

A Briefing Report on

Reconciling State Financial Reports



Office of the State Auditor
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This briefing report provides background about several key financial reports at the state and agency levels, defines four categories of recurring differences between reports, and identifies many of the specific reconciling items between reports for the State's fiscal year ended August 31, 1993. In addition, a glossary of accounting terms is provided.

Budget reports, internal financial reports, and the State's comprehensive annual financial report present various perspectives on the financial realities of the State of Texas. To get full benefit from the range of information and perspectives provided, it is necessary to understand reports in their own terms and the nature of the differences between them.

Reports for the State's fiscal year 1993 are logically related. However, they were prepared from different data sources, by different agencies, and by different processes. Variations in report sources and preparation limit the efficiency, precision, detail, and scope of reconciliations for that period. Implementation of the Uniform Statewide Accounting System (USAS) should facilitate the reconciliation process in the near future.

By identifying the nature, number, and magnitude of reconciling items between key reports, this project suggests various issues for further study which could lead to recommendations for reducing differences and otherwise improving the user-friendliness of financial reporting.

We appreciate the cooperation and knowledgeable assistance of the Comptroller's Office, Legislative Budget Board, Texas Commission for the Blind, Texas Department of Commerce, and The University of Texas at Austin.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

Key Points Of Report

A Briefing Report on Reconciling State Financial Reports

November 1994

Key Facts and Findings

- Standard Texas financial reports present different perspectives on the same financial realities. To use the full range of budget reports, internal financial reports, and the State's *comprehensive annual financial report* with discernment and confidence, it is necessary to understand each report in its own terms and the nature of the differences between them.
- Four types of reconciling items explain most of the differences between reports. They are: differences in the organizational units or funds included (*entity differences*); differences in fund and transaction-type classification (*perspective differences*); differences in when financial transactions are measured (*basis of accounting differences*); and differences in reporting horizons (*timing differences*).
- While reports for the State's fiscal year 1993 are logically related, they were not systematically linked in the processes by which they were prepared. Differences in report sources and preparation limit the efficiency, precision, detail, and comprehensiveness of reconciliations at this time. With the development and implementation of the Uniform Statewide Accounting System (USAS), improvement is now under way in financial accounting and reporting systems, which can facilitate the reconciliation process in the future.

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Executive Summary

Amidst all the information competing for attention, state leaders and staff encounter a complex array of standard reports about the State's financial status, plans, and activities. Frequently, different reports--or separate financial statements within the same report--present differing versions of (what seems to be) the same financial subject matter. What do these differences mean? What is each report trying to convey? Which information is reliable? Which information is relevant for a reader's particular need or question?

Purpose And Scope Of This Report

The purpose of this report is to provide background and comparative analysis that will help state leaders, their staffs, and other interested readers understand the relationships and differences among a number of prominent financial-related reports and documents. Through diagrams, report profiles, reconciliations, and definitions of accounting terms, we hope to make clearer the purposes and usefulness of the various reports and provide a map for navigating among them.

Seven annual and biennial reports or documents are profiled in Section 1 of this report, as identified in Figure 1 on the following page.

These reports are linked in many ways, by their functions in the State's budgeting, operating, and financial reporting cycle and by the information that they report. Figure 2 on Page 4 illustrates some of the information links between reports. Reconciliations between reports at these points are presented or discussed in Section 2 of this report. Generally, reconciliations have been done for the State's fiscal year 1993, the year most recently completed.

Understanding Each Report And Financial Statement In Its Own Context

Although reports and financial statements sometimes seem inconsistent, generally each makes sense in the context of its focus, intended users and uses, and perspective on financial matters. Usually, there is more than one valid way of looking at financial transactions. In financial accounting, reporting, and analysis, much depends on who will be using the information and what kinds of judgments and decisions they will be using it for.

- Will the primary intended users be agency and university managers, state legislators and oversight officials, the citizens of the State, the financial markets?
- Will the information be used primarily for planning, budgeting, monitoring, financial and public policy analysis, specific decision-making, accountability to financial markets and the public?

The answers to these questions may have a significant impact on what information is reported and how it is reported. Moreover, a general purpose report, such as the State's *comprehensive annual financial report*, may tend to be more diversified in its attempt to meet a variety of users' needs, to the extent possible.

It is, therefore, important to understand the perspective of each report. When this is known, generally there is a logical relationship between reports, and the types of differences can be identified. To assist in this process, each of the seven reports or documents is profiled in Section 1 of this report.

Executive Summary

Figure 1

KEY REPORTS AND DOCUMENTS RELIED ON FOR FINANCIAL INFORMATION ABOUT THE STATE OF TEXAS	
PREPARER	REPORT
Budget Reports and Documents	
Legislative Budget Board	<i>Fiscal Size Up</i> (state level, biennial)
State Agencies and Universities	<i>Legislative Appropriations Requests</i> (agency level, biennial)
Comptroller of Public Accounts	<i>Biennial Revenue Estimate</i> (state level, biennial)
Legislature	<i>General Appropriations Act</i> (state level, biennial)
Primarily Internal Financial Reports	
Comptroller of Public Accounts	<i>Annual Cash Report</i> (state level, annual)
State Agencies and Universities	<i>Annual Financial Reports</i> (agency level, annual)
General Purpose External Financial Report	
Comptroller of Public Accounts	<i>Comprehensive Annual Financial Report (CAFR)</i> (state level, annual)

Types Of Differences, Or Reconciling Items, Encountered

Differences, or reconciling items, between reports generally fall into the following types or categories defined by the Governmental Accounting Standards Board:

- **Entity differences.** Reports, and financial statements within reports, sometimes differ in scope in the sense that they include broader or narrower sets of components. For instance, one report or financial statement may encompass more organizational units, or a different set of funds, than another.
- **Perspective differences.** Perspective differences result from differences in the way that information is structured

and rolled up for reporting. For instance, funds and transactions may be classified differently for reporting in accordance with generally accepted accounting principles (GAAP) than for budget or cash management purposes.

- **Basis of accounting differences.** Basis of accounting relates to when financial transactions are measured. In the reports we will discuss, three bases of accounting are encountered: cash basis, budgetary basis, and GAAP basis. It should also be noted that GAAP basis is different depending on what kind of activity and fund type is being reported on (whether governmental fund types, proprietary funds, agency funds, or college and university funds).

Executive Summary

- **Timing differences.** Timing differences relate to the reporting horizon of various reports, whether annual, biennial, or other. Timing differences are particularly important when reconciling from the budgetary basis to GAAP basis or cash basis, since the time horizons for certain types of appropriations span more than one fiscal year. Timing differences may result from continuing appropriations, project appropriations, automatic reappropriations of unexpended balances (U.B.), and biennial budgeting.

Limitations Of Financial Accounting And Reporting In Fiscal Year 1993

While the reports we will discuss are logically related, they were not *systematically* linked in their sources and manner of preparation in fiscal year 1993. Reports for that period were prepared by different agencies, by different processes, from different accounting systems or data bases. Under the circumstances, reconciling reports is, in some cases, a tedious, time-intensive process. The information presented in this report has been affected by systematic limitations in the following ways:

- **Precision.** Some reconciliations contain unreconciled differences. In such cases, the main reconciling items were fairly readily identifiable with analysis. However, unreconciled differences could be comprised of numerous separate items--many of them possibly resulting from systematic and procedural differences between reports. We did not consider it cost-effective to identify each specific reconciling item. We did

pursue reconciliations to the point where such differences are minor in the aggregate.

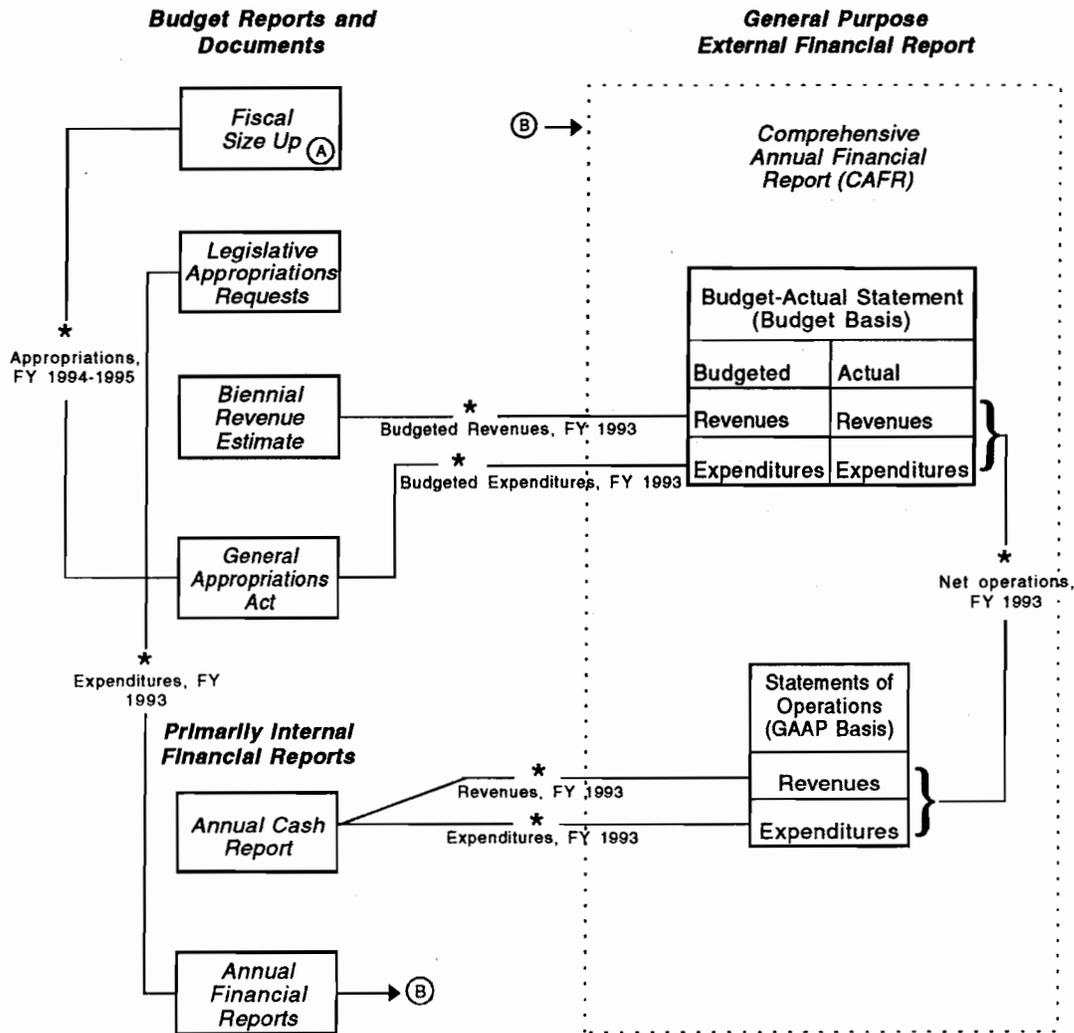
- **Detail and comprehensiveness.** The reconciliations in this report provide orientation and general information about the types of differences among reports. However, because of systematic limitations, reconciliations have been made at a high level of summarization, such as total expenditures by fund type, rather than at more detailed levels, such as by expenditures by agency, function, or object. Also, most reconciliations are limited to one fund type, rather than covering all fund types.

