Chapter **One**

Introduction to Accounting and Financial Reporting for Governmental and Not-for-Profit Entities

Learning Objectives

After studying this chapter, you should be able to:

1-1 Identify and explain the characteristics that distinguish government and not-for-profit entities from for-profit entities.

1-2 Identify the authoritative bodies responsible for setting financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

1-3 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

1-4 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

1-5 Identify and describe the required financial statements for the federal government and not-for-profit organizations.

WELCOME TO GOVERNMENTAL AND NOT-FOR-PROFIT ACCOUNTING

Welcome to the new world of accounting for governmental and not-for-profit organizations! Initially, you may find it challenging to understand the many new terms and concepts you will need to learn. Moreover, if you are like most readers, you will question at the outset why governmental and not-for-profit organizations use accounting and financial reporting practices that are different from those used by for-profit entities.

As you read this first chapter of the text, the reasons for the differences between governmental and not-for-profit accounting and for-profit accounting should become apparent. Specifically, government and not-for-profit organizations serve entirely different purposes in society than do business entities. Because such organizations are largely financed by taxpayers, donors, and others who do not expect benefits proportional to the resources they provide, management has a special duty to be accountable for how those resources are used in providing services. Thus, the need for managers to be accountable to citizens, creditors, oversight bodies, and others has played a central role in shaping the accounting and reporting practices of governmental and not-for-profit organizations.

This first chapter will give you a basic conceptual understanding of the unique characteristics of governmental and not-for-profit organizations and how their accounting and financial reporting concepts and practices differ from those of for-profit organizations. By the time you finish subsequent chapters assigned for your course, you should have an in-depth practical knowledge of government and not-for-profit accounting and financial reporting.

WHAT ARE GOVERNMENTAL AND NOT-FOR-PROFIT ORGANIZATIONS?

Governmental and not-for-profit organizations are vast in number and range of services provided. In the United States, governments exist at the federal, state, and local levels and serve a wide variety of functions. The most recent census of governments reports that there are 90,056 local governments, in addition to the federal government and 50 state governments. These 90,056 local governments consist of 3,031 counties, 19,519 municipalities, 16,360 towns and townships, 12,880 independent school districts, and 38,266 special district governments that derive their power from state governments.[1]

States, counties, municipalities (for example, cities, towns, and villages), and townships are **general purpose governments**—governments that provide a wide range of services to their residents (such as police and fire protection; sanitation; construction and maintenance of streets, roads, and bridges; and culture and recreation). Independent school districts, public colleges and universities, and special districts are **special purpose governments**—governments that provide only a single function or a limited number of functions (such as education, drainage and flood control, irrigation, soil and water conservation, fire protection, and water supply). Special purpose governments have the power to levy and collect taxes and to raise revenues from other sources as provided by state laws to finance the services they provide.

Not-for-profit organizations also exist in many forms and serve many different functions in society. These include private colleges and universities, various kinds of community service and health care organizations, certain libraries and museums, professional and trade associations, fraternal and social organizations, and religious organizations. Currently, there are nearly 2.3 million not-for-profit organizations in the U.S.[2]

DISTINGUISHING CHARACTERISTICS OF GOVERNMENTAL AND NOT-FOR-PROFIT ORGANIZATIONS

Governmental and not-for-profit organizations differ in important ways from business organizations. An understanding of how these organizations differ from business organizations is essential to understanding the unique accounting and financial reporting principles that have evolved for governmental and not-for-profit organizations.

In its *Statement of Financial Accounting Concepts No. 4,* the **Financial Accounting Standards Board (FASB)** noted the following characteristics that it felt distinguished governmental and not-for-profit entities from business organizations:

a. Receipts of significant amounts of resources from resource providers who do not expect to receive either repayment or economic benefits proportionate to the resources provided.
b. Operating purposes that are other than to provide goods or services at a profit or profit equivalent.
c. Absence of defined ownership interests that can be sold, transferred, or redeemed or that convey entitlement to a share of a residual distribution of resources in the event of liquidation of the organization.[3]

