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# Data for Debt Management Plan

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Dear Reader:

The following document was created from the CTAS website ([ctas.tennessee.edu](http://ctas.tennessee.edu)). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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<b>Data for Debt Management Plan .....</b>	<b>. 3</b>
<b>Inventory and Insurance Schedules .....</b>	<b>. 3</b>
<b>GASB34 in Debt Management .....</b>	<b>. 3</b>
<b>GASB 54 Statement .....</b>	<b>. 4</b>
<b>Annual Audits .....</b>	<b>. 4</b>
<b>Issuance Documents .....</b>	<b>. 5</b>
<b>Prior Budgets and Audits .....</b>	<b>. 5</b>

# Data for Debt Management Plan

Reference Number: CTAS-1770

As we start our Debt Management Plan, we must determine where we can find the appropriate data to help us understand our current financial position and assist in our debt policies considerations and Debt Management Plan in general.

Debt generally always purchases assets. Therefore, a county should understand what assets they have acquired, where they are in service, and if they are being maintained. It also is important to know what assets are currently being paid with debt and what assets are in use and may have no debt outstanding. We must further understand that valued booked on the accounting statements will not reflect current value or replacement cost of the assets.

## Inventory and Insurance Schedules

Reference Number: CTAS-1771

Inventory and insurance schedules are two basic schedules reflecting assets in use and containing value. These schedules reveal assets that would often need replacement due to their use in meeting public needs. As we review these schedules, we need to understand whether the assets listed have outstanding debt; would need debt to replace the assets; and whether the assets are short life, lower cost or long life, higher cost type of assets. This understanding assists in our capital planning, which in turn helps develop our debt service plan. One should further understand if the insurance schedule reflects asset purchase cost or replacement cost.

Recommended Practice: Maintain current inventory and insurance schedules as part of your Debt Management Plan

## GASB34 in Debt Management

Reference Number: CTAS-1772

The General Accounting Standards Board (GASB) is the organization that develops uniform accounting reporting requirements for our local government. This organization has adopted various standards and statements over the years to assist governments and the financial market in understanding the organization operations from a financial standpoint. Statement No.34, *Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Government*, was formally adopted in 1999. Statement No. 34 requires government-wide financial statements that reflect the overall financial picture of the government on an accounting basis, similar to commercial accounting including accrual accounting. The implementation of GASB 34 should assist the county government in obtaining a better understanding of the assets' liabilities (including debt) and the service provided to their citizens. The preparation of GASB 34 should not only help management better understand debt management, but also the end product of a Statement of Net Assets, a Statement of Activities, and other information and statements used in formulating a Debt Management Plan and making future debt decisions.

There is a lot to be learned on how the financial markets will use the statements in assessing credit risk, and how the data's year-to-year comparison will help formulate policy; but certain information can be derived from the new statements.

The Sample Statement of Net Assets reflects the following: the total booked assets of the county; liabilities; and the difference, which are net assets. Looking at the statement closer, one can see the capital assets which are not being depreciated, and the assets that are being depreciated (net of the depreciation). A further look shows the current and non-current liabilities and related long debt obligations. One also sees these relationships in a Governmental or Business Type Activities and Total.

In the Sample Statement of Activities a lot is yet to be learned on all the beneficial uses of the statement, but one can specifically note the net assets at the beginning and ending of the accounting period. This analysis should help clue the governmental officials on the financial direction the government is going.

Recommended Practice: Insure your county complies with GASB statements and become familiar with information within the statements.

# GASB 54 Statement

Reference Number: CTAS-1998

Statement 54 was approved by GASB in February 2009 and was released on March 11<sup>th</sup>, 2009. The intent of the statement is to enhance governmental fund balance reporting in order for financial statements to be more consistent and comparable between similar government entities. The Debt Service Fund will be used to account for and report financial resources that are restricted, committed or assigned to expenditure for **principal and interest**. The Debt Service Fund should never be used to directly purchase capital expenditures.

## Annual Audits

Reference Number: CTAS-1773

Probably one of the most important of all documents that will help formulate a Debt Management Plan is the audit. The annual financial audit includes information about the county that is statistical in nature, expresses an opinion of the county finances, and, to a certain degree, how they are managed. The audit includes much information, but specifically county officials should review:

- Audit Highlights - summarizes the scope of the audit, results and any findings related to the financial operations. Below is an example.

<div style="border: 1px solid black; padding: 5px; margin: 0 auto; width: 80%;"> <p><b><i>Audit Highlights</i></b>  Annual Financial Report  Sample County, Tennessee  For the Year Ended June 30, 20____</p> </div> <p><b><i>Scope</i></b></p> <p>We have audited the basic financial statements of Sample County as of and for the year ended June 30, 20____.</p> <p><b><i>Results</i></b></p> <p>Our report on Sample County's financial statements is unqualified. Our audit resulted in no findings.</p>
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- The Opinion Letter/Independent Auditors Report - this letter explains the work performed in the audit, whether the county complied with generally accepted accounting standards or exception to those standards.
- A Management's Discussion and Analysis Letter (if the county is complying with GASB 34) - the letter may specifically address issues related to Capital Asset and Debt Administration.
- Statement of Net Assets (if the county is complying with GASB 34) - addresses some debt issues.
- Statement of Activities (if the county is complying with GASB 34) - addresses some debt issues.
- Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets (if the county is complying with GASB34) - addresses some debt issues.
- Notes to the Financial Statements - a written section that addresses significant accounting policies and, specifically, notes information about Capital Assets, Long-term Obligations, and Long-term Debt, and Net Assets.

- Miscellaneous Schedules - schedules that include the following:
  - Changes in Long-term Notes, Other Loans and Bonds.
  - Schedule of Bond and Interest Requirements by Year.
- Further exhibits in the audit that reflect the status of the Debt Service Funds.

The most recent audits of your county can be located on the Comptroller of Tennessee's Web site, under the Division of Local Government Audit.

Recommended Practice: Become familiar with your county's audit and financial management

## Issuance Documents

Reference Number: CTAS-1774

The county should maintain a permanent record location for all documents related to debt issues. Various documents exist related to your county debt. Some documents may be a bound bond book; other information may be in a notebook or binder, or a manila folder. Each issue should be separately labeled, filed and kept in a secured location.

Recommended Practice: Have all your county debt instruments (documents) collectively in one secure location

## Prior Budgets and Audits

Reference Number: CTAS-1775

The prior year's budgets and audits should be reviewed to establish a baseline of where your county has been; to gain a better understanding of what changes have taken place over the years; and what direction it would appear your county is going. Some budget preparers include additional information about the county debt service funds, and debt and capital management within the annual budgets.

Recommended Practice: Review prior year budgets and audits

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