

GASB Update

MGO Responses

Some of us in accounting support roles are familiar with GASB but don't have a strictly accounting background. Is there a resource where we can view (or even purchase) the GASB text in its entirety? On the GASB website it appears they direct you to GARS, which requires you to have some idea what you're looking for.

The Governmental Accounting Research System™ (GARS) is the official online source for all U.S. generally accepted accounting principles (GAAP) applicable to state and local governments — providing access to the GASB Codification, original pronouncements, and comprehensive implementation guide. The GASB Codification is the best source of authoritative guidance for all current and applicable GASB pronouncements by topical area. This can be found on the [GARS homepage](#) (it's the first item listed in the left-side column). The GARS website offers real-time access to the most current pronouncements to ensure users are always referencing the latest authoritative guidance. Unlike hard copy versions, it also allows for keyword searches, cross-referencing, and easy navigation — significantly improving research efficiency and accuracy.

Another good resource for those who are new to governmental accounting is the [Government Finance Officers Association's \(GFOA\) Governmental Accounting, Auditing, and Financial Reporting \(GAAFR\)](#), commonly known as the [Blue Book](#). The Blue Book is organized more like a textbook and is much easier to follow. It offers more practical guidance, explanations, and examples, making it easier to understand and apply (though it's not an official source of GAAP). The Blue Book may reference the GASB Codification or pronouncements, which you can then go to GARS for further research if you want to drill down on specific accounting matters.

GASB Update

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Questions	MGO Responses
Are employer 401(k) contributions considered salary-related payments when calculating compensated absences under GASB 101?	<p>Yes, if employer payments to a defined contribution plan (e.g., 401(k) plan) are made directly and are incrementally associated with the leave. These specific provisions are covered in paragraphs 23-25 of Statement No. 101.</p> <p>A payment is directly associated if the amount of the payment is a function of salary to be paid. A payment is incrementally associated if the government will make a payment in addition to the payment for the salary. The portion of the liability that is for salary-related payments should be measured using the rates in effect as of the date of the financial statements.</p> <p>A salary-related payment may be incrementally associated only with a portion of the recognized leave. For example, a government that provides benefits through a defined contribution pension plan may be required to make employer contributions related to leave used for time off but not for leave paid upon termination of employment. In that case, the only amount incrementally associated with the recognized leave is the amount of employer contributions related to the portion of the leave that is more likely than not to be used for time off.</p> <p>For leave that has not been used, expense for salary-related payments related to defined contribution pensions or defined contribution other post-employment benefits (OPEB) should be recognized when the liability for that leave is recognized and should be reported as pension expense or OPEB expense (as applicable). Those amounts should not be reported as a pension liability or an OPEB liability.</p> <p>For leave that has been used, salary-related payments related to defined contribution pensions or defined contribution OPEB should be included in a pension liability or an OPEB liability in accordance with the requirements of Statements 68, 73, or 75, as amended.</p>

2025 STATE & LOCAL GOVERNMENT ANNUAL TRAINING

GASB 101: Compensated Absences Panel

Questions	MGO Responses
Why are we reporting on leave that can't be cashed out? We already have an obligation to pay employees for days they work or take leave, so there's no new liability there.	<p>GASB provides guidance on the provision: “If some or all of the leave is more likely than not to be settled through noncash means other than conversion to defined benefit postemployment benefits, a government should measure the liability based on the amount for which it is more likely than not to be settled.” Thus, if there is a financial burden to the government — cash or settlement — it should be measured.</p> <p>If you are referring to leave that is forfeited if unused, and there is no obligation for pay out or provide other settlement, then you are correct that there is no new liability to accrue.</p>
Do you have illustrative samples other than what GASB has provided? We're confused about implementing GASB 101.	<p>Our GASB 101 article breaks down the standard into more manageable pieces that highlight the key concepts. The GFOA provides various tools and examples to members to assist with implementation of GASB standards. Specifically, two of the tools provide examples of approaches to estimate the liability for compensated absences for sick leave. These and other general resources and insights may help inform your team’s understanding.</p> <p>After attaining a general understanding of the standard, you will need to examine the unique employee arrangements and accrual methods of your entity. The implementation may entail a detailed analysis of leave policies, historical usage patterns, and payroll structures to ensure liabilities are properly measured under the “more likely than not” standard.</p> <p>If you want to discuss more details, reach out to our State and Local Government team to help you navigate GASB 101 requirements.</p>

