

CHAPTER 2 Overview of Financial Reporting for State and Local Governments

2-1. THE SOLUTION TO THIS AND THE FIRST EXERCISE OF CHAPTERS 1 AND 3 THROUGH 9 WILL DIFFER FROM STUDENT TO STUDENT ASSUMING EACH HAS A DIFFERENT CAFR.

2-2.

- A. **A FINANCIAL REPORTING ENTITY** IS THE PRIMARY GOVERNMENT TOGETHER WITH ITS COMPONENT UNITS. COMPONENT UNITS ARE ORGANIZATIONS FOR WHICH THE PRIMARY GOVERNMENT IS FINANCIALLY ACCOUNTABLE, AND OTHER ORGANIZATIONS FOR WHICH THE NATURE AND SIGNIFICANCE OF THEIR RELATIONSHIP WITH THE PRIMARY GOVERNMENT ARE SUCH THAT EXCLUSION WOULD CAUSE THE REPORTING ENTITY'S FINANCIAL STATEMENTS TO BE MISLEADING OR INCOMPLETE.
- B. **A PRIMARY GOVERNMENT** IS A STATE GOVERNMENT, GENERAL PURPOSE LOCAL GOVERNMENT, OR SPECIAL PURPOSE GOVERNMENT. AN EXAMPLE OF A PRIMARY GOVERNMENT WOULD BE ANY STATE, MUNICIPALITY, OR COUNTY (GENERAL PURPOSE GOVERNMENTS) AND ANY SPECIAL-PURPOSE GOVERNMENT THAT MEETS THE CERTAIN CRITERIA.
- C. **A COMPONENT UNIT** IS A LEGALLY SEPARATE ORGANIZATION FOR WHICH THE ELECTED OFFICIALS OF THE PRIMARY GOVERNMENT ARE FINANCIALLY ACCOUNTABLE. IN ADDITION, A COMPONENT UNIT CAN BE ANOTHER ORGANIZATION FOR WHICH THE NATURE AND SIGNIFICANCE OF ITS RELATIONSHIP WITH A PRIMARY GOVERNMENT ARE SUCH THAT EXCLUSION WOULD CAUSE THE REPORTING ENTITY'S FINANCIAL STATEMENTS TO BE MISLEADING OR INCOMPLETE.
- D. THE TWO PRIMARY METHODS FOR REPORTING COMPONENT UNITS IN THE FINANCIAL STATEMENTS OF A PRIMARY GOVERNMENT ARE **BLENDING** AND **DISCRETE PRESENTATION**. BLENDING REPORTS THE COMPONENT UNIT AS ONE OF THE FUNDS OF THE PRIMARY GOVERNMENT, WHICH THEN RESULTS IN INCLUDING THE COMPONENT UNIT AS PART OF THE BASIC FINANCIAL STATEMENTS. BLENDING IS USED ONLY WHEN COMPONENT UNITS ARE SUFFICIENTLY INTERTWINED WITH THE PRIMARY GOVERNMENT THAT THEY ARE, IN SUBSTANCE, THE SAME AS THE PRIMARY GOVERNMENT. DISCRETE PRESENTATION INVOLVES REPORTING THE COMPONENT UNIT IN A COLUMN TO THE RIGHT OF THE PRIMARY GOVERNMENT IN THE GOVERNMENT-WIDE FINANCIAL STATEMENTS OF THE REPORTING ENTITY.

2-3.

- A. THE **THREE MAJOR SECTIONS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT** ARE THE **INTRODUCTORY, FINANCIAL, AND STATISTICAL** SECTIONS.

- B. THE **GOVERNMENT-WIDE FINANCIAL STATEMENTS** ARE THE STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES. GOVERNMENT-WIDE STATEMENTS ARE PRESENTED USING THE ECONOMIC RESOURCES MEASUREMENT FOCUS AND THE ACCRUAL BASIS OF ACCOUNTING.

- C. THE **GOVERNMENTAL FUND STATEMENTS** ARE THE BALANCE SHEET AND THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES. GOVERNMENTAL FUND STATEMENTS ARE PRESENTED USING THE CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS AND MODIFIED ACCRUAL BASIS OF ACCOUNTING.

- D. THE **PROPRIETARY FUND STATEMENTS** ARE THE STATEMENT OF NET POSITION (OR BALANCE SHEET), STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION, AND THE STATEMENT OF CASH FLOWS. THE PROPRIETARY FUND STATEMENTS ARE PREPARED USING THE ECONOMIC RESOURCES MEASUREMENT FOCUS AND THE ACCRUAL BASIS OF ACCOUNTING.

- E. THE **FIDUCIARY FUND STATEMENTS** ARE THE STATEMENT OF FIDUCIARY NET POSITION AND THE STATEMENT OF CHANGES IN FIDUCIARY NET POSITION. FIDUCIARY FUND STATEMENTS ARE PREPARED USING THE ECONOMIC RESOURCES MEASUREMENT FOCUS AND THE ACCRUAL BASIS OF ACCOUNTING.

