



**Office of the Washington State Auditor  
Pat McCarthy**

**Local Government Advisory Committee (LGAC)**

**Meeting Minutes**

May 1, 2024

9:00am – 11:00 am

Virtual Meeting – Microsoft Teams

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**Members in attendance:**

Brodersen, Bret (WFOA) | Clark, Kathy (Housing) | Corin, Shannon (WFOA) | DeGroot, David (SWFOA) | Goodrich, Scott (WPPA) | Hendren, Alisha (SCCFOA) | Hunt, Heidi (WACO) | Jimenez, Grace (WSAC) | Knudson, Erin (WSTA) | Liang, David (PSFOA) | Lundeen, Ann (WACO) | McMillan, Sandi (WASWD) | Payne, Randy (WAPUDA) | Riley, Michael (WPTA) | Robacker, Tanya (Fire) | Scott, Jill (WFOA) | Tellers, Stacie (SAO, Chair) | Williams, Jason (ESD)

**Members absent:**

Excused: Kinley, Leana (WCCMA) | Olander, Scott (AWPHD) | vacant AWC position  
Unexcused: Gall, Sheila (AWC) | Pohle, Derek (CRAB) | Rupe, Sara (OFM) |

**Other attendees:**

Booher, Debbie (Poulsbo) | Ewing, Jacob (unknown) | Gosnell, Donnie (Hospital) | Hill, Shawn (Grays Harbor County) | Lowell, Eric (MSRC) | Pascoe, Jerica (Ellensburg) | Rogers, Danette (Transit) | Stimson, Mary (Library) | Turntine, Cori (Conservation District) | Wilson, Kimberly (Housing) | Zhang, Wenju (King County)

**SAO Staff in attendance:**

Aguilar, Tamara | Browning, Roxann | Collins, Kelly | Cowgill, Christie | Crouch, Olivia | Kostick, Niles | McCarthy, Pat | Pagio, Kayley | Rooney, Keri | Vandenburg, Vivian | Watkins, Tina

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**Call to Order**

The Committee meeting began at 9:00am, held via Teams. The meeting was called to order by Stacie Tellers, Manager for the Local Government Support Team.

**Welcome and Attendance**

Stacie welcomed everyone. Attendance was taken via the Teams attendee list and verbal notification for attendees calling in via phone.



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### **Approval of Minutes from December 2023**

The minutes previously distributed via email with a link to the SAO LGAC webpage where the draft minutes are posted were presented.

*Motion to approve the December 2023 minutes was made by Sandi McMillan and seconded by Bret Broderson. The appointed committee members approved the minutes with no corrections or changes, unanimously.*

Stacie followed up on the WSDOT topic from December's meeting minutes. SAO spoke with WSDOT regarding their additional requests to local governments for duplicate information of what is in the annual filing street/road report. WSDOT informed SAO that they will make requests if the data appears differently than anticipated, if there is missing data, or if they were unable to pull data completely. They also have had turnover in the reporting role, which has increased additional requests for data as they learn and adjust with new staff. Please continue to let SAO know if governments are experiencing increased data requests from WSDOT and we will continue to work with them on the street/road reporting needs.

### **SAO Executive Update**

Washington State Auditor, Pat McCarthy, provided the SAO executive update to the Committee. Pat thanked the committee members for their attendance. She appreciates the comments, questions, and ideas members bring to the meeting. Pat discussed that SAO is in conference season and looks forward to seeing our clients in person. She discussed meeting David Bean at a recent conference and was pleased to hear that Washington State is seen as a beacon in governmental accounting and finance. Pat stated that she is proud to be on the National Association of State Auditors, Comptrollers and Treasurers (NASACT) executive board member and slated to become president for the National State Auditors Association. She believes in state and national association and supports the power associations have, allowing them to get messages to legislators and standard setters.

Pat discussed the recent frauds that are being found in government, especially smaller governments. SAO is working with associations to help build up tools for governments to help minimize the impacts of fraud and to help governments build internal controls. SAO continues to build our cybersecurity reviews to assist governments in assessing their cyber environment. These services are free to governments.

Pat discussed the impacts of Artificial Intelligence (AI) and its use in governments. SAO is seeing governments using AI services. As SAO moves forward in AI use, we have begun developing policies and researching AI technologies for use in audit and by SAO. More to



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come as this work is developing. Other initiatives SAO continues to work on are use of deadly force reviews, energy audits, and performance audits on important topics, such as aquatic land lease rates and civil asset forfeiture.

