

ANALYZING THE FINANCIAL CONDITION OF THE CITY OF CORONA, CALIFORNIA: USING A CASE TO TEACH THE GASB 34 GOVERNMENT-WIDE FINANCIAL STATEMENTS

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ABSTRACT. A financial statement analysis case uses the government-wide financial statements of Corona, CA to teach students about the financial overview provided in the new governmental financial reporting model. Educators are struggling to incorporate the new model in their governmental accounting curricula. The case analysis is beneficial to students in three ways. First, the active, case learning approach of using a real world example complements existing pedagogical materials for better mastery of the new reporting model. Second, the case approach of using ambiguity and alternative solutions promotes the development of analytical skills. Third, the written requirement and class discussion promotes the development of communication skills.

BACKGROUND

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, in 1999. Most governments have recently implemented this standard that revolutionizes the face of government financial reporting.¹ The most significant change in the new reporting model is the addition of a new layer of financial statements and a management's discussion and analysis (MD&A) of financial condition. The new government-wide statements are presented on the full accrual basis of accounting and the economic resources measurement focus—the same measurement focus and basis of accounting that private-sector organizations use. The new statements are in addition to fund-based financial statements that are presented using a

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traditional fund accounting format (with some modifications by GASB 34). The financial overview in the government-wide financial statements provides a basis for evaluating the overall financial condition of a government, and the MD&A is particularly useful for focusing attention on the issue.

The government-wide financial statements provide totals for the government as a whole. Never before have governmental generally accepted accounting principles (GAAP) allowed for a meaningful presentation of a government's financial statement totals. Under the old model, numerous columns of "fund-type" accounting information were presented in the combined financial statements. The aggregation of the columns had to be labeled "memorandum only" because of the mixture of measurement focuses in the columns. The governmental funds were accounted for using the financial resources measurement focus and modified accrual basis of accounting and the proprietary funds were accounted for using the economic resources measurement focus and the full accrual basis of accounting. It is meaningless to aggregate such disparate information. In the new model, the aggregated information in the government-wide financial statements provides a useful financial overview because all is presented on the same measurement focus and basis of accounting.

Another way in which government-wide financial statements provide a useful overview of a government is by providing a more comparable financial report. An analyst evaluating the financial condition of a government using the old financial reporting model would likely focus on the government's General Fund and compare it to similar governments. However, it is likely that the comparison governments do not account for the same activities in their General Funds. For example, one government might include street maintenance in the General Fund and another might account for street maintenance in a special revenue fund. One might account for debt service in the General Fund and another might use a debt service fund. Analysis using government-wide financial statements avoids some of these comparability problems because there are meaningful tools available. A bibliography of useful resources is provided following the Requirements section.

The Government-wide Financial Statements

There are two government-wide financial statements: a Statement of Net Assets and a Statement of Activities. Both statements present an

aggregation for governmental activities, for business-type activities, and an overall aggregation. In addition, if the government has component units, they will be separately displayed. Governmental activities are usually those that are considered traditional government services, such as police and fire protection. Business-type activities usually include activities that are financed with a user charge, and GASB 34 requires activities to be considered business-type if they meet certain financing criteria. It is useful to have these activities separated for comparison purposes.

The Statement of Net Assets is, essentially, a balance sheet. Because the government is using the economic resource measurement focus, the Statement of Net Assets includes all capital assets and long-term obligations. The net assets section of the statement (what would be considered the equity section of a for-profit entity) is separated into three components: unrestricted, restricted, and invested in capital assets net of related debt. "Unrestricted" and "restricted" are self-explanatory. "Invested in capital assets net of related debt" is analogous to an individual's personal equity in his home, net of his mortgage balance. The reader of the government-wide Statement of Net Assets can readily observe from the net assets section of the statement what portion of the government's net assets are constrained as net capital assets, restricted as to use, and unrestricted.