By pulling financial information together in one system and by providing an infrastructure for automating reconciliations, the Uniform Statewide Accounting System (USAS) should greatly facilitate the process of reconciliation in the near future, making it feasible to produce faster, more precise reconciliations tailored to the level of detail desired.

Executive Summary

Figure 2

Relationships Between Reports



* Reconciliation included in this report.

(A) Financial data from various sources is used in the *Fiscal Size Up* for analytical purposes.

(B) In FY 1993, *annual financial reports* were the primary source for the CAFR.

Section 1:

Report Profiles

In this section, each of the seven reports is profiled. For each report, the following information is provided:

- Who prepares it
- Statutory mandate
- When it is prepared
- Brief profile of its contents
- Information source from which it is prepared
- Its principal users
- Its measurement focus and basis of accounting
- Its links to other reports

The organization and contents of this section are as follows:

Report Profile	Page
Budget Reports and Documents:	
<i>Fiscal Size Up (Figure 3)</i>	6
<i>Legislative Appropriations Requests (Figure 4)</i>	7
<i>Biennial Revenue Estimate (Figure 5)</i>	8
<i>General Appropriations Act (Figure 6)</i>	9
Primarily Internal Financial Reports:	
<i>Annual Cash Report (Figure 7)</i>	10
<i>Annual Financial Reports (Figure 8)</i>	11
General Purpose External Financial Report:	
<i>Comprehensive Annual Financial Report (Figure 9)</i>	12

Section 1-A:

Figure 3

Report Profile: *Fiscal Size Up*

Who prepares it	Legislative Budget Board
Statutory mandate	Derived from the general statutory authority and responsibility of the Legislative Budget Board to support the Legislature (Government Code, Chapters 316, 317, and 322, V.T.C.S.)
When it is prepared	Biennially, following each regular session of the Legislature
Brief profile of its contents	<ul style="list-style-type: none"> • Summary of the state budget, with comparisons between the current biennium and the previous biennium • Analysis of state revenue trends and outlook • <i>Texas Among the States</i>--50-state comparative data on personal income, taxes, state expenditures, and numbers of government employees • Analysis of recent trends in expenditures and appropriations, by function of state government--includes analysis of component agencies and programs, significant recent legislation, performance information, and significant developments affecting budgeting
Information source from which it is prepared	<ul style="list-style-type: none"> • State sources include the <i>General Appropriations Act</i> and other legislation appropriating funds; the Comptroller of Public Accounts; state agencies, colleges, and universities, including reports issued by them; and Legislative Budget Office staff and files • National sources include the U.S. Bureau of the Census, the U.S. Department of Commerce, the U.S. Department of Education, and the National Education Association
Its principal users	<ul style="list-style-type: none"> • Members of the Legislature • Analysts of state government • Auditors
Its measurement focus and basis of accounting	<ul style="list-style-type: none"> • Measurement focus: primarily current financial resources • Basis of accounting: follows the State's budget basis for appropriations (i.e. revenue essentially on the cash basis, and expenditures on a modified accrual plus encumbrances basis); also uses actual financial data for analytical purposes from various sources, most of which probably follow the cash basis
Its links to other reports	Includes information from the <i>General Appropriations Act</i> and the <i>Biennial Revenue Estimate</i> . Draws from various state and national sources for financial and performance data (emphasis: trend and comparative analysis).

Figure 4**Report Profile: Legislative Appropriations Requests (LAR)**

Who prepares it	Each state agency, college, and university
Statutory mandate	Legislative Budget Board legislation - Acts 1985, 69th Leg., ch. 479, par. 1.
When it is prepared	As directed by the Board; in practice, approximately six months before the beginning of regular session of the Legislature
Brief profile of its contents	<ul style="list-style-type: none"> • Appropriations requested from the Legislature for the upcoming biennium. The <i>LAR</i> is a part of the State's Strategic Planning and Budgeting System. It provides the link between the strategic planning process and the <i>General Appropriations Act</i> and is the financial expression of the priorities in the agency's strategic plan. The requesting agency links its requests to its strategic plans, using approved agency goals, objectives, and strategies. • Additional information as specified by the Legislative Budget Board, to assist the Board and the Legislature in assessing appropriation and expenditure trends, performance, service needs, and funding priorities. Information includes: estimates for the current year (i.e. the year the <i>LAR</i> is being prepared), budgeted amounts (from the agency's prepared budgets) for the second year of the current biennium, and requested amounts for each year of the upcoming biennium.
Information source from which it is prepared	Each entity's accounting and budgeting system(s)
Its principal users	<ul style="list-style-type: none"> • Legislative Budget Board • Governor's Office of Budget and Planning • Members of the Legislature • Entity management
Its measurement focus and basis of accounting	<p>For amounts shown as "expended":</p> <ul style="list-style-type: none"> • Measurement focus: essentially current financial resources (appropriated funds only) • Basis of accounting: modified accrual plus encumbrances
Its links to other reports	<ul style="list-style-type: none"> • To <i>Annual Financial Reports</i> - Generally, amounts reported in the <i>LAR</i> as "expended" should be reconcilable to expenditures reported in the <i>annual financial report</i> for funds that are covered by the appropriations process. • To <i>General Appropriations Act</i> - The <i>LAR</i> requested amounts are incorporated into the budgeting process by the Legislative Budget Board and the Governor's Office of Budget and Planning.

Figure 5

Report Profile: *Biennial Revenue Estimate*

Who prepares it	Comptroller of Public Accounts
Statutory mandate	Texas Constitution, Art. 3, Sec. 49a
When it is prepared	Prepared biennially, in advance of each regular session of the Legislature. In addition, a certification estimate is prepared at the end of each session that passed an Appropriations Act, to certify that the expenditures budgeted are within the limits of revenue estimated to be available. Supplemental statements (updates) are submitted at special sessions or when necessary to report changes.
Brief profile of its contents	Itemized estimate of anticipated revenue available for budgeting
Information source from which it is prepared	<ul style="list-style-type: none"> • Economic forecasts • Various industry contacts • National economy trend information • Fiscal notes on the impact of recent legislation • Various individual forecasting models
Its principal users	<ul style="list-style-type: none"> • Legislative Budget Board • Governor's Office of Budget and Planning • Senate Finance Committee • House Appropriations Committee • State Treasury • Comptroller's Office: Revenue Analysis Section, Division Directors, and Appropriations Control Officers
Its measurement focus and basis of accounting	<ul style="list-style-type: none"> • Measurement focus: cash • Basis of accounting: cash
Its links to other reports	<ul style="list-style-type: none"> • The <i>Biennial Revenue Estimate</i> provides members of the Legislature an itemized estimate of anticipated beginning cash balances and revenue constitutionally available for budgeting in the forthcoming biennium. Following passage of a <i>General Appropriations Act</i>, the Comptroller is required to determine whether the amounts appropriated are within the amounts estimated to be available in the General Revenue Fund. • Information from this report is also used to prepare the revenue budget for the budget statement in the <i>comprehensive annual financial report (CAFR)</i>.

Figure 6Report Profile: *General Appropriations Act*

Who prepares it	Enacted by the Legislature; published by the Legislative Budget Board
Statutory mandate	Texas Government Code, Sec. 322.008
When it is prepared	A copy of the <i>General Appropriations Act</i> must be submitted to the Governor and to each member of the Legislature not later than the seventh day after a regular session convenes.
Brief profile of its contents	<ul style="list-style-type: none"> • Legally authorizes expenditures of state funds for support of the judicial, executive, and legislative branches of state government; for construction of state buildings; and for state aid to public junior colleges. Appropriations are based on performance goals and objectives of each agency within a particular branch of government. • Prescribes conditions, limitations, rules, and procedures for allocating and expending appropriated funds.
Information source from which it is prepared	<ul style="list-style-type: none"> • <i>Legislative Appropriations Requests</i> • <i>Biennial Revenue Estimate</i> • Legislative Budget Board reports • Performance measure information
Its principal users	<ul style="list-style-type: none"> • Legislative Budget Board • Governor's Office of Budget and Planning • Senate Finance Committee • House Appropriations Committee • State Auditor • Comptroller's Office: Revenue Analysis Section, Division Directors, and Appropriations Control Officers • Fiscal officers of state agencies, colleges, and universities
Its measurement focus and basis of accounting	<ul style="list-style-type: none"> • Measurement focus: current financial resources • Basis of accounting: modified accrual plus encumbrances
Its links to other reports	<p>The <i>General Appropriations Act</i> is a primary source used in preparation of:</p> <ul style="list-style-type: none"> • The expenditure budget for the budget statement in the <i>comprehensive annual financial report (CAFR)</i>. • <i>Fiscal Size Up</i>.

Report Profile: *Annual Cash Report*

Who prepares it	Comptroller of Public Accounts
Statutory mandate	Government Code, Chapter 403.013, V.T.C.S.
When it is prepared	First Monday in November, for the fiscal year ended August 31
Brief profile of its contents	Provides summary and detailed information, in two volumes, on the cash receipts, cash disbursements, and cash balances of all funds in the State Treasury
Information source from which it is prepared	State's central accounting system, maintained by the Comptroller of Public Accounts: <ul style="list-style-type: none"> • Prior to September 1, 1993--Financial Accounting and Control for Texas System (FACTS) • Effective September 1, 1993--Uniform Statewide Accounting System (USAS)
Its principal users	<ul style="list-style-type: none"> • Legislative Budget Board • Governor's Office of Budget and Planning • Comptroller's Department: Revenue Analysis Section, Division Directors, and Appropriations Control Officers • Fiscal officers of state agencies, colleges, and universities • Auditors
Its measurement focus and basis of accounting	<ul style="list-style-type: none"> • Measurement focus: cash • Basis of accounting: cash
Its links to other reports	<p>The <i>Annual Cash Report</i> provides timely, baseline information from the State's central accounting system about cash balances and cash flows for each fund in the State Treasury. It includes the detail of receipts by source and disbursements by object. The <i>comprehensive annual financial report (CAFR)</i> provides a broader perspective on the State's finances by including other assets, liabilities, and funds held outside the State Treasury (primarily college and university funds).</p> <p>In fiscal year 1993, the <i>Annual Cash Report</i> was prepared from the FACTS system, while the <i>CAFR</i> was prepared from agency and university annual reports. Beginning with fiscal year 1994, the <i>Annual Cash Report</i> will be prepared from USAS information; some agencies will prepare their annual financial reports from accounts they have chosen to maintain on USAS; and the Comptroller will test the feasibility of using USAS as the primary source for the <i>CAFR</i> in future years.</p>

Figure 8Report Profile: *Annual Financial Reports*

Who prepares it	Each state agency, college, and university
Statutory mandate	Senate Bill 5 (<i>General Appropriations Act</i>), 73rd Legislature, Regular Session (1993), Article V, Section 50
When it is prepared	For fiscal year 1994, reports are due by November 29, 1994, or 90 days after fiscal year-end. The goal of the Legislature is to ultimately reduce the reporting date to 50 days after year-end.
Brief profile of its contents	<ul style="list-style-type: none"> • Statement of assets, liabilities, and fund balances • Statement of revenues, expenditures, and changes in fund balances • Statement of cash flows (for some fund types) • Notes to the Financial Statements, supporting schedules, and other supplementary information
Information source from which it is prepared	Each entity's accounting system(s)
Its principal users	<ul style="list-style-type: none"> • Comptroller's Office - for preparing the State's <i>comprehensive annual financial report (CAFR)</i> • Legislators, auditors, public interest groups, bond rating houses, creditors, federal granting agencies
Its measurement focus and basis of accounting	<p>Vary, according to generally accepted accounting principles (GAAP):</p> <p style="text-align: center;">Measurement Focus</p> <ul style="list-style-type: none"> • Governmental and expendable trust funds: current financial resources • Proprietary and similar trust funds: economic resources • College and university funds: financial resources <p style="text-align: center;">Basis of Accounting</p> <ul style="list-style-type: none"> • Governmental and expendable trust funds: modified accrual • Proprietary and similar trust funds: accrual • College and university funds: accrual
Its links to other reports	<ul style="list-style-type: none"> • Amounts reported in <i>annual financial reports</i> were the primary source for the State's <i>CAFR</i> (fiscal year 1993 and previous years). • Amounts reported in the <i>Legislative Appropriations Request</i> as "expended" are related to expenditures reported in the <i>annual financial report</i>. However, the two reports generally will not agree exactly, as a result of entity, basis of accounting, perspective, and timing differences.

