

NEW YORK UNIVERSITY
ROBERT F. WAGNER GRADUATE SCHOOL OF PUBLIC SERVICE
CORE-GP.1021: Financial Management
Final Examination
Professors Rose, Shiau, and West
Spring 2012

NAME: _____

STUDENT ID: _____

MAILBOX: _____

If you are not a Wagner student, please write "Non-Wagner Student"

SECTION (circle one):

Wednesday
12:30 pm
(Rose)

Wednesday
6:45 pm
(Shiau)

Thursday
12:30pm
(Rose)

Thursday
6:45 pm
(West)

INSTRUCTIONS:

- 1) Please turn off your cell phone and put it away.
- 2) Print your initials at the top of each page.
- 3) You may use one double-sided page of notes. Put away all other written materials.
- 4) You may use, but not share, a calculator. Be sure to clear your calculator before each calculation.
- 5) Write clearly and show your work. Only one answer will be accepted for each problem.
- 6) You may use the back of the exam as scrap paper. Nothing you write there will be graded.
- 7) When you are done, hand in EVERYTHING (exam, transactions worksheet, financial statements, and page of notes).

Good luck!

This section for graders:

1 _____ 2 _____ 3 _____ 5 _____ 6 _____

7 _____ 8 _____ 9 _____ 10 _____

Total Exam Points _____ x 40% of Course Grade = Course Points _____

Section 1. Multiple-Choice and Short-Answer Questions (33 points)

1. (2 points) “Conservatism” is the generally accepted accounting principle that requires not-for-profit organizations to report the original cost of any assets for which an objective valuation is not available.
 - a) True
 - b) False

2. (2 points) The governmental funds balance sheet segregates fund balances into two categories: reserved and unreserved.
 - a) True
 - b) False

3. (2 points) Whereas not-for-profit organizations recognize expenses when resources have been used, governments recognize expenditures when resources have been paid for.
 - a) True
 - b) False

4. (2 points) Federal agencies are required to follow the financial reporting rules established by the Governmental Accounting Standards Board (GASB).
 - a) True
 - b) False

5. (2 points) If the value of a not-for-profit organization’s stock portfolio decreased by \$25,000 in FY2011 and the organization did not buy or sell any stock that year, then the only item reported in the investing activities section of the cash flow statement would be unrealized losses of \$25,000.
 - a) True
 - b) False

6. (2 points) Which part(s) of a government’s comprehensive annual financial report use(s) the accrual basis of accounting? (Circle all that apply.)
 - a) Governmental funds financial statements
 - b) Government-wide financial statements
 - c) Fiduciary funds financial statements
 - d) Proprietary funds financial statements

7. (2 points) In which of the following scenarios should a not-for-profit organization report a liability on its balance sheet? (Circle all that apply)
- a) The organization has billed a client \$100 for services delivered but has not yet received payment from the client.
 - b) The organization has received \$10,000 in cash from a government contract, but has not yet delivered the services supported by the contract.
 - c) An accounting firm has performed its annual audit of the organization's financial statements and submitted a bill for \$5,000, but the organization has not yet paid for these services.
 - d) An employee who was recently fired by the organization has filed a \$2 million wrongful discharge lawsuit against the organization.
8. (2 points) Which of the following net assets should a not-for-profit school classify as temporarily restricted? (Circle all that apply)
- a) A contribution to the school's endowment
 - b) A gift designated by the donor for construction of a new gymnasium
 - c) Funds that the school's board of directors has set aside for scholarships
 - d) A government grant that must be used for math and science education
9. (6 points) A health clinic began fiscal year 2011 on January 1 with 500 bandages that had been purchased in fiscal year 2010 for \$1 each. By April 1, there were only 50 bandages left, so the clinic purchased 1,000 additional bandages at \$1.25 each. On October 1, with only 100 bandages remaining in stock, the clinic purchased 800 additional bandages at \$1.50 each. The clinic ended the year with 200 bandages remaining in stock. Calculate the supplies expense and value of remaining inventory using LIFO. Show your work and circle your answers.

Initials: _____

10. (11 points) Show how each transaction would be recorded on the modified accrual basis of accounting. Be sure to indicate which fund(s) is/are affected by each transaction.

a) Wagner City issued \$9,000,000 in property tax bills, of which \$7,000,000 had been collected by the end of the fiscal year; another \$1,000,000 is expected to be collected within 60 days of the end of the fiscal year.

b) Wagner City's capital projects fund borrowed \$2,000,000 from the general fund.

c) The capital projects fund ordered, received, and paid for \$2,000,000 worth of equipment that is expected to last ten years and to have no salvage value.

Section 2. Financial Statement Preparation (35 points)

WAG Public Television is a not-for-profit TV station that ended FY 2010 on June 30, 2010, with the following account balances (in alphabetical order):

Accounts Payable	10,000
Cash	100,000
Equipment, net	500,000
Inventory	60,000
Investments*	75,000
Loans Payable	400,000
Pledges Receivable, net	50,000
Unrestricted Net Assets	363,000
Wages Payable	12,000

* Investments consist entirely of stocks and bonds

WAG Public Television experienced the following financial events during fiscal year 2011.

1. Earned a \$200,000 government grant and received payment in full.
2. Purchased \$15,000 worth of stocks and bonds.
3. Earned an unrealized gain of \$4,000 on its investment portfolio.
4. Recorded a depreciation expense using the straight-line depreciation method. WAG's equipment was purchased for \$600,000 two years ago and is expected to last another six years and have salvage value of \$200,000.
5. Earned \$350,000 in donations, of which \$250,000 was collected in cash. Of the remaining \$100,000, four percent is estimated to be uncollectible.
6. Made its annual interest payment of 5% (applied to the full amount of the bank loan outstanding on the first day of the fiscal year) and made its annual \$80,000 principal repayment, as required under the terms of the loan agreement.
7. Received \$10,000 worth of supplies from the supplier, mailed the supplier a check for \$15,000, and used \$55,000 worth of supplies.
8. Employees earned \$300,000 in wages, of which WAG had paid 90% as of the end of the fiscal year. WAG also paid the full \$12,000 wages payable balance from the prior year.
9. Paid rent of \$9,000 per month in a timely fashion.
10. Paid utilities bills of \$1,000 per month in a timely fashion. (Please report utilities separately from rent.)

Record these events on the transactions worksheet template that was provided separately and then create a balance sheet, activity statement, and cash flow statement for FY 2011.

Note: You will not be graded on the transactions worksheet; however, you must turn it in to receive credit for Part II of the exam.

Section 3. Financial Statement Analysis (32 points)

All of the questions in the remainder of the exam relate to the Audited Financial Statements of Operation Smile, Inc. and Affiliate (which will be referred to as “Operation Smile” for simplicity).

1. (2 points) What was Operation Smile’s program services ratio in FY2011?

2. (1 point) How does your answer to question (1) compare to the rule of thumb for this ratio?
 - (a) Favorably
 - (b) Unfavorably

3. (2 points) What was Operation Smile’s debt to equity ratio in FY2011?

4. (1 point) How does your answer to question (3) compare to the rule of thumb for this ratio?
 - (a) Favorably
 - (b) Unfavorably

5. (3 points) What was Operation Smile’s quick ratio in FY2011?

