

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

SCHOOL DISTRICTS

SRC REVIEW GUIDE

(Available electronically at www.gfoa.org)¹

GFOA has prepared a comprehensive checklist for preparers of financial reports of school districts. GFOA professional staff make use of that checklist to perform a detailed review of every report submitted to the Certificate of Achievement for Excellence in Financial Reporting Program (Certificate Program). A substantial number of the questions on the checklist address purely factual matters or formatting issues that can be resolved easily and objectively during the staff review. Members of GFOA's Special Review Committee (SRC) are welcome, of course, to use that same comprehensive checklist to perform their own reviews for the Certificate Program.² Alternatively, SRC members who prefer to focus their limited time on the more substantive aspects of the reports they are to review may use the attached *Guidelines for Expedited Reviews*, with the full assurance that other more routine aspects of the review will be fully covered as part of the staff review.

When using these guidelines please note:

- Indentation indicates that a question is only relevant if the response to the preceding question is positive.
- Explanations or comments follow the relevant question.
- The letter "S" before a given question and the use of shading indicates that the question is unique to school districts.
- A plus sign ("+") indicates that the answer to a question in section IV of the application form determines whether the particular question is relevant to the school district.
- An asterisk ("*") indicates that a "no" response to the question is potentially sufficient to deny the certificate.

Reviewers are especially encouraged to provide narrative comments on any deficiencies they may encounter in the course of their review, as well as the page number(s) of the CAFR where each deficiency appears (there is no need to reference the question number in these guidelines). Reviewers should e-mail their *Vote Page* and narrative comments to srcreviews@gfoa.org.

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¹An electronic version of these guidelines can be found by selecting the *Award Programs* heading at the home page and then selecting *Certificate of Achievement for Excellence in Financial Reporting*.

²An electronic version of the comprehensive checklist for preparers can be found by selecting the *Award Programs* heading at the GFOA website home page and then selecting *Certificate of Achievement for Excellence in Financial Reporting*.

Abbreviations Used in these Guidelines

APB	-	Accounting Principles Board Opinion
<i>Audits of State and Local Governments</i>	-	<i>Audits of State and Local Governments</i> , American Institute of Certified Public Accountants, May 2007
FASB - I	-	Financial Accounting Standards Board Interpretation
FASB - S	-	Financial Accounting Standards Board Statement
2005 GAAFR	-	<i>Governmental Accounting, Auditing, and Financial Reporting</i> , GFOA 2005
GAAFR Review	-	<i>GAAFR Review</i> , GFOA's Monthly Newsletter on Governmental Accounting, Auditing, and Financial Reporting
GASB - I	-	GASB Interpretation
GASB - S	-	GASB Statement
GASB - TB	-	GASB Technical Bulletin
Q&A	-	<i>2006-2007 Comprehensive Implementation Guide - GASB</i>
NCGA - I	-	National Council on Governmental Accounting Interpretation
NCGA - S	-	National Council on Governmental Accounting Statement

All references listed above, except those for "2005 GAAFR," "GAAFR Review," "Q & A," and *Audits of State and Local Governments*, are followed by the number of the pronouncement, if applicable, and the specific paragraph(s), footnote(s), or appendix (appendices) within the publication that is being referenced. The references to "2005 GAAFR" and "GAAFR Review" are to pages in those publications. For "Q&A," the references are to the applicable chapters and questions in that publication. For *Audits of State and Local Governments*, each reference is to the chapter and specific paragraph.

***[SECTION 1, COVER, TABLE OF CONTENTS, AND FORMATTING,
HAS BEEN OMITTED FROM THESE GUIDELINES]***

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

- 2.4e Does the letter of transmittal include background information on the school district?
- 2.4f Does the letter of transmittal contain information designed to assist users in assessing the school district's financial condition (e.g., information on the local economy)?

Explanation: Examples of other types of information that might be useful in assessing a school district's financial condition include information associated with a school district's long-term financial planning, financial policies that were relevant in the current period (e.g., the application in the current period of the school district's policy on the use of one-time revenue sources), and major initiatives that are expected to affect future financial position.

- 2.4i Has the school district refrained from duplicating information contained in MD&A or in the notes to the financial statements? [GASB-S34: 8; note 7; Q&A 7.5.2; 2005 GAAFR, page 287]

Explanation: The *GAAFR* suggests three means to avoid unnecessary duplication: 1) briefly identifying a topic and explaining its potential interest to financial statement users in the letter of transmittal, 2) referring readers of the letter of transmittal to the notes and MD&A for any information on the topic already provided there, and 3) limiting the discussion in the letter of transmittal to the more subjective aspects of a given topic.

***[SECTION 3, FINANCIAL SECTION – REPORT OF THE INDEPENDENT AUDITOR,
HAS BEEN OMITTED FROM THESE GUIDELINES]***

***FINANCIAL SECTION - MANAGEMENT'S
DISCUSSION AND ANALYSIS (MD&A)***

- 4.1e Does MD&A provide an overall analysis of the school district's financial position and results of operations? [GASB-S34: 11c; 2005 GAAFR, page 293]

Explanation: *Analysis*, properly speaking, should focus on the *reasons for changes* rather than just their sizes. Review the condensed financial information to identify areas with significant changes that should be included in the analysis.

- 4.1e1 Does it specifically address whether the school district's overall financial position has improved or deteriorated? [GASB-S34: 11c; 2005 GAAFR, page 293]

Explanation: It is not necessary for the discussion to use the words "improved" or "deteriorated." A statement that net assets have increased or decreased is sufficient.

