Grants Management: New and Improved

**Presenters:**

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- Gerry Boaz, Technical Manager, Tennessee Division of State Audit
- Heather Acker, Partner, Baker Tilly

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Document link

OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards

“Super Circular”
“Omni Circular”
“UGG”


Effective date

- Published in Federal Register on December 26, 2013
- OMB and federal agencies to work in unison to issue additional regulations or guidance which will be effective one year from publication of this guidance (December 26, 2014)
- Administrative and cost principal changes applicable for new awards and additional funding to existing awards made after December 26, 2014
  - Complexity with simultaneous administration of multiple grant awards
  - Q&A states organizations that choose to implement entity-wide system changes to comply with the UGG after 12/26/14 will not be penalized for doing so.
- Single audit changes effective for years ending December 31, 2015 and after
Objectives of the grant reform

- Reduce administrative burden for those receiving federal awards, while also reducing risk of waste, fraud and abuse
- Improve the integrity of financial management and operation of federal programs
- Strengthen accountability for federal dollars by improving policies that protect against waste, fraud, and abuse
- Increase impact and accessibility of programs by minimizing time spent complying with unnecessarily burdensome administrative requirements
Objectives of the grant reform (cont.)

- Reorient recipients toward achieving program objectives
- Grants awarded based on merit
- Increased management focus on performance outcomes
- Streamlined rules governing federal funds
- Single audit oversight tool is better focused to reduce waste, fraud, and abuse
Impacted circulars

Streamlining of related circulars and guidance

<table>
<thead>
<tr>
<th>Circular</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-21</td>
<td>Cost Principles for Educational Institutions</td>
</tr>
<tr>
<td>A-50</td>
<td>Audit Follow-Up, related to Single Audit</td>
</tr>
<tr>
<td>A-87</td>
<td>Cost Principles for State, Local, and Indian Tribal Governments</td>
</tr>
<tr>
<td>A-89</td>
<td>Federal Domestic Assistance Program Information</td>
</tr>
<tr>
<td>A-102</td>
<td>Awards and Cooperative Agreements with State and Local Governments</td>
</tr>
<tr>
<td>A-110</td>
<td>Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations</td>
</tr>
<tr>
<td>A-122</td>
<td>Cost Principles for Non-Profit Organizations</td>
</tr>
<tr>
<td>A-133</td>
<td>Audits of States, Local Governments and Non-Profit Organizations</td>
</tr>
</tbody>
</table>
Three major sections

A. Reforms to administrative requirements
B. Reforms to cost principles
C. Audit requirements
Administrative requirements key changes

Focus on performance

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authority for OMB to waive certain compliance requirements and approve new strategies for innovative program designs that improve cost-effectiveness and encourage effective collaboration across programs</td>
<td>200.102</td>
</tr>
<tr>
<td>Fixed amount awards focused on meeting performance milestones</td>
<td>200.201</td>
</tr>
<tr>
<td>Emphasis on performance goals and performance reporting</td>
<td>200.301</td>
</tr>
</tbody>
</table>
Administrative requirements key changes

Definitions

Most common example:

- **Subrecipient** – a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a federal program

- **Contractor** – an entity that receives a contract as defined in 200.22 Contract (terminology of vendor not used)

Nature of relationship trumps what the agreement is called!
### Administrative requirements key changes

#### Standardized requirements

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notice of Funding Opportunities</td>
<td>200.203 and Appen I</td>
</tr>
<tr>
<td>Award, Application and Reporting Requirements</td>
<td>200.210</td>
</tr>
<tr>
<td></td>
<td>200.301</td>
</tr>
<tr>
<td></td>
<td>200.327</td>
</tr>
<tr>
<td></td>
<td>200.328</td>
</tr>
</tbody>
</table>

Federal agencies can impose more restrictive requirements only with OMB approval.
Administrative requirements key changes

- Information to be included in a federal award
  - Standard 15 data elements
  - Guidance on Federal Awarding Agency, Program, or Award Specific Terms and Conditions
  - Requires federal awarding agencies to include an indication of the timing and scope of expected performance as related to the outcomes intended to be achieved
## Administrative requirements key changes

### Interest earned on federal funds

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of interest earned on federal funds</td>
<td>200.305</td>
</tr>
<tr>
<td>• Up to $500/year may be retained by recipient for administrative costs</td>
<td></td>
</tr>
<tr>
<td>• Amounts in excess of that should be paid to one central federal agency (HHS)</td>
<td></td>
</tr>
</tbody>
</table>
### Administrative requirements key changes

