

# FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

<b>Date Issued</b>	<b>Effective Date</b>	<b>Section</b>	<b>Title:</b>
10/30/91	10/30/91	II	Financial Reporting
<b>Revision No.</b>	<b>Date Revised</b>	<b>Chapter</b>	<b>Title:</b>
3	May 2021	II-1	Interim Financial Reporting

## INTRODUCTION

Interim financial statements may be defined as financial statements prepared at regular intervals of less than a year. The Governmental Accounting Standards Board's (GASB) 2015-16 *Codification of Governmental Accounting and Financial Reporting Standards* (2015 - 2016 *Codification*), Section 2900, indicates that Local Units of Administration (LUAs) should prepare appropriate interim financial statements to facilitate management control of financial operations, legislative oversight, and where necessary or desired, for external reporting purposes.

Interim reporting shares most, if not all, of the complexities of annual reporting. However, it has a few unique issues resulting from shorter financial reporting periods. We can categorize these problems as follows:

- Unusual or irregular events occurring within the time period.
- The use of accounting measurement methods for the interim report which could differ from those used in the annual report [generally accepted accounting principles (GAAP) versus non-GAAP budgets] (see Chapter II-2).
- Seasonal variations.

LUAs must consider each of the above problems carefully when preparing and utilizing interim financial statements.

## PURPOSES AND USERS

The primary purpose of LUA interim financial reports is their relevance and usefulness for purposes of management control. Most interim financial reports are intended for internal use only. Management control can include planning future operations as well as evaluating current financial position and results of operations to date.

The principle focus of interim financial statements should be directed toward control over revenues and expenditures (i.e., operating statements) in the primary operating funds (i.e., the general fund and special revenue funds). Although the financial position of the funds at a given date (i.e., balance sheet information) is important, normally it is of lesser concern in the daily management of an LUA. For LUA administrators, interim financial reports should:

- Provide the information necessary to manage the financial affairs of the LUA.
- Serve to insure that estimated revenues are realized.
- Serve to ensure that actual expenditures do not exceed appropriations.

Interim budgetary reporting allows LUA management to determine whether adjustments appear necessary for certain budget items or whether transfers or additional appropriations should be sought.

A secondary purpose of interim financial reporting is to aid in the preparation of the subsequent year's budget, since the subsequent year's budget is likely to be prepared several months before the fiscal year begins. Also, to determine new revenue requirements for the following year, it is necessary to estimate the ending fund balances of each appropriate fund. Most approaches to interim reporting view the interim period as part of the annual period. Accordingly, each interim period should anticipate the annual results and convey as much information as possible regarding the estimated figures.

The primary internal users of interim reports are personnel with budgetary responsibilities.

For LUA school board members not involved in the day-to-day operations, interim financial statements should provide the information necessary to monitor the administration's effectiveness and compliance with budgetary, legal, and contractual provisions. Interim report distribution normally is limited to the administration and the school board.

However, for those larger LUAs that sell bonds in the public bond market, the securities industry often is interested in interim reports, particularly as these reports relate to government bond offerings.

## **TYPES OF INTERIM REPORTS**

Although interim reporting needs of LUAs can differ, the primary type of interim financial report is an operating statement that compares estimated revenues with actual year-to-date revenues and budgeted expenditures with actual year-to-date expenditures. Many LUAs prepare all-inclusive budgetary operating statements which include revenues, expenditures, and changes in fund equity. Other LUAs present separate statements for revenues and for expenditures supplemented with narratives highlighting and explaining any major variances.

Balance sheets are not as important for management and compliance reporting during the interim periods for governmental-type funds since LUAs operate within annual operating cycles and interim balance sheet data are not usually pertinent. However, balance sheets for proprietary fund types should be presented since the accrual basis of accounting is used.

Comparisons with prior years and calculations of selected ratios may be important, particularly for internal management purposes.

LUAs also may present a wide variety of specialized reports primarily for management's use. These reports might emphasize construction, personnel staffing, and receivables. Often governments use graphics to display financial data, particularly to their school boards.

Interim financial reports also include predictive information. Many reports include projections of the year-end balance of estimated revenues and expenditures. Estimated monthly cash flow presentations are common. These types of interim reports provide data for management decisions based on these projections. Finally, it is important to compare actual results with projections to take action to offset any negative variances that might have occurred.

### **FORMATS OF INTERIM REPORTS**

The formats of interim financial reports vary widely based on the report users' needs. Since the school boards have primary responsibility for setting policy, condensed interim financial statements should be presented for that purpose. In addition, monitoring compliance with legal and contractual provisions is essential for the school board.

