

MC-98-3

Notice Number

New Jersey Department of Community Affairs
Division of Local Government Services

2/23/98

Date

LOCAL FINANCE NOTICE

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Director

New Jersey Comprehensive Annual Financial Report Pilot Program

Municipal Clerks and Clerks to the Boards of Chosen Freeholders are asked to provide copies of this notice to their governing body and chief financial officer.

Over the last two years, the Division has been engaged in a Financial Management Improvement Program (FMIP); an effort to upgrade various elements of the State's financial oversight and reporting system for local government units. One important part of the effort is to modify our 40 year old municipal and county annual financial reporting format to one that reflects contemporary, national reporting standards.

Our current detailed level of financial reporting has advantages and disadvantages, issues that have been raised by government financial professionals over the last decade. The advantage is the amount of highly detailed information provided to the readers and users of municipal and county financial statements. The disadvantage is the amount of labor and effort that is required to provide this level of detail and the nagging question of the necessity for it.

Thus, one of the goals of the FMIP, it to review our current system and to provide an improved level of financial reporting to the primary users of government financial reports by adapting our current reporting system and rules to a common national format, called a comprehensive annual financial report (CAFR). The national CAFR model divides the annual report into several sections: an introductory section; general purpose financial statements and the accompanying notes; and a statistical section.

The response has been the development of the New Jersey Comprehensive Annual Financial Report (NJ-CAFR) pilot program. With positive results from a initial study last year, the pilot project is being extended to include 1997 annual audit reports. The NJ-CAFR, in replacing the current reporting model based on the "Requirements of Audit," will utilize the format of the national standards, without changing the basis of accounting currently in use by New Jersey counties and municipalities.

The introductory and statistical sections are new to New Jersey municipalities, and are offset by the elimination of a large number of schedules, made obsolete over the last ten years, by the now standard use of general ledgers. Because of the requirements of our fiscal oversight system, the NJ-CAFR will include sections of supplemental schedules, and continue the existing general and statutory compliance comments and the single audit section.

The introductory section, prepared by the local government's administration, provides the administration an opportunity to report directly to the public on the accomplishments of the past year, and highlight new initiatives and services planned for the current year. The statistical section details fiscal trends and nonfinancial information, such as the ten largest taxpayers. This information is similar to that provided in an official statement that is part of a bond offering.

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A primary benefit of the NJ-CAFR is the reduction of the total number of schedules included in the report. The result is a report that contains schedules that are valuable to the readers and users of the financial statements, and has those that are needed to meet the Division's oversight needs.

The NJ-CAFR Pilot Program is an opportunity for municipalities and counties to test this new form of financial report. Given another successful pilot and feedback from participants, the Division expects this model to replace the Statutory Audit for fiscal years starting after December 31, 1997. The NJ-CAFR is a replacement for the current report and is based on our existing accounting system; thus, there is no funding for participants, other than any savings that may accrue in preparing the report, and the affect it may have on the public and financial markets.

We encourage you to discuss this with your auditor and consider participating in the limited number of program slots. Application forms and additional information are available by contacting FMIP Manager David Miller at (609) 984-6627.

Beth Gates, Director
Division of Local Government Services

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governing body and chief financial officers
Registered Municipal Accountants