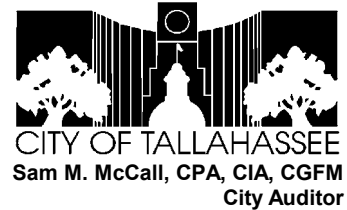


# **Project Progress Report As of July 31, 2002**



## **“Implementation of GASB Statement 34 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”**

**Report #0233**

**August 22, 2002**

### **Summary**

Accounting Services has made significant progress in the implementation of GASB Statement 34 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. This progress was facilitated primarily through (1) the restatement of the 2001 fiscal year (FY) financial statements under the new reporting model and (2) the identification and valuation of the City’s infrastructure (long-lived capital assets that are normally stationary in nature such as roads and bridges). This progress should enhance the preparation and completion of the City’s 2002 FY financial statements, the first year that the City is required to implement the new reporting model prescribed by GASB Statement 34. Significant remaining actions, such as final identification and valuation of infrastructure, are currently in process. The ultimate success of the City’s implementation of GASB Statement 34 will be determined by the City’s external auditors in their audit of the City’s 2002 FY financial statements.

### **Scope, Objectives, and Methodology**

The Office of the City Auditor is providing assurance and consulting services to assist the Department of Management and Administration (DMA) in the implementation of GASB

Statement 34 – “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.”

In a previous report, “Assistance and Guidance on Implementation of GASB Statement 34” (#0133), dated August 16, 2001, we recommended specific steps and actions that should be completed to ensure a successful and timely implementation.

Our objectives for this report are to:

- Show the overall project status as of July 31, 2002;
- Provide an independent assessment of the progress in completing the required steps and actions for implementation; and
- Communicate the significant steps and actions remaining to be completed as of July 31, 2002.

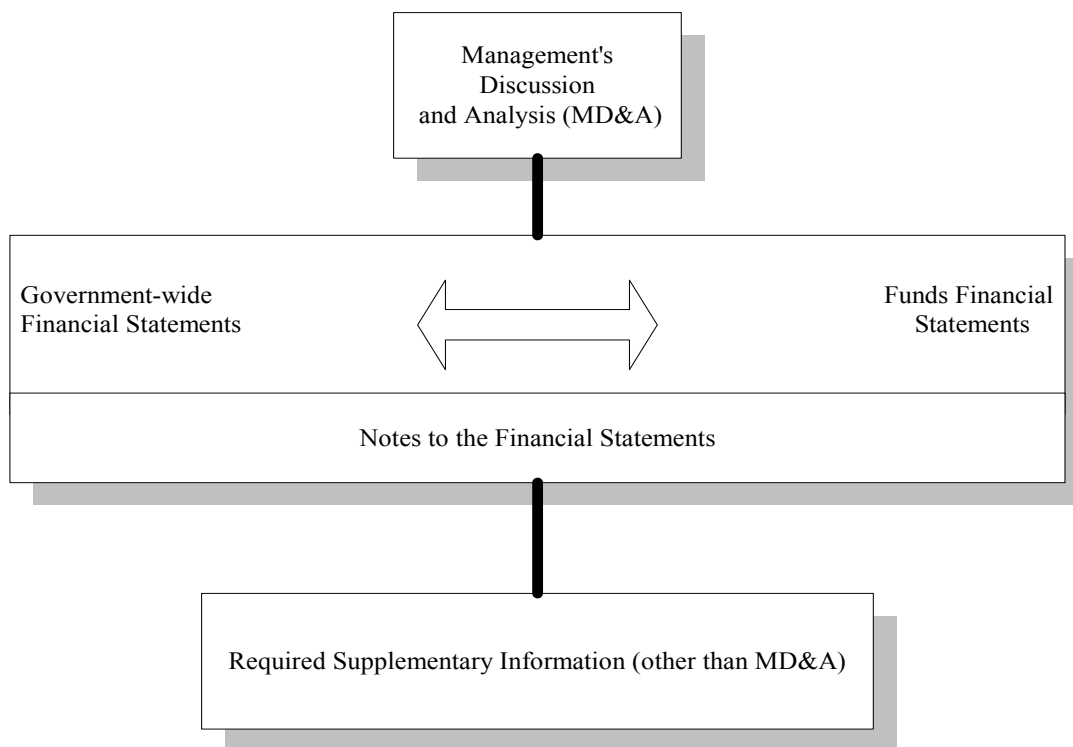
To achieve our objectives: we participated in a consulting capacity on the DMA implementation team; reviewed key documentation assimilated and prepared for implementation; and interviewed key staff making decisions and providing information for implementation.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice in Internal Auditing, as applicable.

## Background

GASB Statement 34 represents one of the most comprehensive financial reporting standards in

the history of standards setting. The financial reporting model provided by GASB Statement 34 contains the following elements:



The primary purpose of GASB Statement 34 is to revise traditional government financial statements presentations to:

- Reflect the status of non-current assets such as land, buildings, vehicles, machinery, equipment, and infrastructure (i.e., roads, bridges, stormwater ponds, etc.) **(Government-wide Financial Statements)**;
- Reflect the status of non-current obligations such as amounts owed on bond issuances, amounts due for long-term leases, and amounts to be paid current employees in future years for unused vacation and sick leave **(Government-wide Financial Statements)**;
- Present operations using an economic resources approach (“profit/loss”) in addition to the traditional current resources approach **(Government-wide Financial Statements)**;
- Demonstrate the degree to which each government program/function is self-financed through fees for services and program-specific grants compared to how much is financed through taxes, transfers, and unrestricted grants and investment earnings **(Government-wide Financial Statements)**;
- Emphasize individual funds used to account for material or significant financial activity **(Funds Financial Statements)**;
- Include a comparison of the initial funding expectations (original budget) to the final budget and to funds actually received and expended during the fiscal year **(Notes to the Financial Statements or Required Supplementary Information)**; and
- Include a management summary that provides an overall analysis of the financial statements and identification of the significant events, changes, and factors that impacted or are

expected to impact financial position and operations (**Management Discussion and Analysis**).

All state and local governments are required to implement GASB Statement 34. Based on the implementation provisions, the first year that the City must prepare financial statements in accordance with that standard is the 2002 fiscal year.

**Project Progress and Accomplishments**

Significant progress has been made in completion of steps necessary to successfully implement the new reporting model provided by GASB Statement 34. That progress was facilitated through efforts by Accounting Services to (1) restate the City’s 2001 fiscal year financial statements using the GASB Statement 34 reporting format and (2) identify and value City infrastructure assets. The following table provides, by reporting element, a summary of the required steps/actions and progress made to date.