The **Governmental Accounting Standards Board (GASB)** distinguishes government entities in the United States from both not-for-profit and business entities by stressing that governments exist in an environment in which the power ultimately rests in the hands of the people. Voters delegate that power to public officials through the election process. The power is divided among the executive, legislative, and judicial branches of the government, so that the actions, financial and otherwise, of government executives are constrained by legislative actions, and executive and legislative actions are subject to judicial review. Further constraints are imposed on state and local governments by the federal government. In the United States higher levels of government encourage or dictate activities of lower level governments. Higher levels of government finance the activities (partially, at least) by an extensive system of intergovernmental grants and subsidies that require the lower levels to be accountable to the entity providing the resources, as well as to the citizenry. Revenues raised by each level of government come, ultimately, from taxpayers. Taxpayers are required to provide resources to governments even though they often have little choice about which government services they receive and the extent to which they receive them.[4]

This relative lack of taxpayer choice is also identified in a GASB white paper that notes that “most governments do not operate in a competitive marketplace, face virtually no threat of liquidation, and do not have equity owners."[5] The white paper further states:

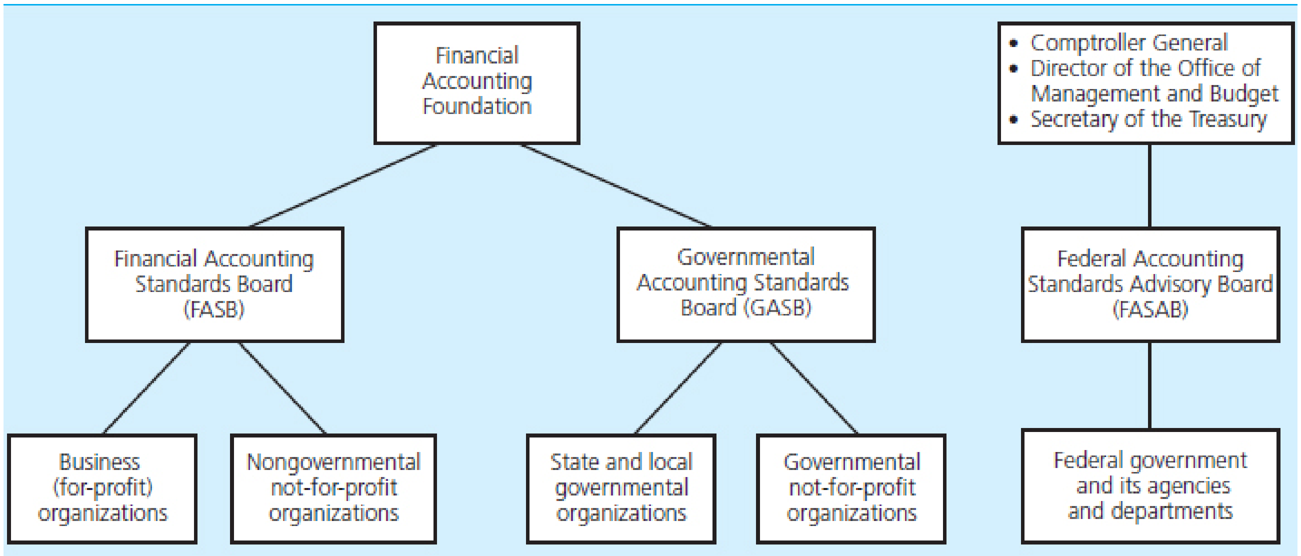
> Governmental accounting and financial reporting standards aim to address [the] need for public accountability information by helping stakeholders assess how public resources were acquired and either used during the period or are expected to be used. Such reporting also helps users to assess whether current resources were sufficient to meet current service costs (or whether some costs were shifted to future taxpayers) and whether the government's ability to provide services improved or declined from the previous year.[6]

SOURCES OF FINANCIAL REPORTING STANDARDS

As shown in Illustration 1-1, Rule 203 of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct formally designates the FASB, GASB, and FASAB as the authoritative bodies to establish **generally accepted accounting principles (GAAP)** for state and local governments, the federal government, and business organizations and nongovernmental not-for-profit organizations, respectively. In practice, the "authority to establish accounting principles" means the "authority to establish accounting and financial reporting standards." In addition, for publicly held business organizations, FASB standards are officially recognized as authoritative by the Securities and Exchange Commission (SEC) (Financial Reporting Release No. 1, Section 101, and reaffirmed in its April 2003 Policy Statement).

