



Office of the State Controller

OFFICIAL MEMORANDUM

To: Chief Fiscal Officers, Vice Chancellors, and Business Managers

From: Dr. Linda Combs, State Controller

Date: April 27, 2021

Subject: 2021 Virtual Governmental Accounting Update

I am pleased to announce that on June 8 and 9, 2021, the Office of the State Controller will host the 2021 OSC Governmental Accounting Update. In respect for everyone's safety and the importance of social distancing, this conference will be presented virtually rather than in person. This virtual conference will provide an update of recent activities of the Governmental Accounting Standards Board (GASB) and other topics including data analytics, cyber security, and change management. Attendance will qualify for up to eight hours of CPE credit. The course description is attached for your review. Instructor biographies are available on [OSC's website](#).

The registration fee is **\$10 per attendee**. To register for this conference, visit the [Office of the State Controller's website](#). Please register as soon as possible as the **registration deadline is Tuesday, June 1, 2021. Payments must be made on or before this date.** After this date, no requests for refunds will be considered. Please refer to [OSC's registration policies](#) for more information regarding refunds, cancellations, or complaints.

Payment can be made by credit card or electronic transfer in the North Carolina Financial System (NCFS) to the **Office of the State Controller**. Agencies should register attendees individually (with separate email addresses). Agencies using NCFS can submit one payment to cover all registration fees if all necessary notations have been made.

If you are paying by electronic transfer, please follow the instructions below:

- **NCAS agencies:** Use IGO vendor number 561611588-03. For the cash transfer, in the NCFS Notes field, **you must include the following for proper processing:** full names of all attendees and reference 2021 Governmental Accounting Update. If this information is not included in the Notes field, the transfer will be rejected in NCFS.
- **Non-NCAS agencies paying through NCFS:** Use agency number 1400 for payment. In the NCFS Notes field, **you must include the following for proper processing:** full names of all attendees and reference 2021 Governmental Accounting Update. If this information is not included in the Notes field, the transfer will be rejected in NCFS.

If you have questions, please contact Jan Prevo at jan.prevo@osc.nc.gov or 919-707-0714. We look forward to your participation in the conference and thank you for your service to our State.

Attachment
SA 21-20

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Phone (919) 707-0500 ~ <https://www.osc.nc.gov> ~~ An EEO/AA/AWD Employer



2021 Virtual Governmental Accounting Update

Continuing Professional Education

North Carolina Office of the State Controller

Date:	June 8, 2021 June 9, 2021 8:10 a.m. to 12:00 p.m. each day
Location:	Web-based Virtual Conference
Learning Objectives:	To gain an understanding of recent activities of the Governmental Accounting Standards Board (GASB) and other topics including cyber security, data analytics, and change management.
Content:	<p><u>June 8, 2021</u> <u>GASB Update – Scott Anderson and Janeen Hathcock, GASB</u></p> <ul style="list-style-type: none">- GASB 84, Fiduciary Activities - including the Implementation Guide No. 2019-2- GASB 87, Leases - including the Implementation Guide No. 2019-3- GASB 91, Conduit Debt Obligations- GASB 92, Omnibus 2020- GASB 93, Replacement of Interbank Offered Rates- GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements- GASB 96, Subscription-Based Information Technology Arrangements- GASB 97, Certain Component Unit Criteria, and Accounting and Reporting for IRC Section 457 Deferred Compensation Plans- Implementation Guide No. 2020-1 – Implementation Guidance Update- GASB Exposure Draft, Financial Reporting Model Improvements- GASB Exposure Draft, Recognition of Elements of Financial Statements- GASB Preliminary Views, Revenue and Expense Recognition- Other Current projects <p><u>June 9, 2021</u> <u>Other Governmental Accounting Topics – Cherry Bekaert</u></p> <ul style="list-style-type: none">- Data Analytics- Leading through Change- Cybersecurity and Data Breaches
Instructors:	Scott Anderson and Janeen Hathcock - GASB Bryce Gartner, Jonathan Kraftchick, and Steve Ursillo - Cherry Bekaert
CPE Credit Offered:	Up to eight hours
Fields of Study:	Accounting – Governmental, Information Technology, and Personal Development
Materials:	Available in advance on the OSC website
Instructional Delivery Method:	Group internet based
Prerequisites:	Must be employed by a State agency or institution that is part of the State financial reporting entity (i.e., an entity included in the State's Comprehensive Annual Financial Report)
Advance Preparation:	None
Level:	Basic

DEVELOPER: [GOVERNMENTAL ACCOUNTING STANDARDS BOARD](#) AND [CHERRY BEKAERT](#)

SPONSOR: [NC Office of the State Controller](#)



AGENDA

OSC Governmental Accounting Update

June 8 - 9, 2021

June 8, 2021

- 8:10 – 8:15 Call to Order – Michael Euliss, Office of the State Controller,
Communications/Government Relations/Training Director
- 8:15 – 8:25 Opening Remarks – Dr. Linda Combs, State Controller
- Governmental Accounting Standards Board Update (Scott Anderson and Janeen Hathcock, Governmental Accounting Standards Board)**
- 8:25 – 9:55 GASB Update: GASB Pronouncements, Implementation Guides, and Projects
- 9:55 – 10:10 Break
- 10:10 – 11:10 GASB Update - Continued
- 11:10 – 11:20 Break
- 11:20 – 12:00 GASB Update- Continued
- Closing Remarks – Michael Euliss, Office of the State Controller

June 9, 2021

- 8:10 – 8:15 Call to Order – Michael Euliss, Office of the State Controller
- 8:15 – 9:30 You have been breached. Now what? – Steve Ursillo, Cherry Bekaert
- 9:30 – 9:45 Break
- 9:45 – 10:35 Data Analytics – Bryce Gartner, Cherry Bekaert
- 10:35 – 10:45 Break
- 10:45 – 12:00 Leading Through Change – Jonathan Kraftchick, Cherry Bekaert
- Closing Remarks – Michael Euliss, Office of the State Controller

Upcoming Training Dates:

July 14, 2021 - 2021 Professional Ethics and Conduct Webcast

Scott Anderson, CPA
Practice Fellow



Scott Anderson is a practice fellow with the Governmental Accounting Standards Board (GASB) in Norwalk, Connecticut. His current project assignments include Revenue and Expense Recognition, Omnibus, pre-agenda research on Going Concern Disclosure, and pre-agenda research on Nonfinancial Assets.

Prior to joining the GASB in 2020, Scott worked for fifteen years in public accounting for Cherry Bekaert LLP, most recently as a Director overseeing audits of local governments (primarily municipalities, school boards, and airports) in North Carolina and Florida.

Scott received a Bachelor of Arts degree in Accounting from Utah State University and a Master of Accounting degree from North Carolina State University. Scott is a certified public accountant in the states of North Carolina and Florida.



BRYCE GARTNER

A Principal of Cherry Bekaert, Bryce has helped clients across multiple industries merge business and technology creating strategies that drive innovative opportunities and growth. Prior to joining Cherry Bekaert via acquisition in 2020, Bryce was Founder and Chief Experience Officer of Icimo LLC, a business intelligence firm helping organizations become data-driven through a combination of software tools and services enabling data storytelling, visualization, and analysis. A natural entrepreneur, Bryce has held strategic leadership roles as CMO, CIO and CTO spearheading multiple strategic initiatives in the areas of analytics, technology integration, change-management, marketing, and operational strategy. In addition to his corporate responsibilities, Bryce serves as an adjunct professor at Duke University's Fuqua School of Business where he teaches visual analytics for the MQM Business Analytics program.



Data Analytics

Visualizing to Informed Decisions

Bryce Gartner, Principal
Digital Platform and Analytics
Cherry Bekaert Digital Advisory



1

Poll Question #1

- ▶ Do you currently have a formal analytics strategy?
 - A. Yes
 - B. No
 - C. Not Sure
 - D. No, but I have been pushing for one for years

2



2

Only 16% of organizations can currently say that 75% or more of their employees have access to company data and analytics.

[MicroStrategy 2018 Global State of Enterprise Analytics Report](#)

3



3



4

Breaking it Down

Analytics

+

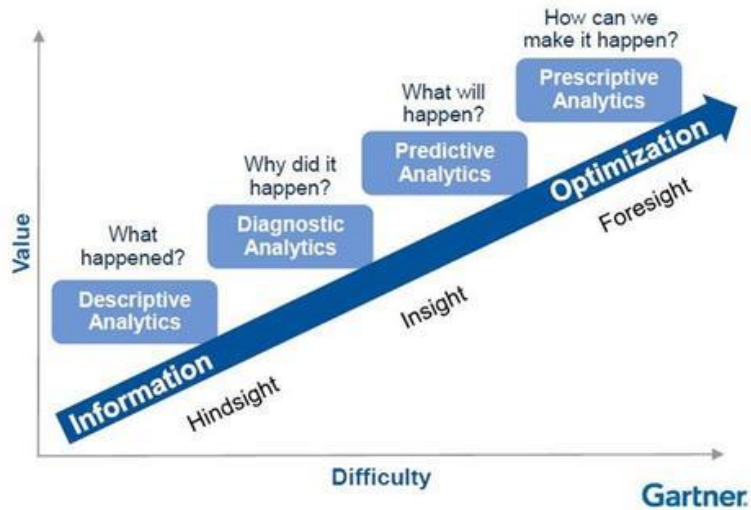
Visualization

=

Informed Decisions



Gartner Analytics Ascendancy



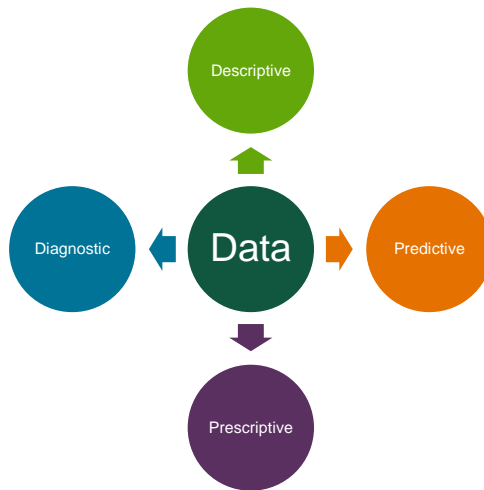
5



5

Analytics Version n.1

Bryce Gartner



6



6

Excel

30 Years Later – Price Waterhouse, 88% of all spreadsheets contain an error, >150 Rows 92%

Row ID	Order ID	Order Date	Ship Date	Ship Mode	Customer ID	Customer Name	Segment	Country	City	State
1	CA-2017-152156	11/8/17 0:00	11/11/17 0:00	Second Class	CG-12520	Claire Gute	Consumer	United States	Henderson	Kentucky
2	CA-2017-152156	11/8/17 0:00	11/11/17 0:00	Second Class	CG-12520	Claire Gute	Consumer	United States	Henderson	Kentucky
3	CA-2017-138688	6/12/17 0:00	6/16/17 0:00	Second Class	DV-13045	Darrin Van Huff	Corporate	United States	Los Angeles	California
4	US-2016-108966	10/11/16 0:00	10/18/16 0:00	Standard Class	SO-20335	Sean O'Donnell	Consumer	United States	Fort Lauderdale	Florida
5	US-2016-108966	10/11/16 0:00	10/18/16 0:00	Standard Class	SO-20335	Sean O'Donnell	Consumer	United States	Fort Lauderdale	Florida
6	CA-2015-115812	6/9/15 0:00	6/14/15 0:00	Standard Class	BH-11710	Brosina Hoffman	Consumer	United States	Los Angeles	California
7	CA-2015-115812	6/9/15 0:00	6/14/15 0:00	Standard Class	BH-11710	Brosina Hoffman	Consumer	United States	Los Angeles	California
8	CA-2015-115812	6/9/15 0:00	6/14/15 0:00	Standard Class	BH-11710	Brosina Hoffman	Consumer	United States	Los Angeles	California
9	CA-2015-115812	6/9/15 0:00	6/14/15 0:00	Standard Class	BH-11710	Brosina Hoffman	Consumer	United States	Los Angeles	California
10	CA-2015-115812	6/9/15 0:00	6/14/15 0:00	Standard Class	BH-11710	Brosina Hoffman	Consumer	United States	Los Angeles	California
11	CA-2015-115812	6/9/15 0:00	6/14/15 0:00	Standard Class	BH-11710	Brosina Hoffman	Consumer	United States	Los Angeles	California
12	CA-2015-115812	6/9/15 0:00	6/14/15 0:00	Standard Class	BH-11710	Brosina Hoffman	Consumer	United States	Los Angeles	California
13	CA-2018-114412	4/15/18 0:00	4/20/18 0:00	Standard Class	AA-10480	Andrew Allen	Consumer	United States	Concord	North Carolina
14	CA-2017-161389	12/5/17 0:00	12/10/17 0:00	Standard Class	IM-15070	Irene Maddox	Consumer	United States	Seattle	Washington
15	US-2016-118983	11/22/16 0:00	11/26/16 0:00	Standard Class	HP-14815	Harold Pawlan	Home Office	United States	Fort Worth	Texas
16	US-2016-118983	11/22/16 0:00	11/26/16 0:00	Standard Class	HP-14815	Harold Pawlan	Home Office	United States	Fort Worth	Texas
17	CA-2015-105893	11/11/15 0:00	11/18/15 0:00	Standard Class	PK-19075	Pete Kriz	Consumer	United States	Madison	Wisconsin
18	CA-2015-167164	5/13/15 0:00	5/15/15 0:00	Second Class	AG-10270	Alejandro Grove	Consumer	United States	West Jordan	Utah
19	CA-2015-143336	8/27/15 0:00	9/1/15 0:00	Second Class	ZD-21925	Zuschuss Donatelli	Consumer	United States	San Francisco	California

9



9

The Concept Is SIMPLE



10



10



Critical Questions

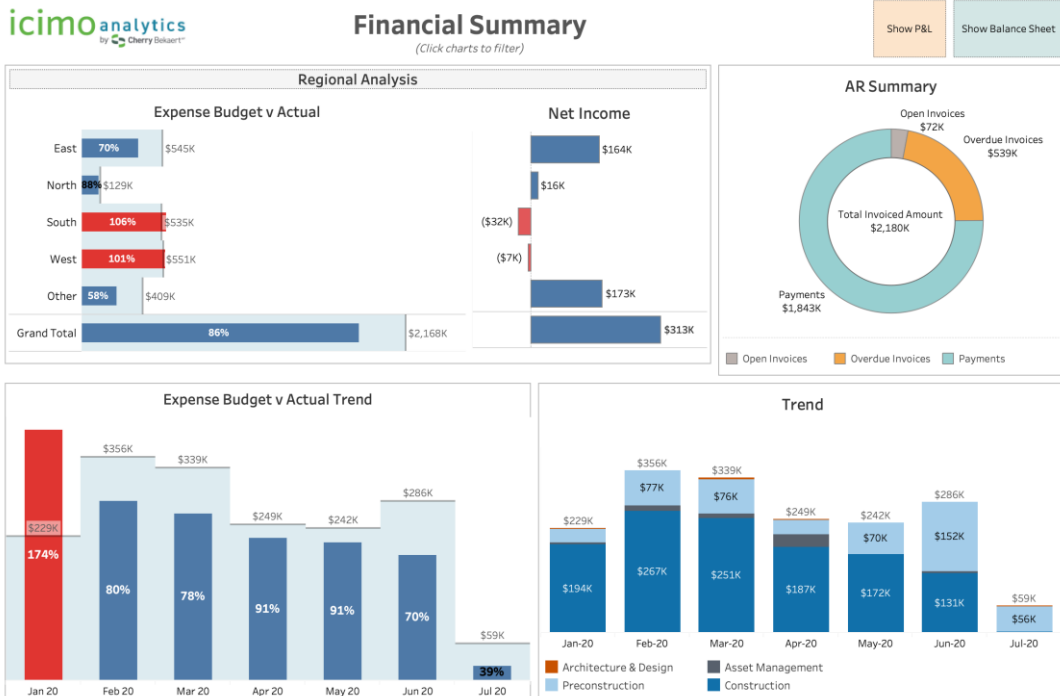
► Driver of All Analytics

- Support the Outcome
 - ▷ Impact Preferred Future
- Strategic Objectives
 - ▷ Goals
 - ▷ Prove a theory
 - ▷ Disprove a myth

11



11

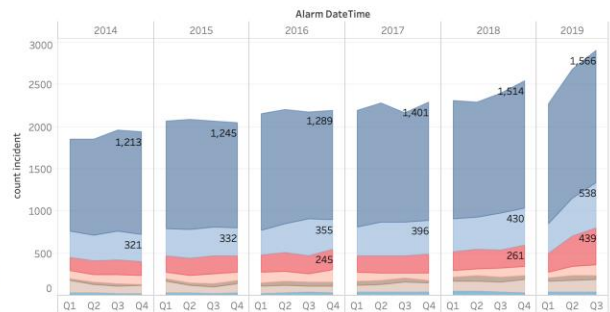


12

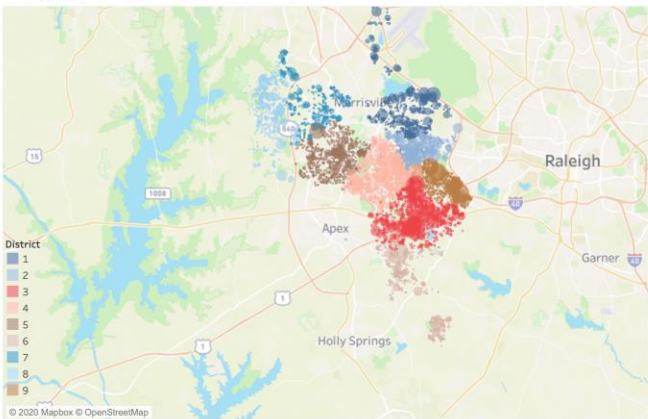
Overall Incidents by Category



Time Series Trend



Category Map by District



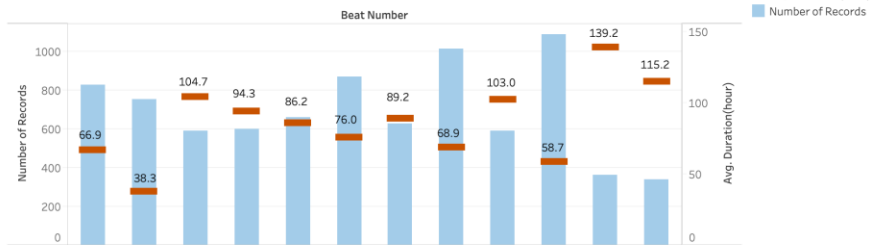
Top Causes



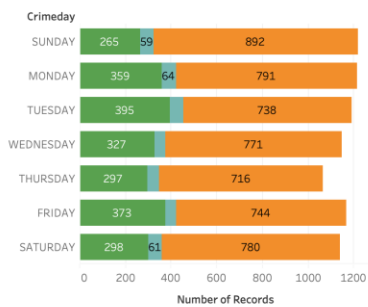
13

Workload and Efficiency of Beats

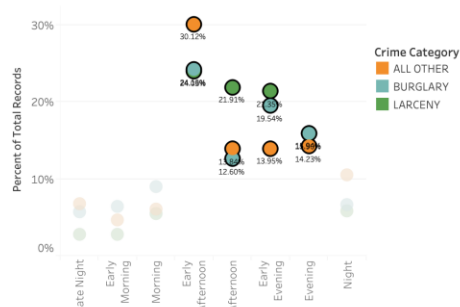
Workloads for All Beats in 2018-2019



Number of Incidents in Week Day



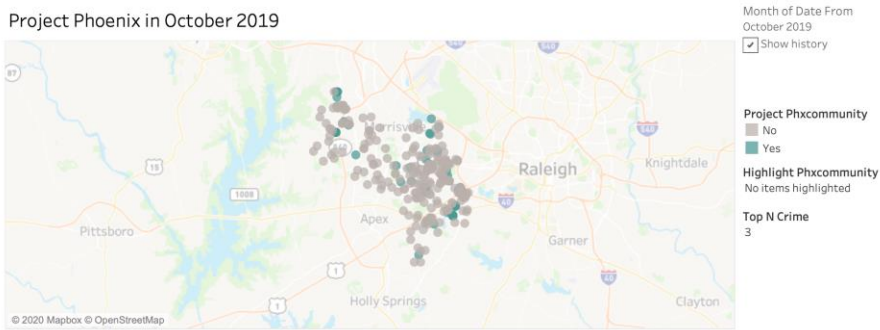
Percentage of Incidents by Time of Day



14

Project Phoenix Communities

Project Phoenix in October 2019

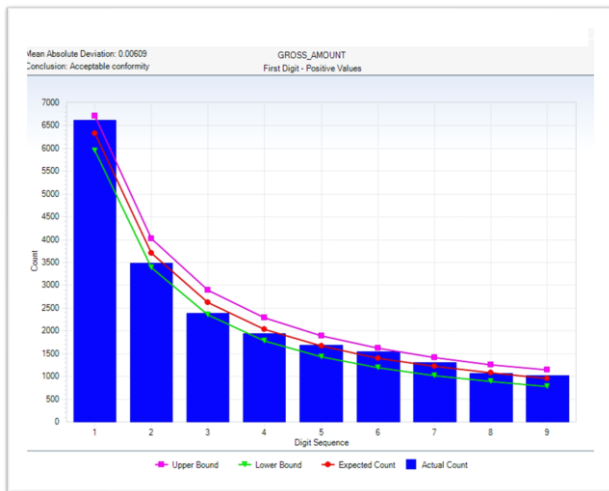


Project Phoenix for Top 3 Crime(s)



15

Benford's Law – Analytic



► Normal Random Distribution

The principle that in any large, randomly produced set of natural numbers, such as tables of logarithms or corporate sales statistics, around 30 percent will begin with the digit 1, 18 percent with 2, and so on, with the smallest percentage beginning with 9. The law is applied in analyzing the validity of statistics and financial records.

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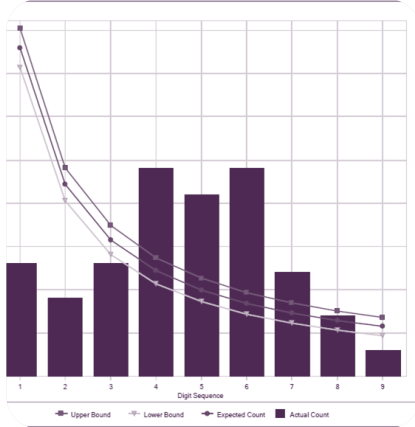


16

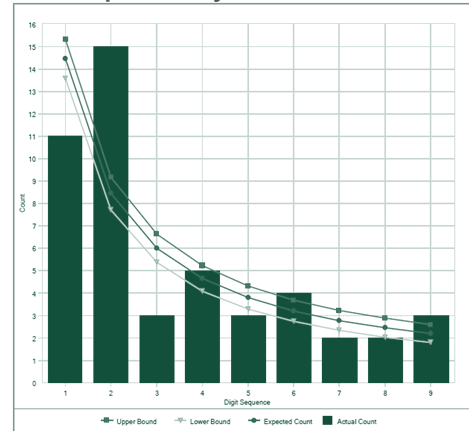
Poll Question #2

Which scenario represents fraud?

▶ Hammer'n'Nails General Contractor



▶ Buzzin Electric Specialty Contractor



17



17



Data Elements

▶ Keys to Enriching Analysis

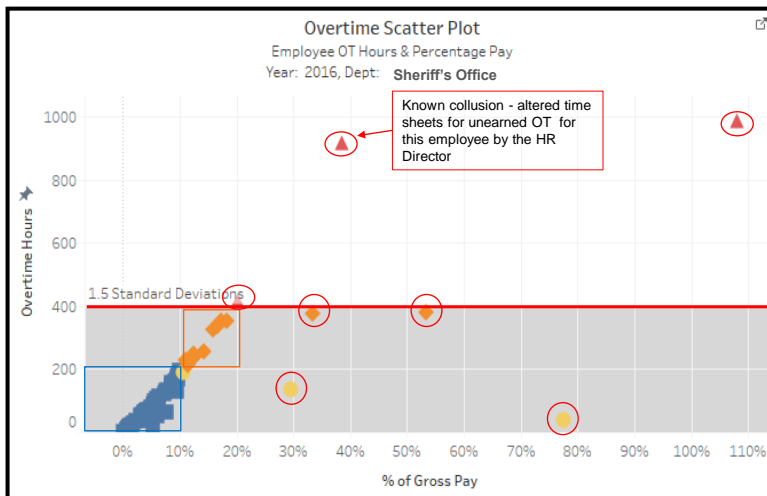
- ▶ Internal Data
 - G/L - ERP
 - Operational
- ▶ External Factors and Data
 - Publicly Available Data
 - Regulatory and Compliance
 - Vendor
 - Weather

18



18

Data Analytics Helps Uncover Truth

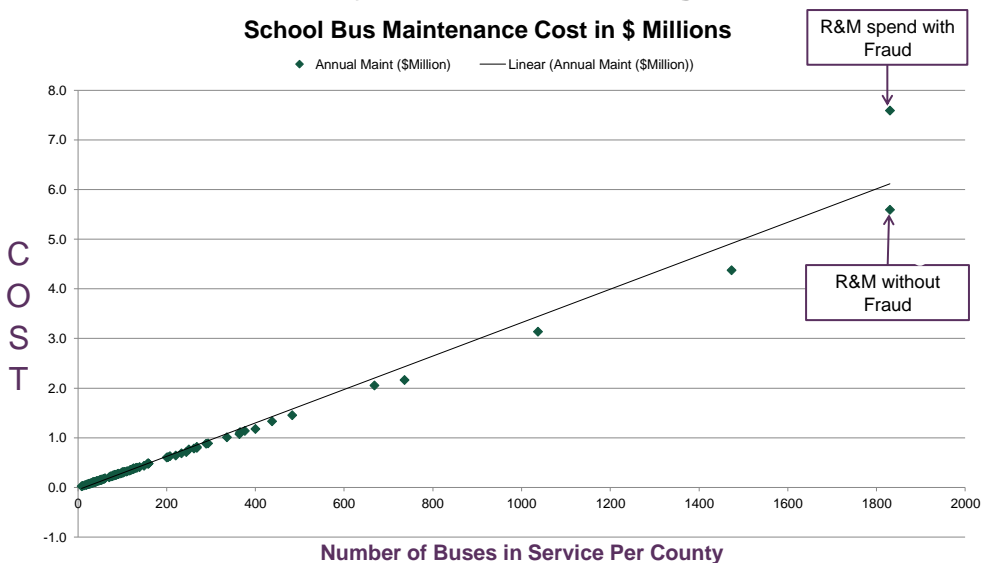


19



19

Data Analytics Detect Irregularities

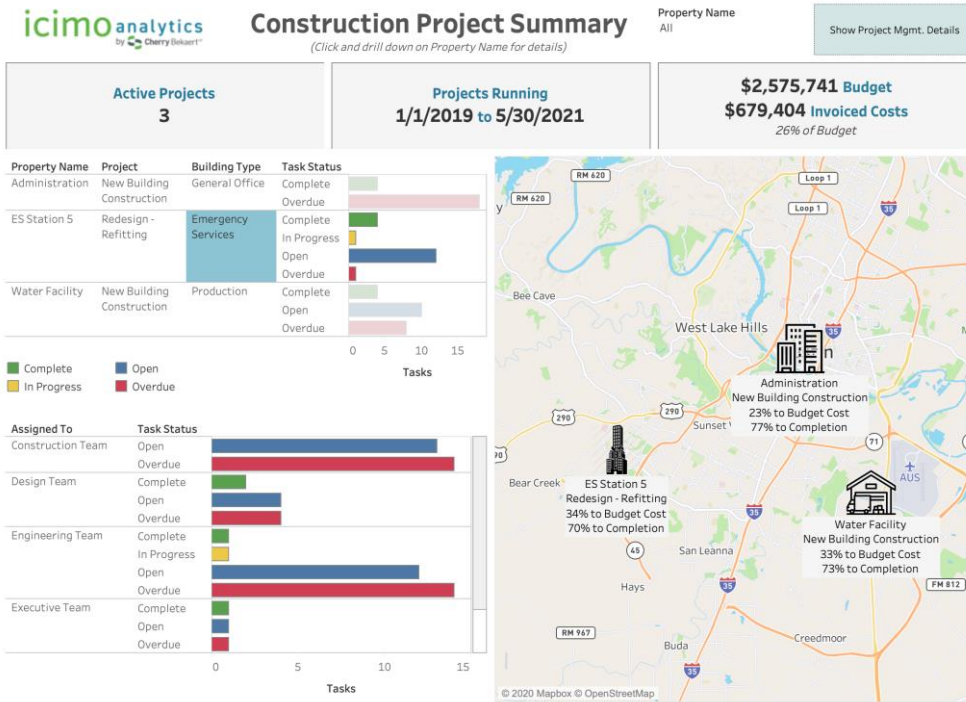


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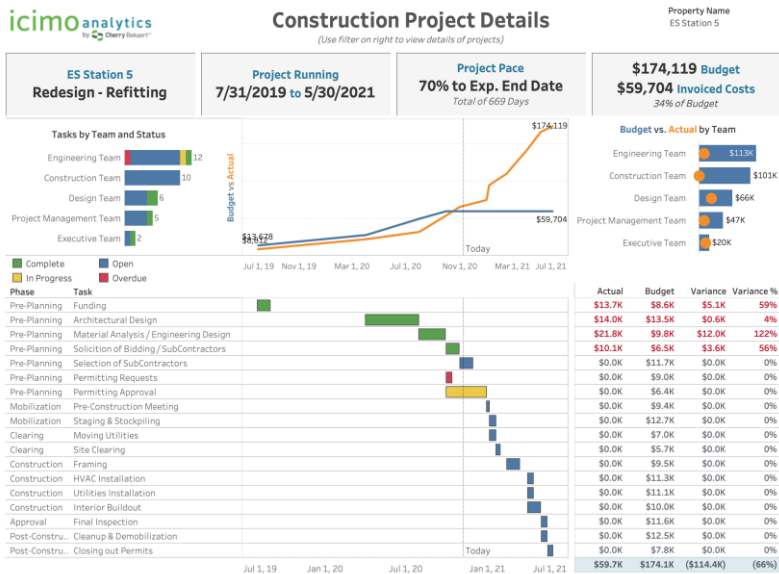


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21



22

Poll Question #3

- ▶ What is your favorite use of Artificial Intelligence and Machine Learning?
 - A. NFL – AWS Next Gen Stats
 - B. Amazon Other Customers Bought This
 - C. Hurricane Spaghetti Models
 - D. Netflix Recommended Movies
 - E. I have no idea what AI/ML does.

