FINANCIAL MANAGEMENT REVIEW

# GASB 34 Manual for Texas Cities and Counties

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TEXAS COMPTROLLER

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Fellow Texans:

I am pleased to present the *GASB 34 Manual for Texas Cities and Counties*. This manual is a guide designed to assist local governments implementing Governmental Accounting Standards Board 34 with the requirements and guidelines in accordance with generally accepted accounting principles.

This publication is one of a series of publications that began with the *Standard Financial Management System for Texas Counties*, commonly known as the "Red Book."

My office remains committed to helping local officials improve financial management.

If you have questions about the manual, or if you need help with accounting and financial management in your city or county, please call my Local Government Assistance Division at 1-800-531-5441, extension 3-4339.

I hope you find this manual useful. Thanks for all that you do for Texas.

Sincerely,

Carole Keeton Strayhorn

Carole Keeton Strayhorn
Texas Comptroller

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Chapter 1

# Governmental Accounting Standards Board Statement No. 34

Since 1984, the Governmental Accounting Standards Board (GASB) has worked to improve accounting and financial reporting standards for state and local governments. The board is a private, nonprofit organization consisting of seven board members and a full-time staff. Like the Financial Accounting Standards Board (FASB) that sets accounting standards for private companies, GASB is funded by the Financial Accounting Foundation, a nonprofit entity that exercises general oversight over the financial reporting of public entities.

In June 1999, GASB approved Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments (GASB 34).

## Why a new standard?

GASB 34 establishes new requirements for the annual financial reports of state and local governments. Its primary purpose is to make these reports easier to understand and more useful to legislators, oversight bodies, investors, creditors and the general public.

GASB 34 requires new information that will give decision-makers the "big picture." Comprehensive annual financial reports (CAFRs) are typically used to present detailed information on each fund the government uses. This format, however, does not provide a simple, complete financial picture of government. CAFRs tend to be too technical for the lay reader. For example, they generally include costs associated with infrastructure assets in a lump sum and the reader may not know what portion of these assets belong to each government program. Similarly, major debt is recorded in the general long-term debt account group and interest expense to the government as a whole, not to the individual government functions it supported. GASB calls for a comprehensive report that matches income to expenditures and shows the results of various government operations.

*Adherence to GASB 34 will ensure compliance with generally accepted accounting principles (GAAP) and help local governments obtain "clean" audit opinions and maintain good bond ratings and low borrowing costs.*

## Why should governmental entities implement GASB 34?

While GASB has no enforcement authority, it is a good practice for governments to follow GASB-approved standards in accounting for financial transactions and for reporting financial conditions. Adherence to GASB 34 will ensure compliance with generally accepted accounting principles (GAAP) and help local governments obtain "clean" audit opinions and maintain good bond ratings and low borrowing costs. In addition, governments in compliance will be eligible for the Government Finance Officers Association's Certificate of Excellence for Financial Reporting.

## What are the implementation timelines for individual governmental entities?

The GASB 34 requirements become effective in three phases, based on a government's total annual revenues in the first fiscal year ending after June 15, 1999.

### Phase 1

Governments with $100 million or more in total annual revenues must follow GASB 34 in their financial statements for periods beginning after June 15, 2001.

### Phase 2

Governments with total annual revenues of $10 million or more, but less than $100 million, must follow GASB 34 in their financial statements for periods beginning after June 15, 2002.

### Phase 3

Governments with total annual revenues of less than $10 million must follow GASB 34 in their financial statements for periods beginning after June 15, 2003.

*No state or local government is exempt from reporting in accordance with GASB 34. If the state or local government intends to account and report according to GAAP, then it must report in accordance with GASB 34.*

## Is any governmental entity exempt from reporting in accordance with GASB 34?

No state or local government is exempt from reporting in accordance with GASB 34. If the state or local government intends to account and report according to GAAP, then it must report in accordance with GASB 34.

## What are the major GASB 34 changes?

The major changes brought about by GASB 34 fall in seven areas:

1. **Management discussion and analysis and other required supplementary information.** This information, similar to management letters, should highlight and summarize major variances in operations from previous years. For example, if a government purchased new capital assets, received a major grant or sold a property, it should be explained in this area.

2. **Governmentwide financial statements.** Governments are required to prepare two new statements—the *Statement of Net Assets* and the *Statement of Activities*. Government entities will report all capital assets, including infrastructure, in the governmentwide *Statement of Net Assets* and will report depreciation expense—the cost of "using up" capital assets—in the statement of activities. These statements should display information about the government as a whole, except for fiduciary activities. They should include separate columns for the government, its business activities and its component units. Government officials should prepare governmentwide financial statements using the full accrual basis of accounting: revenues should be recognized in the accounting period in which they are earned, while expenses should be recognized in the period incurred. Component units are separate legal entities with independent governing boards. However, they are fiscally dependent upon the government. A gov-

ernment hospital is one example. Omitting component units would result in incomplete or misleading financial information.[1]

3. **Fund reporting changes.** GASB 34 requires governments to report major funds in separate columns in the fund financial statements and to aggregate minor funds. Major funds are those with assets, liabilities, revenues or expenditures of more than 10 percent of the corresponding amounts for all funds of that category (i.e. governmental or total enterprise), or 5 percent of total assets, liabilities, revenues or expenditures of all governmental and enterprise funds combined. This allows a government to streamline fund reporting for small funds in the CAFR. The new reports should eliminate interfund activity to avoid double counting and should show enterprise fund impacts to demonstrate how well a government's enterprise operations have used non-tax fees to recover costs.

*GASB 34 requires governments to report major funds in separate columns in the fund financial statements and to aggregate minor funds.*

4. **Capital assets and accumulated depreciation.** All governments must begin depreciating capital assets immediately upon purchase. Governments also must report the accumulated depreciation of all capital assets to date and report that amount on the *Statement of Net Assets.*

5. **Infrastructure assets and the historical cost of existing infrastructure.** Governmental entities must capitalize and report major infrastructure assets acquired in fiscal years ending after June 30, 1980, as well as assets that underwent major renovation, restoration or improvement during the same period. The timeline for reporting varies according to the size of the government involved. Phase 3 governments do not have to report infrastructure retroactively.

6. **Budget revisions.** Reports should present both original and final budgets and compare the final budget to actual results, based upon the government's budgetary basis, to demonstrate budget compliance.[2]

7. **Reconciliation of statements.** To help users understand and assess the relationship between fund-based and governmentwide financial statements, governments should present a summary reconciliation showing the interaction between the two types of statements.

## What are the minimum requirements for the basic financial statements and required supplementary information?

**Exhibit 1**
**Requirement for General Purpose External Financial Statements – GASB 34**

**Audit Report**

**Management Discussion and Analysis (MD&A) (Part of RSI)**

**Governmentwide Financial Statements (accrual)**

- Statement of Net Assets
- Statement of Activities

**Reconciliation**

**Fund Financial Statements**
**Three Fund Statements**

Governmental Funds (modified accrual)
- Balance Sheet
- Statement of Revenue, Expenditures and Changes in Fund Balance

Proprietary Funds (accrual)
- Fund Balance Sheet or Statement of Net Assets
- Statement of Revenue/Expenditures and Change in Fund Equity
- Statement of Cash Flows (Direct Method)

Fiduciary Funds (accrual)
- Statement of Net Assets
- Statement of Changes in Net Assets

**Notes to Financial Statements**

**Required Supplemental Information (RSI)**

*Source: Texas Comptroller of Public Accounts.*

## *Management's discussion and analysis:*

Management's discussion and analysis (MD&A) should introduce the basic financial statements and provide an analytical overview of a government's financial activities.

## *Basic financial statements:*

*The governmentwide financial statements should display information about the reporting government as a whole, except for its fiduciary activities.*

- **Governmentwide financial statements.** The governmentwide financial statements should display information about the reporting government as a whole, except for its fiduciary activities. The statement should include separate columns for the governmental and business-type activities of the primary government as well as the component units. The governmentwide statements should be reported using the economic resources measurement focus and the accrual basis of accounting.

- **Fund financial statements.** Fund financial statements for the primary government's governmental, proprietary and fiduciary funds should be presented after the governmentwide statements. These statements should display information about the individual major funds and aggregated minor funds for government and enterprise funds.

- **Notes to the financial statements.** The notes should communicate information essential for the fair presentation of the financial statements that is not displayed in the financial statements.

## Chapter 2

# Management Discussion and Analysis

GASB 34 requires governments to prepare a general discussion of operating results and changes in financial condition through MD&A similar to those prepared by publicly traded companies. The MD&A should tell the reader whether the government is better or worse off than it was in the prior year. The information presented should be confined to the topics discussed below and "boilerplate" discussions should be avoided. Information that does not address the required topics should not be included in the MD&A, but could be reported elsewhere, in the letter of transmittal or as supplementary information.

## RECOMMENDATION

**A government's management discussion and analysis should include information on the following topics:**

### *Government finances as a whole:*

*The MD&A should tell the reader whether the government is better or worse off than it was in the prior year.*

Some of the questions that should be answered in the financial highlights of the past year include:

- did the overall assets of the entity change;
- did the expenses of the government exceed the revenues;
- did the total cost of all government programs exceed the previous year;
- was there an increase or decrease in the cost of supplies or other items used to provide services;
- were there major changes in the government's method of operation, such as new revenue sources or a reduction or expansion in a program or the expansion or closure of a facility;
- were there any additional costs beyond the government's control, such as increases in utility costs, state mandates and changes due to one-time events;
- did any managerial decisions affect the entity; and
- were any changes caused by enterprise operations of the government.[3]

### *Financial statements and their relationship to one another:*

The government entity should provide a brief discussion of the government's basic financial statements, including the relationship of the statements to one another and any significant differences in the information they provide. For example, for statement of assets, statement of activities, governmental funds, proprietary funds and fiduciary funds financial statements, the government should discuss briefly the type of activities involved—both tax-supported activities such as public safety and fee-supported activities such as utilities controlled and managed by the government. The government should also explain how these types of activities differ and how they are related to one another. This discussion should help readers understand measurements and results reported in fund financial statements and should reinforce information in governmentwide statements.[4]

### *Different accounting methods used in the governmentwide and fund financial statements:*

For each set of financial statements, the government should explain the measurement focus (e.g., current financial or economic resources) and basis of the accounting methods used to prepare them (e.g., accrual, modified accrual, etc.).

### *Condensed financial information comparing the prior year with the current year:*

Condensed comparative financial statements for government net assets and activities should explain all changes.

*For each set of financial statements, the government should explain the measurement focus (e.g., current financial or economic resources) and basis of the accounting methods used to prepare them (e.g., accrual, modified accrual, etc.).*

The government should prepare a schedule of:
- total assets that separates capital assets from other assets;
- total liabilities that separates long-term liabilities from other liabilities;
- total net assets;
- program revenues by major source;
- general revenues by major source;
- total revenue;
- revenue by function;
- program expenses by function at minimum;
- total expense;
- excess or deficiency;
- special and extraordinary items, such as proceeds from a sale of land or the cost of cleaning up a natural disaster;
- transfers;
- change in net assets; and
- ending balance of assets.[5]

The government does not need to present comparative data for its financial statements during the first year of implementation since it does not have data presented in the same format for the previous year.

### *Changes in financial position and the results of operations from the prior year:*

The government should discuss specific economic factors that may have contributed to the change from the previous year. Overall inflation rates or changes in a government's tax rates, tax base or employment base would fall into this category. An analysis of a government's overall financial condition and the results of operations should help citizens determine whether the financial position has improved or deteriorated as a result of the previous year's operations.[6]

### *The government's condition by major fund:*

The government should compare fund balances for the current and prior years for the general fund and all major government funds. It should also calculate variances, changes in the reserved fund balance, percentage change in the reserved fund balance, changes in the unreserved fund balance and percentage change in the unreserved fund balance. The government should prepare an analysis and discussion of any fund balance that changed significantly.[7]

### *Material variances between the government's final budget and actual expenditures, and the impact of these variances on the government's future liquidity:*

The government's chief financial officer should start with a budgetary comparison schedule for the general fund, including the original budget adopted by commissioners' court, the final budget with all amendments made during the year, the actual expenditures on a budgetary basis and any change between the final budget and the actual expenditures on a budgetary basis. The "original" budget in this instance means the budget before any subsequent modifications were made.

The government should calculate the percentage and dollar variance between the final budget and the actual expenditures. Identify the functional areas of the budget that have a significant variance—for example 20 percent or more—and prepare an analysis of these variances. The analysis should explain any variances that may have a significant effect on future government services, future budgets and the government's liquidity.

*The government should list all major approved construction projects and lease-purchase agreements and explain how they are financed.*

### *Capital assets:*

The government should list all major approved construction projects and lease-purchase agreements and explain how they are financed. Next, the government should identify any commitments that have been made. If a government has retired any extraordinary assets, that information should be included here. Finally, a government should develop required note disclosures to explain changes in capital assets and explain why the changes were necessary.

**Exhibit 2** is an example of a summary schedule for capital assets.

**Exhibit 2**
**Capital Assets Summary**
**Fiscal Year**

| Assets | Beginning Balance | Adjustments | Additions During the Year | Ending Balance |
|---|---|---|---|---|

*Source: Texas Comptroller of Public Accounts.*

### *Infrastructure assets:*

A government should start with its capitalization policy and clearly describe the condition of the government's infrastructure assets. Then it should explain the cost of maintaining the infrastructure as well as the amount of depreciation recognized for each subset of assets. It should explain the effect of any extraordinary occurrences during the year, such as floods, tornadoes or fires, and explain their effect, if any, on the infrastructure and future budgets.

If a government's Chief Financial Officer (CFO) decides to report infrastructure under a "modified approach" as an alternative to depreciation, the analysis should include the condition levels for each subset of assets; the estimated cost of maintaining them in the previous budget period; the actual costs and the reasons for any difference; and a brief explanation of procedures used to ensure that government infrastructure is well maintained.

A government's CFO can present the infrastructure summary information in the same format used for capital assets.

### *Long-term debt activity:*

A government's CFO should document current credit ratings for General Revenue bonds and explain whether the ratings have changed during the year. The report should discuss any new debt issued during the year and explain its use. If the government has refinanced any debt during the year, it should be explained, along with the expected benefits. In addition, a government should discuss all current-year and long-term equipment leases.

The CFO can present the long-term debt summary in the same format used for capital assets.

*A government's CFO can present the infrastructure summary information in the same format used for capital assets.*

### *Economic factors and next year's budget:*

A CFO should discuss the various economic factors considered when the next year's budget was prepared, such as local unemployment rates and regional inflation trends.

### *Requests for information:*

The CFO should provide contact information for local officials who are able to provide further information concerning the report.

**The MD&A should be based on the facts available on the date of the audit report. Information presented in the MD&A should not be duplicated in the government's CAFR transmittal letter.**

**Since the MD&A might disclose some information on claims and judgments against the government, the government's attorney should review and approve applicable sections.**

## Chapter 3

# Required Supplementary Information

GASB 34 accounting standards require governments to provide required supplementary information (RSI) with basic financial statements. As with the information in note disclosures, RSI is meant to help users understand specific information contained in financial statements. RSI may be presented in much greater detail and for more fiscal years than is practical in a note to the financial statements.

In addition to MD&A, two other categories of information are included in the RSI: budgetary comparisons for the general fund, major individual special revenue funds and infrastructure condition; and maintenance information for governments using the modified approach.

MD&A precedes the financial statements, while all other RSI is presented following the statements and the notes. Outside auditors generally apply less-stringent guidelines to RSI than to the basic financial statements.

*In addition to MD&A, two other categories of information are included in the RSI: budgetary comparisons for the general fund, major individual special revenue funds and infrastructure condition; and maintenance information for governments using the modified approach.*

### *Required supplementary information other than MD&A:*

- **Budgetary comparison schedules**

  Budgetary schedules can be reported after the notes to the financial statements or in the basic financial statements. These schedules are required for the general fund and each major special revenue fund with a legally adopted budget. The comparison should be among the original budget, the final appropriated budget and the actual budgetary amounts. A separate column showing the variance between the original budget and the final budget amounts is optional.

  The schedule should also provide information that reconciles budgetary information to GAAP information. The notes to RSI should disclose excess expenditures in the individual funds.

- **Modified approach information**

  If the modified approach for reporting infrastructure is used, then the government will have to report the assessed condition at least every three years, and the estimated annual amount to maintain and preserve the infrastructure at the condition level reported for the last five reporting periods.

- **Information related to employee benefits**

  Most of the cities and counties in the state of Texas participate in multiple-employer pension plans. Therefore, these plans should be reported in the notes to the financial statements, not in RSI.

## RECOMMENDATION

**If the modified approach alternative is used, the government's CFO should disclose the assessed condition of the infrastructure assets and the estimated amount needed to maintain and preserve infrastructure assets.**

If a government uses the modified approach to report on its infrastructure, GASB requires it to disclose some information in RSI, including the assessed physical condition of infrastructure assets; descriptions of the criteria the government used to measure and report the asset condition; the condition in which the government intends to maintain and preserve the assets; and a comparison of the estimated annual amount required to maintain and preserve the assets, with actual expenses for at least the last five years.[8]

## Chapter 4

# Governmentwide Financial Statements

Under GASB 34, the governmentwide financial statements consist of a *Statement of Net Assets* and a *Statement of Activities*.

GASB requires these statements to:

- report information about overall government finance without displaying individual funds or fund types;
- exclude information about fiduciary activities, including component units that are fiduciary in nature, such as employee retirement systems;
- distinguish between the primary government and its separately presented component units;
- distinguish between the primary government's tax- and fee-supported activities;
- measure and report all assets, including infrastructure, depreciation expenses, liabilities, revenues, expenses and gains and losses on sales of assets; and
- use an economic resources measurement focus, which is when all revenues are recognized if they were earned during the year, and a full accrual accounting basis.[9]

Full accrual accounting allows financial managers to generate useful information for the public, allowing citizens to see whether the government's financial position has improved or deteriorated as a result of the year's operations; how much was paid for the services received in the current year and whether the costs were shifted to future years; and how well the government invested in capital assets, including infrastructure.

*Full accrual accounting allows financial managers to generate useful information for the public, allowing citizens to see whether the government's financial position has improved or deteriorated as a result of the year's operations; how much was paid for the services received in the current year and whether the costs were shifted to future years; and how well the government invested in capital assets, including infrastructure.*

## Statement of Net Assets

The *Statement of Net Assets* is a new governmentwide financial statement required under GASB 34. In this statement, governments report all capital assets, including infrastructure.

The *Statement of Net Assets* is designed to display a basic accounting relationship: assets minus liabilities equals net assets. The statement reports the assets that a government owns and the liabilities that it owes at a given time, usually the last day of the fiscal year. Net assets are those remaining after liabilities have been paid off or otherwise satisfied.

### *Financial statement presentation:*

The first column of the *Statement of Net Assets* should list assets in an order reflecting how easily they can be converted into cash or consumed; similarly, liabilities should be ordered according to how quickly they can be satisfied.

Net assets are listed after liabilities. Theoretically, net assets represent the resources a government has left to use after its debts are settled. Those resources, however, may not always be available for spending; restrictions may be attached to them. To clarify these issues, net assets should be divided into three categories:

Capital assets, net of related debt, which cannot readily be sold and converted into cash; restricted net assets, which must be retained in perpetuity; and unrestricted net assets, which may be used for any purpose, but are not in a form that can be spent.[10]

**Exhibit 3** presents assets and liabilities in order of liquidity and maturity.

**Exhibit 3**
**Assets and Liabilities**
**In Order of Liquidity and Maturity**

| Assets | Liabilities |
|---|---|
| 1. Cash | 1. Current liabilities, such as amounts owed to employees and vendors. |
| 2. Investments that can be converted to cash easily, such as certificates of deposit and U.S. Treasury notes and bonds | 2. Long-term liabilities (those greater than one year), amounts borrowed. |
| 3. Accounts receivable | 3. Long-term liabilities such as claims, judgments and benefits to employees. These amounts may not be precisely known at the time the financial statements are prepared; the government must estimate these amounts and disclose its methodology in the notes to its financial statements. |
| 4. Long-term capital assets such as land, buildings and equipment | 4. Liabilities from bonds and tax and revenue anticipation notes should be listed in order of liquidity, as determined by National Council on Governmental Accounting Interpretation #9—Certain Fund Classifications and Balance Sheet. Demand bonds should be presented with current and non-current status as established by GASB Interpretation #1—Demand Bonds Issued by State and Local Governments. |

*Source: Texas Comptroller of Public Accounts.*

In order of appearance, the statement next should present assets, liabilities and net assets for the primary government. A fourth column should provide a total for the primary government. The statement should separate governmental and business activities by presenting them in two separate columns.

