

equipment. The treatment of the damaged furniture and radio dispatch
5-14 **Considerations Involving a Service Concession Arrangement.** You are a town council member in the seaside town of Pleasantville. Poor economic conditions and unusually severe weather conditions have affected tourism in the town, leading to significantly reduced sales, income, and hotel resort tax collections. Town revenue is 50 percent below budget, while expenditures remain constant at budgeted levels; hence, a sizable budget deficit is imminent. A group of investors has approached the town council with a proposal to take over operations of metered parking areas and the municipal beach parking garage for 20 years. In return for the anticipated parking revenues, the town will receive a \$1 million up-front payment and retain full ownership of the parking operations at the end of the agreement. The town will also have some control over rates charged and will collect parking fines assessed. The town will continue to make debt payments related to the garage construction.

You perform some research and find that two larger cities in a neighboring state entered into a similar arrangement to mixed reviews. While city officials were praised for balancing their budgets and spending additional funds on local government programs, drivers complained about higher rates and frequent meter and parking garage malfunctions.

Required

- a. What questions do you have about the proposal?
- b. Evaluate the proposal on a long-term and short-term basis.
- c. How do you think the agreement would affect the city's bond rating?

Exercises and Problems

5-15 **Examine the CAFR.** Utilizing the CAFR obtained for Exercise 1-16, answer these questions.

a. General and Other Capital Assets:

- (1) **Reporting of Capital Assets.** Are capital assets reported as a line-item in the government-wide statement of net position? Are nondepreciable capital assets reported on a separate line from depreciable capital assets, or are they separately reported in the notes to the financial statements? Do the notes include capital asset disclosures, such as those for the City and County of Denver shown in Illustration 5-2? Does the disclosure show beginning balances, increases and decreases, and ending balances for each major class of capital assets, as well as the same information for accumulated depreciation for each major class? Are these disclosures presented

separately for the capital assets of governmental activities, business-type activities, and discretely presented component units? Do the notes specify capitalization thresholds for all capital assets, including infrastructure? Do the notes show the amounts of depreciation expense assigned to each major function or program for governmental activities at the government-wide level? Are the depreciation policies and estimated lives of major classes of depreciable assets disclosed? Do the notes include the entity's policies regarding capitalization of collections of works of art and historical treasures? If collections are capitalized, are they depreciated? Are accounting policies disclosed for assets acquired under capital leases?

- (2) **Other.** Is the accumulated cost of construction work in progress recorded as an asset anywhere within the financial statements or notes? Which fund, or funds, account for cash received, or receivables created, from sales of general capital assets? Are the proceeds of sales of general capital assets reported as an other financing source or as revenue?

b. Capital Projects Funds:

- (1) **Title and Content.** What title is given to the funds that function as capital projects funds, as described in this chapter? (Street Improvement Funds and Capital Improvement Funds are common titles, although these titles also are often used for special revenue funds that account for ongoing annual maintenance of roadways.) Where does the report state the basis of accounting used for capital projects funds? Is the basis used consistent with GASB standards discussed in this chapter? Are there separate capital projects funds for each project, several funds that account for related projects, or is only one fund used for all projects?
- (2) **Statements and Schedules.** What statements and schedules pertaining to capital projects funds are presented? In what respects (headings, arrangement, items included, etc.) do they differ when compared to statements illustrated or described in the text? Are any differences merely a matter of terminology or arrangement, or do they represent significant deviations from GASB accounting and reporting standards for capital projects funds?
- (3) **Financial Resource Inflows.** What is the nature of the financial resource inflows utilized by the capital projects funds? If tax-supported bonds or special assessment bonds are the source, have any been sold at a premium? At a discount? If so, what was the accounting treatment of the bond premium or discount?
- (4) **Fund Expenditures.** How much detail is given concerning capital projects fund expenditures? Is the detail sufficient to meet the information needs of administrators? Legislators? Creditors? Grantors? Interested residents? For projects that are incomplete at the date of the financial statement, does the report compare the percentage of total authorization for each project expended to date with the percentage of completion? For those projects completed during the fiscal year, does the report compare the total expenditures for each project with the