<b>Management’s Discussion and Analysis (MD&amp;A)</b>	
Preparation of the MD&A will not be done until after the basic financial statements and notes are completed. However, certain steps are being addressed during the implementation phase:	
1.	<p>Develop a <b>method for capturing data, events, and issues</b> that are expected to be addressed in or impact the MD&amp;A.</p> <p>✓ Accounting Services is maintaining a file of data, events, and issues that will potentially impact the MD&amp;A. Items contained in that file may come from various sources including, for example, review of City Commission minutes, records of the Treasurer-Clerk’s Office (e.g., Annual Report of Bondholders), internal correspondence such as e-mails from and to City management, discussions/meetings with management, and newspaper articles.</p>
2.	<p>Determine if prior year financial statements will be restated in the GASB Statement 34 format for purposes of providing <b>comparative financial data in the initial MD&amp;A</b>.</p> <p>✓ The FY 2001 financial statements were restated in the GASB 34 format. Accounting Services plans to use that restatement to provide comparative data for purposes of completing the MD&amp;A for the 2002 FY.</p>
3.	<p>Establish a <b>planned format for presenting the MD&amp;A</b>. For example, preliminary decisions can be made as to whether charts, graphs, and/or tables will be used to supplement the narrative information.</p> <p>✓ Accounting Services has prepared a shell document for the MD&amp;A. It includes narratives, charts, graphs, and tables. As provided by GASB 34, the shell document is set up to address/provide the basic financial statements, condensed financial information derived from governmental activities, an analysis of overall financial position and results of operations, an analysis of balances and transactions for individual funds, budget-related variances, descriptions of capital asset and long-term debt activity, and a description of currently known items that are expected to impact financial position.</p>

<b>Government-wide Financial Statements</b>	
<p>The following steps should be taken for implementation of the government-wide financial statements required by GASB 34:</p>	
1.	<p>Identify the accounts and amounts recorded in the City’s existing accounting system (PeopleSoft Financials) for which <b>conversion worksheets</b> will be necessary to adjust from the current resources basis to the economic resources measurement basis. These conversions will primarily be required for general government operations. Conversions to the City’s business-type activities should not be as significant since those activities were traditionally accounted for on the economic resources basis prior to GASB Statement 34.</p> <ul style="list-style-type: none"> <li>o As part of the restatement of the 2001 FY financial statements in the GASB Statement 34 reporting format, Accounting Services (AS) prepared worksheets converting individual fund information for general government operations accounted for on the modified accrual (current resources) basis to the full accrual (economic resources or profit/loss) basis. Examples of conversions included: (1) re-categorizing capital outlay expenditures such that they reflect acquisitions of assets (e.g., equipment, machinery, and buildings) and not just decreases in current resources (cash), (2) re-categorizing bond payments such that they reflected reductions of outstanding obligations and not just decreases in current resources (cash), and (3) recording depreciation expenses. AS plans to use conversion worksheets similar to these created for the 2001 FY restatement during the preparation of the 2002 FY financial statements.</li> </ul>
2.	<p>Identify the <b>programs and functions</b> that should be reported. This should include City activities other than those that are fiduciary in nature, as defined in GASB Statement 34. For those activities to be reported, classify them as either (1) governmental activities (e.g., public safety and public works) or (2) business-type activities (e.g., various utility operations).</p> <ul style="list-style-type: none"> <li>o The City’s current accounting system already classifies transactions and balances by programs/functions. Accordingly, for the 2001 FY restatement AS used that system as a starting point for determining the programs and functions to be reported on the government-wide financial statements. The identified programs/functions were then classified as either governmental or business-type activities. The governmental activities identified by AS include: (1) general government, (2) public safety, (3) transportation, (4) human services, (5) economic development, (6) physical environment, (7) culture and recreation, and (8) interest on long-term debt. The business-type activities include: (1) electric, (2) gas, (3) sewer, (4) water, (5) airport, (6) transit (Taltran), (7) solid waste, (8) golf (Hilaman), (9) stormwater, and (10) fire services. AS intends to use these same categories for the 2002 FY financial statements.</li> </ul>
3.	<p>For each program/function to be reported as a separate line item on the government-wide statement of activities, identify the related <b>program revenues</b>. Program revenues are intended to represent the portion of a program’s funding that is financed through charges for services (e.g., permit or utility fees) and grants and contributions restricted specifically for that program. Classify identified program revenues into the following categories: (1) charges for services, (2) program-specific operating grants and contributions, and (3) program-specific capital grants and contributions.</p> <ul style="list-style-type: none"> <li>o As part of the 2001 FY restatement, AS identified and classified revenues by the programs/functions noted in the preceding step. The City’s current accounting system captured information in a manner that facilitated those identifications and classifications. AS staff then reviewed the revenues for each program/function and determined which met the criteria for program revenues. For each program/function, those program revenues were classified into (1) charges for services, (2) program-specific operating grants and contributions, and (3) program-specific capital grants and contributions. Worksheets were prepared to document this process. That documented approach will be used in preparing the government-wide financial statements for the 2002 FY.</li> </ul>

<p>4.</p>	<p>Identify the <b>general revenues</b> that will be presented on the statement of activities. Determine the classifications for presentation of those general revenues (e.g., property taxes, public service taxes, grants and contributions not restricted to specific programs, etc.).</p> <ul style="list-style-type: none"> <li>o As part of the 2001 FY restatement, AS reviewed all City revenues and identified those meeting the criteria for general revenues. General revenues identified for presentation were then categorized into the following: (1) taxes, by type, (2) grants and contributions not restricted to specific programs/functions, and (3) unrestricted investment earnings. Worksheets were prepared to document this process. That documented approach will be used in preparing the government-wide financial statements for the 2002 FY.</li> </ul>
<p>5.</p>	<p>For each program/function to be reported as a separate line item on the statement of activities identify and determine the related <b>expenses</b> to be reported. Note – the expenses associated with a particular program or function may be accounted for in more than one fund.</p> <ul style="list-style-type: none"> <li>o As noted in step 2, expenses (disbursements) are classified within the City’s current accounting system in a manner that allows them to be summarized by program/function. As part of the 2001 FY restatement, AS used that accounting system to identify and classify expenses by the program/function identified for the government-wide financial statements. Worksheets were prepared to document this process. That documented approach will be used in preparing the government-wide financial statements for the 2002 FY.</li> </ul>
<p>6.</p>	<p>Identify <b>other increases (or decreases) to net assets</b> that will be presented on the statement of activities. This will include, for example, any contributions to permanent funds, special and extraordinary items, and certain transfers.</p> <ul style="list-style-type: none"> <li>o As noted above, AS prepared worksheets capturing applicable financial activity within the City’s accounting system and records during the 2001 FY restatement. Those worksheets were used to re-classify that activity as appropriate into the various reporting categories required for the government-wide financial statements. Similar worksheets will be used for the preparation of the 2002 FY government-wide financial statements. During the 2001 FY restatement, the only identified “other increases (decreases) to net assets” consisted of net transfers of funds from business-type activities to the City’s governmental-type activities (e.g., transfers of funds from the Electric Utility to the General Fund).</li> </ul>
<p>7.</p>	<p>Determine whether <b>expenses of general government and support services</b> (e.g., legal, executive, and financial/administrative) that, in essence, constitute indirect expenses of other functions will (1) be allocated to benefiting City programs/functions (e.g., public works, public safety, utility operations) on the statement of activities or (2) be shown as a separate line item (e.g., as general government activities) on that statement. Note – GASB Statement 34 allows for either method.</p> <ul style="list-style-type: none"> <li>o For the government-wide statement of activities completed as part of the 2001 FY restatement, AS allocated expenses of general government services (e.g., City Attorney’s Office and City Auditor’s Office) benefiting business-type activities to the applicable programs/functions (e.g., the various utilities). However, AS elected not to allocate expenses of general government activities benefiting other general governmental-type programs/functions (e.g., public safety, transportation, culture and recreation). Instead, those expenses were shown as a separate line item (general government) on the statement of activities. AS plans to continue that approach for the 2002 FY.</li> </ul>

