


EideBailly<sup>®</sup>  
CPAs & BUSINESS ADVISORS

**STATE OF MAINE CONTROLLER TRAINING**  
Day 2 | September 15, 2020

1

THE POWER  
OF BEING  
UNDERSTOOD

  
RSM

© 2019 RSM US LLP. All Rights Reserved.

2

# STATE OF MAINE



## GASB 87 ACCOUNTING AND IMPLEMENTATION CONSIDERATIONS

September 16, 2020

© 2019 RSM US LLP. All Rights Reserved.

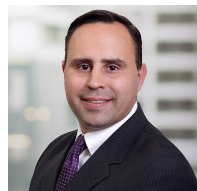


3

## Presenters



**Kirk Rogers**  
Partner  
+1 571 341 4142  
Kirk.Rogers@rsmus.com





**Bob Malinowski**  
Senior Director  
+1 312 634 3796  
Bob.Malinowski@rsmus.com

© 2019 RSM US LLP. All Rights Reserved.



4

Agenda 




Overview

Key accounting considerations

Implementation issues

5

© 2019 RSM US LLP. All Rights Reserved.




5



OVERVIEW

© 2019 RSM US LLP. All Rights Reserved.



6

## GASB 87



"IT LOOKS LIKE THEY'RE BRINGING IN THE NEW REGULATIONS MANUAL."

© 2019 RSM US LLP. All Rights Reserved.



7

## GASB 87 big picture



- GASB 87 creates fundamental lease accounting changes
- The new standard impacts nearly all governmental entities.
- Most leases will be recorded as assets and liabilities.
- Information technology systems can be significantly impacted and organizations, especially those with multiple business units and geographies, could have different requirements.
- Implementation requires involvement throughout an entire organization—not just within accounting and finance departments.



8

© 2019 RSM US LLP. All Rights Reserved.



8

## GASB 87 overview



### Lessee accounting

- At the commencement date, a **lessee** shall recognize a lease liability at the present value of the remaining lease payments and a “right-to-use” lease asset based on the lease liability, potentially adjusted for certain items.
- Over the lease term the lessee recognizes interest expense and depreciation expense relating to amortization of the lease liability and asset.

### Lessor accounting

- At the commencement date, a **lessor** shall recognize a lease receivable and a deferred inflow of resources.
- Over the lease term, the lessor recognizes revenue related to interest earned on the receivable and amortization of the deferred inflow of resources.

9

© 2019 RSM US LLP. All Rights Reserved.



9

## Effective date and transition



- GASB 87 is effective for the State of Maine beginning July 1, 2021.
- Changes adopted should be applied retroactively by restating financial statements, if practicable, for all prior periods presented.
- If restatement for prior periods is not practicable, the cumulative effect (if any) of applying the statement should be reported as a restatement of beginning net position.
- Leases should be recognized and measured using the facts and circumstances that existed at the beginning of the implementation period.
  - This will require reassessment of lease term, discount rates and other potential assumptions related to each lease.
- Lessors should not restate the assets underlying their existing sales-type or direct-financing leases.
  - Any residual assets for these leases should become the carrying values of the underlying assets.



11


© 2019 RSM US LLP. All Rights Reserved.



11

# Key Accounting Considerations


© 2019 RSM US LLP. All Rights Reserved.



13


## Scope

- A lease is defined as a contract that conveys control of the right to use another entity’s nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.
- GASB 87 does not apply to:
  - Leases of intangible assets
  - Leases of biological assets, including timber, living plants, and living animals
  - Leases of inventory
  - Contracts that meet the definition of a service concession arrangement
  - Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and the conduit debt are reported by the lessor.
  - Supply contracts, such as power purchase agreements.



14

© 2019 RSM US LLP. All Rights Reserved.



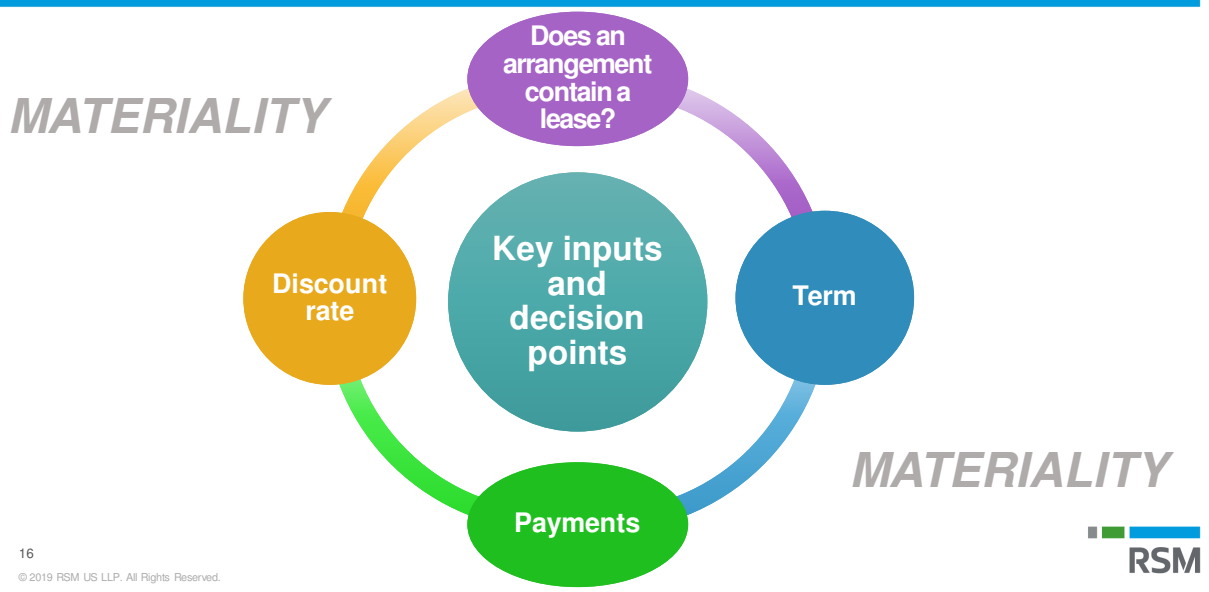
14

## Scope – regulated leases

- GASB 87 does not apply to lessors for certain regulated leases, for examples, leases between airports and air carriers, if external laws, regulations, or legal rulings establish all of the following requirements:
  - a. Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator.
  - b. Lease rates should be similar for lessees that are similarly situated.
  - c. The lessor cannot deny potential lessees the right to enter into leases if facilities are available, provided that the lessee’s use of the facilities complies with generally applicable use restrictions.



## Primary considerations



## Lease term

### Lease term includes:



- Any non-cancellable periods
  - Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option
  - Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option
  - Periods covered by a lessor's option to extend the lease if it is reasonably certain, that the lessor will exercise that option
  - Periods covered by a lessor's option to terminate the lease if it is reasonably certain that the lessor will *not* exercise that option.
- 
- Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term.

© 2019 RSM US LLP. All Rights Reserved.



17

## Short-term leases

- A short-term lease is a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.
- Short-term lease are not recorded on the statement of financial position as a right to use asset and lease liability.

18  
© 2019 RSM US LLP. All Rights Reserved.



18



## Lease payments

Lease payments should be consistent with the lease term



- Fixed (including in-substance fixed) payments, less any lease incentives paid or payable to lessee
- Variable payments based on an index or rate
- Exercise price of a purchase option\*
- Payments for penalties for terminating lease\*\*
- Amounts it is probable will owe under residual value guarantees (lessees only)\*\*\*

\* Including only if reasonable certain of exercise  
 \*\* Include only if the lease term reflects the lessee exercising an option to terminate the lease  
 \*\*\* Change from existing US GAAP under which full amount is included

*Variable payments that are performance or usage-based are not included in the measurement of the lease liability*

© 2019 RSM US LLP. All Rights Reserved.



## Discount rate

### • Lessees:

- Lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease.
- If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate should be used.
  - Incremental borrowing rate is defined as "an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term."

### • Lessors:

- Lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease.
- Other alternatives possible, including lessee's or lessor's incremental borrowing rate

20

© 2019 RSM US LLP. All Rights Reserved.



## Embedded leases

- Certain arrangements that are not structured as leases may contain **embedded leases**.
- Types of contracts that often contain embedded leases include:



IT and office equipment



Medical equipment contracts



Advertising



Logistics and warehousing

- If a contract *contains* a lease, it does not automatically indicate that the entire contract *is* a lease, i.e., it may also contain nonlease components.

## Embedded leases (continued)


- A contract contains a lease if it conveys control of the right to use the underlying asset. To make this determination, a government should assess whether it has both:
    - **the right to obtain the present service capacity from use of the underlying asset as specified in the contract; and**
    - **the right to determine the nature and manner of use of the underlying asset as specified in the contract.**
- Facts  
And  
Circumstances*
- A lessor's substitution rights do not preclude a contract from containing a lease.
    - Substitution with an essentially identical asset allows the lessee to maintain control of the right to use the service capacity of another entity's underlying asset and does not violate the definition of a lease.

Embedded leases (cont.)

**Common examples could include:**

Advertising	IT equipment	IT data center/ co-location	Medical consumables
Manufacturing	Construction	Seaport contracts	Power plants


23  
© 2019 RSM US LLP. All Rights Reserved.



23

Implementation issues

© 2019 RSM US LLP. All Rights Reserved.



25

## GASB 87 Assessment and Implementation

Key workstreams required to implement GASB 87 usually involve:

Workstream	Description
Strategy and planning	Develop a project management plan to implement the new standard
Data collection	Identify and inventory known lease as well as leases embedded within other contracts
Technology solution assessment	Identify high-level technology solution requirements
Technology solution implementation	Identify, implement and configure the chosen technology solution
Data abstraction	Create data abstraction strategy to input detailed lease data into technology solution
Controls and training	Develop new controls, process procedures, and workflows required to conform with GASB 87
Accounting and financial reporting	Prepare calculations, adjustments, disclosures required with transition to the new standard; preparation of memos such as policies, transition memo etc.

Assessment

Implementation

26  
© 2019 RSM US LLP. All Rights Reserved.

26

## Primary activities and deliverables

**Project management**

- Project plan detailing the activities and estimate due dates of completing
- Ongoing agenda and coordination for project meeting
- Periodic project status updates
- Periodic project economics update
- Coordination with various team members and external auditors

**Technology vendor selection**

- Evaluate business requirements, organizational readiness & process changes required for new lease technology solution
- Provide summary of vendors optimal for the company.
- Facilitate vendor demonstrations; review software contracts and pricing, and negotiate terms
- Technology impact assessment, including key findings and recommendations to be addressed during implementation
- Implementation roadmap

**Business processes**

- Future state lease processes
- New general ledger accounts to track information required
- Future state financial reporting process flow

**Training**

- New lease standard training
- Training on templates required to be populated for RSM's review
- Lease technology solution training
- New processes and controls training

**Data abstraction**

- Completed abstraction template that can be imported into the chosen lease technology solution
- Preparation of non contract template to be completed for abstraction
- Practical expedient elections; current/transition accounting decisions based on types of leases

**Accounting and financial reporting**

- Future state accounting policies
- Transition/Implementation memo
- Development of the quantitative and qualitative disclosures
- Assistance with specific topics such as portfolio approach, management estimates etc.
- Preparation of calculation and adjustments post abstraction

**Embedded leases**

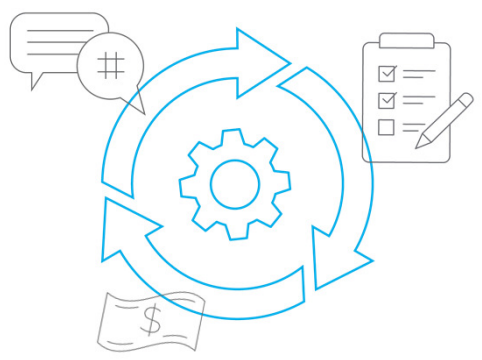
- Embedded lease service arrangement survey to identify different types of service arrangements that exist.
- Embedded lease questionnaire
- Sample service contract analysis for embedded leases
- Preparation of data needed for abstraction, if embedded leases are identified

© 2019 RSM US LLP. All Rights Reserved.

27

## Data collection – ensuring lease completeness

- Have you identified all of your leases?
- Ensuring completing of the lease portfolio is critical under GASB 87.
- Procedures to verify completeness include:
  - Review of footnote disclosures
  - Surveys to business units
  - Cash disbursement analysis

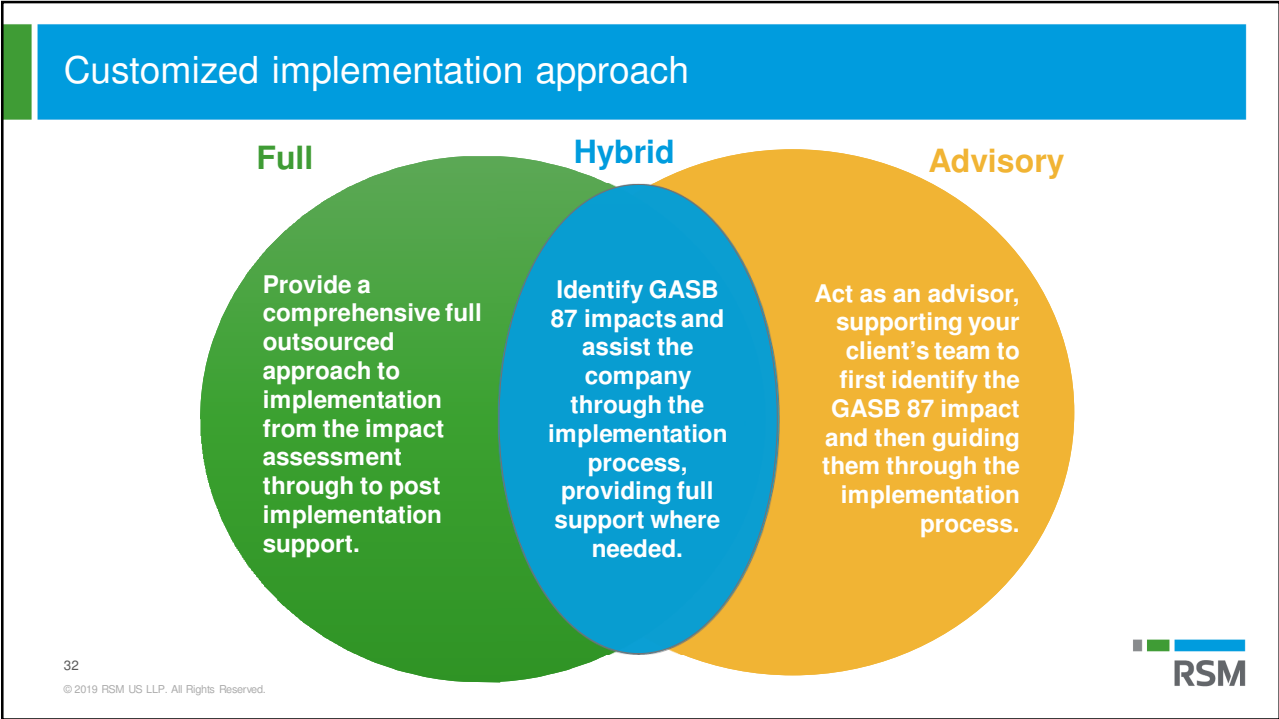


## Need for a technology solution

A technology solution can help centralize all leases onto a single platform, perform calculations, assist with lease administration and provide necessary information for reporting:

- Calculate future lease liability based on net present value (NPV) of future payments based on interest rates which could differ by contract. Systems will store appropriate data and calculate the liability automatically
- Calculate the right-to-use asset with adjustments
- Separate lease & non-lease components for accounting purposes, but make payments and record expenses in aggregate or as appropriate
- Track terms including renewals, options, expirations, etc.; terms can be stored within the system and notifications can be generated
- More comprehensive disclosure reporting and systems can help with the quantitative disclosures – readily available reporting
- Lease software can also be used to centralize and store lease information, process payments and assist in establishing controls over lease procurement





32

### Illustrative GASB 87 approaches (Full vs. Hybrid vs. Advisory)

Workstreams	Main Milestones / Main Activities	Full	Hybrid	Advisory
Strategy and planning	Project Governance & Setup	X	X	
	Stakeholder Communication	X	X	
	Implementation Roadmap	X	X	X
Accounting and financial reporting	Contract Reviews	X		
	Practical Expedients	X	X	X
	Transition memo	X	X	X
	Accounting Policy	X	X	
	Disclosures	X	X	X
Accounting and financial reporting - embedded leases	Lease Asset & Lease Liability Validation	X		
	Embedded Lease Approach	X	X	X
	Service Arrangement Review	X		
Business process and controls	Embedded Lease Memo	X		
	Lease Completeness Approach	X	X	X
	Future State Process	X		
	New General Ledger	X		
Training	Non-contract Source Data	X	X	
	GASB 87 Overview	X	X	X
	Embedded Lease Training	X	X	X
Data abstraction	Abstraction & Validation	X	X	
	Reviews	X	X	
Technology	Express Fit Gap Assessment	X		
	Technology Implementation	X		
Range of effort	RSM compared to Client effort (%)	80% - 20%	60% - 40%	20% - 80%

33  
© 2019 RSM US LLP. All Rights Reserved.