After the primary government functions, the statement should present asset and liability information for all component units, such as hospitals, in a separate column.

An example of the *Statement of Net Assets* is presented in **Appendix A**.

**Measurement focus and basis of accounting:** GASB 34 requires a government to prepare the *Statement of Net Assets* using an economic resources measurement focus and a full accrual accounting basis. For example, governments should report capital assets, depreciation, fines receivable, prepaid inventories and other accrued obligations such as employees' benefits. In addition, inter-fund payables and receivables should be eliminated.

**Fines receivable with allowance for any uncollectible accounts:** The government should estimate the amount of fines outstanding as well as uncollectible amounts, based on experience.

**Inventories and prepaid amounts:** The government must recognize the cost of the portion of its inventories consumed during the year. Similarly, prepaid amounts such as insurance must be allocated to the period they were used. For example, if the government purchased a two-year insurance policy, at the end of one year, half of the cost of policy should be reported.

**Unmatured long-term debt, net of unamortized premiums and discounts:** The government should calculate the amount for the year and report the amount in the current liability section of the *Statement of Net Assets*.

**Accrued interest payable:** The government should calculate and report the applicable interest amount for the period.

**Accrued obligations such as employee termination benefits and any net pension obligations that are long-term in nature:** The government should report the present values of future payments for employee termination benefits.

**Assets of internal service funds:** The government should merge internal service funds with the primary government and treat them like other government assets. Assets of internal service funds should be capitalized and amortized over their useful lives.

**Statement of Net Assets format:** GASB encourages entities to present the statement in a format that displays assets less liabilities equal to net assets, although the traditional balance sheet format is also acceptable. The traditional format is assets equal liabilities plus net assets.[11]

*The difference between an entity's assets and liabilities is its net assets. Under GASB 34 reporting requirements, net assets should be displayed in three components: those invested in capital assets, net of related debt; restricted and unrestricted.*

The difference between an entity's assets and liabilities is its net assets. Under GASB 34 reporting requirements, net assets should be displayed in three components: those invested in capital assets, net of related debt; restricted and unrestricted.

Invested in capital assets, net of related debt will include all the capital assets at their historical costs, plus ancillary charges, such as delivery and installation charges necessary to place the asset into service. It also includes donated assets at their estimated fair market value at the date they were received. For infrastructure, the historical value of capital assets will have to be recorded and any improvements that cost more than the capitalization threshold will be added annually to the total "invested in capital assets." The principal balance of the related debt will have to be subtracted from the amount invested in capital assets to determine the reported amount invested in capital assets, net of related debt.

Restricted assets are assets that are unavailable for current use. Net assets are considered restricted if their use is constrained to a particular purpose, generally by an external organization, such as a higher level of government, or purchasers of the entity's bonds. Unrestricted net assets are everything that does not fit in the first two definitions.

Total net assets will be the sum of "invested in capital" assets net of related debt, restricted and unrestricted.

## Statement of Activities

The new statement of activities is the second governmentwide financial statement required under GASB 34. This statement tracks yearly revenues and expenses as well as other transactions that increase or reduce a government's net assets. The statement also distinguishes between tax- and fee-supported activities.

The governmentwide statement of activities should focus on the net cost of each government function or program. The expenses of individual functions and programs are compared with the revenues they generate. In other words, the statement shows the extent to which each program either contributes to or draws from general revenue.

*The new statement of activities is the second governmentwide financial statement required under GASB 34. This statement tracks yearly revenues and expenses as well as other transactions that increase or reduce a government's net assets. The statement also distinguishes between tax- and fee-supported activities.*

### *Statement presentation:*

The GASB 34 statement will look somewhat different from the top-to-bottom structure of other financial statements.

The first column on the left of the governmentwide statement of activities should present the government's program and functional areas, such as general government, public health and sanitation. The government's business-type activities, such as water and electricity service, should be listed separately below governmental activities. A total expense figure should be provided. Component units should be listed separately below the total primary government figures, with a separate total completing the column at the bottom.

The second column of the statement shows direct expenses associated with each government program or functional areas. A "function" is a group of similar activities. For example, a government might have a functional category called "culture and recreation," including parks, recreation centers, senior centers, libraries and museums.

Unlike the operating statement of a private business, GASB 34 requires the governmentwide statement of activities to present expenses before revenues by individual function. This emphasizes the relative financial burden of each of the government's functions or programs on its taxpayers.[12]

GASB also allows the governments to allocate indirect expenses to functions and programs or to lump them under one heading.

The next set of columns to the right should present program revenues. GASB 34 requires governments to separate general revenues from program revenues in the statement of activities.

Program revenues include all revenues that can be specifically identified as arising or resulting directly from each program. These can include charges for services provided by the government, operating grants and contributions used to finance government operations and capital grants and contributions used to fund capital assets.

The remaining four columns on the top part of the statement should display net expense or revenue for each of the expense categories—governmental, business-type, total government and component units. These columns represent the net cost of programs.

The remainder of the statement proceeds downward from the net expense/revenue column. Below these columns, the statement presents information on general revenue and other items the government uses to finance the programs. Any revenue not specifically associated with a program usually is classified as general revenue. For example, all taxes, investment income from unrestricted grants and contributions and any multipurpose grant revenue not restricted to a specific program should be reported as general revenue. Other items include transfers that shift resources from one part of government to another, as well as extraordinary items such as the sale of an asset or revenues generated from a special event.

The general revenues and other items are totaled in the statement of activities and added to the net expense or revenue total. This sum is the aggregate change in net assets for the year. This number is added to the net assets figure for the beginning of the year to produce the net assets balance for the end of the year. The end-of-year net assets figures should be the same as those in the *Statement of Net Assets*.

*GASB 34 requires a government to prepare the statement of activities using an economic resources measurement focus, reporting all inflows, outflows and balances affecting the government's net assets, using a full accrual basis of accounting, and recognizing the financial effect of transactions, events and inter-fund activities when they occur, regardless of the timing of the cash flows.*

An example of the statement of activities is presented in **Appendix B**.

## *Measurement focus and basis of accounting:*

GASB 34 requires a government to prepare the statement of activities using an economic resources measurement focus, reporting all inflows, outflows and balances affecting the government's net assets, using a full accrual basis of accounting, and recognizing the financial effect of transactions, events and inter-fund activities when they occur, regardless of the timing of the cash flows.[13] For example, under the new reporting model, revenues such as property taxes, court fees, fines and judgments must be reported in the period in which they are earned, whether or not the government actually receives them. Similarly, expenses incurred during a period not expected to be paid other than in the current period, such as claims and judgments, accrued interest, employee termination benefits and net pension obligations, should be recorded in the period incurred. Depreciation expenses should be allocated to functional areas.

The government's CFO should review the proposed uniform chart of accounts for Texas governments prepared by the Financial Data Advisory Committee at <http://www.cuc.org/CUC/FDAC/working_documents/index.htm> for direction in developing the program/functional areas for the government.

A government's CFO should allocate depreciation expenses of all capital assets to appropriate functional/program areas.

Recommended allocation methods are presented in **Exhibit 4**.

**Exhibit 4**
**Depreciation Allocation to Functional/Program Areas**

| Asset Category | Recommended Method of Allocation |
|---|---|
| 1. Capital assets specifically identified with a function/program | Include in the direct expenses of that function/ program. |
| 2. Capital assets shared by several functional/ program areas, such as police and water departments that share a building | Allocate proportionally to the functional areas served. |
| 3. Capital assets that serve multiple functions/ programs, such as a government courthouse used by all functions | Not necessary to include in the direct expenses of function/program areas. The CFO must decide whether to allocate the expense to various functional/program areas or to general government on a separate line, with an explanation that the figure excludes direct depreciation expenses of various programs. |
| 4. General infrastructure assets | Charge to the government as a whole. |

*Source: Texas Comptroller of Public Accounts.*

The government CFO should allocate revenues to functional and program areas.

A sample allocation of entity's various revenue sources is presented in **Exhibit 5**.

**Exhibit 5**
**Revenue Sources Allocated to Functional/Program Areas**

| Areas of Allocation | Revenues |
|---|---|
| Functional/Program areas | Charges for service |
| | Operating grants restricted to specific program |
| | Capital grants |
| General Fund | All tax revenues |
| | Unrestricted grants |
| | Extraordinary items |
| | Special items |

*Source: Texas Comptroller of Public Accounts.*

### *A government's CFO should determine the allocation methodology for revenues generated by more than one functional area:*

Sometimes, more than one functional area is responsible for generating revenue. For example, a sheriff's deputy (Public Safety) makes an arrest and the government court (Judicial and Legal Services) imposes a fine. GASB 34 does not give much guidance in this area. GASB 34, however, advises that revenue should be allocated to the program that the revenue would not have been generated without. In this case, the sheriff's deputy can arrest people, but revenues would not have been generated without the court imposing a fine.

## *The government's CFO should identify the amounts of inter-fund transactions in the governmental funds financial statements that should be eliminated:*

Governmental funds financial statements include inter-fund transactions. Since the CFO will be using the data from these governmental fund financial statements to prepare the new *Statement of Net Assets* and the statement of activities, to avoid double counting, some inter-fund transactions among governmental funds and among business-type funds should be eliminated.[14]

In order to identify the inter-fund transactions that should be eliminated, the CFO should review both reciprocal inter-fund activities, such as inter-fund loans and inter-fund services provided and used, and nonreciprocal inter-fund activities, such as inter-fund transfers and inter-fund reimbursements.

## *Payment of expenses by the general fund or any other fund on behalf of another fund:*

A general fund may be used to pay the insurance premiums for the entire governmental entity. The general fund may in turn charge the other funds internally for their insurance. When the governmentwide statements are prepared, the expense would be double counted if both the general fund's payment and the internal charge were reported in the governmentwide statements. The internal charge to the appropriate function is all that should remain. The original charge to the general fund will have to be eliminated by an offset to revenue, which will have to be recorded by the original provider fund.[15]

*If the loan is from one governmental fund to another governmental fund and was initially recorded as an inter-fund payable and receivable, then the transaction should be eliminated when preparing the governmentwide statement of net assets.*

## *Loans from one fund to another:*

If the loan is from one governmental fund to another governmental fund and was initially recorded as an inter-fund payable and receivable, then the transaction should be eliminated when preparing the governmentwide *Statement of Net Assets.*

If the loan is between two proprietary funds (business-type funds), they too should be eliminated. This is done so that governmental-type activities and the business-type activities are not overstated due to double counting.[16] Because governmental-type activities, and business-type activities are combined and reported separately, any inter-fund loans among the governmental funds and among the business funds should be eliminated.

However, if the loan is from a governmental fund to a proprietary fund—or vice versa—then the residual receivable/payable is not eliminated. The amounts, when combined on the *Statement of Net Assets*, will net to zero.[17]

Inter-fund payables and receivables between a primary government and fiduciary funds should not be eliminated in the governmentwide statements. They should be reported in the same way as receivables and payables from external parties.[18]

### *Inter-fund goods and services provided and used:*

Sales of goods and services between funds at prices that approximate fair market value should be reported as revenue for the selling fund and as an expenditure for the purchasing fund. For example, if a proprietary electrical utility sold electricity to the general government, it should be recorded as an expense by the general government and as revenue by the electrical utility. Any unpaid amounts at the end of the fiscal period should be reported as receivable for the selling fund and as a payable for the purchasing fund. None of the transactions involving inter-fund goods and services provided and used should be eliminated in the governmentwide statement. They are treated in the same manner as services provided to an outside entity.

*An internal service fund is a governmental fund, not an enterprise fund. Therefore, any net assets and liabilities should be reported in the net assets for governmental activities.*

### *Internal service fund:*

If the internal service fund primarily provides goods and services to other funds, departments or agencies of the primary government on a cost reimbursement basis, it should be reported as an internal service fund.[19] Internal service fund revenues and expenses should be eliminated in the governmentwide statements. If any difference (net profit) remains, then this difference should be eliminated by reducing the expenses charged proportionally to the functions that used the services.

For example, an internal service fund motor pool charges the general fund cost plus 20 percent for all parts purchased for repairs. The actual original cost of the parts from the outside vendor is all that should be reported on the governmentwide statement of activities and it should be reported only by the function that actually utilized the part.

An internal service fund is a governmental fund, not an enterprise fund. Therefore, any net assets and liabilities should be reported in the net assets for governmental activities.[20]

### *Transfers between governmental funds:*

The recipient should report one-way transfers from one governmental fund to another under the caption "other financing sources."[21]

## Chapter 5

# Fund Reporting Changes

The notable differences between the new GASB requirements and traditional practices are as follows:

### *Fund categories have been changed.*

The various funds used by state and local governments fall into three categories: governmental funds for tracking the basic activities of government such as the general fund, special revenue funds, capital projects funds and debt service funds; proprietary funds for reporting activities generally financed and operated like private businesses such as enterprise funds and internal service funds; and fiduciary funds for reporting assets held for others that cannot be used to support the government's own programs, such as expendable trust funds used to account for funds such as private donations for a specific purpose, non-expendable trust funds to account for funds such as endowments that allow the government to spend interest earnings but not the principal, private-purpose trust funds such as employee pension funds and agency funds to account for money held in custody. GASB 34 makes some changes to these fund categories.

### *A new governmental fund—the permanent fund—is introduced.*

This fund includes resources legally restricted so that only earnings and not principal may be used to finance operations. Most of a government's non-expendable trust funds may be classified as permanent funds.

### *Expendable trust funds are deleted from the fiduciary fund category.*

In most instances, however, these funds may be classified as special revenue funds. A government will have to analyze the fund to determine if deletion is appropriate.

### *Non-expendable trust funds are moved from the fiduciary fund category.*

Most of these funds may be classified as permanent funds. An analysis will have to be done to determine whether this will be appropriate.

### *Private-purpose trust funds have been introduced.*

This is a new fund type created to report all other trust arrangements benefiting those outside the government.

## *Governments should use separate columns for all major funds.*

Governmental funds must be presented in a separate schedule from proprietary funds, distinguishing between major funds reported in individual columns and non-major funds, which may be combined.

GASB 34 defines major funds as those with revenues, expenditures, assets or liabilities that make up at least 10 percent of the total for the fund category or type (governmental or business-type) and at least 5 percent of the aggregate amount of all governmental and enterprise funds.[22]

A government must identify major funds for the governmental and business-type fund categories. Internal service funds are excluded from the major fund reporting requirements; since internal service funds sell to other funds. Including them would result in a double counting of the operations. Fiduciary fund information should be presented by type of fund and should not be displayed separately as major funds.

*Any fund may be reported as a major fund if the government's officials believe the fund is particularly important to the financial statement's readers.*

## *Governments may opt to present budgetary comparisons in their basic financial statements.*

Demonstrating compliance with the adopted budget is an important component of governmental accountability. GASB 34 allows governments to present a budgetary comparison statement as part of their basic financial statements or in their required supplementary information. The budgetary basis operating statement must be reconciled to the GAAP-basis fund statements.

Budgetary comparison schedules showing the original budget, final budget and actual expenditures on a budgetary basis for the general fund and each major special revenue fund with a legally adopted annual budget are required supplementary information. The schedules should show original and final budgets for the reporting period and compare the final budget with actual expenditures.[23]

## *Governments may include non-major funds in the major fund presentation, even if they do not meet the criteria under GASB 34.*

Any fund may be reported as a major fund if the government's officials believe the fund is particularly important to the financial statement's readers. For example, a special revenue fund of particular interest to the citizens could be reported even though it falls far below the major fund determination criteria under GASB 34. Similarly, a government might have a covenant requirement in its outstanding debt requiring a full disclosure in the financial statements.

## *Capital assets and general long-term debt account groups are no longer used.*

Under GASB 34, capital assets are not reported in the fund financial statements for governmental funds, but they are reported in the statements for proprietary and fiduciary funds. Long-term debt should be included in the governmentwide statement and will be a reconciling item between the governmentwide and governmental fund statements.[24]

## *Two reconciliation schedules are required.*

GASB 34 requires reconciliation schedules comparing net assets with fund balances and change in net assets with change in fund balances. Governments must present these summary reconciliations in the governmentwide statements, at the bottom of the fund financial statements, or in an accompanying schedule. Typical differences relate to capital assets, long-term obligations, deferred revenues and internal service fund net assets.

## *Governmental fund statements are required.*

GASB 34 requires a balance sheet and a statement of revenues, expenditures and changes in fund balances that show each major fund in a separate column and the rest of the non-major funds in a single column. These statements should be prepared using the current financial resources measurement focus—reporting the flow of resources that occurred within or soon after a given year—and the modified accrual basis of accounting.[25] This means that revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which they are incurred, if measurable, except for interest on general long-term debt, which should be recognized when due. Measurable revenues are those that will be utilized usually within 60 days from the end of the period.

## *Proprietary fund statements are required.*

Proprietary funds, sometimes called 'income determination' or 'commercial-type' funds, account for government activities similar to those often found in the private sector.

GASB 34's reporting requirements for proprietary funds focus on the determination of cost recovery from operations. Under GASB 34, required financial statements for proprietary funds include:

- a *Statement of Net Assets*, including capital contributions, contributions to term and permanent endowments, special and extraordinary items and transfers;
- a statement of revenues, expenses and changes in net assets, distinguishing between operating and non-operating revenues and expenses; and
- a statement of cash flow—displaying all cash inflows and outflows from operating and non-operating activities using the "direct" method.

Under the direct method, GASB 34 requires governments to report direct cash received and paid separately. For example, cash received from customers and inter-fund payments, cash payments to suppliers for goods and services, cash payments to employees and other operating cash receipts and payments should be reported separately.

Proprietary fund statements should be accounted for on a full accrual basis. Each major fund should be reported in a separate column, with combined totals for all internal service funds in a separate column. Both proprietary funds and governmentwide financial statements should use full accrual accounting.

### *Fiduciary fund statements are required.*

Fiduciary funds, including pension funds, investment trust funds, private-purpose trust funds and agency funds, are used to report assets held in trust and not for the benefit of the government itself. As with proprietary fund financial statements, fiduciary fund statements should be prepared using an economic resources measurement focus, reporting all inflows, outflows and balances affecting the government's net assets through accrual-based accounting.

GASB 34 reporting requirements attempt to remove the assets and liabilities of the fiduciary funds from the government's own governmental funds. It is clear that the GASB wanted to make a distinction between assets that may be used to support the government's functions and assets that do not belong to them. As a result, fiduciary funds are reported separately from a government's own funds. Fiduciary fund statements are not reported by the major fund.

## Pension Plans

*Private purpose trust funds are used to report resources held and administered by a reporting government when it is acting in a fiduciary capacity for individuals, private organizations or other governments.*

Most local governments are members of group pension plans. There are very few, if any, self-administered plans by local governments. (Self-administered plans are beyond the scope of this handbook.) Consequently, the reporting requirements for the investment in pension plans are greatly simplified. If a local government is a participant in a pension trust fund, all the reporting is done in the notes to the financial statements and not in the required supplementary information.

If the local government participates in an agent-administered multiple-employer pension plan, the notes to the financial statements should include the participants in the plan, its goals, where it is located and how its managers can be located, how it operates and what securities it invests in. The notes should also include the funding policy and a description of how much employees and the government contribute and the cost of the annual pension, including actuarial assumptions and projected salary increases. A cost trend section should also be included.

## Private Purpose Trust Funds

Private purpose trust funds are used to report resources held and administered by a reporting government when it is acting in a fiduciary capacity for individuals, private organizations or other governments. Resources held for this purpose are not available to support the government's own programs.[26] Escheat property would fall into this category. Any trust arrangement where the principal and income benefit individuals, private organizations or other governments should use private purpose trust funds to report their activities.

### *What are the required statements for private purpose trust funds?*

The financial statements required under GASB 34 include:

- a statement of fiduciary net assets that displays all fiduciary net assets such as assets held in trust for pensions and other employee benefit trust funds, reported by fund type rather than by major fund; and

- a statement of changes in fiduciary net assets that includes net appreciation or depreciation in the fair value of investments; interest and dividend income not included as part of net appreciation; and investment expenses such as management fees.

## Statement of Fiduciary Net Assets

Separate financial statements need to be prepared using the economic resources measurement and the accrual basis of accounting. All current and long-term assets should be presented in the statement of fiduciary net assets. The statement of fiduciary net assets simply lists the assets—from most current to long-term—as well as liabilities—from most current to long-term—and the difference is labeled "Net assets held in trust for beneficiaries" as of the statement date.