<p>8.</p>	<p>For the statement of activities, determine whether all or a part of the <b>depreciation expense relating to capital assets</b> (other than infrastructure) can be charged or allocated to direct benefiting programs/functions (e.g., public safety, transportation, economic development, etc.). For any depreciation expense for which it is impracticable to allocate to direct benefiting functions (e.g., capital assets that essentially serve all City programs/functions), a determination should be made as to whether the amount should be shown as a separate item or included as part of any general government expenses shown on the statement (see item 7 above).</p> <ul style="list-style-type: none"> <li>o In accordance with governmental accounting standards prior to GASB Statement 34, depreciation expense for the City’s general government capital assets has not been recorded in the financial statements. Nonetheless, the City’s asset management system has been used to record depreciation of those assets for internal purposes. That system is designed to assign those assets and related depreciation to either the benefiting programs/functions or to general government. Using that existing system, AS determined and allocated depreciation expense for the 2001 FY restatement. The result was depreciation expense is shown on the government-wide financial statements as part of the benefiting programs/functions’ total expenses or as part of general government’s total expenses (i.e., for assets essentially benefiting all programs/functions). AS elected not to show depreciation expense for non-infrastructure capital assets benefiting all programs/functions as a separate item on the government-wide statements. AS plans to use that same approach for the 2002 FY.</li> </ul>
<p>9.</p>	<p>Determine if <b>interest on long-term liabilities</b> should be included as part of the direct expense of a particular program/function, or whether it should be shown as a separate line item on the statement of activities. Note – such interest should be included as part of the direct expense of a program/function only when the related debt is essential to the creation or continued existence of that program/function.</p> <ul style="list-style-type: none"> <li>o AS determined that all long-term debt relating to governmental activities was not essential to the creation or continued existence of the applicable programs. For that debt, AS reflected the related interest as a separate line item on the statement of activities for the 2001 FY restatement. In regard to business-type activities, AS determined that the long-term debt was essential to the continued existence of the applicable programs/functions. Accordingly, AS included the related interest as part of the direct expenses of the applicable programs/functions (e.g., electric, water, gas) as part of the 2001 FY restatement. AS plans to continue that approach for the 2002 FY.</li> </ul>
<p>10.</p>	<p>Identify <b>non-current assets and obligations</b> that are required to be reported in the government-wide financial statements. This will include, for example, capital assets (land, buildings, infrastructure) and long-term debt. For those identified assets and obligations, determine the values that should be reported. (Also, see the following three steps that specifically address works of art, capital assets, and infrastructure.)</p> <ul style="list-style-type: none"> <li>o During the 2001 FY restatement, AS identified and valued all non-current assets and obligations to be reported on the government-wide financial statements (except for infrastructure – see step 13 below). Capital assets (other than infrastructure) and their values were identified primarily from the City’s asset management system - see item 12 below. Other non-current assets and obligations identified during the FY 2001 restatement included: (1) receivables for special assessments, (2) amounts owed between the governmental and business-type activities, (3) bonds and loans payable, and (4) liability for compensated absences (i.e., amounts payable to current employees in future years for unused leave). Each of these pertained to amounts to be received or paid in subsequent fiscal years. AS anticipates similar accounts for the 2002 FY.</li> </ul>

<p>11.</p>	<p>Identify any <b>works of art or historical treasures</b> owned by the City that should be capitalized and, for any capitalized items, whether they should be depreciated based on a limited useful life.</p> <p>✓ AS determined that several works of art owned by the City were already recorded in the City’s asset records. The recorded value of those items was \$81,950. Additional works of art owned by the City were identified by AS through the Cultural Resources Commission (nonprofit entity). Examples of these recently identified items include paintings, photographs, collages, and sculptures. AS established a policy to capitalize individual items valued in excess of \$750 and, as a result, capitalized the 26 items meeting that criterion. Those items had a total value of \$44,200. Works of art will not be depreciated. Those assets, along with any new acquisitions (and less any subsequent deletions), will be included as assets in the 2002 and future fiscal year financial statements.</p>
<p>12.</p>	<p>In regard to <b>capital assets</b> determine: (1) the initial cost values to be assigned to those assets, (2) the useful lives of those assets, (3) estimated salvage values, if any, and (4) the most equitable and appropriate depreciation method to be applied to those assets that have a limited useful life. Then, calculate the amount of accumulated depreciation to be recorded and presented for the assets in the initial government-wide financial statements. (Also, see the following steps regarding infrastructure.)</p> <p>o This information was already available and being reported in the City’s financial statements for capital assets of the previously existing enterprise funds (i.e., utility operations, airport operations, Taltran, solid waste, and Hilaman Golf). For the remaining capital assets (other than infrastructure) pertaining to general government operations (e.g., land, buildings, equipment, tangible personal property) and to activities recently classified as enterprise funds (i.e., capital assets relating to Fire Services and Stormwater), the values were obtained from the City’s asset management system as part of the 2001 FY restatement. As noted in item 8 above, the City’s asset management system has traditionally been used to account for capital assets and to calculate related depreciation on a straight-line basis for internal purposes. The calculated depreciation has been based on the estimated useful lives and initial costs for those capital assets. (Salvage values are not considered.). AS plans to use this same system and approach for the 2002 FY.</p> <p>▶ Approximately 20% of the capital assets identified for the 2001 FY restatement were not maintained on the City’s asset management system. Depreciation has not been recorded for those assets. Depreciation expense as well as accumulated depreciation will need to be determined for those assets to ensure a fair presentation for the 2001 restatement and for subsequent FY financial statements.</p> <p>▶ Estimated salvage values are not considered in the determination of periodic depreciation expense. That practice may result in the overstatement of that expense. AS should determine the impact of excluding salvage values when calculating depreciation expense on capital assets.</p>
<p>13. Part 1</p>	<p>In regard to <b>general infrastructure</b> (i.e., long-lived assets associated with the City’s governmental-type activities that are normally stationary in nature and which normally can be preserved for periods significantly longer than most capital assets. Examples are roads, bridges, sidewalks, etc.):</p>
<p>a.</p>	<p>Determine whether all or only <b>major general infrastructure assets</b> in existence as of the transition date (October 1, 2001, for the City) will be capitalized and reported. GASB Statement 34 only requires that major general infrastructure assets in existence on the transition date be capitalized and reported. (All general infrastructure meeting established capitalization thresholds acquired subsequent to the transition date must be capitalized.) That statement provides a method (formula) to determine what constitutes major general infrastructure assets as of the transition date.</p> <p>◆ AS has calculated the thresholds for identifying major general infrastructure assets as of the transition date. AS determined that roadways exceed those thresholds and that the City’s traffic signal system may</p>

