

# **CHAPTER 8 – Financial Reporting**

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## **OVERVIEW**

Financial reporting is not an end in itself, but a useful tool in providing the necessary information needed by the citizenry and other users who have limited authority, ability, or resources to obtain information. The overall goal of financial reporting (and accounting) for governments is to provide:

- Financial information useful for making economic, social, and political decisions and demonstrating accountability and stewardship.
- Information useful for evaluating managerial and organizational performance.

The paramount objective of a government is accountability. Accountability is defined in the standards as:

*The requirement of a government to answer to the citizenry—to justify the raising of public resources and the purposes for which they are used.*

To meet these goals and objectives, financial reporting should assist the users in evaluating the government. To accomplish this, the financial reports should:

- Provide information to determine whether current-year revenues were sufficient to pay for current-year services.
- Demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget.
- Demonstrate compliance with other finance-related legal or contractual requirements.
- Provide information to assist users in assessing the service efforts, cost, and accomplishments of the governmental entity.
- Provide information about sources and uses of financial resources, including the identification of material nonrecurring financial transactions.
- Provide information about how the governmental entity financed its activities and met its cash requirements.
- Provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.
- Provide information about the financial position and condition of a governmental entity.
- Provide information about a governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year.
- Disclose legal or contractual restrictions on resources and risk of potential loss of resources.

The information presented in financial reports will also depend on the needs of the users. There are three primary users of external state and local governmental reports:

- The citizenry to whom government is primarily accountable.
- Legislative and oversight bodies that directly represent the citizens.
- Investors and creditors, e.g., securities underwriters and bond insurers.

With external financial reporting a primary objective of a government, the accounting system must be designed to provide the essential information to meet this objective. Therefore, a financial objective can directly influence the accounting system from which the information is derived.

Financial statements and reports are end products of the reporting process. Certain information is better reported in the financial statements, while other information is better reported, or can only be reported, using alternative reporting formats.

Financial statements prepared by governments are the core of financial reporting and the principal means of communicating financial information to external users. Governments may also choose, or are required, to report through other types of financial reporting. Budgets filed with grantor agencies are examples of other types of financial reports and may include financial statements, other financial information, and nonfinancial information. These reports are examples of special purpose reports that are generally used to:

- Meet specific legal or contractual requirements.
- Present financial statements using a basis of accounting that differs from Generally Accepted Accounting Principles (GAAP).
- Present financial information in prescribed formats.
- Report specific elements, accounts, or items taken from the basic financial statements.

Since financial reporting is the primary means of communicating information to the users, certain basic characteristics are considered necessary for effectiveness. They are identified in the standards as:

- **Understanding**—Reports should be presented as simply as possible.
- **Reliability**—Reports should be fairly stated, verifiable, and free from bias.
- **Relevance**—Reports should meet the needs of the users.
- **Timeliness**—Reports must be issued soon enough to be of benefit to the users.
- **Consistency**—Reports should be prepared using the same accounting principle or reporting method for all similar transactions and events from one period to another.
- **Comparability**—Reports should help users make comparisons of different governments that perform the same functions or operations.

In the state of Washington, several types of financial reports are required. In addition to the required financial reports, districts may choose to prepare additional financial reports.

## **BUDGETS**

### **Comparing Actual Financial Results With the Legally Adopted Budget**

The budget document is considered by most to be the primary source of governmental information. The three user groups previously identified (citizenry, legislative and oversight bodies, and investors and creditors) are generally interested in comparing originally adopted budgets and budgets after final amendments, with the actual results of the current year's activities on a budgetary basis. This information may be used to evaluate financial management practices (e.g., spending in excess of budgeted amounts may indicate poor financial management; underspending may indicate that the quality or quantity of services could have been increased, that there was effective cost containment, or that resources were overbudgeted for a particular program).

### **Form F-195—Official Budget Document**

Form F-195 is the official budget document. All school districts must prepare, adopt, and file their budgets in the required format.

For additional information on Form F-195, see Chapter 2 Budgeting.

### **Form F-198—Budget Status Reports and Statements of Financial Condition**

Each school district shall prepare and make available, monthly budget status reports (Form F-198) and other pertinent financial information, as needed by the board of directors.

For additional information on Form F-198, see Chapter 2 Budgeting.

### **Personnel Budget Status Reports**

Each school district shall maintain the capability to prepare monthly personnel budget status reports within ten days when requested by the Office of Superintendent of Public Instruction (OSPI) or the district's board of directors.

For additional information on Personnel Budget Status Reports, see Chapter 2 Budgeting.

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## **FINANCIAL STATEMENTS**

### **Assessing Financial Condition and Results of Operations**

Financial reports are commonly used to assess a state or local government's financial condition or its financial position, and its ability to continue to provide services and meet obligations as they come due. In the past, government financial reporting has not emphasized the balance sheet effects of operations because of the viewpoint that current-year costs can be paid with future years' revenues.