## Statement of Changes in Fiduciary Net Assets

A statement of changes in fiduciary net assets is a summary of additions to, deletions from and record of a net increase or decrease in net assets for the year in the private purchase trust fund. The format of the statement begins with additions to the fund, and then adds earnings from investments and rentals, to arrive at a total for additions. Then deductions, such as distributions to beneficiaries and administrative expenses, are subtracted. The change in net assets is subtotaled and added to or subtracted from the net assets at the beginning of the period to arrive at the net assets at the end of the period, which is listed at the bottom of the statement.

*Unlike other fiduciary funds, agency funds do not require a statement of changes in fiduciary net assets. All that is required is a statement of fiduciary net assets and a statement of changes in fiduciary net assets and liabilities.*

GASB 34 requires an explanation of any major changes in net assets.[27]

## Agency Funds

Either assets held by the government as a trustee or as an agent for other parties that cannot be used to finance the government's operations should be reported in the fiduciary fund statements. The funds should be reported based upon the flow of economic resources measurement focus and the accrual basis of accounting.

The required statements for the agency funds include:

## Statement of Fiduciary Net Assets

Unlike other fiduciary funds, agency funds do not require a statement of changes in fiduciary net assets. All that is required is a statement of fiduciary net assets and a statement of changes in fiduciary net assets and liabilities. The statement of changes includes beginning balances, additions, deductions and ending balance columns for each agency fund. The assets are generally the current assets and the liabilities that are equal to the total in net assets and are labeled "amounts due other parties."[28]

### *Inter-fund activity must be reported separately.*

Under GASB 34, inter-fund loans, inter-fund services provided and used, inter-fund transfers and other inter-fund activity must be reported separately in the fund-based financial statements and must be eliminated from the aggregated governmentwide statements. These transactions normally are reconciling items between the fund statements and the governmentwide statements.

## *The government CFO should determine the funds that could be classified as major funds under GASB 34 definition.*

Under GASB 34, major funds are those in which total assets, liabilities or expenditures are at least 10 percent of the corresponding amounts for all funds of that category or type (i.e. total governmental or total enterprise) or in which total assets, liabilities or expenditures are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

In addition, the government should establish and maintain the funds required by law and those necessary to promote sound financial administration. The government also can report any special revenue funds or other funds it believes would be of interest to the constituency. Major funds may be different from one year to the next depending on the government's assets and liabilities, which mostly determine which funds are major. Because too many funds reduce the flexibility and efficiency of financial administration, a government should use only the minimum number of funds consistent with its legal and operational requirements.

*The government CFO should decide whether to include non-major funds in the major fund presentation, even if the funds do not meet the criteria of GASB 34.*

Currently, governments likely prepare a balance sheet and a statement of revenues, expenditures and changes in fund balances for each fund. Under GASB 34, a government would only have to prepare these statements for each major fund, and combine all other funds.

The government CFO should decide whether to include non-major funds in the major fund presentation, even if the funds do not meet the criteria of GASB 34.

CFOs should review the lists of funds to determine if any can be combined. CFOs should determine the impact of any combinations on financial reporting.

The presentation of a non-major fund as major fund is voluntary. If a government chooses to do so, it will change the focus of the outside audit. The outside auditor must then place the same level of scrutiny on non-major funds as on major funds. Therefore, a CFO must be certain that this determination will not compromise the audit outcome of the government's financial statements.

A CFO should conduct an analysis of expendable trust funds to determine whether they should be classified as special revenue funds or private purpose trust funds.

If a government does not have non-expendable trust funds then later does acquire, they should be classified as either permanent funds or private purpose trust funds.

A CFO should present information on assets, liabilities and fund balances in separate columns of the balance sheet for each major governmental fund, rather than fund type. All non-major governmental funds should be aggregated in a single column.

As in the past, a government must distinguish between the reserved and unreserved components of fund balances. The balance sheet should report the government's currently available assets minus currently payable claims. The difference between assets and liabilities reported in a governmental fund will be the fund balance. This amount represents the balance of financial resources available for appropriation at the end of the current fiscal period, if a government has budgeted on a basis consistent with GAAP.

Not all financial resources reported in a governmental fund, however, are readily available for appropriation. For example, long-term receivables associated with loans to other funds—advances receivable—are not converted to cash quickly enough to permit their appropriation in the near future. Similarly, while inventories and prepaid items may indirectly qualify as financial assets, they are not available for spending. Therefore, a portion of the fund balance must be reserved to indicate that such resources are not available for appropriation, even though they are reported in a governmental fund and are reflected in the fund balance.

Agreements with third parties also could affect the resources available for new spending. For example, a government might have issued purchase orders or entered into contracts at the end of one fiscal period for goods to be delivered in the next period, meaning that funds have been encumbered and that a portion of the fund balance must be reserved to pay for these goods.

*A CFO should prepare a statement of revenues, expenditures and changes in fund balances for governmental funds to show all the transactions, events and inter-fund activity that may affect fund balances.*

After all necessary reserves have been established, the remaining fund balance will be available for appropriation.

An example of the governmental funds balance sheet is presented in **Appendix E**.

If a government already presents its assets and liabilities information in the balance sheet in this format for each fund under GASB 34, the government will continue this format, but need not report the information for each fund.

A government should only present the information for major funds and should lump all non-major funds into one column.

A CFO should prepare a statement of revenues, expenditures and changes in fund balances for governmental funds to show all the transactions, events and inter-fund activity that may affect fund balances.

In this statement, operating revenues such as property taxes, fees, state and federal aid and earnings on investments should be listed first by program. Then, operating expenditures should be reported by function, such as general government, public safety and public works.

Debt service payments—interest and principal payments—and expenditures for capital outlays should be listed separately from operating expenditures. The excess or deficiency of revenues over expenditures should be subtotaled.

All non-operating transactions—proceeds from bond sales, the sale of capital assets and inter-fund transfers—should be reported separately. This format clearly separates the government's operations from long-term, non-operating transactions.

Most governments already prepare a statement of revenues, expenditures and changes in fund balances for all funds in this format. Since GASB 34 requires the statement for major funds only, it will simplify reporting. A government would have to present this information individually only for major funds. All non-major funds would be combined into one column.

Most governments record expenditures under broad functional categories; for convenience and consistency, a government CFO could use the same functional areas in the governmentwide financial statements.

**A CFO's office should maintain separate subsidiary ledgers for all capital assets including infrastructure assets and long-term debt associated with a function or program.**

Since the general fixed-asset group of accounts and the general long-term debt group will be eliminated from the balance sheet, the CFO's office should maintain this data on a separate ledger by function or program area. This information is needed to prepare the governmentwide financial statements.

Capital assets that support a proprietary or trust fund should be accounted for within that fund.

**Guidelines for a major change in net assets for the fiduciary funds should be established.**

Whether the net change triggering the explanation would be a flat 10 percent, or a more complex determination, guidelines should be established so that the determination remains consistent from year to year.

Chapter 6

# Reconciliation of Governmental Fund Statements and the Governmentwide Statements

Most local governments record expenditures by fund in the fiscal period in which they occur. Governments recognize revenues on modified accrual basis; that is, revenues are reported in the period they are available and measurable, generally within 60 days after the end of the fiscal year. Governmentwide statements record expenditures and revenues on the accrual basis. Therefore, a reconciliation is needed.

## GASB 34 Requirement

*Governments recognize revenues on modified accrual basis; that is, revenues are reported in the period they are available and measurable.*

Fund-specific financial statements differ from governmentwide statements in their basis of accounting. Fund accounting relies on a modified accrual basis—essentially, recognizing revenues when they become available and measurable and expenditures as they are made. Governmentwide statements, by contrast, must be recorded on a full accrual basis—revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Thus, for a comprehensive understanding of a government's financial picture, the governmental fund financial statements and governmentwide financial statements must be fully reconcilable.

GASB 34 requires governments to present a summary reconciliation to governmentwide financial statements at the bottom of each fund financial statement or in an accompanying schedule.

To reconcile total governmental fund balances with the *Statement of Net Assets*, governments typically must explain the discrepancies resulting from:

- reporting capital assets at their historical cost and depreciating them instead of reporting them as expenditures;
- adding general long-term liabilities not due and payable in the current period to the current-period liabilities;
- reducing deferred revenue for amounts that were not available to pay current-period expenditures; and
- adding internal service fund net assets to the *Statement of Net Assets*.

To reconcile the total change in governmental fund balances with the change in net assets listed in the statement of activities, governments typically must explain the discrepancies resulting from:

- reporting revenues on a full accrual basis instead of modified accrual basis;
- reporting annual depreciation expenses instead of expenditures for capital outlays;
- reporting long-term debt proceeds in the *Statement of Net Assets* as liabilities instead of revenues in other financing sources;

- reporting debt principal payments in the *Statement of Net Assets* as reductions of liabilities instead of expenditures;
- reporting other expenses on a full accrual basis; and
- adding the net revenue or expense of internal service funds to the governmentwide statements.

In addition, any differences in net assets in the fund financial statements for enterprise funds and the net assets in enterprise activities in governmentwide financial statements should be explained.[29]

An example of the reconciliation statement between governmental fund statements and governmentwide financial statements is presented in **Appendix F**.

## RECOMMENDATION

**A government CFO should prepare reconciliation schedules for fund financial statements and governmentwide statements.**

Reconciliation is not only helpful when preparing the governmentwide statements, it is required by GASB 34.

Governmental funds recognize revenues only to the extent that related cash inflows are available for spending in the current period. The governmentwide statement of activities recognizes revenues as soon as they are earned, regardless of when the cash is to be received. Expenses are reported only in the period they occurred regardless of when the government paid for it.

The following are examples of the reconciliation of the conversion of the fund balance sheet to the governmentwide *Statement of Net Assets*.

- Capital outlay versus depreciation. The governmental statement of revenues, expenditures and changes in fund balances reports an expenditure when capital assets are purchased. The governmentwide statement of activities, on the other hand, reports depreciation expense over an asset's useful life. For example, police cars are treated as expenditures for the period in which money was paid for the vehicle. If the vehicle cost $24,000, the expenditure would have been recorded as $24,000 for the period in which the vehicle was purchased. Under GASB 34, only the depreciation expense of the vehicle should be charged for the period, not the entire cost of the vehicle. This will lead to a better matching of expenses with revenues by period.
- Financial assets versus total assets. The balance sheet reports only financial assets, while the governmentwide *Statement of Net Assets* reports all of a government's assets, including capital assets.
- Liabilities due and payable. The balance sheet reports only liabilities that are due and payable with currently available financial resources. Accordingly, governments typically do not report liabilities for immature long-term debt, such as employees' vacation leave, special termination benefits and claims and judgments against the government. The governmentwide *Statement of Net Assets*, by contrast, reports all of the government's liabilities regardless of when they mature.

The following are examples of reconciliations needed in the conversion of the fund statement of revenues, expenditures and changes in fund balances to the governmentwide statement of activities:

- elimination of general long-term debt proceeds;
- bond proceeds should be reported as financing sources in the governmental funds; however, in the governmentwide statement of activities, bond proceeds should not be included.
- elimination of capital outlay expenditures—capital outlays are treated as an expenditure in the fund statements, but capital outlays are not included in the statement of activities;
- elimination of expenditures or other financing uses for debt retirement;
- retirement of debt should be reported as "other financing uses" in the fund statements, but retirement of debt is not included in the statement of activities;
- debt issuance and principal repayment—the statement of revenues, expenditures and changes in fund balances reports inflows and outflow of resources in connection with debt issuance and associated payments. The governmentwide statement of activities reports neither the inflows or outflows of resources;
- recording depreciation expense or maintenance/preservation costs and allocating the expenses to functions;
- depreciation expense is not included in the funds statements, but is included in the governmentwide statement of activities. Any difference between capital outlays and depreciation expense will have to be added back to reconcile to the net change in fund balance;
- converting revenues from the flow of current financial resources reported on the modified accrual basis to the accrual basis;
- some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, but will be reported as expenses in the statement of activities;
- converting interest expenditures to interest expense by adjusting for interest accruals and for amortization of premium or discount bond issue costs;
- bond issuance costs, premiums and discounts are currently recognized in statements of revenues, expenditures and changes in fund balances. Under GASB 34, however, these costs will be spread over the life of the bond and only the costs associated with the current period will be listed in the governmentwide financial statements;
- the net revenue or net expense from internal service funds, used by management to charge the costs of certain activities to individual funds, will have to be accounted for in the reconciliation;
- the internal service funds are reported in the proprietary funds statements, but, because the ultimate goal of the funds is providing governmental services, they should be included in the governmental statement of activities. If an internal service fund has earned net revenue, the adjustment is an increase in the fund balance because the revenue was earned from other funds. Expenses would have to be decreased in the various purchaser funds that benefited. If an internal service fund has lost net revenue, then the adjustment will be a decrease in the fund balance because the services purchased actually cost more than the government was charged; and
- when there is a gain, proceeds from the sale of land are reported as special revenue in governmental funds. In the governmentwide statements, the cost of land sold will be removed from the *Statement of Net Assets* and it is offset against the sales proceeds

resulting in a "gain on the sale of land" in the statement of activities. Therefore, the cost of the land sold has to be subtracted from the fund balance in order to reconcile the change in fund balance to the change in net assets of governmental activities.

## Chapter 7

# Notes to the Financial Statements

A CAFR should be prepared according to GAAP and should include notes on significant accounting policies, detailed notes on all funds, long-term debt, related party transactions, summary disclosure of significant contingencies, the government's self-insurance fund and significant reclassifications.

## RECOMMENDATION

**A CFO should draft notes for the government's financial statements based on its new policies.**

The following lists a few areas in which additional disclosures should be made in the summary of significant accounting policies:

- a description of the types of activities reported in the different columns of the report's major funds, fiduciary funds and internal service funds. For example, the road and bridge fund's activities could be described as maintenance and preservation of roads and bridges financed by local fuel taxes;[30]
- a disclosure of the length of time used in the definition of the term "available" for the purposes of revenue recognition in the governmental fund statements. For example, revenue is considered available if it is collected during the current fiscal year or 60 days after the end of the fiscal year;[31]
- details about short-term debt activity during the year, even if no short-term debt is outstanding at the end of the year; [32]
- the government's policy for first applying restricted or unrestricted resources when an expense is incurred and when restricted and unrestricted net assets are available;
- a description of the governmentwide financial statements, noting that neither fiduciary funds or component units that are fiduciary in nature are included;
- a brief description of component units and their relationship to the primary government. The information should include a description of the component units' *Statement of Net Assets* and statement of activities;
- a description of the government's business-type activities, if any;
- the measurement focus and basis of accounting used in the governmentwide statements;
- the government's policy for eliminating internal activity in the statement of activities;
- the government's policy for capitalizing assets and estimating the useful lives;
- the government's policy for reporting eligible infrastructure assets under modified approach, if it is used;
- a description of transactions included in program revenues;
- a definition of cash and cash equivalents used in the statement of cash flows; and
- the government's definition of operating and non-operating revenues of proprietary funds.

Notes to the financial statements should include:

- cash deposits with financial institution investments;
- significant contingent liabilities;
- encumbrances outstanding;
- significant effects of subsequent events;
- annual pension cost and net pension obligations;
- a disclosure of any actions taken to address significant violations of finance-related legal or contractual provisions;[33]
- debt service requirement to maturity;
- construction and other significant commitments;
- deficit fund balance or net assets of individual funds;
- an explanation of inter-fund balances. For example, amounts due from individual major funds or non-major governmental funds in the aggregate. The purpose for the inter-fund balance needs to be explained, along with details of any inter-fund balance not expected to be paid within one year from the date of the financial statements;[34]
- details about inter-fund transfers should be given, along with the principal purposes for the transfer. The intended purpose and amount of the transfer should be reported if it does not occur on a routine basis or is inconsistent with the activities of the fund making the transfer;[35]
- long-term government liabilities reported in the *Statement of Net Assets*. The information disclosed should be divided into major classes of capital assets and long-term liabilities as well as between those associated with governmental activities and those associated with business-type activities;
- capital assets and long-term liabilities of component units;
- segment information–the type of goods or services provided by the segment, a condensed *Statement of Net Assets*, a condensed statement of revenues, expenses and changes in net assets and a condensed statement of cash flows should be included;
- significant transactions between discretely presented component units with the primary government;
- entity risk management activities;
- property taxes;
- condensed financial statements for major discretely presented component units;
- budget basis of accounting and budget/GAAP reporting differences not otherwise reconciled in the financial statements;
- short-term debt instruments and liquidity;
- related parted transactions;
- the nature of the primary government's accountability for related organizations;
- capital leases;
- joint ventures and jointly governed organizations;
- debt refundings;
- grants, entitlements and shared revenues;
- methods for estimating fixed asset costs;
- fund balance designations;
- inter-fund eliminations in the fund financial statements that are not apparent from the headings;
- receivables and payables, usually aggregated in the financial statements, should be separated and explained, such as those due from other governments, vendors, customers, beneficiaries and employees. Also, any receivable balances not expected to be collected within one year should be disclosed;[36]

- pension plans in both separately issued plan financial statements and employer statements;
- bond, tax or revenue anticipation notes excluded from fund or current liabilities (proprietary funds);
- the nature and amount of inconsistencies in financial statements caused by transactions between component units with different fiscal year-ends or changes in component unit fiscal year ends;
- in component unit separate reports, identification of the primary government in which the financial report the component unit is included and a description of the relationship to the primary government;
- reverse repurchase and dollar reverse repurchase agreements;
- securities lending transactions;
- special assessment debt and related activities;
- demand bonds;
- post-employment benefits and other pension benefits;
- landfill closure and post closure care;
- on-behalf payments for fringe benefits and salaries;
- entity involvement with conduit debt obligations;
- sponsoring government disclosures about external investment pools reported as investment trust funds;
- the amount of interest expense included in direct expenses;
- donor-restricted endowments; and
- other notes the CFO deems necessary.[37]

## Chapter 8

# Reporting Component Units

A component unit is a legally separate entity associated with the primary government. For example, if a county runs a hospital, the hospital may be a component unit of the county. Component units may be governmental organizations, nonprofit corporations or for-profit corporations that have an elected official who is financially accountable, or the component unit is so closely tied that leaving the unit out of the financial statements would make them misleading or incomplete.

If a component unit can determine its own budget, issue debt, levy taxes or set rates for government charges, it is probably not a component unit. However, if the county's financial statements would be misleading without the EMS finances, then the EMS is a component unit.[38]

## How should the component unit be reported?

*A component unit is a legally separate entity associated with the primary government.*

If a primary government has a component unit, the primary government and the component unit's financial statements should be reported in the financial statements of the reporting entity. Component units must be reported discretely, which means that the component unit is reported separately from the primary government, or the information may have to be blended, or included, with that of the primary government.

## Discretely Presented Component Units

Discrete presentation entails reporting component unit financial data in one of the following formats:

### *Separate Columns*

The component unit's information should be presented in a separate column in the governmentwide statements. This is done usually to emphasize that the component unit is separate from the primary government.

GASB 34 requires that both the *Statement of Net Assets* and the statement of activities have separate columns for governmental, business-type and major component units. There should also be separate totals for each column.

### *Combining Statements*

Component units can be combined in one component unit financial statement, as long as the statements are presented on the accrual basis of accounting and include a *Statement of Net Assets* and a statement of activities with the separation between major and grouped non-major component units.

## Condensed financial statements in the notes to the financial statements

### *Condensed Statement of Net Assets*

Total assets should be presented in a way that separates capital assets from other assets. Accounts receivable from the primary government or other component units should also be presented separately. Total liabilities should be presented in a way that distinguishes between long-term and other liabilities. Amounts payable to the primary government or other component units should be reported separately.

### *Condensed Statement of Activities*

Expenses should be listed with depreciation and amortization of capital assets. Program revenues should be listed by type. Tax revenues should be separated from non-tax general revenues. Contributions and extraordinary items must also be listed. At the bottom of the statement, there must be a change in net assets showing beginning and ending net assets. This is, in effect, a full set of financials condensed within the notes to the financial statements.

## Blended Component Units

Blended component units are component units that are an extension of a primary government and should not be presented separately. When a component unit is considered an extension of the primary government, the assets, liabilities, revenue and expenses are combined with the primary governments.

