

OSCPAS

GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE

May 1-2, 2025

Presented by: Melissa Galasso,
Attorney General Gentner Drummond, Frank Crawford,
David Cotton, Auditor Cindy Byrd, Nathan Ellis,
Lisa Parker, Chris Pembrook, Mick Dodson



Welcome to the **OSCPA's Governmental Accounting and Auditing Conference - Virtual!**

We hope you'll enjoy today's summit! Here are a few important details to help you adjust to a virtual experience:

• Connect.

Be sure to <u>test your system</u> before entering this virtual event to ensure your connection meets our platform's requirements.

• Credit.

Polling questions will appear on your screen periodically. Answer 70% or more correctly to receive full credit. We will send your CPE certificate within one week of the event.

• Engage.

Use the Chat section to interact with discussion leaders and other attendees. OSCPA staff will also share Important information and updates here.

Evaluate.

You'll receive a link to evaluate the conference. Please share your thoughts so we can improve your experience.

• Enjoy.

We're so happy to have you! If you have questions, contact cpe@oscpa.com or (800) 522-8261.



GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE

EMBASSY SUITES DOWNTOWN MEDICAL CENTER

May 1, 2025 – Day 1

8:00 – 9:40 AM	GENERAL SESSION (100 MINUTES) AICPA AND YELLOW BOOK AUDITING STANDARDS UPDATE By: MELISSA GALASSO, CPA	YOUNG CDE
9:40 – 10:00 AM	NETWORKING BREAK	
10:00 – 10:30 AM	GENERAL SESSION (75 MINUTES) UPDATES FROM THE ATTORNEY GENERAL'S OFFICE By: ATTORNEY GENERAL GENTNER DRUMMOND	Young CDE
10:30 – 11:15 AM	GENERAL SESSION (75 MINUTES) THE ACCOUNTANTS ROLE IN LITIGATION SUPPORT By: FRANK CRAWFORD, CPA AND DAVE COTTON, CPA	Young CDE
11:15 AM – 12:00 PM	NETWORKING LUNCH (45 MINUTES)	
12:00 – 1:15 PM	GENERAL SESSION (75 MINUTES) STATE AUDITOR AND INSPECTOR UPDATE By: CINDY BYRD, CPA	YOUNG CDE
1:15 – 1:30 PM	NETWORKING BREAK	
1:30 – 2:45 PM	CONCURRENT SESSIONS (75 MINUTES) A) SINGLE AUDIT AND COMPLIANCE AUDITING UPDATE BY: MELISSA GALASSO, CPA	Young DE
	B) TAX INCREMENT FINANCING IN OKLAHOMA BY: NATHAN ELLIS, JD	Young C
2:45 – 3:00 PM	NETWORKING BREAK	
3:00 – 4:15 PM	GENERAL SESSION (75 MINUTES) A) THE FRAUD, WASTE, AND ABUSE SUPER BOWL By: DAVE COTTON, CPA	YOUNG CDE
4:30 PM - 6:30 PM	NETWORKING RECEPTION	EVEREST



GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE

EMBASSY SUITES DOWNTOWN MEDICAL CENTER

May 2, 2025 – Day 2

8:00 – 9:40 AM	GENERAL SESSION (100 MINUTES) GASB Update By: LISA PARKER, CPA, CGMA	YOUNG CDE
9:40 – 10:00 AM	NETWORKING BREAK	
10:00 – 11:15 AM	GENERAL SESSION (75 MINUTES) GASB UPDATE PART II By: LISA PARKER, CPA, CGMA; FRANK CRAWFORD, CPA	YOUNG CDE
11:15 – 12:00 PM	NETWORKING LUNCH (45 MINUTES)	
12:00 – 1:15 PM	GENERAL SESSION (75 MINUTES) IS ARTIFICIAL INTELLIGENCE ETHICAL? BY: DAVE COTTON, CPA	YOUNG CDE
1:15 – 1:30 PM	NETWORKING BREAK	
1:30 – 2:45 PM	CONCURRENT SESSIONS (75 MINUTES) A) GASB 101, COMPENSATED ABSENCES: A DEEPER DIVE By: CHRIS PEMBROOK, CPA B) THE NEW CITY/TOWN AGREED UPON PROCEDURE ENGAGEMENTS, RULES, REGULATIONS AND PROCEDURES (REPEAT) By: FRANK CRAWFORD, CPA	YOUNG DE YOUNG C
2:45 – 3:00 PM	NETWORKING BREAK	
3:00 – 4:15 PM	GENERAL SESSION (75 MINUTES) PANEL Q AND A By: MICK DODSON; CHRIS PEMBROOK, CPA; FRANK CRAWFORD, C	Young CDE
4:15 PM	Day Two Adjourns	

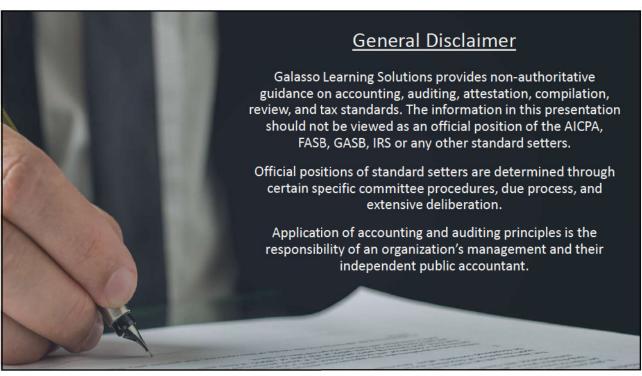


AICPA AND YELLOW BOOK AUDITING STANDARDS UPDATE

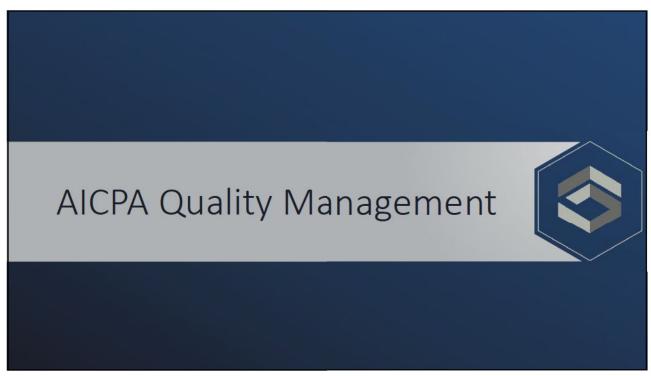
May 1, 2025

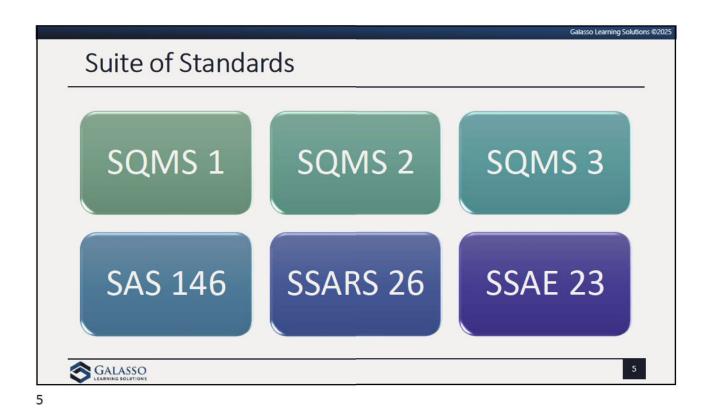
Presented by Melissa Galasso, CPA











The Why

• The environment in which firms operate has evolved

- The power and use of technological resources have increased exponentially, both by businesses and by firms
- The expectations of regulators, given high-profile business failures, are higher
- This model provides a more scalable approach to quality for firms of all sizes



The QM Standards in a Nutshell

- Increases firm leadership responsibilities and accountability, and improve firm governance
- Introduces a risk-based approach focused on achieving quality objectives
- Addresses technology, networks, and the use of external service providers
- Increases focus on the continual flow of information and appropriate communication internally and externally



7

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The QM Standards in a Nutshell Cont'd

- Promotes proactive monitoring of quality management systems and timely and effective remediation of deficiencies
- Clarifies and strengthens requirements for a more robust engagement quality review (EQR)
- Enhances the engagement partner's (EP's)
 responsibility for audit engagement leadership and
 audit quality



SQMS No. 1



9

Background

Statement on Quality Management Standards (SQMS) 1, A Firm's System of Quality Management

• Issued: June 2022

- Background:
 - Alignment with IAASB
 - Replaces the concept of Quality Control to a more risk based ongoing process



Components of the System of QM

- The firm's risk assessment process (new)
- Governance and leadership (renamed & updated)
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Engagement performance
- Resources (renamed and expanded)
- Information and communication (new)
- Monitoring and remediation process (renamed & updated)



Objective of the Firm

 The objective of the firm in the context of the standard is to design, implement, and operate a system of quality management that provides the firm with reasonable assurance that the objectives of the system of quality management are achieved



13

13

Objective of System of QM

- The system of quality management is designed to achieve the following objectives:
 - The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements
 - Engagement reports issued by the firm are appropriate in the circumstances



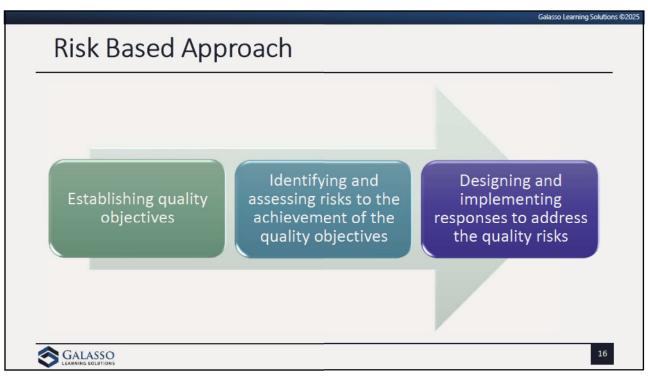
Risk Assessment Process

- The firm's risk assessment process is a new component that comprises the process the firm is required to follow in implementing the risk-based approach to quality management
 - Shifts from a policies-based approach to a risk-based approach



15

15



Quality Risks

 The firm should identify and assess quality risks to provide a basis for the design and implementation of responses



17

17

Responsibilities

 Obtain an understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives



Nature & Circumstances of the Firm

- The complexity and operating characteristics of the firm
- The strategic and operational decisions and actions, business processes, and business model of the firm
- The characteristics and management style of leadership
- The resources of the firm, including the resources provided by service providers
- Law, regulation, professional standards, and the environment in which the firm operates
- In the case of a firm that belongs to a network, the nature and extent of the network requirements and network services, if any

19

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Nature & Circumstances of the Engagement

- The types of engagements performed by the firm and the reports to be issued
- The types of entities for which such engagements are undertaken



Impact

 Take into account how, and the degree to which, the conditions, events, circumstances, actions, or inactions may adversely affect the achievement of the quality objectives



21

21

Response

 The firm should design and implement responses to address the quality risks in a manner that is based on, and responsive to, the reasons for the assessments given to the quality risks



Policies & Procedures

 The firm should establish policies or procedures that are designed to identify information that indicates additional quality objectives, or additional or modified quality risks or responses, are needed due to changes in the nature and circumstances of the firm or its engagements



23

23

Additional Objectives

- Establish additional quality objectives or modify additional quality objectives previously established by the firm
- Identify and assess additional quality risks, modify the quality risks, or reassess the quality risks
- Design and implement additional responses or modify the responses



Less Complex Firms

- Ultimate responsibility and accountability for the system of quality management may be assigned to a single managing partner with sole responsibility for the oversight of the firm
 - May also assume responsibility for all aspects of the system of quality management, including operational responsibility for the system of quality management, compliance with independence requirements, and the monitoring and remediation process



25

25

Less Complex Firms Cont'd

- The individuals assigned operational responsibility for the system of QM may have a sufficient understanding of the firm and its engagements to undertake the risk assessment process
 - The documentation of the quality objectives, quality risks, and responses may be less extensive



AICPA Toolkit

For AICPA Members

- https://www.aicpacima.com/resources/download/free-practice-aid-setup-your-a-and-a-quality-management-system-smallmedium-firms
- https://www.aicpa-cima.com/resources/download/ practice-aid-quality-management-system-solepractitioners



27

27

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Evaluating the System

- Based on the evaluation, those assigned ultimate responsibility and accountability for the system of QM should conclude, on behalf of the firm, one of the following:
 - The system of quality management provides the firm with reasonable assurance that the objectives of the system of QM are being achieved
 - Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of QM are being achieved
 - The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of QM are being achieved

Documentation

- The firm should prepare documentation of its system of quality management that is sufficient to
 - Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the system of quality management and performing engagements
 - Support consistent implementation and operation of the responses
 - Provide evidence of the design, implementation, and operation of the responses to support the evaluation of the system of quality management by the individual or individuals assigned ultimate responsibility and accountability for the system of quality management



29

29

Documentation Cont'd

- Identification of the individual or individuals assigned ultimate responsibility and accountability for the system of quality management and operational responsibility for the system of quality management
- The firm's quality objectives and quality risks
- A description of the responses and how the firm's responses address the quality risks



Documentation Cont'd

- Regarding the monitoring and remediation process
 - Evidence of the monitoring activities performed;
 - The evaluation of findings, and identified deficiencies and their related root causes; and
 - Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions
 - Communications about monitoring and remediation
- The conclusion reached and basis for that conclusion



31

31

Documentation Cont'd

- The firm should document the matters as they relate to network requirements or network services and the evaluation of the network requirements or network services related to the firm's quality objectives and quality risks
- The firm should establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm and its peer reviewer to monitor the design, implementation, and operation of the firm's system of quality management or for a longer period if required by law or regulation



Effective Date

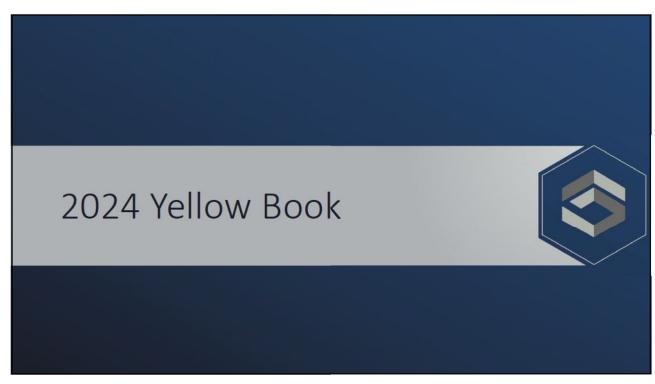
- Systems of quality management are required to be designed and implemented by December 15, 2025
- The evaluation of the system of quality management is required to be performed within one year following December 15, 2025





33

33



Background

Government Auditing Standards 2024 Revision

• Issued: February 1, 2024

- Background:
 - Contains major changes from, and supersedes, Government Auditing Standards 2018 Revision Technical Update April 2021
 - Chapter 5, "Quality Management, Engagement Quality Reviews, and Peer Review" in the 2024 revision replaces Chapter 5, "Quality Control and Peer Review," in the 2018 Revision
 - Application guidance is added to Chapter 6, "Standards for Financial Audits"

35

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Major Changes

- Some of the changes in the 2024 Revision of Government Auditing Standards reflect:
 - An emphasis on the responsibility of an audit organization's leadership for proactively managing quality on its engagements
 - An approach that promotes scalability of the system of quality management for use by audit organizations differing in size and complexity
 - · A risk-based process for achieving the objectives of quality management
 - · A change in approach from quality control to quality management
 - Flexibility for audit organizations subject to other quality management standards to avoid the burden of designing, implementing, and operating separate systems of quality management
 - Promotion of proactive and effective monitoring activities and increased emphasis on tailoring monitoring activities
 - · Provisions for optional engagement quality reviews of GAGAS engagements
 - Application guidance on key audit matters for when they may apply to financial audits of government entities and entities that receive government financial assistance

Convergence

- Aligns significantly with AICPA & IAASB QM standards
 - Same effective date as AICPA



37

37

Quality Management Overview



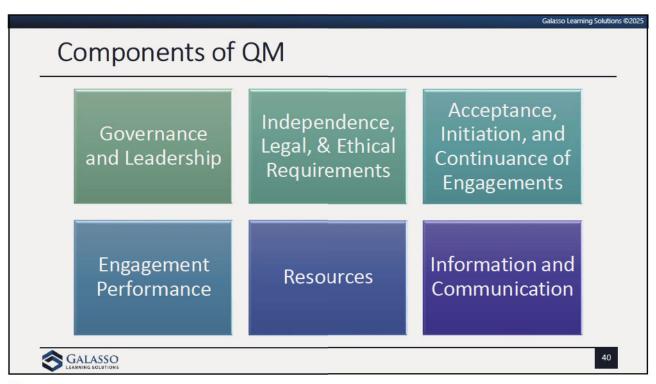
Objective

- The objective of a system of QM is to provide the audit organization with reasonable assurance that the audit organization and its personnel
 - Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations and
 - Perform and report on engagements in accordance with such standards and requirements



39

39



Processes

- The risk assessment process includes assessing and responding to risks to achieving the quality objectives
- The monitoring and remediation process includes
 - Providing relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management
 - Taking appropriate actions to respond to and remediate identified deficiencies in the system of quality management
 - Enabling the audit organization to assess compliance with professional standards and with policies and procedures it has established to address quality risks



4

41

Risk Based Approach

- Establishing the desired outcomes relative to the components of the system of quality management
 - Referred to as quality objectives
- Identifying and assessing risks to achieving the quality objectives
 - Referred to as quality risks
- Designing and implementing responses to address quality risks



Requirements

- An audit organization must design, implement, and operate a system of quality management that provides it with reasonable assurance that the audit organization and its personnel
 - Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations and
 - Perform and report on engagements in accordance with such standards and requirements



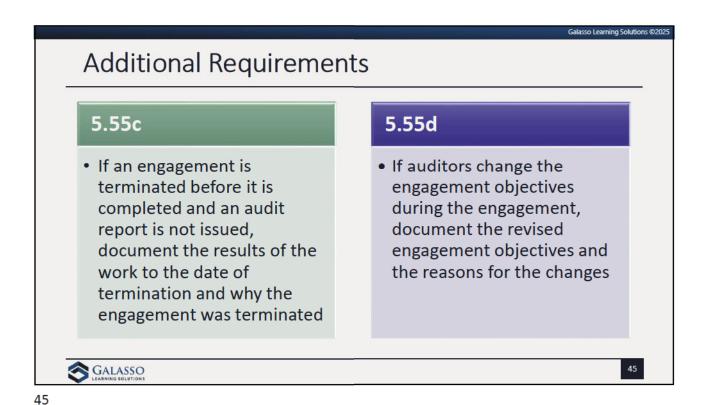
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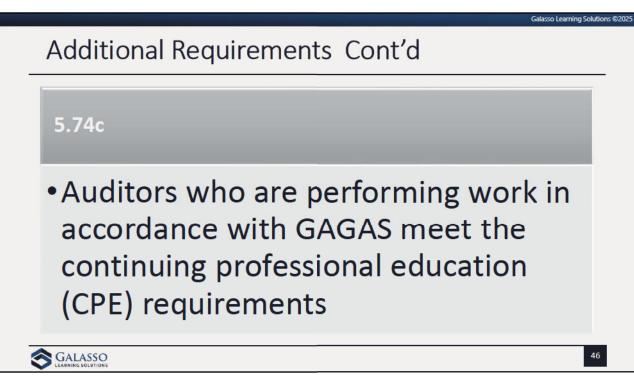
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Nongovernment Audit Orgs

- A nongovernment audit organization subject to the quality management standards of recognized organizations should comply with the respective organization's QM requirements and the requirements of paragraphs 5.55c, 5.55d, & 5.74c
- Recognized Orgs
 - American Institute of Certified Public Accountants
 - International Auditing and Assurance Standards Board
 - Public Company Accounting Oversight Board







Government Audit Organizations

 Government audit organizations should comply with the GAGAS quality management requirements in paragraphs 5.05 through 5.138 and, if applicable, engagement quality review requirements in paragraphs 5.139 through 5.154



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47

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Non-Govs Not Subject to Recognized Orgs

 Nongovernment audit organizations not subject to the quality management standards of one of the recognized organizations in paragraph 5.07 should comply with the GAGAS quality management requirements in paragraphs 5.05 through 5.138 and, if applicable, engagement quality review requirements in paragraphs 5.139 through 5.154



Financial Reporting



49

Key Audit Matters – Application Guidance

- Although there is no requirement in GAGAS to communicate key audit matters in the auditor's report, auditors may be required to communicate in the auditor's report key audit matters for audits of government entities and entities that receive government financial assistance if
 - Engaged to do so by management or those charged with governance or
 - Required by law or regulation



Effective Date



51

Effective Date

 Effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025, and for performance audits beginning on or after December 15, 2025



Effective Date Cont'd

- A system of quality management that complies with Government Auditing Standards is required to be designed and implemented by December 15, 2025
- An audit organization should complete its evaluation of the system of quality management by December 15, 2026

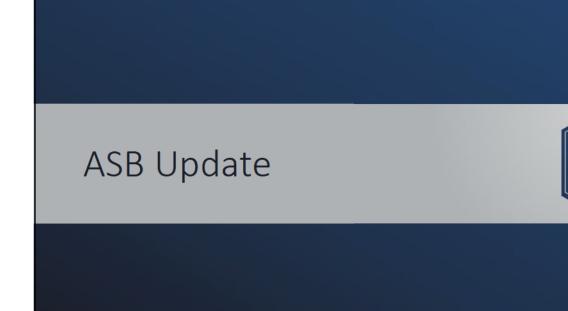


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Effective Date Cont'd

• Early implementation is permitted



55

Proposed SAS

Proposed SAS, External Confirmations

• Issued: February 27, 2025

• Background:

 In September 2023, the PCAOB adopted a new standard, replacing AS 2310, The Confirmation Process, with AS 2310, The Auditor's Use of Confirmation



56

Proposal

 Requires the auditor to use external confirmation procedures for cash and cash equivalents held by third parties (cash) to respond to the assessed risks of material misstatement for certain relevant assertions of significant classes of transactions, account balances, or disclosures



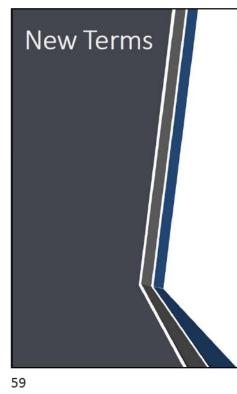
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Proposal Cont'd

- Proposed amendment expands the documentation for accounts receivable by removing "when the account balance is material" from the requirement
 - Ties the documentation requirement directly to the circumstances in which exceptions to the use of external confirmation procedures are present





Definitions

.06 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Confirmation request. A request from the auditor to a confirming party regarding information about one or more particular accounts, balances, transactions, or other items as a means of obtaining audit evidence about one or more financial statement assertions.

Confirming party. A third party, whether an individual or an organization, to which the auditor sends a confirmation request. An intermediary is not a confirming party.

Exception. An external confirmation response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

External confirmation procedures. Procedures that involve selecting one or more items to be confirmed, sending a confirmation request directly to a confirming party (or otherwise directly accessing the information held by a confirming party), and evaluating the information received and addressing nonresponses to obtain audit evidence about one or more relevant assertions.

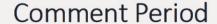
External confirmation response. Audit evidence obtained as a direct written response communication to the auditor from a third party (the confirming party), either in paper form or by electronic or other medium (for example, through the auditor's direct access to information held by a third party provided by the confirming party) in response to a confirmation request. (Ref. par. A.1—A.2)

Negative confirmation request. A *confirmation* request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the *confirmation* request.

Proposed Effective Date

- If issued as final, the proposed amendments would be effective for audits of financial statements for periods ending no earlier than December 15, 2027
 - Early implementation would be permitted





Comments Due: June 30, 2025





61

61

Proposed SSAE

Proposed SSAE: Scope Limitations in a Review Engagement

• Issued: February 27, 2025

- Background:
 - A potential practice issue has been identified related to recent regulations for sustainability reporting and the performance of a review engagement over such reporting



6

Proposal

- Proposed revision to permit alternative actions to withdraw when a scope limitation exists
- Proposed revision to explicitly permit issuance of a qualified conclusion if a scope limitation results in a potential undetected misstatement that may be material but not pervasive



63

63

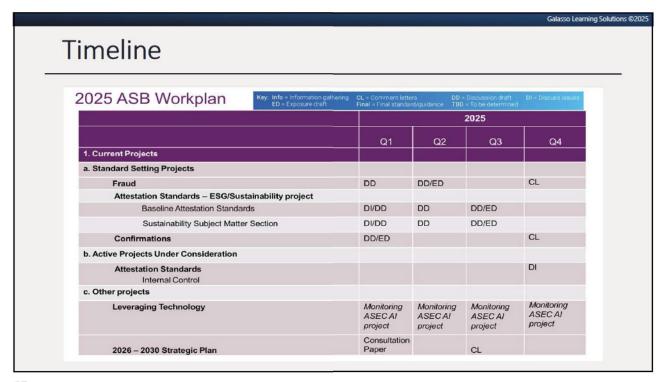
Comments Due

Comments are requested by May 30, 2025





64



	Key: Info = Information gathering CL = Comment lettiers DD = Discussion draft DI = Discussions draft DI = Discussions of the DI = Discussion draft DI = Discussions of the DI = Discussion draft DI = Discussions of the DI = Discussion draft DI = Discussions of the DI = Discussion draft D			
2025				
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DI/DD	DD	DD/ED		ASB ED expected to be voted on in Q3 2025
DD	DD/ED		CL	ASB ED expected to be voted on in Q2 2025
BD				
TBD				Track 1 deferred until completion of Track 2
TBD				
TBD		11/1		Approved Q3 2024
BD				Approved Q3 2024
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Other Documents

- Practice Aids
 - Updated Accounting for and Auditing of Digital Assets
 - New Quality Management Practice Aid -Monitoring and Documentation



67

67

TQA

 New TQA 6950.25 – Auditor Opinion Unit Considerations When a Fund Was Previously Reported as Major



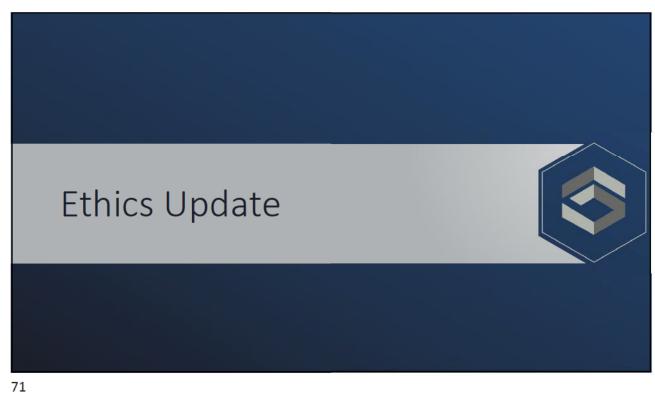
Auditing Standards Board

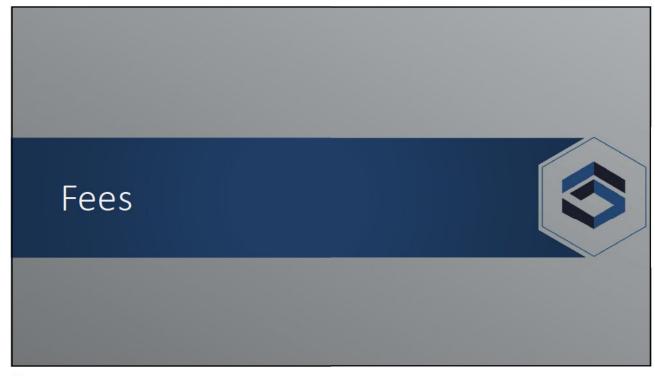
Mission

- To serve the public interest by developing, updating, and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services effectively and efficiently
- All our activities are in service to the public interest principle that is found in the AICPA Code of Professional Conduct – namely, that our activities are performed in a manner that serves the public interest, honors the public trust, and demonstrates a commitment to professionalism
- Our stakeholders include practitioners, peer reviewers, credit grantors, governments, employers, investors, state societies, the business and financial community and others who rely on the audit and attestation services performed pursuant to our standards

69







Background

Fees (1.230.030, 1.230.040, 1.210.010, & 1.224.010)

• Issued: September 2023

- Background:
 - IESBA Convergence
 - Does not fully converge



73

73

Determining Fees

- 1.230.030 Determining Fees for an Attest Engagement
 - Determining the fees to be charged to an attest client, whether for attest or other services, is a business decision taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards



Update

- The provision of other services to an attest client is not an appropriate consideration in determining the attest engagement fee
- If a covered member responsible for determining the attest engagement fee allows the attest engagement fee to be influenced by the firm's provision of other services to an attest client, the selfinterest and undue influence threats to the covered member's compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards
 - · Accordingly, independence would be impaired



75

75

Exception

 When determining the attest engagement fee, the covered member responsible for determining the attest engagement fee may take into consideration the cost savings achieved as a result of experience derived from the provision of other services to an attest client



Fee Dependency

1.230.040 Fee Dependency

- When the total fees generated in any year from an attest client by the
 firm represent a large proportion of the total fees of that firm, the
 dependence on and concern about the potential loss of fees from attest
 and other services from that client affect the level of the self-interest
 threat and create an undue influence threat to a covered member's
 independence
 - In calculating the total fees of the firm, the covered member should include fees
 from attest and nonattest services and might use financial information available
 from the previous financial year and estimate the proportion based on that
 information if appropriate
 - For purposes of this calculation, the covered member is not required to include fees from attest and nonattest services of other network firms within the firm's network

77

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Affiliates

 When the attest client is a financial statement attest client, the covered member should include fees from an entity (for example, subsidiary, partnership, or limited liability company) that a financial statement attest client can control



Fee Dependency

- When, for each of five consecutive years, total fees from an attest client represent or are likely to represent a large proportion of the total fees received by the firm, threats to the covered member's compliance with the "Independence Rule" would not be at an acceptable level and independence would be impaired unless one of the following safeguards is applied:
 - Prior to the attest report being issued for the fifth year, an appropriate reviewer who is not a member of the firm issuing the report reviews the fifth year's attest work
 - After the attest report on the fifth year has been issued, and before the
 attest report is issued on the sixth year's attest engagement, an appropriate
 reviewer who is not a member of the firm issuing the report reviews the
 fifth year's attest work

79

Fee Dependency Cont'd

 If the total fees continue to represent a large proportion, the covered member shall, each year, apply one of the safeguards identified



Definitions

• 1.210.010 Conceptual Framework for Independence

- .16 Self-interest threat. The threat that a member could benefit, financially or otherwise, from an interest in or relationship with an attest client or persons associated with the attest client. Examples of self-interest threats include the following:
 - A member has a direct financial interest or material indirect financial interest in the attest client. [1.240.010]
 - b. A member has a loan from the attest client, an officer or a director of the attest client with the ability to affect decision-making or any individual with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client. [1.260.010]
 - c. A member or his or her firm relies excessively on revenue fees from attest and nonattest services from a single attest client. [1.230.040]
 - d. A member or member's firm has a material joint venture or other material joint business arrangement with the attest client. [1.265]



81

81

Definitions Cont'd

- .18 Undue influence threat. The threat that a member will subordinate his or her judgment to that of an individual associated with an attest client or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member. Examples of undue influence threats include the following:
 - Management threatens to replace the member or member's firm over a disagreement on the application of an accounting principle.
 - Management pressures the member to reduce necessary audit procedures in order to reduce audit fees.
 - c. The member receives a gift from the attest client, its management, or its significant shareholders. [1.285.010]
 - d. A large proportion of fees charged by the firm to an attest client is generated by providing nonattest services.



