

**Solution Manual for Essentials of Accounting for Governmental and Not  
for Profit Organizations 12th Edition by Copley ISBN 0078025818  
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Chapter 02 - Overview of Financial Reporting for State and Local Governments

**CHAPTER 2 Overview of Financial Reporting for State and Local Governments**

- 2-1. THE SOLUTION TO THIS AND THE FIRST EXERCISE OF CHAPTERS 1 AND 3 THROUGH 9 WILL DIFFER FROM STUDENT TO STUDENT ASSUMING EACH HAS A DIFFERENT CAFR.
- 2-2.
- A. A **FINANCIAL REPORTING ENTITY** IS A PRIMARY GOVERNMENT, ORGANIZATIONS FOR WHICH THE PRIMARY GOVERNMENT IS FINANCIALLY ACCOUNTABLE, AND OTHER ORGANIZATIONS FOR WHICH THE NATURE AND SIGNIFICANCE OF THEIR RELATIONSHIP WITH THE PRIMARY GOVERNMENT ARE SUCH THAT EXCLUSION WOULD CAUSE THE REPORTING ENTITY'S FINANCIAL STATEMENTS TO BE MISLEADING OR INCOMPLETE.
- B. A **PRIMARY GOVERNMENT** IS A STATE GOVERNMENT OR GENERAL PURPOSE LOCAL GOVERNMENT. AN EXAMPLE OF A PRIMARY GOVERNMENT WOULD BE ANY STATE, MUNICIPALITY, OR COUNTY (GENERAL PURPOSE GOVERNMENTS) AND ANY SPECIAL-PURPOSE LOCAL GOVERNMENT THAT MEETS THE CERTAIN CRITERIA. IN SOME STATES, SCHOOL DISTRICTS ARE GENERALLY PRIMARY GOVERNMENTS AS THE GOVERNING BOARDS ARE INDEPENDENTLY ELECTED, LEVY THEIR OWN TAXES, AND ARE FINANCIALLY INDEPENDENT.
- C. A **COMPONENT UNIT** IS A LEGALLY SEPARATE ORGANIZATION FOR WHICH THE ELECTED OFFICIALS OF THE PRIMARY GOVERNMENT ARE FINANCIALLY ACCOUNTABLE. IN ADDITION, A COMPONENT UNIT CAN BE ANOTHER ORGANIZATION FOR WHICH THE NATURE AND SIGNIFICANCE OF ITS RELATIONSHIP WITH A PRIMARY GOVERNMENT ARE SUCH THAT EXCLUSION WOULD CAUSE THE REPORTING ENTITY'S FINANCIAL STATEMENTS TO BE MISLEADING OR INCOMPLETE. AN EXAMPLE MIGHT BE A LIBRARY WITH A SEPARATE BOARD APPOINTED BY A CITY COUNCIL AND IN WHICH THE CITY COUNCIL MUST APPROVE ITS BUDGET AND MAKE UP ITS DEFICITS.

D. THE TWO PRIMARY METHODS FOR REPORTING COMPONENT UNITS IN THE FINANCIAL STATEMENTS OF A PRIMARY GOVERNMENT ARE **BLENDING AND DISCRETE PRESENTATION**. **BLENDING** REPORTS THE COMPONENT UNIT AS ONE OF THE FUNDS OF THE PRIMARY GOVERNMENT, WHICH THEN RESULTS IN INCLUDING THE COMPONENT UNIT AS PART OF THE BASIC FINANCIAL STATEMENTS. **BLENDING** IS USED ONLY WHEN COMPONENT UNITS ARE SUFFICIENTLY INTERTWINED WITH THE PRIMARY GOVERNMENT THAT THEY ARE, IN SUBSTANCE, THE SAME AS THE PRIMARY GOVERNMENT. **DISCRETE PRESENTATION** INVOLVES REPORTING THE COMPONENT UNIT IN A COLUMN TO THE RIGHT OF THE PRIMARY GOVERNMENT IN THE GOVERNMENT-WIDE FINANCIAL STATEMENTS OF THE REPORTING ENTITY.

2-3.