(5) **Assets Acquired under Capital Leases.** Were any general capital assets acquired by the primary government or one or more component units under a capital lease agreement during the year for which you have statements? If so, was the present value of minimum lease rentals recorded as an Expenditure and as an Other Financing Source in a capital projects fund (or in any other governmental fund)? If the primary government or one or more component units leased assets from another component unit, how are the assets, related liabilities, expenditures, and other financing sources reported in the basic financial statements or in another section of the CAFR of the reporting entity?

5-16 Multiple Choice. Choose the best answer.

1. Under GASB standards, which of the following would be considered an example of an intangible asset?
 - a. A lake located on city property.
 - b. Water rights associated with the springs that supply the water to the lake.
 - c. The city's irrigation system, which uses water from the lake.
 - d. None of the above would be considered an intangible asset.

2. Two new copiers were purchased for use by the city clerk's office using General Fund resources. The copiers cost \$15,000 each; the city's capitalization threshold is \$5,000. Which of the following entries would be required to completely record this transaction?

	<i>Debits</i>	<i>Credits</i>
<i>a. General Fund</i>		
Expenditures	30,000	
Vouchers Payable.....		30,000
<i>b. Governmental Activities</i>		
Expenses	30,000	
Vouchers Payable.....		30,000
<i>c. General Fund</i>		
Expenditures	30,000	
Vouchers Payable.....		30,000
<i>Governmental Activities</i>		
Equipment	30,000	
Vouchers Payable.....		30,000
<i>d. General Fund</i>		
Expenditures	30,000	
Vouchers Payable.....		30,000
<i>Governmental Activities</i>		
Expenses	30,000	
Vouchers Payable.....		30,000

3. Maxim County just completed construction of a new town hall to be used for its governmental offices. The employees have moved in and the new building is officially in use. The county used a capital projects fund to account for the construction of the building, and the building came in under budget. There is a fund balance of \$12,000. The county should:
 - a. Transfer the remaining funds to the General Fund to pay operating expenses.

Year	Population	Valuation	Debt	Service Fund	Bonded Debt	to Assessed Value	Debt per Capita
2008	90,599	1,792,747	192,151	99,545	92,606	—	—
2009	92,061	1,939,316	206,856	100,690	106,166	—	—
2010	93,524	2,057,130	212,323	106,655	105,668	—	—
2011	94,986	2,197,710	221,287	102,518	118,769	—	—
2012	96,647	2,386,169	261,519	117,212	144,307	—	—
2013	97,610	2,585,416	291,736	120,326	171,410	—	—
2014	99,208	2,843,133	280,654	106,551	174,103	—	—
2015	100,477	3,080,629	278,042	105,945	172,097	—	—
2016	102,404	3,201,498	271,425	86,976	184,449	—	—
2017	103,428	3,325,203	309,788	95,158	214,630	—	—

Exercises and Problems

6-15 Examine the CAFR. Utilizing the comprehensive annual financial report (CAFR) obtained for Exercise 1-16, follow the instructions below.

a. General Long-term Liabilities.

- (1) *Disclosure of Long-term Debt.* Does the report contain evidence that the government has general long-term liabilities? If so, does the report include a list of outstanding tax-supported debt issues; capital lease obligations; claims, judgments, and compensated absence payments to be made in future years; and unfunded pension obligations?

Has the government issued any special assessment debt? If the government is obligated in some manner, is the debt reported as a liability in the government-wide statement of net position? If the government has issued special assessment debt for which it is not obligated in any manner, do the notes discuss this debt?

Refer to the enterprise funds statement of net position as well as notes disclosures for long-term liabilities. Are any enterprise debt issues backed by the full faith and credit of the general government? If so, how are the primary liability and the contingent liability disclosed?

