

# Table of Contents

## Preface v

## Chapter 1

### Introduction to Accounting and Financial Reporting for Governmental and Not-for-Profit Entities 1

Welcome to Governmental and Not-for-Profit Accounting	1
What Are Governmental and Not-for-Profit Organizations?	2
Distinguishing Characteristics of Governmental and Not-for-Profit Entities	3
Sources of Financial Reporting Standards	4
Objectives of Financial Reporting	5
Overview of Financial Reporting for State and Local Governments, the Federal Government, and Not-for-Profit Organizations	7
<i>Financial Reporting of State and Local Governments</i>	7
<i>Financial Reporting of the Federal Government</i>	10
<i>Financial Reporting of Not-for-Profit Organizations (NFPs)</i>	11
Expanding the Scope of Accountability Reporting	12
Overview of Chapters 2 through 17	12
<i>GASB Principles, Standards, and Financial Reporting</i>	12
<i>Accountability for Public Funds</i>	12
<i>Not-for-Profit Organizations and the Federal Government</i>	13
A Caveat	13
Key Terms	13
Questions	14
Cases	14
Exercises and Problems	15

## PART ONE

### State and Local Governments 21

#### Chapter 2

### Principles of Accounting and Financial Reporting for State and Local Governments 23

Activities of Government	24
--------------------------	----

### Integrated Accounting and Financial Reporting Model 25

<i>Government-wide Financial Statements</i>	25
<i>Fund Financial Statements</i>	27
<i>Fund Accounting</i>	29
<i>Fund Categories</i>	30
<i>Summary of Government-wide and Fund Characteristics</i>	35

### Major Fund Reporting 37

<i>Determination of Major Funds</i>	37
<i>Nonmajor Fund Reporting</i>	38

### Appendix A: Illustrative Financial Statements—City of Jacksonville, Florida 39

### Appendix B: Summary Statement of Governmental Accounting and Financial Reporting Principles 52

Key Terms	56
Selected References	56
Questions	56
Cases	57
Exercises and Problems	59

## Chapter 3

### Governmental Operating Statement Accounts; Budgetary Accounting 65

### Classification and Reporting of Expenses and Revenues at the Government-wide Level 66

<i>Reporting Direct and Indirect Expenses</i>	66
<i>Program Revenues and General Revenues</i>	68
<i>Reporting Special Items and Transfers</i>	69

### Structure and Characteristics of the General Fund; Classification and Description of Operating Statement Accounts 70

<i>Governmental Fund Balance Sheet and Operating Statement Accounts</i>	70
---	----

### Reporting Budgeted and Actual Results 74

### Terminology and Classification for Budgetary and Operating Statement Accounts 77

<i>Classification of Appropriations and Expenditures</i>	77
<i>Classification of Estimated Revenues and Revenues</i>	80

### Budgetary Accounting 85

<i>Recording the Budget</i>	86
<i>Budgetary Control of Revenues</i>	87

*Budgetary Control of Encumbrances and Expenditures* 88  
*Accounting for Allotments* 91  
 Concluding Remarks 91  
 Appendix A: Accounting Information Systems 92  
 Appendix B: Accounting for Public School Systems 94  
 Key Terms 97  
 Selected References 97  
 Questions 98  
 Cases 99  
 Exercises and Problems 102

## Chapter 4

### Accounting for Governmental Operating Activities—Illustrative Transactions and Financial Statements 111

Illustrative Case 112  
*Measurement Focus and Basis of Accounting* 112  
 Dual-track Accounting Approach 114  
 Illustrative Journal Entries 115  
*Recording the Budget* 115  
*Encumbrance Entry* 116  
*Payment of Liabilities* 118  
*Payrolls and Payroll Taxes* 119  
*Accounting for Property Taxes* 120  
*Other Revenues* 125  
*Tax Anticipation Notes Payable* 126  
*Forecasting Amount of Tax Anticipation Borrowing* 127  
*Repayment of Tax Anticipation Notes* 128  
 Special Topics 128  
*Correction of Errors* 128  
*Receipt of Goods Ordered in Prior Year* 129  
*Revision of the General Fund Budget* 130  
*Internal Exchange Transactions* 131  
*Adjusting Entries* 133  
*Pre-Closing Trial Balance* 135  
*Closing Entries* 136  
*Reclassification of Fund Balances* 137  
*General Fund Financial Statements* 138  
 Special Revenue Funds 141  
*Accounting for Operating Grants* 141  
*Financial Reporting* 142  
 Interfund Activity 142  
*Reciprocal Interfund Activity* 142

