

Essentials
of
Accounting
for
Governmental
and
Not-for-Profit
Organizations

Fifth Edition

John H. Engstrom
Leon E. Hay



ESSENTIALS OF ACCOUNTING FOR GOVERNMENTAL AND NOT-FOR-PROFIT ORGANIZATIONS

JOHN H. ENGSTROM, D.B.A., CPA, CGFM

*KPMG Peat Marwick Professor of Accountancy
Northern Illinois University*

LEON E. HAY, Ph.D., CPA, CGFM

*Distinguished Professor Emeritus of Accounting
University of Arkansas-Fayetteville*

Fifth Edition



**Irwin
McGraw-Hill**

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

*To our wives
Ann and Bobbye*

Irwin/McGraw-Hill

A Division of The McGraw-Hill Companies

ESSENTIALS OF ACCOUNTING FOR GOVERNMENTAL AND NOT-FOR-PROFIT ORGANIZATIONS

Copyright © 1999 by The McGraw-Hill Companies, Inc. All rights reserved. Previous editions © 1987, 1990, 1993, and 1996, 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.

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

ISBN 0-07-290310-4

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/Melissa Caughlin*

Project manager: *Kimberly D. Hooker*

Production supervisor: *Michael R. McCormick*

Freelance design coordinator: *Laurie J. Entringer*

Supplement coordinator: *Nancy Martin*

Compositor: *GAC Shepard Poorman Communications*

Typeface: *10/12 Times Roman*

Printer: *R.R. Donnelley & Sons Company*

Library of Congress Cataloging-in-Publication Data

Engstrom, John H.

Essentials of accounting for governmental and not-for-profit
organizations / John H. Engstrom, Leon E. Hay. — 5th ed.

p. cm.

Includes bibliographical references and index.

ISBN 0-07-290310-4

1. Finance, Public—United States—Accounting. 2. Administrative
agencies—United States—Accounting. 3. Nonprofit organizations—
United States—Accounting. I. Hay, Leon Edwards, 1923—
II. Title.

HJ9801.H39 1999

657'.835'00973—dc21

98-6854

<http://www.mhhe.com>

PREFACE

The preface to the first four editions of this text noted that the text was intended to provide a much more comprehensive coverage of accounting and financial reporting for governmental and not-for-profit accounting and financial reporting than is available in Advanced Accounting texts but that would be brief enough to allow coverage of the material in less than a three-semester-hour or four-quarter-hour course. The first four editions have been well received by instructors whose objective is to provide less detailed coverage than is available in larger texts, such as *Accounting for Governmental and Nonprofit Entities* by Hay, Wilson, and Kattelus (McGraw-Hill-Irwin, eleventh edition), as well as by those whose objective is to stress preparation for the uniform CPA Examination.

This edition of the text and the accompanying *Instructor's Guide* and the *Suggested Quiz and Examination Questions and Problems* booklet have been revised in accord with suggestions of users of the first four editions and to incorporate changes in standards issued by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, and federal government agencies such as the U.S. General Accounting Office and the U.S. Office of Management and Budget. In particular, this text incorporates changes in accounting for investments brought about by FASB *Statement 124* and GASB *Statement 31*, refinements in accounting for not-for-profit entities in the AICPA's audit guides for health-care entities and not-for-profit organizations, and changes in the Single Audit Act brought about by the Single Audit Act Amendments of 1996, the revised OMB Circular A-133, and the related Statement of Position issued by the AICPA. In addition, a new chapter on accounting for the federal government and its agencies is based on pronouncements of the Federal Accounting Standards Advisory Board and Office of Management and Budget Bulletins.

The authors are indebted to the members of the Governmental Accounting Standards Board and to the GASB research staff for access to their thinking, as well as permission to quote the GASB publications. The authors also wish to express their appreciation to the American Institute of Certified Public Accountants, which allowed use of questions and problems for Uniform CPA Examinations and permitted quotations from its publications, particularly in the *Audit and Accounting Guide* series.

The authors would appreciate suggestions from users of this text for improvement of the presentation of material in the chapters and suggestions for additional or improved questions and exercises. Please send suggestions to Jengstrom@niu.edu.