Affiliates

• 1.224.010 Client Affiliates

- For purposes of applying the "Fee Dependency" interpretation, fees from entities described under items (b)–(l) of the definition of affiliate are not required to be included when calculating the total fees generated from a financial statement attest client
- When the covered member knows, or has reason to believe, that a
 relationship or circumstance involving any of the entities described
 under items (b)—(l) of the definition of affiliate is relevant to the
 evaluation of a fee dependency, the covered member shall include
 that affiliate when identifying, evaluating, and addressing threats
 related to fee dependency



83

83

Effective

• Effective January 1, 2025





Revised Interpretation: Executive or Employee Recruiting (ET sec. 1.295.135) • Issued: December 16, 2024 • Background: • IESBA Convergence • Interpretation had not been revised in more than 20 years

Changes

 Added familiarity and undue influence threats to list of threats to independence



87

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If the member applies the "General Requirements for Performing Nonattest Services" Clarified interpretation [1.295.040] of the "Independence Rule" [1.200.001], threats would be at an acceptable level and independence would not be impaired. For example, a Acceptable member may recommend or advise on a position description or candidate advise on the general terms of employment, remuneration, or related benefits of a particular position. solicit and screen candidates based on criteria approved by the attest elient, search for or seek out candidates for non-key positions using the attest client's criteria, such as required education, skills, or experience recommend qualified candidates to the attest client for their consideration based on criteria approved by the attest client. review candidate resumes provided by the attest client to identify those that meet the attest client's criteria. d. participate in employee hiring or compensation discussions in an advisory interview candidates and advise on a candidate's competence based on the attest client's criteria for any position recommend to the attest client more than one candidate for any position for consideration based on the attest client's criteria, including providing analysis of how each candidate meets the attest client's criteria. If only one candidate for a non-key position meets the attest client's criteria, the member should apply the "Conceptual



03 However, threats to compliance with the "Independence Rule" [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and independence would be impaired, if, for example, a member

- commits the attest client to employee compensation or benefit arrangements.
- b. hires or terminates the attest client's employees.
- advises on the specific terms of employment, renumeration, or related benefits of a particular candidate for a key position.
- c. searches for or seeks out candidates for key positions.
- d. undertakes reference checks of prospective candidates for a key position.
- recommends to the attest client only one candidate for consideration for a key position.
- f. ranks candidates for a key position whether or not using the attest client's criteria
- negotiates with the candidate on behalf of the attest client.
- commits the attest client to employee compensation or benefit arrangements.

Effective Date

- January 1, 2026
 - Early implementation allowed







SSARS 27

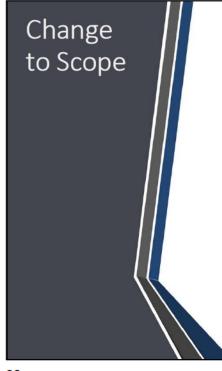
Applicability of AR-C section 70 to Financial Statements Prepared as Part of a Consulting Services Engagement

• Issued: April 2025

Background:

 Questions regarding whether AR-C 70 is required to be applied in situations in which controllership or CFO services are performed under the consulting standards and financial statements are created as part of that





Scope of This Section

- .01 This section applies when an accountant in public practice is engaged to prepare financial statements or prospective financial information and is not engaged to perform an audit, review, or compilation of those financial statements or a compilation or examination of that prospective financial information. (Ref. par. .A1 .A2) This section may also be applied, adapted as appropriate in the circumstances, to the preparation of other historical financial information. (Ref. par. .A3) This section does not apply is not required to be applied, but application is not precluded, in whole or in part, when an accountant prepares financial statements or prospective financial information (Ref: par. .A1-.A4)
 - and is engaged to perform an audit, review, or compilation of those financial statements.
 - a. as part of a consulting services engagement performed in accordance with CS section 100, Consulting Services: Definitions and Standards in which the preparation of financial statements is not the primary objective of the engagement. (Ref: par. .45)
 - b. as part of a personal financial plan performed in accordance with PFP section 100, Statement on Standards for Personal Financial Planning Services.
 - c. as part of an engagement to estimate the value of a business, business ownership interest, security, or intangible asset in accordance with VS section 100, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset
 - d. solely for submission to taxing authorities,
 - · for inclusion in written personal financial plans prepared by the accountant.
 - e. in conjunction with litigation services that involve pending or potential legal or regulatory proceedings.; or.
 - in conjunction with business valuation services.[fn1]

93

Change to Scope Cont'd

Scope of This Section

- .01 This section applies when an accountant in public practice is engaged to prepare financial statements or prospective financial information and is not engaged to perform an audit, review, or compilation of those financial statements or a compilation or examination of that prospective financial information. (Ref. par. Al. A2) This section may also be applied, adapted as appropriate in the circumstances, to the preparation of other historical financial information. (Ref. par. A3) This section does not apply is not required to be applied, but application is not precluded, in whole or in part, when an accountant prepares financial statements or prospective financial information (Ref. par. A1-A4).
 - and is engaged to perform an audit, review, or compilation of those financial statements.
 - a. as part of a consulting services engagement performed in accordance with CS section 100, Consulting Services: Definitions and Standards in which the preparation of financial statements is not the primary objective of the engagement. (Ref. par. .45)
 - b. as part of a personal financial plan performed in accordance with PFP section 100, Statement on Standards for Personal Financial Planning Services.
 - c. as part of an engagement to estimate the value of a business, business ownership interest, security, or intangible asset in accordance with VS section 100, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset.
 - d. solely for submission to taxing authorities.
 - · for inclusion in written personal financial plans prepared by the accountant,
 - e. in conjunction with litigation services that involve pending or potential legal or regulatory proceedings, or;
 - in conjunction with business valuation services.[fn1]

Impact

"The practical difference for CPAs is that if they perform the engagement outside of AR-C Section 70, the quality management standards do not apply, and the engagements are not included in the population subject to peer review"

 Mike Glynn, CPA, CGMA, AICPA associate director— Audit & Attest Standards and ARSC staff liaison



https://www.journalofaccountancy.com/news/2025/mar/amendment-clarifies-cpas-financial-statements/

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95

Consulting Services Guidance

- CS 100 states that the general professional standards of professional competence, due professional care, planning and supervision, and sufficient relevant data apply to consulting services
- Practitioners are required to follow the AICPA Code of Professional Conduct from an ethics and independence perspective



Professional Judgment

.02 The determination about whether the accountant has been engaged to prepare financial statements or merely assist in preparing financial statements (which is a bookkeeping service that is not subject to this section) is determined based on services the client requests the accountant to perform and requires the accountant's to apply professional judgment. (Ref:



97

97

Voluntary Application

- An accountant may voluntarily apply certain requirements of this section in instances in which this section would not otherwise apply
 - For example, if the accountant is not required to apply this section, to address the risk that users of the entity's financial statements may be misled by the practitioner's perceived association with the financial statements, the accountant may include the statement required by paragraph .14 of this section that "no assurance is provided" on the financial statements
 - The inclusion of such a statement does not result in the accountant being required to perform the engagement in accordance with this section and no other requirements would be required to be applied



Consulting Services

- Consulting services differ fundamentally from the CPA's function of attesting to the assertions of other parties
- In a consulting service, the practitioner develops the findings, conclusions, and recommendations presented
 - The nature and scope of work is determined solely by agreement between the practitioner and the client
 - Generally, the work is performed only for the use and benefit of the client



99

99

Effective Date

- Effective for the preparation of financial statements for periods ending on or after December 15, 2026
 - Early implementation is permitted



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100



Background

Peer Review Standards Update No. 2, Reviewing A Firm's System of Quality Management and Omnibus Technical Enhancements

- Approved: November 4, 2024
- Background:
 - SQMS 1, 2, 3
 - SSAE 23, SSARS 26 & SAS 146



Major Changes – QM

- Revised for consistency with objectives established by the QM standards
- Require peer reviewers to submit completed quality management checklists as part of documents required to be submitted to all administering entities (AEs)
- Clarifies that the definition of a "finding" in a system review is one or more related matters that result from the same systemic cause



103

103

Major Changes - QM Cont'd

 Require technical reviewer evaluation of system reviews to include review of quality management checklists and any explanation of "no" answers



Non-QM Changes

 Provides a transition period for reviewers that retire from a firm and remain actively licensed to practice public accounting, to allow such individuals to continue serving as team members to assist with succession planning and to mentor less experienced peer reviewers



105

105

Non-QM Changes Cont'd

- Extends the period of time (from 12 to 18 months) for certain reviewer training to be taken before commencement of a review, which is intended to provide flexibility to reviewers that encounter changes or disruptions to CPE schedules
- Requires peer reviewers to submit any completed alternative practice structure checklists as part of documents required to be submitted to all AEs, as applicable



Non-QM Changes Cont'd

- Introduces a new paragraph to prompt a reviewed firm to consider, for out-of-state licensure purposes, whether one or more of its state boards of accountancy require its peer review results to be provided through FSBA
- Introduces a new application and other explanatory material paragraph that provides an example of an appropriate engagement selection in engagement reviews



107

107

Non-QM Changes Cont'd

 Removes prior review implementation plan letters from the list of required documents to be provided in Report Acceptance Body (RAB) materials



Conforming Revisions

 Conforming revisions that address the name change from "quality control" to "quality management"

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109

109

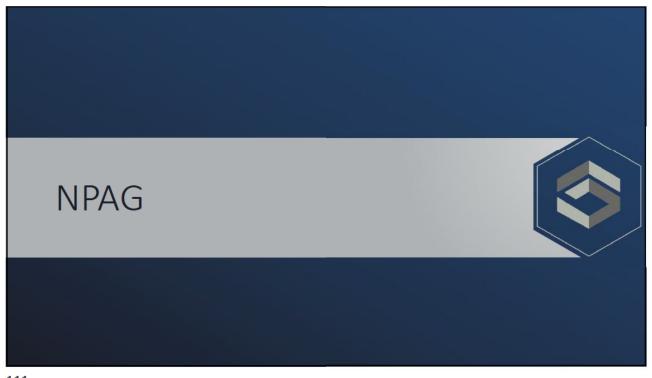
Effective Dates

- QM related items: For peer review year ends on or after December 31, 2025
- Omnibus technical enhancements: For peer reviews commencing on or after December 1, 2024



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Background

Accounting Talent Strategy Report

• Released: July 31, 2024

- Objective:
 - National Pipeline Advisory Group created by AICPA to analyzing the root causes of the accounting talent shortage, potential solutions, and next steps forward



112

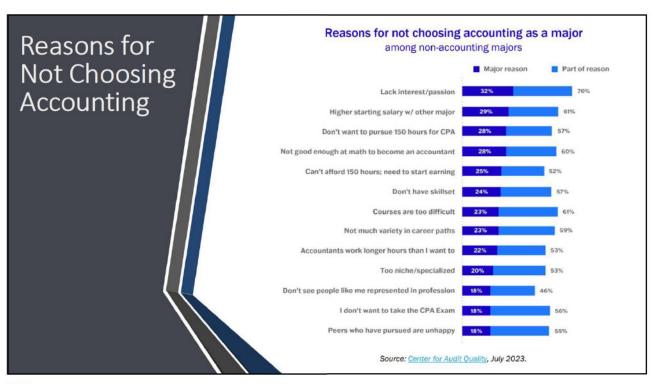
Key Factors Behind the Pipeline Shortage

- A changing U.S. labor market
- Regional differences
- Students are exploring options other than a bachelor's degree
- Students choosing other majors



113

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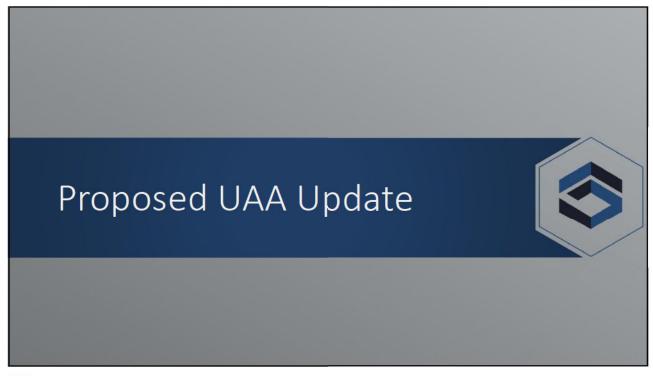


NPAG's Recommendations

- Make the academic experience more engaging
- Address the time and cost of education
- Grow support for CPA Exam candidates
- Prioritize strategies to expand access for underrepresented groups
- Enhance the employee experience by evolving business models and cultures
- Tell a more compelling story about accounting careers



Link to NPAG Report • https://www.accountingpipeline.org/npag-report/



Background

Uniform Accountancy Act

- Amendments to UAA Section 5: Education requirements to sit for the CPA Exam and education requirements for a certificate
- UAA Section 23: Practice privileges for individual mobility
- Issued: March 4, 2025
- Background:
 - Previously proposed changes released in September 2024
 - 194 stakeholders submitted comments



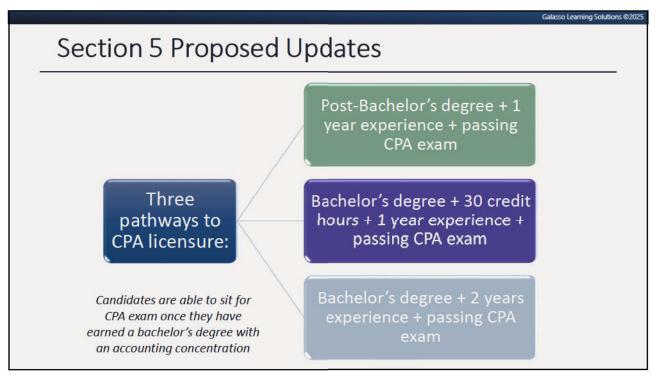
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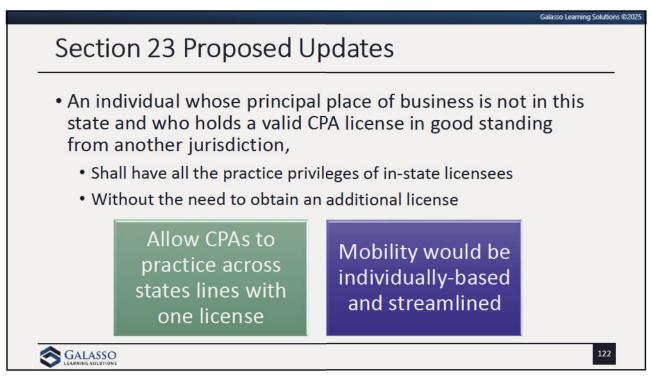
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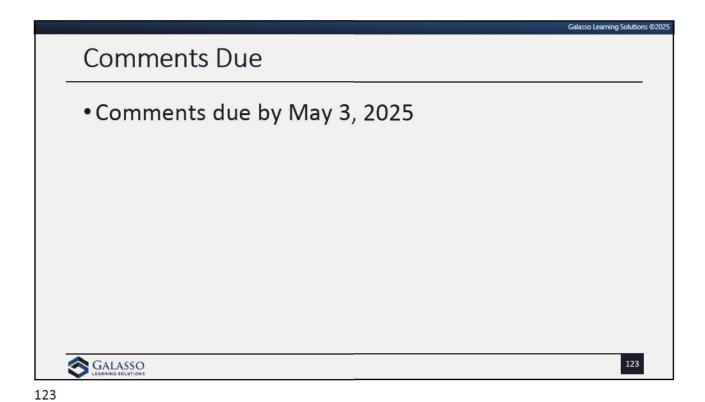
Background Cont'd

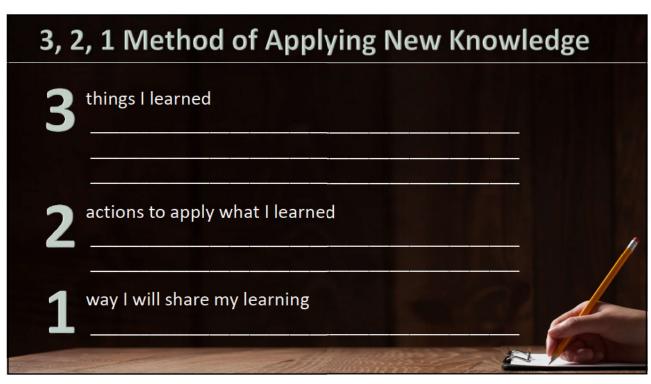
- Comments on the proposed changes focused on two key themes
 - A strong desire across the profession for an additional pathway to CPA licensure
 - Broad support for the adoption of "individual-based mobility"

















SESSION PRESENTED BY ATTORNEY GENERAL GENTNER DRUMMOND

May 1, 2025

Presented by Attorney General Genter Drummond

Materials for this course are currently unavailable. Please check back later for updates.



THE ACCOUNTING ROLE IN LITIGATION SUPPORT

May 1, 2025

Presented by Frank Crawford, CPA; and Dave Cotton, CPA



2025 Governmental Accounting and Auditing Conference

The Accountant's Role in Litigation Support

Dave Cotton, CPA, CFE, CGFM

Chairman Emeritus

Cotton—A Sikich Company

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Frank Crawford III, CPA

President

Crawford & Associates, PC

frank@crawfordcpas.com

DAVID L. COTTON, CPA, CFE, CGFM

Dave Cotton is founder and Chairman Emeritus of Cotton & Company, Certified Public Accountants, headquartered in Alexandria, Virginia. Cotton & Company was founded in 1981 and has a practice concentration in assisting Federal and State agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than three dozen Federal inspectors general as well as numerous other Federal and State organizations, programs, activities, and functions. In April 2022, Cotton & Company became a subsidiary of Sikich LLP. Dave has a BS in Mechanical Engineering and an MBA in Management Science and Labor Relations. In May 2022, Governor Glenn Youngkin appointed Dave to the Virginia Board of Accountancy.

FRANK CRAWFORD III, CPA

Frank Crawford is the majority shareholder and president of Crawford & Associates. He specializes in providing accounting and consulting services solely in governmental accounting and financial management. Over the years, Frank has assisted both the AICPA and GASB in the development of several implementation guides as a member of an advisory group, task force or technical content provider. Frank is a highly sought-after lecturer, trainer and discussion leaders for many groups including U.S. Federal Government Agencies, various local and national CPA firms, State Societies, AICPA professional education videos and more.



Dave's Disclaimer





The views expressed in this presentation are my views and do not necessarily align with the views of the Virginia Board of Accountancy.

Cotton& Company

<u>1</u>

So, You've Been Asked to Testify ...

- ✓ Are you qualified?
- ✓ Will you be a consultant or expert or both?
- ✓ Can you withstand a Daubert challenge?
- ✓ Do you have any conflicts of interest?
- ✓ Do you know who you will be working for?
- ✓ Have you properly defined the scope of your engagement?
- ✓ Have you determined the applicable standards?
- ✓ Do you know how to perform the engagement?
- ✓ Do you know what rules apply and what they require?
- ✓ Do you know how to testify?

<u>2</u>



Are You Qualified for the Type of Engagement?

- ✓ Damages Calculations
- ✓ Antitrust Analyses
- ✓ CPA Malpractice
- ✓ Contract Cost and Claims
- ✓ Bankruptcy
- ✓ Fraud, Civil and Criminal
- ✓ Taxation Issues
- ✓ Business Valuations

<u>3</u>

Will you be a consulting or testifying expert?

- ✓ Consulting Expert
 - →Hired just to provide advice about facts and issues
 - →Will not be called to testify
 - →Generally provides work-product privilege
 - →Should be objective

- ✓ Testifying Expert
 - →Hired to render an expert opinion at trial
 - →No work-product privilege
 - →Individual, not the individual's firm
 - →Must be objective and independent



Will you be a consulting AND testifying expert?

- ✓ Consulting role usually comes first: preliminary help for attorney; allows you to decide what you can and cannot opine on
- ✓ Based on consulting role, attorney decides to have you testify
- ✓ If possible, keep engagements separate
- ✓ Keep workpapers separate
- ✓ Consulting workpapers *might* be protected

<u>5</u>

Do you have any conflicts of interest?

- ✓ Check for conflicts with litigants
- ✓ Check for conflicts with attorneys
- ✓ Check for conflicts with other experts
- ✓ Check for conflicts with *yourself*
- ✓ Go beyond what Code interpretation 1.110.010 requires
- ✓ If you have any conflicts, they *will* be discovered, and your credibility *will* be damaged



Have you determined the applicable standards?

- ✓ Statements on Auditing Standards (could be applicable)
- ✓ Statements on Standards for Attestation Services (could be applicable)
- ✓ Code of Professional Conduct (always applicable)
- ✓ Statement on Standards for Forensic Services (usually applicable)
- ✓ Statement on Standards for Consulting Services (may be applicable)
- ✓ Quality Control Standards (currently not applicable)
- ✓ IIA Standards (could be applicable)
- ✓ ACFE Standards (could be applicable)

<u>Z</u>

Code of Professional Conduct Always Applies for CPAs

- ✓ 1.300.001 General Standards Rule
 - ✓ Professional Competence
 - ✓ Due professional care
 - ✓ Planning and supervision
 - ✓ Sufficient relevant data
- ✓ 1.100.001: Integrity and Objectivity Rule
- ✓ 1.510.001: Contingent Fees Rule
- ✓ 1.310.001: Compliance with Standards Rule
- ✓ 1.320.001: Accounting Principles Rule



Do you know what rules apply and what they require?

- ✓ Find out what rules apply and what they require, e.g.:
 - ✓ Federal Rules of Civil Procedure
 - ✓ Federal Rules of Criminal Procedure
- ✓ Most courts either follow the Federal rules or have their own rules that are similar to the Federal rules
- ✓ Arbitration and mediation rules are usually less rigid; often *ad hoc*
- ✓ Find out early what the rules are

<u>9</u>

Do you know how to testify?

- ✓ Fact witnesses versus expert witnesses
- ✓ Don't underestimate the deposition
- ✓ It's not possible to be too prepared
- ✓ Don't be defensive or lapse into an advocacy posture
- ✓ Use charts, graphs, diagrams, and pictures to explain complex issues
- ✓ Don't guess
- ✓ Listen carefully to questions; clarify as needed
- ✓ Direct versus cross-examination demeanor



Do you know how to testify?

- ✓ Don't argue; but explain fully, and stick to your guns
- ✓ Be over-prepared
- ✓ Dress professionally
- ✓ Watch your posture
- ✓ Speak up
- ✓ Speak to the judge/jury
- ✓ Be aware of and anticipate the cross-exam traps and tricks; and know how to handle them
 - ✓ Multi-part, complex, confusing questions
 - ✓ Questions that call for absolute answers
 - ✓ Rephrased questions
 - ✓ Combativeness
 - ✓ The awkward silence

<u>11</u>

Mock Trial Scenarios ...

- ✓ Watch and listen
- ✓ Identify things that the witness did correctly, incorrectly
- ✓ Identify traps and tricks; assess how well the witness handles them



Cross-Examining the Expert Witness

- ✓ Will Slither, Esq., (of Slyde, Slither, Sneek, Chisel & Steel) is cross-examining ...
- ✓ Hugh Jeego, CPA, (of Jeego, Zupp & Down, CPAs) regarding...
- ✓ Hugh's expert report and testimony related to Hugh's work on behalf of...
- ✓ Chain, Jorder, Zar, Uss Construction's contract damages claim against...
- ✓ The Oklahoma Department of Delays, Overruns, and Claims

<u>13</u>



The Accountant's Role in Litigation Support

Dave Cotton, CPA, CFE, CGFM
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STATE AUDITOR AND INSPECTOR UPDATE

May 1, 2025

Presented by Auditor Cindy Byrd, CPA

Materials for this course are currently unavailable. Please check back later for updates.

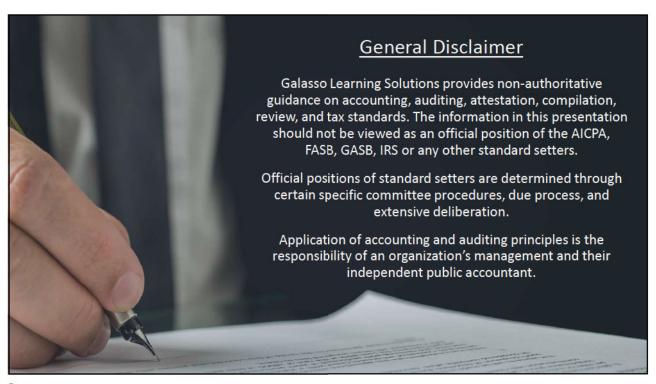


SINGLE AUDIT AND INSPECTOR UPDATE

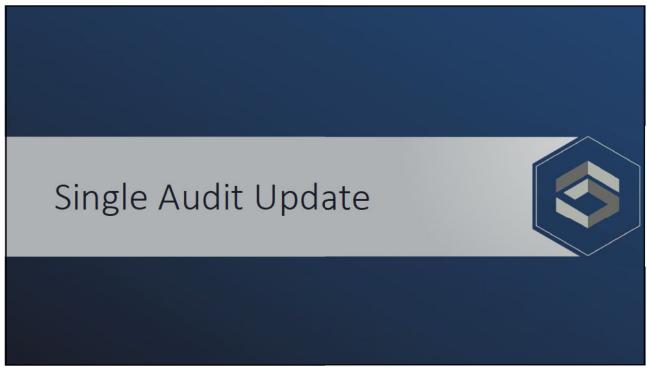
May 1, 2025

Presented by Melissa Galasso, CPA









Uniform Guidance Update



5

Background

2024 Uniform Guidance

• Issued: April 2024

- Background:
 - 2 CFR 200.109 requires updating every 5 years
 - Proposal issued October 2023



Purpose

- OMB is revising its guidance in 2 CFR for the purpose of:
 - Incorporating statutory requirements and administration priorities
 - Reducing agency and recipient burden
 - Clarifying sections that recipients or agencies have interpreted in different ways
 - Rewriting applicable sections in plain language, improving flow, and addressing inconsistent use of terms within the guidance



7

7

Audit Changes

- The threshold for audit has been increased from \$750,000 to \$1 million
- The Type A threshold has been increased to \$1 million and the amount of awards expended for which it applies has been increased from \$25 million to \$34 million



FAQ

Question: My client has a 3/31/25 year-end and is expecting to have \$875,000 in federal expenditures, with some awards required to comply with the 2024 UG and others the prior UG. Do I have to do a single audit since the new UG indicates the audit threshold is \$1 million?

Answer: Yes. The auditor will have to perform a single audit because the \$875,000 in federal expenditures is greater than the \$750,000 audit threshold. Revisions to the audit requirements in Subpart F of the 2024 UG are not effective until fiscal years beginning on or after 10/1/24 (that is, for audits of years ending 9/30/25, or later).



9

Indirect Cost Rate

 Raises the de minimis indirect cost rate from 10% to 15%

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FAQ

Question: Can an entity with a NICRA switch to the de minimis rate going forward?

Answer: Yes, once the NICRA expires. The 2024 UG 200.414(f) states that "Recipients and subrecipients that do not have a current Federal negotiated indirect cost rate (including provisional rate) may elect to charge a de minimis rate..."



11

FAQ

Question: Can I apply the 15% to existing Awards?

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

In these instances, the recipient must charge the 15% de minimis rate only to costs incurred after the effective date of the amendment to implement the 15% de minimis rate. Recipients may not retroactively apply the de minimis rate to costs incurred prior to the effective date of the amendment.



Questioned Costs

- The questioned costs definition has been revised and examples have been provided to help provide further clarification
 - Including moving definitions of likely and known questioned costs from Subpart F to Subpart A
- Requires that when there are known questioned costs but the dollar amount is undetermined or not reported, a description of why the dollar amount was undetermined or otherwise could not be reported



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13

Equipment vs. Supplies

 Raises equipment and supply thresholds from \$5,000 to \$10,000



FAQ

Question: The 2024 UG increased the equipment threshold to \$10,000 from \$5,000. Consider an entity that has a \$5,000 GAAP capitalization policy. What equipment threshold would the entity use for UG purposes?

Answer: The entity would follow its own \$5,000 capitalization policy. Per the definition of equipment in 2 CFR 200.1, the entity would use the lesser of the capitalization level established by the entity for financial statement purposes, or \$10,000. In this case, the entity's \$5,000 GAAP capitalization policy used for financial statement purposes is less than the \$10,000 threshold.



15

FAQ 2

Question: Consider a PTE that has a \$5,000 GAAP equipment capitalization policy for equipment that passes funding down to a subrecipient whose GAAP capitalization policy for equipment is \$12,000. What equipment threshold would the subrecipient use for UG purposes?

Answer: The subrecipient would use the \$10,000 capitalization policy described in the 2024 UG (unless the subaward establishes a different requirement). Per the definition of equipment in 2 CFR 200.1, the subrecipient would use the lesser of the capitalization level established by the entity for financial statement purposes, or \$10,000. In this case, the subrecipient's \$12,000 GAAP capitalization policy used for financial statement purposes is higher than the \$10,000 threshold. Thus, the lesser amount of \$10,000 would be used.





