Management Report

for

DaVinci Academy of Arts and Science
Ham Lake, Minnesota

June 30, 2022

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CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Directors and Management of
DaVinci Academy of Arts and Science and
DaVinci Academy Affiliated Building Company
Ham Lake, Minnesota

We have prepared this management report in conjunction with our audit of DaVinci Academy of Arts and Science's (the Academy) financial statements for the year ended June 30, 2022. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your Academy
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the Academy, management, and those who have responsibility for oversight of the Academy's financial reporting process comments resulting from our audit process and information relevant to charter school financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 8, 2022

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the Academy's Board, the Board of DaVinci Academy Affiliated Building Company (the Building Company), administration, or those charged with governance of the Academy.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS* (UNIFORM GUIDANCE)

We have audited the financial statements of the governmental activities and each major fund of the Academy as of and for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the Academy's basic financial statements for the year ended June 30, 2022:

- We have issued an unmodified opinion on the Academy's basic financial statements. Our report included a paragraph emphasizing the Academy's implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, during the year. Our opinion was not modified with respect to this matter.

- We reported one deficiency in the Academy's internal control over financial reporting that we considered to be a material weakness.

    - During our audit, we identified material adjustments to capital assets, accounts payable, and federal revenues/receivables that were considered necessary to prevent the financial statements from being materially misstated, which is considered to be a deficiency in internal control as defined by auditing standards. We identified material adjustments to fiscal 2022 activity that were not initially recorded properly.

- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards.*

- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.

- We reported one deficiency in the Academy's internal controls over compliance that we considered to be a significant deficiency with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.

  During our audit, we noted the Academy did not have sufficient controls in place within its child nutrition cluster federal programs to assure that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred, from participating in contracts involving the expenditures of federal program funds, as required by the Uniform Guidance. For all three vendors tested, the Academy did not have documentation of performing vendor checks for suspension and debarment.

- The results of our tests indicate that the Academy has complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.

- We reported one finding based on our testing of the Academy's compliance with Minnesota laws and regulations.

  Minnesota Statutes § 118A.03 require that if an academy's deposits exceed federal deposit insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for the Academy's accounts at June 30, 2022.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2022. However, the Academy implemented the following governmental accounting standard during the year:

> As described in Note 1 of the notes to the basic financial statements, the Academy implemented GASB Statement No. 87, *Leases*, during fiscal year ended June 30, 2022. The cumulative effect on the beginning of year balances as a result of this change was also described in Note 1 of the basic financial statements.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the Academy. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other schools and the MARSS data for the current fiscal year is not finalized until after the Academy has closed its financial records for the fiscal period. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident school and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to other schools for special education services, which are computed using formulas derived by the Minnesota Department of Education. Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the Academy has closed its financial records for the fiscal period. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the Academy.

The Academy has recorded activity in the Statement of Net Position for pension benefits. This obligation is calculated using actuarial methodologies described in GASB Statement No. 68. This actuarial calculation includes significant assumptions, including projected changes, investment returns, retirement ages, proportionate share, and employee turnover.

The depreciation/amortization of capital assets involves estimates pertaining to useful lives.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated December 8, 2022.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis and the pension-related required supplementary information (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.

We were engaged to report on the supplementary information and the separately issued Schedule of Expenditures of Federal Awards and the Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table, which are not RSI. With respect to this supplementary information, 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 financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, which accompanies the financial statements, but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. This section provides selected state-wide funding and financial trend information.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for most Minnesota charter schools is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a school is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment school's.

The table below presents a summary of the formula allowance for the past decade and as approved for the current audit period and the next fiscal year. The Legislature approved a per pupil increase of $135 for fiscal 2023. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the "roll-in" of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual schools. The $529 increase in 2015 was offset by changes to pupil weightings and the general education aid formula that resulted in an increase equivalent to approximately $105, or 2.00 percent, state-wide.

