



CPAs & BUSINESS ADVISORS

GOOD TIMES.. GOOD GASB

Day 1 GASB Update – State of Maine – Eric S. Berman, MSA, CPA, CGMA

AGENDA – GASB UPDATE

June 30, 2019

- Implementation Guide Update 2018-1
- GASB-83 – Asset Retirement Obligations
- GASB-88 – Debt Disclosure and Direct Borrowing
- **New** - 15(c)(2)-12 Disclosure

June 30, 2020

- Implementation Guide Update 2019-1 - **New**
- GASB-84 – Fiduciary Activities and *Implementation Guide*
- GASB-90 - Majority Equity Interests

June 30, 2021 (and beyond)

- GASB-87 – Leases
 - **Implementation Guide ED**
- GASB-89 – Accounting for Interest Cost before the End of a Construction Period
- **Almost Final – To be GASB-91 – Conduit Debt Obligations**

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EXPOSURE DRAFTS BEING RELEASED OVER THE NEXT FEW MONTHS

- Subscription-Based Information Technology Arrangements (aka 'Cloud Computing' and apps)
- Public Private Partnerships
- Deferred Compensation Plans
- Omnibus 2019
- Secured Overnight Financing Rate (Late Summer)

OTHER STUFF YOU'LL ENJOY

- **The latest on the Financial Reporting Model Project, including what might be in the Exposure Draft in 2020**
- Revenue and Expense Recognition Project
- Note Disclosure Conceptual Framework
- Performance Auditing – What is it and How Can It Make My Government Better





AND AWAY WE GO!!

IMPLEMENTATION DATES

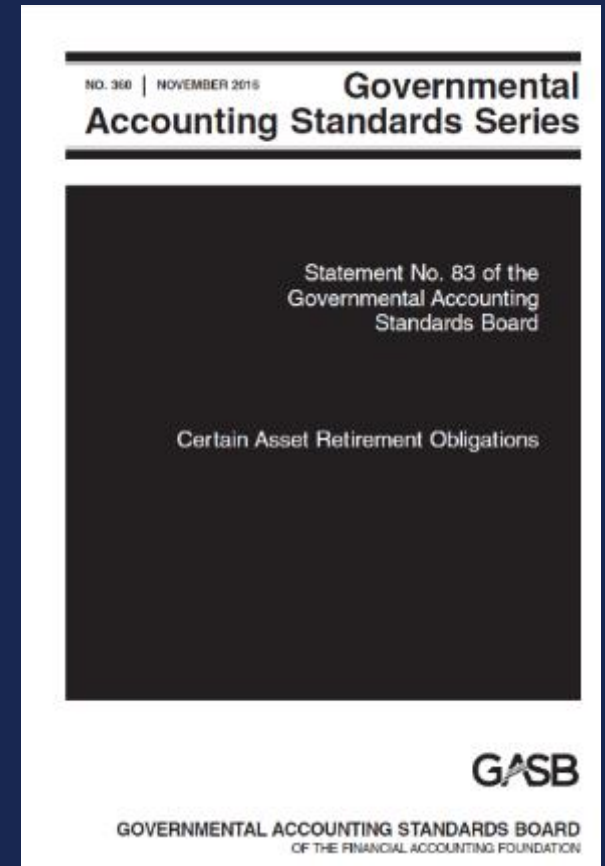
Effective Date – Periods Beginning <i>After</i>	Statement	First Fiscal Years Affected	
		June 30th	December 31st
June 15, 2018	GASB-83 - <i>Asset Retirement Obligations</i>	2019	2019
June 15, 2018	GASB-88 – <i>Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements</i>	2019	2019
June 15, 2018	IGU-2018-1	2019	2019
December 15, 2018	GASB-84 – <i>Fiduciary Activities</i>	2020	2019
December 15, 2018	GASB-90 – <i>Majority Equity Interests</i>	2020	2019
June 15, 2019	IGU – 2019-1	2020	2020
December 15, 2019	GASB-87 – <i>Leases</i>	2021	2020
December 15, 2019	GASB-89 – <i>Accounting for Interest Cost before the End of a Construction Period</i>	2021	2020
<i>December 15, 2020</i>	ALMOST FINAL – TO BE GASB-91 – <i>Conduit Debt Obligations</i>	2022	2021

QUICK WORD ON IGU 2018-1

- Only 9 new questions, 8 amended questions
 - New Questions
 - Employer Accounting and Reporting – Pensions – (expected remaining service life calculation)
 - Plan reporting – OPEB
 - Statistical Section
 - GASB-62, (Regulatory Accounting)
 - Tax Abatement Disclosures
 - Amended Questions
 - Investments – international mutual funds
 - Cash flows reporting
 - Pensions – Plan and Employer Accounting and Reporting
 - Capital Assets – library books depreciable?
 - Restricted net position and deferred inflows or deferred outflows of resources
 - Statistical section
 - Tax Abatement Disclosures
- Effective date – now



**CERTAIN ASSET
RETIREMENT
OBLIGATIONS:
GASB *CODIFICATION*
SECTION A10
GASB-83**



WHAT IS THE DEFINITION OF AN ARO?

Asset retirement obligation—A legal obligation associated with the retirement of a tangible capital asset:

- Retirement of a tangible capital asset—The other-than-temporary removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal):
 - Doesn't matter if capital asset was acquired or constructed;
 - May also occur when government is a lessor;
 - Legal obligation must be enforceable.

WHAT IS THE SCOPE OF GASB-83 (COD. SEC. A10)?

Retirement of tangible capital assets - Examples:

- Nuclear power plant decommissioning.
- Coal ash pond closure (those that are not landfills).
- Contractually required land restoration such as removal of wind turbines.
- Removing sewage treatment / waste-energy plants.
- Other similar obligations.

Disposal of a replaced part that is a component of a capital asset (example – x-ray tube).

Environmental remediation associated with a requirement of tangible capital assets that results from the normal operations of those tangible capital assets.

WHAT IS **EXCLUDED** FROM THE SCOPE OF THE GASB-83 (COD. SEC. A10)?

- Obligations associated with:
 - Plan to sell or otherwise dispose of a tangible capital asset.
 - Preparation of a tangible capital asset for an alternative use.
 - Asbestos removal or pollution remediation (GASB-49) [GASB Cod. Sec. P40].
 - Maintenance of a tangible capital asset.
- Cost of replacement part that is a component of a capital asset.
- Landfill closure and postclosure care obligations.
- Conditional obligations to perform asset retirement activities.



ARO Measurement Exception for Minority Owners (<50%) Ownership

When government owns a minority share (<50%) of an undivided interest.

Government and one or more entities jointly own a tangible asset (common in utilities) and each owner is liable for its share of ARO.

Only limited GASB-83 measurement applies:

- Measurement date should be no more than one year + 1 day prior to the government's reporting date.

RECOGNITION OF LIABILITIES

Similar to GASB-49:

- Liability has to be incurred and reasonably estimable.
- Must be external and internal events to obligate the government (Two events)

EXTERNAL EVENTS EXAMPLES	INTERNAL EVENTS EXAMPLES
<ul style="list-style-type: none">• Federal, state, local laws / regulations;• Legally binding contracts;• Court judgment imposing legally enforceable liability.	<ul style="list-style-type: none">• For contamination related events – occurrence;• Non-contamination:<ul style="list-style-type: none">• Pattern of incurrence based on use (mine excavation);• Placing of capital asset into service;• Abandonment before use (permanent construction stoppage).• Acquisition of a capital asset with existing ARO.

RECOGNITION OF REST OF ACCOUNTING ELEMENTS

Once liability is recognized, **deferred outflow of resources** is debit *unless* capital asset is **abandoned before use**:

- Example – ban on nuclear power plant prior to start up.

Liability is recognized based on legal requirements as of reporting date:

- Based on current value of outlays to settle liability:
 - Current value is amount that would be paid if all equipment, facilities, services etc., in estimates during the current year.
 - Based on best estimate of all available evidence.
 - Outcomes weighed just like GASB-49 (probability).

RECOGNITION OF REST OF ACCOUNTING ELEMENTS

After first year:

- Adjust liability for inflation / deflation / increases / decreases
 - could occur by:
 - Price increases;
 - Technology changes;
 - Changes in laws, regulations, contracts, judgments;
 - Changes in types of equipment needed to retire capital asset.
- If adjustment occurs **before** the asset is retired, adjust deferred outflow of resources (no P&L effect).
- If **after** retirement, inflow / outflow (P&L effect).

Deferred outflow recognized by amortization over useful life of asset (debit expense / credit deferred outflow).

RECOGNITION OF REST OF ACCOUNTING ELEMENTS

- If funding required in an escrow account – disclose a **restricted asset**.
- Any costs to comply with funding / assurance provisions are separate transactions.
- If amounts are paid from escrow to retire the asset – debit liability / credit restricted asset.
- If bonds are sold – separate liability / asset for proceeds.
- Note disclosure is standard GASB:
 - Description / source of obligations.
 - Methods / assumptions to measure the liabilities.
 - Estimated useful life of associated asset.
 - Funding / assurance provisions.
 - Restricted assets to be used to pay liabilities (if not separately displayed).
 - Disclosure of not reasonably estimable liabilities.

A close-up photograph of a hand with orange nail polish holding a silver pen, writing on a document. The document contains a table with numerical data. The background is a dark blue banner with white text.

NOTE DISCLOSURE IN MINORITY INTEREST SITUATIONS

- General description of the ARO and associated tangible capital asset:
 - Total amount of the ARO shared by the nongovernmental majority owner or the nongovernmental minority owner(s).
 - Reporting government's minority share of the total amount of the ARO (percentage).
 - Dollar amount of the minority share of the ARO.
- Date of the ARO measurement (if different from the government's reporting date).
- How any legally required funding / assurance provisions are being met (bonds, insurance etc.).
- Amount of assets legally restricted for government's share of ARO (if not displayed separately).

PUTTING IT ALL TOGETHER - RECOGNITION & MEASUREMENT

Initial Recognition	Deferred outflow of resources - same amount as the ARO liability	ARO liability when incurred and reasonably estimable - measured based on the best estimate of the current value of outlays expected to be incurred
Subsequent Recognition	Recognize a reduction as an outflow of resources (for example, expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.	<ul style="list-style-type: none">• At least annually adjust the current value for the effects of inflation or deflation.• At least annually evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant.

ASSET RETIREMENT OBLIGATIONS – GASB-83

Implementation

- **Now!**
- Prior period adjustment / restatement.


Auditing of ARO will focus on recognition and estimation process

- Independent verification of estimates.
- Potential engineering specialist needed.
- Confirmation of restricted assets.



***CERTAIN DISCLOSURES
RELATED TO DEBT, INCLUDING
DIRECT BORROWINGS AND
DIRECT PLACEMENTS –
AMENDS GASB *CODIFICATION*
SECTIONS 1500, 2300***

CERTAIN DISCLOSURES RELATED TO DEBT, INCLUDING DIRECT BORROWINGS AND DIRECT PLACEMENTS

- 
- Amends GASB-34 and GASB-38.
 - Clear definition of the word “debt” – definition drives disclosure.
 - Effective date – periods *beginning* after June 15, 2018.

WHAT IS THE NEW DEFINITION OF “DEBT”?

- For purposes of disclosure in notes to financial statements:
 - A liability that arises from a contractual obligation:
 - To pay cash (or other assets that may be used in lieu of payment of cash);
 - In one or more payments;
 - To settle an amount that is fixed at the date the contractual obligation is established.
 - Interest to be accrued and subsequently paid such as variable rate debt, or interest to be added to the principal amount of the obligation (capital appreciation bonds) does *not* preclude the amount from being fixed (meaning – debt).
- For disclosure purposes, “debt” **does not** include:
 - Most Leases (see GASB-87)
 - Leases that are financed purchases are still debt.
 - Accounts payable.

BASED ON THE DEFINITION OF DEBT – DISCLOSURE WILL THEN BE:

- SUMMARIZED Information (Not Details) on the following:
 - Amount of unused lines of credit;
 - Assets pledged as collateral for debt;
 - Terms specified in debt agreements related to *significant*:
 - Events of default with finance-related consequences **or** termination events with finance-related consequences;
 - Subjective acceleration clauses.
- Debt disclosures separated into the following categories:
 - Direct borrowings and direct placements of debt;
 - Other Debt.

SOME TERMINOLOGY / JARGON TO KNOW

- **Direct Borrowing** -when a government enters into a loan agreement with a lender (any financial institution)
- **Direct Placement** - when a government *issues* a debt security directly to an investor.

Loan Financing	Town of Fishers	Indiana
Bank Loan	Miami Parking Authority	Florida
DIRECT PURCHASE LOAN	Pitkin County Public Works	Colorado

Typical Direct Borrowings / Direct Placements, Lines of Credit

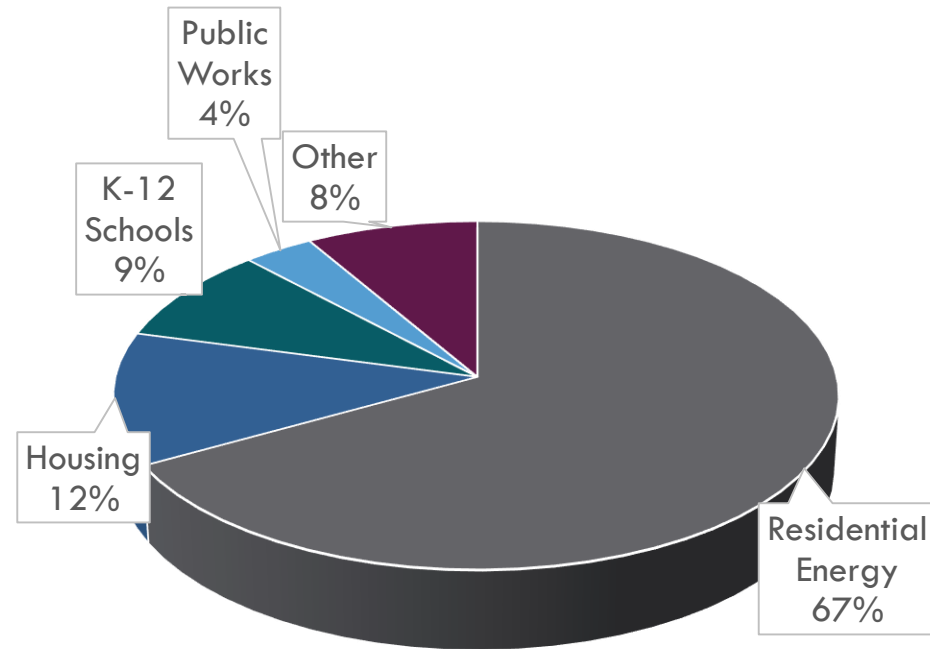
- **Lines of credit** are different from ***letters of credit***.
 - A letter of credit is more of a *guarantee* of payment.
 - A line of credit is a full agreement to receive resources that are available to draw.
- Assets pledged as collateral different than GASB-48 provisions which are *revenue* pledges

PURPOSES OF CALIFORNIA ISSUANCES - 2016

DIRECT BORROWING / PLACEMENTS ARE MORE COMMON THAN YOU MAY THINK

Stamford University Study published in 2017 showed direct borrowings and direct placements were 14% of California's total statewide debt (California is largest municipal market):

- **More** debt issued privately / directly in 2016 than public issuances!



Multifamily housing had nearly \$4B in issuances, Residential Energy had nearly \$1.4B, but volume much higher due to lower principal & emphasis on solar energy.

PUTTING IT ALL TOGETHER...

- If multiple unused lines of credits, asset pledges etc., use a table – summarized information only needed.
- Required disclosure will now be:
 - Principal and interest requirements to maturity – first 5 years and 5 year increments thereafter – interest requirements for variable rate debt continue – just like currently
 - *Summarized* information on unused lines of credit, etc. from GASB-88.
 - Information on:
 - Long-term liabilities (bonds, notes, loans); and
 - Other long-term liabilities - compensated absences, leases payable (if financings), claims and judgments:
 - Beginning and ending balances;
 - Increases and decreases;
 - Portions of each item due within one year;
 - Which governmental funds have been used to liquidate other long-term liabilities.
 - Schedule of changes in short-term debt / purpose of issuance.

DEBT DISCLOSURE WILL NOW INCLUDE (AS APPLICABLE) (IN ADDITION)

Debt extinguishments and troubled debt restructuring

Defeasances (GASB Statement Nos. 7, 23, 86)

Demand bonds

Conduit debt (**Almost Final – to be GASB-91!**)

Derivatives / variable rate debt

CHECKLIST OF ITEMS TO INCLUDE IN DEBT FOOTNOTE WILL NOW BE

“CORE” (SEPARATE GOVERNMENTAL VS. BTA)

- ✓ Separate direct borrowings, direct placements from other forms of debt
- ✓ Principal and interest to maturity for each of the five years and five year increments thereafter
 - ✓ Variable rate- use the rate in effect at the financial statement date
 - ✓ Disclose terms and conditions of changes in rates
- ✓ Unused lines of credit
- ✓ Assets pledged as collateral for debt
- ✓ Terms in debt for significant
 - ✓ Events of default w/ finance-related consequences
 - ✓ Termination events
 - ✓ Acceleration clauses

OTHER LONG-TERM LIABILITIES

- ✓ Long-term liabilities table include forms of
 - ✓ Debt
 - ✓ Loans
 - ✓ Leases payable (financings)
 - ✓ Compensated absences
 - ✓ Claims and judgments
 - ✓ *Payables* to a defined benefit plan ‘as applicable’
- ✓ Demand bonds
- ✓ Defeasances and refundings
- ✓ Derivatives

WHAT COULD IT LOOK LIKE

A. Changes in Long-Term Liabilities

The following is a summary of changes in long-term obligations of the primary government for the fiscal year ended June 30, 2018 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
<i>Bonds payable:</i>					
General obligation bonds	\$ 1,284,172	\$ 102,605	\$ (117,347)	\$ 1,269,430	\$ 117,658
Special obligation bonds	706,165	125,905	(46,985)	785,085	39,790
Subtotal	1,990,337	228,510	(164,332)	2,054,515	157,448
Issuance premiums (discounts)	210,383	17,573	(36,087)	191,869	34,504
Total bonds payable	2,200,720	246,083	(200,419)	2,246,384	191,952
Certificates of participation	84,994	-	(4,165)	80,829	3,042
Issuance premiums (discounts)	1,048	-	(402)	646	331
Total certificates of participation	86,042	-	(4,567)	81,475	3,373
Other Governmental long-term activities:					
Obligations under capital leases	17,363	4,300	(3,173)	18,490	3,621
Compensated absences obligations	96,620	89,595	(85,547)	100,668	70,713
Pollution remediation obligations	2,525	3,500	(100)	5,925	660
Total other governmental long-term activities	116,508	97,395	(88,820)	125,083	74,994
Governmental activities long-term obligations	\$ 2,403,270	\$ 343,478	\$ (293,806)	\$ 2,452,942	\$ 270,319
Business-type activities:					
<i>Bonds payable:</i>					
General obligation bonds	\$ 60,103	\$ 12,835	\$ (12,508)	\$ 60,430	\$ 11,467
Special obligation bonds	641,830	136,594	(252,933)	525,491	29,370
Subtotal	701,933	149,429	(265,441)	585,921	40,837
Issuance premiums (discounts)	5,502	987	(4,085)	2,404	735
Total bonds payable	707,435	150,416	(269,526)	588,325	41,572
Compensated absences obligations	1,722	1,757	(1,598)	1,881	1,336
Arbitrage rebate liability	1,075	-	(1,075)	-	-
Tuition benefits payable	221,099	10,989	(14,296)	217,792	17,509
Business-type activities long-term obligations	\$ 931,331	\$ 163,162	\$ (286,495)	\$ 807,998	\$ 60,417

Capital Lease obligations not needed unless financings

May not be needed - payables

The General Fund and special revenue funds typically liquidate the capital lease obligations. The compensated absence obligations are typically liquidated by the General Fund and State Highway Fund incurring the related salaries and wages costs. The debt service funds typically liquidate the arbitrage obligations.

FURTHER INFORMATION

B. Bonds Payable

GFOA Requirement – not required by GAAP – OK to put in

...tion, construction and improvement of major capital facilities; buying fund; loans to municipalities for water projects; protection of natural reconstruction, improvement and maintenance of highways; and for obligations and pledge the full faith and credit of the State.

...s provide funds for property acquisition and construction of highway projects. Special obligation housing bonds in the aggregate have a debt limit of \$5 billion and are used for housing loans or to purchase mortgage loans having both fixed and variable interest rates. Special obligation bonds are payable solely from gross pledged revenues and are not general obligations of the State.

General obligation bonds and special obligation bonds of the primary government outstanding at June 30, 2018 are comprised of the following (expressed in thousands):

	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Principal Outstanding</u>
Governmental activities:			
<i>General obligation bonds:</i>			
Subject to Constitutional Debt Limitation	1.754-6.17%	\$ 1,792,465	\$ 1,025,895
Exempt from Constitutional Debt Limitation	2.0-6.0%	646,883	243,535
<i>Special obligation bonds:</i>			
Exempt from Constitutional Debt Limitation- Highway Improvement Revenue Bonds	3.0-5.0%	999,895	785,085
Subtotal		3,439,243	2,054,515
<i>Issuance premiums (discounts)</i>		342,623	191,869
Governmental activities bonds payable		3,781,866	2,246,384
Business-type activities:			
<i>General obligation bonds:</i>			
Exempt from Constitutional Debt Limitation	1.75-5.5%	106,207	60,430
<i>Special obligation bonds:</i>			
Housing Bonds	*.50-6.95%	903,374	525,491
Subtotal		1,009,581	585,921
<i>Issuance premiums (discounts)</i>		8,563	2,404
Business-type activities bonds payable		1,018,144	588,325
Total bonds payable		\$ 4,800,010	\$ 2,834,709

*Many Housing bonds have variable rates of interest. The tax exempt bonds track the SIFMA Index while the federally taxable debt tracks the one-month LIBOR Index.

This is all probably OK – just summarize

STILL FURTHER

Debt service requirements (principal and interest) for all long-term bonds and notes outstanding at June 30, 2018, of the primary government are summarized in the table following (expressed in thousands):

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 157,448	\$ 93,169	\$ 40,837	\$ 16,668
2020	157,081	85,828	15,299	15,945
2021	162,503	77,767	17,235	15,296
2022	153,983	69,828	10,563	14,753
2023	150,479	62,107	10,059	14,263
2024-2028	704,066	199,634	48,808	65,445
2029-2033	379,845	73,614	72,667	55,745
2034-2038	189,110	12,452	117,909	37,171
2039-2043	-	-	90,348	23,932
2044-2048	-	-	11,854	18,213
2049-2053	-	-	60,342	7,619
2054-2058	-	-	90,000	4,013
Total	\$ 2,054,515	\$ 674,399	\$ 585,921	\$ 289,063

Perfect!

In this example government – 6 pages of additional information is included on:

- Debt limitations by Constitution - Good
- Blended Component Unit Debt – OK (if discrete – only if *essential*)
- Refunded debt – OK
- Capital leases – **suggest putting in separate footnote unless financing lease**
- Certificates of participation and Conduit Debt Obligation (CDOs)
 - Be careful – CDOs in the next section
- Other payables – again, conform to debt definition – remember essentiality
- Pledged revenue (and assets) - OK

DO'S AND DON'TS ON GASB-88

- **DO** a search for direct borrowings and direct placements with treasurer / CFO – document any that are outstanding
 - **DO NOT** assume you don't have them!
- **DO** a search for lines of credit and pledged assets – you may already have presented pledged revenue
- **DO** a dry run just to see what it will look like, editing any old information
 - **DO NOT** just copy forward the information from last year
 - Edit old sale information – not required to be carried forward



**BE AWARE OF NEW
15(C)(2)-12
DISCLOSURE ON
EMMA**

UPDATE TO 15(C)(2)-12 DISCLOSURE

- 15(c)(2)-12 is federal rule for continuing disclosure in accordance with the Securities Exchange Act of 1934
- Agreement is made between an issuer (a government) and debtholders as part of a sale of securities (**continuing disclosure agreement**)
 - Occurrence of events require disclosure on the EMMA website at Municipal Securities Rulemaking Board within 10 days
 - Violations of the agreement are a material event that requires disclosure to debtholders and potentially the annual financial report

WHAT ARE THE EVENTS THAT REQUIRE NOTICE?

- ✓ Principal and interest payment delinquencies
- ✓ Material non-payment defaults
- ✓ Unscheduled draws on debt service reserve funds
- ✓ Unscheduled draws on lines of credit / enhancements
- ✓ Adverse tax notices causing taxable debt
- ✓ Modifications of rights of holders
- ✓ Bond calls or tenders
- ✓ Defeasances (refunding or cash)
- ✓ Release, substitution or sale of property securing debts
- ✓ Ratings changes (not outlook change)
- ✓ Bankruptcy, insolvency, oversight, receivership
- ✓ Merger, acquisition, sale of assets
- ✓ Appointment of a successor trustee
- ✓ Substitution of credit / liquidity providers
- ✓ **NEW – Incurrence of a financial obligation which affect holders**
- ✓ **NEW – default, acceleration, termination, modification of terms which reflect financial difficulties**

WHAT IS A FINANCIAL OBLIGATION PER THE SEC?

- Debt obligation of any type
 - Bonds
 - Notes
 - Loans
 - Certificates
 - Direct borrowings
 - Direct placements
 - Others
 - Leases
- Derivative instruments in connection with a debt (or planned sale)
- A nonexchange financial guarantee

EXAMPLE

EMMA 10 YEARS
Providing Market Transparency Since 2008

Advanced Search Browse Issuers Tools and Resources Market Activity- EMMA Help A- 100% A+

Search by CUSIP, Description, State, etc.

The official source for municipal securities data and documents
Provided by the Municipal Securities Rulemaking Board

Click on a state to start your search

Learn
New to EMMA? Find out more.

Evaluate
Access New Issue Calendar and other market tools.

Monitor
Sign up for MyEMMA

- City signs a lease that is material
- Lessor requires payment in advance of all other debt outstanding.
 - Lessor then has a seniority over other debtholders
- SEC requires filing within 10 days on EMMA
- Debtholders may take issue with the signing as the debt they hold has less value

<https://emma.msrb.org/>

WHAT IF THERE IS NONCOMPLIANCE?

- It's serious..
 - Bond offering statements required to give notice for five years *conspicuously*
 - Could trigger a rise in interest rates
 - Could trigger a ratings downgrade
 - If not stated in future bond documents, could cause the SEC to charge securities fraud with potential for fines / penalties





END OF PART



JUNE 30, 2020
(12/31/2019)

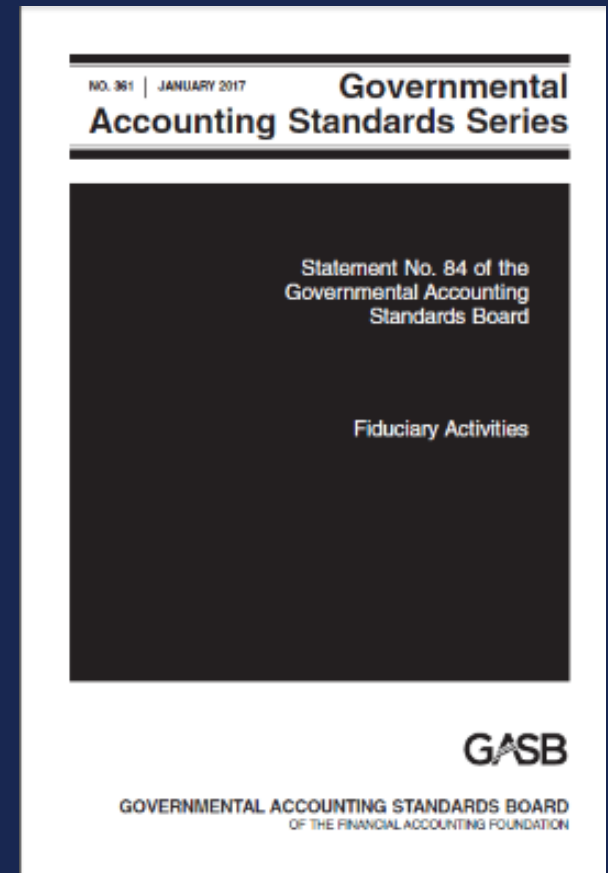
QUICK WORD ON IGU 2019-EXPOSURE DRAFT

- Only 15 proposed new questions, 4 amendments
 - Clarification of statement of cash flows reporting, revenue recognition for irrevocable split-interest agreements
 - Discount rate determination for OPEB
 - Implicit rate subsidies and deferred outflows of resources (they're included as part of benefit payments and if paid from employers, part of the deferred outflow)
 - Interest rate swap termination classification of revenue
 - Natural disaster accounting and reporting (grants / insurance recoveries)
 - Capital asset transfer from a primary government to a pension plan component unit
 - Capital asset transfer to an redevelopment authority
 - GASB-54 question
 - Tax abatements
- Amendments
 - Definition of accountability
 - Internal transfers within plans
- Proposed effective date – periods beginning after June 15, 2019



ACCOUNTING AND FINANCIAL REPORTING FOR FIDUCIARY ACTIVITIES

AMENDS GASB *CODIFICATION* SECTION 1300




FIDUCIARY ACTIVITIES *MAY BE*



- Fiduciary **Component Units** (AKA Component Units that are Fiduciary in Nature):
 - Pensions;
 - OPEB;
 - Investment Pools;
 - Foundations.
- Pension and OPEB Arrangements that are **NOT component units.**
- Other Fiduciary Activities:
 - Private Purpose Trusts;
 - Agency Funds.

FOUR POTENTIAL DECISIONS ON WHEN A GOVERNMENT REPORTS ASSETS IN A FIDUCIARY FUND


1. Is there a component unit present that are postemployment benefit arrangements?
(Pensions / OPEB)



2. Is there are component unit present that may be a fiduciary activity, **but not a postemployment benefit arrangement?**



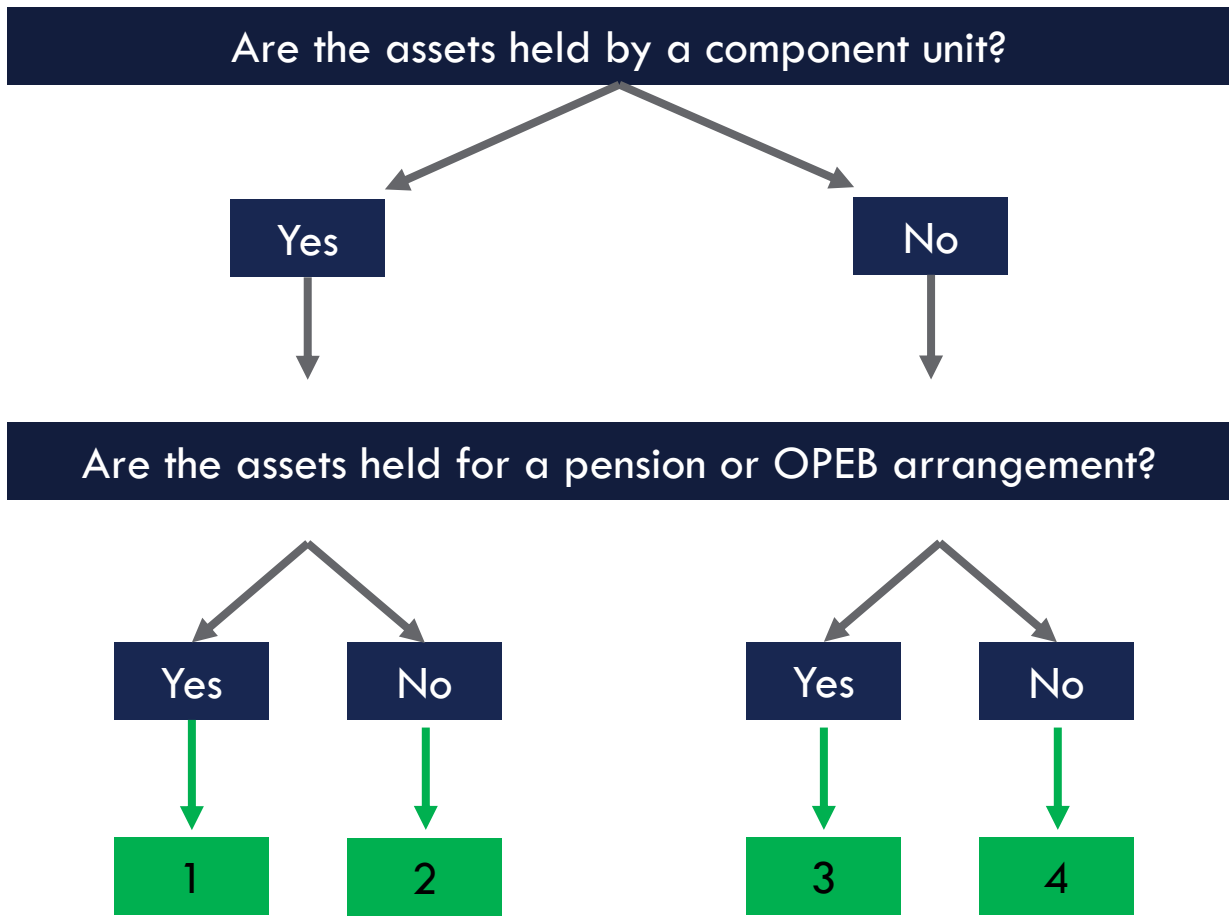
3. Are there postemployment benefit arrangements that are not component units (currently agency funds)?



4. Are there other potential fiduciary activities? (Investment trust funds, private purpose trusts, agency funds)?

WHEN SHOULD A GOVERNMENT REPORT ASSETS IN A FIDUCIARY FUND?

Determination Process:



Keys -

FOUR KEYS TO DETERMINING WHEN ASSETS SHOULD BE REPORTED IN A FIDUCIARY FUND

1

Is there a component unit that is providing postemployment benefits (Pensions or OPEB)?

Example –Statewide PERS is a component unit of a State.

2

Is there a component unit that does not provide postemployment benefits, *but is a fiduciary?*

Example – Foundation of an Institution of Higher Education that is a component unit.

FOUR KEYS TO DETERMINING WHEN ASSETS SHOULD BE REPORTED IN A FIDUCIARY FUND

3

Are there postemployment benefit arrangements that are not component units?

Example – Municipal Plan that is not an irrevocable trust and is currently reported as an Agency Fund.

4

Are there any other fiduciary activities – such as:

- Investment Trust Funds?
- Other Endowments?
- Funds or activities that are *currently* Agency Funds?