- A. THE THREE MAJOR SECTIONS OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT ARE THE **INTRODUCTORY, FINANCIAL, AND STATISTICAL** SECTIONS.
- B. THE **GOVERNMENT-WIDE FINANCIAL STATEMENTS** ARE THE STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES. **GOVERNMENT-WIDE STATEMENTS** ARE PRESENTED USING THE ECONOMIC RESOURCES MEASUREMENT FOCUS AND THE ACCRUAL BASIS OF ACCOUNTING.
- C. THE **GOVERNMENTAL FUND STATEMENTS** ARE THE BALANCE SHEET AND THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES. **GOVERNMENTAL FUND STATEMENTS** ARE PRESENTED USING THE CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS AND MODIFIED ACCRUAL BASIS OF ACCOUNTING.
- D. THE **PROPRIETARY FUND STATEMENTS** ARE THE STATEMENT OF NET POSITION (OR BALANCE SHEET), STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION, AND THE STATEMENT OF CASH FLOWS. THE **PROPRIETARY FUND STATEMENTS** ARE PREPARED USING THE ECONOMIC RESOURCES MEASUREMENT FOCUS AND THE ACCRUAL BASIS OF ACCOUNTING.
- E. THE **FIDUCIARY FUND STATEMENTS** ARE THE STATEMENT OF FIDUCIARY NET POSITION AND THE STATEMENT OF CHANGES IN FIDUCIARY NET POSITION. **FIDUCIARY FUND STATEMENTS** ARE PREPARED USING THE ECONOMIC RESOURCES MEASUREMENT FOCUS AND THE ACCRUAL BASIS OF ACCOUNTING.
- F. **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)** IS CONSIDERED TO BE REQUIRED SUPPLEMENTARY INFORMATION (RSI) AND IS PRESENTED IN THE FINANCIAL SECTION AFTER THE AUDITOR'S REPORT. THE REMAINDER OF RSI IS GENERALLY PRESENTED AFTER THE NOTES TO THE FINANCIAL STATEMENTS AND INCLUDES (A) BUDGETARY COMPARISON SCHEDULES, (B ) INFORMATION REGARDING INFRASTRUCTURE ASSETS WHEN USING THE MODIFIED APPROACH (C) SCHEDULES REQUIRED FOR DEFINED CONTRIBUTION PENSION PLANS, AND (D) INFORMATION REQUIRED FOR EXTERNAL FINANCING POOLS.

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

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

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

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

INVESTING ACTIVITIES INVOLVE THE ACQUISITION AND SALE OF INVESTMENTS AS WELL AS CASH RECEIVED FROM INVESTMENT INCOME.

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

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

2-7.

**CITY OF SOUTHERN SPRINGS  
STATEMENT OF NET POSITION  
APRIL 30, 2015**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b>ASSETS:</b>			
CASH AND CASH EQUIVALENTS	\$3,880,000	\$ 850,000	\$4,730,000
RECEIVABLES	750,000	1,330,000	2,080,000
INVENTORIES		520,000	520,000
CAPITAL ASSETS, NET	10,500,000	<u>11,350,000</u>	21,850,000
TOTAL ASSETS	<u>15,130,000</u>	<u>14,050,000</u>	<u>29,180,000</u>
 <b>LIABILITIES:</b>			
ACCOUNTS PAYABLE	650,000	659,000	1,309,000
NONCURRENT LIABILITIES	<u>5,350,000</u>	<u>3,210,000</u>	<u>8,560,000</u>
TOTAL LIABILITIES	<u>6,000,000</u>	<u>3,869,000</u>	<u>9,869,000</u>
 <b>NET POSITION:</b>			
NET INVESTMENT IN CAPITAL			
ASSETS	5,150,000	8,140,000	13,290,000
RESTRICTED FOR DEBT SERVICE	754,000	223,000	977,000
UNRESTRICTED	<u>3,226,000</u>	<u>1,818,000</u>	<u>5,044,000</u>
TOTAL NET POSITION	<u>\$9,130,000</u>	<u>\$10,181,000</u>	<u>\$19,311,000</u>

2-8.

**CITY OF NORTHERN PINES  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET(EXPENSE)REVENUE AND CHANGE IN NET POSITION</u>		
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<u>GOVERNMENTAL ACTIVITIES:</u>						
GENERAL GOVERNMENT	\$10,100,000	\$1,110,000		\$(8,990,000)	\$	\$(8,990,000)
PUBLIC SAFETY	22,900,000	1,210,000	\$ 698,000	(20,992,000)		(20,992,000)
PUBLIC WORKS	11,890,000			(11,890,000)		(11,890,000)
HEALTH AND SANITATION	6,210,000	2,555,000	1,210,000	(2,445,000)		(2,445,000)
CULTURE AND RECREATION	4,198,000	2,198,000		(2,000,000)		(2,000,000)
INTEREST ON LONG-TERM DEBT	1,021,000			( 1,021,000)		(1,021,000)
TOTAL GOVERNMENTAL ACTIVITIES	<u>56,319,000</u>	<u>7,073,000</u>	<u>1,908,000</u>	<u>(47,338,000)</u>		<u>(47,338,000)</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>						
WATER AND SEWER SYSTEM	11,550,000	12,578,000	----	----	1,028,000	1,028,000
PARKING SYSTEM	<u>419,000</u>	<u>398,000</u>	----	----	<u>(21,000)</u>	<u>21,000</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>11,969,000</u>	<u>12,976,000</u>	----	----	<u>1,007,000</u>	<u>1,007,000</u>
TOTAL – PRIMARY GOVERNMENT	<u>\$68,288,000</u>	<u>\$20,049,000</u>	<u>\$1,908,000</u>	<u>(47,338,000)</u>	<u>1,007,000</u>	<u>(46,331,000)</u>
<u>GENERAL REVENUES:</u>						
PROPERTY TAXES				27,112,000		27,112,000
SALES TAXES				20,698,000		20,698,000
INVESTMENT EARNINGS					319,000	319,000
SPECIAL ITEM-GAIN ON SALE OF LAND				1,250,000		1,250,000
TRANSFERS				<u>(688,000)</u>	<u>688,000</u>	<u>-----</u>
TOTAL GENERAL REVENUES, SPECIAL ITEMS, AND TRANSFERS				<u>48,372,000</u>	<u>1,007,000</u>	<u>49,379,000</u>
CHANGE IN NET POSITION				1,034,000	2,014,000	3,048,000
NET POSITION, BEGINNING OF YEAR				11,222,000	22,333,000	33,555,000
NET POSITION, END OF YEAR				<u>\$12,256,000</u>	<u>\$24,347,000</u>	<u>\$36,603,000</u>

