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February 6, 2002

COMPTROLLER'S MEMORANDUM NO. 2002-08

TO: Heads of Departments

FROM: Glenn M. Okimoto, State Comptroller

SUBJECT: Financial Statement Reporting

This memorandum is Addendum No. 3 to Comptroller's Memorandum No. 2001-8, dated February 27, 2001. It provides guidance to departments and their external auditors on certain implementation issues as they relate to departmental financial statements under the GASB Statement No. 34 reporting model.

Capital Assets

Except for proprietary funds, capital assets have historically been unaudited at the departmental level. However, with the implementation of GASB Statement No. 34, the capital assets of departments are to be audited by departmental external auditors. To assist departments, the cost and related accumulated depreciation of each department's capital assets will be provided by the Department of Accounting and General Services (DAGS).

Capital assets, such as land and buildings, that are shared by several departments will be allocated to the user departments for financial reporting purposes. This will differ from the treatment of those assets for inventory control purposes. For example, in the Civic Center, the buildings that are occupied by more than one department are reported in the property inventory reports of the DAGS Central Services Division. Consequently, departmental external auditors will not be able to trace those assets to the user departments' property inventory reports. They will, therefore, need to confirm the asset costs allocated to user departments with the DAGS Accounting Division.

DAGS will provide the above capital asset information from the data included in the departments' property inventory reports that are submitted to the DAGS Inventory

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Management Branch. To ensure the accuracy and completeness of this information, it is imperative that departments submit correct quarterly information to the DAGS Inventory Management Branch on a timely basis.

Infrastructure Assets

DAGS Inventory Management Branch has issued current instructions with regard to the recordation of infrastructure assets by departments. Those instructions are set forth in Procurement Circular No. 2001-6, dated June 27, 2001.

Useful Life Guidelines

Some concern has been expressed about the apparent wide disparity in the useful lives of capital assets between governmental and proprietary funds that are presented in Comptroller's Memorandum No. 2001-8. For example, for governmental funds, a specific asset life is given for the different categories of capital assets (e.g., 7 years for furniture and equipment) while for proprietary funds, a range of asset lives is given (e.g., 1-25 years for furniture and equipment). The useful lives are presented in a range of years for proprietary funds because they encompass a wide range of activities that may utilize capital assets that are unique to their operations. An example would be medical equipment used by hospitals that may have a very short useful life because of rapid technological changes. The asset lives are presented in a range of years to allow proprietary funds to use the asset lives most appropriate for the types of capital assets used in their operations. Such is not the case for governmental-type operations, which generally use the same types of capital assets.

Net Investment in Capital Assets

DAGS will provide information on the outstanding debt that is associated with the capital assets of departments if it can be obtained from the Department of Budget and Finance. It is not clear at this time that the information is readily available.

Compensated Absences Liability

DAGS has not conducted any studies or surveys to determine the amount of the compensated absence liability that is payable within one year. Accordingly, each department must estimate that amount based on its own experience over a period of time.

Budget

The State plans to present the budgetary comparison schedules as part of the basic financial statements. This is a change from its initial plan to present those schedules as required supplementary information.

While the above guidance is provided to facilitate consistency in financial reporting at the State and departmental levels, it should be recognized that departments may encounter circumstances under which a different treatment may be more appropriate. In those instances, departments should consult with their external auditors, and if necessary, with DAGS, to arrive at the best solution.

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