- F. **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)** IS CONSIDERED TO BE REQUIRED SUPPLEMENTARY INFORMATION (RSI) AND IS PRESENTED IN THE FINANCIAL SECTION AFTER THE AUDITOR'S REPORT. THE REMAINDER OF RSI IS GENERALLY PRESENTED AFTER THE NOTES TO THE FINANCIAL STATEMENTS AND INCLUDES (A) BUDGETARY COMPARISON SCHEDULES, (B) INFORMATION REGARDING INFRASTRUCTURE ASSETS WHEN USING THE MODIFIED APPROACH (C) SCHEDULES REQUIRED FOR DEFINED BENEFIT PENSION PLANS, AND (D) INFORMATION REQUIRED FOR EXTERNAL FINANCING POOLS.

2.4 THE GENERAL FUND IS ALWAYS CONSIDERED A MAJOR FUND. OTHER GOVERNMENTAL FUNDS ARE CONSIDERED MAJOR WHEN BOTH OF THE FOLLOWING CONDITIONS EXIST: (A) TOTAL ASSETS, LIABILITIES, REVENUES, OR EXPENDITURES OF THAT INDIVIDUAL GOVERNMENTAL FUND CONSTITUTE 10 PERCENT OF THE TOTAL FOR THE GOVERNMENTAL FUNDS CATEGORY, AND (B) TOTAL ASSETS, LIABILITIES, REVENUES, OR EXPENDITURES OF THAT INDIVIDUAL GOVERNMENTAL OR ENTERPRISE FUND ARE 5 PERCENT OF THE TOTAL OF THE GOVERNMENTAL AND ENTERPRISE CATEGORIES, COMBINED. ADDITIONALLY, A GOVERNMENT MAY DESIGNATE ANY FUND MAJOR IF REPORTING THAT FUND SEPARATELY WOULD BE USEFUL. WHEN APPLYING THESE RULES, DEFERRED OUTFLOWS OF RESOURCES ARE INCLUDED WITH ASSETS AND DEFERRED INFLOWS ARE INCLUDED WITH LIABILITIES.

AN ENTERPRISE FUND IS CONSIDERED MAJOR IF: (A) ASSETS, LIABILITIES, REVENUES, OR EXPENSES ARE 10 PERCENT OR MORE OF THE TOTAL FOR ALL ENTERPRISE FUNDS, AND (B) ITS ASSETS, LIABILITIES, REVENUES, OR EXPENSES ARE 5 PERCENT OR MORE OF THE TOTAL OF THE GOVERNMENTAL AND ENTERPRISE CATEGORIES, COMBINED. WHEN APPLYING THESE RULES, DEFERRED OUTFLOWS OF RESOURCES ARE INCLUDED WITH ASSETS AND DEFERRED INFLOWS ARE INCLUDED WITH LIABILITIES.

2-5 SEVERAL DIFFERENCES EXIST BETWEEN THE GASB FORMAT CASH FLOW STATEMENT AND THE FASB FORMAT REQUIRED OF COMMERCIAL BUSINESSES:

- 1) GASB REQUIRES GOVERNMENTS TO PREPARE CASH FLOWS FROM OPERATING ACTIVITIES ON THE DIRECT METHOD.
- 2) THE RECONCILIATION OF INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES OF THE PROPRIETARY FUND, WHICH APPEARS IN THE BOTTOM SECTION OF THE STATEMENT, BEGINS WITH OPERATING INCOME, NOT NET INCOME (OR TOTAL CHANGE IN NET POSITION).
- 3) THE STATEMENT HAS FOUR SECTIONS, RATHER THAN THE THREE OBSERVED IN FASB FORMAT STATEMENTS. THESE INCLUDE:
 - OPERATING ACTIVITIES ARE THOSE ASSOCIATED WITH OPERATING INCOME. AS A RESULT, CASH FLOWS FROM INTEREST EXPENSE, INTEREST REVENUE AND INVESTMENT INCOME DO NOT APPEAR IN THE OPERATING ACTIVITIES SECTION.
 - NONCAPITAL RELATED FINANCING ACTIVITIES INVOLVE THE BORROWING AND PAYMENT (INCLUDING INTEREST) OF LOANS FOR PURPOSES OTHER THAN FINANCING CAPITAL ADDITIONS – CHIEFLY, BORROWING FOR OPERATIONS.
 - CAPITAL AND RELATED FINANCING INCLUDE GRANTS AND DEBT TRANSACTIONS (INCLUDING INTEREST) USED TO FINANCE CAPITAL ADDITIONS.
 - INVESTING ACTIVITIES INVOLVE THE ACQUISITION AND SALE OF INVESTMENTS AS WELL AS CASH RECEIVED FROM INVESTMENT INCOME.

