



**11**  
EDITION

# Accounting for Governmental and Nonprofit Entities

---

**Earl R. Wilson, Ph.D., CPA**

*KPMG Peat Marwick/Joseph A. Silvano*

*Distinguished Professor*

*University of Missouri-Columbia*

**Leon E. Hay, Ph.D., CPA, CGFM**

*Distinguished Professor Emeritus*

*University of Arkansas-Fayetteville*

**Susan C. Kattelus, Ph.D., CPA, CGFM**

*Associate Professor*

*Eastern Michigan University*



Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis  
Bangkok Bogotá Caracas Lisbon London Madrid  
Mexico City Milan New Delhi Seoul Singapore Sydney Taipei Toronto

# Irwin/McGraw-Hill

A Division of The McGraw-Hill Companies

## ACCOUNTING FOR GOVERNMENTAL AND NONPROFIT ENTITIES

Material from Uniform CPA Examination, Questions and Unofficial Answers, copyright © 1983-1993 by American Institute of Certified Public Accountants, Inc., is reprinted (or adapted) with permission.

GASB Codification and GASB Research Report, *Service Efforts and Accomplishments Reporting: Its Time Has Come, An Overview*, are copyrighted by the Governmental Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut, 06856-5116, USA. Portions are reprinted with permission. Complete copies of these documents are available from the GASB.

Copyright ©1999 by The McGraw-Hill Companies, Inc. All rights reserved. Previous editions © 1951, 1956, 1961, 1969, 1974, 1980, 1985, 1989, 1992, and 1995 by Richard D. Irwin, a Times Mirror Higher Education Group, Inc. company. Printed in the United States of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a data base or retrieval system, without the prior written permission of the publisher.

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 DOC/DOC 9 3 2 1 0 9 8

ISBN 0-256-16872-5

Vice president and editorial director: Michael W. Junior

Publisher: Jeffrey J. Shelstad

Sponsoring editor: George Werthman

Editorial assistant: Irene Baki

Senior marketing manager: Rhonda Seelinger

Project manager: Paula M. Buschman

Production supervisor: Scott M. Hamilton

Freelance design coordinator: JoAnne Schopler

Supplement coordinator: Cathy L. Tepper

Compositor: GAC Shepard Poorman

Typeface: 10.5/12 Goudy

Printer: R. R. Donnelley & Sons Company

### Library of Congress Cataloging-in-Publication Data

Wilson, Earl Ray

Accounting for governmental and nonprofit entities / Earl R.

Wilson, Leon E. Hay, Susan C. Kattelus. — 11th ed.

p. cm.

Includes index.

ISBN 0-256-16872-5

1. Finance, Public—Accounting. 2. Nonprofit organizations—Accounting. 3. Nonprofit organizations—United States—Accounting.

I. Hay, Leon Edwards, 1923- . II. Kattelus, Susan C.

III. Title.

HJ9733.W48 1999

657'.95—dc21

98-5443

CIP

<http://www.mhhe.com>

# Preface

---

The first two editions of this text (published in 1951 and 1956) were written by Professor R. M. Mikesell of Indiana University–Bloomington. Dr. Leon Hay, a coauthor of this 11th edition, joined Professor Mikesell as coauthor of the third and fourth editions (1961 and 1969). After Professor Mikesell's death in 1972, Professor Hay prepared the fifth (1974), sixth (1980), seventh (1985), and eighth (1989) editions with the help and suggestions of many good friends, but without a coauthor. Dr. Earl R. Wilson of the University of Missouri–Columbia became a coauthor beginning with the ninth edition of *Accounting for Governmental and Nonprofit Entities*. Dr. Hay and Dr. Wilson also coauthored the 10th edition of the text. Dr. Susan C. Kattelus, an Associate Professor at Eastern Michigan University, has joined as coauthor on this 11th edition. Professor Kattelus brings a broad range of professional and academic experience to the text, particularly in the area of not-for-profit organizations. Her expertise in this area will be obvious as readers use this edition.

Because financial accounting and reporting standards, as well as auditing standards, are expected to continue their rapid change, new editions are expected to be published at least every three years. During the life of this 11th edition, the authors will prepare Update Bulletins as needed to inform adopters of this text of changes in the standards explained and illustrated in the 11th edition, as necessitated by new pronouncements of the Governmental Accounting Standards Board, the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, U.S. General Accounting Office, the U.S. Office of Management and Budget, and the American Institute of Certified Public Accountants. Users of the text should occasionally check for Update Bulletins at the lead author's web page: <http://www.missouri.edu/~accterw>. In addition to downloading bulletins from the web page, users can submit technical inquiries about the text and provide the

authors with feedback or point out errors and omissions. Your input will be greatly appreciated.

