



Arctic Slope Community Foundation

Success for Nonprofit Audit Preparation Program (SNAPP)

**Financial Statements Guide
for Small Rural Alaska Municipalities**

Understanding, Preparing, and Presenting Audit-Ready Financial Statements

Section 1: What Are Financial Statements?

Financial statements are organized reports that show your city's financial position (what you own and owe) and financial activity (what you earned and spent) for a fiscal year. They are the foundation of every audit. If the financial statements are wrong, the audit cannot produce a clean opinion — and findings will follow.

Why Financial Statements Matter

They are the basis for the auditor's opinion on your city's financial health.

Grantors use them to evaluate whether your city is managing public funds responsibly.

Council members and the public use them to understand how money was spent.

They are required by GAAP (GASB standards), state of Alaska reporting rules, and most grant agreements.

For a small city: you do not prepare the final GAAP-compliant statements yourself — your auditor or CPA typically prepares them from the data you provide. But you must provide accurate, complete, and reconciled data.

The Five Core Financial Statements

Statement	Plain-Language Question It Answers	QuickBooks Source
Statement of Net Position (Balance Sheet)	What do we own, what do we owe, and what is left over?	Reports > Company & Financial > Balance Sheet Standard
Statement of Activities (Revenue & Expenditure)	Did we gain or lose money this year? How much did we earn and how much did we spend?	Reports > Company & Financial > Profit & Loss Standard
Fund Financial Statements	How did each fund perform separately? Are grant funds tracked independently?	Reports > Profit & Loss by Class (filtered by fund/grant)
Statement of Cash Flows	Where did cash come from and where did it go?	Derived from Balance Sheet and P&L; prepared by auditor/CPA
Notes to Financial Statements	What additional context do the numbers need? What policies were followed?	Prepared by auditor/CPA with information provided by the city

Section 2: Understanding Each Statement

Statement of Net Position (Balance Sheet)

This statement shows a snapshot of your city's financial position at a single point in time — the last day of the fiscal year. It answers: what does the city own, what does it owe, and what is the difference?

Category	What It Includes	Examples for a Small Alaska City
Assets (what you own)	Cash, investments, receivables, property, equipment	Cash in bank accounts; amounts owed to the city; vehicles, buildings, equipment
Liabilities (what you owe)	Payables, accrued wages, loans, long-term debt	Unpaid vendor invoices; wages earned but not yet paid; loans for equipment or infrastructure
Net Position (the difference)	Assets minus liabilities; your city's equity	Restricted (grant funds that can only be used for specific purposes); Unrestricted (general funds available for any lawful purpose)

Fund Balance Classifications (GASB 54)



For governmental funds, the Balance Sheet shows fund balance classified as: Nonspendable (inventories, prepaid items), Restricted (grant-restricted amounts), Committed (council-designated for a purpose), Assigned (intended for a purpose but not formally committed), and Unassigned (available for any purpose). Your auditor will classify these — but you must provide the underlying data.

Statement of Activities (Revenue and Expenditure Statement)

This statement shows your city's financial activity over the entire fiscal year. It answers: did we gain or lose money, and where did the money come from and go to?

Category	What It Includes	Examples
Revenues	All money earned or received during the year	Property tax, sales tax, grant revenue, EIAP funding, NPR-A funds, fees for services, interest income
Expenditures	All money spent during the year	Salaries, utilities, supplies, contracts, audit costs, equipment, grant-funded project costs
Change in Net Position	Revenue minus expenditures — positive means the city gained; negative means it lost	If revenue = \$500,000 and expenditures = \$480,000, the change is +\$20,000

Fund Financial Statements

Governmental accounting requires tracking money by fund — each fund is a separate accounting entity with its own revenues, expenditures, and balance. This is how grant funds are kept separate from general operations.

