

Financial & Audit Solutions

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Office of the State Comptroller

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Division of State Services

FOCAS Project Update

This is an exciting time for the project. As the Office of the State Comptroller's Future of the Central Accounting System Project (FOCAS) continues to work toward the goal of replacing the current Central Accounting System, keeping stakeholders informed remains a top priority. Below is a summary of the major accomplishments and activities the Project has been involved with recently.

Software and Software Consulting Services Procurement

After concluding lengthy negotiations with Oracle/PeopleSoft, the contract was executed on Friday, July 21, 2006. Oracle/PeopleSoft will supply OSC with the software and initial installation services needed to provide a new CAS that meets the financial processing and information requirements of the State. Installation of the software on the OSC servers and test environments began on July 31, 2006.

Installation

The FOCAS installation team

Continued on page 7

We are continuing our series that highlights various bureaus within the Division of State Services. In this issue we focus on the *Bureau of Financial Reporting*.

The Bureau of Financial Reporting

The Bureau of Financial Reporting is part of the State Financial Services Group within the Division of State Services, led by Director Gary Armstrong and Assistant Director Dave Hasso. The Bureau is responsible for preparation of the *New York State Comprehensive Annual Financial Report*, interim financial statements on a GAAP (Generally Accepted Accounting Principles) basis, presentation of financial statements of Public Benefit Corporations and maintenance of the Debt Service database. The Bureau plays a major role in preparing the *Financial Condition Report* and the *Financial & Audit Solutions* newsletter. Financial Reporting also participates in the Single Audit process by preparing the Schedule of Federal and non-Federal Awards, and reviews financial statements and provides accounting standards advice to other bureaus in the Division.

A majority of the Bureau's 12 professional staff are Certified Public Accountants or Certified Government Financial Managers and, collectively, have many years of experience in the areas of financial reporting and governmental accounting. The Bureau is frequently called on to comment on, and respond to, GASB exposure drafts and other important statements relating to governmental accounting and financial reporting issues.

Almost all State agencies interact with the Bureau by providing information through the online AFRP (Agency Financial Reporting Package) process that is used in preparation of the State's financial statements. The Office of General Services and Department of Transportation also work directly with Financial Reporting in providing information relating to the State's billions of dollars of capital assets, while the Department of Taxation and Finance

Continued on page 4

This Issue

FOCAS Project Update * The Bureau of Financial Reporting * What's the Story with GASB?
Seven Elements of Governmental Financial Statements * 2006 Fiscal Year-end Highlights
OPEB Plan Trusts and Fiduciary Responsibilities * Then and Now



Governmental Accounting Standards Board

What's the Story with GASB?

Financial and Audit Solutions generally includes an article or two in each issue that provides updates and analysis of major issues and new standards emanating from the Governmental Accounting Standards Board (GASB). But do we truly realize the importance of these sometimes lengthy and complicated standards? Are we aware of the complex and time-consuming process that the GASB staff and Board must go through before a new standard is born?

This article explains why GASB is important to those of us who are involved in governmental accounting and financial reporting and why being aware of, and understanding, new GASB standards should assist us in making their implementation easier. The GASB, based in Norwalk, Connecticut, promulgates accounting and financial reporting standards for most governmental entities throughout the United States, just as the Financial Accounting Standards Board (FASB) establishes accounting standards for private-sector companies.

One of the most important reasons for governments to be aware of GASB standards and statements and ensure they

are implemented on a timely basis is that failure to do so could result in a qualified audit opinion of the entity's financial statements. A qualified opinion could cause serious problems for a government, including higher debt-service interest rates, lower bond ratings and extensive continuing oversight of its operations.

In addition, implementation of GASB statements generally results in more definitive and appropriate disclosure of the financial operations of governments. This concept is especially important when citizens are becoming increasingly aware of changing tax rates and efficiency and effectiveness issues relative to the government jurisdictions in which they reside. Bond rating agencies, major investment banks and other private-sector firms that interact with governments on a daily basis are also concerned that government financial statements, footnotes and associated reports are presenting information that is accurate and comprehensible.