As was true of each previous edition, the authors owe a debt of gratitude to the many professors, students, and governmental financial report users, preparers, and auditors who have shared their knowledge, experience, and views on governmental and not-for-profit organization accounting and financial reporting. In the preparation of this edition the authors are greatly indebted to the standards-setters themselves, especially to Tom L. Allen, Chairman; David Bean, Director of Research; and to all the member of the Governmental Accounting Standards Board and its staff, both current and past.

Many professors who were thanked by name in the Prefaces to earlier editions have continued to give generously of their time and effort in improving explanations in chapters of the text and improving the wording of questions, exercises, problems, answers, and solutions. The authors gratefully acknowledge the following individuals for reviewing drafts of chapters, providing excellent suggestions for improvement, and providing useful materials for inclusion in the text, either in this 11th edition, the preceding edition, or both: Dr. Kenneth W. Brown of Southwest Missouri State University for Chapter 11 on the evaluation of financial performance; Robert Bramlett of the Federal Accounting Standards Advisory Board, Bruce K. Michelson of the U.S. General Accounting Office, and J. Thomas Luter, formerly of the U.S. Department of the Treasury, for Chapter 13 on federal government accounting; Bridget M. Anderson, KPMG Peat Marwick, LLP, and Dr. Zafar Khan, Eastern Michigan University, for Chapter 14 on budgeting and costing; Susan B. Perlin, Plante & Moran, LLP, for Chapter 16 on not-for-profit organizations; Sherwood A. Mitter, CPA, for Chapter 17 on regulatory and taxation issues related to not-for-profit organizations; Dr. Mary L. Fischer of the University of Texas at Tyler, Robert T. Forrester, Coopers & Lybrand, LLP, and David Smarr of the University of Missouri-Columbia for Chapter 18 on colleges and universities; and James L. Birchler, CPA, and Sonja J. Schuster for Chapter 19 on health care organizations. Bobbye S. Hay, CPA, contributed greatly to this and previous editions, both technically and personally. Florence J. Wilson also provided significant administrative assistance as well as much needed moral support. John T. Kattelus also provided much appreciated support. Wei Jin, a graduate assistant at Eastern Michigan University, devoted many hours to helping with the preparation of the text.

The authors appreciate the courtesy of the Government Accounting Standards Board in giving permission to quote their pronouncements and reproduce illustrations from their publications. The Government Finance Officers Association of the United States and Canada generously gave permission to use its published materials. The American Institute of Certified Public Accountants has also been very helpful by allowing use of questions and problems from previous Uniform Certified Public Accountant Examinations and permitting quotations from its publications, particularly in the audit and accounting guide series. The International City/County Management Association contributed significantly to the material now in Chapter 11 by granting permission for use of its materials on financial analysis. In

Chapter 16, the United Way of America graciously allowed the use of illustrations from *Accounting and Financial Reporting: A Guide for United Ways and Not-for-Profit Human Service Organizations*.

Ancillary materials that accompany this text include:

- Instructor's Guide (revised to include teaching and case analysis tips).
- Power Point lecture presentations (new) which include 20 to 30 slides for each chapter.
- Test Bank
- Computerized Test Bank
- Computerized Continuous Problem/Practice Set.

Although a number of persons helped refine the explanations in the chapters and the wording of the questions, cases, exercises, and problems, it is probable that errors, inconsistencies, and ambiguities remain in this edition. As readers encounter errors of omission or commission in this text, we urge them to let us know so that corrections can be made. Additionally, every user of this edition who has suggestions or comments about the material in the chapters—or the questions, cases, exercises, or problems—is invited to share them with either of the following two coauthors, either by regular mail, e-mail, or Internet.