33

THANK YOU FOR  
YOUR TIME AND  
ATTENTION

35

© 2018 RSM US LLP. All Rights Reserved.

35

RSM US LLP

+1 800 274 3978  
www.rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

RSM® and the RSM logo are registered trademarks of RSM International Association. *The power of being understood®* is a registered trademark of RSM US LLP.

© 2019 RSM US LLP. All Rights Reserved.

36



# SBITAS, P3'S AND OTHER GAAP – QUICK HITS!

1

## PRESENTER



Eric Berman  
Partner  
eberman@eidebailly.com  
208.424.3524



2





# ACCOUNTING FOR INTEREST COST INCURRED BEFORE THE END OF A CONSTRUCTION PERIOD – GASB 89 AMENDS GASB *CODIFICATION* SECTION 1400

3

## CAPITALIZATION OF INTEREST COST

Could result in **simplifying financial reporting.**

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

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

Effective date –  
periods beginning after December 15, **2020.** (Updated for  
GASB-95)

Prospective Implementation

*\*Do **not restate prior year's capital assets** – they are likely depreciated!*

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

4

**MAJORITY EQUITY INTERESTS — AMENDS GASB CODIFICATION SECTIONS 2100, 2600, 150, IN5, J50**

*New Effective Date — Periods beginning after December 15, 2019 (NOW) (January 1, 2020 / July 1, 2020). Early application encouraged.*

NO. 371 | AUGUST 2018 **Governmental Accounting Standards Series**

Statement No. 90 of the Governmental Accounting Standards Board

Majority Equity Interests

an amendment of GASB Statements No. 14 and No. 61


**GASB**

GOVERNMENTAL ACCOUNTING STANDARDS BOARD OF THE FINANCIAL ACCOUNTING FOUNDATION

5

## ELEMENTS OF GASB-90

- Interest must be in a legally separate entity (**keep that phrase in mind...**)
- Could result in ***either***:
  - An investment; or
  - Component unit.
- Decision is based on intent.
- Could change how assets and liabilities of wholly separate government organizations that remain legally separate are reported.
- Where changes could occur- and *potentially* reported prospectively:
  - Fiduciary activities holding such investments, should report as investments.
  - For all other activities, if results in a component unit, report using component unit guidance.



6

## WHAT IS A MAJORITY EQUITY INTEREST?

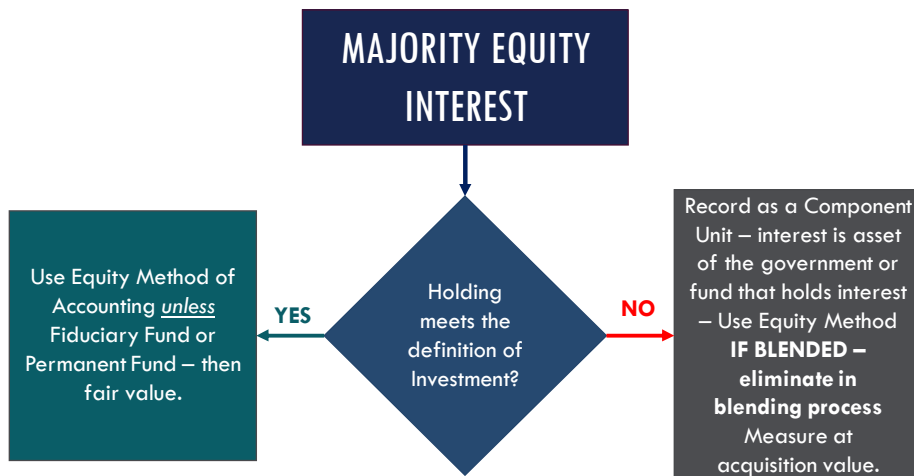
For  
GASB-90  
purposes  
only:

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



7

## UPDATED REPORTING UNDER GASB-90



8

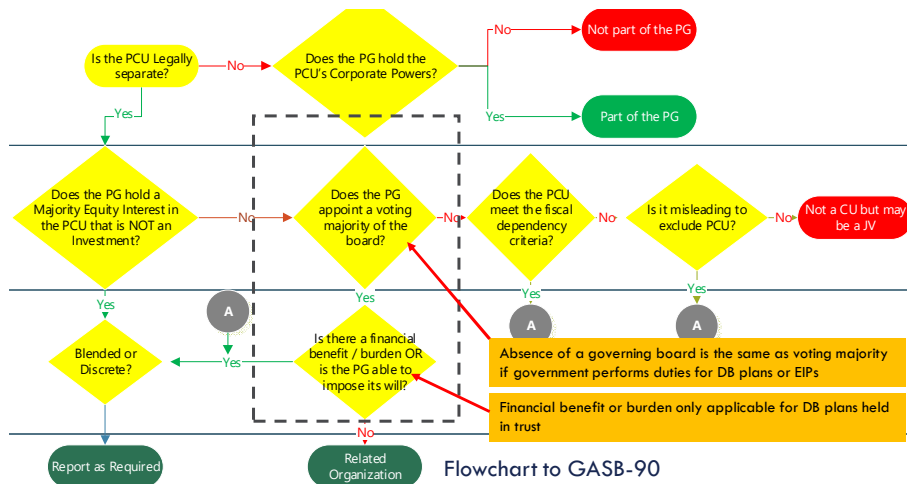
## ANOTHER WAY TO LOOK AT THE DECISIONS

### Does the Majority Equity Interest Meet the Definition of an Investment?

Yes	No
Report as an investment	Report as a component unit
<ul style="list-style-type: none"> <li>Measure the value of the investment using the equity method of accounting [GASB Cod. Secs. 150.112-116 (GASB-62, pars. 205-209)] UNLESS THERE'S AN EXCEPTION MET</li> </ul>	<ul style="list-style-type: none"> <li>Recognize an asset for the majority equity interest measured using the equity method [GASB Cod. Secs. 150.112-116 (GASB-62, pars. 205-209)] (If acquired during period –use Acquisition Value)</li> <li><b>Application – prospective only</b></li> </ul>
<b>Exceptions – All Report at Fair Value:</b>	
<ul style="list-style-type: none"> <li>Special purpose governments engaged only in fiduciary activities</li> <li>Fiduciary funds</li> <li>Endowments (permanent and term) and permanent funds</li> </ul>	

9

## BACK TO OUR CHART UPDATED FOR GASB-90 AND 97



10



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

*Effective Date – Periods beginning after December 15, 2021  
(January 1, 2022 / July 1, 2022). Early application encouraged.*

11

## WHAT IS CONDUIT DEBT?



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

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

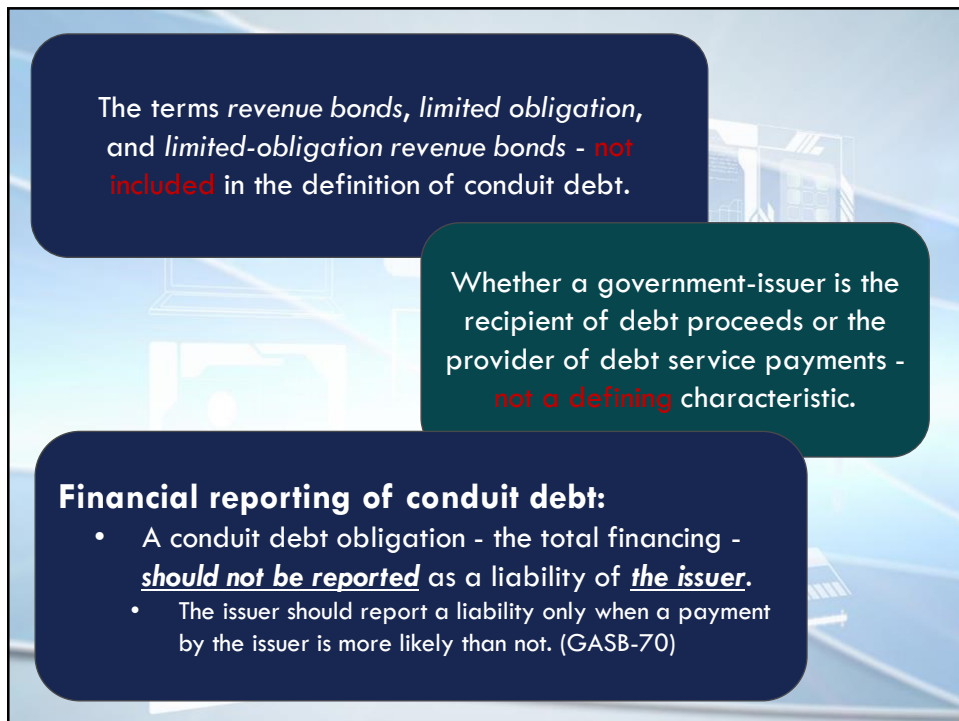
12



**WHAT IS THIS 'LIMITED COMMITMENT'?**

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

13



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

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

**Financial reporting of conduit debt:**

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

14

## MORE ON CONDUIT DEBT

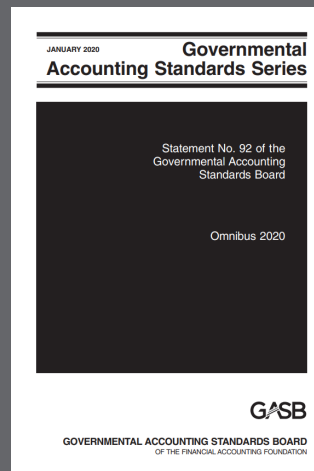
- Could have arrangements associated with conduit debt – typically leases:
  - Usually involves acquisition / construction of capital assets
  - Common in state revolving funds, **dorms, housing**
- Would **not** be a lease – could be one of 3 categories:

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

15



# OMNIBUS 2020 – WHAT IS IN IT?



17

## OMNIBUS 2020

- GASB’s Omnibus standards are ‘correcting’ standards addressing multiple topics.
- Beyond GASB-84, amendments to:
  - Leases
  - Government Combinations and Disposals of Operations
  - Derivative Instruments
  - Applicability of GASB-73 and 74 (indirectly related to GASB-84)
  - Fair Value Measurements
  - Intra-entity Transfers of Assets
  - Reinsurance Recoveries



## OMNIBUS 2020

Topic	Change(s)
<b>Leases</b>	Clarifies effective date of GASB-87 and related implementation guide to <i>fiscal years</i> beginning after December 15, 2019 and all reporting periods thereafter ( <b>further changed in GASB-95!</b> )
<b>Government Combinations and Disposals of Operations</b>	Inserts an exception to the use of acquisition value in the measurement of an acquired ARO (found when governments were implementing GASB-83)
<b>Derivative Instruments</b>	Changes the terminology to derivatives to ‘ <i>derivative instruments</i> ’ (worldwide change)
<b>GASB-73 and 74</b>	Replaces references to ‘control of assets’ due to GASB-84
<b>Fair Value Measurement</b>	Adjusts the example of nonrecurring fair value measurements in one paragraph
<b>Intra-entity Transfers of Assets</b>	Mirrors what is in <i>Implementation Guide 2019-1</i> – amounts associated with a transfer of capital or financial assets from an employer (or another entity) to a defined benefit pension or OPEB plan is at carrying value to value contributions (not at fair value) – applies to all transfers of assets within a financial reporting entity – <b>caution – not a budgetary solution in most cases!</b>
<b>Reinsurance Recoveries</b>	Minor change in terminology in insurance pools





## OMNIBUS 2020

Requirements	Implementation Date(s)
Leases	<b>IMMEDIATELY!</b>
Reinsurance Recoveries	
Derivative Instruments	
Intra-entity Transfers of Assets	<b>Fiscal years beginning after June 15, 2021</b>
GASB-73 and 74	
GASB-84 Items	<b>Reporting Periods beginning after June 15, 2021</b>
Fair Value Measurement	
Government Combinations and Disposals of Operations	<b>For government acquisitions occurring in reporting periods beginning after June 15, 2021</b>



20



## REPLACEMENT OF INTERBANK OFFERED RATES – GASB-93

21

## REPLACEMENT OF INTERBANK OFFERED RATES



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

- Problem – reference interest rates are going ‘global’:
  - LIBOR being phased out (some say due to Brexit);
  - GASB standards reference LIBOR – especially GASB-53 (GASB Cod. Sec. D40);
- Effective Date – Adjusted for GASB-95:
  - Reporting periods beginning after June 15, 2021
  - Replacement of LIBOR as an appropriate interest rate – reporting periods beginning after December 31, 2021



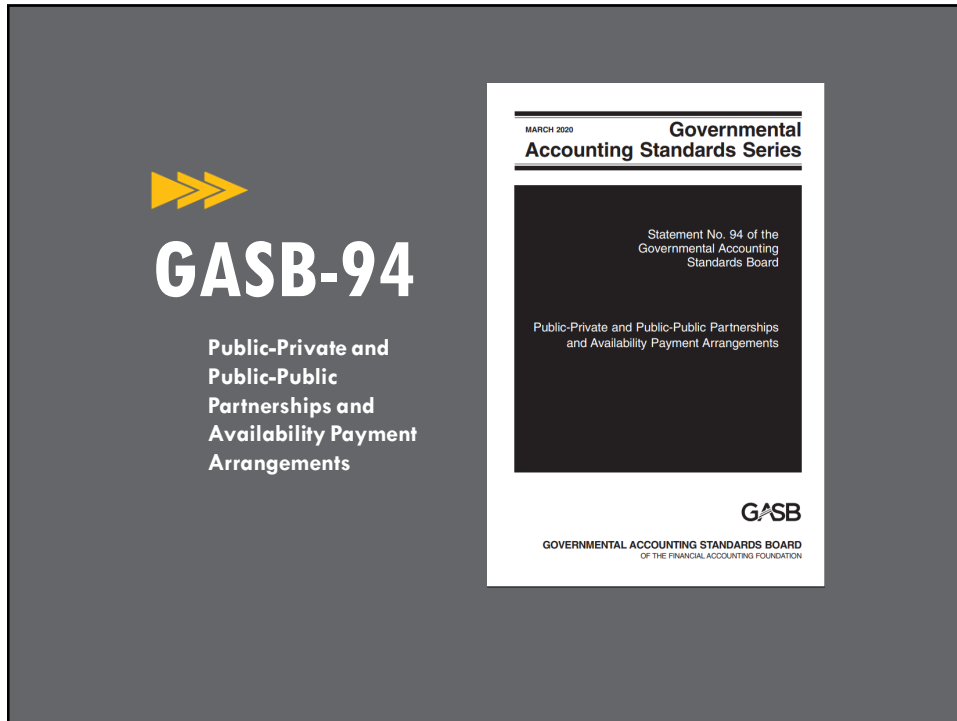
22

## REPLACEMENT OF INTERBANK OFFERED RATES

- Exception for *certain* (not all) hedging derivative instruments to hedge accounting termination when the reference rate changes (no gain / loss)
- Clarifies hedge termination provisions when the hedged item is *replaced* (underlying debt is switched)
- Clarifies that the uncertainty related to LIBOR (and similar) does not affect the assessment whether a hedged expected transaction is probable
- Removes LIBOR as an appropriate interest rate to gauge whether an interest rate swap is effective
- Allows a Secured Overnight Financing Rate or Effective Federal Funds Rate as benchmark rates for qualitative evaluation of an effective interest rate swap
- Clarifies the definition of a *reference rate*
- Provides an exception to lease modifications guidance in GASB-87 that occur when the interest rate changes due to a change in (the former) LIBOR



23



25

## P3'S – BIG DEALS

- Effective Date – Fiscal Years Beginning after June 15, 2022 (not 2021 as in exposure draft)
- Once implemented, GASB-60 on Service Concession Arrangements (SCAs) superseded
  - Largely brings SCA guidance forward, but aligns to GASB-87
- Establishes / refines GAAP for:
  - Public – private partnerships (P3)
    - Service concession arrangements are P3s
  - Public-public partnerships
  - Availability payment arrangements



26

## P3'S – BIG DEALS

<b>Availability Payment Arrangement</b>	Arrangement in which a government compensates an operator for services including designing, constructing, financing, maintaining, or operating a non-financial asset for a period of time in an exchange or exchange-like transaction. Could result in a transfer of asset or just an outflow of resources.
<b>Public-Private Partnership (P3)</b>	Arrangement in which a government (the transferor) contracts with an operator (a nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset (such as infrastructure) or other capital asset (the underlying P3 asset) for a period of time in an exchange or exchange-like transaction. <i>Hmmm... where did I hear that before???</i>
<b>Public-Public Partnership</b>	Same as a P3 but with another government.
<b>Service Concession Arrangement</b>	P3 where an operator collects and is compensated from fees from third parties, the government transferor, determines or has the ability to modify or approve services provided, who the services are provided to and finally, the government has a significant residual interest in the underlying P3 asset at the end of the arrangement.