### **BARS Updates and Discussion**

Christie Cowgill, Assistant Audit Manager for the Local Government Support Team provided an overview of the preliminary list for the December 2024 update, including a brief overview of each item. Bret Brodersen asked about the new economic development 345 BARS codes and if the intent is to replace the hotel/motel tax codes. Christie stated that these codes are intended for additional revenues governments are collecting for this purpose, outside of tax and grants.

Vivian Vandenburg, Assistant Audit Manager for the Local Government Support Team reviewed the draft BARS pages for Accounting Changes and Error Corrections (GASB 100). The committee reviewed the proposed pages, bringing forward clarifying questions. The BARS team will review the draft notes table to clarify the use of opinion units vs. funds or reporting units. The committee issued their support to post the draft pages to the Coming in Fiscal Year 2024 (GAAP and Cash) page in the BARS and Annual Filing menu on [www.sao.wa.gov](http://www.sao.wa.gov).

Christie reviewed the draft BARS pages for Compensated Absences (GASB 101). The committee reviewed the proposed pages. There was committee discussion on specific vesting schedules, add-pays, and other policies. SAO recommends governments perform their policy analysis and develop a process for these calculations. If there are questions on a specific calculation or item to submit a HelpDesk. The committee issued their support to post the draft pages to the Coming in Fiscal Year 2024 (GAAP and Cash) page in the BARS and Annual Filing menu on [www.sao.wa.gov](http://www.sao.wa.gov).

Olivia Crouch, Assistant Audit Manager for the Local Government Support Team, reviewed the updates from GASB and the impacts to BARS. Olivia responded to David DeGroot's questions about the types of events that would be reported under GASB 102 – Certain Risk Disclosures.

Kayley Pagio, Assistant Audit Manager for the Local Government Support Team, provided an update on the annual filing system and the FY2023 filing season. The filing team offered twelve live webinars on the refreshed system, recorded versions are available on the SAO website, BARS and Annual Filing, Training and Workshops page.



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Stacie opened the floor for questions, comments, and concerns related to BARS, GASB, or Annual Filing. Nothing was brought forward.

### SAO Resources

Niles Kostick, Manager for the Center for Government Innovation, provided an update on the new and updated resources from SAO. Niles reminded the committee that the Center resources, services, and training are funded by the I-900 funds and are provided at no cost to local governments. The Center is planning to attend numerous conferences this year and hopes to connect with the committee and SAO's clients.

Updates to FIT are coming soon, bringing back some of the features that were in prior versions of FIT and were not launched when the newest version was released. These features include drilldown features to allow users to review underlying data for governments. Niles requested the committee to please let him know if there are specific features they are interested in or rely on.

There are several updates coming to the existing resources in the resource library including take home vehicles and bid laws. New resources coming include best practices for small entity resources, travel, reimbursable expenses, small and attractive assets, single audit/federal grant management. The Center is working on new cybersecurity resources, including best practice for IT policies. Please let Niles know if you are interested in reviewing resources.

Cyber check-ups are one year old! The Center has performed over 50 check-ups in the last year. Additionally, they continue to offer cyber training at conferences, having offered over 10 hours since inception. Cyber check-ups are offered at no cost to local governments.

Questions or comments for the Center, email [center@sao.wa.gov](mailto:center@sao.wa.gov).

### Open Discussion

Stacie opened the floor for the discussion period, starting with the remaining meeting dates for 2024.

#### Meeting Schedule for 2024

Wednesday, May 1, 2024, 9:00am-11:00am	Virtual
Wednesday, October 2, 2024, 9:00am-10:30am	Virtual
Wednesday, December 4, 2024, 9:00am-11:00am	Virtual

David DeGroot mentioned the Clark County developed a process to use the local loan programs interest rate, plus 1% for the County's incremental borrowing rate for leases and



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SBITAs. He says they've documented their process and found it to be a good process for them.\*

*\*Each GAAP government needs to develop a process for determining an incremental borrowing rate that is appropriate for them and their specific lease/SBITA activity. A process that works for one government may not be an appropriate process for another government.*

**Meeting adjourned at 10:35 am.**

**Minutes approved by the Committee at the October 1, 2024 meeting.**



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**Local Government Advisory Committee (LGAC)  
Meeting Agenda**

May 1, 2024

9:00am – 11:00 am

Virtual Meeting – Microsoft Teams

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<b>Topics:</b>	<b>Speaker</b>	<b>Time</b>
<b>Welcome and Attendance</b>	<b>Stacie</b>	
<b>Approval of Minutes from December 2023</b>	<b>Stacie/LGAC</b>	<b>5 minutes</b>
<b>SAO Executive Update</b>	<b>Pat McCarthy</b>	<b>10 minutes</b>
<b>BARS Updates and Discussion</b>	<b>BARS Team</b>	<b>45 minutes</b>
a. Annual update list –		
i. Proposed list for Dec 24/Jan 25 update		
ii. Draft BARS pages review		
1. Accounting Changes and Error Corrections		
2. Compensated Absences		
iii. GASB Update, BARS impacts		
b. SAO’s annual report filing system update		
c. Open Discussion - BARS		
<b>SAO Resources</b>	<b>Center</b>	<b>30 minutes</b>
<b>Open Discussion</b>	<b>LGAC</b>	<b>As needed</b>