The Statement of Activities has a radically different format from any other GAAP operating statement in the public or private sector. The format is a net program cost approach. It starts with a column of expenses categorized by program (or function), such as education or public safety. Then a column(s) of program revenues that are collected directly for each program, such as an operating grant for a public safety program or a user charge for a park program, are netted from the program expenses (Table 1). Most of the governmental activities' programs will report a net cost (expense) and most of the business-type activities' programs will report net revenue. The business-type activities' program revenues exceed program expenses because the user charges are structured to finance the program costs.

Program revenues do not usually finance all expenses of governmental activities because those services are not financed by user charges. For example, citizens do not pay police to respond to a call.

TABLE 1
Net Program Cost Format of the Government-wide Statement of Activities

Program	Program Expenses	Program Revenues	Net Program Revenue (Expense)
Public Safety	\$1,600,000	\$600,000	(\$1,000,000)
General Government	\$1,200,000	\$300,000	(\$ 900,000)

Instead, taxpayers finance those services indirectly through nonexchange transactions when they pay their taxes. The bottom half of the Statement of Activities reports the extent to which general revenues, such as taxes and other special revenues, finance the remaining net program costs.

The City of Corona, California’s government-wide Statement of Activities serves as a good example.² It can be obtained in a PDF file at www.gasb.org/repmode/index.html. Go to the “Implementers of GASB 34” link, scroll down to the “Cities” link, then to the Corona’s “CAFR” (comprehensive annual financial report) link. It is very convenient to access this CAFR because the large CAFR file is broken into manageable chunks. The Statement of Activities is in the “Financial Section: Under “Government-wide Financial Statements.” Adobe Acrobat Reader is necessary to read the PDF files. Instructions for how to obtain Adobe free of charge are available at the Implementers site.

Financial Condition Ratios

Municipal financial analysts, such as those who price municipal bonds, use a variety of financial ratios based on fund accounting, demographics, and economic information. They must collect and process multiple pieces of fund-based accounting information and construct numerous ratios to develop an overall financial opinion. To take advantage of the new format of the government-wide financial statements, new ratios are necessary for evaluating a government’s financial condition. It should be easier than ever to evaluate the overall condition of a government using the government-wide financial statements because comparable, aggregated financial information is presented.



There are six government-wide ratios suggested in an article by Chaney, Mead and Schermann (2002). One ratio provides an overall measure of financial position for the government. Two ratios provide measures of financial performance. A fourth ratio provides a measure of liquidity. Two final ratios provide measures of solvency. These ratios in comparison to the ratios measured for similar governments, combined with other useful information, provide a starting point for evaluating the overall financial condition of a governmental entity.

Comparisons to benchmarks and ratios of similar organizations are crucially important for any financial analysis. When evaluating the financial condition of a government, an analyst must compare the government to a similar government. First, that means a similar type of government—city, county, township, state, etc. Second, the comparison government should be of a similar size in population and expenses. Third, the comparison should be across similar operating environments. That might mean being located in the same state with the same legislative oversight rules or with similar revenue bases such as tourism or manufacturing.

Financial Position is measured as *Unrestricted Net Assets divided by Expenses*. This ratio measures how many dollars of unrestricted net resources are available to finance costs. It focuses on the ability of the government to continue to provide services. It is roughly analogous to the budgetary cushion measure in fund accounting. There is no established benchmark, at least not yet, of what is an appropriate financial position ratio. Because GASB 34 is relatively new, it might be a few years before there is sufficient experience to develop benchmark ratios. In general, the higher the ratio, the greater the unrestricted net resources that have been accumulated. An extremely low ratio suggests few resources available to weather a budget crisis. An extremely high ratio, on the other hand, might suggest that too many resources have been obtained from taxpayers or too few services are being provided. The MD&A should provide a very useful discussion of financial position.