**Dr. Earl R. Wilson**  
School of Accountancy  
University of Missouri-Columbia  
Columbia, MO 65211  
wilson@bpa.missouri.edu  
<http://www.missouri.edu/~accterw>

**Dr. Susan C. Kattelus**  
Department of Accounting  
Eastern Michigan University  
Ypsilanti, MI 48197  
susan.kattelus@emich.edu  
[http://www.online.emich.edu/~acc\\_kattelus](http://www.online.emich.edu/~acc_kattelus)

# Brief Contents

- Chapter 1** Financial Reporting for Governmental and Not-for-Profit Entities 1
- Chapter 2** Principles of Accounting and Financial Reporting for State and Local Governments 19
- Chapter 3** General Funds and Special Revenue Funds—Budgetary Accounting, Classification of Revenues and Expenditures 53
- Chapter 4** General Funds and Special Revenue Funds—Illustrative Transactions and Financial Statements 99
- Chapter 5** Accounting for General Fixed Assets and Capital Projects 143
- Chapter 6** Accounting for General Long-Term Debt and Debt Service 197
- Chapter 7** Accounting for the Business-Type Activities of State and Local Governments 249
- Chapter 8** Accounting for Fiduciary Activities—Agency Funds and Cash and Investment Pools 309
- Chapter 9** Accounting for Fiduciary Activities—Trust Funds and Pension Plans 335
- Chapter 10** Review and Financial Reporting of State and Local Governments 379
- Chapter 11** Analysis of Governmental Financial Performance 427
- Chapter 12** Audits of Governmental and Not-for-Profit Organizations 467
- Chapter 13** Accounting and Reporting for Federal Government Agencies 503
- Chapter 14** Budgets and Cost Determination 557
- Chapter 15** Planning and Control of Cash and Investments 607
- Chapter 16** Accounting for Nonprofit Organizations 649
- Chapter 17** Nonprofit Organizations—Regulatory and Taxation Issues 693
- Chapter 18** Accounting for Colleges and Universities 719
- Chapter 19** Accounting for Health Care Organizations 777
- GLOSSARY 819
- GOVERNMENTAL AND NOT-FOR-PROFIT ORGANIZATIONS 851
- INDEX 855

# Contents

<b>Chapter 1</b>	<b>Financial Reporting for Governmental and Not-for-Profit Entities</b>	<b>1</b>	<b>Chapter 2</b>	<b>Principles of Accounting and Financial Reporting for State and Local Governments</b>	<b>19</b>	
	Distinguishing Characteristics of Governmental and Not-for-Profit Entities	2		Activities of Government	20	
	Sources of Financial Reporting Standards	4		Summary Statement of Principles	21	
	Determining Whether a Not-for-Profit Organization Is Governmental	5		A Summary of Accounting Characteristics of Fund Types	35	
	Objectives of Financial Reporting	6		Accounting Characteristics Common to Governmental Funds	40	
	Financial Reporting of State and Local Governments	8		Accounting Characteristics Common to Proprietary Funds	42	
	Comprehensive Annual Financial Report	8		Accounting Characteristics of Fiduciary Funds	42	
	Fund and Account Group Accounting and Reporting	11	<b>Chapter 3</b>	<b>General Funds and Special Revenue Funds—Budgetary Accounting, Classification of Revenues and Expenditures</b>	<b>53</b>	
	GASB's Proposed Dual Perspective Reporting Model	11		Proprietary (Balance Sheet and Operating Statement)	Accounts	54
	Analysis of Governmental Financial Statements; Independent Auditors' Reports	13				
	Financial Reporting of the Federal Government and Not-for-Profit Organizations	14				
	A Caveat	14				



