

CHAPTER 2: PRINCIPLES OF ACCOUNTING AND FINANCIAL REPORTING FOR STATE AND LOCAL GOVERNMENTS

OUTLINE

<u>Number</u>	<u>Topic</u>	<u>Type/Task</u>	<u>Status (re: 18/e)</u>
Questions:			
2-1	Communicating financial information	Compare	New
2-2	Service activities categories	Identify	Revised
2-3	Financial report differences	Compare	New
2-4	Modified accrual accounting	Compare	Revised
2-5	Fund categories	Identify	Same
2-6	Purpose of funds	Explain	Same
2-7	Deferred inflows and outflows of resources	Recall	Revised
2-8	Expenses/Expenditures	Compare	Same
2-9	Fund balance classifications	Identify	Same
2-10	Major fund criteria	Define	Same
Cases:			
2-11	Accounting and reporting principles	Analysis	Revised
2-12	Evaluation of a city's basic financial statements	Evaluate	Revised
2-13	Fund balances	Describe	Same
2-14	Financial reporting model	Summarize	New
Exercises/Problems:			
2-15	Examine the CAFR	Examine	Same
2-16	Various	Multiple Choice	1, 3, 6, 11, and 12 are new; other items are same
2-17	Matching fund types with fund categories	Classify	Same
2-18	Matching government-wide and fund financial reporting characteristics	Classify	Revised
2-19	Matching transactions with funds	Classify	Revised
2-20	Fund balance classifications	Analyze	Revised
2-21	Determination of major funds	Analysis; calculate	Same
2-22	Determination of major funds	Analysis; calculate	Same

CHAPTER 2: PRINCIPLES OF ACCOUNTING AND FINANCIAL REPORTING FOR STATE AND LOCAL GOVERNMENTS

Answers to Questions

- 2-1. In answering this question, students can provide various examples of required supplementary information and other supplementary information to help support their answer. One example is provided in the solution below.

GASB Concepts Statement No. 3 defines RSI as information that is essential to placing the financial statements and related notes in their proper context. RSI is a higher order of communicating information than is other “supplementary information.” Supplementary information is useful when trying to understand the financial statements and related notes but it is not essential to their understanding. A good example of RSI is the MD&A, which is specifically designed to help the reader better understand the financial statements. This differs from the supplementary information found in the demographic tables and graphs of the statistical section of the CAFR, which is useful in understanding factors that may affect the numbers in the financial statements, but it is not essential.

General Problem Information: Communicating financial information

Learning Objective: 2-1

Topic: Conceptual Framework—Providing Useful Financial Reports

Bloom’s Taxonomy: Understand

Accreditation Skills tag: AACSB: Knowledge Application, AICPA: FN: Reporting

Level of Difficulty: Medium

- 2-2. The three activity categories common to most general purpose governments are governmental, business-type, and fiduciary. Governmental activities include administrative support and core government services, such as public safety, public works, culture and recreation, and health and welfare. Business-type activities are activities that are generally intended to be self-supporting, such as public utilities. Fiduciary activities are those where the government acts as a trustee or custodian for parties outside the government. These activities, which do not directly benefit the government, include such activities as pension trusts, investment trusts, and tax collection.

General Problem Information: Service activities categories

Learning Objective: 2-2

Topic: Activities of Government

Bloom’s Taxonomy: Remember

Accreditation Skills tag: AACSB: Communication, AICPA: BB Industry

Level of Difficulty: Easy

- 2-3. The government-wide statement of activities differs from the governmental fund statement of revenues, expenditures, and changes in fund balance in at least

Ch. 2, Answers, Question 2-3 (Cont'd)

three key ways: the basis of accounting and measurement focus used to provide the information for the statements, the level at which the information is provided, and the presentation formats used by the statements.

