

# **Reference Manual Appendix 1**

**2020**

## **Table of Contents** **and** **Management's Discussion and Analysis** **(MD&A)**

**Sample School District  
Table of Contents  
For the Fiscal Year End June 30, 2020**

**Independent Auditor's Report**

**Management's Discussion and Analysis**

**Basic Financial Statements**

- Statement of Net Position
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
- Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
- Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position

**Notes to Basic Financial Statements**

**Required Supplementary Information**

- Schedule of Funding Progress - Schedule of Change in Total OPEB Liability and Related Ratios
- Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund
- Schedule of District Contributions
- Schedule of District's Proportionate Share of the Net Pension Liability

**Supplementary Information**

- Schedule of Change from Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund\*
- Schedule of Project Expenditures and Financing Resources - Capital Projects Fund\*
- Combined Balance Sheet - Non-major Governmental Funds
- Combined Revenues, Expenditures, and Changes in Fund Balance - Non-major Governmental Funds
- Net Investment in Capital Assets\*

\*Required by SED

**Federal Award Program Information**

- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards
- Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with Uniform Guidance

- Schedule of Expenditures of Federal Awards
- Notes to Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Corrective Action Plan
- Summary Schedule of Prior Audit Findings

**Extra-classroom Activity Fund**

- Independent Auditor's Report
- Statement of Assets and Liabilities Arising from Cash Transaction
- Statement of Revenues Collected and Expenses Paid
- Notes to Financial Statements

**Management Letter**

## **Management's Discussion and Analysis**

The Management's Discussion and Analysis (MD&A) section contains required supplementary information to the financial statements. This section is basically designed to answer the central question "Are we doing better or worse than in the prior year?"

The MD&A section precedes the financial statements and is intended to introduce the basic financial statements and to provide an analytical overview of the District's financial activities. One of the goals of this section is to increase the accessibility of the financial statements to the general public. The other sections are rather technical in nature, so GASB added this section to assist users without a background in governmental accounting.

When preparing the MD&A section, there are a few guidelines that should be adhered to:

- The business manager of the District, and/or other officers familiar with finances, should prepare the MD&A section.
- The MD&A section should immediately precede the financial statements.
- Limit the analysis to the current and prior year government-wide financial statements. The emphasis should be on the current year.
- The analysis should include both positive and negative aspects of the District.
- The discussion and analysis should be objective and based on currently known facts, decisions, or conditions. GASB Statement No. 34 defines "currently known facts" as "information that management is aware of as of the date of the auditor's report."
- The analysis should avoid technical language and should be written in an easy-to-understand manner. The use of charts, tables, and graphs is encouraged.
- Matters discussed should be significant, relevant, and factual.
- MD&A is not designed to take the place of the financial statements. It is designed to direct the reader to the more important matters.

### **Required Components**

GASB Statements No. 34 and No. 37 have established certain guidelines for MD&A. While these pronouncements encourage preparers to be creative and to avoid "boilerplate" discussions, they also require that the discussion and analysis be confined to the following:

- A brief discussion of the basic financial statements, including the relationships of the statements to each other and the significant differences in the information they provide. This discussion should include analysis that assists readers in understanding why measurements and results reported in the fund financial statements either reinforce information in government-wide statements or provide additional information.

- Condensed financial information derived from the government-wide financial statements comparing the current year to the prior year. Districts should present the information needed to support their analysis of financial position and results of operations required in the analysis of the government's overall financial position and results of operations below, including these elements, if relevant:
  - Total assets, distinguishing between capital and other assets
  - Deferred outflows of resources
  - Total liabilities, distinguishing between long-term liabilities and other liabilities
  - Deferred inflows of resources
  - Total net position, distinguishing among net investment in capital assets; restricted amounts; and unrestricted amounts
  - Program revenues, by major source
  - General revenues, by major source
  - Total revenues
  - Program expenses, at a minimum by function
  - Total expenses
  - Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers
  - Contributions
  - Special and extraordinary items
  - Transfers
  - Change in net position
  - Ending net position
- An analysis of the government's overall financial position and results of operations to assist users in assessing whether the financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases that significantly affected operating results for the year should be discussed.
- An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or net position of fiduciary funds and whether restrictions, commitments, or other assignments significantly affect the availability of fund resources for future use.
- An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.
- A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

- A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or results of operations (revenues, expenses, and other changes in net position).