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# Local Government Advisory Committee

## What is coming to BARS in 2025

as of April 19, 2024

### Both Manuals

- Hot topics
  - Accounting Changes and Error Corrections – GASB 100. Will impact the following BARS areas: accounting, reporting, BARS codes.
  - Compensated Absences – GASB 101. Will impact the following BARS areas: accounting and reporting.
- General Topics -
  - Updating BARS code descriptions
  - Added codes:
    - 318.46.00 - Business Payroll Excise Tax
    - Economic Development
      - 345.51.00 - Business and Growth Development
      - 345.52.00 - Tourism
      - 345.59.00 - Other Economic Development
  - 3.8.12 - Voter Registration and Election Cost Allocation – Removing allocation prescriptions and directing user to the Secretary of State.
  - Moving section 3.6.10 - Working Advances from the Department of Social and Health Services (DSHS) to section 3.4.7 - Intergovernmental and Forgivable Loans
  - Separating out Fund Types and Accounting Principles into separate sections
  - Added liability code 263.50 Self-insurance and risk pool claims liabilities such as open claims, incurred but not reported (IBNR), unallocated loss adjustments expense (UALE). Governments with self-insurance programs should only report a claims liability on the Schedule 09 if they have an actuarially determined liability.

### Cash Manual -

- Note 1 – Summary of Significant Accounting Policies – Added information about compensated absences, leases, and purpose of funds outside of the general fund.
- Note X – Long-Term Debt – Changing the title to Note X – Long-Term Liability and adding compensated absences and interfund loans.
- Note X – Interfund Loans – Removing
- Note X – Budget Compliance – Updating the note to provide clarification on how to disclose managerial accounts that are rolled up into other funds.

## **Pending future updates**

- Both manuals - Clarification to the Equipment Rental and Revolving Fund sections
- Both manuals – Schedule 15, clarify when to recognize expenses
- GAAP – Upcoming GASB implementations
- Cash – Evaluating note disclosures for clean-up and clarification





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## Local Government Advisory Committee

### GASB Update

As of April 16, 2024

The Governmental Accounting Standards Board (GASB) establishes generally accepted accounting principles (GAAP) for U.S. state and local governments. All statements, exposure drafts and other documents for public comment are available from the GASB website, [www.gasb.org](http://www.gasb.org), free of charge.

A summary of the current and upcoming accounting and financial reporting standards is below.

**GAAP – For all statements, earlier application is encouraged.**

**CASH – Implementation will be at the time of BARS prescription.**

**For current GASB Documents for Comment visit: <https://www.gasb.org/projects/documents-for-public-comment>**

### GASB Pronouncements Effective for Reporting Year 2023

- **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***

This statement establishes the definition of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions.

**GAAP** – Adds more situations for Service Concession Arrangements to apply and updates the accounting and reporting requirements in these areas.

**CASH** – Adds accounting and reporting requirements, similar to leases, for PPPs and Service Concession Arrangements.

- **Statement No. 96, *Subscription Based Information Technology Arrangements***

This statement brings the guidance on the accounting and financial reporting for “SBITAs” in line with that of GASB 87 - Leases.

**GAAP** – Adds accounting and reporting requirements, similar to leases, for leased software.

**CASH** – Adds accounting and reporting requirements, similar to leases, for leased software.

- **Implementation Guide 2021-1**

This guide’s objective is to provide guidance that clarifies, explains, or elaborates on GASB Statements. This statement brings the guidance on the accounting and financial reporting for derivatives, fiduciary activities, leases, and more.

**GAAP** – Most of the required changes have been implemented in BARS.

**CASH** - Most of the required changes have been implemented in BARS.

## GASB Pronouncements Effective for Reporting Year 2024

- **Statement No. 100, *Prior Period Adjustments, Accounting Changes, and Error Corrections***  
This statement improves the accounting and financial reporting guidance for prior-period adjustments, accounting changes, and error corrections – amendment of GASB Statement 62.  
  
**GAAP** – Clarifies when to apply the accounting and financial reporting for the variety of transactions that make up these categories.  
  