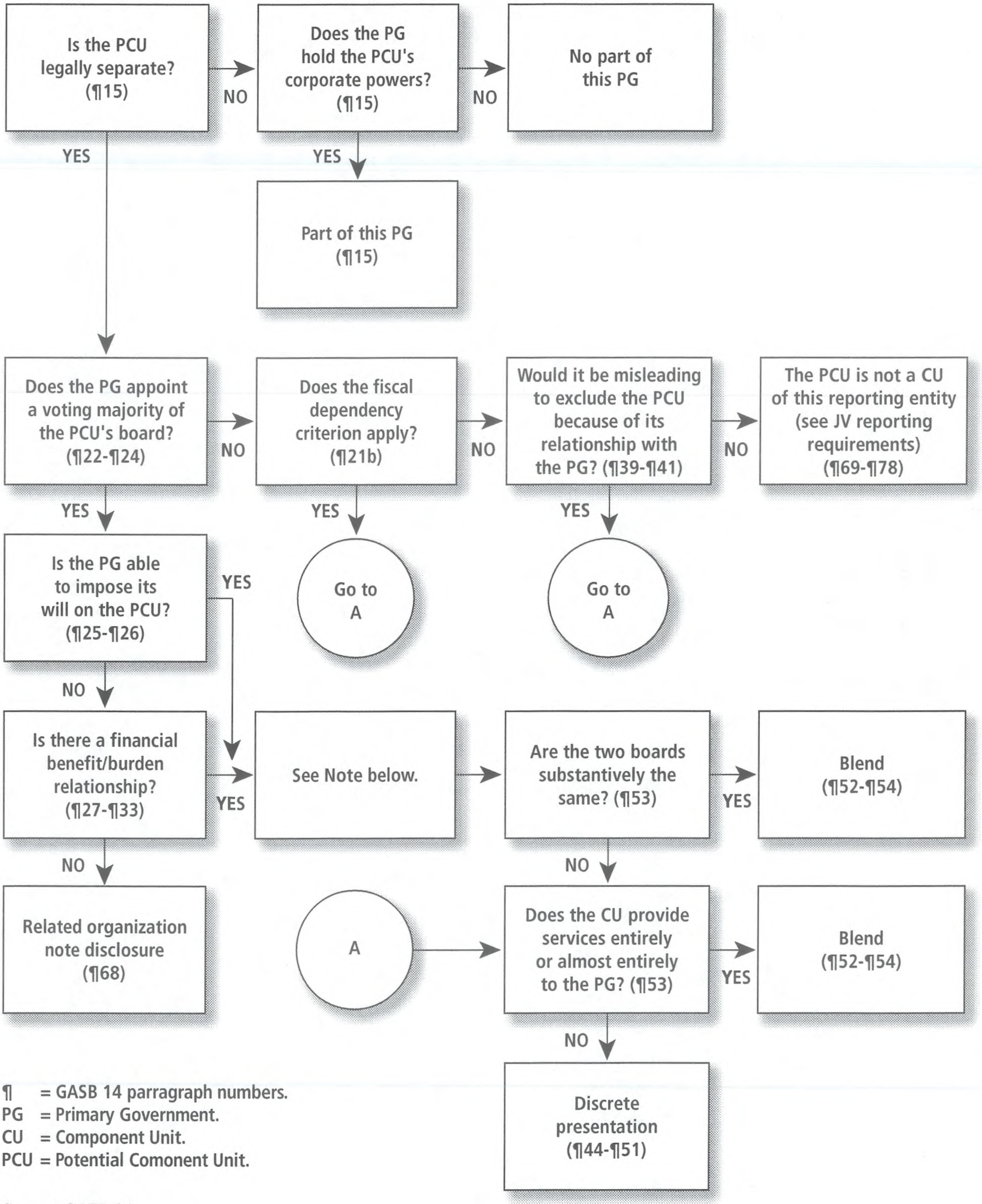
- There are two cases where this type of treatment is mandatory. The first is when the same officials are in charge of both entities. For example, if the entire city council is on the board of the fire control district, then the fire control district should be blended. If only a few of the members are on the board, it should not be blended. The second case is when the goods or services that the component unit provides are provided exclusively or nearly exclusively to the primary government. In that case, the component unit is in effect an internal service fund.[39]

The discrete or blended reporting flowchart is located in **Exhibit 6**.

## What if the component unit's fiscal year is different from the primary government?

The primary government and the component unit should use the same fiscal year. If that is impossible, then the nearest financial statement of the component unit may be used, even when the component unit's financial statement is six months old, or occurs three months after the year end of the primary government's. This should only be done if it does not hinder the timely and accurate presentation of the reporting entity's financial statements.[40]

## Exhibit 6
## Component Unit Reporting




¶ = GASB 14 parragraph numbers.
PG = Primary Government.
CU = Component Unit.
PCU = Potential Comonent Unit.

*Source: GASB 14*
*Note: A potential component unit for which a primary government is financially accountable may be fiscally dependent on another government. An organization should be included as a component unit of only one reporting entity. Professional judgment should be used to determine the most appropriate reporting entity (¶21b and ¶34-¶38). A primary government that appoints a voting majority of the governing board of a component unit of another government should make the disclosures required by ¶68 for related organizations.*

# Chapter 9

# Proprietary Fund Statements

When a government operates activities similar to a business, proprietary fund statements should be used to report the results of these operations. There are two types of proprietary funds. Enterprise funds are used to account for activities that sell goods or services outside of the government. An example of an enterprise fund would be an electric utility that sells electricity to everyone in a particular area. Internal service funds are used to report activities that sell goods or services to other parts of the same government. An example of an internal service fund would be a car pool that services all of the cars from several departments of a particular government.

The proprietary fund statements are:

- *Statement of Net Assets*;
- statement of *Revenues, Expenses and Changes in Fund Net Assets*; and
- statement of cash flows.[41]

*When a government operates activities similar to a business, proprietary fund statements should be used to report the results of these operations.*

The *Statement of Net Assets* and the statement of *Revenues, Expenses and Changes in Fund Net Assets* are reported in the same way as the governmentwide statements explained in Chapter 3. They are reported on the full accrual basis of accounting with the economic measurement focus. Major enterprise funds should be reported separately in a single column and non-major enterprise funds should be aggregated in a single column. Internal service funds should be aggregated in a single column or governments may present them individually in a combining statement with the supplementary information.

## Statement of Net Assets

A clear distinction needs to be made in the proprietary funds *Statement of Net Assets* between assets that are restricted and assets that are not. If the government is prohibited from using restricted assets, either by law, or agreements entered into to secure outside debt or any other reason, the restricted assets should be separated from current assets. The current asset section should contain only unrestricted assets. Restricted assets should be listed in the non-current asset section of the *Statement of Net Assets* along with buildings, land and other non-current assets.

## Statement of Revenues, Expenses and Changes in Fund Net Assets

This is the operating statement of the proprietary fund. In this statement:

- revenues should be reported by major source, net of discounts and allowances which could be parenthetically disclosed on the face of the statement or in the notes to the financial statements;
- operating and non-operating revenues and expenses should be reported separately;
- revenues that are restricted for the payment of revenue bonds should be identified;

- separate subtotals should be presented for operating revenues, operating expenses and operating income;
- non-operating revenue and expenses should be reported after operating income;
- capital contributions and permanent endowments should be reported separately;
- special and extraordinary items should be reported separately; and
- transfers should be reported separately.

## Statement of Cash Flows

A statement of cash flows should be prepared for enterprise funds. The statement should be formatted using the direct method in computing cash flows from operating activities. The statement should also include a reconciliation of operating cash flows and operating income.[42]

A statement of cash flows tracks where cash comes from and where it goes. Did the government raise enough cash to pay its bills? If a government did not raise enough money to pay its expenses, it must list the source of the cash used.

There are four major sources of cash inflows:
- operating cash flows;
- non-capital financing cash flows;
- capital and related financing cash flows; and
- investing cash flows.

*A statement of cash flows tracks where cash comes from and where it goes.*

## RECOMMENDATION

**A CFO should prepare proprietary cash flow statements using the direct method.**

### *Operating cash flows*

Cash flows generated by and used for basic operations are designated operating cash flows. Examples include cash received for goods and services and cash paid to employees and suppliers. The direct method requires, at a minimum, deliniation of the following sources and uses:
- receipts from customers;
- receipts from inter-fund services provided;
- receipts from other operating activities;
- payments to suppliers of goods and services; and
- payments of other operating activities.[43]

### *Non-capital financing cash flows*

This type of cash flow usually is from short-term notes to finance operations. As long as the notes are not secured by long-term assets, this is the location of the proceeds or payments, inflows and outflows of the short-term unsecured notes. Some of the possible sources and uses using the direct method are:
- receipts from other funds;
- pay back cash borrowed from other funds; and
- receipt of money from borrowing for other than capital assets.

### *Capital and related financing cash flows*

This cash flow comes from borrowing and repaying funds for buildings and other long-term assets. Some of the possible sources and uses are:

- capital contributions;
- acquisition of fixed assets;
- borrowing and repaying funds for building or reconstructing capital assets;
- cash receipts from the sale of capital assets; and
- grants or other aid from other governmental units used to finance capital assets.

### *Investing cash flows*

Investing cash flows include cash used to buy or sell long-term investments or money collected from loans or cash investments. Examples of investing cash flows are:

- cash receipts from the sale of long-term investments;
- cash receipts from investment dividends and interest from investments; and
- cash payments for the purchase of investments.

*Investing cash flows include cash used to buy or sell long-term investments or money collected from loans or cash investments.*

The net cash flows from each category should be totaled to determine the overall net increase or decrease in cash.

### *Reconciliation of cash and changes in fund net assets*

The last section of the statement of cash flows for enterprise funds is the reconciliation of net cash provided or used by operating activities, with the operating income or loss in the statement of revenues, expenses and changes in fund net assets. This information can be submitted in a separate schedule.

Non-cash transactions include:

- adding back non-cash expenses such as depreciation;
- adjusting for net change in fair value of investments;
- adjusting for capital asset donations; and
- a change in inventory that does not involve cash uses and would have to be added back to the changes in fund net assets.

Chapter 10

# Budget Revisions

Under GASB guidelines, government accounting systems should provide the basis for appropriate budgetary control. GASB 34 goes one step further, requiring governments to present budgetary comparisons in their financial statements for all governmental funds for which the government has a legally adopted budget.

The key difference in budgetary comparison statements required before and after GASB 34 is that the new statement must present both the original budget and the final budget. The original budget should be the first budget as adopted by government officials for the entire fiscal year. The final budget includes amendments made during the year as well as amendments after the year's end, such as appropriation transfers among line items.

GASB requires each government to show the original budget, final budget with all amendments and actual budget and compare the final budget with actual expenditures on a budgetary basis. GASB 34 gives governments the option of presenting budgetary comparisons either in the basic financial statements or in the RSI after the basic financial statements.

*The key difference in budgetary comparison statements required before and after GASB 34 is that the new statement must present both the original budget and the final budget.*

## RECOMMENDATIONS

**A CFO should decide whether the budgetary comparison schedules should be part of the basic financial statements or should be presented after the footnotes with RSI.**

Traditionally, independent CFOs render an "opinion" limited to government's basic financial statements or extended to include all individual fund presentations. Generally, this scope depends on the CFO's professional judgment. The cost of extending the audit to all funds, however, is greater than that of an audit limited to basic financial statements.

If a CFO chooses to make the budget comparison schedules part of the basic financial statements, they will be subjected to the same level of scrutiny as any other part of the statements. This generally means that this part of the outside audit will require more time and effort and will cost more money.

If the budgetary comparison schedules are presented in RSI after the basic financial statements, they should be presented after the notes. This information still will be subject to audit, but may not be subject to as rigorous an examination as the basic financial statements.

**A CFO should decide the format in which the budget comparison schedules are presented.**

Whether the comparison statements appear in the basic financial statements or in the RSI, the format should be the same. The statement should include columns for the original budget, the final appropriated budget and actual amounts on a budgetary basis. GASB encourages governments to add another column showing the variance between the final appropriated budget and actual budgetary amounts.

A recommended format for the budgetary comparison schedule is presented in **Exhibit 7**.

**Exhibit 7**
**Budget Comparison Statement**
**Original, Final and Actual**
**General Fund**
**For the Year Ended 00/00/00**

| Account | Original Budget | Final Budget | Actual Amounts Budgetary Basis | Variance from Final Budget |
|---|---|---|---|---|
| Beginning Budgetary Fund Balance | $ | $ | $ | $ |
| Revenues | | | | |
| Charges to Appropriations | | | | |
| Ending Budgetary Fund Balance | | | | |

*Source: Texas Comptroller of Public Accounts.*

*The budget is prepared on the budgetary basis of accounting, which is usually on the modified accrual basis rather than on full accrual in the governmentwide statements. These two different reporting basis formats have to be reconciled.*

The original budget is the first complete appropriated budget. The final budget is the original budget adjusted for all transfers, reserves, allocations and supplemental appropriations that occurred during the fiscal year.[44]

If the CFO decides to present its budgetary comparisons in the basic financial statements, they should be presented with the fund statements and after the statement of revenues, expenditures and changes in fund balances. Any material variances of actual expenditures from the budget should be explained in the notes to RSI.

## A CFO Should Prepare a Reconciliation of Budgetary Information to GAAP information.

The budget is prepared on the budgetary basis of accounting, which is usually on the modified accrual basis rather than on full accrual in the governmentwide statements. These two different reporting basis formats have to be reconciled.

Chapter 11

# Infrastructure Assets and the Historical Cost of Existing Infrastructure

GASB 34's infrastructure reporting requirements are intended to provide more comprehensive cost information, so that investors may make informed decisions concerning a government's ability to maintain its infrastructure while repaying its debts.[45]

GASB 34 defines infrastructure assets as long-lived capital assets, normally stationary in nature, which can be preserved for a significant number of years. Examples of such assets include roads, bridges, tunnels, drainage systems, water and sewer systems and dams. Buildings, except those that are an ancillary part of a network of infrastructure assets, are not considered infrastructure.[46]

GASB 34 requires governments, for the first time, to capitalize "major" infrastructure assets on the governmentwide financial statements.

*GASB 34's infrastructure reporting requirements are intended to provide more comprehensive cost information, so that investors may make informed decisions concerning a government's ability to maintain its infrastructure while repaying its debts.*

The new reporting model under GASB 34 requires governments to:

- capitalize infrastructure assets constructed or acquired subsequent to the implementation of the new reporting model, as well as the cost of any major improvements incurred from that time forward; and
- retroactively report existing infrastructure assets constructed, acquired or donated since 1980.[47]

Mandatory retroactive reporting is limited to major networks and subsystems. GASB 34 defines a network of infrastructure assets as all assets providing a particular type of service—for example, all roads—and a subsystem as all assets making up a similar portion of a network of assets—for example, rural roads. A network is considered major if its costs are expected to be at least 10 percent of the government's general capital assets in the first fiscal year report. A subsystem is considered major if its costs are expected to be at least 5 percent of the total cost of all government capital assets reported in the first fiscal year report.[48]

GASB 34 also requires governments to value infrastructure either through depreciation or by reporting on the cost and consequences of preservation through a "modified approach"—an alternative to depreciation for eligible infrastructure assets.[49] The rationale is that governments that preserve their infrastructure should not have to depreciate these assets.

If governments choose to depreciate their infrastructure, they must document infrastructure assets at their historical cost, less any accumulated depreciation, by allocating the net cost of depreciable assets over the infrastructure's estimated useful life in a systematic and rational manner. They must also document initial capitalization as well as accumulated depreciation at the date of implementation.[50]

Governments may use the modified approach as an alternative to depreciation for infrastructure assets meeting certain criteria. The assets are managed using a qualifying asset management system. GASB 34 requires the management system to have an up-to-date inventory of all eligible infrastructure assets; it must perform condition assessments of the assets and must summarize the results using a measurement scale; and it should be able to estimate the annual amount needed to maintain the assets at the condition level established and disclosed by the government. The government can document that these assets are preserved at or above this level.[51]

If governments choose to use the modified approach, they must document that their infrastructure assets are maintained at or above the established level for the current year and the two preceding years. They must also report maintenance and preservation expenditures assessed during the year as incurred. Only costs of construction that increase the efficiency or capacity of the existing network of assets can be capitalized.[52]

*If governments choose to use the modified approach, they must document that their infrastructure assets are maintained at or above the established level for the current year and the two preceding years.*

## RECOMMENDATIONS

**A government's CFO should ensure that the government's capital asset system includes a comprehensive inventory of infrastructure assets including roads, bridges, sidewalks and alleyways, storm water drainage structures and retention facilities.**

**A CFO should assign a person to make a physical count of the government's infrastructure assets.** The government should gather information from all available sources to prepare a complete list. Roads, bridges and parkland maintained by state and federal governments should be excluded from this inventory. When the infrastructure asset list has been prepared, the government's CFO should reconcile the physical count to the general ledger.

**The government CFO should analyze the capitalization threshold to determine whether to increase the capitalization thresholds for infrastructure assets.**

**The government CFO should review the government's policy on capitalization thresholds for infrastructure assets in light of GASB 34.** The CFO should examine the capitalization thresholds recommended in the Comptroller's *Capital Asset Guide* and if needed, recommend changes. The CFO should remove infrastructure assets that cost less than the newly established thresholds from the capital asset group of accounts. To maintain the appropriate level of accountability, however, assets below threshold levels could be documented in a separate file.

**A CFO should recommend policies and procedures for the efficient reporting of capital assets under GASB 34.**

These recommendations should include:
- depreciable lives for capital assets;
- appropriate categories for asset classification;
- capitalization thresholds for each class of assets for reporting and control purposes;

- depreciation methods;
- salvage values for different classes of assets;
- a methodology for allocating depreciation at the function and program level for the governmentwide statement of activities; and
- definitions of preservation costs, maintenance costs, the costs of improvements to the efficiency or capacity of the assets and a method for capturing costs.

Once approved, staff members should be trained to follow the new policies.

**A CFO should direct the management in charge of infrastructure to conduct a comprehensive condition assessment of the government's infrastructure assets.**

The government's infrastructure manager should keep thorough records of the condition of the government's infrastructure assets. If the government chooses to use the modified approach for reporting under GASB 34, it must maintain full documentation of the condition of each government infrastructure asset for reporting purposes. This will help managers identify items that need additional resources and will document the relationship between budgets and the resulting level of service.

*The government should complete and document the condition assessment prior to reporting infrastructure assets using the modified approach.*

**Appendix D** includes the Texas Maintenance Assessment Inspection Form, TxMAP (named TxMAP by the Texas Department of Transportation) scoring system and an example of calculations developed by the Texas Department of Transportation (TxDOT) to document the condition of the Interstate System. The government's road administrator can adopt this model to suit the government's needs.

The government should complete and document the condition assessment prior to reporting infrastructure assets using the modified approach.

**If the modified approach for infrastructure is chosen, then a CFO should ensure that costs for both maintenance and preservation of infrastructure assets are accounted for properly.**

Maintenance costs should be recorded in the period incurred, regardless of the method of accounting used for the asset. Preservation costs extend the useful life of an asset beyond its previously established useful life. Thus, preservation costs are capitalized and depreciated if the asset is accounted for using traditional depreciation, but are recorded in the period incurred if the asset is accounted for using the modified approach.[53]

**A CFO, in cooperation with the management in charge of infrastructure, should estimate the value of government rights-of-way.**

First, the government's road administrator should get an inventory of all the government's rights-of-way. The government CFO can estimate the historical cost of these assets by using the purchase price of land the government recently purchased, and deflating this cost through price-level indexes to the acquisition year. The estimated acquisition year can be used if the actual year is unknown. There are a number of price-level indexes that may be used to remove the effects of price-level changes from current prices.

**A CFO should ensure the asset management system meets the minimum requirements needed to report infrastructure assets using the GASB 34 modified approach.**

For governments to report infrastructure assets under the modified approach, asset management systems should include an up-to-date inventory of eligible infrastructure assets; the condition assessments of eligible infrastructure assets, with the results summarized using a grading scale; and an annual estimation of the amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.[54]

**A CFO should make a trial run of the capital asset system by entering additional data and calculations necessary for reporting under GASB 34.**

If the capital asset system cannot handle the additional data and calculations, the government may need to upgrade its software or purchase new software compatible with the government financial management system.

## Chapter 12

# Capital Assets and Accumulated Depreciation

Capital assets include any real or personal property. Governments must establish a capitalization threshold for each particular class of asset for all capital assets with an estimated useful life of more than one year.[55]

A government should maintain its capital assets records in its capital asset software module. This information should include asset identification numbers, equipment category codes, tag numbers, dates of acquisition, assigned departments, purchase costs and descriptions of each asset.