2-6. THE DIFFERENCE BETWEEN ASSETS AND LIABILITIES IS CALLED NET POSITION AND IS REPORTED IN THREE CATEGORIES:

- **NET INVESTMENT IN CAPITAL ASSETS** IS COMPUTED BY TAKING THE CAPITAL ASSETS, LESS ACCUMULATED DEPRECIATION, AND DEDUCTING OUTSTANDING DEBT THAT IS RELATED TO THE FINANCING OF CAPITAL ASSETS. LIABILITIES INCURRED TO FINANCE OPERATIONS (INCLUDING LONG-TERM LIABILITIES FOR COMPENSATED ABSENCES OR EMPLOYEE BENEFITS) WOULD NOT BE DEDUCTED.
- **RESTRICTED NET POSITION** INCLUDE RESOURCES THAT ARE RESTRICTED BY: (A) EXTERNAL PARTIES, INCLUDING CREDITORS, GRANTORS, CONTRIBUTORS, OR BY LAWS OR REGULATIONS OF OTHER GOVERNMENTS, OR (2) LAWS OR CONSTITUTIONAL PROVISIONS OF THE REPORTING GOVERNMENT.
- THE REMAINING AMOUNT, **UNRESTRICTED NET POSITION**, IS A “PLUG” FIGURE THAT IS DETERMINED BY DEDUCTING THE BALANCES OF THE OTHER TWO CATEGORIES FROM THE OVERALL EXCESS OF ASSETS OVER LIABILITIES.

2-7.

**CITY OF SOUTHERN SPRINGS
STATEMENT OF NET POSITION
APRIL 30, 2017**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<u>ASSETS:</u>			
CASH AND CASH EQUIVALENTS	\$3,850,000	\$ 880,000	\$4,730,000
RECEIVABLES	650,000	1,330,000	1,980,000
INVENTORIES		520,000	520,000
CAPITAL ASSETS, NET	<u>10,600,000</u>	<u>11,350,000</u>	<u>21,950,000</u>
TOTAL ASSETS	<u>15,100,000</u>	<u>14,080,000</u>	<u>29,180,000</u>
<u>LIABILITIES:</u>			
ACCOUNTS PAYABLE	650,000	659,000	1,309,000
NONCURRENT LIABILITIES	<u>5,450,000</u>	<u>3,210,000</u>	<u>8,660,000</u>
TOTAL LIABILITIES	<u>6,100,000</u>	<u>3,869,000</u>	<u>9,969,000</u>
<u>NET POSITION:</u>			
NET INVESTMENT IN CAPITAL			
ASSETS	5,150,000	8,140,000	13,290,000
RESTRICTED FOR DEBT SERVICE	754,000	223,000	977,000
UNRESTRICTED	<u>3,096,000</u>	<u>1,848,000</u>	<u>4,944,000</u>
TOTAL NET POSITION	<u>\$9,000,000</u>	<u>\$10,211,000</u>	<u>\$19,211,000</u>

2-8.

**CITY OF NORTHERN PINES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION</u>		
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<u>GOVERNMENTAL ACTIVITIES:</u>						
GENERAL GOVERNMENT	\$ 9,700,000	\$1,110,000		\$(8,590,000)	\$	\$(8,590,000)
PUBLIC SAFETY	23,000,000	1,210,000	\$ 698,000	(21,092,000)		(21,092,000)
PUBLIC WORKS	12,190,000			(12,190,000)		(12,190,000)
HEALTH AND SANITATION	6,210,000	2,555,000	1,210,000	(2,445,000)		(2,445,000)
CULTURE AND RECREATION	4,198,000	2,198,000		(2,000,000)		(2,000,000)
INTEREST ON LONG-TERM DEBT	<u>1,021,000</u>			<u>(1,021,000)</u>		<u>(1,021,000)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>56,319,000</u>	<u>7,073,000</u>	<u>1,908,000</u>	<u>(47,338,000)</u>		<u>(47,338,000)</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>						
WATER AND SEWER SYSTEM	11,550,000	12,678,000	----	----	1,128,000	1,028,000
PARKING SYSTEM	<u>419,000</u>	<u>298,000</u>	-----	-----	<u>(121,000)</u>	<u>(1 21,000)</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>11,969,000</u>	<u>12,976,000</u>	-----	-----	<u>1,007,000</u>	<u>1,007,000</u>
TOTAL – PRIMARY GOVERNMENT	<u>\$68,288,000</u>	<u>\$20,049,000</u>	<u>\$1,908,000</u>	<u>(47,338,000)</u>	<u>1,007,000</u>	<u>(46,331,000)</u>
<u>GENERAL REVENUES:</u>						
PROPERTY TAXES				27,112,000		27,112,000
SALES TAXES				20,698,000		20,698,000
INVESTMENT EARNINGS					319,000	319,000
SPECIAL ITEM-GAIN ON SALE OF LAND				1,250,000		1,250,000
TRANSFERS				<u>(888,000)</u>	<u>888,000</u>	<u>-</u>
TOTAL GENERAL REVENUES, SPECIAL ITEMS, AND TRANSFERS				<u>48,172,000</u>	<u>1,207,000</u>	<u>49,379,000</u>
CHANGE IN NET POSITION				834,000	2,214,000	3,048,000
NET POSITION, BEGINNING OF YEAR				<u>11,422,000</u>	<u>22,333,000</u>	<u>33,755,000</u>
NET POSITION, END OF YEAR				<u>\$12,256,000</u>	<u>\$24,547,000</u>	<u>\$36,803,000</u>