- 4.1f Does MD&A provide an analysis of significant balances and transactions of individual major funds? [GASB-S34: 11d; 2005 GAAFR, page 293]

Explanation: *Analysis*, properly speaking, should focus on the *reasons for changes* rather than just their sizes. Normally, the analysis of individual funds is provided separately from the overall analysis described in question 4.1e. However, sometimes school districts combine the overall analysis and the fund analysis. Either approach is acceptable as long as the analysis includes reasons for both the changes for each type of activity and for the individual major funds, as necessary (i.e., those with significant balances and/or transactions).

- 4.1f1 Does MD&A address whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use? [GASB-S34: 11d; 2005 GAAFR, page 293]

- 4.1g Does MD&A provide an analysis of significant budgetary variations (both original budget versus final amended budget and final amended budget versus actual) for the general fund? [GASB-S34: 11e; 2005 GAAFR, page 293]

- 4.1h Does MD&A describe significant capital asset and long-term debt activity during the year? [GASB-S34: 11f; 2005 GAAFR, pages 293-4]

Explanation: This discussion should summarize, rather than repeat, the detailed information presented in the notes. It also should address commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

- 4.1k Has the school district refrained from addressing in the MD&A topics not specifically prescribed by SGAS 34? [GASB-S37: 4-5; Q&A 7.5.7 2005 GAAFR, page 292]

Explanation: School districts may address in the MD&A only those topics specifically identified in SGAS 34, paragraph 11. School districts are free, however, to provide whatever level of detail they believe appropriate in addressing these particular topics.

FINANCIAL SECTION – BASIC FINANCIAL STATEMENTS (PRELIMINARY CONSIDERATIONS)

- 5.6* Has the school district refrained from making direct adjustments to equity except in those situations specifically contemplated by GAAP? [*Audits of State and Local Governments* 10.02; 2005 GAAFR, pages 282-3]

Explanation: Government-wide and fund financial statements must be presented using an *all-inclusive format*. That is, *all* changes to equity normally should be reported as part of the results of operations for the current period rather than treated as a direct adjustments to equity. There are three exceptions to this general rule: prior-period adjustments, changes in accounting principle, and changes in inventory balances accounted for using the purchases method. (The latter is applicable only to governmental fund financial statements.)

- 5.7* Do financial statements within each category (i.e., government-wide, governmental funds, proprietary funds, and fiduciary funds) articulate with one another? (For example, does the amount reported for *net assets* at the end of the period in the government-wide statement of activities tie to the corresponding amount reported for *net assets* in the government-wide statement of net assets?)

FINANCIAL SECTION – GOVERNMENT-WIDE FINANCIAL STATEMENTS

GENERAL CONSIDERATIONS

- 6.2* Is a total column presented for the primary government? [GASB-S34: 14; 2005 GAAFR, pages 156 and 171]

- 6.2a* Is the total column for the primary government consolidated? [GASB-S34: 57-60; 2005 GAAFR, pages 135-6]

Explanation: The consolidated total column for the primary government presented in the government-wide statement of net assets should include neither internal receivables nor internal payables unless there is a difference in fiscal year between the primary government and a blended component unit. Amounts due to/from fiduciary funds should not be reported as interfund balances. Likewise, the total column on the statement of activities should not include transfers.

- 6.3* Are any discretely presented component units presented in one or more separate columns to the right of the total column for the primary government? [GASB-S34: 12c; 2005 GAAFR, pages 136 and 157]

- 6.3a* Has the school district refrained from reporting within this (these) column(s) component units that 1) share a governing body with the primary government or 2) exclusively or almost exclusively benefit the primary government? [GASB-S14: 53; 2005 GAAFR, pages 66-7]

- 6.4* Has the school district refrained from including either fiduciary funds or fiduciary-type component units in the government-wide financial statements? [GASB-S34: 12b; 2005 GAAFR, page 155]

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

- 6.6* Are assets and liabilities reported either in the relative order of their liquidity or on a classified basis? [GASB-S34: 31, note 23; 2005 GAAFR, pages 159-60]
- 6.7* Does the *governmental activities* column in the government-wide statement of net assets include capital assets used to support those activities? [GASB-S34: 12e, 19; 2005 GAAFR, page 126]

Explanation: The government-wide statement of net assets should report capital assets that are *not* being depreciated (e.g., land or construction-in-progress) separately from depreciable capital assets, if significant.

- 6.8 Does the *governmental activities* column include an asset for the negative net pension obligation, if applicable? [GASB-S27: 17; 2005 GAAFR, page 275]
- 6.9* Does the *governmental activities* column include debt and all other long-term liabilities (e.g., compensated absences, claims and judgments, net pension obligation) incurred in connection with those activities? [GASB-S34: 12e; 2005 GAAFR, page 128]
- 6.11a* Are the net assets invested in capital assets, net of related debt, correctly calculated? [GASB-S34: 33; 2005 GAAFR, pages 161-2]

Explanation: The school district should calculate the net assets invested in capital assets, net of related debt, using the following formula:

Capital assets
Less accumulated depreciation
Less outstanding principal of capital related debt
Net assets invested in capital assets, net of related debt

- 6.11a1* Has the school district refrained from including financial assets, including interfund loans, in the calculation of net assets invested in capital assets, net of related debt? [GASB-S34: 33; Q&A 7.23.11; 2005 GAAFR, page 161]
- 6.11a2* Has the school district refrained from including noncapital accrued liabilities (e.g., compensated absences, claims and judgments, landfill closure and postclosure costs) in the calculation of net assets invested in capital assets, net of related debt? [GASB-S34: 33; 2005 GAAFR, page 53]
- 6.11a3* Has the school district refrained from including unspent proceeds from debt in the calculation of net assets invested in capital assets, net of related debt? [GASB-S34: 33; Q&A 7.23.2; 2005 GAAFR, page 161]
- 6.11a4* Has the school district refrained from including debt that was used to provide capital assets to another government (or a discretely presented component unit) in the calculation of net assets invested in capital assets, net of related debt? [Q&A 7.23.10; 2005 GAAFR, page 323]
- 6.11a5* Has the school district refrained from including debt to be repaid by governmental activities when the proceeds were used to acquire capital assets that the business-type activities report, and vice versa?

