The information provided here is for informational and educational purposes and current as of the date of publication. The information is not a substitute for legal advice and does not necessarily reflect the opinion or policy position of the Municipal Association of South Carolina. Consult your attorney for advice concerning specific situations.

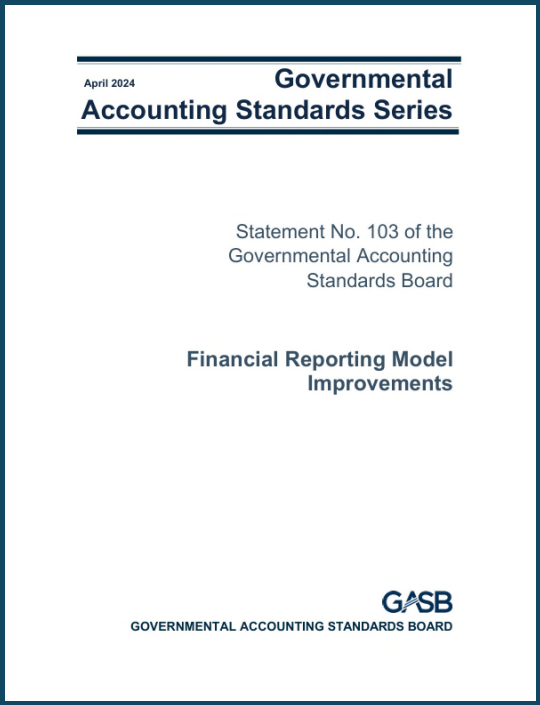
2026 Auditing and Accounting Updates

Emily Sobczak
Greene Finney Cauley, LLP
October, 2026

Recently Issued GASBs

Financial Reporting Model Improvements

Statement No. 103



Objective

- The objective of this standard is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.

Effective Date:

- Effective for periods beginning after June 15, 2025 (FY2026 and CY2026)

Where will you see changes?

- Management's Discussion & Analysis ("MD&A")
- Unusual and Infrequent Items
- Presentation of Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position ("SORE")
- Information about Major Component Units
- Budgetary Comparison Information
- Financial Trends Information in Statistical Section

MD&A

- Should be an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, and conditions
- Should discuss the current-year balances and results of operations in comparison to the prior year. The use of charts, graphs, and tables are encouraged
- Should answer the question of "Why" have things changed
- Should provide an overview of the financial statements

MD&A (Continued)

- Should discuss significant discretely presented component units
- Should provide an analysis of fund balance or net position and results of operation for each major fund
- Should discuss significant capital asset activity
- Should discuss significant long-term financing activity (including leases, SBITAs, PPPs, etc.)
- Should discuss currently known facts, decisions or conditions that are expected to have a significant effect on the government's financial position or results of operations in future years

MD&A (Continued)

- Should discuss relevant factors of next year's budget that will have a significant impact on fund balance/net position
- Should exclude current year budgetary analysis (moves to Notes to the RSI)

Unusual or Infrequent Items

Unusual Items

- The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates

Infrequent Items

- The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates

Unusual or Infrequent Items (Continued)

- Should be presented as the last item on the statement of resource flows before change in fund balance/net position
- Should be presented gross (not netted)
- Should be disclosed in the notes to the financial statements

Presentation of Proprietary Fund SORE

- Statement should distinguish between operating and nonoperating revenues/expenses, as well as separately report noncapital subsidies
- Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses

Presentation of Proprietary Fund SORE (Continued)

Nonoperating revenues and expenses are defined as:

1) Subsidies received and provided
2) Contributions to permanent and term endowments
3) Revenues and expenses related to financing
4) Resources from the disposal of capital assets and inventory, and
5) Investment income and expenses

Presentation of Proprietary Fund SORE (Continued)

Subsidies (non-exchange transactions) are defined as:

1) Resources from another party or fund (a) for which the proprietary fund ("PF") does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the PF's current or future fees and charges lower than they would be otherwise,
2) Resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the PF and (b) that are recoverable through the PF's current or future pricing policies, and
3) All other transfers

Presentation of Proprietary Fund SORE (Continued)

Operating revenues (detailed)
Total operating revenues
Operating expenses (detailed)
Total operating expenses
Operating income (loss)
Noncapital subsidies (detailed)
Total noncapital subsidies
Operating income (loss) and noncapital subsidies
Other nonoperating revenues and expenses (detailed)
Total other nonoperating revenues and expenses
Income (loss) before unusual or infrequent items
Unusual or infrequent items (detailed)
Increase (decrease) in fund net position
Fund net position—beginning of period
Fund net position—end of period

Each caption, subtotal, and total shown in the format above should be presented, as applicable.

Major Component Units

- In basic financial statements, governments should present each major component unit separately in the reporting entity's statements of net position and activities if it does not reduce the readability of the statements
- If presenting each major component unit separately in the reporting entity's statements of net position and activities reduces the readability of the statements, combining statements of major component units should be included in the reporting entity's basic financial statements after the fund financial statements

Budgetary Comparison Schedule

- Should be reported as Required Supplementary Information ("RSI")
- Required for General Fund and each major Special Revenue fund that has a legally adopted budget
- Separate columns should be included for (a) original budget, (b) actual budget, (c) actual results, (d) variance – original budget and final budget and (e) variance – final budget and actual results
- Significant variances should be explained in the notes to the RSI

Budgetary Comparison Schedule (Continued)

Required Supplementary Information
Sample City
Budgetary Comparison Schedule
Public Safety and Transportation Special Revenue Fund
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

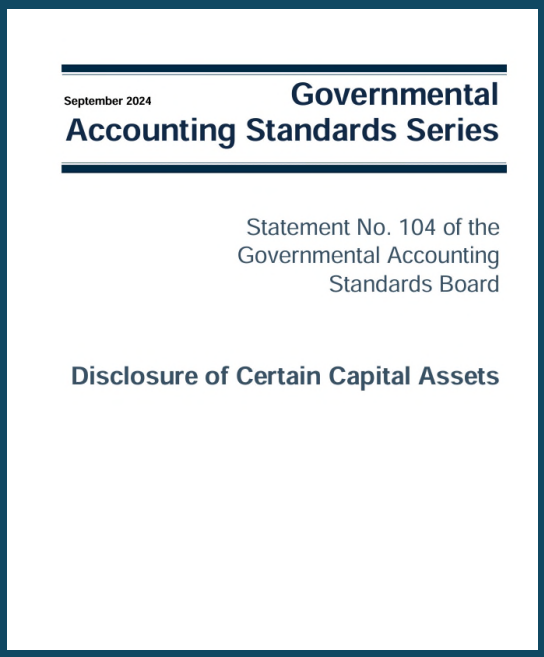
	Budgeted Amounts		Variance with Original Budget—over (under)	Actual Amounts Budgetary (and GAAP)	Variance with Final Budget—over (under)
	Original	Final	Final Budget	Basis	Actual Amounts
BUDGETARY REVENUES					
Taxes	$ 49,825	$ 49,825	$ -	$ 51,442	$ 1,617
Intergovernmental	29,750	29,750	-	30,337	587
Charges for services	6,720	6,720	-	6,848	128
Investment earnings	1,900	1,900	-	2,295	395
Total budgetary revenues	88,195	88,195	-	90,922	2,727
BUDGETARY EXPENDITURES					
Current:					
General government	13,665	15,305	1,640	15,083	(222)
Public safety	58,000	58,250	250	58,452	202
Public works	16,265	16,945	680	16,934	(11)
Total budgetary expenditures	87,930	90,500	2,570	90,469	(31)
Net change in fund balances	265	(2,305)	2,570	453	2,758
Budgetary fund balance—beginning of period	4,024	4,024	-	4,024	-
Budgetary fund balance—end of period	$ 4,289	$ 1,719	$ 2,570	4,477	$ 2,758
RECONCILIATION TO GAAP BASIS					
Total fund balance GAAP basis				$ 4,477	