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AI and ML

- ▶ Finding Opportunities
 - ▶ Designing models to incorporate more data
 - ▶ Including more outside impacts
 - ▶ Narrowing spread of predicted outcomes
 - ▶ Prescribing solutions

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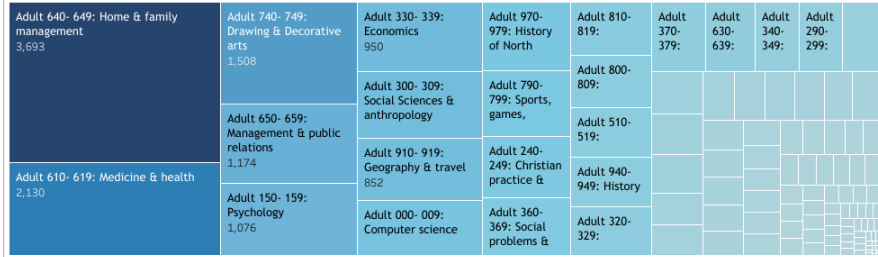
24

Adult Collection Circulation

Select Branch Name
All

Select a data point to filter the Adult Circulation Detail in the bottom right of the dashboard.

Adult Non-Fiction



Adult Fiction Categories

Adult Hardcover Fiction	12,319
Adult Hardcover Myste...	5,512
Adult Hardcover Roma...	1,871
Adult Hardcover Histor...	1,286
Adult Hardcover Scienc...	864
Adult Hardcover Fanta...	830
Adult Short Story Colle...	355
Adult Hardcover	75
Adult Hardcover Weste...	52
Adult Graphic Novels	14

Adult Paperback

Adult Paperback Romance	5,066
Adult Paperback Fiction	613
Adult Paperback Mystery	593
Adult Paperback Fantasy	390
Adult Paperback Science Fiction	168
Adult Paperback Western	60
Adult Paperback Historical Fiction	4

Adult Circulation Detail

Browse Call No	Browse Title	Browse Author	Publication Year	Branch
001.9 BRO	Suspicious minds : why we believ...	Brotherton, Rob, au...	2015	Rolling
001.9 LEC	Atlas of cursed places : a travel guide to dangerous and frightful...	Le Carrer, Olivier, author.	2015	Lakedale Rolling
001.42 BOO	The craft of research	Booth, Wayne C.	2008	Linden Hills
001.94 HAN	Magicians of the gods : the forgo...	Hancock, Graham, a.	2015	Barring
002.09 DAM	The case for books : past, presen...	Darnton, Robert.	2009	Linden Hills
004.6 DON	Network warrior	Donahue, Gary A., author.	2011	Barring Lakedale Linden Hills
004.09 DYS	Turing's cathedral : the origins of...	Dyson, George, 1953-	2012	Linden Hills

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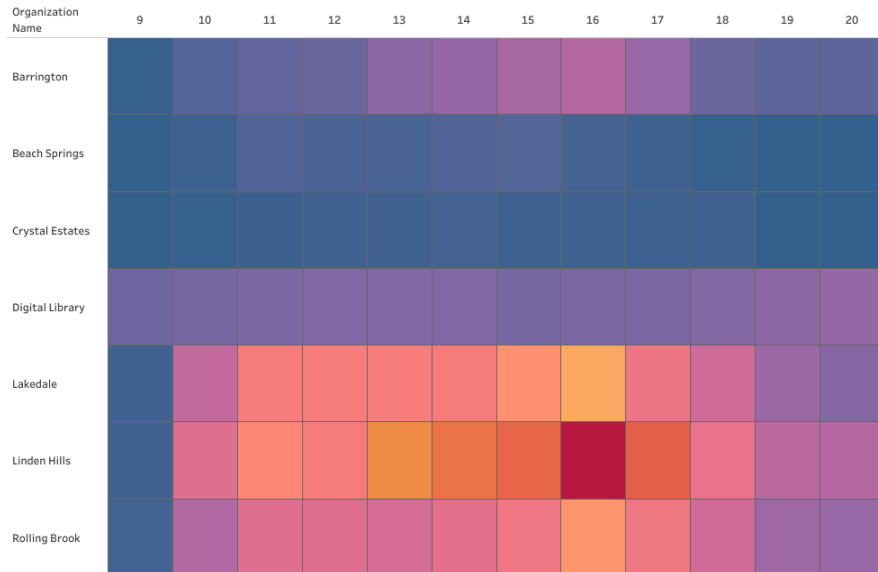
Transactions by Hour

Select Branch Name
Multiple values

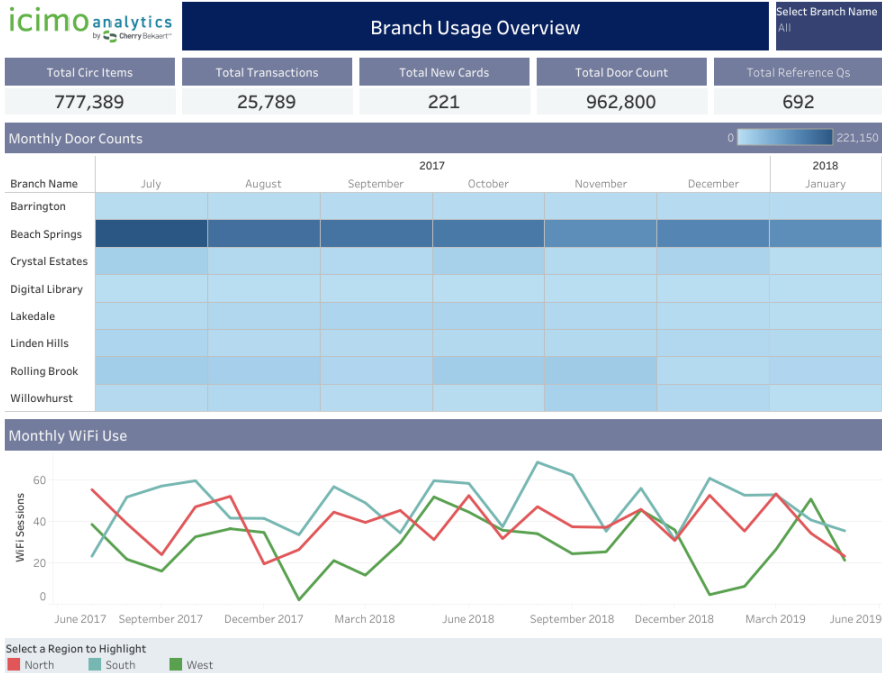
Select a Transaction Type
Check out

Select a Workstation Type
Multiple values

Transactions
84 81,339



26



27

Turnover Rate per Branch

Select Branch Name: Barrington | Choose a Month: July

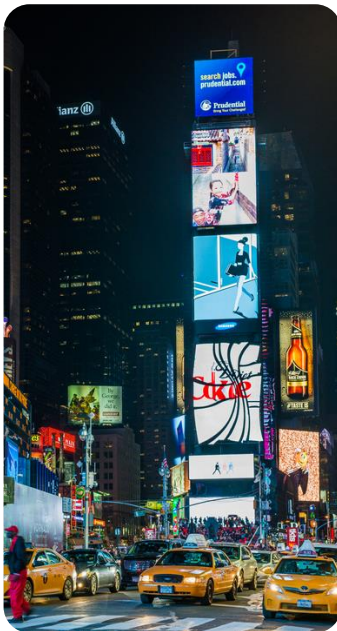
Barrington for the Month of July

Collection Name	Turnover Rate	Circ Items	Transactions
Children's Entertainment Video	1.079	76	82
Adult Entertainment Video	0.731	1,270	929
Kits	0.625	8	5
Adult Graphic Novel	0.618	55	34
Television Series	0.496	280	139
Adult Large Print	0.481	79	38
Job Skills	0.460	124	57
Teen Fiction	0.391	617	241
Children's Graphic Novel	0.390	688	268
Teen Graphic Novel	0.370	605	224
Teen Biography	0.367	30	11
Adult Audiobook	0.357	1,528	546
Adult Fiction	0.350	3,164	1,107
Children's Fiction	0.335	2,971	996
Teen Paperback	0.326	43	14
Adult Non-Fiction	0.321	3,586	1,150
Children's Picture Books	0.300	7,049	2,113
Classics	0.292	89	26
Adult Biography	0.287	275	79
Teen Non-Fiction	0.265	325	86
Children's Audiobook	0.253	198	50
Adult Educational Video	0.247	542	134
Teen Magazine	0.238	21	5
Adult Paperback	0.220	708	156
Children's Music	0.219	128	28
Children's Educational Video	0.210	395	83
Children's Paperback	0.188	426	80
Children's Non-fiction	0.163	2,522	411
Children's World Languages	0.147	238	35
Adult Basic English	0.125	32	4
Children's Biography	0.119	386	46

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Select Floating Branch	Select Collection Name	New Items that have not Circulated for 60 Days at Barrington as of 11/13/2017 4:23:44 PM				
BrowseCallNo	BrowseAuthor	BrowseTitle	Barcode	ToName	FirstAvailableDate	LastCircDate
641.853 CUR	Curi, Jami, author.	Candy is magic : re...	31268121936344	Gray Meadows	5/9/2017	7/29/2017
782.42166 SHA	Null	Shake it up : great ..	31268122311760	Conpeago	7/13/2017	7/29/2017
ADULT PB ROMANCE GRE	Green, Sherelle, author.	A Miami affair	31268121814855	Bridgemont	6/22/2017	9/9/2017
ADULT PB ROMANCE NIG	Night, Nicki, author	It started in parad...	31268121813840	Linden Hills	6/22/2017	9/2/2017
CLASSIC STE	Steinbeck, John, 1902-1968, a.	Of mice and men	31268122009802	Conpeago	6/1/2017	8/14/2017
DVD DRAMA AFT	Null	Aftermath	31268122085794	Deerville	6/6/2017	8/29/2017
DVD DRAMA FIF	Null	Fifty shades darker	31268122060961	Home Forest	6/5/2017	9/5/2017
DVD DRAMA SAL PERSIAN	Null	The salesman	31268121866376	Deerville	5/1/2017	9/5/2017
EASY 362.87 MCC	McCarney, Rosemary A., auth.	Where will I live?	31268121950402	Lakedale	5/10/2017	8/1/2017
EASY 507.8 LOO	Null	Look, I'm a scientis..	31268122248616	Deerville	6/28/2017	9/6/2017
EASY 513.211 DOB	Dobson, Christina, author.	Pizza counting	31268122404508	Home Forest	7/31/2017	9/11/2017
EASY 551 BEH	Behrens, Janice, 1972- author.	Totally cool caves ..	31268121873224	Nompeka	5/10/2017	7/22/2017
EASY 577.7 HAN	Hanes, Kathleen M., author.	Seagrass dreams : ..	31268122381094	Home Forest	7/21/2017	8/10/2017
EASY 577.69 SIL	Sill, Cathryn P., 1953- author.	Seashores	31268122384411	Palos Village	7/25/2017	8/3/2017
EASY 590 TEK	Tekavec, Heather, 1969- auth.	Different? Same!	31268122055417	Rollingbrook	5/31/2017	6/5/2017
EASY 591.7 LEW	Lewis, J. Patrick, author.	My home in the de...	31268121872622	Home Forest	5/10/2017	6/3/2017
		My home on the ice	31268121872507	Nompeka	5/10/2017	6/3/2017
EASY 591.73 LEW	Lewis, J. Patrick, author.	My home in the rai...	31268121882001	Libertyburg	5/9/2017	5/18/2017
EASY 591.76 LEW	Lewis, J. Patrick, author.	My home in the wa...	31268121882126	Nompeka	5/9/2017	8/22/2017
EASY 613.6 JEN	Jennings, Rosemary, author.	Safe on the school ..	31268122210392	Bridgemont	6/16/2017	6/26/2017
		Safe on your bike	31268122210541	Home Forest	6/16/2017	7/22/2017
		Safe online	31268122210699	Elkton	6/16/2017	7/22/2017
EASY 618.2 ADA	Adamo, Courtney, author.	9 months	31268121880443	Bridgemont	5/11/2017	6/14/2017
EASY 624.1 ENZ	Enz, Tammy, author.	Building structure...	31268121926238	Rollingbrook	5/3/2017	6/24/2017
EASY 796.81 PAN	Pantaleo, Steve, author.	How to be a WWE ..	31268122401603	Beach Springs	7/31/2017	8/1/2017
EASY 811.54 BROOKS	Brooks, Gwendolyn, 1917-200..	We are shining	31268122015932	Rollingbrook	6/14/2017	6/21/2017
EASY BIOGRAPHY GINSBU..	Winter, Jonah, 1962- author.	Ruth Bader Ginsbu...	31268122526508	Palos Village	8/7/2017	8/19/2017
EASY BOARD BEE	Bee, William, author, illustrat.	Stanley's opposites	31268122381995	River Harbor	7/25/2017	8/3/2017
EASY BOARD BOY	Boynton, Sandra, author, illus.	But not the hippop...	31268122072198	Gray Meadows	6/7/2017	6/15/2017
EASY BOARD CRE	Crews, Donald, author.	Freight train	31268122069921	River Harbor	6/1/2017	6/8/2017
EASY BOARD DEW	Null	Llama Llama gives	31268122538206	Nompeka	8/14/2017	8/15/2017

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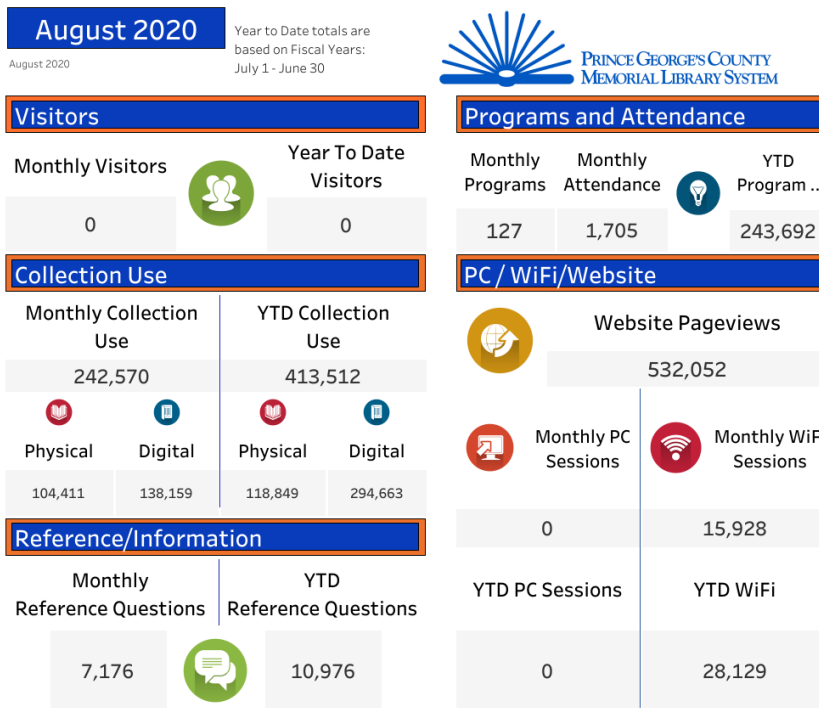
Communicating

- ▶ Visual Data Storytelling
 - ▶ Engaging Audiences
 - ▶ Providing Insight
 - ▶ Demystifying Complex Analysis





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Takeaways

Critical Questions
Data Elements
AI and ML
Communicating

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About Cherry Bekaert
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Janeen Hathcock, CPA
Associate Practice Fellow



Janeen Hathcock is an associate practice fellow with the Governmental Accounting Standards Board (GASB) in Norwalk, Connecticut. Her current project assignments include Financial Reporting Model, Risks and Uncertainties Disclosures, Prior Period Adjustments, and pre-agenda research on Going Concern Disclosure.

Prior to joining the GASB in 2020, Janeen worked for six years in public accounting for Eide Bailly, LLP as a Senior Audit Manager conducting governmental audits and single audits. Janeen was also a senior project analyst for the Town of Castle Rock, where she prepared the annual financial report and assisted in the budget process.

Janeen received a Bachelor of Arts degree in Accounting with summa cum laude honors from Regis University. Janeen is a certified public accountant in the state of Colorado.

2021 NC OSC Virtual Governmental Accounting Update



GASB Update

June 8, 2021

Janeen Hathcock, Practice Fellow

Scott Anderson, Practice Fellow

The views expressed in this presentation are those of Mr. / Ms. Name.
Official positions of the GASB are reached only after extensive due process and deliberations.



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Presentation Overview



Guidance and resources related to coronavirus diseases



Proposals for public comment



Pronouncements being implemented



Projects currently being deliberated by the Board



Pre-agenda research activities

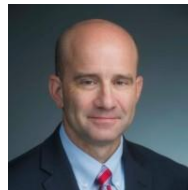


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GASB News

- After more than 30 years serving as the GASB's director of research and technical activities, Dave Bean retired at the end of March
- Alan Skelton has succeeded Dave. Alan was the accounting officer for the State of Georgia.



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Guidance and Resources Related to the Coronavirus Diseases

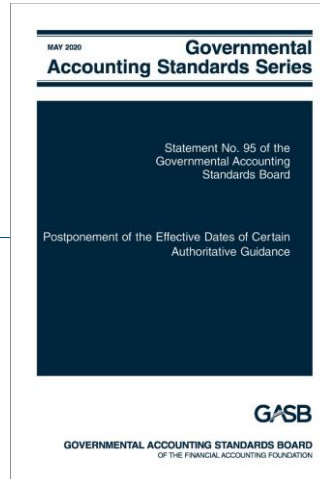
- Postponement of certain effective dates
- Guidance on CARES Act
- Emergency toolbox



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Postponement of the Effective Dates of Certain Authoritative Guidance

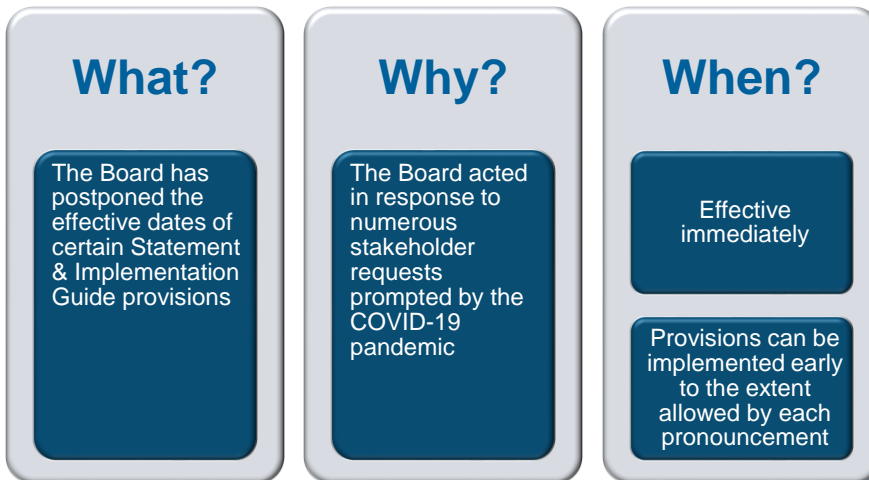
Statement No. 95



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Effective Date Postponement



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Effective dates are postponed one year for these pronouncements in their entirety

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*
- Statement No. 91, *Conduit Debt Obligations*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*



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Effective dates are postponed one year for certain provisions of these pronouncements

- Statement No. 92, *Omnibus 2020*, paragraphs 6–10 and 12
- Statement No. 93, *Replacement of Interbank Offered Rates*, pars. 13 and 14
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*, Questions 4.85, 4.103, 4.108, 4.109, 4.225, 4.239, 4.244, 4.245, 4.484, 4.491 and 5.1–5.4

Effective dates are postponed 18 months for these pronouncements

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*



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Effective Dates after Statement 95

December 31: Fiscal Year 2020

- Statement 83 – asset retirement obligations
- Statement 84 – fiduciary activities
- Statement 88 – debt disclosures
- Statement 90 – majority equity interests
- IG 2018-1 – Update
- IG 2019-2 – fiduciary activities

December 31: Fiscal Year 2021

- Statement 89 – construction-period interest
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update

December 31: Fiscal Year 2022

- Statement 87 – leases
- Statement 91 – conduit debt
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update

December 31: Fiscal Year 2023

- Statement 94 – public-private partnerships
- Statement 96 – SBITAs



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Effective Dates after Statement 95

June 30: Fiscal Year 2020

- Statement 83 – asset retirement obligations
- Statement 88 – debt disclosures
- IG 2018-1 – Update

June 30: Fiscal Year 2021

- Statement 84 – fiduciary activities
- Statement 90 – majority equity interests
- Statement 93 – interbank offered rates (except LIBOR removal and lease modifications)
- IG 2019-1 – update
- IG 2019-2 – fiduciary activities

June 30: Fiscal Year 2022

- Statement 87 – leases
- Statement 89 – construction-period interest
- Statement 92 – omnibus (multiple effective dates)
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – certain component unit criteria and Section 457 plans
- IG 2019-3 – leases
- IG 2020-1 – update (except 4.6–4.17 and 4.19–4.21)

June 30: Fiscal Year 2023

- Statement 91 – conduit debt
- Statement 94 – public-private partnerships
- Statement 96 – SBITAs
- IG 2020-1 – update (4.6–4.17 and 4.19–4.21)



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Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases


Technical Bulletin 2020-1

JUNE 2020 **Governmental Accounting Standards Series**

GASB Technical Bulletin No. 2020-1


Title: Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases

References: GASB Statement No. 5, Reporting Cash Flows of Proprietary and Nonproprietary Trust Funds and Governmental Entities That Use Proprietary Fund Accounting
 GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions
 GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments
 GASB Statement No. 36, Codification of Accounting and Financial Reporting Guidance Contained in the AC2B Statements on Auditing Standards
 GASB Statement No. 82, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements
 GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees
 GASB Implementation Guide No. 2015-1, Question 2.27.4




Technical Bulletin 2020-1

<p>What?</p> <p>The Board has cleared guidance that addresses issues arising from the CARES Act and coronavirus diseases</p>	<p>Why?</p> <p>The Board acted in response to numerous stakeholder requests for guidance</p>	<p>When?</p> <p>Effective immediately</p>
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Topics Addressed

- Whether resources received from the Coronavirus Relief Fund (CRF) are subject to eligibility requirements or to purpose restrictions and how they should be accounted for
- Whether CARES Act provisions that address a government's loss of revenue should be considered an eligibility requirement, for purposes of revenue recognition
- Whether amendments to the CARES Act after the statement of net position date but prior to the issuance of financial statements are the basis for recognition in financial statements for the period reported



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Topics Addressed (continued)

- How to account for forgivable loans under the Paycheck Protection Program
- Whether resources provided through certain programs to a business-type activity or enterprise fund are nonoperating revenues
- Whether outflows incurred in response to the coronavirus are extraordinary items or special items for financial reporting purposes



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COVID-19 Page & Emergency Toolbox

- Guidance and resources available at www.gasb.org/COVID19
- Emergency toolbox
 - Intended to help stakeholders quickly identify the GASB's authoritative guidance that could be relevant to the current circumstances, including topics such as contingencies, going concern, prior-period adjustments, revenue and receivable recognition, and subsequent events
 - Provides links to COVID-19 resources and nonauthoritative guidance of professional organizations

Proposals for Public Comment

The Annual Comprehensive Financial Report

Exposure Draft



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Renaming the Comprehensive Annual Financial Report

What?

The Board has proposed to rename the comprehensive annual financial report in response to stakeholders who pointed out that its acronym, as it commonly is pronounced, sounds like a highly offensive racial slur

Why?

The GASB's commitment to diversity and inclusion dictate that its standards should be free of potentially offensive terminology

When?

Comment deadline: July 9, 2021



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Proposal

The comprehensive annual financial report would be renamed *annual comprehensive financial report (ACFR)*

The standards would be effective for fiscal years ending after December 15, 2021, with earlier application encouraged



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Project Timeline

Added to Current Technical Agenda	December 2020
Deliberations Began	January 2021
Exposure Draft Issued	April 2021
Comment Deadline	July 9, 2021
Final Statement Expected	October 2021



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Compensated Absences

Exposure Draft



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Compensated Absences

What?

The Board has proposed updated guidance for accounting and financial reporting for compensated absences

Why?

A review of Statement 16 indicated opportunities for improvement and additional guidance for certain types of leave

When?

Comment deadline:
June 4, 2021



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Proposal: Scope and Applicability

A compensated absence is

- Leave that employees use for time off with pay
- Leave for which employees receive payment upon termination of employment, or
- Leave for which employees receive settlement through other means, such as conversion to postemployment benefits

Examples:

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

Proposal: Recognition Criteria

Absence accumulates

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

Absence is attributable to services rendered

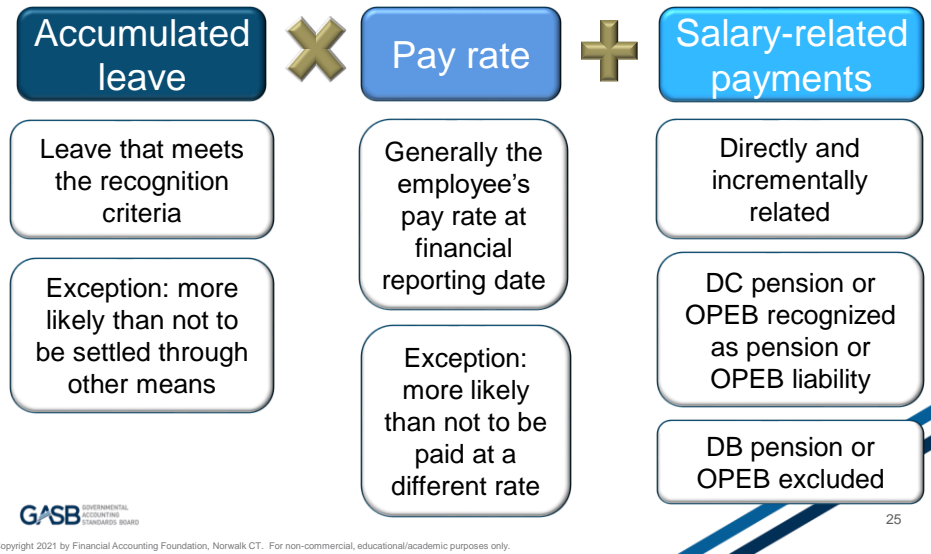
- Employee already has performed the services required to earn the absence

Absence is *more likely than not* to be either paid or settled

- Likelihood of more than 50 percent

Exception: more likely than not to be converted to defined benefit pension/OPEB

Proposal: Measurement



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Proposal: 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**
 - Reporting periods beginning after December 15, 2022

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Project Timeline

Pre-Agenda Research Started	August 2018
Added to Current Technical Agenda	December 2019
Deliberations Began	February 2020
Exposure Draft Approved	February 2021
Comment Deadline	June 4, 2021
Final Statement Expected	December 2021



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POLLING QUESTION



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Accounting Changes and Error Corrections, an amendment of GASB Statement No. 62

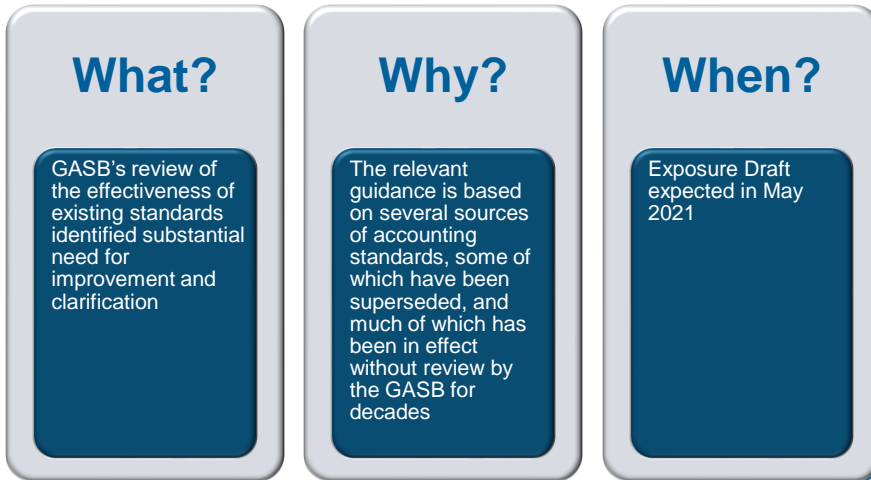
Exposure Draft



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Reexamination of Statement 62



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Topics Considered

What types of events constitute the different types of prior-period adjustments, accounting changes, and error corrections?