A government should conduct a physical inventory of its assets each year.

Capitalization threshold on assets—the dollar value above which asset acquisitions are added to the government's capital asset accounts—are usually too low and are not cost-effective. GASB 34 allows governments to establish capitalization thresholds that suit their needs. When the threshold is low the government must track depreciation for more assets. This creates additional work for central administrators and departmental managers. For internal accountability purposes, however, the government should maintain records of assets at a high risk of theft, such as weapons, computers, radios and television sets.

*Capitalization threshold on assets—the dollar value above which asset acquisitions are added to the government's capital asset accounts—are usually too low and are not cost-effective.*

A CFO will need the help of the departments in grouping assets, assigning useful lives and selecting appropriate depreciation methods. Although GASB does not recommend a specific schedule for such calculations, it recommends that governments use general guidelines obtained from professional or industry organizations, information on comparable assets of other governments or internal information such as property replacement policies for equipment or vehicles, property disposal records and budget documents.[56]

An example of the state of Texas' capital assets schedule is located in **Appendix C**.

Under GASB 34, capital assets include:
- inexhaustible capital assets, such as land and land improvements;
- infrastructure, including long-lasting capital assets;
- intangible assets, such as computer software developed by the government for internal use with a useful life of more than one year;
- works of art and historical treasures;
- buildings, building improvements, vehicles, machinery and equipment not included in other categories; and
- improvements to other structures, such as sport stadiums, pavilions, statues, sidewalks, parking lots and landscaping.

Under current practice, when a government purchases an asset with money from any government fund, the entire cost of the asset is recorded as an expenditure at the time of the purchase. GASB 34 requires that these assets, if exhaustible, be depreciated over the useful lives of the assets or their class of assets as determined by the government.

The most important change in reporting the depreciation of capital assets under GASB 34 is governments must include depreciation as a direct expense under each of the programs and functions in the statement of activities. If an asset is shared by more than one functional area, the depreciation expense must be allocated among functions if the government can readily identify them. If an asset serves essentially all of the government's programs, however, as do the government courthouse and information technology resources, the assets do not have to be allocated to program areas. Instead, the related depreciation may be reported as a general government function and labeled an "unallocated depreciation expense."[57]

## RECOMMENDATIONS

**Governments should create capitalization policies that include capitalization thresholds.**

*The Comptroller's office developed a Capital Asset Guide to help state and local governments implement the new GASB 34 reporting requirements.*

The Comptroller's office developed a *Capital Asset Guide* to help state and local governments implement the new GASB 34 reporting requirements. This guide includes definitions for different asset categories, capitalization thresholds, depreciation methodologies and examples of assets as defined by the State Property Accounting (SPA) system. In addition, the guide includes guidelines for leasehold improvements and construction in progress. The guide is available at <http://www.comptrol/san/gasb/gasb34_assetinfra.html>.

A government can choose to use different capitalization thresholds for different classes of assets.[58] For control and accountability purposes, a government may continue to inventory some capital assets costing less than the threshold values that have high incidences of theft, such as computers, audiovisual equipment and weapons. These items should not be accounted for in the capital asset group of accounts.

To implement this recommendation, a government CFO should review the capitalization thresholds developed by the Comptroller's office for different asset categories and solicit input from government department heads to revise the capitalization threshold policy. After the commissioners court approves this revision, the CFO should notify the first assistant CFO of the approved thresholds. The first assistant CFO should remove assets that cost less than the new threshold amounts from the fixed-asset database, but should maintain accountability for these assets in a separate file.

**The government's chief financial officer should develop a methodology for depreciating classes of assets for GASB 34 reporting.**

The State Property Accounting (SPA) system has class codes for all of the state's fixed assets, based on statewide historical data for each class of asset and information from state and national professional organizations. Each class code in the SPA system contains a default value for both salvage value—expressed as a percentage of historical cost of the asset—and estimated useful life, which is expressed in months.

A recommended list for useful life, capitalization thresholds and percentages of residual values for personal and real property is presented in **Appendix C**. This is one example of one depreciation methodology.

**A CFO should use this information to develop a depreciation methodology for assets.**

The CFO could substitute information for salvage value or the estimated useful life based on experience. The CFO should present a new fixed-asset class code system to the department heads for approval. Once approved, the departments should implement the new class code system. The Comptroller's office recommends the straight-line depreciation method—the basis of the asset is written off evenly over the useful life of the asset.

**A CFO should develop an index of capital assets by function and program, as required by GASB 34.**

A government's capital-asset database lists assets, other than buildings, by department. CFOs should use the functional areas to classify capital assets.

To implement this recommendation, the first assistant CFO should review the program areas proposed in the draft version of the uniform chart of accounts proposed at <http://www.cuc.org/CUC/FDAC/working_documents/index.htm> and should tie each item in the capital asset database to a specific function or program area. This would allow the government to pull assets by functional/program areas for financial reporting purposes and to produce periodic management reports.

*A government's capital-asset database lists assets, other than buildings, by department. CFOs should use the functional areas to classify capital assets.*

**CFOs should develop a methodology for allocating the depreciation of assets shared by more than one program area.**

If more than one functional area occupies a single building, depreciation should be allocated based on the square footage occupied by each functional area. If one department occupies more than 80 percent of a building, the total expense can be allocated to that function.

To implement this recommendation, the chief financial officer, in cooperation with the superintendent of Building Maintenance, should prepare a list of government buildings, departments housed in each, the square footage of each building and the percentage of space occupied by each department. Based on this information, the CFO should allocate depreciation expenses for each building to the appropriate area.

Chapter 13

# An Example of a GASB 34 Implementation Plan

The implementation of GASB 34 presents a significant challenge to local governments. To successfully adopt reporting requirements, commissioners must adopt policies that allow a CFO to develop procedures to implement GASB 34.

A CFO is usually well aware of the new GASB 34 reporting requirements and their impact on the government's resources. The sheer volume of changes needed in data gathering and development and the finance system, however, represents too large a task for the CFO's office alone. All officials must understand the new reporting model and direct the appropriate staff members to cooperate with the CFO.

## RECOMMENDATIONS

**Government officials, with the help of the government CFO, should organize a GASB 34 implementation planning committee.**

*Officials should prepare lists of areas within each department that would be affected by the changes proposed and suggest an easy method to facilitate the changes.*

The government CFO should brief committee members about the specific financial data that should be gathered, possible internal control changes to be made and additional demands that will be made on staff and training requirements. Officials should prepare lists of areas within each department that would be affected by the changes proposed and suggest an easy method to facilitate the changes. The CFO should provide the committee with copies of GASB 34 resources from **Appendix G** and should assign specific tasks with timelines to each member of the steering committee.

**The planning committee should identify all government offices that will be affected by GASB 34 requirements.**

With the help of the government CFO and other government officials, the planning committee should develop a thorough understanding of the new requirements and should identify the various government departments that will be affected by the new reporting model.

**The planning committee should identify data sources, key accounting policies and financial system changes needed for efficient implementation of GASB 34.**

The committee should assign a list of issues that should be analyzed by each department. The planning committee should form subcommittees to suggest policy and procedural changes to further compliance with GASB 34. One subcommittee should document all the additional financial data required and its availability from the government's current financial system. After determining the availability of significant information, the government needs to satisfy each significant reporting area of GASB 34. The subcommittee should assess the ability of the government's current accounting system to assemble information in accordance with GASB 34.

**Another subcommittee should review current government accounting policies, including:**

- capitalization thresholds for infrastructure assets and other capital assets;
- depreciation methods for capital assets;
- the useful lives of various categories of capital assets;
- salvage values of capital assets;
- the definition of major funds;
- elimination of inter-fund transfers;
- the basis of accounting for different schedules;
- revenue recognition at fund level and for governmentwide financial statements;
- methodology for allocating revenues and expenses to functions/programs; and
- liability accruals.

**The planning committee should identify the government's major funds and decide whether other funds should be presented in the financial statements.**

*The planning committee, with the help of the government CFO, should review the functional areas recommended in this report and adopt them to suit the government's needs.*

The planning committee, with guidance from the government CFO and government attorney, should:

- determine legal requirements for separate funds;
- review all government funds to determine if any can be combined;
- determine the impact on financial reporting of combining funds;
- recommend funds that should be classified as major funds, including the general fund, special revenue funds, debt service funds, capital project funds, permanent funds and enterprise funds, but not internal service funds and fiduciary funds, based on calculations on the balance sheets;
- document the methodology used to select the government's major funds;
- analyze funds the government considers fiduciary to determine if they meet the GASB 34 definition of pension trust funds, investment trust funds, private-purpose trust funds or agency funds; and
- recommend whether non-major funds information should be included as supplemental information and how they should be reported.

**The planning committee should identify major government functions/programs.**

The planning committee, with the help of the government CFO, should review the functional areas recommended in this report and adopt them to suit the government's needs.

**The government CFO should reclassify funds according to GASB 34 definitions and document methodologies used to track information.**

The government CFO should determine the basis of accounting and fund classification for government trust funds under GASB 34.

The CFO's office should identify "internal activities" between the general fund and other funds and set up accounts for inter-fund receivables and payables that should not be reported in the governmentwide statements. The CFO should also prepare methodologies needed to track accounts payable information under both the modified and full accounting methods and train staff members to use them.

The CFO should determine information necessary for MD&A related to the government's debt and should establish procedures for gathering the required data. The CFO should also ensure that the current accounting system is updated to handle additional data requirements.

**The planning committee should draft a model MD&A based on fiscal 2002 information.**

The planning committee should identify the various elements that should be included in MD&A and, using the government's current CAFR, produce a draft MD&A including:

- a brief discussion of the basic financial statements;
- a presentation of condensed financial information, including a comparison of the current year with the prior year;
- an analysis of the overall financial position and changes from the prior year, including economic factors that contributed to that change;
- an analysis of transactions and balances of individual funds;
- an analysis of significant budget variances;
- a discussion of significant capital assets and long-term debt activity; and
- a description of any facts affecting the government's operations.

The government CFO's office should help committee members locate sources of data needed to draft the MD&A.

The planning committee should develop procedures for preparing and reviewing the MD&A. The committee should also recommend an individual who will be responsible for signing the MD&A to the commissioner's court.

**The planning committee should determine an approach for reporting infrastructure as required by GASB 34.**

The committee should ensure that the government's asset management system meets the minimum requirements under GASB 34 for reporting infrastructure assets under the modified approach. It should make sure that the asset management system includes all major infrastructure assets owned by the government, including roads, bridges, dams, lakes, parks, rights of way and major land improvements, such as parking lots, fencing and walkways and the cost of rights of ways and easements.

The committee should determine the capitalization threshold for infrastructure assets and make certain that condition assessments are performed on all of them.

**The planning committee should oversee the preparation of capital asset schedules.**

The committee should establish policies on capitalization thresholds, useful lives and salvage values for various categories of assets. It should also determine the depreciation method for reporting these assets. The committee should establish and document a procedure for calculating and monitoring depreciation expenses and accumulated depreciation; should develop a methodology for allocating depreciation expenses to programs for the governmentwide statement of activities and should ensure that the government's asset management system can accommodate the additional data and calculations.

**A CFO, with the help of the government's external auditor, should prepare financial statements for fiscal 2002 in accordance with GASB 34.**

## Appendix A
# State of Texas
# Statement of Net Assets
**August 31, 2002 (Amounts in thousands)**

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | $10,781,719 | $2,448,779 | $13,230,498 | $120,843 |
| Securities Lending Collateral | 2,254,301 | 634,109 | 2,888,410 | |
| Investments | 549,072 | 785,006 | 1,334,078 | 143,022 |
| Restricted: | | | | |
| Cash and Cash Equivalents | 5,929 | 1,504,586 | 1,510,515 | 23,735 |
| Investments | | 1,647,925 | 1,647,925 | |
| Loans and Contracts | 413 | 51,553 | 51,966 | |
| Receivables: | | | | |
| Taxes | 2,092,369 | | 2,092,369 | 21 |
| Federal | 1,311,555 | 237,664 | 1,549,219 | 33,932 |
| Other Intergovernmental | 363,213 | 22,681 | 385,894 | |
| Accounts | 323,320 | 513,605 | 836,925 | 11,940 |
| Interest and Dividends | 188,941 | 197,498 | 386,439 | 2,985 |
| Gifts | | 72,671 | 72,671 | 440 |
| Other | 43,710 | 845,160 | 888,870 | 12,396 |
| From Fiduciary Funds | 41,385 | | 41,385 | |
| Due From Primary Government | | | | 65 |
| Inventories | 225,182 | 104,504 | 329,686 | 620 |
| Prepaid Items | 4,313 | 63,199 | 67,512 | 1,816 |
| Loans and Contracts | 107,474 | 285,088 | 392,562 | 29,111 |
| Other Current Assets | 797 | 118,442 | 119,239 | 815 |
| Total Current Assets | $18,293,693 | $9,532,470 | $27,826,163 | $381,741 |
| Non-Current Assets: | | | | |
| Restricted: | | | | |
| Cash and Cash Equivalents | | $33,814 | $33,814 | $169 |
| Short Term Investments | | 35,469 | 35,469 | |
| Investments | | 17,046,400 | 17,046,400 | 25,780 |
| Receivables | $126,309 | 446,238 | 572,547 | |
| Loans and Contracts | 590,107 | 2,442,706 | 3,032,813 | 87,180 |
| Other | 11 | 15,157 | 15,168 | |
| Internal Balances | 8,498 | (8,498) | | |
| Loans and Contracts | 468,114 | 2,943,246 | 3,411,360 | |
| Investments | 17,706,702 | 3,597,748 | 21,304,450 | 308,901 |
| Gifts | | 135,877 | 135,877 | |
| Capital Assets: | | | | |
| Capital Assets – Non-Depreciable | 40,551,420 | 3,482,436 | 44,033,856 | 258 |
| Capital Assets – Depreciable | 19,875,853 | 12,748,204 | 32,624,057 | 83,629 |
| Accumulated Depreciation | (9,957,724) | (7,206,865) | (17,164,589) | (39,560) |
| Assets Held in Trust | | 73,836 | 73,836 | |
| Net Pension Asset | 143,381 | | 143,381 | |
| Other Non-Current Assets | 22,046 | 84,488 | 106,534 | 8,127 |
| Total Non-Current Assets | $69,534,717 | $35,870,256 | $105,404,973 | $474,484 |
| Total Assets | $87,828,410 | $45,402,726 | $133,231,136 | $856,225 |

*Concluded on the following page*

*Source: Texas 2002 Comprehensive Annual Financial Report*

## State of Texas
## Statement of Net Assets (concluded)
August 31, 2002 (Amounts in thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **LIABILITIES** | | | | |
| Current Liabilities: | | | | |
| Payables: | | | | |
| Accounts | $3,018,587 | $730,975 | $3,749,562 | $22,619 |
| Payroll | 470,289 | 129,244 | 599,533 | 3,655 |
| Other Intergovernmental | 208,826 | 2,504 | 211,330 | 423 |
| Federal | 5,016 | 28,814 | 33,830 | 42,257 |
| Other | 470,552 | | 470,552 | |
| To Fiduciary Funds | 4,550 | 0 | 4,550 | |
| Internal Balances | 449,008 | (449,008) | 0 | |
| Due To Component Units | 65 | | 65 | |
| Deferred Revenue | 554,312 | 1,334,676 | 1,888,988 | 42,839 |
| Obligations/Reverse Repurchase Agreement | 173,989 | 0 | 173,989 | |
| Obligations/Securities Lending | 2,254,301 | 634,109 | 2,888,410 | |
| Tax and Revenue Anticipation Note | 5,822,475 | | 5,822,475 | |
| Claims and Judgments | 3,779 | 3,568 | 7,347 | |
| Capital Lease Obligations | 3,202 | 1,714 | 4,916 | 25 |
| Employees' Compensable Leave | 290,455 | 47,544 | 337,999 | 1,094 |
| Notes and Loans Payable | 4,913 | 533,333 | 538,246 | 56,945 |
| General Obligation Bonds Payable | 190,500 | 124,955 | 315,455 | |
| Revenue Bonds Payable | 74,106 | 249,900 | 324,006 | 12,680 |
| Liabilities Payable From Restricted Assets | | 892,048 | 892,048 | |
| Funds Held for Others | | 123,492 | 123,492 | |
| Other Current Liabilities | | 358,616 | 358,616 | 10,135 |
| Total Current Liabilities | $13,998,925 | $4,746,484 | $18,745,409 | $192,672 |
| Non-Current Liabilities: | | | | |
| Claims and Judgments | $197,906 | $44,003 | $241,909 | |
| Capital Lease Obligations | 48,672 | 17,872 | 66,544 | $2 |
| Employees' Compensable Leave | 156,061 | 306,280 | 462,341 | 1,629 |
| Notes and Loans Payable | 93,352 | 1,073,501 | 1,166,853 | 185,091 |
| Liabilities Payable From Restricted Assets | | 2,800,095 | 2,800,095 | 151,163 |
| General Obligation Bonds Payable | 2,890,231 | 2,545,639 | 5,435,870 | |
| Revenue Bonds Payable | 735,022 | 8,013,857 | 8,748,879 | 176,333 |
| Assets Held for Others | | 407,245 | 407,245 | |
| Net Pension Obligation | 230,241 | | 230,241 | |
| Other Non-Current Liabilities | 1,954 | 51,339 | 53,293 | 31,035 |
| Total Non-Current Liabilities | $4,353,439 | $15,259,831 | $19,613,270 | $545,253 |
| Total Liabilities | $18,352,364 | $20,006,315 | $38,358,679 | $737,925 |
| **NET ASSETS** | | | | |
| Invested in Capital Assets, Net of Related Debt | $47,321,790 | $5,141,823 | $52,463,613 | $20,037 |
| Restricted for: | | 0 | | |
| Education | 624,365 | 1,525,853 | 2,150,218 | 94,955 |
| Highway Construction | 671,873 | 0 | 671,873 | |
| Debt Service | 256,945 | 142,997 | 399,942 | |
| Capital Projects | 106,960 | 235,958 | 342,918 | 508 |
| Veteran Land Board Housing Programs | | 607,845 | 607,845 | |
| Funds Held as Permanent Investments: | | | | |
| Nonexpendable | 17,273,791 | 11,042,971 | 28,316,762 | |
| Expendable | | 390,922 | 390,922 | |
| Other | 1,155,026 | 467,124 | 1,622,150 | 229 |
| Unrestricted | 2,065,296 | 5,840,918 | 7,906,214 | 2,571 |
| Total Net Assets | $69,476,046 | $25,396,411 | $94,872,457 | $118,300 |

*Source: Texas 2002 Comprehensive Annual Financial Report*

## Appendix B

# State of Texas
# Statement of Activities

**For the Fiscal Year Ending August 31, 2002 (Amount in thousands)**

| | | Program Revenues | | |
|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| **PRIMARY GOVERNMENT** | | | | |
| Governmental Activities: | | | | |
| General Government | $1,947,049 | $1,378,004 | $518,749 | |
| Education | 15,831,226 | 236,776 | 1,553,213 | |
| Employee Benefits | 14,757 | 383 | 17 | |
| Teacher Retirement Benefits | 1,201,886 | | | |
| Health and Human Services | 22,817,118 | 710,167 | 14,917,446 | $14 |
| Public Safety and Corrections | 4,170,817 | 144,120 | 324,457 | |
| Transportation | 3,576,274 | 988,612 | 111,945 | 2,191,407 |
| Natural Resources and Recreational Services | 736,111 | 453,990 | 133,510 | 49 |
| Regulatory | 273,023 | 63,986 | 4,495 | |
| Indirect Interest on Long-Term Debt | 403,784 | | | |
| Total Governmental Activities | $50,972,045 | $3,976,038 | $17,563,832 | $2,191,470 |
| Business-Type Activities: | | | | |
| Colleges and Universities | $12,195,316 | $4,884,301 | $2,114,732 | $1,346 |
| Texas Water Development Board Funds | 149,767 | 2,377 | 238,325 | |
| Veterans Land Board Loan Program Funds | 136,556 | 17,236 | 128,527 | |
| Texas Dept. of Transportation Turnpike Authority | 13,011 | | 5,148 | 50,584 |
| Other Business-Type Activities | 5,317,618 | 4,404,550 | 812,565 | |
| Total Business-Type Activities | $17,812,268 | $49,308,464 | $3,299,297 | $51,930 |
| Total Primary Government | $68,784,313 | $13,284,502 | $20,863,129 | $2,243,400 |
| **COMPONENT UNITS** | | | | |
| Component Units | $410,806 | $199,706 | $192,662 | $0 |
| Total Component Units | $410,806 | $199,706 | $192,662 | $0 |

