

How to Create an Award-Winning Comprehensive Annual Financial Report

The anatomy of an effective (and award-winning) CAFR

By Sara Kirk, CPA, CFE



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A Comprehensive Annual Financial Report (CAFR) is a set of financial statements that provides a thorough and detailed presentation of a school district’s financial condition. It goes beyond the minimum information necessary for fair presentation that conforms with generally accepted accounting principles (GAAP).

The Governmental Accounting Standards Board (GASB) requires CAFRs to include three sections: an introductory section, a financial section, and a statistical section.

Introductory Section

The introductory section is composed entirely of new information that is not required for a school district’s current financial report. The introductory section’s purpose is to furnish general information about the school district’s structure, services, and environment and includes the following components:

- Letter of transmittal
- List of principal officials
- Organizational chart
- Any certificates received as a result of the district’s participation in a CAFR award program

The letter of transmittal is essentially an executive summary that provides useful information to readers about the district, including, among other details, (a) the services provided, (b) economic condition, (c) major initiatives, and (d) long-term financial plans.

A key takeaway of the letter of transmittal is that a school district can describe for users of the financial statements all of its accomplishments and those of its students for the year, whereas only information specifically outlined within the standards may be presented in the Management’s Discussion and Analysis.

It may appear daunting that all of the required elements of this CAFR section are new. However, once a letter of transmittal is prepared for the first time, it will simply need to be updated annually from that point forward.

The other requirements of the introductory section—such as a list of principal officials and an organizational chart—are elements the school district likely has readily available and therefore would need no additional resources to create.

Financial Section

If your district is preparing GAAP-based financial statements contained in an audited financial document, you are already meeting the majority of the requirements of the financial section. Although the GAAP-based financial statements include critical information necessary to

understand the financial condition of a school district, a CAFR allows the inclusion of additional information that is not part of the basic financial statements based on reporting standards.

For example, the basic financial statements of a government focus on the activity of the major funds. This presentation will likely result in only a few of the school district's funds being reported separately, with the remaining funds aggregated into a single column. The CAFR provides for the presentation of all funds of the school organization as supplementary information following the basic financial statements.

This additional presentation allows users to review financial activity in more detail than is available in the basic financial statements. Federal and state grantor agencies find this capability especially useful for grant funds that are typically not significant enough to meet the criteria for major fund reporting. In addition, citizens and governing body members are often interested in certain school district activities—such as food services or athletic operations—for which a CAFR would provide information that may currently be obscured by aggregation.

Statistical Section

The final section required within a CAFR is the statistical section. The statistical section provides trend data and nonfinancial data that are useful in interpreting the basic financial statements and are especially important for evaluating economic condition.

Many financial statement users such as governing bodies find the statistical schedules particularly beneficial in evaluating multiple years of data. The requirements of the statistical section are outlined in GASB Statement No. 44. The statistical section is organized to provide information in five key areas:

- **Financial trends**—information intended to help users understand and assess how a government's financial position has changed over time
- **Revenue capacity**—information intended to help users understand and assess the factors affecting a government's ability to generate own-source revenues
- **Debt capacity**—information intended to help users understand and assess a government's debt burden and its ability to issue additional debt
- **Demographic and economic information**—information intended to (a) to help users understand the socioeconomic environment within which a government operates and (b) to provide information that facilitates comparisons of financial statement information over time and among governments
- **Operating information**—information intended to provide contextual information about a government's operations and resources to help readers who use financial statement information understand and assess a government's economic condition

All but two of the statistical schedules require the inclusion of 10 years of data. Financial trend data are easily obtained from previously issued financial statement reports. The remaining statistical schedule data will initially require some resources to gather and compile. But again, once your district has prepared statistical schedules for the first CAFR, it will simply need to update them annually from that point forward.

Statistical section data can be particularly useful in ensuring that continuing disclosure requirements for bonds are met. Many school districts compare the data required for the statistical schedules in GASB Statement No. 44 with the information required for bond disclosure and add any additional items into the CAFR statistical section. Once that is done, a district can submit the CAFR and meet all of the continuing disclosure requirements within one document.

A CAFR also helps ensure that this information is available promptly; to be eligible for CAFR award programs, the CAFR must be submitted within six months of the school district's fiscal year end.

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Certificate of Excellence Program

ASBO International's Certificate of Excellence in Financial Reporting program promotes school district transparency through the preparation of a CAFR. The program, sponsored by VALIC, has recognized excellence and best practices in financial reporting for more than 45 years. Earning the nationally recognized certificate (1) shows your community that your district is credible and transparent, (2) improves your financial report through comments from school financial professionals, and (3) is viewed by credit-rating agencies as a positive factor in decision making.

Here are some final tips on developing your first CAFR:

- Don't reinvent the wheel; request templates from your CAFR award-winning neighbor district and use example CAFRs posted by ASBO on its website.
- Make sure to notify your audit firm of your interest in preparing a CAFR, and schedule the audit and other important dates with the CAFR time line in mind.
- Include CAFR experience and assistance criteria in your solicitations for audit services.

For more information, visit www.asbointl.org/COE.

Sara Kirk is consulting manager with HeinfeldMeech. Email: sarak@heinfeldmeech.com