6. (1 point) How does your answer to question (5) compare to the rule of thumb for this ratio?
 - (a) Favorably
 - (b) Unfavorably

Initials: _____

7. (2 points) What was Operation Smile's return on net assets in FY2011?
8. (2 points) What was Operation Smile's total asset turnover ratio in FY2011?
9. (2 points) Generally accepted accounting principles require Operation Smile to prepare a statement of functional expenses.
- (a) True
 - (b) False
10. (2 points) Operation Smile did not experience any material bad debts in FY2011.
- (a) True
 - (b) False
11. (2 points) Operation Smile did not have an endowment fund as of the last day of FY2011.
- (a) True
 - (b) False
12. (2 points) The value of donated administrative personnel services is (circle one):
- (a) Reported as gifts-in-kind on Operation Smile's activity statement
 - (b) Reported as contributed services on Operation Smile's activity statement
 - (c) Not reported on the activity statement because the services did not require special skill
 - (d) Not reported on the activity statement because no such services were contributed

13. (2 points) Of the roughly \$6 million in gifts-in-kind that Operation Smile earned in FY2011, why did the organization report roughly half of this amount as temporarily restricted? (Circle one)
- (a) The donation consisted of land
 - (b) The donated land had not yet been received
 - (c) The land can only be used for a period of 24 months
 - (d) Construction on the land must be completed within 24 months
14. (2 points) Does Operation Smile use the LIFO or FIFO method?
- (a) LIFO
 - (b) FIFO
15. (2 points) What does it mean that deferred revenue increased from FY2010 to FY2011?
- (a) Operation Smile delivered services in FY2011 for which it had not yet received payment as of the end of FY2011
 - (b) Operation Smile collected cash in FY2011 to support services it had not yet delivered as of the end of FY2011
 - (c) More net assets were released from restrictions in FY2011 than in FY2010
 - (d) More temporarily-restricted revenue was earned in FY2011 than in FY2010
16. (2 points) What percentage of the contributions (not including gifts-in-kind or contributed services) Operation Smile earned in FY 2011 was temporarily restricted?
- (a) 16%
 - (b) 21%
 - (c) 27%
 - (d) Cannot tell from available information
17. (2 points) What percentage of the temporarily-restricted revenue and support Operation Smile earned in FY2011 was released from restrictions in FY2011?
- (a) 66%
 - (b) 88%
 - (c) 92%
 - (d) Cannot tell from available information

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Good luck!

This section for graders:

1 12 2 10 3 11 5 12 6 11

7 12 8 10 9 12 10 10

Total Exam Points 100 x 40% of Course Grade = Course Points 40

Section 1. Multiple-Choice and Short-Answer Questions (33 points)

NOTE: Multiple choice questions were graded only on the basis of whether or not the correct answers were circled. Notes written in the margins were not graded.

1. (2 points) “Conservatism” is the generally accepted accounting principle that requires not-for-profit organizations to report the original cost of any assets for which an objective valuation is not available.
 - a) True
 - b) False (this is the cost principle)**

2. (2 points) The governmental funds balance sheet segregates fund balances into two categories: reserved and unreserved.
 - a) True (see class 13 lecture slides)**
 - b) False

3. (2 points) Whereas not-for-profit organizations recognize expenses when resources have been used, governments recognize expenditures when resources have been paid for.
 - a) True
 - b) False (it would be correct if it said “acquired” rather than “paid for”)**

4. (2 points) Federal agencies are required to follow the financial reporting rules established by the Governmental Accounting Standards Board (GASB).
 - a) True
 - b) False (see textbook page 509)**

5. (2 points) If the value of a not-for-profit organization’s stock portfolio decreased by \$25,000 in FY2011 and the organization did not buy or sell any stock that year, then the only item reported in the investing activities section of the cash flow statement would be unrealized losses of \$25,000.
 - a) True
 - b) False (adjustments for unrealized gains appear in the operating activities section)**

6. (2 points) Which part(s) of a government’s comprehensive annual financial report use(s) the accrual basis of accounting? (Circle all that apply.)
 - a) Governmental funds financial statements [-1; see class 13 lecture slides]
 - b) Government-wide financial statements [+1]**
 - c) Fiduciary funds financial statements [+1/2]**
 - d) Proprietary funds financial statements [+1/2]**

7. (2 points) In which of the following scenarios should a not-for-profit organization report a liability on its balance sheet? (Circle all that apply)
- a) The organization has billed a client \$100 for services delivered but has not yet received payment from the client. [-1; **accounts receivable is an asset**]
 - b) **The organization has received \$10,000 in cash from a government contract, but has not yet delivered the services supported by the contract. [+1; deferred revenue]**
 - c) **An accounting firm has performed its annual audit of the organization's financial statements and submitted a bill for \$5,000, but the organization has not yet paid for these services. [+1; accounts payable]**
 - d) An employee who was recently fired by the organization has filed a \$2 million wrongful discharge lawsuit against the organization. [-1; **contingencies are reported in the notes**]
8. (2 points) Which of the following net assets should a not-for-profit school classify as temporarily restricted? (Circle all that apply)
- a) A contribution to the school's endowment [-1; **permanently restricted**]
 - b) **A gift designated by the donor for construction of a new gymnasium [+1]**
 - c) Funds that the school's board of directors has set aside for scholarships [-1; **unrestricted**]
 - d) **A government grant that must be used for math and science education [+1]**
9. (6 points) A health clinic began fiscal year 2011 on January 1 with 500 bandages that had been purchased in fiscal year 2010 for \$1 each. By April 1, there were only 50 bandages left, so the clinic purchased 1,000 additional bandages at \$1.25 each. On October 1, with only 100 bandages remaining in stock, the clinic purchased 800 additional bandages at \$1.50 each. The clinic ended the year with 200 bandages remaining in stock. Calculate the supplies expense and value of remaining inventory using LIFO. Show your work and circle your answers.

	Quantity	Price
Beginning balance	500	\$1.00
Purchase 1	1,000	\$1.25
Purchase 2	800	\$1.50
Use	2,100	?
Ending balance	200	?

LIFO Supplies Expense
 $800 * 1.50 + 1000 * 1.25 + (500 - 200) * 1.00 = 2,750$ [1]
 [1] [1] [1]

LIFO Inventory
 $200 * 1.00$ [1] = 200 [1]

10. (11 points) Show how each transaction would be recorded on the modified accrual basis of accounting. Be sure to indicate which fund(s) is/are affected by each transaction.

- a) Wagner City issued \$9,000,000 in property tax bills, of which \$7,000,000 had been collected by the end of the fiscal year; another \$1,000,000 is expected to be collected within 60 days of the end of the fiscal year.

		Assets		=	Liabilities		+	Fund Balance	
General Fund	Cash	[1]	Taxes Receivable	[1]	Deferred Revenue	[1]		Property Tax Revenue	[1]
	\$7,000,000		\$2,000,000		\$1,000,000			\$8,000,000	

- b) Wagner City's capital projects fund borrowed \$2,000,000 from the general fund.

		Assets		=	Liabilities		+	Fund Balance	
General Fund	Cash	[1]	Due from Capital Projects Fund	[1]					
	(\$2,000,000)		\$2,000,000						
Capital Projects Fund	Cash	[1]			Due to General Fund	[1]			
	\$2,000,000				\$2,000,000				

- c) The capital projects fund ordered, received, and paid for \$2,000,000 worth of equipment that is expected to last ten years and to have no salvage value.

		Assets		=	Liabilities		+	Fund Balance	
Capital Projects Fund	Cash	[1]						Equipment Expenditure	[1]
	(\$2,000,000)							(\$2,000,000)	

Award a total of 1 point for writing “fund balance” (not “net assets”) throughout the problem
Subtract 1 point for each additional incorrect item shown (e.g. depreciation)
Subtract ½ point for each missing or incorrect fund name

Section 2. Financial Statement Preparation (35 points)

WAG Public Television is a not-for-profit TV station that ended FY 2010 on June 30, 2010, with the following account balances (in alphabetical order):

Accounts Payable	10,000
Cash	100,000
Equipment, net	500,000
Inventory	60,000
Investments*	75,000
Loans Payable	400,000
Pledges Receivable, net	50,000
Unrestricted Net Assets	363,000
Wages Payable	12,000

* Investments consist entirely of stocks and bonds

WAG Public Television experienced the following financial events during fiscal year 2011.

