

financial accounting and reporting. The statement identifies four groups of users to whom the government owes accountability and the possible needs of each user group.

Required

Briefly describe the user groups, their needs for information, and how these tie into the four objectives of federal financial reporting identified in the statement.

Exercises and Problems

1-16 Examine the CAFR. Download a copy of the most recent comprehensive annual financial report (CAFR) for a city of your choice. Many cities with 25,000 or more population provide Internet access to their CAFRs.* Familiarize yourself with the city's CAFR and reread the section in this chapter titled "Financial Reporting of State and Local Governments." Be prepared to discuss in class the items suggested below.

a. Introductory Section.

What has the city included in the introductory section of its CAFR? Does it include the items identified in the section of the text titled "Comprehensive Annual Financial Report"?

b. Financial Section.

(1) *Audit Report.* Are the financial statements in the report audited by an independent CPA, state auditors, or auditors employed by the government being audited? Has the city received an unmodified audit report?

(2) *Basic Financial Statements.* Does the CAFR contain both government-wide financial statements and fund statements? How many financial statements have been included as part of the basic financial statements section of the CAFR?

(3) *Notes to the Financial Statements.* How many notes follow the required basic financial statements? Is there a phrase at the bottom of the basic financial statements indicating that the notes are an integral part of the financial statements?

(4) *Other Supplementary Information.* Following the notes to the financial statements, does the CAFR provide other supplementary information, such as combining and individual fund statements?

(5) *Management's Discussion and Analysis (MD&A).* Does the CAFR contain an MD&A? If so, where is it located and what type of information does it contain?

c. Statistical Tables.

What information has been included in this section of the CAFR?

1-17 Compare financial statements. For this exercise refer to the Denver government-wide statement of net position (p. 40), the Denver government-wide statement of activities (p. 42), the American Diabetes Association balance sheet (p. 528), and the American Diabetes Association statement of activities (p. 529).

* You can usually access a city's CAFR by doing a search on "City of (name)" and looking for a link to the city's departments. At that link, select Finance Department or a department with a similar function, such as Accounting and Budgeting, and look for "Financial Reports" or similar link.

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Examine the CAFR. Utilizing the CAFR obtained for Exercise/Problem 1–15, examine the financial statements included in the financial section and answer the following questions. If the CAFR you have obtained does not conform to GAAP, it is recommended that you obtain one that does.

- a. *Government-wide Statements.* What are the titles of the two government-wide statements? Are total assets larger for governmental activities or business-type activities? Which function or program has the highest net cost? What kinds of general revenues are available to cover the net cost of governmental activities? Were business-type activities “profitable”? That is, is the excess of revenues over expenses positive?
- b. *Governmental Funds.* Does the report state the basis of accounting used for the General Fund? What types of assets and liabilities are included on the governmental funds balance sheet? Is this reporting consistent with the basis of accounting being followed?
- c. Identify which of the major funds, if applicable, are special revenue funds, debt service funds, capital projects funds, and permanent funds. Are you able to determine which funds are considered nonmajor? (Hint: look for supplementary information.) What fund balance categories are being used?
- d. *Proprietary Funds.* List the names of the proprietary fund types included in the financial statements. Do the financial statements provide evidence that all proprietary funds use accrual accounting?
- e. *Fiduciary Funds.* List the names of the fiduciary funds included in the fund financial statements. Identify whether each of these is an agency fund, investment trust fund, pension (and other employee benefit) trust fund, or private-purpose trust fund. Do the financial statements provide evidence as to what basis of accounting these funds use?
- f. *Notes to the Financial Statements.* Read the notes to the financial statements, so that you can refer to them as needed in subsequent chapters. What significant accounting policies are discussed in the first note? With regard to revenue recognition, how do the notes define the term *available for paying current period obligations*?

3-14 Research Case—State-Mandated Financial Accounting and Reporting Requirements for Texas Schools. As noted in Appendix B to this chapter, most, if not all, state governments require public school districts to report financial and other data to the appropriate state agency, so the state can report standardized school data to the National Center for Educational Statistics (NCES). Texas has one of the most rigorous school district reporting requirements in the nation. A state law called the Texas Education Code requires each school district to adopt a standard financial accounting system prescribed by the Texas Education Agency (TEA). District accounting systems must also conform to generally accepted accounting principles (GAAP). Each district must also have an annual independent audit.

Access the Texas Education Agency Web site at www.tea.state.tx.us. At the TEA home page, select “F” from the A-Z Index, then select the TEA’s *Financial Accountability System Resource Guide* link and open “Module 1—Financial Accounting and Reporting (FAR).” When the FAR has opened, use the index to locate and move to Section 1.4 “Account Codes.” Review Sections 1.4.2 through 1.4.9 and respond to the following questions.

- a. Look at Exhibit 29, which depicts the prescribed Account Code Structure for Texas public school districts and discuss whether the code structure is adequate to meet both GASB and NCES revenue and expenditure/expense classification requirements.
- b. Do the *function* and *program* categories prescribed in Sections 1.4.3 and 1.4.15 agree with the classifications discussed in Appendix B? If not, how do they differ?

