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STATE AUDITOR'S OFFICE



Annual Financial Report

Fiscal Year Ended
August 31, 2012

John Keel, CPA
State Auditor

Annual Financial Report
of
The State Auditor's Office
Fiscal Year Ended August 31, 2012

John Keel, CPA
State Auditor

Unaudited

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November 20, 2012

The Honorable Rick Perry
Governor

The Honorable Susan Combs
Comptroller of Public Accounts

Ms. Ursula Parks, Acting Director
Legislative Budget Board

Dear Governor Perry, Comptroller Combs, and Ms. Parks:

We are pleased to submit the Annual Financial Report (AFR) of the State Auditor's Office for the year ended August 31, 2012, in compliance with Texas Government Code, Section 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements in Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying AFR to comply with all the requirements in that statement. The AFR is part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this AFR.

If you have any questions, please contact me at (512) 936-9500 or Carol Oberrender, Senior Accountant, at (512) 936-9781.

Sincerely,



John Keel, CPA
State Auditor

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General Purpose Financial Statement

Exhibit I

Combined - Balance Sheet/Statements of Net Assets - Governmental Funds

For the Fiscal Year Ended August 31, 2012

	Governmental Fund Total		Capital Assets Adjustments		Long-Term Liabilities Adjustments		Other Adjustments		Statement of Net Assets
	General Fund (GR 0001)								
Assets:									
Current Assets:									
Cash (Note 3)									
In Bank	\$		\$		\$		\$		\$
Legislative Appropriations	27,027,964.60		-		-		-		27,027,964.60
Receivables From:									
Accounts Receivable	975,323.97		-		-		-		975,323.97
Consumable Inventories	26,952.12		-		-		-		26,952.12
Total Current Assets	\$ 28,030,240.69		\$ -		\$ -		\$ -		\$ 28,030,240.69
Non-Current Assets:									
Capital Assets:									
Depreciable									
Furniture and Equipment	\$	-	\$ 71,444.67		\$	-	\$	-	\$ 71,444.67
Less Accumulated Depreciation		-	(70,813.89)			-		-	(70,813.89)
Vehicle, Boats, and Aircraft		-	-			-		-	-
Less Accumulated Depreciation		-	-			-		-	-
Total Non-Current Assets	\$ -		\$ 630.78		\$ -		\$ -		\$ 630.78
Total Assets	\$ 28,030,240.69		\$ 630.78		\$ -		\$ -		\$ 28,030,871.47
Liabilities and Fund Balances:									
Current Liabilities:									
Payables From:									
Accounts Payable	\$	312,123.22	\$	-	\$	-	\$	-	\$ 312,123.22
Payroll Payable		1,415,238.94		-		-		-	1,415,238.94
Due To Other Agencies		-		-		-		-	-
Deferred/Unearned Revenues		10,000.00		-		-		-	10,000.00
Employees Compensable Leave		-		-		874,389.96		-	874,389.96
Total Current Liabilities	\$ 1,737,362.16		\$ -		\$ 874,289.96		\$ -		\$ 2,611,752.12
Non-Current Liabilities:									
Employees Compensable Leave	\$	-	\$	-	\$	631,263.36	\$	-	\$ 631,263.36
Total Non-Current Liabilities	\$ -		\$ -		\$ 631,263.36		\$ -		\$ 631,263.36
Total Liabilities	\$ 1,737,362.16		\$ -		\$ 1,505,653.32		\$ -		\$ 3,243,015.48

General Purpose Financial Statement

Exhibit I

Combined - Balance Sheet/Statements of Net Assets - Governmental Funds

For the Fiscal Year Ended August 31, 2012

	<u>Governmental Fund Total</u>		<u>Capital Assets Adjustments</u>		<u>Long-Term Liabilities Adjustments</u>		<u>Other Adjustments</u>		<u>Statement of Net Assets</u>
	<u>General Fund (GR 0001)</u>								
Fund Financial Statement-Fund Balances									
Fund Balances (Deficits):	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Reserved for:									
Assigned (Encumbrances)	77.95		-		-		-		77.95
Nonspendable (Inventories)	26,952.12		-		-		-		26,952.12
Unassigned (Undesignated)	<u>26,265,848.46</u>		-		-		-		<u>26,265,848.46</u>
Total Fund Balances	<u>\$ 26,292,878.53</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,292,878.53</u>
Total Liabilities and Fund Balances	<u>\$ 28,030,240.69</u>								
Government-Wide Statement-Net Assets									
Net Assets:									
Invested in Capital Assets:									
Net of Related Debt	\$ 630.78	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	630.78
Unrestricted	-	-	(1,505,653.32)	-	-	-	-	-	(1,505,653.32)
Total Net Assets	<u>\$ 630.78</u>	<u>\$ (1,505,653.32)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,787,855.99</u>

The accompanying notes to the financial statements are an integral part of this statement.