 Revises the template text for a Notice of Funding Opportunity (NOFO)

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17

17

Internal Controls

 Added cybersecurity considerations to internal controls regarding safeguarding information

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18

Procurement

- Adds "veteran-owned business" to the types of businesses that recipients and subrecipients are encouraged to consider for procurement contracts under a Federal award
- Clarifies that micro-purchase is referring to an individual procurement transaction
- Removes prohibition of the use of statutorily or administratively imposed state, local, or tribal geographical preference



19

19

Procurement Cont'd

 Expressly does not prohibit using Project Labor Agreements (PLAs) or similar forms of pre-hire collective bargaining agreements; or requiring construction contractors to use hiring preferences or goals for people residing in high-poverty areas, disadvantaged communities or requiring a contractor to use hiring preferences or goals for individuals with barriers to employment



Procurement Cont'd

 Allows Indian Tribes to have similar exception to procurement rules as States

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21

21

Subrecipient Monitoring

 Includes a requirement for PTEs to confirm that potential subrecipients are not suspended, debarred, or otherwise excluded from receiving Federal funds



2:

Fixed Amount Awards

 Doubled the thresholds for fixed amount awards to \$500,000

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23

23

Pensions

 Clarified that recipients and subrecipients may not charge unfunded pension and post-retirement health benefits to an award

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24

Prior Approvals

- Removed some prior approval requirements
 - § 200.201 Use of grant agreements
 - § 200.311 Real Property
 - § 200.313 Equipment
 - § 200.413 Direct costs, paragraph (c)
 - § 200.438 Entertainment costs
 - § 200.454 Memberships, subscriptions, and professional activity costs, paragraph (c)
 - § 200.456 Participant support costs
 - § 200.467 Selling and marketing costs
 - § 200.470 Taxes (including Value Added Tax)



25

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Terminology

- Throughout subparts A E of the regulation the use of the term non-federal entity has been replaced with recipient and/or subrecipient
 - Subpart F, Audit Requirements, retains the use of the non-federal entity term to maintain alignment with the statutory provisions of the Single Audit Act



Terminology Cont'd

- Added the term "for-profit organizations" to definitions
 - Generally, means an organization or entity organized for the purpose of earning a profit
 - The term includes but is not limited to:
 - An "S corporation" incorporated under subchapter S of the Internal Revenue Code
 - A corporation incorporated under another authority
 - A partnership
 - A limited liability company or partnership
 - A sole proprietorship



27

27

Terminology Cont'd

- Updated the definition of period of performance (again)
 - The time interval between the start and end date of a Federal award, which may include one or more budget periods



Terminology Cont'd

- Adds FASB and GASB to acronyms
- Removes some acronyms
- Added continuation funding, prior approval, and participants to definitions
- More frequent use of the term Federal Financial Assistance



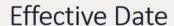
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Not Changed

- OMB received several comments suggesting that OMB define the term beneficiary
 - OMB did not propose to define the term, the meaning of which can vary widely between Federal agencies as well as within agencies between assistance programs
 - OMB defers to Federal agencies to determine who is or is not a beneficiary under their respective programs consistent with law





• Effective October 1, 2024

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31

31

2024 Compliance Supplement Clarification

- The revisions to 2 CFR Part 200, Subpart F are effective for auditee fiscal years beginning on or after October 1, 2024
 - UG update was silent as to the effective date for fiscal years

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3

OMB Memos



33

Memos

- OMB Memorandum M-24-11, Reducing Burden in the Administration of Federal Financial Assistance issued April 4, 2024
- Council on Federal Financial Assistance (COFFA) issued supplemental information on Federal Agency Implementation of the 2024 Revisions on August 15, 2024



34

Clarifications – New Awards

 New Federal awards issued on or after October 1, 2024 that apply OMB's guidance in 2 CFR, but do not specifically reference which version of the guidance they apply, may be assumed to apply the 2024 Revisions



35

35

Clarifications – Amendments (existing)

 Amendments issued on or after October 1, 2024 to existing awards made before October 1, 2024 that applied a previous version of OMB's guidance in 2 CFR1 may be assumed to continue applying the previous version of the guidance unless the amendment explicitly applies the 2024 Revisions to the award



Clarifications – Existing

 Federal awards issued before October 1, 2024 that applied a previous version of OMB's guidance in 2 CFR and have not been amended may be assumed to continue applying the previous version of the guidance



37

Clarification - Subawards

- Subawards issued under Federal awards applying the 2024 Revisions (either at the time of issuance or through amendment) must also apply the 2024 Revisions
- Pass-through entities with awards amended by a Federal agency to include the 2024 Revisions must similarly amend existing subawards
- However, if the Federal award to a recipient applies a previous version of the 2 CFR guidance, then the previous version also applies to the subaward—even if the subaward itself is made after October 1, 2024



Timing

- The 2024 Revisions do not automatically go into effect for existing awards issued prior to October 1, 2024
- If recipients or subrecipients have questions on which version of the guidance applies to a specific Federal award or amendment, they should communicate with the Federal agency that made the award (or pass-through entity as appropriate)



39

39

Class Exceptions

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- Notice of two OMB class exceptions available to Federal agencies for awards applying the prior version of the Uniform Grants Guidance
 - Tracking equipment and unused supplies at the revised threshold of \$10,000 (2 CFR 200.1, 200.313(e), 200.314(a), 200.439(b))
 - Once recipients make systems changes to track equipment and unused supplies at this higher threshold, it becomes increasingly difficult to simultaneously track these items for existing awards at the \$5,000 threshold
 - Procurement standards for Indian Tribes (2 CFR 200.317)
 - Indian Tribes wishing to follow their own procurement standards, as opposed to adhering to the procurement standards in 2 CFR 200.318 through 200.327, are still required to simultaneously adhere to the procurement standards in the prior version of the 2 CFR guidance for existing awards

Financial Management Risk Reduction Act



41

Background

- The Financial Management Risk Reduction Act (the Act) was enacted on January 3, 2025
- Purpose
 - To amend the Single Audit Act to improve single audit requirements



42

Government Single Audit Review

- Complete, no later than 3 years after enactment and every 6 years thereafter, a government-wide analysis of single audit quality, which may include a consideration of the results of reviews of single audit quality by federal agencies, Inspectors General, state auditors, and external peer reviews conducted under Government Auditing Standards
- The results of each government-wide analysis are required to be submitted to various committees of the U.S. Senate and House of Representatives, and to be made publicly available



43

43

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- The Uniform Guidance includes a similar provision for governmentwide review but it has never been carried out by the government
- The inclusion of the requirement in law is intended to ensure that the analysis is done in the future



Single Audits Not Performed

- Identify, within 2 years of enactment and every 2 years thereafter, recipients that did not undergo a single audit but should have
- A list of those recipients is required to be provided to several committees of the U.S. Senate and House of Representatives



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Data Analysis

 Develop analytic tools and a strategy to use audit data in the Federal Audit Clearinghouse to identify cross governmental risks to federal award funds no later than 2 years after enactment



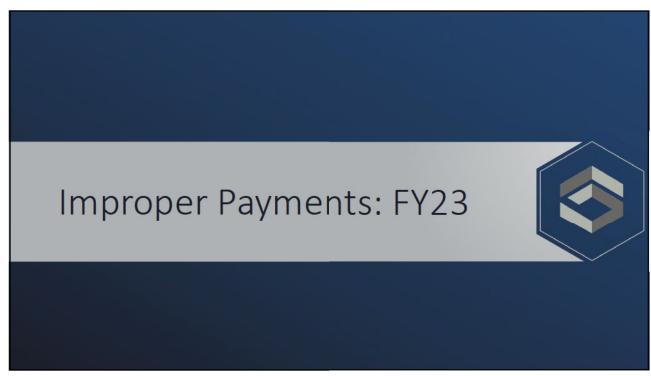
Burden Evaluation

 Complete an evaluation, no later than 4 years after the date of enactment, of various provisions of the Act, as well as the reporting burdens for auditors and audited entities and the capacity of auditors and audited entities to fulfill the requirements of the Single Audit Act and the responsiveness of federal agencies to repeat audit findings



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Background

Improper Payments: Information on Agencies' Fiscal Year 2023 Estimates

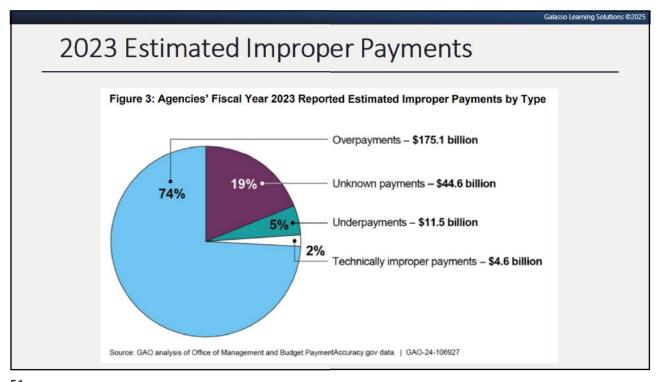
- GAO-24-106927
- Issued: March 26, 2024
- Background:
 - GAO required to provide reports on improper payments



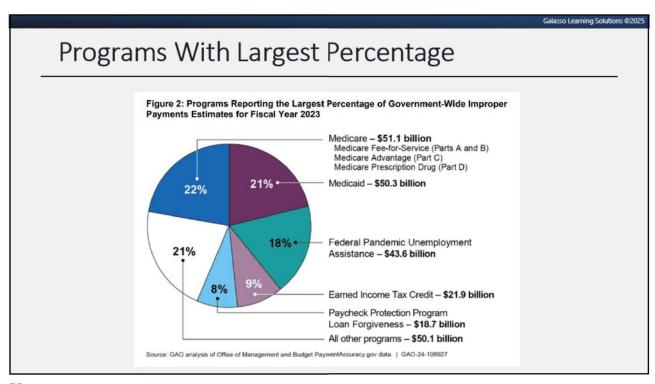
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Defined Improper Payments • Payments that should not have been made or were made in the incorrect amount







Progress

- The Payment Integrity Information Act of 2019 (PIIA) and Office of Management and Budget (OMB) M-21-19 include criteria that executive branch agencies must comply with in assessing risk and estimating and reporting improper payments
 - In fiscal year 2022, 14 of the 24 Chief Financial Officers Act agencies fully complied with PIIA criteria and related OMB requirements, according to their inspectors general (IG)
 - This was an increase from fiscal year 2021, when 10 agencies were reported compliant



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53



PRAC

Pandemic Response Accountability Committee Issues Blueprint for Enhanced Program Integrity

- Chapter 3: Fraud Prevention and Detection
- Issued: December 2024
- Background:
 - PRAC's mission is to promote transparency and use data to detect fraud, waste, abuse, and mismanagement
 - Created by the CARES Act to support and coordinate independent oversight of pandemic relief spending



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55

Way Forward

- Federal agencies can improve fraud risk management and prevent fraud at the outset of emergency benefit programs in several ways:
 - Assess fraud risks
 - Designate a dedicated entity to lead fraud risk management
 - Design and implement an antifraud strategy
 - Use data analytics



Section 1: Preventing Fraud

 One of the most effective ways to prevent fraud in emergency programs is to first develop plans for assessing and addressing the risks for fraud and weaknesses in internal controls prior to program design and implementation



57

57

Assess Fraud Risks and Internal Control Weaknesses

- Assess Fraud Risks and Internal Control Weaknesses
- Share Information From Fraud Risk and Internal Control Assessments





58

Assess Recipient Eligibility Prior to Award

- Prior to providing a recipient funding, program staff should verify the identity of the recipient through photo identification and other identity validation tools
- Staff should also verify that the recipient is eligible for the program benefits by checking the Treasury's Do Not Pay list and death records and verifying tax information and business registration
- Do Not Rely Only on Self-Certification for Eligibility Requirements



59

59

Section 2: Detecting Fraud

- Fraud risk indicators and data analytics are essential for detecting potential fraud
- Increasing managers' and employees' awareness of potential fraud schemes through training and education can serve a preventive purpose by helping to create a culture of integrity and compliance within programs



Build Necessary Infrastructure

- Assess and Develop Information Technology Upgrades
- Provide Training, Guidance, and Instruction to Program and Oversight Staff
- Institute Federal to Federal, State to State, Federal to State Data Sharing
- Ensure Data Accuracy and Integrity



61

61

Section 3: Responding to Fraud

- The government can stop suspicious payments, put fraudsters in prison, and recover illegally obtained funds
- These actions require that federal agencies have policies in place to suspend payments, efficiently recover funds, and retain data necessary to investigate loans and prosecute individuals who fraudulently received benefits



Stop Payments and Recover Funds

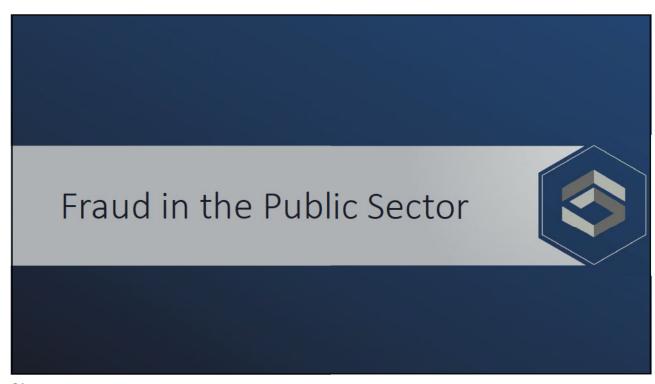
- Suspend Potential Improper or Fraudulent Payments
- Mandate Data and Record Retention
- Recover Funds Obtained Fraudulently or Improperly





63

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Galasso Lea

Background

Fraud in the Public Sector: 2024 Government Series

Issued: June 2024

- Background:
 - Issued by AICPA's Government and Performance Accountability CGMA Advisory Group



65

65

What Fraud Looks Like in Government

- Fraud occurs at all levels of government (federal, state, and local)
- Erodes public confidence and trust
- With the vast number of services and activities, fraud could happen in many environments and forms
- Increased opportunity with more federal grant funds available



Case Studies

Federal grant fraud

 Preventions – Competent grant officers, monitor post grant milestones, review grant award

School district theft

• Preventions – Segregation of duties, required purchase orders, credit card storage and statement reconciliation

An elected official's response to fraud in cash collection

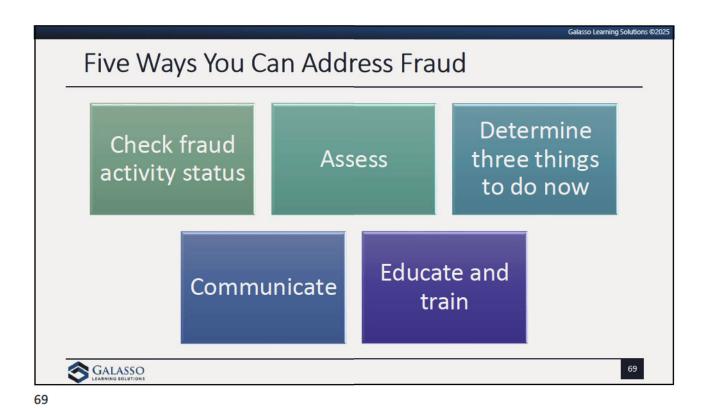
 Preventions – Separation of responsibilities, continuous monitoring, verifications

State tax credits fraudulently used

• Preventions – Edit checks & data validation for online app, different individuals involved in the process

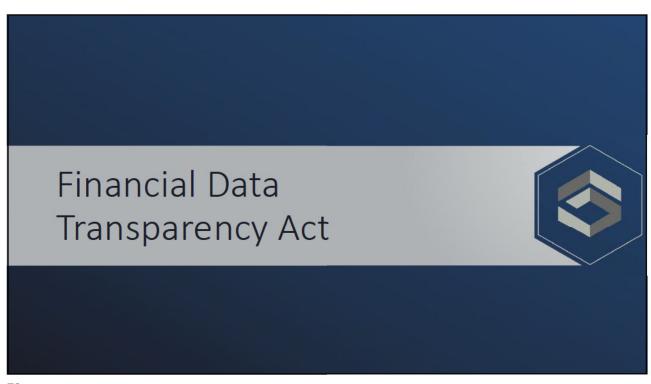
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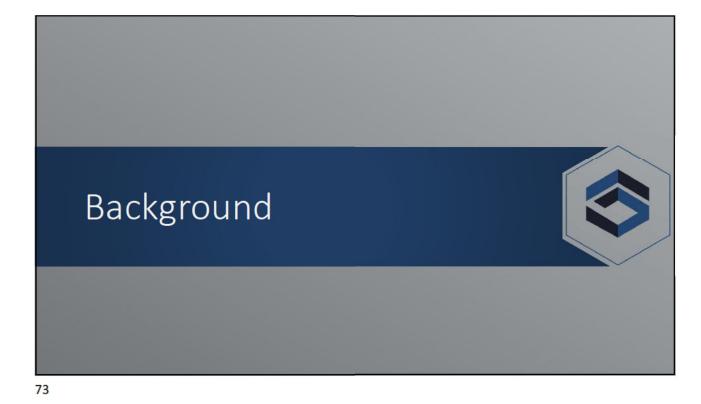




Key Take-aways
 Fraud has no limits
 It is crucial to have a fraud detection and prevention system in place
 Many techniques can be used to detect and mitigate fraud

Where to Download the Report • Detecting Government Fraud: A 2024 Report • https://www.aicpa-cima.com/resources/download/detecting-government-fraud-a-2024-report





Background

Financial Data Transparency Act

- Passed into law on December 23, 2022
- Background:
 - GREAT Act of 2019
 - The language was included in the Fiscal Year 2023 National Defense Authorization Act (NDAA) which passed into law in December 2022



7

What Is It?

 Requires the major U.S. financial regulators to adopt and implement uniform and non-proprietary data standards to collect and disseminate information



75

75

The Regulators

- The Department of Treasury
- The Federal Reserve
- The Securities and Exchange Commission (SEC)
- The Federal Deposit Insurance Corporation (FDIC)
- The Office of the Comptroller of the Currency (OCC)
- The Consumer Financial Protection Bureau (CFPB)
- The Federal Housing Finance Agency (FHFA)
- The National Credit Union Administration (NCUA)

Why?

 Makes the information collected and made publicly available by regulatory agencies easier to access, analyze and compare by requiring data to be posted in a machine-readable format, similar to the requirements for the information posted to the EDGAR by publicly traded companies, mutual funds and other regulated entities



77

77

Governmental & Nonprofit Impacts

• Impacts issuers and obligors of municipal securities report required disclosure information on the EMMA

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Next Steps

- Required to jointly issue proposed rules for public comment that establish new data reporting standards within 18 months of enactment
 - Need a taxonomy
 - GASB? FASB?



79

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Does Not Change

- Only changes how information is submitted
- Does not contain any new disclosure requirements



Cost Considerations

- Increased costs of preparing, reviewing and validating that the information presented in the new form is an accurate representation of the underlying data
 - GFOA was not in favor
 - "Unfunded Mandate"



81

81

Proposal

Proposed Joint Rule

Joint Rule-making

Issued: August 2024

Comment Period Ended: October 21, 2024

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83

83

FDTA Joint Data Standards

• What is the propose of joint data standards?

- Establish technical standards for data submitted to certain financial regulatory agencies
- Promote interoperability of financial regulatory data across the agencies
 - Establish common identifiers for entities, geographic locations, dates, and certain products and currencies
- Data received by the agencies will be high-quality, searchable, and machine-readable



8

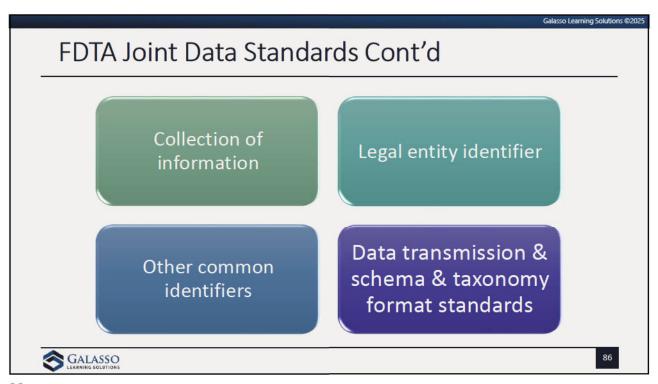
FDTA Joint Data Standards Cont'd

- FDTA Section 204 requires SEC to adopt data standards for information submitted on the Municipal Securities Rulemaking Board (MSRB)'s Electronic Municipal Market Access (EMMA)
 - Final MSRB standards issued 2 years after final data standards rules, expected December 2026
 - No set date for compliance



85

85



FDTA Joint Data Standards Cont'd

 Final standards established will be adopted later for certain collections of information in separate rulemakings by the agencies



87

87

Proposed Effective Date

 The first day of the next calendar quarter that begins at least 60 days after the final rule is published in the Federal Register



Where to Access the Proposed Rule

- FDTA Joint Rule 2024-18415
 - https://www.nasact.org/files/Federal Relations/Anno uncements/FDTA Joint Rule 2024-18415.pdf



89

89



TQA 6960.13

Related Party Disclosure Requirements Issued by the U.S. Department of Education for Institutions of Higher Education

Issued: June 2024

- Background:
 - DOE 34 issued CFR Part 668, Financial Responsibility, Administrative Capability, Certification Procedures, Ability To Benefit (ATB)
 - Issued: October 2023



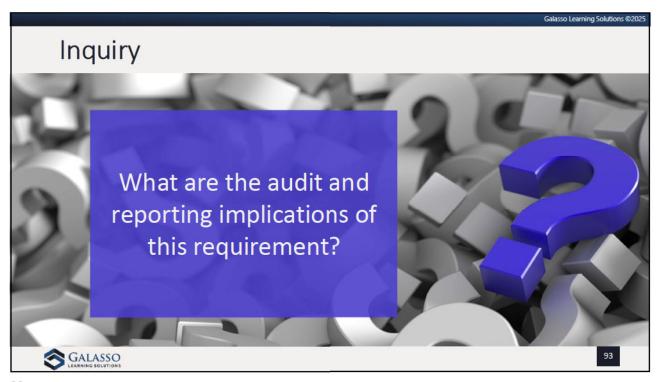
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Background

- Includes a requirement for institutions of higher education that participate in financial assistance programs under Title IV of the Higher Education Act (institutions) to disclose in their financial statements all related party transactions based on the definition set forth in FASB ASC 850, Related Party Disclosures
 - The required disclosures go beyond material related party transactions that are required under GAAP





93

Response

 Paragraph .A13 of AU-C 320 acknowledges that certain factors may indicate the existence of one or more particular classes of transactions, account balances, or disclosures for which there is a substantial likelihood that misstatements of lesser amounts than materiality for the financial statements as a whole would influence the judgment made by a reasonable user based on the financial statements



94

Response Cont'd

 Thus, the auditor may consider establishing a lower materiality for the additional disclosures required by the Department if there is a substantial likelihood or a reasonable expectation that a misstatement smaller than the materiality for the financial statements as a whole would be considered material to the users of the financial statements (for example, the Department)



95

95

Response Cont'd

- However, even though the Department requires disclosure of all related party transactions and additional identifying information (for example, the name, location, and description of the related entity described in the preceding inquiry), the audit is not designed to determine, nor does it guarantee, that the entity has identified and disclosed all related party transactions
 - Additionally, the concept of materiality, even if it is set at a lower level for certain accounts or disclosures, does not equate to or require identification of all misstatements or omissions



Example Disclosure

- Note Y, Related Party Disclosures Required by the U.S. Department of Education (Unaudited)
- The following list of related party transactions is provided solely to comply with the Financial Responsibility, Administrative Capability, Certification Procedures, Ability To Benefit regulation promulgated by the U.S. Department of Education



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97

3, 2, 1 Method of Applying New Knowledge 3 things I learned 2 actions to apply what I learned way I will share my learning







TAX INCREMENT FINANCING IN OKLAHOMA

May 1, 2025

Presented by Nathan Ellis, JD



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TAX INCREMENT FINANCING IN OKLAHOMA

COMMON QUESTIONS AND CONSIDERATIONS

PURPOSE OF THIS OUTLINE

The purpose of this outline is not to solve specific legal problems that can arise in connection with the creation of Tax Increment Financing ("TIF") Districts. Rather, the purpose is to help identify pertinent issues that should be taken into consideration during the TIF Process. As to specific applications of federal tax law requirements, you are encouraged to contact your legal counsel or advisor. The key topics we will address include:

- Overview of the TIF Process
- Types of TIF Districts
- Reasons for Creating a TIF
- Financial Impacts of a TIF
- Challenges of Start-Up Financing
- Common Arguments Against Creating a TIF

OVERVIEW OF THE TIF PROCESS

- Authorized by Article 10, Section 6C of the Oklahoma Constitution
- Title 62, Oklahoma Statutes, Section 850 et seq., referred to as the "Local Development Act"
- Resolution of Intent passed by the applicable governing body (City or County)
 - Creation of Statutory TIF Review Committee (§855)
 - Subject to Open Meeting Act requirements
 - Members include:
 - Representative of governing body as Chairman
 - Representative of Planning Commission (if applicable)
 - Representatives from each affected taxing jurisdiction
 - Three at-large representatives; if primarily retail, at least one representative of the retail community
 - No conflicts of interest (§857)
 - o Disclosure of any financial interest to Clerk
 - o Cannot have 10% interest or more in any project
- Drafting of Project Plan (§858)
 - Development of Boundaries
 - Increment District (area where new tax revenues are captured City TIF must be within corporate boundaries of the City; County must be unincorporated area)
 - Project Area (area where any project related activities may occur)

Tax Increment Financing in Oklahoma Page 2

- Information necessary to define sources of TIF revenues:
 - Proposed amount and timing of capital investments
 - Projected sales
 - Applicable tax rates
- Information necessary to define uses of TIF revenues:
 - Project Summary
 - Specific Project Improvements
 - Estimated Costs
- Recommendation by TIF Committee (§855)
 - Determination of Eligibility
 - Enterprise Area (§853(5))
 - Historic Preservation Area (§853(8))
 - Reinvestment Area (§853(17))
 - Blight is not a requirement, but does indicate eligibility as reinvestment area
 - Financial Impacts on taxing jurisdictions and business activities within the TIF
- Planning Commission (§858)
 - Feasibility of plan and conformance to master plan of the City
- Public Hearings minimum of two (§859)
 - Questions and Answers Hearing
 - Public Comment Hearing
- Formal action by governing body (§856)
 - Approval of Ordinance or Resolution formally creating TIF District and adopting the Project Plan
- Negotiation and adoption of development agreement(s) for the purpose of implementing the TIF District (§866)
- Reporting Requirements
 - Notify Oklahoma Tax Commission within 30 days of creation or dissolution (§867.1)
 - Preparation of Annual Reports
 - To taxing entities detailing revenues collected and expended (§867)
 - To Department of Commerce (§860)
 - Summary of report published in newspaper (§867)
- Amendments to TIF District (§858)
 - Minor Amendments permitted by amending Ordinance, if:
 - Does not increase authorized project costs in aggregate more than 5%
 - Does not increase land area of TIF in aggregate more than 5%
 - Does not change the character or purpose of the Project Plan
 - Major Amendments must complete the same full process as a new TIF
- Referendum on Ordinance/Resolution (§868)

TYPES OF TIF DISTRICTS

- Developer driven vs. Governmental driven
- Comprehensive Development Plan (large area) vs. Targeted Development (single business)
- Retail vs. Industrial vs. Residential
- Incentive Districts abatement of property tax (§860) vs. Increment Districts capture of new tax increment (§861)
- Revenue Sources
 - Sales Tax
 - Ad Valorem Tax

Tax Increment Financing in Oklahoma Page 3

- Hotel/Motel Tax
- Enterprise Zone Leverage Incentive Act payments (Title 62, Oklahoma Statutes, Section 840 et seq.)
 - Department of Commerce, upon application, may determine certain projects qualify for state matching funds based on local sales/hotel tax contribution
- Payments in lieu of tax ("PILOT payments")
- Fees by agreement
 - Developer may agree to an additional assessment on taxable sales or property value, with revenue dedicated to the TIF

REASONS FOR CREATING TIF DISTRICTS

- Primary Objectives (§852)
 - Attract major investment to an area
 - Serve as a catalyst for retaining and expanding employment in an area
 - Promote economic development to increase tax revenues, raise property values, and improve economic stability
 - Preserve and enhance the tax base
 - Make possible investment, development and economic growth which would otherwise be difficult or impossible without the project and the apportionment of taxes from within the TIF
- Economic Development Tool
 - May provide a competitive advantage in recruiting business over similarly situated areas
 - Improving the job market locally by attracting industry creates more opportunities to realize increases in population, sales tax collections, and ad valorem tax collections
 - Increasing the retail market locally can attract new sales tax dollars to a community and decrease drain of sales tax dollars to surrounding locales
- The "But For" Test
 - A litmus test for creating a TIF is whether the development would occur, to the same degree, in the same manner, without the creation of a TIF District
 - "but for" the creation of the TIF District, the City could not provide the necessary public infrastructure and/or incentives to the manufacturer/developer, and the project would have located somewhere else (or not happened at all)

FINANCIAL IMPACTS OF TIF DISTRICTS

- Taxing Entities forego incremental increase in tax revenue for a period of time
 - Up to 25 full fiscal years
 - Up to 100% of incremental tax revenues
 - Baseline (existing) revenues unaffected
- Does not affect the tax rates
- Does not forgive obligation to pay taxes
- Tax Revenues are "invested" in the Project
 - Essentially, the taxpayers pay the respective taxes as they ordinarily would, but the tax dollars are allocated to specific components of the Project rather than to general revenue sources for the taxing jurisdictions
 - A TIF intercepts the tax revenues before they are designated for specific purposes e.g. school sinking fund, dedicated capital improvement sales tax
- Sales Tax Implications
 - Municipalities rely on sales tax revenue for operations and capital improvements

- TIFs allow for capture and use without regard to the sales tax purpose stated in the applicable ordinance
 - "Pure" sales tax rebates would have to come from revenues levied for an appropriate purpose
- Cannibalization
 - Creation of a TIF district may create competition for the same sales tax dollars (customers shop at the TIF store rather than the Town store)
 - Creation of a TIF may cause a transfer of sales tax dollars from the general fund to the TIF fund (Town store closes and moves into the TIF)
 - Many Sales Tax TIFs incorporate a form of "Transfer Adjustment"
 - o Baseline sales tax level for TIF and for City generally
 - Offsets for relocating business
- Ad Valorem Tax Implications
 - Baseline assessed value is calculated at the time of TIF creation TIF only gets ad valorem revenues to the extent the Baseline is exceeded
 - Schools General Fund
 - Schools are allowed general fund revenues based on a per pupil formula as designated by the State
 - Schools levy for general fund operations (typically around 36 mils). The State appropriates dollars to make up the difference between local ad valorem collections and the allowed per pupil total
 - Revenues captured by the TIF are effectively offset by state appropriations. But...
 - o If there is a State level revenue shortfall, and everyone receives a percentage reduction in state appropriations, the larger the overall appropriation for each district, the larger the impact that cut might have
 - Schools Sinking Fund
 - Schools levy for sinking fund requirements based on the upcoming year's debt service requirements
 - Levy will vary from year to year as bonds are issued and paid off, and as the tax base increases or decreases
 - The creation of a TIF doesn't directly impact the levy rate new ad valorem tax is generated within the TIF and used for TIF purposes, and the sinking fund levy is paid from the original tax base. But...
 - o Incremental value of TIF cannot be included in a schools bonding capacity
 - o If future development did in fact occur without TIF, then levy would be spread over larger base, thus reducing levy rate
 - Schools Building Fund
 - Schools are permitted to levy (approximately 5 mils) for a capital building fund essentially for capital expenditures
 - This revenue represents the true "cost" of a TIF to a school.
 - If the TIF is not created and no development occurs, the School hasn't really lost anything; if the TIF causes development and the revenues are captured, the School ends up in the same position during the term of the TIF and better after the TIF expires
 - However, if the TIF causes a population increase at the local school, the School may realize additional capital needs but not benefit from part or all of the new building fund revenue that would otherwise result from the population growth caused by the TIF

- Some ad valorem TIFs incorporate a form of offset for the schools
 - o TIF may designate specific capital projects necessary to support development
 - o TIF statutes allow for a portion of TIF revenues to be designated as a revenue offset to make up for revenue foregone by a taxing entity that may realize a tax burden by creation of the TIF
- Other Taxing Jurisdictions
 - May include County, County Health Department, EMS Districts, Fire Protection Districts, Libraries, Career Tech Systems, Community Colleges, Others?
 - General Fund levies represent the foregone revenue
 - o Actual impact would largely depend on the size of the levy and the overall size of the tax base the larger the tax base, the lower the relative impact
 - Opportunity for offset and/or designation of specific projects within the TIF
 - Sinking Fund levies captured by the TIF do not directly affect the fiscal budget of the taxing jurisdictions; the TIF just limits the available tax base similar to school sinking funds

CHALLENGES OF START-UP TIF FINANCING

- Need capital at the start of Project, but no revenues are generated until the Project is completed!
- What do you use to pay Project costs?
 - Developer
 - Could pay costs up front, be reimbursed as TIF revenues are realized
 - Could purchase TIF bonds up front, repaid from TIF revenues
 - Developer has incentive to make Project successful
 - Developer takes the risk on Project Costs
 - Municipality/County
 - If there is no single lead developer, the governing body may be the "Developer"
 - Could pay costs up front and be reimbursed, but must budget and commit other revenue sources
 - Could issue TIF bonds, but start-up financing will require greater security than just TIF revenues
 - o Third party purchasers (banks, bondholders) are unlikely to accept speculative TIF revenues as the only source of repayment
 - May have to pledge sales tax, utility, or GO taxing authority (including the requisite voter approval)
 - o Pledging other sources may impair ability to issue debt for other purposes
 - o Consideration must be given to financing impacts beyond the TIF
- A mature TIF District will have a historical basis for revenue projections, which makes stand-alone financing significantly more attractive to a prospective lender/debt purchaser

COMMON ARGUMENTS AGAINST CREATING A TIF

- "You are creating an unfair competitive advantage for businesses in the TIF!"
 - The public effectively subsidizes the otherwise private development
 - TIF creates the newest and latest at a lower relative development cost
 - Existing businesses have been around for 30 years and never got any help from the City!

