

Understanding the City's Comprehensive Annual Financial Report

Similar accounting mechanisms

Some City financial procedures are similar to a household's checking account. When a homeowner deposits their paycheck, they see an increase in the balance of their checking account. But they don't really think of the entire checking account balance as available as unrestricted cash, because they know some recurring bills such as a mortgage payment, utilities, auto insurance, or groceries must come out of that paycheck.

In addition to a checking account, a household may keep a savings account with money reserved for emergencies such as a medical emergency, a leaky roof, car problems or a job layoff. Also, the household may have a number of other accounts for special purposes. For example, they might invest in a special account that can be used only for college tuition. They might have a retirement fund from which they cannot withdraw funds until they reach the age of 62. They might be making car payments, putting money aside to remodel a kitchen, take a vacation or for some other special purpose.

Terminology

When the City's financial departments prepare the Comprehensive Annual Financial Report (CAFR) they are obligated to use the formatting and terminology required by the Governmental Accounting Standards Board. One term that has special meaning for accountants is the term "unrestricted."

Although the term "unrestricted" may bring to mind the balance in a household checking account, it has a different meaning in the context of the CAFR. That's because the rules of the Governmental Accounting Standards Board require financial statements to describe as "unrestricted" any cash or investment resources that are not subject to "*externally imposed* restrictions or legislation." (Governmental Accounting, Auditing,

and Financial Reporting, 2005; page 53). Externally imposed restrictions could include stipulations that state bridge grant funds given to Colorado Springs be spent only on local bridges, or that federal housing funds given to Colorado Springs be spent only on low-income housing.

It can be confusing that assets restricted for specific uses by *local* designation must still be described in accounting terms as “unrestricted” because their limitations were not set by an *external* body. Even funds that were donated, or approved by voters, or committed by local law, must still be described as “unrestricted.” Here are three examples of funds that must be described as “unrestricted,” even though in practical terms they are clearly restricted:

- An individual’s donation for youth sports scholarships for low-income youth, or for specific Senior Center programs, or to be spent in a designated City park
- Public Safety Sales Tax revenue that can be spent only for the police or fire departments under the terms of the PSST ballot language that voters approved
- City Council’s commitment to use developers’ drainage fees only to improve drainage.

Even if local donors, voters or elected officials restrict some specific funds for pre-designated uses, the accountants who prepare the City’s Comprehensive Annual Financial Report must classify the money as “unrestricted.” In reality, donors may attach conditions or specify the use to their gifts; voters may pass ballot initiatives to increase taxes and restrict the revenues to pre-specified purposes; and the City Council may make laws (ordinances) with specific financial requirements. All of these circumstances may be found each year in the City’s Comprehensive Annual Financial Report.

The attached table and pie chart describe the funds labeled as “unrestricted” in the City’s current Comprehensive Annual Financial Report. Full details are in the CAFR, which can be examined on the City web site, www.SpringsGov.com, or in hard copy at the City Finance Office, 30 S. Nevada Ave., Suite 202.

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