1. Earned a \$200,000 government grant and received payment in full.
2. Purchased \$15,000 worth of stock and earned an unrealized gain of \$4,000 on its investment portfolio.
3. Recorded the annual depreciation expense using the straight-line depreciation method. WAG's equipment was purchased for \$600,000 two years ago and will last another six years and have salvage value of \$200,000.
4. Earned \$350,000 in donations, of which \$250,000 was collected in cash. Of the remaining \$100,000, four percent is estimated to be uncollectible.
5. Made its annual interest payment of 5% (applied to the full amount of the bank loan outstanding on the first day of the fiscal year) and made its annual \$80,000 principal repayment, as required under the terms of the loan agreement.
6. Received \$10,000 worth of supplies from the supplier, mailed the supplier a check for \$15,000, and used \$55,000 worth of supplies.
7. Employees earned \$300,000 in wages, of which WAG had paid 90% as of the end of the fiscal year. WAG also paid the full \$12,000 wages payable balance from the prior year.
8. Paid rent of \$9,000 per month in a timely fashion.
9. Paid utilities bills of \$1,000 per month in a timely fashion. (Please report utilities separately from rent.)

Record these events on the transactions worksheet template that was provided separately and then create a balance sheet, activity statement, and cash flow statement for FY 2011.

Note: You will not be graded on the transactions worksheet; however, you must turn it in to receive credit for Part II of the exam.

Initials: _____

Prepare your balance sheet on this page (12 points)

Hint: To receive full credit, you do not need to report the previous year's (FY 2010) balances on the balance sheet, but we recommend that you do so anyway because it will help you prepare the cash flow statement.

WAG Public Television							
Statements of Financial Position							
As of June 30, 2011 and June 30, 2010							
ASSETS	2011	2010		LIABILITIES	2011	2010	
Cash	18,000	100,000	[1]	Wages Payable	30,000	12,000	[1]
Pledges Receivable, net	146,000	50,000	[1]	Accounts Payable	5,000	10,000	[1]
Inventory	15,000	60,000	[1]	Loans Payable	320,000	400,000	[1]
Investments	94,000	75,000	[1]	Total Liabilities	355,000	422,000	
Equipment, net	450,000	500,000	[1]	NET ASSETS	368,000	363,000	[1]
TOTAL ASSETS	723,000	785,000		TOTAL LIABILITIES AND NET ASSETS	723,000	785,000	

Points listed above are for 2011 balances (in bold); it was optional to report 2010 balances.

Award 1 point for correct heading

Award 1 point for correct format

Award 1 point if Assets = Liabilities + Net Assets

Total = 12 points

Subtract 1 for incorrect asset order (although several slight variations on the order shown above were graded as correct)

Subtract 1 for incorrect liability order (but OK if accounts payable is before wages payable)

Subtract 1 for each additional asset or liability shown

Subtract 1/2 each for forgetting to write "net" after pledges receivable and equipment

It was also acceptable to segregate current from long-term assets and liabilities as follows:

ASSETS	2011	2010		LIABILITIES	2011	2010
<u>Current Assets</u>				<u>Current Liabilities</u>		
Cash	18,000	100,000		Wages Payable	30,000	12,000
Pledges Receivable, net	146,000	50,000		Accounts Payable	5,000	10,000
Inventory	15,000	60,000		Loans Payable	80,000	80,000
Total Current Assets	179,000	210,000		Total Current Liabilities	115,000	102,000
<u>Long-Term Assets</u>				<u>Long-Term Liabilities</u>		
Investments	94,000	75,000		Loans Payable	240,000	320,000
Equipment, net	450,000	500,000		Total Liabilities	355,000	422,000
Total Long-Term Assets	544,000	575,000		NET ASSETS	368,000	363,000

Initials: _____

Prepare your activity statement on this page (11 points)

WAG Public Television Statement of Activities For the Year Ending June 30, 2011		
<u>Revenues and Support</u>		
Grants	200,000	[1]
Donations	350,000	[1]
Unrealized gains	4,000	[1]
Total Revenue	554,000	
<u>Expenses</u>		
Depreciation	50,000	[1]
Bad debts	4,000	[1]
Interest	20,000	[1]
Supplies	55,000	[1/2]
Wages	300,000	[1/2]
Rent	108,000	[1/2]
Utilities	12,000	[1/2]
Total Expenses	549,000	
<u>Change in Net Assets</u>	5,000	[1]
Net Assets, Beginning	363,000	
Net Assets, Ending	368,000	

Award 1 point for correct heading

Award 1 point for correct format

Total = 11 points

Subtract 1 for use of the word "receivable"

Subtract 1 for use of the word "inventory"

Subtract 1 if expenses are shown as negative numbers

Subtract 1 for each additional revenue or expense shown

Initials: _____

Prepare your cash flow statement on this page (12 points)

WAG Public Television Cash Flow Statement For the Year Ending June 30, 2011		
<u>Cash from Operating Activities</u>		
Change in Net Assets	5,000	[1]
Depreciation	50,000	[1]
Unrealized gains	(4,000)	[1]
Changes in Current Assets		
Pledges Receivable, net	(96,000)	[1]
Inventory	45,000	[1]
Changes in Current Liabilities		
Wages Payable	18,000	[1]
Accounts Payable	(5,000)	[1]
Net Cash from Operations	13,000	
<u>Cash from Investing Activities</u>		
Investment purchase	(15,000)	[1]
Net Cash from Investments	(15,000)	
<u>Cash from Financing Activities</u>		
Loan repayment	(80,000)	[1]
Net Cash from Financing	(80,000)	
<u>Net Change in Cash</u>	(82,000)	[1]
Cash, Beginning	100,000	
Cash, Ending	18,000	

Award 1 point for correct heading

Award 1 point for correct format

Total = 12 points

Subtract 1 for each incorrect sign

Subtract 1 each time an item appears in the wrong section

Subtract 1 for each additional item shown

Section 3. Financial Statement Analysis (32 points)

All of the questions in the remainder of the exam relate to the Audited Financial Statements of Operation Smile, Inc. and Affiliate (which will be referred to as “Operation Smile” for simplicity).

1. (2 points) What was Operation Smile’s program services ratio in FY2011?

$$\frac{\text{Total program services}}{\text{Total expenses}} = \frac{49,991,861}{68,625,863} = 72.85\%$$

2. (1 point) How does your answer to question (1) compare to the rule of thumb for this ratio?

- (a) Favorably
- (b) Unfavorably**

3. (2 points) What was Operation Smile’s debt to equity ratio in FY2011?

$$\frac{\text{Total liabilities}}{\text{Total net assets}} = \frac{5,774,832}{24,903,701} = 0.23$$

4. (1 point) How does your answer to question (3) compare to the rule of thumb for this ratio?

- (a) Favorably**
- (b) Unfavorably

5. (3 points) What was Operation Smile’s quick ratio in FY2011?

$$\frac{\text{Cash + Curr. Invest. + Curr. Rec.}}{\text{Current Liabilities}} = \frac{\text{Cash+MoneyMkt+Tbills+MissAdv+CurrentCR}}{\text{AcctsPayable+DeferredRev+CurrCapLeasePayable}} = 2.58$$

$\frac{5,084,731+1,886,242+3,501,004+571,929+3,796,892}{4,891,210+837,675+22,151}$

Full credit was given for answers ranging from 2.48 through 2.61 (for example, if mission advances was excluded, etc). Answers outside this range lost 1-3 points depending on the nature of the error(s) and the amount of work shown.

6. (1 point) How does your answer to question (5) compare to the rule of thumb for this ratio?