2-9

**CITY OF EASTERN SHORES
GENERAL FUND STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

REVENUES:

PROPERTY TAXES	\$27,020,000
SALES TAXES	13,316,000
FEES AND FINES	1,324,000
LICENSES AND PERMITS	1,721,000
INTERGOVERNMENTAL REVENUES	2,368,000
INVESTMENT EARNINGS	<u>654,000</u>
TOTAL REVENUES	46,403,000

EXPENDITURES:

CURRENT:

GENERAL GOVERNMENT	\$ 11,725,000	
PUBLIC SAFETY	24,444,000	
PUBLIC WORKS	6,211,000	
HEALTH AND SANITATION	1,163,000	
CULTURE AND RECREATION	<u>2,154,000</u>	
TOTAL EXPENDITURES		<u>45,697,000</u>

EXCESS OF REVENUES OVER EXPENDITURES	706,000
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OTHER FINANCING SOURCES (USES):

TRANSFER TO CAPITAL PROJECT FUND	<u>(1,119,000)</u>	
TOTAL OTHER FINANCING SOURCES (USES)		(1,119,000)

SPECIAL ITEM: PROCEEDS FROM SALE OF LAND	<u>821,000</u>
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NET CHANGE IN FUND BALANCE	408,000
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FUND BALANCE, BEGINNING OF YEAR	<u>1,812,000</u>
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FUND BALANCE, END OF YEAR	<u><u>\$2,220,000</u></u>
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2-10.

**CITY OF WESTERN SANDS
WATER AND SEWER FUND
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2017**

OPERATING REVENUES:

CHARGES FOR SERVICES	\$ 18,087,000
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OPERATING EXPENSES:

PERSONNEL SERVICES	\$ 6,177,000	
CONTRACTUAL SERVICES	2,995,000	
UTILITIES	888,000	
REPAIRS AND MAINTENANCE	1,992,000	
DEPRECIATION	<u>5,422,000</u>	
TOTAL OPERATING EXPENSES		<u>17,474,000</u>

OPERATING INCOME	613,000
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NONOPERATING REVENUES (EXPENSES):

INTEREST REVENUE	29,000	
STATE AID	100,000	
INTEREST EXPENSE	<u>(434,000)</u>	
TOTAL NONOPERATING REVENUES AND EXPENSES		<u>(305,000)</u>

INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	308,000
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CAPITAL CONTRIBUTIONS	1,632,000
TRANSFER TO GENERAL FUND	<u>(365,000)</u>

CHANGE IN NET POSITION	1,575,000
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NET POSITION, BEGINNING OF YEAR	<u>2,700,000</u>
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NET POSITION, END OF YEAR	<u>\$4,275,000</u>
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2-11.

#	INFORMATION ITEM	STATEMENT	\$ AMOUNT
A.	TOTAL CAPITAL OUTLAY FOR THE COURTHOUSE RENOVATION	STATEMENT OF REVENUES EXPENDITURES & CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS	\$ 10,924,818
B.	TOTAL CASH PAID FOR CAPITAL ADDITIONS FOR THE SOLID WASTE FUND	STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS	\$ 456,179
C.	INTEREST PAID (NOT EXPENSE) ON GENERAL LONG-TERM DEBT	STATEMENT OF REVENUES EXPENDITURES & CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS	\$ 924,818
D.	INTEREST PAID (NOT EXPENSE) ON WATER DEPARTMENT DEBT	STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS	\$ 535,567
E.	CAPITAL ASSET (NET) FOR THE GOVERNMENT'S COMPONENT UNITS	STATEMENT OF NET POSITION (GOVERNMENT-WIDE)	\$ 11,170,900
F.	CONTRIBUTIONS RECEIVED FOR USE BY THE PRIVATE PURPOSE TRUST	STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	\$ 100,000
G.	NONCURRENT LIABILITIES ASSOCIATED WITH GOVERNMENTAL ACTIVITIES THAT ARE DUE IN MORE THAN ONE YEAR.	STATEMENT OF NET POSITION (GOVERNMENT-WIDE)	\$ 39,834,882
H.	NONCASH CONTRIBUTIONS OF CAPITAL ASSETS FOR THE WATER DEPARTMENT.	STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS ALSO, STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION: PROPRIETARY FUNDS	\$ 3,085,946

2-12.

#	INFORMATION ITEM	STATEMENTS		\$ AMOUNT
A.	TOTAL FUND BALANCE OF THE SPECIAL REVENUE FUND	STATEMENT OF REVENUES EXPENDITURES & CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS	BALANCE SHEET – GOVERNMENTAL FUNDS	\$ 572,014
B.	NET POSITION AVAILABLE FOR EMPLOYEE PENSIONS	STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	STATEMENT OF FIDUCIARY NET POSITION	\$ 10,983,590
C.	OPERATING INCOME FOR THE INTERNAL SERVICE FUNDS	STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS	STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS	\$ 23,822
D.	NET POSITION OF THE PRIMARY GOVERNMENT	STATEMENT OF NET POSITION (GOVERNMENT- WIDE)	STATEMENT OF ACTIVITIES (GOVERNMENT- WIDE)	\$ 86,285,455