Figure 9Report Profile: *Comprehensive Annual Financial Report (CAFR)*

Who prepares it	Comptroller of Public Accounts
Statutory mandate	Government Code, Chapter 403.013, Sections (c) and (d)
When it is prepared	Published the last day of February, for the previous fiscal year ended August 31. State law is consistent with bond rating policy and Government Finance Officers Association (GFOA) standards, in requiring publication of an audited <i>CAFR</i> within six months after fiscal year-end.
Brief profile of its contents	<p>The <i>CAFR</i> is designed to account for state finances to a variety of interested user groups outside the daily fiscal operations of state government. It is prepared in accordance with generally accepted accounting principles (GAAP). Contents include:</p> <ul style="list-style-type: none"> • Introductory financial analysis of general government operations by the Comptroller • Summary financial statements for the State by GAAP fund type, including all state funds, whether or not in the State Treasury: <ul style="list-style-type: none"> - A balance sheet covering all fund types and account groups - Separate statements of fiscal operations, with different concepts and formats, for governmental fund types, proprietary fund types, and college and university funds - A budgetary comparison statement for appropriated governmental funds - A statement of cash flows for proprietary fund types - Notes to the financial statements - More detailed financial statements by major fund - Supplementary bond schedules - Statistical and economic data - Schedule of federal financial assistance
Information source from which it is prepared	<ul style="list-style-type: none"> • Fiscal years 1987-1993--prepared primarily from annual financial reports of state agencies, colleges, and universities, with additional information from the FACTS system • Fiscal year 1994--agencies which are "internal users" of USAS will prepare their annual financial reports from USAS; Comptroller will test the feasibility of converting to full reliance on USAS in future years

<p>Its principal users</p>	<p style="text-align: center;"><u>Primary User Groups</u></p> <p>Primary user groups for whom the <i>CAFR</i> is intended are:</p> <ul style="list-style-type: none"> • The citizenry--citizens as taxpayers, voters, and/or service recipients; the media; advocate groups; and public finance researchers • Legislative and oversight bodies--members of state legislatures; local government commissions, councils, and boards; and executive branch officials with oversight responsibility over other levels of government • Investors and creditors--investors and creditors; municipal security underwriters; bond rating agencies; bond insurers; and financial institutions <p style="text-align: center;"><u>Financial Reporting Objectives</u></p> <p>External financial reporting by governments is intended to provide information that will assist users in assessing accountability and in making economic, social, and political decisions. Components of this objective are:</p> <ul style="list-style-type: none"> • Accountability--providing information about interperiod equity,* compliance,* and service efforts and accomplishments • Operating results--providing information about flows of financial resources,* financing,* and improvement or deterioration of financial position* • Service-level and financial capacity of the government--providing information about financial position,* financial condition, capital assets, and asset restrictions and loss contingencies.* <p><i>* Objective currently addressed by the CAFR.</i></p>
<p>Its measurement focus and basis of accounting</p>	<p>Both vary by fund type according to generally accepted accounting principles (GAAP):</p> <p style="text-align: center;"><u>Measurement Focus</u></p> <ul style="list-style-type: none"> • Governmental and expendable trust funds: current financial resources • Proprietary and similar trust funds: economic resources • College and university funds: financial resources <p style="text-align: center;"><u>Basis of Accounting</u></p> <ul style="list-style-type: none"> • Governmental and expendable trust funds: modified accrual • Proprietary and similar trust funds: accrual • College and university funds: accrual

<p>Its links to other reports</p>	<p style="text-align: center;"><u>Balance Sheets and Statements of Operations (GAAP Basis)</u></p> <ul style="list-style-type: none"> • In fiscal year 1993 and earlier years, these financial statements were prepared primarily from <i>annual financial reports</i> of state agencies, colleges, and universities, and other entities deemed part of the State for reporting purposes. Additional information was derived from the FACTS system. • Revenues, expenditures, and balances reported in the <i>CAFR</i> are reconcilable to cash-flow information reported in the <i>Annual Cash Report</i>. The primary types of reconciling items are perspective differences and basis of accounting differences related to the application of GAAP in the <i>CAFR</i>. <p style="text-align: center;"><u>Statement of Budgeted vs. Actual Revenues and Expenditures (Budget Basis)</u></p> <ul style="list-style-type: none"> • Budgeted revenues are derived from the <i>Biennial Revenue Estimate</i>. • Budgeted expenditures are derived from the <i>General Appropriations Act</i> and other spending legislation. • In this statement, actual revenues, expenditures, and transfers are presented on the State's budget basis. The Notes to the Financial Statements include a reconciliation from the budget basis to GAAP basis, as reported elsewhere in the <i>CAFR</i>.
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Reconciliations

In this section, reports are reconciled at key points. In most cases, reconciliations are presented in tables, with interpretive comments. In a few cases, reconciliations are limited to general narrative comments about the nature of the differences between the two reports. The organization and contents of this section are as follows:

Reconciliation	Page
Budgeted Revenues and Expenditures:	
Budgeted Revenues (General Fund) -	
Reconciliation from the <i>Biennial Revenue Estimate</i> to budgeted revenues reported in the <i>CAFR</i> (Figure 10)	16
Budgeted Expenditures (General Fund) -	
Reconciliation from the <i>General Appropriations Act</i> to budgeted expenditures reported in the <i>CAFR</i> (Figure 11)	19
Budgeted Expenditures - Other -	
Discussion of the nature of differences between the <i>General Appropriations Act</i> and budget figures reported in the <i>Fiscal Size Up</i>	27
Actual Revenues and Expenditures:	
Revenues (General Fund) -	
Reconciliation from cash receipts reported in the <i>Annual Cash Report</i> to GAAP-basis revenues reported in the <i>CAFR</i> (Figure 12)	28
Expenditures (General Fund) -	
Reconciliation from cash disbursements reported in the <i>Annual Cash Report</i> to GAAP-basis expenditures reported in the <i>CAFR</i> (Figure 13)	32
Net Revenues, Expenditures, and Other Financing Sources/	
Uses (General Fund and Special Revenue Funds) -	
Reconciliation from the <i>CAFR</i> budget-actual statement (budget basis) to the <i>CAFR</i> statements of operations (GAAP basis) (Figure 14)	37
Expenditures (Agency/University Level) -	
Three case studies, comparing expenditures reported by two agencies and one university, from <i>Annual Financial Reports</i> to <i>Legislative Appropriation Requests</i> (Figures 15-17)	41

Section 2-A:

Reconciliation Of Budgeted Revenues

For fiscal year 1993, the *Biennial Revenue Estimate* projected revenues of \$18.172 billion for the General Revenue Fund and other funds affecting certification of the *General Appropriations Act*. In comparison, the *CAFR* Budget Statement reported budgeted revenues of \$18.126 billion for the General Fund. As the following summary shows, the difference of \$46 million is the net effect of a number of very large, but largely offsetting, perspective differences:

Perspective differences: fund type:

• Items where the <i>CAFR</i> reports higher budgeted revenues than the <i>Biennial Revenue Estimate</i>	\$1,431 million
• Items where the <i>Biennial Revenue Estimate</i> reports higher budgeted revenues than the <i>CAFR</i>	<u>(813 million)</u>
Total perspective differences: fund type	<u>\$ 618 million</u>

Perspective differences: transaction type:

• Items where the <i>CAFR</i> reports higher budgeted revenues than the <i>Biennial Revenue Estimate</i>	245 million
• Items where the <i>Biennial Revenue Estimate</i> reports higher budgeted revenues than the <i>CAFR</i>	<u>(909 million)</u>
Total perspective differences: transaction type	<u>\$(664 million)</u>

Total reconciling items **\$(46 million)**

Details regarding these perspective differences are shown in Figure 10.

Figure 10

Reconciliation of Budgeted Revenue: From the *Biennial Revenue Estimate* (General Revenue Fund) to the *CAFR Budget Statement* (General Fund), Fiscal Year Ended August 31, 1993 (Amounts in Thousands)

TO BE RECONCILED			
Description	FROM: Biennial Revenue Estimate - Funds Affecting Certification	TO: Comprehensive Annual Financial Report (CAFR) - Budget Statement - General Fund	Net Difference to be Reconciled
Revenue	\$ 18,172,417	\$ 18,126,112	\$ (46,305)

RECONCILIATION			
Perspective Differences: Fund Type			
Reconciling Item	Treatment in Biennial Revenue Estimate	Treatment in CAFR Budget Statement	Net Dollar Amount
Fuel taxes collected in the General Revenue Fund but allocated to the State Highway Fund (Fund 006)	Not treated as General Revenue Fund revenue	Included as General Fund revenue	\$1,431,015
<ul style="list-style-type: none"> • Available School Fund (Fund 002) • State Textbook Fund (Fund 003) • Foundation School Fund (Fund 193) 	Included as funds affecting certification	Not included in the General Fund	 (768,766) (4,667) (39,816)
Available Funds for Lunatic Asylum (Fund 015), Deaf and Dumb Institute (Fund 016), Blind Institute (Fund 017), and Orphans Home (Fund 018)	Not included	Treated as parts of the General Fund	53
Total Perspective Differences: Fund Type			\$617,819

Perspective Differences: Transaction Type			
Reconciling Item	Treatment in <i>Biennial Revenue Estimate</i>	Treatment in <i>CAFR</i> Budget Statement	Net Dollar Amount
Franchise tax	Reported net of refunds to taxpayers	Franchise taxes reported at gross amount; refunds reported as budgeted expenditures	\$188,992
Mixed beverage tax	Reported net of allocations to local governments	Reported at gross amount of Fund 68 receipts	55,940
Reimbursements from other funds for retirement contributions paid out of the General Revenue Fund	Reported as revenue	Reported as reductions of expenditures	(91,494)
<ul style="list-style-type: none"> • Unexpended balances allocated from Special Funds • Medicaid ICF/MR federal reimbursements to the General Revenue Fund 	Both reported as revenue	Both treated as transfers-in	(30,489)
Residual equity transfer to the General Revenue Fund from Special Funds, as a result of funds consolidation legislation	Reported as revenue	Treated as a residual equity transfer (neither revenue nor transfers-in)	(218,673)
Total Perspective Differences: Transaction Type			\$(664,124)
TOTAL RECONCILING ITEMS			\$(46,305)

