# Ehlers Conference Accounting and Auditing Update

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# Current Environment

## Considerations for Accounting and Auditing

# FISCAL 2024 / 2025 AUDITS

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**Current Environment**

- Turnover in Finance and Accounting Personnel
- Availability of Experienced Governmental Accountants
- Extension of Time to File Single Audits in Previous Year
- Fiscal Challenges
- School Board Turnover
- Higher Contract Settlements
- Increased Costs for Transportation
- Higher Special Education Needs
- Increasing Information Technology (IT) Support Needs and Risks
- Impact of Federal Mandates
- Federal Focus on Oversight, Accountability, and Transparency
- Impact of Change at U.S. Department of Education

# Legal Compliance Update

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

# Legal Compliance Manual

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- In the Depositories of Public Funds and Public Investment section the following question was changed:

  Certificates of Deposit insured by the National Credit Union Administration was added to the list of permissible investments though an amendment to Minn. Stat. Section 118A.04, Subd. 5.

- In the Public Indebtedness section, the following question was changed:

  An amendment to Minn. Stat. 123B.61 was made to change the maximum time for all equipment notes and bonds from ten to 20 years

# Legal Compliance Manual

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- In the Contracts section the following question was changed:

MN Statutes Section 471.345, Subd. 3b, and Minn. Stat. Section 471.463 were added setting forth a new bid-alternative:

“Construction Manager at Risk” process applicable to construction contracts over $175,000.

In the Charter Schools section, the following question was changed:

Amendments to Minn. Statute Section 124E.03 provide definitions for charter management organizations (CMOs) and educational management organizations (EMOs). Also, Minn. Stat. Section 124E.16, Subd. 3, provides restrictions and new reporting requirements for CMO and EMO contracts with charter schools.

# Government Accounting Standards Board (GASB)

## Update on Standards Issued by GASB

# GASB #96 – Subscription-Based Information Technology Arrangements (SBITA)

Effective for the year ended June 30, 2023

# 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 expenditures
- Determining materiality thresholds for capitalization
- Development of policies and procedures for recognition going forward

# Capital Assets

GASB Implementation Guide 2021-1:

***Question 5.1*** **– Should a government's capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together?**

Consider a government that has established a capitalization threshold of $5,000 for equipment. If the government purchases 100 computers costing $1,500 each, should the computers be capitalized?

***Answer - governments 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.***

In this example, if the $150,000 aggregate amount (100 computers costing $1,500 each) is significant, the government should capitalize the computers.

# GASB Statement Number 100

Accounting Changes and Error Corrections

Effective for the year ended June 30, 2024

# Accounting Changes and Error Corrections

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## The Standard 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 use of Prior Period Adjustment

# Accounting Changes and Error Corrections

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## Changes in accounting principles

- Change from one accounting principle 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
- Oversite or misuse of facts that existed at the time the financial statements were issued
- Effect: Requires restatement of all periods presented

# Accounting Changes and Error Corrections

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## Required Supplementary Information and Supplementary Information

- Change in Accounting Principle

  Periods earlier than those presented in the basic financial statements should **not** be restated

- Correction of an Error

  Periods earlier than those presented in the basic financial statements should be restated

# GASB Statement Number 101

Compensated Absences

Effective for the year ended June 30, 2025

# Compensated Absences

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## 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
- Definition:
  - Leave for which employees may receive one or more of the following:
    - Cash payments when the leave is used for time off
    - Other cash payments, such as payment for unused leave upon termination of employment
    - Noncash settlements, such as conversion to a defined post-employment benefits

# Compensated Absences

## Key Elements (Government-wide Financial Statements)

- A liability for Compensated Absences should be recognized if **ALL** the following are true
  - The leave is attributed to services already rendered
  - The leave accumulates
  - The leave is "more likely than not" (A likelihood of more than 50%) to be used for:
    - Future time off
    - Paid to the employee
    - Paid at termination into an individual account for the payment of future healthcare costs and/or premiums (Health Savings Account)

- Leave "more likely than not" to be settled through a conversion to an OPEB plan should not be included in a liability for compensated absences
  - Liability should be included in GASB #75 liability for OPEB

# Compensated Absences

## Key Elements (Government-wide financial statements)

- Factors to consider in evaluating “more likely than not (a likelihood of more than 50%)”
  - Employment policies for compensated absences, such as payout limits
  - Vesting requirements are no longer a separate criteria for recognition but may be a relevant consideration for evaluating likelihood.
  - Whether earned leave is or will become eligible for use or payment in the future
  - Historical trends for the use, payment, or forfeiture of compensated absences
  - Known information that would indicate that historical trends may not be representative of future trends

# Compensated Absences

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## Key Elements (Government-wide financial statements)

## Measurement of liability:

- The basic liability equals the hours to accrue times the rate of pay
  - Hours include both those estimated to be used during employment and to be paid at termination
    - **The most significant change in GASB 101 is the inclusion of sick leave used during employment**
    - The rate of pay is the rate in effect at the date of the financial statements (current year-end) unless the leave is to be paid at a different rate (eg. a different rate specified by contract) or not attributable to a specific employee (eg. leave contributed to a shared employee leave pool)
- The liability should also include salary-related payments directly and incrementally associated with the leave
  - Employer share of FICA and Medicare
  - Include salary-related payments related to defined contribution pension benefits but not defined benefit pension or OPEB benefits.

