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SEP 20 2001

COMPTROLLER'S MEMORANDUM NO. 2001-25

TO: Heads of Departments

FROM: Wayne H. Kimura, State Comptroller

SUBJECT: Financial Statement Reporting

This memorandum is Addendum No. 2 to Comptroller's Memorandum No. 2001-8, dated February 27, 2001. It documents the respective roles and responsibilities of the Department of Accounting and General Services (DAGS) and the individual departments and their external auditors for the departmental level implementation of the new financial reporting standards that are mandated by GASB Statement No. 34.

Statewide Policies

As necessary, DAGS will issue policy statements on specific accounting issues that impact all departments. Those accounting issues that affect only one or two departments will be addressed on a case-by-case basis with the affected department(s).

Departmental Financial Statements

Accumulating the financial information to prepare the departmental financial statements is the responsibility of each department. Presenting the financial information in the correct financial statement format is also the responsibility of each department.

Management's Discussion and Analysis (MD&A)

Within the MD&A data elements specified in GASB Statement No. 34, each department is responsible for determining the information that should be presented in the MD&A that precedes its department-wide financial statements. Because of their detailed knowledge about

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their department's financial operations, departmental financial managers are in the best position to provide financial statement users with insights as to their department's financial position and results of operations in the MD&A.

In addition to the above responsibility, certain departments will be asked to provide DAGS with information for inclusion in the MD&A for the State's Comprehensive Annual Financial Report (CAFR). Requests for this information will be made to selected departments by the DAGS Accounting Division as it identifies specific information requirements during the preparation of the CAFR.

Capital Assets and Depreciation

DAGS will provide departments, except the Department of Education, with information on the cost and accumulated depreciation of the capital assets applicable to governmental funds that is to be reported in departmental financial statements. The information provided will incorporate the new statewide capitalization policy, and will include the cost and accumulated depreciation (as of July 1, 2001) and the current year's depreciation and net cost (as of June 30, 2002) of each department's capital assets by asset category.

Departments with proprietary fund financial statements should make a determination as to the net effect of complying with the new statewide capitalization policy with respect to the capital assets that have been previously capitalized and depreciated for financial statement purposes. If the net effect of the change in capitalization amounts is determined by a department and its external auditor to be immaterial to the proprietary fund financial statements, those capital assets that are less than the new capitalization amounts should continue to be depreciated and reported in the proprietary fund financial statements, and the new statewide capitalization policy should be applied prospectively to only the new capital assets acquired by the department.

The Department of Education currently maintains its own detail property inventory records. That capital asset information is not in the property inventory database of the DAGS Inventory Management Branch. Accordingly, the Department of Education must provide the DAGS Inventory Management Branch with summary information on the cost and accumulated depreciation (as of July 1, 2001) and the current year's depreciation and net cost (as of June 30, 2002) of its capital assets by asset category, for inclusion in the State's CAFR. This information should be provided annually, and should incorporate the new statewide capitalization policy.

The departmental external auditors are available to provide advice and assistance in the preparation of the departmental financial statements in conformity with GASB Statement No. 34. Departments are, therefore, encouraged to seek the assistance of their external auditors in resolving any accounting issues that they may encounter during their

implementation of GASB Statement No. 34. The cost for such assistance has been provided for in the audit fees that have been negotiated by DAGS with the departmental external auditors. However, specific accounting issues that cannot be resolved by a department with the assistance of its external auditor should be addressed to the DAGS Accounting Division as soon as they arise so that guidance can be provided on a timely basis.

Any questions on the above may be directed to the DAGS Accounting Division at 586-0600.

WAYNE H. KIMURA
State Comptroller