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GASB 34

Dear Reader:

The following document was created from the CTAS website (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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GASB 34

Reference Number: CTAS-1975

The Governmental Accounting Standards Board (GASB) is an independent, not-for-profit organization that was organized in 1984 as an operating entity of the Financial Accounting Foundation (FAF). The GASB's role is to establish standards of financial accounting and reporting for state and local governmental entities. While the GASB technically has no legislative authority, its standards are widely recognized as the guide for preparing external financial reports for state and local governments.

In June 1999, the GASB adopted GASB Statement 34, which contained sweeping changes for financial reporting. Known as Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, these changes represented a fundamental revision of the financial reporting model which had been in place since 1979. While there were a number of significant changes in financial reporting under GASB Statement 34, probably the most major one was the presentation of government-wide financial statements.

Government-wide statements are consolidated financial statements for all of a county's operations on a full accrual basis of accounting—accounting that is similar to what is used by many businesses and not-for-profits. The intent of these statements is to provide the "big picture" of a county's financial position and operations as a whole.

Under GASB Statement 34 the statements are not presented on a fund basis. Instead, fiscal operations are organized into two major activities: governmental and business-type. The statements have a "net asset" focus and exclude fiduciary funds and interfund transactions (such as internal service funds). Expenses are shown both gross and net of related revenues (such as fees and grants). Sample government-wide financial statements.

Financial statements also are presented on a fund basis, in a similar way as they were before GASB Statement 34. Emphasis is given to "major" (i.e. larger) funds. Governmental funds do not use the same basis of accounting as the government-wide statements (i.e. modified accrual or current financial basis). Sample fund financial statements.

Because there are differences in the basis of accounting and scope of transactions, there are significant differences between the fund and government-wide financial statements. For this reason, a detailed reconciliation between these two types of statements is required as part of the basic financial statements. In Tennessee, the county's independent, external auditor typically prepares this reconciliation as well as the draft financial statements. This service is purely technical in nature as the financial statements are derived from financial data prepared and provided by county accounting personnel. The appropriate county officials also must take responsibility for the accuracy of the prepared financial statements.

The independent auditor, as in the past, typically prepares the financial statements from a county's current accounting records. However, county management is required to prepare and maintain additional financial information. Without this additional information, it is impossible to prepare financial statements that comply with GASB Statement 34.

While GASB encouraged early implementation, it required even the smallest Tennessee county to comply with Statement 34 (except for retroactive capitalization of infrastructure assets) by the end of the fiscal year that ended June 30, 2004. After this date, any Tennessee county that was not compliant with GASB Statement 34 received an adverse audit opinion on their financial statement audit for failure to comply with Generally Accepted Accounting Principles (GAAP). In May 2005, the Tennessee General Assembly passed into law the Local Government Modernization Act of 2005. This act allowed financial penalties to be imposed on county governments that were not in compliance with GASB Statement 34 by June 30, 2008. For additional information, see Local Government Modernization Act of 2005 under Financial Structure of County Government.

Capital Assets

Reference Number: CTAS-1976

While Statement 34 does not give a complete definition of a capital asset, capital assets can be defined as major assets that benefit more than a single fiscal period. Capital assets include items such as land, land improvements, buildings, building improvements, construction-in-progress, vehicles, and equipment.

A county is responsible for capitalizing all county-owned assets above the capitalization threshold determined by the county's written capital asset policy. Creating and maintaining an accurate capital asset management systemis one of the more time-consuming responsibilities for achieving GASB 34 compliance. With this in mind, county management must be responsible for providing adequate time, personnel, and resources dedicated to achieving this compliance.

