

1979

Experimentation booklet: An experiment in government accounting an reporting, September 1979

American Institute of Certified Public Accountants. State and Local Government Accounting Committee

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EXPERIMENTATION BOOKLET

**An Experiment in Government Accounting and
Reporting by the AICPA State and Local
Government Accounting Committee**

September 1979



American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

September 24, 1979

To officials of state and local government units and others
interested in state and local government accounting:

The accounting principles that state and local government units use to prepare general purpose financial statements for external users have been criticized in recent years, and suggestions have been made to change those principles to provide for the application of full accrual accounting to all funds under the control of a government unit and the consolidation of all their financial statements. Because the implications of such a radical change in government accounting are not entirely clear, the AICPA State and Local Government Accounting Committee is sponsoring an experiment to develop further knowledge and understanding of the proposed principles. The committee is asking state and local government units of all sizes to prepare, for study by the committee, financial statements for a recently ended fiscal period in conformity with the proposed principles as they are explained and illustrated in the enclosed booklet, and to complete the enclosed questionnaire.

The experiment will provide information both on the reactions of the participants to the proposed principles and on practical problems encountered in their implementation. The committee believes that the information will be useful in deciding whether present generally accepted accounting principles for government units should be changed. The Municipal Finance Officers Association supports the experiment and looks forward to the results being made available to the National Council on Governmental Accounting.

If you are an official of a state or local government unit, your participation in the experiment will aid the development of government accounting and will be acknowledged in the published results. If you do decide to participate, please let us know as soon as possible because financial statements and questionnaires should be completed by April 30, 1980. Permission for a needed delay in completion will be considered, however.

Officials of state and local government units that decide not to participate in the experiment and others interested in government accounting can make an important contribution to the committee's project too by commenting on the desirability of the principles set forth in the experimentation booklet. Comments may be made by letter or by answering the applicable sections of the enclosed questionnaire.

Sincerely yours,

Frank S. Belluomini,
Chairman
State and Local Government Accounting Committee

Paul Rosenfield,
Director
Accounting Standards Division

EXPERIMENTATION BOOKLET

An Experiment in Government Accounting and Reporting by the AICPA State and Local Government Accounting Committee

NATURE OF THE EXPERIMENT

Present generally accepted accounting principles (GAAP) for government units are set forth in the AICPA audit and accounting guide, *Audits of State and Local Governmental Units*, and in *Governmental Accounting, Auditing and Financial Reporting* and Statement 1, *Governmental Accounting and Financial Reporting Principles*, of the National Council on Governmental Accounting. Those principles have been called inadequate to meet the needs of such external users of the general purpose financial statements of state and local government units as citizens and creditors. The principles are said to produce general purpose financial statements that do not provide information on cost of services, that use more than one basis of accounting, and that do not provide a meaningful summary of financial position and results of operations. In response to such criticism, the AICPA State and Local Government Accounting Committee has developed for government units experimental principles that it believes should be studied to determine whether they provide more useful financial information and more informative disclosures.

This experimentation booklet presents the experimental principles developed by the committee. Essentially, the experimental principles involve the application of full accrual accounting to all funds and account groups and the consolidation of their financial statements. The purposes of the experiment are to test the usefulness and practicality of the principles by applying them experimentally by state and local government units and to obtain the comments of the experimenters and others. The committee believes the results of the experiment will be useful in deciding whether present GAAP for government units should be changed.

For its study, the committee requests state and local government units of all sizes to prepare financial statements for a recently ended fiscal period in conformity with the experimental accounting principles set forth in this booklet. The statements should consist of a balance sheet, a statement of financial activity, and a flow-of-financing-resources statement, accompanied by notes. (This booklet defines *financing resources* as cash and investments in the illustrations of flow-of-financing-resources statements.) The statements may be prepared using either the form of the illustrative financial statements included in this experimentation booklet or in some other form consistent with the experimental principles discussed. Because the statements are

experimental, they should not be issued to external users as a substitute for those prepared under present GAAP.

If possible, government units participating in the experiment should apply the principles in as detailed and precise a manner as would be required in general purpose financial statements for external users. A participant may find, however, that applying some of the principles in that manner may take too much time for experimental purposes, even though the time required would be acceptable for external purposes. To apply those principles for experimental purposes, the participant may adopt shortcut procedures involving estimates—for example, estimates of depreciation.

Government units that intend to participate in the experiment should inform Leonard Lorensen at the American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, New York 10036, as soon as possible (telephone 212-575-3859). In addition to submitting experimental financial statements, participants are requested to complete the questionnaire included with this booklet.

The committee encourages nonparticipants who are interested in government accounting to comment on the desirability of the experimental principles described in this booklet. Comments may be made by letter or by answering the applicable sections of the questionnaire included with this booklet. Participants should send completed questionnaires and financial statements, and nonparticipants should send letters of comment or completed questionnaires, to Mr. Lorensen at the Institute by April 30, 1980.

INFORMATION FOR EXTERNAL USERS

In recent years, government has become more complex and its economic effects have grown significantly. Along with that growth have come greater visibility and greater demand for accountability. Because the public, elected representatives, holders of debt obligations, and creditor related parties (such as bond-rating agencies and bond counsels) are becoming more interested in the financial activities of government units, it may be argued that more understandable and usable financial statements will be needed—financial statements that (a) are concise and easy to read, (b) are presented in a usable and meaningful format, (c) apply similar accounting principles to all parts of a government entity, and (d)

most importantly, provide information that is useful and serves users' needs.

The experimental principles discussed in this booklet are designed for the external general purpose financial statements of government units. The experimental reporting formats discussed in this booklet are not designed to displace the comprehensive fund-by-fund or fund-type accounting and reporting systems that many government units provide for various purposes. They are also not designed to replace any type of internal reporting deemed desirable by a government unit.

The committee considered the fundamental principles presently underlying government accounting and the principles being applied in other areas. Each experimental principle discussed in this booklet was considered on its own merits and evaluated according to whether its application had the potential of serving certain needs of users of nonbusiness general purpose financial statements. Those needs have been described by Robert N. Anthony in *Financial Accounting in Nonbusiness Organizations* (Financial Accounting Standards Board, 1978) as follows: (1) to assess the organization's ability to continue to provide the services for which it exists, (2) to determine whether the organization has complied with spending and other fiscal mandates, (3) to assess the effectiveness of management performance, and (4) to obtain information about the cost of services provided.

Many of the experimental principles set forth in this booklet are used by business enterprises organized for profit. However, there is no reason why they should not be used by government units—a principle should be employed by any type of organization for which it is useful.