	<p>also exceed those thresholds. Significant infrastructure assets that do not appear to meet the thresholds include bridges, paved paths, streetlights, and fiber optic lines. As of July 31, 2002, AS had not made a final decision as to whether to only capitalize those assets that meet the definition of major or to capitalize additional assets as well. To the extent that sufficient information is available to accurately capitalize the assets (e.g., bridges), AS is considering recording assets as of the transition date even if they do not meet the definition of major.</p>
<p>b.</p>	<p>Determine if <b>general infrastructure assets that were acquired or constructed prior to October 1, 1979</b>, will be capitalized and reported. Note – GASB Statement 34 provides that infrastructure acquired or constructed in fiscal years ending prior to June 30, 1980, does not have to be capitalized and reported in the event that adequate records are not available to document that infrastructure’s historical cost.</p> <p>✓ Records are available to identify applicable infrastructure acquired/constructed prior to October 1, 1979. Accordingly, AS plans to capitalize that infrastructure regardless of year acquired/constructed.</p>
<p>c.</p>	<p>Determine when <b>general infrastructure in existence as of the GASB Statement 34 transition date</b> (October 1, 2001, for the City) will be reported in the government-wide financial statements. Note – GASB Statement 34 provides that the City does not have to report general infrastructure retroactively until fiscal year 2005-2006. However, the City will be required to report all infrastructure acquired/constructed subsequent to the transition date (October 1, 2001) beginning with the FY 2002 financial statements.</p> <p>✓ AS determined that records were available to identify and value general infrastructure in existence as of the transition date. Accordingly, AS plans to commence reporting that existing infrastructure in the 2002 FY financial statements.</p>
<p>d.</p>	<p>After completion of the above steps, <b>identify all general infrastructure that should be reported.</b></p> <p>◆ AS developed a list of potential infrastructure items and has researched (is researching) through other City departments (e.g., public works, planning, ISS, and utilities) as to their existence, quantity, and values. As noted above in step 13.a, AS is in the process of determining which infrastructure assets in existence as of the transition date will be capitalized and reported. At a minimum, the City’s roadway system will be capitalized at a historical value of approximately \$720 million. (That amount is prior to adjustment for accumulated depreciation which has not been calculated.) In addition, all general infrastructure meeting the capitalization thresholds that was acquired/constructed subsequent to the transition date will be reported in the 2002 and subsequent FY financial statements.</p>
<p>e.</p>	<p>Determine the <b>initial cost values</b> to be assigned to the applicable general infrastructure items. GASB Statement 34 provides various options for determining those initial values. For example, if records are not available showing the historical cost, the City may use a reasonable method to estimate those costs.</p> <p>◆ AS in conjunction with applicable City departments has assigned (is assigning) initial cost values to general infrastructure. For example, in regard to roads, the Public Works department uses the “ICON” System to maintain various information on the City’s roadway system. That system was used to identify and classify all City roads by type and length. That system was also used to determine the average condition of all roads within each road type. That condition, in conjunction with the anticipated life expectancy for the roads (30 years), was used to determine the average age of each road type. The average age was then used to determine the year of acquisition/construction. Then, the current replacement costs (based on linear feet) were determined for each road type. Those costs were then deflated back to the estimated year of acquisition/construction to determine the estimated historical costs for each road type. Accumulated depreciation will subsequently be determined for these roads based on the calculated historical costs, average age, and anticipated life expectancy. Based on this methodology, AS determined a historical cost of approximately \$720 million. The accumulated depreciation for the roads has not been calculated. Similar approaches are being used for other infrastructure assets.</p>



	<p>In connection with this process, AS accumulated records from applicable departments to document the determination of initial cost values. For example, in regard to the roadway system, AS accumulated printouts from the ICON system, cost information from Public Engineering, and deflation factors from the Florida Department of Transportation. In addition, AS is verifying or has verified (through other City departments) key information such as mileage of roads and current replacement costs.</p>
<p>f.</p>	<p>Establish <b>guidelines for determining when disbursements relating to the infrastructure should be capitalized or expensed</b>. Normally, disbursements that increase the capacity or efficiency of infrastructure assets should be capitalized, while disbursements that represent repair and maintenance should be expensed at the time of disbursement. In regard to preservation costs (outlays that extend the useful life of an asset beyond its original useful life, but do not increase its capacity or efficiency), the capitalization policy will depend on whether the standard (depreciation) approach or modified approach is selected. (See item “g” below that addresses those two approaches.)</p> <ul style="list-style-type: none"> <li>◆ AS has established <u>tentative</u> capitalization guidelines for infrastructure assets. Those guidelines provide for a \$100,000 capitalization threshold for roadways and a \$50,000 threshold for all other infrastructure assets. In addition, these tentative guidelines indicate what types of outlays should be capitalized and what types should be expensed. For example, the guidelines state that maintenance costs should be expensed while preservation costs as well as additions and improvements should be capitalized. The guidelines define each of those terms.</li> </ul>
<p>g.</p>	<p>Perform cost-benefit analyses as to whether the <b>standard (depreciation) approach or the modified approach</b> should be applied. Under the depreciation approach, the initial cost of the infrastructure and any significant improvements that extend the infrastructure’s useful life or increase the infrastructure’s capacity or efficiency are depreciated over its useful life. Under the modified approach, the infrastructure is not depreciated. However, under that approach the City must implement a policy that provides the infrastructure will be maintained at a certain condition level. In addition, the City must assess the condition of that infrastructure periodically (at least every three years) and report in the financial statements whether it has been maintained at the pre-established condition level. Furthermore, each year the City must estimate the annual amount that must be expended to maintain the infrastructure at the pre-established condition level. That estimated amount and the amounts actually expended to preserve the infrastructure must be disclosed within the annual financial statements.</p> <ul style="list-style-type: none"> <li>✓ A determination was made that the standard approach would be used. That decision was based, in part, on the fact that the modified approach would involve more City resources to implement and maintain. For example, the requirement under the modified approach for periodic condition assessments by the City (i.e., Public Works staff) must be met regardless of other priorities and assignments. From a cost-benefit perspective, it appears that the standard approach is preferable.</li> </ul> <p>After determining that the standard approach will be used, AS elected to use the straight-line method to depreciate the applicable infrastructure assets. Under that method, the historical costs of each infrastructure asset (less the estimated salvage value, if any) will be depreciated equitably over the expected useful life of the asset.</p>
<p>h.</p>	<p>If the standard approach is selected, a determination should be made as to whether the calculated <b>depreciation expense</b> (for general infrastructure assets) should be reported as part of the direct expense for the applicable function associated with capital outlays and maintenance of those infrastructure assets (e.g., public works) or shown as a separate line item in the statement of activities. Note – Unlike depreciation expenses for other capital assets, depreciation expense for general government infrastructure should not be allocated to general government programs and functions.</p> <ul style="list-style-type: none"> <li>✓ For the 2002 FY, AS plans to show depreciation for general infrastructure assets as a separate line item on the government-wide statement of activities.</li> </ul>

<p>i.</p>	<p>If the modified approach is selected, establish an <b>asset management system</b> that: (1) maintains an up-to-date inventory of eligible infrastructure assets, (2) provides for documented, replicable condition assessments of the infrastructure assets, and (3) estimates each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the established condition level. Also, determine the condition level at which the eligible infrastructure assets are to be maintained and how that level will be established. Note – GASB Statement 34 provides that the condition level shall be established in a formal, documented manner through appropriate administrative or executive policy, or by legislative action (e.g., by the City Commission).</p> <p>★ As the modified approach was not selected, this issue is no longer applicable.</p>
<p>j.</p>	<p>Determine if and/or how general infrastructure assets should be classified, such as in <b>networks</b> or <b>network subsystems</b>, for purposes of (1) calculating depreciation if the standard approach is selected or (2) establishing an asset management system if the modified approach is selected. Note – A network of assets is composed of all assets that provide a particular type of service for a government. For example, the City’s road network might consist of streets, curbs, sidewalks, street signs, and drainage ditches. A network subsystem is all assets that make up a similar portion or segment of a network of assets. For example, the City’s road network could be further classified into subsystems, such as residential roads, minor collectors, major collectors, and principal arterials.</p> <p>◆ As noted above, AS is in the process of determining which infrastructure assets will be capitalized and reported. The applicable classifications for depreciation purposes are being made as those determinations are completed. For example, the City’s road system has been classified as a network that consists of pavement, curbs, gutters, road drainage facilities, line striping, sidewalks, and traffic signs. AS plans to calculate depreciation for the roads at the network level. Other infrastructure assets that AS is considering, such as bridges, traffic signal system, and paved paths, may be classified as individual subsystems separate from the road network. In the event those infrastructure assets are capitalized, AS plans to calculate the related depreciation at the subsystem level.</p>
<p>13. Part 2</p>	<p>In regard to <b>infrastructure associated with business-type activities</b> (i.e., utility operations, Airport operations, Taltran, Hilaman Park Golf Course, Solid Waste, Fire Services, and Stormwater):</p>
<p>a.</p>	<p>Ensure that all infrastructure assets are <b>identified and properly valued</b>.</p> <p>✓ Infrastructure associated with all business-type activities (other than Fire Services and Stormwater) has traditionally been reported within the City’s financial statements as part of “fixed assets” of the proprietary funds. Accordingly, to comply with GASB Statement 34, AS only had to reclassify those assets into the infrastructure category. AS completed that task by establishing an infrastructure category within the City’s asset management system and then placing the applicable assets into that category. Examples of assets reclassified as infrastructure included electric transmission and distribution systems, water and gas mains, and airport runways, taxiways, and aprons. Those reclassified items will be reported as infrastructure within the business-type activities for the 2002 FY financial statements.</p> <p>Fire Services and Stormwater activities were classified as business-type activities for purposes of GASB Statement 34. As these activities were traditionally not accounted for in enterprise funds, infrastructure relating to these activities had to be identified and valued. For Fire Services, no infrastructure was identified. For Stormwater activities, ponds used to accumulate storm runoff (stormwater ponds) have been classified as infrastructure. Records have been prepared by Public Works that show for each pond the identification number, location, size (acreage), and current construction costs. In addition, Public Works has determined the average age of these ponds. The average age of the ponds was used to determine an average year of acquisition/construction. The current construction costs were then deflated back to that average year of acquisition/construction to determine the estimated historical costs. AS does not intend to depreciate these stormwater ponds as they are earthen in nature and not expected to deteriorate as long as they are maintained. Based on this process, stormwater ponds will be recorded at a value (as of October 1, 2001) that approximates \$48 million.</p>