### Auditor's Responsibilities

MD&A is required supplementary information and should be considered by the auditor, accordingly. The following is a brief list of the auditor's responsibilities in accordance with Generally Accepted Auditing Standards:

- Inquiries of management regarding the process used to prepare the report. This might include verification of currently known facts, decisions, or conditions at the date of the auditor's report.
- Verification of data provided in MD&A to the information in the financial statements. Information gathered during the audit should be used to support the analysis and discussions provided by management.
- Expansion of audit procedures to include part of MD&A not otherwise covered.
- Reference in the audit report to the MD&A section in a supplementary paragraph that states that it is required supplementary information that has been subjected to auditing procedures applied in the audit of the basic financial statements.
- Provision of explanatory paragraphs, if MD&A is deficient, omitted, or cannot be audited.

### Omission of MD&A

The following are some of the consequences of omitting MD&A:

- Audit report is required to highlight the omission in an explanatory paragraph.
- The usefulness and accessibility of the financial statements will be limited.
- Possible violation of bond covenant to provide annual GAAP financial statements.
- District will be less comparable to its peers.
- Inability of management to fully communicate its financial position could be viewed unfavorably by the board of education, bond rating agencies, etc.

---

Sample School District  
Management's Discussion and Analysis  
For the Fiscal Year End June 30, 2020

---

The following is a sample outline for MD&A. It has been developed based on an example from the GASB User Series Guide entitled "What You Should Know about Your School District's Finances" by Dean Michael Mead. The example exceeds the standards described above in certain cases. However, it is intended to meet the spirit and intent of the pronouncements.

Although the GASB discourages boilerplate presentations, certain sections inherently lend themselves to these types of presentations. However, the preparer should be encouraged to be creative with the presentation so long as it remains within the confines of the requirements. For example, the District may have a financial highlight in the current year that may be explained more clearly in the form of either a graph or chart.

### Sample Outline of MD&A

The following is a discussion and analysis of the District's financial performance for the fiscal year ended June 30, \_\_\_\_\_. The section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS**

Note to Preparer: The financial highlights section of MD&A is an executive summary of the most significant and meaningful financial aspects compared to that of the prior year. Although this part of the MD&A section is optional, it is a good opportunity to point out the District's overall change in financial status. The following are examples of items that might be included:

- Overall change in net position
- Changes in enrollment
- Significant capital projects
- Significant debt issuance
- Known changes in State aid

## OVERVIEW OF THE FINANCIAL STATEMENTS

Note to Preparer: This section describes the basic relationship between the two types of financial statements, MD&A, and other required supplementary information. Although GASB discourages boilerplate presentations, this section appears to lend itself to just that. However, the specific reconciling differences between the financial statements should be described in narrative form as an overview. The following is a sample that should be adapted to the District's circumstances.

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. The fund financial statements concentrate on the District's most significant funds with all other non-major funds listed in total in one column.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term, as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.



**Figure A-1** Major Features of the District-Wide and Fund Financial Statements

	<u>District-Wide</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/ deferred outflows of resources/ liability/ deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

## District-Wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall financial health, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are shown as *Governmental activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of these activities.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. 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 State law and by bond covenants.
- The District establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal grants).

The District has two kinds of funds:

- 1) **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 that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide financial statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

- 2) Fiduciary Funds: The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. 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. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Note to Preparer: Preparing this component of the MD&A section should be much like preparing a variance analysis in the course of an audit or in closing the books for the year. The first step is to compare, at a minimum, the elements of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses in the condensed financial information to the prior year. Once areas of significant change have been identified, the preparer of the MD&A can list the factors or transactions that contributed to each of those changes. This listing can serve as a rough first draft for this part of MD&A.

Several important things should be considered when preparing this component of MD&A:

- The analysis should use as its starting point the condensed financial information discussed in the financial highlights portion of MD&A.
- The analysis should include both the amounts and percentages of changes and the reasons for the changes. In the GASB's discussions with municipal analysts, analysts frequently commented that they are not in the least interested in an "elevator" analysis—one that only tells what went up and what went down.
- The analysis should not be limited to the figures reported in the financial statements. Important economic factors, such as changes in the tax levy, State aid, or employment bases, which significantly affected operating results for the year, should be discussed.
- As financial managers for the District, the authors of MD&A are in the best position to know why things changed financially. MD&A gives the authors an excellent opportunity to share their expertise.
- The following Figures A-2 and A-3 satisfy required components for condensed financial information. They are examples and should be modified to meet the District's needs. Significant variations indicated in the Total Percentage Change column should be explained.
- Figures A-4 and A-5 are examples of graphical comparisons that could be used to assist readers of the financial statements. Although not required, this type of analysis is encouraged because it fits with the requirements and helps the users of the financials.