REPORTING ON A SINGLE ENTITY

Defining the Reporting Entity

In reporting on government operations, it is necessary to determine what constitutes the reporting entity. That is particularly difficult in the government area because of the multitude of funds, activities, and agencies having overlapping responsibilities. For purposes of this experiment, the reporting entity for general purpose financial statements should consist of all functions, programs, and activities that are controlled by or are dependent on a government unit's legislative or executive body. If one government unit is dependent on another, the dependent unit should be reported as part of the other. A controlling or dependent relationship exists under one or more of the following circumstances: (1) budget adoption, (2) taxing authority, (3) debt issuance secured by general obligations, and (4) financing of deficits. Control or dependence does not result from federal or state aid or grants, statutory powers given one government unit or official to formally approve another unit's actions, or constitutional or statutory authority limiting a government unit to specific authority.

The foregoing definition does not imply that the financial statements of all political subdivisions within a given state should be consolidated in the financial statements of the state; however, guarantees of the debts of those subdivisions by a state should be disclosed.

Fund Accounting

Fund accounting was originally developed to account for the stewardship responsibilities of organizations. Because government units originally provided a limited variety of services, fund accounting and reporting was suitable as a control technique to account for those units. However, the growth of government activities has caused the development of numerous and complex funds within government units. The view has been expressed that reporting separately on each fund or group of funds of the same type has become cumbersome and that the resulting fragmentation of the entity has made it difficult for the user of a government report to understand the activities of the unit as a whole.

Reasons often given for reporting on each fund as a separate entity are that each fund is based on legal requirements, all funds have distinct purposes that should not be combined, and the stewardship responsibility of a government unit requires each function to be accounted for separately. Although those reasons are understandable, some contend that government operations are too complex to permit reporting on only separate interests in the general purpose financial statements—an overall view of operations is needed. For purposes of this experiment, the fund types should be consolidated for general reporting purposes. If legal requirements cannot be fulfilled unless funds are reported separately or if the unit desires to report on a fund-type basis, financial information for the individual funds or fund types could be included in the report as supplementary information.

Need for Consolidating Funds

It has been argued that a single overall report that provides a composite picture of the government unit as a single economic entity provides the reader with the information needed to assess the unit's solvency, evaluate management's effectiveness in financial matters, assess the cost of programs, and review the source and use of resources. Program activities of an organization would be reported in a concise manner rather than spread over several funds or fund types. In the process of consolidating the individual fund statements, the reporting of interfund balances, revenue, and expenses would be eliminated. Consolidation of funds would be facilitated by having all funds use the same accounting principles for external general purpose financial statements. Also, a single consolidated set of financial statements with operating information presented for separate functions would make the overall comparison of financial activities and trends of government units, particularly government units that have

similar activities and programs, more relevant and practical than it now is.

The proposal of a single consolidated set of financial statements is not new. Many nongovernment organizations and a few government units that use fund accounting have been restructuring their reports to present consolidated information.

Trust and Agency Funds

Accountability for trust and agency funds is often part of the responsibilities of a government unit. If the unit has stewardship responsibility for those funds because they meet the criteria for control described above, the funds should be included as part of the government unit for the purposes of this experiment. Pension and similar funds that are not separately controlled by a fiduciary (for example, taxes withheld from employees, taxes collected for other government units, and performance bond deposits) should be included in the consolidated financial statements. However, pension and other deferred compensation plans under which contributions are irrevocable and under the complete power of a separate trustee are examples of trust and agency funds that do not meet the control criteria, and those funds should not be part of the general purpose financial statements.

Cooperative Ventures

Under the experimental principles set forth in this booklet, the equity method of accounting should be used for intergovernmental cooperative ventures—for example, the Dallas-Fort Worth Regional Airport Board and the Port Authority of New York and New Jersey. Under that method, the government unit initially records its cost as the carrying amount of the venture. The carrying amount is adjusted by the government unit's share of an excess or deficit of current revenues compared with the cost of current operations for a period.

BASIC FINANCIAL STATEMENTS

For purposes of this experiment, the basic financial statements of a government unit should consist of a balance sheet, a statement of financial activity, a flow-of-financing-resources statement, and related notes. Illustrative basic financial statements for a city are included in this booklet.

The major components of the balance sheet should be unrestricted assets, restricted assets, property, plant and equipment, bonded debt, other liabilities, and government capital. Restricted assets should be assets restricted by outsiders, such as lenders, grantors, or revenue from special taxes. The government capital section should show separate unrestricted and restricted balances, and the unrestricted balance should be classified into appropriated and unappropriated balances. The sources of restrictions and the amounts involved, as well as other information that describes the nature of the restrictions, should be disclosed in the notes.

The statement of activity should show total costs by function, related revenues classified by user charges and intergovernmental revenue, and net function costs. General use revenues, by source, should follow net function costs. The difference should be captioned "Excess (deficit) of current revenues over costs of current operations." The addition of the excess to, or deduction of deficit from, the beginning capital balance results in the ending capital balance.

For the purpose of preparing a flow-of-financing-resources statement, one alternative is to define *financing resources* as cash and investments. Another alternative is to define financing resources as working capital reported on the balance sheets for enterprise funds or as those assets and liabilities reported on the balance sheets for government funds under NCGA Statement 1. In this booklet, *financing resources* are defined as cash and investments in the illustrative flow-of-financing-resources statements.

The flow-of-financing-resources statement should present the balance of financing resources at the beginning and end of the period and the increases and decreases in financing resources during the period. Financing resources derived from operations may be calculated by (1) adding and subtracting receipts and disbursements of financing resources or (2) adding and subtracting adjustments to or from the difference between revenue and expenses in the statement of activity. (Both variations are illustrated in the flow-of-financing-resources statements included in this booklet.)

To provide adequate disclosure, notes to the financial statements should be included as well as segment information of the type described in FASB Statement no. 14.

ACCRUAL ACCOUNTING

Need for Accrual Accounting

An accrual accounting system is needed to produce a statement of the cost of services provided by the government entity and the revenues that financed those services. Cash basis accounting permits the cost of services to be recorded only when payment is made for the services and permits revenues to be recorded only when money is collected from taxes and other sources. Because services are commonly provided before or after payment is made, and taxes are levied and become legally enforceable claims before the taxes are collected, a cash basis accounting system could produce a misleading statement of both the cost of services provided and the revenues that financed those services. An accrual accounting system permits costs and revenues to be recorded independently of payments and collections. Furthermore, accrual accounting reduces the ability to reflect a desired financial statement result by speeding up or deferring cash payments.

Accrual accounting is also needed to produce a complete statement of the resources, obligations,

and capital of the government entity. For government accounting, resources include receivables pertaining to legally enforceable claims for taxes, licenses, and other revenue-raising devices. Obligations include payables pertaining to legally enforceable liabilities for services, such as wages and insurance. Receivables and payables of those types cannot be reported under a cash basis accounting system. Accrual accounting also permits reporting nonmonetary assets and long-term debt.