What is the relationship between the existing requirements and other GASB requirements?

Should terminology regarding reporting of accounting changes and error corrections (for example, terms including “restatement,” “reclassification,” and “prior-period adjustment”) be clarified?

How useful are the required disclosures associated with each type of accounting change and error correction?

How do the general requirements for accounting changes and the specific transition provisions for implementation of individual pronouncements interact?

Should display requirements be established?

Project Timeline

Pre-Agenda Research Started	August 2018
Added to Current Technical Agenda	December 2019
Deliberations Began	February 2020
Exposure Draft Approved	May 2021
Comment Deadline	August 31, 2021
Final Statement Expected	May 2022

Pronouncements Being Implemented



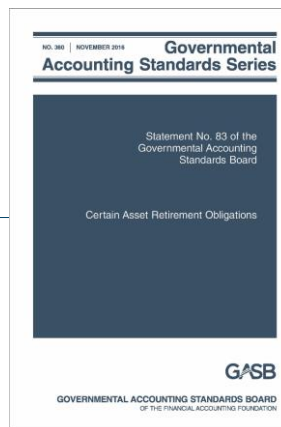
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Certain Asset Retirement Obligations

Statement No. 83



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Certain Asset Retirement Obligations



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Definitions and Scope

Asset retirement obligation

Legally enforceable liability associated with the retirement of a tangible capital asset

Retirement of a tangible capital asset

The permanent removal of a capital asset from service (such as from sale, abandonment, recycling, or disposal)

Examples

- Nuclear power plant decommissioning
 - Coal ash pond closure
 - Contractually required land restoration, such as removal of wind turbines
 - Wastewater treatment plant renovations and closures
 - Items involving radiation, such as x-ray machines
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Recognition & Measurement

Initial Recognition	<p>ARO liability when incurred and reasonably estimable. Incurrence manifested by both external and internal obligating events.</p> <p>Measured based on the best estimate of the current value of outlays expected to be incurred.</p>	Deferred outflow of resources—same amount as the ARO liability
Subsequent Recognition	<ul style="list-style-type: none"> • At least annually, adjust for general inflation or deflation • At least annually, evaluate relevant factors to determine if there is a significant change in the estimated outlays; remeasure liability when significant 	An outflow of resources (such as expense) in a systematic and rational manner over the estimated useful life of the capital asset. Immediately expense if capital asset is abandoned.

Measurement Exception for a Minority Owner of a Jointly Owned Capital Asset

Minority share (less than 50 percent) of ownership interest in an undivided interest arrangement is one of the following:

- A nongovernmental entity is the majority owner
- No majority owner, but a nongovernmental owner has the operational responsibility

Initial and Subsequent Measurement Exception

- The governmental minority owner should report its minority share of ARO using the measurement produced by the nongovernmental joint owner

The measurement date of such an ARO should be no more than one year and one day prior to the government's financial reporting date

Specific disclosure requirements in this circumstance

Effects of Funding and Assurance

If legally required to provide funding and assurance, disclose that fact

Do not offset ARO with assets restricted for payment of the ARO

Costs to comply with funding and assurance provisions are period costs separate from the ARO expense

Disclosures

- 1 General description of ARO and associated tangible capital assets, including source of AROs (such as federal laws or regulations, contracts, court judgments)
- 2 Methods and assumptions used to measure ARO liabilities
- 3 Estimated remaining useful life of tangible capital assets
- 4 How financial assurance requirements, if any, are being met
- 5 Amount of assets restricted for payment of ARO liabilities, if not separately displayed in financial statements
- 6 If a government has an ARO (or portions of an ARO) that is incurred but not yet recognized because it cannot be reasonably estimated, that fact and the reasons therefor

POLLING QUESTION



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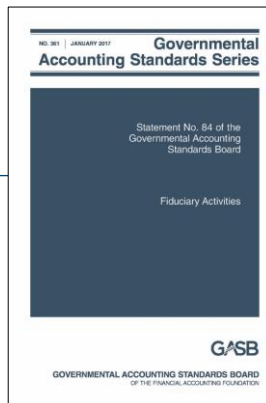
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Fiduciary Activities

Statement No. 84

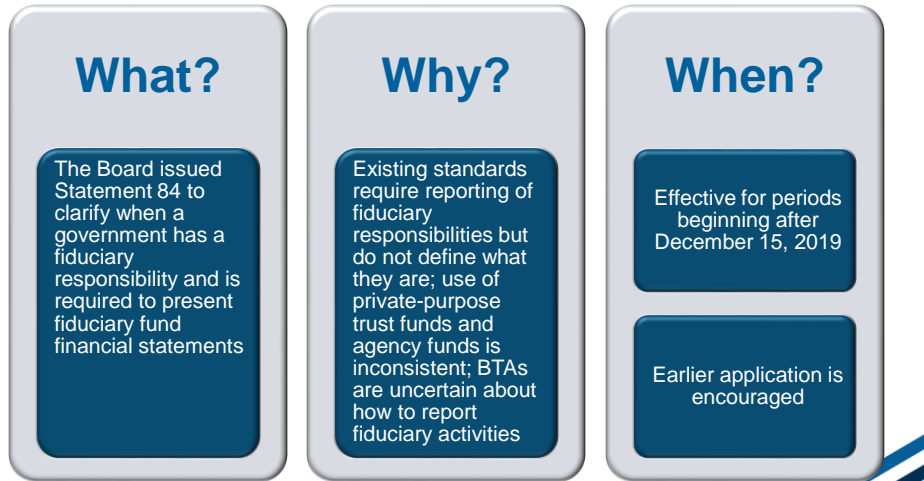


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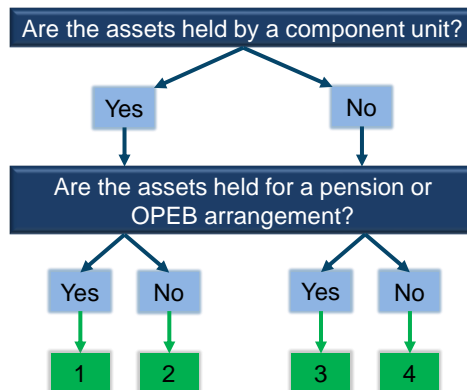


Fiduciary Activities

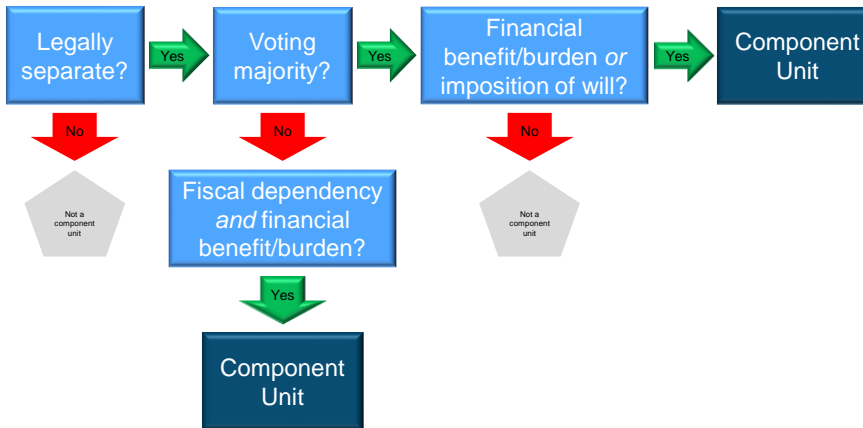


When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:



When Is There a Component Unit?



Implications of Statement 97

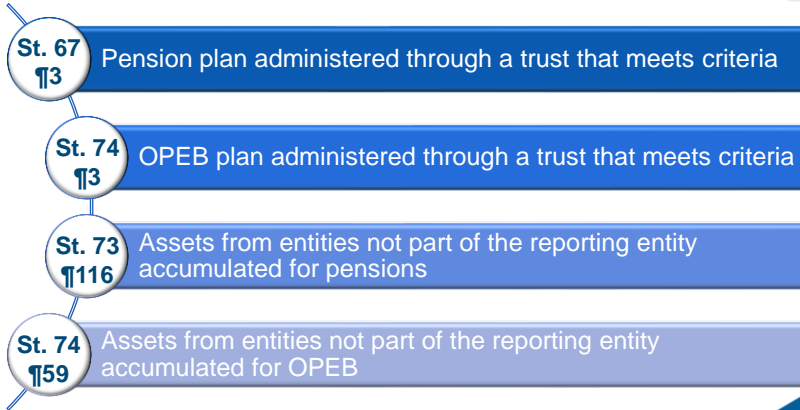
For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the **appointment of a voting majority** of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a **financial burden** applies only to defined benefit plans

Component Units That Are Postemployment Benefit Arrangements Are Fiduciary if...

They are one of the following arrangements:

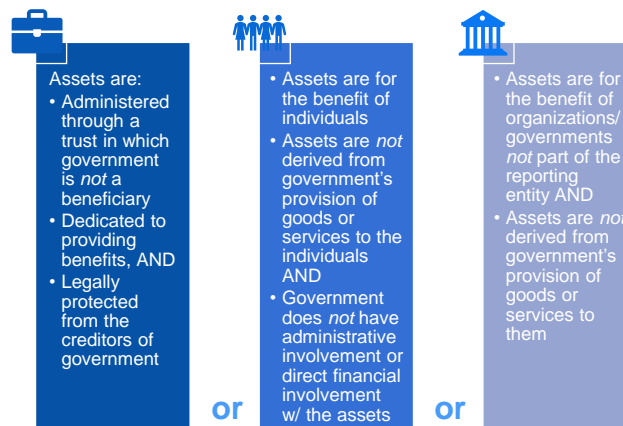
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Other Component Units Are Fiduciary if...

They have one or more of the following characteristics:

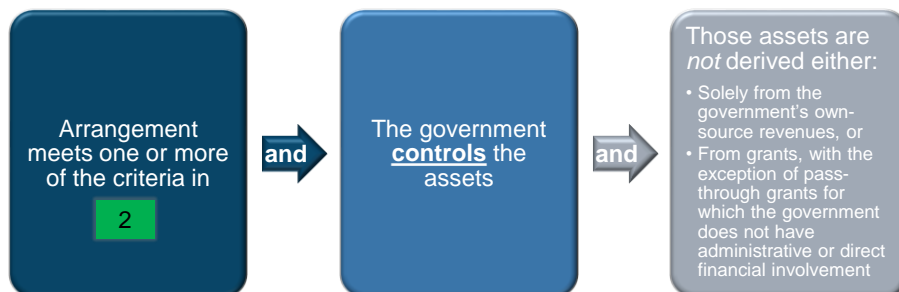
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Postemployment Benefit Arrangements That Are Not Component Units Are Fiduciary if...

- Arrangement is one of those in **1** AND **3**
- The government **controls** the assets of the arrangement
 - (control will be explained in two slides)

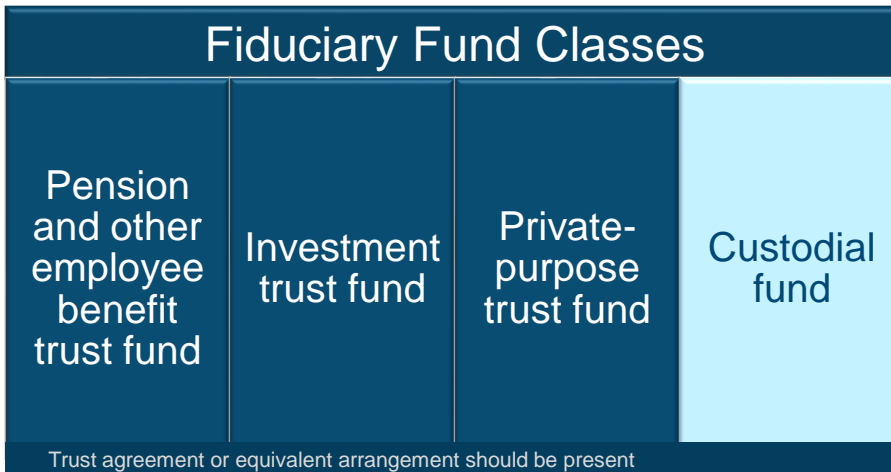
All Other Activities Are Fiduciary if... **4**



Control of Assets

- Control means one or both of the following is true:

- Government *holds* the assets
- Government has ability to *direct* the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries



Stand-Alone Business-Type Activities

A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.

Exception: Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

Statement of Changes in Fiduciary Net Position

All fiduciary funds should be included in the statement of changes in fiduciary net position

Additions should be disaggregated* by source and, if applicable, separately display investment earnings, investment costs, and net investment earnings

Deductions should be disaggregated* by type and, if applicable, separately display administrative costs

*Disaggregation requirement applies to all fiduciary funds *except* custodial funds held for three months or less

- For those custodial funds, governments may report total additions and total deductions in the aggregate, as long as the descriptions of the totals are sufficient to indicate the nature of the resource flows

Implementation Guide 2019-2

52 questions and answers, including:

- Classifying fiduciary activities
- Applying the criteria for control and own-source revenues
- Applying the clarified definitions of fund classes, including determining eligibility for the custodial fund exception for BTAs
- Fiduciary fund financial statements, including the determining eligibility for the exception to disaggregating certain additions and deductions
- Reporting fiduciary component units

Revisions to 3 existing questions and answers



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Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

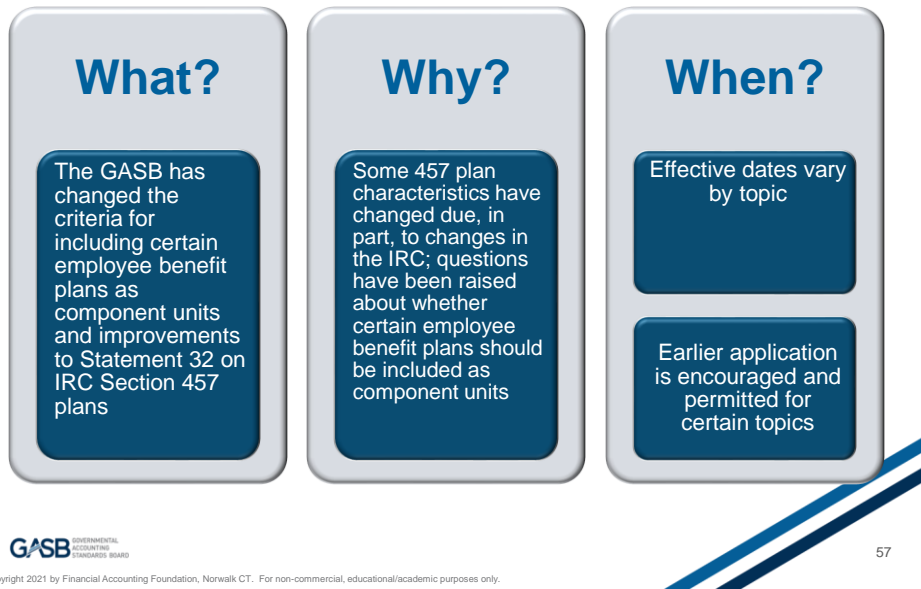
Statement No. 97



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Fiduciary Component Units and Deferred Compensation Plans



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Relevant Guidance on Fiduciary Component Units

Paragraph 7 of Statement 84 amended Statement 14 to indicate that a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to a pension plan or OPEB plan

Implementation Guide 2019-2 provided guidance that in the absence of a governing board, a government performing the duties of a governing board for a defined contribution (DC) plan that is administered through a trust that meets the criteria in Statement 67 is effectively the same as appointment of a voting majority

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Relevant Guidance on Fiduciary Component Units (continued)

The implication of that existing and considered guidance is that many governments would be required to report DC plans and other employee benefit plans as component units in their fiduciary fund financial statements

The Board directed the staff to conduct additional outreach on the structure of those types of arrangements and user needs for information about them

Based on the outreach, the Board decided to expand the project and issue guidance on component units

Component Unit Criteria

For purposes of determining whether a primary government is financially accountable, the absence of a governing board (when the government is perform the duties a governing board normally would perform) should be treated the same as the appointment of a voting majority of a governing board, *except for DC pension plans, DC OPEB plans, or other employee benefit plans*

The criterion that a legal obligation to contribute (or otherwise assuming the obligation) is considered to be a financial burden applies only to defined benefit plans

457 Plans

All requirements relevant to pension plan reporting should be applied to Section 457 plans that meet the definition of a pension plan

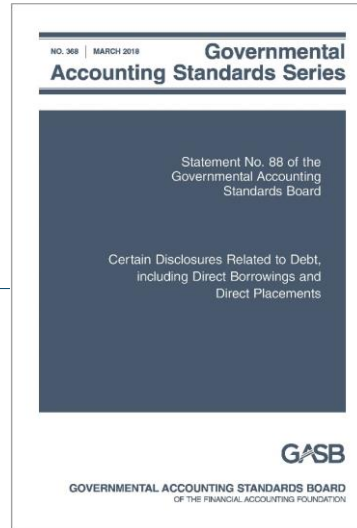
All requirements relevant to pensions should be applied by employers to benefits provided through Section 457 plans that meet the definition of a pension plan

Investments should be valued as of the end of the reporting period (allowance to use the most recent report of the plan administrator is eliminated)

POLLING QUESTION

Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Statement No. 88



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Debt Disclosures



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Definition of Debt for Disclosure Purposes

“A liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of payment of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established”

- For purposes of this determination, interest to be accrued and subsequently paid (such as variable-rate interest) or added to the principal amount of the obligation, such as capital appreciation bonds, would not preclude the amount to be settled from being considered fixed at the date the contractual obligation is established.
- Leases and accounts payable are excluded from the definition of debt for disclosure purposes.

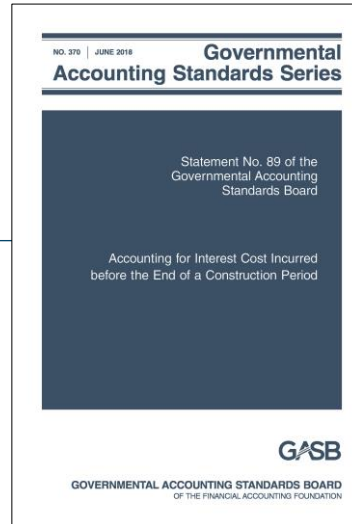
New Disclosure Requirements

Direct borrowings and direct placements of debt should be distinguishable from other types of debt for all disclosures

New Disclosures about <i>All</i> Types of Debt		
Amount of unused lines of credit	Assets pledged as collateral for debt	Terms specified in debt agreements related to significant:
		<ul style="list-style-type: none"> Events of default with finance-related consequences Termination events with finance-related consequences Subjective acceleration clauses

Accounting for Interest Cost Incurred before the End of a Construction Period

Statement No. 89



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Interest Cost

What?	Why?	When?
<p>The Board issued Statement 89 to enhance the relevance of capital asset information and simplify financial reporting</p>	<p>Accounting guidance has been based on FASB Statements 34 and 62, which were incorporated into the GASB literature by GASB Statement 62 but were not reconsidered in light of GASB's Concepts Statements</p>	<p>Effective for periods beginning after December 15, 2020</p> <p>Earlier application is encouraged</p>



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Recognizing Interest Cost

Financial statements prepared using the economic resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expense in the period incurred.

Financial statements prepared using the current financial resources measurement focus:

- Interest cost incurred before the end of a construction period should be recognized as an expenditure consistent with governmental fund accounting principles.

Prospective application at transition



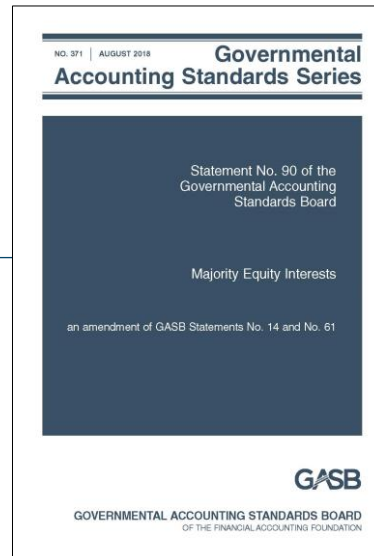
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Majority Equity Interests

Statement No. 90



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Majority Equity Interests

What?

The Board issued Statement 90 to clarify whether a majority equity interest should be reported as an investment or as a component unit and to provide consistent measurement of elements of acquired organizations and 100% equity interests in component units

Why?

Stakeholders requested that the GASB examine diversity in practice and potential conflicts in the existing guidance

When?

Effective for periods beginning after December 15, 2019

Earlier application is encouraged



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Does the Majority Equity Interest Meet the Definition of an Investment?	
YES	NO
Report as an investment	Report as a component unit
Measure the investment by applying the equity method prescribed in Statement 62, paragraphs 205–209 <i>Exception:</i> the following should apply fair value in accordance with Statement 72, paragraph 64: <ul style="list-style-type: none"> Special-purpose governments engaged only in fiduciary activities Fiduciary funds Endowments (including permanent and term endowments) and permanent funds 	Recognize an asset for the majority equity interest and measure by applying the equity method prescribed in Statement 62, paragraphs 205–209
Applied prospectively only	



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100% Equity Interest That *Does Not* Meet the Definition of an Investment

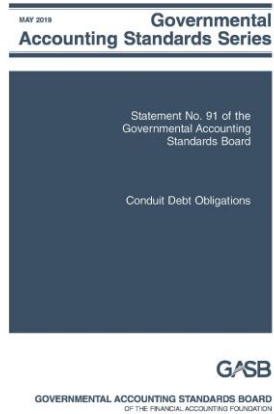


These provisions would be applied prospectively only

POLLING QUESTION

Conduit Debt Obligations

Statement No. 91



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Conduit Debt

What?	Why?	When?
<p>The Board improved the existing standards related to conduit debt obligations by providing a single reporting method for government issuers</p>	<p>Interpretation 2 had been in effect for 20 years before its effectiveness was evaluated; based on GASB research, improvements were needed to eliminate diversity in practice</p>	<p>Effective for periods beginning after December 15, 2021</p> <p>Earlier application is encouraged</p>



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Definition of Conduit Debt

1. There are at least three parties involved: the government-issuer, the third-party obligor (borrower), and the debt holder or trustee.
2. The issuer and the third-party obligor are *not* within the same financial reporting entity.
3. The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
4. The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
5. The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.

Limited, Additional & Voluntary Commitments Extended by Issuers

Generally, issuers' commitments are **limited** to the resources provided by the third-party obligor.

Occasionally, an issuer may extend an **additional commitment** to support debt service in the event of the third-party obligor's default.

For example:

- Extending a moral obligation pledge
- Extending an appropriation pledge
- Extending a financial guarantee
- Pledging its own property, revenue, or other assets as security

Under a **voluntary commitment**, issuer voluntarily decides to make a debt service payment or request an appropriation for a payment in the event that the third-party is, or will be, unable to pay.

Recognition by the Issuer

Do *not* recognize a conduit debt obligation as a liability

May have a related liability arising out of an additional or voluntary commitment

Additional commitment: report a liability when qualitative factors indicate it is *more likely than not* that the issuer will support debt service payments for a conduit debt obligation

Voluntary commitment: if a certain event or circumstance has occurred, evaluate likelihood, then report a liability if it is *more likely than not* that the issuer will support debt service payments

Voluntary commitments for which a liability is recognized and all additional commitments: At least annually reevaluate whether recognition criteria are met while conduit debt is outstanding

Arrangements and Capital Assets

Some conduit debt obligations include arrangements* that involve capital assets to be used by the third-party obligor but owned by the issuer.

- Capital asset is built or acquired with proceeds of the conduit debt obligation.
- Issuer retains title to the capital asset from the beginning of the arrangement.
- Payments from the third-party obligor are to cover debt service payments.
- Payment schedule of the arrangement coincides with the debt service repayment schedule.

*Often characterized as "leases"

Arrangements and Capital Assets (continued)

Accounting by the issuer:

Do *not* report those arrangements as leases

Do *not* recognize a liability for the related conduit debt obligations

Do *not* recognize a receivable for the payments related to those arrangements

If the arrangement meets the definition of a service concession arrangement, follow Statement 60



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Arrangements and Capital Assets (continued)

Does title pass to third-party obligor at end of arrangement?	Does the issuer recognize a capital asset?	Does the issuer recognize a deferred inflow of resources?
Yes	No	No
No, and third party has exclusive use of <i>entire</i> capital asset	Yes, when the arrangement ends	No
No, and third party has exclusive use of only <i>portions</i> of the capital asset	Yes, at the inception of the arrangement	Yes, at the inception of the arrangement; deferred inflow recognized as revenue over the term of the arrangement



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Disclosures by Type of Commitment

A general description of the issuer's conduit debt obligations

- Description of limited commitments
- Description of additional commitments (legal authority and limits; length; arrangements for recovering payments from third-party obligors, if any)
- Aggregate outstanding principal amount

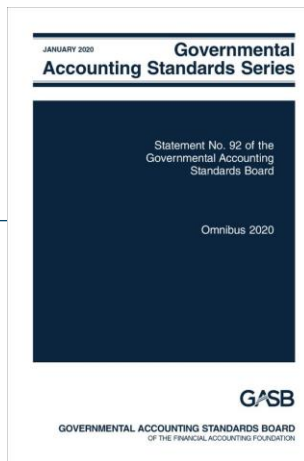
If the issuer recognizes a related liability

- Description of timing of recognition and measurement of the liability
- Beginning balances, increases, decreases, ending balances
- Cumulative payments that have been made
- Amounts expected to be recovered, if any, for those payments

POLLING QUESTION

Omnibus 2020

Statement No. 92



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Omnibus 2020

What?	Why?	When?
<p>The Board has amended existing standards covering multiple topics</p>	<p>Omnibus projects are used to address issues in multiple pronouncements that, individually, would not justify a separate project</p>	<p>Effective dates vary by topic</p> <p>Earlier application is encouraged and permitted by topic</p>



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Provisions of Statement 92

Leases

- Effective date of Statement 87 and Implementation Guide 2019-3 is changed from “reporting periods” to “fiscal years...and all reporting periods thereafter”

Government combinations and disposals of operations

- Provides an exception to the use of acquisition value in the measurement of an acquired asset retirement obligation

Derivative instruments

- Amends NCGA and GASB pronouncements to standardize the terminology used to refer to derivative instruments



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Provisions of Statement 92 (continued)

Application of Statement 84 to Postemployment Benefit Arrangements

- Limit the requirements of paragraphs 22 and 25 to defined benefit pension and OPEB plans
- Supersedes guidance in Statements 73 and 74 regarding recognition of a liability to employers and NECEs for the excess of assets over liabilities for benefits payments and administrative expenses in custodial funds in circumstances in which assets are accumulated for the pensions and OPEB of other employers and NECEs

Applicability of Statements 73 and 74

- Amend Statements 73 and 74 to replace references to *control* of assets in those same circumstances, to avoid limiting the application of the associated requirements of those Statements

Fair value measurements

- Amends paragraph 81 of Statement 72 to adjust the example of nonrecurring fair value measurements



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Provisions of Statement 92 (continued)

Intra-entity transfers of assets

- Amends paragraph 15 of Statement 48 to clarify that amounts associated with the transfer of capital or financial assets from an employer or NECE to a defined benefit pension or OPEB plan within the same financial reporting entity should be reported as contributions to the plan, in accordance with Statements 68 and 75
- Clarifies that the provisions of paragraph 15 apply to all transfers of assets within a financial reporting entity

Reinsurance recoveries

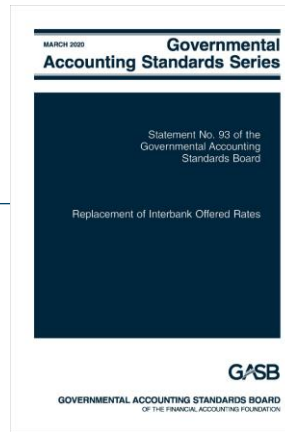
- Amends paragraph 37 of Statement 10 to clarify that amounts that are recoverable from reinsurers or excess insurers and that relate to paid claims and claim adjustment expenses may be reported as reductions of expenses but are not required to be.

