



GASB Update – What You Need to Know

Jake Lenell, CPA, Principal

Midwest Government Training Academy – March 5, 2021

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Learning Objectives

By the end of this session you will be able to recognize and prepare for implementation of new accounting changes, including being able to:

Outline the new accounting standards affecting state and local government accounting and reporting

Explain implementation dates for new GASB standards

Recognize the requirements of recently issued GASBs

Identify impact on governmental financial reporting



GASB 95 Postponement of the Effective Dates of Certain Authoritative Guidance

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New Effective Dates

GASB	Updated Effective Date	For Years Ending:
83, Certain Asset Retirement Obligations	Reporting period beginning after June 15, 2019	June 30, 2020 December 31, 2020
84, Fiduciary Activities	Reporting periods beginning after December 15, 2019	June 30, 2021 December 31, 2020
87, Leases	Fiscal years beginning after June 15, 2021	June 30, 2022 December 31, 2022
88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	Reporting periods beginning after June 15, 2019	June 30, 2020 December 31, 2020



New Effective Dates - Continued

GASB	Updated Effective Date	For Years Ending:
89, Accounting for Interest Costs Incurred before the End of a Construction Period	Reporting period beginning after December 15, 2020	June 30, 2022 December 31, 2021
90, Majority Equity Interests	Reporting periods beginning after December 15, 2019	June 30, 2021 December 31, 2020
91, Conduit Debt Obligations	Fiscal years beginning after December 15, 2021	June 30, 2023 December 31, 2022
92, Omnibus 2020	Reporting periods beginning after June 15, 2021	June 30, 2022 December 31, 2022



New Effective Dates - Continued

GASB	Updated Effective Date	For Years Ending:
93, Replacement of Interbank Offered Rates	Reporting period beginning after June 15, 2021	June 30, 2022 December 31, 2022
Implementation Guide 2017-3, Accounting and Financial Reporting for OPEB	First reporting period in which the measurement date of the net OPEB liability is on or after June 15, 2019, and for actuarial valuations as of December 15, 2018 or later	June 30, 2020 December 31, 2020
Implementation Guide 2018-1, Implementation Guidance Update – 2018	Reporting periods beginning after June 15, 2019	June 30, 2020 December 31, 2020

New Effective Dates - Continued

GASB	Updated Effective Date	For Years Endings:
Implementation Guide 2019-1, Implementation Guidance Update – 2019	Reporting periods beginning after June 15, 2020	June 30, 2021 December 31, 2021
Implementation Guide 2019-2, Fiduciary Activities	Reporting periods beginning after December 15, 2019	June 30, 2021 December 31, 2020
Implementation Guide 2019-3, Leases	Fiscal years beginning after June 15, 2021	June 30, 2022 December 31, 2022



GASB Implementation Planner at CLAconnect.com

FISCAL YEAR-END	2020	2021	2022	2023	2024
January 30		83, 84, 88, and 90	89	87, 91, 92, and 93	94 and 96
February 28		83, 84, 88, and 90	89	87, 91, 92, and 93	94 and 96
March 31		83, 84, 88, and 90	89	87, 91, 92, and 93	94 and 96
April 30		83, 84, 88, and 90	89	87, 91, 92, and 93	94 and 96
May 31		83, 84, 88, and 90	89	87, 91, 92, and 93	94 and 96
June 30	83 and 88	84 and 90	87, 89, 92, and 93	91, 94, and 96	
July 31	83 and 88	84 and 90	87, 89, 92, and 93	91, 94, and 96	
August 31	83 and 88	84 and 90	87, 89, 92, and 93	91, 94, and 96	
September 30	83 and 88	84 and 90	87, 89, 92, and 93	91, 94, and 96	
October 31	83 and 88	84 and 90	87, 89, 92, and 93	91, 94, and 96	
November 30	83 and 88	84 and 90	87, 89, 92, and 93	91, 94, and 96	
December 31	83, 84, 88, and 90	89	87, 91, 92, and 93	94 and 96	



GASB 83

Certain Asset Retirement Obligations

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83 Overview and Applicability

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



83 Recognition and Measurement

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



83 Recognition and Measurement (Continued)

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



83 Notes to the Financial Statements

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





GASB 88

*Certain Disclosures Related to Debt, including Direct Borrowings
and Direct Placements*

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Objectives

Improve consistency in debt related disclosures, including direct borrowings and direct placements

- Direct Borrowing - A government enters into a loan agreement with a lender
- Direct Placements – A government issues a debt security directly to an investor
- Both have terms negotiated directly with the investor/lender and are not offered for sale to the public

Provide financial statement users with additional essential information about debt



Definition of Debt for Purposes of Disclosure

“.....a liability that arises from a contractual obligation to pay cash (or other assets in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.”



Additional Disclosures

Amounts of unused lines of credit

Assets pledged as collateral for debt

Terms specified in debt agreements related to significant:

- Events of default with finance-related consequences
- Termination events with finance-related consequences
- Subjective acceleration clauses

Separate information in debt disclosures regarding:

- Direct borrowings and direct placement, and
- Other debt



Example Disclosure

The County's outstanding notes from direct borrowings related to business-type activities of \$70,400 are secured with collateral of an undeveloped lot zoned for commercial use. The outstanding notes from direct borrowings related to business-type activities of \$70,400 contain (1) a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if pledged revenues during the year are less than 120 percent of debt service coverage due in the following year and (2) a provision that if the County is unable to make payment, outstanding amounts are due immediately.



Effective Date and Implementation Tips

Effective Date: For reporting periods beginning after June 15, 2018

- Already implemented for 6/30 clients (6/30/19)
- Effective 12/31/19 for 12/31 clients

Common issues

- Changes in long term debt and future payments schedule not broken out between direct borrowings and direct placements and other debt
- Lack of awareness of debt terms that may necessitate additional disclosures
- Review debt agreements to ensure we understand what type of debt we have and any clauses that may require additional disclosure



Implementation Tips

Additional
Disclosures
for Long-
Term Debt

- Classify liabilities as debt or non-debt and review with your auditor.
- Establish processes to identify all lines of credit and pledged assets.
- Review debt arrangements for the specific terms required to be disclosed.
- Applied prospectively.





GASB 89

*Accounting for Interest Cost Incurred before the end of a
Construction Period*

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GASB 89

Economic resources measurement focus

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred.
- Such interest cost should not be capitalized as part of the historical cost of a capital asset.

Current financial resources measurement focus

- Interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles

Construction-in-progress

- Interest cost incurred after the beginning of the first reporting period to which this Statement is applied should not be capitalized

Implementation Tips

Interest cost
incurred
before end
of
construction
period now
expensed;
not
capitalized.

- Many have chosen to early implement.
- Removes burden of calculating capitalized interest.
- Applied prospectively.
- Will cause noticeable fluctuations in interest expense in year of implementation compared to prior year.





GASB 87

Leases

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Why?

- **Capital vs. operating lease – What is the difference?**
 - Both create the right of use of an asset
 - Both create a liability to be paid in the future
 - Capital normally allows for purchase at the end of lease
 - Convolved criteria to distinguish between the two
 - ◇ 90% (minimum lease payments) & 75% (useful life) tests
 - ◇ Allowed for “creative arrangements” to classify as an operating lease
- **Convergence of international and US standards**
- **Consistency with private sector (FASB) standards**



Definitions

- **Lease**

- Contract that conveys control of the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction
- Lease Term
 - ◇ Period during which a lessee has a no cancelable right to use an underlying asset, plus the following periods if applicable
 - Lessee extension option if reasonably certain the lessee will exercise the option
 - Lessee option to terminate if reasonably certain lessee will not exercise the option
 - Lessor extension option if reasonably certain the lessor will extend
 - Lessor termination option if reasonably certain lessor will not exercise
 - **Fiscal funding or cancellation clause only if it is reasonably certain the clause will be exercised**
- Most leases will now fall under this rule except for truly short-term leases (e.g. rental car, storage unit, etc.)



Definitions *(continued)*

- **Lease Term (continued)**

- Reassess if at least one of the following occurs
 - ◇ Lessee or lessor elect to exercise an option even though it was previously determined that it was reasonably certain that it would not exercise that option
 - ◇ Lessee or lessor elect not to exercise an option even though it was previously determined that it was reasonably certain that it would exercise that option
 - ◇ An event specified in the lease contract that requires an extension or termination of the lease takes place
- Short Term Lease
 - ◇ Maximum lease term including extensions is 12 months or less
 - ◇ Most leases will now fall under this rule except for truly short-term leases (e.g. rental car, storage unit, etc.)



Lease Accounting Basics

- **What do we have?**
- **Lessee**
 - Right of Use (asset)
 - Obligation of future payments (liability)
- **Lessor**
 - Future receipts
 - ◇ Receivable
 - ◇ Revenue stream



How do we record?

- **Lessee**

- Liability for **present value** of expected lease payments
 - ◇ Implies an interest component
- **Intangible asset** for right to use the leased asset
 - ◇ Initial measurement of lease liability
 - ◇ Any additional payments made at the commencement of the lease
 - ◇ Certain direct costs
- **Amortization expense** for recognizing the asset amount over the shorter of
 - ◇ Lease term
 - ◇ Useful life of the underlying asset
- **Interest expense** related to difference between payment and lease liability reduction



Lessee - Liability

- **Payments Expected to be paid during the lease term**
 - Fixed payments
 - Variable payments fixed to an index or rate (use index/rate at inception)
 - Amounts expected to be paid as residual guarantees
 - Option price if reasonably anticipated to be exercised
 - Cancellation fee, if cancellation is likely
 - Lease incentives receivable from the lessor
 - Any other payments reasonably certain of payment



Lessee – Liability (*continued*)

- **Discount rate**
 - Rate provided by lessor (good luck)
 - Rate implicit in the lease (hard to find in real estate lease)
 - Lessee's incremental borrowing rate (probably will be most used)



Lease Accounting - Lessee

- **Liability for present value of expected lease payments**
- **Intangible asset for right to use the leased asset**
 - ◇ Initial measurement of lease liability
 - ◇ Any additional payments made at the commencement of the lease
 - ◇ Certain direct costs
 - Amortization expense for recognizing the asset amount over the shorter of
 - ◇ Lease term
 - ◇ Useful life of the underlying asset
- Interest expense related to difference between payment and lease liability reduction



Lease Accounting Lessor

- Receivable for the right to receive payments
- Deferred inflow to reflect resources related to future periods
- Lease revenue over the term of the lease
- Interest revenue related to lease receivable
- **Notes**



Financial Statement Notes

- Lessee
 - Description of the arrangement
 - Amount of leased assets recognized
 - Schedule of future payments
 - Principal and interest
 - 5 single years and 5 year increments through maturity
- Lessor
 - Description of the arrangement
 - Total amount of inflows recognized from leases



How does this compare to current accounting

- **Currently we have lease expense related to the monthly payment**
- **Under the new standard as monthly payment is made, a portion will be interest expense and a portion will be amortization**
- **Should get to the same result or relatively close on a monthly basis**
 - Difference would be related to the interest component



How does this compare to current accounting

- Current accounting

	<u>Dr</u>	<u>Cr</u>
1 Rent expense	XXX	
Cash		XXX
<i>To record lease payment</i>		

- New standard

	<u>Dr</u>	<u>Cr</u>
1 Lease Liability	XX	
Interest Expense	X	
Cash		XXX
<i>To record lease payment</i>		
2 Amortization expense	XX	
Intangible asset		XX
<i>To record amortization of intangible asset</i>		



Lease Modifications and Terminations

- **Termination**

- Reduce the lease asset and liability by lessee or receivable and deferred inflow by lessor
- Recognize gain (loss) in the period of termination

- **Modification**

- Adjust (re-measure) the various components of the lessee and lessor entries to coincide with the changes
- Adjust amortization period as necessary



Other Transactions

- **Sublease**
 - Treat as a separate lease transaction
 - Lessee in original lease becomes the lessor in a sublease
- **Sale-Leaseback**
 - Must include a valid sale component
 - Treat as 2 separate and distinct transactions
 - Difference between the carrying value of the assets sold and the net proceeds from the sale should be recognized as a deferred flow (in or out) and recognized over the life of the lease
 - Account for as a net transaction, but disclose the gross amounts of each portion



Challenges and Steps for Preparation

- **Challenges (Opportunities)**
 - Identification of all leases
 - Determining the Interest rate to use in determining the liability
- **Preparation**
 - Identify leadership to head this endeavor
 - Capture all leases as they are entered into in order to create a database



Challenges and Steps for Preparation (*continued*)

- Preparation (continued)
 - Solicit information from within your entity to complete the database
 - Develop templates for accounting
 - ◇ Present value of lease payments
 - ◇ Liability amortization schedule
 - ◇ Intangible asset amortization schedule





GASB 91

Conduit Debt Obligations

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Objectives and Effective Date

Eliminate diversity in practice related to:

- additional commitments by issuers
- arrangements associated with conduit debt obligations
- related note disclosures

Summary

Clarifies existing definition of conduit obligation

Establishes obligation is liability of the 3rd party obligor and not issuer

GASB 91

Establishes standards for accounting and reporting for additional commitments made by issuers

Improves note disclosures

Definition

A conduit debt obligation has all of following characteristics:

There are at least 3 parties:

- Issuer
- 3rd party obligor
- Debt holder or debt trustee

Issuer and 3rd party obligor are not within same financial reporting entity

Debt obligation is not parity bond of issuer nor it is cross-collateralized with other debt of issuer

3rd party obligor, not issuer, ultimately received proceeds

3rd party obligor, not issuer, is primarily obligated for debt service payments

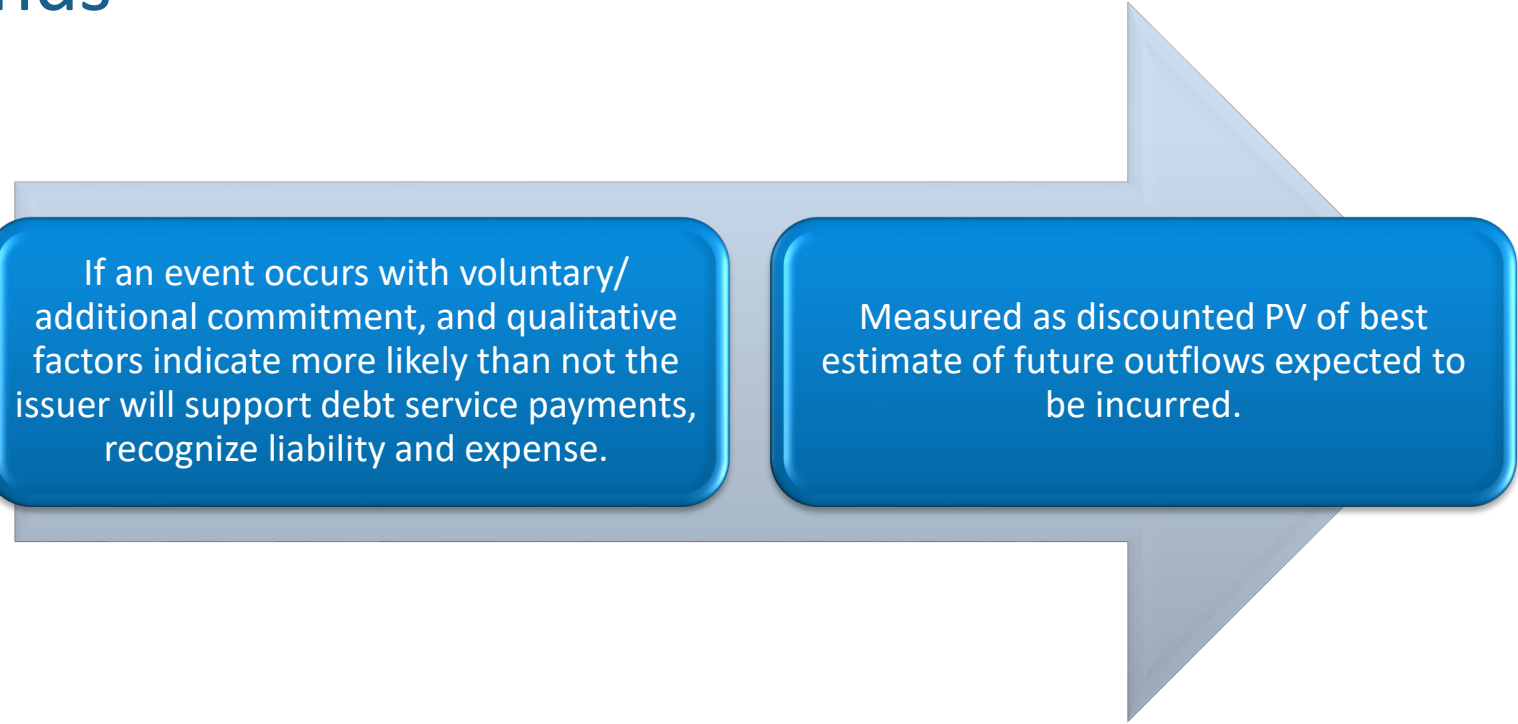


Issuer commitments

Generally limited, where issuer assumes no responsibility for debt service beyond resources provided to 3rd party obligor. However, additional or voluntary commitments may be extended.



