

Financial report user guide Community colleges and universities

Understanding how to extract information from government financial reports is important when reviewing public community college and university (college) financial performance and evaluating future financial decisions. This user guide describes key financial information contained within college financial reports and can help decision makers identify and understand the important and useful information presented in those reports.

Financial report information can help decision makers better govern public community colleges and universities

Colleges issue annual financial reports that are often included within a report called a comprehensive annual financial report or single audit report. These reports provide useful information for understanding the college's financial structure, strategy, and performance, and include specific financial information presented in accordance with U.S. generally accepted accounting principles (GAAP). GAAP are standards of accounting and financial reporting established by the Governmental Accounting Standards Board for all public colleges in the U.S.

The financial report contains the following key components, which are discussed in further detail in the sections that follow:

- **Independent auditors' report**—Prepared by the auditor and contains the auditors' opinion on whether the information in the financial report is presented in accordance with GAAP. The textbox to the right explains our Office's role as an independent auditor.
- **Management's discussion and analysis**—Prepared by college management and provides explanations of and reasons for the college's financial activities for the fiscal year based on the currently known facts, decisions, or conditions.
- **Financial statements**—Prepared by college management and present a consolidated view of the college's financial activities for the fiscal year in 3 financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.
- **Notes to the financial statements**—Prepared by college management and provide essential explanatory information about the financial statements.

About our Office

The Office of the Auditor General serves as an independent source of impartial information concerning State and local government entities.

The Office conducts annual financial and compliance audits of State agencies, counties, community college districts, and universities in accordance with generally accepted auditing standards. Our reports provide the Legislature and other governing bodies with information on the receipt and use of public monies, provide specific recommendations to strengthen internal controls over assets and financial transactions, and help ensure compliance with applicable State and federal laws and regulations.

Independent auditors' report

Auditors, such as the Office of the Auditor General, prepare and issue an independent auditors' report at the conclusion of an audit to report on the results of the audit. The independent auditors' report accompanies a college's financial statements and includes 3 important pieces of information: (1) management's responsibility for preparing accurate financial statements, (2) the auditors' responsibility for expressing an opinion on the financial statements, and (3) the auditors' opinion as to whether the college's financial statements are presented in accordance with GAAP. See pages 7 through 8 for an example independent auditors' report.

The auditors' opinion included in the independent auditors' report will be 1 of 4 types—unmodified, often referred to as a “clean” audit opinion, and 3 types of modified opinions—qualified, adverse, and disclaimer of opinion (see textbox on the left). College leaders can confidently use financial statements with unmodified opinions to evaluate their college's financial position, show compliance with state and federal laws, and provide financial information to creditors. When auditors issue a modified opinion, the auditors' report will discuss the reason for the modification, such as management incorrectly reporting the value of equipment.

Types of audit opinions

Unmodified opinion—The financial statements are presented in accordance with GAAP.

Modified opinions—

- **Qualified**—With the exception of the issues identified, the financial statements are presented in accordance with GAAP.
- **Adverse**—The financial statements are not presented in accordance with GAAP.
- **Disclaimer**—The auditors could not obtain enough evidence to support an opinion on the financial statements.

The auditors' opinion provides an assessment of whether the information contained in the financial report is presented in accordance with GAAP and is not a conclusion on the status of the college's financial condition. Decision makers should refer to the management's discussion and analysis (MD&A) and financial statements for information about the college's financial health.

Management's discussion and analysis

MD&A is prepared by the college's management and provides an analysis of the college's financial activities based on currently known facts, decisions, or conditions. GAAP establishes the topics that MD&A must address, including the following:

- The year's financial highlights with comparisons to the previous fiscal year's.
- Descriptions and analysis of the financial statements contained in the report including the relationship of the financial statements to each other and the differences in the information they provide.
- Descriptions and analysis of significant revenue and expense activity with reasons for significant changes from the prior fiscal year.
- Significant capital asset purchases and long-term borrowings during the year.
- Economic factors that can affect the college's future operations.