Budgets and Budgetary Accounts	56	<b>Chapter 4</b>	<b>General Funds and Special Revenue Funds—Illustrative Transactions and Financial Statements</b>	99
Budgetary Accounting	57			
Terminology and Classification for Governmental Fund Budgets and Accounts	58			
Classification of Appropriations and Expenditures	59		Illustrative Case	100
Classification by Fund	59		Flow of Current Financial Resources Focus	100
Classification by Function or Program	59		Recording the Budget	101
Classification by Organization Unit	60		Tax Anticipation Notes Payable	102
Classification by Activity	60		Encumbrance Entry	103
Classification by Character	60		Payment of Liabilities as Recorded	103
Classification by Object	61		Payrolls and Payroll Taxes	103
Classification of Estimated Revenues and Revenues	62		Recording Property Tax Levy	104
Taxes	63		Recognition of Expenditures for Encumbered Items	105
Special Assessments	65		Revenue Recognized on Cash Basis	106
Licenses and Permits	66		Collection of Delinquent Taxes	106
Intergovernmental Revenue	66		Correction of Errors	107
Charges for Services	67		Interim Financial Statements	108
Fines and Forfeits	67		Illustration of Events Subsequent to Date of Interim Statements	109
Miscellaneous Revenues	68		Revision of the Budget	111
Proposed Changes in Revenue Recognition	68		Collection of Current Taxes	112
Recording the Budget	69		Repayment of Tax Anticipation Notes	112
Accounting for Revenues	70		Encumbrances of Prior Year	113
Accounting for Encumbrances and Expenditures	71		Interfund Transactions	113
Computerized Accounting Systems	75		Adjusting Entries	114
Accounting for Allotments	76		Pre-Closing Trial Balance	117
Reconciliation of Differences between GAAP and Budgetary Amounts	77		Closing Entries	118
Interfund Transactions and Transfers	78		Year-End Financial Statements	118
Quasi-External Transactions	78		Special Revenue Funds	122
Reimbursements	79		Accounting for Operating Grants	123
Interfund Transfers	79		Accounting and Financial Reporting	123
Proceeds of Debt Issues; Capital Leases	79			
Appendix—Accounting for Public School Systems	81			

	Alternatives Sometimes Encountered in General Fund and Special Revenue Fund Accounting 124		Bond Anticipation Notes Payable and the Problem of Interest Expenditures 167
	Other Treatments of Encumbrances Outstanding at Year-End 124		Investments 168
	Cash Basis Recognition of Tax Revenue 124		Multiple-Period and Multiple- Project Bond Funds 169
	Discounts on Taxes 125		Reestablishment of Encumbrances 170
<b>Chapter 5</b>	<b>Accounting for General Fixed Assets and Capital Projects 143</b>		Capital Projects Financed by Special Assessments 171
	Accounting for General Fixed Assets 144		Combining Financial Statements for Capital Projects Funds 172
	Classification of General Fixed Assets 147	<b>Chapter 6</b>	<b>Accounting for General Long- Term Debt and Debt Service 197</b>
	Land 148		General Long-Term Debt 198
	Buildings and Improvements Other than Buildings 148		Illustrative Case 201
	Machinery and Equipment 149		Changes in Long-Term Debt 202
	Construction Work in Progress 149		Schedule of Future Debt Service Requirements 203
	Assets Acquired under Capital Lease Agreements 149		General Long-Term Debt Arising from Capital Lease Agreements 204
	Source Accounts or "Investment in General Fixed Assets" 151		Debt Limit and Debt Margin 206
	Cost after Acquisition 151		Overlapping Debt 207
	Reduction of Cost 152		Debt Service Funds 209
	Illustrative GFAAG Entries 152		Types of Debt Service Funds 210
	Detailed Property Accounts 155		Budgeting for Debt Service 210
	Statements of General Fixed Assets 156		Bearer Bonds and Registered Bonds 212
	Accounting for Capital Projects 156		Number of Debt Service Funds 213
	Legal Requirements 159		Use of General Fund to Account for Debt Service 213
	Illustrative Transactions—Capital Projects Fund Accounting 160		Debt Service Accounting for Regular Serial Bonds 213
	Illustrative Financial Statements for a Capital Projects Fund 164		Debt Service Accounting for Deferred Serial Bonds 215
	Alternative Treatment of Residual Equity or Deficits 164		Debt Service Accounting for Term Bonds 218
	Bond Premium, Discount, and Accrued Interest on Bonds Sold 164		Disclosures in Notes to the Financial Statements 224
	Retained Percentages 166		Debt Service Fund Investments 225
	Claims and Judgments Payable 167		