*Jargon is half the battle...*



27

## EXAMPLES

Type	Example
<b>Availability Payment Arrangement</b>	Design – build – finance – operate a transit system. Corporation collects all fares for the period and remit to government. Government pays fixed payments based on certain milestones.
<b>Public-Private Partnership (P3)</b>	Tollway operating agreement between a state and a bank (that may or may not meet the definition of a service concession arrangement)
<b>Public-Public Partnership</b>	Tollway operating agreement between a state and a government authority (that may or may not meet the definition of a service concession arrangement)
<b>Service Concession Arrangement</b>	Municipal golf course and pool solely open to citizens of the municipality operated by a private operator, but with oversight by the municipality (likely a P3 per GASB-94)



28

## P3'S ARE MORE THAN JUST HIGHWAYS...





- Commonwealth of Kentucky statewide broadband network (3,000 miles of fiber)
- Miami-Dade City / County has a P3 program for water / sewer
- Some Washington DC buildings are P3's
- City of Long Beach California Civic Center
- Montclair University (NJ) dormitories
- Ohio State University parking garages and energy
- Purdue University business improvement district in West Lafayette, IN (pedestrian only streets near campus)
- University of California – Merced campus facilities
- State of Wisconsin – state office buildings
- LaGuardia Airport – new terminals
- Saltonstall Building redevelopment (Massachusetts Department of Revenue – late 1990's)

29

## AS A RESULT...TRANSACTIONS MAY DIFFER

Scenario	Guidance
Government has a P3. The P3 meets the definition of a lease but not a service concession arrangement.	<b>Apply the guidance in GASB-87, as amended</b>
Transferor government executes a P3 on an existing asset	<b>Apply GASB-94, recognize a receivable for installment payments (if any) and a deferred inflow of resources</b>
Transferor government executes a P3, but <i>either</i> a new or improved asset results – <b>P3 meets the criteria for an SCA</b> that is purchased (or constructed) by the operator	<b>Apply GASB-94 – transferor recognizes the underlying asset, receivable for installment payments to be received (if any) and a deferred inflow of resources</b>
Transferor government executes a P3, but <i>either</i> a new or improved asset results – <b>P3 DOES NOT meet the criteria for an SCA</b> that is purchased (or constructed) by the operator	<b>Apply GASB-94 – transferor <u>recognizes a receivable for the underlying P3 asset at acquisition value as of the future date of the transfer of ownership of the P3 asset</u> from the operator, receivable for installment payments to be received (if any) and a deferred inflow of resources</b>



30

## TRANSFERORS – HOW TO CALCULATE THE INSTALLMENT RECEIVABLE



**Day 0 =**

- Fixed payments over lease term.
- Variable payments based on an index / rate in effect at that date.
- Variable payments that are in-substance fixed.
- Residual value guarantees that are *probable* of being required.



**Hmmm.... Where have I heard this before???**



31

## TRANSFERORS – WHAT IS THE TERM OF THE P3?

- “Noncancelable” period +
- Transferor’s (or Transferee’s) option to extend *if reasonably certain of being exercised (more than probable)*
- Transferor’s (or Transferee’s) option to terminate, if the option is *reasonably certain of not being exercised*
- Excludes:
  - Cancelable periods,
  - Periods for which both parties have the option to terminate or both parties have to agree to extend,
  - Rolling month to month agreements,
  - Fiscal funding clauses, unless *reasonably certain* of being exercised...
- Reassessment of the term is done if one occurs:
  - Option is exercised **to extend** even though original determination is not to
  - Option is exercised **not to extend** even though original determination was to extend
  - An event specified in the contract requiring an extension or termination occurs
- No short-term exceptions (would not likely occur in practice)
- *Hmmm....where have I heard this before??*



32

## DEBITS AND CREDITS - TRANSFERORS

	Party	Assets	Liabilities	Deferred Inflow of Resources
<b>P3 is an Existing Asset</b>	Transferor	Receivable for installment payments to be received, if any	None	For amount of assets recognized + payments received from the operator before the start of the P3 term
<b>P3 is a new asset purchased or constructed by the operator or existing asset improved by operator</b>	Transferor – P3 is an SCA	Capital asset for the underlying P3 measured at <b>acquisition value</b> upon operation	None	For amount of assets recognized + payments received from the operator before the start of the P3 term
	Transferor – P3 is <b>NOT an SCA</b>	Receivable for underlying P3 asset at <i>expected acquisition value</i> as of the <i>future date</i> of the transfer of ownership	None	For amount of assets recognized + payments received from the operator before the start of the P3 term

33

## WHAT SHOULD GOVERNMENTAL OPERATORS REPORT?

- Governmental operators:
  - Report a liability for installment payments (if any) and intangible right to use asset
  - If an SCA (new asset purchased or constructed OR existing asset improved)
    - Liability for underlying P3 asset measured at acquisition value
    - Liability for additional installment payment (if any)
    - Right to use asset (capital asset)
  - If NOT an SCA, but new asset purchased or constructed OR existing asset improved)
    - Liability for underlying P3 asset measured at acquisition value
    - Liability for additional installment payment (if any)
    - If ownership of the underlying PPP asset is to be transferred to the transferor after the underlying PPP asset is placed in operation
      - Recognize a liability and deferred outflow of resources equal to acquisition value as of the future date of the transfer of ownership.
      - Amortize the deferred outflow of resources as outflows of resources (for example, expenses) in a systematic and rational manner over the remaining term of the PPP.



34

## DEBITS AND CREDITS – GOVERNMENT OPERATORS

	Party	Assets	Liabilities	Additional Liability
<b>P3 is an Existing Asset</b>	Government Operator	Intangible Right to Use Asset	Installment payments – if any	None
<b>P3 is a new asset purchased or constructed by the operator or existing asset improved by operator</b>	Government Operator - P3 is an SCA  Government - Operator – P3 is <b>NOT</b> an SCA	Intangible Right to Use Asset  Underlying P3 asset until ownership of the underlying P3 asset is transferred to the transferee	Installment payments – if any  Liability for underlying P3 asset measured at expected <b>acquisition value</b> as of the future date of the transfer	None  Installment payments – if any

35

## OTHER STUFF IN GASB-94

All guidance is almost word for word from GASB-87 for

- Incentives
- Components
- Modifications
- Terminations

Availability payment arrangements (APAs)

- If components are involved with APAs, recognize each as a separate contract
- If APA is related to design, finance, construction of infrastructure or other nonfinancial asset in which ownership transfers by the end of the contract
  - Report as financed purchase
- All other APA operations – report as inflows / outflows during period(s) to which payments relate

36



## EXAMPLES IN GASB-94

Public-Public Partnership Arrangement for an Existing Tollway that Meets the Definition of a Service Concession Arrangement

Public-Public Partnership Arrangement for that Meets the Definition of a Service Concession Arrangement to Design, Build and Operate a New Tunnel

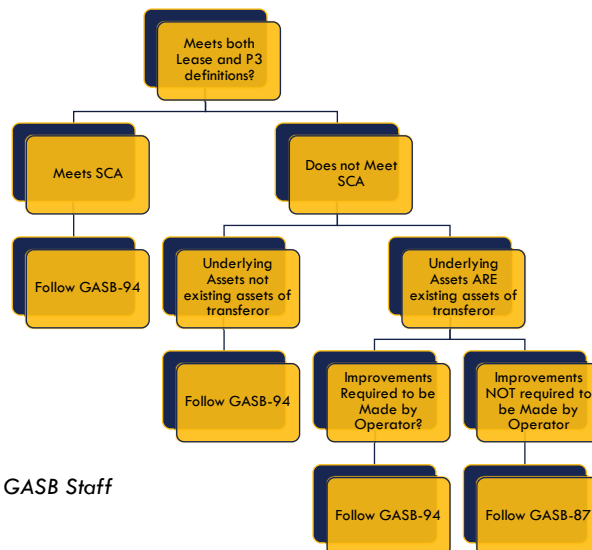
Public-Public Partnership Arrangement for that DOES NOT meet the Definition of a Service Concession Arrangement to Design, Build and Operate a New Bridge

Availability Payment Arrangements to Design, Build, Finance and Operate a Bridge



37

## COMPARING GASB-87 AND 94



Source – GASB Staff



38

## EFFECTIVE DATE

Implement periods beginning after June 15, 2022

- Use facts and circumstances as of the period of implementation – just like GASB-87
- Implementation requires a beginning balance adjustment

Implementation highly dependent on transaction

- Existing SCAs may need to be analyzed (don't forget municipal golf courses and similar)
- Try not to confuse with leases guidance (why GASB-87 implemented a year earlier)
- Transactions likely material and complex



39



**GASB-95 – JUST IN CASE!**

40

## JUST IN CASE YOU NEED A CALENDAR – ADJUSTED FOR NEW DATES

Reporting Periods Beginning After	GASB Statement No.	Statement
12/15/2019	GASB-84	<i>Fiduciary Activities</i>
12/15/2019	GASB-90	<i>Majority Equity Interests</i>
6/15/2021	GASB-87	<i>Leases</i>
12/15/2020	GASB-89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>
12/15/2021	GASB-91	<i>Conduit Debt Obligations</i>
6/15/2021	GASB-92	<i>Omnibus 2020 (Some parts effective upon issuance)</i>
6/15/2021	GASB-93	<i>Replacement of Interbank Offered Rates (sunset of LIBOR as an appropriate interest rate effective for reporting periods beginning after December 31, 2021)</i>
6/15/2022	GASB-94	<i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>
N/A	GASB-95	<i>Postponement of the Effective Dates of Certain Authoritative Guidance</i>
6/15/2022	GASB-96	<i>Subscription-Based Information Technology Arrangements</i>
6/15/2021 (some elements immediate)	GASB-97	<i>Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans</i>

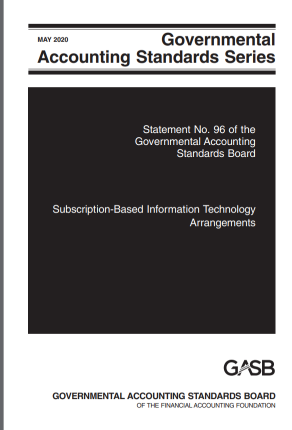
41

## JUST IN CASE YOU NEED A CALENDAR – ADJUSTED FOR NEW DATES

Reporting Periods Beginning After	GASB Implementation Guide	Statement
6/15/2020	2019-1	<i>Implementation Guidance Update—2019</i>
12/15/2019	2019-2	<i>Fiduciary Activities</i>
6/15/2021	2019-3	<i>Leases</i>
6/15/2021 / 12/15/2021	2020-1	<i>Implementation Guide Update - 2020</i>
Immediate	GASB Technical Bulletin 2020-1	<i>Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act of 2020 and COVID-19</i>



42




## GASB-96 SUBSCRIPTION- BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

44

### SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

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

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



45

## SEPARATE ELEMENTS OF SBITAS ARE A CHALLENGE

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



46

## WHAT DID THE GASB DECIDE?

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



47

## WHAT IS IN GASB-96?

- Many aspects of GASB-94 and GASB-87 utilized.
- Many aspects of GASB Cod. Sec. 1400 (GASB-34, 42, 51) also used as a SBITA could be an intangible asset:
  - GASB-51 model applied
  - **Training proposed to be expensed**



48

## OTHER ASPECTS

- Nearly all aspects of GASB-87 and 94 (as applicable) included
- Major exclusion – the GASB did not provide guidance for governments that are also software vendors (yes, they do exist)
  - Current guidance may view these as receivables (similar manner to GASB-94 governmental operators)
  - Likely will revisit in a future *Implementation Guide*
- Short-term guidance *is included*
- Term of a SBITA may be difficult to calculate based on license agreements
- Implementation – same time as GASB-94 (periods beginning after June 15, 2022)
  - Again - Use facts and circumstances as of the period of implementation – just like GASB-87
  - Implementation requires a beginning balance adjustment



49

## COMPARING GASB-87 AND 96

- Bottom line - All SBITAs already meet definition of lease
- If the underlying asset is:
  - Tangible capital assets alone – Follow Statement 87
  - IT software alone – Follow Statement 96
  - IT software in combination with tangible capital assets:
    - Software component is insignificant compared to cost of underlying tangible capital asset – Follow Statement 87
    - Otherwise – Statement 96

Source: GASB Staff



50



## QUESTIONS?

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

52

THE POWER  
OF BEING  
UNDERSTOOD

AUDIT | TAX | CONSULTING

©2020 RSM US LLP. All Rights Reserved.

1

IMPLEMENTING THE CARES ACT CORNOAVIRUS  
RELIEF FUND FOR STATE AND LOCAL GOVERNMENTS

Dan Bonnette, Partner, RSM US LLP

©2020 RSM US LLP. All Rights Reserved.

2



## Today's instructor

### Dan Bonnette

Partner

RSM US LLP  
Boston, MA  
+1.617.241.2781  
dan.bonnette@rsmus.com



1

© 2020 RSM US LLP. All Rights Reserved.



3

## Objectives

By the end of this presentation, participants will be able to:

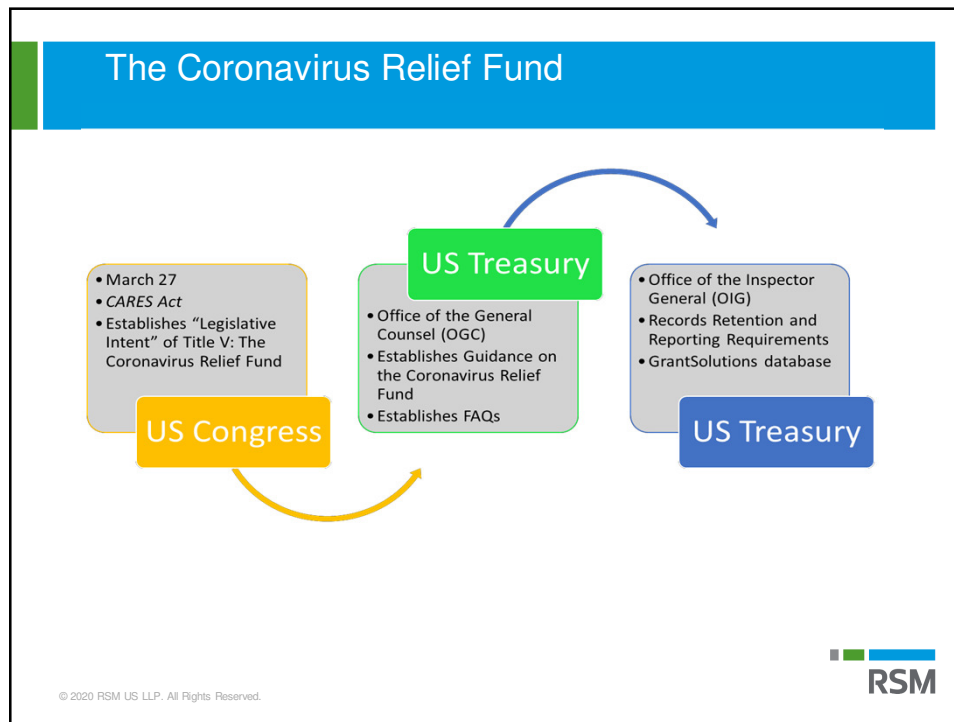
- Understand more about COVID-19 related funding for state and local governments
- Understand how state and local governments across the country are planning to use the CARES Act funding
- Address the accounting implications related to COVID-19 funding
- Understand key considerations as detailed by the GASB in the recently issued Technical Bulletin



© 2020 RSM US LLP. All Rights Reserved.



