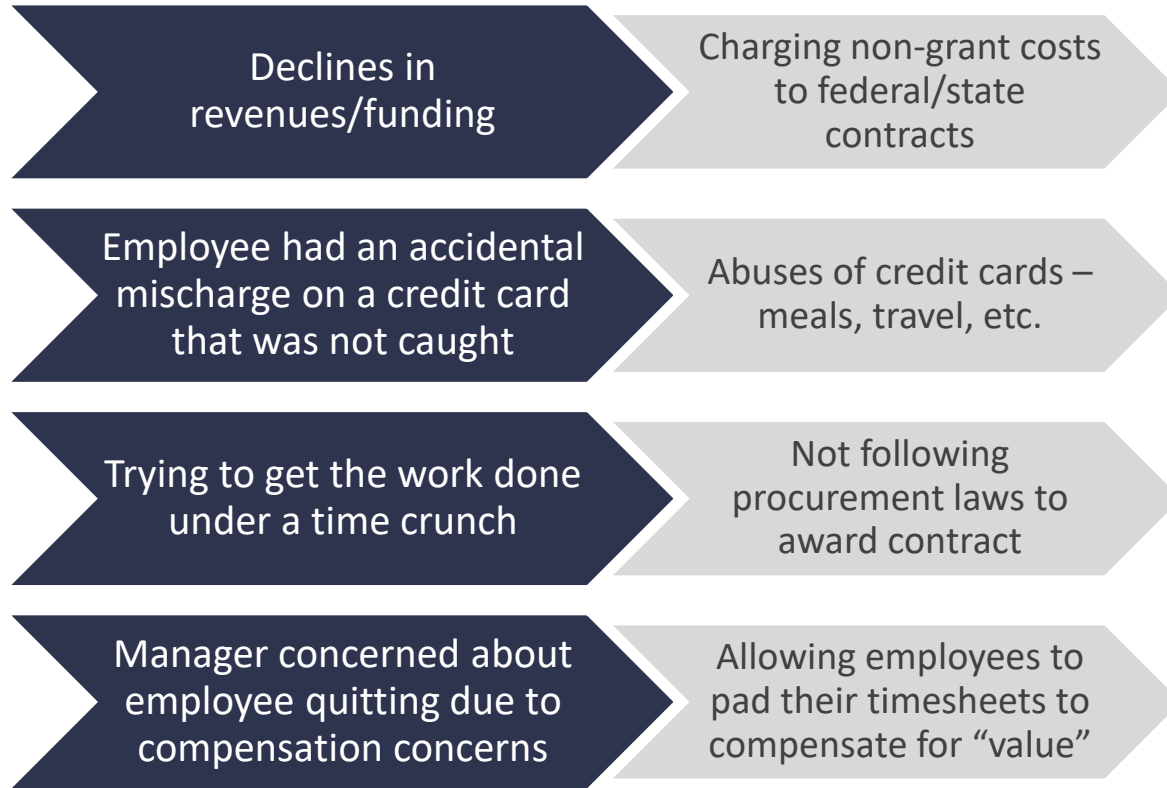
- Erosion of the ethical standard of a business in which employees become used to engaging in or condoning bad behavior

## Situational Influence

- Intent to please authority figure
- Focused on achieving a goal



# Examples of Ethical Challenges Leading to Fraud





# Case Example #1

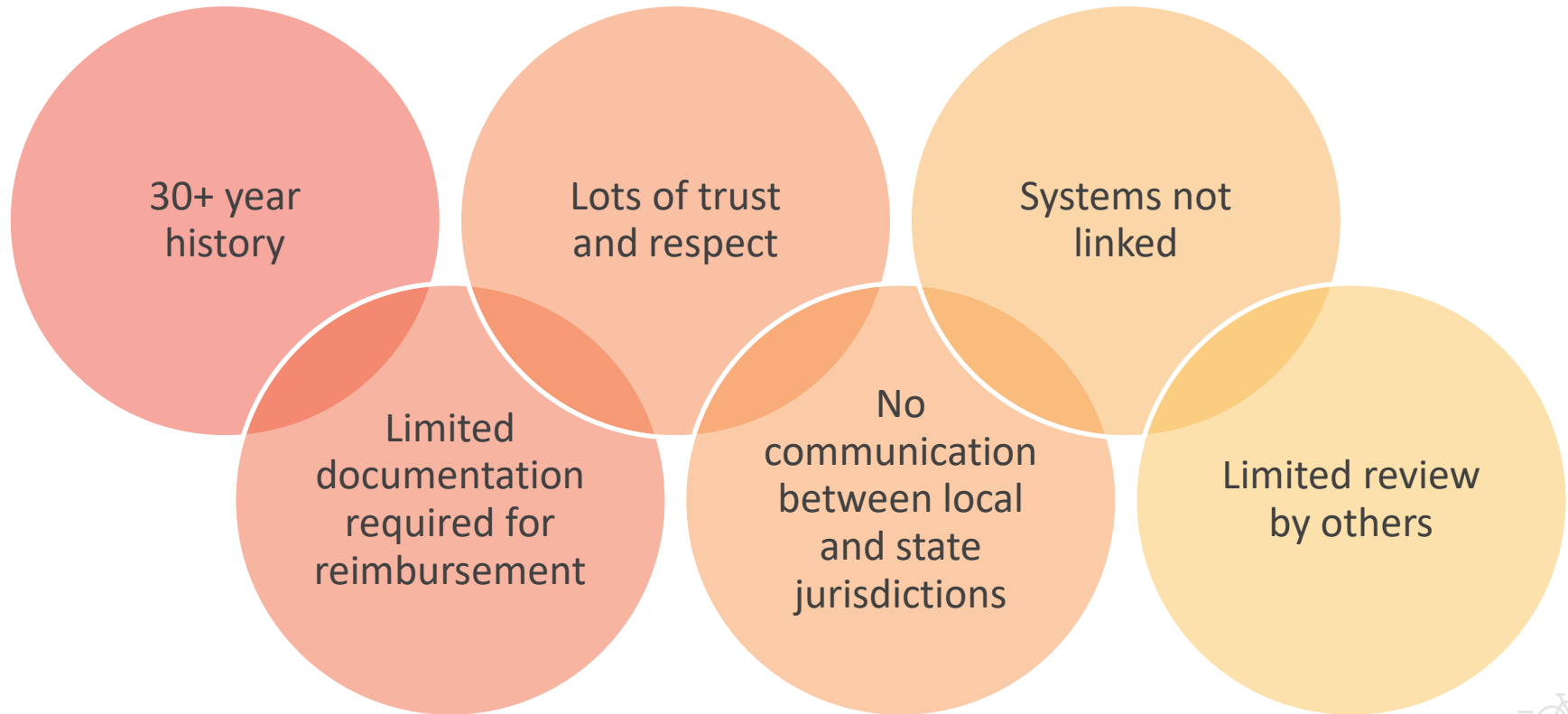
County Transportation Vendor

# Overview – County Transportation Vendor

- Transportation services provided to multiple jurisdictions.
- Oversight by both the State and local jurisdictions as sub-recipients.
- Payment made through reimbursement using FTA Grants state funds through a state rural public transit program agreement.
- Vendor had longstanding contract with jurisdictions.
- Beginning in March 2020, CARES Act funding began to be utilized, no longer requiring local matching.



# Factors Leading to Fraud



# Discovery of Discrepancies

Discovered during a  
Single Audit  
performed by FTA

Request for  
additional  
documents met with  
significant pushback

Prompted  
investigation of  
reimbursement  
requests



# Forensic Investigation

Interview of staff at the state and local jurisdictions

Analysis of reimbursement requests and expense documentation provided by vendor

Identification of duplicate expenses

Interview of director of transportation vendor

Report of findings, including recommendations





# Reimbursements Paid to Vendor

- Total compensation for services:
  - Year 1: \$197,000
  - Year 2: \$197,000
- Allocation between state and local funding:
  - Year 1:
    - State = \$111,423
    - Local = \$85,777
  - Year 2:
    - State = \$111,423
    - Local = \$85,777

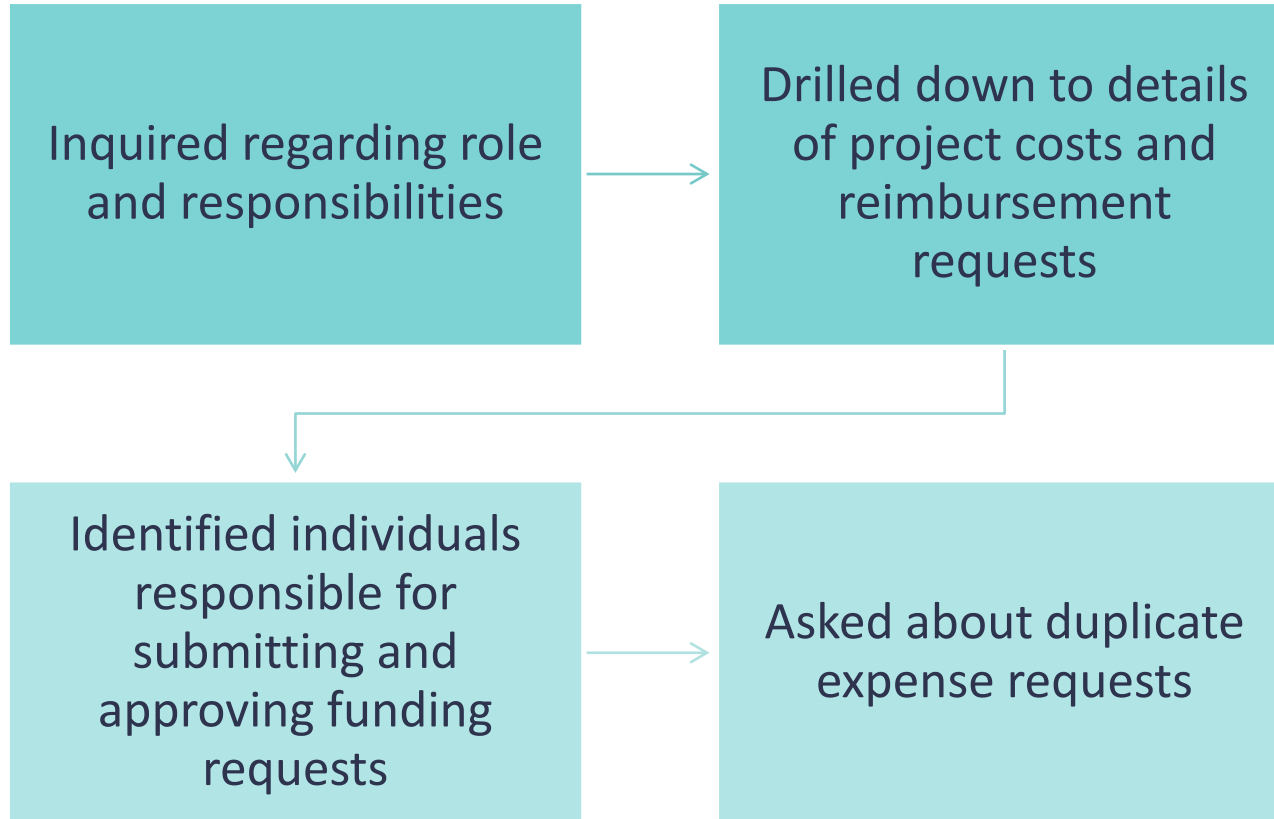


# Amounts Paid and Subject to Recoupment from Vendor

<b>Year</b>	<b>Amount Paid</b>
Year 1	\$111,423
Year 2	\$174,401
<b>Total</b>	<b>\$285,824</b>



# Interview of Subject



# Conclusions

Identified over  
\$200,000 in duplicate  
reimbursement  
requests

- Inadequate documentation was submitted to support reimbursement requests
- No other subjects – access and knowledge
- Scope limited to 2018-2021

New procedures were  
implemented

- Additional documentation required for reimbursement requests
- Vendors performing services for multiple jurisdictions subject to additional review





# Case Example #2

University Hospital

# Overview – University Hospital

- Temporary labor services in non-clinical department in hospital
- Received and approved approximately 30 fraudulent invoices for services
- Invoices spanned seven months
- Total loss is approximately \$30,000

# Forensic Investigation

Interviews of management and temporary employees contracted through staffing agency

Site visit to identify procedures and approval process

Review documents submitted for approval

Review text messages between temporary employee and supervisor

Review temporary labor invoices and reconcile to purchase orders for other non-clinical departments within the hospital

# Findings

## Fraudulent Time Sheets

- Temporary employee submitted fraudulent time sheets to staffing agency
- Staffing agency paid employee based on time sheets and invoiced hospital

## Improper Signatures

- Time sheets submitted by employee included forged supervisor signature

## Approval of Invoices

- Manager of department approved invoices for payment based on forged signature on timecard





# Ethical Breakdown

## Manual Timecards Utilized by Temporary Staff

- Hospital has a time keeping system requiring employees to scan badge to clock in and out
- This time keeping system was not utilized by temporary employees
- Management indicated they did not utilize badge scanning for temporary employees because of high turnover of temporary employees

## Lack of Communication

- Supervisor was aware that the employee was no longer employed, however this was not communicated to manager who approved invoices
- No communication between staffing agency and employees

## Improper Signatures

- Signature on timecard was forged
- No verification of signature until after issue was identified

## Approval of Invoices

- No oversight/review of timecards; manual process
- Approval was based on presence of signature on timecard only
- PO was for one employee, but invoices were for two employees





# Attributes of Highly Ethical Organizations

# Attributes of Highly Ethical Organizations

- ❑ Person or office responsible for anti-fraud, ethics, and compliance
  - ✓ Empowered by management and governance
- ❑ Lead by example (“tone at the top”)
  - ✓ Management and governance promote an environment of integrity
- ❑ Encourage transparency and accountability
  - ✓ Review, oversight, monitoring
- ❑ Well-developed anti-fraud and ethics policy and/or code of conduct
  - ✓ In writing, communicated to and acknowledged by employees
- ❑ Well-developed and updated written policies and procedures
  - ✓ Kept current and acknowledged by employees

# Attributes of Highly Ethical Organizations

- ❑ Regular technical training of employees on policies, procedures, applicable laws, ethics, fraud awareness, etc.
  - ✓ Internal or external instructors
- ❑ Strong compliance/internal audit programs
  - ✓ Internal, outsourced, or combination – prioritized by management and governance
- ❑ Established fraud and ethics hotline
  - ✓ Anonymous, confidential, protect whistleblowers – prioritized by governance
- ❑ Reinforce good behavior and don't reinforce bad behavior
  - ✓ Follow through on reports of misconduct – encourages people to come forward



# Questions?

Emilie K. Deveraux  
Signing Director  
[emilie.deveraux@CLAconnect.com](mailto:emilie.deveraux@CLAconnect.com)



CLAconnect.com



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# Appendix 1

## Code of Conduct – Recommended Components

# Code of Conduct

- Definitions of what is considered unacceptable
- Consequences of any breaches
- Example topics:
  - Conflicts of interest
  - Outside activities, employment, directorships
  - Relationships with clients/customers, suppliers/vendors, and other 3<sup>rd</sup> parties
  - Gifts, entertainment, favors
  - Kickbacks and secret commissions
  - Handling of organization records, communications, funds, and other assets







## 20 Minute Break

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Properly harnessed, technology and data reveal deep insight to your organization. We can help you develop digital strategies to leverage trends, overcome challenges, and innovate for the future.

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*We'll get you there.*

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# IT Security Update and IT Department Assessments



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# Learning Objectives

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

- Recognize the latest current events impacting governments
- Identify how an IT department assessment can help address IT security risks and plan for future security efforts

# Cybersecurity Services at CLA

Information Security offered as specialized service offering for over 25 years

- Penetration Testing and Vulnerability Assessment
  - Black Box, Red Team, and Collaborative Assessments
- IT/Cyber security risk assessments
- IT audit and compliance (HIPAA, GLBA/FFIEC, NIST, CMMC, CIS, etc.)
- PCI-DSS Readiness and Compliance Assessments (PCI-DSS)
- Incident response and forensics
- Independent security consulting
- Internal audit support



# C:\Whoami

## > moth\_Man

- “Professional Student”
- Science Teacher / Self Taught Computer Guy
- IT Consultant - Project Manager → IT Staff/Help Desk → Hacker
- Assistant Scout Master (Boy Scouts)
- Boys Scouts Motto: Be Prepared



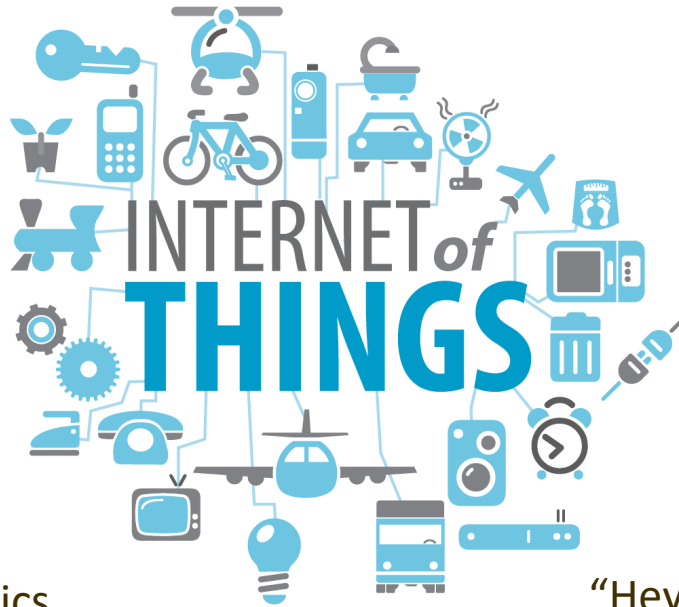


# The Current Threat Landscape



# Raise Your Hand If You Work for a Tech Company

- Security Cameras
- Motion Sensors
- Logistics Tracking
- Print Vendors
- Smart TV Displays
- Temperature and Humidity
- Digital Assistance
- Cloud Applications & Analytics
- Bio-Medical Care & Monitoring
- **“Presence”**



- Security cameras
- Garage door
- Home thermostat
- Cable TV remote
- Smart TV
- Sleep number bed
- Roomba

“Hey Siri, what’s my balance?”

Apple Watch or FitBit

**“Presence”**

*Are You Prepared?*



# Cybercrime and Black Market Economies

- Black market economy to support cyber fraud
  - Business models and specialization
  - Underground Marketplace (The Dark Web)
- Most common cyber fraud scenarios we see affecting our clients
  - Theft of information
    - Credit card information
    - ePHI, PII, PFI, account profiles, etc.
    - Log-in Credentials
  - Ransomware and interference w/ operations

➤ To the Hackers, we all look the same...