One of the two **Financial Performance** ratios is the percentage change in Total Net Assets (*Change in Net Assets/Total Net Assets*). This ratio indicates how much the current year surplus (deficit) contributed to the accumulation of Net Assets. An extremely low or even negative ratio is not necessarily bad if the government has accumulated significant Net Assets. Alternatively, an extremely high

ratio is not necessarily good for the same reason. What is more useful than this measure for a single year is a trend in the ratio over the past five to ten years. This information, of course, will not be available until GASB 34 has been in effect for a few more years.

The other financial performance ratio is a “*General Support Rate*.” It indicates the level at which general tax and other revenues finance net program costs (program expenses not covered by direct program revenues). The governmental activities tend to have a much higher General Support Rate than business-type activities. This is because the operating structure of business-type activities is that user charges are structured to finance the program expenses. However, governmental activities are not usually reliant on user charges or other direct program revenues. The General Support Rate is calculated by dividing General Revenues and Transfers by Expenses. Trends in General Support Rate are usually more important than any other comparisons.

The concept of **Liquidity** is familiar to anyone who has studied finance or accounting. Any organization, private or public, must maintain a certain level of liquidity to maintain its operations. In government, it is common to use the “*Quick Ratio*” to measure liquidity. Cash, Current Investments, and Receivables are divided by Current Liabilities. Most governments have conservative cash management policies and higher liquidity ratios than private-sector organizations. Therefore, it is not unusual to see government Quick Ratios that are more comparable to private-sector Current Ratios—in excess of 2.

The **Solvency** issues of a government are different from a private-sector organization, but debt can become a burden to taxpayers. Analysts can measure that burden by taking *Long-term Debt and dividing it by Total Assets*. The higher the burden, the more the budget must be devoted to interest and debt principal payments. When this is an issue, an analyst may use an *Interest Coverage Ratio* to further explore the solvency issue. Interest coverage can be computed as the Change in Net Assets plus Interest Expense divided by Interest Expense. This measure provides an indication of how much cushion is available in the budget to cover interest expense.

The six ratios discussed above provide a starting point for an analysis of a government’s financial condition. A thorough analysis would include cross-sectional comparisons of similar governments and a time-series analysis of the same government over the past several years. In

addition, an analyst would probably use economic, demographic, and fund-based data to construct a number of other financial condition indicators that are deemed necessary based on the initial analysis of the original six ratios.

REQUIREMENTS

Your assignment is to analyze the financial condition of the City of Corona, CA using its most recent fiscal year-end June 30 CAFR. This assignment has three parts. First, you must write a two-to three-page paper summarizing the government's financial condition. Second, you must peer evaluate another student's financial analysis. Third, you must participate in a class discussion of Corona's financial condition.

Part One: Financial Condition Analysis Paper

The two-to three- page (typed, double-spaced) paper must express your opinion about Corona's financial condition. You must state whether you think Corona's taxpayers are receiving good value for their investment, poor value for their investment, or that they are just breaking even. In developing your opinion you must calculate and interpret government-wide financial ratios for Corona. (Although analysis of prior year ratios is normally an important part of financial condition assessment, you are not required to calculate prior year ratios because prior year government-wide information may not be readily available.) Your interpretation should include an analysis comparing Corona to a similar government, with a discussion of four aspects of financial condition: financial position, financial performance, liquidity, and solvency. Your analysis should focus on the government as a whole but might include a discussion of governmental activities versus business-type activities.

You should calculate eighteen ratios (Table 2) for Corona using its current government-wide financial statements. In order to compare Corona to a similar government, you must choose a similar government and calculate its ratios. Obtain the similar government's CAFR in the same manner you obtained Corona's. Attach a table summarizing the ratios and include enough detail to facilitate grading the ratios.

Your paper will be graded according to the following criteria:

- Accuracy of ratios,

- Depth and insight of interpretive analysis of ratios,
- Expression of opinion, and
- Clarity, grammar, and spelling.