**CASH** – BARS will provide clearer guidance and updated BARS codes regarding these types of transactions.
- **Statement No. 101, *Compensated Absences – Reexamination of Statement 16***  
This statement improves the accounting and financial reporting guidance for compensated absences.  
  
**GAAP** – Provides clearer definitions of the types of absences and the requirements for the accounting and financial reporting.  
  
**CASH** – BARS will provide clearer guidance and requirements for reporting specific types of absences.
- **Implementation Guide 2023-1**  
This guide’s objective is to provide guidance that clarifies, explains, or elaborates on GASB Statements. This statement brings the guidance on the accounting and financial reporting for leases, SBITA, Accounting Changes and Error Corrections.  
  
**GAAP** – Most of the required changes have been or will be implemented in BARS with the updates related to recent accounting changes.  
  
**CASH** - Most of the required changes have been or will be implemented in BARS with the updates related to recent accounting changes.

## GASB Pronouncements Effective for Reporting Year 2025

- **Statement No. 102, *Certain Risk Disclosures***  
This statement improves financial reporting by providing users of financial statements with timely information regarding certain concentrations or constraints and related events that make a government vulnerable to a substantial impact.  
  
**GAAP** – BARS will provide guidance on when this disclosure is required and what to include in the disclosure.  
  
**CASH** – BARS will provide guidance on when this disclosure is required and what to include in the disclosure.

**Draft – for May 2024 LGAC Meeting – Not implementation guidance**  
**GAAP BARS DRAFT**

**Accounting changes and error corrections:**

**X.X.X Introduction**

The *Government Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (Cod.) Section (Sec.) 2250—Additional Financial Reporting Considerations* establishes standards of accounting and reporting regarding accounting changes and error corrections.

**X.X.X Definitions**

There are four categories of accounting changes and error corrections defined as follows:

Change in accounting principle:

A change in accounting principle is the application of an accounting principle to transactions, or events, of similar type that is different than the accounting principle previously applied.

A change occurs when:

- a. A change in the application of one generally accepted accounting principle to another that is justified on the basis that the new one is preferable
- b. The implementation of new pronouncements

Change in accounting estimate:

An accounting estimate is an amount subject to measurement uncertainty that is calculated based on inputs and disclosed in the basic financial statements. Inputs can be data, assumptions or measurement methodologies.

A change in accounting estimate occurs when the inputs (which could be a change to data, assumptions or measurement methodologies) used to calculate the accounting estimate have changed. Changes may result from a change in circumstances, new information or more experience.

Change to or within the financial reporting entity:

A change to or within the financial reporting entity occurs when the any of the following occur:

- a. The addition or removal of a fund that results from the movement of continuing operations within the primary government, including its blended component units
- b. A change in a fund's presentation from major or nonmajor
- c. The addition/removal of a component unit to the financial reporting entity<sup>i</sup>
- d. There is a change in a component unit's presentation as blended or discretely presented

Error correction:

An error occurs when any of the following are identified as of the previous financial statement date:

- a. Mathematical mistake
- b. Mistake in the application of accounting principles
- c. Oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date is identified.

**X.X.X Accounting and reporting**

Accounting and reporting for each accounting change and error correction category is discussed below. There are **note disclosure** requirements for each accounting change and error correction.

Change in accounting principle:

In the absence of other specific guidance, governments that experience a change in accounting principle should report the change retroactively by restating the beginning net position, fund balance, or fund net position by the cumulative effect of the change on prior periods.

Change in accounting estimate:

Governments that experience a change to an accounting estimate calculation should recognize the change prospectively in the reporting period that the change occurs, unless other specific requirements address how a change would be reported.

Change to or within the financial reporting entity:

Governments that experience a change to or within the financial reporting entity should recognize the change by adjusting the current period beginning net position, fund balance or fund net position. The recognition of this will appear as if the change occurred at the beginning of the reporting period.

Error correction:

In the case that a government is required to correct an error, the correction should be reported retroactively by restating the financial statements for all periods presented. The restatement amount should total the cumulative effect of the error on the net position, fund balance or fund net position impacted by the error.

For guidance on how to apply accounting changes and error corrections to comparative financial statements, see **GASB Cod. Sec. 2250**.

## X.X.XX Required Supplementary Information (RSI) and Supplementary Information (SI)

Change in accounting principle and to or within the financial reporting entity

For reporting periods that are presented in the basic financial statements, information for those periods that is presented in required supplementary information (RSI) (including management’s discussion and analysis [MD&A]) or supplementary information (SI) should be consistent with the manner in which the information for those periods is presented in the basic financial statements. (That is, the reporting periods should be adjusted or restated in the same manner as the basic financial statements.)

