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Professional Associations:

American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants
West Michigan Association of Government Accountants
Michigan Government Finance Officers Association
National Government Finance Officers Association

Session Outline



Recap & Review

GASB 94: Public-Private and Public-Public Partnerships



Deep Dive

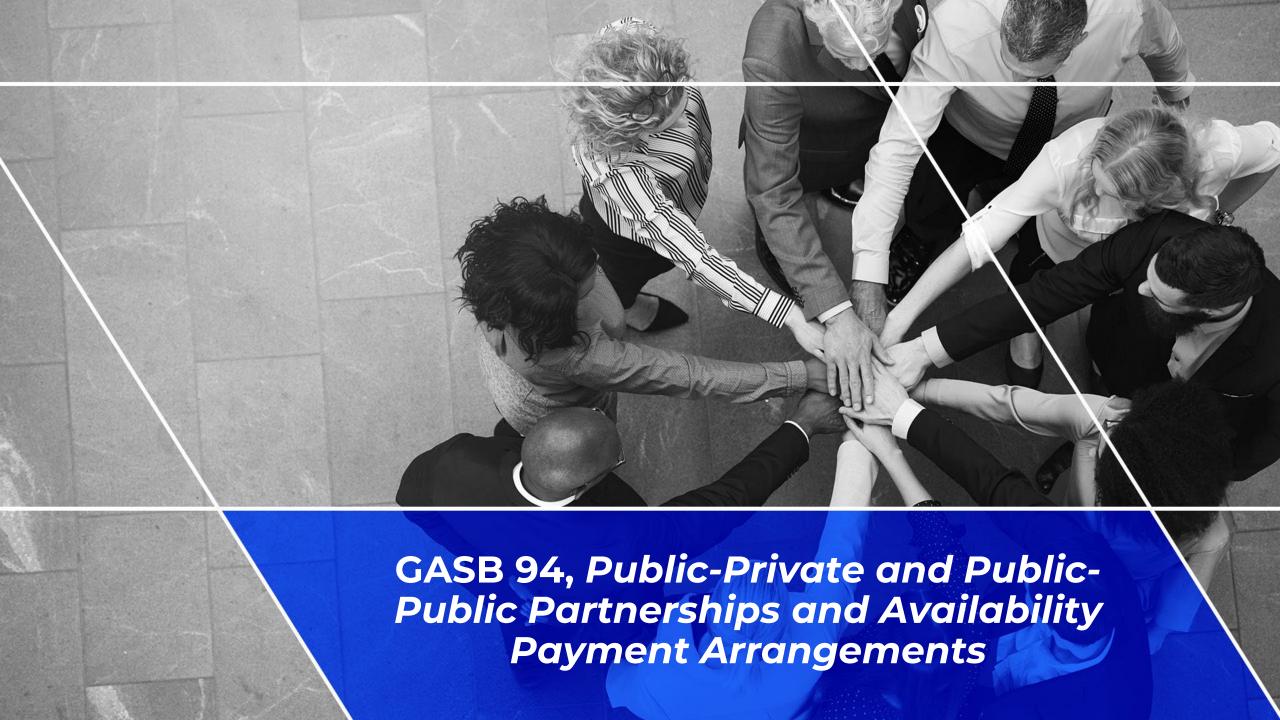
GASB 96: Subscription-Based Information Technology Arrangements



Planning for Upcoming Standards

GASB 100: Accounting Changes and Error Corrections

GASB 101: Compensated Absences GASB 102: Certain Risk Disclosures



Effective for fiscal years beginning on or after June 15, 2022

What is a PPP arrangement?

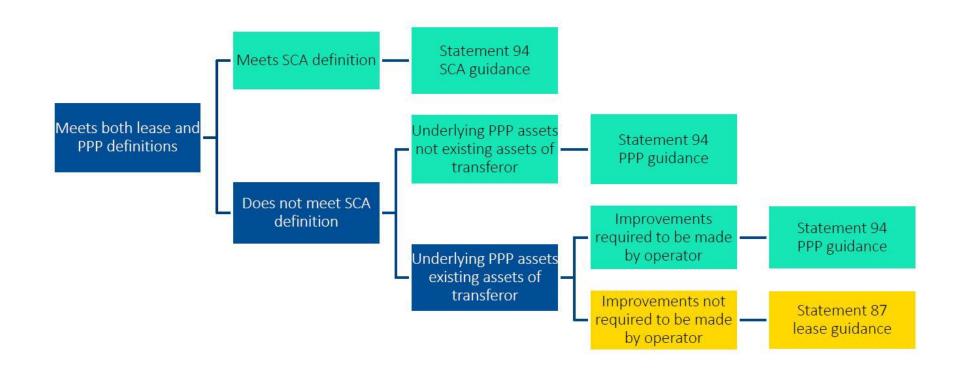
For purposes of applying this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

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GASB Statement 94 PPP and APA Arrangements

	PPPs	Leases
Parties	 Transferor – Always a government Operator – May be a government 	LessorLessee
Liability	PPP liability (and, in some cases, liability to transfer underlying PPP asset)	Lease liability
Intangible Right-to- Use Asset	Right-to-use asset	Lease asset
Underlying Asset	Underlying PPP asset	Underlying asset
Receivable	PPP receivable (and, in some cases, receivable for underlying PPP asset)	Lease receivable
Deferred Inflow of Resources	Deferred inflow of resources from PPP (and, in some cases, deferred inflow of resources for receipt of underlying PPP asset)	Deferred inflow of resources from lease

What is a PPP arrangement?