4



6

## US Congress: CARES Act

- Passed March 27, 2020
- Title V - \$150B
- Established Eligibility:
  - States
  - Cities > 500,000 population
  - Counties > 500,000 population
  - The District of Columbia, Territories and Tribal governments
- Established Broad Parameters for expenditures:
  - are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
  - were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
  - were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

© 2020 RSM US LLP. All Rights Reserved.  RSM

7

## FAQ's

**April 22 (4 FAQs)**

- Do governments have to return unspent funds to Treasury?
- May a State receiving a payment transfer funds to a local government?
- May governments retain assets purchased with these funds?
- What records must be kept by governments receiving payment?

**May 4**

- Separates questions between eligible expenditures and administration of funds
- Transfers of funds from states to subunits
- Covering utility fees – can be to the customer but no the public utility itself (transfer of funds)

**May 20**

- Subunits may not be used to pay health and safety expenses that payments are subject to the single fund Act (Uniform Guidance or not as of 2020)

**June 24**


- "funds may be used to satisfy the non-federal matching requirements under the Stafford Act"
- "distribution of funds to nonprofits to meet individuals in need – such as rent relief"
- "the entire payroll cost of an employee whose time is substantially dedicated to mitigating or responding to the COVID-19 public health emergency is eligible"

**July 8**

- With regard to paying for administrative leave costs: if the cost of an employee was allocated to administrative leave to a greater extent than was expected, the cost of such administrative leave may be covered using payments from the Fund.

**August 10 (70 FAQs)**

- "states are permitted to use the CRF to satisfy non-federal matching requirements under the Stafford act, including "lost wages assistance" "
- "when are costs incurred when you're using the CRF to cover principal and interest payments of a loan, such as a small business assistance program?"


© 2020 RSM US LLP. All Rights Reserved. 

8

## Evolution of guidance

**April 22 Original Guidance**

- *Details Legislative Intent*
- Determines Eligible and Ineligible Expenditures
- Defines "unbudgeted expenditure"
- Click below for link to Guidance





**June 30**

- Adds definitions to "incurred" expenditures
- Upon further consideration and informed by an understanding of State, local, and tribal government practices, Treasury is clarifying that for a cost to be considered to have been incurred, performance or delivery must occur during the covered period but payment of funds need not be made during that time (though it is generally expected that this will take place within 90 days of a cost being incurred).

**July 31**

- OFFICE OF THE INSPECTOR GENERAL
- Clarification of the prime recipients quarterly reporting requirements and records retention.
- Refer to the Treasury's Frequently Asked Questions
- Introduction of the GrantSolutions database that will be live on September 1. A training webinar will be provided by the OIG on August 31



© 2020 RSM US LLP. All Rights Reserved. 

9

## Overview

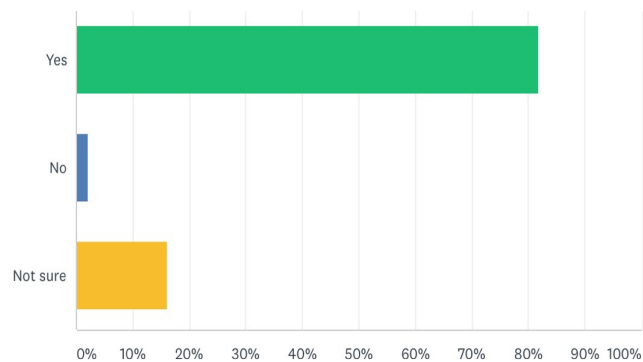
- 2 weeks ago, GFOA sent out a survey to Prime Recipients of the Coronavirus Relief Fund
  - All 50 states and [171 eligible units of government](#) outlined by the Treasury.
- The aim of the survey was to determine the effectiveness of the CRF from the perspective of Prime Recipients
- Response Rate:
  - 40% of Prime Recipients participated
    - 22 States
    - 55 Counties
    - 24 Cities
- 63% of prime recipients elected to distribute funds to localities

© 2020 RSM US LLP. All Rights Reserved.



10

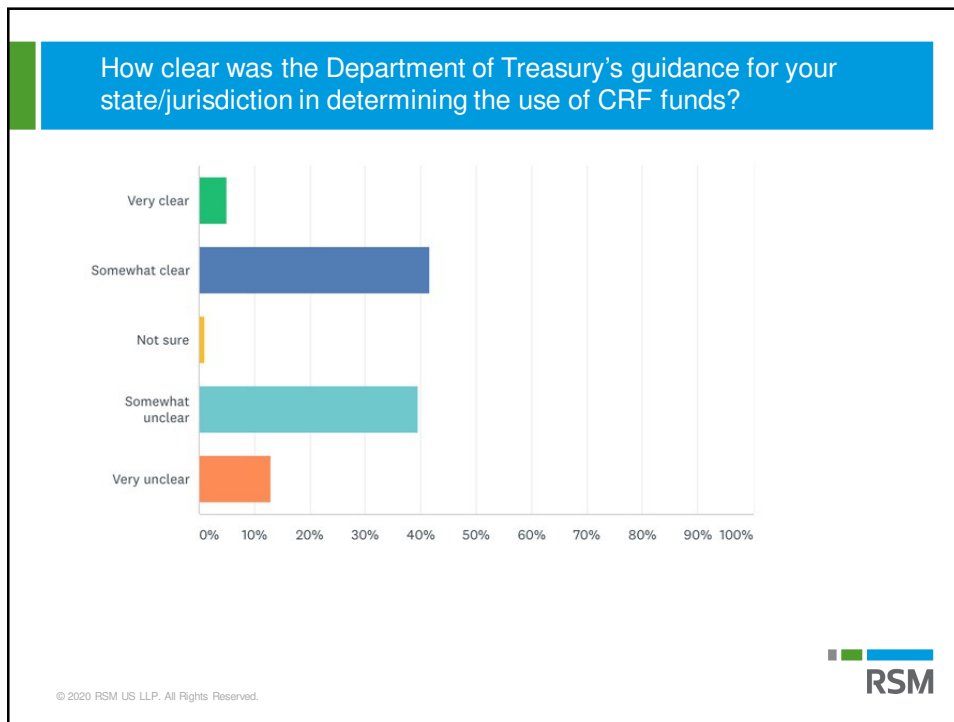
## Does your state/jurisdiction anticipate spending all of its CRM allocation before December 30, 2020?



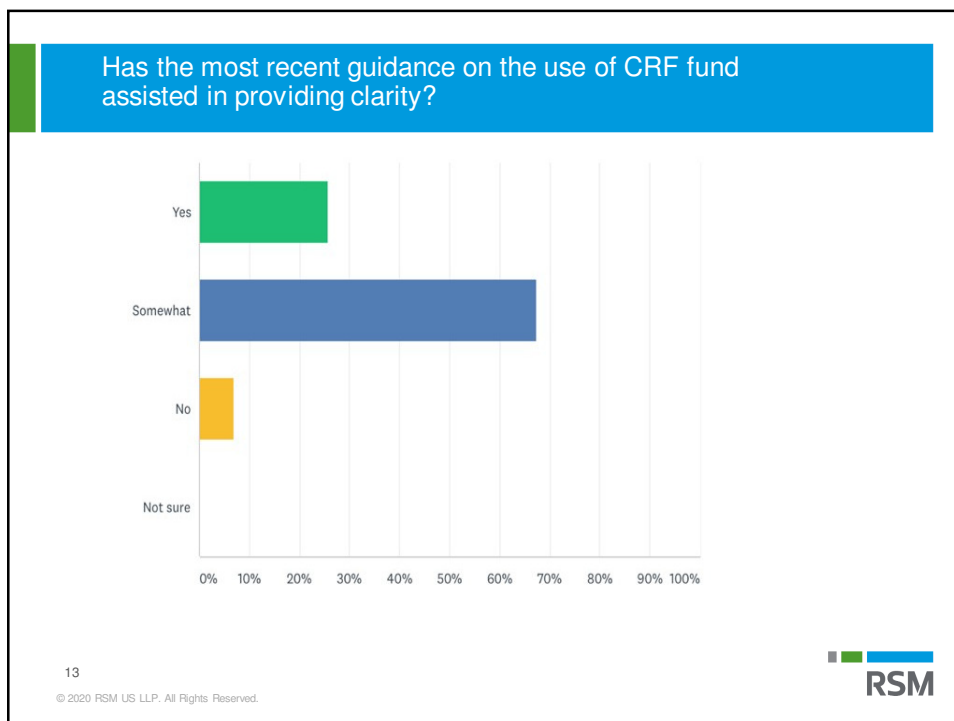
© 2020 RSM US LLP. All Rights Reserved.