*Concluded on the following page*

*Source: Texas 2002 Comprehensive Annual Financial Report*

## State of Texas
## Statement of Activities (concluded)

| Functions/Programs | Net (Expenses) Revenue and Changes in Net Assets | | | |
|---|---|---|---|---|
| | Primary Government | | | |
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **PRIMARY GOVERNMENT** | | | | |
| Governmental Activities: | | | | |
| General Government | $(50,296) | | $(50,296) | |
| Education | (14,041,237) | | (14,041,237) | |
| Employee Benefits | (14,357) | | (14,357) | |
| Teacher Retirement Benefits | (1,201,886) | | (1,201,886) | |
| Health and Human Services | (7,189,491) | | (7,189,491) | |
| Public Safety and Corrections | (3,702,240) | | (3,702,240) | |
| Transportation | (284,310) | | (284,310) | |
| Natural Resources and Recreational Services | (148,562) | | (148,562) | |
| Regulatory | (204,542) | | (204,542) | |
| Indirect Interest on Long-Term Debt | (403,784) | | (403,784) | |
| Total Governmental Activities | $(27,240,705) | $0 | $(27,240,705) | $0 |
| Business-Type Activities: | | | | |
| Colleges and Universities | | $(5,194,937) | $(5,194,937) | |
| Texas Water Development Board Funds | | 90,935 | 90,935 | |
| Veterans Land Board Loan Program Funds | | 9,207 | 9,207 | |
| Texas Dept. of Transportation Turnpike Authority | | 42,721 | 42,721 | |
| Other Business-Type Activities | | (100,503) | (100,503) | |
| Total Business-Type Activities | $0 | $(5,152,577) | $ (5,152,577) | $0 |
| Total Primary Government | $(27,240,705) | $(5,152,577) | $(32,393,282) | $0 |
| **COMPONENT UNITS** | | | | |
| Component Units | | | | $(18,438) |
| Total Component Units | $0 | $0 | $0 | $(18,438) |
| **GENERAL REVENUES** | | | | |
| Taxes: | | | | |
| Sales and Use | $14,249,422 | | $14,249,422 | |
| Motor Vehicle & Manufactured Housing | 2,891,742 | | 2,891,742 | |
| Motor Fuels | 2,687,798 | | 2,687,798 | |
| Franchise | 1,999,005 | | 1,999,005 | |
| Oil and Natural Gas Production | 640,615 | | 640,615 | |
| Insurance Occupation | 973,279 | | 973,279 | |
| Cigarette and Tobacco | 536,464 | | 536,464 | |
| Other | 1,454,357 | | 1,454,357 | |
| Unrestricted Investment Earnings | 383,608 | $108,831 | 492,439 | $7,524 |
| Settlement of Claims | 512,579 | 2,579 | 515,158 | |
| Gain on Sale of Capital Assets | | 750 | 750 | 648 |
| Capital Contributions | | 112,088 | 112,088 | 2,500 |
| Other General Revenues | 618,981 | 301,020 | 920,001 | 29,105 |
| Contributions to Permanent and Term Endowments | | 101,473 | 101,473 | |
| Extraordinary Items | | 603,679 | 603,679 | |
| Transfers--Internal Activities | (3,171,399) | 3,171,399 | | |
| Total General Revenues and Transfers | $23,776,451 | $4,401,819 | $28,178,270 | $39,777 |
| Change in Net Assets | (3,464,254) | (750,758) | (4,215,012) | 21,339 |
| Net Assets, September 1, 2001 | 72,940,300 | 26,147,169 | 99,087,469 | 96,961 |
| Net Assets, August 31, 2002 | $69,476,046 | $25,396,411 | $94,872,457 | $118,300 |

*Source: Texas 2002 Comprehensive Annual Financial Report*

## Appendix C

# State of Texas Capital Assets

| Category | Description | Threshold |
|---|---|---|
| 1 | Land and Land Improvements | $0 |
| 2 | Buildings and Building Improvements | 100,000 |
| 3 | Infrastructure, Depreciable | 500,000 |
| 4 | Furniture and Equipment | 5,000 |
| 5 | Vehicles, Boats and Aircraft | 5,000 |
| 6 | Construction In Progress | 0 |
| 7 | Infrastructure, Nondepreciable | 0 |
| 8 | Other Assets (Works of Art and Historical Treasures, Libraries, Leasehold Improvements and Livestock) | Various |
| 9 | Facilities and Other Improvements | 100,000 |

| Useful Life (Months) | Class Code Description | Capitalization Threshold | Percent of Residual Values |
|---|---|---|---|
| 0 | Land and Land Improvements | $0 | 0 |
| 0 | Land: Right of Way | 0 | 0 |
| 276 | Facilities and Other Improvements (F&OI) | 100,000 | 0 |
| 300 | F&OI Fencing and Gates | 100,000 | 0 |
| 120 | F&OI Landscaping | 100,000 | 0 |
| 240 | F&OI Parking Lot/Driveway/Parking Barrier | 100,000 | 0 |
| 180 | F&OI Outside Sprinkler Systems | 100,000 | 0 |
| 144 | F&OI Recreation Area, Athletic Field | 100,000 | 0 |
| 240 | F&OI Golf Course Facilities | 100,000 | 0 |
| 132 | F&OI Paths and Trails | 100,000 | 0 |
| 180 | F&OI Septic Systems | 100,000 | 0 |
| 540 | F&OI Stadiums | 100,000 | 0 |
| 264 | F&OI Swimming Pool, Tennis Court | 100,000 | 0 |
| 240 | F&OI Fountain | 100,000 | 0 |
| 720 | F&OI Plaza, Pavilion | 100,000 | 0 |
| 240 | F&OI Retaining Wall | 100,000 | 0 |
| 264 | Building and Building Improvements | 100,000 | 5 |
| 360 | Building Exterior: Residential | 100,000 | 5 |
| 360 | Building Exterior: Office | 100,000 | 5 |

### State of Texas Capital Assets (continued)

| Useful Life (Months) | Class Code Description | Capitalization Threshold | Percent of Residual Values |
|---|---|---|---|
| 360 | Building Exterior: Correctional Facility | $100,000 | 5 |
| 360 | Building Exterior: Farm | 100,000 | 5 |
| 360 | Building Exterior: Storage, Warehouse | 100,000 | 5 |
| 360 | Building Exterior: Garage, Hangar | 100,000 | 5 |
| 360 | Building Exterior: Hospital | 100,000 | 5 |
| 360 | Building Exterior: Education | 100,000 | 5 |
| 360 | Building Exterior: Research | 100,000 | 5 |
| 360 | Building Exterior: Museum | 100,000 | 5 |
| 360 | Building Exterior: Chilling Station, Boiler | 100,000 | 5 |
| 360 | Building Exterior: Clinic | 100,000 | 5 |
| 240 | Building Interior: Elevator | 100,000 | 5 |
| 180 | Building Interior: Carpet | 100,000 | 5 |
| 240 | Building Interior: Modular, Fixed Furniture | 100,000 | 5 |
| 240 | Building Interior: Sprinkler System | 100,000 | 5 |
| 240 | Building Interior: Electrical | 100,000 | 5 |
| 120 | Building Interior: Roof | 100,000 | 5 |
| 60 | Building Interior: Curtains, Drapes | 100,000 | 5 |
| 240 | Building Interior: Water System | 100,000 | 5 |
| 180 | Building Interior: Heat/Cool/Air Circulation | 100,000 | 5 |
| 120 | Building Interior: Security | 100,000 | 5 |
| 120 | Building Interior: Cabling | 100,000 | 5 |
| 120 | Building Interior: Fire Alarm System | 100,000 | 5 |
| 312 | Infrastructure and Infrastructure Improvements | 500,000 | 0 |
| 0 | Infrastructure: Highways and Rest Area | 500,000 | 0 |
| 240 | Infrastructure: Road, Street (Curb, Gutter) | 500,000 | 0 |
| 420 | Infrastructure: Bridge–Concrete Girder (Pan) | 500,000 | 0 |
| 240 | Infrastructure: Bridge–Concrete Slab | 500,000 | 0 |
| 420 | Infrastructure: Bridge–Culvert | 500,000 | 0 |
| 360 | Infrastructure: Bridge–Prestressed Girder (Box) | 500,000 | 0 |
| 300 | Infrastructure: Bridge–Prestressed Girder | 500,000 | 0 |
| 300 | Infrastructure: Bridge–Steel Girder | 500,000 | 0 |
| 540 | Infrastructure: Bridge–Steel Truss Category One | 500,000 | 0 |
| 540 | Infrastructure: Bridge–Steel Truss Category Two | 500,000 | 0 |
| 300 | Infrastructure: Bridge–Timber Stringer | 500,000 | 0 |
| 240 | Infrastructure: Sewer (Sanitary, Storm) | 500,000 | 0 |
| 120 | Infrastructure: Railroad | 500,000 | 0 |
| 240 | Infrastructure: Canal | 500,000 | 0 |

## State of Texas Capital Assets (continued)

| Useful Life (Months) | Class Code Description | Capitalization Threshold | Percent of Residual Values |
|---|---|---|---|
| 240 | Infrastructure: Waterway | $500,000 | 0 |
| 240 | Infrastructure: Drainage Facility | 500,000 | 0 |
| 240 | Infrastructure: Wharf, Dock | 500,000 | 0 |
| 240 | Infrastructure: Radio, Television Transmitting Tower | 500,000 | 0 |
| 600 | Infrastructure: Dam | 500,000 | 0 |
| 240 | Infrastructure: Electric (Lines, Distribution) | 500,000 | 0 |
| 300 | Infrastructure: Gas (Main, Lines) | 500,000 | 0 |
| 300 | Infrastructure: Water Lines | 500,000 | 0 |
| 240 | Infrastructure: Fiber Optic (Information Technology) | 500,000 | 0 |
| 120 | Infrastructure: Telephone Distribution System | 500,000 | 0 |
| 540 | Infrastructure: Tunnel (Utility) | 500,000 | 0 |
| 540 | Infrastructure: Tunnel (Other) | 500,000 | 0 |
| 180 | Infrastructure: Lighting System (Traffic, Outdoor, Etc) | 500,000 | 0 |
| 120 | Infrastructure: Signage | 500,000 | 0 |
| 192 | Infrastructure: Airport Runway, Strip, Taxiway, Apron | 500,000 | 0 |
| 540 | Infrastructure: Trestle | 500,000 | 0 |
| 420 | Infrastructure: Seawall, Bulkhead, Pier, Boardwalk | 500,000 | 0 |
| 300 | Infrastructure: Fire Hydrant | 500,000 | 0 |
| 420 | Infrastructure: Agricultural Irrigation System | 500,000 | 0 |
| 192 | Infrastructure: Sidewalks | 500,000 | 0 |
| 0 | Construction In Progress | 0 | 0 |
| 264 | Leasehold Improvements | 100,000 | 0 |
| 120 | Desks | 5,000 | 0 |
| 120 | Tables | 5,000 | 0 |
| 120 | Chairs | 5,000 | 0 |
| 144 | Personal Furniture | 5,000 | 0 |
| 120 | Cases and Cabinets | 5,000 | 0 |
| 120 | Hand Guns | 5,000 | 0 |
| 120 | Rifles | 5,000 | 0 |
| 84 | Calculators | 5,000 | 0 |
| 84 | Typewriters, Word Processors | 5,000 | 0 |
| 120 | Other Office Furniture | 5,000 | 0 |
| 84 | Vehicle Maintenance Equipment | 5,000 | 0 |
| 84 | Photocopying Equipment | 5,000 | 0 |
| 84 | Fax Machines, Telecopier | 5,000 | 0 |
| 84 | Stereo Systems | 5,000 | 0 |
| 84 | Cameras | 5,000 | 0 |

## State of Texas Capital Assets (continued)

| Useful Life (Months) | Class Code Description | Capitalization Threshold | Percent of Residual Values |
|---|---|---|---|
| 84 | TV, VCR, Camcorder, Laserdisc Player | $5,000 | 0 |
| 84 | Other Sound Systems/Equipment | 5,000 | 0 |
| 60 | Musical Instruments | 5,000 | 0 |
| 120 | Recreational Equipment: Bicycle, Pool Table | 5,000 | 0 |
| 60 | Video Conferencing Equipment | 5,000 | 0 |
| 60 | Geodesic Positioning Systems (GPS) | 5,000 | 0 |
| 36 | Other Assets | 5,000 | 0 |
| 60 | Other Assets | 5,000 | 0 |
| 84 | Other Assets | 5,000 | 0 |
| 144 | Warehouse Equipment | 5,000 | 0 |
| 108 | Mailroom Equipment: Inserter, Folder, Other | 5,000 | 0 |
| 84 | Instructional Equipment | 5,000 | 0 |
| 180 | Conveyer System | 5,000 | 0 |
| 180 | Drills, Stationary | 5,000 | 0 |
| 180 | Gin Machinery | 5,000 | 0 |
| 180 | Grinders, Stationary | 5,000 | 0 |
| 180 | Lathes, Stationary | 5,000 | 0 |
| 180 | Metal Working Machine | 5,000 | 0 |
| 180 | Milling Machines | 5,000 | 0 |
| 180 | Pallet Trucks, Lifts, Hydraulic | 5,000 | 0 |
| 180 | Saws, Stationary | 5,000 | 0 |
| 180 | Scales | 5,000 | 0 |
| 180 | Shapers, Joiners, Planers, Stationary | 5,000 | 0 |
| 180 | Sharpeners, Stationary | 5,000 | 0 |
| 180 | Shears | 5,000 | 0 |
| 180 | Textile Machines | 5,000 | 0 |
| 180 | Woodworking Machines | 5,000 | 0 |
| 84 | Tools | 5,000 | 0 |
| 84 | Agricultural Equipment | 5,000 | 0 |
| 84 | Office Machines | 5,000 | 0 |
| 84 | Miscellaneous Machines | 5,000 | 0 |
| 84 | Weather Equipment | 5,000 | 0 |
| 84 | Cosmetology | 5,000 | 0 |
| 84 | Printing Machines and Bookbinding Equipment | 5,000 | 0 |
| 84 | Kitchen Appliances and Equipment | 5,000 | 0 |
| 84 | Laundry Equipment | 5,000 | 0 |
| 84 | Building Maintenance and Safety Equipment | 5,000 | 0 |

## State of Texas Capital Assets (continued)

| Useful Life (Months) | Class Code Description | Capitalization Threshold | Percent of Residual Values |
|---|---|---|---|
| 108 | Portable Building | $5,000 | 0 |
| 120 | Other Furniture and Equipment | 5,000 | 0 |
| 60 | Supercomputer | 5,000 | 0 |
| 96 | Mainframe Computer and Peripherals | 5,000 | 0 |
| 72 | Minicomputer, Servers | 5,000 | 0 |
| 72 | Microcomputer, Desktop–Not Apple | 5,000 | 0 |
| 60 | Peripheral Devices, Microcomputer | 5,000 | 0 |
| 84 | Printer, Not Portable | 5,000 | 0 |
| 72 | Terminal, Monitor | 5,000 | 0 |
| 72 | Controllers–Drive, Disk, Terminal | 5,000 | 0 |
| 60 | Other Computer Hardware | 5,000 | 0 |
| 72 | CPU Desktop–Apple | 5,000 | 0 |
| 36 | Docking Station | 5,000 | 0 |
| 72 | Data Projectors | 5,000 | 0 |
| 84 | Security System–Not Built-In | 5,000 | 0 |
| 36 | Image Scanner | 5,000 | 0 |
| 72 | Barcode Scanner | 5,000 | 0 |
| 96 | Power Supply | 5,000 | 0 |
| 36 | Uninterruptible Power Supply | 5,000 | 0 |
| 60 | Modem, External | 5,000 | 0 |
| 60 | Digital and Channel Service Units | 5,000 | 0 |
| 60 | Multiplexor, Hub, Mau | 5,000 | 0 |
| 60 | Communication Controllers | 5,000 | 0 |
| 60 | Protocol Converters | 5,000 | 0 |
| 60 | VSATS | 5,000 | 0 |
| 60 | Data Communications Diagnostic Systems | 5,000 | 0 |
| 60 | Other Communications Hardware | 5,000 | 0 |
| 60 | LAN/WAN Switching | 5,000 | 0 |
| 120 | Computer Equipment Racks | 5,000 | 0 |
| 72 | Portable CPU–Not Apple | 5,000 | 0 |
| 84 | Portable Printers | 5,000 | 0 |
| 72 | Portable Apple CPU | 5,000 | 0 |
| 60 | Purchased Software | 5,000 | 0 |
| 60 | Internally Developed Software | 100,000 | 0 |
| 60 | Customized Software | 5,000 | 0 |
| 72 | Enterprise Software | 5,000 | 0 |
| 132 | Amplifiers, All Types | 5,000 | 0 |

## State of Texas Capital Assets (continued)

| Useful Life (Months) | Class Code Description | Capitalization Threshold | Percent of Residual Values |
|---|---|---|---|
| 108 | Analyzer, All Types | $5,000 | 0 |
| 120 | Autoclaves and Sterilizers | 5,000 | 0 |
| 168 | Balance | 5,000 | 0 |
| 132 | Baths, Water and Shakers | 5,000 | 0 |
| 168 | Animal Cages and Accessories | 5,000 | 0 |
| 132 | Centrifuge | 5,000 | 0 |
| 144 | Chromatograph | 5,000 | 0 |
| 132 | Cryostat | 5,000 | 0 |
| 132 | Counter Laboratory Assembly | 5,000 | 0 |
| 120 | Densitometer | 5,000 | 0 |
| 156 | Electronic Module | 5,000 | 0 |
| 120 | Electrophoresis Apparatus | 5,000 | 0 |
| 144 | Evaporators | 5,000 | 0 |
| 168 | Fraction Collector | 5,000 | 0 |
| 180 | Freeze Dryers and Accessories | 5,000 | 0 |
| 108 | Freezer, Lab | 5,000 | 0 |
| 144 | Homogenizer | 5,000 | 0 |
| 168 | Hood, All Types | 5,000 | 0 |
| 120 | Ice Machines, Lab | 5,000 | 0 |
| 168 | Incubators and Accessories | 5,000 | 0 |
| 72 | Isolator | 5,000 | 0 |
| 144 | Micromanipulator | 5,000 | 0 |
| 144 | Meters, Gauges, Indicators | 5,000 | 0 |
| 180 | Microscopes and Accessories | 5,000 | 0 |
| 168 | Microtomes, Diamond Knives, Sharpeners | 5,000 | 0 |
| 120 | Optical Equipment | 5,000 | 0 |
| 180 | Oscilloscope | 5,000 | 0 |
| 96 | Ovens and Ranges, Lab | 5,000 | 0 |
| 120 | Pumps | 5,000 | 0 |
| 180 | Recording Systems | 5,000 | 0 |
| 144 | Refrigerators, Lab | 5,000 | 0 |
| 168 | Rotors and Heads | 5,000 | 0 |
| 108 | Scan Systems | 5,000 | 0 |
| 180 | Scintillation Systems | 5,000 | 0 |
| 144 | Ultrasound Equipment | 5,000 | 0 |
| 120 | Spectrofluorometer | 5,000 | 0 |
| 120 | Spectrometer | 5,000 | 0 |