However, users have become more interested in government's ability to "live within its means." The Governmental Accounting Standards Board (GASB) calls this "interperiod equity." They believe "interperiod equity is a significant part of accountability and is fundamental to public administration. In short, financial reporting should help users assess whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided." (GASB Cod. Sec. 100.161.)

Although there is increased interest in the balance sheet, the focal point in governmental financial reports remains the operating statements. The statements provide information on the current financial resource inflows and outflows (for governmental-type activities) and economic resources (for business-type activities). The results of operations can be compared to prior years' results and/or to other similar governmental entities providing similar services.

### **Report F-196—Annual Financial Statements**

Report F-196 is the required financial statement report of a school district. It reports the school district's financial condition and actual revenues and expenditures for the entire school year.

Report F-196 is considered a special report. The F-196 is used by school districts to comply with the requirements of financial reporting required by OSPI and the State Auditor's Office (SAO), the regulatory agencies. Because this differs from GAAP in several ways, it is considered an other comprehensive basis of accounting (OCBOA). The differences will be discussed later in this chapter.

Reference: AICPA *Codification of Statements on Auditing Standards*, section 623.

#### **Overview of Report F-196**

The entire Report F-196 is computer-produced by each district's educational service district (ESD). Form SPI/LEA 3011 is used to submit financial data to the ESD. School districts not able to electronically transmit their financial data will have to complete a Form SPI/LEA 3011.

School districts that can access the Washington School Information Processing Cooperative (WSIPC) system can run parts of Report F-196 and receive computer edits on their financial data before it is transmitted to the ESD. However, only the ESD can run the entire Report F-196.

Error edits on Report F-196 must be corrected. Informational messages are also provided. The final Report F-196 cannot be run until all error messages are corrected. However, error messages on the reconciliation pages will not stop the running of Report F-196. The computer-produced error edits and warning messages, including any necessary edit explanations, must accompany the completed Report F-196.

### **Report F-196—Time Schedule**

Failure to adhere to due dates published in the Report F-196 bulletin may result in a delay of apportionment. The final date for filing is considered met if the postmark or other evidence indicates shipment prior to midnight on the final date.

### **Making Corrections to Report F-196 Annual Financial Statements**

The correction procedure consists of the school district filing corrected Report F-196 pages as an “informational supplement.” This informational supplement is filed with the district’s original Report F-196 at OSPI and the appropriate ESD. A brief memo addressing the pages and accounts, which were changed, should be attached to the corrected pages. The memo should also indicate if the correction was discovered by the district or required by SAO.

Corrected amounts are not updated into computer databases maintained at OSPI. These databases are closed shortly after the end of the fiscal year to facilitate the timely dissemination of annual financial statement data. Revised Report F-196 files provided by the district will not be included in any of the OSPI databases. Therefore, bulletins or financial reports issued by OSPI will not include the revised amounts. Computer edit programs for the School District Official Budget Document (Report F-195) or for Report F-196 will not include the corrected amounts.

The following applies to the filing of corrections:

- The correction must be the correction of an error.
- Corrections can be for any amount no matter how small.
- Only unaudited years are eligible for correction. Years for which an audit has been completed by SAO are not eligible for correction, unless the examiner first agrees to the correction.

### **Financial Reporting of Corrections**

Informational supplements (filings) to Report F-196 are generally only used for making adjustments to reimbursements that result from the correction of errors. They are not a replacement for the accounting and financial reporting of errors that are required in accordance with GAAP.

Since the informational supplement filing does not correct the actual Report F-196 filing, but only supplements it, the district must address the error correction in its current-year financial statements. These error corrections must be done in accordance with Financial Accounting Standards Board (FASB) Statement No. 16, “Prior Period Adjustments,” which states that immaterial prior period error corrections must be shown in the current-year’s revenue and expenditure accounts. If the error corrections are material in amount, the district will need to reflect the changes to the beginning fund balance of the current school year. (See definition of materiality below.) These accounting and reporting steps should be included in Report F-196 for the current year, and **not** for the year in which the error occurred. When the

question of a prior period adjustment comes up, the district may wish to work with the SAO's regional audit manager to obtain concurrence on how it should be handled.

**Definition of Materiality**

Materiality is defined in the FASB's Statement of Financial Accounting Concepts No. 2 as, "the magnitude of an omission or misstatement of account information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

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## **GAAP FINANCIAL REPORTS**

All districts must first report on the F-196. This section provides an overview of the adjustments and additional requirements needed to report financial statements in conformity with Generally Accepted Accounting Principles. The GASB's statements and GFOA's *Government Accounting, Auditing and Financial Reporting, 2001* (the "blue book") should be consulted for more detailed guidance. Sample statements are presented in Appendix C of this manual.

GAAP are the accounting rules, conventions, and procedures underlying the principles established by the Governmental Accounting Standards Board (GASB). These principles are part of the standards used in auditing school district financial statements in accordance with generally accepted auditing standards (GAAS). GASB Statement No. 34—*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* provides guidance on preparing statements in conformity with GAAP.