- Is that completely true? (Street and utility improvements, other capital improvements and/or programs that serve the community and allow and/or encourage commerce to exist)
- Different municipalities have differing approaches to capital infrastructure costs
 - Growth pays full costs of development
 - Users pay full cost of development
 - The local approach may impact public attitudes
- "You are taking money away that should be used to educate my children!"
 - The loss of ad valorem revenue can impact the quality of education at local schools
 - General fund revenues are more or less offset by state appropriations; the only real impact is on building fund revenues (sinking fund levies are based on debt service requirements so they don't generate additional revenue)
 - If the project results in an increase for the student population:
 - More students mean increased capital costs for schools, with no new building fund revenue or bonding capacity generated from the TIF development.
 - O However, more students mean more general fund revenue via per pupil state appropriations
 - o Further, population growth may spur collateral increases in the ad valorem tax base (housing starts and other resulting development outside the TIF)
 - Important to consider capital needs of schools and other community resources that will be critical in support of a successful development
- "All the businesses (and the sales tax they generate) are moving to the TIF, which means we are going to have to start laying off police and fire personnel!"
 - Unchecked cannibalization, whether of existing businesses changing location or retail dollars just moving to the newer store, represent a serious threat to municipal finances
 - Well reasoned mechanisms for controlling cannibalization can be created based on the relevant factors
 - o Shared allocation of TIF revenues between development and taxing entity
 - Minimum growth levels
 - O Transfer adjustments (offsets) for relocating businesses
 - For sales tax TIFs, due consideration must be given to the impact a TIF (and any revenue transfers resulting therefrom) will have on any sales tax that may be pledged to outstanding debt
 - o TIF acts as an intercept, so it is effectively "senior lien" above existing debt
- "You didn't let the people vote!"
 - The gist of the legal argument is that the TIF doesn't levy a new tax, and it is a constitutionally created mechanism that was already approved by a statewide vote, so there is no requirement that each individual TIF be voted on by the general public.
 - There is no statutory authority permitting a City or County to refer a TIF to the voters
 - TIF Ordinance is subject to referendum and initiative petition process just like any other municipal ordinance
 - Debt Issuance by a City requires a vote of the general public; however, debt issuance by a public trust on behalf of the City may be approved by the respective governing bodies pursuant to the Oklahoma Public Trust Act (Title 60, Oklahoma Statutes, Section 176 et seq., as amended)



THE NEW CITY/ TOWN AGREED UPON PROCEDURE ENGAGEMENTS, RULES, REGULATIONS, AND PROCEDURES

May 1, 2025

Presented by Frank Crawford, CPA



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

DATE: June 12, 2024

BULLETIN NUMBER: 2024-01

TO: Municipalities

Regarding: Implementation of HB 2362

House Bill 2362, effective November 1, 2024, amended state statutes related to audit requirements for municipalities and certain public trusts. The amendments to 11 O.S. § 17-105 and 60 O.S. § 180.1 include the implementation of newly defined agreed-upon procedures and the option of a biennial agreed-upon-procedures engagement.

In response to the new legislation, the State Auditor & Inspector's Office proposes the following:

- 1) All municipalities beginning with the letters A F, choosing a biennial agreed-upon procedures engagement, should contract for an engagement for the fiscal year ending June 30, 2024, and then move to a biennial engagement following the year June 30, 2026. The biennial engagement obtained in 2026 would provide audit coverage for both the June 30, 2025, and the June 30, 2026, fiscal years.
 - If the engagement contract for the fiscal year ending June 30, 2024, is dated prior to November 1, 2024 (the effective date of the amended statute), the auditor should perform the procedures defined in statute prior to the 2024 amendment. If work has not begun or is not completed by November 1, 2024, the engagement contract could be amended to encompass the new procedures.
 - If the engagement contract for the fiscal year ending June 30, 2024, is dated November 1, 2024, or later, the auditor should perform the new procedures in the amended statute.
- 2) All municipalities beginning with the letters G Z, choosing a biennial agreed-upon procedures engagement, should <u>not</u> engage in an agreed-upon-procedures engagement for the fiscal year ending June 30, 2024, but instead should wait to obtain a biennial engagement following the fiscal year ending June 30, 2025. The biennial engagement obtained in 2025 would provide audit coverage for both the June 30, 2024, and June 30, 2025, fiscal years.

Nothing in statute prevents any municipality from obtaining an annual agreed-upon-procedures engagement or an annual financial statement audit in any given year.

Cindy Byrd, CPA

State Auditor & Inspector

LIST OF PROCEDURES TO BE PERFORMED IN AGREED-UPON PROCEDURES ENGAGEMENT

	CITIES/TOWNS (O.S. Title 11, Section 17-105)	PUBLIC TRUSTS (O.S. Title 60, Section 180.1)	
1	Prepare schedule of changes in fund balances for each fund and determine compliance with statutory prohibition of creating fund balance deficits	Prepare a schedule of revenues, expenditures/expenses and changes in fund balances/net assets for each fund and determine compliance wth any applicable trust or other prohibitions for creating fund balance deficits.	
2	Prepare a budget and actual financial schedule for General Fund and any other significant funds listing separately each federal fund and determine compliance with legal level of appropriations by comparing expenditures and encumbrances to authorized appropriations	N/A	
3	Agree material bank account balances to bank statements and trace significant reconciling items to subsequent clearance.	Agree material bank account balances to bank statements and trace significant reconciling items to subsequent clearance.	d
4	Compare uninsured deposits to fair value of pledged collateral	Compare uninsured deposits to fair value of pledged collatera	al
5	Compare use of material restricted revenues and resources to their restrictions.	Compare use of material restricted revenues and resources to their restrictions.	D
6	Determine compliance with requirements for separate funds.	Determine compliance with requirements for separate funds.	
7	Determine compliance with reserve account and debt service coverage requirements of bond indentures	Determine compliance with reserve account and debt service coverage requirements of bond indentures	!

New Rules Related to Audits and Agreed-Upon Procedures Engagements for Oklahoma Municipalities

OSCPA GAA Conference May 1-2, 2025 Presented by – Frank Crawford, CPA



Contact Information

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Audit and AUPs at a Glance

- * Why attestation (Audit and AUPs) at all?
- * Types of Audits and AUPs
- * Statutes Related to Audits and AUPs



Why any attestation at all?

- * In most cases, it's required
- * Accountability
- * Reliability
- * Assurance
- * Loans and grants



Types of Audits

- * External (Financial)
- * Internal
- * Forensic (Investigative)
- * Performance
- * Single Audit of Federal Grant Funds



Statutes Related to Audits

* Cities and Towns (O.S. Title 11, Section 17-105)

* Public Trusts (O.S. Title 60, Section 180.1)



House Bills 1058 and 2362

- * 1058 passed, was signed by Gov in 2023; Legislature then passed HB 2362 in June 2024, then signed by Gov, with an effective date of November 1, 2024
- * Causes significant changes to nearly all the aspects of the Title 11 current law (and Title 60 by reference)
 - * Changed threshold limits of how much and what to include as revenue
 - * Certain size governments qualify for biennial audits instead of annual audits or biennial AUPs instead of annual AUPs, each of which include the activity from both years of the biennial period
 - * New revised AUP procedures were determined by the State Auditor's office, with input and assistance from other organizations and individuals (HB 2362); see procedures on subsequent slides
 - It also set up a fund for the State Auditor's office to utilize for special investigative audits of municipalities, funded primarily by the municipalities who forfeited their gas excise taxes (depending upon the lateness of the audit or AUP), and other funds provided for such by the Oklahoma Legislature



- * Population greater than 2,500 (as of most recent Federal Decennial Census) and revenue from all funds and component units of greater than \$50,000 (excludes grants from all other governments and excluding Title 60 non-utility public trusts), but does include revenue from Title 60 Public trusts that are utility based
 - Annual Audit required
 - * Must be ordered within 30 days of the close of the fiscal year
 - Must be filed with the State Auditor and Inspector and with the governing body within 6 months after close of fiscal year
 - Audit in accordance with generally accepted auditing standards and Government Auditing Standards
 - Performed by an independent licensed PA or CPA



- * Population less than 2,500 (as of most recent Federal Decennial Census) and revenue from all funds and component units of greater than \$50,000 (excludes grants from all other governments and excludes Title 60 non-utility public trusts), but does include revenue from Title 60 Public trusts that are utility based
 - * Can opt to have a biennial financial statement audit covering both years OR
 - * Can opt to have a <u>biennial</u> Agreed Upon Procedures engagement covering both years IF an annual financial statement audit is not required by another law, regulation or contract
 - Performed by an independent licensed PA or CPA
 - * In accordance with attestation standards of AICPA
 - Specific AUP procedures were determined by State Auditor in collaboration with others
 - * Ordered within 30 days of the close of the of fiscal year that the audit is due (the biennial year)
 - * Filed with governing body and State Auditor no more than 9 months after the close of the 2nd fiscal year of the biennial audit or AUP period
 - * The deadline to order the audit/aup and the deadline to file the audit/aup can be extended by the State Auditor for special circumstances or emergencies



- * Revenue from all funds and component units of less than \$50,000 (excludes grants from all other governments and excludes Title 60 non-utility public trusts), but does include revenue from Title 60 Public trusts that are utility based
 - * No audit or Agreed-Upon Procedures required
 - * Must complete SA&I Form summary



* A few other items of the laws to note

- * If a municipality misses the filing deadlines (6 months or 9 months as mentioned on the previous slides)
 - * Gas excise tax will be temporarily withheld by the OK Tax Commission
 - * If the municipality files the audit/aup within 2 years of the close of the audit/aup period, all the gas tax will be released to the municipality
 - * If the municipality does NOT file the audit/aup within 2 years of the close of the audit/aup period, the gas excise tax of the municipality will be forfeited into a new revolving fund established for the State Auditor to help offset the cost of municipal special investigations



- * A few other items of the laws to note, cont.
 - * In order to spread the implementation efforts by auditors, the State Auditor put out guidance shortly after June 30, 2024 that divided cities and towns into two groups, those whose city/town names begin with the letters A-F, and those that begin with G-Z
 - * It was determined that those cities/towns whose name begins with the letters A-F would implement the new law for the June 30, 2024 year, with only a single year presentation (even though the law called for biennial audit/aup
 - * The effective date for the new law for all A-F governments was to be for all audits and AUPs for the June 30, 2024 year **IF** the government had not engaged an auditor to do the work until **AFTER** the November 1, 2024 effective date of the law
 - * If an A-F government with a June 30, 2024 year end had already engaged an auditor to do the audit/aup prior to the November 1, 2024 effective date of the law, the prior audit/aup laws would have still applied (the old law and old list of procedures)



- * A few other items of the laws to note, cont.
 - * For all cities/towns whose name begins with the letters G-Z, they would get to temporarily skip the audit/aup requirements for the June 30, 2024 year, however, in the June 30, 2025 year, their audit/aup would be required to be performed over both years, June 30, 2024 AND June 30, 2025
 - * Then, for the June 30, 2026 year end, all A-F cities/towns will finally have their first biennial audit/aup, which will include the June 30, 2025 year and the June 30, 2026 year
 - * After that, the alternative cycles will then continue based on the lettering of the city/town
 - * So you may now be thinking, could we have made it any more confusing? Answer, yes! Let's look at the new AUP procedures and contrast them to the previous AUP procedures



First, let's look at the prior law AUP procedures

- * Let's go to Exhibit A for a closer look
- * These are the procedures that would have been in effect for auditors performing audits of the smaller governments for the June 30, 2024 year IF and only IF they had an engagement letter for the work that was signed and dated prior to the November 1, 2024 effective date of the law
- * You will note that they are very "schedule-driven" procedures, focusing more on compliance with various aspects of municipal finance-related laws

Now, let's take a look at the new procedures on the following slides

- * Remember, these new AUP procedures were in effect for the June 30, 2024 fiscal year for all A-F governments ONLY if you had an engagement letter that was signed and dated PRIOR to November 1, 2024, however the auditor will only perform the procedures over that single year, June 30, 2024
- * These new AUP procedures will be applicable to all June 30, 2025 cities/towns with city/town names that begin with the letters G-Z, AND they will require the auditor to perform the AUP procedures over BOTH years, June 30, 2024 and June 30, 2025
- * And lastly, these new AUP procedures will be applied to both fiscal years of the A-F governments starting in FY 2026 (covering both FY 2025 and FY 2026)

* 1. Determine the establishment of policies related to adjustments, writedowns, or write-offs for various receivables due to the municipality and/or the utility-related trust and select a sample of adjustments to test for adherence to policies and for appropriate supporting documentation

* 2. Obtain two (2) months of bank statements of the General Fund and Utility Fund and confirm that cash deposits were made in the appropriate account(s) and verify utility billing receipts and/or posting reports agree to the daily deposits

* 3. For the following four positions: city manager/town administrator, city/town clerk, city/town treasurer, and payroll clerk, the governing body shall agree upon a pay rate to be authorized and documented in the personnel file or in approved meeting minutes. Inquire of the payroll clerk or equivalent if any employees received compensation over and above their authorized salary or hourly rate, and if so, trace to appropriate documentation of authorization for such pay. This shall not include expense reimbursements, but shall include any allowances considered taxable

* 4. For entities that use debit or credit cards, determine the establishment of policies of use, select a sample of transactions to test for supporting documentation, proper municipal purpose, and adherence to prescribed policies

* 5. Prepare a cash basis schedule of changes in fund balances for each fund and determine compliance with the statutory prohibition of creating fund balance deficits

* 6. Agree material fiscal year-end bank account balances to bank statements and trace significant reconciling items to subsequent clearance; shall determine if any bank accounts exist that are not under city council purview

* 7. Compare uninsured deposits at fiscal year-end to the fair value of pledged collateral

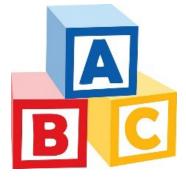
* 8. Inquire if any instances of known fraud, illegal acts, or noncompliance with law and regulations have occurred

* 9. Compare the use of material-restricted revenues and resources to their restrictions

QUESTIONS









THE FRAUD, WASTE, AND ABUSE SUPER BOWL

May 1, 2025

Presented by Dave Cotton, CPA

DAVID L. COTTON, CPA, CFE, CGFM CHAIRMAN EMERITUS, COTTON & COMPANY

Dave Cotton is founder and Chairman Emeritus of Cotton & Company, Certified Public Accountants, headquartered in Alexandria, Virginia. Cotton & Company was founded in 1981 and has a practice concentration in assisting Federal and State agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than three dozen Federal inspectors general as well as numerous other Federal and State organizations, programs, activities, and functions. In April 2022, Cotton & Company became a wholly owned subsidiary of Sikich LLP.

Cotton & Company's Federal agency audit clients have included the U.S. Government Accountability Office, Public Company Accounting Oversight Board, U.S. Navy, U.S. Marine Corps, U.S. Transportation Command, U.S, Defense Security Cooperation Agency, U.S. House of Representatives, U.S. Capitol Police, U.S. Small Business Administration, U.S. Bureau of Prisons, Millennium Challenge Corporation, U.S. Marshals Service, and Bureau of Alcohol, Tobacco, Firearms and Explosives. Cotton & Company also assists numerous Federal agencies in preparing financial statements and improving financial management, accounting, and internal control systems.

Dave received a BS in mechanical engineering and an MBA in management science and labor relations from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago Graduate School of Business. He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Dave served on the Advisory Council on Government Auditing Standards (the Council advises the United States Comptroller General on promulgation of *Government Auditing Standards*—GAO's yellow book). He served on the Institute of Internal Auditors (IIA) Anti-Fraud Programs and Controls Task Force and co-authored *Managing the Business Risk of Fraud: A Practical Guide*. He served on the American Institute of CPAs Anti-Fraud Task Force and co-authored *Management Override: The Achilles Heel of Fraud Prevention*. Dave is the past chair of the AICPA Federal Accounting and Auditing Subcommittee and has served on the AICPA Governmental Accounting and Auditing Committee and the Government Technical Standards Subcommittee of the AICPA Professional Ethics Executive Committee. Dave chaired the Fraud Risk Management Task Force, sponsored by COSO and ACFE and is a principal author of the *COSO-ACFE Fraud Risk Management Guide*. In May 2022, Governor Glenn Youngkin appointed Dave to the Virginia Board of Accountancy.

Dave served on the board of the Virginia Society of Certified Public Accountants (VSCPA) and on the **VSCPA Litigation Services, Professional Ethics, Quality Review, and Governmental Accounting and Auditing Committees**. He is a member of the Association of Government Accountants (AGA) and past-advisory board chairman and past-president of the AGA Northern Virginia Chapter and past Vice Chair of the **AGA Professional Ethics Board**. He is also a member of the IIA and the Association of Certified Fraud Examiners. Dave is presently serving on the National Association of State Boards of Accountancy (NASBA) Regulatory Response Committee.

Dave has testified as an expert in governmental accounting, auditing, and fraud issues before the United States Court of Federal Claims, the Armed Services Board of Contract Appeals, and other administrative and judicial bodies.

Dave has spoken and written frequently on cost accounting, professional ethics, and auditor fraud detection responsibilities. He has been an instructor for the George Washington University Master of Accountancy program (*Fraud Examination and Forensic Accounting*) and has instructed for the George Mason University Small Business Development Center (*Fundamentals of Accounting for Government Contracts*).

Dave was the recipient of the ACFE 2018 Certified Fraud Examiner of the Year Award ("presented to a CFE who has demonstrated outstanding achievement in the field of fraud examination ... based on their contributions to the ACFE, to the profession, and to the community"); AGA's 2012 Educator Award ("to recognize individuals who have made significant contributions to the education and training of government financial managers"); and AGA's 2006 Barr Award ("to recognize the cumulative achievements of private sector individuals who throughout their careers have served as a role model for others and who have consistently exhibited the highest personal and professional standards").

Disclaimer





The views expressed in this presentation are my views and do not necessarily align with the views of the Virginia Board of Accountancy.

- Two teams of elite accountability professionals will have their knowledge tested as they compete for fame, bragging rights, and <u>valuable prizes</u>
- Teams will consist of 3 players each
 - Accountants
 - Auditors
- Each team will select a Captain who will provide responses on behalf of her/his team
- Questions will be worth 10 points each

- As I put up a question, the first team to ring in will be entitled to answer the question
- If the team answers correctly, it will earn 10 points
- If the team answers incorrectly, 10 points will be deducted from its score and the opposing team can choose to answer the question and earn the points (but, if they answer incorrectly, they will lose 10 points)

- Fraud/waste/abuse knowledge areas to be tested will include:
 - Generally Accepted Auditing Standards (GAAS) requirements
 - Generally Accepted Government Auditing Standards (GAGAS) requirements
 - Fraud risk management
 - Improper payments
 - Fraud statistics
 - Famous fraud cases
 - And so forth

Who wants to play?

- Accountants
- Auditors
- Scorekeeper

Audience participation

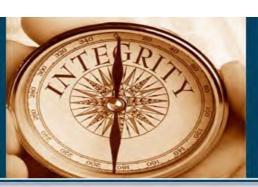
 Cheer, clap, and make noise to support your favorite team

AND

Test your knowledge along with our contestants







2025 Governmental Accounting and Auditing Conference

The Fraud, Waste & Abuse Super Bowl

David L. Cotton, CPA, CFE, CGFM dave@cottoncfe.com



GASB UPDATE

May 2, 2025

Presented by Lisa Parker, CPA, CGMA

Oklahoma Society of CPAs Governmental Accounting and Auditing Conference



GASB UPDATE

Lisa R Parker, CPA, CGMA, Senior Project Manager and GASAC Coordinator

May 2, 2025

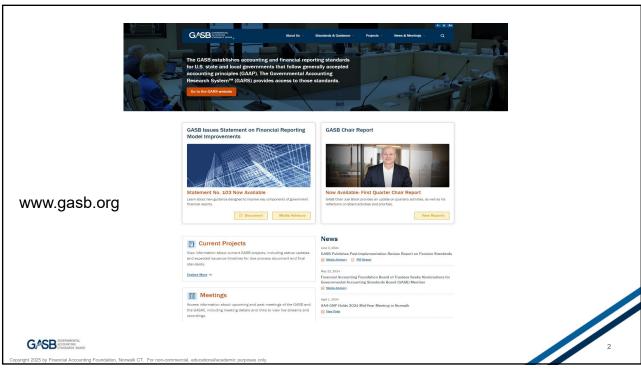
The views expressed in this presentation are those of Ms. Parker.

Official positions of the GASB are reached only after extensive due process and deliberations.

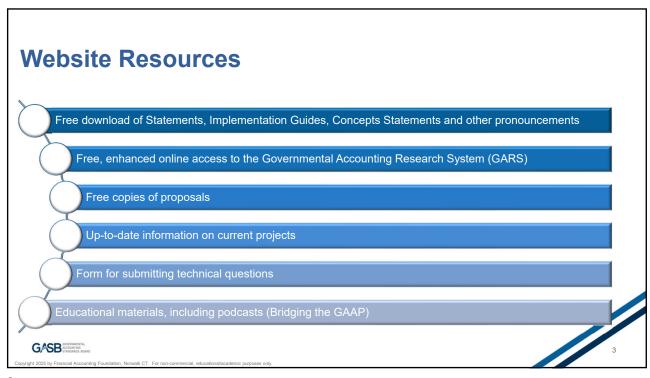
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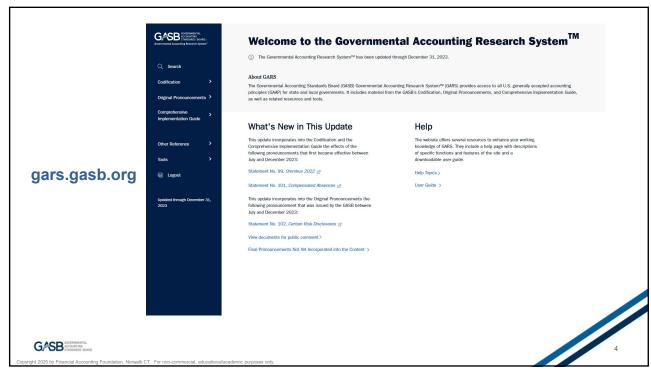
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2





Effective Dates

December 31: Fiscal Year 2024

- Statement 99—Omnibus 2022 (financial guarantees and classification of derivatives)
- Statement 100—Accounting Changes and Error Corrections
- Statement 101—Compensated Absences
- IG 2021-1—Implementation Guidance Update—2021 (5.1)
- IG 2023-1—Implementation Guidance Update—2023

December 31: Fiscal Year 2025

• Statement 102—Certain Risk Disclosures

December 31: Fiscal Year 2026

- Statement 103—Financial Reporting Model Improvements
- Statement 104—Disclosure of Certain Capital Assets



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Effective Dates

June 30: Fiscal Year 2025

- Statement 101—Compensated Absences
- Statement 102—Certain Risk Disclosures

June 30: Fiscal Year 2026

- Statement 103—Financial Reporting Model Improvements
- Statement 104—Disclosure of Certain Capital Assets

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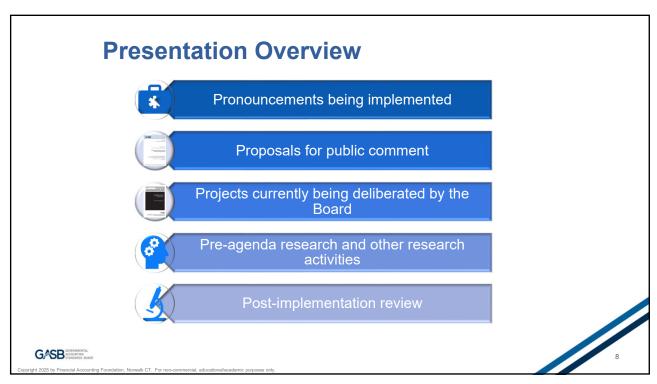


Included in EVERY Statement:

The provisions of this Statement need not be applied to immaterial items.

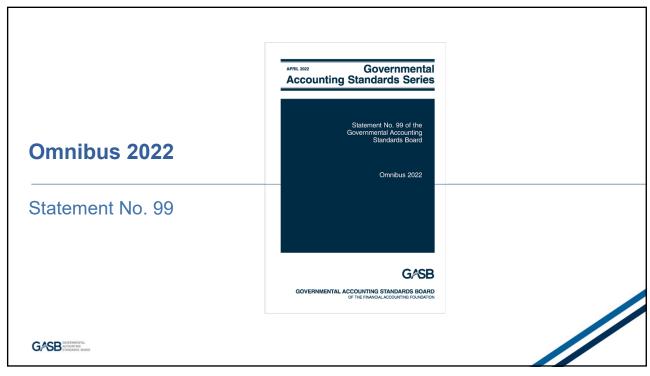
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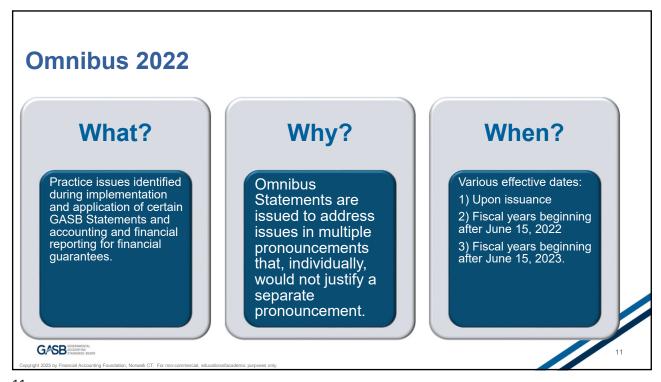
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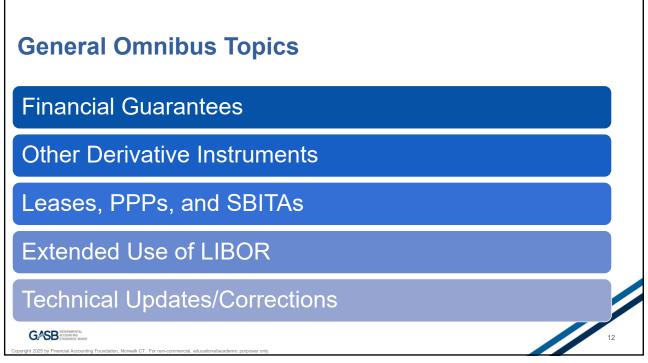


Pronouncements Being Implemented

9







Financial Guarantees

Statement 99 DOES

 Apply the liability recognition, liability measurement, and disclosure requirements in Statement 70 to governments that extend exchange or exchange-like financial guarantees.

Statement 99 DOES NOT

- Prescribe expense classification.
- Prescribe recognition guidance for the consideration received in an exchange or exchange-like financial guarantee transaction.



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13

Other Derivative Instruments

Other Derivative Instruments

- Change in fair value should be reported on the flows statement separately from investment revenues.
- Disclosures should be distinguished from hedging derivative instruments and investment derivative instruments.
- Fair value of derivative instruments that were reclassified from hedging derivative instruments should be disclosed.

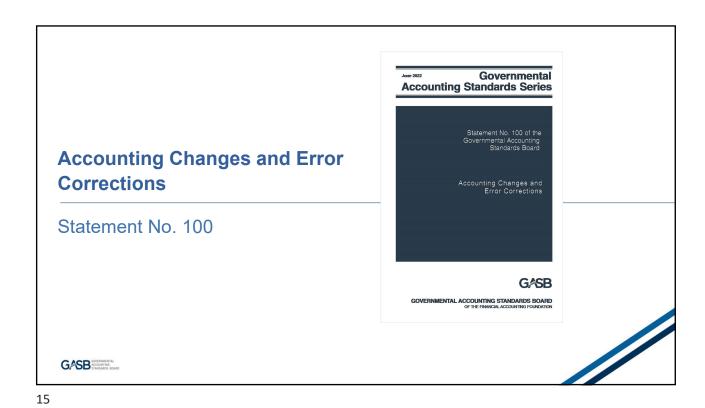
Termination of Hedge Accounting

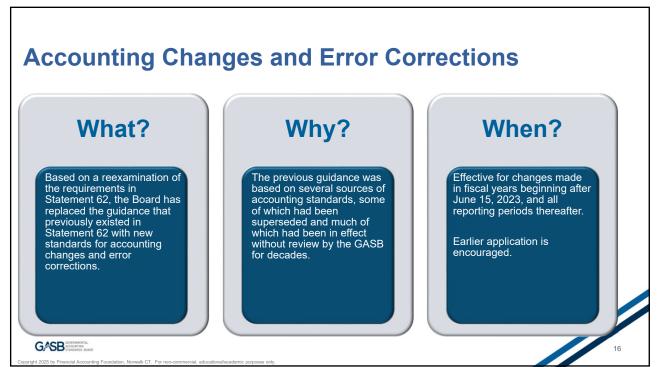
 If hedging derivative instruments cease to be effective, the balance of the deferrals should be reported on the flows statement separately from investment revenues.

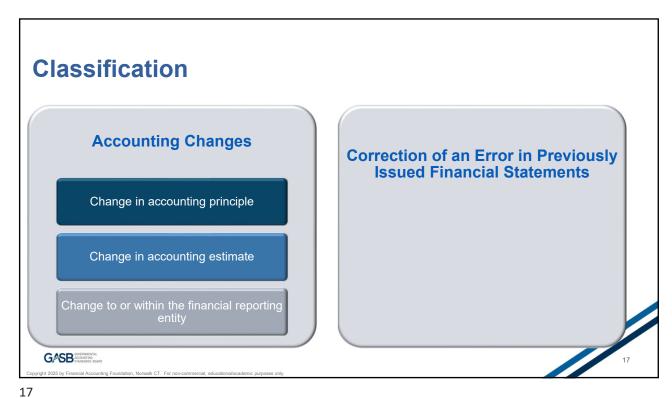
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Change in Accounting Principle

- A change in accounting principle results from either:
 - A **change** from one generally accepted accounting principle to another that is justified on the basis that the newly adopted accounting principle is preferable
 - · Preferability based on the qualitative characteristics of financial reporting
 - Implementation of new pronouncements.

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Proposed Q&A – Implementation Guide Update

4.14. Q—Is a change in capitalization threshold a change in accounting principle as defined in Statement 100?

A—No. A capitalization threshold is the application of materiality to a specific asset class. Therefore, the requirements of Statement 100 for a change in accounting principle do not apply to that change.



19

Accounting Estimates

- Accounting estimates are:
 - Amounts subject to measurement uncertainty that are recognized or disclosed in basic financial statements.
 - Outputs determined based on inputs such as data, assumptions, and measurement methodologies.

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Change in Accounting Estimate

- A change in accounting estimate occurs when the inputs change.
 - Inputs include data, assumptions, and measurement methodologies.
- Changes in inputs result from:
 - Change in circumstance
 - New information
 - More experience.
- Change in measurement methodology should be justified on the basis that new methodology is preferable.
 - Based on qualitative characteristics of financial reporting.