Most State agencies submit information on a quarterly and annual basis to the Bureau of Financial Reporting for inclusion in the GAAP Interim Financial Statements and the

Continued on page 5

Proposed GASB Concepts Statement Defines the Seven Elements of Governmental Financial Statements

The Governmental Accounting Standards Board (GASB) recently proposed its fourth Concepts Statement, Elements of Financial Statements, defining the seven elements of governmental financial statements. When considered collectively, Concepts Statements form the GASB's conceptual framework, which provides a foundation to guide the Board's development of accounting and financial reporting standards.

To develop a conceptual framework appropriate for the government environment, the Board needs to define even the most basic building blocks of financial reporting. A central feature of each of the proposed definitions of elements is a

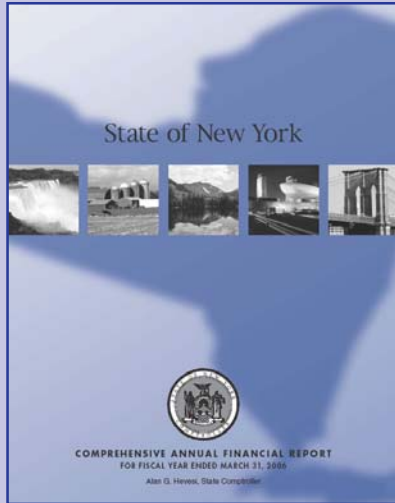
resource, which is an item with a present capacity to provide service. Accordingly, the proposal defines the elements of statements of financial position as:

1. Assets - resources the entity presently controls
2. Liabilities - current obligations to sacrifice resources or future resources that the entity has little or no discretion to avoid
3. A deferred outflow of resources - a consumption of net resources by the entity that is applicable to a future reporting period
4. A deferred inflow of resources - an acquisition of net resources by the entity that is applicable to a future reporting period

Continued on page 5

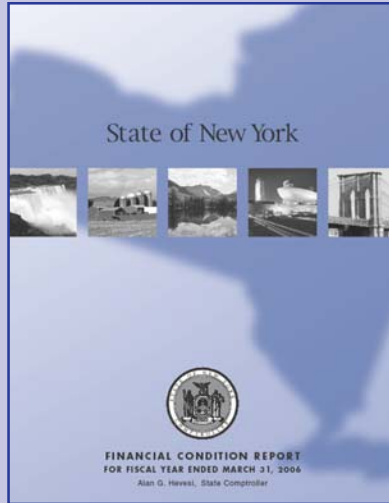
2006 Fiscal Year-end Highlights

The 2006 Comprehensive Annual Financial Report, the State Comptroller's 2006 Report on the Financial Condition of New York State, and the Cash Basis Annual Report on State Funds are now available. For the 17th consecutive year, the Comptroller's Office was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association. The award was presented for the 2005 Comprehensive Annual Financial Report. You can view the reports in the State Finances section of the State Comptroller's website at www.osc.state.ny.us.



Highlights of the **Comprehensive Annual Financial Report** include:

- The State reported net assets of \$49.1 billion.
- The State's net assets increased by \$2.7 billion as a result of this year's operations.
- The State recorded a General Fund GAAP operating surplus of \$1.636 billion compared with an \$827 million operating surplus in 2005.
- The General Fund is reporting a GAAP accumulated surplus of \$2.182 billion versus a \$546 million accumulated surplus in 2005.
- The State's governmental activities had total revenues of \$107.4 billion, which exceeded total expenses of \$101.1 billion, excluding transfers of business-type activities of \$1.5 billion, by \$6.3 billion.
- Total debt outstanding was \$47.1 billion at March 31, 2005, a decrease of \$442 million from the prior year.
- The total cost of all the State's programs, which includes \$15 billion in business-type activities, was \$110.3 billion.



Highlights of the **State Comptroller's 2006 Report on the Financial Condition of New York State** include:

- The State's economy has begun to recover from the last recession. Employment in the State rose by 1.9 percent through the first four months of 2006 as compared with the same period in 2003. During the five months ended May 31, 2006, the State unemployment rate was 5 percent compared with 5.1 percent a year earlier.
- Total State spending in 2006 was \$104.8 billion, an increase of \$3.7 billion (3.6 percent) from the prior year.
- State spending has been partially paid for by borrowing \$10.8 billion since 2002, including \$2.1 billion in 2006.
- The State reported \$4.8 billion in expenditures for debt service during the fiscal year ended March 31, 2006.
- The State reported \$53.6 billion in revenues from taxes, which is a 26.1 percent increase from 2002.



