City of Osseo
Hennepin County, Minnesota

Communications Letter

December 31, 2022

City of Osseo
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Report on Matters Identified as a Result of
the Audit of the Basic Financial Statements

Honorable Mayor, Members
of the City Council, and Management
City of Osseo
Osseo, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Osseo, Minnesota, as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.

- *Probable*. The future event or events are likely to occur.

The material weakness identified is stated within this letter.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we also became aware of a deficiency in internal control other than significant deficiencies or material weaknesses, and other matters that is an opportunity for strengthening internal controls and operating efficiency. It is described in the accompanying letter under Recommendations for Management.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated July 26, 2023, on such statements.

This communication, which is an integral part of our audit, is intended solely for the information and use of the Members of the City Council and management and others within the City, and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Bergan KDV, Ltd.

Minneapolis, Minnesota
July 26, 2023

City of Osseo
Material Weakness

Improve Segregation of Accounting Duties

The City had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The city accountant enters utility billing receipts and makes adjustments to accounts. This individual also can receipt payments for utility bills and enter the receipts into the billing program, which upon exporting to the general ledger, is posted.
- The city accountant can receipt payments, reconcile the daily receipt batch, and post the batch to the general ledger.
- The City's contracted accountant reconciles cash and has full general ledger access, including the ability to initiate and record journal entries without review.
- Journal entries are not always formally approved.
- The city accountant inputs timesheets, calculates payroll, generates payroll, and also has access to change pay rates in the system.

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City’s existing internal control system and, therefore, could have resulted in material misstatements of the City’s financial statements. In order to ensure financial statements were free from material misstatements, audit adjustments were required to properly adjust investments to market value.

Management and Members of the City Council are aware of this condition and have taken certain steps to compensate for the lack of segregation but due to the number of staff needed to properly segregate all of the accounting duties, the costs of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, management and the Members of the City Council must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

We recommend segregation or independent review be implemented whenever practical and cost effective.

Review Implications on Second Mortgages

Through further research of the mortgages, it was noted that no forgiveness provisions exist upon reaching 30 years, rather it appears collection could be compelled at that time. The City should further research the legal implications of these loans and their legal status as a lienholder as the city.

City of Osseo
Required Communication

We have audited the basic financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2022. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit
As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Planned Scope and Timing of the Audit
We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence
The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

City of Osseo
Required Communication

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- Misappropriation of assets and segregation of duties – Misappropriation of assets is considered a risk in substantially all engagements as assets may be misappropriated due to fraud or error. If duties cannot be appropriately segregated within the accounting and finance department, there is a risk of unauthorized disbursements being made from the entity. In addition, generally these results in less review taking place as transactions are recorded in the financial statements.
- Management override of controls – Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- Improper revenue recognition – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates
Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements relate to:

Depreciation – The City is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Expense Allocation – The City is currently allocating certain costs among the programs and supporting services benefited. The costs are allocated based on management's estimates.

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB, and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the City for post employment benefits.

Qualitative Aspects of the City's Significant Accounting Practices (Continued)

Significant Accounting Estimates (Continued)

Net Pension Liability, Deferred Outflows of Resources Related to Pensions, and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

Bad Debt Expense – Percentage of likelihood of collectability is based on management's best estimates.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures
Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit
We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements
For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.

Management did not identify, and we did not notify them of any uncorrected financial statement misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatement that we identified as a result of our audit procedures was brought to the attention of and corrected by management, market value adjustment on investments.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

City of Osseo
Required Communication

Representations Requested from Management
We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues
In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditor.

Other Information Included in Annual Reports
Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

City of Osseo
Financial Analysis

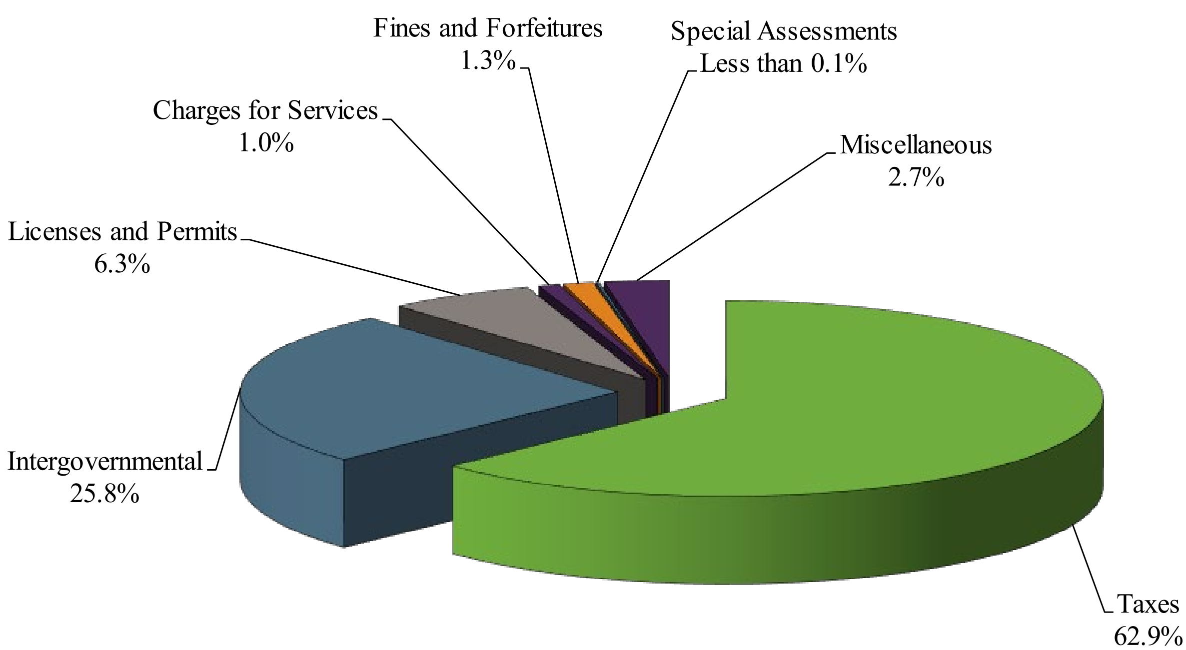
The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