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21

Change to or within the Financial Reporting Entity

- A change to or within the financial reporting entity results from:
 - Addition/removal of a fund that results from movement of continuing operations within the primary government, including its blended component units
 - A change in the fund presentation as major or nonmajor
 - Addition/removal of a component unit (except for acquisitions, mergers, and transfers of operations, and Statement 90 component units)
 - Change in presentation (blended or discrete) of a component unit.



22

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Correction of an Error

- An error results from:
 - Mathematical mistakes
 - Misapplication of accounting principles
 - Oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date.
 - Facts that could reasonably be expected to have been obtained and taken into account at that time about conditions that existed as of the financial statement date

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23

Accounting for Accounting Changes and Error Corrections Reported retroactively by restating prior periods presented, if practicable Change in accounting If not practicable, restate beginning balances principle of current period Change in accounting Reported prospectively estimate Recognized in current-period flows Change to or within the Reported by adjusting current period beginning balances reporting entity Reported retroactively by restating prior Error correction periods presented

24

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Display

Shown separately

 Aggregate amount of adjustments to and restatements of beginning balances should be displayed for each reporting unit.

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Proposed Q&A – Implementation Guide Update

4.16. Q—How should a change in a fund's presentation from major to nonmajor be displayed in the financial statements?

A—Paragraph 31 of Statement 100 requires that the aggregate adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed separately by reporting unit. As a result, although the column does not have activity for the reporting period, a column that presents (a) the fund's beginning balance as previously reported in the major column and (b) the adjustment to that balance, should be displayed in the statement of revenues, expenditures, and changes in fund balances or statement of revenues, expenses, and changes in net position, as applicable.

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Proposed Q&A – Implementation Guide Update

4.17. Q—Would the answer to Question 4.16 be different if the major fund no longer exists as a result of the movement of continuing operations, for example, a major proprietary fund will be reported as part of the general fund (instead of as a result of a change in fund presentation as described in Question 4.16)?

A—No, the answer is the same. Although the column does not have activity for the reporting period, a column that presents (a) the fund's beginning balance as previously reported in the major column and (b) the adjustment to that balance, should be displayed in the statement of revenues, expenditures, and changes in fund balances or statement of revenues, expenses, and changes in net position, as applicable.

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Note Disclosures

Disclosures vary depending on the type of item, but common disclosures include:

The nature of the change or error and its correction

Reason for the change

The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

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The Statement addresses how to present in RSI and SI information that is affected by an accounting change or error correction.

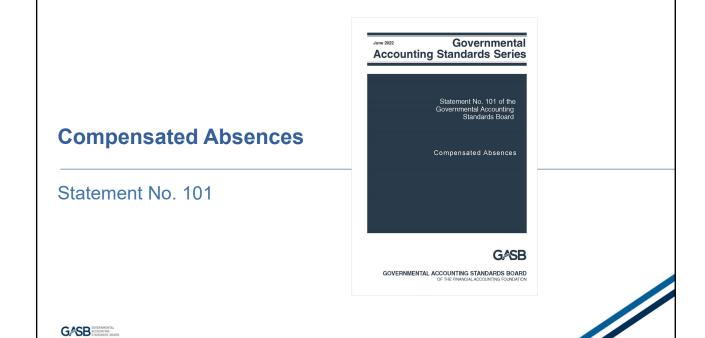
Periods earlier than those presented in basic financial statements should **not** be restated for changes in accounting principles.

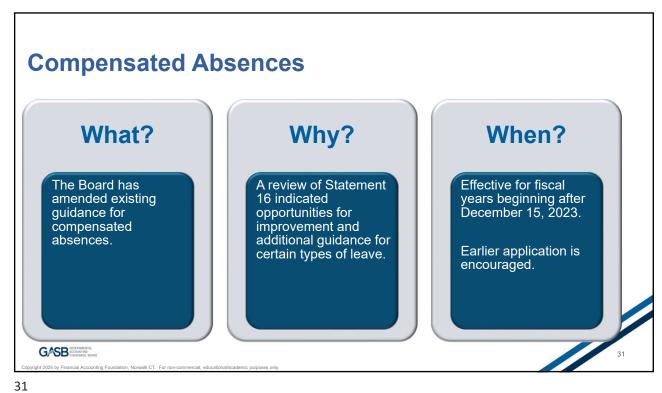
Periods earlier than those presented in basic financial statements should be restated for error corrections, if practicable.

GASB CONTRACTOR STANDARDS SEAMO

29

29





Scope and Applicability

A compensated absence is

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

Examples:

- Vacation and sick leave
- Paid time off (PTO)
- Holidays
- Parental leave
- Certain types of sabbatical leave

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Recognition Criteria—Leave That Has Not Been Used

Leave is attributable to services already rendered

Employee has performed the services required to earn the leave

Leave accumulates

 Can be carried forward from reporting period when earned to a future reporting period when it will be used or otherwise paid or settled

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

Likelihood of more than 50 percent

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33

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33

Exceptions to the General Recognition Approach

Leave more likely than not to be settled through conversion to defined benefit postemployment benefits

· Excluded from liability

Leave that is dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period

- Recognize liability when leave commences
- · Parental leave, military leave, jury duty recognized when commences
- · Not sick leave or sabbatical leave

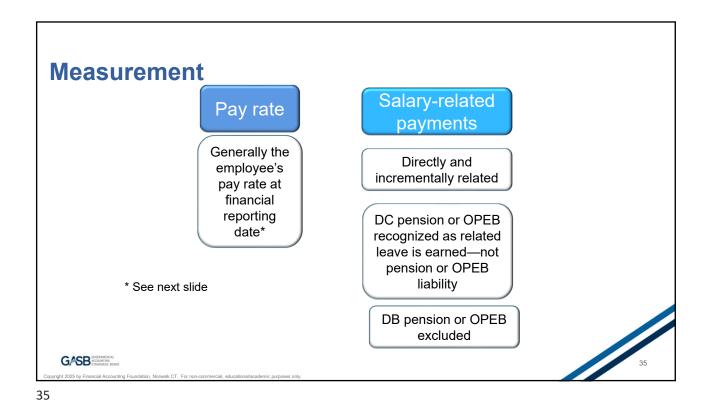
Unlimited leave and holiday leave taken on specific date

· Recognize liability when used

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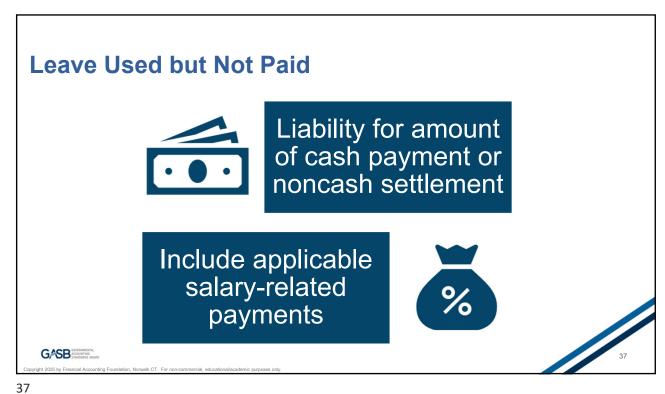
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Common Questions

- Pay rate exceptions
 - MLTN to be paid at rate different from employee's pay rate at time of payment
 - Example: Payout at termination at ½ of employee's pay rate at that time
 - Not pay rate at time of payment different from pay rate at FS date
 - See Q4.18 in Exposure Draft of Implementation Guidance Update 2025
 - Leave pools and noncash settlement
- Flows assumption
 - Exposure Draft proposed FIFO requirement
 - Statement 101 does not require either FIFO or LIFO
 - Judgment in setting policy





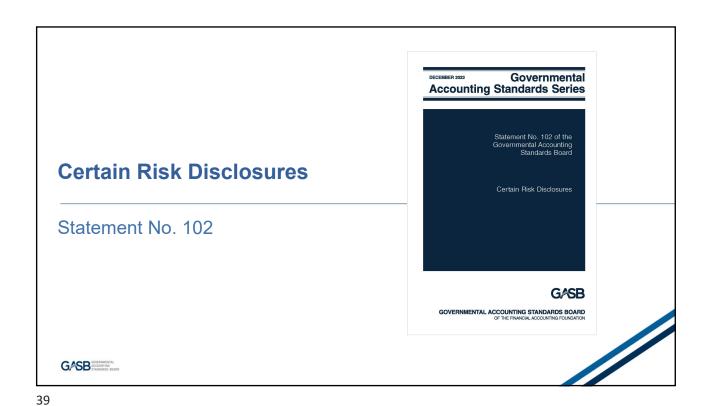
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Note Disclosures and Effective Date

- Note disclosures
 - No new note disclosures
 - Exceptions to existing long-term liability disclosures for compensated absences:
 - Option to present net increase or decrease with indication that it is a net amount
 - Not required to disclose governmental fund used to liquidate
- Effective date
 - Fiscal years beginning after December 15, 2023

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Statement 102: Certain Risk Disclosures

What?

The Board has established requirements to disclose certain risks faced by governments.

Stakeholders asked the GASB to address this issue.

Effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

Earlier application is encouraged.

Scope and Definitions: Concentrations and Constraints

Concentrations: lack of diversity in an aspect of a significant inflow or outflow of resources

• For example, the composition of (1) employers, (2) industries, (3) inflows of resources, (4) workforce covered by collective bargaining agreements, (5) providers of financial resources, and (6) suppliers of material, labor, or services

Constraints: limitations imposed by an external party or the government's highest level of decision-making authority

• For example, (1) limitations on raising revenue, (2) limitations on spending, (3) limitations on the incurrence of debt, and (4) mandated spending

Concentrations and constraints limit a government's ability to acquire resources or control spending.

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Application of Disclosure Criteria:

Primary government reporting unit, including blended component units, AND

Other reporting units that report a liability for revenue debt

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Disclosure Criteria

Disclosures would be required if a government determines that:

- A concentration or constraint is known to the government prior to the issuance of financial statements.
- The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact.
- An event or events associated with the concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.



43

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43

General Disclosure Principles

If comparative financial statements are presented, disclosure requirements only apply to the current period.

Some requirements may supplement other note disclosures; combine to avoid unnecessary duplication.

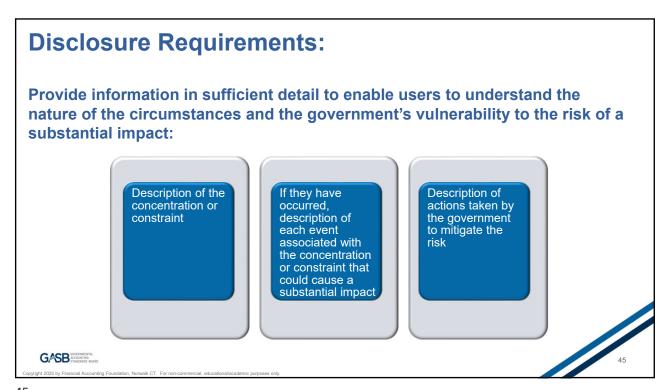
Information that is the same for more than one reporting unit should be combined to avoid unnecessary duplication.

Disclosure for discretely presented component units subject to paragraph 63 of Statement No. 14, *The Financial Reporting Entity.*

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44

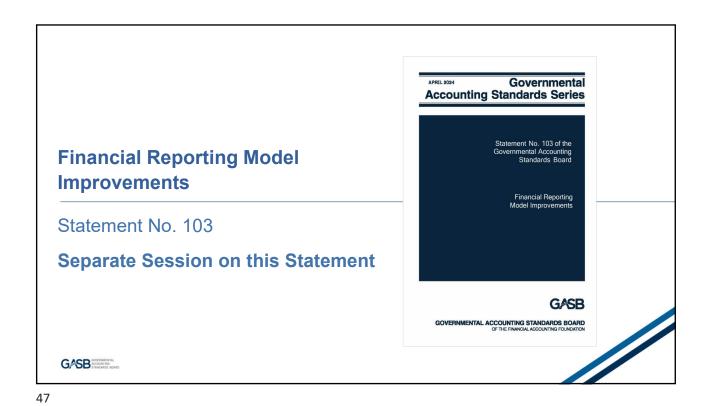
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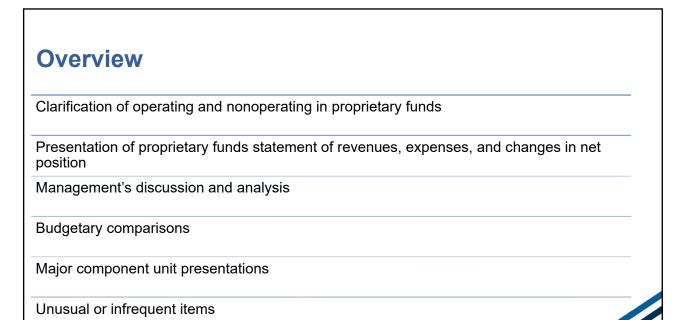
Effective Date and Transition Effective for fiscal years beginning after June 15, 2024 All reporting periods thereafter Transition is prospective

46

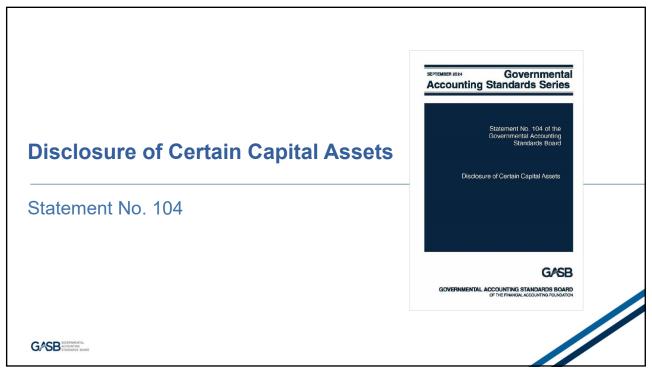
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Financial Reporting Model Improvements What? Why? When? A review of those Effective for fiscal The Board has made certain improvements standards found that years beginning after June 15, 2025, they generally were effective but that to the financial reporting modeland all reporting periods thereafter. Statements 34, 35, 37, there were aspects 41, and 46, and that could be Interpretation 6. significantly Earlier application is improved. encouraġed. GASB ACCOUNTING
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Disclosure of Certain Capital Assets When? What? Why? Establishes Provide essential Approved information to users September 2024. 1) Requirements for certain capital assets to about certain types be disclosed separately of nonfinancial in Statement 34 Effective for fiscal assets disclosures years beginning 2) Capital assets held for after June 15, 2025, and all reporting periods thereafter. GASB GOVERNMENTAL ACCOUNTING

Capital Assets Disclosure

- Within note disclosures required by Statement 34, separate disclosure of:
 - Lease assets by major class of underlying asset
 - Intangible right-to-use assets recognized by operator in PPP, by major class of underlying PPP asset
 - Subscription assets
 - Intangible assets other than those mentioned above, by major class of asset
- Intangible assets that represent the right to use a type of underlying asset should not be in same major class as owned assets of that type

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Capital Assets Held for Sale

- Capital assets are capital assets held for sale if:
 - o The government has decided to pursue the sale of the asset
 - o It is probable that the sale will be finalized within one year of the financial statement date
- Factors to consider if it is probable that the sale will be finalized within one year
- No change to measurement
- Disclosures:
 - Historical cost and accumulated depreciation, by major class of asset
 - Carrying amount of debt for which capital assets held for sale are pledged as collateral



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Effective Date and Transition

- Effective for fiscal years beginning after June 15, 2025
 - All reporting periods thereafter
 - Earlier application is encouraged
 - Retroactive application, if practicable
 - · All periods presented in basic financial statements
 - Disclosure that Statement was implemented and any financial statement line items affected
 - · If not practicable, disclose reason for not applying to prior periods



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Preliminary Views: Severe Financial Stress and Probable Dissolution Disclosures

56

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Going Concern Uncertainties and Severe Financial Stress Project What? When? Why? The Board is: Existing guidance The Board issued a Preliminary Views in March 2025. presents challenges that reviewing existing result in diversity in standards related to practice. going concern, and Comment deadline is Some governments June 30, 2025. addressing issues experience severe related to disclosures financial stress but do regarding going not dissolve and others concern uncertainties dissolve for reasons and severe financial other than severe stress. financial stress.

57

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Preliminary Views – Two Independent Ideas

- Severe Financial Stress (SFS)
 - Condition existing as of financial statement date
 - Regardless of continued existence
- Probable Dissolution (PD)
 - Uncertainty about future event occurring
 - Regardless of financial condition
- Government could be required to make SFS disclosures, PD disclosures, or both
- Going concern uncertainty not used for greater clarity

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Preliminary Views – Severe Financial Stress

- Disclosures required if government is experiencing financial difficulties such that it is near or at the point of insolvency
 - Regardless of continued existence
 - Condition as of the financial statement date
 - Guidance to help evaluate whether government is near insolvency (proximity not time, indicators)
- Disclosures to be made
 - Reasons and causes for the condition
 - Government's evaluation of significance of those reasons and causes
 - Actions taken in response
 - Known effects
 - Additional disclosures in subsequent periods if condition persists or is alleviated



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Preliminary Views - Probable Dissolution

- Disclosures required if probable that government will cease to exist as legally separate entity within 12 months from the date FS available to be issued
 - Regardless of financial condition
 - Could be merger, acquisition, or dissolution without replacement
- Disclosures to be made
 - Statement that there is PD
 - Reasons and causes for PD
 - Government's evaluation of significance of those reasons and causes
 - Actions taken in response
 - Recoverability or classification of assets and liabilities
 - Additional disclosures in subsequent periods if PD persists or no longer present

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Providing Feedback

- Written comments
 - Comment letter
 - Electronic feedback form
 - Deadline: June 30, 2025
- Public forums
 - July 28-29, 2025 Nashville
 - August 11, 2025 virtual
 - August 21, 2025 virtual
 - September 9-10, 2025 Norwalk
 - Deadline to notify of intent to participate: June 30, 2025



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Project Timeline

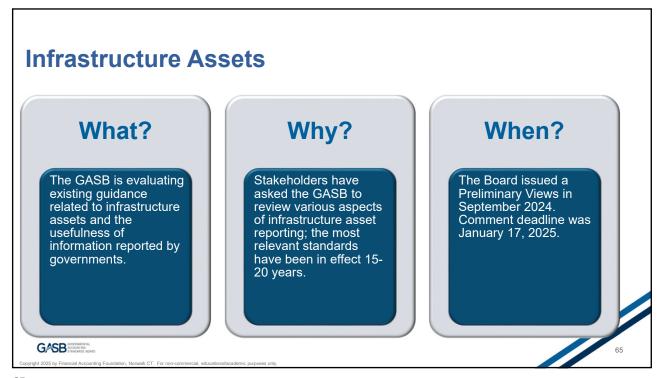
Pre-Agenda Research Started	April 2015
Added to Current Technical Agenda	December 2021
Deliberations Began	July 2022
Preliminary Views Issued	March 2025
Exposure Draft Scheduled to Be Considered for Issuance	June 2026

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Current Technical Agenda Project	S
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Preliminary Views

Infrastructure assets should continue to be recognized and measured in financial statements using historical cost net of accumulated depreciation, except for those governments that elect to use the modified approach.

Requirements for use of the modified approach as described in Statement 34 generally should continue to apply.

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Preliminary Views on Measurement Using Historical Cost

Estimated useful lives and salvage values of infrastructure assets should be reviewed periodically and adjusted, if necessary

Each component of an infrastructure asset with a cost that is significant in relation to the total cost of the infrastructure assets should be depreciated separately if the useful live is different

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67

Proposed Disclosures

Change in policy for capitalizing infrastructure assets or estimating useful lives of infrastructure assets

Summary of policy for monitoring and maintaining or preserving infrastructure assets

Maintenance and preservation expense for infrastructure assets during the reporting period

Historical cost of infrastructure assets that have exceeded 80 percent of their estimated useful lives with separate disclosure of those (a) that have exceeded their estimated useful lives and (b) those that have exceeded 80 percent of their estimated useful lives but have not exceeded their estimated useful life

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Proposed Removed Disclosures

Description of modified approach in summary of significant accounting policies for infrastructure assets reported using the modified approach

Infrastructure assets that were not, and were not required to be, reported with the implementation of Statement 34

Carrying amount of impaired infrastructure assets that are idle at year-end

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69

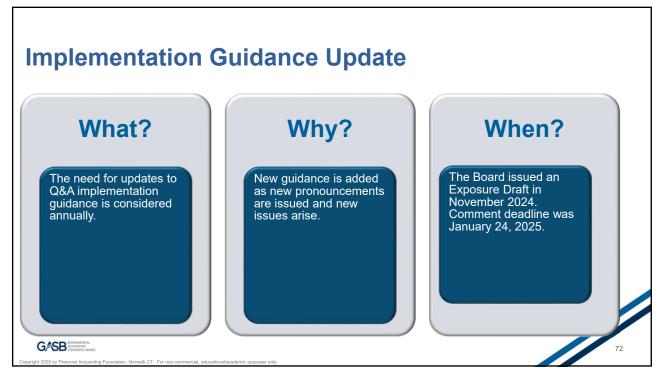
Project Timeline

Pre-Agenda Research Started	August 2019
Added to Current Technical Agenda	April 2023
Deliberations Began	May 2023
Preliminary Views Issued	September 2024
Exposure Draft Scheduled to Be Considered for Issuance	February 2026

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Implementation Guidance Update Proposed IG Update 2025

71



Proposed Implementation Guide Update—2025

- New questions related to:
 - Capital assets (including application of Statement 104)
 - Statement 103
 - Statement 101
 - Statement 100
 - Statement 91
 - Statement 87
- Amendments to existing questions related to:
 - Capital assets (7.9.6 in Implementation Guide 2015-1)
 - Special revenue funds (Z.54.30 in Implementation Guide 2015-1)
- Exposure Draft issued Q4 2024; Final expected to be issued Q2 2025

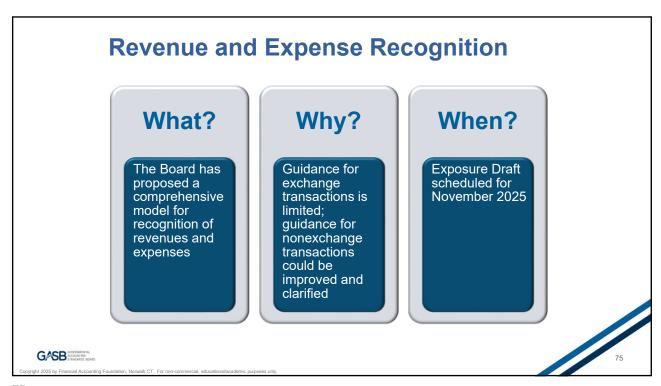


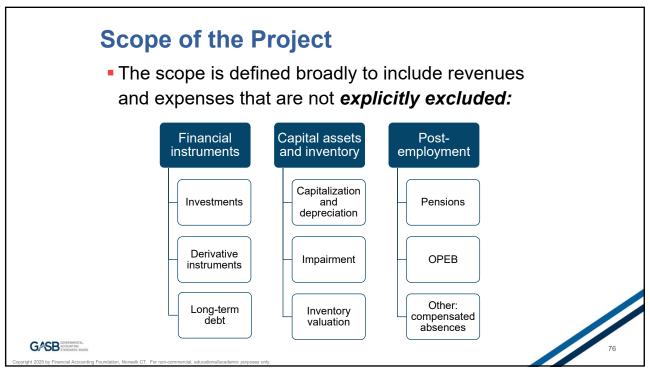
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73

Revenue and Expense Recognition

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Scope in the Context of Standards

In Scope:

- Revenue and expense recognition from nonexchange transactions
 - Statements 6, 24, 33, 36
- Revenue and expense recognition from exchange transactions
 - Statements 34 and 62

Out of Scope:

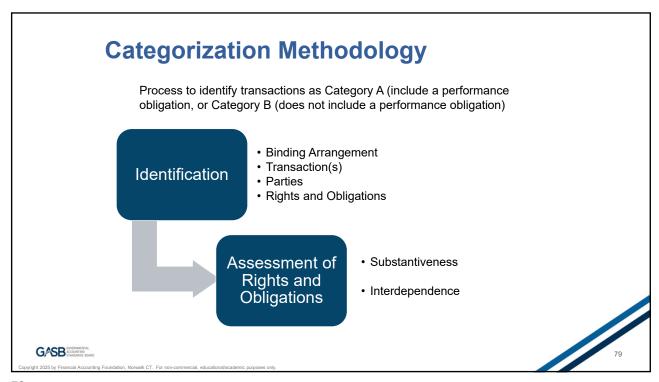
- Statements issued since Statement 63
- Statements that result from projects added to the technical agenda after April 2016

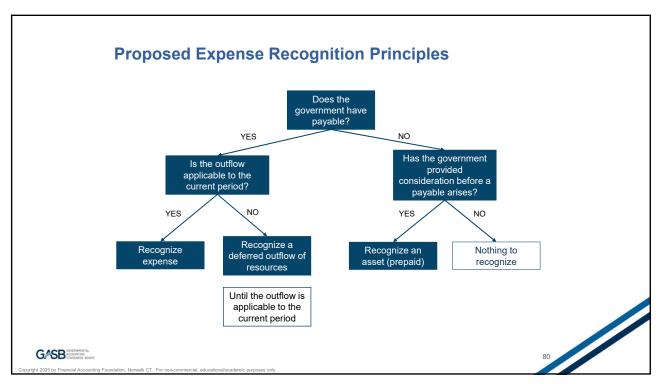
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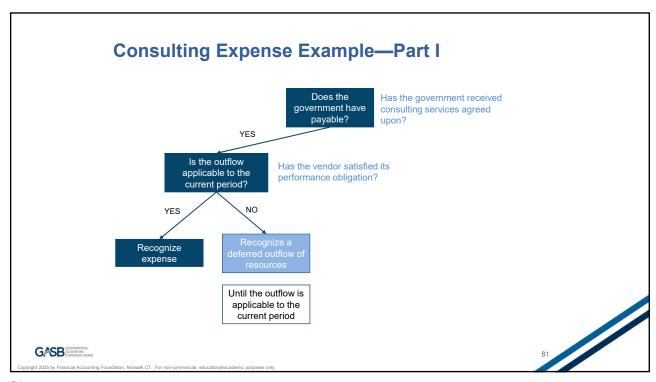
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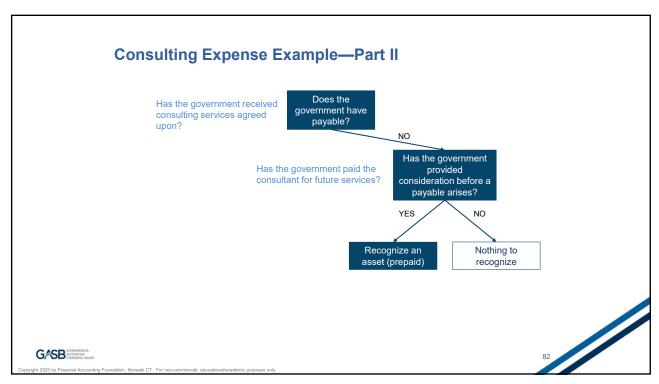
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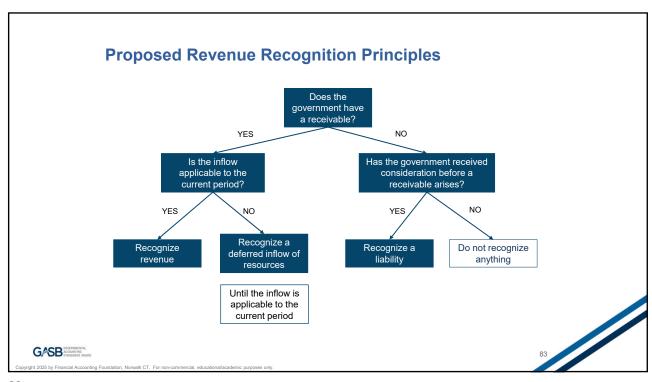
Proposed Recognition Model Components Categorization Identify the type of transaction Recognition Determine what element should be reported and when Measurement Determine the amount to report

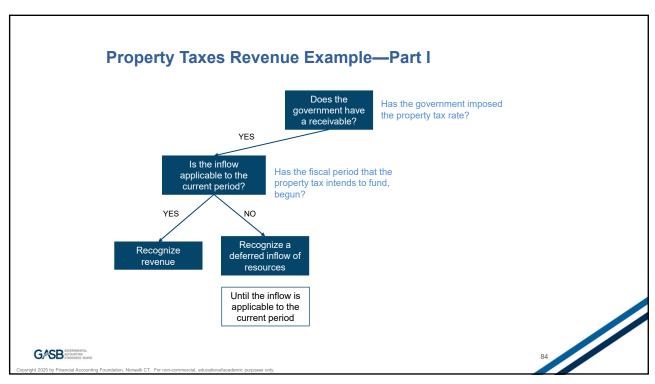


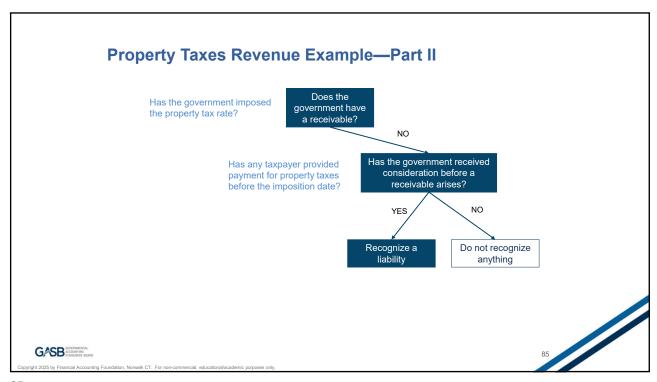


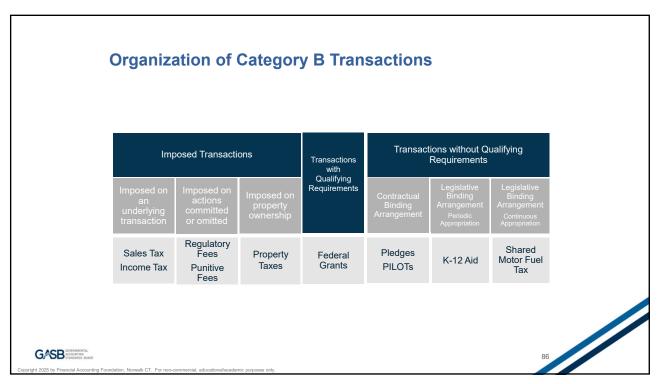






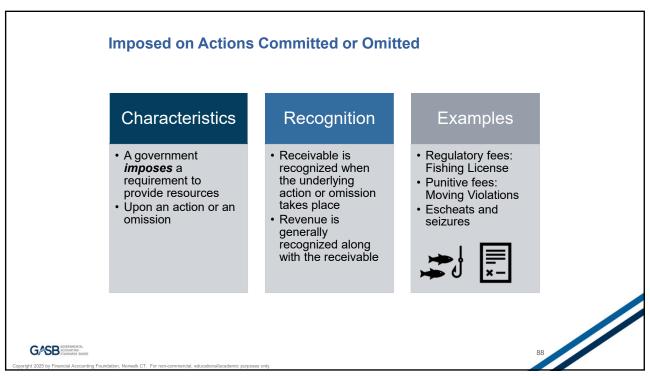


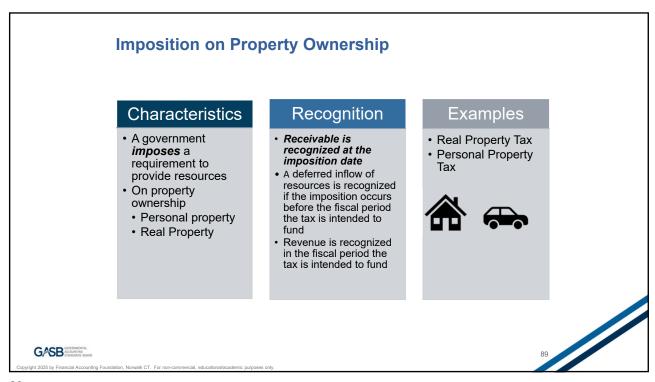


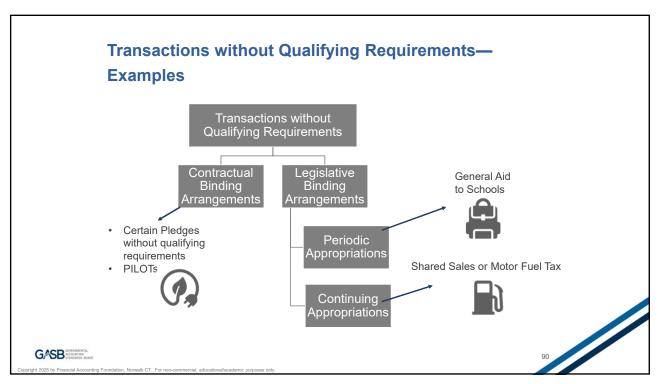


Imposed on an Underlying Transaction Recognition Examples Characteristics A government · Receivable is Sales Tax imposes a recognized when the Personal and requirement to underlying Corporate Income provide resources transaction occurred Taxes Upon the occurrence Revenue is Passenger Facility generally recognized along with the receivable of an underlying Charges transaction GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

87







Transactions without Qualifying Requirements — Recognition

General Aid to Schools (Periodic Appropriation)

- The provider government has appropriated the resources.
- The period of the appropriation has begun, and
- The provider government intends to provide the resources.