- The statement of activities is prepared on an accrual basis of accounting with an economic resources measurement focus. This results in information being recognized and reported similar to a business entity. The statement of activities recognizes revenues similar to business entities and reports expenses since it is interested in reporting when resources are used to provide goods or services. This differs from the statement of revenues, expenditures, and changes in fund balance, where the focus is on the flow of current financial resources as measured using the modified accrual basis of accounting. The statement of revenues, expenditures, and changes in fund balance reports revenues when they are measurable and *available* for use in the current period, and it reports expenditures since it is interested in when resources are used to acquire assets or pay obligations.
- The statement of activities reports on an entity-wide basis, thus providing an aggregate view of the government's governmental activities (captured by the activities of the governmental funds) and business-type activities (captured by the activities of the enterprise funds). This differs from the statement of revenues, expenditures, and changes in fund balance, which reports activities at a disaggregated level, providing information for each major fund of government, and the aggregate of all nonmajor funds, on the face of the financial statement.
- Finally, the presentation formats are quite different. The statement of activities starts by identifying the functional expenses of the government and from these expenses it deducts program revenues to arrive at a net expense or revenue for each function identified. To the net expense/revenue, general revenues are added, along with any adjustment for transfers in/out to arrive at the reporting period's change in net position. Conversely, the statement of revenues, expenditures, and changes in fund balance is prepared in a format similar to a business entity's income statement. The statement starts with revenues and then deducts expenditures from the revenues. To this result any adjustment needed for other financing sources/uses is made to arrive at the reporting period's change in fund balances.

General Problem Information: Financial report differences

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom's Taxonomy: Understand

Accreditation Skills tag: AACSB: Communication, AICPA: BB Industry

Level of Difficulty: Medium

- 2-4. The modified accrual basis of accounting records revenues when they are measurable and available for use in paying current period obligations, while expenditures are recorded when an obligation has been incurred that will be paid from current financial resources. This differs from the accrual basis of accounting in that revenue recognition is not constrained by the availability of the resources for use in paying current period

Ch. 2, Answers, Question 2-4 (Cont'd)

obligations. Further, the accrual basis uses expense accounting, which recognizes an expense when a resource is used in the provision of a good or service.

Because governmental fund financial statements focus on fiscal accountability, the modified accrual basis of accounting allows for reporting on current sources and uses of financial resources as opposed to the longer-term view provided by accrual accounting.

General Problem Information: Modified accrual accounting

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom's Taxonomy: Understand

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Medium

- 2-5. The three categories of funds are governmental, proprietary, and fiduciary. The fund types included in each category are shown below:

Governmental	Proprietary	Fiduciary
General Fund	Enterprise funds	Custodial funds
Special revenue funds	Internal service funds	Investment trust funds
Debt service funds		Pension (and other employee benefit) trust funds
Capital projects funds		Private-purpose trust funds
Permanent funds		

The basis of accounting used by governmental funds is modified accrual. Proprietary funds use the accrual basis of accounting, as do fiduciary funds.

General Problem Information: Fund categories

Learning Objective: 2-4

Topic: Fund Reporting

Bloom's Taxonomy: Remember

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Easy

- 2-6. Governmental accounting systems must provide both reporting in accordance with GAAP and reporting to determine and demonstrate compliance with finance-related legal and contractual requirements. To ensure that both GAAP and compliance reporting requirements are met, a separate accounting mechanism is used. The mechanism that is used is fund accounting, which makes it possible to ensure that the compliance reporting requirement is met.

A fund is a separate reporting entity that may be established by imposition of grant or contract provisions by external parties, by constitutional provisions or legislation, or by discretionary action of the reporting government.

Ch. 2, Answers, Question 2-6 (Cont'd)

General Problem Information: Purpose of funds

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom's Taxonomy: Understand

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Medium

- 2-7. Deferred outflows of resources are resources that have been consumed but are applicable to a future reporting period (e.g., costs related to a debt refunding). Deferred inflows of resources are resources that have been acquired but are applicable to a future period (e.g. resources received but unavailable for use until a future period). These accounts, used only when required by a GASB standard, represent timing differences between the actual outflow or inflow of cash and the time period to which they apply.

Deferred outflows of resources are shown on the balance sheet or the statement of net position below total assets but before liabilities. Because deferred outflows of resources increase net position they have a normal debit balance. Deferred inflows of resources are shown on the balance sheet or the statement of net position below total liabilities but before fund balances or net position. Because deferred inflows of resources decrease net position they have a normal credit balance.

General Problem Information: Deferred inflows and outflows of resources

Learning Objective: 2-1

Topic: Conceptual Framework—Providing Useful Financial Reports

Bloom's Taxonomy: Remember

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Easy

- 2-8 Expenditures report actual outlays of funds, whether for an operating cost or the purchase of an asset. Expenses focus on costs necessary to generate revenues or fund operations, and may be a result of the using up or expiration of an asset, even if no cash was paid out.