In addition, management must explain why the college's financial position improved or deteriorated during the year. For example, if the college's financial position improved as a result of decreased spending, management would have to state the reasons for the decreased spending, such as the elimination of certain college programs.

Explanatory information about financial condition and activities can be subjective and open to some interpretation. Because of this, auditors report only whether management followed the appropriate rules of accounting when preparing the MD&A and auditors provide limited assurance about the reliability of MD&A information.

Financial statements

The financial statements are prepared by the college's management and present a consolidated view of the college's financial activities for the fiscal year. The required format and information contained in the financial statements are established by GAAP. A college's financial statements contain 3 financial statements: (1) the statement of net position; (2) the statement of revenues, expenses, and changes in net position; and (3) the statement of cash flows.

Statement of net position—Provides an overall picture of the college's year-end assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position balances (see textbox on page 3 for definitions). Assets and liabilities are reported as either current or noncurrent. Current liabilities are amounts owed immediately or soon after fiscal year-end, and current assets are available resources that can be used to pay current liabilities, such as cash. Noncurrent assets are resources unavailable to pay for current liabilities, such as capital equipment, and noncurrent liabilities are amounts owed in future periods, such as long-term bonds payable. See page 3 for an example statement of net position.

Statement of net position sections

Assets—Financial resources such as cash, receivables, and capital assets, such as equipment.

Deferred outflows of resources—Transactions that have occurred but that are related to future reporting periods and increase total net position.

Liabilities—Financial obligations such as accounts payable, bonds payable, and the college's net pension liability.

Deferred inflows of resources—Transactions that have occurred but that are related to future reporting periods and decrease total net position.

Net position—The amount of financial resources that would be left after paying all liabilities. Net position is reported in 3 categories:

- Net investment in capital assets—The college's land, buildings, equipment, and infrastructure less any debt used to buy them.
- Restricted—Financial resources that must be used for purposes specified by external entities, such as donors and the federal government.
- Unrestricted—Financial resources available for general use.

Statement of net position

(Example)

	Example College
Assets	
Current assets:	
Cash and cash equivalents	\$ 5,060
Accounts receivable	600
Noncurrent assets:	
Capital assets, net	21,710
Total assets	27,370
Deferred outflows of resources	400
Liabilities	
Current liabilities:	
Accounts payable	300
Noncurrent liabilities:	
Bonds payable	7,880
Net pension liability	15,000
Total liabilities	23,180
Deferred inflows of resources	250
Net position	
Net investment in capital assets	13,830
Restricted	1,370
Unrestricted (deficit)	(10,860)
Total net position	\$ 4,340

Three things that can be learned from the statement of net position

- **The college's ability to meet short-term obligations**—The degree to which current assets exceed current liabilities indicates the college's ability to pay off debts due early in the next year.
- **The college's long-term debt**—A summarized balance of the long-term debt the college has incurred to purchase items such as land or buildings or to fund operations.
- **The college's net pension liability**—Shows the extent to which pension plan liabilities exceed pension plan assets.

Statement of revenues, expenses, and changes in net position—Presents the college’s sources (revenues) and uses (expenses) of monies for the year. As shown in the example below, the statement of revenues, expenses, and changes in net position shows the college’s operating activities, nonoperating activities, and the change in net position (see textbox below for definitions).

Statement of revenues, expenses, and changes in net position

(Example)

	Example College
Operating revenue	
Tuition and fees, net	\$2,500
Auxiliary enterprises, net	750
Other	500
Total operating revenues	3,750
Operating expenses	
Instruction	2,000
Academic support	1,000
Student services	500
Depreciation	400
Total operating expenses	3,900
Results of operations	(150)
Nonoperating revenues (expenses)	
State appropriations	100
Property taxes	50
Investment income	20
Interest expense	(10)
Total nonoperating revenues	160
Change in net position	\$ 10

Activity types

Operating activities—The revenues and expenses generated from providing educational goods and services, such as charging tuition and fees and paying for instruction expenses.

Nonoperating activities—Those revenues and expenses not specifically related to providing educational goods and services, such as revenues from state appropriations and property taxes and expenses for interest on debt.

