Ehler’s Conference Accounting and Auditing Update

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Current Environment

Considerations for Accounting and Auditing

FISCAL 2026 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
- Less Impact from Accounting Changes
- Fiscal Challenges
- Increasing Information Technology (IT) Support Needs and Risks
- Increased Accountability at State Level
- Focus on Fraud, Waste, and Abuse
- Impact of Federal Mandates
- Impact of Federal Budget Cuts
- Federal Focus on Oversight, Accountability, and Transparency

Government Accounting Standards Board (GASB)

Update on Standards Issued by GASB

GASB Statement Number 101

Compensated Absences

Effective for the year ended June 30, 2025

Compensated Absences

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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 employee has earned it)
  - The leave accumulates, meaning it carries forward to a future period.
  - The leave is “more likely than not” (greater 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
  - 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

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 (a different rate specified by contract) or not attributable to a specific employee (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

Accounting Policy – LIFO or FIFO

- The government should document which flow approach (LIFO or FIFO) the government follows when estimating the liability.
- Compensated absences is an estimate and the flow approach is the methodology used to estimate the liability.
- Once determined, the government should use the same approach thereafter.
- Significant accounting policies are required to be disclosed in the notes to the financial statements.
- Any changes in methodology used to estimate the liability should be reported as a "changes in estimate" as outlined in GASB Statement No. 100, Accounting Changes and Error Corrections.

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

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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

Financial Reporting Model

Management's Discussion and Analysis

Confined to Five Categories:

- Overview
- Financial Summary
- Detailed Analysis
- Significant Capital Assets and Long-term Financing Activity
- Currently Known Facts, Decisions or Conditions

Other Changes:

- The analysis should explain **why** balances and results changed
- Budget to actual results for the General Fund are now presented as notes to RSI
- Discussion of significant capital asset additions and disposals
- Discussion of significant capital asset policy changes
- Discussion of new debt agreements
- Discussion of changes in credit ratings and debt limits
- Revised Currently Known Facts, Decisions, and Conditions section

Financial Reporting Model

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Management's Discussion and Analysis

Currently Known Facts, Decisions, and Conditions section:

- Trends in relevant economic and demographic data
- Factors used to develop the subsequent year's budget
  - Those affecting revenues available for appropriation
  - Changes in rates and bases of activity
  - Those affecting planned spending
    - Inflation, labor contracts, changes in programs
  - Expected changes in budgetary net position or fund balance
  - Actions taken on capital and debt related items
  - Actions other parties have taken such as new laws and regulations

Financial Reporting Model

Unusual or Infrequent Items

- Replaces previously reported “Extraordinary” and “Special” items
- Presented separately on the financial statements
- Program, function, and identifiable activity should be disclosed
- Whether items are within the control of management should be disclosed

Proprietary Fund Presentation

- Distinguish between operating revenue and expenses
- Separately report noncapital subsidies received or provided
- Other nonoperating revenues and expenses include:
    - Contributions to endowments
    - Revenues and expenses related to capital financing
    - Disposal of capital assets and inventory
    - Investment income and expenses
- Separately report unusual or infrequent items

Financial Reporting Model

Definition of Subsidies:

- Resources to another party or fund:
  - For which the proprietary fund does not receive goods or services
  - That are recoverable through the proprietary fund’s current pricing policies
- Resources received from another party or fund:
  - Proprietary fund does not provide goods and services
  - Directly or indirectly keeps the proprietary fund’s fees/charges lower
- All other transfers

Financial Reporting Model

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Major Component Units

- Presenting each major component unit separately in the financial statements
- Combining statements of major component units should follow the fund financial statements
- Presentation in footnotes no longer permitted

Budgetary Comparison Information

- These schedules required to be Required Supplementary Information (RSI)
- Schedules presented for the General Fund
- Schedules presented for each major Special Revenue Fund that has a legally adopted budget
- Variance columns required for both original and final budget to actual amounts
- Significant variances require explanation in the notes to the RSI

GASB Statement Number 104

Disclosures of Certain Capital Assets

Effective for the year ended June 30, 2026

Capital Assets

Revised Requirements for Certain Capital Assets

- Standard focuses on intangible assets and assets held for resale

Intangible Assets

- Separately disclose the following types of intangible assets
  - Lease assets
  - Right to use public-private / public-public partnership (PPP) assets
  - Subscription based IT assets (SBITA)
  - Other intangible assets

- Present each intangible asset by major class
  - Separate from tangible capital assets
  - Separate by category (buildings or equipment)

Capital Assets

Capital Assets Held for Sale

- Defines capital assets as “Held for Sale” if:
  - The government has decided to pursue the sale of a capital asset and
  - It is probable the sale will be finalized within one year of the financial statement date
- Criteria must be reevaluated at each reporting period
- Disclose the ending balance including historical cost and carrying value
- Disclose carrying amount of related debt for which assets are pledged as collateral
- Continue to report the capital asset within the appropriate major class of capital asset in the footnotes

GASB Statement Number 105

Subsequent Events

Effective for the year ended June 30, 2027

Subsequent Events

Purpose:

Set clear, consistent requirements for evaluating and disclosing subsequent events for local governments

Definition:

Subsequent events are transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued.