# Compensated Absences



## Key elements (Fund-based Financial Statements)

- The liability recognized in governmental fund financial statements is unchanged
  - Liabilities normally expected to be liquidated with expendable, available financial resources to the extent the liabilities mature (come due for payment) each period.
  - Include any compensated absences used during the period but unpaid at year-end (normally reported as part of accrued salaries payable)
  - Include any compensated absences for employees that terminate employment during the period paid out shortly after year-end (normally reported as part of severance payable)

# Compensated Absences

- Other Provisions

  - Certain types of compensated balances are not recognized as liabilities until the leave commences, including parental leave, military leave, jury duty, and holiday leave
  - Leave that employees can take as needed without specific limits is not recognized as a compensated absence liability
  - 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
  - The implementation of this new authoritative pronouncement is considered a **change in accounting principle.**
    - This will result in reporting the change as a cumulative effect of the change as an adjustment to beginning net position.
    - Therefore, the compensated absences liability must be measured under the new standard as of both the **beginning and end of the year** in the year of implementation

# GASB Statement Number 102

## Disclosure of Certain Risks

## Effective for the year ended June 30, 2025

# Risk Disclosures

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- 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.
- Concentrations and constraints limit a government’s ability to acquire resources and 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.

# GASB Statement Number 103

Financial Reporting Model Improvements

Effective for the year ended June 30, 2026

# Financial Reporting Model

GASB Statement #103 establishes new accounting and financial reporting requirements (or modifies existing requirements) related to the following:

- Management’s discussion and analysis
- Unusual or infrequent items
- Presentation of proprietary fund financial statements
- Information about major component units
- Budgetary comparison information
  - Required to be Required Supplementary Information (RSI)
- Financial trends in statistical section

# Federal Single Audit Update

# 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

- Typical grants are back in rotation
  - Major Programs required to be audited every three years
  - Many COVID grants ended in fiscal 2024

# Uniform Guidance

## Uniform Guidance (UG) Changes:

- Revisions released April 2024
- Effective for all federal awards made on or after October 1, 2024
  - Applies to awards entered into on or after that date
  - Federal agencies should provide clear direction and should explicitly state if the 2024 Uniform Guidance revisions apply
  - Any Pass-through Entities must not apply the 2024 revisions if the federal agency has not applied the revisions

- Recipients will need to track old and new UG requirements for awards issued after October 1, 2024
- 2025 Compliance Supplement will address both the prior and current UG requirements

# Uniform Guidance

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## Audit Changes from Uniform Guidance:

- Effective for audits of fiscal year ended June 30, 2026
  - ➢ Not the official date as this will be addressed in the 2025 Compliance Supplement
- Increases Single Audit Threshold from $750,000 to $1,000,000
- Increases Type A major program threshold from $750,000 to $1,000,000
- Modified the Type A program threshold table to increase the first and second tiers of total federal awards expended from $25 million to $34 million
- Early implementation of these changes is not allowed

# Uniform Guidance

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Other Uniform Guidance changes:

- Increases equipment acquisition value threshold from $5,000 to $10,000
    - Entities should use the lessor of the entity’s capitalization threshold or $10,000
- Changes “small purchases” terminology to “simplified acquisition” for procurement
- Clarified “micro-purchases” and “simplified acquisitions” are types of “informal procurement methods for small purchases”
- Clarified characteristics indicative of a “subrecipient” or “contractor” determination
- Any audit findings must include a description of how questioned cost amounts were determined or why the amount was undetermined

# Uniform Guidance

Other Uniform Guidance changes:

- Internal Controls
  - Recipient and subrecipient must establish, **document,** and maintain effective internal control over Federal awards that provides reasonable assurance that the governmental entity is managing the federal awards in compliance with federal statutes, regulations, and terms and conditions of the federal award.
  - Internal controls must be documented.  A specific level of documentation was not provided in guidance and that governments may use judgement in determining the extent of documentation needed.
  - Adds “reasonable” cybersecurity internal control requirements

# Uniform Guidance

## Action items:

- Assign a person with the organization to be responsible for understanding the 2024 UG revisions and training others within the organization
- Update written policies and procedures over federal awards
- Consider the impact of these changes to internal controls and risk assessment on your organization
- Continue to follow developments at the Federal and state level related to compliance with Uniform Guidance that will impact your organization
- Monitoring any subrecipients you have for compliance with new requirements

# Statement on Auditing Standards (SAS)

## Changes from Recently Issued Auditing Standards

# Auditing Standards

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

- 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 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

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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

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# 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 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.

**Impact on Audit Firms:**

An updated and compliant 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 also complete an evaluation of the system of quality management by December 15, 2026.

# Yellow Book

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Changes to Yellow Book Standards:

- 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

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# 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

# Contact Information

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