Authority to establish accounting and reporting standards for not-for-profit organizations is split between the FASB and the GASB because a sizable number of not-for-profit organizations are governmental in nature, particularly public colleges and universities and government hospitals. The FASB is responsible for setting accounting and reporting standards for not-for-profit organizations that are independent of governments. Governmental not-for-profit organizations follow standards established by the GASB.

ILLUSTRATION 1-1 **Primary Sources of Accounting and Financial Reporting Standards for Businesses, Governments, and Not-for-Profit Organizations**


Financial Accounting Foundation
• Comptroller General
• Director of the Office of Management and Budget
• Secretary of the Treasury
Financial Accounting Standards Board (FASB)
Governmental Accounting Standards Board (GASB)
Federal Accounting Standards Advisory Board (FASAB)
Business (for-profit) organizations
Nongovernmental not-for-profit organizations
State and local governmental organizations
Governmental not-for-profit organizations
Federal government and its agencies and departments

The GASB and the FASB are parallel bodies under the oversight of the Financial Accounting Foundation. The foundation appoints the members of the two boards and supports the boards' operations. The federal Sarbanes-Oxley Act greatly enhanced financial support for the FASB by mandating an assessed fee on corporate security offerings. The Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) required the establishment of an accounting support fee to fund the GASB. In February 2012 the Financial Industry Regulatory Authority (FINRA) established such a fee.[7]

Because of the method of support and the lack of ties to any single organization or government, the GASB and the FASB are referred to as "independent standards-setting boards in the private sector." Before the creation of the GASB and the FASB, financial reporting standards were set by groups sponsored by professional organizations: The forerunners of the GASB (formed in 1984) were the National Council on Governmental Accounting (1973–84), the National Committee on Governmental Accounting (1948–73), and the National Committee on Municipal Accounting (1934–41). The forerunners of the FASB (formed in 1973) were the Accounting Principles Board (1959–73) and the Committee on Accounting Procedure (1938–59) of the American Institute of Certified Public Accountants.

Federal statutes assign responsibility for establishing and maintaining a sound financial structure for the federal government to three officials: the Comptroller General, the Director of the Office of Management and Budget, and the Secretary of the Treasury. In 1990, these three officials created the **Federal Accounting Standards Advisory Board (FASAB)** to recommend accounting principles and standards for the federal government and its agencies. It is understood that, to the maximum extent possible, federal accounting and financial reporting standards should be consistent with those established by the GASB and, where applicable, by the FASB.

OBJECTIVES OF FINANCIAL REPORTING

GASB *Concepts Statement No. 1,* "Objectives of Financial Reporting," states that "**Accountability** is the cornerstone of all financial reporting in government…. Accountability requires governments to answer to the citizenry—to justify the raising of public resources and the purposes for which they are used."[8] The board elaborated:

> Governmental accountability is based on the belief that the citizenry has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society.[9]

Illustration 1-2 shows several ways that state and local government financial reporting is used in making economic, social, and political decisions and assessing accountability. Closely related to the concept of accountability as the cornerstone of governmental financial reporting is the concept the GASB refers to as **interperiod equity.** This concept and its importance are explained as follows:

ILLUSTRATION 1-2 Comparison of Financial Reporting Objectives—State and Local Governments, Federal Government, and Not-for-Profit Organizations

State and Local Governments[a]	Federal Government[b]	Not-for-Profit Organizations[c]
Financial reporting is used in making economic, social, and political decisions and in assessing accountability primarily by: • Comparing actual financial results with the legally adopted budget. • Assessing financial condition and results of operations. • Assisting in determining compliance with finance-related laws, rules, and regulations. • Assisting in evaluating efficiency and effectiveness.	Financial reporting should help to achieve accountability and is intended to assist report users in evaluating: • Budgetary integrity. • Operating performance. • Stewardship. • Adequacy of systems and controls.	Financial reporting should provide information useful in: • Making resource allocation decisions. • Assessing services and ability to provide services. • Assessing management stewardship and performance. • Assessing economic resources, obligations, net resources, and changes in them.