CONTINUOUS PROBLEM – CHAPTER 13

RATIO	FORMULA	CALCULATIONS	CITY OF MONROE
1) FINANCIAL POSITION (GOVERNMENT-WIDE, GOVERNMENTAL ACTIVITIES)	$\frac{\text{Unrestricted Net Position}}{\text{Total Expenses: Governmental Activities}}$	$\frac{1,805,410}{15,355,560}$	11.8%
2) FINANCIAL POSITION (GENERAL FUND)	$\frac{\text{Unassigned Fund Balance}}{\text{Total Expenditures + Other Financing Uses}}$	$\frac{899,750}{9,215,100 + 1,662,000}$	8.3%
3) QUICK RATIO (GOVERNMENT-WIDE, GOVERNMENTAL ACTIVITIES)	$\frac{\text{Cash + Current Investments}}{\text{Current Liabilities}}$	$\frac{692,720 + 259,000}{346,200 + 328,000}$	1.41
4) LEVERAGE (GOVERNMENT-WIDE, PRIMARY GOVERNMENT)	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$	$\frac{18,665,500}{42,749,310}$	0.44
5) DEBT SERVICE COVERAGE (ENTERPRISE FUNDS)	$\frac{\text{Cash Flows from Operations}}{\text{Interest Paid + Payments of Principal}}$	$\frac{276,200}{145,500 + 0}$	1.90 TIMES
6) DEBT SERVICE TO TOTAL EXPENDITURES (GOVERNMENTAL FUND-BASIS)	$\frac{\text{Principal + Interest Expenditure}}{\text{Total Expenditures: General and Debt Service Fund}}$	$\frac{800,000 + 514,000}{9,215,100 + 1,154,000 + 160,000}$	12.5%
7) DEBT PER CAPITA (GOVERNMENT-WIDE, PRIMARY GOVERNMENT)	$\frac{\text{Total Liabilities}}{\text{Population}}$	$\frac{18,665,500}{30,000}$	\$ 622
8) DEBT TO ASSESSED VALUE OF PROPERTY (GOVERNMENT-WIDE, PRIMARY GOVERNMENT)	$\frac{\text{Total Liabilities}}{\text{Assessed Value of Property}}$	$\frac{18,665,500}{350,000,000}$	5.3%

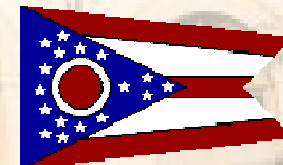
CONTINUOUS PROBLEM – CHAPTER 13

RATIO	FORMULA	CALCULATIONS	CITY OF MONROE
1) FINANCIAL POSITION (GOVERNMENT-WIDE, GOVERNMENTAL ACTIVITIES)	$\frac{\text{Unrestricted Net Position}}{\text{Total Expenses: Governmental Activities}}$		
2) FINANCIAL POSITION (GENERAL FUND)	$\frac{\text{Unassigned Fund Balance}}{\text{Total Expenditures + Other Financing Uses}}$		
3) QUICK RATIO (GOVERNMENT-WIDE, GOVERNMENTAL ACTIVITIES)	$\frac{\text{Cash + Current Investments}}{\text{Current Liabilities}}$		
4) LEVERAGE (GOVERNMENT-WIDE, PRIMARY GOVERNMENT)	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$		
5) DEBT SERVICE COVERAGE (ENTERPRISE FUNDS)	$\frac{\text{Cash Flows from Operations}}{\text{Interest Paid + Payments of Principal}}$		
6) DEBT SERVICE TO TOTAL EXPENDITURES (GOVERNMENTAL FUND-BASIS)	$\frac{\text{Principal + Interest Expenditure}}{\text{Total Expenditures: General and Debt Service Fund}}$		
7) DEBT PER CAPITA (GOVERNMENT-WIDE, PRIMARY GOVERNMENT)	$\frac{\text{Total Liabilities}}{\text{Population}}$		
8) DEBT TO ASSESSED VALUE OF PROPERTY (GOVERNMENT-WIDE, PRIMARY GOVERNMENT)	$\frac{\text{Total Liabilities}}{\text{Assessed Value of Property}}$		

Essentials of Accounting for Governmental and Not-for-Profit Organizations

Chapter 2

Overview of State and Local Government Financial Reporting



Chapter 2 – Learning objectives

- Obtain an overview of the contents of a governmental financial report
- Define the governmental reporting entity
- Illustrate the basic financial statements for a state or local government

Overview of Chapter 2

- Chapter 2 provides illustrations of state and local government financial reports introduced in Chapter 1
- The slides that follow will emphasize points you should notice in the various statements.
- Ideally each student will obtain a full set of financial statements to review.