- (a) Favorably**
- (b) Unfavorably

7. (2 points) What was Operation Smile's return on net assets in FY2011?

$$\frac{\text{Change in net assets}}{\text{Total net assets}} = \frac{4,482,341}{24,903,701} = 18.00\%$$

8. (2 points) What was Operation Smile's total asset turnover ratio in FY2011?

$$\frac{\text{Unrestricted Revenue and Support}}{\text{Total Assets}} = \frac{69,044,069}{30,678,533} = 2.25$$

9. (2 points) Generally accepted accounting principles require Operation Smile to prepare a statement of functional expenses.

(a) **True (Note 1a: voluntary health and welfare organization)**

(b) False

10. (2 points) Operation Smile did not experience any material bad debts in FY2011.

(a) **True (Note 2)**

(b) False

11. (2 points) Operation Smile did not have an endowment fund as of the last day of FY2011.

(a) **True (Note 1k)**

(b) False

12. (2 points) The value of donated administrative personnel services is (circle one):

(a) Reported as gifts-in-kind on Operation Smile's activity statement

(b) Reported as contributed services on Operation Smile's activity statement

(c) **Not reported on the activity statement because the services did not require special skill (Note 5)**

(d) Not reported on the activity statement because no such services were contributed

13. (2 points) Of the roughly \$6 million in gifts-in-kind that Operation Smile earned in FY2011, why did the organization report roughly half of this amount as temporarily restricted? (Circle one)
- (a) The donation consisted of land
 - (b) The donated land had not yet been received
 - (c) The land can only be used for a period of 24 months
 - (d) Construction on the land must be completed within 24 months (Note 5)**
14. (2 points) Does Operation Smile use the LIFO or FIFO method?
- (a) LIFO
 - (b) FIFO (Note 1h)**
15. (2 points) What does it mean that deferred revenue increased from FY2010 to FY2011?
- (a) Operation Smile delivered services in FY2011 for which it had not yet received payment as of the end of FY2011
 - (b) Operation Smile collected cash in FY2011 to support services it had not yet delivered as of the end of FY2011 (see class 9 lecture slides)**
 - (c) More net assets were released from restrictions in FY2011 than in FY2010
 - (d) More temporarily-restricted revenue was earned in FY2011 than in FY2010
16. (2 points) What percentage of the contributions (not including gifts-in-kind or contributed services) Operation Smile earned in FY 2011 was temporarily restricted?
- (a) 16%
 - (b) 21% (8,753,615 / 40,887,564)**
 - (c) 27%
 - (d) Cannot tell from available information
17. (2 points) What percentage of the temporarily-restricted revenue and support Operation Smile earned in FY2011 was released from restrictions in FY2011?
- (a) 66%
 - (b) 88%
 - (c) 92%
 - (d) Cannot tell from available information (some of the funds released in FY2011 may have been earned in prior years – see class 11 lecture slides)**

Initials: _____

TRANSACTIONS WORKSHEET FOR WAG PUBLIC TELEVISION FROM PART II

WAG Public Television, Transactions Worksheet, FY 2011										
	Assets					Liabilities			Net Assets	
	Cash	Pledges Receivable, net	Inventory	Investments	Equipment, net	Accounts Payable	Wages Payable	Loans Payable	Unrestricted	
Beginning Balance	100,000	50,000	60,000	75,000	500,000	10,000	12,000	400,000	363,000	
1	200,000								200,000	Grant
2	(15,000)			15,000						
				4,000					4,000	Unrealized gains
3					(50,000)				(50,000)	Depreciation expense
4		350,000							350,000	Donations
	250,000	(250,000)								
		(4,000)							(4,000)	Bad debt expense
5	(20,000)								(20,000)	Interest expense
	(80,000)							(80,000)		
6			10,000			10,000				
	(15,000)					(15,000)				
			(55,000)						(55,000)	Supplies expense
7							300,000		(300,000)	Wages expense
	(12,000)						(12,000)			
	(270,000)						(270,000)			
8	(108,000)								(108,000)	Rent expense
9	(12,000)								(12,000)	Utilities expense
Ending Balance	18,000	146,000	15,000	94,000	450,000	5,000	30,000	320,000	368,000	

Wagner Graduate School of Public Service

Financial Management of Public, Nonprofit, and Health Organizations (P11.1021)

Waiver Exam

The Waiver Exam for P11.1021 has two modules:

- **Module I** reflects the material in the first half of the course. It is most similar to material in a Managerial Accounting class, although it also has elements of Corporate Finance. The exam should take 1 hour but we will allow you 1.5 hours if needed.
- **Module II** reflects the material in the second half of the course. It is most similar to the material from a course in Financial Accounting, although it also contains information typically found in courses on Government Accounting and Not-for-Profit Accounting. The exam should take 1.5 hours, including reviewing the financial statements that are part of the exam, but you may take 2 hours if needed.

You must earn a grade of 70 out of 100 or better to pass a module. If your grade on a waiver exam module is below 70, we believe that you would benefit substantially from taking the course. The P11.1021 course is the foundation for the other courses in the finance specialization. Thus, students who want to pursue the finance specialization should consider taking P11.1021 if your grade on a module on the waiver exam is less than 85.

- **If you pass both modules**, you may waive P11.1021.
- **If you pass Module I only**, then you may take the second half of P11.1021 as a two-credit directed reading in lieu of taking the full P11.1021 course. In this case you will be required to submit all assignments from the second half of the course, and to take the final exam.
- **If you pass Module II only**, you may take the first half of P11.1021 as a two-credit directed reading, in lieu of taking the full course. All homework and assignments for the first half of P11.1021 are required, and the P11.1021 midterm exam will serve as the final exam for the two-credit course.

You may sit for either Module I or Module II, or both. If you choose to sit for only one of the two Modules, you forfeit the opportunity to sit for the other module at a later time. A failed waiver exam module may not be retaken. If you choose to sit for both, it must be done in one sitting, with a brief break between the two modules.

You may bring a financial calculator with time value of money functions to the exam and are encouraged to do so.

To prepare for the exam, students are encouraged to review the syllabus for the course (available on the Wagner website) and to review the course textbook, which is available at the NYU Professional Bookstore on LaGuardia Place or at the NYU Bobst Library.

NEW YORK UNIVERSITY
ROBERT F. WAGNER
GRADUATE SCHOOL OF PUBLIC SERVICE

P11.1021 FINANCIAL MANAGEMENT
SPRING 2003

FINAL EXAMINATION

As a courtesy to your classmates, please turn off cell phones, pagers, or similar disturbances.

INSTRUCTIONS

1. PRINT your name clearly on every page of this exam.
2. You may have a calculator. All other books and materials should be put away. You may not share your calculator.
3. All scratch work should be done on the exam. **YOU MUST TURN IN YOUR SCRATCH WORK.**
4. You must turn in the financial statements. However, you will not receive credit for any work done on them.
5. You have 120 minutes for the exam. Read all questions carefully.

6. International students may refer to a dictionary.

If you get stuck on any one question, please move on, and come back to it later if you have time.

Lecture Section Meets: Day _____ Time _____

Student Name: _____ **PLEASE PRINT**

Page 2 _____

Page 3 _____

Page 4 _____

Page 5 _____

Page 6 _____

Page 7 _____

Page 8 _____

Page 9 _____

Total _____

x40% _____

Part I

Questions 1 to 16 refer to the audited 2000 financial statements of the Mountain Microenterprise Fund Inc. The Mountain Microenterprise Fund will be abbreviated as MMF throughout this exam.

1. 2 points. Does MMF own or rent its building facilities. How do you know?

2. 2 points. Calculate the percent change in total assets from 1999 to 2000.

3. 2 points. Calculate the percent change in temporarily restricted net assets from 1999 to 2000.

4. 2 points. What proportion of MMF's net assets were restricted on Dec 31, 2000?

5. 2 points. The total insurance expense for MMF was 4,152 in 2000. How much of the insurance expense did MMF attribute to program expenses?

6. 4 points. Calculate the return on total assets (ROA) for years 1999 and 2000.
Return on total assets = Increase in total net assets / total assets.