Explanation: This debt may be considered capital-related debt in the total primary government column, if presented. In that case, the school district could include a footnote to explain the nature of the reclassification.

- 6.11a6* Has the school district refrained from including interest payable and the accrued interest on deep discount debt in the calculation of net assets invested in capital assets, net of related debt? [Q&A 7.22.9]

Explanation: Original issue discounts and premiums, however, should be included in the calculation of net assets invested in capital assets, net of related debt. Conversely, bond issuance costs should be excluded from the calculation.

- 6.11a7* Has the school district included debt that refunded capital-related debt in the calculation of net assets invested in capital assets, net of related debt? [Q&A 7.23.3]

Explanation: Deferred amounts on refundings relating to capital-related debt should be included in this calculation. In the case of a crossover refunding, the new debt does not qualify as capital-related debt until the crossover date (i.e., when the old debt is refunded). Accordingly, that debt should not be included in the calculation of net assets invested in capital assets, net of related debt, until the crossover date.

- 6.11a8* Has the school district excluded debt used to finance capital acquisition by parties outside the primary government from the calculation of net assets invested in capital assets, net of related debt? [Q&A 7.23.10; 2005 GAAFR, page 323]

Explanation: The school district must hold title to a capital asset if the debt used to acquire it is to be classified as “related debt.”

- 6.11b Are only amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation included in the calculation of restricted net assets? [GASB-S34: 34; Q&A 7.24.1; 2005 GAAFR, pages 53-54]

Explanation: If liabilities are to be paid from assets with restrictions on their use exceed those assets, the excess should affect the unrestricted net assets calculation.

- 6.11c Are unrestricted net assets correctly calculated?

- 6.11c1 Does the calculation of unrestricted net assets include the net assets related to joint ventures? [Q&A 7.25.1; 2005 GAAFR, page 265]

- 6.11d Has the school district refrained from reporting designations within *net assets*? [2005 GAAFR, page 282]

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

- 6.13* Is information on expenses for *governmental activities* presented at least at the *functional level* of detail? [GASB-S34: 39; 2005 GAAFR, pages 164-5 and 328]

Explanation: Since a large percentage of the school district’s expenses may fall within the instructional category, the school district may choose to present information on programs within functions (e.g., regular education, special education, vocational education).

- 6.14* Is information on expenses for *business-type activities* presented at least by *different identifiable activities*? [GASB-S37: 10; 2005 GAAFR, page 165]

Explanation: An *identifiable activity* has a specific revenue stream and related expenses and gains and losses that are accounted for separately. Whether an activity is different is generally based on the goods or services it provides.

FINANCIAL SECTION - FUND FINANCIAL STATEMENTS

GENERAL CONSIDERATIONS

- 7.6* Has the school district refrained from blending component units that do not either 1) share a governing body with the primary government or 2) exclusively or almost exclusively benefit the primary government? [GASB-S14: 53; 2005 GAAFR, pages 66-7]

- 7.7 Has the school district refrained from blending legally separate tax-exempt organizations that are classified as component units only because of the nature and significance of their relationship with the primary government? [GASB-S39: 5 and 7; 2005 GAAFR, page 67]

Explanation: Legally separate tax-exempt organizations that do not meet either test for financial accountability must nonetheless be included as *discretely presented* component units when they meet all three of the following criteria:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents;

- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and
- The economic resources received or held by an individual organization that the specific primary government is entitled to, or has the ability to otherwise access, are significant to the primary government. GAAP expressly direct that the assessment of significance focus on each *individual organization* rather than on organizations in the aggregate.

If legally separate tax-exempt entities do not meet the three criteria, but are included all the same because their inclusion is considered necessary to avoid incomplete or potentially misleading financial reporting, the normal criteria for blending would be applicable and blending could be appropriate in rare instances. (In that case, a “not applicable” response to the question would be appropriate.)

FINANCIAL SECTION – GOVERNMENTAL FUND FINANCIAL STATEMENTS

GENERAL CONSIDERATIONS

- 8.2* Is each major governmental fund reported in a separate column? [GASB-S34: 75-6; 2005 GAAFR, pages 177 and 180]

Explanation: The general fund must *always* be reported as a major fund. Other governmental funds *must* be reported as major funds if they meet certain criteria established by SGAS 34. Required major funds should be identified each year. However, even governmental funds that do *not* meet these criteria may be reported *voluntarily* as major funds.