General Fund Revenues

For the year ended December 31, 2022, revenues for the City's General Fund totaled $2,991,265. This represents an increase of $166,768, or 5.9%, compared to 2021. General Fund revenues allocated by source for 2022 are depicted in the following pie chart.

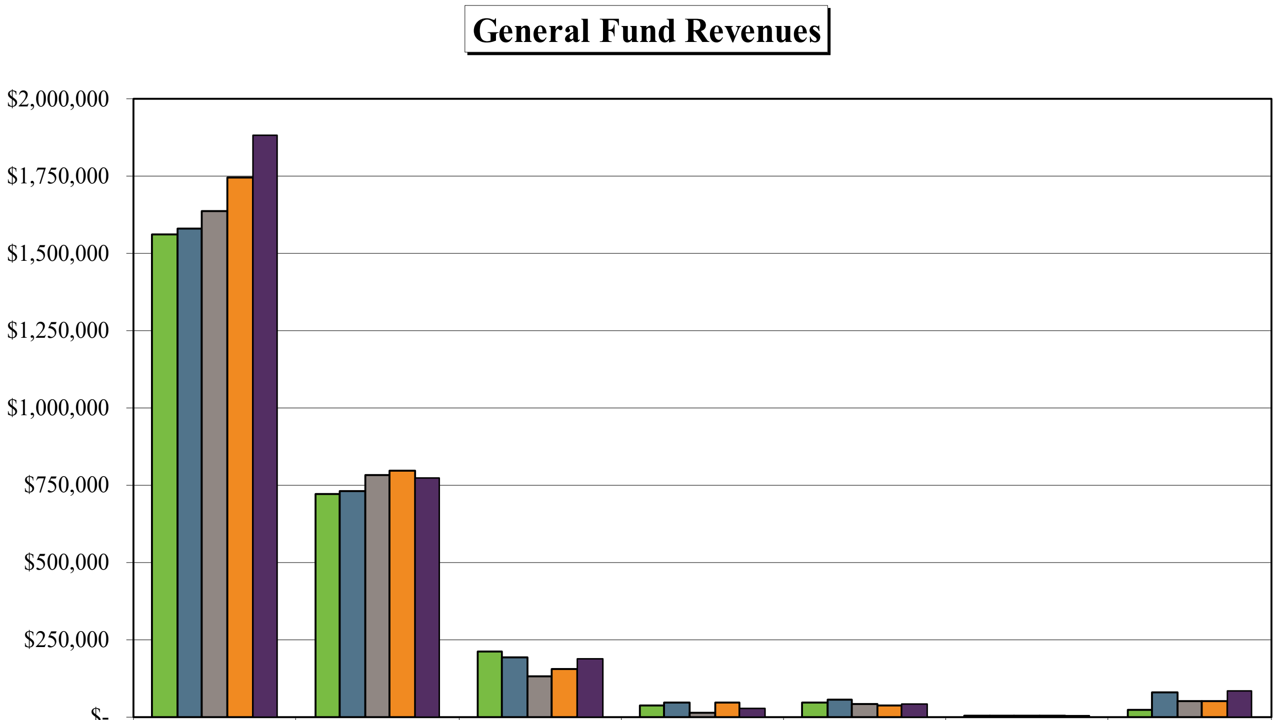
Tax revenues and Intergovernmental revenues made up a large share of the 2022 General Fund revenue stream at 62.9% and 25.8% respectively.