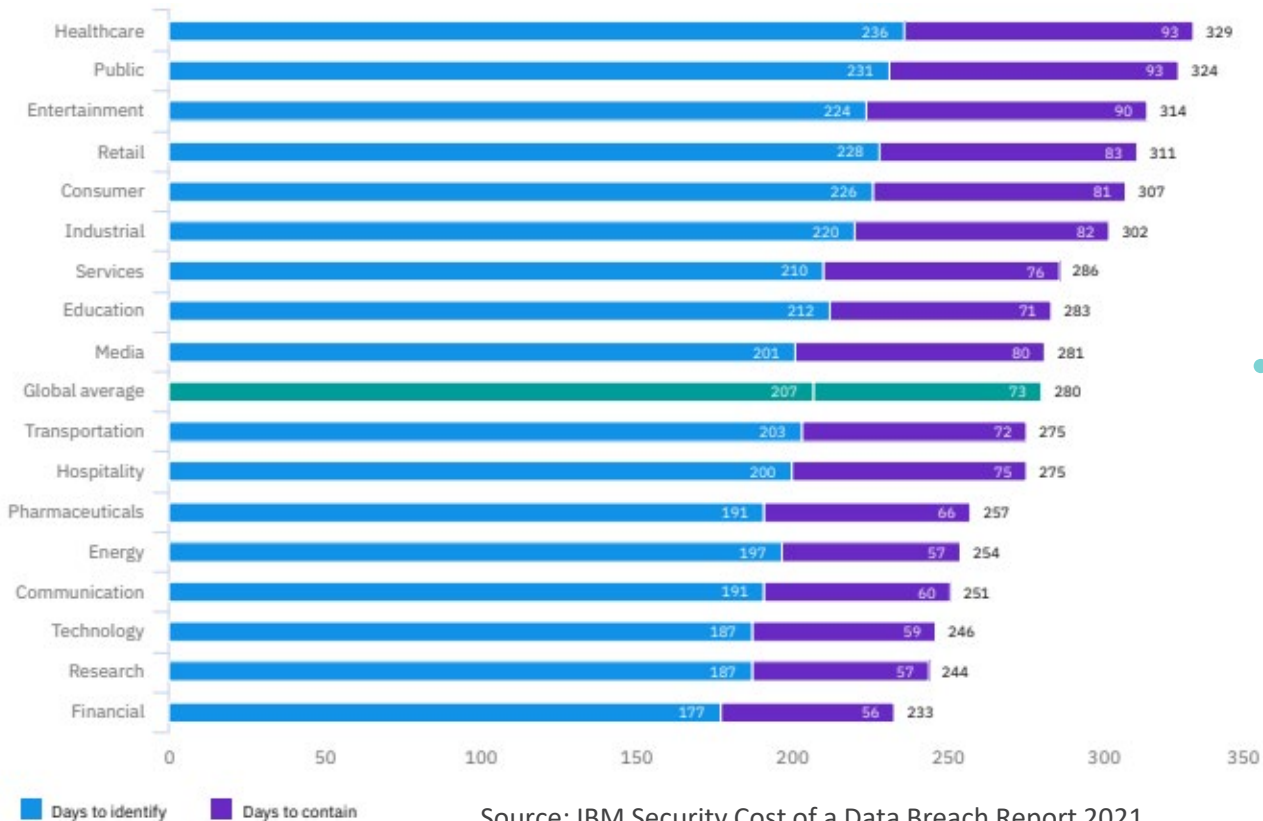


They will hit you with any or all the following:

1. Email Spear Phishing Attacks
2. Password Guessing and Business Email Account Takeovers
3. Payment and Funds Disbursement Transfer Fraud
4. Ransomware
5. Extortion to avoid breach disclosure



# Average Days to Identify and Contain a Data Breach



- Global average is 280 days
  - 207 days to identify a breach
  - 73 days to contain the attack

Source: IBM Security Cost of a Data Breach Report 2021

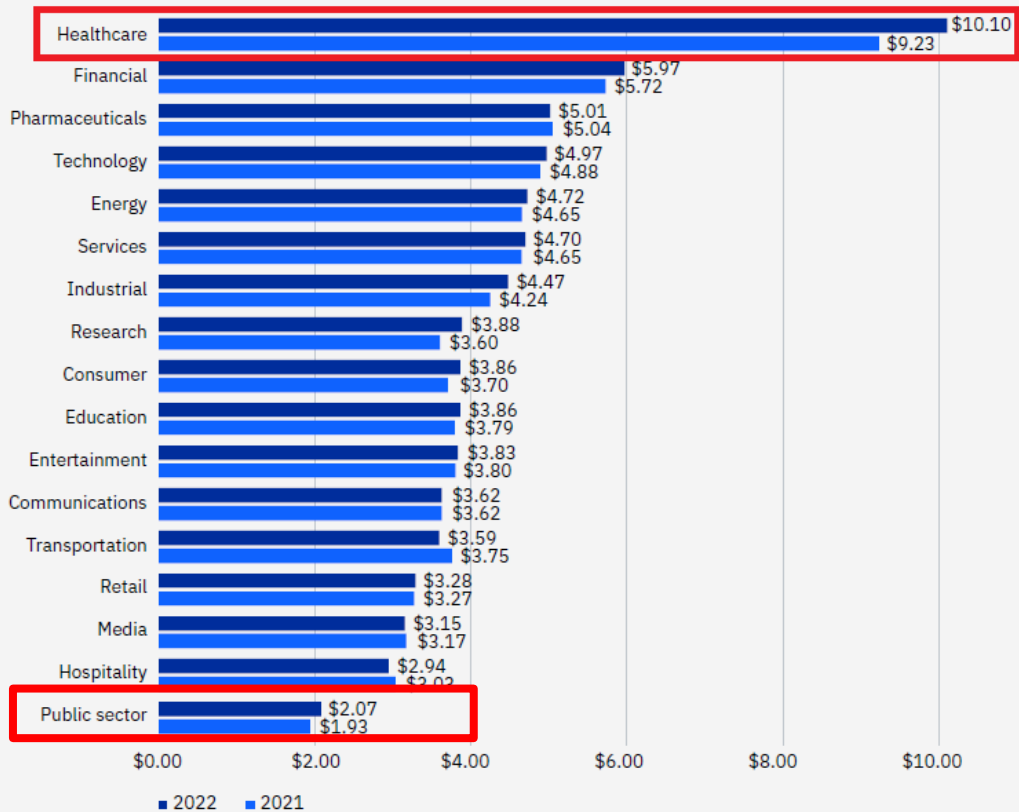


# Behind the Statistics

- ***What are they doing while they are inside???***
  - Learn everything about your institution
  - Find your crown jewels and take them
  - Disable backups and security systems
  - Create numerous back doors
  
- Public portrayal of ransomware creates a **false sense of security**
  - Ransomware is usually coupled with other acts – Ransomware is simply the most visible part of the attack – it is usually “the last act”
  - Current ransomware attacks are coupled with data exfiltration
  - Resuming operations is just the first step
  - Legal and business ramifications of a data breach can persist



## Average cost of a data breach by industry



## 2022 IBM Data Breach Study:

## What does a breach cost?

Measured in USD millions

Source: IBM Security Cost of a Data Breach Report 2022

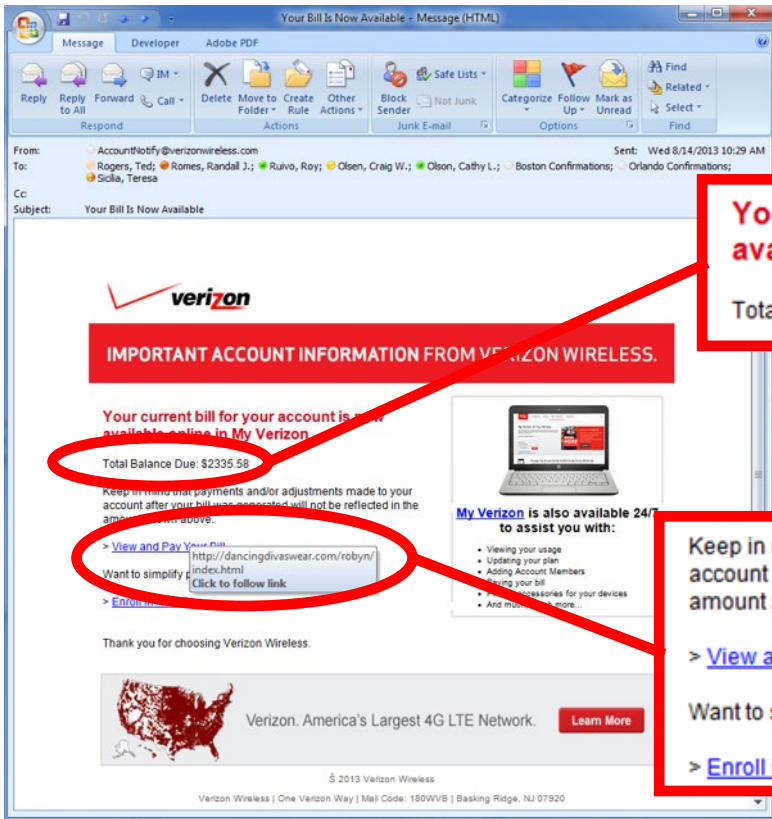




# Email Spear Phishing

The Root Cause For More Than 85% of Breaches

# Spear Phishing



Your current bill for your account is now available online in My Verizon

Total Balance Due: \$2335.58

IMPORTANT ACCOUNT INFORMATION FROM VERIZON WIRELESS.

Your current bill for your account is now available online in My Verizon

Total Balance Due: \$2335.58

Keep in mind that payments and/or adjustments made to your account after your bill was generated will not be reflected in the amount shown above.

> [View and Pay Your Bill](http://dancingdivaswear.com/robbyf/index.html)  
http://dancingdivaswear.com/robbyf/index.html  
Click to follow link

> [Enroll in Auto Pay](#)

My Verizon is also available 24/7 to assist you with:

- Viewing your usage
- Updating your plan
- Adding Account Members
- Paying your bill
- Finding accessories for your devices
- And much more...

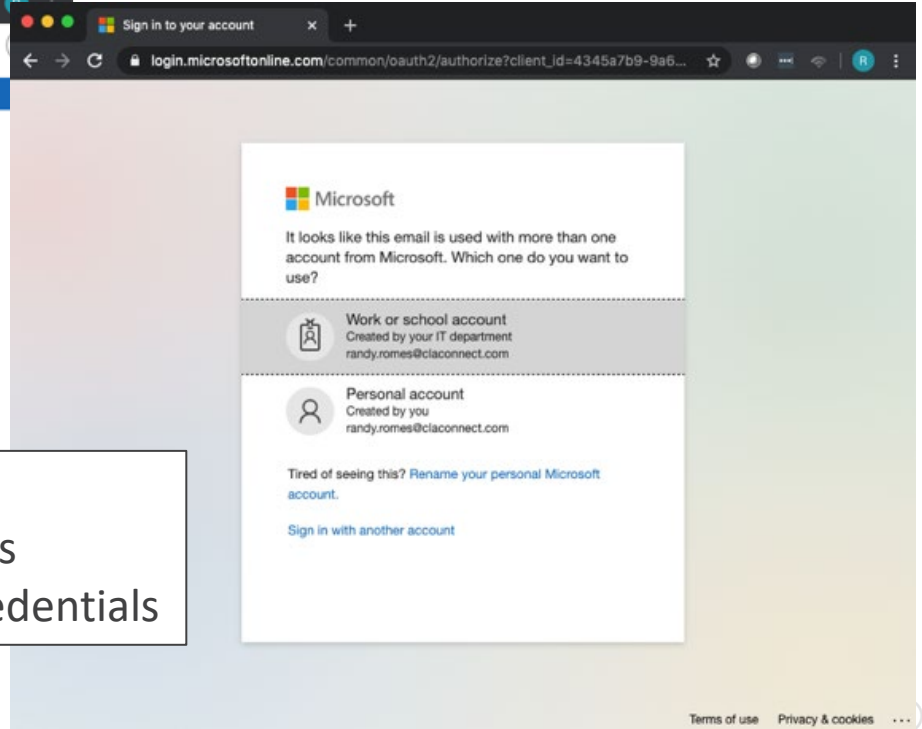
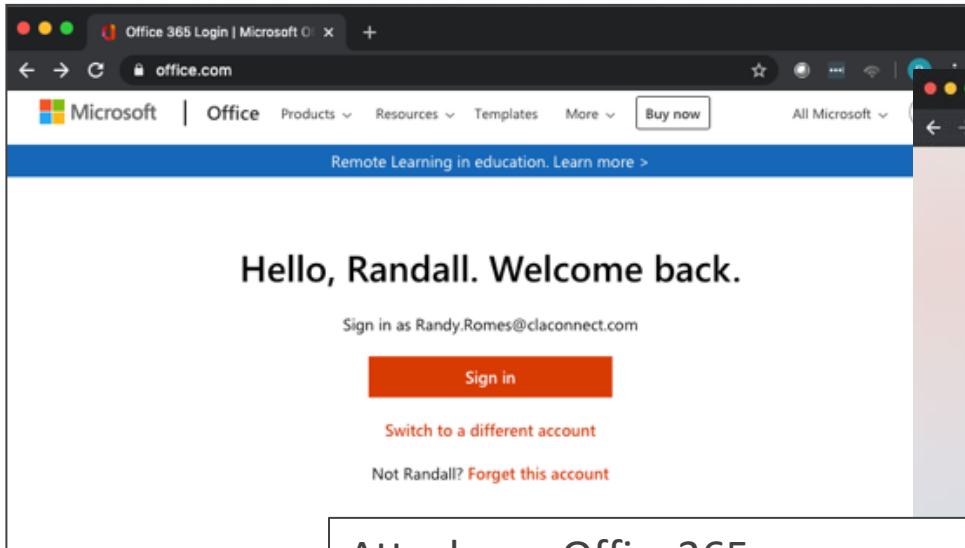
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> [View and Pay Your Bill](http://dancingdivaswear.com/robbyf/index.html)  
http://dancingdivaswear.com/robbyf/index.html  
Click to follow link

> [Enroll in Auto Pay](#)



# Credential Harvesting and Password Guessing:



Attacks on Office365

- Password guessing attacks
- Phishing that harvests credentials



# Business Email Compromise

- Fraudsters impersonate employees, service providers, or vendors via email in an attempt to...
  - EXAMPLE
    - Finance person phished
    - ...gift cards...
    - IT staff “investigated...”
    - IT staff “shut it down”
    - We are good (right?)

## Fw: Commission Payment



o Dwayne Pearse <dwayne@vendor.com>

To: o Brian Johnson



Download All

Preview All

This message is high priority.

\*EXTERNAL\*

We have an update in receiving payments, Via ACH. Kindly advice how we effect this change immediately.

**Dwayne Pearse**  
[dwayne@vendor.com](mailto:dwayne@vendor.com)  
549-555-2232

---

**From:** Dwayne Pearse <[dwayne@vendor.com](mailto:dwayne@vendor.com)>  
**Sent:** Thursday, December 12, 2019 2:15 PM  
**To:** William Bergson <[william@vendor.com](mailto:william@vendor.com)>; Barb Rogers <[barbara@vendor.com](mailto:barbara@vendor.com)>  
**Subject:** FW: Commission Payment

---

**From:** Brian Johnson <[bjohnson@company.com](mailto:bjohnson@company.com)>  
**Date:** Thursday, December 12, 2019 at 2:14 PM  
**To:** Dwayne <[dwayne@vendor.com](mailto:dwayne@vendor.com)>, William Bergson <[william@vendor.com](mailto:william@vendor.com)>  
**Subject:** Commission Payment

Good afternoon,

Attached is the backup for commissions paid from the company.

Brian Johnson  
Accounts Payable Supervisor  
[bjohnson@company.com](mailto:bjohnson@company.com)

# Business Email Compromise - Examples

- FOUR EXAMPLES in the last 3 weeks...
- Finance person's email account is compromised....
  - Finance person phished
  - ...gift cards...
  - IT staff "investigated..."
  - IT staff "shut it down"
  - We are good (right?)
- Issues
  - Retention time and data storage limits
  - IT is not equipped to perform incident response

# Does Your Organization Already Use a Phishing Service?

- “We already use \_\_\_\_\_”
  - “IT tests our people every \_\_\_\_\_”
  - “Click through rate is \_\_\_\_\_”
  - “Failures are required to take training...”
  - “We report results to the board quarterly...”
- These services are best categorized as training and training effectiveness measurement tools.
- They are NOT penetration testing...
  - **There is a “so what factor” that you may be missing...**

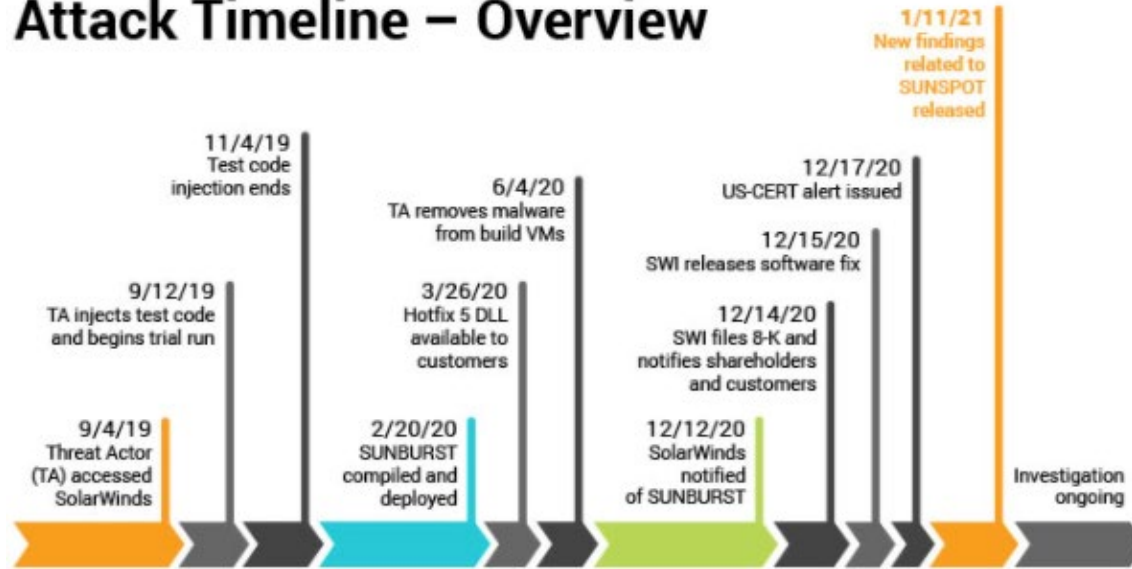


# Attacking the Supply Chain Enterprise Software

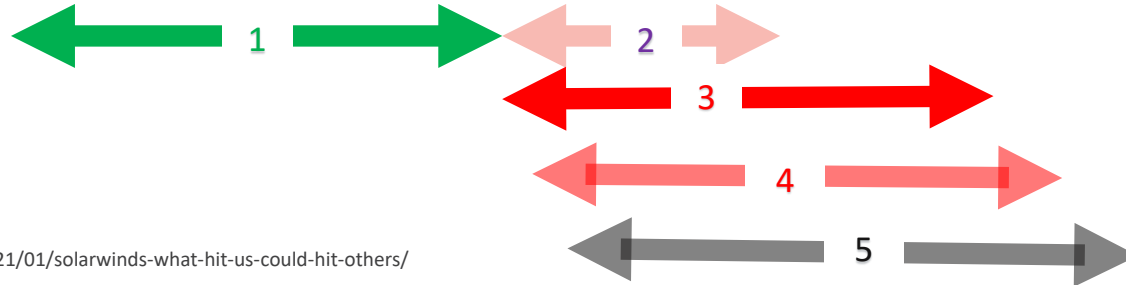
SolarWinds Orion and MS Exchange

# Timeline of Events

## Attack Timeline – Overview



All events, dates, and times approximate and subject to change, pending completed investigation.



Krebs on Security

<https://krebsonsecurity.com/2021/01/solarwinds-what-hit-us-could-hit-others/>



# Take-Aways and To-Dos (I.E. on the Fly IR)

1. Do we use SolarWinds Orion?
  - If **NO** → Go to 6
  - If YES → What version?
2. Is our version the affected version (see SW advisory)?
  - If **NO** → Go to 6
  - If YES → Continue
3. Have we created a timeline of potential exposure?
4. What logs do we have and how far back in time do they go?
5. What Indicators of Compromise (IOC's) have we searched for?
  - What resources/references have we used to identify known and potential IOC's?
  - Use 3 and 4 to search for IOC's
6. Do we have any third-party service providers with trusted access?
  - Who has remote access into our environment?
  - Who do we push our data out to?
  - Are there any persistent open connections to or from third parties?
7. Repeat 1-5 for those identified in 6



# Software Vendor/Supply Chain Risk Management

- All software products have bugs/vulnerabilities
  - Key questions:
    - What does this software application have access to?
    - What user account/privileges are given to it?
    - What is the software vendor doing to provide us a level of comfort that they have done their due diligence?
    - What do we need to do for our due diligence?
    - What impact does this software have on the institution...
      - If it is hacked/breached?
      - If it is down for... two hours? two days? two weeks? two months?



