STANDARDS AND PROCEDURES
FOR
AUDITS OF CALIFORNIA K-12
LOCAL EDUCATIONAL AGENCIES

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April 2003

(revised GASB 34 statements July 2003)

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SECTION 100
INTRODUCTION

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INTRODUCTION 100

PURPOSE OF THE AUDIT GUIDE 110

The State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (audit guide) is designed to assist certified public accountants and public accountants in performing audits of K-12 local educational agencies (LEAs) and certain joint powers entities (JPEs). (Applicable JPEs are defined in Section 140.) It offers general insight into the nature and scope of the audit engagements, provides guidelines for the administration of the audits, and identifies the minimum audit and reporting requirements necessary to comply with statutory requirements. It is not intended to be a complete manual of procedures, nor is it intended to supplant the auditor's judgment.

This audit guide may also prove useful to LEAs and JPEs[1] in compiling the financial and statistical information required in their annual audit reports.

AUDIT OBJECTIVES 120

The general objectives of each audit are to determine whether:

- The financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles;
- There is effective control over and proper accounting for revenues, expenditures, assets, and liabilities;
- State and federal financial reports and claims for advances or reimbursements contain accurate and reliable financial data and are presented in accordance with the terms of applicable agreements; and
- State and federal funds are being expended in accordance with the terms of applicable agreements and those provisions of law or regulations that could have a material effect on the financial statements or on the major programs tested.

BACKGROUND 130

Senate Bill 1379 became law on June 29, 1984 (Chapter 268, Statutes of 1984). This bill added Chapter 3 (commencing with Section 14500) to Part 9, Division 1 of Title 1 of the *Education Code*. Commencing with fiscal year (FY) 1984-85, the enactment of SB 1379 established the State Controller as the primary oversight agency for monitoring audits of K-12 school districts and the offices of county superintendents of schools.

The key responsibilities of the State Controller are identified in the following, with the appropriate *Education Code* references:

- It is the intent of the Legislature in enacting this chapter to promote accountability over public education funding by establishing a new program to review and report on financial and compliance audits of school districts and the offices of county superintendents of schools. It is further the intent of the Legislature that the Controller shall have the primary responsibility for implementing and overseeing the program (*Education Code* Section 14500).

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[1] Throughout the remaining sections of the audit guide, "entity" will be used to reference LEAs and JPEs when both are applicable.

BACKGROUND (continued) **130**

- The Controller, in consultation with the Department of Finance and the Department of Education, shall develop a plan to review and report on financial and compliance audits. The plan shall commence with FY 1984-85 for audits of school districts and the offices of county superintendents of schools (*Education Code* Section 14502).

- The Controller, in consultation with the Department of Finance, the State Department of Education, representatives of the California School Boards Association, the California Association of School Business Officials, the California County Superintendents Educational Service Association, the California Teachers Association, and the California Society of Certified Public Accountants, shall prescribe the statements and other information to be included in the audit reports filed with the state and shall develop an audit guide to carry out the purposes of this chapter. (*Education Code* Section 14502.1).

- To determine the practicability and effectiveness of the audits and audit guide, the Controller shall, on an annual basis, review and monitor the audit reports performed by independent auditors. The Controller shall determine whether audit reports are in conformance with reporting provisions of subdivision (a) of Section 14503 and shall notify each local education agency, office of the responsible county superintendent of schools, the Superintendent of Public Instruction, the Department of Finance, and the auditor regarding each determination. The local education agency or the county superintendent of schools contracting for the financial and compliance audit shall include a statement that will provide the Controller access to audit working papers. (*Education Code* Section 14504).

JOINT POWERS ENTITIES **140**

Education Code Section 41023 generally requires that any agency organized under a joint powers agreement, the parties of which consist solely of school district and county offices of education, be subject to the same requirements (including auditing requirements) applicable to LEAs.

This section does not apply to joint powers agreements for:

- Health and welfare benefits for employees;
- School district property insurance;
- Any liability insurance; and
- Workers' compensation.

AUDIT GUIDE REVISIONS **150**

Revisions to this audit guide will be made as experience suggests ways to improve accountability, or changes in statutes and regulations require procedural updates. Suggestions are encouraged and should be addressed to the State Controller's Office along with any other questions or correspondence concerning the audit guide.

SECTION 200
AUDIT ADMINISTRATION

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AUDIT ADMINISTRATION 200

ARRANGEMENT FOR AUDIT 210

The governing board of each entity is required to provide for an audit or arrange with the county superintendent of schools to provide for an audit on an annual basis.

Not later than the first day of May of each fiscal year, each county superintendent of schools shall provide for an audit of all funds under his or her jurisdiction and control and the governing board of each local education agency shall either provide for an audit of the books and accounts of the local education agency, including an audit of income and expenditures by source of funds, or make arrangements with the county superintendent of schools having jurisdiction over the local education agency to provide for that auditing (Education Code Section 41020(b)(1)).

If the governing board of a local education agency has not provided for an audit of the books and accounts of the local education agency by April 1, the county superintendent of schools having jurisdiction over the local education agency shall provide for the audit of each local education agency (Education Code Section 41020(b)(3)).

Audit Arrangements	
Governing Board	County Superintendent
April 1	May 1

The audits shall be made by a certified public accountant or a public accountant, licensed by the California Board of Accountancy, and selected by the local education agency, as applicable, from a directory of certified public accountants and public accountants deemed by the Controller as qualified to conduct audits of local education agencies, which shall be published by the Controller not later than December 31 of each year (Education Code Section 41020(f)(1)).

An entity shall not use the services of a CPA or PA who is ineligible to conduct audits. (Refer to Section 270 for more information regarding the determination of ineligibility.)

CONTRACT PROVISIONS 220

All entities shall include in their contracts for audit the provisions described below.

10% and 50% Withholding 221

Education Code Section 14505 requires that all audit contracts include the following withholding provisions:

- 10% of the audit fee must be withheld until the State Controller certifies that the audit report conforms to the reporting standards in the State Controller's audit guide.

- For multiyear contracts, in addition to the 10% provision, 50% of the audit fee must be withheld for any subsequent year of a multiyear contract if the prior year's audit report was not certified as conforming to the reporting standards in the State Controller's audit guide.

  This provision must include a statement that a multiyear contract will be null and void if the State Controller declares a firm or individual ineligible to conduct audits.

Access to Working Papers 222

The State Controller shall be granted access to audit working papers prepared by the auditors (*Education Code* Section 14504).

Other **223**

The contract between the entity and the auditor should also include the following:

- Period for which financial statements are to be examined;
- Purpose of examination;
- Scope of examination;
- Reference that the audit will be conducted and distributed in accordance with the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*;
- Provision that the auditor will issue a management letter commenting on areas of possible improvements in structures, procedures, and management practices of the entity; and identify areas of possible violations of financial and accounting-related regulatory provisions;
- Provision that the auditor will discuss with the entity any factors he/she may discover that would prevent him/her from issuing an unqualified opinion on the financial statements and allow the entity and the auditor the opportunity to arrive at a resolution acceptable to both;
- Statement of the auditor's responsibility for detection of fraud; and
- Estimated maximum or fixed cost of the audit.

AUDIT REPORT DUE DATE **230**

Audit reports for the preceding fiscal year must be filed with the State Controller's Office (SCO), the California Department of Education (CDE), and the county superintendent of schools by **DECEMBER 15**.

Audit reports are considered to be filed on time if postmarked or received on or before December 15. However, the SCO encourages early submission of audit reports so that certifications may be processed in a timely manner.

Audit Report Filing Extensions **231**

Education Code Section 41020.2 provides for an extension of the audit report filing deadline of December 15. An extension does not waive the legal deadline, but it permits filing of the audit report after the deadline.

The county superintendent of schools may grant an appropriate extension for the completion of the audit and filing of the audit report after taking the following actions:

- Consult with the entity's governing board and the independent auditors under contract with the entity.
- Obtain consent for the extension from the SCO and the CDE.

The Department of Education's guidelines state that extensions will be granted only under extraordinary circumstances. The request must be received by both the SCO and the CDE no later than December 1. Prior to December 15, the SCO and CDE will review the request and accompanying justification and provide notification as to whether the extension is granted or denied.

Late Audit Reports **232**

Entities and their auditors may be subject to sanctions if they file reports after December 15 without an extension.

Education Code Section 42129 authorizes the Superintendent of Public Instruction to direct the county auditor to withhold payment of any stipend, expenses, or salaries to the district superintendent, county superintendent, or members of the governing boards whenever an audit report is delayed more than 14 days beyond the filing deadline. The withholding shall continue until the reports are received by the CDE.

AUDIT REPORT DUE DATE (continued) **230**

Late Audit Reports (continued) **232**

Auditors who file their reports after December 15 without an extension should be aware that any delay in filing may ultimately result in specific sanctions taken against them. Those sanctions are described in Section 270.

Education Code Section 41020.2 authorizes the county superintendent of schools or the SCO to investigate the causes for report filing delays and initiate action for completion of the audit. These agencies are permitted to make alternative arrangements for the conduct of the audit and preparation of the audited financial statements if the auditors under contract are unable to complete the report within a reasonable time.

DISTRIBUTION OF AUDIT REPORTS **240**

The audit reports must be filed with all of the following agencies:

- **STATE CONTROLLER (1 COPY)**

Postal Address		Freight Deliveries Only
State Controller's Office Division of Audits School District Audits Post Office Box 942850 Sacramento, California 94250-5874	or	State Controller's Office Division of Audits School District Audits 300 Capitol Mall, Fifth Floor Sacramento, California 95814

- **CALIFORNIA DEPARTMENT OF EDUCATION (1 Copy)**

  California Department of Education
  School Fiscal Services Division
  1430 N Street, Suite 3800
  Sacramento, California 95814

- **COUNTY SUPERINTENDENT OF SCHOOLS (1 Copy)**
- **FEDERAL AUDIT CLEARINGHOUSE**

  Audit reports should be submitted to the Federal Audit Clearinghouse in accordance with the following guidelines:

  - 1 Copy - If the school district or county offices of education received $300,000 or more in federal awards.
  - 2 Copies - If the school district or county offices of education is a grantee or recipient of direct U.S. Department of Education funding. A transmittal cover letter must accompany these two copies.

  Additionally, when there are current or prior year findings, one copy should be sent for each affected federal agency.

  The federal guidelines described above are separate, so both may apply. Each school district and county offices of education and their auditors must determine the correct number of reports to submit. If both requirements apply, three copies should be submitted to:

  Federal Audit Clearinghouse
  Bureau of the Census
  1201 E. 10th Street
  Jeffersonville, Indiana 47132

DISTRIBUTION OF AUDIT REPORTS (continued) **240**

LEAs that receive direct grants (Head Start) from the U.S. Department of Health and Human Services should send a copy of their annual audit report to:

Regional Inspector General for Audit
U.S. Department of Health and Human Services
50 United Nations Plaza, Room 171
San Francisco, California 94102

CERTIFICATION OF AUDIT REPORTS **250**

The State Controller's Office (SCO) is responsible for reviewing the annual audit reports to determine whether the reports conform to the reporting provisions of this audit guide. The review criteria used by the SCO is contained in an audit report review questionnaire. A copy of the review questionnaire is available upon request.

After each audit report is reviewed, the SCO mails written notification of the review results to the entity and its independent auditor. If the audit report is determined acceptable, it is certified as conforming to the reporting standards contained in this audit guide. When a report is not acceptable, the notification letter includes a brief description of each exception. Section 251 addresses the procedures for correcting reporting exceptions.

Upon completing the review process for all entities, the SCO prepares a status report that presents the review results for the entities within each county. Each county superintendent of schools is mailed a status report for the entities within his or her jurisdiction.

Correction or Modification of Audit Reports **251**

When an audit report does not meet the minimum reporting standards in this audit guide, a notification letter describing each exception is mailed to the entity and its independent auditor. The auditor who receives such notification is encouraged to make the necessary corrections and submit the revisions promptly.

The SCO will provide assistance to the auditor, if necessary, so that an acceptable report can be filed. Auditors or entities are welcome to contact the SCO by telephone if they have any questions.

The auditor or entity may find that other audit report modifications — such as additional comments, explanations, or corrections — are necessary after the report has been filed. Some modifications may require that the audit report be reissued in its entirety, while other modifications may be prepared as inserts or supplements. All audit report modifications should be distributed to all holders of the report.

Appeal of Review Results **252**

When the SCO determines that an audit report does not meet the minimum reporting standards in this audit guide, the auditor may appeal the review results. The appeals process allows the auditor to seek release of that portion of the audit fee withheld when the auditor disagrees with the State Controller's determination and elects not to revise the audit report.

Within 30 days after receiving written notification that the SCO will not certify an audit report, the auditor or audit firm may file an appeal in writing with the State Board of Accountancy. The State Board of Accountancy must complete an investigation of the appeal within 90 days of the filing date. Based on the investigation, the board may do **either** of the following:

- Order the SCO to provide notification that the audit report conforms to the reporting provisions of the audit guide; or
- Schedule the appeal for a hearing. The final action on the appeal must be completed by the board within one year from the date the appeal is filed.

RETENTION OF WORKING PAPERS 260

The audits are subject to review by the State Controller's Office, the California Department of Education, and the Bureau of State Audits. Working papers and reports shall be retained for a minimum of three years unless the auditor is notified in writing by the State Controller of the need to extend the retention period. The audit working papers shall be made available upon request.

Quality Control Reviews of Audit Working Papers 261

Education Code Section 14504.2 authorizes the State Controller to perform quality control reviews of audit working papers to determine whether audits are performed in conformance with audit standards contained in the audit guide. The State Controller has developed guidelines and standards for the quality control reviews. A copy of the *Quality Control Review Guide for Single Audits of Local Educational Agencies* is available upon request.

The results of the quality control reviews are communicated to the following:

- The entity auditor;
- The entity for which the audit was performed;
- The respective county superintendent of schools;
- The State Board of Accountancy;
- The California Department of Education; and
- The U.S. Department of Education

A refusal by a CPA firm to participate in the quality control review process within a reasonable time period (four months) will result in a mandatory quality control review for the approval and certification of current audit reports and/or a determination of ineligibility to perform school audits.

INELIGIBILITY TO PERFORM AUDITS 270

Education Code Section 41020.5 prohibits entities from using the audit services of CPAs or PAs who are ineligible to conduct audits.

The State Controller is authorized to make the determination that a CPA or PA is ineligible to conduct audits if **any** of the following conditions occur:

- The State Controller determines by two consecutive quality control reviews that the CPA or PA did not perform audits in substantial conformity with the audit standards contained in this audit guide.

- The State Controller determines that for two consecutive years, a given entity's audit reports (including amended reports submitted by February 15) do not conform to the standards in this audit guide.

- The LEA refuses to participate in a quality control review within a reasonable time period (four months).

The State Controller's determination of ineligibility is communicated to the CPA or PA by written notification.

<u>Appeal of Ineligibility Determination</u>

A CPA or PA who is ineligible to conduct audits may appeal the State Controller's determination. The CPA or PA may file a written appeal with the State Board of Accountancy within 30 days after receiving written notification from the State Controller's Office.

INELIGIBILITY TO PERFORM AUDITS (continued) **270**

If an appeal is filed with the State Board of Accountancy, the board must complete an investigation of the appeal within 90 days of the filing date. On the basis of the investigation, the board may do either of the following:

- Find that the State Controller's determination should not be upheld and has no effect; or
- Schedule the appeal for a hearing. The final action on the appeal must be completed by the board within one year from the date the appeal is filed.

If the CPA or PA does not file a written appeal with the State Board of Accountancy within 30 days, the ineligibility determination is **final**. The CPA or PA will not be allowed to conduct audits of entities for a period of up to three years.

The State Controller's Office is required to notify each entity of those CPAs or PAs who are ineligible to conduct audits by March 1.

ASSISTANCE REFERENCES **280**

The California Department of Education should be contacted for any information regarding program requirements for kindergarten through grade 12 (K-12) audits. Questions regarding this audit guide and audit reporting issues should be directed to the State Controller's Office. Sources of audit assistance and related publications may be found in Appendix D.

SECTION 300
AUDITING STANDARDS

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AUDITING STANDARDS 300

STANDARDS 310

Each audit shall consist of a financial and compliance examination of all funds and account groups of the reporting entity.

The audits shall be performed in accordance with generally accepted auditing standards, as promulgated by the AICPA; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards issued by the State Controller's Office. Single audits of federal awards shall be made in accordance with the requirements established by Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations," issued by the U.S. Office of Management and Budget (OMB).

These auditing standards encompass general standards, fieldwork standards, and reporting standards, which include the AICPA auditing standards and additional standards and requirements necessary to satisfy the needs of government. The additional standards require that the auditor address the following concerns.

Planning 311

Planning should include consideration of the audit requirements of all levels of government. This is a critical consideration in view of the "build upon" concept incorporated into OMB Circular A-133. Thus, the audits of entities should satisfy the needs of all local, state, and federal agencies that might be potential users.

Internal Control 312

In conjunction with each financial audit, the auditor shall conduct an assessment of control risk of the entity's structures of internal accounting controls and the structures established to ensure compliance with applicable laws and regulations. Although this effort does not require the auditor to perform an assessment of control risk sufficient to render an opinion, comprehensive comments and recommendations related to applicable weaknesses and problems in controls and procedures should be promptly discussed with the appropriate level of management and subsequently presented in the audit report.

Management letters and reports are required to be submitted as part of the audit report. Additional requirements regarding the internal control review in OMB Circular A-133 audits are discussed in Section 322.

Fiscal Independence

Under *Education Code* Section 42647,[1] the Superintendent of Public Instruction may grant school districts permission to become fiscally independent. The districts may then write their own warrants on the county treasury for payment of all bills, and the county superintendent and county auditor no longer audit all of the warrants of the district.

Similarly, *Education Code* Section 42650[1] authorizes county superintendents of schools to grant school districts fiscal accountability. Under these provisions, the districts may write warrants within the limits set by the county superintendent.

Any district that has been granted either fiscally independent or fiscally accountable status will receive a lesser degree of ongoing expenditure monitoring from its county office of education and the county auditor. Auditors should take this status into account in planning the review of internal controls. The notes to the financial statements for such districts should disclose the fiscally independent or fiscally accountable status.

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[1] Per *Education Code* Section 41023, these *Education Code* sections also apply to JPEs.

STANDARDS (continued) **310**

Compliance with Laws and Regulations **313**

Government Auditing Standards require that "a test should be made of compliance with applicable laws and regulations."

Compliance testing includes tests performed to determine whether an entity is complying with the provisions of laws; regulations; and contractual, grant, loan, and other assistance agreements. The objectives of tests of compliance with laws and regulations are to determine whether there have been events of noncompliance that may have a material effect on the financial statements or to provide a basis for reporting on the entity's compliance with such laws and regulations.

Reporting on compliance in conjunction with the audit of an entity's financial statements is addressed in Section 443.

State Compliance

The programs to be tested for state compliance audit objectives are published in Section 520. The auditor must report on those compliance aspects that are current for the year of audit. Since the state programs to be audited usually vary from year to year, it is important to ensure that the most current requirements are obtained.

Federal Compliance

The compliance requirements for the federal programs of entities subject to a single audit are published in Section 323. If a single audit is not performed, the audit and reporting requirements pertaining to the individual federal programs administered by the entity should be followed.

Working Papers **314**

Working papers are the link between field work and the auditor's report. They serve as a record of the results of the examination and the basis of the auditor's opinions. Procedures should be adopted to ensure the safe custody and retention of working papers for a time sufficient to satisfy legal and administrative requirements.

General guidelines for preparing working papers follow:

- Completeness and Accuracy: Working papers should be complete and accurate to provide proper support for findings, judgments, and conclusions, and to enable demonstration of the nature and scope of examination work.

- Clarity and Understandability: Working papers should be understandable without detailed supplementary oral explanations. The reviewer should be able to readily determine their purpose, their source, the nature and scope of the work done, and the preparer's conclusions.

- Legibility and Neatness: Working papers should be legible and as neat as possible. Otherwise, time will be wasted in reviewing them and in preparing reports. Sloppy working papers may lose their worth as evidence.

- Relevance: The information in working papers should be restricted to matters that are materially important and relevant to the objectives of the assignments. There are no substitutes for a working understanding of the audit objectives, the reasons for performing a specific task, and its relationship to the objectives. This understanding comes from well-planned and well-organized work programs and effective instructions by supervisors. The practice of having all working papers contain clear statements of purpose is very helpful in ensuring that information accumulated is properly tied to audit objectives and reporting.

STANDARDS (continued) **310**

Access to Another Auditor's Work

One principle underlying the audit planning is that federal, state, and local governments cooperate in auditing programs of common interest so that auditors may use each other's work and avoid duplication of effort. Auditors should rely on other auditors' work to the extent feasible once they satisfy themselves as to other auditors' capabilities, independence, and performance by appropriate tests of the work or by other acceptable methods.

To do this, the auditors generally must have access to the working papers of other auditors. As noted previously, LEA contracts must include provisions for granting the SCO access to working papers. For working papers containing restricted information, the pertinent regulations should be followed.

Continuing Education **315**

Audit organizations are required to have a program that ensures that its staff maintains professional proficiency through continuing education and training. To satisfy this requirement, auditors responsible for planning, directing, conducting, controlling, or reporting on governmental audits should complete, every two years, at least 80 hours of continuing education and training that contributes to the auditor's professional proficiency. At least 20 hours should be completed in any one year of the two-year period. Any auditor planning, directing, and conducting substantial portions of field work should complete at least 24 of the 80 hours of continuing education and training in subjects directly related to the government environment and government auditing. In addition, beginning in 1998 all California CPAs must have a minimum of 8 hours of Board of Accountancy approved professional conduct and ethics training within the six years preceding the license expiration date.

Quality Control **316**

Audit organizations performing government audits are responsible for having an external quality control review at least once every three years. The quality control review should determine that the organization has a functioning internal quality control system to ensure that applicable auditing standards are being followed on audit engagements, including governmental audits. Reports resulting from the external quality control reviews should be made available to oversight bodies and to auditors using the work of the audit organization.

FEDERAL SINGLE AUDIT REQUIREMENTS **320**

The Single Audit Act and OMB Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations," require entities that expend total federal awards equal to or in excess of $300,000 in a fiscal year to have an audit performed in accordance with the Single Audit Act. An entity that expends total awards of less than $300,000 in a fiscal year is exempt from the Single Audit Act.

This section pertains to entities that are either required to comply or choose to comply with OMB Circular A-133 provisions. Information about OMB Circular A-133 may be obtained from the OMB website at:

http://www.whitehouse.gov/omb/circulars/a133/a133.html

Overview

1. Federal Awards

   Federal awards may take the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. Entities generally receive federal awards in the form of grants. Auditors should also determine whether entities have received other forms of federal awards.

FEDERAL SINGLE AUDIT REQUIREMENTS (continued) **320**

Overview (continued)

2. Major Federal Programs Determination and Coverage

Major programs are determined utilizing a risk-based approach, which is a significant change from the traditional approach of using dollars as a threshold. The current emphasis is on programs that may be inherently risky or that may have managerial weaknesses. The determination of risk should be on an overall evaluation that non-compliance may occur that would be material to the federal program. The use of the independent auditor's professional judgment is of utmost importance.

The OMB Circular A-133 outlines the risk-based approach process for determining the risk evaluation and the selection of major programs for testing. The process is as follows:

A. Identify Type A and Type B Programs

Type A Program

- $300,000 or 3% of total federal awards expended in the case of an auditee for which total federal awards expended equal or exceed $300,000, but are less than or equal to $100 million.
- $3 million or 0.3% of total federal awards expended in the case of an auditee for which total federal awards expended exceed $100 million, but are less than or equal to $10 billion.
- $30 million or 0.15% of total federal awards expended in the case of an auditee for which total federal awards expended exceed $10 billion.

Type B Program

- All other federal programs not meeting the above criteria.

B. Identify Low-Risk Type A Programs

- The program was audited as a major program in at least one of the two most recent audits.
- There were no audit findings in most recent audits. If the audit disclosed audit findings, the independent auditor may use professional judgment to determine if the Type A program should be classified as low-risk.

C. Identify High-Risk Type B Programs

The independent auditor should use professional judgment and the following criteria in identifying high-risk Type B programs:

- Overall evaluation of the risk of non-compliance occurring that could be material;
- Weaknesses in internal control over federal programs;
- Multiple internal control structures over federal programs;
- Weaknesses in monitoring subrecipients of federal awards;
- Extent of computer processing and complexity of processing. Use of new or recently modified computer systems;
- Prior audit findings that would have a significant impact on the federal program or prior findings that have not been corrected;
- Federal programs not recently audited as major programs;
- Oversight exercised by federal and pass-through agencies; and
- Inherent risk of the federal program, including the phase of the program, nature of program, auditee lifecycle, and amount of federal awards.

FEDERAL SINGLE AUDIT REQUIREMENTS (continued) **320**

Overview (continued)

2. (continued)

   D. Determine the Major Programs

   At a minimum, the auditor should audit all of the following as major programs.

   - All Type A programs, except the auditor may exclude any Type A programs identified as low-risk.
   - High-risk Type B programs as identified under either of the following two options:
     - At least one-half of high-risk Type B programs identified above, except this paragraph does not require the auditor to audit more high-risk Type B programs than the number of low-risk Type A programs.
     - One high-risk Type B program for each low-risk Type A program.

   Additional programs may be used to reach 50% of the total federal award expenditures. However, this percentage can be reduced to 25% for auditees determined to be low-risk.

Scope **321**

Per OMB Circular A-133, the auditor must determine whether:

- The financial statements present fairly the financial position and the results of operations of the entity in all material respects in conformity with generally accepted accounting principles (GAAP). In addition, the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the entity's financial statements taken as a whole.
- The entity has internal accounting and other control structures to provide reasonable assurance that it is managing federal programs in compliance with applicable laws and regulations.
- The entity has complied with laws and regulations that may have a material effect on its financial statements and on each of its major program**s**.

Internal Control **322**

Internal Control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Internal control pertaining to the compliance requirements for federal programs (Internal control over federal programs) means a process — effected by an entity's management and other personnel — designed to provide reasonable assurance regarding the achievement of the following objectives for federal programs:

- Transactions are properly recorded and accounted for to:
  - Permit the preparation of reliable financial statements and federal reports;
  - Maintain accountability over assets; and
  - Demonstrate compliance with laws, regulations, and other compliance requirements.

FEDERAL SINGLE AUDIT REQUIREMENTS (continued) **320**

Internal Control (continued) **322**

- Transactions are executed in compliance with:
  - Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program;
  - Any other laws and regulations that are identified in the compliance supplement; and
  - Safeguards to protect funds, property, and other assets against loss from unauthorized use or disposition.

In addition to the requirements of the *Generally Accepted Auditing Standards* (GAAS) and *Generally Accepted Government Auditing Standards* (GAGAS), the independent auditor must perform procedures to obtain an understanding of internal control over federal programs "sufficient to plan the audit to support a low assessed level of risk for major programs." However, if internal controls are deemed not to be effective in preventing or detecting noncompliance, the independent auditor does not have to perform tests for those compliance requirements. As a result, the independent auditor should disclose the internal weakness or reportable condition in the internal control report. Please refer to "Part 6 - Internal Control" of the OMB Circular A-133 Compliance Supplement for performing tests of an entity's controls over major federal programs.

Compliance **323**

The Single Audit Act and OMB Circular A-133 require that in addition to the requirements of GAGAS the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.

The principal compliance requirements applicable to most federal programs and the compliance requirements of the largest federal programs are included in the compliance supplement. There are 14 types of compliance requirements and the related audit objectives that the auditor shall consider in every audit conducted under OMB Circular A-133, with the exception of program-specific audits performed in accordance with a federal agency's program-specific audit guide. Suggested audit procedures are also provided to assist the auditor in planning and performing tests of non-federal entity compliance with the requirements of federal programs. The auditor's judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives and whether additional or alternative audit procedures are needed. Determining the nature, timing, and extent of the audit procedures necessary to meet the audit objectives is the auditor's responsibility.

For the compliance requirements related to federal programs contained in the compliance supplement, an audit of these compliance requirements will meet the requirements of the Single Audit. Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor shall determine the current compliance requirements and modify the audit procedures accordingly. For those federal programs not covered in the compliance supplement, the auditor should use the types of compliance requirements contained in the compliance supplement as guidance for identifying the types of compliance requirements to test and determine the requirements governing the federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements.

The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.

<u>Subrecipients</u>

An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered federal awards. The guidance for determining whether payments constitute a federal award or a payment for goods and services is as follows:

FEDERAL SINGLE AUDIT REQUIREMENTS (continued) **320**

Compliance (continued) **323**

Characteristics indicative of a federal award received by a subrecipient are when the organization:

- Determines who is eligible to receive federal financial assistance;
- Has its performance measured against whether the objectives of the federal program are met;
- Has responsibility for programmatic decision making;
- Has responsibility for adherence to applicable federal program compliance requirements; and
- Uses the federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

Characteristics indicative of a payment for goods and services received by a vendor are when the organization:

- Provides the goods and services within normal business operations;
- Provides similar goods or services to many different purchasers;
- Operates in a competitive environment;
- Provides goods or services that are ancillary to the operation of the federal program; and
- Is not subject to compliance requirements of the federal program.

Pass-Through Entity

A pass-through entity shall perform the following for the federal awards it makes:

- Identify federal awards by informing each subrecipient of Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, award year, (if the award is for research and development,) and name of federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the federal award;

- Advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity;

- Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved;

- Ensure that subrecipients expending $300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of Circular A-133 for that fiscal year;

- Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action;

- Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records; and

- Require each subrecipient to permit the pass-through entity and the auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with Circular A-133.

FEDERAL SINGLE AUDIT REQUIREMENTS (continued) **320**

Sampling Considerations **324**

For high-risk entities, at least 50% of major program expenditures must be tested (25% for low-risk entities). The compliance review must include the selection and testing of a representative number of charges from selected major programs. The selection and testing of transactions shall be based on the auditor's professional judgment considering such factors as:

- The amount of expenditures for the program and the individual awards;
- The newness of the program or changes in its conditions;
- Prior experience with the program, particularly as revealed in audits and other evaluations (e.g., inspections, program reviews);
- The extent to which the program is carried out through subrecipients;
- The extent to which the program contracts for goods or services;
- The level to which the program is already subject to program reviews or other forms of independent oversight;
- The adequacy of the controls for ensuring compliance;
- The expectation of adherence or lack of adherence to the applicable laws and regulations; and
- The potential impact of adverse findings.

Audit Findings, Recommendations, and Corrective Action Plans **325**

The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

- Reportable conditions in internal control over major programs that are individually or cumulatively material weaknesses.
- Material noncompliance with the provisions of laws, regulations, or grant agreements related to a major program.
- Known questioned costs that are greater than $10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs).
- Known questioned costs that are greater than $10,000 for a federal program which is not audited as a major program.
- The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for federal awards.
- Known fraud affecting a federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for federal awards.
- Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.

Audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for federal agencies and pass-through entities to arrive at a management decision. The following specific information shall be included in audit findings:

- Federal program and specific federal award identification, including the CFDA title and number, federal award number and year, name of federal agency, and name of the applicable pass-through entity;

FEDERAL SINGLE AUDIT REQUIREMENTS (continued) **320**

Audit Findings, Recommendations, and Corrective Action Plans (continued) **325**

- The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation;
- The condition found, including facts that support the deficiency identified in the audit finding;
- Identification of questioned costs and how they are computed;
- Information to provide proper perspective for judging the prevalence of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined and be quantified in terms of dollar value;
- The possible asserted effect to provide sufficient information to the auditee and federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action;
- Recommendations to prevent future occurrences of the deficiency identified in the audit finding; and
- Views of responsible officials of the auditee when there is disagreement with the audit findings, to the extent practical.

Each audit finding in the schedule of findings and questioned costs shall include a reference number to allow for easy referencing of the audit findings during follow-up.

The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The auditee shall also prepare a corrective action plan for current-year audit findings.

The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to federal awards.

- When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
- When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
- When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation.
- When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule.

At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current-year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

OTHER ISSUES 330

Going Concern 331

Statement on Auditing Standards (SAS) No. 59, "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern," addresses the auditor's responsibilities and considerations when questions arise concerning an organization's ability to meet its obligations as they become due without substantial disposal of assets, restructuring of debt, externally forced revision of its operations, or similar actions. The ability to meet payment obligations as they become due is the key concept that causes SAS No. 59 to be directly applicable to government entities, including LEAs.

In light of recent situations in which LEAs have found themselves in financial difficulty and in need of special financing, school district and county office of education auditors should be acutely aware of SAS No. 59 and its requirements.

SAS No. 59 requires the auditor to consider any information obtained during the course of the audit that may indicate an inability of the entity to continue as a going concern. Many required and/or professionally prudent audit procedures are likely to reveal information of this nature at LEAs. Examples are:

- Analysis of lease commitments;
- Analysis of pension liabilities;
- Analysis of bonded debt requirements;
- Analysis of other debt repayment requirements;
- Financial statement analysis;
- Review of subsequent events; and
- Analytical review.

Other indicators of financial distress that may come to the auditor's attention during the audit engagement at an LEA include:

- Issuance or existence of tax anticipation notes;
- Rapid increases in salaries, fringe benefits, and employee contributions;
- Cost escalations disproportionate to economic feasibility;
- Unwillingness of senior governments to continue funding programs at existing levels;
- Material borrowings from the county treasury;
- A growing proportion of one-time revenues being committed to fund ongoing costs;
- Decline or deficit in general fund balance;
- Deteriorating relationship between the LEA and its county office of education;
- Low or declining funding of capital and maintenance;
- Borrowing of cash from restricted funds;
- Persistent declining enrollment; and
- A steady pattern of budget overruns.

Many of these indicators of financial distress will be analyzed by the auditor during preparation of the Schedule of Financial Trends and Analysis. This schedule is required to be presented within the Supplementary Information section of the LEA audit report (refer to Section 472 for a complete explanation of this supplemental information).

Once an auditor becomes aware of any contrary information, that information should be analyzed along with any mitigating factors and any management plans for addressing the problem.

OTHER ISSUES (continued) **330**

Going Concern (continued) **331**

Examples of mitigating factors to consider at an LEA include:

- Reduction or deferral of expenses;
- State assistance;
- Long-range plans;
- Strong financial manager; and
- County assistance.

The auditor should evaluate existing mitigating factors and management plans for their realistic anticipated effect on contrary conditions. If the auditor concludes that the mitigating factors and management plans are inadequate to deal with the impending problem, a substantial doubt would remain as to the LEA's ability to continue in existence. In such case, the auditor should consider the recoverability and classification of assets, and the amounts and classification of liabilities. Furthermore, the auditor is required to make certain reporting disclosures as explained in Section 472.

Fraud, Illegal Acts, and other Noncompliance **332**

The auditor should design the audit to provide reasonable assurance of detecting fraud that is material to the financial statements. In addition, the auditor should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.

The auditor should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.

Auditors are responsible for being aware of the characteristics and types of potentially material fraud that could be associated with the area being audited so that they can plan the audit to provide reasonable assurance of detecting material fraud.

Auditors should obtain an understanding of the possible effects on financial statements of laws and regulations that are generally recognized by auditors to have a direct and material effect on the determination of amounts in the financial statements. Auditors may find it necessary to use the work of legal counsel in:

- Determining which laws and regulations might have a direct and material effect on the financial statements;
- Designing tests of compliance with laws and regulations; and
- Evaluating the results of those tests.

Auditors also may find it necessary to use the work of legal counsel when an audit requires testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may find it necessary to obtain information on compliance matters from others, such as investigative staff, audit officials of government entities that provided assistance to the auditee, and/or the applicable law enforcement authority.

Auditors should exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies may require auditors to report indications of certain types of fraud or illegal acts to law enforcement or investigatory authorities before extending audit steps and procedures. Auditors may also be required to withdraw from or defer further work on the audit or a portion of the audit in order not to interfere with an investigation.

OTHER ISSUES (continued) **330**

Fraud, Illegal Acts, and other Noncompliance (continued) **332**

An audit made in accordance with GAGAS will not guarantee the discovery of illegal acts or contingent liabilities resulting from them. Nor does the subsequent discovery of illegal acts committed during the audit period necessarily mean that the auditors' performance was inadequate, provided the audit was made in accordance with these standards.

In fulfilling the requirements above, the auditor should follow the guidelines contained in SAS No. 82, "Consideration of Fraud in a Financial Statement Audit," and SAS No. 54, "Illegal Acts by Clients." SAS No. 82 supersedes SAS No. 53 and is effective for financial audits for periods ending on or after December 15, 1997. SAS No. 82 clarifies, but does not increase the auditor's responsibility to detect fraud. In addition, SAS No. 99, "Consideration of Fraud in a Financial Statement Audits" is effective for audit of financial statements for periods beginning on or after December 15, 2002; early application is permitted.

The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected. The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements are detected.

The auditor should specifically assess the risk of material misstatement of the financial statements due to fraud and should consider that assessment in designing the audit procedures to be performed. In making this assessment, the auditor should consider fraud risk factors that relate to both misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

As part of the risk assessment, the auditor also should inquire of management:

- To obtain management's understanding regarding the risk of fraud in the entity; and
- To determine whether management has knowledge of fraud that has been perpetrated on or within the entity.

Information from these inquiries could identify fraud risk factors that may affect the auditor's assessment and related response. The auditor should use professional judgment when assessing the significance and relevance of fraud risk factors and determining the appropriate audit response.

The assessment of the risk of material misstatement due to fraud is a cumulative process that includes a consideration of risk factors individually and in combination. In addition, fraud risk factors may be identified while performing procedures relating to acceptance or continuance of clients and engagements, during engagement planning or while obtaining an understanding of an entity's internal control, or while conducting fieldwork. Also, other conditions may be identified during fieldwork that change or support a judgment regarding the assessments.

A risk of material misstatement due to fraud is always present to some degree. The auditor's response to the foregoing assessment is influenced by the nature and significance of the risk factors identified as being present. In some cases, even though fraud risk factors have been identified as being present, the auditor's judgment may be that audit procedures otherwise planned are sufficient to respond to the risk factors. In other circumstances, the auditor may conclude that the conditions indicate a need to modify procedures.

In planning the audit, the auditor should document in the working papers evidence of the performance of the assessment of the risk of material misstatement due to fraud. Where risk factors are identified as being present, the documentation should include those risk factors identified and the auditor's response to those risk factors, individually or in combination.

OTHER ISSUES (continued) **330**

Fraud, Illegal Acts, and other Noncompliance (continued) **332**

In addition, if during the performance of the audit, fraud risk factors or other conditions are identified that cause the auditor to believe that an additional response is required, such risk factors or other conditions, and any further response that the auditor concluded was appropriate, also should be documented.

Whenever the auditor has determined that there is evidence that fraud may exist, that matter should be brought to the attention of an appropriate level of management. Fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements should be reported directly to the audit committee, if applicable.

When the auditor, as a result of the assessment of the risk of material misstatement due to fraud, has identified risk factors that have continuing control implications (whether or not transactions or adjustments that could be the result of fraud have been detected), the auditor should consider whether these risk factors represent reportable conditions relating to the LEA's internal control that should be communicated to senior management and the audit committee.

The disclosure of possible fraud to parties other than the LEA's senior management and its audit committee ordinarily is not part of the auditor's responsibility and ordinarily would be precluded by the auditor's ethical or legal obligations of confidentiality unless the matter is reflected in the auditor's report. The auditor should recognize, however, that in the following circumstances a duty to disclose outside the entity may exist:

- To comply with certain legal and regulatory requirements;
- To a successor auditor when the successor makes inquiries;
- In response to a subpoena; and
- To a funding agency or other specified agency in accordance with requirements for the audits of entities that receive governmental financial assistance.

The following areas deserve specific attention due to a higher risk of improper transactions. Suggested audit procedures are provided for use when, in the auditor's professional judgment, additional procedures are considered necessary.

1. <u>Construction and Bidding</u>

   a. Review expenditures for Maintenance and Operations. Determine the extent to which the entity uses outside contractors to perform maintenance and refurbishing of the entity's facilities.

   b. Identify any firms or individuals that perform a proportionally large amount of work for the entity. Examine vendor invoices from those firms or individuals.

   c. Review the entity's procurement practices. Determine whether such practices comply with the Public Construction Act (Public Contract Code Section 20100 et seq.).

   d. Review the entity's project construction and bid files to determine whether:

      - All required inspections have been made by appropriate authorized inspectors; and

      - The California Department of General Services, when applicable, supervised the design and construction of the project and certified its completion. The Department of General Services must supervise the design and construction of any school building that will cost more than $25,000 (*Education Code* Section 17295).

OTHER ISSUES (continued) **330**

Fraud, Illegal Acts, and other Noncompliance (continued) **332**

2. Purchasing Inventories

   a. Determine the extent to which the entity uses "open" or blanket purchase orders. Examine selected purchase orders for:

      - Outstanding balance;
      - Frequency and size of transactions;
      - Authorizing signatures;
      - Purpose of purchases; and
      - Delivery locations.

   b. Identify the primary vendors with whom the entity conducts business. Examine the selected warrant/vendor files for:

      - Purpose of purchases;
      - Authorizing signatures; and
      - Delivery locations.

   c. Review the entity's system for accounting for purchases and receipt of goods, especially if the entity does not maintain stores inventories.

   d. Identify the location, value, and composition of all stores inventories or stockpiles, whether or not they are recorded in the accounting records. Determine the adequacy of physical security and control over issuance's at each location.

3. Related Party Transactions

   a. Determine to the extent possible whether the entity's administrators or members of the Board of Education have management, administrative, or financial interests in the primary contractors or vendors with which the entity does business.

   b. Review the real property listings of the entity. Determine whether the entity owns each parcel in whole or in part. Investigate any joint ownership for purpose, propriety, duration, and tax-exempt status.

Reporting Entity **333**

The auditor must determine whether the financial statements provide adequate disclosure of the LEA's financial relationships with other legal entities. The increasing use of public facility corporations and joint powers agreements by LEAs has made the proper definition of the LEA for reporting purposes a critical issue.

The decision of whether to include an external entity such as a public benefit corporation, joint powers entity, commission, public authority, or other governmental organization as a component unit of the LEA should be based on the criteria set forth in Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." The Governmental Accounting Standards Board issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* in May 2002. The provisions of the statement are effective for financial statement audits for periods beginning after June 15, 2003. Earlier application is encouraged. This statement amends GASB 14, *The Financial Reporting Entity*. The primary factor to consider is the LEA's accountability for such entities.

An entity is considered to be a component unit of the LEA for financial reporting purposes if the following criteria are met:

1. The entity has separate legal standing.

OTHER ISSUES (continued) **330**

Reporting Entity (continued) **333**

2. The elected officials of the LEA are financially accountable for the entity. Financial accountability ordinarily involves meeting both of the following:

   - The LEA is responsible for appointing the voting majority of the entity's board; and
   - The LEA is able to impose its will upon the entity, or the entity is able to provide specific financial benefits to, or impose specific financial burdens on, the LEA.

There may be circumstances where one or both of the above criteria related to financial accountability are not met, yet the entity should still be included within the LEA for financial reporting purposes. The existence of a financial benefit or financial burden should be considered an indication that the nature and significance of the financial relationship between the LEA and the entity may require inclusion of the entity for reporting purposes. If the exclusion of the entity would cause the LEA's financial statements to be incomplete or misleading, the entity should be reported as part of the LEA.

The required disclosures for reporting entity issues are discussed in Section 471.

Reliance on the Work of Another Auditor **334**

Professional auditing standards require performance of specific audit procedures to examine the scope and quality of the work completed by another auditor before placing reliance on that work. This is particularly applicable to auditors of school districts who plan to rely on certain audit procedures performed by the auditor of the county office of education.

Auditors should refer to the authoritative auditing guides for the specific evaluation procedures necessary.

Materiality **335**

Auditors' consideration of materiality is a matter of professional judgment and is influenced by their perception of the needs of a reasonable person who will rely on the financial statements. Materiality judgments are made in light of surrounding circumstances and necessarily involve both quantitive and qualitative considerations.

In an audit of the financial statements of a government entity or an entity that receives government assistance, auditors may set lower materiality levels than in audits in the private sector because of the public accountability of the auditee, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions.

In its Statement of Financial Accounting Concepts No. 2, the Financial Accounting Standards Board discussed materiality in these terms: "The magnitude of an omission or misstatement of accounting 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."

Refer to AU Section 312, "Audit Risk and Materiality in Conducting an Audit," of the AICPA's *Codification of Statements on Auditing Standards* for additional guidance.

Expanding Sample Size **336**

It is inadequate for the auditor to solely identify and report exceptions without determining if further testing is needed or if the auditee should review or reconstruct relevant records and quantify the related fiscal impact. Determining how to proceed requires significant auditor evaluation and judgment.

OTHER ISSUES (continued) **330**

Expanding Sample Size (continued) **336**

If exceptions are discovered when performing tests, the auditor should assess and evaluate the exception rate and type to determine if the sample should be expanded and additional testing be performed. The sample should be representative of the population and sufficient in size to allow the auditor to draw a reasonable conclusion.

For example, if testing a sample of 100 items results in 10 exceptions, or a 10% exception rate, the auditor should expand the sample and perform further testing. If the auditor determines that the exceptions are the result of a systemic problem, the auditor may:

- Use a statistically valid sampling methodology to extrapolate the results of the tests over the entire population and quantify the fiscal impact; or

- Require the auditee to review or reconstruct all of the relevant records and quantify the related fiscal impact. The auditor should then perform testing to determine the reasonableness of the results of the auditee's work.

However, if the auditor determines that the exception is due to an isolated cause, the auditor may deem further audit work unnecessary. (Refer to SAS 39, Audit Sampling, for further guidance.)

SECTION 400

FINANCIAL REPORTING STANDARDS

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FINANCIAL REPORTING STANDARDS 400

INTRODUCTION 401

"The Controller . . . shall prescribe the statements and other information to be included in the audit reports filed with the state. . . ." (*Education Code* Section 14502).

"Financial and compliance audits conducted under this chapter shall fulfill federal single audit requirements" (*Education Code* Section 14501(a)).

"All audit reports for 2002-03 fiscal year, and for each subsequent fiscal year, shall be developed and reported using a format established by the Controller . . ." (*Education Code* Section 41020(d)).

Entities are required to issue audited annual financial reports that, at a minimum, contain the statements and other information prescribed by the State Controller. The minimum content of the reports must also adhere to the federal single audit reporting requirements prescribed by OMB Circular A-133, when applicable. Accordingly, strong emphasis is placed on reporting on internal control, compliance, and findings and questioned costs. The impact of the federal requirements is reflected in the following reporting standards and the Illustrative Audit Report in Appendix A and Illustrative Audit Report–GASB 34 in Appendix B.

In order to adhere to generally accepted accounting principles (GAAP) applicable to governmental entities, the annual financial reporting provisions delineated in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board (GASB), was used as the framework for the reporting requirements. Additional guidance and interpretation was obtained from *Governmental Accounting, Auditing, and Financial Reporting*, published by the Government Finance Officers Association. For the various required auditor's reports, guidance and interpretation was obtained from *Audits of State and Local Governmental Units*, published by the American Institute of Certified Public Accountants. All of these publications may be obtained from the appropriate organizations referenced in Appendix D.

GAAP Reporting Versus CDE Data Collection 402

It should be noted that many differences exist between financial reporting in accordance with GAAP and financial information collected by the California Department of Education on Forms J-200/400/600 or their equivalent. Some of the differences are as follows:

	Financial Report Presentation	
Description	As reported per GAAP	As collected by CDE
Financial Statement Presentation	Each fund is presented in a single column with one amount for each classification.	Each fund is presented in two columns (restricted and unrestricted funds) with amounts in both columns for each classification.
Residual Equity Transfer	Reported as an addition or deduction to the beginning fund balance of the affected funds on the operating statement.	Reported as an "other financing source or use" in the affected funds on the operating statement.
Proceeds From the Sale of Site (Fixed Assets)	Reported as a "revenue" in the affected fund.	Reported as an "other financing source" in the affected fund.

INTRODUCTION (continued) **401**

GAAP Versus CDE Reporting (continued) **402**

Description	Financial Report Presentation	
	As reported per GAAP	As collected by CDE
Debt Service Expenditures	Reported as an "expenditure" in the affected fund.	Reported as "other financing uses" in the affected fund.
Component Unit	Consolidated in the audit report.	Reported under certain circumstances.
General Fixed Assets Group	Included in financial statements.	Reporting optional.
Pass-through Grants	Included on financial statements.	Reported in either governmental or agency fund.
On-Behalf Payments	Included on financial statements.	Not reported.[1]

For the annual audit report, financial reporting must be in accordance with GAAP. Auditors and reporting entities should contact the State Controller's Office if any questions arise regarding financial reporting per GAAP. For any questions relating to financial reporting on Forms J-200/400/600, or their equivalent, contact the CDE.