*Nonreciprocal Interfund Activity* 145  
*Intra- versus Inter-Activity Transactions (Government-wide Level)* 145  
 Permanent Funds 146  
*Budgetary Accounts* 146  
*Illustrative Case* 146  
 Appendix A: Concepts and Rules for Recognition of Revenues and Expenses (or Expenditures) 149  
 Appendix B: Interim Financial Reporting 152  
 Key Terms 154  
 Selected References 154  
 Questions 154  
 Cases 155  
 Exercises and Problems 158

## Chapter 5

### Accounting for General Capital Assets and Capital Projects 169

Accounting for General Capital Assets 170  
*Required Disclosures about Capital Assets* 171  
*Classification of General Capital Assets* 172  
*General Capital Assets Acquired under Capital Lease Agreements* 177  
*Costs Incurred after Acquisition* 178  
*Reduction of Cost* 179  
*Asset Impairments and Insurance Recoveries* 180  
*Service Concession Arrangements* 180  
*Illustrative Entries* 181  
 Capital Projects Funds 182  
*Illustrative Transactions—Capital Projects Funds* 183  
*Illustrative Financial Statements for a Capital Projects Fund* 189  
*Alternative Treatment of Residual Equity or Deficits* 189  
*Bond Premium, Discount, and Accrued Interest on Bonds Sold* 190  
*Retained Percentages* 191  
*Claims and Judgments Payable* 192  
*Bond Anticipation Notes Payable and the Problem of Interest Expenditures* 193  
*Investments* 194  
*Multiple-Period and Multiple-Project Funds* 195  
*Capital Projects Financed by Special Assessments* 196  
*Financial Reporting for Capital Projects Funds* 197  
 Key Terms 197  
 Selected References 198

Questions 198  
 Cases 198  
 Exercises and Problems 200

## Chapter 6

### Accounting for General Long-term Liabilities and Debt Service 209

General Long-term Liabilities 210  
     *Accounting for Long-term Liabilities* 210  
     *Pollution Remediation Obligations* 211  
     *Long-term Liability Disclosures* 211  
     *Debt Limit and Debt Margin* 215  
     *Overlapping Debt* 217  
 Debt Service Funds 218  
     *Number of Debt Service Funds* 218  
     *Use of General Fund to Account for Debt Service* 219  
     *Budgeting for Debt Service* 219  
     *Types of Serial Bonds* 221  
     *Debt Service Accounting for Term Bonds* 226  
     *Financial Reporting* 230  
     *Valuation of Debt Service Fund Investments* 231  
     *Deposit and Investment Disclosures* 233  
     *Debt Service Accounting for Special Assessment Debt* 234  
     *Use of Debt Service Funds to Record Capital Lease Payments* 236  
     *Accounting for Debt Refunding* 238  
     *Advance Refunding of Debt* 238  
 Key Terms 240  
 Selected References 240  
 Questions 240  
 Cases 241  
 Exercises and Problems 244

## Chapter 7

### Accounting for the Business-type Activities of State and Local Governments 255

Proprietary Funds 256  
     *Assets Acquired under Lease Agreements* 256  
     *Financial Reporting Requirements* 257  
 Internal Service Funds 259  
     *Illustrative Case—Supplies Fund* 261  
     *Illustrative Statements Using Supplies Fund* 266  
     *External Financial Reporting of Internal Service Funds* 268