[a]Source: *GASB Concepts Statement No. 1*, par. 32.
[b]Source: *FASAB Statement of Federal Accounting Concepts No. 1*, par. 134.
[c]Source: *FASB Concepts Statement No. 4*, pp. 13–15.

> The Board believes that interperiod equity is a significant part of accountability and is fundamental to public administration. It therefore needs to be considered when establishing financial reporting objectives. In short, *financial reporting should help users assess whether current-year revenues are sufficient to pay for services provided that year and whether future taxpayers will be required to assume burdens for services previously provided.* (Emphasis added.)[10]

Accountability is also the foundation for the financial reporting objectives the FASAB has established for the federal government. The FASAB's *Statement of Accounting and Reporting Concepts Statement No. 1* identifies four objectives of federal financial reporting (see Illustration 1-2) focused on evaluating budgetary integrity, operating performance, stewardship, and adequacy of systems and controls.

Unlike the FASB and the GASB, which focus their standards on *external* financial reporting, the FASAB and its sponsors in the federal government are concerned with *both* internal and external financial reporting. Accordingly, the FASAB has identified four major groups of users of federal financial reports: citizens, Congress, executives, and program managers. Given the broad role the FASAB has been assigned, its standards focus on cost accounting and service efforts and accomplishment measures, as well as on financial accounting and reporting.

Financial reports of not-for-profit organizations—voluntary health and welfare organizations, private colleges and universities, private health care institutions, religious organizations, and others—have similar uses. However, as Illustration 1-2 shows, the reporting objectives for not-for-profit organizations emphasize decision usefulness over financial accountability needs. The FASB *Statement of Financial Accounting Concepts No. 4* indicates that not-for-profit and business enterprises are similar in many ways and thus the emphasis on decision usefulness in reporting objectives.

Note that the objectives of financial reporting for governments and not-for-profit entities stress the need for the public to understand and evaluate the financial activities and management of these organizations. Readers will recognize the impact on their lives, and on their bank accounts, of the activities of the layers of government they are obligated to support and of the not-for-profit organizations they voluntarily support. Since each of us is significantly affected, it is important that we be able to read intelligently the financial reports of governmental and not-for-profit organizations. In order to make informed decisions as citizens, taxpayers, creditors, and donors, readers should make the effort to learn the accounting and financial reporting standards developed by the authoritative bodies. The standards are further explained and illustrated throughout the remainder of the text.

OVERVIEW OF FINANCIAL REPORTING FOR STATE AND LOCAL GOVERNMENTS, THE FEDERAL GOVERNMENT, AND NOT-FOR-PROFIT ORGANIZATIONS

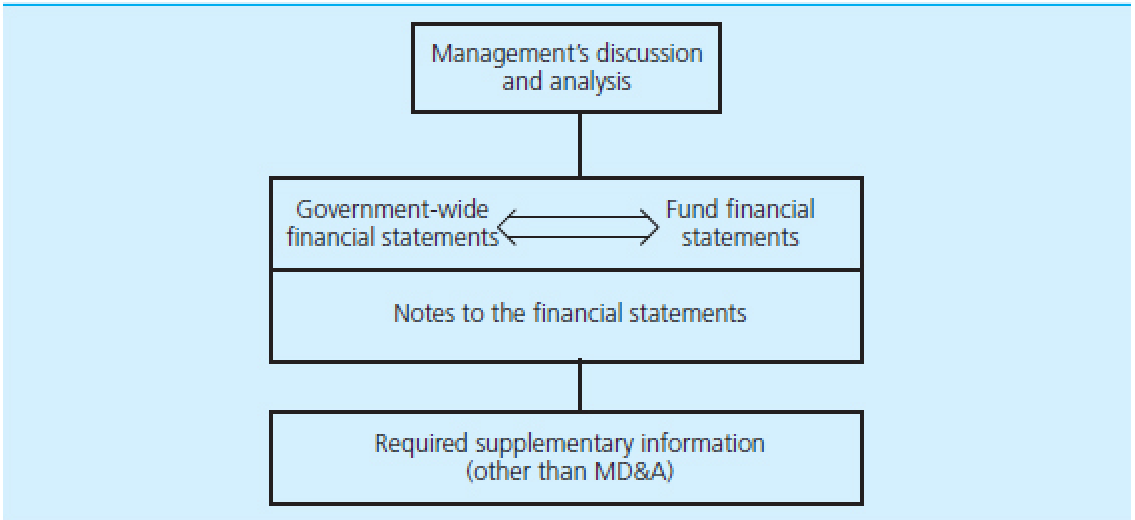
Financial Reporting of State and Local Governments