- Debt Service Accounting for Special Assessment Debt 225
  - Use of Debt Service Funds to Record Capital Lease Payments 226
  - Accounting for Debt Refunding 227
  - Advance Refunding of Debt 228
  - Disclosures about Advance Refundings 229
- Chapter 7 Accounting for the Business-Type Activities of State and Local Governments 249**
- Proprietary Funds 250
    - Financial Reporting Requirements 251
  - Internal Service Funds 251
  - Illustrative Case—Supplies Fund 254
  - Illustrative Statements 257
  - Combining Statements 260
  - Acquisition of Assets by Contributions or Grants 260
  - Depreciation of Contributed Assets or Assets Acquired from Capital Grants 261
  - Assets Acquired under Lease Agreements 261
  - Internal Service Funds with Manufacturing Activities 263
  - Internal Service Funds as Financing Devices 263
  - Dissolution of an Internal Service Fund 264
  - Enterprise Funds 265
  - Illustrative Case—Water Utility Fund 266
    - Current and Accrued Assets 266
    - Restricted Assets 268
    - Utility Plant 269
    - Current Liabilities 270
    - Liabilities Payable from Restricted Assets 270
    - Long-Term Debt 271
    - Fund Equity 271
    - Retained Earnings 272
- Chapter 8 Accounting for Fiduciary Activities—Agency Funds and Cash and Investment Pools 309**
- Illustrative Accounting for a Water Utility Fund 272
  - Illustrative Statements 276
  - Combining Statements 280
  - Events in Following Year 280
  - Regulatory Accounting Principles (RAP) 280
  - Accounting for Nonutility Enterprises 281
  - Accounting for Municipal Solid Waste Landfills 284
  - Required Segment Information 287
  - Agency Funds 310
    - Agency Fund for Special Assessment Debt Service 311
    - Tax Agency Funds 312
    - Illustration of Composition of Total Tax Rates 312
    - Accounting for Tax Agency Funds 314
    - Required Financial Statement 316
    - Entries Made by Funds and Units Participating in Tax Agency Funds 316
  - “Pass-Through” Agency Funds 318
  - Cash and Investment Pools 319
    - Creation of a Cash and Investment Pool 320
    - Operation of a Cash and Investment Pool 322
    - Withdrawal from Pool 324
- Chapter 9 Accounting for Fiduciary Activities—Trust Funds and Pension Plans 335**
- Accounting for Trust Funds—General Recommendations 337
  - Budgetary Accounts 338

- Illustrative Case—Nonexpendable Trust Funds and Expendable Trust Funds 338
  - Illustrative Entries—Nonexpendable Trust Fund 339
  - Illustrative Financial Statements—Nonexpendable Trust Fund 342
  - Illustrative Entries—Expendable Trust Funds 344
  - Pension Accounting 345
    - Required Financial Reporting for Defined Pension Plans 347
    - Statement of Plan Net Assets 351
    - Statement of Changes in Plan Net Assets 351
    - Schedule of Funding Progress 352
    - Schedule of Employer Contributions 352
    - Alternative Reporting and Disclosure 352
    - Illustrative Transactions for a Defined Benefit Pension Plan 353
    - Employer's Pension Accounting 355
    - Employer Reporting of Pension Expenditure/Expense 359
  - Required Disclosures for Other Postemployment Benefits (OPEB) 359
  - Illustrative Combined Financial Statements 360
- Chapter 10 Review and Financial Reporting of State and Local Governments 379**
- Summary of the Nature and Accounting Characteristics of Funds and Account Groups 380
  - Governmental Funds 381
  - Proprietary Funds 386
  - Fiduciary Funds 387
  - Account Groups 388
  - Summary of Interfund Transactions 389
  - Transfers and Transfers between Funds 389
  - Events Requiring Recognition in More than One Accounting Entity 393
  - The Governmental Reporting Entity 394
  - Entity Definition Criteria 395
  - Governmental Financial Reports 399
    - Need for Periodic Reports 399
    - Interim Financial Reports 399
    - Annual Financial Reports 400
  - Developments in Financial Reporting and Unresolved Issues 403
    - Measurement Focus and Basis of Accounting—Governmental Fund Types (MFBA) 404
    - Financial Reporting Model 405
    - Service Efforts and Accomplishments (SEA) 406
    - Other Reporting Issues 407
    - Popular Reporting 408
- Chapter 11 Analysis of Governmental Financial Performance 427**
- The Need to Evaluate Financial Condition 428
  - Evaluating Financial Condition 430
    - Financial Position versus Financial Condition 432
    - Internal Financial Trend Monitoring 432
    - Environmental Factors 433
    - Organizational Factors 437
    - Financial Factors 438
  - Using Financial Reports in Evaluating Financial Condition 438
    - Use of Benchmarks to Aid Interpretation 440
    - Credit Analyst Models 447
    - Relation of Financial Performance to Operating Performance 448