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GASB 101: Compensated Absences Panel

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Questions	MGO Responses
We are a June 30 fiscal year-end. To implement GASB 101, we have been told by our auditors that we have to estimate the change to our sick leave liability at the beginning and end of the year. Can you clarify what they mean by this? Do we book the increase in sick leave liability on July 1 and then update on June 30, or can we just adjust at year end? Any insight on this is appreciated.	<p>When you implement a new GASB standard that constitutes a change in accounting principle, you must apply the accounting changes in accordance with GASB Statement No. 100. This consideration is covered in the “transition” section of GASB Statement No. 101, paragraph 33.</p> <p>Basically, this means you should restate your beginning balance for the cumulative effect, if any, of the change to the newly adopted accounting principle on prior periods. This is to ensure the current reporting period reflects only this year’s activity without commingling it with the impacts of implementing the new standard. In other words, by restating your beginning balance you will have an apples-to-apples comparison for the fiscal year change.</p>
We have never accrued Medicare taxes related to compensated absences in the past. Do we have to now?	<p>Paragraph 22 of GASB Statement No. 101 states that salary-related payments are obligations a government incurs related to providing leave in exchange for services rendered. (The term “salary” in salary-related payments represents any pay provided to the employee, whether it is a fixed amount or an hourly wage.) Examples of salary-related payments include the employer share of Social Security and Medicare taxes. Therefore, you should include Medicare taxes in your pay rate used to determine the compensated absences liability. Please note, this provision was also included in paragraph 11 of GASB Statement No. 16 and should not be considered new.</p>
If some individuals use leave to extend separation date, and some cash out leave at separation, how does it affect the liability calculation?	<p>Without knowing your individual circumstances, this question is difficult to answer. However, an example of how this difference may impact a government is as follows: Used leave may be paid at 100% of salary and salary-related payments whereas cash payout at separation may be reduced based on years of service (e.g., your policy limits sick leave payout to 50% of leave balance for employees who have more than 10 years of service). Also, the salary-related payments may be different for leave balance paid/settled at separation versus leave that gets paid as used.</p>

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GASB 101: Compensated Absences Panel

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Questions	MGO Responses
We have always recorded 100% of our sick leave liability on our books due to employees being able to use 100% of it at any time. Any unused sick leave is paid out at 50% if one retires in good standing; if not, it is forfeited. Would we need to change our approach based on this GASB?	Yes, you should consider the likelihood of the leave being used versus the leave expected to be paid out upon retirement in good standing at 50%. If you experience that employees are accumulating sick leave that gets paid out in retirement, there should be some provision for employees that do not use all their sick leave. Another consideration is the assumption methodology for how sick leave is used — first in, first out (FIFO) or last in, first out (LIFO). The GFOA provides a GASB 101 Compensated Absences Tool – FIFO and LIFO results (members only) that illustrates two approaches that follow the FIFO and LIFO flow assumptions.
Given that GASB 100 applies to GASB 101, how would an organization that <i>does not</i> provide a full comparative year for the basic financial statements report the change to beginning balances (since there are no "prior period adjustments" reported in the "net position" section)?	<p>GASB 100 applies to all future pronouncements, as it constitutes GAAP for changes in beginning balances — whether due to accounting changes or errors. For changes in accounting principles related to “new pronouncements”, you will restate your beginning balances as necessary to implement the new standards. If you have comparative financial statements, you will restate the earliest year being presented.</p> <p>While the term “prior period adjustments” may not be used, you should expand your beginning net position/fund balance to report 1) previously reported amount, 2) restatement(s), and 3) restated amount. As per the guidance of GASB 100, the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, should be displayed for each reporting unit and the notes should contain a matrix with detailed disclosure.</p>

