

# We promise to *know you* and *help you*.

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

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Welcome to the 2018  
CliftonLarsonAllen Government  
Training Academy

# About CLA - Firm Statistics

- More than 60 years of quality, service, and experience
- Among the nation's leading professional services firms
- Seamless and integrated approach to serving clients
- \$850 million in revenue
- More than 5,400 people, including 700+ principals
- More than 110 locations across the United States

<b>2,100+</b> clients engaging global capabilities	<b>20,000+</b> clients engaging outsourcing capabilities	<b>3,500+</b> clients served by CLA Wealth Advisors
<b>4,200+</b> clients engaging employee benefit plan capabilities	<b>8,700+</b> nonprofit and government organizations served	<b>89,000+</b> private households served
<b>1,500+</b> financial institutions served	<b>50,000+</b> private businesses served	<b>8,300+</b> health care organizations served



# CLA's Commitment to Thought Leadership



REGULATIONS | TOOL

[GASB Implementation Planner for State and Local Governments](#)



REGULATIONS | ARTICLE

[Local Governments: Make Sure You Understand the Full Scope of GASB 77](#)



OPERATIONS | ARTICLE

[Four Tips for Reducing Audit Fees for State, Local, and Federal Governments](#)



REDUCING RISK | ARTICLE

[Five Ways to Fend off Electronic Vendor Fraud at Your Government Entity](#)



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## CLA Outsourced Services - Interim and Project Roles

- Gov't can't or doesn't need to hire permanent role right away
- Will take a while to hire the permanent employee
- Can be for full-time on-site for several months or years



### Personnel change

Maternity leave or other medical leave  
Terminated or sudden exit of employee  
Succession planning

### Peak Workload

Monthly or quarterly financial close  
Year-end assistance  
Audit and/or budget preparation



### Other major changes

New capital projects  
System implementation



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## CLA Outsourced Services – Data Analysis

- CLA's data analytics tools that can simplify periodic (daily, weekly, monthly, quarterly, annually) reconciliation procedures
- Traditional practice has been to utilize pivot tables and other macros in Excel to combine, disaggregate, and reconcile data
- The larger the data set and more complex the objectives of the reconciliation, the more complicated and time-consuming the exercise can be
- Looking for more efficient ways to streamline your reconciliation process without the need for excessive file manipulation and obtain results in a hurry? CLA can help using sophisticated data analytics tools.





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## **Roundtable Presentation on Budgeting – Audience Participation**

The following questions will be raised at Matt Urkoski's upcoming budgeting presentation. Your participation and feedback will be appreciated!



# Budgeting Roundtable Questions

- What is your budget process?
  - What has worked well in your internal processes?
  - What has worked well in your external outreach efforts?
  - What challenges have you faced in your internal processes?
  - What challenges have you faced in your outreach efforts?



## Budgeting Roundtable Questions (cont.)

- What technology tools have you utilized to create efficiencies in your budgeting process?





## Budgeting Roundtable Questions (cont.)

- Does your jurisdiction have a Capital Improvement Plan (CIP)?
  - If yes, what is your process?
    - ◇ Is the CIP incorporated into your budgeting process?
      - If yes, at what point do you start/review the CIP?
  - If no
    - ◇ Do you feel there is a need for one?
    - ◇ Do you plan on initiating one?



## Housekeeping Items

- Make sure you received your name tag
- Be sure you sign in and out with administration to ensure you receive CPE credit
- Please complete evaluation forms if possible. Your feedback is extremely valuable to us.





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Thank you for joining us.  
We hope you enjoy today's  
conference.



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2018 Governmental Training Academy  
May 10-11, 2018



## Audit Findings and Effective Responses



# Learning Objectives

- At the end of this session, you will be able to:
  - Discuss the elements of the findings and how auditors use their judgement to classify and report findings.
  - Develop management responses to findings that are concise and effective.
  - Apply context to findings to better communicate “the story” of the finding.



# What Do We Need to Understand about Audit Findings?

- The various types of findings.
- Attitudes and perspectives form various views.
- The process of findings



# Types of Audit Findings

- Financial statement findings
  - SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*
  - GAO's *Government Auditing Standards (Yellow Book)*
- Single audit findings
  - *Federal grant programs*
  - *OMB's Uniform Guidance*
- Management letter comments
  - Those charged with governance
  - "Other comment"



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# Financial Statement Findings

- Findings in internal control of financial reporting
- Background –
  - Based on auditor risk assessment of material misstatements.
    - ◇ Drives the significance of the finding
  - Often found during test of internal control design or effectiveness.
  - *Requirement:* Understand internal control over account balances and class of transactions with a risk of material misstatement.





# Single Audit Findings

- Findings in internal control over compliance
- Findings over compliance
  - Noncompliance
- Background –
  - Based on auditor risk assessment of material noncompliance.
    - ◊ Drives the significance of the finding
  - Often found during test of internal control design or effectiveness testing and compliance testing
  - *Requirement:* Auditors are required to test internal controls over compliance to achieve low control risk



# Finding Thresholds in Single Audit

- Internal control
  - Significant deficiencies and material weaknesses
- Material noncompliance
- Known or likely questioned costs greater than \$25,000
- Known or likely fraud
- Misrepresentation of status of prior year findings



# Rule of Thumb and Federal Expectation

- If noncompliance, internal controls were not working properly.
  - So usually, if you have a noncompliance finding you will have an internal control finding.



# Management Letter Comments

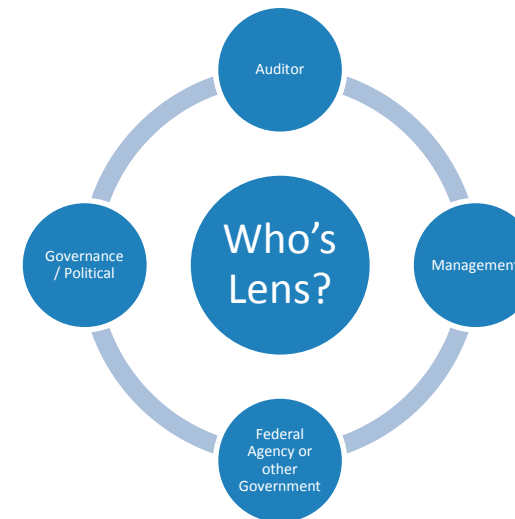
- Not required, but often desired
- Business advice
- Items that do not meet the classification of significant deficiency or material weakness  
(i.e. control deficiency)
- Often, used to capture conversations around lower level issues





# Attitudes and Perspectives

- Auditor's views
  - Duty
- Management's views
  - Getting better (helpful)
  - Judgement (negative feelings)
- Federal agency views
  - Monitoring internal controls
- “Political” views
  - Misunderstood, loss of perspective
  - Not concerned?



# Independence

- In Fact
  - No personal interest and personal gain.
  - Professional skepticism
- In Mind
  - It is not personal.
  - It is fact based.
- It's someone's job to make these judgments



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# The Finding Process



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# Noting an Exception and Making Comment

- Often the most difficult process in an audit.
  - Elevation to appropriate people
    - ◇ Management team
    - ◇ Auditor's team
  - Uncertainty of classification without additional fact finding
  - Over-reaction
  - Impatience with process



# Finding Classifications

- Control deficiencies
  - “Those for management”
  - Significant deficiencies
  - Material weaknesses
- Noncompliance
  - Material
- “Qualifying” findings – finding or an accumulation of findings that qualifies an auditors’ opinion.



# Material Weakness

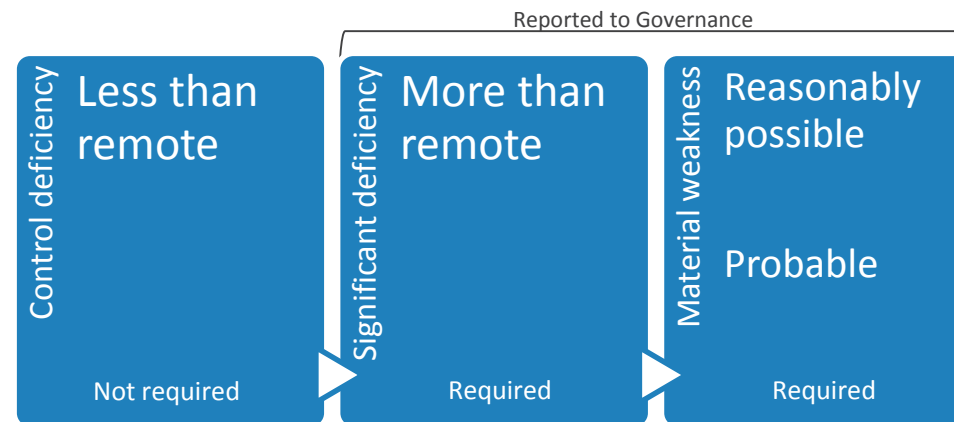
- A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be **prevented**, or **detected** and **corrected**, on a **timely basis**. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:
  - **Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.
  - **Probable.** The future event or events are likely to occur.
- If it happened it is...
  - Both reasonably possible and probable





# Significant Deficiencies

- A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.



# Auditor Judgement

- Materiality (financial statement findings)
  - Qualitative and quantitative
- Direct and material (single audit findings)
- Significance and pervasiveness
- History
- Judgement is trumped by actual results
  - Material misstatements
  - Material noncompliance
- Key point: Identification and correction in the same year does not avoid finding.



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# Example - Hypothetical

- The department identifies a \$60 million dollar restatement to accrued sick time.
  - Material to the opinion unit
  - Comptroller's department identified in December and made the adjustment in February of the fiscal current year.
  - Result: Material weakness in internal control over financial reporting



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# Example – Hypothetical 2

- The department passes Federal funding through to several other governmental entities (i.e subrecipients). The department's subrecipient monitoring procedures do not timely review the subrecipient's single audits until 5 years after the funds are reimbursed. 75% of the Federal expenditures are subrecipient payments for the program tested.
  - Direct and material to the compliance requirement
  - Result: Material weakness in internal control and material noncompliance likely opinion modification for subrecipient monitoring.





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**Responding to Audit Findings**



# What if I say “No”?

- If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments. (4.39 GAGAS)





# I Disagree with the Finding

- When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments.
  - I disagree is inconsistent or in conflict
- If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence. (4.38 GAGAS)
  - This is the most common issue when in disagreement.
    - ◊ Bad documentation, no audit trail, oral testimony, etc.



# Disagreement is Generally Not Good



- Auditees and auditors need to work together to get good quality findings and honor the audit process.
- Auditors must be skeptical and operate based on evidence.
- Management needs to maintain evidence to prove compliance at the point decisions are made.



# The “Power” of Agree



- Ownership, stewardship, responsibility ,
- If we cannot say, “Agree” it signifies –
  - Somebody is wrong, the two somebodies are:
    - ◇ The independent auditor who is operating skeptically and looking at evidence.
    - ◇ The auditee who is entrusted to operate the program and adhere the mountains of regulations.
  - Auditors and auditees who are not reconciled, are asking for **FEDERAL ATTENTION AND REVIEW.**



# Purpose of a Finding

- Audit findings must be presented in sufficient detail and clarity for the auditee to prepare a corrective action plan and take corrective action, and for Federal agencies and pass-through entities to arrive at a management decision. (UG 200.516(a)7b)



# Elements of Finding – Single Audit

- Federal program and specific Federal award identification
- Criteria or specific requirement
- Condition found – *What?*
  - Context – *How? How many vs. population?*
- Statement of cause - *Why*
- Possible asserted effect – *Why do we care, so what?*
- Questioned costs
- Recommendations
- Views of responsible officials





# Elements of Finding – GAGAS

- Criteria
  - Condition
  - Cause
  - Possible asserted effect
  - Recommendations
  - Views of responsible officials
- 
- No questioned costs



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# Example: Management's Views

- **Recommendation:** We recommend the department's management ensure policies and procedures are in place to ensure that all changes to eligibility status are promptly recorded in the system in order to prevent unallowable payments from being made on behalf of clients who are no longer eligible for the program. Additionally, the department should ensure adequate documentation is obtained which supports the allowability of payments and this documentation is retained in the individual's case file. Finally, the department should ensure that unallowable federal payments are recovered.
- **Management's views:** Agree with finding. In January 2017, we have incorporated and communicated changes to our policy and procedures to ensure client files are updated timely and appropriate documentation is maintained. For unallowable payment, we have begun the process of recovering payments.



# Corrective Action Plan

- At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports.
- The corrective action plan must provide:
  - the name(s) of the contact person(s) responsible for corrective action
  - the corrective action planned
  - the anticipated completion date.
- If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons. (UG 200.511(c) )



# Management's Views and Corrective Action Planned

- Should be similar if not the same.
- Suggested content –
  - Agree with finding.
  - Restate the recommendation in your words or suggest another remedy to ensure the condition would be corrected.



# Translated into a Corrective Action Plan

- Given –

**Management's views:** Agree with finding. In January 2017, we have incorporated and communicated changes to our policy and procedures to ensure client files are updated timely and appropriate documentation is maintained. For unallowable payment, we have begun the process of recovering payments.

- Corrective Action Plan –

**Finding 2016-005, Lack of Eligibility Documentation**

*Contact Person:* Betty Ross, Lead Case Manager

In January 2017, we have incorporated and communicated changes to our policy and procedures to ensure client files are updated timely and appropriate documentation is maintained. For unallowable payment, we have begun the process of recovering payments. *Completion Date:* April 1, 2017.



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# Management Decision

- Corrective Action Plan

**Finding 2016-005, Lack of Eligibility Documentation**

*Contact Person:* Betty Ross, Lead Case Manager

In January 2017, we have incorporated and communicated changes to our policy and procedures to ensure client files are updated timely and appropriate documentation is maintained. For unallowable

- Likely response from granting agency?
  - Looking forward to next year
  - What is the message being sent?



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# Next Year – First Thing is First

- Auditors are required to follow-up on corrective actions and prior year findings.
- Auditors want to see your management decision letters.
- Closes the cycle and restarts the process.



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## Intended Take-Aways

- Findings are about improvement not judgement
- Auditors have a lot of rules and expectations and findings are not fun for them either
- Auditors and auditees need to work toward agreement on findings
- Responses should be brief and show ownership and responsibility for getting the internal controls and compliance right



# Questions?



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Thank you!

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Retirement and Investment Planning



# Learning Objectives

- At the end of this session, you will be able to:
  - Explain what Financial Planning is and why it is important
  - Discuss key investment principles
  - Develop a Personal Investment Strategy



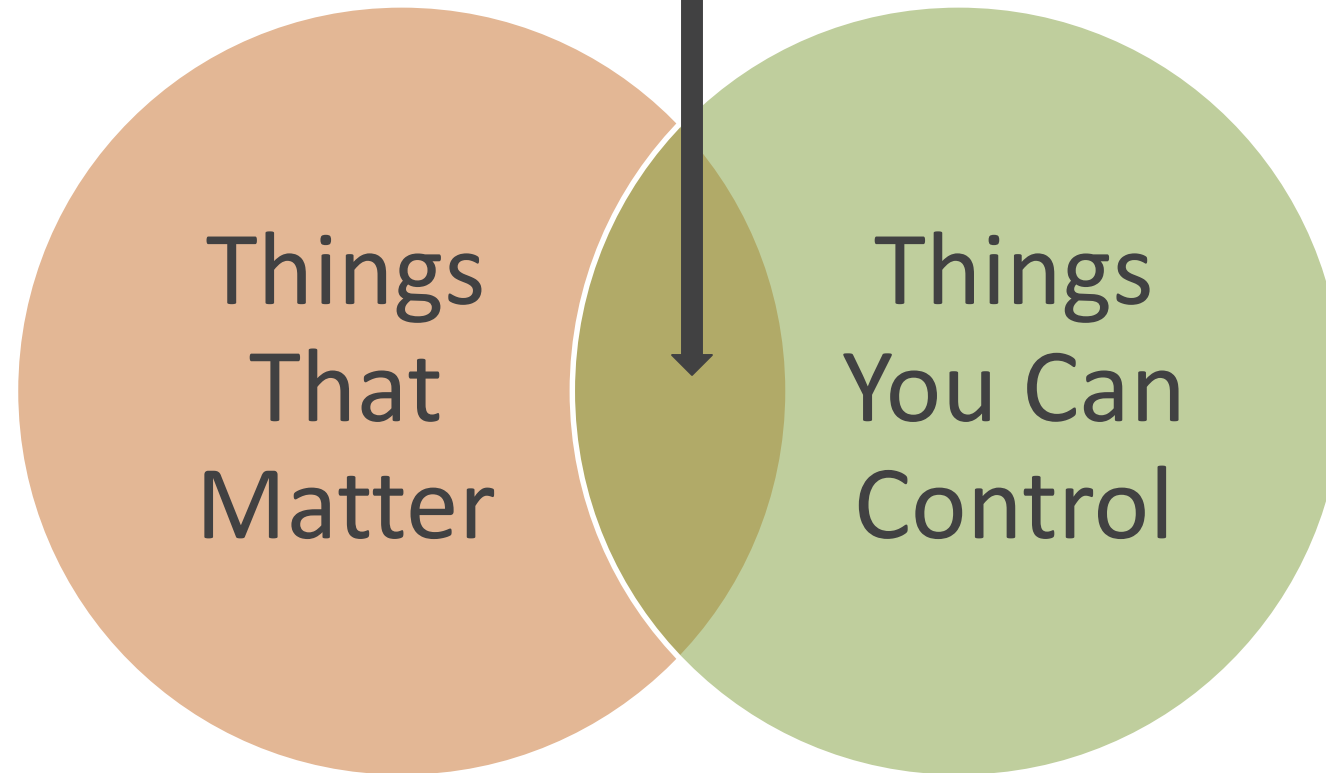


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**Goals Based Financial Planning**

Building Your Retirement Roadmap

# Goals Based Planning



# Why is Financial Planning Important?



## **New Home**

Are you ready to trade-up or just want more space? Maybe it's time for that vacation home you've always wanted. Make it a Goal and make it come true.



## **Major Purchase**

You've always wanted a \_\_\_\_\_. A sail boat? A motor home? A hot tub? A snowmobile? Whatever it is, go for it. Fill in the blank, and make it a Goal.



## **Provide Care for Someone**

If you need money to take care of someone you love (e.g., your mother in a nursing home, or a child with special needs), make sure you have a Goal to pay for it.



## **Leave Bequest**

Do you want to leave something for the kids, your church or alma mater? Create bequests for the money you'd like to leave at your death to family, friends, charities and institutions.

*Setting goals helps drive conversations that may not have been considered. The impact of retirement is not only financial but mental and emotional. Consider what will give you purpose in your next chapter.*





# Your Financial Health: Organizing Your Thoughts

## What can you do now to better your financial future?

- ✓ Do you have sufficient insurance coverage?
- ✓ How are you managing your expenses and cash flow?
- ✓ Are your funds invested in such a way to outpace inflation?



Distribution: Retirement Income From Savings and Investments

Accumulation: Regular Savings, Emergency Fund, Education and Retirement Funds, Investments (Stocks, Bonds, Mutual Funds, ETFs)

Protection: Create a Will, Life Insurance, Health Insurance, Disability Insurance, Debt Reduction

Foundation: Establish your goals, objectives, and values

# Know Your Flow

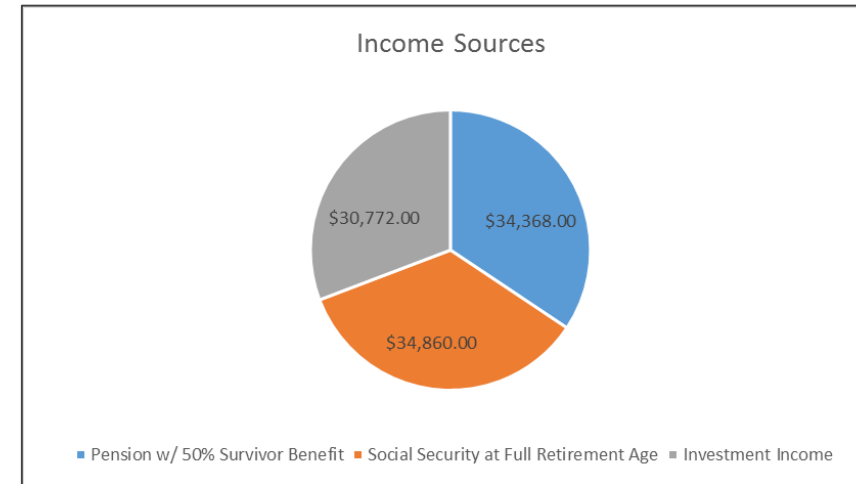


Know what you spend and don't forget to plan for unexpected expenses!

It helps to have a tool to keep you organized and on track.