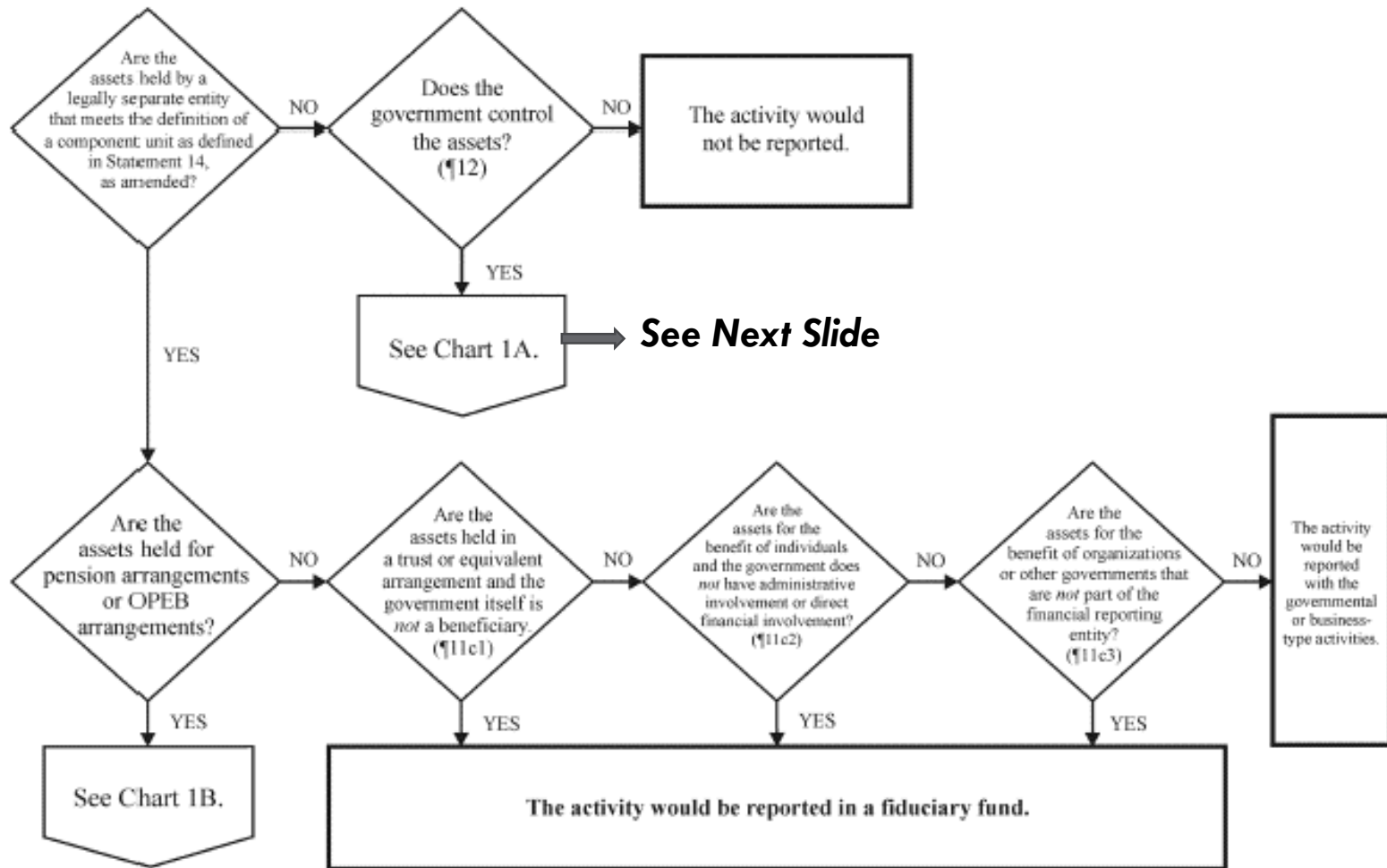
Examples – Conservation Trust, Library or School Endowment, Clearing Accounts reported as Agency Funds.

If yes to any of these, you might have a Fiduciary Activity...Maybe...

ALTERNATIVE WAY TO DECIDE FIDUCIARY ACTIVITIES

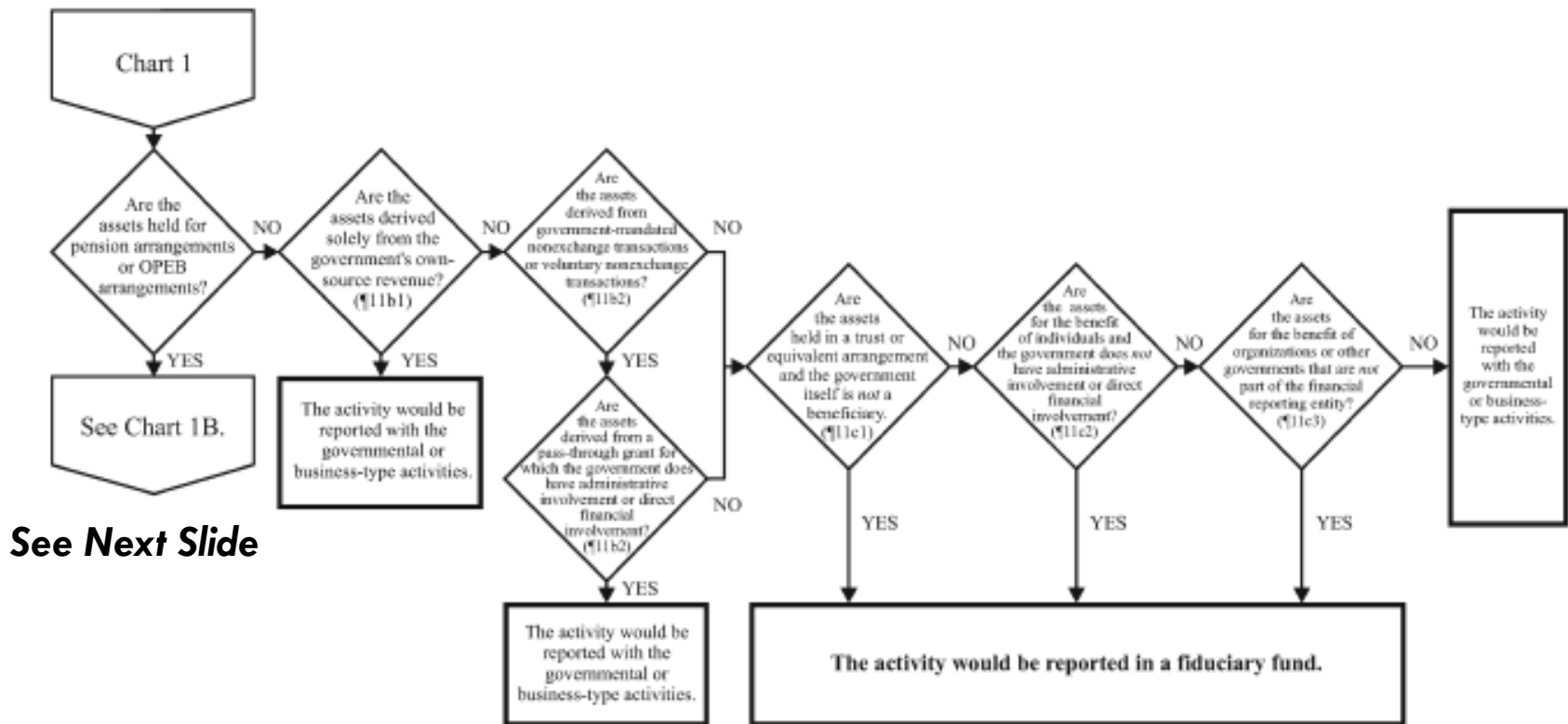
1. Is the entity a component unit? **If no go to step 3.**
2. Are the assets held for pensions or OPEB arrangements? **If no, go to step 4. If 1 and 2 are yes, then fiduciary reporting.**
3. Does the government control the assets? **If no, stop – not a fiduciary fund. Go to Step 5.**
4. Does the assets meet the revenue and other characteristics? **If no, stop – not a fiduciary fund. If yes – fiduciary fund.**
5. Are the assets held for pension or OPEB arrangements? **If yes, report in a fiduciary fund**
6. Are the assets not derived from certain revenues? **If no, stop – not a fiduciary fund. If yes – fiduciary fund.**

OR YOU COULD USE SPAGHETTI FROM GASB-84

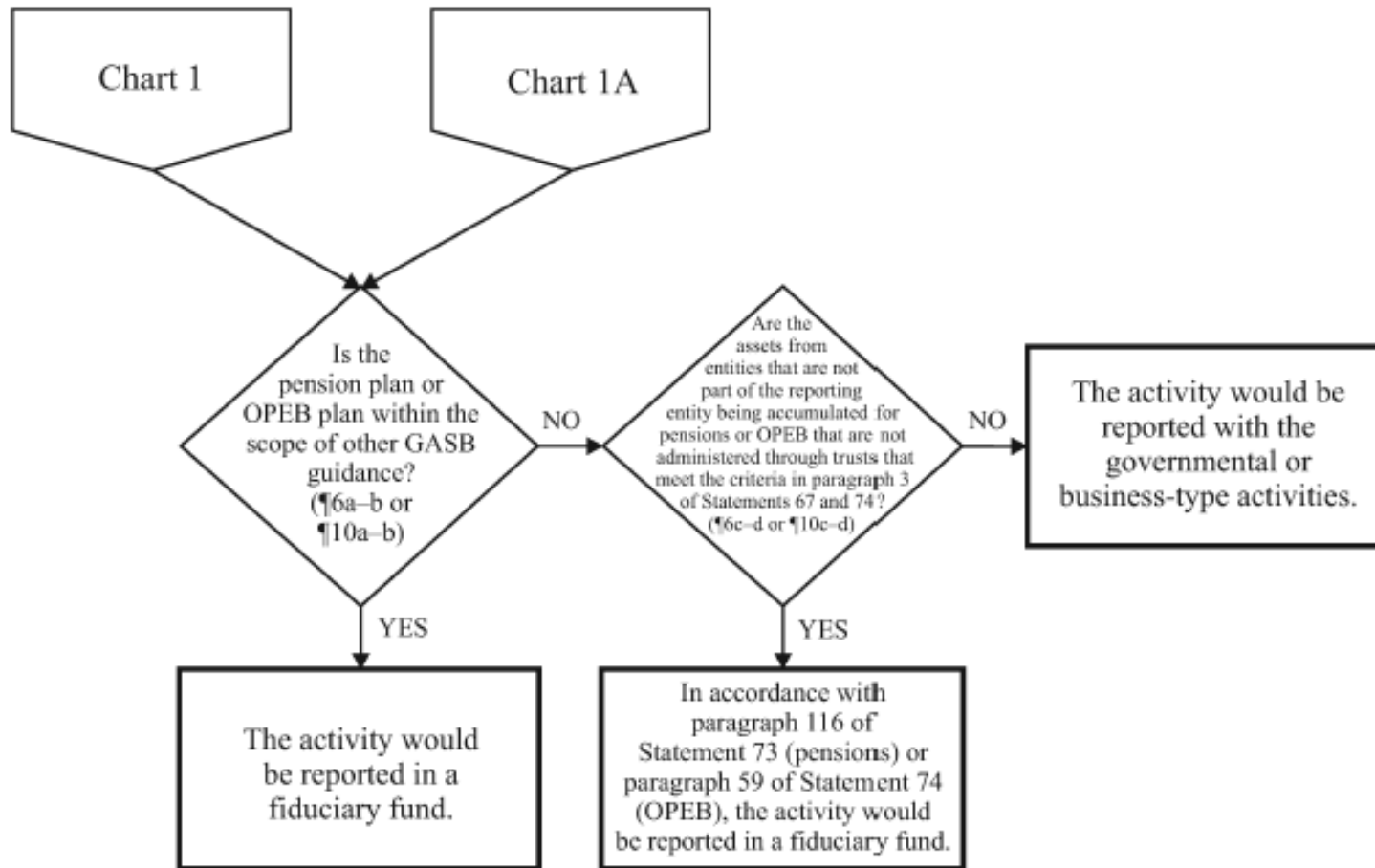


Two Slides Down

OR YOU COULD USE SPAGHETTI FROM GASB-84 (PT 2)



OR YOU COULD USE SPAGHETTI FROM GASB-84 PT 3



FIDUCIARY COMPONENT UNITS LIKELY NO CHANGE DUE TO GASB-84

Pension / OPEB Plans administered through trusts likely legally separate entities:

- May or may not have separate board (if no separate board – employer’s governing board is the board).
- Financial burden present if legally obligated / assumed to make contributions to plan(s).

Reminder on component units:

- Legally separate.
- Voting majority of board / imposition of will.
- Fiscal dependency.
- Misleading to exclude.

THE ACTIVITY MIGHT BE A FIDUCIARY IF...

The government has All Three of the following:

The government controls the assets (*wait for it!*).

Those assets are *not* derived solely from:

1. The government's own-source revenues (**aka: we pay ourselves**)
2. Government-mandated and voluntary nonexchange transactions that:
 - a) **are not** pass-through grants **and**;
 - b) for which the government **does not** have administrative or *direct* financial involvement in the program.

Key Question – are there assets?

AND One of the criteria on the next slide is met.

THE ACTIVITY MIGHT BE A FIDUCIARY IF... JUST ONE OF THESE CERTAIN CHARACTERISTICS...

REMEMBER - JUST ONE of the following characteristics:

1. The assets are **administered through a trust agreement** or equivalent arrangement in which the government itself **is not a beneficiary**; **OR**
2. The assets are **for the benefit of individuals** that **are not** required to be residents or recipients of the government's goods and services as a condition of being a beneficiary, **and**
 - a) The use of those assets **does not require** substantive approval (aka **administrative involvement** or **direct financial involvement**) by the government – **and**
 - b) The assets **are not derived** from the government's provision of goods or services to those individuals. **OR**

YOU MIGHT BE A FIDUCIARY IF...

REMEMBER - JUST ONE of the following (and previous) criteria:

3. The assets are for the benefit of **organizations or other governments** that **are not** part of the financial reporting entity, **and**

- The assets **are not derived** from the government's provision of goods or services to those organizations.

WHAT IS ADMINISTRATIVE INVOLVEMENT VS. DIRECT FINANCIAL INVOLVEMENT?

Administrative Involvement Could Be:

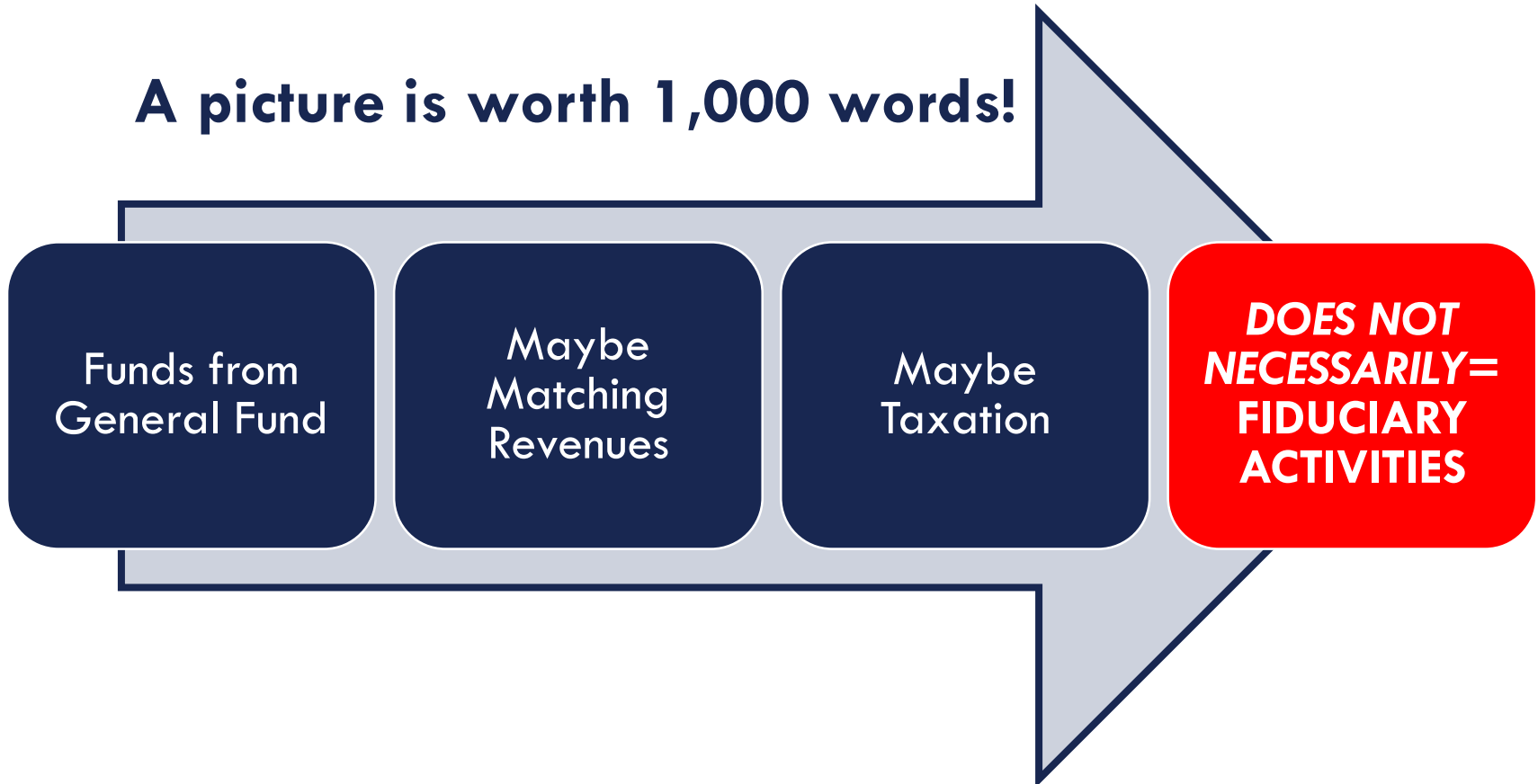
- Monitoring compliance - (Sub-recipient relationship).
- Determining eligible expenditures (Sub-recipient relationship).
- Having the ability to exercise discretion in how assets are allocated.

Direct Financial Involvement Could Be:

- Providing matching resources for the activities.
- When liable for disallowed costs (or the sub-recipient through the pass-through-entity).

WHAT ARE ASSETS NOT DERIVED FROM CERTAIN REVENUES?

A picture is worth 1,000 words!



***Bottom line – A government cannot be its own fiduciary for its own resources!
If the government just transfers funds into a fiduciary fund
and calls it a fiduciary fund, may not be the case under GASB-84!***

WHAT IS CONTROL?

A government controls the assets of an activity if:

- The government *holds* the assets.
- The government has the ability to *direct* the
 - Use,
 - Exchange, or
 - Employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.
- **Appointing a designee / administrator / contractor doesn't matter.**
- **Restriction on assets does not matter.**

FIDUCIARY FUND REPORTING – ONLY ONE MAJOR CHANGE

- Pension and other Employee Benefit Trust Funds – **no change**
- Investment Trust Funds – **no change**

- Private-Purpose Trust Funds – **no change**
- Custodial Funds – **NEW**

457 / 403 / 529 PLANS COULD CHANGE...WELL MAYBE...

If primary government / PERS plan has nothing to do with:

- Directing;
- Employing;
- Using (controlling) the investments then.

Primary Government / PERS plan only reports:

- Inflows;
- Outflows;
- Restricted net position;
- Receivables / payables only for timing differences.

GASB-32 rescinded upon implementation (457 Plans) – use GASB-84. –
But GASB Giving 457's one more look..

Implementation Guide exposure draft issued

OTHER FUN STUFF — REPORTING — NOT MUCH CHANGING OTHER THAN AGENCY FUNDS

Present additions disaggregated by source and, if applicable, separately display investment income and investment costs.

Present deductions disaggregated by type and, if applicable, separately display administrative costs.

Applies to statement of changes in fiduciary net position for all fiduciary funds except custodial funds held for three months or less:

- For these custodial funds, governments would be allowed to report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows.



CUSTODIAL FUNDS

- MOSTLY Current Agency Funds
- Include
 - Fiduciary Activities not held in trust
 - External portions of investment pools not held in trust (report in separate column from all other agency funds) **(WILL BE RARE OCCURRENCE)**
 - For Business-Type Activities ONLY
 - Will report fiduciary activities held for more than 3 months
 - Held 3 months or less, report as assets, liabilities, inflows and outflows in the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows
- Custodial Fund Reporting will include
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position (just like other Fiduciary Activities)

OTHER FUN STUFF...

Liabilities would be recognized in fiduciary funds when an event has occurred that compels the government to disburse fiduciary resources.

- No further action would be needed to pay a beneficiary that is entitled to receive the resources:
 - **Example** – state government collects taxes on behalf of other governments but must make transfers to other governments within 5 days – liability would be declared upon collection.
 - **Example** – Pension plan beneficiary that qualifies as a fiduciary fund (many may not be) when an employee retires and is eligible for a monthly payment.
 - Current payment due would be a liability.

OTHER FUN STUFF...

Student Activity Funds should be a focus area –

- Holding resources for the benefit of students *could* result in the school district being an administrator of the funds:
 - **Would be a Fiduciary = Fiduciary Fund.**
- If activity is similar to providing goods and services as a result of fees paid, *may not be a fiduciary – may be a governmental fund.*

In Basis for Conclusions (pars. B20 and B21) –
GASB concludes no specific requirements addressing
all student activities included in GASB-84.

Government ABC
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 20X2
(in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ASSETS				
Cash and cash equivalents	\$ 184,351	\$ 840,693	\$ 104,747	\$ 58,196
Receivables:				
Employee	2,123	—	—	—
Employer	83,004	—	—	—
Taxes for other governments	—	—	—	206,937
Interest and dividends	175,402	12,166	—	—
Sale of investments	30,879	—	—	—
Total receivables	291,408	12,166	—	206,937
Investments at fair value:				
Short-term investments	2,268,960	241,645	61,591	—
Bonds, notes, mortgages, and preferred stock	14,115,391	804,576	187,650	—
Common stock	20,342,440	—	520,196	—
Real estate	3,408,145	—	—	—
International investments	1,723,951	—	—	—
Mutual funds	72,315	178,046	—	—
Pooled investment funds	23,128	—	—	—
Total investments	41,954,330	1,224,267	769,437	—
Securities lending collateral	1,746,544	—	—	—
Other assets	13,519	181	81,157	361
Total assets	44,190,152	2,077,307	955,341	265,494
LIABILITIES				
Accounts payable and other liabilities	130,846	1,361	61,447	1,451
Due to local governments	—	—	—	164,201
Obligations under securities lending	1,346,544	—	—	—
Other long-term liabilities	1,617	—	7,870	—
Total liabilities	1,479,007	1,361	69,317	165,652
NET POSITION				
Restricted for:				
Pensions	29,897,802	—	—	—
Postemployment benefits other than pensions	12,813,343	—	—	—
Pool participants	—	2,075,946	—	—
Individuals, organizations, and other governments	—	—	886,024	99,842
Total net position	\$ 42,711,145	\$ 2,075,946	\$ 886,024	\$ 99,842



*Similar except for
Custodial Funds*

Government ABC
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
for the Year Ended June 30, 20X2
(in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS				
Contributions:				
Members	\$ 297,846	\$ —	\$ —	\$ —
Employers	1,259,384	—	—	—
Other plans	148,792	—	—	—
Gifts and bequests	—	—	197,256	—
Total contributions	<u>1,706,022</u>	<u>—</u>	<u>197,256</u>	<u>—</u>
Investment earnings:				
Net increase in fair value of investments	1,852,408	64,663	33,702	—
Interest, dividends, and other	1,416,448	58,465	30,378	—
Securities lending income	76,075	—	—	—
Total investment earnings	<u>3,344,931</u>	<u>123,128</u>	<u>64,080</u>	<u>—</u>
Less investment costs:				
Investment activity costs	32,281	50,236	63	—
Securities lending costs	73,642	—	—	—
Net investment earnings	<u>3,239,008</u>	<u>72,892</u>	<u>64,017</u>	<u>—</u>
Capital share and individual account transactions:				
Shares sold	—	2,817,210	—	—
Reinvested distributions	—	72,892	—	—
Shares redeemed	—	(2,776,843)	—	—
Net capital share and individual account transactions	<u>—</u>	<u>113,259</u>	<u>—</u>	<u>—</u>
Sales tax collections for other governments	—	—	—	1,811,120
Miscellaneous	1,130	—	—	1,468
Total additions	<u>4,946,160</u>	<u>186,151</u>	<u>261,275</u>	<u>1,812,588</u>
DEDUCTIONS				
Benefits paid to participants or beneficiaries	1,965,047	—	—	—
Medical, dental, and life insurance for retirees	536,027	—	—	—
Refunds and transfers to other systems	170,514	—	—	—
Administrative expense	19,920	—	43	293
Beneficiary payments to individuals	—	—	211,179	—
Payments of sales tax to other governments	—	—	—	1,811,120
Distributions to shareholders	—	72,892	—	—
Total deductions	<u>2,689,508</u>	<u>72,892</u>	<u>211,222</u>	<u>1,811,413</u>
Net increase (decrease) in fiduciary net position	<u>2,256,652</u>	<u>113,259</u>	<u>50,053</u>	<u>1,175</u>
Net position—beginning	40,454,493	1,962,687	835,971	98,667
Net position—ending	<u>\$ 40,454,493</u>	<u>\$ 1,962,687</u>	<u>\$ 835,971</u>	<u>\$ 99,842</u>



*Similar except for
Custodial Funds*



**SO WHAT ABOUT
STUDENT ACTIVITY
FUNDS?**

KEY ELEMENTS OF 84 TO ANSWER SAF QUESTIONS

- Focus is on par. 11(c)(2) of GASB-84 for Student Funds
For activities not addressed in paragraphs 6-10 (pensions, OPEB, fiduciary component units etc.,) the activity is a fiduciary activity if all the following criteria are met:
 - a. Assets controlled by the government
 - b. The assets associated with the activity are *not derived* either:
 - (1) Solely from the government's own source revenues; or
 - (2) From government-mandated nonexchange transactions or voluntary nonexchange transactions, (except for pass-through grants where there is no administrative or direct financial involvement).
 - c. **The assets associated with the activity have one or more of the following**
 - (1) Assets are held in trust where government is not a beneficiary etc. and assets are legally protected from creditors;
 - (2) **Assets are for the benefit of individuals AND the government does *not* have administrative involvement with the assets and are not derived from provision of goods / services to the individuals.**

DRAFT *IMPLEMENTATION GUIDE*

QUESTIONS ON SAFs

- **Chess Club in High School is established per school policy.**
- **Not legally separate from school**
- **Club organizes and fundraises to pay for tournament and other activities**
- **Proceeds are held in club bank account at school**
- **Club is not legally separate – apply GASB-84**



DRAFT *IMPLEMENTATION GUIDE*

QUESTIONS ON SAFs

- **School Board establishes fees by clubs.**
- **Clubs are not legally separate.**
- **No other policies / procedures for disbursement of funds**
- **Administrative involvement by School – specific guidelines on revenues – 11(c)(2) NOT MET**



DRAFT *IMPLEMENTATION GUIDE*

QUESTIONS ON SAFs

- Club is established per school district policies.
- Clubs are not legally separate.
- Club conducts fundraising, deposits into school savings account.
- Club members decide spending and approve disbursement
- **NO administrative involvement by school unless faculty advisor / representative establishes policies**



DRAFT *IMPLEMENTATION GUIDE*

QUESTIONS ON SAFs

- Club is established per school district policies.
- Clubs are not legally separate.
- Club conducts fundraising, deposits into school savings account.
- **PARENTS** decide spending and approve disbursement
- **NO administrative involvement by school – parents decide**



DRAFT *IMPLEMENTATION GUIDE*

QUESTIONS ON SAFs

- **School district holds funds raised by clubs.**
- **Clubs are not legally separate.**
- **No policies / procedures on spending.**
- **Disbursements approved by faculty advisor (representing district) – can approve or reject spending**
- **Administrative involvement by School**



DRAFT *IMPLEMENTATION GUIDE*

QUESTIONS ON SAFs

- **School district establishes policies for receipts, disbursement, holding of funds for clubs.**
- **Specific guidelines set by district.**
- **Administrative involvement by School**



DRAFT *IMPLEMENTATION GUIDE*

QUESTIONS ON SAFs

- **School district establishes policies for receipts, disbursement, holding of funds for clubs.**
- **Policies only address authorized signers and prohibition of illegal activities**
- **NO Administrative involvement by School**



DRAFT *IMPLEMENTATION GUIDE*

QUESTIONS ON SAFs

- **State Department of Education establishes policies for receipts, disbursement, holding of funds for clubs.**
- **Specific guidelines set by district.**
- **Administrative involvement by School – must follow state guidelines**



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QUESTIONS ON SAFs

- **School district matches all club funds when a disbursement is approved**
- **Direct financial involvement of the school with the clubs**



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QUESTIONS ON SAFs

- **Students raise funds for disaster relief not for profit.**
- **NFP is legally separate**
- **Proceeds are held in a school bank account restricted for disbursement to NFP.**
- **Assets are for the benefit of separate organization – fiduciary activity**



DRAFT *IMPLEMENTATION GUIDE*

QUESTIONS ON SAFs

- **Touchdown club is legally separate 501(c)(3)**
- **Club has own board of parents of players and supporters**
- **Club is not a component unit**
- **Funds are not held by the school district**
- **No control by the school district – not a fiduciary activity**





IMPLEMENTATION STRATEGIES YOU CAN USE NOW

HOW TO IMPLEMENT??

Someone has to be in charge to gather information – completeness is key

- May take many *periods*
- May involve legal team and treasurer / CFO
- May involve software changes

Compare each activity against

- GASB-84
- Governmental Fund Provisions in Other Standards
- Enterprise / Proprietary Fund Provisions in Other Standards
- Component Unit Standards

Information could be in

- Laws / regulations (especially student activity funds)
- Contracts
- Trust agreements / similar
- Gather information on revenue sources / uses

DOCUMENT IT – consistent forms a good idea

HOW TO IMPLEMENT??

Could result in

- Reclassification to governmental / enterprise funds
- Reclassification from one fiduciary type to another
- Adjustments
- Redrafting of policies / procedures for fund creation, accounting and reporting
- Systems updating

DOCUMENT DECISIONS / CHANGES – consistent forms a good idea

Implementation Guide will be final by late spring



MAJORITY EQUITY INTERESTS —

AMENDS GASB *CODIFICATION* SECTIONS
2100, 2600, 150, IN5, J50

FOCUS AREAS OF GASB-90

- Goal is to improve consistency in majority equity interests in legally separate organizations.
- Where are these in practice?
 - Tribal Nations (Gaming Operations)
 - Foundations and similar
 - Economic Development entities (or similar entities that are playing 'Shark Tank')
 - Certain housing entities
 - Healthcare providers / hospitals (doctor's practices, HMOs)
 - Others??
- Effective date – reporting periods beginning after December 15, 2018:
 - Mostly implemented retroactively – beginning balance adjustment
 - Exception for certain component unit transactions - prospective

WHAT IS A MAJORITY EQUITY INTEREST?

For
GASB-90
purposes
only:

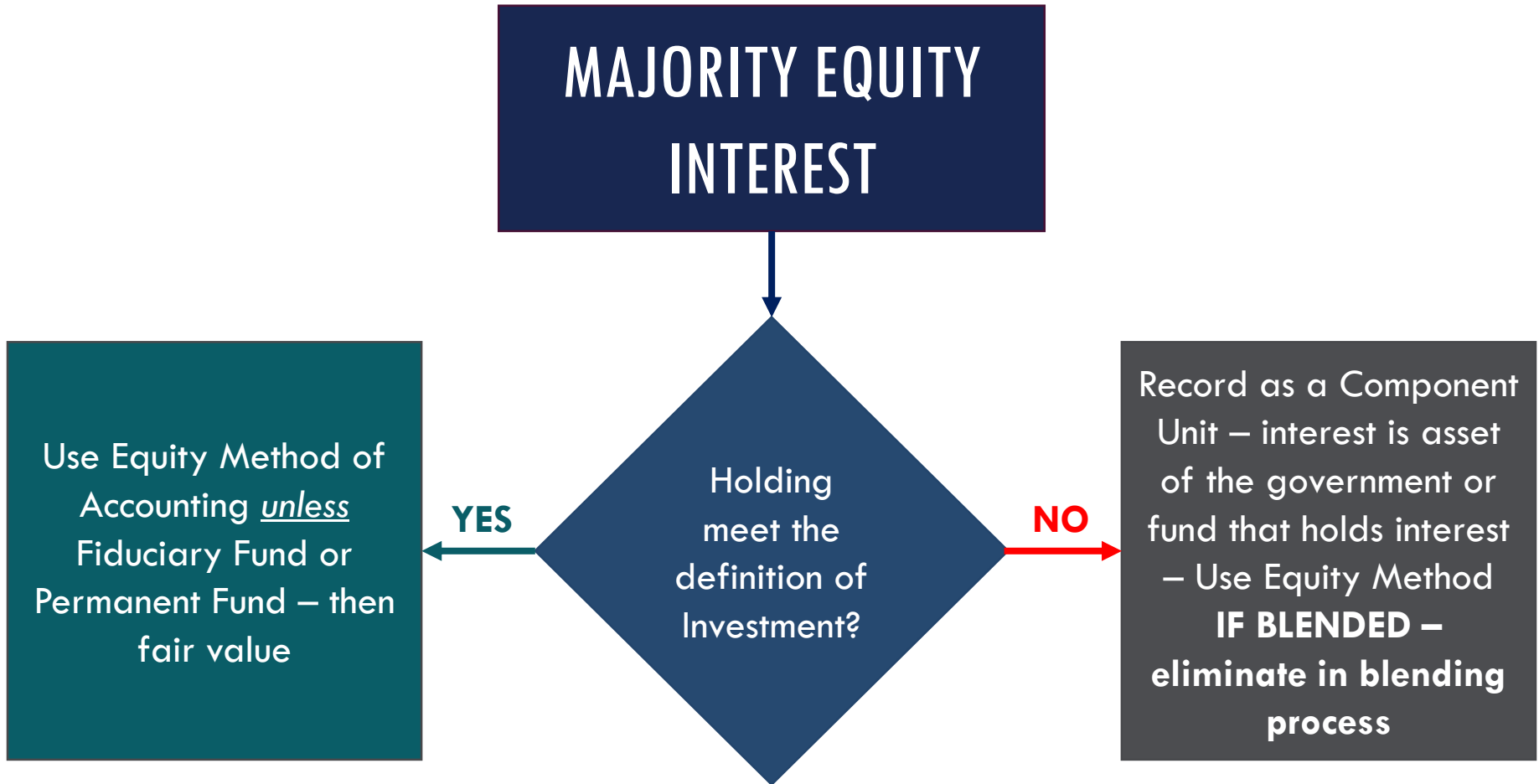
- Financial interest in a legally separate organization
- Evidenced by ownership of shares in entity's stock / interest in partnership (or similar) OR
- Having a right to the resources of the entity based on an investment of financial OR capital resources by a government. Right must be
 - Measurable
 - Explicit
 - Method must be explicit as to determining the share of entity's net resources
- Similar result to escheat process

WHY IS THIS A BIG DEAL (FOR SOME ENTITIES)?

With the issuance of GASB-72 (*Fair Value Measurement and Application*) and GASB-80 (*Blending Requirements for Certain Component Units*), GAAP for investments in entities where the primary government holds a majority equity interest became inconsistent

- *Example – Public Hospital has a 75% equity interest in a rehabilitation center. A not-for-profit holds the remainder.*
 - *Current GAAP – Is this a component unit or an investment?*
 - *Current GAAP – If an investment (for income / profit) should it be equity method?*
 - *What if the Hospital acquires the remaining 25% - is it now a component unit?*
 - *And by the way – discretely presented or blended?*

UPDATED REPORTING UNDER GASB-90



REPORTING

If government acquires 100% equity in legally separate organization that is a component unit:

- Measure the assets, deferred outflows, liabilities and deferred inflows like any other acquisition (GASB-69, pars. 29-42, as amended)
- Measurement date is date of closing
- Consideration = net resources exchanged to complete the 100% purchase + any equity interest acquired previously (before the acquisition)
- Net position acquired = net position of the component unit per GASB-69
- Any other flows would be subsequent to acquisition





JUNE 30, 2021
(12/31/2020)



LEASES

GASB *CODIFICATION* SECTION L20

WHY IS THIS A BIG DEAL???

GOVERNMENTS ARE LESSEES

- **Global Change** (including FASB / International)
- **89,000 governments+** may be effected, including Tribal Nations
- **Existing GAAP largely from the 1970's** (if not before)
 - **GASB-62 adopted mostly FASB-13** (GASB Cod Sec. L20)

GOVERNMENTS ARE LESSORS

- Airports
- Stadiums
- Casinos / entertainment venues
- Ports / marinas
- Utilities
- Institutions of Higher Education

Governments may be both Lessees and Lessors!

EXISTING GAAP IS SOMETHING INGRAINED...

- Capital leases have the ‘famous 4’ that if one are hit, it’s capitalized – akin to financed purchases -
 - The present value of the minimum lease payments is 90% (or more) of fair value at inception
 - Lease term is 75% (or more) of asset economic life
 - There is a bargain purchase option – often \$1
 - Ownership transfers at conclusion – cost is sometimes embedded in liability
- All others are operating
- Disclosure:
 - Capital leases - minimum payments
 - Operating leases, expenses / expenditures
 - Noncancelable leases disclose minimum payments
- Problem – many operating leases in government are really noncancelable – current accounting does not meet GAAP definition of a liability (present obligation with little or no discretion to avoid)

LEASES – BIG DEALS

Single approach - right of use:

- No classification of leases into operating/capital or other categories.
- Potentially develop some exceptions.
- Underlying assumption that leases are financings.

Practicality exceptions - short-term lease:

- At the beginning of the lease, has maximum possible term under the contract, including any options to extend, of 12 months or less.

