

Attachment B

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

CHAPTER 8 – Financial Reporting

Page 8-8, SAO’S Adverse Opinion on Adherence to U.S. GAAP: Narrative has been added to describe SAO’s new position regarding their audit opinion on the F-196 financial reports. New guidance is embedded into the **FINANCIAL AND SINGLE AUDITS** section of the Chapter. The entire section is included in this addendum for reference.

FINANCIAL AND SINGLE AUDITS

Financial statement audits provide an audit opinion about whether the district’s financial statements are presented fairly in all material respects in conformity with the applicable financial reporting framework. Financial statement audits are performed in accordance with Government Auditing Standards and also include reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.

Single audits are required if the district spends at least \$750,000 in total federal financial assistance annually. These audits are performed in accordance with Generally Accepted Government Auditing Standards and are an assessment of internal controls over federal programs, tests of how those controls are working, and tests of compliance with federal requirements.

Contact your Local Audit Team at the State Auditor’s Office (SAO) to address your questions and discuss your district’s audit requirements.

For audit purposes, the financial statement (F-196) is comprised of the following financial elements:

- Balance Sheet
- Statement of Revenues, Expenditures, and Changes in Fund Balance, All Funds – For the Year Ended August 31, 20XX
- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Schedule of Long-Term Liabilities

The Schedule of Long-Term Liabilities is required to be included with audited financial statements as supplementary information.

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 Position 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 Liabilities 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.

SAO's Adverse Opinion on Adherence to U.S. GAAP

SAO has made changes to modified accrual financial statement Audit Reports. This change is effective for the audit reports on the 2016–17 F-196 financial statements.

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.

(Ref: AU-C §800.21)

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.

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.

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.

SAO issues similar two-opinion reports 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.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP.

As described in Note 1, management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. GAAP requires such presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the District's governmental activities have not been determined. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Example School District No. 999, as of August 31, 2017, or the changes in financial position or cash flows for the year then ended, due to the

significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

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.)

Reporting Levels of Audit Recommendations

SAO utilizes the following three levels of reporting on issues that arise during a financial audit:

- **Findings** formally address issues in an audit report. Districts are given the opportunity to respond to a finding, and this response, or a synopsis of it, will be published in the audit report.
- **Management Letters** communicate less significant issues of noncompliance and make recommendations for strengthening internal controls. Management letters are referenced, but are not included, in the audit report.
- **Exit Items** are less serious audit issues than a finding or management letter. These issues are informally communicated to a district.