*Internal Service Funds with Manufacturing Activities* 269  
     *Internal Service Funds as Financing Devices* 270  
     *Dissolution of an Internal Service Fund* 271  
 Enterprise Funds 271  
 Water Utility Funds 272  
     *Current and Accrued Assets* 273  
     *Restricted Assets* 274  
     *Utility Plant* 274  
     *Current Liabilities* 275  
     *Liabilities Payable from Restricted Assets* 275  
     *Long-term Liabilities* 276  
     *Net Position* 276  
     *Illustrative Case—Water Utility Fund* 277  
     *Illustrative Statements Using Water Utility Fund* 282  
     *External Financial Reporting of Enterprise Funds* 286  
 Appendix: Special Topics in Accounting for the Business-type Activities of State and Local Governments 286  
 Key Terms 290  
 Selected References 290  
 Questions 290  
 Cases 291  
 Exercises and Problems 294

## Chapter 8

### Accounting for Fiduciary Activities—Agency and Trust Funds 307

Agency Funds 308  
     *Agency Fund for Special Assessment Debt Service* 308  
     *Tax Agency Funds* 309  
     *“Pass-through” Agency Funds* 315  
     *Financial Reporting of Agency Funds* 316  
 Trust Funds 316  
 Investment Pools 317  
     *Creation of an Investment Pool* 317  
     *Operation of a Cash and Investment Pool* 321  
     *Withdrawal of Assets from the Pool* 325  
     *Closing Entry* 325  
     *Illustrative Financial Statements* 326  
 Private-purpose Trust Funds 327  
 Pension Trust Funds 328  
     *Required Financial Reporting for Defined Benefit Pension Plans* 330

<i>Evaluating the Status of a Pension Plan</i>	334
<i>Illustrative Transactions for a Defined Benefit Pension Plan</i>	335
<i>Employer's Pension Accounting</i>	337
<i>Employer Recording and Reporting of Pension Expenditure/Expense</i>	339
Other Postemployment Benefits (OPEB)	340
Termination Benefits	341
Appendix: Managing Investments	341
Key Terms	342
Selected References	343
Questions	343
Cases	344
Exercises and Problems	345
<b>Chapter 9</b>	
<b>Financial Reporting of State and Local Governments</b>	<b>355</b>
Concepts Related to Financial Reporting	355
The Governmental Reporting Entity	356
<i>Defining the Financial Reporting Entity</i>	357
<i>Component Units</i>	358
<i>Reporting by Other Government Organizations</i>	360
Governmental Financial Reports	361
<i>Need for Periodic Reports</i>	361
<i>Interim Financial Reports</i>	362
<i>Annual Financial Reports</i>	362
Preparation of Basic Financial Statements	365
<i>Fund Financial Statements</i>	370
<i>Required Reconciliations</i>	375
<i>Intra-Entity Transactions</i>	376
Other Financial Reporting Issues and Topics	377
<i>Popular Reporting</i>	377
<i>Other Comprehensive Basis of Accounting (OCBOA)</i>	378
<i>International Accounting Standards</i>	379
Appendix A: Converting Accounting Information from the Modified Accrual to the Accrual Basis of Accounting	380
Appendix B: Management's Discussion and Analysis (MD&A)—City of Jacksonville	384
Key Terms	398
Selected References	398
Questions	399
Cases	399
Exercises and Problems	403

## PART TWO

### Accountability for Public Funds 413

#### Chapter 10

#### Analysis of Governmental Financial Performance 415

The Need to Evaluate Financial Performance	415
Government Financial Performance Concepts	416
<i>Financial Position versus Financial Condition</i>	417
<i>Economic Condition</i>	418
Internal Financial Trend Monitoring	418
<i>Environmental Factors</i>	420
<i>Organizational Factors</i>	423
<i>Financial Factors</i>	424
Analyzing Government-wide Financial Statements	426
<i>Financial Position Ratios</i>	426
<i>Financial Performance Ratios</i>	427
<i>Financial Capability Ratios</i>	427
Use of Benchmarks to Aid Interpretation	429
<i>Sources of Governmental Financial Data</i>	433
<i>Credit Analyst Models</i>	434
Key Terms	436
Selected References	436
Questions	436
Cases	437
Exercises and Problems	439