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GASB 101: Compensated Absences Panel

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Can we just use three or four years to look back, eliminating the COVID years?	Yes, you can reasonably choose to exclude the COVID years when looking back at historical data for your calculations. GASB Statement No. 101 is intentionally non-prescriptive in this area, allowing for professional judgment in determining which years to include. As long as your approach is reasonable and well-documented, there's flexibility to use three or four representative years —excluding outliers like the pandemic period. Over time, you can expand your look-back period to build a longer-term average, such as over 10 years, for greater stability in your assumptions.
If you choose not to update the prior year, GASB permits this — but you need to add a note. Can you comment on why?	By not updating the prior year, you are choosing not to follow the standards. This is only appropriate if you deem the difference between the amount reported in the prior year under the previous standards and the amount calculated under the new requirements to be immaterial to your financial statements. In such case, a note disclosure is necessary to help explain the nature of the change, including why retrospective restatement was not applied (e.g. insignificant differences), so the financial statement users understand that prior period balances may not align with current period presentation.

2025 STATE & LOCAL GOVERNMENT ANNUAL TRAINING

Single Audit and Uniform Guidance

Key Changes and Risk Areas

Questions	MGO Responses
Are governmental or department entities receiving more than \$35 million allowed to use the de minimis rate, or must they submit an indirect cost rate proposal to their cognizant agency for indirect costs?	<p>§ 200.414(e) provides the requirements for development and submission of indirect cost rate proposals and cost allocation plans through the use of appendices to Part 200:</p> <ul style="list-style-type: none">(1) Appendix III to Part 200 — Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs);(2) Appendix IV to Part 200 — Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations;(3) Appendix V to Part 200 — State/Local Government-wide Central Service Cost Allocation Plans;(4) Appendix VI to Part 200 — Public Assistance Cost Allocation Plans;(5) Appendix VII to Part 200 — States and Local Government and Indian Tribe Indirect Cost Proposals; and(6) Appendix IX to Part 200 — Hospital Cost Principles. <p>Appendix VII.D.1.b. states: “A governmental department or agency (such as a state or local Department of Health, Department of Transportation, or Department of Housing) <u>that receives more than \$35 million in direct Federal funding during its fiscal year must submit its indirect cost rate proposal</u> to its cognizant agency for indirect costs.”</p> <p>The United States Office of Management and Budget (OMB) removed language from the proposed rule at § 200.414(e) that stated: “A governmental department or agency that receives more than \$35 million in direct federal funding during its fiscal year may not elect to use the de minimis rate (<i>see Appendix VII, paragraph D.1.b.</i>).” Instead, in the final guidance, OMB retained this language within Appendix VII.</p>
Are subrecipients required to have audited financial statements to apply the 15% de minimis rate to their pass-through entity (upgrading from 10% to 15%)?	<p>No. Subrecipients may apply the de minimis rate — now 15% under the revised guidance — regardless of whether their financial statements have been audited.</p>

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Single Audit and Uniform Guidance