3-15 Accounting Information Systems. In reading Appendix A of this chapter, you may have been struck by the fact that many governmental accounting information (GAI) software systems appear to be incapable of handling the full reporting requirements of a governmental entity. A 2006 Market Research Report published by the Government Finance Officers Association (GFOA) titled “Budgeting Technology Solutions” categorized available software into three types: Excel Add-on, Corporate Performance Management (CPM) Systems, and Relational Systems. Write a two- to three-page paper discussing the current status of governmental accounting information (GAI) software. Describe the three types of software identified in the GFOA report. What (if any) progress has been made since the GFOA’s 2006 report? Have additional types of software been identified and/or developed? What does the future hold for GAI software?

Exercises and Problems

- 3-16 Examine the CAFR.** Utilizing the CAFR obtained for Exercise 1-16, in Chapter 1, review the governmental fund financial statements and related data and government-wide financial statements. Note particularly these items:
- a. **Statement of Activities at the Government-wide Level.** Has the government prepared statements in compliance with the GASB financial reporting model? Does the statement of activities appear on one page or two pages? What is the most costly governmental function or program operated by the government? How much of the cost of governmental activities was borne by taxpayers in the form of general revenues? Did the entity increase or decrease its governmental activities unrestricted net position this year? Did the entity increase or decrease its business-type activities unrestricted net position this year?

b. Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds.

- (1) *Revenues.* What system of classification of revenues is used in the governmental fund financial statements? List the three most important sources of General Fund revenues and the most important source of revenue for each major governmental fund. Does the reporting entity depend on any single source for as much as one-third of its General Fund revenues? What proportion of revenues is derived from property taxes? Do the notes clearly indicate recognition criteria for primary revenue sources?

Are charts, graphs, or tables included in the statistical section of the CAFR that show the changes over time in reliance on each revenue source?

- (2) *Expenditures.* What level of classification of expenditures is used in the governmental fund financial statements (e.g., fund, function or program, organization unit, activity, character, object)? List the three largest categories of General Fund expenditures; list the largest category of expenditure of each major governmental fund.

Are charts, tables, or graphs presented in the statistical section of the CAFR to show the trend of General Fund expenditures, by category, for a period of 10 years? Is expenditure data related to nonfinancial measures such as population of the government or workload statistics (e.g., tons of solid waste removed or number of miles of street constructed)?

- (3) *Other Financing Sources (Uses).* Are other financing sources and uses reported in a separate section of the statement of revenues, expenditures, and changes in fund balances, below the revenues and expenditures sections? Do the line items indicate the nature of each financing source or use?

- c. Budgetary Comparison Schedule or Statement.** Does the government present budgetary comparisons as a basic governmental fund financial statement, or as required supplementary information (RSI) immediately following the notes to the financial statements? Is the budgetary comparison title a *schedule* rather than a *statement*? Does the budgetary comparison present the original budget and the final amended budget? Does the budgetary schedule present actual data using the budgetary basis of accounting? Has the government presented one or more variance columns? Does the CAFR indicate that budgetary reporting practices differ from GAAP reporting practices? If so, does it explain how the practices differ?

3-17 Multiple Choice. Choose the best answer.

1. Which of the following best describes the recommended format for the government-wide statement of activities?
- Revenues minus expenses equals change in net position.
 - Revenues minus expenditures equals change in net position.
 - Expenses minus program revenues equals net (expense) revenue. Net (expense) revenue plus general revenues equals change in net position.
 - Program revenues minus expenses minus general revenues equals changes in net position.

Exercises and Problems

required

- a. Explain how the local governments should record the grant award. When should asset and revenue recognition occur? Please explain your answer.
- b. Considering the GASB guidance on multipurpose grants provided above, how should the grant be reported on the fund and government-wide financial statements? Please explain your answer.

4-15 Examine the CAFR. Utilizing the comprehensive annual financial report obtained for Exercise 1-16, follow these instructions.

- a. **Governmental Activities, Government-wide Level.** Answer the following questions. (1) Are governmental activities reported in a separate column from business-type activities in the two government-wide financial statements? (2) Are assets and liabilities reported either in the relative order of their liquidity or on a classified basis on the statement of net position? (3) Is information on expenses for governmental activities presented at least at the functional level of detail? (4) Are program revenues segregated into (a) charges for services, (b) operating grants and contributions, and (c) capital grants and contributions on the statement of activities?
- b. **General Fund.** Answer the following questions. (1) What statements and schedules pertaining to the General Fund are presented? (2) What purpose is each statement and schedule intended to serve? (3) Are any noncurrent or nonliquid assets included in the General Fund balance sheet? If so, are they offset by equal amounts classified as "nonspendable" fund balances? (4) Are any noncurrent liabilities included in the General Fund balance sheet? If so, describe them. (5) Are revenue classifications sufficiently detailed to be meaningful? (6) Has the government refrained from reporting expenses rather than expenditures?
- c. **Special Revenue Funds.** Answer the following questions. (1) What statements and schedules pertaining to the special revenue funds are presented? (2) Are these only combining statements, or are there also statements for individual special revenue funds? (3) Are expenditures classified by character (i.e., current, intergovernmental, capital outlay, and debt service)? (4) Are current expenditures further categorized at least by function?

4-16 Multiple Choice. Choose the best answer.

- 1. When equipment was purchased with General Fund resources, which of the following accounts would have been debited in the General Fund?
 - a. Expenditures.
 - b. Equipment.