Type I

Underlying PPP asset is an **existing** asset of the transferor, with or without operatormade improvements

Type II

is a **new** asset
acquired or
constructed by the
operator and the PPP
is a **service concession**arrangement

Type III

is a **new** asset
acquired or
constructed by the
operator when the
PPP is **not a service**concession arrangement

*Classification into "types" is a GFOA convention, not found in the authoritative literature

Transferor Initial Recognition

Type I and Type II

At commencement of PPP term, recognize:

Receivable for future PPP payments

Deferred inflow of resources

If/when operator-made improvements (Type I) or new underlying PPP assets (Type II) are placed into service, recognize

Addition to capital assets

Deferred inflow of resources



Transferor Initial Recognition

Type III

When operator's new underlying PPP asset is placed into service, recognize

Receivable for future PPP payments

Receivable for underlying PPP asset

Deferred inflow of resources

How do I calculate the PPP Term?

The PPP term is the period during which an operator has a noncancellable right to use an underlying PPP asset (referred to as the noncancellable period), plus the following periods, if applicable:

- a. Periods covered by an operator's option to extend the PPP if it is reasonably certain, based on all relevant factors, that the operator will exercise that option.
- b. Periods covered by an operator's option to terminate the PPP if it is reasonably certain, based on all relevant factors, that the operator will not exercise that option.
- c. Periods covered by a transferor's option to extend the PPP if it is reasonably certain, based on all relevant factors, that the transferor will exercise that option.
- d. Periods covered by a transferor's option to terminate the PPP if it is reasonably certain, based on all relevant factors, that the transferor will not exercise that option.

Availability Payment Arrangement:

Components of an APA that are related to the design, construction, or financing of a nonfinancial asset in which ownership of the asset transfers to the government by the end of the contract should be reported as a financed purchase by the government of the underlying nonfinancial asset.

Components of an APA that are related to providing services for the operation or maintenance of a nonfinancial asset should be accounted for as outflows of resources (for example, expense) by the government in the period to which the payments relate.



Polling Question #1

GASB 96 Outline

What is a Subscription-Based Information Technology Agreement (SBITA)?

The Subscription Term

Measuring the Subscription Asset & Liability

Accounting Treatment and Financial Statement Disclosures

Practical Considerations

What is a Subscription-Based Information Technology Agreement (SBITA)?



SBITA Definition

Defines "SBITA's" as a "contact that conveys control of the right to use another party's (a SBITA vendor's) information technology (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.

Control of the right to use:

The right to obtain the present service capacity from use of the underlying IT asset as specified in the contract; *and*

The right to determine the nature and manner of use of the underlying IT asset as specified in the contract

Excluded from the scope of this statement

Excludes contracts already defined as "leases" under GASB 87, Leases.

Excludes contracts that are solely to provide IT support services.

Excludes governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITA's.

Excludes contracts that fall under GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements.

Excludes licensing arrangements that provide perpetual license to governments to use a vendor's computer software, which are subject to GASB 51, Accounting and Financial Reporting for Intangible Assets.



Also excluded from the scope of this statement:

Short-term SBITA's

- Short-term SBITA's are contracts where the maximum possible term under the contract, including any options to extend, is less than 12 months.
- For rolling (month-to-month/year-to-year) contracts, the maximum possible lease term is the noncancelable portion (including notice period)

Component contracts:

Includes contracts that provide **both** IT support services and a right-to-use IT asset component and an IT support services component.

The GASB provides some discussion of support service arrangements and specific circumstances in the implementation guides and appendices to the Standard.

Calculating the Subscription Term

Subscription Term

Period during which the government has a noncancellable right to use the underlying IT assets (referred to as the non-cancellable period), plus the following periods, if applicable;

Plus:

Periods covered by either the government's **or** the vendor's option to extend (if reasonably certain to be exercised)

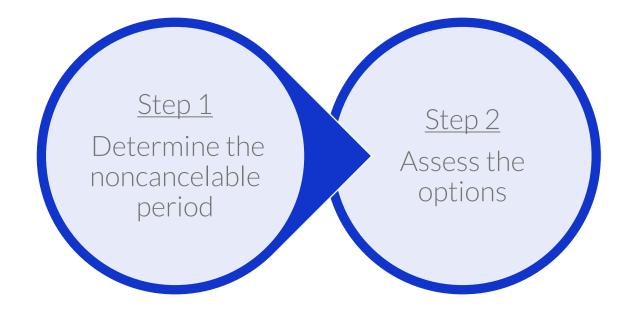
Periods covered by either the government's **or** the vendor's option to terminate (if reasonably certain *not* to be exercised)



Subscription Term - addendum

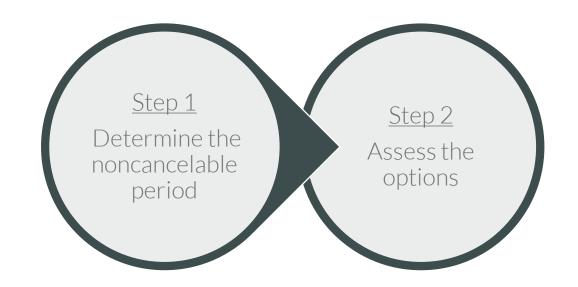
Periods for which both the government and the SBITA vendor have an option to terminate without permission from the other party (or if both parties have to agree to extend) are cancellable periods and are excluded from the subscription term.