Key Changes and Risk Areas

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Questions	MGO Responses
Do contractors need to submit their financial statements periodically? If they don't, how do we know whether they follow GAAP, or are filing with the IRS, California Franchise Tax Board (FTB), or other agencies?	<p>Contractors aren't usually required to comply with the Uniform Guidance because they only provide goods and services to a recipient within their normal business operations — generally through a procurement process (§ 200.331(b)). If you have specific concerns over your contractors' compliance with financial reporting or other regulatory requirements, you may consider including monitoring procedures in the contracts.</p> <p>Subrecipients are only required to have and submit audits if they meet the reporting threshold defined in § 200.501 Audit Requirements. Prior to the April 2024 revisions to the Uniform Guidance, a non-federal entity expending \$750,000 or more in federal awards during its fiscal year was required to have a single or program-specific audit. Following the April 2024 revisions to the Uniform Guidance, the federal expenditure threshold requiring an audit has increased to \$1 million and is effective for the first full fiscal year of a non-federal entity beginning after October 1, 2024 (e.g. for an entity with a June 30 fiscal year-end, the \$1 million threshold applies to the fiscal year ending June 30, 2026). However, there are exemptions that may require an audit when federal awards expended are less than \$1 million (§ 200.501(e)). These exemptions are outlined in § 200.503.</p> <p>For non-federal entities that do not meet the audit threshold, additional compliance monitoring may be required through a pass-through entity's subrecipient monitoring program — which may include verification that accounting records are in accordance with GAAP and/or tax filings are completed. Expectations beyond the Uniform Guidance should be clearly outlined in the subrecipient agreement. Monitoring activities should be comprehensive and documented, and application should be based on the pass-through entity's risk assessment of its subrecipients.</p>

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Single Audit and Uniform Guidance

Key Changes and Risk Areas

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Questions	MGO Responses
If the subrecipient and contractor don't comply, is there a system to fine or penalize them — or intervene if the company goes bankrupt?	<p>Contractor compliance should be monitored and reviewed as part of an entity's procurement process, including determining the risk of working with the contractor. For example, you may consider conducting a financial viability assessment prior to awarding the contract. You may also verify the entity has the required insurance and define in the contract remediation steps and recourse measures in the event noncompliance is identified during the contract period.</p> <p>Pass-through entities must establish a subrecipient monitoring and management program (§ 200.331 - § 200.333). The program should include an assessment of the risk of fraud and noncompliance (§ 200.332(c)), which will assist the pass-through entity to determine the appropriate level of monitoring. In addition, the pass-through entity can consider adding specific conditions to the subrecipient agreement as outlined in § 200.208. If noncompliance is identified, the pass-through entity should assess the ability of the subrecipient to take corrective action and the need for enforcement action as described in § 200.339.</p>
What is the difference between recipient versus pass-through entities, and characteristics of each?	<p><u>§ 200.1 Definitions.</u></p> <p><i>Recipient</i> means an entity that receives a federal award directly from a federal agency to carry out an activity under a federal program. The term recipient does not include subrecipients or individuals that are participants or beneficiaries of the award.</p> <p><i>Pass-through entity</i> means a recipient or subrecipient that provides a subaward to a subrecipient (including lower tier subrecipients) to carry out part of a federal program. The authority of the pass-through entity under this part flows through the subaward agreement between the pass-through entity and subrecipient.</p> <p>For additional information on subrecipient and contractor determinations, see <u>§ 200.331</u>.</p>

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Single Audit and Uniform Guidance