#### Technology

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined that computers are considered supplies, not equipment</td>
<td>200.94</td>
</tr>
<tr>
<td>Flexibility in electronic document retention, with associated internal controls</td>
<td>200.335</td>
</tr>
</tbody>
</table>
Administrative requirements key changes

Stronger oversight

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on conflict of interest policies and procedures.</td>
<td>200.112</td>
</tr>
<tr>
<td>Mandatory disclosure of fraud, bribery impacting award.</td>
<td>200.113</td>
</tr>
<tr>
<td>Emphasis for federal agencies to build on single audit results, rather than repeating procedures</td>
<td>200.503</td>
</tr>
</tbody>
</table>
Administrative requirements key changes

Subrecipient Monitoring

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heightened focus on subrecipient monitoring</td>
<td>200.331</td>
</tr>
<tr>
<td>• Various required elements of subaward</td>
<td></td>
</tr>
<tr>
<td>• Perform a risk assessment to determine appropriate monitoring (and do it!)</td>
<td></td>
</tr>
<tr>
<td>• Verify subrecipients have audits, if required</td>
<td></td>
</tr>
<tr>
<td>• Review audit results and adjust pass-through entity records, if needed</td>
<td></td>
</tr>
<tr>
<td>• Determine necessary action for subrecipient noncompliance, follow up, issue management decision</td>
<td></td>
</tr>
</tbody>
</table>
Administrative requirements key changes

- Factors to consider in evaluating subrecipient Risk
  - Prior experience with same or similar subawards
  - Results of previous audits
  - Whether new or substantially changed personnel or systems
  - Extent and results of Federal awarding agency monitoring
Administrative requirements key changes

Internal Controls

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required to establish and maintain effective internal controls over federal programs</td>
<td>200.303</td>
</tr>
<tr>
<td>(Previously only in single audit requirements)</td>
<td></td>
</tr>
</tbody>
</table>

COSO and federal green book tied in although Q&A clarifies usage as “best practice.”
Administrative requirements key changes

Procurement

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 methods for procurement (1) micro-purchase under $3,000 or $2,000 for Davis Bacon eligible projects, (2) small purchase procedures for contracts under the Simplified Acquisition Threshold (currently $150,000), or (3) sealed bids</td>
<td>200.320</td>
</tr>
<tr>
<td>Specific contract requirements – non-federal entities should review that contracts in compliance</td>
<td>200.326 Append II</td>
</tr>
</tbody>
</table>
Administrative requirements key changes

- **Noncompetitive Proposals**
  - Revised to clarify that solicitation of a proposal from only one source may be used only when one or more of the following apply:
    - The item is available only from a single source
    - The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation
    - The federal awarding agency (or pass-through entity) expressly authorizes this method in response to a written request from the non-federal entity
    - After solicitation of a number of sources, competition is determined inadequate
Administrative requirements key changes

- Terminology Tips
  - Per COGAR webcast...Throughout documents both “should” and “must” are used
    - “Must” means required
    - “Should” indicates best practices or recommended approach
  - Many instances of required documentation!
    - Search for word “document” to find them all
    - Each reference requires written documentation to be in compliance
## Cost principles key changes

### Indirect/direct costs

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarification that administrative costs may be treated as direct costs when they meet certain conditions</td>
<td>200.413</td>
</tr>
<tr>
<td>Provision for de minimis indirect rate of 10% of modified total direct costs (MTDC) for those who have never had a negotiated indirect rate</td>
<td>200.414</td>
</tr>
<tr>
<td>For those with negotiated rates, requires federal agencies to accept (usually)</td>
<td>200.414</td>
</tr>
</tbody>
</table>
Cost principles key changes

Indirect/direct costs (cont.)