TABLE 2
Financial Ratios

<u>Measures of:</u>	<u>Calculation:</u>
Financial Position	$\frac{\text{Unrestricted Net Assets}}{\text{Expenses}}$
Financial Performance	$\frac{\text{Change in Net Assets}}{\text{Total Net Assets} \times \frac{\text{General Revenues} + \text{Transfers}}{\text{Expenses}}}$
Liquidity	$\frac{\text{Cash} + \text{Current Investments} + \text{Receivables}}{\text{Current Liabilities}}$
Solvency:	$\frac{\text{Long-term Debt}}{\text{Assets} \times \frac{\text{Change in Net Assets} + \text{Interest Expense}}{\text{Interest Expense}}}$

Note: Each measure is calculated for governmental activities, business-type activities and total government

Part Two: Peer Evaluation

On the due date you must bring your paper to class to be peer evaluated. Your papers will be collected and redistributed among the class. (Students will not be allowed to perform a peer evaluation if they do not turn in a paper). You will grade a peer’s paper according to the criteria above. Additional guidance will be provided in class. You must assign a grade and sign your name as the peer evaluator. In addition, you should provide comments and constructive criticism on the paper you evaluate. For example, you may ask an intriguing question, make a follow up comment to a conclusion the student made, or provide a reason why you disagree with the student’s conclusion. After grading is complete, papers will be returned to the authors so they may review their grades and feedback. The points you receive for the peer evaluation portion of the assignment depend upon whether you participate fully or only partially (e.g., you graded the case but made no comments) in the peer evaluation.



Part Three: Class Discussion

After all students have had the opportunity to review their papers, the class will discuss the financial condition of Corona. You should come to class prepared with a list of comments and questions about the case and bring the supporting materials you used in the assignment.

Consider the following discussion questions.

- What is the financial condition of Corona? Is it better or worse than the comparison government?
- How did you choose a comparison government?
- Were any ratios difficult to construct?
- Are the government-wide financial statements more or less useful for constructing ratios than the fund-based financial statements?
- Did you focus on the governmental activities, the business-type activities, or the overall totals in assessing Corona's financial condition?
- What are some potential financial condition benchmarks?

You will be graded on your participation in the discussion. Points will be assigned according to the level of your participation as well as the quality of your contribution. Students will not be rewarded for irrelevant or redundant comments.

Bibliography

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TEACHING NOTES

Governmental accounting and financial reporting is often considered a challenging topic to teach in an accounting curriculum because students struggle with why there are so many differences from the private-sector accounting model. The Governmental Accounting Standards Board’s issuance of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, provides new teaching challenges and opportunities by restructuring the financial reporting model into a set of government-wide and a set of fund-based financial statements (GASB 1999). In many governmental accounting textbooks the discussion of government-wide financial statements is secondary to both transaction analysis and fund-based financial statements. Most of the textbooks that explain how to prepare the government-wide financial statements use a reconciliation approach that is based on the premise that the fund-based financial statements are prepared first. This is analogous to using the indirect method of preparing the operating activities section of a cash flows statement rather than using the direct method. The approach may not adequately convey the nature, format, and importance of the new government-wide financial statements required by GASB 34. Regardless of the textbook and pedagogical approach used, a case analysis of the government-wide financial statements may help students better understand the financial statements, both conceptually and structurally.

Learning Objectives

The primary learning objective of the case is that students be able to construct and interpret financial condition ratios from government-wide financial statements. Through the process of analyzing the case, students will reinforce their knowledge of the format of the government-wide financial statements and the underlying measurement focus and basis of accounting. They will gain an understanding of the similarities to and

differences from the fund-based financial statements. This should result in an appreciation of how the overall financial reporting model provides complementary financial information.