- 8.5a* Is a summary reconciliation provided that ties the *governmental funds* total column and the related amount reported for *governmental activities* in the government-wide financial statements? [GASB-S34: 77 and 85; 2005 GAAFR, pages 179 and 181]

BALANCE SHEET – GOVERNMENTAL FUNDS

- 8.6* Has the school district refrained from reporting nonfinancial assets (e.g., capital assets used in operations rather than held for resale, a negative net pension obligation)? [GASB-S34: 83; 2005 GAAFR, page 174]
- 8.7* Has the school district refrained from reporting unmatured debt and accrued interest payable as liabilities (except in debt service funds employing the “early recognition” option for debt service payments due early in the subsequent year)? [GASB-S34: 83; 2005 GAAFR, page 174]

Explanation: School districts have the *option* of recognizing liabilities in the current period for principal and interest payments due early in the subsequent period in certain circumstances involving debt service funds.

- 8.10* Do the items reported as *reserved* and *designated* fund balance appear to be appropriate?

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

- 8.13 Is the school district’s recognition of revenues consistent with both GAAP and its policy on availability as disclosed in the SSAP?
- 8.17 If the school district has initiated a capital lease during the period, does it report an other financing source equal to the net present value of the minimum lease payments? [NCGA-S5: 14; 2005 GAAFR, pages 81-2]

Explanation: This same treatment would also be appropriate for installment contracts other than capital leases associated with the acquisition of capital assets.

- 8.18* If the school district has issued debt during the period that will be repaid with general government resources, does the school district report an other financing source equal to the face value of the debt? [GASB-S34: 88; 2005 GAAFR, page 80]

Explanation: The issuance of debt to be supported by governmental funds must be reflected as an *other financing source*, even if the proceeds of the debt are delivered directly to an outside party (i.e., debt-financed grants) or to a proprietary fund (i.e., debt-financed capital contributions).

8.18a Has the school district reported a separate other financing source for premiums related to its debt issuances? [GASB-S34: 88; Q&A 7.66.1; 2005 GAAFR, pages 48-9 and 80-1]

8.18b Has the school district reported a separate other financing use for discounts related to its debt issuances? [GASB-S34: 88; Q&A 7.66.1; 2005 GAAFR, pages 48-9 and 80-1]

8.20 Are only those items permitted by GAAP reported as *other financing sources* and *uses*?

Explanation: The issuance of tax anticipation notes or revenue anticipation notes for purposes other than capital acquisition, grant anticipation notes, bond anticipation notes that do not meet the criteria of SFAS 6, and demand bonds should not be reported as other financing sources. Similarly, the receipt of an unusual revenue or the payment of an unusual expenditure should not be reported in this section.

8.22* If the school district has used a refunding transaction to defease or redeem debt, has it reported the proceeds of the refunding debt as an *other financing source - issuance of refunding bonds*? [GASB-S7: 8; 2005 GAAFR, pages 47-8]

8.22a* If the school district has used a refunding transaction to defease debt, has it reported application of the proceeds as an *other financing use - payment to refunded bonds escrow agent*? [GASB-S7: 8; 2005 GAAFR, page 49]

8.22b* If the school district has used a refunding transaction to redeem debt, has it reported application of the proceeds as an *other financing use* with a label such as *refunded bonds redeemed*? [2005 GAAFR, page 49]

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS

8.23* If the school district has not presented required budgetary comparisons for the general fund and annually budgeted major special revenue funds as RSI, are these comparisons presented as basic governmental fund financial statements? [GASB-S34: 130, note 53; 2005 GAAFR, page 181]

Explanation: School districts generally have the option of presenting required budgetary comparisons either as a basic governmental fund financial statement or as RSI. However, budgets that exhibit significant perspective differences must always be presented as RSI. GFOA has issued a recommended practice that encourages school districts to present required budgetary comparisons as a basic governmental fund financial statement whenever possible.

8.23c* Has the school district refrained from presenting budgetary comparisons for debt service funds, capital projects funds, permanent funds, major special revenue funds without annual budgets, and nonmajor special revenue funds? [2005 GAAFR, page 181]

8.23d* Does the budgetary statement present the original budget? [GASB-S34: 130a; 2005 GAAFR, page 182]

Explanation: GAAP define the *original budget* as “the first complete appropriated budget.” Amounts automatically carried over from one budget to the next—such as encumbrances that are subject to automatic re-appropriation—should be included as part of this original budget. Likewise, the original budget should be adjusted to reflect reserves, transfers, allocations, and supplemental appropriations that occur prior to the start of the fiscal year.

8.23e* Does the budgetary statement present the final amended budget? [GASB-S34: 130b; 2005 GAAFR, page 182]

Explanation: The *final amended budget* should reflect the ultimate appropriation authority for the period, even if, as sometimes permitted by law, some or all of the amendments occur after the close of the fiscal period.

8.23f* Does the budgetary statement present actual data using the budgetary basis of accounting? [GASB-S34: 130; 2005 GAAFR, page 182]

FINANCIAL SECTION - PROPRIETARY FUND FINANCIAL STATEMENTS

GENERAL CONSIDERATIONS

- 9.1* Has the school district included only proprietary fund types (i.e., enterprise funds and internal service funds)? [2005 GAAFR, page 97]
- 9.2* Is each major enterprise fund reported in a separate column? [GASB-S34: 96; 2005 GAAFR, page 33]
- 9.4a* If necessary, is a summary reconciliation provided that ties the *enterprise fund* total column and the related amount reported for *business-type activities* in the government-wide financial statements? [GASB-S34: 104; 2005 GAAFR, pages 185 and 187]

Explanation: The reconciliation between the statement of revenues, expenses, and changes in net assets and the government-wide statement of activities should reconcile the changes in net assets, not the total net assets.