For prior reporting periods that are earlier than those presented in the basic financial statements, information for those prior periods that is presented in RSI (including MD&A) or SI should not be restated for a change in accounting principles or a change to or within the financial reporting entity.

If prior-period information presented in RSI (including MD&A) or SI is not consistent with current-period information as a result of a change in accounting principle or a change to or within the financial reporting entity, an explanation of why the information is not consistent should be provided in RSI (including MD&A) or SI, as applicable. In MD&A, that explanation should include a reference to the related note disclosure in the basic financial statements.

Error correction

For reporting periods that are presented in the basic financial statements, information for those periods that is presented in RSI (including MD&A) or SI should be restated. If the error affects periods earlier than those presented in the basic financial statements, all affected information should be corrected by restating the information for those prior periods in RSI (including MD&A) or SI, if practicable.

Information presented in RSI (including MD&A) or SI that is affected by an error should be identified as restated or not restated, as appropriate, and an explanation about the nature of the error should be provided in RSI (including MD&A) or SI, as applicable. In addition, if it is not practicable to restate information in RSI or SI, an explanation of why it is not practicable to restate should be provided in RSI (including MD&A) or SI, as applicable.

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<sup>i</sup> Exceptions to this are:

- a. Acquisitions, mergers, or transfers of operations (as defined by Statement 69) that result in the addition or removal of a discretely presented component unit
- b. A component unit reported pursuant to Statement No. 90, *Majority Equity Interests*.

## REPORTING

### **Note X - Accounting Changes and Error Corrections**

*A template for this note is not available. See “Instructions to preparer:” for disclosures that may be required.*

#### INSTRUCTIONS TO PREPARER

Include changes in accounting principles, changes in accounting estimates, changes to or within the reporting entity, and error corrections in previously issued financial statements as defined at BARS XXX. See the Government Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards (Cod.) Section (Sec.) 2250 — Additional Financial Reporting Considerations* for more details.

For all accounting changes and error corrections, the note disclosure should include:

- a. A narrative description, specific details are included with each category below
- b. Tabular format that reconciles beginning balances as previously reported to beginning balances as adjusted or restated for each reporting unit for each accounting change and/or error correction

Specific narrative requirements for each accounting change and/or error correction are listed below:

Change in accounting principle:

- a. The nature of the change including:
  - i. Identification of the financial statement line item affected
  - ii. Identification of the new pronouncement implemented
- b. The reason for the change; if not because of the implementation of a new pronouncement, include an explanation of why the new accounting principle is preferable

Change in accounting estimate:

- a. The nature of the change, including the identification of the line items affected
- b. The reason for the change to an input, if applicable, unless the change in measurement is required by a GASB pronouncement.

Change to or within the reporting entity:

- a. The nature of the change
- b. The reason for the change

Error correction:

- a. The nature of the error and the correction, including the periods affected by the error
- b. Identification of the financial statement line items that are affected by the error
- c. The effect on the prior period’s change in net position, fund balance, or fund net position, as applicable, had the error not occurred

*Examples:*

**Draft – for May 2024 LGAC Meeting – Not implementation guidance**

*Example – Change to or within the reporting entity: During fiscal year 20XX, the (government type) experienced a (change to OR within the financial reporting entity) which resulted in adjustments to the (beginning net position OR fund net position) as identified in Column (X) of the table below.*

*Example – Error correction: During fiscal year 20XX, the (government type) identified (describe error). The effect of that error is shown in Column (X) of the table below.*

Table format example:

	12/31/20XX As previously report	Change in accounting principle	Change to or within the financial reporting entity	Error correction	12/31/20XX As restated/adjusted
Opinion Unit(s)					
Opinion Unit 1					
Opinion Unit 2					
Total primary government					
(Other opinion units)					
(Other opinion units totals)					

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**CASH BARS Draft**

**Accounting changes and error corrections**

**3.1.X.XX Definitions**

Accounting changes and error corrections occur in governments in three separate situations, as listed below.

Change in accounting principle:

This occurs when switching from one generally accepted accounting principle to another or adopting a new standard as required by the BARS Manual.

Change to or within the financial reporting entity:

- a. A government opens or closes a fund and needs to move all related financial activity
- b. A change in reporting fiduciary activities at the fund level. This means that if a government reports a 600 level fund and moves that activity to a 000-500 or 700 level fund, or vice versa.

Error correction:

An error occurs when any of the following are identified as of the previous financial statement date:

- a. Mathematical mistake
- b. Mistake in the application of accounting principles
- c. Oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date is identified
- d. Amounts that are refunded to the government (or fund) that are material from prior year financial activity

**3.1.X.XX Accounting and reporting**

Accounting and reporting for each change and error correction category is discussed below. If an entity is required to submit notes, a **note disclosure** is required to be presented with each accounting change and/or error correction that occurs during the fiscal year.