<p>b.</p>	<p>Establish <b>capitalization guidelines</b>.</p> <ul style="list-style-type: none"> <li>◆ AS has established <u>tentative</u> capitalization guidelines for infrastructure assets. Those guidelines provide for a \$100,000 capitalization threshold for roadways and a \$50,000 threshold for all other infrastructure assets. In addition, these tentative guidelines indicate what types of outlays should be capitalized and what types should be expensed. For example, the guidelines state that maintenance costs should be expensed while preservation costs as well as additions and improvements should be capitalized. The guidelines define each of those terms.</li> </ul> <p>The finalization of these guidelines is pending a determination of their impact on utilities. Specifically, the current capitalization threshold for utility assets (that are now classified as infrastructure) is \$750. AS is in the process of determining what impact, if any, revising that threshold to \$50,000 would have on utility rate studies and structures.</p>
<p>c.</p>	<p>Perform cost-benefit analyses as to whether the <b>standard (depreciation) or modified approach</b> should be applied.</p> <ul style="list-style-type: none"> <li>✓ As similarly noted above for general infrastructure assets, a determination was made to use the standard approach. That decision was made because (1) the modified approach would require more City resources to implement and maintain and (2) the majority of these assets were already booked (i.e., as fixed assets) and being depreciated prior to GASB Statement 34.</li> </ul>
<p>d.</p>	<p>Determine if the infrastructure assets will be classified into <b>classes, networks, or network systems</b> for depreciation purposes.</p> <ul style="list-style-type: none"> <li>✓ For the reportable infrastructure, 45 separate “classes” of assets were established within the asset management system. Examples of those classes are (1) overhead conductors and devices, (2) line transformers, and (3) water mains. A useful life has been established within the system for each class. Each asset placed in a given class is being depreciated based on the standard useful life for that class. New classes will be added as needed.</li> </ul>
<p>14.</p>	<p>For the statement of net assets, <b>classify net assets</b> into the following three components: (1) invested in capital assets, net of related debt, (2) restricted (distinguishing between major categories of restrictions), and (3) unrestricted. This step will require a determination of what portion of the City’s outstanding debt was used to finance existing capital projects. It will also require a determination of the major categories of restrictions applicable to the City’s net assets.</p> <ul style="list-style-type: none"> <li>o As part of the 2001 FY restatement, AS analyzed the composition of the restated net assets. Based on that analysis, net assets were classified into the three required components. The restricted net assets classification was further categorized by major type of restriction (e.g., restricted for capital projects, for debt service, and for other purposes).</li> </ul>
<p>15.</p>	<p>Identify the <b>internal service funds</b> (e.g., central warehouse and human resources) that must be incorporated into the government-wide statements. Determine for each internal service fund whether it should be incorporated as a governmental activity or a business-type activity based on which City programs/functions participate in that internal service fund activity. Additionally, for each internal service fund determine the type of consolidating adjustments that will be required. For example, if an internal service fund only serves City government programs/functions, consolidating adjustments will be made to exclude the fund’s net profit/loss from the statement of activities. This will be done by making pro rata adjustments to the benefiting programs’/functions’ revenues/expenses that will be presented on the statement of activities. However, if an internal service fund also serves entities external to the City, then the portion of that fund’s net profit/loss applicable to the external entities will not be eliminated from the government-wide statement of activities.</p> <ul style="list-style-type: none"> <li>o During the 2001 FY restatement, internal service funds (ISFs) were identified and incorporated. ISF</li> </ul>

	<p>activities incorporated as governmental activities included, for example, accounting, central warehouse, garage, human resources, and information system services (ISS). ISF activities incorporated as business-type activities included wholesale energy, utility services, and meter reading/billing/collection services. During that process, appropriate adjustments were made to reflect the ISF's balances and activities within the government-wide financial statements, including the exclusion of the proper amounts of each ISF's profit/loss. ISF activities that provided services to entities external to the City were wholesale energy (outside sales of energy) and the 800 MHz radio system (services to the county sheriff). Profit/loss attributable to those external services was properly not eliminated on the government-wide statement of activities.</p> <p>In those instances where profit/loss was eliminated for those ISFs serving both governmental and business-type activities, this adjustment process resulted in balances owed between the governmental and business-type activities. For example, the portion of the net loss for ISS attributable to utility operations resulted in a balance owed by the business-type activities (utilities) to the governmental activities (includes ISS) for that pro rated loss. Those balances were recorded and reflected on the restated 2001 FY statement of net assets when material.</p> <p>Worksheets were prepared to document this consolidation/adjustment process. AS plans to follow this same process for the 2002 FY.</p>
<p>16.</p>	<p>In addition to incorporating internal service fund activity, determine what <b>internal balances should be eliminated or reclassified</b>. For example, balances owed between individual funds should be eliminated to preclude “grossing up” assets and liabilities that are reported on the statement of net assets. Only the residual amounts due between governmental and business-type activities should be reflected on that statement.</p> <ul style="list-style-type: none"> <li>o During the 2001 FY restatement, AS identified and eliminated internal balances within the governmental activities and within the business-type activities. These eliminated balances included, for example, (1) transfers of funds within governmental activities and transfers of funds within business-type activities and (2) balances owed between funds that were classified as governmental activities and balances owed between funds that were classified as business-type activities. However, transfers between and amounts due between the governmental and business-type activities were properly reflected as activity and balances on the government-wide financial statements.</li> </ul> <p>Worksheets were prepared that documented these eliminations and reclassifications. AS plans to follow this same process for the 2002 FY.</p>
<p>17.</p>	<p>Determine the <b>presentation format</b> for the statements. Note – GASB Statement 34 specifies the information and certain parameters for presenting that information. However, certain presentation options are available.</p> <ul style="list-style-type: none"> <li>o A presentation format allowed by GASB Statement 34 was used for the 2001 FY restatement. For both the statement of net assets and the statement of activities, the selected format (1) properly distinguishes between the governmental activities and the business-type activities and (2) properly distinguishes the primary government from the City's one component unit.</li> </ul> <p>In regard to the statement of net assets: (1) the “classified” approach was used to present assets and liabilities in order of their liquidity and (2) the difference between assets and liabilities was properly reflected as “net assets.”</p> <p>In regard to the statement of activities the selected format (1) properly presented the net (expense) revenue of each individual function (i.e., shows the degree to which each function is self-financing through charges, grants and contributions restricted to that function, etc.), (2) properly presented general revenues (e.g., taxes, unrestricted grants and contributions, unrestricted investment earnings, etc.) and transfers separately after the total net (expenses) revenues of the various functions, and (3) properly reflected the sum of all activity as the “change in net assets.”</p> <p>AS plans to use the same format for the 2002 FY.</p>