Counties are required to prepare capital asset reports at least annually. These reports present capital assets and infrastructure by function (the description account as defined in the state uniform chart of accounts) and asset type (i.e. land, construction-in-progress, buildings and improvements infrastructure, and other assets). These reports should present all of the county's assets and infrastructure over a certain capitalization threshold, as well as the corresponding annual depreciation expense and accumulated depreciation for these assets. These reports are to be accurately prepared at the end of each fiscal year in a timely manner. Data from these reports will be included in the county's annual audited financial statements. Two required capital asset reports (by classification and by function and activity) Examples. It is important to become familiar with these two sample reports because the county's government-wide financial statements cannot be prepared until these reports can be generated accurately.

The first and possibly the most important step to creating and maintaining an accurate and complete asset management system is for a county to adopt a written capital asset policy. The policy should be descriptive enough that an auditor (or other individual who did not create the asset management system) would be able to read the policy and verify that the county had capitalized and maintained its capital assets in accordance with its adopted policy. While it is a good idea to acquire a copy of a capital asset policy from another county (one that has already complied with GASB 34) to have a "rough draft" for your own policy, a county should not merely copy another county's capital asset policy—asset management will differ from county to county. Sample capital asset policy. This sample policy is a compilation of best practices from numerous Tennessee counties that have complied with GASB Statement 34 and can be used as a "rough draft" for your county's policy.

Once a county adopts a capital asset policy for use, it is imperative that the county's asset management system is implemented and maintained in accordance with its adopted policy.

A written capital asset policy, at a minimum, should address the following:

a. Capitalization thresholds
b. Depreciation methods and rates
c. Procedures to identify existing capital assets and infrastructure
d. Methods to determine historical costs or estimated historical costs
e. Procedures to tag and track movable assets
f. Procedures to maintain capital assets records on a current basis
g. Procedures for recording new/donated/transferred/disposed of assets
h. Identification of available software to account for capital assets

Capitalization Thresholds

Reference Number: CTAS-1977

The management of the county must determine the capitalization thresholds for county-owned assets. There are no authoritative pronouncements as to the exact threshold amount or the manner in which a capitalization policy should be established and applied. However, management's capitalization policies should be adopted with the mindset that an appropriate balance should be achieved ensuring that all material capital assets, collectively, are capitalized while simultaneously being mindful to minimize the cost of recordkeeping for capital assets. Counties should strive to use the lowest reasonable capitalization threshold. Keep in mind that all debt issued will be reported without any type of threshold. If a county sets its capitalization threshold too high, it runs the risk of materially misstating its financial statements.

Counties should seriously consider capitalizing all county-owned land, regardless of the amount. Since land does not depreciate, the capitalized land will generally be a permanent increase to the county's total assets. Also, through GASB 34 implementation, numerous counties have been able to identify land that management was previously unaware it owned. These "newly found" assets were either used by management or were sold as surplus, providing funds for various county needs.

Whatever capitalization threshold is decided upon, county management should remember that while it is their responsibility to determine threshold amounts, it is a responsibility of the independent auditor to determine if the county's financial statements materially reflect the accurate financial position of the county.

Depreciation Methods and Rates

Reference Number: CTAS-1978

Depreciation is the process of allocating the cost of tangible property over a period of time, rather then deducting the cost as an expense in the year of acquisition. Typically at the end of an asset’s useful life the sum of the amount charged for depreciation will equal original cost less salvage value (if any). GASB Statement 34 allows a county to use any established rational and systematic method of depreciation. This includes such methods as straight-line, sum-of-the-years digits, double-declining balance, and declining balance. The use of straight-line depreciation—the most widely used and simplest method for calculating depreciation—is highly recommended.

Under the straight-line depreciation method, the basis of an asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year of the asset’s useful life. In order to identify the annual depreciation expense for an asset using straight-line deprecation, the total cost of an asset (less the salvage value) is divided by the asset’s useful life.