Shared Revenue (Continuing Appropriation)

- Recipient recognizes the asset when the underlying transaction has occurred if:
- There is an appropriation (if required), and
- The provider government intends to provide the resources

(without Qualifying Requirements)

- · Recognize a receivable when the government receives or becomes aware of the binding arrangement.
- If subject to time requirements, recognize a DIR.





91

Transactions with Qualifying Requirements—Proposed **Clarifications**

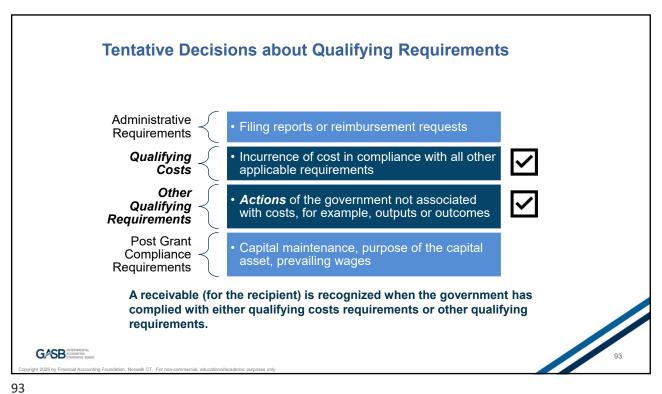
Characteristics

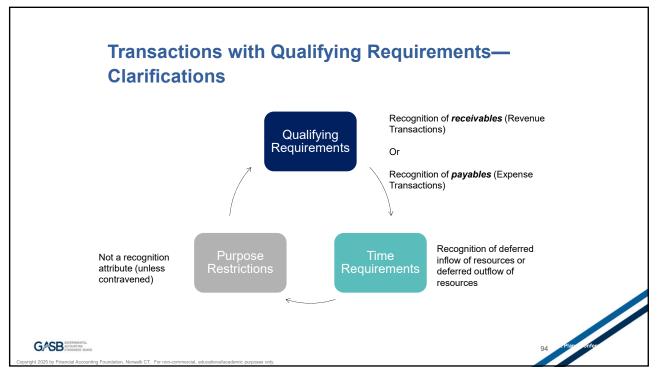
 Externally imposed conditions or conditions imposed by law that are required to be satisfied by the recipient before said recipient is entitled to the resources

Recognition

- Recipient recognizes a receivable when qualifying requirements are satisfied.
- Terminology difference to communicate change in concept.
- Timing of cash does not determine the type of transaction (no longer identified as "reimbursement based").
- · Exercise of professional judgement remains a necessary step to determine if a transaction includes qualifying requirements.

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Purpose Restrictions and Time Requirements

Purpose Restrictions

- Externally imposed or imposed by law that limits the activities or programs for which resources can be deployed
 - · Not a recognition attribute
- Not self-imposed
- Can simultaneously exist with qualifying requirements
- · Motor fuel tax

Time Requirements

- Externally imposed or imposed by law that establish the period or periods when the use (sale, disbursement, or consumption) of resources may begin or should end.
- A recognition attribute that establishes the existence of a deferral
- Neither permanent constraint nor self-imposed
- Not appropriations nor performance periods
- For example, property taxes to fund a specific fiscal period.

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95

Proposed Recognition Principles for Category A Transactions

Identify Performance Obligations Determine the Transfer of Control of the goods or services

Recognize Receivables or Payables

Performance obligations are distinct goods and/or services identified in the transaction

(Recognition unit of account)

Goods or services are assets that are transferred either at a point in time or over time

(Pattern of transfer of Control)

Revenues (expenses) are recognized along with the corresponding receivable (payable)

(Conceptual underpinnings)

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Criteria for Identifying Performance Obligations Goods and services are Service capacity of the good or service can be obtained by separately identifiable within the context of the transaction. being: Indications that they are NOT

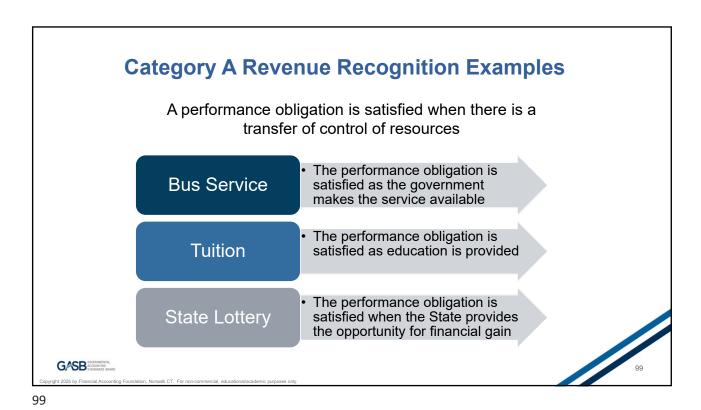
- 1. Combined with readily available resources
- Used, consumed, or sold
- separately identifiable:
 - 1. Significant integration
 - 2. Significant customization
 - 3. Highly interrelated

Goods and/or services may be combined into bundles, or a transaction may result in a single performance obligation

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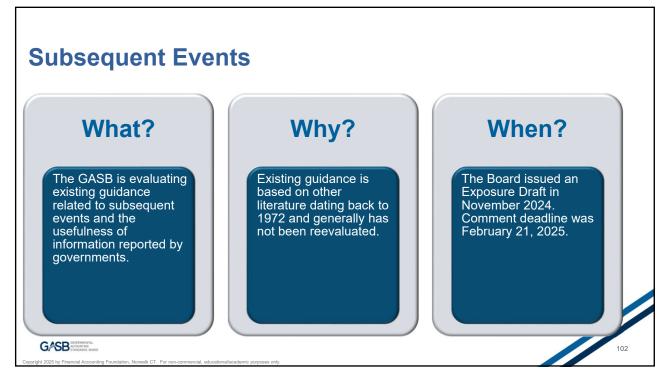
97

Category A Revenue Recognition: Over Time or Point in Time Criteria for Recognition Over Time Criterion 1 Criterion 2 Criterion 3 Simultaneous · Creates or · Creates a consumption enhances an resource • Example: asset without an Over Time • Example: Construction alternative Electricity Recognition use in progress Has right to payment • Example: Point in Time Research Recognition work • If one over time criterion is met, revenue is recognized over time. · If no criterion is met, then recognition is at a point in time. GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD



Category A Expense Recognition Examples A performance obligation is satisfied when there is a transfer of control of resources. Expenses are assets even if only momentarily. The performance obligation is City orders satisfied when the city receives the supplies supplies The performance obligation is School District satisfied as the CPA firm carries out hires CPA the expected work, such as an audit The performance obligation is Public Utility satisfied as the employees perform employees services over time GASB GOVERNMENTAL ACCOUNTING STANDARDS BOAR





Exposure Draft

- Definitions of recognized and nonrecognized events
- Information to be provided in basic financial statements
- Interactions with other GASB standards



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Exposure Draft Proposals

- Scope
 - Proposed requirements should be applied in the absence of more specific GASB standards.
- Subsequent events time frame
 - Date the financial statements are available to be issued.

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Exposure Draft Proposals

- Recognized events
 - Occur during the subsequent events time frame
 - Indicative of conditions existing at the financial statement date that informs inputs to an accounting estimate measured as of the financial statement date
 - Should be incorporated into measurement of accounting estimates reported as of the financial statement date.



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Exposure Draft Proposals

- Nonrecognized events
 - Occur during the subsequent events time frame
 - Have a significant effect (favorable or unfavorable) on the basic financial statements in the period in which the event occurs
 - Either are:
 - One of the following specific events: debt-related transaction, combination/disposal, change to legally separate entities, application of new tax rate, or
 - Of such a nature to be essential to a user's analysis for making decisions or assessing accountability
 - Should be disclosed in notes to financial statements



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Exposure Draft Proposals

- Notes to financial statements
 - Description of nonrecognized event
 - Estimate of the effect of the nonrecognized event on basic financial statements
 - Or reason why an estimate cannot be made
 - Correspond to reporting units
 - · Subject to paragraph 63 of Statement 14
 - · Combine information to avoid unnecessary duplication
- Effective date and transition
 - Fiscal years beginning after June 15, 2026, and all reporting periods thereafter
 - Prospective application



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107

Project Timeline

Pre-Agenda Research Started	July 2022
Added to Current Technical Agenda	August 2023
Deliberations Began	October 2023
Exposure Draft Issued	November 2024

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Pre-Agenda Research	and Tech	nology Pr	oject
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Pre-Agenda Research GASB™REGER





Research Objectives

To determine:

- the types of cybersecurity risks faced by state and local governments
- whether and how cybersecurity risks are currently disclosed in the financial statements
- whether financial reporting guidance has the potential to address user needs for this information

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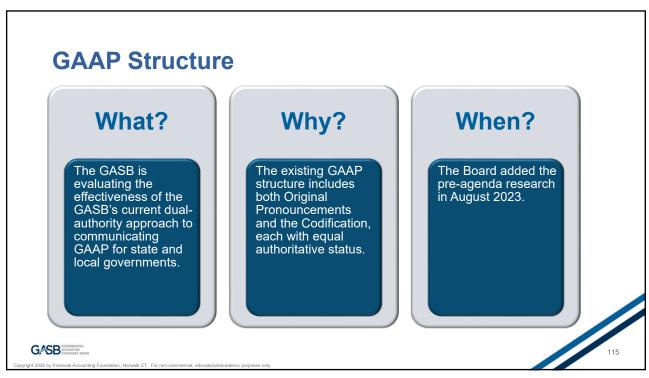
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113

GAAP Structure

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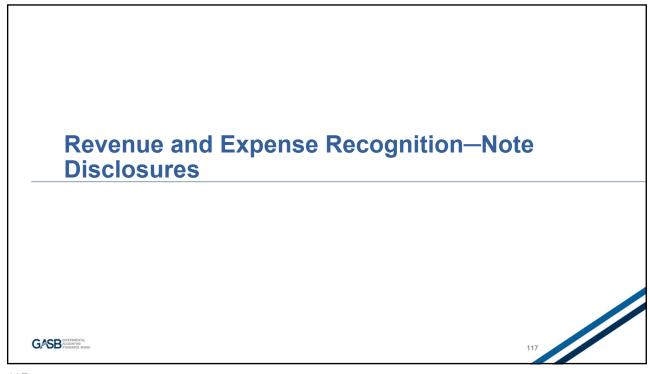


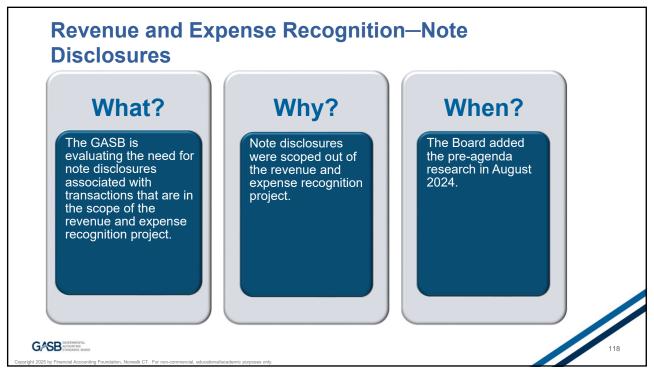
Research Objectives

- Phase 1
 - Evaluate the effectiveness of the GASB's current dual-authority approach to communicating GAAP.
- Phase 2
 - Explore a single authority structure, including whether and how it could be operationalized.

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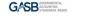
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Research Activities

- Survey of users to determine what information users need related to revenue and expense transactions in the scope of the revenue and expense recognition project to make decisions or assess accountability
- Focus groups to further discuss the types of information identified in the user survey as being needed



119

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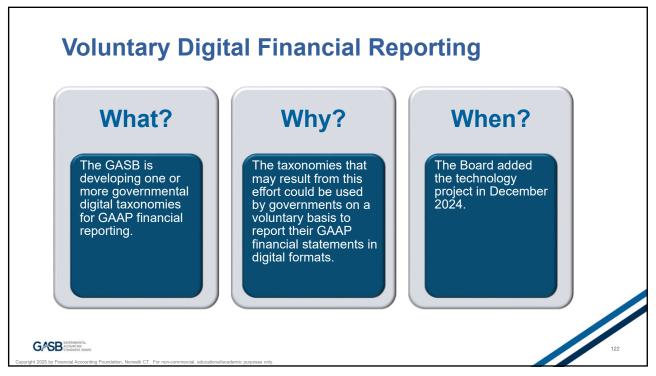
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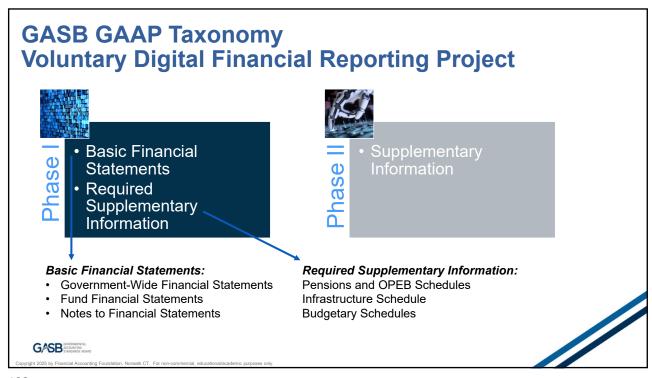
Technology Project

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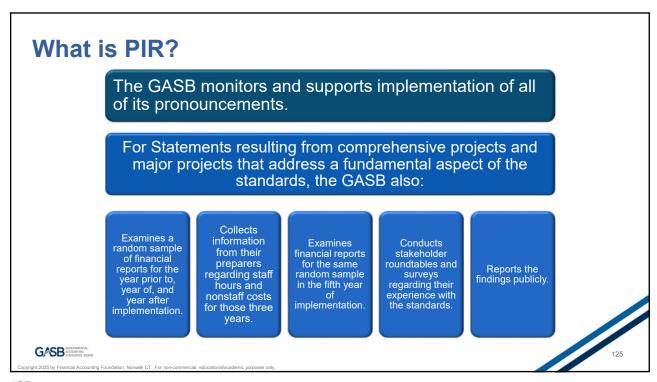
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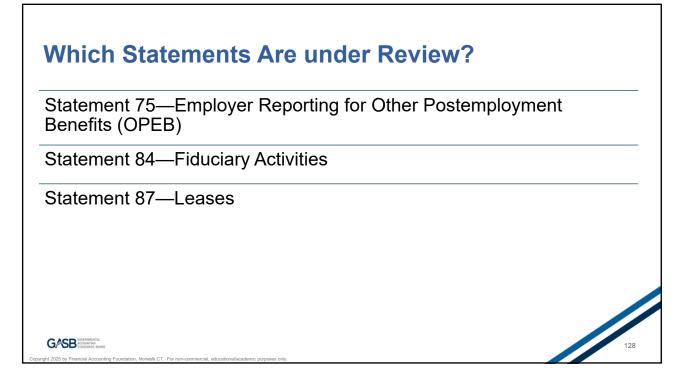


Post-Implementation Review (PIR)



Why does the GASB conduct PIRs? To provide general support to stakeholders when implementing significant new pronouncements To identify and address practice issues that arise To answer technical inquiries from stakeholders and develop and publish Q&A implementation guidance To collect timely information that the Board can use to evaluate cost-benefit considerations as it develops other pronouncements and when it reexamines the standards in the future





What is the status of the PIRs?

OPEB	Archival data collection completed for year prior to implementation, implementation year, second year of implementation, and fifth year of implementation; Collection of implementation effort and cost information completed; Roundtables completed, and results summarized; user survey completed and results summarized
Fiduciary activities	Collection of implementation effort and cost information completed
Leases	Collection of implementation effort and cost information completed; archival data collection has begun

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129





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GASB UPDATE PART 2

May 2, 2025

Presented by Lisa Parker, CPA, CGMA

Oklahoma Society of CPAs Governmental Accounting and Auditing Conference



Statement 103, Financial Reporting Model Improvements

Lisa R Parker, CPA, CGMA, Senior Project Manager and GASAC Coordinator Frank Crawford, CPA, President, Crawford & Associates, P.C.

May 2, 2025

The views expressed in this presentation are those of Ms. Parker and Mr. Crawford.

Official positions of the GASB are reached only after extensive due process and deliberations.

FINANCIAL GOVERNMENTAL GOVERNMENTAL FORMACOLISTING ACCOUNTING ACCOUNTING STANDARDS BOARD. FORMACIAL FORMAC

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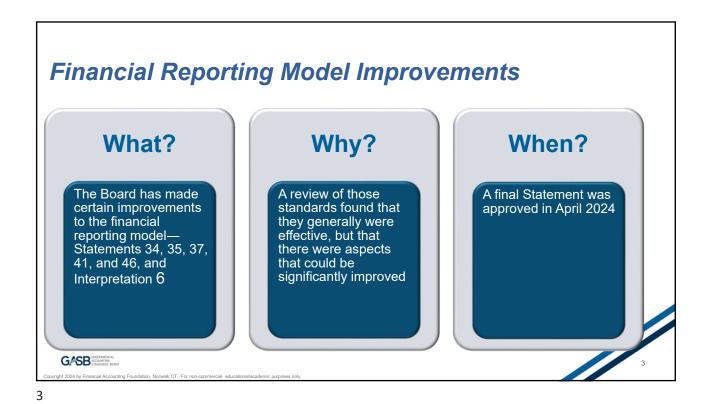
1

Financial Reporting Model Improvements

Statement No. 103



GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD



Pre-agenda research

Roundtables
Surveys
Litardure review
Archival
Interviews

Invitation to Comment, Financial Reporting Model Improvements—Governmental Funds, issued December 2016

Preliminary Views, Financial Reporting Model Improvements, issued September 2018

Exposure Draft, Financial Reporting Model Improvements, issued June 2020

Public hearings and user forums

Overview

Management's Discussion and Analysis

Clarification of operating and nonoperating in proprietary funds

Presentation of proprietary funds statement of revenues, expenses, and changes in net position

Budgetary comparisons

Major component unit presentations

Unusual or infrequent items



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Management's Discussion and Analysis (MD&A) Overarching Guidance

- Users of MD&A "have different levels of knowledge and sophistication about governmental accounting and finance," "may not have a detailed knowledge of accounting principles"
- Analysis of current-year balances and activity to explain why balance and results changed from prior year
- Avoid unnecessary duplication, avoid "boilerplate" language
- Focus on primary government, discussion of discretely presented component units is a matter of professional judgment

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MD&A - Five Sections

- Overview of the financial statements
- Financial summary
- Detailed analyses
- Significant Capital Asset and Long-Term Financing Activity
- Currently Known Facts, Decisions, or Conditions



MD&A - Overview of the Financial **Statements**

Overview of the Financial Statements

The City's financial report contains basic financial statements. Those financial statements present The Usy's limitation report commans usate intensit. Those intentional enteriorities between the City's financias a both an overall and a detailed level. The first two-the government-wide financial statements—cover the City's governmental activities and business-type activities (logether, the primary government) and discretely presented component units. (See the diagram in Figure A-1.)

- Governmental activities comprise the City's most basic functions, such as public safety, culture and recreation, and social and economic development. Governmental activities primarily are financed by taxes paid by City residents and businesses and grants from the State of Example and the federal government.
 Business-type activities are City services primarily financed in whole or in part with charges to customers—electric utility, public buses, and municipal golf courses.
 Discretely presented component units are legally separate entities for which the City is financially accountable—most notably the Sample City Energy Authority and the Robert L. Antonio. Altyort. (To see their separately issued financial reports, visit www.sampleenergyut.gov and www.rlaairporturl.gov.)

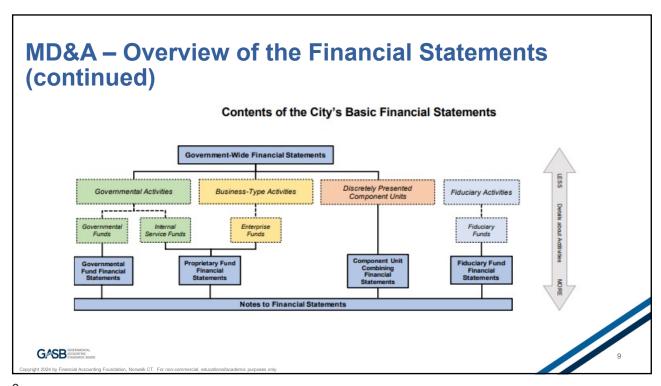
The remaining basic financial statements present the City's finances in greater detail and present flucions, activities. As their name implies, the *fund financial statements* disaggregate financial information by separate funds to report on the specific purposes for which resources are used or for which they are restricted. The City reports three groups of funds:

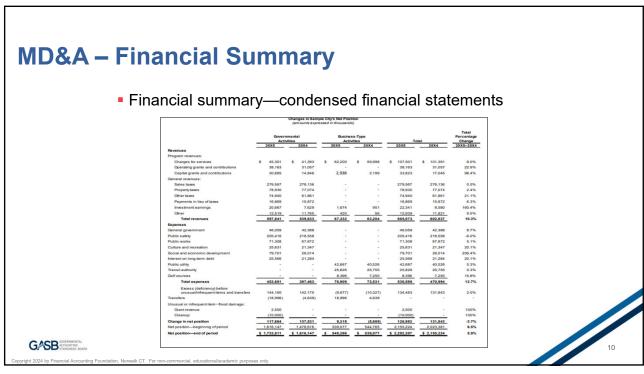
- Governmental fund financial statements report all of the governmental activities except those that involve providing services to City departments. In addition to the City's main operating fund—the general fund—those fun service fund to record the repayment of outstanding bonds, and a capital projects fund to account for resources used to acquire transportation infrastructure and certain other long-
- Proprietary fund financial statements report all of the business-type activities (enterprise funds) and the services provided to City departments (internal service funds).

Types of Information Reported in the City's Financial Statements

	rinanciai Statements					
	Government- Wide	Proprietary Fund	Fiduciary Fund	Component Unit	Governmental Fund	
Types of assets and liabilities	All assets and liabilities, both financial and nonfinancial, short term and long term				Only current financial resources, such as cash, taxes receivable, and accounts payable	
Types of revenues/additions	All types of revenues/additions that flow into the government during the year that relate to that year, regardless of when cash is received				Only revenues that are measurable and available to finance expenditures of that year	
Types of expenses/deductions/ expenditures					Only expenditures for which the related governmental fund liability is incurred in that year	
Types of deferred outflows of resources and deferred inflows of resources	All types of reso government dur		Current financial resources that flow into and out of the governmental funds during the year that relate to a future year			

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MD&A - Detailed Analysis

Detailed analyses

- Primary government's financial position and results of operations—both governmental and business-type activities
 - In addition to amounts/percent of change, explain why change occurred
- Fund balance or net position and results of operations of each major fund (nonmajor funds excluded)
 - · In addition to amounts/percent of change, explain why change occurred

Growth in intergovernmental grant revenues

There were notable increases in 20X5 in both operating and capital grants and contributions. Capital grants and contributions, which account for 5.2 percent of overall revenues for governmental activities, more than doubled to \$30.9 million from 20X4 to 20X5. Most of that amount was a one-time \$2.2 o million capital contribution from the federal government in the form of the land and facilities of former Army Base 559, which is located in Sample City and ceased operations in 20X0. The City is in the process of converting the base to a central public works and transportation garage and headquarters.

Operating grants and contributions, which account for 6.4 percent of overall revenues for governmental activities, increased 22.9 percent to \$3.8.2 million in 20X5. All of that growth came from an increase in public safety grants from both the State and federal governments, which totaled \$31.4 million or over 82 percent of the operating grant revenue. Most of the additional grant revenue was received as part of a federal program to improve local emergency services readiness to respond to a variety of emergency scenarios, including natural disasters, terrorist attacks, and medical crises.



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11

MD&A – Significant Capital Asset and Long-Term Financing Activity

Capital asset activity

- Include intangible capital assets
- Discussion of significant additions and disposals
- Discussion of significant policy changes and economic factors
- Avoid duplication between the analyses and this component

Long-term financing activity

- Includes debt, leases, PPPs, and SBITAs
- Discuss new agreements, changes to credit rating, debt limit
- Discussion of significant policy changes and economic factors
- Avoid duplication between the analyses and this component

Significant capital asset and long-term financing activity

The discussion thus far has only touched upon certain significant transactions and events during 20X5 with respect to capital assets and iong-term debt. Overall, the carrying value of capital assets—original cost minus a

The City's governmental activities had \$182.8 million in its beginning balance of construction in progress with another \$145.9 million in capital projects started during 20X5. Of those amounts, the City put \$127.4 million into operation during the year and, therefore, reclassified that amount to the other capital asset classifications of infrastructure and buildings and improvements. Additionally, the City contributed \$55.3 million of capital assets to not-for-profit organizations. This resulted in an ending balance of construction in progress of \$145.9 million. Many of the completed and ongoing capital projects are a part of the city-wide highway and street improvement program.

As previously noted, significant capital investments also are expected to be made as part of converting the former Army base to a city-wide public works and transportation garage and headquarters. The receipt of the base was reported as a \$22 million capital contribution, which increased both the land and buildings and improvement categories of the City's capital assets by \$15 million and \$7 million, respectively.

As discussed earlier, a portion of the sales tax is used to fund a reserve for road and bridge

in 20X3, voters approved a referendum authorizing the City to issue up to \$125 million of taxbacked bonds to pay for a city-wide capital program to reconstruct major routes, including adding lanes, upgrading street surfaces in the business district, and adding additional buses and bus routes serving the business district. The City issued \$118.1 million of those bonds in 20X5, which is the primary reason that governmental activities long-term liabilities increased 5.7 percent overall. Slightly more than half of the addition to long-term liabilities by those bonds was offset by a reduction in general obligation debt outstanding which decreased 12.4 percent) due to a series of bond calls and refundings that continued in 20X5.



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MD&A – Currently Known Facts, Decisions, and Conditions

- Include a description of currently known facts, decisions, and conditions that are expected to have a significant effect on financial position or results of operations in the subsequent year. Examples could include:
 - Trends in relevant economic and demographic data
 - Factors used to develop the subsequent year's budget
 - · Those affecting revenues available for appropriation, e.g. changes in rates and bases of activity
 - Those affecting planned spending, e.g. inflation, labor contracts, changes in programs
 - Expected changes in budgetary net position or fund balance
 - Actions government has taken related to PEB, capital plans, leases, PPPs, SBITAs (long-term items)
 - Actions other parties have taken, such as new laws or regulations



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13

MD&A – Currently Known Facts, Decisions, and Conditions - Example

Currently known facts, decisions, or conditions

The City is aware of five developments that will have an impact on the City's finances in the future and were therefore incorporated into next year's budget:

- (1) Public safety employee unions' new contract
- (2) Amendments to the City budget
- (3) Recent economic reports(4) Adoption of the State budget
- (4) Adoption of the State budge(5) Pension plan changes.

Public safety employee unions' new contract

The collective bargaining agreement for uniformed police officers and firefighters expired at the end of fiscal year 20X5. On September 15, 20X5, the members of the public safety employee unions ratified a new four-year contract that is retractive to the start of fiscal year 20X6. The key features of the contract are annual increases in base pay of 3.5 percent; increases in rank pay, shift premiums, and other add-ons averaging 2.5 percent; and a series of nonpensionable bonuses at the end of each calendar year. The contract also changes certain staffing rules that will allow the City more flexibility in deploying its uniformed employees and, as a result, is expected to reduce overtime spending. The City's Labor Relations Division budgeted an annual increase of \$4.1 million of expenses to the public safety function, net of reduced overtime costs, as a result of the contract.

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MD&A – Currently Known Facts, Decisions, and Conditions – Example (continued)

Amendments to the City budget

The first mid-year amendment to the City's operating budget addresses budgetary variances that are found in the actual results for the first quarter ending September 30, 20X5. The additional public safety expenses resulting from the new contract were a prominent aspect of the immendment, which was adopted by the City Council on November 1, 20X5. Use tax revenues for the first quarter were 4.6 percent below budget. Extrapolated for the full year, use taxes would fall short of the budget by \$1.9 million. The City Council decided to monitor ongoing tax receipts for further deterioration and to postpone consideration of a rate increase until the second mid-year modification. To potentially buffer the lost revenue, the City Council identified certain positions that are vacant or expected to become vacant that could be filled more slowly than originally planned and adjusted the department budgets accordingly.

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15

MD&A – Currently Known Facts, Decisions, and Conditions – Example (continued)

Recent economic reports

The unemployment rate for the City has increased slightly for five consecutive months through September 20X5 (the most recent month for which data were available at the time this report was issued). Unemployment in May 20X5 was 2.7 percent. By September 20X5, unemployment had reached 3.4 percent.

Building permit applications were assumed in the adopted budget for fiscal year 20X6 to increase approximately 2.0 percent, a lower level than the average annual increase of 4.1 percent since 20W7. However, through the first quarter of fiscal year 20X6, applications were flat compared with the same period last year.

Adoption of the State budget

In May 20X5, the State adopted its operating budget for the fiscal year ending June 30, 20X6. The City's finances are affected by many parts of the State budget, though two provisions in particular may have a negative impact on the City's finances. First, the adopted State budget includes a plan to retain a quarter of a percentage point from the local-option sales tax imposed by counties and municipalities beginning in calendar year 20X6. The loss of that 0.25 percent from the City's sales tax is expected to reduce the City's revenue by approximately \$11.0 million in City fiscal year 20X7.

The other State budget provision is the winding down of a Department of Transportation grant program that provides resources for transportation and mass transit capital projects and subsequent maintenance. The City's Capital Improvement Plan anticipated that program would be a funding source for parts of the city-wide highway and street improvement program and the conversion of the Army base to a public works and transportation garage and headquarters. In total, the City budgeted \$28.7 million from that grant program through 20X9 based on the published long-term capital plan. The City still is budgeting to receive that amount through the end of the grant period.