# Take-Aways and to-Dos (I.E., IR)

- Have a plan
  - Incident Response Play Book(s)
  - Disaster Recovery Plan and Procedures
  - Business Continuity Plan supported by Business Impact Analysis
- Know how the vendors fit into and support the plan
  - Service provider responsibility matrix
- Practice the plan
  - Tabletop exercises
  - Live exercises
  - Regularly review and update the Plan(s)







# The Supply Chain Exposing Us Embedded / Open-source Software

## Log4j and Other Imbedded Software Components

# Software Vendor/Supply Chain Risk Management

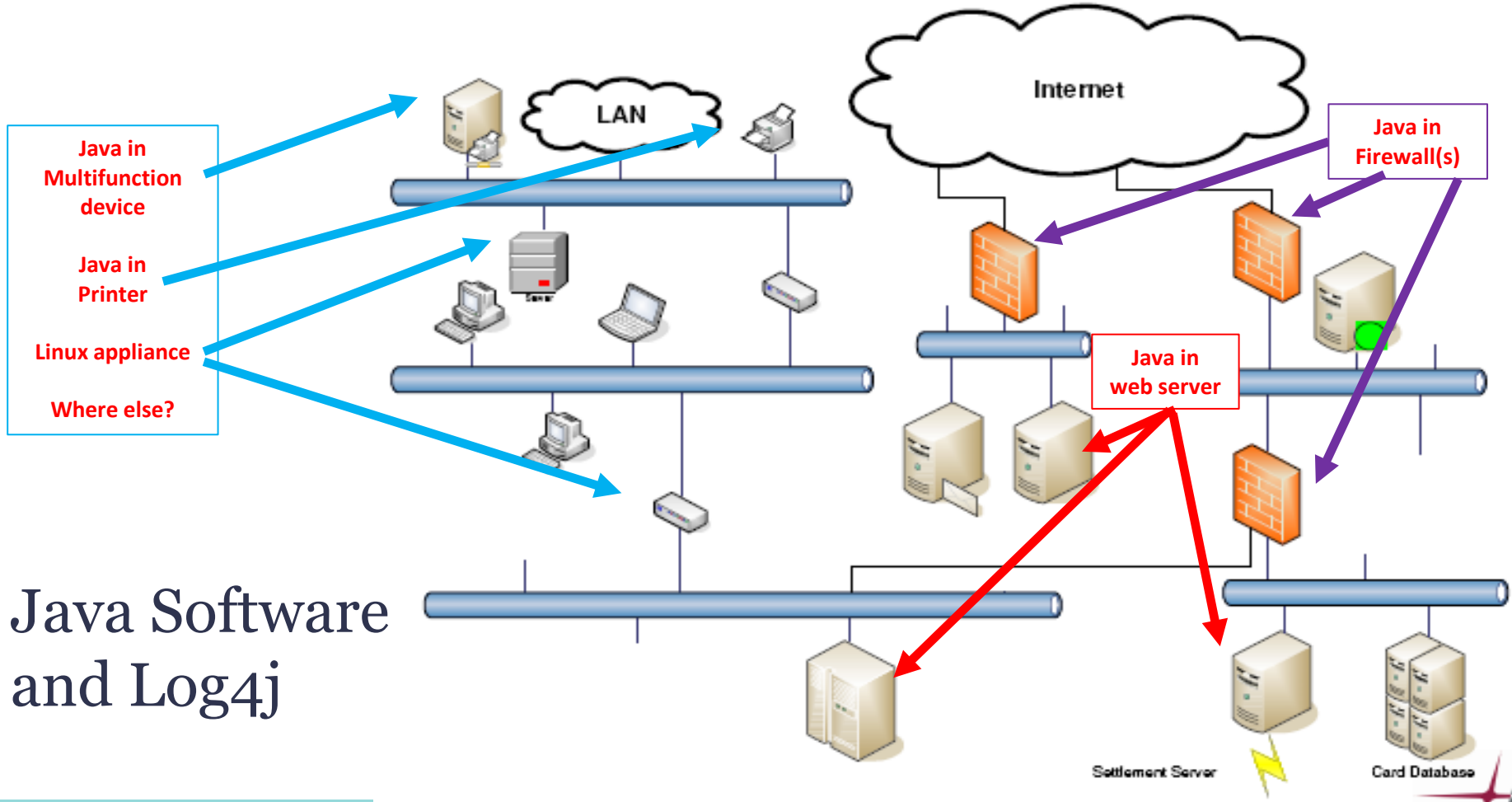
## Recent Significant Issues:

- Common software components with exploitable vulnerabilities.
- Recent examples include
  - **“Log4j”** Java vulnerabilities...
  - **Pkexec** - CVE-2021-4034 (PwnKit)
  - **Python** – CVE-2007-4559
    - September 2022
    - 15-Year-Old Python Flaw Slithers into software worldwide
    - An unpatched flaw in more than 350,000 unique open-source repositories leaves software applications vulnerable to exploit.

Google:  
Log4j vulnerabilities



# Java Software and Log4j



# Software Vendor/Supply Chain Risk Management

- Inventory
- Controlled use of Administrative Access
- Secure Standard Builds
- Vulnerability Management
- Logging, Monitoring and Alerting
  
- Vulnerable API Interfaces and Web Services





# Interference With Operations & Extortion

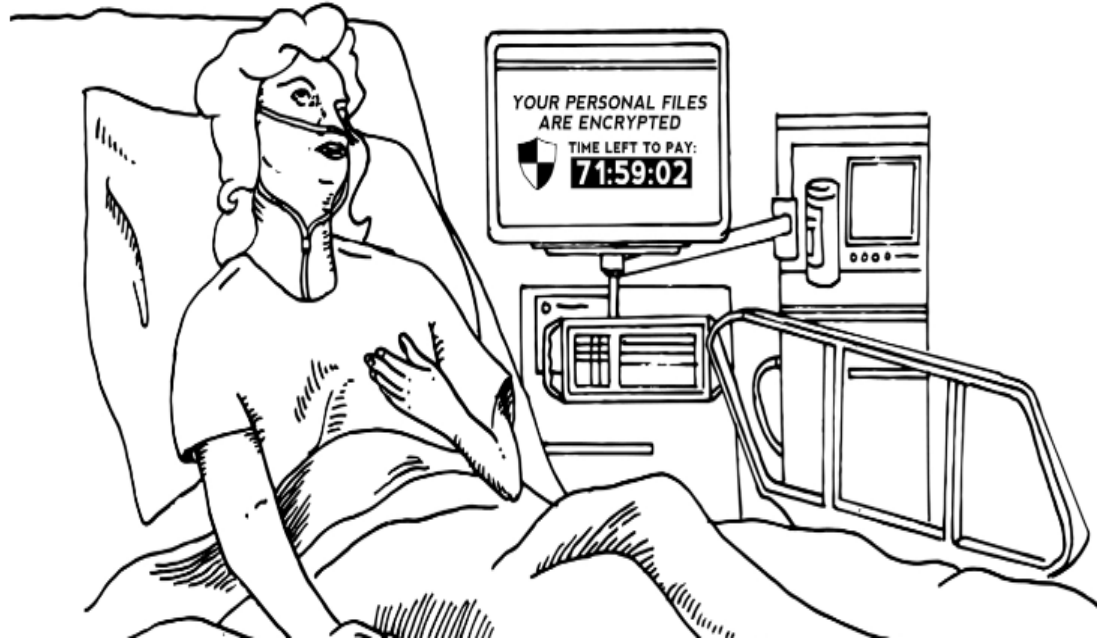
Ransomware is not going away...

# Ransomware

Ransomware bursts on the scene more than eight years ago...

## Hospital ransomware: A chilling wake-up call

Hollywood Presbyterian was forced to pay up, just like everyone else.



# Ransomware

## Jackson County government gives in to hackers and pays \$400,000

Paying up is cheaper than the alternative

By [Isaiah Mayersen](#) on March 10, 2019, 11:27 AM | [20 comments](#)



**Recap:** A little over a week ago government computer systems in Jackson County, Georgia were hit with one of the most sophisticated ransomware attacks attempted in the US. After a week with their entire computer and internet network down, they've decided to cough up \$400,000 to regain control of their systems and to retrieve stolen files.

Employees first noticed that government computers, websites and even email addresses had stopped functioning sometime on March 1. While fortunately 911 emergency calls were still operational, every internet connected device was inoperable and it is possible that the hackers were able to steal police and county records, too.

"Everything we have is down," Sherriff Janis Mangum told [StateScoop](#). "[But] we've continued to function. It's just more difficult."



# Ransomware

## BOS chairman speaks about the county cyber attack

By Staff Reporter May 6, 2019 0



File photo



**IMPERIAL COUNTY** — "We apologize for the inconvenience and disruption associated with the recent cyber-attack," Board of Supervisor chair Ryan Kelley said in a recent press release.

The Imperial County network is operational, Kelley went on to say, and communications have been restored. A few information systems are experiencing hiccups that are being addressed daily.

"Believe me, we are not keeping secrets from the public," Kelley said in the release. "At the advice of our cyber security firm in consultation with our insurance carrier, we did not share the ransom demand amount nor the ransom attack details. Once we made a decision to rebuild, we did not want the hackers to know and potentially cause further damage."

Kelley said it was safe to reveal the details of the ransom, saying the hackers demanded over \$1.2 million dollars in bitcoin for a keycode to defragment the information. The ransom payment would require the same network rebuilt as being completed today to ensure the hacker group no longer had access to county systems. The release said the estimated cost of this option was \$4 million.

"Our board decided to not pay the ransom demand and, instead, rebuilt our network," Kelley said in the release. "To date, the County of Imperial has expended \$1.4 million dollars to rebuild the network, and additional costs are expected. The release said insurance coverage will provide reimbursement for the majority costs associated with the rebuild.

Over the past two weeks, federal law enforcement was able to share the Imperial County ransomware attack with other public and private agencies across the country, per the release. The county said it has released information when possible with the main purpose of protecting Imperial County from any additional attacks and any other agencies being targeted by this group.

"We have identified the county computer that initiated the spread of this attack; however, there is no need to identify the individual," Kelley said in the press release. "It is not fair to the individual or county employees to single out an individual for a sophisticated attack that could fool any of us."

The county said that the information services unit, in collaboration with specialized assistance, have done exceptional work to bring the county network back to the public and county employees. The unit has installed firewalls and intrusive detection systems to block any additional intrusions and will continue monitoring the system. In addition, Imperial County Information Services is building a training platform for staff education and identifying malicious emails.





# Ransomware Attacks Continue to Evolve

- Earliest versions attack consumer availability
- 2<sup>nd</sup> generation attacked business availability & confidentiality
- Newest versions
  - Successful against all operating systems
  - Include Internet banking trojans (Zeus Sphinx Trojan)
  - Search for and encrypt back ups first
  - **FINISH with threat of data disclosure (DR is not enough...)**
- **If you have not tested your susceptibility to Ransomware...???**
- **If you have not tested your recovery capabilities, from bare metal up...???**



**Ransomware**



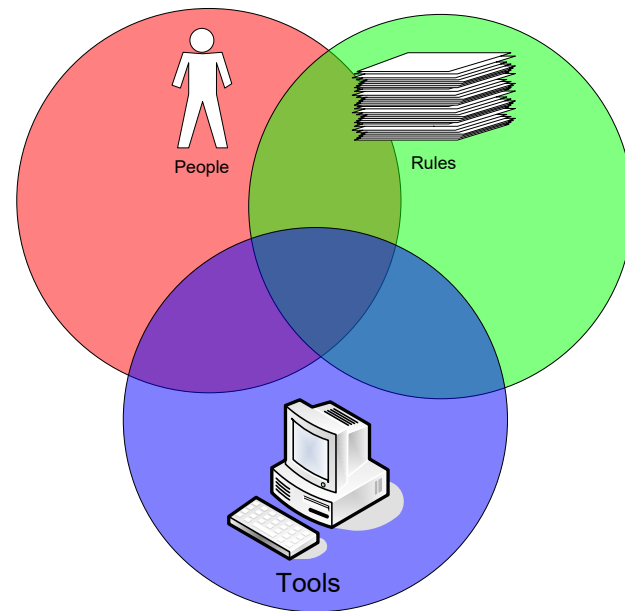


# Standards Based Operations

“People, Rules, and Tools”

# Policies and Standards

- Security is not a product
- People, Rules and Tools
  - What do we expect to occur?
  - How do we conduct business?
  - Who is responsible for what?
- Standards based operations from a governance or compliance framework:
  - HIPAA, GLBA, (State Laws?) ----- *Regulatory*
  - PCI – DSS, CMMC ----- *Contractual*
  - CIS Critical Controls, NIST ----- *Operational standards*





## Basic

- 1 Inventory and Control of Hardware Assets
- 2 Inventory and Control of Software Assets
- 3 Continuous Vulnerability Management
- 4 Controlled Use of Administrative Privileges
- 5 Secure Configuration for Hardware and Software on Mobile Devices, Laptops, Workstations and Servers
- 6 Maintenance, Monitoring and Analysis of Audit Logs

## Foundational

- 7 Email and Web Browser Protections
- 8 Malware Defenses
- 9 Limitation and Control of Network Ports, Protocols, and Services
- 10 Data Recovery Capabilities
- 11 Secure Configuration for Network Devices, such as Firewalls, Routers and Switches
- 12 Boundary Defense
- 13 Data Protection
- 14 Controlled Access Based on the Need to Know
- 15 Wireless Access Control
- 16 Account Monitoring and Control

<https://www.cisecurity.org/controls/>

## Organizational

- 17 Implement a Security Awareness and Training Program
- 18 Application Software Security
- 19 Incident Response and Management
- 20 Penetration Tests and Red Team Exercises

Standards Based  
IT and Cyber  
Operations





## CIS Benchmarks

Checklists and How-to guides for just about everything

- Operating Systems
- Server Software
- Network Devices
- Cloud Implementations
- Etc.

Category	Technology	Action
Cloud Providers	Alibaba Cloud	Download CIS Benchmark →
Operating Systems	Aliyun Linux	Download CIS Benchmark → Build Kit also available
Operating Systems	Amazon Linux	Download CIS Benchmark → CIS Hardened Image and Build Kit also available
Cloud Providers	Amazon Web Services	Download CIS Benchmark →
Server Software	Apache Cassandra	Download CIS Benchmark →



# Secure Office 365

NOT fully secure by default

- Needs to be secured:
  - Enable/Turn On security features
  - Harden (email) security
  - Fine tune logging, monitoring and alerting
  - Enforce retention periods
- Security configurations need to be periodically assessed.
- **Logging is based on license level.**

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Microsoft 365 | Solutions and architecture | Apps and services | Training | Resources

Free Account

Microsoft 365 / Microsoft 365 admin center help / Secure your organization / Top 10 ways to secure your data

## Top 10 ways to secure Microsoft 365 for business plans

10/05/2021 • 14 minutes to read • 10

If you are a small or medium-size organization using one of Microsoft's business plans and your type of organization is targeted by cyber criminals and hackers, use the guidance in this article to increase the security of your organization. This guidance helps your organization achieve the goals described in the Harvard Kennedy School Cybersecurity Campaign Handbook.

Microsoft recommends that you complete the tasks listed in the following table that apply to your service plan.

Number	Task	Microsoft 365 Business Standard	Microsoft 365 Business Premium
1	Set up multi-factor authentication	✓	✓
2	Train your users	✓	✓
3	Use dedicated admin accounts	✓	✓
4	Raise the level of protection against malware in mail	✓	✓
5	Protect against ransomware	✓	✓
6	Stop auto-forwarding for email	✓	✓
7	Use Office Message Encryption	✓	✓
8	Protect your email from phishing attacks	✓	✓
9	Protect against malicious attachments and files with Safe Attachments	✓	✓
10	Protect against phishing attacks with Safe Links	✓	✓

Is this page helpful?  
Yes No

In this article

- 1: Set up multi-factor authentication
- 2: Train your users
- 3: Use dedicated admin accounts
- 4: Raise the level of protection against malware in mail
- 5: Protect against ransomware
- 6: Stop auto-forwarding for email
- 7: Use Office Message Encryption
- 8: Protect your email from phishing attacks
- 9: Protect against malicious attachments and files with Safe Attachments
- 10: Protect against phishing attacks with Safe Links

Related content



# Operational Discipline

- Disciplined change management
- Consistent exception control and documentation
  - Should include risk evaluation and acceptance of risk
  - Risk mitigation strategies
  - Expiration and re-analysis of risk acceptance



# Passwords

- Old Rules (NIST – 2005?)
  - Length (8+ characters)
  - Complexity (Aa4@)
  - Forced expiration (every\_\_\_\_\_)
- New Guidance (NIST – 2018?)
  - Looooooooong Passwords
  - No expiration
  - Especially important for administrative accounts (CIS 4)

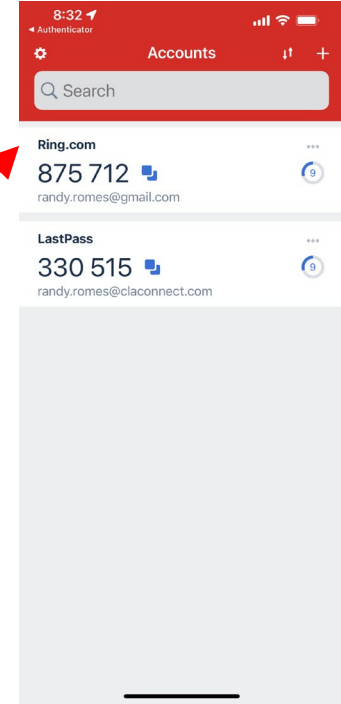
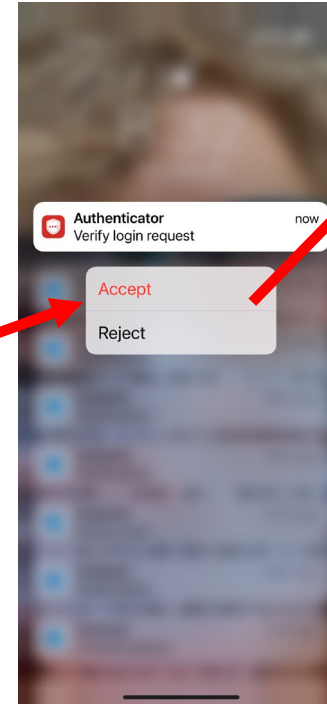
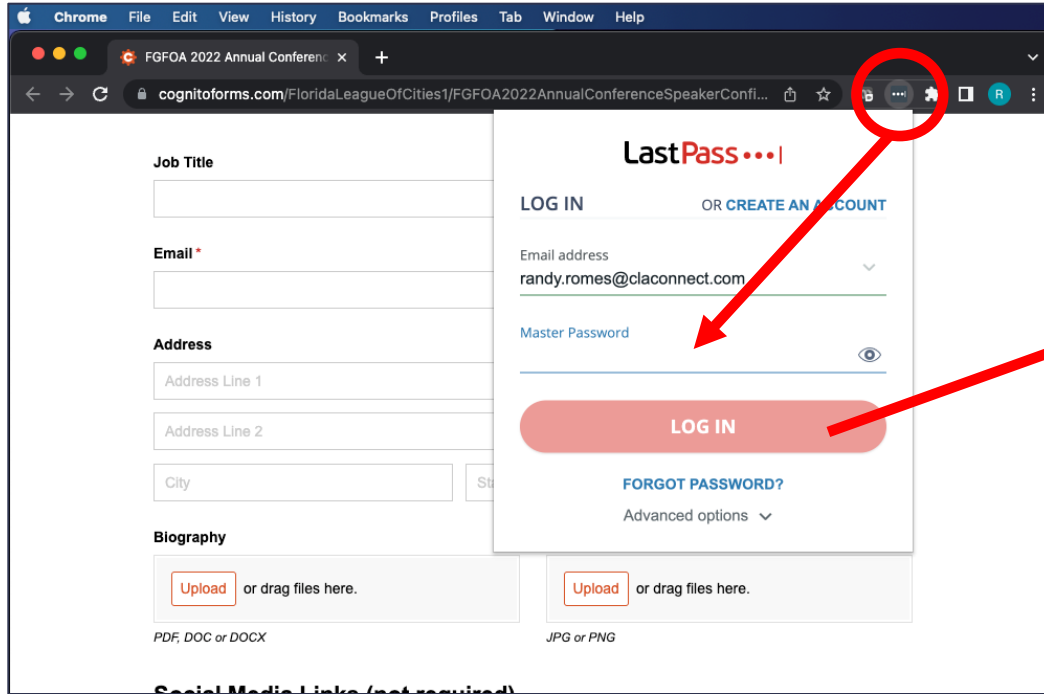
Password Audit	Total
Number of passwords audited	855
Passwords cracked	794
Passwords that were all letters	63
Passwords that were all numbers	5
Passwords that were an English word	20
<b>Passwords that were a word with numbers appended to it</b>	<b>200</b>
Passwords that were the same as the username	6
Passwords that do not meet Windows complexity	584