A secondary set of learning objectives is that students be able to analyze problems, solve them creatively, and communicate clearly both verbally and in writing. Campbell and Lewis (1991) maintain that using cases where there is more than one reasonable conclusion to a question fosters critical thinking and judgment abilities. Libby (1991) classifies some of the benefits to students of case-based learning as affective (motivation, interest, and confidence), skill development (oral, written, and group interaction), and cognitive (problem solving and judgment skills, ability to deal with multiple issues and ambiguity, understanding of the real work, and comprehension of the material).

The Accounting Education Change Commission (AECC, 1990, p. 309) states in its objectives of education for accountants that, "Students must be active participants in the learning process, not passive recipients of information." The Corona case requires active student engagement to see information about Corona and a similar government. The students must construct their own opinions about Corona's financial condition based on their own individual information sets. Another active component of the case is student peer reviewing and grading. Scofield and Combes (1993) suggest that students might value the opinions of their peers more than the opinions of the instructor. "A student or student group receiving feedback from members of the class might give it more credence than the feedback they receive from their instructor. At the very least, student feedback reinforces instructor feedback" (Hirsch & Gabriel, 1995, p. 264). Chaney and Ingraham (2002) find that students perform better on future assignments after reviewing and grading the cases of their peers.

Case Implementation

The case should be assigned after students have learned the basics of governmental accounting. They should be familiar with fund structure and transaction analysis. In addition, they should already have been exposed to the new governmental financial reporting model. The assignment will build on their initial understanding of the reporting concepts underlying the model. Students must have enough technical background to allow them to peruse the financial statements without undue frustration. The "Background" section of this article and the

references in the “Bibliography” should provide adequate preparatory background. The students need not have mastered the new model. Their analysis will lead them to an understanding of the government-wide financial statements.

Part One

The first step of the assignment is to obtain the financial statements of Corona, CA, and a comparison government. In order to meet the learning objectives, it is useful to assign students a general task (assess overall financial condition) and allow individuality in making comparisons to other governments. It is each student’s responsibility to identify a similar government and obtain its financial statements. This will require students to consider issues such as size, geographic location, and nature of funding sources. It is up to the instructor to decide how much guidance to provide in selecting a comparison government. On one hand, ambiguity is the hallmark for developing analytical skills through case-based learning. On the other hand, it frustrates students.

Students may be instructed to merely choose a reasonable comparison city from the list of GASB 34 Implementers at the GASB website. Alternatively, students may be instructed to consult the Statistical Section of potential CAFRs to obtain population and other information about comparison cities to justify their choice. A method for obtaining city CAFRs besides the GASB 34 Implementers site is to use the following URL protocol for locating a city’s website: www.ci.cityname.st.us, where “cityname” is the name of the city and “st” is the two-letter abbreviation for the state. Note that a government’s website is usually targeted to citizen users searching for general information or conducting e-government transactions. There may be no financial statements available at the site, or a user may have to search the site index looking for the accounting or finance department.

Students should be instructed to calculate the ratios in Table 2. Students may encounter measurement issues at this stage. For example, what specific line items should be included in the numerator of the quick ratio? Students often require confirmation that various receivables for taxes are valid receivables to be included in the numerator. These measurement concepts might raise issues about the nature of accounting items in a governmental environment that students will likely want to discuss in class.

The ratios of the assigned government must be compared to those of a similar government. Students will likely want to discuss in class their sense of unease with the comparisons. There are no benchmarks or industry averages to which to compare. Government-wide financial statements are new. The government-wide financial condition indicators required for the assignment were suggested in a recent academic article and have not yet been embraced by analyst or preparer communities. The Government Finance Officers Association (2001) recently instructed a task force to begin discussing government-wide ratios. Perhaps in the wake of Chaney, Mead and Schermann (2002), the efforts of the GFOA, and as analysts become increasingly familiar with the new governmental financial reporting model, benchmarks and data will become available for comparison. Regardless of the fact that benchmarks and averages are not yet available, governments are required by GASB 34 to provide a discussion of financial condition in their MD&A and students should be encouraged to make liberal use of it.