Recognition – Government wide and Proprietary Funds



If an event occurs with voluntary/ additional commitment, and qualitative factors indicate more likely than not the issuer will support debt service payments, recognize liability and expense.

Measured as discounted PV of best estimate of future outflows expected to be incurred.

Implementation Tips

Conduit
debt
reported
by
disclosure
only

- Applied retrospectively for all prior periods presented.
- If organization issued any conduit debt that is currently recognized as a liability, the treatment will need to change.
- You should also consider whether any other debt obligations would now fall under the new definition of conduit debt.



GASB Statements No 92 - 94

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GASB Statement No. 92

GASB No. 92, Omnibus

- Addresses issue identified during implementation of other GASBs
- Intra-entity transfers between government and pension component units
- Applicability of certain No. 84 requirements
- Measurement of liabilities related to AROs in acquisition
- Reporting clarification for public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Derivative instrument terminology
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature



GASB Statements No. 93 and 94

GASB Statement No. 93, Replacement of Interbank Offered Rates

- LIBOR ceasing current form end of 2021
- Provides exception for hedge accounting terminations with LIBOR is replaced as the reference rate
- Identifies new benchmark rates for the evaluation of the effectiveness of interest rate swap (Secured Overnight Financing Rate and Effective Federal Funds Rate)

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

- Defines PPPs and APAs.
- Carries forward requirements for SCAs and Leases.
- Provides guidance for transferred rights or receipt of such rights.





GASB Statement No 96

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GASB Statement No. 96

Objective

- Define Subscription-based information technology arrangements (SBITA)
- Establish capitalization criteria for SBITA
- Reporting of asset and corresponding liability
- Establishes note disclosure requirements.

GASB Statement No. 96

Definition

- A subscription-based information technology arrangement (SBITA) “is a contract that conveys control of the right to use another party’s (a SBITA vendor’s) 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



GASB Statement No. 96

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.



GASB Statement No. 96

Measurement and reporting

- Effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability
- Implementation costs reported similar to GASB No. 51

GASB Statement No. 96

Preliminary Project Stage

- Outlays should be expensed as incurred

Initial Implementation Stage

- Outlays should be capitalized (certain exceptions)

Operational Stage

- Outlays should be expensed except in certain circumstances

Conclusion



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Ethical Challenges in State and Local Government: Creating an environment of Fraud Awareness and Prevention

Midwest Government Training Academy – March 5, 2021

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Learning Objectives

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

- Identify common red flags and indicators of fraud
- Identify how to uphold ethical behavior in your organization to prevent fraud
- Describe how the ability to recognize an ethical challenge increases personal accountability and the likelihood of handling ethical challenges appropriately
- List and describe the three main types of fraud schemes
- Recognize the elements of the Fraud triangle
- List the eight important facts of fraud
- Identify the attributes of a highly ethical organization





Introduction

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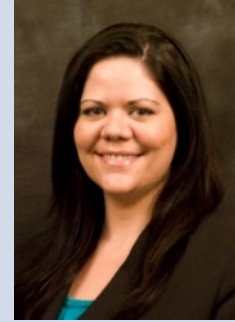
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Speaker Introduction

Principal

CLA's Forensics Practice

Almost 19 years of experience leading fraud investigations, forensic accounting projects, and internal control reviews for large government organizations, education institutions, nonprofits, and commercial businesses.



**Jenny
Dominguez**

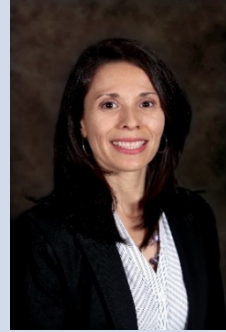
CPA/CFF, CFE

Speaker Introduction

Manager

CLA's Forensics Practice

Seven years of experience performing forensic accounting engagements, fraud investigations, and internal control assessments for governmental, educational, and private entities.



**Ana
Rodriguez**

CPA, CFE



Ethical Challenges in State and Local Government

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Ethical Challenges in State and Local Government

- **Is a culture of high ethics and integrity prioritized in State and Local Government entities?**
 - In 2018 ICMA partnered with Sacramento SU to track the current status of ethics standards/policies, staffing, and training in local governments
 - ◇ 55% had an established process for reporting ethics issues
 - ◇ 54% deal with routine ethical issues and violations as a routine part of their organizational management
 - ◇ 48% incorporate ethics in the employee recruitment and selection process
 - **Lesson to be learned – There is room to grow!**



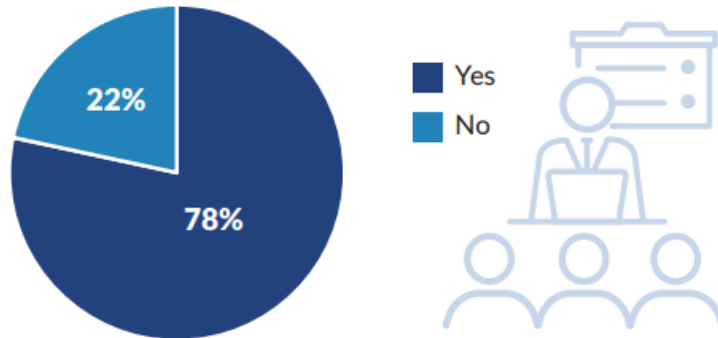
Polling Question #1

How many ethics courses have you taken in your professional career?

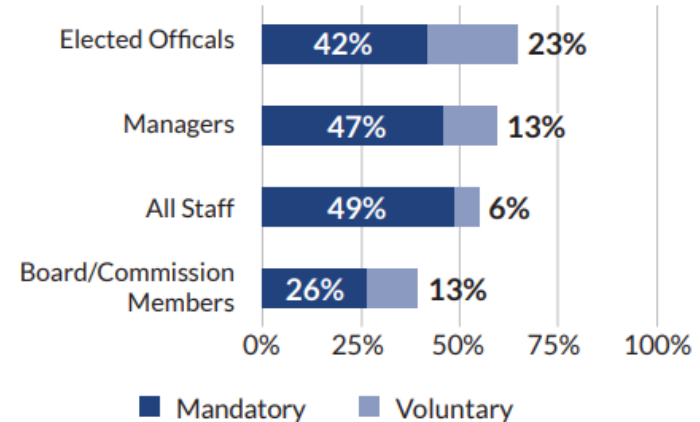
- a. 1: This is my first!
- b. 2-5: I have learned a lot about ethics, but I know I have more to learn
- c. 5-10: I am comfortable with the topic of ethics in an organization, but this is a great refresher
- d. 10 or more: I'm a pro!

Ethical Challenges in State and Local Government

Is ethics training provided to your local government? (n=684)



To whom is ethics training provided? (n=536)



Source: icma.org



Ethical Challenges in State and Local Government

- **Ethics is about doing the right thing!**
 - Most of the time the right things is quite clear; however, sometimes what the right thing is may not be as obvious
 - What about perception – What is more important, reality or perception?
 - What about transparency – How is transparency achieved?



Ethical Challenges in State and Local Government

- **The importance of:**

- The tone at the top
- Receiving the appropriate training
- Understanding the applicable board policies and administrative regulations, because many times it is more than just knowing the difference between right and wrong
- Reporting suspicious activity

As government employees, you are stewards of public funds.



Ethical Challenges turned Fraud in SLG

1. Public Contracts
2. Purchasing Process
3. Payroll & Stipends
4. Utilities & Public Works
5. Public Safety
6. Transportation
7. General IT vulnerabilities including phishing emails (increased risk with remote work)
8. Public integrity & conflicts of interest



Ethical Challenges turned Fraud in SLG

- **Police Sergeant Charged with Embezzlement**
- **City considers internal financial controls after embezzlement**
- **State ACO faces allegations of fraud and faulty data**
- **State's role in scandal paused as auditor issues an interim EB-5 report**
- **City bribery investigation puts CEO in federal prison**





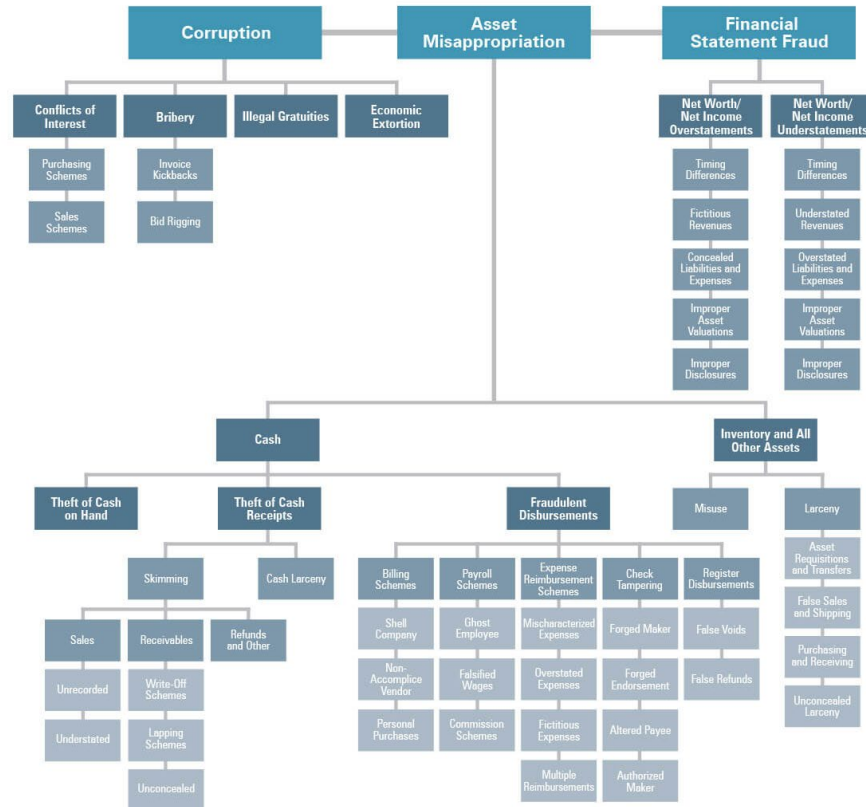
The Fraud Tree

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THE FRAUD TREE

OCCUPATIONAL FRAUD AND ABUSE CLASSIFICATION SYSTEM



Source: <https://www.acfe.com/fraud-tree.aspx>



Create Opportunities

Types of Fraud Schemes

Corruption

- **Involves employees' use of their influence in a business transaction in a way that violates their duty to their employer for the purpose of obtaining a benefit for themselves or someone else**
- **Often involves collusion between an internal employee and an outside party**
- **Can be difficult to detect**



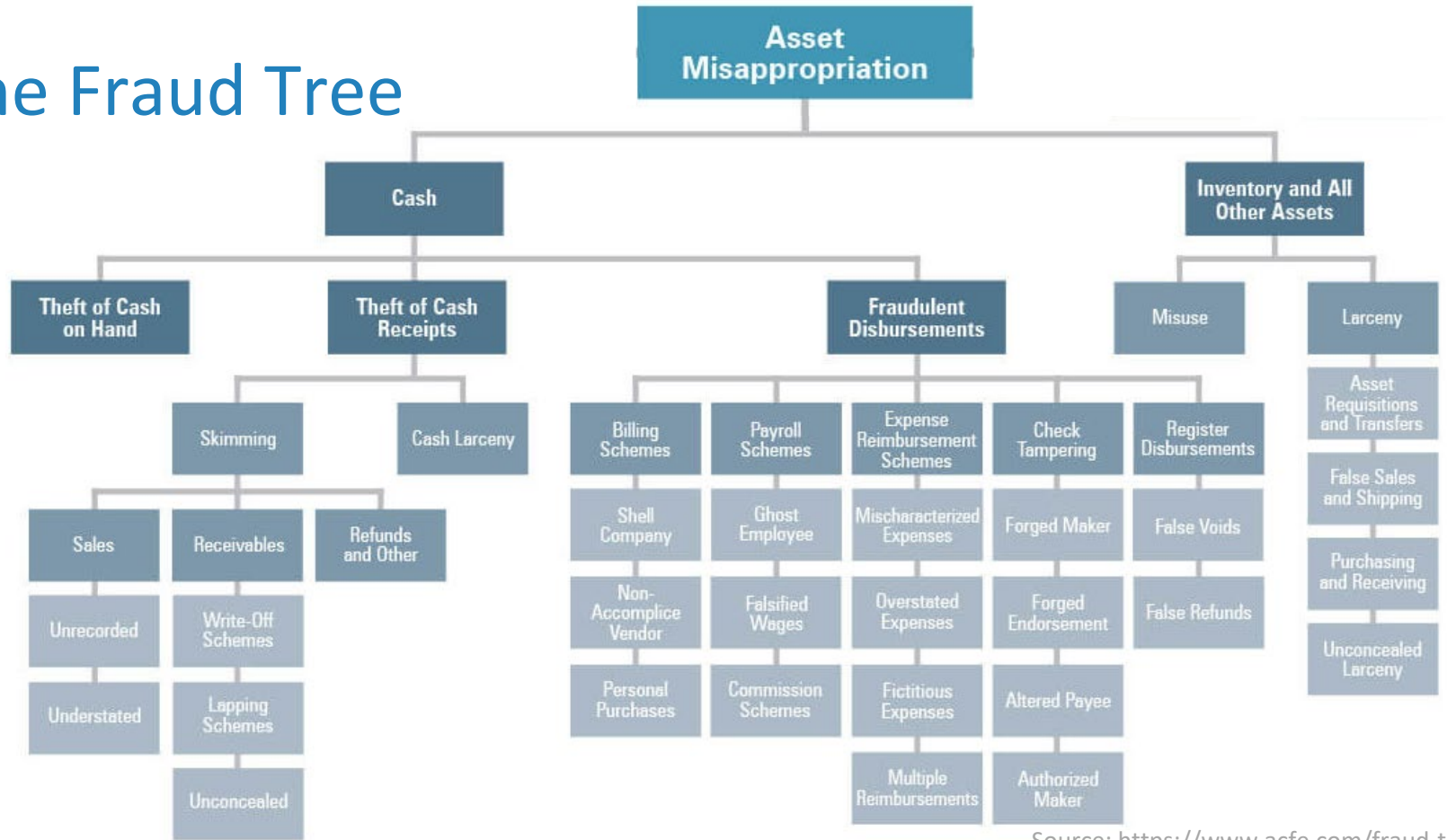
Types of Fraud Schemes

Financial Statement Fraud

- **Manipulation, falsification, or alteration of accounting records or supporting documentation from which the financial statements are prepared**
- **Misrepresentation in, or intentional omission from, the financial statements of events, transactions, or other significant information**
- **Intentional misapplication of accounting principles**



The Fraud Tree



Source: <https://www.acfe.com/fraud-tree.aspx>

Polling Question #2

The ACFE defines occupational fraud as:

- a. A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment
- b. The theft or misuse of a company's resources and includes schemes such as skimming, check tampering, payroll fraud, expense reimbursements, and cash register disbursements, among others
- c. The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets



Occupational Fraud by Organization Type

FIG. 20 What are the most common occupational fraud schemes in various industries?

	INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
2020	Government and public administration	189	18%	5%	9%	4%	48%	17%	4%	17%	17%	0%	7%
2018	Government and public administration	184	15%	11%	11%	9%	50%	11%	5%	22%	7%	2%	11%

Source: ACFE 2020 & 2018 Report to the Nations





The Fraud Triangle

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The Fraud Triangle



Understanding the Fraud Triangle is critical to:

- Minimize the risk of abuse
- Minimize the risk of fraud
- Develop strong internal controls

The Fraud Triangle

What has been the impact of COVID-19 on internal controls?