Reconciliation Of Budgeted Expenditures

The *General Appropriations Act* and the *CAFR* Budget Statement differ substantially in the reported amount of budgeted expenditures by fund type, even though both statements follow the State's budget basis of accounting. For fiscal year 1993, the *General Appropriations Act* reports appropriated expenditures for the General Revenue Fund of \$17.7 billion, but the *CAFR* Budget Statement reports only \$7.7 billion of budgeted expenditures for the General Fund: a difference of \$10.0 billion. The following summary highlights the main components of the difference:

- **Entity Differences (\$0.7 Billion - *CAFR* over *General Appropriations Act*).** The *General Appropriations Act* did not include an explicit appropriation for expenditures under the federally funded Disproportionate Share Hospital Funds (Dispro) program. The *CAFR* Budget Statement reported \$749 million of implicit budgeted expenditures to match actual expenditures from the General Fund for this program.
- **Perspective Differences (\$11.9 Billion - *General Appropriations Act* over *CAFR*).** The primary source of differences is that these two documents classify budgeted items differently, in terms of fund type and transaction type.
 - **Fund Type Differences (\$12 Billion - *General Appropriations Act* over *CAFR*).** In the net result, about two-thirds of the outflows appropriated from the General Revenue Fund were for transfers of money to other funds, which were authorized to spend the money. The *CAFR* Budget Statement reports these items as budgeted transfers-out from the General Fund and as budgeted transfers-in and expenditures in other GAAP fund types. The largest reclassifications involved public education expenditures (\$7.2 billion), Department of Human Services operating fund expenditures (\$2.6 billion), and appropriations for senior colleges and universities (\$2.6 billion). For these items, the *CAFR* Budget Statement reports budgeted transfers from the General Fund to Special Revenue Funds (\$9.8 billion) and College and University Funds (\$2.6 billion) and budgeted expenditures in those fund types.
 - **Transaction Type Differences (\$0.1 Billion - *CAFR* over *General Appropriations Act*).** This type of perspective difference occurs when certain types of transactions, such as franchise tax refunds (\$189 million) and reimbursements of teacher pension contributions from other employers (\$84 million), impact budgeted expenditures in one document but not in the other.
- **Timing Differences (\$1.0 Billion - *CAFR* over *General Appropriations Act*).** Timing differences here represent the effects of including in the *CAFR* Budget Statement events which occurred, or amounts which became known,

subsequent to the passage of the *General Appropriation Act*. These include the following:

- **Riders contingent on a finding of fact or on passage or failure of specific legislation.** Example: \$187 million additional appropriation related to the contingent rider, Employee Salary Increase (Art. V, Sec. 146).
- **Subsequent legislation affecting amounts originally appropriated.** Example: the repeal by the 73rd Legislature of a planned deferral of \$235 million of fiscal year 1993 contributions to TRS until fiscal year 1994.
- **Adjustments (usually increases) to appropriated estimated expenditures when the associated actual revenues differ from the original estimate.** Example: increase of \$157 million to reflect certain revenues of the Department of Mental Health and Mental Retardation in excess of the original estimated appropriation.
- **Other items.** Examples: increases of \$139 million and \$127 million, respectively, to provide for unencumbered balances and reserves for encumbrances from the prior year. Under state budget rules, these amounts are permitted to be expended in the current fiscal year. To avoid the appearance of noncompliance with the appropriated budget, when comparing budgeted with actual expenditures, these previously budgeted amounts have been brought forward and reported again in the current year in the *CAFR*.

Figure 11 provides additional details.

Figure 11

Reconciliation of Budgeted Expenditures: From the *General Appropriations Act* (General Revenue Fund) to the *CAFR* Budget Statement (General Fund)
 Fiscal Year Ended August 31, 1993 (Amounts in Thousands)

TO BE RECONCILED			
Description	FROM: General Appropriations Act	TO: Comprehensive Annual Financial Report (CAFR) - Budget Statement - p. 32	Net Difference to be Reconciled
Budgeted Expenditures	\$ 17,742,305	\$ 7,676,343	\$ (10,065,962)

RECONCILIATION			
Entity Differences			
Reconciling Item	Treatment in General Appropriations Act	Treatment in <i>CAFR</i> Budget Statement	Net Dollar Amount
Net expenditures related to Disproportionate Share Hospital Funds (Dispro) program	No appropriation included in General Appropriations Act	An amount equal to actual net payments out of Fund 001 is reported as budgeted expenditures.	\$ 748,677
Total Entity Differences			\$ 748,677

Perspective Differences: Fund Type			
Description	Treatment in General Appropriations Act	Treatment in CAFR Budget Statement	Net Dollar Amount
Public school education expenditures	Reported in General Revenue Fund (Fund 001) appropriations	Reported as budgeted transfers to Special Revenue Funds (Funds 002, 003, and 193), where expenditures made	\$ (7,206,153)
Department of Human Services expenditures	Reported in General Revenue Fund (Fund 001) appropriations	Reported as budgeted transfers to Special Revenue Funds (DHS Operating Fund 166), where expenditures made	(2,626,271)
College and university expenditures	Reported in General Revenue Fund (Fund 001) appropriations	Reported as budgeted transfers to College and University Funds, where expenditures made	(1,962,029)
College and university payroll related costs - OASI, retirement, group insurance	Reported in General Revenue Fund (Fund 001) appropriations	Reported as budgeted transfers to College and University Funds, where expenditures made	(506,919)
Higher Education Assistance Funds	Reported in General Revenue Fund (Fund 001) appropriations	Reported as budgeted transfers to College and University Funds, where expenditures made	(100,000)
Other payroll related costs:	Reported in General Revenue Fund (Fund 001) appropriations	Reported as budgeted transfers to Special Revenue or Pension Trust Funds, where expenditures made	
• OASI - Comptroller Operating Fund			(10,080)
• OASI - Department of Human Services Operating Fund			(16,525)
• Judicial Retirement System Plan I benefits			(10,574)
Total			(37,179)

<p>Certain contributions to Employees Retirement System for retirement and group insurance:</p> <ul style="list-style-type: none"> • Comptroller Operating Fund • Department of Human Services Operating Fund <p style="text-align: center;">Total</p>	<p>Reported in General Revenue Fund (Fund 001) appropriations</p>	<p>Reclassified as budgeted expenditures of Special Revenue Funds</p>	<p>(15,714)</p> <p><u>(28,855)</u></p> <p>(44,569)</p>
<p>Non-retirement benefits paid by Employees Retirement System</p>	<p>Reported in General Revenue Fund (Fund 001) appropriations</p>	<p>Reclassified as budgeted expenditures of Special Revenue Funds</p>	<p>(5,872)</p>
<p>Expenditures of newly created agency, Department of Protective and Regulatory Services (DPRS)</p>	<p>Not separately appropriated; included in appropriations to Department of Human Services (DHS)</p>	<p>Expenditure budget for DPRS added in General Fund, with offsetting reduction in expenditure budget for Special Revenue Funds (DHS)</p>	<p>396,301</p>
<p>Non-General Revenue Fund amounts, federal funds, interagency contracts, appropriated receipts, and other funds</p>	<p>Reported in appropriations of "Other Funds"</p>	<p>Reclassified as budgeted expenditures of General Fund</p>	<p>305,790</p>
<p>Payments by Commission on Jail Standards (CJS) to counties for housing inmates</p>	<p>Not separately appropriated; budgeted under Texas Department of Criminal Justice (\$66.1 million General Revenue Fund; \$75.6 million Special Revenue Funds)</p>	<p>Expenditure budget added for CJS in General Fund; \$75.6 million budgeted transfer reported from Special Revenue Funds</p>	<p>141,724</p>
<p>Comptroller's Department operating budget</p>	<p>Reported in General Revenue Fund (Fund 001) appropriations</p>	<p>Reported as budgeted transfers to Special Revenue Funds (Fund 062), where expenditures made</p>	<p>(121,104)</p>

Appropriations for debt service on general obligation bonds: <ul style="list-style-type: none"> • Public Finance Authority • National Research Laboratory Commission <li style="padding-left: 20px;">Total 	Reported in General Revenue Fund (Fund 001) appropriations	Reported as budgeted transfers to Special Revenue Funds (actual expenditures were reported in Debt Service Funds)	(77,873) <u>(40,185)</u> (118,058)
Allocations to State and Local Parks Funds	Reported in General Revenue Fund (Fund 001) appropriations	Reported as budgeted transfers to Special Revenue Funds, where expenditures made	(26,012)
Appropriation for Uniform Statewide Accounting System (USAS)	Reported in General Revenue Fund (Fund 001) appropriations	Reclassified as budgeted expenditures of Special Revenue Funds	(19,577)
Subsequent legislation: appropriation for lottery	Reported in General Revenue Fund (Fund 001) appropriations	Lottery operates as an Enterprise Fund, which is not reported on the Budget Statement	(14,536)
Miscellaneous other appropriations	Reported in General Revenue Fund (Fund 001) appropriations	Reclassified as budgeted expenditures of Special Revenue or Enterprise Funds	(11,156)
Total Perspective Differences: Fund Type			\$ (11,955,620)

Perspective Differences: Transaction Type			
Reconciling Item	Treatment in General Appropriations Act	Treatment in CAFR Budget Statement	Net Dollar Amount
Refunds to taxpayers of overpayments of franchise taxes	Not included (netted against revenue in the <i>Biennial Revenue Estimate</i>)	Reported as General Fund budgeted expenditures of the Comptroller	\$ 188,992
Reimbursements from school districts and other state funds, for their shares of employer contributions to the Teacher Retirement System	Not included (classified as revenue in the <i>Biennial Revenue Estimate</i>)	Netted against budgeted expenditures for education in the General Fund	(84,835)
Total Perspective Differences: Transaction Type			\$ 104,157
Total Perspective Differences			\$ (11,851,463)

Timing Differences			
Reconciling Item	Treatment in General Appropriations Act	Treatment in CAFR Budget Statement	Net Dollar Amount
Estimated appropriations, in situations where actual revenues exceed estimated revenues:	Reported at amount of original estimated revenues	Reported at amount of actual revenues, if greater than estimate	
• Department of Mental Health and Mental Retardation			\$ 157,463
• Department of Criminal Justice			117,163
• General Services Commission			48,756
• Natural Resource Conservation Commission			26,076
• Attorney General			13,593
• Others			<u>2,694</u>
Total			365,745

Estimated appropriations for state contributions to Teacher Retirement System and Optional Retirement Program	Reported at amount of original estimated expenditures	Reported at amount of actual contributions (cash basis, per Annual Cash Report)	(29,445)
Legislation subsequent to passage of General Appropriations Act: <ul style="list-style-type: none"> • H.B. 81, 73rd Leg. - repeal of TRS 4th quarter deferral • S.B. 2, 72nd Leg. - used tire recycling • H.B. 54, 72nd Leg. - lottery • Others, net Total	Not included	Reported as General Fund budgeted expenditures	234,730 56,798 14,536 <u>2,608</u> 308,672
Riders in General Appropriations Act: <ul style="list-style-type: none"> • Art. V, Sec. 146 - Employee Salary Increase • Art. V, Sec. 145 - Higher Education Adjustment • Art. V, Sec. 122 - State Employee Incentive Savings/Revenues • Others, net Total	Not included in General Revenue Fund total	Reported as General Fund budgeted expenditures	187,188 (93,012) (10,336) <u>35,555</u> 119,395
Unencumbered balances from prior fiscal year	Not included in current year General Revenue Fund total	Reported as General Fund budgeted expenditures of current year	139,366
Reserves for encumbrances from prior fiscal year	Not included in current year General Revenue Fund total	Reported as General Fund budgeted expenditures of current year	127,415
Total Timing Differences			\$ 1,031,148
Unreconciled Difference			\$ 5,676
TOTAL RECONCILING ITEMS			\$ (10,065,962)

The scope of the above summary and reconciliation is limited to reconciling the expenditure budgets for the General Revenue Fund in the *General Appropriations Act* to the General Fund in the *CAFR* Budget Statement. If one were to reconcile other fund types, one could expect to find similar - and in some cases, offsetting - reconciling items to those identified for the General Fund. For instance, most perspective differences related to fund type involve General Revenue Fund amounts in the *General Appropriations Act* which have been reclassified to Special Revenue Funds in the *CAFR*. These differences would result in lower General Fund expenditure budgets, but correspondingly higher Special Revenue Fund expenditure budgets in the *CAFR* as compared to the *General Appropriations Act*.