## Chapter 12 Audits of Governmental and Not-for-Profit Organizations 467

- Financial Audits by Independent CPAs 468
- Audits of State and Local Governments 468
- Types of Audit Reports 469
- Government Auditing Standards 474
- Types of Audits 475
- Single Audit 477
  - Single Audit Act of 1984 478
  - Who Must Have a Single Audit? 479
  - What Does the Single Audit Require? 482
  - How Are Programs Selected for Audit? 484
  - What Reports Are Required for the Single Audit? 486
  - Other Single Audit Requirements 489
  - Audit Committees 489

## Chapter 13 Accounting and Reporting for Federal Government Agencies 503

- Federal Government Financial Management Structure 504
- Comptroller General 505
- Secretary of the Treasury 505
- Director of the Office of Management and Budget 507
- Director of the Congressional Budget Office 507
- Structure for Establishing Accounting and Financial Reporting Standards for Federal Agencies 508
- Hierarchy of Accounting Principles and Standards 509
- Conceptual Framework 510
  - Objectives 510
  - Reporting Entity 511
  - Funds Used in Federal Accounting 513

## Required Financial Reporting 515

- Overview of Reporting Entity 515
- Financial Statements 515
- Required Supplemental Information 525
- Two-Track Accounting System 526
- Illustrative Transactions and Entries 527
- Adjusting Entries 532
- Illustrative Financial Statements 533
- Summary of Accounting and Reporting for Federal Government Agencies 538

## Chapter 14 Budgets and Cost Determination 557

- Objectives of Budgeting 558
- Rational Budgeting Approaches 559
- Interrelation of Policymaking, Service, Delivery, and Evaluation Activities 562
- Budgeting Procedures 562
  - Budgeting Governmental Appropriations 562
  - Budgeting Governmental Revenues 566
  - Budgeting Capital Expenditures 567
- Budgeting for Performance 568
  - Total Quality Management 569
  - Service Efforts and Accomplishments 570
- Costing of Government Services 570
  - Federal Grants and Sponsored Agreements 573
  - Activity-Based Costing 576
  - Cost Accounting and Expenditure Accounting 581
- Budgeting in Nongovernmental Not-for-Profit Organizations 585

- Accounting Information Systems 585
- Conclusion 587
- Chapter 15 Planning and Control of Cash and Investments 607**
  - Objectives of Cash Management 608
  - Cash Planning and Budgeting 610
    - Cash Receipts Budgeting 610
    - Cash Disbursements Budgeting 612
    - Forecasting Monthly Cash Surplus or Deficits 614
  - Internal Controls 616
    - Requirements for Adequate Cash Accounting 616
    - Determining Whether All Cash that Ought to Be Received Is Received 617
    - Classification by Fund 619
    - Custody and Protection of Cash 619
    - Cash Records 621
      - Accounting for Disbursements 622
      - Cash Statements 623
    - Management of Cash Transfers between the Federal and State Governments 625
    - Management of Deposits and Investments 627
      - Security of Deposits 628
      - Accounting for Investments 628
      - Required Financial Statement Disclosures 630
      - Other Considerations in Investment Management 632
    - Summary 634
  - Chapter 16 Accounting for Nonprofit Organizations 649**
    - Defining the Not-for-Profit Sector 650
    - GAAP for Nongovernmental NPOs 652
    - Financial Reporting and Accounting 653
      - Financial Reporting 653
      - Accounting for Revenues, Gains, and Support 659
      - Accounting for Expenses 663
      - Accounting for Assets 666
    - Optional Fund Accounting 668
    - Financially Interrelated Entities 670
      - Investments in For-Profit Entities 670
      - Financially Interrelated NPOs 671
    - Illustrative Transactions—
      - Voluntary Health and Welfare Organizations 672
  - Chapter 17 Nonprofit Organizations—Regulatory and Taxation Issues 693**
    - Oversight Authority 694
    - State Regulation 694
      - Nonprofit Incorporation Laws 695
      - Registration, Licenses, and Tax Exemption 695
      - Lobbying and Political Influence 696
    - Federal Regulation 698
      - Tax-Exempt Status 698
      - Unrelated Business Income Tax 701
      - Political Activity 703
      - Intermediate Sanctions 703
      - Reorganization and Dissolution 704
      - Other Issues 705
    - Governance 705
      - Incorporating Documents 705
      - Board Membership 706
    - Benchmarking and Performance Measures 706
    - Summary 708

