

The Ins and Outs of Government Fund Financial Statements

A broad understanding of government fund financial statements helps SBOs manage district resources more effectively.

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Government fund financial statements may be the most widely issued financial statements by a school organization. One reason for their pervasiveness is that they most closely represent the manner in which school organizations operate, budget, and make fiscal decisions.

Because school business officials with responsibility for the various areas reported in the fund financial statements are often questioned about them, some insights into government fund financial statements can be helpful.

Context and Purpose

Because government fund financial statements present current financial

data, the information is timely, relevant, and more easily understood compared to financial statements presented in other industries.

Fund accounting has been a long-standing method for governments to account for resources, as it allows for the evaluation of a funding source on the basis of its specific fiscal, compliance, and accountability objectives. The fund financial statements also present information using the fund's perspective—that is, General Fund, Debt Service Fund, Capital Projects Fund—which is familiar to many users of the financial statements in the government environment.

A key aspect of interpreting fund financial statements is understanding

the intended objective of a “fund” in government financial reporting. The government funds are designed to account for financial resources with a specified purpose in a separate, self-balancing account. The goal of separate funds is to allow users to identify and evaluate the use of those resources in accordance with applicable regulations, restrictions, or limitations.

Unlike the business sector in which financial statement users are concerned primarily with the profitability of the business, government financial statement users have different and unique needs that may not be relevant for other users.

Government funds further distinguish themselves through a focus on resources that are typically provided by citizens, grantors, and taxpayers for public services, without an expectation of fully recovering all costs associated with providing the services. Fund accounting allows the different users to clearly identify and use the specific information they need, as the information is disaggregated from other information that is not applicable to the particular program or funding source.

Lastly, government funds represent most of the financial resources of a school organization, including general operations, grants, capital projects, debt service, and other special revenue resources. Although school organizations may report

certain activities in other fund types—such as an enterprise fund for food services or an internal service fund for fleet operations—the significant portion of operations are accounted for in government funds.

Accounting Methodology

As noted earlier, government fund financial statements are particularly useful because of the accounting basis used. The modified-accrual basis of accounting used for government fund financial statements limits the nature of the activity reported to short-term transactions. The statements reflect the true nature of how school organizations' expenditures fluctuate with regard to the availability of resources, often not in the school organization's full control.

A key aspect of interpreting fund financial statements is understanding the intended objective of a “fund” in government financial reporting.

When reviewing and making decisions based on government fund financial statements, it is important to recognize the financial elements that are included or excluded from these financial statements. For example, although the entire amount of receivables due to the school organization at the end of the year is reported, only the portion of revenues considered measurable and available is reported. The “availability” period is typically 60 days, with the remainder of revenues not collected during this period being reported as “unavailable revenues.”

With the exception of certain long-term obligations discussed below, expenditures are generally recorded in the financial statements when the liability is incurred. The differences between the “availability” period and the expenditure recognition period often can cause government funds to be in a negative position at year-end because of delay in receiving funds.

A noteworthy element of government fund financial statements is the absence of certain assets and liabilities that are typically reported on financial statements in business. They include long-term obligations, such as bond issuances, capital leases, compensated absences, and pension obligations. Similarly, capital assets of the school organization are excluded.

When long-term obligations are not liquidated with current resources and capital assets are not easily converted to cash, there is assumed value in excluding these elements from the short-term focus of fund financial statements. As the related use of resources for these transactions is reported as expenditures rather than a balance sheet-only transaction, excluding these items from the fund financial statements allows users to assess how the resources provided for the current period were used.

One may question how decisions can be made effectively without reporting long-term assets and liabilities. Although the government fund financial statements exclude these items, they are reported in the government-wide financial statements should a user need a complete long-term perspective of a government's financial position.

With the exception of certain long-term obligations discussed below, expenditures are generally recorded in the financial statements when the liability is incurred.

In addition, there is inherent value in also presenting current-period focus for government entities. The vast majority of governments operate, budget, and make fiscal decisions on a near-term basis out of necessity rather than by choice. Funding sources for governments fluctuate annually—occasionally significantly. In addition, such changes are most often imposed rather than elective, and at times during the fiscal year without management control (i.e., voter-approved initiatives, legislative funding changes, etc.).

Management Review

As the ultimate responsibility for the financial statements rests with management, it is important that managers take an active role in preparing and reviewing government fund financial statements before issue. Although auditors have certain responsibilities with respect to providing assurance on the accuracy of the amounts reported, the assurance provided is limited. Even if the auditors help prepare the financial statements, management should review and reconcile procedures to fulfill its responsibilities related to the financial statements. Those procedures are as follows:

- Develop a checklist or use a checklist provided by the auditors to review the financial statements for required elements.
- Review and approve any adjusting journal entries posted by the auditors during financial statement preparation.
- Reconcile the financial statements and notes to underlying information of the school organization.
- Review unique current-year transactions, such as debt issuances, construction or acquisition of significant capital assets, or other unique events of the fiscal year.
- Follow up with the auditors on questions about presentation or note disclosure changes, items noted in review, or items not properly explained in the management's discussion and analysis.

It also is important to note that the governing board has its own responsibilities for the financial statements,

including setting a proper “tone at the top,” allocating resources for a robust internal control structure, and holding staff accountable for noncompliance with procedures.

The governing board is also responsible for reviewing and understanding the financial statements. Although not to the level of management, one or more members should perform a thorough review of the financial statements, with all members taking time to study and question items as needed.

Benefits of a CAFR

School organizations typically have additional useful information that is not included in the basic financial statements, and they should consider preparing a comprehensive annual financial report (CAFR).

The basic financial statements of governments focus on the activity of the major funds as defined by the reporting standards, which means that only a few of the school organization’s funds are reported separately, with the remaining funds aggregated into a single column. The CAFR presents all of the school organization’s funds. This complete presentation allows users to review financial activity that is not available in basic

financial statements. Federal and state grantor agencies find CAFRs especially useful for grant funds that are typically not significant enough to be reported separately.

In addition, citizens and board members are often interested in certain school organization activities, such as a food services, athletic operations, or school site rentals for which a CAFR would provide information that would not normally be reported. (See www.asbintl.org/COE for more information on the preparation of a CAFR.)

Resource Management

As resources available to school organizations continue to be more challenging to preserve, to manage, and to keep in compliance, it is important that school business officials have a broad understanding of the government fund financial statements. This understanding will help school officials demonstrate how the resources they manage are best serving their students.

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- INCREASING ENROLLMENT
- DECLINING ENROLLMENT
- GRADE CONFIGURATION CHANGES
- SCHOOL CONSOLIDATION
- FEEDER SCHOOL CHANGES
- FISCAL AND STAFFING PLANNING
- ATTENDANCE BOUNDARY CHANGES
- SPECIAL PROGRAM PLACEMENT
- CLASS SIZE REDUCTION
- BETTER INSIGHT INTO YOUR COMMUNITY
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