Section 2-C:

Reconciliation Of Budgeted Expenditures - Other

For the 1994-1995 biennium, the *Fiscal Size Up* reported budgeted expenditures of \$38.841 billion, and the *General Appropriations Act* reported budgeted expenditures of \$39.758 billion: a difference of \$917 million. The difference is attributable to the following factors:

- The *Fiscal Size Up* includes rider adjustments which are not included in the recapitulation of the *General Appropriations Act*. These riders reduced budgeted expenditures by \$821.7 million.
- The *Fiscal Size Up* also includes Article V adjustments which are not included in the recapitulation of the *General Appropriations Act*. These adjustments further reduced budgeted expenditures by \$127.6 million.
- The remaining difference, \$31.9 million (*Fiscal Size Up* over the *General Appropriations Act*), is attributable primarily to the inclusion of additional budgeted expenditures associated with other legislation in the *Fiscal Size Up*.

Reconciliation Of Revenue (Cash Basis To GAAP Basis)

For fiscal year 1993, the *Annual Cash Report* reported General Revenue Fund revenue of \$23.7 billion, and the *CAFR* reported General Fund revenue of \$18.4 billion: a difference of \$5.3 billion. Since these two reports are prepared on different bases of accounting (cash and modified accrual, respectively), it would be reasonable to suppose that this basis difference would be the principal reconciling item. However, in fact, almost all of the difference in reported revenue is caused by perspective differences, especially fund type differences, as shown in the following summary:

- **Perspective Differences (\$5.6 billion - *Annual Cash Report* over *CAFR*).** The two reports classified a number of inflows of financial resources differently as to fund type and transaction type.
 - **Fund Type Differences (\$5.4 billion - *Annual Cash Report* over *CAFR*).** Most significantly, in the preparation of the *CAFR*: (1) \$4.1 billion of federal revenue was reclassified to Special Revenue Funds, (2) \$1.1 billion of lottery receipts were reclassified to Enterprise Funds, and (3) \$0.2 billion of college and university revenue was reclassified to College and University Funds. All of these items were reported as General Revenue Fund revenue in the *Annual Cash Report*.
 - **Transaction Type Differences (\$0.2 billion - *Annual Cash Report* over *CAFR*).** Also in the preparation of the *CAFR*, three transaction type reclassifications were made which increased revenue by \$250 million, and five were made which had the effect of decreasing revenue by \$461 million: a net decrease of \$211 million.
- **Basis of Accounting Differences (\$0.4 billion - *CAFR* over *Annual Cash Report*).** Basis differences, resulting from the application of the modified accrual basis of accounting in the *CAFR*, consisted of a \$391,733 increase in revenue, equal to the net increase in accounts receivable during the year, less a \$40,564 decrease equal to the net increase in deferred revenue.

Figure 12 provides additional details, reconciling all but \$55.7 million (about one percent) of the \$5.3 billion difference in reported revenue between the two reports.

Figure 12

Reconciliation of Revenue (Cash Basis to GAAP Basis): *Annual Cash Report* (General Revenue Fund) to *Comprehensive Annual Financial Report* (General Fund)
 Fiscal Year Ended August 31, 1993 (Amounts in Thousands)

TO BE RECONCILED			
Description	FROM: Annual Cash Report (ACR) - Vol. II, pp. 1-7, Object Codes 3001-3871	TO: Comprehensive Annual Financial Report (CAFR) - p. 30	Net Difference to be Reconciled
Revenue	\$ 23,696,697	\$ 18,406,089	\$ (5,290,608)

RECONCILIATION			
Perspective Differences: Fund Type			
Reconciling Item	Treatment in Annual Cash Report (ACR)	Treatment in Comprehensive Annual Financial Report (CAFR)	Net Dollar Amount
Federal revenue administered through the General Revenue Fund (Fund 001)	Reported in its entirety in the General Revenue Fund (\$4,233,061)	All but \$133,863 reclassified to Special Revenue Funds	\$ (4,099,198)
Lottery receipts	Reported in the General Revenue Fund	Reclassified to Enterprise Funds	(1,113,575)
College and university revenue	Reported in the General Revenue Fund	Reclassified to College and University funds	(233,265)
Revenue of the Tax and Revenue Anticipation Note Fund (Fund 577)	Reported in Fund 577	Fund 577 combined into the General Fund	72,513
Various revenue adjustments, resulting in a net reduction of revenue	Reported in Capital Projects Funds and Agency Funds	Reclassified to the General Fund	(979)
Total Perspective Differences: Fund Type			\$ (5,374,504)

Perspective Differences: Transaction Type			
Reconciling Item	Treatment in Annual Cash Report (ACR)	Treatment in Comprehensive Annual Financial Report (CAFR)	Net Dollar Amount
Mixed Beverage Tax receipts	Reported as transfers-in	Reclassified as revenue	\$ 197,110
Transfers to the Department of Human Services (DHS) from state medical institutions and agencies, under procedures for disproportionate matching of Medicaid funds (Dispro)	Reported as revenue	Interagency transfers for Dispro not regarded as producing revenue and expenditures	(175,692)
Reimbursements from school districts and other employers, of contributions paid by the General Revenue Fund to the Teacher Retirement System, on members whose salaries were paid from non-state sources	Reported as revenue	Netted against expenditures	(105,534)
Other reimbursements of expenditures	Reported as revenue	Netted against expenditures	(103,477)
Various adjustments to reconcile operating transfers between agencies	Reported as a net reduction of transfers-in	Reclassified as a net reduction of revenue	(54,834)
Interagency operating transfers to the General Services Commission for telephone service	Reported as transfers-in	Reclassified as revenue (consistent with reporting of similar transactions between state agencies and outside suppliers)	38,689
Interagency operating transfers for building-maintenance and other interagency services	Reported as transfers-in	Reclassified as revenue (consistent with reporting of similar transactions between state agencies and outside suppliers)	13,976

Discount on issuance of tax and revenue anticipation note (TRAN)	Reported as revenue	Issuance of TRAN reported as a debt transaction, producing no revenue or increase in net financial resources	(21,794)
Total Perspective Differences: Transaction Type			\$ (211, 556)
Total Perspective Differences			\$(5,586,060)

Basis of Accounting Differences			
Reconciling Item	Treatment in Annual Cash Report (ACR)	Treatment in Comprehensive Annual Financial Report (CAFR)	Net Dollar Amount
Accounts Receivable at August 31, 1993	Excluded from 1993 revenue; cash had not yet been received	Included in 1993 revenue; transactions or events creating revenue occurred in 1993, amounts were measurable, and cash would be available soon enough to pay for 1993 expenditures	\$ 693,713
Accounts Receivable at August 31, 1992	Included in 1993 revenue; cash was received in 1993	Excluded from 1993 revenue; transactions or events creating revenue occurred--and revenue met criteria for accrual--in 1992	(301,980)
Deferred Revenue at August 31, 1993	Included in 1993 revenue; cash was received in 1993	Excluded from 1993 revenue; transactions or events creating revenue had not yet occurred	(352,831)
Deferred Revenue at August 31, 1992	Excluded from 1993 revenue; cash was received--and revenue reported--in 1992	Included in 1993 revenue; transactions or events creating revenue occurred in 1993	\$ 312,267

Basis of Accounting Differences			
Reconciling Item	Treatment in Annual Cash Report (ACR)	Treatment in Comprehensive Annual Financial Report (CAFR)	Net Dollar Amount
Total Basis Differences			\$ 351,169
Unreconciled Difference			\$ (55,717)
TOTAL RECONCILING ITEMS			\$ (5,290,608)

The scope of the above reconciliation is limited to reconciling revenues for the General Revenue Fund, as reported in the *Annual Cash Report*, to revenues for the General Fund, as reported in the *CAFR*. We did not attempt to reconcile other fund types. If reconciling other fund types, one could expect to find reconciling items similar to those identified for the General Fund, including offsetting effects from the fund type differences identified above.

Section 2-E:

Reconciliation Of Expenditures (Cash Basis to GAAP Basis)

For fiscal year 1993, the *Annual Cash Report* reported General Revenue Fund expenditures of \$9.3 billion, and the *CAFR* reported General Fund expenditures of \$7.3 billion: a difference of \$2.0 billion. Although these two reports are prepared on different bases of accounting (cash and modified accrual, respectively), the reconciling items primarily consist of perspective differences, as reflected in the following summary:

- **Perspective Differences (\$2.0 billion - Annual Cash Report over CAFR).**
The two reports classified a number of outflows of financial resources differently as to fund type and transaction type.
 - **Fund Type Differences (\$2.8 billion - Annual Cash Report over CAFR).** In the preparation of the *CAFR*, \$2.5 billion of college and university expenditures were reclassified to College and University Funds, and \$276 million of lottery winnings paid were reclassified to Enterprise Funds. These items were reported as General Revenue Fund expenditures in the *Annual Cash Report*.
 - **Transaction Type Differences (\$758 million - CAFR over Annual Cash Report).** Also, in the preparation of the *CAFR*, numerous transaction-type reclassifications were made. Expenditures were increased primarily by three transaction-type reclassifications: (1)

\$838 million of state contributions to the Teacher Retirement System, (2) \$224 million of interagency contract payments, and (3) \$189 million of refunds of prior year franchise tax revenue. The most significant transaction type reclassification reducing expenditures was \$434 million of transfers for disproportionate matching of Medicaid funds.

- **Basis of Accounting Differences (\$116 million - *CAFR* over *Annual Cash Report*).** Accounts payable totaled \$924 million at August 31, 1993. Of this, \$543 million was offset by charges to accounts other than expenditures, including assets, fund balance, and transfers; and the remainder, \$381 million, is included in 1993 expenditures in the *CAFR*. Accounts payable amounted to \$247 million at August 31, 1992, comprised of a \$17 million negative adjustment resulting in a credit to fund balance and \$264 million of accounts payable included in 1992 *CAFR* expenditures. The net effect of ending accounts payable less beginning accounts payable was to increase expenditures, as reported in the *CAFR*, by \$116 million.

Figure 13 provides additional details. The unreconciled difference of \$150 million is two percent of the \$7.3 billion of *CAFR* expenditures for fiscal year 1993 and seven percent of the \$2 billion difference in reported expenditures between the two reports. While we identified numerous reconciling items between the *Annual Cash Report* and the *CAFR*, it was not feasible, in terms of time and cost, to continue our search for the remaining items, because of complexities related to systematic and procedural differences in the preparation of the two reports.