Example of straight-line depreciation:

Original cost	$10,000
Salvage value	500
Adjusted basis	$ 9,500
Estimated life	5
Depreciation per year	$1,900

Salvage Value

The salvage value of an asset is an estimate made by management of what the value of an asset will be at the end of its useful life. The GASB allows county management to determine salvage value from general guidelines from professional organizations such as the Government Finance Officers Association, information from other governments, professionals such as engineers, and by internal experience of what an asset is worth at the end of its useful life. Using the assumption that many counties in Tennessee tend to use capital assets until they are literally worthless, a county could assign a salvage value of zero (0) to its capital assets to help streamline recordkeeping. The CTAS sample capital asset policy uses this assumption.

Averaging Conventions

In order for management to avoid the complications of depreciating individual assets from the specific date that the asset was placed in service, GAAP supports the adoption of guidelines that assume assets are placed in service or disposed of at designated times of the year. These guidelines are known as averaging conventions. There are several types of averaging conventions (mid-quarter, half-year, modified half-year, etc.); however, it is highly recommended that counties adopt the full-month averaging convention. By using the full-month averaging convention, property placed into service at any time during a given month is treated as if it were placed in service at the first day of that month, regardless of the actual day of the month acquired. Likewise, when the asset is disposed of, the actual date of disposal is disregarded and the disposal date is the end of the month prior to the month of disposal (i.e. no depreciation is taken for the month of disposal).

Useful lives of assets

An asset’s useful life can be defined as the estimated number of months or years that an asset will be able to be used for the purpose for which it was acquired. GASB does not recommend any specific useful life schedule, but recommends several sources for a county to estimate the useful lives of their assets. These sources include general guidelines from professional organizations, information for comparable assets from other county governments, and internal experience. Counties should not merely copy the useful life schedule of another county as conditions and asset usage may differsignificantly from county to county.

> Example:
> Gray County assigns a useful life of six years to all sheriff pursuit cars. Blue County, which is located next to Gray County, is in the process of attempting to comply with GASB 34 and copies Gray County’s useful life schedule without any modification. Blue County’s management does not take into consideration that their county has rougher terrain and is three times larger than Gray County, meaning Blue County’s deputies will drive their vehicles more and in rougher conditions than Gray County’s deputies. After three years, as is typical in Blue County, the police cruisers are worn out and are taken out of service, even though on paper the vehicles should have three years of useful life left. Because of the inaccurate useful life estimate, Blue County could recognize a significant loss on the disposal of the vehicles.

Procedures to Identify Existing Capital Assets and Infrastruc-

ture

Reference Number: CTAS-1979

There are numerous ways for management to identify county-owned assets and infrastructure: county department inventories, county commission minutes, the current county road list, building and content insurance records, TDOT bridge inspection reports, and data from the county's register of deeds and tax assessor. Infrastructure is defined as long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are normally stationary in nature: bridges, roads, dams, etc. Generally, county-owned buildings are considered capital assets, not infrastructure assets. See Infrastructure for more information.

> Example:
> Blue County is a small county with only a few schools and county-owned buildings. Per Blue's capital asset policy, building improvements have a useful life of 20 years. The county's capital asset manager spends a couple days scanning the county commission and school board minutes for the past 20 years, noting any building improvements (new roofs, additions, HVAC replacements, etc.) that exceed the capitalization thresholds. After verifying through an inventory that these improvements still exist (HVAC units, etc.), these items are then capitalized as building improvements and the minutes, if original invoices and warrants cannot be found, are copied and maintained as supporting documentation for each improvement's cost. By utilizing these procedures, management helps ensure that major capital assets are identified and recorded properly.

Methods to Determine Historical Costs or Estimated Historical Costs

Reference Number: CTAS-1980

Capital assets and infrastructure are to be reported at historical (acquired) cost. A county may use any established tool to accomplish GASB Statement 34 historical cost requirements; however, the mechanism for calculating historical costs for previously acquired assets should be (1) accurate, (2) able to be replicated, and (3) documented. An asset's total historical cost includes all costs of construction and/or installation and setup of the assets (i.e. shipping, engineering and architect fees, and capitalized interest during construction of a building). An asset's historical cost can be identified through deeds, bills of sale, county commission minutes, and/or invoices. If the actual historical cost of an asset cannot be identified, an estimated historical cost can be used. A county can estimate the historical cost of assets or infrastructure by identifying an accurate estimate of an asset's current replacement cost and then using a deflation calculator to arrive at an estimated historical cost. While there are a number of inflation/deflation calculators available, an excellent calculator that utilizes the consumer price index (CPI) is available on the Federal Reserve Bank of Minneapolis Web site.