Highlights of the **Cash Basis Annual Report on State Funds** include:

- The 2005-06 year-end General Fund balance was \$3.3 billion. This was comprised of \$2.04 billion in the Refund Reserve Account, \$944.4 million in the Tax Stabilization Reserve Fund, \$20.6 million in the Contingency Reserve Fund, and \$251.2 million in the Community Projects Fund.
- General Fund receipts, including transfers from other funds, totaled \$47.2 billion, a \$3.3 billion, or 7.6 percent, increase from the prior year.
- General Fund spending, including transfers to other funds, totaled \$46.5 billion, a \$2.9 billion, or 6.6 percent, increase from 2004-05.
- All Governmental Funds receipts were \$107 billion, an increase of \$6.3 billion, or 6.3 percent, primarily due to higher tax collections and a one-time miscellaneous receipt from the public asset conversion of Empire Healthchoice from a not-for-profit corporation to a for-profit corporation.
- All Governmental Funds spending totaled \$104.3 billion, \$3.7 billion above 2004-05, or an increase of 3.6 percent, primarily due to increased spending in education, social services, healthcare, environment, department operations and capital projects.

The Bureau of Financial Reporting

Continued from page 1

transmits tax accrual information to the Bureau.

Bureau staffers are responsible for preparing many critical publications for New York State. The following is a summary of the publications prepared and the databases maintained by the Bureau of Financial Reporting:

Comprehensive Annual Financial Report (CAFR) is prepared on a GAAP basis based on the State's March 31 fiscal year-end. The report has been awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for the past 17 years. The CAFR is issued each September and is audited by the State's external auditors.

Basic Financial Statements and Other Supplementary Information Report to the Legislature is prepared on a GAAP basis based on the State's March 31 fiscal year-end. The report is required to be presented to the Legislature by July 29 of each year.

Interim GAAP financial statements are prepared for quarters ended June, September and December.

These financial statements are presented each quarter in the New York State Register.

The Financial Condition Report (FCR) for the State of New York includes a variety of information relating to the State's financial condition, employing an informative and readable format. The primary intended recipient of this report is the average citizen. The FCR is generally issued each September and has received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for several years.

The Debt Service Database contains information regarding lease purchase, other contractual obligation and general

obligation debt issued by New York State. Information from the database is used in preparing the State's financial statements and the Financial Condition Report.

Financial & Audit Solutions Newsletter includes information and articles relating to governmental accounting, auditing and financial reporting, and is disseminated to State agencies on a quarterly basis.

Schedule of Expenditures of Federal Awards for the Single Audit is prepared in accordance with A-133 requirements and is audited by the State's external auditors.



Staff in the Bureau of Financial Reporting: *Standing Left to Right-* Gary Armstrong, Dave Amedio, Mike Mezz, Matt Dzierga, Dave Hasso, Jennifer Hallanan, Megan Baldwin and Tim Reilly. *Seated Left to Right-* Santina Roberts, Deidre Clark and Suzette Baker. *Missing from photo -* John Costello and Sally Spring.

If you are interested in receiving a copy of any of the publications listed, please email finrep@osc.state.ny.us.

Bureau of Financial Reporting Goals

- Issue timely and accurate financial reports.
- Ensure that financial reports are prepared in compliance with appropriate governmental accounting and reporting standards and OSC policies.
- Issue accounting policies and procedures that ensure objective, consistent and

accurate financial reporting.

- Prepare financial statements in an efficient and effective manner.
- Provide staff with sufficient opportunities to receive quality training.
- Provide assistance and advice to State agencies implementing new accounting and financial reporting standards.
- Focus on quality management to ensure that assignments are diverse and interesting and that work processes are continuously improved.
- Maintain a positive image of professionalism, objectivity and independence, and encourage the continuing professional development of employees. ♦

Bureau of Financial Reporting Vision Statement

We are committed to attaining a standard of achievement, to be recognized as an example of excellence and as a force for change, the result of which will help restore citizens' confidence in their government. We endeavor to be among the best financial report preparing organizations recognized by citizens, elected officials and colleagues for excellence, independence and professionalism.

