

# Chapter 2

## Fund Accounting

### Questions for Review and Discussion

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1. In governmental accounting, a fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for an organization's resources and claims against those resources. In business accounting, by contrast, funds generally refer either to working capital (current assets less current liabilities) or to selected components of working capital.
2. The accounting equation as applied in government accounting differs from business accounting, and is defined as  $\text{assets} + \text{deferred outflows} = \text{liabilities} + \text{deferred inflows} + \text{fund balance}$ . For not-for-profits, the equation is  $\text{assets} = \text{liabilities} + \text{fund balance}$ . In both cases, the equations indicate that unlike businesses, there are no "owners" of governments or not-for-profit organizations.
3. *Nonspendable* fund balance includes amounts that are not in spendable form or are required to be maintained intact. *Restricted* fund balance includes amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation. *Committed* fund balance includes amounts constrained to specific purposes determined by the highest decision-making authority of the government itself. *Assigned* fund balance includes amounts a government intends to use for a specific purpose.
4. GASB in 2007 in Concepts Statement No. 4 *Elements of Financial Statements* provided definitions and explanations of seven key elements that comprise basic financial statements—five relating to financial position (assets, liabilities, deferred outflow of resources, deferred inflow of resources and net position) and two relating to resource flows. These elements as defined by GASB are: "**Assets** are resources with present service capacity that the government presently controls." "**Liabilities** are present obligations to sacrifice resources that the government has little or no discretion to avoid." "**A deferred outflow of resources** is the consumption of net assets by the government that is applicable to a future reporting period." "**A deferred inflow of resources** is the acquisition of net assets by the government that is applicable to a future reporting period." "**Net position** is the residual of all other elements presented in a statement of financial position; that is the assets and deferred outflows less the liabilities and deferred inflows." "**An outflow of resources** is a consumption of net assets by the government that is applicable to the reporting period." "**An inflow of resources** is an acquisition of net assets by the government that is applicable to the reporting period.
5. Governments establish funds neither to account for specific functions nor to divide evenly their resources. Instead, they create funds mainly to promote control and

accountability over restricted resources. The general fund of the city is probably larger than all of the special revenue funds combined because most of the city's assets are unrestricted and the unrestricted assets can be aggregated in a single fund.

6. There are no capital projects reported in the capital projects fund and generally no long-term debts reported in the debt service fund because these funds are maintained to account for the resources that will be used to construct or acquire capital assets or to pay the interest and principal on long-term debts. These resources are set apart from other resources because they can only be used for their specified purposes.
7. The presence of long-lived assets and long-term debt on the balance sheets of enterprise and internal service funds indicates that the assets and debts are within the funds' measurement focus. It thereby implies that the funds are on a full accrual basis.
8. Proprietary funds are used to account for business-type activities and they adhere to business-type accounting principles. They typically charge for the goods or services they provide and need data on the full cost (including depreciation) of services provided so that they can establish prices. Governmental funds, by contrast, are accounted for on a modified accrual basis. They receive their revenues from taxes, grants and other sources that are not necessarily tied to cost of service.
9. Fiduciary funds are used to account for resources held by the government as either a trustee (a party that administers property for a beneficiary) or an agent (one who acts on behalf of another). The four main types are pension and other employee benefit trust funds, investment trust funds, private purpose trust funds, and custodial funds. Trust funds are used to account for assets that the government holds for the benefit of parties other than the government itself (retirees, other governments, and others). Custodial funds are used to account for assets (e.g., taxes collected by one government on behalf of another) that a government holds temporarily for other entities.
10. Permanent funds are a type of trust fund, but they benefit the government itself, rather than outside parties. Therefore, they are considered governmental funds, not fiduciary funds. However, like fiduciary funds, only the income of a permanent fund, not the principal, may be spent. The principal must remain permanently intact.
11. The financial statements must be prepared from a government-wide and a funds perspective. The government-wide financial statements are consolidated and are on a full accrual basis. The funds perspective statements are combined. The governmental funds are accounted for on a modified accrual basis; the proprietary funds on a full accrual basis.
12. A custodial fund is used to account for assets held on behalf of other governments, funds or individuals, usually for a short period, such as a year. Because the money is held for other entities, custodial funds have only assets and liabilities, no revenues and expenditures. Custodial funds hold taxes collected by one government intended for another government (such as a sales tax), a grant intended for another government or entity, among other examples.

13. A CAFR is a government's Comprehensive Annual Financial Report. Its main components are an introductory section (that includes a letter of transmittal and a GFOA (Government Finance Officers Association) Certificate of Achievement for Excellence in Financial Reporting (if received), a financial section (that includes management's discussion and analysis, the financial statements, notes to the financial statements and required supplementary information) and a statistical section (that includes economic, demographic and financial data).
14. Resources **with donor restrictions** are those that must be used for a specific purpose (e.g., to support donor-designated programs or activities), cannot be spent until some time in the future (e.g., when a donor makes good on a pledge), or are restricted in perpetuity (such as an endowment) in which only the earnings can be spent. Funds **without donor restrictions**, of course, are not subject to such restrictions. The restrictions are based on donor mandates. Hence, restrictions imposed by other parties (e.g., creditors) are not taken into account for purposes of resource classification. These guidelines apply to not-for-profits, not governments and are based on FASB rather than GASB pronouncements.

## **Exercises**

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### **EX 2-1**

1. j
2. g
3. a
4. h
5. a
6. b
7. a
8. i
9. a
10. f

### **EX 2-2**

1. a
2. c
3. d
4. d
5. c
6. a
7. a
8. b
9. c
10. b
11. a

12. b

**EX 2-3**

a. **Focus on cash**

(1)

No entry necessary — no cash involved.