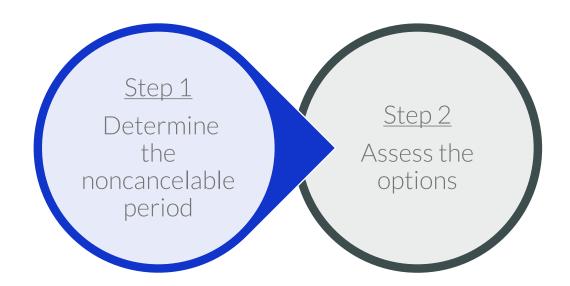




- A contract provides the government control of the right-to-use of an IT Asset (Financial Management Software) for three years
- After two years, the government can terminate the contract
- After three years, there is an option to extend for two years

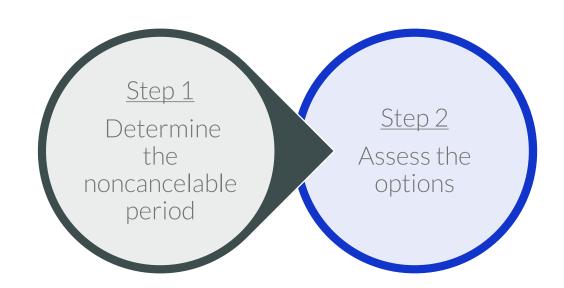


- A contract provides the government control of the right-to-use of an IT Asset (Financial Management Software) for three years
- After two years, the government can terminate the contract [noncancelable period]
- After three years, there is an option to extend for two years





- A contract provides the government control of the right-to-use of an IT Asset (Financial Management Software) for three years
- After two years, the government can terminate the contract [not reasonably certain]
- After three years, there is an option to extend for two years [reasonably certain]





Noncancelable period	Years 1-2
+ Period covered by option to terminate, not reasonably certain to be exercised	Year 3
+ Period covered by option to extend, reasonably certain to be exercised	Years 4-5
Total subscription term	5 Years

Subscription term

Reassess the term only if:

Government or vendor exercises an option not expected

Government or vendor fails to exercise an option expected

An event specified in the contract that requires an extension or termination of the contract actually occurs

Polling Question #2

Measuring the Subscription Asset & Liability



Subscription liability/asset recognition and measurement

Subscription liability

Intangible right-to-use asset ("subscription asset")





Subscription liability

Present value of payments expected to be made for the SBITA contract term

Fixed payments

Variable payments that are fixed in substance (dependent on index/rate) using current rates at inception

Subscription liability

Present value of payments expected to be made for the SBITA contract term

Payments for penalties for terminating the SBITA, if the subscription term reflects the government exercising (1) an option to terminate the SBITA or (2) a fiscal funding or cancellation clause

Any subscription contract incentives (as discussed in paragraphs 42 and 43) receivable from the SBITA vendor

Any other payments to the SBITA vendor associated with the SBITA contract that are reasonably certain of being required based on an assessment of all relevant factors.





Subscription liability

Present value of payments expected to be made for the subscription term

The future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be the interest rate implicit in the SBITA. In future periods, recognize an outflow (e.g., interest expense) for the amortization of the discount



Subscription liability

Present value of payments expected to be made for the subscription term

If the interest rate cannot be readily determined by the government, the government's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the subscription payment amounts during the subscription term) should be used





Subscription Asset

Initially measured the same as the subscription liability

Add: Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, if applicable

Add: Capitalizable initial implementation costs





Subscription Asset

A subscription asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets.

Remeasuring the subscription liability (for an event other than a contract modification or termination).

If one or more factors are expected to significantly affect the liability:

Change in subscription term

There is a change in the estimated amounts for subscription payments already included in the measurement of the subscription liability

There is a change in the interest rate the SBITA vendor charges the government, if used as the initial discount rate.

Amounts previously contingent become reasonably certain

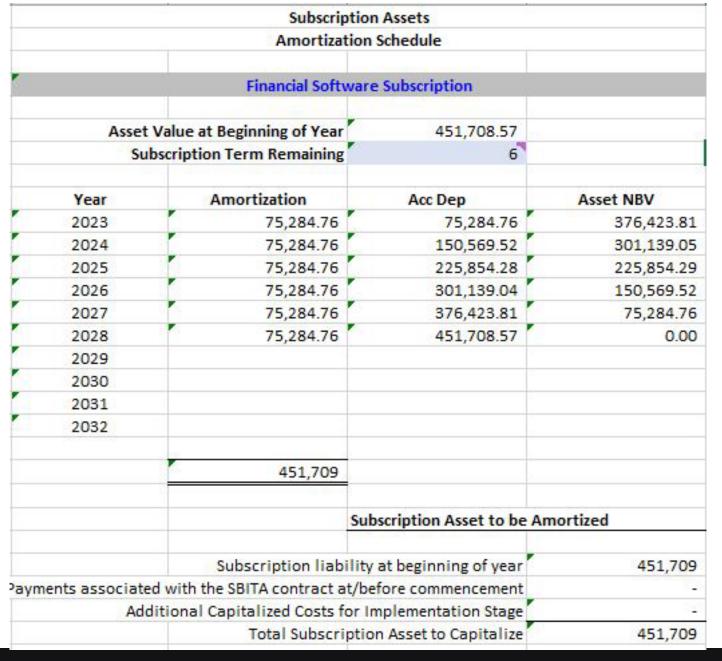
A subscription liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in a government's incremental borrowing rate.