> Example:
> A county identifies a 10-acre tract of land that it owns through the register of deeds office. Even though the county has the deed to the land, there is no price amount on the deed. Based on historical research, management ascertains that the land was donated to the county board of education in 1948. The county property assessor values the land (based on what a similar piece of land in the county would cost today) at $80,000. Using a deflation calculator, management calculates that the replacement cost of the land in 1948 would be $9,568. The county would record the asset with an estimated historical cost of $9,568 and print off the calculation, a copy of the deed, and documentation from the property assessor stating his/her estimate for backup documentation for the asset's cost.

Procedures to Tag and Track Movable Assets

Reference Number: CTAS-1981

A county must establish written procedures to tag and track all movable capital assets over the established capitalization threshold. The inventory tag should be numbered so that the asset can be traced back to the county asset records.

Example:
A county has recorded a front-end loader into its computerized capital asset database and assigned the vehicle the asset ID number 110. The county asset manager is doing an annual physical inventory of movable assets and is able to locate and identify the exact front-end loader at the county road department garage by the asset number tag affixed to the vehicle and by the information on the

computerized capital asset database.

County management should insure that, at a minimum, a county-wide inventory of capitalized assets is performed annually and all purchased, donated, surplused, and/or transferred movable assets are accounted for and properly recorded in capital asset records. There are numerous bar-code inventory tag systems on the market today, some with UPC format to permit scanning by an electronic optical scanner. While these systems have proven helpful in several Tennessee counties with asset tracking, they are not required.

Procedures to Maintain Capital Assets Records on a Current Basis

Reference Number: CTAS-1982

Complying with GASB Statement 34 is not a "one time affair." Because counties are continuously acquiring and disposing of assets, a county must keep capital asset records updated after the initial capitalization of all county assets and infrastructure. It is highly recommended that a capital asset manager position be created for tracking assets for the county. In a mid-to-large size county, this position would be a full-time job. In smaller counties, this task could be accomplished on a part-time basis. While the assistance of all county officials and department heads is necessary to ensure that county assets are inventoried and tracked, numerous Tennessee counties have arrived at the conclusion that the best way to ensure that a county's GASB 34 compliance (in relation to capital asset management) is maintained is to have one individual who is responsible for maintaining the capital asset database and ensuring that the asset management system is complying with the county's adopted polices.

Regardless of how this procedure is addressed, counties should have a system in place to: (1) identify and capitalize all new assets over the threshold limits, (2) identify and remove from capital asset records all assets declared surplus, destroyed, stolen, and missing, (3) record any gain or loss on the disposal of individual assets, (4) perform a county-wide inventory of capitalized assets at least once a year, and (5) have all capital asset reports that are required by the county's auditors prepared and available on a timely basis. Sample job description for a capital asset manager.

Procedures for Recording New/Donated/Transferred/Disposed of Assets

Reference Number: CTAS-1983

Counties must have an effective system in place to ensure accurate recording of new and donated assets. Numerous counties have accomplished this by having all accounts payable clerks make a copy of all invoices that are over the capitalization threshold. This documentation can assist in the recognition of new capital assets. Most large donations tend to be to the county school system from booster clubs, parent-teacher organizations, and other similar groups, so all school principals should be made aware of GASB 34 capitalization requirements for donated assets. It also is recommended that the capital asset manager (or his/her equivalent) be notified whenever the county receives a sizable donation so that the current value, and supporting documentation of the asset's value, at the time of donation to the county can be recorded, as this is the amount that will be capitalized.