Effective Dates for Statement 92

Requirements related to:	Effective Date
1. Leases 2. Reinsurance recoveries 3. Derivative instruments	Upon issuance
4. Intra-entity transfers of assets 5. Applicability of Statements 73 and 74	Fiscal years beginning after June 15, 2021
6. Application of Statement 84 to postemployment benefit arrangements 7. Fair value measurements	Reporting periods beginning after June 15, 2021
8. Government combinations and disposals of operations	For government acquisitions occurring in reporting periods beginning after June 15, 2021

Replacement of Interbank Offered Rates

Statement No. 93



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Replacement of Interbank Offered Rates

What?

The Board has issued guidance to facilitate the transition from using IBORs in hedging derivative instruments and leases

Why?

LIBOR in its current form is expected to effectively sunset at the end of 2021

When?

LIBOR: periods ending after December 31, 2021

Leases: periods beginning after June 15, 2021

All other: periods beginning after June 15, 2020



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Exception to Termination of Hedge Accounting

Continue to apply hedge accounting to an effective hedging derivative instrument with a variable payment based on an IBOR, if all criteria are met:

Hedging derivative instrument is amended or replaced to change the reference rate of its variable payment or add/change reference rate-related fallback provisions

The new reference rate essentially equates the old rate by :

Adjusting the new rate by a coefficient or constant, limited to what is necessary to essentially equate the rates, and/or

An up-front payment, limited to what is necessary to essentially equate the rates

The original hedging derivative instrument is ended and the replacement hedging derivative instrument is entered into on the same date

Critical terms are identical, except for term changes that are necessary for reference rate replacement (see next slide)

Other Term Changes

Term changes that may be necessary for the replacement of the reference rate are limited to:

- The frequency with which the rate of the variable payment resets
- The dates on which the rate resets
- The methodology for resetting the rate
- The dates on which periodic payments are made

Two-Step Transition to a SOFR

A hedging derivative instrument may be amended or replaced in two steps: a transition from an IBOR to another rate (such as the effective federal funds rate) prior to transitioning to a secured overnight financing rate (SOFR)

Hedge accounting continues when all of the following criteria are met:

- The first step replaces an IBOR with another rate
- That interim rate is replaced by a SOFR in the second step
- All four of the criteria for a one-step transition are met

Other Provisions

Effective Federal Funds Rate and SOFR are appropriate benchmark interest rates for taxable debt when applying the consistent critical terms method

LIBOR is no longer an appropriate benchmark interest rate for taxable debt when applying the consistent critical terms method

Replacing an IBOR as the reference rate of a hedged item does not terminate hedge accounting

Uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable

The lease modifications guidance in Statement 87 should not be applied to when a lease contract is amended solely to replace an IBOR

Effective Dates and Transition

The provision removing LIBOR as an appropriate benchmark rate is effective for reporting periods *ending* after December 31, 2021

All other provisions are effective for reporting periods beginning after June 15, 2020

Earlier application is encouraged

Should be applied retroactively, if practicable (hedge accounting should be reestablished for terminations prior to the effective date of this Statement)



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POLLING QUESTION



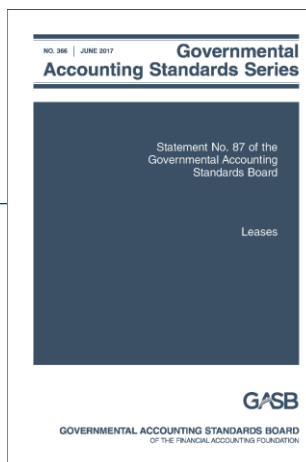
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Leases

Statement No. 87



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Leases

What?	Why?	When?
<p>The Board issued Statement 87 to improve lease accounting and financial reporting</p>	<p>Existing standards in effect for decades without review in light of GASB's conceptual framework; FASB and IASB conducted a joint project to update their lease standards; opportunity to increase comparability and usefulness of information and reduce complexity for preparers</p>	<p>Effective for fiscal years beginning after June 15, 2021, and all periods thereafter</p> <p>Earlier application is encouraged</p>



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Issues to Focus on as Soon as Possible

Debt limits and bond covenants

- All leases lasting more than a year will be reported by lessees as long-term liabilities
- Review state and local laws and agreements to determine whether that could impact compliance with debt limitations and bond covenants

Lease policies and procedures

- May need to consider changing policies and procedures for tracking and reporting leases, both as lessee and lessor
- May need better communication between departments that enter into leases and central accounting staff
- Need procedures that identify when lease agreements have been initiated and when existing leases are modified (such as changes in lease term or estimated payment amounts)
- Should review capital asset policies, such as the capitalization thresholds, especially in light of the need to report intangible right-to-use assets

Issues to Focus on as Soon as Possible (continued)

Transition provisions

- Statement 87 requires that leases be recognized and measured using the facts and circumstances as of the beginning of the period of implementation
- For example:
 - As of January 1, 2022 for FYE December 31, 2022
 - As of July 1, 2021 for FYE June 30, 2022


Statement 87 Implementation Guide

Implementation Guide 2019-3: 77 questions and answers, including:	Scope and applicability issues
	Determining the term of the lease
	Eligibility for exception for short-term leases
	Recognition, measurement, and disclosure for lessees and lessors
	Lease incentives
	Contracts with multiple components and contract combinations
	Terminations and modifications
	Sale-leasebacks, lease-leasebacks, and intra-entity leases

Statement 87 Scope and Approach

- Statement 87 applies to any contract that meets the definition of a lease:

“A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction.”
- Leases are financings of the right to use an underlying asset



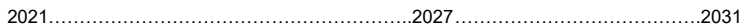
Single approach applied to accounting for leases with some exceptions, such as short-term leases
- Capital/operating distinction is eliminated

Scope Exclusions

-  Intangible assets (mineral rights, patents, software, copyrights), except for the sublease of an intangible right-to-use asset
-  Biological assets (including timber, living plants, and living animals)
-  Inventory
-  Service concession arrangements (Statement 60)
-  Arrangements associated with conduit debt obligations (Statement 91)
-  Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying generating facility)

Lease Term

- For financial reporting purposes, when does the lease start and end?
 - Start with the **noncancelable period**



- Plus periods covered by options to:
 - **Extend lease**, if reasonably certain of being exercised
 - **Terminate lease**, if reasonably certain of *not* being exercised
- Excludes cancelable periods
 - Periods for which lessee and lessor both have option to extend or terminate (such as rolling month-to-month leases)
- Fiscal funding and cancellation clauses are ignored unless reasonably certain of being exercised

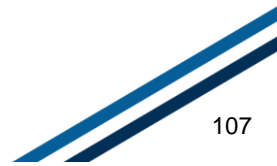
Lease Term — Example 1

- 3-year lease with lessee option to extend to 6 years and lessor option to cancel at end of year 4
- Assumptions:
 - Lessee is reasonably certain that it will extend lease to 6
 - Lessor is reasonably certain that it will *not* cancel at 4
- Lease term = 6 years



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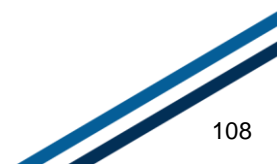
Lease Term — Example 2

- 3-year lease with lessee option to extend to 6 years and lessor *and* lessee options to cancel at end of year 4
- Assumptions:
 - Lessee is reasonably certain that it will extend lease to 6
 - Lessor and lessee are reasonably certain that they will *not* cancel at 4
- Lease term = 4 years
 - Cancelable at end of 4th year because both lessee and lessor can cancel



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Short-Term Leases

Definition	At beginning of lease, <i>maximum possible term</i> under the contract is 12 months or less
Lessee accounting	<ul style="list-style-type: none"> • Recognize expenses/expenditures based on the terms of the contract • Do not recognize assets or liabilities associated with the right to use the underlying asset
Lessor accounting	<ul style="list-style-type: none"> • Recognize lease payments as revenue based on the payment provisions of the contract • Do not recognize receivables or deferred inflows

Initial Reporting

	Assets	Liability	Deferred Inflow
Lessee	Intangible lease asset (right to use underlying asset)—value of lease liability plus prepayments and initial direct costs that are ancillary to place asset in use	Present value of future lease payments (incl. fixed payments, variable payments based on index or rate, reasonably certain residual guarantees, etc.)	NA
Lessor	<ul style="list-style-type: none"> • Lease receivable (generally includes same items as lessee's liability) • Continue to report the leased asset 	NA	Equal to lease receivable plus any cash received up front that relates to a future period

LESSEE—Initial Measurement

- Initial measurement of a lease liability includes:
 - Fixed payments (less any lease incentives receivable from the lessor)
 - Variable payments based on an index or rate (such as CPI), using the rate as of the beginning of lease
 - Variable payments that are fixed in substance
 - Residual value guarantees *reasonably certain* of being required
 - Purchase options *reasonably certain* of being exercised
 - Termination penalties, if lease term reflects lessee exercising termination options/fiscal funding clauses
 - Any other *reasonably certain* payments

LESSEE—Initial Measurement (continued)

- Lease liability does not include lease payments that are dependent on a lessee's performance or usage of an underlying asset
- Lease liability payments discounted using the rate the lessor charges the lessee (may be implicit) or, if that rate cannot be readily determined, the lessee's incremental borrowing rate

LESSEE—Lease Asset

- Lessee's right-to-use lease asset
 - Initially measure lease asset as the sum of:
 - a. Initial lease liability
 - b. Any prepayments (amounts paid for the lease prior to measuring the lease liability)
 - Less any incentives *received* from the lessor
 - c. Initial direct costs that are necessary ancillary charges to place the leased asset into use
 - Other initial direct costs (e.g., insurance, legal, administrative) should be expensed

Subsequent Reporting

	Assets	Liability	Deferred Inflow
Lessee	Amortize the intangible lease asset over shorter of useful life or lease term	Reduce by lease payments (less amount for interest expense)	NA
Lessor	<ul style="list-style-type: none"> • Depreciate leased asset (unless indefinite life or required to be returned in its original or enhanced condition) • Reduce receivable by lease payments (less amount needed to cover accrued interest) 	NA	Recognize revenue over the lease term in a systematic and rational manner

LESSEE—Subsequent Recognition & Measurement

- Lease liability reduced for actual payments less amortization of discount on lease liability (interest expense)

- EXAMPLE:

Interest Expense		\$4,000	
Lease Liability		\$18,000	
Cash			\$22,000
(To record cash payment, interest expense, and reduction of liability.)			

LESSEE—Subsequent Recognition & Measurement (continued)

- Remeasure lease liability when certain changes occur (if expected to significantly affect liability measurement)
- If liability remeasured
 - Adjust liability for change in variable payments index/rate
 - Update discount rate when certain other judgments change
- Adjustments to the lease liability generally should adjust the lease asset by the same amount
 - Exception if adjustment is greater than carrying value of asset, difference is recognized in the flows statement

LESSEE—Subsequent Recognition & Measurement (continued)

- Lease asset subsequent recognition and measurement
 - Lease asset amortized (e.g., amortization expense) using a systematic and rational manner over the shorter of the useful life of the underlying asset or the lease term
 - Lease asset amortization *may* be combined with depreciation expense for other capital assets
 - If the lease has a purchase option which is reasonably certain of being exercised, amortize over the useful life of the underlying asset as if the lessee owns the underlying asset, using the lessee's depreciation policy, unless non-depreciable.

LESSEE—Subsequent Recognition & Measurement (continued)

- Lease asset subsequent recognition and measurement (continued)
 - Lease asset generally adjusted by the same amount as lease liability.
 - If this change reduces the carrying value of the lease asset to zero, any remaining amount is a gain
 - If the underlying asset becomes impaired, apply capital asset impairment guidance of Statement 42 to the right-to-use lease asset

Example: Equipment Lease

- Lease contract provisions:
 - Lease starts 1/01/21
 - \$1,000 monthly payment for equipment, due 1st of each month, plus \$5/hour for every hour used beyond 200 hours during prior month
 - \$80 monthly payment for repairs and maintenance, due 1st of each month
 - 60-month (5-year) lease, with a \$200 lessee option to extend for 24 additional months at the original price. At the end of the term (5 or 7 years) the lease becomes month-to-month and each monthly payment can be adjusted upward based on CPI with 30 days' notice
 - Stated interest rate of 4%
 - If equipment is destroyed, lessee will pay \$40,000 equipment value, at which time lessee will become the owner

Example: Equipment Lease (continued)

- Other contract provisions
 - Lessee to pay lessor \$1,000 to dismantle and remove equipment at end of lease
- There is a separate contract with the lessor for delivery and installation of the equipment (an initial direct cost):
 - \$1,500 (\$800 delivery and \$700 installation)
- Other assumptions:
 - Lessee is not yet sure whether it will exercise its option to extend the lease

Example: Equipment Lease (continued)

- Determine the lease term:
 - Based on noncancelable period—60-month lease (5 years)
 - Lease extension option —
 - *Exclude* because not reasonably certain of being exercised
 - Potential month-to-month payments after 5 years —
 - *Exclude* because not enforceable (either party can cancel)

Example: Equipment Lease (continued)

- Determine lease payments for the lease term:
 - Monthly payments
 - Include \$1,000/month fixed payment
 - *Exclude* \$80/month repair and maintenance because it is a **service** (nonlease) component
 - *Exclude* \$5/hour excess use charge because it is a **variable** charge not fixed in substance
 - One-time payments
 - Include \$1,500 delivery and installation payment because it is a capitalizable lease payment
 - *Exclude* equipment loss penalty because it is a contingency

Example: Equipment Lease (continued)

- Calculate present value of lease payments:

PV of \$1000 (due 1 st of each month) for 60 months at 4%	\$54,480
PV of delivery and installation payment	<u>1,500</u>
Total PV	\$55,980

- Lease liability beginning balance = \$55,980
- Lease asset beginning balance = \$55,980
- Monthly amortization of lease asset
 - If using straight line, would be \$933/month
- Accrue interest and record payments each month



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Example: Equipment Lease (continued)

- First year's payment schedule

Date	Beginning Balance	Interest	Principal	Payment	Balance after Payment
1/1/2021	55980.07		2500.00	2500.00	53480.07
2/1/2021	53480.07	178.27	821.73	1000.00	52658.33
3/1/2021	52658.33	175.53	824.47	1000.00	51833.86
4/1/2021	51833.86	172.78	827.22	1000.00	51006.64
5/1/2021	51006.64	170.02	829.98	1000.00	50176.66
6/1/2021	50176.66	167.26	832.74	1000.00	49343.92
7/1/2021	49343.92	164.48	835.52	1000.00	48508.40
8/1/2021	48508.40	161.69	838.31	1000.00	47670.09
9/1/2021	47670.09	158.90	841.10	1000.00	46828.99
10/1/2021	46828.99	156.10	843.90	1000.00	45985.09
11/1/2021	45985.09	153.28	846.72	1000.00	45138.37
12/1/2021	45138.37	150.46	849.54	1000.00	44288.83
12/31/2021	44288.83	147.63			
		<u>1956.40</u>	<u>11691.23</u>		



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Contracts with Multiple Components

Statement 87

- Generally, account for lease and non-lease components as separate contracts and multiple underlying assets as separate lease components in certain circumstances (paragraphs 64 and 65)
- Allocate contract price to different components (paragraph 66)

Implementation Guide 2019-3

- One component meets scope exclusions and one does not?
 - Separate and account for them individually (Q4.59)
- Separate utilities and janitorial costs of building lease?
 - Yes, if practicable to do so (Q4.60)

Other Topics Covered by Statement 87

Disclosures

Contract combinations

Lease modifications & terminations

Lease incentives

Subleases

Sale-leasebacks

Lease-leasebacks

Lease Modifications & Terminations

- Result from **amendments** to lease contract, not from exercising options in that contract

MODIFICATIONS

- Considered lease modification unless lessee's right to use underlying asset decreases

TERMINATIONS

- Considered partial or full lease termination if lessee's right to use underlying asset *decreases*

Lease Modifications

- Report as **new lease** by both lessor and lessee *if*
 - New assets are added and
 - Not unreasonably priced
- Otherwise, **remeasure** as discussed on following slides

Lease Modifications for LESSEES

- Remeasure the lease liability on the effective date of modification
 - Assess the need for an updated discount rate
- Adjust the right-of-use asset by the difference between the modified liability and the liability immediately before the modification
 - If asset reduced to \$0, any additional reduction is reported as a gain
- If change results from the lessor refunding related debt and passing savings on to the lessee, see remeasurement guidance in paragraph 74

Lease Modifications for LESSORS

- Remeasure the lease receivable on the effective date of modification
 - Assess the need for an updated discount rate
- Adjust the deferred inflow of resources by the difference between the modified receivable and the receivable immediately before the modification
 - However, to the extent any change relates to payments for the current period, recognize in current period flows statement (for example, revenue)
- If change results from refunding related debt and passing savings on to the lessee, see remeasurement guidance in paragraph 76

Lease Terminations for LESSEES

- For partial/full lease terminations (other than purchases), lessees reduce/remove the lease asset and obligation
- Recognize the difference as a gain or loss
- If the lessee purchases the underlying asset, reclassify to the appropriate asset class
 - Adjust lease liability to reflect the payments yet to be made; reflect adjustment in cost of the purchased asset

Lease Terminations for LESSORS

- For partial/full lease terminations (other than sales), lessors reduce/remove the lease receivable and related deferred inflow of resources
- Recognize the difference as a gain or loss
- If the lessor sells the underlying asset, derecognize underlying asset
 - Include in the calculation of any gain or loss

POLLING QUESTION



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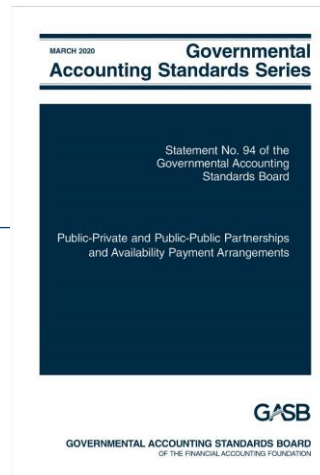
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Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Statement No. 94

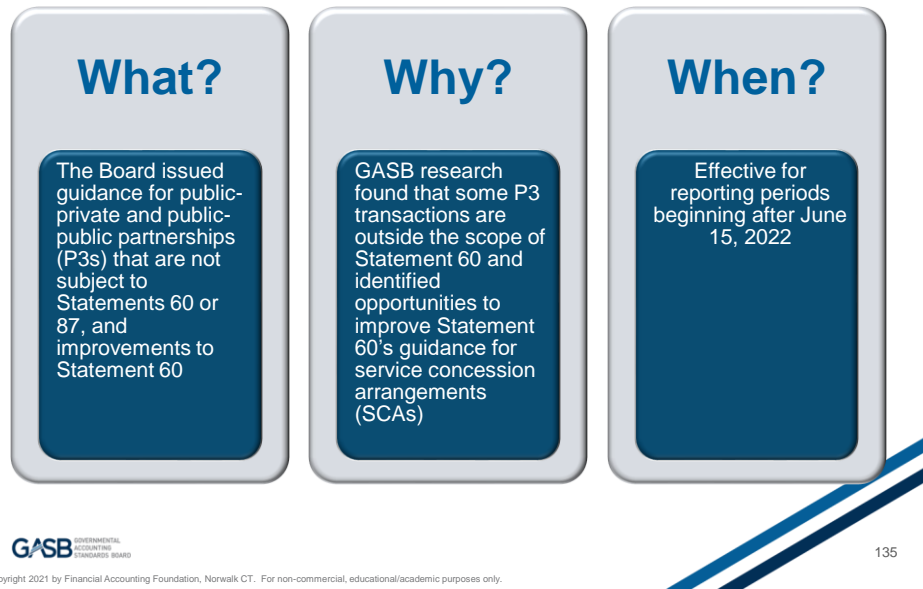


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P3s, APAs, and SCAs



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Definitions: PPPs and APAs

Public-private partnerships and public-public partnerships (P3s) are arrangements “in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.”

Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

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Other Provisions

A P3 that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (SCA) – would be reported under Statement 87 unless (a) the underlying P3 assets are not existing assets of the transferor or (b) improvements are required to be made to those existing underlying P3 assets by the operator.

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

Transferor Reporting

For all P3s, recognize:

- Receivable for installment payments to be received, if any
- Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term

If underlying P3 asset is a new asset or an existing asset that has been improved...

- ...and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation
- ...and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator's estimated carrying value as of the future date of the transfer in ownership

Operator Reporting

For all P3s, recognize:

- Liability for installment payments to be made, if any

If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA...

- ...also recognize an intangible right-to-use asset

If underlying P3 asset is a new asset and the P3 is not an SCA...

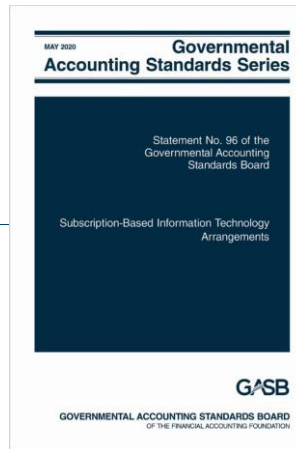
- Also recognize the underlying P3 asset until ownership is transferred
- And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer



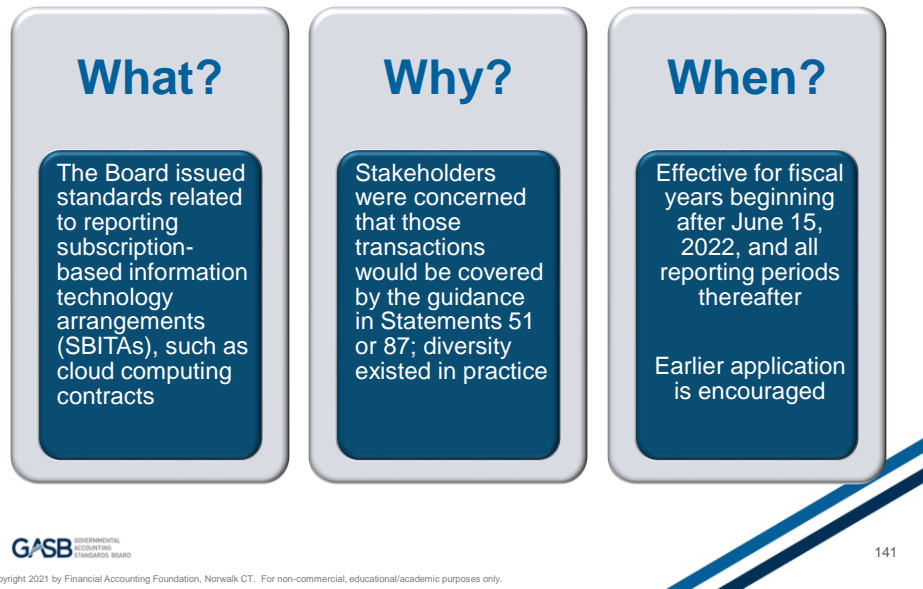
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Subscription-Based Information Technology Arrangements

Statement No. 96



Statement 96 on SBITAs



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Scope and Applicability

A subscription-based information technology arrangement (SBITA) “is a contract that conveys control of the right to use another party’s (a SBITA vendor’s) IT software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction.”

To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

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Scope and Applicability (continued)

- Statement 96 does not apply to:
 - Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in Statement 87, in which the software component is insignificant compared to the cost of the underlying tangible capital asset
 - Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
 - Contracts that meet the definition of a P3 in Statement 94
 - Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement 51

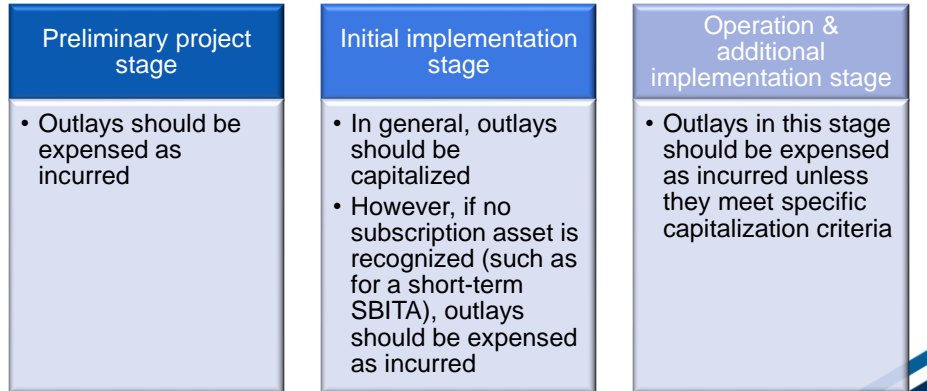
Recognition and Measurement

An SBITA should be reported under provisions effectively the same as those for a lessee under Statement 87—recognize a subscription asset and a subscription liability (except for short-term SBITAs)

Measurement of the subscription asset should include certain capitalizable implementation costs based on stages similar to those for internally developed software in Statement 51:

- Preliminary project stage
- Initial implementation stage
- Operation and additional implementation stage

Accounting for Activities Associated with a SBITA



POLLING QUESTION

Implementation Guidance Updates

2018-1, 2019-1, 2020-1, and 2021-1



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Implementation Guidance Updates

What?	Why?	When?
<p>The GAS annually updates its Q&A implementation guidance</p>	<p>New guidance is added as new pronouncements are issued and new issues arise</p>	<p>2018-1 is effective for periods beginning after June 15, 2019</p> <p>2019-1 is effective for periods beginning after June 15, 2020</p> <p>2020-1: periods beginning after either June 15, 2021 or December 15, 2021, depending on the Q&A</p> <p>2021-1 is effective for periods beginning after June 15, 2022</p>



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Implementation Guide 2018-1

Adds new questions on standards regarding

- OPEB
- Pensions
- Regulated operations
- Statistical section
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Capital assets
- Cash flows reporting
- Investment disclosures
- Net position
- Pensions
- Statistical section
- Tax abatement disclosures



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Implementation Guide 2019-1

Adds new questions on standards regarding

- Cash flows reporting
- Derivative instruments
- Fund balance
- Insurance recoveries
- Irrevocable split-interest agreements
- Intra-entity transfers of assets
- Nonexchange transactions
- Pensions and OPEB
- Tax abatement disclosures

Updates existing Q&A guidance related to

- Derivative instruments
- Financial reporting entity
- Pension and OPEB plan reporting



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Implementation Guide 2020-1

Adds new questions on standards regarding

- Certain asset retirement obligations
- Conduit debt obligations
- External investment pools
- Fiduciary activities
- Financial reporting entity
- Leases

Updates existing Q&A guidance related to

- External investment pools
- OPEB
- Pensions
- Deferral of certain Implementation Guide questions and answers



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Implementation Guide 2021-1

Adds new questions on standards regarding

- Derivative instruments
- Fiduciary activities
- Leases
- Non exchange transactions

Updates existing Q&A guidance related to

- Financial reporting model
- Sales and pledges and intra-entity transfers (Statement 48)



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Current Technical Agenda Projects



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Conceptual Framework: Disclosure Framework

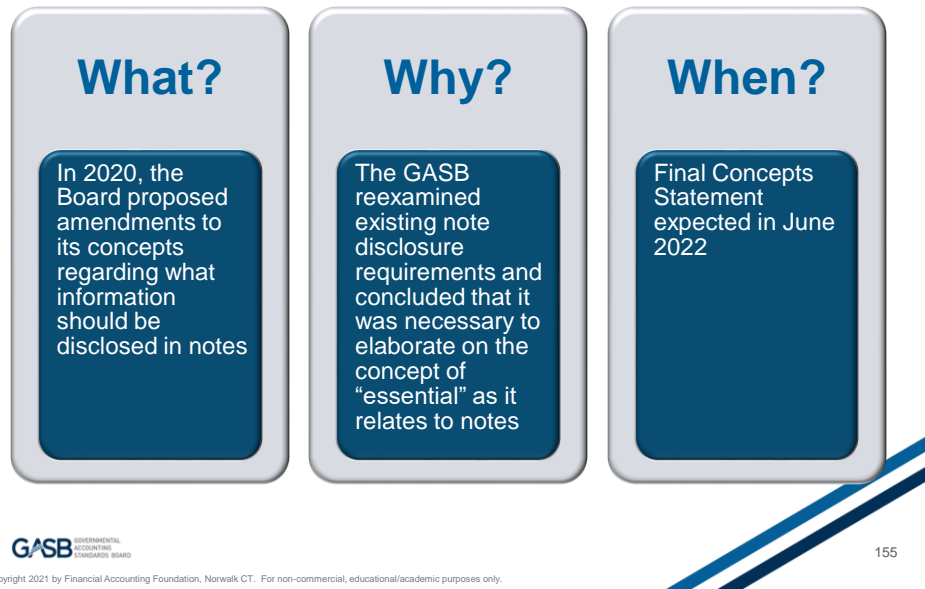


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Disclosure Framework



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Concepts Related to Disclosures

Concepts Statements guide the Board’s decisions when setting accounting and financial reporting standards

Concepts Statement 3 establishes criteria for what communication method should be used to report information – financial statements, notes to financial statements, required supplementary information, and supplementary information

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Proposed Concepts

The purpose of note disclosures is to provide information that explains, describes, or supplements the financial statements and is **essential** to users in making economic, social, and political decisions and assessing accountability.