Change in accounting principle:

Governments that implement or adopt a new accounting standard should record activity as if the accounting principle was in place as of the beginning of the fiscal year. BARS code 388.50.00 or 588.50.00 should be used to restate the beginning balance as of the beginning of the year.

Change to or within the financial reporting entity:

Governments that undergo a change to or within the reporting entity should record the activity as if the change occurred as of the beginning of the fiscal year. BARS code 388.40.00 or 588.40.00 should be used to adjust the beginning balance as of the beginning of the year.



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*For example, if a government opened a new fund in the fiscal year, the change would be reflected on the financial statement as if the fund had been opened on the first day of the fiscal year. All activity for the year would then be captured in the appropriate fund.*

### Error correction:

Governments required to correct an error should record the cumulative effect of the error in the fiscal year that the error is identified. BARS code 388.30.00 or 588.30.00 should be used to restate the beginning balance as of the beginning of the fiscal year.

*For example, one fund incorrectly recognized an expenditure that should have been recognized by another fund which was identified in a subsequent fiscal year. As a result, the government is required to record an error correction to reflect the expenditure in the responsible fund in the fiscal year that the error was identified.*

*In the fund that originally recognized the expenditure, the government should record the amount of the expenditure to BARS code 388.30.00 and should record the same amount in the fund that should have recognized the expenditure to BARS code 588.30.00*

DRAFT

## REPORTING

### **Note X - Accounting Changes and Error Corrections**

*A template for this note is not available. See “Instructions to preparer:” for disclosures that may be required.*

#### INSTRUCTIONS TO PREPARER:

Include changes in accounting principles, changes to or within the reporting entity, and error corrections in previously issued financial statements as defined at **BARS XXX**.

For all accounting changes and error corrections, the circumstance surrounding each change should be separately disclosed by:

- a. A narrative of the change or error, as detailed below
- b. A formatted table detailing the impact of each change or error that reconciles to the adjustment totals in BARS Codes 388.XX and 588.XX

Specific narrative requirements for each accounting change and/or error correction are listed below:

Change in accounting principle:

- a. Identification of the new accounting standard implemented as required by the BARS Manual

Change to or within the financial reporting entity:

- a. The nature of the change
- b. The reason for the change

Error correction:

- a. Identification of the error and the correction, including the period(s) affected by the error
- b. Identification of the line items that are affected by the error
- c. The effect (amount) on the prior period’s cash and investment balance, had the error not occurred

*Examples:*

*Example – change in accounting principle: During fiscal year 20XX, the (government type) implemented (describe accounting standard) as required by the BARS Manual. The effect of that accounting standard is shown in Column (X) of the table below.*

*Example – change in financial reporting entity: During fiscal year 20XX, the (government type) reported Fund XXX as (fund type) whereas in (prior fiscal year) it was reported as Fund XXX as (fund type). This change has occurred due to (describe reason for the change). The effect of the change in reporting entity is shown in the table below, see column (X).*

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Example – error correction: During fiscal year 20XX, the (government type) identified (describe error). This error causes the beginning cash balance to be restated by (dollar amount) less/more than previously reported. The effect of that error is shown in Column (X) of the table below.

Table format example:

	12/31/20XX As previously report	Change in accounting principle	Change to or within the financial reporting entity	Error correction	12/31/20XX As restated/adjusted
Fund 1					
Fund 2					
Total Funds					

DRAFT

### 3.4.23 Compensated Absences (GAAP)

3.4.23.10 Compensated Absences are defined as leave for which employees may receive cash payments when the leave is used for time off, other cash payments like unused leave paid upon termination of employment and non-cash settlements like conversion to defined benefit post-employment benefits.

Termination of employment refers to the end of an employee's active service no matter the reason. This category would include estimated leave paid at separation, retirement, or death.

3.4.23.20 There are two types of leave that are included in the liability calculation:

- Leave that has not been used
- Leave that has been used, but not paid
  - GASB Codification C60.119 only requires that a liability is recorded, governments may choose to record in Salaries and Wages Accrued or Compensated Absences.

3.4.23.30 Leave that has not been used should be included in the liability calculation if the following criteria is met:

- The leave is attributable to services already rendered (the employee earned the hours over the course of employment)
- The leave accumulates (carries over from one fiscal year to another)
- There is a greater than 50 percent likelihood that the leave will be used for time off or otherwise paid in cash or settled through noncash means.

3.4.23.35 To determine if leave is more likely than not to be paid governments should review their compensated absence policy and historical information on leave usage.