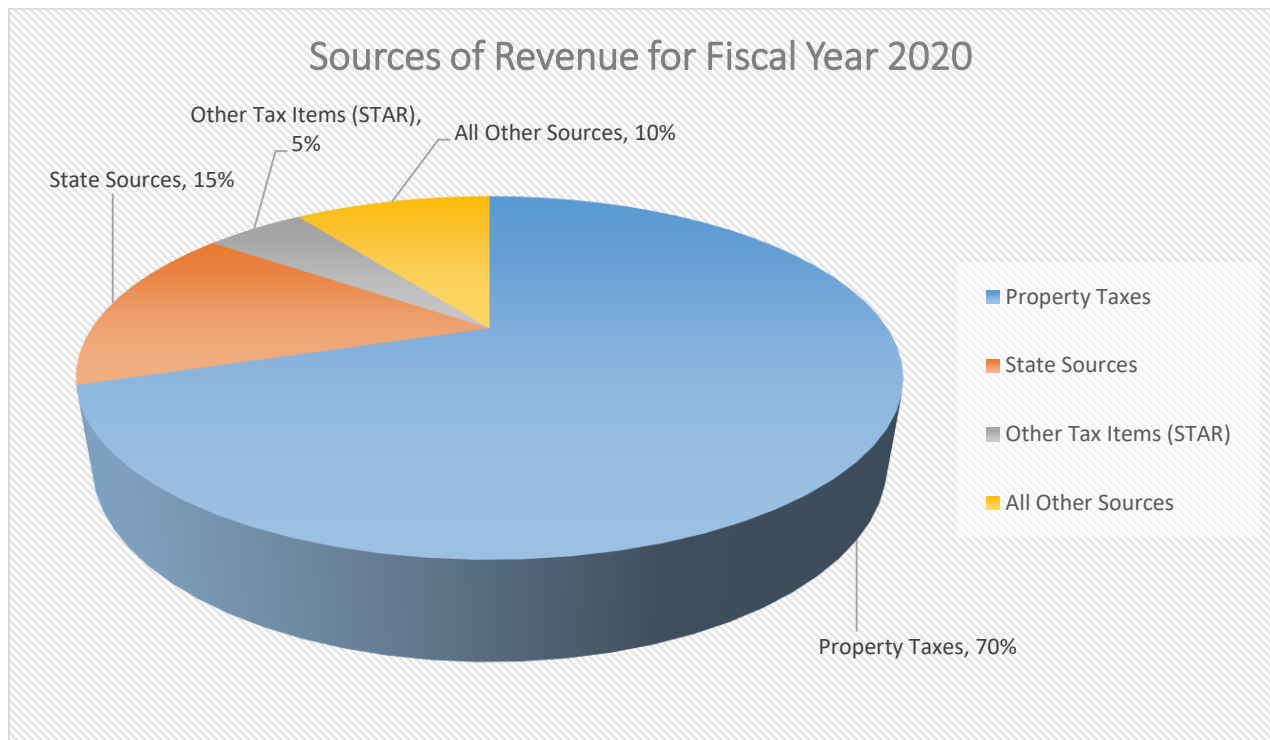
**Figure A-2**

Changes in Net Position from Operating Results (in thousands of dollars)				
	Governmental Activities and Total School District			Percentage Change
	Beginning	Ending	Increase/ (Decrease)	
Current and Other Assets	\$	\$	\$	%
Capital Assets, Net				%
Total Assets				%
Deferred Outflows of Resources				%
Total Assets and Deferred Outflows of Resources				%
Long-term Liabilities				%
Other Liabilities				%
Total Liabilities				%
Deferred Inflows of Resources				%
Total Liabilities and Deferred Inflows of Resources				%
Net Position				
Net Investment in Capital Assets				%
Restricted				%
Unrestricted				%
Total Net Position	\$	\$	\$	%