Statistical Section

In the statistical section of separately issued financial reports, governments engaged only in business-type activities or only in business-type and fiduciary activities should present revenues by major source for their business-type activities, distinguishing between operating, noncapital subsidy, and other nonoperating revenues and expenses (for all years presented)

Disclosure of Certain Capital Assets

Statement No. 104



Objective

- The objective of this standard is to provide users of financial statements with essential information about certain types of capital assets and to improve consistency and comparability between governments.

Effective Date:

- Effective for periods beginning after June 15, 2025 (FY2026 and CY2026)

Intangible Capital Asset Disclosures

Capital Asset note disclosures should separately report:

1) Assets reported in accordance with GASB #87 "*Leases*" or GASB #96 "*Subscription-Based Information Technology Arrangements*", by major class of underlying asset,
2) Intangible right-to-use assets recognized by an operator in accordance with GASB #94 "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*", by major class of underlying asset
3) Intangible assets, other than those listed above, by major class of asset
4) Intangible assets that represent the right to use a type of underlying asset should not be disclosed in the same major class as any owned assets of that type

Capital Assets Held for Sale Disclosures

A capital asset is classified as held for sale if:

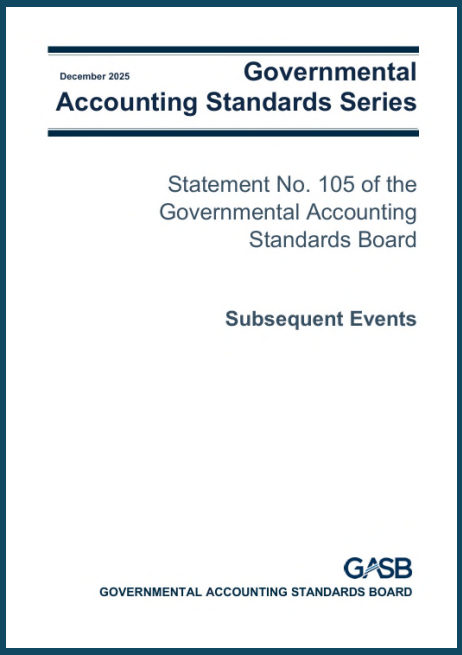
1) The government has decided to pursue the sale of the asset and
2) It is probable that the sale will be finalized within one year of the financial statement date
   - Is the asset available for sale in its present condition?
   - Is the government actively seeking a buyer?
   - What are the market conditions for selling the asset type?
   - What regulatory approvals are required for the sale?

Capital Asset Held for Sale Disclosures (Continued)

- Evaluation of potential held for sale capital assets should be performed for each reporting period
- Capital assets held for sale should continue to be reported within the appropriate major class of capital asset
- The capital assets held for sale should be disclosed in the notes to the financial statements, with separate and disclosure of historical cost, accumulated depreciation
- Disclosure should also include the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset

Subsequent Events

Statement No. 105



Objective

- The objective of this standard is to improve financial reporting requirements for subsequent events and enhance consistency in their application and better meet the financial needs of financial statement users.

Effective Date:

- Effective for periods beginning after June 15, 2026 (FY2027 and CY2027)

Subsequent Events

- 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 subsequent events time frame)
- The date the financial statements are available to be issued is the date at which (a) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (b) approvals necessary for issuance have been obtained
- The date that subsequent events have been evaluated through should be disclosed in the notes to the financial statements

Subsequent Events (Continued)

Recognized Events:

1) The event provides evidence of conditions that existed at the financial statement date
2) Accounting estimated reported as of the financial statement date should reflect the conditions that existed at that date, including those substantiated by recognized events

Subsequent Events (Continued)

Nonrecognized Events:

1) The event does not inform conditions that existed at the financial statement date
2) Accounting estimated reported as of the financial statement date should not be adjusted to reflect the effects of nonrecognized events. Instead, information about nonrecognized events should be disclosed in the notes
3) Examples:
   a. A debt-related transaction
   b. A government combination or disposal of government operations
   c. A change to the legally separate entities that compose the financial reporting entity
   d. A transaction or event that is of such a nature that the information are essential to a user's analysis for making decisions or assessing accountability

GASB Technical Agenda

Current Ongoing Projects Include:

- Going Concern Uncertainties and Severe Financial Stress
- 2026 Implementation Guide
- Infrastructure Assets
- Revenue and Expense Recognition

Auditing Standards Updates

Generally Accepted Auditing Standards ("GAAS")

- SAS #146 – Quality Management for an Engagement Conducted in Accordance with GAAS
  - Effective date for engagements conducted in accordance with GAAS for periods ending on or after December 15, 2025 (CY 2025 and FY 2026)
- SAS #149 – Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)
  - Effective date for audits of group financial statements for periods ending on or after December 15, 2026 (CY 2026 and FY 2027)

Single Audit Updates

Single Audit Overview

- Federal program compliance audits of recipients of Federal awards
- Uniform Guidance is primary guidance for both auditors and auditees
- Focus is on expenditures of Federal awards (both direct and pass-through awards)
- Schedule of Expenditures of Federal Awars ("SEFA") should reconcile to the general ledger
- Threshold is $1,000,000 (effective FY2026)
  - Type A program threshold also increases to $1,000,000

Single Audit Overview

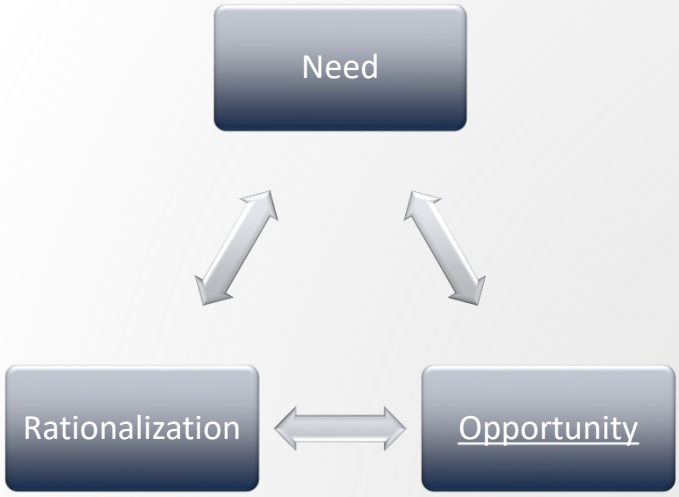
- Compliance Supplement
  - Provides guidelines for testing compliance requirements
  - Identifies which compliance requirements are subject to audit for specific Federal programs
- Uniform Guidance is primary guidance
- Auditor is required to test internal controls
- Increased emphasis of documentation of internal controls over compliance requirements
- Deadline for data collection form is the lesser of 30 days after report issuance or nine months after fiscal year-end

Common Audit Issues

Common Audit Issues – Internal Controls

- Lack of timely financial closeout
- Lack of timely preparation and review of bank reconciliations
- Lack of proper segregation of duties
- Lack of documented policies and procedures
- Poor IT security (i.e. backups, ransomware, spamware, cyber insurance, etc.)
- Journal entries entered without review/approval
- No formal fraud risk management program

Fraud Triangle



Common Audit Issues - Account Balances

- Improper cutoff
  - Subsequent receipts, including grant reimbursements and unbilled AR
  - Verify construction contractor payment applications are received/reported through the fiscal year end
  - Retainage payable
- Interfund balances out of balance
- Poor tracking of capital asset activity
- Lack of detailed support for balance sheet accounts (ex: AP detail by invoice)
- Improper reporting of short-term debt