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DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

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October 27, 2006

MEMORANDUM

TO: All Municipal School Systems, Related Municipalities and CPA's
Auditing those Organizations

FROM: Dennis Dycus, CPA, CFE, Director
Division of Municipal Audit

A handwritten signature in black ink, appearing to read "Dennis Dycus", written over the "FROM:" line.

SUBJECT: GASB 34 Auditing and Reporting Issues – Update of Memorandum
Issued December 16, 2003 and Revised October 27, 2006

A lot of questions regarding reporting and auditing requirements for municipal boards of education which are not component units of the related municipality have been directed to our office. Because the funds being audited are predominantly governmental funds, these audits pose certain additional difficulties when the auditor for the board of education is not the auditor for the municipality as a whole.

Based on our evaluation of the current standards, if a separate audit report is issued for a municipal board of education, the following reporting guidelines should be followed.

Boards of Education which are Component Units

If the board of education is a component unit of the municipality, the board's financial statements would be substantially the same format as the municipality's financial statements (AICPA Audit and Accounting Guide: *State and Local Governments*, Section 12.14). The auditor for the board of education should make reference to the fact that the entity is a component unit of another government, as required by the AICPA Audit and Accounting Guide: *State and Local Governments*, Section 14.45. If the auditor for the primary government (related municipality) is not the auditor for the board of education, the auditor for the primary government should follow the requirements for relying on the work of other auditors (as

applicable). See the AICPA *Codification of Statements on Auditing Standards*, AU Section 543, for guidance on relying on the work of other auditors.

Boards of Education which are Departments

If the board of education is a department of the municipality, department-wide financial statements would be prepared for the board of education, as described in GASB Statement 34 (AICPA Audit and Accounting Guide: *State and Local Governments*, Sections 3.32, 14.69, and Appendix A, Example A-16.). These financial statements would be substantially the same format as the municipality's financial statements. Management's Discussion and Analysis (MD&A) should be included as required supplementary information (RSI) for such audits in accordance with current guidelines. Should the GASB or the AICPA issue further guidance related to the presentation of departmental financial statements or RSI (including MD&A) in the future, that guidance will prevail.

When board of education department-wide financial statements are audited by a firm that is not the principal auditor of the municipality, provisions will need to be made for obtaining and auditing information necessary to present the board of education information in the government-wide financial statements. The principal auditor should follow the guidelines discussed in the AICPA Audit and Accounting Guide: *State and Local Governments*, Section 4.09 through 4.15, and the AICPA *Codification of Statements on Auditing Standards*, AU Section 543.

The auditor for the board of education should make reference to the fact that the entity is a department of a local government, as required by the AICPA Audit and Accounting Guide: *State and Local Governments*, Section 14.69. If the auditor for the primary government (related municipality) is not the auditor for the board of education, the auditor for the primary government should follow the requirements for relying on the work of other auditors (as applicable). See the AICPA *Codification of Statements on Auditing Standards*, AU Section 543, for guidance on relying on the work of other auditors.