CAFR vs. Minimum Reporting

- The complete Comprehensive Annual Financial Report (CAFR) is recommended
- Some smaller governments may report less information, but that should include:
 1. Management's discussion and analysis
 2. Basic Financial Statements (Government-wide, Fund Basis, and Footnotes)
 3. Required supplementary information (other than MD&A)
- Main differences —
 - Less statistical information
 - Combining statements are omitted

Parts of the CAFR

- The primary report is called the CAFR
 - Comprehensive Annual Financial Report
 - 3 main sections
 1. Introductory
 2. Financial section
 3. Statistical section

1. Introductory Section

- Unaudited
- Includes
 - Title page
 - Table of contents
 - Letter of transmittal
 - Miscellaneous items such as organizational chart or names of chief government officers

2. Financial Section

- Management discussion and analysis (MD&A)
 - Paragraph format summary of most important issues during the year. Reviewed by auditor.
- Auditor's report (when audited)
- Financial Statements and Notes (audited)
- Required Supplementary Information (RSI)
(reviewed by auditor)
- Combining statements — more details of main statements if needed

3. Statistical Section

- Not audited
- Information is often not financial in nature
- Generally presents 10 years of information

3. Statistical Section

- GASB Statement No. 44 indicates five categories of information:
 - Financial Trends
 - Revenue Capacity
 - Debt Capacity
 - Demographic and Economic
 - Operating

Government Reporting Entity

- In business, parent companies generally include subsidiaries as part of consolidated statements in order to see the whole picture
- Likewise, if a primary government is ***financially accountable*** for another entity the “component unit” must be included as part of the primary government’s report
- This requirement prevents governments from creating separate units that hide part of the government debt or resources

A component unit is included in the financial report of a primary government if:

- First, the relationship with the related entity must have one of the following characteristics:
 - (1) the primary government controls a voting major of the other organization's governing board or otherwise may impose its will on the organization; or
 - (2) the other organization is fiscally dependent upon the primary government. An entity is fiscally dependent on a primary government if that government approves or modifies its budget, sets charges for its services, or if the government's approval is required to issue debt.
- Second, the related organization must represent a financial benefit or burden to the primary government.
 - A financial burden exists, for example, if the primary government is responsible for liabilities of the other organization.
 - In contrast, a financial benefit exists if the government is entitled to or may access the other organization's resources.

Charlottesville, VA

Example: Financial Burden or Benefit

- **School Board**

“... operates the public education system in the City for grades kindergarten through twelve. The City appoints a majority of the board members, approves the budgetary request of the School Board ...

... and **provides a significant amount of funding.**”

Baton Rouge, LA

Example of Fiscal Dependence

- **Parish Fire District**

*“The Council appoints a majority of the board members of each fire protection district. The Council has the right to **approve the fire protection districts’ tax rates and charges**. Each district is legally responsible for the debt it incurs.”*

Aggregation Issues in Reports

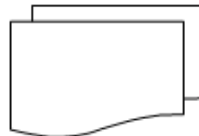
- Assume the City Library Authority meets the requirements for inclusion as a component unit. How should the library information be shown in the overall CAFR?
 - In most cases it will appear as a separate column ... the technical term for this is “**discrete presentation**”
 - In some cases, the library information will be **blended**, which means intermingled with the regular governmental fund columns. This approach is used if the library has very strict oversight from the city with no genuine separate financial existence.

Required Content of State and Local Government Financial Reports

1. Management's Discussion and Analysis

2. Basic Financial Statements

a. Government-wide Financial Statements



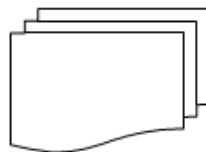
Government-wide Statement of Net Position - Illustration 2-5
Government-wide Statement of Activities - Illustration 2-6

b. Fund Basis Financial Statements



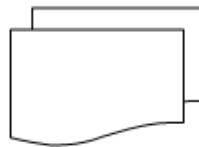
Governmental Type Funds

Balance Sheet - Illustration 2-7b
Statement of Revenues, Expenditures and Changes in
Fund Balances - Illustration 2-8b
Reconciliation of governmental statements to government-
wide statements - Illustration 2-7a and 2-8a



Proprietary Funds

Statement of Net Position - Illustration 2-9
Statement of Revenues, Expenses and Changes in Fund
Net Position - Illustration 2-10
Statement of Cash Flows - Illustration 2-11



Fiduciary Funds

Statement of Fiduciary Net Position - Illustration 2-12
Statement of Changes in Fiduciary Net Position - Illustration 2-13

