

SESSION FOUR

Post Issuance Accountability



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LEARNING OBJECTIVES

- Identify and assess potential issues and challenges affecting accounting and compliance post-issuance and develop strategies to mitigate these risks
- Know how to prepare for an external audit
- Sharing of best practices for post issuance and debt portfolio management



What Do You Need To Be Thinking About?

- Setting up your accounts
- Properly recording the transaction in your general ledger
- Monitoring
 - Cashflow
 - Proper use of funds
 - Timing on the use of funds
- Reporting
 - EMMA
 - CDIAC
 - Governing Board



What Could Go Wrong?

- Improper use of the bond funds
- Missed bond payment
- Violation of a bond covenant
- Missing financial and other records and documents
- Delayed ACFR
- Delayed reporting as required under your Continuing Disclosure Agreement (CDA)



Improper Use of Bond Funds

- Private Business Use and Payment Test:
 - No more than 10% of the proceeds of the bonds can be used for Private Business Use; and
 - No more than 10% of the payment of principal or interest on the bonds is made or secured by payments for Private Business Use
- Spent proceeds on an unqualified project(s)
- Comingled funds with other cash
- Used proceeds to cover operations and maintenance
- Mis-matching the life of the assets to the maturity of the bonds

Missed a Bond Payment

- Where is your tickler system
- Staff on vacation
- No backup support
- Poor communications with Trustee/Paying Agent
- A default
- Reputational risk



Violation of a Bond Covenant

- Coverage ratios
- Additional bonds tests
- Reserve requirements
- Parity tests
- Bank loan terms



Missing Financial and Other Records

- Must maintain for at least three years beyond final maturity
- What documents does your auditor need
- What if the IRS comes knocking on your door
- What if the SEC, via your underwriter, wants proof



Delayed ACFR

- Understand why
- Report on EMMA
- Work with your auditors
- Careful what your organization then say publicly
- Determine how to prevent this from re-occurring

Delayed Reporting as Required Under Your CDA

- Material event
- Report on EMMA
- Reputational risk
- Might impact future access to the markets



In The End...

Get Yourself Organized

- Establish a tickler system with dates & responsibilities:
 - Debt service payments
 - Continuing disclosure filings
 - Arbitrage rebate obligations
 - Spending timelines
 - Yield restrictions
 - Use of proceeds



The Auditors are Coming... Now What?

- Audit Scope
 - ACFR / Basic Financial Statements
 - Special Bond Specific Audit



The Auditors are Coming...

Now What? – (cont. 2 of 6)

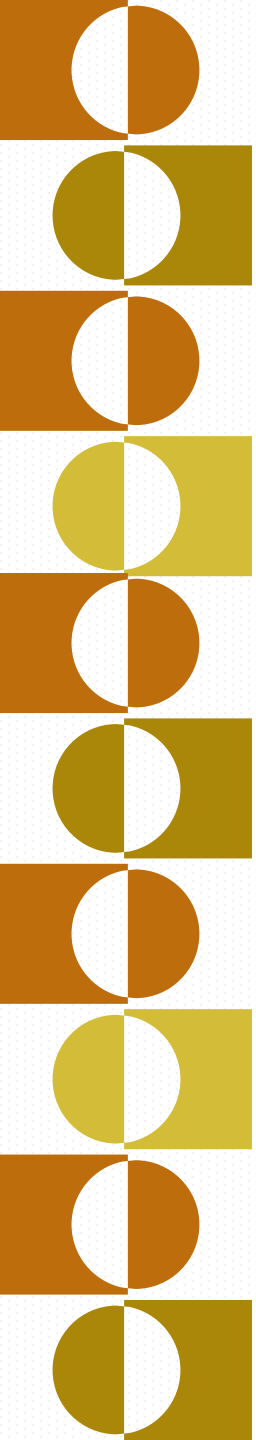
- Audit Scope - ACFR / Basic Financial Statements
 - Includes all debt activities and disclosures
 - Materiality
 - Significance of the current year activity
 - Accounting of the debt transactions (debits/credits)
 - New debt transactions
 - Refunding transactions
 - Current year activities of existing transactions (debt service)
 - Net position classifications
 - Disclosures
 - Compliance (GAGAS)



The Auditors are Coming...

Now What? – (cont. 3 of 6)

- Preparing for an Audit
 - Confirmation of Scope
 - Type of Audit
 - Current Year Activities
 - “Prepared By Client” List (PBC)
 - Account Reconciliations
 - Fiscal Agent/Restricted Cash Accounts
 - Debt allocations – Shared projects/purpose
 - Debt service expenditures - principal, interest, amort. prem/disc/def charges
 - New debt – refunding (gain/loss), escrow deposits, debt defeasance, cost of issuance, deferred inflows/outflows def charges



The Auditors are Coming...