2022 General Fund Revenues



City of Osseo
Financial Analysis

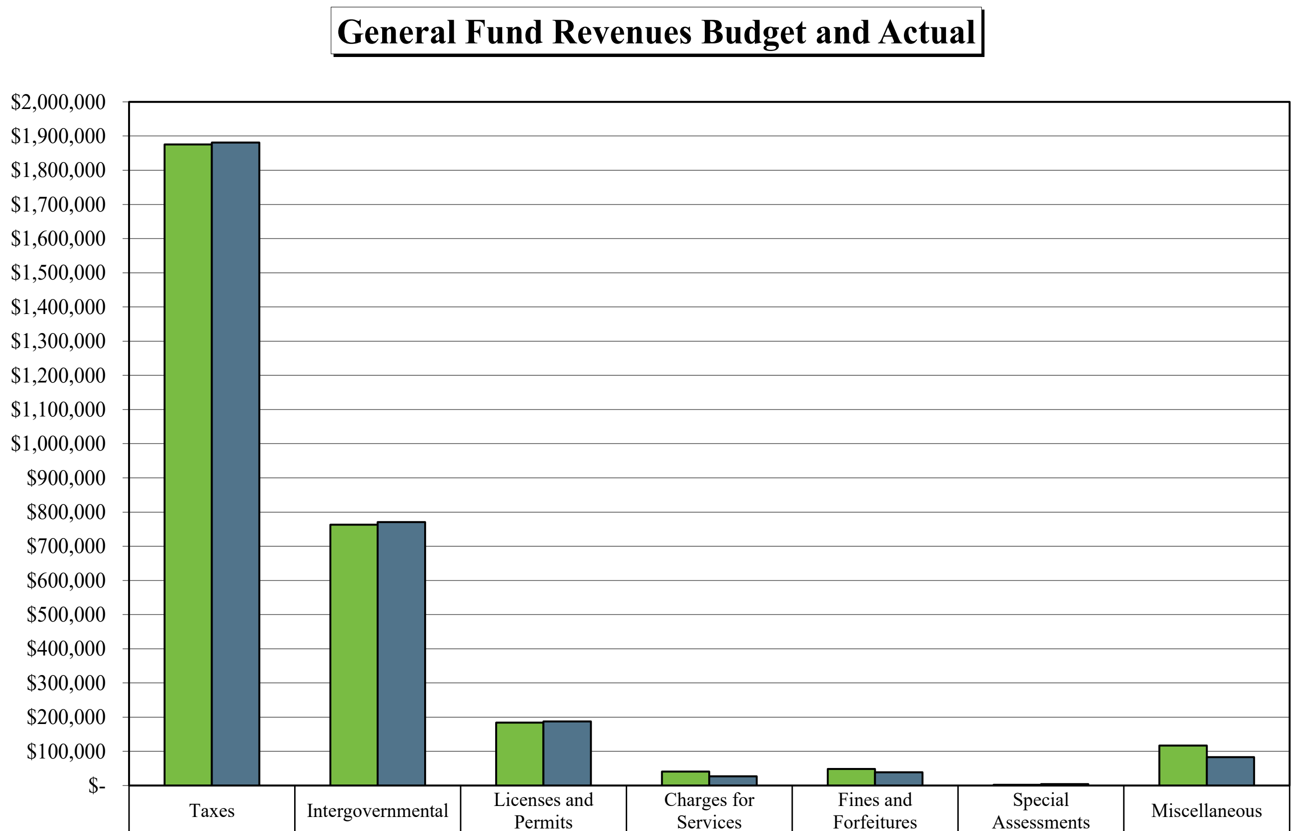
General Fund Revenues (Continued)
Trends for each of the City's major revenue classifications over the past five years are graphically portrayed in the bar chart below.



	Taxes	Intergovernmental	Licenses and Permits	Charges for Services	Fines and Forfeitures	Special Assessments	Miscellaneous
2018	$1,558,968	$720,876	$210,464	$37,578	$43,310	$3,862	$21,951
2019	1,577,359	728,375	192,754	43,458	53,066	1,091	75,917
2020	1,633,399	780,153	128,086	11,888	38,160	512	48,539
2021	1,744,878	796,284	155,756	43,968	34,871	605	48,135
2022	1,880,697	770,379	187,337	27,130	38,916	4,131	82,675

City of Osseo
Financial Analysis

General Fund Revenues – Budget and Actual



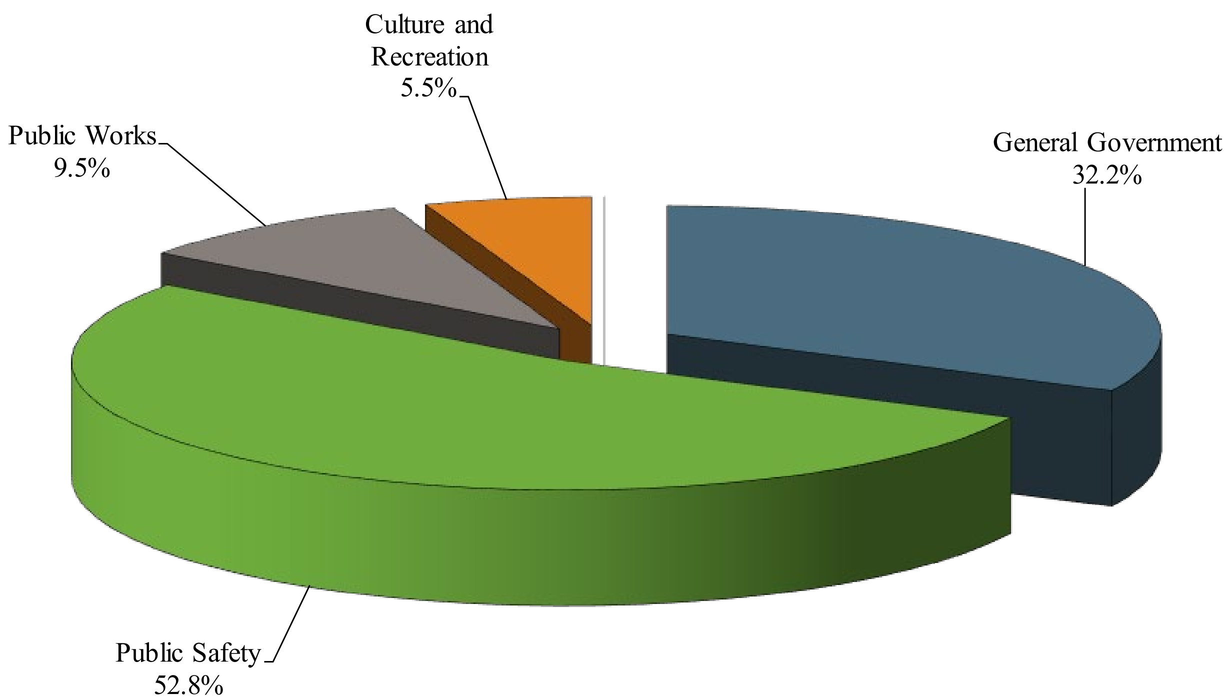
	Taxes	Intergovernmental	Licenses and Permits	Charges for Services	Fines and Forfeitures	Special Assessments	Miscellaneous
Budget	$1,875,754	$763,179	$183,850	$41,000	$48,500	$2,300	$116,887
Actual	1,880,697	770,379	187,337	27,130	38,916	4,131	82,675