1. Fewer staff (reduced segregation of duties)
2. Revised approval processes
 - a) Approvals by email only (no electronic or wet signature)
 - b) Fewer approvals required
 - c) Original documents not available for review
3. Less oversight and monitoring
4. Heightened risk of cyber-crimes
5. Greater reliance on technology





Eight Important Facts About Fraud

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Eight Key Facts from the *Report to the Nations* and Our Experience

1. **Typical organizations lose 5% of revenue in a given year as a result of fraud**
2. **Fraud exists in every organization and every industry type – top 5 industries with the highest occurrence of fraud:**
 - Banking and financial services (median loss: \$100,000)
 - Government and public administration (median loss: \$100,000)
 - Manufacturing (median loss: \$198,000)
 - Health care (median loss: \$200,000)
 - Energy (median loss: \$275,000)
3. **Prominent weakness – lack of internal controls**



Eight Key Facts from the *Report to the Nations* and Our Experience

4. **Most common form of occupational fraud – asset misappropriation**
5. **Check tampering and billing schemes represent the greatest risk**
6. **Most perpetrators are first time offenders (only 4% had prior convictions)**
7. **Frauds with highest frequency occur in operations, the accounting department, and in executive/upper management**
8. **The majority of occupational frauds are not material to the financial statements (frequent, small transactions taking place over an extended period of time)**

DEPARTMENT	Cases
Operations	288
Accounting	277
Executive/upper management	234
Sales	225
Customer service	175
Administrative support	116
Finance	101
Purchasing	96



Occupational Fraud by Category - Frequency

FIG. 2 How is occupational fraud committed?

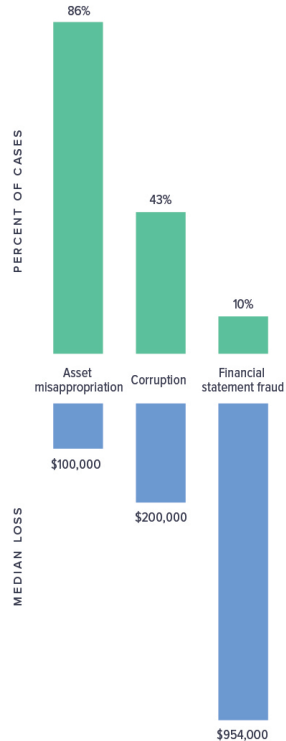
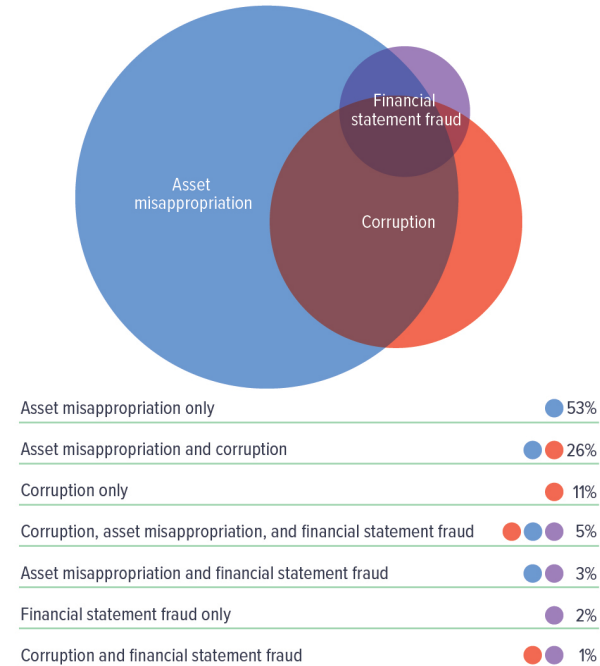


FIG. 4 How often do fraudsters commit more than one type of occupational fraud?



Source: ACFE 2020 Report to the Nations



Create Opportunities

Occupational Fraud by Organization Type

FIG. 14 What types of organizations are victimized by occupational fraud?

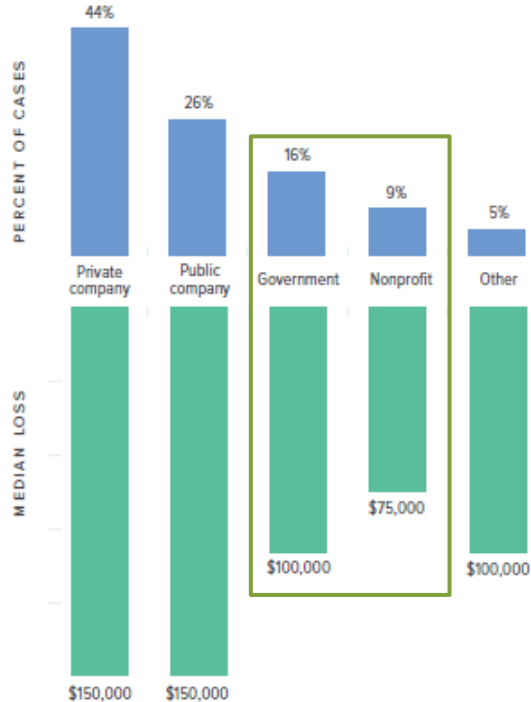
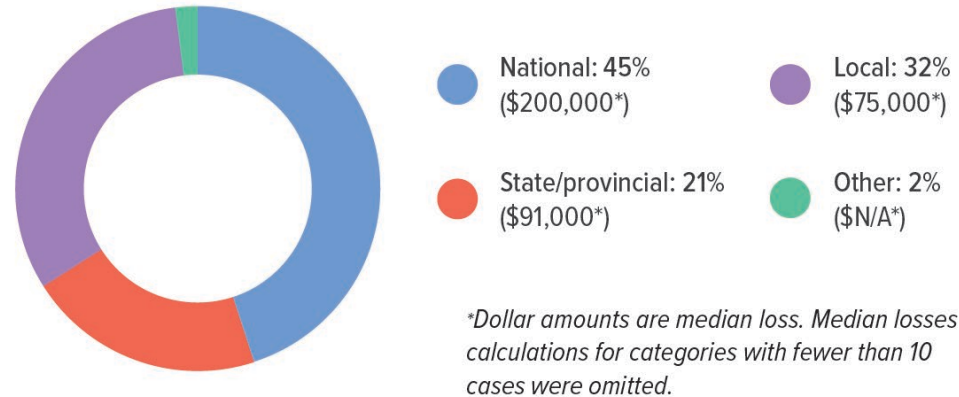


FIG. 15 What levels of government are victimized by occupational fraud?



Source: ACFE 2020 Report to the Nations



Polling Question #3

What was the median loss for governments and public administrations?

- a. \$50,000
- b. \$100,000
- c. \$250,000



Case Study

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Overview

- **Organization**

- Quasi governmental organization
- Mission is to improve the lives of its constituents
- Areas of focus: land, culture, economic self-sufficiency, education, governance, and health

- **Concern**

- Constituents demanded a higher level of transparency for how funds that were intended to benefit them were being used for contracts, grants, and disbursements



Scope of Engagement

Primary objective:

- Conduct an examination of the organization and its limited liability companies for a period going back five years
- Examine financial records, accounts, business transactions, accounting practices, internal controls and compliance
- Identify potential areas of fraud, waste, and abuse in the procurement processes



Examination

- **Contracts and Disbursements Examined for the Organization**
 - Approval and execution in accordance with the state's procurement code, state's standards of conduct, and the organization's internal policies and procedures
 - Sufficiency of oversight by the contract/grant managers
 - Deliverables were met by contractor
 - Evidence of fraudulent or wasteful disbursements



Examination

- **Contracts and Disbursements Examined for Related LLCs**
 - Sufficiency of oversight by the contract/grant managers
 - Deliverables were met by contractor/grant recipient
 - Conflict of interests with the LLC managers and directors
 - Evidence of fraudulent or wasteful disbursements
- **Examine reporting from the LLCs to the Agency**
 - Review LLC's quarterly reports to the elected Board of Trustees
 - Assess whether sufficient internal controls were in place to ensure integrity of performance indicators reported by the LLCs to the agency



Red Flags

- **Fiscal Procedures Manual was over ten years old**
- **Standard contracts were missing or incomplete**
- **Contract start dates began before the contract execution dates**
- **Required signatures on procurement documents were missing**
- **Organization was unable to produce evidence that contractors provided deliverables as required by the contracts**



Results of Examination

- **39 out of 39 grants had findings**
 - Potential conflicts of interest
 - Several grantees did not have a complete grant application
 - Several grant files did not contain sufficient evidence that the organization monitored or evaluated the grant activities
 - Several grant files did not contain evidence of the Board of Trustees approval
 - Several grant files did not contain evidence that the organization's procurement process was followed, e.g., proof of award letters



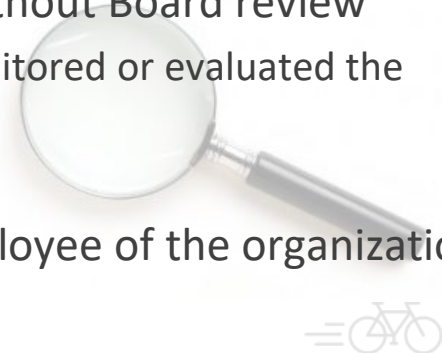
Results of Examination

- **9 out of 9 competitive sealed contract proposals had findings**
 - State's public procurement code criteria for competitive proposals was either not met or documentation was missing
- **14 out of 14 professional service contracts had findings**
 - One contract had a potential conflict of interest
 - Several contracts did not have evidence of being solicited in the appropriate time period or proof of publication
 - Several contracts did not have evidence of a deliverable



Results of Examination

- **17 out of 17 contracts processed as exempt from state requirements had findings**
 - Several contracts were questionable whether they qualified as exempt under the State's statutes
- **Disbursements had several findings**
 - Agency's CEO could approve sponsorships up to \$25K without Board review
 - ◇ All sponsorships lacked evidence that the organization monitored or evaluated the sponsorship activities as required by State statute
 - ◇ One sponsorship was issued to an associate of the CEO
 - Former CEO approved payments while no longer an employee of the organization



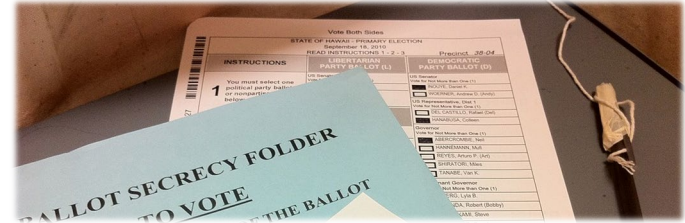
Results of Examination

- **LLCs Examination**

- Two contract payments exceeded the approved contract amount
- One check of over \$10K was issued without a signature (cleared the bank)
- Missing documents including vendor certificates of good standing, certificates of insurance, contractor's license



Findings: In Detail



- **Organization Examination**

- One grant recipient, a foundation, received a nearly \$2.6 million grant for the purpose of facilitating an election of delegates
- Foundation's Executive Director was wife of the agency's CEO at the time
- Entire \$2.6 million was requested before the election occurred and foundation did not submit proof of expenses before requesting payments
- Over \$475,000 went to attorney fees and other consultants
- Election was eventually cancelled and did not achieve intended results
- Organization did not document any communication between itself and the foundation, including notification the election was cancelled

Findings: In Detail

- **LLCs Examination**

- Three payments totaling \$90K to a food manufacturer, previously owned by an LLC but transferred to a local non-profit and managed by friend of the CEO (CEO of the agency was considered a manager of the LLCs)
- Organization previously spent over \$1 million to acquire plant for the LLC
- Payments labeled as grants and loans to help with cash flow issues
- One payment was made before the LLC legally transferred the title to the non-profit, indicating this was start-up cash
- Organization had no copies of the non-profit's business plan
- Non-profit eventually had to find a new manager, run by a for-profit



Recommendations

- Update written policies to align with current procedures and ensure best practices are followed
- Increase documentation of the decision-making process, authorizations, and oversight of contracts and grants
- Additional employee training and development
- Increase public transparency
- Improve the overall financial internal control efficiencies and effectiveness of the financial processes of the organization
- Strengthen the Board's fiduciary, general oversight and governance of the organization, including over the LLCs





Attributes of a Highly Ethical Organization

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Attributes of a Highly Ethical Organization

- 1. Lead by example (“tone at the top”)**
 - a. Highest level executives promote an environment of high ethics and integrity
 - b. Board holds top level executive accountable
- 2. Encourage transparency and accountability**
 - a. Review, oversight, monitoring
- 3. Well developed anti-fraud and ethics policy**
 - a. Written and expectations are communicated
 - b. Read and acknowledged by all employees
 - c. Communicate during hiring; carefully screen job applicants
- 4. Well developed and updated written policies and procedures**



Attributes of a Highly Ethical Organization

5. **Regular technical training of employees on policies, procedures, applicable laws, etc.**
6. **Strong compliance/internal audit programs**
 - a. Internal, outsourced, or combination
 - b. Prioritized and communicated
 - c. Access to Board of Trustees
7. **Establish a fraud hotline**
 - a. Provide for anonymity
 - b. Maintain confidentiality
 - c. Incorporate whistleblower protections; protect employees that come forward
8. **Reinforce good behavior; don't reinforce bad behavior**
 - a. Follow through with reports of misconduct and promote effective internal controls
 - b. Encourages people to come forward





Thank you!

Create Opportunities

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

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Economic Update

Midwest Government Training Academy – March 5, 2021

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Agenda

(I) Current Hot Topics

- ☐ COVID-19 fallout
- ☐ Federal Reserve & interest rates

(II) Capital Markets Update

Learning Objective

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

- **Discuss the current economic situation in the U.S.**

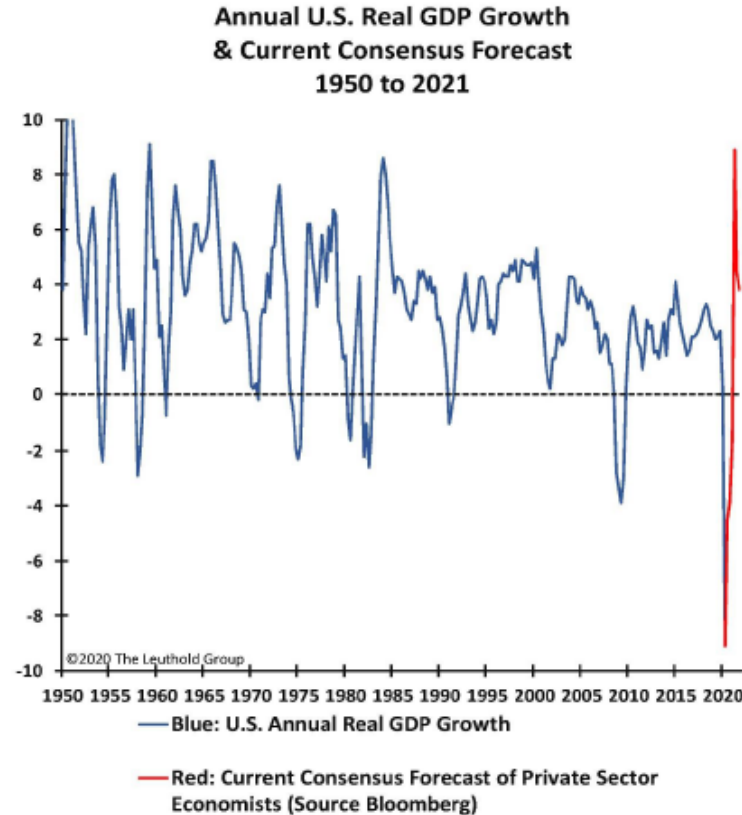


Takeaways from March 2020 Presentation

- **Lower return expectations for the next 7-10 years in stocks and bonds**
 - Trailing 12 mo. S&P 500 Return 34%, Int'l Stocks 25% (as of 2/28)
- **Long term investors accumulating and saving will be fine**
 - Dollar cost averaging through ups/downs was big winner in 2020
- **Those approaching retirement or recently retired, be mindful of risk assumed**
 - Valuations remain elevated, keeping future return expectations lower
- **Short term interest rates are attractive again > inflation (for now)**
 - Shorter term are likely to be lower longer, but long term rates creeping higher YTD



