



## AUDITOR PREPARED FINANCIAL STATEMENTS – GUIDE FOR IMPLEMENTING A COMPREHENSIVE REPORT REVIEW AT YOUR SCHOOL DISTRICT

### How to Review the Fund Financial Statements

The fund financial statements are prepared after adjustments are made to the account balances in the District’s largely cash basis general ledger based on underlying information provided by the District. When financial statement preparation is outsourced to a third party, as mentioned in *Auditor Prepared Financial Statements – What Your School District Needs to Know* article, AJEs are posted at the individual fund level to present the fund financial statements on the modified accrual basis of accounting. To better understand the impact of these AJEs and to develop a more thorough review of the resulting fund financial statements, it is recommended that your school district’s financial statement review process include tracing the original financial account activity reported in the District’s general ledger through to the presentation in the financial statement document, at least for a few individual funds.

The information below provides a crosswalk of a school district’s general ledger to the final issued fund Balance Sheet for the Food Service Fund (Fund 510).

### Crosswalk – District General Ledger to Balance Sheet (Food Service Fund)

FUND FINANCIAL STATEMENT REVIEW  
CROSSWALK - GENERAL LEDGER TO BALANCE SHEET  
FOOD SERVICE FUND

DISTRICT GENERAL LEDGER ACCOUNT	GENERAL LEDGER OBJECT CODE	MODIFIED ACCRUAL AJEs	BALANCE SHEET - JUNE 30, 20XX	MODIFIED ACCRUAL AJE DESCRIPTION	
<b>ASSETS</b>					
Cash and investments	915,230	0103	(288,397)	626,833	Adjust cash for post June 30 transactions (receivables and payables)
Due from governmental entities			317,490	317,490	Record receivable for food service revenue received in July
Inventory			56,568	56,568	Record balance of food service inventory at June 30
<b>Total Assets</b>	<b>915,230</b>		<b>1,000,891</b>		
<b>LIABILITIES</b>					
Accounts payable			25,461	25,461	Record accounts payable for goods/services received before June 30 paid for after June 30
Accrued payroll and employee benefits			3,632	3,632	Record accrued payroll for wages/benefits provided before June 30 paid for after June 30
<b>Total Liabilities</b>	<b>-</b>		<b>29,093</b>		
<b>FUND BALANCE</b>	<b>915,230</b>	<b>0103</b>	<b>971,798</b>		

The crosswalk above illustrates that most AJEs required adjust the balance sheet accounts for transactions that occurred during the 60 day period following June 30. For example, this District received \$317,490 in revenue for the prior fiscal year in the July subsequent to year end, and thus, reclassified cash that was not in the County Treasurer account on June 30 to a due from governmental entities receivable.

These types of entries are posted in many of the District’s funds.

The information below provides a crosswalk of a school district’s general ledger to the final issued fund revenues, expenditures, and changes in fund balances for the Food Service Fund (Fund 510).

**Crosswalk – District General Ledger to Statement of Revenues, Expenditures, and Changes in Fund Balances (Food Service Fund)**

**FUND FINANCIAL STATEMENT REVIEW  
CROSSWALK - GENERAL LEDGER TO REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOOD SERVICE FUND**

<u>REVENUES</u>	DISTRICT GENERAL LEDGER ACCOUNT	GENERAL LEDGER FUNCTION AND/OR OBJECT CODE	MODIFIED ACCRUAL AJES	REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	<u>MODIFIED ACCRUAL AJE DESCRIPTION</u>
Student Lunch	233,431	1611			
Catering	1,489	1613			
Adult Meals	165,112	1620			
Catering	41,301	1630			
Refund of prior year expenditures	374	1980		441,707	
Revenue received from federal government	5,877,216	4500	121,127	5,998,343	Record donated commodities
	<u>6,318,923</u>			<u>6,440,050</u>	
 <u>EXPENDITURES</u>					
Instruction				-	
Support Services - students and staff				-	
Support Services - administration	29,796	23xx, 25xx		29,796	
Operation and maintenance of plant services	43,676	26xx		43,676	
Student transportation services		27xx		-	
Operation of non-instructional services	5,609,911	31xx	121,127	5,731,038	Record donated commodities
Capital outlay	72,075	67xx		72,075	
	<u>5,755,458</u>			<u>5,876,585</u>	
 <u>OTHER FINANCING SOURCES (USES)</u>					
Transfer out	500,000	60xx		500,000	
Change in fund balance	63,465			63,465	
Fund balances, beginning of year	851,765	0330	60,673	912,438	Record balance of prior year food service inventory
Change in inventory			(4,105)	(4,105)	Record change in food service inventory balance
Fund balance, end of year	<u>915,230</u>	0103		<u>971,798</u>	

The crosswalk above illustrates that very few adjustments are made to the revenue and expenditure balances recorded in the District’s general ledger. In the case of the Fund Service Fund, an adjustment was made to record the value of the donated food commodities in the financial statements.