Category	Monthly Budget Amount	
	Current	Alt 1 / Retirement
Alimony		
Bank Charges		
Books/Magazine		
Business Expense		
Care for Parent/Other		
Cash - Miscellaneous		
Cell Phone		
Charitable Donations		
Child Activities		
Child Allowance/Expense		
Child Care		
Child Support		
Child Tutor		
Clothing - Client		
Clothing - Co-Client		
Clothing - Children		
Club Dues		
Credit Card Debt Payment		
Dining		
Education		
Entertainment		
Gifts		
Groceries		
Healthcare - Dental		
Healthcare - Medical		
Healthcare - Prescription		
Healthcare - Vision		
Hobbies		
Household Items		
Laundry/Dry Cleaning		
Personal Care		
Personal Loan Payment		
Pet Care		
Public Transportation		
Recreation		
Self Improvement		
Student Loan Payment		
Vacation/Travel		
Other		

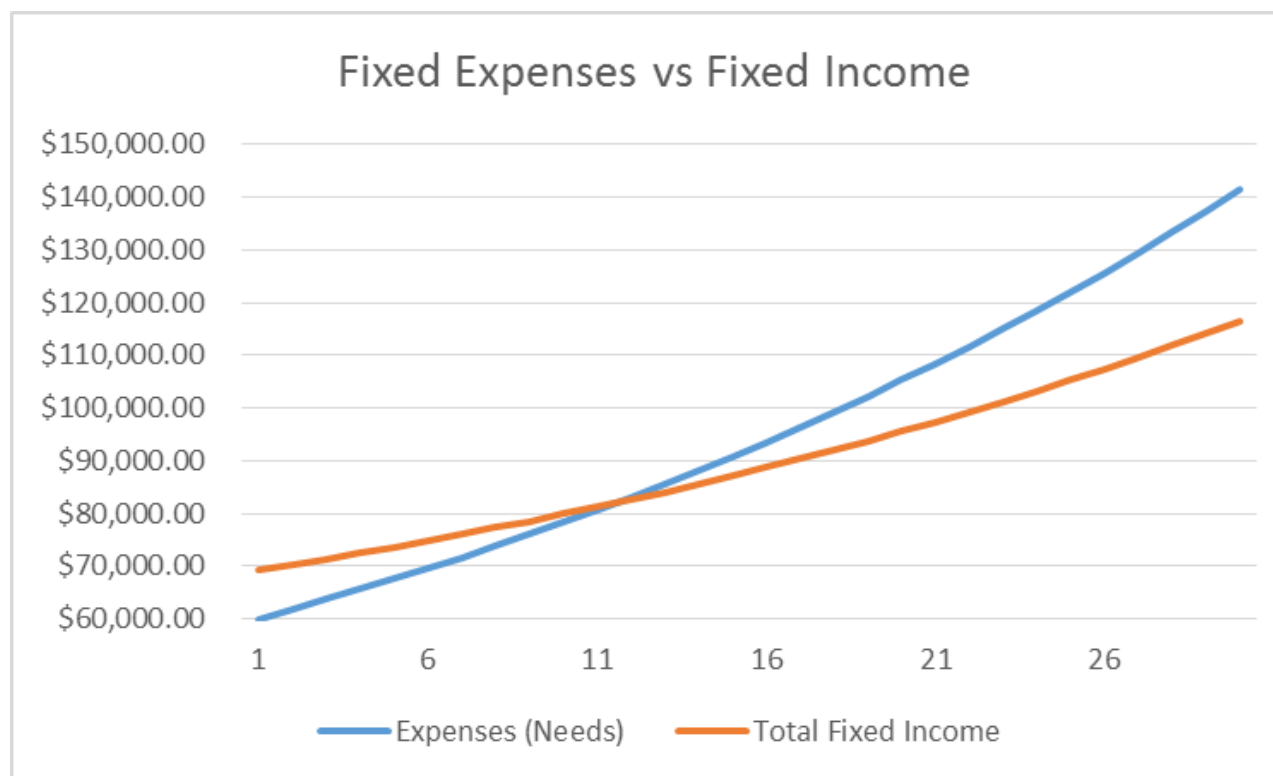
# Identifying Cash Flow Needs



1. Are you able to cover your needs from fixed income sources?
2. What will you need to accumulate in investment assets in order to generate the cash flow to cover your wants and wishes?
3. Based on a 4% withdrawal rate, you would need to have \$871,000 in investable assets to cover \$34,860 worth of expenses in year one.



# Cash Flow Planning & The Impact of Inflation



Assumes 3% annual inflation and 3% annual increase in Social Security Income with a pension benefit that stays constant.

# Implementing Your Plan

- Identify the factors that will improve your financial situation the most and prioritize those items.
- Build a timeline and identify who is responsible for implementation of each step.
- Review your plan regularly, make changes where necessary and track progress.



# Exercise: Identify Your Goals

	Short-Term (1-3 yrs.)	Intermediate (3-7 yrs.)	Long-Term (7+ yrs.)
Negotiable			
Non-Negotiable			
What barriers exist?			



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**Social Security**



# When to Begin Social Security

If you are eligible, there are a number of factors to consider:

- Do you need cash flow?
- Are you still working?
- Have you reached your full retirement age?
- Life expectancy vs. break even for waiting



# Full Retirement Age

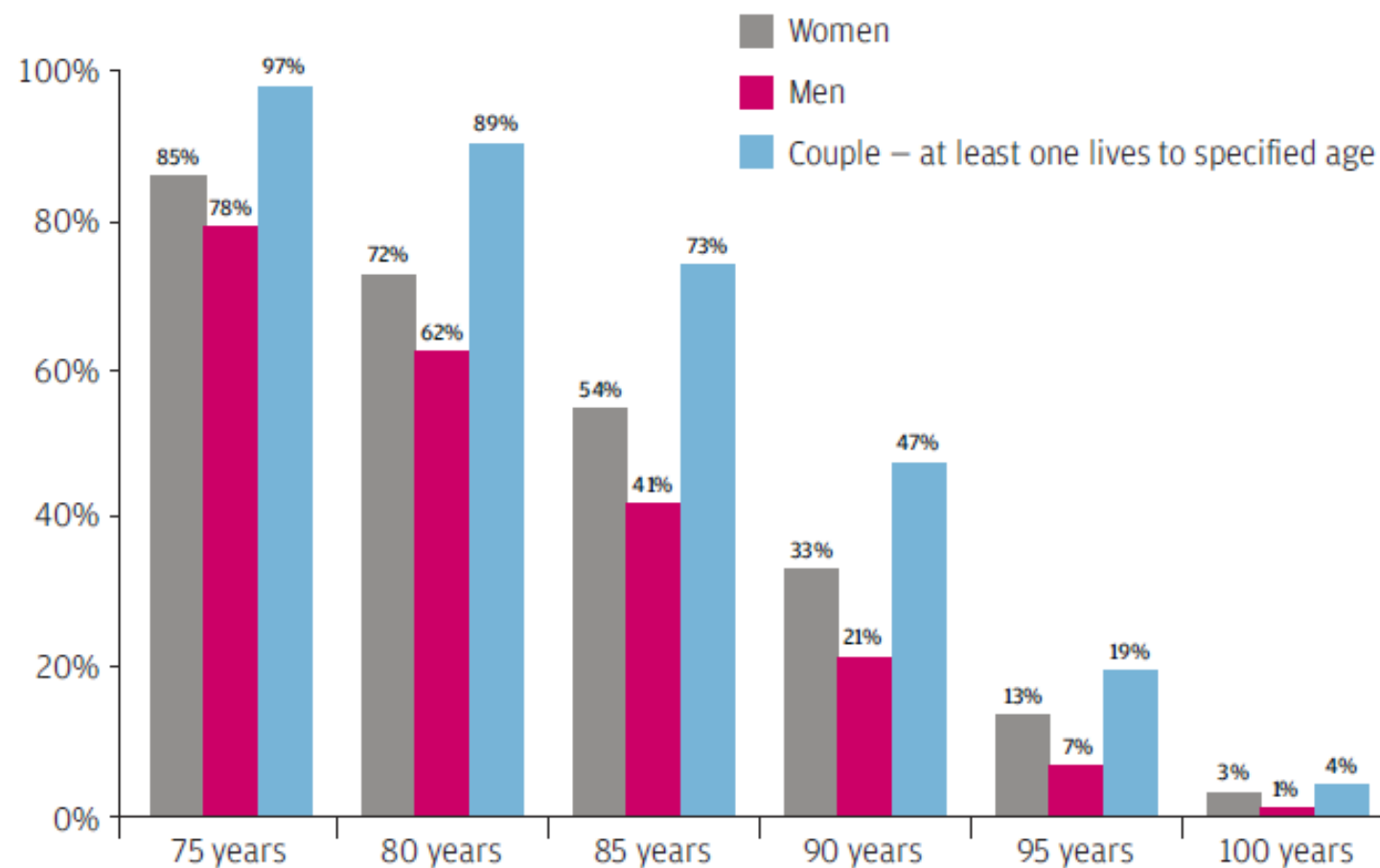
Year of Birth	Full Retirement Age (FRA)
1924-37	65
1938	65 & 2mo
1939	65 & 4mo
1940	65 & 6mo
1941	65 & 8mo
1942	65 & 10mo
1943-54	66
1955	66 & 2mo
1956	66 & 4mo
1957	66 & 6mo
1958	66 & 8mo
1959	66 & 10mo
1960-	67



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# Life Expectancy

If you're 65 today, the probability of living to a specific age



Source: Social Security Administration and J.P. Morgan Asset Management.



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# Delaying Benefits

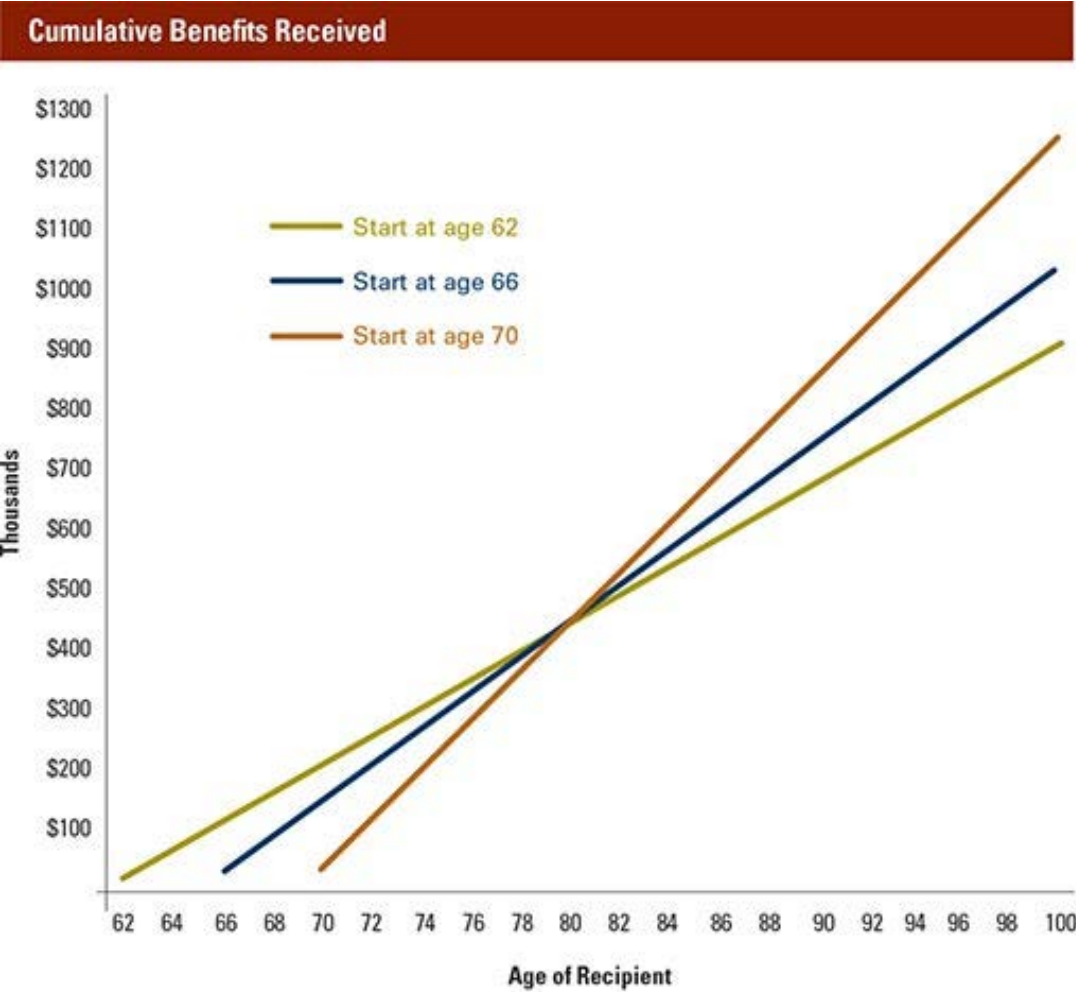
Age Benefits Are Claimed	% of PIA	Benefit without COLAs (\$/mo)	Benefit with 2% COLAs (\$/mo)
62	75.0	2,014	2,014
63	80.0	2,148	2,191
64	86.7	2,328	2,422
65	93.3	2,505	2,658
66	100.0	2,685	2,906
67	108.0	2,900	3,302
68	116.0	3,115	3,508
69	124.0	3,329	3,824
70	132.0	3,544	4,152

Assumes PIA = \$2,685



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# Breakeven Analysis



Source: Estimates based on data from the Social Security Administration (SSA), shown in today's dollars, for someone born in 1953 with earned income equal to the maximum Social Security wage base. Data showing benefit distributions over time does not reflect the time value of money.



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# Spousal Benefits

A spouse may receive their own benefit,  
or 50% of their spouse's benefit

Spousal benefits rules:

- Primary worker must have applied for benefits (but can suspend to build delayed credits if over FRA)
- Spousal benefit is based on worker's PIA, not his actual benefit
- Spouse must be at least 62 for reduced benefit or 66 for full benefit
- No delayed credits on spousal benefits after 66
- Marriage requirement is one year



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# Spousal Benefits

Age	FRA = 66	FRA = 67
62	35.0%	32.5%
63	37.5%	35.0%
64	41.7%	37.5%
65	45.8%	41.7%
66	50.0%	45.8%
67	50.0%	50.0%
68	50.0%	50.0%
69	50.0%	50.0%
70	50.0%	50.0%



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# Social Security Spousal Strategies

- **Claim Now**
  - Access spousal benefits
  - Frank retires at FRA and claims his full benefit of \$2600/mon. Ellen files for spousal benefits at FRA and claims \$1300/mon.
  - Ellen receives “step-up” to Frank’s monthly benefit when he dies
- **Claim More Later**
  - Maximize survivor benefits
  - Frank delays benefits to age 70 to earn max monthly benefit
  - Ellen may claim her own benefit any time she is eligible, but must wait to claim spousal benefits until Frank files, may switch to spousal benefit
  - Ellen steps-up to Frank’s benefit when he passes
- **Similar Earned Income**
  - Leverage a restricted application (both must have been born before 1/1/1954)
  - Ellen claims her benefit at FRA (age 66), and Frank files a restricted application for spousal benefits only
  - Frank switches to his own higher benefit at age 70
  - Ellen could step-up to Frank’s enhanced benefit if he dies before her



# Divorced Spouse Benefits

- Marriage must have lasted 10 years or more
- Person receiving divorced-spouse benefit is currently unmarried
- Ex-spouse is at least 62
- If divorce occurred more than 2 years ago, ex-spouse does not need to have filed for his own benefit
- More than one ex-spouse can receive benefits on the same worker's record
- Benefits paid to one ex-spouse do not affect those paid to the worker, the current spouse, or other ex-spouses
- The worker will not be notified that the ex-spouse has applied for benefits



# Survivor Benefits Key Points

- Individual Social Security benefits stop at death
- The surviving spouse (**min. of 9 months of marriage!**) is entitled to a survivor benefit equal to the deceased spouse's benefit
  - If Frank dies, Ellen's "original" survivor benefit will equal Frank's benefit at the time of his death
  - Ellen will receive the full survivor benefit if she claims it at her full retirement age or later
  - Ellen's own benefit will stop
- If Ellen's own retirement benefit is higher, she will keep her own benefit





# Survivor Benefits

Apply at age	If FRA = 66
60	71.50%
61	76.25%
62	81.00%
63	85.75%
64	90.50%
65	95.25%
66	100.00%
67	100.00%
68	100.00%
69	100.00%
70	100.00%



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# Advice For Individuals By Marital Status

Currently married	Coordinate benefits with spouse; one or both spouses delay own benefit to age 70, one spouse receives spousal benefit 66-70
Divorced	Delay own benefit to 70, take divorced-spouse benefit from 66-70
Widowed	Coordinate retirement and survivor benefits; take higher benefit last
Never married	Maximize own benefit by working; delay start of benefits to age 70
Individual With Deceased Ex-spouse	Consider survivor benefit as a possible resource if not remarried before age 60



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# Taxation

Filing Status	Provisional Income	Percent of Social Security Subject To Tax
Single	Under \$25,000 \$25,000 - \$34,000 Over \$34,000	0% 50% 85%
Married Filing Jointly	Under \$32,000 \$32,000 - \$44,000 Over \$44,000	0% 50% 85%

**Provisional Income = AGI + 50% of Social Security + Tax-Exempt Interest**



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## Medicare IRMAA (income-related monthly adjustment amount)

Joint 2016 MAGI + Tax Exempt	Standard 2018 Part B Premium	IRMAA 2018 Part B Premium	IRMAA 2018 Part D Premium
<\$170,000	\$134.00	\$0.00	\$0.00
\$170,000 - \$214,000	\$134.00	\$53.50	\$13.30
\$214,000 - \$267,000	\$134.00	\$133.90	\$34.20
\$267,000 - \$320,000	\$134.00	\$214.30	\$55.20
>\$320,000	\$134.00	\$294.60	\$76.20
<b>For single filers; cut MAGI in half</b>			

- Marriage
- Divorce/Annulment
- Death of Your Spouse
- Work Stoppage
- Work Reduction
- Loss of Income-Producing Property
- Loss of Pension Income
- Employer Settlement Payment



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**Invest with Focus**

Establishing a Philosophy and Strategy

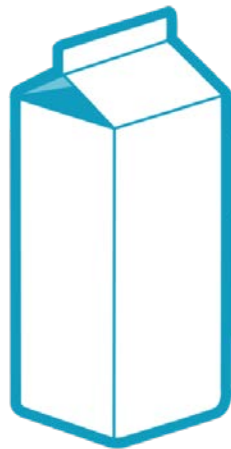
# Why Invest?



**We promise** to *know you* and *help you*.

# Your Money Today Will Likely Buy Less Tomorrow

1916



\$0.09 = Quart of milk

1966



\$0.09 = 1 Small Glass of milk

2017



\$0.09 = 7 Tablespoons of milk

In US dollars.  
Source for 1916 and 1966: Historical Statistics of the United States, Colonial Times to 1970/US Department of Commerce. Source for 2017: US Department of Labor, Bureau of Labor Statistics, Economic Statistics, Consumer Price Index – US City Average Price Data.





Investing means taking risks.



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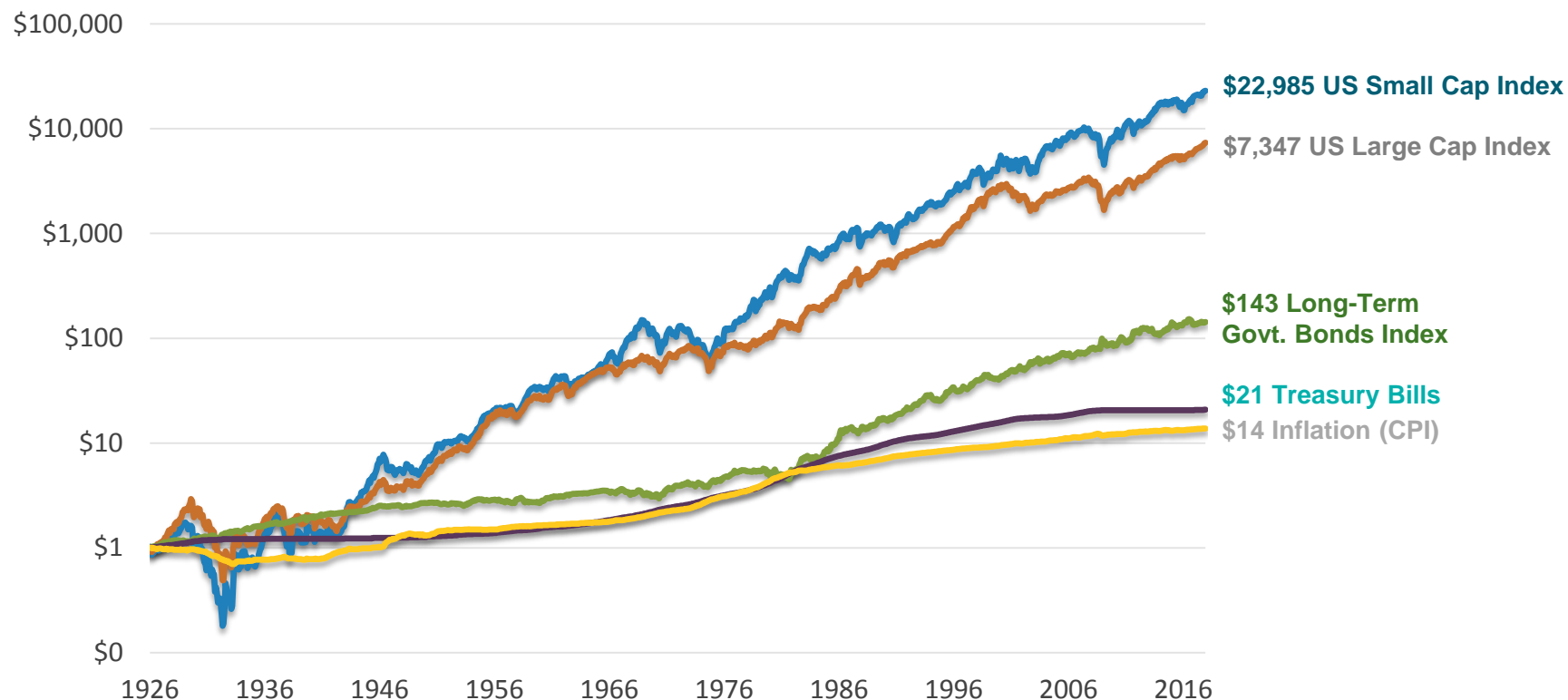
Not  
investing means taking risks,  
too.



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# Capital Markets Have Rewarded Long-Term Investors

Monthly growth of wealth (\$1), 1926–2017



\* In US dollars.

US Small Cap Index is the CRSP 6–10 Index; US Large Cap Index is the S&P 500 Index; Long-Term Government Bonds Index is 20-year US government bonds; Treasury Bills are One-Month US Treasury bills; 1-Month Treasury Bills Index is the IA SBB1 US 30 Day TBILL TR USD. Treasury Index data sourced from Ibbotson Associates, via Morningstar. Direct Inflation is the Consumer Price Index. CRSP data provided by the Center for Research in Security Prices, S&P data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bonds, T-bills, and inflation data provided by Morningstar. Past performance is no guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.



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# How Do Many People Invest?



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## They Try to Predict the Future

“I have a proven system for picking winning stocks.”

“That sector will continue advancing through next year.”

“The market is primed for a retreat.”



## They Act on Impulse

“I can’t take this bear market—  
I’m getting out!”

“Everyone’s making money—  
I want a piece of the action.”



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## They Bet their Savings on Tips and Hunches

“I got a hot tip from my neighbor.  
It’s a slam dunk.”

“I heard it on the news.  
I’d better sell!”

“My friend works in the industry—  
he’s got the inside scoop.”





## They Are Swayed by the Media

“The Death of Equities”

*Business Week*, 08/13/1979

“The Crash of '98  
Can the US Economy Hold Up?”