REPORT COMPONENTS **410**

Report Format [2] **411**

The basic content of each audit report shall include the following sections:

Introductory Section

(Table of Contents and other material deemed appropriate by management)

Financial Section

Independent Auditor's Report on Financial Statements and Supplementary Schedules of Expenditures of Federal Awards

Combined Statements

Notes to the Financial Statements

Combining and Individual Fund and Account Group Statements and Schedules (where needed for full disclosure)

Supplementary Information Section

Schedule of Average Daily Attendance
Schedule of Instructional Time
Schedule of Financial Trends and Analysis
Schedule of Expenditures of Federal Awards
Reconciliation of Annual Financial and Budget Report (J-200/400/600) With Audited Financial Statements
Notes to Supplementary Information

[1] Refer to CDE Management Advisory 96-03 "Accounting for Pass-Through Grants and On-Behalf Payments" for clarification.
[2] Refer to Appendix B for audit report format for entities that are required to apply the provisions of GASB 34.

REPORT COMPONENTS (continued) **410**

Report Format (continued) **411**

Other Independent Auditor's Reports

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Auditor's Report on State Compliance

Findings and Recommendations Section

Schedule of Findings and Questioned Costs
Management Letters
Schedule of Prior Audit Findings

Some entities prepare a complete comprehensive annual financial report (CAFR) for submission to the Government Finance Officers Association or the Association of School Business Officials International. For the entities that prepare a CAFR, it is suggested that the supplementary information section be included after the financial section and the state and federal requirements should be placed last as illustrated in *Governmental Accounting, Auditing, and Financial Reporting*, published by the Government Finance Officers Association.

Introductory Section **412**

This section should include, at a minimum, the Table of Contents for the audit report. Transmittal letters or other information considered appropriate may be included at the auditee's discretion.

FINANCIAL SECTION **420**

The financial section of the report may be viewed as a "reporting pyramid." The governmental unit should go only as far down the reporting pyramid in terms of increasing levels of detail as necessary to report the financial position and operating results of its individual funds and account groups, to demonstrate compliance with finance-related legal and contractual requirements, and to assure adequate disclosure at the individual fund entity level. Those statements and schedules necessary for these purposes are required; others are optional.

The levels of the pyramid are:

- General Purpose Financial Statements (GPFS) (Combined Statements–Overview): These basic financial statements provide a summary overview of the financial position of all funds and account groups and the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow. Separate columns should be used for each fund type and account group.
- Combining Statements–By Fund Type: Where a governmental unit has more than one fund of a given type (e.g., special revenue funds), combining statements for all funds of that type should be presented in a columnar format. The total columns of these combining statements should agree with the amounts presented in the GPFS. (In some instances, disclosure sufficient to meet the reporting objectives may be achieved at this level; in other cases these statements "link" the GPFS and the individual fund statements.)
- Individual Fund and Account Group Statements: These statements present information on the individual funds and account groups where (1) a governmental unit has only one fund of a specific type; or (2) detail to assure disclosure sufficient to meet the reporting objectives is not presented in the combining statements. These statements may also be used to present budgetary data and prior-year comparative data.

FINANCIAL SECTION (continued) **420**

- Schedules: Data presented in schedules are not necessary for fair presentation in conformity with GAAP unless referenced in the notes to the financial statements. Schedules are used (1) to demonstrate finance-related legal and contractual compliance (e.g., where bond indentures require specific data to be presented); (2) to present other information deemed useful (e.g., combined and combining schedules that encompass more than one fund or account group, such as a Combined Schedule of Cash Receipts, Disbursements, and Balances−All Funds); and (3) to provide details of data summarized in the financial statements (e.g., schedules of revenue, expenditures, transfers).

All four levels of detail may be required in some circumstances. On the other hand, adequate disclosure may require only one or two levels. Determination of the appropriate level of detail and the distinction as to what is presented in a statement as opposed to a schedule is a matter of professional judgment.

Auditor's Report on Financial Statements **421**

The auditor's report on the financial statements shall include an introductory paragraph, a scope paragraph, an opinion paragraph, and a paragraph on separately issued reports.

The introductory paragraph must:

- Identify the reporting entity;
- Identify the financial statements audited;
- Include a statement that the financial statements are the responsibility of the entity's management; and
- Include a statement that the auditor's responsibility is to express an opinion on the financial statements based upon the audit performed.

Education Code Section 41020 requires that the scope of the audit include all funds and account groups of the reporting entity and all other funds under the jurisdiction and control of the entity's governing board or the county superintendent of schools. The scope of the audit should include all component units of the entity whether or not such units may be legally separate from the entity. If any funds or component units are omitted from the scope of the audit or the financial statements, the auditor must determine the impact of such omission(s) on his/her opinion.

The scope paragraph must have:

- A statement that the audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.

- A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

- A statement that an audit includes:
  - Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
  - Assessing the accounting principles used and significant estimates made by management; and
  - Evaluating the overall financial statement presentation.

- A statement that the auditor believes that the audit provides a reasonable basis for the opinion given.

FINANCIAL SECTION (continued) **420**

Auditor's Report on Financial Statements (continued) **421**

The opinion paragraph must include an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period ended in conformity with generally accepted accounting principles. If an unqualified opinion cannot be expressed, the nature of the qualified opinion, disclaimer, or adverse opinion must be clearly presented in accordance with the AICPA's *Codification of Statements on Auditing Standards*, AU Section 508. A reference to the auditor's report on compliance and internal control over financial reporting in accordance with *Government Auditing Standards* must be included.

The report on supplementary information may be added to the auditor's report on the financial statements or may appear separately in the supplementary information section of the annual audit report. The opinion paragraph must cover all the supplementary information presented.

Financial Statements and Schedules **422**

The balance sheets, operating statements, and schedules required in the entity's report are:

1. Balance Sheets

   - A combined balance sheet — all fund types and account groups.
   - Combining balance sheets for all funds of each fund type in which the entity has more than one fund.
   - Individual balance sheets for each fund and account group—where necessary to present the financial position of each fund and account group—and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

2. Operating Statements

   Governmental Funds:

   - A combined statement of revenues, expenditures, and changes in fund balances—all governmental fund types and expendable trust funds.
   - A combined statement of revenues, expenditures, and changes in fund balances—budget and actual—general and special revenue fund types (and similar governmental fund types for which annual budgets have been legally adopted). A budget actually approved in the minutes of the entity's governing board should be used to prepare this statement.
   - Combining statements of governmental fund revenues, expenditures, and changes in fund balances by fund type.
   - Individual statements of revenues, expenditures, and changes in fund balance for each fund—where necessary to present fund operating results—and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

   Proprietary Funds:

   - A combined statement of revenues, expenses, and changes in retained earnings (or equity)—all proprietary fund types.
   - A combined statement of cash flows—all proprietary fund types.
   - Combining statements of proprietary fund revenues, expenses, and changes in retained earnings (or equity) by fund type.
   - Combining statements of proprietary fund cash flows by fund type.
   - Individual statements of revenues, expenses, and changes in retained earnings (or equity) and statements of cash flows for each proprietary fund—where necessary to present fund operating results and changes in cash—and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

FINANCIAL SECTION (continued) **420**

Financial Statements and Schedules (continued) **422**

2. (continued)

Fiduciary Funds:

- Expendable trust funds are similar to governmental funds (modified accrual basis) and should have similar statements presented. Nonexpendable trust and pension trust funds are similar to proprietary funds (accrual basis) and should have similar statements presented.
- At the GPFS (Combined Statements–Overview) level, trust fund operating statements may be presented separately or within the combined operating statements of the governmental funds or the propriety funds, as appropriate.
- A combining statement of changes in assets and liabilities–all agency funds.

Account Groups:

- A statement of changes in general fixed assets (unless sufficiently disclosed in the notes to the financial statements).
- A statement of changes in general long-term debt (unless sufficiently disclosed in the notes to the financial statements).

The operating statements should present all changes in the fund balance or retained earnings (or equity) that have occurred during the reporting period. The beginning fund balance or retained earnings (or equity) on the operating statements should equal the ending fund balance or retained earnings (or equity) as presented on the prior year's financial statements.

Notes to Financial Statements **423**

The notes to the financial statements shall include all notes that are essential to assure a fair presentation and adequate disclosure of the financial position and operating results of the entity. Section 2300 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB, identifies specific notes that are essential to fair presentation of the financial statements.

The notes essential to fair presentation of the financial statements include:

- Summary of significant accounting policies
- Cash deposits with financial institutions
- Investment and Investment Pools[1] (Including Cash in County Treasury)
- Significant contingent liabilities
- Encumbrances outstanding
- Significant effects of subsequent events
- Pension plan obligations
- Material violations of finance-related legal and contractual provisions
- Debt service requirements to maturity
- Commitments under noncapitalized leases
- Construction and other significant commitments
- Changes in general fixed assets
- Changes in general long-term debt
- Any excess of expenditures over appropriations in individual funds
- Deficit fund balance or retained earnings of individual funds
- Interfund receivables and payables

GASB 31 established accounting and reporting requirements for certain LEA investments. The following is a list of investments that may be affected: (a) participating interest-earning investment contracts; (b) external investment pools; (c) open-end mutual funds; (d) debt securities; and (e) equity securities, option contracts, stock warrants, and stock rights.

FINANCIAL SECTION (continued) **420**

Notes to Financial Statements (continued) **423**

The above notes to the financial statements disclosures are not all-inclusive and additional disclosures should be made if applicable. For example, such additional disclosures may include the following:[1]

- Entity risk management activities
- Claims and judgments [2]
- Property taxes
- Segment information for Enterprise Funds
- Budget basis of accounting and budget/GAAP reporting differences not otherwise reconciled in the GPFS
- Short-term debt instruments and liquidity
- Joint ventures (joint powers agreements)
- Pass-through grants
- Related party transactions
- Capital leases
- Postemployment benefits other than pension benefits
- Extinguishment of debt
- Operating leases [2]
- Employer pension expenditures [2]
- Special termination benefits [2]
- Compensated absences [2]

Additional information on suggested areas to be considered for notes to the financial statements disclosures, as listed above, may be found in the Illustrative Audit Report, Appendix A. This illustrative report also provides guidance for the sequence of note disclosures.

SUPPLEMENTARY INFORMATION SECTION **430**

The supplementary information section of the report discloses additional financial and statistical information regarding the entity's financial reports, attendance, and federal and state categorical aid programs. This supplementary information is required by OMB Circular A-133 and the State Controller.

Schedules **431**

The schedules listed below are required of all entities. Omission of any schedule must be fully explained in the notes to the supplementary information:

- Schedule of Average Daily Attendance: This schedule discloses average daily attendance data for both the second period and annual reports. The information is reported by class level and program as appropriate.

- Schedule of Instructional Time: This schedule provides information on the amount of instructional time and days offered by the LEA for purposes of determining compliance with the provisions of Incentives for Longer Instructional Day.

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[1] This is a partial listing of additional disclosures that may be included. Refer to Section 2300 of the *Codification of Governmental Accounting and Financial Reporting Standards* for the complete listing.

[2] Total amount calculated for the year for which the current portion is reported in the operating statement and the noncurrent portion is reported in the general long-term debt account group (if not reported on the face of the financial statements).

FINANCIAL SECTION (continued) **420**

Schedules (continued) **431**

- Schedule of Financial Trends and Analysis (LEAs only): This schedule discloses financial and attendance figures for the most recent three-year period (beginning with the year being audited), plus the current year's budget. The information is analyzed to determine the financial condition of the LEA.

- Schedule of Expenditures of Federal Awards: This schedule discloses total expenditure information for all federal awards. This schedule is required of all entities, regardless of whether the entity is subject to OMB Circular A-133 provisions or not.

- Reconciliation of Annual Financial and Budget Report (J-200/400/600) with Audited Financial Statements: This schedule discloses the differences between the ending fund balance(s) per the audited financial statements and the unaudited ending fund balance(s) per the annual financial and budget report for each fund in which a variance occurs. The annual financial and budget report used to reconcile to the audited financial statements should be the one originally submitted by the entity to CDE. Revised annual financial and budget reports submitted to CDE subsequent to the original report should not be used for reconciliation purposes.

Notes to the supplementary information should be presented as deemed necessary.

OTHER INDEPENDENT AUDITOR'S REPORTS **440**

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* **441**

Government Auditing Standards requires that the auditor report on the entity's compliance with laws, regulations, contracts, and grants that may have a material effect on the financial statements and report on the assessment of the internal control structure as part of the financial audit, regardless of the applicability of the Single Audit Act. If a single audit is performed, the auditor must also report on the assessment of the entity's internal controls used in administering federal awards.

Both AICPA standards and generally accepted government auditing standards require a proper assessment of control risk as a part of the audit. The assessment of control risk establishes a basis for determining the extent to which auditing procedures are to be restricted, and it is an intermediate step in forming an opinion on the financial statements. An auditor's report on this assessment is required for every entity audit.

This report must identify the following:

- Material instances of noncompliance.
- A definition of reportable conditions and the reportable conditions disclosed as a result of the audit.
- A definition of material weaknesses and the material weaknesses, if any, that were disclosed as a result of the audit.
- If applicable, a statement that other matters involving the internal control structure and its operation were communicated to management in a separate letter.

Material instances of noncompliance are defined as failures to follow requirements, or violations of prohibitions, contained in all statutes, regulations, contracts, or grants that cause the auditor to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. When material instances of noncompliance are found, the auditor should modify the report on compliance to identify these instances and state in the report that such noncompliance was considered in forming an opinion on the fair presentation of the financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS (continued) **440**

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (continued) **441**

If nonmaterial instances of noncompliance are observed during the audit, the auditor is required to inform management of those instances. If the communication is made in writing, the report on compliance with laws and regulations should refer to the separately issued management letter.

Reportable conditions are significant deficiencies in the design or operation of the internal control structure that could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A reportable condition becomes a material weakness when the specific elements of the condition do not reduce to a relatively low level the risk that errors or irregularities in amounts that may be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Should the auditor find no reportable conditions during an audit, the report should state that no material weaknesses were found. A sample paragraph for this situation is included in the example in the Illustrative Audit Report (Appendix A).

Auditors must communicate to the audit committee, or its equivalent, any reportable conditions and material weaknesses discovered during the course of the audit. In addition, the auditor should communicate to management, either verbally or in writing, any deficiencies in the internal control structure that are not significant enough to be reportable conditions. If the auditor has issued a separate written communication (management letter) describing such "nonreportable conditions," that communication should be referred to in this report.

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance With OMB Circular A-133 **442**

In addition to the Government Auditing Standards, the Single Audit Act and the OMB Circular A-133 require the auditor to report whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements and has established and maintained effective internal control over compliance with the requirements for major programs.

The scope of the compliance review of federal awards is prescribed by OMB Circular A-133 and is contingent on the expenditures and the size and number of federal programs. The actual compliance testing requires the use of the Compliance Supplement, which includes compliance requirements for most of the largest federal programs. The scope of internal control review consists of gaining sufficient understanding of the auditee's internal control over federal programs to plan the audit to support a low assessed level of control risk for major programs.

The auditor is required to disclose instances of noncompliance with applicable compliance requirements and all matters in the internal control considered reportable conditions and whether such conditions were considered to be material weaknesses. In addition, the auditor is required to disclose any known questioned costs in excess of $10,000 pertaining to compliance with a major program requirements.

The auditor should remember that any finding related to compliance requirements may affect the auditor's opinion on the financial condition of the entity. Therefore, the findings should be evaluated as to their effects, if any, upon the entity's financial statements and supplementary information.

OTHER INDEPENDENT AUDITOR'S REPORTS (continued) **440**

Auditor's Report on State Compliance **443**

The auditor must prepare a report for the audit of state compliance requirements. The report shall contain an expression of positive assurance with respect to compliance with applicable laws and regulations for those items tested in accordance with the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* and negative assurance for untested items.

All material instances of noncompliance with state compliance requirements must be reported in terms of the items or monetary amounts questioned. These findings, along with specific recommendations for corrective action and the entity's response to the findings, must be disclosed in the Schedule of Findings and Questioned Costs section of the report. For more information, see Section 450.

FINDINGS AND RECOMMENDATIONS SECTION **450**

1. Schedule of Audit Findings and Questioned Costs

   All findings, including internal control and compliance findings, shall be disclosed in this section. In accordance with the reporting standards described in *Government Auditing Standards*, the description of the finding shall include the following elements: criteria, condition, effect, and cause. In addition, pursuant to *Education Code* Section 14503(a), if a school district is not in compliance with a requirement that is a condition of eligibility for the receipt of state funds, the audit report shall include a statement of the number of units of average daily attendance, if any, that were inappropriately reported for apportionment.

   Pursuant to Assembly Bill 1115 (Chapter 78, Statutes of 1999) school districts and/or county offices of education can no longer submit retroactive waivers requests to the State Board of Education; however, State Board of Education waivers may be submitted in accordance with *Education Code* Sections 41344.3 and 46206.

   Pursuant to *Education Code* Sections 41344 and 41344.1(d), school districts and county offices of education can appeal or request a summary review of audit findings to the Education Audits Appeal Panel.

   Findings involving federal programs must be identified by the program name, federal catalog number, and grant number (if applicable).

   The auditor's description of the federal finding should provide adequate information for the oversight agency and pass-through entity (state and federal departments) to determine the magnitude of the problem and the potential fiscal impact. If the auditor has not determined and reported the fiscal impact (quantified) of the noncompliance, the sample size selected and the number of selected items determined to be not in compliance should be included in the finding.

   Findings that require no corrective action should be presented with a statement to that effect, which includes the specific reasons why no action is necessary.

   This section should also include a list of any federal and state financial reports that should have been included within the scope of the audit, but had not been filed with the appropriate agencies before the end of the auditor's field work. However, a finding would not be relevant if the applicable federal or state financial reports were not due to the proper agencies before the end of the auditor's field work.

2. Coding and Content of Audit Findings

   Assembly Bill 3627 (Chapter 1002, Statutes of 1994) has revised the process of monitoring the resolution of exceptions noted in the annual audits of local educational agencies. AB 3627 amended *Education Code* Section 41020 to shift some audit resolution oversight responsibilities from the Superintendent of Public Instruction to County Superintendents of Schools.

FINDINGS AND RECOMMENDATIONS SECTION (continued) **450**

In order to allow the school districts and the CDE to properly evaluate and resolve audit findings, all findings must include a criteria on which the finding was based and a recommendation for the resolution of the finding. Additionally, all findings that may result in an adjustment to apportionment must be quantified.

Beginning with audits of FY 1994-95, the State Controller will require auditors to follow the requirements of AB 3627 and categorize audit exceptions to indicate which are to be resolved under county superintendent follow-up and which remain the responsibility of the CDE.

Audit findings will be classified as one of six types of findings and assigned a five-digit code. The classification that the auditor assigns will determine whether the exception is to be followed up by the Superintendent of Public Instruction or the County Superintendent of Schools.

All audit findings must be identified as one or more of the following six categories:

Five-Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous

Some findings may require more than one code. For example, a finding could be both internal control and federal compliance.

Please note: Many auditors double-code attendance-related findings as attendance (10000) **and** state compliance (40000). Although this is reasonable as these findings do come under the "State Compliance" section of the Audit Guide, for coding purposes, attendance findings should receive only **one** code, the 10000 attendance finding designation. Findings related to "Incentives for Longer Instructional Day/Year" should also be coded only as 10000 because of the direct relationship to attendance-related apportionment calculations.

If findings are not coded with the five-digit number, the report will be rejected.

The five-digit code will be expanded in subsequent years to allow for more detailed classification.

California Department of Education Management Advisory 95-03 contains further information on the implementation of AB 3627.

3. Corrective Action Plans

A corrective action plan for each finding and recommendation must be prepared by the entity and submitted as part of the audit report. The corrective action plan must describe the specific actions planned or taken to correct the problem noted by the auditor. General comments such as "will implement," "accepted the recommendation," or "will discuss at a later date" are not considered adequate.

If the entity feels that the corrective action recommended by the auditor is not necessary or appropriate, a statement to that effect must be provided that includes the specific reasons why no action is necessary or appropriate.

If the entity does not submit a corrective action plan before the report is prepared, the auditor should include a statement that the corrective action plan was not available. The entity should prepare and distribute a corrective action plan to all holders of the audit report within 60 days after the issue date of the audit report.

4. Management Letters

A copy of each management letter issued during the audit shall be included in this section of the report.

FINDINGS AND RECOMMENDATIONS SECTION (continued) **450**

5. Summary Schedule of Prior Audit Findings

   The status of actions taken by the entity on findings and recommendations reported in the prior-year audit shall be presented in this section. Auditors should carefully determine that all prior-year findings and recommendations, including those items separately reported under either the program compliance or internal control sections, are addressed. If not, then the auditor shall immediately notify the appropriate county office of education and the State Department of Education and restate the exception in the audit report.

   Prior-year findings that have not been corrected should be included as current-year findings and recommendations as well.

REPORTING ISSUES **470**

Reporting Entity **471**

As previously discussed in Section 333 of this audit guide, the auditor must determine whether any separate entities should be included as component units of the LEA for financial reporting purposes. The criteria for this determination are set forth in GASB Statement No. 14, "The Financial Reporting Entity." The Governmental Accounting Standards Board issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* in May 2002. The provisions of the statement are effective for financial statement audits for periods beginning after June 15, 2003. Earlier application is encouraged. This statement amends GASB 14, *The Financial Reporting Entity*.

If an entity satisfies the criteria for inclusion as a component unit of the LEA, the auditor should follow the reporting guidelines set forth in GASB Statement No. 14. Because the relationship between each LEA and each component unit is different, the methods used to include each component unit in the LEA's financial statements also will differ. The financial statement information for each component unit should be reported using one of the following methods:

1. Blending the component unit's financial statements into those of the LEA. This method should be used if either of the following criteria is applicable:

   - The component unit's governing body is substantively the same as the governing body of the LEA; or
   - The component unit provides services solely to the LEA or otherwise exclusively benefits the LEA.

2. Discrete presentation of the component unit's financial statements within the financial statements of the LEA. This method should be used if the unit does not qualify for presentation by blending, but does meet either of the following criteria:

   - The component unit provides a financial benefit to, or imposes a financial burden on, the LEA; or
   - The LEA is able to impose its will on the component unit.

3. Inclusion of the component unit's financial information by note disclosure only within the financial statements of the LEA. This method of reporting should be used if either of the following criteria is applicable:

   - There is no financial interdependency between the component unit and the LEA; or
   - The LEA is unable to impose its will on the component unit.

Regardless of the method used to report the activity of each component unit, the LEA's financial statements should include the following note disclosures:

- A brief description of each component unit, including its relationship to the LEA;
- A description of the criteria used in determining the basis for inclusion of each component unit in the LEA's financial statements; and
- A description of the reporting method used for inclusion of the component unit within the LEA's financial statements.

REPORTING ISSUES (continued) **470**

Going Concern **472**

Each LEA's audit report is required to contain a Schedule of Financial Trends and Analysis in the supplementary information section. Even though a JPE's audit report is not required to contain this schedule, the auditor's responsibility to evaluate whether there is substantial doubt about the JPE's ability to continue as a going concern for a reasonable period of time still exists. Based on the auditor's evaluation, certain disclosures regarding the entity's (LEA or JPE) ability to continue as a going concern for a reasonable period of time may be required. A discussion of the schedule and the disclosure requirements follows.

1. Schedule of Financial Trends and Analysis (LEAs only)

   This required schedule provides the auditor with information that can be used to evaluate the LEA's financial position and going concern status.

   As explained in Section 331, the auditor is responsible for evaluating whether there is substantial doubt about an entity's ability to continue as a going concern. As part of this evaluation, each LEA audit report must include a minimum supplementary information disclosure on the financial condition of the LEA. An example of the schedule is presented in the Illustrative Audit Report, Appendix A.

   Supplementary information must include actual amounts for the past three years (beginning with the year being audited), plus the current year's budgeted amounts, for the following items:

   - General Fund financial activity, including total revenue, expenditures, and other sources and uses;
   - General Fund balance;
   - Available reserve balances (funds designated for economic uncertainty, and any other remaining undesignated fund balance) from the General Fund, the Special Reserve Fund, or within any Article XIII-B Trust Funds;
   - Available reserve balances expressed as a percentage of total General Fund outgo (expenditures, transfers out, and other uses), including a comparison to the applicable state-recommended available reserve percentage;
   - Total long-term debt; and
   - Elementary and secondary P-2 average daily attendance (ADA), excluding ROC/P and adult ADA.

   If the LEA's percentage of available reserves to total General Fund outgo is below the state-recommended percentage, the schedule must include management's plans for increasing the LEA's available reserve percentage.

2. Disclosure Requirements

   AU Section 341 of the *Codification of Statements on Auditing Standards* and SAS No. 64, both issued by the AICPA, provide guidance to the auditor regarding disclosure requirements relating to the entity's ability to continue as a going concern.

   After identifying conditions and events and management's plans for dealing with the adverse effects of the conditions and events, the auditor may conclude that:

   - Substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time is alleviated; or
   - There is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

REPORTING ISSUES (continued) **470**

Going Concern (continued) **472**

2. (continued)

If the auditor concludes that there is no substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt. Such disclosure would also include the possible effects of such conditions and events, and any mitigating factors, including management's plans.

If the auditor concludes there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should consider the possible effects on the financial statements and the adequacy of the disclosure. Additionally, the audit report should include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion. The explanatory paragraph must explain the auditor's conclusion by using the phrase, "substantial doubt about its ability to continue as a going concern."

If the auditor concludes that the entity's disclosures with respect to the entity's ability to continue as a going concern for a reasonable period of time are inadequate, a departure from GAAP exists. This may result in either a qualified (except for) or an adverse opinion. For the reporting requirements, refer to the *Codification of Statements on Auditing Standards*, AU Section 508, "Reports on Audited Financial Statements," issued by the AICPA.

Compensated Absences **473**

Section C60, "Compensated Absences," in the *Codification of Governmental Accounting and Financial Reporting Standards*, and Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences," provide criteria to assist in determining proper recognition, accounting, and reporting of the liabilities for compensated absences.

GASB Statement No. 16 requires that vacation leave and other compensated absences with similar characteristics be accrued as a liability as the benefits are earned by the employees if:

- The leave is attributable to past service; and
- It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Sick leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees, but only to the extent it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement ("termination payments"). Alternatively, the liability should be measured based on the sick leave and other compensated absences with similar characteristics accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. When the liability is calculated, these accumulations should be reduced to the maximum amount allowed as a termination payment. Liabilities for compensated absences should be measured using the pay or salary rates in effect at the balance sheet date.

In governmental funds, the primary emphasis is on the flow of financial resources, and expenditures are recognized on the modified accrual basis. Accordingly, if all conditions of GASB Statement 16 are met, the amount of compensated absences recorded as expenditures in governmental funds shall be the amount accrued during the year that would normally be liquidated with expendable available financial resources.

REPORTING ISSUES (continued) **470**

Compensated Absences (continued) **473**

Since governmental fund balance sheets reflect current liabilities, only the current portion of the liability should be reported in the fund. The current portion is the amount left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources. The remainder of the liability should be reported in the General Long-Term Debt Account Group.

Nonvesting sick leave benefits that accumulate and are carried forward to succeeding years are generally not recognized as a liability since payment of such compensation is not probable.

NOTE: The California Department of Education issued a Management Advisory (95-05) on GASB 16.

Pension Disclosures **474**

The notes to the financial statements must include adequate disclosure of the entity's participation in employee retirement systems. Section P20 of the *Codification of Governmental Accounting and Financial Reporting Standards*, FASB Statement No. 35, and GASB Statement 27 provide the principal guidance for pension disclosures.

Pursuant to Government Accounting Standards Board (GASB) Statement 27, the annual audits of school districts for the 2002-03 fiscal year are required to include certain information in the notes to the financial statements for school district pension plans. Most school districts in California participate in a "cost-sharing defined benefit pension plan." Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (STRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The required pension note disclosure information is as follows:

Plan Description

- The name of the plan, identification of the public employee retirement system or other entity that administers the plan, and identification of the plan as a cost-sharing multiple-employer defined benefit pension plan.
- A brief description of the types of benefits and authority under which benefit provisions are established or may be amended.
- Whether the pension plan issues a stand-alone financial report or is included in the report of a public employee retirement system or other entity, and how the report can be obtained.

Funding Policy

- Authority under which the obligations to contribute to the plan by the plan members, employer(s), and others are established or may be amended.
- Required contribution rate(s) for active plan members.
- Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current year covered payroll. A cost-sharing plan must disclose the required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years.

REPORTING ISSUES (continued) **470**

Other Post-Employment Benefit Plan Disclosures **475**

The notes to the financial statements must include adequate disclosure of the entity's participation in other post-employment benefit plans (OPEB). GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits Other Than Pension Benefits by State and Local Governmental Employers," provides guidance for proper OPEB disclosures.

OPEB may include virtually any post-retirement health care benefits (including health care benefits provided through PERS), such as illness, dental, vision, and hearing. In addition, such benefits may include life insurance, disability income, tuition assistance, legal services, and other assistance programs.

The following disclosures must be made by entities that provide post-employment benefits other than pension benefits:

1. A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner (for example, the approximate percentage of the total obligation to contribute that is borne by the employer and the participants, respectively, or the dollar or percentage contribution rates).

2. A description of the statutory, contractual, or other authority under which OPEB provisions and obligations to contribute are established.

3. A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are financed on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. If OPEB are advance-funded on an actuarially determined basis, the employer should also disclose the actuarial cost method and significant actuarial assumptions (including the interest rate and, if applicable, the projected salary increase assumption and the health inflation assumption) used to determine funding requirements, and the methods used to value plan assets.

4. The following expenditure information, depending on how OPEB are financed:

   - If OPEB are financed on a pay-as-you-go basis, the amount of OPEB expenditures recognized during the period by the employer (net of participant contributions) and the number of participants currently eligible to receive benefits should be disclosed. If expenditures for OPEB cannot readily be separated from expenditures for similar types of benefits provided to active employees and their dependents, employers should use reasonable methods to approximate OPEB expenditures. If a reasonable approximation cannot be made, employers should state that OPEB expenditures cannot be reasonably estimated.

   - If OPEB are advance-funded on an actuarially determined basis, disclosures should include the number of active plan participants, the employer's actuarially required and actual contributions for the period (net of participant contributions), the amount of net assets available for OPEB, and the actuarial accrued liability and unfunded actuarial accrued liability for OPEB according to the actuarial cost method in use.

5. A description (and the fiscal effect, if measurable) of any significant matters that affect the comparability of the disclosures required by this paragraph with those for the previous period (for example, a change in benefit provisions).

6. Any additional information that the employer believes will help users assess the nature and magnitude of the cost of the employer's commitment to provide OPEB.

REPORTING ISSUES (continued) **470**

Contingencies **476**

The need to disclose loss contingencies under FASB Statement No. 5, *Accounting for Contingencies*, is a condition that the auditor should be aware of due to the potential effect on the entity's financial statements. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote.

An estimated loss from a contingency should be accrued by a charge to income if **both** of the following conditions are met:

- Information available prior to issuance of the financial statements indicates that it is **probable** that an asset had been impaired or a liability had been incurred at the date of the financial statements; and

- The amount of loss can be reasonably estimated.

If there is a reasonable possibility that a loss may occur, disclosure of that loss is required. The note to the financial statements should indicate the nature of the contingency and give an estimate of the possible loss or range of loss. If the auditor is unable to arrive at an estimate, the note should state that such an estimate cannot be made.

Remote loss contingencies, such as guarantees of indebtedness to others or the potential for future categorical aid program audit exceptions, should be disclosed in the notes to the financial statements. The disclosure should include the nature and amounts of the guarantee.

Leases **477**

The auditor must consider the proper accounting and financial reporting treatment for lease agreements of the reporting entity. Section L20, "Leases," in the *Codification of Governmental Accounting and Financial Reporting Standards*, FASB Statement No. 13, and GASB Statement No. 13 provide guidance in this area. Properly distinguishing between capital and operating leases should be a major concern of the auditor.

Generally, if the lease agreement meets one or more of the following criteria, the lease should be classified as a capital lease:

- Ownership transfers to lessee at end of the lease term.
- Agreement contains a "bargain purchase" option.
- Lease term is 75% or more of the estimated economic life of the property.
- Present value of the minimum lease payments is 90% or more of the fair market value of the property.

If the lease agreement is financed from general resources, the asset should be recorded as a general fixed asset and the liability as a long-term debt of the entity.

Leases containing a fiscal funding clause must be evaluated to determine whether the uncertainty of possible cancellation is a remote contingency. FASB Statement No. 13 states, "a lease is cancelable (i) only upon occurrence of the remote contingency . . . shall be considered 'noncancelable.'" The economic substance of most lease agreements with fiscal funding or cancellation clauses is that they are essentially long-term contracts. If the possibility of cancellation is remote, the lease should be capitalized.

Lease agreements between LEAs and public benefit corporations must be evaluated to determine whether the corporation is a component unit of the LEA as discussed in Section 333.

REPORTING ISSUES (continued) **470**

Leases (continued) **477**

Property acquired through the use of a certificate of participation should be accounted for in the same manner as property acquired through lease-purchase. The asset should be recorded in the asset records of the entity and the liability recorded in the appropriate debt accounts.

The following information regarding leases should be disclosed in the financial statements and notes.

1. For capital leases:

   - Capitalized value of the asset acquired;
   - Total long-term debt, at present value; and
   - Future minimum lease payments as of the date of the balance sheet, in the aggregate and for each of the five succeeding fiscal years, with a separate deduction for imputed interest and other executory costs.

2. For operating leases having noncancelable lease terms in excess of one year, future minimum rental payments, in the aggregate and for each of the five succeeding fiscal years.

3. For all operating leases, rental expense for the fiscal year. For operating leases that contain scheduled rent increases and have terms beginning after June 30, 1990, the financial statements and note disclosures must present rental expense in accordance with the provisions of GASB Statement No. 13.

4. A general description of the entity's leasing arrangements including:

   - The basis on which contingent rental payments are determined;
   - The existence and terms of renewal or purchase options and escalation clauses; and
   - Restrictions imposed by lease agreements.

Certificates of Participation **478**

The auditor must consider the proper accounting and financial reporting treatment for a certificate of participation (COP) issued by an LEA. COPs are used as a financing mechanism by school districts and county offices to provide capital for items such as the purchase of equipment, the financing of construction projects, the refinancing of existing leases, and the funding of liability insurance. The majority of COP issuances, however, are financing instruments that provide long-term financing through a tax-exempt lease for the purpose of financing capital assets.

Presentation in the financial statements and notes is dependent upon the financing arrangements involved in each COP issuance. The following examples illustrate three common types of COP financing arrangements in which LEAs may be involved, and the reporting requirements of each:

Example 1 - The COPs are issued on behalf of an LEA, and a leasing company, bank, or financing authority acquires capital assets with the COP proceeds and then leases them to the LEA in an "arms length" transaction. Such leases should be evaluated and, in most cases, reported in the financial statements and notes as a capital lease. (See Section 477 for the description of leases.)

Example 2 - A joint powers entity or financing authority is created to issue COPs on behalf of specific participating LEAs. The COP documents clearly specify the portion of debt for which each LEA is responsible. The LEAs are under obligation to make principal and interest payments to the entity in order to liquidate the outstanding COP debt. Each LEA's portion of this long-term debt should be disclosed in the financial statements and notes.

REPORTING ISSUES (continued) **470**

Certificates of Participation (continued) **478**

Example 3 - The LEA has formed a nonprofit corporation (such as a building corporation), which is a component unit of the LEA for reporting purposes, as discussed in Section 333. The corporation oversees the issuance of the COPs on the LEA's behalf, and uses the COP proceeds to obtain capital assets, which are leased to the LEA. The corporation has the responsibility of making the principal and interest payments to the trustee for the reduction of the COP debt.

It is suggested that each LEA establish a debt service fund to account for the repayment of the current portion of the debt obligation and for any reserves held for debt service, but such a fund is not required.

Reporting Requirements

The following information should be disclosed in the financial statements and notes:

1. For capital leases (Example 1):
   - Capitalized value of the asset acquired;
   - Total long-term debt, at present value; and
   - Future minimum lease payments as of the date of the balance sheet, in the aggregate and for each of the five succeeding fiscal years, with a separate deduction for imputed interest and other executory costs.
2. For payments on COPs (Examples 2 and 3):
   - Reporting entity (Example 3 only);
   - Debt service requirements to maturity; and
   - Changes in long-term debt.

Short-Term Financing **479**

When an LEA makes use of any short-term debt, such as tax and revenue anticipation notes (TRANs), or loans from the county office of education, the CPA may be required to disclose this debt in the financial statements and/or the notes to the financial statements. Loans from the county office of education should not be treated any differently than other forms of short-term debt.

Debt Outstanding at Fiscal Year-End

Debt outstanding at fiscal year-end must be presented as a current liability on the balance sheet. Appropriate note disclosure should also be included in the notes to the financial statements.

Debt Paid Off by Year-End

When the short-term debt has been paid off before the fiscal year-end, the auditor's judgment will determine if disclosure is necessary. If the debt was incurred because of "seasonal" or timing problems related to cash flows, then disclosure may not be required. However, if there is such a cash flow problem as to cause a going concern issue, or if a lack of such disclosure would cause the financial statements to be misleading, then the debt should be disclosed in the audit report. The appropriate way to disclose this debt would be in a note to the financial statements, including the amount of the debt, term of the debt, and the reason for the issuance.

REPORTING ISSUES (continued) **470**

Short-Term Financing (continued) **479**

In-Substance Defeasance

In-substance defeasance occurs when an LEA deposits cash with an independent trustee to refund the outstanding principal and interest of a particular debt issuance prior to the actual maturity date of the debt liability. This practice of advance repayment, or defeasance, is commonly used by LEAs in conjunction with TRANs debt issuances.

Section D20 of the *Codification of Governmental Accounting and Financial Reporting Standards* sets forth the reporting requirements for defeased debt. When debt is defeased, it is no longer reported as a liability on the balance sheet at fiscal year-end. Appropriate disclosure of each debt in-substance defeasance should be included in the notes to the financial statements.

Subsequent Events

When the short-term debt was issued after year-end and before issuance of the financial statements, the debt should be disclosed as a subsequent event in the notes to the financial statements.

Interfund Transactions **480**

The criteria for interfund transaction accounting as prescribed in Section 1800 of the *Codification of Governmental Accounting and Financial Reporting Standards* are summarized below.

Quasi-External Transactions and Reimbursements

1. Quasi-External Transactions: These transactions typically involve internal service fund billings to other departments (an example would be self-insurance fund charges to the general fund). Charges of this or a similar nature should be recognized as revenues or expenditures in the funds involved.

2. Reimbursements: Transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that are properly applicable to another fund should be recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. (For example, an expenditure properly chargeable to a special revenue fund was initially made from the general fund, which is subsequently reimbursed.)

Transfers

All interfund transactions except loans or advances, quasi-external transactions, and reimbursements are transfers. Two types of transfers that occur frequently at school districts are described below.

1. Residual Equity Transfers: These transfers involve nonrecurring or nonroutine transfers of equity between funds (e.g., contribution of enterprise fund or internal service fund capital by the general fund, subsequent return of all or part of such contribution to the general fund, and transfers of residual balances of discontinued funds to the general fund or a debt service fund). Residual equity transfers should be reported as additions to or deductions from the beginning fund balance of governmental funds. Residual equity transfers to proprietary funds should be reported as additions to contributed capital; those from proprietary funds should be reported as reductions of retained earnings or contributed capital, as appropriate in the circumstances.

REPORTING ISSUES (continued) **470**

Interfund Transactions (continued) **480**

2. Operating Transfers: All other interfund transfers (e.g., legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended, transfers of tax or assessment revenues from a special revenue fund to a debt service fund, transfers from the general fund to a special revenue or capital projects fund, operating subsidy transfers from the general fund to a special revenue fund) are classified as operating transfers. Operating transfers should be reported in the "Other Financing Sources (Uses)" section in the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Operating Transfers" section in the statement of revenues, expenses, and changes in retained earnings (proprietary funds). Operating transfers thus affect the results of operations in both governmental and proprietary funds.

Interfund transactions not covered explicitly above should be reflected according to their substance and with due regard for adequate disclosure.

Transactions that are interfund should offset for the district as a whole (for example, "Operating Transfers In" should equal "Operating Transfers Out").

Joint Ventures **481**

Joint ventures usually take the form of a joint powers agreement (JPA) between the LEA and other governmental entities (e.g., other LEAs, cities, counties, etc.) to provide various services to the JPA members. Common forms of JPAs may provide member LEAs with insurance coverage, pupil transportation services, or special education classes. Section J50 of the *Codification of Governmental Accounting and Financial Reporting Standards* defines a joint venture as:

> A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants, as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest (e.g., an equity interest in either assets or liabilities) or (b) an ongoing financial responsibility.

The auditor must first determine whether the joint venture should be included as a part of the LEA reporting entity. This is accomplished by evaluating the relationship between the LEA and the joint venture in terms of the reporting entity criteria as discussed in Section 333. If the auditor determines that the joint venture is not part of the LEA reporting entity, certain report disclosures are required.

When the LEA's investments in the joint venture are made from a governmental fund (e.g., general fund), the joint venture must be disclosed in the notes to the financial statements. These disclosures should include:

1. A general description of each joint venture that:

   - Identifies the participants and their percentage shares;
   - Describes the arrangements for selecting the governing body or management; and
   - Discloses the degree of control the participants have over budgeting and financing.

2. Condensed or summary financial information on each joint venture, including:

   - Balance sheet date;
   - Total assets, liabilities, and equity;
   - Total revenues, expenditures/expenses, other financing sources (uses) and net increase (decrease) in fund balance/retained earnings; and
   - The reporting LEA's share of assets, liabilities, equity, and changes during the year, if known.

REPORTING ISSUES (continued) **470**

Joint Ventures (continued) **481**

3. Joint venture debt, both current and long-term, and the security for the debt. "Security for the debt" is defined as the resources that are expected to be used to repay the debt and/or may be legally or otherwise obligated to such debt.

An example of a joint venture disclosure is presented in the Illustrative Audit Report, Appendix A.

Budgetary Comparison Statements—Non-GAAP Budgets **482**

If the budget is prepared on a basis consistent with GAAP, the actual data in the budgetary comparison statement will be the same as in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types. However, if the budgetary basis used differs materially from GAAP, budgetary data should not be compared with GAAP-based operating data since these comparisons would not be meaningful. Rather, the budgetary comparison statements should present comparisons of the legally adopted budget with actual data on the budgetary basis. In such cases, this "actual" data would be different from the GAAP presentations in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types. The difference between the budgetary basis and GAAP should be explained in the notes to the financial statements.

Long-Term Receivables **483**

LEAs occasionally sell surplus property under agreements that provide for installment payments over several years. If these agreements involve general fixed assets of the LEA, the revenue received will be reported within governmental funds. Since governmental funds only recognize revenues that are currently measurable and available, the noncurrent portion of any long-term receivable should be deferred. The balance sheet presentation for a long-term receivable would disclose the full amount of the receivable as an asset with the noncurrent portion recorded as deferred revenue, a liability. Note disclosures should provide detailed information on the nature and terms of the receivable.

Reservation and Designation of Fund Balance **484**

The criteria for reporting fund balance reserves and designations as prescribed in Section 1800 of the *Codification of Governmental Accounting and Financial Reporting Standards* are summarized below.

In governmental fund accounting and reporting, use of the term "Reserved Fund Balance" should be limited to indicating that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. Examples include:

- Reserve for Inventories;
- Reserve for Prepaid Expenses; and
- Reserve for Restricted Programs.

Where part of the fund balance is reserved, the remainder should be reported as "Unreserved Fund Balance."

Fund balance designations may be established to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or for equipment replacement. Such designations reflect tentative managerial plans or intent and should be clearly distinguished from reserves. Designations should be reported as part of the unreserved fund balance, "Designated for. . .," or disclosed parenthetically or in the notes to the financial statements.

REPORTING ISSUES (continued) **470**

Reservation and Designation of Fund Balance (continued) **484**

Example Fund Balance Presentation:

Fund Balances:
- Reserved
  - Inventory
  - Prepaid expenses
  - Restricted programs
- Unreserved
  - Designated for debt service
  - Designated for economic uncertainties
  - Undesignated
- Total Fund Balance

Investments and Investment Pools **485**

GASB 31 established accounting and reporting standards for LEA investments. The following is a list of investments that may be affected: (a) participating interest-earning investment contracts; (b) external investment pools; (c) open-end mutual funds; (d) debt securities; and (e) equity securities, option contracts, stock warrants, and stock rights.

The LEA should report investments, including the external investment pool, at fair value in the balance sheet (or other statement of financial position). Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. GASB 31 provides exceptions to this rule by allowing the LEA to report some of its investments at amortized cost. The investment exceptions are as follows:

- Short-term debt investments held in an external investment pool with remaining maturities of up to ninety days provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.
- Nonparticipating contracts such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors.
- Money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.
- External investment pools that operate in a manner consistent with the Securities and Exchange Commission, Rule 2a7.

Schedule of Expenditures of Federal Awards **486**

OMB Circular A-133 requires that a schedule of expenditures of federal awards be included in the single audit report. The State Controller's Office requires in addition that all entities include this schedule in their annual audit reports regardless of whether or not a single audit has been performed.

The purpose of the Schedule of Expenditures of Federal Awards is to provide information to federal and state agencies on programs for which they are responsible. The financial information presented on the schedule should be derived from the same books and records that serve as the basis for preparation of the financial statements. The schedule should be prepared on a basis consistent with other federal and grant reports. However, the schedule's data may not fully agree with other grant reports because, among other factors, (1) the grant reports may be prepared on a different fiscal period, or (2) the grant reports may include cumulative data (from prior years) rather than only current-year data.

REPORTING ISSUES (continued) **470**

Schedule of Expenditures of Federal Awards (continued) **486**

Federal Awards

The schedule must include all federal assistance programs. All forms of financial assistance including grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, or direct appropriations must be included. Maintenance and Operations funds (PL 81-874), forest reserve funds, and similar grants for which the LEA does not have to account to the federal government must be included in the schedule. Food commodities should be reported on the schedule at fair market value. The invoices for commodities delivered contain the fair market value per unit.

The fund or funds used to account for federal assistance have no bearing on what to include on the schedule. Thus, child nutrition programs accounted for in a cafeteria fund should be included, as would IASA (Improving America's Schools Act), formerly ESEA, funds accounted for in the LEA's general fund.

Preparing the Schedule

An example of the schedule is included in the Illustrative Audit Report in Appendix A.

The following is a brief description of the data that is to be presented on this schedule:

- Federal Grantor/Pass-Through Grantor/Program or Cluster Title: List individual federal programs by federal agency. Federal programs should be identified by the program name per the Compliance Supplement (Section 530).

- Federal CFDA Number: Use the five-digit federal CFDA number per the Compliance Supplement (Section 530). For example, Title 1 Grants to Local Educational Agencies is CFDA number 84.010.

- Pass-Through Entity Identifying Number: For federal awards received as a subrecipient, the identifying number assigned by the pass-through entity should be included in the schedule.

- Federal Expenditures: This column should present expenditures charged to the program per the entity's accounting system, including year-end accruals for accounts payable, if applicable. This should include total expenditures for **all** federal assistance programs.

  NOTE: In those programs where expenditures for each individual program are not separately tracked (e.g., National School Lunch), or where cash received is deposited into the general fund (e.g., Forest Reserve, Impact Aid — Maintenance and Operations), the auditor may assume that program expenditures are equal to total program revenues.

- Notes to the schedule should include the following:

  - A description of the significant accounting policies used in preparing the schedule.
  - The total amount provided to subrecipients from each federal program.

Schedule of Instructional Time **487**

This schedule presents information that demonstrates the LEA's compliance with requirements applicable to the Incentives for Longer Instructional Day/Year. The criteria for determining compliance is contained in *Education Code* Sections 46200 through 46206. The background and criteria can be found in the State Compliance Requirements in this audit guide.

For information on time incentives, refer to *Attendance Accounting and Reporting in California Public Schools*, published by CDE in 1991.