(2)

|                       |            |            |
|-----------------------|------------|------------|
| Cash                  | \$ 300,000 |            |
| Contribution revenues |            | \$ 300,000 |

*To record the partial collection of the note*

(3)

|                                  |            |            |
|----------------------------------|------------|------------|
| Building acquisition expenditure | \$ 120,000 |            |
| Cash                             |            | \$ 120,000 |

*To record the cash paid to acquire the building*

(4)

No entry necessary — no cash involved

**Focus on cash plus current financial resources**

(1)

|                      |             |             |
|----------------------|-------------|-------------|
| Note receivable      | \$1,000,000 |             |
| Contribution revenue |             | \$1,000,000 |

*To record the note received*

(2)

|                 |            |            |
|-----------------|------------|------------|
| Cash            | \$ 300,000 |            |
| Note receivable |            | \$ 300,000 |

*To record the partial collection of the note*

(3)

|                                  |            |            |
|----------------------------------|------------|------------|
| Building acquisition expenditure | \$ 120,000 |            |
| Cash                             |            | \$ 120,000 |

*To record the cash paid to acquire the building (No recognition is given to the long-term note or to the building, a long-term asset.)*

(4)

|               |          |          |
|---------------|----------|----------|
| Wage expense  | \$ 4,000 |          |
| Wages payable |          | \$ 4,000 |

*To record the wages earned by employees, but not yet paid.*

**Focus on all economic resources**

(1)

|                      |             |             |
|----------------------|-------------|-------------|
| Note receivable      | \$1,000,000 |             |
| Contribution revenue |             | \$1,000,000 |

*To record the note received*

(2)

|                 |            |            |
|-----------------|------------|------------|
| Cash            | \$ 300,000 |            |
| Note receivable |            | \$ 300,000 |

*To record the partial collection of the note*

(3)

|                       |            |            |
|-----------------------|------------|------------|
| Building              | \$ 600,000 |            |
| Cash                  |            | \$ 120,000 |
| Mortgage note payable |            | 480,000    |

*To record the acquisition of the building*

|                          |           |           |
|--------------------------|-----------|-----------|
| Depreciation expense     | \$ 20,000 |           |
| Accumulated depreciation |           | \$ 20,000 |

*To record depreciation on the building*

(4)

|               |          |          |
|---------------|----------|----------|
| Wage expense  | \$ 4,000 |          |
| Wages payable |          | \$ 4,000 |

*To record the wages earned by employees, but not yet paid*

**b.**

Statement of Revenue and Expenses

|   | <u>Cash</u>      | <u>Current<br/>Financial<br/>Resources</u> | <u>All<br/>Economic<br/>Resources</u> |
|---|------------------|--|---------------------------------------|
| Contribution revenue                              | \$300,000        | \$1,000,000                                | \$1,000,000                           |
| Building acquisition<br>expense (or depreciation) | 120,000          | 120,000                                    | \$ 20,000                             |
| Wage expense                                      | 0                | 4,000                                      | 4,000                                 |
| Total expenses                                    | <u>120,000</u>   | <u>124,000</u>                             | <u>24,000</u>                         |
| Excess of revenues over expenses                  | <u>\$180,000</u> | <u>\$ 876,000</u>                          | <u>\$ 976,000</u>                     |

Balance Sheet

|  | <u>Cash</u>      | <u>Current<br/>Financial<br/>Resources</u> | <u>All<br/>Economic<br/>Resources</u> |
|--|------------------|--|---------------------------------------|
| <u>Assets</u>                            |                  |  |                                       |
| Cash                                     | \$180,000        | \$ 180,000                                 | \$ 180,000                            |
| Note receivable                          |                  | 700,000                                    | 700,000                               |
| Building (less accumulated depreciation) |                  |  | 580,000                               |
| Total assets                             | <u>\$180,000</u> | <u>\$ 880,000</u>                          | <u>\$1,460,000</u>                    |
| <u>Liabilities and fund balance</u>      |                  |  |                                       |
| Wages payable                            |                  | \$ 4,000                                   | \$ 4,000                              |
| Mortgage note payable                    |                  |  | 480,000                               |
| Fund balance                             | <u>\$180,000</u> | <u>\$ 876,000</u>                          | <u>976,000</u>                        |
| Total liabilities and fund balance       | <u>\$180,000</u> | <u>\$ 880,000</u>                          | <u>\$1,460,000</u>                    |

**EX 2-4**

1. Journal entries in general fund (in millions)

(1)

|  |        |        |
|--|--------|--------|
| Cash                                   | \$20.0 |        |
| Proceeds from borrowing                |        | \$20.0 |
| <i>To record the issuance of bonds</i> |        |        |

|                                       |     |        |        |
|---------------------------------------|-----|--------|--------|
|                                       | (2) |        |        |
| Expenditure for land                  |     | \$ 4.0 |        |
| Cash                                  |     |        | \$ 4.0 |
| <i>To record the purchase of land</i> |     |        |        |
|                                       | (3) |        |        |
| Cash                                  |     | \$ 1.0 |        |
| Proceeds from sale of land            |     |        | \$ 1.0 |
| <i>To record sale of land</i>         |     |        |        |
|                                       | (4) |        |        |
| Repayment of bonds (expenditure)      |     | \$ 2.0 |        |
| Cash                                  |     |        | \$ 2.0 |
| <i>To record repayment of bonds</i>   |     |        |        |
|                                       | (5) |        |        |
| Legal claims (expenditure)            |     | \$ 3.0 |        |
| Cash                                  |     |        | \$ 3.0 |
| <i>To record payment of judgment</i>  |     |        |        |

2. Modified accrual statements

Special District

Balance Sheet

|              |             |
|--------------|-------------|
| Cash         | <u>\$12</u> |
| Fund Balance | <u>\$12</u> |

Special District

Statement of Revenues, Expenditures and Changes in Fund Balance

*Revenues and other financing sources*

|  |           |
|--|-----------|
| Bond proceeds                              | \$20      |
| Proceeds from sale of land                 | <u>1</u>  |
| Total revenues and other financing sources | <u>21</u> |

*Expenditures and other financing uses*

|  |          |
|--|----------|
| Repayment of bonds                             | 2        |
| Acquisition of land                            | 4        |
| Legal claims                                   | <u>3</u> |
| Total expenditures and other financing sources | <u>9</u> |

|  |             |
|--|-------------|
| Excess of revenues and other financing sources<br>over expenditures and other financing uses | <u>\$12</u> |
|--|-------------|

- The balance sheet fails to capture key long-term assets and long-term obligations. But, of course, it is not intended to do so. Instead, it is intended to indicate the current financial resources available to meet current obligations.
- Similarly, the statement of revenues, expenditures and other financing sources does not measure the cost of services (e.g., it recognizes borrowings as an increase in fund balance and the full cost of acquiring fixed assets as a decrease). It is not designed to do so. Instead it is designed to report on flows of current financial resources — net assets that are likely of great interest to the district’s governing body, managers and constituents.