2 points. Is this trend in the ROA favorable or unfavorable? Explain.

7. 2 points. Calculate the days of cash on hand ratio for year 2000.
Days of cash on hand = $\text{Cash} / [(\text{operating expenses} - \text{depreciation}) / 365]$

2 points. Does the days of cash on hand ratio indicate a liquidity problem?
Explain.

8. 4 points. Calculate the Grants receivable turnover ratio AND the average grant collection period for years 2000 and 1999.
Grants receivable turnover = $\text{Total Grant Revenue} / \text{Grants Receivable}$
Average grant collection period = $365 / \text{grants receivable turnover}$

2 points. Is the trend in grants receivable turnover favorable or unfavorable?
Explain.

2 points. Do the values of the average grant collection period warrant concern over the collection procedures of MMF's grants? Explain.

9. 3 points. How much cash did MMF borrow in 2000? Justify your answer.
10. 4 points. MMF has an asset called 'Due from MountainMade' on its 2000 balance sheet. What is MountainMade and why is it called due from rather than an accounts receivable?
11. 3 points. MMF had negative cash flows from operating activities in 1999. A primary reason for this negative cash flow is
- a large increase in grants payable
 - a large decrease in operating liabilities
 - a large decrease in net assets
 - the replacement of damaged equipment
12. 2 points. MMF is incorporated as a nonprofit organization in which state
- New York
 - Colorado
 - New Hampshire
 - North Carolina
13. 2 points. True or False. MMF would classify a T-bill with a six month maturity as a cash equivalent. Justify your answer.
14. 3 points. In 1999 MMF had a grant receivable of 40,500 from the Charles Stewart Mott Foundation. Was the grant received in 2000? Justify your answer.

15. 3 points. MMF collects a 10% origination fee on member loans. Why is the fee recorded as a liability rather than revenue and support?

16. 2 points Calculate the Program services ratio for MMF in 2000.
Program services ratio= Program expenses / total expenses

Part II

The remaining questions do not relate to the MMF financial statements.

17. 2 points. The fundamental accounting equation requires that assets equal liabilities plus _____. **Circle all that apply.**

- a. cash flow
- b. equity
- c. fund balance
- d. depreciation
- e. net assets
- f. revenues
- g. expenses

18. 2 points. Indicate the financial statements that summarize the flow of resources *in and out* of the organization during the accounting period. **(Circle all that apply)**

- a. Statement of Financial Position
- b. Activity Statement
- c. Statement of Cash Flows
- d. Statement of Net Assets
- e. Balance Sheet
- f. Operating Statement
- g. Statement of Functional Expenses
- h. Statement of Revenues, Expenditures, and Changes of Fund Balance.

19. 2 points. True or False. GAAP requires healthcare organizations to list assets and liabilities on the balance sheet in declining order of liquidity, but they are not required to provide a subtotal of current assets and current liabilities.
20. 3 points. True or False. When financial statements receive an unqualified opinion from the auditor, the auditor is primarily responsible for any financial misstatements that may later be revealed. **Explain.**
21. 6 points. Metro Hospital is required to maintain a sinking fund as a condition of bond contracts. Metro Hospital is obligated to transfer \$250,000 to the sinking fund on June 1. On June 1, Metro transfers \$200,000 cash from the general fund to the sinking fund. Metro uses full accrual accounting. Indicate how this transaction will impact the fundamental accounting equation for both the general fund and the sinking fund. Clearly label the affected accounts.

22. 8 points total. Winterville had 30 tons of road salt in July 2002 valued at \$1,350. In November they purchased 150 tons of salt at \$50 per ton. December they purchased 120 tons at \$60 per ton. In January, 2003, they purchased 100 tons at \$75 per ton. April they purchased 50 tons at \$60 per ton. At the end of the fiscal year (June 30, 2003) they had 70 tons of road salt in inventory.
- a. 6 points. Use FIFO to determine the road salt inventory expense for the fiscal year ending June 2003.

- b. 2 points. What is the value of the road salt inventory reported on the balance sheet?

23. 6 points. The XYZ charity mailed pledge notices to committed donors in the amount of \$300,000. XYZ estimates that 12% of the pledges will ultimately be uncollected. **Mark all that apply.**
- a. Increase cash by 300,000 and increase revenue and support by \$300,000.
 - b. Increase pledges receivable by 300,000 and total liabilities by 300,000.
 - c. Increase pledges receivable by 300,000 and revenue and support by \$300,000.
 - d. Increase allowance for uncollectible pledges by 36,000 and liabilities by 36,000.
 - e. Increase allowance for uncollectible pledges by 36,000 and uncollectible pledge expense by \$36,000.
 - f. Reduce pledges receivable by 36,000 and reduce cash by 36,000.
 - g. No transaction recorded at this time.

24. The Links City purchased a new golf cart for \$18,000 in cash at the beginning of the fiscal year to provide services on the municipal golf course. Links manages the golf course through an enterprise fund and therefore will use straight-line depreciation to expense the cart. The cart has an expected life of six years and no salvage value. Links city complies with GASB 34 and other current GAAP.

4 points. At the time of the cart purchase the accountant for Links will

Select the one most correct answer.

- a. decrease cash by 18,000 and increase expenses by 18,000.
- b. decrease cash by 18,000 and increase equipment assets by 18,000.
- c. Increase equipment assets by 18,000 and increase net assets by 18,000.
- d. NOT record this transaction, as governments do not record equipment under modified accrual accounting.

4 points. At the end of the fiscal year, the accountant for Links will

Select the one most correct answer.

- a. increase accumulated depreciation by \$3,000 and increase expenditures by \$3,000.
- b. increase accumulated depreciation by \$3,000 and increase expenses by \$3,000.
- c. increase accumulated depreciation by \$18,000 and increase expenses by \$18,000.
- d. NOT be required to record journal entries at this time.

25. 4 points. Match the following terms with the most correct statement below.

- a. Debt service fund
- b. Component units
- c. Encumbrance
- d. Proprietary fund
- e. Internal service funds
- f. Special revenue fund
- g. General fund
- h. Trust fund

- ___ used to track resources earmarked for a specific purpose.
- ___ fund used to track resources available to pay interest and loans.
- ___ an enterprise or internal service fund
- ___ used to designate funds which are obligated under a legal contract
- ___ an entity affiliated with a government but is legally separate.
- ___ used for routine ordinary activities of government
- ___ a type of fiduciary fund.
- ___ business-type fund where the services are provided to other units of government.

26. 3 points. Which one of the following would not generally be classified as an asset.
- a. Investments
 - b. Prepaid expenses
 - c. Pledges receivable
 - d. Deferred revenues
 - e. Salary advances
27. 3 points. Which one of the following statements is NOT true about the government-wide statement of net assets required by GASB-34.
- a. Assets and liabilities are segregated in government and business-type services.
 - b. A portion of net assets is designated for capital assets net of related debt.
 - c. Shows assets and liabilities of component units.
 - d. Shows assets and liabilities of agency funds.
28. 3 points. An optometrist provides complementary eye exams to the children at a not-for-profit daycare center. The optometrist is legally licensed in the state to administer the eye exams. The daycare center appreciates the donated service provided by the optometrist because the market value of the service is \$1,000 and the center would not otherwise provide the service. Explain how the donated optometrist services be recorded in the financial statements of the daycare center.

Independent Auditor's Report

To the Board of Directors
Mountain Microenterprise Fund, Inc.
Asheville, North Carolina

I have audited the accompanying statement of financial position of Mountain Microenterprise Fund, Inc. at December 31, 2000, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of Mountain Microenterprise Fund. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Mountain Microenterprise Fund, Inc. at December 31, 2000, and the changes in its net assets and cash flows for the year then ended in conformity with generally accepted accounting principles.