> Example:
> TRW Industries is donating new playground equipment to Jere Whitson Elementary School. Upon receipt of the playground equipment, the principal contacts the county's capital asset manager, who speaks with TRW to determine a fair value for the asset. TRW provides a copy of the invoice for the cost of material that was purchased at the time of donation and installation of the playground equipment. The county records the donated playground in its capital asset records and maintains the invoice and any official minutes where the donation was accepted as backup documentation.

The transferring of assets between county departments and/or disposal of assets, whether that is through surplus, destruction, or theft, should be reported promptly to the capital asset manager. Asset tags should be removed from movable assets that are being disposed of. Likewise, the function of transferred assets should be, if applicable, reclassified in the county's capital asset records.

> Example:
> Blue County's solid waste department agrees to transfer a pickup truck to the county's jail in exchange for $1,000. The net value (cost less accumulated depreciation) of the asset is reclassified

in the county’s capital asset software and records from asset function #55710–Sanitation Management to #54210–Jail. The $1,000 is not added to the asset’s depreciable basis as this transaction is an intergovernmental exchange (i.e. between two departments of the same county government).

Department heads and officials should ensure that the capital asset manager is alerted whenever assets are declared surplus so any capitalized assets can be identified, have inventory tags removed, and any applicable funds received for surplus asset sales are recorded. Sample spreadsheet for tracking disposed of assets, and the related gain or losses from these assets.

Example:
Gray County declares a small school bus surplus and sells the bus at public auction. The bus is totally depreciated and has no salvage value recorded. However, lately this type of school bus has become very popular among the local farmers, who use them to haul hay. The bids come hard and fast at the auction, and the bus is sold for $1,800. Since the net book value of the bus is zero (0), the $1,800 is recorded as a gain on the sale after the bus and its accumulated depreciation is removed from the county’s capital asset software.

As some officials and department heads will prove better then others on reporting purchased, donated, transferred, and surplus assets, it is necessary to ensure a thorough physical capital asset inventory is performed on at least an annual basis.

Identify Available Software to Account for Capital Assets

Reference Number: CTAS-1984

Capital asset software that can produce needed reports must be obtained and utilized so all county assets that are above capitalization thresholds can be accurately reported through software-generated reports. There are several vendors that currently have various capital asset software programs available; however, the software must be able to prepare the necessary capital asset reports and information included in the county’s annual financial statement. County management should show potential software vendors the Sample Required Capital Asset Reports to ensure that the software is capable of producing such reports. Management also should consider the level of support that the vendor will provide after the sale, such as software updates and assistance that may be needed after the original system has been purchased and installed.

Capitalization of Library Books

Considered individually, library books usually have a historical cost well below a county’s threshold for capitalizing assets. However, when valued together as a collection, the cost of library books can be significant in some counties. County management should consider if the cost of a county-owned library collection is of material enough value to capitalize. If management makes the decision to capitalize a library collection, the collection should be depreciated using a composite depreciation method.

Infrastructure

Reference Number: CTAS-1985

The GASB defines infrastructure as long-lived capital assets associated with governmental activities that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure are bridges, roads, dams, and lighting systems.

Buildings usually are excluded from the definition of infrastructure assets unless they are an ancillary part of a network of infrastructure (i.e. a pump-house on a dam). Most small- and medium-size Tennessee counties will typically have at least two main types of infrastructure to capitalize, county-owned roads and bridges.

Except for counties with less then $10 million of total revenue in fiscal year ended June 30, 1999, all Tennessee counties must capitalize all major infrastructure on a retroactive basis. While the GASB encourages all counties, regardless of size, to retroactively capitalize infrastructure, counties under the $10 million threshold are allowed to capitalize infrastructure on a prospective basis (i.e. just new additions of infrastructure beginning with the year of Statement 34 implementation). When it issued Statement 34, the GASB set forth deadlines for local governments to retroactively report assets. While the GASB encouraged early implementation, Tennessee counties with more than $10 million but less then $100 million in total revenue in the first fiscal year ending after June 15, 1999, were supposed to capitalize all major infrastructure retroactively no later then June 30, 2007. Counties with less then $10 million in total revenue are encouraged, but not required, to retroactively capitalize infrastructure assets.