*FORTUNE*, 09/28/1998

“Retire Rich – A Simple  
Plan to Have it All”

*FORTUNE*, 08/16/1999

“How to Reach  
\$1 Million”

*Money*, 08/2012



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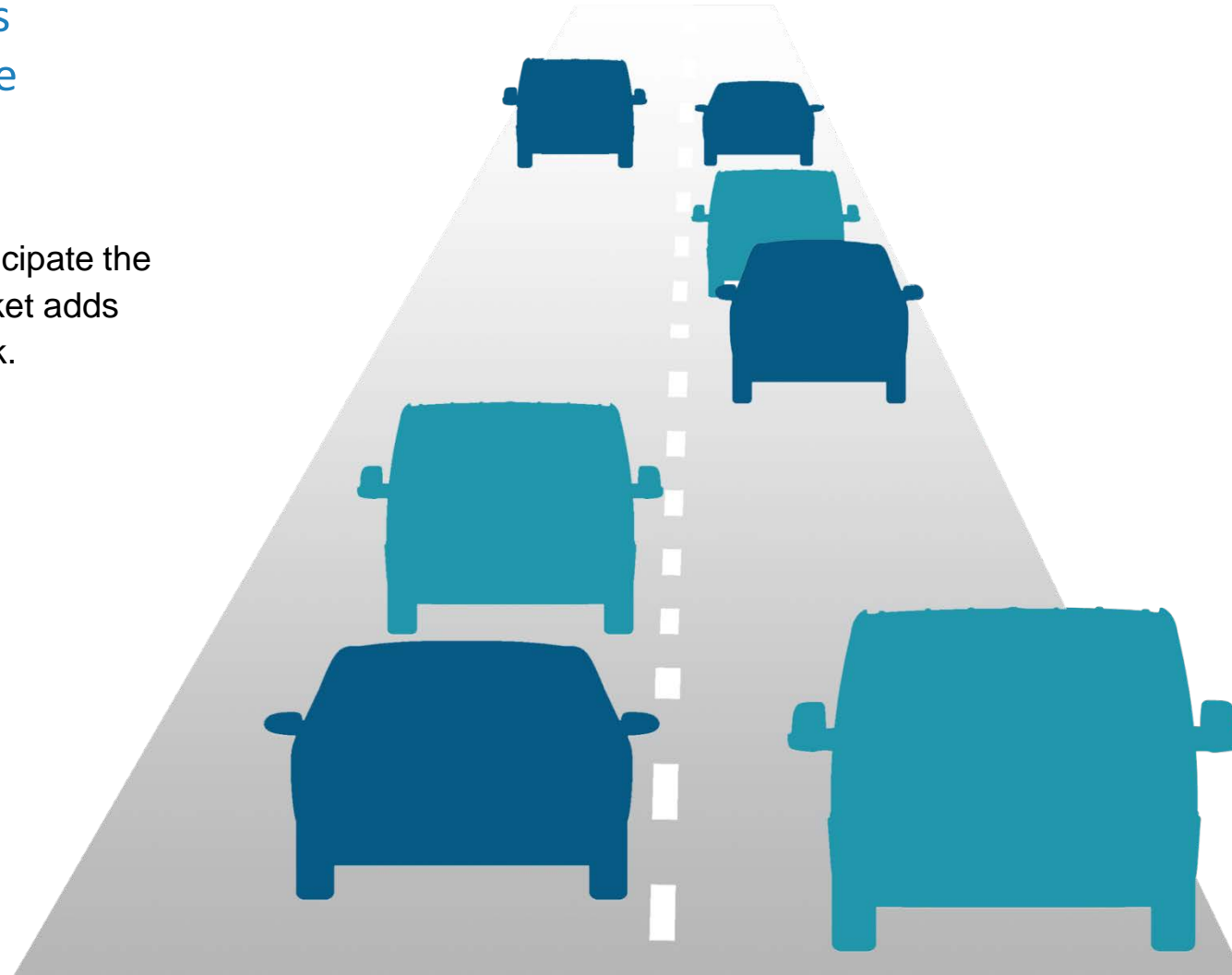
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to *know you and help you.*

**Key Principles of Investing**

# 1. Develop an Investment Plan

## Picking the Fastest Lane Is a Stressful Guessing Game

Likewise, trying to anticipate the movement of the market adds anxiety and undue risk.





## 2. Outsmarting other investors is tough

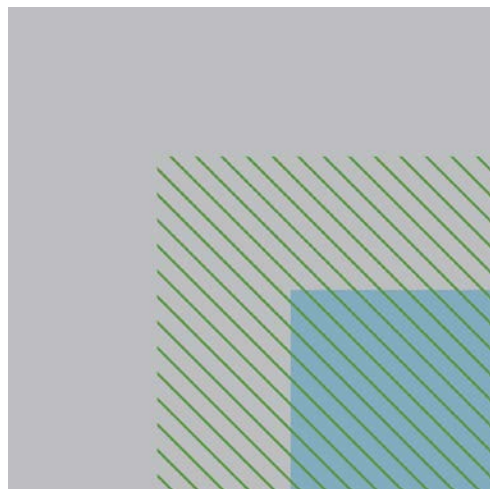
Few mutual funds survive and beat their benchmarks

15-year performance period ending December 31, 2016

### EQUITY FUNDS

Beginners
  Survivors
  Outperformers

2,587 funds at beginning

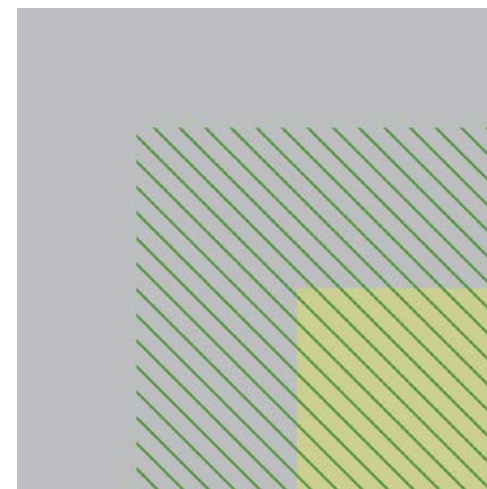


**48%**  
Survive
 **17%**  
Outperform

### FIXED INCOME FUNDS

Beginners
  Survivors
  Outperformers

958 funds at beginning



**57%**  
Survive
 **18%**  
Outperform

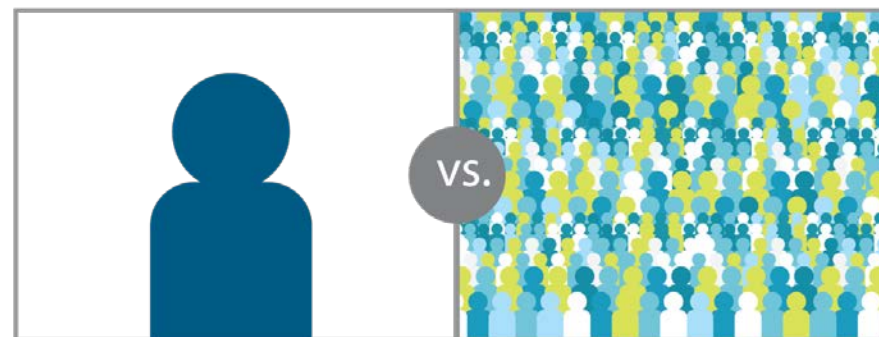
In US dollars. The sample includes funds at the beginning of the five-, 10-, and 15-year periods ending December 31, 2016. Survivors are funds that had returns for every month in the sample period. Winners are funds that survived and outperformed their respective Morningstar category benchmark over the period. US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. See Data Appendix for more information. Past performance is no guarantee of future results.



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### 3. Let the Market Work for You

When you try to outwit the market, you compete with the collective knowledge of all investors.



By harnessing the market's power, you put their knowledge to work in your portfolio.



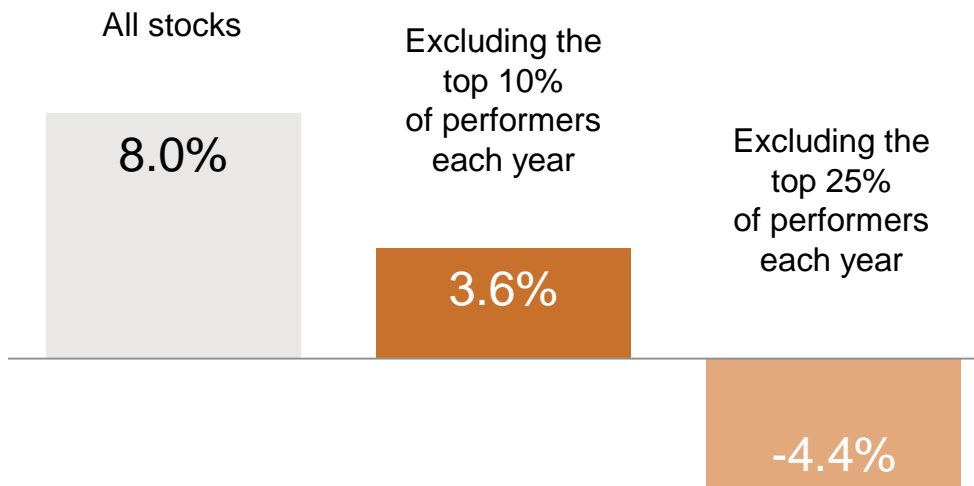
## 4. Diversify

### Diversification May Prevent You from Missing Opportunity

Attempting to identify that group of future winners is a guessing game.

Diversification improves the odds of holding the best performers.

Compound average annual returns: 1994-2017



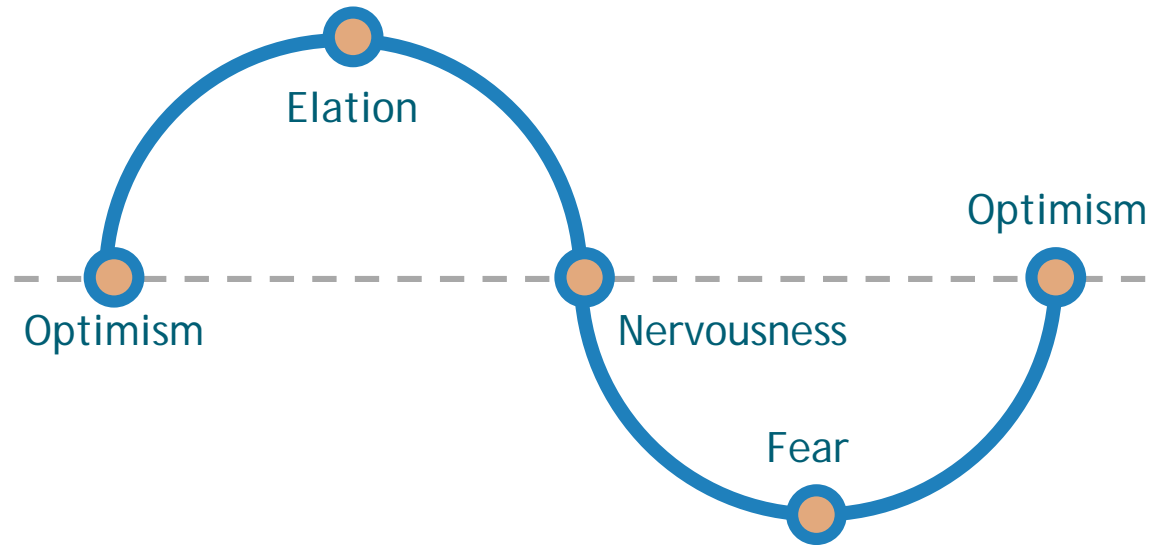
The "All stocks" portfolio consists of all eligible stocks in all eligible Developed and Emerging Markets. The portfolio for January to December of year t includes stocks whose free float market capitalization as of December t-1 is greater than \$10mln in developed markets and \$50mln in emerging markets and with non-missing price returns for December of year t-1. Annual portfolio returns are value-weighted averages of the annual returns on the included securities. The portfolios "Excluding the top 10%" and "Excluding the top 25%" are constructed similarly. Individual security data are obtained from Bloomberg, London Share Price Database, and Centre for Research in Finance. The eligible countries are: Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Republic of Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Peru, Philippines, Poland, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, and the United States. Diversification does not eliminate the risk of market loss. Past performance is no guarantee of future results.



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## 5. Manage Your Emotions

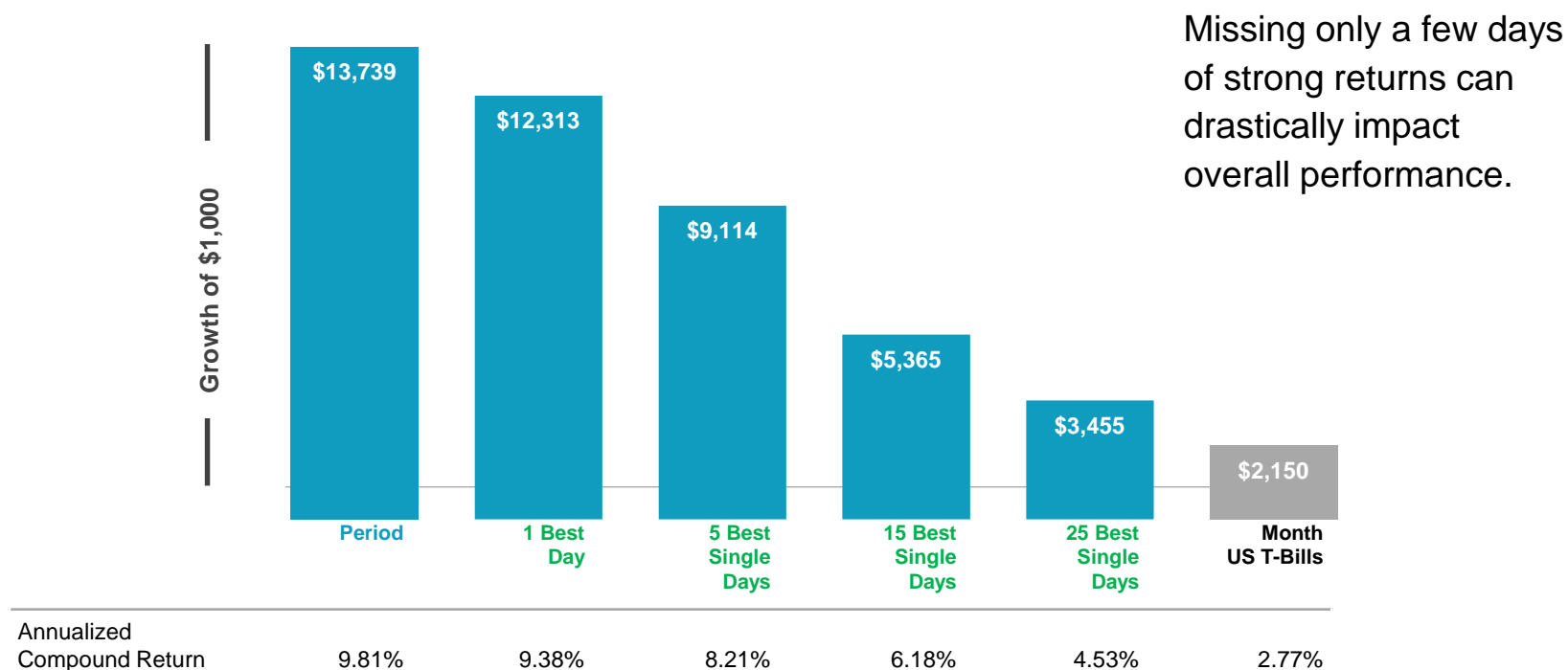


People may struggle to separate their emotions from their investment decisions.

Following a reactive cycle of excessive optimism and fear may lead to poor decisions at the worst times.

## 6. Reacting Can Hurt Performance

Performance of the S&P 500 Index, 1990–2017



In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero. S&P data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. "One-Month US T-Bills" is the 1A SBBI US 30 Day TBILL TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.



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## 7. Focus on What You Can Control

No one can reliably forecast the market's direction or predict which stock or investment manager will outperform.

A financial advisor can help you create a plan and focus on actions that add value.



Diversification neither ensures a profit nor guarantees against loss in a declining market.



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# Implementing Your Investment Strategy

- Ensure that your allocation is in alignment with your plan and goals.
  - If you want to build a house in five years, the money set aside for that goal may have a different risk/return profile than retirement money.
- Reassess and rebalance at least annually.
- Be mindful of tax consequences.
  - Distribution
  - Rebalancing
  - Tax Loss Harvesting



# Talk To A Trusted Advisor!



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# Disclosures Regarding Risk & Return Estimates

## Important Information Concerning Portfolio Allocation Illustrations

There can be no assurance that the future performance of any specific investment or investment strategy (including those undertaken or recommended by CLA Wealth Advisors), will be profitable or that it will perform comparably to any historical performance level(s).

Return Estimates are modeled using portfolio risk tools as well as future market performance estimates provided by one or more third party market analysts which we believe to be reliable, but have not taken the steps to verify. The Return Estimates shown must be considered hypothetical in nature, rather than guarantees or predictions of actual future investment. Other market performance information is strictly an illustration based on historical data, and it should not be viewed as predictive of future results.

**Allocation Target:** The allocation weights will change as the market values of different holdings vary independently to one another. Rebalancing transactions may be made for the purpose of moving the allocation back to Targets.

**Market Value Target:** This is a simple estimate of the market values for each asset and asset class based on the Allocation Target for each relative to the assumed total portfolio value. As total account value changes, the Market Value Targets will change if Allocation Targets remain the same.

## Notes on Portfolio Characteristics:

1. **Total Return Estimate [Forward looking]:** a statistical estimate of the mean return of the portfolio. It is calculated using the weighted average of forward return estimates assembled from a survey of 20 of the largest pension consultants who offer capital market forecasts for a variety of asset and sub asset classes, and factors in the historical volatility (standard deviation) of each asset and sub asset class, and historical correlation (co-variance) of each asset and sub asset class in relation to one another, while adjusting for the portfolio's allocation to the asset and sub asset classes.
3. **Risk Estimate [standard deviation]:** a statistical estimate of the volatility the portfolio is expected to experience, expressed as a deviation from the geometric mean return. Stated more simply, a portfolio with a mean return of 5 percent and a 7 percent standard deviation would be expected (67 percent of the time) to exhibit a return ranging from 5 percent +/- 7 percent, or -2 percent to +12 percent.
4. **Sharpe Ratio:** a measure of return per unit of risk (standard deviation). Sharpe ratio is calculated as  $[\text{Portfolio return} - \text{risk free rate}] / \text{Portfolio standard deviation}$ . The risk free rate is generally assumed to be the return of short term treasuries. A useful indicator of portfolio efficiency, a higher number is better.
5. **Value at Risk (VAR):** a statistical estimate of the potential decline in the portfolio. Value at risk in a moderate volatility environment is estimated as the potential portfolio decline in any given year as estimated by a two standard deviation decline from the expected geometric mean return. Value at Risk in a high volatility environment is estimated as a three standard deviation decline from the expected geometric mean return.

Investment outcomes in the real world are the result of a new infinite set of variables, few of which can be accurately anticipated. Because the ability to accurately anticipate those variables is limited, investors should understand that the calculations made in this analysis are hypothetical, do not reflect actual investment results, and are not guarantees of future returns. The results presented in this analysis are not predictions of actual results. Actual results will vary to a material degree due to variable factors beyond the scope and control of this analysis. While some historical data is used to some degree in producing hypothetical the calculations in this analysis, such historical data has inherent limitations, as past performance is not a guarantee or predictor of future performance.

CLA Wealth Advisors cannot be held responsible for any direct or incidental loss resulting from applying any of the information provided. A portfolio's total return is influenced by a variety of factors that may not be included in this analysis. Actual results will differ based on actual market conditions. Performance shown does not reflect any fees or other transaction costs and expenses. If these charges had been included, performance would have been lower.





# Disclosures Continued

## CliftonLarsonAllen Wealth Advisors, LLC (“CLA Wealth Advisors”)

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Thank you!

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Single Audit: Federal & State Grant Compliance

# Learning Objectives

- Recognize the importance of proper internal controls over compliance
- Identify policies and procedures that may need to be implemented or revised
- Apply best practices related to grant management
- Identify differences between vendor, sponsor, and sub-recipient contracts and their treatment





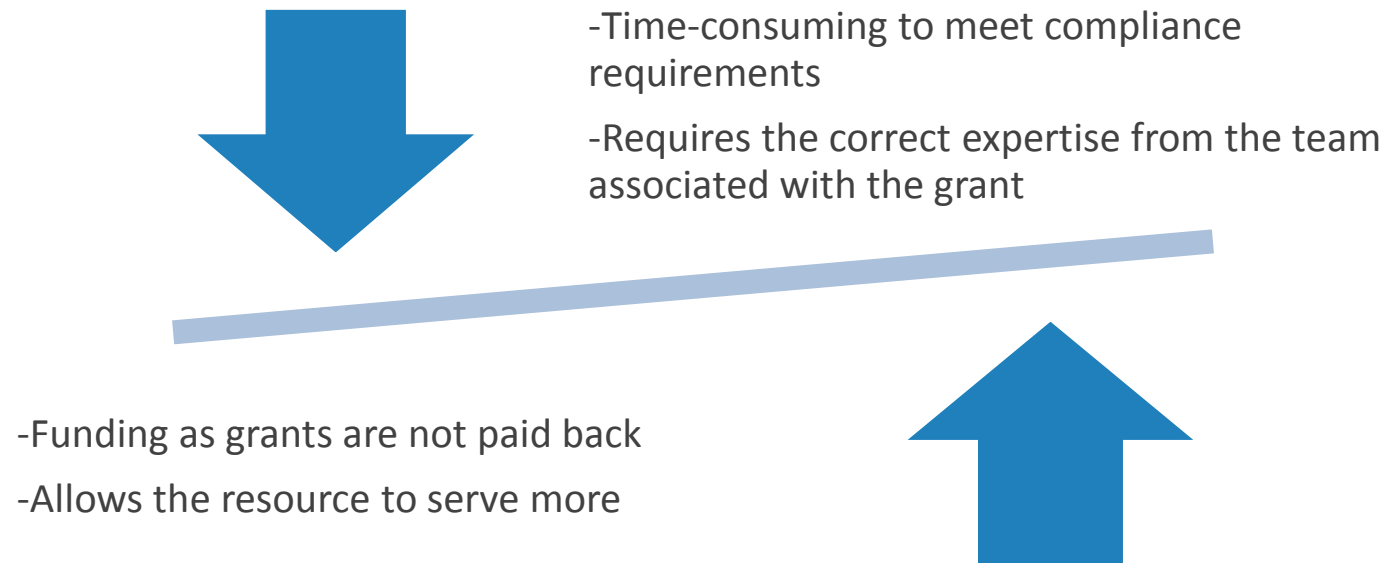


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**Quick overview of grant compliance**

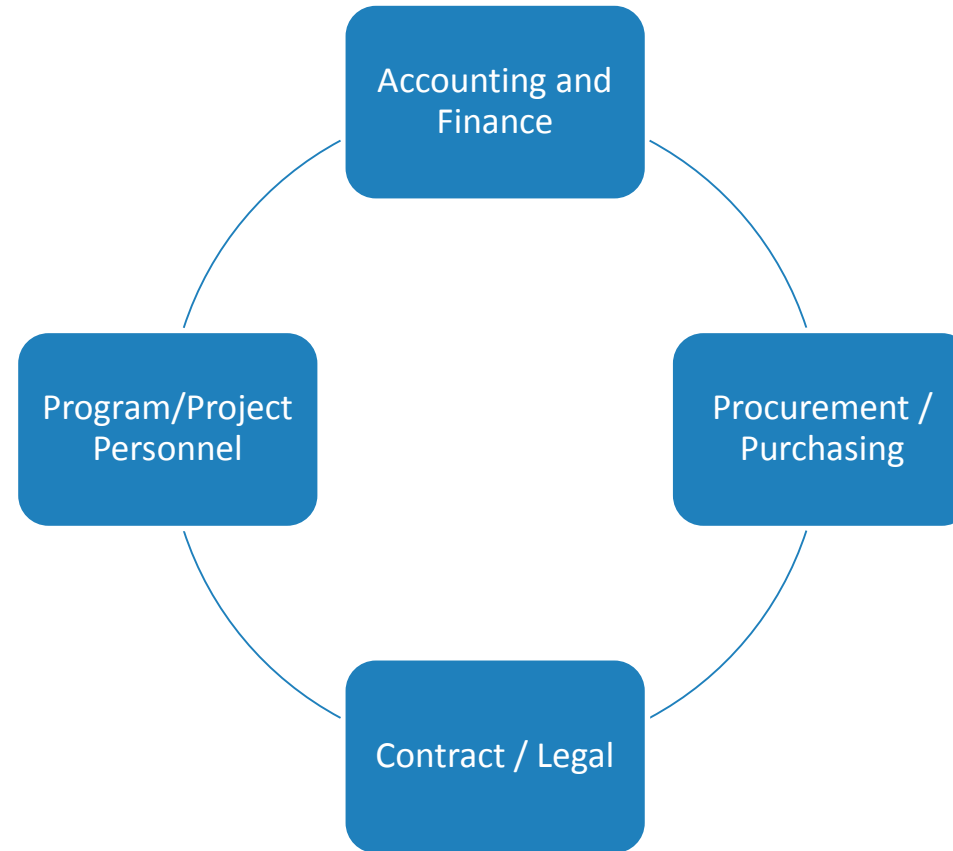
# Money with plenty of strings attached

## Upside and Downside of Grants



## Grant Compliance

- Responsibility of all departments involved
- Consider what could go wrong if any of the links were not included





# Sources of Grant Compliance Requirements

## Federal

2 CFR Part 200  
“The Uniform  
Administrative  
Requirements,  
Cost Principles,  
and Audit  
Requirements  
for Federal  
Awards”

## State (Florida)

Florida Single Audit  
Act, Compliance  
supplement of  
specific CSFA  
  
Plus Florida State  
Statutes and  
Regulations from  
Online Sunshine

## Federal & State

Detailed review  
of actual grant  
agreement signed  
by all parties

# Example of state compliance supplement

The screenshot displays the FLDFS website interface. At the top, the header identifies Jimmy Patronis as Florida's Chief Financial Officer. The main navigation bar includes links for FLDFS Home, Contact Us, Sitemap, and a search function. The left sidebar features the Division of Accounting and Auditing logo and a 'myFL' link. The main content area is titled 'State Projects Compliance Supplement' and includes a 'Table of Contents' with links to various parts of the supplement. The 'Part Four: State Project Compliance Requirements' link is highlighted in yellow. The right sidebar provides detailed information about the CSFA Fiscal Year 2016-2017 project, including the project title, agency, program objectives, and activities allowed. A red arrow points from the 'Additional source' label to the 'Costs related to this objective' section.