Proposed Concepts (continued)

Information that has one of the following characteristics is essential:

- Characteristic A: Evidence that the information is being utilized in users' analyses for decision making or assessing accountability.
- Characteristic B: Evidence that if the information becomes available, users would modify their analyses for decision making or assessing accountability to incorporate that information.

In addition, for information to be essential:

- There should be a breadth or depth of users that utilize the information in their analyses for making decisions or assessing accountability
- The information should have a meaningful effect on those analyses

Project Timeline

Pre-Agenda Research Started	April 2016
Added to Current Technical Agenda	August 2018
Deliberations Began	October 2018
Exposure Draft Issued	February 2020
Comment Deadline	June 30, 2020
Public Hearing	July 28, 2020
Revised Exposure Draft Issued	July 31, 2021
Comment Deadline	October 31, 2021
Final Concepts Statement Expected	June 20, 2022



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Risks and Uncertainties Disclosures



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Risks and Uncertainties Disclosures



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Topics Considered



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Project Timeline

Added to Current Technical Agenda	July 2020
Deliberations Began	September 2020
Additional Outreach to Be Conducted	February–April 2021



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POLLING QUESTION



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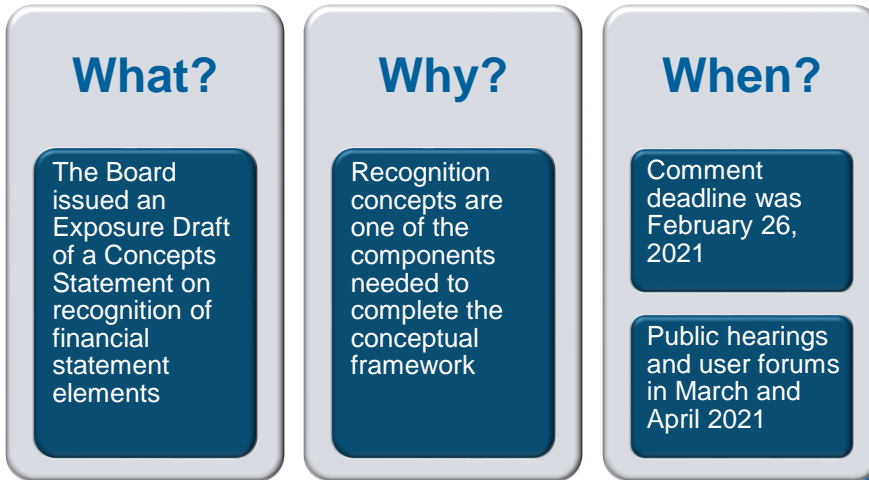
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Conceptual Framework: Recognition

Exposure Draft: *Recognition of Elements of Financial Statements*



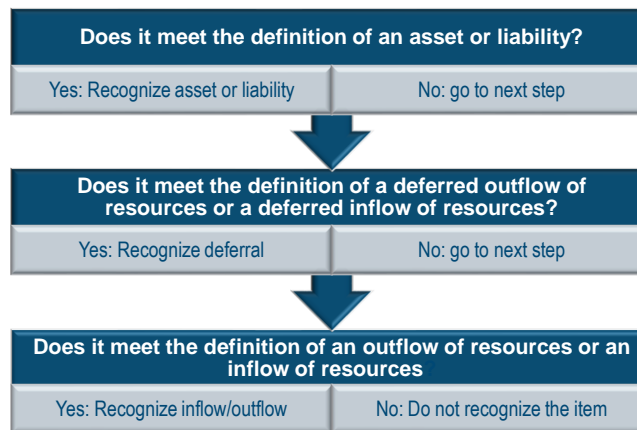
Recognition Concepts

The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

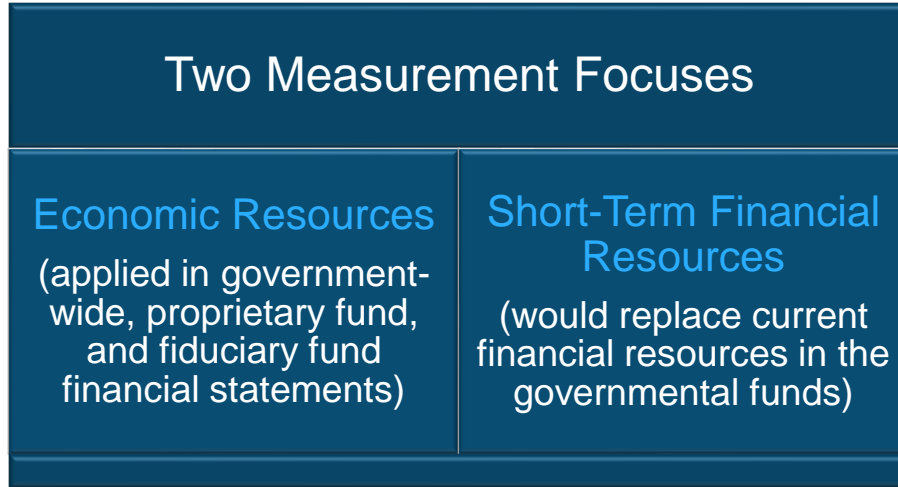
The related **basis of accounting** determines *when* those items should be reported.

Proposal: Recognition Hierarchy

Follow a specific order when evaluating an item for recognition:



Proposal: Recognition Framework



Proposal: Recognition Framework (continued)



Project Timeline

Preliminary Views Issued	September 2018
Redeliberations Began	June 2019
Exposure Draft Approved	June 2020
Comment Deadline	February 26, 2021
Public Hearings (virtual)	March 23, 30 & 31, 2021 April 8, 13, 14, 20 & 21, 2021
User Forums (virtual)	April 9 & 15, 2021
Final Concepts Statement Expected	June 2022



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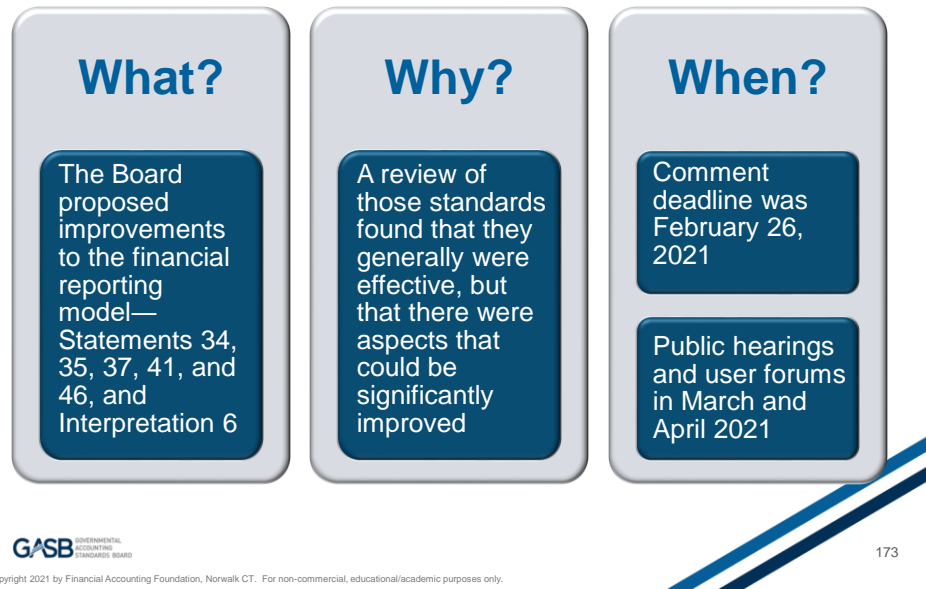
Financial Reporting Model Reexamination



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Financial Reporting Model Improvements



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Overview of the Proposals

Measurement focus and basis of accounting for the governmental funds

Format of governmental funds financial statements

Clarification of operating and nonoperating in proprietary funds

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

Management's discussion and analysis

Budgetary comparisons

Major component unit presentations

Unusual or infrequent items

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Proposal: Recognition in Governmental Funds

Short-term financial resources measurement focus and accrual basis of accounting

Elements from *short-term* transactions or other events recognized as the *underlying transaction or other event occurs*

Elements from *long-term* transactions and other events recognized *when payments are due*

Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash



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Recognition in Governmental Funds (cont.)

Short-Term Transactions
 Period from inception to conclusion is one year or less

Long-Term Transactions
 Period from inception to conclusion is more than one year

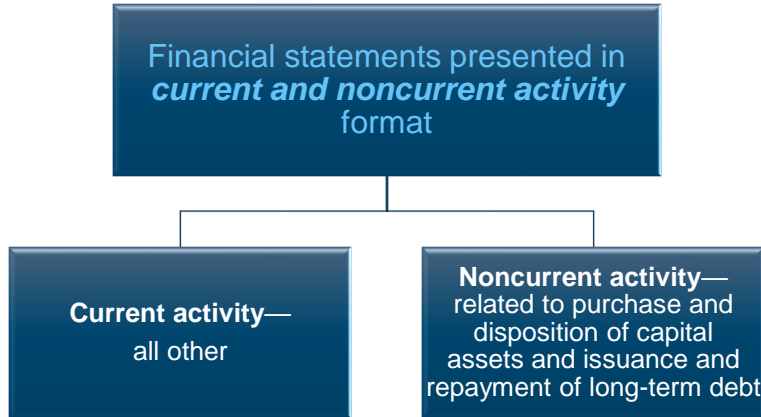
Inception generally is when a party to the transaction takes an action that results in the initial recognition of an asset or liability

Conclusion generally is when the final payment of cash or other financial assets is due according to the terms of the binding arrangement (or estimated payments)



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Proposal: Presentation of Governmental Funds



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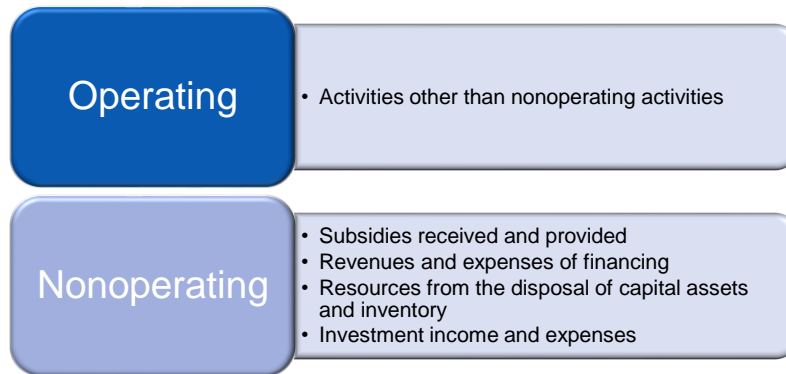
Proposed Statement of Short-Term Financial Resource Flows

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,311,156	\$ 2,015,047	\$ 27,648,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Special assessments	-	-	41,500	41,500
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,192,493	20,787,512
Investment earnings	5,829	11,384	119,043	136,256
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	654,482	771,287	5,642,709
Total inflows of short-term financial resources for current activities	106,780,279	5,977,022	19,516,177	132,253,478
OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
General government	14,053,444	6,961,201	2,213,691	23,228,336
Public health and safety	70,880,913	-	590,383	71,471,296
Highway and streets	12,137,714	-	4,715,808	16,853,522
Culture and recreation	3,581,583	335,659	1,808,065	5,725,307
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of short-term financial resources for current activities	101,304,999	7,296,860	13,201,992	121,803,851
Net flows of short-term financial resources for current activities	5,455,280	(1,319,838)	6,314,185	10,449,627
NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES				
Transfers in	-	-	10,651,605	10,651,605
Debt service	(2,434,544)	(366,412)	(9,195,505)	(11,996,461)
Capital outlay	(111,987)	(1,515)	(1,346,497)	(1,459,999)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net flows of short-term financial resources for noncurrent activities	(10,227,406)	(374,372)	(2,314,297)	(12,916,075)
Net change in short-term financial resources fund balances	(4,772,126)	(1,694,210)	3,999,888	(2,466,448)
Short-term financial resources fund balances at beginning of year	9,319,621	9,776,474	27,892,592	46,988,687
Short-term financial resources fund balances at end of year	\$ 4,547,495	\$ 8,082,264	\$ 31,892,480	\$ 44,522,239

Current and Noncurrent Activity Format

Proposals: Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses



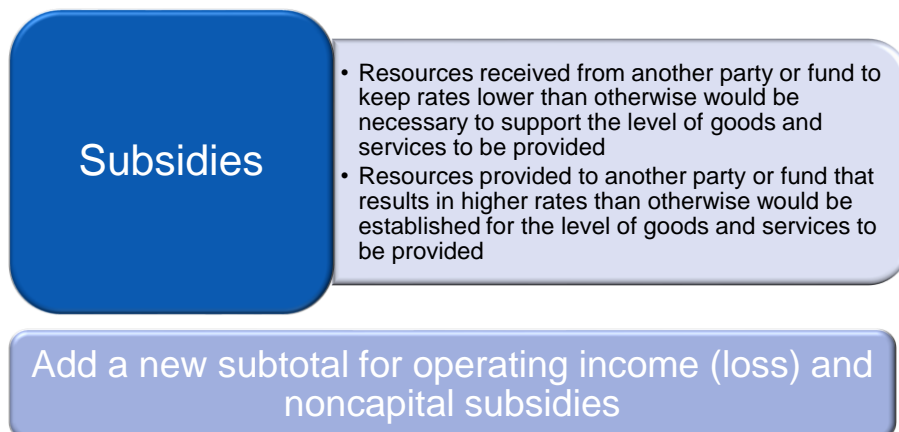
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Proposals: Proprietary Funds (cont.)



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

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Proposals: Management's discussion and analysis

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" (as in Concepts Statement 1, paragraph 63)

Add clarification and structure to the requirement for brief discussion of the basic financial statements, including their relationships and significant differences

Emphasize the level of thoroughness required for the analysis of year-to-year changes and the need to avoid unnecessary duplication

Amend the requirements for currently known facts, decisions, or conditions with examples, such as economic trends; subsequent year's budget; actions government has taken on postemployment benefits, capital improvement plans, and long-term debt; actions other parties have taken that affect the government

Move budgetary analysis and discussion of infrastructure assets (if applicable) to the relevant parts of RSI

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Other Proposals

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

Other Proposals (continued)

Unusual or Infrequent Items

- 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

Proposed Effective Dates

Based on total annual revenues in fiscal year beginning after June 15, 2022

\$75 million or more	Less than \$75 million
Apply in fiscal years beginning after June 15, 2024	Apply in fiscal years beginning after June 15, 2025



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Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Issued	September 2018
Exposure Draft Approved	June 2020
Comment Deadline	February 26, 2021
Public Hearings	March 23, 30 & 31, 2021 April 8, 13, 14, 20 & 21, 2021
User Forums	April 9 & 15, 2021
Final Statement Expected	June 2022



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POLLING QUESTION



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Omnibus

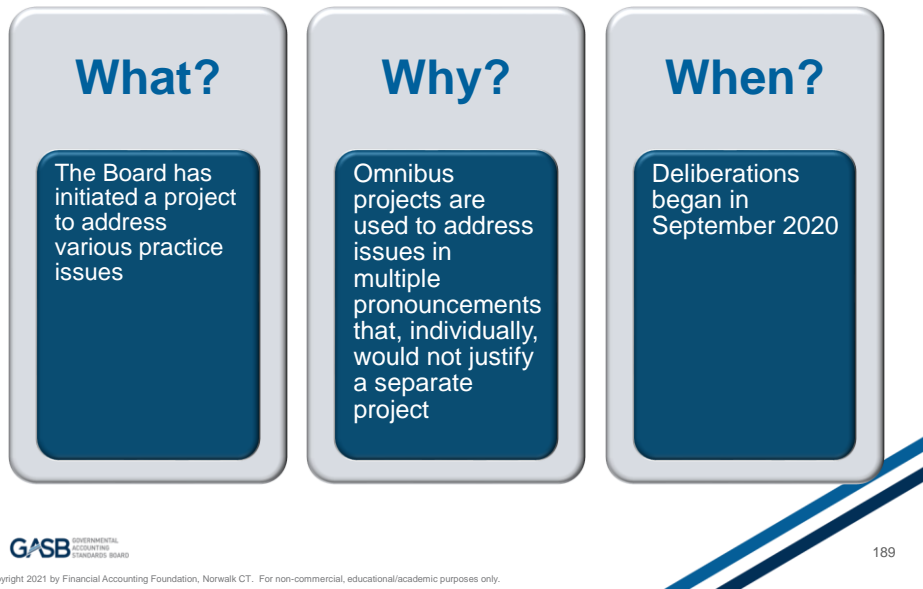


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Omnibus Project



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Topics to Be Considered

Remeasurement of certain assets and liabilities

- Appropriate reporting of leases, P3s, and SBITAs when there is a change in an index or a rate used to determine variable payments

Effect of a purchase option on contract terms and the measurement of the liability

Derivative instruments that are neither hedges nor investments

- Some derivative instruments classified as investments under Statement 53 do not meet the Statement 72 definition of an investment

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Topics to Be Considered (continued)

Exchange financial guarantees

- Statement 70 applies to nonexchange financial guarantees but not to exchange or exchange-like transactions

Extension of effective date for phaseout of LIBOR

Other technical corrections

- Outdated terminology in the Codification and other minor terminology and technical corrections



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Project Timeline

Added to Current Technical Agenda	August 2020
Deliberations Began	September 2020
Exposure Draft Expected	July 2021



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Revenue and Expense Recognition

Revenue and Expense Recognition

What?

The Board proposed a comprehensive model for recognition of revenues and expenses

Why?

Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When?

Comment deadline was February 26, 2021

Public hearings and user forums in March and April 2021

Broad Project Objective

Develop a comprehensive, principles-based model that establishes guidance applicable to a wide range of revenue and expense transactions to:

- Expand on areas where there is no guidance—expenses
- Expand on areas where there is limited guidance—certain revenues
- Consider practice issues and challenges identified in current guidance—Statement 33
- Consider the conceptual framework—issued after Statement 33
- Consider performance obligation recognition



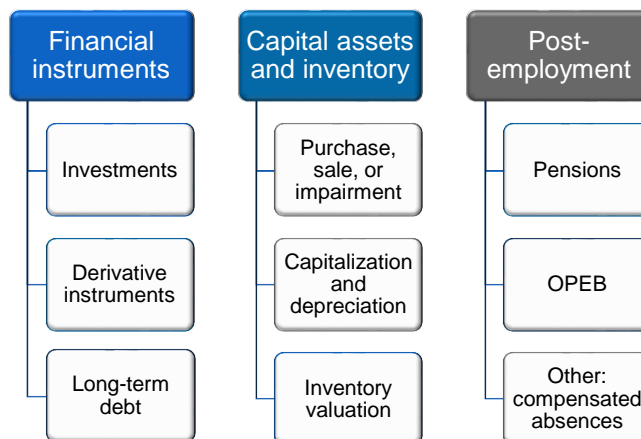
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Scope of the Project

- The scope is defined broadly to include revenues and expenses except for those ***explicitly excluded***:

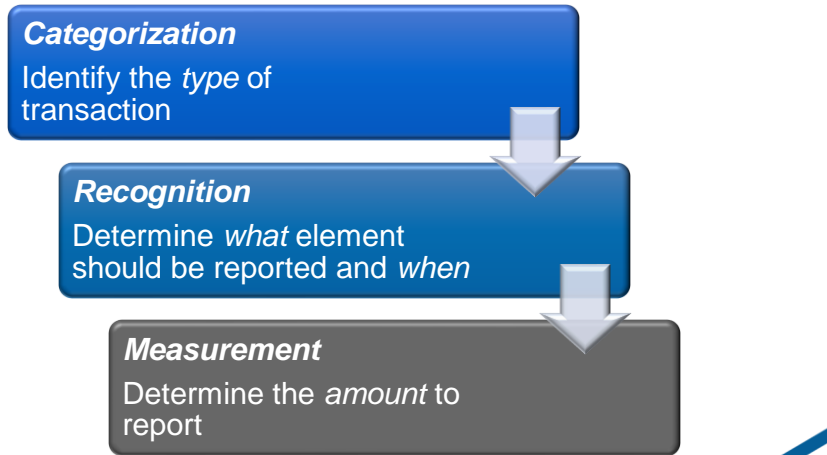


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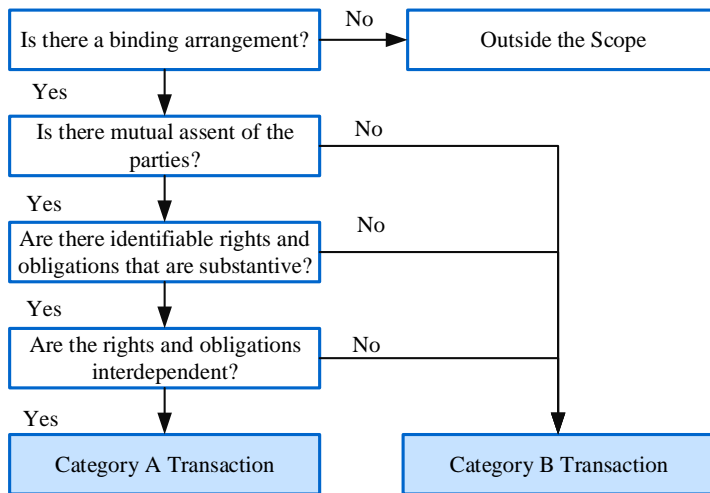
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Proposed Recognition Model Components



Proposed Categorization Methodology

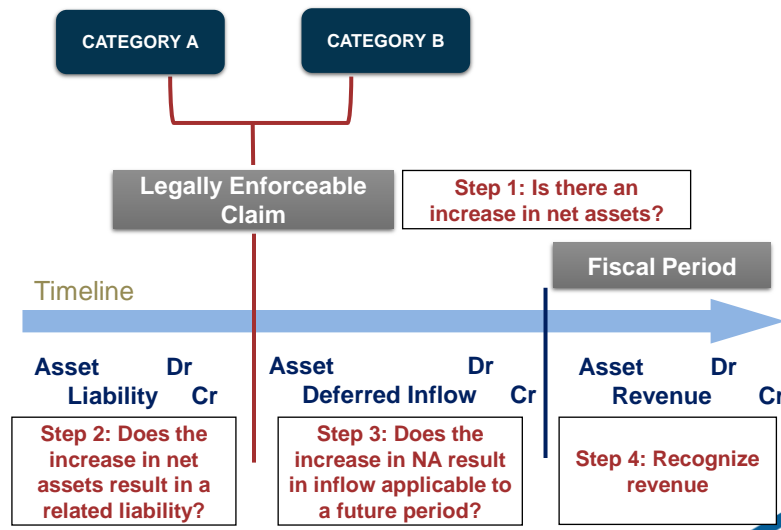


Outcomes of the Proposed Model *

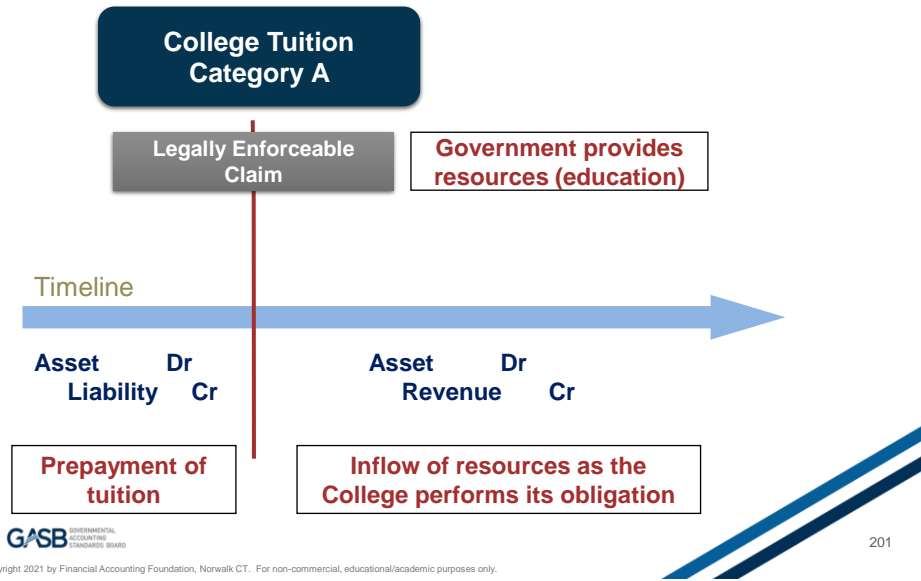
Category A	Category B
Fees for service (water, electric, garbage)	Taxes (property tax, income tax, sales tax)
Eligibility-based grants	Punitive fees
Research grants and revolving loans	Special assessments
Medicaid fees for services	Donations
Tuition fees	Regulatory fees (drivers licenses, building permits, marriage licenses, professional licenses)
Most expenses	Purpose-restricted grants
	Capital fees (developer fees, PFCs)
	Medicaid supplementary payments

* Transactions highlighted in blue would have different outcomes than under current literature

Proposed Revenue Recognition Principles

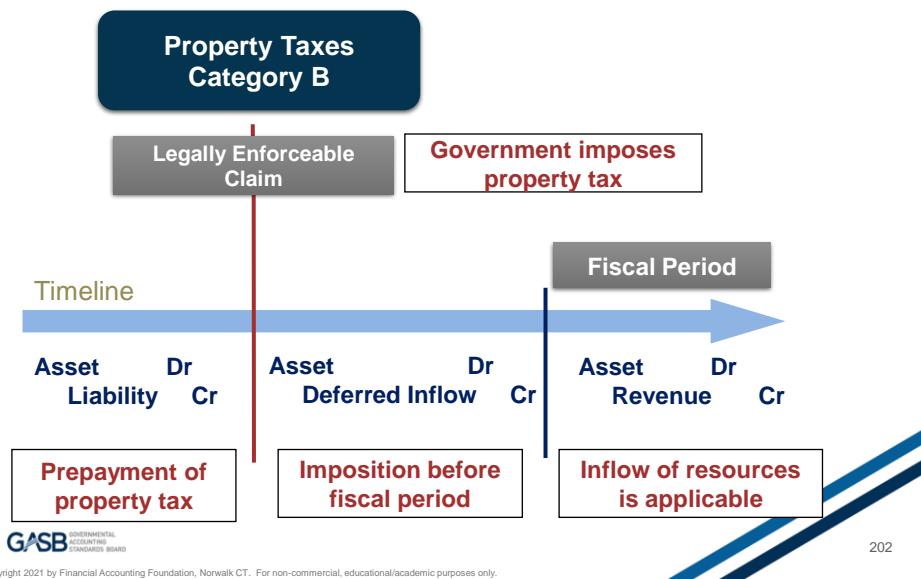


Category A Revenue Recognition Example



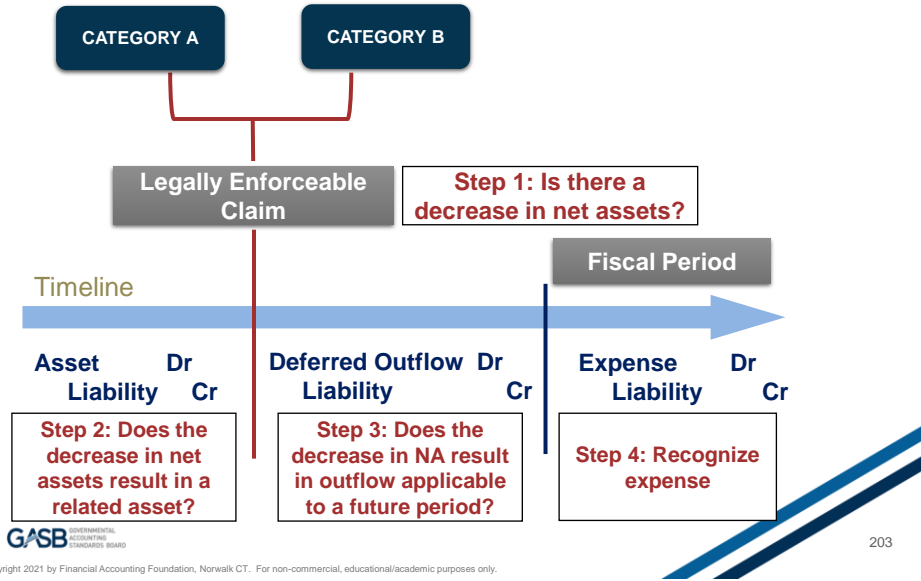
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Category B Revenue Recognition Example