REPORTING ISSUES (continued) **470**

Schedule of Instructional Time (continued) **487**

School Districts

The schedule is required for all school districts including basic aid school districts, that received incentive funding for increasing instructional time during each of three fiscal years: 1984-85, 1985-86, and 1986-87. Districts that received incentives must demonstrate that the instructional minutes offered have been maintained during subsequent fiscal years in order to retain the base revenue limit increase.

The minutes shown on the schedule are a district-wide compilation, which demonstrates the district's compliance with the instructional minutes requirements. If one or more school sites are not in compliance, a separate schedule for each site must be prepared that shows only those grade groupings that do not comply.

The following is a brief description of the data that is to be presented in each column of the instructional time schedule. An example of the schedule is included in the Illustrative Audit Report in Appendix A.

- 1982-83 Actual Minutes: FY 1982-83 is the base year for the longer day incentives. This data must be presented because all schools must offer at least the greater of the goal amount or the actual number of minutes offered in the base year. The minutes offered must exclude noninstructional time, such as recess (except in kindergarten) and lunch periods, and must be adjusted to reflect the shortened instructional time offered on minimum days.

- 1986-87 Minutes Requirement: The number of minutes is fixed by *Education Code* Section 46201. These amounts are the goals that districts should have met by FY 1986-87.

- 2002-03 Actual Minutes: This is the amount of time actually offered by the district in the fiscal year under audit. The minutes must exclude noninstructional time as noted above. These minutes must equal at least the greater of the 1986-87 goal or the 1982-83 actual minutes.

- Number of Days – Traditional Calendar: List the number of days offered by schools on a traditional or year-round calendar (single track). If various school sites have different amounts of instructional days for the same grade level, the auditor should present the instructional days for the school with the lowest number of days. Note: school districts that receive Longer Instructional Year Incentive Funding may be subject to a penalty if they fail to offer 180 instructional days. Refer to *Education Code* Section 46200(d) to determine the fiscal year the district must begin to offer 180 days.

- Number of Days – Multitrack Calendar: List the number of days offered by schools on a multitrack year-round calendar. If various school sites have different amounts of instructional days for the same grade level, the auditor should present the instructional days for the school with the lowest number of days.

- Status: This column presents an evaluation of the school district's compliance with the annual minutes requirements.

NOTE: If various school sites have different amounts of instructional time for the same grade level, the auditor should present the instructional time for the school with the lowest number of minutes. If any school is out of compliance with the number of minutes required at any grade level, the information for that grade level in that school should be shown.

County Offices of Education

The schedule is required for all county office of education (COE) that received incentive funding for increasing instructional time during each of two fiscal years: 1985-86 and 1986-87. COEs that received incentives must demonstrate that the instructional minutes have been maintained during subsequent fiscal years in order to retain the base revenue limit increase.

The following is a brief description of the data to be presented in each column of the instructional time schedule. An example of the schedule is included in Appendix A.

- 1986-87 Minutes Requirement: The number of minutes is fixed by *Education Code* Section 46201.5. These amounts were the goals for FY 1986-87.

- 2002-03 Actual Minutes: This is the amount of time actually offered by the COE in the fiscal year under audit. These minutes must equal or exceed the FY 1986-87 goal minutes.

- Number of Days – Traditional Calendar: List the number of days offered by schools on a traditional or year-round calendar (single track). If various school sites have different amounts of instructional days for the same grade level, the auditor should present the instructional days for the school with the lowest number of days. Note: school districts that receive Longer Instructional Year Incentive Funding may be subject to a penalty if they fail to offer 180 instructional days. Refer to *Education Code* Section 46200(d) to determine the fiscal year the district must begin to offer 180 days.

- Number of Days – Multitrack Calendar: List the number of days offered by schools on a multitrack year-round calendar. If various school sites have different amounts of instructional days for the same grade level, the auditor should present the instructional days for the school with the lowest number of days.

- Status: This column presents an evaluation of the COE's compliance with the annual minutes requirements.

SECTION 500
COMPLIANCE REQUIREMENTS

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COMPLIANCE REQUIREMENTS 500

INTRODUCTION 510

The California *Education Code* requires an annual audit of the financial records of each school district, county office of education, and applicable joint powers entity.[1] The scope of the audit work to be performed includes a financial and compliance audit, consistent with the definition provided in the *Government Auditing Standards* promulgated by the U.S. General Accounting Office. The State Controller is required to prepare an audit guide that prescribes the procedures to be followed by independent auditors for performance of financial and compliance audits (*Education Code* Sections 14501-14503, 41020, and 41023).

The examinations and evaluations of compliance with legal and regulatory requirements may have the singularly most material impact on the entity's financial position, as noncompliance with pertinent laws and regulations may represent a contingent financial liability. Accordingly, the auditor shall determine whether the reporting entity, program, function, or activity under audit has complied with laws and regulations that may have a material effect on the financial position and operations of the organizational unit or program under audit.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 include specific requirements for auditors to test the following types of transactions for compliance with federal laws and regulations:

- A representative number of charges from each major federal program; and
- Transactions related to other federal programs that are selected in connection with the audit of the financial statements or the auditor's consideration of the internal control structure over federal programs.

State program compliance requirements are much more specific. All state requirements identified in Section 520 that are applicable to the entity must be tested for compliance with state laws and regulations.

The audit requirements pertaining to state and federal compliance programs are presented in the following sections. Each compliance requirement is accompanied by suggested audit procedures that can be utilized as determined by the auditor's professional judgment.

Office of Criminal Justice Planning (OCJP) Grants 511

LEAs[2] may have received one or more grants from OCJP during the fiscal year. County offices receive direct grant funds from OCJP and disburse the funds to the applicable school districts. Additionally, some school districts receive one or more grants directly from OCJP. OCJP's *Grantee Handbook*, Section 8000, requires that each OCJP grant be audited each year in accordance with GAO standards. This audit requirement may be applicable only to those LEAs that received grant funds directly from OCJP. Therefore, a school district that receives OCJP grant funds from the county office may not be responsible for the grant audit.

An LEA has the option of either arranging for a separate audit of its OCJP grants or including those grants in its regular annual audit conducted in accordance with *Education Code* Section 41020.

Some grant awards contain federal funds and must be audited in accordance with the single audit act and OMB Circular A-133. The lower left corner of the "Grant Proposal/Award Face Sheet" (OCJP A301) will have a federal catalog number if the grant award contains federal funds. Thus, an LEA that elects to incorporate its state-funded OCJP grants into its annual audit should consider the grants as state categorical programs.

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[1] "Entity" or "reporting entity" is used to refer to school districts, county offices of education, and applicable joint powers entities.

[2] "LEA" is used to refer to school districts and county offices of education.

INTRODUCTION (continued) **510**

Office of Criminal Justice Planning (OCJP) Grants (continued) **511**

Federal OCJP expenditures should be included on the Schedule of Expenditures of Federal Awards (SEFA) as required by OMB Circular A-133. Additionally, if the auditee is receiving both state and federal OCJP funds and the auditor is unable to distinguish the federal amount (as required by OMB Circular A-133), the total award is included on the SEFA, with a footnote describing the commingled nature of the funds. Please note the "expenditures by category" information as required by OCJP (see second bullet) should be presented in addition to the SEFA.

- Each OCJP grant must be separately identified in the SEFA by fiscal year and grant number. Each OCJP grant may have a different fiscal year. The grants may have a federal fiscal year (October 1 through September 30), a state fiscal year (July 1 through June 30), or another time period. Auditors should ensure that expenditures incurred from July 1 through June 30 of the fiscal year under audit are presented in the SEFA by grant number. Therefore, in auditing the expenditures incurred during the fiscal year under audit, the auditor may be auditing the expenditures from two different grants. For grants started on October 1, 1991, expenditures incurred through June 30, 1992, are presented in the FY 1991-92 reports. Expenditures incurred between July 1 and September 30, 1992, would appear in the FY 1992-93 report. In addition, for grants started on October 1, 1992, expenditures incurred through June 30, 1993, would be shown on the FY 1992-93 report.

- Additional OCJP grant "expenditures by category" information must be presented either on a separate supplemental schedule or in the notes to the SEFA.

- If the grant has a match requirement (cash or in-kind), the audit must identify the revenue and expenditures made to meet the match requirement by expenditure category.

- "OCJP Grant Requirements" must be listed on the Auditor's Report on State Compliance.

Two additional items to note: First, the K-12 Audit Guide **does not** include compliance requirements or procedures for OCJP grants. The auditor should consult OCJP's *Grantee Handbook* for that information. Second, if OCJP grants are included in the annual LEA audit report, meeting the December 15 due date will satisfy the OCJP submission deadline. Check with OCJP on reporting dates if a separate report will be issued.

If you have questions regarding OCJP requirements, contact the OCJP Monitoring and Audits Branch at (916) 324-9196.

State Compliance Requirements

April 2003

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STATE COMPLIANCE REQUIREMENTS **520**

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KINDERGARTEN THROUGH GRADE 12
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STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting

	W/P Reference	Initials	Date
The average daily attendance (ADA) and the revenue limit of a school district govern the level of more than 80% of the district's income. In addition, ADA serves as the basis for lottery revenue allocations and several other specific sources of funding. Since accurate recording and reporting of attendance is essential, the State must rely on the independent auditor's evaluation and assurance that these reports are correct. School districts and county offices of education submit three ADA reports each year. The first period report covers the period of July 1 through the last full school month ending on or before December 31. The second period report covers the period of July 1 through the last full school month ending on or before April 15. The annual report covers the fiscal year, July 1 to June 30. During the year, apportionments are based on regularly updated information. "Advance Apportionments," based on the second period ADA reports of the prior year, establish the level of funding from July through January of each year. The "First Principal Apportionment," based on the first period attendance reports, establishes the amounts paid for February through May. The "Second Principal Apportionment" is made in June, based on the second period ADA report, and adjusts the amount paid during the year to the actual ADA reported for the second period. An annual recalculation of the apportionment is made in the February following the school year. Included in this recalculation are adjustments made for class size penalties derived from the class size penalties (Form J-7), annual ADA for adult education and regional occupational centers and programs (ROC/P), and other adjustments determined after the end of the fiscal year. The second period reports from either the current year or prior year (if greater) determine the actual amount of principal apportionments disbursed to school districts, with only minor adjustments for selected programs as noted above. These second period reports should form the basis for principal apportionment ADA audits. For county offices of education, however, the annual reports are used to determine the actual apportionment and are the basis for principal apportionment ADA audits. Lottery revenue allocations for K-12 programs will be based on current-year annual ADA. However, prior-year annual ADA will be used for calculating the distribution of funds until the actual current-year data is available. Adjustments to reflect actual current-year data will occur in the subsequent fiscal year. Thus, the annual attendance report should form the basis for lottery allocation ADA audits.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting

	W/P Reference	Initials	Date
Beginning with fiscal year 2002-03, new attendance software packages were provided to school districts, charter schools, and county offices of education in order to collect, consolidate, and edit local attendance data required by CDE for determining the state apportionment for K-12 educational programs. The attendance software packages, *School District Attendance Data Collection* and *Attendance Software–County Log-on Supplement,* uses new reports of attendance to replace the hard copy attendance forms (J-18/19, J-18/19CH, J-27/28, etc.), previously submitted to CDE. The *School District Attendance Data Collection* software is used to report the attendance data for school districts and charter schools to their county offices of education. A certification form, which is identified with a certification number, is printed and signed by the district superintendent or charter school administrator. For charter schools, the certification form is also signed by the chartering entity's superintendent. The certification form is then forwarded to the respective county office of education for review, signature, and is kept on file. The *Attendance Software–County Log-on Supplement* is used by county offices of education to collect county office of education, school district, and charter school attendance data. The county office verifies the certification number identified on the certification form and reviews the attendance data received from the school districts and charter schools. If the attendance data is revised by the county office of education, the county office prints a new certification form, which is identified with a new certification number. The revised attendance data and new certification form is forwarded to the school district or charter school for proper superintendent/administrator signatures and returned to the county office. The county superintendent signs the certification form, which is kept on file at the county office, and exports the attendance data to CDE. County offices of education that are responsible for entering other school districts' and charter schools' attendance data use this software to enter the attendance data as well as to enter their own county office attendance data. The certification forms are printed and forwarded for proper superintendent/administrator signatures and returned to the county office to be kept on file. The attendance data is then exported to CDE. When obtaining the most recent attendance data, auditors should request the attendance data from either the county offices of education or CDE.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	School Districts	County Offices of Education	W/P Reference	Initials	Date
Principal Apportionments:					
Second Period Reports	P2 Report of Attendance	P2 Supplement Report of Attendance			
Annual Reports (Those portions dealing with adult education and ROC/P attendance)	Annual Report of Attendance	Annual Report of Attendance			
Lottery Apportionments:					
Annual Reports	Annual Report of Attendance	Annual Report of Attendance			

Materiality:

When determining the sample (number of sites, grade levels, and number of pupils at each site) of regular K-12 ADA to be tested, the auditor *should* consider the need to ensure that applicable state and federal compliance requirements are met.

We recommend using the following guidelines to decide whether to test programs/alternative educational delivery modes in which attendance is recorded for funding purposes.

The CDE has identified the following programs/alternative educational delivery modes, however, there may be other programs/alternative educational delivery modes that should be included.

- Regular K-12
- Opportunity Schools and Classes
- Home and Hospital
- Special Education
- Community Day School
- Regional Occupational Centers/Programs
- Adult Education
- Adults in Correctional Facilities
- Full-Time Independent Study
- Short-Term Independent Study
- Continuation Education

Note: Although the term is not specifically defined in law, districts may legally use "short-term" independent study to serve pupils. For purposes of these materiality calculations, full-time independent study ADA is the ADA reported on line D1 of the district P2 Report of Attendance and county Annual Report of Attendance; short-term independent study ADA is the ADA for short-term independent study contracts administered by individual teachers and is not typically reported on line D1 of the district P2 Report of Attendance and county Annual Report of Attendance.

Program	Report of Attendance	Total Reported ADA	Minimum Reported ADA for Each Program Before Audit Testing is Required
All Attendance Driven Programs	P2 for Districts or Annual for Counties	1 - 1,000	10
		1,001 - 2,500	20
		2,501 - 10,000	50
		Over 10,000	100

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
The schedule represents minimum guidelines; however, the auditor may wish to apply more stringent materiality levels.			
NOTE: Any over/understatements of ADA must be reported in the findings and recommendations section (*Education Code* Section 41341(a)(1) and 14503(a)). When the auditor determines that the school district or county office of education has made an error in claiming apportionment attendance, due either to a clerical discrepancy or to noncompliance with attendance regulations, the auditor must quantify the error, for both the P2 and Annual periods. The auditor must report all over/understated ADA and estimate the potential fiscal impact (ADA multiplied by the revenue limit) for each finding.			
Establishing Materiality Limits for Programs to be Audited			
To perform an effective and efficient audit, the auditor must gain an understanding of the auditee's internal control. If, after documenting and testing the internal controls, the auditor assesses the auditee as low risk (pursuant to SAS 55, 78, and 94), the auditor is not required to audit state programs for which the auditee has received less than $5,000, unless the program is specifically required by law (Class Size Reduction, Gann Limit, Instructional Materials), to be audited.			
Resource Materials:			
The following attendance accounting section makes references to the *Education Code*, Title 5 of the California Code of Regulations (CCR), *Attendance Accounting and Reporting in California Public Schools*, the State Budget Act, and certain advisories issued by the California Department of Education (CDE). The auditor should review these references for a complete understanding of the compliance requirements.			
Auditors should also obtain CDE's attendance accounting manual, *Attendance Accounting and Reporting in California Public Schools*, issued in 1991. Another suggested reference is CDE's *Independent Study Operations Manual*, 2000 Edition. For information on how to obtain these manuals, refer to Appendix C.			
The following attendance accounting procedures refer to LEAs. However, audits of joint powers entities (JPEs) that report attendance to the State (i.e., regional occupational programs/centers) should include the attendance procedures applicable to the attendance reported by the JPE.			
Attendance Reporting			
Compliance Requirements:			
Because of the relationship between attendance and state apportionments, each LEA must develop and maintain accurate and adequate attendance records to support the attendance reported to the State (*Attendance Accounting and Reporting in California Public Schools*, Title 5, CCR, Sections 401 and 421(b), and *Education Code* Section 44809).			
In computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils and under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law. (*Education Code* Section 46300(a))			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Attendance Reporting (continued) Suggested Audit Procedures: 1. Determine whether the P2 and annual Report of Attendance submitted to the state reconcile to the supporting documents by verifying the LEA's ADA calculations for each reporting line item, including the informational line items. Trace the ADA numbers from the P2 and annual Report of Attendance to the LEA's summaries. 2. Determine whether the monthly site summaries used for summarizing attendance provide accurate information by selecting a representative sample of school sites that is of the LEA's grade span (i.e., elementary, middle, and high schools) and performing the following procedures (include special day classes in this sample; other special programs are identified separately in subsequent sections): a. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the LEA for the P2 and the annual attendance reports. b. Select at least one test month in the P2 or annual attendance reporting period. Foot and cross-foot the monthly report and trace the totals to the site's attendance summary. c. Select a representative sample of classes (teachers) and trace the monthly totals from the monthly report to the attendance registers, scantron summaries, etc. Foot and cross-foot attendance registers, scantron summaries, etc. 3. Select a sample of absences and compare to documentation supporting ADA reported to the State to verify that absences were not claimed for apportionment. The documentation maintained by the LEA in support of its absences may be notes, logs, etc., depending on the board-adopted policy with regard to verification of absences. 4. For each of the teachers selected in procedure 2c above, test to determine if each teacher possessed a valid certification document during the year under audit. If any teacher did not possess a valid certification document, calculate the penalty pursuant to *Education Code* Section 45037 and include the actual calculation in the audit finding. Please note: The California Commission on Teacher Credentialing (CTC) website at https://teachercred.ctc.ca.gov/teachers/index.jsp or staff at the county office of education may be useful resources in confirming certification documents. The CTC website only posts credentials issued after 1989.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Kindergarten Continuation			
Compliance Requirement:			
Education Code Section 46300(g) allows a school district to include in its average daily attendance kindergarten pupils who have already completed one school year in kindergarten **only** if the school district has on file for each of those pupils an agreement made pursuant to Section 48011, approved in form and content by CDE, and signed by the pupil's parent or guardian near the anniversary date of the pupil's kindergarten admittance. The pupil is not to continue for more than one additional school year in kindergarten.			
CDE's Management Advisory 90-10 included a preapproved parent/guardian agreement-to-continue form for school districts to use. Use of a form containing contents that differ from the contents in the pre-approved form must be verified by a letter from CDE approving the form for purposes of compliance with *Education Code* Section 46300(g). Placing the contents of the pre-approved form on district letterhead does not require a separate approval. The advisory also states that the signed forms must be kept on file for three years as part of a school district's "audit trail" for state apportionments (Title 5, CCR, Section 16025).			
Suggested Audit Procedures:			
1. Select a representative sample of kindergarten classes offered at different school sites and perform the following procedures (the sample should include kindergarten classes at more than one school site) and obtain a list of kindergarten pupils enrolled in the selected kindergarten classes for the prior fiscal year and the current fiscal year. Compare the enrollment lists and identify those kindergarten pupils who are on both lists.			
2. For those pupils identified on both lists, review the pupil's record to determine if the pupil continued in kindergarten after completing one year of kindergarten.			
3. Verify that the district has a signed preapproved agreement-to-continue form for the pupil.			
If any sample pupils' attendance is not eligible for apportionment credit, prepare a schedule of non-apportionment eligible ADA for those pupils. Only ADA generated after one full school year of kindergarten is not eligible. For example, if a pupil enrolls in kindergarten on January 1, only ADA claimed after January 1 of the following year is disallowed. Please quantify by ADA, not by the number of pupils.			
Independent Study			
Independent study provides an alternative to classroom instruction consistent with the district's course of study. Attendance credit is earned and reported as a product of ongoing instructional activities that are agreed upon in advance and supervised by certificated teachers. *Education Code* Section 46300(e)(1) requires, for purposes of apportionment**,** a five consecutive school day minimum for independent study agreements.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Independent Study (Continued) Short-term independent study does not exist as a separate entity in law. The rules in statute and regulation that apply to independent study are the same whether the period of independent study is five days or one semester. Pupil-teacher ratios apply only to full-time independent study. Districts offering full-time independent study often do so at school sites that exclusively serve large numbers of independent study pupils; as a result, the staff at these specialized sites become familiar with the complex record keeping and other conditions of apportionment that apply to all independent study. Short-term independent study, on the other hand, is almost always organized and conducted by classroom school staff at traditional school sites. Because of the complex "conditions of apportionment" that attach to all average daily attendance earned by pupils engaged in independent study, there is a risk that schools reporting significant amounts of average daily attendance from "short-term" independent study will not be aware of at least one, or more, statutory conditions of apportionment. The independent study by pupils while enrolled in a district's or county office of education's schools must comply with all statutory and regulatory conditions of apportionment. (*Education Code* Sections 46300, 51747 to 51748, Title 5, CCR, Sections 11700 to 11703). Compliance Requirements: *Written Policies* A school district or county office of education shall not be eligible to receive apportionment for independent study by pupils, regardless of age, unless it has adopted written policies, pursuant to rules and regulations adopted by the Superintendent of Public Instruction, which include, and are not limited to, each of the following (*Education Code* Section 51747): 1. The maximum length of time, by grade level and type of program, that may elapse between the time an independent study assignment is made and the date by which the pupil must complete the assigned work. 2. The number of missed assignments that will be allowed before an evaluation is conducted to determine whether it is in the best interests of the pupil to remain in independent study, or whether he or she should return to classroom study. A written record of the findings of any evaluation made pursuant to this subdivision shall be maintained in the pupil's permanent record. 3. A requirement that a current written agreement for each independent study pupil shall be maintained including, but not limited to, all of the following: • The manner, time, frequency, and place for submitting a pupil's assignments and for reporting his or her progress; • The objectives and methods of study for the pupil's work, and the methods utilized to evaluate that work; • The specific resources, including materials and personnel, that will be made available to the pupil;			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Independent Study (continued) • A statement of the policies adopted pursuant to subdivisions (a) and (b) of *Education Code* Section 51747 regarding the maximum length of time allowed between the assignment and the completion of a pupil's assigned work, and the number of missed assignments that will require an evaluation of whether or not the pupil should be allowed to continue in independent study; • The duration of the independent study agreement, including the beginning and ending dates for the pupil's participation in independent study under the agreement. No independent study agreement shall be valid for any period longer than one semester, or one-half year for a school on a year-round calendar; • A statement of the number of course credits or, for the elementary grades, other measures of academic accomplishment appropriate to the agreement, to be earned by the pupil upon completion; • The inclusion of a statement in each independent study agreement that independent study is an optional educational alternative in which no pupil may be required to participate. In the case of a pupil who is referred or assigned to any school, class, or program pursuant to *Education Code* Section 48915 or 48917, the agreement also shall include the statement that instruction may be provided to the pupil through independent study only if the pupil is offered the alternative of classroom instruction; and • Each written agreement shall be signed prior to commencement of independent study by the pupil, the pupil's parent, legal guardian, or caregiver if the pupil is less than 18 years of age, the certificated employee who was designated as having responsibility for the general supervision of independent study, and all persons who have direct responsibility for providing assistance to the pupil pursuant to *Education Code* 51747(c) (8). Absent the adopted board policies, that must include all of the above-listed components, the LEA is not eligible to include attendance for its independent study pupils in the ADA it reports for state funding. If any reported ADA was generated during periods when the foregoing board policies had not been adopted, prepare a schedule of non-apportionment eligible ADA. The auditor should recommend that the LEA revise its report of attendance to exclude the unallowable independent study attendance. The attendance earned in independent study is reported on the Report of Attendance (i.e., kindergarten, grades 1-3, grades 4-8, grades 9-12, continuation education, etc.). The independent study attendance for full-time independent study students is also reported on line D1 of the district P2 Report of Attendance and county Annual Report of Attendance.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Independent Study (continued) *Apportionment* No more than one apportionment day (a "day of attendance") per school calendar day may be credited for any student for independent study (*Education Code* Section 46300(e)) (Note: The term "student" represents both "pupil" and "student" as used in the *Education Code*). The minimum day applicable to the pupil is the minimum day for the program in which the student is enrolled (e.g., 240 minutes for regular high school). The student may complete the independent study assignment at any time within the assignment period; however, the teacher must assign a value (such as five days) to the completed study and post the corresponding attendance to an approved attendance form. Any student who completes assignments representing more minutes than in the applicable minimum day multiplied by the number of school days in the assignment period cannot be credited with more than one apportionment attendance day per school calendar day and may not earn any surplus attendance credit usable in future or past periods for apportionment purposes. The same completed coursework required for one class in which a student is enrolled cannot be credited a second time as an independent study "assignment" for a different class. Regulations prohibit claiming apportionment for any student if the time value of the student's work products for each assignment have not been personally judged by a certificated, supervising teacher (who is an employee of the district or county office of education) (*Education Code* Section 51747.5(b)). A "supervising teacher," as defined in Title 5, CCR, Section 11700(j) and explained in 11700(b), supervises pupil or student study — not other teachers. The terminology "independent study teacher" and "teacher" in this guide mean "supervising teacher" as identified. Independent study students may not receive attendance credit for partial days. The independent study teacher should report attendance in whole day increments. For example, if the completed work is valued at 5.5 days, the LEA may only claim 5 apportionable attendance days. *Written Agreements/Work Samples* The basic document for earning apportionment attendance is the written agreement. Subsidiary contracts for courses, assignment and work records, and other documents are part of the written agreement. When subsidiary course agreements, assignment and work records, and other documents are present, the information required by *Education Code* Sections 51747(c) and 46300.7 may be contained in a subsidiary document rather than in the written agreement itself. Thus when a written master agreement does not contain these required elements, they must appear in the subsidiary agreements. If there are multiple subsidiary documents covering *different subjects,* the required elements must be present for each subject and may be in either the master or subsidiary agreement. That means, for example, that subsidiary agreements for courses and related assignments must then contain the objectives, methods of study, methods used to evaluate the pupil's work, and specific resources that will be available to the pupil for reaching these objectives. The written agreements, teacher records, student work record of work assignments completed, and representative samples of each student's completed work products showing the teacher's evaluations must be retained in each student's file for three years.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Independent Study (continued) If assignments do not yield a written product, reasonable work samples, pursuant to Title 5, CCR, Section 11703, should be selected and retained. Assigned work not submitted by the due date cannot be given attendance credit for the period for which it was assigned (Title 5, CCR, Sections 11700-11703). *Education Code* Section 51747(c)(7) requires inclusion of certain statements in the written agreement. The precise language of the statute does not need to be repeated verbatim in the written contract, but should include the essence of the language. For example, a statement such as "independent study is an optional educational alternative that I have voluntarily selected" may be used in place of the statute specific language "independent study is an optional educational alternative in which no pupil may be required to participate." *Independent Contractor* If the LEA uses an independent contractor for independent study, the students must be under the general supervision of a certificated employee of the LEA (*Education Code* Section 51747.5). The certificated employee must review and document, the determinations of the time values for apportionment purposes of each pupil's completed assignments (Title 5, CCR, Sections 11700(b) and 11700(b)(3)). *Pupil-Teacher Ratio* The full-time independent study teacher-ADA ratio cannot exceed the comparable ratio for other instructional programs (*Education Code* Section 51745.6). *Recordkeeping* Pursuant to Title 5, CCR, Section 11703, maintaining records to meet audit requirements is the responsibility of the local district or county superintendent's office. Records shall include, but not be limited to, a daily or hourly attendance credit register, as appropriate to the program in which the pupils or adult education students are enrolled, *separate* from classroom attendance records, and maintained on a current basis as time values of pupil or adult education student work products are personally judged by a certificated teacher and reviewed by the supervising teacher, if they are two different persons. *Enrollment* Every student engaged in independent study must be enrolled in a specified school of a school district or county office of education (*Education Code* Section 51748). K-12 independent study students who are age 19 or 20 must have been continuously enrolled in school since their 18th birthday (*Education Code* Section 46300.1). Students engaged in independent study may not be enrolled pursuant to *Education Code* Section 48204(f) (*Education Code* Section 51747.3(c)).			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Independent Study (continued) *State Residency* Only the attendance of students who are residents of the state is eligible for apportionment purposes. This requirement applies only to the residency status of the student. A student's legal status (citizenship, legality of residency) has no bearing on his or her eligibility to a free public school education in California. All students who are not residents of California are not eligible for apportionment, and the district must collect tuition for those students in accordance with *Education Code* Sections 48050, 48051, and 48052. In some cases pupils engaged in independent study, during the time that the independent study agreement is in effect, move to a residence that is outside the district so that the district is no longer eligible to receive state apportionment for that ADA. *County Residency* Independent study attendance may be claimed only for those pupils residing in the county in which the apportionment claim is reported or in a contiguous (bordering) county (*Education Code* Section 46300.2). *Restrictions on Apportionment* An LEA may not claim state attendance funding for the independent study of a student if the LEA has provided any funds or other "thing of value" to the student or his/her parents or guardian that the LEA does not provide to students who attend regular classes or to their parents/guardians (*Education Code* Section 46300.6). For purposes of apportionment, every student engaged in independent study must participate for five or more consecutive school days (*Education Code* Section 46300(e)(1)).			
Suggested Audit Procedures: 1. Reconcile the district's independent study attendance records to full-time independent study ADA reported on line D1 of the district P2 Report of Attendance and the county Annual Report of Attendance. 2. Select a sample of school sites that is representative of the district or county office and sufficient in size to allow the auditor to draw a reasonable conclusion with respect to the district's compliance with independent study requirements. Determine whether the monthly site summaries used for summarizing attendance provide accurate information by performing the following procedures: a. At each site, examine the attendance accounting records to determine if the attendance of pupils while engaged in independent study was either maintained on separate registers or the district has another mechanism in place to track independent study ADA separately from other ADA. Determine the total number of days of attendance reported for each sampled school site that resulted from attendance by pupils while engaged in independent study. (Note: pursuant to Title 5, CCR, Section 11703(b)(4) Independent Study attendance records shall include but not be limited to, a daily or hourly attendance credit register, maintained *separate* from classroom attendance records.) If the district is unable to provide a separate register or other documentation of total Independent Study ADA this should be reported as a finding.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Independent Study (continued)			
b. Verify that every student claimed for apportionment engaged in independent study was participating under an agreement for a minimum of five consecutive school days.			
c. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the LEA for the P2 and the annual attendance reports.			
d. Select a test month in the P2 or annual attendance reporting period. Foot and cross-foot the monthly report and trace totals to the site's attendance summary.			
e. Verify that certificated employees of the district or county office coordinate, evaluate, and generally supervise each student's independent study and the district's or county office's independent study operation as a whole (*Education Code* Section 51747.5).			
f. Select a representative sample of teachers. Foot and cross-foot teachers' attendance records of student attendance. Trace the monthly totals from the monthly report to the attendance records.			
3. From the attendance records, select a representative sample of students for whom independent study ADA was claimed, and perform the following procedures:			
a. Verify that no student engaged in independent study was enrolled in the district pursuant to *Education Code* Section 48204(f).			
b. Calculate the ratio of independent study teachers to full-time independent study ADA and compare to the ratio of other program teachers to other ADA as in the following example (from CDE's Program Advisory SPB:90/91-04, 11/13/90):			
Step 1: Total ADA for Line A, 1-7 (district P2 Report of Attendance) 25,000 Subtract ADA From Full-time Independent Study (Line D1 district P2 Report of Attendance) (300) Difference 24,700			
Step 2: Full-time and FTE Certificated Teachers in Direct Instruction (Not Independent Study) 830 Divide 24,700 by 830 = Ratio 1:29.76 Round Down to Whole Number = 1:29			
Step 3: Full-time and FTE Independent Study Teachers 8 300 Divided by 8 = 1:37.5 Round Down to Whole Number = 1:37			
Step 4: a) 37 Independent Study Ratio -29 Direct Instruction Ratio 8 Excess ADA/Teacher b) 8 Excess x 8 Independent Study Teachers 64 Disallowed Independent Study ADA			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Independent Study (continued)			
NOTE: The pupil-teacher ratio as described in Section 51745.6 of the Education Code in a unified school district participating in the class size reduction program pursuant to Chapter 6.10 (commencing with Section 52120) may, at the school district's option, be calculated separately for K-6, inclusive, and for grades 7 to 12, inclusive (*Education Code* Section 51745.6(d)).			
c. Interview LEA administrative personnel and school counselors to determine if the LEA has policies and procedures to ensure that any student terminating an independent study agreement has the option of classroom study.			
d. Review records and other appropriate documentation to determine that the program was voluntary. Pursuant to Title 5, CCR, Section 11700(d)(2), a pupil's choice to commence in, or to continue in independent study must not be coerced.			
4. Review pupil records to: (A) determine whether mailing addresses or other evidence of residency changed during the time the pupils were in independent study and, if so, whether the pupil was still eligible for state apportionment; and (B) determine through notations in the file whether a student is enrolled in any other program. If the student is enrolled in more than one educational program:			
• Verify that the student was not credited with a total of more than one day of attendance on any school day.			
• Verify that the district did not report more than one ADA for the school year.			
• Quantify any over-reported ADA for the district.			
5. Select a representative sample of students. Determine each selected student's county of residence and verify that it is the county in which the LEA is located or a contiguous county.			
6. Verify that a written agreement exists for each student selected and determine that the written agreement contains all the required elements and that no days of attendance are reported for dates prior to the signing of the agreement by all parties. Note: Auditors should be aware of the following examples of unusual patterns that could be indicative of potential noncompliance. For example: (1) traditional school sites that maintain partially completed independent study agreements in pupil files; (2) large numbers of independent study agreements with the same due date indicating that agreements were signed at the same time; (3) agreements where the date of the completed work does not correspond materially with the date of the agreement and (4) agreements for which the due dates specified in the agreement are not consistent with the policies adopted by the district's governing board.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Independent Study (continued)			
7. Trace each student's attendance from the attendance records to the teacher's record, student's work record, and the corresponding work assignment record. Verify that evaluated student work samples, bearing signed or initialed and dated notations by the supervising teacher indicating that he or she has personally evaluated the work, or that he or she has personally reviewed the evaluations made by another certificated teacher, have been retained in the file (Title 5, CCR, Section 11703(b)(3)). The independent study of pupils whose products have not been personally judged in each instance by an individual specified in statute is not eligible for apportionment (Title 5, CCR, Section 11703).			
8. Verify that attendance is recorded in whole days of at least the applicable minimum length based on the teacher's review, evaluation, and assignment of time value to the student's completed work.			
9. If all enrolled independent study students receive 100% apportionment attendance, ensure that the teacher is not allowing for banking of advance work for attendance credit or allowing make-up attendance credit for late assignments. If the auditor finds that the student's work is commonly turned in later than the first day on which the student returns to class, the auditor should determine if the independent study work is being completed in accordance with the agreement. Student grades or course credits are not to be used to verify apportionment attendance credit.			
10. Verify that no more than one apportionment day per calendar day is credited for any student.			
11. Verify that the student work product samples are related to the assignment under which the work was undertaken and reflect the curriculum adopted by the local governing board and not an alternative curriculum (*Education Code* Section 51745(a)(3)).			
12. Interview LEA administrative personnel and review written agreements as well as a sample of independent study teachers to determine whether it was the LEA's policy or practice to provide independent study students or their parents/guardians with monetary funding or any other items of value such as equipment or paid private instruction. If so, determine whether classroom students or their parents/guardians had the same access to funding or "things of value." Read program materials provided to all parents/guardians to determine that opportunities were equal and that students engaged in independent study were neither offered nor given incentives or special benefits.			
13. Prepare a schedule of any ineligible pupil days of attendance identified in the foregoing steps. Determine the number of days of attendance resulting from inclusion of such ineligible days of pupil attendance in ADA reported by the district for such pupils on the district P2 Report of Attendance or the county Annual Report of Attendance. Calculate the amount by which the ADA was overstated and include a schedule in the audit report.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Continuation Education			
Continuation schools and classes are maintained to provide the following:			
1. An opportunity for pupils to complete the required academic courses of instruction to graduate from high school;			
2. A program of instruction that emphasizes occupational orientation or a work-study schedule and offers intensive guidance services to meet the special needs of pupils; and			
3. A program designed to meet the educational needs of each pupil.			
Continuation schools and classes ADA is reported on line A-6 of the J-18/19 attendance reports.			
Compliance Requirements:			
The "day of attendance" in a continuation school or class is three hours (180 minutes). No pupil enrolled in continuation education may be credited with more than 15 hours of attendance per school week (*Education Code* Section 46170). If the school week contains fewer than five days, the number of apportionment hours claimed for it must be proportionately reduced so that no student receives more than one apportionment day of attendance per school calendar day. Excess hours earned in subsequent weeks may be credited to offset absences in previous weeks, but excess hours may not be banked for future use. This means that any given excess hour may be carried backward, but not forward, from the date on which it occurs.			
Hourly attendance accounting is required. Classes are not required to be held only in exact 60-minute "clock hour" sessions. Therefore, if a student attends any part of a class scheduled for less than 60 minutes, attendance should be recorded and claimed for the scheduled minutes (for example, 45 minutes). The attendance credit will be aggregated into whole hours for claiming purposes.			
Suggested Audit Procedures:			
Determine whether the monthly site summaries used for summarizing attendance provide accurate information by performing the following procedures:			
1. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the district for the P2 and the annual attendance reports.			
2. Select a test month in the P2 attendance reporting period. Foot and cross-foot the monthly report and trace totals to the site's attendance summary.			
3. Select a representative sample of classes (teachers). Trace the monthly totals from the monthly report to the attendance registers, scantron summaries, etc. Foot and cross-foot attendance registers, scantron summaries, etc.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Continuation Education (continued) Select a representative sample of students and perform the following procedures: 4. Trace each student's attendance per the weekly attendance records to the teacher's attendance register or other approved record. (Note: Sometimes continuation school pupils are enrolled in one or more classes in regular K-12 schools. Although such attendance may be for sound educational purposes, such as permitting a pupil to take a laboratory science course not offered at the continuation high school, no attendance by a continuation school pupil in a regular school class can be reported for apportionment attendance credit.) 5. Verify that hourly attendance is used and that attendance is **not** credited for more than the scheduled class time (45 minutes, 55 minutes, etc.). 6. Review weekly attendance records to determine that the district is not claiming more than 15 hours per week, or a proportionally reduced number of hours per week when there are less than five school days. 7. Select a representative sample of students who had absences during the test month and select a week in which there are fewer than five school days (holiday, short week, etc.) and review weekly attendance records to determine that the district proportionately reduced continuation education apportionment hours for the week.			
Compliance Requirement: Continuation education students who are regularly employed must attend a minimum of four 60-minute hours per week (*Education Code* Section 48400). These students are eligible to earn up to an additional 10 hours of apportionment attendance per week for work experience in those weeks in which they actually attended four 60-minute hours of continuation education classes (Title 5, CCR, Section 405). Students must receive, as a minimum, the equivalent of one instructional period per week of classroom instruction or counseling by a certificated employee (*Education Code* Section 51760.3 and *Attendance Accounting and Reporting in California Public Schools*, pages 158-159).			
Suggested Audit Procedures: If the continuation education students receive apportionment attendance for work experience, select a representative sample of students and: 8. Review the weekly attendance reports and attendance registers to determine that the students actually attended four 60-minute hours in the weeks they received additional hours of work experience apportionment attendance. 9. Verify that the students are receiving at least one instructional period per week of classroom instruction or counseling (work experience instruction).			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Continuation Education (continued) Compliance Requirement: Not more than 10% of pupils in each continuation high school are eligible for apportionment credit through independent study [(*Education Code* Section 51745 and CDE's Program Advisory SPB: 90/91-04)]. A pupil who is pregnant or is a parent who is the primary caregiver for one or more of his or her children shall not be counted within the 10% cap. (*Education Code* Section 51745(b)).			
Suggested Audit Procedures: If continuation students engage in independent study, verify that not more than 10% of each continuation high school's ADA at P2 is generated from independent study by performing the following calculations: 10. Multiply the continuation ADA for each school by 10%. The result is the independent study cap ADA. 11. If the continuation independent study ADA is greater than the cap ADA calculated above, the excess ADA is not allowable for apportionment and should be disclosed in the findings and recommendations section.			
Adult Education Adult education provides a variety of courses for adult students and regular program pupils enrolled in adult education. Program goals include providing the state's adult population with basic and continuing education needs. Compliance Requirements: Adult education apportionment is based on the district or county Annual Report of Attendance. Hourly attendance accounting is required for adult education. Classes are not required to be held only in exact 60-minute "clock hour" sessions. Therefore, if a student is scheduled to attend all of a class that is itself scheduled for less than 60 minutes and attends any part of the class, attendance should be recorded and claimed for the scheduled minutes (for example, 45 minutes). The attendance credit will be aggregated into whole hours for claiming purposes. Adult schools may not claim as full hours for apportionment the portions of clock hours that pupils attend ad hoc or in "laboratory" classes, in which more hours of class time are available than the number of hours the student must minimally attend to receive full credit. Rather, they must claim only the actual number of minutes actually spent in such classes by each pupil (*Attendance Accounting and Reporting in California Public Schools*, pages 48, 49, 97, and 167). Suggested Audit Procedures: Determine whether the monthly site summaries used for summarizing attendance provide accurate information by performing the following procedures: 1. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the LEA for the annual attendance reports.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Adult Education (continued) 2. Select a test month in the annual attendance reporting period. Foot and cross-foot the monthly report and trace the totals to the site's attendance summary. 3. Select a representative sample of classes (teachers) for both concurrently enrolled and not concurrently enrolled students. Trace the monthly totals from the monthly report to the attendance registers, scantron summaries, etc. Foot and cross-foot attendance registers, scantron summaries, etc. 4. Verify that hourly attendance is used and that attendance is **not** credited for more than the scheduled class time (45 minutes, 55 minutes, etc.) 5. Verify that the district has used individual teacher-certified records of the minutes of each pupil's actual attendance for classes (sometimes termed ad hoc or laboratory class settings) that provided more total hours of class time than the minimum required to be attended for the student to receive full credit for the class. Prepare a schedule of ADA earned by adult pupils in the sample classes that did not meet one or more of the foregoing tests.			
Compliance Requirement: If a high school student is "concurrently enrolled" in adult education, the student's adult education attendance is eligible for apportionment credit only if he/she is enrolled in an adult education class(es) that supplements and does not supplant the regular program (*Education Code* Section 52523). Eligibility of high school pupils for enrollment in adult education programs will also require that the high school pupil complete a counseling session that involves the pupil, a certificated representative of the high school, and the pupil's parent or guardian; that the school maintain a record that contains written documentation of the session and a statement that the pupil is voluntarily enrolling in the adult education course or class; and that enrollment in an adult education program, course, or class will enhance the pupil's progress toward meeting the educational requirements for graduation from high school (*Education Code* Section 52500.1[b]).			
Suggested Audit Procedures: 6. For the concurrently enrolled students selected, determine from the adult school files in which program/school the students are enrolled. Review the student's program/class schedule and/or transcript located at the program/school site and determine that the student was concurrently enrolled in an adult education course(s) that supplements and enriches, and does not supplant, the regular course offerings required to complete the curriculum for the K-12 program in which the student is placed. 7. Review the student's file to ensure there is documentation of a counseling session — a documented communication whether by phone or in person which involved the pupil, district certificated employee, and the parent, guardian, or caretaker — that meets the requirements of *Education Code* Section 52500.1(b).			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Adult Education (continued) Compliance Requirement: No state funds shall be apportioned to any district unless the courses have been approved for the time period being examined by the Department of Education (*Education Code* Section 52515).			
Suggested Audit Procedures: 8. Review the district's record to ensure that they have submitted each semester's course list to the Department of Education. The district should have a "notice of receipt and record of course" from the Department of Education on file. Prepare a schedule of ADA earned by concurrent pupils in the sample, that did not meet one or more of the foregoing tests.			
Regional Occupational Centers/Programs Regional occupational centers/programs (ROC/P) provide a variety of vocational educational instruction programs that serve students regardless of the geographic location of their residences or their school districts of attendance. Program goals include providing students with current, relevant instruction that meets the entry level employment needs of the local community. Compliance Requirement: ROC/P apportionment is based on the district or county Annual Report of Attendance. Hourly attendance accounting is required for ROC/P classes. Classes are not required to be held only in exact 60-minute "clock hour" sessions. Therefore, if a student is scheduled to attend all of a class that is itself scheduled for less than 60 minutes and attends any part of the class, attendance should be recorded and claimed for the scheduled minutes (for example, 45 minutes). The attendance credit will be aggregated into whole hours for claiming purposes. ROC/Ps may not claim as full hours for apportionment the portions of clock hours that pupils attend ad hoc or in "laboratory" classes, in which more hours of class time are available than the number of hours the student must minimally attend to receive full credit. Rather, they must claim only the actual number of minutes actually spent in such classes by each pupil (Title 5 CCR 405 and 406).			
Suggested Audit Procedures: Determine whether the monthly site summaries used for summarizing attendance provide accurate information by performing the following procedures: 1. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the LEA for the annual attendance reports. 2. Select a test month in the annual attendance reporting period. Foot and cross-foot the monthly report and trace the totals to the site's attendance summary.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Attendance Accounting (continued)

	W/P Reference	Initials	Date
Regional Occupational Centers/Programs (continued)			
3. Select a representative sample of classes (teachers), and trace the monthly totals from the monthly report to the attendance registers, scantron summaries, etc. Foot and cross-foot attendance registers, scantron summaries, etc.			
4. Verify that the district has used individual teacher-certified records of the minutes of each pupil's actual attendance for classes (sometimes termed laboratory class, community classroom, workplace learning, and cooperative education settings) that were not conducted in a fashion that required all pupils to be present at a set time and for which instruction concluded at a set time or in which more hours of class time are available than the number of hours the student must minimally attend to receive full credit.			
Prepare a schedule of ADA earned by ROC/P pupils in the sample that did not meet one or more of the foregoing tests.			
Staff Development Days			
Education Code Section 44579.1 established the Instructional Time and Staff Development Reform Program. In eligible school districts, county offices of education, and school districts, Instructional Time and Staff Development Reform (ITSDR) provides $299.29 per day, for up to three days, for each qualifying classroom teacher and $155.18 per day for up to one day for each qualifying classroom instructional aide and certificated teaching assistant who participates in appropriate staff development activities. ITSDR requires that each eligible participant be present for a full staff development day, allows any or all of the three staff development days to be conducted over several calendar days, but does not permit ITSDR staff development days to be conducted on a minimum day (except for multitrack, year-round schools [maximum of two staff development days for "off track" teachers]).			
Suggested Audit Procedures:			
1. Review the school calendars. Determine that no staff development days were counted as instructional days for apportionment purposes.			
2. Review the school calendars. Identify the number and purpose of ITSDR staff development days taken. Determine that contemporaneous records support the number of funded staff development days. A staff development day shall be at least as long as the full-time instructional workday for certificated or classified instructional employees. Staff development activities may include any of the following: instructional methods, teaching strategies, classroom management, conflict resolution, and other training designed to improve pupil performance, as well as core curricular areas defined in *Education Code* Section 51210(a) through (g) and 51220(a) through (j).			
3. Determine that this staff development was not on a minimum day except as provided for staff working in multitrack year-round schools where not more than two staff development days may be scheduled for "off track" teachers.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

	W/P Reference	Initials	Date
Incentives for Longer Instructional Day School Districts The 1983 Educational Reform Act established financial incentives for school districts that offer at least a specified minimum number of instructional minutes per year. The 1983 Act specified 1982-83 as the base year for annual minutes requirements. If a district offered less than the statutorily specified number of instructional minutes that year, it had to increase its instructional time to at least the statutory minimum in subsequent years to qualify for incentive funding (*Education Code* Sections 46201 through 46206). School districts need to ensure that only allowable "instructional" time is counted in determining total instructional minutes. Instructional time includes not only the classroom time, but also the **actual** passing time between separate class sessions (excluding passing times from lunch, brunch, or other non-academic periods), in the same departmentalized program setting (per CDE's attendance accounting manual). Note: pursuant to *Education Code* Section 46115 — The minimum schoolday in kindergartens and in grades 1 to 8, inclusive, in elementary schools, is exclusive of noon intermissions, and except in kindergartens, exclusive of recesses. Whenever the bell schedules or other information shows claimed passing times of varying lengths at the same school site, the burden falls on the LEA to demonstrate that the **actual** time required for passing varied correspondingly. Refer to CDE's attendance accounting manual, pages 61-76, for more detail on instructional time as well as CDE's Fiscal Management Advisory 86-06. If the school district is using optional classes in order to meet the instructional minutes qualifications, it must be able to prove that the additional instructional offerings are realistically available to **all** students in the group of grade levels concerned. Since the "offering" is optional, the district's schools must demonstrate that the course(s) is not open to only disadvantaged or gifted students or requires certain prerequisites or is available only at an unreasonably early hour of the morning. There must be a reasonable range of offerings for the average student in each grade. If only a small number of students accept the offer, the burden of demonstrating that the offering was indeed made in good faith and was realistically available to every student falls on the district and must be verified with auditable documents.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Incentives for Longer Instructional Day (continued)

	W/P Reference	Initials	Date
School Districts (continued) Compliance Requirements: A school district that participated in the instructional time incentive funding must offer at least the amount of instructional time it offered in 1982-83, or the amount specified in *Education Code* Section 46201(a)(3), whichever is greater. *Education Code* Section 46201(a)(3) requires offering the following instructional minutes: Kindergarten 36,000 minutes per year Grades 1 through 3 50,400 minutes per year Grades 4 through 8 54,000 minutes per year Grades 9 through 12 64,800 minutes per year If a school district that participated in the instructional time incentive funding failed to offer the number of minutes as shown above, then a penalty is assessed as outlined in *Education Code* Section 46201(d). All school districts must offer at least the amount of minutes it offered in 1982-83. If a district fails to offer at least the amount of minutes offered in 1982-83, then a penalty is assessed as outlined in *Education Code* Section 46202(b).			
Suggested Audit Procedures: 1. Determine whether the school district received incentive funding for the current fiscal year. A list of school districts that did not participate can be found at http://www.cde.ca.gov/fiscal/audit/nolongdyr.pdf 2. Review the school attendance calendar and bell (class) schedules on a sample basis, based upon risk assessment. Determine the amount of instructional time offered by each school. The computation of total minutes offered for the year must exclude noninstructional time, such as recess and lunch periods, and minutes **not** offered on minimum days.			
Good internal controls for the instructional minutes include the following procedures: (1) each site computes their instructional minutes at the beginning of the school year, and submits the computation and the bell schedule to the business office; (2) the business office staff verify that the computation of the instructional minutes performed by the site staff is correct; and (3) the business office informs the site principals at the beginning of the year that the bell schedules submitted with the instructional minutes computation must not be modified without notifying the business office and obtaining approval prior to making the change. If internal controls such as these are in place and are adequately implemented, the auditor may assess the risk of errors and non-compliance as low, and at the school sites, recompute a sample of the instructional time offered by each site. If there are no similar controls in place, the auditor should assume the risk of errors or non-compliance is high and test a larger sample, or possibly perform a 100% review.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Incentives for Longer Instructional Day (continued)

	W/P Reference	Initials	Date
School Districts (continued) 3. Determine whether the district complied with the instructional time requirements by comparing the amount of time offered for each grade level in each school during the current year to the required amount of instructional time per *Education Code* Section 46201(a)(3) and to the amount offered in that school during the 1982-83 base fiscal year. If the school district includes optional classes to meet the instructional time requirements, verify that the district has offered classes that meet the standards stated above. If participation is low, review the district's documentation of class offerings to ensure that it has made a good faith effort to extend the school day to all students. Assess risk of material misstatements by comparing the instructional minutes from the school site's current bell schedule to instructional minutes computed by the business office. If differences are material, recompute the instructional minutes and expand the sample. Prepare the "Schedule of Instructional Time," which must be presented in the supplementary information section of the audit report. Refer to Section 488 of this audit guide for instructions on how to prepare the schedule. This schedule must show: • The 1986-87 instructional time requirements specified in *Education Code* Section 46201; • The number of instructional minutes offered in the 1982-83 base fiscal year; • The amount of instructional time offered during the current fiscal year; • The number of instructional days offered during the current fiscal year; and • The status of the district's compliance with the instructional minutes requirements. 4. If the district did not provide the required minutes of instruction, calculate the disallowance and include a finding in the audit report. A worksheet to assist in the calculation is available on the CDE website at: http://www.cde.ca.gov/fiscal/audit/state.htm When a school district is not in compliance with the instructional time requirements, *Education Code* Section 46206 contains provisions for obtaining a waiver through the State Board of Education.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Incentives for Longer Instructional Day (continued)

	W/P Reference	Initials	Date
County Offices of Education			
Education Code Section 46201.5 extended the Longer Instructional Day incentive funding to county offices of education that provide special day classes.			
County offices of education became entitled to receive incentive funding if they offered the specified number of minutes per year for 1985-86 and 1986-87. The required number of instructional minutes were:			

	Minutes Per Year	
	1985-86	1986-87
Kindergarten	34,500	36,000
Grades 1 through 3	47,016	50,400
Grades 4 through 8	50,000	54,000
Grades 9 through 12	57,200	64,800

If the county office received incentive funding, but did not provide the required minutes of instruction, include a finding in the audit report.