General Problem Information: Expenses/Expenditures

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom's Taxonomy: Remember

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Easy

- 2-9. The governmental fund balance classifications and an example for each are provided below. There are numerous examples of what could be included in each classification; therefore, consideration should be given to whether the student's answer appropriately fits the definition for the fund balance classification.

Nonspendable: This would include items such as endowments and prepaids (including inventory).

Restricted: This would include items restricted by those outside of government, such as operating and capital grants that can be used only for specific purposes, and resources restricted by contractual arrangements such as debt proceeds.

Committed: This would include items that the governing body has set aside as a result of formal legislative action, such as items related to capital acquisition/construction or operations (specific activities).

Assigned: These are items that the government intends to use for specific purposes but for which formal legislative action has not been taken. Items could be similar to those found under committed fund balances. Additionally, it would include any fund balances in special revenue, capital projects, debt service or permanent funds that have not been identified as nonspendable, restricted or committed.

Unassigned: This would be the balance in the General Fund that has not been identified as nonspendable, restricted, committed or assigned.

General Problem Information: Fund balance classifications

Learning Objective: 2-4

Topic: Fund Reporting

Bloom's Taxonomy: Apply

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Medium

- 2-10. The GASB requires that any fund that meets the following relative size criteria be designated as major:
- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that governmental or enterprise fund are at least 10 percent of the corresponding element total (assets and deferred outflows of resources, liabilities and deferred inflows of resources, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), *and* (emphasis added)
 - b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition to funds that meet these two criteria, the General Fund of a state or local government must always be reported as a major fund. Finally, at its discretion management can report as a major fund any other governmental or enterprise fund that it considers of significant importance to financial statement users.

Ch. 2, Answers, Question 2-10 (Cont'd)

General Problem Information: Major fund criteria

Learning Objective: 2-4

Topic: Fund Reporting **Bloom's Taxonomy:** Remember

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Easy

Solutions to Cases

2-11. A quick look at these financial statements reveals that the statements clearly do not conform to the GASB reporting model.

- a. It appears the accrual basis of accounting was used. There are at least three items reported that would appear on statements prepared using accrual accounting but would not appear if modified accrual accounting was used. The three items are the capital asset accounts (Land, buildings and equipment), noncurrent liabilities, and expenses (modified accrual would record expenditures).
- b. The information provided indicates that the town has two fund classifications: governmental funds (General fund and special revenue fund) and proprietary (enterprise fund). As a result the town would be required to prepare the following financial statements:
 1. Governmental fund financial statements: balance sheet, and statement of revenues, expenditures and changes in fund balances.
 2. Proprietary fund financial statements: statement of net position, statement of revenues, expenses and changes in fund net position, and statement of cash flows.
 3. Government-wide financial statements: statement of net position, and statement of activities.
- c. The format seems most similar to the government-wide statements in that all three funds are being reported on the statements using what appears to be the accrual basis of accounting. To conform with the government-wide financial statements many changes would be needed:
 1. Governmental activities and business-type activities would need to be reported in different columns on both government-wide statements.
 2. Additional detail on noncurrent liabilities needs to be included. It is unclear whether any of the amount provided is due within a year.
 3. The term *net assets* is a FASB term; the GASB uses *net position*.
 4. Additionally, the net position information would need to be classified as net position-restricted, net position-net investment in capital assets, and net position-unrestricted. The terms being used in the presented financial statements are not used, as presented, in any reporting models.

5.

Ch. 2, Solutions, Case 2-11 (Cont'd)

6. The statement of activities is not in the cost of services format recommended by GASB, where the expenses are adjusted for program revenues (such as charges for services) to determine the net expenses from which general revenues (such as taxes) are deducted (see Illustration A2-2, for example).
7. Expense detail is lacking. More functional detail is needed under “Government services,” such as general government, public safety, public works, and other relevant functions, so the amounts expended for each service area can be determined. This may also reduce the relatively large amount reported as “Miscellaneous.”

General Problem Information: Accounting and reporting principles

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom’s Taxonomy: Analyze

Accreditation Skills tag: AACSB: Analytical Thinking, AICPA: FN Decision Making

Level of Difficulty: Hard

- 2-12. *a.* Based on the description of this city’s financial statements in the MD&A, the statements appear to conform fairly well to GASB standards, with some minor exceptions that require clarification. Specifically:

Government-wide Financial Statements

- Include the two required financial statements—statement of net position and statement of activities.
- Use “accounting methods similar to those used by the private sector,” i.e., economic resources measurement focus and the accrual basis of accounting.
- Report governmental and business-type activities in separate columns.
- However, the city is reporting internal service funds as part of business-type activities. Internal service funds are generally included as governmental activities, and without further explanation it would be expected that is where the funds would appear (see Illustration 2-2 in the text).