What's the Story with GASB?

Continued from page 2

Comprehensive Annual Financial Report (CAFR). The CAFR is the State's annual financial report prepared in accordance with Generally Accepted Accounting Principles (GAAP). For instance, with implementation of GASB Statement 34 in 2003, State agency capital assets, including infrastructure (roads and bridges), were required to be reported on the face of the State's financial statements along with their associated depreciation. In the fiscal year 2006 CAFR, approximately \$85 billion in capital assets is presented in the financial statements and footnotes. Of course, all of the data and associated disclosures required by GASB and presented in the CAFR are audited by the State's external auditors.

Now that we have a better understanding of how and why GASB standards and statements are applied, and why they are so important, we may then ask, "How does GASB establish new standards?"

The process by which a new GASB Statement or Standard evolves can be long and involve a great deal of discussion and evaluation by the GASB

staff and Board, as well as significant amounts of input from governments and other interested parties. GASB Statement 34, which required major changes in the way governmental GAAP financial statements are presented, took many years of development before its final release in June 1999.

Generally, the process of defining a new standard begins when the GASB staff and Board compile a listing of potential accounting and reporting disclosures that should be addressed in the future. The list is then prioritized and staff is assigned to review the issues and propose concepts for the Board's consideration. Staff then prepare fairly lengthy Issue Papers that are discussed and commented on in detail at subsequent Board meetings. The GASB Board is composed of a small group of professionals with extensive backgrounds in governmental accounting, and is chaired by Robert Attmore, former Deputy Comptroller of the Division of State Services at the Office of the State Comptroller.

After the issues are discussed in minute

detail, invitations to comment and discussion memoranda may be released for public comment. After all comments have been received and evaluated, Exposure Drafts (ED) are then distributed for the final round of public evaluation and comment. After all ED comments are received and analyzed, decisions are made by the Board as to whether changes should be incorporated in the final document. Finally, the new statement is released along with the required implementation date. Sometimes, for complicated statements, a question-and-answer guide is prepared that helps governments understand specific applications of the standard or special circumstances that must be addressed.

Hopefully, this article has helped to demystify GASB as well as explain the importance of following GASB standards and statements. In addition, the description of the GASB Statement development process should assist the reader in understanding how the lengthy and sometimes contentious approach to developing accounting and reporting standards results in the issuance of timely and accurate financial statements. ♦

Proposed GASB Concepts Statement Defines the Seven Elements of Governmental Financial Statements

Continued from page 2

5. Net assets - the residual of all other elements presented in a statement of financial position.

The proposal also defines elements of resource flows statements as:

6. Outflow of resources - a consumption of net resources by the entity that is applicable to the reporting period

7. Inflow of resources - an acquisition of net resources by the entity that is applicable to the reporting period.

"Today's proposed Concepts Statement

reflects our ongoing commitment to develop a more robust conceptual framework that can better guide the Board in its decision-making, promote high-quality accounting standards and make the process for developing those standards more consistent," said Robert H. Attmore, chairman of the GASB. "Moreover, an improved framework will also aid financial statement preparers and auditors as they evaluate transactions for which there are no existing standards."

The proposed Concepts Statement would be the GASB's fourth to date. In

May 1987, the Board issued Concepts Statement No. 1, Objectives of Financial Reporting. In April 1994, GASB issued Concepts Statement No. 2, Service Efforts and Accomplishments Reporting. In April 2005, GASB issued Concepts Statement No. 3, Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements.

The Board expects to soon begin work on a fifth Concept Statement focusing on recognition and measurement attributes.