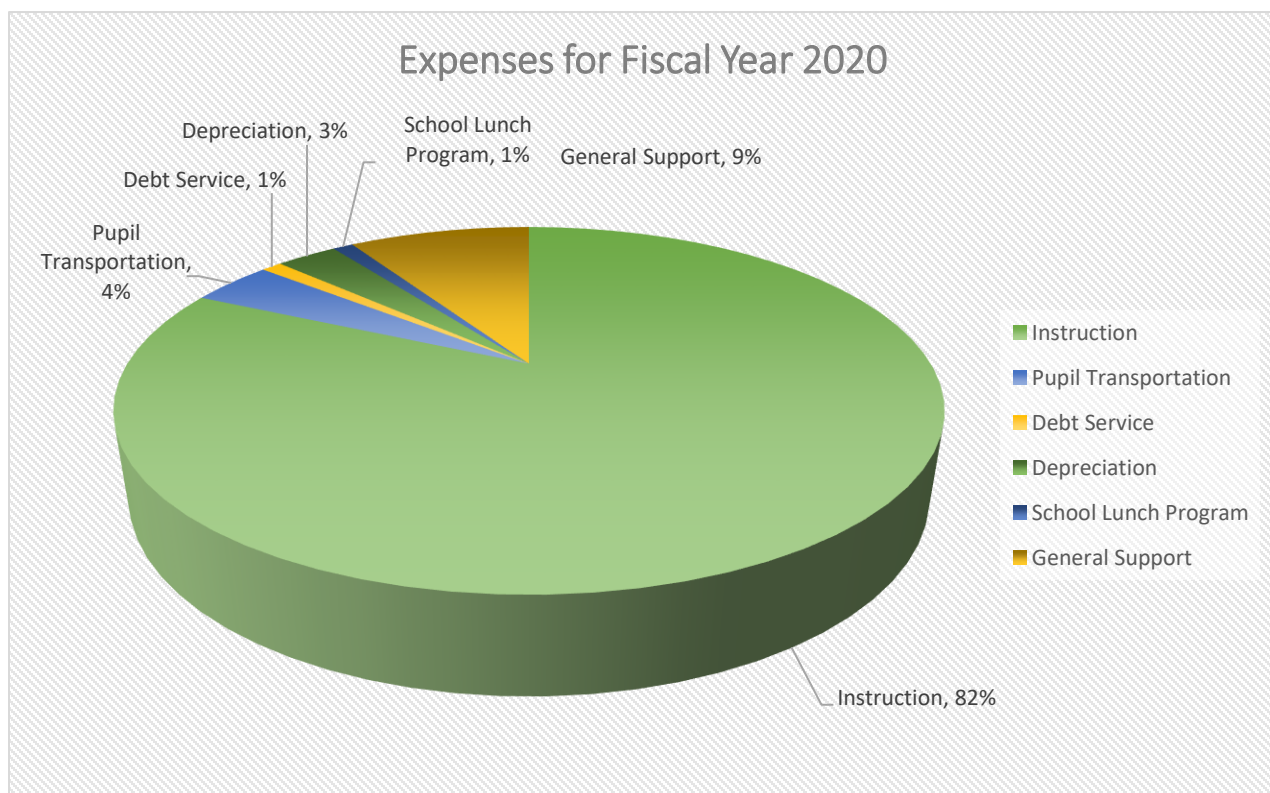
**Figure A-3**

Changes in Net Position from Operating Results (in thousands of dollars)				
	Governmental Activities and Total School District			Percentage Change
	Beginning	Ending	Increase/ (Decrease)	
<b>Revenues</b>				
Charges for Services	\$	\$	\$	%
Operating Grants and Contributions				%
Capital Grants and Contributions				%
General Revenues				
Property Taxes				%
State Formula Aid				%
Interest Earnings				%
Other				%
Total Revenues				%
<b>Expenses</b>				
General Support				%
Instruction				%
Pupil Transportation				%
Community Services				%
Debt Service - Interest				%
Depreciation - Unallocated				%
Cost of Sales - Food				%
Total Expenses				%
Increase/(Decrease) in Net Position	\$	\$	\$	%

**Figure A-4**



**Figure A-5**



## Financial Analysis of the District's Funds

Note to Preparer: This component of MD&A is an analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances and whether restrictions, commitments, or other liabilities significantly affect the availability of fund resources for future use.

This analysis is much the same as the analysis required for the District as a whole. However, there are two significant differences. First, condensed financial information is not required to be presented for the individual funds. Second, many of the significant changes will have already been discussed in the analysis of the government-wide financial results.

For this reason, the focus of this analysis generally should be on the reasons for significant changes in governmental fund balances and on any restrictions, commitments, or other limitations that significantly affect the availability of governmental fund resources for future use. Of course, one of the most important pieces of information reported in governmental fund financial statements is available fund balance. Although this information may not convey much about the long-term financial health of the entity, it is extremely important to those users who are considering whether next year's programs can be financed and whether new programs can be added.

## General Fund Budgetary Highlights

Note to Preparer: This required section is an analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity. ***Only the general fund should be discussed.***

The new reporting model incorporates what was formerly the budgetary comparison statement, as a schedule in RSI. In its basis for conclusions, the GASB noted that the purpose of budgetary comparison reporting is to show whether resources were obtained and used in accordance with the District's legally adopted budget. The Board acknowledged the importance of that objective but did not believe it was essential to the users' understanding of the financial position and results of operations of a government. Although the Board relegated the budgetary comparison statement to RSI, it did make some significant changes in the information required. One of those changes requires governments to report both the original and final budget amounts. Many analysts look at budgetary compliance as an indicator of management's ability to manage the District's resources. The Board believes that adding the original budget adds a new analytical dimension directed at those users and increases the usefulness of the budgetary comparison.

The District should include in MD&A an explanation of significant differences shown in the schedule or statement. The explanation(s) should be specific to the events that took place. The District should disclose its practice/requirement for "amending" the original budget. Management is encouraged to discuss ending results that were unanticipated, such as higher/lower cost of opening/expanding/closing facilities, change in student count/growth, program changes, change in staff or staffing patterns, revenue flow, etc.

## Capital Asset and Debt Administration

Note to Preparer: This component is a description of significant capital asset and long-term debt activity during the year. This will include a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

“Long-term debt” includes all long-term liabilities of the government, not just those for which general obligation or other debt has been issued. At first glance, this component has the potential to be a lengthy requirement. However, the new reporting model also established new requirements for note disclosures about capital assets and long-term debt. GASB No. 34 requires districts to present detailed note disclosures about capital assets and long-term liabilities reported in the government-wide Statements of Net Position. For this reason, it is sufficient for purposes of this component of MD&A to summarize the information in those notes and refer the reader to the required disclosures.

Three other types of information are required for this component of MD&A that will not necessarily (or ever) appear within the new note disclosures. These are as follows:

- Significant commitments made for capital expenditures. Again, the term “significant” is generally synonymous with “material.” All significant commitments should be included in the capital budget for governmental activities. This discussion should also indicate how the District intends to finance planned expenditures.
- Changes in credit ratings. Both good and bad changes should be discussed, including a brief description of the reason for the change.
- Debt limitations that may affect the financing of planned facilities or services. Most states impose limitations on the amount of debt that may be issued by local governments or by overlapping local governments. Other limitations may be established by the governmental entity’s charter or by its governing body. However, the focus of this discussion should be on limitations that meet the definition of “restrictions”, as that term is used in GASB’s No. 34, paragraph 34.

## Capital Assets

Note to Preparer: For example, this section can include Figure A-6 (see below) and a discussion that includes:

- Depreciation
- Completion of certain capital projects
- Enrollment changes that effect the District’s needs
- Capital projects planned for the next year
- Construction commitments

## Long-Term Debt

Note to Preparer: This section can include Figure A-7 (see below) and a discussion that includes:

- Constitutional debt limit
- New debt issues
- Bond rating with reason for any significant change from that of the prior year
- Debt retired
- Other types of debt such as energy performance contracts, capital leases, etc.
- OPEB related items
- Pension related items

**Figure A-6**

<b>Capital Assets (net of depreciation, in thousands of dollars)</b>				
	Governmental Activities and Total School District			
	Beginning	Ending	Increase/ (Decrease)	Percentage Change
Land	\$	\$	\$	%
Buildings				
Equipment and Furniture				%
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>%</u>

**Figure A-7**

<b>Outstanding Long-Term Debt (in thousands of dollars)</b>				
	Total School District			
	Beginning	Ending	Increase/ (Decrease)	Percentage Change
General obligation bonds (financed with property taxes)	\$	\$	\$	%
OPEB				
Net pension liability				
Other debt				%
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>%</u>



## Factors Bearing on The District's Future

Note to Preparer: This component is a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or results of operations (revenues, expenses, and other changes in net position).

Currently known facts are information that management is aware of, as of the date of the auditor's report. Of all the components of MD&A, this one is likely to be integrated within the others. There is no need to repeat information provided within other components.

Some other examples of currently known facts, decisions or conditions that may be relevant to MD&A include the following:

- Changes in legislation regarding school finance
- Approved capital projects
- An award of a major grant or contract
- Prices contained in contracts signed for supplies, services (such as outsourcing), or capital construction
- Decisions to eliminate current programs or start new ones
- Impending changes in educational standards
- Major residential development expected to affect student enrollment
- Litigation that has been concluded
- Approved debt that has not had an impact, as of yet, on the District's overall financial condition
- Potential reductions in state aid and other impacts of the COVID-19 pandemic

Sometimes, issues that might be discussed in MD&A, as currently known facts, are also disclosed in the notes to the financial statements, as subsequent events or contingencies. If this is the case, the discussion in MD&A should highlight (or summarize) but not repeat the information provided in the notes. School districts should not discuss the possible effect of events that might happen in MD&A, just as it would not include "what ifs" in the notes to the financial statements.

### Contacting the District's Financial Management

This financial report is designed to provide the District's residents, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact your local School District Business Office in New York State.