The main differences between the general ledger and financial statements relate to the fact that various funds and accounts may be grouped differently. For example, revenues that the District has recorded in the Food Service Fund in object codes 1611-1980 on the general ledger are reported in a single line, called *Other local*, in the financial statements. Further, several District Funds, such as the Medicaid Reimbursement Fund (Fund 290) and Indirect Costs Fund (Fund 570) are included with the Maintenance and Operation Fund (Fund 001) and presented as the General Fund in the financial statements. It is important to gain an understanding of what funds and accounts are grouped together for external financial statement presentation.

The District should use the modified accrual AJEs provided by the financial statement preparer along with the draft and perform a similar crosswalk for a few funds. This will serve establish a foundation and to make the overall review of the balances easier to ensure there are no significant errors or omissions. In addition to this, the District should consider including the following in the fund financial statement review procedures:

- Compare cash and investment figures reported to the reconciled book balances with both the County Treasurer and in certain local bank accounts at June 30
- Compare the property taxes receivable balances reported to the amount levied less year to date collections at June 30
- Compare receivable balances to amounts distributed to the District after June 30 for various revenue sources such as state equalization and proposition 301 monies
- Compare inventory balances reported to District listings at June 30
- Compare accounts payable and accrued payroll and employee benefit balances reported to the amounts reported on July and August encumbrance vouchers
- Utilize the notes to the basic financial statements in the review, as they provide additional information and details on the account balances reported in the financial statements

## How to Review the Government-wide Financial Statements

The fund financial statements discussed above, serve as the foundation for the government-wide financial statements, with the exclusion of any interfund activity, such as transfers, that are eliminated when the activity of the funds is consolidated. A set of adjustments are prepared to convert the modified accrual fund financial statements to the accrual basis of accounting based on underlying information provided by the District.

The entries to convert to the accrual basis of accounting to present the required government-wide financial statements include the following:

- Additions to and deletions from non-current assets, such as capital assets including land, land improvements, buildings and building improvements, vehicles, furniture and equipment and construction in progress
- Depreciation on capital assets, as applicable
- Additions to and reductions from non-current liabilities such as capital leases, bonds payable, compensated absences and the net pension and other post-employment benefit (OPEB) liabilities
- Recognition of revenues that were unavailable (not received within 60 days) in the fund financial statements
- Reclassification/reformatting of revenues from other local, property taxes, state, and federal to program revenues, comprised of (1) charges for services (2) operating grants and contributions, and (3) capital grants and contributions and general revenues

To gain a better understanding of the revenue reclassifications that are performed to reformat revenue for Statement of Activities presentation, the following is a crosswalk illustrating food service fund revenue from the District’s general ledger to the fund financial statements to the government-wide Statement of Activities.

GOVERNMENT-WIDE REVENUE RECLASSIFICATION REVIEW  
FOOD SERVICE FUND REVENUES  
CROSSWALK - FOOD SERVICE FUND REVENUES FROM DISTRICT GENERAL LEDGER TO FUND FINANCIAL STATEMENT TO GOVERNMENT-WIDE FINANCIAL STATEMENT

REVENUES	DISTRICT	GENERAL LEDGER	MODIFIED	REVENUES,	STATEMENT OF ACTIVITIES (GOVERNMENT-WIDE FINANCIAL STATEMENT PRESENTATION)
	GENERAL LEDGER ACCOUNT	FUNCTION AND/OR OBJECT CODE	ACCURAL AJES (RECORD DONATED COMMODITIES)	EXPENDITURES AND CHANGES IN FUND BALANCES	
Student Lunch	233,431	1611			Charges for Services - offset Operation of non-instructional services expenses
Catering	1,489	1613			Charges for Services - offset Operation of non-instructional services expenses
Adult Meals	165,112	1620			Charges for Services - offset Operation of non-instructional services expenses
Catering	41,301	1630			Charges for Services - offset Operation of non-instructional services expenses
Refund of prior year expenditures	374	1980		441,707	
Revenue received from federal government	5,877,216	4500	121,127	5,998,343	Operating Grants and Contributions - offset Operation of non-instructional services expenses
	6,318,923			6,440,050	

The District’s locally generated food service revenues from meal sales are reported as charges for services revenue in the government-wide financial statements and used to offset the expenses recorded in the operation for non-instructional services line item where the costs to operate the program are reported. Federal funds received related to the District’s participation in the National School Lunch, School Breakfast and Summer Feeding Programs are reported as operating grants and contributions in the government-wide Statement of Activities.

The District should consider including the following in the government-wide financial statement review procedures:

- Compare capital asset and accumulated depreciation balances reported on the Statement of Net Position to the capital asset schedules and reports from the capital assets module provided to the auditor
- Compare the non-current liability balances reported on the Statement of Net Position to the applicable debt retirement schedules and compensated absences listing prepared by District personnel
- Compare the non-current liability, and deferred inflow and outflow balances related to the District’s pension and other post-employment benefits reported in the Statement of Net Position to the *Schedules of Employer Allocations, & Pension and OPEB Amounts By Employer* published by the Arizona State Retirement System
- Review the two reconciliations included in the basic financial statements that outlines all of the adjustments required to convert the modified accrual fund financial statements to the accrual government-wide financial statements
- Review the government-wide adjustments and schedules provided by the financial statement preparer, including those related to revenue reclassifications
- Utilize the notes to the basic financial statements in the review, as they provide additional information and details on the account balances reported in the financial statements

## Other Report Items and Final Tips

The remaining portion of this guide will discuss an approach the preparation and review of other items contained within the audited financial document and provide final tips for ensuring your school district has a rigorous financial statement review process in place.