- 9.5* Is a single column reported for the internal service fund type? [GASB-S34: 96; 2005 GAAFR, page 184]
- 9.6 Has the school district refrained from using enterprise funds to report activities for which fees and charges are *not* a revenue source (with the exception of activities previously accounted for in accordance with SGAS 29)? [GASB-S34: 67 and 147; 2005 GAAFR, pages 21-3]
- 9.7 Has the school district refrained from using an internal service fund to report activities in which the school district itself is not the predominant participant? [GASB-S34: 68; 2005 GAAFR, page 23]

STATEMENT OF FUND NET ASSETS/BALANCE SHEET– PROPRIETARY FUNDS

- 9.9* Are assets and liabilities classified as *current* and *long-term*? [GASB-S34: 97; 2005 GAAFR, page 183]
- 9.11a* Are the net assets invested in capital assets, net of related debt, correctly calculated? [GASB-S34: 33; 2005 GAAFR, pages 161-2]

Explanation: The school district should calculate the net assets invested in capital assets, net of related debt, using the following formula:

Capital assets
Less accumulated depreciation
Less outstanding principal of capital-related debt
Net assets invested in capital assets, net of related debt

- 9.11a1* Has the school district refrained from including financial assets, including interfund loans, in the calculation of net assets invested in capital assets, net of related debt? [GASB-S34: 33; Q&A 7.23.11; 2005 GAAFR, page 161]
- 9.11a2* Has the school district refrained from including noncapital accrued liabilities (e.g., compensated absences, claims and judgments, landfill closure and postclosure costs) in the calculation of net assets invested in capital assets, net of related debt? [GASB-S34: 33; 2005 GAAFR, page 53]
- 9.11a3* Has the school district refrained from including unspent proceeds from debt in the calculation of net assets invested in capital assets, net of related debt? [GASB-S34: 33; Q&A 7.23.2; 2005 GAAFR, page 161]
- 9.11a4* Has the school district refrained from including interest payable and the accrued interest on deep discount debt in the calculation of net assets invested in capital assets, net of related debt? [Q&A 7.22.9]

Explanation: Original issue discounts and premiums, however, should be included in the calculation of net assets invested in capital assets, net of related debt. Conversely, bond issuance costs should be excluded from the calculation.

- 9.11a5* Has the school district included debt that refunded capital-related debt in the calculation of net assets invested in capital assets, net of related debt? [Q&A 7.23.3]

Explanation: Deferred amounts on refundings relating to capital-related debt should be included in this calculation. In the case of a crossover refunding, the new debt does not qualify as capital-related debt until the crossover date (i.e., when the old debt is refunded). Accordingly, that debt should not be included in the calculation of net assets invested in capital assets, net of related debt, until the crossover date.

9.11a6* Has the school district excluded debt used to finance capital acquisition by parties outside the proprietary funds from the calculation of net assets invested in capital assets, net of related debt? [Q&A 7.23.10; 2005 GAAFR, page 323]

9.11b Are only amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation included in the calculation of restricted net assets? [GASB-S34: 34; Q&A 7.24.1; 2005 GAAFR, pages 53-4]

Explanation: If liabilities are to be paid from assets with restrictions on their use exceed those assets, the excess should affect the unrestricted net assets calculation.

9.11c Are unrestricted net assets correctly calculated?

9.11c1 Does the calculation of unrestricted net assets include the net assets related to joint ventures? [Q&A 7.25.1; 2005 GAAFR, page 265]

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS/EQUITY – PROPRIETARY FUNDS

9.12* Does the statement distinguish between operating and nonoperating revenues and expenses? [GASB-S34: 100; 2005 GAAFR, page 186]

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

9.18* Does the statement categorize cash flows as follows: *cash flows from operating activities*; *cash flows from noncapital financing activities*; *cash flows from capital and related financing activities*; and *cash flows from investing activities*? [GASB-S9: 15; 2005 GAAFR, page 189]

9.18b Has the school district refrained from including receipts and payments of interest as *cash flows from operating activities* (except in the case of program loans)? [GASB-S9: 58; 2005 GAAFR, pages 189-90]

Explanation: Note the contrast with private-sector practice (i.e., SFAS 95), where *cash flows from operating activities* always includes cash flows related to interest revenue and interest expense.

9.18c Has the school district refrained from combining *cash flows for noncapital financing activities* and *cash flows from capital and related financing activities* into a single *cash flows from financing activities* category? [GASB-S9: 53-54; 2005 GAAFR, page 189]

Explanation: Note the contrast with private-sector practice (i.e., SFAS 95), which provides for only a single category to be used for all types of *cash flows from financing activities*.

9.18d Has the school district refrained from reporting disbursements for the acquisition of fund capital assets as *cash flows from investing activities*? [GASB-S9: 57a; 2005 GAAFR, page 190]

Explanation: Note the contrast with private-sector practice (i.e., SFAS 95), where payments associated with capital acquisition and construction are reported as *cash flows from investing activities*.

9.22 Is the statement accompanied by information (in narrative or tabular form) concerning investing, capital, or financing activities of the period that affected recognized assets or liabilities but did *not* result in cash flows? [GASB-S9: 37; 2005 GAAFR, page 191]

Explanation: The required information must be presented either on the face of the statement of cash flows or on the next page. Note disclosure is *not* sufficient to meet the requirement. Also, when a single transaction involves both cash and noncash components, this schedule should clearly describe the cash and noncash aspects of the transaction.