***Funds Financial Statements***

The following steps are necessary for implementation of the funds financial statements as provided by GASB 34:

1. **Reclassify existing funds** into the classifications prescribed by GASB Statement 34. For example, the City’s expendable and non-expendable trust funds will need to be reclassified to the appropriate fund types, as GASB Statement 34 eliminated those two classifications. Also, City activities currently accounted for in non-enterprise funds should be evaluated to determine if they are required to be reported in an enterprise fund as prescribed by GASB Statement 34.
  - o AS reviewed all funds to determine the proper classifications pursuant to GASB Statement 34. Resulting changes included:
    - The cemetery perpetual care fund, formerly a non-expendable trust fund, was reclassified as a permanent trust fund.
    - The nuclear decommissioning trust fund, formerly an expendable trust fund, was reclassified as a private-purpose trust fund.
    - The deficiencies and scholarship funds, formerly expendable or non-expendable trust funds, were consolidated with the general fund.

During this review process AS made additional reclassifications for reasons other than GASB Statement 34. These changes were made to provide a more accurate presentation of the noted activities. This included:

    - Stormwater management and fire services were changed from special revenue funds to enterprise funds.
    - The 800 MHz Communications fund changed from a special revenue fund to an internal service fund.

The classifications determined from that review were used by AS in the preparation of funds financial statements as part of the restatement of 2001 FY financial statements. Worksheets documenting that process were prepared. AS plans to continue the same classifications for the 2002 FY.
  
2. For governmental funds and enterprise funds, determine which individual funds will constitute **major funds** for separate presentation on the statements. This will involve (1) applying the formula established in GASB Statement 34 and (2) subjective evaluations to identify other funds that should be presented as major funds because of their significance. Criteria that should be applied in making those subjective evaluations includes, for example: political sensitivity of the activity reported in a fund, high public interest in a fund’s activity, known major uses of a fund’s financial data by rating agencies and analysts, and year-to-year consistency.
  - o As provided by GASB Statement 34, the City’s general fund (primary operating fund) will automatically be classified as a major fund. As part of the 2001 FY restatement, AS prepared worksheets that enabled an application of the mathematical formula established in GASB 34 for determining any other major funds from a quantitative perspective. The formula showed the City’s sales tax fund, electric fund, and sewer fund to be major funds. In addition to those funds, AS has opted to show the gas, water, and airport funds as major funds because of their outstanding debt. AS intends to use this same approach in determining major funds for the 2002 FY.

<p>3.</p>	<p>Establish a policy that defines what will constitute <b>operating revenues and expenses</b> (i.e., in comparison to nonoperating revenues and expenses) for the funds financial statements prepared for proprietary funds (i.e., business-type activities).</p> <ul style="list-style-type: none"> <li>o As part of the 2001 restatement AS classified revenues/expenses into operating and non-operating categories. Those classifications were the same classifications traditionally used for the City’s financial statements. Examples of operating revenues and expenses included charges for services and expenses for fuel. Examples of non-operating revenues and expenses included interest and investment earnings and interest expenses. AS intends to continue this policy for the 2002 FY. The policy is to be disclosed within the notes to the financial statements. (See subsequent section within this report titled “Notes to the Financial Statements.”)</li> </ul>
<p>4.</p>	<p>Determine the classifications and required reporting for <b>interfund activities</b> within and among the three fund categories (governmental, proprietary, and fiduciary).</p> <ul style="list-style-type: none"> <li>o As part of the 2001 restatement AS classified interfund activities within the funds financial statements. For example: (1) interfund loans/advances were reported as receivables and payables within the applicable funds, (2) interfund services (e.g., services provided by internal service funds) were reported as revenues in the “seller” funds and expenditures or expenses in “purchaser” funds, and (3) interfund transfers not involving a requirement for repayment were reported as other financing sources/uses within the governmental funds and as part of the capital contributions and operating transfers category within proprietary funds.</li> </ul>
<p>5.</p>	<p>For the proprietary funds statement of net assets, <b>classify net assets</b> into the following three components: (1) invested in capital assets, net of related debt, (2) restricted (distinguishing between major categories of restrictions), and (3) unrestricted.</p> <ul style="list-style-type: none"> <li>o The composition of net assets within the proprietary funds was evaluated during the 2001 FY restatement. Based on that evaluation, net assets were classified into the required components and categories. Similar evaluations and classifications will be performed for the 2002 FY financial statements.</li> </ul>
<p>6.</p>	<p>Determine any other <b>required classifications and presentations for specific accounts</b>. For example, GASB Statement 34 provides that when certain restrictions are applicable to proprietary fund assets, those assets should be reported as restricted assets on the proprietary funds statement of net assets.</p> <ul style="list-style-type: none"> <li>o During the 2001 FY restatement AS identified and made the appropriate classifications and presentations for applicable accounts. For example, assets restricted for debt service and for capital asset replacement were identified as such on the restatement. AS intends to make similar required classifications and presentations for the 2002 FY.</li> </ul>
<p>7.</p>	<p>Determine what <b>conversions</b> will need to be made to reconcile the funds financial statements to the government-wide financial statements. This will include a determination of the worksheets and records that should be prepared and maintained for this conversion process.</p> <ul style="list-style-type: none"> <li>o During the FY 2001 restatement, AS prepared worksheets to convert financial information maintained in the City’s accounting system to a government-wide presentation. The data on those worksheets was used to present a reconciliation of the funds financial statements to the government-wide financial statements. This same approach is planned for the 2002 FY.</li> </ul>

8.	<p>Determine the <b>presentation formats</b> for the statements and required reconciliation to the government-wide statements. Note – Although GASB Statement 34 specifies the information that must be presented and certain parameters for presenting that information, there are certain options that can be used to present selected information within the funds financial statements.</p> <ul style="list-style-type: none"> <li>o Financial statements were presented in prescribed/allowed formats as part of the 2001 FY restatement. Specifically: <ul style="list-style-type: none"> <li>– The governmental funds balance sheet was presented in a format that shows assets equal to liabilities plus fund balances.</li> <li>– The governmental statement of revenues, expenditures, and changes in fund balances presented revenues, expenditures, other financing sources and uses, and fund balance information in the required format and sequence.</li> <li>– The proprietary statement of net assets distinguished between current and long-term assets and liabilities (classified approach) and used a net asset approach (i.e., assets less liabilities equals net assets).</li> <li>– The proprietary funds operating statement was in the all-inclusive format and reflected, in the proper sequence: operating revenues and expenses, non-operating revenues and expenses, other increases/decreases in net assets, and changes in net assets.</li> <li>– The proprietary funds statement of cash flows presented cash flows from operating activities, from non-capital financing activities, from capital and related financing activities, and from investing activities. In addition, the statement provided a reconciliation of operating cash flows to operating income.</li> <li>– The statement of fiduciary net assets presented information on the assets, liabilities, and net assets for each fiduciary fund type.</li> <li>– The statement of changes in fiduciary net assets presented additions, deductions, and net increase (decrease) for the year.</li> </ul> </li> </ul> <p>AS plans to continue these formats for the 2002 FY.</p>
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***Notes to the Financial Statements***