JOHN H. ENGSTROM
LEON E. HAY

CONTENTS IN BRIEF

PREFACE	xii
1 Introduction to Accounting and Financial Reporting for Governmental and Not-For-Profit Organizations	1
2 General Funds and Special Revenue Funds—Budgetary Accounting	26
3 General Funds and Special Revenue Funds—Illustrative Transactions and Financial Statements	52
4 Capital Projects Funds; General Fixed Assets Account Group	80
5 Debt Service Funds; General Long-Term Debt Account Group	105
6 Proprietary Funds	140
7 Fiduciary Funds	173
8 Interfund Transactions; Governmental Financial Reporting; Analysis of Financial Statements	208
9 Accounting for The Federal Government	233
10 Accounting for Not-For-Profit Organizations	257
11 Accounting for Hospitals and other Health-Care Providers	282
12 College and University Accounting—Private Institutions	303
13 College and University Accounting—Public Institutions	325
14 Auditing; Tax Issues Related to Exempt Entities; Service Efforts and Accomplishments	350
Appendix: Governmental and Not-For-Profit Accounting Terminology	372
Index	391

CONTENTS

PREFACE

xii

1 INTRODUCTION TO ACCOUNTING AND FINANCIAL REPORTING FOR GOVERNMENTAL AND NOT-FOR-PROFIT ORGANIZATIONS

1

Outline of the Text 4

Objectives of Accounting and Financial Reporting 4

*Objectives of Financial Reporting by Not-for-Profit
Entities* 4

*Objectives of Accounting and Financial Reporting for State
and Local Governmental Units* 5

State and Local Governmental Financial Reporting 6

The Reporting Entity 6

Comprehensive Annual Financial Report 6

Principles of Accounting and Financial Reporting for States
and Local Governments 9

Governmental Funds 11

Proprietary Funds 17

Fiduciary Funds 17

Number of Funds Required 17

Budgetary Accounting 18

Accounting and Financial Reporting for Not-for-Profit
Organizations 18

Proposed Changes by the GASB 19

2 GENERAL FUNDS AND SPECIAL REVENUE FUNDS—BUDGETARY ACCOUNTING

26

Budgets as Legal Documents 27

Balance Sheet and Operating Statement Accounts 27

Budgets and Budgetary Accounts 28

Recording the Budget 34

Accounting for Revenues 35

Accounting for Encumbrances and Expenditures 36

Classification of Estimated Revenues and Revenues 38

Ad Valorem Taxes 40

Classification of Appropriations and Expenditures	41
Interfund Transactions, Transfers, and Proceeds of Debt	
Issues	42
<i>Quasi-External Transactions</i>	42
<i>Reimbursements</i>	42
<i>Operating Transfers</i>	42
<i>Equity Transfers</i>	43
<i>Proceeds of Debt Issues; Capital Leases</i>	43
Proposed Changes by the GASB	43

3 GENERAL FUNDS AND SPECIAL REVENUE FUNDS—ILLUSTRATIVE TRANSACTIONS AND FINANCIAL STATEMENTS

52

Illustrative Case—General Fund	52
<i>Recording the Budget</i>	53
<i>Tax Anticipation Notes Payable</i>	53
<i>Payment of Liabilities as Recorded</i>	54
<i>Encumbrances of Prior Year</i>	54
<i>Encumbrance Entry</i>	55
<i>Recording Prior Year Property Taxes as Revenues</i>	55
<i>Recording Property Tax Levy</i>	55
<i>Collection of Delinquent Taxes</i>	56
<i>Collection of Current Taxes</i>	56
<i>Revenue Recognized on Cash Basis</i>	56
<i>Repayment of Tax Anticipation Notes</i>	57
<i>Recognition of Expenditures for Encumbered Items</i>	57
<i>Payrolls and Payroll Taxes</i>	57
<i>Payment of Vouchers and Other Items</i>	58
<i>Correction of Errors</i>	58
<i>Amendment of the Budget</i>	59
<i>Interfund Transactions</i>	59
<i>Write-Off of Uncollectible Delinquent Taxes</i>	60
<i>Reclassification of Current Taxes</i>	61
<i>Accrual of Interest and Penalties</i>	61
<i>Deferral of Property Tax Revenue</i>	61
<i>Preclosing Trial Balance</i>	62
<i>Closing Entries</i>	62
<i>Year-End Financial Statements</i>	63
<i>Procedures for Recognition of Inventories in Governmental Funds</i>	66
Special Revenue Funds	67
<i>Grant Accounting</i>	67
<i>Accounting and Statements</i>	68
Proposed Changes by the GASB	68