### **GAAP Requirements**

GAAP require the following minimum requirements for basic financial statements and required supplementary information (RSI):

- Management's discussion and analysis (MD&A). This RSI is presented before the financial statements.
- Districtwide financial statements consisting of the statement of net assets and statement of activities for governmental funds.
- Fund financial statements for governmental and fiduciary funds.
- Reconciliations between the districtwide statements which are presented using the economic resources measurement focus and accrual basis of accounting and the fund financial statements prepared using the current financial resources focus and modified basis of accounting. This may be reported in a separate schedule or at the bottom of the fund financial statements.
- Notes to the financial statements.
- Required supplementary information other than MD&A, including required budgetary comparison information. This RSI is presented after the notes to the financial statements.

### **Districtwide Financial Statements**

Districtwide financial statements display information about the district as a whole, except for fiduciary fund activity. These statements are prepared using the economic resources measurement focus and accrual basis of accounting. This means revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. The districtwide statements consist of:

- The Statement of Net Assets (*GASB Statement 34, paragraphs 30–37*).
- The Statement of Activities (*GASB 34 Statement 34, paragraphs 38–62*).

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## **STATEMENT OF NET ASSETS**

The statement of net assets reports all financial and capital resources. Although the GASB encourages a format displaying assets less liabilities equal net assets, balance sheet format (assets equal liabilities plus net assets) is permitted. Assets and liabilities may be presented in order of relative liquidity (preferred) or on a classified basis that distinguishes between current and long-term assets and liabilities.

Capital assets are reported on the statement of net assets at their historical cost net of depreciation. Historical cost includes ancillary charges necessary to place the assets into its intended location and condition for use. The assets are depreciated over their estimated useful lives using the straight-line method. The Office of Financial Management's (OFM) depreciation schedules applicable to school district assets should be used.

Net assets should be shown in three components:

- *Invested in capital assets, net of related debt* consists of capital assets, including restricted capital assets, net of accumulated depreciation. The outstanding balances of any bonds, mortgages, notes, or other borrowings attributable to the acquisition, construction, or improvement of the assets reduce this amount. Unspent related debt proceeds at year-end should be included in *restricted for capital projects*, not included as capital assets.
- *Restricted net assets* are those assets constrained by creditors, grantors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation, *and* include a legally enforceable requirement that resources be used only for the specific purpose stipulated in the legislation. \*
- *Unrestricted net assets* are those remaining net assets which do not meet the definition of either of the first two components.

\* Management frequently designates assets for specific purposes. This is an internal restriction that may be changed or removed by management and is therefore not considered to be a restriction.

Note: The amount reported as reserved fund balance in the district's funds will generally differ from the amount reported as restricted net assets in the statement of net assets. This is due to differences in the basis of accounting for the district's fund statements (modified accrual) and statement of net assets (accrual) and because "reserved" includes more resources than does "restricted" as used here.

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## **STATEMENT OF ACTIVITIES**

The statement of activities reports the operations of the district as net (expense) revenue of its individual funds. It shows the changes in the net assets reported on the statement of net assets by fund.

### **Expenses**

Expenses are reported before revenues, since in government the purpose of revenues is to provide the ability to make services available. At a minimum, districts must report all direct expenses by fund. Direct expenses are those clearly identifiable or specifically associated with a service or program. Special or extraordinary items are reported separately.

Districts are *not required* to allocate indirect expenses to functional activities. They are, however, permitted to do so. If indirect expenses are allocated, they should be presented in separate columns. Centralized administrative overhead, such as program 97, does not need to be identified or eliminated, but should be disclosed in the notes to the financial statements.

Depreciation on capital assets that can be specifically identified with a fund should be included as a direct expense. Depreciation for shared capital assets should be ratably included as a direct expense of the appropriate funds. Depreciation for a building or other asset serving all funds may be ratably assigned or shown as a separate line item or as part of “general government.”

Most interest on general long-term liabilities should be treated as an indirect expense; only interest on borrowing necessary to establish or maintain a program should be included as direct expense. Most interest on general long-term liabilities does not qualify as a direct expense and should be reported on a separate line.

### **Revenues**

#### **General Revenues**

All revenues are general revenues unless they are required to be reported as program revenues. General revenues are reported after total net expense of the government’s functions. The following are usually general revenues:

- Programs financed by the district’s taxpayers regardless of whether the taxpayer benefits from the program. This includes all taxes, even those restricted for a specific purpose. They should be reported by type of tax.
- Programs financed by the district itself, such as through investing.
- Programs financed by other governments, entities, or individuals outside the district if such revenue is *unrestricted*.

#### **Program Revenues**

Program revenues are generated directly from a program. They include:

- Revenue from those who purchase, use, or directly benefit from the goods or services of the program.
- Revenue from other governments, entities, and individuals if such revenue is *restricted* to a specific program(s).
- Earnings on endowments or permanent fund investments if restricted to a program specifically identified in the agreement.