# Password Strategies:

➤ Password tools: MFA and Password Managers are needed



# Password Strategies:

- Multi-factor authentication on ALL external systems
- Password management tools
- **Pass Phrases – Loooooong natural language**

*Password21* <----- **Unforgiveable!**

*Summer21* <----- **Terrible**

*N\*78fm/1* <----- **Painful**

Wallet Painting lamp <-- **GOOD**

**The Packers always beat the Bears! ← BEST**

- Audit your passwords



# Disaster Recovery & Business Continuity

- Inventory of assets and results of risk assessment are crucial
  - Hardware and software
  - Critical data elements (“the crown jewels”)
    - Data Retention policies and standards
    - Where is the data (if we know where it is, we know where to apply controls)
  - Critical business processes
- **Business impact analysis** with definition of recovery point objectives
  - This is another name for a specialized type of risk assessment
  - Defines priority for restoration
- Disaster Recovery is periodically practiced
  - Need to make sure it works the way you expect



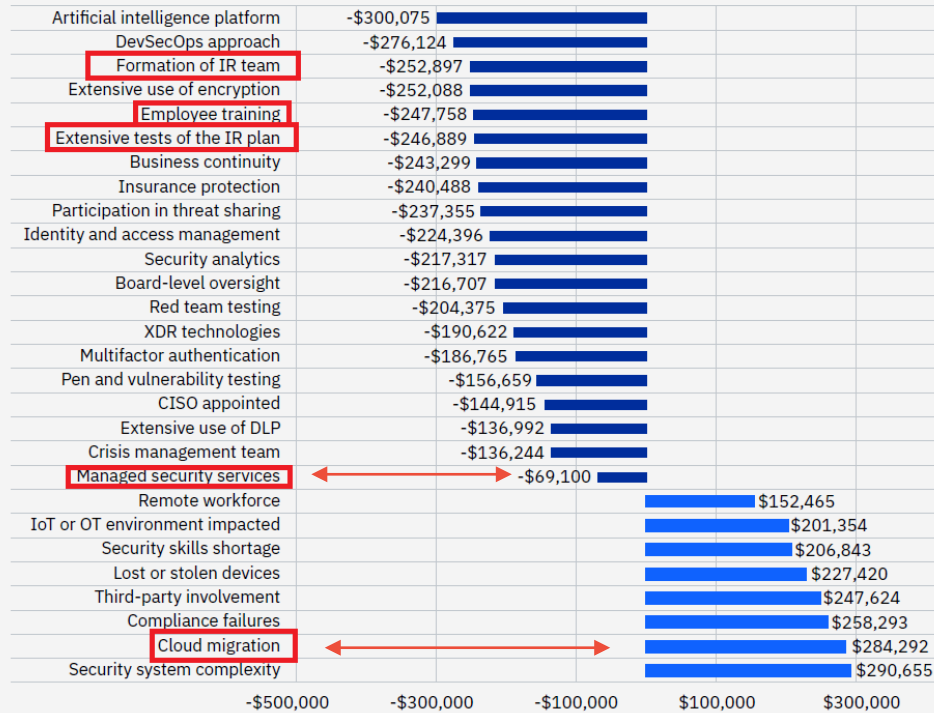
# Practice the Plan

- Tabletop exercises- simulations where participants walk through the incident and response procedures
- Two types of tabletop exercises
  - Technical
  - Management
  - Both types should be conducted annually
- Spear phishing tests and other social engineering tests
- Red team penetration testing



# Incident Response Preparedness- Cost Savings

Impact of key factors on the average total cost of a data breach



The impact of 28 factors on the average cost of a data breach

\$4.35 Million – The average cost of a data breach in the US



Measured in USD

Source: IBM Security Cost of a Data Breach Report 2022





# Boy Scouts Motto: Be Prepared...

Prepare

Operate

Test

- Standards Based Operations and Exception Management  
*Daily Operational DNA*
- Regular/periodic risk assessment:  
*Daily Business as Usual*
- Monitor and fine tune:  
*Continuous improvement*
- **Practice and Test**
  - Audit your operations controls (against a framework)
  - Review Office 365 (O365) security (periodically)
  - Schedule IR Tabletop and Disaster Recovery exercises
  - Test new systems and after significant change*PROVE IT*





# Questions?

**CLA exists to  
create opportunities —  
for our clients, our people,  
and our communities.**

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# Lunch and Networking

11:30 a.m. – 12:30 p.m.



# Outsourcing

Transform your business with a collaborative approach that allows you to seamlessly mitigate risk, overcome challenges, meet deadlines, and identify personnel to help you with your workforce needs.

For more information





*We'll get you there.*

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# Market and Economic Outlook 2023 Second Quarter Update

Economic, Market, Policy and Industry Insights

May 18, 2023

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# Today's Presenter



Dean Bosco  
Lakeland session



Adam Bourk  
Estero session

# Learning Objectives

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

- Discuss the current state of the U.S. economic and capital markets for the rest of 2023 for the United States and Florida

# CLA Outlook 2023 – A Comprehensive Framework



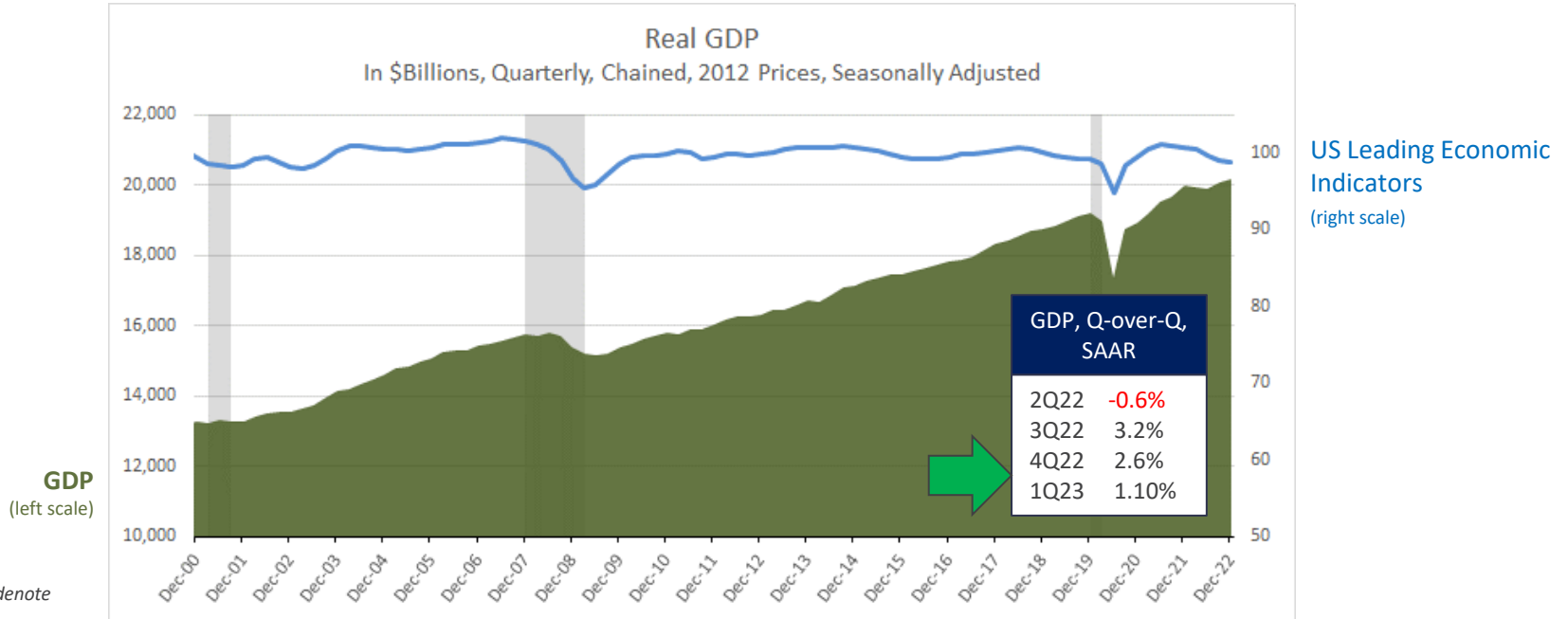
# CLA Outlook 2023 – Stay the Course





# Macroeconomy: GDP

US GDP growth has recovered from earlier softness



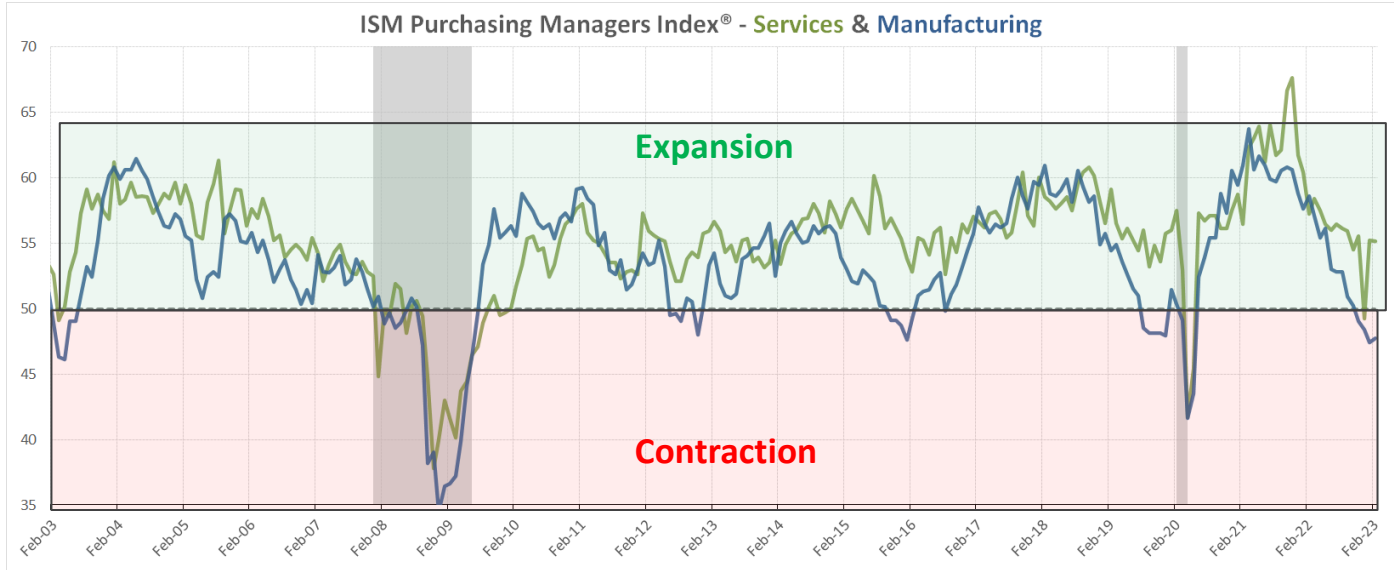
Source GDP: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Source LEI: OECD, Main Economic Indicators (database) <http://dx.doi.org/10.1787/data-00052-en> (Accessed on March 17, 2023) Copyright, 2016, OECD. Reprinted with permission.



# Macroeconomy: Looking Deeper at GDP

Services remain strong while manufacturing declines are stabilizing



Grey areas denote recessions.

**Services** include Real Estate, Utilities; Construction; Education; Information; Transportation & Warehousing; Health Care & Social Assistance; Public Administration; Finance & Insurance; Management of Companies & Support Services; Professional, Scientific & Technical Services, Agriculture, Forestry, Fishing & Hunting; and Arts, Entertainment & Recreation; and Other Services.

**Manufacturing** includes Mineral Products; Petroleum & Coal; Transportation Equipment; Computer & Electronic Products; Printing & Related Activities; Plastics & Rubber Products; Primary Metals; Machinery; Food, Beverage & Tobacco Products; Wood Products; Apparel, Leather & Allied Products; Furniture & Related Products; Paper Products; Chemical Products; Fabricated Metal Products; and Electrical Equipment, Appliances & Components.

Source: Institute for Supply Management, CLA Wealth Advisors

Data is based upon availability as of 3/14/2023

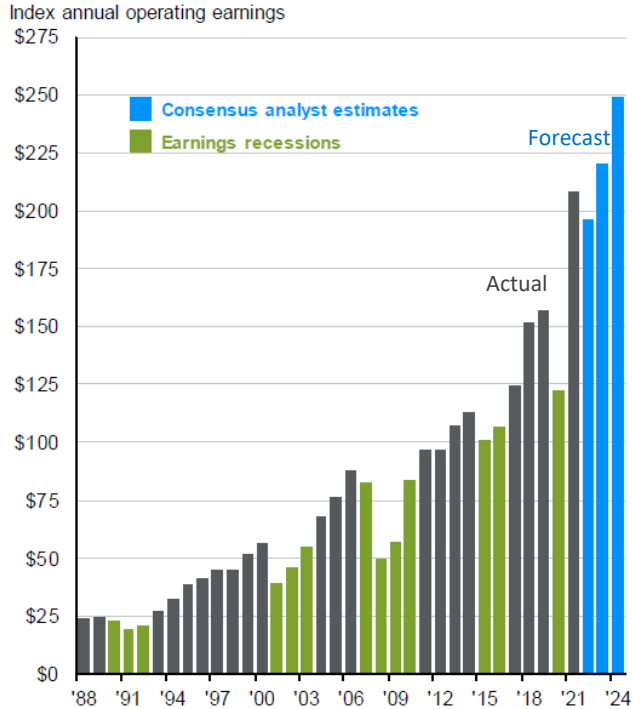
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# Macroeconomy: Business Conditions

Companies still forecast strong profits even with an uptick in inventories

## S&P 500 earnings per share



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management

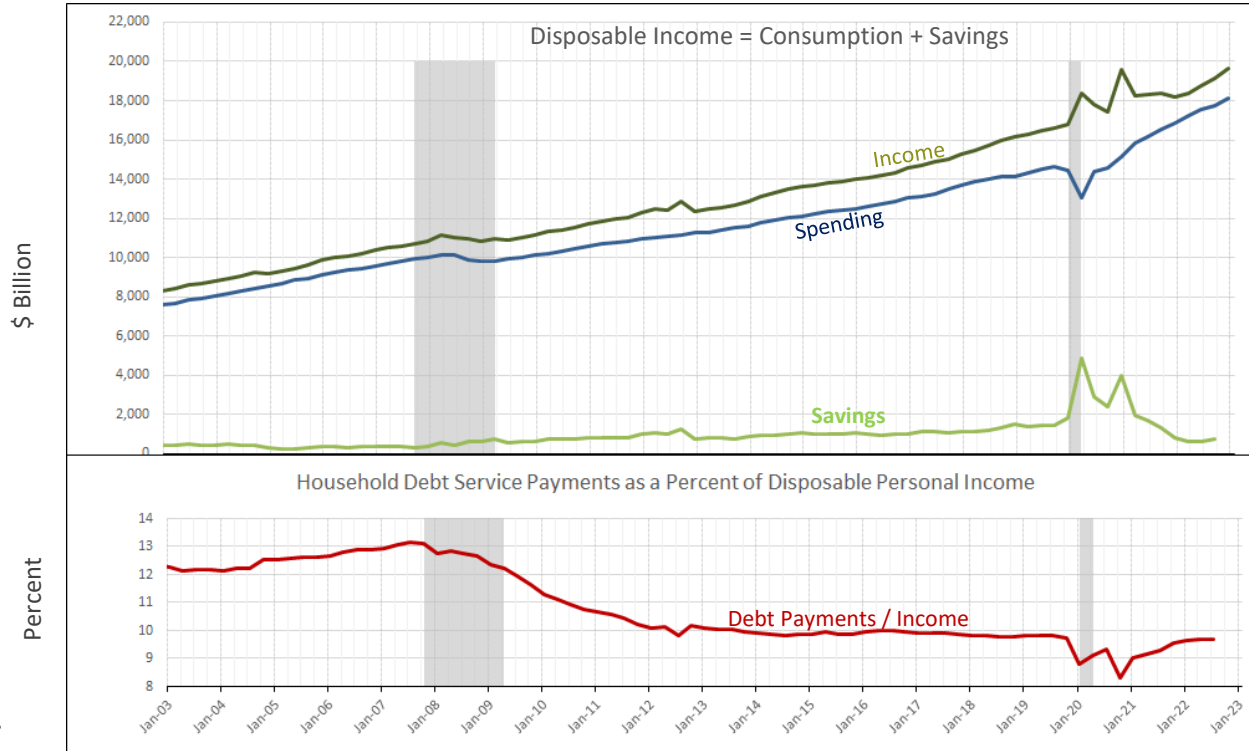
## Rising inventories relative to sales among manufacturers



Source: Bureau of Economic Analysis, National Federation of Independent Business ("NFIB"), U.S. Census Bureau, Manufacturers: Inventories to Sales Ratio, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

# Macroeconomy: Consumer Spending

Despite strong consumer spending, we are watching impact of rising debt



Grey areas denote recessions.

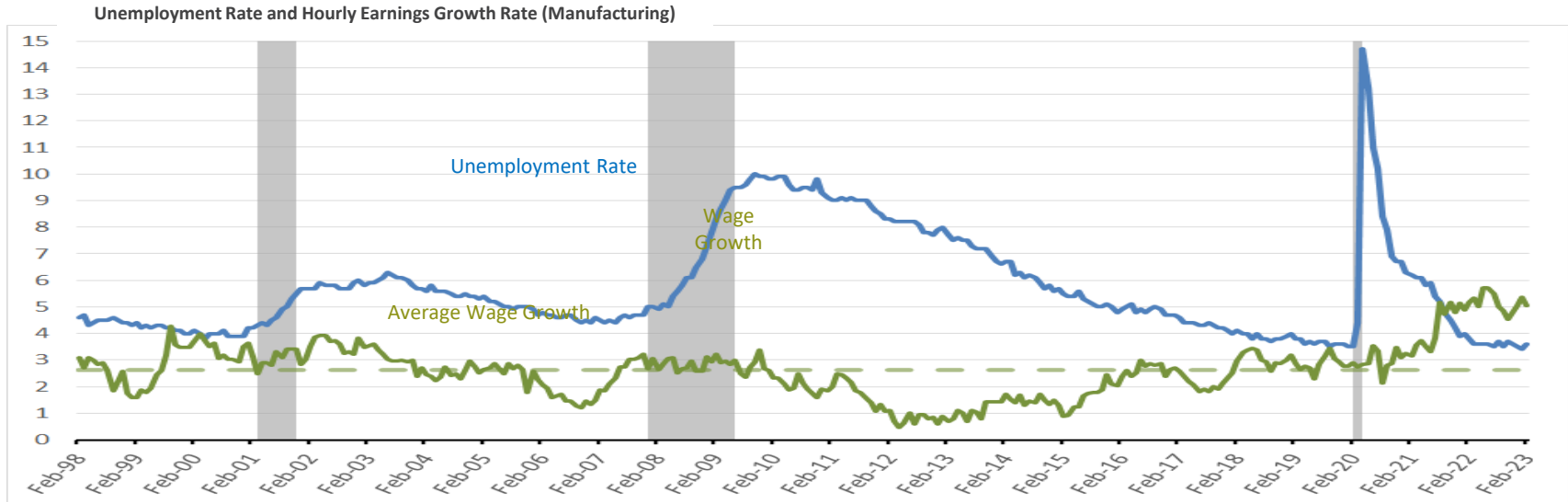
Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System, CLA Wealth Advisors

Data is based upon availability as of 4/19/2023



# Macroeconomy: Employment

At 3.4%, the unemployment rate is near all-time lows. Meanwhile, hourly wages grew by 5%, which is above its long-term average of 2.7%.