- (2) *Changes in Long-term Liabilities.* How are changes in long-term liabilities during the year disclosed? Is there a disclosure schedule for long-term liabilities similar to Illustration 6-1? If any new debt was issued by a governmental fund, are the proceeds of the debt issuance reported in the governmental fund financial statements as an "other financing source"?

Are interest payments and principal payments due in future years disclosed? If so, does the report relate these future payments with resources to be made available under existing debt service laws and covenants?

- (3) *Debt Limitations.* Does the report contain information as to legal debt limit and legal debt margin? If so, is the information contained in the report explained in enough detail, so that an intelligent reader (you) can understand how the limit is set, what debt is subject to it, and how much debt the government might legally issue in the year following the date of the report?

- (4) *Overlapping Debt.* Does the report disclose direct debt and overlapping debt of the reporting entity? What disclosures of debt of the primary government are made in distinction to debt of component units? Is debt of component units reported as “direct” debt of the reporting entity or as “overlapping debt”?

b. Debt Service Funds.

- (1) *Debt Service Function.* How is the debt service function for tax-supported debt handled—by the General Fund, by a special revenue fund, or by one or more debt service funds? If there is more than one debt service fund, what kinds of bond issues or other debt instruments are serviced by each fund? Is debt service for bonds to be retired from enterprise revenues reported by enterprise funds?
- (2) *Investment Activity.* Does the CAFR contain a schedule or list of investments of debt service funds? Does the report disclose increases or decreases in the fair value of investments realized during the year? Does the report disclose net earnings on investments during the year? What percentage of revenue of each debt service fund is derived from earnings on investments? What percentage of the revenue of each debt service fund is derived from taxes levied directly for the debt service fund? What percentage is derived from transfers from other funds? List any other sources of debt service revenue and other financing sources, and indicate the relative importance of each source.
- (3) *Capital Lease Payments.* If general capital assets are being acquired under capital lease agreements, are periodic lease payments accounted for as expenditures of a debt service fund (or by another governmental fund)? If so, does the report disclose the portion of capital lease payments considered as interest and the portion considered as payment on the principal?

6-16 Multiple Choice. Choose the best answer.

1. Which of the following would *not* be considered a general long-term liability?
 - a. The estimated liability to clean up the hazardous waste storage sites of the city’s Public Works Department.
 - b. Capitalized equipment leases of the water utility fund.
 - c. Compensated absences for the city’s Police Department.
 - d. Five-year notes payable used to acquire computer equipment for the city’s administrative offices.
2. Proceeds from bonds issued to construct a new city hall would most likely be recorded in the journal of the:
 - a. Capital projects fund.

municipality. The lease could be established to include certain lease requirements, including capital investment in facility improvements, minimum standards of maintenance, and greens fee restrictions.

- (4) **Selling the Golf Course.** The county could place the golf course up for sale. This removes the facility from the books of the municipality.

Exercises and Problems

7-15 Examine the CAFR. Utilizing the comprehensive annual financial report (CAFR) obtained for Exercise 1-16, follow these instructions:

a. Internal Service Funds.

- (1) **Use of Funds.** What activities of the government are reported as being administered by internal service funds? (*Note:* Working capital funds, revolving funds, industrial funds, and intragovernmental service funds are other names used for funds of the type discussed in Chapter 7.) If internal service funds are not used by the reporting entity, does the report disclose how financing and accounting for activities such as purchasing, motor pools, printing, data processing, and other activities commonly used by more than one fund are handled? Does the report state the basis of accounting used for the internal service funds?
- (2) **Fund Disclosure.** In the balance sheet(s) or statement(s) of net position displaying information for the internal service fund(s), are assets classified in accord with practices of profit-seeking businesses, or are current, capital, and other assets not separately displayed? If there are receivables other than from other funds or other governments, are allowances for estimated uncollectibles provided? Are allowances for depreciation deducted from related capital asset accounts?
Are current liabilities and long-term debt properly distinguished in the balance sheet? Are long-term loans from other funds properly distinguished from capital contributions received from other funds?
Are budgetary accounts (Estimated Revenues, Appropriations, Encumbrances) used by the internal service funds? From what sources were revenues actually obtained by each internal service fund? How are costs and expenses of each fund classified? Are noncash expenses, such as depreciation, separately disclosed? Do the revenues of each fund exceed the costs and expenses of the period? Compute the net income (or net loss) of each fund in this category as a percentage of its operating revenue for the period. Does the net income (or net loss) for any fund exceed 5 percent of operating revenues? If so, do the statements or the accompanying notes explain how the excess is being used or how the deficiency is being financed?
- (3) **Statement of Cash Flows.** Is a statement of cash flows presented for internal service funds? If so, how does the cash provided by operations