FINANCIAL SECTION - FIDUCIARY FUND FINANCIAL STATEMENTS

- 10.1* Has the school district included only fiduciary fund types (i.e., private-purpose trust funds, pension (and other employee benefit) trust funds, and agency funds)? [2005 GAAFR, page 195]
- 10.2* Are all funds of a given fund type reported in a single column? [GASB-S34: 106; 2005 GAAFR, page 196]
- 10.3* Has the school district refrained from using a fiduciary fund to report resources that are available to support the school district's programs? [GASB-S34: 69; 2005 GAAFR, page 24]

Explanation: In practice, school districts commonly use private-purpose trust funds to account for *privately funded* scholarship programs.

It is entirely possible that related activities may be reported differently. Thus, resources raised for band uniforms may be reported in a special revenue fund (as part of the music education program), while resources raised for a band field trip may be reported in an agency fund (funds raised and owned by the students participating in the trip).

- S10.1 Has the school district refrained from reporting student activity funds that support instructional activities in a fiduciary fund? [GASB-S34: 69; 2005 GAAFR, page 329]
- S10.2 Has the school district refrained from reporting student activity funds that are included in the school district's budget in a fiduciary fund? [GASB-S34: 69; 2005 GAAFR, page 329]
- S10.3 Has the school district refrained from reporting in agency funds student activity funds for which the school's administration has a high degree of management involvement? [GASB-S34: 69; 2005 GAAFR, page 329]
- 10.4* If the school district holds resources in trust for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, other postemployment benefit plans, deferred compensation plans, or other employee benefit plans, does it use a pension (and other employee benefit) trust fund for that purpose? [GASB-S34: 70; 2005 GAAFR, page 24]

FINANCIAL SECTION - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (SSAP)

- 11.3 Does the description of the component units include the specific criteria that are met to include the component units as part of the financial reporting entity? [GASB-S14: 61, 2005 GAAFR, pages 199-200]
- 11.4+ If the school district itself is a component unit, does the SSAP identify the primary government and describe the nature of the relationship? [GASB-S14: 65; 2005 GAAFR, page 200]

FINANCIAL SECTION - NOTE DISCLOSURE (OTHER THAN THE SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PENSION-RELATED DISCLOSURES)

- 12.2 Do the notes disclose the legal and contractual provisions governing cash deposits with financial institutions? [GASB-S3: 65-66; 2005 GAAFR, pages 206-9]
- 12.3 Do the notes disclose the school district's policy for custodial credit risk associated with deposits or indicate that it does not have such a policy? [GASB-S40: 6; 2005 GAAFR, page 207]

- 12.6 Has the school district refrained from providing custodial credit risk disclosures for any investments that are not subject to custodial credit risk because they are *not* evidenced by securities? [GASB-S40: 9; 2005 GAAFR, pages 210-1]

Explanation: Investments that are evidenced by contracts rather than securities (and therefore not subject to custodial credit risk) include venture capital, limited partnerships, open-end mutual funds, participation in investment pools of other governments, real estate, direct investments in mortgages and other loans, annuity contracts, and guaranteed investment contracts.

- 12.7 Do the notes disclose the credit ratings (or explain that credit ratings are not available) for investments in debt securities (other than debt issued by or explicitly guaranteed by the U.S. government), as well as for positions in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities? [GASB-S40: 7; 2005 GAAFR, page 212]

- 12.7a Do the notes use one of five approved methods (i.e., segmented time distribution, specific identification, weighted average maturity, duration, or simulation model) to disclose interest rate risk for positions in fixed-rate debt securities? [GASB-S40: 14-15; 2005 GAAFR, pages 214-6]

Explanation: The method selected for disclosing interest rate risk should be the one most consistent with how the school district manages that risk.

- 12.9 Do the notes disclose subsequent events? [NCGA-I6: 4d; 2005 GAAFR, page 220]

- 12.10 Do the notes disclose material violations of finance-related legal and contractual provisions? [NCGA-I6: 4g; 2005 GAAFR, page 224]

- 12.11 Do the notes disclose debt service to maturity for all outstanding debt? [NCGA-I6: 4h; GASB-S38: 10; 2005 GAAFR, page 225]

- 12.17 Do the notes furnish information on the school district's capital assets? [GASB-S34: 116; 2005 GAAFR, page 226]

- 12.18 Do the notes furnish information on the school district's long-term liabilities and changes in long-term liabilities? [GASB-S34: 119; 2005 GAAFR, page 227]

- 12.20b Do the notes disclose the purposes of interfund balances? [GASB-S38: 14b; 2005 GAAFR, page 228]

- 12.20d Do the notes disclose the principal purposes of interfund transfers? [GASB-S38: 15b; 2005 GAAFR, page 228]

- 12.22 Do the notes discuss the school district's risk financing activities? [GASB-S10: 77; 2005 GAAFR, pages 228-9]

- 12.24 If property taxes are a major revenue source, do the notes provide information on the property tax calendar (i.e., lien dates, levy dates, due dates, and collection dates)? [NCGA-I3: 11; 2005 GAAFR, page 229]

- 12.26 Has the school district provided a schedule of changes in short-term debt (i.e., beginning of period balance, increases, decreases, end of period balance)? [GASB-S38: 12a; 2005 GAAFR, page 232]

- 12.26b Has the school district provided an explanation of the purpose for which the debt was issued? [GASB-S38: 12b; 2005 GAAFR, page 232]

- 12.27 If the school district participates in a joint venture, do the notes disclose this fact? [GASB-S14: 75; 2005 GAAFR, page 233]