**EX 2-5**

a. Journal entries

(1)

|  |           |           |
|--|-----------|-----------|
| Cash   | \$160,000 |           |
| Contribution revenues                                |           | \$160,000 |
| <i>To record contribution revenue (general fund)</i> |           |           |

|   |           |           |
|---|-----------|-----------|
| Cash  | \$ 40,000 |           |
| Contribution revenues                                 |           | \$ 40,000 |
| <i>To record contribution revenue (building fund)</i> |           |           |

(2)

|  |           |           |
|--|-----------|-----------|
| Operating expenses                                     | \$130,000 |           |
| Cash   |           | \$120,000 |
| Accounts payable                                       |           | 10,000    |
| <i>To record operating expenditures (general fund)</i> |           |           |

(3)

|   |          |          |
|---|----------|----------|
| Cash  | \$ 3,000 |          |
| Interest revenue                                  |          | \$ 3,000 |
| <i>To record interest revenue (building fund)</i> |          |          |

(4)

|   |           |           |
|---|-----------|-----------|
| Transfer to building fund                                     | \$ 17,000 |           |
| Cash  |           | \$ 17,000 |
| <i>To record transfer-out to building fund (general fund)</i> |           |           |

|  |           |           |
|--|-----------|-----------|
| Cash   | \$ 17,000 |           |
| Transfer-in from general fund                                  |           | \$ 17,000 |
| <i>To record transfer-in from general fund (building fund)</i> |           |           |

(5)

|   |           |           |
|---|-----------|-----------|
| Expenses for architectural services                     | \$ 12,000 |           |
| Cash  |           | \$ 12,000 |
| <i>To record fees paid to architect (building fund)</i> |           |           |

b. Financial Statements

Society for Ethical Teachings

Statement of Revenues, Expenses and Other Changes in Fund Balance

|                                  | <u>General<br/>Fund</u> | <u>Building<br/>Fund</u> |
|----------------------------------|-------------------------|--------------------------|
| <u>Revenues</u>                  |                         |                          |
| Contribution revenue             | \$160,000               | \$ 40,000                |
| Interest                         |                         | <u>3,000</u>             |
| Total revenues                   | <u>160,000</u>          | <u>43,000</u>            |
| <u>Expenses</u>                  |                         |                          |
| Operating expenses               | 130,000                 |                          |
| Architecture services            |                         | <u>12,000</u>            |
| Excess of revenues over expenses | 30,000                  | 31,000                   |
| Transfers from (to) other funds  | <u>(17,000)</u>         | <u>17,000</u>            |
| Increase in fund balance         | <u>\$ 13,000</u>        | <u>\$ 48,000</u>         |

Society for Ethical Teachings

Balance Sheet

|                                     | <u>General<br/>Fund</u> | <u>Building<br/>Fund</u> |
|-------------------------------------|-------------------------|--------------------------|
| <u>Assets</u>                       |                         |                          |
| Cash                                | <u>\$ 23,000</u>        | <u>\$ 48,000</u>         |
| <u>Liabilities and fund balance</u> |                         |                          |
| Accounts payable                    | \$ 10,000               |                          |
| Fund balance                        | <u>13,000</u>           | <u>\$ 48,000</u>         |
| Total liabilities and fund balance  | <u>\$ 23,000</u>        | <u>\$ 48,000</u>         |

**EX 2-6**

- a. h
- b. b
- c. g
- d. e
- e. d
- f. c
- g. a
- h. f

## **Continuing Problem**

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The solution to the continuing problem is based on the CAFR for the City of Austin, Texas, for the year-ended September 30, 2017.

The 2017 CAFR can be found at:

<https://assets.austintexas.gov/financeonline/downloads/cafr/cafr2017.pdf>

### **City of Austin CAFR FY 2017**

- 1 The three main sections of the CAFR are the introductory section, the financial section (the main section) and the statistical section.
2. Introductory section
  - a. The city was awarded the GFOA Certificate of Achievement in year 2016. This indicates that the report of the previous year met the GFOA's standards of accounting and reporting. The City management believes that this 2017 CAFR conforms to the Certificate of Achievement program requirements, and will be submitting it to the GFOA for their review. (p. ix)
  - b. Key topics addressed in the letter of transmittal include: (p. i-x)
    - Overview of City government, economic conditions and outlook
    - Major initiatives and achievements, including:
    - PRIDE initiatives to become best-managed city in the country (through public service & engagement, responsibility & accountability, innovation & sustainability, diversity & inclusion, and ethics & integrity)
    - Energy efficiency in recognition Austin Energy's continued leadership and achievement in the delivery of energy efficiency services to its customers
    - Innovation through the Austin Finance Online program to enhance financial transparency
    - Others, including:
    - Financial policies
    - Long-term financial planning
    - Internal control and budgetary control
    - Awards
    - Acknowledgements

3. Financial section
  - 3a. Deloitte & Touche LLP performed audit of the 2017 CAFR
  - 3b. The entity received an unqualified audit opinion (page 2, Financial section).
  - 3c. The MD&A section is included. It addresses the following:
    - Financial highlights
    - Overview of the financial statements
    - Financial analysis of the government-wide statements
    - Financial analysis of the fund level statements
    - Other information includes: General fund budgetary highlights; capital assets; debt administration; economic factors and next year's budget and rates; request for information.
  - 3d. Yes, the report does provide a reconciliation between total governmental net assets per the government-wide statement of net position and total governmental fund balances per the governmental funds balance sheet. Primary reconciled items (reported in government-wide statements but are not reported in the funds):
    - Capital assets used in governmental activities (not financial resources) that are not reported in the funds
    - Other long-term assets and certain revenues that are not available as current-period resources and are not reported in the funds statements
    - Long-term liabilities, which are not payable in the current period, reported on the government-wide statements but not on the funds statements.
    - Internal service fund assets and liabilities reported on the government-wide statements but not on the funds statements
  - 3e. The major governmental fund maintained by the entity is the General Fund (p. 24). The Fund structure does not conform to the city's organizational structure (as set forth in the organizational chart included in the introductory section of the report).
  - 3f. The "required supplementary information" is included. It provides information on budget amendments, reconciliation of GAAP basis and Budget Basis amounts, retirement plans, budget and actual comparisons (pp. 116-122).
  - 3g. "Combining statements" are included. These present financial statements and schedules, by fund type, for the general and nonmajor governmental and enterprise funds. (pp. 123-213)
  - 3h. "Supplemental information" is also included. It features various schedules, such as (pp.203-214)