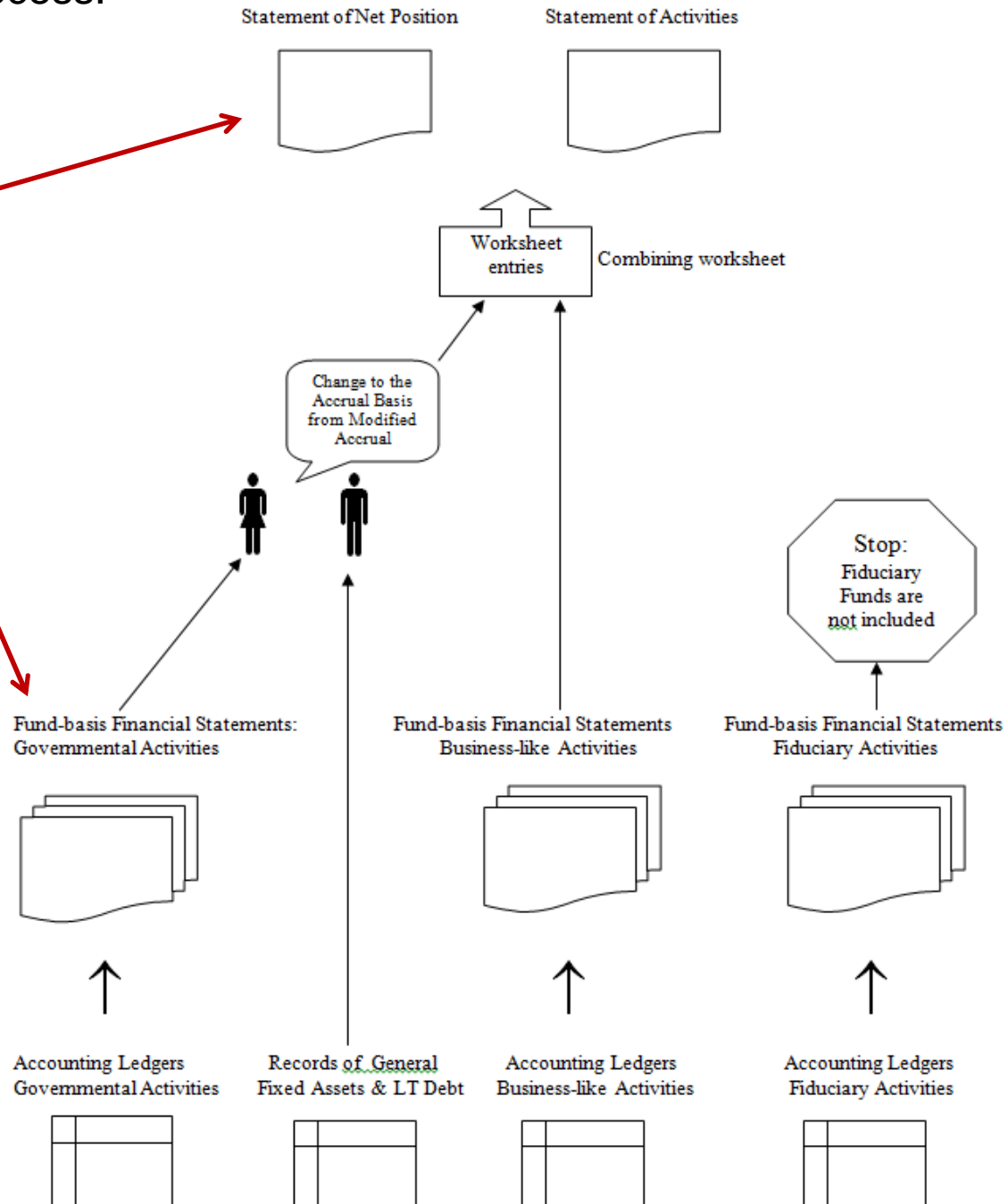
c. Notes to the Financial Statements

3. Required Supplementary Information (Other than MD&A)

Financial Reporting Process:

- Two levels of reporting:
- Government-wide
 - Fund basis

Government-wide Financial Statements



Government-Wide Statements

- **Statement of *Net Position*** (measures assets and liabilities using the economic resource measurement focus, similar to business balance sheets)
- **Statement of Activities** (measures revenues and expenses using the accrual basis, similar to business income statements)

Government-Wide Statements, *con't*

- May show prior year data in comparison to current year results
- Unlike commercial reports, no Statement of Cash Flows is required
- government-wide statements do not include fiduciary fund resources or activities, as these resources belong to others

Government-Wide Statement of Net Position

- Assets listed in order of liquidity
- Classifying assets and liabilities into current and noncurrent categories is optional
- **NET POSITION** is reported in three categories
 - 1. Net Investment in capital assets
 - 2. Restricted
 - 3. Unrestricted

Government-Wide Statement of Net Position - Cont'd

- The primary government results must show a separate column for Governmental Activities and for Business Activities
 - The numbers in these columns are derive from the totals in the individual governmental and business type fund statements. The governmental activities must first be adjusted to the accrual basis.
- Component Units will have one or more additional columns or be shown in notes

Government-Wide Statements – Component Units, con't

- If the government has multiple component units:
 - Can have two or more columns to show their component information separate from primary government
 - May need to prepare a COMBINING statement to accumulate the multiple component units before putting only one column in main statements
 - May show condensed financial statements of the component units in the notes

Government-Wide Statement of Activities

- This statement shows the net ‘cost’ of activities after deducting the revenues that can be directly attributed to each function
- General revenues, such as property taxes, are then added at the bottom to get the “Change in net position”
- By adding the change in net position to the beginning balance of net position, this reconciles the Statement of Activity back to the Statement of Net Position

Fund Basis Statements

- Governmental Funds have
 - Balance Sheet
 - Statement of Revenues, Expenditures and Changes in Fund Balance
 - Required supplementary Budgetary Comparison (optional)
- Proprietary Funds have
 - Statement of Net Position
 - Statement of Revenues, Expenses and Changes in Fund Net Position
 - Statement of Cash Flows
- Fiduciary Funds have
 - Statements of Net Position
 - Statement of Changes in Fund Net Position