Grey areas denote recessions.

Source: U.S. Department of Labor, U.S. Bureau of Labor Statistics, Atlanta Federal Reserve, Bloomberg, CLA Wealth Advisors

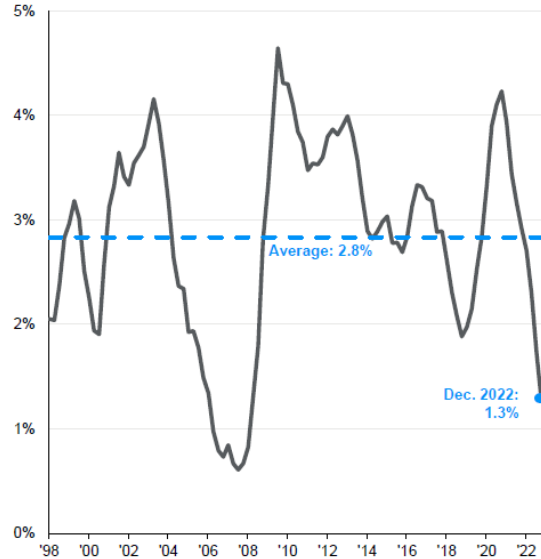
Data is based upon availability as of 3/14/2023



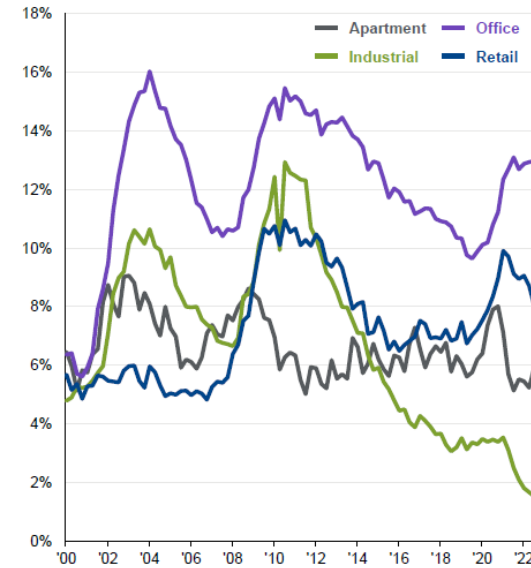
# Macroeconomy: Housing

Real estate may see slowdown with higher interest rates and valuations. Vacancy rates remain elevated in office and retail, while low in apartment and industrial segments.

**U.S. real estate cap rate spreads**  
Transaction based, spread to 10y UST, 4-quarter rolling average



**U.S. vacancy rates by property type**  
Percent



$$\text{Cap Rate} = \text{Net Operating Income} / \text{Price}$$

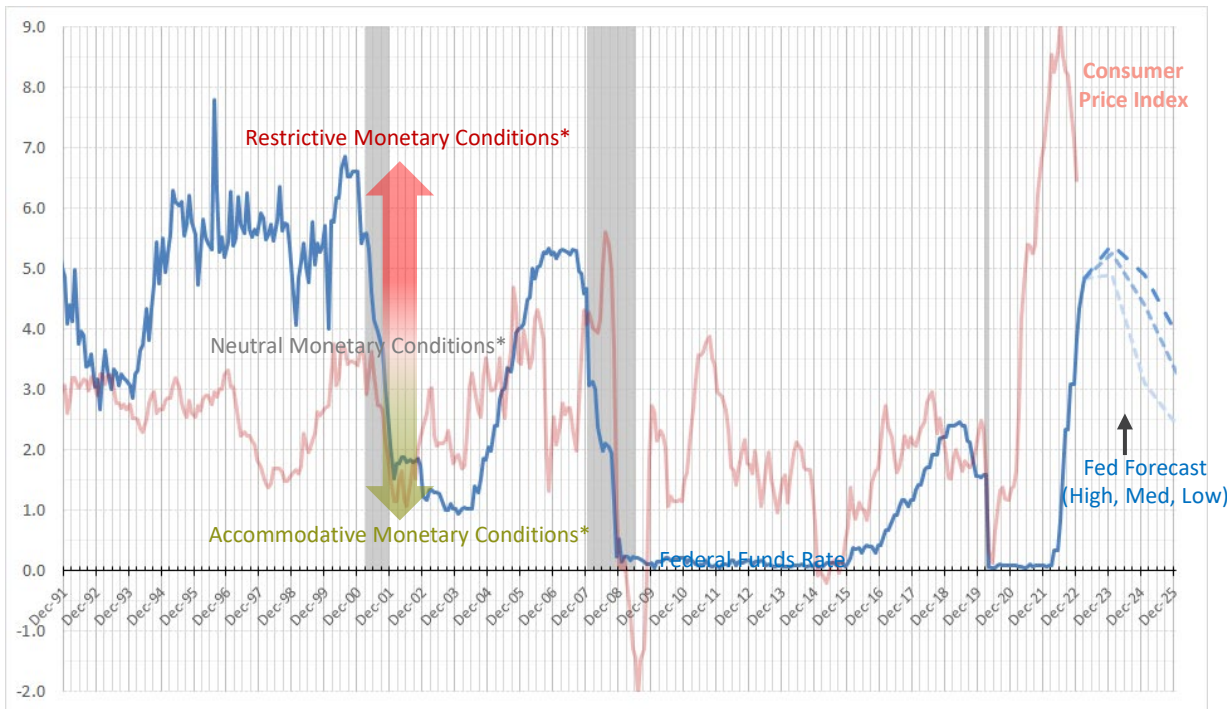
Cap Rates are used to help judge the relative value of real estate.



# Federal Reserve Policy: Slower Rate Hikes

The Fed is starting to moderate its message with lower inflation data

Federal Funds Rate, Consumer Price Index (YOY), Recessions



Grey areas denote recessions.

- Annual inflation rate in the US slowed to 4.9% in April of 2023, the lowest since September of 2021
- **Food prices** grew at a slower rate (9.5% vs 10.1% prior)
- **Cost of used cars and trucks** continued to decline (-13.6% vs -11.6% prior)

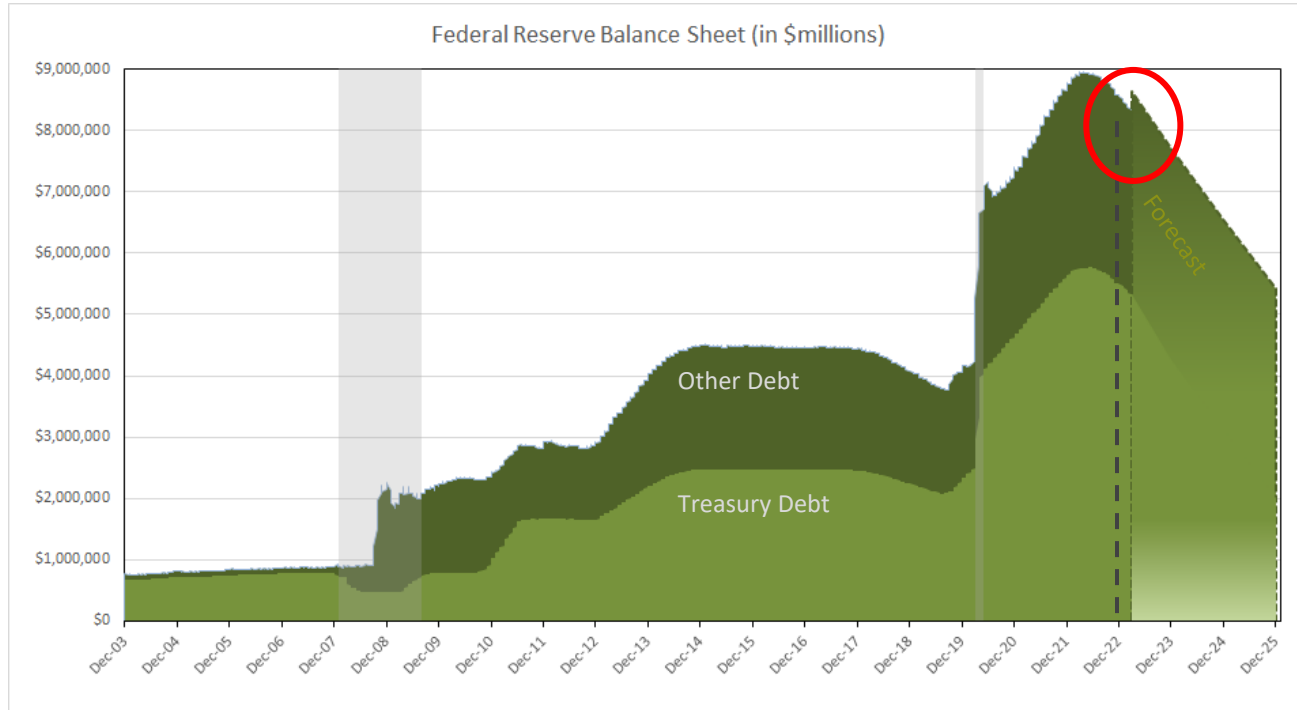
Source: Board of Governors of the Federal Reserve System, U.S. Federal Open Market Committee, Federal Reserve Bank of St. Louis, NBER, Organization for Economic Co-operation and Development, CLA Wealth Advisors

Data is based upon availability as of 3/23/2023



# Federal Reserve Policy: Banking Concerns

Temporary lending measures to select bank behind balance sheet uptick



Grey areas denote recessions.

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis, NBER, CLA Wealth Advisors

Data is based upon availability as of 3/14/2023





# Economic Views – Summary



## Half full

- GDP Growth continues
- Fed rate hikes paused
- Strong company profits
- Consumer spending robust
- Improved global sentiment



## Half empty

- Rising inventories
- Tight labor markets
- Falling labor productivity
- Consumer debt is raising
- Real Estate softening

# CLA Outlook 2023 – Stay the Course



# Industry Views – Summary



## Half full

- Select industries such as Tech now able to hire talent
- Strong balance sheets and focus on cash management
- Dedicated focus on margins & profitability is paying off
- Capital planning easier with a dovish Fed



## Half empty

- Labor markets still tight
- Banking turmoil may result in tighter lending standards for companies
- Manufactures closely managing inventory levels
- New construction & development slowing with higher rates

# Industry Insights

- **Macroeconomic focus areas:** Interest rates, business profitability, labor (finding talent and wage pressures)
- **Specific highlights:**
  - **Trends:** Fears about inflation, supply chain concerns and high commodity prices have receded with the focus now on interest rates and their impact on the rising cost of capital, leverage and business profitability.
  - **Regulated industries:** Government spending levels & labor markets are critical.
  - **Private industries:** Interest rates, business profitability, leverage and labor are areas to focus on.
  - **Opportunities:** Focus on technology (Digital) to drive efficiency and maintain margins. Utilize outsourcing to address labor needs.



# Challenges = Opportunities

- Workforce
- Productivity
- Succession
- Profitability
- Outsourced solutions
- Digital strategy
- Owner transition planning
- Business planning / industry consulting



# CLA Outlook 2023 – Stay the Course



# Equity Markets Recovering

After a difficult 2022, we are seeing stabilization

## S&P 500 Price Index

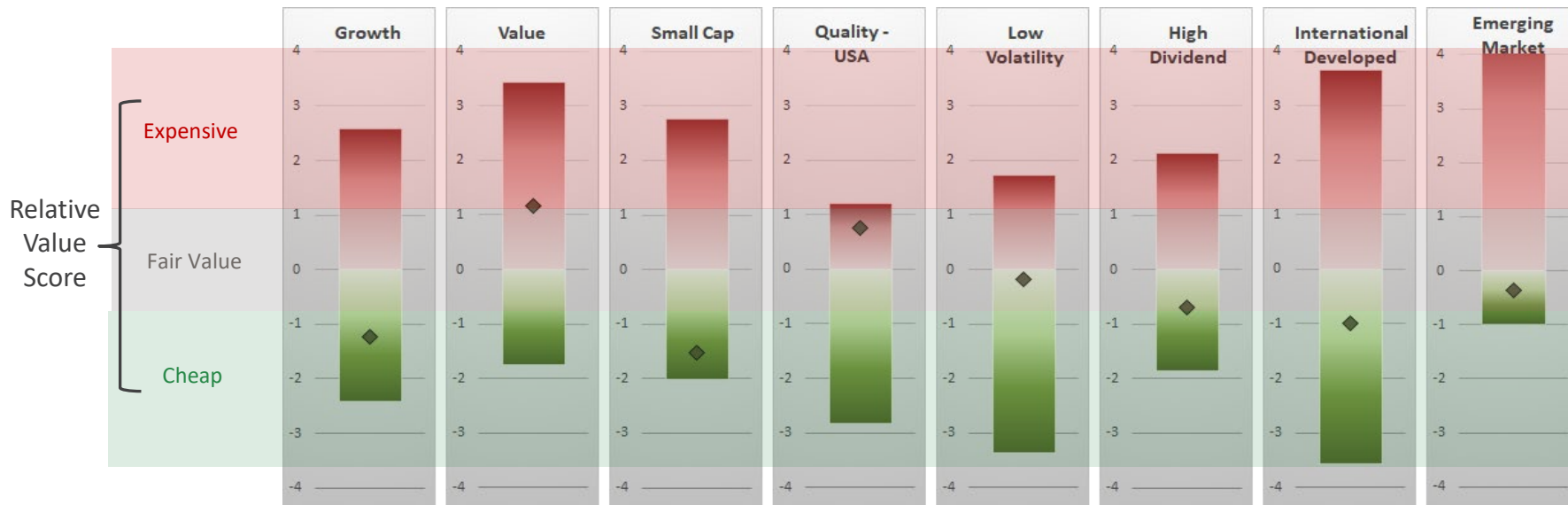


Source: Compustat, FactSet, Federal Reserve, Refinitiv Data Stream, Standard & Poor's, J.P. Morgan Asset Management  
Data is based upon availability as of 3/14/2023

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# Equity Markets: Selectivity Matters



The above analysis uses historical trailing 12-month earnings and recent security prices to compare the P/E ratio of each Style Factor to the P/E Ratio of the S&P500 benchmark. The data is then converted into a Relative Value Score to allow easy comparison across Style Factors.

Source: Bloomberg, Standard & Poor's, CLA Wealth Advisors

Data is based upon availability as of 4/30/2023

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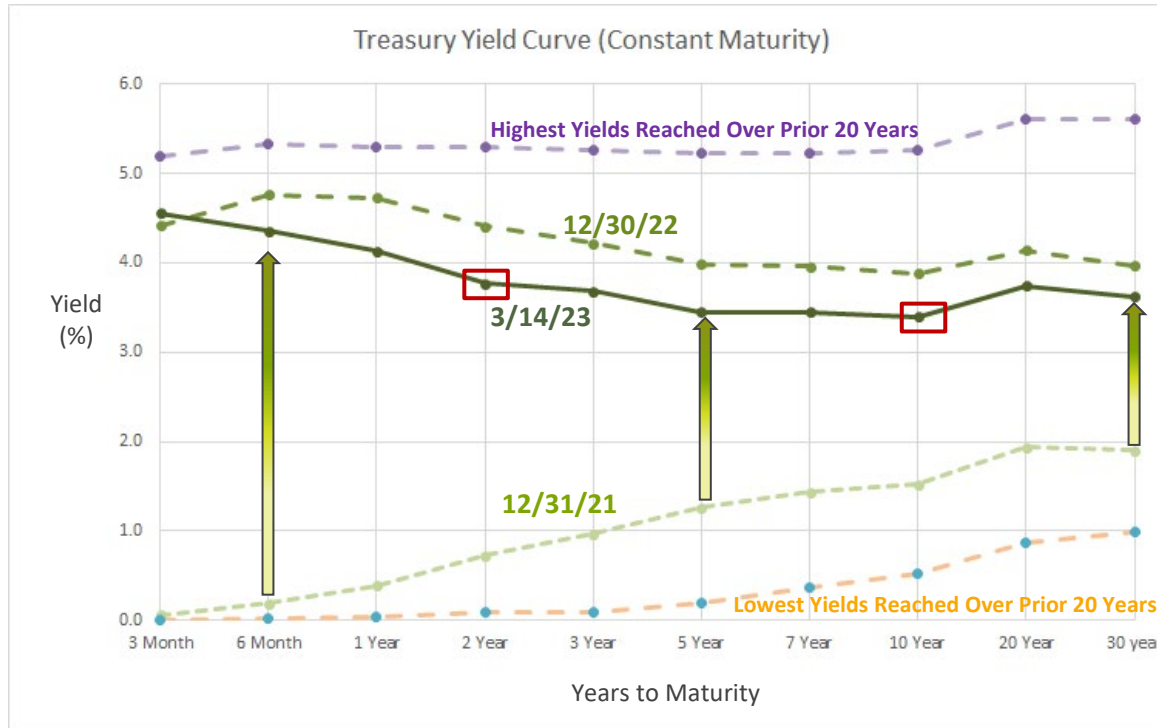
152





# Fixed Income: Higher Short-term Yields

A more dovish Fed is reducing 2yr - 10yr yield curve inversion



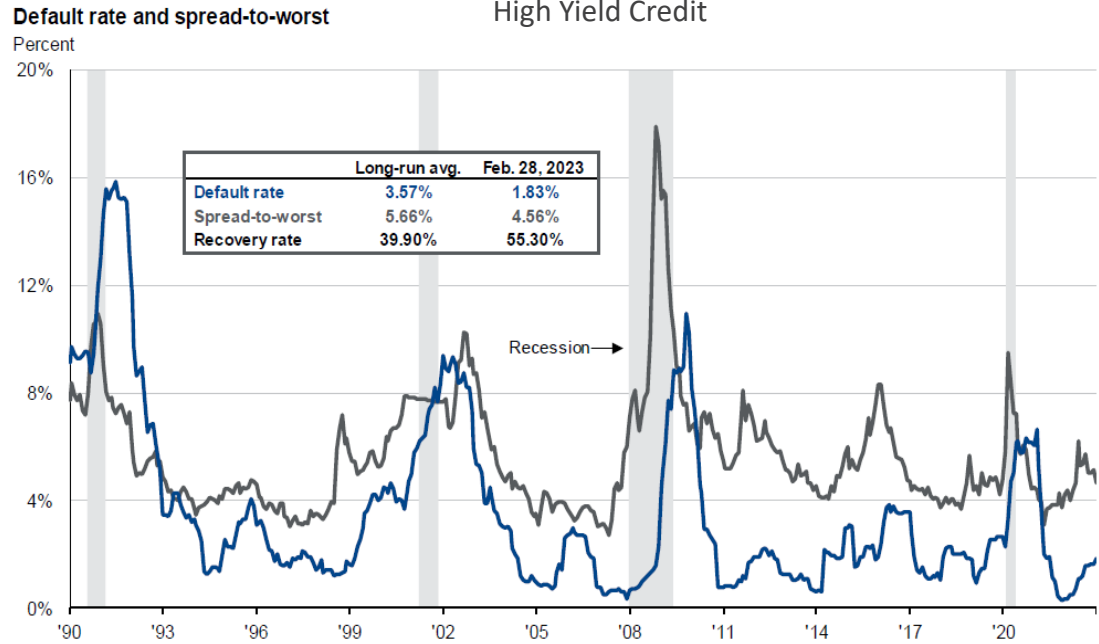
Source: Board of Governors of the Federal Reserve System, St Louis Federal Reserve, CLA Wealth Advisors

Data is based upon availability as of 3/14/2023



# Fixed Income: Credit

Low defaults show that company balance sheets are robust



Source: J.P. Morgan Global Economic Research, J.P. Morgan Asset Management



# Private Real Estate

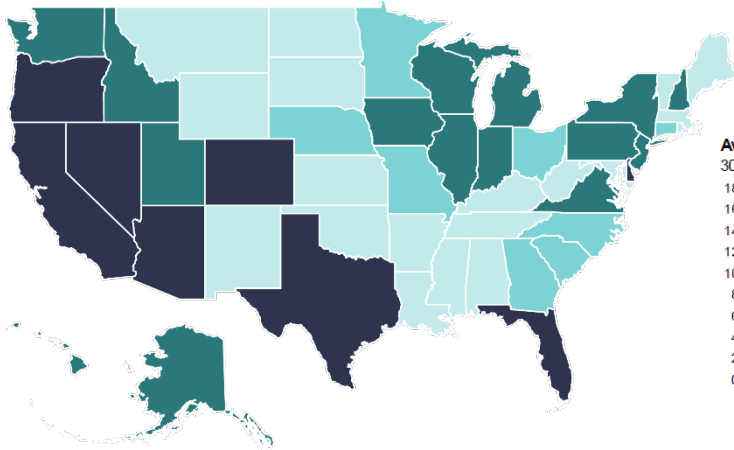
The affordable housing crisis creates opportunity in multifamily

No state currently has an adequate supply of affordable housing.