shown in this statement relate to the revenues and expenses shown in the statement of revenues, expenses, and changes in net position, or other similarly titled operating statement? Are cash flows from financing activities presented separately for noncapital- and capital-related activities? Is there a section for cash flows from investing activities?

- (4) *Government-wide Financial Statements.* Is there a column for business-type activities on the statement of net position and statement of activities? Is there any evidence that the internal service fund account balances were collapsed into the Governmental Activities column? If enterprise funds are the predominant participants in the internal service fund, do you see evidence that the internal service fund balances are reported in the Business-type Activities column of the government-wide statements?

b. Enterprise Funds.

- (1) *Use of Funds.* What activities of the government are reported as being administered by enterprise funds? Does the government own and operate its water utility? Electric utility? Gas utility? Transportation system? Are combining statements presented in the financial section of the CAFR for all enterprise funds, or are separate statements presented for each enterprise fund? Do all enterprise funds use accrual accounting? Are all funds in this category earning revenues at least equal to costs and expenses? If not, how is the operating deficit being financed? Do the notes include segment information on individual enterprise funds where applicable (see "Required Segment Information" section of this chapter)?

Are sales to other funds or other governments separately disclosed? Are there receivables from other funds or other governments? How are receivables from component units, if any, disclosed? Is there any evidence that enterprise funds contribute amounts to the General Fund in lieu of taxes to help support services received by the enterprise? Is there any evidence that enterprise funds make excessively large contributions to the General Fund or any other funds?

- (2) *Utility Funds.* Is it possible to tell from the report whether utilities of this government are subject to the same regulations as investor-owned utilities in the same state? (If the utility statements use account titles prescribed by the NARUC and the FERC, as described in this chapter, there is a good chance that the governmentally owned utilities are subject to at least some supervision by a state regulatory agency.) What rate of return on sales (or operating revenues) is being earned by each utility fund? What rate of return on total assets is being earned by each utility fund?

Is depreciation taken on the utility plant? Are accounting policies and accounting changes properly disclosed? If so, what method of depreciation is being used? Does each utility account for its own debt service and construction activities in the manner described in this chapter? What special funds or restricted assets are utilized by each utility?

- (3) *Government-wide Financial Statements.* What proportion of the net position of the business-type activities are reported as net investment in capital assets, restricted, and unrestricted? Were the business-type activities profitable; that is, did revenues exceed expenses?

defined contribution pension plan or a hybrid alternative for new state employees. You work for a state legislator who asks you to research the pros and cons of making the change.

Required

Access the Center for State and Local Government Excellence's *Issue Brief* entitled, "A Role for Defined Contribution Plans in the Public Sector," at <http://www.cslgrr.bc.edu/briefs/a-role-for-defined-contribution-plans-in-the-public-sector>. The brief describes the differences between defined benefit and defined contribution plans. It also discusses hybrid plan alternatives. Prepare a memo for the legislator that addresses the following:

- a. Briefly define a defined benefit plan and a defined contribution plan. What is a hybrid plan?
- b. When considering a change of pension plan, what are the primary considerations mentioned in the *Issue Brief*?
- c. What type of plan do most states offer? What states have recently changed their state plans?
- d. Based upon your review of the *Issue Brief*, what would be your recommendation to the legislator? Briefly explain the reason for your recommendation.