The following three categories of program revenues should be reported on the statement of activities:

- Charges for services determined by the program that generates the revenue.
- Program-specific operating grants and contributions determined by the program for which the revenues are restricted.
- Program-specific capital grants and contributions determined by the program for which the revenues are restricted.

## **GOVERNMENTAL FUND FINANCIAL STATEMENTS**

Essentially, the F-196 equates to the governmental fund financial statements required by GAAP. There are two basic governmental fund statements:

- The governmental fund balance sheet.
- The governmental fund statement of revenues, expenditures, and changes in fund balances.

The F-196 requires reporting of the general, associated student body (ASB), capital projects, transportation vehicle, debt service, and permanent funds. GAAP distinguish between major and nonmajor funds, and require presentation, at a minimum, of the General Fund and all major funds. Because of the small number of school district funds in Washington and because all funds are required for F-196 reporting, it is recommended districts report all funds in GAAP statements. This will minimize fund statement adjustments and most clearly present the district's financial operations.

The Governmental Fund Balance Sheet focuses on current financial resources. Assets should be reported if they are a form of cash or will be converted to cash (e.g., receivables, investments, some capital gifts) or inventories. Assets that are not financial in nature, such as general capital assets (land, buildings and improvements, and equipment) should *not* be reported in governmental funds. Likewise, governmental funds do *not* report unmatured principal and interest of the district's long-term debt. Liabilities such as claims and judgments, compensated absences, and special termination benefits are recognized in the governmental funds only as they become due.

GAAP require presentation of assets and liabilities *either* in order of liquidity or classified as current and long-term. The former presentation is the most usual.

Fund balance is the difference between assets and liabilities. Fund balance is made up of unreserved amounts available for new spending and reserved amounts committed for specific uses. The most common reservations are for long-term loans and advances, legal restrictions, inventories and prepaids, and encumbrances.

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## **RECONCILIATIONS**

GAAP require presentation of a summary reconciliation at the bottom of the fund financial statements or in an accompanying schedule. Items typically need to reconcile the *total governmental fund balance to the net assets of governmental activities in the statement of net assets* include (GASB 34, para. 85):

- Reporting capital assets at their historical cost and depreciating them instead of reporting capital acquisitions as expenditures when incurred.
- Adding general long-term liabilities not due and payable in the current period.
- Reducing deferred revenue for those amounts that were not available to pay current period expenditures.

Items needed to reconcile the *total change in governmental fund balances to the change in the net assets of governmental activities in the statement of activities* include effects of (GASB 34, para 90):

- Reporting revenues on the accrual basis.
- Reporting annual depreciation expense instead of expenditures for capital outlay.
- Reporting long-term debt proceeds in the statement of net assets as liabilities instead of other financing sources.
- Reporting debt principal payments in the statement of net assets as reductions of liabilities instead of expenditures.
- Reporting other expenses on the accrual basis.

## **FIDUCIARY FUNDS—REQUIRED FINANCIAL STATEMENTS**

Two statements are required for fiduciary funds (GASB 34, para. 106–109):

- The statement of fiduciary net assets.
- The statement of changes in fiduciary net assets.

Separate columns are required for each type of fiduciary fund. Although GAAP discusses four fiduciary types, only two are used by school districts in Washington State. Most districts will have private-purpose trust funds; a few will have pension and other employee benefit trust funds.

The statement of fiduciary net assets is reported on the F-196. Fiduciary funds continue to be reported using the economic resources measurement focus and the accrual basis of accounting.

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## **NOTES TO THE FINANCIAL STATEMENTS**

The Notes to the Financial Statements are essential in explaining significant accounting policies and circumstances that affect the district's financial position and results of operations.

Notes in financial reporting are the responsibility of the school district, not the auditor, and accordingly are subject to audit as an integral part of the financial statements. Sample notes to the financial statements are included in Appendix B.

## **CERTIFICATES OF AWARD**

To be awarded the Certificate of Excellence in Financial Reporting from the Association of School Business Officials (ASBO) or the Certificate of Achievement for Excellence in Financial Reporting issued by the Governmental Finance Officers' Association (GFOA), a district's comprehensive annual financial report (CAFR) must be submitted to these organizations for review. Basic financial statements, together with combining statements for the Capital Projects Fund and certain statistical and demographic information, are the primary components of the CAFR.

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## **STATE AUDITOR'S OPINIONS**

The State Auditor's Office conducts audits of school districts and issues audit reports as a result of those audits. Audit reports cover compliance with local, state and federal requirements, adequacy of internal controls, and an examination of financial statements. The number and kinds of reports vary depending on the circumstances of each audit. The reports are grouped into a single audit section and a financial section.

If you have any questions regarding auditor's reports, you may contact your SAO audit manager or an SAO member of the School District Accounting Advisory Committee.

### **Compliance Opinions**

All audits include a report on compliance with state laws and regulations. RCW 43.09.260 mandates "inquiry shall be made as to ... whether the Constitution and laws of the state, the ordinances and orders of the taxing district, and the requirements of the division of municipal corporations have been complied with."