Fund Financial Statements

- Provide detailed information about *major funds*. All nonmajor funds are summarized and presented in a single column.
- Report on two kinds (i.e., categories) of funds—governmental and proprietary. However, it is noted that the city reports it has not included fiduciary fund activities in its financial reports. This implies there could be fiduciary funds, and if so, the activities of the funds should be reported in separate fiduciary fund financial statements—the statement of fiduciary net position and the statement of changes in fiduciary fund net position.

Ch. 2, Solutions, Case 2-12 (Cont'd)

- *Governmental funds* are “prepared on a modified accrual basis, which means they measure only current financial resources and uses.” Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental fund statements. However, it should be noted it is stated that “only current assets and current liabilities” are reported on the governmental fund balance sheet. It is unclear whether the government has deferred inflows of resources or deferred outflows of resources, which should be included as separate sections if there are timing issues that would prevent recognition of some sources and uses of resources in the current reporting period.
 - *Proprietary funds* include both enterprise and internal service funds, prepared on the accrual basis and include all their assets and liabilities, current and long-term.
 - *Fiduciary funds* should be included as part of the financial statements (see earlier comments concerning the fiduciary funds).
- b. This is a straightforward way of saying that the governmental fund information focuses only on current financial resources, not all economic resources. As a result, it is necessary to present a reconciliation of the governmental fund total fund balances to the government-wide governmental activities net position and change in fund balances to change in net position, as explained in Chapter 2 and shown in Illustrations A2-4 and A2-6 for the City and County of Denver.

General Problem Information: Evaluation of basic financial statements

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom’s Taxonomy: Evaluate

Accreditation Skills tag: AACSB: Analytical Thinking, AICPA: FN Decision Making

Level of Difficulty: Hard

- 2-13. There are a variety of reasons for the amounts that have been provided for each fund balance classification appearing on the governmental fund balance sheet for Denver. Following are some of the reasons provided in the 2019 CAFR.

Nonspendable sources: The majority of the nonspendable fund balance appears in the General Fund column. The balance appearing in the General Fund column is related to prepaid assets. The remaining nonspendable balance is Other Governmental Funds and the majority of that balance represents an endowment (permanent fund).

Restricted sources: Most of the functions of the government (General Government, Public Safety, Public Works, Health, Parks and Recreation, among others) have received restricted resources. Fund balances are restricted for a variety of reasons having to do with the many sources from which the amounts were received. The sources providing the funds include external parties, enabling legislation, and constitutional provisions.

Ch. 2, Solutions, Case 2-13 (Cont'd)

Committed sources: A number of governmental funds identify committed fund balances. For the City and County of Denver it is the city council that has the authority to commit funds through the passing of an ordinance. Most of the committed funds appear in the General Fund, indicating that most commitments are related to operating activities.

Assigned sources: The City and County of Denver allows the city council, as authorized by city charter, to assign funds for specific purposes. There is only one function of government with assigned funds, and that is Parks and Recreation.

General Problem Information: Major fund criteria

Learning Objective: 2-4

Topic: Fund Reporting

Bloom's Taxonomy: Understand

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Medium

- 2-14. Depending on when the students are assigned this case, they may have access to the preliminary views document, exposure draft, or the final standard for the financial reporting model. As a result, their answers may differ a bit from what is outlined below, but in general they should identify some or all of the points listed.
- Short-term measurement focus is defined as “a measurement focus that incorporates elements of financial statements arising from short-term transactions and other events as they occur and elements of financial statements arising from long-term transactions and other events when payments are due.” Short-term is intended to be measured as within one year from the inception of the transaction or other event giving rise to the transaction.
 - Rationales for a new model
 - Lack of effectiveness in the current model. There are conceptual inconsistencies and a general lack of guidance on how to deal with complex transactions.
 - Lack of conceptual consistency, as noted. The current financial resources measurement focus is not based on a conceptual framework. As a result, it represents a collection of accounting conventions occurring over time that capture both short-term and long-term transactions but not in a consistent manner.
 - Lack of guidance for complex transactions. As governments have entered into more complicated transactions, the current financial resources measurement focus has been unable to address how the transactions should be recorded since it is not based on a conceptual framework.
 - Lack of consistency in the short-term perspective. Under the current financial resources measurement focus, management defines when revenues are available for recognition, with the exception of property taxes. As a result, there is a lack of comparability among governments related to revenue recognition.