EXCEPTIONS FROM LEASE ACCOUNTING

- Leases for Intangible Assets:
 - Exploration / mining rights for natural resources;
 - Licenses for performing arts, copyrights, patents, software, other than subleases.
- Biological assets / timber / living plants or animals.
- Inventory.
- Power purchase agreements that are leases.
- Service Concession Arrangements (GASB-60) (**See later**).
- Leases where underlying asset is financed with conduit debt *unless* asset and conduit debt are reported by lessor:
 - Conduit debt is common in state revolving fund loans (**See later**).
- Regulated leases (airports) where cost recovery is controlled – lessor only recognizes payment provisions in contract and limited disclosures.
- Ownership transfers without termination options = **financed sales** (notes receivable).
- Leases that are investments – limited disclosure.



What is a Lease?

- Contract that conveys control of the right the right to use:
 - Another entity's nonfinancial asset (the underlying asset).
 - For a period of time as specified in the contract.
 - In an exchange or exchange – like transaction.

DEFINITION OF LEASE – END RESULTS

- Control of the right is evidenced by both:
 - Obtaining of service capacity from the use of the asset as specified in the contract.
 - Ability to determine the nature / use of the asset as specified in the contract.

Bottom Line:

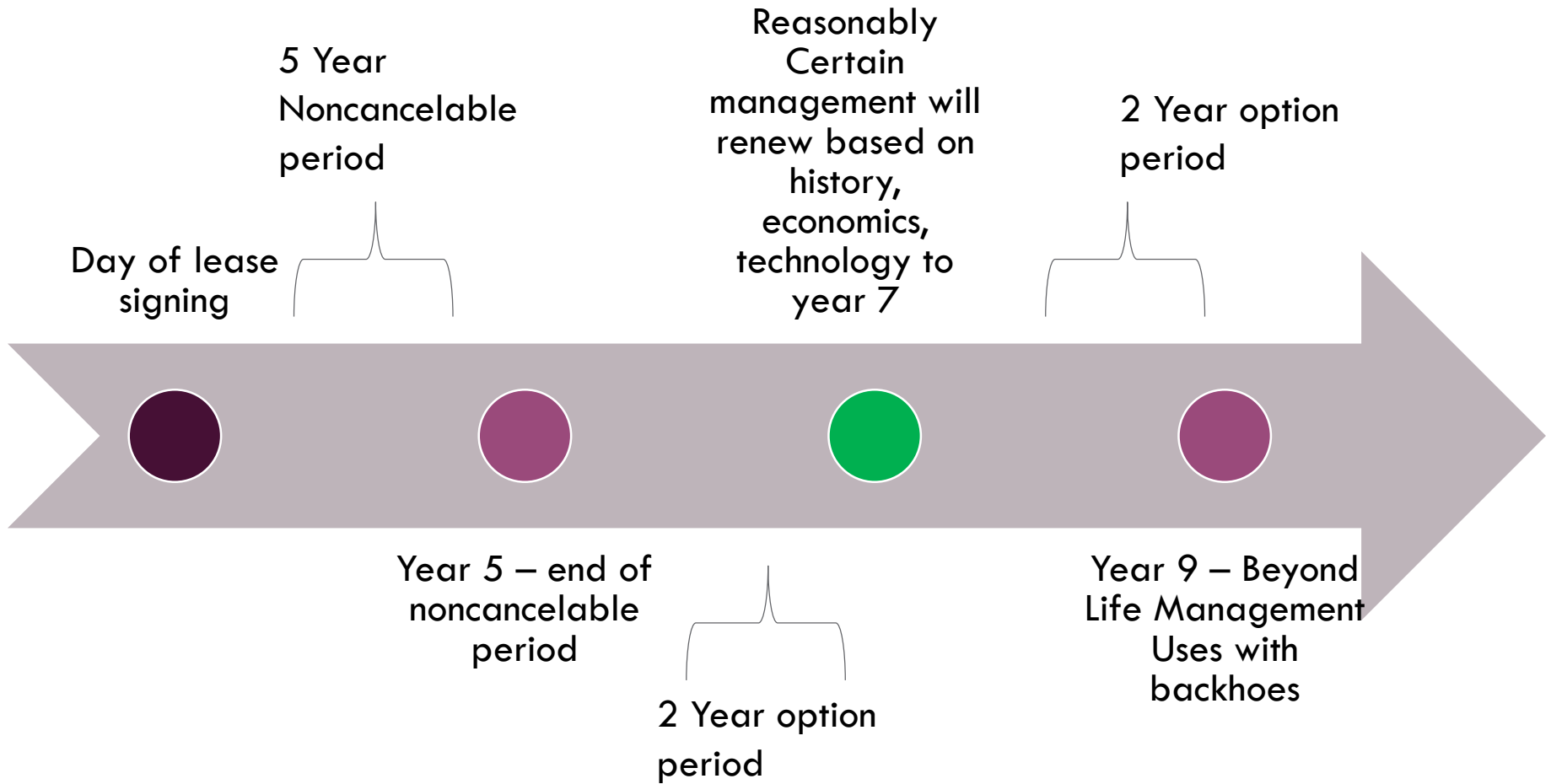
- No capital vs. operating leases.
- Underlying assumption that nearly all leases are similar to financing (but of period of time).
- **Transfers of ownership without termination also are financings.**
 - Typical language in a sheriff cruiser lease:

At the end of such term the County shall acquire legal title to VIN #'s and terminate this Lease with respect thereto by paying to <CAR COMPANY CREDIT CORP> all amounts that are due and unpaid hereunder and the remaining principal balance with respect to such VIN#'s as shown in the attached schedule.

LEASE TERM – BEYOND NONCANCELABLE PERIOD IT'S A GUESS

- “Noncancelable” period +
- Lessee and Lessor’s options to extend *if reasonably certain of being exercised* (*more than probable*) or
- Terminate the lease, if the option of *reasonably certain of not being exercised*
- **Excludes cancelable periods** (where lessor and lessee can terminate or extend)
 - Means the 1 year lease with 99 annual renewals are gone unless reasonably certain of being exercised
- Reassessment of the term is done if one occurs:
 - Option is exercised **to extend** even though original determination is not to
 - Option is exercised **not to extend** even though original was to extend
 - Contractual language causes an extension or termination occurs

EXAMPLE – 5 YEAR LEASE ON BACKHOE



LESSEES — Getting to Short-Term — **Almost Impossible**

- Short-term leases:
 - Measured at beginning of lease.
 - Has a maximum possible term, including options to extend < 1 year regardless of probability of being exercised.
 - End result may be very few operating leases.
- **Governmental funds** — only payables when due and expenditures



ALL OTHER LEASES - LESSEES

- Recognition and Measurement:
 - Intangible asset for *the right to use* the underlying asset and;
 - Liability for future payments:
 - Day 0 liability =
 - Fixed payments over lease term.
 - Variable payments based on an index / rate in effect at that date.
 - Variable payments that are in-substance fixed.
 - Residual value guarantees that are *probable* of being required.
 - Termination penalties if based on the determination of the lease term, the termination option is *probable* of being exercised.
 - Liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset.
 - Liability remeasured by calculating interest and reducing liability for actual payments *less* interest.

LESSEES – RECOGNITION AND MEASUREMENT

Lease asset =

Initial lease liability +
prepayments
less lessor incentives

Lease asset amortized using a systematic and rational basis over the *shorter* of:

the useful life of the underlying asset; or

the lease term.

Amortization is based on lessee's depreciation policy if the lease transfers ownership or if a purchase option is determined to be *probable* of being exercised:

Amortization of the lease asset classified as amortization expense.

Amortization of the discount is interest expense in statement of activities.

OTHER LEASE PROVISIONS ON TERM OF LEASE

Lessee's or lessor's options to extend and terminate the lease evaluated throughout lease term **at the point when a renewal or termination option is elected contrary to original lease term determination:**

Likelihood of occurrence of options is a *reasonably certain standard* (more than probable).

Options include all relevant factors including penalties (economic disincentives):

Fiscal funding clauses would be considered like any other termination option – only if it is reasonably certain the clause will be exercised.

BACK TO OUR BACKHOE EXAMPLE

- Government implemented GASB-87
- On July 1, 2021, government signs a lease with a backhoe company for 5 years. Two 2 year renewal periods.
 - Government has a fiscal year end of June 30
- Incremental borrowing rate - 6%.
- After the noncancelable period of 5 years, government may cancel, but history shows that they renew on similar assets all the time.
 - 2nd two year period available, but technology and wear and tear usually a factor
- No early termination
- No transfer of ownership
- Payments are \$1,000 a month
- **Reasonably certain met**

SAMPLE CALCULATION OF ASSET / LIABILITY AT INCEPTION - LESSEE

Lease Term: 5 years
 Renewal Options: two 2-year options
 Payments: 1,000 per mth

PV of Future Payments \$68,453 (Based on incremental borrowing rate of 6%)

Initial Measurement

	DR	CR
Right-to-use intangible asset	\$ 68,453	
Lease Liability		\$ 68,453

Subsequent Measurement

Lease Liability	\$ 658	
Interest Expense	\$ 342	
Depreciation / Amortization Expense	\$ 815	
Accumulated Depreciation / Amortization		\$ 815
Cash		\$ 1,000

Formula in excel to get to \$68,453 = round[PV(interest rate/12,#months,payment amount, future value),0]

AMORTIZATION SCHEDULE

Fiscal Year Ending	Principal	Interest	Total	Balance
Signing Day				\$68,453
6/30/22	\$8,114	\$3,886	12,000	60,339
6/30/23	8,614	3,386	12,000	51,725
6/30/24	9,145	2,855	12,000	42,580
6/30/25	9,708	2,292	12,000	32,872
6/30/26	10,308	1,692	12,000	22,564
6/30/27	10,945	1,055	12,000	11,619
6/30/28	11,619	381	12,000	-
Total	\$68,453	\$15,547	\$84,000	

Amortization can be any method that is systematic. Lessee used straight-line.
 $\$68,453 / 84 = \815 per month or $\$9,780$ annually.

GOVERNMENTAL FUND JOURNAL ENTRY AND CONVERSION TO ENTITY-WIDE – SIGNING DAY

Dr.	Capital Outlay	\$68,453	
	Cr.	Other Financing Sources – Lease Proceeds	\$68,453

Conversion to Entity – Wide

Dr.	Other Financing Sources – Lease Proceeds	\$68,453	
	Cr.	Lease Liability – Current Portion	\$8,114
	Cr.	Lease Liability – Long-Term	60,339
	Intangible Asset – Leased Equipment	\$68,453	
	Cr.	Capital Outlay	68,453

GOVERNMENTAL FUND JOURNAL ENTRY AND CONVERSION TO ENTITY-WIDE – END OF YEAR 1

Governmental Fund

Dr.	Interest Expenditure	\$3,886	
Dr.	Lease Principal	8,114	
	Cr. Cash		\$12,000

Conversion to Entity – Wide

Dr.	Lease Liability – Current Portion	\$8,114	
	Cr. Lease Liability – Principal		\$8,114
Dr.	Amortization Expense – Lease	9,780	
	Cr. Accumulated Amortization		9,780
<i>Reclass Current Portion:</i>			
Dr.	Lease Liability – Long-Term	8,614	
	Cr. Lease Liability – Current		8,614

END OF YEAR BALANCES – YEAR 1

<i>Intangible Asset – Leased Equipment</i>	\$68,453
<i>Accumulated Amortization</i>	<u>(9,780)</u>
Carrying Value	<u>\$58,673</u>
<i>Lease Liability – Current</i>	\$8,614
<i>Lease Liability – Noncurrent</i>	<u>51,725</u>
Lease Liability – Total	<u>\$60,339</u>

LEASES

- May have multiple components:
 - Lease principle and interest;
 - Maintenance;
 - Utilities;
 - Security;
 - Other.
- Should separate lease and non-lease components or multiple lease components if practical.
- **GASB 87** discusses how setting a high capitalization threshold policy for leases should *not* result in a lack of reporting of assets and liabilities that are material collectively.

Could be allocated if practicable – try to determine best estimate

BACK TO OUR BACKHOE

- Leasing company requires \$2,000 per year to maintain the backhoe for service / warranty
 - Embedded / identifiable in contract
 - Management of the government compares to similar contracts and it is reasonable
 - Could declare a liability at signing day and then annual expense if material

Entry would then be simple

Dr.	Maintenance Contract	\$2,000
Cr.	Cash	2,000

- Be careful of variable payments / payments based on usage
 - Minimum usage payments (floors) would be additional liability (fixed in substance)

FOUR STEP PROCESS ON IDENTIFYING COMPONENTS

1. Identify the components
 - Maintenance
 - Security
 - Utilities
 - Others???
2. Maximize information that is known (observable) – from similar contracts
 - **EXAMPLE:** The \$2,000 annually is similar to other charges
3. If unobservable – estimate – use professional judgment – but document
4. If still not practicable – incorporate as part of the lease (single lease component)

LET'S SAY INSTEAD OF AN ADDITIONAL 2 YEARS AT YEAR 5, WE TERMINATE

- **Facts:**

- Outstanding Liability at Termination \$22,564
- Carrying value of Intangible Asset – Equipment \$19,553

- No need to adjust the discount rate or re-amortize
- Write down asset value and remainder is gain or loss

Dr.	Lease Liability	\$22,564
Dr.	Accumulated Amortization – Leased Equipment	48,900
	Cr. Intangible Asset – Leased Equipment	\$68,453
	Cr. Gain	3,011

To record lease termination – backhoe. Note: Gain could be a special item if unusual or infrequent.

EXAMPLE 2 – OFFICE SPACE

- Lease begins on July 1, 2021 for 60 months:
 - \$1,000 due first of each month (rounded)
 - After 60 months – month-to-month lease until the space is returned
 - During MTM period – adjustment is based on CPI – one month notice
 - If building is a total loss, lessee pays \$39,000 for equipment value, ownership transfers to lessee
 - Lessee pays lessor \$2,000 in setup cost and pays \$1,700 dismantle cost at end of lease
 - Discount rate (provided by lessor in the lease) is 2.9%
- PV Calculation ($\$1,000$ per month / 5 years / 60 months at 2.9% = $\$55,791$).

JULY 1, 2021

Governmental Funds		Debits	Credits
Rental Expenditures		\$57,791 (\$55,791+\$2,000 setup)	
	Other Financing Sources		\$57,791
Redemption of Principal		\$2,000	
	Cash		\$2,000
To record new lease of office space and set up costs			

Government-Wide		Debits	Credits
Intangible Asset – Leased Office Space		\$57,791	
	Lease Liability		\$57,791
Lease Liability		\$2,000	
	Cash		\$2,000
To record new lease of office space and set up costs			

YEAR ENDING JUNE 30, 2022

Governmental Funds		Debits	Credits
Redemption of Principal		\$10,521	
Interest Expenditure		1,479	
	Cash		\$12,000
To record 12 lease payments (effective interest method for principal / interest)			

Government-Wide		Debits	Credits
Lease Liability		\$10,521	
Interest Expense		1,479	
Amortization		11,558	
	Cash		\$12,000
	Accumulated Amort.		11,558
To record 12 lease payments (effective interest method for principal / interest) (\$11,558=\$57,791÷5)			

Reconciling entries –

1. Adjust OFS and Lease Liability
2. Recognize intangible asset and reduce rental expenditures
3. Reclassify reduction of principal and lease liability

HOW ABOUT THIS ONE – LESSEE TRANSACTIONS

On July 1, 2024, a government lessee signs a 5 year lease for an entire IT system with the following terms and conditions:

The term is 5 years and is noncancelable with annual payments of \$23,982 (rounded) due at the beginning of each year.

The fair value of the system is \$100,000 with an estimated life of 5 years and no value estimated at the end of the lease and no renewals.

The interest rate in the lease is 10%.

The government depreciates and amortizes on a straight-line basis for similar equipment.

JULY 1, 2024

Government-wide Entry		Debits	Credits
Entry 1			
Intangible Asset – IT System		\$100,000	
	Lease Liability		\$100,000
Entry 2 – due to day 1 payment			
Lease Liability		\$23,982*	
	Cash		\$23,982
To record new lease of new IT system			

*Rounded

JUNE 30, 2025

Government-wide Entry		Debits	Credits
Entry 1			
Interest Expense*		\$7,602*	
	Interest Payable		\$7,602
Entry 2 – due to day 1 payment			
Depreciation Expense (or Amortization Expense)		\$20,000	
Accumulated Depreciation / Amortization)			\$20,000
To record payable for interest and depreciation on IT System			

*($\$100,000 - \$23,982$) = $\$76,018$

liability balance x 10%]

*Rounded

What would be the payment on 7/1/25? (Principal and Interest)

GOVERNMENTAL LESSOR

- Mostly symmetrical accounting to lessees.
- Lessor would recognize receivable for the right to receive payments:
 - Payments discounted by the rate charged lessee.
- No de-recognition of underlying asset.
- No recognition of performance liability (e.g. security).
- Deferred inflow of resources is credit = [receivable + cash received].
- Lease revenue recognized systematically & rationally over lease term (e.g. effective interest method).
- If in Business-Type Activities, Lessor's Statement of Cash Flows would show lease consistent with how underlying asset is shown (investing or capital and related financing):
 - Short-term lease would be operating cash flow like lessee.

TWO MAJOR EXCEPTIONS TO SYMMETRY

- Leases that are investments (common in defined benefit plans)
 - Investments then are reported at fair value
 - Flows statement reports changes in fair value
- Regulated leases
 - Utilities, airports with airlines, others, have leases that cannot align to financings (see later)



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LESSOR MODIFICATIONS AND TERMINATIONS

- Remeasurement required at date of modification
 - Potential change in discount rate (especially if length of lease changes)
 - Deferred inflow of resources and receivable get adjusted
 - Change related to current period – adjust revenue
 - Change related to refunding debt – could result in additional deferred inflow / outflow of resources
 - Amortize over shorter of new lease / old lease
- Terminations
 - Reduce deferred inflow and receivable balance
 - Gain / loss could result
 - Previous termination example used – likely a loss

Governmental lessor:

- Receivable includes:
 - Residual value guarantees;
 - Purchase options;
 - Termination penalties (if measured, exercised and unpaid).
- Direct costs expensed (just like GASB-65).



Sub-lease situations:

- **2 separate transactions;**
- **Do not net;**
- **Apply all applicable guidance.**



Sale-Leasebacks, Lease-Leasebacks and Intra-entity leases all have guidance.

- **Leases between:**
 - **Blended C/Us – eliminate**
 - **Discretely Presented C/Us – present, do not net receivables / payables**
 - **Related parties – substance vs. form issue**

DEBITS AND CREDITS ON ONE SHEET

	Party	Assets	Liabilities	Deferred Inflow of Resources
Initial Reporting	Lessee	Intangible asset (lease liability + prepayments + initial direct costs placing asset into use)	Present value of future lease payments (fixed, variable, including guarantees etc.)	None
	Lessor	Lease receivable, capital asset remains on books	Should be none	Lease receivable + cash that relates to future period (e.g. last month's rent)
Subsequent Reporting	Lessee	Amortize intangible over shorter of useful life or term of lease	Reduce by lease payments (effective interest)	None
	Lessor	Depreciate capital asset unless required to be returned in original or better condition Reduce receivable, taking into account accrued interest	Should be none	Recognize revenue in effective interest method (systematic & rational)

DISCLOSURES

Lessees - Similar to current model, other than short-term leases – grouped for purposes of disclosure:

- General Description including:
 - Basis terms / conditions on which variable lease payments not included in the liability are determined.
 - Existence / terms / conditions of residual value guarantees provided by lessee not included in the lease liability.
- Total lease assets, accumulated amortization (reported separately from capital assets).
- Lease assets by major classes (also separate from capital assets).



DISCLOSURES – LESSEE’S CONTINUED

Lessees - Similar to current model, other than short-term leases – grouped for purposes of disclosure:

- Outflows of resources recognized for period for variable lease payments not included in liability.
- Principal and interest – 5 years and 5 year increments to maturity (like today).
- Commitments for leases not begun.
- Impairment losses recognized on lease asset for the period.

DISCLOSURES – LESSORS

Also group for purposes of disclosure

- General description of terms / conditions
- Determination process of variable lease payments
- Inflows related to leases (if not on the face of financials)
- Description of leases used as security for debt, including termination provisions

DISCLOSURES – LESSORS THAT ARE FINANCING ENTITIES

Also group for purposes of disclosure

- Future lease payments included in lease receivable
- Five year payments due and aggregated five years thereafter – principal and interest



Regulated Leases – (Mostly Airports)

- **Lessor – revenue recognized based on payment provisions in the contract – regulator usually sets:**
 - Lease rates – subject to reasonableness tests.
 - Common lease terms – all airlines have similar rates.
 - Rights transfer if facilities are available.
- **Lessor records receivable based on factors including:**
 - Fixed payments.
 - Variable payments (based on an index – example: CPI).
 - Variable payments that are in substance fixed (based on percentages of sales with minimum payments).
 - Residual value guarantees.
 - Discounted based on rate in lease – no imputation of interest required:
 - Any discount between rate and market rates is amortized annually.
 - Remeasurement provisions are the same as unregulated leases.

REGULATED LEASES – (MOSTLY AIRPORTS)

Lessor – additional recording:

- Deferred inflow of resources = initial value of lease receivable + downpayments at beginning of lease relating to future periods (e.g. final month's rent):
 - Amortization to revenue.

Notes for regulated leases (other than short-term leases):

- General description.
- Inflows recognized in the current period (if not on face of financials).
- Terms and conditions to terminate / abate.
- Schedule of future payments.

EFFECTIVE DATE

- Periods *beginning* after December 15, **2019**.
- Existing Leases –
 - Adjust based on the *remaining lease payments as of the beginning of the period of implementation or the beginning of any earlier periods restated*:
 - June 30, 2021 = July 1, 2020.
 - Airports –
 - Leases bound by regulatory language follow that language.
 - Other concessions would use GASB.

HOW TO IMPLEMENT

- It's retroactive!
 - Amortize all leases / asset values to point of implementation
 - For groups of assets leased that allow substitution – amortize as a group (ex: 100 PCs)
- Leases are recognized using the facts and circumstances at the date of transition (beginning of period of implementation)
- Watch out if you have comparative financial statements – need to go back to earliest period!
- Lessors – no need to restate asset value.
- Do a Dry Run if more than a few leases:
 - Recognize holes and patch them!

EXAMPLE

- In 2018, a capital lease is signed by a government
 - Interest rate is 5%
 - Initial lease liability is \$45,600
- Beginning of period of implementation – (example 1/1/2021)
 - Carrying value of intangible asset is \$20,900
 - Lease liability is \$22,500 – but based on GASB-87 – change in lease term needed – causes a \$1,000 increase in liability (and asset)

Journal entry

Dr.	Intangible Asset – Lease	\$1,000
	Cr. Lease Liability -	\$1,000

CAUTION: If the 2018 lease was an operating lease, will need a restatement. But if 2018 capital lease will now be an operating lease under GASB-87, no adjustment necessary, beyond removing any asset / liability.

HOW TO IMPLEMENT

- Put someone in charge of a team
- **GATHER THE INFORMATION – Completeness is key!**
 - Perhaps make a database / data warehouse of:
 - Lease contracts
 - Lessees / Lessors
 - Terms
 - Schedules
- Review internal controls for recognizing existence of leases.
- Review information technology – consider need for new software.
- Review potential issues with:
 - Laws / Regulations / Grant Awards (**Debt limits / compliance**)
 - Policies / Procedures
 - Incentives / discounts

LEASES *IMPLEMENTATION GUIDE* EXPOSURE DRAFT TOPICS

- Comments Due April 30 - 80 Questions, 3 - Illustrations
- Scope and Applicability
- Lease term
- Short-term leases
- Contracts that transfer ownership
- Lessee recognition and measurement (other than short-term leases and ownership transfers)
- Notes – lessees
- Lessor recognition and measurement (other than short-term leases and ownership transfers)
- Notes – lessors
- Incentives
- Multiple components
- Combinations
- Modifications and terminations
- Sale – leaseback transactions
- Lease – leaseback transactions
- Intra-entity leases
- Transition and effective date



**ACCOUNTING FOR INTEREST
COST INCURRED BEFORE THE
END OF A CONSTRUCTION
PERIOD —**

**AMENDS GASB *CODIFICATION* SECTION
1400**

CAPITALIZATION OF INTEREST COST

Could result in **simplifying financial reporting.**

Construction-period interest cost should be accounted for as an outflow of resources (expense/expenditure) in the period in which it is incurred.

• *In other words – no more capitalized interest.*

Effective date –
periods beginning after December 15, **2019.**

Prospective Implementation

- Do not restate prior year's capital assets:
- Likely depreciated.

Sticky Point – If rates charged exclude interest costs due to capitalization and then depreciation in the future, may need to be renegotiated.



**CONDUIT DEBT
OBLIGATIONS (GASB-
91) (**NEW**) [GASB COD.
SEC. C65]**

CLASSIC CONDUIT DEBT

ISSUER

Bondholders buy bonds



NEW ISSUE

First Investors Service, Inc.: AAA
Moody's Investor Service, Inc.: Aaa
Standard & Poor's: AAA
(See "RATINGS")

In the opinion of Bond Counsel, under existing law, assuming continued compliance with certain provisions of the Internal Revenue Code of 1986, an interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. Interest on the Bonds will not constitute a preference item for the purposes of companies of the alternative minimum tax imposed on certain individuals and corporations, although interest on the Bonds will be taken into account in computing the alternative minimum tax applicable to certain corporations. In the opinion of Bond Counsel, interest on the Bonds, and any profit made on the sale thereof, are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. See "Tax Exemption."

\$136,740,000

MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST
Pool Loan Program Bonds, Series 3

Dated April 1, 1997

The Bonds will be issued as registered bonds and, when issued, will be registered in the name of Citicorp & Co., as nominee of The Trust, New York, New York, which will act as securities depository for the Bonds. Individual interest in the Bonds purchased, so long as DTC is the registered owner of the Bonds, payments will be made directly to DTC. Disbursements of such payments to DTC Participants in the "Book-Entry System — Book-Entry Only System." Interest on the Bonds will be payable commencing on August 1, 1997. The Bonds will be an

of local governmental units (each a "Borrower") to fund projects. The Bonds are payable solely from the funds of the Trust, including but not limited to (i) loan repayments to the Trust, by each Borrower, (ii) contract assurance payment obligations and (iii) investment earnings on certain assets. The outstanding principal amount of the Trust's loans to be repaid by each Borrower as described herein. For additional information, see the "Description of the Bonds" section of the Massachusetts Water Pollution Abatement Trust (the "Trust"). The Trust has no taxing power. Neither the Commission nor the Trust is a party to the Trust's loans to the Borrowers and is not liable for the payments on the Bonds.

Rate	Pay at	Monthly	Principal
%	Year		Amount
4.75	NRO	2008	\$6,625,000
4.75	100%	2009	6,800,000
4.75	100%	2010	6,975,000
4.75	100%	2011	7,150,000
4.75	100%	2012	7,325,000
4.75	100%	2013	7,500,000
4.75	100%	2014	7,675,000
4.75	100%	2015	7,850,000
4.75	100%	2016	8,025,000
4.75	100%	2017	8,200,000

Interest on the Bonds will be payable commencing on August 1, 1997 to be added to the principal amount of the Bonds. Interest on the Bonds will be payable to the Trust, which will act as securities depository for the Bonds. Individual interest in the Bonds purchased, so long as DTC is the registered owner of the Bonds, payments will be made directly to DTC. Disbursements of such payments to DTC Participants in the "Book-Entry System — Book-Entry Only System." Interest on the Bonds will be payable commencing on August 1, 1997. The Bonds will be an

of local governmental units (each a "Borrower") to fund projects. The Bonds are payable solely from the funds of the Trust, including but not limited to (i) loan repayments to the Trust, by each Borrower, (ii) contract assurance payment obligations and (iii) investment earnings on certain assets. The outstanding principal amount of the Trust's loans to be repaid by each Borrower as described herein. For additional information, see the "Description of the Bonds" section of the Massachusetts Water Pollution Abatement Trust (the "Trust"). The Trust has no taxing power. Neither the Commission nor the Trust is a party to the Trust's loans to the Borrowers and is not liable for the payments on the Bonds.

Proceeds fund 3rd party obligors



	Outstanding Pool 1 Loans	Outstanding Pool 2 Loans	Pool 3 Loans
Abington	\$ -	\$ -	\$ 1,271,774
Agawam	-	869,466	-
Amesbury	-	-	1,293,630
Attleboro	-	-	10,561,654
Barnstable	1,006,094	-	3,569,162
Billerica	3,501,108	-	-
Boston Water and Sewer Commission	4,177,356	8,088,687	12,920,761
Bourne	-	137,454	-
Bridgewater	-	187,547	-
Brockton	-	1,038,062	1,366,346
Cambridge	4,557,912	5,507,555	4,618,658
Chatham	-	-	292,049
Chelmsford	-	1,667,258	8,787,328
Dartmouth	-	-	296,400
Duxbury	-	-	650,000
Easthampton	-	-	1,600,000
Fall River	624,881	5,715,896	-
Foxborough	-	-	1,806,000

Repayments to trustee



Bondholders repaid from trustee



ALMOST FINAL BOARD DECISIONS



Conduit debt has all of the following for accounting /financial reporting purposes:

- **At least 3 parties involved**
 - **Government Issuer**
 - **3rd party obligor(s) (borrower)(s)**
 - **Debt holder / debt trustee**
- Issuer and obligor(s) not within the same reporting entity
- Debt obligation not a parity bond, not cross-collateralized
- Obligor(s) (or agent) ultimately receives proceeds from debt, primarily obligated for debt
- Issuer has limited commitment to repay debt

WHAT IS THIS 'LIMITED COMMITMENT'?

- Commitments are usually only to the resources provided by the obligor(s)
- Extended commitments sometimes done
 - Own resources to support debt service in the event of obligor default
 - State revolving fund 'contract assistance'
 - Moral obligation
 - Appropriation pledge as a backstop
 - Guarantee (exchange or nonexchange)
 - Assets collateralization
 - Pledge not subject to appropriation
 - Borrower aid intercept mechanism

The terms *revenue bonds*, *limited obligation*, and *limited-obligation revenue bonds* - **not included** in the definition of conduit debt.

Whether a government-issuer is the recipient of debt proceeds or the provider of debt service payments - **not a defining** characteristic.

Financial reporting of conduit debt:

- A conduit debt obligation - the total financing - **should not be reported** as a liability of **the issuer**.
- The issuer should report a liability only when a payment by the issuer is more likely than not. (GASB-70)

TENTATIVE BOARD DECISIONS

- Could have arrangements associated with conduit debt – typically leases:
 - Usually involves acquisition / construction of capital assets
 - Common in state revolving funds, dorms, housing
- Would not be a lease – could be one of 3 categories:

Facts	Tentative Accounting / Reporting
Issuer relinquishes title at end	No liability at issuer (unless guarantee met), no asset, no receivable
<ul style="list-style-type: none"> • Issuer does not relinquish title • 3rd party obligor has exclusive right to use asset 	No liability at issuer (unless guarantee met), no asset, no receivable. When arrangement ends (debt is paid,) issuer recognizes asset at acquisition value
<ul style="list-style-type: none"> • Issuer does not relinquish title • 3rd party obligor only can use portion of asset 	Issuer recognizes entire capital asset at acquisition value. No liability at issuer (unless guarantee met), no receivable. Offset to capital asset is deferred inflow of resources, amortized to revenue.

CONDUIT DEBT — TENTATIVE DECISIONS

- Tentative effective date — periods beginning after December 15, 2020
 - June 30 governments FYE 2022
 - Retroactive restatement
- Illustrations and examples included



EXAMPLE OF WHAT COULD HAPPEN – TENTATIVE DECISIONS

- Economic Development Agency issues industrial development bonds (IDBs) on behalf of a private company to finance construction:
 - Factory is collateral for debt
 - IDBs are payable from mortgage on factory
 - No other collateral etc. from Agency
 - IDBs are not parity bonds, nor cross-collateralized
 - Debt proceeds go to the company through corporate trustee
 - Company pays debt through trustee until bonds are paid off
- **Based on GASB's Tentative Conclusions – CDO or no CDO – what do you think?**

EXAMPLE 2 OF WHAT COULD HAPPEN – TENTATIVE DECISIONS

- State Housing Finance Authority issues multifamily housing bonds:
 - Proceeds available for developers who participate in affordable housing projects
 - Bonds are issued under a parity bond indenture
 - Bonds are cross-collateralized with similar bonds with same security pledge
 - Proceeds go to developers through trustee to finance projects
 - Developers make debt service through trustee to pay loans
 - Mortgage loan revenue and investments serve as security pledge with cross-collateralization
- **Based on GASB's Tentative Conclusions – CDO or no CDO – what do you think?**



END OF PART 2



**AND GASB'S JUST
GETTING STARTED...
PROPOSED GAAP**



WHAT'S GOING ON WITH THE FINANCIAL REPORTING MODEL?

IN CASE YOU HAVEN'T HEARD...

Could change some aspects (**NOT ALL**) of **GASB-34, 35, 37, 41, 46** and Interpretation 6.



- Key focus areas:
 - Governmental Funds:
 - All tend to like them, except for lack of comparability / consistency
 - Difficult to use for complex transactions like derivatives, pensions, OPEB
 - Accounting model is inconsistent – decades of provisions that have mixed messages
 - Government-wide statements – users love them, preparers don't, auditors mixed:
 - Proprietary Funds (operating vs. nonoperating flows)
 - MD&A – most valuable piece of reporting model but frequently last to get prepped / boilerplate / copied.
 - Budgetary comparisons, component unit reporting at primary government and other items on table.

PRELIMINARY VIEWS OVERVIEW

Seven Sections in PV + Appendices:

- Objectives, Background, Applicability & Scope
- **Recognition Concepts and Application for Governmental Funds**
- Presentation of the Governmental Fund Financial Statements
- Proprietary Fund Financial Statements
- Budgetary Comparison Information
- Other Issues (C/U information, Natural Classification Schedule)
- **Alternative Views**

WHAT IS BEING PROPOSED NOW FOR GOVERNMENTAL FUNDS

- **Preliminary View – Governmental Funds financial statements presented using Short-Term FINANCIAL RESOURCES Measurement Focus**
 - Incorporates short-term transactions as they occur and long-term transactions when they *are due*
 - Recognition occurs if an item meets the definition of an element (asset, liability etc.) AND
 - Item required to be reported
 - Long-term debt transactions only presented when payments *due*

WHAT IS BEING PROPOSED NOW FOR GOVERNMENTAL FUNDS

- **What is the Short-Term Financial Resources Measurement Focus?**

- Items that *normally* are due to convert to or generate cash or other financial assets or
- Require the use of cash or other financial assets
- **Entirely within one year from the inception of the transaction or other event – decide by class of transaction**
- Beyond one year would be long-term unless matured, but not paid or received
- Concept of '*normally*' is from GASB Interpretation 6
 - Refers to normal course of business
 - May include things like TANS and RANS
 - If mature less than one year – liability
 - If exception is longer than one year (not normal) could also be a liability

WHAT ARE FINANCIAL RESOURCES?

Cash

Assets available
to be converted
to cash

Assets that are
consumable in
lieu of cash

Investments

WHAT IS BEING PROPOSED NOW FOR GOVERNMENTAL FUNDS

EXAMPLES OF RECOGNIZED ASSETS	EXAMPLES OF RECOGNIZED LIABILITIES
Cash and investments	Accounts payable and accrued payroll
Accounts receivable	Accrued interest payable
Property taxes receivable	TANS and RANS
Prepaid Items	Unpaid debt that became due during the period
Inventory	
Notes and other long-term receivables that have become due	

UNRECOGNIZED ASSETS	UNRECOGNIZED LIABILITIES
Unmatured long-term receivables	Compensated absences
Capital assets	Unmatured debt
	Pensions / OPEB
	Asset retirement obligations
	Leases

WHAT IS BEING PROPOSED NOW FOR GOVERNMENTAL FUNDS

Outflows would be similar to today **except for:**

- Prepayments for goods / services to be received in the future
- Inventory purchases
- Depreciation
- Principal payments on TANS / RANs

Inflows would also be similar to today **except for:**

- Repayments from lending activities due in subsequent periods
- Proceeds from issuing TANS / RANs

Deferred outflows / inflows of resources could occur – must be identified by GASB

Net Position (fund balance) would be residual

Reconciliation between Governmental Funds and Government-Wide still would be required

- Separate page still likely

A woman with long brown hair, wearing black-rimmed glasses, a light blue button-down shirt, and a dark blazer, is seated at a desk. She is looking down at a black calculator in her hands. On the desk in front of her are several papers and a blue folder. The background is a blurred office setting with shelves and a window with greenery outside.

