

Auditor Prepared Financial Statements – What Your School District Needs to Know

by Sara Kirk, CPA, CFE, Consulting Partner

Posted on December 8, 2020



A few years ago, I recorded a video blog on [*The Do's and Dont's of Reviewing Your School District Audited Financial Statements*](#). This blog reviewed key information that your school district should know in order to perform a thorough and comprehensive review of your audited financial statements.

School districts in Arizona and in other states around the country contract with their independent CPA firms to assist with the preparation of their annual financial statements. This service is not a part of the audit, but rather is a nonattest service performed in addition to the audit. And while CPA firms are permitted to perform this service on behalf of the school district, independence rules do require school business officials to accept certain responsibilities and perform specific functions. For more information on the independence rules, refer to the article, [*Understanding the New Independence Rules Related to Financial Statement Preparation*](#), written by Brittney Williams.

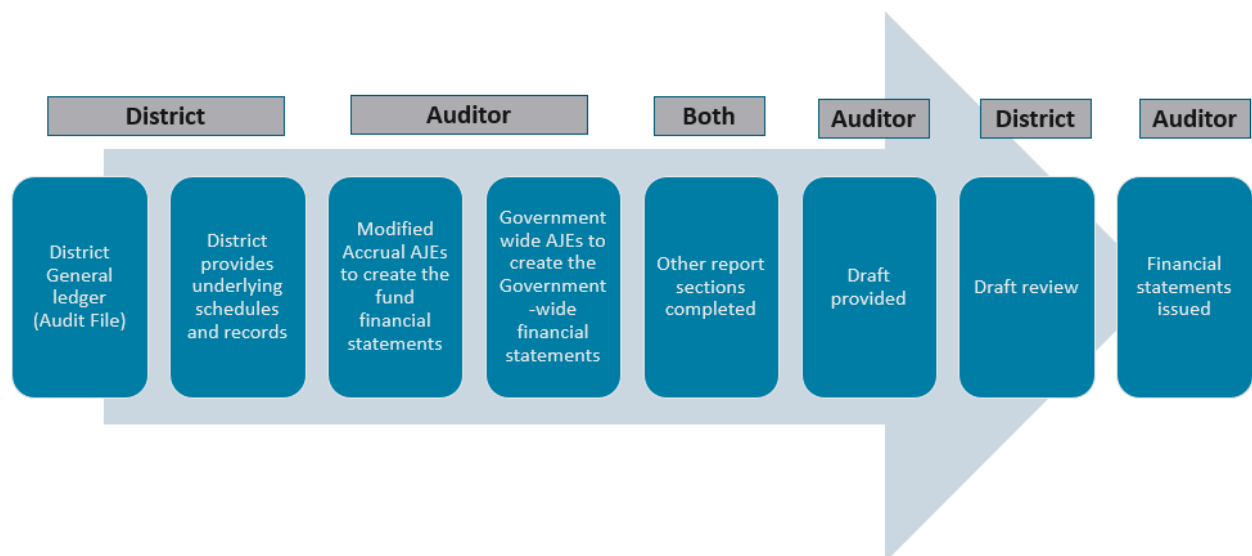
School districts are responsible for ensuring an individual or individuals with the knowledge, skills and experience to review the financial statements are identified. The school district must also have a process to ensure a review of the financial statements is performed, and ideally documented in writing, including the use of any checklists. Along with these items, it is important for school business officials to continue to receive training on financial statement preparation and review topics to keep their skills sharp and processes and procedures current.

The financial statement preparation process begins when you provide your audit firm with the final general ledger file for the fiscal year. This file includes the balances in each general ledger account as of the end of the fiscal year. Additionally, the District will provide to the audit firm numerous other records and schedules the auditor will utilize to prepare the financial statements. Your school district's general ledger is maintained largely on a cash basis, and therefore the financial statement preparation process requires two sets of journal entries to adjust district general ledger activity to produce financial statements that will be compliant with generally accepted accounting principles (GAAP). Modified accrual AJEs are posted at the individual fund level and are needed to present the fund financial statements on the modified accrual basis of accounting. The government-wide AJEs are a set of AJEs posted to the consolidated activity of all funds of the District and are needed to present a set of government-wide financial statements on the accrual basis of accounting. These entries are executed by the financial statement preparer based on the underlying records and schedules provided by the District.

Once the financial statements are finalized, other information contained within the financial statement document can be finalized such as the Management's Discussion and Analysis (MD&A), notes to the basic financial statements, and, if your school district prepares a Comprehensive Annual Financial Report, the letter of transmittal and statistical schedules.

Once a draft of the financial report is provided to the district by the auditor, the focus should be on executing a thorough and comprehensive review. School business officials are not required to re-perform the financial statement preparation services they have outsourced, but should be able to detect a material error, omission or misstatement during the review process.

The following is a visual of the financial statement preparation process outlined above:



Financial Statement Preparation Process

Our firm has also prepared another document, [Auditor Prepared Financial Statements – Guide for Implementing a Comprehensive Report Review at Your School District](#), that expands on the preparation of the fund and government-wide financial statements and will provide your district with additional information and tools to assist in your financial statement review.

Further, if your District is interested in additional training, you can contact Sara Kirk at 602-881-1426 or send us an email via [our contact webpage](#).

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