Some have argued that accrual accounting would not be appropriate for government units because budgets are not usually prepared on an accrual basis and comparison of financial statements to budgets would be misleading. Although information to which budgets are compared should be prepared on the same basis as the budgets, that requirement need not prevent the use of accrual accounting. If budgets prepared on other than the accrual basis are included in external general purpose financial statements, historical information prepared on the same basis should be included for comparison purposes, and that information should be clearly distinguished from that prepared under accrual accounting. For purposes of this experiment, inclusion of budget information in the external general purpose financial statements is optional.

Applying Accrual Accounting

Expense Recognition. Under the experimental principles set forth in this booklet, expenses should be recognized when goods and services for which costs were incurred are provided to beneficiaries or are used in operations. The same approach is taken in accounting for business enterprises, and costs in government accounting that are similar to those in business enterprise accounting should be recognized as expenses in a similar manner.

Revenue Recognition. For the purposes of this experiment, revenue from operations of enterprise funds should be recognized when goods or services are exchanged. Revenue derived from the imposition of taxes—which are interpreted to include licenses, fines, permits, and other similar items—does not result from sales and requires a recognition approach different from that taken in accounting for business enterprises.

For experimental purposes, claims to taxes should be recorded as receivables by a government unit when all of the following criteria are met:

1. All substantive events have occurred to give rise to a legally enforceable claim except the passage of time.
2. Collection of the claim is probable. (Probability may be determined by aggregating individual claims and estimating an allowance for uncollectible amounts on the basis of collectibility experience.)
3. Revenue pertaining to a tax the amount of which is initially calculated by the taxpayer—

for example, sales and income taxes—must be estimable by the government unit with reasonable accuracy.

Applying those criteria, claims to taxes calculated initially by the government unit should be recorded as receivables when the tax is formally levied by the legislative body, which, for real estate taxes, is the assessment date. Claims to taxes calculated initially by the taxpayer should be recorded as receivables when the events that give rise to the taxes occur. For sales taxes, that event is the collection by the taxpayer of taxes on sales made during the period. For income taxes, that event is the earning of taxable income, as defined by the government unit, during the period.

The selection of a method of estimation and determination about the accuracy of the estimate are matters of judgment for the accountants preparing the financial statements. If estimates cannot be made with reasonable accuracy, no claim to taxes should be recorded as a receivable. For the purpose of this experiment, however, most government units should be able to make estimates of sales and income taxes that are accurate enough to justify immediate recording of receivables.

The receipt or accrual of taxes in accordance with the foregoing criteria should be recognized as current period revenue. However, a legislative body may have specified as part of a tax levy that the taxes have been assessed to apply to the cost of goods and services to be provided in the next succeeding period. If so, the receipt or accrual of taxes should be recorded as deferred revenue (a balance sheet credit outside the government capital section) in the current period, and revenue should be recognized in the next succeeding period.

Fixed Assets and Depreciation

As used in this booklet, the term *fixed assets* refers to exhaustible and nonexhaustible long-lived assets used in providing government services. Exhaustible fixed assets include movables, buildings, roads, bridges, water and sewer lines, viaducts, and tunnels. Nonexhaustible fixed assets include land, works of art, and monuments. Under the experimental principles set forth in this booklet, exhaustible fixed assets should be recorded as assets and depreciated over their estimated useful lives. Nonexhaustible fixed assets should be recorded as assets but not depreciated.

The services of one government unit may be compared to those of another, in part, by cost determinations. Depreciation of fixed assets used in providing services is an element of the cost of services. Depreciable fixed assets are both valuable and exhaustible; thus, there is a cost associated with using an asset, whether it is owned or rented and whether it is used by a profit or nonprofit organization.

The capitalization of fixed assets can provide additional benefits to a government unit. Fixed asset records can be periodically reviewed to determine whether assets are properly controlled; the respon-

sibility for the custody of assets as well as their effective use can be established, and information on sources of supply, prices, and useful lives would be available. The amount of capital grants used to purchase fixed assets can be determined, and information for insurance needs that is helpful in substantiating recoverable losses would be available.

For purposes of this experiment, fixed assets should be capitalized at cost or, if donated, at fair value at the date of the gift. Government units that have not capitalized fixed assets in the past should do so retroactively. Historical cost or fair value at date of gift may be estimated if necessary.

Under present GAAP, depreciation is not required to be recorded by government units for general operations. Consequently, the cost of using resources can be overstated in the years an asset is acquired and understated in the years the asset is used but not depreciated. Depreciation is not an exact measurement of the cost to use an asset but provides an allocation of that cost over the benefited periods.

Some believe that by recording depreciation, the cost of assets will be charged to expense twice—once when they are purchased and again when they are depreciated. If depreciation were recorded under the present flow-of-funds system of government accounting, that would occur; but under the cost basis of reporting it would not occur. Also, depreciation does not fund the purchase of assets, as some believe. Depreciation is an allocation process that spreads the cost of an asset over its useful life in an attempt to reflect the expiration of the usefulness of the assets and is not a financing process. Finally, payments on debt incurred to purchase assets, which have a legitimate place in a statement of flow-of-financing resources, should not be considered as amounts comparable to depreciation. Such payments rarely correspond to the expiration of the usefulness of the assets.

Encumbrances

NCGA Statement 1 defines *encumbrances* as “commitments related to unperformed (executory) contracts for goods and services,” and states they can be recorded for budgetary control purposes. Because encumbrances represent only commitments (that is, the goods or services have not been received), they should not be recorded as liabilities or as part of the cost of goods or services for purposes of this experiment.

Pensions

Pensions represent a substantial and growing expense to government units and the obligation for pensions is important information to readers of government financial statements. For the purposes of this experiment, pension costs should be accrued on the basis of one of the acceptable actuarial methods specified in Opinion 8 of the AICPA Accounting Principles Board, *Accounting for the Cost of Pension Plans* (1966), and the disclosure requirements

of the opinion should be followed. Pension costs accrued but not paid or irrevocably funded should be recorded as a liability.

ILLUSTRATIVE FINANCIAL STATEMENTS

The illustrative financial statements that follow are intended to demonstrate how the reporting practices discussed in this booklet could be incorporated into a set of financial statements. They should not be considered the only appropriate formats. Those who participate in the experiment should prepare financial statements in formats most appropriate for their own circumstances, consistent with the reporting practices discussed in this booklet.