#### Chapter 11

#### Auditing of Governmental and Not-for-Profit Organizations 453

Financial Audits by Independent CPAs	454
<i>Generally Accepted Auditing Standards</i>	454
<i>Format of the Audit Report</i>	455
<i>Types of Opinions</i>	457
<i>The Audit Process</i>	458
<i>Materiality for Government Audits</i>	460
<i>Required Supplementary and Other Information</i>	461
Government Auditing Standards	461
<i>Types of Audits and Engagements</i>	462
<i>GAGAS Financial Audits</i>	463
<i>Ethics and Independence</i>	466
Single Audits	469
<i>History of the Single Audit</i>	469
<i>Single Audit Act Amendments of 1996</i>	469
<i>Determining Who Must Have a Single Audit</i>	470
<i>Single Audit Requirements</i>	473

<i>Selecting Programs for Audit</i>	474
<i>Reports Required for the Single Audit</i>	476
<i>Other Single Audit Requirements</i>	478
<i>Single Audit Quality</i>	479
Impact of SOX on Governments and Not-for-Profits	480
<i>Best Practices—Audit Committees</i>	480
<i>Best Practices—Internal Controls</i>	480
Key Terms	481
Selected References	481
Questions	482
Cases	482
Exercises and Problems	486
<b>Chapter 12</b>	
<b>Budgeting and Performance Measurement</b>	<b>491</b>
Objectives of Budgeting	492
<i>Compliance with Laws</i>	492
<i>Communicate Performance Effectiveness</i>	493
Budgeting Approaches	495
<i>Line-item Budgeting</i>	495
<i>Performance Budgeting</i>	496
<i>Program Budgeting</i>	496
<i>Entrepreneurial Budgeting</i>	497
Budgeting Process in a State or Local Government	497
<i>Budgeting Governmental Appropriations</i>	497
<i>Budgeting Governmental Revenues</i>	500
<i>Budgeting Capital Expenditures</i>	501
<i>Budgeting Cash Receipts</i>	502
<i>Budgeting Cash Disbursements</i>	503
Integration of Planning, Budgeting, and Performance Measurement	505
<i>Service Efforts and Accomplishments (SEA)</i>	506
Managerial Tools to Improve Performance	510
<i>Total Quality Management</i>	510
<i>Customer Relationship Management</i>	510
<i>Activity-based Costing</i>	510
<i>Balanced Scorecards</i>	512
Conclusion	513
Appendix: Budget and Cost Issues in Grant Accounting	514
Key Terms	519
Selected References	519
Questions	519
Cases	520
Exercises and Problems	522

## PART THREE

### Accounting and Financial Reporting for Not-for-Profit Organizations and the Federal Government 537

#### Chapter 13

##### Accounting for Not-for-Profit Organizations 539

Defining the Not-for-Profit Sector	540
<i>Determining Whether an NFP Organization Is Governmental</i>	540
GAAP for Nongovernmental NFP Organizations	542
Financial Reporting	543
<i>Statement of Financial Position</i>	543
<i>Statement of Activities</i>	546
<i>Statement of Cash Flows</i>	546
<i>Statement of Functional Expenses</i>	548
<i>Notes to the Financial Statements</i>	548
Accounting for NFP Organizations	550
<i>Revenues and Gains</i>	550
<i>Accounting for Expenses</i>	556
<i>Accounting for Assets</i>	557
Consolidations and Combinations	560
<i>Consolidations</i>	560
<i>Combinations</i>	561
Illustrative Transactions—Voluntary Health and Welfare Organizations	561
<i>End-of-the-Year Adjusting Journal Entries</i>	566
<i>End-of-the-Year Reclassification Journal Entries</i>	567
<i>End-of-the-Year Closing Journal Entries</i>	568
Appendix: Optional Fund Accounting	574
Key Terms	575
Selected References	575
Questions	576
Cases	576
Exercises and Problems	580
<b>Chapter 14</b>	
<b>Not-for-Profit Organizations—Regulatory, Taxation, and Performance Issues</b>	<b>591</b>
State Regulation	592
<i>Not-for-Profit Incorporation Laws</i>	593
<i>Licenses to Solicit Contributions or for Other Purposes</i>	593