COULD RESULT IN...

- More consistent balance sheet and flows statement entries
- More consistent period-end balances from short-term transactions
- Period spending (expenditures) relatively close to current model
- Fund balance that may (or may not) change from current
- Fund statements that are relatively close to some budgets

AS A RESULT...

Example Transaction	Current Governmental Funds	Short-Term Financial Resources
Investments fair value grows by \$100,000. No other purchases or sales	Fair value reported and investment earnings reported	SAME
Property taxes levied at end of fiscal year – due 6 and 9 months <u>after</u> FYE	Receivable and deferred inflows of resources for levy	Since normally due – SAME
Taxes OTHER than property taxes due 3 months after FYE associated with the current year and different amount due 6 months after FYE	Receivable and revenue for 3 months amount. 6 months amount deferred inflows of resources	Receivable and inflows – all current activity

AS A RESULT...

Example Transaction	Current Governmental Funds	Short-Term Financial Resources
Prepaid amount at beginning of year, additional amounts spent during year and end of year balance	Asset for acquisition of prepaid items, expenditure by function when consumed	Prepaid item and outflows as a current activity by function
Inventory at beginning of year, amounts spent during year, consumed inventory, end of year balance	Recognize asset when purchased, expenditure by function when consumed	SAME
Special assessment receivable at beginning of year matured and collected during year. End of year balance collected beyond 3 months.	Receivable / deferred inflow of resources for amounts beyond 3 months. Revenue for amounts matured and collected.	NO receivable recognized. Inflows are recognized as a current year activity.

AS A RESULT...GRANTS

Beginning of Year	New Grants	Collections	End of Year
<p>Grants receivable - \$550,992, of which \$150,992 to be received within 60 days, \$400,000 within 6 months to 1 year.</p>	<p>\$300,000</p>	<p>\$550,992 from BOY balance and \$49,008 from current year</p>	<p>\$250,992 = \$100,992 to be received within 60 days, \$150,000 between 6 months & 1 year</p>
<p>Current Governmental Funds</p>	<p>Grants receivable of \$250,992, deferred inflows of resources, \$150,000. Grant revenue = \$550,000 (\$400,000+49,008+100,992)</p>		
<p>Short-Term Financial Resources</p>	<p>Grant receivable \$250,992 and \$300,000 of inflows (new grants)</p>		

AS A RESULT...

Example Transaction	Current Governmental Funds	Short-Term Financial Resources
Notes receivable beginning balance, amount matured / collected during year, ending balance collected after year end	Notes receivable and non-spendable fund balance (inconsistent treatment nationwide)	NO RECEIVABLE – inflows for collections recognized
Hedging derivatives	Not recognized	SAME
Compensated Absences	Recognize liability and expenditures by function for those separated from service (inconsistent treatment nationwide)	Only recognize liability and outflows for those separated but unpaid

AS A RESULT...

Example Transaction	Current Governmental Funds	Short-Term Financial Resources
Accrued interest on long-term debt / leases and amounts incurred and paid during year	No liability, debt service expenditures based on interest paid	Accrued interest payable based on end of year balance, outflows of interest incurred during the year as part of debt service – noncurrent activity
TANS balance at beginning of year, paid during year, new TANS issued and outstanding, borrowings and repayments disclosed in notes	TANs payable for end of year balance	Same
Bonds payable, repayments during year	No liability – expenditures of repayments	Same, but recognized as noncurrent activity
Pension NPL	No liability, no amounts due	Same
OPEB is PayGo / NOL	No liability, no amounts due	Same

NOW TO THE GOVERNMENTAL FUND STATEMENTS

- Preliminary View is Statement of Revenues, Expenditures and Changes in Fund Balances now be in **current** and **noncurrent** format (inflows and outflows).
 - Inflows and outflows related to capital outlay would be noncurrent
- Titles of Fund Statements
 - **Short-Term Financial Resources Balance Sheet**
 - **Statement of Short-Term Financial Resource Flows**
- “Short-term” in all element descriptions – examples:
 - Short-term assets
 - Short-term liabilities
 - Inflows of Short-term financial resources for current activities
 - Net flows of Short-term financial resources for noncurrent activities
- Notice statement at top of each fund statement:
 - “This financial statement presents a short-term view of the governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements.”

SUBTITLES WITHIN FINANCIAL STATEMENTS

Short-Term Financial Resources Balance Sheet	Statement of Short-Term Financial Resource Flows
Short-Term Assets	Inflows of Short-Term Financial Resources for Current Activities
Deferred Outflows of Short-Term Financial Resources	Outflows of Short-Term Financial Resources for Current Activities
Short-Term Liabilities	Net Flows of Short-Term financial Resources for Noncurrent Activities
Deferred Inflows of Short Term Financial Resources	Net Change in Short-Term Financial Resources Fund Balances
Short-Term Financial Resources Fund Balances (Restricted, Assigned, Unassigned) (Unclear on committed but assumed)	Short-Term Financial Resources Fund Balances at Beginning of Year
	Short-Term Financial Resources Fund Balances at End of Year

Reconciliation pages follow both statements like today

Why is

Operating

vs.

Nonoperating

a Big Deal?

- Revenue Bonds and Other Compliance May be Aligned to Definition of Operating Revenue / Expenses.
- Some BTA's Want to be More Comparable to Non-Profit / For-Profit Counterparts.
- Regulatory Accounting (HUD / FERC) may be an Issue.
- Multiple types of Entities have different focuses (subsidiaries vs. performance).

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR PROPRIETARY FUNDS

Statement proposed like this:

- Operating Revenues →
- Operating Expenses →
- Income (loss) →
- Subsidies →
- Financing investing →
- Other →

Illustration 5: Statement of Revenues, Expenses, and Changes in Net Position

ABC State University
Statement of Revenues, Expenses, and Changes in Net Position

	2016	2015
Operating revenues:		
Tuition and fees (net of discounts)	\$ 574,168	\$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	<u>1,146,343</u>	<u>1,091,377</u>
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	<u>1,681,544</u>	<u>1,596,059</u>
Income (loss) generated by operations	<u>(535,201)</u>	<u>(504,682)</u>
Noncapital subsidies:		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	<u>558,101</u>	<u>530,057</u>
Operating income (loss) and noncapital subsidies	<u>22,900</u>	<u>25,375</u>
Financing and investing activities:		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	<u>221,023</u>	<u>126,314</u>
Income before other items	<u>243,923</u>	<u>151,689</u>
Other items:		
Capital contributions	<u>23,231</u>	<u>74,830</u>
Increase (decrease) in net position	267,154	226,519
Net position—beginning	3,061,111	2,834,592
Net position—ending	<u>\$ 3,328,265</u>	<u>\$ 3,061,111</u>

TAKEAWAYS FROM THE PROPRIETARY FUND STATEMENT PROPOSAL

1. **Subsidies – resources provided by another party or fund to keep rates lower than otherwise would be necessary for the level of goods or services to be provided.**
2. Operating and nonoperating revenues and expenses still presented and subtotaled.
3. If noncapital subsidies, next subtotal is operating income (loss) and noncapital subsidies.
4. Financing and investing activities subtotaled, followed by income (loss) before other items.
5. Other items right now are only capital contributions.
6. Nonoperating revenues and expenses so far include:
 - A. Subsidies received (OR PROVIDED)
 - B. Financing flows (revenues or expenses)
 - C. Disposal of capital assets or inventory
 - D. Investment income or expense

ADDITIONAL ELEMENTS OF PRELIMINARY VIEWS

Budgetary comparisons:

- Would be presented in RSI (no option for basic statements).
- Required variances would be **final-budget-to-actual** and **original-budget-to-final-budget**.

Major Component Units:

- If not feasible to report in statement of net position / statement of activities in a column(s) – OK as combining after fund statements.

Improved format for the government-wide statement of activities:

- Could result in a supplementary information schedule of expenses by object (like in higher education or not-for-profit):
 - Would only be in CAFRs.
 - Stand-alone BTAs would also present (if CAFR).

WHAT DOES A NATURAL CLASSIFICATION SCHEDULE LOOK LIKE? – AGAIN – ONLY IN CAFRS

City of ABC
Schedule of Governmental Activities Expenses by Function and Natural Classification
For the Year Ended June 30, 20XX

<u>Natural Classification</u>	<u>General Government</u>	<u>Public Health and Safety</u>	<u>Highway and Streets</u>	<u>Culture and Recreation</u>	<u>Economic Development</u>	<u>Interest</u>	<u>Total</u>
Awards and grants	\$ 1,836,816	\$ 122,864	\$ -	\$ -	\$ 3,119,584	\$ -	\$ 5,079,265
Contractual services	18,056,635	742,022	2,184,886	1,224,681	361,490	-	22,569,713
Personnel and benefits	5,304,476	73,433,671	11,539,528	4,799,675	712,049	-	95,789,398
Supplies	76,016	810,609	1,873,636	574,572	32,650	-	3,367,483
Support services	482,604	2,151,837	891,835	66,095	6,267	-	3,598,638
Depreciation	1,120,359	1,433,900	4,304,049	208,885	774	-	7,067,967
Interest	-	-	-	-	-	1,047,400	1,047,400
Total	\$ 26,876,906	\$ 78,694,903	\$ 20,793,934	\$ 6,873,908	\$ 4,232,813	\$ 1,047,400	\$ 138,519,864

Governmental Activities

City of ABC
Schedule of Business-Type Activities Expenses by Function and Natural Classification
For the Year Ended June 30, 20XX

<u>Natural Classification</u>	<u>Water</u>	<u>Sewer</u>	<u>Motor Vehicle Parking</u>	<u>Cemetery</u>	<u>Total</u>
General and administrative	\$ 3,938,960	\$ 2,341,727	\$ 677,647	\$ 821,239	\$ 7,779,573
Maintenance and supplies	-	1,180,926	112,670	137,707	1,431,303
Production and distribution	10,464,924	-	-	-	10,464,924
Pension benefits	181,935	157,639	47,291	57,801	444,666
Other postemployment benefits	1,349,438	315,213	55,152	67,407	1,787,210
Depreciation and amortization	2,720,694	1,976,017	74,648	91,236	4,862,595
Interest	890,923	191,313	-	-	1,082,236
Other	2,012,165	-	-	-	2,012,165
Total	\$ 21,559,039	\$ 6,162,835	\$ 967,408	\$ 1,175,390	\$ 29,864,672

Business-Type Activities

ALTERNATIVE VIEW PRESENTED



- Two (or more) members concerned that portions of the PV are complex and focus too heavily on when asset / liability occurred rather than received or paid:
 - Want reconsideration of short-term measurement focus;
 - Want reconsideration of government-wide statement of cash flows and elimination of statement of cash flows for proprietary funds.

ALTERNATIVE VIEW PRESENTED

- Reconsideration of short term would include all financial assets and fund liabilities that mature or expected to mature within one year to be paid in cash – inclusions:
 - Current portion of long-term debt;
 - Compensated absences to extent expected to be paid;
 - Claims and judgments expected to be paid in next year;
 - TANs / RANs due within next year.
- Exclusions as in PV (capital assets, pensions, OPEB, ARO).

ALTERNATIVE VIEW PRESENTED

Reconsideration of concept of *normally* – replace with

Stated or contractual maturities of financial assets and liabilities

Best estimate of periods of receipt or payment if there are no stated contractual maturities (like compensated absences)

Government-wide statement of cash flows believed key operational element

Believe internal and external users need it to evaluate financial position – use it to manage cash

Presentation would be for governmental activities and BTAs (2 columns)

- Would include blended component units



YOUR THOUGHTS?

ROUND 3 – EXPOSURE DRAFT

Management's discussion and analysis (MD&A):

- Enhance the financial statement analysis component.
- Eliminate boilerplate.
- **Clarify guidance for presenting currently known facts, decisions, or conditions.**

CURRENT MD&A REQUIREMENTS [COD. SECS. 2200.106-109]

MD&A is placed prior to the basic financial statements

- Should be easily readable, objective, present a short and long-term view

Discuss current year results in comparison to the prior year

- Emphasis on the current year
- Discuss both positive and negative aspects
- Use charts, graphs, tables encouraged

Focus on the primary government

- Distinguish between primary government and component units

Avoid boilerplate and include

- *Brief* discussion of the basic financial statements
- *Condensed* financial information
- *Analysis* of financial position and results of operations (answering question 'Why?')
- *Analysis* of budget to actual variances
- *Description* of *significant* capital asset / debt activity
- *Modified approach* condition assessments on infrastructure
- *Description* of currently known facts, decisions, conditions...

WHERE GASB MAY HEAD...

- MD&A is placed prior to the basic financial statements
 - √ Should be easily readable, objective, present a short and long-term view – *understood by readers who may not have a detailed knowledge of accounting*
- Discuss current year results in comparison to the prior year
 - √ Emphasis on the current year – *should assist readers in understanding why*
 - √ Discuss both positive and negative aspects, *avoid unnecessary duplication*
 - √ Use charts, graphs, tables encouraged
- Focus on the primary government
 - √ Distinguish between primary government and discretely presented component units
- Avoid boilerplate and include
 - √ *Brief* discussion of the basic financial statements
 - √ *Condensed* financial information
 - √ *Analysis* of financial position and results of operations (answering question ‘Why?’)
 - ~~*Analysis of budget to actual variances*~~
 - √ *Description* of significant capital asset / debt activity
 - ~~*Modified approach condition assessments on infrastructure*~~
 - √ *Description* of currently known facts, decisions, conditions

WHERE THE GASB MAY HEAD

- Notes to RSI may now include
 - **Budget to actual analysis from MD&A**
 - **Modified approach (as applicable) information from MD&A**
- Specific types of information may be given as examples for currently known facts, decisions, conditions
- Status of debt service fund reporting may no longer be changing – remain as is
- Extraordinary and special items combined at the bottom of the Statement of Activities / other fund flows statements?
 - If in control of management – disclose
 - Could it be the end of special items?

ROUND 3 — EXPOSURE DRAFT

- Extraordinary and Special Items:
 - Explore options for clarifying the guidance for more consistent reporting.
- All items tentatively OK'd in the ITC and PV.
- Any other elements added late.
- In other words... **it's the last shot** before final, except if major changes needed (then re-exposed).



TENTATIVE REMAINING TIMELINE

Exposure Draft	June 2020 – Comment Period to September 2020
Final Statement Expected	February 2022
Implementation	Anyone’s guess....



**PV ON RECOGNITION OF
ELEMENTS OF FINANCIAL
STATEMENTS-
CONCEPTUAL FRAMEWORK**

OVERVIEW OF PV

- Could result in a **GASB Concepts Statement** –
 - GASB Concepts Statements are **Non-Authoritative** (GASB-76, par. 7) [GASB Cod Sec. 1000.104] – used to provide a framework for decisions by Board
- Main Issue is to establish Short-Term Financial Resources Measurement Focus
- Clarification also on Economic Resources Measurement Focus (aka Full Accrual)
- Also Includes Alternative View
- Project is 15 years in the making, but dormant since 2011
- PV presents hierarchy for Economic Resources
 - Determine if asset / liability, if no
 - Determine if deferred outflows / inflows of resources, if no
 - Determine if outflow / inflow of resources, if no
 - Do not present in the basic financial statements

REMINDER ABOUT MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement Focus
of a Financial
Statement determines
what items should be
reported.

**Basis of
Accounting**
determines when
items should be
reported.

PV ON SHORT-TERM FINANCIAL RESOURCES

Concept of 'occur' and 'due' are in line with PV on Financial Reporting.

Also in alignment with GASB Interpretation 6.

Similar definitions of what is short-term as previously discussed.



ALTERNATIVE VIEW

- Issued to be in alignment with Financial Reporting PV Alternative View.
- Similar additions to assets / liabilities proposed in Fin. Reporting PV.
- Similar request to replace the concept of *normally* (GASBI-6).



**REVENUE AND
EXPENSE
RECOGNITION
PROJECT**

REVENUE AND EXPENSE PROJECT

- Focus is on whether performance obligation results in revenue and expense in exchange and nonexchange transactions:
 - Performance obligation – government must do something to declare revenue / expense.
- 55 Comment Letters received along with public hearing testimony.
- GASB is in the midst of reviewing responses and path forward.
- Alignment of revenues to conceptual framework is disjointed given differences between governments and scope of government operations (see next slide).

WHY REVENUE / EXPENSE RECOGNITION IS DIFFICULT

Source-GASB		Taxes	Punitive Fees	Special Assessments	Regulatory Fees	Fees for Specific Services
Examples		Certain Imposed and Derived Nonexchanges: Property Tax Sales Tax Franchise Tax Income Tax	Asset Forfeiture Fines for violations of Law: parking, speeding, noise, etc. Penalties	Capital Assessments Service assessments	Driver's License Marriage License Pet License Professional License Business License Building Permits	Electric Utility Water & Wastewater Garbage Collection Stormwater Housing Fees Transit Fees Lottery Tickets
Characteristics	Voluntary	Compulsory	Compulsory for wrongdoing	Generally compulsory	Undeterminable	Some Voluntary Some Monopolistic
	Service relatable	Not relatable to a specific service or program	Not relatable to a specific service Relatable to a program	Service special assessment indirect service Capital special assessments direct service (often)	Relatable to a regulatory program Service is ancillary	Directly related to a specific service
	Cost recovery	Cost analysis cannot be established	Cost analysis cannot be established	Cost must be allocated proportionately	Intended as cost recovery of activity of regulation	Cost recovery is diverse, depending on public policy
	Benefit	No direct benefit can be established Indirect benefit exists	No direct or indirect benefit can be established	Direct (special) benefit, but not exclusive	Benefit should be further discussed	Exclusive benefit to the fee payer
	Binding arrangement	Enabling legislation	Enabling legislation and local ordinances	Enabling legislation through the power to levy property tax	"Policing" powers evidenced in enabling legislation.	Binding arrangement in a commercial sense

Caution – Not Final and Not Representative of all circumstances

JUST IN GRANTS... IT'S HARD

15 Types of Grant Categories in the *Federal Catalog of Domestic Assistance*

- States and other entities may have their own

3 general classifications within the 15 types

- Categorical grants
- Block grants
- General revenue sharing

Each may have their own revenue (and expense / expenditure) issues due to compliance requirements

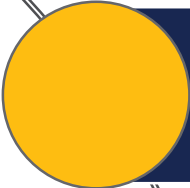


**NOTE DISCLOSURE
REEXAMINATION —
REALIGNED TO
CONCEPTUAL
FRAMEWORK PROJECT**

CONCEPTUAL FRAMEWORK ON NOTE DISCLOSURE PROJECT

- Likely will have a Preliminary Views and Exposure Draft prior to final
- Could amend GASB Concepts Statement No. 3
- Could result in a 'decision-tree' for note disclosure to guide GASB
- **5 potential courses of action**
 1. Develop a disclosure framework (which note disclosure to reexamine?)
 2. Develop a disclosure framework and reexamine ALL existing note disclosure requirements covered in the research in the context of the new framework
 3. Develop a disclosure framework and only reexamine certain note disclosure requirements covered by research – could be >6 years after framework
 4. Do NOT develop a framework, but reexamine existing note disclosures established prior to Concepts 3's issuance (April 2005, GASB-46 and back)
 5. Do NOT develop a framework – reexamine targeted existing note disclosure requirements (deposits and investments as an example)

PROBLEM WITH EACH ALTERNATIVE



Developing a new framework would determine the scope of which note disclosure to reexamine – timeline cannot be determined until after the Concepts statement is final.



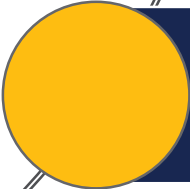
Reexamining all notes after the framework could take more than 8 years (potentially done after **2030!**).



Only reexamining certain notes within the context of the framework could be more than 6 years – maybe by 2028.



Without a framework – could still be 5 years – maybe longer if addressing notes required after 2005 (pensions, OPEB etc.).



Only targeting things like investments and other broad-scope notes could be a 2 year project.

TOTAL PROJECTS TIMELINE

	Financial Reporting Model	Revenue / Expense Project	Note Disclosure Project	Recognition Concepts Statement
2018	Preliminary Views	ITC	Research	Preliminary Views
2019	Deliberations	Preliminary Views	Due Process Document?	Deliberation
2020	Exposure Draft	Deliberations	Unclear	Exposure Draft
2021	Deliberations	Exposure Draft		Deliberation
2022	Final	Deliberations		Final
2023		Final		
Unknown	Implementation??			



Tentative – Subject to Change at Any Time



**SUBSCRIPTION-BASED
INFORMATION
TECHNOLOGY
ARRANGEMENTS
(SIBITA)**

SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

- Most common models are:
 - Software as a Service (SaaS)
 - Platform as a Service (PaaS)
 - Infrastructure as a Service (IaaS)
 - Data Warehouse as a Service (DaaS)
- Diversity in practice due to structure of contracts and arrangements:
 - Could have multiple components
 - Could be an intangible asset (similar to GASB-87 leases) or an outflow



*It's more than
'cloud computing!'*

SEPARATE ELEMENTS OF SIBITAS ARE A CHALLENGE

- Common elements include:
 - Maintenance
 - Startup / transition / conversion
 - Business analysis and development
 - Communication and outreach
 - Delivery
 - Application customization
 - User Acceptance Testing
 - Data conversion support
 - Post-implementation support
 - Architectural design
 - Cloud labor
 - Advanced wireless cloud services
 - Training deployment
 - Many others!



TENTATIVE CONCLUSIONS

- Tentative Definition of a SBITA:
 - A contract that conveys control of the right to use hardware, software, or a combination of both, including IT infrastructure, as specified in the contract for a period of time in an exchange or exchange-like transaction.
 - *Sound familiar??*



TENTATIVE CONCLUSIONS

- Many aspects of P3 project (next section) and GASB-87 utilized.
- Many aspects of GASB Cod. Sec. 1400 (GASB-34, 42, 51) also used as a SBITA could be an intangible asset
 - GASB-51 model applied:



TIMELINE

- Exposure draft out imminently
- Comment period until July 31
- Final Standard by March 2020
- Tentative Implementation Date – periods beginning after June 15, 2021
 - Retroactive restatement, if practicable



**PUBLIC-PRIVATE
PARTNERSHIPS (P3S)
INCLUDING
REEXAMINATION OF
GASB-60**

WHAT ARE P3'S?

- **Proposed Definition of P3's**
 - Arrangements in which a government (**transferor**) contracts with another entity (public or private) (**operator**) to provide public services by conveying control of the right to operate or use infrastructure or other nonfinancial assets in an exchange or exchange-like transaction for a period of time
- **Multiple variations**
 - Design – build
 - Design – build – finance
 - Build – own – operate
 - Build – own – operate – transfer
 - Design – build – operate – maintain
 - Design – build – finance – operate
 - Design – build – finance – operate – maintain

REMEMBER FROM WAY BACK... SCA'S ARE

TRANSFEROR GOVERNMENT

- Conveys the right (and related obligation) to provide public services through the use of a **capital asset**
- Receives *significant* consideration in exchange including
 - Up-front / installment payments
 - New capital asset
 - Improvements on existing capital asset
- Determines or has the ability to modify / approve
 - Services provided
 - To whom operator provides services
 - Prices / rates charged
- Receives asset in return at end (reversion)

OPERATOR GOVERNMENT / PRIVATE ENTITY

- Collects fees and is compensated by fees from third parties (except those remitted back to transferor)



WHERE ARE P3'S IN PRACTICE?



- Road networks
- Airports
- Public transit
- Healthcare
- Student services at public institutions
- Stadiums
- Jails
- Water / sewer
- Museums
- Any capital asset could be involved

PROPOSED GUIDANCE

- Decision-making hierarchy
 - If the P3 **meets the definition of a lease – apply GASB-87.**
 - Otherwise, apply new provisions for P3s
 - GASB-60 would be superseded [GASB Cod. Sec. S30]
- Includes guidance on ‘availability payments’ (APAs)
 - Payments not tied to usage and paid when facility is operational / tied to performance measures.
Government retains risk
 - APAs may have multiple components just like leases
 - Could result in a financed purchase, otherwise, just outflows

COMPARING SBITA AND P3 PROJECT WITH LEASES

Leases Element	SBITA	P3 Project
Lease Term	Subscription Term – same factors	Same factors
Terminations, modifications, combinations	Same	Same
Short term exception	Same	No provision in ED
Right to use asset	Same	Same
Liability measurement	Same	Same
Interest rate use – implicit or stated	Same	Same
Reassessment of rates	Same	Same
Impairment of right to use asset	Same	Same
Disclosure	Almost all the same	Almost all the same
Leases that are financings	As applicable	Slightly different – SCA vs. P3

TRANSFEROR RECOGNITION AND MEASUREMENT – MEETS DEFINITION OF SCA

Existing Capital Asset

- Transferor continues to report capital asset
 - Continues to apply all applicable GAAP to capital assets [GASB Cod. Sec. 1400, including impairment]
- Transferor reports receivable and deferred inflow of resources

New Capital Asset Purchased or Constructed

- Capital asset at acquisition value when placed in operation
- Receivable and deferred inflow of resources reported

TRANSFEROR RECOGNITION AND MEASUREMENT – DOES NOT MEET DEFINITION OF SCA

- Receivable for underlying P3 Asset
 - Acquisition value as of the future date of ownership
- Receivable for installment payments and deferred inflows of resources
- Initial direct costs – expensed

RECEIVABLE CALCULATION

- Very much like leases – receivable includes (as applicable)
 - Fixed payments
 - Variable payments that are subject to a rate/index
 - Variable payments that are in substance fixed
 - Residual value guarantee payments
- Residual value guarantee payments recognized as receivable / deferred inflow of resources if
 - Guarantee payment is required
 - Amount can be reasonably estimated
- Future payments are discounted using explicit or implicit interest rate [GASB Cod. Sec. 130]
- Amortization of discount on receivable and interest adjusts interest revenue
- Changes and modifications / terminations will adjust receivable
- Deferred inflow of resources amortized systematically

GOVERNMENTAL OPERATORS

- Operator records liability for installment payments and intangible right to use asset (sound familiar)?
- **P3 meets the criteria for an SCA:**
 - Liability for underlying P3 asset measured at acquisition value
 - Liability for installment payments
 - Right to use intangible asset
- **P3 does not meet the criteria for an SCA:**
 - **New asset purchased / constructed / improved**
 - P3 asset only recognized until transferred to the transferor
 - Liability at acquisition value
 - Liability for installment payments
 - Liability for installment payments just like receivable calculation

WHERE IS THE GASB TENTATIVELY HEADED

- Updated disclosure Based on Leases – exceptions could be
 - Management's objectives for SCA disclosure to be **deleted from GASB-60**
 - Other disclosure aspects of GASB-60 aligned to GASB-87
- Exposure draft due June 2019, 90 day comment period
- Final standard by March 2020?
- Tentative Implementation Date – periods beginning after June 15, 2021
 - Retroactive restatement, if practicable



DEFERRED COMPENSATION PLANS

DEFERRED COMPENSATION PLANS (457'S)

- Current reporting is in flux – existing guidance superseded by GASB-84
- Problem – employers frequently contribute to 457's in addition to employees
 - Amount of benefits totally depends on contributions / earnings
 - Employers still do not have risk of gains / losses
 - Could make 457's more like defined contribution pension plans (GASB Cod. Sec. Pe6)
- **Reminder on DC plans:**
 - Uses an irrevocable trust like DB plans
 - Individual accounts for each member
 - Employer contributions / credits are defined by plan during member's service
 - Benefits received depend on
 - Contributions / credits
 - Earnings
 - Effects of forfeitures of contributions or credits from other plan members
 - Allocated administrative expense
- Exposure draft by June, 90 day comment period, final standard by December



OMNIBUS

BREAKING NEWS – OMNIBUS PROJECT

- **Eight Focus Areas**

- What is the definition of a ‘collection’ of historical treasures (change made by Museum Association)
 - Effective date of GASB-87 to change from *reporting periods* to *fiscal years*
 - **Intra-entity transfers of assets (see previous on IGU Exposure Draft)**
 - How should pension plans account for intra-entity transfers of capital assets from employer to the plan – **be careful..**
 - Clarifications on GASB-84 with moderate inconsistencies between pensions and OPEB
 - Clear up inconsistency between GASB and AICPA in the definition of “available to be issued” (subsequent events)
 - Clarification of acquisition value on pensions / OPEB in government combinations
 - Codification edits needed on fair value
 - Reinsurance recoveries inconsistencies
- **Exposure draft by June – final Statement by January?**



SECURED OVERNIGHT FINANCING RATE

SOFR ≠ SOFA



LIBOR = London Interbank Offered Rate – a basket of 10 currencies and 15 maturities from overnight up to one year set by banks in London daily. But there is also TIBOR (Tokyo) and EURIBOR (Euros)
Change impacts \$350 TRILLION market

- Problem – reference interest rates are going ‘global’
 - LIBOR being phased out (some say due to Brexit)
 - GASB standards reference LIBOR – especially GASB-53 (GASB Cod. Sec. D40)
 - GASB may do a search / replace for LIBOR or
 - GASB may describe what is an acceptable reference rate
 - GASB may also provide guidance for what happens at LIBOR end – does it result in a termination of a derivative?
- Exposure draft by August, 90 day comment period,
- Final standard by May 2020 (in time for 2021 sunset)

QUESTIONS?

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.

THANK YOU

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CPAs & BUSINESS ADVISORS



CPAs & BUSINESS ADVISORS

STATE OF MAINE – DAY 2 – AUDITING AND OTHER STUFF

Eric S. Berman, MSA, CPA, CGMA

AGENDA FOR TODAY

- Yellow Book – For Non-auditors (and auditors)
- Ethics and the Yellow Book
- Performance Audits
- SAS-133
- Fraud
- The Jobs Act and Governments
- Cyberwars
- Update to the Audit Evidence Standards?
- Using Data Analytics in Auditing



THE NEW 'YELLOW BOOK' FOR AUDITORS AND NONAUDITORS

REMEMBER – THIS IS NOT GASB

- The “Yellow Book” = GAGAS (AND YES IT IS YELLOW!).
- GAGAS = Generally Accepted Government Auditing Standards:
 - Overlay of Generally Accepted Auditing Standards (GAAS) issued by the Auditing Standards Board.
- GAGAS contains the framework for ensuring that auditors possess competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work.
- GAGAS is required when audits of states, local governments, tribal nations and not for profits meeting certain criteria in the Uniform Guidance (Title 2, Code of Federal Regulations, Part 200) (Uniform Guidance or UG):
 - Also required by State Law, Regulation, Outside Grantors, Lenders etc.
- Applying for federal grants may require GAGAS.



CHANGE

KEY CHANGES FOR NON-AUDITORS

- Auditors will have to make additional decisions about independence if they are preparing financial statements and then auditing them (independence threats).
- New considerations regarding **waste**.
- Renewed focus on **performance auditing and reporting**.
- Alignment of standards for review engagements subject to GAGAS.
- Yellow Book effective for **performance audits** beginning on or after July 1, 2019:
 - All other engagements for periods ending on or after June 30, 2020.

KEY CHANGES- OTHER STUFF

- New format, similar to *Codification of GAAS*
 - Requirements separated from application guidance and other explanations
 - Requirements are in boxes
- CPE requirements streamlined, but basics are still there
- Peer review and findings guidance redrafted
- Guidance on review engagements included

Typical section of requirements and application guidance

procedures performed in the circumstances were sufficient to achieve the intent of that requirement.

2.05 Auditors should have an understanding of the entire text of applicable chapters of GAGAS, including application guidance, and any amendments that GAO issued, to understand the intent of the requirements and to apply the requirements properly.¹¹

2.06 Auditors should consider applicable GAO-issued GAGAS interpretive guidance in conducting and reporting on GAGAS engagements.¹²

Application Guidance: Complying with GAGAS

2.07 GAGAS contains requirements together with related explanatory material in the form of application guidance. Not every paragraph of GAGAS carries a requirement. Rather, GAGAS identifies the requirements through use of specific language. GAGAS also contains introductory material that provides context relevant to a proper understanding of a GAGAS chapter or section. Having an understanding of the entire text of applicable GAGAS includes an understanding of any financial audit, attestation, and reviews of financial statement standards incorporated by reference.¹³

AUDITORS NEED TO KNOW THE LANGUAGE

almost



Sammy is
almost ready for
another vodka.
He is nearly ready now.

- **Unconditional requirements** – ‘must’ – comply where relevant
- **Presumptively mandatory requirements** – ‘should’ – if the auditor departs from requirements, must document why
- **Application guidance** – ‘may’, ‘might’, ‘could’ – further explanations provided



KEY ASPECTS OF THE NEW “YELLOW BOOK” FOR NON- AUDITORS

KEY DIFFERENCES BETWEEN THE YELLOW BOOK AND THE CPA'S CODE OF CONDUCT

- **Yellow Book:**
 - Preparing financial statements in their entirety is always a significant threat
 - Documentation and evaluation of significance of threats for preparing accounting records and financial statements is required
 - Documentation of skills, knowledge and experience
- **Similarities, but not quite aligned –**
 - Threats and safeguards approach used by both - but Yellow Book requires it on all circumstances that may result in threats to independence
 - Non-audit services are permitted by AICPA unless there are significant threats
 - Non-audit services are also allowed by Yellow Book and may require safeguards



Note: Impairments do not always
= bans – safeguards may be
available

KEY POINT – ‘SKE’

- **Auditors required to determine that the audited entity has designated an individual who possesses suitable skills, knowledge and experience and that *understands* the services to be provided sufficiently to oversee them**
 - Management is not required to possess the expertise to perform / reperform services
- **But – auditors may ask if**
 - You can determine if the results are reasonable
 - You can recognize a material error, omission, misstatement
- **If SKE is not present, independence impaired and no safeguards can overcome a lack of SKE**

ISSUE OF INDEPENDENCE WHEN AUDITOR PREPARES FINANCIAL STATEMENTS AND ACCOUNTING RECORDS

- Preparation by auditors:
 - **Impairs independence** (par. 3.87) when the auditor:
 - Determines or changes journal entries;
 - Determines or changes account codes or classification for transactions;
 - Determines or changes accounting records *without* obtaining management approval;
 - Authorized / approves transactions;
 - Prepares / makes changes to source documents *without management approval*.
- Not a ban on preparation!

ISSUE OF INDEPENDENCE WHEN AUDITOR PREPARES FINANCIAL STATEMENTS AND ACCOUNTING RECORDS

- Preparation by auditors:
 - Is a **significant threat** to independence when:
 - The auditor prepares financial statements **in their entirety** (par. 3.88);
 - The auditor determines that a service related to preparing financial statements or accounting records is a significant threat (par. 3.93).
 - **The auditor can still be independent though if:**
 - They document the threats;
 - Document the safeguards applied (which may include review by another auditor), as long as they are effective safeguards (reducing threats to an acceptable level) (par. 3.33); **OR**
 - Decline to perform the service (par. 3.88).
- Auditee involvement / review cannot be sole safeguard
 - Typing, formatting, printing, binding, usually not significant (par. 3.95).