Outlays Other Than Subscription Payments, including Implementation Costs

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GASB Statement 96 Subscription-Based Information Technology Agreements

Preliminary Project Stage	Initial Implementation State	Operation and Additional Implementation Stage
 Formulate and evaluate alternatives Determine existence of needed technology 	 Design, configure, code, install, and test Convert data needed to make underlying assets operational 	 Train users Convert data (other than that needed to make the underlying
 Select amount alternatives 		assets operational) Maintain software (and hardware)
Accounting Treatment		
Expense as incurred	Capitalize these costs when incurred:	Expense as incurred
	[1] After completion of the preliminary project stage AND	
	[2] Funding for at lease first year approved	





Polling Question #3





Accounting Treatment and Financial Statement Disclosures



Accounting in governmental funds:

At inception: debit expenditure (capital outlay); credit other financing source (proceeds from long-term debt)

Subscription payments: debit expenditure (debt service); credit cash



Notes to financial statements

Disclose:

General description (basis, terms, conditions)

Total subscription assets and accumulated depreciation (separate from other capital assets)

Any current year outflows (expenses) for variable payments not previously included in the subscription liability



Notes to financial statements

Disclose:

Any current year outflows (expenses) for other payments not previously included in the subscription liability

Principal and interest requirements to maturity (presented separately) for the subscription liability for the first 5 years and in 5-year increments thereafter

Commitments under SBITA's that have not yet begun

Components of any current year impairment loss



Potential for prior period restatements

The statement should be applied for the earliest period presented (important if you are presenting comparative financials).

Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

Materiality Considerations & Observations



Never forget the 12 most important words of any GASB Statement:

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

Practical considerations:

Determining an Implementation Timeline

- Stage 1 (Phases 1-2): Gathering and compiling contracts that are potential SBITA's.
- ➤ Should include a careful consideration of where contracts might be maintained and administered if managed in a decentralized fashion.
- Should also include an analysis ledger accounts that might contain potential SBITA's.



Practical considerations:

Determining an Implementation Timeline

- Stage 2 (Phase 3): Evaluating SBITA Agreements.
- May include use of tools like the spreadsheet available from Rehmann to evaluate applicability of GASB 96 to specific contracts.



Practical considerations:

Determining an Implementation Timeline

- Stage 3 (Phases 4-7) Calculating, recording, and reporting the SBITA assets and liabilities.
- Consider volume and complexity of calculations. Various manual excel-based tools are available (include a Rehmann toolkit).

There are several software solutions including DebtBook which are available to assist in making calculations, as necessary.

Practical considerations:

Determining an Implementation Timeline

- Stage 3 (Phases 4-7) Calculating, recording, and reporting the SBITA assets and liabilities.
- Remember that recording and reporting these assets and liabilities are time-consuming. If your timeline for audit preparation does not include at least evaluating potential SBITAs and calculating the resulting asset/liability you're going to be behind schedule on your audit planning from the jump.

Practical considerations:

Determining an Incremental Borrowing Rate

- Following GASB 62, Codification of Accounting and Financial Reporting Guidance
 - Paragraph 183: Rates obtained for financing of a similar nature from other sources
 - Paragraph 184: Approximation of prevailing market rates
- Determining inputs and establishing a reasonable rate.



Practical considerations

Capitalization policies - Determining an appropriate threshold.

• Consider writing Leases and SBITA considerations into your organization's existing capitalization policy (including specific thresholds).

Practical considerations

Capitalization policies - Considering updating thresholds for major capital asset classes based on the following principals:

- Quality consideration of useful life based on asset inputs
- Application The type of intended use for the asset
- Environment Climate (both environmental and regulatory) that might impact the useful life of the asset.



Practical considerations

Capitalization policies - Consider using the GFOA's new publication (Accounting for Capital Assets: A guide for State and Local Governments – 2nd edition).



Practical considerations

- Capitalization policies continued -
 - Implementation Guide 2021-1, Question 7.9.8 A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant.



Never forget the 12 most important words of any GASB Statement:

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



Polling Question #4







GASB Statement 100 Accounting Changes and Error Corrections

Effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter

- Early adoption encouraged
- Note: In many cases, future pronouncements will simply reference GASB 100 in implementation guidance

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GASB Statement 100 Accounting Changes and Error Corrections

New requirements and clarifications for three types of accounting changes and the correction of errors affect:

- Reporting (Recognition and Display)
- Disclosures
- Required Supplementary Information
- (Other Supplementary Information)

Scope excludes first-time adoption of GAAP financial reporting framework



GASB Statement 100 Changes in Accounting Principle

Changes in Accounting Principle:

- Change from one GAAP principle to another
- New principle must be preferable (understandability, reliability, relevance, timeliness, consistency, or comparability)
- Default treatment for new GASB pronouncements



GASB Statement 100 Changes in Accounting Estimate

Changes in Accounting Estimate:

- Changes to the inputs used for an estimate
- Result from a change in circumstance, new information, or more experience
- General guidance applies in the absence of specific guidance (e.g., actuarial assumptions)



GASB Statement 100 Changes To or Within the Reporting Entity

Changes To or Within the Reporting Entity

- CU added or removed (exceptions apply)
- CU reclassified between blended (BCU) and discretely presented (DPCU)
- Fund added or removed (movement of continuing operations within PG & BCUs)
- Fund reclassified between major and nonmajor (other than based on threshold)



GASB Statement 100 Recognition and Display of Accounting Changes

Display aggregate amount of adjustments to/restatements of beginning net position, beginning fund balance, or fund net position (collectively, "beginning position"), as applicable, for each reporting unit (includes error corrections)



GASB Statement 100 Recognition and Display of Accounting Changes

Changes in Accounting Principle:

- Retroactive
- Single-period: Restate beginning position for cumulative effect of change on prior period ("cumulative effect")
- Comparative: Restate financial statements for all periods, if practicable; restate beginning position of first period restated for cumulative effect



GASB Statement 100 Recognition and Display of Accounting Changes

Changes in Accounting Estimate:

- Prospective
- Recognize effect in period of change



GASB Statement 100 Recognition and Display of Accounting Changes

Changes To or Within the Reporting Entity:

- Prospective
- Adjust current period's beginning position for the effect of the change
- As if change occurred as of the beginning of the reporting period

GASB Statement 100 Error Corrections

Correction of Errors: Previously issued financial statements contained errors due to:

- Mathematical miscalculations
- Misapplication of accounting principles, or
- Oversight or misuse of facts that
 - Are about conditions that existed as of the financial statement date,
 - Themselves existed at the time the financial statements were issued, and
 - Could reasonably be expected to have been obtained and taken into account before the financial statements were issued

GASB Statement 100 Recognition and Display

Recognition and display:

- Retroactive
- Single-period financial statements
 - Restate beginning position for the cumulative effect
- Comparative financial statements
 - Restate financial statements for all periods presenteD
 - Restate beginning position of first period restated for any cumulative effect

Display in the Financial Statements

CITY OF GOVERNMENT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2025

	General	Housing Grants	(Formerly major) South TIF	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Total revenues	163,930,514	40,234,800		33,826,649	237,991,963
EXPENDITURES					
Total expenditures	139,780,226	37,082,987		25,708,787	202,572,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 24,150,288	\$ 3,151,813		\$ 8,117,862	\$ 35,419,963
NET CHANGE IN FUND BALANCES	49,342,445	25,168,049		2,191,145	76,701,639
FUND BALANCES, JULY 1, as previously reported	(12,099,613)	6,646,703	2,000,000	9,705,268	6,252,358
Adjustment - changes from major fund to nonmajor fund			(2,000,000)	2,000,000	
FUND BALANCES, JULY 1, as adjusted	(12,099,613)	6,646,703		11,705,268	6,252,358
FUND BALANCES, JUNE 30	\$ 37,242,832	\$ 31,814,752		\$ 13,896,413	\$ 82,953,997

A change from major to nonmajor fund presentation would result in the former major fund column being presented in the flows statement with no values, except for the line items that indicate beginning balances as previously reported and the aggregate adjustment amount.



GASB Statement 100 Disclosures

Summary disclosure, in a tabular form, of effects on beginning position of the earliest period adjusted or restated for each

- Change in accounting principle (including implementations of new pronouncements),
- Change to or within the financial reporting entity, and
- Error correction

Individual disclosures as well for each type of accounting change and for error corrections

GASB Statement 100 Disclosures - Example

Changes to or within the Financial Reporting Entity

Change in Component Unit Presentation (Column A)

• QRS Foundation was previously reported as a blended component unit (in Enterprise Fund D) because its board was substantively the same as the Sample City Council. However, new legislation was passed during the year that prevents members of the Sample City Council from serving on the board. Therefore, because the board no longer is substantively the same as the Sample City Council, QRS Foundation no longer meets the requirements for presentation as a blended component unit and is discretely presented for the fiscal year ended December 31, 20X2. The effects of that change to or within the financial reporting entity are shown in column A of the table below.

GASB Statement 100 Disclosures - Example

Changes to or within the Financial Reporting Entity

Addition of Discretely Presented Component Unit (Column B)

• In 20X2, new legislation was passed that gives the Sample City Council the authority to approve and modify the budget of XYZ Foundation. Due to that change, XYZ Foundation now meets the requirements for inclusion as a discretely presented component unit for fiscal year ended December 31, 20X2. The effect of that change to or within the financial reporting entity is shown in column B of the table below.

GASB Statement 100 Disclosures - Example

Correction of an Error in Previously Issued Financial Statements (Column C)

• During fiscal year 20X2, Sample City determined that infrastructure assets related to a new development that were contributed by a private developer in the prior year were not reported. Therefore, capital assets, net of depreciation, were understated by \$71.312 million for the fiscal year ended December 31, 20X1. In addition, public works revenue from capital grants and contributions was understated by \$72.610 million and public works expense for related depreciation was understated by \$1.298 million for the fiscal year ended December 31, 20X1. The effect of correcting that error is shown in column C of the table below.

GASB Statement 100 Disclosures

	12/31/20X1 As Previously Reported		the	e to or within Financial ing Entity (A)	Change to or within the Financial Reporting Entity (B)		Error Correction (C)		12/31/20X1 As Restated	
Government-Wide	125	 			-		16	- 100 h	(1) (1)	
Governmental Activities	\$	768,033	\$	2	\$	-	\$	71,312	\$	839,345
Business-Type Activities	8	543,163	720	(2,184)	53 53	-	32			540,979
Total Primary Government	\$	1,311,196	\$	(2,184)	\$		\$	71,312	\$	1,380,324
Governmental Funds										
Major Funds:										
General Fund	\$	631,607	\$	-	\$	-	\$	-	\$	631,607
Fund A		100,922				-		-		100,922
Nonmajor Funds		40,486		2		-		-		40,486
Total Governmental Funds	\$	773,015	\$	-	\$		\$		\$	773,015
Proprietary Funds										
Major Funds:										
Enterprise Fund C	\$	418,910	\$	-	\$	-	\$	-	\$	418,910
Enterprise Fund D		74,831		(2,184)		-		-		72,647
Nonmajor Funds		49,422		-		-		-		49,422
Total Proprietary Funds	\$	543,163	\$	(2,184)	\$	-	\$		\$	540,979
Fiduciary Funds										
Pension and Other Employee Benefit Trust Funds	\$	3,071,227	\$	*	\$	<u> </u>	\$		\$	3,071,227
Discretely Presented Component Units										
ABC Authority	\$	1,696	\$	-	\$	-	\$	-	\$	1,696
QRS Foundation		-		2,184		-		-		2,184
XYZ Foundation		23		-		1,500		2		1,500
Nonmajor Component Units		2,730		-		-				2,730
Total Discretely Presented Component Units	\$	4,426	\$	2,184	\$	1,500	\$	-	\$	8,110

GASB Statement 100 Required (RSI) and Other Supplementary Information (SI)

Changes in Accounting Principle and Changes To or Within the Reporting Entity:

- For years included in basic financial statements (BFS)
- Report in RSI, including management's discussion and analysis (MD&A) and SI in a manner consistent with BFS
- For years prior to those included in BFS
- Do not restate
- Explain why earlier information is not consistent with restated information (MD&A should refer to related note disclosure)



GASB Statement 100 Required (RSI) and Other Supplementary Information (SI)

Corrections of Errors:

- For years included in basic financial statements (BFS)
- Report in RSI (including management's discussion and analysis) and SI in a manner consistent with BFS
- For years prior to those included in BFS
- Restate if applicable and practicable
- Explain why it is not practicable to restate earlier periods, if applicable



GASB Statement 100 Accounting Changes and Error Corrections

Never forget the 12 most important words of any GASB Statement:

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





The requirements of this Statement are effective for fiscal years beginning on or after **December 15**, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Years ending:

December 31, 2024 June 30, 2025 September 30, 2025



Why a new GASB standard? The GASB felt it was time to re-visit GASB 16.

Under GASB 16: Sick leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees but only to the extent it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement ("termination payments").



Under GASB 101:

A compensated absence is leave for which employees may receive one or more (a) cash payments when the leave is used for time off; (b) other cash payments, such as payment for unused leave upon termination of employment; or (c) noncash settlements, such as conversion to defined benefit postemployment benefits. The payment or settlement could occur during employment or upon termination of employment.



What is a compensated absence?

Compensated absences generally do not have a set payment schedule. Examples of compensated absences include vacation (or annual) leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, and certain types of sabbatical leave.

Sabbatical leave during which an employee is not required to perform any significant duties for the government (unrestricted sabbatical leave, as used in this Statement) is a compensated absence. Sabbatical leave during which an employee is required to perform duties of a different nature for the government (for example, research instead of teaching) is not a compensated absence.



What are the rules now?

A liability should be recognized for leave that has not been used **if all of** the following are true:

- a. The leave is attributable to services already rendered.
- b. The leave accumulates.
- c. The leave is **more likely than not** to be used for time off or otherwise paid in cash or settled through noncash means.



More likely than not? (50% rule)

A government should evaluate whether leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means by assessing relevant factors, including the following:

- a. The government's employment policies related to compensated absences
- b. Whether leave that has been earned is, or will become, eligible for use or payment in the future
- c. Historical information about the use, payment, or forfeiture of compensated absences
- d. Information known to the government that would indicate that historical information may not be representative of future trends or patterns.



What pay rate should I use to measure the liability?

The liability for leave that is recognized should be measured using an employee's pay rate as of the date of the financial statements, unless one of the criteria in paragraphs is met.



What if the leave converts to a benefit for a DB plan?

Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits *should not be* recognized as a liability for compensated absences.

Compensatory time for potential leave?

For types of compensated absences that are dependent upon the occurrence of a sporadic event that affects a relatively small proportion of employees in any particular reporting period, a government should not recognize a liability until the leave commences. For the purposes of this Statement, parental leave, military leave, and jury duty leave should not be recognized as liabilities until the leave commences. However, sick leave and unrestricted sabbatical leave should be recognized in accordance with the provisions in paragraph 9.



Sabbatical rules?

- Sabbatical leave during which an employee is not required to perform any significant duties for the government (unrestricted sabbatical leave, as used in this Statement) is a compensated absence. Sabbatical leave during which an employee is required to perform duties of a different nature for the government (for example, research instead of teaching) is not a compensated absence.



What about unlimited leave policies and holidays?

For the following types of compensated absences, a government should not recognize a liability until the leave is used.

- a. Leave that employees are able to take as needed without specific limits (sometimes referred to as unlimited leave)
- b. Holiday leave that is taken on a specific date not at the discretion of employees.

What impact will this have on my financial statements?

For the purpose of the long-term liabilities disclosure required by paragraph a government should present either (a) the separate increases and decreases or (b) a net increase or a net decrease in its liability for compensated absences included in that disclosure. A government that presents a net increase or a net decrease should indicate that it is a net amount.

The disclosure requirement in paragraph 119d of Statement 34 (roll-forward requirement for LTD), as amended, is not required to be applied to liabilities for compensated absences included in that disclosure.

Follow GASB Statement No. 100, Accounting Changes and Error Corrections, for a change in accounting principle:

- Restate all prior periods presented, if practicable
- If not practicable, disclose why not
- Restate beginning position for earliest year restated for cumulative effect
- Each prior period should be restated to reflect period-specific effects
- Disclose nature of change, financial statement line items affected, and identify the pronouncement implemented



Example: Sick Leave Policy

- Employees earn 1 day of sick leave for each month worked which can be carried over to future fiscal years.
- Employees, with service years of 10 or more, are paid in cash for 30 percent of their unused sick leave, maximum of 150 days, upon termination of employment, at their hourly rate at the time of termination.
- The government does not contribute to the defined contribution plan for amounts paid out at termination.



Example: Assumptions

- Sick leave policy is consistent for all government employees, no significant "classes" of employees.
- Rounded numbers are used in this example.



Example: Two Step Process

- Calculate the amount more likely than not to be used by the aggregate employee group
- Calculate the amount estimated to be paid out at termination for the aggregate employee group



Example: Key Inputs

- Average days used annually for a sample of active employees, as a percentage of days earned
- Average hourly rate for sampled employees
- Percentage applicable for salary-related payments
- The aggregate "sick leave bank," the total accumulated days for the entire active employee population
- Number of days paid out and the total days accrued at date of termination for a sample of former employees



Step 1 – Take a sample of employees to determine average days used and hourly rate

Calculate the average days used for a sample of active employees.

Calculate the % of average days used to days awarded.

Calculate the average hourly rate for sample of active employees.

