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## Technical Bulletins: Requirements for Certificate of Conformance in Financial Reporting

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## technical bulletin

Municipal Technical Advisory Service  
Institute for Public Service, The University of Tennessee  
In cooperation with the Tennessee Municipal League

August 21, 1981

### REQUIREMENTS FOR CERTIFICATE OF CONFORMANCE IN FINANCIAL REPORTING By Michael T. Pentecost and James H. Leuty, MTAS Finance Consultants

The Certificate of Conformance in Financial Reporting Program was begun by the Municipal Finance Officers Association in 1945 to emphasize its belief that every governmental unit should prepare and publish an easily understandable, comprehensive annual financial report (CAFR) covering all of its funds and financial transactions during the year. MFOA believes that governments have a special responsibility to fully and fairly disclose their financial affairs. The CAFR is a very detailed report that goes beyond the requirements of generally accepted accounting principles, and beyond the requirements of applicable statutes and regulations, in an effort to present all of the data necessary to meet the information needs of the many persons and groups with legitimate interests in the financial affairs of government.

The Certificate of Conformance is the highest form of recognition in the area of governmental financial reporting, and its attainment represents a significant accomplishment by a governmental unit and its management. To be awarded a Certificate of Conformance, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards.

The Certificate of Conformance Program provides a governmental unit with easy and economical access to an extensive amount of technical reference material concerning governmental accounting and financial reporting theory. It provides technical informational tools which can enable government finance officers to help themselves to improve their financial reporting techniques.

The standards of the Certificate of Conformance program are rigorous. This is apparent from the large number of governmental units which do not receive a certificate on their first attempt. There should be no stigma attached to a governmental unit's failure to earn a Certificate of Conformance at the time of its first, or even its second, submission of its CAFR. The Certificate of Conformance review process should be viewed as a learning device. A governmental unit's follow-up analysis and study of the comments and suggestions for improvements provided to it can significantly facilitate an improved management-by-objectives approach to its financial reporting activities.

To be eligible for a Certificate of Conformance, a report must be the published CAFR of a state, a local governmental unit, or a public employee retirement system. The local government category includes counties, cities, school districts, special districts, and authorities.

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As of June 30, 1981, the cities of Hendersonville, Memphis, and Oak Ridge, along with the State of Tennessee, were the only governmental entities within the state holding Certificates of Conformance.

To participate in the program, units submit five copies of their CAFRs for review by the Certificate of Conformance Program Special Review Committee. Special Review Committee members include finance officers, certified public accountants, educators, and others with particular expertise in governmental accounting and financial reporting. Reports must be received by MFOA within six months of the end of the reporting entity's fiscal year.

Further information about the Certificate of Conformance in Financial Reporting Program is available upon request from Gila J. Kahn, Director/ Certificate of Conformance Program, MFOA, 180 N. Michigan Ave., Suite 800, Chicago, IL 60601; Dennis Dycus, Assistant Director of Municipal Audit, Comptroller of the Treasury, Suite 1500, James K. Polk State Office Building, Nashville, TN 37219; or your MTAS Finance Consultant.

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