In total, the City's General Fund revenues were $40,205 under budget. Miscellaneous revenue were $34,212 under budget as a result of the investments being adjusted to market value at year end.

City of Osseo
Financial Analysis

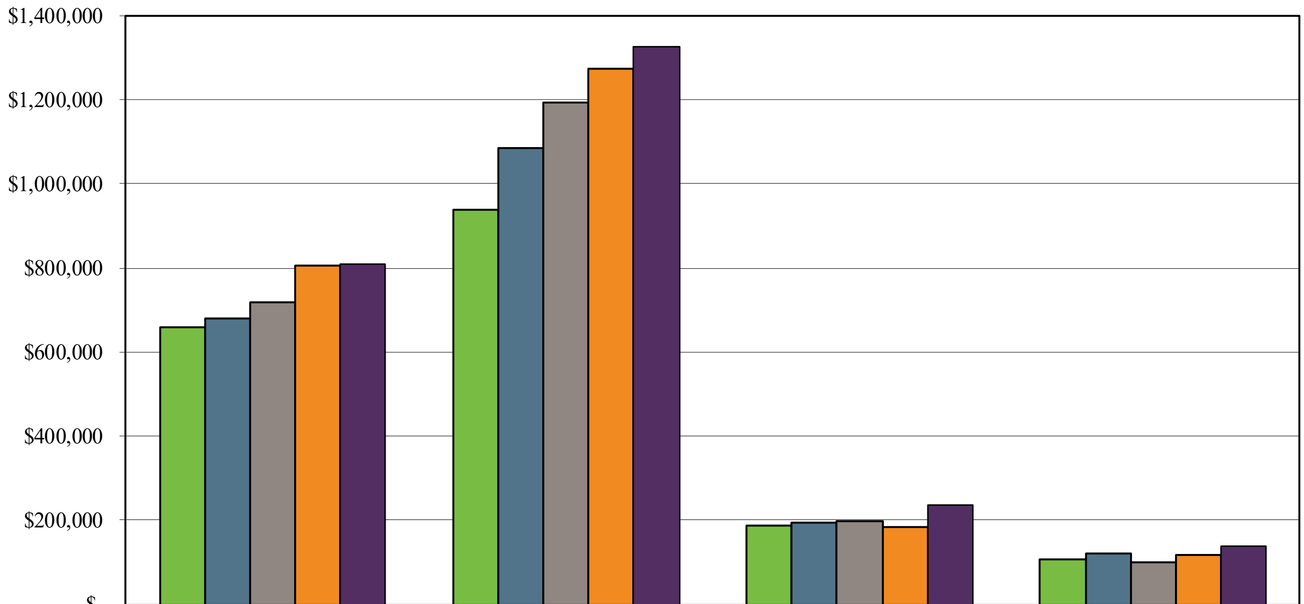
General Fund Expenditures
The pie chart below and the graph on the following page present an allocation of General Fund expenditures by department. Total expenditures in 2022 were $2,506,836. As the pie chart indicates, public safety comprised the largest percentage of General Fund expenditures at approximately 52.8%.

2022 General Fund Expenditures



General Fund Expenditures (Continued)