Continued on page 8

New Staff Guidance on Qualifying OPEB Plan Trusts and Fiduciary Responsibilities

At its July meeting, the Governmental Accounting Standards Board cleared an additional question and answer intended to provide implementation guidance regarding qualifying OPEB plan trusts, and the responsibilities of those who play a significant role in the functions of an OPEB plan that includes such a trust, for purposes of accounting and financial reporting in accordance with the requirements of Statements 43 and 45. This guidance will be published soon, along with other new questions, answers and updates in the Comprehensive Implementation Guide 2006. Because the guidance is of immediate relevance for many governments that are implementing the OPEB standards, it is being posted to the GASB Web site in advance of publication.

Q—For purposes of financial reporting in conformity with the requirements of Statements 43 and 45, what are the

functions of an OPEB plan that is administered as a qualifying trust, or equivalent arrangement, and do those Statements specify the manner in which those plan functions should be administered?

A—As the term generally is used in Statement 43, an OPEB plan is a trust or other fund through which assets are accumulated and benefits are paid. For an OPEB plan that is administered as a qualifying trust, or equivalent arrangement, additions to the trust, and to plan net assets, generally will include contributions from the employer(s), plan members and other entities. Also, trust, or plan, assets accumulated in excess of pay-as-you-go requirements generally will be invested, and income from the investment of plan assets will be added to the trust. Deductions from the trust and plan net assets generally will include benefits paid, or currently due and payable, to or on behalf of plan members

or their beneficiaries and plan administrative expenses.

Statements 43 and 45 do not specify how an OPEB plan should be structured administratively. That is, those Statements do not prescribe the precise workings of the trust, or equivalent arrangement, or the responsibilities of the trustee(s) in relation to the responsibilities of the employer, employer officials or other entities or persons that may be involved in administering the preceding financial activities associated with the functions of financing and paying benefits. A variety of plan structures may arise in practice to fit specific circumstances.

Notwithstanding the possibility of individual variations in plan structure, for an OPEB plan to be considered a qualifying trust, or equivalent arrangement, it is essential the plan structure and the manner in which assets

Continued on page 7

Coming Soon.....

STATE FINANCIAL SERVICES GROUP'S
Annual Conference

Details on dates, times, curriculum and location will soon be announced.

If you are interested in receiving information on the Annual Conference, please email the State Financial Services Group at OutreachSFS@osc.state.ny.us or telephone Kim Peacock at (518) 474-5701.

FOCAS Project Update

Continued from page 1

successfully completed installation of the software ahead of schedule. Oracle's Installation Verification Tests (IVT) were completed on August 22, 2006, and Oracle received sign-off of the install deliverable. In addition, the FOCAS testing team conducted independent acceptance tests on the installed software. These tests confirmed the installed applications are available and accessible to users, and included some functional testing of the installed software for basic processes, such as adding a vendor, creating a contract record, etc. The independent acceptance tests were also successfully completed and, on August 29, 2006, OSC accepted the base installation.

Training

Oracle PeopleSoft Financials product training for FOCAS began during the spring. Two classes (PeopleSoft Server Administration and People Tools I) were delivered by Oracle University to FOCAS in April. These classes helped prepare FOCAS team members to participate in the software installation and subsequent acceptance testing. With the software now fully installed, FOCAS team members will resume their training schedule with Oracle University. Beginning in January and continuing for several months, FOCAS and OSC staff will be trained on the "out-of-the-box" capabilities of the application to prepare them for their role in the design and configuration of the software.

Integrator Developer (I/D)

The I/D will work with OSC to design, configure and implement the PeopleSoft Financials suite of software as a replacement for the current Central Accounting System. The Request for Proposals was issued to interested parties on August 17. The anticipated date for awarding a contract is November 27, and the selected contractor is expected to begin work by February 2007.

As the project continues to move forward, progress will be documented in this newsletter and on the FOCAS website at <http://www.osc.state.ny.us/agencies/cas>. ♦

New Staff Guidance on Qualifying OPEB Plan Trusts and Fiduciary Responsibilities

Continued from page 6

are held, invested and disbursed should be compatible with holding and managing plan assets, not as assets of the employer, but in trust for the exclusive benefit of plan members and their beneficiaries—and with the specific criteria of irrevocability of contributions, dedication of the plan assets (including income from the investment of plan assets) to paying benefits in accordance with the substantive plan, and legal protection of the plan assets from creditors stated in paragraph 4 of Statement 43. Moreover, for this purpose, it is essential that any and all entities or persons involved in the functions of the OPEB plan carry out their respective fiduciary roles and responsibilities accordingly.