ADDITIONAL ON PREPARING RECORDS AND FINANCIAL STATEMENTS

- Any other services related to preparing accounting records (e.g. payroll) and financial statements create a threat
 - Auditors required to evaluate if it is significant and document
- Could occur when auditor
 - Records transactions for which *management* has determined or approved the appropriate account classification or posting the coded transactions to the GL
 - Prepares certain line items or sections of the financials based on trial balance
 - Posts entries after management approval
 - Prepares accounting reconciliations that identify reconciling items for management to evaluate and approve
- **Why are these different??**

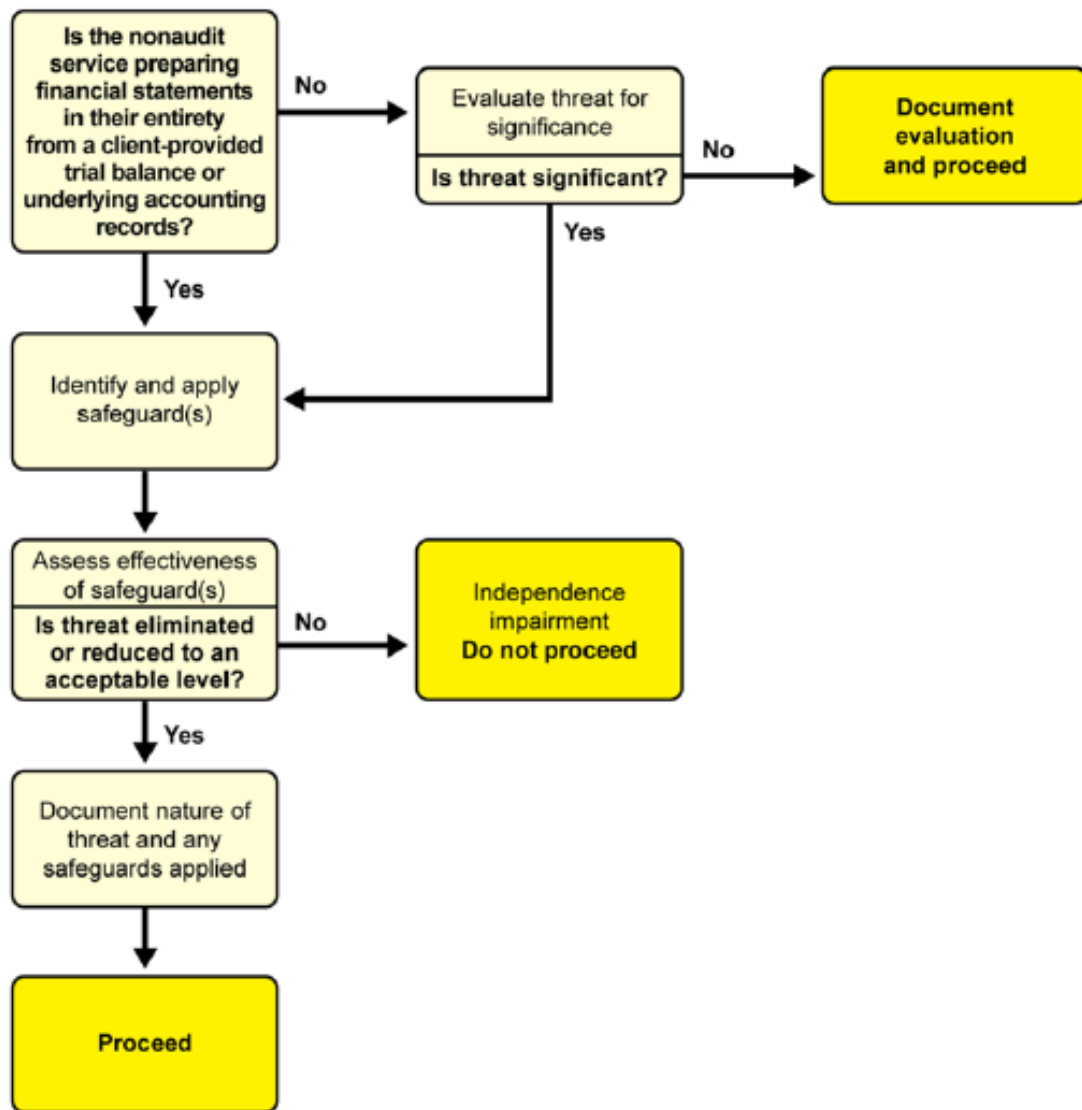
AUDITORS SHOULD BE INDEPENDENT FOR THE PERIOD COVERED BY THE FINANCIAL STATEMENTS

- Any period of time covered by the financial statements or subject matter of the engagement
- **EXAMPLE:**

An auditor is engaged to audit the July 1, 2020 – June 30, 2021 CAFR. The State requires a GAGAS audit. The auditor was engaged to prepare the financial statements from July 1, 2018- June 30, 2019. Does the auditor have a threat to independence?

Thoughts??

NEW GAO DECISION TREE *JUST ON FINANCIAL STATEMENT PREPARATION*



Binding, typing, formatting usually not significant to be an issue. But prepping without safeguards is.

Providing advice, responding to questions, training does not impair independence!

WHAT ARE SOME OF THESE SAFEGUARDS?

Preparation team is different from audit team (even different audit management).



Having a second auditor not associated with the engagement review the preparation work.



Engaging another audit organization to evaluate the results of the preparation.



Engaging another audit organization to prep the financial statements again to see if same results – auditor can then take responsibility.

AUDITORS WILL ALSO NEED TO DOCUMENT

- Explain why significant threats can be overcome and how the safeguards are effective
- Lots of judgment may be used
- Preparation of Statement of Cash Flows, Notes, MD&A are common areas where threats could exist
- Don't forget that the reconciliation schedules between funds and government-wide are also statements and opined upon



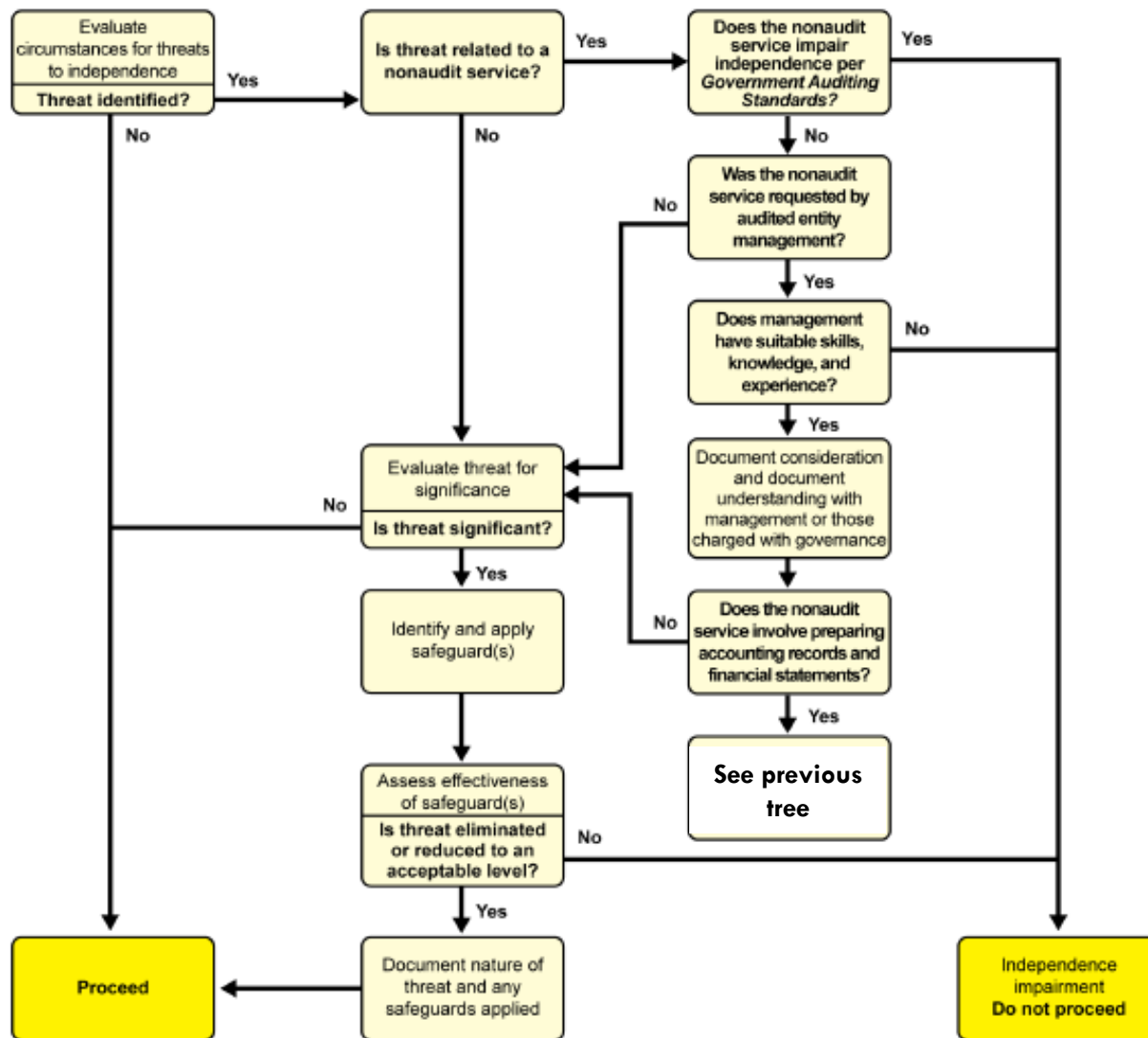
WHAT ABOUT GOVERNMENT AUDIT ORGANIZATIONS?

- Government auditors (State Auditors) have special provisions – different from audit firms
- Services often as a result of statute / constitution
- Services often are at the discretion of the authority of the audit organization
- State auditors are often the engaging party even though not the subject of the audit – part of oversight
- State auditors may be elected or appointed (and report to) legislative body

WHAT ABOUT GOVERNMENT AUDIT ORGANIZATIONS?

- **Par. 3.72:** These activities **are not** going to create threats, if performed by a State audit organization providing:
 - Assistance and technical expertise to Legislative bodies
 - Assistance in reviewing budgets
 - Audit, investigative, oversight that does not involve a GAGAS engagement, including
 - Fraud investigations
 - Periodic follow ups to engagements and reports
- Otherwise, follow statute / constitution and then the framework

TO WRAP IT ALL UP – FRAMEWORK FOR ALL INDEPENDENCE ISSUES



Includes all threats – not just financial statement preparation..

CPE

- **Good news!** – 4 hour transition requirement as proposed not in final version!
- Good idea to obtain CPE specifically on GAGAS this year and next due to the revisions in the standards
 - Will assist you in maintaining competence necessary to conduct GAGAS audits (4.19)
- **Audit organization still has responsibility for**
 - Assigning competent auditors
 - Ensuring the collective competence of the team before beginning the engagement
 - Keeping documentation of CPE

CPE

- **Certain exceptions to CPE**

- Illness, sabbaticals, maternity / paternity and other leave, military service
- Non-supervisory auditors (low-level roles) that charge less than 40 hours to audits, exempted from CPE
- Specialists must be qualified and competent in their area of expertise – not required to take full GAGAS CPE
 - External specialists not subject to GAGAS CPE
 - Internal specialists who **are not** involved in the planning, directing, performing the audit – not required to take GAGAS CPE – but areas of specialization qualifies under 24 hour provisions
 - Documentation still required of all

Key requirements for all others – 20 hours minimum each year

CPE Hours	Subject Matter Categories of CPE
24 Hours	Subject matter directly related to government, government auditing, or specific, unique operating environment of entity
56 Hours	Subject matter that 'enhances professional expertise to conduct engagements'

CPE SUBJECTS – 24 HOUR REQUIREMENT

GAGAS	GAAP (FASAB, GASB, FASB)	Audit standards, guides, (IT, forensics)	Statutory / regulatory	Performance auditing topics
AICPA Audit Standards	Green Book	IT auditing topics	Relevant subject matters to engagements	Ethics and independence
AICPA Attestation Standards	COSO	Fraud topics	Government operations, finance etc.	Public / private partnerships
PCAOB	Program audit requirements	Statutory requirements – specific to entity	Specialized audit techniques, statistical analysis, sampling	Legislative policies, procedures
			Compliance with laws and regulations	Fraud, waste, abuse, improper payments

CPE SUBJECTS – 56 HOUR REQUIREMENT

- All 24 hour subjects
- General ethics and independence
- Accounting, asset management, budgeting, cash management, data analysis, procurement and similar
- Communications – oral and written
- Managing time and resources
- Leadership
- Software applications in engagements
- Information technology
- Economics
- Human capital
- Social / political sciences

CPE – WHAT QUALIFIES

- Internal training
- Educational and development – conferences, meetings etc.
- Training by audit organizations, foundations, associations
- Internet / e-learning
- Audio conferences
- College / university (credit and noncredit)
- Correspondence courses – self study
- Public speaking, panelists, discussion leaders
- Preparing review courses
- Publishing articles / books



OTHER STUFF IN THE YELLOW BOOK

WHAT IS WASTE VS. ABUSE? (PARS. 6.20 – 6.24)

- GAO definition – the act of using or expending resources carelessly, extravagantly, or to no purpose.
- May not be fraud related.
- May not include a violation of the law.
- Usually relates to:
 - Mismanagement;
 - Inappropriate actions;
 - Inadequate oversight.
- Auditors not required to perform procedures to detect waste and abuse
- Auditors consider internal control deficiencies that may result in waste and abuse.
- Abuse is deficient / improper behavior compared to prudent, reasonable, necessary practices.

FOR YOUR CONSIDERATION – IS IT WASTE OR ABUSE OR NEITHER?

1. An agency head has to go to Boston for a required conference for similar state agencies nationwide. The agency head stays at the Liberty Hotel, where the conference was being held.
2. A state agency procures a new system. The new system will make the existing system work faster and more effective, even though the existing system will not be fully operational for another year.
3. A state agency key person is entitled to vacation but does not announce vacation until an hour before an important deadline. Other personnel have to step in to fill the gap and work overtime.
4. A state agency head asks a favor of a staff member to teach the agency head's child how to work in a state agency.
5. An agency board member approves a contract with a contractor that is publicly traded and the board member owns a material amount of shares in the company.

NEW YELLOW BOOK EXPANDS PERFORMANCE AUDIT GUIDANCE

- In many ways – fastest growing area of government engagement, even though been in practice since 1970's.
- Not meant to replace a financial audit – but:
 - May be easier to understand for Citizens and decision-makers.
- Common performance audits:
 - Is the government doing what it is supposed to do as effectively as possible?
 - Are our operational practices in line (or exceed) our peers?
 - Does the government's organization chart make sense?
 - Is a program staffed effectively?
 - Is the government managing its funds or investing prudently?
 - Is payroll and overtime reported transparently?
 - Is the payment cycle (procure to pay) as efficient as possible?
 - Is there a 'skills gap' at key positions?
 - And many others...
- New clarity in Yellow Book for receiving assertions, testing internal controls and reporting related to performance audits.
- Management assertions are not required for performance audits.

WHAT ABOUT A REVIEW ENGAGEMENT?

Less than an audit.

Some governments may use for internal reporting or interim reporting.

Is an attestation engagement.

Review includes interviews, analytical procedures, assertions made by management.

Reviewer may consider noncompliance with laws, regulations.

Review report is different than an audit report.



**AND NOW FOR SOME
ETHICS AND NON-
AUDIT SERVICES**

REMINDER: KEY ITEMS IN THE AICPA *CODE* FOR THOSE IN BUSINESS, INDUSTRY AND GOVERNMENT (BIG)

- Part 0 provisions applicable to those in BIG
 - Basic principles, structure and application
 - Responsibilities, serving the public, integrity, objectivity and independence, due care
- Part 2 – Members in BIG have 5 major elements of Ethics (beyond an introductory section)
 - Integrity and objectivity
 - General standards
 - Compliance with standards
 - Accounting principles
 - Acts discreditable

REMINDER: KEY ITEMS IN THE AICPA *CODE* FOR THOSE IN BUSINESS, INDUSTRY AND GOVERNMENT (BIG)

- Reminder of the **Definition of a Member**:
A member of the AICPA. For auditors (part 1) it means a member in public practice. Part 2 – Members in BIG. Part 3 – all other members.
- **Members in Business** (Part 2) – A member who is employed or engaged on a contractual or volunteer basis in a(n) executive, staff, governance, advisory, or administrative capacity in such areas as industry, the public sector, education, the not-for-profit sector, and regulatory or professional bodies. It does not include members in public practice (Part 1).

REMINDER: AICPA CONCEPTUAL FRAMEWORK

- Follows (current) GAO / Yellow Book Framework almost exactly
 - Identification of Threats
 - Evaluation of Significance of Threats
 - Identify and Apply Safeguards
- Threats include six broad categories
 - Adverse Interest
 - Advocacy
 - Familiarity
 - Self-interest
 - Self-review
 - Undue Influence
- Safeguards available through the profession, legislation or regulation

CONSIDER THE FOLLOWING

You work as a manager at a State Agency. One of your co-workers leaves for a position in the State Office of Inspector General (or the State Auditor). You are close friends with this person. Your boss encourages you to get together for drinks after work or play golf and discuss the audit agenda for the OIG (or the State Auditor).

What Should You Do?

CONSIDER THE FOLLOWING

You work in upper management. As part of the audit, your boss asked you to provide documentation which you know would be materially misleading. You know that the previous person who did your job years ago was fired for insubordination.

What Should You Do?

CONSIDER THE FOLLOWING

You work in upper management. You hope to advance. Your boss is a superstar. But the boss has become 'edgy' lately. He uses rough language, makes questionable comments and jokes. You've said to the boss to maybe tone it down. The boss says – well, maybe I (the boss) or better – you should go somewhere where you are more welcome. But the boss has gotten you well positioned in your career and improved your annual reviews every year you have worked.

What Should You Do?

QUESTIONS TO ALWAYS ASK YOURSELF

- How ethical is your leadership?
- How ethical is your supervisor?
- Do you love your job?
- Do you plan to stay at your agency for a long time?
- Do you work hard for your organization?

Per the *Ethical Leadership in the Accounting Profession July 2018 Survey*:

	Senior Leadership is ethical	Direct Supervisors are Ethical
Strongly Agree	52%	59%
Agree	40%	35%
Neutral, disagree or strongly disagree	8%	6%

WHAT DO THE NUMBERS MEAN?

Per the *Ethical Leadership in the Accounting Profession July 2018 Survey*:

Those who responded Senior Leadership is ethical and said..	I Love My Job	I Plan to Stay At My Organization a Long Time	I Work Very Hard for My Organization
Mean (Scaled 0-5)	3.9	4.1	4.6
Strongly Agree	4.3	4.4	4.8
Agree	3.7	3.9	4.5
Neutral, disagree or strongly disagree	3.0	3.1	4.1

Only 26% strongly agreed they loved their jobs. But the figure jumps to 43% for those who strongly agreed that senior leadership and direct supervisors were very ethical. 68% of men strongly agreed both groups were ethical vs. 52% of women.

WHAT DO THE NUMBERS MEAN?

Per the *Ethical Leadership in the Accounting Profession July 2018 Survey*:

- Out of a 5 point scale – staff believed they can talk to someone about an ethical issue about 80% of the time vs. over 90% of the time for senior leaders.
- Interesting question – **How ethical are you compared to the average CPA?**
 - 56% believed they were at least somewhat more ethical (58% men, 52% women). 78% of those responding were under age 30.
 - Only 2% said they were less ethical than a CPA.

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

1. A member is not required to apply the safeguards or comply with documentation requirements when providing nonattest services *when performing certain routine activities*. Which of the following is a certain routine activity?
 - A. Performing an audit
 - B. Performing an examination
 - C. Providing technical expertise and generally available best practices
 - D. Performing an agreed-upon procedures

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

2. A member is engaged to close the prior year's books and records. Bookkeeping is provided, coding of journal entries and other activities that are management's responsibilities. The prior year's financial statements were audited by someone else and an unmodified opinion was issued after about 90 days. Late in the current year, the Agency has asked you to audit the financial statements for the current year.

- A. You are impaired.
- B. You are not impaired for purposes of just auditing the current year, except for any beginning balances, which you would have to do successor audit procedures. You also engaged an independent auditor to review your work prior to the date of the auditor's report.
- C. Both A&B
- D. Neither A&B.

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

3. You are auditing a government. The entity has had a complete turnover in staff during the year due to the election results. New staff brought in are trained well enough, but not in governmental accounting. The Board has asked you to perform monthly bookkeeping services for the government without obtaining the approval of the Board or management. Are you impaired?

- A. You are impaired.
- B. You are not impaired as the staff do not understand what GASB is.
- C. You are not impaired as you have a signed engagement letter.
- D. You are not impaired as these are routine services.

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

4. You are auditing a government. The entity has asked you to reconcile cash. The Board approves the reconciliation and inputs any adjustments you recommend.

- A. You are impaired.
- B. You are not impaired.
- C. You are not impaired as bank reconciliations are immaterial.
- D. You are not impaired as these are routine services.

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

5. You are auditing a government. The Controller is on FMLA. The Board asks you to step in as the Controller on a temporary basis. Are you impaired?

- A. You are impaired.
- B. You are not impaired.
- C. You are not impaired as controllership services are immaterial.
- D. You are not impaired as these are routine services.

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

6. You are auditing a government. The Controller would like to outsource the entire network operation to you to run independently from other operations. Are you impaired?

- A. You are not impaired as running systems are routine in audits.
- B. You are not impaired.
- C. You are not impaired as network operations are immaterial.
- D. You are impaired.

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

7. You are auditing a government. The Controller is updating the network and would like you to perform procedures testing the installation, migration and data conversion. Are you impaired?

- A. You are not impaired as running systems are routine in audits.
- B. You are not impaired.
- C. You are not impaired as network operations are immaterial.
- D. You are impaired.

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

8. You are auditing a government. The Controller has asked you to accept responsibility for the design, development, or implementation of the government's cybersecurity threats and practices. Are you impaired?
- A. You are not impaired as cybersecurity procedures are routine in audits.
 - B. You are not impaired.
 - C. You are not impaired as cybersecurity is immaterial.
 - D. You are impaired.

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

9. You are auditing a government. Entity management is taking a course in governmental accounting and auditing to prepare for the audit and to close the books and prepare the financial statements in a timely fashion. Are you impaired?

- A. You are impaired.
- B. You are not impaired as management is going to classes.
- C. You are not impaired as management is taking responsibility and fully understands and has reviewed the content of the financial statements.
- D. You are not impaired as these are routine services.

NOW - TEST YOUR KNOWLEDGE OF ETHICS AND NONATTEST

10. You are auditing a government, but also are performing a nonattest service. Entity management has taken a course in governmental accounting and auditing to prepare for the audit and to close the books and prepare the financial statements in a timely fashion. To gauge whether management has the skills, knowledge and experience, which of the following do you have to perform document the results?

- A. Management must take the latest version of the CPA exam and you need to obtain the results.
- B. You need to use professional judgment and experience documenting the assessment.
- C. You need to subpoena their grades and save the results for your workpapers.
- D. You need to ask them for an interview that will be videoed for your workpapers.

FINAL THOUGHTS ON ETHICS

- Don't go it alone – discuss with others as much as you can and document issues.
- Have a long-term view – don't make short term changes that compromise long-term goals.
- Avoid financial and other pressures outside the office that can increase ethical pressures inside the office.
- Assume whatever you do, if you are working in government, it will become public.
- Be willing to walk away from a toxic environment.



**WHAT IS PERFORMANCE
AUDITING AND HOW
CAN I USE IT TO MAKE
MY GOVERNMENT
BETTER?**

THE EVOLUTION OF THE AUDIT FIELD

- Auditing Historically – One of the Oldest Aspects of Auditing is Performance Auditing.
- Lennis Knighton – 1960 Discussed Performance Auditing Focus Areas:
 - Increasing Auditor Risk Appetite
 - Willingness to Audit 3rd Rail Issues
 - Governance, Program Effectiveness, Public Policy Efficacy and Prospective Analysis Audits
 - Being at the Right Place at the Right Time – Proactive versus Reactive Paradigm Shift



HISTORY OF PERFORMANCE AUDIT

Performance Auditing and Enterprise Risk Management have grown huge in the last 20 years:

- Emergence of GAO & State Performance Audit Functions in the 1970s;
- Enron (2001) and Sarbanes Oxley (2002);
- 2008 Wall Street Meltdown;
- New Role, Opportunity & Risk for Auditors.

PERFORMANCE AUDIT

- Performance audit is an advanced management tool.
- Becoming more and more sophisticated in order to accommodate needs of different communities and levels of government.
- Pertaining to services ranging from public safety and public works to economic development.
- Other terms:
 - Operational auditing;
 - Comprehensive auditing;
 - Value for money (VFM);
 - Management auditing;
 - Business Transformation.

KEYS TO SUCCESS – GOVERNMENT PERFORMANCE AUDITS

Key values
for public
sector
organizations

- Have a Citizen approach: What do we demand from our public officials in our non-professional lives?

Audit
Personnel will
need to

- Interview
- Benchmark
- Understand differences between programs, services, functions

PERFORMANCE AUDIT STANDARDS

- **U.S. GAGAS** - Generally Accepted Government Auditing Standards (“Yellow Book”):
 - First issued in 1972.
 - Performance audit definition broad in scope:
 - Objective analysis;
 - Improve performance and operations;
 - Reduce costs;
 - Facilitate decision-making;
 - Public accountability.
 - Two rewritten chapters in 2018 edition.



United States Government Accountability Office
By the Comptroller General of the
United States

July 2018

GOVERNMENT
AUDITING
STANDARDS

2018 Revision

PERFORMANCE AUDIT STANDARDS – INSTITUTE OF INTERNAL AUDITORS



- **IIA IPPF** International Professional Practice Framework (“Red Book”).
- Does not specifically define performance auditing:
 - Tailored to private sector or non-profit auditing.
- Role of internal auditing is to:
 - Evaluate and improve:
 - Effectiveness of risk management;
 - Control processes;
 - Governance processes.

COMMON CONCEPTS AND PRINCIPLES

- Transparency
- Accountability
- Good Governance
 - Direction setting
 - Monitoring
- Equity
- Integrity/Ethics



TRANSPARENCY

- Openness in government
- More access rather than less:
 - Open meeting laws
- Public reporting of information:
 - Public audit reports
 - Performance data
- Open records laws are in many States:
 - CORA (Colorado Open Records Act)
 - California (Brown Act)
 - Massachusetts (Open Meeting Law, Records Retention)



A REMINDER ABOUT ACCOUNTABILITY

Responsibility of policymakers, management, and staff to ultimate sources of authority.

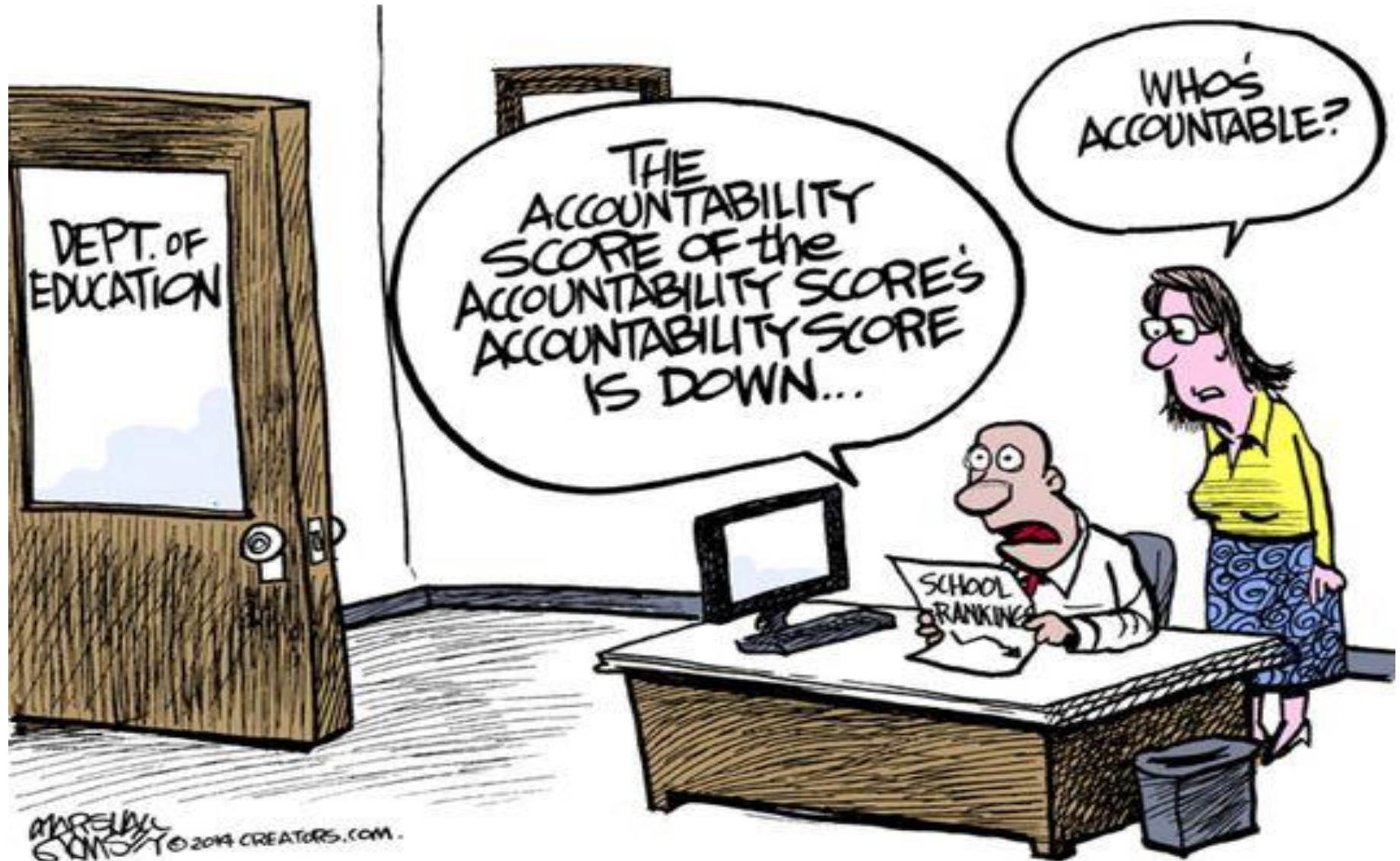
Citizen-centric auditing.

- Holding people accountable for their use of finances and responsibility.
- Asking questions citizens would ask.

Accountability can be difficult as go deeper in bureaucracy.

- Highlights importance of a strong performance management system.

ACCOUNTABILITY



GOOD GOVERNANCE

- Direction setting is a hallmark
 - Laws, strategic plans, budgets...
 - Public sector performance auditors shouldn't treat management direction as beyond question
 - Forward-leaning in the profession
 - Elevates importance of program effectiveness objectives
- **Monitoring Must be Integral**
 - **Common performance management activities**
 - Ensuring that direction previously set are being implemented
 - Is management assessing performance
 - Is management re-assessing direction if evidence suggests need
 - Is management correcting course
 - Performance auditing of monitoring can include objectives such as contract compliance auditing or performance measurement auditing

EQUITY – SIMILAR TO INTERPERIOD EQUITY

- Service costs and benefits shared proportionally in accordance with law / regulation?
 - Taxes and fees:
 - Wastewater cost allocation example;
 - Does the use of fees and taxes need to be adequately supported to reduce liability;
 - Reducing liability is often a more persuasive argument to help improve equity.
 - Services provided.
- Police/Regulatory power:
 - Applied equally;
 - Consistent with law.



INTEGRITY / ETHICS

- Key questions about ethics:
 - Is there an ethical culture?
 - What is the tone at the top?
 - Is there an ethics infrastructure?



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PERFORMANCE AUDITS DIFFER FROM OTHER AUDITS

- Performance audits do not require the auditor to obtain a written assertion or written representations from the responsible party.
 - [A]uditors are the party who measures or evaluates the subject matter of the engagement and who presents the resulting information as part of, or accompanying, the audit report (GAGAS 8.14, 2018)
- The form of audit reports prepared in connection with performance audits vary widely based on the users' needs.
 - Auditors should include in the report
 - A description of the audit objectives
 - The scope and methodology used for addressing the audit objectives
 - Criteria used
 - Any limitations to objective, scope or methodology

PERFORMANCE AUDITING VS. FINANCIAL AUDITING

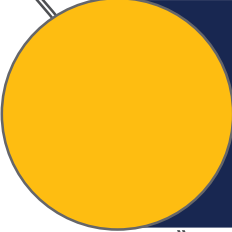
PERFORMANCE AUDITING

- Focus on performance
- Economy
- Efficiency
- Effectiveness
- Equity
- Ethics
- Performed when problems are identified or to anticipate where problems may occur

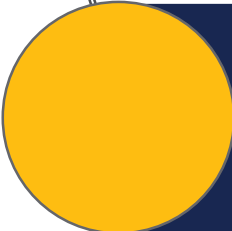
FINANCIAL AUDITING

- Focus on finances and compliance
- Financial statements are the prime element of communication
- Financial management and internal controls are key
- Goal is to have accounts fairly stated

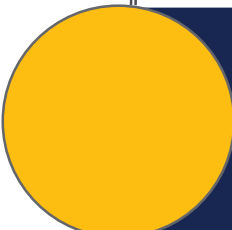
TYPES OF PERFORMANCE AUDITING



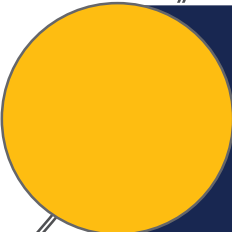
Process evaluation: assesses the extent to which a program is operating as intended.



Outcome evaluation: assesses the extent to which a program achieves its outcome-oriented objectives.

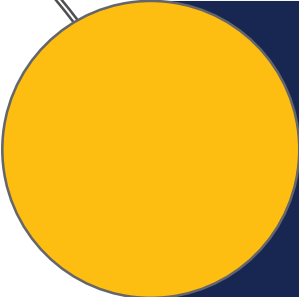


Impact evaluation: assesses the net effect of a program by comparing program outcomes with an estimate of what would have happened in the absence of the program.



Cost-benefit and cost-effectiveness: evaluation or analyses that compare a programs outputs or outcomes with the costs (resources expended) to produce them.

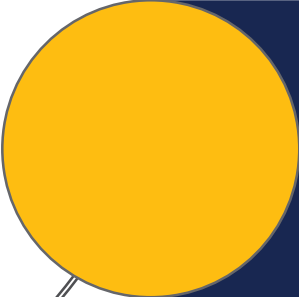
TYPES OF PERFORMANCE AUDITING (CONT.)



Internal Controls: typically relate to an assessment of one or more components of an organization's system of internal control and may be relevant when determining the cause of unsatisfactory program performance.



Compliance: typically relate to an assessment of compliance with criteria established by provisions of laws, regulations, contracts, or grant agreements.



Prospective Analysis: audit objectives provide analysis or conclusions about information that is based on assumptions about events that may occur in the future, along with possible actions that the entity may take in response to future events.