The federal Single Audit Act of 1984, as amended in 1994, mandates certain reports and requires very specific language. The Single Audit Act is the congressionally mandatory method of auditing federal grant programs. Audits of most school districts fall under the requirements of the Single Audit Act.

Reports required under the Single Audit Act include an evaluation of the Schedule of Expenditure of Federal Awards. This schedule lists all federal grant programs administered by the district. The format of the schedule is prescribed by SAO and may be obtained from that office.

Compliance with federal requirements is addressed in several kinds of reports. An audit report covering the district's conformity with general compliance requirements is required. Districts with so-called major awards require a report covering the district's compliance with specific requirements for major awards. And the district's compliance with specific requirements for nonmajor awards is necessary where nonmajor awards are examined.

An audit report on compliance with specific requirements is always required for districts with major awards and frequently for nonmajor awards.

### **Financial Reports**

School districts receive a financial opinion. Different opinions are rendered depending upon the financial statement's basis of accounting.

School districts with fewer than 1,000 full-time equivalent students (FTEs) and using cash basis accounting receive a cash basis opinion. The cash basis opinion states whether the financial statements are presented fairly, in all material respects, in conformity with the cash basis of accounting.

School districts with an enrollment greater than 1,000 FTEs present their financial statements using the regulatory (F-196) basis of accounting. The regulatory basis opinion states whether the financial statements are presented fairly, in all material respects, in conformity with the regulatory basis of accounting.

Districts may choose to issue GAAP statements, and receive an opinion indicating the financial statements are presented in accordance with generally accepted accounting principles.

Statements prescribed for the F-196 in *The Accounting Manual for School Districts in the State of Washington* differ from GAAP in the following areas:

- Districtwide statements (Statement of Net Assets and Statement of Activities) are not prepared.
- The original adopted budget is not presented. GAAP require this for the General Fund and major special revenue (ASB) fund.
- Infrastructure is not considered material to schools and is not presented.
- Capital assets are not presented in the governmental fund statements, but are disclosed in the notes to the financial statements.
- Long-term debt is reported on a Schedule of Long-Term Debt and in the notes to the financial statements, but not in the governmental fund statements.
- The Management Discussion and Analysis, required supplementary information under GAAP, is not required.

### **Internal Control Structure**

Professional standards and the Single Audit Act require reports on:

- The internal control structure, based on an audit of the financial statements.
- Single audit report on the internal control structure used in administering federal award programs.

During the audit, a material weakness in the school district's internal control structure may be material errors or material irregularities in the financial statements that would be detected or prevented by the district's internal control structure. When a material weakness is discovered, the standard report form must be modified. The material weakness should be described and the reason for the weakness should be noted. (A material weakness can result from poor internal control design or noncompliance with established controls.)

## **OTHER FINANCIAL REPORTS**

### **Assisting in Determining Compliance with Finance-Related Laws, Rules, and Regulations**

In addition to the legally mandated budgetary and fund controls, there may be other legal restrictions controlling governmental actions. Financial reports may help demonstrate compliance with grant restrictions, bond covenants, and taxing and debt limits. Failure to comply with legal or contractual provisions may indicate fiscal irresponsibility and could have financial consequences such as disallowed costs, loss of grants, and/or acceleration of debt payments. Therefore, governments should ensure that the accounting system is capable of providing the necessary information to demonstrate compliance with the applicable laws, rules, and regulations.

### **Schedule of Expenditure of Federal Awards**

Under the Single Audit Act, a schedule of expenditure of federal awards must be prepared by school districts expending more than \$500,000 in federal awards.

The SAO prescribes the form and content of the schedule. State programs are not included; however, indirect federal moneys administered through OSPI are included on the schedule.

### **Assisting in Evaluating Efficiency and Effectiveness**

Taxpayers and other governmental entities want information about service efforts, costs, and accomplishments of governmental entities and consider this information a necessary element of financial reporting. This information, along with additional information, may help users assess the economy, efficiency, and effectiveness of a government and may help form a basis for voting or funding decisions. To be of value, the information needs to be of sufficient detail to permit comparisons with other years and other governmental entities.

Currently, in the state of Washington, there are no required reports of this kind, although some districts may already be issuing this type of report for the board and the taxpayers of the district. They may provide reports on the cost of providing education to students at different grade levels over a period of time, or the cost of housing students now, as compared to projections for the future.

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## **SCHEDULE OF LONG-TERM DEBT**

This schedule provides information about the **long-term debt** of a school district. It is also used to corroborate the amounts of long-term debt shown on any balance sheets and the amounts of debt service (principal only) shown on operating statements. There are three categories of debt: general debt, revenue debt, and refunded debt.

Any debt category may contain numerous kinds of debt instruments. For example, general debt is not limited to general obligation bonds, but can also contain bond anticipation notes, claims and judgments, installment sales contracts, lease-purchase agreements, etc.

This schedule may be submitted in any format, as long as the required information is provided.