Historical days of leave used	Α	В	С	D	E	F (Sum A thru E)	G (F/5 years)			C	Calculated
		Da	ys used				Average annual				average
SAMPLE	20X1	20X2	20X3	20X4	20X5	Total days used	use (days)		Annual salary	h	ourly rate
Active employee 1	5	4	5	3	3	20	4.0	\$	55,000.00	\$	26.44
Active employee 2	4	3	4	4	4	19	3.8		60,000.00	·	28.85
Active employee 3	2	5	2	3	2	14	2.8		110,000.00		52.88
Active employee 4	8	9	7	7	8	39	7.8		115,000.00		55.29
Active employee 5	6	12	8	9	7	42	8.4		120,000.00		57.69
Active employee 6	4	4	3	4	3	18	3.6		65,000.00		31.25
Active employee 7	7	2	3	3	2	17	3.4		70,000.00		33.65
Active employee 8	8	2	5	4	5	24	4.8		45,000.00		21.63
Active employee 9	3	3	4	4	2	16	3.2		85,000.00		40.87
Active employee 10	4	5	4	6	4	23	4.6		82,000.00		39.42
						Average	4.6				
			Aver	age days us	ed (12 days	awarded per year)	38.67% H				
					•	. , ,		Avera	ge hourly rate	\$	38.80



Step 2 – Calculated salary-related payments

Calculate the salary-related payments applicable to sick leave used and sick leave paid out.

Salary-related payments	For leave	For leave
	that is	that is
Social Security (6.2%)	6.20%	6.20%
Medicare (1.45%)	1.45%	1.45%
457b DC plan (5%)	<u>5.00%</u>	0.00%
Total % of salary related payments	12.65%	7.65%



Step 3 – Take a sample of former employees to determine % of paid days at termination

Identify the days paid out for a sample of former employees and identify the days accumulated as of the date of termination for those former employees.

Calculate the percentage of days paid out to days accumulated.

Average employee years of service upon termination

		Accumulated		
	Years of	payout (>= 10	Days paid out at	(unused) days
SAMPLE	service	years)	termination	as of date of
Former employee #1	32	YES	150	163
Former employee #2	6	NO	-	50
Former employee #3	23	YES	100	100
Former employee #4	20	YES	150	179
Former employee #5	18	YES	85	<u>85</u>
		Totals	485	577
% of days paid at termination t	to total day	s accumulated		84%





Step 4 – Calculated liability for sick leave more likely than not to be used

Calculate liability for sick leave more likely than not to be used.

Calculate liability for sick leave more likely than not to be paid out.

	Calculation related to sick leave to be used										
	L	M (H above)	N (LxM)	Nx8 hours)	P (I above)	Q (OxP)	R (Q x.1265)	S (Q+R)			
		More likely than									
	Total sick		not	Sick leave			Salary-related liability	Total Liability for			
	leave accrued		Sick leave to be	for use	Average hourly	Liability for sick	related to sick leave	Sick Leave to be			
_	at FYE (days)	% use as leave	used (days)	(hours)	rate at FYE	leave for use	for use	used			
Aggregate											
Employee Group	1,527	38.67%	590	4,720 \$	38.80	\$ 183,136	\$ 23,167	\$ 206,303			



Step 5 – Calculated liability for sick leave more likely than not to be paid out

	Calculation of sick leave to be paid out											
	T (L-N)	U (Tx84%)	V (Ux8 hours)	W(VxP)	X (Wx30%)	Y (Xx.0765)	Z (X+Y)					
						Salary-related						
Calculate liability for sick	Maximum -	More likely than				liability related	Total Liability					
leave more likely than not to	Sick leave for	not - Sick leave	Sick leave for	Sick leave for	Sick leave for pay,	to sick leave	for Sick Leave					
be used.	payout (days)	for payout (days)	payout (hours)	payout (\$)	capped at 30%	payout	to be paid out					
Calculate liability for sick												
leave more likely than not to	937	787	6,296	\$ 244,285	\$ 73,286	\$ 5,606	\$ 78,892					
be paid out.												
							AA (S+Z)					
			To	otal liability for	compensated abse	nces - sick leave	\$ 285,195					



Practical Considerations:

- GFOA also suggests that calculating the "average remaining service lives" of a sample of former employees could be used to estimate "days used".
- Finally, GFOA suggests an example based on "Dollars Paid" to a sample of former employees.
- There is no authoritative guidance on how sampling should be approached just that the sample should make every effort to be representative.



Practical Considerations:

- There could be many possible options for calculating (including applying methodology from GASB 101 to existing compensated absence calculations.
- Look for an approach that is efficient from a time-investment standpoint. If you
 have a particularly large population sampling may be appropriate.
- Smaller populations might result in less substantial adjustments to meet the requirements of the standard.



GASB Statement 101 Compensated Absences

Reminders:

- No expected major changes to vacation, which is typically paid out upon termination
- Sick leave that accrues and does not have a payout mechanism will result in a liability – for the amount more likely than not to be used in a future period
- Don't forget to accrue a liability for leave that's dependent on a sporadic event (e.g., parental leave, military leave) when it commences
- Benefit practices and work conditions have changed get familiar with the policies



Polling Question #5





The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

Why a project on this topic?

