STEVE WESTLY
California State Controller

August 20, 2004

K-12 Local Educational Agencies, Joint Powers Entities, and
Certified Public Accountants Performing Audits of
K-12 Local Educational Agencies and Joint Powers Entities

Subject: Annual Audits

The purpose of this audit guide advisory is to provide additional information regarding a treatment of revenue deferrals and to assist independent auditors, local educational agencies (LEAs), and joint powers entities in conducting annual audits.

Education Code Section 33128.1 allows LEAs to recognize, for budgetary and financial reporting purposes, any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year.

The State Controller's Office, in consultation with the Bureau of State Audits, will regard these deferrals as payables in the current fiscal year in our GAAP-based financial statements. In addition, a discussion with a representative from the Governmental Accounting Standards Board (GASB) supports our recording of the deferrals as payables in the GAAP-based financial statements. This applies to payment of the second principal apportionment and the deferred appropriations of categorical programs (e.g., Home-to-School Transportation, Targeted Instructional Improvement, School Safety).

We recommend that LEAs consult with their independent auditor for proper presentation of these revenue deferrals in the financial statements. Please refer to GASB Statement 33 for further information.

This advisory will be available via the Internet on the State Controller's Office homepage at http://www.sco.ca.gov.

If you have any questions or need additional information, please contact Jeffrey V. Brownfield, Chief, Division of Audits, at (916) 324-1696.

Sincerely,

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California State Controller

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