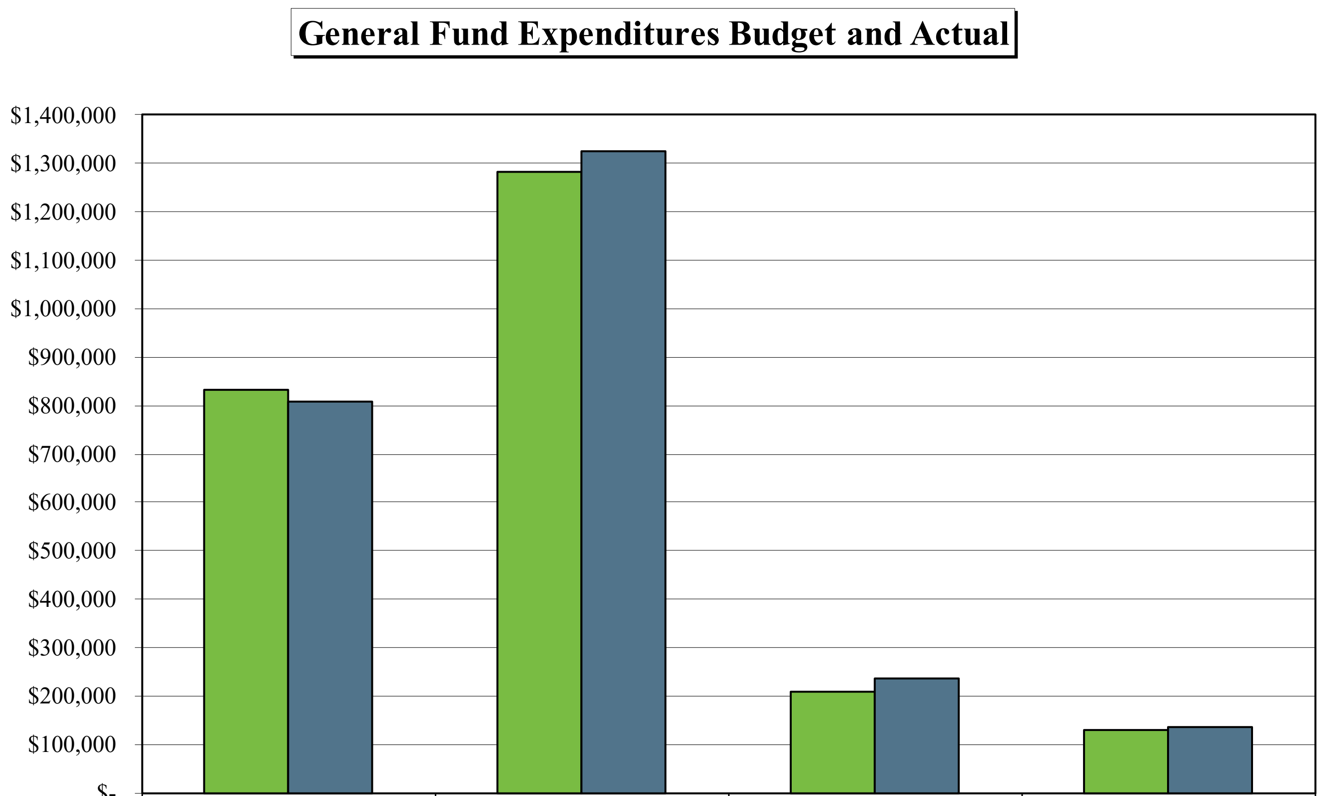
General Fund Expenditures



	General Government	Public Safety	Public Works	Culture and Recreation
2018	$657,312	$937,708	$187,479	$108,061
2019	678,359	1,084,221	194,258	119,546
2020	719,323	1,191,599	196,266	99,345
2021	804,379	1,275,045	183,277	118,434
2022	807,570	1,324,790	237,519	136,957

In total, General Fund expenditures increased $125,701, or 5.3% from 2021. Public Works played the most significant role in the increase due to an increase in snow management. Public safety expenditures also increased as a result of increased inspection services costs.

General Fund Expenditures – Budget and Actual



	General Government	Public Safety	Public Works	Culture and Recreation
Budget	$832,641	$1,282,982	$209,951	$130,026
Actual	807,570	1,324,790	237,519	136,957

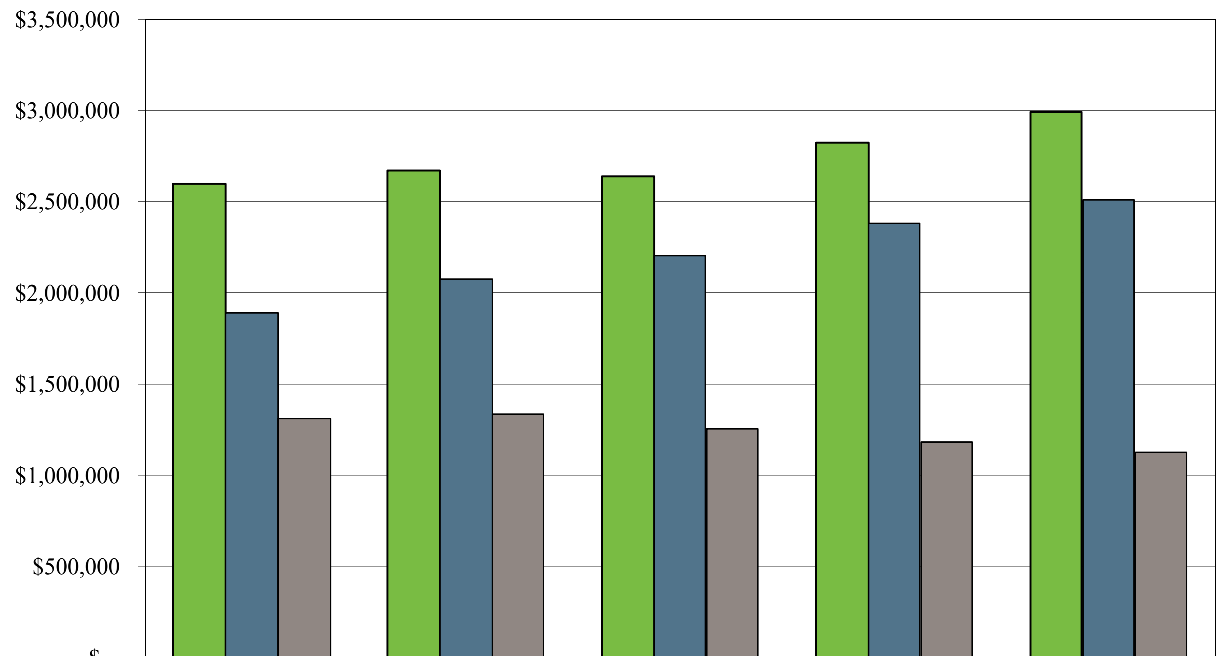
In total, the City's expenditures were over budget by $51,236, a variance of 2.1%. The largest variance was public safety which was over budget $41,808 due to the City not budgeting for the additional fire administrative assistant.