General Purpose Financial Statement

Exhibit II

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities - Governmental Funds

For the Fiscal Year Ended August 31, 2012

	Governmental Fund Total			Capital Assets Adjustments		Long-Term Liabilities Adjustments		Other Adjustments		Statement of Net Assets
	General Fund (GR 0001)									
Revenues:										
Legislative Appropriations:										
Original Appropriation	\$ 13,753,611.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	13,753,611.00
Additional Appropriations	2,698,792.59	-	-	-	-	-	-	-	-	2,698,792.59
Licenses, Fees, and Permits	7,401,183.79	-	-	-	-	-	-	-	-	7,401,183.79
Settlement of Claims	-	-	-	-	-	-	-	-	-	-
Sales of Goods and Services	162,495.00	-	-	-	-	-	-	-	-	162,495.00
Other	-	-	-	-	-	-	-	-	-	-
Total Revenues	\$ 24,016,082.38	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,016,082.38
Expenditures:										
Salaries and Wages	\$ 12,863,019.04	-	-	\$ (17,499.42)	-	-	-	-	-	12,845,519.62
Payroll Related Costs	2,806,916.67	-	-	-	-	-	-	-	-	2,806,916.67
Professional Fees and Services	2,755,100.25	-	-	-	-	-	-	-	-	2,755,100.25
Travel	220,592.54	-	-	-	-	-	-	-	-	220,592.54
Materials and Supplies	150,950.13	-	-	-	-	-	-	-	-	150,950.13
Communication and Utilities	34,765.43	-	-	-	-	-	-	-	-	34,765.43
Repairs and Maintenance	167,043.01	-	-	-	-	-	-	-	-	167,043.01
Rentals & Leases	37,403.79	-	-	-	-	-	-	-	-	37,403.79
Printing and Reproduction	801.03	-	-	-	-	-	-	-	-	801.03
Claims and Judgments	-	-	-	-	-	-	-	-	-	-
Other Expenditures	98,329.72	-	-	-	-	-	-	-	-	98,329.72
Capital Outlay	-	-	-	-	-	-	-	-	-	-
Depreciation Expense	-	973.39	-	-	-	-	-	-	-	973.39
Total Expenditures/Expenses	\$ 19,134,921.61	\$ 973.39	\$ (17,499.42)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,118,395.58
Excess (Deficiency) of Revenues										
Over Expenditures	\$ 4,881,160.77	\$ (973.39)	\$ 17,499.42	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	4,897,686.80
Other Financing Sources (USES)										
Legislative Transfer In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Inc/(Dec) in Net Asset due to Interagency Transfer	-	-	-	-	-	-	-	-	-	-

