

SECTION VIII - INTERIM FINANCIAL REPORTING

THE ENVIRONMENT—SOME COMPLICATING FACTORS

Before we proceed to look at the kinds of reports that may be useful, it may be helpful to understand the realities of the environment in which such reports are prepared and used. The following six factors appear to be most pertinent:

1. Accrual versus cash basis of accounting
2. Timeliness is essential
3. Complex fund structure
4. Follow-up on revenues
5. Controllability of expenditure
6. Variety of users

Accrual Versus Cash Basis of Accounting:

It is critical that those who manage the affairs of school districts have information they can understand and rely upon. The annual financial statements will be prepared on the modified accrual or full accrual basis of accounting, depending upon the fund type. If interim reports are prepared on a different basis of accounting, such as cash, these reports should be clearly labeled as such.

Timeliness is Essential:

Interim financial statements must be prepared timely. If a report package is overly detailed it may be unrealistic to expect it to be prepared in time to be useful.

Complex Fund Structure:

Numerous funds make interpretation of the related interim financial statements difficult at best, and authoritative literature discourages the use of combined financial statements for interim financial reporting, emphasizing rather the separate legal character of each fund and the need for separate reporting for each.

The separate identity of each fund should be maintained for interim financial reports although possibilities exist for supplementing such separate financial statements with summary data on a combined basis.

Follow-up on Revenues:

In the short run, the collection of the principal sources of revenue for public schools may effectively be beyond the control of school district officials. Reports on revenues may be limited in their usefulness to helping management to collect money faster or in greater abundance; their principal purpose would be providing information on how much has been (and is expected to be) collected.

Controllability of Expenditures:

Most expenditures also are relatively uncontrollable as many school expenditures, such as contract salaries, are fixed, at least in the short term.

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Similarly, it is often not feasible to make significant cutbacks in other services without eliminating or scaling down planned programs. Certain levels of costs for operating and maintaining schools remain constant, irrespective of the extent to which particular programs are curtailed. If reports on expenditures during the year are prepared it is essential such reports focus appropriate attention on a comparison of budgeted expenditures to actual expenditures.

Variety of Users:

Information needs vary from one individual group to another, and the specific financial reports which will satisfy those needs vary accordingly. Reports, if they are to be useful, must answer specifically defined needs of a particular user. The format and extent of reports should be designed to meet particular needs.