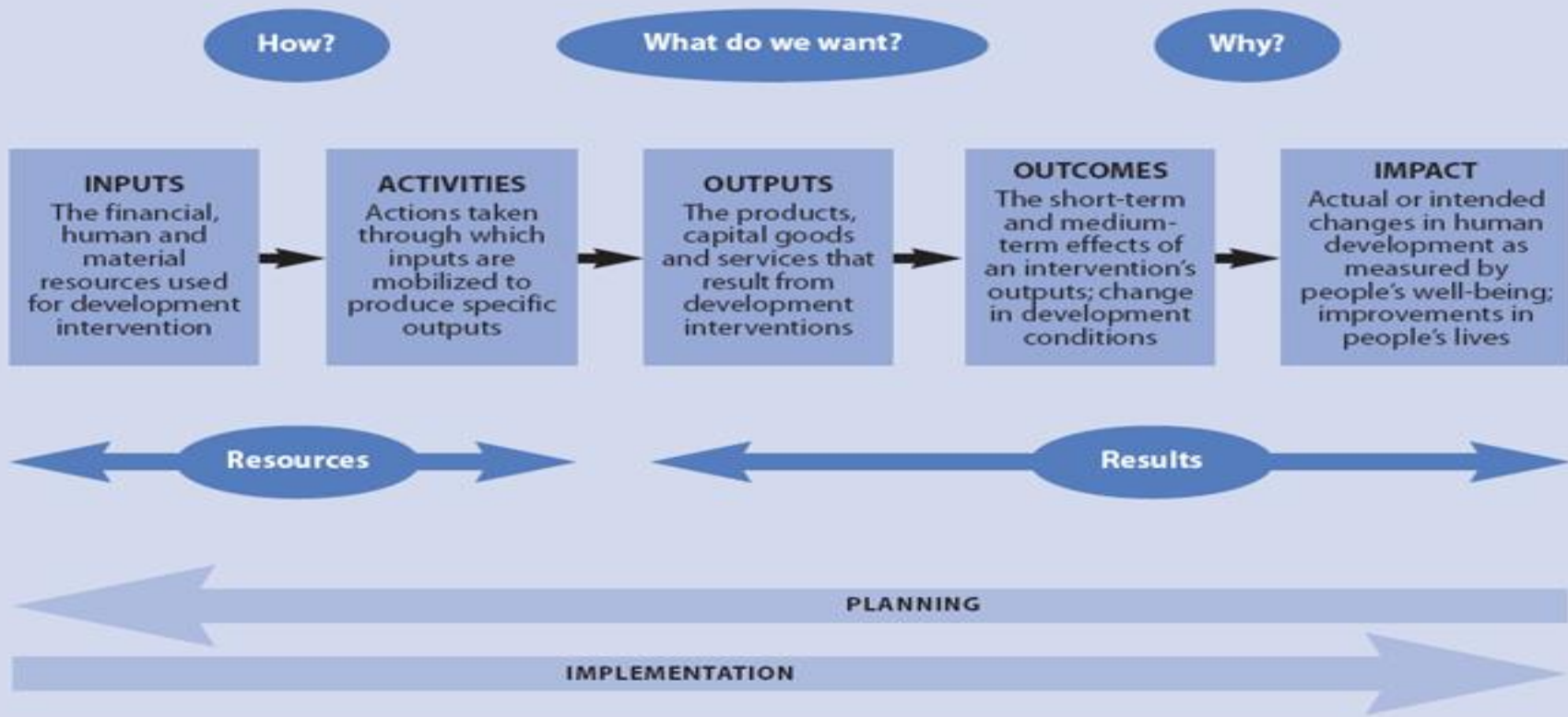
PERFORMANCE AUDITING METHODS

- Interviews
- Data analysis
- Best practice reviews
- Surveys and focus groups
- Comparative analysis / benchmarking
- Meta-evaluations
- Observations
- Expert opinions / reviews
- **Auditor focus areas – accountability, transparency, relevance, validity**



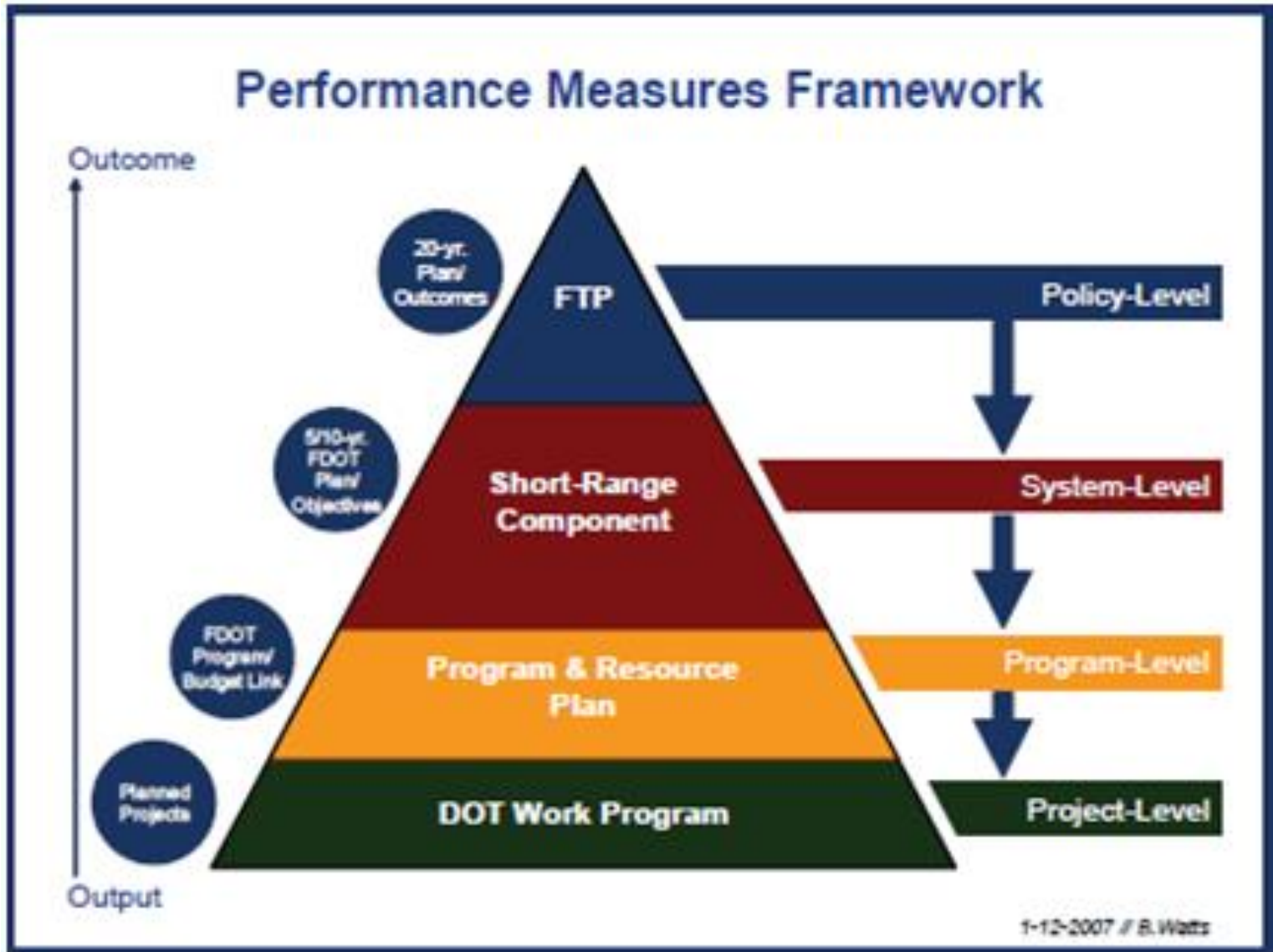
PERFORMANCE REPORTING AND RESULTS-BASED MANAGEMENT (RBM)

Figure 9. The RBM results chain



United Nations Development Group, 2011

PERFORMANCE MEASUREMENT FRAMEWORK





**PUTTING PERFORMANCE
AUDITING INTO
PRACTICE — A REAL
CASE STUDY**

BACKGROUND OF THE PROGRAM...

- *County Fleet Services operates as an internal service fund.*
- *At time of audit, the County owned a total of 2,959 vehicles, grouped into 24 maintenance classes.*
- *Governance is with the Director of each of the departments; Resources and Development Management, General Services Agency, and Public Works.*



MISSION OF THE PROGRAM...

To provide “safe, reliable, cost effective, timely, and environmentally sensitive vehicles, equipment, maintenance and support services to many of the departments of the County so these departments can execute their missions serving the needs of the community.”

GOALS OF THE PROGRAM...

- To comply with Clean Air regulations.
- To comply with Renewable, Green and Alternative Fuel Programs, purchase green whenever operationally practical.
- To minimize the procurement of vehicles / equipment through evolution of the County's existing fleet for the purpose of reassigning vehicles rather than purchasing new ones.
- To standardize and consolidate the procurement of vehicles / equipment to reduce the administrative workload associated with development of specifications, issuance of bid solicitations, review of bids, contract negotiations, and award of contracts.

PERFORMANCE MEASURES OF THE PROGRAM...

Efficiency / Effectiveness

Preventive Maintenance Compliance Rate by User Department.

Preventive Maintenance to Repair ratio.

Average Time to Commission a Vehicle.

Billable Hours/Productivity Rate.

Work Order Turnaround Date.

Percent of Green Vehicles.

Vehicle down time, Cost per Mile, Average Age.

OBJECTIVE & SCOPE OF PERFORMANCE AUDIT



Audit Objective – to evaluate the operational performance of County Fleet Services to determine whether management and staff are effective and efficient in accomplishing their business objectives.



Scope of Work – all major functions of County Fleet Services, which is primarily responsible for maintaining and repairing County vehicles and equipment, including acquisition, commissioning, and disposal.





METHODOLOGY OF PERFORMANCE AUDIT

- Review of County Fleet Services policies and procedures, which provides vehicle purchasing and replacement criteria.
- Reviewing invoices, vehicle specifications, vehicle numbering, and tracking.
- Interviews, Surveys, and Benchmarking.
- Comparison of Government fleet hourly rates with private automotive repair shops
 - (Used labor rate benchmark study)
- Data analysis for all County vehicles purchased and disposed of over a 5 year period.

FINDINGS...

1. The acquisition and disposal patterns fluctuated widely over the five year audit period.
2. Drastic fluctuation of fleet size can pose various negative impacts on the County, including delayed commissioning of vehicles, spikes in future replacement of vehicles, and mechanic workloads.
3. Over the five year audit period, the average time to commission a vehicle (from delivery to in-service date) was 202 days, with a high of 257 days and low of 73.40% of the acquired vehicles took 6 months or longer to commission.
4. No service level agreements with their user agencies / departments that stipulate service expectations such as time frames, which directly affect users ability to achieve their operational objectives.
5. 424 vehicles were driven less than 8,286 miles annually.
6. Based on this, the county could generate over \$1 million in revenue from auctioning the vehicles.
7. Avoid \$9.9 million in one-time capital replacement costs.
8. Eliminate \$2.2 million in repairs and maintenance costs over five years.
9. Total net savings \$13.3 million.
10. At a minimum, assuming 50% (212) vehicles were eliminated as not mission critical, that still saves \$6.65 million.

POTENTIAL AUDIT TOPICS WHERE P/A CAN BE USED

- Capital Assets
- Health Care
- Human Services
- Police, Fire, Sheriff
- Criminal Justice and Internal Affairs
- Transportation and Communication
- Environmental Protection
- Financial Policy
- Information Systems or Information Technology
- Attorney and Litigation
- General Services
- Executive



**SAS-133, AUDITOR
INVOLVEMENT WITH EXEMPT
OFFERING DOCUMENTS –
WHAT IT MEANS FOR YOUR
DEBT ISSUANCES**

SAS-133 (AU-C 945) AUDITOR INVOLVEMENT WITH EXEMPT OFFERING DOCUMENTS – WHAT IT MEANS FOR YOUR DEBT ISSUANCES

Quick overview

- Exempt offerings are in accordance with federal or state securities laws / regulations
- Primary federal law is Securities Act of 1933, even though exempt securities and transactions do not require to be registered under the law

Exempt securities include:

- **Securities issued by state and local governments**
- Securities issued or guaranteed by banks or employee benefit plans
- Commercial paper with limited maturities
- Securities issued by non-profit organizations

Became effective June 15, 2018

SAS-133 (AU-C 945) AUDITOR INVOLVEMENT WITH EXEMPT OFFERING DOCUMENTS – WHAT IT MEANS FOR YOUR DEBT ISSUANCES

- An auditor becomes involved when:
 - An auditor's report is included in exempt offerings;
AND
 - **Any one** of the following:
 - Assisting in preparing / gathering information for official statement (OS);
 - **Reading the draft of the OS** at your request;
 - **Issuing some form of 'comfort letter'**;
 - Performing agreed upon procedures on the information in the OS and / or issuing some form of report related to the OS;
 - Attending a due diligence meeting;
 - Allowing use of the auditor's report in the OS, even by reference;
 - Updating the auditor's report due to subsequent events to include in / referenced in the OS.

WHAT WILL THE AUDITOR DO

- Auditor is required to read the DRAFT OS to identify inconsistent material to what was audited / material misstatements of fact:
 - If inconstancy / misstatements found, auditor may request changes.
- Auditor must perform subsequent event procedures from date of prior auditors report to date of OS circulation / submission – may include:
 - Gaining an understanding of how management updated information;
 - Inquiries of management;
 - Reading of governing board minutes;
 - Reading interim financial information (if any);
 - Likely updating of management representation letter;
 - Are component units involved in issuing debt?
- Problem will be timetable – can't be done in 24 hours.



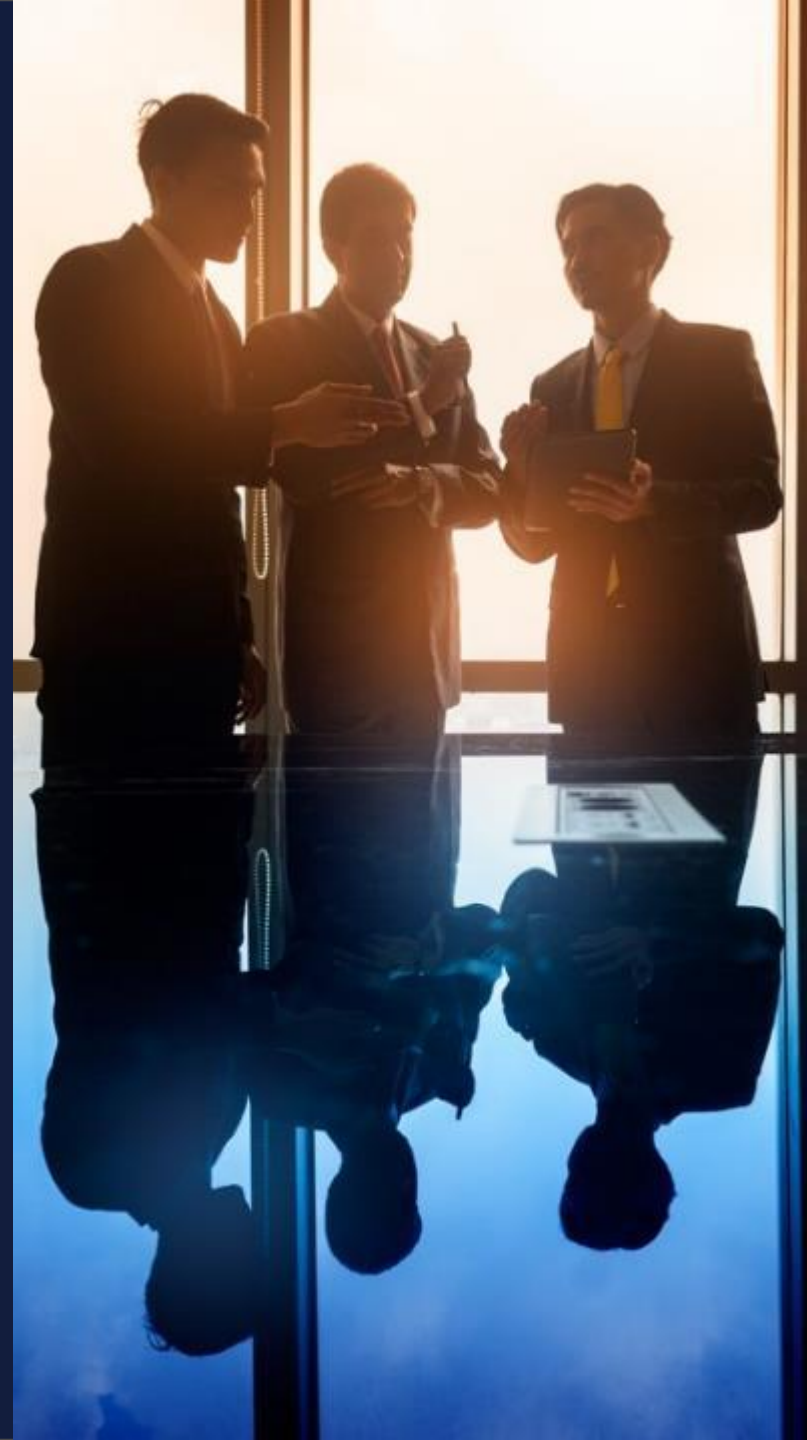
**FRAUD (AKA, IT'S *MY*
MONEY!)**

KEY PARAGRAPHS ON FRAUD IN THE NEW YELLOW BOOK

- 8.73 - Fraud involves obtaining **something of value** through **willful misrepresentation**
 - **What does this mean to you?**
- A good ‘true north’ for every public sector employee (or contractor who serves the public sector) –
 - **Think Like a Taxpayer Because You Are One..**
 - **What does this mean to you?**
- Many frauds go undetected due to
 - **Materiality** – “Oh – they won’t miss it”
 - **Trust** – “Jon’s been here forever in the bank reconciliation unit, he’s as honest as the day is long...”
 - **Lack of oversight / internal controls** – “If you sweat the small stuff, the big stuff passes you by...”
 - **Others?**

IN THE NEW YELLOW BOOK – IT'S ALL ABOUT ACCOUNTABILITY

- 1.02 – The concept of accountability for use of public resources and government authority is key to our nation's governing processes



IN THE NEW YELLOW BOOK – IT'S ALL ABOUT ACCOUNTABILITY

- 1.03 - As reflected in applicable laws, regulations, agreements, and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. Legislators, oversight bodies, those charged with governance, and the public need to know whether:
 1. Management and officials manage government resources and use their authority properly and in compliance with laws and regulations;
 2. Government programs are achieving their objectives and desired outcomes; and
 3. Government services are provided effectively, efficiently, economically, ethically, and equitably.



SOME OF THE MORE INTERESTING FRAUDS LATELY

Wednesday, Visit Estes Park (VEP) received the final results of a forensic audit [that showed questionable expenditures based on the marketing district's financial records and computer files between August 2016 and December 2017.

The report was conducted by Eide Bailly CPAs and Business Advisors. They were contracted because of concerns of alleged "inappropriate spending, extravagant employee outings and conflicts of interest between VEP management and vendors."

The firm examined 200 credit cards purchases and identified 16 credit card charges by former VEP CEO Elizabeth Fogarty in 2017 totaling \$4,432.16 without receipts to support those purchases, which the Trail-Gazette has previously reported.

Charges with missing receipts included a roughly \$3,000 expense for a destination marketing conference in Montreal, a roughly \$900 expense at Fawn Valley Inn in Estes Park, numerous purchases from Kind Coffee, Starbucks and miscellaneous purchases.

"Based on our examination, we noted that none of the 200 credit card charges examined appeared questionable or deviated from normal VEP business," the report from Eide Bailly stated.

The auditing firm also examined invoices from Backbone Media, a public relations company hired by VEP to assist with their advertising, publications and social media presence.

Advertisement

Invoices from Backbone totaling \$1,179,908.38 were examined for payments to questionable or unusual vendors. The report indicated no questionable activity was identified, though the invoices examined were not detailed regarding the services and benefits received by VEP.

There was also examination of tickets to a Denver Broncos game on Oct. 15, 2017.

Figure 1 – Charges with Missing Receipts

Date	Description	Amount
12/8/2016	Safeway Store	\$65.82
1/5/2017	Kind Coffee	4.95
1/5/2017	Kind Coffee	9.44
3/31/2017	Kind Coffee	50.00
4/14/2017	Starbucks	9.93
5/4/2017	The Munchin House	28.00
5/10/2017	Fort Collins	40.00
6/2/2017	Fawn Valley Inn	873.55
6/13/2017	IPMP	90.00
6/13/2017	Destination Marketing	2,170.00
6/13/2017	Destination Marketing	995.00
6/16/2017	Google Storage	19.99
6/26/2017	Piece Love & Chocolate	37.35
11/1/2017	Starbucks	9.93
11/24/2017	Tattered Cover	13.20
11/24/2017	Wynkoop Garage	15.00
	Total	\$4,432.16

A list of purchases made by former VEP Elizabeth Fogarty. These purchases were found to not have receipts.

Fraud engagement we were involved in – disclosure held pending outcome of trial resolved in February 2019

Dollars are relatively small, but media exposure high

SOME OF THE MORE INTERESTING FRAUDS LATELY

- School Clerk in Desert Hot Springs, California pled guilty - \$350,000 in embezzlement – must wear an ankle bracelet until August 2019 and repay all funds and legal costs
- As of a few weeks ago, she has repaid \$20,000
- ***Anyone want to take a guess where the funds were taken from???***



SOME OF THE MORE INTERESTING FRAUDS LATELY



Peter Bang sentenced to 15 years in prison, including 4 years on federal charges, \$6.7 million fine to the county and \$2.3 million to the IRS

- Montgomery County Maryland Economic Development Corp COO embezzled \$7.2 million due to a loophole in a management agreement.
 - Development director was allowed to make decisions from 2006 to 2017 without county oversight.
 - Unused funds went into a reserve account which then was diverted into a South Korean bank account in the director's name.
 - Former director allowed new director to use his password from 2009-2015.
 - Fraudster sent emails, conducted business under former director's name.
 - Cashiers checks were issued for over \$200,000

SOME OF THE MORE INTERESTING FRAUDS LATELY

Former government official in North Carolina pleads guilty to embezzling nearly \$1 million, blames 'compulsion to hoard money'

- Wake County NC Registrar of Deeds
- Stole \$900,000 in cash receipts from 2010-2017
- Sentenced to a minimum of 5 years and a maximum of 7 years
- Must pay full restitution, court costs and interest
- Paid over \$3,600 out of county funds to Inns using county debit cards
- Charged \$4,700 to a Florida resort on county credit cards
- Three former employees of hers also pled guilty



SOME OF THE MORE INTERESTING FRAUDS LATELY



- Briarcliff Manor (Westchester) NY
- Village fire chief embezzled \$120,000 between 2013 and 2017
- Wrote 150 checks to himself
- Federal (IRS), New York State and Westchester County are all conducting forensic audits
- Sentenced to one year + 1 day
- Total costs to the village have been over \$800,000
 - SDNY has stated that he has repaid the \$120,000, but owes a \$20,000 fine and fees

ADDITIONAL FRAUDS IN LOWER HUDSON VALLEY

- Briarcliff is just the tip of the iceberg..
 - Mahopac *Volunteer* Fire Treasurer stole \$5.7 million over 10 years, sentenced to six years in 2017
 - Patterson, NJ Fire Treasurer stole \$1.1 million – sentenced to 33 months in 2017
 - Croton on Hudson fire chief and treasurer – stole \$313,000 – sentenced to 4 years
 - Port Chester fire treasurer pled guilty in early 2019 for stealing \$40,000, awaiting sentencing..

DISCUSSION –

- 1. What do the cases have in common?**
- 2. How could they have been potentially prevented?**



WHO IS A GOVERNMENT FRAUDSTER?

Contractors that governments purchase from

Contractors seeking to engage with the government

Employees that are engaged in that purchase

Employees that receive funds

Employees that approve contracts

Employees that approve grants / transfers based on eligibility

Employees that prepare financial reports / bond documents

Employees that are 'doers'

Employees that are 'reviewers'

WHO IS A GOVERNMENT FRAUDSTER?

Someone who is well liked

Someone who knows the system

Someone who has been there for a long-time

Someone who keeps to themselves

Someone who seems to live well beyond means

Someone who is at work early

Someone who works late

Someone who always loses vacation time as they are too busy

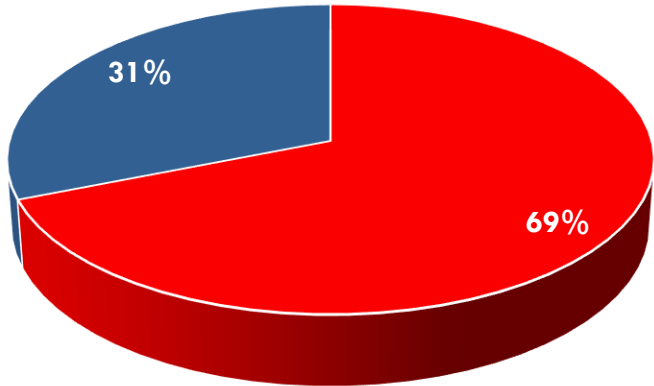
Someone who asks work to 'be held' if they do take time off

In other words....

PER THE 2018 ASSOCIATION OF CERTIFIED FRAUD EXAMINERS SURVEY...

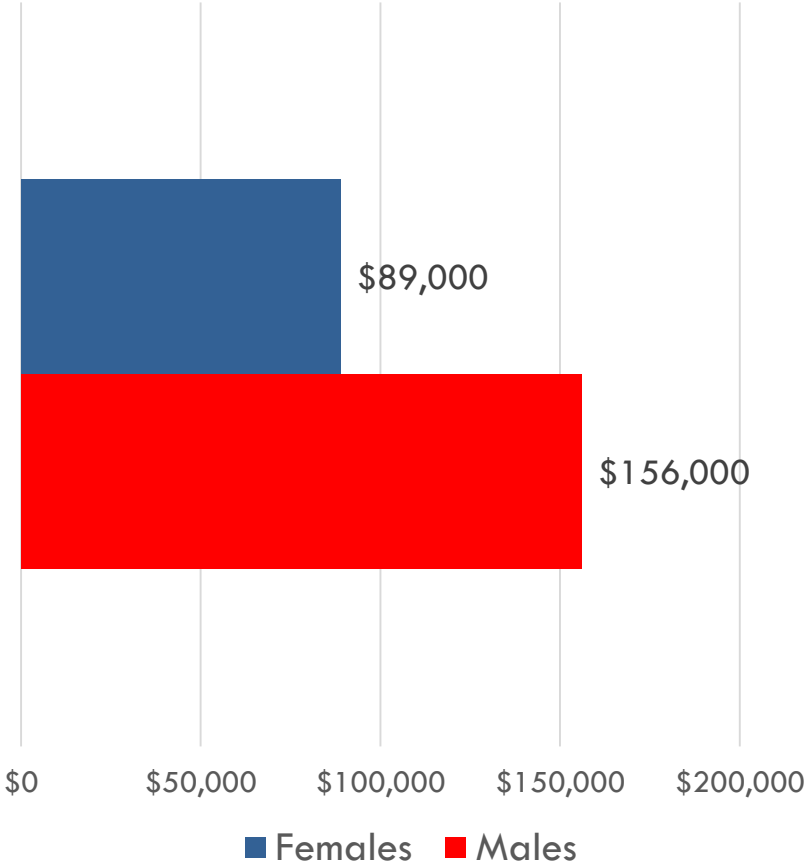
FRAUDSTERS ARE...

Cases



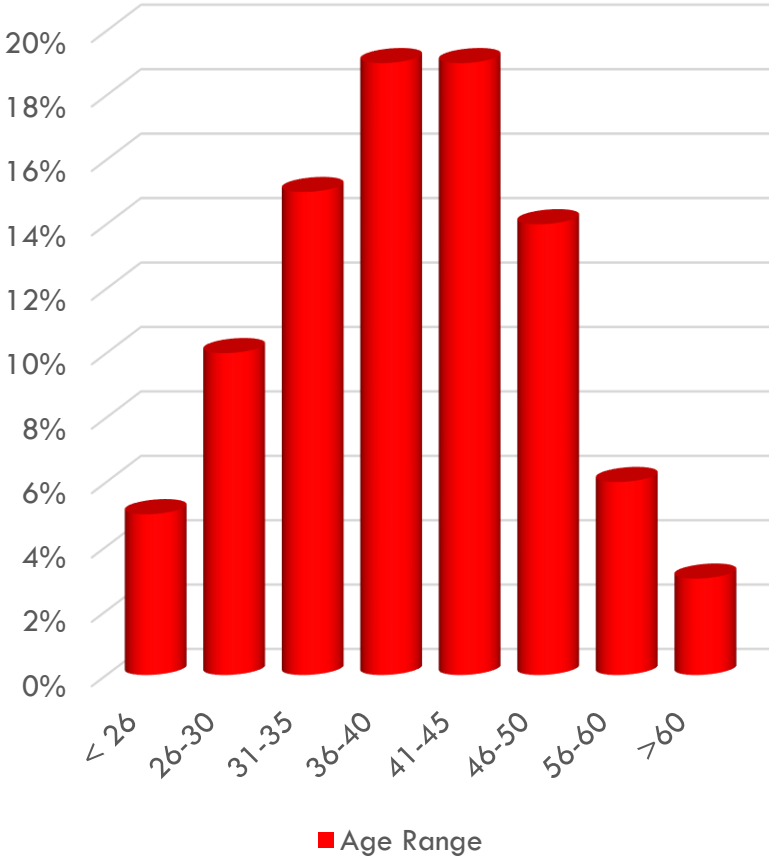
■ Males ■ Females

MEDIAN FRAUD LOSS BY GENDER

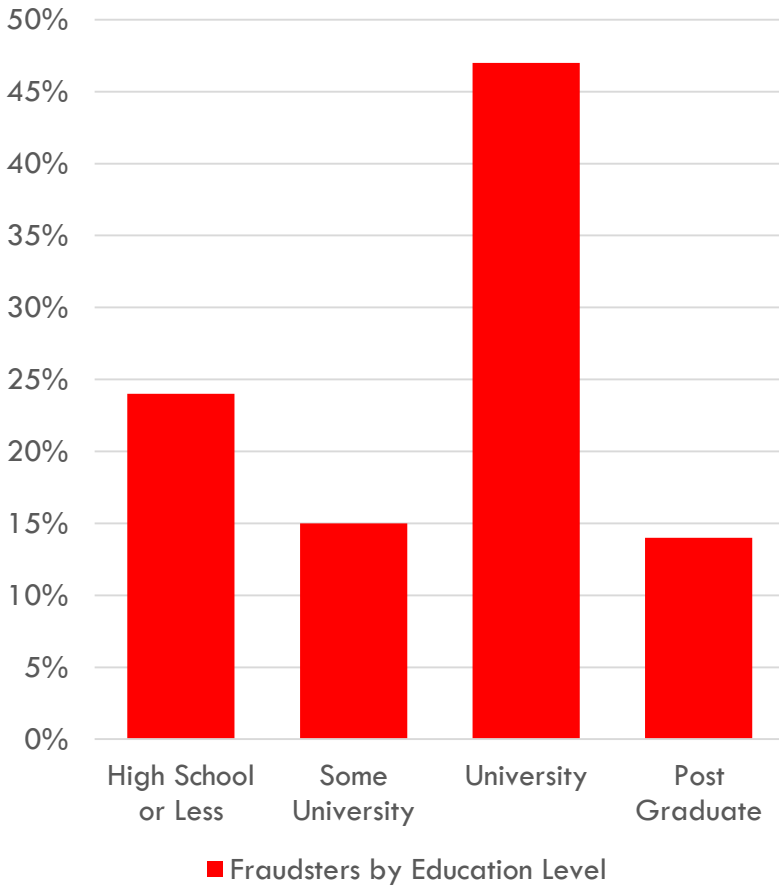


PER THE 2018 ASSOCIATION OF CERTIFIED FRAUD EXAMINERS SURVEY...

AGE DISTRIBUTION

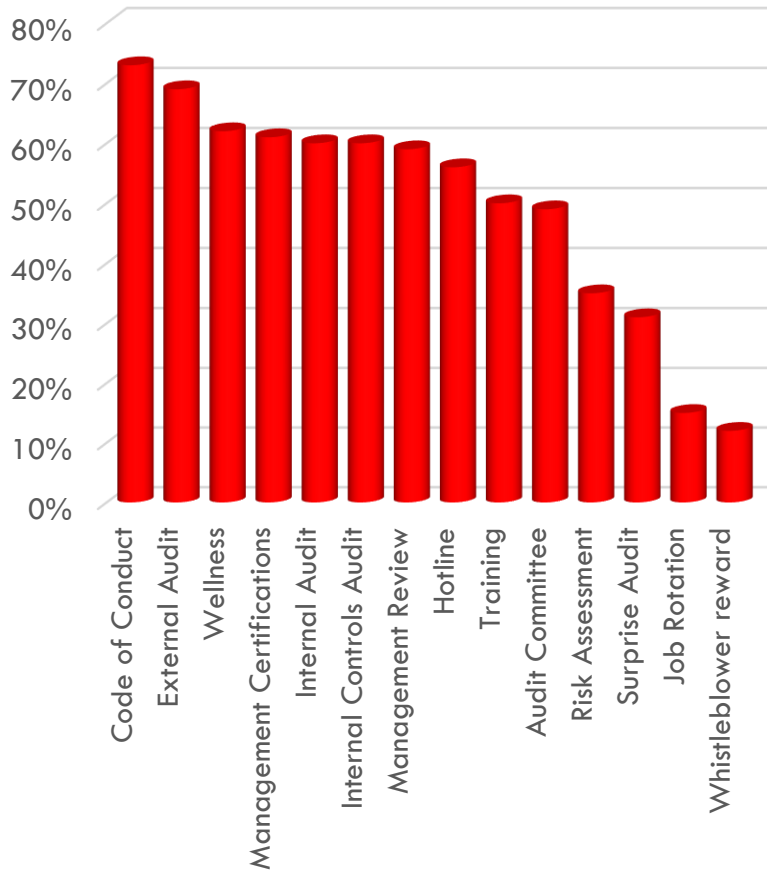


EDUCATION LEVEL

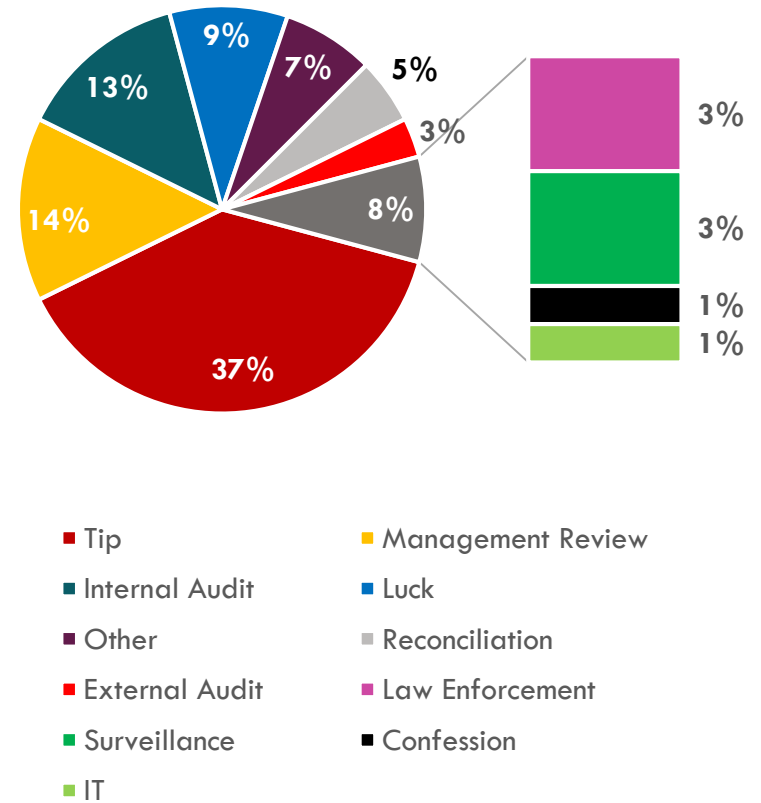


PER THE 2018 ASSOCIATION OF CERTIFIED FRAUD EXAMINERS SURVEY...

MOST COMMON CONTROLS IN THE US



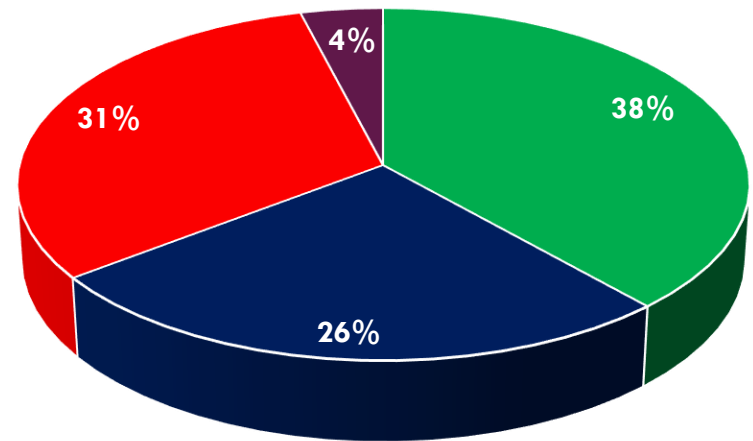
HOW WAS FRAUD DETECTED IN THE US?