City of Osseo
Financial Analysis

General Fund Revenues, Expenditures, and Fund Balance
As illustrated in the graph below, total revenues have exceeded total expenditures in the General Fund each of the last five years. The ending fund balance represents about six months of 2022 General Fund expenditures, excluding transfers out. It is important to carry over an adequate fund balance as the City relies on year-end fund balance to finance much of the subsequent year's expenditures, since Local Government Aid (LGA) and major property tax settlements are not received until May and June.

The City's fund balance policy is to have 40-50% of the subsequent year's budgeted expenditures in unassigned fund balance at year-end. The City's unassigned fund balance of $1,110,398 at December 31, 2022, did not meet this goal. The fund balance represents 36.0% of 2022 budgeted expenditures.

General Fund Revenues, Expenditures, and Fund Balance

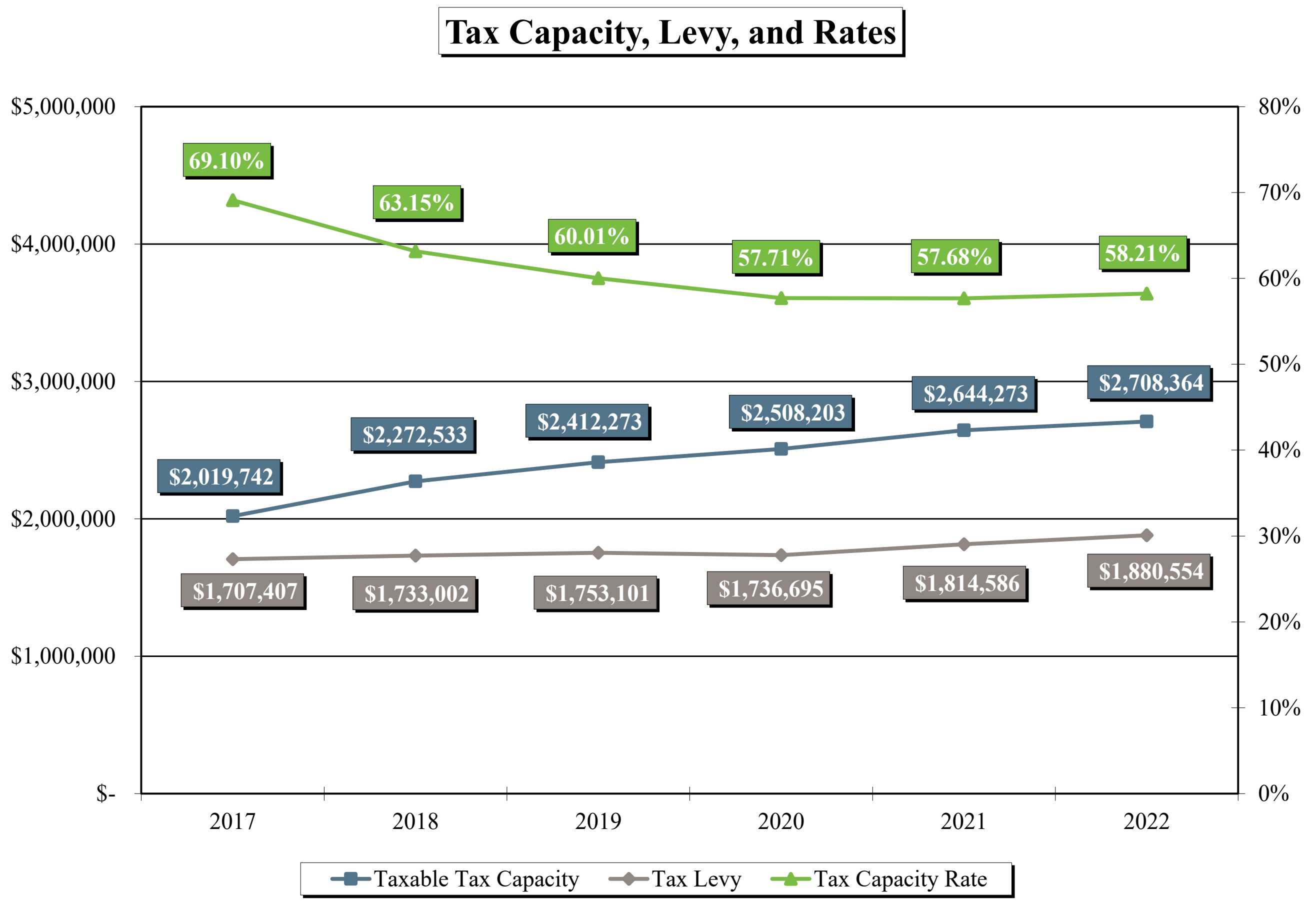


	2018	2019	2020	2021	2022
Total Revenues	$2,597,009	$2,672,020	$2,640,737	$2,824,497	$2,991,265
Total Expenditures	1,890,560	2,076,384	2,206,533	2,381,135	2,506,836
Fund Balance	1,312,883	1,337,649	1,255,983	1,183,475	1,129,252

City of Osseo
Financial Analysis

Tax Capacity, Levy, and Rates

The graph below presents information relating to the City's tax levy, tax capacity, and rates.