GASB Statement 34 requires counties to capitalize and report all county-owned infrastructure that exceed capitalization thresholds, at historical or estimated historical cost. The GASB recognized the challenge to determine an accurate historical cost in counties that are required to retroactively report assets. Therefore, counties are required to capitalize and report only major general infrastructure assets that were acquired (purchased, constructed, or donated) in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period.

Roads

Reference Number: CTAS-1986

One of the biggest challenges with capitalizing roads is how to determine the historical and/or estimated historical costs of these assets. Many county-owned roads have been maintained in the county for decades, or even more then a century, and have changed over time from a simple dirt road to a multiple-lane asphalt road with numerous upgrades and courses of maintenance.

The GASB considered this accounting challenge when it implemented Statement 34 and requires that counties retroactively report roads at actual or estimated historical cost only back to—

- Those acquired on or after July 1, 1980 or,
- The last time the road was upgraded (gravel to oil-and-chip, etc.) or,
- The last time the road was replaced or resurfaced in a way that it extended the original useful life of the road (i.e. not considered routine maintenance).

Example 1:
Blue County is trying to determine the historical cost for Turkey Town Road (a county-owned gravel road). The road has been a gravel road for at least 50 years. Every year, the county grades the road a couple times and drops a few loads of gravel (less than $100) on it for annual maintenance. As this road does not meet any of the requirements for capitalization (date acquired, no upgrades, only routine maintenance performed), county management chose not to capitalize this road.

Example 2:
Grey County is trying to determine the historical cost for Short Mountain Road (a county-owned oil-and-chip road). The road has existed for more than a hundred years. However, the road was gravel until 1994, when it was upgraded to oil-and-chip. Since this was the last major work project on this road, the county would determine an estimated historical cost (if actual cost was not known) for the cost of an oil-and-chip road and capitalize this amount as the road's cost with the acquisition date of the road being 1994 (when it was upgraded).

Example 3:
Black County is trying to determine the historical cost for Biven's Hill Road (a county-owned asphalt road). The road has been an asphalt road for a number of years, however the road was resurfaced three years ago during a large repaving project. The original historic cost of the road would be determined at the time of resurfacing if the project extended the useful life of the road and was not considered routine maintenance. The original acquisition date for the road would be the date of this last major resurfacing.

Often when new subdivisions are finished, the roads within the subdivision are brought up to county road standards and donated to the county. The capitalization cost of these roads should be the actual or estimated fair value of the roads at the time of donation. If the developer refuses to disclose the cost of the roads, the GASB has determined that a county can use an accurate estimate (based on comparable road construction costs) for the value of the donated infrastructure. Management should be cautious if they use a cost estimate provided by a road builder not to include the builder's profit margin into the cost estimate for a donated road.

Right-of-ways and Other Easements

Reference Number: CTAS-1987

An easement is an interest in land that is owned by another entity that entitles its holder to a specific limited use or right. Right-of-ways and other easement rights for which the county did not incur a cost are not required to be capitalized. If the easements were paid for by the county, they should be capitalized by actual or estimated historical cost.