GOVERNMENTAL STATISTICS IN ACFE SURVEY

- Median Loss by Level:
 - Federal - \$200,000
 - State - \$110,000
 - Local - \$92,000
 - Other - \$58,000

Fraud by Level of Government



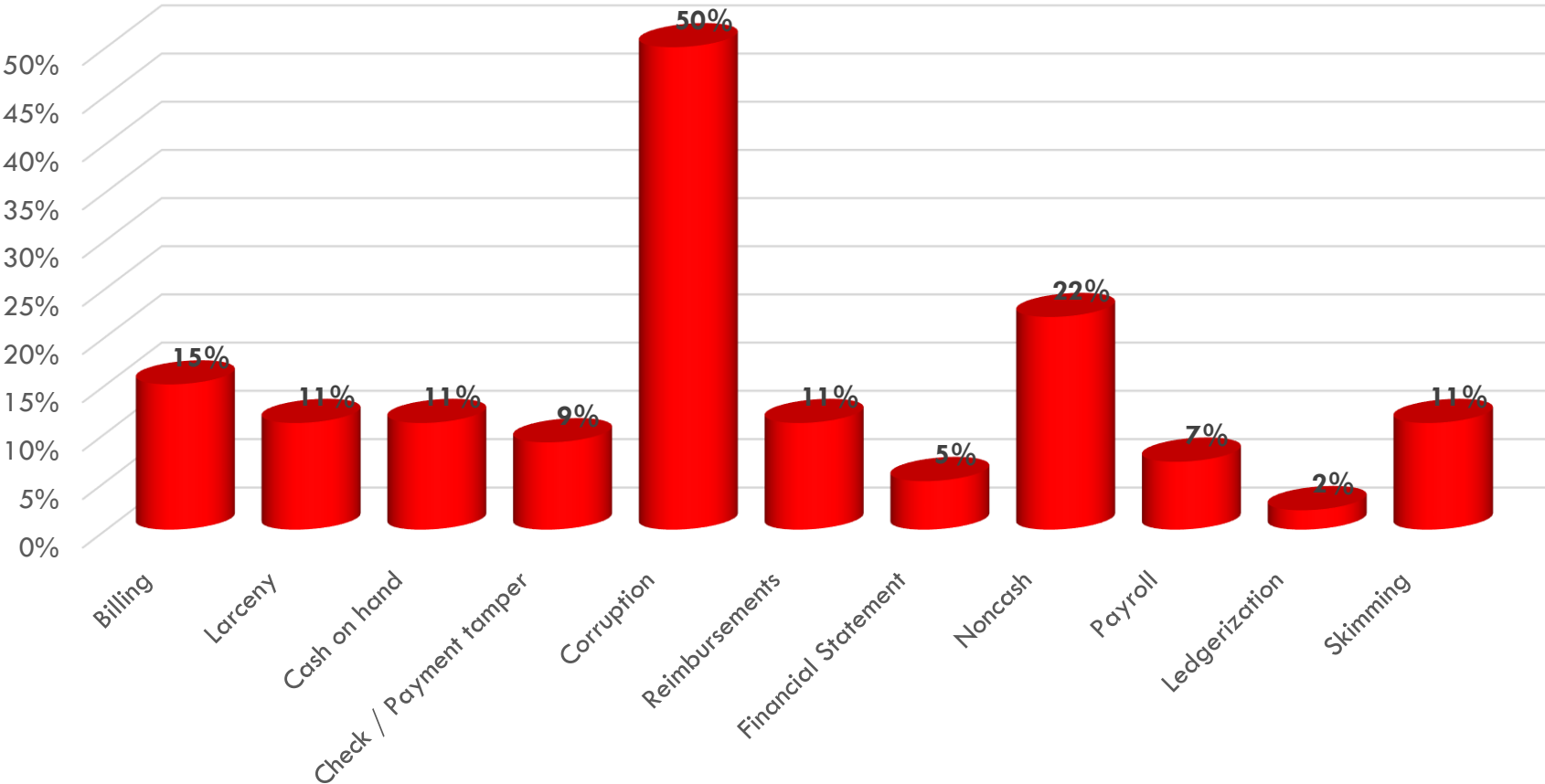
■ Federal ■ State ■ Local ■ Other

THE INFAMOUS TRIANGLE OF FATE



PER THE 2018 ASSOCIATION OF CERTIFIED FRAUD EXAMINERS SURVEY... JUST FOR GOVERNMENT

Note – Multiple types of fraud are common in each case.



COMMON AREAS OF FRAUD IN GOVERNMENTS – BREAKING IT DOWN FURTHER

Misappropriation	Misuse of Office	Misleading Financials
Payment adjustments	Kickbacks	Revenue overstatements
Payments made to fictitious entities	Bribes	Unrecorded liabilities
Nonexistent employees / beneficiaries	Conflicts of Interest	Unrecorded expenses
Personal purchases	'Do you know who I am??'	Misleading statements in bond documents
False timekeeping		
Expense reimbursements		
Electronic skimmers (credit card readers)		
Theft of assets		

CASE STUDY

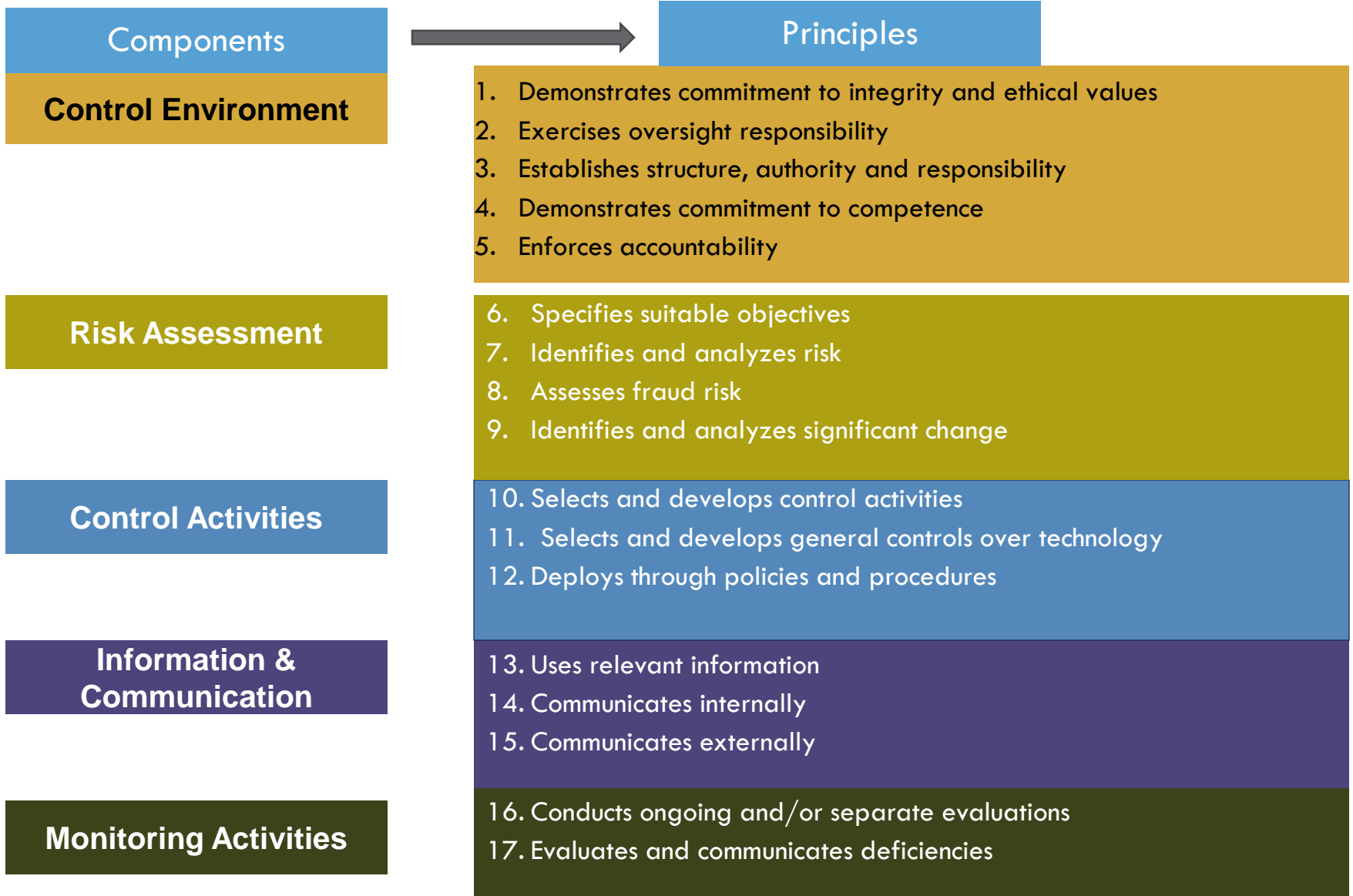
Many regulated industries in Cities rely upon periodic inspections, including daycare centers, restaurants, healthcare providers, senior care facilities, for-hire vehicles, and waste removal services.

Inspections of buildings and construction sites represent one particular area of fraud in many cities, involving many actors—developers, contractors, expeditors, and inspectors—who interact with one another and the city over the lifespan of a construction project, exposing multiple corruption risks.

Bribery schemes involving inspectors can compromise public safety and cost city taxpayers. For example, building developers might offer bribes to building inspectors in exchange for helping to accelerate projects to completion notwithstanding the failure to complete critical steps in the process. Fire inspectors might be offered bribes in exchange for overlooking expensive code violations.

Source: Columbia law school – Center for Advancement of Public Integrity

REMEMBER THE COSO???



TAKE 10 MINUTES — PUT THE COSO TO USE

**What are the risks that
the City is facing for the
building inspectors?**

**How would you mitigate
each of those risks?**





THE JOBS ACT AND GOVERNMENTS

BEYOND THE INDIVIDUAL, CORPORATE CHANGES..

- New form 1098-F required for reporting of penalties, fines and similar received from taxpayers
 - Paid or incurred on or after 12/22/2017
 - Must be at least \$600 (but Secretary of Treasury could change it)
 - Copy must be filed to the IRS and taxpayer by 1/31/2020
- **Other Key Issues**
 - Elimination of traditional tax-exempt advance refunding transactions (but taxable still OK)
 - Opportunity zone provisions for municipal governments

TAX CUTS AND JOBS ACT- COLLEGES AND UNIVERSITIES

- **Excise tax on net investment income**
 - 1.4% excise tax on net investment income of applicable educational institutions
 - Assessed if fair market value of assets (excluding those used directly in carrying out exempt purposes) is at least \$500,000 per student
 - May include assets of related organizations
- **Eliminate deduction for college athletic event seating rights**
 - Under prior law 80% of the payment was treated as a charitable contribution if
 - Paid to an institution of higher education
 - Amount would have been charitable contribution but for the right to purchase tickets

REFUNDING TRANSACTIONS

- Definitions:
 - **Current refunding** – legal defeasance of debt that is callable within 90 days of new refunding bond issuance
 - **Advance refunding** – legal defeasance beyond 90 days from the call date.
- **Advance refunding transactions occurring, but are taxable**
 - Debt service savings only really occurs using derivatives (forwards, swaps, etc.)
 - Some governments engaging in ‘Cinderella bonds’
 - Issuing a taxable bond with a hope of getting the law changed in the future to refund on a tax-exempt basis (tax convertible debt)
 - Other governments doing crossover refunding transactions (don’t ask..) (well, maybe you will...)
 - Could always sell taxable debt, invest the proceeds and pay arbitrage tax

UBIT – UNRELATED BUSINESS TAXABLE INCOME

- TCJA adjusted Unrelated Business Taxable Income for Exempt Organizations with *more than one* Unrelated Trade or Business
 - Code Section 512(a)(6) requires an organization *subject to UBIT* under section 511 with *more than one trade or business* to calculate the unrelated business taxable income (UBTI) separately for each business
 - Governmental retirement plans, instrumentalities of the United States and not-for-profit entities *generally* are exempt from federal taxation
 - UBTI currently applies to mostly to State Colleges and Universities (and similar) and any corporation owned by those entities
- Tax imposed on unrelated taxable income (income excluding exempt functions, less deductions)
 - Unclear if expansion will effect State Colleges and Universities (IRS Notice 2018-67)
 - Could apply to benefits such as transit passes, parking, gym memberships and other perks

LOCAL LOBBYING

- Expenses for lobbying before local government bodies eliminated for amounts paid or incurred after 12/22/17.
- **What does this mean?**
 - Could mean fewer visits from business representatives trying for economic development opportunities?

GOVERNMENT CAPITAL CONTRIBUTIONS TAXABLE

- Tax-free contributions to capital no longer include:
 - A contribution in aid of construction or any other contribution as a customer or potential customer, and
 - A contribution by any governmental entity or civic group (other than a contribution made by a shareholder as such)
 - **Unclear how this will work with tax abatements, but they may be taxable**
 - New York State contemplating converting from tax abatements to grants
 - Could they come back under infrastructure bill??

OTHER ISSUES

- **Many States (and Local Governments) start with Federal Taxable Income as a base to calculate their tax provisions**
 - Could result in governments revisiting their tax codes to break with Federal provisions?
 - Could more states move toward a 'millionaires tax?'
- **Iowa contemplating undoing a 'reverse' tax system**
 - Currently allows deduction of federal taxes paid (as federal taxes drop, Iowa taxes go up)



CYBERWARS



CYBERSECURITY EXPOSURES & RISKS

RECENT DATA BREACHES -2018



FedEx

Marriott



L'EXPRESS



RAIL EUROPE

SINGAPORE



ticketmaster



TARGETING SMALLER ENTITIES

Almost two-thirds of all cyberattacks are now directed at small organizations.

Cyber attacks cost small organizations between \$84,000 and \$148,000.

60% of small businesses go out of business within six months of an attack.

90% of small organizations don't use any data protection at all for internal and customer information.

(UPS Capital)



61% of breaches hit smaller organizations last year, up from the previous year's 53%

(Verizon Data Breach Investigation Report)



THE MATANUSKA-SUSITNA ATTACK



ERIC WYATT – IT DIRECTOR

"The only people to blame are the people who write these viruses."

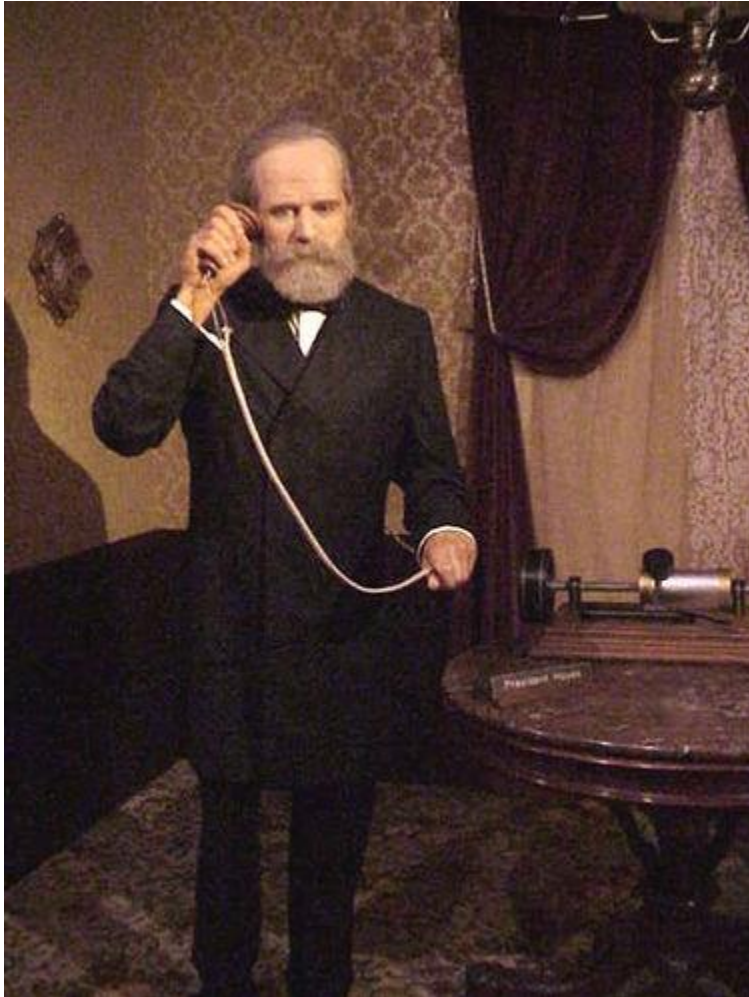
RANSOMWARE – SAMSAM

- *City of Atlanta – 8,000 employees unable to use their PCs, \$17M*
- *Colorado Department of Transportation, attacked twice estimated costs \$1-\$1.5M*
- *Two Indiana Hospitals*
- *A U.S. Industrial control systems company*
- *Davidson County in North Carolina*
- *Allscripts*
- *Adams Memorial Hospital*
- *Mississippi Valley State University*

Exploited RDP (Remote Desktop Protocol)



KEYS TO WHERE WE ARE TODAY IN CYBERWARFARE

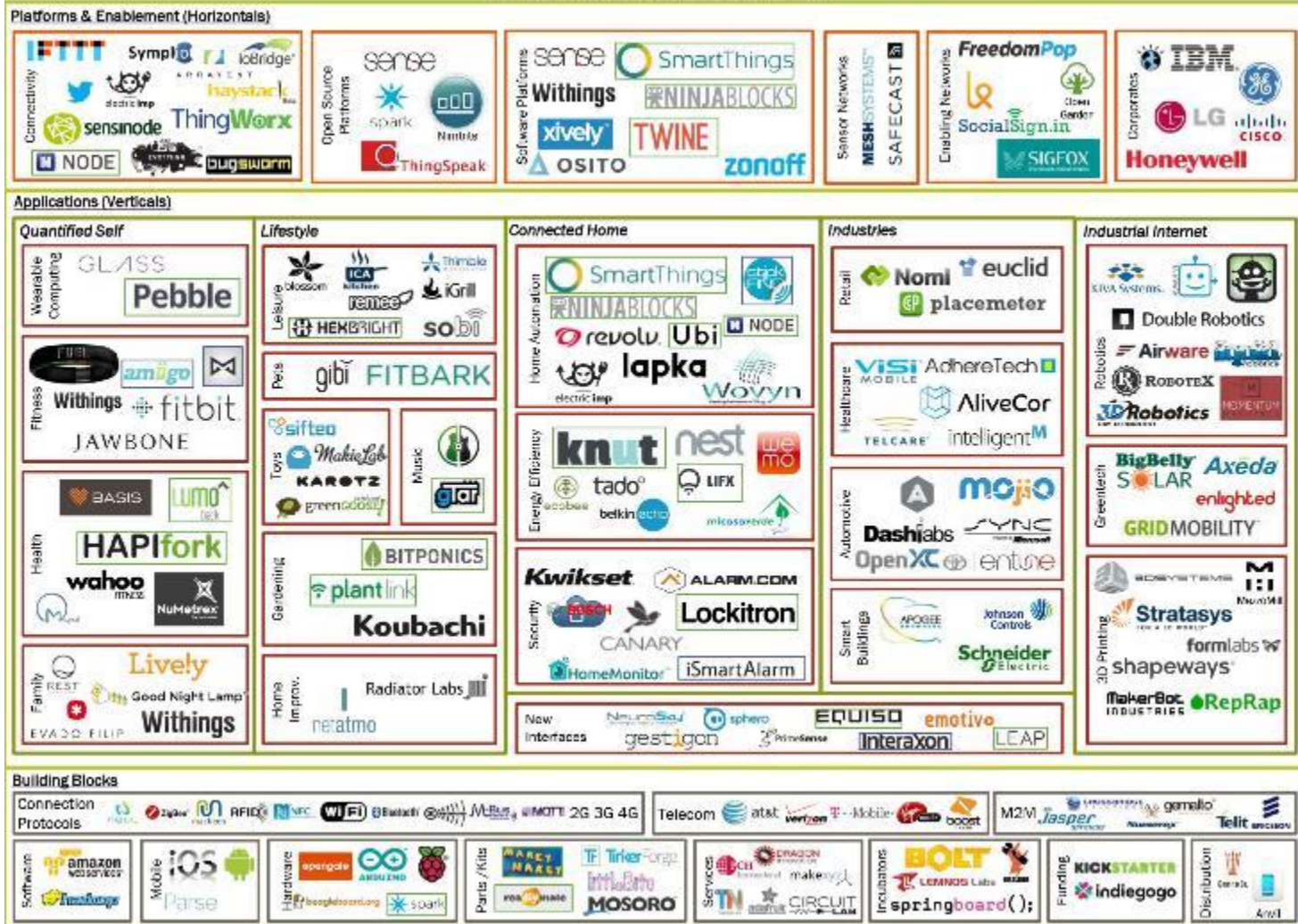


Alexander Graham Bell

- Bell: “Before anything else, preparation is the key to success..”
- What is another famous saying of his??

KEYS TO WHERE WE ARE TODAY IN CYBERWARFARE

INTERNET OF THINGS LANDSCAPE



About a year old – new apps hourly

GARTNER GROUP'S VIEW ON RANSOMWARE IN THE HOME

The Monetization of Threats — Ransomware



KEYS TO WHERE WE ARE TODAY IN CYBERWARFARE

- Artificial intelligence is the next step in cyberwarfare
- Problem areas
 - Vast amounts of data collected everywhere – especially from mobile devices
 - Internet of Things (IoT) – aka – do we really want *Google* running everything in our house?
 - Autonomous vehicles
 - Microchip implants are one step away from smartwatches
- Cybersecurity – last resort or wall between right and wrong?



KEYS TO WHERE WE ARE TODAY IN CYBERWARFARE

- Rise of 5G networks provide a new playing field that is everywhere
 - Limitations within buildings
 - Anyone know what 5G is?



PREDICTIONS IN CYBERSECURITY FOR 2019

- Roundtable of experts paneled January by GovTech
 - Trend Micro
 - FireEye
 - McAfee
 - WatchGuard
 - Forcepoint
 - Beyond Trust
 - Symantec
 - Kaspersky
 - Verizon
 - AT&T
 - RSA Security / Dell
 - Forbes (from a CEO's perspective)
 - Bitdefender
 - Sophos Labs
 - IBM
 - Forrester
 - Gartner Group
 - Nuvias Group
 - Barracuda MSP
 - Malware Bytes
 - Experian

<http://www.govtech.com/blogs/lohrmann-on-cybersecurity/the-top-19-security-predictions-for-2019.html>

PREDICTIONS IN CYBERSECURITY FOR 2019

- Mass Real-World Use of Breached Credentials will explode
- Sextortion cases will increase (ask Jeff Bezos) / public retaliation
- Work anywhere culture with BYOD vs. secure culture
- Innocent victims will get caught in cyberwars between countries with utilities / infrastructure most vulnerable to ransomware (IoT 'worm war')
 - Nations have offensive capabilities
 - Supply chain is a weakness – data may be captured in transit between points
 - AI will do the hacking – no AI in cybersecurity yet
 - Isolationism / nationalism will incentivize cyberwars
- Criminals will 'blend in'
- There is a skills gap – trained experts are hard to come by
 - Once hired, already behind
- The cloud is where the data is – go attack it
- Social engineering is the dangerous threat
 - Huge amount of misinformation (2016 election was 'beta test')

PREDICTIONS IN CYBERSECURITY FOR 2019

- Lack of backup verifications on the rise – vulnerable to ransomware
- Forbes interview of CEOs
 - Crimeware as a service (CaaS) on the rise
 - Managing privacy will be the ‘new normal’ like paying taxes – could ‘bring your own security’ be far behind?
 - Healthcare organizations will be the #1 target – it’s where PII is
- Apple is no longer sacrosanct – malware on the rise
- Cyberbullying may cause organizations to require employees to sign affidavits saying they’ve never done it (Gartner)
- Blockchain will be exploited
- Consumers have grown numb over hacks – ignoring them
- Governments will look toward private sector for help
 - “White hats” may be in bed with “Black hats”



**TAKE A QUIZ – TRUE
OR FALSE**

TRUE OR FALSE (OR TRUTH OR DARE)...

1. Small organizations are safe from cyberattack(s)
2. When making an investment in cybersecurity, you should consider a) the value of the data, b) the probability it can be breached, AND c) the effectiveness or "bang for your buck" that the new control provides.
3. Three quarters of breaches in the hotel and restaurant industry involved point-of-sale systems.
4. Over 90% of successful cyberattacks start as phishing emails.
5. The cybersecurity industry is making progress towards defending against ransomware.

TRUE OR FALSE (OR TRUTH OR DARE)...

6. If stolen credentials resulted in a substantial loss from your business banking accounts, the bank would be responsible to cover them.
7. Over half of successful data breaches involved organized crime groups.
8. There is a limit beyond which investing in cybersecurity is not worth it.
9. The first thing to do if a block of data was stolen from your organization, such as your customer information, is to notify those affected.
10. The most cost effective approach to cybersecurity is to protect the information that is most vulnerable to attack.



CYBERSECURITY APPROACH & SOLUTIONS

ESTABLISHING A CYBERSECURITY PROGRAM



CYBERSECURITY PROGRAM

- Ownership
- Authority
- Reporting Lines
- Roles & Responsibilities
- Aligning Cybersecurity to Business Objectives



Governance

Some things can't be outsourced.

ALIGNING CYBER TO BUSINESS

Cybersecurity is a reflection of an organization's culture.

Begin with a leadership discussion.

Prioritization of business risks.



Align cybersecurity to the business risks.



Cyber7™

1. Business Disruption
2. Data/IP Protection
3. Compliance & Governance
4. Brand & Reputation
5. Legal Liability
6. Cost of Remediation
7. Business Enablement

CYBERSECURITY PROGRAM

- Access Management
- Change Management
- Security Training
- Vendor Management
- Mobile Device Management
- Acceptable Use



**Policies &
Procedures**

*If it's not documented...
...it's just a good idea.*

CYBERSECURITY PROGRAM

- Conduct Risk Assessment
- Update Strategic Plan
- Review Policies & Procedures
- Assess Cyber Security Liability
- Evaluate IT Outsourcing Activities
- Develop Budget

Involve the right individuals.

Performed Annually



CYBERSECURITY PROGRAM

- Compliance Requirements
- Corrective Action Planning & Execution (Remediation)
- IT Audit
- Penetration Testing



Continue to evaluate your security.

Performed Annually

Monitoring



**UPDATE TO THE
AUDIT EVIDENCE
STANDARDS
COMING?**

AU-C 500 *AUDIT EVIDENCE* EXPOSURE DRAFT BEING RELEASED BY THE AUDITING STANDARDS BOARD

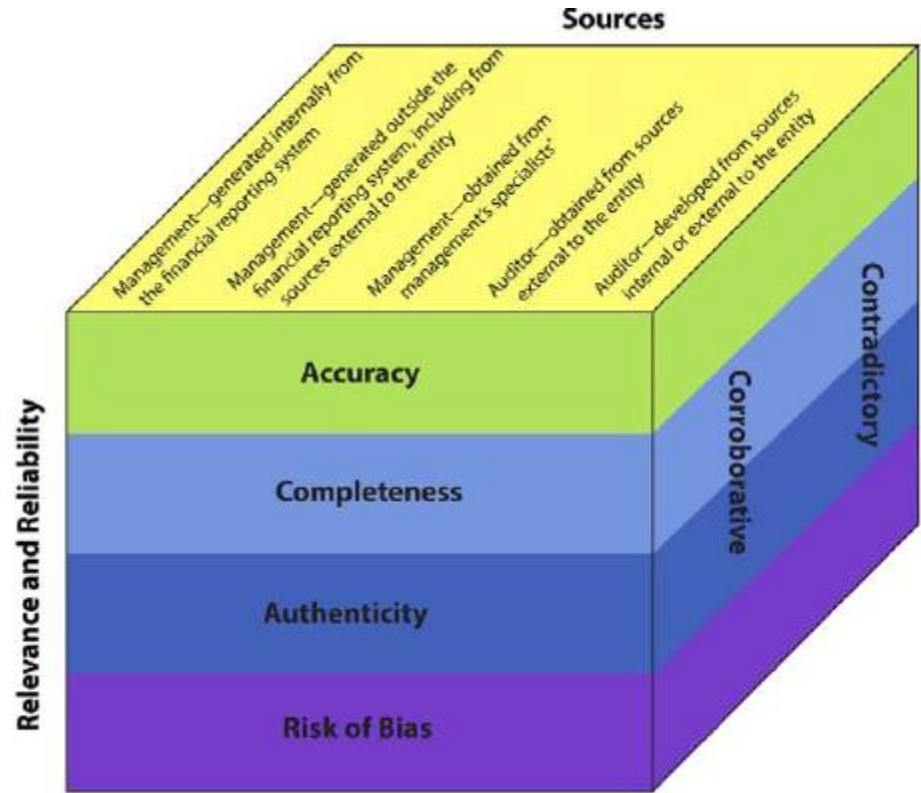
- **Proposed** update to evidence standards due to AI, blockchain, etc. (emerging techniques and technologies)
 - Provides practical guidance for digital analytics technology
 - Uses existing principles applied to data
 - Professional skepticism still must be applied to data analytics
- “Sufficient” and “appropriate” currently defined separately in AU-C Section 500
 - **Proposed definition – Audit evidence that is sufficient to persuade an experienced auditor to draw conclusions based on consideration of audit evidence**
- New definition of “internal information” – reflects all internal information that management obtains, including accounting records, to prepare financial statements
- Proposed effective date for audits of financial statements for periods ending on or after December 15, 2020 (12/31/20 or 6/30/21)

AU-C 500 *AUDIT EVIDENCE* EXPOSURE DRAFT BEING RELEASED BY THE AUDITING STANDARDS BOARD

- ASB does not believe automated data analysis is an ‘audit procedure’, but is a technique that can be used to meet objectives
- Proposal also includes management specialists as a source of audit evidence –
 - Additional material included whether sufficient appropriate audit evidence obtained.
- Other text changes on what is sufficient appropriate audit evidence

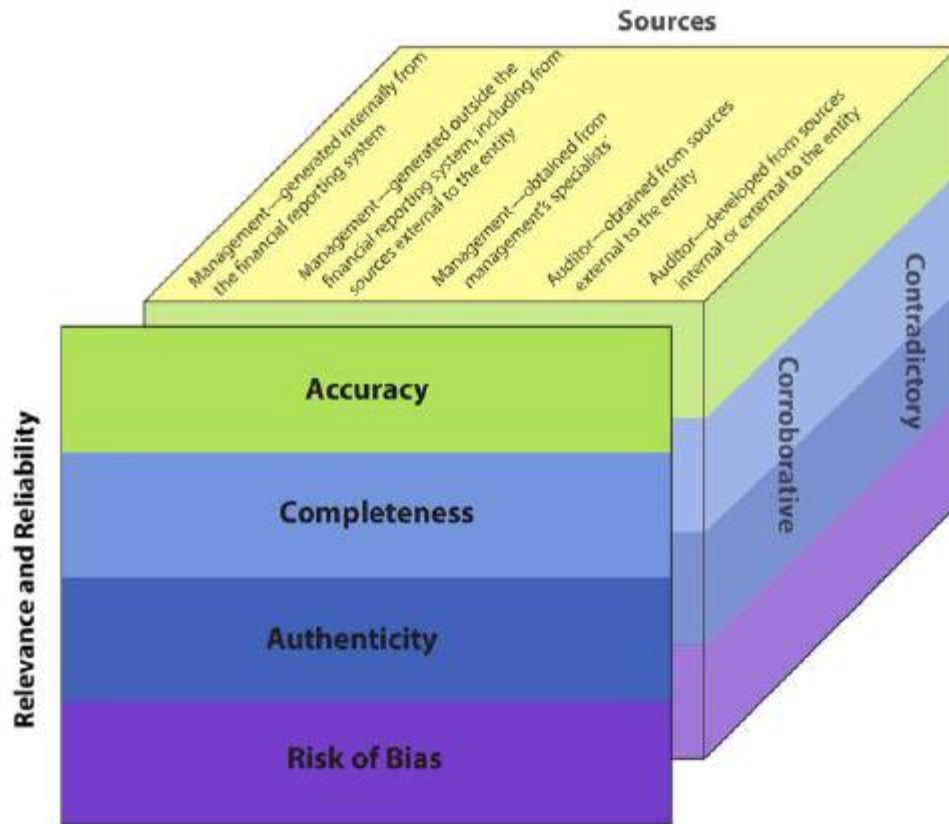
AU-C 500 *AUDIT EVIDENCE* EXPOSURE DRAFT BEING RELEASED BY THE AUDITING STANDARDS BOARD

- ASB does not believe automated data analysis is an ‘audit procedure’, but is a technique that can be used to meet objectives
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AICPA – attributes and factors used to evaluate whether information obtained represents appropriate audit evidence

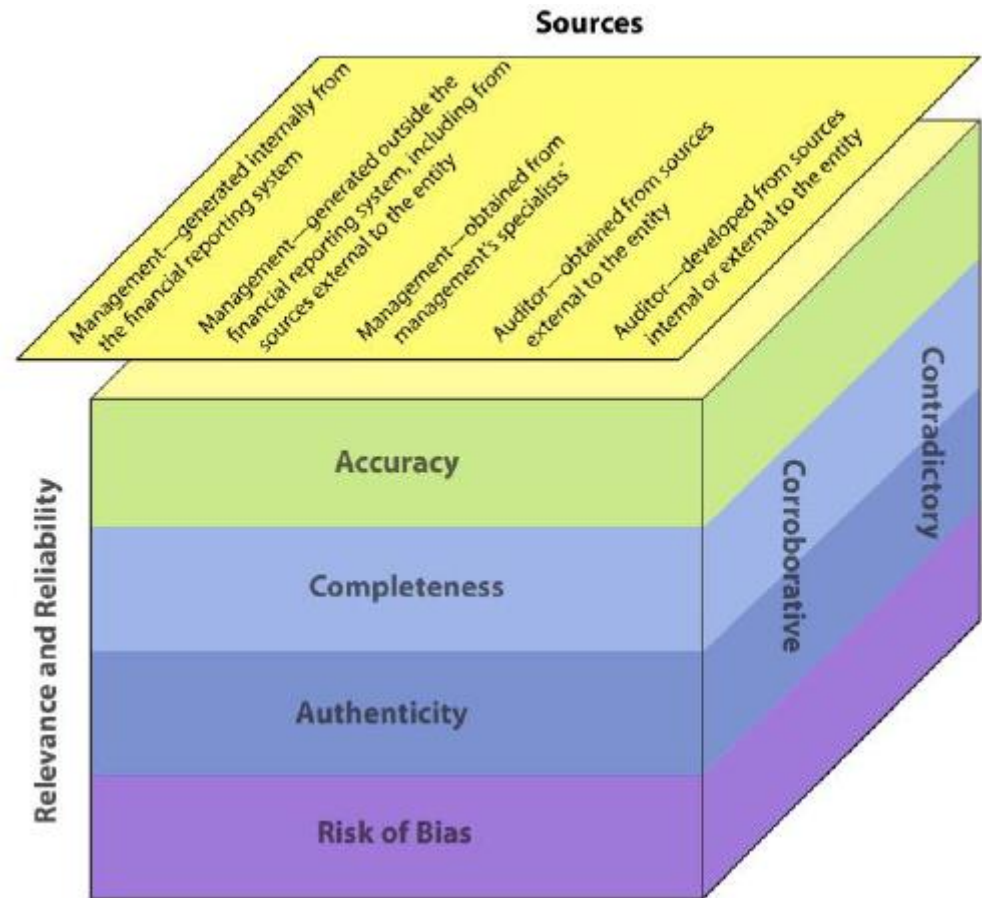
AU-C 500 *AUDIT EVIDENCE* EXPOSURE DRAFT BEING RELEASED BY THE AUDITING STANDARDS BOARD



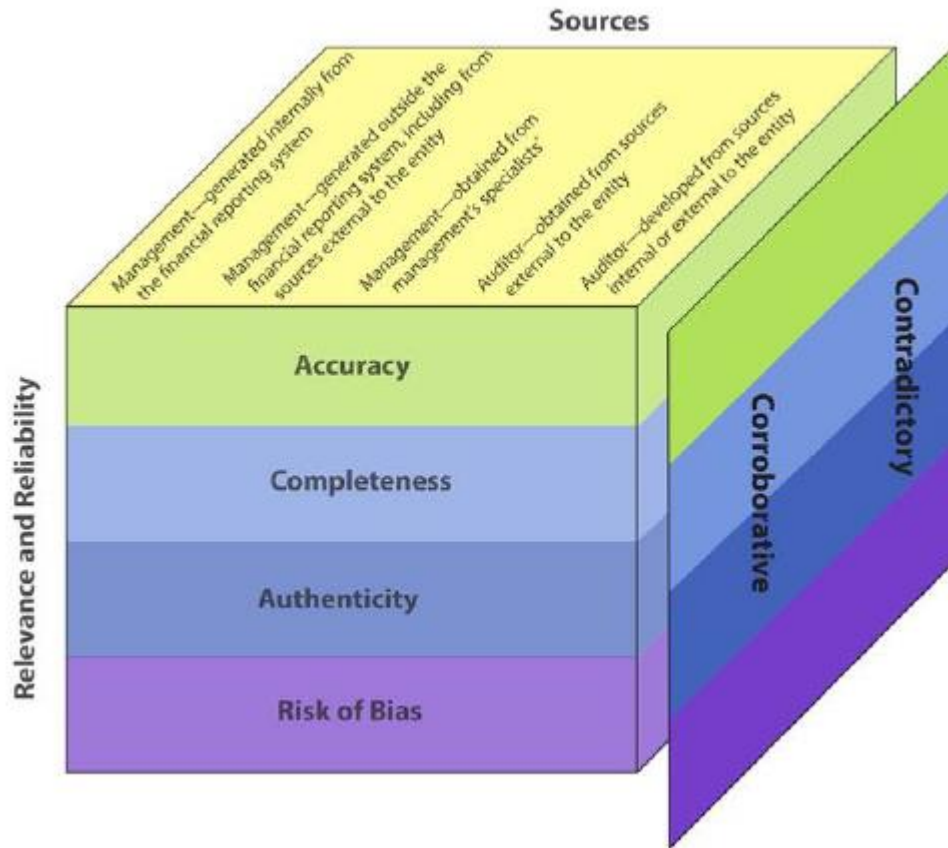
- Auditors will need to evaluate relevance and reliability in the context of the sources from which it was obtained
- Whether the evidence corroborates or contradicts assertions
- 22 proposed paragraphs of application guidance just on relevance and reliability

AU-C 500 *AUDIT EVIDENCE* EXPOSURE DRAFT BEING RELEASED BY THE AUDITING STANDARDS BOARD

- As important are the *sources* of information in gauging the relevance and reliability
- Is it generated internally or outside the financial reporting system?