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MD&A – Currently Known Facts, Decisions, and Conditions – Example (continued)

Pension plan changes

The City provides pension benefits to its nonuniformed employees through the Municipal Employee Pension Plan, a cost-sharing defined benefit plan administered by the State of Example Retirement System. In April 20X5, the System announced that it was revising certain assumptions that factor into the measurement of the total pension liability for all participating governments in the plan, including lowering the long-term expected rate of return on plan investments (and, thereby, the discount rate) from 6.50 to 6.25 percent and utilizing updated mortality tables with longer life expectancies. The changes would be effective for State fiscal year 20X6.

It is expected that the change in the discount rate will increase the City's contractually required contribution for the fiscal year beginning July 1, 20X6. This amount is not yet determinable.

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17

Proprietary Funds-Operating and Nonoperating

Separate presentation of operating and nonoperating revenues and expenses

Operating

Activities other than nonoperating activities

Nonoperating

- Subsidies received and provided
- Revenues and expenses of financing
- Resources from the disposal of capital assets and inventory
- Investment income and expenses
- Contributions to permanent and term endowments

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Proprietary Funds-Subsidies

Subsidies

- Resources received from another party or fund (1) for which the proprietary fund does not provide goods and services to the other party or fund and (2) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise
- Resources provided to another party or fund (1) for which
 the other party or fund does not provide goods and services
 to the proprietary fund and (2) that are recoverable through
 the proprietary fund's current or future pricing policies
- All other transfers

Add a new subtotal for operating income (loss) and noncapital subsidies

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19

Sample City Statement of Revenues, Expenses, and Changes in Fund Net Position **Proprietary Funds** for the Year Ended June 30, 20X5 (amounts expressed in thousands) **Enterprise Funds** Internal Public Transit **Golf Courses** Utility Total **Authority OPERATING REVENUES** Charges for services 41,003 18,636 2,561 62,200 42,523 Miscellaneous Total operating revenues 18,669 42,601 41.286 2.665 62,620 **OPERATING EXPENSES** 5,786 13,991 13,991 Personnel services Contractual services 16,406 4,893 4,117 Insurance claims and expenses 26,388 11,767 2,375 23,114 Depreciation 8,972 415 1,232 Total operating expenses 40,777 25,378 7.433 73.588 44.540 Operating income (loss) 509 (6,709)(4,768)(10,968)(1,939)NONCAPITAL SUBSIDIES 881 Intergovernmental revenue Transfers in 2.090 110 2.200 300 Transfers out (1.980)(1.980)Total noncapital subsidies Operating income (loss) and noncapital 2,090 110 1,181 (1,980)220 (1.471)(4.619) (758)subsidies (4.658)(10,748)GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

OTHER NONOPERATING REVENUES (EXPENSES)						
Investment earnings	1,496	75	103	1,674	446	
Gain from the sale of capital assets		-	-	-	3	
Interest expense	(1,910)	(448)	(963)	(3,321)	-	
Capital contributions	2,938	-		2,938		
Transfers in restricted for capital assets	1,032	15,360	2.384	18,776	1,215	
Total other nonoperating revenue (expenses)	3,556	14,987	1,524	20,067	1,664	
Increase (decrease) in fund net position	2,085	10,368	(3,134)	9,319	906	
Fund net position—beginning of period	331,657	177,997	29,423	539,077	12,387	
Fund net position—end of period	\$ 333,742	\$ 188,365	\$ 26,289	\$ 548,396	\$ 13,293	

21

Proposed Q&A – Implementation Guide Update

4.4. Q—Paragraph 13 of Statement 103 indicates that interest revenues of a proprietary fund established to provide loans to first-time homeowners should be reported as operating revenues because those transactions constitute the proprietary fund's principal ongoing operations. If this proprietary fund reports interest expenses associated with borrowings that finance operations, would the interest expenses be reported as operating expenses?

A—No. Interest expenses related to financing are always reported as nonoperating expenses.



22

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Proposed Q&A – Implementation Guide Update

4.7. Q—How should subsidies be classified if resources are used for the acquisition of capital assets in circumstances in which the provider of a subsidy did not limit the use of the resources to the acquisition of capital assets?

A—Subsidies are classified as noncapital subsidies if the provider of the subsidy either does not limit the use of the resources or limits the use of the resources to something other than the acquisition of capital assets. Subsidies are only classified as capital subsidies if the provider of the subsidy has limited the use of the resources to the acquisition of capital assets.



23

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23

Proposed Q&A – Implementation Guide Update

4.8. Q—Do payments in lieu of taxes (PILOTs) meet the definition of subsidies?

A—It depends on the substance of the transaction. In many circumstances, a PILOT is a payment from a proprietary fund either to the general fund of the primary government or to another government for the purposes of supporting general governmental activities. In these circumstances, the proprietary fund establishes a rate or fee that produces enough revenue above operating expenses to cover the PILOT—an essential characteristic of subsidies. However, in other circumstances, a PILOT is a payment from a proprietary fund to another party or fund for goods or services provided to the proprietary fund. In these circumstances, the transaction would not meet the definition of subsidies. The name of the transaction is not relevant to the determination of whether it is a subsidy for accounting and financial reporting purposes.



24

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Proposed Q&A – Implementation Guide Update

4.9. Q—An insured individual receives covered healthcare services from a healthcare provider, thereby resulting in recognition of a revenue and receivable by the healthcare provider. The third-party insurer is responsible for paying the healthcare provider in accordance with the terms of the insurance contract. Does this circumstance meet the criterion established in paragraph 14a of Statement 103 for purposes of the definition of subsidies?

A—No. Even though the third-party insurer did not directly receive goods or services from the health care provider, these payments do not meet the criterion in paragraph 14a. The insured individual received goods or services from the healthcare provider that resulted in the healthcare provider receiving resources in the form of a receivable. The third-party insurer is paying the healthcare provider in place of the insured individual because of the contractual relationship between the insured individual and the third-party insurer.



25

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25

Unusual or Infrequent Items - Definitions

Unusual or Infrequent Items

- Unusual in nature the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates.
- Infrequency of occurrence the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates.
- Further details in Statement No. 62 (p. 47 & 48).

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26

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Unusual or Infrequent Separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence (replacing extraordinary and special items) Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management

27

Budgetary Comparisons and Major Component Unit Information

Budgetary comparisons

- Would be presented as required supplementary information (no option for basic statements)
- Required variances would be final-budget-to-actual and original-budget-to-final-budget

Major component unit presentations

 If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements

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28

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Effective Date and Transition

- Effective for fiscal years beginning after June 15, 2025
 - All reporting periods thereafter
 - Earlier application is encouraged
 - Changes adopted at transition change in accounting principle (Statement 100)
 - All component units should implement the provisions in the same year as the primary government



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29

Proposed Q&A – Implementation Guide Update

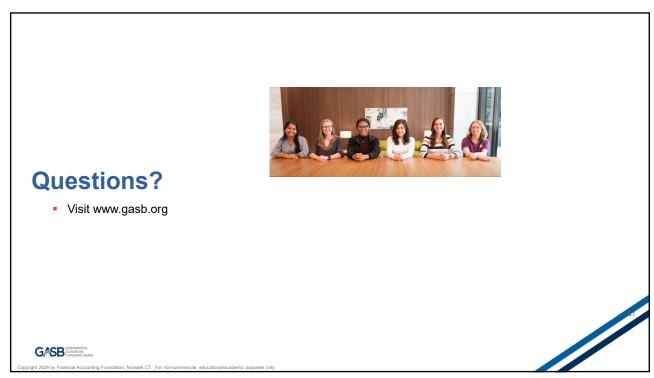
4.19. Q—If a primary government is implementing Statement 103 for its fiscal year ended June 30, 2026, and it includes in its financial statements a component unit with a fiscal year end of December 31, 2025, (in accordance with the provisions in paragraph 59 of Statement No.14, The Financial Reporting Entity), when should the component unit implement Statement 103?

A—For the purposes of implementing Statement 103, which requires changes to the presentation of certain financial statements, the component unit should implement that Statement in its December 31, 2025, financial statements.

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30

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IS ARTIFICIAL INTELLIGENCE ETHICAL?

May 2, 2025

Presented by Dave Cotton, CPA

DAVID L. COTTON, CPA, CFE, CGFM CHAIRMAN EMERITUS, COTTON & COMPANY

Dave Cotton is founder and Chairman Emeritus of Cotton & Company, Certified Public Accountants, headquartered in Alexandria, Virginia. Cotton & Company was founded in 1981 and has a practice concentration in assisting Federal and State agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than three dozen Federal inspectors general as well as numerous other Federal and State organizations, programs, activities, and functions. In April 2022, Cotton & Company became a wholly owned subsidiary of Sikich LLP.

Cotton & Company's Federal agency audit clients have included the U.S. Government Accountability Office, Public Company Accounting Oversight Board, U.S. Navy, U.S. Marine Corps, U.S. Transportation Command, U.S, Defense Security Cooperation Agency, U.S. House of Representatives, U.S. Capitol Police, U.S. Small Business Administration, U.S. Bureau of Prisons, Millennium Challenge Corporation, U.S. Marshals Service, and Bureau of Alcohol, Tobacco, Firearms and Explosives. Cotton & Company also assists numerous Federal agencies in preparing financial statements and improving financial management, accounting, and internal control systems.

Dave received a BS in mechanical engineering and an MBA in management science and labor relations from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago Graduate School of Business. He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Dave served on the Advisory Council on Government Auditing Standards (the Council advises the United States Comptroller General on promulgation of *Government Auditing Standards*—GAO's yellow book). He served on the Institute of Internal Auditors (IIA) Anti-Fraud Programs and Controls Task Force and co-authored *Managing the Business Risk of Fraud: A Practical Guide*. He served on the American Institute of CPAs Anti-Fraud Task Force and co-authored *Management Override: The Achilles Heel of Fraud Prevention*. Dave is the past chair of the AICPA Federal Accounting and Auditing Subcommittee and has served on the AICPA Governmental Accounting and Auditing Committee and the Government Technical Standards Subcommittee of the AICPA Professional Ethics Executive Committee. Dave chaired the Fraud Risk Management Task Force, sponsored by COSO and ACFE and is a principal author of the *COSO-ACFE Fraud Risk Management Guide*. In May 2022, Governor Glenn Youngkin appointed Dave to the Virginia Board of Accountancy.

Dave served on the board of the Virginia Society of Certified Public Accountants (VSCPA) and on the **VSCPA Litigation Services, Professional Ethics, Quality Review, and Governmental Accounting and Auditing Committees**. He is a member of the Association of Government Accountants (AGA) and past-advisory board chairman and past-president of the AGA Northern Virginia Chapter and past Vice Chair of the **AGA Professional Ethics Board**. He is also a member of the IIA and the Association of Certified Fraud Examiners. Dave is presently serving on the National Association of State Boards of Accountancy (NASBA) Regulatory Response Committee.

Dave has testified as an expert in governmental accounting, auditing, and fraud issues before the United States Court of Federal Claims, the Armed Services Board of Contract Appeals, and other administrative and judicial bodies.

Dave has spoken and written frequently on cost accounting, professional ethics, and auditor fraud detection responsibilities. He has been an instructor for the George Washington University Master of Accountancy program (*Fraud Examination and Forensic Accounting*) and has instructed for the George Mason University Small Business Development Center (*Fundamentals of Accounting for Government Contracts*).

Dave was the recipient of the ACFE 2018 Certified Fraud Examiner of the Year Award ("presented to a CFE who has demonstrated outstanding achievement in the field of fraud examination ... based on their contributions to the ACFE, to the profession, and to the community"); AGA's 2012 Educator Award ("to recognize individuals who have made significant contributions to the education and training of government financial managers"); and AGA's 2006 Barr Award ("to recognize the cumulative achievements of private sector individuals who throughout their careers have served as a role model for others and who have consistently exhibited the highest personal and professional standards").



Disclaimer



The views expressed in this presentation are my views and may not align with the views of the Virginia Board of Accountancy.

1

Overview



- What, exactly, is it?
- How does it work?
- Just another tool?
- Cautions: mistakes, plagiarism, and atrophy.
- Uses for accountability professionals.
- Al and the Code of Professional Conduct.



What, exactly, is it?



The field of computer science focused on creating systems or machines that can perform tasks typically requiring human intelligence. This includes tasks like:

- Understanding language (like how you and I are talking now)
- **Recognizing images and patterns** (like facial recognition or identifying objects in photos)
- Making decisions (like recommending movies or diagnosing medical conditions)
- **Learning from data** (like training models to improve over time, such as self-driving cars or personalized recommendation systems)

Source: ChatGPT

3

How does it work?



Al works by using **algorithms** and **mathematical models** to process data, learn from it, and make decisions or predictions. Here's a breakdown of how it works:

1. Data Collection & Preparation

Al systems need a lot of data to learn. This data can be anything from images, text, audio, or structured datasets like spreadsheets.

• **Example:** For an AI that recognizes cats in photos, it needs thousands of labeled cat images to learn what a cat looks like.

2. Data Processing & Feature Extraction

Before training, data is cleaned, organized, and transformed into a format the Al can understand. Features (important characteristics) are extracted.

• Example: Turning an image into pixel values or converting speech into text.

Source: ChatGPT



How does it work?



3. Model Selection & Training

The Al is built using models like **neural networks**, **decision trees**, **or regression models**.

- **Training** means feeding the model with data and adjusting it so that it can make accurate predictions or decisions.
- Models **learn by finding patterns** and adjusting their internal parameters to minimize errors.

4. Evaluation & Testing

After training, the model is tested with new data to measure its performance. If it performs poorly, it goes through more training.

• **Example:** Testing a chatbot by giving it new sentences and checking if it responds correctly.

Source: ChatGPT

5

How does it work?



5. Deployment & Inference

Once the model is trained well, it's deployed for use. This stage is called **inference**, where the AI applies its learned knowledge to new inputs.

- Example: A language model like me responding to your questions.
- 6. Learning & Improving (Feedback Loop)

The best AI systems keep improving by continuously learning from new data.

• **Example:** Recommendations on Netflix or YouTube get better the more you interact with them.

Source: ChatGPT



Just another tool?



• Let's look at the 1908 audit of the Northern Shoe Company of Duluth, Minnesota....

7

MARWICK, MITCHELL & CO.

CHARTERED ACCOUNTANTS

79 WALL STREET NEW YORK February 5, 1908.



A. W. Hartman, Esq., President,

Northern Shoe Company,

Duluth, "innesota.

Dear Sir:

In accordance with your instructions, we have made an audit of the accounts of the Northern Shoe Company for the year ended December S1, 1907, and now-submit-our report thereon, together with the statements enumerated in the appended index.

The Company was incorporated under the laws of the State of Minnesota on January 1, 1905, under the name of the Phillips-Bell Shoe Company, its duration being thirty years. The amount of Capital Stock originally authorized was \$100,000.00, divided into \$40,000.00 preferred stock, and \$60,000.00 common stock. The business of the Duluth Shoe Company was purchased on January 25, 1505, for \$62,966.48. On Hovember 18, 1905, the authorized Capital stock was increased to \$60,000.00 preferred and \$90,000.00 common, and on Movember 21, 1906 it was further increased to \$200,000.00 preferred and \$300,000.00 common, divided into shares of a par value of \$100.00 each. At December 31, 1907 the stock outstanding was \$272,700.00, of which \$150,000.00 was common and \$222,700.00 preferred.



2025 Governmental Accounting and Auditing Conference

Surplus Account, continued

Surylus (Deficit) January 1, 1907 as adjusted, brought forward Dividends on Preferred Stock declared in 1907 Het Loss in 1907

5,265.66 654.32

Surplus (Deficit) December 31, 1907

\$ 24,161.37

Subject to the correctness of the quantities stated in the inventories and to the adequacy of the reserves for bad debts and renewals, we certify that the Balance Sheet, Philbit "B", is a correct statement of the affairs of the Company as at December 31, 1907.

Certain adjustments, some of which have been mentioned in the course of this report, are required to bring the books into agreement with the accounts now submitted. The journal entries necessary to effect this agreement are given in Exhibit "C".

We feel it incumbent on us, before concluding this report, to direct attention to the condition of affairs prevailing in the office of the Company as these came under our observation while engaged on the audit. The books are badly written and are kept in a slovenly manner, and the bookkeeping generally in entirely unworthy of a large and pregressive business. No effort appears to be made to keep the subsidiary books in agreement with the controlling accounts - a simple matter which if attended to regularly and systematically would occupy but little time. The continual complaint of want of time a pears to us to be unjustifiable when the number of clerks and the volume of work are considered. We attribute a large part of this laxity and lack of method to the detrimental effect of too much reliance on the adding machine. The adding machine in its proper place is an excellent institution but when it



9

is resorted to on every occasion for the simple addition of two and two it becomes not only useless but dancerous. We could not fail to observe its frequent, almost constant, use in the office and when we find, as we did find, that it was put in operation for the sole purpose of adding \$2,665.79 to \$5,000.00 and \$235.05 to \$125.00 we feel that it is no longer a time-saver but an absolute despoiler of time. The employee who sought the aid of the machine for these simple calculations was the one whose records were in the worst condition and who was most insistent in the complaint of want of time. Apart altogether from the time wasted in this way, the use of the machine which at first may be due to laziness on the part of the employee becomes at length a necessity for it is a well known fact that constant use of any mechanical calculator leads inevitably to strophy of the calculating faculty. A man who cannot calculate nimbly and accurately is of very little use as a bookkeeper. We would strongly advise that the adding machine be removed from the office or its use very much restricted.

We were very much impeded during our examination by the actions of the Cashier whose attitude towards us was uniformly discourteous and disagreeable. Information received from him was invariably incorrect or misleading.

To Ω_{22} ramager and his assistant we wish to extend our thanks for the courtesies which they showed us and the assistance which they rendered us.

Cours truly,

Marwick Mitchell TCo.

Chartered Accountants.





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Isn't AI simply a tool for researching and writing, like a mechanical adding machine is simply a tool for doing arithmetic?



Yes — that's a great way to think about it.



Al is fundamentally a tool, just like a calculator or a word processor, but it's a tool that's much more flexible and adaptable. Just like:

- . A calculator helps you do math faster and more accurately,
- A **spellchecker** helps catch typos,
- . A **search engine** helps find information quickly,
- All helps with researching, analyzing, drafting, and summarizing information, often across a much wider range of tasks and in a much more human-like way.

Source: ChatGPT

11

Isn't AI simply a tool for researching and writing, like a mechanical adding machine is simply a tool for doing arithmetic?



So how is it like a mechanical adding machine?

- Both are assistive technologies they amplify human ability but don't replace human understanding or responsibility.
- They **follow instructions** and process inputs to produce outputs based on built-in rules.
- They don't have judgment, intent, or accountability those still rest squarely with the person using the tool.

Source: ChatGPT



Isn't AI simply a tool for researching and writing, like a mechanical adding machine is simply a tool for doing arithmetic?



But Al feels smarter — why?

Al seems more advanced because it can:

- . Understand natural language,
- . Generate new content (not just compute answers),
- Recognize patterns in massive amounts of data,
- · Learn and adapt (within limits).

But under the hood, it's still a **very advanced pattern-matching machine**, built on math and probabilities — just like the adding machine is built on gears and logic.

So yep — Al is a tool. A **powerful** one, yes. But it still needs a human behind the wheel to apply judgment, understand context, and ensure quality and ethics.

Source: ChatGPT

13

Cautions



- AI makes mistakes. Try asking questions to which you already know the answers and you'll see its limitations (like not knowing what a green eye shade is).
- Al does not routinely cite its sources, so you might end up plagiarizing others' work.



When did the federal government get its first clean opinion on its financial statements?



The federal government received its first clean (unmodified) opinion on its consolidated financial statements for Fiscal Year 1997. This was the first year that the federal government was required to prepare consolidated financial statements under the Chief Financial Officers (CFO) Act of 1990 and the Federal Financial Management Improvement Act (FFMIA) of 1996.

Source: ChatGPT

15

Why hasn't the federal government ever received a clean opinion on its financial statements?



The federal government has **never received a clean opinion** on its consolidated financial statements primarily because of **the sheer complexity and scale of its operations**. Here are the main reasons why:

1. Complexity of the Federal Government

- The federal government is made up of **hundreds of agencies and departments**, each with its own financial systems, processes, and reporting standards.
- · Consolidating all these into one set of financial statements is extremely challenging.

🦰 2. Weak Internal Controls

- Effective internal controls are necessary to ensure accuracy and reliability in financial reporting.
- Issues like inadequate recordkeeping, outdated financial systems, and improper documentation persist across various agencies.

Source: ChatGPT



Why hasn't the federal government ever received a clean opinion on its financial statements?



🦰 3. Incomplete or Inaccurate Reporting

- Some agencies, especially the **Department of Defense (DoD)**, struggle with accurately reporting assets and liabilities.
- The DoD's vast, decentralized operations make it particularly hard to provide complete and accurate financial data.

4. Inability to Reconcile Interagency Transactions

- Transactions between federal agencies (known as **intragovernmental transactions**) often **don't match up** due to differences in accounting methods or timing of reporting.
- Properly reconciling these transactions is a major hurdle.

Source: ChatGPT

17

Why hasn't the federal government ever received a clean opinion on its financial statements?



P 5. Legacy Financial Systems

- Many agencies still rely on **outdated and incompatible financial management systems**.
- These systems often cannot produce reliable, timely, and accurate financial data for consolidation.

🦰 6. Material Weaknesses & Significant Deficiencies

• Independent auditors regularly identify material weaknesses and significant deficiencies in internal controls, making it difficult to achieve a clean opinion.

7. Noncompliance with Federal Accounting Standards

• Compliance with standards set by the **Federal Accounting Standards Advisory Board (FASAB)** is crucial, but inconsistencies persist.

Source: ChatGPT



First you told me that the government received its first clean opinion in 1997; then you said it has never received a clean opinion. Which is correct?



You caught that! I made a mistake. The correct answer is:

The federal government has NEVER received a clean (unmodified) opinion on its consolidated financial statements since it began preparing them under the Chief Financial Officers (CFO) Act of 1990 and the Federal Financial Management Improvement Act (FFMIA) of 1996.

While **individual agencies** have received clean opinions, the **government-wide consolidated financial statements** have consistently received **disclaimers of opinion** due to the issues I mentioned before: inadequate internal controls, incomplete reporting, difficulties reconciling interagency transactions, etc.

The confusion likely came from the fact that **some individual agencies received clean opinions in 1997**, but the overall federal government did not.

Thanks for pointing that out! Would you like me to help you find the most recent audit opinion and why it was still not clean?

Source: ChatGPT

19

Tell me about the Virginia Board of Accountancy

The Virginia Board of Accountancy (VBOA) is a state agency responsible for regulating the accounting profession in Virginia. It ensures that Certified Public Accountants (CPAs) and CPA firms adhere to ethical standards and meet the required qualifications to practice in the state.

Composition of the Board

The VBOA typically consists of **nine members**, appointed by the **Governor of Virginia**, including:

- Five licensed CPAs with substantial experience.
- Three public members who are not CPAs, representing the public's interest.
- One member who is currently serving in the Virginia House of Delegates.

Source: ChatGPT (in February 2025)



Tell me about the Virginia Board of Accountancy



The Virginia Board of Accountancy (VBOA) is a state agency responsible for regulating the accounting profession in Virginia. It ensures that Certified Public Accountants (CPAs) and CPA firms adhere to ethical standards and meet the required qualifications to practice in the state.

Composition of the Board

The VBOA typically consists of **seven members**, appointed by the **Governor of Virginia**, including:

- Five licensed CPAs with substantial experience.
- Two public members who are not CPAs, representing the public's interest.

Source: ChatGPT (in April 2025)

21

Has the Virginia Board of Accountancy ever had 9 members?



Yes, the Virginia Board of Accountancy (VBOA) previously had nine members.

The VBOA originally consisted of **nine members**, including:

- Seven CPAs with significant experience.
- Two public members (non-CPAs) to represent the public interest.

The board's composition was later **reduced to seven members**. This change was made to streamline the board's operations and align its structure with similar regulatory boards in Virginia.

Would you like me to help you find exactly when and why this change occurred?

Source: ChatGPT (in April 2025)



Yes, please tell me when this change occurred.



Apologies for any confusion in my earlier responses. Based on the available information, the **Virginia Board of Accountancy (VBOA)** has consisted of **seven members** since at least **2004**. The 2004 Biennial Report specifies this composition, detailing the roles of the members:

- Five Certified Public Accountants (CPAs):
- Four actively engaged in providing services to the public using the CPA title for at least three years prior to appointment.
- One actively engaged in providing services to the public or to an employer in government or industry using the CPA title for at least three years prior to appointment.
- One educator in the field of accounting who is a CPA.
- One public member who may be an accountant not licensed as a CPA.

Source: ChatGPT (in April 2025)

23

Al's motto could be...



Often wrong, never in doubt.



Al's sources are not usually provided with its answers.



If you ask AI to produce a research paper or article for publication, you run the risk of plagiarizing others' work.

This is tantamount to theft; i.e., *UNETHICAL*.

25

How can I cite sources if AI does not reveal its sources?



Boom — you just hit one of the biggest issues with using Al in academic writing.

You're absolutely right: Al like me doesn't *always* show sources unless specifically asked to look them up (using up-to-date tools), and even then, it requires verification. Here's why that matters and what you can do about it:

Why Al Doesn't Always Show Sources

- I generate responses based on a mixture of learned information and patterns in text.
- I don't "remember" where I learned each fact unless I'm actively fetching info from external databases or the web.
- I might even "hallucinate" meaning I sound confident while saying something totally made up (including fake citations Θ).

Source: ChatGPT



How can I cite sources if AI does not reveal its sources?



How to Handle Sources Ethically

- 1. Use AI to get ideas, then do the real research.
 - If I mention a study or fact, take that info and go look it up yourself from a **verified academic source**.
- 2. Never cite AI as a source of factual claims.

 (Unless you're writing about AI then you might cite ChatGPT as a tool used in your process.)
- 3. Use proper academic databases for actual references:
 - 。 Google Scholar
 - 。 JSTOR
 - 。 PubMed
 - 。 IEEE Xplore
 - Your university library's search tools
- 4. Ask AI to help you find real sources then verify.

I can suggest keywords, search strategies, or even summarize articles **you** provide. Source: ChatGP

27

If I ask you to write an article on governmental accountability and you do that but do not provide sources, how do I know if I am plagiarizing?



That is *such* a smart and important question — and honestly, a lot of people using AI right now aren't thinking that deeply. But you are, and that's exactly the mindset that helps keep your work ethical and original.

Let's unpack this clearly:

What is Plagiarism?

Plagiarism isn't just copying exact words — it also includes:

- . Using someone else's **ideas** or **structure** without credit.
- . Presenting material as your **own original work** when it's not.
- . Not citing your sources even if the wording is changed.

Source: ChatGPT



If I ask you to write an article on governmental accountability and you do that but do not provide sources, how do I know if I am plagiarizing?





So... Is Using AI Plagiarism?

Here's the gray area:

- . Al like me generates original text (in the sense that I don't pull paragraphs from books or websites).
- . BUT... that text is based on patterns in training data, which might resemble publicly available content.
- . And since I don't automatically give sources, there's no way to be 100% sure a sentence isn't very similar to something already published especially for well-known ideas.

Source: ChatGPT

29

If I ask you to write an article on governmental accountability and you do that but do not provide sources, how do I know if I am plagiarizing?



How to Stay on the Right Side of Ethics

1. Use Al as a starting point, not an end product.

Treat what I write like a rough draft or brainstorming session.

2. Paraphrase and add your own analysis.

Rewrite, expand, or restructure what I give you in your own voice. That's what makes it yours.

3. Fact-check and source your claims.

If I say something like "Governmental transparency reduces corruption," you should:

- . Check if that's supported by academic research.
- Find a reputable source.
- 。 Cite that, not me.
- 4. Use plagiarism checkers.

Tools like Turnitin or Grammarly's plagiarism checker can flag anything too close to existing material.

5. Be transparent if required.

If your institution or journal wants disclosure of AI use, say you used ChatGPT for brainstorming or drafting assistance. Source: ChatGPT



If I ask you to write an article on governmental accountability and you do that but do not provide sources, how do I know if I am plagiarizing?



Bottom Line

If you take what I generate verbatim and submit it as your own without checking, rewording, or sourcing, you're skating close to plagiarism — even if it's unintentional.

But if you use it thoughtfully, ethically, and with clear human input? You're in good shape.

Want to try it out with a short article on governmental accountability and I'll walk you through how to clean it up and source it properly?

Source: ChatGPT

31

Yes, let's do an 800-word article on governmental accountability



Awesome — let's do this. I'll write a draft of an 800-word article on governmental accountability, focusing on what it is, why it matters, challenges to achieving it, and possible solutions.

• Then I'll help you revise it for originality, fact-checking, and sourcing. Ready? Here's the draft:

Source: ChatGPT



Yes, let's do an 800-word article on governmental accountability



See the article in your handouts.

Source: ChatGPT

33

How would I revise it for originality?



Love that you're thinking ahead — revising for **originality** means making the article reflect *your voice*, *your interpretation*, and *your thinking*, while still being grounded in real information.

Here's a step-by-step guide to help you revise the article into something unique and truly yours:

1. Paraphrase Key Sections in Your Voice

Take each paragraph and rewrite it in your natural style. Try asking yourself:

- How would I explain this to a friend or classmate?
- Can I say this more directly, or in a way that sounds like me?

Example:

Original: "Governmental accountability is the principle that public officials, institutions, and agencies must be answerable for their actions..."

Yours: "Accountability in government means leaders have to explain what they do and face consequences when they mess up."

Source: ChatGPT



How would I revise it for originality?





2. Add Your Own Analysis or Examples

Make it personal or specific. Think:

- . Can I include a real-world example?
- Have I seen this in the news or in my own country?
- Do I agree or disagree with anything here?

Example:

"One example of weak institutional checks can be seen in [Country X], where the anti-corruption agency lacks the power to prosecute officials."

Or even:

"In my own city, a lack of transparency led to a budget scandal that shook public trust."

Source: ChatGPT

35

How would I revise it for originality?





3. Restructure the Flow

You don't have to keep the same order. Maybe you:

- Start with a real-world event or a shocking statistic.
- . Combine sections (e.g., challenges + solutions).
- . End with a personal reflection or a question to the reader.

This changes the rhythm of the piece — another layer of originality.

Source: ChatGPT



How would I revise it for originality?





4. Fact-Check & Add Real Sources

Take claims from the article (like "Accountability improves service delivery") and:

- Search for academic papers, government reports, or news articles that back it up.
- . Cite those sources, not the Al draft.

This not only boosts credibility — it also ensures you're not repeating unverified claims.

Source: ChatGPT

37

How would I revise it for originality?



X 5. Use a Plagiarism Checker

Before you submit, run it through a plagiarism checker (like Grammarly, Turnitin, or QuillBot's tool). If anything flags as too close to existing sources, rephrase it further.