- Ongoing long-term impacts of the COVID-19 pandemic
- Differences between disclosures for public and private entities (FASB Topic 275 Risks and Uncertainties)
- Prevalent use of estimates in governmental accounting/reporting



Issues to be addressed:

- Categories of risks and uncertainties (for example, operations, estimates, and concentrations)
- Specific disclosure requirements within each category
- Criteria associated with disclosures

Certain concentrations and constraints common in government pose risks that a government may not be able to:

- Raise resources, or
- Control spending

Events may occur related to those concentrations or constraints that may ultimately affect a government's ability to:

- Provide services at the level at which they have been provided, or
- Meet obligations as they come due

Concentration - A concentration is a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. Examples include, but are not limited to, the composition of any of the following:

- a. Employers
- b. Industries
- c. Inflows of resources
- d. Workforce covered by collective bargaining agreements
- e. Providers of financial resources
- f. Suppliers of material, labor, or services.



Constraint - A constraint is a limitation that is imposed by an external party or by formal action of a government's highest level of decision-making authority. Examples include, but are not limited to, the following:

- a. Limitations on raising revenue
- b. Limitations on spending
- c. Limitations on the incurrence of debt
- d. Mandated spending.



Disclosure Criteria

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



Consider:

• If mitigating actions taken by the government prior to the issuance of the financial statements cause any of the disclosure criteria not to be met, none of the note disclosures in paragraph 9 are required.



Illustrative Disclosure – Facts and Assumptions

As of December 31, 20X1, all transportation workers employed by the Sample Transportation District are members of the State Association of Transport Workers, a public employee union that collectively bargains with the District on behalf of those employees. The existing five-year labor contract expires on June 30, 20X2, and negotiations on a new contract have been contentious and ongoing since September 20X1. The transportation workers are responsible for the day-to-day operations of the transit system, which provides bus, train, and subway services. The District's financial statements for the fiscal year ended December 31, 20X1, were issued on March 22, 20X2.



Illustrative Disclosure – Note Disclosure

The Airport Fund accounts for the City's airport operations and reports \$X million of revenue bonds outstanding on June 30, 20X0. The bond indentures state that the revenue generated by airport operations is pledged as the sole source of repayment for the bonds. XX percent of the Airport Fund's revenues are associated with a single airline customer who has notified the City that it plans to terminate its lease and discontinue service to the City's airport by December 31, 20X0. Aloss of revenue from that airline could adversely affect the Airport Fund.



Illustrative Disclosure – Conclusions

Assessment of disclosure criteria: The criteria were assessed for the primary government reporting unit, and the District did not report revenue debt in any other reporting units.

Concentration: All transportation workers employed by the District are subject to a collective bargaining agreement.



Illustrative Disclosure – Conclusions (continued)

Vulnerability to the risk of a substantial impact: Management of the District has determined that the labor concentration makes it vulnerable to the risk of a substantial impact because if the existing labor agreement lapses without a new agreement in place, the interruption of bus, train, and subway services that would result could cause a substantial financially disruptive effect on the normal functioning of the District.



Illustrative Disclosure – Conclusions (continued)

Occurrence of an event or events and their timing: Based on the ongoing and contentious negotiations, management of the District has determined that it is more likely than not that the existing labor agreement will expire on June 30, 20X2, without a replacement having been ratified—an event that could cause a substantial impact to the District. The labor contract expiration would be within 12 months of the date the current financial statements were issued but has not yet occurred. For this reason, information about the event is not included in the disclosure.



Illustrative Disclosure – Conclusions (concluded)

Mitigating Factors: None.

Note: This Statement limits a government's consideration of mitigation in assessing the disclosure criteria only to actions that had occurred prior to the issuance of the financial statements.



Polling Question #6





GASB Upcoming Standards and Concept Statements

Comprehensive Projects

- Financial Reporting Model
- Revenue and Expense Recognition

Major projects

- Going Concern Uncertainties and Severe Financial Stress
- Infrastructure Assets

Practice Issues

- Classification of Nonfinancial Assets
- Implementation Guidance Update
- Subsequent Events

Pre-Agenda Research

GAAP Structure



GASB Current and Upcoming Projects Understanding the GASB Work Project Timeline

Pre-Agenda Research

Added to Agenda

Initial Deliberations

- Comment period (120 days)
- Invitation to comment re-deliberations

Preliminary Views

- Comment period (120 days)
- Invitation to comment re-deliberations

Exposure Draft

- Comment period (120 days)
- Invitation to comment re-deliberations

Final Pronouncement



GASB Current and Upcoming Projects GASB Upcoming Standards and Concept Statements

Pre-Agenda Research

GAAP Structure

Added to Agenda

Subsequent Events

Initial Deliberations

- Classification of Non-Financial Assets
- Infrastructure Assets
- Going Concern Uncertainties and Severe Financial Distress

Preliminary Views

Revenue and Expense Recognition (re-deliberation)

Exposure Draft

Financial Reporting Model (re-deliberation)

2024 Public Sector Webinar Series

2024 Governmental GAAP Update

Date: Jan. 24, 2024 Presenter: Dan Merritt

A deep dive into 2024 accounting pronouncements and other implementation guidance from the Governmental Accounting Standards Board (GASB).

The Comprehensive Guide to Driving Employee Engagement in the Public Sector

Date: May 1, 2024

Presenters: Kerreen Conley & Steven Gibson

An interactive session covering what great organizations do to create an engaged workforce and best practices to retain talent.



Date: Oct. 16, 2024

Presenters: Ben Eavey & Erinn Trask

In this webinar, you'll learn how to maximize the resources you currently have and how to identify appropriate solutions to fill in any gaps in your technology infrastructure.











Date: July 24, 2024 Presenter: Dan Merritt

Hear the latest updates on recent guidance provided by the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the American Institute of CPAs (AICPA) and more.

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2024 Nonprofit GAAP Update

Date: Jan. 25, 2024 Presenter: Paula Bedford

A deep dive into 2024 accounting pronouncements and other implementation guidance from the Financial Accounting Standards Board (FASB).

Thank you for joining us!



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Questions?

Please contact us at: publicsector@rehmann.com