Compliance Requirement:

To qualify for instructional time incentives, the county office of education must offer at least the amount of instructional time specified in *Education Code* Section 46201.5.

Suggested Audit Procedures:

1. Determine whether the county office of education received incentive funding for the current fiscal year.
2. Review the school attendance calendar and bell (class) schedules. Determine the amount of instructional time offered by the county office of education.
3. Determine whether the county office of education complied with the instructional time requirements by comparing the amount of time offered for each grade category during the current year to the goal amounts.

Prepare the "Schedule of Instructional Time," which must be presented in the supplementary information section of the audit report. Refer to Section 487 of this audit guide for instructions on how to prepare the schedule. This schedule must show:

- The 1986-87 instructional time requirements specified in *Education Code* Section 46201.5;
- The amount of instructional time offered during the current fiscal year;
- The number of instructional days offered during the current fiscal year; and
- The status of the county office of education's compliance with the instructional minutes requirements.

4. If the county office of education did not provide the required number of instructional minutes, calculate the penalty outlined in *Education Code* Section 46201.5(e) and include a finding in the report. A worksheet to assist in the calculation is available on the CDE website at: http://www.cde.ca.gov/fiscal/audit/state.htm When a county office of education is not in compliance with the instructional time requirements, *Education Code* Section 46206 contains provisions for obtaining a waiver through the State Board of Education.

STATE COMPLIANCE REQUIREMENTS (continued) **520**

	W/P Reference	Initials	Date
Gann Limit Calculation Proposition 4, commonly called the Gann Amendment (adopted in November 1979), added Article XIII-B to the California Constitution and established maximum appropriation limits for public agencies, including LEAs. Proposition 111, operative July 1, 1990, added Section 1.5 to Article XIII-B of the California Constitution. This section states, "The annual calculation of the appropriations limit under this article for each entity of local government shall be reviewed as part of an annual financial audit." School districts and county offices of education are considered local government entities under Article XIII-B. Compliance Requirement: Section 1.5 of Article XIII-B requires that the calculation of the appropriations limit be reviewed as part of an annual financial audit.			
Suggested Audit Procedures: The following suggested audit procedures apply to the 2002-03 appropriations limit calculation for both county offices of education and school districts. Districts and county offices of education use preformatted computer spread sheets provided by the California Department of Education. 1. Verify that the data used by the district is accurate, ensuring that the "Prior Year Gann ADA" used by the district matches the data on the 2001-02 appropriations limit calculation previously submitted to the state. If the data has been revised, verify that the district has recalculated the 2001-02 appropriations limit and attached a copy of the recalculation to the 2002-03 appropriations limit.			
Early Retirement Incentive Program An early retirement incentive program, pursuant to *Education Code* Sections 22714 and 44929, can be adopted by an LEA, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System (STRS) and retire during a period of not more than 120 days or less than 60 days from the date of the formal action of the LEA. The LEA can participate in the Early Retirement Incentive Program in the future years if it complied with all the applicable provisions of law and it has taken a formal action prior to January 1, 1999. This formal action creates a window of opportunity for participation in the Early Retirement Incentive Program in subsequent years (i.e., 2000-01, 2001-02, etc.) The notes to the financial statements must include adequate disclosure of the LEA's participation in an early retirement incentive program. The early retirement note must be presented in the format designed by the State Controller's Office.[1] *Education Code* Section 14502 requires the following disclosures: 1. The number and type of positions vacated; 2. The age, service credit, and salary and benefits of the retirees receiving the additional service credit; [1] The required format is illustrated in the notes to the supplementary information in Appendix A of this audit guide.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Early Retirement Incentive Program (continued)

	W/P Reference	Initials	Date
3. A comparison of the salary and benefits of each retiree with the salary and benefits of the replacement employee, if any; (Note: Salary and benefits must be presented separately.) 4. The additional retirement[2] (including interest, if any), postretirement health benefit, and administrative costs resulting from this early retirement incentive program. Compliance Requirement: The LEA shall certify that the formal action taken would result in one or more of the following: (1) a net savings to the LEA; (2) a reduction of the number of certificated employees as a result of declining enrollment; or (3) the retention of certificated employees who are credentialed to teach in teacher shortage disciplines (*Education Code* Sections 22714 and 44929).			
Suggested Audit Procedures: 1. Obtain a copy of the certification and verify that the school district received approval from the county office of education (county offices of education receive approval from the Superintendent of Public Instruction). 2. Verify that the reason(s) contained in the certification agree with the results of the early retirement incentive program. 3. Verify the data disclosed as a result of the LEA's adoption of the early retirement incentive program.			
Compliance Requirements: Retirees eligible for the additional two years of service credit must have five or more years of service under STRS and retire during a period of not more than 120 days or less than 60 days from the date of the formal action of the LEA (*Education Code* Sections 22714 and 44929). Eligible members must not receive unemployment insurance payments during the period extending one year beyond the effective date of the formal action (*Education Code* Sections 22714 and 44929).			

[2] The amount is determined by the STRS Board.

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Early Retirement Incentive Program (continued)

	W/P Reference	Initials	Date
Suggested Audit Procedures: Select a representative sample of employees retiring under the early retirement incentive program and perform the following procedures: 4. Verify that the retirees had at least five years of service credit under STRS and retired during the appropriate period of time. 5. Review the retirees' personnel records to verify that the retirees were employed and not receiving unemployment insurance payments from the date of formal action until the date of retirement.			
Community Day Schools The Community Day School Program was established by the Legislature in 1995 for the purpose of providing school districts with additional resources to provide instructional programs for pupils who have been expelled or who need a highly structured school setting. The program was established by AB 922 (Chapter 974, Statutes of 1995, effective July 1, 1996, which also provided for supplemental apportionments for districts operating the program. The program was subsequently amended by Statutes of 1996, Chapters 124 (AB 3470), 937 (AB 2834), and 1158 (AB 2964), Statutes of 1997, Chapter 825 (AB 827) and Statutes of 1998, Chapter 847 (AB 1845). In order to receive state apportionment funding for Community Day School pupils, districts must meet certain specified conditions of apportionment, including a 360-minute minimum school day, and must also maintain attendance records sufficient to document the required pupil attendance (*Education Code* Sections 48660 through 48666). Program Objectives In establishing Community Day Schools, the Legislature acted to support a local educational placement option for school districts wishing to provide a higher level of educational and learning support services for students who have exhibited significant negative behaviors. AB 1845 provided that county offices of education may also establish Community Day Schools (*Education Code* Section 48667(a)). Community Day Schools serve students, according to specified priority order, who have been mandatorily expelled, expelled for any other reason, referred by probation, and/or who have demonstrated a pattern of negative behavior and have been referred by a school attendance review board (SARB) or other district-level referral process (*Education Code* Section 48662). Program guidelines outlined in statute include a low pupil-teacher ratio, individualized instruction and assessment, collaboration with a broad array of counseling and disciplinary personnel (*Education Code* Section 48660.1), and a longer school day (minimum of 360 minutes of classroom instruction (*Education Code* Section 48663(a)). Independent study may not be utilized as a means of providing any part of the minimum instructional day. Community Day Schools are intended to be separate schools, not merely separate programs, and are to be located apart from other schools unless satisfactory alternative facilities are unavailable (*Education Code* Section 48661).			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Community Day Schools (continued)

	W/P Reference	Initials	Date
Funding			
Education Code Section 48664 paragraphs (a) and (d) provide that, in addition to funds from all other sources (including base revenue limit funding), the Superintendent of Public Instruction shall apportion to each school district that operates a Community Day School $4,641.55 per year for each unit of average daily attendance (ADA), up to specified limitations, reported at the annual apportionment for pupil attendance at Community Day Schools. The supplemental apportionment (*Education Code* Section 48664(a)) for county-operated Community Days Schools will be $3,522.06/ADA.			
Districts and county offices of education may also receive supplemental apportionments of $4.43/pupil/hour for up to two hours of supervised attendance at a Community Day School following completion of the full six-hour instructional day.			
Compliance Requirement:			
The minimum school day for pupils enrolled in community day schools is 360 minutes of classroom community day school instruction provided by a certificated employee of the district reporting the attendance of the pupils for apportionment funding, exclusive of lunch and other break periods (*Education Code* Section 48663(a)).			
Suggested Audit Procedures:			
1. Verify that the minimum school day included at least 360 minutes of community day school classroom instruction by reviewing the bell schedule(s) of the district's community day school(s). (Note: pupils with exceptional needs may be enrolled for a shorter minimum school day when such a day is specified in the pupils' Individualized Educational Programs.) Prepare a list of any pupils, other than the pupils with exceptional needs, who are found not to have been scheduled to attend for at least 360 minutes of instructional time.			
2. Verify that pupils were provided classroom instruction by a certificated employee of the district for at least the minimum school day by reviewing teacher room assignments and employment records.			
3. Select a representative sample of students and verify that they were scheduled to attend the community day school for at least 360 minutes by reviewing their class assignments (applicable to secondary students).			
4. Prepare a schedule of any ineligible pupils identified in step 1 and/or in step 2 or step 3. Determine the number of days of attendance reported by the district for such pupils on the district's P2 Report of Attendance for fiscal year 2002-03 that represented the attendance of ineligible pupils. Calculate the amount by which ADA was overstated and include a schedule and finding to be included in the audit report.			
Compliance Requirements:			
Districts operating community day schools are eligible to receive additional funding (*Education Code* Sections 48663 and 48664) of $4,641.55 per unit of community day school ADA per year for the actual attendance of pupils during the fifth and sixth hours of each school day that a district requires the pupils to attend a community day school for at least 360 minutes of instructional time. For county-operated community day schools the additional funding is $3,522.06/ADA.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Community Day Schools (continued)

	W/P Reference	Initials	Date
For the purposes of calculating the supplemental funding provided to a school district (*Education Code* Sections 48663(c) and 48664) only, community day school attendance must be reported in clock hours. In order to receive this additional funding, districts must maintain a record of hourly pupil attendance configured so as to substantiate that each hour or portion of an hour of a pupil's scheduled and credited attendance was separately determined. Only the attendance of pupils in classes that are part of a separate community day school can be counted for purposes of apportionment attendance.			
Suggested Audit Procedures: 5. Select a representative sample of pupils who were enrolled in the district's community day school(s) and trace the credit reported for each sampled pupil's attendance in the fifth and sixth hours of attendance back to the record prepared by the classroom teacher. Verify that pupils who attended less than five hours in a school day were not reported for attendance credit for the additional funding, that attendance of five hours was reported for one-half day of attendance credit for the additional funding, and that attendance of six hours or more was reported for one whole day of attendance credit for the additional funding. 6. If any attendance credit was determined in step 1 to have been inappropriately reported for the sample pupils, report the finding in the audit report and prepare a schedule summarizing the hours of attendance credit inappropriately claimed and apportionment funding received on account of such ADA for the sample pupils.			
Compliance Requirement: Districts operating community day schools are eligible to receive additional funding of $4.43 multiplied by the total of the number of hours each school day, up to a maximum of two hours daily, that each community day school pupil remains at the community day school under the supervision of a school district employee following the completion of the full six-hour instructional day (*Education Code* Section 48664(c)). In order to receive this additional funding, districts must maintain a record of hourly pupil attendance.			
Suggested Audit Procedures: 7. Select a representative sample of pupils who were enrolled in the district's community day school(s) and trace the credit reported for each sampled pupil's attendance in the seventh and eighth hours of attendance back to the record prepared by the supervising district employee. Verify that pupils who had not completed the full required six-hour instructional school day were not reported for attendance credit for the additional funding. 7. If any attendance credit was determined in step 1 to have been inappropriately reported for the sample pupils, report the finding in the audit report and prepare a schedule summarizing the hours of attendance credit inappropriately claimed and apportionment funding received for the sample pupils.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

	W/P Reference	Initials	Date
Class Size Reduction Program The Class Size Reduction Program was established by the Legislature in 1996 for the purpose of providing a financial incentive for school districts, including charter schools, but excluding county boards of education and county superintendents of schools, to reduce class size in kindergarten and grades 1 to 3, inclusive, to no more than 20 pupils per certificated teacher. The Class Size Reduction Program provides school districts with specified funding for each pupil enrolled in an eligible class, but the funds are conditioned upon (1) a specified application to the Superintendent of Public Instruction; (2) specific standards for the maximum ratio of enrolled pupils to classroom teacher in each eligible class; and (3) certain other conditions of apportionment (*Education Code* Sections 52120 through 52128, Title 5, *California Code of Regulations*, Division 1, Chapter 14, Subchapter 3.5.) Compliance Requirement: In order for a district to receive Class Size Reduction funding, by December 5, 2002, the district must have applied to participate in the Class Size Reduction Program pursuant to an action of the governing board and in accordance with the procedures established by the Superintendent of Public Instruction. In order to qualify for funding, certain conditions must be met.			
Suggested Audit Procedure: 1. Determine whether the school district received Class Size Reduction Program funding for 2002-03. If no funding was received, no further steps are required.			
Compliance Requirement: Each class for which the district claimed Class Size Reduction Program funds must meet specific standards for the maximum ratio of enrolled pupils to classroom teacher in each eligible class. There are two different funding levels in the Class Size Reduction Program, known as "Option One" and "Option Two," each of which has a different standard that must be met. Generally, "Option One" classes are those classes in which pupils are assigned for the full regular instructional day, while "Option Two" classes are those classes in which pupils are assigned for at least one-half of the instructional minutes offered each day.			
Suggested Audit Procedures: <u>Option One Classes</u> 1. Obtain a schedule of the individual classes which the district has reported as "Option One" and summarized on the J-7CSR form. 2. For sample classes, review the data used by the district to prepare the list of "Option One" classes reported on the J-7CSR form to determine if the J-7CSR form is supported by adequate documentation.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Class Size Reduction Program (continued)

	W/P Reference	Initials	Date
3. For sample classes, review supporting data to ensure that counts began on the first teaching day of the school year (counts for newly created classes begin on the first teaching day the class existed); pupils who were on independent study for one or more days were excluded from the CSR enrollment count for the equivalent number of days; and no funding was claimed for pupils enrolled in CSR combination classes if the pupil(s) were at a grade level ineligible for CSR funding (i.e., 4th grade and higher).			
4. [Note: since the availability of records of daily pupil assignments will vary among school districts and school sites, an absence of records is not sufficient cause for a finding on this item.] For sample classes, review teacher assignments and other available pupil and teacher assignment data to verify that the number of pupils reported as being under the immediate supervision of each assigned teacher for each class reported on the J-7CSR form was the actual class size for a substantial majority of the full regular school day. Pupils in classes claimed for funding on the J-7CSR form may be brought together with pupils from other classes in groups exceeding 20 pupils per certificated teacher for limited periods of time, which must be kept to a minimum, during which they receive a particular phase of education (e.g., art, physical education, music); pupils may not receive their primary daily instruction in reading or mathematics while in a group that exceeds 20 pupils per certificated teacher.			
5. Determine the average daily class size for the specified sample of classes that were certified by the district as eligible for Class Size Reduction Program funding using the following procedures (*Education Code* Section 52124.5):			
(A) The number of classes to be reviewed shall be based on auditor judgment, but the selection of classes shall be done randomly.			
(B) For each class selected, the sample shall include at least 15 days randomly selected from all instructional days which occurred between the first day of instruction and April 15, inclusively, of the school year.			
(2)(A) If the auditor concludes from the sample, based on his or her professional judgment, that average class size for the sampled classes is more than 20.4 when averaged over a period from the first day of instruction to April 15 of the school year, then the auditor shall conduct a more in-depth review. The in-depth review shall be either of the following:			
(i) A review of all instructional days for all classes for which a district has requested funding pursuant to Section 52126.			
(ii) A randomly selected sample of all classes and instructional days of sufficient size and designed in such a manner that the class size for each class, when averaged over the period from the first day of instruction to April 15, that the auditor can conclude that the average daily class size does not exceed 20 with an error of no more than 0.4 rate at 95 percent degree of confidence.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Class Size Reduction Program (continued)

	W/P Reference	Initials	Date
(B) The school district shall make the determination as to which of the two in-depth review methods set forth in subparagraph (A) shall be used.			
With the exception of classes in school district that maintain only one school that serves pupils in kindergarten and grades 1 through 3, a class is not eligible for Class Size Reduction Program incentive funds if the average daily class count exceeds 20.4. (Note: For purposes of this procedure, in districts with computer-based attendance accounting/student information systems, the auditor may use reports generated by the computerized system rather than reviewing teacher class registers or other site-based documentation.)			
Classes in school districts that maintain only one school that serves pupils in kindergarten and grades 1 through 3 are eligible to receive funding provided that there are no more than two classes per participating grade level, the pupil/teacher ratio does not exceed 22.4 in any one class, the average class size of all classes participating in CSR (combined) does not exceed 20.4, and the governing board has made a public declaration that it has exhausted all possible alternatives to averaging and is unable to achieve the 20:1 ratios in a way that is educationally acceptable. The average class size is determined by dividing the total number of pupils enrolled in CSR classes in all grade levels at the school by the total number of CSR classes in the school *(Education Code* Section 52122 [h]).			
The auditors are to conduct the audit by using daily averaging (daily is required by law) regardless of what method the district used to compute the J-7CSR.			
If any class failed to meet the conditions in steps 2, 3, 4, or 5, prepare a schedule, which must be presented in the supplementary information section of the audit report, summarizing the noncompliant classes by grade level, number of classes, number of pupils incorrectly reported as eligible pupils on the J-7CSR form, and incentive funding claimed on the basis of such pupils.			
<u>Option Two Classes</u>			
1. Obtain a schedule of any individual classes that the district has reported as "Option Two" and summarized on the J-7CSR form. (Note: the number of classes in this section will not match the actual number of Option Two classes operated by the district, due to the fact that teachers who are not the teacher of record, but who are assisting the principal teacher in order to reduce the pupil/teacher ratio, may be counted for the purpose of Option Two (Title 5, CCR, Section 15130).			
2. For sample classes, review pupil class enrollment data and teacher assignment information. Review the data used by the district to prepare the list of "Option Two" classes reported on the J-7CSR form.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Class Size Reduction Program (continued)

	W/P Reference	Initials	Date
3. For sample classes, review teacher assignments and other available data to ensure that the class size reported on the J-7CSR form was the maximum actual class size for at least one-half of the instructional minutes offered per day in each grade for which incentive funding is claimed. Review class schedules to ensure that the time that pupils spend in "Option Two" classes is primarily devoted to instruction in reading or mathematics.			
4. For sample classes, review supporting data to ensure that counts began on the first teaching day of the school year (counts for newly created classes begin on the first teaching day the class existed); pupils who were on independent study for one or more days were excluded from the CSR enrollment count for the equivalent number of days; and no funding was claimed for pupils enrolled in CSR combination classes if the pupil(s) were at a grade level ineligible for CSR funding (i.e. 4th grade and higher).			
If any class failed to meet the conditions in steps 2, 3, or 4, prepare a schedule, which must be presented in the supplementary information section of the audit report, summarizing the noncompliant classes by grade level, number of classes, number of pupils incorrectly reported as eligible pupils on the J-7CSR form, and incentive funding claimed on the basis of such pupils.			
Compliance Requirement:			
The Class Size Reduction Program established other conditions of apportionment for districts claiming incentive funds. These include grade level priorities, specific teacher training, prohibitions related to specific educational settings, and limitations on claiming Class Size Reduction funding if another funding source is also claimed.			
Suggested Audit Procedures:			
1. Review the school site level information used by the district to complete the J-7CSR form. For the sample school sites, verify that: (1) classes claimed for funding on the J-7CSR are for pupils in kindergarten, or grades one to three, inclusive; (2) if only one grade level was reduced, it was 1st grade (3) if two grade levels were reduced, they were 1st and 2nd grades; and (4) priority was given to the reduction of classes in grades one and two before classes in kindergarten or grade three were reduced.			
2. Verify that the district has available for certificated teachers who are new to the Class Size Reduction Program a staff development program as specified in *Education Code* Section 52127. Verify on a sample basis that teachers reported on the J-7CSR form who are new to the CSR program have received *or are scheduled to receive* the staff development training. This training need not be separate from other staff development training provided by the district. Review each site's teacher staff development plan to determine that the plan meets the requirement of *Education Code* Section 52127 and review the records used to verify teacher attendance at the required training sessions.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Class Size Reduction Program (continued)

	W/P Reference	Initials	Date
3. Verify on a sample basis that no pupil enrolled in a school district and reported on the district's J-7CSR form was participating in a partial day or full-time program of "home-study." Verify that no pupil in any school who is enrolled in a program of independent study for the full regular school day, or for that portion of any pupil's school day during which he/she is participating in independent study, was reported on the district's J-7CSR form. Verify that no special day classes have been reported on the J-7CSR.			
4. Review the information used by the district to complete the J-7CSR form to ensure that if the district has elected to reduce class size through the use of an early-late instructional program it has not used *Education Code* Section 46205 when calculating instructional time used to qualify for Longer Instructional Day and Year incentive funding. (Note: if the school district operated under Section 46205 prior to July 1, 1996, the district may receive class size reduction funding pursuant to Option One in any grade level for which class size reduction funding would otherwise be received pursuant to Option One.)			
Summary of Procedures:			
Following the completion of each of the three compliance items in the Class Size Reduction Program section, if any of the classes reported for Class Size Reduction incentive funds has been found to be ineligible for such funding after any of the preceding audit procedures are applied, prepare a schedule, which must be presented in the supplementary information section of the audit report, summarizing the results of all steps and presenting the noncompliant classes by grade level, number of classes, number of pupils incorrectly reported as eligible pupils on the J-7CSR form, and incentive funding claimed on the basis of such pupils, including the data for each ineligible class only once, even if it has been found to have been ineligible for Class Size Reduction funds for failing to meet more than one of the steps included in the preceding suggested audit procedures.			
Program to Reduce Class Size in Two Courses in Grade 9			
The Program to Reduce Class Size in Two Courses in Grade 9 (also known as the Morgan-Hart Class Size Reduction Program) was amended by the Legislature in 1998 for the purpose of providing a financial incentive for school district, excluding county boards of education and county superintendents of schools, to reduce class size in two grade 9 courses that count toward completion of the graduation requirements established for English, mathematics, science, or social studies, provided that one of the courses included in the class size reduction program be English. The Program to Reduce Class Size in Two Courses in Grade 9 provides school districts with specified funding for each pupil enrolled in an eligible class, but the funds are conditioned upon (1) a specified application to the Superintendent of Public Instruction; (2) specific standards for the maximum ratio of enrolled pupils to classroom teacher and the maximum enrollment for each eligible class; and (3) certain other conditions of apportionment. (*Education Code* Sections 52080 through 52090, Title 5, California Code of Regulations, Division 1, Chapter 14, Subchapter 3.75.) (Standardized Account Code Structure resource code 1200)			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Program to Reduce Class Size in Two Courses in Grade 9 (continued)

	W/P Reference	Initials	Date
Compliance Requirement: In order for a district to receive class size reduction funding, the district must have applied to participate in the Morgan-Hart Program to Reduce Class Size in Two Courses in Grade 9 in accordance with the procedures established by the Superintendent of Public Instruction. In order to qualify for funding, certain conditions must be met. (*Education Code* Sections 52082 and 52084(g)). Additionally, each school for which the district claimed Morgan-Hart Class Size Reduction funds must meet specific standards for the maximum ratio of enrolled pupils to classroom teacher and the maximum number of pupils in any participating class at each participating school. (*Education Code* Sections 52084(a), (c), (g), and 52086(a)).			
Suggested Audit Procedures: 1. Determine whether the school district received incentive funding for grade 9 under the Program to Reduce Class Size in Two Courses in Grade 9 for 2001-02. If no funding was received no further steps are required. If funding was received proceed to step 2. 2. If any exceptions are found during the testing, determine if the school district has an approved waiver for the exception or exceptions noted. 3. Obtain the J-9MH-A form. 4. Review the J-9MH-A form and determine that it is mathematically correct. 5. Trace the data to supporting summaries and a representative sample of documentation from participating school sites. 6. Select a representative sample of schools to test. For those schools determine that the average class size is no more than 20 pupils enrolled per certificated teacher. 7. From the sample selected in 6 above, select a representative sample to determine that each individual class has no more than an average of 22 pupils enrolled during the school year. 8. For the schools sampled in 6 above, review the class titles to assure that the course or courses were in English, mathematics, science or social studies and count toward completion of the graduation requirements. Verify that one of the courses included in the program was English. Summary of Procedures: Following the completion of the compliance items in the Morgan-Hart Program to Reduce Class Size in Two Courses in Grade 9, if any of the classes reported for Morgan-Hart Class Size Reduction incentive funds has been found to be ineligible for such funding after any of the preceding audit procedures are applied, prepare a schedule, which must be presented in the supplementary information section of the audit report, summarizing the results of all steps and presenting the noncompliant classes by grade level, course title, number of classes, number of pupils incorrectly reported as eligible pupils on the J-9MH-A form, and incentive funding claimed on the basis of such pupils, including the data for each ineligible class only once, even if it has been found to have been ineligible for Morgan-Hart Class Size Reduction funds for failing to meet more than one of the steps included in the preceding suggested audit procedures.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

	W/P Reference	Initials	Date
Instructional Materials Note: For purposes of this section, the term "School district" also includes county offices of education. (*Education Code* Section 60118) Compliance Requirement: In order to be eligible to receive funds available for instructional materials (Instructional Materials Block Grant, K-12), *Education Code* Sections 60119(a)(1) and (a)(2)(A) require that the governing board of a school district take the following actions: The governing board shall hold a public hearing or hearings at which the governing board shall encourage participation by bargaining unit leaders, parents, teachers, and members of the community interested in the affairs of the school district and shall make a determination, through a resolution, as to whether each pupil in each school in the district has, or will have before the end of that fiscal year, enough textbooks and other instructional materials in each subject consistent with the content and cycles of the curriculum framework adopted by the state board. If the governing board determines that there are not enough textbooks or instructional materials, the governing board shall provide information to classroom teachers and to the public setting forth the reasons for the insufficiency and shall take any action, except an action that would require reimbursement by the Commission on State Mandates, to ensure that within two years from the date of the determination, each pupil has enough textbooks or instructional materials.			
Suggested Audit Procedures: 1. Determine if the school district's base revenue limit increased by at least 1 percent per unit of average daily attendance from the prior fiscal year. If the revenue limit did not increase by at least 1 percent, then a public hearing pursuant to *Education Code* Section 60119 is not required, and you may skip the next 5 audit procedures (*Education Code* Section 60119(c)). (This procedure does not apply to Schiff-Bustamante Standards-Based Instructional Materials) 2. Determine whether the school district held the public hearing or hearings to make a determination through a resolution whether each pupil in each school has, or will have by the end of the fiscal year, enough textbooks or other instructional materials in each subject. 3. Determine whether the resolution states that there were sufficient textbooks or instructional materials. If the resolution does not state this, then verify that the governing board took action to ensure that each pupil will have sufficient textbooks or instructional materials, or both within a two-year period from the date of determination. 4. Determine whether the school district provided a 10-day advance notice of the public hearing or hearings described above as required by *Education Code* Section 60119(b). 5. Determine whether the notice included the time, place, and purpose of the hearing and was posted at a minimum of three public locations in the school district.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

	W/P Reference	Initials	Date
Instructional Materials (continued) 6. If the district was not in compliance with any of the requirements (2-5), the district is not eligible to receive IMF funding for that fiscal year. Assistance in determining the amount of IMF funding apportioned to each district can be found at the California Department of Education's website at http://www.cde.ca.gov/fiscal/audit/imf.htm IMF funding includes K-12 Instructional Materials Block Grant Realignment Program Fund.			
Instructional Materials Funding Realignment Program The State Instructional Materials Funding Realignment Program provides a means of annually funding the Instructional Materials Block Grant for the acquisition of standards-aligned textbooks and instructional materials, grades K through 12. The California Department of Education administers the fund under policies established by the State Board of Education. These funds may be used by the school districts, county office of education and charter schools for the following purposes (*Education Code* Sections 60240, 60242, 60242.5, 60422): • To provide each pupil with a standards-aligned textbook or basic instructional materials, as adopted by the State Board of Education subsequent to the adoption of content standards pursuant to Section 60605 for kindergarten through grade 8, or as adopted by the local governing board pursuant to Sections 60400 and 60411, for grades 9-12; • To purchase instructional materials adopted by the State Board pursuant to Section 60200 for kindergarten through grade 8, or by the governing board pursuant to Section 60400 for grades 9 through 12; • To purchase, at the district's discretion, instructional materials, including but not limited to, supplementary instructional materials and technology-based materials from any source; • To purchase tests; • To bind textbooks that are otherwise usable and are on the most recent list of basic instructional materials adopted by the state board and made available pursuant to Section 60200; • To fund in-service training related to instructional materials; and • To purchase classroom library materials for kindergarten through grade 4. The State Board of Education adopted emergency regulations specifying the purchase requirements which went into effect January 16, 2003. Compliance Requirement: Allowances received by the school districts shall be deposited into a separate account as specified by the Superintendent of Public Instruction (*Education Code* Section 60242.5)			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Instructional Materials (continued)

	W/P Reference	Initials	Date
Instructional Materials Funding Realignment Program (continued) Suggested Audit Procedures: 1. Determine the amount of the allowance the school district received from the California Department of Education. 2. Determine whether the allowance received has been accounted for separately.			
Compliance Requirement: A district must use the allowances and any interest earned on such allowances to purchase instructional materials, tests, in-service training, classroom library materials for grades K-4, or to bind textbooks. (*Education Code* Section 60242) The allowances must be used to ensure that each pupil is provided with a standards-aligned textbook or basic instructional materials, as adopted by the State Board of Education subsequent to the adoption of content standards pursuant to *Education Code* Section 60605 for kindergarten through grade 8, or as adopted by the local governing board pursuant to *Education Code* Sections 60400 and 60411, for grades 9-12.			
Suggested Audit Procedure: 3. Review the district's purchases to ensure that only instructional materials, pursuant to *Education Code* Section 60240, 60242, 60242.5 and 60422, were purchased with IMFRP funds in the 2002-03 year.			
Schiff-Bustamante Standards-Based Instructional Materials The Schiff-Bustamante Standards-Based Instructional Materials Program was established by AB 2041 (Chapter 312, Statutes of 1998) to ensure that pupils in kindergarten and grades 1 to 12, inclusive, be provided with instructional materials in the core curriculum areas of language arts, mathematics, history/social science, and science that are aligned with the state content standards as adopted by the State Board of Education. (*Education Code* Section 60450). The State Board of Education approved content standards in math and language arts in 1997 and history/social science and science in 1998. The funds appropriated for purposes of this program must be used by the school districts for the following purposes (*Education Code* Section 60451): • To purchase instructional materials for pupils in kindergarten and grades 1 to 8, inclusive, that are aligned with content standards and have been adopted by the State Board of Education pursuant to Chapter 2 (commencing with Section 60200) of Part 33, using criteria developed subsequent to the adoption of content standards. • To purchase instructional materials for pupils in grades 9 to 12, inclusive, that are basic instructional materials, as defined in subdivision (a) of Section 60010, that have been reviewed and approved through a resolution adopted by the local board, as being aligned with the State Board of Education adopted content standards.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Instructional Materials (continued)

	W/P Reference	Initials	Date
Schiff-Bustamante Standards-Based Instructional Materials (continued) Compliance Requirement: Allocations received by the school district shall be deposited into a separate account as specified by the Superintendent of Public Instruction (*Education Code* Section 60452(a). No new funds were allocated to school districts for FY 2002-03. However, the program was extended to apply to funds carried over from previous years. Consequently, if the district has carry-over funds than the following audit procedures apply.			
Suggested Audit Procedures: 1. Determine the amount of available carry-over funds. 2. Determine whether these funds have been accounted for separately.			
Compliance Requirement: A district must use the allowance and any interest earned on such allowances to purchase instructional materials in the core curriculum: language arts, mathematics, history/social science, or science, that are aligned to content standards adopted by the State Board of Education.			
Suggested Audit Procedures: 3. For grades K-8, review the school district's list of instructional materials purchased and select a sample to determine whether the materials were adopted by the State Board of Education March 1999 or later, are in one of the four core subject areas, and are the correct copyright date and editions as adopted by the State Board of Education. Instructional materials adopted by the State Board of Education can be found at the Department of Education's website at www.cde.ca.gov/fiscal/audits. 4. For grades 9-12, review the school district's list of instructional materials purchased and select a sample to determine whether the materials were reviewed and approved through a resolution adopted by the local governing board, as being aligned with 1997 or 1998 State Board of Education adopted content standards.			
Digital High School Education Technology Grant Program The Digital High School (DHS) Education Technology Grant Program, authorized by AB 64 (Chapter 326, Statutes of 1997), took effect on August 19, 1997. The DHS program provides assistance to schools serving students in grades 9-12, inclusive, so that these schools may install and support technology, as well as provide staff training. The installation support is provided through the Technology Installation Grant, a one-time $300 per student amount. Schools that certify completion of their Technology Installation Grant are then eligible to receive a Technology Support and Staff Training Grant in the second fiscal year following the year in which they were selected for the Technology Installation Grant. The Technology Support and Staff Training Grant is an ongoing $45 per student per year. Funding is contingent upon the local education agency providing an equivalent local match and the funds being appropriated each year. (*Education Code* Sections 52250 through 52254)			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Digital High School Education Technology Grant Program (continued)

	W/P Reference	Initials	Date
The DHS program is designed to enhance traditional learning by appropriate technology. The program objectives are as follows: • To provide all high school pupils with basic computer skills including, but not limited to, the ability to utilize electronic mail, word processing programs, electronic publishing software, spreadsheet programs, courseware and related software, and Internet search and retrieval tools. • To improve pupil achievement in all academic subjects. • To increase collaboration among high schools, private industry, postsecondary education institutions, and community organizations. Compliance Requirement: The DHS program shall provide one-time installation grants and ongoing technology support and staff training grants to school district and county offices of education for projects at high schools. In order to receive a grant, the school district or county office of education of a high school participating in the program shall provide a local match that is not less than the amount of the grant. The local match requirement for an installation grant may be met by providing educational technology infrastructure, including, but not limited to, wiring, cabling, routers, servers, and other equipment specifically acquired and necessary to accommodate educational technology, hardware, and software. The local match may include consultant fees and other contract personnel expenses that are incurred during the installation phase. The expenses must be incurred to implement plans for staff training and curriculum development during the installation phase. The expenses cannot include the salaries of teachers, administrative, and classified personnel employed at the school. The local match required for the technology support and staff training grant may include costs incurred by the school district or the county office of education to maintain and upgrade systems, to support pupil and faculty users, and to provide ongoing staff training at the high school site. These resources may include the salary of a technology coordinator.			
Suggested Audit Procedures: 1. Determine if the school is in the Installation Grant phase or Technology Support and Staff Training (TSST) phase of the program as of June 30 of the year under audit. To determine the Installation Program status, refer to http://www.cde.ca.gov/digitalhigh/digitalhighdata/index.html If the school is still in the Installation Grant phase, skip procedures 2 and 3 below and proceed to procedure 4. 2. If a Form DHS-30 (End of Grant Expenditure Report/Certification of Completion) was certified during the fiscal year, verify that all DHS grant funds were expended and that the school's local match documentation (DHS-23C) is not less than the grant award. The DHS-30 may cover a period of up to 24 months.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Digital High School Education Technology Grant Program (continued)

	W/P Reference	Initials	Date
3. If in the TSST phase of the program, obtain the CDE's grant award (DHS-40) and the school's local match documentation to ensure that the local match is not less than the grant award.			
4. Determine whether the school district or county office of education maintained separate accounting for the DHS funds.			
5. Select a representative sample of DHS program expenditures and determine whether the funds were spent in accordance with the DHS program grant application.			
California Public School Library Act of 1998, K-12			
Background:			
Substantial research indicates that a school library well-stocked with materials in a variety of formats makes a positive impact on improved literacy as well as overall academic achievement. During the 1997 legislative session, Assembly Bill 862 (Ducheny) recognized the need for consistent, statewide funding for school library materials. It created a library materials fund for all students, grades K-12—the first of its kind in California.			
Program Description:			
The objective of the program is to improve and update school library resources, both print and electronic, in support of academic standards for all students. School districts, charter schools, and county offices of education are eligible to apply for library act funds. To receive funding, they must develop a districtwide school library plan. Each year that the funding is available, the plan is approved by the local governing board and an application/certification is submitted to the California Department of Education (CDE). While funds are apportioned on the basis of an equal amount per enrolled pupil for kindergarten and grades 1 to 12, inclusive, as certified by the Superintendent of Public Instruction based on the 2001 California Basic Education Data System (CBEDS) data, excluding summer school, and adult and regional occupational program and center enrollment, they are distributed within the district according to the districtwide library plan (*Education Code* Sections 18181, 18182).			
Compliance Requirement:			
• Use of the funds is in accordance with the districtwide library plan.			
Suggested Audit Procedures:			
1. Determine the amount of the allowance the school district received from the California Department of Education.			
2. Determine whether the expenditures follow the districtwide library plan.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

California Public School Library Act of 1998, K-12 (continued)

	W/P Reference	Initials	Date
Compliance Requirement: The funds may be expended for library resources, including books, periodicals, microforms, AV materials, computer software, CD ROMs, and online resources (*Education Code* 18183). CDE convened an advisory committee to develop examples for each of the allowable resource categories in accordance with *Education Code* 18184.			
Suggested Audit Procedures: 3. Test expenditures to determine compliance with the described policy. Areas of review could include: (1) the purchase of reading motivational software (e.g. Accelerated Reader), which is allowable under the Instructional Materials Funds but not the library act funds; (b) use of the funds for furniture, labor to upgrade library wiring, library staff time; (c) use of the funds for staff development or conference attendance. Examples of appropriate and unacceptable expenditures are listed on the following pages. 4. Determine that all hardware purchased with library act funds is located in the school library or in a computer area that is an integral part of library operations.			
EXAMPLES, Use of K-12 Library Funds Type of Library Resource: <u>Books</u> Appropriate expenditures: • Library books include fiction, nonfiction, and reference books in paperback or hardbound editions • Cataloging and processing may be ordered with purchase • Books in languages other than English Unacceptable expenditures: • Textbooks (e.g., materials usually purchased in class sets for instruction) • Classroom literature sets (e.g., 20 or more copies of the same book title used for reading instruction in the classroom) • Contracts for library services with county offices of education or public libraries <u>Periodicals</u> Appropriate expenditures: • Newspaper subscriptions and magazine subscriptions in print and/or electronic format Unacceptable expenditures: • Classroom sets of a single magazine title (e.g., Scholastic News, Weekly Reader)			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

California Public School Library Act of 1998, K-12 (continued)

	W/P Reference	Initials	Date
Microforms, AV materials, software, and online resources Appropriate expenditures: • Resources on microfiche or microfilm to assist in research process • Audio and video tapes, laser disks, DVDs • Art prints • CD ROM reference materials, databases • Library automation programs for circulation and electronic catalogs–networked or single station • Retrospective conversion of the card catalog to electronic format and/or the update of MARC records as part of automation • Web based reference materials, databases, and library automation programs for circulation and electronic catalogs – networked or single station Unacceptable expenditures: • Integrated learning systems (e.g., packages of software that provide instructional content leveled to student task performance. Typing tutors, Skills Bank, and Millie's Math House are just a few examples) • Classroom and/or lab sets of CD ROMs used outside the library (e.g., multiple copies of the same CD ROM title for a computer lab or classroom) • Automated textbook management system (e.g., Textbook Tracker, Follett Textbook Plus, The Eloquent Textbook Manager, etc.) • Service and/or technical support contracts and training (e.g., library automation system service contract, salaries to update MARC records) • Schoolwide networking infrastructure (e.g., internal wiring, switches, routers, cabling, conduit, communication for electronic access outside the library) • Reading incentive management software (e.g., the disks for Accelerated Reader, Scholastic Reading Counts, etc.) • District database support systems (e.g., SASSI, Novell) • Web based instructional software designed for classroom use (e.g., fee-based, licensed Web sites used primarily in classrooms; if site licenses are purchased, the library should not be the source of financial support for the license) • Models, stuffed animals, toys and games Equipment and other NOTE: Equipment purchased with these funds must be housed and used in the school library media center Appropriate expenditures: • Computer hardware that allows student access to library resources in library and on-line • Computer hardware for library management • Presentation hardware (e.g., scanner, laptop computer, LCD projector) • Listening-viewing stations that allow individual and small group use of videos, audio materials, and student multi-media presentations • Microfiche reader/printer • Fax machine			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

California Public School Library Act of 1998, K-12 (continued)

	W/P Reference	Initials	Date
Unacceptable expenditures: • Service and/or technical support contracts and training (e.g., library automation system service contract and training) • Supplies (e.g., barcodes, tape) • Rebinding services (e.g., sending books to a bindery for new covers) • Hardware or infrastructure housed outside the library (e.g., a computer lab down the hall) • Copy machine • Security system (e.g., Checkpoint, Selfcheck) • Furniture, e.g., tables, chairs, shelving • Labor, salaries, staff development, conference attendance **Ratios of Administrative Employees to Teachers** To maximize the allocation of existing resources, to discourage the growth of bureaucracy in the public schools, and to emphasize the importance and significance of the classroom teacher the legislature has established the maximum ratios of administrators to each 100 teachers for elementary, high school, and unified school districts. School districts are not prohibited from exceeding these maximum ratios, but reductions in state support are prescribed for those districts that exceed the allowable ratios. This section does not apply to county offices of education and to charter schools. Compliance Requirement: An elementary school district's certificated staff shall not exceed more than nine administrative employees for every 100 teachers employed; a unified school district's certificated staff shall not exceed more than eight administrative employees per hundred teachers employed; and, a high school district's certificated staff shall not exceed more than seven administrative employees per hundred teachers employed (*Education Code* Section 41402). School districts with excess administrators shall suffer a loss of state funding equal to the state supported share of the salary of the excess administrative employees. To assist districts in calculating the ratio and penalty, if applicable, the CDE has posted instructions and a worksheet on its website at: http://www.cde.ca.gov/fiscal/categorical/program37.htm In prior years, a calculation date was specified, usually a day in October. However, for the 2002-03 fiscal year, the school district may pick any date within the fiscal year.			
Suggested Audit Procedures: 1. Confirm that the school district has performed an administrator-to-teacher ratio calculation. If the district did not perform the calculation, then indicate noncompliance in an audit finding. Please note that the district may base its calculation on data assessed at any time between July 1, 2002 and June 30, 2003.			

STATE COMPLIANCE REQUIREMENTS (continued) **520**

Ratios of Administrative Staff to Teachers (continued)

	W/P Reference	Initials	Date
Suggested Audit Procedures: (continued) 2. Review the data to determine that the employees were properly classified and the calculation was performed in accordance *Education Code* sections 41403 and 41404. For additional guidance, refer to the instructions posted on CDE's website. 3. If the number of administrators per 100 teachers exceeds the allowable ratio, please indicate the number of excess administrators and the associated penalty in an audit finding.			