**Division of Accounting and Auditing**  
My Florida.com  
myFL

**State Projects Compliance Supplement**

**Table of Contents**

- [Part One: Background, Applicability, and Overview](#)
- [Part Two: Matrix of Compliance Requirements](#)
- [Part Three: Compliance Requirements](#)
- [Part Four: State Project Compliance Requirements](#)
  - [Search/Browse the State Project Compliance Requirements](#)
- [Part Five: Internal Controls](#)
- [Part Six: Guidance for Auditing Projects Not Included in the Compliance Supplement](#)
- [Appendix A: List of Changes](#)

**CSFA Fiscal Year 2016-2017**  
**CSFA Number:** 65.010  
**State Project Title:** Community Care for the Elderly  
**Agency:** Department of Elder Affairs  
**Program Objectives:** The Community Care for the Elderly (CCE) Program provides community-based services organized in a continuum of care to assist functionally impaired elders aged 60 + to live as independently as possible in their home, or in the home of a relative or caregiver, to prevent premature and expensive placement in nursing homes or institutions.  
**Activities Allowed:** The Community Care for the Elderly (CCE) Program provides community-based services organized in a continuum of care to assist aged 60 + elders at risk of nursing home placement to live in the least restrictive environment suitable to their needs.  
The recipient subcontracts for any department approved community-based service that would enable an elderly person to maintain independence and avoid or delay the need for institutionalization, including case management, in-home and community services to meet the diverse needs of functionally impaired elders.  
**Costs related to this objective** are allowable, including day care services and in-home services ([Section 430.203, F.S.](#)), unless specified in the agreement between the department and the recipient. Allowable activities in administering these services by the recipient are spelled out in the CCE contract and Master Contract between the recipient and the department.

**Additional source**





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## Internal Controls

Organizations must **ESTABLISH** and **MAINTAIN** effective internal controls over federal and state awards

# Internal Control Key Items



Segregation of Duties

Documentation

# What are Internal Controls over Compliance?

A process implemented by a nonfederal entity designed to provide reasonable assurance regarding the achievement of the following objectives for federal awards:

- ◇ Transactions are properly recorded and accounted for
- ◇ Permit the preparation of reliable financial statements and Federal reports;
- ◇ Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition
- ◇ Awards are being managed in compliance with laws and regulations





# Five Components of Internal Controls

Components of Internal Control	Principles
A. Control Environment	<ol style="list-style-type: none"><li>1. Demonstrate Commitment to Integrity and Ethical Values</li><li>2. Exercise Oversight Responsibility</li><li>3. Establish Structure, Responsibility and Authority</li><li>4. Demonstrate Commitment to Competence</li><li>5. Enforce Accountability</li></ol>
B. Risk Assessment	<ol style="list-style-type: none"><li>6. Define Objectives and Risk Tolerances</li><li>7. Identify, Analyze, and Respond to Risks</li><li>8. Assess Fraud Risk</li><li>9. Identify, Analyze, and Respond to Change</li></ol>
C. Control Activities	<ol style="list-style-type: none"><li>10. Design Control Activities</li><li>11. Design Activities for the Information System</li><li>12. Implement Control Activities</li></ol>
D. Information and Communication	<ol style="list-style-type: none"><li>13. Use Quality Information</li><li>14. Communicate Internally</li><li>15. Communicate Externally</li></ol>
E. Monitoring	<ol style="list-style-type: none"><li>16. Perform Monitoring Activities</li><li>17. Evaluate Issues and Remediate Deficiencies</li></ol>



# Characteristics of internal control-Control Environment

## Good Examples

- There is a sense of conducting operations ethically, as evidenced by a code of conduct or other verbal or written directive (tone set at the top)
- There is a governing Board or equivalent that is responsible for ensuring any audit findings and recommendations are adequately addressed
- Key managers' responsibilities are clearly defined
- Management's commitment to competence ensure that staff receive adequate training to perform their duties
- Management makes evident its support of adequate information and reporting systems

## Weak Examples

- Management voices annoyance with a review process or external monitoring
- Audit findings and recommendations are not shared with management or relevant staff in order to make changes.
- New program managers, whether new to the entity or new to the role are not directed to expected processes or responsibilities
- Trainings or updates are viewed as a waste of time or money
- Management and staff are reluctant to cooperate with external monitoring or audits of programs



# Characteristics of internal control-Risk Assessment and Control Activities

## Good Examples

- Management and employees identify, analyze, and adequately respond to risks related to achieving the objectives
- Adequate segregation of duties is provided between performance, review, and recordkeeping of a task

## Weak Examples

- Management and employees do not consider or address the risks, i.e. “what could go wrong”
- Program managers perform and record without separate review



# Characteristics of internal control-Information & Communication and Monitoring

## Good Examples

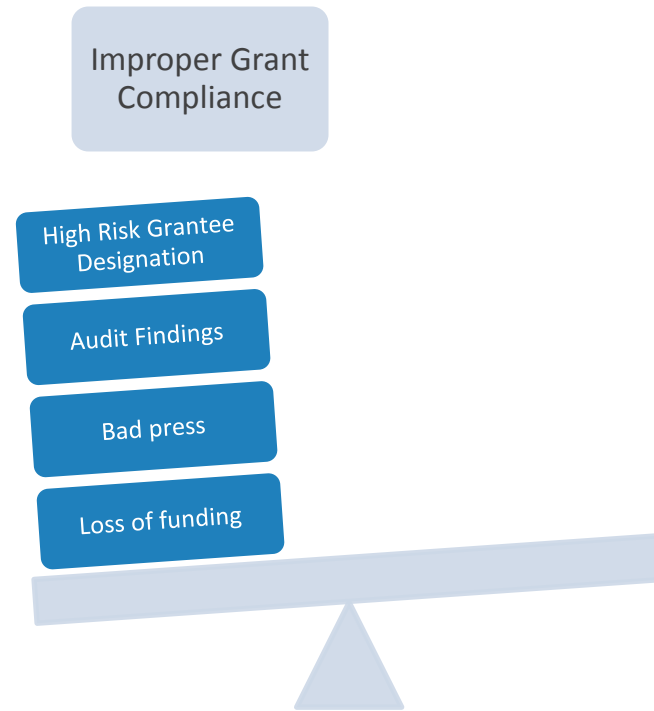
- Reports are provided timely to managers for review and appropriate action
- Ongoing monitoring is built-in through independent reconciliations, staff meeting feedback, rotating staff, and supervisory review
- Management follows up on irregularities and deficiencies to determine the cause
- Periodic site visits are performed at decentralized locations (including subrecipients' locations) and checks are performed to determine whether procedures are being followed as intended

## Weak Examples

- Reports are provided to managers after submittal or a manager is copied on the submittal email before proper review
- Supervisors do not pull source data or view reconciliations in order to review reports or submittals
- Repeat findings or deficiencies occur because management did not implement changes to prevent
- Monitoring of multiple locations does not occur



## Possible breakdown of controls can result in improper grant compliance



# Internal Control Examples in Testing Areas

- **Allowable Use of Funds and Period of Performance:**
  - Site coordinators purchase goods and services for grant purposes
  - Program Manager approves all purchases prior to being paid and recorded
- **Eligibility:**
  - Site coordinator completes participant intake form
  - Program Director reviews and signs form after viewing supporting documents



# Internal Control Examples in Testing Areas

- **Cash Management:**
  - Program Manager prepares the invoice for reimbursement request
  - Director of Finance reviews supporting documentation and request packets and approves before submittal
- **Match Requirement:**
  - Program Manager tracks actual expenditures spent verses expenditures requested for reimbursement
  - Director of Finance reviews supporting documentation and request packets and approves before submittal







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## Policies


Identify policies and procedures that may need to be implemented or revised

# Documenting Policies


Another key to an effective grants management program is ensuring that proper policies and procedures are in place and documented.

# Policy review and revisions

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



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



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

# Required Documented Policies

## Allowable Use of Funds

- Includes charges that are allocated wholly or partially to awards or used in formulating indirect cost rates used for recovering indirect costs from Federal awards

## Conflict of Interest

- Entity must have written standards of conduct for employees engaged in the selection, award, and administration of contracts





# Required Documented Policies (continued)

## Procurement

- In May 2017 additional 1 year grace period for implementation of the procurement standards for non-federal entities (*Should have new policies beginning January 1, 2018*)
- If a non-Federal entity chooses to use the grace period, they must document this decision in internal procurement policies.
- UG 200.318 General procurement standards- Must avoid acquisition of unnecessary or duplicative items.
- UG 200.320 Methods of Procurement to be followed: Small purchases (>\$3,050, <\$150,000), Sealed Bids (>\$150,000), Competitive Proposals (>\$150,000), and Sole Source.



# Required Documented Policies (continued)

## Suspension & Debarment

Current Search Terms: macalester\* college\*

Clear Search

TOTAL RECORDS: 1  
Result page 1 of 1

Sort by Modified Date Order by Ascending

Save PDF Export Results Print

**FILTER RESULTS** Your search for "macalester\* college\*" returned the following results...

By Record Status	Entity: MACALESTER COLLEGE	Status: Active
<input checked="" type="checkbox"/> Active <input type="checkbox"/> Inactive	DUNS: 077626778 Has Active Exclusion?: No Expiration Date: 09/17/2014	CAGE Code: oDBS9 DoDAAC: Delinquent Federal Debt? No <a href="#">View Details</a>

By Functional Area

- Verification that entities under covered transactions are not suspend or debarred
- Verification may be accomplished by:
  1. Checking SAM.gov
  2. Collecting a certification from the entity or
  3. Adding a clause to the covered transaction



# Required Documented Policies (continued)

## Sub-recipient Monitoring

- Assessment of sub-recipient risk level, i.e. need to evaluate the sub's ability to comply with applicable regulations
- Document HOW/HOW OFTEN monitoring should occur-during award monitoring of sub's use of Federal awards through reporting, site visits, regular contact, or other means
- Does the sub-recipient have > \$750,000 Federal expenditures in the year





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**Best practices related to  
grant management**

# Best Practice- Additional Written Policies

Grant Award  
and Closeout  
Policy

Financial  
Management  
Systems Policy

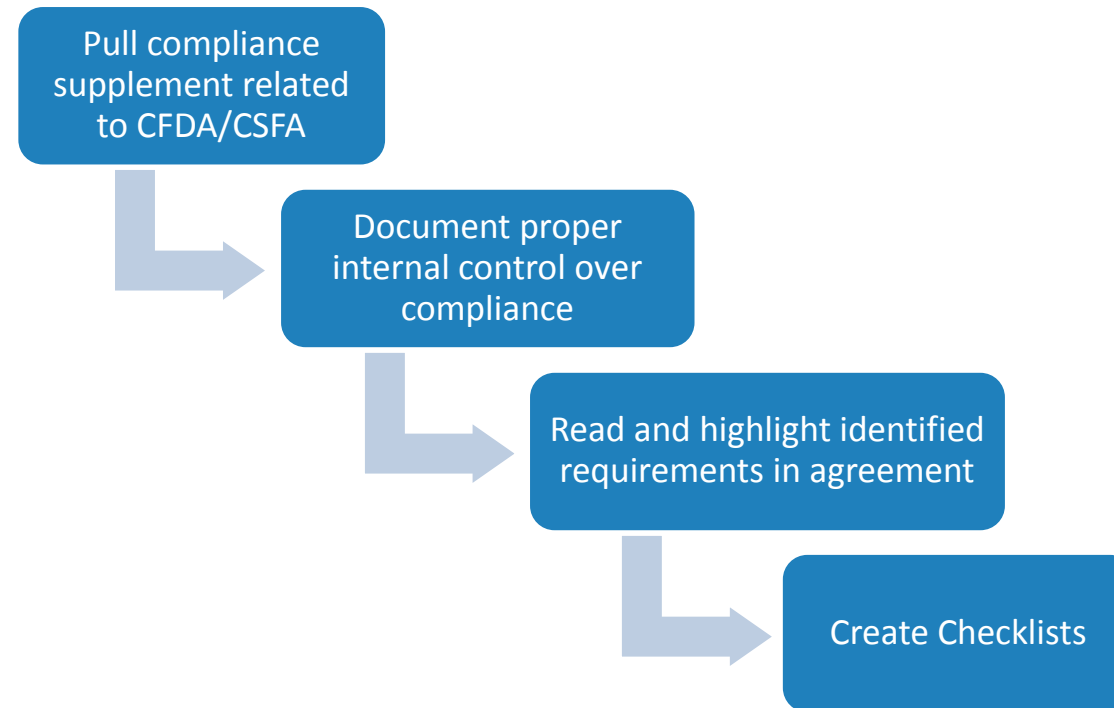
Budget and  
Program  
Revisions Policy

Property and  
Equipment  
Standards Policy

Program Income  
Policy

Record  
Retention Policy

# Documentation of Compliance





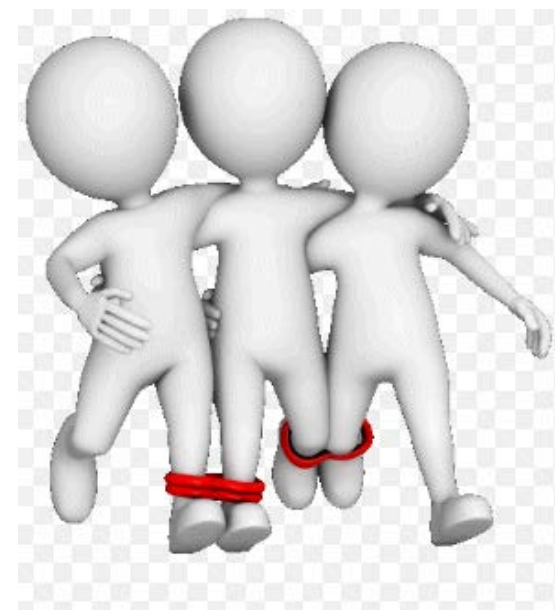


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**Subrecipient vs. Vendor vs. Sponsor  
Determination**

## Sub-recipient vs. Vendor vs. Sponsor Determination

- Important to identify the type of relationship between your organization and other entities in an agreement
- Example related to State Housing Initiatives Partnership (SHIP): **SPONSOR** receives a SHIP award to be spent on a specific housing service or construction activity whereas a **SUB-RECIPIENT** administers some portion or all of the local SHIP program (i.e. all of down payment assistance etc.)
- Both a sponsor and sub-recipient require your organization to monitor the activity but only payments to sub-recipients are shown in its own column on the SEFA





# Available Checklist for Sub-recipient vs. Vendor Determination

## FLORIDA SINGLE AUDIT ACT CHECKLIST FOR NON-STATE ORGANIZATIONS - RECIPIENT/SUBRECIPIENT VS. VENDOR DETERMINATION

This checklist and the standard contract audit language may be obtained electronically from the Department of Financial Services' website (<https://apps.fldfs.com/fsaa>).

If a Florida Single Audit Act State Project Determination Checklist has not been previously completed, please complete it now. (Applies only to State agencies)

This checklist must be used by State agencies to evaluate the applicability of the Florida Single Audit Act (FSAA) to non-state organizations after a state program has been determined (using the Florida Single Audit Act State Project Determination Checklist) to provide state financial assistance (i.e. is a State Project as defined in 215.97 (2), F.S.). This checklist assists in determining if the non-state organization is a vendor, recipient/subrecipient, or an exempt organization.

Recipients and subrecipients of state financial assistance must also use this checklist to evaluate the applicability of the FSAA to non-state organizations to which they provide State resources to assist in carrying out a State Project.



# Sub-recipient vs. Vendor Determination

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## Recipient/Vendor Relationship Determination:

The following should be analyzed for each relationship with a non-state organization where it has been determined that the state program provides state financial assistance (i.e. is a State Project) and the non-state organization is not exempt based on the questions above. This relationship may be evidenced by, but not limited to, a contract, agreement, or application.

### YES   NO

- |                          |                          |  |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Does State law or legislative proviso create the non-state organization to carry out this State Project?  |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Is the non-state organization required to provide matching resources not related to a Federal Program?  |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Is the non-state organization required to meet or comply with specified State Project requirements in order to receive State resources? (State Project requirements include laws, rules, or guidelines specific to the State Project such as eligibility guidelines, specified types of jobs to be created, donation of specified assets, etc. Specified State Project requirements do not include procurement standards, general guidelines, or general laws/rules.) |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. Is the non-state organization required to make State Project decisions, which the State agency would otherwise make? (e.g. determine eligibility, provide case management, etc.)  |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. Is the non-state organization's performance measured against whether State Project objectives are met? (e.g. number of jobs to be created, number of patients to be seen, number of disadvantaged citizens to be transported, etc. Performance measures may or may not be related to State performance-based budgeting.)  |

If **any** of the above is **yes**, there is a **recipient/subrecipient relationship** and the non-state organization **is** subject to the FSAA. Otherwise the non-state organization is a **vendor** and is **not** subject to the FSAA.







## Questions?

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**GASB Update**

Government Training Academy

# Learning Objectives

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



# New Standards

- Effective for years beginning after June 15, 2017
  - GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
  - GASB 85 – *Omnibus 2017*
  - GASB 86 – *Certain Debt Extinguishment Issues*
  - GASB Implementation Guide No. 2017-1, Implementation Guidance Update - 2017
- Effective for years beginning after June 15, 2018
  - GASB 83 – *Certain Asset Retirement Obligations*
- Effective for years beginning after Dec 15, 2018
  - GASB 84 – *Fiduciary Activities*





## New Standards (continued)

- Effective for years beginning after December 15, 2019
  - GASB 87 – *Leases*





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## **GASB 75**

*Accounting and Financial Reporting for Postemployment  
Benefits Other Than Pensions*

# 75 Scope and Applicability

- Defined benefit and defined contribution OPEB provided to employees of state and local governmental employers through OPEB plans administered through trusts of equivalent arrangements
  - Contributions from employers and nonemployer entities and related earnings are irrevocable
  - Plan assets are dedicated to providing OPEB to plan members in accordance with benefit terms
  - Plan assets are legally protected from the creditors of employers, nonemployer contributing entities, plan administrator and plan members



# 75 Types of OPEB

- Post employment healthcare benefits whether provided within a pension plan or separately
  - Medical
  - Dental
  - Vision
  - Hearing
  - Other health-related benefits
- Other Forms of Benefits provided separately from a pension plan
  - Death benefits
  - Life insurance
  - Disability
  - Long-term care
- Not included
  - Termination benefits, including sick leave





# 75 Types of Plans

- **Single employer plan**
  - Covers employees of only one employer
  - Single employer also includes a plan which covers both the primary government and its component units
- **Multiple employer plan**
  - Covers employers of multiple employers, usually unrelated
  - Cost Sharing
    - Multiple employer plan where the assets of the plan are pooled and can be used to pay the liabilities of any employer that provides OPEB through the plan
  - Agent Multiple Employer
    - Investments are pooled, but separate account maintained for each employer and the assets can only be used to pay liabilities of that employer





# 75 Special Funding Situations

- Nonemployer entity is responsible for providing financial support for OPEB of the employees of another entity by making
  - Payments **directly** to an OPEB plan administered in a trust as previously described
  - Benefits payments **directly** as OPEB becomes due when an OPEB plan is not administered through a qualifying trust
- Nonemployer Entity responsibility
  - Legally responsible for making payments and are not dependent upon one or more events/circumstances unrelated to the OPEB
  - Only entity with a legal obligation to provide financial support directly to a plan used to provide OPEB to employees of another entity



## 75 Net OPEB Liability

- Actuarial present value of projected benefit payments attributed to past periods of employee service, net of the Plan's fiduciary net position
- Liability measured by actuarial valuation or using the alternative method
- For cost-sharing employers – Proportionate share of the Collective Net OPEB Liability



# 75 Actuarial Valuation

- Timing
  - Measurement date
  - Roll forward to the measurement date from an actuarial valuation of a date no more than 30 months and one day earlier than the employer's most recent fiscal year end
- Method
  - Only the entry age actuarial cost method is allowed
- Discount rate
  - Same methodology as in pension standards (crossover test)
- Alternative method is allowed for plan with less than 100 participants



# 75 Sample Measurement Date Scenario

- A government set up a reimbursement trust when implementing GASB 45 using the same FYE as the government-September 30th.
- The plan financial statements are included as a fiduciary fund in the government's financial statements.
- The government has had GASB 43/45 valuations on a biennial basis as of December 31st-the health plan year
- The government is now considering deciding whether to change the plan fye to December 31st knowing that GASB 74 requires the plan to measure its pension amounts on its fye.



