

SECTION VII FINANCIAL REPORTING

A. INTRODUCTION

B. TYPES OF FINANCIAL REPORTING

C. BASIC STRUCTURE OF EXTERNAL FINANCIAL REPORTING

D. ADDITIONAL RESOURCES FOR FINANCIAL REPORTING

December 2008

SECTION VII FINANCIAL REPORTING

A. FINANCIAL REPORTING

INTRODUCTION

One of the major goals of this manual is to provide the basis for effective management information reporting.

The district's accounting system maintains detailed data on each transaction that affects the district. Even the smallest districts routinely engage in numerous individual transactions involving many separate accounts. The raw data that an accounting system collects is too detailed to be practical for most potential users. Financial reporting summarizes the detailed data produced by the accounting system and then presents the data in a format that facilitates use by decision makers.

B. TYPES OF FINANCIAL REPORTING

- Internal Financial Reporting

To effectively and efficiently handle district operations, managers need reliable financial data. These managers use financial reports prepared for their specific use – referred to as internal financial reports.

Internal financial reports are designed to accomplish two goals:

- Enable district management to monitor compliance with legal and contractual provisions of the district (for example, budget analysis and grant activity).
- Provide district management with information on current performance needed to make future financial plans (for example – preparing next year's budget).

Because internal financial reporting is designed expressly to meet the needs of the district's management, the format and content depends entirely on what management finds most suitable. Timeliness is a critical consideration in internal financial reporting. As a result, internal financial reports are issued periodically (daily, weekly, bi-weekly, monthly, or quarterly) rather than annually, as is often the case for external reporting.

- Special-Purpose External Financial Reporting

There are a variety of parties outside the district that need financial data to meet their specific needs. Such reports are referred to as special-purpose external financial reports.

December 2008

SECTION VII FINANCIAL REPORTING

The contents, format, and timing of these reports depend on the outside party that imposes the requirement.

Examples of special-purpose external financial reports are:

- FID
- Special Ed
- Grants
- Food Service
- General-Purpose External Reporting

There are three groups of users of district general-purpose external financial reports:

1. Those to whom the district is primarily accountable (citizens, taxpayers, voters, and service recipients).
2. Those who directly represent the citizens (the School Board).
3. Those who lend to the district or participate in the lending process.

Obviously district managers probably use general-purpose external financial reporting as well. But the presumption is these managers always have access to the underlying data and thus the needs of the primary users of general-purpose external financial reports always take precedence over the needs of management in setting the standards that govern preparation of these reports. The criteria used to determine those common information needs are known as generally accepted accounting principles (GAAP).

Districts typically prepare just the annual general-purpose external financial report in conformity with GAAP. If the GAAP financial statements are not sufficient to satisfy certain other finance-related legal or contractual provisions, additional schedules (additional supplementary information) can accompany the GAAP statements.

C. BASIC STRUCTURE OF EXTERNAL FINANCIAL REPORTING

- General-Purpose External Financial Reports

December 2008

SECTION VII FINANCIAL REPORTING

- Government-Wide Financial Statements
 - Provide statement of net assets and statement of activities.
 - Include all the district's governmental activities, business-type activities (if any), and component units (if any).
 - Use economic resource measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting employed by private-sector business enterprises and nonprofit organizations.
- Fund Financial Statements
 - Separate sets of financial statements for governmental funds, proprietary funds, and fiduciary funds.
 - Proprietary and fiduciary funds use the same measurement focus and basis of accounting used for government-wide financial reporting.
 - Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting.
 - Because of the use of different basis of accounting, a summary reconciliation is required to explain the differences between the data reported in the governmental funds and the data reported for the corresponding governmental activities columns in the government-wide financial statements.
- Notes to the Financial Statements
 - Additional required disclosures presented in the form of a single set of notes (or a separate summary of significant accounting policies and notes) placed immediately following the government-wide and fund financial statements.
- Required Supplementary Information (RSI)
 - Management discussion & analysis (MD&A) intended to provide a narrative introduction and overview that users need to interpret the basic financial statements. This information is presented before the basic financial statements.

December 2008

SECTION VII FINANCIAL REPORTING

- Budgetary comparisons which compare actual results using the basis of budgeting with the original budget and the final amended budget for the general fund and each individual major special revenue fund with a formally adopted budget. This information is presented immediately following the notes to the financial statements.
- Comprehensive Annual Financial Report (CAFR)
 - The financial statements described in the preceding section are the minimum standard for GAAP financial reporting. Districts can go beyond these minimum requirements by issuing a CAFR. A CAFR has three major sections:
 1. Introductory
 2. Financial
 3. Statistical
 - The introductory section furnishes general information on the district's structure, services, and environment. The financial section contains all basic financial statements and RSI, as well as information on all individual funds and component units NOT reported separately in the basic financial statements. The statistical section provides trend data and non-financial data useful in interpreting the basic financial statements.
 - The Association of School Business Officials maintains a program that assists district's that desire to prepare a CAFR and provides recognition to district's that successfully prepare a CAFR. For more information visit <http://www.asbointl.org/>.

D. ADDITIONAL RESOURCES FOR FINANCIAL REPORTING

- Governmental Finance Officers Association (GFOA)
- Center for Education Performance and Information (CEPI)
- Association of School Business Officials (ASBO)
- Michigan School Business Officials (MSBO)

December 2008