

Thirteenth Annual Satellite Teleconference

QUESTIONS AND ANSWERS

2008 Annual Governmental
GAAP Update

Government Finance Officers
Association

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Fund Balance/Definitions of
Governmental Fund Types

Pending GASB Statement



Question 1

Which of the following would be reported as *restricted fund balance*?

- A. Prepaid rent
- B. Endowment
- C. Both (A) and (B)
- D. **None of the above**



Question 2

Which of the following would never be a positive balance in a special revenue fund?

- A. Restricted
- B. Limited
- C. Assigned
- D. **Unassigned**



Question 3

How would a limitation on spending imposed by a resource contributor be categorized?

- A. **Restricted**
- B. Committed
- C. Assigned
- D. (A) or (B)



Question 4

The governing body of a city with a 6/30 FYE votes early in July to require that specified resources be spent only for a specified purpose. How should that constraint be reflected in *fund balance*?

- A. Restricted
- B. Committed
- C. Either (A) or (B)
- D. **None of the above**



Question 5

What is the key difference between *restricted* and *committed*?

- A. Duration
- B. Form
- C. Enforceability**
- D. Focus on availability



Question 6

Assigned fund balance is designed to reflect the intent of:

- A. Management
- B. Governing body**
- C. Either (A) or (B)



Question 7

How may a stabilization (“rainy day”) fund be reported?

- A. Special revenue fund
- B. Restricted (general fund)
- C. Committed (general fund)
- D. Assigned (general fund)
- E. **Either (B) or (C)**



Question 8

The basis for establishing a special revenue fund should be:

- A. Earmarked resources
- B. **Revenue sources**
- C. Either (A) or (B)



Question 9

A capital projects fund may be established to account for the acquisition of which of the following?

- A. Fire trucks
- B. Building improvements**
- C. Equipment
- D. None of the above



Question 10

The term *nonspendable fund balance* essentially covers the same items encompassed by the traditional term *reserved fund balance*.

True **False**



New Practice Guidance from GASB

Revision of GASB's
Comprehensive
Implementation Guide



Question 1

How should an easement to use the land
underlying a highway be reported?

- A. As an integral part of the highway (like the various “bundled” rights commonly associated with land)
- B. As a separate asset at estimated fair resale value
- C. As a separate asset at estimated acquisition cost
- D. As a separate asset at the estimated cost of the land
- E. **(C) or (D)**



Question 2

How should FEMA payments be treated?

- A. **Reported as revenue**
- B. Netted against related losses
- C. Reported as a *special item*
- D. Either (A) or (B)



Question 3

Which of the following would automatically improve if resources were placed in an OPEB trust rather than held in some other manner?

- A. Discount rate
- B. Unfunded actuarial accrued liability
- C. Annual required contribution
- D. All of the above
- E. **Both (B) and (C)**



Question 4

How should infrastructure maintenance costs related to the containment or removal of hazardous materials be treated?

- A. As an integral part of infrastructure maintenance
- B. As a pollution remediation expense
- C. As a pollution remediation asset
- D. **Either (B) or (C)**



Question 5

The rules governing interest capitalization apply to intangible capital assets?

True False



Question 6

Which of the following statements is true regarding the capitalization of data conversion costs?

- A. Never capitalize
- B. Always capitalize
- C. Capitalize for payroll**
- D. Capitalize for purchasing
- E. Both (C) and (D)



Question 7

An intangible capital asset is presumed to have an indefinite useful life.

True False



Question 8

Which of the following is true regarding land use rights?

- A. Always report as a separate asset
- B. Never report as a separate asset
- C. **Report separately if acquired separately**



Question 9

Employees have the option upon retirement to receive a lump sum payment or healthcare benefits. How should this benefit be classified?

- A. Pension benefit
- B. Pension and OPEB benefits
- C. OPEB benefits
- D. **Either (A) or (B)**



Question 10

Which of the following statements is true regarding OPEB reserves held by pension plans that administer postemployment healthcare?

- A. Always qualify as an OPEB trust
- B. Never qualify as an OPEB trust
- C. Potentially qualify as an OPEB trust**



Derivative Instruments

GASB Statement No. 53



Question 1

To qualify as a derivative, an arrangement must substantially reduce the volatility associated with changes in cash flows or fair value.

True **False**



Question 2

What is the function of a derivative?

- A. To serve as an investment
- B. To offset volatility
- C. To lower the cost of borrowing
- D. **Any of the above**



Question 3

In a pay fixed/receive variable interest-rate swap, the synthetic payment is the difference between the amount paid and the amount received?

True **False**



Question 4

Which of the following is an essential characteristic of a derivative?