City of Example
Consolidated Statement of Financial Activity
Years Ended September 30, 1978 and 1977
(In thousands of dollars)

	1978				1977 Net Costs
	Total Costs	Inter- Governmental	Customer Charges and Other	Net Costs	
General government					
Mayor and Council	\$ 230	\$ -	\$ -	\$ 230	\$ 165
City manager	404	-	-	404	354
Support activities	42,505	158	5,173	37,174	34,400
Public safety					
Police	47,154	3,337	265	43,552	41,825
Fire	30,544	4	385	30,155	29,257
Other	2,987	57	-	2,930	2,811
Public works					
Public works	8,677	-	15	8,662	8,125
Streets	15,138	-	934	14,204	13,812
Sanitation	10,120	-	7,602	2,518	3,125
Human resources					
Public health	3,291	180	524	2,587	2,725
Environmental health	2,396	-	51	2,345	2,750
Human development	9,208	8,409	503	296	259
Culture and recreation					
Parks and recreation	18,660	159	1,629	16,872	14,625
Library	6,202	630	2,184	3,388	4,287
Convention center	5,913	-	1,962	3,951	4,125
Radio	933	-	707	226	250
Urban redevelopment					
Housing	4,239	13	1	4,225	3,975
Community center	2,614	-	-	2,614	2,247
Planning and zoning	1,160	-	134	1,026	1,121
Public utilities					
Water utilities	40,429	-	52,785	(12,356)	(8,711)
Utilities regulation	300	-	-	300	275
Transportation					
Aviation	5,485	-	7,558	(2,073)	(2,125)
Transportation terminals	832	-	162	670	635
Transit	21,497	2,638	15,331	3,528	2,985
TOTAL	\$280,918	\$15,585	\$97,905	167,428	163,297

Departures from the accounting and reporting recommendations in Statement 1 of the National Council on Governmental Accounting (NCGA) made by the unit in preparing financial statements for external users. If no departures are made, please so state.

(To be detached and returned to the AICPA.)

AICPA STATE AND LOCAL GOVERNMENT ACCOUNTING COMMITTEE EXPERIMENT QUESTIONNAIRE

This questionnaire should be completed by all participants in the experiment conducted by the AICPA State and Local Government Accounting Committee. Nonparticipants are encouraged to complete the first thirty-one questions. The questionnaire is essential to accomplish one of the major purposes of the experiment, which is to assess the usefulness and practicality of the experimental accounting and reporting principles set forth in the experimentation booklet.

Each question should be answered in the space provided or on a separate sheet if more space is needed. If separate sheets are used, the number of the question being answered should be inserted at the top of each sheet. If the answer to a particular question can be found in other material submitted to the committee by a participant or nonparticipant—for example, in a note to the financial statements or in a letter—the question may be answered by cross-reference to that material.

Identification of Respondent

Name of person responsible for completing this questionnaire:

Address:

Telephone:

Position:

If you are an official of a state or local government unit, please provide the following information about the unit.

Name of unit:

Type of unit:

Population of political jurisdiction of the unit:

Amount of unit's operating budget:

Amount of unit's capital budget:

Frequency with which an audit is performed by independent accountants. If no audit is performed, please so state:

Departures from the accounting and reporting recommendations in Statement 1 of the National Council on Governmental Accounting (NCGA) made by the unit in preparing financial statements for external users. If no departures are made, please so state:

This questionnaire should be completed by all participants in the experiment conducted by the AICPA State and Local Government Accounting Committee. Nonparticipants are encouraged to complete the first thirty-one questions. The questionnaire is essential to accomplish one of the major purposes of the experiment, which is to assess the usefulness and practicality of the experimental accounting and reporting principles set forth in the experimentation booklet. Each question should be answered in separate sheets. The number of the question being answered should be inserted at the top of each sheet. If the answer to a particular question can be found in other material submitted to the committee by a participant or nonparticipant—for example, in a note to the financial statements or in a letter—the question may be answered by cross-reference to that material.

Evaluation Questions (Participants and Nonparticipants)

1. Which level of combination should be followed in presenting a balance sheet or sheets for a government unit intended for external users?
 - A completely consolidated balance sheet for all fund types and account groups should be presented, as described in this experimentation booklet.
 - A "combined" balance sheet for all fund types and account groups should be presented, as described in Statement 1 of the NCGA.
 - "Combining" balance sheets for all funds of each type should be presented, as described in Statement 1.
 - Individual balance sheets for each fund and account group should be presented.
 - Other (please describe).

2. Why do you favor the level of combination you selected in question 1?

3. Which level of combination should be followed in presenting a statement or statements of financial activity?
 - A completely consolidated statement for all fund types should be presented, as described in this experimentation booklet.
 - "Combined" statements for all the different fund types should be presented, as described in NCGA Statement 1.
 - "Combining" statements for all funds of each type should be presented, as described in NCGA Statement 1.
 - Individual statements for each fund should be presented.
 - Other (please describe).

4. Why do you favor the level of combination you selected in question 3?

Yes

No

5. Which level of combination should be followed in presenting a statement or statements of the flow of financing resources?

A completely consolidated statement for all fund types should be presented, as described in this experimentation booklet.

A "combined" statement for all proprietary fund types should be presented, as described in NCGA Statement 1.

"Combining" statements for all proprietary funds of each type should be presented, as described in NCGA Statement 1.

Individual statements should be presented for each of the funds controlled by the government unit.

Individual statements should be presented for each proprietary fund only.

Other (please describe).

6. Why do you favor the level of combination you selected in question 5?

7. Which of the following approaches do you favor for reporting pension costs in the statement of activity?

Accrual, as described in this experimentation booklet.

Cash basis (if separate pension funds are used to pay pensions).

Pay-as-you-go (if pensions are paid directly by the government unit).

Other (please describe).

8. Why do you favor that approach?

As cash.

As cash and investments.

As working capital, in the case of balance sheets for proprietary funds.

As those assets and liabilities recorded under NCGA Statement 1, in the case of balance sheets for government funds.

Other (please describe).

9. Should depreciation expense on all exhaustible fixed assets be reported in the statement of activity, as described in this experimentation booklet?

- Yes
- No

10. If you answered No to question 9, for what exhaustible fixed assets *would* you report depreciation expense and why would you report it for only those assets?

11. Which of the following approaches to accounting for encumbrances do you favor?

- Encumbrances should be reported in the financial statements as expenditures and liabilities.
- Encumbrances should be reported as reservations of fund balances or disclosed in notes to the financial statements, depending on the circumstances, as recommended in NCGA Statement 1.
- Encumbrances should not be reported in the financial statements but may be used for budgetary control purposes.
- Other (please describe).

12. Why did you choose that approach to accounting for encumbrances?

13. What changes would you make in the approach to accruing receivables in the balance sheet and recognizing revenue in the statement of activity described in this experimentation booklet, and why would you make those changes? If you would make no changes, please so state.