Fund Type	Purpose
General Fund	The city's primary operating fund; covers day-to-day operations not restricted to a specific purpose
Special Revenue Funds	Track money restricted to specific purposes — typically one fund per major grant (NPR-A, EIAP, federal pass-through)
Capital Projects Fund	Track money designated for capital improvements (buildings, roads, equipment)
Debt Service Fund	Track money set aside to repay long-term debt (principal and interest payments)

The Most Common Financial Statement Error for Small Cities



Commingling grant funds with general fund activity in QuickBooks. If NPR-A expenditures are not tracked in a separate class, the auditor cannot verify that grant funds were used for their intended purpose — and the fund financial statements will be wrong. Always use separate QB classes for each fund and grant.

Section 3: Preparing Financial Statement Data

In most small municipalities, the auditor or an outside CPA prepares the formal GAAP-compliant financial statements. Your job is to provide them with accurate, reconciled, and complete data. This section walks through that preparation process.

Step	Action
1. Record all transactions	Ensure every revenue and expenditure for the fiscal year is entered in QuickBooks with the correct date, amount, account, and class.
2. Complete all bank reconciliations	Every account, every month. Differences must be zero. This is the most common data quality problem — if reconciliations are incomplete, the Balance Sheet will be wrong.
3. Post year-end accruals	Record any revenue earned but not yet received (grants due, fees billed) and any expenses incurred but not yet paid (invoices received but unpaid as of year-end). These accruals are required under GASB.
4. Review the general ledger	Look for miscoded transactions, unusual balances, credit balances in expense accounts, and any transactions dated outside the fiscal year that should be reclassified.
5. Run the Trial Balance	Reports > Accountant & Taxes > Trial Balance, as of the last day of the fiscal year. Total debits must equal total credits. If they do not, there is an error.
6. Run financial reports	Balance Sheet, P&L (full year), P&L by Class (for each grant/fund), and Budget vs. Actual. Save all as PDFs.
7. Compare to prior year	Review each major account: does the balance make sense compared to last year? Investigate any change greater than 10–15% and be prepared to explain it to the auditor.
8. Prepare supporting schedules	Fixed asset schedule (cost, date, depreciation), debt schedule (balances, payments, maturity), accounts payable listing, accounts receivable listing. These support the Balance Sheet line items.
9. Provide to auditor or CPA	Package the Trial Balance, all reports, all supporting schedules, and 12 months of reconciliation packages. This is the data the auditor uses to prepare the financial statements.

What the Auditor Prepares vs. What You Prepare

You prepare: Reconciled QuickBooks data, Trial Balance, financial reports, supporting schedules, and all documentation.

The auditor prepares: GAAP-compliant financial statements, notes to financial statements, fund balance classifications, and the required supplementary information.

You review: The draft financial statements for factual accuracy before the audit report is finalized.

This division of labor is normal and expected for small municipalities. The key is that the data you provide must be accurate and complete.

Section 4: What Auditors Check in Financial Statements

Auditor Test	What They Verify	What You Need	Common Finding If Missing
Statements match the ledger	Every number in the financial statements traces to the QB general ledger	General Ledger report + Trial Balance	Material misstatement — statements do not agree with underlying records
Accounts are reconciled	Bank balances, receivables, and payables are confirmed by independent evidence	12 months of bank reconciliations + confirmation letters	Unreconciled accounts — balances may be misstated
Funds are properly separated	Grant funds tracked independently; no commingling with general fund	QB class tracking + P&L by Class reports	Fund misstatement — grant expenditures mixed with general operations
Accruals are recorded	Revenue earned and expenses incurred at year-end are properly recorded	Accrual journal entries with supporting documentation	Incomplete financial statements — revenue or expenses understated
Disclosures are complete	Notes to financial statements cover all required topics	Information provided to auditor: policies, significant events, risks, commitments	Incomplete disclosures — required information missing from notes
Prior year balances agree	Opening balances match the prior year audited closing balances	Prior year audit report	Opening balance discrepancy — indicates unrecorded adjustments
Budget compliance	Expenditures did not exceed legal appropriation authority	Budget vs. Actual report + amendment resolutions	Budget overrun — expenditures exceeded approved appropriations