General Purpose Financial Statement

Exhibit II

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities - Governmental Funds

For the Fiscal Year Ended August 31, 2012

	Governmental Fund Total		Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Net Assets
	General Fund (GR 0001)					
Total Other Financing Sources and Uses	\$ -		-	-	-	-
Special Items	\$ -		-	-	-	-
Extraordinary Items	\$ -		-	-	-	-
Net Change in Fund Balances/Net Assets	\$ 4,881,160.77		\$ (973.39)	\$ 17,499.42	\$ -	\$ 4,897,686.80
Fund Financial Statement-Fund Balances						
Fund Balances--Beginning	21,411,717.76	\$ -	\$ -	\$ -	\$ -	21,411,717.76
Restatements		-	-	-	-	
Fund Balances, September 1, 2011 as Restated	\$ 21,411,717.76	\$ -	\$ -	\$ -	\$ -	21,411,717.76
Appropriations Lapsed	\$ -	\$ -	\$ -	\$ -	\$ -	-
Fund Balances--August 31, 2012	\$ 26,292,878.53	\$ (973.39)	\$ 17,499.42	\$ -	\$ -	26,309,404.56
Government-Wide Statement-Net Assets						
Net Assets/Net Change in Net Assets	\$ 26,292,878.53	\$ (973.39)	\$ 17,499.42	\$ -	\$ -	26,309,404.56
Net Assets--Beginning						
Capital Assets Balance	-	1,604.17	-	-	-	1,604.17
Compensable Leave Balance	-	-	(1,523,152.74)	-	-	(1,523,152.74)
Restatement	-	-	-	-	-	-
Net Assets, September 1, 2011, as Restated and Adjusted	\$ -	\$ 1,604.17	\$ (1,523,152.74)	\$ -	\$ -	\$ (1,521,548.57)
Net Assets--August 31, 2012	\$ 26,292,878.53	\$ 630.78	\$ (1,505,653.32)	\$ -	\$ -	24,787,855.99

The accompanying notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

Note 1:

Summary of Significant Accounting Policies

Entity

The State Auditor's Office (Office) is an agency of the State of Texas and its financial records comply with statutes and regulations. This includes compliance with the *Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies*.

The Office operates under the authority of Chapter 321 of the Texas Government Code. The Office audits all state agencies, debts of government, and institutions of higher education.

Due to the statewide requirements in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report (AFR) to comply with all the requirements in that statement. The AFR is part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this AFR.

The Office has no component units.

Fund Structure

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity, as follows:

Governmental Fund Types & Government-wide Adjustment Fund Type

General Revenue Funds - The General Revenue Fund is used to account for all financial resources of the State, except those required to be accounted for in another fund.

Capital Asset Adjustment Fund Type - Capital Asset Adjustment fund type will be used to convert governmental fund types' capital assets from modified accrual to full accrual.

Long-Term Liabilities Adjustment Fund Type - Long-Term Liabilities Adjustment fund type will be used to convert governmental fund types' debt from modified accrual to full accrual.

Other Adjustments Fund Type - Other Adjustments fund type will be used to convert all other governmental fund type activity from modified accrual to full accrual.

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual method of accounting. Under the modified accrual method, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or to liquidate liabilities existing at fiscal year end. The State of Texas considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified basis of accrual. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual method of accounting. This includes capital assets, accumulated depreciation, unpaid employee compensable leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, long-term claims and judgments, and full accrual revenues and expenses. The activity will be recognized in these fund types.

Budget and Budgetary Accounting

The Office's budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor (the General Appropriations Act). The State Auditor submits the Office's operating budget to the Legislative Audit Committee each year for approval. Unreserved or undesignated fund balances at fiscal year-end are reappropriated and remain available for subsequent year expenditures.

Assets, Liabilities, and Fund Balances/Net Assets

Assets

Inventories and Prepaid Items – Inventories include consumable inventories. Inventories are valued at cost, generally using the last-in, first-out method. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental and proprietary fund types. The cost of these items is expensed when the items are consumed.

Capital Assets - Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year should be capitalized. These assets are capitalized at cost or, if purchased, at appraised fair value as of the

date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets such as works of art and historical treasures are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight-line method. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

Current Receivables – Other - Other receivables include year-end revenue accruals. This account can appear in governmental and proprietary fund types.

Liabilities

Accounts Payable - Accounts payable represent the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Current Payables - Other - Payables are the accrual at year-end of expenditure transactions. Payables may be included in either governmental or propriety fund types.

Employees' Compensable Leave Balances - Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the statement of net assets.

Fund Balance/Net Assets

The difference between fund assets and liabilities is "Net Assets" on the government wide, proprietary, and fiduciary fund statements, and the "Fund Balance" is the difference between fund assets and liabilities on the governmental fund statements.

Reservations of Fund Balance - Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use or not available for expenditures.

Reserved for Encumbrances - This represents commitments of the value of contracts awarded or assets ordered prior to year-end but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

Unreserved/Undesignated - This represents the unappropriated balance at year-end.

Invested in Capital Assets, Net of Related Debt - Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debts that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

Interfund Activities and Balances

The Office has the following type of transactions between funds:

(1) Transfers: Legally required transfers that are reported when incurred as "Transfers In" by the recipient fund and as "Transfers Out" by the disbursing fund.