Stephen C. Corliss
Certified Public Accountant
April 11, 2001

Mountain Microenterprise Fund, Inc.

Statement of Financial Position

December 31, 2000

(With comparative totals at December 31, 1999)

<u>Assets</u>	<u>2000</u>	<u>1999</u>
<u>Current assets</u>		
Cash	\$ 116,179	\$ 4,336
Grants receivable	284,125	135,500
Due from MountainMade	22,133	-
Deposits	-	1,802
Total current assets	<u>422,437</u>	<u>141,638</u>
 <u>Property and equipment</u>		
Furniture and equipment, net	<u>14,314</u>	<u>10,187</u>
 Total assets	 <u>\$ 436,751</u>	 <u>\$ 151,825</u>
 <u>Liabilities and net assets</u>		
<u>Current liabilities</u>		
Accounts payable	1,682	2,004
Payroll liabilities	6,753	2,622
Loan loss reserve	3,160	2,445
Loan origination fees	<u>2,436</u>	<u>2,032</u>
Total current liabilities	<u>14,031</u>	<u>9,103</u>
 <u>Net assets</u>		
Unrestricted	72,186	31,664
Temporarily restricted	<u>350,534</u>	<u>111,058</u>
Total net assets	<u>422,720</u>	<u>142,722</u>
 Total liabilities and net assets	 <u>\$ 436,751</u>	 <u>\$ 151,825</u>

The accompanying notes are an integral part of these financial statements.

Mountain Microenterprise Fund, Inc.

Statement of Activities

For the Year Ended December 31, 2000

(With comparative totals for 1999)

	Unrestricted	Temporarily Restricted	2000 Total	1999 Total
<u>Revenue and support</u>				
Grants	\$ 134,270	\$ 462,739	\$ 597,009	\$ 168,575
Contributions	2,391	-	2,391	1,610
Program income	8,332	-	8,332	5,837
Contract revenue	3,300	-	3,300	-
Special events	-	-	-	7,723
Interest earned	2,887	-	2,887	3,303
Net assets released from restrictions	223,263	(223,263)	-	-
Total revenue and support	374,443	239,476	613,919	187,048
<u>Expenses</u>				
Program services	272,521	-	272,521	253,273
Management & general	45,859	-	45,859	42,495
Fundraising	15,541	-	15,541	14,156
Total expenses	333,921	-	333,921	309,924
Change in unrestricted net assets	40,522	239,476	279,998	(122,876)
Net assets, beginning of year	31,664	111,058	142,722	265,598
Net assets, end of year	\$ 72,186	\$ 350,534	\$ 422,720	\$ 142,722

The accompanying notes are an integral part of these financial statements.

Mountain Microenterprise Fund

Statement of Functional Expenses

For the year ended December 31, 2000

(With comparative totals for 1999)

	<u>Program</u>	<u>Mgmt & General</u>	<u>Fund Raising</u>	<u>Total 2000</u>	<u>Total 1999</u>
Salaries	\$ 153,339	\$ 20,636	\$ 9,150	\$ 183,125	\$ 146,222
Payroll taxes	12,888	1,688	767	15,343	11,139
Health insurance	20,398	2,671	1,214	24,283	16,902
Retirement plan	7,470	978	445	8,893	5,555
Auto expense	9,052	1,006	-	10,058	7,757
Bank service charges	-	529	-	529	341
Computer expense	2,003	241	169	2,413	7,340
Copy and fax	2,636	659	-	3,295	3,898
Insurance	2,820	1,264	68	4,152	4,146
Office Supplies	8,570	2,183	-	10,753	4,931
Professional fees	7,079	8,368	3,245	18,692	24,369
Postage	4,729	887	296	5,912	1,528
Printing	7,626	847	-	8,473	9,529
Promotion	4,212	-	-	4,212	1,979
Rent	7,696	1,924	-	9,620	7,805
Resource materials/dues	2,395	599	-	2,994	4,546
Special events	-	-	-	-	14,544
Staff training/development	10,828	-	-	10,828	11,244
Telephone	2,994	561	187	3,742	3,959
Travel	2,217	246	-	2,463	4,965
Video production	-	-	-	-	12,000
Loan loss reserve	715	-	-	715	1,040
Interest rebates	565	-	-	565	257
Miscellaneous	-	-	-	-	1,512
Depreciation	2,289	572	-	2,861	2,416
Total expenses	<u>\$ 272,521</u>	<u>\$ 45,859</u>	<u>\$ 15,541</u>	<u>\$ 333,921</u>	<u>\$ 309,924</u>

The accompanying notes are an integral part of these financial statements.

Mountain Microenterprise Fund, Inc.

Statement of Cash Flows

For the year ended December 31, 2000

(With comparative totals for 1999)

	<u>2000</u>	<u>1999</u>
<u>Cash flows from operating activities:</u>		
Increase (decrease) in net assets	\$ 279,998	\$ (122,876)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,861	2,416
(Increase) decrease in operating assets:		
Grants receivable	(148,625)	50,833
Due from MountainMade	(22,133)	-
Deposits	1,802	(1,802)
Increase (decrease) in operating liabilities:		
Accounts payable	(322)	540
Payroll liabilities	4,131	2,622
Loan loss reserve	715	1,570
Member origination fees	404	1,718
Other current liabilities	-	485
Net cash provided by operating activities	<u>118,831</u>	<u>(64,494)</u>
<u>Cash flows from investing activities:</u>		
Purchase of equipment	<u>(6,988)</u>	<u>(5,033)</u>
Net increase (decrease) in cash	111,843	(69,527)
Cash and cash equivalents, beginning of year	<u>4,336</u>	<u>73,863</u>
Cash and cash equivalents, end of year	<u>\$ 116,179</u>	<u>\$ 4,336</u>

The accompanying notes are an integral part of these financial statements.

Mountain Microenterprise Fund, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2000

1. Description of Organization and Summary of Significant Accounting Policies

Description of the Organization

Mountain Microenterprise Fund (MMF) is a nonprofit organization that provides people throughout Western North Carolina with business training, loans, technical assistance and support for starting or expanding a small business. Loans made available to members through MMF's Peer Group Lending Program, are funded by the Microenterprise Loan Program of the North Carolina Rural Economic Development Center.

Tax-Exempt Status

MMF was established in 1991 as a nonprofit corporation under the laws of the State of North Carolina. It qualifies for exemption from federal income taxes under section 501(c)(3) of the Internal Revenue Code. In addition, it has been classified as a publicly supported organization under Section 509(a)(1).

Basis of Accounting and Presentation

The accompanying basic financial statements have been prepared on the accrual basis of accounting and in accordance with the principles contained in the American Institute of Certified Public Accountant's Audit and Accounting Guide, Not-For-Profit Organizations and other pronouncements applicable to not-for-profit organizations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Financial Statement Presentation

Financial statement presentation follows Statement of Financial Accounting Standards (SFAS) No 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally imposed restrictions. Descriptions of the three net asset classes are as follows:

Unrestricted Net Assets--Net assets that are not subject to donor-imposed restrictions and that are available for general operating expenses of the organization.

Temporarily Restricted Net Assets--Net assets subject to donor-imposed restrictions as to the purpose and/or time of use.

Permanently Restricted Net Assets--Net assets subject to donor-imposed restrictions that they be maintained permanently by the organization. The organization currently has no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of reporting on the statement of cash flows, the organization considers all unrestricted, highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Contributions

The organization follows SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. As restrictions expire, net assets are reclassified to unrestricted net assets and are reported on the statement of activities as "Net assets released from restrictions."

Grants Receivable

A foundation's unconditional promise to make a grant to the organization at some point in the future is recognized as grant revenue and receivable when the grant is awarded. Multi-year grants are recognized in full when awarded to the organization, with amounts restricted to use in future years considered temporarily restricted. (Because grant revenue is generally recognized before the grant-related expenses, multi-year grants may cause large fluctuations in the change in net assets from year to year.)