Like the FASB, the GASB continues to develop concepts statements that communicate the framework within which the Board strives to establish consistent financial reporting standards for entities within its jurisdiction. The GASB, as well as the FASB, is concerned with establishing standards for financial reporting to *external* users—those who lack the authority to prescribe the information they want and who must rely on the information management communicates to them. The Board does not intend to set standards for reporting to managers and administrators or others deemed to have the ability to enforce their demands for information.

General Purpose External Financial Reporting

Illustration 1-3 displays the minimum requirements for general purpose external financial reporting under the governmental financial reporting model specified by the GASB.[11] Central to the model is the **management's discussion and analysis (MD&A).** The MD&A is **required supplementary information (RSI)** designed to communicate in narrative, easily readable form the purpose of the basic financial statements and the government's current financial position and results of financial activities compared with those of the prior year.

ILLUSTRATION 1-3 **Minimum Requirements for General Purpose External Financial Reporting**



Source: GASB *Codification*, Sec. 2200.103.

As shown in Illustration 1-3, the GASB prescribes two categories of **basic financial statements,** government-wide and fund. **Government-wide financial statements** are intended to provide an aggregated overview of a government's net position and changes in net position. You will notice that the GASB uses the term *net position* rather than the FASB term *net assets*; however, the terms are substantially the same. The government-wide financial statements report on the government as a whole and assist in assessing **operational accountability**—whether the government has used its resources efficiently and effectively in meeting operating objectives. The GASB concluded that reporting on operational accountability is best achieved by using essentially the same basis of accounting and measurement focus used by business organizations: the accrual basis and flow of economic resources measurement focus.

Fund financial statements, the other category of basic financial statements, provide more detailed financial information about the government. Certain funds, referred to as *governmental funds,* focus on the short-term flow of current financial resources rather than on the flow of economic resources.[12] The focus on current financial resources makes it easier for users assessing **fiscal accountability,** which relates to ensuring the government is complying with rules and regulations related to the use of financial resources. Because of the short-term focus, governmental funds use a modified accrual basis of accounting rather than the accrual basis. Under **modified accrual,** revenues are recognized in the period they are measurable and available for spending and expenditures (not expenses) are recognized when they create an obligation to be paid from current financial resources. The characteristics and roles of the government-wide and fund financial statements are summarized in Illustration 1-4.

ILLUSTRATION 1-4 **Dual Roles of Governmental Financial Statements in Assessing Accountability**

	Operational Accountability	Fiscal Accountability
Statements	Government-wide financial statements (governmental and business-type activities) and those of proprietary funds and fiduciary funds	Governmental fund financial statements
Measurement focus	Flow of economic resources	Flow of current financial resources
Basis of accounting	Accrual basis (revenues and *expenses* are recognized when exchange of economic resources occurs or per GASB recognition rules for nonexchange transactions, such as taxes, contributions, and grants)	Modified accrual basis (revenues are recognized when resources are measurable and available for current spending; *expenditures* are recognized when an obligation to spend current financial resources is incurred)

Other funds, referred to as *proprietary* and *fiduciary funds,* account for the business-type and certain fiduciary (trust and agency) activities of the government. These funds follow accounting and reporting principles similar to those of business organizations.