Ch. 2, Solutions, Case 2-14 (Cont'd)

- The new short-term measurement focus addresses all of these concerns by clearly defining the focus and related terms in the context of the conceptual framework. This will allow future standard-setters a basis for considering how transactions should be recognized and reported.

General Problem Information: Financial reporting model

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom's Taxonomy: Understand

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Medium

Solutions to Exercises and Problems

- 2-15. Each student should have a different government annual report, so each will have different answers to questions in this exercise. We suggest allowing students to discuss their answers, which will give them an idea of the range of the answers from other students.

General Problem Information: Examine the CAFR

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom's Taxonomy: Remember

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Easy

- 2-16. 1. *b.* 6. *a.* 11. *d.*
 2. *d.* 7. *b.* 12. *a.*
 3. *c.* 8. *c.* 13. *c.*
 4. *d.* 9. *c.* 14. *b.*
 5. *a.* 10. *b.* 15. *a.*

General Problem Information: Various

Learning Objective: 2-1

Learning Objective: 2-2

Learning Objective: 2-3

Learning Objective: 2-4

Topic: Various chapter topics

Bloom's Taxonomy: Understand

Accreditation Skills tag: AACSB: Communication, AICPA: BB Industry

Level of Difficulty: Medium

- | | | | |
|-------|-----|---|----|
| 2-17. | 1. | Custodial fund | FF |
| | 2. | Permanent fund | GF |
| | 3. | Debt service fund | GF |
| | 4. | Internal service fund | PF |
| | 5. | Pension (and other employee benefit) trust fund | FF |
| | 6. | Special revenue fund | GF |
| | 7. | Enterprise fund | PF |
| | 8. | General Fund | GF |
| | 9. | Investment trust fund | FF |
| | 10. | Capital projects fund | GF |
| | 11. | Private-purpose trust fund | FF |

General Problem Information: Matching fund types with fund categories

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom's Taxonomy: Remember

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Easy

- 2-18.
- | | | |
|----|--|----------------------|
| 1. | Governmental funds | <i>c, e, f, h, i</i> |
| 2. | Proprietary funds | <i>a, b, c, g, j</i> |
| 3. | Fiduciary funds | <i>b, d, g, j</i> |
| 4. | Governmental activities,
government-wide | <i>b, g, j</i> |
| 5. | Business-type activities,
government-wide | <i>b, g, j</i> |

General Problem Information: Matching government-wide and fund financial reporting characteristics

Learning Objective: 2-3

Topic: Financial Reporting Model

Bloom's Taxonomy: Understand

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Medium

Explanation:

4. Note: Internal service fund information is typically reported in governmental activities using the same measurement focus and basis of accounting.

5. Note: Internal service fund information may be reported as part of business-type activities if the internal service activity primarily supports an enterprise activity.

- 2-19.
- | | | | |
|----|-----------|----|-----------|
| 1. | <i>k.</i> | 7. | <i>e.</i> |
|----|-----------|----|-----------|

- | | |
|--------------|---------------|
| 2. <i>b.</i> | 8. <i>i.</i> |
| 3. <i>j.</i> | 9. <i>f.</i> |
| 4. <i>d.</i> | 10. <i>c.</i> |
| 5. <i>g.</i> | 11. <i>h.</i> |
| 6. <i>a.</i> | |

General Problem Information: Matching transactions with funds

Learning Objective: 2-4

Topic: Fund Reporting

Bloom's Taxonomy: Understand

Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting

Level of Difficulty: Medium

2-20.

- | | |
|--------------|---------------|
| 1. <i>d.</i> | 6. <i>a.</i> |
| 2. <i>c.</i> | 7. <i>e.</i> |
| 3. <i>a.</i> | 8. <i>d.</i> |
| 4. <i>b.</i> | 9. <i>c.</i> |
| 5. <i>b.</i> | 10. <i>e.</i> |

General Problem Information: Fund balance classifications

Learning Objective: 2-4

Topic: Fund Reporting

Bloom's Taxonomy: Analyze

Accreditation Skills tag: AACSB: Analytical Thinking, AICPA: FN Decision Making

Level of Difficulty: Hard

2-21.