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entities may apply for a negotiated rate in future if originally using de minimis rate</td>
<td>200.414</td>
</tr>
<tr>
<td>Existing negotiated rates may be extended for up to four years</td>
<td>200.414</td>
</tr>
<tr>
<td>Pass through entities required to provide indirect cost rate to subrecipients</td>
<td>200.331</td>
</tr>
</tbody>
</table>
## Cost principles key changes

### Time and effort reporting

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on high standards for maintaining strong internal controls to justify costs of salaries and wages</td>
<td>200.430</td>
</tr>
<tr>
<td>Flexibility in process used to meet those standards</td>
<td>200.430</td>
</tr>
</tbody>
</table>
## Cost principles key changes

### Time and effort reporting (cont.)

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel activity reports not specifically required – focus shifted to appropriate internal controls in place to ensure that charges to federal awards for salaries and wages are based on records that accurately reflect the work performed</td>
<td>200.430</td>
</tr>
<tr>
<td>Maintained that when charges based on budgeted amounts, internal controls must exist to ensure adjustments are made so final amounts charged to federal awards are proper</td>
<td>200.430</td>
</tr>
</tbody>
</table>
# Cost principles key changes

## Other items of interest

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of items requiring prior written approval</td>
<td>200.407</td>
</tr>
<tr>
<td>Advertising and public relations clarified, include program outreach</td>
<td>200.421</td>
</tr>
<tr>
<td>Audit services allowable indirect cost when single audit not required</td>
<td>200.425</td>
</tr>
<tr>
<td>Fringe benefits – excessive severance unallowable</td>
<td>200.431</td>
</tr>
</tbody>
</table>
Cost principles key changes

Other items of interest (cont.)

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conference spending clarified</td>
<td>200.432</td>
</tr>
<tr>
<td>Contingency costs clarified</td>
<td>200.433</td>
</tr>
<tr>
<td>Employee “morale” costs eliminated</td>
<td>200.437</td>
</tr>
<tr>
<td>Entertainment still unallowable, but exceptions with a programmatic purpose in award or with prior approval</td>
<td>200.438</td>
</tr>
</tbody>
</table>
## Cost principles key changes

### Other items of interest (cont.)

<table>
<thead>
<tr>
<th>Changes</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational costs generally unallowed</td>
<td>200.455</td>
</tr>
<tr>
<td>Publication costs treatment clarified when after grant award</td>
<td>200.461</td>
</tr>
<tr>
<td>Recruiting costs clarified</td>
<td>200.463</td>
</tr>
<tr>
<td>Limitations on relocation costs</td>
<td>200.464</td>
</tr>
<tr>
<td>Travel costs may include temporary dependent care in certain circumstances</td>
<td>200.474</td>
</tr>
</tbody>
</table>
Audit Requirements

REFORMS TO CIRCULARS A-133 AND A-150
Targeting Audit Requirements on Risk of Waste, Fraud, and Abuse

- The final guidance right-sizes the footprint of oversight and Single Audit requirements to strengthen oversight and focus audits where there is greatest risk of waste, fraud, and abuse of taxpayer dollars.

- It improves transparency and accountability by making single audit reports available to the public online, and encourages federal agencies to take a more cooperative approach to audit resolution in order to more conclusively resolve underlying weaknesses in internal controls.
Revisions Focus Audit On Risk

- Increases audit threshold
- Strengthens risk-based approach to determine Major Programs
- Provides for greater transparency of audit results
- Strengthens agency use of the single audit process
- Provides for public outreach to focus Compliance Supplement on requirements of highest risk
Basic Structure of Single Audit Process
Unchanged

- Audit threshold (200.501)
- Subrecipient vs. Contractor (200.501(f) & 200.330)
- Biennial (200.504) & Program-specific (200.507) audits
- Non-Federal entity selects auditor (200.509)
- Auditee prepares financial statements & SEFA (200.510)
- Audit follow-up & corrective action (200.511 & 200.521)
- 9 month due date (set in law) (200.512(a))
- Reporting to Federal Audit Clearinghouse (200.512)
- Major programs determined based on risk (200.518)
- Compliance Supplement overall format
Audit Threshold (200.501)

- The COFAR considered that raising the threshold would allow Federal agencies to focus their audit resolution resources on the findings that put higher amounts of taxpayer dollars at risk, thus better mitigating overall risks of waste, fraud, and abuse across the government.

- Further, the COFAR notes that provisions throughout the guidance, including pre-award review of risks, standards for financial and program management, subrecipient monitoring and management, and remedies for noncompliance provide a strengthened level of oversight for non-Federal entities that would fall below the new threshold.
Audit Threshold

- Increases audit threshold from $500,000 to $750,000
- Maintains oversight over 99.7% of the dollars currently subject Single Audit and reduces audit burden for approximately 5,000 entities
- Increase of $250,000 is in line with previous threshold increase in 2003
Major Program Determination

- **200.518 Major Program Determination** focuses audits on the areas with internal control deficiencies that have been identified as material weaknesses. Future updates to the Compliance Supplement will reflect this focus as well.
Type A/B Threshold – Step 1