- schedule of revenues, expenditures, and changes in fund balances-budget and actual-budget basis
- enterprise related grants
- schedule of general obligation bonds authorized and unissued
- schedule of revenue bonds authorized, deauthorized and unissued

4a. The estimated population for City of Austin in 2017 is 946,080 (p. 233)

4b. The first three majors employers are State government, the University of Texas at Austin and the City of Austin, respectively. (p. 234)

4c. The statistical section serves as the informative part of the financial report, providing readers with reports and schedules on the city of Austin. Some information includes (pp. 215-240):

- Program Revenues by Function/Program
- Fund Balances-Governmental Funds
- Tax Revenues by source
- Property tax levies and collections, principal taxpayers
- Assessed Taxable Property value by class
- City sales tax
- Ratios of Outstanding Debt by Type
- Principal Employers
- Airport statistics
- Economic growth trend

## **Problems**

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### **P. 2-1**

a.

|                           |     |           |           |
|---------------------------|-----|-----------|-----------|
|                           | (1) |           |           |
| Cash                      |     | \$100,000 |           |
| Revenues from grants      |     |           | \$100,000 |
| <i>To record revenues</i> |     |           |           |

|   |     |           |           |
|---|-----|-----------|-----------|
|   | (2) |           |           |
| Expenditures—computers                                      |     | \$ 10,000 |           |
| Cash  |     |           | \$ 10,000 |
| <i>To record expenditure for purchase of five computers</i> |     |           |           |

|  |     |          |          |
|--|-----|----------|----------|
|  | (3) |          |          |
| Expenditures—wages   |     | \$ 6,000 |          |
| Cash   |     |          | \$ 6,000 |
| <i>To record expenditure for payment of wages and salaries</i> |     |          |          |

|   |     |           |           |
|---|-----|-----------|-----------|
|   | (4) |           |           |
| Cash                                      |     | \$ 24,000 |           |
| Proceeds from borrowing                   |     |           | \$ 24,000 |
| <i>To record receipt of loan proceeds</i> |     |           |           |

|   |     |           |           |
|---|-----|-----------|-----------|
|   | (5) |           |           |
| Expenditures—automobile                         |     | \$ 24,000 |           |
| Cash  |     |           | \$ 24,000 |
| <i>To record the purchase of the automobile</i> |     |           |           |

|  |     |        |        |
|--|-----|--------|--------|
|  | (6) |        |        |
| Expenditures—interest                        |     | \$ 200 |        |
| Cash   |     |        | \$ 200 |
| <i>To record payment of interest on note</i> |     |        |        |

|  |     |  |  |
|--|-----|--|--|
|  | (7) |  |  |
|--|-----|--|--|

No entry is necessary. The computer is not reported as an asset in the general fund, so it need not be removed from it.

b.

Entrepreneurs Consultants  
Balance Sheet  
General Fund

|              |                 |
|--------------|-----------------|
| Asset: Cash  | <u>\$83,800</u> |
| Fund balance | <u>\$83,800</u> |

Entrepreneurs Consultants  
Statement of Revenues, Expenditures and Other Changes in Fund Balances

|                                      |  |                  |
|--------------------------------------|--|------------------|
| Revenues:                            |  |                  |
| Grants                               |  | <u>\$100,000</u> |
| Expenditures:                        |  |                  |
| Acquisition of computers             |  | 10,000           |
| Acquisition of automobile            |  | 24,000           |
| Wages                                |  | 6,000            |
| Interest                             |  | <u>200</u>       |
| Total expenditures                   |  | <u>40,200</u>    |
| Excess of revenues over expenditures |  | 59,800           |
| Other changes in fund balance:       |  |                  |
| Proceeds of borrowing                |  | <u>24,000</u>    |
| Additions to fund balances           |  | <u>\$ 83,800</u> |

c.

Entrepreneurs Consultants  
Statement of Net Position

|                                    |               |                  |
|------------------------------------|---------------|------------------|
| Assets:                            |               |                  |
| Cash                               |               | \$ 83,800        |
| Computers                          | \$ 8,000      |                  |
| Automobile                         | <u>24,000</u> |                  |
|                                    | 32,000        |                  |
| Less: accumulated depreciation     | <u>6,400</u>  | <u>25,600</u>    |
| Total assets                       |               | <u>\$109,400</u> |
| Liabilities and net position:      |               |                  |
| Note payable                       |               | 24,000           |
| Net position                       |               | <u>85,400</u>    |
| Total liabilities and net position |               | <u>\$109,400</u> |

Entrepreneurs Consultants  
Statement of Activities

|                          |                  |
|--------------------------|------------------|
| Expenses:                |                  |
| Wages                    | \$ 6,000         |
| Interest                 | 200              |
| Depreciation             | 6,400            |
| Loss on computer         | <u>2,000</u>     |
| Total expenses           | 14,600           |
| Revenues:                |                  |
| Grants                   | <u>100,000</u>   |
| Increase in net position | <u>\$ 85,400</u> |

**P. 2-2**

1.

