



ACCOUNTING AND AUDITING UPDATE

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Ehlers Conference

CURRENT ENVIRONMENT

Considerations for Accounting and Auditing

FISCAL 2023 / 2024 AUDITS

- **Current Environment**

- Accounting, Compliance, and Reporting of Federal Awards
- Turnover in Finance and Accounting Personnel
- Availability of Experienced Governmental Accountants and Auditors
- Increased Costs to School Districts in Multiple Areas
- Extension of Time to File Single Audit of Federal Awards
- Findings in Single Audits of Federal Awards
- Findings in Legal Compliance Testing
- COVID-19 Funding – Fiscal Challenges
- Higher Interest Rate Environment
- Depository Relationships





LEGAL COMPLIANCE UPDATE

**Summary of Significant Changes to Minnesota
Legal Compliance Audit Guide**

DEPOSITORIES OF PUBLIC FUNDS

- In the Depositories of Public Funds and Public Investment section the following question is important:

“If the School used a sweep account, did the timing of the sweep take place so that all amounts on deposit at the end of the banking day were protected by deposit insurance, bond, or pledged collateral?”



LEGAL COMPLIANCE MANUAL

MN STATUTES SECTION 123B.195

BOARD MEMBERS' RIGHT TO EMPLOYMENT.

Change from \$8,000 to \$20,000

- a school board member may be newly employed or may continue to be employed by a school district as an employee only if there is a reasonable expectation at the beginning of the fiscal year or at the time the contract is entered into or extended that the amount to be earned by that officer under that contract or employment relationship will not exceed \$20,000 in that fiscal year. Notwithstanding section [122A.40](#) or [122A.41](#) or other law, if the officer does not receive majority approval to be initially employed or to continue in employment at a meeting at which all board members are present, that employment is immediately terminated and that officer has no further rights to employment while serving as a school board member in the district.



LEGAL COMPLIANCE MANUAL

MN Statutes Section 123B.61.

Certificates of Indebtedness or Capital Notes

If a district used an excess amount in the debt redemption fund to retire certificates or capital notes, the district cannot have an outstanding capital loan under MN Statutes 126C.69.



GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB)

Update on Standards Issued by GASB

GASB #96 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

GASB Statement #96 on SBITA

**improves existing standards on accounting and
financial reporting for SBITA's**

Effective for the year ended June 30, 2023

SBITA'S

- Definition of a Subscription-Based Information Technology Arrangement (SBITA)
 - 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.
 - Subscription term includes the period the government has a noncancellable right to use the underlying IT asset.
 - Subscription term also includes periods covered by an option to extend (if reasonably certain the government will extend the option)



SBITA'S

- What is NOT in the scope of GASB #96
 - Contracts that meet the definition of a Lease in which the software component is insignificant
 - Governments that provide the right to use IT software to other entities through SBITA's
 - IT Arrangements that provide a perpetual license to governments to use software (considered a purchase)



SBITA'S

- Accounting Application

- Recognize a right-to-use subscription asset – an intangible asset
- Recognize a subscription liability
- Recognize liability at the commencement of the subscription term, which is when the subscription asset was placed in service.
- Recognize the subscription liability at the present value of subscription payments made during the term of the agreement
- Subscription payments should be discounted using the interest rate the SBITA vendor charges the government or the government's incremental borrowing rate



SBITA'S

- Statement provides an exception for short-term SBITA's
 - Maximum possible term of 12-months including options to renew regardless of their probability of being exercised
- Financial Reporting
 - Disclose descriptive information about the SBITA's
 - Amount of subscription asset and accumulated amortization
 - Principal and interest requirements for the subscription liability



SBITA'S

- Disclosures
 - Description of SBITA's
 - Total amount of SBITA asset and related accumulated amortization
 - Amount of outflows of resources recognized for payments not previously included in the measurements of the subscription liability
 - Principal and interest requirements to maturity
 - Commitments under SBITA's before the commencement of the SBITA



SBITA'S

- Implementation Issues
 - Differentiation between SBITA Assets and SBITA Liabilities
 - Determination of which contracts meet the definition of a SBITA
 - Recognition of Prepaid Items related to SBITA's
 - Recognition of the Issuance of Debt (OBJ 535/589)
 - Recognition of Capital related expenditure
 - Determine materiality thresholds for capitalization
 - Development of policies and procedures for recognition going forward



GASB STATEMENT NUMBER 94

Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)

Effective for the year ended June 30, 2023

PPP'S AND APA'S

Define PPP

- An arrangement in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset (infrastructure or capital asset) for a period of time in exchange for being compensated.

Define APA

- An arrangement in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an asset (infrastructure or capital asset) for a period of time in exchange for being compensated.