Figure 13

Reconciliation Of Expenditures (Cash Basis to GAAP Basis): *Annual Cash Report* (General Revenue Fund) To *Comprehensive Annual Financial Report* (General Fund) Fiscal Year Ended August 31, 1993 (Amounts in Thousands)

TO BE RECONCILED			
Description	FROM: Annual Cash Report (ACR), Vol. II, pp. 8-13, Object Codes 7001- 7806	TO: Comprehensive Annual Financial Report (CAFR), p. 30	Net Difference to be Reconciled
Expenditures	\$ 9,314,852	\$ 7,267,844	\$ (2,047,008)

RECONCILIATION			
Perspective Differences: Fund Type			
Description	Treatment in Annual Cash Report (ACR)	Treatment in Comprehensive Annual Financial Report (CAFR)	Net Dollar Amount
College and university expenditures	Reported in the General Revenue Fund	Reclassified to College and University Funds	\$ (2,455,951)
Lottery winnings paid	Included in General Revenue Fund expenditures	Reclassified to Enterprise Funds	(275,662)
General Revenue Fund expenditures in Special Revenue Funds and Capital Projects Funds	Reported in the General Revenue Fund	Excluded from General Revenue Fund expenditures	(20,495)
Various Employees Retirement System expenditures (primarily annuities and salaries paid to retired judges)	Reported in the General Revenue Fund	Included in Pension Trust Funds and Special Revenue Funds expenditures	(19,063)
Total Perspective Differences: Fund Type			\$ (2,771,171)

Perspective Differences: Transaction Type			
Reconciling Item	Treatment in Annual Cash Report (ACR)	Treatment in Comprehensive Annual Financial Report (CAFR)	Net Dollar Amount
State contributions to the Teacher Retirement System	Classified as a transfers-out	Classified as an expenditure (revenue is reported in Pension Trust Funds)	838,296
Transfers from the Department of Human Services (DHS) to state medical institutions and agencies under procedures for disproportionate matching of Medicaid funds (Dispro)	Reported as expenditures	Interagency transfers for Dispro not treated as revenue and expenditure transactions	(433,915)
Payments to other agencies under interagency contracts	Classified as transfers-out	Classified as expenditures (revenue is reported by the agencies performing the services)	223,993
Refunds of prior year franchise tax revenue	Netted against revenue	Classified as an expenditure	188,992
Reimbursements from school districts and other state funds, for their shares or employer contributions to the Teacher Retirement System	Classified as revenue	Netted against the expenditures	(105,534)
Reimbursements of expenditures	Classified as revenue	Netted against the expenditures	(92,397)
State insurance contributions for retired teachers (TRS-Care)	Classified as transfers-out	Classified as an expenditure (revenue is reported in Expendable Trust Funds)	54,029
State contributions to the Optional Retirement Program for Junior Colleges	Classified as a transfers-out	Classified as an expenditure	26,738
Revolving fund and service transfers	Classified as transfers-out	Classified as expenditures	21,711

Various adjustments to reconcile operating transfers between agencies	Classified as transfers-out	Classified as expenditures	16,418
Interagency payments for Tex-an telephone service	Classified as transfers-out	Classified as expenditures	12,199
State contributions to the Employees Retirement System for death benefits	Classified as a transfer-out	Classified as an expenditure (revenue is reported in Pension Trust Funds)	4,492
Other Perspective Differences: Transaction Type			2,831
Total Perspective Differences: Transaction Type			\$ 757,853
Total Perspective Differences			\$ (2,013,318)

Basis of Accounting Differences			
Reconciling Item	Treatment in Annual Cash Report (ACR)	Treatment in Comprehensive Annual Cash Report (CAFR)	Net Dollar Amount
Portion of Accounts Payable at August 31, 1993, included in 1993 CAFR expenditures	Excluded from 1993 expenditures (to be included in 1994). Under the cash basis of accounting, expenditures are recognized (reported) when cash is paid.	Included in 1993 expenditures. Under the modified accrual basis of accounting, expenditures are generally recognized (reported) when goods or services are received, if the liability is expected to be paid from current financial resources.	\$ 380,528
Portion of Accounts Payable at August 31, 1992, included in 1992 CAFR expenditures	Included in 1993 expenditures, because the disbursement occurred in fiscal year 1993	Excluded from 1993 expenditures (reported in 1992), because the goods or services were received in fiscal year 1992	(264,208)
Total Basis of Accounting Differences			\$ 116,320
Unreconciled Difference			\$ (150,010)
TOTAL RECONCILING ITEMS			\$ (2,047,008)

The scope of the above reconciliation is limited to reconciling expenditures for the General Revenue Fund, as reported in the *Annual Cash Report*, to expenditures for the General Fund, as reported in the *CAFR*. We did not attempt to reconcile other fund types. If reconciling other fund types, one could expect to find reconciling items similar to those identified for the General Fund, including offsetting effects from the fund type differences identified above. In addition, one could expect to see entity differences for certain Enterprise Funds included in the *CAFR* that are excluded from the *Annual Cash Report*, including the State Bar of Texas, Texas Guaranteed Student Loan Corporation, Texas Turnpike Authority, and Texas Worker's Compensation Insurance Fund. Also, the *CAFR* includes local funds held outside the State Treasury (primarily for colleges and universities), while the *Annual Cash Report* includes only funds held inside the State Treasury.

Section 2-F:

Reconciliation Of Net Revenues, Expenditures, And Other Financing Sources/Uses (Budget Basis To GAAP Basis)

The *CAFR's* Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) for appropriated governmental funds (Budget Statement) presents a comparison of the legally adopted budget with actual data on the State's budget basis. The *CAFR's* Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for governmental funds (GAAP Operating Statement) is prepared on a current financial resources measurement focus and modified accrual basis of accounting. To explain the difference between the two statements and two bases of accounting, a reconciliation is provided in Note 19 of the *CAFR's* Notes to the Financial Statements. The following reconciliation is adapted from Note 19.

The Budget Statement reports net flows of financial resources for the General Fund and Special Revenue Funds of (\$7.8 million), and the GAAP Operating Statement reports (\$309.9 million): a difference of \$302.1 million, by which the Budget Statement exceeds the GAAP Operating Statement. Components of the difference are as follows:

- **Entity Differences (\$705.3 million - Budget Statement over GAAP Operating Statement)** - Some Special Revenue Funds, for which appropriated budgets were not adopted, are not reported on the Budget Statement. The net effect of including these funds in the GAAP Operating Statement is a decrease of \$705.3 million in net resource flows (i.e. outflows greater than inflows) in that statement.
- **Perspective Differences: Fund Type (\$4.2 million - GAAP Operating Statement over Budget Statement)** - The GAAP Operating Statement reclassified roughly \$2.0 billion each of federal pass-through receipts and disbursements from Special Revenue Funds to Agency Funds, with disbursements exceeding receipts by \$4.2 million.

- **Basis of Accounting Differences (\$399.0 million - GAAP Operating Statement over Budget Statement).** The Budget Statement includes encumbrances as expenditures; the GAAP Operating Statement does not. The effect in 1993 was \$560.9 million more expenditures and less net resource flows reported in the Budget Statement. However, the GAAP Operating Statement adjusts revenue for accounts receivable and deferred revenue. The net effect in 1993 was \$164.8 million less revenue and less net resource flows reported in the GAAP Operating Statement.

Additional details are presented in Figure 14.

Figure 14

Reconciliation Of Net Revenue, Expenditures, And Other Financing Sources/Uses:
 CAFR Budget Statement (Budget Basis) To CAFR Operating Statement (GAAP Basis)
 General Fund and Special Revenue Funds Fiscal Year Ended August 31, 1993
 (Amounts In Thousands)

TO BE RECONCILED			
Description	FROM: CAFR Budget Statement (Budget Basis) - pp. 32-33	TO: CAFR Operating Statement (GAAP Basis) - pp. 30-31	Net Difference to be Reconciled
Net flow of current financial resources - General Fund	\$ (336,092)	\$ (307,377)	\$ 28,715
Net flow of current financial resources - Special Revenue Funds	328,241	(2,554)	(330,795)
Total	(7,851)	(309,931)	(302,080)

RECONCILIATION			
Entity Differences			
Reconciling Item	Treatment in CAFR Budget Statement	Treatment in CAFR Operating Statement	Net Dollar Amount
Net flows of current financial resources - unbudgeted funds	Some Special Revenue Funds not included, since appropriated budgets were not adopted for them	All Special Revenue Funds included, whether or not covered by appropriated budgets	\$ (705,291)
Entity Differences			\$ (705,291)

Perspective Differences: Fund Type			
Reconciling Item	Treatment in CAFR Budget Statement	Treatment in CAFR Operating Statement	Net Dollar Amount
Federal pass-through receipts accounted for by the State in Special Revenue Funds	Reported as revenue of Special Revenue Funds	Activity reclassified as cash receipts of Agency Funds	\$ (1,999,424)
Federal pass-through disbursements accounted for by the State in Special Revenue Funds	Reported as expenditures of Special Revenue Funds	Activity reclassified as cash disbursements of Agency Funds	2,003,636
Total Perspective Differences			\$ 4,212

Basis of Accounting Differences			
Reconciling Item	Treatment in CAFR Budget Statement	Treatment in CAFR Operating Statement	Net Dollar Amount
Accounts receivable and deferred revenue	Revenue and other financing sources reported when cash received. No adjustments made to accrue or defer revenues.	Revenue and other financing sources reported when measurable and available to finance current expenditures (modified accrual basis). Revenue accrued if receivable and deferred if received for a future period.	\$ (164,783)
Encumbrances	Ending encumbrances (primarily purchase orders) included as expenditures, reflecting State's budget rules.	Ending encumbrances not included as expenditures; to be recognized when goods and services received.	560,922
Increases in obligations under capital leases, other financing sources (uses) and unbudgeted net increases (decreases)	Expenditures and other financing sources (uses) reported on a cash flow basis.	Accounting refinements made in reporting expenditures and other financing sources (uses) related to capital leases and supply inventories.	2,860
Total Basis of Accounting Differences			\$ 398,999
Unreconciled Difference			\$ 0
TOTAL RECONCILING ITEMS			\$ (302,080)

Reconciliation Of Expenditures (Agency/University Level)

Do the expenditures reported by state agencies, colleges, and universities in their *Legislative Appropriations Requests* agree with expenditures as reported in their *annual financial reports*? If not, is there a logical relationship? To find out, we looked at three case studies - two state agencies and one university - comparing their fiscal year 1993 expenditures as reported in (a) their *annual financial reports* for that year and (b) their *Legislative Appropriations Requests* for the 1996-1997 biennium, prepared in the summer of 1994.

Background

By January 1994, each state agency, college, and university had prepared and submitted to the Comptroller of Public Accounts an *annual financial report* covering the fiscal year 1993. These reports were prepared in accordance with generally accepted accounting principles (GAAP), under guidelines issued by the Comptroller, and were designed to be rolled up into the State's *CAFR*.

Several months later, in the summer of 1994, state agencies, colleges, and universities prepared and submitted to the Legislative Budget Board their *Legislative Appropriations Requests* for the 1996-1997 biennium. The *Legislative Appropriations Request* contains a variety of information intended to help the Legislative Budget Board and Legislature assess trends, needs, and funding requests, including actual 1993 expenditures, estimated 1994 expenditures, budgeted 1995 expenditures, and requested funds for the 1996-1997 biennium.