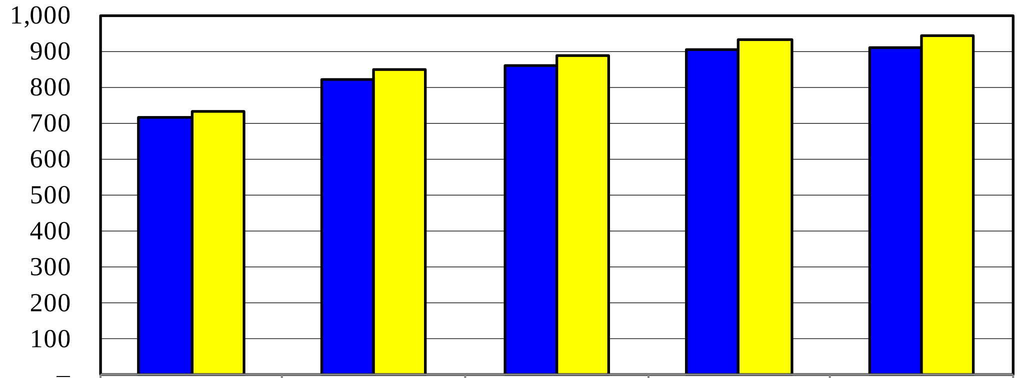
Fiscal Year Ended June 30,	Formula Allowance Amount	Formula Allowance Percent Increase
2013	$ 5,224	1.00 %
2014	$ 5,302	1.50 %
2015	$ 5,831	2.00 %
2016	$ 5,948	2.00 %
2017	$ 6,067	2.00 %
2018	$ 6,188	2.00 %
2019	$ 6,312	2.00 %
2020	$ 6,438	2.00 %
2021	$ 6,567	2.00 %
2022	$ 6,728	2.45 %
2023	$ 6,863	2.00 %

FINANCIAL TRENDS OF YOUR ACADEMY

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The following graph summarizes the ADM and pupil units served by the Academy over the last five years:

Students (ADM and Pupil Units)

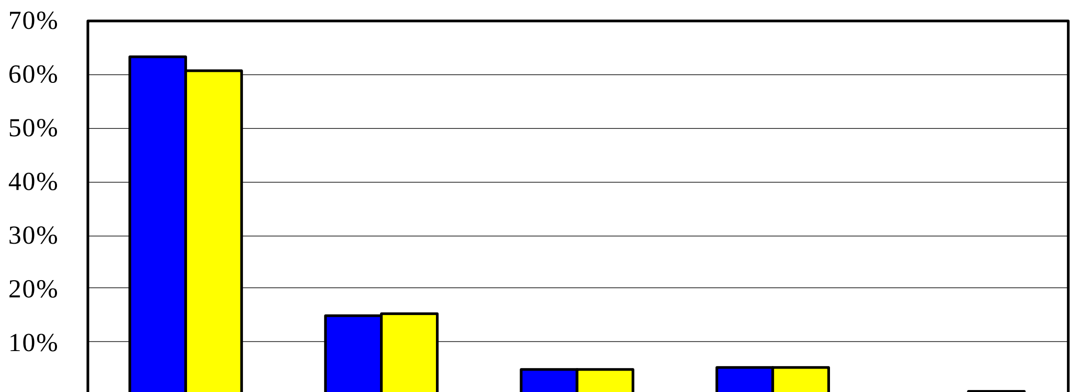


	2018	2019	2020	2021	2022
ADM	715	823	863	907	910
Pupil Units	734	847	889	935	943

The Academy's ADM served for 2022 is estimated to be 910, which increased by 3 (0.3 percent) from the prior year.

The following graph shows the rate of ADM changes and the relationship of the resulting pupil units:

Change in ADM and Pupil Units



	2018	2019	2020	2021	2022
ADM	63.3%	15.1%	4.8%	5.1%	0.3%
Pupil Units	60.6%	15.4%	5.0%	5.2%	0.9%

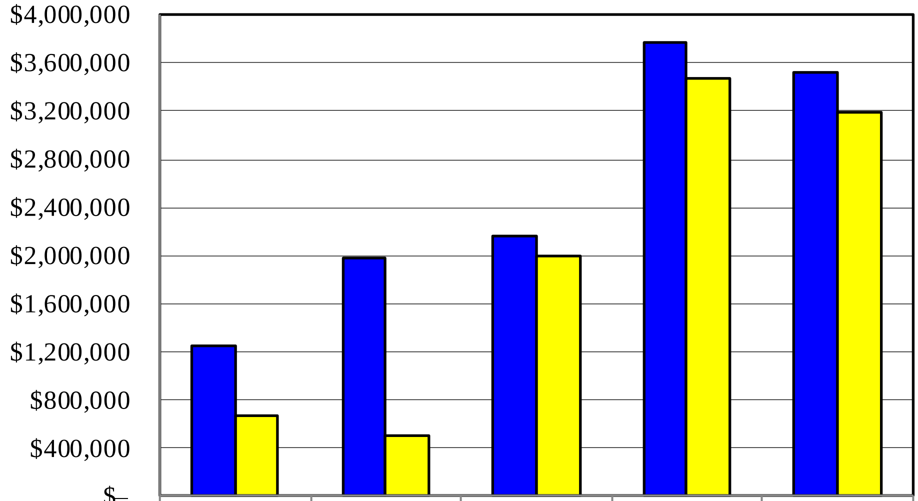
The Academy served approximately 943 pupil units for 2022, an increase of 8 (0.9 percent) from the previous year.

ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes and the impact of the prior year final adjustments, which affect this year's revenue.

GENERAL FUND OPERATIONS AND FINANCIAL POSITION

The following graph displays the Academy's General Fund financial position over the last five years:

General Fund Financial Position
Year Ended June 30,



	2018	2019	2020	2021	2022
Fund Balance	$1,249,511	$1,976,995	$2,161,328	$3,765,394	$3,517,953
Cash and Investments (net of borrowing)	$673,383	$500,938	$1,988,279	$3,464,984	$3,197,322

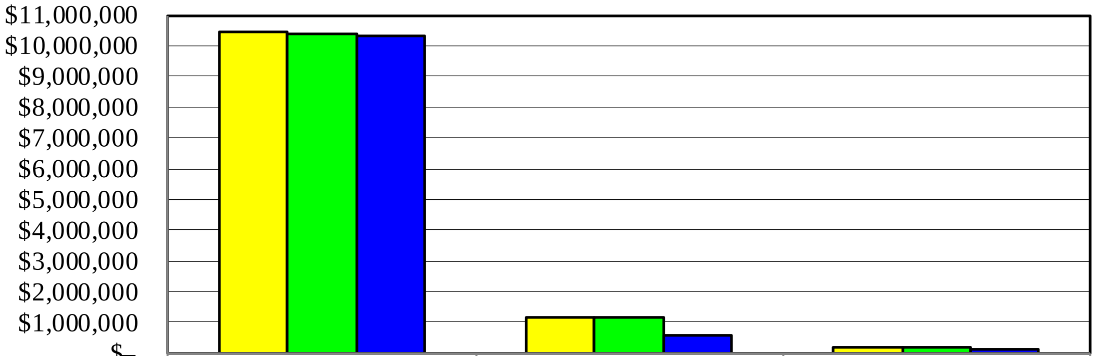
The Academy's General Fund ended 2022 with a total fund balance of $3,517,953, a decrease of $247,441 from the prior year. The General Fund cash and investments balance (net of borrowing) at year-end was $3,197,322, a decrease of $267,662 from the prior year.

Fund balance as a percentage of expenditures is one key measure of the Academy's financial health. The resources represented by this fund balance are critical to the Academy's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls. The General Fund's fund balance of $3,517,953 represented 29.4 percent of annual expenditures based on 2022 expenditure levels.

GENERAL FUND REVENUE AND EXPENDITURES

The following graphs summarize the Academy's General Fund revenue and expenditures for 2022:

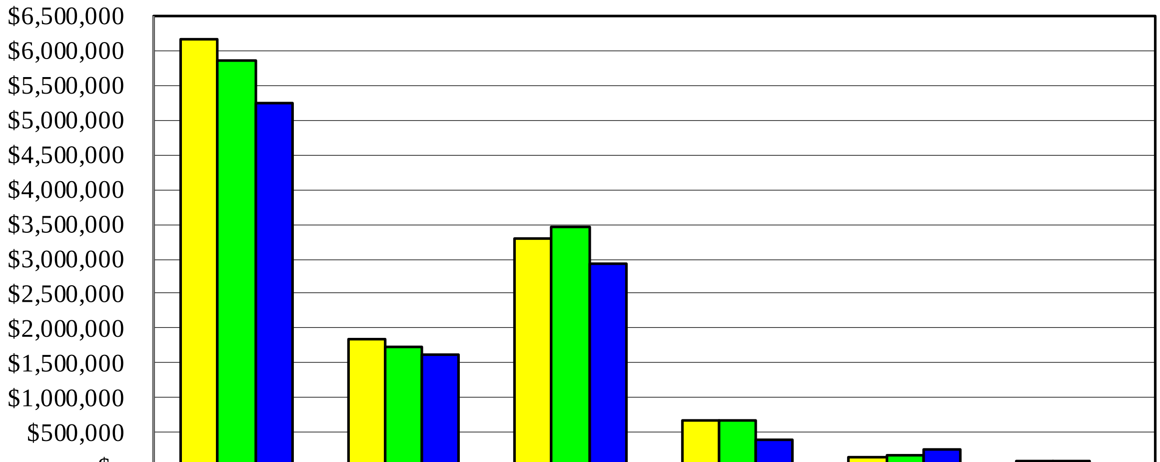
General Fund Revenue
Budget and Actual



	State Sources	Federal Sources	Other
Budget	$10,471,428	$1,130,352	$191,726
Actual	$10,381,060	$1,143,719	$201,242
Prior Year	$10,343,326	$550,864	$117,488

Total General Fund revenues for 2022 were $11,726,021, an increase of $714,343 from the prior year, and $67,485 under budget, mainly in state sources, due to a lower increase in the number of students than expected. Federal sources were $592,855 more than prior year, due to the Academy receiving COVID-19-related relief funds. Other revenue increased $83,754, as a result of the Academy being back to in-person classes in the current year.