Note 2:

Capital Assets

A summary of changes in capital assets for the year ended August 31, 2012, is presented below.

	PRIMARY GOVERNMENT							Balance 08/31/12
	Balance 09/01/11	Adjustments	Reclassifications		Dec- Int'agy Trans	Additions	Deletions	
			Completed CIP	Inc-Int'agy Trans				
GOVERNMENTAL ACTIVITIES								
Non-depreciable or Non-amortizable Assets								
Land and Land Improvements								
Infrastructure								
Construction in Progress								
Other Tangible Capital Assets								
Land Use Rights								
Other Intangible Capital Assets								
Total Non-depreciable or Non-amortizable Assets								
Depreciable Assets								
Buildings and Building Improvements								
Infrastructure								
Facilities and Other Improvements								
Furniture and Equipment	\$71,444.67							\$71,444.67
Vehicle, Boats, and Aircraft								
Other Capital Assets								
Total Depreciable Assets	71,444.67							71,444.67
Less Accumulated Depreciation for:								
Buildings and Building Improvements								
Infrastructure								
Facilities and Other Improvements								
Furniture and Equipment	(69,840.50)					\$(973.39)		(70,813.89)
Vehicles, Boats, and Aircraft								
Other Capital Assets								
Total Accumulated Depreciation	(69,840.50)					(973.39)		(70,813.89)
Depreciable Assets, Net	1,604.17					(973.39)		630.78
Amortizable Assets - Intangible								
Land Use Rights								
Computer Software								
Other Capital Intangible Assets								
Total Amortizable Assets - Intangible								
Less Accumulated Amortization for:								
Land Use Rights								
Computer Software								
Other Intangible Capital Assets								
Total Accumulated Amortization								
Amortizable Assets - Intangible, Net								
Governmental Activities Capital Assets, Net	\$1,604.17	-				\$(973.39)		\$630.78

Note 3:

Deposits, Investments, and Repurchase Agreements

(Not applicable)

Note 4:

Short-Term Debt

(Not applicable)

Note 5:

Long-Term Liabilities

During the year ended August 31, 2012, the following changes occurred in liabilities.

Governmental Activities	Balance 9/01/11	Additions	Reductions	Balance 8/31/12	Amounts Due Within 1 Year
Notes & Loans Payable					
General Obligations B / P					
Revenue Bonds Payable					
Claims & Judgments					
Capital Lease Obligations					
Compensable Leave	\$ 1,523,152.74	\$ 1,332,490.07	\$ 1,349,989.49	\$ 1,505,653.32	\$ 874,389.96
	\$ 1,523,152.74	\$ 1,332,490.07	1,349,989.49	\$1,505,653.32	\$ 874,389.96

Notes and Loans Payable

(Not applicable)

Claims and Judgments

(Not applicable)

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from state employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. An expense and a liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. This obligation is usually paid from the same funding source(s) from which the employee's salary or wage compensation was paid.

Note 6:

Bonded Indebtedness

(Not applicable)

Note 7:

Capital Leases

(Not applicable)

Note 8:

Operating Leases

(Not applicable)

Note 9

Retirement Plans (administering agency only)

(Not applicable)

Note 10:

Deferred Compensation (administering agency only)

(Not applicable)

Note 11:

Postemployment Health Care and Life Insurance Benefits (administering agency only)

(Not applicable)

Note 12:

Interfund Activity and Transactions

(Not applicable)

Note 13:

Continuance Subject to Review

(Not applicable)

Note 14

Adjustments to Fund Balances and New Assets

(Not applicable)

Note 15:

Contingencies and Commitments

(Not applicable)

Note 16:

Subsequent Events

(Not applicable)

Note 17:

Risk Management

(Not applicable)

Note 18:

Management Discussion and Analysis

(Not applicable)

Note 19:

Financial Reporting Entity

(Not applicable)

Note 20:

Stewardship, Compliance, and Accountability

(Not applicable)

Note 21:

(Not applicable)

Note 22:

Donor Restricted Endowments

(Not applicable)

Note 23:

Extraordinary and Special Items

(Not applicable)

Note 24:

Disaggregation of Receivable and Payable Balances

(Not applicable)

Note 25:

Termination Benefits

(Not applicable)

Note 26:

Segment Information

(Not applicable)