- Programs are grouped based on dollars
  - Type A programs are those above the threshold
  - Type B are those below the threshold

- Type A/B threshold is a sliding scale with minimum
  - Minimum increases from $300,000 to $750,000
  - Threshold presented in table to be more easily understood

- Audit threshold and Type A/B minimum threshold will be the same at $750,000
## Type A/B Threshold – Table (200.518(b)(1))

<table>
<thead>
<tr>
<th>Type A/B Threshold</th>
<th>Total Federal Awards Expended (FAE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$750,000</td>
<td>Equal to $750,000 but ≤ $25 million</td>
</tr>
<tr>
<td>Total FAE times .03</td>
<td>Exceed $25 million but ≤ $100 million</td>
</tr>
<tr>
<td>$3,000,000</td>
<td>Exceed $100 million but ≤ $1 billion</td>
</tr>
<tr>
<td>Total FAE times .003</td>
<td>Exceed $1 billion but ≤ $10 billion</td>
</tr>
<tr>
<td>$30 million</td>
<td>Exceed $10 billion but ≤ $20B</td>
</tr>
<tr>
<td>Total FAE times .0015</td>
<td>Exceed $20 billion</td>
</tr>
</tbody>
</table>
High-Risk Type A Program (200.518(c)) (Step 2)

Current A-133 criteria:
- Not audited as major program in 1 of 2 most recent audit periods
- In most recent period had ANY AUDIT FINDING
  - Provided for auditor judgment in limited cases, e.g., very small questioned costs
  - Other – Auditor judgment 
    - Oversight exercised by federal agencies or pass-through entities, audit follow-up, or changes in personnel or systems which significantly increased risk.

Uniform Guidance:
- SAME
- In most recent period had a HIGH-RISK AUDIT FINDING:
  - Modified opinion
  - Material weakness in internal control
  - Known or likely questioned costs exceeding 5% of total program expenditures
  - Other – Auditor judgment
    - Basically unchanged

Key – An entity with strong internal controls and few audit findings will have less high-risk Type A program.
High-Risk Type B Program (200.518(d))(Step 3)

Current A-133 criteria:
- Currently there are two Type B risk assessment options:
  1. Perform risk assessments on **ALL** Type B programs and select at least **50%** of Type B programs identified as high risk up to number of low-risk Type A programs
  2. Perform risk assessments on all Type B programs until as many high-risk Type B programs have been identified as there are low-risk Type A programs.

New criteria:
- Perform risk assessments on Type B programs until high-risk Type B programs have been identified **UP TO** at least **25%** of number of low-risk Type A programs.
Percentage of Coverage Rule (200.518(f)) (Step 4)

Guidance reduces the minimum coverage as follows:

<table>
<thead>
<tr>
<th>Type of Auditee</th>
<th>Current</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not low-risk</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>Low-risk</td>
<td>25%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Low-Risk Auditee

- **200.520 Criteria for a Low-Risk Auditee**
  - Members of the audit community and states commented on the criteria for a low-risk auditee that includes whether the financial statements were prepared in accordance with GAAP. Members of the audit community note that GAAP is the preferred method, and states note that state law sometimes provides for other methods of preparation. The COFAR considered this and recommended revised language to allow for exceptions where state law requires otherwise.
Low-Risk Auditee (200.520)

**Current (2 prior years)**
- Annual single audits
- Unmodified opinion on financial statements in accordance with GAAP
- Unmodified SEFA in relation to opinion.
- No GAGAS material weaknesses
- In either of preceding two years, none of Type A programs had:
  - Material Weakness.
  - Material noncompliance.
  - Questioned costs that exceed 5%.
- Timely filing with FAC.
- Auditor reporting going concern not preclude low-risk.
- Waivers.

**New (2 prior years)**
- SAME.
- Unmodified opinions on statements in accordance with GAAP or basis of accounting required by state law.
- SAME.
- SAME
- SAME
- SAME.
- No Audit reporting of going concern.
- No waivers.
Single Audit Report Submission

- **200.512 Report Submission**
  - Requires publication of Single Audit Reports online with safeguards for protected personally identifiable information and an exception for Indian tribes in order to reduce the administrative burden on non-federal entities associated with transmitting these reports to all interested parties.
Single Audit Report Submission

- All auditees must submit the reporting package and the data collection form electronically to the Federal Audit Clearinghouse (FAC) (200.512(d)).

- FAC submission process will be changed to require that submissions be in text-based PDF and unlocked to improve accessibility.