**General fund**

|  |       |       |
|--|-------|-------|
| Cash   | \$150 |       |
| Revenues from taxes                            |       | \$150 |
| <i>To record revenues</i>                      |       |       |
| Expenditures                                   | \$100 |       |
| Cash   |       | \$100 |
| <i>To record expenditures</i>                  |       |       |
| Transfer to debt service fund                  | \$ 20 |       |
| Cash   |       | \$ 20 |
| <i>To record transfer to debt service fund</i> |       |       |

**Capital projects fund**

|  |       |       |
|--|-------|-------|
| Cash   | \$130 |       |
| Proceeds from bonds                            |       | \$130 |
| <i>To record issue of bonds</i>                |       |       |
| Expenditures for construction                  | \$ 40 |       |
| Cash   |       | \$ 40 |
| <i>To record amounts spent on construction</i> |       |       |
| Investments                                    | \$ 90 |       |
| Cash   |       | \$ 90 |
| <i>To record the investment of the cash</i>    |       |       |



**Debt service fund**

|   |       |       |
|---|-------|-------|
| Cash  | \$ 20 |       |
| Transfer from general fund                  |       | \$ 20 |
| <i>To record transfer from general fund</i> |       |       |
| Investments                                 | \$ 20 |       |
| Cash  |       | \$ 20 |
| <i>To record the investment of the cash</i> |       |       |

2. The government-wide statements would differ in that:
- the funds would be consolidated; there would be only one column
  - the \$40 million expended to construct plant and equipment would be reported as assets
  - the \$130 million of bonds issued would be reported as liabilities

**P. 2-3**

Williamsburg Regional Sewage Treatment Authority  
Statement of Net Position  
October 31, 2017

1.

Assets

|                        |                         |
|------------------------|-------------------------|
| Cash                   | \$ 5,772                |
| Time deposits          | 16,398                  |
| Due on insurance claim | 9,499                   |
| Due from participants  | <u>70,889</u>           |
| Total assets           | <u><u>\$102,558</u></u> |

Liabilities and Fund Equity

|                                    |                         |
|------------------------------------|-------------------------|
| Accounts payable                   | \$ 17,725               |
| Net position                       |                         |
| Restricted                         | 34,833                  |
| Unrestricted                       | <u>50,000</u>           |
| Total liabilities and net position | <u><u>\$102,558</u></u> |

2. The unconsolidated presentation provides more complete information. It lets the user readily see the amounts and types of assets available to meet current operating requirements. Since most of the liquid assets of this entity are restricted, the consolidated statement gives a distorted view of the entity's true ability to meet its current obligations.

**P. 2-4**

1.

Bertram County  
Combined Balance Sheets

|                          | <u>General</u><br><u>Fund</u> | <u>Capital</u><br><u>Projects</u><br><u>Fund</u> | <u>Debt</u><br><u>Service</u><br><u>Fund</u> | <u>Total</u>       |
|--------------------------|-------------------------------|--|--|--------------------|
| <u>Assets</u>            |                               |  |  |                    |
| Cash                     | \$ 400                        | \$150  | \$ 50  | \$ 600             |
| Investments              | <u>1,200</u>                  | <u>450</u>                                       | <u>150</u>                                   | <u>1,800</u>       |
| Total assets             | <u>\$1,600</u>                | <u>\$600</u>                                     | <u>\$200</u>                                 | <u>\$2,400</u>     |
| <br><u>Fund Balances</u> | <br><u>\$1,600</u>            | <br><u>\$600</u>                                 | <br><u>\$200</u>                             | <br><u>\$2,400</u> |

Both cash and investments were allocated on the basis of fund balances. Thus cash was allocated as follows:

|                       |                       |   |              |
|-----------------------|-----------------------|---|--------------|
| General fund          | \$600 x (1,600/2,400) | = | \$400        |
| Capital projects fund | \$600 x (600/2,400)   | = | 150          |
| Debt service fund     | \$600 x (200/2,400)   | = | <u>50</u>    |
| Total cash            |                       |   | <u>\$600</u> |

Investments were allocated as follows:

|                       |                         |   |                |
|-----------------------|-------------------------|---|----------------|
| General fund          | \$1,800 x (1,600/2,400) | = | \$1,200        |
| Capital projects fund | \$1,800 x (600/2,400)   | = | 450            |
| Debt service fund     | \$1,800 x (200/2,400)   | = | <u>150</u>     |
| Total investments     |                         |   | <u>\$1,800</u> |

2. The columnar presentation gives the more complete picture, as long as fixed assets are presented elsewhere in the financial statements (e.g., separate schedules or full accrual statements). It shows the specific resources assigned to each of the funds. However, many users, particularly those with a background in business-type reporting would find the combined balance sheet (as prepared by the comptroller) the easier to understand.

Nevertheless, unless the balance sheet or accompanying notes make clear that some assets are restricted, the users risk being misled as to whether the assets are available for future expenditure.

**P. 2-5**

1.

Town of Paris  
Statement of Net Position  
(in millions)

Assets

|  |  |                |
|--|--|----------------|
| Cash   |  | \$ 443         |
| Investments                                      |  | 1,741          |
| Capital assets (net of accumulated depreciation) |  | <u>1,450</u>   |
| Total assets                                     |  | <u>\$3,634</u> |

Liabilities and Net Position

|  |            |                |
|--|------------|----------------|
| Accounts payable                         |            | \$ 8           |
| Bonds payable                            |            | 1,315          |
| Net position                             |            |                |
| Net Investment in capital assets,        | \$ 135     |                |
| Unrestricted — General                   | (70)       |                |
| Restricted — Special revenues            | 200        |                |
| Restricted — Capital projects            | 561        |                |
| Restricted — Debt service                | 515        |                |
| Restricted — Endowment (permanent funds) | <u>970</u> | <u>2,311</u>   |
| Total liabilities and net position       |            | <u>\$3,634</u> |

2. The unrestricted net assets — those which can be used to meet normal operating expenditures — appear rather small. Indeed, were it not for the addition of the net investment in capital assets (fixed assets less bonds payable) they would be negative. Moreover, the unrestricted general fund owes \$205 — an amount not shown on the consolidated statement of net position — to other funds. Thus, it appears that the town is borrowing from restricted funds to meet its operating costs. The largest fund balance, that of the permanent endowment fund, accounts for nearly half of the fund balances reported. By the very nature of a permanent fund, only the interest income, not the principal, is available for expenditures.
  
3. Consolidated, government-wide, statement of net position usually does not offer enough detail to allow the user to distinguish between restricted and unrestricted resources. Hence, there is also a need for individual fund statements.

