

## **Introduction–Executive Summary**

### **Changes to Modified Accrual Financial Statement Audit Reports**

On April 24, 2017, the Office of the Washington State Auditor announced changes to audit reports which impact school district financial statements (F-196). This notice is intended to ensure that all school districts are aware of how the audit reports have been revised and why the changes are necessary.

All financial statement audit reports will contain the following:

- A standard paragraph with an opinion on the fair presentation of the financial statements in accordance with the School District Accounting Manual.
- A separate section stating that the financial statements were not prepared in accordance with generally accepted accounting principles (GAAP) for government organizations (an “adverse” opinion), along with the reason behind the opinion.

When providing an opinion on financial statements intended for general use and prepared under a regulatory method of accounting (for example, those in the School District Accounting Manual), United States auditing standards require auditors to express a separate opinion on whether the financial statement presentation was performed in accordance with GAAP.

In no way does this additional opinion imply the financial statements are unreliable or unfairly presented according to the School District Accounting Manual. Rather, the purpose of the opinion is to let report users know if the financial statement’s presentation complies with, or differs from, GAAP.

School district financial statement presentations differ from those required by GAAP as a matter of course. For example, financial statements prescribed by the Accounting Manual do not include full-accrual, government-wide statements. This is a significant departure from GAAP. As a result, auditing standards do not allow the State Auditor to issue an unmodified, or “clean,” opinion on whether the financial statements conform to GAAP.

Similar two-opinion reports are issued for local governments, including school districts preparing financial statements on a cash basis. It has even been verified with bond rating and federal regulatory agencies that issuing the modified, or "adverse," GAAP opinion does not affect bond ratings. In addition, this opinion does not preclude school districts from qualifying as "low risk" for their single audits, as long as all other Uniform Guidance requirements are met.

If you have questions about the audit report revisions, please contact the State Auditor's Office School Programs Manager, Cheryl Thresher, at 360-725-5608.

Sincerely,

Kelly Collins, CPA  
Director of Local Audits  
State Auditor's Office

Olympia, WA

Sincerely,

T. J. Kelly  
Chief Financial Officer  
Office of Superintendent of Public  
Instruction  
Olympia, WA

## **Effective Dates for the Accounting and Auditing Requirements Contained in E2SSB 6362**

On April 24, 2018, the Office of the Washington State Auditor and the Superintendent of Public Instruction issued a notice about the effective dates of the accounting and audit requirements contained in E2SSB 6362.

Dear Superintendents and Business Officers,

We have received a number of inquiries about the effective dates of the accounting and audit requirements contained in E2SSB 6362 and the underlying statute. This letter is intended to provide clarity around the effective dates and share information about our plans to move forward during the 2018–19 transition year.

By way of background, in March 2018, the Legislature passed E2SSB 6362, which accelerated the implementation timeline for a new salary structure adopted in response to the *McCleary* litigation. Along with the increase in state funding, the legislature adopted new requirements related to the tracking of local revenue expenditures.

Upon signing E2SSB 6362, Governor Inslee vetoed section 408, which directed the Office of Superintendent of Public Instruction (OSPI) to adopt rules requiring the separate accounting of state and local revenues to expenditures by the 2018–19 school year. The effect of this veto is that current law remains unchanged; OSPI is required to adopt rules by the 2019–20 school year.

However, there are other sections in the bill that accelerated the restrictions on the use of levy funds at the district level and the requirement to track expenditures of local revenue, including sections 301, 302, 306, and 406.

Here is what to expect:

### For 2018–2019

- School districts are required to deposit local revenues into a sub-fund of the general fund. The State Auditor’s Office (SAO) review of school district financial statements related to this requirement will be aimed at ensuring schools have

established a local revenue sub-fund.

- In spring of 2018, OSPI will provide districts with a new chart of accounts that can be used to accommodate the recording of local revenues using the new local sub-fund.
- SAO will audit for compliance with the requirement to code local levy expenditures to the local revenue sub-fund and the requirement to expend the allocation provided for professional learning as directed by RCW 28A.150.415 (Section 406 (3)).
- Audits related to the accounting of local levies coded to a sub-fund will be conducted as part of the regular financial audits of school districts of the 2019–20 school year.

For 2019–2020

OSPI must adopt rules requiring separate accounting of state and local revenues to expenditures. The rule-making process will begin in early 2019 in order to have the rules become final in time for the 2019–20 school year.

- SAO will conduct financial audits for compliance with all statutory requirements contained in E2SSB 6362, including expenditures of school district local revenues and the allocation for professional learning (referenced above). Audits for these provisions will take place during the 2020–21 school year.

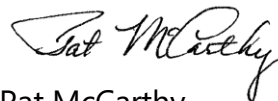
We will continue to focus our efforts on education and training to help districts navigate the new reporting and auditing requirements.