No state has an adequate supply of affordable rental housing for the lowest income renters

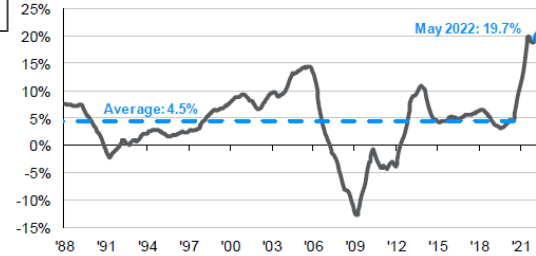
Affordable and available rental homes per 100 extremely low income renter households

● 30 or fewer    ● 31 to 40    ● 41 to 45    ● 46 or greater



## Home prices

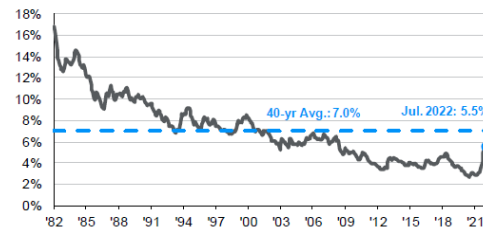
y/y % change in Case-Shiller Home Price Index



Record home prices and higher mortgage rates have caused mortgage originations and corresponding home sales to slow from their peak levels.

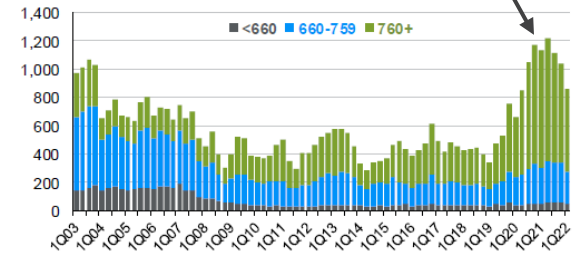
## Average interest rate on a U.S. mortgage

30-year fixed-rate mortgage



## Mortgage originations by credit score\*

Billions of USD



Source: NCREIF, Case-Shiller, J.P. Morgan Asset Management

Data is based upon availability as of 12/31/2022



# Market Views – Summary



## Half full

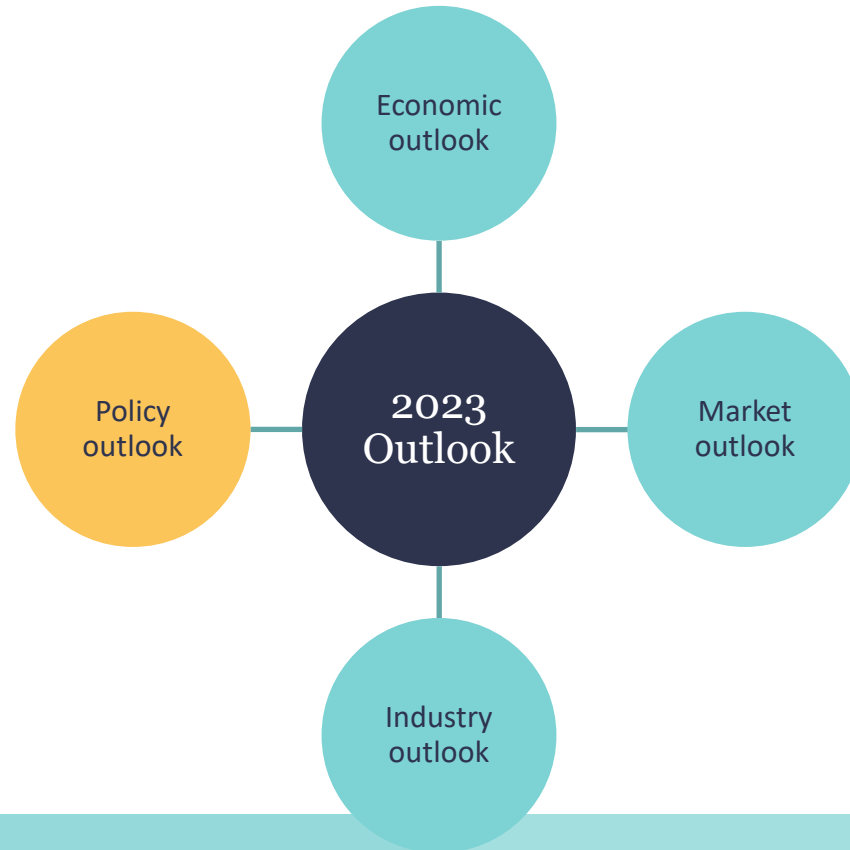
- Improved flows and sentiment into equity and fixed income markets
- Portfolio diversification working with equity & fixed income no longer moving in tandem
- Alternatives showing resiliency



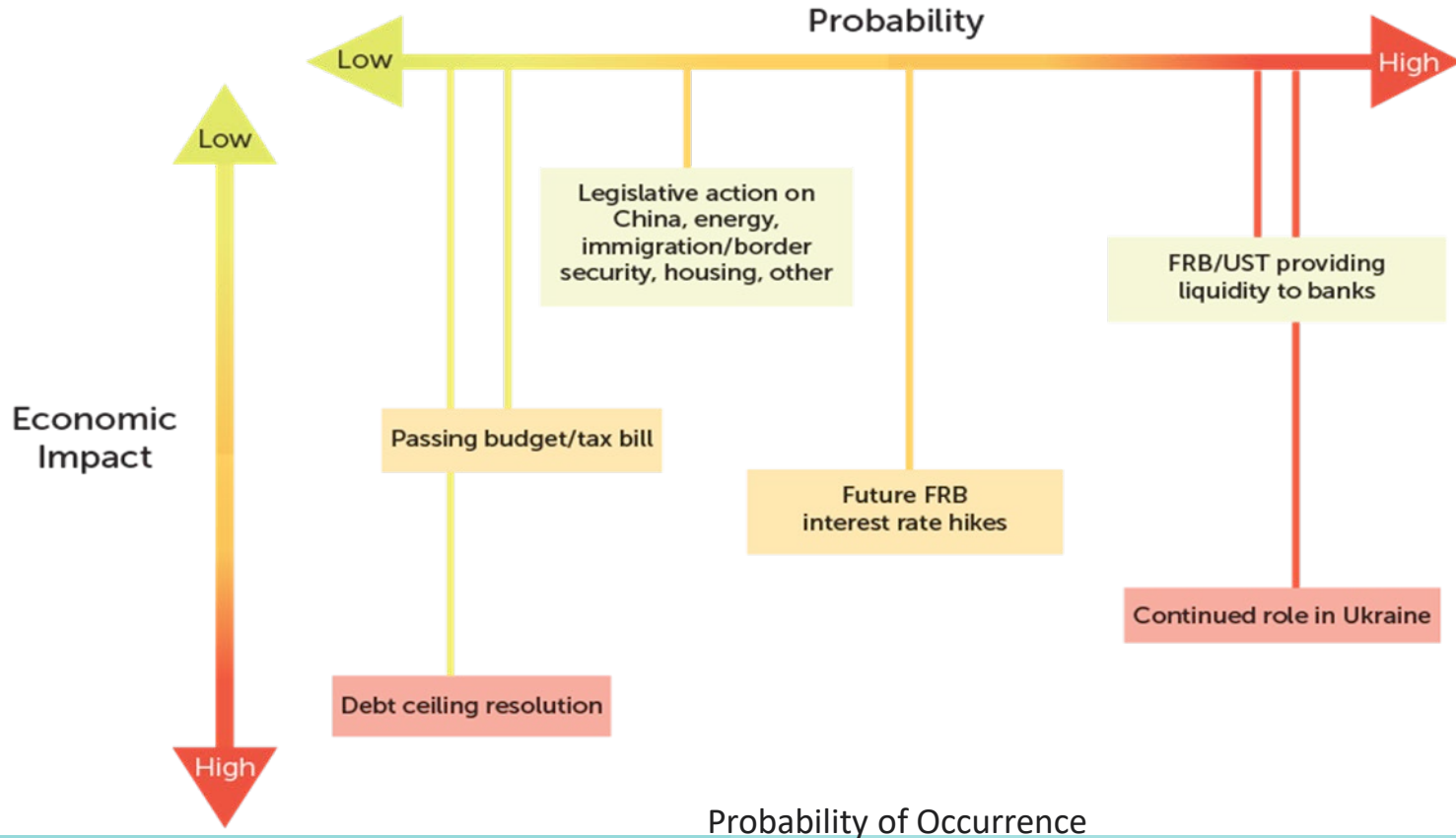
## Half empty

- Select sectors such as financials seeing distress
- Cash levels are elevated
- Investors not taking advantage of tax-loss harvesting
- Return of single-stock tech speculation

# CLA Outlook 2023 – Stay the Course



# Policy Outlook – What Has Our Attention?



Probability of Occurrence



# Policy Outlook – Legislative and Regulatory Takeaways



## Half full

### *Potential bipartisan common ground*

- ✓ Financial regulation of crypto
- ✓ Affordable housing and new markets tax credits
- ✓ JOBS Act
- ✓ China competitiveness
- ✓ Immigration policy
- ✓ Energy

### *Current opportunities*

- ✓ *Empowerment Zone Credits*
- ✓ *ERC*
- ✓ *Green energy credits*



## Half empty

### *Debt ceiling impasse*

Federal government will breach debt ceiling by July – Sept. 2023

President Biden and Speaker McCarthy have not met since Feb. 1

President Biden's budget proposal contains provisions that are nonstarters for GOP, such as-

- ✓ Raising general corporate tax rate from 21% to 28%
- ✓ Increasing corporate tax rate on offshore profits from 10.5% to 21%
- ✓ Restoring highest individual tax bracket on ordinary income to 39.6%
- ✓ Taxing individual capital gains at ordinary income tax rates for those making more than \$1 million

# 2023 Outlook – Executive Summary



## Half full

**Economy:** Robust consumer spending likely to continue.

**Industry:** Rebound in profitability is forecasted for 2023, while the use of data insights and outsourcing should help alleviate any labor shortages.

**Financial markets:** Valuations are back to “fair value” range in equity, fixed income and alternative markets.

**Policy:** Congress and the Biden administration will work together on bipartisan and “must pass” legislation.

**Portfolios:** Well-constructed portfolios can participate in market upside while mitigating volatility to help achieve your goals.



## Half empty

**Economy:** Slowing GDP growth expected in 2023.

**Industry:** Tight labor markets and rising cost of capital may challenge unprepared business owners.

**Financial markets:** Expect more restrictive credit conditions as the Federal Reserve continues to withdraw liquidity in a bid to fight inflation.

**Policy:** A divided government may result in gridlock.

**Portfolios:** Recoveries take time and reward patient long-term investors rather than market-timers.







# Questions?

# Contact us to discuss how we can serve you and help you achieve your goals

## Lakeland Session

**Dean Bosco, CFP®**

Principal

CliftonLarsonAllen Wealth Advisors, LLC Regional Leader (Sunbelt)

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## Estero Session

**Adam Bourk , CFP®**

Principal

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[adam.bourk@CLAconnect.com](mailto:adam.bourk@CLAconnect.com)

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# HR Assessments



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# Learning Objectives

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

- List the advantages of carrying out a HR assessments
- Define the key components of a successful HR assessment
- Identify how to apply the HR assessment results to drive organizational change



# What is an HR Assessment?

- A systematic evaluation of an organization's HR policies processes and practices.
- Identify areas of strength and areas in need of improvement.
- Provide recommendations for addressing any deficiencies.
- The results of the assessment are typically used to create an action plan that addresses identified issues and improves organizational performance, employee satisfaction, and overall business outcomes.

# Why are HR Assessments Important?

- Identify areas of strength and areas in need of improvement, allowing for data-driven decisions to improve performance and employee satisfaction.
- Assists with compliance around employment laws and regulations, reducing the risk of legal issues and negative publicity.
- Assists in attracting and retaining top talent by identifying areas for improvement in recruitment, hiring and employee development practices.





# What are the Benefits of HR Assessments?

- Improved decision making.
- Increased employee engagement.
- Enhanced organizational performance.



# Assessment Process

- Project planning and kickoff
- Document request and review
- Interviews and walkthroughs
- Draft report of observations and recommendations
- Review and gather feedback for implementation plan
- Finalize report and roadmap



# Areas of Assessment

- Organizational Structure and Culture
- Employee Lifecycle
  - Recruitment
  - Onboarding
  - Retention
  - Discipline and Termination
- Employee Performance Management



# Areas of Assessment

- Human Resource Policies and Procedures
- Total Rewards
  - Compensation
  - Benefits
- Recordkeeping



# Final Conclusions and Recommendations

- Analysis of Each Area
- Recommendations
- Priority Level
- Timeframe



# Links to Organizational Success

- Attracting and Retaining Top Talent
- Building a Positive Workplace Culture
- Managing and Mitigating Risk
- Driving Business Strategy



# Attracting and Retaining Top Talent







# Managing and Mitigating Risk



# Driving Business Strategy



# ROI in Human Resources

- Every employee is an investment.
- What is the break-even point?
- Three phases for a typical employee's trajectory:
  - Pre-break even – onboarding
  - Post-break even – performance
  - Post-performing - offboarding

# Onboarding

- Consistent
- High-quality
- Automation
- Checkpoints\*



*\*IntelliHR 2021*

# Performance

- Drivers of Performance
  - Ability
  - Motivation
  - Opportunity
  - Culture
- Continuous Feedback
- Performance Reviews
- Training
- Goals



# Offboarding

- Declining Performance
- Proactive
- Cost of Employee Turnover



# Final Thoughts

- There are MANY advantages to conducting an HR Assessment.
- Reviews can be conducted remotely.
- Actionable recommendations are provided.
- Recommendations can drive organizational success.



# THANK YOU!

**HUMAN RESOURCES  
ISN'T A THING WE DO.  
IT'S THE THING THAT  
RUNS OUR BUSINESS.**

-Steve Wynn, Wynn Las Vegas

*Any Questions?*





Dr. Angela J. Pruitt, IPMA-SCP, PMP,  
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## 20 Minute Break

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Protect your systems and data with a strong cybersecurity plan. We combine technical knowledge with audit and assurance experience so you can focus your energy on technology issues that provide growth opportunities.

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# Audit Preparedness, Common Findings and Common Adjustments



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# Objectives



Recognize what an audit is and define responsibility



Recall best practices for planning and preparing for an audit



Identify common pitfalls





# Preparing for a Successful Audit

# What Is an Audit?

- An audit is the process of examining and verifying management's assertions that their financials are materially correct.
- Auditors choose what to test based on risk inherent to transactions or control risk created by control processes that do not adequately address the items that can go wrong with a particular balance.



# Who Is Doing What?

- Management is responsible for ensuring that their financial statements are in compliance with GAAP (Generally Accepted Accounting Principles).
- Auditors are responsible for verifying and testing to ensure that the financial statements are in compliance with GAAP.

# Successful Audit Communication



The Audit is not just for the finance department, it is the entire organization's financial statement audit.



Communication is key!



# Audit Requests

- Utilize to track audit preparedness.

Have all of it done  
prior to scheduled  
timeframes, not  
after.

Do the hard stuff  
first.

Stick to the list.

Due dates.

Review before  
sending.

# Communication and Transfer of Audit Documentation

- Electronic files add efficiency to the audit process. Discuss format with lead auditor.
- Electronic files should be editable and use formulas where applicable.
- File names should be clear as to what the item is. (Not the number assigned by the scanner).
- Information should be reviewed by the audit point person prior to being sent to the audit team.



# Auditor Access to Your Systems

- Can be an efficient way for auditors to view items for invoices, contracts, payroll, and other types of support documentation.
- Auditors will request what we need ahead of time, and client should verify ahead of fieldwork that the auditors will have access to all information requested through system access, or it should be pulled ahead of time and provided to the auditor.
  - This is faster than auditors looking for it in the system, not finding it, then requesting it and waiting for it to be pulled by client's teams.

# Housekeeping

- Plan to accommodate audit team.
  - Reserve conference room or area for them to work together.
  - Internet availability.
  - Access badges as needed.
  - Work schedule.
  - Tour & introduction to key personnel.
  - Adjust schedule to be available for auditor inquiries during scheduled fieldworks and preliminary fieldworks.

# Common Audit Prep Pit Falls



Accounts not reconciled – All necessary year end adjustments should be recorded. Check last years audit adjustments.



Not addressing prior year audit issues.



Surprising your auditor with unusual or complex transactions.



Planning to complete audit schedules while auditors are onsite.



Incomplete confirmations – Not signed by the appropriate signer, incomplete/incorrect accounts, not sent by auditors (Please don't mail them out).



# Team Collaboration

## Best Practices for Effective Team Collaboration:

- Designate a point person to communicate and coordinate the audit.
- Divide out the audit request list.
- Assign who will oversee each area.
- Set timeline and expectations.
- Set up a recurring meetings.
- Review completed assignments to ensure they are accurate.
- Communicate schedule restrictions to the auditors.



# Audit Preparation Best Practices



Discuss major changes during the year with your Auditor.



Ensure schedules for significant disclosures include all required elements to prepare the footnotes.



Check reconciliations after all year-end adjustments are posted to ensure schedules still tie.



Don't wait to implement required standards. Start the conversation early, and when unsure on where to start, reach out to your Auditor. We can help!



# Audit Preparation Best Practices (Continued)

## Receivables and Related Revenue:

- Review subsequent transactions for proper coding.
- Review listing of receivables by vendor, payment, and show where items were recorded and the applicable fund.

## Capital Assets:

- Reconcile often to reduce year end burden.
- Tie beginning balances to prior year audited balances.
- Evaluate construction in progress (CIP), and ensure items impacting CIP are clearly defined.

## Debt:

- Prepare a debt summary with beginning, additions, payments, and ending balances.
- Review new debt issuance or debt modifications during the year, and ensure information is properly presented.



# Audit Preparation Best Practices (Continued)

## Payables and Other Liabilities:

- Review listing of payables by vendor, payment, that shows where items were recorded and the applicable fund for accuracy.
- Review compensated absences schedules as early to year end as possible.
- Ensure OPEB studies are done in just after fiscal year end, when applicable.

## Cash and Investments:

- Ensure to provided Auditor with listing of bank institutions where cash and investments are held.
- Review year end reconciliations, ensures that all transactions that have gone through the bank statements have been reviewed and checked.

## Fund Balance:

- Review fund balance and agree to prior year audited balance.
- Communicate any adjustments made during the year.



# Audit Preparation Best Practices (Continued)

## Proper accounting for federal and state grants.

Grant administrator has knowledge of all grants.

Revenues are not commingled.

Monitor federal spending – If over \$750,000 (and that is not typical for your organization) contact your auditor you have.