14. What changes would you make in the approach to recognizing expenses (other than depreciation and pension expense) in the statement of activity described in this experimentation booklet, and why would you make those changes? If you would make no changes, please so state.

15. What changes would you make in the classification of assets and liabilities in the balance sheet described in this experimentation booklet, and why would you make those changes? If you would make no changes, please so state.

16. What changes would you make in the classification of government capital in the balance sheet described in this experimentation booklet, and why would you make those changes? If you would make no changes, please so state.

17. How would you define financing resources for the purpose of preparing the flow-of-financing-resources statement described in this experimentation booklet?

- As cash.
- As cash and investments.
- As working capital, in the case of balance sheets for proprietary funds.
- As those assets and liabilities recorded under NCGA Statement 1, in the case of balance sheets for government funds.
- Other (please describe).

18. Why did you select that definition?

19. How would you present financing resources provided by operations in a flow-of-financing-resources statement?

- By listing receipts and disbursements of financing resources.
- By adding or subtracting adjustments to or from the difference between revenue and expenses in the statement of activity.

20. What is the reason for your choice in question 19?

21. In *Financial Accounting in Nonbusiness Organizations* (FASB, 1978, pages 48 through 52), Robert N. Anthony discusses four types of information needed by users of financial statements of nonbusiness organizations: (1) financial viability, (2) fiscal compliance, (3) management performance, and (4) cost of services provided. Do you believe financial statements prepared in conformity with the experimental accounting and reporting principles described in this experimentation booklet are superior or inferior to financial statements prepared in conformity with the accounting and reporting principles presently used by government units in providing these four types of information? In answering, please use a rating scale from -3 (very inferior) to +3 (very superior). A zero rating denotes equality of usefulness.

	<u>Financial Viability</u>	<u>Fiscal Compliance</u>	<u>Management Performance</u>	<u>Cost of Services</u>
+3 (very superior)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
+2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
+1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
0	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
-1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
-2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
-3 (very inferior)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

22. Please explain why you ranked the experimental information as you did in question 21, including why the rankings differ, if they do.

a. Financial viability

b. Fiscal compliance

c. Management performance

d. Cost of services

Other Questions (Participants Only)

23. From the perspective of users of financial statements, are financial statements prepared in conformity with the experimental accounting and reporting principles described in this experimentation booklet more or less useful *in overall terms* than financial statements prepared in conformity with the accounting and reporting principles presently used by government units? In answering, please use a rating scale from -3 (much less useful) to +3 (much more useful). A zero rating denotes equality of usefulness.

- +3 (much more useful)
- +2
- +1
- 0
- 1
- 2
- 3 (much less useful)

24. Why did you rate overall usefulness at the level you did in question 23?

25. The relationship between financial statements and budgets is subject to differences of opinion. Do you believe a government unit should use the same basis to prepare (1) its budget and (2) its general purpose financial statements issued to external users?

- Yes
- No

26. If you answered yes to question 25, do you believe the basis used for budgetary and financial statement purposes should be designed to serve the purposes and objectives of (1) budgets or (2) external general purpose financial statements?

- Budgets
- External general purpose financial statements

27. Please explain why you answered as you did in question 26.

28. Do you believe that inclusion of budgets with external general purpose financial statements should be mandatory?

- Yes
- No

29. If you answered yes to question 28, please explain why you answered as you did.

30. If participation in this experiment or reading this booklet and answering this questionnaire changed any of your views on the accounting and reporting principles that government units should follow in preparing financial statements for external users, please explain the change. If your views did not change, please so state.

34. If the experimental accounting and reporting principles described in this experimentation booklet became mandatory for government units and no shortcut procedures were allowed, do you believe the cost of preparing general purpose financial statements for external users would be higher than, lower than, or the same as the cost presently incurred by your government unit?

31. Please give general comments on the meaningfulness and benefits of the experiment, including whether, and what type of, experimentation should be undertaken in the future.

Same (If this line is checked, please go to question 37.)
 Lower (If this line is checked, please go to question 37.)

35. Please rate numerically the significance of the additional cost you estimate you would have to incur to prepare financial statements for external users. Use a rating scale from 1 (very insignificant) to 4 (very significant). After completion, please go to question 37.

1 (very insignificant)
 2
 3
 4 (very significant)

36. Please rate numerically the significance of the reduction in cost you estimate you would incur to prepare financial statements for external users. Use a rating scale from 1 (very insignificant) to 4 (very significant).

1 (very insignificant)
 2
 3
 4 (very significant)

Other Questions (Participants Only)

32. If you refrained from applying any of the experimental accounting or reporting principles described in this experimentation booklet in carrying out the experiment, which principles did you omit and why? If you applied all the principles, please so state.

37. Please disclose any experimental accounting or reporting principles described in this experimentation booklet that you found to be vague or ambiguous and that required interpretation to apply, and describe the interpretation you made. If no interpretations were required, please so state.

33. Please describe any procedures that you used or estimates that you made to save time in carrying out the experiment (see the discussion of shortcuts in this experimentation booklet) but that are not customarily used in preparing financial statements for external users.

34. If the experimental accounting and reporting principles described in this experimentation booklet became mandatory for government units and no shortcut procedures were allowed, do you believe the cost of preparing general purpose financial statements for external users would be higher than, lower than, or the same as the cost presently incurred by your government unit?

- Higher (If this line is checked, please go to question 35.)
- Lower (If this line is checked, please go to question 36.)
- Same (If this line is checked, please go to question 37.)

35. Please rate numerically the significance of the additional cost you estimate you would have to incur to prepare financial statements for external users. Use a rating scale from 1 (very significant) to 4 (very insignificant). After completion, please go to question 37.

- 1 (very significant)
- 2
- 3
- 4 (very insignificant)

36. Please rate numerically the significance of the reduction in cost you estimate you would incur to prepare financial statements for external users. Use a rating scale from 1 (very significant) to 4 (very insignificant).

- 1 (very significant)
- 2
- 3
- 4 (very insignificant)

37. Please disclose any experimental accounting or reporting principles described in this experimentation booklet that you found to be vague or ambiguous and that required interpretation to apply, and describe the interpretation you made. If no interpretations were required, please so state.