For example, if the legal level of budgetary control is established at the activity or object level, the interim report might be presented with more detail (see Chapter IV-2 for a discussion of the legal level of budgetary control). The inclusion of narratives and graphics is more useful to the school boards than page after page of budgetary operating statements.

When LUAs produce financial reports using automation, a question arises: Should computer printouts be provided to the report users or should separate summary reports be prepared? Ideally, the computer-generated report should provide the necessary levels of information for each individual report user. That is, the school board normally would have a highly summarized report, while a budget manager would have an extremely detailed report. Experience has shown that providing voluminous computer printouts to school boards is just not effective.

**Budget monitoring is one of the most important accounting activities that occurs during the year.** However, the actual monitoring varies widely by each LUA. For example, the LUA's budget officer may have the primary responsibility for monitoring the budget and reporting any deficiencies or overages to the superintendent. In other LUAs, each individual budget manager (e.g., school principal, department director) might have the responsibility for monitoring his or her budget and might be responsible for any major deviations from the budget. Again, the report's detail will vary depending on the user.

Normally, individual budget managers have monitoring responsibility in larger LUAs. However, the LUA superintendent, chief financial officer, or the accountant maintains these responsibilities in smaller LUAs. In some LUAs, the accounting staff might be responsible for monitoring the financial activity.

## FREQUENCY

How often should interim financial reports be prepared? Although interim financial reports normally are prepared monthly, in some instances they are prepared quarterly, semi-annually or some combination of these. **Official Code of Georgia Annotated (O.C.G.A.) Section 20-2-58 requires the local board of education to review the financial status of the school system at a regular meeting during each calendar month. The law further requires the financial status information to include, at a minimum, a statement of revenues, expenditures, and encumbrances. The update to O.C.G.A. §20-2-58 is effective for monthly reporting periods after July 1, 2021.**

Because the law also requires the local school system to prepare a budget that reflects all anticipated revenues from each source, the expectation is that the local board of education will approve a budget that includes all anticipated revenues and expenditures. The legal level at which the board approves the budget may vary depending on the funding source. For example, the board policy may state the General fund is approved at the function code level, and the special revenue funds (included federal and state operating grants) are approved at the aggregate fund level.

The monthly financial status template designed and utilized by the school system must include, at a minimum, the following:

- A comparison of the annual budget to the year-to-date revenues and expenditures.
- The total amount of open purchase orders for all funds at the same legal level of budgetary control for each fund.

Additionally, it is strongly encouraged that the school system also provides a detail listing of monthly revenues and expenditures, as well as an overview/summary/financial highlights of the monthly statements and the impact of the actual revenues and expenditures in accordance with the locally approved budget policy.

The following template example may be utilized by a school system to present the monthly financial status. While a school system does not have to utilize this exact template, any template presented to the local board of education must, at a minimum, include this information, per O.C.G.A. §20-2-58.

### Monthly Statement of Revenues, Expenditures, and Encumbrances

(Detail provided in accordance with local board policy. Budget must include all anticipated revenues.)

<u>Account</u>	<u>Budget</u>	<u>Year-To-Date</u>	<u>Percentage of Budget</u>
Revenues	_____	_____	✓ #DIV/O!
Expenditures	_____	_____	✓ #DIV/O!
Encumbrances/Open Purchase Orders		_____	

Most accounting systems have some type of budgetary control segment which will not allow actual expenditures to exceed budgets. An LUA might control expenditures by reviewing the account detail on a computer monitor, by reviewing a manual list of purchase orders or just by relying on the responsible individual budget manager. Therefore, if daily monitoring is essential, options other than interim reports must be developed.

Timeliness of the interim reports is essential to meet the objectives and uses of interim financial reporting. For example, if a specific line item has been over-expended by the end of the month and the interim report is not prepared for 30 days after the close of the fiscal period, this delay may allow the account to be further over-expended. Larger LUAs try to complete their interim financial statements within 10 to 15 days from the close of the fiscal period. The meeting cycle of the school board typically dictates the timing of interim report preparation.

## GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

GAAP as promulgated by the GASB are almost nonexistent for LUAs' interim financial reporting. The 2015 - 2016 *Codification* indicates that since managerial styles and perceived information needs vary widely, appropriate internal interim reporting is largely a matter of professional judgment. Therefore, no GASB pronouncements specifically discuss interim financial report requirements.

Users of financial reports must have a clear understanding of the accounting basis for these reports since the basic financial statements will be prepared on a GAAP basis which may differ substantially from those prepared during the interim.