### **DESCRIPTION**

List all bonded debt at par. Include principal only on all debt. Do not include any interfund debt, liabilities for deferred compensation, employee leave benefits or any short-term debt (less than one year). Generally, construction contracts are not considered debt except to the extent the contractor has performed. Describe the purpose(s) for which the debt proceeds were spent. If a refunding issue is partly refinancing and partly new financing, show both purposes. Refunded debt should continue to show the original purpose of the issue. If the purpose is not known, leave this column blank.

#### **General Debt includes the following:**

- Limited General Obligation Bonds for Capital Purposes (No Vote Required).
- Unlimited General Obligation Bonds for Capital Purposes (Vote Required).
- Advance Refunding—Defeasance Method.
- Advance Refunding—Crossover Method.
- Claims and Judgments (Long-Term Only).
- Compensated Absences (Long-Term Only).
- Installment Sales Contracts.
- Lease-Purchase Agreements.
- Other Capital Leases.
- Anticipation Notes and Warrants for Capital Purposes (Including Bond Anticipation Notes and Tax Anticipation Notes).
- Anticipation Notes and Warrants for M and O Purposes (Including Bond Anticipation Notes and Tax Anticipation Notes).
- Other Notes Payable for Capital Purposes.
- Other Notes Payable.
- Due to Other Governmental Units for Capital Purposes (Long-Term Only. An Example is the Amount Due to the State Retirement System for Pension Systems Prior to PERS, SERS, and TRS.)
- Due to Other Governmental Units for M and O Purposes (Long-Term Only).
- Miscellaneous Long-Term General Debt for Capital Purposes.
- Miscellaneous Long-Term General Debt.

**NOTE:** M and O refers to Maintenance and Operation.

DATE OF ORIGINAL ISSUE / DATE OF MATURITY - These columns are self-explanatory.

Column 1 **BEGINNING OUTSTANDING DEBT**—This column should include the amount of debt that was owed at the beginning of this period. The amount shown should equal the last year ending balance. If there is a discrepancy, attach an explanation.

Column 2 **AMOUNT ISSUED/INCREASED**—In this column, report the entire amount of any new debt or any additional debt issued (or borrowed) during the current period. For example, assume a G.O. bond authorized in the previous year at \$5,000,000, with \$4,000,000 issued that year and an additional \$500,000 issued in the report year. Under these circumstances, this column should total \$500,000.

Column 3 **AMOUNT REDEEMED/DECREASED**—In this column, report the amount of debt redeemed or decreased in the current year. Do not include interest paid on the redeemed debt. The total amount in this column should be equal to long-term debt payments.

Column 4 **ENDING OUTSTANDING DEBT**—In this column, report the amount of debt that is owed at the end of this period.

Ending outstanding debt, column (4), is calculated by adding the amounts in columns (1) and (2) and subtracting column (3).

$$(1) + (2) - (3) = (4)$$

Total the last five columns for each debt type.

**(SAMPLE DISTRICT)**  
**SCHEDULE OF LONG-TERM DEBT**  
**For The Year Ended August 31, 200X**

	(1)	(2)	(3)	(4)
DESCRIPTION	BEGINNING OUTSTANDING DEBT (ENDING OUTSTANDING DEBT BALANCE FROM PRIOR YEAR)	AMOUNT ISSUED/INCREASED IN CURRENT YEAR	AMOUNT REDEEMED/DECREASED IN CURRENT YEAR	ENDING OUTSTANDING DEBT (1) + (2) - (3)
<b>Total Voted Notes/Bonds</b>	<b>\$1,555,000</b>		<b>\$520,000</b>	<b>\$1,035,000</b>
<b>Total Nonvoted Notes/Bonds</b>	<b>\$580,000</b>		<b>\$145,000</b>	<b>\$435,000</b>
<b>Total QZAB</b>	<b>\$5,140,120</b>		<b>\$3,280,000</b>	<b>\$1,860,120</b>
<b>Other Long-Term Debt:</b>				
Capital Leases	\$712,391	\$108,850	\$309,311	\$511,930
Contracts Payable	1,405,000		405,000	1,000,000
Non-Cancelable Operating Leases	56,000		12,000	44,000
Claims & Judgments				
Compensated Absences	<u>12,866,283</u>	<u>1,310,631</u>	<u>967,043</u>	<u>13,209,871</u>
<b>Total Other Long-Term Debt</b>	<b>\$15,039,674</b>	<b>\$1,419,481</b>	<b>\$1,693,354</b>	<b>\$14,765,801</b>
<b>Total Long-Term Debt</b>	<b><u>\$22,314,794</u></b>	<b><u>\$1,419,481</u></b>	<b><u>\$5,638,354</u></b>	<b><u>\$18,095,921</u></b>

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## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)**

The Schedule of Expenditures of Federal Awards (SEFA) is an essential document for planning and conducting the audit of your organization. It also provides assurance to those agencies that award financial assistance that their programs or grants were included in the audit. It is important to prepare this schedule carefully to ensure that it is accurate and complete. Any program or grant omitted from this schedule will be considered unaudited. This schedule should be prepared on the same basis of accounting as the financial statements.