Federal Compliance Requirements

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FEDERAL COMPLIANCE REQUIREMENTS 530

There has been a significant change to the single audit process as a result of the revisions and improvements to the Single Audit Act of 1984. The Office of Management and Budget (OMB) released Circular A-133 titled "Audits of States, Local Governments, and Non-Profit Organizations" to conform with the requirements of the new Single Audit Act. The revised Circular A-133 rescinds the current Circular A-128. The more significant provisions of the A-133 are as follows:

- Applies to all non-federal entities (i.e., state and local governments, school districts, special districts, hospitals, non-profit organizations, colleges and universities) that expend $300,000 or more in federal funds during a fiscal year;
- Requires use of risk-based approach for determining major programs instead of using a dollar threshold;
- Reduces coverage to 25% instead of 50% of federal expenditures for low-risk auditees;
- Codifies the requirement that the audit must include testing of 50% of federal expenditures;
- Treats as major programs all programs selected for testing, including the programs utilized to meet the 50% requirement;
- Expands the program focus to include clusters of like programs that are considered as one program for determining Type A status;
- Requires testing of internal controls over federal programs for planning the audit to support a low assessed level of control risk for major programs; and
- Requires an opinion (or disclaimer of opinion) on compliance with laws and regulations and provisions of contracts and grant agreements that would have a direct and material effect on each major program.

The compliance requirements for testing federal program expenditures are set forth in the Circular A-133 Compliance Supplement, issued by OMB, June 1997. To obtain a copy, contact OMB Publications at (202) 395-7332. A copy may also be obtained from the following Internet site:

http://www.whitehouse.gov/omb/grants/grants_circulars.html#audit

The Compliance Supplement may not include all the programs and procedures; therefore, the independent auditors may have to contact funding agencies for compliance requirements and applicable procedures. Program regulations and guidelines are also referenced in the Catalog of Federal Domestic Assistance.

The program requirements are accompanied with suggested audit procedures for testing compliance. These are not the only procedures that can be utilized by the auditor, nor are these mandatory procedures. Auditors should apply professional judgment to choose procedures and determine the extent of tests performed. The audit procedures should be tailored according to individual programs and circumstances. Although the Compliance Supplement includes the compliance requirements and suggested audit procedures, the auditor is responsible for ensuring that specific requirements that are modified due to a change in a law or regulation are included in the audit procedures.

FEDERAL COMPLIANCE REQUIREMENTS (continued) **530**

LEAs generally receive federal awards for the following programs:

Department/ Agency	Resource Code	CFDA Number	Program Title	Public Law
Education	3900-3999	84.002	Adult Education—State Grant Program	91-230
	3010, 3020, 3150, 3170	84.010	Title I Grants to Local Educational Agencies	103-382
	3035, 3040, 3041, 3045, 3060, 3061	84.011	Migrant Education—Basic State Grant Program	97-35
	3025, 3090, 3100	84.013	Title I Program for Neglected and Delinquent Children	
	3310, 3320, 3330, 3340, 3355, 3360, 3370, 3375, 3386, 3395, 3400, 3405	84.027	Special Education–Grants to States	101-476
	3350	84.029	Comprehensive Personnel Development	
	0000	84.041	Impact Aid	103-382
	3505, 3515, 3525, 3530, 3540, 3550, 3555	84.048	Vocational Education—Basic Grants to States	101-392
	4510	84.060	Indian Education–Grants to Local Educational Agencies	92-318
	4215	84.162	Immigrant Education	98-151
	Not through CDE	84.168	Eisenhower Professional Development—Federal Activities	98-377
	3315, 3326, 3345	84.173	Special Education—Preschool Grants (IDEA)	94-142
	3385	84.181	Special Education—Grants for Infants and Families with Disabilities	91-230
	Not through CDE	84.184	Safe and Drug-Free Schools and Communities—National Programs	107-110
	3710, 3715	84.186	Safe and Drug-Free Schools and Communities—State Grants	107-110
	5630	84.196	Education for Homeless Children and Youth	107-110
	4710	84.206	Javits Gifted and Talented Students Education Grant Program	
	3105, 3110	84.213	Title I Even Start—State Educational Agencies	
	3110	84.214	Even Start: Migrant Education	
	5628	84.215	High School Reform	106-554
	3015	84.216	Title I Capital Expenses/Private Schools	
	3510	84.243	Vocational Education—Tech-Prep Education Grants	203
	3831, 3835, 3837, 3840, 3855, 3856	84.276	Goals 2000—State and Local Education Systemic Improvement Grant	103-227
	4010, 4015	84.281	Eisenhower Professional Development State Grants	100-297
	4610	84.282	Charter Schools	
	4124	84.287	Twenty-First Century Community Learning Center	107-110
	4200 - 4299	84.289	Bilingual Education—Program Enhancement Grants	
	4200 - 4299	84.290	Bilingual Education—Comprehensive School Grants	
	4200 - 4299	84.291	Bilingual Education—Systemwide Improvement Grants	103-382
	4110, 4115	84.298	Innovative Education Program Strategies	103-382
	4040, 4045, 4410	84.318	Enhancing Education through Technology	107-110
	3372	84.323	State Improvement Grant	
	0000	84.330	Advanced Placement (AP) Incentive Program	107-110
	3870, 3871	84.338	Reading Excellence	105-277
	4135	84.340	Class Size Reduction	105-277
	3171	84.348	Title I Accountability Grants	
	4140, 4141	84.352	School Renovation, IDEA, and Technology Grants	106-554
	3030	84.357	Title I Reading First State Grants	107-110
	4126	84.358	Rural and Low Income School Program	107-110
	4201, 4203	84.365	English Language Acquisition: State Formula Grant Program	107-110
	4035	84.367	Improving Teacher Quality State Grants	107-110
Agriculture	Not through CDE	10.550	Food Distribution	74-320
	5310	10.553	School Breakfast Program	97-661
	5310	10.555	National School Lunch Program	79-396
	5310	10.556	Special Milk Program for Children	
	5320, 5340, 5350, 5360	10.558	Child and Adult Care Food Program	94-105
	5330, 5335, 5375	10.559	Summer Food Service Program for Children	
	0000	10.665	Forest Reserve Funds	

Department/ Agency	Resource Code	CFDA Number	Program Title	Public Law
	5454	10.574	Team Nutrition Grants	106-387
Health and Human Services	5035, 5050, 5055, 5061, 5062 5080, 5081, 5055, 5062, 5085, 5090, 5095, 6012	93.575	Child Care and Development Block Grant	105-33
	4216	93.576	Refugee and Entrant Assistance: Targeted Assistance	
	5025, 5026, 5050, 5055, 5061, 5062, 5085	93.596	Child Care	105-33
	5210	93.600	Head Start	101-119
	5640	93.778	Medical Assistance Program (Medicaid)	
Labor				
	5600	17.255	Workforce Investment Act (WIA)—formerly JTPA	
Justice		16.540	Juvenile Justice and Delinquency Prevention—Allocation to States	93-415
Energy	5650	83.544	Public Assistance Grants	
Federal Emergency Mgmt Agency	5652	83.848	Hazard Mitigation Grants	

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Appendix A

Illustrative Audit Report

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ILLUSTRATIVE AUDIT REPORT APPENDIX A

Special Note

The illustrative audit report, including the financial statements, footnotes, supplemental schedules, and auditor comments, are intended only for information purposes to provide general assistance to the independent auditor. They represent those minimum reporting examples and features which the independent auditor may find helpful in fulfilling the overall reporting requirements of an LEA or a JPE audit engagement. Therefore, the illustrations that follow are not intended to be all-inclusive or representative of the specific reporting requirements for a particular school district audit. Only the independent auditor performing the audit can make those professional judgments and determinations.

The Governmental Accounting Standards Board (GASB) has issued the *Codification of Governmental Accounting and Financial Reporting Standards*, which establishes generally accepted accounting principles for governmental entities. Auditors should rely upon this body of authoritative pronouncements to provide guidance on reporting requirements.

The illustrative report is prescribed for an LEA that had its single audit conducted in accordance with OMB Circular A-133. Audit reports for entities that did not have an audit performed under OMB Circular A-133 provisions will differ somewhat from this illustration.

This illustrative report is for the XYZ Unified School District, which has the following fund structure:

Fund Type Category	Fund Type	Fund Name
Governmental	General	General Fund
	Special Revenue	Child Development Fund Adult Education Fund Charter School Fund Deferred Maintenance Fund Cafeteria Fund
	Debt Service	Bond Interest and Redemption Fund Tax Override Fund Corporation Debt Service Fund
	Capital Projects	Building Fund State School Building Lease-Purchase Fund Capital Facilities Fund Corporation Building Fund
Proprietary	Internal Service	Self-Insurance Fund
Fiduciary	Expendable Trust	Scholarship Fund
	Agency	Student Body Funds
Account Groups		General Fixed Assets Account Group General Long-Term Debt Account Group

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XYZ UNIFIED SCHOOL DISTRICT
COUNTY OF SACRAMENTO
SACRAMENTO, CALIFORNIA

AUDIT REPORT

JUNE 30, 20XX

Name of Accounting Firm

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INTRODUCTORY SECTION

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FINANCIAL SECTION

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[Letterhead of accounting firm]

Board of Trustees
XYZ Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

Independent Auditor's Report [1]

We have audited the accompanying general-purpose financial statements of the XYZ Unified School District, as of and for the year ended June 30, 20XX, as listed in the table of contents. These general-purpose financial statements are the responsibility of the XYZ Unified School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,*[2] issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the XYZ Unified School District, as of June 30, 20XX, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated *[date of report]* on our consideration of the XYZ Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. [3]

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[1] Auditors may also refer to the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units,* for additional guidance on reporting on the general-purpose financial statements of a government.

[2] The standards applicable to financial audits include the general, field work, and reporting standards described in Chapters 3, 4, and 5 of *Government Auditing Standards.*

[3] Additional language required by the second amendment, Auditor Communication, to the 1994 revision of *Government Auditing Standards*.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of XYZ Unified School District, taken as a whole. The accompanying financial and statistical information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the financial statements of XYZ Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole. [4, 5]

[Signature]
[Date]

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[4] When reporting on the supplementary information, the auditor should consider the effect of any modifications to the report on the general-purpose financial statements. Furthermore, if the report on supplementary information is other than unqualified, this paragraph should be modified. Guidance for reporting in these circumstances is described in paragraphs 9 through 11, 13, and 14 of SAS No. 29 (AICPA, Professional Standards, vol.1, AU sec. 551.09-.11, .13, and .14).

[5] If reporting on additional supplementary information (e.g., combining and individual fund and account group financial statements and schedules), this paragraph should be modified to describe the additional supplementary information. The illustrative report examples in Appendix A of the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units,* and SAS No. 29, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents (AICPA, *Professional Standards,* vol. 1, AU sec 551.09-.11, .13, and .14) provide useful guidance.

Exhibit 1

XYZ Unified School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 20XX

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memo-random Only)
	General	Special Revenue	Debt Service	Capital Projects	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	
Assets									
Cash in county treasury (Note 2)	$ 260,000	$ 160,000	$ 165,600	$ 29,000	$ 300,000	—	—	—	$ 914,600
Cash on hand and in banks (Note 2)	—	2,000	—	—	—	$ 115,000	—	—	117,000
Cash in revolving fund (Note 2)	2,500	—	—	—	—	—	—	—	2,500
Investments (Note 2)	1,000,000	—	—	80,000	—	—	—	—	1,080,000
Accounts receivable (Note 4)	82,000	78,000	—	34,000	—	—	—	—	194,000
Due from other funds (Note 5)	—	—	—	10,000	4,000	—	—	—	14,000
Stores inventories-supplies (Note 1G2)	17,500	5,000	—	—	—	—	—	—	22,500
Stores inventories-food (Note 1G2)	—	6,000	—	—	—	—	—	—	6,000
Sites and improvements (Note 6)	—	—	—	—	—	—	$ 1,100,000	—	1,100,000
Buildings and improvements (Note 6)	—	—	—	—	—	—	5,900,000	—	5,900,000
Machinery and equipment (Note 6)	—	—	—	—	—	—	2,200,000	—	2,200,000
Amount available in debt service fund	—	—	—	—	—	—	—	$ 165,600	165,600
Amount to be provided for retirement of long-term debt	—	—	—	—	—	—	—	1,889,530	1,889,530
Total assets	$ 1,362,000	$ 251,000	$ 165,600	$ 153,000	$ 304,000	$ 115,000	$ 9,200,000	$ 2,055,130	$13,605,730
Liabilities and fund equity									
Liabilities:									
Accounts payable	$ 216,000	$ 55,000	—	$ 12,000	$ 14,000	—	—	—	$ 297,000
Deferred revenue (Note 1G4)	25,000	—	—	—	—	—	—	—	25,000
Due to other funds (Note 5)	14,000	—	—	—	—	—	—	—	14,000
Due to student groups	—	—	—	—	—	$ 80,000	—	—	80,000
Certificates of participation (Note 7)	—	—	—	—	—	—	—	$ 1,150,000	1,150,000
Capital leases (Note 8A)	—	—	—	—	—	—	—	390,000	390,000
General obligation bonds payable (Note 9)	—	—	—	—	—	—	—	325,000	325,000
State school building loans payable (Note 10)	—	—	—	—	—	—	—	111,130	111,130
Compensated absences (Note 1G5)	—	—	—	—	—	—	—	79,000	79,000
Total liabilities	255,000	55,000	—	12,000	14,000	80,000	—	2,055,130	2,471,130
Fund equity:									
Investment in general fixed assets	—	—	—	—	—	—	$ 9,200,000	—	9,200,000
Retained earnings	—	—	—	—	290,000	—	—	—	290,000
Reserved for revolving fund	2,500	—	—	—	—	—	—	—	2,500
Reserved for stores inventories	17,500	11,000	—	—	—	—	—	—	28,500
Reserved for debt service	—	—	$ 165,600	—	—	—	—	—	165,600
Reserved for scholarships	—	—	—	—	—	35,000	—	—	35,000
Designated for economic uncertainties	185,000	—	—	—	—	—	—	—	185,000
Undesignated fund balance	902,000	185,000	—	141,000	—	—	—	—	1,228,000
Total fund equity	1,107,000	196,000	165,600	141,000	290,000	35,000	9,200,000	—	11,134,600
Total liabilities and fund equity	$ 1,362,000	$ 251,000	$ 165,600	$ 153,000	$ 304,000	$ 115,000	$ 9,200,000	$2,055,130	$13,605,730

The notes to the financial statements are an integral part of this statement.

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Exhibit 2

XYZ Unified School District
Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
Year Ended June 30, 20XX

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memo-randum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust Fund	
Revenues:						
Revenue limit sources:						
State apportionments	$ 7,000,000	$ 47,000	—	—	—	$ 7,047,000
Local sources	2,000,000	—	—	—	—	2,000,000
Total revenue limit	9,000,000	47,000	—	—	—	9,047,000
Federal	861,000	220,000	—	—	—	1,081,000
Other state	1,900,000	123,000	$ 10,000	$ 300,000	—	2,333,000
Other local	300,000	211,200	99,000	223,000	$ 30,000	863,200
Total revenues	12,061,000	601,200	109,000	523,000	30,000	13,324,200
Expenditures:						
Certificated salaries	5,500,000	82,200	—	—	—	5,582,200
Classified salaries	2,200,000	248,500	—	—	—	2,448,500
Employee benefits	1,500,000	64,300	—	—	—	1,564,300
Books and supplies	600,000	155,000	—	—	—	755,000
Services and other operating expenditures	1,200,000	180,000	—	79,000	25,000	1,484,000
Capital outlay	475,000	—	—	494,000	—	969,000
Debt service:						
Principal	100,000	—	104,870	—	—	204,870
Interest	25,000	—	93,530	—	—	118,530
Total expenditures	11,600,000	730,000	198,400	573,000	25,000	13,126,400
Excess (deficiency) of revenues over (under) expenditures	461,000	(128,800)	(89,400)	(50,000)	5,000	247,800
Other financing sources (uses):						
Operating transfers in (Note 5)	—	108,000	130,000	60,000	—	298,000
Operating transfer out (Note 5)	(298,000)	—	—	—	—	(298,000)
Total other financing sources (uses)	(298,000)	108,000	130,000	60,000	—	—
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	163,000	(20,800)	40,600	10,000	5,000	197,800
Fund balances, July 1, 20XX	944,000	216,800	125,000	131,000	30,000	1,446,800
Fund balances, June 30, 20XX	$ 1,107,000	$ 196,000	$165,600	$ 141,000	$ 35,000	$ 1,644,600

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances — Budget and Actual —
All Governmental Fund Types
Year Ended June 30, 20XX

	General Fund			Special Revenue Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Revenue limit sources:						
State apportionments	$ 7,150,000	$ 7,000,000	$ (150,000)	$ 47,000	$ 47,000	—
Local sources	1,950,000	2,000,000	50,000	—	—	—
Total revenue limit	9,100,000	9,000,000	(100,000)	47,000	47,000	—
Federal	841,000	861,000	20,000	212,000	220,000	$ 8,000
Other state	1,800,000	1,900,000	100,000	104,000	123,000	19,000
Other local	300,000	300,000	—	215,500	211,200	(4,300)
Total revenues	12,041,000	12,061,000	20,000	578,500	601,200	22,700
Expenditures:						
Certificated salaries	5,300,000	5,500,000	(200,000)	84,200	82,200	2,000
Classified salaries	2,379,000	2,200,000	179,000	246,000	248,500	(2,500)
Employee benefits	1,500,000	1,500,000	—	66,800	64,300	2,500
Books and supplies	700,000	600,000	100,000	157,000	155,000	2,000
Services and other operating expenditures	1,200,000	1,200,000	—	136,500	180,000	(43,500)
Capital outlay	675,000	475,000	200,000	—	—	—
Debt service:						
Principal	100,000	100,000	—	—	—	—
Interest	25,000	25,000	—	—	—	—
Total expenditures	11,879,000	11,600,000	279,000	690,500	730,000	(39,500)
Excess (deficiency) of revenues over (under) expenditures	162,000	461,000	299,000	(112,000)	(128,800)	(16,800)
Other financing sources (uses):						
Operating transfers in	—	—	—	108,000	108,000	—
Operating transfers out	(298,000)	(298,000)	—	—	—	—
Total other financing sources (uses)	(298,000)	(298,000)	—	108,000	108,000	—
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(136,000)	163,000	299,000	(4,000)	(20,800)	(16,800)
Fund balances, July 1, 20XX	944,000	944,000	—	216,800	216,800	—
Fund balances, June 30, 20XX	$ 808,000	$ 1,107,000	$ 299,000	$ 212,800	$196,000	$ (16,800)

The notes to the financial statements are an integral part of this statement.

Exhibit 3

Debt Service Fund			Capital Project Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	—	—	—	—	—	$ 7,197,000	$ 7,047,000	$ (150,000)
—	—	—	—	—	—	1,950,000	2,000,000	50,000
—	—	—	—	—	—	9,147,000	9,047,000	(100,000)
—	—	—	—	—	—	1,053,000	1,081,000	28,000
$ 10,000	$ 10,000	—	$ 290,000	$ 300,000	$ 10,000	2,204,000	2,333,000	129,000
95,000	99,000	$ 4,000	215,000	223,000	8,000	825,500	833,200	7,700
105,000	109,000	4,000	505,000	523,000	18,000	13,229,500	13,294,200	64,700
—	—	—	—	—	—	5,384,200	5,582,200	(198,000)
—	—	—	—	—	—	2,625,000	2,448,500	176,500
—	—	—	—	—	—	1,566,800	1,564,300	2,500
—	—	—	—	—	—	857,000	755,000	102,000
—	—	—	80,000	79,000	1,000	1,416,500	1,459,000	(42,500)
—	—	—	510,000	494,000	16,000	1,185,000	969,000	216,000
104,870	104,870	—	—	—	—	204,870	204,870	—
93,530	93,530	—	—	—	—	118,530	118,530	—
198,400	198,400	—	590,000	573,000	17,000	13,357,900	13,101,400	256,500
(93,400)	(89,400)	4,000	(85,000)	(50,000)	35,000	(128,400)	192,800	321,200
130,000	130,000	—	60,000	60,000	—	298,000	298,000	—
—	—	—	—	—	—	(298,000)	(298,000)	—
130,000	130,000	—	60,000	60,000	—	—	—	(39,500)
36,600	40,600	4,000	(25,000)	10,000	35,000	(128,400)	192,800	321,200
125,000	125,000	—	131,000	131,000	—	1,416,800	1,416,800	—
$161,600	$165,600	$ 4,000	$ 106,000	$ 141,000	$ 35,000	$ 1,288,400	$ 1,609,600	$ 321,200

Exhibit 4

XYZ Unified School District
Statement of Revenues, Expenses, and Changes
in Retained Earnings— Proprietary Fund Type
Internal Service Fund
Year Ended June 30, 20XX

Operating revenues:	
Self-insurance premiums	$ 750,000
Operating expenses:	
Payments for health and welfare claims	580,000
Contracted services	20,000
Total operating expenses	600,000
Operating income	150,000
Non-operating revenue:	
Interest income	7,000
Net income	157,000
Retained earnings, July 1, 20XX	133,000
Retained earnings, June 30, 20XX	$ 290,000

The notes to the financial statements are an integral part of this statement.

Exhibit 5

XYZ Unified School District
Statement of Cash Flows
Proprietary Fund Type— Internal Service Fund
Year Ended June 30, 20XX

	Self-Insurance Fund
Cash flows from operating activities:	
Cash received from premiums	$ 746,000
Cash paid for claims	(591,000)
Cash paid for contracted services	(20,000)
Net cash provided by operating activities	135,000
Cash flows from investing activities:	
Interest income	6,000
Net cash flows from investing activities	6,000
Net increase in cash	141,000
Cash, July 1, 20XX	159,000
Cash, June 30, 20XX [1]	$ 300,000

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	$ 150,000
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in due from other funds	(4,000)
Decrease in accounts payable	(11,000)
Total adjustments	(15,000)
Net cash provided by operating activities	$ 135,000

The notes to the financial statements are an integral part of this statement.

[1] The direct method of reporting net cash flows from operating activities is presented. The indirect or reconciliation method of reporting net cash flows from operating activities is also an acceptable report format.

XYZ Unified School District
Notes to the Financial Statements
Year Ended June 30, 20XX

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The XYZ Unified School District and the XYZ Unified School District Building Corporation have a financial and operational relationship that meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the corporation as a component unit of the district. Accordingly, the financial activities of the corporation have been included in the financial statements of the district.

The following are those aspects of the relationship between the district and the corporation that satisfy GASB Statement No. 14 criteria.

Accountability:

1. The corporation's Board of Directors were appointed by the district's Board of Education.
2. The district is able to impose its will upon the corporation, based on the following:
   - All major financing arrangements, contracts, and other transactions of the corporation must have the consent of the district.
   - The district exercises significant influence over operations of the corporation, as it is anticipated that the district will be the sole lessee of all facilities owned by the corporation. Likewise, it is anticipated that the district's lease payments will be the sole revenue source of the corporation.
3. The corporation provides specific financial benefits or imposes specific financial burdens on the district based upon the following:
   - Any deficits incurred by the corporation will be reflected in the lease payments of the district.
   - Any surpluses of the corporation revert to the district at the end of the lease period.
   - The district has assumed a “moral obligation,” and potentially a legal obligation, for any debt incurred by the corporation.

Scope of Public Service:

The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State on _____. The corporation was formed for the sole purpose of providing financing assistance to the district for construction and acquisition of major capital facilities. Upon completion, the district intends to occupy all corporation facilities under a lease-purchase agreement effective through 20XX. At the end of the lease term, title of all corporation property will pass to the district for no additional consideration.

Financial Presentation:

For financial presentation purposes, the corporation's financial activity has been blended, or combined, with the financial data of the district. The financial statements present the corporation's financial activity within the Corporation Building Fund and the Corporation Debt Service Fund. Certificates of participation issued by the Corporation are included in the General Long-Term Debt Account Group. Fixed assets acquired or constructed by the corporation are included in the General Fixed Assets Account Group.

B. Accounting Policies

The district accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the district conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

C. Fund Accounting

The accounts of the district are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity (or retained earnings), revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The district's accounts are organized into three broad categories, which in aggregate include six fund types, and two accounts groups as follows:

Governmental Funds:

The *General Fund* is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The district maintains five special revenue funds:

- The Child Development Fund is used to account for resources committed to child development programs maintained by the district.
- The Adult Education Fund is used to account for resources committed to adult education programs maintained by the district.
- The Deferred Maintenance Fund is used for the purpose of major repair or replacement of district property.
- The Cafeteria Fund is used to account for revenues received and expenditures made to operate the district's cafeterias.
- The Charter School Fund is used to account for the activities of the district’s DEF Charter School.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The district maintains three debt service funds:

- The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

- The Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Fund apportionments. These taxes will continue to be levied until the debt is fully paid.

- The Corporation Debt Service Fund is used to account for the interest and redemption of principal of certificates of participation issued by the XYZ Unified School District Building Corporation.

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The district maintains four capital projects funds:

- The Building Fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

- The State School Building Lease-Purchase Fund is used primarily to account for state apportionments provided for construction and reconstruction of school facilities (*Education Code* Sections 17070-17080).

- The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

- The Corporation Building Fund is used to account for the construction and acquisition of major capital improvements by the XYZ Unified School District Building Corporation.

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the district. The district maintains one internal service fund, the Self-Insurance Fund, which is used to provide medical benefits to its employees.

Fiduciary Funds:

Expendable Trust Funds are used to account for assets held by the district as trustee. The district maintains one expendable trust fund, the Scholarship Fund, which is used to provide financial assistance to students of the district.

Agency Funds are used to account for assets of others for which the district acts as an agent. The district maintains three agency funds, one for each school's student body.

Account Groups:

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources." Thus, the fixed assets and long-term liabilities associated with governmental funds and expendable trust funds are accounted for in the account groups of the district.

The *General Fixed Assets Account Group* accounts for fixed assets used in governmental fund type operations.

The *General Long-Term Debt Account Group* accounts for long-term liabilities expected to be financed from governmental funds.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered) except for unmatured interest on general long-term debt, which is recognized when due.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The district applies all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting for its proprietary operations.

Trust and agency fund assets and liabilities are also accounted for on the accrual basis.

The general fixed assets account group accounts for fixed assets.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the district's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The district's governing board satisfied these requirements.

These budgets are revised by the district's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The district employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

F. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

G. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to $100,000 by the Federal Deposit Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with *Education Code* Section 41001, the district maintains substantially all its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by *California Government Code* Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with County Treasury was not available.

2. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The district has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The district has chosen to report the expenditure when incurred.

3. Fixed Assets

Fixed assets used in governmental fund types of the district are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life is not included in the general fixed assets account group.

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

5. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the district. The current portion of the liabilities is recognized in the general fund at year-end. The noncurrent portion of the liabilities is recognized in the general long-term debt account group.

Accumulated sick leave benefits are not recognized as liabilities of the district. The district's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-Term Obligations

The district reports long-term debt of governmental funds at face value in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the district. Tax revenues are recognized by the district when received.

H. Total Columns on Combined Statements

Total columns on the combined statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - CASH AND INVESTMENTS

Cash in County Treasury

In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash in the County Treasury as part of the common investment pool ($914,600 as of June 30, 20XX). The fair market value of this pool as of that date, as provided by the pool sponsor, was $915,300. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks ($117,000 as of June 30, 20XX and in the revolving fund ($2,500) are insured up to $100,000 by the Federal Deposit Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investments

Investments at June 30, 20XX, held on behalf of the LEA, are presented below, categorized separately to give an indication of the level of risk associated with each investment:

	Category*			Carrying	Fair
	1	2	3	Amount	Value
U.S. Treasury notes		$ 75,000	$ 80,000	$ 155,000	$ 156,000
Certificates of deposit	$ 400,000			400,000	400,000
Commercial paper	25,000	500,000		525,000	530,000
	$ 425,000	$ 575,000	$ 80,000	$ 1,080,000	$1,086,000

* Category 1: Insured or registered, or securities held by the district or its agent in the district's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the district's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, its trust department, or its agent, but not held in the district's name.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 20XX, expenditures exceeded appropriations in individual funds as follows:

Appropriations Category	Excess Expenditures
General Fund:	
Certficated salaries	$ 200,000
Deferred Maintenance Fund:	
Services and other operating expenditures	2,000
Cafeteria Fund:	
Classified salaries	3,000
Services and other operating expenditures	5,000

General fund: The district incurred unanticipated expenditures for inflationary salary increases.

Deferred maintenance fund: The district incurred unanticipated expenditures for replacement of a damaged school building roof.

Cafeteria fund: The district incurred unanticipated expenditures for inflationary salary increases and new contract services.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 20XX, consist of the following:

	General Fund	Special Revenue Funds	Capital Project Funds	Totals
Federal government:				
Federal programs	$ 70,000	$ 20,000	—	$ 90,000
State government:				
Categorical aid programs	3,000	9,000	—	12,000
Special allowance	—	—	$ 25,000	25,000
Deferred maintenance	—	49,000	—	49,000
Total state government	3,000	58,000	25,000	86,000
Local government:				
Developer fees	—	—	9,000	9,000
Other	4,000	—	—	4,000
Total local government	4,000	—	9,000	13,000
Interest	3,000	—	—	3,000
Miscellaneous[1]	2,000	—	—	2,000
Totals	$ 82,000	$ 78,000	$ 34,000	$ 194,000

[1] Detail any material or unusual receivables under either miscellaneous or the appropriate heading.

NOTE 5 - INTERFUND TRANSACTIONS

Due From/Due To Other Funds

Individual fund interfund receivable and payable balances as of June 30, 20XX, are as follows:

Fund	Interfund Receivables	Interfund Payables
General fund	—	$ 14,000
State school building lease-purchase fund	$ 10,000	—
Self-Insurance fund	4,000	—
Totals	$ 14,000	$ 14,000

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers for the 20XX-20XX fiscal year are as follows:

Transfers In	Transfers Out	Amount
Cafeteria	General	$ 50,000
Deferred Maintenance	General	42,000
State School Building	General	60,000
Corporation Debt Service	General	130,000
Charter School Fund	General	16,000
Total		$ 298,000

NOTE 6 - GENERAL FIXED ASSETS

The changes in general fixed assets for the year ended June 30, 20XX, are shown below:

	Balance July 1, 20XX	Additions	Deductions	Balance June 30, 20XX
Sites and improvement	$ 1,100,000	—	—	$ 1,100,000
Building and improvements	5,200,000	$ 700,000	—	5,900,000
Machinery and equipment	1,806,000	494,000	$ 100,000	2,200,000
Totals	$ 8,106,000	$ 1,194,000	$ 100,000	$ 9,200,000

NOTE 7 - CERTIFICATES OF PARTICIPATION

In August 19XX, the XYZ Unified School District Building Corporation issued certificates of participation (COP) in the amount of $1,500,000, with interest rates ranging from 5.9% to 7.5%. As of June 30, 20XX, the principal balance outstanding was $1,150,000.

The certificates mature through 20X8 as follows:

Year Ended June 30	Principal	Interest	Total
20XX	$ 50,000	$ 76,000	$ 126,000
20XX	75,000	70,000	145,000
20XX	100,000	65,000	165,000
20XX	125,000	60,000	185,000
20XX	150,000	50,000	200,000
Thereafter	650,000	179,000	829,000
Totals	$ 1,150,000	$ 500,000	$ 1,650,000

NOTE 8 - LEASES

A. Capital Leases

The district leases equipment valued at $750,000 under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Year Ended June 30	Lease Payments
20XX	$ 100,000
20XX	100,000
20XX	100,000
20XX	100,000
20XX	50,000
Total	$ 450,000
Less amount representing interest	(60,000)
Present value of net minimum lease payments	$ 390,000

The district will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

B. Operating Leases

The district has entered into various operating leases for land, buildings, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the district will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ended June 30	Lease Payments
20XX	$ 50,000
20XX	50,000
20XX	60,000
20XX	60,000
20XX	80,000
Thereafter	200,000
Total	$ 500,000

The district will receive no sublease rental revenues nor pay any contingent rentals for these properties.

NOTE 9 - GENERAL OBLIGATION BONDS PAYABLE

The outstanding general obligation bonded debt of the XYZ Unified School District as of June 30, 20X3, is:

Date of Issue	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 20XX	Redeemed Current Year	Outstanding June 30, 20XX
20XX	4.0%	20XX	$ 300,000	$ 55,000	$ 10,000	$ 45,000
20XX	6.8%	20XX	600,000	310,000	30,000	280,000
Totals			$ 900,000	$ 365,000	$ 40,000	$ 325,000

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 20XX, are as follows:

Year Ended June 30	Principal	Interest	Total
20XX	$ 40,000	$ 20,100	$ 60,100
20XX	65,000	20,000	85,000
20XX	30,000	10,200	40,200
20XX	30,000	9,000	39,000
20XX	30,000	8,000	38,000
Thereafter	130,000	50,000	180,000
Totals	$ 325,000	$ 117,300	$ 442,300

NOTE 10 - STATE SCHOOL BUILDING LOANS PAYABLE

State school building loans outstanding as of June 30, 20XX, are as follows:

Year Disbursed	Interest Rate	Balance July 1, 20XX	Interest Charge	Repayment Current Year	Outstanding June 30, 20XX
20XX	4.9%	$ 120,000	$ 5,500	$ 20,000	$ 105,500
20XX	5.0%	6,000	30	400	5,630
Totals		$ 126,000	$ 5,530	$ 20,400	$ 111,130

State school building loans are secured by all sites purchased and improved; all equipment purchased; and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with *Education Code* Section 16019.

Annual repayment is determined by the State Controller in accordance with *Education Code* Section 16214.

NOTE 11 - GENERAL LONG-TERM DEBT - SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 20XX, is shown below: [1]

	Balance July 1, 20XX	Additions	Deductions	Balance June 30, 20XX
Certificates of participation	$ 1,200,000	—	$ 50,000	$ 1,150,000
Capital leases	490,000	—	100,000	390,000
General obligation bonds	365,000	—	40,000	325,000
State school building loans	126,000	—	14,870	111,130
Compensated absences	75,000	$ 4,000	—	79,000
Totals	$ 2,256,000	$ 4,000	$ 204,870	$ 2,055,130

[1] The additions and deletions to debt presented in this schedule should contain only changes to debt principal. Interest incurred or paid on outstanding debt should not be presented.

NOTE 12 - JOINT VENTURES (Joint Powers Agreements)

The XYZ Unified School District participates in one joint venture under a joint powers agreement (JPA) with the County School District Insurance Group. The relationship between the XYZ Unified School District and the JPA is such that the JPA is not a component unit of the XYZ Unified School District for financial reporting purposes.

The County School District Insurance Group (CSDIG) arranges for and provides property and liability insurance for its three members: the XYZ Unified School District, the ABC School District, and the County Office of Education. The CSDIG is governed by a board consisting of a representative from each member district. The board controls the operations of the CSDIG, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the CSDIG.

NOTE 13 - CHARTER SCHOOLS

The XYZ Unified School District operates the ABC Charter School and the DEF Charter School pursuant to *Education Code* Section 47605. The financial activities of the ABC Charter School are presented in the district's General Fund and the financial activities of the DEF Charter School are presented in the Special Revenue Fund.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Early Retirement

The board of education has adopted an early retirement incentive program. The district has entered into contracts with certain eligible employees whereby 20 service days per year will be performed before the end of the future five-year period or before age 65, whichever comes first, for a stipulated yearly amount plus employee benefits. The outstanding contract amount for this purpose is $25,000. This amount is contingent upon the employees performing the required service days per year.

B. Litigation

The district is a defendant in a pending liability lawsuit. The outcome of the litigation is unknown at the present time. The maximum possible judgment against the district is $10,000.

C. State and Federal Allowances, Awards, and Grants

The district has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

NOTE 15 - SUBSEQUENT EVENTS

The district issued $400,000 in tax and revenue anticipation notes dated July 1, 20XX, at a discount of $400. The notes mature on June 30, 20XX and yield 5% interest. The notes were sold to supplement cash flow.

Repayment requirements are that $200,000 be deposited with the County Treasurer prior to January 31, 20XX, and that the remainder of $200,000 plus accrued interest of $20,000 be made prior to May 31, 20XX.

NOTE 16 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

Plan Description and Provisions

PERS:

Plan Description

The district contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute _____% of their salary (_____% of monthly salary over $133.33 if the member participates in Social Security), and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 20XX-XX was _____% of annual payroll. The contribution requirements of the plan members are established by state statute. The district's contributions to CalPERS for the fiscal year ending June 30, 20XX, 20XX, and 20XX were $_____, $_____, and $_____, respectively, and equal ___% of the required contributions for each year.

STRS:

Plan Description

The district contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute _____% of their salary. The required employer contribution rate for fiscal year 20XX-XX was _____% of annual payroll. The contribution requirements of the plan members are established by state statute. The district's contributions to STRS for the fiscal year ending June 30, 20XX, 20XX, and 20XX were $_____, $_____, and $_____, respectively, and equal ___% of the required contributions for each year.

NOTE 17 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 16, the district provides postretirement health care benefits to all employees who retire from the district on or after attaining age 60 with at least 15 years of service. On June 30, 20XX, 34 retirees met these eligibility requirements.

The district reimburses 50% of the amount of validated claims for medical, dental, and hospitalization costs incurred by pre-Medicare retirees and their dependents. The district also reimburses a fixed amount of $_____ per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the district. During the year ended June 30, 20XX, expenditures of $_____ were recognized for postretirement health care. Approximately $_____ of the $_____ increase in expenditures over the previous year was caused by the addition of dental benefits, effective July 1, 20XX. [1]

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[1] In a situation where the district's contributions are advance-funded on a nonacturarial basis, disclosure should also include the net assets available for future benefits.

In a situation where the district's contributions are advance-funded on an actuarially determined basis, disclosure should also include:

- The actuarial cost method and significant actuarial assumptions (including the interest rate and, if applicable, the projected salary increase assumption and the health inflation assumption) used to determine funding requirements, and the method used to value plan assets; and

- The employer's actuarially required and actual contributions for the period (net of participant contributions), the amount of net assets available for OPEB, and the actuarial accrued liability and unfunded actuarial accrued liability for OPEB according to the actuarial cost method in use.

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Exhibit A-1

XYZ Unified School District
Combining Balance Sheet
All Special Revenue Funds
June 30, 20XX

	Child Development Fund	Adult Education Fund	Charter School Fund	Deferred Maintenance Fund	Cafeteria Fund	Totals
Assets						
Cash in county treasury	$ 10,000	$ 38,000	$ 40,000	$ 40,000	$ 32,000	$ 160,000
Cash on hand and in banks	—	—	—	—	2,000	2,000
Accounts receivable	5,000	—	5,000	44,000	24,000	78,000
Stores inventories— supplies	—	—	—	—	5,000	5,000
Stores inventories— food	—	—	—	—	6,000	6,000
Total assets	$ 15,000	$ 38,000	$ 45,000	$ 84,000	$ 69,000	$ 251,000
Liabilities and fund balances						
Liabilities:						
Accounts payable	—	$ 10,000	15,000	—	$ 30,000	$ 55,000
Total liabilities	—	10,000	15,000	—	30,000	55,000
Fund balances:						
Reserved for stores inventories	—	—	—	—	11,000	11,000
Undesignated fund balance	$ 15,000	28,000	30,000	$ 84,000	28,000	185,000
Total fund balances	15,000	28,000	30,000	84,000	39,000	196,000
Total liabilities and fund balances	$ 15,000	$ 38,000	$ 45,000	$ 84,000	$ 69,000	$ 251,000

The notes to the financial statements are an integral part of this statement.

Exhibit A-2

XYZ Unified School District
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
All Special Revenue Funds
Year Ended June 30, 20XX

	Child Development Fund	Adult Education Fund	Charter School Fund	Deferred Maintenance Fund	Cafeteria Fund	Totals
Revenues:						
Revenue limit sources:						
State apportionments		$ 47,000	—	—	—	$ 47,000
Federal	—	—	—	—	$ 220,000	220,000
Other state	$ 40,000	—	$20,000	$ 40,000	23,000	123,000
Other local	—	11,200	1,000	2,000	197,000	211,200
Total revenues	40,000	58,200	21,000	42,000	440,000	601,200
Expenditures:						
Certificated salaries	29,500	52,700	—	—	—	82,200
Classified salaries	5,500	—	—	—	243,000	248,500
Employee benefits	3,000	1,300	—	—	60,000	64,300
Books and supplies	2,000	3,000	—	—	150,000	155,000
Services and other operating expenditures	—	—	46,000	102,000	32,000	180,000
Total expenditures	40,000	57,000	46,000	102,000	485,000	730,000
Excess (deficiency) of revenues over (under) expenditures	—	1,200	(25,000)	(60,000)	(45,000)	(128,800)
Other financing sources:						
Operating transfers in	—	—	16,000	42,000	50,000	108,000
Total other financing sources	—	—	16,000	42,000	50,000	108,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	—	1,200	(9,000)	(18,000)	5,000	(20,800)
Fund balances, July 1, 20XX	15,000	26,800	39,000	102,000	34,000	216,800
Fund balances, June 30, 20XX	$ 15,000	$ 28,000	$30,000	$ 84,000	$ 39,000	$196,000

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances — Budget and Actual
All Special Revenue Funds
Year Ended June 30, 20XX

	Child Development Fund			Adult Education Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Revenue limit sources:						
State apportionments	—	—	—	$ 47,000	$ 47,000	—
Federal	—	—	—	—	—	—
Other state	$ 42,000	$ 40,000	$ (2,000)	—	—	—
Other local	—	—	—	10,000	11,200	$ 1,200
Total revenues	42,000	40,000	(2,000)	57,000	58,200	1,200
Expenditures:						
Certificated salaries	30,000	29,500	500	54,200	52,700	1,500
Classified salaries	6,000	5,500	500	—	—	—
Employee benefits	4,000	3,000	1,000	1,800	1,300	500
Books and supplies	2,000	2,000	—	3,000	3,000	—
Services and other operating expenditures	—	—	—	—	—	—
Total expenditures	42,000	40,000	2,000	59,000	57,000	2,000
Excess (deficiency) of revenues over (under) expenditures	—	—	—	(2,000)	1,200	3,200
Other financing sources:						
Operating transfers in	—	—	—	—	—	—
Total other financing sources	—	—	—	—	—	—
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	—	—	—	(2,000)	1,200	3,200
Fund balances, July 1, 20XX	15,000	15,000	—	26,800	26,800	—
Fund balances, June 30, 20XX	$ 15,000	$ 15,000	$ —	$ 24,800	$ 28,000	$ 3,200

The notes to the financial statements are an integral part of this statement.

Exhibit A-3

	Charter School Fund			Deferred Maintenance Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Revenue limit sources:						
State apportionments	—	—	—	—	—	—
Federal	—	—	—	—	—	—
Other state	28,000	20,000	(8,000)	$ 40,000	$ 40,000	—
Other local	1,500	1,000	(500)	3,500	2,000	$ (1,500)
Total revenues	29,500	21,000	(8,500)	43,500	42,000	(1,500)
Expenditures:						
Certificated salaries	—	—	—	—	—	—
Classified salaries	—	—	—	—	—	—
Employee benefits	—	—	—	—	—	—
Books and supplies	—	—	—	—	—	—
Services and other operating expenditures	48,000	46,000	2,000	100,000	102,000	(2,000)
Total expenditures	48,000	46,000	2,000	100,000	102,000	(2,000)
Excess (deficiency) of revenues over (under) expenditures	(18,500)	(25,000	(6,500)	(56,500)	(60,000)	(3,500)
Other financing sources:						
Operating transfers in	16,000	16,000	—	56,500	42,000	(14,500)
Total other financing sources	16,000	16,000	—	56,500	42,000	(14,500)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,500)	(9,000	(6,500)	—	(18,000)	(18,000)
Fund balances, July 1, 20XX	39,000	39,000	—	102,000	102,000	—
Fund balances, June 30, 20XX	$36,500	$30,000	$(6,500)	$ 102,000	$ 84,000	$ (18,000)

Exhibit A-3

Cafeteria Fund			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	—	—	$ 47,000	$ 47,000	—
$212,000	$220,000	$8,000	212,000	220,000	$ 8,000
22,000	23,000	1,000	132,000	123,000	(9,000)
202,000	197,000	(5,000)	217,000	211,200	(5,800)
436,000	440,000	4,000	608,000	601,200	(6,800)
—	—	—	84,200	82,200	2,000
240,000	243,000	(3,000)	246,000	248,500	(2,500)
61,000	60,000	1,000	66,800	64,300	2,500
152,000	150,000	2,000	157,000	155,000	2,000
27,000	32,000	(5,000)	175,000	180,000	(5,000)
480,000	485,000	(5,000)	729,000	730,000	(1,000)
(44,000)	(45,000)	(1,000)	(121,000	(128,800)	(7,800)
50,000	50,000	—	122,500	108,000	(14,500)
50,000	50,000	—	122,500	108,000	(14,500)
6,000	5,000	(1,000)	1,500	(20,800)	(22,300)
34,000	34,000	—	216,800	216,800	—
$40,000	$39,000	$(1,000)	$ 218,300	$ 196,000	$ (22,300)

Exhibit B-1

XYZ Unified School District
Combining Balance Sheet
All Debt Service Funds
June 30, 20XX

	Bond Interest and Redemption Fund	Tax Override Fund	Corporation Debt Service Fund	Totals
Assets				
Cash in county treasury	$ 12,000	$ 13,600	$ 140,000	$ 165,600
Total assets	$ 12,000	$ 13,600	$ 140,000	$ 165,600
Liabilities and fund balances				
Fund balances:				
Reserved for debt service	$ 12,000	$ 13,600	$ 140,000	$ 165,600
Total fund balances	12,000	13,600	140,000	165,600
Total liabilities and fund balances	$ 12,000	$ 13,600	$ 140,000	$ 165,600

The notes to the financial statements are an integral part of this statement.

Exhibit B-2

XYZ Unified School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
All Debt Service Funds
Year Ended June 30, 20XX

	Bond Interest and Redemption Fund	Tax Override Fund	Corporation Debt Service Fund	Totals
Revenues:				
Other state	—	$ 10,000	—	$ 10,000
Other local	$ 70,000	22,000	$ 7,000	99,000
Total revenues	70,000	32,000	7,000	109,000
Expenditures:				
Debt services:				
Principal	40,000	14,870	50,000	104,870
Interest	23,000	5,530	65,000	93,530
Total expenditures	63,000	20,400	115,000	198,400
Excess (deficiency) of revenues over (under) expenditures	7,000	11,600	(108,000)	(89,400)
Other financing sources:				
Operating transfers in	—	—	130,000	130,000
Total other financing sources	—	—	130,000	130,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	7,000	11,600	22,000	40,600
Fund balances, July 1, 20XX	5,000	2,000	118,000	125,000
Fund balances, June 30, 20XX	$ 12,000	$ 13,600	$ 140,000	$ 165,600

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances — Budget and Actual
All Debt Service Funds
Year Ended June 30, 20XX

	Bond Interest and Redemption Fund			Tax Override Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Other state	—	—	—	$ 10,000	$ 10,000	—
Other local	$ 68,000	$ 70,000	$ 2,000	21,000	22,000	$ 1,000
Total revenues	68,000	70,000	2,000	31,000	32,000	1,000
Expenditures:						
Debt service:						
Principal	40,000	40,000	—	14,870	14,870	—
Interest	23,000	23,000	—	5,530	5,530	—
Total expenditures	63,000	63,000	—	20,400	20,400	—
Excess (deficiency) of revenues over (under) expenditures	5,000	7,000	2,000	10,600	11,600	1,000
Other financing sources:						
Operating transfers in	—	—	—	—	—	—
Total other financing sources	—	—	—	—	—	—
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	5,000	7,000	2,000	10,600	11,600	1,000
Fund balances, July 1, 20XX	5,000	5,000	—	2,000	2,000	—
Fund balances, June 30, 20XX	$ 10,000	$ 12,000	$ 2,000	$ 12,600	$ 13,600	$ 1,000

The notes to the financial statements are an integral part of this statement.

