

Attachment A

First Addendum to the School District Accounting Manual For School Year 2016–17

INTRODUCTION—NOTICE: Narrative has been added to the Introduction of the Accounting Manual to notify school business officials of the changes to modified accrual financial statement audit reports. This notice will attach to the beginning of the Accounting Manual.

INTRODUCTION—NOTICE

Changes to Modified Accrual Financial Statement Audit Reports

On April 24, 2017, the State Auditor announced upcoming changes to audit reports which impact school district financial statements (F-196), effective immediately. 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.

To begin, all 2016–17 financial statement 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.

Please understand that 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.

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The fact is, 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.

Please understand you are not alone. 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.

Sincerely,

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Sincerely,

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Office of Superintendent of Public Instruction
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