Now What? – (cont. 4 of 6)

- “Prepared By Client” List (PBC)
 - Long Term Debt Roll forward (incl. premium/discount/capital appreciation/deferred charges)
 - Confirmation and authorizations
 - Amortization Schedules
 - Interest accrual calculations
 - Allocation/Transfer worksheets for fund reporting
 - Gov vs Proprietary
 - Transfer of resources to pay debt service in DSF or GF
 - Transfer/Use of proceeds – CPF or GF
 - Official statements of newly issued/refunded debt
 - New notes payable agreements
 - New certificates of participation
 - Arbitrage Worksheet and reports
 - Conduit debt activity
 - Calculation of net investment in capital assets and restrictions related to debt

The Auditors are Coming...

Now What? – (cont. 5 of 6)

- Disclosures
 - Cash and Investments
 - Investment Policies
 - Restrictions on proceeds
 - Fiscal agent accounts



The Auditors are Coming...

Now What? – (cont. 6 of 6)

- Disclosures

- Long Term Debt:

- Terminology – LTD vs LT Liabilities/Obligations

- LT Liabilities/Obligations include

- Debt (bonds, notes, COPs, special assessments, etc.)
 - Leases and SBITA
 - Compensated Absences
 - Pension and OPEB
 - Pollution Remediation
 - Claims Liabilities

- Schedule of original issue, maturity dates, interest rates, outstanding amount

- Roll-Forward

- $BB + \text{New} - \text{Reduction} = \text{EB}$
 - Due within 1 year

- 1-5 years, then 5-year increments for debt service requirements

- Narrative – Purpose, summary of terms, pledged revenues



Rewind for Debt Issuance – Auditor Association

- Investor Expectations Gap
- Consent Letter
 - Additional engagement and audit effort
- Additional Disclosure

[AUDIT FIRM], our independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. [AUDIT FIRM] also has not performed any procedures relating to this official statement or memorandum.

Article: An Auditor's Dilemma: To Consent or Not to Consent

<https://www.cpai.com/Education-Resources/my-firm/Audit-Attest-Services/An-Auditor-s-Dilemma-To-Consent-or-Not-to-Consent>



Is Another Audit Really Necessary?

- Special Bond Specific “Audit”
 - Why have this done?
 - Voter Approved Taxes and Bond Measures
 - Concerns of improprieties/ Accountability to community
 - Internal Audit Risk Assessment Plan
 - Debt Portfolio/Program Manager Changes

Is Another Audit Really Necessary?

– (cont. 2 of 3)

- Special Bond Specific “Audit”

- Voter Approved Local Tax and Bond Measures

- CA Government Code section 50075.1 and 50075.3 (taxes)

- CA Government Code section 53410 and 53411 (bonds)

The chief fiscal officer of the issuing local agency shall file a report with its governing body no later than January 1, 2002, and at least once a year thereafter. The annual report shall contain all of the following:

(a) The amount of funds collected and expended.

(b) The status of any project required or authorized to be funded as identified in subdivision (a) of Section 53410.

- Audit Requirement

- Audit vs. audit

- Consult an Auditor prior to finalizing Measure



Is Another Audit Really Necessary?

– (cont. 3 of 3)

- Special Bond Specific “Audit”
 - Financial Audit
 - Special revenue funds, Debt services funds, Capital projects funds
 - Inflows/Outflows of debt funded projects
 - Rate Covenant Calculations
 - Compliance Examination
 - Voter approved Measures
 - Agreed Upon Procedures (AUP)
 - Procedures designed and agreed to by management for specific purposes



Post Issuance Best Practices

- Know what's in your Continuing Disclosure Agreements (CDA)
- Understand federal and state muni tax and securities requirements
- List of all compliance actions at time bonds are sold – by series
- Documentation of sources and frequency of requirements



Debt Management Best Practices

- Develop and document disclosure policies and procedures to ensure compliance and peace of mind
 - Formal, written, adopted
 - Review update at least every three years
 - Use assistance of outside professionals if desired (municipal advisor, counsel, arbitrage consultant)
 - Design approach to address various disclosure requirements
- Elements
 - Identify and assign responsibilities by department and title
 - Train responsible employees

Debt Management Best Practices – (cont. 2 of 3)

- Elements (cont.)
 - Create policies and procedures that reflect who you are
 - Monitor changes in laws and regulations
 - Identify records to be maintained, for how long and how to maintain
 - Determine how to identify and correct mistakes
 - Other considerations
 - Bond Indentures/Bond Ordinance/Bond Resolution
 - Other internal finance policies and how they relate to debt management and post issuance compliance



Debt Management Best Practices – (cont. 3 of 3)

- Tools
 - Use of spreadsheets
 - Use of software solutions for long-term obligations
 - Manages timing of cash flow
 - Sources of cash flows
 - Amortization
 - Monitors compliance with covenants
 - Manages timing of regulatory reporting – continuing disclosure, reportable events
 - Develops accounting entries and disclosures
- Management of proceeds
- Accounting set-up – Funds used
 - What resource are pledged and what is the intent operating intent (policy/budget)
 - GF, CPF, DSF, EF, ISF
 - Allocations/transfer policies and procedures

QUESTIONS?



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