<i>Taxes</i>	593
<i>Lobbying and Political Activity</i>	594
Federal Regulation	594
<i>Tax-exempt Status</i>	595
<i>Annual Compliance Reporting</i>	599
<i>Unrelated Business Income Tax</i>	599
<i>Excessive Benefits Received by Officers</i>	601
<i>Reorganization and Dissolution</i>	602
Governance	602
<i>Incorporating Documents</i>	602
<i>Board Membership</i>	603
Benchmarking and Performance Measures	604
<i>Financial Performance Measures</i>	604
<i>Nonfinancial Performance Measures</i>	607
Summary	608
Key Terms	608
Selected References	608
Questions	609
Cases	609
Exercises and Problems	611

## Chapter 15

### Accounting for Colleges and Universities 621

Accounting and Financial Reporting Standards	622
<i>Public Colleges and Universities</i>	623
<i>Private Colleges and Universities</i>	627
Reporting and Accounting Issues	627
<i>Statement of Net Position or Financial Position</i>	628
<i>Operating Statements</i>	630
<i>Statement of Cash Flows</i>	633
<i>Segment Reporting</i>	634
Illustrative Transactions for Private Colleges and Universities	634
<i>Adjusting Entries</i>	639
<i>Closing Entries</i>	640
Other Accounting Issues	641
<i>Planned Giving</i>	641
<i>Performance Measures</i>	646
<i>Auditing Colleges and Universities</i>	647
<i>Federal Financial Assistance</i>	647
<i>Related Entities</i>	648
Key Terms	648
Selected References	648
Questions	649
Cases	649
Exercises and Problems	652

## Chapter 16

### Accounting for Health Care Organizations 661

GAAP for Health Care Providers	663
Reporting and Accounting Issues	663
<i>Balance Sheet or Statement of Net Position</i>	665
<i>Operating Statement</i>	667
<i>Statement of Changes in Net Assets</i>	672
<i>Statement of Cash Flows</i>	672
Illustrative Case for a Not-for-Profit Health Care Organization	675
Other Health Care Issues	683
<i>Related Entities</i>	683
<i>Auditing</i>	683
<i>Taxation and Regulatory Issues</i>	683
<i>Patient Protection and Affordability Act</i>	684
<i>Prepaid Health Care Plans</i>	684
<i>Continuing Care Retirement Communities</i>	685
<i>Financial and Operational Analysis</i>	685
Conclusion	686
Key Terms	686
Selected References	687
Questions	687
Cases	688
Exercises and Problems	690

## Chapter 17

### Accounting and Reporting for the Federal Government 699

Federal Government Financial Management Structure	700
<i>Comptroller General</i>	702
<i>Secretary of the Treasury</i>	702
<i>Director of the Office of Management and Budget</i>	703
<i>Director of the Congressional Budget Office</i>	703
Generally Accepted Accounting Principles for the Federal Government	703
<i>Hierarchy of Accounting Principles and Standards</i>	704
Conceptual Framework	705
<i>Objectives</i>	705
<i>Reporting Entity</i>	706
<i>Management's Discussion and Analysis</i>	706
<i>Intended Audience</i>	707
<i>Elements and Recognition Criteria</i>	707
<i>Communicating Information</i>	707

Funds Used in Federal Accounting	707
<i>General Fund</i>	708
<i>Special Funds</i>	708
<i>Revolving Funds</i>	708
<i>Trust Funds</i>	708
<i>Deposit Funds</i>	709
Required Financial Reporting—U.S. Government-wide	709
Required Financial Reporting—Government Agencies	711
<i>Agency Head Message</i>	712
<i>Management's Discussion and Analysis</i>	712
<i>Performance Reports</i>	712
<i>Financial Statements</i>	712
<i>Other Accompanying Information</i>	722
Dual-track Accounting System	722
<i>Illustrative Transactions and Entries</i>	724
<i>Adjusting Entries</i>	730
<i>Illustrative Financial Statements</i>	731

Summary of Accounting and Reporting for Federal Government Agencies	735
Key Terms	736
Selected References	736
Questions	736
Cases	737
Exercises and Problems	738

## **Glossary 745**

## **Governmental and Not-for-Profit Organizations 773**

## **Index 777**