Exhibit B-3

Corporation Debt Service Fund			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	—	—	$ 10,000	$ 10,000	—
$ 6,000	$ 7,000	$ 1,000	95,000	99,000	$ 4,000
6,000	7,000	1,000	105,000	109,000	4,000
50,000	50,000	—	104,870	104,870	—
65,000	65,000	—	93,530	93,530	—
115,000	115,000	—	198,400	198,400	—
(109,000)	(108,000)	1,000	(93,400)	(89,400)	4,000
130,000	130,000	—	130,000	130,000	—
130,000	130,000	—	130,000	130,000	—
21,000	22,000	1,000	36,600	40,600	4,000
118,000	118,000	—	125,000	125,000	—
$ 139,000	$ 140,000	$ 1,000	$ 161,600	$ 165,600	$ 4,000

Exhibit C-1

XYZ Unified School District
Combining Balance Sheet
All Capital Projects Funds
June 30, 20XX

	Building Fund	State School Building Lease-Purchase Fund	Capital Facilities Fund	Corporation Building Fund	Totals
Assets					
Cash in county treasury	$ 3,000	$ 21,000	$ 5,000	—	$ 29,000
Investments	—	—	—	$ 80,000	80,000
Accounts receivable	—	25,000	9,000	—	34,000
Due from other funds	—	10,000	—	—	10,000
Total assets	$ 3,000	$ 56,000	$ 14,000	$ 80,000	$ 153,000
Liabilities and fund balances					
Liabilities:					
Accounts payable	—	$ 5,000	$ 2,000	$ 5,000	$ 12,000
Total liabilities	—	5,000	2,000	5,000	12,000
Fund balances:					
Undesignated fund balance	$ 3,000	51,000	12,000	75,000	141,000
Total fund balances	3,000	51,000	12,000	75,000	141,000
Total liabilities and fund balances	$ 3,000	$ 56,000	$ 14,000	$ 80,000	$ 153,000

The notes to the financial statements are an integral part of this statement.

Exhibit C-2

XYZ Unified School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
All Capital Projects Funds
Year Ended June 30, 20XX

	Building Fund	State School Building Lease-Purchase Fund	Capital Facilities Fund	Corporation Building Fund	Totals
Revenues:					
Other state	—	$ 300,000	—	—	$ 300,000
Other local	—	1,000	$ 200,000	$ 22,000	223,000
Total revenues	—	301,000	200,000	22,000	523,000
Expenditures:					
Services and other operating expenditures	$ 2,000	—	77,000	—	79,000
Capital outlay	—	360,000	114,000	20,000	494,000
Total expenditures	2,000	360,000	191,000	20,000	573,000
Excess (deficiency) of revenues over (under) expenditures	(2,000)	(59,000)	9,000	2,000	(50,000)
Other financing sources:					
Operating transfers in	—	60,000	—	—	60,000
Total other financing sources	—	60,000	—	—	60,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,000)	1,000	9,000	2,000	10,000
Fund balances, July 1, 20XX	5,000	50,000	3,000	73,000	131,000
Fund balances, June 30, 20XX	$ 3,000	$ 51,000	$ 12,000	$ 75,000	$ 141,000

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances — Budget and Actual
All Capital Projects Funds
Year Ended June 30, 20XX

	Building Fund			State School Building Lease-Purchase Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Other state	—	—	—	$ 290,000	$ 300,000	$ 10,000
Other local	—	—	—	—	1,000	1,000
Total revenues	—	—	—	290,000	301,000	11,000
Expenditures:						
Services and other operating expenditures	$ 3,000	$ 2,000	$ 1,000	—	—	—
Capital outlay	—	—	—	375,000	360,000	15,000
Total expenditures	3,000	2,000	1,000	375,000	360,000	15,000
Excess (deficiency) of revenues over (under) expenditures	(3,000)	(2,000)	1,000	(85,000)	(59,000)	26,000
Other financing sources:						
Operating transfers in	—	—	—	85,000	60,000	(25,000)
Total other financing sources	—	—	—	85,000	60,000	(25,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures other financing uses	(3,000)	(2,000)	1,000	—	1,000	1,000
Fund balances, July 1, 20XX	5,000	5,000	—	50,000	50,000	—
Fund balances, June 30, 20XX	$ 2,000	$ 3,000	$ 1,000	$ 50,000	$ 51,000	$ 1,000

The notes to the financial statements are an integral part of this statement.

Exhibit C-3

Capital Facilities Fund			Corporation Building Fund			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	—	—	—	—	—	$ 290,000	$ 300,000	$ 10,000
$198,000	$200,000	$ 2,000	$ 17,000	$ 22,000	$ 5,000	215,000	223,000	8,000
198,000	200,000	2,000	17,000	22,000	5,000	505,000	523,000	18,000
77,000	77,000	—	—	—	—	80,000	79,000	1,000
115,000	114,000	1,000	20,000	20,000	—	510,000	494,000	16,000
192,000	191,000	1,000	20,000	20,000	—	590,000	573,000	17,000
6,000	9,000	3,000	(3,000)	2,000	5,000	(85,000)	(50,000)	35,000
—	—	—	—	—	—	85,000	60,000	(25,000)
—	—	—	—	—	—	85,000	60,000	(25,000)
6,000	9,000	3,000	(3,000)	2,000	5,000	—	10,000	10,000
3,000	3,000	—	73,000	73,000	—	131,000	131,000	—
$ 9,000	$ 12,000	$ 3,000	$ 70,000	$ 75,000	$ 5,000	$ 131,000	$ 141,000	$ 10,000

Exhibit D-1

XYZ Unified School District
Combining Balance Sheet
All Trust and Agency Funds
June 30, 20XX

	Expendable Trust	Agency Funds				
	Scholarship Fund	XYZ Elementary	XYZ Junior High	XYZ High School	Total Agency Fund	Totals
Assets						
Cash on hand and in banks	$ 35,000	$ 10,000	$ 21,000	$ 49,000	$ 80,000	$115,000
Total assets	$ 35,000	$ 10,000	$ 21,000	$ 49,000	$ 80,000	$115,000
Liabilities and fund balances						
Liabilities:						
Due to student groups	—	$ 10,000	$ 21,000	$ 49,000	$ 80,000	$ 80,000
Fund balances:						
Reserve for scholarships	$ 35,000	—	—	—	—	35,000
Total fund balances	35,000	—	—	—	—	35,000
Total liabilities and fund balances	$ 35,000	$ 10,000	$ 21,000	$ 49,000	$ 80,000	$115,000

The notes to the financial statements are an integral part of this statement.

Exhibit D-2

XYZ Unified School District
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
Year Ended June 30, 20XX

	Balance July 1, 20XX	Additions	Deductions	Balance June 30, 20XX
XYZ Elementary				
Assets				
Cash	$ 10,000	$ 70,000	$ 70,000	$ 10,000
Liabilities				
Due to student groups	$ 10,000	$ 70,000	$ 70,000	$ 10,000
XYZ Junior High				
Assets				
Cash	$ 20,000	$ 50,000	$ 49,000	$ 21,000
Liabilities				
Due to student groups	$ 20,000	$ 50,000	$ 49,000	$ 21,000
XYZ High				
Assets				
Cash	$ 45,000	$ 100,000	$ 96,000	$ 49,000
Liabilities				
Due to student groups	$ 45,000	$ 100,000	$ 96,000	$ 49,000
Total of All Agency Funds				
Assets				
Cash	$ 75,000	$ 220,000	$ 215,000	$ 80,000
Liabilities				
Due to student groups	$ 75,000	$ 220,000	$ 215,000	$ 80,000

The notes to the financial statements are an integral part of this statement.

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SUPPLEMENTARY INFORMATION SECTION

XYZ Unified School District
Organization
June 30, 20XX

The XYZ Unified School District was established on July 1, 19XX, and is comprised of an area of approximately 12 square miles located in the County. There were no changes in the boundaries of the district during the current year. The district is currently operating one elementary, one intermediate, and one high school. The district also maintains a continuation high school.

Governing Board

Name	Office	Term Expires
Mr. David Johnson	President	April 20XX
Mr. Norman Richards	Secretary	April 20XX
Mrs. Jan McDonald	Member	April 20XX
Mr. James Wilde	Member	April 20XX
Mrs. Louis Hanson	Member	April 20XX

Administration

Dr. Louis Haas
Superintendent

Mr. Thomas Sharp
Assistant Superintendent

Mrs. Mildred Coleman
Assistant Superintendent

Table 1

XYZ Unified School District
Schedule of Average Daily Attendance [1]
Year Ended June 30, 20XX

	Second Period Report	Annual Report
Elementary:		
Kindergarten	300	302
Grades 1 through 3	800	790
Grades 4 through 6	700	706
Grades 7 and 8	500	498
Special education	30	30
Elementary totals	2,330	2,326
High School:		
Grades 9 through 12, regular classes	1,050	1,048
Special education	10	10
Continuation education	36	36
Opportunity schools	4	4
High school totals	1,100	1,098
Classes for adults:		
Concurrently enrolled	20	19
Not concurrently enrolled	50	49
ADA totals	3,500	3,492

Summer School	Hours of Attendance
Elementary	800
High School	2,200

Average daily attendance is a measurement of the number of pupils attending classes of the district. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

[1] Average daily attendance is based on the Second Period Report for the period ending April 15 and the Annual Report for the period ending June 30.

Table 2

XYZ Unified School District
Schedule of Instructional Time [1]
Year Ended June 30, 20XX

Grade Level	1982-83 [2] Actual Minutes	1986-87 Minutes Requirements	20X2-20X3 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,500	36,000	37,000	180	163	Complied
Grades 1 – 3	45,000	50,400	48,000	180	163	Did not comply
Grades 4 – 8	55,000	54,000	54,000	180	163	Did not comply
Grades 9 – 12	61,300	64,800	65,000	180	—	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201. This schedule is required for all districts, including basic aid districts.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of *Education Code* Sections 46200 through 46206.

[1] The minutes shown on this schedule are a districtwide compilation, which demonstrates the district's compliance with the instructional minutes requirements. If one or more school sites are not in compliance, a separate schedule for each site must be prepared that shows only those grade groupings that do not comply.

[2] This column does not apply to instructional time for County Offices of Education.

Table 3

XYZ Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 20XX

General Fund	(Budget) 20XX	20XX	20XX	20XX
Revenues and other financial sources	$ 12,324,000	$ 12,061,000	$ 11,731,000	$ 11,246,000
Expenditures	12,407,000	11,600,000	11,812,000	11,219,000
Other uses and transfers out	56,000	298,000	65,000	23,000
Total outgo	12,463,000	11,898,000	11,877,000	11,242,000
Change in fund balance (deficit)	(139,000)	163,000	(146,000)	4,000
Ending fund balance	$ 984,000	$ 1,107,000	$ 944,000	$ 1,090,000
Available reserves [1]	$ 619,000	$ 1,087,000	$ 679,000	$ 888,100
Designated for economic uncertainties	$ 300,000	$ 185,000	$ 379,000	$ 500,000
Undesignated fund balance	$ 319,000	$ 902,000	$ 300,000	$ 388,100
Available reserves as a percentage of total outgo	5.0%	9.1%	5.7%	7.9%
Total long-term debt	$ 2,086,920	$ 2,055,130	$ 2,256,000	$ 1,972,940
Average daily attendance at P-2 [2]	3,455	3,430	3,420	3,372

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

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[1] Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the general fund, special reserve fund (other than capital outlay projects), or within any Article XIII-B trust funds.

[2] Excludes Adult Education ADA.

Table 3
(continued)

XYZ Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 20XX

The general fund balance has increased by $33,000 over the past two years. The fiscal year 20XX-20XX budget projects a decrease of $139,000 (12.4%). For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).[1]

The district has incurred operating deficits in one of the past three years, and anticipates incurring a operating deficit during the 20XX-20XX fiscal year. Total long-term debt has increased by $82,190 over the past two years.

Average daily attendance has increased by 58 over the past two years. Additional growth of 25 ADA is anticipated during fiscal year 20XX-20XX.

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[1] A comparison of the district's available reserve level (expressed as a percentage of total outgo) with the applicable state-recommended percentage of available reserves is required.

Available Reserve Percentages

School Districts:

Title 5, CCR, Sections 15443 and 15456 establish standards for minimum reserves. Detailed below are the standards for available reserves.

Available reserves are not less than the following percentages as applied to total expenditures, transfers out, and uses:

The greater of 5% or $50,000 for district with 0 to 300 ADA
The greater of 4% or $50,000 for district with 301 to 1,000 ADA
3% for district with 1,001 to 30,000 ADA
2% for district with 30,001 to 400,000 ADA
1% for district with 400,001 and over ADA

County Offices of Education:

Title 5, CCR, Sections 15474 and 15483 and *Education Code* 1205 establish standards for minimum reserves. Detailed below are the standards for available reserves.

Available reserves are not less than the following percentages as applied to total expenditures, transfers out, and uses:

The greater of 5% or $50,000 for counties with less than $4,000,001 in expenditures, transfers out and other uses.
The greater of 4% or $200,000 for counties with $4,000,001 through $9,999,999 in expenditures, transfers out and other uses.
The greater of 3% or $400,000 for counties with $10,000,000 through $45,000,000 in expenditures, transfers out and other uses.
The greater of 2% or $1,350,000 for counties with over $45,000,000 in expenditures, transfers out and other uses.

Table 4

XYZ Unified School District
Schedule of Expenditures of Federal Awards[1]
Year Ended June 30, 20XX

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number[2]	Pass-Through Entity Identifying Number[3]	Federal Expenditures[4]
Federal programs:			
U.S. Department of Education:			
Passed through California Department of Education (CDE):			
IASA Chapter 1	84.010	03064	$ 310,000
Vocational Education	84.048	03573	31,000
Migrant Education	84.011	03239	140,000
Special Education	84.027	03379	90,000
Total U.S. Department of Education			571,000
U.S. Department of Agriculture:			
Passed through CDE:			
National School Lunch	10.555	03755	220,000
National School Breakfast	10.553	03157	290,000
Total U.S. Department of Agriculture			510,000
Total expenditures of federal awards			$ 1,081,000

The accompanying notes are an integral part of this schedule.

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[1] Additional guidance on the schedule is provided in AICPA, SOP 98-3, which includes a discussion of the identification of federal awards, the general presentation requirements governing the schedule, pass-through awards, noncash awards, and endowment funds. AICPA, SOP 98-3 also includes a discussion of the auditor's responsibility for reporting on the schedule.

[2] When the CFDA number is not available, the auditee should indicate that the CFDA number is not available and include in the schedule the program's name and, if available, other identifying number.

[3] If the funds are a pass-through from the Department of Education, the identifying number is the Program Cost Account (PCA) number.

[4] Circular A-133 requires that the value of federal awards expended in the form of noncash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end be included in either the schedule or a note to the schedule. Although it is not required, Circular A-133 states that it is preferable to present this information in the schedule (versus the notes to the schedule). If the auditee presents noncash assistance in the notes to the schedule, the auditor should be aware that such amounts must still be included in Part III of the data collection form.

XYZ Unified School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 20XX

Note 1. Basis of Presentation[1]

The accompanying schedule of expenditures of federal awards includes the federal grant activity of XYZ Unified School District and is presented on the [identify basis of accounting]. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the [general-purpose or basic] financial statements.

Note 2. Subrecipients[2]

Of the federal expenditures presented in the schedule, XYZ Unified School District provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Special Education	84.027	$35,000

[1] This note is included to meet the Circular A-133 requirement that the schedule include notes that describe the significant accounting policies used in preparing the schedule.

[2] Circular A-133 requires the schedule of expenditures of federal awards to include, to the extent practical, an identification of the total amount provided to subrecipients from each federal program. Although this example includes the required subrecipient information in the notes to the schedule, the information may be included on the face of the schedule as a separate column or section, if that is preferred by the auditee.

Table 5

XYZ Unified School District
Reconciliation of Annual Financial and Budget
Report (J-200) With Audited Financial Statements
Year Ended June 30, 20XX

	General Fund	Cafeteria Fund
June 30, 20XX, annual financial and budget report (Form J-200) fund balances	$ 1,047,000	$ 37,000
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Accounts receivable understatement	60,000	
Stores inventory adjustment to physical count		2,000
Net adjustments and reclassifications	60,000	2,000
June 30, 20XX, audited financial statement fund balances	$ 1,107,000	$ 39,000

	General Long-Term Debt Account Group
June 30, 20XX, annual financial and budget report (Form J-200) total liabilities	$ 2,000,000
Adjustments and reclassifications:	
Increase (decrease) in total liabilities:	
Certificate of participation understatement	55,130
Capital leases overstatement	—
Net adjustments and reclassifications	55,130
June 30, 20XX, audited financial statement, general long-term debt total liabilities	$ 2,055,130

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the Form J-200 to the audited financial statements.

XYZ Unified School District
Notes to Supplementary Information
Year Ended June 30, 20XX

NOTE 1 - EARLY RETIREMENT INCENTIVE PROGRAM

The district has adopted an early retirement incentive program, pursuant to *Education Code* Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the district.

Retiree Information

A total of seven employees have retired in exchange for the additional two years of service credit.

			Retired Employee		Replacement Employee (If Applicable)	
Position Vacated	Age	Service Credit	Salary	Benefits	Salary	Benefits
Counselor	56	19	$ 44,000	$ 8,800	$ 35,000	$ 7,000
Teacher	62	39	45,000	9,000	25,000	5,000
Teacher	55	28	40,000	8,000	—	—
Teacher	52	30	40,000	8,000	—	—
Nurse	51	30	40,000	8,000	—	—
Psychologist	61	32	60,000	12,000	—	—
Elementary principal	66	40	70,000	14,000	55,000	11,000
Totals			$ 339,000	$ 67,800	$ 115,000	$ 23,000

Additional Costs

As a result of this early retirement incentive program, the district expects to incur $200,000 in additional costs. The breakdown in additional costs is presented below:

Retirement costs [1]	$150,000
Postretirement health benefit costs	45,000
Administrative costs [2]	5,000
Total additional costs	$200,000

[1] Retirement costs include interest expense, if applicable.

[2] Administrative costs include the following costs associated with this retirement incentive program:

(1) School District's or county office of education's reimbursement of administrative costs incurred by the State Teachers' Retirement Board.

(2) School District's reimbursement of administrative costs incurred by the county office of education.

(3) County office of education's reimbursement of administrative costs incurred by the Superintendent of Public Instruction.

OTHER INDEPENDENT AUDITOR'S REPORTS

SPECIAL NOTE

SAMPLE REPORTS

For Entities With **MAJOR** Federal Programs

The sample reports presented on the following pages are examples of reports on internal control and compliance with laws and regulations. These sample reports are for instances when the entity administers major federal programs.

Description	Page Number
1. Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*	A-66
2. Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	A-68
3. Auditor's Report on State Compliance	A-70

[Letterhead of accounting firm]

Board of Trustees
XYZ Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of XYZ Unified School District as of and for the year ended June 30, 20XX and have issued our report thereon dated September 23, 20XX.[1] We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,*[2] issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether XYZ Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.* [3,4]

---

[1] Describe any departure from the standard report (e.g, a qualified opinion, a modification as to consistency due to change in accounting principle, or a reference to the report of other auditors, etc.).

[2] The standards applicable to financial audits include the general, field work, and reporting standards described in Chapters 3, 4, and 5 of *Governmental Auditing Standards.*

[3] See *Government Auditing Standards,* Chapter 5, paragraphs 5.18 and 5.19, for reporting criteria.

[4] If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards,* this paragraph should be modified to include a statement such as the following:

> However, we noted certain immaterial instances of noncompliance that we have reported to management of XYZ Unified School District in a separate letter dated September 23, 20XX. This reference to management is intended to be consistent with *Government Auditing Standards*, Chapter 5, paragraph 5.20, which indicates that communications to "top" management should be referred to.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered XYZ Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. [5]

This report is intended solely for the information and use of the audit committee, management [specify legislative or regulatory body] and federal awarding agencies and pass-through entities[6] and is not intended to be and should not be used by anyone other than these specified parties.[7]

[Signature]
[Date]

---

[5] If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following:

> However, we noted other matters involving the internal control over financial reporting that we have reported to management of XYZ Unified School District in a separate letter dated September 23, 20XX.
>
> This reference is not intended to preclude the auditor from including other matters in a separate letter to management. Furthermore, the reference to management is intended to be consistent with *Government Auditing Standards*, Chapter 5, paragraph 5.28, which indicates that communications to "top" management should be referred to.

[6] If this report is issued for an audit that is not subject to U.S. Office of Management and Budget Circular A-133, this sentence should be modified as follows:

> This report is intended solely for the information and use of the audit committee, management and *[specify legislative or regulatory body]*, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

[7] This paragraph conforms to SAS No. 87, *Restricting the Use of an Auditors Report* (AICPA*, Professional Standards*, vol. 1, AU sec. 532). See SAS No. 87 for additional guidance on restricted-use reports.

[Letterhead of accounting firm]

Board of Trustees
XYZ Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of XYZ Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 20XX. XYZ Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of XYZ Unified School District's management. Our responsibility is to express an opinion on XYZ Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,[1] issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about XYZ Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on XYZ Unified School District's compliance with those requirements.

In our opinion, XYZ Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 20XX. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20XX-3 and 20XX-6].[2]

---

[1] The standards applicable to financial audits include the general, field work, and reporting standards described in Chapters 3, 4, and 5 of *Government Auditing Standards.*

[2] When there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence should be omitted.

Internal Control Over Compliance

The management of XYZ Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered XYZ Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.[3]

This report is intended solely for the information and use of the audit committee, management [specify legislative or regulatory body], and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. [4]

[Signature]
[Date]

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[3] There may be instances in which it would be appropriate to report on the schedule of expenditures of federal awards in this report (that is, a separate single audit package is issued). In such a circumstance, a new section should be added immediately following this paragraph as follows:

> Schedule of Expenditures of Federal Awards
>
> We have audited the [*general-purpose or basic*] financial statements of Example Entity as of and for the year ended June 30, 20XX, and have issued our report thereon dated September 23, 20XX. Our audit was performed for the purpose of forming an opinion on the [*general-purpose or basic*] financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular 1-133 and is not a required part of the [*general-purpose or basic*] financial statements. Such information has been subjected to the auditing procedures applied in the audit of the [*general-purpose or basic*] financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the [*general-purpose or basic*] financial statements taken as a whole.

Describe any departure from the standard report (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors).

[4] This paragraph conforms to SAS No. 87, *Restricting the Use of an Auditors Report* (AICPA, *Professional Standards*, vol. 1, AU sec. 532). See SAS No. 87 for additional guidance on restricted-use reports.

[Letterhead of accounting firm]

Board of Trustees
XYZ Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the general purpose financial statements of the XYZ Unified School District, as of and for the year ended June 30, 20XX and have issued our report thereon dated September 23, 20XX. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The district's management is responsible for the district's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the district's compliance with the state laws and regulations applicable to the following items:[1]

Description	Procedures In Controller's Audit Guide	Procedures Performed
Attendance accounting:		
Attendance reporting	4	Yes
Kindergarten continuation	3	Yes
Independent study	13	No (see below)
Continuation education	11	Yes
Adult education	8	Yes
Regional occupational center/programs	4	Not applicable
Staff development days	3	Yes

[1] All areas of state laws and regulations that are required to be audited as identified in Section 520 should be listed in this report. It is assumed that required audit areas not listed were not audited, which may result in an unacceptable audit report. Any scope limitations that prevented a full audit should be fully explained.

Description	Procedures In Controller's Audit Guide	Procedures Performed
Incentive for longer instructional day:		
School district	4	Yes
County Offices of Education	4	Not applicable
GANN limit calculation	1	Yes
Early retirement incentive program	5	Yes
Community day schools	8	Yes
Class size reduction program:		
Option one classes	10	Yes
Option two classes	9	Not applicable
Option one and two classes	14	Not applicable
Program to Reduce class size in two courses in grade 9	8	Yes
State Instructional Materials Fund:		
Instructional Materials Funding Realignment Program	9	Yes
Schiff-Bustamante Standards-Based Instructional Materials	9	Yes
Digital High School Education Technology Grant Program	5	Yes
California Public Schools Library Act of 1998	4	Yes
Office of Criminal Justice Planning[2]	—	Not applicable
Ratios of Administrative Employees to Teachers	3	Yes

We did not perform testing for independent study because the independent study ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the XYZ Unified School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the XYZ Unified School District had not complied with the state laws and regulations, except as described in Findings XX-XX of the Findings and Recommendations section of this report.

This report is intended solely for the information and use of the audit committee, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other that these specified parties. [3]

[Signature]
[Date]

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[2] For LEAs that elected to have the audit of grants from the Office of Criminal Justice Planning (OCJP) included in the annual audit, refer to Section 511 of this audit guide. However, no procedures are outlined in this audit guide.

[3] This paragraph conforms to SAS No. 87, *Restricting the Use of an Auditors Report* (AICPA, *Professional Standards*, vol. 1, AU sec.532). See SAS No. 87 for additional guidance on restricted-use reports.

SPECIAL NOTE

SAMPLE REPORTS

For Entities That **DO NOT** Have a Single Audit Performed

The sample reports referenced below are examples of reports on internal control and compliance with laws and regulations. These sample reports are for instances in which the entity is not required to have a single audit performed.

Description	Page Number
1. Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	A-66
2. Auditor's Report on State Compliance	A-70

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FINDINGS AND RECOMMENDATIONS SECTION

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XYZ Unified School District
Schedule of Audit Findings[1] and Questioned Costs
Year Ended June 30, 20XX

Section I— Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*[unqualified, qualified, adverse, disclaimer]*
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes _____ No
Reporting condition(s) identified not considered to be material weaknesses?	_____ Yes _____ None reported
Noncompliance material to financial statements noted?	_____ Yes _____ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____ Yes _____ No
Reporting condition(s) identified not considered to be material weaknesses?	_____ Yes _____ None reported
Type of auditor's report issued on compliance for major programs:	*[unqualified, qualified, adverse, disclaimer]* [2]
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	_____ Yes _____ No

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[1] All audit findings must be identified as one or more of the following six categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous

[2] If the audit report for one or more major programs is other than unqualified, indicate the type of report issued for each program. For example, if the audit report on major program compliance for an LEA with five major programs includes an unqualified opinion for three of the programs, a qualified opinion for one program, and a disclaimer of opinion for one program, the response to this question could be as follows:

Unqualified for all major programs except for [Name of Program], which was qualified and [Name of Program], which was a disclaimer.

Section I — Summary of Auditor's Results (continued)

Identification of major programs [3]

CFDA Number(s) [4]	Name of Federal Program or Cluster [5]
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between Type A and Type B programs: $_____

Auditee qualified as low-risk auditee? _____ Yes _____ None reported

State Awards

Internal control over state programs:

Material weakness(es) identified? _____ Yes _____ No

Reporting condition(s) identified not considered to be material weaknesses? _____ Yes _____ None reported

Type of auditor's report issued on compliance for state programs: *[unqualified, qualified, adverse, disclaimer]*

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[3] Generally, major programs should be identified in the same order as reported on the schedule of expenditures of federal awards.

[4] When the CFDA number is not available, include other identifying number, if applicable.

[5] The name of the federal program or cluster should be the same as that listed in the schedule of expenditures of federal awards. For clusters, auditors are required to list only the name of the cluster and not each individual program within the cluster.

Section II — Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*. Auditors should refer to those paragraphs, as well as the report contents section of Chapter 7 of *Government Auditing Standards* for additional guidance on preparing this section of the schedule.

Identify each finding with a reference number.[6] *If there are no findings, state that no matters were reported. Audit findings that relate to both the financial statements and federal awards should be reported in both Section II and Section III. However, the reporting in one section may be in summary form with a reference to a detailed reporting in the other section of the schedule. For example, a material weakness in internal control that affects an entity as a whole, including its federal awards, would generally be reported in detail in this section. Section III would then include a summary identification of the finding and a reference back to the specific finding in this section. Each finding should be presented in the following level of detail, as applicable:*

Criteria or specific requirement
Condition
Questioned costs
Context [7]
Effect
Cause
Recommendation
LEA's response [8]

---

[6] A suggested format for assigning reference numbers is to use the last two digits of the fiscal year being audited followed by a numeric sequence of findings. For example, findings identified and reported in the audit of fiscal year 20XX would be assigned a reference number of 20XX-1, 20XX-2, etc.

[7] Provide sufficient information for judging the prevalence and consequences of the finding, such as relation to universe of costs and/or number of items examined and quantification of audit findings in dollars.

[8] See paragraphs 5.18 through 5.20 and 7.38 through 7.42 of *Government Auditing Standards* for additional guidance on reporting management's response.

Section III — Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs). Where practical, findings should be organized by federal agency or pass-through entity.

Identify each finding with a reference number.[9] *If there are no findings, state that no matters were reported. Audit findings that relate to both the financial statements and federal awards should be reported in both Section II and Section III. However, the reporting in one section may be in summary form with a reference to a detailed reporting in the other section of the schedule. For example, a finding of noncompliance with a federal program law that is also material to the financial statements would generally be reported in detail in this section. Section II would then include a summary identification of the findings and a reference back to the specific finding in this section. Each finding should be presented in the following level of detail, as applicable:*

Federal program information [10]
Criteria or specific requirement (including statutory, regulatory, or other citation)
Condition [11]
Questioned costs [12]
Context [13]
Effect
Cause
Recommendation
LEA's response [14]

Section IV — State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations. Please follow the same reporting format as established in Sections II and III above.

---

[9] A suggested format for assigning reference numbers is to use the last two digits of the fiscal year being audited followed by a numeric sequence of findings. For example, findings identified and reported in the audit of fiscal year 20XX would be assigned a reference number of 20XX-3, 20XX-4, etc.

[10] Provide federal program (CFDA number and title) and agency, federal award number and year, and name of pass-through entity, if applicable. When this information is not available, the auditor should provide the best information available to describe the federal award.

[11] Include facts that support the deficiency identified in the audit finding.

[12] Identify questioned costs as required by Circular A-133, Section .510(a)(3) and .510(a)(4).

[13] Provide sufficient information for judging the prevalence and consequences of the finding, such as relation to universe of costs and/or number of items examined and quantification of audit findings in dollars.

[14] Provide LEA's response when management does not agree with the finding and/or questioned cost, to the extent practical.

XYZ Unified School District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 20XX

Finding/Recommendation	Current Status	District Explanation If Not Implemented
1. Accounts receivable billing invoices are not prenumbered. The district should use prenumbered invoices and maintain a control log.	Implemented	
2. Bank reconciliations were not performed on a monthly basis. The district should ensure that bank reconciliations are performed monthly.	Implemented	
3. The district did not maintain appropriate records for fixed assets. The district should do the following: • Perform regular physical inventory location counts to verify the existence and location of all the district's fixed assets. • Require inventory tags on all equipment. If the equipment was purchased with restricted funds (i.e., federal funds), the tags should indicate the funding source. • Require all inventory tag documents to be sent to a central location (purchasing department).	Not implemented	The district is currently in the process of developing a plan to implement this recommendation (see current year Finding 3).
Student Body Funds XYZ High School:		
4. A listing of inventory on hand at the close of the fiscal year for the student store was not available. Periodic inventories should be made at the student store and compared to other financial records to identify any shortages.	Implemented	

NOTE: The summary schedule shall include the status of all audit findings from the prior year's schedule of findings and questioned costs. Also, it should include audit findings reported in the prior year's summary schedule of prior audit findings except for corrected findings and/or findings no longer valid or not warranting further action.

Appendix B

Illustrative Audit Report
GASB 34

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ILLUSTRATIVE AUDIT REPORT APPENDIX B

Special Note

The illustrative audit report, including the financial statements, footnotes, supplemental schedules, and auditor comments, are intended only for informational purposes to provide general assistance to the independent auditor. They represent those minimum reporting examples and features which the independent auditor may find helpful in fulfilling the overall reporting requirements of an LEA or a JPE audit engagement. Therefore, the illustrations that follow are not intended to be all-inclusive or representative of the specific reporting requirements for a particular school district audit. Only the independent auditor performing the audit can make those professional judgments and determinations.

The Governmental Accounting Standards Board (GASB) has issued the Codification of Governmental Accounting and Financial Reporting Standards, which establishes generally accepted accounting principles for governmental entities. Auditors should rely upon this body of authoritative pronouncements to provide guidance on reporting requirements.

The illustrative report is prescribed for an LEA that had its single audit conducted in accordance with OMB Circular A-133. Audit reports for entities that did not have an audit performed under OMB Circular A-133 provisions will differ somewhat from this illustration.

This illustrative report is for the ABC Unified School District, which has the following fund structure:

Fund Type Category	Fund Type	Fund Name
Governmental	General	General Fund *
	Special Revenue	Child Development Fund
		Adult Education Fund
		Deferred Maintenance Fund
		Cafeteria Fund
		Special Reserve Fund
	Debt Service	Debt Service Fund
		Bond Interest and Redemption Fund
	Capital Projects	Building Fund *
		State School Building Lease-Purchase Fund
		Capital Facilities Fund
Proprietary	Internal Service	Self-Insurance Fund
Fiduciary	Pension Trust	Retiree Benefits Fund
	Agency	Student Body Funds
		Payroll Clearing Fund

* Major Fund

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ABC UNIFIED SCHOOL DISTRICT
COUNTY OF SACRAMENTO
SACRAMENTO, CALIFORNIA

AUDIT REPORT

JUNE 30, 20XX

Name of Accounting Firm

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INTRODUCTORY SECTION

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The statements presented here are for illustrative purposes only, for implementation of Government Accounting Standards Board (GASB) statement 34-38. Due to individual district differences, the actual statement presentation may need to be changed and should be adjusted accordingly to reflect the district's financial information. Additional guidance on presentation may be obtained from authoritative publications.

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[Letterhead of Accounting Firm]

Board of Trustees
ABC Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

INDEPENDENT AUDITOR'S REPORT [1]

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the ABC Unified School District, as of and for the year ended June 30, 20XX, which collectively comprise the district's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the ABC Unified School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for its opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the ABC Unified School District as of June 30, 20XX, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

1 Note: Additional guidance regarding the Independent Auditor's Report may be provided by the AICPA in its publication "Audits of State and Local Governments," issued on September 1, 2002.

The Management's Discussion and Analysis on pages 13 through 26 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated *[date of report]*, on our consideration of the ABC Unified School District's internal control over financial reporting and our tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of this audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise ABC Unified School District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of ABC Unified School District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of ABC Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

[Signature]

[Date]

ABC UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited) [1]
For the Year Ended June 30, 20XX

An overview of the ABC Unified School District's financial activities for the fiscal year ended June 30, 20XX, is provided in this discussion and analysis of the district's financial performance.

This Management Discussion and Analysis (MD & A) should be read in conjunction with the district's financial statements (including notes and supplementary information).

USING THIS ANNUAL REPORT

This section should be a brief discussion of the basic financial statements, which include both district-wide financial statements and fund statements. Include a brief discussion of how the two sets of statements relate to each other and differ in information they provide. If enterprise funds are also reported by the district, they should be reported in separate columns/rows as business-type activities, with two exceptions: one based on the nature of activity [2] and one based on materiality.[3] Districts that report discretely presented components should follow the requirements of GASB 14 (as revised by GASB 34. [4]

This section should also refer readers to separately issued financial statements, if any, for component units.

[1] Districts want to avoid "boilerplate" answers. The term "boilerplate" describes information that is the same language regardless of author (i.e., footnotes to the financial statements that describe types of funds used for financial reporting purposes). GASB 37 amended paragraph 11 of Statement 34 (MD & A Requirements) to read "MD & A requirements established by this Statement are discussed in general rather than specific terms to encourage financial managers to effectively report only the most relevant information and to avoid 'boilerplate' discussion."

[2] Definitions for governmental and business-type activities are not precise and exact. Both definitions include the word "generally." The district may choose to "switch" an enterprise fund (reported as an enterprise fund as the district may want to measure the extent to which the activity is recovering its costs) to the governmental activities column for purposes of the government-wide financial statements. This change is a choice, not a *requirement.* Internal service funds should normally be reported as governmental activities (GASB 34, paragraph 62); however, the services provided are at times more governmental in nature (used to finance goods and services for other funds of the district (usually governmental funds)). The exception is when internal service funds provide goods and services *only* to or *predominantly* to enterprise funds.

[3] Immaterial business-type activities are not required to be reported separately. The district may report these within the governmental activities column in the statement of net assets. These activities may be combined within an administrative or similar function or may be reported as a separate row in the statement of activities.

[4] GASB 14, as revised, states, "transactions between the primary government and discretely presented component units (and between other discretely presented component units) should not be eliminated. Instead, these transactions should be treated as if the primary government and the component units are unrelated third parties." No eliminations should be made for transactions with discretely presented component units in the primary government columns, the discretely presented component unit column(s), or (if presented), the total government column.

FINANCIAL HIGHLIGHTS

- The district's financial status improved substantially for the second year in a row. Over the course of the year, there was a 21.7% increase in total net assets.
- Expenses were $37,398,620 less than revenues. Revenues overall were $304,498,606.
- Outlays for new capital assets were substantial, as the district has purchased portable buildings and is in the process of constructing two new schools.
- The district issued $95 million in new general obligation bonds this year.
- Enrollment in the district increased by 4.9%. This has caused an increase in state funding.

OVERVIEW OF THE FINANCIAL STATEMENTS

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, Management Discussion and Analysis. The three sections together provide a comprehensive overview of the district. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the district's overall financial position.
- Individual parts of the district, which are reported as fund financial statements, focus on reporting the district's operations in more detail. These fund financial statements comprise the remaining statements.
    - Basic services funding (i.e., regular and special education) is described in the governmental funds statements. These statements include short-term financing and balance remaining for future spending.
    - Short and long-term financial information about the activities of the district that operate like businesses (such as food service or self-insurance funds) are provided in the proprietary funds statements.
    - Financial relationships, for which the district acts solely as an agent or trustee, for the benefit of others to whom the resources belong, are presented in the fiduciary fund statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements. A comparison of the district's budget for the year is included.

The Statement of Net Assets and the Statement of Activities

This section should contain a discussion about the Statement of Net Assets and the Statement of Activities and how the reports present information relative to the district as a whole, and the district's activities. This includes all assets and liabilities using the accrual basis of accounting (similar to private-sector accounting used by most companies). Regardless of when cash is received or paid out, all of the current year's revenues and expenses are taken into account. Non-financial factors, as well as the effect on the district, may need to be considered and discussed in this section.

The district as a whole is reported in the district-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the district's assets and liabilities are included in the statement of net assets. The statement of activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The district's financial health or position (net assets) can be measured by the difference between the district's assets and liabilities.

- Increases or decreases in the net assets of the district over time are indicators of whether its financial position is improving or deteriorating, respectively.

- Additional non-financial factors such as condition of school buildings and other facilities, and changes in the property tax base of the district, need to be considered in assessing the overall health of the district.

In the Statement of Net Assets and the Statement of Activities, we divide the district into two kinds of activities:

- Governmental activities: (*List type of services and how they are financed.*)

  The basic services provided by the district, such as regular and special education, administration, and transportation are included here. Property taxes and state formula aid finance most of these activities.

- Business-type activities: (*List business activities and how costs are covered.*)

  The district charges fees to help cover the costs of certain services it provides. Food services that are beyond the scope of normal district operations are included in this type of activity.

FUND FINANCIAL STATEMENTS

This section should include a discussion of the district's major funds, and should provide detailed information about the most significant funds only, not the district as a whole. If governmental and proprietary funds use different accounting approaches, it should be so noted.

More detailed information about the district's most significant funds—not the district as a whole—is provided in the fund financial statements. Funds are accounting devices the district uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by bond covenants and by state law.

- Other funds are established by the district to control and manage money for particular purposes (such as repaying its long-term debts). Other funds may also show proper usage of certain revenues (such as federal grants).

The district has three kinds of funds:

- **Governmental funds**: *Discuss the following: what the district is reporting as governmental funds; how cash, and other assets readily converted to cash, flow in and out; accounting method and how cash and other financial assets are measured; time measurement focus of the fund statements; changes in financial resources for financing programs; relationship of governmental activities (as reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.*

  Most of the district's basic services are included in governmental funds, which generally focus on:

  1. How cash and other financial assets can readily be converted to cash flow (in and out).

  2. The balances left at year-end that are available for spending.

  A detailed short-term view is provided by the governmental fund statements. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the district's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided at the bottom of the governmental fund statements that explains the differences (or relationships) between them.

- **Proprietary funds**: *Discuss who is charged for full cost of services provided and reported under proprietary funds. Include any differences in reporting of proprietary funds to the Statement of Net Assets and the Statement of Activities. Provide more detail and additional information for enterprise funds (may be same as business-type activities) that are reported in the district-wide statements.*

  The proprietary fund category includes Enterprise and Internal Service Funds.

  One type of proprietary fund, an enterprise fund, is the same as the business-type activities, but provides more detail and additional information, such as cash flows. Internal Service funds (the other type of proprietary fund) reports activities that provide supplies and services for the other programs and activities of the district. Proprietary funds are reported in the same way as the district-wide statements.

  - The district's enterprise fund currently consists of Food Services. The Food Service fund reports activities that provide cafeteria and catering services for the staff and special activities outside of the normal operation of the district.
  - Currently, the district has one internal service fund—the employee insurance fund.

- **Fiduciary funds**: *This section should discuss whether the district is a trustee or fiduciary for any funds. Fiduciary activities should be reported in a separate Statement of Fiduciary Net Assets. It should be noted that the activities are excluded from the district's financial statements, as the district cannot use the assets to finance its operations. This discussion should include a statement that the district is responsible for ensuring that the assets are used only for their intended purposes.*

For assets that belong to others, such as the scholarship fund and/or student activities funds, the district acts as the trustee, or fiduciary. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. A separate statement of fiduciary net assets and a statement of changes in fiduciary net assets reports the district's fiduciary activities. These activities are excluded from the district-wide financial statements, as the assets cannot be used by the district to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE[1]

This section should discuss changes in combined net assets, including an analysis of financial position and results of operations that will assist the reader in determining whether there has been an improvement or deterioration in this year's financial position. Governmental and business-type activities should be shown separately, each with their own explanation. An analysis of the net assets (Table 1) and changes in net assets (Table 2) should appear in this section.

This section should focus on significant changes from the prior year. GASB suggests that the Management's Discussion and Analysis should prepare more narrative analysis rather than just present percentage change calculations. In addition, important changes in economic factors that affect the current fiscal year should also be discussed.

[1] GASB has recognized that prior-year information, in the year that districts first apply the standard, will not generally be available and districts are permitted to omit district-wide comparisons. GASB 34, paragraph 145, encourages governments to present comparative data that is based on key information presented in the fund financial statements for total governmental funds and total enterprise funds. A comment should be included in the first MD & A that a comparative analysis of government-wide data will be presented in future years. The MD & A *may NOT be omitted* in the first year that GASB 34 is first applied.

Net Assets

Table 1: Net Assets

	Governmental Activities		Business-type Activities		District Total		Total Percentage Change
	20XX	20XX	20XX	20XX	20XX	20XX	20XX - 20XX
Current and other assets							
Cash	$ 32,217,854	$ 36,686,332	$ -	$ -	$ 32,217,854	$ 36,686,332	13.9%
Receivables	19,031,978	23,740,095	-	-	19,031,978	23,740,095	24.7%
Other receivables	-	-	-	-	-	-	0.0%
Due from other funds	-	-	-	-	-	-	0.0%
Investments	86,852,631	152,021,082	-	-	86,852,631	152,021,082	75.0%
Prepaid expenses	206,669	432,350	-	-	206,669	432,350	109.2%
Inventories	1,107,954	1,087,835	-	-	1,107,954	1,087,835	-1.8%
Subtotal of other assets	139,417,086	213,967,694	-	-	139,417,086	213,967,694	53.5%
Capital assets	99,254,595	155,821,850	-	-	99,254,595	155,821,850	57.0%
Total assets	238,671,681	369,789,544	-	-	238,671,681	369,789,544	54.9%
Long-term debt outstanding	1,243,195	111,364,504	-	-	1,243,195	111,364,504	8857.9%
Other liabilities	64,875,510	48,473,444	-	-	64,875,510	48,473,444	-25.3%
Total liabilities	66,118,705	159,837,948	-	-	66,118,705	159,837,948	141.7%
Net assets:						-	0.0%
Invested in capital assets, net of related debt	89,314,595	155,019,200	-	-	89,314,595	155,019,200	73.6%
Restricted	32,195,036	34,485,528	-	-	32,195,036	34,485,528	7.1%
Unrestricted (deficit)	51,043,345	20,446,868	-	-	51,043,345	20,446,868	-59.9%
Total net assets	$172,552,976	$209,951,596	$ -	$ -	$172,552,976	$209,951,596	21.7%

A summary of the analysis of the facts from the above table should be presented here.

The district's combined net assets increased more than $37,398,620 or 21.7%, and were significantly larger on June 30, 20XX, than they were the year before. Most of the improvement in the district's financial position came from governmental activities, the net assets of which grew from $172,552,976 to $209,951,596.

Many factors contributed to the improved financial position. However, certain events of the last year stand out beyond others:

- The district issued $95,000,000 in new bonds this year.

- Purchase of portable buildings and construction began for two new school sites, increasing capital outlay by $51,100,066.

For the year of implementation, a statement that a "comparative analysis of government-wide data will be presented in future years" should be included in this section.

Changes in Net Assets

Other fiscally related items that are not presented elsewhere in the financial statements (i.e., financial ratios) can be inserted in this area as well. The general purpose of this information should be to enhance the understanding of the reader.

The district's total revenues (excluding the special items) increased 3.2% to $304,498,606 from the prior year (see Table 2). This increase is mainly the result of an increase in state and federal categorical aid. The district applied for and received a new federal Technology Grant for $4,000,000 and a new Instructional State Grant for $1,500,000 in the current year.

The total cost of all programs and services rose 5.7% to $267,099,986. The district's expenses are predominantly related to educating and caring for students (82.7%) (see Table 4). The purely administrative activities of the district accounted for just 15% of the total costs. The most significant contributor to the higher costs came in two areas. The first area is instruction, which was the result of higher certificated teacher salaries due to a new contract with the teachers' union. The new contract raised the teachers' salaries by 4% in the current year. The second area that contributed to the higher costs is maintenance and operations expenses, which increased $5,671,656 or 26.4%, due primarily to salary increases for custodial and security personnel and higher fuel costs due to the state's fuel crisis.

Table 2: Changes in Net Assets

	Governmental Activities		Business-type Activities		District Total		Total Percentage Change
	20XX	20XX	20XX	20XX	20XX	20XX	20XX - 20XX
Revenues							
Program revenues							
Charges for services	$ 2,847,000	$ 3,049,237	$ -	$ -	$ 2,847,000	$ 3,049,237	7.1%
Federal & state categorical grants	95,067,774	101,867,521	-	-	95,067,774	101,867,521	7.2%
General revenues							
Federal & state formula aid	181,361,022	183,587,684	-	-	181,361,022	183,587,684	1.2%
Other	15,871,342	15,994,164	-	-	15,871,342	15,994,164	0.8%
Total revenues	295,147,138	304,498,606	-	-	295,147,138	304,498,606	3.2%
Expenses							
Instruction-related	188,322,170	196,556,266	-	-	188,322,170	196,556,266	4.4%
Student support services	26,955,071	24,267,847	-	-	26,955,071	24,267,847	-10.0%
Maintenance & operations	21,483,165	27,154,821	-	-	21,483,165	27,154,821	26.4%
Administration	10,018,333	12,926,940	-	-	10,018,333	12,926,940	29.0%
Other	5,889,374	6,194,112	-	-	5,889,374	6,194,112	5.2%
Total expenses	252,668,113	267,099,986	-	-	252,668,113	267,099,986	5.7%
Excess (deficiency) before special items	42,479,025	37,398,620	-	-	42,479,025	37,398,620	-12.0%
Special item	-	-	-	-	-	-	0.0%
Increase (decrease) in net assets	$42,479,025	$37,398,620	$ -	$ -	$42,479,025	$37,398,620	-12.0%

Governmental Activities

(Effective presentation of the analytical results may require use of charts, tables, graphs, narrative, or a combination of any of the above methods.)

Revenues for the district's governmental activities (excluding any special items) increased 3.2%, while total expenses increased 5.7%. Total net assets increased $37,398,620 or 21.7%. This is the first year that net assets increased substantially, which was primarily due to the increase in capital asset spending from the new bond issue.

The recent changes of the district's finances can be credited both to a strong economy and innovative management changes:

- The district has received new bond issue funds that are being used to create new schools and renovate existing ones. These funds were needed to support recent and expected future increases in student enrollment.
- Along with increases in enrollment, the state's education budget was increased to provide additional funding. This funding was made primarily in categorical grants for technology.
- The district's total costs for governmental activities increased by 5.7% and the district's enrollment increased by 4.9%. The district was able to keep expenses consistent with an increase in enrollment despite a 4% salary increase that was negotiated with the teachers' union. The district was able to keep costs low because of newly implemented cost saving programs. The district has recently reduced the number of teachers and maximized class sizes but has increased the number of teacher aides in order to free up teacher's time and increase the effectiveness of the classroom. The district has also contracted out some of the clerical activities that were once done by the central office. The district has also aggressively made improvements in the way that purchases and contracts are initiated so that the best prices for goods and services are obtained.