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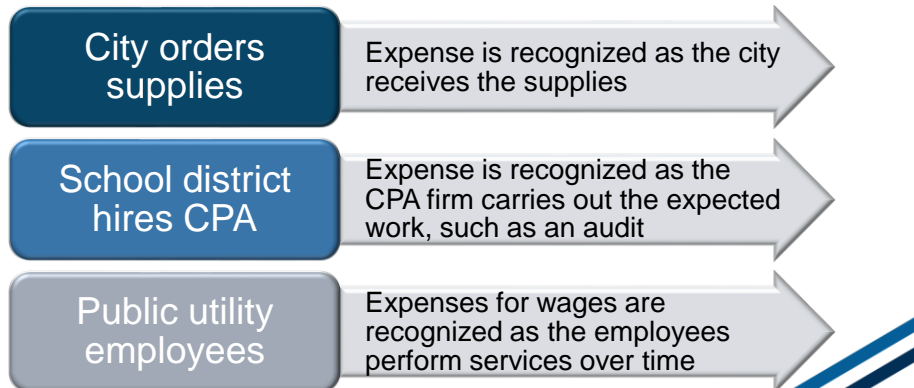
Proposed Expense Recognition Principles



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Category A Expense Recognition Examples

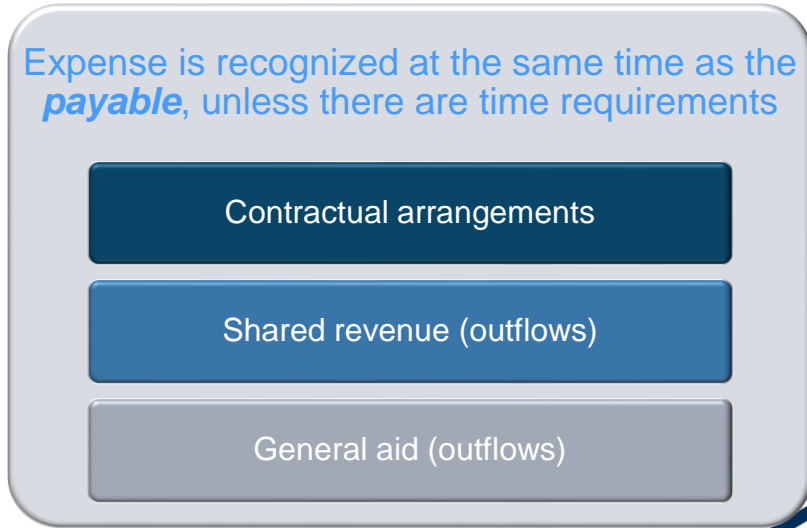
A performance obligation is satisfied when there is a transfer of control of resources



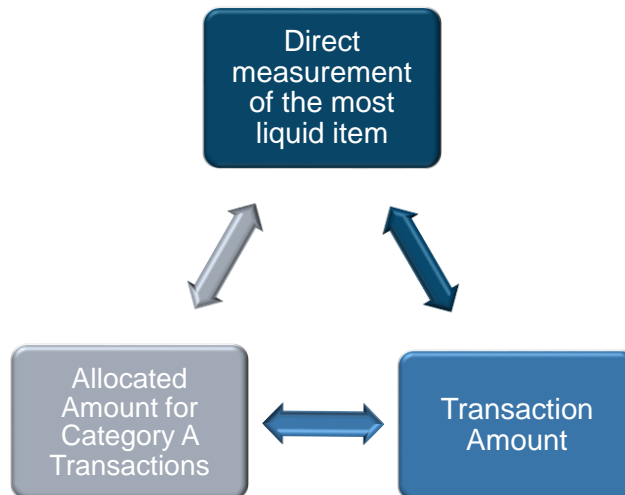
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Category B Expense Recognition Examples



Proposed Measurement Principles



Project Timeline

Pre-Agenda Research Started	September 2015
Added to Current Technical Agenda	April 2016
Invitation to Comment Cleared	January 23, 2018
Preliminary Views Approved	June 2020
Comment Deadline	February 26, 2021
Public Hearings	March 23, 30 & 31, 2021 April 8, 13, 14, 20 & 21, 2021
User Forums	April 9 & 15, 2021
Exposure Draft Expected	June 2023

POLLING QUESTION

Pre-Agenda Research Activities

GASB GOVERNMENTAL
ACCOUNTING
STANDARDS BOARD

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Capital Assets

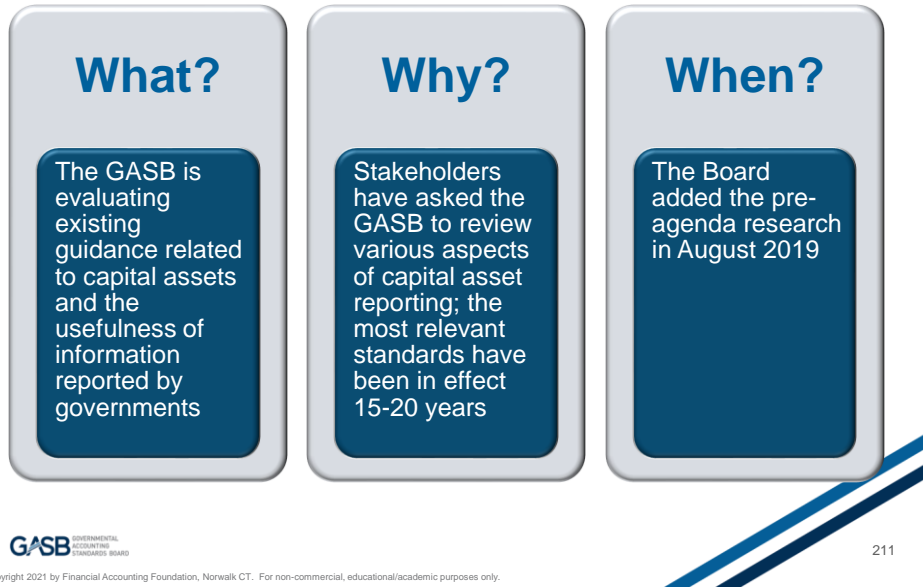
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ACCOUNTING
STANDARDS BOARD

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Capital Assets



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Topics to Be Considered



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Going Concern Disclosures: Reexamination of Statement 56



213

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Going Concern Disclosures

What?

The GASB is reviewing existing standards related to going concern considerations, which were incorporated into GASB literature mostly as-is from the AICPA literature in Statement 56

Why?

As it is currently defined, going concern may not be meaningful for governments, which hardly ever go out of business; AICPA and others have asked the GASB to examine the issue

When?

The Board added the pre-agenda research in April 2015



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Topics to Be Considered

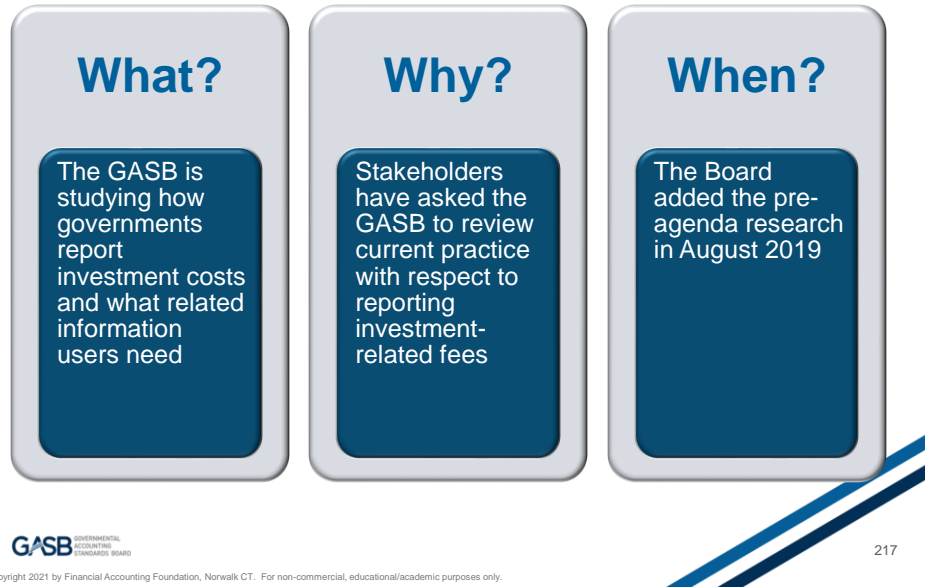
Are the current going concern indicators presented in note disclosures appropriate for state and local governments, in light of the fact that, even under severe financial stress, few governments cease to operate even when encountering such indicators?

What other criteria might better achieve the objective of disclosing severe financial stress uncertainties with respect to governments?

What information do financial statement users need with respect to the disclosure of severe financial stress uncertainties?

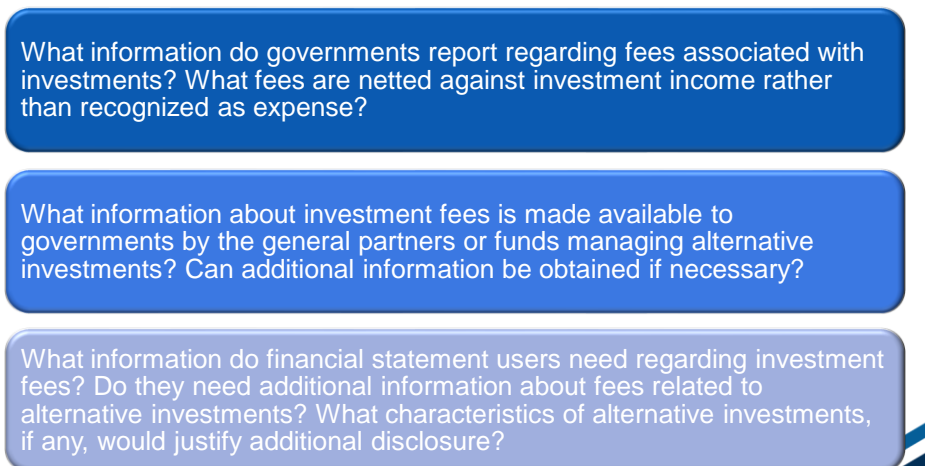
Investment Fees

Investment Fees



217

Topics to Be Considered



218

Interim Financial Reporting



219



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Interim Financial Reporting

What?

The GASB is assessing the need for guidance on how to report on a GAAP basis for periods of less than a year

Why?

There is no guidance in the GASB literature for preparing interim financial statements

When?

The Board added the pre-agenda research in August 2019



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Topics to Be Considered

What is current practice with respect to interim financial reporting?

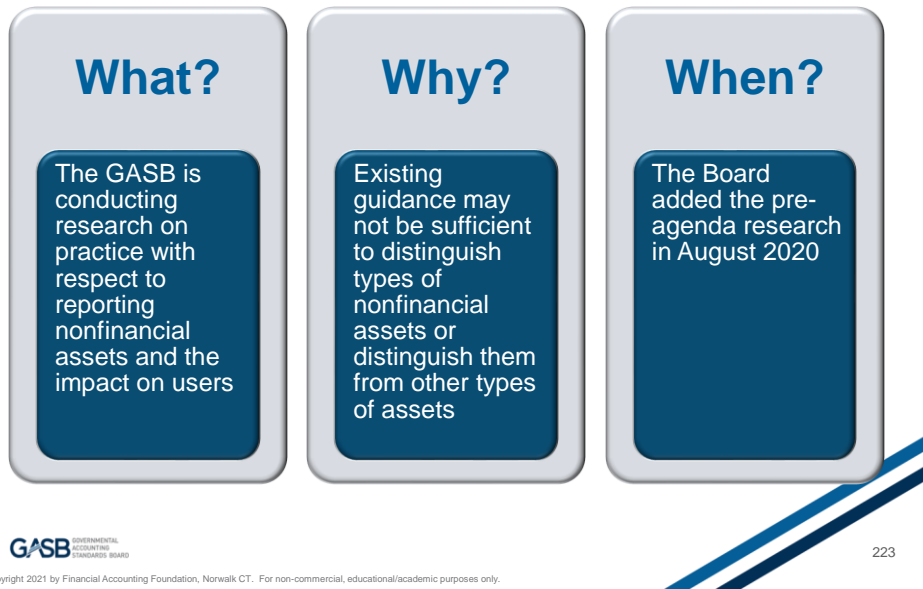
Do interim GAAP financial reports of general purpose or business-type governments provide users with valuable information?

Should specific recognition and measurement standards be developed for interim GAAP reporting?

Should separate reporting entity standards be developed for interim GAAP reporting?

Nonfinancial Assets

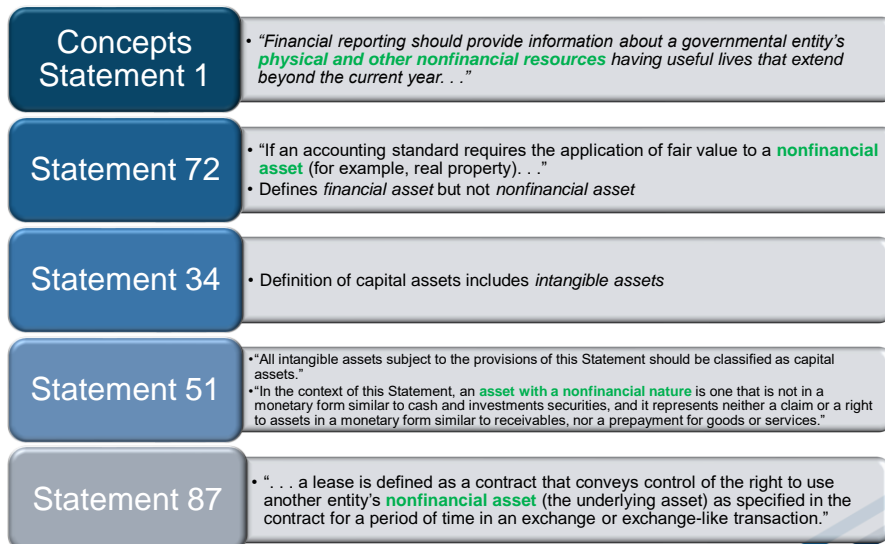
Nonfinancial Assets



223

223

Existing Guidance



224

224

Topics to Be Considered

Should intangible assets associated with other intangible assets (for example, software under Statement 96) and intangible assets associated with tangible assets (for example, leases under Statement 87 and P3s under Statement 94) continue to be classified as capital assets?

Should intangible assets addressed in Statement 51 (for example, internally generated software) continue to be classified as capital assets?

Should other types of assets (for example, capital assets held for resale, patents, copyrights) be classified as nonfinancial assets versus being classified as capital assets?

Does the nonfinancial assets classification communicate information that users need? Is it important to receive information distinguishing capital assets from other nonfinancial assets?

POLLING QUESTION

Questions?

Visit www.gasb.org



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www.gasb.org

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Financial Reporting Model Reexamination

In September 2018, the GASB issued a Preliminary Views in its Financial Reporting Model project. The Board has also proposed new concepts for developing standards on recognition in financial statements.

[MORE](#)



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Website Resources

- Free download of Statements, Implementation Guides, Concepts Statements and other pronouncements
- Free access to the basic view of Governmental Accounting Research System (GARS)
- Free copies of proposals
- Up-to-date information on current projects
- Form for submitting technical questions
- Educational materials, including podcasts



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Jonathan Kraftchick



A Partner in the Raleigh office, Jonathan also serves as the head of the Firm's Innovation team. After graduating from the University of North Carolina, he was an auditor for a variety of companies and industries throughout the country, as well as writing and delivering courses both inside and outside of the Firm. Outside of his work at Cherry Bekaert, Jonathan served as an adjunct professor at Elon University in their accounting department. In 2018, Jonathan was the first-ever recipient of the NCACPA

Elevating Women Award, which recognizes a male in the CPA profession who actively supports the advancement of women. In 2017, Jonathan placed second runner-up in [CPA.com](https://www.cpa.com)'s Innovative Practitioner of the Year, which recognizes innovation in process, services or technology implementation in public accounting firms. He also currently serves on the Board of the North Carolina association of CPAs.

Leading through Transitions: Empowering Agility In Ourselves and Others

Jonathan Kraftchick, CPA
Partner – Innovation

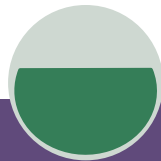


1

Our Goals Today



Normalize
Change



Demystify
Change

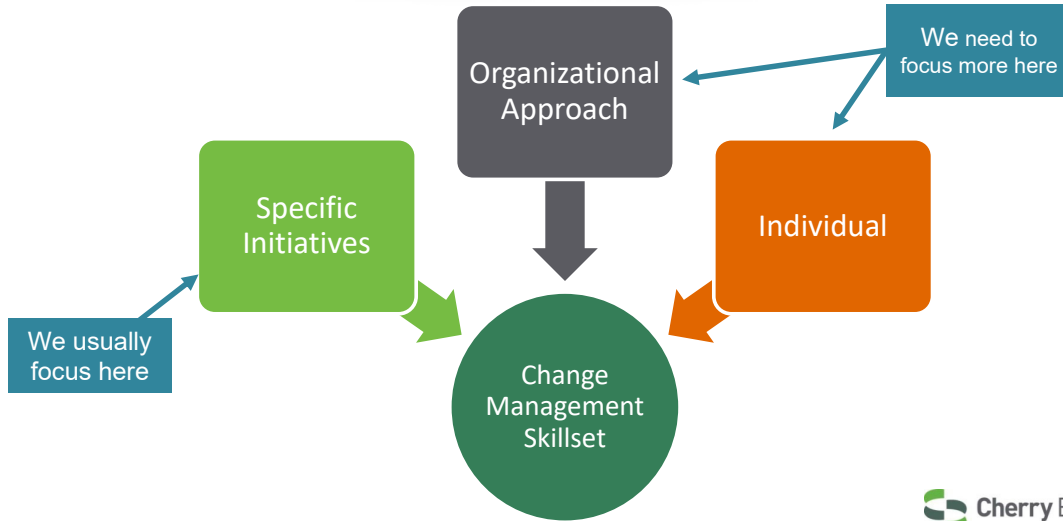


Expand the
Leaders' Change
Skillset



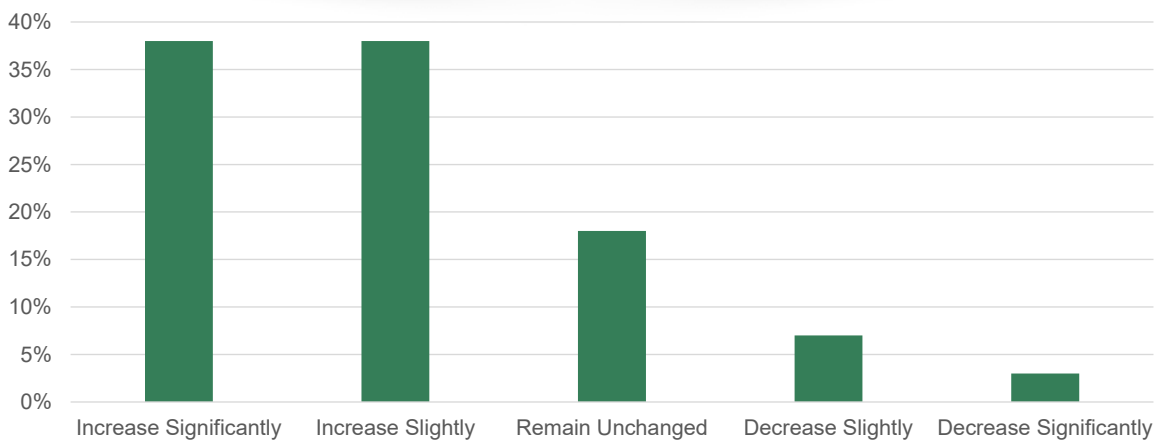
2

Layers of Change



3

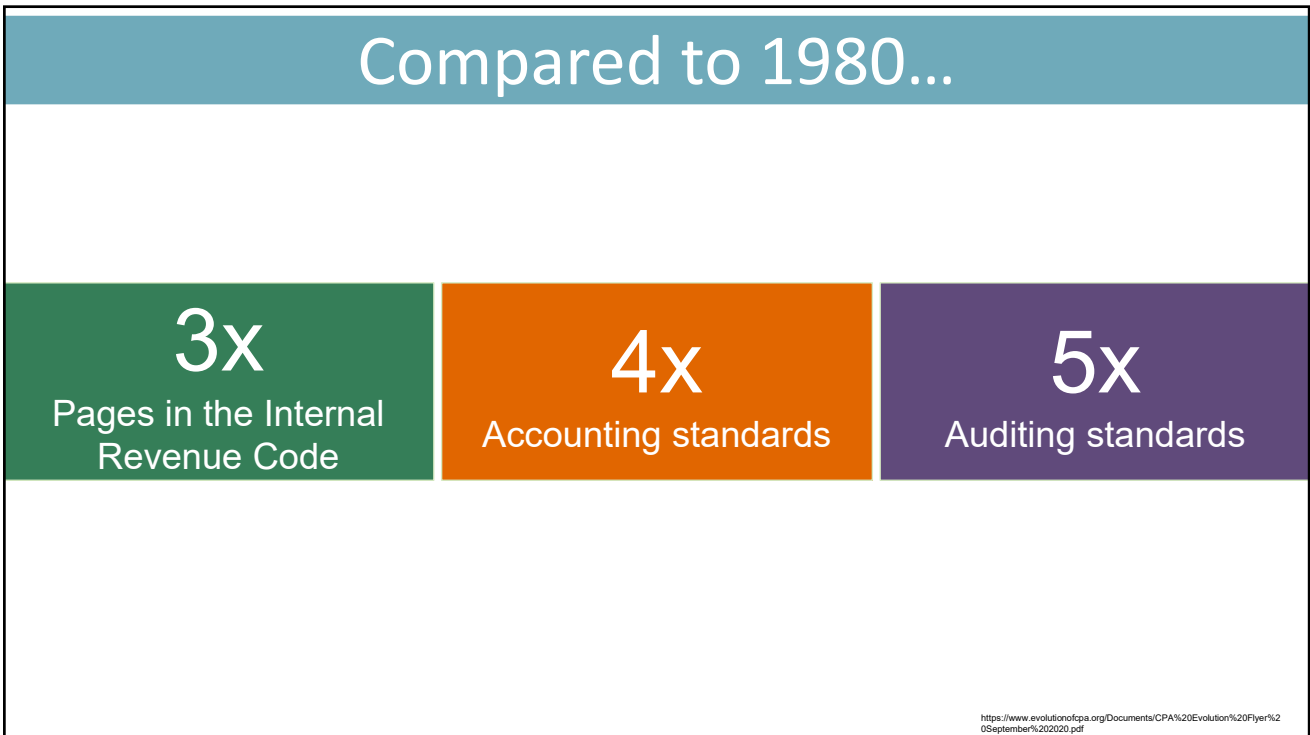
Expected Change in the Next 2 Years



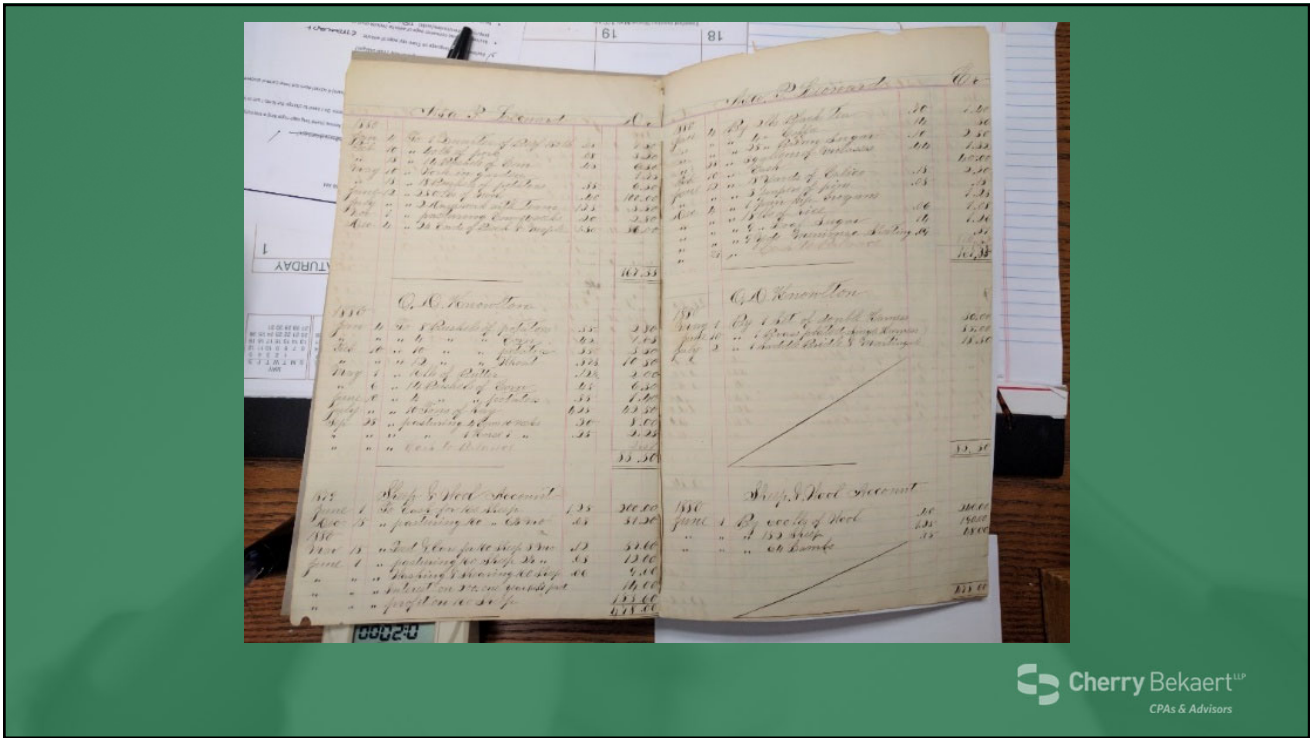
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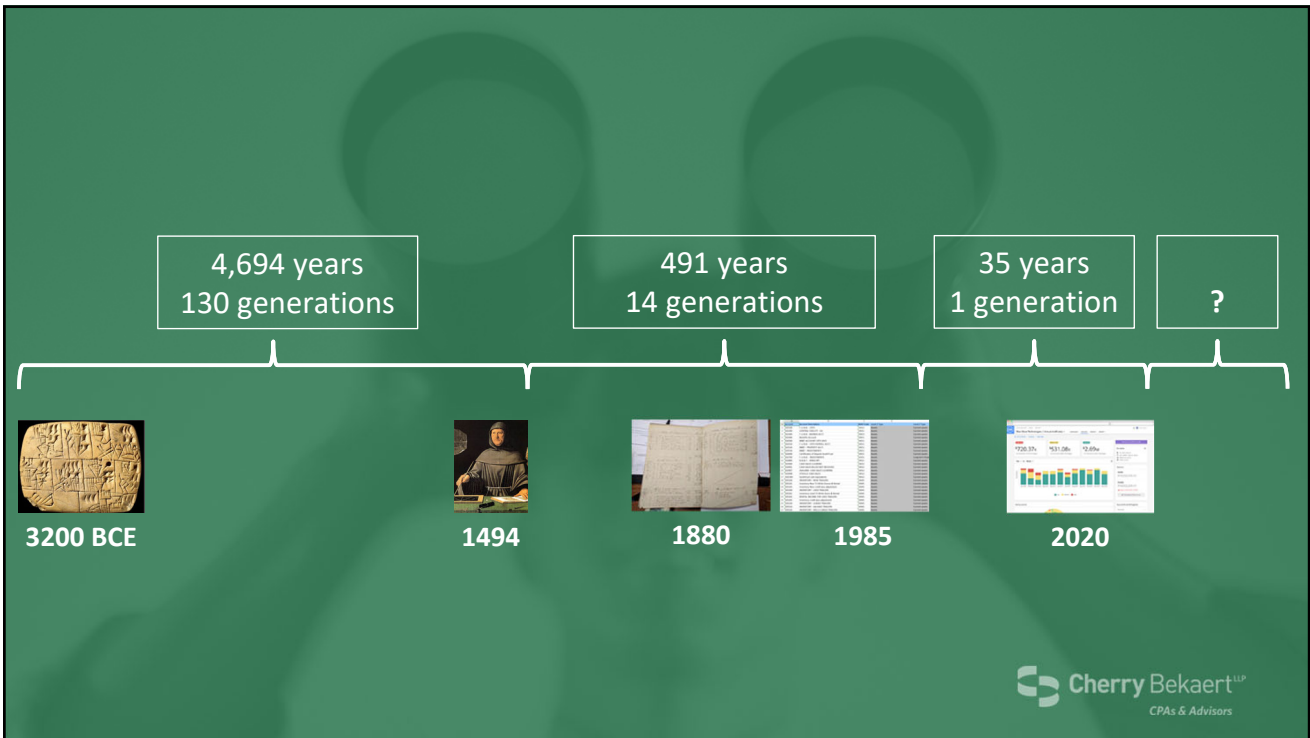


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Cherry Bekaert^{LLP}
CPAs & Advisors

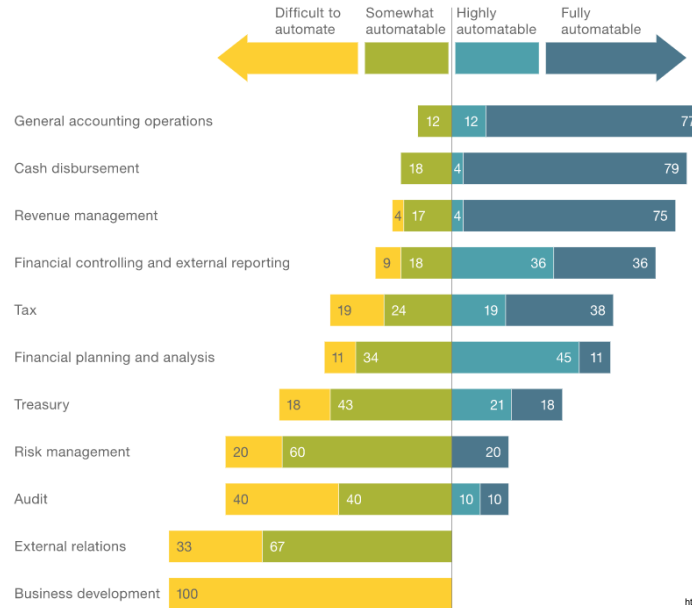
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8

Today's Accounting Technologies...