## State of Texas Capital Assets (continued)

| Useful Life (Months) | Class Code Description | Capitalization Threshold | Percent of Residual Values |
|---|---|---|---|
| 168 | Spectrophotometer | $5,000 | 0 |
| 144 | Stereotaxic Instrument and Accessories | 5,000 | 0 |
| 144 | Stimulator | 5,000 | 0 |
| 180 | Tables, Dissecting, Operating, Balancing | 5,000 | 0 |
| 120 | Tanks, Containers, Chambers, All Types | 5,000 | 0 |
| 156 | Water Purification | 5,000 | 0 |
| 132 | X-Ray Equipment | 5,000 | 0 |
| 84 | Miscellaneous Lab and Scientific Equipment | 5,000 | 0 |
| 144 | Patient Monitoring Systems | 5,000 | 0 |
| 180 | Breathing Apparatus, Respirator | 5,000 | 0 |
| 144 | Defibrillator | 5,000 | 0 |
| 180 | EKG/ECG/EEG Apparatus | 5,000 | 0 |
| 180 | Dialysis Equipment | 5,000 | 0 |
| 96 | Clinical Diagnostic Instruments | 5,000 | 0 |
| 120 | Table, Exam | 5,000 | 0 |
| 132 | Dental Equipment | 5,000 | 0 |
| 120 | Wheelchair | 5,000 | 0 |
| 120 | Miscellaneous Surgical Instrument | 5,000 | 0 |
| 84 | Patient Care, Miscellaneous | 5,000 | 0 |
| 36 | PBX, KSU, Voice Mail, Phone System | 5,000 | 0 |
| 36 | Automatic Call Distributors | 5,000 | 0 |
| 36 | Phone Equipment: Cellular, Mobile, Other | 5,000 | 0 |
| 60 | Passenger Cars–Sedans, Station Wagons | 5,000 | 0 |
| 120 | Trucks, GVWR 26001+ Lbs | 5,000 | 0 |
| 96 | Buses, Up To 15 Passengers | 5,000 | 0 |
| 60 | Motorcycles | 5,000 | 0 |
| 60 | Vehicle Inventory Components–Life 60 Months | 5,000 | 0 |
| 120 | Vehicle Inventory/Components–Life 120 Months | 5,000 | 0 |
| 84 | Sport Utility Vehicles | 5,000 | 0 |
| 84 | Vans, Cargo and Passenger | 5,000 | 0 |
| 84 | Light Trucks; GVWR <= 8600 Lbs | 5,000 | 0 |
| 96 | Mounted Equipment With Truck Chassis | 5,000 | 0 |
| 120 | Self-Propelled Roadway Equipment | 5,000 | 0 |
| 120 | Trailers | 5,000 | 0 |
| 120 | Towed Roadway Equipment | 5,000 | 0 |
| 60 | Light/Medium Trucks; GVWR 8601-14999 Lbs | 5,000 | 0 |
| 60 | Medium Trucks; GVWR 15000-26000 Lbs | 5,000 | 0 |

**State of Texas Capital Assets (concluded)**

| Useful Life (Months) | Class Code Description | Capitalization Threshold | Percent of Residual Values |
|---|---|---|---|
| 84 | Mini-Vans | $5,000 | 0 |
| 96 | Buses, 16-28 Passenger | 5,000 | 0 |
| 120 | Buses, 29 Passenger and Over | 5,000 | 0 |
| 84 | Other Equipment: Forklift, Grader, Other | 5,000 | 0 |
| 60 | Boat: 20 Ft and Longer | 5,000 | 0 |
| 60 | Boat: Shorter Than 20 Ft | 5,000 | 0 |
| 120 | Boat Accessories, Motors | 5,000 | 0 |
| 480 | Ferries | 5,000 | 0 |
| 60 | Marine Equipment | 5,000 | 0 |
| 120 | Boat: Other, Canoe, Rowboat | 5,000 | 0 |
| 120 | Aircraft: Jet | 5,000 | 0 |
| 120 | Airplane: Single Engine, Propeller | 5,000 | 0 |
| 120 | Airplane: Multiple Engine, Propeller | 5,000 | 0 |
| 120 | Aircraft: Helicopters | 5,000 | 0 |
| 120 | Other Aircraft | 5,000 | 0 |
| 120 | Books and Reference Materials | 5,000 | 0 |
| 0 | Library Books and Reference Materials | 0 | 0 |
| 120 | Works of Art and Historical Treasures | 0 | 0 |
| 0 | Works of Art and Historical Treasures | 0 | 0 |
| 84 | Horses | 5,000 | 0 |
| 84 | Cows | 5,000 | 0 |
| 84 | Sheep | 5,000 | 0 |
| 84 | Swine | 5,000 | 0 |
| 84 | Other Livestock/Animals | 5,000 | 0 |

*Source: Texas Comptroller of Public Accounts, SPA User's Manual, May 2002.*

## Appendix D

# State of Texas
# TxDOT's Maintenance Assessment

| Texas Maintenance Condition Assessment Inspection Form (TxMAP) | | *Ref. Marker* | |
|---|---|---|---|
| District: | | Date: | |
| County: | | Time: | |
| Highway: | | Surface Type: | |
| Location Description: | | JCP / CRCP | Hot Mix / Plant Mix / Seal / Micro |
| Inspector: | | Mixed Surface________ | |
| Accompanied By: | | | |
| **Component/ Element** | **Performance Standard (Average)** | **Rating** | **Comments** |
| **Pavement** | | | |
| Main Lane – Rutting | Do not count Failures. Do not rate concrete. | | |
| Main Lane – Cracking | Do not count Failures. | | |
| Main Lane – Failures | No Failures, Patches < " high or low. | | |
| Main Lane – Ride | Ride smooth with no settlement. | | |
| Edges | One foot On and one foot Off Pavement. | | |
| Shoulders | ____Concrete, Two feet or over. | | |
| **Traffic Operations** | | | |
| Raised Pavement Markers | Always Rate. | | |
| Signs – Large | Installed on I or H beams or sign Bridge. | | |
| Signs – Small | Chevrons are small signs. | | |
| Striping, Pavement Graphics | Required Graphics are present. Score 1 if not striped. | | |
| Attenuators | Rate if Present. | | |
| Delineators | Include OM3's. | | |
| **Roadside** | | | |
| Vegetation Management | Do not Rate in C/G Sections. Do not count off if Grass has been Herbicided. | | |
| Litter | Do not Rate in C/G Section. | | |
| Sweeping | Rated as Needed. Turn Lanes. Bridges, Along Curbs and Barriers. | | |
| Trees and Brush | Not Rated in C/G Sections. | | |
| Drainage | Not Rated in C/G Sections. Includes High Edges. | | |
| Encroachments | Not rated in C/G Sections. | | |
| Guard rails | Stand Up Ends. No Approach Rail at Bridges. | | |
| Mail Boxes | Rated as Needed. Includes Paper Boxes. | | |
| General Public Rating | Safety, User Comfort and Aesthetics, Litter, Missing Signs (Route Markers) Ride and Mowing. | | |

*Note: Ratings are based upon the following: Excellent – New or like new, Good – No work needed, Average – Minimal acceptable condition as shown in the performance measures, Poor – Needs work, Fail – In a failed condition, needs rehabilitation or reconstruction.*

*Source: Texas Department of Transportation.*

# TxMAP Scoring System

Ratings are based upon the following conditions:

| Component | Excellent 5 | Good 4 | Fair 3 | Poor 2 | Failed 1 |
|---|---|---|---|---|---|
| **Asphalt Pavement** | | | | | |
| Rutting (Do not count FAILURES) | Pavement – like new, no rutting. | Very minor rutting < ¼”. Flushing, rock wearing. | Minor rutting > ¼”, < ½”. May be able to feel with vehicle. | Moderate Rutting > ½”, < 1”. May include major rutting at intersections only. | Major Rutting > 1”. |
| Cracking ( Do not count FAILURES) | No Cracking. | Very minor cracking or with few sealed cracks. | Minor cracking or minor cracks sealed with some unsealed or moderate cracks all sealed. | Moderate quantity of unsealed cracks or major cracks all sealed or some small spots of block or alligator cracking. May have some very minor spot pumping. | Major cracking or block or alligator cracking or any cracking that has substantial pumping. |
| Failures | No Failures. | One or two patched failures or < three very minor failures. | Several patched failures or > three minor failures. | Any moderate failures or a few unpatched potholes. Moderate failures will have tight cracking. | Many unpatched potholes, major failures or any failures that is pumping. Major failures will have loose materials. |
| Ride (Settlement) | Ride very smooth with no humps or depressions. | Ride smooth with few minor humps or depressions or all patches are smooth. | Ride adequate with several minor humps or depressions or unlevel patches. | Ride rough with many humps, depressions, patches, minor or moderate failures, etc. | Ride totally unacceptable, causing a reduction in speed below speed limit to control vehicle. |
| Edges Drop-offs (1ft on and off ) | None. | Very minor, short lengths < 2”. | Minor with a few drop-offs < 50 feet long, < 2” or minor edge raveling. | Unacceptable drop-offs > 50 feet in length and 2” to < 4”. Many drop-off <50 feet long < 2” or moderate edge raveling. | Unacceptable drop-offs > 4” or major edge raveling. |
| Shoulders (Two feet or over) | Pavement like new with no cracking or failures. | Pavement in good shape with very minor or with few sealed cracks or few patched failures or may have few minor unsealed cracks. | Minor cracking or cracks sealed, with some unsealed. May have several patched failures. May have few moderate cracks. | Moderate amount of unsealed cracks. Few unpatched failures and/or may have grass growing in cracks or few potholes. | Shoulder totally failed severe cracking or base failures or has many unfilled potholes. May be completely taken over by vegetation. |

## TxMap Scoring System (continued)

| Component | Excellent 5 | Good 4 | Fair 3 | Poor 2 | Failed 1 |
|---|---|---|---|---|---|
| **Concrete Pavement** | | | | | |
| Rutting | Concrete Pavement will not be rated. | | | | |
| Cracking | JCP – No cracking; CRCP – typical tight transverse cracking on 3-6' spacing. | JCP – Very minor cracking; CRCP – Typical transverse cracking on 3-6' spacing with very minor spalls along cracks. | JCP – Minor cracking; CRCP– Typical transverse cracking on 3-6' spacing with some minor shallow popouts. May have some minor longitudinal tight cracks. | JCP – Both transverse and longitudinal cracking causing some spalling and very small punchouts; CRCP – both longitudinal and transverse cracking causing spalling and very small punchouts. | JCP – Severe transverse and longitudinal cracking causing many punchouts; CRCP – both longitudinal and transverse cracking causing severe spalling and punchouts. |
| Failures | No Failures. | One or two patched failures. No asphalt patches. | Several patched failures or a few unpatched shallow spalls or patched shallow spalls. | Many unpatched shallow spalls or few small punchouts or failures. | Many unpatched failures. |
| Ride Settlement | Ride very smooth with no humps or depressions. | Ride smooth with minor humps or depressions. | Ride adequate with several humps, depressions or rough patches. | Ride rough with many humps, depressions, patches, failures, etc. | Ride totally unacceptable, causing a reduction in speed below speed limit to control vehicle. |
| Edge Drop-offs | None. | Very minor, short lengths < 2". | Minor with a few drop-offs > 50 feet long, < 2". | Unacceptable Drop-offs > 50 feet in length and 2" to < 4". | Unacceptable drop-offs > 4". |
| Shoulders | Pavement like new with only typical cracking. | Pavement in very good shape with typical cracking with some minor spalling or with few sealed cracks or few patched failures. | Minor cracking. May have some longitudinal cracking sealed or minor unsealed. May have some patched failures. | Major unsealed cracks. Some minor unpatched failures. May have grass growing in cracks. | Shoulder totally failed with severe cracking, potholes, base failures. |

## TxMap Scoring System (continued)

| Component | Excellent 5 | Good 4 | Fair 3 | Poor 2 | Failed 1 |
|---|---|---|---|---|---|
| **Traffic Operations** | | | | | |
| Raised Pavement Markers | Markers like new with none missing. Placed on standard placement. | Most in place; may have a few missing or obviously non-reflective, cracked or pressed into adhesive. | Most in place, maximum of 10% missing or obviously non-reflective, cracked or pressed into adhesive or adhesive over reflective face. | Many missing, maximum of <25% missing or obviously non-reflective, cracked or pressed into adhesive or adhesive over reflective face. | Most >25% missing or non-reflective or no markers installed. |
| Large Signs (Installed on I or H beams or sign bridge) | Signs like new, with all background, lettering, borders and shields clean and reflective. No damage. | Signs generally good; background, lettering, borders and shields may be slightly faded. May have very minor damage. | Signs borderline acceptable; background, lettering, borders and shields may be slightly faded or mildewed. May have some damage. | Signs unacceptable with dirt or mildew. May be faded or have substantial damage. May have one or two high or low bases. | Signs totally unacceptable with severe dirt, mildew or fading. May be damaged or totally knocked down. Several bases are high or low. |
| Small Signs (Chevron are signs) | Signs like new, on standard posts, no repairs needed. All straight. | All on standard supports. Very minor repairs needed. All required signs are in place. No high or low bases. Most are straight. | All on standard supports, < 50% leaning or with dirty, damaged or bad sign faces. No high or low bases. | All on standard supports, most leaning or dirty, damaged or bad sign faces. One non-regulatory may be missing. Some may have high or low bases. | Signs not on standard supports or any regulatory sign missing or more than one other sign missing. MOST ALL are leaning and have bad or damaged sign faces. |
| Striping Graphics | New or like new. All required graphics are in place and like new. | Stripes in very good shape with no obvious loss of reflectivity. All required graphics are in good condition. | Stripes in acceptable shape with some cracking, minor loss of reflectivity. May have crack seal slightly obscuring some stripe. Required graphics are present. | Stripes unacceptable with cracking, fading or severely worn. May be substantially covered with crack seal material. Needs to be replaced. Graphics are missing. | Stripes totally unacceptable with severe cracking, fading or severely worn. Major loss of reflectivity ANY road with out a stripe. |
| Attenuator | New or like new to current standards with no damage. | Attenuator not damaged; may not be latest standard. | Attenuator functional but with very minor damage. May need painting. | Attenuator with moderate damage but will still function as designed. | Attenuator that will not function as designed. |
| Delineators (OM3 or delineators) | Delineators, new or like new, straight, installed in accordance with standards. No repairs needed. | Delineators posts <50% slightly leaning or with some damaged and non-reflective delineators. | Delineators <50% slightly leaning and <50% delineators damaged or non-reflective, or most post slightly leaning, or most delineators non-reflective. | Most post slightly leaning and delineators non-reflective, or one or two post bent, broken, down or missing. | Several bent, broken damaged or missing. Not installed in accordance with standards. |

## TxMap Scoring System (continued)

| Component | Excellent 5 | Good 4 | Fair 3 | Poor 2 | Failed 1 |
|---|---|---|---|---|---|
| **Roadside** | | | | | |
| Vegetation management (Do not rate in C/G section) | Vegetation recently mowed or of uniform height. No noxious weeds. No grass in pavement. May contain "non-mow" areas. | Vegetation generally good, of uniform height and with very little noxious weeds. May have obvious signs of herbicide application. May contain "non-mow" areas. | Vegetation acceptable. May have some small stands of Johnson grass or other noxious weeds or have short areas of grass in pavement. No sight distance problems. May contain "non-mow" areas. | Vegetation needs mowing with large stands of Johnson grass or other noxious weeds or have grass along edge of pavement or in some cracks. May have minor sight distance problems. | Vegetation unacceptable. Large stands of Johnson grass or other noxious weeds. May have severe sight distance problems. Grass is over one foot into edge of pavement. |
| Litter (Do not rate in C/G section) | ROW clean with no or very minor litter. Litter not visible at posted speed limit. | ROW generally clean with only a few pieces of litter or debris visible at posted speeds. | ROW acceptable with one or two objectionable spots of litter or debris. Several single pieces of litter, or debris. | ROW unacceptable, with much litter or debris. | ROW totally unacceptable with large quantities of litter or debris. |
| Sweeping (Rate as needed) | Clean, no dirt debris or ice rock along curbs, bridges, turn lanes or barriers. | Very minor dirt, ice rock or debris along curbs, turn lanes, bridges or barriers. | Some debris, dirt or minor ice rock on bridges, along curbs, turn lanes or barriers. | Substantial quantities of dirt, debris and/or ice rock built up along barriers, turn lanes, curbs or bridges. May cause minor drainage problem. | Debris built up along curbs, turn lanes or bridges that would cause a hazard or drainage problem. |
| Trees and Brush (Do not rate in C/G section) | Trees trimmed to allow mowing beneath. No sight restrictions or sign obstructions. ROW neat. No trees in clear zone. | Trees generally trimmed. No sight restrictions or sign obstructions. May have some minor brush or trees in need of trimming. | Trees and brush may have substantial growth. No sight restrictions or sign obstructions. May have a few trees within clear zone. | Trees and brush unkempt. Tree limbs encroaching onto pavement or large trees > 5" within clear zone. May have sight restrictions or sign obstructions. | Trees and brush unkempt. Tree limbs encroaching onto travel lanes or large trees > 5" within clear zone. Has sight restrictions and/or sign obstructions. |
| Drainage (Do not rate in C/G section) | Ditches and channels like originally constructed, clear of silt or erosion. Vegetation as appropriate in ditches. No high shoulders. | Ditches and channels like originally constructed, may have minor silt or erosion. Vegetation as appropriate in ditches. Minor spots of high shoulders. | Ditches and channels like originally constructed, may have some silt or erosion (pipes 50% full). Vegetation as appropriate in ditches. Several areas of high shoulders. | Substantial erosion or siltation in ditches or channels. Does not function as designed. Potential exists for additional erosion. High shoulders may trap water on pavement. Washouts around culverts, bridges, etc. | Extreme erosion or siltation in ditches or channels. Does not function as designed. Potential exists for additional erosion. Erosion has created a safety hazard. High shoulders may trap water in travel lanes. |

## TxMap Scoring System (concluded)

| Component | Excellent 5 | Good 4 | Fair 3 | Poor 2 | Failed 1 |
|---|---|---|---|---|---|
| **Roadside (continued)** | | | | | |
| Encroachments Access Control (Do not rate in C/G section) | No illegal signs, buildings, vehicles, etc. encroaching on highway ROW. No apparent or frequent access control violations. | May have a few illegal signs, buildings or vehicles slightly encroaching onto ROW. Does not cause a safety problem. May have very minor or infrequent access control violations. | May have illegal signs, buildings or vehicles encroaching onto ROW. They should not cause a safety problem, however, it is apparent they have been there for a long period of time. May have one minor access control violation. | Has illegal signs, buildings or vehicles encroaching onto ROW. They are causing a safety problem and should be removed. May have one obvious access control violation. | Has illegal signs, buildings or vehicles encroaching onto ROW. They are causing a safety problem and should be removed. Has more than one obvious access control violation. |
| Guardrail (Rate as needed) | Guardrail like new, appropriately placed, installed to the latest standards. | Guardrail all functional. May have one minor dent or may not be the latest standard. | Guardrails all functional with several minor dents or out of alignment. | Guardrail has been hit and is not functional. Guardrail has standup ends instead of turn down or turn down instead of GET. Guardrail is low. | Guardrail has major damage and should be repaired as soon as possible. Guardrail is required and not installed at bridge ends. |
| Mailboxes | Mailboxes straight, all on standard supports and hardware, with standard delineation. | Mailboxes all on standard supports and hardware, with standard delineation. Some leaning. | Mailboxes all on standard supports and hardware. Many leaning, some may not have standard delineation. | One or two mailboxes on non-standard supports. Most other boxes are standard. Missing or incorrect delineation. | Several mailboxes on non-standard supports, some are safety problems, most other not standards. |
| Public Rating | Ride smooth, quiet, pavement with no crack sealing or patches, all required signs straight and clean, good striping and RPMs, no litter, vegetation of uniform height. | Ride generally smooth with little road noise, crack sealing or patches, few signs may be leaning slightly, good striping and RPMs, minor litter, vegetation of uniform height. | Ride may be slightly rough, crack sealing and/or patched, signs leaning. Non-required signs missing, minor litter, striping and RPMs borderline, vegetation borderline, with small amount of noxious weeds. | Ride rough, pavement may have some minor unrepaired failures, leaning or faded signing, missing required signs, lots of litter, vegetation needs mowing and /or herbicide work, striping or RPMs bad, ruts may hold water. | Pavement condition may cause damage to vehicles, severe rutting, holding water, signing faded and leaning, or missing regulatory signs, unacceptable amount of litter on shoulders and roadside, vegetation totally unacceptable, striping and RPMs very bad or missing. |