In some cases, all plan functions may be carried out by the personnel of a single administrative entity, subject to the oversight of plan trustees—similar to the manner in which many state and local governmental pension plans are administered. In other cases, more than one entity or person may be significantly

involved in carrying out plan functions. For example, the trustees of a particular OPEB plan trust may be principally responsible for holding and investing plan assets, but their responsibility with regard to paying benefits may be limited to disbursing assets at a time, to parties, and in amounts designated by another entity—for example, the health benefits department of the employer—upon receipt of a properly presented request. In the latter circumstance, the following characteristics should be evident for purposes of applying Statements 43 and 45:

- The manner in which payments are disbursed is not inconsistent with the purpose of the trust or with the criteria of irrevocability of contributions, dedicated purpose and protection of trust assets from creditors.
- All entities or persons involved in the disbursement and application of plan assets act in a manner consistent with their fiduciary responsibility with regard to their respective involvements.

A payment arrangement or an action by an entity or person involved in accumulating assets or paying benefits that is inconsistent with the purposes of an OPEB plan trust or with the criteria stated in paragraph 4 of Statement 43 (for example, any application of plan assets to a purpose *other than* paying benefits to retirees or their beneficiaries or paying necessary plan administrative expenses) would be evidence that the plan is not being administered as a qualifying trust, or equivalent arrangement. In that event, assets accumulated in excess of pay-as-you-go requirements should not be reported as plan assets, and the employer(s) should not report payments to the fund as OPEB contributions.

In addition, in view of the different potential plan structures, an employer should consider the guidance in paragraph 19 of Statement 14 in regard to potential inclusion of the OPEB plan(s) in which the employer participates as a fiduciary fund(s) in its annual financial report. ♦

Financial & Audit Solutions

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Then and Now

The following table reflects the 10-year comparison of important statistics for New York State:

	2006	1996
General Fund GAAP Operating Results	\$1.636 billion	\$380 million
General Fund Accumulated Fund Balance (Deficit)	\$2.182 billion	(\$2.928) billion
General Fund Cash Basis Operating Results	\$711 million	\$529 million
Debt Outstanding	\$47.1 billion	\$30.1 billion
Voter Approved Debt	\$3.5 billion	\$5.0 billion
Non-Voter Approved Debt	\$43.6 billion	\$25.1 billion
Debt Service Expenditures	\$5.2 billion	\$2.9 billion
Debt Per Person	\$2,446	\$1,656
Credit Rating (G.O. Bonds)	Aa3 (Moody's) AA (S & P's)	A (Moody's) A- (S & P's)
Consumer Price Index	202.5	156.9
Governmental Funds - Revenues	\$107.5 billion	\$66.7 billion
Governmental Funds - Expenditures	\$104.0 billion	\$66.3 billion
Personal Income Per Person	\$41,845	\$28,980
Employment (Non-Agricultural)	8.4 million	8.1 million
Unemployment Rate - Statewide	4.4%	6.2%
Unemployment Rate - NYC	4.6%	9.1%
State Population	19,255,000	18,185,000
Deficient Bridges	2,271	2,311
Roads - Good/Excellent	61%	57%

Source: 2006 Management Summary

Proposed GASB Concepts Statement Defines the Seven Elements of Governmental Financial Statements

Continued from page 5

The GASB is seeking constituent comment on the proposed Concepts Statement, Elements of Financial Statements. The comment deadline is November 17, 2006. The GASB will also conduct a public hearing in association with this project at its regular meeting on November 30, 2006, beginning at 1 p.m. in Norwalk,

Connecticut. The public may participate in person or over the telephone.

About the Governmental Accounting Standards Board

The GASB is the independent, not-for-profit organization formed in 1984 that establishes and improves financial accounting and reporting standards for

state and local governments. Its seven members are drawn from the Board's diverse constituency, including preparers and auditors of government financial statements, users of those statements and members of the academic community. More information about the GASB can be found at its website www.gasb.org. ♦