General Fund Expenditures
Budget and Actual



	Salaries	Benefits	Purchased Services	Supplies	Capital	Other
Budget	$6,162,526	$1,853,149	$3,305,546	$659,431	$136,605	$79,576
Actual	$5,863,293	$1,719,297	$3,470,483	$679,917	$166,313	$78,138
Prior Year	$5,241,405	$1,608,580	$2,939,682	$379,450	$249,561	$39,209

Total General Fund expenditures for 2022 were $11,977,441, an increase of $1,519,554 from the prior year, and $219,392 under budget. Expenditures were mainly under budgeted amounts for salaries and benefits for regular instruction. Expenditures increased over the prior year in salaries and benefits totaling $732,605, mainly in the regular instruction area. Purchased services increased $530,801 in the current year spread across multiple functional areas (the largest increase for sites and building costs, which includes rent).

FOOD SERVICE SPECIAL REVENUE FUND

The Food Service Special Revenue Fund experienced a $64,554 increase in fund balance. Over the years, we have emphasized to our charter school clients that food service operations should be self-sustaining, and should not become an additional burden on general education funds.

COMMUNITY SERVICE SPECIAL REVENUE FUND

The Community Service Special Revenue Fund experienced a $26,298 increase in fund balance. Over the years, we have also emphasized to our charter school clients that community service operations should also be self-sustaining, and should not become an additional burden on general education funds.

DAVINCI ACADEMY AFFILIATED BUILDING COMPANY (BUILDING COMPANY)

The Building Company is a Minnesota nonprofit organization classified by the Internal Revenue Service as a 501(c)(3) tax-exempt organization by reason of its function as a "supporting organization" of the Academy. The Building Company is being operated exclusively in support of the Academy and, in particular, to purchase, own, and construct a public schoolhouse on real estate for lease to the Academy.

At June 30, 2022, the Building Company ended the year with a fund balance of $3,149,781. This fund balance is further segregated by a $3,038,623 fund balance restricted for debt service and a balance of $111,158 restricted for Building Company capital purposes.

ENTITY-WIDE FINANCIAL STATEMENTS

The Academy's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the Academy's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two entity-wide financial statements designed to present a clear picture of the Academy as a single, unified entity. These entity-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents the resources the Academy has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how resources can be used. Therefore, the statement divides net position into three components: net investment in capital assets, restricted net position, and unrestricted net position. The following table presents a summarized conversion of the Academy's governmental fund balances (as individually discussed earlier) to net position, and separate components of net position for the last two years:

	June 30, 2021	June 30, 2022	Change
Total net position – governmental activities			
Total fund balances – governmental funds	$ 6,775,891	$ 6,758,586	$ (17,305)
Capital assets, net of depreciation/amortization	21,310,840	20,849,148	(461,692)
Bonds payable, net of premium	(25,621,625)	(25,227,306)	394,319
PPP loan payable	(1,219,415)	–	1,219,415
Lease liability	–	(8,343)	(8,343)
Interest payable on bonds	(623,369)	(609,751)	13,618
Pension liabilities, net of deferred outflows/inflows	(4,342,634)	(4,581,513)	(238,879)
Total net position – governmental activities	$ (3,720,312)	$ (2,819,179)	$ 901,133
Net position			
Net investment in capital assets	$ (1,923,657)	$ (1,347,878)	$ 575,779
Restricted	107,409	208,603	101,194
Unrestricted	(1,904,064)	(1,679,904)	224,160
Total net position	$ (3,720,312)	$ (2,819,179)	$ 901,133

Some of the Academy's fund balances translate into restricted net position by virtue of external restrictions (statutory restrictions) or by the nature of the fund they are in (e.g., Food Service Special Revenue Fund balance can only be spent for Food Service program costs). The unrestricted net position category consists mainly of the General Fund unrestricted fund balances, offset against noncapital long-term obligations and net pension liabilities.

Total net position increased by $901,133, mainly due to the PPP loan forgiveness, partially offset by depreciation/amortization on capital assets and an increase in the Academy's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association pension plans reported on the entity-wide financial statements.

ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years. Due to the COVID-19 pandemic, the GASB has delayed the original implementation dates of these and other standards as described below.

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.

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. Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

This statement provides an exception for short-term SBITAs with a maximum possible term under the SBITA contract of 12 months, 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.

The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB STATEMENT NO. 99, *OMNIBUS 2022*

The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.

- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
- Terminology used in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to refer to resource flows statements.

The requirements of this statement that are effective are as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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.

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. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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.

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.

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

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