In almost all instances, interim financial reports are not audited or reviewed by outside auditors. However, in some cases, such as when an LUA is going to issue bonds, an auditor's review of the interim financial statements might be appropriate. If applicable, this review would be completed by an independent auditor, not the Georgia Department of Audits. The *Statement on Auditing Standards 122, "Statements on Auditing Standards: Clarification and Recodification, AU-C 930"* provides guidance to auditors for their review. The standard review report should contain the following information:

- a) A title that includes the word *independent* to clearly indicate that it is the report of an independent auditor.
- b) An addressee as appropriate for the circumstances of the engagement.
- c) An introductory paragraph that
  - i. Identifies the entity whose interim financial information has been reviewed,
  - ii. States that the interim financial information identified in the report was reviewed,
  - iii. Identifies the interim financial information, and
  - iv. Specifies the date or period covered by each financial statement comprising the interim financial information.
- d) A section with the heading "Management's Responsibility for the Financial Statements" that includes an explanation that management is responsible for the preparation and fair presentation of the interim financial information in accordance

with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with the applicable reporting framework.

- e) A section with the heading "Auditor's Responsibility" that includes the following statements:
  - i. The auditor's responsibility is to conduct the review of interim financial information in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information.
  - ii. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters.
  - iii. A review of interim financial information is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, no such opinion is expressed.
- f) A concluding section with an appropriate heading that includes a statement about whether the auditor is aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with the applicable financial reporting framework and that identifies the country of origin of those accounting principles, if applicable.
- g) The manual or printed signature of the auditor's firm.
- h) The city and state where the auditor practices.
- i) The date of the review report, which should be dated as of the date of completion of the review procedures.

Also, each page of the interim financial report should be labeled "unaudited."

## **BALANCE SHEETS**

A balance sheet presents what an LUA owns (assets), owes (liabilities), its fund balances, along with any deferred inflows of resources or deferred outflows of resources. As was indicated earlier, since LUAs operate on an annual operating budgetary cycle, balance sheets are more important at year-end than during the interim reporting periods. Considering this, many LUAs do not prepare interim balance sheets for use by their school board or for internal management purposes. However, the required monthly financial status reports to the local board of education must include open purchase orders, which is essentially a fund balance committed for a specific purpose. Additionally, cash flow is important for the local board of education to review if there is a need for a school system to issue a Tax Anticipation Note prior to the collection of ad valorem taxes.

## **OPERATING STATEMENTS**

Monitoring the realization of revenues and spending of budget appropriations and comparing them to the approved budget is an important task for LUAs. If revenues are not

realized as projected, expenditures will have to be curtailed and programs reduced or eliminated unless excess fund balance is available to absorb the revenue deficiencies. Use caution when using fund balance to cover operating deficits. Once the fund balance is spent, it is no longer available to cover excess expenditures. A comparison of budget with year-to-date actual revenues and expenditures on a budgetary basis in the interim is a common presentation for most LUAs and is required as part of the monthly financial status report that must be presented to and approved by the local board of education effective July 1, 2021.

## **NARRATIVES**

A narrative supplementing interim financial statement presentations improves the potential for a clear understanding of the data the LUA presents. The types of narratives presented will vary based upon the financial presentations. Usually, revenue and expenditure analyses are included together. The narrative typically includes detailed explanations of differences in major revenue sources or expenditure categories from the current year budget and the prior year actual amounts.

## **SUMMARY**

1. Interim financial statements may be defined as financial statements prepared at regular intervals of less than a year.
2. The primary purpose of LUA interim financial reports is their relevance and usefulness for purposes of management control.
3. A secondary purpose of interim financial reporting is to aid in the preparation of the subsequent year's budget, since the subsequent year's budget is likely to be prepared several months before the fiscal year begins.
4. The primary internal users of interim reports are personnel with budgetary responsibility.
5. The primary type of interim financial report is an operating statement that compares estimated revenues with actual year-to-date revenues and budgeted expenditures with actual year-to-date expenditures.
6. Local school systems are required, as of July 1, 2021, to provide the local board of education with a monthly financial status template that includes, at a minimum, a comparison of budget to actual year-to-date revenues and expenditures, the monthly revenues received and expenditures incurred, and the total amount of open purchase orders at the end of the monthly reporting period. The financial status template should be presented at the same level of detail that the annual budget is approved by the local board of education.
7. The formats of interim financial reports vary widely based on the report users' needs.

8. Most interim operating financial statements (particularly the budget-to-actual operating statement) should be prepared at least monthly.
9. GAAP as promulgated by the GASB are almost nonexistent for LUAs' interim financial reporting.
10. A narrative supplementing interim financial statement presentation improves the potential for a clear understanding of the data the LUA presents.