If you have any further questions, please do not hesitate to contact us.

Sincerely,



Chris Reykdal  
Superintendent of  
Public Instruction



Pat McCarthy  
Washington State Auditor

## **Introduction–Background**

The classified system of accounts presented herein was developed by the Washington State School District Accounting Advisory Committee under the joint direction of the Superintendent of Public Instruction and the State Auditor. Authority for the Accounting Manual is provided under RCW 43.09.200, RCW 28A.505.140 and WAC 392-123-010.

The manual provides for a basic double entry modified accrual system of accounting with general ledger controls over revenues, expenditures, receivables, inventories, liabilities, fund balance, and budgetary accounts. School districts with an average FTE (full-time equivalent) enrollment of less than 1,000 pupils for the preceding fiscal year may use a cash basis system of accounting per RCW 28A.505.020. The accounting principles and procedures included in the manual represent basic minimums necessary for the achievement of school district reporting objectives. It is intended that the school districts maintain detailed revenue and expenditure accounts as well as required periodic reports.

The purpose of this manual is to provide (1) uniform accounting and financial reporting to allow for meaningful use and comparison of financial data; (2) provide accounting instructions as a resource for local school districts; (3) furnish the means for effective budgetary control; and (4) provide a consistent framework for financial reporting to intended users, including district superintendents, school boards, the state Legislature, the Superintendent of Public Instruction, and the general public.

Members who serve on the committee represent the Office of Superintendent of Public Instruction, the State Auditor's Office, the Washington Association of School Administrators, the Washington Association of School Business Officials, the Association of Educational Service Districts, the Washington Association for Career and Technical Education, the Washington State Treasurer's Office, the Washington State Association of County Treasurers, and the Washington School Information Processing Cooperative.

Since the initial publication of this manual in March 1968, the committee has met regularly to make sure accounting guidance remains current and appropriate to meet the needs of intended users. Subsequent revisions of the manual reflect many of the generally accepted accounting principles (GAAP) published by the Governmental

Accounting Standards Board. Legal references provided in this edition are those in effect as of December 2020.

Appreciation is hereby expressed for the time and assistance given to this endeavor by all members of the manual committee and others whose efforts made this publication possible.

**NOTE:**

**Boxes surrounding information throughout this manual indicate information needed only by those districts preparing financial reporting in compliance with generally accepted accounting principles (GAAP).**

## **Current Members of the School District Accounting Advisory Committee (SDAAC) as of August 2021**

### **Washington Association of School Administrators**

Jason Williams, Business Operations Specialist  
Educational Service District 171

### **Washington Association of School Business Officials**

Amber Porter, Executive Director of Finance  
Blaine School District

Becky Nissen, Executive Director of Finance  
Yakima School District

Holly Burlingame, CSBA  
WASBO

Joli Valentino, Executive Director of Business and Operations  
Puget Sound Educational Service District

Jon Poolman, Executive Director of Finance  
Lakewood School District

Moriah Banasick, Director of Finance  
Issaquah School District

Paula McCoy, Executive Director of Business Services  
Ridgefield School District

Simone Sangster, Assistant Superintendent of Finance  
Bellingham School District

### **Large School Districts**

Amy Fleming, Director of Accounting Services  
Seattle Public Schools

Cindy Coleman, Director of Accounting  
Spokane Public Schools

Rob Bryant Director of Financial Services  
Tacoma School District

### **Association of Educational Service Districts**

Charles Hole, Assistant Fiscal Officer III  
Educational Service District 112

Dustin Kinley, Director Fiscal Services  
Educational Service District 105

Lori McLeod, Fiscal Services Supervisor  
Educational Service District 189

## **Current Members of the School District Accounting Advisory Committee (SDAAC) as of January 2020**

### **Washington Association for Career and Technical Education**

Mike Christianson, Director, CTE

Bethel School District

### **At Large Members**

Jody Hockaday, Finance Supervisor

Pasco School District

Bang Parkinson, Chief Financial Officer

Sumner–Bonney Lake School District

Andrew Burgess, Controller

Highline School District

### **Washington School Information Processing Cooperative (WSIPC)**

Sean Schaeffer, Fiscal Product Manager

### **State Auditor’s Office**

Cheryl Thresher, Audit Manager; School Programs

Ryan Montgomery, Assistant Audit Manager; School Programs

Sara Heath, Assistant Audit Manager; School Programs

Shirley Christiansen, Assistant Audit Manager; School Programs

### **Office of Superintendent of Public Instruction**

Michelle Matakas, Director, School Apportionment and Financial Services; Committee Chairperson

Ralph Fortunato, Supervisor, School District Financial Reporting

Paul Stone, Supervisor, School District Accounting