3.4.23.40 Additionally, governments should verify if they have specific criteria for paying unused leave balances for specific events at the end of employment (for example: the government only pays at retirement or there are additional benefits due to death in the line of duty, etc.). When this scenario has been identified then the government would only calculate the unused balance based on the likelihood of that payment.

3.4.23.50 Leave that is dependent upon occurrence of a sporadic event that affects a relatively small proportion of employees should not be estimated or recognized until that leave commences, including any scheduled leave that carries over the fiscal year-end. Some examples would be:

- Military leave
- Bereavement leave
- Jury duty
- Parental leave

3.4.23.60 Unlimited leave policies would not result in any compensated absence liability, other than for leave used but not yet paid.

3.4.23.70 Governments should calculate each leave type separately (sick, vacation, PTO, etc.) and may further separate leave types based on other factors such as employee type, length of employment, bargaining agreements, scaled payout agreements, etc. These groupings must be maintained

throughout the calculation of the compensated absence liability and should be applied consistently over reporting years.

3.4.23.80 The calculated compensated absence liability should include any salary-related payments related to the leave balances included in the calculation. Salary related payments are additional costs incurred by the employer that are directly and incrementally associated with the payment. Directly associated is defined as amounts of the payment that depend on the amount of salary being paid. Incrementally associated with is defined as payments that the government will make in addition to the payment of the salary. Examples of salary related payments include:

- Payroll taxes
- Health savings accounts (HSAs), flexible spending accounts (FSAs), etc.
- Nonsponsored defined contribution retirement plans

3.4.23.90 Department of Retirement Systems plan contributions would **not** be included in salary related payments.

#### **3.4.23.100 Components of the Calculation of the Compensated Absence Liability -**

3.4.23.110 Leave that has been used, but not paid should be calculated at exact hours taken and the pay rate in which those hours will be settled plus any salary related payments.

3.4.23.120 Leave that has not been used should be calculated based on the government's compensated absence policy. **Note: This calculation should not exceed the year-end accrued leave balances.**

#### **3.4.23.130 Common leave policies**

3.4.23.131 *If the government's compensated absence policy is to payout 100% of leave balances.*

1. Take the accrued leave balance and calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

3.4.23.132 *If the government's compensated absence policy is to not payout any leave balances at termination of employment.*

1. Estimate the leave usage over the life of the employee or group of employees.
2. Verify that the estimated usage is not over the accrued leave balance.
3. Using the hours calculated in Step 1, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

3.4.23.133 *If the government's compensated absence policy includes payment due to termination of employment at current pay rate and less than 100% of the accrued hours.*

1. Estimate the leave usage over the life of the employee or group of employees.
2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. **Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 4.**
3. Use the remaining balance in Step 2 to calculate the termination amount per policy. Include any reductions in hours in this calculation (for example, policy states that 25% of the leave balance is paid).

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4. Using the hours calculated in Step 1 and Step 3, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.
5. Add the amounts calculated in Step 4 together.

*3.4.23.134 If the government's compensated absence policy includes payout of 100% of the hours at termination of employment, but at a different pay rate.*

1. Estimate the leave usage over the life of the employee or group of employees.
2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. **Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 4.**
3. Use the remaining balance in Step 2 to calculate the termination hours per policy.
4. Using the hours calculated in Step 1 and Step 3 calculate the liability amount using the pay rate that the hours will be settled at (for example, policy states that the balance will be paid at 25% of the current pay rate for termination and the current pay rate for usage over the life of the employee) including salary related payments.
5. Add the amounts calculated in Step 4 together.

*3.4.23.135 If the government's compensated absence policy includes payment due to termination of employment paid at current pay rate with a cap of hours paid.*

1. Estimate the leave usage over the life of the employee or group of employees.
2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. **Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 5.**
3. Use the remaining balance in Step 2 to calculate the termination amount per policy.
4. Review the termination amount and any amount over the cap should be adjusted to the cap.
5. Using the hours calculated in Step 1 and Step 3, with any adjustment from Step 4, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.
6. Add the amounts calculated in Step 5 together.

3.4.23.140 These calculations must be done for each leave type. The amounts calculated should be added together and reported on the Schedule 09 under liability code 259.12 and disclosed at Note X – Changes in Long-Term Liabilities.

### 3.4.23 Compensated Absences (CASH)-

3.4.23.10 Compensated Absences are defined as leave for which employees may receive cash payments when the leave is used for time off, other cash payments like unused leave paid upon termination of employment and non-cash settlements like conversion to defined benefit post-employment benefits.

Termination of employment refers to the end of an employee's active service no matter the reason. This category would include estimated leave paid at separation, retirement, or death.