Example:
Blue County has right-of-ways for a certain distance on both sides of all county roads. The county did not pay for these easement rights and private property owners that live next to the roads

actually pay property taxes on the land under the roads. Since Blue County did not pay for these easement rights and the rights would cease if the road was taken off the county road list (i.e. no longer a county asset), management has decided not to capitalize these easements as infrastructure

Bridges

Reference Number: CTAS-1988

County-owned bridges should be capitalized at historical or estimated historical cost and depreciated as infrastructure. The Tennessee Department of Transportation bridge inspection reports are an excellent source of information for determining the construction date and dimensions of most, if not all, county-owned bridges. If the actual historical cost of the bridge cannot be located, a county can use an estimated historical cost by using a deflation calculator to index current bridge construction cost back to the year of construction. All bridges acquired on or after July 1, 1980, and above the county's capitalization threshold should be capitalized. Major renovations and repairs that are not considered routine maintenance and upgrades to bridges that exceed the capitalization threshold, such as wood to concrete, should also be capitalized and depreciated.

Example 1:
Blue County has a bridge that was originally built with a wooden floor in 1945. The bridge was upgraded to a concrete span in 1985. The county implemented GASB 34 in 2006 and retroactively reported the bridge as a concrete span with an acquisition date of 1985 (when the upgrade took place).

Example 2:
Blue County has a concrete box-type bridge that originally was constructed in 1983. However, the bridge had extensive damage in a storm and had major repairs (that extended the bridge's original useful life) in 1993. The bridge would be capitalized with an initial acquisition date as of 1993 (the date of the major renovation).

Modified Approach to Reporting Infrastructure

Reference Number: CTAS-1989

Most, if not all, Tennessee counties report their infrastructure on an individual asset basis. However, the GASB allows for a modified approach for infrastructure reporting. Under the modified approach, counties still are required to perform an initial retroactive capitalization of county-owned infrastructure (if over the $10 million threshold mentioned previously). However, instead of annually depreciating each infrastructure asset, the county must calculate a "maintenance of effort" amount that reflects the current costs for preserving infrastructure in lieu of depreciation. Counties are discouraged from implementing the modified approach since use of this method requires a county to periodically engage independent engineering consultants to perform condition assessments and demonstrate that all infrastructure has been maintained at or above a prescribed level.

Leave, Sick and Compensatory Time Liability Reporting

Reference Number: CTAS-1990

A county will have to adopt written personnel policies addressing paid time off. Paid time off includes vacation, sick, and compensatory (comp) time. A policy should address the rate that time off is accrued, the maximum amount of time that each individual employee is able to accrue, and what type of leave is guaranteed to be paid upon termination or retirement of an employee.

While there is no state or federal law requiring that vacation or sick leave be provided for county employees, management should note that federal labor laws require accrued comp time to be paid out in full to employees upon retirement or termination. Comp time accrues at one and one-half hours for each hour of overtime worked, and the maximum amount of comp time that can be accrued by an individual employee in public safety, emergency response, or seasonal activities is 480 hours, which represents 320 hours of overtime actually worked.

Employees in other types of job classifications can accrue up to a maximum of 240 hours of comp time, which represents 160 hours of actual overtime worked. Comp time accruals for individual employees should never exceed these maximum amounts. See Employee Leave under the Personnel topic for more information on the legal aspects of paid time off.

Once a county adopts a written personnel policy addressing paid time off, county management will have to prepare an annual report that presents accumulated dollar values by function for all leave, sick, and comp time if guarantee payment provisions for this paid time off exist in the county's personnel policy. The annual report must present the beginning of fiscal year accumulated leave, sick, and comp time liability balances, amount of time earned by employees during the current fiscal year, amount of time used by employees during the current fiscal year, and the end of year accrued time liability. Management also will have to provide an accurate estimate of the amount of time off that will be expensed in the next fiscal year. Sample Leave Accrual Spreadsheet.

Note:
One of the most common and avoidable mistakes that some counties make when preparing the annual accrued time off report is to use a beginning of current year (July 1) balance that is different than the prior fiscal year's ending balance (June 30). These amounts should always be the same. If a prior period correction is needed, make the adjustment in the current fiscal year and make your auditors aware of this adjustment.

