
State of Colorado
Financial Management Manual
A Guide for Colorado Local Governments

Financial Reporting

Introduction

Financial reporting allows governments to communicate to the public the financial condition and operations of the government. The Governmental Accounting Standards Board (GASB), Concepts Statement 1, identifies three objectives of financial reporting. They are as follows:

- Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.
- Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.
- Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity, the entity's ability to meet obligations, and its financial condition.

This section of the *Financial Management Manual* provides general information about financial reporting requirements as mandated by the Governmental Accounting Standards Board, federal regulations, and Colorado statutes.

Financial Reporting Sections

GASB Requirements

The Governmental Accounting Standards Board (GASB) issues authoritative pronouncements that are intended to provide accounting and financial reporting guidance for state and local government entities. In addition, GASB issues various technical bulletins and question-and-answer (Q&A) guides to aid in the interpretation of the authoritative pronouncements.

In June 1999, GASB issued Statement No. 34 which dramatically changed the way state and local governments report their finances to the public.

Generally accepted accounting principles (GAAP) have established the basic financial statements and the required supplementary information as the minimum standard for financial reporting.

Basic Financial Statements

The basic financial statements should include the government-wide and fund financial statements. The government-wide financial statements displays information about the reporting government as a whole, except for the fiduciary activities. Separate columns for the governmental and business-type activities of the primary government as well as for its

component units. These should be prepared using the economic resources measurement focus and the accrual basis of accounting.

The fund financial statements for the primary government's governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. These should be prepared using the measurement focus and basis of accounting required for that fund.

Required Supplementary Information

Required supplementary information (RSI) consists of management's discussion and analysis (MD&A) and other RSI. With the issuance of GASB 34, the biggest change was the MD&A. The purpose of the MD&A is to provide users of the basic financial statements with a narrative introduction, overview and analysis of the statements. GASB 34 provides a list of specific topics that should be addressed and governments are not allowed to address any additional topics.

The other RSI includes the budgetary comparison and information about infrastructure assets reported using the modified approach. This RSI is presented immediately following the notes to the financial statements.

Government Finance Officers Association

Government Finance Officers Association (GFOA) sponsors a program to encourage governments to prepare comprehensive

annual financial reports. There are three major sections that are required to be included in the comprehensive annual financial report (CAFR), the introductory, financial and statistical.

The *Governmental Accounting, Auditing, and Financial Reporting, Using the GASB 34 Model* published by the Government Finance Officers Association is an excellent source of information in preparing these three sections.

Introductory Section

This section provides general information on the government's structure and personnel and any other useful information to assess the government's financial condition. This section is not included with the scope of the audit, but the auditor is responsible for reading the contents. Items that would be considered introductory would be report cover, title page, table of contents, Certificate of Achievement for Excellence in Financial Reporting (if applicable), list of principal officials, organizational chart, audit committee letter (if applicable), and letter of transmittal. With the issuance of GASB 34, the biggest change in this area is the letter of transmittal. This is the most important part of the introduction and its primary function is to communicate the CAFR to its intended users. There are four components of the transmittal letter: 1) formal transmittal of the CAFR, 2) profile of the government, 3) information useful in assessing the government's financial condition, and 4) awards and acknowledgments. The letter of transmittal found in the introduction section provides a place for discussion of additional topics not addressed in the MD&A.

Financial Section

This section contains the:

- independent auditor's report on the financial statement audit.
- management's discussion and analysis (MD&A).
- basic financial statements and notes.
- required supplementary information (other than MD&A).
- combining and individual fund presentations and supplementary information.

Statistical Section

This section provides a broad range of trend data, usually for the past ten years, for key financial indicators such as general revenues and expenditures, property tax collections and debt burden and demographic information such as population per capita income, median age of the population, and unemployment rates.

Certificate of Achievement

GFOA has a program that encourages governments to prepare CAFRs and recognizes governments that have issued these reports. There are specific requirements that the CAFR must meet. When a government has earned the Certificate of Achievement for Excellence in Financial Reporting, a copy of the certificate is typically placed after the letter of transmittal in the following year.