Each student must provide a summary of the government's financial condition in a short (two- to three-page) paper. Brevity forces students to focus on the most relevant issues. In addition, the student must supply the detail necessary to understand how the ratios were calculated. The instructor should provide grading criteria along with the assignment so that the students will perceive the greatest possible amount of accountability and fairness.

Part Two

When students submit their papers in class, the instructor should randomly redistribute the papers among the students for peer evaluation. In addition to grading their peers' papers, the students should provide constructive criticisms and other comments. Although some research indicates that students tend to overreward when they assign grades to their peers (Kerr, Park & Domazlicky, 1995), most indicate that peer grading is relatively unbiased (Lord & Melvin, 1994; Marcoulides & Simkin, 1991; Sherrard, Raafat & Weaver, 1994). Instructors should review the grades assigned by peers to identify any egregious grading errors.

Because students tend to resist the grading process (Lynch & Golen, 1992), it is important that the grading criteria are very explicit and that the instructor be available to answer students' questions as they grade the papers. Students should receive a nominal number of points (up to ten

percent of the total) for participating in the peer evaluation process, but the peer evaluators must sign their names to the grade they assigned in order to receive the points. In addition, they should receive only partial credit if they do not provide comments.

When the papers have all been graded, the instructor should collect them and return them to their owners. After allowing five to ten minutes for students to read their feedback, the class should move on to Part Three of the assignment. If there are significant time constraints, this portion of the process may be omitted.

Part Three

The final part of the assignment is an in-class discussion of the financial condition of the government. The instructor should attempt to listen, limit own comments, officiate when necessary, and know when to stop (Knechel, 1992). However, the instructor should insure that the learning objectives are met by encouraging the students to address specific accounting and analytical issues. The instructor should begin the discussion by asking if students have any questions or comments about measurement issues, the selection of a comparable government, or the availability of financial information.

Next, the instructor should open the discussion to financial condition. Students should be encouraged to give specific examples, scenarios, and comparisons. Students should feel confident about expressing their opinions after receiving feedback on the opinions they expressed in their peer-evaluated papers. This should help overcome the tendency for students to feel intimidated by in-class discussions (Libby, 1991). The instructor should prepare a visual summary of the ratios or the various comparison governments chosen by the students (on a white board or Excel spreadsheet) and then ask whether any students would revise their assessment of Corona's financial condition after reviewing the additional data.

Finally, the instructor should have students wrap up the discussion by offering their opinions on the usefulness of the new governmental financial reporting model for assessing a government's financial condition. It might be useful for the instructor to ask how they would evaluate the overall financial condition of the government using only the fund-based financial statements, which are somewhat piecemeal.

Grading the Case

Campbell and Lewis (1991) suggest that it is important to maintain a link between learning objectives, use of the case approach, and the outcome. Therefore, it is important to assign grades according to how well the students demonstrate their understanding of the government-wide financial statements and their abilities to reach and communicate reasonable conclusions from their analyses. In addition, a portion of the grade should be attributable to each of the three parts of the assignment. For example, the paper should be worth at least 70 percent of the grade for the entire assignment to reward students for the level of effort they expended on it. The grading criteria for the paper should include both quantitative (e.g., accuracy of the ratios) and qualitative (e.g., reasonableness of interpretations) components. See Table 3 for a suggested grading plan.

TABLE 3
Government Financial Statement Analysis Paper Grading Summary

Author's Name:		Reviewer's Name:	
Accuracy of Ratios (18 points—1 point each)		Depth/insight of interpretive analysis of ratios (8 points-2 points each category)	
___	1. Financial Position – government	___	1. Financial Position
___	2. Financial Position – business-type	___	
___	3. Financial Position – total	___	
___	4. Change in Net Assets- governmental	___	2. Financial Performance
___	5. Change in Net Assets – business- type	___	
___	6. Change in Net Assets – total	___	3. Liquidity
___	7. General Support Ratio – governmental	___	
___	8. General Support Ratio – business-type	___	
___	9. General Support Ratio – total	___	4. Solvency
___	10. Quick Ratio – governmental	___	
___	11. Quick Ratio – business-type	___	Expression of opinion (5 points)
___	12. Quick Ratio – total	___	
___	13. Leverage – governmental	___	