The following steps should be taken to ensure the additional disclosures required by GASB 34 are made:

1.	<p>Identify and/or determine the <b>required policies and descriptions</b> that are required to be disclosed in the note addressing the City’s significant accounting policies. For example, the City must include in the notes: (1) the policy for eliminating internal activity in the government-wide statement of activities, (2) the policy for capitalizing capital assets and for estimating the useful lives of those assets, and (3) a description of the types of transactions included in program revenues on the government-wide statement of activities.</p> <ul style="list-style-type: none"> <li>▶ AS plans to identify and include the required policies and descriptions in the notes to the financial statements prepared for the 2002 FY.</li> </ul>
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2.	<p>Determine the <b>required disclosures for capital assets and long-term liabilities</b> and the records that must be maintained to provide information for those disclosures. For example, for each major class of capital assets, the City must disclose (1) beginning- and end-of-year balances, with accumulated depreciation presented separately from historical cost, (2) capital acquisitions, (3) sales or other dispositions, and (4) current period depreciation expense, with disclosure of the amounts charged to each of the programs/functions on the statement of activities. Additional detailed disclosures are required for long-term liabilities.</p> <p>▶ The required information can be ascertained through the City’s current financial accounting system (PeopleSoft). AS intends to make the required disclosures for capital assets and long-term liabilities in the notes to the 2002 FY financial statements.</p>
3.	<p>Determine the <b>required disclosures for any donor-restricted endowments</b>. Required disclosures include: (1) net appreciation on investments available for authorization for expenditure and how those amounts are reported in net assets, (2) the State law regarding the ability to spend net appreciation, and (3) the policy for authorizing and spending investment income.</p> <p>✓ AS determined that the City has no donor-restricted endowments.</p>
4.	<p>Determine whether <b>segment disclosures</b> are required for any activities accounted for in the City’s enterprise funds. An activity qualifies as a “segment” if: (1) it is an identifiable activity (or grouping of activities) reported as or within an enterprise fund for which one or more revenue bonds or other revenue-backed debt instruments are outstanding, (2) the activity generates a specific identifiable revenue stream pledged in support of that debt, and (3) there is a requirement for a separate accounting of the activity imposed by an external party (e.g., a bond indenture). For an activity meeting these criteria, condensed financial information must be presented in the notes to the financial statements. However, if that activity is reported as a major fund on the face of the funds financial statements, a separate segment disclosure is not required in the notes.</p> <p>▶ AS has determined that there is one activity for which a segment disclosure <u>may</u> be required in the notes to the 2002 FY financial statements. This activity is fire services. AS plans to review the circumstances relating to this activity during the preparation of the 2002 FY financial statements. If appropriate, segment disclosures will be made.</p>
5.	<p>Determine any <b>required disclosures regarding infrastructure</b> during the transition period provided by GASB Statement 34. (See item 13.c under “Government-wide Financial Statements.”) For example, if all applicable infrastructure is not reported during the allowed transition period, the notes should include a description of the infrastructure assets being reported and of those that are not.</p> <p>✓ Because AS plans to report all applicable infrastructure for the 2002 FY, transition period disclosures will not be applicable.</p>

***Required Budgetary Comparisons***

Budgetary comparisons for certain funds will continue under GASB Statement 34 with certain modifications. The following specifies the applicable steps that must be completed for implementation of GASB Statement 34:

1.	<p>Determine whether the required budgetary comparison presentation will be shown as <b>part of the basic financial statements or as a separate schedule within the required supplementary information (RSI)</b>. As noted earlier in this report, generally accepted accounting principles for governmental financial reporting require the presentation of certain financial information separate from the basic financial statements and notes to those statements. That information is known as RSI. GASB Statement 34 provides the option of presenting the required budgetary comparison as part of the basic financial statements or as a separate</p>
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	<p>schedule within the RSI.</p> <ul style="list-style-type: none"> <li>o For the 2001 FY restatement, AS included the required budgetary comparison as a separate schedule within the required supplementary information. AS plans to continue that presentation approach for the 2002 FY.</li> </ul>
2.	<p>Decide whether to include optional <b>variance columns</b> to present the difference between (1) original and final budget amounts and (2) final budget and actual amounts.</p> <ul style="list-style-type: none"> <li>o The budgetary comparison prepared for the 2001 FY restatement includes a variance column showing the difference between the final budget and actual amounts. AS opted not to include a variance column to show the difference between the original and final budget amounts. AS plans to continue that presentation for the 2002 FY.</li> </ul>
3.	<p>Determine whether to use the same <b>format, terminology, and classifications</b> as the budget document or the format, terminology, and classifications in the statement of revenues, expenditures, and changes in fund balances. (This is one of the required fund financial statements.)</p> <ul style="list-style-type: none"> <li>o As was done in prior years, AS used the format, terminology, and classifications in the statement of revenues, expenditures, and changes in fund balances for the 2001 FY restatement. AS intends to continue that approach for the 2002 FY.</li> </ul>
4.	<p>Determine the presentation format for the required <b>reconciliation</b> of budgetary information (revenues, expenditures, and fund balances) to that information on a generally accepted accounting principles (GAAP) basis.</p> <ul style="list-style-type: none"> <li>o The same format used in prior years was continued for the 2001 FY restatement and will be continued for the 2002 FY.</li> </ul>
5.	<p>Identify the <b>individual funds</b> for which the budgetary comparisons must be made.</p> <ul style="list-style-type: none"> <li>o Pursuant to GASB Statement 34, the budgetary comparison should be presented for the general fund and any special revenue fund that is a major fund on the governmental fund financial statements. For the 2001 FY restatement there were no “major” special revenue funds. Accordingly, the budgetary comparison was provided only for the City’s general fund. That same approach will be continued for the 2002 FY.</li> </ul>

***Required Supplementary Information (RSI)***

Implementation issues pertaining to RSI as required by GASB Statement 34 are addressed above under the captions “Management’s Discussion and Analysis” and “Required Budgetary Comparisons.” However, in the event a government selects the modified approach to account for and report all or some of its eligible infrastructure assets, the government’s asset management system (see step 13.i. [Part 1] under “Government-wide Financial Statements”) should be used to complete the following additional steps and the results presented as RSI:

1.	<p><b>Assess the condition</b> of the applicable infrastructure assets.</p> <ul style="list-style-type: none"> <li>★ As the modified approach was not selected, this issue is no longer applicable.</li> </ul>
2.	<p>At the beginning of the fiscal year, estimate the <b>annual amount</b> needed to maintain and preserve the applicable infrastructure assets at the pre-established condition level.</p> <ul style="list-style-type: none"> <li>★ As the modified approach was not selected, this issue is no longer applicable.</li> </ul>