The date the financial statements are available to be issued is defined as the date that:

1) The financial statements are complete in form and format that complies with GAAP and
2) Approvals necessary for issuance have been obtained

Disclosures:

Description of the event, estimate of the amount of the effect, or the reason an estimate cannot be made

Subsequent Events

Requires classification as either:

Recognized Event:

- Provides evidence of conditions that existed at the financial statement date
- Accounting estimates reported as of the financial statement date should reflect the conditions that existed at that date including conditions substantiated by recognized events

Non-recognized Event:

- Do not represent conditions that existed at the financial statement date and therefore should not be incorporated into the amounts reported as of the financial statement date.
- Disclosed in the financial statements in the reporting period in which the event occurs:
  - Debt related transaction
  - Government combination
  - Change in entity
  - An event that the disclosure of the event is essential to the financial statement user's analysis for making decisions or assessing accountability

Federal Single Audit Update

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

Uniform Guidance

Audit Changes from Uniform Guidance:

Effective for audits of fiscal year ended June 30, 2026.

- 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

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
  - Disposition Exemption: Equipment previously purchased with a current fair market value of $10,000 or less per unit may be retained, sold, or otherwise disposed of with no further obligation to the federal agency.
- Micro-purchase Threshold: While the equipment tracking threshold is $10,000, the micro-purchase threshold for simplified procurement has increased to $15,000
- The simplified acquisition threshold (SAT) is increased from $250,000 to $350,000. Minnesota State law thresholds for this method remain at $175,000.
- 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

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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

Other Uniform Guidance changes:

Procurement

- Adds “veteran-owned business” to the types of businesses that recipients and subrecipients are encouraged to consider for procurements contracts
- Removes prohibition of the use of statutorily or administratively imposed state, local, or tribal geographical preference
- Expressly does not prohibit using pre-hire collective bargaining agreements, requiring construction contractors to use hiring preferences or goals for a variety of circumstances

Subrecipient Monitoring

- Includes a requirement for all entities to confirm that potential subrecipients are not suspended, debarred, or otherwise excluded from receiving Federal funds

Uniform Guidance

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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
- Update consideration of Information Technology (IT) controls over federal programs including entity-wide IT controls and program specific controls within major federal programs
- Monitoring any subrecipients you have for compliance with new requirements

Statement on Auditing Standards (SAS)

Changes from Recently Issued Auditing Standards

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

- 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

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

Auditing Standards

The American Institute of CPAs (AICPA) Auditing Standards Board issued Statements on Auditing Standards (SAS) No. 149 - Audits of Group Financial Statements

Effective for fiscal year ends starting with December 31, 2026 and June 30, 2027

- Clarify and emphasize the interactions between group engagement team and component auditors
- Defines group financial statements as including financial information of more than one entity or business unit through a consolidation process
- Establishes a framework for planning and performing a group audit including establishing the group audit strategy and involving component auditors
- Focuses the group auditor’s attention on identifying, assessing, and responding to the risks of material misstatements of the group financial statements
- Clarifies that investments accounted for using the equity method are components and provides audit guidance

Retains the two reporting options available to the group auditor:

- Revises component auditor to indicate they are part of the engagement team
- Introduces referred-to auditor, an auditor of a component that is referenced in the auditor’s report, and clarifies they are not part of the engagement team

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Legal Compliance Update

Summary of Significant Changes to Minnesota Legal Compliance Audit Guide

Legal Compliance Manual

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

- There was a change to criteria for service agreements or contracts that must be included in supplemental information submitted with the audit
- Clarified definitions of management organizations in Statute.
    - A CMO is a non-profit entity or organization that "operates or manages a charter school or network of charter schools."
    - An EMO is a for-profit entity or organization that "operates or manages a charter school or network of charter schools."
- The status of being a contractor "providing facilities, goods, or services to a charter school" was added to the list of things disqualifying one from being a charter school board member.

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 December 31, 2026 and 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

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

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

Changes from Recently Issued Ethics Interpretations

Ethics Interpretations

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

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

Download the Presentation

Contact Information

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