- FAC responsible to make the reports available on a Web site (200.512(g)).
  
  • Exception for Indian tribes will be discussed later.
Single Audit Reports on the Web - PPII

- Auditors and auditees must ensure reports do not include protected personally identifiable information (PPII) (200.82 & 200.512(a)(2)).

- Auditee must sign statement that (200.512(b)(1)):
  - Reports do not include PPII
  - Authorizes FAC to make reports publically available on a Web site
    - Exception for Indian tribes as defined in 200.54
    - No exception for tribal organization not meeting the 200.54 definition
FAC Repository of Record for Reporting Packages (200.36 & 200.512(b))

- Federal agencies, pass-through entities, and others obtain copies by accessing FAC website.

- Subrecipient only required to submit report to FAC and no longer required to submit to pass-through entity.

- Pass-through entity no longer required to retain copy of subrecipient report as available on the Web.
Cooperative Audit Resolution

200.513(c)(3)(iii)

Responsibilities encourages Federal awarding agencies to make effective use of cooperative audit resolution practices in order to reduce repeat audit findings.
Cooperative Audit Resolution (200.25)

Cooperative audit resolution means the use of audit follow-up techniques which promote prompt corrective action by improving communication, fostering collaboration, promoting trust, and developing an understanding between the Federal agency and the non-Federal entity. This approach is based upon:

- (a) A strong commitment by Federal agency and non-Federal entity leadership to program integrity;
- (b) Federal agencies strengthening partnerships and working cooperatively with non-Federal entities and their auditors; and non-Federal entities and their auditors working cooperatively with Federal agencies;
- (c) A focus on current conditions and corrective action going forward;
- (d) Federal agencies offering appropriate relief for past noncompliance when audits show prompt corrective action has occurred; and
- (e) Federal agency leadership sending a clear message that continued failure to correct conditions identified by audits which are likely to cause improper payments, fraud, waste, or abuse is unacceptable and will result in sanctions.
Appendix XI - Compliance Supplement

- While most commenters were in favor of the proposed reduction of the number of types of compliance requirements, many voiced concern about the process to implement such changes. Comments questioned whether Federal agencies adding back provisions under special tests and provisions would result in increased administrative burden.

- Since the Supplement is published as part of a separate process, the COFAR recommended that any future changes to its structure be based on available evidence of impact on past findings and include further public outreach to mitigate potential risks of an inadvertent increase in administrative burden.
Compliance Supplement

- Supplement is published as separate process so the final changes are not included in the Guidance.
- Future changes will be based on available evidence of past audit findings & potential impact of non-compliance.
- Further public outreach will be conducted prior to making structural changes to Supplement format.
  - 2014 Supplement will preview the implementation of changes.
  - Changes will not be effective until the 2015 Supplement.
  - 2014 Supplement expected in April 2014.
Audit Findings (200.516)

- Increases the threshold for reporting known and likely questioned costs from $10,000 to $25,000 (200.516(a)(3) & (4)).
- Requires that questioned costs be identified by CFDA number and applicable award number (200.516(b)(6)).
- Requires identification of whether audit finding is a repeat from the immediately prior audit and if so the prior year audit finding number (200.516(b)(8)).
- Provides that audit finding numbers be in the format prescribed by the data collection form (200.516(c)).
Additional Audit Requirements

- List of program specific audit guides will be provided beginning with the 2014 Supplement including (200.517(a)):
  - Agency contact information.
  - Web site where copy of guide is available.
- Clarified that if report due date is on a Saturday, Sunday, or Federal legal holiday, report submission is due the next business day (200.512(a)).
- Provides for a government-wide audit quality project once every 6 years beginning in 2018 (200.513(a)(3)(ii)).
- Made technical edits to align with current auditing standards.
Additional Audit Requirements
Future Changes

- Included language to allow for future combining of the audit reporting and the data collection form if permitted under auditing standards and the approved FAC data collection (200.515(e)).

- Single Audit resolution project currently under supervision of COFAR is aimed at improving coordination for cross-cutting findings and improving transparency of management decisions.
Action steps

Read and understand

- Federal register notice, as applicable
- Guidance to be issued by federal granting agencies and pass through entities
- Training opportunities

Inform and education

- Key grant personnel
- Management
- Governing body
- Subrecipients

Create an action plan

- Determine necessary research
- Communication plans
- Policy and procedure changes needed to be in compliance
- Subrecipient impact
Questions and comments

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