Outstanding Long-term Debt Reporting

Reference Number: CTAS-1991
County management will need to prepare a schedule that breaks down the percentage of the county's long-term debt (bonds, notes, loans, and capital leases) between the county and the school department and/or other component units. Management also should obtain or prepare a schedule of the dates for semi-annual or annual payments for principal and interest on each outstanding long-term debt issue. Amortized debt payment schedules should be provided to the county when any debt (including capitalized leases) is issued. County management should compare their outstanding debt schedules with amounts that will be reported by the county's independent auditors to ensure all outstanding debt is reported accurately.

> Example 1:
> Black County issues bonded debt for jail improvements. Management notes on the long-term debt schedule the bond issue, amount, and that the debt was issued for 100-percent use with primary government operations. Management makes a copy of the debt amortization schedule as well as keeping all paperwork related to the debt issue in a central location.
>
> Example 2:
> Blue County issues $10 million in refunding debt for two previous debt obligations. Management prepares a schedule that details the various individual debt obligations that were refunded and notes that $3 million of the refunded debt came from the purchase of ambulances and stations for county EMS, and $7 million of the original debt was for some renovations at the high school. Management retains all information related to the debt issue in a central location for use by financial statement preparers.

Internal Service Fund Reporting

Reference Number: CTAS-1992
Internal service funds are used to report an activity that provides services or goods to other funds, departments, or agencies to the county, the school system, or component unit on a cost-reimbursement basis. Examples of internal service funds are self-insurance and workers' compensation funds. Counties that maintain an internal service fund will have to prepare a schedule that presents a breakdown of activity applicable to the county and applicable to the school department. Further detail should be provided to break down the activity between functions (general government, administration of justice, etc.) within the primary government. Example of a schedule that prorates usage of an internal service fund.

Management Discussion and Analysis

Reference Number: CTAS-1993
The Management Discussion and Analysis (MD&A) is a narrative that provides a brief, objective, and easily readable analysis of the government's financial activities based upon currently known facts, decisions, or conditions. Further, it provides the management of a county government with the opportunity to present both a short-term and a long-term analysis of activities. MD&A is not a required part of the basic financial statements, but is supplementary information required by the GASB.

Currently, the omission of the MD&A will not adversely affect the audit opinion of a Tennessee county's financial statements. Any county that decides to include a MD&A should reference the latest edition of Governmental Accounting, Auditing and Financial Reporting (i.e. the Blue Book) and the Government

Finance Officers Association Web site for the most up-to-date reporting requirements. Management also should communicate with their external auditor about the desire to prepare an MD&A in order to determine when the narrative must be completed for inclusion into the audit report.

Staying in Compliance with GASB Statement 34

Reference Number: CTAS-1994

Imagine that your county has adopted/updated a capital asset and/or personnel policy, capitalized all county-owned assets and infrastructure, and compiled all the reports needed for the preparation of government-wide financial statements. You also have prepared accurate backup documentation for all capitalized assets, leave liabilities, and other applicable GASB Statement 34 requirements.

Your auditors complete the county's audit and inform you that the county has complied with GASB Statement 34 reporting requirements. Congratulations! You have successfully complied with the one of the most significant governmental accounting pronouncements ever. However, the job is not entirely done.

The county constantly will be acquiring and disposing of assets. Depreciation reports and employee leave liabilities change each year, and more debt will be issued in future years. These changes will have to be tracked and recorded on financial reports. While in most counties this maintenance of the accounting records will not be a large task, neglect of these duties could cause a county that already has complied with GASB Statement 34 to become noncompliant. This noncompliance would be due to the inability to prepare accurate financial statements because of a lack of updated financial information.

The GASB has continued to issue new accounting statements. Many of these newer statements require the recognition of liabilities on the government-wide financial statements that are prepared under Statement 34. Without the preparation of government-wide financial statements, a county will be unable to comply with numerous current and upcoming accounting requirements. With this in mind, county management should strive to ensure that adequate resources are used to maintain the integrity of the financial reporting system in which they have invested so much already.

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