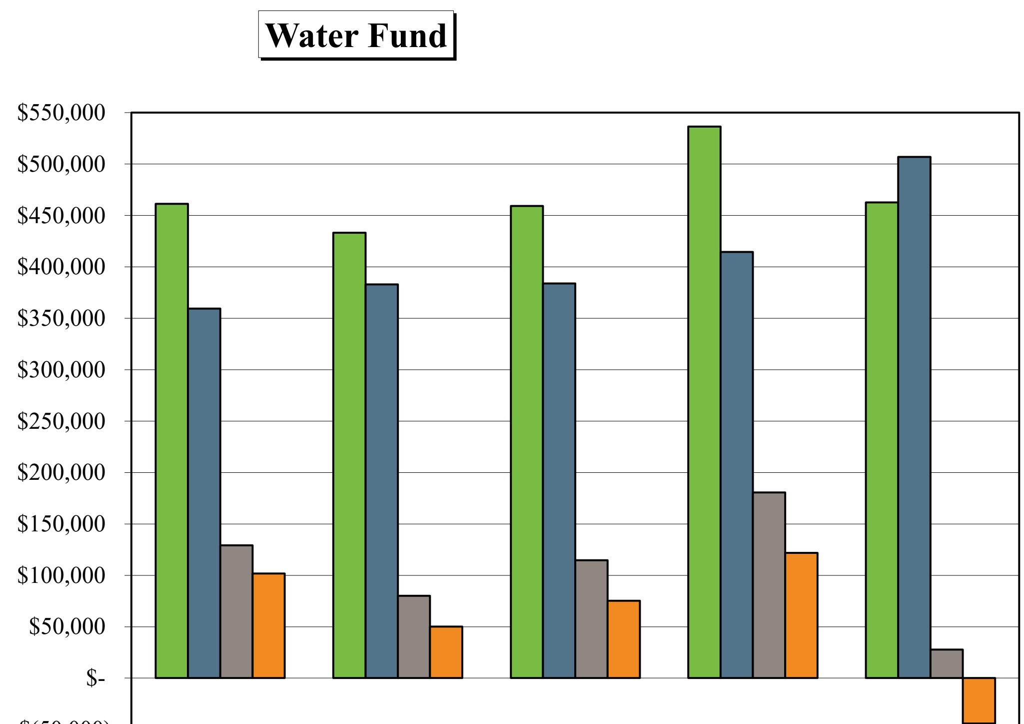


City of Osseo
Financial Analysis

Water Fund

The graph below illustrates the operations of the Water Fund for the past five years.

The City's Water Fund had operating loss of $44,272 in 2022 with depreciation. Charges for services decreased $73,615 or 13.7% with a decrease in usage. Operating expenses increased $92,516 or 22.3%. This was due to increased costs associated with employee benefits and the first annual maintenance payment for the gateway collector. After adding nonoperating activity and transfers out, the Water Fund experienced a decrease in net position of $19,379.



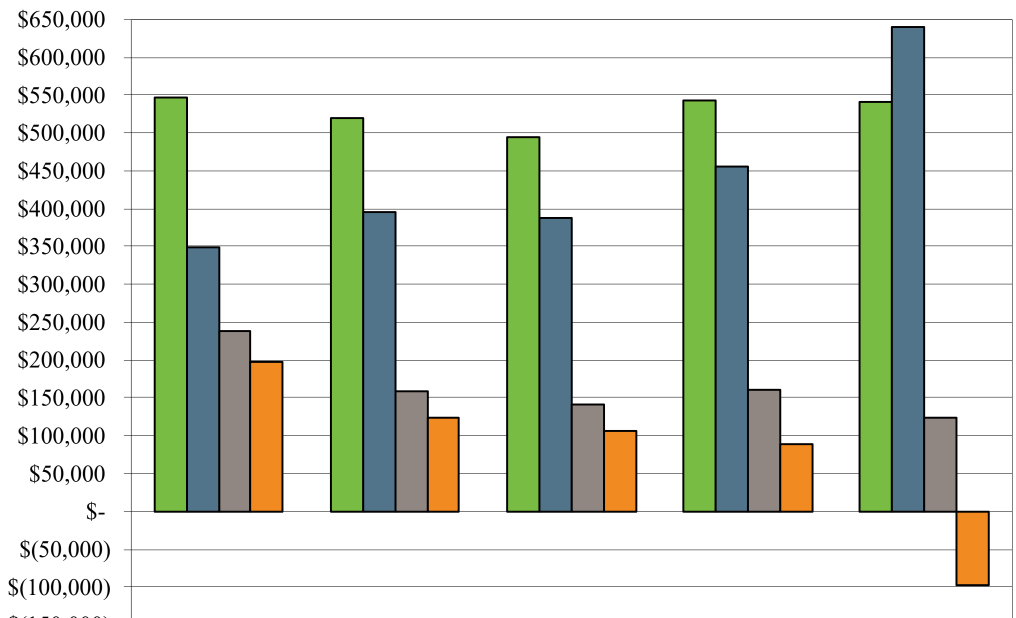
	2018	2019	2020	2021	2022
Charges for Services	$461,348	$433,267	$459,285	$536,457	$462,842
Operating Expenses	359,586	383,065	384,024	414,598	507,114
Operating Income without Depreciation	129,114	80,060	114,593	180,591	27,763
Operating Income with Depreciation	101,762	50,202	75,261	121,859	(44,272)

Sewer Fund

The graph below illustrates the operations of the Sewer Fund for the past five years.

The Sewer Fund had negative operations in 2022. The City's Sewer Fund had operating loss of $97,536 in 2022, with depreciation. Charges for services decreased $1,988 or 0.4%. Operating expenses increased $183,511 or 40.2%. This was due to increased costs associated with employee benefits and depreciation. After adding nonoperating activity and transfers out, the Sewer Fund experienced a decrease in net position of $153,529. This fund also has significant debt service obligations. We recommend council continue to evaluate the performance of this fund and make adjustments, as necessary.