**P. 2-6**

(1)

|              |           |           |
|--------------|-----------|-----------|
| Cash         | 1,000,000 |           |
| Tax revenues |           | 1,000,000 |

*To record dedicated tax revenues (debt service fund)*

(2)

|                        |       |       |
|------------------------|-------|-------|
| Accounts receivable    | 5,000 |       |
| Miscellaneous revenues |       | 5,000 |

*To recognize miscellaneous police department revenues (general fund)*

(3)

|                   |        |        |
|-------------------|--------|--------|
| Cash              | 60,000 |        |
| Dividend revenues |        | 60,000 |

*To record investment income in a fund to support activities of the government itself (permanent fund)*

(4)

|                   |        |        |
|-------------------|--------|--------|
| Cash              | 70,000 |        |
| Dividend revenues |        | 70,000 |

*To record investment income in a fund to support outside parties (fiduciary fund)*

(5)

|                           |           |           |
|---------------------------|-----------|-----------|
| Construction expenditures | 6,000,000 |           |
| Cash or Contracts payable |           | 6,000,000 |

*To record construction costs (capital projects fund)*

(6)

|                                   |         |         |
|-----------------------------------|---------|---------|
| Transfer-out to debt service fund | 400,000 |         |
| Cash                              |         | 400,000 |

*To transfer funds to a debt service fund (general fund)*

|   |         |         |
|---|---------|---------|
| Cash  | 400,000 |         |
| Operating transfer-in from the general fund |         | 400,000 |

*To record the transfer of funds from the general fund (debt service fund)*

|             |         |         |
|-------------|---------|---------|
| Investments | 400,000 |         |
| Cash        |         | 400,000 |

*To invest cash transferred from the general fund (debt service fund)*

(7)

|  |         |         |
|--|---------|---------|
| Depreciation expense                                     | 100,000 |         |
| Accumulated depreciation                                 |         | 100,000 |
| <i>To recognize depreciation (internal service fund)</i> |         |         |

(8)

|  |        |        |
|--|--------|--------|
| Cash   | 30,000 |        |
| Parking fee revenues                                       |        | 30,000 |
| <i>To recognize parking fee revenues (enterprise fund)</i> |        |        |

(9)

|  |           |           |
|--|-----------|-----------|
| Cash   | 8,000,000 |           |
| Bonds payable  |           | 8,000,000 |
| <i>To record the issuance of bonds (enterprise fund)</i> |           |           |

(10)

|   |           |           |
|---|-----------|-----------|
| Due to school districts   | 3,000,000 |           |
| Cash  |           | 3,000,000 |
| <i>To record distribution of taxes collected on behalf of school districts (custodial fund)</i> |           |           |

**P. 2-7**

1. Fund accounting is appropriate when an entity has resources that can be used only for specified purposes and cannot be mingled with either unrestricted or other restricted resources. The facts presented in this case suggest that some of the center's resources are restricted and that control over them might be enhanced by segregating them into separate fiscal and accounting entities (i.e., funds).
2. The following types of funds should be considered:
  - a general (unrestricted current) fund to account for membership dues and resources from other sources that are unrestricted;
  - special revenue (restricted current) funds to account for each of the grants that must be used for a specified research project;
  - a fiduciary (endowment) fund to account for the \$100,000 endowment;
  - a debt service fund to account for the resources to be set aside to repay the debt.

If the organization elects to account for its activities on other than a full accrual basis, then it would also have to establish some type of accounts to maintain control over its fixed assets and long-term liabilities. Many not-for-profits do, in fact, maintain their accounts on a cash or near-cash basis. For external reporting purposes, they must adjust the accounts so that they are on a full accrual basis.

3. It could be argued that fund accounting is no less applicable to businesses than to not-for-profits. Most businesses, of course, do not establish funds per se, but they do maintain other control mechanisms to assure that they can account for their restricted resources.

**P. 2-8**

1. Hillcrest's measurement focus is "all economic resources;" its basis of accounting is "full accrual." This is evident by the presence on the balance sheet of the full range of assets and liabilities — cash and accounts payable through fixed assets and long-term debt.
2. The simplest response is that Hillcrest Home Care Service is a not-for-profit entity and hence its standards are established by the FASB; the town is a government and hence within the purview of the GASB.

More fundamentally, the characteristics of governments and the information needs of their users may dictate differences in the form and content of financial statements. Governments, and their users, for example may be more concerned with budgetary and legal compliance than their private sector counterparts. Therefore, there may be more reason for governments than not-for-profits to report on a modified basis and to report separately each of the major funds. Still, they also need information on cost of services and on the performance of the government as a whole. Thus, in addition to statements from a fund perspective, they need them from a government-wide perspective.

**P. 2-9**

1. The general fund is apparently accounted for on a full accrual basis of accounting. This is evident from the presence of the fixed assets and long-term debt on the balance sheet.
2. The plant replacement and expansion funds are obviously not on a cash basis, and their measurement focus is broader than merely cash, since their assets include resources other than cash (i.e., pledges receivable). They are most likely on a full accrual basis but this cannot be determined for certain. Even though no long-term assets or liabilities are reported, these funds are unlikely to hold such assets or liabilities.
3. The fund assets without donor restrictions whose use is restricted by its board for capital improvements are not reported in a restricted fund because they are restricted by the board itself, not by outside donors.
4. General fund — without donor restrictions  
Specific purpose funds — with donor restrictions  
Plant replacement and expansion — with donor restrictions  
Endowment funds — with donor restrictions

5. Specific funds are most like governments' special revenue funds.

**P. 2-10**

- a. Journal entries

**1. General fund**

|                                       |       |       |
|---------------------------------------|-------|-------|
| Cash                                  | \$110 |       |
| Tax revenue                           |       | \$110 |
| <i>To record property tax revenue</i> |       |       |

**2. Capital projects fund**

|                                    |       |       |
|------------------------------------|-------|-------|
| Cash                               | \$ 30 |       |
| Proceeds from bonds                |       | \$ 30 |
| <i>To record issuance of bonds</i> |       |       |

**3. Capital project funds**

|   |       |       |
|---|-------|-------|
| Expenditure for building                  | \$ 25 |       |
| Cash                                      |       | \$ 25 |
| <i>To record construction of building</i> |       |       |

The district would also have to keep a record of the \$25 asset that it created.