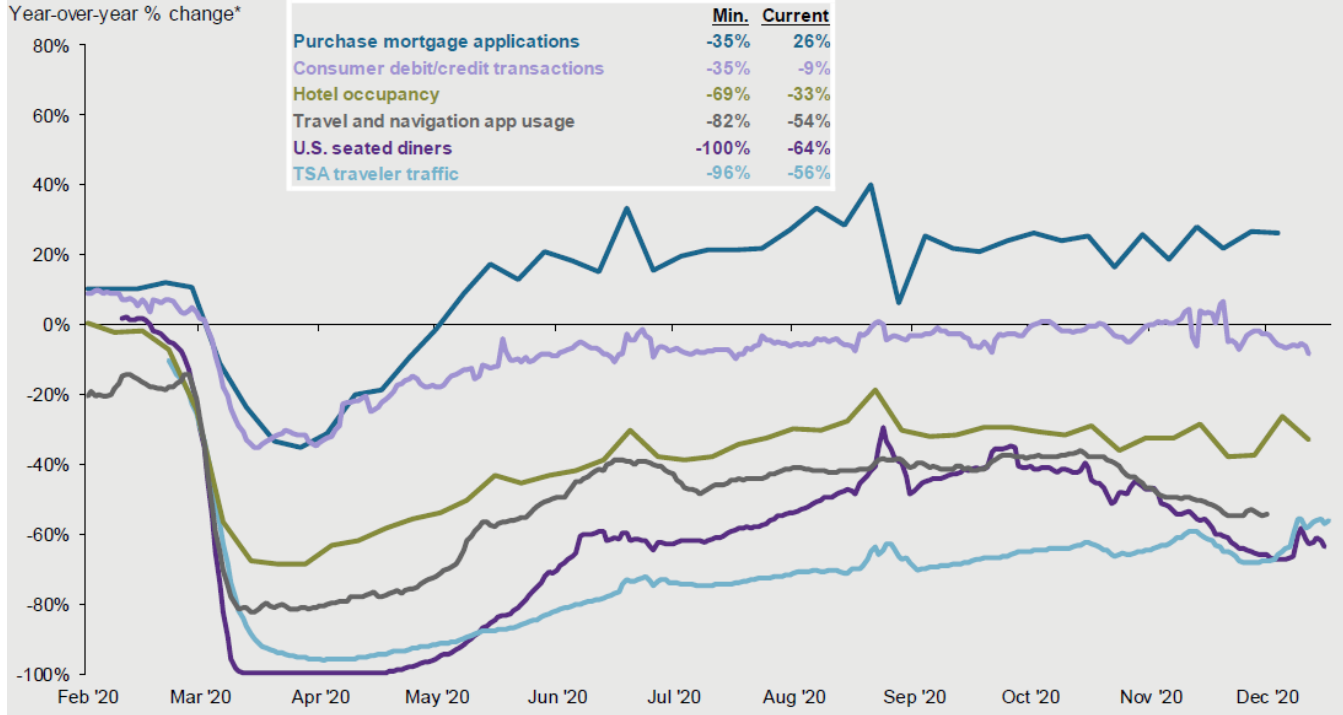
Largest bust-boom since WWII



Drastic economic changes literally overnight

High-frequency data

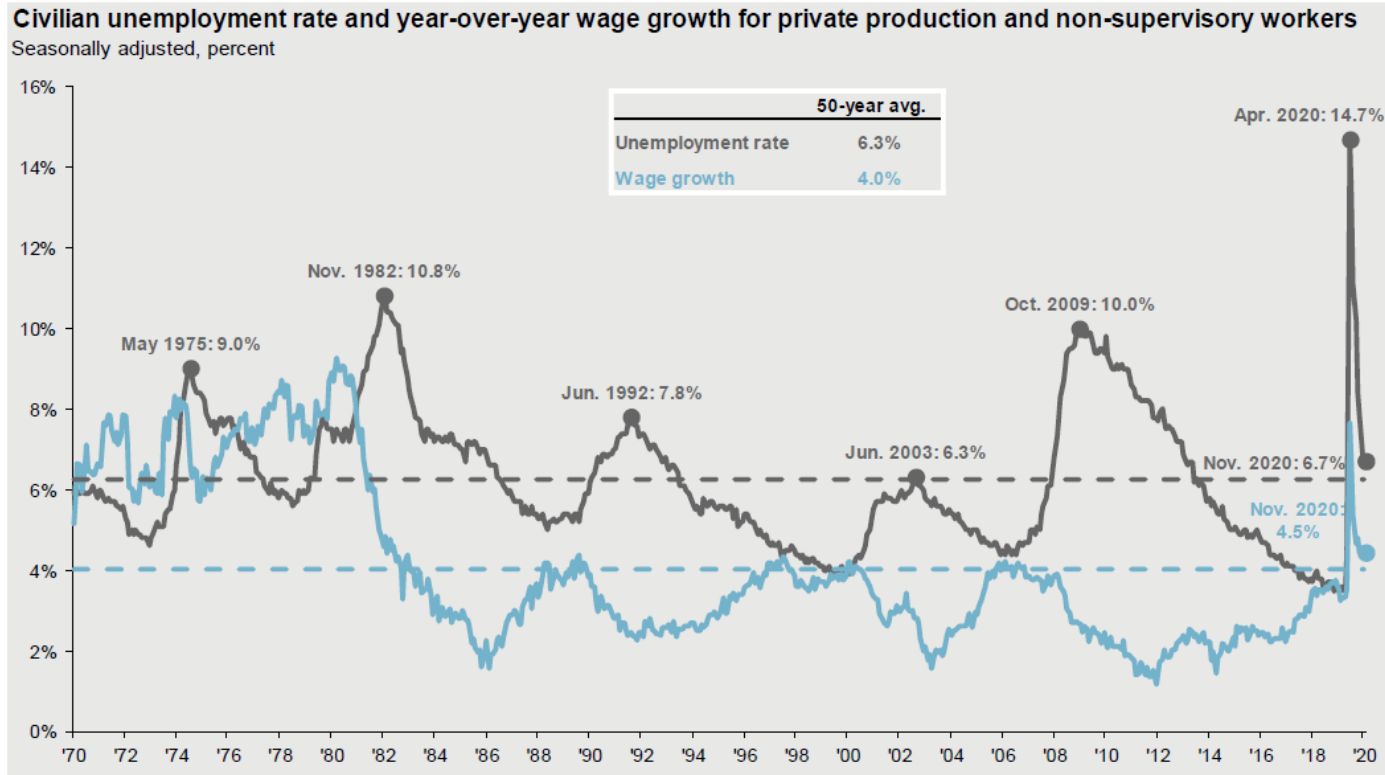
Year-over-year % change*



Source: App Annie, Chase, Mortgage Bankers Association (MBA), OpenTable, STR, Transportation Security Administration (TSA), J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.



Unemployment almost back to 50-year average

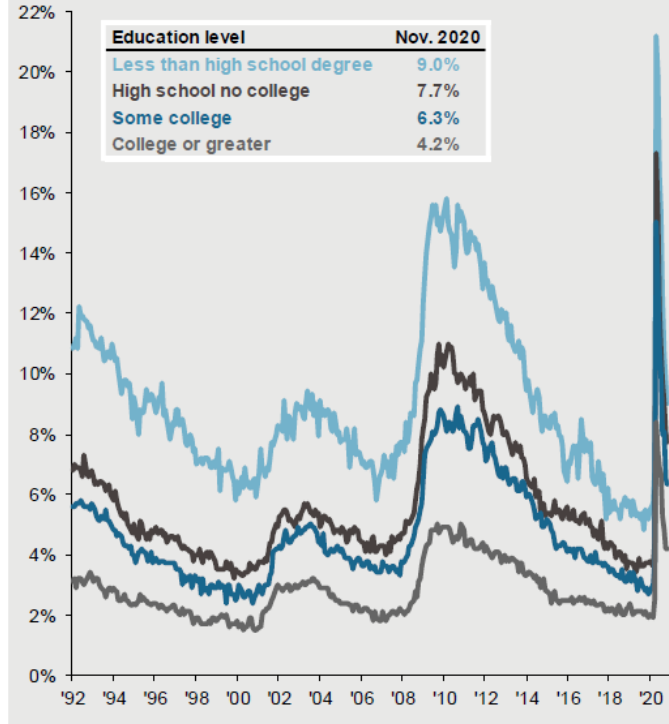


Source: BLS, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.



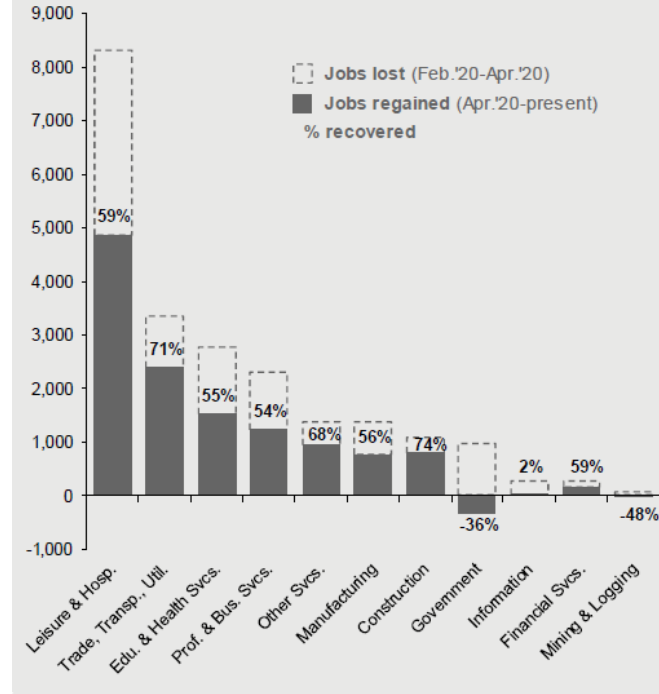
Yet under the surface, large dispersion in outcomes

Unemployment rate by education level



Payroll employment lost and regained by industry

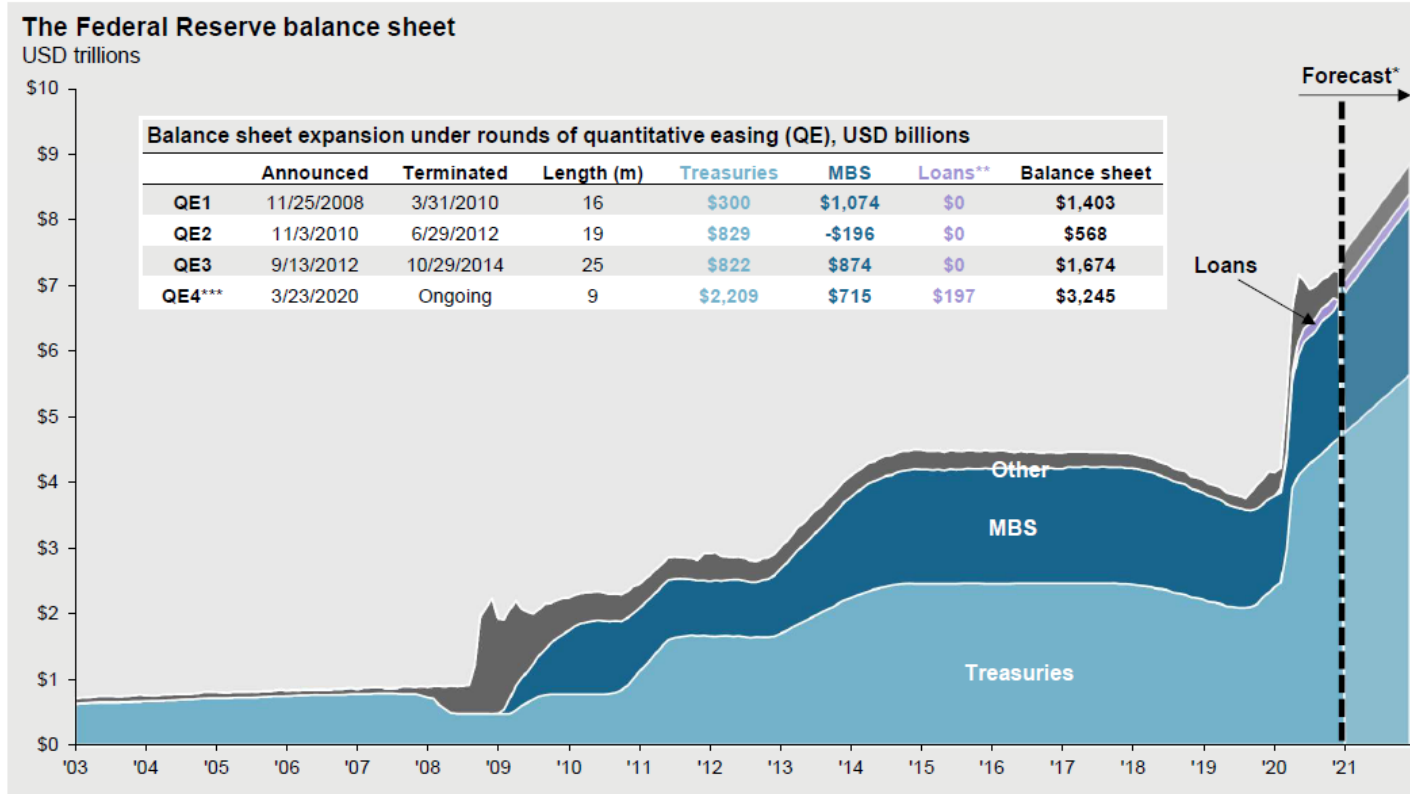
Thousands, % recovered



Source: Bureau of Labor Statistics, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.



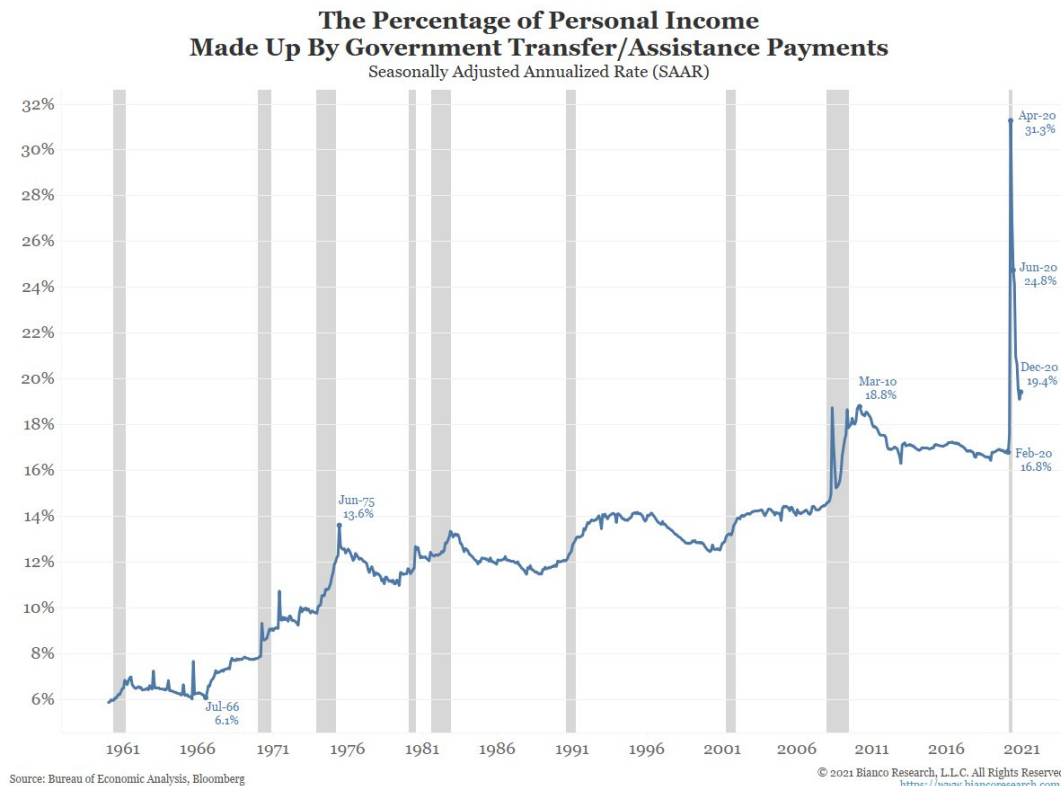
Fed balance sheet expanding rapidly



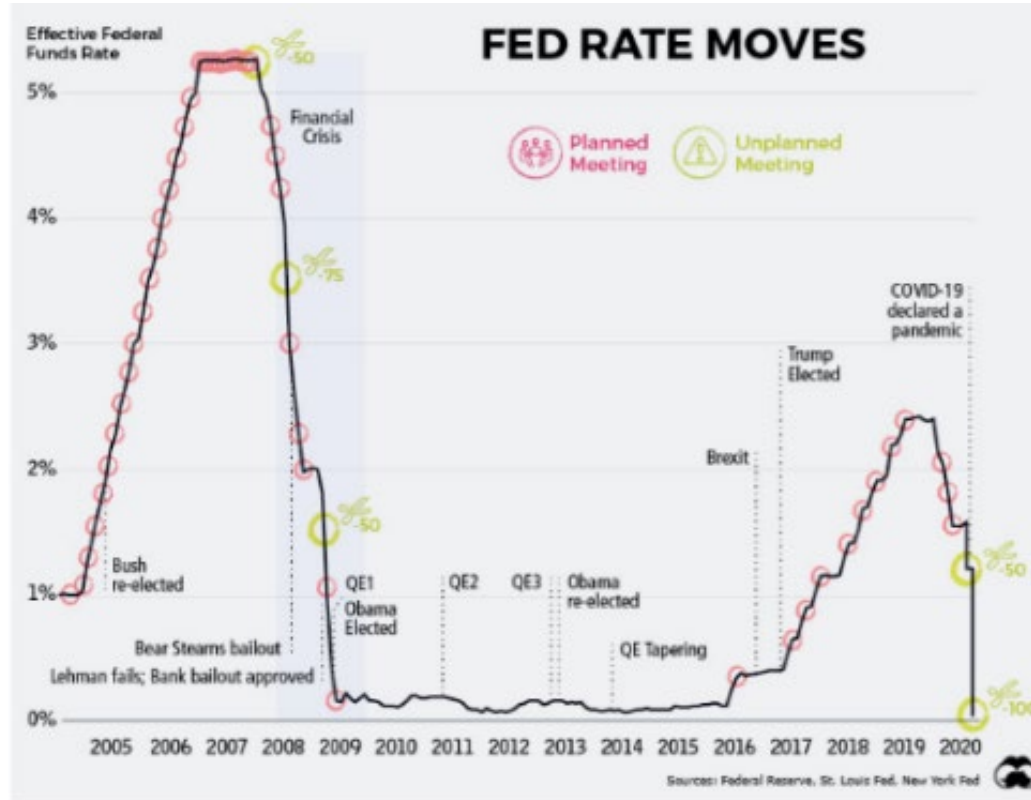
Source: FactSet, Federal Reserve, J.P. Morgan Investment Bank, J.P. Morgan Asset Management.