38. Please describe any other difficulties you had in applying the experiment.

City of Example
 Consolidated Statement of Financial Authority
 Years Ended September 30, 1979 and 1977
 (in thousands of dollars)

	1979 Net Costs	1977 Net Costs
Financed by		
Taxes		
Ad valorem	112,498	117,298
Sales	34,516	30,555
Franchise	17,333	14,172
Hotel-motel	2,109	1,717
Other	1,848	1,514
Total taxes	<u>167,798</u>	<u>152,257</u>
Licenses and permits	3,061	2,335
Intergovernmental revenues (unallocated)	13,973	17,319
Fines and forfeitures	5,856	5,564
Interest	8,689	4,983
Other	2,760	840
Total financing	<u>202,137</u>	<u>183,298</u>
Excess of current revenues over costs of current operations	34,709	20,001
Equity in earnings of consolidated regional airport	4,517	3,885
Contributions from contractors and customers	39,226	23,886
Municipal capital (beginning of year)	16,521	14,211
Municipal capital (end of year)	<u>713,857</u>	<u>675,760</u>
	<u>\$769,604</u>	<u>\$713,857</u>

See Notes to Financial Statements.

City of Example
Consolidated Statement of Financial Activity
Years Ended September 30, 1978 and 1977
(In thousands of dollars)

	Net Costs	1977 Net Costs
Financed by		
Taxes		
Ad valorem	112,498	104,299
Sales	34,610	30,555
Franchise	17,333	14,172
Hotel-motel	2,009	1,717
Other	1,348	1,514
Total taxes	167,798	152,257
Licenses and permits	3,061	2,335
Intergovernmental revenues (unallocated)	13,973	17,319
Fines and forfeitures	5,856	5,564
Interest	8,689	4,983
Other	2,760	840
Total financing	202,137	183,298
Excess of current revenues over costs of current operations	34,709	20,001
Equity in earnings of consolidated regional airport	4,517	3,885
Contributions from contractors and customers	39,226	23,886
Municipal capital (beginning of year)	16,521	14,211
Municipal capital (end of year)	713,857	675,760
	\$769,604	\$713,857

See Notes to Financial Statements.

City of Example
Consolidated Balance Sheet
September 30, 1978 and 1977
(in thousands of dollars)

Assets	1978	1977
Unrestricted assets		
Cash and certificates of deposit	\$ 45,875	\$ 44,802
Receivables (net of uncollectibles)	7,551	6,471
Notes receivable	12	13
Inventories at cost	1,629	1,426
Total unrestricted assets	55,067	52,712
Restricted assets (primarily for construction purposes, debt service requirements, and equity in regional airport)		
Cash and investments, at cost approximating market	150,816	147,511
Receivables (net of estimated uncollectibles)	14,788	18,005
Notes receivable	4,480	3,916
Inventories	2,308	2,987
Other assets	1,197	1,401
Equity interest in regional airport	89,889	85,372
Total restricted assets	263,478	259,192
Property, plant, and equipment, at cost		
Land and rights	150,077	158,314
Buildings	191,530	196,015
Improvements other than buildings	733,636	740,522
Other	172,175	163,397
	1,247,418	1,258,248
Less accumulated depreciation	289,350	330,934
Net property, plant, and equipment	958,068	927,314
Total assets	\$1,276,613	\$1,239,218
Liabilities and Municipal Capital		
Liabilities		
Accounts payable	\$ 3,313	\$ 4,005
Accrued interest expense	2,530	2,832
Accrued pension expense	5,000	—
Other accrued expenses	10,331	16,439
Other liabilities	6,610	7,304
	27,784	30,580
General obligation bonds payable	293,923	301,576
Revenue bonds payable	185,302	193,205
Total liabilities	507,009	525,361
Municipal Capital		
Restricted	735,949	669,933
Unrestricted		
Appropriated	19,526	23,345
Unappropriated	14,129	20,579
Total unrestricted	33,655	43,924
Total municipal capital	769,604	713,857
Total liabilities and municipal capital	\$1,276,613	\$1,239,218

See Notes to Financial Statements.

City of Example
Consolidated Statement of Changes in Cash and Investments (Variation 1)
Years Ended September 30, 1978 and 1977
(in thousands of dollars)

	1978	1977
Cash Receipts		
Operations		
Taxes	\$166,892	\$147,612
Customer charges	82,234	80,275
Interest	14,647	13,016
Intergovernmental revenues	33,687	26,419
Other	24,756	34,832
	\$322,216	\$302,154
Outside sources		
Contributions in aid of construction	16,521	14,211
Bond proceeds	22,514	17,419
Other	725	3,004
	39,760	34,634
Total cash receipts	361,976	336,788
 Cash Payments		
Operations		
Personal services	167,814	180,514
Other materials and services	54,786	36,667
Interest	23,271	20,001
	245,871	237,182
Bond principal paid	38,070	40,380
Acquisition of property, plant, and equipment	73,657	35,763
Total cash payments	357,598	313,325
 Increase in cash and investments	4,378	23,463
Cash and Investments (beginning of year)	192,313	168,850
Cash and Investments (end of year)	\$196,691	\$192,313

See Notes to Financial Statements.

City of Example
Consolidated Statement of Changes in Cash and Investments (Variation 2)
Years Ended September 30, 1978 and 1977
(in thousands of dollars)

	1978	1977
Resources Provided by Current Operations		
Excess of current revenues over costs of current operations	\$ 34,709	\$ 20,001
Add operating costs not requiring current resources		
Depreciation	\$27,136	\$31,212
Pension costs not paid to pension plans	5,000	—
Other	756	1,082
	32,892	32,294
Resources from operations	67,601	52,295
 Other Sources		
Contributions in aid of construction	16,521	14,211
Bond proceeds	22,514	17,419
Increase in liabilities	3,747	3,100
Decrease in other assets	4,997	11,544
Other	725	1,037
	48,504	47,311
Total resources available	116,105	99,606
 Uses of Resources		
Acquisition of property, plant, and equipment	73,657	35,763
Bond principal paid	38,070	40,380
	111,727	76,143
Increase in cash and investments	4,378	23,463
 Cash and Investments (beginning of year)	192,313	168,850
Cash and Investments (end of year)	\$196,691	\$192,313

See Notes to Financial Statements.

City of Example
Notes to Consolidated Financial Statements
Year Ended September 30, 1978

Although in practice, notes to comparative financial statements generally are also comparative if they present details of items on the financial statements or are otherwise pertinent, these illustrative notes only contain current year information.

1. Significant Accounting Policies

The accompanying financial statements have been designed to facilitate an understanding of the financial position and results of operations of the City of Example. Accordingly, consolidated financial statements have been prepared because, in the judgment of the city, they represent the most reasonable presentation of its overall financial condition and results of operations.

Basis of Accounting. The financial statements are prepared on the accrual basis of accounting. Assets are recorded at the time there is a right, now or in the future, to their receipt, and liabilities are recorded when they are incurred. Costs are recorded in the period in which they are incurred, and revenues are generally recognized in the period in which the goods and services financed by the revenues are provided.