Federal Reporting Requirements

The Single Audit Act establishes standards for obtaining consistency and uniformity for audits of states, local governments, and nonprofit organizations expending federal funds. Governments are required to complete a Single Audit in accordance with the Single Audit Act if expenditures of federal financial assistance are in excess of \$300,000 during the fiscal year.

The Single Audit Act has requirements that go well beyond auditing only the federal financial assistance that was received and expended during the year. The federal government is interested in how the entire entity is managed, and accordingly requires a series of reports from the auditor.

For contact and Web site information for Single Audit reporting requirements, please refer to the Federal Organizations, Single Audit Clearinghouse section of the Contacts chapter of the *Manual*.

Reporting Requirements for Colorado Local Governments

According to the Local Government Audit Law (Section 29-1-601 et seq., C.R.S.), each Colorado local government, unless exempt, must have an annual audit of their financial statements. These financial statements should be prepared in conformity with generally accepted accounting principles (GAAP).

The Audit Law (Section 29-1-604, C.R.S.) allows local governments with revenues or expenditures that do not exceed \$300,000 to be exempt from audit as long as the Application for Exemption form is completed as required

by statute and submitted to the Office of the State Auditor for approval. The Application for Exemption and the instructions on how to complete it can be found in Appendix B of the *Manual*.

Audit Submission Requirements

According to the Audit Law, audits for all local governments except school districts are required to be submitted to the Office of the State Auditor no later than seven months after the end of the local government's fiscal year. For most entities, this is July 31. School district audits are due to the Office of the State Auditor and the Colorado Department of Education six months after the June 30 fiscal year-end, or December 31.

The Audit Law contains a provision for an extension not to exceed 60 days for submitting audits. An extension may be granted upon written request to the Office of the State Auditor. The written request should be submitted no later than the due date of the audit.

The following number of copies should be submitted when filing :

- Counties should submit three copies to the Office of the State Auditor so that one copy can be forwarded to the Department of Local Affairs and one to the Department of Human Services.
- School districts should submit one copy to the Office of the State Auditor and one copy directly to the Colorado Department of Education.
- All other types of governments should submit two copies to the Office of the State Auditor so that one copy can be

forwarded to the Department of Local Affairs.

The Office of the State Auditor retains one copy of all local government audited financial reports as a public record available for public inspection. Audit reports are retained for seven years.

A complete copy of the Local Government Audit Law can be found within the Statutes chapter of the *Manual* under General Local Government - Related Statutes.

Other State Reporting Requirements

In November 1992, Colorado voters approved an amendment to the State Constitution, Article X, Section 20, known as the Taxpayer's Bill of Rights (TABOR). TABOR imposes significant financial reporting requirements on state and local governments in Colorado. For detailed information about TABOR reporting, see the TABOR section of the *Manual*.

According to Section 43-2-132, C.R.S., municipalities and counties receiving Highway User Tax Funds must include an audited schedule of highway receipts and expenditures in their audit report. For contact and Web site information for Highway User Tax, please refer to the State Organizations, Colorado Department of Transportation section of the Contacts chapter of the *Manual*.

Section 29-1-603, C.R.S., requires school districts to include audited supplemental schedules of receipts and expenditures for each fund and a calculation of fiscal year spending under TABOR in their audit report. In addition, school districts must utilize the Financial Policies and Procedures Handbook adopted by the State Board of Education to

obtain budget development, financial record keeping, and financial presentation guidance (Section 22-44-204(3), C.R.S.). For contact and Web site information for school districts, please refer to the State Organizations, Colorado Department of Education section of the Contacts chapter of the *Manual*.

The Local Government Budget Law requires each government to submit a copy of its budget to the Department of Local Affairs, Division of Local Government. For further information about Budget reporting requirements, see the Budget chapter within the *Manual*.

GASB 34 requires that budgetary comparisons be provided for the general and all major special revenue funds. In addition, Section 29-1-605, C.R.S., requires a comparison of actual figures with budgeted figures for each fund or activity for which a budget has been prepared. For further information about Audit law requirements, see the Audit Law chapter within the *Manual*.