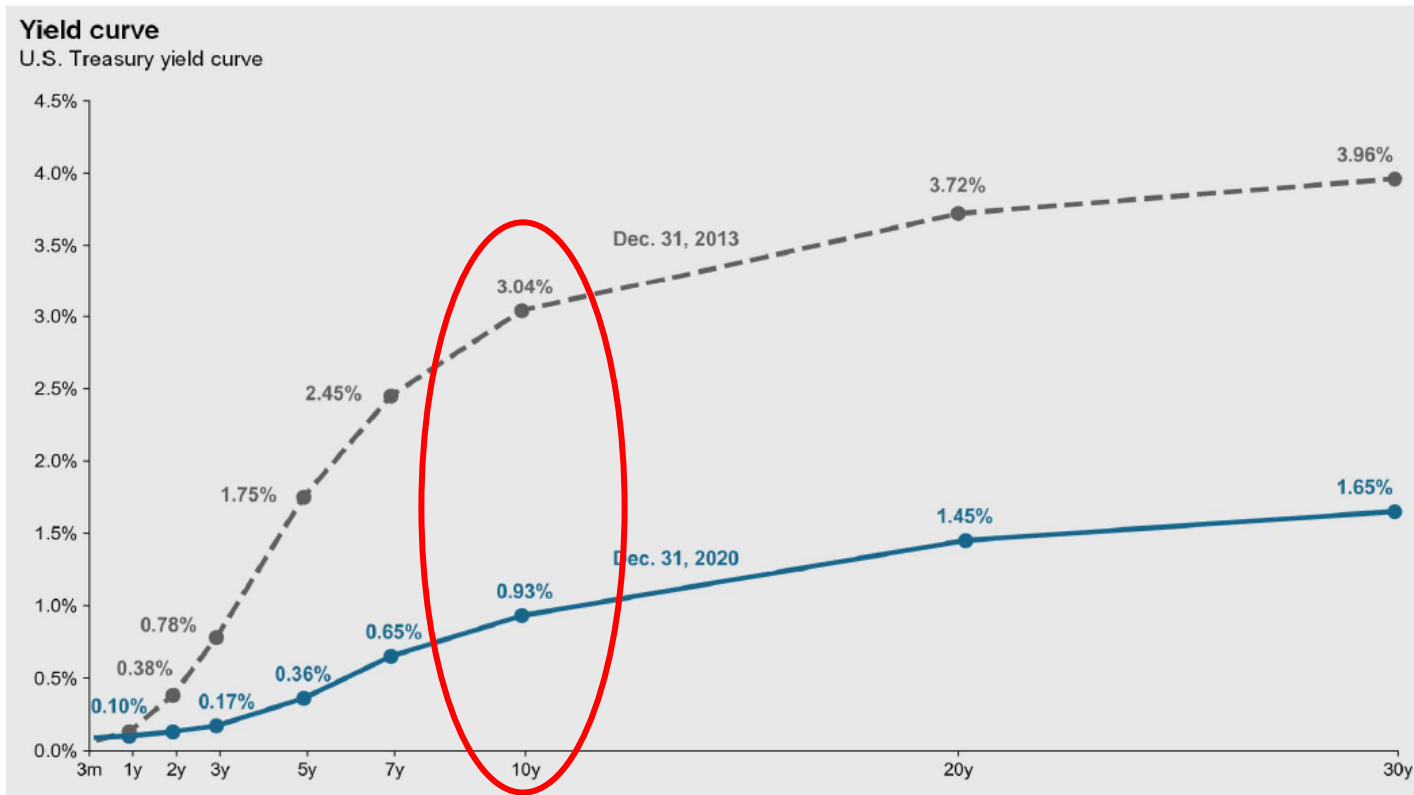
Gov't payments made up a third of all income in April



Interest Rates Are Now Back at 0%



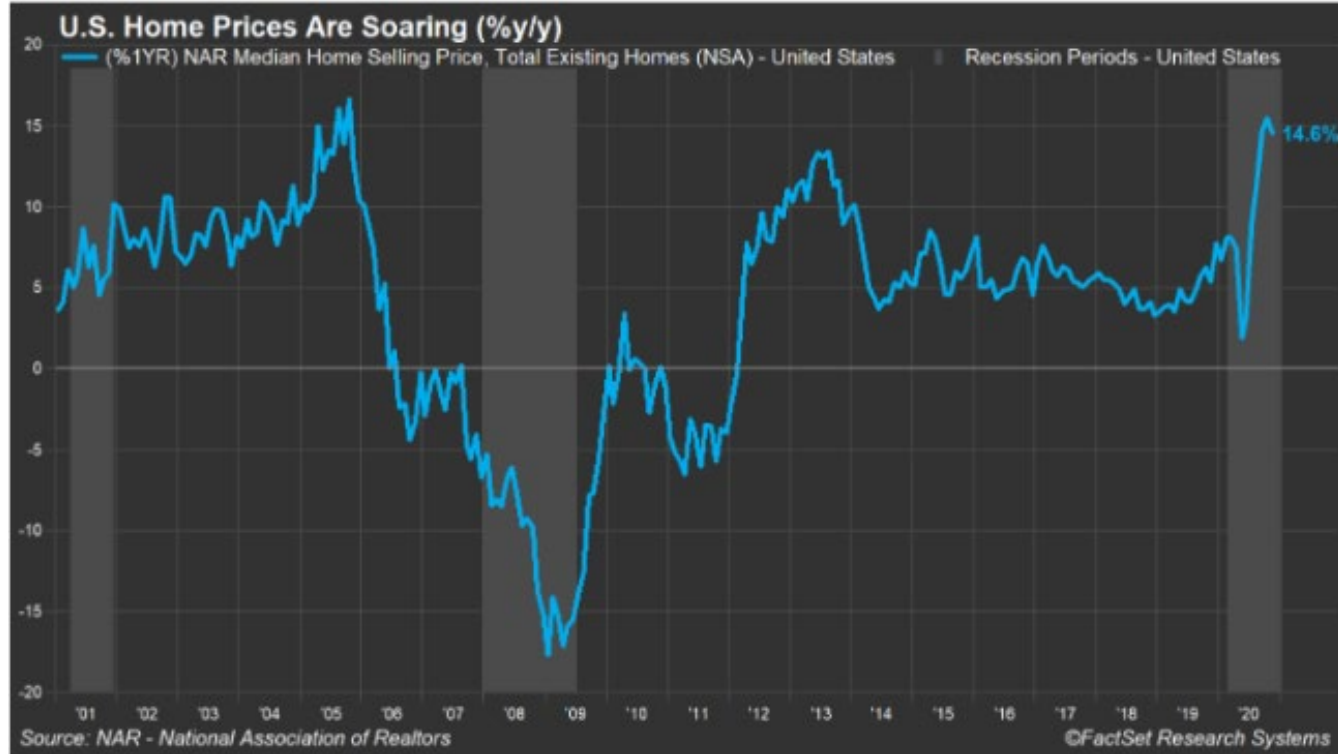
Treasury Curve – 12/31/13 vs. 12/31/20



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.



Low interest rates driving higher home prices



Treasury interest cost in context

Louis-Vincent Gave:

Well, I think a lot of that will depend on Central Bank policy. Central Banks, at some point, you know, as bond yields inch higher, we'll have to make a choice of either, you know, fully embracing yield curve control, and in essence, crushing our currencies in the process, option one or letting the bond yields go back to more natural levels. But in so doing, you know, really putting pressure on the government to put things in context, you know, a 50 basis point increase in the cost of funding for the US government is equal to the cost, the annual cost of the US Navy. 30 basis point increase is equivalent to the cost of the US Marine Corps.

So, you know, just going from 50 basis points to 230, that 80 basis points is equal to the Marine Corps plus the Navy together, the annual budget. So, I wish I had the answer, of course, and I'm not trying to duck away. But the simple reality is, it will depend what Central Banks decide, do they do yield curve control and crush their currencies or not. I believe, but you know, I could be wrong. I believe they will do yield curve control, and I believe they will crush their currency.

Source:

Macro Voices interview with French economist Louis-Vincent Gave



Longer rates breaking out amidst inflation concerns



Source: Koyfin



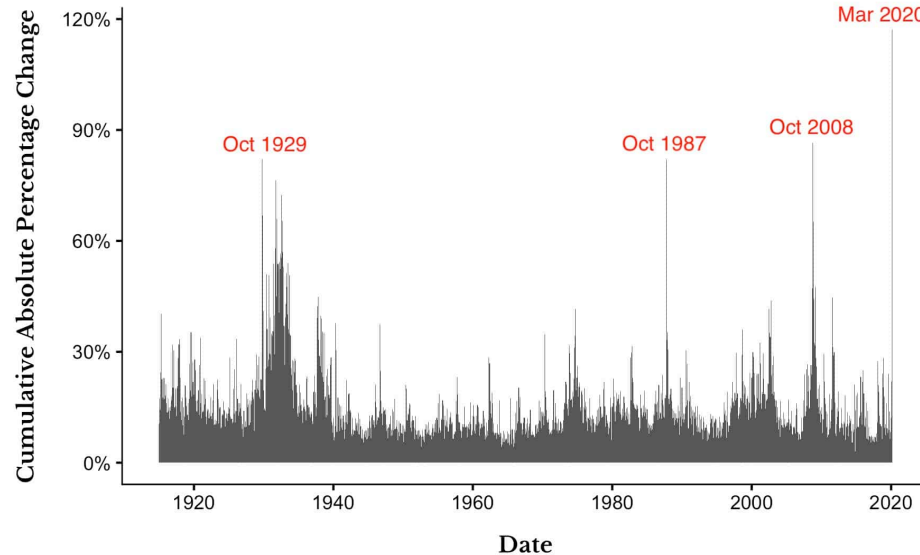
Capital Markets

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March 2020 most volatile month on record

Dow Cumulative Absolute Percentage Change
by Month

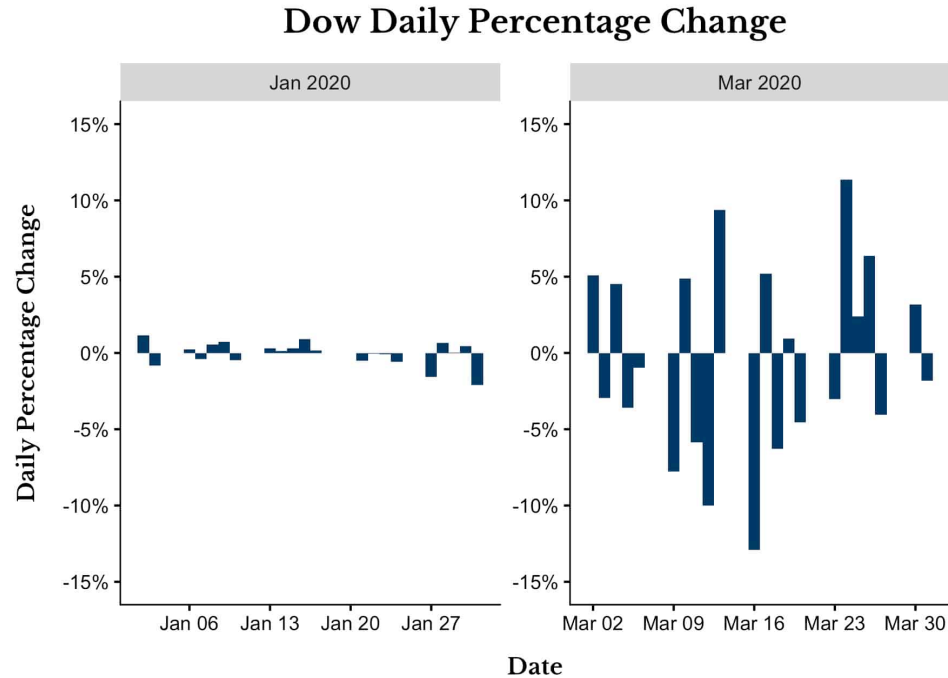


Source: Bloomberg (OfDollarsAndData.com)

Note: Dow price data does not include dividends. The average cumulative absolute percentage change in a given month is 15.6%.



Jan 2020 v. Mar 2020 –aka the calm and the storm



Source: Bloomberg (OfDollarsAndData.com)
Note: Dow price data does not include dividends.



Gov't intervention creates snapback in markets

S&P 500 Index 3 Year (2019-2021)



Source:
Morningstar & Bloomberg

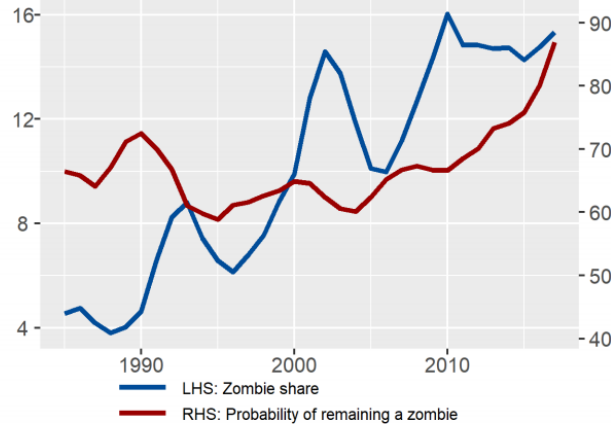


Side effect of stimulus? “Zombie” companies

Zombie share and persistence¹

In per cent

Graph 2



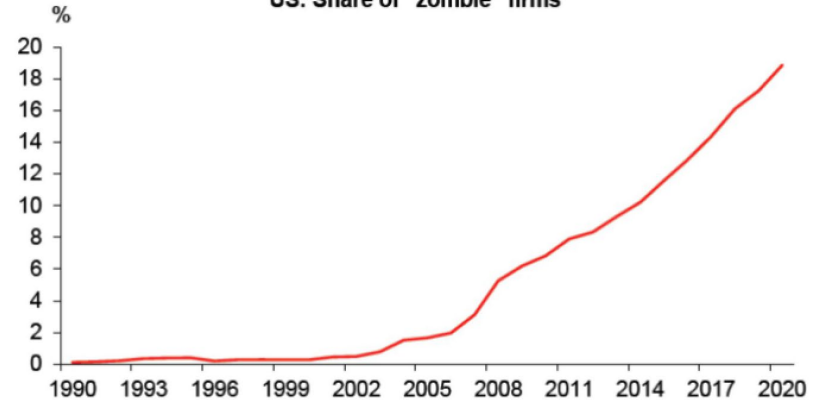
¹ Zombie firms defined as firms with both an interest coverage ratio of less than 1 and a Tobin's q below the median firm in the sector over two years. To be declassified as a zombie firm, an ICR larger than one or a Tobin's q above the sector median over two years is required. The probability of remaining a zombie firm is calculated as the number of firms that are classified a zombie in year t that remain a zombie in year $t+7$ divided by the number of firms that are classified a zombie in year t .