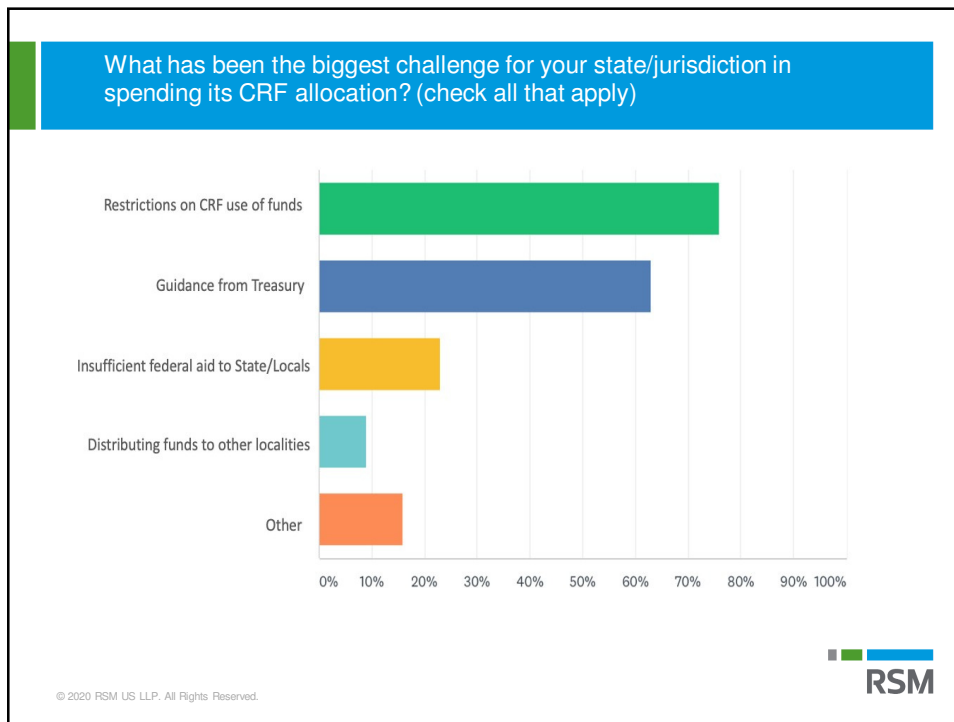
11



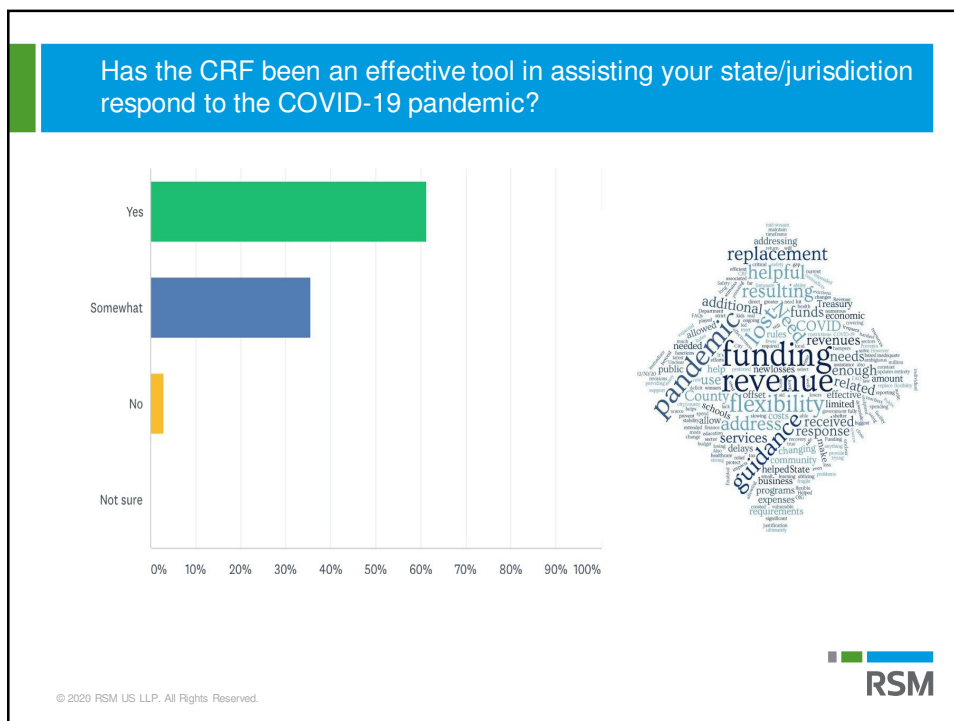
12



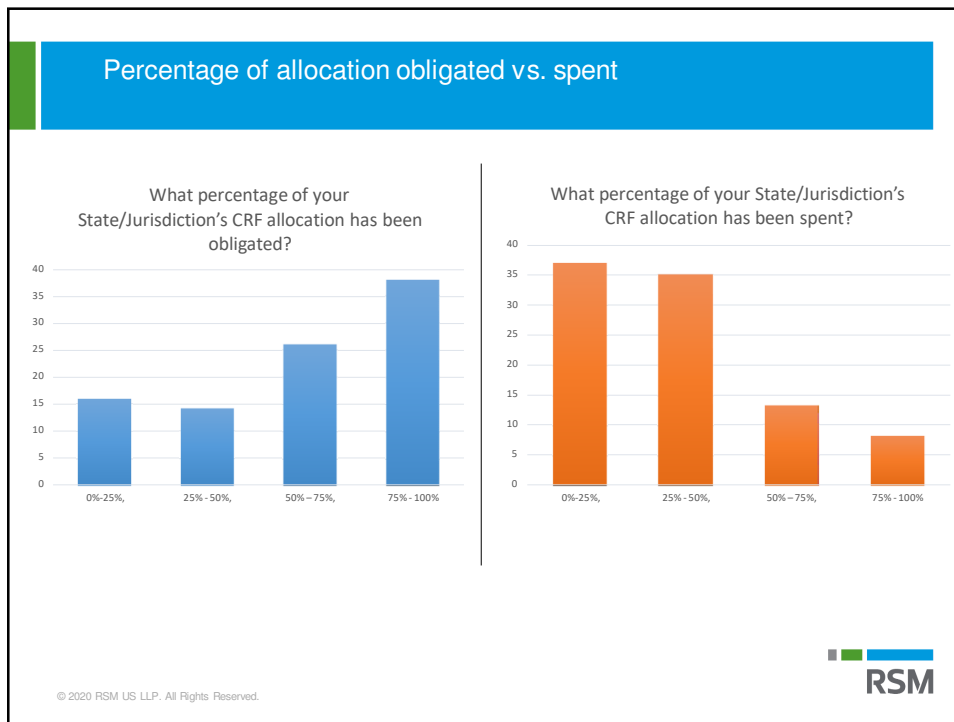
13



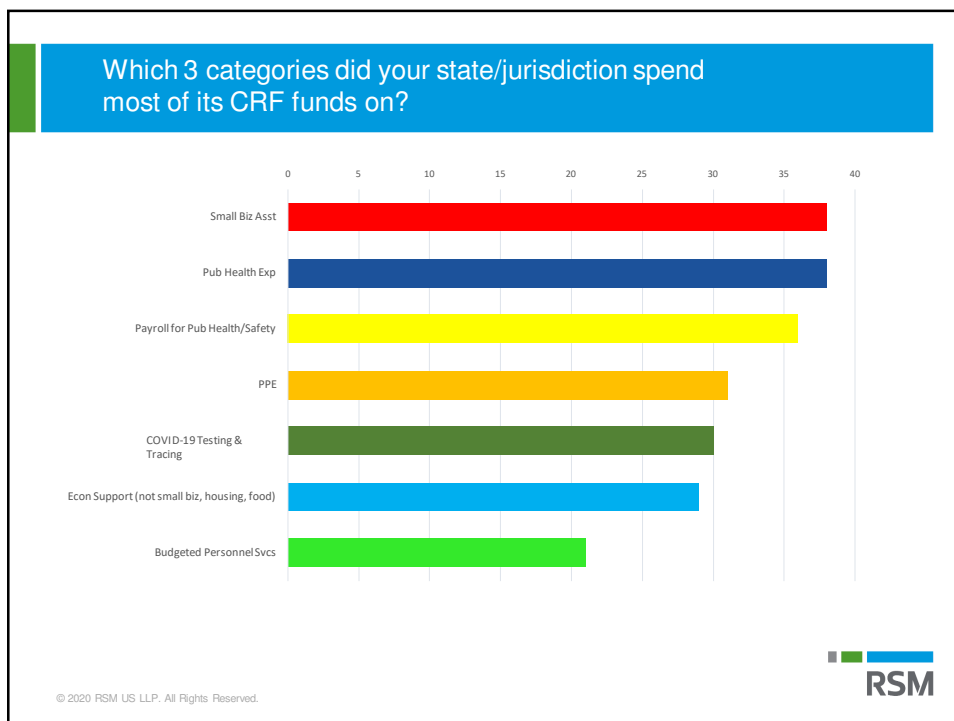
14



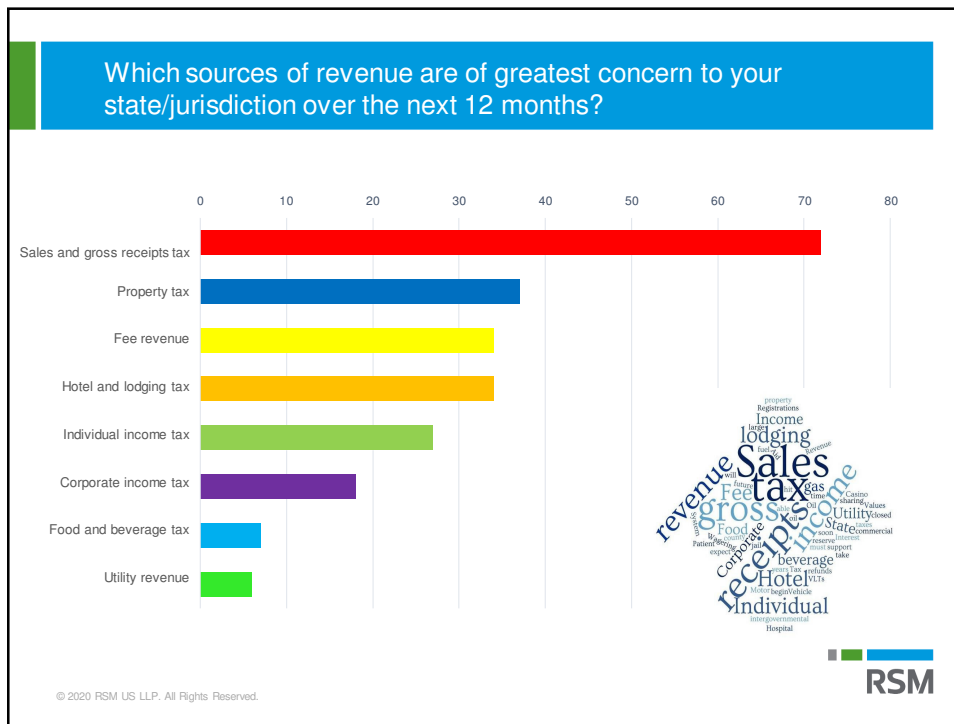
15



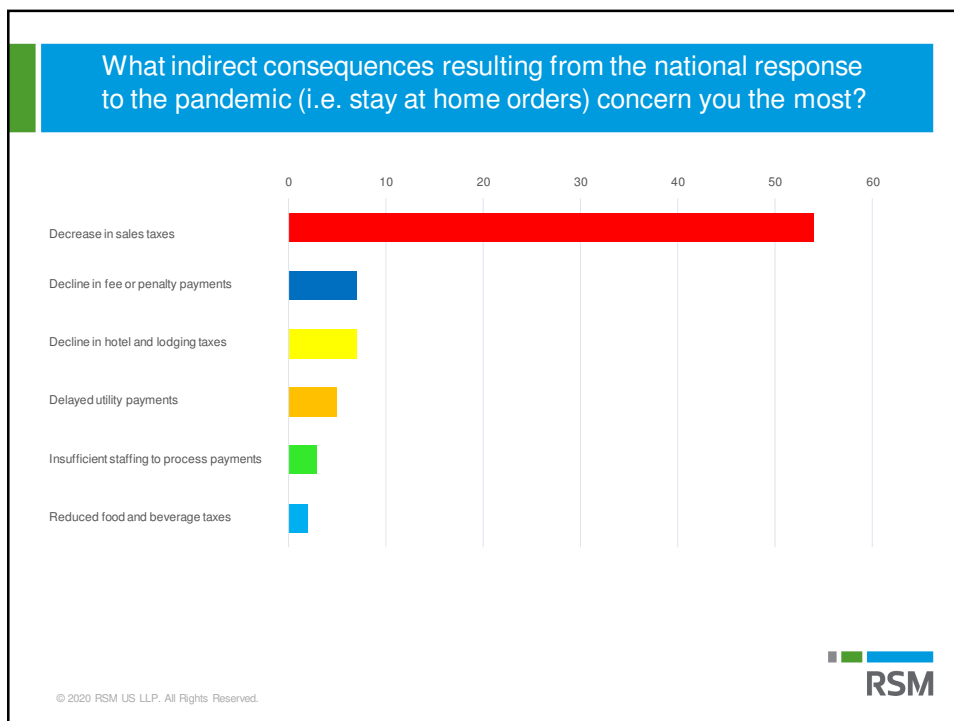
16



17

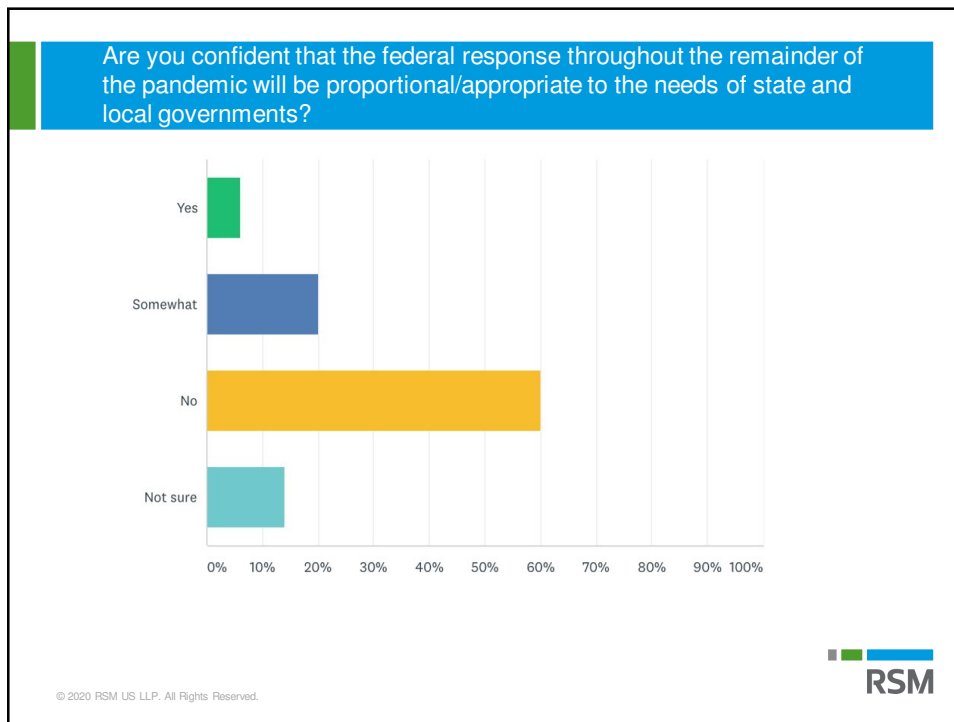


18

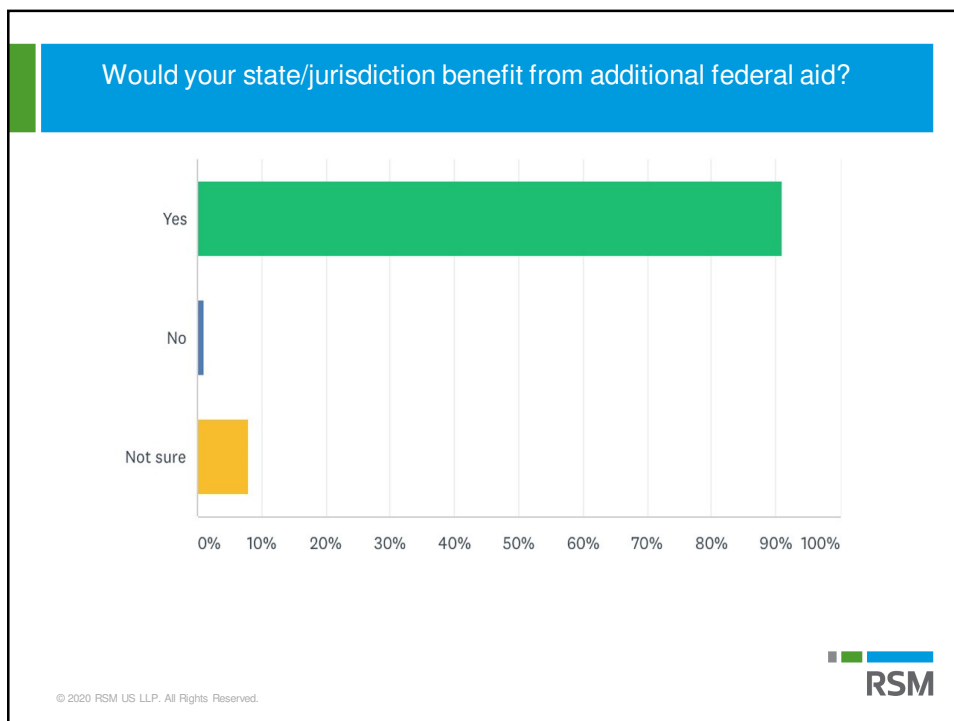


19





20



21

## GASB Technical Bulletin 2020-1

GASB Technical Bulletin 2020-1, *Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases*

- This Technical Bulletin clarifies the application of the recognition requirements of Statements 33, 56, and 70 to resources received from certain programs established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act was passed and signed into law in March 2020.
- The CARES Act provides resources for various programs, for example, the Coronavirus Relief Fund (CRF), the Provider Relief Fund, and the Paycheck Protection Program.

© 2020 RSM US LLP. All Rights Reserved.



23

## GASB Technical Bulletin 2020-1 Question 1

### Question 1

Are resources received from the CRF, established in Section 5001 of the CARES Act, subject to eligibility requirements or to purpose restrictions? When should those resources be recognized as revenue?

### Response

CRF resources include eligibility requirements established in the CARES Act and further clarified in supplemental guidance in the form of Frequently Asked Questions (FAQs) released by the United States Department of the Treasury (U.S. Treasury). Section 5001 of the CARES Act provides that governments “. . . Shall use the funds provided under a payment made under this section to cover only those costs . . . that (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19). . . .” The U.S. Treasury has provided supplemental guidance about which expenditures are considered necessary due to the public health emergency. The FAQs highlight, among other expenditures, payroll related to personnel who are substantially dedicated to mitigating or responding to the COVID-19 public health emergency, expenditures incurred to support the operations of private hospitals, expenditures incurred to assist in preventing homelessness, and resources provided to affected citizens.

© 2020 RSM US LLP. All Rights Reserved.



24

## GASB Technical Bulletin 2020-1 Question 1

### Question 1 Response (continued)

The U.S. Treasury has determined that CRF resources are not grants and instead has identified the resources as “other financial assistance” under 2 C.F.R. §200.40. However, the provisions in paragraph 8 of Statement 33 require that, for accounting and financial reporting purposes, the focus of the analysis be on the substance of a transaction. The CARES Act, as clarified through the FAQs, stipulates certain conditions that are required to be met, such as the incurrence of eligible expenditures. Those conditions are identified, for accounting and financial reporting purposes, as eligibility requirements. In addition, the recipient government has the ability not to accept the resources. Therefore, the CRF funds are identified as voluntary nonexchange transactions, subject to eligibility requirements rather than purpose restrictions.

Based on the provisions in paragraph 15 of Statement 33, as amended, a recipient government should recognize resources received from the CRF as liabilities until the applicable eligibility requirements are met, including the incurrence of eligible expenditures. When the recipient government has met the eligibility requirements established in the CARES Act, that government should recognize revenue for CRF resources received.

© 2020 RSM US LLP. All Rights Reserved.



25

## GASB Technical Bulletin 2020-1 Question 2

### Question 2

Certain CARES Act programs provide resources to address a government’s loss of revenue attributable to the effects of COVID-19. For example, resources from the Provider Relief Fund (U.S. Department of Health and Human Services) can be used to address healthcare entities’ loss of revenue. Should a provision that addresses a government’s loss of revenue be considered an eligibility requirement, for purposes of revenue recognition?

### Response

Yes. Resources provided to address a government’s loss of revenue attributable to the effects of COVID-19 are contingent upon an eligibility requirement, as provided in paragraph 20d of Statement 33. For example, pursuant to the Provider Relief Fund, the modifications of services to prevent, prepare for, and respond to the coronavirus by healthcare entities were the primary *actions* that resulted in, for example, cancelled procedures and fewer outpatient visits. Those actions in turn resulted in the loss of revenue. Resources received from CARES Act programs that specifically include an eligibility requirement for loss of revenue should be recognized as revenue when the government meets the action based eligibility requirement.

© 2020 RSM US LLP. All Rights Reserved.



26

## GASB Technical Bulletin 2020-1 Question 3

### Question 3

If amendments to the CARES Act are enacted after a government's statement of net position date but prior to the issuance of financial statements, should the government consider those amendments as the basis for recognition in financial statements for the period reported?

### Response

No. Any amendment to the CARES Act enacted after the statement of net position date should be considered a nonrecognized subsequent event pursuant to the provisions in paragraphs 8–12 of Statement 56, as amended. Amendments to the CARES Act, even when enacted with retroactive provisions, subsequent to the statement of net position date but before the issuance of financial statements do not represent conditions that existed as of the period-end being reported. Any amendment to the CARES Act enacted subsequent to the statement of net position date should be considered in the financial statements for the reporting period in which the amendment was enacted.

© 2020 RSM US LLP. All Rights Reserved.



27

## GASB Technical Bulletin 2020-1 Question 4

### Question 4

If a governmental entity (for example, a not-for-profit entity that reports in accordance with GASB standards) received a forgivable loan pursuant to the Paycheck Protection Program established by the CARES Act, and the governmental entity determines that the loan will be forgiven in a subsequent reporting period based on compliance with the program requirements (compliance is achieved during the current reporting period or is expected to be achieved before the financial statements are issued), should the governmental entity continue to report the loan as a liability in financial statements presented applying the economic resources measurement focus and accrual basis of accounting at the end of the reporting period?

### Response

Yes. Loans provided through the Paycheck Protection Program have been guaranteed through a nonexchange financial guarantee provided by the U.S. Small Business Administration. As a result, the provisions in paragraph 12 of Statement 70 require that the governmental entity continue to report the loan as a liability until that entity is *legally released from the debt*. The governmental entity should report an inflow of resources in the reporting period to the extent that the entity is legally released from the debt.

© 2020 RSM US LLP. All Rights Reserved.