# 75 Sample Measurement Date Scenario

- Based on the following analysis, the government decided to switch to December Plan year

Retaining the Plan's September 30th year end	Switch Plan to December 31st year end
1. GASB 74 effective for FY 2017 for plan. If 12/31 valuation date retained, amount will updated to 9/30/17	1. GASB 74 first effective in FY 2018- same as the government
2. Employer data still reported in 2017 using GASB 45	2. 2016 plan statements will be included in 2017
3. In 2018, the valuation would be rolled forward to 9/30/18 and the employer would use either 9/30/17 or 9/30/18 OPEB amounts to report its numbers	3. For 2018, the employer would implement using the same measurement date as the plan 12/31/17.
4. In future years the government would continue to deal with measuring plan liabilities at plan YE and would likely be rolling forward the valuations each year.	4. For future years, the government would only need to update the valuation every other year.





# Employer Note Disclosures - Key

Plan Description	A	B	C	D
Name of plan, administrator of plan, and type of plan	X	X	X	X
Benefit terms, including (1) classes of employees covered, (2) types of benefits, (3) key elements of OPEB formula, (4) terms or policies with respect to automatic benefit changes, including ad hoc colas, (5) legal authority	X	X	X	X
Number of employees covered	X		X	
Fact that no assets accumulated in a trust			X	X
Contribution requirements, including (1) authority under which contributions made, (2) legal or maximum contributions rates, (3) contribution rates, and (4) contributions made	X	X		
Authority under which to pay OPEB benefits as they come due and amount			X	X
Availability of audited plan financial statements	X	X		

A = Trusted (Single/Agent)

B = Trusted (Cost sharing multi employer)

C = Nontrusted (Single)

D = Nontrusted (Primary Govt and Comp Unit – standalone only)



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# Employer Note Assumptions – Key

Assumptions and Other Inputs	A	B	C	D
Significant assumptions, including inflation, healthcare cost trend rates, salary changes, postemployment benefit changes	X	X	X	X
Source of mortality assumptions	X	X	X	X
Dates of experience studies	X	X	X	X
Fact that projections of sharing of benefit costs based on established pattern of practice	X	X	X	X
Net OPEB liability sensitivity to healthcare cost trend rate (+/- 1%)	X	X		
Total OPEB liability sensitivity to healthcare cost trend rate (+/- 1%)			X	X

A = Trusted (Single/Agent)

B = Trusted (Cost sharing multi employer)

C = Nontrusted (Single)

D = Nontrusted (Primary Govt and Comp Unit – standalone only)



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# Employer Note Discount Rates – Key

Discount Rate	A	B	C	D
Discount rate used	X	X	X	X
Assumptions about projected cash flows	X	X		
Long-term expected rate of return on plan investments and how determined	X	X		
Municipal bond rate used	X	X	X	X
Periods of projected benefit payments applied to long-term rate of return and municipal bond rate, if applicable	X	X		
Assumed asset allocation and long-term expected real rate of return for each major asset class	X	X		
Net OPEB liability sensitivity to discount rate (+/- 1%)	X	X		
Total OPEB liability sensitivity to municipal bond rate (+/- 1%)			X	X

A = Trusted (Single/Agent)

B = Trusted (Cost sharing multi employer)

C = Nontrusted (Single)

D = Nontrusted (Primary Govt and Comp Unit – standalone only)



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# Employer Note Other Disclosures – Key

Disclosure	A	B	C	D
Information about plan's fiduciary net position if report not publicly available	X	X		
Schedule of changes in net OPEB liability	X			
Schedule of changes in total OPEB liability			X	
Measurement date	X	X	X	X
Actuarial valuation date	X	X	X	X
Employers proportionate share of net (total) OPEB liability and basis for allocation		X		X
Changes in assumptions and benefit terms	X	X	X	X
Changes subsequent to measurement date	X	X	X	X
OPEB expense in current period	X	X	X	X
Balance of deferred outflows/inflows by source and aggregate impact on OPEB expense in each of next 5 years and thereafter	X	X	X	X

A = Trusted (Single/Agent)

B = Trusted (Cost sharing multi employer)

C = Nontrusted (Single)

D = Nontrusted (Primary Govt and Comp Unit – standalone only)



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# Required Supplementary Info – Key

10 Year Schedules	A	B	C	D
Changes in net OPEB liability by source	X			
Components of net OPEB liability and related ratios	X			
Proportionate share of net OPEB liability		X		
Employer contributions	X	X		
Changes in total OPEB liability by source			X	
Total OPEB liability as a percentage of covered employee payroll			X	
Proportionate share of total OPEB liability				X

A = Trusted (Single/Agent)

B = Trusted (Cost sharing multi employer)

C = Nontrusted (Single)

D = Nontrusted (Primary Govt and Comp Unit – standalone only)



# 75 Financial Statement Recording

- Effect of Changes in OPEB Liability, allocated as applicable
  - OPEB Expense
    - ◇ For cost-sharing plans, includes changes in the employer's proportion
  - Deferred Outflows
  - Deferred Inflows





## 75 Required Journal Entries

- Similar to pensions, the initial journal entries will require:
  - A prior period adjustment to reverse the previously recorded OPEB obligation and record the beginning measurement date Net or Total OPEB Liability with the resulting restatement of beginning Net Position.
- Unlike pensions that always have contributions as the starting point, OPEB will not be so uniform.



# 75 Required Journal Entries (continued)

- Several types of contribution/trust arrangements:
  - Turnkey trust that collects, invests and pays benefits-employer contributions to the trust
  - Reimbursement Trusts
    - ◇ Self-Insured-actual OPEB payments including retiree claims, stop loss and administrative expense less retiree premium contributions and employer contributions to trust
    - ◇ Insured-premiums paid for retirees less retiree premium contributions plus the implicit subsidy portion of active premiums and employer contributions to the trust
  - Non-Trusts
    - ◇ Same as Reimbursement Trust but no employer contributions



# 75 Sample Journal Entries - Background

- OPEB County (OC), a June 30th year end has the following facts related to its December 31 OPEB Plan:
  - OC uses GovPebTrust Inc. to collect and invest OPEB assets which meet the requirements of GASB 75, paragraph 4
  - The following amounts occurred related to the self-insured OPEB Plan:

<b>GASB 45 OPEB Obligation-6/30/17</b>	<b>A</b>	<b>\$800,000</b>
<b>Net OPEB Liability-12/31/16</b>	<b>B</b>	<b>\$3,500,000</b>
<b>Net OPEB Liability-12/31/17</b>	<b>C</b>	<b>\$4,200,000</b>
<b>Net OPEB Claims &amp; Expense (paid by employer) 01/01/17-6/30/17</b>	<b>D</b>	<b>\$1,000,000</b>
<b>Contributions to the Trust 01/01/17-6/30/17</b>	<b>E</b>	<b>\$600,000</b>
<b>Net OPEB Claims &amp; Expense (paid by employer) 01/01/18-6/30/18</b>	<b>F</b>	<b>\$1,100,000</b>
<b>Contributions to the Trust 01/01/18-6/30/18</b>	<b>G</b>	<b>\$600,000</b>
<b>Net OPEB Claims &amp; Expense (paid by employer) FY 6/30/18</b>	<b>H</b>	<b>\$2,200,000</b>
<b>Annual Contributions to the trust 6/30/18</b>	<b>I</b>	<b>\$1,200,000</b>
<b>Investment return over expectation CY 2017</b>	<b>J</b>	<b>\$200,000</b>
<b>Actuarial losses on liability assumption for CY 2017</b>	<b>K</b>	<b>\$210,000</b>



# 75 Sample Journal Entries - Background

- Additional information:
  - OC has elected not to record any beginning deferred inflows and outflows other than that required by the standard.
  - OC's actuary has determined that the average remaining service period of all OPEB participants is seven years (L).
  - OC has implemented procedures and controls to ensure that claims are properly classified as active or retiree and that cutoff/accruals for payments before and after the measurement date are fairly stated.



# Prior Period Adjustment of Beginning Amounts

- Adjustment of prior period to record the beginning NOL per GASB 75 par. 244
  - Dr Net Position (Beginning of Year) 3,500,000 (B)
  - Cr Net OPEB Liability 3,500,000
- Recording deferred outflow for contributions after the measurement date
  - Dr Deferred Outflow-OPEB Payments/Contributions 1/1 to 6/30/17 1,600,000
  - Cr Net Position 1,600,000 (D+E)
- To eliminate the GASB 45 Net OPEB Obligation
  - Dr Net OPEB Obligation 800,000 (A)
  - Cr Net Position 800,000



# 2018 Journal Entries

OPEB Expense (see subsequent slide)	\$3,980,000	
Deferred Outflow OPEB Payments after MD (F+G-D-E)	\$100,000	
Deferred Outflow-Assumption Losses [K-(K/L)]	\$180,000	
Deferred Inflow-Excess Investment Return [J-(J/5)] note: investment assumptions amort over 5 yrs		\$160,000
OPEB Payments/Contributions to Trust (H+I)		\$3,400,000
Net OPEB Liability (C-B)		\$700,000





# Notes for 2018 Journal Entries

- The purpose of these journal entries is to convert budget or cash basis general ledger amounts to the full accrual government-wide amounts. The specific accounting used by the employer will directly impact the nature of the entries needed. Employers will need to implement controls to ensure that premiums or claims are properly classified as retiree or active and that cutoffs/accruals related to the MD are working properly.
- The first year of amortization is taken in the year of the deferral so only six years of the deferred outflow and four year of the investment related deferred inflow were deferred.



# Notes for 2018 Journal Entries

- The deferred outflow for OPEB payments and contributions between the measurement date and year end does not get amortized as it will naturally flow through the calculation in the next year with a new deferral being made. The journal entry showed the net change, the reconciliation showed the gross changes. The initial deferral required by GASB 75 in order to not understate OPEB expense in the year of implementation. If not for the required prior period adjustment, current year OPEB expense would have been reported as \$2,380,000.



# Reconciliation of OPEB Expense

Change in the Net OPEB Liability	C-B	\$700,000
Current fiscal year OPEB Payments	H	\$2,200,000
Current fiscal year contributions	I	\$1,200,000
Flow through of BOY Deferred OPEB Payments after MD	D	\$1,000,000
Flow through of BOY Deferred Contributions to the Trust	E	\$600,000
EOY Deferral for OPEB Payments between MD & FYE	F	(\$1,100,000)
EOY Deferral for OPEB Payments between MD & FYE	G	(\$600,000)
Deferred Outflow - Actuarial Losses	[K-(K/L)]	(\$180,000)
Deferred Inflow- Excess Investment Earnings	[J-(J/5)]	\$160,000
OPEB Expense		\$3,980,000



# 75 Notes to Financial statements

- Plan Description
  - Name, identification of entity administering the plan and type of plan (single-employer or multi-employer cost sharing/agent plan)
  - Description of benefit terms
  - Number of employees covered in total and by category of inactive receiving benefits, inactive not receiving benefits and active
  - Contribution requirements
  - Whether a stand-alone financial report is available and how to obtain it
- Information about the Net OPEB Liability
  - Assumptions
  - Effect of one percent increase and decrease in healthcare trend rate than the assumed rate



# 75 Notes to Financial statements (Continued)

- Discount rate
  - Assumptions made about projected cash flows
  - Long term expected rate of return on plan assets and how determined
  - If municipal bond rate is used, the rate and how it was determined
  - Assumed asset allocation of the portfolio and expected real rate of return as arithmetic or geometric means
  - The effect of a one percent increase or decrease in the discount rate
- Changes in Net OPEB Liability
  - Beginning balances of OPEB liability, fiduciary net position and net OPEB liability
  - Effects of changes in the balances, by major/significant category
  - Ending balances of OPEB liability, fiduciary net position and net OPEB liability



# 75 Notes to Financial statements (Continued)

- Additional disclosures for cost-sharing plans
  - Employer's proportionate share of the collective NOL
  - If there is a special funding situation, include (1) the portion of the nonemployer contributing entities' total proportionate share of the collective NOL associated with the employer and (2) the total of the employer's proportionate share of the collective NOL and the portion of the nonemployer contributing entities' total proportionate share of the collective NOL associated with the employer.
  - Employer's proportion of the collective NOL, the basis on which the proportion was determined, and the change in proportion since the prior measurement date





# 75 Notes to Financial statements (Continued)

## Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
<b>Balances at 6/30/X8</b>	<u>\$ 432,472</u>	<u>\$ 418,254</u>	<u>\$ 14,218</u>
<b>Changes for the year:</b>			
Service cost	19,051		19,051
Interest	30,663		30,663
Differences between expected and actual experience	8,925		8,925
Contributions—employer		22,424	(22,424)
Net investment income		44,215	(44,215)
Benefit payments	(7,899)	(7,899)	-
Administrative expense		(148)	148
<b>Net changes</b>	<u>50,740</u>	<u>58,592</u>	<u>(7,852)</u>
<b>Balances at 6/30/X9</b>	<u><u>\$ 483,212</u></u>	<u><u>\$ 476,846</u></u>	<u><u>\$ 6,366</u></u>



# 75 Notes to Financial Statements (Continued)

- Special Funding Situation
  - Nonemployer contributing entities' total proportionate share of the collective OPEB liability
  - The employer's proportionate share of the collective net OPEB liability
- Other Disclosures, if applicable
  - Measurement date of the OPEB liability, date of actuarial valuation or alternative measurement and roll forward procedures used
  - If special funding situation, the employer's portion of the collective net OPEB liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date
  - Brief description of changes of the following affecting measurement of the total OPEB liability since last measurement date
    - ◇ Assumptions or other inputs
    - ◇ Benefit terms



# 75 Other Disclosures, if applicable

- Amount of payments in the measurement period attributable to the purchase of allocated insurance contracts
- Brief description of the nature of changes between the measurement date and the reporting date that are expected to have a significant effect on the net OPEB liability and the amount of the resultant change if known
- Amount of OPEB expense recognized by the employer in the reporting period
- Employer's balances of deferred outflows and inflows of resources related to OPEB, classified as follows:
  - Expected and actual experience
  - Changes in assumptions
  - Projected and actual earnings
  - Special funding proportion changes
  - Employer's contributions subsequent to the measurement date of the net OPEB liability



## 75 Other Disclosures, if applicable

- A schedule presenting the following
  - Net amount of employer's balances of deferred inflows and outflows that will be recognized in OPEB expense for each of the next five years and in the aggregate thereafter
  - Amount of the employer's balance of deferred inflows and outflows that will be recognized as a reduction of the net OPEB liability
  - If the employer has a special funding situation, the amount of the employer's balance of deferred inflows and outflows that will be included as a reduction of the collective net OPEB liability
- The amount of revenue recognized for the support provided by nonemployer contributing entities



# 75 Required Supplementary Information (continued)

- Single and Agent Employers - 10 year schedule including:
  - Beginning balances of the total OPEB liability, fiduciary net position, and net OPEB liability
  - Service Cost
  - Interest
  - Changes of benefit terms
  - Differences between expected and actual experience
  - Changes of assumptions
  - Employer contributions
  - Contributions from non-employer contributing entities
  - Employee contributions
  - OPEB Plan net investment income
  - Benefit payments
  - Administrative expense



# 75 Required Supplementary Information

- 10 Year Schedule – Cost sharing plan
  - Special Funding Situation
    - ◇ Employer's proportion (percent) and amount of the collective net OPEB liability (NOL)
    - ◇ Employer's covered employee payroll
    - ◇ The portion of the nonemployer contributing entities' total proportionate share (amount) of the collective net OPEB liability that is associated with the employer
    - ◇ Total of employer and non-employer portions
    - ◇ Employer's proportionate share (amount) of NOL as a percentage of covered payroll
    - ◇ OPEB plan's fiduciary net position as a percentage of total OPEB liability





# 75 Required Supplementary Information (continued)

- 10 Year Schedule (continued) – Cost sharing plan
  - Not a Special Funding Situation
    - ◇ Employer's proportion (percent) and amount of the collective net OPEB liability (NOL)
    - ◇ Employer's covered employee payroll
    - ◇ The employer's proportionate share (amount) of the collective NOL as a percent of the employer's covered payroll
    - ◇ OPEB plan's fiduciary net position as a percentage of the total OPEB liability



# 75 Required Supplementary Information (continued)

- Single and Agent Employers - 10 year schedule including:
  - Total OPEB liability, fiduciary net position, and net OPEB liability
  - Covered employee payroll
  - OPEB plan's fiduciary net position as a percentage of the total OPEB liability
  - Net OPEB liability as a percentage of covered-employee payroll
  - If a special funding situation, also include non-employer contributing entities' total proportionate share of the collective NOL.



# 75 Required Supplementary Information (continued)

- 10 Year Schedule related to contributions – all employers
  - Actuarially determined contribution of employer
  - Statutorily or contractually required employer contribution (if not actuarially determined)
  - Amount of contributions recognized in relation to contributions noted above
  - Difference between amounts required and recognized by the plan
  - Employer's covered-employee payroll
  - Amount of contributions recognized in relation to the required contributions as a percent of covered payroll



# 75 Required Supplementary Information (continued)

	20X9	20X8
<b>Total OPEB liability</b>		
Service cost	\$ 19,051	\$ 18,190
Interest	30,663	27,176
Changes of benefit terms	-	-
Differences between expected and actual experience	8,925	11,845
Changes of assumptions	-	-
Benefit payments	(7,899)	(7,758)
<b>Net change in total OPEB liability</b>	50,740	49,453
<b>Total OPEB liability—beginning</b>	432,472	383,019
<b>Total OPEB liability—ending (a)</b>	<u>\$ 483,212</u>	<u>\$ 432,472</u>
<b>Plan fiduciary net position</b>		
Contributions—employer	\$ 22,424	\$ 25,255
Net investment income	44,215	28,698
Benefit payments	(7,899)	(7,758)
Administrative expense	(148)	(144)
<b>Net change in plan fiduciary net position</b>	58,592	46,051
<b>Plan fiduciary net position—beginning</b>	418,254	372,203
<b>Plan fiduciary net position—ending (b)</b>	<u>\$ 476,846</u>	<u>\$ 418,254</u>
<b>City's net OPEB liability—ending (a) – (b)</b>	<u>\$ 6,366</u>	<u>\$ 14,218</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	98.68%	96.71%
<b>Covered-employee payroll</b>	\$ 535,043	\$ 524,209
<b>City's net OPEB liability as a percentage of covered-employee payroll</b>	1.19%	2.71%



# 75 Required Supplementary Information (continued)

	<u>20X9</u>	<u>20X8</u>
Actuarially determined contribution	\$ 22,424	\$ 25,255
Contributions in relation to the actuarially determined contribution	<u>22,424</u>	<u>25,255</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 535,043	\$ 524,209
Contributions as a percentage of covered-employee payroll	4.19%	4.82%



# 75 Implementation Issues to Consider

- Restatement for Opening Liability
- Liability is only affected at measurement date
- Special Funding situations
  - Who is legally responsible?
  - Requirements
    - ◇ The amount of contributions for which the nonemployer entity is responsible is not dependent on events unrelated to the OPEB
    - ◇ Nonemployer entity is only entity with legal responsibility to make contributions
  - This does not relieve the requirement to record and disclose OPEB related expenses and related revenue
  - Examples
    - ◇ State appropriates funds to an entity specifically to make its contribution to the OPEB Plan, provided for in statute – not a special funding situation
    - ◇ State makes payment for the entity directly to the plan – special funding situation





# 75 Implementation Issues to Consider (cont)

- Evaluation of Actuary and Valuation
  - Know your actuary
    - ◇ Is the actuary familiar with government plans and their requirements?
    - ◇ Is this a widely used actuary in the industry?
  - Review the assumptions
    - ◇ Method used – Is it the correct one as only one is now allowed
    - ◇ Discount rate – Is it properly calculated? Was a crossover analysis performed?
    - ◇ Is one percent increase/decrease effect provided
  - Review for specific information/disclosures



# 75 Implementation Issues to Consider (cont)

- Cost Sharing Plan Allocations
  - How were they determined?
  - Did the plan auditor provide a schedule supporting amounts in their audit of the plan and what level of assurance was provided?
  - What procedures were performed at the plan level to determine accuracy of census data?
- Fund Allocation
  - Follow the guidance for long term liabilities in NCGA Stmt 1, para 42, which effectively requires the liability to be shown in the fund from which it is expected to be paid
  - Follow practice in use currently
- Deferred Inflows and outflows
  - Generally cannot net – each component should be shown separately (e.g. difference in expected returns, funding after measurement date, etc.)



# 75 Implementation Issues to Consider (cont)

- Numerous disclosure and RSI examples are included within the Appendices of GASB 75 as well as Section P50 of the GASB codification and Implementation Guide 2017-3
- Examples can be provided in word or pdf format upon request.



# 75 Selected Implementation Guide Q&A

- 4.10. Q—A trust that is used to administer a defined benefit OPEB plan reimburses an employer for amounts paid for OPEB using employer resources as the benefits come due in accordance with the benefit terms. For example, the trust reimburses an employer for the share of the total age-adjusted premiums approximating claims costs that the employer paid to an insurer to provide benefits to inactive employees. Is this provision consistent with the criterion in [paragraph 4a of Statement 75](#) regarding the irrevocability of contributions?
- A—Yes. Reimbursements paid to the employer from the trust for amounts paid for OPEB using employer resources as the benefits come due in accordance with the benefit terms should not be considered a reversion of trust assets to the employer for purposes of evaluating whether the trust meets the criterion in paragraph 4a of Statement 75.