- 8-14 Research Case—Evaluating New Pension Standards.** In July, 2012, GASBS issued two new statements, *GASBS Nos. 67 and 68*, related to governmental pension reporting. These new standards replace the pension accounting practices found in *GASBS Nos. 25 and 27*, and more closely align pension reporting for governments with that of for-profit organizations. *GASBS No. 67* was effective for plan fiscal years beginning after June 15, 2013, while *GASBS No. 68* was effective for plan fiscal years beginning after June 15, 2014.

Required

Search for one or more articles on *GASBS No. 67* and *GASBS No. 68* in professional journals or using an online search engine. Using the material you found, write a paper that succinctly compares and contrasts the old and new standards. Your final paragraph should state whether you believe the new standards improve governmental reporting of pensions or not, with at least one specific example to support your opinion.

Exercises and Problems

- 8-15 Examine a CAFR.** Utilizing the annual report obtained for Exercise 1-30, follow these instructions:

- a. *Agency Funds.* Does the government operate a tax agency fund or participate in a tax agency fund operated by another government? Does the government act as an agent for owners of property within a special assessment district and for the creditors of those property owners? Does the government operate one or more pass-through agency funds? If so, describe.
- b. *Investment Trust Funds.* Does the government operate, or participate in, a cash and investment pool? If so, is the pool operated as an investment

trust fund? If there is a cash and investment pool and it is not reported as an investment trust fund, how is it reported? Explain.

- c. *Private-purpose Trust Funds.* Does the government operate one or more private-purpose trust funds? If yes, explain the purpose(s).
- d. *Pension Trust Funds.* Are the government employees covered by a retirement fund operated by the government, by the state, by the federal Social Security Administration, or by two or more of these? If the government operates one or more pension plans, or retirement systems, is a reference made to the actuary's report in the notes to the financial statements? Is a net pension liability reported in the government-wide statement of net position and/or in a proprietary fund? Is all the pension information specified by GASB standards and discussed in Chapter 8 presented in the notes to the financial statements? Are all required supplementary schedules and related notes reported in the comprehensive annual financial report?
- e. *Fiduciary Fund Financial Statements.* Are all fiduciary funds shown in a statement of fiduciary net position and a statement of changes in fiduciary net position? Does the financial report state the basis of accounting used for trust and agency funds? Are agency funds properly disclosed in the financial statements? Does the report contain a schedule or list of investments of trust funds? Are investments reported at fair value? Is the net increase (decrease) shown separately from interest and dividend income? If trust funds own depreciable assets, is depreciation taken?

8-16 Multiple Choice. Choose the best answer.

1. Which of the following is *not* a fiduciary fund?
 - a. Permanent fund.
 - b. Private-purpose trust fund.
 - c. Investment trust fund.
 - d. Agency fund.
2. Which of the following is an example of a trust fund?
 - a. A fund used to account for the collection and distribution of taxes to several local governments.
 - b. A fund used to distribute scholarships to the children of the city's police officers.
 - c. A fund used to account for gasoline taxes collected for road maintenance.
 - d. A fund used to account for risk management services provided to other funds of the government.
3. Fiduciary fund activities are *not* included in the government-wide financial statements:
 - a. Because the resources in the funds are not owned by the government.
 - b. Unless the government has an interest in the fund activities.
 - c. If there is no fiduciary net position in the fund.
 - d. When there are offsetting liabilities.
4. Tax agency funds:
 - a. Are required to account for a government's collection and remittance of federal and state payroll taxes.
 - b. Are used by a county's assessor to compute the amount of taxes due on the properties contained within the county.
 - c. Are used to account for the collection and distribution of taxes when one government collects taxes for multiple purposes and governments.
 - d. Are not allowed to charge for the services rendered to the various governmental funds and other governments.