Include on this schedule all expenditures of federal awards for the year. Federal awards expended include the following:

- Expenditure transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations.
- Disbursement of funds passed through to sub-recipients.
- Receipt of loan proceeds under loan and loan guarantee programs.
- Receipt of federal property and surplus property.
- Receipt or use of program income (see revolving loan exception below).
- Distribution or consumption of food commodities.
- Disbursement of amounts entitling a non-federal entity to an interest subsidy.
- Insurance contracts in force during the period under audit.

Include federal awards received directly from a federal agency and indirectly from a state agency or local government.

List all financial assistance from the same federal agency together on the schedule (for example, group all ED awards together). Next, within each federal agency section, list all direct awards first followed by indirect awards.

Provide subtotals for programs with the same Catalog of Federal Domestic Assistance (CFDA) number. Also provide subtotals for assistance received directly and assistance received indirectly. Provide a total for each federal agency.

It is important to note that the expenses reported on the Schedule of Expenditures of Federal Awards will not necessarily tie to those reported on the operating statement, especially if the federal awards include loans, insurance, or commodities. However, amounts should agree or reconcile to records maintained by finance, budget, and treasury departments. Indirect costs, restricted or unrestricted as applicable, should be included in the expenditure amounts.

### **Valuation of Federal Loans and Noncash Assistance**

Use the following guidelines to calculate the value of “federal awards expended” under loan programs:

- (1) Amount of new loans received during the fiscal year; plus
- (2) Balance of loans from previous years for which the federal government imposes continuing compliance requirements; plus
- (3) Any interest subsidy, cash, or administrative cost allowance received.

**NOTE:** Loans, the proceeds of which were received and expended in prior years, are not considered federal awards expended when the laws, regulations, and the provisions of contracts or grant agreements pertaining to such loans impose no continuing compliance requirements other than to repay the loans

**Noncash Assistance:** Food stamps, food commodities, donated property, and donated surplus property should be valued at fair market value at the time of receipt or the assessed value provided by the federal agency. The Notes to the Schedule of Expenditures of Federal Awards should disclose the nature of the amounts reported.

**Revolving Loans:** According to the federal regulations, repayments of principal and interest are considered program income (revenues) and loans of such funds to eligible recipients are considered expenditures. For purpose of this schedule, report only the amount of loan funds expended during the year.

### **Other Preparation Hints for Both Schedules**

Often, federal financial assistance received indirectly is a mix of federal and state or local money. List only the federal share on the *Schedule of Expenditures of Federal Awards*. If the state or local portion cannot be identified, list the entire amount on the *Schedule of Expenditures of Federal Awards* and describe the commingled nature of the funds in the *Notes to the Schedule of Expenditures of Federal Awards*.

The funds received as *fee for services* should not be included on the schedule.

Records must agree or reconcile to those in finance, budget, and treasury departments.

### **Example of Schedule of Expenditures of Federal Awards**

This schedule should be prepared for the year in which federal awards are **expended**. Preparation of this schedule should not be based on the date(s) that funds are received (e.g., advances or reimbursement).

Column 1 **Federal Agency Name**—Enter the name of the federal granting agency that administers the program (for example, the federal grantor for Title I is the U.S. Department of Education).

Column 2 **Pass Through Agency**—Enter the name of the pass through agency that awarded the funding to your district (for example, OSPI, DSHS, ESD 121, Spokane County, etc.). **Note: Leave this column blank if the award is received directly from a federal agency.**

Column 3 **Federal Program Title**—Enter the name of the federal program as listed in the Catalog of Federal Domestic Assistance (CFDA). Please do not use common names or nicknames. The CFDA is available in hard copy or can be viewed at [www.cfda.gov/](http://www.cfda.gov/).

Column 4 **CFDA Number**—The CFDA number is a five-digit (XX.XXX) identification number that identifies the federal granting agency and the program. For example, the CFDA

number for the U.S. Department of Agriculture (USDA) School Breakfast Program is 10.553.

Every effort should be made to obtain CFDA numbers. If the number cannot be obtained, or if an award has not been assigned a CFDA number, you can develop a CFDA number. The first two digits of the number should identify the federal agency. A list of the two-digit prefixes for all federal agencies is provided in Chapter 5, Section 5, and page 2. Once you determine the first two digits, enter the grant agreement number or contract number. For example, an award from the U.S. Department of Health and Human Services with no CFDA number, but with a contract number of "04356WA," can be entered on the SEFA as "93.04356WA."

Column 5 **Other ID Number**—Enter the grant agreement or contract number/code assigned by the federal grantor or pass through agency for each program. If a number is not available or applicable, enter "n/a."

Column 6 **Expenditures From Direct Awards**—Enter the amount of **expenditures** for assistance received **directly** from a federal agency. When calculating the amount expended for each program, be sure to include both direct costs and indirect costs (restricted or unrestricted).