# 75 Selected Implementation Guide Q&A

- 4.11. Q—If postemployment healthcare benefits (classified as OPEB) and some other benefit that is not OPEB (for example, pensions or active employee healthcare) are administered through a single trust, can that arrangement be considered as meeting the criterion in [paragraph 4b of Statement 75](#)—that is, that “OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms”?
- A—The OPEB partition of the trust would meet the criterion in paragraph 4b of Statement 75 (regarding dedicated purpose) only if steps have been taken to ensure that the assets, once initially allocated to OPEB, are dedicated solely to providing OPEB until the point in time at which all benefits provided through the OPEB plan have been paid. That is, in the context of Statement 75, dedicated purpose should be understood as referring to the purpose of providing OPEB through a single plan rather than, for example, providing OPEB and some other benefit such as pensions or active employee healthcare.



# 75 Selected Implementation Guide Q&A

- 4.12. Q—A city's defined benefit pension plan for firefighters provides a postemployment health insurance subsidy in the form of an additional monthly cash payment to each pension recipient. There is no limitation on the use of the additional cash payment by recipients. Should the health insurance subsidy be classified as OPEB for financial reporting purposes?
- A—No. In this circumstance, the use of the postemployment health insurance subsidy that is provided as an additional monthly cash payment to retirees and beneficiaries is not limited to payment of healthcare costs. Therefore, the subsidy should be considered retirement income. All retirement income should be classified as pensions.
- 4.13. Q—The terms of a postemployment benefit plan provide that those who retire from service will receive an amount, defined in terms of dollars or a formula, that may be used only (a) to offset the retiree's cost of premium payments for participation in the employer's healthcare insurance group with active employees or (b) for reimbursement of other healthcare costs, if the retirees provide proof of healthcare insurance costs or direct healthcare claims that are not reimbursed by others. Should the benefit be classified as OPEB for financial reporting purposes?
- A—Yes. Even though the benefit is defined in terms of a dollar amount or formula, because the benefit is limited to the provision of postemployment healthcare, it should be classified as OPEB for financial reporting purposes.





# 75 Selected Implementation Guide Q&A

- 4.27. Q—A public employee retirement system (PERS) administers the assets, the payment of benefits, and the general recordkeeping and support services for OPEB provided to the employees of three employer governments. A separate actuarial valuation is performed for separate classes of employees (for example, general government employees versus public safety employees), and employers make contributions for each class at different specified rates. The assets are held in a trust that meets the criteria in [paragraph 4 of Statement 75](#) and legally are available to pay benefits to any employee. What type of plan(s) is the PERS administering?
- A—The classification of the plan depends on whether there are legal restrictions on the use of the assets to provide benefits to each of the different classes of employees. In this situation, although different rates are calculated for different classes of employees, all plan assets legally are available to pay benefits of any employee, regardless of their employment class. Therefore, this plan is a cost-sharing multiple-employer plan for purposes of applying Statement 75, as amended.



# 75 Selected Implementation Guide Q&A

- 4.29. Q—A defined benefit OPEB plan that is administered through a trust that meets the criteria in [paragraph 4 of Statement 75](#) is used to provide OPEB to the employees of a state government and several governments that are component units of the state. There are no other entities whose employees are provided with OPEB through the plan. The assets in the plan legally can be used to pay benefits to the employees of the state or any of the component units. Is this plan a single-employer, agent multiple-employer, or cost-sharing multiple-employer plan?
- A—This plan is a single-employer plan for financial reporting purposes. Defined benefit OPEB plans are classified according to the number of employers whose employees are provided with benefits through the plan and whether OPEB obligations and OPEB plan assets are shared. [Paragraph 12 of Statement 75](#) specifies that a primary government and its component units should be considered to be one employer for purposes of classifying a defined benefit OPEB plan as single-employer or multiple-employer. (See Questions 4.48–4.50 for a discussion of issues related to employer reporting in this circumstance.)





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**GASB 83**

*Certain Asset Retirement Obligations*



## 83 Overview and Applicability (Continued)

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



# 83 Recognition and Measurement

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



## 83 Recognition and Measurement (Continued)

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





## 83 Notes to the Financial Statements

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





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**GASB 84**

Fiduciary Activities

## 84 Fiduciary Activities (continued)

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



# 84 Fiduciary Activities (continued)

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



# 84 Fiduciary Activities (continued)

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



# 84 Fiduciary Activities (continued)

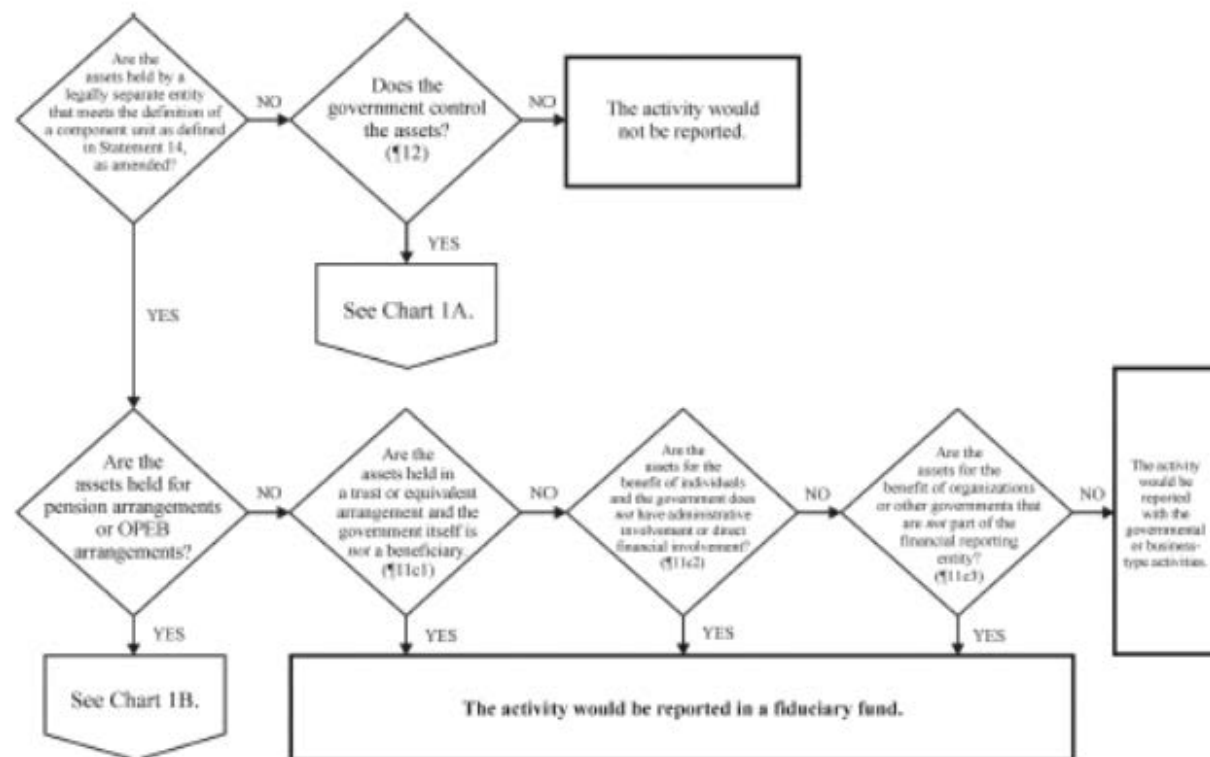
- Appendix C of GASB 84 includes a flowchart to aid in the application of the provisions of GASB 84





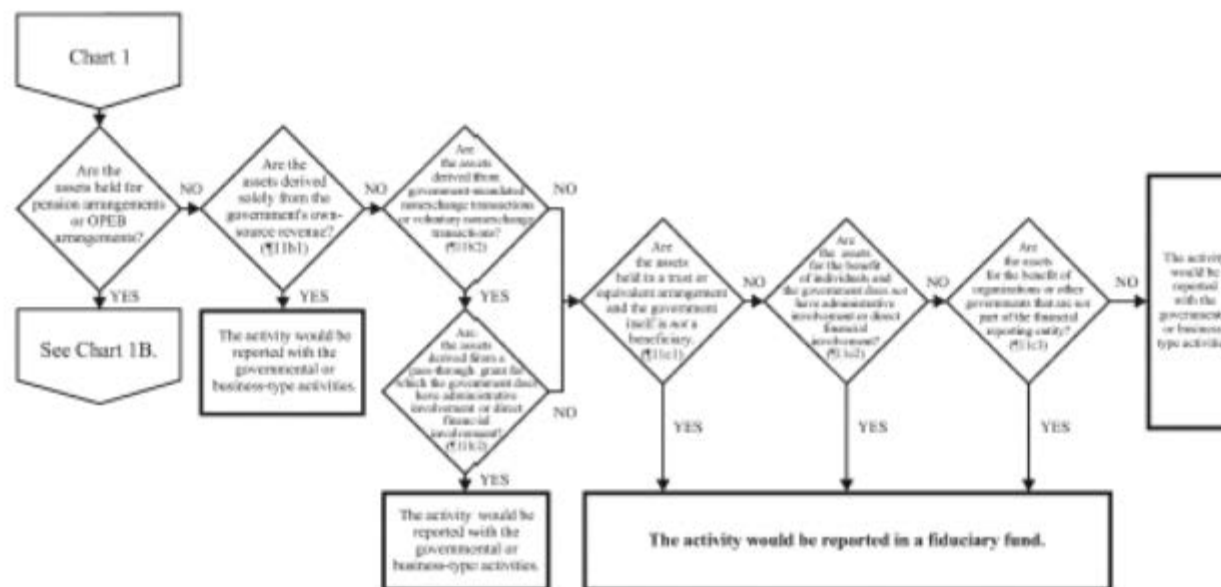
# 84 – Chart 1

Chart 1—Flowchart for Evaluating and Reporting Potential Fiduciary Activities



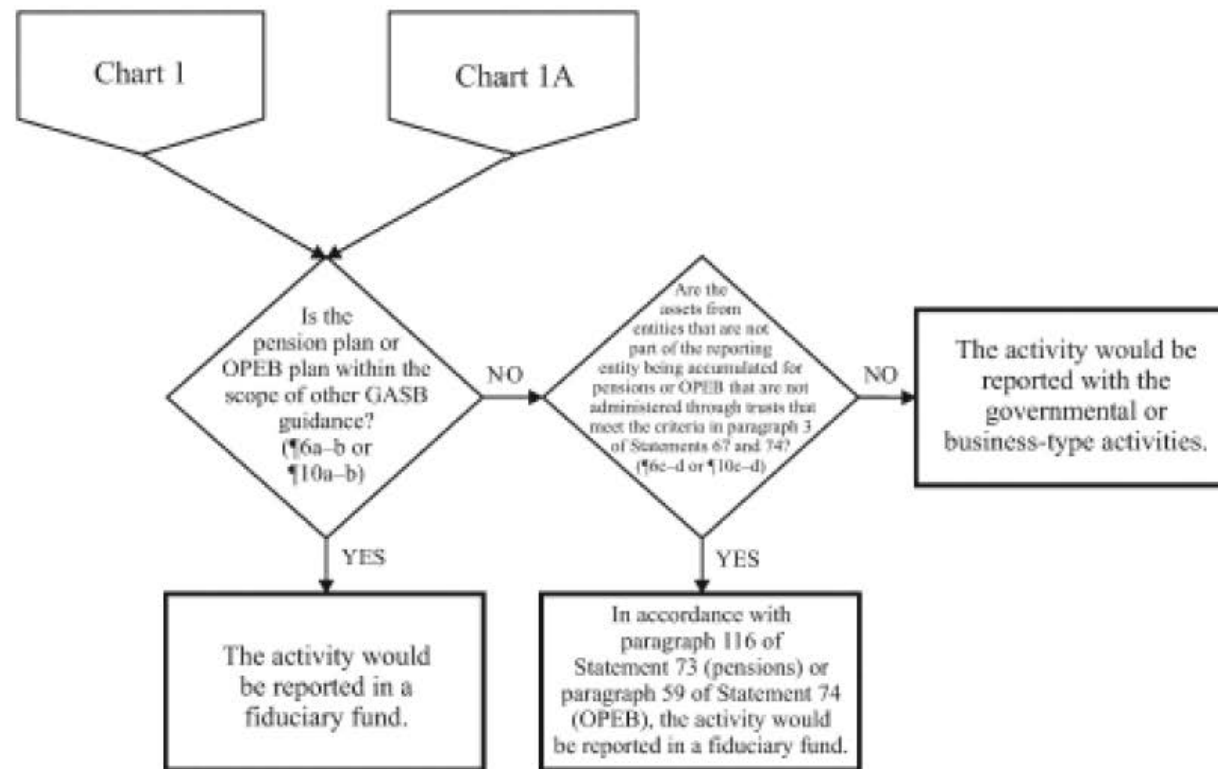
# 84 – Chart 1a

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



# 84 – Chart 1b

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







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**GASB 85**

Omnibus

# 85 Omnibus

- Addresses a variety of topics:
  - Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
  - Reporting amounts previously reported as goodwill and “negative” goodwill
  - Classifying real estate held by insurance entities
  - Measuring certain money market investments and participating interest earning investment contracts at amortized cost
  - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
  - Recognizing on-behalf payments for pensions or OPEB in employer financial statements

# 85 Omnibus (continued)

- Addresses a variety of topics:
  - Presenting payroll-related measures in RSI for purposes of reporting by OPEB plans and employers that provide OPEB
  - Classifying employer-paid member contributions for OPEB
  - Simplifying certain aspects of the alternative measurement method for OPEB
  - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans





# 85 Omnibus – Specific Topics

- Blending Component Units
  - For a primary government that is a business-type activity and uses a single column financial statement presentation of those activities, a component unit may be blended only if it meets a criterion for blending in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended.
- Goodwill
  - For acquisitions that occurred prior to the effective date of Statement No. 69, *Government Combinations and Disposals of Government Operations*, (a) paragraph 39 of Statement 69 should be applied for circumstances in which consideration provided exceeded the net position acquired and (b) “negative” goodwill should not be reported.



# 85 Omnibus – Specific Topics

- Fair Value Measurement and Application
  - Each unit of account of real estate held by insurance entities should be classified either as an investment or as a capital asset, based on whether the unit of account meets the definition of an investment in Statement 72.
  - The money market investments and participating interest-earning investment contracts described in paragraph 69c of Statement 72 may be measured at amortized cost to the extent permitted by paragraph 9 of Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.



## 85 Omnibus – Specific Topics

- Postemployment benefits
  - Timing of the measurement of Pension or OPEB liabilities and expenditures recognized in financial statements prepared using the Current Financial Resources Measurement focus
    - ◇ Liabilities to employees for defined benefit pensions or OPEB should be measured as of the end of the reporting period.
    - ◇ All expenditures for defined benefit pensions or OPEB, including (a) amounts for payables to a pension or OPEB plan and (b) amounts for costs incurred by the employer related to the administration of defined benefit pensions or defined benefit OPEB provided through a pension or OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 of Statement 73 or paragraph 4 of Statement 75, should be measured for the reporting period.



# 85 Omnibus – Specific Topics

- Postemployment benefits
  - Recognition and measurement of on-behalf payments for pensions or OPEB in Employer financial statements
    - ◇ Current Financial Resources Measurement Focus – recognize expenditures for on-behalf payments for pensions or OPEB equal to the total of (a) amounts paid during the reporting period by nonemployer contributing entities to the pension or OPEB plan and (b) the change between the nonemployer contributing entities' beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources
    - ◇ Except for the circumstances identified in paragraph 11 of Statement 85 (see below), employer should recognize revenue equal to the amount of expenditures determined in accordance with paragraph 9 of Statement 65 (above)
    - ◇ For on-behalf payments that are not legally required to be made by a nonemployer contributing entity for defined contribution pensions or OPEB, an employer should apply the revenue recognition requirements of paragraph 8 of Statement 24
    - ◇ For on-behalf payments for pensions or OPEB, paragraphs 9-12 of Statement 24, as amended, should not be applied



# 85 Omnibus – Specific Topics

- Postemployment benefits
  - Presentation of Payroll-Related Measures in RSI by OPEB Plans and Employers that Provide OPEB
    - ◇ For single-employer and cost-sharing defined benefit pension and OPEB plans, the measure of payroll that is required by paragraph 36 of Statement 74 to be presented in RSI schedules should be covered payroll
    - ◇ Covered payroll is the payroll in which contributions to the OPEB plan are based.
    - ◇ If contributions to the OPEB plan are not based on a measure of pay, no measure of payroll should be presented.
    - ◇ For employers that provide OPEB through plans administered through trusts that meet the criteria in paragraph of Statement 75, the measure of payroll that is required by paragraphs 57 and 97 of Statement 75 to be presented in RSI should be either (1) covered payroll, if contributions to the OPEB plan are based on a measure of pay, or (2) covered-employee payroll, if contributions to the OPEB plan are not based on a measure of pay.

## 85 Omnibus – Specific Topics

- Postemployment benefits
  - Classification of Employer-Paid Member Contributions for OPEB
    - ◇ Should be classified as plan member contributions for purposes of Statement 74
    - ◇ Should be classified as employee contributions for purposes of determining a cost-sharing employer's proportion pursuant to Statement 75
    - ◇ An employer's expense and expenditures for those amounts should be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than OPEB





# 85 Omnibus – Specific Topics

- Postemployment benefits
  - Alternative Measurement Method
    - ◇ Specific modifications may be incorporated into application: (1) expected point in time at which plan members will exit from active service and (2) turnover
    - ◇ The following should be recognized in expense in the current reporting period: (a) change in proportion, (b) difference between contributions during the measurement period and the proportionate share of contributions
  - OPEB Provided through Certain Multiple-Employer Defined Benefit OPEB Plans
    - ◇ Applicable to defined benefit OPEB plans provided through a cost-sharing plan that meets criteria of paragraph 4 of Statement 75 that is not (a) a state and local government plan, (2) is used to provide benefits both to state and local government employees and non-state and local government employees, and (3) has no predominant state or local government employer
    - ◇ OPEB expense should be recognized in an amount equal to the employer's required contribution to the Plan for the reporting period, including required contributions to the Plan that are associated with pay periods within the reporting period



# 85 Omnibus – Specific Topics

- Postemployment benefits
  - OPEB Provided through Certain Multiple-Employer Defined Benefit OPEB Plans (continued)
    - ◇ Payable should be reported for unpaid required contributions at the end of the reporting period
    - ◇ OPEB expense, and payable, if necessary, should also be recognized for separate liabilities to the OPEB plan that arise in the reporting period
    - ◇ The following should be disclosed in the financial statements: name of the plan, identification of the entity that administers the OPEB plan, characteristics of the plan, whether the plan issues a publicly available financial report and how to obtain it, brief description of benefit terms, brief description of contribution requirements, payable information
    - ◇ RSI – schedule of required contributions for each of the 10 most recent fiscal years
    - ◇ Notes to RSI – Factors that significantly affect trends in the amounts reported





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**GASB 86**

Certain Debt Extinguishment Issues



# 86 Debt Extinguishments

- Provides guidance for governments to report in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt.
- Requirements
  - Government irrevocably places asset with an escrow agent in a trust
  - To be used solely for satisfying scheduled payments of both interest and principal of the defeased debt
  - Possibility that the government will be required to make future payments on the debt is remote

# 86 Debt Extinguishments

- Requirements
  - Trust owns only risk-free monetary assets
    - ◇ Direct obligations of the U.S government
    - ◇ Obligations guaranteed by the U.S. government
    - ◇ Securities backed by U.S. government obligations as collateral and for which interest and principal payments on the collateral
    - ◇ generally flow immediately through to the security holder
  - Cash flows from monetary assets must coincide with debt payments



# 86 Debt Extinguishments

- Recognition in Financial Statements
  - Economic Resources Measurement Focus
    - ◇ Remove the liability
    - ◇ Remove cash and other monetary assets
    - ◇ Difference between reacquisition price and the net carrying amount of the debt, deferred inflows and outflow from prior refundings, recognized as gain or loss
  - Current Financial Resources Measurement Focus
    - ◇ Payments reported as debt service expenditures
- Other Provisions
  - Upon extinguishment or in-substance defeasance, prepaid insurance cost should be included in the net carrying amount of the debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the extinguished debt.



# 86 Debt Extinguishments

- Other Provisions (continued)
  - In the period in which debt is defeased in substance, governments should disclose the following risk, if applicable: substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited.
  - Also need to disclose the balance of defeased debt for which substitution is not prohibited





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**GASB 87**

Leases

# 87 Overview

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



## 87 Key Changes

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



## 87 Key Changes (continued)

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



# 87 Key Changes (continued)

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





## Lessee - Initial Recognition

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



# Lessee - Subsequent Recognition

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



# Lessee - Financial Reporting and Disclosure

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



## Lessor - Initial Recognition

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



## Lessor - Subsequent Recognition

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



# Lessor - Financial Reporting and Disclosure

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





# Lessor - Financial Reporting and Disclosure (continued)

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





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**GASB Implementation Guide No. 2017-1,  
Implementation Guidance Update - 2017**

# Implementation Guide (IG) 2017-1

- Effective for reporting periods beginning after 6/15/17
- IG topics addressed in this presentation:
  - ◇ Cash flows reporting
  - ◇ Pensions – plan and employer accounting and reporting
  - ◇ Tax abatement disclosures
- Other topics covered: fund balance and net position, financial reporting entity, investments and external investment pools





# Implementation Guide (IG) 2017-1

- Cash flows reporting – Question 4.1
  - Employer cash contributions to a defined benefit pension or OPEB plan – report as a cash flow from operating activities
  - Changes in each of the following should be presented separately in the reconciliation of operating income to net cash flows from operating activities:
    - Employer's liability to employees for defined benefit pensions or OPEB
    - Deferred outflows of resources related to pensions or OPEB
    - Deferred inflows of resources related to pensions or OPEB



# Implementation Guide (IG) 2017-1

- Pensions – Plan and Employer Accounting/Reporting
  - Question 4.12 –
    - A post employment health insurance subsidy is provided by a defined benefit pension plan as an additional cash payment. There is no limitation on the use of the additional cash payment.
    - Payment should be considered retirement income and classified as pension.
  - Question 4.14 -
    - An employer provides disability benefits to a recipient until they become eligible for pension benefits. They must terminate employment to be eligible for the benefit.
    - If provided through a defined benefit pension plan, should be classified as pension. If through an OPEB plan, classified as OPEB.



# Implementation Guide (IG) 2017-1

- Pensions – Plan and Employer Accounting/Reporting
  - Questions 5.24 and 5.25 (previously Questions 5.145.1 and 5.145.2 in IG 2015-1) –
    - In circumstances in which benefit payments are due and payable and the pension plan's fiduciary net position (FNP) is not sufficient for payment of those benefits, the employer should recognize an amount equal to the amount of benefit payments due and payable that exceeds the pension plan's fiduciary net position as a net pension liability (NPL) in the governmental fund financial statements.
    - If FNP is sufficient to pay these benefit payments, no NPL should be recognized in the governmental fund financial statements.