As shown in Illustration 1-3, the notes to the financial statements are considered integral to the financial statements. In addition, governments are required to disclose certain RSI other than MD&A. These additional information disclosures are discussed in several of the following chapters.

Comprehensive Annual Financial Report

Serious users of government financial information need more detail than is found in the MD&A, basic financial statements, and RSI (other than MD&A). For state and local governments, much of that detail is found in the government's **comprehensive annual financial report (CAFR).** Although governments are not required to prepare a CAFR, most do so as a matter of public record and to provide additional financial details beyond the minimum requirements shown in Illustration 1-3. As such, the GASB provides standards for the content of a CAFR in its annually updated publication *Codification of Governmental Accounting and Financial Reporting Standards.* A CAFR prepared in conformity with these standards should contain the following sections.[13]

Introductory Section[14] The introductory section typically includes items such as a title page and contents page, a letter of transmittal, a description of the government, and other items deemed appropriate by management. The letter of transmittal may be literally that—a letter from the chief financial officer addressed to the chief executive and governing body of the government—or it may be a narrative over the signature of the chief executive. In either event, the letter or narrative material should cite legal and policy requirements for the report.

Financial Section The financial section of a comprehensive annual financial report should include (1) an auditor's report, (2) management's discussion and analysis (MD&A), (3) basic financial statements, (4) required supplementary information (other than MD&A), and (5) other supplementary information, such as combining statements and individual fund statements and schedules. Items (2), (3), and (4) represent the minimum requirements for general purpose external financial reporting, as depicted in Illustration 1-3. As you will recognize, a CAFR provides additional supplementary financial information beyond the minimum amount required by generally accepted accounting principles.

Laws regarding the audit of governments vary from state to state. Some states have laws requiring that all state agencies and all local governments be audited by an audit agency of the state government. In other states, local governments are audited by independent public accounting firms. In still other states, some local governments are audited by the state audit agency and some by independent public accounting firms.

In any event, the auditor's opinion should accompany the financial statements reproduced in the report.

The financial section should contain sufficient information to disclose fully and present fairly the financial position and results of financial operations during the fiscal year. Laws of higher jurisdictions, actions of the legislative branch of the government itself, and agreements with creditors and others impose constraints over governments' financial activities and create unique financial accountability requirements.

Statistical Section In addition to the introductory and financial sections of the CAFR, which were just described, a CAFR should contain a statistical section. The statistical section typically presents tables and charts showing demographic and economic data, financial trends, fiscal capacity, and operating information of the government in the detail needed by readers who are more than casually interested in the activities of the government. The GASB *Codification* requires a specific set of statistical tables for inclusion in a CAFR. The statistical section is discussed at greater length in Chapter 9 of this text.

Financial Reporting of the Federal Government

U.S. Government-Wide Financial Reporting

For more than a decade, the Department of the Treasury has prepared a prototype consolidated financial report for the U.S. government as a whole.[15] The consolidated financial report includes a "plain language" *Citizen's Guide,* a management's discussion and analysis (MD&A), several financial statements,[16] and supplemental information that report both on the government's budget and proprietary financial activities, as well as reconciliation of the two. Of particular interest is a statement of social insurance (e.g., Social Security and Medicare, among other commitments) that reflects an excess of the present value of future actuarial expenditures over revenues at the end of FY 2013 of more than $53 trillion.

Readers may be shocked to learn that despite the enormous dollar amounts involved, the U.S. Comptroller General has never been able to issue an audit opinion on the federal government's consolidated financial statements. In general, serious financial management and data deficiencies are cited for the Comptroller General's continuing disclaimer of opinion. These deficiencies are explained in greater detail in Chapter 17.