Table 3: Summary of Revenues for Govermental Functions

	FYE 20XX Amount	Percent of Total	Increase (decrease) from FYE 20XX	Percent Increase (decrease)
Revenues				
Program revenues				
Charges for services	$ 3,049,237	1.0%	$ 202,237	7.1%
Federal & state categorical grants	101,867,521	33.5%	6,799,747	7.2%
General revenues				
Federal & state formula aid	183,587,684	60.3%	2,226,662	1.2%
Other	15,994,164	5.3%	122,822	0.8%
Total revenues	$ 304,498,606	100.0%	$ 9,351,468	3.2%

Table 4: Summary of Expenses

	FYE 20XX Amount	Percent of Total	Increase (decrease) from FYE 20XX	Percent Increase (decrease)
Expenses				
Instruction-related	$ 196,556,266	73.6%	$ 8,234,096	4.4%
Student support services	24,267,847	9.1%	(2,687,224)	-10.0%
Maintenance & operations	27,154,821	10.2%	5,671,656	26.4%
Administration	12,926,940	4.8%	2,908,607	29.0%
Other	6,194,112	2.3%	304,738	5.2%
Total expenses	$ 267,099,986	100.0%	$ 14,431,873	5.7%

Table 5: Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	20XX	20XX	20XX - 20XX	20XX	20XX	20XX - 20XX
Instruction	$156,774,522	$161,443,536	3.0%	$(111,719,428)	$(116,210,711)	4.0%
Instruction-related services	33,199,968	35,112,730	5.8%	(24,973,864)	(21,526,806)	-13.8%
Pupil services	26,955,071	24,267,847	-10.0%	(9,674,338)	(10,135,589)	4.8%
General adminstration	10,018,333	12,926,940	29.0%	(13,700,496)	(10,900,860)	-20.4%
Maintenance & operations	21,509,424	27,154,821	26.2%	(23,888,842)	(26,433,211)	10.7%
Facility acquisition & construction	37,419	34,581	-7.6%	25,955,806	26,192,735	0.9%
Ancillary services	2,117,539	1,948,258	-8.0%	(911,773)	(963,158)	5.6%
Community services	20,007	24,816	24.0%	(19,753)	(23,811)	20.5%
Interest on long-term debt	1,889,621	4,061,273	114.9%	1,889,621	(4,061,273)	-314.9%
Other outgo	146,209	125,184	-14.4%	2,005,731	1,879,456	-6.3%
Total	$252,668,113	$267,099,986	5.7%	$(155,037,336)	$(162,183,228)	4.6%

Business-type Activities

(Effective presentation of the analytical results may require use of charts, tables, graphs, narrative, or a combination of any of the above methods.)

The district's business-type activities consisted of food service. The revenues increased by $_____, a ___% increase over the prior year. The increase in revenues was due to an increase in food sales. Expenditures increased only $_____ over the prior-year expenditures. This reflects only a ___% increase in expenses. The food service costs were the same as food sales; therefore, there was no net effect.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Governmental Functions

This section should contain an analysis of balances and transactions of individual funds, including the reasons for significant changes in fund balance or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use. The analysis may be supplemented with various charts, graphs, and tables that may help the reader to identify the significant changes and the reasons for those changes. The focus of the analysis should be on the district's major funds; however, significant differences of non-major funds should not be ignored.

The district's governmental funds reported a combined fund balance of $167,697,816, which is above last year's total of $92,172,035. Below is an analysis of the district's fund balances and the total change in fund balances from the prior year.

Table 6: District's Fund Balances

	Fund Balance June 30, 20XX	Fund Balance June 30, 20XX	Increase (Decrease)
General	$ 21,953,384	$ 27,199,077	$ 5,245,693
Building	53,594,390	121,831,109	68,236,719
Cafeteria	3,331,865	3,603,471	271,606
Child Development	215,093	462,465	247,372
Adult Education	1,920,297	2,329,266	408,969
Deferred Maintenance	1,191,921	6,373,484	5,181,563
Special Reserve	295,363	304,729	9,366
Debt Service	2,331,842	2,424,337	92,495
Bond Interest & Redemption	1,721,567	1,724,237	2,670
State School Bldg. Lease-Purchase	2,209,245	353,180	(1,856,065)
Capital Facilities	3,407,068	1,092,461	(2,314,607)
Total	$ 92,172,035	$167,697,816	$75,525,781

The change in fund balance in the general fund is primarily due to an increase in state revenue limit funding.

The change in the fund balance for the building fund is primarily due to funds left over from the issuance of $95 million in general obligation bonds. The district issued $95 million in general obligation bonds; however, the district has spent only about 10% of the funds received. The additional funds remain in the building fund investment account and are reserved for future funding of the Measure X building projects.

Three of the district's funds had more expenditures than revenues during the fiscal year (the State School Building Fund, the Capital Facilities Fund, and the Internal Service Fund). The State School Building Fund and the Capital Facilities Fund had more because of the delay of construction. Revenues for construction were received in the prior year; however, the building projects were not started until the current year. The excess of expenditures over revenues in the internal service fund represents over-billings to the other district funds.

The increase in fund balance of the Deferred Maintenance fund represents a transfer in from the general fund for deferred maintenance projects that will be started in the next fiscal year.

General Fund Budgetary Highlights

This section should include a discussion and analysis of the general fund's original and final budget amounts, and the final budget amounts and the actual budget amounts. The focus of the discussion should be on the reasons for the variances rather than just stating the amount of the variances. This analysis should include any currently known reasons for variations that are expected to have a significant effect on future services or liquidity.

The district's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting.

The district amended its revenue estimates to reflect greater than originally anticipated revenues from state revenue limit sources and revenues from two new federally funded programs that were not expected to be approved for funding.

The actual expenses for certificated salaries were $9.2 million in excess of the final budget amount. This increase was due to an unexpected salary increase of 4% that was retroactive to February 20XX. The salary increase was brought about through the normal process of negotiations with the union.

Business-type Funds

This section should contain a description of the district's Business-type Funds. The focus on Business-type Funds is a cost of service measurement or capital maintenance.

A description or short narrative of pertinent factors affecting the Business-type Funds should be noted. This might include policies passed by the board or other governing body that affect the district. In addition, a short discussion on sufficient revenue generation and sufficient cash flow generation would be appropriate in this section.

Any litigation that affects the Business-type Funds could be mentioned in this section as well.

The district's Business-type Funds consist of the food service fund, which records the food service activities.

Revenues of the district's business-type activities increased __% to $_____ and expenses rose __% to $_____. (Refer to Changes in Net Assets) Factors contributing to these results included:

- At the beginning of the school year, food services raised prices 5%.
- The district received a state grant to help replace and modernize its old and obsolete kitchen equipment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

This section should summarize capital asset investments and include a general statement of what assets are held (i.e., property, buildings, equipment, etc.) and the increase/decrease over the prior period. A discussion of capital asset activity may also be included including but not limited to construction delays, expected work-in-process, contract negotiations, capitalized improvements, new building projects, etc.

For districts using the modified approach for reporting, infrastructure assets, the following disclosures that are included in the RSI should also be discussed: (1) significant changes in the assessed condition of eligible infrastructure assets; (2) how the current assessed condition compares with the condition level the district has established; and (3) any significant differences from the estimated annual amounts spent during the current period.

The district's investment in capital assets amounts to $155,821,850 (net of accumulated depreciation). This investment includes mainly land, school buildings, athletic facilities, administrative offices, furniture, and computer equipment.

The district's total net assets increased $56,567,255 or 57% over the prior year. This increase is due mainly to the additional construction of two new school buildings. The district has made a much-needed expansion of the district's facilities. The district's enrollment has increased steadily over the last two years. Currently the district has a problem with overcrowded schools in its elementary, middle, and high schools. To relieve overcrowding, the district has purchased portable buildings at existing school sites and is in the process of completing construction of two new school sites. The two new sites are expected to be completed next year.

The district's total equipment increased 88.1% in the current year. This increase is a result of an increase in spending for technology equipment due to a new technology grant and the purchase of furniture and equipment for the additional portable buildings.

	Governmental Activities		Business-type Activities		District Total		Total Percentage Change
	20XX	20XX	20XX	20XX	20XX	20XX	20XX-20XX
Land	$ 50,450,910	$ 50,450,910	$ —	$ —	$ 50,450,910	$ 50,450,910	0.0%
Buildings & improvements	45,446,094	77,981,117	—	—	45,446,094	77,981,117	71.6%
Equipment	1,266,027	2,380,943	—	—	1,266,027	2,380,943	88.1%
Work in progress	2,091,564	25,008,880	—	—	2,091,564	25,008,880	1095.7%
Total	$ 99,254,595	$ 155,821,850	$ —	$ —	$ 99,254,595	$155,821,850	57.0%

Long-Term Debt

This section should contain a discussion of the district's debt (outstanding notes, capital leases, etc.) and the reasons for the changes in debt activity from the prior year (new, retired, defeased, or forgiving debt). The discussion should also include commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

The district has increased its long-term debt substantially over the prior year with the issuance of $95 million in general obligation bonds. The new bonds are to be financed from local property taxes. The district has continued to pay down its existing debt. Due to the improvement of the district's financial position in recent years, the district's credit rating has increased to AA+ .

Table 8: Outstanding Long-Term Debt

	District Total		Total Percentage Change
	20XX	20XX	20XX - 20XX
General obligation bonds (financed with property taxes)	$ 9,940,000	$ 104,570,000	952.0%
School Loan	5,497,567	4,649,372	-15.4%
Certificates of participation	1,630,000	1,235,000	-24.2%
Other	2,759,731	2,895,332	4.9%
Total	$ 19,827,298	$ 113,349,704	471.7%

FACTORS BEARING ON THE DISTRICT'S FUTURE

This section should focus on currently known facts, decisions, or conditions that are expected to have a significant effect on the district's future financial position or results of operations. Management must focus on items that have occurred and thus are known. Currently known facts include information known by management as of the date of the auditor's report. Some of this information may be derived from the notes to the financial statements on contingencies, commitments, and subsequent events. This discussion should not, however, duplicate the information presented in the notes.

Districts may want to include in this section or an additional section a discussion of other economic factors or a discussion of next year's budget and rates.

The district has negotiated a new teachers contract with the teachers union. This contract will increase salaries by 4% in the next fiscal year and additional 3% in the following fiscal year. The new contract will increase the district's costs by an estimated $4 million in the upcoming fiscal year and another $3 million in the fiscal year thereafter.

The State of California is currently in a budget crisis and has stated the aid to California schools will decrease about 8% in the next fiscal year. The impact of this reduction will be a reduction in state funding of $14 million. To help reduce the effect of this financial blow, the district's board has already approved a decision to eliminate the class-size reduction program, which reduced class sizes in grades K-3 to a 20:1 class size. By increasing class size, the district will lay off an additional 135 teachers for an estimated cost savings of $5.4 million.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This section should contain a statement that the financial report is designed to provide a general overview of the district's finances and to show the district's accountability for funds received. It should include an address (i.e., district office) as a contact for additional information or questions about the report.

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact Mr. Thomas Sharp, Assistant Superintendent, ABC Unified School District, 1983 Golden Bear Ave., Sacramento, CA 95814.

ABC Unified School District
Statement of Net Assets
June 30, 20XX

	Governmental Activities	Business-type Activities	Total
Assets			
Cash in county treasury (Note 2)	$ 34,493,467	-	$ 34,493,467
Cash on hand and in banks (Note 2)	196,124	-	196,124
Cash collections awaiting deposit (Note 2)	42,109	-	42,109
Cash in revolving fund (Note 2)	100,000	-	100,000
Cash with fiscal agent (Note 2)	56,809	-	56,809
Cash in escrow (Note 2)	1,797,823	-	1,797,823
Investments (Note 2)	152,021,082	-	152,021,082
Accounts receivable (Note 5)	23,740,095	-	23,740,095
Due from other funds (Note 6)	-	-	-
Stores inventories-supplies (Note 1I2)	841,958	-	841,958
Stores inventories-food (Note 1I2)	245,877	-	245,877
Prepaid expenses (Note 1I2)	432,350	-	432,350
Land (Note 7)	50,450,910	-	50,450,910
Buildings (Note 7)	156,696,074	-	156,696,074
Improvements (Note 7)	20,483,066	-	20,483,066
Equipment (Note 7)	5,523,106	-	5,523,106
Work in progress (Note 7)	25,008,880	-	25,008,880
Less accumulated depreciation (Note 7)	(102,340,186)	-	(102,340,186)
Total Assets	$ 369,789,544	-	$ 369,789,544
Liabilities			
Accounts payable	$ 17,555,827	-	$ 17,555,827
Retainage payable	1,797,823	-	1,797,823
Due to other funds (Note 6)	-	-	-
Liability for open claims (Note 8)	1,669,765	-	1,669,765
Deferred revenue (Note 1I4)	6,964,829	-	6,964,829
Tax revenue anticipation notes (Note 9)	18,500,000	-	18,500,000
Long-term liabilities:			
Due within one year:			
School loan (Note 11)	755,900	-	755,900
General obligation bonds payable (Note 10)	395,000	-	395,000
Certificates of participations payable (Note 12)	400,000	-	400,000
Compensated absences payable (Note 1I5)	434,300	-	434,300
Total due within one year	1,985,200	-	1,985,200
Due after one year			
School loan	3,893,472	-	3,893,472
General obligation bonds payable	104,175,000	-	104,175,000
Certificates of participations payable	835,000	-	835,000
Compensated absences payable	2,461,032	-	2,461,032
Total due after one year	111,364,504	-	111,364,504
Total liabilities	$ 159,837,948	-	$ 159,837,948
Net Assets			
Invested in capital assets, net of related debt	$ 155,019,200	-	$ 155,019,200
Restricted for:			
Capital projects	23,042,626	-	23,042,626
Debt service	2,866,604	-	2,866,604
Educational programs	8,576,298	-	8,576,298
Other purposes (expendable)	-	-	-
Other purposes (nonexpendable)	-	-	-
Unrestricted	20,446,868	-	20,446,868
Total net assets	$ 209,951,596	-	$ 209,951,596

The notes to the financial statements are an integral part of this statement.

ABC Unified School District
Statement of Activities [1]
Year Ended June 30, 20XX

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction	$ 161,443,536	$ 1,048,254	$ 44,184,571	$ -
Instruction-related services:				
Supervision of instruction	15,448,432	105,847	11,482,746	-
Instructional library, media and technology	3,383,005	1,400,006	25,864,316	-
School site administration	16,315,874	5,148	955,177	-
Pupil services:				
Home-to-school transportation	4,915,874	-	4,018,871	-
Food services	9,154,825	451,876	5,548,743	-
All other pupel services	10,197,148	12,481	4,100,287	-
General administration:				
Data processing	2,678,148	-	422,187	-
All other general administration	10,248,792	15,144	1,588,749	-
Plant services	27,154,821	-	721,610	-
Ancillary services	1,948,258	-	985,100	-
Community services	24,816	-	1,005	-
Enterprise activities	-	-	-	-
Interest on long-term debt	4,061,273	-	-	-
Other outgo	125,184	10,481	1,994,159	-
Depreciation (unallocated) *	-	-	-	-
Total governmental activities	$ 267,099,986	$ 3,049,237	$ 101,867,521	$ -
Business-type activities				
Food services	-	-	-	-
Enterprise activities	-	-	-	-
General administration	-	-	-	-
Plant services	-	-	-	-
Other outgo	-	-	-	-
Total business-type activities	-	-	-	-

The notes to the financial statements are an integral part of this statement.

* This amount excludes depreciation that is included in the direct expenses of the various programs.

[1] Governments are encouraged to provide data in the statement of activities at a more detailed level if the additional detail provides more useful information without significantly reducing readers' ability to understand the statement. No specific level of detail is appropriate for all governments; some have hundreds of programs and others have only a few. Therefore, reporting in greater detail than the minimum requirements in GASB 34 may be practical for some governments but not for others.

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-type Activities	Total
Governmental Activities			
Instruction	$(116,210,711)	$ -	$ (116,210,711)
Instruction-related services:			
Supervision of instruction	(3,859,839)	-	(3,859,839)
Instructional library, media and technology	23,881,317	-	23,881,317
School site administration	(15,355,549)	-	(15,355,549)
Pupil services:			
Home-to-school transportation	(897,003)	-	(897,003)
Food services	(3,154,206)	-	(3,154,206)
All other pupel services	(6,084,380)	-	(6,084,380)
General administration:			
Data processing	(2,255,961)	-	(2,255,961)
All other general administration	(8,644,899)	-	(8,644,899)
Plant services	(26,433,211)	-	(26,433,211)
Ancillary services	(963,158)	-	(963,158)
Community services	(23,811)	-	(23,811)
Enterprise activities	-	-	-
Interest on long-term debt	(4,061,273)	-	(4,061,273)
Other outgo	1,879,456	-	1,879,456
Depreciation (unallocated) *	-	-	-
Total governmental activities	$(162,183,228)	$ -	$ (162,183,228)
Business-type activities			
Food services	-	-	-
Enterprise activities	-	-	-
General administration	-	-	-
Plant services	-	-	-
Other outgo	-	-	-
Total business-type activities	-	-	-
General revenues:			
Taxes and subventions:			
Taxes levied for general purposes	$ 82,767,260	$ -	$ 82,767,260
Taxes levied for debt service	4,058,871	-	4,058,871
Taxes levied for other specific purposes	5,714,431	-	5,714,431
Federal and state aid not restricted to specific purposes	91,047,122	-	91,047,122
Interest and investment earnings	3,184,790	-	3,184,790
Interagency revenues	236,187	-	236,187
Miscellaneous	12,573,187	-	12,573,187
Special and extraordinary items	-	-	-
Internal transfers	-	-	-
Total general revenues	$ 199,581,848	$ -	199,581,848
Change in net assets			37,398,620
Net assets beginning			172,552,976
Net assets ending			$ 209,951,596

ABC Unified School District
Balance Sheet
Governmental Funds
June 30, 20XX

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets				
Cash in county treasury (Note 2)	$ 20,877,458	$ 1,894,651	$ 11,132,445	$ 33,904,554
Cash on hand and in banks (Note 2)	20,448	-	175,676	196,124
Cash collections awaiting deposit (Note2)	-	-	42,109	42,109
Cash in revolving fund (Note 2)	100,000	-	-	100,000
Cash with fiscal agent (Note 2)	-	56,809	-	56,809
Cash in escrow (Note 2)	-	564,036	1,233,787	1,797,823
Investments (Note 2)	21,558,411	125,014,452	3,540,274	150,113,137
Accounts receivable (Note 5)	17,264,092	344,152	6,120,359	23,728,603
Due from other funds (Note 6)		-	105,198	105,198
Stores inventories - supplies (Note 1I2)	841,958	-	-	841,958
Stores inventories - food (Note 1I2)	-	-	245,877	245,877
Total assets	$ 60,662,367	$127,874,100	$ 22,595,725	$ 211,132,192
Liabilities and fund balances				
Liabilities:				
Accounts payable	$ 8,669,544	$ 5,478,955	$ 1,918,027	$ 16,066,526
Retainage payable	-	564,036	1,233,787	1,797,823
Due to other funds (Note 6)	105,198	-	-	105,198
Deferred revenue (Note 1I4)	6,188,548	-	776,281	6,964,829
Tax revenue anticipation note (Note 9)	18,500,000	-	-	18,500,000
Total liabilities	33,463,290	6,042,991	3,928,095	43,434,376
Fund balances:				
Reserved for:				
Revolving fund	100,000	-	-	100,000
Stores inventories	841,958	-	245,877	1,087,835
Legally restricted balances	3,158,274	-	-	3,158,274
Debt service	-	-	4,148,574	4,148,574
Unreserved:				
Designated for:				
Economic uncertainties	5,000,000	-	-	5,000,000
Other program carryovers	3,000,000	-	-	3,000,000
Undesignated, reported in:				
General fund	15,098,845	-	-	15,098,845
Capital projects funds	-	121,831,109	1,445,641	123,276,750
Special revenue funds	-	-	12,827,538	12,827,538
Total fund balances	27,199,077	121,831,109	18,667,630	167,697,816
Total liabilities and fund balances	$ 60,662,367	$127,874,100	$ 22,595,725	$ 211,132,192

The notes to the financial statements are an integral part of this statement.

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* "Other Governmental Funds" is comprised of *non-major* funds for this school district. The focus of governmental and proprietary fund financial statements is on *major funds*. The government's main operating fund (the general fund or its equivalent) should always be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 10% of the corresponding element total (assets, liabilities, and so forth) for all funds of that category or type (i.e., total governmental or total enterprise funds), *and*
b. The same element that met the 10% criterion in (a) is at least 5% of the corresponding element total for all governmental and enterprise funds combined.

In addition to the funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be presented as a major fund.

ABC Unified School District
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 20XX

Total fund balances - governmental funds		$ 167,697,816
Amounts reported for governmental activities are not short-term financial resources and therefore are not reported as assets in governmental funds. The historical acquisition cost of the assets is $258,162,036 and the accumulated depreciation is $102,340,186.		155,821,850
Bond issue costs are reported as expenditures in the governmental funds. The cost is $530,891 and the accumulated depreciation is $98,541.		432,350
Internal service funds are used by management to charge the costs of insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		631,254
To recognize accrued interest at year end.		(1,281,970)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
School loan	$ 4,649,372	
General obligation bonds payable	104,570,000	
Certificates of paricipation	1,235,000	
Compensated absences (vacation)	2,895,332	(113,349,704)
Total net assets - governmental activities		$ 209,951,596

The notes to the financial statements are an integral part of this statement.

ABC Unified School District
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 20XX

	General	Building	Other Governmental Funds	Total Governmetal Funds
Revenues:				
Revenue limit sources:				
State apportionments	$ 100,481,025	$ -	$ 2,834,975	$ 103,316,000
Local sources	84,155,841	-	1,035,794	85,191,635
Federal	20,006,485	256,887	6,849,355	27,112,727
Other state	59,487,774	-	6,512,581	66,000,355
State on-behalf payments	3,148,593	-	-	3,148,593
Other local	10,454,804	2,184,685	7,089,807	19,729,296
Total revenues	277,734,522	2,441,572	24,322,512	304,498,606
Expenditures:				
Instruction	161,443,536	-	8,851,068	170,294,604
Supervision of instruction	15,448,432	-	1,515,924	16,964,356
Instructional library, media, and technology	3,383,005	28,217,602	6,187,580	37,788,187
School administration	16,315,874	-	1,875,427	18,191,301
Home to school transportation	4,915,874	-	545,731	5,461,605
Food services	-	-	-	-
All other pupil services	19,351,973	-	980,936	20,332,909
Data processing services	2,678,148	-	449,683	3,127,831
All other general administration	15,246,960	987,251	1,706,746	17,940,957
Plant services	27,154,821	-	375,498	27,530,319
Ancillary services	1,948,258	-	-	1,948,258
Debt service:				
Principal	-	-	1,613,195	1,613,195
Interest	-	-	2,779,303	2,779,303
Total expenditures	267,886,881	29,204,853	26,881,091	323,972,825
Excess (deficiency) of revenues over (under) expenditures	9,847,641	(26,763,281)	(2,558,579)	(19,474,219)
Other financing sources (uses):				
Operating transfers in (Note 5)	-	-	8,413,953	8,413,953
All other financing sources	-	-	8,714,280	8,714,280
Proceeds from sale of bonds	-	95,000,000	-	95,000,000
Operating transfers out (Note 5)	(4,601,948)	-	(3,812,005)	(8,413,953)
Total other financing sources (uses)	(4,601,948)	95,000,000	13,316,228	103,714,280
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	5,245,693	68,236,719	16,787,662	90,270,074
Fund balances, July 1, 20XX	21,953,384	53,594,390	1,879,968	77,427,742
Fund balances, June 30, 20XX	$ 27,199,077	$ 121,831,109	$ 18,667,630	$ 167,697,816

The notes to the financial statements are an integral part of this statement.

ABC Unified School District
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 20XX

Total net change in fund balances - governmental funds		$ 75,525,781
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay $65,100,066 exceeds deprection expense ($8,532,811) in the period.		56,567,255
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas, these amounts are deferred and amoutized in the statement of activities. Interest is recognized as an expenditure in the governemental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Measure X, Series B proceeds	$ (95,000,000)	
Bond issuance costs	214,850	
Repayment of bond principal	370,000	
Amortization of bond issuance costs	(10,831)	(94,425,981)
The governmental funds report debt proceeds as an other financing source, while repaymant of debt principal is reported as an expenditure.		
Payment of school loan	$ 848,195	
Payment of certificates of participation	395,000	1,243,195
In the statement of activities, compensated absences are measured by the amounts earned during the year. In governemental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used by $135,601.		(135,601)
Internal serice funds are used by the District to charge the costs of insurance to the individual funds. The net loss of the internal serivce funds is reported with governmental activities.		(94,059)
Interest on long-term debt in the statment of activities differs from the amount reported in the govenmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities,however, interest expense is recognized as the interest accrues, regardless of when it is due.		(1,281,970)
Total change in net assets - governmental activities		$ 37,398,620

The notes to the financial statements are an integral part of this statement.

ABC Unified School District
Statement of Fund Net Assets
Proprietary Funds
June 30, 20XX

	Business-Type Activities: Enterprise Fund [1]	Governmental Activities: Internal Service Fund
	Food Service Fund	Self-Insurance Fund
Assets		
Undivided interest in cash in county treasury (Note 2)	$ —	$ 588,913
Investments (Note 2)	—	1,907,945
Accounts receivable (Note 5)	—	11,492
Total assets	—	2,508,350
Liabilities		
Accounts payable	—	207,331
Liability for open claims (Note 8)	—	1,669,765
Total liabilities	—	1,877,096
Net Assets		
Unrestricted	—	631,254
Total net assets	$ —	$ 631,254

The notes to the financial statements are an integral part of this statement.

[1] The Business-Type Activities-Enterprise Fund is presented for illustrative purposes only. If the district does not have Business-Type Activities, this statement should be adjusted accordingly. This illustrative report assumes the district accounts for their cafeteria fund as a Special Revenue Fund-Type Activity.

ABC Unified School District
Statement of Revenues, Expenses, and Changes
in Fund Net Assets – Proprietary Funds
Year Ended June 30, 20XX

	Business-Type Activities: Enterprise Fund [1]	Governmental Activities: Internal Service Fund
	Food Service Fund	Self-Insurance Fund
Operating revenues:		
Food service sales	$ —	$ —
Other operating revenues	—	—
Self-insurance premiums	—	929,868
Total operating revenues:	—	929,868
Operating expenses:		
Classified salaries	—	—
Employee benefits	—	—
Food and supplies	—	—
Contracted services	—	1,061,574
Total operating expenses	—	1,061,574
Operating income (loss)	—	(131,706)
Non-operating revenue:		
Interest income	—	37,647
Change in net assets:		(94,059)
Total net assets, July 1, 20XX	—	725,313
Total net assets, June 30, 20XX	$ —	$ 631,254

The notes to the financial statements are an integral part of this statement.

[1] The Business-Type Activities-Enterprise Fund is presented for illustrative purposes only. If the district does not have Business-Type Activities, this statement should be adjusted accordingly. This illustrative report assumes the district accounts for their cafeteria fund as a Special Revenue Fund-Type Activity.

ABC Unified School District
Statement of Cash Flows –Proprietary Funds
Year Ended June 30, 20XX

	Business-Type Activities: Enterprise Fund [1]	Governmental Activities: Internal Service Fund
	Food Service Fund	Self-Insurance Fund
Cash flow from operating activities:		
Cash received from premiums	$ —	$ 929,868
Cash received from other local services	—	
Cash paid for contracted services	—	(864,224)
Net cash provided (used) by operating activities	—	65,644
Cash flow from investing activities:		
Interest income received	—	45,999
Purchase of investments	—	(42,500)
Net cash provided (used) by investing activities	—	3,499
Cash flow from capital and related financing activities		
Payments on capital leases	—	—
Equipment purchases	—	—
Net cash provided (used) by financing activities	—	—
Net increase (decrease) in cash	—	69,143
Cash at July 1, 20XX	—	519,770
Cash at June 30, 20XX	$ —	$ 588,913
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (loss)	$ —	$ (131,706)
Adjustments to reconcile operating income (loss) to net cash used by operating activities		
Add: Increase in accounts payable	—	197,350
Net cash provided (used) by operating activities	$ —	$ 65,644

The notes to the financial statements are an integral part of this statement.

[1] The Business-Type Activities-Enterprise Fund is presented for illustrative purposes only. If the district does not have Business-Type Activities, this statement should be adjusted accordingly. This illustrative report assumes the district accounts for their cafeteria fund as a Special Revenue Fund-Type Activity.

ABC Unified School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 20XX

		Agency Funds		
	Pension Trust Fund	Payroll Clearing Fund	Student Body Funds	Total
Assets:				
Cash in county treasury (Note 2)	$ 6,475,532	$ —	$ —	$ 6,475,532
Cash on hand and in banks (Note 2)	—	—	1,561,769	1,561,769
Accounts receivable (Note 5)	—	149,523	—	149,523
Total assets	6,475,532	149,523	1,561,769	8,186,824
Liabilities:				
Accounts payable	18,835	—	—	18,835
Due to regulatory agencies	—	149,523	—	149,523
Due to student groups	—	—	1,561,769	1,561,769
Total liabilities	18,835	149,523	1,561,769	1,730,127
Net Assets:				
Reserved	6,456,697	—	—	6,456,697
Total net assets	$ 6,456,697	$ —	$ —	$ 6,456,697

The notes to the financial statements are an integral part of this statement.

ABC Unified School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 20XX

	Pension Trust Fund
Additions	
Other local	$ 7,416,952
Deductions	
Services & other operating expenditures	7,416,183
Change in net assets	769
Net assets – July 1, 20XX	6,455,928
Net assets – June 30, 20XX	$ 6,456,697

The notes to the financial statements are an integral part of this statement.

ABC Unified School District
Notes to the Basic Financial Statements
Year Ended June 30, 20XX

NOTE 1— SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The ABC Unified School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the district conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The district is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees.

On October 7, 19XX, certain members of the district's board of education and district employees formed a nonprofit benefit corporation, known as the ABC Unified School District Financing Corporation, which is organized under Nonprofit Benefit Corporation Law of the State of California. The purpose of the Financing Corporation is to finance the acquisition and construction of cafeteria facility improvements together with necessary equipment to be located at the Washington and Madison Elementary school sites. The corporation issued Certificates of Participation (COPs), a form of long-term debt, which the district used to finance construction of a central kitchen.

The district and the corporation have a financial and operational relationship that meets the reporting entity definition of GASB Statement 14, *The Financial Reporting Entity*, for inclusion of the corporation as a component unit of the district. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 20XX, the financial activities of the corporation have been blended into the financial statements of the district. The corporation's financial activities are presented in the Cafeteria Fund. COPs issued by the corporation are included as long-term liabilities in the governmental-wide financial statements.

C. Implementation of New Accounting Pronouncements

For the year ended June 30, 20XX, the district was required to adopt GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37 (GASB 37), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*, and GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the district's financial activities is also required by GASB 34. Furthermore, the district's notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a conversion of fund balance to net assets for an increase of $92,965,450, for net asset balance of $172,552,976 at June 30, 20XX on the government-wide financial statements.

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the district and its component units. Internal service fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The district does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the district, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the district.

Fund Financial Statements:

Fund financial statements report detailed information about the district. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The Internal Service Fund is presented on the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds presents increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the district finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Fiduciary funds are reported using the economic resources measurement focus.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the district, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the district receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the district must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the district on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Fund Accounting

The accounts of the district are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The district's accounts are organized into major, non-major, proprietary, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Building Fund* is used to account for proceeds from the sale of real property and account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The district maintains five non-major special revenue funds:

- The Cafeteria Fund is used to account for revenues received and expenditures made to operate the district's cafeterias. In addition, this fund is used to account for the interest and redemption of principal of the Certificates of Participation (COPs).

- The Child Development Fund is used to account for resources committed to child development programs maintained by the district.

- The Adult Education Fund is used to account for resources committed to adult education programs maintained by the district.

- The Deferred Maintenance Fund is used for the purpose of major repair or replacement of district property.

- The Special Reserve Fund was established to account for resources reserved for economic uncertainties.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. The district maintains two non-major debt service funds:

- The Debt Service Fund is used to account for the payment of the school loan.

- The Bond Interest and Redemption Fund is maintained by the County Treasurer and is used to account for both the accumulation of resources from ad valorem tax levies and the interest and redemption of principal of the funding Measure X, Series A and B, bonds issued by the district.

Capital Projects Funds are used to account for the acquisition and construction of all major governmental general fixed assets. The district maintains two non-major capital projects funds:

- The State School Building Lease-Purchase Fund is used primarily to account for state apportionments provided for construction and reconstruction of school facilities (*Education Code* Sections 17070-17080).

- The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the district. The district maintains one internal service fund:

- The Self-Insurance Fund is used to account for resources committed to pay for costs arising from property losses and liability claims that are not covered, or are only partially covered, through purchased insurance.

Fiduciary Funds:

*Pension Trust Fund*s are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Agency Funds are used to account for assets of others for which the district acts as an agent. The district maintains an agency fund for the payroll clearing fund and the student body accounts. The "Due to Other Regulatory Agencies" account within the payroll clearing fund is used to hold dedicated funds for payroll and related expenses. The district maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the district.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the district's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The district's governing board satisfied these requirements.

These budgets are revised by the district's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The district employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

I. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to $100,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

2. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and are charged as expenditures when used. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The district's central warehouse inventory is valued at a moving average cost for presentation. The cafeteria inventory valuation is First-in-First-out (FIFO).

The district has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The district has chosen to report the expenditure when incurred. On the government-wide statements, the district reports unamortized debt issuance cost as prepaid expenses.

3. Capital Assets

Capital assets are those purchased or acquired with an original cost of $_____(use district's established capitalization threshold) or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & tools	Shop & maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science & engineering	Lab equipment, scientific apparatus	10
Furniture & accessories	Classroom & other furniture	20
Business machines	Fax, duplicating & printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PCs, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	Projectors, cameras (still & digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

4. Deferred Revenue

   Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

5. Compensated Absences

   All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

   Accumulated sick leave benefits are not recognized as liabilities of the district. The district's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-Term Obligations

   In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

   In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

   Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflects the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

   Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Revenue Limit/Property Tax

   The district's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll—approximately October 1 of each year.

The County Auditor reports the amount of the district's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the district.

The California Department of Education reduces the district's entitlement by the district's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The district's base revenue limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the district is entitled to by law. This amount is multiplied by the second period ADA to derive the district's total entitlement.

J. Self-Insurance Internal Service Fund

The district is self-insured for property damage up to $50,000 per claim, and for general liability and automobile liability up to $1,500,000 per claim. The General Fund is charged premiums by the Self-Insurance Fund, which is accounted for as an internal service fund. The district also participates in two joint power authorities, which provide excess liability and workers' compensation coverage to the district. On the government-wide financial statements, the internal service fund activity is eliminated to avoid doubling of revenues and expenditures.

NOTE 2— CASH AND INVESTMENTS

Cash on Hand, in Banks and in Revolving Fund

Cash balances on hand, in banks, and revolving funds are insured up to $100,000 by the Federal Deposit Insurance Corporation (FDIC). These accounts are held within various financial institutions. As of June 30, 20XX, the carrying amount of the district's accounts was $1,857,893.

Cash in County Treasury

In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash with the County Treasury as part of the common investment pool, which totaled $40,968,999 as of June 30, 20XX. The fair market value of this pool as of that date, as provided by the pool sponsor, was $40,994,799. The district is considered to be an involuntary participant in the external investment pool. Interest is deposited into participating funds, except for the payroll clearing fund, which is credited to the General Fund. The county is restricted by *Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

A summary of deposits as of June 30, 20XX, is as follows:

	Bank Balance	Carrying Amount
Deposits:		
Cash in county treasury	$ 40,994,799	$ 40,968,999
Cash on hand and in bank	1,929,352	1,857,893
Cash collections awaiting deposit	-	42,109
Cash in escrow	1,797,823	1,797,823
Cash with fiscal agent	56,809	56,809
	$ 44,778,783	$ 44,723,633

Investments

The district directs the County Treasurer to invest excess funds in the Local Agency Investment Fund (LAIF). The fund is an investment pool managed by the California State Treasurer. The fair value of the LAIF account was obtained from the State Treasurer. The LAIF account is not subject to categorization.

Category 1: Insured or registered, or securities held by the district or its agent in the district's name.
Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the district's name.
Category 3: Uninsured and unregistered, with securities held by the counterparty, its trust department or its agent, but not held in the district's name.

Investments as of June 30, 20XX, are presented below:

	Category					
	1	2	3	Uncategorized	Carrying Amount	Fair Value
Local Agency Investment Fund	-	-	-	$ 94,753,212	$ 94,753,212	$ 94,753,212
Certificates of Deposit	$ 100,000	$ 20,597,863	-	-	20,697,863	20,697,863
Investments in Mutual Funds	-	36,570,007	-	-	36,570,007	36,570,007
Total	$ 100,000	$ 57,167,870	$ -	$ 94,753,212	$ 152,021,082	$ 152,021,082

NOTE 3 — FUND DEFICITS

This note should state all material instances where there is a deficit of fund balance/equity/net assets in an individual fund that is not otherwise visible on the face of the basic financial statements.

NOTE 4 — EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 20XX, expenditures exceeded appropriations in individual funds as follows:

Appropriations Category	Excess Expenditures
Major Funds	
General Fund:	
Certificated salaries	$ 9,210,051
Building Fund:	
Books and supplies	24,197
Nonmajor Funds	
Adult Education Fund:	
Direct support/indirect costs	13,946
Cafeteria Fund:	
Debt service - interest	4,830
Child Development Fund:	
Direct support/indirect costs	9,631
Service and other operating expenditures	6,288
Deferred Maintenance Fund:	
Service and other operating expenditures	94,241
Capital Facilities Fund:	
Service and other operating expenditures	200,266

NOTE 5 — ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable as of June 30, 20XX, consist of the following:

	General Fund	Building Fund	All Other Governmental Funds	Self-Insurance Fund	Payroll Clearing Fund	Totals
Federal Government:						
Categorical aid programs	$ 5,841,198	-	$ 229,751	-	-	$ 6,070,949
State Government:						
Categorical aid programs	6,615,799	-	1,706,224	-	-	8,322,023
Staff development	491,245	-	-	-	-	491,245
Lottery	2,275,622	-	1,277	-	-	2,276,899
Total state government	9,382,666	-	1,707,501	-	-	11,090,167
Local Government:						
Categorical aid programs	212,383	-	211,182	-	-	423,565
Interest	245,866	$344,152	35,008	-	-	625,026
Other	1,581,979	-	3,936,917	$ 11,492	$149,523	5,679,911
Total local	2,040,228	344,152	4,183,107	11,492	149,523	6,728,502
Total accounts receivable	$17,264,092	$344,152	$ 6,120,359	$ 11,492	$149,523	$23,889,618

NOTE 6— INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 20XX, interfund receivables and payables were as follows:

Funds	Interfund Receivables	Interfund Payables
General fund	$ -	$ 105,198
Nonmajor governmental funds	105,198	-
Total	$ 105,198	$ 105,198

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 20XX-XX were as follows:

Funds	Transfers In	Transfers Out
General fund	—	$ 4,601,948
All other funds:		
Deferred maintenance fund	$ 2,501,948	—
Capital facilities fund	—	3,812,005
State school building lease/purchase fund	3,812,005	—
Debt service fund	2,100,000[1]	—
Total	$ 8,413,953	$ 8,413,953

Transfer of $2,501,948 from the General Fund to the Deferred Maintenance Fund to support state match requirements.

Transfer of $3,812,005 from the Capital Facilities Fund to the State School Building Fund to support state match requirements.

[1] The transfer of $2,100,000 from the General Fund to the Debt Service Fund was made to satisfy the annual debt service requirements. This description is not included above because the transfer occurs on a routine basis and is consistent with the activities of the general fund.

NOTE 7— CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 20XX, is shown below:

	Balance July 1, 20XX	Additions	Deductions	Balance June 30,20XX
Capital assets, not being depreciated:				
Land	$ 50,450,910	$ -	$ -	$ 50,450,910
Work in progress	2,091,564	22,917,316	-	25,008,880
Total capital assets, not being depreciated	52,542,474	22,917,316	-	75,459,790
Capital assets being depreciated:				
Buildings	126,497,829	30,198,245	-	156,696,074
Improvements of sites	9,864,275	10,618,791	-	20,483,066
Equipment	4,157,392	1,365,714	-	5,523,106
Total capital assets, being depreciated	140,519,496	42,182,750	-	182,702,246
Less accumulated depreciation for:				
Buildings	84,670,614	7,080,563	-	91,751,177
Improvements of sites	6,245,396	1,201,450	-	7,446,846
Equipment	2,891,365	250,798	-	3,142,163
Total accumulated depreciation	93,807,375	8,532,811	-	102,340,186
Total capital assets, being depreciated, net	46,712,121	33,649,939	-	80,362,060
Governmental activities capital assets, net	$ 99,254,595	$56,567,255	$ -	$ 155,821,850

Depreciation Expense was charged to governmental activities as follows:

Governmental Activities:	
Instruction	$ 7,834,144
Supervision of instruction	21,067
Instructional library, media and technology	65,532
School site administration	105,733
Home-to-school transportation	219,856
Food services	1,081
All other general administration	72,975
Data processing services	14,975
Plant services	197,448
Total Depreciation Expense	$ 8,532,811

NOTE 8— LIABILITY FOR OPEN CLAIMS

The accrued liability for open claims in the amount of $1,669,765 represents an estimate of the eventual loss on claims arising prior to year-end, including losses incurred but not reported.

NOTE 9— TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 26, 20XX, the district issued $18,500,000 in Tax and Revenue Anticipation Notes (TRANS) maturing on July 15, 20XX, with an interest rate of 3.5%. The TRANS are a general obligation of the district, and are payable from revenues and cash receipts to be generated by the district. There are no contractual obligations related to the issuance other than the TRANS agreement. The funds were used to supplement cash flow. Interest expense of $620,521 was accrued as of June 30, 20XX, on this note.

Year	Interest Rate	Outstanding June 30, 20XX	Additions	Deletions	Outstanding June 20, 20XX
20XX	4.75%	$ 20,000,000	$ —	$ (20,000,000)	$ —
20XX	3.5%	—	18,500,000	—	18,500,000
Totals		$ 20,000,000	$ 18,500,000	$ (20,000,000)	$ 18,500,000

NOTE 10— GENERAL OBLIGATION BONDS [1]

In 19XX, the district received authorization through Measure X to issue $300,000,000 of bonds at an election held on March 5, 20XX. The bonds are general obligations of the district, and the county is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. Bond proceeds will be used to build additional classrooms, repair and renovate bathrooms, and repair leaking roofs.

On June 1, 19XX, the district issued $10,000,000 of Measure X, Series A bonds. The interest rate ranges from 4.35% to 7.25%. The final maturity date is August 1, 20XX.

On February 1, 20XX, the district issued $95,000,000 of Measure X, Series B bonds. The interest rate ranges from 4.0% to 6.0%. The final maturity date is August 1, 20XX.

The outstanding General Obligation Bond debt of the district as of June 30, 20XX, is as follows:

Bond	Interest Rate	Date of Issue	Maturity Date	Amount of Original Issue	Outstanding July 1,20XX	Redeemed During Year	Bonds Outstanding June 30,20XX
Measure X - Series A	4.35 to 7.25%	August 1, 19XX	August 1, 20XX	$10,000,000	$9,940,000	$370,000	$9,570,000
Measure X - Series B	4.0 to 6.0%	February 1, 20XX	August 1, 20XX	95,000,000	—	—	95,000,000
		Totals		$105,000,000	$9,940,000	$370,000	$104,570,000

[1] The district should disclose the following details of debt service requirements to maturity: Principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter. The district should disclose the future minimum payments for each of the five subsequent fiscal years and in five-year increments thereafter for their obligations under capital and non-cancelable operating leases.

The annual requirements to amortize the 20XX Refunding Measure X, Series A, General Obligation Bonds Payable, outstanding as of June 30, 20XX, are as follows:

Year Ended June 30	Principal	Interest	Total
20XX	$ 395,000	$ 1,487,000	$ 1,882,000
20XX	395,000	1,036,410	1,431,410
20XX	400,000	524,731	924,731
20XX	400,000	485,120	885,120
20XX	400,000	425,971	825,971
20XX-20XX	1,600,000	2,270,941	3,870,941
20XX-20XX	1,600,000	1,761,485	3,361,485
20XX-20XX	2,300,000	999,612	3,299,612
20XX-20XX	2,080,000	125,187	2,205,187
Totals	$ 9,570,000	$ 9,116,457	$ 18,686,457

The annual requirements to amortize Measure X, Series B, General Obligation Bonds Payable, outstanding as of June 30, 20XX, are as follows:

Year Ended June 30	Principal	Interest	Total
20XX	—	$ 4,575,000	$ 4,575,000
20XX	—	4,605,000	4,605,000
20XX	$ 1,540,000	4,620,000	6,160,000
20XX	1,710,000	5,130,000	6,840,000
20XX	1,785,000	5,355,000	7,140,000
20XX-20XX	12,335,000	37,005,000	49,340,000
20XX-20XX	13,705,000	41,115,000	54,820,000
20XX-20XX	16,810,000	50,430,000	67,240,000
20XX-20XX	21,040,000	63,120,000	84,160,000
20XX-20XX	26,075,000	78,225,000	104,300,000
Totals	$ 95,000,000	$294,180,000	$ 389,180,000

The annual requirements to amortize Measure X, Series A and B combined, General Obligation Bonds Payable, outstanding as of June 30, 20XX, are as follows

Year Ended June 30	Principal	Interest	Total
20XX	$ 395,000	$ 6,062,000	$ 6,457,000
20XX	395,000	5,641,410	6,036,410
20XX	1,940,000	5,144,731	7,084,731
20XX	2,110,000	5,615,120	7,725,120
20XX	2,185,000	5,780,971	7,965,971
20XX-20XX	13,935,000	39,275,941	53,210,941
20XX-20XX	15,305,000	42,876,485	58,181,485
20XX-20XX	19,110,000	51,429,612	70,539,612
20XX-20XX	23,120,000	63,245,187	86,365,187
20XX-20XX	26,075,000	78,225,000	104,300,000
Totals	$ 104,570,000	$303,296,457	$ 407,866,457

NOTE 11— SCHOOL LOAN

In September 19XX, the district obtained a school loan in the amount of $12,525,000. The loan is to be repaid in a 10-year period with a variable annual interest rate of 4% to 6%.

The principal and interest payments of the loan are as follows:

Year Ended June 30	Principal	Interest	Total
20XX	$ 755,900	$ 1,095,009	$ 1,850,909
20XX	813,286	851,264	1,664,550
20XX	904,562	750,028	1,654,590
20XX	1,010,426	556,161	1,566,587
20XX	1,165,198	204,513	1,369,711
Totals	$ 4,649,372	$ 3,456,975	$ 8,106,347

NOTE 12— CERTIFICATES OF PARTICIPATION

On April 1, 19XX, the ABC Unified School District Financing Corporation issued Certificates of Participation (COPs). The proceeds were used to finance the construction of a central kitchen. Semi-annual payments are made at varying interest rates from 5% to 6.525%.

The trustee, as assignee of the corporation, will receive the following payments for the benefit of the certificate owners:

Year Ended June 30	Principal	Interest	Total
20XX	$ 400,000	$ 29,975	$ 429,975
20XX	410,000	21,091	431,091
20XX	425,000	9,505	434,505
Totals	$1,235,000	$ 60,571	$1,295,571

NOTE 13— LONG-TERM DEBT—SCHEDULE OF CHANGES [1]

A schedule of changes in long-term debt for the year ended June 30, 20XX, is shown below:

	Balance July 1, 20XX	Additions	Deductions	Balance June 30, 20XX	Due within One Year
School loan	$5,497,567	—	$ 848,195	$4,649,372	$755,900
General obligation bonds	9,940,000	$ 95,000,000	370,000	104,570,000	395,000
Certificates of participation	1,630,000	—	395,000	1,235,000	400,000
Compensated absence	2,759,731	135,601	—	2,895,332	434,300
Totals	$19,827,298	$ 95,135,601	$ 1,613,195	$113,349,704	$1,985,200

Payments on the school loan are paid by the Debt Service Fund. Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. Payments for the Certificates of Participation are made by the Cafeteria Fund. The accrued vacation will be paid by the fund for which the employee worked.

[1] The additions and deletions to debt presented in this schedule should contain only changes to debt principal. Interest incurred or paid on outstanding debt should not be presented.