Differences

Analysis of the three case studies revealed a number of reasons why the expenditures reported in the *annual financial report* and in the *Legislative Appropriations Request* would usually differ somewhat, although a logical relationship should exist between the two reports. Sources of difference include the following:

- **Entity Differences.** The State centrally appropriates and pays certain payroll-related costs on behalf of state agencies, colleges, and universities, rather than providing each unit its own appropriation for costs related to its employees. Costs handled in this manner include OASI, Employees Retirement System, and health insurance. In the *Legislative Appropriations Request*, agencies, colleges, and universities report only their expenditures against appropriations made to them and therefore exclude payroll-related costs appropriated elsewhere. In the *annual financial report*, under revised report guidelines issued by the Comptroller for fiscal year 1993, each unit reports payments by the State for payroll-related costs related to its employees as revenues and reports the related costs as part of its total expenditures.

- **Perspective Differences - Transaction Type:**
 - The two reports classify and roll up expenditure information according to different structural formats. The *annual financial report* reports expenditures by object. The *Legislative Appropriations Request* is organized along a goal/objective/strategy format. This structural difference makes it difficult to tie expenditures at any level of detail beyond fund total.
 - The two reports sometimes differ in the classification of certain types of transactions. For instance, transactions which may appear as operating transfers in the *annual financial report* may be viewed as expenditures in the *Legislative Appropriations Request*.
- **Basis of Accounting Differences.** The *annual financial report* follows GAAP, which means a mixture of modified accrual and accrual accounting for expenditures, depending on fund type. The *Legislative Appropriations Request* applies the State's budget basis in accounting for expenditures. This involves the reporting of amounts encumbered through issuance of purchase orders as expended in the *Legislative Appropriations Request*, while GAAP does not recognize the same transactions as expenditures until goods have been received or services performed.
- **Timing Differences.** Amounts reported for accounts payable in the *annual financial reports* are usually estimates based on the best information available at the time. By the time the *Legislative Appropriations Request* is prepared, usually at least six months later, information regarding accounts payable is generally complete or near-complete, resulting in more complete, accurate measurement. The same also holds true for any expenditure amounts which are based on estimates.

The results of the three case studies are presented in Figures 15-17 and accompanying comments.

Figure 15

Case Study 1: Texas Commission for the Blind Reconciliation from the 1996-1997
Legislative Appropriations Request to the 1993 *Annual Financial Report*
 Fiscal Year 1993 Expenditures - All Appropriated Funds

TO BE RECONCILED			
Description	FROM: Legislative Appropriations Request (LAR) - Fiscal Years 1996- 1997 - Summary, Part A, p. 4	TO: Annual Financial Report (AFR) - Exhibit II, p. 5.	Net Difference to be Reconciled
Expenditures	\$ 38,506,748	\$ 38,948,586	\$ 441,838

RECONCILIATION			
Entity Differences			
Description	Treatment in Legislative Appropriations Request (LAR)	Treatment in Annual Financial Report (AFR)	Net Dollar Amount
General Revenue Fund payroll-related costs (OASI, state retirement contributions, etc.) paid by the State on behalf of the Commission	Not reported as expended by the Commission (administered by other agencies)	Reported as expenditures of the Commission on Exhibit II	\$ 993,987
Total Entity Differences			\$ 993,987

Perspective Differences: Fund Type			
Description	Treatment in <i>Legislative Appropriations Request (LAR)</i>	Treatment in <i>Annual Financial Report (AFR)</i>	Net Dollar Amount
Pass-through funds activity from Fund 141 (Federal Adult Blind) and Fund 001 (Subrecipient Match)	Reported in LAR as expended	Reported in AFR as agency funds, therefore not as expenditures on Exhibit II	\$ (400,529)
Total Perspective Differences: Fund Type			\$ (400,529)
Unreconciled Difference - Believed to be related in substantial part to the following timing differences: 1.) inclusion of 1993 encumbrances, and exclusion of payments of 1992 encumbrances, in the Legislative Appropriations Request; and 2.) more complete information at the time the Legislative Appropriations Request was prepared, which may have resulted in greater accuracy with respect to the measurement of accounts payable and encumbrances.			\$ (151,620)
TOTAL RECONCILING ITEMS			\$ 441,838

Figure 16

Case Study 2: Texas Department of Commerce Reconciliation from the 1996-1997 Legislative Appropriations Request to the 1993 Annual Financial Report
Fiscal Year 1993 Expenditures - All Appropriated Funds

TO BE RECONCILED			
Description	FROM: <i>Legislative Appropriations Request (LAR) - Fiscal Years 1996-1977 - Summary, Part A, p. 7</i>	TO: <i>Annual Financial Report (AFR), Exh. II, p. 6; Schedule of Federal Financial Assistance (Pass-through), p. 46; and Texas Economic Development Program, p. 35</i>	Net Difference to be Reconciled
Expenditures	\$ 259,221,661	\$ 263,493,140	\$ (4,271,479)
DISCUSSION OF RECONCILING ITEMS			

The amounts to be reconciled relate to the General Revenue Fund (001) and six Special Revenue Funds covered by the Department's *Legislative Appropriations Request*: the Rural Economic Development Loan Fund (425), the Texas Product Development Fund (589), the Federal Special Revenue Fund (596), the Product Commercialization Fund (667), the Texas Exporters Loan Fund (668), and the Texas Economic Development Program Fund (851). (All of these Special Revenue Funds, except Fund 589, were consolidated into the General Revenue Fund by S.B. 3, 72nd Legislature, but remain identifiable.)

The \$4.3 million net difference in reported expenditures represents 1.6 percent of the 1993 *Annual Financial Report* expenditures for the seven appropriated funds. Most of the difference is attributable to a \$4.7 million difference in reporting federal funds expenditures. The primary types of reconciling items are as follows:

- **Entity differences.** The *annual financial report* includes federally funded administrative expenditures which are not included in the *Legislative Appropriations Request*.
- **Basis of accounting differences.** Fiscal year 1993 encumbrances are regarded as "expended" in the *Legislative Appropriations Request* (budget basis) but not in the *annual financial report* (GAAP basis).
- **Timing differences.** Measurements of accounts payable and encumbrances are frequently more precise in the *Legislative Appropriations Request*,

because it is prepared months later, by which time more complete information is available.

Figure 17

Case Study 3: The University of Texas at Austin Reconciliation from the 1996-1997 Legislative Appropriations Request to the 1993 Annual Financial Report
Fiscal Year 1993 Expenditures - All Appropriated Funds

TO BE RECONCILED			
Description	FROM: Legislative Appropriation Request (LAR) - Fiscal Years 1996- 1997 - Summary, Part A2 - Expenditure History - p. 27	TO: Annual Financial Report (AFR) - Exhibit D, Statement of Method of Financing and Current Funds Expenditures - p. 13	Net Difference to be Reconciled
Expenditures	\$ 369,156,098	\$ 367,390,028	\$ (1,766,070)

RECONCILIATION			
Entity Differences			
Description	Treatment in Legislative Appropriation Request (LAR)	Treatment in Annual Financial Report (AFR)	Net Dollar Amount
OASI Applicable to Educational and Local Funds Payable	Not reported in LAR	Reported in AFR, Exhibit D, as an expenditure	\$ 5,276,009
Total Entity Differences			\$ 5,276,009

Perspective Differences: Transaction Type			
Description	Treatment in <i>Legislative Appropriation Request (LAR)</i>	Treatment in <i>Annual Financial Report (AFR)</i>	Net Dollar Amount
Endowment Matching- Centennial Scholars Program	Reported in Summary of Request, p. 20, as expenditure	Reported in <i>AFR</i> , Exhibit B, as a transfer from Educational and General Funds to Endowment and Similar Funds.	\$ (6,596,969)
Capital expenditures-repair projects under Goal 5, Objective 8, Strategy 3	Reported in Summary of Request, p. 24, as expenditure	Reported in <i>AFR</i> , Exhibit B, as a transfer from Educational and General Funds to Unexpended Plant Funds	(445,112)
Total Perspective Differences: Transaction Type			\$ (7,042,081)
Rounding Difference			\$ 2
TOTAL RECONCILING ITEMS			\$ (1,766,070)

Objectives, Scope, And Methodology

Objectives

The objectives of the project were:

1. To provide information to state legislators, oversight officials, and others about the logical connections and differences among various financial and budget reports used in state government, through diagrams, general explanation, glossary of accounting terms, and reconciliations of numbers.
2. To profile each of the reports, including information such as the statutory or other mandate for the report; who prepares it and when; the information sources used in preparing it; its contents, scope, and basis of accounting; its principal users and uses; and its links to other reports.

Scope

The project addressed an expressed need of state legislators and oversight officials for more information about the relationship among various reports on state budgeting and financial affairs. The following reports were included:

Budget Reports and Documents

- Legislative Budget Board, *Fiscal Size Up*
- State Agencies and Universities, *Legislative Appropriations Requests*
- Comptroller of Public Accounts, *Biennial Revenue Estimate*
- Legislature, *General Appropriations Act*

Primarily Internal Financial Reports

- Comptroller of Public Accounts, *Annual Cash Report*
- State Agencies and Universities, *Annual Financial Reports*

General Purpose External Financial Report

- Comptroller of Public Accounts, *Comprehensive Annual Financial Report*

Key relationships between reports were selected for reconciliation. For the most part, reconciliations were made at the statewide level and were limited to one fund type (General Fund) or a limited range of fund types. At the agency level, reconciliations were limited to illustrative case studies of two state agencies and one university. Reconciliations were taken to a level of precision that was considered feasible under the circumstances, taking into consideration the time and cost that would have been required to achieve greater precision.

Methodology

Research and analytical methodology for this briefing report included:

- Analytical reading and comparison of reports
- Consultation with report preparers and members of the State Auditor's Office Statewide Audit Consolidation Team
- Data analysis

The project was conducted in accordance with generally accepted government auditing standards, and there were no significant departures from these standards as applicable to this project.

The project team included the following members of the State Auditor's staff:

- Karl D. Johnson, CPA (Project Manager)
- Roger A. Ferris, CPA
- Charles P. Dunlap, CPA
- Hector T. Gonzales, CPA
- Bridgett K. Downs
- Paul H. Hagen, CPA (Audit Manager)
- Craig D. Kinton, CPA (Audit Director)

Issues For Further Study

Issues for further study include:

- The possibility of reducing reconciling differences among reports related to funds structure and classification of transactions.
- Issues related to the preparation of the budgetary comparison statement in the State's *Comprehensive Annual Financial Report*.
- Issues related to facilitating reconciliations among reports and financial statements in the future, taking advantage of state of the art improvements in financial accounting and reporting.
- Significant ongoing developments in the principles for external financial reporting by state and local governments, under the auspices of the Governmental Accounting Standards Board, including projects addressing:
 - the financial reporting model for state and local governments
 - the financial reporting model for colleges and universities
 - reporting on capital assets
 - reporting on pensions by state and local governments and by public employee retirement systems
 - reporting on the financial condition of state and local governments
 - reporting on service efforts and accomplishments
 - popular reporting

These and other issues may be considered in a follow-up project to be conducted by the State Auditor's Office in the latter part of fiscal year 1995.