Examples

- Tolls Roads, Recreational Facility, Community Center, Gymnasiums
- Food Service, Community Education



GASB STATEMENT NUMBER 100

Accounting Changes and Error Corrections

Effective for the year ended June 30, 2024

ACCOUNTING CHANGES AND ERROR CORRECTIONS

Defines Accounting Changes and Error Corrections

- Changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity.

Prescribes the Accounting and Financial Reporting for

- Accounting Changes
- Error Corrections

Requires Disclosure in notes to financial statements

- Descriptive information about accounting changes and error corrections
- Information about qualitative effects on beginning balances of each accounting change and error correction by reporting unit in tabular format

Replaces the term Prior Period Adjustment



ACCOUNTING CHANGES AND ERROR CORRECTIONS

Changes in accounting principles

- ❑ Change in one accounting principle method to another
- ❑ Implementation of a new accounting standard
- ❑ Effect: requires restatement of all periods presented

Changes in accounting estimates

- ❑ Occurs when changes in inputs occur (changes in circumstances, new information, more experience)
- ❑ Effect: treat prospectively, no restatement is required

Changes to or within the financial reporting entity

- ❑ Addition or removal of a fund
- ❑ Change in fund presentation as major and/or nonmajor
- ❑ Effect: Adjust the current reporting period's beginning equity

Error Corrections

- ❑ Mathematical mistakes and mistakes in the application of accounting standards
- ❑ Oversight or misuse of facts that existed at the time the financial statements were issued
- ❑ Effect: Requires restatement of all periods presented



GASB STATEMENT NUMBER 101

Compensated Absences

Effective for the year ended June 30, 2025

COMPENSATED ABSENCES

Key Elements

- Specifies the attributes of compensated absences that require accrual as a liability
- Specifies certain types of compensated absences that should not be accrued as a liability
- Compensated absences are recognized for:
 - Leave that has not been used
 - Leave that has been used but not yet paid in cash or non-cash settlement
 - Attributable to services already rendered (performed services required to earn leave)
 - Accumulates to be used for time off or otherwise paid or settled in a future period
 - Is more likely than not to be used for time off or paid in cash



COMPENSATED ABSENCES

- Leave more likely than not to be settled through conversion to a OPEB plan should not be included in a liability for compensated absences
- Certain types of compensated balances are not recognized as liabilities until the leave commences, including parental leave, military leave, and jury duty
- Establishes guidance for measuring the leave liability – generally using an employee’s pay rate as of the date of the financial statements
- Requires expenditures be recognized for the amount that normally would be liquidated with expendable available resources
- Amends existing disclosure requirements to allow governments to disclose only the net change in the liability (as opposed to the current disclosure of increases and decreases)
- No longer necessary to disclose which funds will be used to liquidate the compensated absence balance



GASB STATEMENT NUMBER 102

Disclosure of Certain Risks

Effective for the year ended June 30, 2025

RISK DISCLOSURES

- This Statement requires a government to assess whether a concentration or constraint makes the government vulnerable to the risk of a substantial impact.
- The substantial impact would have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.
- A *concentration* is a lack of diversity related to an aspect of a significant revenue or expenditure.
- A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's Board.
- Concentrations and constraints that may limit a government's ability to acquire resources or control spending.



RISK DISCLOSURES

- Examples include:
 - Small number of companies represent a majority of employment in a jurisdiction
 - Government relies on one revenue source for most of its revenue
 - Voter-approved property tax cap
 - state imposed debt limit
- Disclosures include:
 - The nature of the circumstances and the government's vulnerability to the risk of a substantial impact
 - Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
 - Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.



2023 FEDERAL SINGLE AUDIT UPDATE

SINGLE AUDIT UPDATE

- **Audit implications**

- Many more organizations had single audits

- Determining effect of new funding on major program determination

- ❑ Some programs were considered major due to higher audit risk from changes in internal controls, personnel, or systems

- ❑ Some organizations had multiple major programs audited due the significance of new funding

- Changes in internal controls for part of the year may result in:

- ❑ Need for more internal control testing due to control changes

- ❑ Potential for increased compliance sample sizes if controls cannot be relied upon

- ❑ Increased documentation, understanding and testing



SINGLE AUDIT UPDATE

■ Current Environment

- ▶ Challenges with gaining an understanding of funding received and preparation of Schedule of Expenditures of Federal Awards
 - Responsibility of the District
 - Risk is Completeness
 - Did any other departments receive grants
- ▶ Many nontraditional awards received
- ▶ Post-COVID - Typical grants are back in rotation (and High Risk)
 - Major Programs required to be audited every three years
 - Many COVID grants ended in fiscal 2023 and/or early fiscal 2024
 - MDE webpage has list of important dates and deadlines