Summarize each revenue account and identify where it should be reported in both the intergovernmental revenue schedule and schedule of federal expenditures.

Ensure you understand if grants should be recorded as current year revenue, unearned revenues, or as deferred inflows of resources. If you're unsure, we can help contact your auditor. Also ensure that you have properly restricted any fund balance for recognized grants with restrictions.

# Audit Conclusions

## Exit conference:

- Discussion of audit observations/findings.
- Timing of audit report issuance.
- Open items and resolutions.

## Internal conclusions:

- Draft management responses to audit results.
- Perform post audit evaluation.
- Discuss efficiencies with the audit team for next year.

# In Conclusion...



Prepare, Prepare, Prepare!



A successful audit is a combination of preparedness on the client's part and planning on the auditor's part.





# Common Audit Recommendations and Adjustments

# Documenting Internal Control Procedures

Document the control activities within the organization with appropriate timelines.

Evaluate internal control policies, periodically.



# Access Issues

- Someone has full access to a full transaction process.
  - Example 1: Someone can add/edit vendors, enter invoices, and process payments.
  - Example 2: Someone can add/edit employees in payroll, process payroll, and process payments.
  - Example 3: Someone can initiate and execute any sort of cash payment or transfer without the involvement of another person.
    - Try to avoid these situations, they create audit risk, are not proper ways to segregate duties, and they provide the opportunity for fraud to occur.
    - In smaller organizations sometimes this is difficult or not reasonable to do.



# Commonly Missed Adjustments (Miscellaneous)

- Ensure that retainage payable is booked along with contracts payable, however, ensure it is not double booked as part of contracts or accounts payable as well.
- Book interest receivable from year end bank statements.
- Period of availability adjustments for deferred inflows of resources for receivables received within or after the period of availability.
- OPEB allocation on roll forward years should be based on current year census.
- Debt entries underwriters' cost is expensed as part of issuance cost, principal payments and interest are tied to debt roll forward, and enterprise funds principal payments reduce debt versus payment being expensed.



# Commonly Missed Financial Statement Items

- Statements don't agree among themselves
  - Interfund balances
    - Due to does not equal due from.
    - Transfer in does not equal transfer out.
  - Net position/fund balance
    - Net position/fund balance does not agree between balance sheet and income statements.
- Footnotes
  - Amounts included in the statements do not correspond with the amounts in the footnotes.
  - Debt activity in the governmental funds operating statement and the proprietary funds cash flows does not agree with the footnotes.

# Commonly Missed Financial Statement Items

- Amounts included in the reconciliations do not correspond with the amounts in the footnotes
  - Debt
  - Long-term liabilities
  - Capital outlay, depreciation and gain/loss on disposal
  - Changes in unavailable revenue
- Common error to have differences of \$1 between statements, reconciliation and footnotes

# Commonly Missed Footnote Disclosure Items

## Debt Footnote

- Missing maturity dates and/or interest rates for individual debt issues.
- Debt service table presents five individual years of debt service and show through maturity.
- Debt service table separates principal and interest columns.

## Pension and OPEB

- If the employer participates in multiple pension plans, total pension amounts must be disclosed in the footnotes.
- If the discount rate changed from prior year, you must disclose the change in the employer statements.



# Commonly Missed Footnote Disclosure Items (Continued)

## Budget Disclosures

- Funds with legally adopted budgets
- Budget violations
- Amendments to budget

## Net Position and Fund Balance

- Use of restricted vs. unrestricted
- Deficit net position and fund balances

## Prior Period Adjustments

- Correction of an error or GASB implementation
- Should disclose each reporting unit and total effect on all opinion units



# Audit Recommendations



Develop timelines and process for preparing financial reports.



Use a disclosure checklist and/or GFOA checklist.



Ensure your systems are able to output the necessary information.



Ensure that financial statements are reviewed in detail by personnel with training and knowledge.



# Questions?



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# Industry Discussion — GASB Update

May 2023



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# Learning Objectives

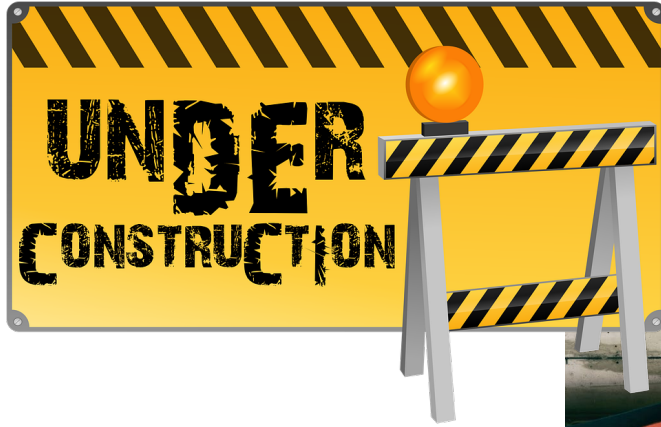
At the end of this session, you will be able to:

- Identify upcoming GASB pronouncement and their potential impact on state and local government financial statements
- Identify GASB projects on the horizon
- Describe provisions of recent GASBs and the implementation impact on financial reporting and disclosures



## GASB 87 - Leases

# GASB 87 – Still Implementing? Issued?



# Biggest Changes

- Operating leases are removed from lease classification; all leases are financings of the right-to-use an underlying asset
- Lessors will mirror lessees and recognize a lease receivable and corresponding deferred inflow of resources, while continuing to report the asset underlying the lease (distinctions of Sales-type, Direct-financing and Operating leases are removed)
- Lessor lease revenue recognized from amortizing the deferred inflow of resources
- Increased financial statement disclosures
- Concept of contracts that transfer ownership
- NOTE:
  - Ability to amortize the lease assets as a group rather than individually



# Practical Application - Implementation



- For leases that were reported as operating leases prior to the implementation of Statement 87, should a government determine what the lease asset would have been on the date of implementation if it initially had been recognized and amortized in prior periods as a lease under the provisions of Statement 87?
- No. Paragraph 94 of Statement 87 states that leases should be measured using the facts and circumstances that existed at the beginning of the period of implementation. The government is **not required to estimate what the lease asset would have been** if it initially had been recognized and amortized in prior periods as a lease under the provisions of Statement 87. The lease liability should be measured using the remaining lease term and discount rate as of the beginning of the earliest period restated. The right-to-use asset should be measured based on the lease liability at that date and no restatement of beginning net position would be required because the lease asset and the lease liability would be the same.

*Implementation Guide 2019-3, Leases*





# Financial Statement Impact (Lessee)– Financing & Short-Term Lease

	Statement of Net Position	Statement of Activities	Statement of Cash Flows
<p><b>Longer-term leases</b></p> 	<ul style="list-style-type: none"> <li>Intangible Right-to-Use Asset (subject to GASB 42 impairment guidance)</li> <li>Lease Liability</li> </ul>	<ul style="list-style-type: none"> <li>Amortization expense</li> <li>Interest expense</li> <li>Payments first allocated to accrued interest liability and then to lease liability</li> </ul>	<ul style="list-style-type: none"> <li>Interest &amp; Lease Principal = Capital &amp; Related Financing</li> </ul>
<p><b>Short-Term Lease</b></p>  <p>Similar to former Operating Lease treatment under GASB 13</p>	<p>N/A</p> <p>(unless payments are made in advance or subsequent to the reporting period)</p>	<ul style="list-style-type: none"> <li>Lease expense</li> <li>Based on payment provisions of the contract</li> <li>Not straight-lined for rent holiday</li> </ul>	<ul style="list-style-type: none"> <li>Operating</li> </ul>





# Accounting for Leases – Where do I start?

Completeness of the lease population

# Inventory of Potential Leases

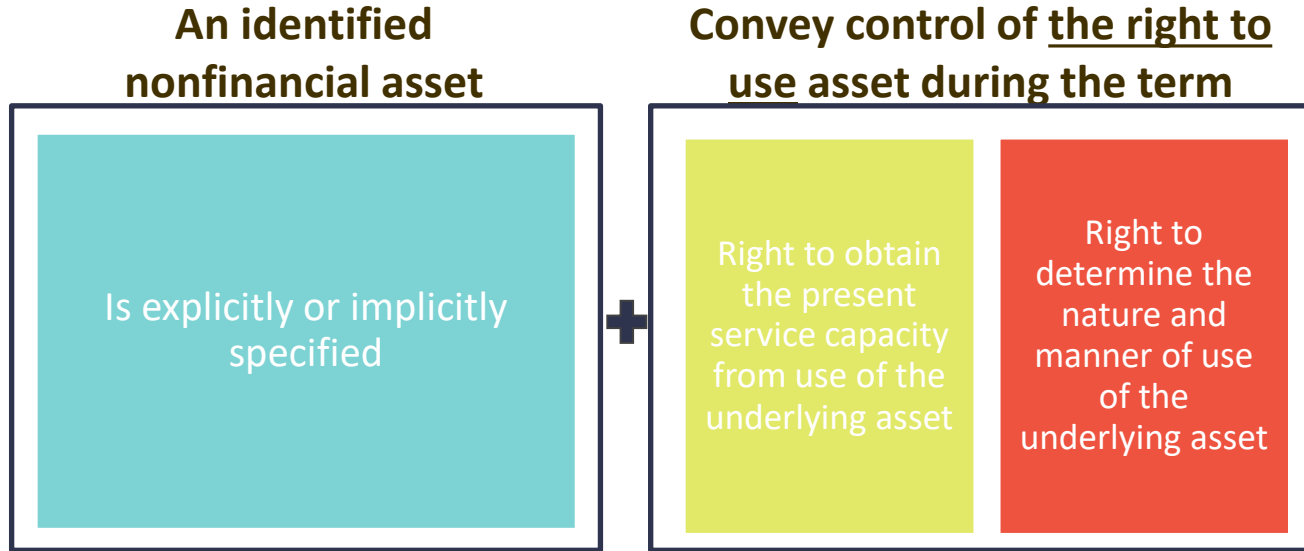
- Remember that a contract could be a lease even if the word lease never appears in the contract!
- Is lease origination and accounting centralized or decentralized?
  - Different departments may need to provide input – procurement, legal, etc.
- Compare draft lease schedule to prior year capital lease and operating lease disclosure information for consistency – *This is a good starting point.*
- Review the accounts payable subledger or a listing of disbursements by vendor to identify any apparent recurring payments.
  - Perform data analytics to identify any payments that might have been missed.
- Review general ledger detail for expenditure accounts where lease payments were recorded prior to GASB 87 implementation.
- Review governance minutes and approved budgets

# What should be included in the lease population?

- Determine which contracts meet the definition of a lease under GASB 87
- Review lease contracts for multiple components, such as multiple asset components and service components
- Certain contracts that can be excluded
  - Software licensing contracts (GASB 96)
  - Service concession arrangements (GASB 60/94)
  - Contracts relating to biological assets, intangible assets, licensing contracts, inventory, or supply contracts
  - Contracts financed with outstanding conduit debt (GASB 91)
- Documentation of the work around pulling the lease population is key for the audit

# Definition of a Lease

A lease is defined as a contract that conveys control of the right to use another entity's non financial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.



# Practical Application – Is there an exchange transaction?

- Example - A government leases land, which has a market rent of \$100,000 per year, for \$1 per year. Should the government apply the guidance in Statement 87 to that transaction?
- No. The government is not receiving equal or essentially equal value for what it is giving up. GASB 87 would not apply in this example.

*Implementation Guide 2019-3, Leases*



# Practical Application – Present Service Capacity

- A developer builds and leases a building to a government. The government is required to make payments during the three-year construction period. The government does not have access to the building until a certificate of occupancy is issued at the end of the construction period. When does the lease term begin?
- The lease term commences when the lessee gains physical possession of the asset or attains access to use the underlying asset. Payments made before commencement of the lease term should be reported as prepayments. At the commencement of the lease term, the prepayments should be reclassified as part of the initial measurement of the lease asset.

*Implementation Guide 2019-3, Leases*



# Practical Application – Interrupted Access

- A lessee does not need to have uninterrupted access to an underlying asset for the arrangement to be considered a lease.
- A government should assess whether it has (a) the right to obtain the present service capacity from use of the underlying asset and (b) the right to determine the nature and manner of use of the underlying asset “as specified in the contract”. If the contract specifies that the government has control of those rights during three days of each week, the control criterion is met.
  - As an example, a government enters into a three-year contract for the right to use a piece of equipment. Because the government only needs the equipment on a seasonal basis, the contract states that the government only has the right to use the equipment from January through March for each of those three years. Based on the contract, the government has control of the right to use the equipment during those three months each year and does not have an option to extend the right to use the equipment. In this example, the maximum possible term is nine months.





# Practical Application – Right to determine nature and manner of use

- What if the contract required the lessee to allow others to use the asset if they were not using it?
- If the lessee is not able to prevent others from using the asset during the period specified in the contract, they do not have the right to determine the nature and manner of use. The contract would not meet the definition of a lease in GASB 87.


*Implementation Guide 2019-3, Leases*



# Bargain Purchase Options

When does the asset transfer ownership:

Per GASBS No. 87, paragraph 19 "a contract that (a) transfers ownership of the underlying asset to the lessee by the end of the contract and (b) does not contain termination options, but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised, should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor."



Per paragraph B14 of GASB Statement No. 87 (Basis for Conclusions), "the presence of a bargain purchase option in a lease contract is not equivalent to a provision that transfers ownership of the underlying asset." For that reason, a lease that contains any purchase option, including a bargain purchase option, should not be treated as a financed purchase or sale until that option is exercised.

# Categories of Leases



## Short-Term Leases

Maximum lease term is 12 months or less, including options to extend, regardless of probability of being exercised.

Recognize expense (lessee) and revenue (lessor) based on contract provisions, as due

NOT INCLUDED IN LEASE SCHEDULE



## Contracts that Transfer Ownership

Term typically longer than 12 months  
Recognize a sale of the underlying asset (gain or loss)

NOT INCLUDED IN LEASE SCHEDULE

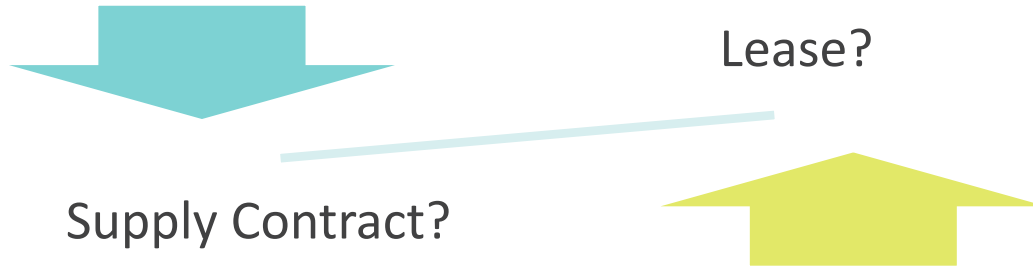


## Long-term Leases – INCLUDED IN THE LEASE POPULATION

Longer than 12 months



# Supply Contract vs. Lease



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Supply  
Contracts

Contracts that are intended to result in the purchase or sale of a *commodity* used in the normal course of operations.

---

Normally do not convey the right to use the underlying asset.

---

**But wait....BEWARE OF THE EMBEDDED LEASE!!**

# Example: Supply Contract

To obtain access to additional power during the warmest months of the year, Entity A enters into a contract with a Company B for electricity from March through October for three years.

Entity A makes fixed payments to obtain exclusive rights to the present service capacity and to determine the nature and manner of use of the turbine used to generate the electricity.

In addition, the government makes variable payments that are based on actual usage and output.

Does this contract include a lease?



# Answer: Supply Contract

Yes!

While the Board stated that GASB 87 does not apply to supply contracts, this contract conveys control of the right to use the underlying asset (implicit asset = turbine) as specified in the contract for a period of time in addition to the right to the output generated by the underlying asset.

The portion of the contract that requires fixed payments pertains to the full control of the asset (assumed to be a turbine) and meets the definition of a lease.

*Implementation Guide 2019-3, Leases*

# Other Examples of Embedded Leases in Service Contracts

- Cafeteria
- Service contracts
- Water coolers
- Cell phone antennae
- Transportation or construction arrangements



# Separating Lease and Non-lease Components

Separate lease components from non-lease components (e.g., copy machine plus toner cartridges)

Services are non-lease components (e.g., maintenance, CAM, utilities)

Allocate the contract price based on 'reasonable' individual component prices

Maximize the use of observable information in estimates, if individual prices are not available or unreasonable

**Only** if estimating individual prices is **not practical**, may multiple component contracts be accounted for as a single lease unit

GASB: 'inconvenient' does not fall under 'not practical'!







# Measuring Leases – What steps do I take?

## Accuracy of the lease schedule

# Key Calculation Information to Document

- Lease commencement date (date of ownership of leased asset)
- Understanding of underlying asset (type, estimated useful life, etc.)
- General description of lease (for footnote disclosure)
- Lease term
  - ***It's critical that this determined correctly!***
  - ***Must document conclusions concerning how the lease term was determined, since judgment may be involved***
- Payment information – frequency/timing of payments, variable payments
  - ***Since this is calculated using PV, frequency will impact the balance, leases need to be calculated specifically to how the contract is written***
- Interest rate
  - ***Must document conclusions concerning how the interest rate was determined, since judgment may be involved***



# Lease Term

- The lease term is the period during which a lessee has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

Keep in mind, these have to be reasonably certain (of being/not being) exercised, based on all relevant factors...

---

Periods covered by a lessee's option to extend the lease

---

Periods covered by a lessee's option to terminate the lease

---

Periods covered by a lessor's option to extend the lease

---

Periods covered by a lessor's option to terminate the lease



# Practical Application – Cancellable Periods



Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party shall be excluded from the lease term as cancellable periods.



The presence of cancellation penalties does not affect this conclusion.



*Implementation Guide 2019-3, Leases*



# Calculation of Lease Asset and Liability

Included in calculation of present value for lease asset and lease liability:

- Variable Payment that is “fixed in substance”
  - Example: Copier lease with a minimum of 1,000 pages at \$0.05 per copy are included in the payment each month would be included as "fixed in substance" payment of \$50 each month.
- Variable Payment based on an index or rate (like CPI)
  - Future lease payments are assumed to increase as if the index rate remains the same as the current rate through the entire lease term.
- Fixed Payments

Excluded in calculation of present value for lease asset and lease liability:

- Variable Payment based on performance
  - Required to disclose the terms of the variable payment in the footnote
  - Example: Copier lease with an additional payment per copy used
  - Example: Fee based on number of antenna’s with no base fee





# Financial Statement Examples

## Lessee

# Statement of Net Position

## ASSETS

- Cash and Investments
- Cash Held by Fiscal Agent
- Receivables:
  - Property Taxes
  - Other Governments
  - Other
- Prepaid Items
- Net OPEB Asset
- Inventories
- Due from Other Funds
- Capital Assets:
  - Land
  - Construction in Progress
  - Other Capital Assets, Net of Depreciation/Amortization
- Total Assets

# Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

- Land
- Right-to-Use Assets, Net of Accumulated Amortization
- Land Improvements, Net of Accumulated Depreciation
- Buildings and Improvements, Net of Accumulated Depreciation
- Equipment, Net of Accumulated Depreciation

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation/amortization expense. The amount by which depreciation/amortization exceeded capital outlay in the current period is:

- Capital Outlays
- Depreciation/Amortization Expense
- Capital Asset Dispositions



# Notes to the Financial Statements

## K. Leases

The District determines if an arrangement is a lease at inception. Leases are included in right-to-use assets and lease liabilities in the statement of net position.

Right-to-use assets represent the District's control of the right to use an underlying capital asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Right-to-use assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Right-to-use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or to terminate the lease when it is reasonably certain that the District will exercise that option.

The District has recognized payments for short-term leases with a lease term of 12 months or less as expenses are incurred, and these leases are not included as lease liabilities or right-to-use assets on the statement of net position.

The District accounts for contracts containing both lease and nonlease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and nonlease components, and it is impractical to estimate the price of such components, the District treats the components as a single lease unit.