3.4.23.20 There are two types of leave that are included in the liability calculation:

- Leave that has not been used
- Leave that has been used, but not paid

3.4.23.30 Leave that has not been used should be included in the liability calculation if the following criteria is met:

- The leave is attributable to services already rendered (the employee earned the hours over the course of employment)
- The leave accumulates (carries over from one fiscal year to another)
- There is a greater than 50 percent likelihood that the leave will be used for time off or otherwise paid in cash or settled through noncash means.

3.4.23.35 To determine if leave is more likely than not to be paid, governments should review their compensated absence policy and historical information on leave usage.

3.4.23.40 Additionally, governments should verify if they have specific criteria for paying unused leave balances for specific events at the end of employment (for example: the government only pays at retirement or there are additional benefits due to death in the line of duty, etc.). When this scenario has been identified then the government would only calculate the unused balance based on the likelihood of that payment.

3.4.23.50 Leave that is dependent upon occurrence of a sporadic event that affects a relatively small proportion of employees should not be estimated or recognized until that leave commences, including any scheduled leave that carries over the fiscal year-end. Some examples would be:

- Military leave
- Bereavement leave
- Jury duty
- Parental leave

3.4.23.60 Unlimited leave policies are excluded until commencement except for leave that has been used, but not yet paid.

3.4.23.70 Governments should calculate each leave type separately (sick, vacation, PTO, etc.) and may further separate leave types based on other factors such as employee type, length of employment, bargaining agreements, scaled payout agreements, etc. These groupings must be maintained throughout the calculation of the compensated absence liability and should be applied consistently over reporting years.

3.4.23.80 The calculated compensated absence liability should include any salary related payments related to the leave balances included in the calculation. Salary related payments are additional costs that are directly and incrementally associated with the payment. Directly associated is defined as amounts of the payment that depend on the amount of salary being paid. Incrementally associated with is defined as payments that the government will make in addition to the payment of the salary. Examples of salary related payments include:

- Payroll taxes
- Health savings accounts (HSAs), flexible spending accounts (FSAs), etc.
- Non-sponsored defined contribution retirement plans

3.4.23.90 Department of Retirement Systems plan contributions would **not** be included in salary related payments.

### **3.4.23.100 Components of the Calculation of the Compensated Absence Liability -**

3.4.23.110 Leave that has been used, but not paid should be calculated at exact hours taken and the pay rate in which those hours will be settled plus any salary related payments.

3.4.23.120 Leave that has not been used should be calculated based on the government's compensated absence policy. **Note: This calculation should not exceed the year-end accrued leave balances.**

### **3.4.23.130 Common leave policies**

*3.4.23.131 If the government's compensated absence policy is to payout 100% of leave balances.*

1. Take the accrued leave balance and calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

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1. Estimate the leave usage over the life of the employee or group of employees.
2. Verify that the estimated usage is not over the accrued leave balance.
3. Using the hours calculated in Step 1, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

*3.4.23.133 If the government's compensated absence policy includes payment due to termination of employment at current pay rate and less than 100% of the accrued hours.*

1. Estimate the leave usage over the life of the employee or group of employees.
2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. **Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 4.**
3. Use the remaining balance in Step 2 to calculate the termination amount per policy. Include any reductions in hours in this calculation (for example, policy states that 25% of the leave balance is paid).
4. Using the hours calculated in Step 1 and Step 3, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.
5. Add the amounts calculated in Step 4 together.



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3.4.23.134 *If the government's compensated absence policy includes payment due to termination of employment paid at a different pay rate and 100% of the hours.*

1. Estimate the leave usage over the life of the employee or group of employees.
2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. **Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 4.**
3. Use the remaining balance in Step 2 to calculate the termination amount per policy.
4. Using the hours calculated in Step 1 and Step 3 calculate the liability amount using the pay rate that the hours will be settled at (for example, policy states that the balance will be paid at 25% of the current pay rate) including salary related payments.
5. Add the amounts calculated in Step 4 together.

3.4.23.135 *If the government's compensated absence policy includes payment due to termination of employment paid at current pay rate with a cap of hours paid.*

1. Estimate the leave usage over the life of the employee or group of employees.
2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. **Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 5.**
3. Use the remaining balance in Step 2 to calculate the termination amount per policy.
4. Review the termination amount and any amount over the cap should be adjusted to the cap.
5. Using the hours calculated in Step 1 and Step 3, with any adjustment from Step 4, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.
6. Add the amounts calculated in Step 5 together.

3.4.23.140 These calculations must be done for each leave type. The amounts calculated should be added together and reported on the Schedule 09 under liability code 259.12 and disclosed at Note X – Long-Term Liabilities.