Functional Allocation of Expenses

The organization reports its expenses in the functional areas of Program, Management and General and Fund Raising. Expenses that can be identified with a specific area are assigned directly to that area. Other expenses that are common to two or more functions are allocated by management estimate.

Income Taxes

MMF is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for income taxes in the financial statements.

Property and Equipment

Property and equipment purchases are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The capitalization threshold is \$500 per item.

2. Grants Receivable

Grants receivable consists of the following:

<u>At December 31</u>	<u>2000</u>	<u>1999</u>
Mary Reynolds Babcock Foundation	\$ 112,500	\$ 65,000
NC Rural Economic Development Center	10,000	-0-
Sisters of Mercy of N.C. Foundation	50,000	-0-
Catholic Campaign for Human Development	75,000	-0-
Real Enterprises, Inc.	16,040	-0-
D. Michael Warner Foundation	15,000	-0-
City of Asheville (CDBG)	3,085	-0-
Charles Stewart Mott Foundation	-0-	40,500
Levi Strauss Foundation	<u>-0-</u>	<u>30,000</u>
Total grants receivable	<u>\$ 284,125</u>	<u>\$ 135,500</u>

3. Furniture and Equipment

Furniture and equipment consists of the following:

<u>At December 31</u>	<u>2000</u>	<u>1999</u>
Office equipment	\$ 20,180	\$ 13,089
Less: Accumulated depreciation	<u>5,866</u>	<u>2,902</u>
Net furniture and equipment	<u>\$ 14,314</u>	<u>\$ 10,187</u>

4. Loan Loss Reserve

The loan loss reserve liability of \$3,160 represents of 10% of the outstanding loan amount held by the North Carolina Rural Economic Development Center at December 31, 2000, on loans originated by MMF, as required by MMF's agreement with the Center.

5. Loan Origination Fees

MMF holds a 10% origination fee on member loans and returns the full amount to the member if the loan is paid in full on a timely basis.

6. Leases

MMF rents office space in three locations, on month-to-month leases, with monthly rent as follows: Asheville main office - \$335, Murphy satellite office - \$200 and Asheville business incubator office - \$225.

7. Benefit Plans

MMF offers its employees a SEP-IRA retirement plan, into which it contributes 5% of salary for each eligible employee. The cost of the program for 2000 was \$8,893. MMF also provides a 403(b) voluntary contribution retirement plan and a Section 125 cafeteria plan for unreimbursed medical and dependent care expenses.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

<u>At December 31</u>	<u>2000</u>	<u>1999</u>
Organizational development	\$ 32,992	\$ 63,890
Supporting Successful Entrepreneurship	150,000	-0-
Maximum Outreach staffing	58,333	-0-
MountainMade store	92,867	-0-
Access to Markets program Cherokee, Graham and Clay County	-0-	29,724
microenterprise support	3,989	17,444
Follow-up services for members	<u>12,353</u>	<u>-0-</u>
Total temporarily restricted	<u>\$ 350,534</u>	<u>\$ 111,058</u>

9. Commitments

In March 2000, MMF incorporated a wholly-owned, for-profit subsidiary, MountainMade, Inc., which will sell items created by MMF members through a retail store. Start-up expenses are estimated at \$145,000, of which \$22,133 has been incurred as of December 31, 2000, and is reflected in the Due from MountainMade account on the statement of financial position. The organization has a letter of intent to lease space for the store in the Grove Arcade Public Market, which is undergoing renovation.

10. Comparative Data

The financial information for the year ended December 31, 1999 is presented for comparative purposes and is not intended to be complete financial statement presentation.

SOLUTIONS

NEW YORK UNIVERSITY
ROBERT F. WAGNER
GRADUATE SCHOOL OF PUBLIC SERVICE

P11.1021 FINANCIAL MANAGEMENT
SPRING 2003

FINAL EXAMINATION

As a courtesy to your classmates, please turn off cell phones, pagers, or similar disturbances.

INSTRUCTIONS

1. PRINT your name clearly on every page of this exam.
 2. You may have a calculator and one page of notes. All other books and materials should be put away. You may not share your calculator.
 3. All scratch work should be done on the exam. YOU MUST TURN IN YOUR SCRATCH WORK.
 4. You must turn in the financial statements. However, you will not receive credit for any work done on them.
 5. You have 120 minutes for the exam. Read all questions carefully.
 6. International students may refer to a dictionary.
- If you get stuck on any one question, please move on, and come back to it later if you have time.
- Lecture Section Meets: Day _____ Time _____
- Student Name: _____ **PLEASE PRINT**
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Page 3 _____
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x40% _____

Part I

Questions 1 to 16 refer to the audited 2000 financial statements of the Mountain Microenterprise Fund Inc. The Mountain Microenterprise Fund will be abbreviated as MMF throughout this exam.

1. 2 points. Does MMF own or rent its building facilities. How do you know?

Rent. No long-term assets on balance sheet and/or note #6

2. 2 points. Calculate the percent change in total assets from 1999 to 2000.

$$(436,751 - 151,825) / 151,825 = 187.7\%$$

3. 2 points. Calculate the percent change in temporarily restricted net assets from 1999 to 2000.

$$(350,534 - 111,058) / 111,058 = 216\%$$

4. 2 points. What proportion of MMF's net assets were restricted on Dec 31, 2000?

$$350,534 / 422,720 = .829 = 83\%$$

5. 2 points. The total insurance expense for MMF was 4,152 in 2000. How much of the insurance expense did MMF attribute to program expenses?

2,820 from statement of functional expense

6. 4 points. Calculate the return on total assets (ROA) for years 1999 and 2000.
Return on total assets = Increase in total net assets / total assets.

$$2000: 279,998 / 436,751 = 0.641 \text{ or } 64\%$$

$$1999: (122,876) / 151,825 = -80\%$$

- 2 points. Is this trend in the ROA favorable or unfavorable? Explain.

Favorable. ROA should be increasing. In 1999 the ROA was negative and in 2000 it is positive.

7. 2 points. Calculate the days of cash on hand ratio for year 2000.

Days of cash on hand = $\text{Cash} / [(\text{operating expenses} - \text{depreciation}) / 365]$

$$116,179 / [(333,921 - 2861) / 365] = 116,179 / [331,060 / 365] = 116,179 / 907 = 128 \text{ days}$$

2 points. Does the days of cash on hand ratio indicate a liquidity problem?

Explain.

No.

MMR could sustain operations for about 128 without additional cash in flows.

8. 4 points. Calculate the Grants receivable turnover ratio AND the average grant collection period for years 2000 and 1999.

Grants receivable turnover = $\text{Total Grant Revenue} / \text{Grants Receivable}$

Average grant collection period = $365 / \text{grants receivable turnover}$

Grants Receivable Turnover

2000; $597,009 / 284,125 = 2.10$

1999 $168,575 / 135,500 = 1.24$

Average collection

2000: $365 / 2.10 = 173.8 \text{ days}$

1999: $365 / 1.24 = 294 \text{ days}$

2 points. Is the trend in grants receivable turnover favorable or unfavorable?

Explain.

Favorable, grants turnover ratio should generally be increasing.

2 points. Do the values of the average grant collection period warrant concern over the collection procedures of MMF's grants? Explain.

Yes. It takes 174 days to collect grants. However, this should be considered in light of a significant portion of the grants are temporarily restricted. If the temporary restrictions are for time then grant collection period would naturally be long.

9. 3 points. How much cash did MMF borrow in 2000? Justify your answer.

None, there were no cash flows for financing on cash flow statement

10. 4 points. MMF has an asset called 'Due from MountainMade' on its 2000 balance sheet. What is MountainMade and why is it called due from rather than an accounts receivable?