9

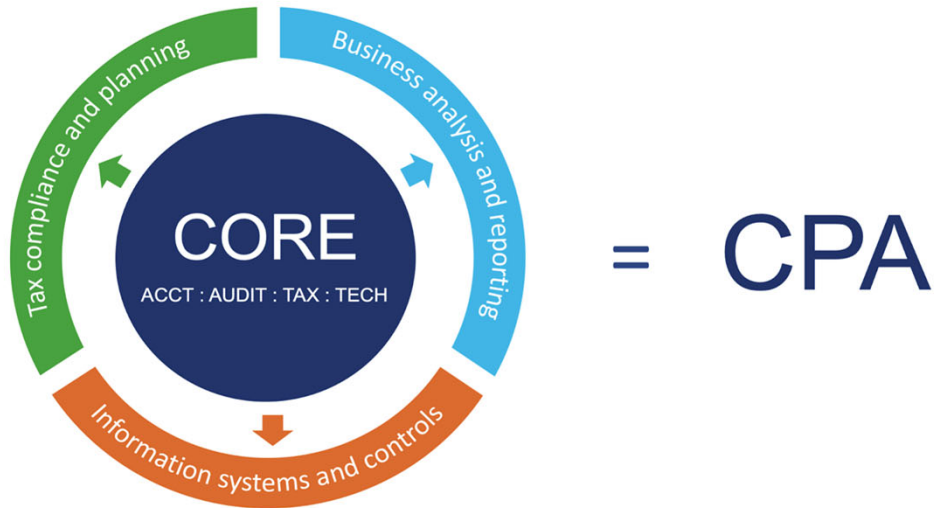
Probability of Computerization by 2030



https://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf

10

Tomorrow's CPA Exam...



11

What comes with Growth?

- New people
- New clients / customers / users
- New partnerships
- New processes
- New services
- New tools
- MORE CHANGE**



12



GREAT! This will be easy!

13

Boomers and Gen X'ers love this stuff, right?

You spend all your time thinking outside the box. I spend all my time putting everything back in.

14

Millennials and Gen Z love this stuff, right?

Don't expect us to cheer as you turn us into factory workers and show us the machines that will replace us in one motion. This might have made sense at the partner level, but you don't show those to slaughter the way they will die.

15

Do any numbers here make you nervous?

	This Year	Last Year	2 Years Ago
Cash	\$ 8,595,003	\$ 8,341,994	\$ 7,971,462
Investments	4,295,653	4,371,021	4,000,672
Land & Buildings	3,299,347	14,191,603	14,620,704
Accounts Payable	5,929,482	6,528,769	5,784,536
Accrued Payroll	1,375,733	1,232,787	1,155,631

16

If so many company leaders say they embrace change, why do so many adoption initiatives fail?

17

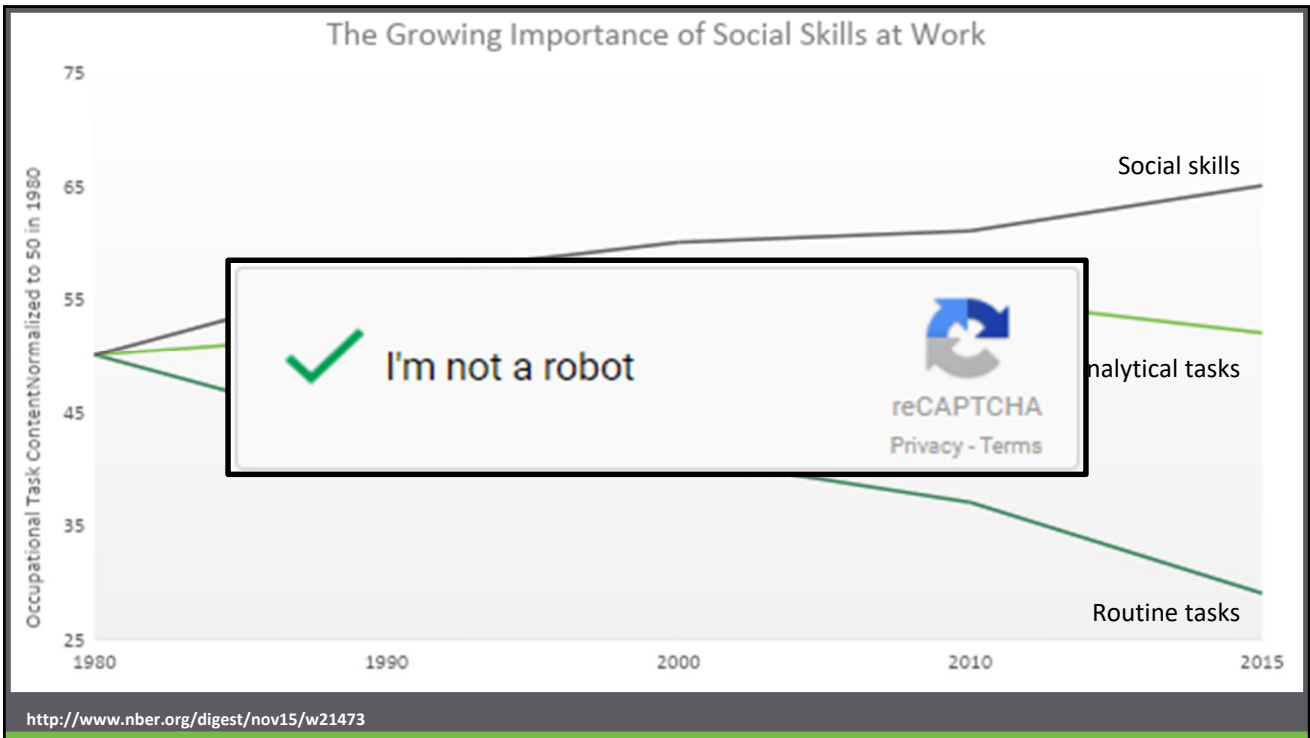


18

The humans are missing!

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19



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Hardwired for Human Connection



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Leadership Theories

Theory A

- People will avoid work if they can
- People resist change
- People are constantly in need of a good prod
- People prefer to be directed

Leaders must closely control and use carrots/sticks to motivate people in order to achieve their vision.

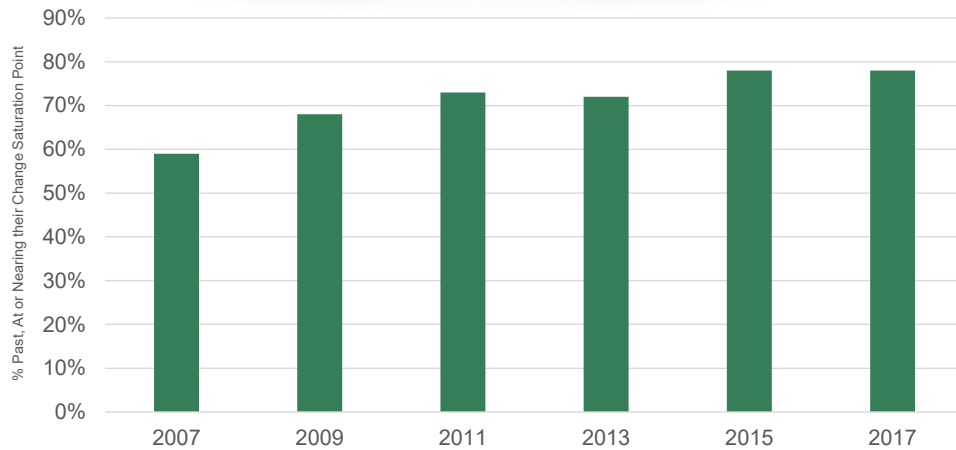
Theory B

- People want to do great work
- People seek responsibility
- People are vital change agents
- People want to make a difference

Leaders should concentrate on fulfilling the potential of each worker and giving them opportunities to participate.

22

Change is exhausting us



Prosci Inc. Best Practices in Change Management, 2018 edition



23

How change can feel WITHOUT a change strategy



24

How change feels WITH a change strategy

The diagram illustrates a five-step process for change. It starts with an orange box labeled 'Current State' on the left and ends with a green box labeled 'Future State' on the right. Five orange arrows connect the states, with each arrow passing through a small orange circle labeled 'Step 1' through 'Step 5'. A purple, cloud-like shape obscures the area around Step 1. The woman in the white dress is positioned behind the diagram, with her arms raised in a celebratory gesture.

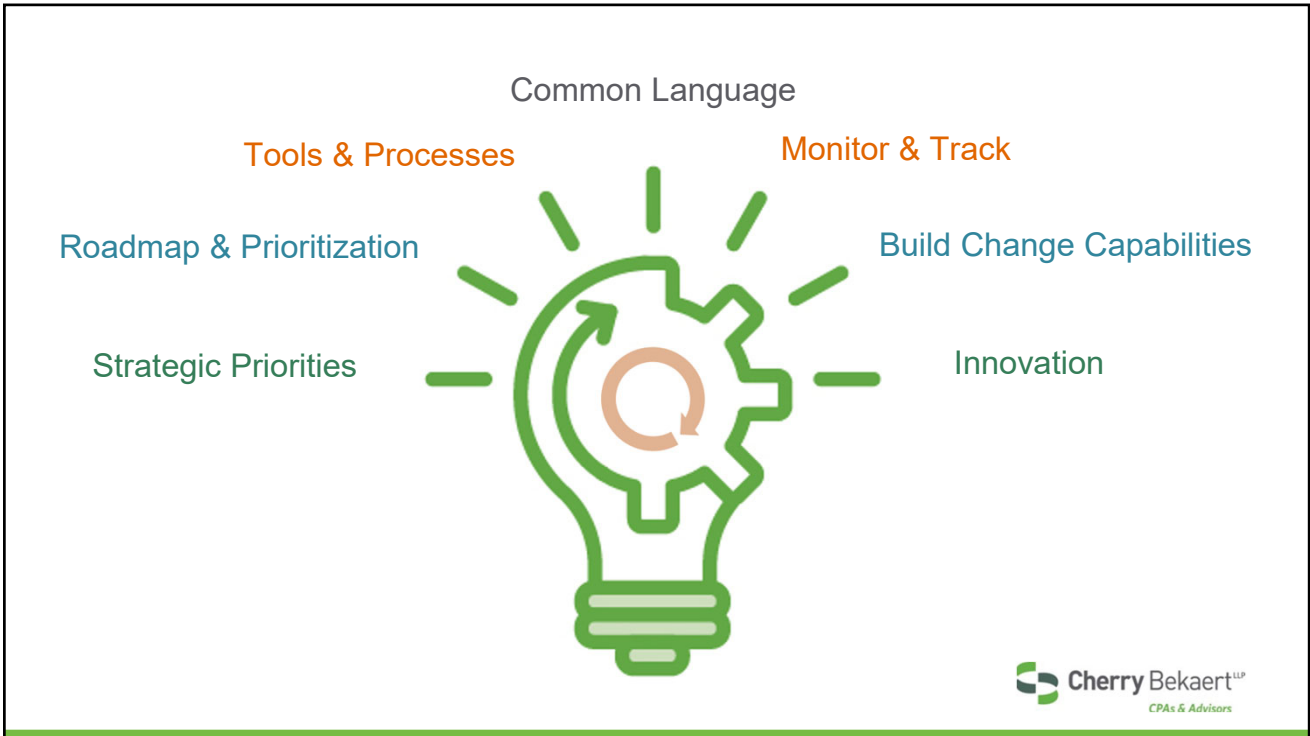
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25

It's time to change the way we change

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CPAs & Advisors

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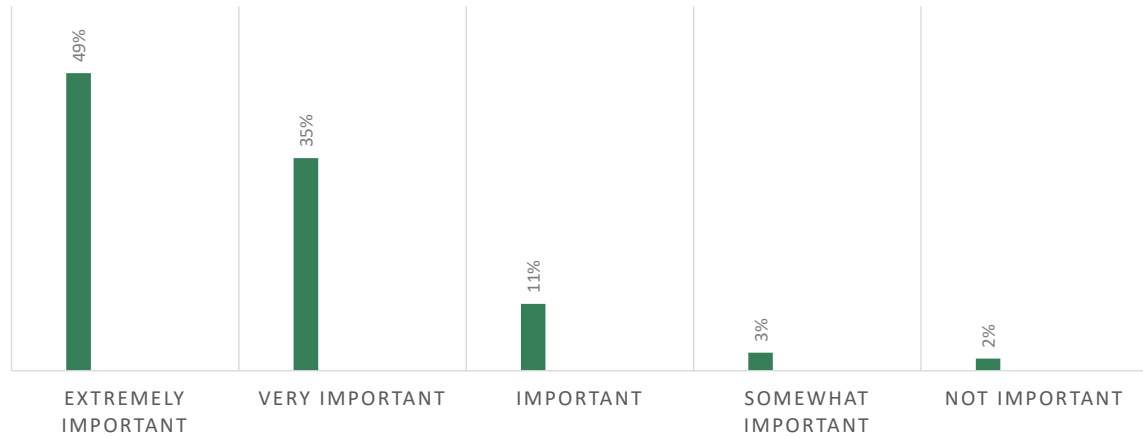


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How important is leadership participation in the success of our change efforts?

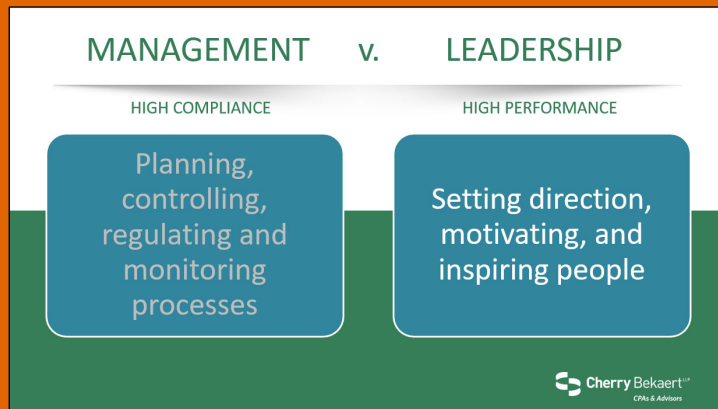


Prosci, Inc. 2018



29

Management vs. Leadership



Manage ~ manus: hand, manual, handle things

Leader ~ leado; duc: to go, journey, take to places never explored

30

Leading with Impact

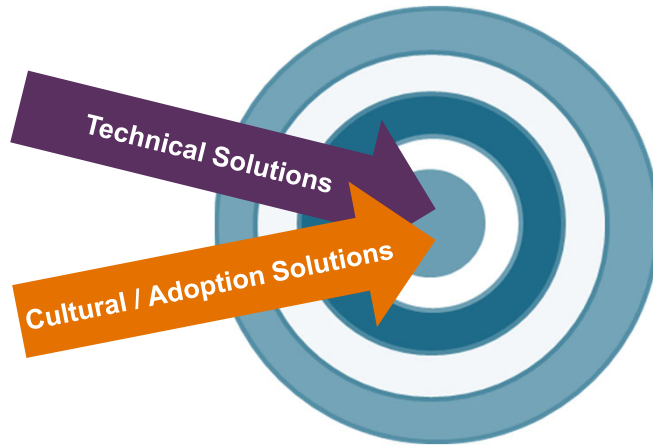


The best model and methodology for leading change is the one that works here. Now.

31

31

Predicting the Success for Change



Quality of Technical Solution

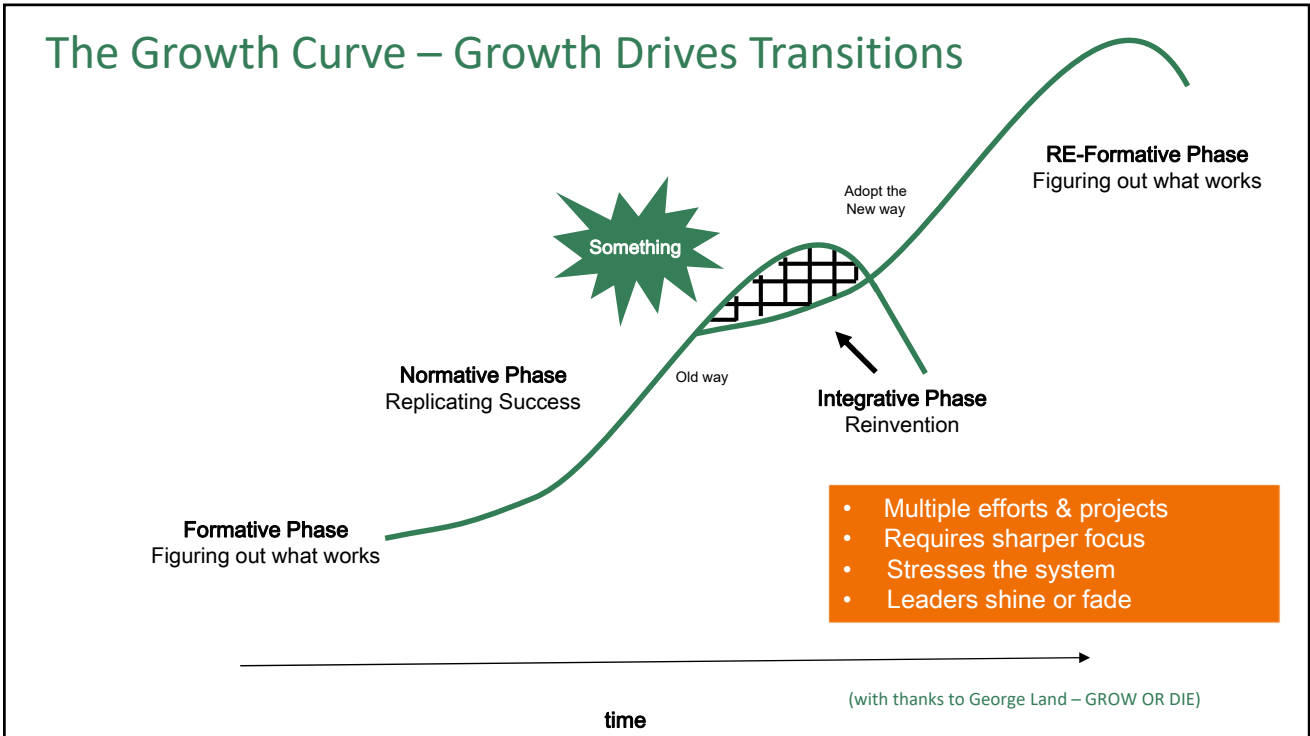
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Effective Acceptance of Solution

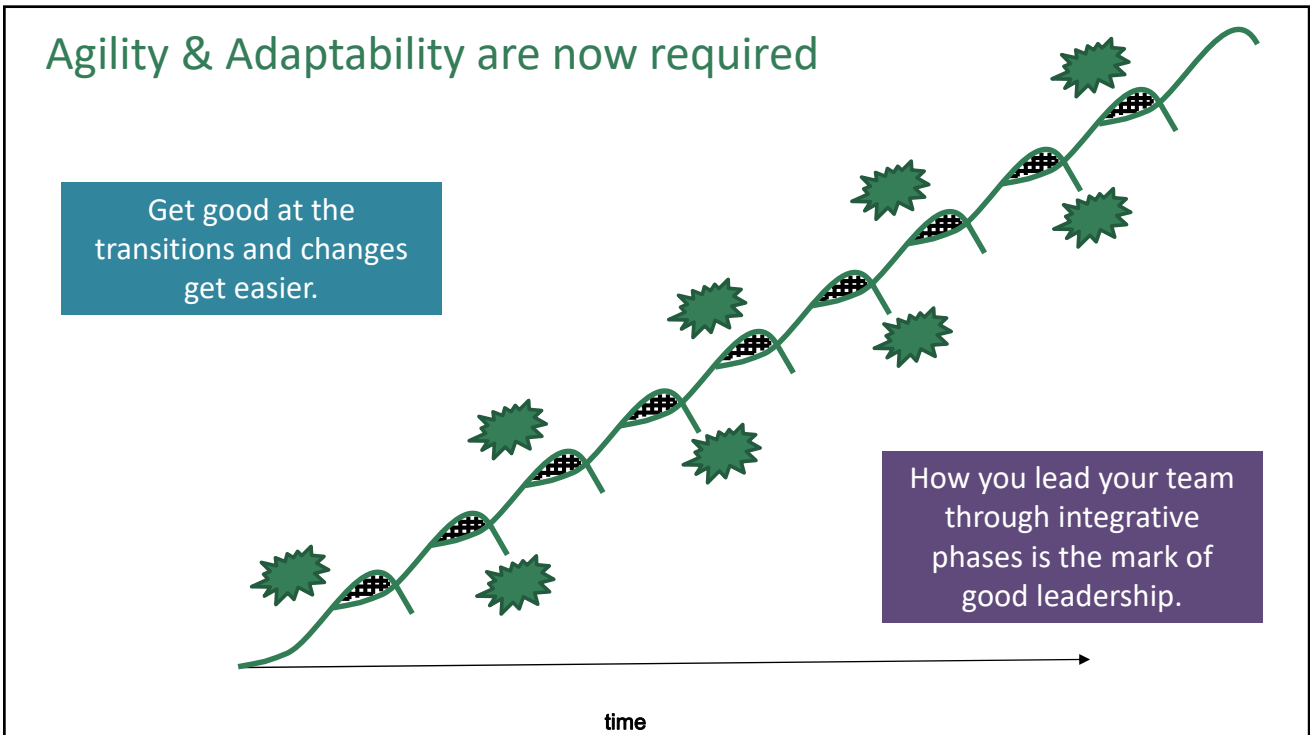
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Chance for Lasting Adoption

32



33

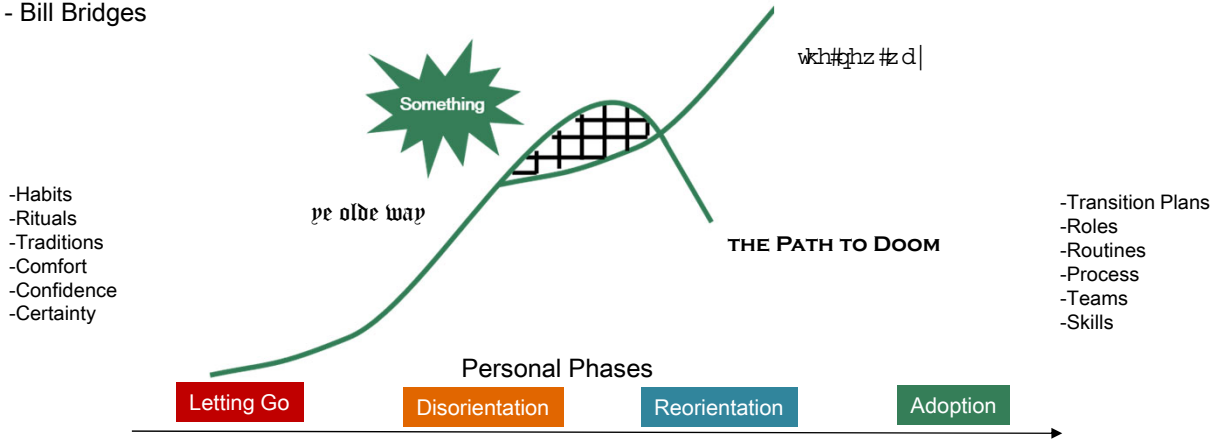


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Understanding Transition

“Transition is the state that change puts people into. The **change** is external (i.e., the new technology platforms, product portfolios, or organizational structure the business is trying to bring about), while **transition** is internal – a personal reorientation that people have to go through before the change can work.”

- Bill Bridges



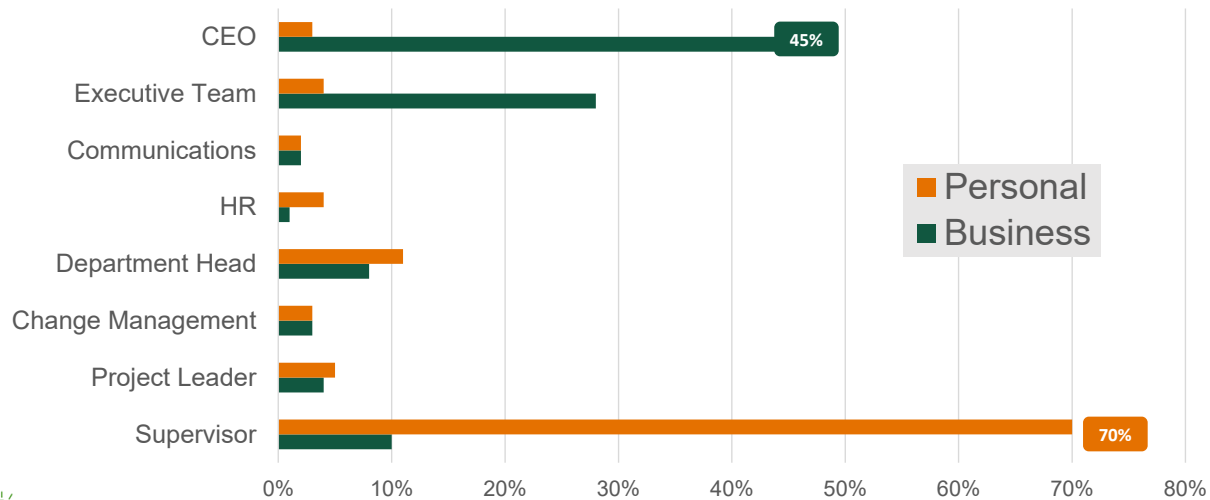
35

Your Role in Leading Transitions



36

Who do people want to hear from about change?



37

Leading the Transition

The Role as *Translator*

translate
[trans'lä't, tranz'lät];

1. express the sense of (words or text) in **another language**.

Synonyms: interpret, render, gloss, put, express, convert, change, construe, transcribe, transliterate

2. **move from one place or condition to another**.

Synonyms: relocate, transfer, move, remove, shift, convey, transport, transplant

3. cause (a body) to move so that all its parts **travel in the same direction**, without rotation or change of shape

38

Why the change is necessary

- WHY these changes are necessary, and the value expected as a result. Make a relatable case for change.

Describe the Change:

Instead of bippity-boppity-boop, we will now boppity-bippity-boop.

	Risks if we don't do this...	Opportunities If we pull this off...
Short Term Possibilities	1.	3.
Long Term Possibilities	2.	4.

41

Why the change is necessary

- WHY these changes are necessary, and the value expected as a result. Make a relatable case for change.

Describe the Change:

Instead of bippity-boppity-boop, we will now boppity-bippity-boop.

	Risks if we don't do this...	Opportunities If we pull this off...
Short Term Possibilities	1.	3.
Long Term Possibilities	2.	4.

42

42

How we will transition together

- Address Obstacles
- Steps, Roles and Deliverables
- Checkpoints, Milestones & Celebrations
- Demonstrations and Examples
- Checklists
- Resource Requirements



Logical Pathway & Playbook



43

Your Role in Leading Transitions

Translator

Encourager

Role Model



44

Encourage and Support

- Build an eco-system for initial & ongoing support and encouragement
 - Have a communication plan
 - Proven ways to adapt to the new routines
 - Helping one another overcome barriers and succeed
 - Create a Safe Zone for frequent Feedback and Updates
 - Designated champions
 - Classes and Training

- Become the *encourager in chief* = *ENERGY*

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Your Role in Leading Transitions

Translator



Encourager



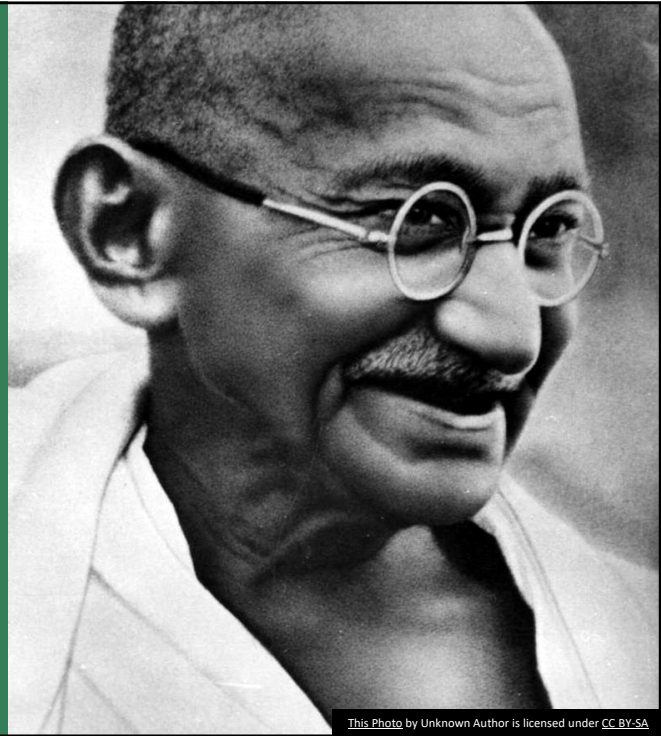
Role Model



46

Role Model

For people to change,
I must change.