- A. **Reference rate**
- B. Notional amount
- C. Payment provision
- D. All of the above



Question 5

In addition to settlement factors, an essential feature of a derivative is

- A. Leverage
- B. Net settlement
- C. Both (A) and (B)**
- D. Neither (A) nor (B)



Question 6

Purchase and sales contracts are automatically excluded from the scope of GASB Statement No. 53.

True **False**



Question 7

If a hedged item is valued at cost, how should the hedging derivative be valued?

- A. **Fair value**
- B. Cost
- C. Either (A) or (B)



Question 8

How should changes in the reported value of a derivative be reported?

- A. Investment income
- B. Deferred inflow/outflow
- C. Contra-equity
- D. **Either (A) or (B)**



Question 9

Does the following interest-rate swap qualify as an effective hedge based on the synthetic instrument method?

Variable rate debt \$100 Million (Index A = 2.16%)

Contract terms (\$100 Million notional amount):

Payment fixed (3.25%)	\$3,250,000
Receipt variable (Index B = 2.85%)	<u>(2,850,000)</u>
Net payment	\$ 400,000
Current debt service (Index A = 2.16%)	<u>\$2,160,000</u>
Total payments (i.e., debt service + contract)	\$2,560,000

No: $\$2,560,000/\$3,250,000 = 79\% < 90\%$



Question 10

Does the following hedging arrangement qualify as an effective hedge based on the dollar-offset method?

Change in value of hedging instrument	+\$77
Change in value of hedged item	+\$90

**Yes: $\$77/\$90 = 86\% > 80\%$
Yes: $\$90/\$77 = 117\% < 125\%$**



Reporting Deficiencies and Technical Clarifications

Certificate of Achievement
Program



Question 1

What is the appropriate date for the letter of transmittal?

- A. The end of the fiscal year
- B. The end of audit field work
- C. The date of the independent auditor's report
- D. The date the report is released
- E. Either (C) or (D)**



Question 2

Which of the following should be included in the calculation of *net assets invested in capital assets net of related debt*?

- A. Unexpended proceeds of debt
- B. Accrued liabilities
- C. Intangible assets**
- D. Unamortized issuance costs



Question 3

A capital asset used in a function reported in the general fund is moved to an enterprise fund. How would the receipt of the asset be reported 1) in the enterprise fund financial statements and 2) in business-type activities in the government-wide financial statements?

- A. Capital contribution/capital contribution
- B. Transfer/transfer
- C. Transfer/capital contribution
- D. Capital contribution/transfer**



Question 4

A general government function takes the unusual step of selling a large tract of land originally acquired for development. The proceeds of the sale are significant, but not the difference between that amount and the carrying value of the land. How should the transaction be classified in 1) the governmental fund statements and 2) the government-wide statements?

- A. Extraordinary item/extraordinary item
- B. Special item/special item
- C. Special item/gain or loss**
- D. Other financing source/gain or loss



Question 5

Assume that Department A of the general fund transfers current financial resources as follows:

Department B (general fund)	\$100
Debt service fund	50
Enterprise fund	<u>25</u>
Total transfers out	\$175

What amount would be reported as *transfers out* in 1) the general fund and 2) the government-wide statements?

- A. \$175/\$175
- B. \$75/\$75
- C. \$75/\$25**



Question 6

A government issues \$1 Million par value debt at a premium of \$15,000. Underwriters' fees of \$20,000 were withheld from the proceeds. How should the issuance of the debt be reflected in the governmental fund financial statements?

A.	Cash	\$995,000	
	OFS - Debt		\$ 995,000
B.	Cash	\$995,000	
	Expenditures – issuance costs	20,000	
	OFS – Debt		\$1,015,000
C.	Cash	\$995,000	
	Expenditures – issuance costs	20,000	
	OFS – Debt		\$1,000,000
	OFS – Premium		15,000



Question 7

Assume the following about the liability for compensated absences in the general fund:

Amount expected to be paid within 12 months (including \$2 due to separated employees)	\$100
Amount expected to be paid after 12 months	<u>\$500</u>
Total	\$600

What portion of that liability, if any, should be reported 1) in the governmental fund balance sheet and 2) as a current liability in the government-wide statements?

- | | |
|---------------------|----------------|
| A. \$2/\$100 | C. \$100/\$100 |
| B. \$2/\$600 | D. \$100/\$600 |



Question 8

A government has a position in a statewide investment pool. For purposes of disclosing interest-rate risk, what maturity should be used?

- A. **The average maturity of the pool's investments**
- B. The maturity of individual investments in the pool
- C. No interest-rate risk disclosure is required for positions in pools



Question 9

Which of the following accounts cannot report a negative balance?

- A. Reserved fund balance
- B. Designated fund balance
- C. Pooled cash and investments
- D. **All of the above**



Question 10

Cash flows related to the amount reported as *capital contributions* in the statement of revenues, expenses, and changes in net assets should be classified as *capital and related financing activities* in the statement of cash flows

True False