MountainMade is a wholly owned for-profit subsidiary of MMF that sells products produced by MMF clients.

The asset is called "Due to" because the amount represents a transfer by MMF to its subsidiary and therefore not a receivable.

11. 3 points. MMF had negative cash flows from operating activities in 1999. A primary reason for this negative cash flow is
- a large increase in grants payable
 - a large decrease in operating liabilities
 - a large decrease in net assets
 - the replacement of damaged equipment

12. 2 points. MMF is incorporated as a nonprofit organization in which state
- New York
 - Colorado
 - New Hampshire
 - North Carolina

13. 2 points. True or False. MMF would classify a T-bill with a six month maturity as a cash equivalent. Justify your answer.
False. MMF considers maturities less than 3 months to be liquid. Note# 1

14. 3 points. In 1999 MMF had a grant receivable of 40,500 from the Charles Stewart Mott Foundation. Was the grant received in 2000? Justify your answer.
Yes. Balance is zero in 2000 per note #2.

15. 3 points. MMF collects a 10% origination fee on member loans. Why is the fee recorded as a liability rather than revenue and support?

Fee is recorded as a liability because the fee is returned if the client makes loan payments in full and on a timely basis. See note #5

16. 2 points Calculate the Program services ratio for MMF in 2000.
Program services ratio= Program expenses / total expenses

$$272,521/333.921=.816=82\%$$

Part II

The remaining questions do not relate to the MMF financial statements.

17. 2 points. The fundamental accounting equation requires that assets equal liabilities plus _____. **Circle all that apply.**
- a. cash flow
 - b. equity
 - c. fund balance
 - d. depreciation
 - e. net assets
 - f. revenues
 - g. expenses
18. 2 points. Indicate the financial statements that summarize the flow of resources *in and out* of the organization during the accounting period. **(Circle all that apply)**
- a. Statement of Financial Position
 - b. Activity Statement
 - c. Statement of Cash Flows
 - d. Statement of Net Assets
 - e. Balance Sheet
 - f. Operating Statement
 - g. Statement of Functional Expenses
 - h. Statement of Revenues, Expenditures, and Changes of Fund Balance.
- Note that statement of function expenses summarizes a flow of resources out of the organization, but not both in and out.*
19. 2 points. True or False. GAAP requires healthcare organizations to list assets and liabilities on the balance sheet in declining order of liquidity, but they are not required to provide a subtotal of current assets and current liabilities.
- False—Healthcare organizations must separate current and noncurrent assets and liabilities.*
20. 3 points. True or False. When financial statements receive an unqualified opinion from the auditor, the auditor is responsible for any financial misstatements that may later be revealed. **Explain.**
- False, management is primarily for any problems with the financial statements.*

21. 6 points. Metro Hospital is required to maintain a sinking fund as a condition of bond contracts. Metro Hospital is obligated to transfer \$250,000 to the sinking fund on June 1. On June 1, Metro transfers \$200,000 cash from the general fund to the sinking fund. Metro uses full accrual accounting. Indicate how this transaction will impact the fundamental accounting equation for both the general fund and the sinking fund. Clearly label the affected accounts.

Sinking Fund

Assets =	Liabilities	+	Fund balance
Cash + 200,000			Transfer from GF +250,000
Due from GF +50,000			

General Fund

Assets =	Liabilities	+	Fund balance
Cash -200,000			Transfer to SF -250,000
	Due to SF +50,000		

22. 8 points total. Winterville had 30 tons of road salt in July 2002 valued at \$1,350. In November they purchased 150 tons of salt at \$50 per ton. December they purchased 120 tons at \$60 per ton. In January, 2003, they purchased 100 tons at \$75 per ton. April they purchased 50 tons at \$60 per ton. At the end of the fiscal year (June 30, 2003) they had 70 tons of road salt in inventory.

- a. 6 points. Use FIFO to determine the road salt inventory expense for the fiscal year ending June 2003.

See below. \$22,050

- b. 2 points. What is the value of the road salt inventory reported on the balance sheet?

$$50@60 = 3,000 + 20@75 = 1,500 = 4,500$$

Used 380 tons in over the year.

	tons	price	total	FIFO	Expense
Begin	30	45 \$	1,350		30 \$ 1,350
	150	50 \$	7,500		150 \$ 7,500
	120	60 \$	7,200		120 \$ 7,200
	100	75 \$	7,500		80 \$ 6,000
	50	60 \$	3,000	x	
End	70			Total	380 \$ 22,050

23. 6 points. The XYZ charity mailed pledge notices to committed donors in the amount of \$300,000. XYZ estimates that 12% of the pledges will ultimately be uncollected. **Mark all that apply.**
- a. Increase cash by 300,000 and increase revenue and support by \$300,000.
 - b. Increase pledges receivable by 300,000 and total liabilities by 300,000.
 - c. Increase pledges receivable by 3000,000 and revenue and support by \$300,000.
 - d. Increase allowance for uncollectible pledges by 36,000 and liabilities by 36,000.
 - e. Increase allowance for uncollectible pledges by 36,000 and uncollectible pledge expense by \$36,000.
 - f. Reduce pledges receivable by 36,000 and reduce cash by 36,000.
 - g. No transaction recorded at this time.

The Links City purchased a new golf cart for \$18,000 in cash at the beginning of the fiscal year to provide services on the municipal golf course. Links manages the golf course through an enterprise fund and therefore will use straight-line depreciation to expense the cart. The cart has an expected life of six years and no salvage value. Links city complies with GASB 34 and other current GAAP.

4 points. At the time of the cart purchase the accountant for Links will **Select the one most correct answer.**

- h. decrease cash by 18,000 and increase expenses by 18,000.
- i. decrease cash by 18,000 and increase equipment assets by 18,000.
- j. Increase equipment assets by 18,000 and increase net assets by 18,000.
- k. NOT record this transaction, as governments do not record equipment under modified accrual accounting.

4 points. At the end of the fiscal year, the accountant for Links will **Select the one most correct answer.**

- a. increase accumulated depreciation by \$3,000 and increase expenditures by \$3,000.
- b. increase accumulated depreciation by \$3,000 and increase expenses by \$3,000.
- c. increase accumulated depreciation by \$18,000 and increase expenses by \$18,000.
- d. NOT be required to record journal entries at this time.

24. 4 points. Match the following terms with the most correct statement below.

- a. Debt service fund
- b. Component units
- c. Encumbrance
- d. Proprietary fund
- e. Internal service funds
- f. Special revenue fund
- g. General fund
- h. Trust fund

f used to track resources earmarked for a specific purpose.

a fund used to track resources available to pay interest and loans.

d an enterprise or internal service fund

c used to designate funds which are obligated under a legal contract

b an entity affiliated with a government but is legally separate.

g used for routine ordinary activities of government

h a type of fiduciary fund.

e business-type fund where the services are provided to other units of government.

25. 3 points. Which one of the following would not generally be classified as an asset.

- a. Investments
- b. Prepaid expenses
- c. Pledges receivable
- d. Deferred revenues
- e. Salary advances

26. 3 points. Which one of the following statements is NOT true about the government-wide statement of net assets required by GASB-34.

- a. Assets and liabilities are segregated in government and business-type services.
- b. A portion of net assets is designated for capital assets net of related debt.
- c. Shows assets and liabilities of component units.
- d. Shows assets and liabilities of agency funds.

27. 3 points. An optometrist provides complementary eye exams to the children at a not-for-profit daycare center. The optometrist is legally licensed in the state to administer the eye exams. The daycare center appreciates the donated service provided by the optometrist because the market value of the service is \$1,000 and the center would not otherwise provide the service. Explain how the donated optometrist services be recorded in the financial statements of the daycare center.

The \$1,000 could be disclosed in the notes but would NOT be shown on the statement of activities because it is a service that would not have been otherwise provided.