Section 5: Common Financial Statement Findings

Finding	Root Cause	Consequence	Prevention
Incorrect fund balances	Grant funds mixed with general fund in QB; no class tracking used	Material misstatement; auditor must reclassify transactions	Use separate QB classes for every fund and grant
Missing liabilities	Invoices received before year-end not recorded as payables	Expenditures understated; liabilities understated	Review all invoices dated before year-end; record as AP if unpaid
Unreconciled bank accounts	Reconciliations skipped or completed with remaining differences	Cash balances unreliable; auditor cannot verify	Complete all 12 months with zero differences before providing data to auditor
Missing accruals	Revenue earned but not received (grants due) not recorded at year-end	Revenue understated; receivables understated	Review all grants for reimbursements due; record as AR at year-end
Incomplete notes to financial statements	City did not provide auditor with required information	Audit report delayed; incomplete disclosure finding	Respond to auditor's information requests promptly and completely
Large unexplained year-over-year changes	Account balance changed significantly from prior year with no documentation	Auditor investigates; potential adjustment required	Review each major account; prepare written explanations for changes >10%

Financial Statement Preparation Checklist

Complete this checklist before providing data to your auditor or CPA.

✓	Financial Statement Data Preparation
<input type="checkbox"/>	All transactions for the fiscal year entered in QuickBooks with correct dates and accounts
<input type="checkbox"/>	All bank accounts reconciled for all 12 months — differences = \$0.00 for every account
<input type="checkbox"/>	All grant expenditures coded to the correct class/job code in QuickBooks
<input type="checkbox"/>	Year-end accruals recorded: AP for unpaid invoices received before year-end; AR for grants due
<input type="checkbox"/>	General ledger reviewed for miscoded transactions, unusual balances, and out-of-period entries
<input type="checkbox"/>	Trial Balance run as of fiscal year-end — debits equal credits
<input type="checkbox"/>	Balance Sheet, P&L, P&L by Class, and General Ledger saved as final PDFs
<input type="checkbox"/>	Budget vs. Actual report prepared — no categories exceed appropriation without amendment
<input type="checkbox"/>	Fixed asset schedule updated (additions, disposals, depreciation calculated)
<input type="checkbox"/>	Debt schedule prepared (outstanding loans, payment history, current balances)
<input type="checkbox"/>	AP and AR aging reports run as of fiscal year-end
<input type="checkbox"/>	Prior year balances verified — opening balances match prior audited closing balances
<input type="checkbox"/>	Major account balances compared to prior year; explanations prepared for changes >10%
<input type="checkbox"/>	Supporting schedules assembled and organized
<input type="checkbox"/>	Complete data package provided to auditor or CPA

Glossary

Term	Definition
Accrual	Recording revenue when earned and expenses when incurred, regardless of when cash changes hands. Required under GASB for governmental financial reporting.
Fund Accounting	Tracking money by purpose using separate accounting entities (funds). Each fund has its own revenues, expenditures, and balance.
GAAP	Generally Accepted Accounting Principles — the standard framework for financial reporting. For governments, GAAP is set by GASB.
GASB	Governmental Accounting Standards Board — the organization that sets accounting standards for state and local governments.
Net Position	Assets minus liabilities. Equivalent to 'equity' in the private sector. Shows what the city would have left if all debts were paid.
Notes to Financial Statements	Required explanations that accompany the financial statements, covering accounting policies, significant transactions, risks, and commitments.
Reconciliation	Comparing two records (e.g., QuickBooks vs. bank statement) to confirm they agree. Differences must be investigated and resolved.
Supporting Schedules	Supplemental workpapers that provide detail for Balance Sheet line items: fixed asset schedule, debt schedule, AP/AR listings.
Trial Balance	A report listing all account balances at a point in time. Total debits must equal total credits. The starting point for financial statement preparation.

Disclaimer

This guide is published by the Arctic Slope Community Foundation as part of the SNAPP Modified Virtual Support Program. It provides plain-language guidance for understanding and preparing financial statement data for audit.

SNAPP provides advisory and technical assistance only. This guide does not constitute legal, accounting, or audit advice. Financial statements for governmental entities must comply with GASB standards and are typically prepared by a licensed CPA or the external auditor. Participating municipalities remain solely responsible for the accuracy and completeness of the financial data they provide.