Federal Department and Agency Financial Reporting

The federal Office of Management and Budget's (OMB) *Circular A-136* requires major federal departments and agencies to prepare a **performance and accountability report (PAR)** that includes an annual performance report (APR), annual financial statements, and a variety of management reports on internal control and other accountability issues. The PAR has four sections containing:

1. An MD&A, which serves as a brief overview of the entire PAR and clearly describes the department or agency's mission and organizational structure; its performance goals, objectives, and results; analysis of its financial statements; and analysis of information about internal controls and legal compliance.
2. Performance information. The annual performance report (APR) provides information about the agency's performance and progress in achieving its performance goals.
3. Basic financial statements. These include a balance sheet, statement of net cost (essentially an operating statement format that is presented with expenses reported before revenues; that is, program costs minus earned revenues results in net cost), statement of changes in net position (similar to changes in owners' equity in business accounting), statement of budgetary resources, statement of custodial activity, and statement of social insurance.
4. Other accompanying information, such as perspectives on the tax burden, size of the tax gap, challenges facing management, and revenue forgone.

Federal government financial reporting places a strong emphasis on management's performance, in addition to the reporting of financial information. Chapter 17 explains federal department and agency financial reporting requirements in much greater detail and provides examples of each financial statement.

Financial Reporting of Not-for-Profit Organizations (NFPs)

Most NFPs are nongovernmental in nature and, therefore, follow FASB accounting and financial reporting standards. The primary purpose of NFP financial statements is to provide decision-useful financial information to resource providers, principally donors, members, and creditors, among others. Resource providers have in common the need to assess (1) the services provided by an NFP and the ability of the NFP to continue to provide those services, and (2) management's performance and stewardship of resources.[17] To meet these reporting needs, FASB standards require NFPs to prepare a set of organization-wide financial statements that include a statement of financial position (balance sheet), a statement of activities (income statement), and a statement of cash flows.[18] In addition, NFPs classified as voluntary health and welfare organizations (health-related and community services organizations such as the YMCA, American Heart Association, and United Way) are required to provide a statement of functional expenses.[19] The latter statement classifies expenses into program and supporting services categories, in addition to *natural* classifications such as personnel, supplies, and travel. Chapter 13 provides examples of all these statements.

Many NFPs depend heavily on donor contributions to finance their operations. Donors often impose restrictions on the use of contributions, such as specifying that their contribution be used for a particular purpose or in a particular time period. **Donor-imposed restrictions** may be temporary or, in the case of certain endowments, permanent. Permanent endowments require the NFP to maintain the principal amount of the contribution in perpetuity but permit the use of earnings on invested principal, either without restriction or for a particular restricted purpose.

FASB standards recognize the essential need for management to demonstrate accountability for donor-restricted resources. Specifically, the standards require that an NFP's statement of financial position report net assets (the excess of total assets over total liabilities) in three categories: permanently restricted, temporarily restricted, and unrestricted.[20] The statement of activities reports increases and decreases in each of the three categories of net assets.

In addition, it is important that an NFP's statement of activities report expenses incurred for direct support of programs separately from supporting expenses (more formally titled, management and general expenses) and fund-raising costs. Reporting expenses in this way is an important aspect of accountability since it allows donors, oversight bodies, and others to calculate what percentage of total expenses is being incurred for program purposes, rather than for overhead and fund-raising. Would you want to contribute to an NFP that spent more for administrative support and fund-raising than for its core mission?

As with state and local government and federal government financial reporting, a complete discussion of NFP financial reporting is deferred to later chapters of the text. Chapters 13 through 16 will provide you with a more comprehensive understanding of NFP accounting and financial reporting, both for nongovernmental and governmental NFPs.

EXPANDING THE SCOPE OF ACCOUNTABILITY REPORTING

Some governments publish highly condensed popular reports. These reports usually contain selected data from the audited financial statements, statistical data, graphic displays, and narrative explanations, but the reports themselves are not audited. In addition, many state and local governments have begun to identify and report non-financial performance measures. For nearly 20 years, the GASB has encouraged state and local governments to experiment with reporting **service efforts and accomplishments (SEA)** measures to provide more complete information about a government's performance than can be provided by basic financial statements, budgetary comparison statements, and schedules. Indicators of service efforts include inputs of nonmonetary resources as well as inputs of dollars. Indicators of service accomplishments include both outputs and outcomes; outputs are quantitative measures of work done, such as the number of juvenile cases handled, and outcomes are the impacts of outputs on program objectives, such as a reduction in the high school dropout rate or incidence of juvenile crime. Chapter 12 provides additional discussion of SEA measures.