This Photo by Unknown Author is licensed under CC BY-SA

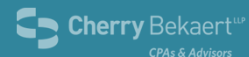
47

Your Example is Contagious

- A leader is always in the spotlight
- Behave the way you want others to act
- Let others see you going about your work
"The New Way"



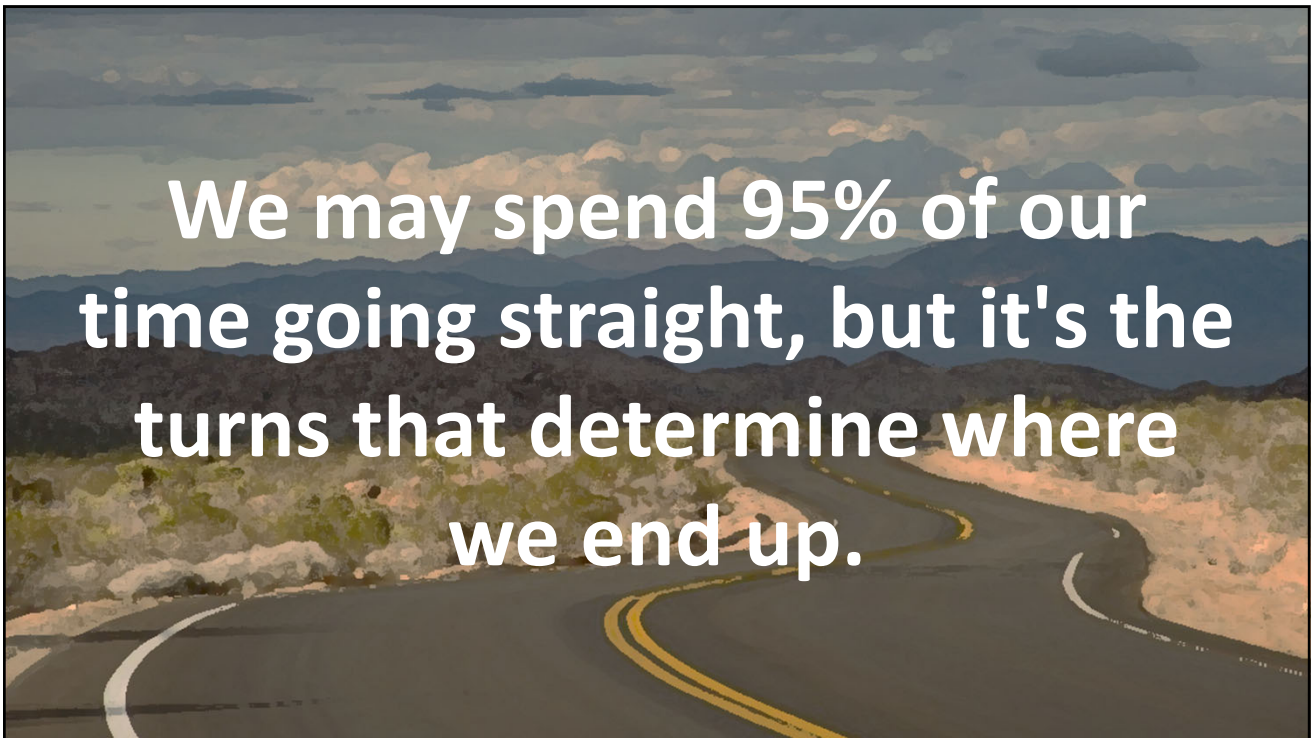
"Setting an example is not the main means of influencing others, it is the only means" A. Einstein



48



49



50

Leading through Transitions: Empowering Agility In Ourselves and Others

Jonathan Kraftchick, CPA
Partner – Innovation





Steven J. Ursillo, Jr., CPA, CISA, CISSP, CCSFP

Partner, Risk Assurance & Advisory Services

National Leader, Information Assurance & Cybersecurity

1300 Division Road, Suite 202
West Warwick, RI 02893

Let's Talk
E sursillo@cbh.com
P 401.250.5605

Steve serves as Cherry Bekaert's National Leader for the Information Assurance & Cybersecurity practice. He specializes in risk management, internal control over financial reporting, information system security, privacy, cyber fraud prevention and detection, security and privacy governance, and IT assurance services.

With more than 20 years of experience, Steve provides a variety of IT audit and security services for his clients across multiple industries. His background and knowledge with risk assurance and advisory engagements include information security readiness, cybersecurity, security and privacy attestation services, third-party assurance including HITRUST, cyber risk assessments, vendor risk assessments, disaster recover reviews, privacy reviews, System and Organization Control (SOC) reporting including SOC 1, 2 & 3, as well as other types of attestations and readiness assessments. In the area of information security, Steve's experience ranges from security consulting and implementation to security assessments involving network and attack and penetration testing.

Steve is a nationally recognized writer and speaker on issues in the forefront of cybersecurity, risk and technology publications. He has delivered numerous presentations for various professional organizations and the public. In addition, Steve has provided end-user security awareness training to several clients' staff, managers, directors, board members and to the general public. He has also performed live hacking demonstrations on simulation systems including network, wireless, mobile, application and web application attacks.

 Technology and Health & Life Sciences

 Industrial

Education

Bachelor of Science in Business Administration,
Bryant University

Masters of Computer Information Science,
Boston University

CPA License

CA-103626, DE-CA0002357, RI-2884

Professional Involvement

- ▶ American Institute of Certified Public Accountants (AICPA)
- ▶ System and Organization Control (SOC) Task Force, AICPA
- ▶ National Council, Information Management and Technology Assurance Committee (IMTA), AICPA
- ▶ Co-chair, IMTA Cyber Security Task Force, AICPA

Additional Credentials

- ▶ Certified Internal Auditor (CIA)
- ▶ Certified Global Management Accountant (CGMA)
- ▶ Certified Fraud Examiner (CFE)
- ▶ Certified Information Security Manager (CISM)
- ▶ Certified Information Technology Professional (CITP)
- ▶ Certified in Governance and Enterprise IT (CGEIT)
- ▶ Certified in Risk and Information Systems Controls (CRISC)
- ▶ Certified Ethical Hacker (CEH)
- ▶ Certified Common Security Framework Practitioner (CCSFP)

cbh.com/sursillo

NC Office of the State Controller (OSC) - Governmental Accounting Update

Cybersecurity - You have been breached! Now what?

Steven Ursillo – Cherry Bekaert LLP



1

About the Speaker

Steven Ursillo Jr., CPA, CIA, CGMA, CFE, CISA, CISM, CITP, CISSP, CGEIT, CRISC, CEH and CCSFP

Partner at Cherry Bekaert LLP | National Leader, Information Assurance & Cybersecurity

- ▶ Over 20 years of experience specializing in risk management, SOC, information system security and privacy, cybersecurity fraud prevention, detection and response, security and privacy governance, red and blue teaming, IT assurance services and internal control over financial reporting
- ▶ Current chair of the AICPA IMTA (Information Management and Technology Assurance) Executive Committee
- ▶ Nationally recognized writer and speaker on issues in the forefront of cybersecurity, risk and technology publications
- ▶ Past President RISCPA and RICFE
- ▶ Past AICPA Council Member



2



2



Agenda

- Learning Objectives & Cybersecurity Threat Landscape
- IR Plan Objectives and Considerations
- Security Incident Life Cycle
- Financial Risk Mitigation-Cyber Insurance
- Key Takeaways
- Questions

3



3

Learning Objectives

Participants will identify and recognize:

- The latest cyber threat landscape
- Key components when designing, executing and monitoring an incident response program
- Key considerations when responding to a cybersecurity breach
- Cybersecurity risk mitigation strategies



4



4

Polling Question #1

I am currently working under the following conditions:

1. 100% remote
2. Between 50-99% remote
3. Between 20%-49% remote
4. Between 1%-19% remote
5. 100% in the office



5



5

Cybersecurity costs and concerns

\$6T

*Cost of
cybercrime in
2021*

\$3.92M

*Cost of a data
breach in 2018*

25,575

*Average
records lost per
breach*

\$150

*Cost per lost
record*

50.5 Days

*Median number of
days attackers are
present before
detection*

Sources:

Cybersecurity Ventures Official Annual Cybercrime Report, 2019;

IBM and Ponemon Institute The Cost of a Data Breach, 2019

FireEye 2019 Mandiant M-Trends Report Finds Organizations Across the Globe Are Faster to Identify Attacker Activity Compared to Previous Year, 2019

6



6

Attackers

69% Outsiders

- Organized Crime/Terrorists
- State Affiliated/Nation State
- Hacktivists/Activist

34% Insiders

- Employee
- Disgruntled Employee
- Past Employee
- Hackers/Crackers
- Unaffiliated
- Competitor (Espionage)
- Terrorist
- Vendor / Customer (Trusted 3rd Party)

Source: Verizon 2019 Data Breach Investigations Report

7



7

The variety, sophistication and maturity of attacks are bewildering

Cybersecurity Trends

- ▶ Regulatory Attention
- ▶ Ransomware as a Service (RAAS)
- ▶ Social Engineering
- ▶ Phishing attacks thrive across social media platforms
- ▶ Proliferation of IoT Devices
- ▶ Automated Attacks
- ▶ Sophisticated attack techniques
- ▶ Malware for mining crypto currency
- ▶ Sensitive data in public cloud
- ▶ Cyber espionage on the rise
- ▶ Web apps evolving faster than web security

8



8

The variety, sophistication and maturity of attacks are bewildering (Continued)

Top Threats

- ▶ Phishing/variants
- ▶ Targeted Ransomware
- ▶ No footprint malware
- ▶ Password spraying
- ▶ Business email compromise
- ▶ Advanced persistent threats

Top Risks

- ▶ Consolidation and M&A
- ▶ Outsourcing/supply chain
- ▶ Cloud apps/email/social media
- ▶ Poor patching processes
- ▶ Badly coded applications
- ▶ Failing to Plan

9



9

Cybersecurity Governance Quick Hit Checklist



- ▶ Strategy (objectives, resources, business strategy)
- ▶ Governance
- ▶ Critical Data and Asset Identification
- ▶ Risk Management
- ▶ Vulnerability Management
- ▶ Third Party Risk Management
- ▶ Monitoring and Reporting
- ▶ Incident Response and Breach Notification
- ▶ Awareness and Training

10



10

NIST Cyber Security Framework



11



11

Polling Question #2

I work in the following area:

1. Accounting
2. Technology Risk
3. Cyber/Tech Risk
4. Other
5. I have decided not to work for a while/ever



12

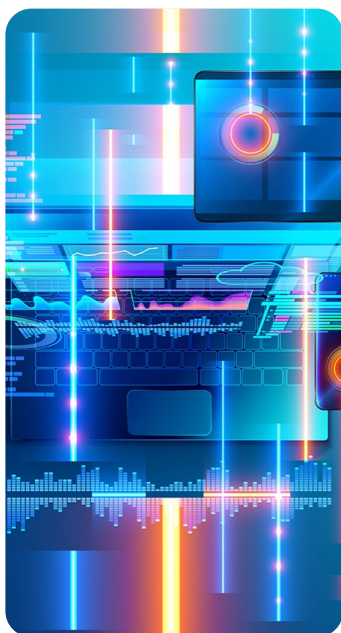


12

IR Plan Objectives and Key Considerations



13



Objectives of an IR Plan

- ▶ Safeguarding of covered and protected information
- ▶ Identify an attack
- ▶ Contain the damage
- ▶ Eradicate the root cause
- ▶ Timely and effective restoration of business operations and service level agreements

14



14

Breach Notification Requirements

- ▶ State law
- ▶ Federal law
- ▶ Global requirements (GDPR, etc.)
- ▶ Regulatory requirements (ex. HIPAA, CMMC, PCI, PCAOB, etc.)
- ▶ Third-Parties (customers, vendors, partners)
- ▶ Individuals

15



15

Data Breach Response Considerations

- ▶ Breach notification may be specified by your state or federal law
- ▶ Include information about the compromise-do not mislead
- ▶ Describe how the breach happened
- ▶ What assets were compromised
- ▶ How the adversaries used the information (if available)
- ▶ What remediation steps have been taken
- ▶ What actions have been done or are being performed to protect individuals (i.e. credit monitoring)
- ▶ How to contact the designated individual(s) in your organization for support

Source: <https://www.ftc.gov/tips-advice/business-center/guidance/data-breach-response-guide-business>

16



16

Assumptions and Key Considerations

- ▶ First Responder: individual who brings the incident (or suspected incident) to the attention of others
- ▶ Key personal have been identified, trained (roll based) and have access to the IR Plan
- ▶ Contacts are accurate and up to date
- ▶ Required notification parties are identified along with time table obligations
- ▶ Continuous monitoring and improvement considerations are tracked and accounted for
- ▶ Creation and proper communication of a cyber incident report
 - Communication considerations
 - Stakeholder Communication
 - Sub or prime contractors
 - MSP, MSSPs
 - CIO, CSO
 - Legal and Compliance
 - Other key contacts
 - Third party communication (Include necessary stakeholders)
- ▶ IR plan matures based on ongoing risk assessment processes and the plan is tested at least annually

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Roles and Responsibilities

- ▶ **IR point contact (PM)**
 - Collect information and start the incident response process
 - Manage continuous improvement and lessons learned
 - Submit incident report
- ▶ **IR Team**
 - Lead by CISO
 - Made of appropriate SME's
 - Single point of contact for all incidents
 - Analyze, communicate a triage to all parties
 - Data acquisition, analysis and management
- ▶ **CIO**
 - Request supporting information (incident / investigation)
 - Determine impact of the incident - data, systems or parties involved
 - Conduct a damage assessment
 - Draft/coordinate/distribute a damage assessment report to appropriate parties

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Security Incident Lifecycle



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Polling Question #3

When it comes to a potential material cybersecurity incident, my organization:

1. Is well prepared, bring it on!!!
2. Is fairly mature and has tested the plan on a few occasions
3. Procedures are ad-hoc but can respond based on the circumstances
4. Has not performed any preparation
5. Not sure

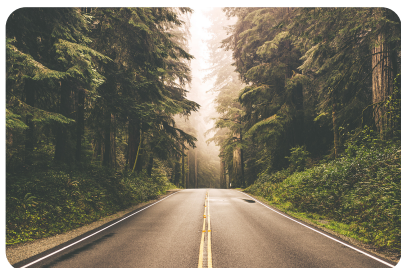


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Security Incident Lifecycle (SILC)



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Security Incident Life Cycle - Preparation

- ▶ Identify and designate the owner and responsible party for all incidents
- ▶ Identify team of experts (operations, security, forensics, legal, IT, investor and public relations, corporate communications, HR, management, etc.)
- ▶ Provide a communication outlet to report an incident to employees, contractors, third parties to report suspicious or suspected breach activity
- ▶ Focus efforts based on risk assessment results
- ▶ Ensure detection and monitoring controls are properly designed and operating effectively (firewall, IPS, anti-malware, logging, NTP)
- ▶ Provide media training to data acquisition and management team

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Security Incident Life Cycle – Preparation (Continued)

- ▶ Identify a secure repository for evidence collection and management
- ▶ Provide company wide training on breach awareness responsibility and reporting protocols
- ▶ Evaluate the adequacy of cybersecurity insurance coverage
- ▶ Additional steps taken to prepare:
 - ▶ Testing of the IR plan
 - ▶ Collection and implementation of lessons learned
 - ▶ Update contact and escalation lists on the IR plan
 - ▶ Plan distribution - make sure the IR plan is available to key personnel
 - ▶ Identify and address precursors of the incident
 - ▶ Verify resources available - tools and subject matter experts (SME's)

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SILC – Detection and Analysis

- ▶ Create/open and incident ticket
- ▶ Prioritize incident based on business impact
- ▶ ID affected resources and potentially affected resources
- ▶ Incident classification - considerations
- ▶ Gather the appropriate team
- ▶ Set up technical contacts for operational restoration
- ▶ Consult with insurance carrier
- ▶ Consult with legal (internal and/or external) specializing in data security regulatory requirements, state and federal law
- ▶ Set reoccurring meetings for status updates and next steps (remain agile)
- ▶ Perform necessary technical investigations (assessment, network, system and device forensics, etc.)
- ▶ Interview relevant individuals related to the incident
- ▶ Identify initial cause (patient zero) and coordinate the required specialist to help restore operations
- ▶ Identify the nature and classification of the data/assets affected

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SILC – Detection and Analysis (Continued)

- ▶ Identify and document indicators of compromise (IOC's)
- ▶ Identify the commencement and duration of the incident
- ▶ Identify the location and scope of the incident - network, servers, etc.
- ▶ Determine the likelihood of misuse and damage as a result of the data compromised
- ▶ Summarize threat analysis results and report conclusion
- ▶ Retain and secure evidence and preserve the integrity of evidence for potential legal action
- ▶ Triage and communicate issues to appropriate management – (Ongoing)
- ▶ Finalize an incident report
- ▶ Notify law enforcement
- ▶ Communicate to affected third parties; regulators, appropriate media, customers, investors, business partners, individuals and other stakeholders.
Don't be misleading
- ▶ Report incident to appropriate parties

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SILC – Containment & Eradication

- ▶ **Containment:**
 - Restrict or isolate the spread of the damage
 - Prioritize containment initiatives
 - Balance appropriate containment with additional service disruption
- ▶ **Eradicate:**
 - Eradication when appropriate (don't remove evidence and other artifacts that support your understanding and reconstruction of the incident. i.e. shutdown a server (memory loss))
 - Identify and mitigate all identified vulnerabilities that were exploited (service providers, network segmentation, patching, firewall rules, email and web protection, etc.)
 - Remove malicious code and other inappropriate artifacts
 - Remove improperly posted information (third party web site caching, etc.)

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SILC – Containment & Eradication (Continued)

Additional Containment and Eradication Considerations:

- ▶ Key decisions to recover quickly or perform a deeper dive with advanced forensics
- ▶ If expecting a potential law enforcement investigation, evidence will need to be preserved based on proper evidence handling protocols (acquire, preserve, secure and document)
- ▶ What team members are involved in the containment, eradication and/or recovery process?
- ▶ What strategy was used to contain the incident?
- ▶ What is the risk that containment was not successful?
- ▶ What additional tools or resources may be need to respond to the incident?
- ▶ What sources of evidence have been collected and is it complete?
- ▶ How was the evidence acquired?
- ▶ How will the evidence be stored?
- ▶ How long and where will the evidence be retained?

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SILC – Recovery

- ▶ Return affected systems to operational ready state
- ▶ Identify the recovery environment
- ▶ Consider recovery efforts and timetable
- ▶ Identify recovery efforts with strategic technology objectives
- ▶ Test and confirm functionality
- ▶ Implement additional monitoring, detection and prevention controls (restoration and ongoing)
- ▶ Continue to triage and communicate issues to appropriate management
- ▶ Educate on further prevention

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SILC – Post-Incident Activity

- ▶ Create a follow up report and document lessons learned
- ▶ Update the IR ticket and report, review the events and timelines
- ▶ Have the team reflect on the incident for lessons learned and continuous improvement to the IR plan
- ▶ Identify key control considerations and potential technology requirements that would prevent and/or detect similar incidents in the future
- ▶ Update threat management engines (analyzing IOC's) for alerting and response
- ▶ Determine if the resources were assigned adequately for the incident
- ▶ Determine how many people and what areas of specialization were needed
- ▶ Validate the incident duration from inception to detection and to containment and remediation

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SILC – Post-Incident Activity (Continued)

- ▶ Determine if additional members of the team were need and why
- ▶ Review what tools were used and their adequacy
- ▶ Determine how would the incident handling would have changed if it occurred at a different, time, duration, frequency, location, environment, etc.
- ▶ What would be different if the incident occurred within a different scope (or data classification) mentioned above
- ▶ Update risk assessment documentation
- ▶ Update business continuity and disaster recovery documentation
- ▶ Review service level commitment effects and compliance
- ▶ Evaluate the adequacy of cybersecurity insurance coverage
- ▶ Communicate results to the appropriate management
- ▶ Educate on further prevention and lessons learned

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Polling Question #4

When it comes to cybersecurity incident response communication, my organization:

1. Unfortunately had to report an incident that lead to a breach
2. Has had one or more incidents, but has not suffered a breach needing communication
3. Has never had an incident
4. Not sure



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Cybersecurity Insurance



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Cyber Insurance: Factors that Effect Coverage

- ▶ Adequate coverage for the incident (scope and limits)
- ▶ Risk assessments can be a valuable tool to assist
- ▶ Timing of coverage
- ▶ Type of policy (claims based, occurrence, retroactive coverage)
- ▶ Gap/buffer period coverage (Extended Reporting period)
- ▶ Change of ownership (tail policy, name additional assured)(optional extension period)
- ▶ How did the breach occur?
- ▶ Who is responsible for committing the breach?
- ▶ What type of information was stolen? (Personal (ePHI, PHI, PII), Confidential (1st and 3rd Party), Secrets, Classified, Source Code, Copyrighted, Proprietary, System, Financial

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Typical / Endorsements Loss Coverages –Insured

- ▶ **Breach Response / Crisis Management:** Responds to a network or privacy breach including breach notification, public relations, forensic consultants and credit monitoring costs.
- ▶ **Privacy Breach Responses Costs:** Includes all reasonable legal, public relations, advertising, IT forensic, call center, credit monitoring, identity theft restoration and postage expenses incurred by the insured in response to a privacy breach.
- ▶ **Extortion Loss:** Responds to a threat by a third party to commit a network security or privacy breach.
- ▶ **Business Interruption / Extra Expense Loss:** Loss of income resulting from a network security breach or a network attack and extra expenses incurred to restore network to original condition.
- ▶ **Data Loss:** Cost to restore data destroyed or altered as a result of a network security breach. This is sometimes included in branch response.

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Typical / Endorsements Loss Coverages – Insured (Continued)

- ▶ **Network Asset Protection (including Non-physical Business Interruption):** Coverage for all reasonable and necessary sums required to recover and/or replace data that is compromised, damaged, lost, erased or corrupted. Coverage also includes business interruption and extra expense coverage for income loss as a result of the total or partial interruption of the insured's computer system
- ▶ **Regulatory Defense & Penalties:** Coverage for defense costs and fines/penalties for violations of privacy regulations, including, but not limited to, HIPAA, Red Flags Rule, and the Hi-Tech Act.
- ▶ **Multimedia Insurance:** Coverage for both online and offline media. Including claims alleging copyright/trademark infringement, libel/slander, advertising, plagiarism, and personal injury.
- ▶ **Cyber Extortion:** Will pay extortion expenses and extortion monies as a direct result of a credible cyber extortion threat.

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Typical / Endorsements Loss Coverages - Liability (Third Party)

- ▶ **Network Security & Privacy Insurance:** Covers third party claims arising out of a breach of the insured's Network Security or other private information. Includes coverage for both online and offline information, virus attacks, denial of service, and failure to prevent transmission of malicious code.
- ▶ **Network Security Liability:** Provides coverage for actions when you are legally liable for claims made against you for a Network Security Breach.
- ▶ **Privacy Liability:** Provides coverage for actions when you are legally liable for claims made against you for a Privacy Breach of Personally Identifiable Information, Personal Health Information or Non-Public Corporate Information.

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Typical / Endorsements Loss Coverages - Liability (Third Party) (Continued)

- ▶ **Regulatory Coverage:** Provides coverage for actions/proceedings and fines/penalties against you by a regulatory agency resulting from a violation of a Privacy Law.
- ▶ **Website Media Content:** Provides coverage for actions that you are legally liable for claims made against you for content on your website.
- ▶ **Multimedia Insurance:** Coverage for both online and offline media, including claims alleging copyright/trademark infringement, libel/slander, advertising, plagiarism, and personal injury.
- ▶ **Third-Party Coverage:** Broad Coverage for data that is stored with a third party including, but not limited to, IT outsourcers and Independent Contractors.
- ▶ **Worldwide Coverage:** Claims can be brought outside of the U.S.

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Coverage – Additional Topics & Considerations

- ▶ **Nation/state, terrorism, cyber terrorism, acts of God:** Coverage for income loss and interruption expenses as a result of the total or partial interruption of the insured's computer system due to a cyber terrorism attack or act of God.
- ▶ **Payment Card Industry:** Data Security Standards endorsement available to qualified applicants. Provides \$ sub-limit for fines & penalties levied by an acquiring bank and also includes \$ for legal expenses.
- ▶ **Social Engineering:** Protection against damages sustained from social engineering crimes, could be a separate policy or an additional endorsement to a cyber policy.

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Coverage – Additional Topics & Considerations (Continued)

Wire Transfer / Funds Transfer Fraud

Protection against unauthorized wire transfers or fund transfers. Could be part of a cyber policy or a crime policy.

Others

Financial Fraud, telecommunications fraud, phishing attack coverage.

Potential Key Exclusions / Sub-limits

Portable electronic device exclusion, intentional acts exclusion, negligent computer security exclusion, vicarious liability/vendors.

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Polling Question #5

When it comes to cybersecurity insurance, my organization:

1. Has a comprehensive cybersecurity policy
2. Has a policy, but I am not sure of the completeness of coverage
3. Does NOT have a cybersecurity policy, but has other insurance protection (business interruption, crime, etc.)
4. Does not believe in insurance
5. Not sure of the insurance coverage



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Key Takeaways

- ▶ Cyber Crimes are consistently occurring and the related costs are increasing
- ▶ Cyber attacks are becoming more and more sophisticated
- ▶ It's a Business Problem
- ▶ Stop focusing on "if" we get breached and focus on "when"
- ▶ Incident Response Procedures should be reviewed with all employees
- ▶ Understand the significance of Executive, Board Level and Audit Committee involvement for Information Security Governance
- ▶ Insist on a reasonable level of transparency to the organizations security incident response program including risk management and incident response testing methodology, measurements and metrics
- ▶ Stay involved and include information security / privacy governance high level strategic initiatives and performance metrics as regularly reviewed artifacts

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Resources

- ▶ [AICPA Cyber Security Resource Center](#)
- ▶ [Cyber Risk Management Reporting Framework](#)
- ▶ [Description Criteria for Management's Description of the Entity's Cybersecurity Risk Management Program](#)
- ▶ <https://www.ftc.gov/tips-advice/business-center/guidance/data-breach-response-guide-business>
- ▶ <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-61r2.pdf>

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How Can I Help?

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Attendees by Last Name (364)

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Kathryn Alexander-Forsyth Technical CC
Daisy Allen-UNC-Chapel Hill
Carolyn Alley-Blue Ridge CC
Shelly Alman-Gaston College
Cherie Anderson-NCSU
Tiffany Anderson-State Treasurer
Lewis Andrews-State Treasurer
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Kristina Autio-OSA
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Debra D Bailey-ECU
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Bruce Cole-Cleveland CC
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Rex Whaley-DEQ

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Rene Whitesell-Gateway Research Park
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Dan Parker-DHHS
Tina Pickett-DHHS

Lisa Pratt-DHHS
Troy Scoggins-DHHS
Cindi Scott-DHHS
Sharmela Snell-DHHS
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Debra D Bailey-ECU
Anthony Bechtel-ECU
Dee Bowling-ECU
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Vincent Falvo-ECU
Tim Morris-ECU
Dannie Moss-ECU

Stephanie Musco-ECU
Jon Sholar-ECU
Faye Steele-ECU
Joel Stocks-ECU
Brittany Stockstill-ECU
Becky Welch-ECU
Rosilyn Mosley-Elections
Amy Strange-Elections
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Charles Smith-Fayetteville Technical CC
Debbie Todd-Fayetteville Technical CC
Kathryn Torres-Fayetteville Technical CC
Kathryn Alexander-Forsyth Technical CC
Theresa Lynch-Forsyth Technical CC
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Kenneth Spayd-FSU
Shelly Alman-Gaston College
Rene Whitesell-Gateway Research Park
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Malinda Peters-General Assembly
Beth Edmondson-Golden Leaf Foundation
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Kathi Riffe-Guilford Technical CC
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