Fund Basis Statements

Governmental Funds - *Balance Sheet*

- Major funds concept
 - Must show column for General Fund
 - Separate column for other MAJOR funds
 - Fund has 10% of the total assets, liabilities, revenues, or expenditures in the GOVT category, **and**
 - 5% of total the total assets, liabilities, revenues, or expenditures of GOVT + ENTERPRISE amounts
 - Remaining funds are added together and shown in one column
 - Use total column

Fund Basis Statements

Government Funds

Statement of Revenues & Expenditures

Format:

Revenues

Less Expenditures

+ or - Other Financing Sources or Uses

 and Special Items

= Change in Fund Balance

+ Beginning Fund Balance

= Ending Fund Balance

Fund Basis Statements

Government Funds

Statement of Revenues & Expenditures

- Expenditures are classified by “character”
 - Current (by function)
 - Debt Service
 - Capital Outlay
- ‘Character’ relates to ‘time’ or interperiod equity issues:
 - **current** outlays, **past** spending (paying off debts of previous generation), or buildings that will benefit the **future**

Reconciliation Schedule

- This schedule reconciles the changes in net position shown on in the governmental column of the government-wide statements with the and the fund-level statements of the governmental funds
 - Reconciliation is necessary because the government-wide statements are on the accrual basis, and government fund statements are on the modified accrual basis
 - Later chapters will give more background on understanding modified accrual basis

Fund Basis Statements

Proprietary Funds

Statement of Net Position

- Show all major enterprise funds - 10% and 5% approach
- Show additional column for any nonmajor enterprise funds
- Show total enterprise funds
- Show a separate column with the totals for all internal service funds

Fund Basis Statements

Proprietary Funds

Statement of Net Position, con't

- Classify assets and liabilities as current and noncurrent
- Net position is displayed in 3 categories: capital assets net of related debt, restricted, unrestricted
- Don't need reconciliation to government-wide since both are on the accrual basis

Fund Basis Statements - Proprietary Funds

Statement of Revenue, Expenses and Changes in Fund Net Position

- Format is similar to commercial income statements
- Nonoperating items include interest expense or revenue and gains or losses on sales of assets

Fund Basis Statements

Proprietary Funds

Statement Cash Flows

- Four categories instead of the three used in business cash flow statements
 - 1. Operating
 - 2. Noncapital (operations) related financing
 - 3. Capital (fixed asset) related financing
 - 4. Investing (Investment related)

Comparison: Cash Flow Statements

Commercial Statements

- May use Direct or Indirect Methods for Cash Flows from Operating Activities
- Interest and dividends received are reported in operating section
- Interest payments are reported in operating section
- Purchases or sales of long-term assets are reported in investing
- The reconciliation of income and cash flows from operations starts with **Net** Income

Proprietary Fund Statements

- Direct Method is required for Cash Flows from Operating Activities
- Interest and dividend revenue is reported in investing section
- Interest Payments are reported in capital or noncapital related financing section
- Fixed asset transactions are reported in capital related financing
- The reconciliation of income and cash flows from operations starts with **Operating** Income

Fund Basis Statements – Fiduciary Funds

Statement of Fiduciary Net Position

- For most fiduciary funds the accounting equation is
$$\text{Assets} - \text{Liabilities} = \text{Net Position}$$
- Exception for Agency funds, accounting equation is
$$\text{Assets} = \text{Liabilities}$$

Fund Basis Statements – Fiduciary Funds

Statement of Changes in Fiduciary Net Position

- Explains changes in fund resources
- Events are measured using the economic resource measurement focus and accrual basis
- Excess of additions over deductions is not called net income, - Change in net position
- **FORMAT:**
 - Additions - Deductions = Change in net position
 - Change in net position + Beginning net position = Ending net position

Notes to the Financial Statements

- Notes are considered an essential part of the financial statements. Not GAAP without them.
- The first note is called
 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 - Explains which funds use accrual and which use modified accrual basis
 - Gives the choice made whenever more than one approach is allowed
 - Explains what is included in the financial statements

Required Supplementary Information (RSI)

- Major RSI items:
 - Management Discussion and Analysis (precedes financial section)
 - Budgetary Comparison Schedule
 - Information about infrastructure assets if modified approach is used (Chapter 6)
 - Information about defined benefit pension plans
 - Schedules for external risk pools

Budgetary Comparison Schedule

- Shows the original budget and the final revised budget after revisions during the year. Variance column is useful, but optional.
- The 'actual' figures may not be the same as those shown on the Statement of Revenues and Expenditures. The Actual column should reflect the basis of accounting assumed in the budget.
- Need to show a reconciliation when budget basis is not the same as that on fund statements.

Combining and Individual Fund Information

- A complete CAFR will provide additional details beyond the main statements
- Any column, such as nonmajor funds, which is a total of more than one fund needs to have a combining statement to show the individual amounts that were added to get the total
- Some individual funds may be broken down into more detail than on combining statements. For example, the government may wish to show more details of revenues or expenditures for some critical funds