Source: ChatGPT





39

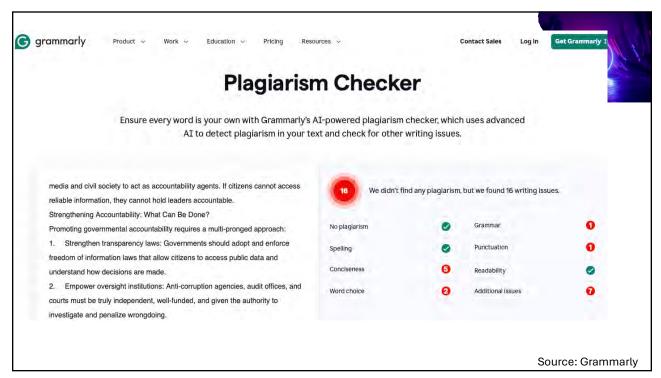


40

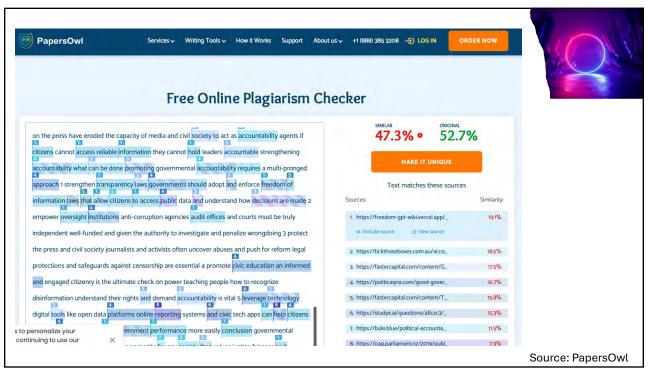
dave@cottoncfe.com 20



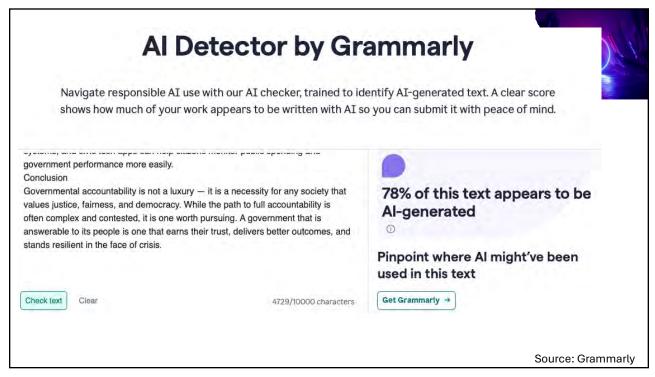
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41







43

I am having trouble buying this concept. Even if we paraphrase, fact check, use a plagiarism checker, the article will not be my original work.



You're absolutely right to question that — and you're asking the core ethical question of using AI in academic or creative work:

If I didn't create the first version, can I ever really call it mine? Let's get into this, because your instinct is valid and a lot of people gloss over it.

Source: ChatGPT



I am having trouble buying this concept. Even if we paraphrase, fact check, use a plagiarism checker, the article will not be my original work.



The Core of Originality

True originality in writing comes from:

- Your thought process
- . Your interpretation of facts
- Your structure and framing
- . Your voice

If AI creates an entire article and you just tweak it, then *yeah* — it's more like editing than authorship. And if you're aiming for something **authentically yours**, just paraphrasing an AI draft probably won't feel right.

Source: ChatGPT

45

I am having trouble buying this concept. Even if we paraphrase, fact check, use a plagiarism checker, the article will not be my original work.



A Better Way to Use AI (Ethically & Creatively)

Instead of asking AI to write the article *for* you, you can flip the dynamic and use it more like a research assistant or brainstorming buddy:

41. Use AI to explore ideas

Ask:

- . What are key points I could include about X?
- . What arguments do people make for/against this?

Source: ChatGPT



I am having trouble buying this concept. Even if we paraphrase, fact check, use a plagiarism checker, the article will not be my original work.





Now you are the author. If you want, I can still help you structure it, check for flow, improve grammar — but the content is yours.

X3. Use AI as a revision tool

Once you've written it:

- . I can help tighten your phrasing.
- . I can suggest stronger transitions or evidence.
- . I can help check tone or clarity without replacing your voice.

Source: ChatGPT

47

I am having trouble buying this concept. Even if we paraphrase, fact check, use a plagiarism checker, the article will not be my original work.



Ethical Writing with AI Means:

- · You stay in control of the ideas.
- . You write the core content.
- . Al supports, but doesn't substitute.

TL;DR: You're not wrong.

• If it feels like it's not *your work*, that's probably because it isn't — and trying to polish an Al draft won't make it truly yours. But if you use Al to **support** your thinking and writing — not replace it — then it *can* be both ethical and helpful.

Source: ChatGPT



Two more cautions...



- •Once you've become accustomed to using AI, it can make you lazy.
- Overuse of AI might diminish your creative skills.

Source: ChatGPT

49

THE WALL STREET JOURNAL.



How I Realized AI Was Making Me Stupid—and What I Do Now

Backers of the new tech say it will free us to be creative, but studies show that avoiding mental effort can cause your brain to atrophy.

By Sam Schechner Follow
April 3, 2025 at 10:30 am ET



Use of a mechanical calculator leads to a loss of the ability to do calculations (like long division) manually. Does AI also lead to any atrophy of skills?



That's a thoughtful question — and yes, **AI can lead to atrophy of certain skills**, just like mechanical calculators have reduced how often people practice manual arithmetic (like long division or estimating square roots).

Here's how that plays out with AI:

- Skills That May Atrophy with AI Use:
- 1. Critical Thinking & Deep Reading
- . If people rely on AI to summarize or analyze texts, they might skip doing close reading or forming their own independent interpretations.
- Over time, this could dull the ability to deeply engage with complex material.

Source: ChatGPT

51

Use of a mechanical calculator leads to a loss of the ability to do calculations (like long division) manually. Does AI also lead to any atrophy of skills?



2. Writing & Communication

- If AI drafts emails, reports, or essays, people may become less practiced at organizing thoughts, maintaining tone, or crafting clear arguments on their own.
- 3. Research & Source Evaluation
- Al can retrieve and synthesize information quickly, but it can also hallucinate or oversimplify.
- . Relying too heavily on it might weaken someone's ability to **evaluate source credibility** or dig deeper into primary materials.



Use of a mechanical calculator leads to a loss of the ability to do calculations (like long division) manually. Does AI also lead to any atrophy of skills?



4. Memory & Recall

- Just like Google has changed how we remember facts (we Google instead of memorizing), AI might reduce how much we remember processes, rules, or domain-specific knowledge — we start asking instead of learning.
- **5.** Professional Judgment
- In fields like law, accounting, or medicine, there's a risk of becoming too reliant on Al-generated suggestions and not developing the nuanced judgment that comes from doing the hard work yourself.

Source: ChatGPT

53

Use of a mechanical calculator leads to a loss of the ability to do calculations (like long division) manually. Does AI also lead to any atrophy of skills?



But Here's the Flip Side:

Al can also **enhance and sharpen** skills when used **intentionally**:

- Like calculators freed people to focus on **higher-order math**, Al can free us to focus on **strategy, insight, and creativity**.
- Writers, analysts, and professionals using AI well often become more productive, precise, and insightful, because they offload routine work and focus on the high-impact stuff.

✓ Bottom Line:

Al doesn't have to cause skill atrophy — but mindless use definitely can.

• Like any tool, it's all about **how you use it**. If you pair AI with curiosity, reflection, and hands-on practice, it can actually make you **sharper** — not duller.

Source: ChatGPT



How can accountability professionals--accountants and auditors--use AI?



Accountability professionals—like accountants and auditors—can use AI in a lot of ways to improve accuracy, efficiency, and decision-making. Here's a breakdown of some key use cases:

For Accountants:

1. Automated Data Entry & Reconciliation

- Al can extract data from invoices, receipts, and bank statements, reducing manual input.
- Machine learning (ML) can auto-categorize transactions and flag inconsistencies.

Source: ChatGPT

55

How can accountability professionals--accountants and auditors--use AI?



2. Real-Time Financial Analysis

• Al tools can monitor financial data in real time, identify anomalies, and give insights on performance or cash flow trends.

3. Predictive Analytics

- Forecasting future revenues, expenses, or financial risks using historical data patterns.
- Great for budgeting and planning.

4. Tax Compliance & Planning

- Al can keep up with ever-changing tax regulations and help optimize tax strategies.
- Tools like Intuit's AI assist in filing and deduction spotting.

Source: ChatGPT



How can accountability professionals--accountants and auditors--use AI?



For Auditors:

1. Risk Assessment & Fraud Detection

- Al can analyze large volumes of transactions to spot irregularities or patterns associated with fraud.
- Natural language processing (NLP) can review contracts or emails to assess compliance risk.

2. Continuous Auditing

• Al enables "always-on" auditing systems that flag anomalies in real time, rather than waiting for quarterly or annual audits.

Source: ChatGPT

57

How can accountability professionals--accountants and auditors--use AI?



For Auditors:

3. Document Review & Analysis

• Al can review and extract key data points from leases, contracts, and financial statements much faster than a human auditor.

4. Sampling Optimization

• Traditional audits rely on sample testing. Al can analyze 100% of the data, improving audit quality and confidence.



Can AI review an audit workpaper for me to assure that it meets professional standards?



Yes, **AI can assist in reviewing and auditing workpapers** to ensure they meet professional standards, but it has limitations. Let me break down what AI **can and cannot do** in this context.

What Al Can Do:

1. Document Review & Compliance Checking:

- Al can check if workpapers are complete, properly labeled, organized, and formatted according to firm standards.
- It can verify whether documentation follows professional standards like GAAS (Generally Accepted Auditing Standards), PCAOB standards, or firm-specific guidelines.

Source: ChatGPT

59

Can AI review an audit workpaper for me to assure that it meets professional standards?



2. Quality Control:

- Identifying missing documents, incomplete sections, or improperly referenced workpapers.
- Checking calculations, ensuring proper cross-referencing, and verifying numerical consistency.

3. Standardization & Consistency:

- Ensuring adherence to checklists or standardized templates used by the firm.
- Detecting deviations from standard procedures or methodologies.

Source: ChatGPT



Can AI review an audit workpaper for me to assure that it meets professional standards?



4. Text Analysis & Comparison:

- Analyzing text for clarity, completeness, and compliance with required disclosures or documentation standards.
- Comparing workpapers against guidelines to identify potential gaps.

5. Anomaly Detection:

- Identifying unusual patterns or inconsistencies that may warrant further investigation.
- Comparing current workpapers to historical ones to detect significant deviations.

Source: ChatGPT

61

Can AI review an audit workpaper for me to assure that it meets professional standards?



What Al Cannot Do (Yet):

1. Exercise Professional Judgment:

 Al cannot fully understand or apply professional skepticism or make nuanced decisions about materiality or risk.

2. Interpret Complex Scenarios:

Al may struggle with context-specific nuances or judgments that require deep professional experience.

3. Evaluate Ethical Considerations:

While AI can flag potential issues, it cannot evaluate ethical dilemmas with the same depth as a human auditor.

Source: ChatGPT



Can AI review an audit workpaper for me to assure that it meets professional standards?



What Al Cannot Do (Yet):

4. Final Sign-Off:

Al cannot replace the need for a qualified professional to sign off on audit workpapers. It should be used as a tool to enhance the auditor's judgment, not replace it.

✓ How Al Is Used Today:

- . Major accounting firms are already using AI to **automate parts of the audit process**, including reviewing contracts, analyzing transactions, and ensuring compliance with standards.
- . Tools like **natural language processing (NLP)** and **machine learning** help flag issues and ensure completeness.

Source: ChatGPT

63

Can AI write my report on internal controls?



Yes, Al can help you **draft a report on internal controls**, but it's important to remember that it works best when given clear direction and context. Here's how Al can assist in writing a report on internal controls:

What Al Can Do:

1. Structure the Report:

Al can organize your report into sections, such as introduction, objectives, scope of audit, methodology, findings, and recommendations.

Source: ChatGPT



Can AI write my report on internal controls?





2. Generate Content Based on Guidelines:

- Al can write portions of the report based on professional standards (e.g., COSO Framework or SOX requirements) or specific internal control objectives.
- It can help describe control processes, risks, and testing methods in clear, concise language.

3. Summarize Findings:

If you provide AI with the results of testing internal controls (e.g., control effectiveness or weaknesses found), it can summarize these findings and suggest appropriate remediation actions.

Source: ChatGPT

65

Can AI write my report on internal controls?





4. Suggest Recommendations:

Based on the findings, Al can propose best practices or improvements to strengthen controls, such as enhancing documentation, separating duties, or improving monitoring procedures.

5. Format and Language Consistency:

All can ensure the report maintains a professional tone, follows the appropriate style, and uses the correct terminology.

Source: ChatGPT



Can AI write my report on internal controls?



What Al Cannot Do (Yet):

1. Interpret Specific Organizational Contexts:

Al may not understand the unique operational nuances of your organization, so while it can generate recommendations based on best practices, those may need to be tailored by a human expert to fit your specific situation.

2. Apply Professional Judgment:

It cannot provide nuanced assessments or make judgments about the **severity** of control weaknesses or risks that might require deep understanding of your organization's culture and operations.

Source: ChatGPT

67

Can AI write my report on internal controls?



What Al Cannot Do (Yet):

3. Validate the Testing Results:

Al can't conduct the tests itself or validate the accuracy of testing results—it relies on your input to generate content.

4. Finalize the Report:

While AI can draft the report, the final review and sign-off must be done by a qualified professional to ensure compliance with auditing standards and organizational requirements.



Can AI violate the AICPA Code of Professional Conduct?



Yes — using Al can violate the AICPA Code of Professional Conduct, depending on how it's used and what disclosures (or lack thereof) are involved. It's a nuanced issue, but you're asking the right question, especially if you're a CPA, accounting student, or working in finance or audit.

Source: ChatGPT

69

Can AI violate the AICPA Code of Professional Conduct?



Let's Break This Down:

The AICPA Code of Professional Conduct is built around six core principles:

- 1. Responsibilities
- 2. The Public Interest
- 3. Integrity
- 4. Objectivity and Independence
- 5. Due Care
- 6. Scope and Nature of Services

Now, let's see how AI could cause trouble under these principles:



Can AI violate the AICPA Code of **Professional Conduct?**



Possible Violations

1. Lack of Due Care (Section 0.300.060)

CPAs must carry out professional responsibilities with competence and diligence.

• Using AI to prepare reports, perform analysis, or write content without verifying accuracy could violate due care. Al can generate incorrect or misleading information — and if you rely on that blindly, it's a breach of professional responsibility.

Source: ChatGPT

71

Can AI violate the AICPA Code of Professional Conduct?





Possible Violations

2. Violating Integrity (Section 0.300.040)

Integrity requires honesty and candor within the constraints of client confidentiality.

If you use Al-generated content in client work without disclosure, or submit Al-written reports as your own without review, it could be seen as deceptive — especially if the content turns out to be fabricated or biased.



Can AI violate the AICPA Code of Professional Conduct?



Possible Violations

3. Failure to Protect Confidentiality (Section 1.700.001)

Members must not disclose any confidential client information without specific consent.

Feeding client data into a public AI model (like ChatGPT, Google Gemini, etc.) could be a huge confidentiality breach if that AI stores or processes data in ways that expose it to others — unless you've got proper agreements and protections in place.

Source: ChatGPT

73

Can AI violate the AICPA Code of Professional Conduct?





Possible Violations

4. Impairment of Objectivity (Section 0.300.050)

Objectivity means being impartial and free of conflicts of interest.

If AI tools embed bias in financial modeling or audit procedures, and you don't catch it, you could end up making or endorsing decisions that aren't objective — without realizing it.



Can AI violate the AICPA Code of Professional Conduct?





☑ Ethically Acceptable Use (If Done Right)

Al use can be compatible with the AICPA Code if:

- You **validate** the output before relying on it.
- You **disclose** when Al tools were used in reports or analysis (especially in client deliverables).
- You do not share confidential info with public AI platforms unless explicitly allowed and secured.
- . You maintain **professional judgment** over Al suggestions.

Source: ChatGPT

75

Can AI violate the AICPA Code of Professional Conduct?





Final Word

Al is a powerful tool — but the AICPA Code holds you accountable, not the tech. So if Al introduces an error, bias, or breach, you bear the responsibility unless you've taken every reasonable step to prevent that.

If you're using AI in accounting, audit, tax, or consulting work, it's smart to build internal policies that align with the Code.

Want help drafting ethical AI use guidelines for a firm or class? I'd be glad to help with that too.





77

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Governmental Accountability: The Cornerstone of a Healthy Democracy

Governmental accountability is the principle that public officials, institutions, and agencies must be answerable for their actions, decisions, and the outcomes they produce. It is a core element of democratic governance and essential for maintaining public trust, protecting individual rights, and ensuring the responsible use of power. Without accountability, governments risk becoming opaque, corrupt, and disconnected from the people they are meant to serve.

What Is Governmental Accountability?

At its core, accountability means that those in power must explain and justify their actions to the public and face consequences if they abuse that power. This can take many forms: legal accountability through the courts, political accountability through elections, administrative accountability through oversight bodies, and social accountability through civil society and the media.

Democracies are structured around the idea that public power comes with public responsibility. Elected officials are accountable to voters, public servants to the law, and institutions to the people through mechanisms such as transparency laws, checks and balances, audits, and independent investigations.

Why Accountability Matters

Accountability is not just a bureaucratic concept — it has real-world implications for how governments function and how citizens experience their rights. When public officials know they are being watched and held to standards, they are more likely to act ethically, manage resources wisely, and prioritize the public good.

Moreover, accountability reduces corruption, improves service delivery, and fosters a culture of responsiveness in government. For example, countries with strong accountability frameworks often have better education, healthcare, and infrastructure systems because resources are allocated fairly and mismanagement is punished.

Accountability also reinforces legitimacy. Citizens are more likely to trust a government that operates transparently and is open to criticism. This trust, in turn, leads to higher civic engagement and more stable democratic institutions.

Challenges to Governmental Accountability

Despite its importance, achieving genuine governmental accountability is difficult. One major challenge is **lack of transparency**. When governments withhold information or make decisions behind closed doors, it becomes nearly impossible for citizens or watchdog organizations to assess performance or detect wrongdoing.

Another issue is **weak institutional checks**. In some countries, oversight bodies such as anticorruption commissions or ombudsman offices exist in name only and lack real power or independence. Similarly, if the judiciary is not impartial, legal accountability becomes compromised.

Political polarization can also undermine accountability. When loyalty to a party or leader outweighs commitment to democratic principles, oversight can become selective, and abuses of power may go unpunished if the perpetrator is "on the right side."

Finally, **disinformation and attacks on the press** have eroded the capacity of media and civil society to act as accountability agents. If citizens cannot access reliable information, they cannot hold leaders accountable.

Strengthening Accountability: What Can Be Done?

Promoting governmental accountability requires a multi-pronged approach:

- 1. **Strengthen transparency laws**: Governments should adopt and enforce freedom of information laws that allow citizens to access public data and understand how decisions are made.
- 2. **Empower oversight institutions**: Anti-corruption agencies, audit offices, and courts must be truly independent, well-funded, and given the authority to investigate and penalize wrongdoing.
- 3. **Protect the press and civil society**: Journalists and activists often uncover abuses and push for reform. Legal protections and safeguards against censorship are essential.
- 4. **Promote civic education**: An informed and engaged citizenry is the ultimate check on power. Teaching people how to recognize disinformation, understand their rights, and demand accountability is vital.
- 5. **Leverage technology**: Digital tools like open data platforms, online reporting systems, and civic tech apps can help citizens monitor public spending and government performance more easily.

Conclusion

Governmental accountability is not a luxury — it is a necessity for any society that values justice, fairness, and democracy. While the path to full accountability is often complex and contested, it is one worth pursuing. A government that is answerable to its people is one that earns their trust, delivers better outcomes, and stands resilient in the face of crisis.



GASB 101, COMPENSATED ABSENCES: A DEEPER DIVE

May 2, 2025

Presented by Chris Pembrook, CPA

GASB 101, Compensated Absences: A Deeper Dive

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Basics of Statement 101



Definition of compensated absences



Measurement and Disclosures



Implementation Process



Examples

Compensated Absences Description

Leave for which employees may receive one or more:

- Cash payments when the leave is used for time off
- Other cash payments, such as payment for unused leave upon termination of employment
- Noncash settlement, such as conversion to postemployment benefits

Common Examples—Focus

Vacation and sick leave

Paid time off (PTO)

Certain types of sabbatical leave

Types where recognition should not occur until leave commences

- Parental leave
- Military leave
- Jury duty

Sabbatical Leave

Sabbatical leave in which an employee is <u>not</u> required to perform any significant duties for the government -unrestricted sabbatical leave - <u>is</u> a compensated absence

Sabbatical leave in which an employee <u>is</u> required to perform duties of a different nature for the government - is <u>not</u> a compensated absence

Examples—Not Applicable

Benefits in the scope of Statement 47

Termination benefits

Leave more likely than not will be settled through conversion to defined benefit postemployment benefit

- Statement 68—pensions
- Statement 75—OPEB

Liabilities for Compensated Absences 2 types of liabilities for recognition

1- Leave that has NOT been used

2 - Leave that <u>has</u> been used but <u>not yet</u> <u>paid</u> or settled

Not required to be aggregated for display

EXAMPLE: Leave not used - compensated absence accrual

Leave used – likely in accrued payroll

Include salary-related payments with both

Leave Used But Not Paid

- Liability for amount of cash payment or noncash settlement
- Likely part of the accrued payroll calculation
- Include applicable salary-related payments

Compensated Absences—Recognition

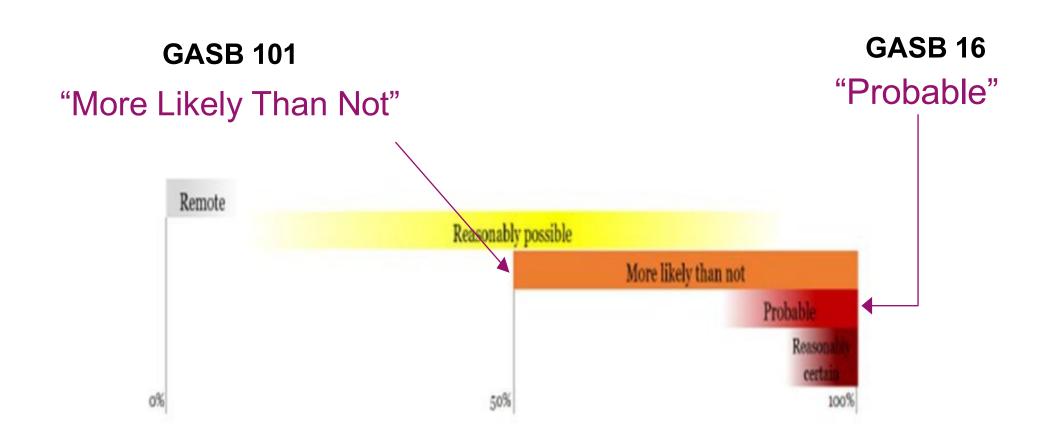
The leave:

- Is attributable to services already rendered
- Accumulates
- Is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means

Possible Significant Judgement

Start preparing—how much of sick leave is used?

Probability Threshold – GASB 16 vs. GASB 101



Considerations for More Likely Than Not

The government's employment policies related to compensated absences

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

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

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

To recognize or Not – Recognition Exceptions

Leave more likely than not to be settled through conversion of defined benefit postemployment benefits

Covered in DB postemployment benefit liabilities

Leave dependent upon occurrence of a sporadic event affecting relatively small portion of employees

- Recognize liability when leave commences
- Parental leave, military leave, jury duty

Unlimited leave and certain holidays

• No liability until leave is used

Leave Not Used - Measurement

Generally, use an employee's pay rate as of the date of the financial statements, unless:

- More likely than not to be paid at a different rate (such as 1/2 employee's pay rate upon termination of employment)
 - Use that rate as of the date of the financial statements
- Leave not attributable to specific employee (such as donated leave pool)
 - Use estimated rate representative of eligible employee population
- More likely than not to be settled through noncash means
 - Use amount more likely than not for which it will be settled

Remember to include salary-related payments

- Directly and incrementally related (for example, social security, Medicare)
- Defined contribution plan (based on current rate)
- Defined benefit plans—no

Note Disclosures - Changes

- No new note disclosures!
- Now an option to present net increase or decrease with indication that is a net amount
- No longer required to disclose governmental fund used to liquidate these liabilities

Reporting the change

Report as a change in accounting principle in accordance with GASB 100

- Restating financial statements for all prior periods presented
- Cumulative effect as a restatement of beginning net position
- Additional note disclosures about the change in principle

Common Questions

What Pay Rate to Use

Question:

A government approves a pay increase effective 7/1/2024. Government is calculating compensated absences for the fiscal year end June 30, 2024. What pay rate should the government use?

Answer:

GASB 101, B34: "... because next year's rate does not reflect the present obligation of the government as of the date of the financial statements, the [GASB] Board decided not to incorporate the next year's pay rate into the measurement of the liability for compensated absences."

Pay Rates to use

•GASB 101, para 16: "A liability for leave...should be measured using an employee's pay rate as of the date of the financial statements, unless one of the criteria in paragraphs 17-19 is met."

•GASB 101, para 17: "If some or all of the leave is more likely than not to be paid at a rate different from the employee's pay rate at the time the payment is made, a government should measure that portion of the liability using that different rate as of the date of the financial statements."

Historical Data

Question:

How many years of historical trend information should be considered when applying GASB 101?

Answer:

GASB 101, B15. The Board believes that establishing more specific requirements would limit governments' use of professional judgment as to what is appropriate in their circumstances. Therefore, detailed application requirements were not included in this Statement.

Disaggregation of Data

Question:

How much do I need to disaggregate my data to come up with an appropriate estimate of compensated absences?

Answer:

It depends!

Disaggregation of Data

Union and nonunion Different union groups with different comp absence policies

Age

Years of service

Employee class (PT, FT, hourly, salary)

Audit Considerations

- Expect an increase in liability
 - Materiality
- ► GASB 100 Change in accounting principle
 - Single Year
 - Comparative financial statements
 - RSI/SI/OI
- Testing
 - Assumptions
 - Inputs (hours, rates, salary-related payments)

- Govt 100% annual leave vest with employee and payable upon separation/termination of employment
- Leave (Annual/Sick) is paid based employee pay rate at time of use or separation/termination
- Govt does not pay for unused sick leave upon termination.
- Govt participates in a defined benefit pension plan and a defined contribution pension plan
 - ► Employer Contribution rate: DB 12.5%; DC 5.0%
 - Amounts used or paid upon termination result in employer contributions

	Balances								
	Annual Leave	AL	Sick Leave	SL					
Active employees	Days	Hours	Days	Hours					
Active employee 1	15	120	57	456					
Active employee 2	13	104	56	448					
Active employee 3	25	200	58	464					
Active employee 4	9	72	52	416					
Active employee 5	7	56	53	424					
Active employee 6	20	160	57	456					
Active employee 7	23	184	58	464					
Active employee 8	16	128	50	400					
Active employee 9	8	64	58	464					
Active employee 10	5	40	56	448					
	141	1128	555	4440					

- Annual Leave 100% vested/payable to employee
- Salary related items to consider:

Salary Related Amounts	<u>Leave used/paid</u>
Social Security (6.2%)	6.20%
Medicare (1.45%)	1.45%
DC plan (5%)	<u>5.00%</u>
Total % of salary related	
payments	12.65%

Annual Leave

	Balanc	es									(Comp.Ab.
	Annual Leave	AL									Liab	oility Annual
Active employees	Days	Hours	Salary		Hourly Rate		AL Liability		ility Salary F			Leave
Active employee 1	15	120	\$	58,000	\$	27.88	\$	3,346.15	\$	423.29	\$	3,769.44
Active employee 2	13	104		62,000		29.81		3,100.00		392.15		3,492.15
Active employee 3	25	200		75,000		36.06		7,211.54		912.26		8,123.80
Active employee 4	9	72		90,000		43.27		3,115.38		394.10		3,509.48
Active employee 5	7	56		34,000		16.35		915.38		115.80		1,031.18
Active employee 6	20	160		62,000		29.81		4,769.23		603.31		5,372.54
Active employee 7	23	184		70,000		33.65		6,192.31		783.33		6,975.63
Active employee 8	16	128		44,000		21.15		2,707.69		342.52		3,050.22
Active employee 9	8	64		55,000		26.44		1,692.31		214.08		1,906.38
Active employee 10	5	40		83,000		39.90		1,596.15		201.91		1,798.07
	141	1128					\$	34,646.15	\$	4,382.74	\$	39,028.89

Illustration

▶ Sick Leave determination of more likely than not:

Sick days used as time off								Average annual
active employees	2021	2022	2023	2024	2025		Total days used	use (days)
Active employee 1	10	4	5	3	3		25	5.00
Active employee 2	4	8	4	4	4		24	4.80
Active employee 3	2	5	2	3	2		14	2.80
Active employee 4	8	9	7	7	8		39	7.80
Active employee 5	6	12	8	9	7		42	8.40
Active employee 6	4	4	3	4	3		18	3.60
Active employee 7	7	2	3	3	2		17	3.40
Active employee 8	8	2	5	4	10		29	5.80
Active employee 9	6	4	4	4	2		20	4.00
Active employee 10	4	5	4	6	4		23_	4.60
							Average	5.02
			12.00					
Average days used (12 days awarded per year)								

Illustration

Sick leave & Total Leave Liability

Active employees	Balances Sick Leave Days	SL Hours	Salary	Salary Rate	More Likely than Not		SL	Sa	lary Related		Comp.Ab. ability Sick
Active employees Active employee 1	56	448	\$ 58,000	\$ 27.88	187	\$	5,214.42	\$	659.62	\$	5,874.05
Active employee 2	58	464	62,000	29.81	194	Ψ	5,782.69	Ψ	731.51	Ψ	6,514.20
Active employee 3	52	416	75,000	36.06	174		6,274.04		793.67		7,067.70
Active employee 4	53	424	90,000	43.27	177		7,658.65		968.82		8,627.47
Active employee 5	57	456	34,000	16.35	191		3,122.12		394.95		3,517.06
Active employee 6	58	464	62,000	29.81	194		5,782.69		731.51		6,514.20
Active employee 7	50	400	70,000	33.65	167		5,620.19		710.95		6,331.15
Active employee 8	58	464	44,000	21.15	194		4,103.85		519.14		4,622.98
Active employee 9	56	448	55,000	26.44	187		4,944.71		625.51		5,570.22
Active employee 10	60	480	83,000	39.90	201		8,020.67		1,014.62		9,035.29
	558	4464				\$	56,524.04	\$	7,150.29	\$	63,674.33
								Va	cation		39,028.89
			* leave est.	to be used % - 43	1.83%	Tot	tal Compensate	ed Abse	ence Liability	\$	102,703.22

Illustration

Long-term obligations:

	(Restated)				
	Beginning			Ending	Due within
Governmental activities:	Balance	<u>Additions</u>	Reductions	Balance	One Year
Bonds payable	\$2,000,000	\$ -	(1,000,000)	\$1,000,000	\$ 1,000,000
Bond Premium	61,078	-	(30,539)	30,539	30,359
Notes Payable	660,808	75,360.00	(171,271)	564,897	174,506
Lease Obligations	717,914	125,000	(479,563)	363,351	99,934
Compensated absences	105,333	-	* (2,630)	102,703	50,000
Governmental activity					
Long-term liabilities	<u>\$3,545,133</u>	<u>\$200,360</u>	\$ (1,684,003)	<u>\$2,061,490</u>	<u>\$ 1,354,799</u>

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

Don't forget SSAP

Questions?