TABLE 3 (Continued)

Accuracy of Ratios (18 points—1 point each)		Depth/insight of interpretive analysis of ratios (8 points-2 points each category)	
___	14. Leverage – business-type	___	
___	15. Leverage – total	___	Clarity, grammar, spelling, etc. (4 points)
___	16. Interest Coverage-governmental	___	
___	17. Interest Coverage-business-type	___	
___	18. Interest Coverage – total	___	
___		___	TOTAL (35 possible)

Students should receive a nominal number of points (up to ten percent of the total) for participating in the peer evaluation process. The peer evaluators must sign their name to the grade they assigned in order to insure accountability and fairness. The students should only receive partial credit if they do not provide comments. Grade-worthy comments can be questions, observations, insights, or suggestions.

It will be difficult for the instructor to assign grades for the class discussion portion of the assignment, but it is important to maintain the link between learning objectives and outcome (grade). Therefore, it is recommended that approximately twenty percent of the assignment’s grade be attributable to the discussion to encourage students to participate and develop their communication skills. The instructor must subjectively judge the quality of the students’ participation and weigh that more heavily than quantity of the comments. One method of doing that is to count the number of comments made by a particular student, but also grade the quality of each comment as high, neutral, or low. Students should not be rewarded for making a large number of irrelevant, incorrect, or redundant comments.

SUGGESTED SOLUTION

The following is an outline of a solution for Part One of the assignment if a student uses Corona’s June 30, 2000 CAFR and compares it to Alexandria, Virginia.

- Overall financial condition of Corona appears healthy, alone and in comparison to Alexandria. However, some may argue that too many



resources have been accumulated or too few expenditures have been made on behalf of Corona's taxpayers. Therefore, Corona's taxpayers may not be getting a good value for their investment.

- While Corona and Alexandria are about the same size in terms of population, Corona's budget is less than half of Alexandria's. Corona is a younger, rapidly growing city that perhaps has not yet developed the infrastructure and government services of Alexandria.

Table 4 presents ratios for Corona and Alexandria.

- Financial position: Corona has a large enough balance of unrestricted net assets to cover almost an entire year's total expenses. Alexandria, on the other hand, has a ratio of 16% for governmental activities. This is still considered a healthy budgetary cushion. Corona has accumulated resources from economic growth to initiate new programs while Alexandria need not rely on new growth to continue to provide stable government services.
- Financial performance: Corona has a much smaller percentage change in net assets than Alexandria, but this appears justified given the relative balances of Unrestricted Net Assets in the two cities. Both cities have a very similar General Support Rate for governmental activities. The high rate in excess of 85% is expected. A low rate for business-type activities is also expected. However, Alexandria has a rate of 46.97% because its business-type activity is a recycling activity that traditionally requires government subsidization. Corona's financial performance ratios appear reasonable and compare favorably to Alexandria's. However, the most important analysis of the financial performance ratios would be for trends over time if the information were available.
- Liquidity: Corona's total Quick Ratio is larger than Alexandria's. There appears no reason to believe Corona or Alexandria will have difficulty paying current liabilities.
- Solvency: Corona finances 15.59% of the assets of its governmental activities and 26.82% of its business-type activities with long-term debt. The higher the leverage ratio the higher the debt burden taxpayers must carry and the more important it is to consider the