*NOTE: Any amounts your district passes through (i.e. a subgrant to other entities) are considered expenditures. Consequently, the total amount expended for a particular federal award includes all amounts expended by your district and any amounts awarded to other districts.*

Column 7 **Expenditures From Pass Through Awards**—Enter the amount of expenditures for federal assistance received as a pass through award from a state agency, local government, ESD, non-profit organization, etc. Note: when calculating the amount expended for each program, be sure to include both direct costs and indirect costs (restricted or unrestricted).

*NOTE: Any amounts your district passes through (i.e. a subgrant to other entities) are considered expenditures. Consequently, the total amount expended for a particular federal award includes all amounts expended by your district and any amounts awarded to other districts.*

Column 8 **Total Expenditures**—Enter the combined total of all federal expenditures. This is the total of the amount reported as direct awards and pass through awards in column 6 and 7.

Column 9 **Footnote Reference**—If applicable, enter the reference number that corresponds with the "Notes to the Schedule."

 **Notes to the Schedule**

Page 5 illustrates footnotes that should be included in the SEFA if applicable to your district. Included in this illustration are disclosures for districts operating schoolwide programs, and/or exercising the transferability option provided for by No Child Left Behind (NCLB) or the Small Rural Schools (SRSA) option.



## **Notes to the Schedule of Expenditures of Federal Awards (Example)**

Include the following notes to the schedule either as an attachment to the schedule or on the face of the schedule (if space permits). The notes should disclose the basis of accounting, definitions of abbreviations, and any other information that might be needed by the reader. Each district should prepare notes that describe their particular programs and circumstances. The following notes are considered examples only:

### **NOTE 1—BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the (district)'s financial statements. The (district) uses the (cash/modified accrual/accrual) bases. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

### **NOTE 2—PROGRAM COSTS/MATCHING CONTRIBUTIONS**

The amounts shown as current year expenses represent only the (federal/state/local) grant portion of the program costs. Entire program costs, including the (district)'s portion, may be more than shown.

### **NOTE 3—NONCASH AWARDS**

The amount of (vaccine/dental items/commodities/surplus property/etc.) reported on the schedule is the value of (vaccine/dental items/commodities/surplus property/etc.) distributed by the (district) during the current year and priced as prescribed by \_\_\_\_\_.

### **NOTE 4—SCHOOLWIDE PROGRAMS**

The (district) operates a "schoolwide program" in three elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the (district) in its schoolwide program: Title I (84.010) (\$ dollar amount); Migrant Education (84.011) (\$ dollar amount).

### **NOTE 5—TRANSFERABILITY**

As allowed by federal regulations, the (district) expended (\$ dollar amount) from Title II Improving Teacher Quality, Part A (84.367) to Safe and Drug-Free Schools (84.186). This amount is reflected in the expenditures of Safe and Drug-Free Schools (84.186).

### **NOTE 6—SMALL RURAL SCHOOLS ACHIEVEMENT (SRSA)**

As allowed by federal regulations, the (district) expended (\$ dollar amount) from Title II Improving Teacher Quality, Part A (84.367) funds for activities of the Safe and Drug-Free Schools (84.186) program. This amount is reflected in the expenditures of Title II Improving Teacher Quality, Part A (84.367).

### **NOTE 7—NOT AVAILABLE (N/A)**

The (district) was unable to obtain other identification number.

### **NOTE 8—FEDERAL INDIRECT RATE**

The (district) used the federal (restricted/unrestricted) indirect rate.

**(SAMPLE DISTRICT)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For the Year Ending August 31, 20XX

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	Expenditures			Footnote
					From Direct Awards	From Pass Through Awards	Total	
USDA	WA OSPI	Food Distribution (Commodities)	10.550	N/A		\$17,250	\$17,250	3
		School Breakfast Program	10.553	N/A		25,000	25,000	
		National School Lunch	10.555	N/A		200,000	200,000	
		Total US Department of Agriculture					\$242,250	
U.S. Dept of Ed	WA OSPI	Title I, Part A, Grants to LEAs	84.010	21464		\$400,500	\$400,500	4
		Title I, Part C, Migrant Education	84.011	23124		65,000	65,000	4
		Impact Aid	84.041	N/A	\$ 30,000		30,000	
		Safe & Drug-Free Schools	84.186	N/A		50,000	50,000	5
		Title II Improving Teacher Quality	84.367	N/A		118,000	118,000	5, 6
Total US Dept of Education					\$30,000	\$633,500	\$633,500	
U.S. Dept of Health and Human Services	WA DOH	Immunization Grants	93.258	RI 12344		\$2,500	\$2,500	3
		ESD 112	Head Start	93.600	10CH002		90,000	
	WA DSHS	Medicaid Administrative Match	93.778	N/A		3,000	3,000	
		Total US Dept of Health and Human Services					\$95,500	\$95,500
<b>TOTAL FEDERAL AWARDS EXPENDED</b>						<b>\$30,000</b>	<b>\$971,250</b>	<b>\$971,500</b>

*The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule*