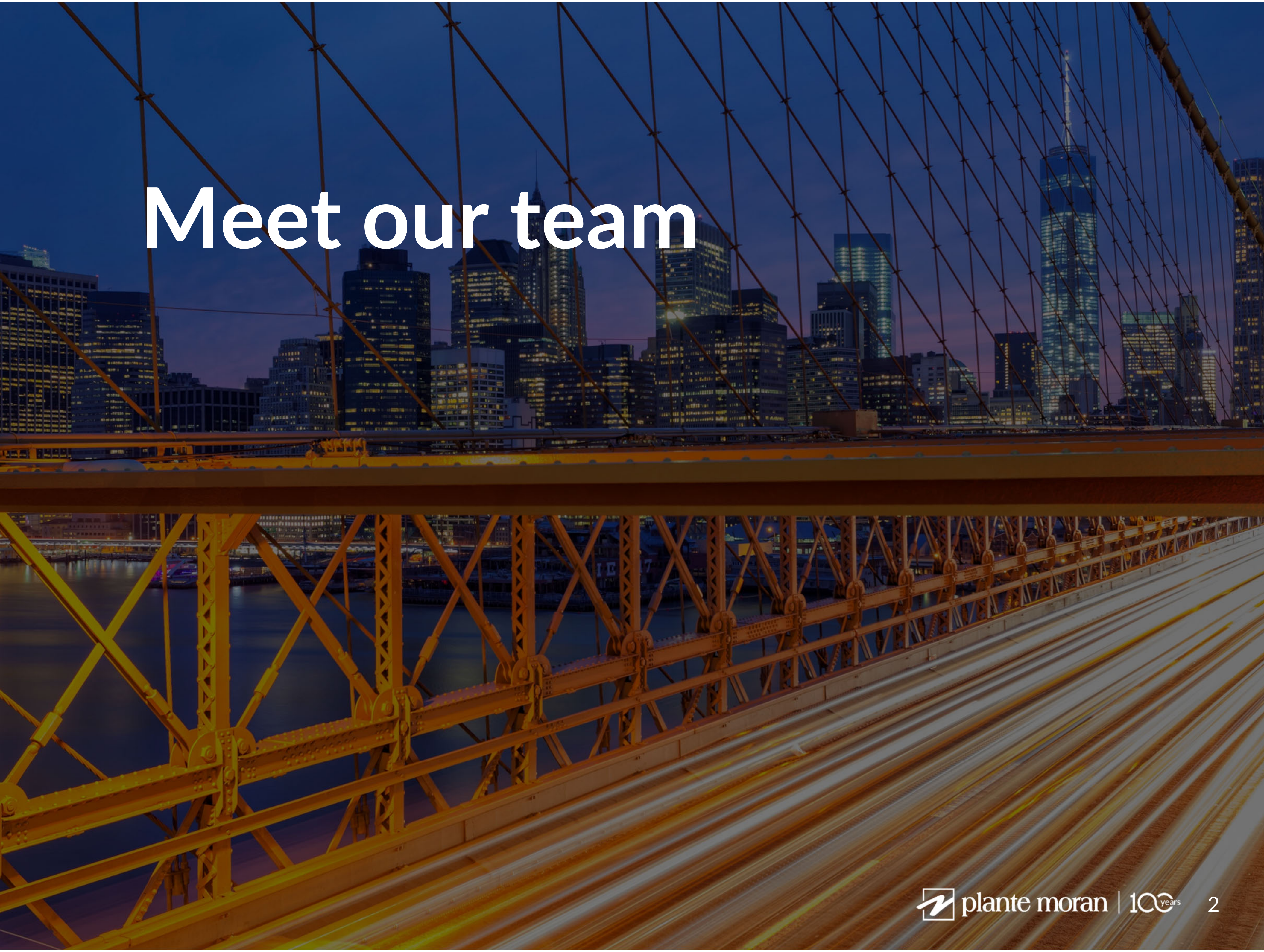
Mid-Year Accounting and Auditing Update

Southwest Michigan School Business Officials Conference

March 5, 2025



Meet our team

Presenters

Charles Sportel

Audit Manager

- Public Sector – K-12
- Member of our K-12 professional standards team

Ben Tygesen

Audit Manager

- Public Sector – K-12

Topics

- **GASB 101 – Compensated Absences**
- **GASB 102 – Certain Risk Disclosures**
- **Uniform Guidance Revisions**
- **Potpourri**