Appendix 3:
Glossary

Accounts payable	Amounts owed by the State to others for goods and services received before the end of the fiscal year. These obligations are expected to be paid within two months after fiscal year-end.
Accounts receivable	Amounts owed to the State by others for goods or services provided before the end of the fiscal year. Cash payment is expected to be received within two months after fiscal year-end.
Accrue	To adjust the financial records to include certain transactions and events in a fiscal period, when cash has not been received or paid in the same period. Examples are the accrual of revenue to reflect accounts receivable and the accrual of expenditures or expenses to reflect accounts payable .
Accrual basis of accounting	A set of accounting criteria under which revenues and expenditures or expenses are recognized in the fiscal period when the underlying transaction or event occurs, regardless of when cash is received or paid out.
Assets	Financial and economic property of the government; things of value which can be used in support of future governmental operations.
Basis of accounting	A set of criteria, followed in an accounting and financial reporting system, which determines <i>when</i> (in what fiscal period) revenues and expenditures or expenses are recorded and reported in the financial statements. Bases of accounting used in governmental accounting and financial reporting include cash basis , modified accrual basis , accrual basis , and budget basis .

Basis of accounting differences	One of four categories of differences that may be encountered in reconciling between reports or financial statements. Specifically, differences in <i>when</i> revenues and expenditures are reported under different bases of accounting, or sets of measurement criteria.
Budget basis of accounting	A set of accounting criteria under which the government's own budgetary rules are followed in deciding which revenue and expenditures to report in the current fiscal period. The budget basis is used (1) in internal reporting, for monitoring compliance with the budget, and (2) in external financial reporting, in financial statements which compare budgeted and actual transactions.
Capital assets	Land, buildings, and equipment; also referred to as "fixed assets." Sometimes defined as assets having useful lives of more than one year.
Cash basis of accounting	A set of accounting criteria under which revenues and expenditures are reported when cash is received and disbursed. Used for internal reporting purposes and for cash flow statements in general-purpose external financial reporting.
Cash measurement focus	Measures cash and transactions affecting cash (narrowest measurement focus).
College and university funds	A term used in this report to refer collectively to all types of funds used by state colleges and universities in their accounting and financial reporting.
Current assets	In <i>governmental funds</i> , cash and other assets which can be received in cash or converted to cash soon enough after the close of the fiscal year to be used to pay current liabilities . Examples: cash; short-term investments; accounts receivable if

Current assets (concluded)	<p>expected to be collected within, say, 60 days after year-end; supply inventories; and prepaid expenditures.</p> <p>In <i>proprietary funds</i>, cash and other assets which can be realized in cash or converted to cash within one operating cycle (one fiscal year).</p>
Current liabilities	<p>In <i>governmental funds</i>, financial obligations expected to be paid with current assets. In <i>proprietary funds</i>, financial obligations payable within one operating cycle (one fiscal year).</p>
Current financial resources	Current assets less current liabilities.
Current financial resources measurement focus	Measures current financial resources and related transactions and changes.
Defer	<p>To postpone reporting of revenue that is received in the current fiscal period for goods and services to be provided in the future; also, to postpone recognition of expenditures or expenses, when the government has prepaid for goods or services to be received in the following period.</p>
Deferred revenue	<p>A current liability account which reflects the amount of cash received in advance in the current fiscal period for governmental goods and services to be provided in the following period. Cash receipts that are recorded in this account are not included in revenue of the current period but will be included in revenue of the following period.</p>
Economic resources	<p>Financial resources plus capital assets net of long-term capital debt. Includes all types of assets, current and long-term; also includes all types of liabilities: current liabilities, long-term operating debt, and long-term capital debt. A broadly inclusive perspective, similar to that used in financial reporting in the private sector.</p>

Economic resources measurement	Measures total economic resources and focus related transactions and changes (the broadest focus). Used in financial reporting on proprietary funds , pension trust funds, and nonexpendable trust funds. Accounting methods include depreciation of buildings and equipment.
Encumbrances	An earmarking of budgeted financial resources for goods and services ordered but not yet received. Encumbrances are a budgetary technique to allocate the eventual payment for such orders to the current fiscal period's budget. They are not included in liabilities or expenditures of the current period. Expenditures will be recorded in the period when goods and services are received and the government incurs a liability for payment.
Entity differences	One of four categories of differences that may be encountered in reconciling between reports or financial statements. Specifically, differences related to the fact that reports and financial statements within reports may include different sets of components (organizational units or funds).
Expenditures	Outflows of financial resources , in funds that are accounted for on a current financial resources or financial resources measurement focus (i.e. governmental funds and college and university funds). Expenditures may be classified in various ways, such as by function of government (education, human services, or transportation), by object (salaries, supplies, or capital outlay), and other. Expenditures do not include certain outflows that are classified as other financing uses , especially operating transfers to other funds and repayments of debt principal. In contrast to expenses , expenditures include outlays to acquire capital assets but do not include depreciation.
Expenses	Outflows of economic resources , as used in the measurement of net income in funds that

**Expenses
(concluded)**

are accounted for on an economic resources measurement focus (i.e. **proprietary funds** and certain trust funds accounted in the same manner). In contrast to **expenditures**, expenses do not include outlays to acquire **capital assets** but include charges against income for depreciation of buildings and equipment.

Financial resources

All current and noncurrent resources that a government would report in its comprehensive annual financial report, with the exception of **capital assets** and long-term capital debt. Also referred to as "total financial resources." Examples include:

- **Current assets:** cash, short-term receivables, inventories, and prepaid expenditures
- **Noncurrent assets:** long-term receivables
- **Current liabilities:** accounts payable
- **Long-term operating debt:** bonds payable for operating purposes, liabilities for compensable absences

Financial resources measurement focus

Measures total **financial resources** (current and long-term financial assets less current and long-term operating liabilities) and related transactions and changes.

Fund balance (or fund equity)

The net assets of a fund; that is, the fund's **assets** minus its **liabilities**. For instance, at August 31, 1993, the State's General Fund had cash and other assets of \$3.3 billion, and liabilities of \$2.5 billion, resulting in a fund balance of \$0.8 billion.

Fund type

One of several categories of funds, defined in **generally accepted accounting principles (GAAP)**, which are used as a framework for summarizing financial information in the *comprehensive annual financial report*. GAAP fund types for state and local governments are as follows:

- **Governmental fund types:** the

**Fund type
(concluded)**

General Fund, Special Revenue Funds,
Capital Projects Funds, and Debt Service

- **Proprietary fund types:** Enterprise Funds and Internal Service Funds
- **Fiduciary fund types:** Expendable Trust Funds, Nonexpendable Trust Funds, Pension Trust Funds, and Agency Funds

**Generally accepted accounting
principles (GAAP)**

A body of authoritative concepts and guidelines for accounting and general-purpose external financial reporting. GAAP for state and local governments is established after due process by the Governmental Accounting Standards Board (GASB). It is widely recognized, followed, and relied on by state and local governments, their auditors, professional accounting and auditing organizations, grantors, and the financial community as the standard for external accountability reporting.

General Fund

A **governmental fund** type used in the *Comprehensive Annual Financial Report (CAFR)* to report all **financial resources** and activities not required to be reported in another fund type. The General Fund roughly corresponds with the State's **General Revenue Fund**; however, in the preparation of the *CAFR*, some financial activity is reclassified from one fund type to another to conform to generally accepted accounting principles (GAAP). Most notably, activities related to capital projects and debt service, which the State accounts for in the General Revenue Fund, are reclassified in the *CAFR* to other fund types established in GAAP for those purposes.

General Revenue Fund

Fund 001 in the State Treasury; the primary fund used by the State of Texas to account for general government operations. The General Revenue Fund roughly corresponds with the **General Fund** as reported in the State's *Comprehensive Annual Financial Report (CAFR)*; however, some financial activity is reclassified from one fund type to

General Revenue Fund (concluded)	another during preparation of the <i>CAFR</i> to better match GAAP fund-type definitions.
Governmental funds	A term encompassing several fund types, and the funds within them, through which governments typically finance most of their functions. Governmental funds include the General Fund , Special Revenue Funds, Capital Projects Funds, and Debt Service Funds. They are presently accounted for on a current financial resources measurement focus and a modified accrual basis of accounting .
Liabilities	Financial obligations, or debts, which the government owes to others; claims against the assets of the government.
Measurement focus	The types of financial or economic resources that are taken into consideration by a particular system of accounting or financial reporting; i.e. <i>what</i> is measured. Measurement focuses used in governmental accounting and financial reporting include the cash measurement focus , the current financial resources measurement focus , the financial resources measurement focus , and the economic resources measurement focus .
Modified accrual basis of	A set of accounting criteria under which accounting revenue is reported in the fiscal period when it becomes available and measurable to fund the payment of current liabilities , and expenditures are accrued to the extent that they are expected to be paid for with current financial resources .
Other financing sources	Inflows of current financial resources other than revenue , in governmental funds and certain trust funds accounted for in the same manner. Other financing sources include operating transfers-in from other funds and proceeds from issuance of debt.
Other financing uses	Outflows of current financial resources other than expenditures , in governmental funds and certain trust funds accounted for

**Other financing uses
(concluded)**

in the same manner. Other financing uses include operating transfers-out to other funds and repayment of debt principal.

Perspective differences

One of four categories of differences that may be encountered in reconciling between reports or financial statements. Specifically, differences related to the classification of financial information. As used in this report, perspective differences are of two types:

- **Fund-type differences** - situations where two reports include the same financial information in two different fund types (for example, General Fund and special revenue funds), resulting in offsetting reconciling items in both fund types.
- **Transaction-type differences** - situations where two reports describe the same transaction in two different ways, placing it in two different categories of transactions (for example, expenditures and other financing uses), resulting in offsetting reconciling items in both categories.

Proprietary funds

In government, funds which are intended to be substantially self-sustaining through their own generated revenue (similar to private enterprise). The accounting for proprietary funds (i.e. **economic resources measurement focus and accrual basis of accounting**) is designed to measure the extent to which they maintain their **economic resources** through fiscal operations.

Revenue

Inflows of fund financial resources arising from taxes, intergovernmental sources such as grants, fees for governmental services, and other sources. The term does not include certain types of inflows classified as **other financing sources**, especially operating transfers-in from other funds and proceeds from the issuance of debt.

Timing differences

One of four categories of differences that may be encountered in reconciling between reports or financial statements. Specifically, differences that occur because of different time horizons. For instance, a financially-oriented report might include revenue and expenditures for a one-year period. However, a budget-oriented report might include transactions for a longer period of time, (a) to capture encumbrances (expenditures which will be incurred in a future period but are chargeable to the current period's budget) or (b) because some appropriations have a life longer than one fiscal period. The term is also used in this report to denote differences where one report is based on additional information or better information that was not available at the time another report was prepared.

Copies of this report have been distributed to the following:

Legislative Audit Committee

Honorable James E. "Pete" Laney, Speaker of the House, Chair
Honorable Bob Bullock, Lieutenant Governor, Vice Chair
Senator John Montford, Chair, Senate Finance Committee
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee
Representative Robert Junell, Chair, House Appropriations Committee
Representative Tom Craddick, Chair, House Ways and Means Committee

Governor of Texas

Honorable Ann W. Richards

Legislative Budget Board

Sunset Advisory Commission

Chief Executive Officers of the following entities:

Comptroller of Public Accounts
Texas Commission for the Blind
Texas Department of Commerce
The University of Texas at Austin