2-9

**CITY OF EASTERN SHORES GENERAL FUND  
STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE FOR THE YEAR  
ENDED SEPTEMBER 30, 2015**

**REVENUES:**

PROPERTY TAXES	\$28,120,000
SALES TAXES	13,216,000
FEES AND FINES	1,124,000
LICENSES AND PERMITS	1,921,000
INTERGOVERNMENTAL REVENUES	1,368,000
INVESTMENT EARNINGS	<u>654,000</u>
TOTAL REVENUES	46,403,000

**EXPENDITURES:****CURRENT:**

GENERAL GOVERNMENT	\$ 10,252,000	
PUBLIC SAFETY	24,444,000	
PUBLIC WORKS	6,211,000	
HEALTH AND SANITATION	1,163,000	
CULTURE AND RECREATION	2,154,000	
<b>DEBT SERVICE:</b>		
PRINCIPAL	652,000	
INTEREST	<u>821,000</u>	
TOTAL EXPENDITURES		<u>45,697,000</u>

EXCESS OF REVENUES OVER EXPENDITURES 706,000

**OTHER FINANCING SOURCES (USES):**

PROCEEDS OF LONG-TERM, CAPITAL RELATED DEBT	2,210,000	
TRANSFER TO SPECIAL REVENUE FUND	<u>(1,119,000)</u>	
TOTAL OTHER FINANCING SOURCES (USES)		1,091,000
SPECIAL ITEM: PROCEEDS FROM SALE OF LAND		<u>821,000</u>
NET CHANGE IN FUND BALANCE		2,618,000
FUND BALANCE, BEGINNING OF YEAR		<u>1,812,000</u>
FUND BALANCE, END OF YEAR		<u><u>\$4,430,000</u></u>



2-10.

**CITY OF WESTERN SANDS  
WATER AND SEWER FUND  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET POSITION  
YEAR ENDED DECEMBER 31, 2015**

**OPERATING REVENUES:**

<u>CHARGES FOR SERVICES</u>	\$17,687,000
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**OPERATING EXPENSES:**

PERSONNEL SERVICES	\$ 6,977,000	
CONTRACTUAL SERVICES	2,195,000	
UTILITIES	888,000	
REPAIRS AND MAINTENANCE	1,992,000	
DEPRECIATION	<u>5,422,000</u>	
TOTAL OPERATING EXPENSES		<u>17,474,000</u>

OPERATING INCOME	213,000
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**NONOPERATING REVENUES (EXPENSES):**

<u>INTEREST REVENUE</u>	129,000	
STATE AID	100,000	
INTEREST EXPENSE	<u>(534,000)</u>	
TOTAL NONOPERATING REVENUES AND EXPENSES		<u>(305,000)</u>

INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(92,000)
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CAPITAL CONTRIBUTIONS	1,632,000
TRANSFER TO GENERAL FUND	<u>(965,000)</u>

CHANGE IN NET POSITION	575,000
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NET POSITION, BEGINNING OF YEAR	<u>4,500,000</u>
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NET POSITION, END OF YEAR	<u><u>\$5,075,000</u></u>
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2-11.

#	INFORMATION ITEM	STATEMENT	\$ AMOUNT
A.	TOTAL CAPITAL OUTLAY FOR THE COURTHOUSE RENOVATION	STATEMENT OF REVENUES EXPENDITURES & CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS	\$ 10,924,818
B.	TOTAL CASH PAID FOR CAPITAL ADDITIONS FOR THE SOLID WASTE FUND	STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS	\$ 456,179
C.	INTEREST PAID (NOT EXPENSE) ON GENERAL LONG-TERM DEBT	STATEMENT OF REVENUES EXPENDITURES & CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS	\$ 924,818
D.	INTEREST PAID (NOT EXPENSE) ON WATER DEPARTMENT DEBT	STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS	\$ 535,567
E.	CAPITAL ASSET (NET) FOR THE GOVERNMENT'S COMPONENT UNITS	STATEMENT OF NET POSITION (GOVERNMENT-WIDE)	\$ 11,197,985
F.	CONTRIBUTIONS RECEIVED FOR USE BY THE PRIVATE PURPOSE TRUST	STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	\$ 100,000
G.	NONCURRENT LIABILITIES ASSOCIATED WITH GOVERNMENTAL ACTIVITIES THAT ARE DUE IN MORE THAN ONE YEAR.	STATEMENT OF NET POSITION (GOVERNMENT-WIDE)	\$ 39,834,882
H.	NONCASH CONTRIBUTIONS OF CAPITAL ASSETS FOR THE WATER DEPARTMENT.	STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS	\$ 3,085,946

2-12.

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