**4. General fund**

|   |       |       |
|---|-------|-------|
| Operating expenditures                  | \$ 70 |       |
| Cash                                    |       | \$ 63 |
| Accounts payable                        |       | 7     |
| <i>To record operating expenditures</i> |       |       |

**5. General fund**

|  |       |       |
|--|-------|-------|
| Transfer to debt service fund                  | \$ 12 |       |
| Cash   |       | \$ 12 |
| <i>To record transfer to debt service fund</i> |       |       |

**Debt service fund**

|   |       |       |
|---|-------|-------|
| Cash  | \$ 12 |       |
| Transfer from general fund                  |       | \$ 12 |
| <i>To record transfer from general fund</i> |       |       |

**6. Debt service fund**

|                                      |      |      |
|--------------------------------------|------|------|
| Interest expenditure                 | \$ 2 |      |
| Payment of principal (expenditure)   | 6    |      |
| Cash                                 |      | \$ 8 |
| <i>To record payment of interest</i> |      |      |

In its record of long-term debts, the district would have to note a reduction of \$10.

**7. Special revenue fund**

|                              |      |      |
|------------------------------|------|------|
| Cash                         | \$ 4 |      |
| Hotel taxes                  |      | \$ 4 |
| <i>To record hotel taxes</i> |      |      |

|                                       |      |      |
|---------------------------------------|------|------|
| Tourism expenditures                  | \$ 3 |      |
| Cash                                  |      | \$ 3 |
| <i>To record tourism expenditures</i> |      |      |

**8. Internal service fund**

|   |      |      |
|---|------|------|
| Cash  | \$ 4 |      |
| Transfer in from general fund               |      | \$ 4 |
| <i>To record transfer from general fund</i> |      |      |

|                                       |      |      |
|---------------------------------------|------|------|
| Supplies inventory                    | \$ 2 |      |
| Cash                                  |      | \$ 2 |
| <i>To record purchase of supplies</i> |      |      |

|                                   |      |      |
|-----------------------------------|------|------|
| Cash                              | \$ 1 |      |
| Sales revenue                     |      | \$ 1 |
| <i>To record sale of supplies</i> |      |      |

|  |      |      |
|--|------|------|
| Cost of supplies sold                  | \$ 1 |      |
| Supplies inventory                     |      | \$ 1 |
| <i>To record cost of supplies sold</i> |      |      |

**General fund**

|  |      |      |
|--|------|------|
| Transfer out to internal service fund              | \$ 4 |      |
| Cash   |      | \$ 4 |
| <i>To record transfer to internal service fund</i> |      |      |

|  |      |      |
|--|------|------|
| Supplies expenditure                             | \$ 1 |      |
| Cash   |      | \$ 1 |
| <i>To record acquisition and use of supplies</i> |      |      |



b. Combined balance sheet

Buffalo School District  
Governmental Funds  
Combined Balance Sheet

|                                 | <u>General</u><br><u>Fund</u> | <u>Special</u><br><u>Revenue</u><br><u>Fund</u> | <u>Capital</u><br><u>Projects</u><br><u>Fund</u> | <u>Debt</u><br><u>Service</u><br><u>Fund</u> | <u>Total</u> |
|---------------------------------|-------------------------------|---|--|--|--------------|
| <u>Assets</u>                   |                               |   |  |  |              |
| Cash                            | \$30                          | \$ 1  | \$ 5   | \$ 4   | \$40         |
| Totals                          | <u>\$30</u>                   | <u>\$ 1</u>                                     | <u>\$ 5</u>                                      | <u>\$ 4</u>                                  | <u>\$40</u>  |
| <br><u>Liabilities and Fund</u> |                               |   |  |  |              |
| <u>Balances</u>                 |                               |   |  |  |              |
| Accounts payable                | \$ 7                          |   |  |  | \$ 7         |
| Fund balances                   | <u>23</u>                     | <u>1</u>  | <u>5</u>   | <u>4</u>                                     | <u>33</u>    |
| Totals                          | <u>\$30</u>                   | <u>\$ 1</u>                                     | <u>\$ 5</u>                                      | <u>\$ 4</u>                                  | <u>\$40</u>  |

c.

Buffalo School District  
Combined Statement of Revenues, Expenditures and Other Changes in Fund Balances  
Governmental Funds

|   | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Fund</u> | <u>Capital<br/>Projects<br/>Fund</u> | <u>Debt<br/>Service<br/>Fund</u> | <u>Total</u> |
|---|-------------------------|-------------------------------------|--------------------------------------|----------------------------------|--------------|
| <i>Revenues</i>                           |                         |                                     |                                      |                                  |              |
| Property taxes                            | \$110                   |                                     |                                      |                                  | \$110        |
| Hotel taxes                               |                         | \$ 4                                |                                      |                                  | 4            |
| Total revenues                            | <u>\$110</u>            | <u>\$ 4</u>                         | <u>\$ 0</u>                          | <u>\$ 0</u>                      | <u>\$114</u> |
| <i>Expenditures</i>                       |                         |                                     |                                      |                                  |              |
| Operating                                 | \$ 70                   |                                     |                                      |                                  | \$ 70        |
| Supplies                                  | 1                       |                                     |                                      |                                  | 1            |
| Interest                                  |                         |                                     |                                      | 2                                | 2            |
| Debt repayment                            |                         |                                     |                                      | 6                                | 6            |
| Tourism                                   |                         | 3                                   |                                      |                                  | 3            |
| Acquisition of building                   |                         |                                     | 25                                   |                                  | 25           |
| Total expenditures                        | <u>\$ 71</u>            | <u>\$ 3</u>                         | <u>\$25</u>                          | <u>\$ 8</u>                      | <u>\$107</u> |
| Excess of revenues<br>over expenditures   | <u>\$ 39</u>            | <u>\$ 1</u>                         | <u>(\$25)</u>                        | <u>(\$ 8)</u>                    | <u>\$ 7</u>  |
| <i>Other financing sources (uses)</i>     |                         |                                     |                                      |                                  |              |
| Bond proceeds                             |                         |                                     | \$30                                 |                                  | \$ 30        |
| Transfer to/from debt service fund (\$12) |                         |                                     |                                      | \$12                             | 0            |
| Transfer to internal service fund (4)     | (4)                     |                                     |                                      |                                  | (4)          |
| Total other financing<br>sources and uses | <u>(\$16)</u>           | <u>\$ 0</u>                         | <u>\$30</u>                          | <u>\$12</u>                      | <u>\$ 26</u> |
| Net increase in fund balance              | <u>\$ 23</u>            | <u>\$ 1</u>                         | <u>\$ 5</u>                          | <u>\$ 4</u>                      | <u>\$ 33</u> |

Buffalo School District  
Statement of Revenues, Expenses and Other Changes in Fund Net Position  
Internal Service Fund

|                                  |            |
|----------------------------------|------------|
| Sales revenue                    | \$1        |
| Cost of supplies sold            | <u>1</u>   |
| Excess of revenues over expenses | \$0        |
| Transfer from general fund       | <u>4</u>   |
| Increase in net position         | <u>\$4</u> |

d.