*Source: Texas Department of Transportation.*

# Example of Calculations

TxMAP Sample Calculations

| Element | Priority Multiplier | Sample Score | Element Score | Overall Score |
|---|---|---|---|---|
| **Pavement** | | | | |
| Rutting | 6.5 | 5 | 100% | 6.5 |
| Cracking | 6.5 | 5 | 100% | 6.5 |
| Failures | 9.0 | 4 | 80% | 7.2 |
| Ride | 6.0 | 4 | 80% | 4.8 |
| Edge Drop Offs | 4.5 | 2 | 40% | 1.8 |
| Shoulders | 5.0 | 4 | 80% | 4.0 |
| Pavement Component Score | 37.5 | | 82.1% | 30.8/37.5= 82.13% |
| **Traffic Operations** | | | | |
| Raised Reflective Markers | 3.0 | 2 | 40% | 1.2 |
| Large Signs | 3.0 | 3 | 60% | 1.8 |
| Small Signs | 3.0 | 3 | 60% | 1.8 |
| Striping | 4.0 | 3 | 60% | 2.4 |
| Attenuators | 4.0 | 5 | 100% | 4.0 |
| Delineators | 3.0 | 4 | 80% | 2.4 |
| Traffic Operations Component Score | 20.0 | | 68% | 13.6/20 = 68% |
| **Roadside** | | | | |
| Vegetation Management | 5.5 | 4 | 80% | 4.4 |
| Litter | 2.5 | 5 | 100% | 2.5 |
| Sweeping | 4.5 | 0 | 0% | 0 |
| Trees and Brush | 3.5 | 5 | 100% | 3.5 |
| Channels and Ditches | 5.0 | 3 | 60% | 3.0 |
| Encroachments | 3.5 | 5 | 100% | 3.5 |
| Guard Rails | 5.0 | 0 | 0% | 0 |
| Mail Boxes | 3.0 | 0 | 0% | 0 |
| General Public Rating | 10.0 | 4 | 80% | 8.0 |
| Roadside Component Score | 30.0 | | 83% | 24.9/30 = 83% |
| Overall | | | | 82.13*.50 + 68.00*.20 + 83*.30 = 79.56% |

*Source: Texas Department of Transportation.*

## Appendix E

# State of Texas
# Balance Sheet – Governmental Funds

**August 31, 2002 (Amounts in Thousands)**

| | General Revenue | State Highway Fund | Permanent School Fund | Nonmajor Funds | Totals |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | $8,200,767 | $698,403 | $339,830 | $1,532,697 | $10,771,697 |
| Securities Lending Collateral | | | 2,235,393 | | 2,235,393 |
| Investments | 175,588 | | 195,951 | 127,499 | 499,038 |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 4,486 | | | 1,443 | 5,929 |
| Loans and Contracts | 413 | | | | 413 |
| Receivables: | | | | | |
| Taxes | 2,092,369 | | | | 2,092,369 |
| Federal | 1,039,548 | 270,933 | | 1,074 | 1,311,555 |
| Other Intergovernmental | 239,031 | 124,182 | | | 363,213 |
| Accounts | 108,674 | 14,653 | 112,909 | 2,424 | 238,660 |
| Interest and Dividends | 5,225 | 2,709 | | 180,932 | 188,866 |
| Other | 43,710 | | | | 43,710 |
| Due From Other Funds | 80,484 | 185,871 | | 189,238 | 455,593 |
| Interfund Receivable | 501 | | | | 501 |
| Inventories | 156,083 | 67,680 | | 1,419 | 225,182 |
| Prepaid Items | 4,244 | | | | 4,244 |
| Loans and Contracts | 3,489 | 5,082 | 127 | 98,776 | 107,474 |
| Other Current Assets | 738 | | | 59 | 797 |
| Total Current Assets | $12,155,350 | $1,369,513 | $2,884,210 | $2,135,561 | $18,544,634 |
| Non-Current Assets: | | | | | |
| Investments | | | $16,706,252 | $764,260 | $17,470,512 |
| Interfund Receivable | $14,292 | | | | 14,292 |
| Restricted: | | | | | |
| Receivables | 87 | | | 126,222 | 126,309 |
| Loans and Contracts | 57,676 | | | 532,431 | 590,107 |
| Other Assets | 11 | | | | 11 |
| Loans and Contracts | 124,777 | $225,809 | 1,482 | 116,046 | 468,114 |
| Other Non-Current Assets | | 14,031 | | 8,015 | 22,046 |
| Total Non-Current Assets | $196,843 | $239,840 | $16,707,734 | $1,546,974 | $18,691,391 |
| Total Assets | $12,352,193 | $1,609,353 | $19,591,944 | $3,682,535 | $37,236,025 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Current Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | $2,057,803 | $427,153 | $80,767 | $93,174 | $2,658,897 |
| Payroll | 378,662 | 79,371 | | 12,256 | 470,289 |
| Other Intergovernmental | 208,826 | | | | 208,826 |
| Federal | 4,849 | | | 167 | 5,016 |
| Other | 203,854 | 200,473 | | 4,587 | 408,914 |
| Deferred Revenues | 1,724,391 | 225,239 | 787 | 64,672 | 2,015,089 |
| Due To Other Funds | 712,703 | 5,611 | 1,206 | 146,961 | 866,481 |
| Due To Component Units | 54 | | | 11 | 65 |
| Interfund Payable | 42 | 182 | | 13 | 237 |
| Tax and Revenue Anticipation Notes | 5,822,475 | | | | 5,822,475 |
| Claims and Judgments | 3,677 | | | | 3,677 |
| Obligations/Reverse Repurchase Agreements | 173,989 | | | | 173,989 |
| Obligations/ Securities Lending | | | 2,235,393 | | 2,235,393 |
| Total Current Liabilities | $11,291,325 | $938,029 | $2,318,153 | $321,841 | $14,869,348 |
| Non-Current Liabilities: | | | | | |
| Interfund Payable | | | | $5,794 | $5,794 |
| Other Non-Current Liabilities | $125 | | | 1,829 | 1,954 |
| Total Non-Current Liabilities | 125 | 0 | 0 | 7,623 | 7,748 |
| Total Liabilities | $11,291,450 | $938,029 | $2,318,153 | $329,464 | $14,877,096 |
| Fund Balances/(Deficits): | | | | | |
| Reserved | $1,430,095 | $475,399 | $17,273,791 | $1,437,530 | $20,616,815 |
| Unreserved: | | | | | |
| General Revenue | (369,352) | | | | (369,352) |
| Special Revenue | | 195,925 | | 1,473,359 | 1,669,284 |
| Capital Projects | | | | 13,036 | 13,036 |
| Permanent | | | | 429,146 | 429,146 |
| Total Fund Balances | $1,060,743 | $671,324 | $17,273,791 | $3,353,071 | $22,358,929 |
| Total Liabilities and Fund Balances | $12,352,193 | $1,609,353 | $19,591,944 | $3,682,535 | $37,236,025 |

*Source: Texas 2002 Comprehensive Annual Financial Report*

## Appendix F

# State of Texas
# Reconciliation of Differences Between Governmental Fund Balance Sheet and the Statement of Net Assets As of August 31, 2002

**(Amounts in thousands)**

| | | |
|---|---|---|
| **Total Fund Balance – Governmental Funds** | | $22,358,929 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets less accumulated depreciation are included in the Statement of Net Assets: | | |
| Capital Assets – Non-Depreciable | $40,551,420 | |
| Capital Assets – Depreciable | 19,875,853 | |
| Accumulated Depreciation | (9,957,724) | |
| | | 50,469,549 |
| Certain pension funds have been funded in excess of the annual required contributions, creating a year-end asset. The asset is not a current available resource and is not reported in the funds. | | 143,381 |
| Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds. | | 1,461,186 |
| Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets. | | |
| Claims and Judgments | (198,008) | |
| Capital Lease Obligations | (51,874) | |
| Employees' Compensable Leave | (446,516) | |
| Notes and Loans Payable | (98,265) | |
| G. O. Bonds Payable | (3,080,731) | |
| Revenue Bonds Payable | (809,128) | |
| Net Pension Obligation | (230,241) | |
| | | (4,914,763)* |
| * Current Portion = $563,278 and Non-Current Portion = $4,351,485 | | |
| Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets. | | (61,638) |
| Prepaid items are included in the Statement of Net Assets. | | 69 |
| Internal service funds are used by management to charge the costs of Employees Life, Accident and Health Insurance Benefits Fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. | | 19,333 |
| **Net Assets of Governmental Activities** | | $69,476,046 |

*Source: Texas 2002 Comprehensive Annual Financial Report.*

## Appendix G

# GASB Statement 34 Reference Sources

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## Appendix H

# Examples of Instructions for County Departments

Most of the information that the auditor will need for the implementation of GASB 34 is in three categories:

1. Assets
   - What was the purchase price and date of purchase?
     - road and bridge–infrastructure, construction;
     - land improvements (parking lots, fencing, walkways) should be evaluated and should be considered for depreciation;
     - perform a complete physical inventory–tag all assets where practical; and
     - asset listing, including at a minimal, description, cost (actual or estimated), acquisition date, asset number, serial number, estimated useful life, depreciation method and accumulated depreciation.

2. Payables/Receivables
   - What is the total amount of the receivables at the cutoff dates (the beginning and ending of the fiscal period), and are there any payables? (Does the county owe any money that the auditor is unaware of, or are there any long-term liabilities?)

3. Revenue and Expenses
   - what are revenue and expenses of each department for the fiscal year;
   - district clerk–fines, fees, court costs;
   - county clerk–fines, fees, court costs;
   - justices of the peace–fines, fees, court costs;
   - community supervision/adult probation–fines, fees, court costs;
   - juvenile supervision–billings for out-of-county confinement;
   - sheriff–billings for out-of-county confinement; billings for out-of-county paper service; billings for civil paper service; and
   - constables–billings for out-of-county court paper service; billings for civil paper service (to serve someone is to give them notice, usually notice of a lawsuit).

### District Clerk's Office:

- The auditor will provide an asset report by department. The district clerk should review the assets list. The district clerk should inform the auditor of any changes that need to be made.
- Most of the payables (amounts owed others) come to the auditor's office directly. The district clerk should inform the auditor of any payables that the auditor is unaware of.
- All of the receivables that the county is owed need to be reported to the auditor. Those balances will need to be given to the auditor at the beginning and ending of the first GASB reporting period. The district clerk should:
  - segregate any collections received during first year of implementation between amounts received for the current year and amounts received for prior periods;

- give a reasonable estimate of the amount of the taxes that will actually be collected to the auditor. The intent is to establish an allowance for bad debt;
- compile a complete list of types of receivables and amounts assessed dates and amounts; waived dates and amounts; collections received; and any other adjustments, dates and amounts.
- make sure that fees collected for court reporter fees, jury fees and fines, and others are reported in the proper period. Most of the district clerk's collections in the past were in cash and were recorded daily;
- reconcile the amount of revenue that is reported for each month to the daily cash receipts journal.
- set up an accounts receivable for the full amount due if there are fines, fees or court costs that are to be paid over a period of time rather than in cash. The district clerk should establish a subsidiary ledger by case number for each outstanding amount. The district clerk should record payments on account, amounts credited for jail time and amounts considered uncollectible; and
- estimate how much of the fines and fees will actually be collected. Prisoners with a life sentence and $100,000 fine will almost certainly not be collected.

- Any amounts held in trust by the district clerk will have to be reported to the auditor, and any amount of interest should be reported.

## Tax Assessor-Collector

- The auditor should give the tax assessor-collector an asset report by department and the tax assessor-collector should review the assets list and inform the auditor of any changes that need to be made.

- The tax assessor-collector should compile a list of revenue by type.

- The tax assessor-collector should identify the types of revenue where the assessed date is different from the collection date. For example: once the tax rolls are certified by the appraisal district and the taxes are due and payable, then the tax assessor-collector should give to the county auditor the total amount due to all entities, cities, school districts and the county.

- Each receivable balance should be listed by source. The list should be broken down in the following categories:

  - assessed dates and amounts due;
  - waived amounts and dates; and
  - collections received and other adjustments and when were they made.

- The anticipated amount of all receivables that will be uncollectible should also be estimated by the tax assessor-collector and reported to the county auditor.

- At the cutoff periods—the beginning and ending of the fiscal year—the county tax assessor-collector will need to give to the auditor the total amount of interest and penalties due to the county.

- The tax assessor-collector should segregate any collections received during the first year of implementation between amounts received for the current year and amounts received for prior periods.

- The total amounts due the state of Texas (or any other entity payable, or liability) at the cutoff dates will have to be reported to the auditor. The tax assessor-collector should make sure the amounts due other entities are reported in an agency fund.

- If auto dealers prepay registration fees, that amount will have to be reported at the beginning and ending of the fiscal year. These will be recorded as a liability.

- Any interest earned from investments will have to be reported to the auditor.

## County Clerk

- The auditor will provide the county clerk with an asset report by department. The county clerk should review the assets list and inform the auditor of any changes that need to be made.

- The county clerk should compile a list of all revenue types. For example: The county clerk should establish an accounts receivable for fines, fees and court costs. (The county clerk should establish a policy separating civil cases from criminal cases.)

  - The outstanding accounts receivable should be broken down by assessed dates, amounts waived, amounts collected or any other type of adjustments (time served).

  - The county clerk should maintain the accounts receivable for fines, fees and courts costs. The clerk should record all payments, time credit for jail time and time adjustments made by the original trial judge or the appellate court.

  - If the defendant is required to pay restitution, then the clerk will have to establish a payable to the victim as well as a receivable from the defendant.

  - An estimate needs to be made as to how much of the accounts receivable are actually collectable. This needs to occur at least at the cut-off dates, the beginning and ending of the fiscal year.

- The county clerk should compile a list of all interest bearing accounts so that the interest income can be recorded.

  - The clerk should segregate any collections received during the first year of implementation between amounts received for the current year and amounts received for prior periods.

  - The county clerk should develop an accounting technique for tracking fines, fees and court costs–by case and by court–and be able to document if the adjudication is collected, laid out, sent to prison, adjusted by the court, etc. The clerk of court should maintain the subsidiary ledger.

## Sheriff

- The auditor will give the sheriff an asset report by department. The county sheriff should review the assets list and inform the auditor of any changes that need to be made.

- If the jail is used to house prisoners from other counties for a fee, the sheriff's office will have to record the amount owed the county at the cutoff dates at the beginning and ending of the fiscal year.

- Most of the inmate collections, fines, forfeitures and penalties are reported to the county clerk with an allowance for time served and good behavior for each cause number. The sheriff should make sure the reports are up to date at the beginning and ending of the fiscal year.

- The sheriff should list the forfeitures or any other receivables that are due to the county.

## Justice of the Peace

- The auditor will provide an asset report by department. The justice of the peace should review the assets list and inform the auditor of any changes that need to be made.

- The amount of fines, fees and court costs that the county is owed will have to be reported monthly or at least at the cutoff dates at the beginning and ending of the fiscal year.

- The justice of the peace should decide when revenue is to be recognized. Should revenue be recognized 10 days after a judgment is made or when all appeals are exhausted? This policy needs to be consistent countywide.

## Commissioners

- The auditor will give the commissioners an asset report by department. The commissioners should review the assets list and inform the auditor of any changes that need to be made.

- The commissioners will have to report an inventory of the county's infrastructure.

    - For example: road miles by a particular surface type, culverts, signs, traffic signals, flood control ditches, etc.

  How are a value for road and bridges and other infrastructure established?

First, the commissioners should identify the infrastructure in the county (roads, bridges, dams, erosion control, parks, right-of-way). The commissioner's court and the road and bridge supervisors will be able to help with this step. In many instances, the Texas Department of Transportation will already have some of the data compiled. The commissioners should be sure to identify the objective and ensure everyone understands the objective and the timeline.

Second – the infrastructure assets need to be cataloged and inventoried. Roads and bridges will need to be cataloged by current status, for example:

| | | |
|---|---|---|
| Roads: | Level I = | gravel with four-inch base |
| | Level II = | rock with a four-inch base |
| | Level III = | seal coat with a six-inch base |
| Bridges | Level I = | wooden with wood support |
| | Level II = | wooden with steel support |
| | Level III = | concrete with steel support |

These items will need to be classified as to length, width, location, etc. to be able to create a physical description of the asset, so that the cost of the asset can be compared to other similar assets in the county's inventory.

Third – establish the cost of the individual assets. The initial capitalization should be based on historical costs. If determining historical cost is not practical due to inadequate records, estimated historical cost may be used. A county may estimate the historical cost of an infrastructure asset by calculating the current replacement cost for the asset, then by deflating the value through the use of price level indexes to the original date of acquisition. The county will not need to go to the date of original acquisition if the county's records reflect the last date of major maintenance or renovation.

At the applicable reporting date, Phase I (revenues of more than $100 million) and Phase II (revenues of more than $10 million, but less than $100 million) counties are required to capitalize and report major general infrastructure assets that were acquired or major renovations or improvements received after June 30, 1980. All counties are encouraged to retroactively report all general infrastructure assets. Phase III (revenues of less than $10 million) counties are only required to report infrastructure assets prospectively–retroactive reporting is encouraged, but not required. Infrastructure asset reporting will be required by 2006.

Fourth – the county will need to determine the current replacement cost for those assets that historical cost data is not available. Replacement cost should include materials, labor, machine hours and administrative overhead. Materials, labor and machine hours can be determined by having the road and bridge construction crews do time and motion studies on various projects. In doing the time and motion studies, quantity of material can be documented and extended at cost; labor can be documented and extended at cost; and machine hours can be documented and extended at current cost. The cost for machine hours should include depreciation of the equipment as well as an allocation for diesel, oil and maintenance. The administration overhead is usually an allocation based on direct labor hours.

A simple technique is to use prior year data to compile an administrative overhead factor for roads and bridges. Direct work crew hours will need to be accumulated and pay associated with the hours. Vacation and sick leave for which the work crew was paid would be accumulated and placed in the pool to be used for administrative overhead. All benefits paid to the work crew would be placed in the administrative pool of dollars. All commissioners' salaries (assuming they are road and bridge commissioners) and support staff pay as well as associated benefits would be placed in the administrative pool. Finally, all costs not associated with maintenance and construction would be placed in the administrative pool (i.e. office supplies, telephone, printing, utilities, subscriptions, etc.). Finally, divide the total in the administrative pool by the total hours of direct labor = administrative cost per direct labor hour. Or divide the administrative pool by the total amount paid for direct labor hours = a percentage/direct labor dollar. Either can be used to develop the administrative overhead allowance to determine the current cost of construction.

Once the replacement cost has been developed for the assets, the value will need to be deflated using one of the price-level indexes (TxDOT has two it uses frequently) to the point of acquisition or the most recent major renovation.

**Example:** A county road that is three miles long was resurfaced with new rock–material cost = \$60,000; labor hours = 1,920, labor cost = \$28,000; machine hours = 800 at \$12/hour = \$9,600; admin overhead = \$7.50 per direct labor = \$7.50 x 1920 = \$14,400: Total Cost = \$112,000. Therefore, the cost per mile is \$37,300. While this cost represents the acquisition value of the road, the information can be used to develop the replacement cost of similar types of roads.

If a similarly constructed road is 6.4 miles long and was constructed in 1993, and maintained on regular basis, then:
6.4 miles x \$37,300 = \$238,720 in 2001 dollars
Consumer Price Index (CPI) for 1993 = 144.5
CPI for 2001 = 178.0
Therefore:
1993 = 2001 cost x (1993 CPI/2001CPI)
1993 = \$238,720 x (144.5/178.0)
1993 = \$193,792

- All of the county's supplies of road base and other building materials will also have to be inventoried at least at the beginning and at the end of the fiscal period.

- Careful documentation of the infrastructure needs to be maintained and given to the auditor.

- For unreported infrastructure assets identified, segregate those that were constructed or acquired or that received significant reconstruction or remodeling after June 30, 1980.

- Commissioners should segregate infrastructure assets acquired prior to June 30, 1980, and those that were not considered into a separate worksheet. They should all be reported.

- The commissioners or the engineer should examine road and bridge expenditures for the year and notify the auditor of all major projects and improvement programs. These projects may have been considered repair and maintenance in the past, but some will have to be capitalized under GASB 34 if they are above the capitalization threshold.

- Procedure for inventorying assets should be defined by commissioners' court

- Report only major infrastructure assets owned by the county–roads, bridges, dams, lakes, parks, right-of-way, etc.

## Treasurer

- The auditor will give the treasurer an asset report by department. The treasurer should review the assets list and inform the auditor of any changes that need to be made.

- The treasurer should compile a list of all interest-bearing accounts

- An interest accrual will have to be made for interest earned but not yet received. For example: If interest is paid every six months and three months is remaining at the end of the fiscal period, then the treasurer should notify the auditor that the county has three months of interest coming on that particular investment.

- The treasurer should collect and report all payable information at the beginning and at the end of the fiscal year and report any accounts that the auditor is unaware of.

- If proceeds of a bond issuance has been received but no capital assets have been purchased at the end of the fiscal period, then the treasurer should notify the auditor.

- If capital assets have been received in donation but restrictions have been placed upon their use, then the auditor should be notified.

- If capital-related debt has been refunded, then the treasurer should notify the auditor.

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# Endnotes

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