TABLE 4
Financial Ratios for Financial Statement Analysis Assignment

	City of Corona, CA Year Ended June 30, 2000			City of Alexandria, VA Year Ended June 30, 2000		
	GA	BTA	TG	GA	BTA	TG
Population			122,330			123,200
Total Expenses (in \$1,000)			\$156,099			\$340,458
Financial Position:						
<u>Unrestricted Net Assets</u> Expenses	0.7642	0.9837	0.8288	0.1621	2.3053	0.1661
Financial Performance:						
<u>Change in Net Assets</u> Total Net Assets	0.0493	-0.0222	0.0307	0.1286	0.2804	0.1295
<u>General Revenues +</u> <u>Transfers</u> Expenses	0.8638	0.0386	0.6211	0.8575	0.4697	0.8567
Liquidity:						
<u>Cash + Current</u> <u>Investments +</u> <u>Receivables</u> Current Liabilities	3.0602	7.6865	3.5570	1.9595	26.8785	2.0756
<u>Current Assets</u> Current Liabilities		5.8931			26.9387	
Solvency:						
<u>Long-term Debt</u> Assets	0.1559	0.2682	0.1868	0.2237	0.0000	0.2230
<u>Change in Net Assets +</u> <u>Interest Expense</u> Interest Expense	2.6180	n/a	2.3611	12.6543	n/a	12.8109

Notes: * The primary source of tax revenues for both Corona and Alexandria was Property Taxes.
GA = Governmental Activities; BTA = Business-Type Activities; TG = Total Government.

Source: Chaney, Mead and Schermann (2001).



interest coverage ratio. Corona's governmental activities ratio is not extremely high because its surplus is so low. Its business-type activities ratio could not be calculated because it did not provide the necessary interest expense information. Many students may assume that Corona's interest expense for business-type activities is zero, but this does not make sense if it has long-term debt. This provides an opportunity to illustrate that a seemingly perfect CAFR for a city that chose to implement GASB 34 early appears to not be in compliance with GAAP on this issue. It is particularly distressing in this instance because a 26.82% leverage ratio is high enough to warrant a follow-up interest coverage ratio.

This suggested solution is only an outline and only one possible approach.

CONCLUSION

A financial statement analysis case approach to teaching the government-wide financial statements in the new financial reporting model is beneficial to students in three ways. First, the active, case learning approach of using a real world example complements existing pedagogical materials for better mastery of the new governmental financial reporting model. Second, the case approach of using ambiguity and alternative solutions promotes the development of analytical skills. Third, the written requirement and class discussion promotes the development of communication skills.

Governmental accounting educators are seeking ways to integrate the new governmental financial reporting model into the classroom at the same time that accounting educators are seeking ways to incorporate pedagogical techniques that will develop analytical and communication skills into accounting curricula. A financial statement analysis case to teaching the government-wide financial statements achieves both.

Libby (1991) finds very little use of case-based teaching in governmental and nonprofit courses even though survey respondents indicate it is an effective teaching tool. She suggests one reason is the lack of available case materials. There are governmental case materials available, but none are appropriate for teaching the new governmental financial reporting model. Young and Kattelus (1995) provide nonprofit rather than governmental cases. The Government and Nonprofit section of the American Accounting Association sponsored a casebook in 1988

(Robbins, 1989), but the material is outdated. Instructors who rely on financial analysis material provided in textbooks have retained their financial analysis focus at the fund level because it is too soon to determine exactly which government-wide financial condition ratios analysts might adopt. The Corona government-wide case assignment provides an opportunity for students to master the new governmental financial reporting model and develop analytical and communication skills.

NOTES

1. GASB 34's transition period began in 2001 with a three-year phase-in based on size of government. Governments with revenues in excess of \$100 million had to adopt the new model in fiscal years beginning after June 15, 2001. Medium-sized cities and towns had to adopt the new model in the subsequent fiscal year, and the smallest governments (those with revenues less than \$10 million) had to adopt GASB 34 by the fiscal year beginning after June 15, 2003. Therefore, most governments have implemented GASB 34 by now.
2. This manuscript was submitted for publication in 2001 and accepted in 2003. The financial statements used for the analysis were for the year ended June 30, 2000.

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