ARIZONA Auditor General
Making a Positive Difference

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.



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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 an annual comprehensive 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 (GASB) 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 (MD&A)—**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 presents 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 provides essential explanatory information about the financial statements.

About our Office

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

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

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 of opinion—**The auditors could not obtain enough evidence to support an opinion on the financial statements.

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.

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 MD&A and financial statements for information about the college's financial health.

GASB Statement No. 103, *Financial Reporting Model Improvements*

GASB 103 became effective for the fiscal year ending June 30, 2026, financial statements and required significant governmental financial reporting changes.

Key changes include:

- Reorganized and refined MD&A requirements.
- Proprietary fund statement changes—Addition of the noncapital subsidies category to the statement of revenues, expenses, and changes in net position. Noncapital subsidies are nonexchange financial assistance intended to support operations, which means they directly or indirectly keep current or future fees lower than they otherwise would be. These subsidies can take the form of grants, appropriations, or interfund transfers supporting operations rather than fund specific capital projects.

GASB 103 defines operating revenues and expenses as those other than nonoperating revenues and expenses, which are defined in the bullets below:

- Subsidies received and provided.
- Contributions to permanent and term endowments.
- Revenues and expenses related to financing.
- Resources from the disposal of capital assets and inventory.
- Investment income and expenses.

- Replaces the old "special" and "extraordinary" categories with a single classification: unusual or infrequent items.
- Budgetary comparisons are presented as required supplementary information. Schedules must include variance columns showing differences between original and final budgets, as well as final budget-to-actual results, alongside note disclosures.
- Major component units must be separately presented in the financial statements (when not blended into the college's financial statements) if readability allows, eliminating the option to present condensed major component unit information in the notes.

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. MD&A should be written in a manner that can be understood by users who may not have detailed knowledge of governmental accounting and financial reporting.

GASB 103 modified the topics in MD&A, limiting them to the following:

- **Overview of the financial statements—**An overview of the financial statements, including the relationships of the statements to each other.
- **Financial summary—**A condensed, comparative presentation of current and prior year key financial information.
- **Detailed analyses of activities—**An explanation of significant changes in the college's financial position and results of operations, including the reasons for those changes. For example, a college cannot just state that their financial position improved as a result of decreased spending. Instead management would have to state the reasons for the decreased spending, such as the elimination of certain college programs, provide the magnitude of those changes, and include facts, decisions, or conditions that the user may not be aware of.

- **Significant capital asset and long-term financing activity—**Discuss significant capital asset and long-term financing activity such as debt, leases, and subscription-based information technology arrangements and related significant policy changes and economic factors.

- **Currently known facts, decisions, or conditions—**A description of currently known facts, decisions, or conditions expected to have a significant effect on the financial position or to produce significant differences from the results of operations of the current year.

Auditors don't give an opinion on MD&A because it includes the college's management's explanations and interpretations of the college's financial results, which can involve judgment. Instead, auditors perform limited checks to make sure the information is consistent with the financial statements and what they learned during the audit.

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, including its component units, which may be included as part of the college's own financial statements or separately presented. 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 6 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 6 for an example statement of net position.

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 and OPEB liability—**Shows the extent to which pension and OPEB plan liabilities exceed pension and OPEB plan assets.

Statement of net position sections

Assets—Financial resources such as cash, receivables, and capital assets, including equipment, buildings, and intangible right-to-use lease and subscription assets.

Deferred outflows of resources—Financial resources already used or provided that apply to future reporting periods and increase total net position.

Liabilities—Financial obligations such as accounts payable, long-term debt, lease and subscription liabilities, and net pension and OPEB liability.

Deferred inflows of resources—Financial resources received or recognized that apply 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

(Condensed excerpt)

Example college	Totals
Assets	
Current assets:	
Cash and cash equivalents	$9,120
Receivables, net	600
Noncurrent assets:	
Capital assets, net	21,710
Total assets	**$31,430**
Deferred outflows of resources	**$400**
Liabilities	
Current liabilities:	
Accounts payable	$300
Noncurrent liabilities:	
Long-term debt	$7,880
Lease and subscription liabilities	2,000
Net pension and OPEB liability	15,000
Total liabilities	**$25,180**
Deferred inflows of resources	**$310**
Net position	
Net investment in capital assets	$15,830
Restricted:	1,370
Unrestricted (deficit)	(10,860)
Total net position	**$6,340**

Statement of revenues, expenses, and changes in net position

Presents the college's sources (revenues and noncapital subsidies) 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, unusual or infrequent items, and the change in net position (see textbox for definitions).

Activity types

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

Nonoperating activities—Those noncapital subsidies and other revenues and expenses not specifically related to providing educational goods and services.

- Noncapital subsidies are financial support a college receives from another party to help fund its operations or other activities that are not capital related, including State appropriations and grants where the college is not providing anything in return to the grantor.
- Other nonoperating activities may include revenues and expenses related to financing, disposal of capital assets, and investment income or expense.

Unusual or infrequent items—Events or transactions with a high degree of abnormality and clearly unrelated to typical government activities (unusual) or not reasonably expected to recur in the foreseeable future (infrequent).

Statement of revenues, expenses, and changes in net position

(Condensed excerpt)

Example college	Totals
Operating revenues	
Tuition and fees, net	$2,500
Government grants and contracts	1,250
Total operating revenues	$3,750
Operating expenses	
Instruction	$2,400
Academic support	1,000
Student services	500
Total operating expenses	$3,900
Operating income (loss)	**($150)**
Noncapital subsidies	
State appropriations	$550
Share of State sales taxes	50
Federal or other State subsidies	275
Donations and gifts	150
Total noncapital subsidies	**$1,025**
Other nonoperating revenues (expenses)	**$350**
Income (Loss) before unusual or infrequent items	**$1,225**
Unusual or infrequent items	150
Change in net position	**$1,375**

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 and noncapital subsidies sources—**Operating and nonoperating revenues, including noncapital subsidies, show the different 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 on page 9, these sources and uses of cash are generally shown in 4 cash flow categories: operating activities, noncapital financing activities, capital and related financing activities, and investing activities (see textbox on page 9 for definitions).

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.

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, property taxes, and cash received and distributed for federal student loan programs.

Capital and related financing—Borrowing of money or repayment of debt for capital asset purchases, like buildings or equipment, and proceeds from the sale of capital assets.

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

Statement of cash flows

(Condensed excerpt)

Example college	Totals
Cash flows from operating activities:	
Tuition and fees	$2,100
Payments to suppliers and providers of goods and services	(900)
Payments for employee wages and benefits	(1,350)
Change in cash from operating activities	**($150)**
Cash flows from noncapital financing activities:	
Property taxes	$800
State appropriations	1,200
Federal direct lending receipts	750
Federal direct lending disbursements	(750)
Change in cash from noncapital financing activities	**$2,000**
Cash flows from capital and related financing activities:	
Principal paid on capital debt, leases and subscriptions	$(200)
Purchases of capital assets	(150)
Change in cash from capital and related financing activities	**($350)**
Cash flows from investing activities:	
Interest received on investments	$100
Purchases of investments	50
Change in cash from investing activities	**$150**
Total change in cash	**$1,650**

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.
- **Cash 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).

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 1 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.

- **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 and OPEB—**Describes the pension and OPEB plan types the college provides to its employees and shows detailed information about them, such as the benefits provided, information about plan assets, actuarial assumptions used in estimating the net liabilities the college owes at year-end, and contributions the college and its employees made to the plans during the year.