Accounting Update

GASB 101 – Compensated Absences

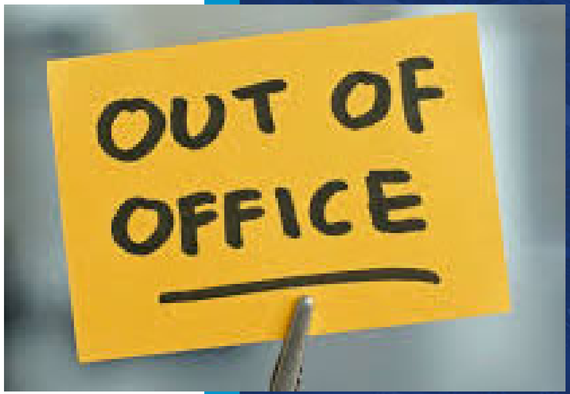
Overview

Differences from GASB 16

Examples

Key Takeaways

Action Plan



GASB 101 – Compensated Absences

Overview

- **Effective date**
    - Fiscal years beginning after December 15, 2023
    - K12 = June 30, 2025 year end (adopt as of July 1, 2024)
- Replaces current standard, GASB 16 – Accounting for Compensated Absences
- No GASB implementation guide has been issued
- Full Accrual impact only – No changes to fund accounting
- **Why the change?**
    - Rules based to conceptual framework-based approach
    - Increase comparability in reporting and disclosing compensated absences amongst governmental entities

GASB 101 – Compensated Absences

Definition

- **A compensated absence is defined as 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 (likely rare for a K12)
- **Compensated Absence Types**
  - Vacation
  - PTO
  - Sick
  - Parental leave
  - Bereavement leave
  - Certain sabbatical leave
  - Etc. – Remember – the “name” of the leave is not important

GASB 101 – Compensated Absences

Differences from GASB 16

- **Liability concepts:**
  - GASB 16 – considers leave that will be paid out upon termination/retirement (vested portion) and an estimate leave amount for the nonvested portion based on *probability of retirement.*
  - GASB 101 – considers leave that will be paid out upon termination/retirement (vested portion) and an estimated leave amount for the nonvested portion based on *more likely than not use for time off or future retirement*.
    - *All salary-related payments must be included in accrual*
- **Threshold for liability recognition decreased from "probable" to "more likely than not"**
  - Probable = likely
  - More likely than not = 50% likelihood or higher

plante moran | 100 years

GASB 101 – Compensated Absences

Leave that hasn't been used:

a) Attributable to services already performed

b) Accumulates

c) More likely than not to be used for time off or otherwise paid in cash or settled

Controversial!

Also, recognize leave that has been used but not yet paid in cash or settled

Recognition Exceptions

- **Leave dependent upon occurrence of a sporadic event affecting relatively small portion of employees**
  - Parental leave
  - Military leave
  - Jury duty leave
- **Difficult to quantify or attribute to a specific service period, small groups of employees**
- **Recognize liability when leave commences**

Effects on fund level statements

Following Current Financial Resources Measurement Focus:

- Record expenditures for amount that normally would be liquidated with expendable available financial resources
- No change from current practice

Note Disclosures

- **No new note disclosures**
- **Existing long-term liability disclosures**
  - Option to present net increase or decrease with indication that is a net amount
  - Not required to disclose governmental fund used to liquidate

Common Questions

What Pay Rate to Use

Question:

A government approves a pay increase effective 7/1/2024. Government is calculating compensated absences for the fiscal year end June 30, 2024. What pay rate should the government use?

Answer:

GASB 101, B34: "…because next year's rate does not reflect the present obligation of the government as of the date of the financial statements, the [GASB] Board decided not to incorporate the next year's pay rate into the measurement of the liability for compensated absences."