OVERVIEW OF CHAPTERS 2 THROUGH 17

GASB Principles, Standards, and Financial Reporting

Part 1 of the text (Chapters 2–9) focuses on state and local governments. The principles that underlie GASB accounting and reporting standards are presented in Chapter 2.

Chapters 3 through 8 provide detailed illustrations of the effect of financial transactions on the funds and government-wide statements. Financial reporting for state and local governments is described in detail in Chapter 9.

Accountability for Public Funds

Part II of the text includes three chapters that describe ways that public financial managers provide accountability over funds entrusted to them. Chapter 10 provides information on how to analyze the financial performance of state and local governments based on financial and other information. Auditing techniques designed to assure the public that funds are properly recognized and spent efficiently and effectively are described in Chapter 11, with special attention devoted to areas of auditing that are unique to federal funds, such as single audits. Chapter 12 covers tools important to managers in demonstrating accountability for funds, such as budgeting, costing, and performance measurement.

Not-for-Profit Organizations and the Federal Government

Part III is a set of four chapters covering the unique accounting and financial reporting issues facing entities in the not-for-profit sector and a final chapter on accounting and financial reporting for the federal government. Chapter 13 provides detailed illustrations of the effect of financial transactions on the financial statements of not-for-profit organizations, much like Chapters 3 through 8 do for state and local governments. The governance and regulatory issues that a not-for-profit organization faces from the time of its incorporation through merger or dissolution, if any, are presented in Chapter 14. Chapters 15 and 16 present industry-specific accounting and financial reporting requirements for colleges and universities and health care organizations, respectively. Chapter 17 focuses on the federal government, the largest provider of public funds, and introduces federal offices that interact with state and local governments and not-for-profit organizations in a variety of ways; for example, the Government Accountability Office (GAO) and the Office of Management and Budget (OMB).

A CAVEAT

The first edition of this text was written by the late Professor R. M. Mikesell more than 60 years ago in 1951. Some words of his bear thoughtful rereading from time to time by teachers and students in all fields, not just those concerned with accounting and financial reporting for governmental and not-for-profit organizations:

> Even when developed to the ultimate stage of perfection, governmental accounting cannot become a guaranty of good government. At best, it can never be more than a valuable tool for promotion of sound financial management. It does not offer a panacea for all the ills that beset representative government; nor will it fully overcome the influence of disinterested, uninformed citizens. It cannot be substituted for honesty and moral integrity on the part of public officials; it can help in resisting but cannot eliminate the demands of selfish interests, whether in the form of individual citizens, corporations, or the pressure groups which always abound to influence government at all levels.[21]

Key Terms*

Accountability, *5*
Basic financial statements, *8*
Comprehensive annual financial report (CAFR), *9*
Donor-imposed restrictions, *11*
Federal Accounting Standards Advisory Board (FASAB), *5*
Financial Accounting Standards Board (FASB), *3*
Fiscal accountability, *8*
Fund financial statements, *8*
General purpose governments, *2*
Generally accepted accounting principles (GAAP), *4*
Governmental Accounting Standards Board (GASB), *3*
Government-wide financial statements, *8*
Interperiod equity, *6*
Management's discussion and analysis (MD&A), *8*
Modified accrual, *8*
Operational accountability, *8*
Performance and accountability report (PAR), *10*
Required supplementary information (RSI), *8*
Service efforts and accomplishments (SEA), *12*
Special purpose governments, *2*

*See the glossary at the back of the text for a definition of each term and concept.

Questions

1-1. Identify some differences between business organizations and government/not-for-profit organizations.

1-2. Using GP for general purpose government or SP for special purpose government, identify the following governments by type.

a. Stonington Village. _____
b. Lynnford Regional Library District. _____
c. Hillsborough County Consolidated School District. _____
d. Missoula, Montana. _____
e. Pulaski County Public Works District. _____
f. Hohenstein Township. _____