28

## GASB Technical Bulletin 2020-1 Question 5

### Question 5

Should CARES Act resources provided through the Provider Relief Fund (U.S. Department of Health and Human Services), the Higher Education Emergency Relief Fund (U.S. Department of Education), the CARES Act Airport Grants (Federal Aviation Administration), and the Formula Grants for Rural Areas and Urbanized Area Formula Grants programs (Federal Transit Administration) to a business-type activity or enterprise fund be reported as non-operating revenues?

### Response

Except as noted in paragraph 15, the aforementioned resources provided pursuant to the CARES Act are subsidies and should be reported as nonoperating revenues. The resources provided pursuant to the CARES Act for the programs previously identified are intended to assist governments in responding to the coronavirus disease in various ways, such as by reimbursing governments for allowable costs incurred in responding to the healthcare emergency, assisting governments with their loss of revenue, or broadly supporting operating costs. The provisions in paragraph 102 of Statement 34 establish that a consideration for the presentation of revenues as operating or nonoperating is the classification of the inflows in the statement of cash flows. Further guidance is provided in paragraph 21 of Statement

© 2020 RSM US LLP. All Rights Reserved.



29

## GASB Technical Bulletin 2020-1 Question 5

### Question 5 Response (continued)

9, as amended, which identifies noncapital grants as noncapital financing activities, unless those grants are contracts for services. Additional clarifying guidance is provided in Question 2.27.4 in Implementation Guide 2015-1, which establishes that grants generally should be reported as nonoperating activities unless the resources provided are representative of a contract for services. Based on that guidance, the programs identified in paragraph 13 provide resources to support specific activities and reimburse allowable costs rather than to pay for services. Therefore, the resources provided through those programs are provided as subsidies, with the exception of resources that constitute payment for services provided, such as those discussed in paragraph 15.

Resources provided to governments through the Provider Relief Fund's Uninsured Program (U.S. Department of Health and Human Services) constitute payment for care or treatment of uninsured individuals and testing for COVID-19. Because resources received from the Uninsured Program constitute payment for services provided, those resources should be reported as operating revenues.

© 2020 RSM US LLP. All Rights Reserved.



30

## GASB Technical Bulletin 2020-1 Question 6

### Question 6

Should outflows of resources incurred in response to the coronavirus disease due to, for example, actions taken to slow the spread of the virus, adjustments in the provision of services, or the implementation of “stay-at-home” orders, be reported as extraordinary items or special items?

### Response

No. The provisions in paragraph 55 of Statement 34, as amended, provide that extraordinary items are transactions or events that are both unusual in nature *and* infrequent in occurrence. As described in paragraph 46b of Statement 62, an item is infrequent in occurrence if the *type* of event is not reasonably expected to recur in the foreseeable future, taking into account the environment in which the government operates.

For purposes of presentation, the type of event being considered is the appearance of a coronavirus disease; that is, management’s response to the event is not the event considered in the analysis. Based on experience, it is reasonable to expect that coronavirus diseases will recur in the foreseeable future. Because the type of event is not infrequent, a government’s outflows of resources incurred in response to a coronavirus disease should not be reported as an extraordinary item.

© 2020 RSM US LLP. All Rights Reserved.



31

## GASB Technical Bulletin 2020-1 Question 6

### Question 6 Response (continued)

Furthermore, the provisions in paragraph 56 of Statement 34 provide that special items are within the control of management and are either unusual in nature or infrequent in occurrence. Although actions taken to slow the spread of a coronavirus disease, including stay-at-home orders, may be within the control of management of certain governments, this type of event (the appearance of a coronavirus disease) is not within the control of management. For that reason, a government’s outflows of resources incurred in response to the event also should not be reported as a special item.

© 2020 RSM US LLP. All Rights Reserved.




32

## Things to Keep in Mind

Document Everything	Communicate Often
<ul style="list-style-type: none"><li>• Document allocation decisions well: who, what, when, where, why</li><li>• How are allocations “necessary” and “due to” COVID 19?</li><li>• Ensure COVID-19 leave is documented and approved</li><li>• Keep documentation for after action type activities</li></ul>	<ul style="list-style-type: none"><li>• Be transparent and timely with information – to your legislature or oversight body, to the public</li><li>• Have a plan for any funds currently allocated that may go unspent – monitor spending and set a date to pull back funds to use for other purposes if practical</li><li>• Monitor spending and contractor performance real-time</li></ul>

**And be sure to incur all costs before December 30!**


© 2020 RSM US LLP. All Rights Reserved.



33

# THANK YOU FOR YOUR TIME AND ATTENTION

© 2020 RSM US LLP. All Rights Reserved.



35

QUESTIONS  
AND ANSWERS

© 2020 RSM US LLP. All Rights Reserved.

36

**RSM US LLP**  
80 City Square  
Boston  
+1 617 912 9000  
+1 800 274 3978  
rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

RSM, the RSM logo and the *power of being understood* are registered trademarks of RSM International Association.  
© 2020 RSM US LLP. All Rights Reserved.

37



THE POWER  
OF BEING  
UNDERSTOOD

AUDIT | TAX | CONSULTING

1  
© 2020 RSM US LLP. All Rights Reserved.

1

---

RANSOMWARE IN THE MODERN WORLD

Cyber Trends Today

September 15, 2020

© 2020 RSM US LLP. All Rights Reserved.

2

## Today's Presenter



### Zack Doyle

Supervisor – RSM Risk Consulting

- Digital Forensics and Incident Response
  - Incident triage and response
  - Cyber threat research and monitoring
  - Malware analysis
  - Endpoint detection and response
  - Internal tool development and automation
- Certifications
  - GIAC Certified Forensic Analyst (GCFA)
  - GIAC Reverse Engineering Malware (GREM)
  - GIAC Advisory Board Member

[Zack.Doyle@rsmus.com](mailto:Zack.Doyle@rsmus.com) / +1 617 241 2740

3

© 2020 RSM US LLP. All Rights Reserved.



3

## Today's Agenda

Cyber Incident Statistics

Attack Pattern Overview

Evolving Trends

Impact to Organizations

Case Studies

Remote Workforce Considerations

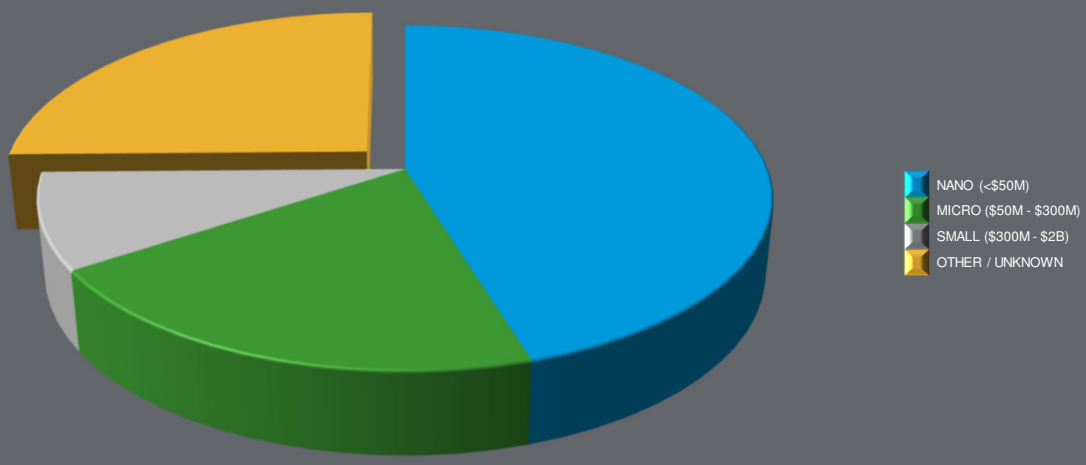
4

© 2020 RSM US LLP. All Rights Reserved.



4

### Cyber Incidents – Organization Size 2014–2018



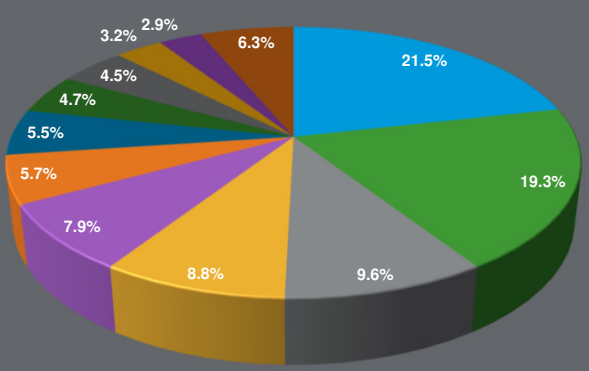
Source: <https://rsmus.com/what-we-do/services/risk-advisory/cybersecurity-data-privacy/the-real-cost-of-a-data-breach.html>

6  
© 2020 RSM US LLP. All Rights Reserved.



6

### Cyber Incidents – Sectors (Over 2%) 2014-2018



Professional Services Healthcare Retail Financial Services Manufacturing Technology  
Education Nonprofit Other Public Entity Hospitality Other

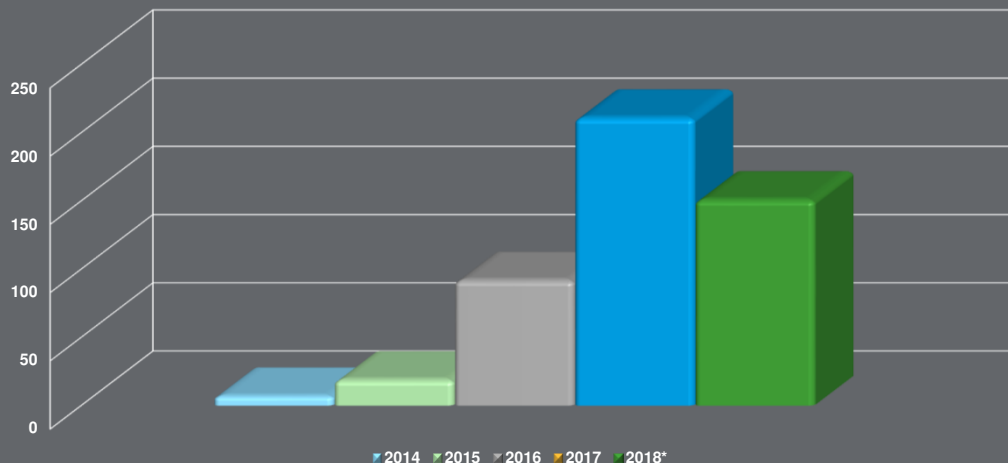
Source: [https://netdiligence.com/wp-content/uploads/2019/10/2019\\_NetD\\_Claims\\_Study\\_Report\\_1.1.pdf](https://netdiligence.com/wp-content/uploads/2019/10/2019_NetD_Claims_Study_Report_1.1.pdf)

7  
© 2020 RSM US LLP. All Rights Reserved.



7

## Cyber Incident – Ransomware Events 2014–2018



\*2018 data will continue to be collected through 2021  
Source: [https://netdiligence.com/wp-content/uploads/2019/10/2019\\_NetD\\_Claims\\_Study\\_Report\\_1.1.pdf](https://netdiligence.com/wp-content/uploads/2019/10/2019_NetD_Claims_Study_Report_1.1.pdf)

8  
© 2020 RSM US LLP. All Rights Reserved.



8

## Government Ransomware Statistics

- 169 reported attacks between January 2016 and April 2019
- Various targets, including local school systems, colleges, law enforcement agencies, and other government organizations
- 17.1 percent of victims paid the ransom, while 70.4 percent confirmed they did not pay the ransom
- All states affected except Delaware and Kentucky

Source: Recorded Future, 2019

9  
© 2020 RSM US LLP. All Rights Reserved.



9

### How Are You Being Targeted? *Social Engineering*

The slide features a dark grey background with a blue horizontal line. It displays five social media icons: LinkedIn (blue square with 'in'), Facebook (blue square with 'f'), Instagram (rainbow camera icon with 'Instagram' text below), Snapchat (yellow ghost icon), and Twitter (blue circle with white bird). In the center, a photograph shows a person's eyes peering through horizontal window blinds. To the right, a screenshot of the RSM website is visible, showing the company name and a navigation menu. The RSM logo is in the bottom right corner.

10

© 2020 RSM US LLP. All Rights Reserved.

10

### How Are You Being Targeted? *Malware*

The slide features a dark grey background with a blue horizontal line. It depicts a red devil character with horns and sunglasses, holding several file format icons: JS, PDF, XLS, DOCX, and PPT. The devil character is also holding a document icon. The RSM logo is in the bottom right corner.

11

© 2020 RSM US LLP. All Rights Reserved.

11

## Attack Pattern

---

- Remote connection programs (RDP, TeamViewer, LogMeIn)
  - Brute force attacks
  - Social engineering
- Phishing emails
  - Credential theft
  - Malicious attachment
  - Malicious website
- System and VPN vulnerabilities
  - Open vulnerabilities
  - Frequently not up to date / patched

12

© 2020 RSM US LLP. All Rights Reserved.



12

## Attack Pattern

---

- Leveraging advanced security testing tools, not just hacking tools
- Often deploying credential stealing malware to help gain administrator privileges
- Network reconnaissance can take days/weeks in some cases
- Ransomware is the final “mic drop”

13

© 2020 RSM US LLP. All Rights Reserved.



13

## Evolving Trends

---

- Attackers are starting to actively steal data and threaten to expose it publicly if the ransom is not paid
  - Increases the cost of investigating the incident
  - Is leading to more notifiable events, increasing the cost of responding to the incident
- They are using more advanced techniques to keep a foothold in the environment
- Performing recon to identify mission critical systems to target that will be most painful for the victim
- Actively deleting or encrypting backups to prevent the victim from using that to recover from the attack and not pay the ransom

14

© 2020 RSM US LLP. All Rights Reserved.



14

## Evolving Trends

---

- Ransomware as a Service
  - Attackers developing malware and selling to anyone
  - This can lead to custom malware features, but also creates unstable variants
- Re-extortion with some attack groups
  - Victim pays ransom, then attacker demands additional payment instead of providing decryption keys

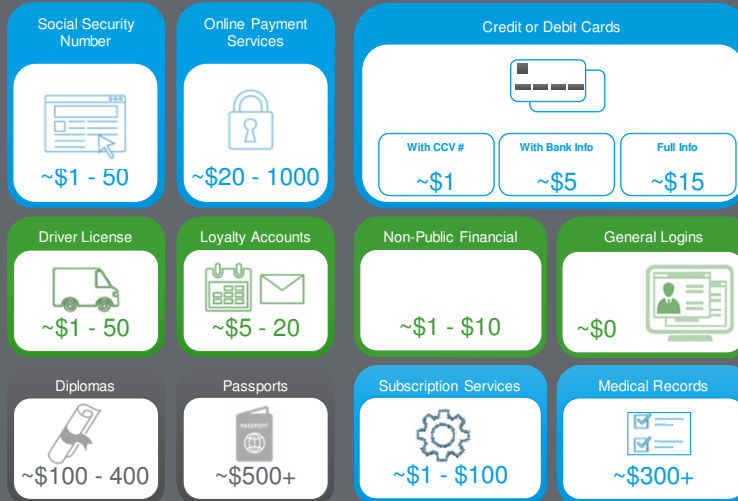
15

© 2020 RSM US LLP. All Rights Reserved.



15

## What's The Cost?



16

© 2020 RSM US LLP. All Rights Reserved.



16

## Impact to Organizations

- Financial impact goes beyond potential ransom payment
  - Business interruption cost due to during downtime
  - Remediation costs
  - Legal/investigative fees
  - Notification obligations and fees
- Reputation damage can be massive if incident is publicly disclosed

17

© 2020 RSM US LLP. All Rights Reserved.



17



## Challenges Facing Government Entities

- Lower budgets with little allocated towards security
- Often operating on older systems and applications
  - May be unpatched, out of support
- Lack of security awareness training
- Trouble attracting top security professionals
- Slow change even after an incident

18

© 2020 RSM US LLP. All Rights Reserved.



18

## Atlanta Ransomware Attack (2018)

- Approximately 3,789 systems affected\*
  - Systems down for about 1 week
- Attackers demanded 6 Bitcoin as payment (~\$51,000 at the time)\*\*
- Recovery costs estimated at \$6 million, with potential follow-up costs bringing the total to \$17 million\*\*\*

\*US DOJ, 2018

\*\*Bloomberg, 2019

\*\*\*Atlanta Journal-Constitution, 2018

19

© 2020 RSM US LLP. All Rights Reserved.