COMMON SINGLE AUDIT PITFALLS

- Equipment compliance requirements
 - Capital expenditures for equipment require prior approval
 - Records of federal property – Physical inventory required
 - Disposals of federal property w/ FMV >\$5K
- Procurement compliance considerations
 - Compliance with micro-purchases
 - Sole Source – no competitive quotes/bids required
 - Suspension and debarment requirements
- Subrecipient monitoring compliance requirements
 - Written Subrecipient Monitoring Policy and Procedures
 - Risk Assessment of each subrecipient
 - Each subrecipient was audited



STATEMENT ON AUDITING STANDARDS (SAS)

Changes from Recently Issued Auditing
Standards

AUDITING STANDARDS

- The American Institute of CPAs (AICPA) Auditing Standards Board has recently issued Statements on Auditing Standards (SAS) No. 142
 - The standard does not does not impose any additional specific audit procedures, however it does expand on explanations of the types of evidence, available tools, techniques that may be used to obtain evidence, and how to evaluate evidence. This includes the following topics:
 - Automated Tools and Techniques
 - Corroborative and Contradictory Information
 - Conscious Bias on the Part of Management
 - External Sources of Information
 - Reliability of Information



AUDITING STANDARDS

The American Institute of CPAs (AICPA) Auditing Standards Board issued Statements on Auditing Standards (SAS) No. 145 Risk Assessment

- New and revised risk assessment terminology including significant risks
- Clarified work effort related to understanding each component of Internal Controls including Information Technology (IT)
- Reinforces the understanding of the each element of the audit risk model
- Determination of the nature, timing, and extent of both the risk assessment auditing procedures and any further auditing procedures
- True understanding of risks of material misstatement and tailored procedures that are responsive to those risks
- All members of engagement team understand and respond accordingly



AUDITING STANDARDS

The American Institute of CPAs (AICPA) Auditing Standards Board issued Statements on Auditing Standards (SAS) No. 145 Risk Assessment

- IT Controls
 - Understanding includes flow of transactions
 - Information processing activities
 - Communication of significant matters
 - How transactions flow including initiation, processing, and recording
 - Understand IT environment within the focus of significant classes of transactions, account balances, and disclosures
- Stand Back Requirement
 - Required to evaluate completeness at end of audit process related to original risk assessment



U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

**Changes to Yellow Book: Generally Accepted
Government Auditing Standards (GAGAS)**

YELLOW BOOK

Purpose of Yellow Book:

Auditors of government entities and entities that receive government awards use our Government Auditing Standards, commonly referred to as generally accepted government auditing standards (GAGAS) or the Yellow Book, to perform their audits and produce their reports. The Yellow Book contains standards for financial audits, attestation engagements, and performance audits as well as specific requirements for individual auditors and audit organizations.

Effective Date:

The 2024 Yellow Book was issued in February 2024 and is effective for audits for fiscal years ending June 30, 2027,

A system of quality management that complies with the Yellow Book is required to be designed and implemented by December 15, 2025. An audit organization should complete an evaluation of the system of quality management by December 15, 2026.



YELLOW BOOK

■ Changes

- Updates to enhance how audit organizations manage audit quality
- Effective quality management can assure an audit organization adheres to professional standards and applicable laws
- Adds additional guidance to financial audits
- Subjects audit organizations to selected standards for quality management
- Emphasizes the responsibility of leadership for quality management and requires leadership to take an active role in quality management
- Adds a Quality Management Risk Assessment Process
- Adds an Information and Communication component to the system of Quality Management
- Emphasizes monitoring of the entire system and includes a new requirement for investigation of quality management deficiencies
- Provides application guidance for key audit matters to provide clarity for financial audits of entities that receive federal awards



AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

**Changes from Recently Issued Ethics
Interpretations**

ETHICS INTERPRETATIONS

The American Institute of CPAs (AICPA) has issued an Ethics Interpretations:

Client Affiliates

- The interpretation requires an auditor to determine whether they are independent of an “affiliate” of the local government financial statement audit client
 - Guidance provided in an implementation guide

Responding to Noncompliance With Laws and Regulations

- The interpretation is set out to define the responsibilities of the parties to an audit when encountering noncompliance or suspected noncompliance with laws and regulations
 - Guidance provided for evaluating the implications of the matter and the possible courses of action when responding to it
 - Provides guidance for members in government and auditors



OTHER NOTEWORTHY ITEMS

Effective for the year ended June 30, 2023

FINANCIAL REPORTING

- GASB Implementation Guide 2021-1

Question 5.1 – A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Examples include computers and classroom furniture

- Certificate Programs

Application will include need to include calculation of net investment in capital assets. Consider including in notes to basic financial statements.



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