Source:
Datastream Worldscape, DB Global Research

US: Rising share of companies with debt servicing costs that are higher than profits



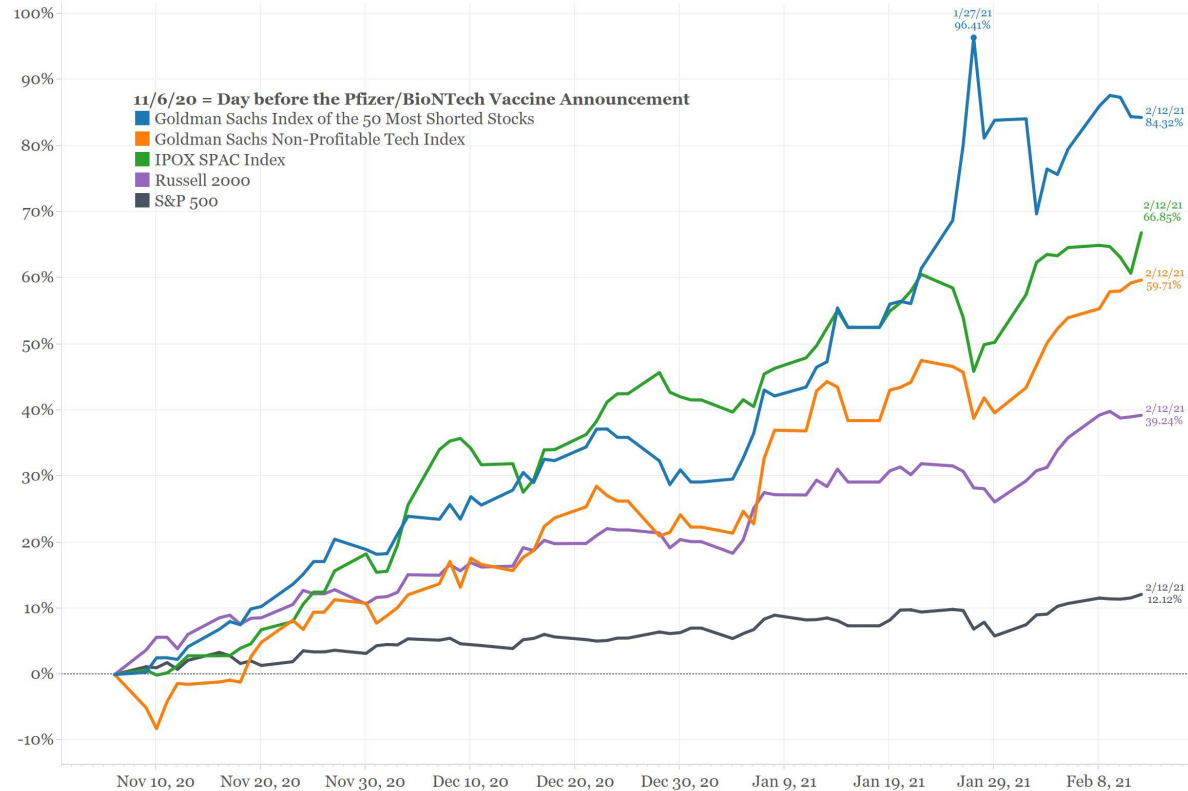
US: Share of “zombie” firms



Note: Firm-level data is used to calculate the share of listed firms that are more than ten years old with an interest coverage ratio less than one for three years in a row.



Market leaders post-vaccine announcement



Source: Bloomberg, Goldman, IPOX, Russell

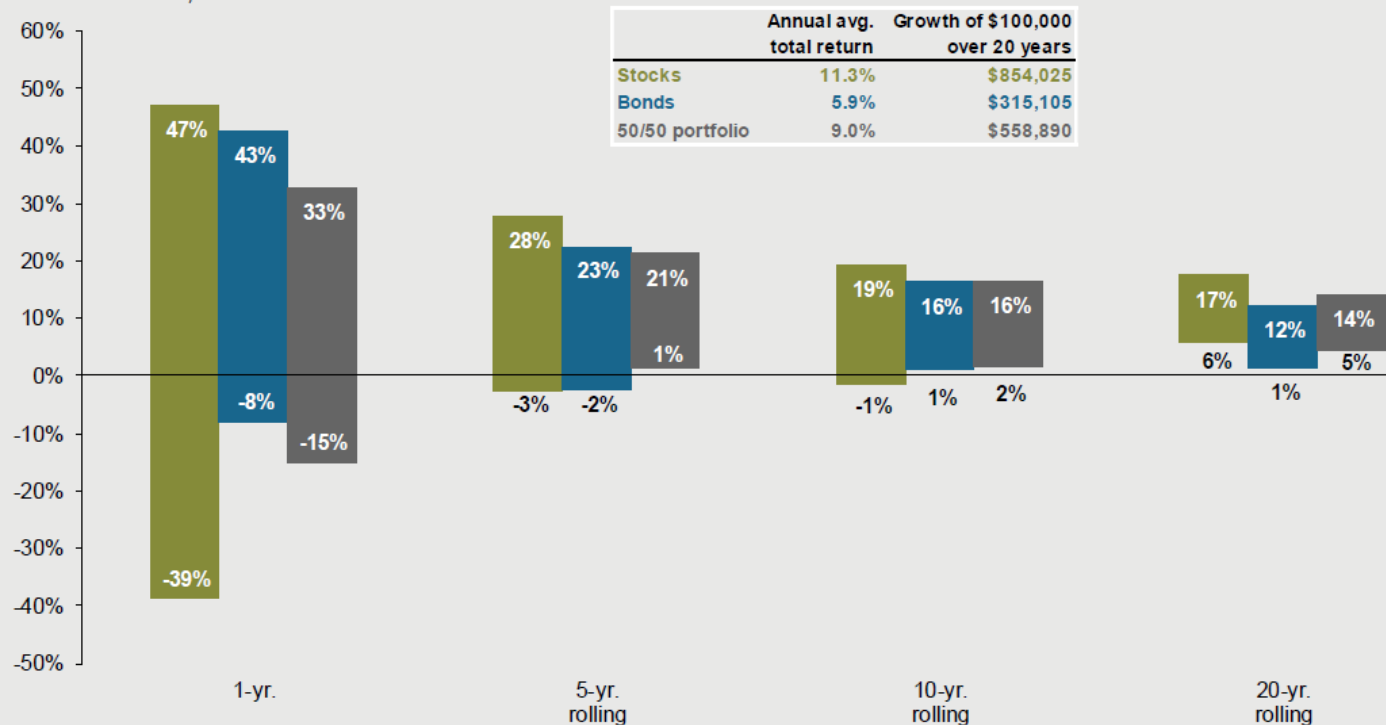
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<https://www.biancoresearch.com/>



Stocks best held for 5 years or more

Range of stock, bond and blended total returns

Annual total returns, 1950-2020



Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.



Takeaways 2021

- **Lower return expectations for the next 7-10 years in stocks and bonds...future stimulus dependent**
- **Long term investors accumulating and saving will be fine**
- **Those approaching retirement or recently retired, be mindful of risk assumed**
- **Inflation starting to rear its head again...at least in the near term**





GASB No. 84, 90 & 97

Midwest Government Training Academy – March 5, 2021

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Learning Objectives

- Outline the new accounting standards affecting state and local government accounting and reporting
- Explain implementation dates for new GASB standards
- Describe the provisions of recent GASB statements and the implementation impact on financial reporting and disclosures:
 - GASB No. 84 Fiduciary Activities
 - GASB No. 90 Majority Equity Interests
 - GASB No. 97 Certain Component Unit Criteria and Accounting and Reporting for IRC Section 457 Plans



Key Dates

Statement	Issued	Effective Dates	For year ends:
GASB 84*	January 2017	Beginning after December 15, 2018	12/31/2020 6/30/2021
GASB 90*	August 2018	Beginning after December 15, 2018	12/31/2020 6/30/2021
GASB 97**	June 2020	457 - June 15, 2021 Other - Beginning after June 15, 2021	12/31/2021 6/30/21

*GASB No 95 postponed effective dates
of several standards including 84 and 90

**Certain parts were effective immediately upon issuance





GASB No. 84 – Fiduciary Activities

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Purpose and Goal of GASB 84

- **The purpose of GASB 84 is to clarify what constitutes a fiduciary activity for accounting and financial reporting purposes**
 - Existing standards require reporting of fiduciary responsibilities, but do not define what they are

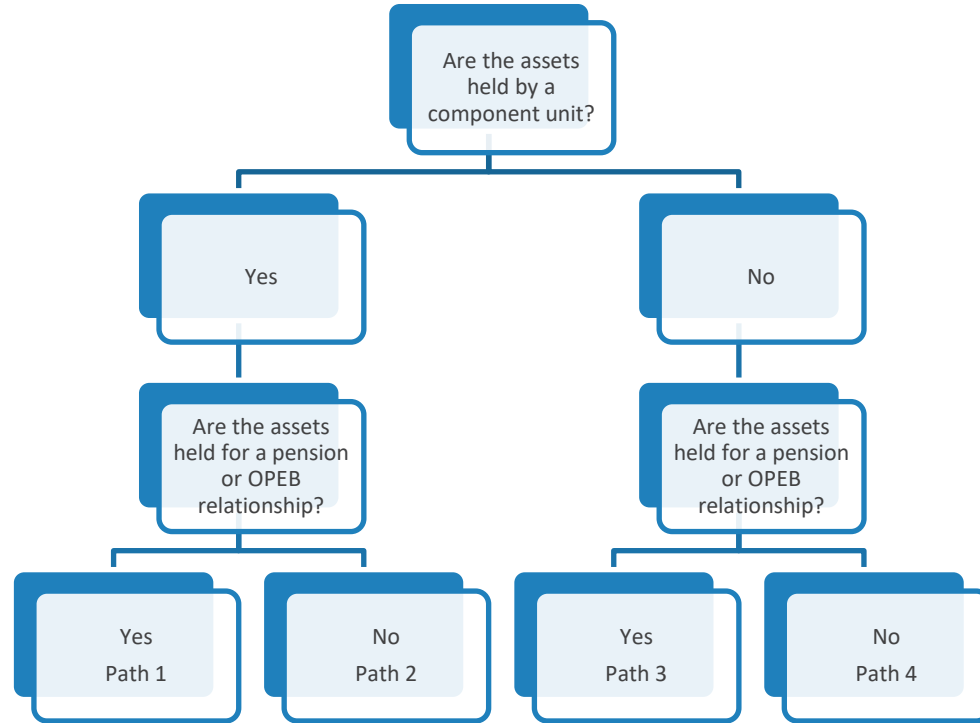


When Should a Government Report a Fiduciary Activity

- **Four paths to make this determination**
 - Component units that provide pension/OPEB benefits
 - Component units that do not provide pension/OPEB benefits
 - Pension/OPEB benefits arrangements that are not component units
 - All other activities



When to report assets in a fiduciary fund:



Control of assets is not a factor in making the determination if held by component unit

Control of assets is a factor

#1 Component units that provide pension/OPEB benefits

Fiduciary Activity if:

- Administered through a trust (or accumulated for pension/OPEB benefits of other entities that are not part of the reporting entity)
- Component unit determination
 - Financial burden if it is legally obligated
 - ◇ GASB 97 further clarified this
 - Assumed the obligation to make contributions to the pension plan or OPEB plan



#2 Component units that do not provide pension/OPEB benefits

Fiduciary Activity if at least one of the following is true:

1. Assets administered through a trust in which:
 - Government itself is not the beneficiary
 - Assets dedicated to providing benefits AND
 - Assets are legally protected from the creditors of the government
2. No administrative or direct financial involvement of the assets
 - Assets not derived from the government's provision of goods or services to those individuals



#2 Component units that do not provide pension/OPEB benefits (continued)

Fiduciary Activity if at least one of the following is true:

3. Assets for the benefit of organizations/other governments that are *not* part of the financial reporting entity
 - Not derived from the government's provision of goods or services to these organizations/other governments



#3 Pension/OPEB benefits arrangements that are not component units

Fiduciary Activity if:

- Administered through a trust (or accumulated for pension/OPEB benefits of other entities that are not part of the reporting entity)

AND

- Government controls the assets
 - Holds the assets OR
 - Has the ability to direct the use, exchange, or employment of assets



#4 All Other Activities

Examples include:

- Payroll withholding “clearing” accounts
- Fiscal host situations
- Social welfare accounts
- Property tax and penalties
- Jail inmate accounts
- State license and fees

~~Agency
Funds~~

**Custodial
Funds**

All Other Activities

- **Fiduciary if all of the following are met:**
 - The government controls the assets
 - ◇ Gov't holds the assets
 - ◇ Ability to direct the use, exchange or employment of the assets in a manner that provides benefits to specified or intended beneficiaries
 - Those assets are not derived:
 - ◇ Solely from the government's own-source revenues
 - ◇ From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the government does not have administrative or direct financial involvement



All Other Activities (Continued)

- One or more of the following criteria is met:
 - ◇ The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government
 - ◇ The assets are for the benefit of individuals and the government does not have administrative involvement or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals.
 - ◇ The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government's provision of goods or services to those organizations or other governments.



What constitutes administrative involvement

- **Responsibility for establishing specific guidelines on how money is spent**
 - Determining eligible expenditures
 - Having the ability to exercise discretion over how assets are allocated
- **Monitoring compliance with requirements of the activity**
 - Government is required to follow specific guidelines established by the State



What constitutes direct financial involvement?

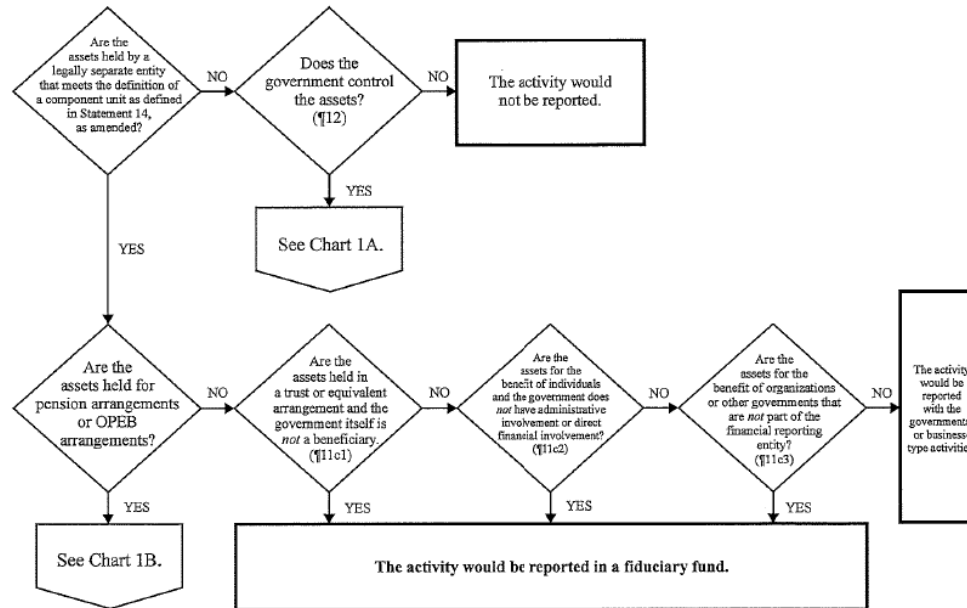
Example:

If the government provides matching resources for the activities



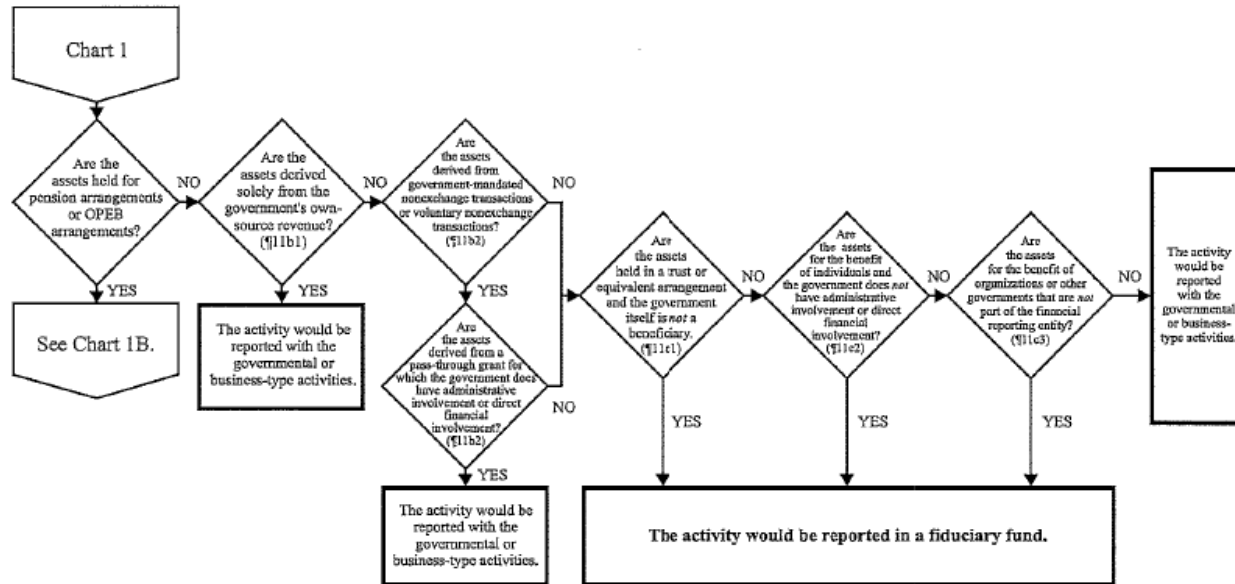
GASB 84 Flowcharts

Chart 1—Flowchart for Evaluating and Reporting Potential Fiduciary Activities



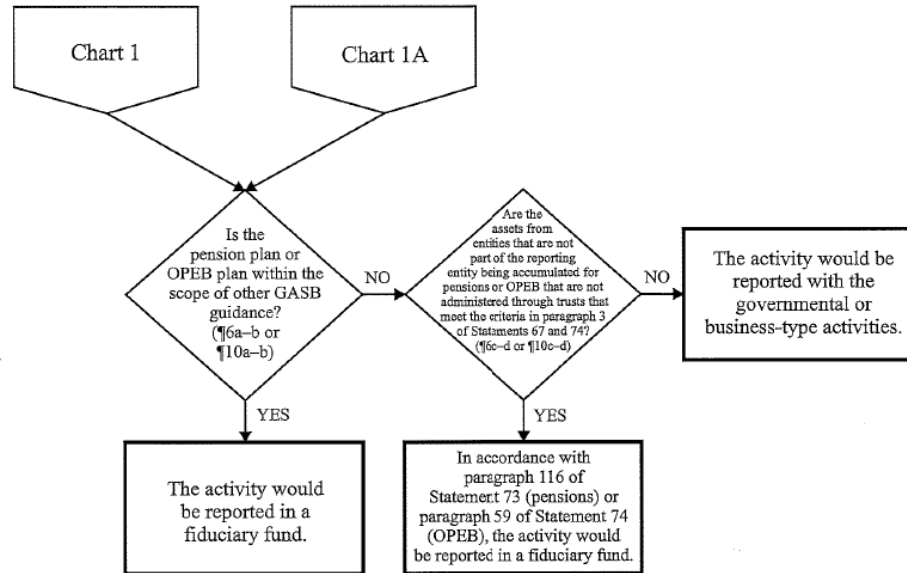
GASB 84 Flowcharts

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



GASB 84 Flowcharts

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



Other Activity – Example 1

- **Federal and state withholdings**

- Control: **Yes**
- Not derived from own source revenue: **Yes**
- Not derived from government mandated or voluntary nonexchange transactions: **Yes**
- Held for whose benefit: **The benefit of the government**

Report in governmental or enterprise funds – not a fiduciary activity of the government

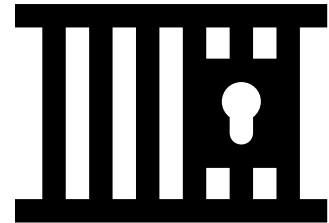


Other Activity – Example 2

- **Jail Inmate Account**

- Control: **Yes**
- Not derived from own source revenue: **Yes**
- Not derived from government mandated or voluntary nonexchange transactions: **Yes**
- Held for whose benefit: **The benefit of the inmates**

Report in a custodial fund



Other Activity – Example 3

- **Property Tax and Penalties Fund**

- Control: **Yes**
- Not derived from own source revenue: **Yes**
- Not derived from government mandated or voluntary nonexchange transactions: **Yes**
- Held for whose benefit: **The benefit of the taxing authorities the county is collecting property taxes for**

Report in a custodial fund (County portion in govt funds)



Other Activity – Example 4

- **Fees collected for the state**
 - Control: **Yes**
 - Not derived from own source revenue: **Yes**
 - Not derived from government mandated or voluntary nonexchange transactions: **Yes**
 - Held for whose benefit: **The benefit of the state****Report in a custodial fund (County portion in govt funds)**

Examples: medical assistance recoveries, child support payments, mortgage taxes, deed taxes, license fees



Other Activity – Example 5

- **Fiscal Host – Unrelated Entity**

- Control: **Yes**
- Not derived from own source revenue: **Yes**
- Not derived from government mandated or voluntary nonexchange transactions: **Yes**
- Held for whose benefit: **The benefit of the unrelated entity**

Report in a custodial fund

Examples: entities that are not component units, joint ventures, or related organizations





Fiduciary Fund Financial Reporting

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Fiduciary Activities

- **Reported in one of four fund types**
 - Pension (and other employee benefit) trust funds
 - Investment trust funds
 - Private purpose trust funds
 - Custodial funds (formerly agency funds)



Fiduciary Fund Financial Reporting

- **Statement of Fiduciary Net Position**
 - Custodial Funds no longer would necessarily report liabilities equal to their assets
 - ◇ Fiduciary net position
 - Recognize a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources



Fiduciary Fund Financial Reporting

Example County
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2020

	Social Welfare Private-Purpose Trust Fund	Postemployment and Employee Benefit Trust Funds	Custodial Funds	
			Other	External Investment Pool
ASSETS				
Cash and Investments	\$ 15,894	\$ 2,622,255	\$ 784,470	\$ 4,127
Due from Other Governments	-	-	14,679	-
Taxes Receivable For Other Governments	-	-	235,010	-
Accounts Receivable	-	1,428	64	-
Total Assets	15,894	2,623,683	1,034,223	4,127
LIABILITIES				
Due to Others	1,200	657	16,084	-
Salaries Payable	-	-	5,243	-
Due to Other Governments	-	-	143,395	200
Total Liabilities	1,200	657	164,722	200
DEFERRED INFLOWS OF RESOURCES				
Taxes Collected in Advance of Levy	-	-	37,000	-
NET POSITION				
Restricted for:				
Postemployment Benefits	-	865,871	-	-
Individuals, Organizations, and Other Governments	14,694	1,757,155	832,501	3,927
Total Net Position	\$ 14,694	\$ 2,623,026	\$ 832,501	\$ 3,927



Fiduciary Fund Financial Reporting

Example County
Combining Statement of Fiduciary Net Position
Fiduciary Funds - Other Custodial Funds
December 31, 2020

	Custodial Funds				Total Other Custodial Funds
	Taxes and Penalties	State License and Fees	Jail Canteen	Joint Powers	
ASSETS					
Cash and Investments	\$ 102,000	\$ 78,395	\$ 26,000	\$ 578,075	\$ 784,470
Due from Other Governments	-	-	-	14,679	14,679
Taxes For Other Governments	235,010	-	-	-	235,010
Accounts Receivable	-	-	-	64	64
Total Assets	337,010	78,395	26,000	592,818	1,034,223
LIABILITIES					
Due to Others	-	-	190	15,894	16,084
Salaries Payable	-	-	-	5,243	5,243
Due to Other Governments	65,000	78,395	-	-	143,395
Total Liabilities	65,000	78,395	190	21,137	164,722
DEFERRED INFLOWS OF RESOURCES					
Taxes Collected in Advance of Levy	37,000	-	-	-	37,000
NET POSITION					
Restricted for:					
Individuals, Organizations, and Other Governments	\$ 235,010	\$ -	\$ 25,810	\$ 571,681	\$ 832,501



Fiduciary Fund Financial Reporting

Statement of Changes in Fiduciary Net Position

- **Additions disaggregated by source**
 - If applicable separately display investment earnings, investment costs, and net investment earnings
- **Deductions disaggregated by type**
 - If applicable, separately display administrative costs
- **90-day exception=single aggregated total for additions/deductions**



Fiduciary Fund Financial Reporting

Example County
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended December 31, 2020

	Social Welfare Private-Purpose Trust Fund	Postemployment and Employee Benefit Trust Funds	Custodial Funds	
			Other	External Investment Pool
ADDITIONS				
Contributions:				
Individuals	\$ 87,199	\$ 87,199	\$ 4,945	\$ -
Employer	-	628,829	-	-
Investment Earnings:				
Net Increase in Fair Value of Investments	-	4,125	-	450
Interest, Dividends and Other	-	457	-	12
Property Tax Collections for Other Governments	-	-	13,345,009	-
License and Fees Collected for State	-	-	1,070,535	-
Miscellaneous	-	-	174,522	-
Total Additions	87,199	720,610	14,595,011	462
DEDUCTIONS				
Beneficiary Payments to Individuals	76,519	76,519	4,085	-
Medical, Dental, and Life Insurance	-	253,687	-	-
Payments of Property Tax to Other Governments	-	-	13,158,499	-
Payments to State	-	-	1,070,535	-
Administrative Expense	-	489	420	10
Payments to Other Entities	-	-	95,450	-
Total Deductions	76,519	330,695	14,328,989	10
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	10,680	389,915	266,022	452
Fiduciary Net Position - Beginning of Year	-	-	-	-
Change in Accounting Principle	4,014	2,233,111	566,479	3,475
Fiduciary Net Position - Beginning of Year, as Restated	4,014	2,233,111	566,479	3,475
FIDUCIARY NET POSITION - END OF YEAR	<u>\$ 14,694</u>	<u>\$ 2,623,026</u>	<u>\$ 832,501</u>	<u>\$ 3,927</u>



Fiduciary Fund Financial Reporting

Example County
Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Other Custodial Funds
For the Year Ended December 31, 2020

	Custodial Funds				Total Other Custodial Funds
	Taxes and Penalties	State License and Fees	Jail Canteen	Joint Powers	
ADDITIONS					
Contributions:					
Individuals	\$ -	\$ -	\$ 4,945	\$ -	\$ 4,945
Property Tax Collections for Other Governments	13,345,009	-	-	-	13,345,009
License and Fees Collected for State	-	1,070,535	-	-	1,070,535
Miscellaneous	-	-	-	174,522	174,522
Total Additions	13,345,009	1,070,535	4,945	174,522	14,595,011
DEDUCTIONS					
Beneficiary Payments to Individuals	-	-	4,085	-	4,085
Payments of Property Tax to Other Governments	13,158,499	-	-	-	13,158,499
Payments to State	-	1,070,535	-	-	1,070,535
Administrative Expense	-	-	-	420	420
Payments to Other Entities	-	-	-	95,450	95,450
Total Deductions	13,158,499	1,070,535	4,085	95,870	14,328,989
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	186,510	-	860	78,652	266,022
Fiduciary Net Position - Beginning of Year	-	-	-	-	-
Change in Accounting Principle	48,500	-	24,950	493,029	566,479
Fiduciary Net Position - Beginning of Year, as Restated	48,500	-	24,950	493,029	566,479
FIDUCIARY NET POSITION - END OF YEAR	\$ 235,010	\$ -	\$ 25,810	\$ 571,681	\$ 832,501





Custodial Fund Examples

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Taxes and Penalties example

- Custodial fund – Collections for other governments
- Own county collections in appropriate funds
 - Can no longer report in and outs for county through the custodial fund like some did when it was an agency fund
 - ◇ Easiest may be a journal entry to net county piece out



Taxes and Penalties – Statement of Fiduciary Net Position

	Taxes and Penalties
ASSETS	
Cash and Cash Equivalents	\$ 457,942
Taxes Receivable For Other Governments	504,501
Accounts Receivable	-
Total Assets	962,443
LIABILITIES	
Due to Others	-
Salaries Payable	-
Due to Other Governments	457,942
Total Liabilities	457,942
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Collected for Subsequent Period	-
NET POSITION	
Restricted for:	
Individuals, Organizations, and	
Other Governments	\$ 504,501

- Cash = DTOG
 - DTOG = Short settlement in subsequent year
- Taxes Receivable for Other Governments = delinquent taxes receivable
 - Will need support if not already included in delinquent taxes receivable workpapers given to auditor
- Ending net position = Taxes for Other Governments

Taxes and Penalties – Statement of Changes in Fiduciary Net Position

	Taxes and Penalties
ADDITIONS	
Contributions:	
Individuals	\$ -
Property Tax Collections for Other Governments	16,160,756
License and Fees Collected for State	-
Miscellaneous	-
Total Additions	16,160,756
DEDUCTIONS	
Beneficiary Payments to Individuals	-
Payments to State	-
Payments to Other Entities	16,170,587
Total Deductions	16,170,587
NET INCREASE (DECREASE)	
IN FIDUCIARY NET POSITION	(9,831)
Fiduciary Net Position - Beginning of Year	-
Change in Accounting Principle	514,332
Fiduciary Net Position - Beginning of Year, as Restated	514,332
FIDUCIARY NET POSITION - END OF YEAR	\$ 504,501

- Additions & Deductions

Reconciliation	Additions	Deductions
May and Oct/Nov settlement	15,712,645	15,712,645
Subsequent January settlement	457,942	457,942
PY Delinquent Taxes Receiv	(514,332)	
CY Delinquent Taxes Receiv	504,501	
	16,160,756	16,170,587

- Beginning net position = PY Taxes for Other Governments (PY Delinquent Taxes Receivable)

State Revenue (Fees Collected for the State) example

- Custodial fund – Collected for the state
- Could have some of these flowing through governmental funds currently and will need to pull out
 - Have seen in/out in general fund liability accounts



State Revenue (Fees Collected for the State) example

- Examples
 - Child support payments
 - License fees
 - ◇ Marriage
 - ◇ Birth Certificate
 - Mortgage taxes
 - Deed taxes



State Revenue (Fees Collected for the State) – Statement of Fiduciary Net Position Example

	State Revenue
ASSETS	
Cash and Cash Equivalents	\$ 55,283
Taxes For Other Governments	-
Accounts Receivable	-
Total Assets	55,283
LIABILITIES	
Due to Others	-
Salaries Payable	-
Due to Other Governments	55,283
Total Liabilities	55,283
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Collected for Subsequent Period	-
NET POSITION	
Restricted for:	
Individuals, Organizations, and	
Other Governments	\$ -

- Cash & Due to other governments = Amounts collected after year end that relate back to previous year and are owed to the state



State Revenue (Fees Collected for the State) – Statement of Changes in Fiduciary Net Position Example

	State Revenue
ADDITIONS	
Contributions:	
Individuals	\$ -
Property Tax Collections for Other Governments	-
License and Fees Collected for State	704,351
Miscellaneous	-
Total Additions	704,351
DEDUCTIONS	
Beneficiary Payments to Individuals	-
Payments to State	-
Payments to Other Entities	704,351
Total Deductions	704,351
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	-
Fiduciary Net Position - Beginning of Year	-
Change in Accounting Principle	-
Fiduciary Net Position - Beginning of Year, as Restated	-
FIDUCIARY NET POSITION - END OF YEAR	\$ -

- Additions = Deductions due to payables booked
- Beginning net position, as restated is PY Cash less PY accruals
 - Should equal zero



Fiscal Host (Unrelated Entity)

- Custodial fund
- Joint powers agreement (no equity interest) is very similar in nature)



Fiscal Host (Unrelated Entity) – Statement of Fiduciary Net Position Example

- No material CY accruals in this example

ASSETS

Cash and investments	\$ 640,105
Due from other governments	-
Taxes for other governments	-
Total Assets	<u>640,105</u>

LIABILITIES

Due to others	-
Due to other governments	-
Total Liabilities	<u>-</u>

DEFERRED INFLOWS OF RESOURCES

Property taxes collected for subsequent period	<u>-</u>
--	----------

NET POSITION

Restricted for:	
Individuals, organizations, and other governments	<u>\$ 640,105</u>



Fiscal Host (Unrelated Entity) – Statement of Changes in Fiduciary Net Position Example

- Restatement = PY Cash as no material accruals for PY

ADDITIONS

Contributions	
Individuals	\$ -
Gifts and contributions	-
Property tax collections for other governments	-
License and fees collected for state	-
Miscellaneous	305,430
Total Additions	<u>305,430</u>

DEDUCTIONS

Beneficiary payments to individuals	-
Payments of property tax to other governments	-
Administrative expense	-
Payments to other entities	227,337
Total Deductions	<u>227,337</u>

NET INCREASE (DECREASE)

IN FIDUCIARY NET POSITION	78,093
---------------------------	--------

Fiduciary Net Position - Beginning of Year

Restatement (See Note V)

Fiduciary Net Position - Beginning of Year, as Restated

-
562,012
<u>562,012</u>

FIDUCIARY NET POSITION - END OF YEAR

\$ 640,105





Helpful Hints

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Document, document, document

- **Document determination**
 - Show how the activity was reported previously
 - And how it'll be reported under GASB 84 and why
 - Include fund numbers/names for ease



2019 and 2020 amounts

- **Your auditor will ask for 2019 and 2020**
 - Prepare mock 2019 statements so prior year to current year variances can be analyzed
 - Ensure you have all the detail that make up your numbers for both years



Beginning Net Position Restatement Needed

2019 ending cash

+ PY Receivables (items received in 2020 related to 2019)

- PY Payables (items paid in 2020 related to 2019)