Buffalo School District  
Statement of Activities

|                          |              |
|--------------------------|--------------|
| <u>Revenues</u>          |              |
| Property taxes           | \$110        |
| Hotel taxes              | <u>4</u>     |
| Total revenues           | <u>\$114</u> |
| <u>Expenses</u>          |              |
| Operating                | \$ 70        |
| Supplies                 | 1            |
| Interest                 | 2            |
| Depreciation             | 1            |
| Tourism                  | <u>3</u>     |
| Total expenses           | <u>\$ 77</u> |
| Increase in net position | <u>\$ 37</u> |

Buffalo School District  
Statement of Net Position

|  |                     |
|--|---------------------|
| <u>Assets</u>                                  |                     |
| Cash   | \$43                |
| Supplies inventory                             | 1                   |
| Building (net of \$1 accumulated depreciation) | <u>24</u>           |
| Total assets                                   | <u>\$68</u>         |
| <u>Liabilities and Net Position</u>            |                     |
| Accounts payable                               | \$ 7                |
| Bonds payable                                  | 24                  |
| Net Position                                   |                     |
| Restricted for acquisition of capital assets   | \$ 5                |
| Restricted for payment of bonds                | 4                   |
| Restricted for promoting tourism               | 1                   |
| Unrestricted                                   | <u>27</u> <u>37</u> |
| Total liabilities and net position             | <u>\$68</u>         |

**P. 2-11**

1. Nonspendable
2. Assigned
3. Restricted
4. Committed
5. Nonspendable

**P. 2-12**

1. The resources in each of the funds other than the general fund are automatically constrained in some manner; that is why they are in a fund other than the general fund. Thus, for example, the resources in the debt service fund must be used to service debt; those in the capital projects fund must be used to construct or acquire capital assets.
2. More than likely the party to which the town is indebted (e.g., the bondholders) requires the town to hold in reserve a specified amount (e.g., one-year's required payments). The requirement is typically included in bond or other debt covenants. The town itself (i.e., the town council or other governing authority) most likely voluntarily transferred an amount to the debt service fund, thereby indicating its intent to use that money to service its debts.
3. Similarly, the amount in the capital projects fund restricted for highways was probably restricted by the bondholders. That is, the town issued bonds that specified that the proceeds were to be used exclusively to construct or repave highways. The highest governing authority of the town itself, acting by a formal resolution, would have committed the funds to renovating the city hall.
4. Inventory is always classified as nonspendable because, unlike cash, it is not in a spendable form.
5. Most of the balance in the Permanent Fund would be classified as "nonspendable," as the town can spend only returns from investing those funds. The principal amount in a Permanent Fund must be maintained intact. The town can spend investment returns on the fund only after transferring them into another fund as per the restrictions (if any) on the returns.

## **Questions for Research, Analysis and Discussion**

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1. The rationale for displaying individual funds in government statements is that the resources of funds (other than the general fund) are restricted for specific purposes. Hence they cannot be intermingled and not all resources are available for general governmental purposes. Arguably, the same arguments apply to not-for-profits. Nevertheless, the FASB has taken a different position. This is clearly set forth in the basis for conclusions to Statement No 117, “Financial Statements of Not-for-Profit Organizations,” para. 71-80. The board contends that “if financial statements are to be useful, data must be simplified, condensed, and aggregated into meaningful totals.” It “believes that aggregated information about an entity as a whole facilitates an overall understanding of its financial position, results of its operations, and its cash flows.” Although it acknowledges the value of disaggregated information it believes that “differing definitions and terminology for reporting disaggregated fund groups [would make fund] financial reporting by not-for-profit organizations difficult to understand.”
2. The federal grant explicitly states that the federal funds should not be commingled with other district funds. Hence it appears clear that they should be reported in a separate fund, a special revenue fund. The more difficult question is how should the district’s matching funds be accounted for. There are at least three possibilities: the general fund; the same fund as the federal grant; a separate special revenue fund. The general fund can be justified on the basis that the funds are not legally restricted; the district opts to spend them on special education. On the other hand, because they are so closely tied to the federal fund, it can be argued that they should be in a restricted fund. For reporting purposes, it would make the most sense to account for them in the same fund as the federal funds. That way, a reader could readily see the total amount spent on special needs education (or at least the amount of federal funds and matching funds that were spent). However, depending on the precise terms (or interpretation) of the agreement with the granting agency, the federal funds may not be permitted to be mingled even with the funds that they are matching.
3. The rationale for the government-wide statements is summarized in the preface to GASB Statement No. 34. Per the pronouncement, the statements should better enable users to:
  - Assess the finances of the government in its entirety, including the year’s operating results
  - Determine whether the government’s overall financial position improved or deteriorated
  - Evaluate whether the government’s current-year revenues were sufficient to pay for current-year services
  - See the cost of providing services to its citizenry

- See how the government finances its programs—through user fees and other program revenues versus general tax revenues
- Understand the extent to which the government has invested in capital assets, including roads, bridges, and other infrastructure assets
- Make better comparisons between governments.

In short, the new annual reports should give government officials a new and more comprehensive way to demonstrate their stewardship in the long term in addition to the way they currently demonstrate their stewardship in the short term and through the budgetary process.

This rationale is elaborated upon in the basis for conclusions section of the statement. The extent to which government-wide statements are, in fact, being used by users for these purposes is an empirical question which has yet to be answered.