- 12.28 If the school district undertook a refunding during the period that either defeased or redeemed the refunded debt, do the notes disclose this fact? [GASB-S7: 11-14; 2005 GAAFR, page 233]

- 12.28b Do the notes disclose the aggregate difference in debt service between the refunding debt and the refunded debt? [GASB-S7: 11; 2005 GAAFR, page 233]

- 12.28c Do the notes disclose the economic gain or loss on the transaction? [GASB-S7: 11; 2005 GAAFR, page 233]

12.32 If the school district has demand bonds outstanding at the end of the fiscal period, do the notes provide all of the disclosures required by GAAP? [GASB-II: 11; 2005 GAAFR, page 237]

Explanation: The notes should disclose all of the following information regarding demand bonds:

- The terms of any letters of credit or other liquidity facilities outstanding;
- Commitment fees to obtain the letters of credit and any amounts drawn on them outstanding as of the end of the fiscal year;
- The take-out agreement, including its expiration date, commitment fees to obtain that agreement, and the terms of any new obligation incurred or expected to be incurred as a result of the take-out agreement;
- Debt service requirements to maturity that would result if the take-out agreement were exercised.

12.34 If the school district as an employer benefits from on-behalf payments of fringe benefits and salaries for its employees, do the notes disclose the amounts recognized during the period? [GASB-S24: 12; 2005 GAAFR, pages 237-8]

Explanation: A school district can benefit from payments for various types of fringe benefits. Types of such benefits include pension contributions and health and life insurance premiums. Also, included in this category are certain payments from the federal government under Medicare Part D for prescription drug coverage that a school district employer provides to its retirees. However, not all Medicare Part D payments qualify for treatment as on-behalf payments. Generally, it is only those payments that are made to a multiple-employer other postemployment (OPEB) plan. Payments that a school district receives directly, for example, those related to a single-employer OPEB plan, are properly reported as a voluntary nonexchange transaction.

12.34a If on-behalf benefits take the form of contributions to a pension plan for which the school district is not legally responsible, do the notes disclose the name of the pension plan and the name of the entity that makes the contributions? [GASB-S24: 12; 2005 GAAFR, pages 237-8]

12.37 If the school district reports either a special item or an extraordinary item, do the notes describe the underlying event? [APB30: 11; 2005 GAAFR, page 240]

12.38 If the school district reports a prior-period adjustment or a change in accounting principle, do the notes explain the nature of the adjustment or change? [APB20: 33, 35 and 37; 2005 GAAFR, page 240]

12.39 If the school district does not report a liability for termination benefits that meet the recognition criteria because the amount is not reasonably estimable, do the notes disclose this fact? [GASB-S47: 21]

***SECTION 13, FINANCIAL SECTION - PENSION-RELATED NOTE DISCLOSURES,
HAS BEEN OMITTED FROM THESE GUIDELINES***

FINANCIAL SECTION - RSI

14.2* If the school district does not present budgetary comparisons as a basic governmental fund financial statement, does the RSI present these comparisons? [GASB-S34: 130, note 53; 2005 GAAFR, page 296]

14.2b* Does the schedule include a separate column for the general fund and each annually budgeted major special revenue fund (or if there is a significant perspective difference, a column or columns consistent with the fund, organization, or program structure that the school district uses for its legally adopted budget)? [GASB-S34: 130; GASB-S41: 3; 2005 GAAFR, page 296]

Explanation: If perspective differences between the basis of budgeting and GAAP are so significant that it is impossible to present meaningful budgetary comparisons based on the fund structure used for GAAP reporting, then the budgetary comparison schedule should be based on the fund, organization, or program structure that the school district uses for its legally adopted budget. Generally, the school district should present such budgetary comparison schedules for the activities that they report in the general fund and major special revenue funds.

14.2c* Has the school district refrained from presenting budgetary comparisons for debt service funds, capital projects funds, permanent funds, major special revenue funds without annual budgets, and nonmajor special revenue funds? [2005 GAAFR, page 296]

14.2d* Does the budgetary schedule present the original budget? [GASB-S34: 130; 2005 GAAFR, page 296]

Explanation: GAAP define the *original budget* as “the first complete appropriated budget.” Amounts automatically carried over from one budget to the next—such as encumbrances that are subject to automatic re-appropriation—should be included as part of this original budget. Likewise, the original budget should be adjusted to reflect reserves, transfers, allocations, and supplemental appropriations that occur prior to the start of the fiscal year.

14.2e* Does the budgetary schedule present the final amended budget? [GASB-S34: 130; 2005 GAAFR, page 296]

Explanation: The *final amended budget* should reflect the ultimate appropriation authority for the period, even if, as sometimes permitted by law, some or all of the amendments occur after the close of the fiscal period.

14.2f* Does the budgetary schedule present actual data using the budgetary basis of accounting? [GASB-S34: 130; 2005 GAAFR, page 182]

14.2h Do the notes to RSI either 1) disclose the basis of budgeting, if different from GAAP, or 2) state that GAAP serve as the basis of budgeting? [2005 GAAFR, pages 205-6]

14.8 Has the school district refrained from including information as required supplementary information that the authoritative accounting literature does not designate as such? [2005 GAAFR, page 330]

FINANCIAL SECTION - COMBINING AND INDIVIDUAL FUND INFORMATION AND OTHER SUPPLEMENTARY INFORMATION

15.2* Does the financial section include combining statements for individual discretely presented component units that are *not* reported as either 1) a separate column in the government-wide financial statements or 2) a separate column in a component unit combining statement included within the basic financial statements? [2005 GAAFR, pages 299-300]

Explanation: The presentation of *condensed* financial statements for major discretely presented component units in the notes to the financial statements does *not* eliminate the need to present fully detailed combining statements for those same units.