= Beginning net position, as restated



Accruals/Deferred Inflows

- **Full accrual now**
 - Accruals will need to be tracked now and booked
 - Deferred inflows could also apply
 - ◇ Example: Prepaid taxes collected for other governments





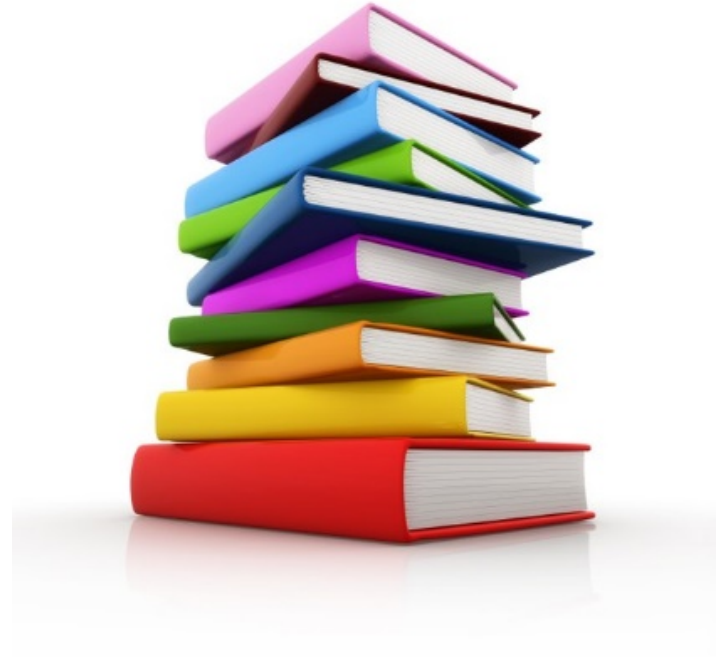
Resources

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Resources

- **GASB 84**
 - Appendix C includes flowcharts
- **GASB Implementation Guide**
 - **Fiduciary Activities**
- **Analysis of Potential Fiduciary Activities by OSA work group**
 - <https://www.auditor.state.mn.us/default.aspx?page=GASB84>



Can be
found
on MN
OSA
website

Analysis of Potential Fiduciary Activities

Common activities that may be impacted by GASB 84. There could be potential changes in recording based on specific changes in how the activities are handled

Activity	Description / Key Components	Appropriate area(s) to record activity	Questions /Comments
Trust funds / trust agreements		Trust fund	Trust must meet the requirements of GASB 84 paragraph 11c(1).
Payroll clearinghouse accounts	Clearinghouse accounts used to accumulate and pay payroll withholdings, which includes payroll garnishments and collection and disbursement of retiree health insurance premiums (if no OPEB trust has been established).	Activity of a county - not custodial funds	Implementation Guide 2019-2, Q & A 4.15
Group insurance (employers share)		Fund of county (non-fiduciary)	
VEBA accounts	VEBA accounts are trust or trust like agreements under IRS code 501(c)(9). If the county is the trustee or acting as trustee (or no known other trustee) or the investments are held in the name of the county, and the county has no obligation to make contributions.	Private-purpose trust fund	Not recorded as a fiduciary activity if VEBA account is through Minnesota Service Cooperatives VEBA Plan or other arrangement where county is not trustee, or appointing the trustee and not holding assets
VEBA accounts	VEBA accounts are trust or trust like agreements under IRS code 501(c)(9). If the county is the trustee or acting as trustee (or no known other trustee) or the investments are held in the name of the county and the county has an obligation to make contributions.	Pension trust fund	Not recorded as a fiduciary activity if VEBA account is through Minnesota Service Cooperatives VEBA Plan or other arrangement where county is not trustee, or appointing the trustee and not holding assets
Flexible benefits accounts	Clearinghouse accounts used to accumulate and pay flexible benefits	Activity of a county - not custodial funds / GASB 21 Escheat Property can be a factor on the ending balance	Implementation Guide 2019-2, Q & A 4.15
Fiscal host - unrelated entity	Entity is fiscal host for entities that are not component units, joint ventures, or related organizations	Custodial account	Implementation Guide 2019-2, Q & A 4.29
Joint powers agreements (no equity interest)		Custodial (see fiscal host)	Implementation Guide 2019-2, Q & A 4.29
Joint powers agreements (when fiscal host has equity interest)		Account for county's equity interest in governmental or proprietary fund. Other members' shares in custodial fund unless trust agreement.	
Jail canteen	The funds held for the benefit of inmates is the property of the inmates, while fees charged by the county are own source revenue to the county.	Inmate funds are recorded in a custodial account, fees charged are revenue of a governmental or business-type activity.	Implementation Guide 2019-2, Q & A 4.14, and 4.24
Taxes and penalties collected for other governments	Dollars collected for the County are included in the funds of the County	Funds for other governments included in a custodial accounts	

Activity	Description / Key Components	Appropriate area(s) to record activity	Questions /Comments
Retainage		Fund of a County - not custodial funds	Implementation Guide 2019-2, Q & A 4.11, 4.13
Missing heirs ¹	Escheats to the County after 21 years. Make an analysis of whether heirs are going to be found. If it is to be claimed, then should be a liability.	Fund of a County (recommended) or private purpose trust fund.	Implementation Guide 2019-2, Q & A 5.2
Cemetery funds	The activity is administered through a cemetery care trust in which the assets are (a) dedicated to providing cemetery plot maintenance to individuals who have paid the fees for such maintenance, in accordance with the benefit terms, and (b) legally protected from the creditors of the government. The board of the not-for-profit association establishes how the resources can be spent.	Private purpose trust unless no trust agreement, then custodial fund.	Implementation Guide 2019-2, Q & A 4.10
Writs of execution / civil process collected by sheriff to be delivered	Funds are controlled by the County (such as deposited in a bank account under the County's name), and has no determination in the use of the assets other than to provide them as court or other party has directed.	Custodial account, unless trust agreement	
Social welfare	Trust like agreement	Private purpose trust	
Local collaborative	Grant funds received from MN Department of Human Services are required to be reported as own source revenue of counties due to the administrative involvement required by counties. Other activity, specifically the payment of vendors, may be treated as more of a fiscal agent-like responsibility and then fiscal agent-like reporting would be required.	Grant funds received from DHS are recorded in a governmental or business-type activity. Payments of grant funds may be made directly to the local collaboratives or to a custodial account, as applicable. Any other activity of a collaborative (handled by the county) is recorded in a custodial account.	Implementation Guide 2019-2, Q & A 4.29; GASB 84 paragraph 11b(2)
Park dedication fees		Governmental Fund - restricted fund balance	
License fees owed to the state		Custodial account	
Other fees collected for the state	By statute, counties collect many items on behalf of the state such as recorders fees, child support payments, medical assistance recoveries.	Custodial account	
Environmental cleanup security deposit	Amounts on deposit in case project is not cleaned up when completed	Governmental Fund - and related liability	Implementation Guide 2019-2, Q & A 4.11
Seized property / Forfeitures	Monetary forfeitures in control of the the County.	Prior to forfeiture - custodial, post forfeiture in a fund of the county	
MN PACE loans through Port Authority where County is collecting the special assessments	Own source revenue - special assessments	fund of the county (not custodial)	GASB 33, paragraph 7b
Septic Loans	Own source revenue - special assessments	fund of the county (not custodial)	GASB 33, paragraph 7b



Activity	Description / Key Components	Appropriate area(s) to record activity	Questions /Comments
Pass-through grants		Governmental or proprietary fund, assuming some level of administrative or direct financial involvement.	
Timber revenue collections	The share of timber revenue collections that belong to the county, and the share that is owed to other governments	The County share is own-source revenue which should be recorded in a fund of the county (non-fiduciary). The amount owed to other governments should be included as a custodial account.	
Forfeiture land funds	The share of forfeiture collections that belong to the county, and the share that is owed to other governments	The County share is own-source revenue which should be recorded in a fund of the county (non-fiduciary). The amount owed to other governments should be included as a custodial account.	
Contract for deed	The receivable share of forfeiture collections that belong to the county, and the share that is owed to other governments	The County share should be recorded in a fund of the county (non-fiduciary) and offset by unavailable revenue for any amount not meeting the availability criteria. The amount owed to other governments when received, would be recorded in a custodial account as a receivable.	
Gravel pits	Amounts to be used for reclamation after gravel pit closure	Governmental Fund	
Estate recoveries	The share of collections that belong to the county, and the share that is owed to other governments	The County share of the receivable and collections should be recorded in a fund of the county (non-fiduciary) and offset by unavailable revenue for any amount not meeting the availability criteria. The amount owed to other governments would be recorded in a custodial account as a receivable and addition.	
Canceled Check / unclaimed property	Liability of the County	Fund of county (non-fiduciary)	
Recorder's Deposit Account / Surcharge Fund	Liability of the County	Fund of county (non-fiduciary)	
Sheriff - items collected by the sheriff and remitted to the county		Fund of county (non-fiduciary)	



In Summary

- **Activities previously reported as fiduciary activities need to be re-evaluated**
- **Activities that were previously reported as governmental or proprietary may now meet the definition of a fiduciary activity**
- **Activities previously not reported may now be reported**
- **Additional Statement of Changes in Fiduciary Net Position required**
- **Document your evaluation**
- **Act now!**





GASB No. 97 - Certain Component Unit Criteria, and Accounting and Reporting for IRC Section 457 Plans

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Background

- **GASB 84 and Implementation Guide 2019-2 provided new information as to criteria used to determine whether a primary government is financially accountable for a potential component unit.**



GASB No. 97

- Amends criteria used to identify component units
- Addresses reporting requirement for IRC Section 457 plans that meet the definition of a pension



Component Unit Criteria

- **Amends guidance for the identification of component unit arrangements**
- **Addresses issues that arose for defined contribution plans**
 - Appointment of voting majority of the potential component unit's governing board
 - Financial burden



Component Unit Criteria – Appointment of Voting Majority

- **Legally separate organization does not have a governing board**
- **Absence of governing board = primary government appointing voting majority of the potential component unit's governing board, except when the potential component unit is:**
 - Defined contribution pension plan,
 - Defined contribution OPEB plan, or
 - An other employee benefit plan



Component Unit Criteria – Financial Burden

- **GASB 84 established new component unit criterion for financial burden**
- **This statement amends that criteria, making it applicable only to:**
 - Defined benefit pensions plans
 - Defined benefit OPEB plans



Section 457 Plans

- **Section 457 Plan is to be reported as a pension plan if it meets the definition of a pension plan in accordance with:**
 - GASB 67, paragraph 51
 - GASB 73, paragraph 128
- **A Section 457 Plan that does not meet the definition of a pension plan is an other employee benefit plan.**



Section 457 Plans

- **Presence of an employer contribution**
 - Examples in the Basis for Conclusions of the previously issued Exposure Draft.
 - Removed from re-exposed Exposure Draft
 - Not the distinguishing factor in determining whether an arrangement meets the definition of a pension plan.



Section 457 Plan – Financial Reporting

- **GASB 84, as amended, should be applied to determine whether the Section 457 Plan should be reported a fiduciary activity in the government's financial statements.**
- **Use relevant pension guidance (GASB 68, 73 and 84) for accounting and financial reporting of Section 457 Plans that meet the definition of a pension plan**





GASB No. 90 – Majority Equity Interests, an amendment to GASB Statements No 14 and No. 61

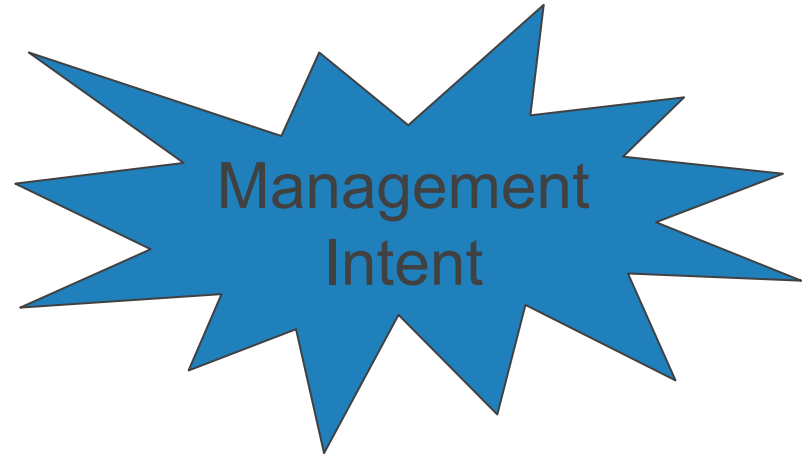
Purpose and Goal of GASB 90

- **Improve the consistency and comparability in reporting a government's majority equity interest (MEI) in a legally separate organization**
- **Improve relevance of financial statement information for certain component units**



Majority Equity Interest

- Financial interest in a legally separate organization evidenced by the ownership of the organization's stock or by having an explicit measurable right to the net resources of the organization
- Could result in either:
 - An investment, or
 - A component unit



Investments under GASB 72

- **GASB 72, paragraph 64, an investment is a security or other asset that:**
 - A government holds primarily for the purpose of income or profit and
 - Has a present service capacity based solely on its ability to generate cash or be sold to generate cash



Equity Method



Majority Equity Interests Considered Investments

- A majority equity interest in a legally separate entity that meets the definition of an investment should not be reported as a component unit.
- When a majority equity interest is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund the majority equity interest should be measured at fair value



MEI – if not an investment

- **Holding majority equity interest results in financial accountability**
 - Report the organization as a component unit
 - Report the interest as an asset of the fund that holds the equity interest using the equity method.

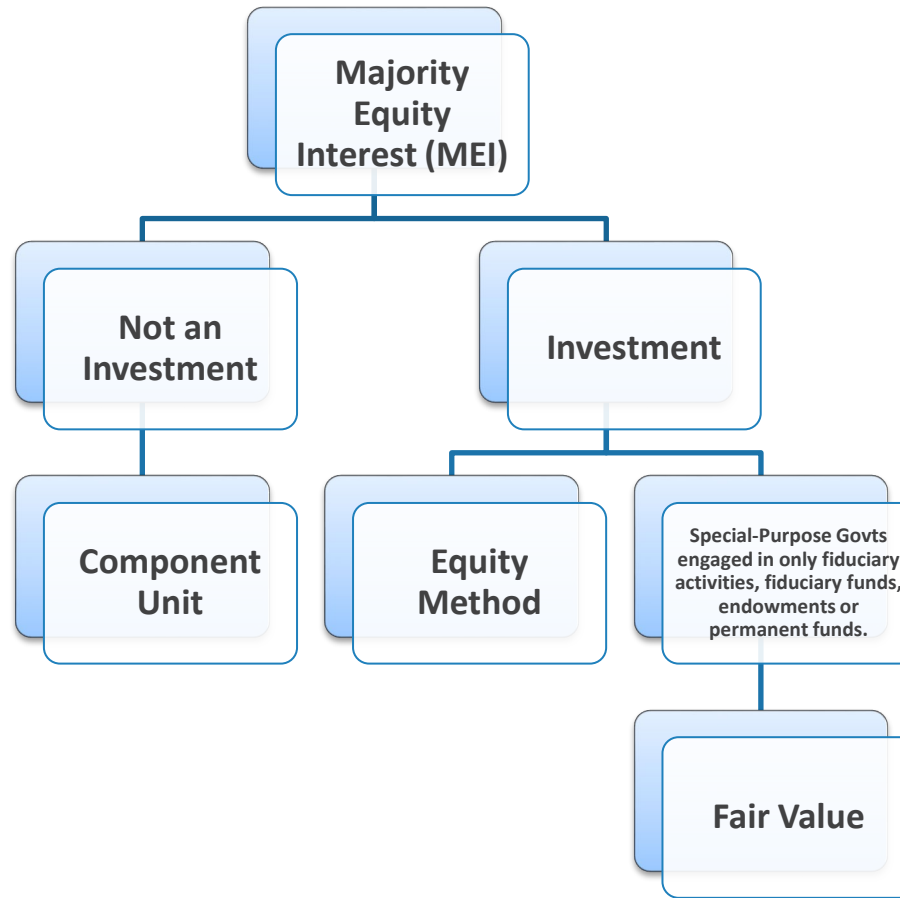
Note: If the component unit is blended, the asset and net position associated with the equity interest held by the fund should be eliminated in the blending process.



100% Equity Interest

- **If a government reports a MEI as a component unit and the government acquires 100% equity interest in the organization:**
 - Measure the assets, deferred outflows, liabilities, and deferred inflows in accordance with GASB Statement 69
 - Flow statement would only include transactions occurring subsequent to acquisition





Joint Ventures – GASB 90 does not apply

- **Paragraph 69 of GASB Statement 14 defines a joint venture**
 - An entity subject to joint control by the participants, meaning that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture
 - A government cannot by definition hold a majority equity interest in a joint venture



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