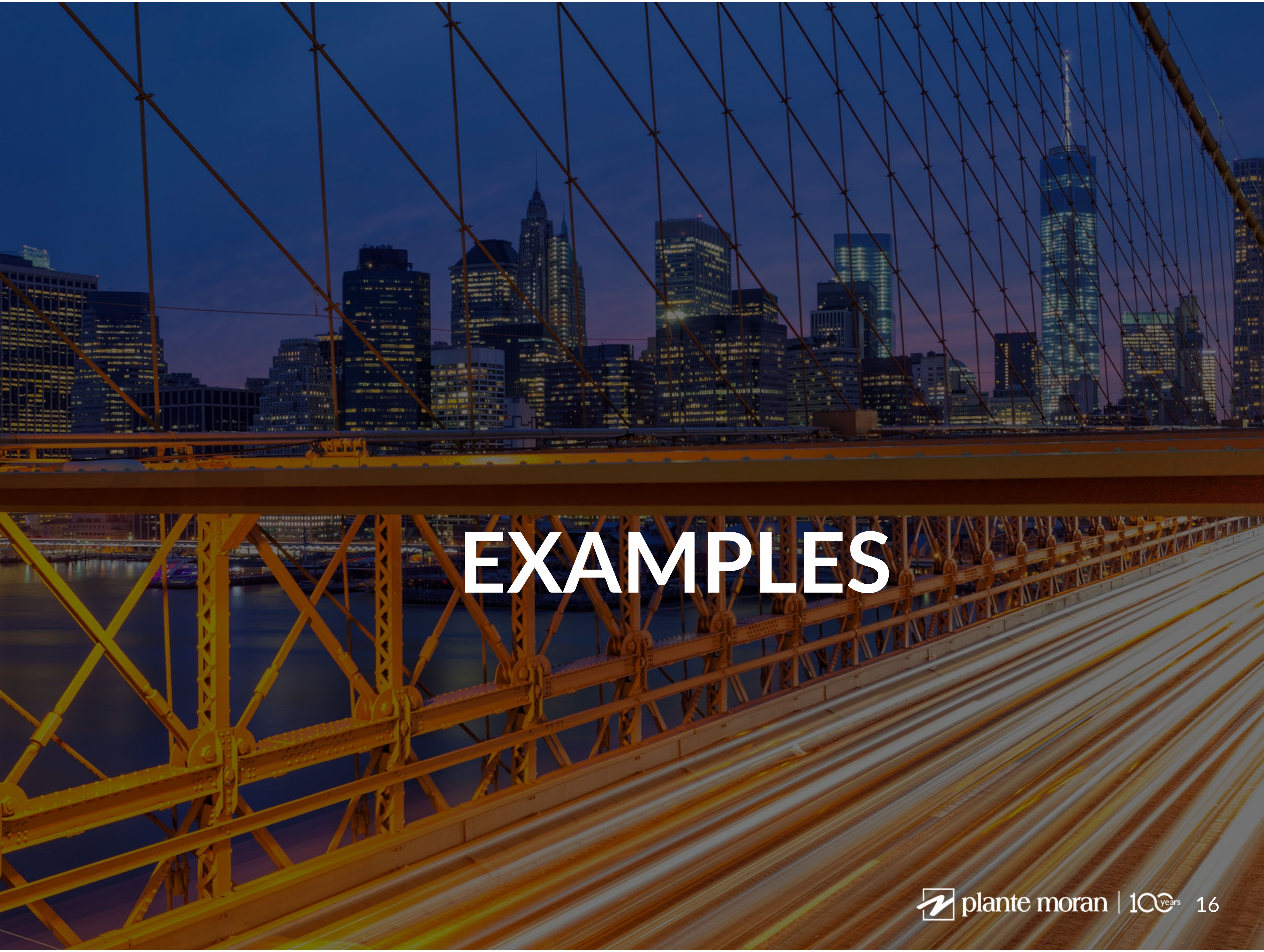
Historical Data

Question:

How many years of historical trend information should be considered when applying GASB 101?

Answer:

GASB 101, B15. The Board believes that establishing more specific requirements would limit governments' use of professional judgment as to what is appropriate in their circumstances. Therefore, detailed application requirements were not included in this Statement.



EXAMPLES

Example #1 - Background

Sick leave is paid out at termination/retirement at 50% rate after 5 years of service.

Employees over 5 years of service with unused sick leave = $1,600,000.

Employees less than 5 years of service with unused sick pay = $1,800,000.

Assumptions:

- No cap to how much they can get paid
- Rates above are as of fiscal year-end
- Sick leave is attributable to services already rendered and it accumulates.

Considerations by Standard

Standard	GASB 16	GASB 101
Liability Concept	Vesting Method: Considers the leave that will be paid out upon termination/retirement (vested portion) and an estimated leave amount for the nonvested portion based on probability of vesting. Termination Payment Method: Considers the leave that is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.	Considers the leave that will be paid out upon termination/retirement (vested portion) and an estimated leave amount for the nonvested portion based on more likely than not use for time off or future vesting.