### **REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

#### Management's Discussion & Analysis (MD&A)

The Management's Discussion & Analysis section or MD&A, precedes the presentation of the basic financial statements and is required by Generally Accepted Accounting Principles (GAAP). The MD&A introduces the basic financial statements with an objective and easily readable analysis of your financial activities. The MD&A is a combination of narrative and numerical tables presenting information outlined in Governmental Accounting Standards Board (GASB) Statement No. 34. The information in the numerical tables comes directly from the financial statements from the current and prior year reports. The District must provide the narrative information on changes in financial activities from year to year and on significant transactions that have impacted the financial statements. It is a good idea as a school business official to maintain notes throughout the year regarding items that have occurred having a significant impact on the District's financial statements to assist in writing the MD&A each year.

#### Budget to Actual Information – General and Major Special Revenue Funds

Following the notes to the basic financial statements, the district must present the budget to actual information for the General Fund and Major Special Revenue Funds. As part of the financial statement review process the District should:

- Tie out the original budget figures reported to the adopted expenditure budget
- Tie out the revised budget figures to the final revised expenditure budget for the fiscal year which is likely the May revision

#### Pension and OPEB Schedules

GAAP also requires that the RSI section following the notes should also include schedules summarizing the District's pension and OPEB plan information. 10 years of data is required in these schedules, which the district can build up too, since the related GASB standards have not been in place for a full 10 years at this point. Most all of the information in these schedules is provided by the actuaries of the respective plan in published actuarial reports, issued either to the pension plan which the District participates, or directly to the District. The District should agree the amounts included in the pension and OPEB schedules to the actuarial reports.

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)**

If your school district does not prepare a CAFR, or comprehensive annual financial report, your financial report will not contain these items so you can skip ahead to the final tips section! If your school district does prepare a CAFR, you will need to prepare and review the following additional report items:

- Letter of transmittal - The letter of transmittal is presented at the beginning of the CAFR document and is essentially an executive summary similar to what you would see presented in a for profit financial statement presentation. The letter should be presented on school district letterhead and signed by chief financial officer and/or chief executive officer, who in relation to school districts would be the Superintendent. Because both the letter of transmittal in this section and the Management's Discussion and Analysis or MD&A in the Financial Section serve to introduce the readers of the financial statements to the District, there is an actual requirement that the letter of transmittal direct readers to the MD&A. So what is the difference between the letter of transmittal and MD&A? Although there are required elements that the letter of transmittal must contain created by excellence in financial reporting award programs, the district has some flexibility about what is discussed within this portion of the financial document. For this reason, the transmittal letter provides a great opportunity for the district to highlight all of its accomplishments to the public. Subjective content is allowed, whereas by contrast the MD&A is limited to specific content outlined by GASB. It is recommended that multiple individuals participate in the preparation of the letter of transmittal at the District, including the Superintendent, the Data/Information Department, and the Public Relations Department in addition to Business Office personnel. It is recommended this document be distributed with clear expectations of what each individual or department needs to be provide and what the deadline is.
- Statistical Schedules - The statistical section of a CAFR provides trend data and nonfinancial data useful in interpreting the basic financial statements and is especially important for evaluating economic condition. The requirements of the statistical section are specified by GASB and the ASBO/GFOA CAFR award programs. This financial data presented within the statistical schedules are obtained directly from the financial statements. Other data is obtained directly from the District or third party sources. The statistical section is also often times used to satisfy continuing bond disclosure requirements that may be unique to the school district. The District should review and ensure these unique disclosures satisfy the disclosure requirement as specified in the bond issuance documents.

### **FINAL REVIEW TIPS**

- Utilize a checklist! Reviewing the financial statement draft is something that is only done once a year so do not rely on your memory. Your CPA firm can provide you with a Governmental Disclosure Checklist updated annually for changes to assist in your review.
- Utilize the resources around you at the district. Distribute pieces of the report out to those individuals who work with the data most often. For example, have your accountant responsible for reconciling cash balances look at the cash figures and footnote and your property control staff look at the capital assets figures and footnote.
- Utilize your audit firm. Ask questions! Ask for additional information or details. Ask for a meeting to review the financial statement report with your team.

- Focus on significant amounts and disclosures. Remember you are not required to re-perform the work, but rather that the District review would detect a material error, omission or misstatement.
- Ensure your District will have sufficient time to perform a thorough review. Set internal deadlines to have information ready for your auditors to ensure they have ample time to performance the financial statement preparation services so that they can provide a draft to the District leaving plenty of time to review prior to the issuance date.
- Seek out additional training on financial statement preparation and review topics.
- Challenge yourself and your team to enhance your financial statement process each year.