Purpose of Funds and Account Groups. The city records its transactions in individual funds and groups of accounts to comply with the limitations and restrictions placed on both the resources made available to the city and the services provided. The following individual funds and groups of accounts are aggregated in the accompanying consolidated financial statements:

General Fund	Enterprise Funds
Special Revenue Funds	Internal Service Funds
Debt Service Funds	General Fixed-Assets Account Group
Capital Project Funds	General Long-Term Debt Account Group
Trust and Agency Funds	

A comprehensive annual financial report has been prepared for the individual funds and may be obtained from the city controller's office.

The following pension trust funds are controlled by independent boards:

Example Employees' Retirement Fund
Firemen, Policemen and Fire Alarm Operators' Pension Fund
Example Transit System Retirement Plans

Their assets, held in trust for plan participants, are not available for any municipal purpose. They are therefore not included in the consolidated financial statements.

Balance Sheet Classifications. Assets that can be designated by the city council for any use are classified as unrestricted assets. Assets that are restricted for specified uses by bonded debt requirements, grant provisions, city charter provisions, or other requirements are classified as restricted assets. Assets are restricted principally for debt service payment, construction of water and sewer lines and other types of general fixed assets, and trust and agency contractual commitments. Restricted assets also include the city's equity in the regional airport.

Receivables. Receivables, including federal grant and federal revenue sharing receivables and uncollected property taxes, are accrued when legally enforceable claims arise.

Inventories. Inventories of materials and supplies are stated at the lower of cost and market. Cost is determined by the average method.

Property, Plant, and Equipment. Property, plant, and equipment are stated at cost, estimated cost when original cost is not available, or appraised value at the time received, in the case of gifts. Maintenance and repairs are expensed as incurred. Replacements that improve or extend the lives of property are capitalized. Depreciation is computed on the straight-line method on a composite basis. Costs of assets retired are removed from the asset accounts and charged to the accumulated depreciation accounts.

Investments. Investments are stated at cost or, in the case of donated investments, at market value at the time of bequest or receipt.

Taxes Collected for Others. The city collects taxes for the Example Independent School District (EISD), which are remitted to EISD less a service fee. Only the service fee is included in revenues of the city.

Capital Accounts. A portion of municipal capital has been classified as restricted to reflect certain limitations and restrictions placed on the capital of various activities by bond covenants, grants, and other contractual agreements.

The unrestricted portion is further classified into appropriated and unappropriated. The appropriated amount represents capital that has been set aside by the city council for specific purposes. The unappropriated amount is the residual municipal capital available for appropriation for general governmental activities in future periods.

2. Description of Organization

The City of Example operates under a charter originally granted by the state in 1903 and later amended by the voters of the city. The city council, composed of the mayor and four commissioners, forms the legislative branch of the city government and appoints a city manager who is responsible for administration of the city departments.

3. Compliance With Restriction on Use of Receipts

Certain of the City of Example's receipts are restricted according to type and character of disbursement including general obligation and revenue bond proceeds, water and sewer revenue, community development block grant proceeds, contributions in aid of construction, specific purpose state and federal grants, income and corpus on certain trust funds, and property taxes levied for debt service. During the fiscal year ended September 30, 1978, all disbursements made with restricted receipts were for items allowed by the restrictions.

4. Compliance With Legal Budget Provisions

The City of Example charter requires that both budgeted and actual financial results of the city's General, Special Revenue, and Debt Service Funds not incur a deficit. The budgeted appropriation levels are to be established on a department basis and duly adopted by the city council. Any adjustments during the year to transfer between, or increase appropriations for, departments requires city council approval. The city's budgeted and actual results for the year resulted in revenues equal to, or in excess of, expenditures for all required funds, and all final budget appropriations for departments were duly authorized by the city council.

5. Pension Plans

The city has not elected to participate in U.S. Social Security coverage for its employees. Contributory retirement plans for its employees have been approved by the city, but these plans have been determined not to be part of the city and are not included in the accompanying financial statements. The city does not have a fixed policy of funding prior service costs. Independent consulting actuaries stated in their December 31, 1977, report that, based upon an assumed annual investment return of 9 percent, the annual contribution to the Firemen, Policemen, and Fire Alarm Operators' Pension Fund and Reserve Retirement Fund should be increased by 10.08 percent of covered wages, or approximately \$5 million. This would increase the city contribution above the statutory limit of 15 percent of compensation and require voter approval. However, this amount has been recognized in the financial statements as a charge to current operations and a liability.

In each plan, actuarial gains and losses are taken into account in succeeding valuations and thus are spread over the remaining active working lifetime of the employee group. Actuarial assumptions are consistently applied from year to year within each plan, after giving effect to plan amendments.

Contributions to the plans by the city and the excess of actuarial value of the vested benefits over fund balances at the date indicated were as follows.

Plan (identified below)	Contributions to Plans by City for Years Ended September 30, (\$000)		Excess of Actuarial Value of Vested Benefits Over Pension Fund Assets			
			Date of Evaluation	Economic Assumptions		Amount (\$000)
				Assumed Annual Return of Fund Assets	Assumed Annual Inflation Rate	
	1978	1977				
A	\$7,495	\$7,092	12/31/77	9.00%	5.00%	\$ 0
B	7,590	7,273	12/31/76	9.00	5.00	112,921
C	1,361	901	12/31/77	5.25	0	0

Plan identification:

A—*Example Employees' Retirement Fund.* All eligible employees of the city, excluding firemen, policemen, and transportation employees.

B—*Firemen, Policemen, and Fire Alarm Operators' Pension Fund, and Reserve Retirement Fund.* All eligible employees of the fire department and police department.

C—*Example Transit System Retirement Plans.* All eligible employees of the system.

6. Bonds Payable

Bonds payable at September 30, 1978 comprise the following (\$000):

Type of Indebtedness	Final Maturity	Long-Term Debt			Restricted Assets Available for Debt Service
		Effective Interest Rates	Original Amount	Unpaid Balance	
General long-term debt	2005	1.50/6.21	\$470,582	\$293,923	\$17,033
Water utility revenue bonds	1994	2.70/5.37	221,506	118,785	17,045
Water supply and sewer obligations	1994	3.75/9.00	19,129	13,872	270
Public transit revenue bonds	1981	5.20	6,700	3,210	1,055
Convention center revenue bonds	2000	7.00/7.48	31,000	30,660	3,120
Airport revenue bonds	1983	4.11/7.06	44,075	18,775	9,852
			<u>\$792,992</u>	<u>\$479,225</u>	<u>\$48,375</u>

Annual principal and interest requirements to amortize the city's debt for the next five years are as follows:

Year Ending September 30,	Principal and Interest (\$000)					
	Total	General Obligation Bonds	Revenue Bonds			
			Water Utility	Public Transit	Convention Center	Airport
1979	\$ 58,062	\$ 35,583	\$ 14,662	\$ 727	\$ 2,616	\$ 4,474
1980	54,852	34,079	14,361	735	2,730	2,947
1981	53,076	33,623	13,625	751	2,785	2,292
1982	49,516	31,548	12,696	762	2,813	1,697
1983	46,447	29,113	11,984	770	2,837	1,743
Thereafter	387,259	234,940	92,835	0	50,431	9,053
Total	<u>\$649,212</u>	<u>\$398,886</u>	<u>\$160,163</u>	<u>\$3,745</u>	<u>\$64,212</u>	<u>\$22,206</u>

The city's legal debt margin has been established by the state constitution at 10 percent of assessed property value. Present assessed value of property is \$8,391,228,000, giving the city a constitutional debt limit of \$839,123,000. When compared to present general long-term debt of \$293,923,000, this leaves the city with a legal debt margin of \$545,200,000.