Three things that can be learned from the statement of revenues, expenses, and changes in net position

- **The college’s expenses during the year**—Operating and nonoperating expenses show what the college spent during the year and can indicate the college’s spending priorities.
- **The college’s revenue sources**—Operating and nonoperating revenues show the different revenue sources the college used to sustain its operations and pay for its expenses.
- **The current-year impact on overall resources**—The change in net position shows whether the college’s expenses were less than it took in, which increased net position, or were more than it took in, which decreased net position.

Statement of cash flows—Presents the college’s sources and uses of cash for the year. GAAP requires colleges to present a statement of cash flows to help specifically identify how cash was generated and used during the year. As shown in the example statement below, these sources and uses of cash are generally shown in 4 cash flow categories: operating activities, noncapital financing activities, capital financing activities, and investing activities (see textbox below for definitions).

Statement of cash flows

(Example)

	Example College
Cash flows from operating activities	
Tuition and fees	\$ 2,100
Payments to suppliers	(900)
Payments to employees	(1,350)
Change in cash from operating activities	(150)
Cash flows from noncapital financing activities	
State appropriations	800
Property taxes	1,200
Federal student loans received	750
Federal student loans distributed	(750)
Change in cash from noncapital financing activities	2,000
Cash flows from capital financing activities	
Purchase of capital assets	(300)
Payment of revenue bonds	(150)
Sale of building and equipment	100
Change in cash from capital financing activities	(350)
Cash flows from investing activities	
Interest received on investments	100
Sale of investments	50
Change in cash from investing activities	150
Total change in cash	\$ 1,650

Cash flow categories

Operating activities—Cash received from customers for goods and services, such as students paying tuition and fees, and payments to suppliers and employees.

Noncapital financing—Cash received from nonoperating activities, such as state appropriations and property taxes, and cash received and distributed for federal student loan programs.

Capital financing—Borrowing of money or repayment of debt for building or equipment purchases and proceeds from the sale of buildings and equipment.

Investing—Interest received on investments and cash received from the sale of or used for the purchase of investments.

Two things that can be learned from the statement of cash flows

- **The college’s main sources and uses of cash**—Each cash flow category shows the sources of the college’s cash and the main areas where the college spends its cash.
- **The college’s change in cash**—The total change in cash shows whether cash increased or decreased as a result of current-year receipts and disbursements.

Notes to the financial statements

The notes to the financial statements contain information that is essential to a user's understanding of the college's financial statements. Common note disclosures found in a financial report include:

- **Summary of significant accounting policies**—Describes each financial statement and the accounting policies followed when preparing the financial statements.
- **Deposits and investments**—Presents the college's cash and investing policies along with the different investment types the college owns and the risks identified by GAAP, if any, associated with them (see textbox below for definitions of cash and investment risks).
- **Capital assets**—Shows the college's capital asset purchases and disposals, including the estimated amount of resources needed to complete construction projects.
- **Long-term liabilities**—Shows new debt issued and debt paid off during the year, ending debt balances, and future principal and interest payments.
- **Pension benefits**—Describes the pension plan types the college provides to its employees and shows detailed information about them, such as the benefits provided, information about pension plan assets, actuarial assumptions used in estimating the net pension liability the college owes at year-end, and contributions the college and its employees made to the pension plans during the year.

Cash and investment risk types included in notes to the financial statements

Credit risk—The chance that an issuer of an investment will not fulfill its obligations.

Custodial credit risk—The possibility that an investment will be lost if the bank or brokerage firm holding the investment goes bankrupt.

Concentration of credit risk—The potential risk of loss from having too much money invested in one entity.

Interest rate risk—The possibility that changes in interest rates will reduce an investment's value.

Foreign currency risk—The chance that changes in the value of foreign currencies will affect an investment's value.

Example independent auditors' report



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Example County Community College District

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Example County Community College District as of and for the year ended June 30, 20XX, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit were not audited by the other auditors in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independent Auditors' Report

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Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the District as of June 30, 20XX, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of District Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December XX, 20XX, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Arizona Office of the Auditor General

December XX, 20XX