15.6*+ If the financial reporting entity includes blended component units, has the school district treated each of the nonmajor funds of the blended component units as a separate fund of the primary government in the combining statements? [2005 GAAFR, page 301]

15.9*+ If the budgetary comparisons included within the basic financial statements or RSI for the general fund and annually budgeted major special revenue funds do not demonstrate compliance at the legal level of budgetary control, does the governmental fund subsection of the financial section provide budgetary comparison schedules that do achieve this objective? [NCGA-S1: 9c; NCGA-I10: 14; 2005 GAAFR, page 302]

Explanation: The legal level of budgetary control is the lowest level at which a school district's management may not reallocate resources without special approval. In certain extreme cases, the legal level of budgetary control may be so detailed that it is not practical to demonstrate compliance within the comprehensive annual financial report (CAFR) itself. In such cases, a separate budgetary report may be issued to demonstrate compliance at the legal level of budgetary control, provided the CAFR contains a reference to the existence of this separately issued report. This reference to a separately issued budgetary report, however, does not eliminate the need to present budgetary comparisons within the CAFR for all individual governmental funds with legally adopted annual budgets. Rather, the level of detail needed for the individual fund budgetary comparisons need not exceed the level associated with the basic financial statements (that is, expenditures by function).

15.10*+ Does the governmental fund subsection of the financial section provide budgetary comparison schedules that demonstrate compliance at the legal level of budgetary control for all other governmental funds with legally adopted annual budgets? [NCGA-S1: 9c; NCGA-I10: 14; 2005 GAAFR, page 302]

Explanation: See explanation to 15.9.

15.11* Do all budgetary schedules present information using the budgetary basis of accounting? [2005 GAAFR, page 182]

***[SECTIONS 16 AND 17 ARE ONLY APPLICABLE TO
POSTEMPLOYMENT BENEFIT SYSTEMS]***

THE STATISTICAL SECTION

18.1d2b Is the ratio of total debt service expenditures to noncapital expenditures correctly calculated?

Explanation: The amount of noncapital expenditures of governmental funds excludes the expenditures that are reported as capital assets on the accrual basis (i.e., in the government-wide financial statements). The total amount of noncapital expenditures excludes not only amounts that are reported in governmental funds as a separate capital outlay line item, but also the capital amounts that are included within functional expenditure categories. Conversely, “capital outlay” for items that do not meet the capitalization threshold should be included as noncapital expenditures.

18.1e Does the statistical section present information for the school district’s most significant own-source revenue? [GASB-S44: 14-15; Q&A 9.12.4, 9.13.4, and 9.15.3; 2005 GAAFR, page 306]

Explanation: At a minimum, the school district must present information for its most significant own-source revenue. The largest own-source revenue could be a tax other than property taxes.

18.1r Does the statistical section include appropriate analytical and educational explanations? [GASB-S44: 42; Q&A 9.47.1; 2005 GAAFR, page 310]

Explanation: Any narrative provided should serve to enhance the understandability of the data included in the statistical section. Preparers must exercise professional judgment to determine whether and to what extent such discussion should be included. Generally, the following types of information are appropriate in the statistical section:

- Explanations of the objectives of statistical section information in general and the five categories of statistical section information, as well as individual schedules of information.
- Explanations of basic concepts that may be unfamiliar to financial report users.
- Explanations that identify relationships among the information in various statistical section schedules, as well as between the statistical section and information in other sections of the financial report.
- Explanations of atypical trends and anomalous data that the financial report users would not otherwise understand. Such trends and data may result from infrequent incidents, changes in underlying assumptions or accounting methods, organizational restructuring, major policy changes, or other events.

OTHER CONSIDERATIONS

19.1 Is the report free of inconsistencies? (If not, please specify.)

19.2* If the school district participated in the Certificate of Achievement for Excellence in Financial Reporting Program in the immediately preceding fiscal year, has the school district adequately remedied or otherwise responded to the comments and suggestions generated by the previous review? (If not, please specify.)

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Please grade this report in the categories below corresponding to the sections included in the School District guidelines.

	PROFICIENT	NEEDS SIGNIFICANT IMPROVEMENT
Cover, table of contents, and formatting	<u> </u>	<u> </u>
Introductory section	<u> </u>	<u> </u>
Report of the independent auditor	<u> </u>	<u> </u>
Management’s discussion and analysis (MD&A)	<u> </u>	<u> </u>
Basic financial statements (preliminary considerations)	<u> </u>	<u> </u>
Government-wide financial statements	<u> </u>	<u> </u>
Fund financial statements (general considerations)	<u> </u>	<u> </u>
Governmental fund financial statements	<u> </u>	<u> </u>
Proprietary fund financial statements	<u> </u>	<u> </u>
Fiduciary fund financial statements	<u> </u>	<u> </u>
Summary of significant accounting policies (SSAP)	<u> </u>	<u> </u>
Note disclosure (other than the SSAP and pension-related disclosures)	<u> </u>	<u> </u>
Pension and other postemployment benefit-related note disclosures	<u> </u>	<u> </u>
Required supplementary information (RSI)	<u> </u>	<u> </u>
Combining and individual fund information and other supplementary information	<u> </u>	<u> </u>
Statistical section	<u> </u>	<u> </u>
Other considerations	<u> </u>	<u> </u>

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