GASB 101 – Compensated Absences

Sick Leave Example (continued)

GASB 16	GASB 101
The vested portion would be recorded at 50% ($800,000). For employees less than five years of service, based on historical trends, it's probable that 25% of employees will stay on for more than five years and receive the termination payment at 50% ($1,800,000 x 25% x 50% = $225,000).	Vested portion: Based on historical trends, assume 80% of the vested balance more likely than not would be eventually paid out at termination/retirement with the other 20% used prior to termination/retirement for sick leave. $1,600,000x80%x50%=$640,000 $1,600,000x20%=$320,000 Unvested portion: For employees less than five years of service: Based on historical trends, assume 30% of the total balance is more likely than not to be paid out for employees staying on for more than five years to receive the termination payment, 40% of the total balance is more likely than not to be used for sick leave and the remaining 30% will be forfeited. Vested, paid out $1.8m x 30% x 50% = $270,000) Unvested, used for sick leave ($1.8m x 40% = $720,000).
$1,025,000	$1,950,000

GASB 101 – Compensated Absences

Key take aways -

- **Full accrual impact only**
- **Generally expecting liabilities to increase, primarily due to:**
  - Accruing for applicable payroll related taxes
  - Many districts only accrued for days that were eligible to be paid out. Now, must consider accrual for days that can also be used.
  - Accrual for time that can be used vs. paid out - should be based on pay rate as of 6/30 – NOT limited if bargaining agreement caps the amount per day/hour.
  - Will need to consider DC related employer contributions – but not DB related employer contributions
- **Assessing the "more likely than not" portion**
  - Start gathering data – work with payroll/HR team
  - This will largely be an "estimate" but will need data to support it/must be able to audit it
  - Consider breaking the population into subsets (e.g.by employee class or by years of service or both). The more disaggregated the data/analysis is, the better the estimate will be

GASB 101 - Action Plan

- **Discussions with auditors – NOW!**
  - Focus on potential significance of change
    - Impact on July 1, 2024 accrual – restatement?
  - Understanding the types of compensated absences
    - Create inventory
    - Identify exceptions
  - Data Collection Efforts
    - How much historical data can be collected
    - Approach to more likely than not principle
  - Review preliminary calculations
  - Impacts to Districts with ISF

GASB 102 – Certain Risk Disclosures

Overview

- **Effective date**
  - Fiscal years beginning after June 15, 2024
  - K12 = June 30, 2025 year end
- **Establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints.**
- **Concentration**
  - Lack of diversity related to a significant inflow/outflow of resources
- **Constraint**
  - Limitation imposed by an external party or by formal action of a government’s highest level of decision-making authority

Uniform Guidance Revision

Overview

- **Effective date**
  - Effective for all grants awarded after Oct. 1, 2024
  - K12 = Primarily impacting the June 30, 2026 year end
- **What changed?**
  - Certain thresholds were increased as part of the revisions
    - Single audit requirement threshold
    - Capitalization threshold for equipment
  - Attempt to make the Uniform Guidance more “plain language”, including improving flow and addressing inconsistent use of terms
- **Why the change?**
  - To reduce agency and recipient burdens

Uniform Guidance Revision (cont'd)

Summary of Key Revisions:

Area	Existing UG	Revised UG
Single audit threshold[1]	$750,000	$1,000,000
Equipment: Value as defined within title 2, as well as value to be retained at the end of a grant period[2] Supplies: Residual inventory[3]	$5,000	$10,000
Proceeds that can be retained by recipients or subrecipients from the sale of equipment[4] or supplies[5] to cover selling and handling costs	$500 or 10% of proceeds from sale or equipment	$1,000 from sale of both equipment and supplies
Subawards based on fixed amounts (with prior written approval)[6]	Simplified acquisition threshold	Up to $500,000
Modified Total Direct Cost (MTDC) against which an indirect cost rate can be applied to a subaward[7]	Up to $25,000 of each subaward	Up to $50,000 of each subaward
De minimis rate applied to MTDC[8]	10%	Up to 15%

MPSERS Categoricals

- **Several new MPSERS categoricals at play for FY25:**
  - » 147a(4) - $598M related to reduction of UAAL from 20.96% to 15.21%
    - MPSERS Grant Code NOT required to be used for this funding BUT districts advised by MDE of how this funding was used (meant for student mental health, school safety, educator workforce, academic intervenstions)
  - » 147c(2) - $250M additional payment to MPSERS
    - Treated just like the one time $1B payment in 2023. Recognize gross revenue and expenditures on district books.
  - » 147g – 3% health care premium subsidy, reimbursement
    - Payments not expected until calendar year 2025
    - Guidance to be provided by MDE once potential technical edits are made to the current language
    - However, based on current language it's likely district needs to gross up the revenue related to this funding (should not net it against expense)

Resources

- **General Upcoming Accounting Updates**
  - Summary Update
- **GASB 101**
  - On-demand webinar
  - Articles
    - » What's the Big Deal?
    - » Top 5 Considerations
- **Uniform Guidance Revisions**
  - On-demand webinar
  - Article
    - » Impact of OMB's Revisions

QUESTIONS?

Contact your presenters

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