# Implementation Guide (IG) 2017-1

- Tax Abatement Disclosures
  - Questions 4.39 – 4.41:
    - To qualify as a tax abatement, it is not necessary that the government forgo tax revenue in the aggregate. The ability to recoup revenue associated with the agreement from other taxpayers is not relevant in determining whether the agreement is an abatement.
    - The mechanism used to conduct a transaction is not relevant in determining whether an agreement is an abatement. Arrangements involving the collection and return of property taxes to a developer would represent an abatement, as the government did forgo tax revenues.





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**Current GASB Projects**

# Current Exposure Drafts

- Accounting and Financial Reporting for Majority Equity Interests Amendment of GASB Statement No. 14 - Currently in Exposure Draft Redeliberation Period
- Implementation Guide No. 201Y-X, Implementation Guidance Update – 201Y – Currently in Comment Period (ends February 16, 2018)
- Accounting for Interest Cost During the Period of Construction – Currently in Comment Period (ends March 4, 2018)
- Debt Disclosures, Including Direct Borrowing- Currently in Exposure Draft Redeliberation Period





# Revenue and Expense Recognition

- Invitation to Comment issued
- Comments due April 27, 2018
- Final statement expected 2023
- Challenges to address:
  - Existing guidance for exchange revenue and expense transactions is limited, resulting in inconsistent reporting
  - Existing guidance for nonexchange revenue and expense transactions could be improved
  - Other accounting standards setters are considering a “performance obligation” approach for revenue recognition.



# Other Projects

- Financial Reporting Model
- Conceptual Framework
- Implementation Guides
  - GASB 84 (Fiduciary Activities)
  - GASB 87 (Leases)

# GASB Resources and Providing Feedback

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







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**Questions?**





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**ROUND TABLE ON BUDETING, CAPITAL  
IMPROVEMENT AND FINANCIAL  
MANAGEMENT PLANS**

**2018 Annual Government Training Academy  
May 10-11, 2018**

*Matt Urkoski, Manager, CLA SLG Business Operations  
Leader, CliftonLarsonAllen LLP*

# Learning Objectives and Agenda

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

- Provide a high-level discussion of key components of a budget, capital improvement plan and long range financial management plan.
- Discuss the basic process and thoughts to consider for your organization.
- Connect with peers on each organization's processes to discuss successes, challenges and lessons learned.
- Ask questions of the facilitators, and provide some thought provoking questions/considerations to take back to your organization.





# Budget

“A well thought-out budget is one of the keys to financial stability, growth, and fulfillment of a City’s mission.”

- Not easy
- All sizes
- Time
- Experience
- Resources



## Why Budgets Are Needed?

- Allows City to focus on strategic goals---policy tool
- Allows the council to perform oversight of operations
- Provides a mechanism to facilitate financial control, set spending limits and keep costs in line with revenues
- Provides accountability and transparency to local citizens





# Budget and Budgeting Methods

## What is a Budget?

*A Budget is a Plan of Estimated Future Revenues and Expenditures for a Particular Period of Time*

## What Type of Budgeting Methods Do Organizations Utilize?

- **Zero Based** – Start with zero and justify all revenues and expenditures/expenses. *Very rarely used.*
- **Incremental** – Use previous year budget, which is then adjusted based on history to create next fiscal year budget. *Most common.*
- **Priority Based** – Analysis of all services, programs, etc., to determine priorities and allocate available resources to those priorities. *Less common but gaining some popularity.*



# Budgets

## What Budget(s) Do Organizations Prepare?

### Required:

- General Fund

### Optional:

Could be based on Charter/Code/Ordinance and/or Business Need:

- Capital Project Funds
- Debt Service Funds
- Special Revenue Funds
- Proprietary/Enterprise Funds
- Tax Increment Funds



# Revenues to Consider Budgeting

- **Taxes** - Property taxes, lodging taxes, and local sales taxes
- **Intergovernmental Revenues** - Federal, State, County
  - CDBG, LGA, Police & Fire Aid, Recycling Grants, etc.
- **Charges for Services** – Building permits, park and recreation
- **Fines & Penalties** – Law enforcement, administrative, and nuisance
- **Franchise Fees** – Cable, electric, and gas
- **Interest Income** – Interest on investments
- **Transfers** – To or from utility funds, capital project funds, etc.
- **Miscellaneous** - Sale of salvage, contributions/donations, NSF's



# Expenditures/Expenses to Consider Budgeting

- **Personnel**
  - Wages, health, dental, LTD, STD, workers comp., allowances, etc.
- **Supplies**
  - Office supplies, small tools, salt, sand, asphalt, etc.
- **Services and Other Charges**
  - Attorney, utilities, consultants, communications, service contracts, training, etc.
- **Capital Outlay**
- **Debt Service**
- **Transfers**



# Building YOUR Budget Process

## Determine the key items for your organization

- Type of budget prepared? – Zero, incremental or priority based?
- Transparency and public input?
- Elected/appointed officials involvement and at what level?
- Level of departmental involvement and input?
- Formal or informal budget revision process and timeline?

## What Key Budget Worksheets are Needed?

- Personnel – wage and all benefits by position
- Allocations costs – Audit, insurance for property and liability, rent, etc.
- Equipment replacement worksheets for Capital Planning
- Utility rate calculations

*For Departmental Input, Highlight Cells, and Lock the Rest?*



# Structuring YOUR Budget Process– Continued

## How Do You Structure the Budget Process?

- Roll out all worksheets at once
- Sequential roll out – C.I.P., Gen. Fund Budget, Other Funds, then update Long-Range Financial Mgmt. Plan?

## With Structuring, Consider Departmental Impacts

- Timing with other operational work – Park and Rec. programs, Public Works projects, other key initiative/implementations?
- Partner with departments to build a high quality document

## Formal or Informal Revision Process for Budget Updates?

- Do you set timeframes to update information?
  - Pros – avoids trickling in of information and creates efficiencies
  - Cons – Formal revision dates may result in less complete first iteration





# Creation of a Budget Calendar



- Work backwards from key dates
  - Reporting dates to State
  - Final millage rate to county or state
  - Public hearing if required on final budget and tax levy
  - Preliminary millage to county or state
- Expectation - Boards/Councils/Elected Officials/Public
  - Number of meetings
  - Opportunities for public input

## Public Meetings on the Budget

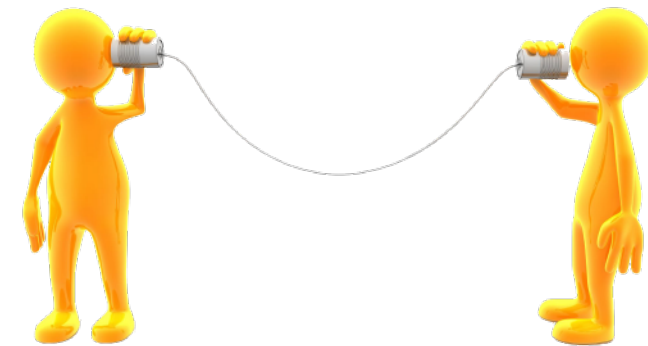
After “Between the Lines” meeting with leadership, staff rollout and any budget adjustments, preparation for meeting(s) to adopt Budget

- Plan for both workshop(s) and regular meeting(s)
- Provide whole picture of impact, if possible
  - Proposed millage rate adjustment **under jurisdiction’s control.**
  - **Specific jurisdiction** impact resulting from adjustment
  - Utility rate adjustments and impact, if applicable
  - Franchise fee(s) adjustment(s) and impact, if applicable
  - Capital Improvement Plan and funding sources
  - Long Range Financial Management Plan update, if applicable



## Feedback of Budget Process

- After the Budget and Millage Rate process is complete, it is important to close the loop to identify challenges and opportunities
- Soliciting this feedback is crucial to growing as an organization and relationship building by looking at the process from different perspectives



## Roundtable Questions

- What is your budget process?
  - What has worked well in your internal processes?
  - What has worked well in your external outreach efforts?
  - What challenges have you faced in your internal processes?
  - What challenges have you faced in your outreach efforts?



## Roundtable Questions (cont.)

- What technology tools have you utilized to create efficiencies in your budgeting process?



## Capital Improvement Plan (CIP)

**A Capital Improvement Plan (CIP) is a multi-year plan which determines and projects capital needs based on the mission, vision, values and goals of an organization.**

- Can be used in conjunction with budget and long range financial management plan, if developed.
- A CIP can help identify funding opportunities and challenges outside of the operating budgets.





# Capital Improvement Plan (CIP) – Cont.

## How many years should your CIP be?

- Depends on each organization. If you have a long range financial management plan, ideally should be congruent with it. Otherwise, can be based on:
  - Useful lives of the assets in the plan.
    - ◊ Heavy Public Works/Engineering Involvement
  - Level of reasonable (un)predictability
- Many use 5 or 10 years, but can be more if practical

## What should our capital threshold and useful life be?

- Depending on organization size, suggestion would be at least \$5,000 and possibly as much as \$50,000.
- Useful life of at least 3 years.



# Capital Improvement Plan (CIP) – Cont.

## When should we start/review our CIP each year?

- Ideally, to start the budgeting process, or after operation budgets are submitted, but before long range plan updates and budget workshops
- Should consider departments workloads, if possible
- Longer term plans are typically conceptual only

**The goal is to have a CIP that creates buy-in from staff, is comprehensive, tells a story to the public, elected/appointed officials, which allows an organization to be proactive in its planning, and reduce volatility to its constituents.**



## Roundtable Questions (cont.)

- Does your jurisdiction have a CIP?
  - If yes, what is your process?
    - ◇ Is the CIP incorporated into your budgeting process?
      - If yes, at what point do you start/review the CIP?
  - If no
    - ◇ Do you feel there is a need for one?
    - ◇ Do you plan on initiating one?



# Long Range Financial Management Plans

## Desired Information and Goals:

What is a Long Range Financial Management Plan (LRFMP)?

- Analyzes and projects revenues, expenditures, cash and/or fund balances over a period of time
- Can be used to enhance transparency for an organization
- Goals:
  - 1) Create a plan for appointed/elected officials and staff
  - 2) Helps to improve or maintain bond rating
  - 3) Target cash or fund balance positions
  - 4) Help achieve organizational long-term sustainability



# Long Range Financial Mgmt. Plans – Cont.

## Achieving Support at Various Levels of the Entity

- Appointed/Elected Officials and top Executive:
  - They can be visionaries in shaping the future
  - Focus on the benefit to their mission
  - Transparency
  - Provides short and long-term plan for staff and community
  - Turn ideas into reality
  - Bond rating or credit worthiness – possible lower interest rates on debt issuances or financing

# Long Range Financial Mgmt. Plans – Cont.

## Achieving Support at Various Levels of the Entity Cont.

### – Staff Level: leadership and operational levels:

- Creating comprehensive capital and operational models can improve interdepartmental collaboration and improve efficiencies.
  - Internally with appointed/elected officials
  - Externally when competing for resources and messaging collective objectives.

- Allows the organization to clearly see the vision for today and the future to achieve mission buy-in and goals



# Long Range Financial Mgmt. Plans – Cont.

## Development of a Project Plan:

- High level discussion with Administrator/Manager, Executive Director, Superintendent, etc.
- Discussions with other leadership and key staff on more of the specifics in building the plan
- Develop basic model to shape conversations around
- Firm deadlines or understanding business needs?
- In conjunction with Budget and Capital Imp. Plan?



# Long Range Financial Mgmt. Plans – Cont.

## Development of a Project Plan Continued:

- How many funds?
  - Targeted financially challenged funds first
  - Expand the model based on business needs
  - Inventory the processes in place
- How many years of historical and prospective info?
  - Length could vary based on fund and life cycles
  - Stability or volatility of fund?
- Discussion and/or Workshop with officials?
- From meetings and goals, created specific inputs



# Long Range Financial Mgmt. Plans – Cont.

## Development of a Project Plan Continued:

- Understanding future challenges, opportunities, and competing interest at play
- On-going document updated how often?
- Appointed/Elected officials, leadership, and key staff review it regularly

**KEY** – Finance staff/Champion involvement throughout the process and keeping communication lines open.

# Long Range Financial Mgmt. Plans – Cont.

## Long Range Financial Management Plan Example:

- Overview of select sheets and funds
- All created in Excel
- Never static
- Mostly dynamic to allow for scenario analyses
- Collaboration with the entire organization is crucial
- No one size fits all approach!

# Long Range Financial Mgmt. Plans – Cont.

## Outcomes and Lessons Learned:

- Focus shifts to long-term financial health of entity
- Reactive to PROactive
- Key for improving or maintaining bond rating and to potentially secure financing
- May reveal other areas entity may need to focus on
- Use as a tool to project taxes, millage rates and more
- Can be used to help reduce fluctuations in property tax impacts and rate adjustments
- Departments are cognizant of the plan when looking at business needs and opportunities--- planning!



# Long Range Financial Mgmt. Plans – Cont.

## Outcomes and Lessons Learned Continued:

### Most important outcome of process:

- Without the leadership, guidance, and support of the appointed or elected officials, an effective and useful Long Range Financial Management Plan will be challenging to implement.



# Conclusion

## In summary today, we covered:

- A high-level discussion of key components of a budget, capital improvement plan and long range financial management plan.
- Discuss the basic process and thoughts to consider for your organization.
- Connect with peers on each organization's processes to discuss successes, challenges and lessons learned.
- **Questions?**





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**Questions?**





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**2018 State and Local Government  
Enterprise Risk Management Update  
Understanding and Implementing an ERM Framework**

Raymond J Emry, CPA, CRMA,  
Director - CliftonLarsonAllen



### ***Profile***

- Ray serves as a trusted advisor and subject matter expert to medium - large medical device, manufacturing, pharma clients seeking guidance and direction in the areas of risk management, internal audit, finance and accounting, information technology, and SEC reporting
- Ray is an innovative leader with significant experience in internal audit, risk management and ERM, GAAP and SOX compliance, business acquisitions and project management. Ray is a CPA and former Big 4 public accounting Audit Manager. He has held progressive financial leadership (divisional and corporate Controller) roles in a variety of companies across multiple industries such as health care, retail, manufacturing and higher education.

### ***Education/professional involvement***

- BBA in accounting with a minor in finance from Western Illinois University
- Beta Alpha Psi (National Accounting Fraternity), Dean's List
- Certified Public Accountant (CPA)
- Certification in Risk Management Assurance (CRMA)
- Certified Healthcare Financial Professional (CHRP)

### ***Civic organizations***

- St. Jude Children's Research Hospital – Upper Midwest Region, Advisory Council Member
- Headway Emotional Health Services, Board Member

# Running an Organization to Serve your Stakeholders Can Be Risky:





# Training Objectives:

*What is Enterprise Risk Management (ERM) and Its Benefits?*

*What are the Basic Tenants of ERM  
Using the 2017 COSO ERM Framework*

*CLA's ERM Client Approach & Overview – Top Down Risk Assessment*



# Survey Questions:



**We promise** to *know you* and *help you*.

# What is Enterprise Risk Management (ERM)?

## Commonly used ERM Risk Framework:

*“Enterprise Risk Management – Integrating with Strategy and Performance (June 2017) of the Committee of Sponsoring Organizations (COSO)”*; this is the framework used by CLA; we will refer to this as the “2017 COSO ERM Framework”. 2017 COSO ERM Framework

This is the recommended framework we’ll review today.



# What is Enterprise Risk Management (ERM)?

## Commonly used ERM Risk Framework:

COSO is a private sector initiative, jointly sponsored and funded by:

- American Accounting Association
- American Institute of Certified Public Accountants
- Financial Executives International
- Institute of Management Accountants
- The Institute of Internal Auditors



# What is Enterprise Risk Management (ERM)?

## *COSO Defines ERM as:*

The **culture, capabilities**, and **practices**, integrated with strategy-setting and performance that organizations rely on to **manage risk in creating, preserving, and realizing value**.



2017 COSO ERM Framework



# What is Enterprise Risk Management (ERM)?

## *COSO Defines Risk as:*

An **entity's strategy and business objectives may be affected by potential events**. A lack of complete predictability of an event occurring (or not) and its related impact creates uncertainty for an organization. **Uncertainty exists for any entity that sets out to achieve future strategies and business objectives**. In this context, risk is defined as:

The possibility that events will occur and affect the achievement of strategy business objectives

2017 COSO ERM Framework





# What is Enterprise Risk Management (ERM)?

## What ERM is not:

- **ERM is not a checklist.** It's about principles on which processes can be built / integrated into your organization.
- **ERM is more than a risk listing.** It requires more than taking an inventory of key risks within the organization.
- **ERM is not a function or department.**
- **ERM addresses more than internal control.**

2017 COSO ERM Framework

Reminder: From previous slide COSO defines ERM as

- **The culture, capabilities and practices.**
- **Integrated with strategy-setting and performance.**
- **That organizations rely on to manage risk.**
- **In creating, preserving and realizing value.**



# What is Enterprise Risk Management (ERM)?

ERM begins with **Mission & Vision** and then **managing risks** to deliver on **the Strategy** through achievement of **strategic business objectives / strategic imperatives**



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"Maybe it's time to update our mission statement."

# *What is Enterprise Risk Management (ERM)?*

## *Boiling COSO / ERM down:*

- **ERM starts with** an Organization's **Mission, Vision & Core Values** that then leads to a chosen Strategy.
- The organization then needs to **evaluate risks to the chosen strategy**, thus the reason for ERM.
- **Organizations take on risk** in order **to deliver on their Mission, Vision & Core Values**
- Its about assessing threats in both the External and Internal environments
- Finally, it's about assessing what must "go well" in the execution of the chose strategy to deliver on the Mission



# *What is Enterprise Risk Management (ERM)?*

## *Boiling COSO / ERM down:*

Anything that influences an entities current and future strategy and business to deliver on its mission:

- External environment – e.g., political, economic, societal legal, technological changes, etc.
- Internal environment – e.g., talent, processes, technology, governance, tone at the top, culture, etc.



# *What is Enterprise Risk Management (ERM)?*

*Boiling COSO / ERM down:*

Succinctly put- It's about an **enterprise wide culture that is risk based in its thinking and approach to strategic as well as day to day matters with constant vigilance on continual improvement (to win)**

# *Enterprise Risk Management (ERM) Benefits*

ERM and Strategy: ERM helps an organization better understand:

- Does the strategy and business objectives align with the mission, vision and core values?
- Does the organization expose itself to unacceptable risk by choosing a particular strategy?
- Is the level of risks in carrying out strategy and business objectives acceptable (risk appetite)?

2017 COSO ERM Framework





# *Enterprise Risk Management (ERM) Benefits*



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# Enterprise Risk Management (ERM) Benefits

## ERM Benefits are to (continued):

- *Identifies and manages entity-wide risks – Management & the Board now have a portfolio of risks, a report card of the top risks affecting strategy that the entire organization can focus and rally around.*
- *Reduces performance variability – ERM allows organizations to proactively anticipate risks that affect performance and enables action taking to minimize disruption.*
- *Improves resource deployment – This is about focusing organization resources and attention on areas with the most strategic importance and greatest risks (risk based approach).*

2017 COSO ERM Framework



# Enterprise Risk Management (ERM) Benefits

ERM Benefits are to (continued):

*Increases the range of opportunities – It's not only looking at the bad things that can hamper achieving strategy but as important exploring new/missed opportunities.*

2017 COSO ERM Framework



# Enterprise Risk Management (ERM) Benefits

ERM Benefits are to:

*Increases positive outcomes and advantages while reducing negative surprises – Again this is about an organizational culture that operates with a risk based mindset with continuous learning, focus and improved performance.*



2017 COSO ERM Framework



# *Enterprise Risk Management (ERM) Benefits*

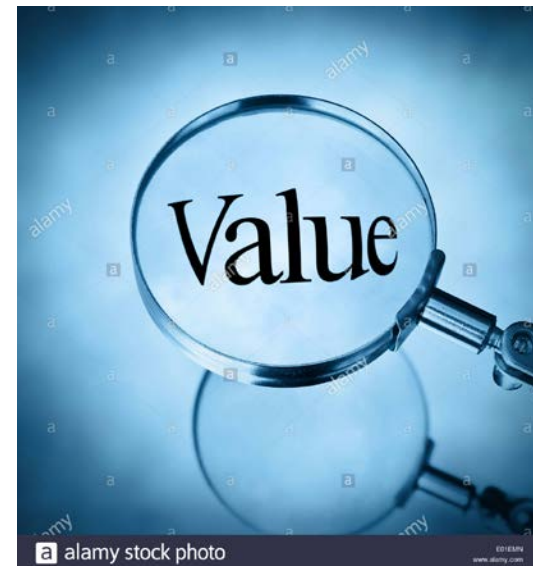


# Enterprise Risk Management (ERM) Benefits

## ERM Benefits – research factoid:

Hoyt and Liebenberg (2011) “finds a positive relationship between the use of ERM and firm value, and **estimate an ERM premium of roughly 20 percent** that is both statistically and economically significant”.

# Hoyt, R.E., Liebenberg, A.P. (2011). The value of enterprise risk management, The Journal of Risk and Insurance, Vol. 78, No. 4, pp. 795-822.





# Enterprise Risk Management (ERM) Benefits

## Is ERM Relevant for Public Organizations?

- ***ERM can be used by organizations of any size.*** If an organization has a mission, a strategy, and objectives—and the need to make decisions that fully consider risk—then enterprise risk management should be applied.
- ***Leading practices in the private sector***, such as risk management, can be leveraged by the public sector.
- ***The public sector is facing unprecedented challenges*** in terms of revenue constraints, aging, succession & talent risks, demographic shifts, population changes, terrorism and cyber security threats; these all threaten organizations from delivering on their Mission.



# Enterprise Risk Management (ERM) Benefits

## Is ERM Relevant for Public Organizations? (continued)

- What threats do you face? What keeps you up at night?
- Does your organization employ ERM?
- Does your strategic plan / strategic imperatives align with your mission & vision, how do you know?  
Are the risks with your strategic plan acceptable, how do you know?
- Do you have limited access to federal or state funds or are those available funds shrinking? Is your tax base / revenue source at risk? Is your sales tax base at risk? Do you need to take revenue diversification measures? How effective is your Grant Department, do you know?
- Do you have competitors for your services? Do you know who they are? How are you mitigating competitor threats if they exist?



# Enterprise Risk Management (ERM) Benefits

## Is ERM Relevant for Public Organizations? (continued)

- What threats do you face? What keeps you up at night?
- How do you feel about your operational risk management related to cyber security threats (IT security risks) and business recovery / disaster recovery planning (if you have DRP is it tested annually)?
- How would you rate yourself in managing terrorism or active shooter threats?
- Do you have a media crisis communication plan in place?
- How are you managing accident / casualty(workers comp. claims) risks? Do you have a Safety program? How effective is it? How do measure its effectiveness? How well do you manage risks at public events?