AU-C 500 *AUDIT EVIDENCE* EXPOSURE DRAFT BEING RELEASED BY THE AUDITING STANDARDS BOARD



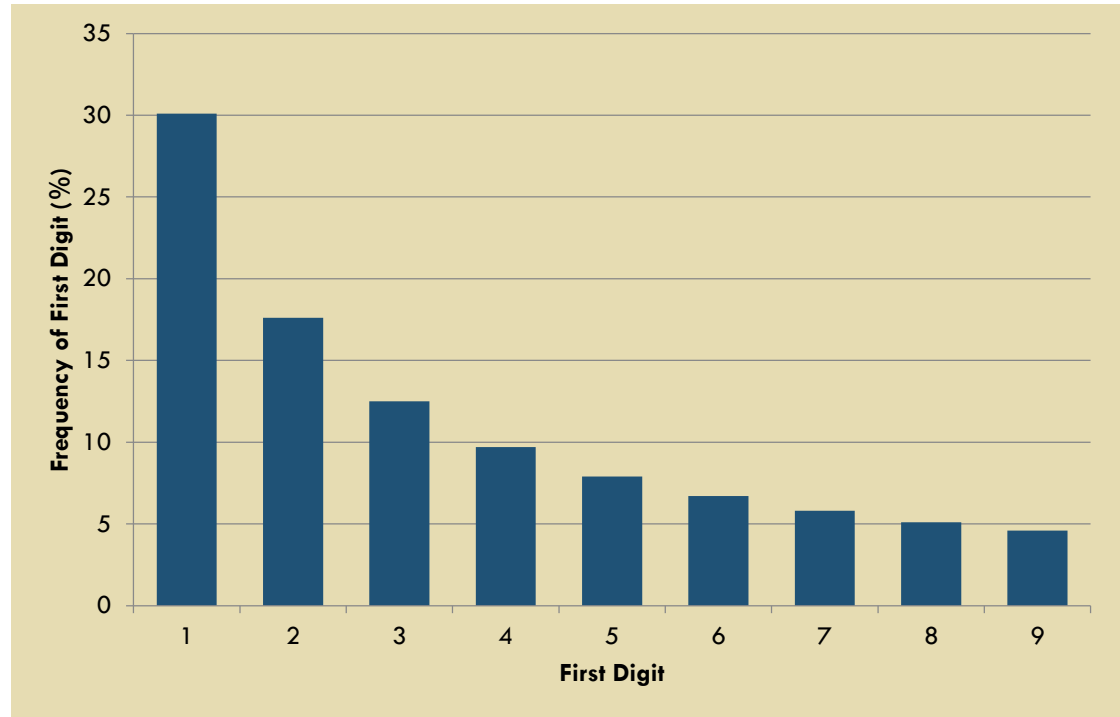
- Put them both together – does the evidence have relevance and reliability considering the sources
 - Are they contradictory or corroborative?



USING DATA ANALYTICS IN AUDITING

DATA ANALYTICS HAS BEEN AROUND FOR AWHILE, BUT NOT WIDELY USED DUE TO LACK OF TECHNOLOGY

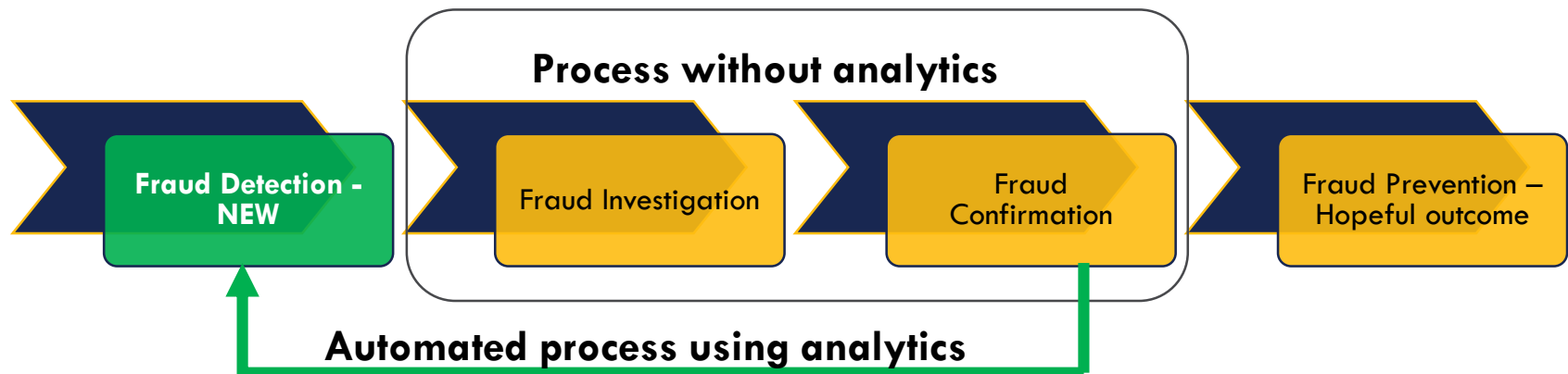
- Frequency distribution of the first digits in data
- Number 1 occurs naturally in about 30% of all transactions
- Larger the digit, less frequent
- Commonly used for forensics, fraud analysis and many other scientific purposes



First exhibited in 1938!

THE SPEEDY CONVERSION TO DATA-DRIVEN FRAUD DETECTION

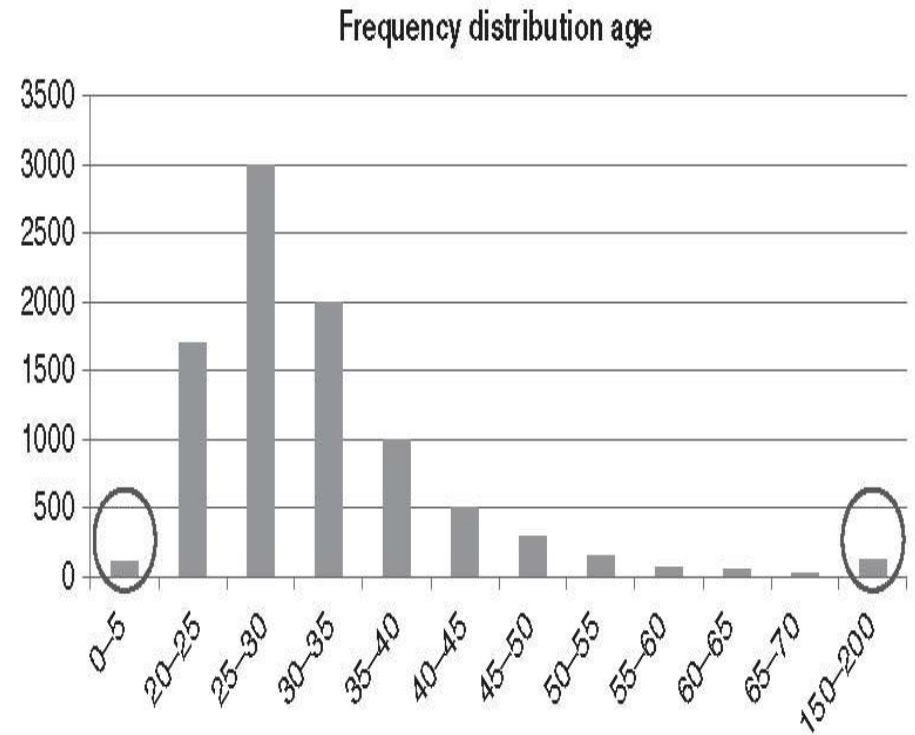
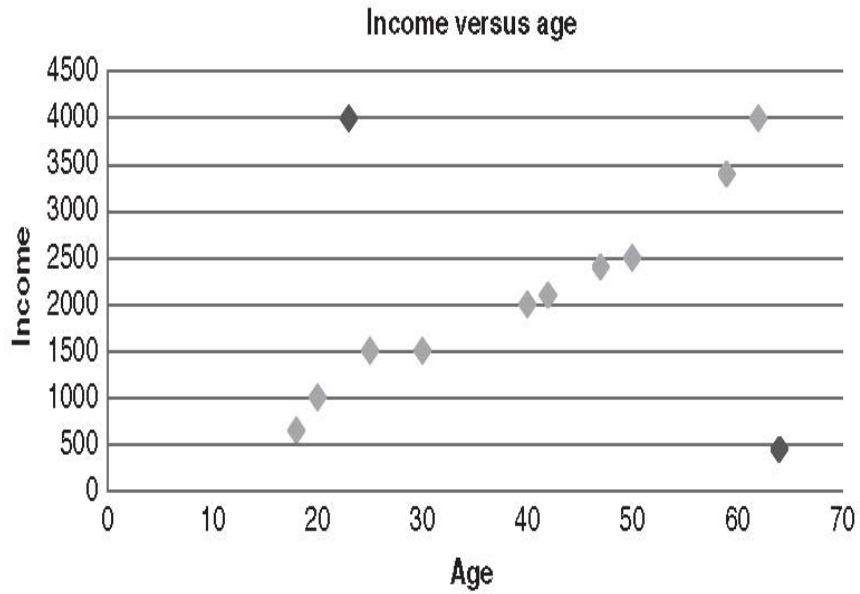
- Traditional fraud detection is expert-based and usually ineffective (see previous on Fraud)
- Industry is moving quickly to data-driven fraud detection using analytics / 'big data'
 - More precise – uses volumes of information to uncover fraud patterns usually invisible
 - More efficient – can comply with strict time constraints
 - Cost efficient – less paper, less decision-making
- Changes the fraud cycle



WHERE TO START

- Data needs to be categorized
 - Transactional data – usually structured and detailed – relational databases may be used
 - Contractual or account data – categorization by
 - Type of expense / revenue
 - Length of service (contract length)
 - **Socio / demographic**
 - Gender
 - Marital status
 - Income level
 - Education level
 - Occupation
 - Many others
- Data is then pooled and linked – think of what credit agencies do

WHAT DO THESE SHOW?



WHERE IT IS HEADING

- Behavioral information
 - Using pooled data – where does the person exist
 - Shopping
 - Social media / web surfing
 - Living conditions / lifestyle
- Merge the data to predict result
- Show outliers – focus there on potential fraud – becomes a shift toward auditing by exception
- Using big data and focus on outliers then shifts assurance to:
 - Automation / AI
 - Bots
 - Integrity of transaction / process (DLT / Blockchain)

PITFALLS

- GIGO
- Data Governance
 - Where is the data from / what sources?
 - How secure is it? (Does it comply with GDPR)?
 - Is the analysis being performed internally or by third parties?
 - Data privacy based on results
 - Incorrect analysis conclusion (jumping to the answer without evaluation)
 - Is the analysis hindsight (forensic) or foresight (predictive)

PUTTING DATA ANALYTICS INTO PRACTICE

Jane has worked with the State Department of Revenue for 28 years. Her husband Dick is retired. They live a quiet life. Their credit scores are 760-790. Their house is fully paid. Two kids are fully grown, married and out of the house. Dick and Jane have various hobbies that keep them busy.

While Jane was out of the house at the outlets buying an outfit for an upcoming family event, Dick made reservations on a two week cruise for Jane's birthday. It's on the same cruise line they went on six months ago and the company gave Dick an offer to the top suite for a special price. Dick gave his credit card and it was declined. Jane swiped her credit card at the outlets and it was declined.

PUTTING DATA ANALYTICS INTO PRACTICE

- **Take 10 minutes**
- What databases might have the credit card company(ies) used?
- If a D/A system is used in Internal Audit for the State DOR, what red flags would the systems ideally notice?
- Are there pitfalls here?

EXAMPLE - JOURNAL ENTRY TESTING WE USE

- Parameters on 61,825 journal entries in sample
 - Sample size based on audit risk = 33
 - Predictive dates that could cause anomalies
 - Federal holidays (New Years, MLK day, President's day, Memorial day, July 4th, Labor Day etc.)
 - Days of the week loaded where transactions unlikely (Saturday / Sunday)
 - Specific words searched for as well *and within words*
 - Plug
 - Fix
 - Correct
 - Balance
 - Fraud
 - Variance
 - Asdfirgagggeerrorlllop
 - Many others..

EXAMPLE - JOURNAL ENTRY TESTING WE USE

TA Eide Bailly JE Testing Module

Data analysis

Rounded amount
Amount field: Amount
Rounding base: 10, 100, 1,000, 10,000, 100,000, 1,000,000, Custom

PivotTable
 Report
 None

Specific dates
Date field: Date
Dates Selected

If transactions are rounded to 10,000 could be a problem – but any size can be used

Day of week
Date field: Date
 Monday, Tuesday, Wednesday, Thursday, Friday, Saturday, Sunday

PivotTable
 Report
 None

Words and phrases
Search field: Description
Words defined

Search within words
 Search for whole words only
 Search for whole cells only

PivotTable
 Report
 None

OK Cancel

EXAMPLE - JOURNAL ENTRY TESTING WE USE

Eide Bailly JE Testing Module

Gaps

Reference field: JE Number

Mask: CCNNNNNNCCCCCCC

List
 Summary

Summarize

Summarize by: JE Number

Sum	Count	(not used)	(not used)	(not used)	(not used)
Amount	Amount	(not used)	(not used)	(not used)	(not used)

Sort by: (not used)

Ascending
 Descending

Statistics

Select statistics

Source data only
 Include calculated columns

Highlight inconsistent data types

OK Cancel

EXAMPLE - JOURNAL ENTRY TESTING WE USE

Record_ID	glt_gl	glt_gl_key	glt_gl_of	glt_gl	glt_dat	glt_ref	glt_desc	glt_batch_id	glt_dr	glt_cr	glt_job_n	glt_prep	glt_entry_da	glt_entry_tin	glt_dr + glt	ROU	PECIFIC	DAY_OF	IDS_AN	PHRASES
26327	GL	11500FP501	101000	2018	7/12/2017	JE520514	Record June ECI reimbursement	RS071217E	2975	0	1624334		7/12/2017	14351600	2,975.00	Not rounded		Wednesday		
37145	GL	21700AA000	101000	2018	7/12/2017	JE520505	ADULT ED REGISTRATION FEES	SG071217A	708	0	1624141		7/12/2017	8223400	708.00	Not rounded		Wednesday		
22725	GL	11500FP501	101000	2018	7/13/2017	JE520523	ECI Rent	GS071317A	0	4206.15	1624706		7/13/2017	13494700	-4,206.15	Not rounded		Thursday		
38873	GL	27800AI000	101000	2018	7/13/2017	JE520523	EBMS 7/12/2017	GS071317A	0	390874.01	1624706		7/13/2017	13494700	-390,874.01	Not rounded		Thursday		
38874	GL	27800AI000	101000	2018	7/13/2017	JE520523	EBMS 7/10/2017	GS071317A	0	204296.3	1624706		7/13/2017	13494700	-204,296.30	Not rounded		Thursday		
39066	GL	27800EZ000	101000	2018	7/13/2017	JE520523	miCare Rent	GS071317A	0	1100	1624706		7/13/2017	13494800	-1,100.00	Not rounded		Thursday		
4511	GL	10113AE000	101000	2018	7/12/2017	JE520531	RECORDS COPY REIMBURSEMENT	SG071417B	0	10	1625244		7/14/2017	12060400	-10.00	Not rounded		Friday		
33587	GL	11500FP501	101000	2018	7/14/2017	JE520527	ECI May Revenue	RS071417A	67060.83	0	1625038		7/14/2017	8515300	67,060.83	Not rounded		Friday		
33589	GL	11500FP501	101000	2018	7/14/2017	JE520527	ECI June Revenue	RS071417A	67061.4	0	1625038		7/14/2017	8515300	67,061.40	Not rounded		Friday		
4485	GL	10107AE000	101000	2018	7/19/2017	JE520540	PowerSchool July 2017 Payment	GS071817A	0	8227.6	1626699		7/19/2017	9504000	-8,227.60	Not rounded		Wednesday		
16650	GL	20107AH000	101000	2018	7/19/2017	JE520540	PowerSchool July 2017 Payment	GS071817A	0	4052.4	1626699		7/19/2017	9504000	-4,052.40	Not rounded		Wednesday		
30032	GL	11500BA506	101000	2018	7/19/2017	JE520561	AutoID: RS072017 Job: 1627399	RS072017J	361.69	0	1627399		7/20/2017	15520400	361.69	Not rounded		Thursday		
37250	GL	11500FZ507	101000	2018	7/19/2017	JE520561	AutoID: RS072017 Job: 1627399	RS072017J	0	361.69	1627399		7/20/2017	15520400	-361.69	Not rounded		Thursday		
17120	GI	12800AF000	101000	2018	7/21/2017	IF520570	AutoID: XX72117A Job: 1627744	XX72117A	1292.7	0	1627744		7/21/2017	15250100	1,292.70	Not rounded		Friday		

Finding needles in a haystack – source data

EXAMPLE - JOURNAL ENTRY TESTING WE USE

Record ID	glt_gl	glt_gl_key	glt_gl_ob	glt_gl_fy	glt_date	glt_ref	glt_desc	glt_batch_id	glt_job_no	glt_prep_id	glt_entry_date	glt_entry_time	glt_dr+glt_cr	TC_ROUNDED	TC_SPECIFIC_DATES	TC_DAY_OF_WEEK
31326	GL	16000AE614	101000	2018	7/24/2017	JE520589	STIP TRANSFER JULY 24, 2017	SG072717A	1629147		7/27/2017	8495600	1,300,000.00	Rounded		Thursday
31327	GL	16000AE614	105000	2018	7/24/2017	JE520589	STIP TRANSFER JULY 24, 2017	SG072717A	1629147		7/27/2017	8495600	-1,300,000.00	Rounded		Thursday
31800	GL	16000AF614	101000	2018	7/24/2017	JE520589	STIP TRANSFER JULY 24, 2017	SG072717A	1629147		7/27/2017	8495600	2,100,000.00	Rounded		Thursday
31802	GL	16000AF614	105000	2018	7/24/2017	JE520589	STIP TRANSFER JULY 24, 2017	SG072717A	1629147		7/27/2017	8495600	-2,100,000.00	Rounded		Thursday
12562	GL	11000AI000	2710660	2018	7/1/2017	JE520634RV	P171996 SEON DESIGN	SG080417D	1632471		8/4/2017	16290200	-10,000.00	Rounded		Friday
24450	GL	11000AI000	953000	2018	7/1/2017	JE520634RV	P171996 SEON DESIGN	SG080417D	1632471		8/4/2017	16290200	10,000.00	Rounded		Friday
17842	GL	16000AF614	101000	2018	8/28/2017	JE520719	STIP TRANSFER AUGUST 28, 2017	SG082817B	1641425		8/28/2017	14401300	1,600,000.00	Rounded		Monday
17845	GL	16000AF614	105000	2018	8/28/2017	JE520719	STIP TRANSFER AUGUST 28, 2017	SG082817B	1641425		8/28/2017	14401300	-1,600,000.00	Rounded		Monday
30365	GL	16000AF614	101000	2018	9/30/2017	JE520842	STIP TRANSFER SEPT 28, 2017	SG100217A	1658656		10/2/2017	10430100	1,400,000.00	Rounded		Monday
30367	GL	16000AF614	105000	2018	9/30/2017	JE520842	STIP TRANSFER SEPT 28, 2017	SG100217A	1658656		10/2/2017	10430100	-1,400,000.00	Rounded		Monday
57004	GL	16000AE614	105000	2018	10/25/2017	JE520945	STIP TRANSFER	SG110317B	1671599		11/3/2017	14591400	-1,200,000.00	Rounded		Friday
57007	GL	16000AE614	101000	2018	10/25/2017	JE520945	STIP TRANSFER	SG110317B	1671599		11/3/2017	14591400	1,200,000.00	Rounded		Friday
51781	GL	16000AE614	105000	2018	11/30/2017	JE521062	STIP TRANSFER NOV 30, 2017	SG120617B	1681869		12/6/2017	8390100	-1,050,000.00	Rounded		Wednesday
51785	GL	16000AE614	101000	2018	11/30/2017	JE521062	STIP TRANSFER NOV 30, 2017	SG120617B	1681869		12/6/2017	8390100	1,050,000.00	Rounded		Wednesday
54410	GL	16000AF614	105000	2018	11/30/2017	JE521062	STIP TRANSFER NOV 30, 2017	SG120617B	1681869		12/6/2017	8390200	-950,000.00	Rounded		Wednesday
54412	GL	16000AF614	101000	2018	11/30/2017	JE521062	STIP TRANSFER NOV 30, 2017	SG120617B	1681869		12/6/2017	8390100	950,000.00	Rounded		Wednesday
9396	GL	28200EB000	101000	2018	5/8/2018	JE521637	AutoID: JA508188 Job: 1732736	JA508188	1732736		5/8/2018	11393200	50,000.00	Rounded		Tuesday
9839	GL	20100AA000	101000	2018	5/8/2018	JE521637	AutoID: JA508188 Job: 1732736	JA508188	1732736		5/8/2018	11393200	-50,000.00	Rounded		Tuesday
9387	GL	28200EB000	1670640	2018	5/8/2018	JE521637	HS Lang Arts Textbooks-Senior	JA508188	1732736		5/8/2018	11393200	-50,000.00	Rounded		Tuesday
9977	GL	20122EB000	1000640	2018	5/8/2018	JE521637	HS Lang Arts Textbooks-Senior	JA508188	1732736		5/8/2018	11393200	50,000.00	Rounded		Tuesday
8765	GL	16000AE614	105000	2018	5/28/2018	JE521712	STIP Transfer-Building fund	JA52318A	1738749		5/23/2018	11111700	-1,500,000.00	Rounded		Wednesday
12430	GL	16000AE614	101000	2018	5/28/2018	JE521712	STIP Transfer-Building fund	JA52318A	1738749		5/23/2018	11111700	1,500,000.00	Rounded		Wednesday
3526	GL	28512AI370	1920000	2018	6/26/2018	JE521842	Angel Fund	ZM06258A	1749847		6/26/2018	9191400	10,000.00	Rounded		Tuesday
3254	GL	28422DK808	1900000	2018	6/26/2018	JE521842	Angel Fund to Senior High	ZM06258A	1749847		6/26/2018	9191400	-10,000.00	Rounded		Tuesday
3253	GL	28512AI370	101000	2018	6/26/2018	JE521842	AutoID: ZM06258A Job: 1749847	ZM06258A	1749847		6/26/2018	9191400	-10,000.00	Rounded		Tuesday
3255	GL	28422DK808	101000	2018	6/26/2018	JE521842	AutoID: ZM06258A Job: 1749847	ZM06258A	1749847		6/26/2018	9191400	10,000.00	Rounded		Tuesday
4318	GL	11500FZ557	101000	2018	6/30/2018	JE522001	AutoID: JA731188 Job: 1760934	JA731188	1760934		7/31/2018	14242800	2,570,000.00	Rounded		Tuesday
846	GL	11500FZ557	1000112	2018	6/30/2018	JE522001	Sal/Ben Recode-Spec Ed SB191	JA731188	1760934		7/31/2018	14242800	-150,000.00	Rounded		Tuesday
4317	GL	21300BA000	1000112	2018	6/30/2018	JE522001	Sal/Ben Recode-Spec Ed SB191	JA731188	1760934		7/31/2018	14242900	150,000.00	Rounded		Tuesday
4613	GL	20100AA000	101000	2018	6/30/2018	JE522066	AutoID: JA81018C Job: 1764790	JA81018C	1764790		8/10/2018	12134200	-2,400,000.00	Rounded		Friday
5929	GL	28200EZ000	101000	2018	6/30/2018	JE522066	AutoID: JA81018C Job: 1764790	JA81018C	1764790		8/10/2018	12134200	2,400,000.00	Rounded		Friday
5928	GL	28200EZ000	5300000	2018	6/30/2018	JE522066	Transf to Mult Dist Coop Fund	JA81018C	1764790		8/10/2018	12134200	-2,400,000.00	Rounded		Friday
5930	GL	20107AH000	6101910	2018	6/30/2018	JE522066	Transf to Mult Dist Coop Fund	JA81018C	1764790		8/10/2018	12134200	2,400,000.00	Rounded		Friday

Anomalies started to fall out

EXAMPLE - JOURNAL ENTRY TESTING WE USE

59894	GL	10100AA000	3114000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	29778	1674041	11/10/2017	10045200	-29,778.00	Not rounded	Veterans Day	Friday
59895	GL	10100AA000	3113000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	25136.45	1674041	11/10/2017	10045200	-25,136.45	Not rounded	Veterans Day	Friday
59896	GL	10100AA000	3112000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	35783.5	1674041	11/10/2017	10045200	-35,783.50	Not rounded	Veterans Day	Friday
59897	GL	10100AA000	3111000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	269878.8	1674041	11/10/2017	10045200	-269,878.75	Not rounded	Veterans Day	Friday
59898	GL	10100AA000	3110000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	3002506	1674041	11/10/2017	10045100	-3,002,506.14	Not rounded	Veterans Day	Friday
59915	GL	12800AE000	1190000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	11.94	1674041	11/10/2017	10045400	-11.94	Not rounded	Veterans Day	Friday
59916	GL	12800AE000	1117000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	415.24	1674041	11/10/2017	10045400	-415.24	Not rounded	Veterans Day	Friday
60226	GL	22800AH000	1190000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	10.47	1674041	11/10/2017	10045800	-10.47	Not rounded	Veterans Day	Friday
60227	GL	22800AH000	1117000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	403.31	1674041	11/10/2017	10045800	-403.31	Not rounded	Veterans Day	Friday
60228	GL	22800AH000	101000	2018	10/31/2017	JE520970	REVENUE (SG111017A	413.78	0	1674041	11/10/2017	10045800	413.78	Not rounded	Veterans Day	Friday
60229	GL	21700AA000	1190000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	9.63	1674041	11/10/2017	10045700	-9.63	Not rounded	Veterans Day	Friday
60230	GL	21700AA000	1117000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	372.09	1674041	11/10/2017	10045700	-372.09	Not rounded	Veterans Day	Friday
60232	GL	21300AA000	101000	2018	10/31/2017	JE520970	REVENUE (SG111017A	171.74	0	1674041	11/10/2017	10045700	171.74	Not rounded	Veterans Day	Friday
60233	GL	21200DW000	4555000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	24919.9	1674041	11/10/2017	10045700	-24,919.90	Not rounded	Veterans Day	Friday
60234	GL	21200DW000	4550000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	499449.5	1674041	11/10/2017	10045600	-499,449.51	Not rounded	Veterans Day	Friday
60235	GL	21000AA000	1190000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	13.38	1674041	11/10/2017	10045600	-13.38	Not rounded	Veterans Day	Friday
60236	GL	21000AA000	1117000	2018	10/31/2017	JE520970	REVENUE (SG111017A	0	505.12	1674041	11/10/2017	10045600	-505.12	Not rounded	Veterans Day	Friday
60238	GL	11700AA000	101000	2018	10/31/2017	JE520970	REVENUE (SG111017A	152.9	0	1674041	11/10/2017	10045300	152.90	Not rounded	Veterans Day	Friday
60295	GL	28600AA000	620000	2018	10/31/2017	JE520971	CLEARED VSG111017B	342382.5	0	1674288	11/10/2017	14430900	342,382.51	Not rounded	Veterans Day	Friday

Additional AI showed over 3,400 transactions on federal holidays

2255	GL	10189AE000	2213320	2018	6/30/2018	JE522026	Staff Dev Training to 282	JA80418E	0	28813.6	1762460	8/4/2018	18205400	-28,813.57	Not rounded	Saturday
2257	GL	10189AE000	2213122	2018	6/30/2018	JE522026	Staff Dev Subs to 282	JA80418E	0	111186	1762460	8/4/2018	18205400	-111,186.43	Not rounded	Saturday
2312	GL	10114AE000	2212610	2018	6/30/2018	JE522026	PLTW Curric Supplies to 282	JA80418E	0	28662.6	1762460	8/4/2018	18205300	-28,662.63	Not rounded	Saturday
2314	GL	10114AE000	2212535	2018	6/30/2018	JE522026	Curric Online Subsc to 282	JA80418E	0	27295.2	1762460	8/4/2018	18205300	-27,295.20	Not rounded	Saturday
2329	GL	10100AA000	101000	2018	6/30/2018	JE522026	AutoID: JA80418E Job: 1762460	JA80418E	1015807	0	1762460	8/4/2018	18205300	1,015,807.37	Not rounded	Saturday
2489	GL	11000AA000	101000	2018	6/30/2018	JE522026	AutoID: JA80418E Job: 1762460	JA80418E	75000	0	1762460	8/4/2018	18205400	75,000.00	Not rounded	Saturday
2492	GL	10114DZ000	1670640	2018	6/30/2018	JE522026	Textbooks-Curriculum- to 282	JA80418E	0	644850	1762460	8/4/2018	18205300	-644,849.54	Not rounded	Saturday
3018	GL	28214EZ000	2213320	2018	6/30/2018	JE522026	Staff Dev Training to 282	JA80418E	28813.6	0	1762460	8/4/2018	18205500	28,813.57	Not rounded	Saturday
3019	GL	28214EZ000	2213122	2018	6/30/2018	JE522026	Staff Dev Subs to 282	JA80418E	111186	0	1762460	8/4/2018	18205500	111,186.43	Not rounded	Saturday
3020	GL	28214EZ000	2212610	2018	6/30/2018	JE522026										Saturday
3021	GL	28214EZ000	2212535	2018	6/30/2018	JE522026										Saturday
3022	GL	28214EZ000	1670640	2018	6/30/2018	JE522026										Saturday
3098	GL	11000AA000	2720513	2018	6/30/2018	JE522026										Saturday
4944	GL	28200EZ000	2720513	2018	6/30/2018	JE522026	EL Transportation costs to 282	JA80418E	75000	0	1762460	8/4/2018	18205400	75,000.00	Not rounded	Saturday
5005	GL	28200EZ000	101000	2018	6/30/2018	JE522026	AutoID: JA80418E Job: 1762460	JA80418E	0	75000	1762460	8/4/2018	18205400	-75,000.00	Not rounded	Saturday
5008	GL	11300BA000	1000112	2018	6/30/2018	JE522026	EL SpEd Costs to SB191 Tui Lev	JA80418E	175000	0	1762460	8/4/2018	18205400	175,000.00	Not rounded	Saturday
5012	GL	11300AA000	101000	2018	6/30/2018	JE522026	AutoID: JA80418E Job: 1762460	JA80418E	0	175000	1762460	8/4/2018	18205400	-175,000.00	Not rounded	Saturday
5646	GL	28214EZ000	101000	2018	6/30/2018	JE522026	AutoID: JA80418E Job: 1762460	JA80418E	0	840807	1762460	8/4/2018	18205500	-840,807.37	Not rounded	Saturday
6948	GL	10162BA000	1000112	2018	6/30/2018	JE522026	EL SpEd Costs to SB191 Tui Lev	JA80418E	0	175000	1762460	8/4/2018	18205400	-175,000.00	Not rounded	Saturday

81 transactions on Saturdays

EXAMPLE – JOURNAL ENTRY TESTING WE USE

3553	GL	16000AE614	2620330	2018	6/30/2018	JE522088	Correcting Fixed Asset GL Code	CH081618B	6400	0	1767608		8/16/2018	19074300	6,400.00	Not rounded	Thursday	fix,correct
21961	GL	11500FW51	1000330	2018	9/30/2017	JE520925	520830-Reverse fraud credit	RS102517C	0	425.13	1668092		10/25/2017	16180400	-425.13	Not rounded	Wednesday	fraud
21963	GL	11500FW51	1000330	2018	9/30/2017	JE520925	520690-Reverse fraud credit	RS102517C	15.45	0	1668092		10/25/2017	16180400	15.45	Not rounded	Wednesday	fraud
21965	GL	11500FW51	1000330	2018	9/30/2017	JE520925	520690-Reverse fraud credit	RS102517C	81.98	0	1668092		10/25/2017	16180400	81.98	Not rounded	Wednesday	fraud
21968	GL	11500FW51	1000531	2018	9/30/2017	JE520925	520690-Reverse fraud credit	RS102517C	0	15.45	1668092		10/25/2017	16180400	-15.45	Not rounded	Wednesday	fraud
21970	GL	11500FW51	1000582	2018	9/30/2017	JE520925	520690-Reverse fraud credit	RS102517C	0	81.98	1668092		10/25/2017	16180500	-81.98	Not rounded	Wednesday	fraud
21972	GL	11500FW51	1000610	2018	9/30/2017	JE520925	520830-Reverse fraud credit	RS102517C	425.13	0	1668092		10/25/2017	16180500	425.13	Not rounded	Wednesday	fraud
33829	GL	20124AH00C	1370330	2018	9/30/2017	JE520903	FCS Fraudulent unauthorized ch	PC171019B	206.1	0	1666055		10/19/2017	13272000	206.10	Not rounded	Thursday	fraud
33835	GL	20124AH00C	1370330	2018	9/30/2017	JE520903	FCS Fraudulent unauthorized ch	PC171019B	400	0	1666055		10/19/2017	13272000	400.00	Not rounded	Thursday	fraud
2408	GL	10134AF000	2620583	2018	6/30/2018	JE521934	refund on fraudulent charge	PC180717	0	202.95	1756232		7/17/2018	18204900	-202.95	Not rounded	Tuesday	fraud
2409	GL	10134AF000	2620583	2018	6/30/2018	JE521934	refund on fraudulent charge	PC180717	0	44.22	1756232		7/17/2018	18204900	-44.22	Not rounded	Tuesday	fraud
4549	GL	10145AE000	1000610	2018	6/30/2018	JE521934	fraud	PC180717	0	113.95	1756232		7/17/2018	18210000	-113.95	Not rounded	Tuesday	fraud
4550	GL	10145AE000	1000610	2018	6/30/2018	JE521934	fraud	PC180717	0	272.95	1756232		7/17/2018	18205900	-272.95	Not rounded	Tuesday	fraud
4551	GL	10145AE000	1000610	2018	6/30/2018	JE521934	fraud	PC180717	386.9	0	1756232		7/17/2018	18205900	386.90	Not rounded	Tuesday	fraud
6676	GL	10137AF000	1000630	2018	9/30/2017	JE520903	fraud charge being refunded	PC171019B	0.27	0	1666055		10/19/2017	13233600	0.27	Not rounded	Thursday	fraud
6677	GL	10137AF000	1000630	2018	9/30/2017	JE520903	fraud charge being refunded	PC171019B	27.48	0	1666055		10/19/2017	13233600	27.48	Not rounded	Thursday	fraud
6678	GL	10137AF000	1000630	2018	9/30/2017	JE520903	fraud refund	PC171019B	0	0.27	1666055		10/19/2017	13233600	-0.27	Not rounded	Thursday	fraud
6679	GL	10137AF000	1000630	2018	9/30/2017	JE520903	fraud refund	PC171019B	0	27.48	1666055		10/19/2017	13233600	-27.48	Not rounded	Thursday	fraud

Results

- 927 duplicate revenue postings
- 127 sequential (automated) journal entries are missing
- 966 transactions with the word 'fraud' included by clerks

NEXT STEPS

- BOT / AI next?
 - Database linking defined in advance
 - Security testing
 - Continuous refinement

QUESTIONS?

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THANK YOU

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