**Chapter 18 Accounting for Colleges and Universities 719**

- Accounting and Financial Reporting Standards 720
- Public (Governmentally Owned)
  - Colleges and Universities 721
  - Current Funds 721
  - Loan Funds 725
  - Endowment and Similar Funds 725
  - Annuity and Life Income Funds 727
  - Plant Funds 729
  - Agency Funds 732
- Illustrative Transactions (AICPA Model) 733
  - Unrestricted Current Funds 733
  - Restricted Current Funds 736
  - Loan Funds 737
  - Endowment and Similar Funds 738
  - Annuity and Life Income Funds 740
  - Plant Funds 741
  - Agency Funds 744
- Illustrative Financial Statements (AICPA Model) 745
- Private (Nongovernmentally Owned) Colleges and Universities 751
  - Contributions 751
  - Tuition Revenue 753
  - Functional Expenses 753
  - Other Reporting Issues 753
- Other Accounting Issues 758
  - Performance Measures 758
- Auditing of Colleges and Universities 759
  - Federal Financial Assistance 759
  - Related Entities 760
- Proposed Dual Perspective Model 760

**Chapter 19 Accounting for Health Care Organizations 777**

- Health Care Industry 778
- GAAP for Health Care Providers 778
- Financial Reporting 781
  - Balance Sheet 782
  - Statement of Operations 782
  - Statement of Changes in Equity 785
  - Statement of Cash Flows 785
- Accounting and Measurement Issues 787
  - Revenues 787
  - Assets 788
  - Expenses 789
  - Liabilities 790
- Illustrative Case for a Not-for-Profit Health Care Organization 790
- Illustrative Statements for a Governmental Health Care Organization 798
- Related Entities 798
- Other Accounting Issues 802
  - Budgeting and Costs 802
  - Auditing 803
  - Taxation and Regulatory Issues 803
- Certain Types of Health Care Organizations 803
- Financial and Operational Analysis 804
- Conclusion 805

**GLOSSARY 819****GOVERNMENTAL AND NOT-FOR-PROFIT ORGANIZATIONS 851****INDEX 855**

# CHAPTER 1

## *Financial Reporting for Governmental and Not-for- Profit Entities*

### *Learning Objectives*

After studying this chapter, you should be able to:

- ∞ Identify and explain the characteristics that distinguish governmental and not-for-profit entities from for-profit entities.
- ∞ 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.
- ∞ Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.
- ∞ Distinguish the general purpose financial reports of state and local governments from their comprehensive annual financial reports.
- ∞ Explain the rationale for the proposed dual perspective reporting model.
- ∞ Explain why analysis of the financial performance of governmental and not-for-profit entities differs from that of for-profit entities.



Governmental and not-for-profit organizations are vast in number and diversity. 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 there are 84,955 local governmental units within the 50 states: 3,043 counties, 19,279 municipalities, 16,656 townships, 14,422 independent school districts, and 31,555 special districts.<sup>1</sup>

States, counties, municipalities (for example, cities and villages), and townships are **general purpose governments**—governments that provide many categories of services to their residents (such as police and fire protection; sanitation; construction and maintenance of streets, roads, and bridges; and health and welfare). Independent school districts and special districts are **limited 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). Limited 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. Estimates of the number of not-for-profit organizations range from several hundred thousand to more than 1 million.<sup>2</sup> These include private colleges and universities, various kinds of health care entities, libraries, museums, professional and trade associations, fraternal and social organizations, and religious organizations.

---

## Distinguishing Characteristics of Governmental and Not-for-Profit Entities

Governmental and not-for-profit organizations differ in important ways from business organizations. Moreover, as you will soon learn, accounting and financial reporting for governmental and not-for-profit organizations are markedly different from accounting and financial reporting for businesses. An understanding of how governmental and not-for-profit 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:

---

<sup>1</sup>U.S. Department of Commerce, Bureau of the Census, *1992 Census of Governments*, vol. 1, no. 2 (Washington, DC: U.S. Government Printing Office), p. v.

<sup>2</sup>The U.S. Bureau of the Census (*1992 Census of Service Industries*, SC92-S-1, Table 1b) reports that in 1992 there were 208,911 tax-exempt service organizations. This does not include, however, numerous other not-for-profit organizations such as religious organizations, labor unions, and political organizations. The total of tax-exempt not-for-profits numbers more than 1 million (1996–97 *Nonprofit Almanac: Dimensions of the Independent Sector*, Washington, DC).