19

## Baltimore Ransomware Attack (2019)

- Ransomware disabled voicemail, email, parking fines database, payment systems, and delayed home sales\*
- Ransom demand of ~\$80,000\*\*
- City approved \$10 million in emergency funding\*\*

\*Baltimore Sun, 2019

\*\*NY Times, 2019

20

© 2020 RSM US LLP. All Rights Reserved.



20

## Remote Workforce Considerations

- Many organizations made changes to allow workforce to operate remotely
  - Open RDP, remote access applications, BYOD policy restrictions modified
- Security was generally an afterthought
- Many of these changes can leave organizations vulnerable to attacks
- Attackers using COVID as a premise to compromise an organization
  - Fraudulent websites, phishing emails claiming to contain COVID information

21

© 2020 RSM US LLP. All Rights Reserved.



21

## Remote Workforce Considerations

- Potentially decreased ability to respond to an incident
  - Reduced staffing
  - Employees in different locations
- How does being remote affect the following:
  - Incident response plan
  - Disaster recovery / business continuity
  - System criticality (systems needed to operate remotely)
  - Modified communication channels
  - Business process changes
- Consider these variables for third parties as well



22

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

RSM, the RSM logo and *the power of being understood* are registered trademarks of RSM International Association.  
 © 2020 RSM US LLP. All Rights Reserved.



23

# INTRODUCTION TO ROBOTIC PROCESS AUTOMATION (RPA)

2020

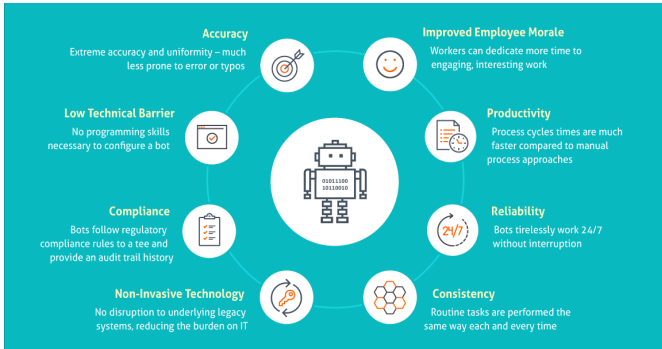


1

## Speaker



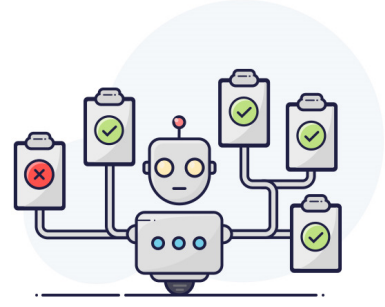
**Chris Wetmore**  
Principal – Management Consulting  
Intelligent Automation Leader



2

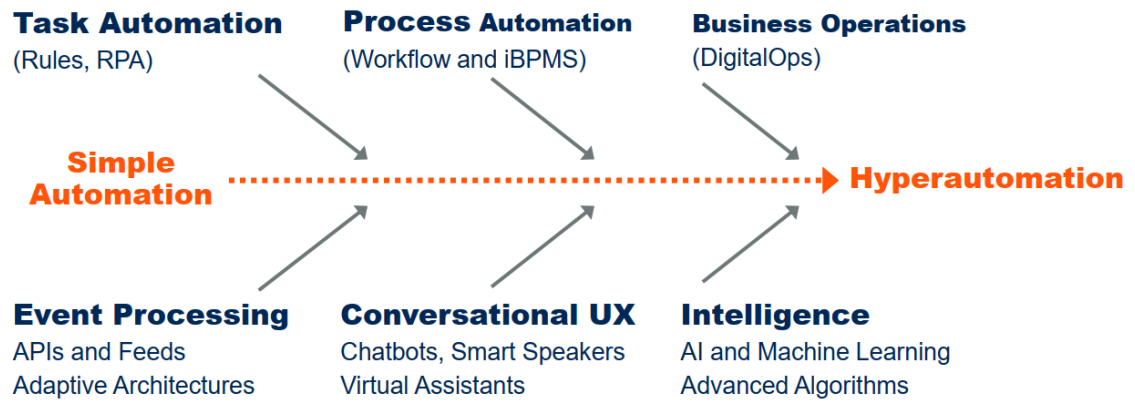
## Robotic Process Automation (RPA) Introduction

- What is HyperAutomation
- What is RPA
- Why should you care
- Common use cases
- Getting Started



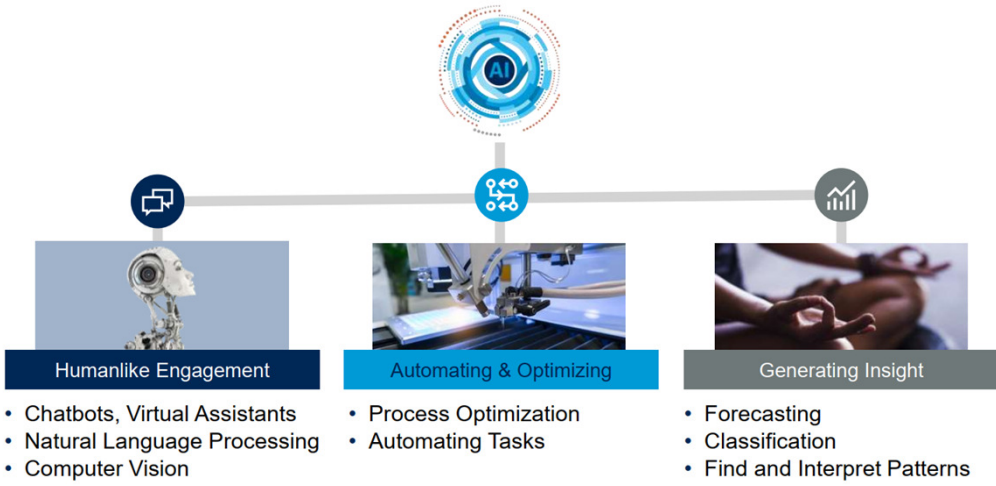
3

## TOP IT Trend: Hyperautomation:



4

## Types of Artificial Intelligence

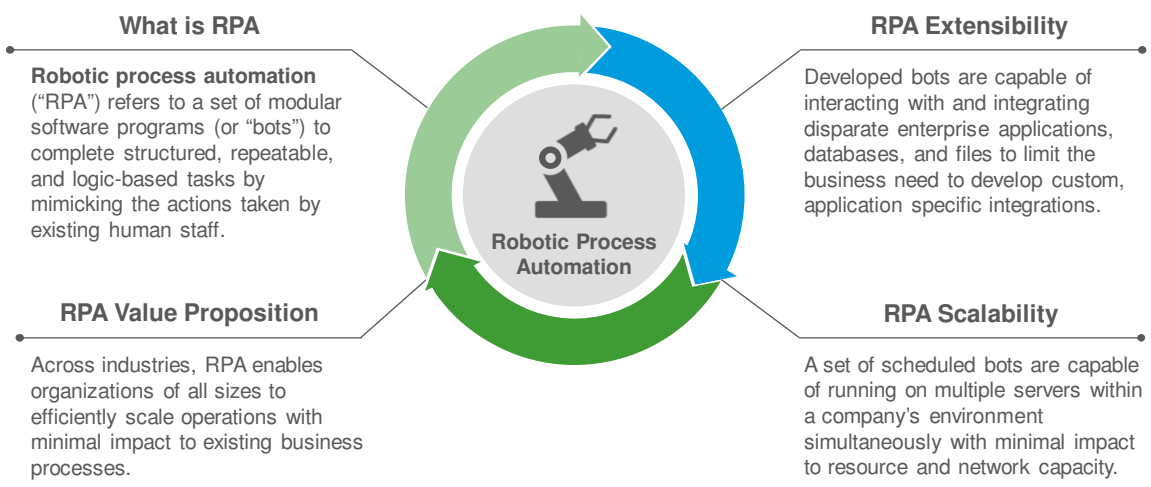


5  
© 2020 RSM US LLP. All Rights Reserved.



5

## Robotic Process Automation Overview



© 2020 RSM US LLP. All Rights Reserved.



6



# DEMONSTRATION

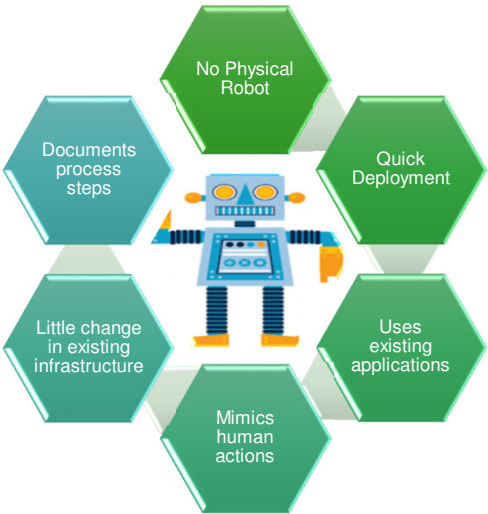
7

© 2018 RSM US LLP. All Rights Reserved.



7


## Robotic Process Automation Overview



- RPA Benefits
  - Increased Productivity & Efficiency – Focus employees on higher value activities
  - Scalability and Flexibility - replicate robotic tools across geographies/business units
  - Accuracy - Robot’s don’t make mistakes or judgement calls, and they don’t get tired
  - Cost Savings – automation quickly reduces administrative and back office costs for fast ROI

8

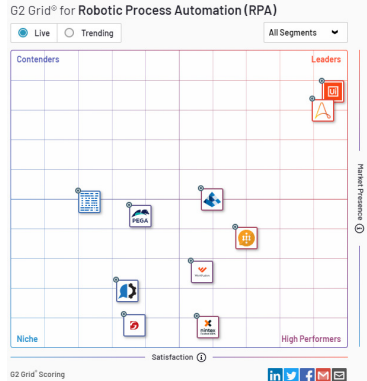
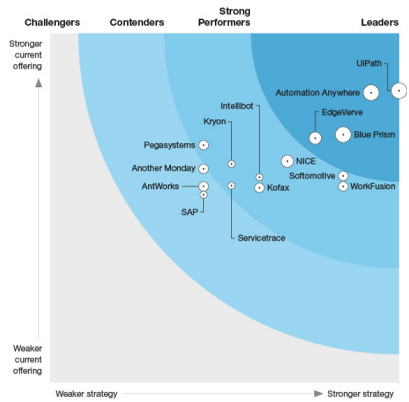
© 2020 RSM US LLP. All Rights Reserved.



8

# RPA Industry Landscape

**THE FORRESTER WAVE™**  
Robotic Process Automation  
Q4 2019



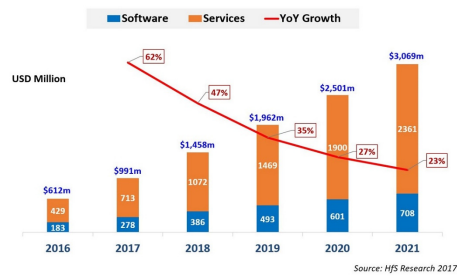
© 2020 RSM US LLP. All Rights Reserved.



# Robotic Process Automation

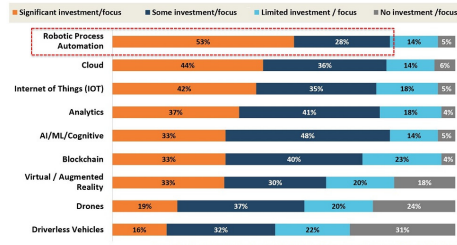
- Computer based software that works with an organizations current technology to automate repetitive processes to free up users for higher value work.
- Key Vendors: Automation Anywhere & UiPath
- New Entrant: Microsoft UiFlow

**Worldwide Enterprise Robotic Software and Services Market (RPA and RDA), 2016-2021**



**RPA, Cloud & IoT Lead Investment Focus**

Q. Over the next year, how much investment/focus is your organization making year to help you achieve operational cost saving goals?



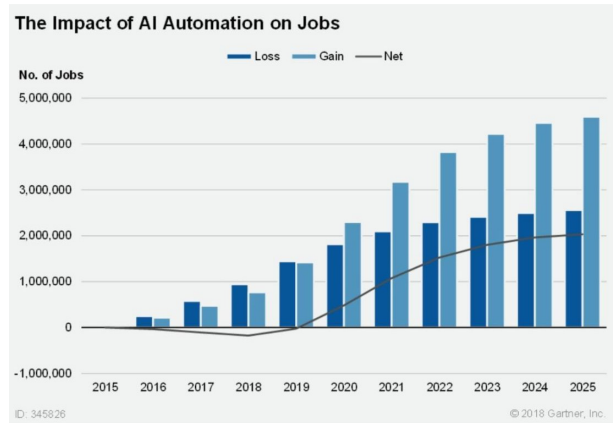
- 53% of the Global 2000 are planning significant investments in RPA to reduce operational costs in 2018
- The robotic software and services market is expected to surpass \$3B by 2021 with a CAGR of 33%
- The largest growth area will be around implementation and consulting services

© 2020 RSM US LLP. All Rights Reserved.



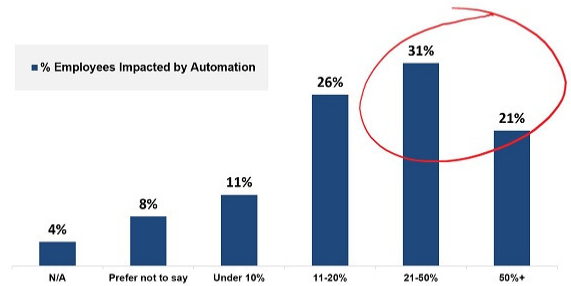


## RPA impact on jobs

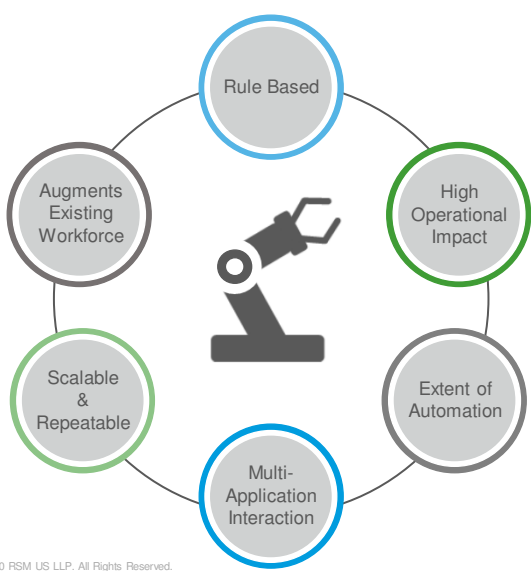


### Half of Enterprises Bracing for Major Staff Impact from Automation

Q. In terms of the number of transactional internal roles within the following process areas, what proportion do you expect to be significantly impacted by automation in the next 2 years? (Average Across Functions)



## Ideal Use Cases



### Ideal Process & Business Conditions for Automation

- 75% of process is rule based 25% is programmable human logic
- Process should be high volume and largely manual with large efficiency gain potential
- The automation extends to the majority of the process, not just a subset
- Interacts with 1-3 business applications or data stores
- Regularly repeated across a department or organization
- New developments that augment human workers or those that add to or builds on existing automations
- Best represents the overall complexity of the business
- Applications have available test environments for development resources to test in progress automation work
- Business rules are clearly defined and SME availability is guaranteed
- Includes, but does not rely, on optical character recognition



## Favorable RPA Processes & Conditions

Is the process standardized?	Is the process defined?	Will there be a return on investment?
<ul style="list-style-type: none"> <li>Easily defined, limited variability</li> <li>Stable data structure</li> <li>Easily repeatable</li> <li>Strong data integrity and accuracy</li> <li>Standardized forms, fields</li> <li>Measurable outcomes for evaluating efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Defined beginning/end</li> <li>Limited human discretion</li> <li>Few exceptions</li> <li>Defined exception paths</li> <li>Defined number of systems</li> <li>Defined system flow</li> <li>Defined, consistent inputs/outputs</li> </ul>	<ul style="list-style-type: none"> <li>Strategically important</li> <li>High volume</li> <li>High frequency</li> <li>Manual/duplicative effort</li> <li>Lacking alternative solutions</li> <li>Compliance or regulatory requirement(s)</li> </ul>

13

© 2020 RSM US LLP. All Rights Reserved.