NOTE 14 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The district participates in one joint venture under a joint powers agreement (JPA) with the County School District Insurance Group. The relationship between the district and the JPA is such that the JPA is not a component unit of the district for financial reporting purposes.

The County School District Insurance Group (CSDIG) arranges for and provides property and liability insurance for its three members: the ABC Unified Charter School, the ABC Unified School District, and the County Office of Education. The CSDIG is governed by a board consisting of a representative from each member district. The board controls the operations of the CSDIG, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the CSDIG.

NOTE 15— CHARTER SCHOOLS

The district has granted and approved a charter school pursuant to *Education Code* Section 47605. The Heights Charter Middle School was granted and approved on May 3, 19XX, for a term of five years commencing July 1, 19XX.

The charter school is required in its individual charter agreement to have an annual financial audit performed. As of March 24, 20XX, the district has not received a copy of the audit report. Additionally, the charter school is to provide the district with an annual performance report. However, the district has not received a copy of this required report.

For disclosure purposes, the financial activities of the charter schools are presented in the district's General Fund. However; if the district maintains a charter school fund, the funds should be accounted for in a Charter School Fund.

NOTE 16— COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The district has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the district may incur a liability to grantor agencies.

Litigation

Various claims and litigation involving the district are currently outstanding. However, management of the district believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the district's financial position or results of operations.

NOTE 17— EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified employees are members of the California Public Employees' Retirement System (CalPERS) and certificated employees are members of the State Teachers' Retirement System (STRS).

PERS

Plan Description

The district contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over $133.33 if the member participates in Social Security), and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. There was no required employer contribution rate for fiscal year 20XX-XX. The contribution requirements of the plan members are established by state statute. For the fiscal years ending June 30, 20XX, 20XX, and 20XX, the district did not contribute to CalPERS.

STRS

Plan Description

The district contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 20XX-XX was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The district's contributions to STRS for the fiscal years ending June 30, 20XX, 20XX, and 20XX, were $9,241,657, $8,947,301, and $8,276,418, respectively, and equal 100% of the required contributions for each year.

NOTE 18 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The district provides postretirement health care benefits to all employees who retire from the district on or after attaining age 60 with at least 15 years of service. On June 30, 20XX, 34 retirees met these eligibility requirements.

The district reimburses 50% of the amount of validated claims for medical, dental, and hospitalization costs incurred by pre-Medicare retirees and their dependents. The district also reimburses a fixed amount of $_____ per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the district. During the year ended June 30, 20XX, expenditures of $_____ were recognized for postretirement health care. Approximately $_____ of the $_____ increase in expenditures over the previous year was caused by the addition of dental benefits, effective July 1, 20XX. [1]

NOTE 19— SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On September 15, 20XX, the district issued $22,000,000 in Tax and Revenue Anticipation Notes (TRANS) maturing on September 14, 20XX, with an interest rate of 3.0%. The TRANS are a general obligation of the district, and are payable from revenues and cash receipts to be generated by the district. There are no contractual obligations related to the issuance other than the TRANS agreement. The funds were used to supplement the district's cash flow.

NOTE 20— ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The district was the recipient of on-behalf payments made by the State of California to STRS and to CalPERS for K-12 education. These payments consist of state general fund contributions of $3,129,490 to STRS (4.5475% of salaries subject to STRS) and $19,103 to CalPERS (0.092% of salaries subject to CalPERS).

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[1] In a situation where the district's contributions are advance-funded on a nonacturarial basis, disclosure should also include the net assets available for future benefits.

In a situation where the district's contributions are advance-funded on an actuarially determined basis, disclosure should also include:

- The actuarial cost method and significant actuarial assumptions (including the interest rate and, if applicable, the projected salary increase assumption and the health inflation assumption) used to determine funding requirements, and the method used to value plan assets; and
- The employer's actuarially required and actual contributions for the period (net of participant contributions), the amount of net assets available for OPEB, and the actuarial accrued liability and unfunded actuarial accrued liability for OPEB according to the actuarial cost method in use.

REQUIRED SUPPLEMENTARY INFORMATION

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ABC Unified School District
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (GAAP)
General Fund
Year Ended June 30, 20XX

	Budgeted Amounts			
	Original	Final	Actual (GAAP Basis)	Variance with Final Budget Positive – (Negative)
Revenues:				
Revenue limit sources	$ 152,746,315	$ 184,581,284	$ 184,636,866	$ 55,582
Federal revenues	18,892,675	19,922,485	20,006,485	84,000
Other state revenues	61,865,423	62,218,925	62,636,367	417,442
Other local revenues	9,623,591	10,121,315	10,454,804	333,489
Total revenues	243,128,004	276,844,009	277,734,522	890,513
Expenditures:				
Certificated salaries	91,265,018	91,275,491	100,485,542	(9,210,051)
Classified salaries	51,190,326	51,720,361	51,224,852	495,509
Employee benefits	39,726,955	39,332,716	39,155,483	177,233
State on-behalf payments	—	—	3,148,593	(3,148,593)
Books and supplies	19,557,562	20,764,896	20,158,443	606,453
Services and other operating expenditures	32,572,648	32,285,146	31,984,328	300,818
Capital outlay	22,100,756	22,089,645	21,987,421	102,224
Other outgo	209,000	230,639	212,781	17,858
Direct support/indirect costs	511,000	(500,619)	(470,562)	(30,057)
Debt service – principal	—	—	—	—
Total expenditures	257,133,265	257,198,275	267,886,881	(10,688,606)
Excess (deficiency) of revenues over (under) expenditures	(14,005,261)	19,645,734	9,847,641	(9,798,093)
Other financing sources (uses):				
All other financing sources	—	—	—	—
Transfers out	(2,163,098)	(2,910,785)	(4,601,948)	(1,691,163)
Uses	—	—	—	—
Total other financing sources (uses)	(2,163,098)	(2,910,785)	(4,601,948)	(1,691,163)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(16,168,359)	16,734,949	5,245,693	(11,489,256)
Fund balances, July 1, 20XX	21,953,384	21,953,384	21,953,384	—
Fund balances, June 30, 20XX	$ 5,785,025	$ 38,688,333	$ 27,199,077	$ (11,489,256)

Note: The variance column is optional.

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SUPPLEMENTARY INFORMATION SECTION

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COMBINING STATEMENTS – NONMAJOR FUNDS

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ABC Unified School District
Combining Balance Sheet [1]
Nonmajor Special Revenue Funds
June 30, 20XX

	Cafeteria Fund	Child Development Fund	Adult Education Fund	Deferred Maintenance Fund	Special Reserve Fund	Totals
Assets						
Cash in county treasury	$ 1,933,353	$ 800,217	$ 584,660	$ 2,859,632	$ 2,277	$ 6,180,139
Cash on hand and in banks	158,233	-	17,443	-	-	175,676
Investments	421	2,866	2,118,532	683	300,431	2,422,933
Accounts receivable	1,754,239	1,999	493,375	3,552,241	2,021	5,803,875
Stores inventories - food	245,877	-	-	-	-	245,877
Total assets	$ 4,092,123	$ 805,082	$ 3,214,010	$ 6,412,556	$ 304,729	$ 14,828,500
Liabilities and fund balances						
Liabilities:						
Accounts payable	488,652	72,835	378,245	39,072	-	978,804
Deferred revenue	-	269,782	506,499	-	-	776,281
Total Liabilities	488,652	342,617	884,744	39,072	-	1,755,085
Fund balances:						
Reserved for stores inventories	245,877	-	-	-	-	245,877
Undesignated fund balance	3,357,594	462,465	2,329,266	6,373,484	304,729	12,827,538
Total fund balances	3,603,471	462,465	2,329,266	6,373,484	304,729	13,073,415
Total liabilities and fund balances	$ 4,092,123	$ 805,082	$ 3,214,010	$ 6,412,556	$ 304,729	$ 14,828,500

[1] Combining statements for nonmajor funds are not required, but may be presented as supplementary information.

ABC Unified School District
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances [1]
Nonmajor Special Revenue Funds (By Object)
Year Ended June 30, 20XX

	Cafeteria Fund	Child Development Fund	Adult Education Fund	Deferred Maintenance Fund	Special Reserve Fund	Totals
Revenues:						
Revenue limit sources:						
State apportionments	$ —	$ —	$ 2,834,975	$ —	$ —	$ 2,834,975
Local sources	1,035,794	—	—	—	—	1,035,794
Federal	6,019,922	479,826	349,607	—	—	6,849,355
Other state	333,310	1,773,115	531,186	3,776,812	—	6,414,423
Other local	2,520,281	22,798	499,937	69	9,366	3,052,451
Total revenues	9,909,307	2,275,739	4,215,705	3,776,881	9,366	20,186,998
Expenditures:						
Certificated salaries	—	877,795	2,150,773	—	—	3,028,568
Classified salaries	3,576,892	591,034	544,559	3,247	—	4,715,732
Employee benefits	886,384	330,054	391,376	287	—	1,608,101
Books & Supplies	4,226,907	41,866	232,207	30,999	—	4,531,979
Services and other operating expenditures	225,864	81,346	306,619	489,241	—	1,103,070
Capital outlay	79,444	—	29,700	573,492	—	682,636
Direct support/indirect costs	212,788	106,272	151,502	—	—	470,562
Debt Service:						
Principal	395,000	—	—	—	—	395,000
Interest	34,422	—	—	—	—	34,422
Total expenditures	9,637,701	2,028,367	3,806,736	1,097,266	—	16,570,070
Excess (deficiency) of revenues over (under) expenditures	271,606	247,372	408,969	2,679,615	9,366	3,616,928
Other financing sources:						
Operating transfers in	—	—	—	2,501,948	—	2,501,948
Total other financing sources	—	—	—	2,501,948	—	2,501,948
Excess (deficiency) of revenues and other financing sources over (under) expenditures	271,606	247,372	408,969	5,181,563	9,366	6,118,876
Fund balances, July 1, 20XX	3,331,865	215,093	1,920,297	1,191,921	295,363	6,954,539
Fund balances, June 30, 20XX	$ 3,603,471	$ 462,465	$ 2,329,266	$ 6,373,484	$ 304,729	$ 13,073,415

[1] Combining statements for nonmajor funds are not required, but may be presented as supplementary information. Expenditures may be presented by function, instead of by object.

ABC Unified School District
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual [1]
Nonmajor Special Revenue Funds (By Object)
Year Ended June 30, 20XX

	Cafeteria Fund			Child Development		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Revenue limit sources:						
State apportionments	$ -	$ -	$ -	$ -	$ -	$ -
Local sources	1,158,643	1,035,794	(122,849)	-	-	-
Federal	5,823,456	6,019,922	196,466	542,365	479,826	(62,539)
Other state	396,481	333,310	(63,171)	2,188,647	1,773,115	(415,532)
Other local	2,694,008	2,520,281	(173,727)	-	22,798	22,798
Total revenues	10,072,588	9,909,307	(163,281)	2,731,012	2,275,739	(455,273)
Expenditures:						
Certificated salaries	-	-	-	913,760	877,795	35,965
Classified salaries	3,649,785	3,576,892	72,893	624,499	591,034	33,465
Employee benefits	934,652	886,384	48,268	400,032	330,054	69,978
Books & supplies	4,267,598	4,226,907	40,691	377,102	41,866	335,236
Services and other operating expenditures	386,478	225,864	160,614	75,058	81,346	(6,288)
Capital outlay	109,434	79,444	29,990	21,119	-	21,119
Other outgo	-	-	-	-	-	-
(Direct support)/indirect costs	278,160	212,788	65,372	96,641	106,272	(9,631)
Debt service:						
Principal	500,000	395,000	105,000	200,000	-	200,000
Interest	29,592	34,422	(4,830)	-	-	-
Total expenditures	10,155,699	9,637,701	517,998	2,708,211	2,028,367	679,844
Excess (deficiency) of revenues over (under) expenditures	(83,111)	271,606	354,717	22,801	247,372	224,571
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(83,111)	271,606	354,717	22,801	247,372	224,571
Fund balances, July 1, 20XX	3,331,865	3,331,865	-	215,093	215,093	-
Fund balances, June 30, 20XX	$ 3,248,754	$ 3,603,471	$ 354,717	$ 237,894	$ 462,465	$ 224,571

[1] Combining statements for nonmajor funds are not required, but may be presented as supplementary information. Expenditures may be presented by function, instead of by object.

Adult Education Fund			Deferred Maintenance Fund		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
$ 2,641,445	$ 2,834,975	$ 193,530	$ -	$ -	$ -
-	-	-	-	-	-
365,998	349,607	(16,391)	-	-	-
1,946,872	531,186	(1,415,686)	3,776,812	3,776,812	-
631,764	499,937	(131,827)	112	69	(43)
5,586,079	4,215,705	(1,370,374)	3,776,924	3,776,881	(43)
2,514,977	2,150,773	364,204	-	-	-
875,369	544,559	330,810	4,500	3,247	1,253
499,885	391,376	108,509	502	287	215
520,014	232,207	287,807	169,691	30,999	138,692
471,509	306,619	164,890	395,000	489,241	(94,241)
269,852	29,700	240,152	5,545,379	573,492	4,971,887
-	-	-	-	-	-
137,556	151,502	(13,946)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
5,289,162	3,806,736	1,482,426	6,115,072	1,097,266	5,017,806
296,917	408,969	112,052	(2,338,148)	2,679,615	5,017,763
-	-	-	2,501,948	2,501,948	-
-	-	-	2,501,948	2,501,948	-
296,917	408,969	112,052	163,800	5,181,563	5,017,763
1,920,297	1,920,297	-	1,191,921	1,191,921	-
$ 2,217,214	$ 2,329,266	$ 112,052	$ 1,355,721	$ 6,373,484	$ 5,017,763

Special Reserve Fund			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
$ -	$ -	$ -	$ 2,641,445	$ 2,834,975	$ 193,530
-	-	-	1,158,643	1,035,794	(122,849)
-	-	-	6,731,819	6,849,355	117,536
-	-	-	8,308,812	6,414,423	(1,894,389)
18,500	9,366	(9,134)	3,344,384	3,052,451	(291,933)
18,500	9,366	(9,134)	22,185,103	20,186,998	(1,998,105)
-	-	-	3,428,737	3,028,568	400,169
-	-	-	5,154,153	4,715,732	438,421
-	-	-	1,835,071	1,608,101	226,970
-	-	-	5,334,405	4,531,979	802,426
-	-	-	1,328,045	1,103,070	224,975
-	-	-	5,945,784	682,636	5,263,148
-	-	-	-	-	-
-	-	-	512,357	470,562	41,795
-	-	-	700,000	395,000	305,000
-	-	-	29,592	34,422	(4,830)
-	-	-	24,268,144	16,570,070	7,698,074
18,500	9,366	(9,134)	(2,083,041)	3,616,928	5,699,969
-	-	-	2,501,948	2,501,948	-
-	-	-	2,501,948	2,501,948	-
18,500	9,366	(9,134)	418,907	6,118,876	5,699,969
295,363	295,363	-	6,954,539	6,954,539	-
$ 313,863	$ 304,729	$ (9,134)	$ 7,373,446	$ 13,073,415	$ 5,699,969

ABC Unified School District
Combining Balance Sheet [1]
Nonmajor Debt Service Funds
June 30, 20XX

	Debt Service Fund	Bond Interest and Redemption Fund	Totals
Assets			
Cash in county treasury	$ 2,187,664	$ 1,708,784	$ 3,896,448
Cash with fiscal agent	-	-	-
Investments	93,784	-	93,784
Accounts receivable	142,889	151,455	294,344
Due from other funds	-	105,198	105,198
Total assets	2,424,337	1,965,437	4,389,774
Liabilities and fund balances			
Liabilities:			
Accounts payable	-	241,200	241,200
Total liabilities	-	241,200	241,200
Fund balances:			
Reserved for debt service	2,424,337	1,724,237	4,148,574
Total fund balance	2,424,337	1,724,237	4,148,574
Total liabilities and fund balances	$ 2,424,337	$ 1,965,437	$ 4,389,774

[1] Combining statements for nonmajor funds are not required, but may be presented as supplementary information.

ABC Unified School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances [1]
Nonmajor Debt Service Funds (By Object)
Year Ended June 30, 20XX

	Debt Service Fund	Bond Interest and Redemption Fund	Totals
Revenues:			
Other state	$ -	$ 98,158	$ 98,158
Other local revenues	98,571	1,761,512	1,860,083
Total revenues	98,571	1,859,670	1,958,241
Expenditures:			
Debt service:			
Principal	848,195	370,000	1,218,195
Interest	1,257,881	1,487,000	2,744,881
Total expenditures	2,106,076	1,857,000	3,963,076
Excess (deficiency) of revenues over (under) expenditures	(2,007,505)	2,670	(2,004,835)
Other financing sources (uses):			
Operating transfers in	2,100,000	-	2,100,000
Total other financing sources (uses)	2,100,000	-	2,100,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures	92,495	2,670	95,165
Fund balances, July 1, 20XX	2,331,842	1,721,567	4,053,409
Fund balances, June 30, 20XX	$ 2,424,337	$ 1,724,237	$ 4,148,574

[1] Combining statements for nonmajor funds are not required, but may be presented as supplementary information.

ABC Unified School District
Combining Balance Sheet [1]
Nonmajor Capital Projects Funds
June 30, 20XX

	State School Building Lease-Purchase Fund	Capital Facilities Fund	Totals
Assets			
Cash in county treasury	$ 854,100	$ 201,758	$ 1,055,858
Cash collections awaiting deposit	-	42,109	42,109
Cash with fiscal agent	-	-	-
Cash in escrow	1,233,787	-	1,233,787
Investments	138,990	884,567	1,023,557
Accounts receivable	-	22,140	22,140
Total assets	$ 2,226,877	$ 1,150,574	$ 3,377,451
Liabilities and fund balances			
Liabilities:			
Accounts payable	$ 639,910	$ 58,113	$ 698,023
Retainage payable	1,233,787	-	1,233,787
Total liabilties	1,873,697	58,113	1,931,810
Fund balances:			
Undesignated fund balance	353,180	1,092,461	1,445,641
Total fund balances	353,180	1,092,461	1,445,641
Total liabilities and fund balances	$ 2,226,877	$ 1,150,574	$ 3,377,451

[1] Combining statements for nonmajor funds are not required, but may be presented as supplementary information.

ABC Unified School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances [1]
Nonmajor Capital Projects Funds (By Object)
Year Ended June 30, 20XX

	State School Buildin Lease-Purchase Fund	Capital Facilities Fund	Totals
Revenues:			
Other local	$ 32,100	$ 2,145,173	$ 2,177,273
Total revenues	32,100	2,145,173	2,177,273
Expenditures:			
Classified salaries	-	-	-
Employee benefits	-	-	-
Books & supplies	534,112	2,057	536,169
Services and other operating expenditures	53,192	411,207	464,399
Capital outlay	5,112,866	234,511	5,347,377
Total expenditures	5,700,170	647,775	6,347,945
Excess (deficiency) of revenues over (under) expenditures	(5,668,070)	1,497,398	(4,170,672)
Other financing sources (uses):			
Operating transfers in	3,812,005	-	3,812,005
Operating transfers out	-	(3,812,005)	(3,812,005)
Total other financing sources:	3,812,005	(3,812,005)	-
Excess of revenues and other financing sources over expenditures	(1,856,065)	(2,314,607)	(4,170,672)
Fund balances, July 1, 20XX	2,209,245	3,407,068	5,616,313
Fund balances, June 30, 20XX	$ 353,180	$ 1,092,461	$ 1,445,641

[1] Combining statements for nonmajor funds are not required, but may be presented as supplementary information. Expenditures may be presented by function instead of by object.

ABC Unified School District
Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
Nonmajor Capital Projects Funds (By Object)
Year Ended June 30, 20XX

	State School Building Lease-Purchase Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Other local	$ 29,102	$ 32,100	$ 2,998
Total revenues	29,102	32,100	2,998
Expenditures:			
Classified salaries	-	-	-
Employee benefits	-	-	-
Books & supplies	541,878	534,112	7,766
Services and other operating expenditures	68,105	53,192	14,913
Capital outlay	5,251,731	5,112,866	138,865
Total expenditures	5,861,714	5,700,170	161,544
Excess (deficiency) of revenues over (under) expenditures	(5,832,612)	(5,668,070)	(158,546)
Other financing sources (uses):			
Operating transfers in	3,812,005	3,812,005	-
Operating transfers out	-	-	-
Total other financing sources (uses)	3,812,005	3,812,005	-
Excess (deficiency) of revenues and other financing sources over (under)expenditures and other uses	(2,020,607)	(1,856,065)	164,542
Fund balances, July 1, 20XX	2,209,245	2,209,245	-
Fund balances, June 30, 20XX	$ 188,638	$ 353,180	$ 164,542

Capital Facilities Fund			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
$ 2,137,885	$ 2,145,173	$ 7,288	$ 2,166,987	$ 2,177,273	$ 10,286
2,137,885	2,145,173	7,288	2,166,987	2,177,273	10,286
-	-	-	-	-	-
-	-	-	-	-	-
2,057	2,057	-	543,935	536,169	7,766
		-	-		-
210,941	411,207	(200,266)	279,046	464,399	(185,353)
244,815	234,511	10,304	5,496,546	5,347,377	149,169
457,813	647,775	(189,962)	6,319,527	6,347,945	(28,418)
1,680,072	1,497,398	(182,674)	(4,152,540)	(4,170,672)	(18,132)
-	-	-	-	-	-
(3,812,005)	(3,812,005)	-	-	-	-
(3,812,005)	(3,812,005)	-	-	-	-
(2,131,933)	(2,314,607)	(182,674)	(4,152,540)	(4,170,672)	(18,132)
3,407,068	3,407,068	-	5,616,313	5,616,313	-
$ 1,275,135	$ 1,092,461	$ (182,674)	$ 1,463,773	$ 1,445,641	$ (18,132)

ABC Unified School District
Organization
June 30, 20XX

The ABC Unified School District was established on July 1, 19XX, and is comprised of an area of approximately 12 square miles located in the County. There were no changes in the boundaries of the district during the current year. The district is currently operating one elementary, one intermediate, and one high school. The district also maintains a continuation high school.

Governing Board

Name	Office	Term Expires
Mr. David Johnson	President	April 20XX
Mr. Norman Richards	Secretary	April 20XX
Mrs. Jan McDonald	Member	April 20XX
Mr. James Wilde	Member	April 20XX
Mrs. Louis Hanson	Member	April 20XX

Administration

Dr. Louis Haas
Superintendent

Mr. Thomas Sharp
Assistant Superintendent

Mrs. Mildred Coleman
Assistant Superintendent

Table 1

ABC Unified School District
Schedule of Average Daily Attendance [1]
Year Ended June 30, 20XX

	Second Period Report	Annual Report
Elementary:		
Kindergarten	4,255	4,260
Grades 1 through 3	9,745	9,749
Grades 4 through 6	9,273	9,275
Grades 7 and 8	7,527	7,530
Special education	300	301
Elementary totals	31,100	31,115
High School:		
Grades 9 through 12, regular classes	24,295	24,306
Special education	200	201
Continuation education	145	144
Opportunity schools	80	79
High school totals	24,720	24,730
Classes for adults:		
Concurrently enrolled	350	348
Not concurrently enrolled	470	471
ADA totals	56,640	56,664

Summer School	Hours of Attendance
Elementary	12,800
High School	32,200

Average daily attendance is a measurement of the number of pupils attending classes of the district. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

[1] Average daily attendance is based on the Second Period Report for the period ending April 15 and the Annual Report for the period ending June 30.

Table 2

ABC Unified School District
Schedule of Instructional Time [1]
Year Ended June 30, 20XX

Grade Level	1982-83 [2] Actual Minutes	1986-87 Minutes Requirements	20X2-20X3 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,500	36,000	37,000	180	163	Complied
Grades 1 – 3	45,000	50,400	48,000	180	163	Did not comply
Grades 4 – 8	55,000	54,000	54,000	180	163	Did not comply
Grades 9 – 12	61,300	64,800	65,000	180	—	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201. This schedule is required for all districts, including basic aid districts.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of *Education Code* Sections 46200 through 46206.

[1] The minutes shown on this schedule are a districtwide compilation, which demonstrates the district's compliance with the instructional minutes requirements. If one or more school sites are not in compliance, a separate schedule for each site must be prepared that shows only those grade groupings that do not comply.

[2] This column does not apply to instructional time for County Offices of Education.

Table 3

ABC Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 20XX

General Fund	(Budget) 20XX	20XX	20XX	20XX
Revenues and other financial sources	$ 276,844,009	$ 277,734,522	$ 270,731,412	$ 268,246,112
Expenditures	257,198,275	267,886,881	256,812,549	252,219,495
Other uses and transfers out	2,910,785	4,601,948	4,365,766	4,123,432
Total outgo	260,109,060	272,488,829	261,178,315	256,342,927
Change in fund balance (deficit)	16,734,949	5,245,693	9,553,097	11,903,185
Ending fund balance	$ 38,688,333	$ 27,199,077	$ 21,953,384	$ 21,090,000
Available reserves [1]	$ 30,619,045	$ 23,098,845	$ 16,679,056	$ 15,888,100
Designated for economic uncertainties	$ 5,300,000	$ 5,000,000	$ 3,500,000	$ 4,500,000
Undesignated fund balance	$ 19,319,288	$ 18,098,845	$ 13,179,056	$ 11,388,100
Available reserves as a percentage of total outgo	11.8%	8.5%	6.4%	6.2%
Total long-term debt	$ 9,000,000	$ 8,779,704	$ 9,887,298	$ 11,235,751
Average daily attendance at P-2 [2]	55,875	55,820	53,220	53,140

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

[1] Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the general fund, special reserve fund (other than capital outlay projects), or within any Article XIII-B trust funds.

[2] Excludes Adult Education ADA.

Table 3
(continued)

ABC Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 20XX

The general fund balance has decreased by $6.1 million over the past two years. The fiscal year 20XX-20XX budget projects an increase of $11.5 million (42%). For a district of this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo).[1]

The district has not incurred operating deficits in one of the past three years, and does not anticipate incurring a operating deficit during the 20XX-20XX fiscal year. Total long-term debt has decreased by $2.5 million over the past two years.

Average daily attendance has increased by 2,680 over the past two years. Additional growth of 55 ADA is anticipated during fiscal year 20XX-20XX.

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[1] A comparison of the district's available reserve level (expressed as a percentage of total outgo) with the applicable state-recommended percentage of available reserves is required.

Available Reserve Percentages

School Districts:

Title 5, CCR, Sections 15443 and 15456 establish standards for minimum reserves. Detailed below are the standards for available reserves.

Available reserves are not less than the following percentages as applied to total expenditures, transfers out, and uses:

The greater of 5% or $50,000 for district with 0 to 300 ADA
The greater of 4% or $50,000 for district with 301 to 1,000 ADA
3% for district with 1,001 to 30,000 ADA
2% for district with 30,001 to 400,000 ADA
1% for district with 400,001 and over ADA

County Offices of Education:

Title 5, CCR, Sections 15474 and 15483 and *Education Code* 1205 establish standards for minimum reserves. Detailed below are the standards for available reserves.

Available reserves are not less than the following percentages as applied to total expenditures, transfers out, and uses:

The greater of 5% or $50,000 for counties with less than $4,000,001 in expenditures, transfers out and other uses.
The greater of 4% or $200,000 for counties with $4,000,001 through $9,999,999 in expenditures, transfers out and other uses.
The greater of 3% or $400,000 for counties with $10,000,000 through $45,000,000 in expenditures, transfers out and other uses.
The greater of 2% or $1,350,000 for counties with over $45,000,000 in expenditures, transfers out and other uses.

Table 4

ABC Unified School District
Schedule of Expenditures of Federal Awards[1]
Year Ended June 30, 20XX

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number[2]	Pass-Through Entity Identifying Number[3]	Federal Expenditures[4]
Federal programs:			
U.S. Department of Education:			
Passed through California Department of Education (CDE):			
IASA Chapter 1	84.010	03064	$ 310,000
Vocational Education	84.048	03573	31,000
Migrant Education	84.011	03239	140,000
Special Education	84.027	03379	90,000
Total U.S. Department of Education			571,000
U.S. Department of Agriculture:			
Passed through CDE:			
National School Lunch	10.555	03755	220,000
National School Breakfast	10.553	03157	290,000
Total U.S. Department of Agriculture			510,000
Total expenditures of federal awards			$ 1,081,000

The accompanying notes are an integral part of this schedule.

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[1] Additional guidance on the schedule is provided in AICPA, SOP 98-3, which includes a discussion of the identification of federal awards, the general presentation requirements governing the schedule, pass-through awards, noncash awards, and endowment funds. AICPA, SOP 98-3 also includes a discussion of the auditor's responsibility for reporting on the schedule.

[2] When the CFDA number is not available, the auditee should indicate that the CFDA number is not available and include in the schedule the program's name and, if available, other identifying number.

[3] If the funds are a pass-through from the Department of Education, the identifying number is the Program Cost Account (PCA) number.

[4] Circular A-133 requires that the value of federal awards expended in the form of noncash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end be included in either the schedule or a note to the schedule. Although it is not required, Circular A-133 states that it is preferable to present this information in the schedule (versus the notes to the schedule). If the auditee presents noncash assistance in the notes to the schedule, the auditor should be aware that such amounts must still be included in Part III of the data collection form.

ABC Unified School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 20XX

Note 1. Basis of Presentation[1]

The accompanying schedule of expenditures of federal awards includes the federal grant activity of XYZ Unified School District and is presented on the [identify basis of accounting]. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the [general-purpose or basic] financial statements.

Note 2. Subrecipients[2]

Of the federal expenditures presented in the schedule, XYZ Unified School District provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Special Education	84.027	$35,000

[1] This note is included to meet the Circular A-133 requirement that the schedule include notes that describe the significant accounting policies used in preparing the schedule.

[2] Circular A-133 requires the schedule of expenditures of federal awards to include, to the extent practical, an identification of the total amount provided to subrecipients from each federal program. Although this example includes the required subrecipient information in the notes to the schedule, the information may be included on the face of the schedule as a separate column or section, if that is preferred by the auditee.

Table 5

ABC Unified School District
Reconciliation of Annual Financial and Budget
Report (SACS) With Audited Financial Statements [1]
Year Ended June 30, 20XX

	General Fund	Building Fund
June 30, 20XX, Annual Financial and Budget Report (SACS) Fund Balances	$ 26,743,075	$ 122,071,865
Adjustments and Reclassifications:		
To record revenue in the proper period	456,002	—
To correct interest revenue in the building fund	—	(240,756)
Net adjustments and reclassifications	456,002	(240,756)
June 30, 20XX, audited financial statement fund balances	$ 27,199,077	$ 121,831,109

[1] This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the SACS Report to the audited financial statements. Funds that required no adjustment are not presented.

ABC Unified School District
Notes to Supplementary Information
Year Ended June 30, 20XX

NOTE 1 - EARLY RETIREMENT INCENTIVE PROGRAM

The district has adopted an early retirement incentive program, pursuant to *Education Code* Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the district.

Retiree Information

A total of seven employees have retired in exchange for the additional two years of service credit.

Position Vacated	Age	Service Credit	Retired Employee Salary	Retired Employee Benefits	Replacement Employee (If Applicable) Salary	Replacement Employee (If Applicable) Benefits
Counselor	56	19	$ 44,000	$ 8,800	$ 35,000	$ 7,000
Teacher	62	39	45,000	9,000	25,000	5,000
Teacher	55	28	40,000	8,000	—	—
Teacher	52	30	40,000	8,000	—	—
Nurse	51	30	40,000	8,000	—	—
Psychologist	61	32	60,000	12,000	—	—
Elementary principal	66	40	70,000	14,000	55,000	11,000
Totals			$ 339,000	$ 67,800	$ 115,000	$ 23,000

Additional Costs

As a result of this early retirement incentive program, the district expects to incur $200,000 in additional costs. The breakdown in additional costs is presented below:

Retirement costs [1]	$150,000
Postretirement health benefit costs	45,000
Administrative costs [2]	5,000
Total additional costs	$200,000

[1] Retirement costs include interest expense, if applicable.

[2] Administrative costs include the following costs associated with this retirement incentive program:

(1) School District's or county office of education's reimbursement of administrative costs incurred by the State Teachers' Retirement Board.

(2) School District's reimbursement of administrative costs incurred by the county office of education.

(3) County office of education's reimbursement of administrative costs incurred by the Superintendent of Public Instruction.

OTHER INDEPENDENT AUDITOR'S REPORTS

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SPECIAL NOTE

SAMPLE REPORTS

For Entities With **MAJOR** Federal Programs

The sample reports presented on the following pages are examples of reports on internal control and compliance with laws and regulations. These sample reports are for instances when the entity administers major federal programs.

Description	Page Number
1. Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*	B-91
2. Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	B-93
3. Auditor's Report on State Compliance	B-95

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[Letterhead of accounting firm]

Board of Trustees
ABC Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of ABC Unified School District as of and for the year ended June 30, 20XX, and have issued our report thereon dated September 23, 20XX.[1] We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,*[2] issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether ABC Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.* [3,4]

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[1] Describe any departure from the standard report (e.g., a qualified opinion, a modification as to consistency due to change in accounting principle, or a reference to the report of other auditors, etc.).

[2] The standards applicable to financial audits include the general, fieldwork, and reporting standards described in Chapters 3, 4, and 5 of *Governmental Auditing Standards.*

[3] See *Government Auditing Standards,* Chapter 5, paragraphs 5.18 and 5.19, for reporting criteria.

[4] If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards,* this paragraph should be modified to include a statement such as the following:

> However, we noted certain immaterial instances of noncompliance that we have reported to management of ABC Unified School District in a separate letter dated September 23, 20XX. This reference to management is intended to be consistent with *Government Auditing Standards*, Chapter 5, paragraph 5.20, which indicates that communications to "top" management should be referred to.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ABC Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. [5]

This report is intended solely for the information and use of the audit committee, management [specify legislative or regulatory body], and federal awarding agencies and pass-through entities[6] and is not intended to be and should not be used by anyone other than these specified parties.[7]

[Signature]
[Date]

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[5] If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following:

> However, we noted other matters involving the internal control over financial reporting that we have reported to management of ABC Unified School District in a separate letter dated September 23, 20XX.
>
> This reference is not intended to preclude the auditor from including other matters in a separate letter to management. Furthermore, the reference to management is intended to be consistent with *Government Auditing Standards*, Chapter 5, paragraph 5.28, which indicates that communications to "top" management should be referred to.

[6] If this report is issued for an audit that is not subject to U.S. Office of Management and Budget Circular A-133, this sentence should be modified as follows:

> This report is intended solely for the information and use of the audit committee, management, and *[specify legislative or regulatory body]* and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

[7] This paragraph conforms to SAS No. 87, *Restricting the Use of an Auditors Report* (AICPA*, Professional Standards*, vol. 1, AU sec. 532). See SAS No. 87 for additional guidance on restricted-use reports.

[Letterhead of accounting firm]

Board of Trustees
ABC Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of ABC Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 20XX. ABC Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of ABC Unified School District's management. Our responsibility is to express an opinion on ABC Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,[1] issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ABC Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on ABC Unified School District's compliance with those requirements.

In our opinion, ABC Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 20XX. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20XX-3 and 20XX-6].[2]

---

[1] The standards applicable to financial audits include the general, fieldwork, and reporting standards described in Chapters 3, 4, and 5 of *Government Auditing Standards.*

[2] When there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence should be omitted.

Internal Control Over Compliance

The management of ABC Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered ABC Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.[3]

This report is intended solely for the information and use of the audit committee, management [specify legislative or regulatory body], and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. [4]

[Signature]
[Date]

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[3] There may be instances in which it would be appropriate to report on the schedule of expenditures of federal awards in this report (that is, a separate single audit package is issued). In such a circumstance, a new section should be added immediately following this paragraph as follows:

> Schedule of Expenditures of Federal Awards
>
> We have audited the [*general-purpose or basic*] financial statements of Example Entity as of and for the year ended June 30, 20XX, and have issued our report thereon dated September 23, 20XX. Our audit was performed for the purpose of forming an opinion on the [*general-purpose or basic*] financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular 1-133 and is not a required part of the [*general-purpose or basic*] financial statements. Such information has been subjected to the auditing procedures applied in the audit of the [*general-purpose or basic*] financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the [*general-purpose or basic*] financial statements taken as a whole.

Describe any departure from the standard report (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors).

[4] This paragraph conforms to SAS No. 87, *Restricting the Use of an Auditors Report* (AICPA, *Professional Standards*, vol. 1, AU sec. 532). See SAS No. 87 for additional guidance on restricted-use reports.

[Letterhead of accounting firm]

Board of Trustees
ABC Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the general purpose financial statements of the ABC Unified School District, as of and for the year ended June 30, 20XX and have issued our report thereon dated September 23, 20XX. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The district's management is responsible for the district's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the district's compliance with the state laws and regulations applicable to the following items:[1]

Description	Procedures In Controller's Audit Guide	Procedures Performed
Attendance accounting:		
Attendance reporting	4	Yes
Kindergarten continuation	3	Yes
Independent study	13	No (see below)
Continuation education	11	Yes
Adult education	8	Yes
Regional occupational centers/programs	4	Not applicable
Staff development days	3	Yes

[1] All areas of state laws and regulations that are required to be audited as identified in Section 520 should be listed in this report. It is assumed that required audit areas not listed were not audited, which may result in an unacceptable audit report. Any scope limitations that prevented a full audit should be fully explained.

Description	Procedures In Controller's Audit Guide	Procedures Performed
Incentives For Longer Instructional Day:		
School district	4	Yes
County Offices of Education	4	Not applicable
GANN limit calculation	1	Yes
Early retirement incentive program	5	Yes
Community day schools	8	Yes
Class size reduction program:		
Option one classes	10	Yes
Option two classes	9	Not applicable
Option one and two classes	14	Not applicable
Program to reduce class size in two courses in grade 9	8	Yes
State Instructional Materials Fund:		
Instructional Materials Funding Realignment program	9	Yes
Schiff-Bustamante Standards-Based Instructional Materials	9	Yes
Digital High School Education Technology Grant Program	5	Yes
California Public Schools Library Act of 1998, K-12	4	Yes
Office of Criminal Justice Planning[2]	—	Not applicable
Ratios of Administrative Employees to Teachers	3	Yes

We did not perform testing for independent study because the independent study ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the ABC Unified School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the ABC Unified School District had not complied with the state laws and regulations, except as described in Findings XX-XX of the Findings and Recommendations section of this report.

This report is intended solely for the information and use of the audit committee, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other that these specified parties. [3]

[Signature]
[Date]

NOTE: Revised November 2003.

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[2] For LEAs that elected to have the audit of grants from the Office of Criminal Justice Planning (OCJP) included in the annual audit, refer to Section 511 of this audit guide. However, no procedures are outlined in this audit guide.

[3] This paragraph conforms to SAS No. 87, *Restricting the Use of an Auditors Report* (AICPA, *Professional Standards*, vol. 1, AU sec.532). See SAS No. 87 for additional guidance on restricted-use reports.

SPECIAL NOTE

SAMPLE REPORTS

For Entities That **DO NOT** Have a Single Audit Performed

The sample reports referenced below are examples of reports on internal control and compliance with laws and regulations. These sample reports are for instances in which the entity is not required to have a single audit performed.

Description	Page Number
1. Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	B-91
2. Auditor's Report on State Compliance	B-95

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FINDINGS AND RECOMMENDATIONS SECTION

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ABC Unified School District
Schedule of Audit Findings[1] and Questioned Costs
Year Ended June 30, 20XX

Section I— Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*[unqualified, qualified, adverse, disclaimer]*
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes _____ No
Reporting condition(s) identified not considered to be material weaknesses?	_____ Yes _____ None reported
Noncompliance material to financial statements noted?	_____ Yes _____ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____ Yes _____ No
Reporting condition(s) identified not considered to be material weaknesses?	_____ Yes _____ None reported
Type of auditor's report issued on compliance for major programs:	*[unqualified, qualified, adverse, disclaimer]* [2]
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	_____ Yes _____ No

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[1] All audit findings must be identified as one or more of the following six categories:

Five Digit Code	Finding Type
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous

[2] If the audit report for one or more major programs is other than unqualified, indicate the type of report issued for each program. For example, if the audit report on major program compliance for an LEA with five major programs includes an unqualified opinion for three of the programs, a qualified opinion for one program, and a disclaimer of opinion for one program, the response to this question could be as follows:

Unqualified for all major programs except for [Name of Program], which was qualified and [Name of Program], which was a disclaimer.

Section I — Summary of Auditor's Results (continued)

Identification of major programs [3]

CFDA Number(s) [4]	Name of Federal Program or Cluster [5]
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between Type A and Type B programs: $_____

Auditee qualified as low-risk auditee? _____ Yes _____ None reported

State Awards

Internal control over state programs:

Material weakness(es) identified? _____ Yes _____ No

Reporting condition(s) identified not considered to be material weaknesses? _____ Yes _____ None reported

Type of auditor's report issued on compliance for state programs: *[unqualified, qualified, adverse, disclaimer]*

---

[3] Generally, major programs should be identified in the same order as reported on the schedule of expenditures of federal awards.

[4] When the CFDA number is not available, include other identifying number, if applicable.

[5] The name of the federal program or cluster should be the same as that listed in the schedule of expenditures of federal awards. For clusters, auditors are required to list only the name of the cluster and not each individual program within the cluster.

Section II — Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*. Auditors should refer to those paragraphs, as well as the report contents section of Chapter 7 of *Government Auditing Standards* for additional guidance on preparing this section of the schedule.

Identify each finding with a reference number.[6] *If there are no findings, state that no matters were reported. Audit findings that relate to both the financial statements and federal awards should be reported in both Section II and Section III. However, the reporting in one section may be in summary form with a reference to a detailed reporting in the other section of the schedule. For example, a material weakness in internal control that affects an entity as a whole, including its federal awards, would generally be reported in detail in this section. Section III would then include a summary identification of the finding and a reference back to the specific finding in this section. Each finding should be presented in the following level of detail, as applicable:*

Criteria or specific requirement
Condition
Questioned costs
Context [7]
Effect
Cause
Recommendation
LEA's response [8]

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[6] A suggested format for assigning reference numbers is to use the last two digits of the fiscal year being audited followed by a numeric sequence of findings. For example, findings identified and reported in the audit of fiscal year 20XX would be assigned a reference number of 20XX-1, 20XX-2, etc.

[7] Provide sufficient information for judging the prevalence and consequences of the finding, such as relation to universe of costs and/or number of items examined and quantification of audit findings in dollars.

[8] See paragraphs 5.18 through 5.20 and 7.38 through 7.42 of *Government Auditing Standards* for additional guidance on reporting management's response.

Section III — Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs). Where practical, findings should be organized by federal agency or pass-through entity.

Identify each finding with a reference number.[9] *If there are no findings, state that no matters were reported. Audit findings that relate to both the financial statements and federal awards should be reported in both Section II and Section III. However, the reporting in one section may be in summary form with a reference to a detailed reporting in the other section of the schedule. For example, a finding of noncompliance with a federal program law that is also material to the financial statements would generally be reported in detail in this section. Section II would then include a summary identification of the findings and a reference back to the specific finding in this section. Each finding should be presented in the following level of detail, as applicable:*

Federal program information [10]
Criteria or specific requirement (including statutory, regulatory, or other citation)
Condition [11]
Questioned costs [12]
Context [13]
Effect
Cause
Recommendation
LEA's response [14]

Section IV — State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations. Please follow the same reporting format as established in Sections II and III above.

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[9] A suggested format for assigning reference numbers is to use the last two digits of the fiscal year being audited followed by a numeric sequence of findings. For example, findings identified and reported in the audit of fiscal year 20XX would be assigned a reference number of 20XX-3, 20XX-4, etc.

[10] Provide federal program (CFDA number and title) and agency, federal award number and year, and name of pass-through entity, if applicable. When this information is not available, the auditor should provide the best information available to describe the federal award.

[11] Include facts that support the deficiency identified in the audit finding.

[12] Identify questioned costs as required by Circular A-133, Section .510(a)(3) and .510(a)(4).

[13] Provide sufficient information for judging the prevalence and consequences of the finding, such as relation to universe of costs and/or number of items examined and quantification of audit findings in dollars.

[14] Provide LEA's response when management does not agree with the finding and/or questioned cost, to the extent practical.

ABC Unified School District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 20XX

Finding/Recommendation	Current Status	District Explanation If Not Implemented
1. Accounts receivable billing invoices are not prenumbered. The district should use prenumbered invoices and maintain a control log.	Implemented	
2. Bank reconciliations were not performed on a monthly basis. The district should ensure that bank reconciliations are performed monthly.	Implemented	
3. The district did not maintain appropriate records for fixed assets. The district should do the following: • Perform regular physical inventory location counts to verify the existence and location of all the district's fixed assets. • Require inventory tags on all equipment. If the equipment was purchased with restricted funds (i.e., federal funds), the tags should indicate the funding source. • Require all inventory tag documents to be sent to a central location (purchasing department).	Not implemented	The district is currently in the process of developing a plan to implement this recommendation (see current year Finding 3).
Student Body Funds ABC High School:		
4. A listing of inventory on hand at the close of the fiscal year for the student store was not available. Periodic inventories should be made at the student store and compared to other financial records to identify any shortages.	Implemented	

NOTE: The summary schedule shall include the status of all audit findings from the prior year's schedule of findings and questioned costs. Also, it should include audit findings reported in the prior year's summary schedule of prior audit findings except for corrected findings and/or findings no longer valid or not warranting further action.

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Appendix C

Agency Addresses and Contacts

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AGENCY ADDRESSES

Mailing Address

State Controller's Office
Division of Audits
School District Audits
Post Office Box 942850
Sacramento, California 94250-5874
Telephone: (916) 322-4846

or

Private Carrier Delivery

State Controller's Office
Division of Audits
School District Audits
300 Capitol Mall, Fifth Floor
Sacramento, California 95814

California Department of Education
School Fiscal Services Division
Fiscal Policy Office
1430 N Street, Suite 3800
Sacramento, CA 95814
Telephone: (916) 322-3024

Federal Audit Clearinghouse
Bureau of the Census
1201 E. 10th Street
Jeffersonville, Indiana 47132

SINGLE AUDIT REPORT SUBMISSION TRANSMITTAL
U.S. DEPARTMENT OF EDUCATION

Auditee Name: _____

Auditee Address: _____

_____

Auditee Contact: _____

Telephone: _____

Audit Period: _____

Auditor Name: _____

Attached are two copies of the Single Audit Report, management letter, and corrective action plan. The copies are being submitted to satisfy the report submission requirements for the U.S. Department of Education.

Appendix D

Publication Bibliography

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BIBLIOGRAPHY

State Controller's Office
Division of Audits
School District Audits
Post Office Box 942850
Sacramento, California 94250-5874
Telephone: (916) 445-7886

- Standards and Procedures for Audits of California K-12 Local Educational Agencies

California Department of Education
Publications Division
Post Office Box 944272
Sacramento California 94244-2720
Telephone: (916) 445-7608

- California School Accounting Manual
- Accounting Procedures for Student Organizations
- Attendance Accounting and Reporting in California Public Schools
- Independent Study Operations Manual

California Department of Education
Curriculum & Instructional Leadership Branch
1430 N Street
Sacramento, California 95814
Telephone: (916) 657-3043

- California Department of Education Program Advisories

Bancroft-Whitney Company
Post Office Box 7005
San Francisco, California 94120-7005
Telephone: (415) 929-3500

- Deering's California Codes—Education

Barclays Law Publishers
Post Office Box 3066
South San Francisco, California 94083
Telephone: (415) 244-6611

- California Code of Regulations, Title 5

Governmental Accounting Standards Board
Post Office Box 5116
Norwalk, Connecticut 06856-5116

- Codification of Governmental Accounting and Financial Reporting Standards
- Governmental Accounting Standards Board (GASB) Statements

American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

- Audits of State and Local Governmental Units

U.S. Government Printing Office
Superintendent of Documents
Washington, D.C. 20402-9325
Telephone: (202) 512-1800

- Government Auditing Standards Stock #020-000-00-265-4
- Federal Compliance Supplement (Specify Stock #041-001-00294-4)

Government Finance Officers Association
180 North Michigan Avenue, Suite 800
Chicago, Illinois 60601-7476
Telephone: (312) 977-9700

- Governmental Accounting, Auditing and Financial Reporting

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State Controller's Office
Division of Audits
Post Office Box 942850
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