3.	<p>At the end of the fiscal year, determine the <b>amounts actually expended</b> to maintain and preserve the applicable infrastructure assets at the pre-established condition level.</p> <p>★ As the modified approach was not selected, this issue is no longer applicable.</p>
4.	<p>Determine the <b>required disclosures</b> to be included as notes to RSI, including: (1) the basis for the condition measurement and the measurement scale used to assess and report condition, (2) the condition level at which the infrastructure assets are intended to be maintained/preserved (pre-established condition level), and (3) any factors that will affect trends in the information reported as RSI. (Trend information will not be applicable in the year of implementation.)</p> <p>★ As the modified approach was not selected, this issue is no longer applicable.</p>
<p><b>Other</b></p>	
<p>In addition to the steps and actions specific to the different elements of the GASB Statement 34 reporting model as noted above, the following will need to be done:</p>	
1.	<p>The <b>ending balances</b> reported for the fiscal year prior to implementation (fiscal year 2000-2001) should be <b>restated</b> using the GASB Statement 34 reporting model. This is necessary in order to provide for accurate beginning balances to be used for the fiscal year that the model is implemented. In addition, restatement of the prior year financial statements (not just ending balances for the prior year) should be considered for purposes of: (1) providing comparable data for the MD&amp;A and (2) identifying well in advance some of the key issues that must be addressed during the required implementation.</p> <p>✓ As noted in previous steps, AS restated the 2001 FY financial statements in the GASB Statement 34 format. That restatement has been used to identify and address/resolve key issues prior to the required implementation for the 2002 FY. That restated data will also be used for purposes of providing comparative data for the MD&amp;A prepared for the 2002 FY.</p>
2.	<p>Determine what presentations and disclosures will be required for any <b>component units</b>. Component units are governmental organizations that are legally distinct from the government that created them (primary government) but for which the elected officials of the primary government are nonetheless financially accountable. GASB Statement 34 provides that component units that are not fiduciary in nature should be presented in the government-wide financial statements. Component units that are fiduciary in nature should be included in the funds financial statements within the primary government’s fiduciary funds.</p> <p>o The City has only one component unit – the Downtown Improvement Authority. Because it is not fiduciary in nature, it was presented on the government-wide financial statements for the 2001 FY restatement. The presentation on those statements was in a separate column (discrete presentation). AS plans to continue this approach for the 2002 FY financial statements.</p>
3.	<p>Determine the impact implementing GASB Statement 34 will have on the information and presentations to be included in the City’s <b>comprehensive annual financial report</b> (CAFR). The CAFR contains information in addition to the required elements of GASB Statement 34. For example, the CAFR: (1) includes an introductory section that provides general information on the government as well as information useful in assessing the government’s financial position and (2) provides information on each individual fund for which data is not provided separately within the basic financial statements. Accordingly, determinations will have to be made: (1) to ensure that the data included in the introductory section is not duplicative of the information presented in the MD&amp;A and (2) regarding which individual funds should be presented in the combining portion of the CAFR (e.g., the non-major funds and internal service funds).</p> <p>o As part of the restatement of the 2001 FY financial statements, AS provided information on each fund</p>

	(i.e., non-major governmental funds, non-major enterprise funds, and internal service funds) for which data was not presented separately within the basic (general purpose) financial statements. AS plans to produce similar information as part of the 2002 FY CAFR. AS also plans to produce for the 2002 CAFR an introductory section that provides meaningful information that is not duplicated within the MD&A. An initial draft of such an introductory section has been prepared by AS.
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Table Legend

- ✓ Action taken and completed.
- o Action taken and completed as part of 2001 FY restatement. Similar action planned for 2002 FY.
- ◆ Significant progress made in completing step – final completion of action pending.
- ▶ Action needs to be completed prior to or as part of 2002 FY financial statement preparation.
- ★ Issue no longer applicable as standard approach selected.

### *Significant Remaining Issues*

As noted above, significant progress has been made by the City in the implementation of GASB Statement 34. Remaining actions to be taken or completed for the successful implementation include:

- Actual preparation of the 2002 FY financial statements in accordance with GASB Statement 34. This will be accomplished after the end of the 2002 FY, which is September 30, 2002. The process and worksheets used for the 2001 FY restatement will provide a valuable resource for the preparation of those statements.
- Complete the determination of which infrastructure assets will be capitalized and recorded for financial statement purposes. As of July 31, 2002, AS has identified the largest of those assets that must be capitalized – the City’s roadway system and stormwater system. AS is currently contemplating capitalizing other infrastructure for which adequate records are available to allow for an accurate capitalization.
- For those infrastructure assets to be capitalized and recorded, complete the determinations of the initial costs values and accumulated depreciation that should be booked as of the transition date of October 1, 2001. For the roadway and stormwater systems, the initial values have been determined. AS is in the process of

completing the verifications of those values and determining the depreciation that should be booked for the roadway system.

- For non-infrastructure capital assets not currently recorded on the City’s asset management system, the depreciation expense and related accumulated depreciation should be determined. This determination should be done for purposes of finalizing the 2001 FY restatement. Appropriate steps should also be taken to ensure those assets are properly/accurately depreciated for the 2002 and subsequent FY financial statements.
- Determine the impact of not including salvage values in the determination of annual depreciation expense and accumulated depreciation. If that impact is significant to financial statements or operational decisions, AS should consider revising the process to include salvage values as a factor in the calculation of depreciation expense.
- Finalize capitalization thresholds for infrastructure and other capital assets (buildings, land, etc.).
- Determine the value of the City road system ROW (right-of-way) that should be recorded in the City’s financial records. The ROW is land underneath roads that is not considered infrastructure. Nonetheless, it is an asset that should be recorded and accounted for in the City accounting system and financial statements. Similar determinations need to

be made for the land acquired for stormwater ponds.

- Provide the restated 2001 FY financial statements, records accumulated on infrastructure, and decisions made/steps taken in regard to GASB Statement 34 to the City's external auditors for their review.

Each of these issues is currently being addressed by Accounting Services and should be resolved prior to finalization of the 2002 FY financial statements.

### ***Conclusion***

Accounting Services, with the assistance of other City departments such as Public Works, has made significant progress in the implementation of GASB Statement 34. That progress was accomplished primarily through actions (1) to restate the 2001 FY financial statements in the GASB Statement 34 reporting format and (2) to identify and value infrastructure assets. The success of Accounting Services in this endeavor was facilitated by:

- Establishment of a project team that involved key staff within Accounting Services and other City departments from which critical data and information was needed for implementation (e.g., Public Works).
- Identifying and assigning tasks among team members.
- Establishment of a timetable for completing the restatement of the 2001 FY financial statements and identifying/recording infrastructure.

In addition to providing restated beginning balances for the 2002 FY, Accounting Services' efforts allowed for the identification and resolution of various issues well in advance of the required implementation date. Had those efforts not been made until after the end of the 2002 FY, staff would have been pressed to implement numerous complex and detailed changes and issue financial statements in a relatively short period.

We commend Accounting Services and other City staff for their efforts as of July 31, 2002. To ensure the successful implementation for the 2002 and subsequent fiscal years, we recommend that Accounting Services continue their implementation efforts through the resolution of the noted remaining issues. The ultimate success of the City's efforts in implementation will be determined by the City's external auditors in their audit of the City's 2002 FY financial statements.

We would like to thank Accounting Services and the project team for their cooperation and assistance during this progress report.

### ***Appointed Official Response***

#### ***City Manager:***

I am pleased that staff in Accounting Services have made significant progress in preparing for the implementation of the new financial reporting model and identification of the City's infrastructure assets. I would like to thank the City Auditor's Office for providing consulting assistance in this project and for their follow up of the progress made.

Copies of this Progress Report #0233 (Project #0214) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index/html>), by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([dooleym@talgov.com](mailto:dooleym@talgov.com)).

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