# *Enterprise Risk Management (ERM) Benefits*



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# Enterprise Risk Management (ERM) Benefits

## Is ERM Relevant for Public Organizations? (continued)

- What threats do you face? What keeps you up at night?
- Operational risks pertaining to talent such as succession planning for key leaders, retirees, middle management specialists – are these risks being appropriately managed? Are you enhancing your talents' capabilities? Is your pay scale competitive – are you able to attract the right talent? How do manage turnover risks - do you know your turnover? This is about having enough of the right people in the right places (Talent Management)?
- How well do you manage and monitor vendor performance? How effective is your procurement & contract management efforts – do you know (Vendor Management)? Are your vendors meeting their performance obligations



# *Enterprise Risk Management (ERM) Benefits*

## Is ERM Relevant for Public Organizations? (continued)

- What threats do you face? What keeps you up at night?
- How well are you managing compliance risks? Are your facilities ADA compliant? How do you know? Are you HIPAA compliant? What new regulations are on the horizon that will impact you – do you know? How are you monitoring those changes?





# Enterprise Risk Management (ERM) Benefits

Maple Grove city departments, parks and rec, police, public works department, administration, assessing



# Enterprise Risk Management (ERM) Benefits

## Is ERM Relevant for Public Organizations? (continued)



# *Enterprise Risk Management (ERM) Benefits*

## Is ERM Relevant for Public Organizations? (continued)



### Mission Statement

The Parks and Recreation Board, through its employees, is committed to provide prompt, responsive and courteous customer service to the public in its quest to provide quality leisure opportunities through park and recreation facilities and services which meet the interest and needs of all City residents.

# Basic Tenants of ERM – Using the 2017 COSO ERM Framework

## Components and Principles of ERM: Five Components and 20 Principles:

- **Governance and Culture** – Governance and culture together form a basis for all other components of ERM.
- **Strategy & Objective Setting** – ERM is integrated into the strategic plan and business objectives.
- **Performance** – risks are identified and assessed in pursuit of the strategic plan and business objectives; the portfolio view of risks forms a basis for prioritizing risk responses and resource utilization.



' COSO ERM Framework

# Basic Tenants of ERM – Using the 2017 COSO ERM Framework

## Components and Principles of ERM: Five Components and 20 Principles:

- **Review and Revision** – by reviewing ERM capabilities and organizational performance; ongoing improvements to ERM capabilities and practices can be achieved thus improving value over time.
- **Information, Communication and Reporting** – by using information that applies to all components, the organization reports on risk, culture and performance.



COSO ERM Framework



# *CLA's ERM Client Approach & Overview – Top Down Risk Assessment*

## Perform an initial Top Down Risk Assessment:

### 1. Data gathering:

- Determine scope of project; e.g. will the risk assessment include development of mitigation strategies as part of the project.
- Begin with the organization's Mission, Vision and Strategic Plan.
- Review board minutes current financial statements and budgets.
- Review organization charts, bios of key leaders and governance structure.
- Review internal and external audit findings.
- Review finding reports from regulators.
- Identify ERM Champion or Executive Sponsor.





# *CLA's ERM Client Approach & Overview – Top Down Risk Assessment*

## Perform an initial Top Down Risk Assessment (continued):

2. Establish an ERM framework and tools tailored to the organization with Executive Sponsor's input.
  - Strategic, Operational and Compliance ERM Framework.
  - Impact and Likelihood definitions.
  - Risk Universe initially updated from data gathered thus far.
  - Outputs are socialized and vetted with senior leaders and the Executive Sponsor prior to finalizing reports.



# *CLA's ERM Client Approach & Overview – Top Down Risk Assessment*

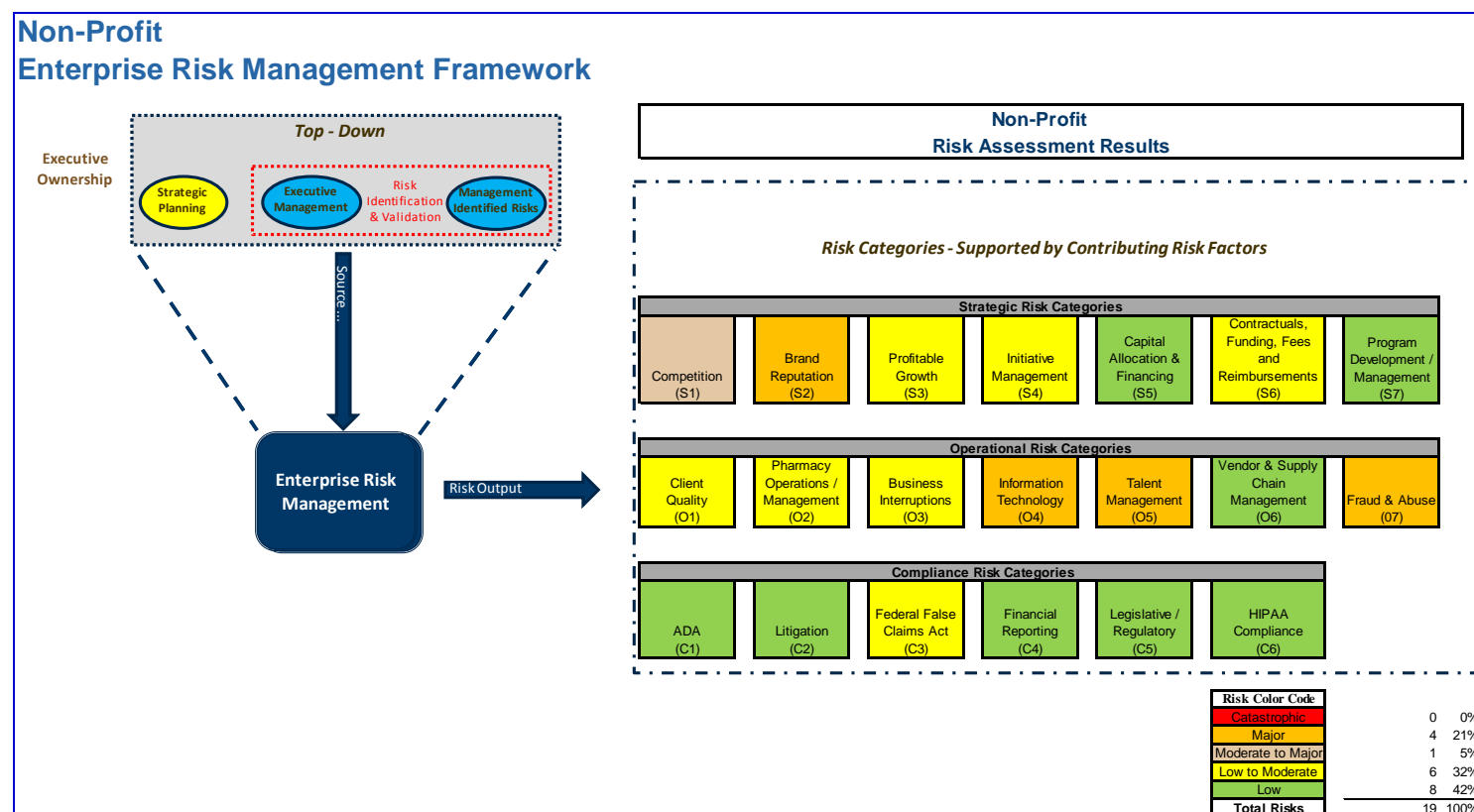
## Perform an initial Top Down Risk Assessment (continued):

3. Determine interviewees to include in facilitated workshops and interviews using the ERM Framework; typically organization wide senior leaders, Directors on up and typically the Board.
4. Conduct facilitated workshops and interviews and then update Risk Universe what is learned.



# CLA's ERM Client Approach & Overview – Top Down Risk Assessment

**Outputs:** Framework, ERM tools and techniques Management can utilize going forward.



## Outputs: Risk Universe.

Risk Assessment									
Risk Factor				Impact	Likelihood	Risk Response			
Challenge Details				5 = Catastrophic 1 = Insignificant	5 = Almost Certain 1 = Rare	I * L	Veloc	-Accept -Reduce -Share -Mitigate -Maintain	Source
2	Operational	Pharmacy Operations / Management	Improper Medicaid billing by Managing Pharmacist approximately \$650K in improper billings - violation of the Federal False Claims Act. The mitigation strategies have lowered the Likelihood of a Major risk event to low.	4	2	8		Mitigate	Executive Leadership Interviews
5	Operational	Fraud & Abuse	Potential for fraud and abuse due significant number of business transactions conducted in cash.	3	5	15			Board Minutes

# CLA's ERM Client Approach & Overview – Top Down Risk Assessment

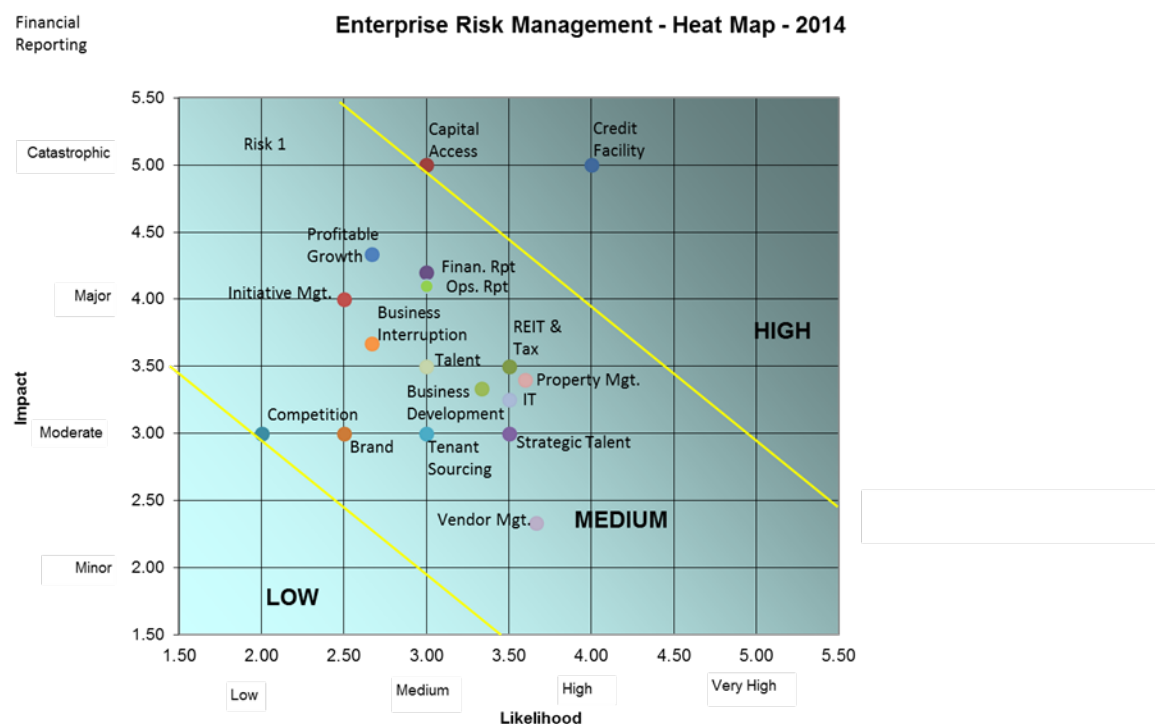
**Outputs:** Report of Top Risks, based on the engagement can include identified Risk Mitigation Strategies.

CONFIDENTIAL - Sample Company Top Risks			
#	Risk Factor	Risk Category Impacted	ERM Risks
1	<p>Dealer Base is lower tier caliber for equipment, Sample Company has difficulty accessing the top tier dealer base. Sample Company's dealer base tends to be primarily with the lower tier power motor sports dealers, e.g., Tier 4 and 5 dealers comprise 79% (Tier 4 or 5 are selling less than 44 or 24 ATV units, respectively). "Our Dealer Network is worst among major competitors in terms of size, productivity and capabilities.</p> <p>Not a strong dealer base, dealer base is comprised of small dealers requiring a lot of support. Small dealers don't have good business acumen. We signed dealers in the past just to fill the spSample Location and they are not necessarily the best qualified.</p>	<p><b>Profitable Growth</b> Failure to align core competencies, business processes and company resources with market opportunities may result in the inability to grow future revenue streams.</p>	Strategic
2	<p>Sample Company is one of the lowest rated brand among the seven majors, and ahead only of competitor.</p> <p>Sample Company has lost 2 market share points in North America over the last five years driven by 1) serious quality problems, 2) dealer productivity and the number of dealers, and 3) dealer support areas needing improvement (warranty reimbursement, rebates and floorplan).</p> <p>Model proliferation concerns.</p>	<p><b>Product Development &amp; Management</b> Risk that new products are meeting consumer demand or equipment differentiation or risk that existing products are not designed to deliver reasonable costs / value engineering.</p>	Strategic
3	<p>Fluctuations in foreign currency rates could result in declines in our reported net sales and net earnings. In 2015 there was approximately a \$18MM currency translation impact.</p> <p>International Country translation is high risk as Sample Company does approximately \$200MM in International Country sales or a 1/3 of Sample Company's revenue.</p>	<p><b>Capital Allocation &amp; Financing</b> Risk of expending capital on areas that are not commensurate with operating goals, and that do not yield acceptable levels of ROI will further erode capital availability and shareholder value; high credit risk or foreign exchange exposure risks.</p>	Strategic



# CLA's ERM Client Approach & Overview – Top Down Risk Assessment

**Outputs:** Heat map of Top Risks.





# References

- Enterprise Risk Management – Integrating with Strategy and Performance (June 2107) of the Committee of Sponsoring Organizations (COSO).
- # Hoyt, R.E., Liebenberg, A.P. (2011). The value of enterprise risk management, The Journal of Risk and Insurance, Vol. 78, No. 4, pp. 795-822.



# Running an Organization to Serve your Stakeholders Can Be Risky:



# Training Objectives:

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*Questions?*



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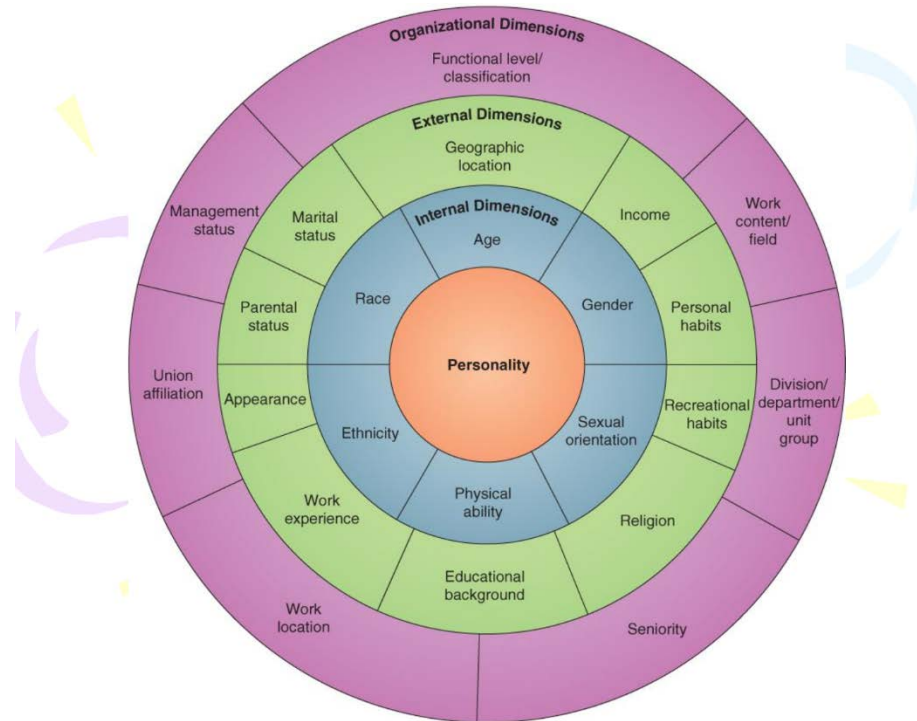


**Building Teams in a Diverse and Inclusive Company**

Government Training Academy



# Dimensions of Diversity

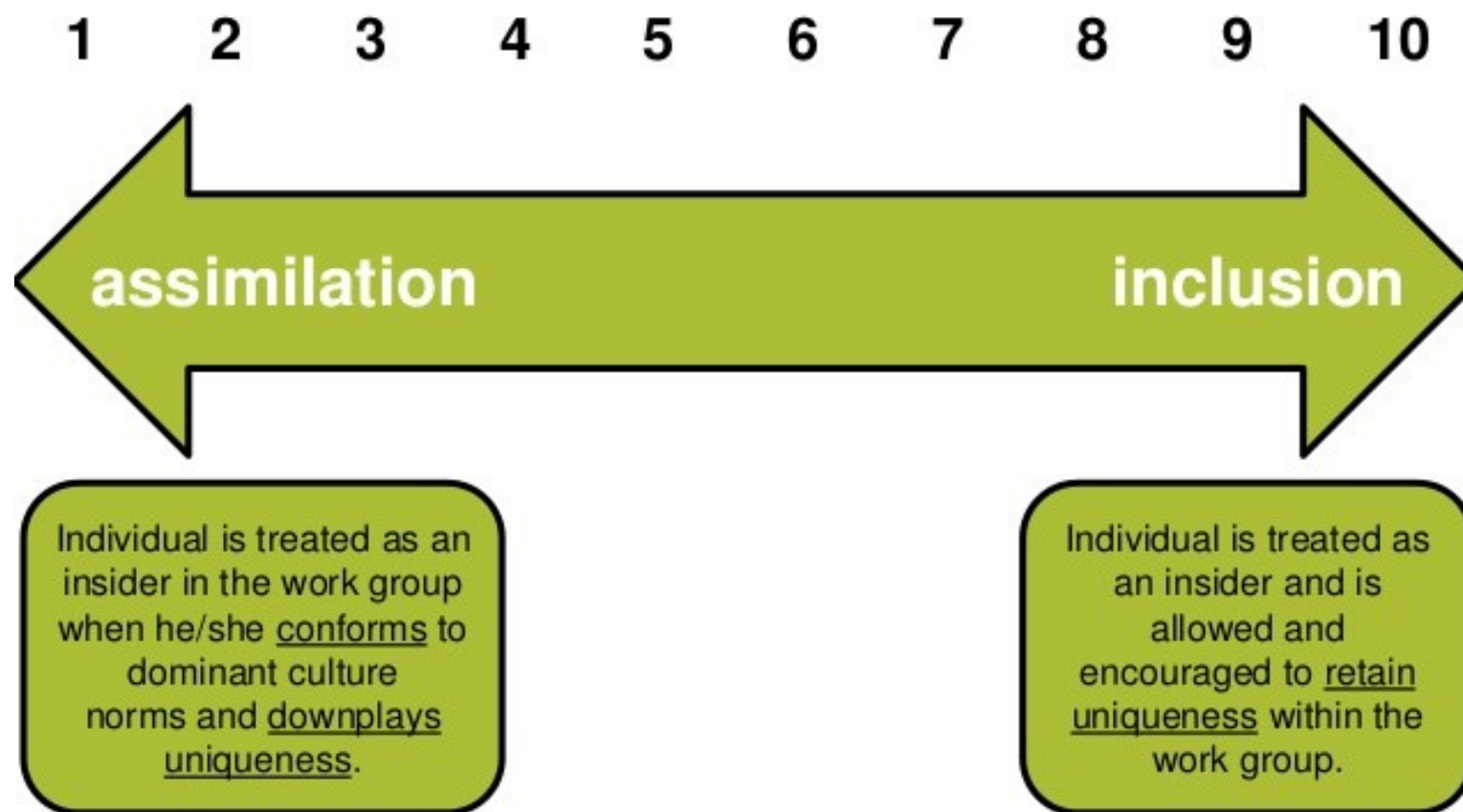


Diversity exists  
between people,  
NOT in people



# Get to Know You





# What is inclusion?

“open minded”

“everybody matters”

“not excluding anyone based on who they are”

“everyone has a voice”

“I feel like I am being heard”

“everyone feels welcome”



# What Does It Mean To Feel Excluded?





# Diverse Teams Drive Innovation

- Varied voices = new ideas
- Different backgrounds = new information
- Diverse team = better preparation
- Homogeneous team = group think







# Project Aristotle and Group Norms

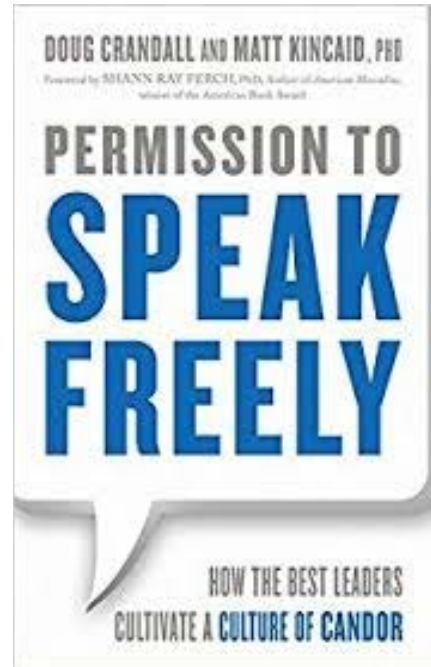
- Do 1 or 2 people dominate conversation, or does everyone have a chance to provide input?
- Do teammates arrive on time, or do they straggle in or fail to show up at all?
- Are decisions made, or is another meeting scheduled to discuss everything again?
- Do teammates take time to get to know each other on a personal level, or is it all business?



# What Makes A Team Effective?



# Create a Culture of Candor







## ex·plic·it

/ikˈsplɪt/ 

*adjective*

1. stated clearly and in detail, leaving no room for confusion or doubt.  
"the speaker's intentions were not made explicit"  
*synonyms:* clear, plain, straightforward, crystal clear, easily understandable;  
precise, exact, specific, unequivocal, unambiguous; detailed,  
comprehensive, exhaustive  
"explicit instructions"

*noun*

1. the closing words of a text, manuscript, early printed book, or chanted liturgical text.







- Listening Without Follow Up = Lip Service
- Too Much Lip Service = No More Ideas!



# Which is Your Style?



**We promise** to *know you* and *help you*.





“There’s zero correlation  
between being the best  
talker and having the  
best ideas.”



Susan Cain, *Quiet*  
#thinksmarter



- Go get them
- Invite into conversation
- Be curious
- Get to know them
- Connections = contributions



## Think About a Team You Lead

- Who is a participating member and who is not, why?
- Name 3 voices missing from the team?
- What benefit would that voice provide?
- What are you able to do about it?
  - Invite into discussion
  - Offer opportunity to join team
  - Get to know them better



# Create a Culture of Psychological Safety

- Be explicit
- Listen to all ideas
- No lip service
- Provide feedback
- Show vulnerability
- Seek out introverts
- Build relationships







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