# Notes to the Financial Statements – First Year

FYI: Need to disclose useful life of the right-to-use assets in Note 1

## **U. Adoption of New Accounting Standards**

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease asset and liabilities for leases that were previously classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an Right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The District adopted the requirements of the guidance effective July 1, 2021, and has applied the provisions of this standard to the beginning of the period of adoption.



# Capital Asset Note

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance <u>As Restated</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 128,350	\$ -	\$ -	\$ 128,350
Capital Assets, Being Depreciated/Amortized:				
Right-to-Use Assets	* 16,330	-	-	16,330
Land Improvements	306,288	-	-	306,288
Buildings	15,286,113	18,951	-	15,305,064
Equipment	699,060	51,337	-	750,397
Total Capital Assets, Being Depreciated/Amortized	16,307,791	70,288	-	16,378,079
Accumulated Depreciation/ Amortization for:				
Right-to-Use Assets	-	(4,557)	-	(4,557)
Land Improvements	(170,960)	(9,582)	-	(180,542)
Buildings and Improvements	(7,151,647)	(315,796)	-	(7,467,443)
Equipment	(466,711)	(42,795)	-	(509,506)
Total Accumulated Depreciation/Amortization	(7,789,318)	(372,730)	-	(8,162,048)
Total Capital Assets, Being Depreciated/Amortized, Net	8,518,473	(302,442)	-	8,216,031
Governmental Activities Capital Assets, Net	<u>\$ 8,646,823</u>	<u>\$ (302,442)</u>	<u>\$ -</u>	<u>\$ 8,344,381</u>

\* The beginning balance of capital assets was restated to record right-to-use assets due to the implementation of GASB Statement No. 87.



# Long-Term Debt Note

- Lease Liability – GASB 87 leases
- Finance Purchase Agreements – Contracts that transfer ownership

Components of long-term debt are as follows:

Description of Issue	Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
					Total	Due Within One Year
Series 2017A Facilities Maintenance	5/18/2017	1.40-2.65%	260,000	2/1/2027	\$ 150,000	\$ 30,000
Lease Liability					12,032	4,410
Finance Purchase Agreements					60,471	10,225
Severance Benefits Payable					150,578	-
Compensated Absences Payable					35,010	928
Total					<u>\$ 408,091</u>	<u>\$ 45,563</u>



# Long-Term Debt Note

## B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt are as follows:

Year Ending June 30	General Obligation Bonds Payable		Finance Purchase Agreements Payable		Lease Liability	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 30,000	\$ 20,145	\$ 10,225	\$ 1,538	\$ 4,410	\$ 250
2024	30,000	3,525	4,849	384	4,526	134
2025	30,000	2,910	3,129	-	2,127	48
2026	30,000	2,250	3,238	-	969	5
2027	30,000	1,545	3,350	-	-	-
2028-2032	-	795	14,609	-	-	-
2033-2037	-	-	17,615	-	-	-
2038-2042	-	-	3,456	-	-	-
Total	\$ 150,000	\$ 31,170	\$ 60,471	\$ 1,922	\$ 12,032	\$ 437

## C. Changes in Long-Term Debt

	June 30, 2021	Net		June 30,	Due Within
	As Restated	Additions	Retirements	2022	One Year
Bonds Payable	\$ 715,000	\$ -	\$ 565,000	\$ 150,000	\$ 30,000
Bond Premium	26,448	-	26,448	-	-
Lease Liability	* 16,330	-	4,298	12,032	4,410
Finance Purchase Agreements	* 70,598	-	10,127	60,471	10,225
Severance Benefits Payable	252,103	-	101,525	150,578	-
Compensated Absences	69,051	36,950	70,991	35,010	928
Total	\$ 1,149,530	\$ 36,950	\$ 778,389	\$ 408,091	\$ 45,563

\* The beginning balance of debt was restated due to the implementation of GASB Statement No. 87.



# Long-Term Debt Note

## 8. Lease Liabilities

On February 15, 2008, the District entered into a 20-year lease with Artspace Brainerd Limited Partnership in the amount of \$718,553, bearing interest at 5.15% to finance the acquisition of additional gymnasium space. Lease terms call for a \$250,000 down payment and monthly lease payments of \$3,115 commencing April 1, 2008.

On July 5, 2017, the District entered into a six-year lease agreement with TCF Equipment Finance in the amount of \$153,109, bearing interest at 4.876% to finance mowing equipment. Repayment of the lease will occur with a \$28,665 down payment and annual lease payments of \$28,665 commencing July 5, 2018.

On May 9, 2019, the District entered into a four-year lease- agreement with Apple Financial Services, in the amount of \$145,980, with an imputed interest rate of 0.89% and actual interest rate of 0.00%, to finance I-Pads for the District. Repayment of the lease will incur in four annual installments of \$36,495, commencing July 1, 2019.



# Long-Term Debt Note

## 9. Finance Purchase Agreements

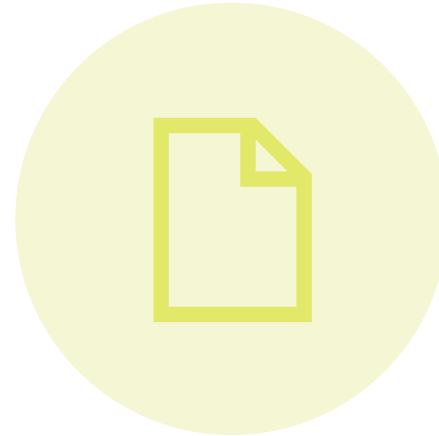
On March 13, 2014, the District entered into a finance-purchase agreement with Capital One Funding, LLC in the amount of \$3,020,702, bearing interest at 3.87% to finance capital projects. Repayment of the agreement will occur in 30 semi-annual installments of \$133,011 commencing August 8, 2014. The proceeds were used to finance improvements made to the lower-site activity fields.

On May 19, 2015, the District entered into a 15-year finance purchase agreement with Kinetic Leasing in the amount of \$1,835,000, bearing interest at 2.87% to finance the Riverside addition. Repayment of the agreement will occur with \$75,075 payments occurring twice a year starting August 1, 2015. The proceeds were used to finance the addition to the Riverside School Building.

# Statement of Cash Flows



CASH FLOWS INCLUDED IN CAPITAL  
AND RELATED FINANCING SECTION



INFLOW FOR A LESSOR AND  
OUTFLOW FOR A LESSEE



# Financial Statement Examples

## Lessor



# Statement of Net Position

## ASSETS

Cash and Investments

Receivables:

Property Taxes

Other Governments

Other

Lease Receivable

Prepaid Items

Inventory

Net OPEB Asset

Capital Assets:

Land

Construction in Progress

Other Capital Assets, Net of Depreciation

Total Assets

## DEFERRED INFLOWS OF RESOURCES

Pension Related

OPEB Related

Property Taxes Levied for Subsequent Year

Lease Receivable

Total Deferred Inflows of Resources



# Fund Level Balance Sheet

## ASSETS

Cash and Investments

Receivables:

    Current Property Taxes

    Delinquent Property Taxes

    Due from Other Minnesota School Districts

    Due from Minnesota Department of Education

    Due from Federal through Minnesota

        Department of Education

    Due from Other Governmental Units

    Lease Receivable

    Other Receivables

Prepaid Items

Inventory

Total Assets

Liabilities:

    Salaries Payable

    Accounts and Contracts Payable

    Due to Other Governmental Units

    Unearned Revenue

        Total Liabilities

Deferred Inflows of Resources:

    Property Taxes Levied for Subsequent Year

    Unavailable Revenue - Delinquent Taxes

    Lease Receivable

        Total Deferred Inflows of Resources



# Footnotes

## NOTE 5 LONG-TERM LEASE RECEIVABLES

The District, acting as lessor, leases buses to a company to transport the District's students under long-term, non-cancelable lease agreements. The lease expires in fiscal year 2024. During the year ended June 30, 2022, the District recognized \$131,974 and \$18,026 in lease revenue and interest revenue respectively, pursuant this contract.

## NOTE 5 LONG-TERM LEASE RECEIVABLES (CONTINUED)

Total future minimum lease payments to be received under the lease agreement are as follows:

Year Ending June 30,	School Buses	
	Principal	Interest
2023	\$ 138,798	\$ 11,202
2024	145,975	4,025
2025	12,500	-
Total	<u>\$ 297,273</u>	<u>\$ 15,227</u>

Changes in the lease receivable for the year is as follows:

	June 30, 2021 as Restated	Additions	Retirements	June 30, 2022
School Buses	<u>\$ 429,247</u>	<u>\$ -</u>	<u>\$ (131,974)</u>	<u>\$ 297,273</u>





# What to provide to your Auditor

# Audit Support



Have all lease agreements available if requested



Excel spreadsheet of inventory of leases



Description of the purpose of each lease



Total value of leased assets and related accumulated amortization. This should be segregated by major categories of assets



Principal and interest requirements to maturity, presented separately, for the lease liability



# Audit Support

- The amount of outflows of resources (expenses) recognized in the reporting period for 1) variable payments and 2) other payments such as residual value guarantees or terminations penalties, ***not previously included in the measurement of the lease liability.***
- Commitments under leases before the commencement of the lease term.
- It is also important to make sure that you have booked the necessary entries in your funds.
- All leases assessed, whether or not they qualify under GASB 87.

# Audit Support

- Discount rate
  - Lessees
    - Interest rate charged by lessor, which may be an implicit rate
    - The lessee's incremental borrowing rate
  - Lessors – rate it charges the lessee
  - Discount rates should only be reassessed in the following instances:
    - Lessee - upon a change in the lease term or a change in determination as to whether the lessee is reasonably certain to exercise a purchase option
    - Lessor – upon a change in lease term or a change in interest rate charged to the lessee



# GASB 96 SBITA



# GASB 96 Subscription-Based Information Technology Agreements

GASB 96 does **NOT** apply for:

...the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement No. 87, Leases, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset

.....Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs

.....Contracts that meet the definition of a public-private and public-public partnership in paragraph 5 of Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements

.....Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, Accounting and Financial Reporting for Intangible Assets, as amended.



# GASB 96 - More on Licensing Arrangements

Excluded when perpetual

GASB 96 does not apply for licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, Accounting and Financial Reporting for Intangible Assets, as amended.

Why

Perpetual licensing agreements are indefinite, whereas SBITAs are for a finite period of time.

Not excluded if for a set period

If the license agreement was for a set period of time, that was not perpetual, then GASB 96 would apply.



# GASB 96 Subscription-Based Information Technology Agreements

From GASB 96 Basis for Conclusion:

“The Board believes that because the key characteristics of a SBITA resemble those of a lease, the most appropriate and efficient approach to developing guidance for SBITAs is to incorporate into the SBITA standards all relevant guidance from Statement 87, as amended. Statement 87, as amended, was based on the foundational principle that leases are financings, and the Board believes that SBITA transactions also meet this principle.”



# Definitions



A SBITA is defined as a contract that conveys control of the right to use another entity's information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.



A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.



# Determining whether a contract conveys control

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract.

The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.



SAME AS GASB 87 - Leases



# Term of the agreement



## Lease Term

GASB 87, Paragraphs 12-15 defines and provides criteria for determining the term of the lease.



## Subscription Term

GASB 96. Paragraphs 9-12 define and provide criteria for determining the term of the SBITA.

# Short-term agreements

GASB 87, Paragraph 16 defines a short-term lease.



GASB 96, Paragraph 13 defines a short-term SBITA.



GASB 87 addresses short term leases from both the Lessee and Lessor side. GASB 96 only deals with SBITAs that a government enters into. It does not address SBITAs where the government is the “Lessor”

# Outlays other than subscription payments



Preliminary Project Stage



Initial Implementation Stage



Operational and Additional Implementation Stage

Subsequent implementation outlays





# Recognition and measurement

At the commencement of the subscription term, a government should recognize a subscription liability and a subscription asset. (excludes short-term SBITAs).

The commencement of the subscription term occurs when the initial implementation stage is completed at which time the government has obtained control of the right to use the underlying IT assets, and, therefore, the subscription asset is placed into service.

# Other considerations

Impairment

Incentives provided by a SBITA vendor

Contracts with multiple components

Contract combinations

Modifications and terminations



# Prepaid SBITA's



If you prepaid the "entire" SBITA you would not have a corresponding liability.



If you prepay portions of it, that will eventually be capitalized with the RTU asset, you'd put those amounts in a prepaid account and then add them to the value of the RTU asset when it's placed into service.



Same treatment you would do if you prepaid an entire lease. You wouldn't show a liability because it's been paid. You'd only show the RTU asset.



For SBITAs, the majority of the "prepaid" costs will be to get the asset ready to use. If they are not capitalizable you'd just expense the costs. If they are capitalizable, you'd put them in the prepaid asset account (almost like a CIP type account). When the asset is ready to be placed into service, the RTU asset would be valued at the PV of the subscription payments PLUS any capitalizable costs in the prepaid account.



# Notes to the financial statements



Disclosure requirements follow requirements relating to leases



Subscription asset

Presented net of amortization  
Separate from other capital assets



Subscription Liability

Not considered debt for purposes of GASB 88 disclosure requirements





## Other Upcoming GASB Pronouncements

# Upcoming GASB Pronouncements

- GASB Statement No. 91, *Conduit Debt Obligations* (fiscal years beginning after December 15, 2021)
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (fiscal years beginning after June 15, 2022)
- GASB Statement No. 100, *Accounting Changes and Error Corrections* (fiscal years beginning after June 15, 2023)
- GASB Statement No. 101, *Compensated Absences* (fiscal years beginning after December 15, 2023)



# GASB Statement No. 91, *Conduit Debt Obligations*

- A conduit debt obligation is defined as a debt instrument having **all** the following characteristics:
  - There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee
  - The issuer and the third-party obligor are not within the same financial reporting entity
  - The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer
  - The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance
  - The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments)



# GASB Statement No. 91, *Conduit Debt Obligations*

- Effective for fiscal years beginning after December 15, 2021 (12/31/22 and later FYEs)
- Eliminates the existing option for issuers to report conduit debt as liabilities (issuers do not recognize a liability for conduit debt)
- Additional commitments to support debt service payments may be recorded as liabilities
- Disclosures for issuers:
  - Type of commitments
  - Description of each type
  - Aggregate outstanding principal balance





# GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

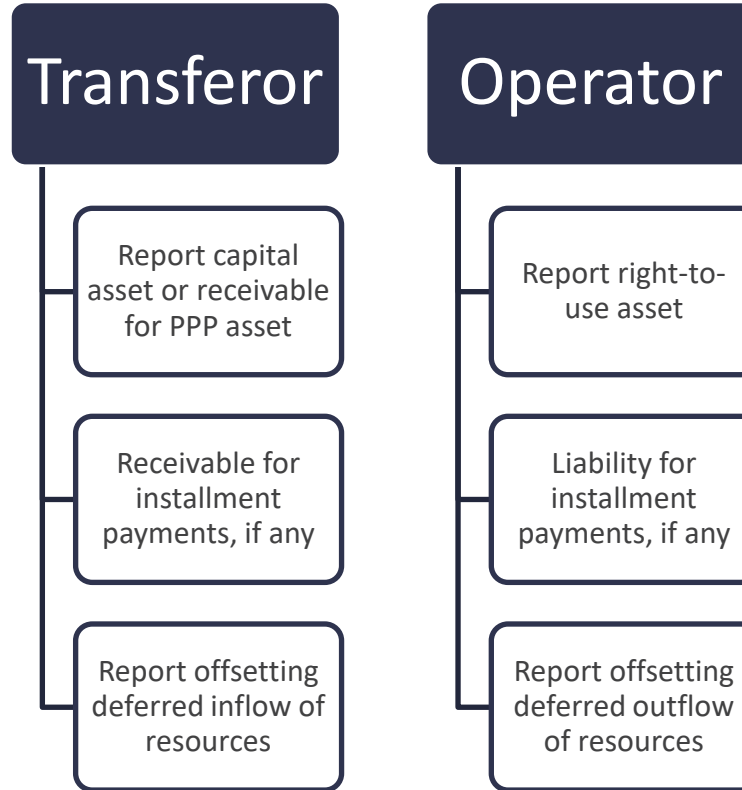
- Effective for fiscal years beginning after June 15, 2022 (6/30/23 and later FYEs)
- Established standards of accounting and financial reporting for public-private and public-public partnerships (PPPs) and availability payment arrangements (APAs)
- A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time (noncancellable period) in an exchange or exchange-like transaction



# GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

- Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines within GASBS No. 94 as a PPP in which:
  - (1) the operator collects and is compensated by fees from third parties;
  - (2) the transferor determines or can approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; **and**
  - (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.
- GASBS No. 94 applies to PPPs that meet above definition of a SCA or that fall outside of the scope of GASBS No. 87, *Leases*

# GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*



# GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

## Required Notes to Financial Statements:

### Transferors

- General description of PPP arrangements
- Nature and amounts of assets and deferred inflows
- Discount rate(s) applied to measurement of receivable for installment payments, if any
- Amount of inflows recognized for variable payments
- Nature and extent of rights retained or granted

### Operators

- General description of PPP arrangements
- Nature and amounts of assets, liabilities and deferred outflows
- Discount rate(s) applied to measurement of liability for installment payments, if any
- Amount of outflows recognized for variable payments
- Nature and extent of rights retained or granted
- Components of impairment loss, if any



# GASB Statement No. 100, *Accounting Changes and Error Corrections*

- Effective for fiscal years beginning after June 15, 2023 (6/30/24 and later FYE's)
- Three types of accounting changes:
  1. Changes in accounting principles (reported retroactively – restate prior period beginning balances)
  2. Changes in accounting estimates (reported prospectively – recognize change in current period)
  3. Changes to or within the financial reporting entity (adjust beginning balances of current period – no prior period restatement)
- Error correction (reported retroactively – restate prior period beginning balances)



# GASB Statement No. 100, *Accounting Changes and Error Corrections*

- Required Disclosures
  1. Changes in accounting principles
    - Nature of change (identify financial statement line items that changed) and rationale for adoption (if a new pronouncement, then identify adoption)
    - For comparative financials, rationale if prior periods are not restated
  2. Changes in accounting estimates (required if change to an input has a significant effect on the accounting estimate)
    - Nature of change (identify financial statement line items that changed)
    - Rationale for change in measurement methodology, if applicable
  3. Changes to or within the financial reporting entity
    - Nature and rationale for change (quantitative changes to major funds excluded)
    - Effects on beginning net position and/or fund balance



# GASB Statement No. 100, *Accounting Changes and Error Corrections*

- Required Disclosures

- 4. Error Correction

- Nature of error and its correction (identify the periods affected and the financial statement line items that were affected)
    - Effect on the prior period's change in net position and/or fund balance
    - Effect on the current period's beginning net position and/or fund balance

# GASB Statement No. 101, *Compensated Absences*

- Effective for fiscal years beginning after December 15, 2023 (12/31/24 later FYEs).
- Examples of compensated absences: vacation leave, sick leave, paid time off (PTO), holidays (floating), parental leave, military leave, bereavement leave, and certain types of sabbatical leave.
- Liability for compensated absences recognized for:
  - (1) Leave that has not been used **and**
  - (2) leave that has been used but not yet paid in cash or settled through noncash means
- Liability for compensated absences that are dependent upon occurrence of a sporadic event that affects a small portion of employees (parental leave, military leave, and jury duty leave) should not be recognized until leave commences.





# GASB Statement No. 101, *Compensated Absences*

- Recognize a liability for leave that has not been used if:
  - The leave is attributable to services already rendered,
  - The leave accumulates, **and**
  - The leave is more likely than not (>50%) to be used for time off or otherwise paid in cash or settled through noncash means
- Relevant factors in determining if leave will be used:
  - Government's employment policies related to compensated absences
  - Whether leave that has been earned is, or will become, eligible for use or payment
  - Historical information about the use, payment, or forfeiture of compensated absences
  - Information known to the government that would indicate historical information may not be representative of future trends or patterns





# Questions?

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for our clients, our people,  
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