Revenue Bond Requirements—Public Transit Fund. The Public Transit Fund failed to achieve the level of net revenues required by the ordinance authorizing the outstanding revenue bonds by approximately \$310,000 for the year ended September 30, 1978.

Ordinance requirements must be met before additional bonds can be issued. All required sinking-fund payments for the year were made.

The City Water and Sewer Revenue Bond Ordinance requires that net cash from operations available for debt service achieve a level of 1.5 times maximum debt service on outstanding and proposed bonds before the additional bonds can be issued. For the fiscal year ended September 30, 1978, coverage for outstanding bonds amounted to 1.95 times maximum debt service, indicating the city's continued ability to issue additional water and sewer revenue bonds.

7. Ad Valorem Taxes

The state constitution limits the city's ad valorem tax rate for all purposes to \$2.50 per \$100 of assessed valuation. Ad valorem tax revenue during the year ended September 30, 1978, was levied using a rate of \$1.395 per \$100 of assessed valuation, based on 75 percent of estimated market values.

8. Contingent Liabilities

Various claims and lawsuits are pending against the city. In the opinion of the city attorney, the potential loss on all claims will not be material when resolved.

The city has received federal and state grants of approximately \$40 million for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based upon prior experience, city management believes such disallowances, if any, will be immaterial.

Claims from traffic accidents are inherent in the operation of the Public Transit Funds. Periodic charges to expense for such claims are determined by a formula that, over a period of years, has reflected actual claim experience.

9. Commitments

Annually, the General Fund of the city makes significant contributions to the operations of certain enterprise activities as set forth in note 11. City management expects to continue subsidies to the Public Transit and Convention Center Funds in future years.

The Water Utilities Fund is committed to pay over the life of certain water supply facilities the proportionate share of net operating and maintenance expenses of several reservoirs operated by other government agencies or authorities that provide water to the city. The city is also committed to assume its proportionate share of any debt issued by the Example River Authority to increase or maintain shared wastewater treatment facilities servicing the city.

The city is not obligated for material amounts under long-term leases.

10. Joint Venture

The City of Example is a party to a joint-venture agreement with the City of Fort Meyer covering the development and operation of the E-F.M. Regional Airport. The airport board is charged with the responsibility for its operation and is composed of members named by the two city councils. Under the terms of the joint-venture agreement, the City of Example names seven of the eleven members on the airport board, and holds a seven-eleventh ($7/11$) share of the equity in the airport and is responsible for the same proportionate share of outstanding revenue bonds and other obligations.

The city's equity interest in the E-F.M. Regional Airport has been recognized in the financial statements under the equity method of accounting. This equity interest, including an initial contribution of \$41 million, now totals \$89,889,000 and increased by \$4,517,000 during the year ended September 30, 1978.

11. Municipal Activities

The City of Example principally operates as a provider of general governmental services. It also has enterprise activities in six general areas, covering transportation terminals, public transit, water utilities, a convention center, a municipal radio station, and airport operation. These enterprise activities are wholly owned by, and responsible to, the city council, either through the city manager or directly through administrative boards. Revenue bonds have been issued for the public transit, water utilities, convention center, and airport operations that restrict the use of net revenues to purposes associated with that enterprise. Certain of these activities—public transit, transportation terminals, convention center, and municipal radio—have been operating at a deficit, thereby requiring current operating support from general governmental revenues. Several of these deficits are expected to continue and are considered appropriate from a policy viewpoint.

The following schedule shows the financial results of operations for these enterprises, identifiable assets, and their portions of municipal capital.

City of Example
Information About the City's Operations
Year Ended September 30, 1978
(In thousands of dollars)

	Transportation Terminals	Public Transit	Water Utilities	Convention Center	Municipal Radio	Airport	Total Enterprise Activities	General Governmental Activities	Total
Sales and charges	\$ 160	\$14,788	\$ 46,881	\$ 1,597	\$ 705	\$ 6,605	\$ 70,736	\$ 15,264	\$ 86,000
Tax revenue	0	0	0	2,009	0	0	2,009	165,789	167,798
Grant proceeds	0	2,317	0	0	0	0	2,317	27,241	29,558
Other	2	959	5,904	365	2	953	8,185	24,086	32,271
Total revenue	<u>\$ 162</u>	<u>\$18,064</u>	<u>\$ 52,785</u>	<u>\$ 3,971</u>	<u>\$ 707</u>	<u>\$ 7,558</u>	<u>\$ 83,247</u>	<u>\$232,380</u>	<u>\$ 315,627</u>
Excess (deficit) of revenue over expenses	<u>\$ (670)</u>	<u>\$(3,527)</u>	<u>\$ 12,355</u>	<u>\$(1,942)</u>	<u>\$(226)</u>	<u>\$ 2,073</u>	<u>\$ 8,063</u>	<u>\$ 26,646</u>	<u>\$ 34,709</u>
Identifiable assets at September 30, 1978	<u>\$6,512</u>	<u>\$24,795</u>	<u>\$477,035</u>	<u>\$51,871</u>	<u>\$ 506</u>	<u>\$92,470</u>	<u>\$653,189</u>	<u>\$623,424</u>	<u>\$1,276,613</u>
Municipal capital at September 30, 1978	<u>\$6,505</u>	<u>\$16,007</u>	<u>\$331,150</u>	<u>\$20,698</u>	<u>\$ 449</u>	<u>\$73,253</u>	<u>\$448,062</u>	<u>\$321,542</u>	<u>\$ 769,604</u>

12. Municipal Capital

Restricted municipal capital totaling \$735,949,000 includes contributed capital of \$174,620,000, equity in the regional airport of \$89,889,000, investment in general fixed assets of \$109,908,000, and appropriated and unappropriated restricted capital of \$361,532,000.

