



PROSPECT HEIGHTS DISTRICT 23 FINANCE COMMITTEE INFORMATION ITEM

Date: April 4, 2022

Title: Change in Basis of Accounting - INFORMATION

Contact: Amy McPartlin, Assistant Superintendent for Finance & Operations

BACKGROUND INFORMATION:

As I have shared with the Committee, it is a goal of the Business Office to transition the District to a Modified Accrual basis of accounting from a Cash basis. While we understand that this presents a challenge for the team, we appreciate the importance of this shift and look forward to this improved level of financial reporting that it offers.

The purpose of this approach is to measure the flows of current financial resources in governmental fund financial statements. The standards for modified accrual accounting are set by the Government Accounting Standards Board (GASB). This approach is primarily used by government entities, including school districts which need a reporting system that focuses more tightly on their current-year obligations.

There are two main features of the Modified Accrual model that will benefit the District:

- Revenue Recognition - Revenues are recognized when they become available and measurable.
 - Availability arises when the revenue is available to finance current expenditures.
 - Measurability occurs when the cash flow from the revenue can be reasonably estimated.
- Expenditure Recognition - Expenditures and other obligations are recognized when liabilities are incurred.
 - Purchases of equipment and supplies can be recognized as expenditures when purchased, prior to capitalization and subsequent depreciation.

In speaking with both Baker Tilly and Raymond James, the District has been encouraged to proceed with the FY 2022 audit and financial statements on the modified cash basis of reporting and then work together on restatements for the modified accrual financials starting with FY 2023.

ANTICIPATED PROJECT TIMELINE:

- **August 2022:** Tentative information requests for FY23 to determine the beginning balance restatement calculations and communication of other related reports that the District may need to procure, including the GASB 75 OPEB valuation for other post employment benefits
- **August 2022 to January 2023:** Periodic touchpoints with Baker Tilly regarding modified accrual conversion process and information requests
- **January 2023:** Determine restatement adjustments for FY 2023 beginning balances
- **May & June 2023:** Perform FY 2023 Financial Statement Audit interim procedures for financial statements prepared in accordance with modified accrual basis of reporting (Generally Accepted Accounting Principles GAAP)
- **Late August 2023:** FY 2023 Final Fieldwork Audit Procedures and year end accrual conversion entries
- **October & November:** Issue FY 2023 Financial Statements in Accordance with GAAP

The anticipated cost to the District for implementation of this transition is \$15,000 and can be budgeted in the FY23 Board of Education - Auditor Services line item

RECOMMENDED ACTION:

That the Finance Committee approves the transition from a Cash Basis of Accounting to a Modified Accrual basis of Accounting. The anticipated cost of this transition is \$15,000 and will be included in the FY2023 Budget.