DATE:	xxx
MEMO TO:	City Manager, Forest City
FROM:	Independent Auditor
RE:	Major Special Revenue Funds

As shown by the blue shading in the following calculations, only the Housing and Urban Development Grant must be reported as a major fund. Neither the Gas Tax Revenue Fund nor the Forest City Library Fund meets the GASB threshold for major fund reporting; that is, none of the four elements of those funds (assets, liabilities and deferred inflows of resources, revenues, or expenditures) is at least 10% of the corresponding total of all governmental funds *and* at least 5% of the corresponding total of all governmental and enterprise funds. Both total assets and total revenues of the Housing and Urban Development Grant meet the 10 percent of all governmental funds and 5 percent of all governmental and enterprise funds combined criteria.

Ch. 2, Solutions, Exercise 2-21 (Cont'd)

Calculation of Major Fund Thresholds						
Financial Statement Elements	Gas Tax Revenue Fund		Housing and Urban Development Fund		Forest City Library Fund	
	>10% of Governmental Funds	>5% of Governmental and Enterprise Funds	>10% of Governmental Funds	>5% of Governmental and Enterprise Funds	>10% of Governmental Funds	>5% of Governmental and Enterprise Funds
Assets	Yes-10.3%	No-4.6%	Yes-11.2%	Yes-5.01%	No-6.5%	No-2.9%
Liabilities	No-8.4%	No-4.9%	No-9.8%	Yes-5.7%	No-0.0%	No-0.0%
Revenues	No-9.0%	No-4.6%	Yes-11.1%	Yes-5.7%	No-7.8%	No-4.0%
Expenditures	No-8.3%	No-4.6%	No-8.7%	No-4.9%	No-8.0%	No-4.5%

General Problem Information: Determination of major funds

Learning Objective: 2-4

Topic: Fund Reporting

Bloom's Taxonomy: Apply

Accreditation Skills tag: AACSB: Knowledge Application, AICPA: FN Decision Making

Level of Difficulty: Hard

2-22. The students should identify the General Fund as a major fund because it is always considered a major fund. The only other governmental fund that meets the 10% and the 5% criteria is the Debt Service Fund. It meets the criteria on both expenditures and revenues. Of the enterprise funds, the Utility Fund and City Airport Fund would be considered major. The Utility Fund meets the criteria on assets, expenses and revenues, while the City Airport Fund meets the criteria for all four elements. The following table provides the calculations for the major fund determination. The columns next to the elements indicate if the 10% criterion was met (Y=Yes, N=No), and whether the 5% criterion was met (Y=Yes, N=No). Those funds and elements with both the 10% and 5% criteria met are highlighted in blue.

Ch. 2, Solutions, Exercise 2-22 (Cont'd)

Calculation of Major Fund Thresholds

	Assets	Met?	Liabilities	Met?	Expenditures /Expense	Met?	Revenues	Met?
Governmental Funds								
General Fund	462.2		52.8		915.9		992.8	
Health & Human Services Fund	110.7	YN*	11.9	YN	118.8	NY	125.1	NY
Community Development Fund	220.5	YN	20.9	YN	28.4	NN	16.6	NN
Debt Service Fund	70.8	NN	6.1	NN	132.4	YY	134.7	YY
Total of Governmental Funds by Element	864.2		91.7		1,195.5		1,269.2	
10% of Total Governmental Funds by Element	86.42		9.17		119.55		126.92	
Enterprise Funds								
Utility Fund	639.4	YY	97.5	NN	104.1	YY	115.9	YY
City Airport Fund	5,419.5	YY	5,017.3	YY	616.7	YY	661.6	YY
Golf Course Fund	48.9	NN	8.6	NN	19.6	NN	18.1	NN
Total of Enterprise Funds by Element	6,107.8		5123.4		740.4		795.6	
10% of Total Enterprise Funds by Element	610.78		512.34		74.04		79.56	
5% of the Total of Governmental & Enterprise Funds by Element	348.6		260.755		96.795		103.24	

* First letter indicates if the 10% criterion is met the second letter indicates if the 5% criterion is met.

General Problem Information: Determination of major funds

Learning Objective: 2-4

Topic: Fund Reporting

Bloom's Taxonomy: Apply

Accreditation Skills tag: AACSB: Knowledge Application, AICPA: FN Decision Making

Level of Difficulty: Hard