13

## Challenges to Automation with RPA

While RPA can be an effective solution to many of the challenges facing businesses and their processes, there are inherent limitations that can cause a process to be removed from candidacy or face reduced effectiveness in improving business operations



Lack of structure for process inputs & outputs



Frequent process changes



Decisions that require human Intuition



Data quality & integrity issues



Intended application changes or upgrades



Significant number of exceptions requiring human intervention

14

© 2020 RSM US LLP. All Rights Reserved.



14

## Common Use Cases

Finance & Accounting	HR/Payroll	Network & IT	Supply Chain	Audit and Compliance
<ul style="list-style-type: none"> <li>Order to Cash / AR                             <ul style="list-style-type: none"> <li>✓ Credit Analysis</li> <li>✓ Sales Order Processing</li> <li>✓ Customer MDM</li> <li>✓ Order Entry</li> <li>✓ Reports by segments</li> </ul> </li> <li>Procure to Pay / AP                             <ul style="list-style-type: none"> <li>✓ 3 Way Match</li> <li>✓ PO Issuance</li> <li>✓ Invoice Receipt</li> <li>✓ Vendor Master</li> <li>✓ Payment Process</li> <li>✓ Duplicate Payment Tracking</li> </ul> </li> <li>Record to Report                             <ul style="list-style-type: none"> <li>✓ Monthly close</li> <li>✓ Treasury and tax</li> <li>✓ Financial statements</li> <li>✓ General ledger</li> <li>✓ Journal entry processing</li> <li>✓ Inter-company accounting</li> <li>✓ Account reconciliations</li> <li>✓ Fixed assets and projects</li> <li>✓ Cost and inventory accounting</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Maintain Master Data</li> <li>Offer Letter Process</li> <li>Onboarding and Exit</li> <li>Appraisal-updating process / Change Payroll Status</li> <li>Position Management</li> <li>Reporting Line Change</li> <li>Superannuation</li> <li>Payment Summaries</li> <li>Employment Type Updates</li> <li>Service Desk Reports</li> <li>Distribution</li> <li>Leave Amendments</li> </ul>	<ul style="list-style-type: none"> <li>Active Directory</li> <li>File Systems</li> <li>FTP Management</li> <li>Automated Installations</li> <li>Server / Application Monitoring and Alert Management</li> <li>Service Desk Management</li> <li>Notification &amp; Escalation</li> <li>VMware Integration</li> <li>Data Movement</li> <li>Provisioning</li> <li>Configuration Management</li> <li>Routine Maintenance</li> </ul>	<ul style="list-style-type: none"> <li>Order Prioritization</li> <li>Master data management</li> <li>Invoice verification</li> <li>Receipt confirmation</li> <li>Scheduling processes</li> <li>Reporting</li> <li>Production information capture</li> <li>Inventory management processes</li> <li>Pricing management</li> <li>Billing</li> <li>Freight costing</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly Access Reviews (UAR)</li> <li>Data/Evidence Gathering</li> <li>System Configuration Testing</li> <li>Rules-Based Workpaper Automation</li> <li>Orchestration of audit automation tools and scripts</li> <li>User provisioning and de-provisioning controls</li> <li>Master Data Management Compliance</li> <li>Application Change Management Compliance</li> <li>Continuous Monitoring</li> <li>Reporting Automation</li> </ul>

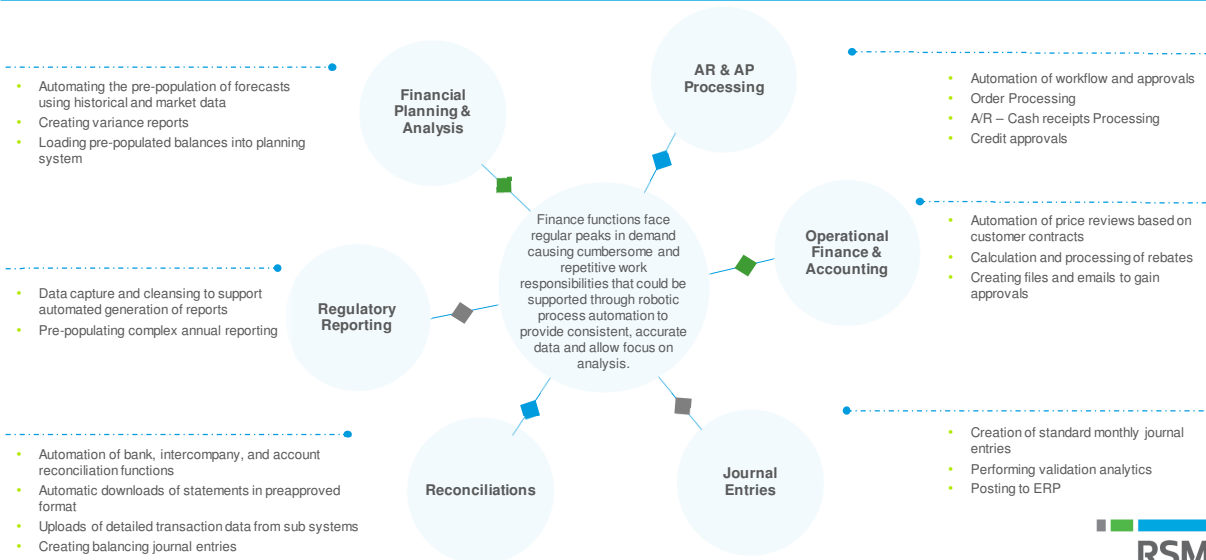
15

© 2020 RSM US LLP. All Rights Reserved.



15

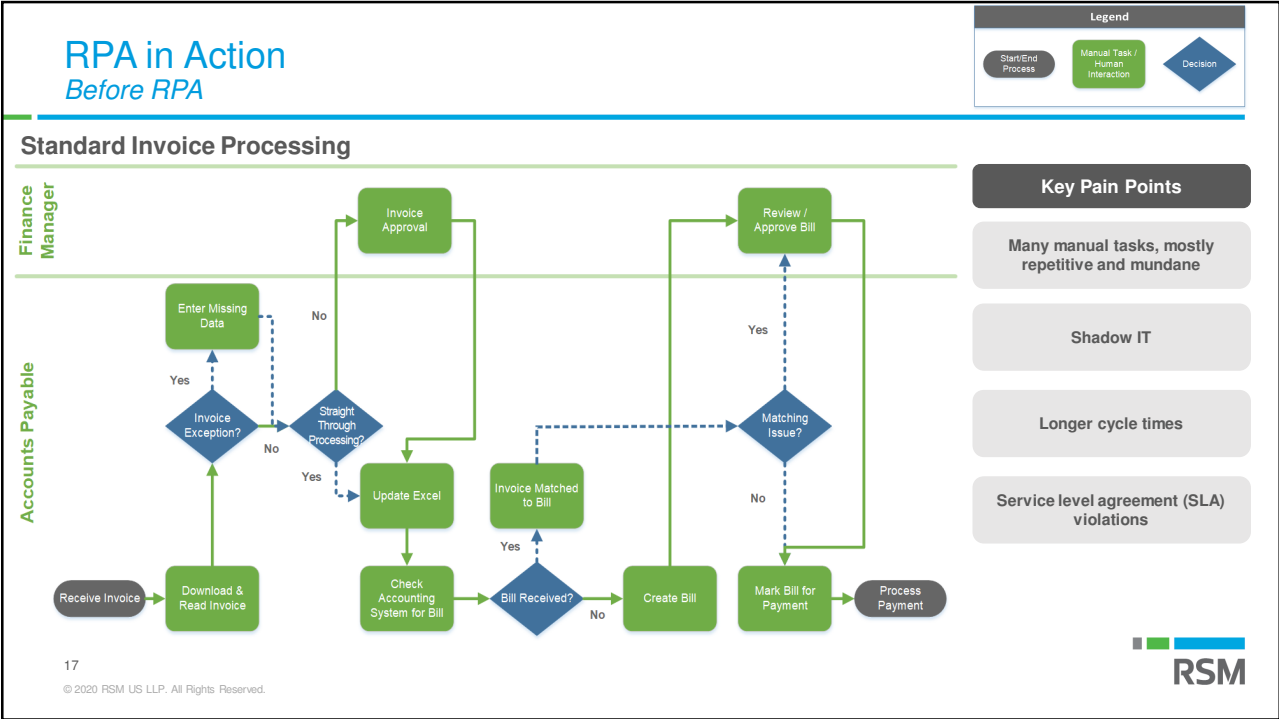
## RPA in Finance - Use Cases



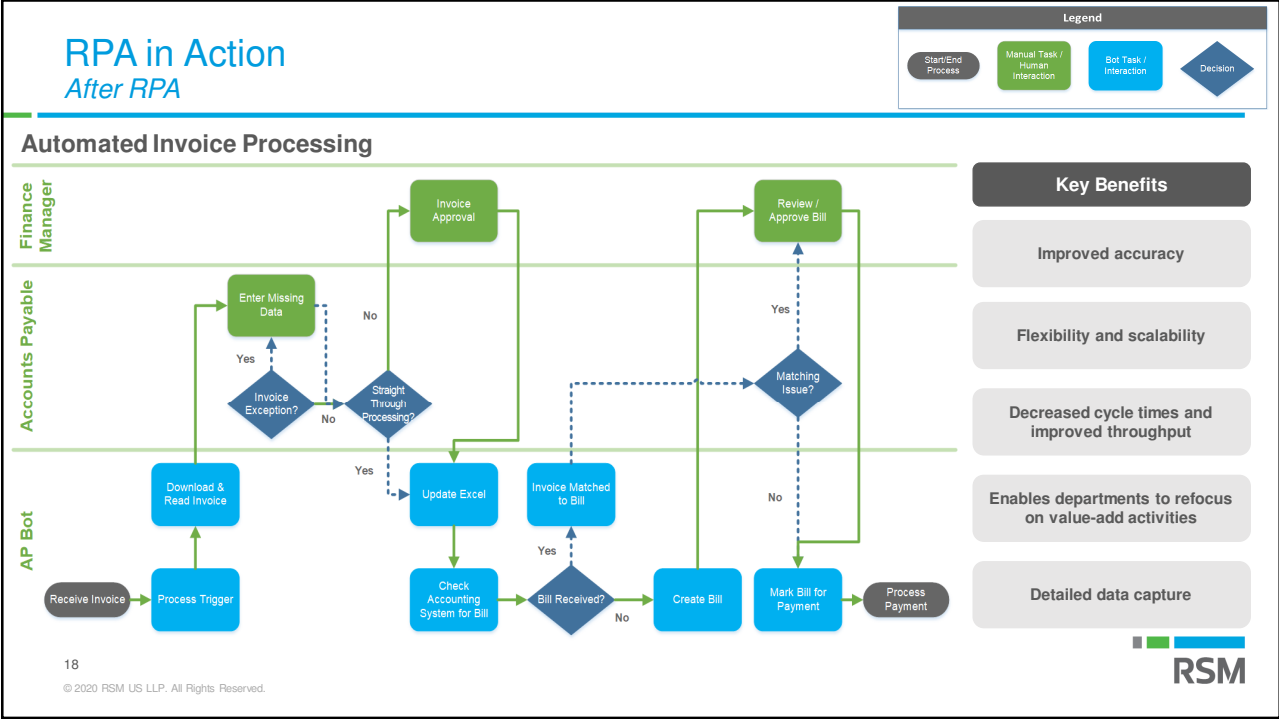
© 2020 RSM US LLP. All Rights Reserved.



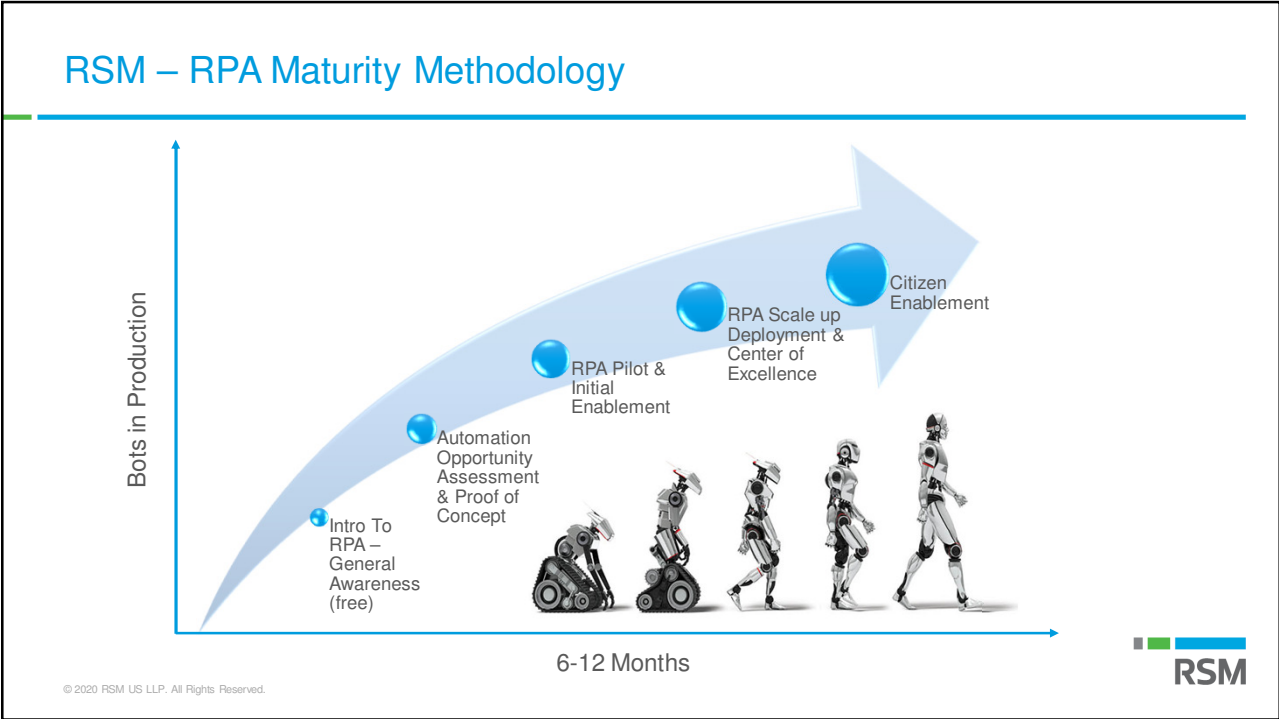
16



17



18



19

### Objective of a Proof of Concept

*Scope of a POC*

	Proof of Concept	Pilot
<b>Purpose</b>	Demonstrate product features	Demonstrate RPA Lifecycle
<b>Target</b>	Business Success	Development process success
<b>Scope</b>	Happy path, small data sets	End to end process, entire datasets
<b>Production Readiness</b>	Low	High
<b>Time to Value</b>	2-5 days	4 – 8 weeks
<b>Typical Team Size</b>	1-2	3-4
<b>Governance</b>	Minimal	Significant
<b>Environment Capacity</b>	Minimal	Moderate
<b>KPI</b>	Speed to result	Enforcing Methodology
<b>Licensing</b>	Trial or Limited license	Purchased
<b>Documentation</b>	None	Extensive
<b>Next Steps</b>	Pilot	Scalability planning

**When to Consider a Pilot**

- Extensive process research has been conducted at the client level, and the client wants an end to end process automated and ready for production
- Desire to watch the resulting automation in action for an extended period of time
- Affinity to learn the bot development lifecycle
- Ready to build a larger business case based on existing automation

**RSM**

20 © 2020 RSM US LLP. All Rights Reserved.

20

### How much does this cost?

- Community editions: Free!
- Licensing is a la carte (but can start at \$10k/year)
- 1 bot = 24 hours of capacity per day – 7 days/week
- 1 bot can run any number of automations but 1 at a time
- Average time to build an average automation: 150 hours
- Average annual cost to a automation \$10,000-\$15,000

### What RPA Costs

**Typical recurring annual costs per individually purchased bot: \$12,000 - \$16,000**

**Typical recurring annual costs per bot, enterprise agreement (minimum 10 bots): \$10,000**

**All-in, year-one costs per bot, including solution scoping, process re-engineering, programming, implementation, and testing: \$40,000 (estimated)**

Source: Gartner



### What's coming next?