Sewer Fund

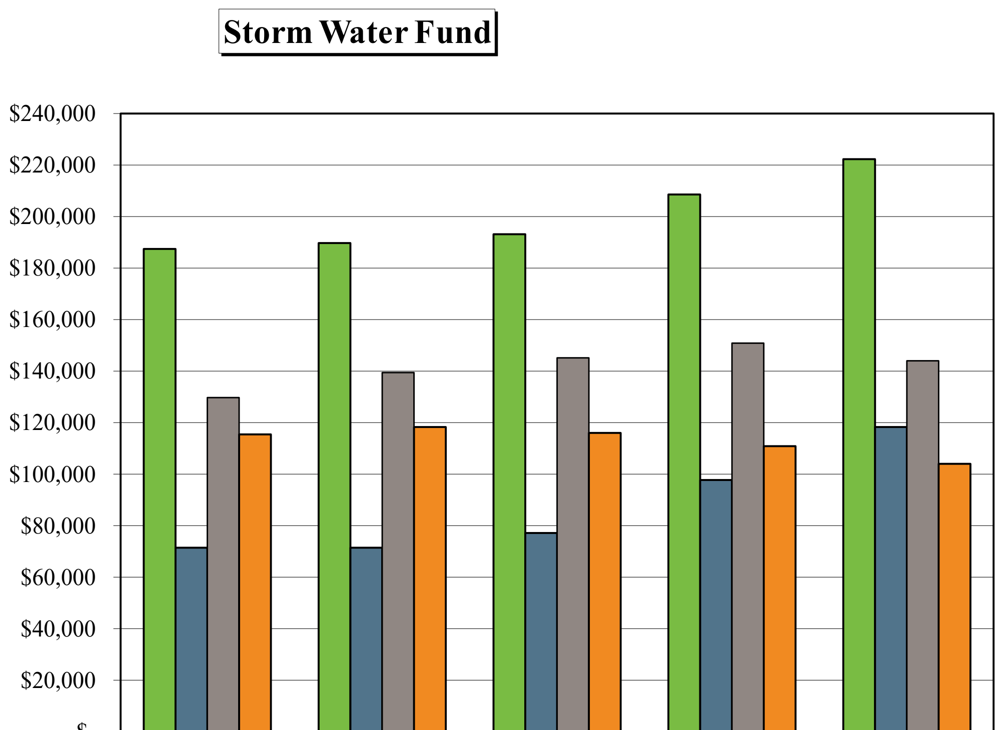


	2018	2019	2020	2021	2022
Charges for Services	$546,444	$519,028	$495,356	$543,950	$541,962
Operating Expenses	349,344	394,685	388,171	455,987	639,498
Operating Income without Depreciation	237,724	158,813	140,674	160,632	123,650
Operating Income with Depreciation	197,100	124,343	107,185	87,963	(97,536)

Storm Water Fund

The graph below illustrates the operations of the Storm Water Fund for the past five years.

The Storm Water Fund operating revenue stayed consistent, increasing 6.5% or $13,488 from 2021. Operating expenses were up $20,463 or 20.9% largely due to increased employee benefits and professional services expenses. The storm water fund had net income of $103,884. Adding nonoperating revenues and expenses, and a transfers out, the Storm Water Fund experienced an increase in net position of $14,005.



	2018	2019	2020	2021	2022
Charges for Services	$187,317	$189,480	$193,060	$208,750	$222,238
Operating Expenses	71,648	71,139	77,207	97,891	118,354
Operating Income without Depreciation	129,723	139,377	144,888	151,060	144,085
Operating Income with Depreciation	115,669	118,341	115,853	110,859	103,884

Enterprise funds may be used to account for any activity in which a fee is charged. It is not required to have the fee support the entire activity; however, the basic premise in establishing an enterprise fund is the activity will be operated similar to a business. Therefore, it is expected for the enterprise fund to at least be able to meet its current and future obligations.

We recommend the City continue to evaluate water, sewer, and storm water rates to continue generating sufficient operating income in the future.

City of Osseo
Emerging Issues

Executive Summary
The following is an executive summary of financial related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Accounting Standard Update – GASB Statement No. 96 – Subscription-Based Information Technology Arrangements**
  GASB has issued GASB Statement No. 96 relating to accounting and financial reporting for subscription-based information technology arrangements. The requirements of this Statement will improve financial reporting by establishing a definition for subscription-based information technology arrangements and providing uniform guidance for accounting and financial reporting for transactions that meet that definition.
- **Accounting Standard Update – GASB Statement No. 100 – Accounting Changes and Error Corrections**
  GASB has issued GASB Statement No. 100 relating to accounting and financial reporting for accounting changes and error corrections. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.
- **Accounting Standard Update – GASB Statement No. 101 – Compensated Absences**
  GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The following are extensive summaries of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your City.

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*
This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements* (Continued)

A SBITA is defined as a contract 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.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, – which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements* (Continued)
If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

GASB Statement No. 96 is effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*
The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting – understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.

Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62* (Continued)
This statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 100 is effective for reporting periods beginning after June 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences*
The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences* (Continued)
This Statement requires that a liability for certain types of compensated absences – including parental leave, military leave, and jury duty leave – not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 101 is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.