Key Changes and Risk Areas

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<p>In some cases, it's difficult to trace federal expenses from the Schedule of Expenditures of Federal Awards (SEFA) to the audited financial statements in the Single Audit Report (SAR). Could the reconciliation of the SEFA be included in the SAR? Alternatively, could the SEFA be made more informative by indicating whether amounts are presented on an accrual or cash basis to better relate to the financial statements?</p>	<p>Reconciliations of expenditures/expenses reported in an entity's basic financial statements and the expenditures reported on the SEFA should be maintained by the reporting entity as part of its accounting records. The entity can include a supplemental schedule or reconciliation as part of the notes to the SEFA. However, this practice is only practical for entities that have a few programs. For larger entities, the reporting would be too burdensome and voluminous.</p> <p>The decision to report the SEFA on a full accrual, modified accrual, and/or cash basis is based on an entity's accounting policies, which should be clearly disclosed in the notes to the SEFA. Full accrual versus modified accrual will depend on the fund type that the expenditures are recorded in (e.g., proprietary versus governmental funds). Cash basis reporting may depend on the uncertainty and timing of the amount of reimbursement (e.g., funding from the Federal Emergency Management Agency). The important point is to define the basis of accounting in the notes to the SEFA and identify programs that are reported on a basis other than GAAP (i.e., cash basis).</p>
<p>Regarding the Modified Total Direct Costs (MTDC), the Uniform Guidance has been updated to reflect \$50,000 instead of \$25,000 for each subaward. Could you please confirm?</p>	<p>Yes. The April 2024 revision to the Uniform Guidance updated the threshold for subawards from \$25,000 to \$50,000.</p> <p><u>§ 200.1 Definitions.</u> <i>Modified Total Direct Cost (MTDC)</i> means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and <u>up to the first \$50,000 of each subaward</u> (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of \$50,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs and with the approval of the cognizant agency for indirect costs.</p>

2025 STATE & LOCAL GOVERNMENT ANNUAL TRAINING

Navigating the California Public Sector Cliff

Questions	MGO Responses
Is a for-profit organization that received a federal award of \$1 million subject to either a single audit or a program specific audit?	<p>Federal agencies have discretion on whether to apply subparts A through F of Part 200 to for-profit entities. The Uniform Guidance encourages federal agencies to apply the requirements in subparts A to E of Part 200 to all recipients in a consistent and equitable manner — <i>but does not require them to do so</i>. In cases in which federal agencies apply Part 200 to such entities, OMB's final guidance now further clarifies how the guidance applies to those entities as either recipients or subrecipients. See an agency's respective Code of Federal Regulations (CFR) for audit requirements.</p> <p>Subpart B § 200.101 addresses the applicability of the Uniform Guidance. <i>§ 200.101(a)(1)</i> Federal agencies must apply subparts A through F of this part to non-federal entities unless a particular section of this part or federal statute provides otherwise. Federal agencies may apply subparts A through E of this part to federal agencies, <u>for-profit organizations</u>, foreign public entities, or foreign organizations as permitted in agency regulations or program statutes, except when a federal agency determines that the application of these subparts would be inconsistent with the international responsibilities of the United States or the laws of a foreign government. Subpart F only applies to non-federal entities as defined in the Single Audit Act Amendments of 1996 (<u>31 U.S.C. 7501-7507</u>). Federal agencies should apply the requirements to all recipients in a consistent and equitable manner to the extent permitted within applicable statutes, regulations, and policies.</p> <p><i>Subpart F - § 200.501(i) For-profit subrecipient.</i> This subpart does not apply to for-profit organizations. As necessary, the pass-through entity is responsible for establishing requirements to ensure compliance by for-profit subrecipients. The subaward with a for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for federal awards made to for-profit subrecipients may include pre-award audits, monitoring throughout the performance of the subaward, and post-award audits (see <u>§ 200.332</u>).</p>

Navigating the California Public Sector Cliff

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Questions	MGO Responses
Is a for-profit organization that received a federal award of \$1 million subject to either a single audit or a program specific audit?	<p><i>Example:</i> The U.S. Department (HHS) requires for-profits entities receiving monies under the CARES Act and ARPA programs as direct recipients to undergo annual audits (financial related, single audit or program specific audit) if they exceeded the \$750,000 threshold (\$75.501(a)) (to be updated to \$1 million under the revised Uniform Guidance). \$75.501(h) allowed for pass-through entities to establish requirements which could include an annual audit. Most pass-through entities (states) require for-profit subrecipients to obtain an annual audit if the for-profit entity exceeded the \$750,000 expenditure threshold.</p> <p>Regardless of audit requirement, a pass-through entity must include for-profit subrecipients in its subrecipient monitoring and management program. Furthermore, the pass-through entity may consider discussing the need for a for-profit subrecipient to undergo an independent audit with its grantor agency.</p>