4	CAPITAL PROJECTS FUNDS; GENERAL FIXED ASSETS ACCOUNT GROUP	80
	Capital Projects Funds 81	
	Illustrative Case 82	
	<i>Transactions and Events in 1999</i> 83	
	<i>Transactions and Events in 2000</i> 86	
	Acquisition of General Fixed Assets by Lease	
	Agreements 88	
	Construction of General Fixed Assets Financed by Special	
	Assessment Debt 89	
	General Fixed Assets Account Group 90	
	<i>General Fixed Assets</i> 91	
	Illustrative Entries 93	
	<i>Disposal of General Fixed Assets</i> 94	
	Detailed Property Records 95	
	Statements of General Fixed Assets 95	
	Proposed Changes by the GASB 96	
5	DEBT SERVICE FUNDS; GENERAL LONG-TERM DEBT ACCOUNT GROUP	105
	Debt Service Funds 105	
	<i>The Modified Accrual Basis—Meaning for Debt</i>	
	<i>Service</i> 106	
	<i>Additional Uses of Debt Service Funds</i> 106	
	<i>Debt Service Accounting for Serial Bonds</i> 107	
	<i>Illustrative Case—Regular Serial Bonds</i> 108	
	<i>Debt Service Accounting for Deferred Serial Bonds</i> 110	
	<i>Debt Service Accounting for Term Bonds</i> 111	
	<i>Debt Service Accounting for Capital Lease Payments</i> 112	
	<i>Combining Statements for Debt Service Funds</i> 112	
	General Long-Term Debt Account Group 112	
	<i>Illustrative Case</i> 115	
	<i>General Long-Term Debt Arising from Capital Lease</i>	
	<i>Agreements</i> 117	
	<i>Claims, Judgments, Compensated Absences, and Other</i>	
	<i>Long-Term Debt Not Evidenced by Bonds or</i>	
	<i>Notes</i> 118	
	<i>Changes in Long-Term Debt</i> 118	
	<i>Principal and Interest Payable in Future Years</i> 119	
	<i>Debt Limit and Debt Margin</i> 119	
	<i>Direct and Overlapping Debt</i> 121	
	Proposed Changes by the GASB 122	
	Review of Governmental Fund Types and Account	
	Groups 124	
	<i>General Funds and Special Revenue Funds</i> 124	

<i>Capital Projects Funds</i>	127
<i>Debt Service Funds</i>	128
<i>General Fixed Assets Account Group</i>	129
<i>General Long-Term Debt Account Group</i>	129

6 PROPRIETARY FUNDS

140

Internal Service Funds	141
<i>Establishment and Operation of Internal Service Funds</i>	141
<i>Illustrative Case—Supplies Fund</i>	142
<i>Illustrative Financial Statements—Supplies Fund</i>	145
<i>A Note about Government Cash Flow Statements</i>	146
<i>A Note about Risk Management Activities</i>	148
Enterprise Funds	149
<i>Illustrative Case—Water Utility Fund</i>	150
<i>Illustrative Financial Statements—Water Utility Fund</i>	154
<i>Regulatory Accounting for Utilities</i>	156
<i>Accounting for Municipal Solid Waste Landfills</i>	157
<i>Required Segment Information</i>	158
Proposed Changes by the GASB	159

7 FIDUCIARY FUNDS

173

Agency Funds	174
<i>Tax Agency Funds</i>	174
<i>Accounting for Tax Agency Funds</i>	175
<i>Financial Reporting for Agency Funds</i>	176
Trust Funds	177
<i>Accounting for Investments</i>	178
<i>Illustrative Case—Nonexpendable Trust Funds and Expendable Trust Funds</i>	179
<i>Illustrative Entries—Nonexpendable Trust Fund</i>	179
<i>Illustrative Financial Statements—Nonexpendable Trust Fund</i>	181
<i>Illustrative Entries—Expendable Trust Fund</i>	182
<i>Illustrative Financial Statements—Expendable Trust Fund</i>	184
<i>A Note about Escheat Property</i>	184
<i>A Note about IRS 457 Deferred Compensation Plans</i>	186
Public Employee Retirement Systems (Pension Trust Funds)	186
<i>Accounting and Reporting for Defined Benefit Pension Plans</i>	187
<i>Note Disclosure Requirements for Defined Benefit Pension Plans</i>	192

Note Disclosure Requirements for Defined Contribution Plans 193

Summary of Employer Reporting 193

Illustrative Combined Statements 194

Proposed Changes by the GASB 194

8 INTERFUND TRANSACTIONS; GOVERNMENTAL FINANCIAL REPORTING; ANALYSIS OF FINANCIAL STATEMENTS 208

Summary of Interfund Transactions 208

Interfund Loans and Advances 209

Quasi-External Transactions 210

Reimbursements 210

Operating Transfers 211

Equity Transfers 211

Events Requiring Recognition in More Than One Accounting Entity 212

The Governmental Reporting Entity 213

Governmental Financial Reporting 215

Interim Financial Reports 215

Comprehensive Annual Financial Report (CAFR) 215

General Purpose Financial Statements 218

Combining Statements 219

Individual Fund and Account Groups Statements 219

Statistical Tables 219

Analysis of Financial Statements 220

The Public Finance Market 220

Analysis of the Comprehensive Annual Financial Report 221

Additional Analysis 223

Proposed Changes by the GASB 224

9 ACCOUNTING FOR THE FEDERAL GOVERNMENT 233

Overview of Federal Agencies Involved in the Accounting and Financial Management Process 234

U.S. Department of the Treasury 234

General Accounting Office 234

Office of Management and Budget 234

Federal Accounting Standards Advisory Board 235

Chief Financial Officers 235

Inspectors General 235

Major Legislation Affecting Federal Financial Management 235

Chief Financial Officers Act of 1990 236

	<i>Government Performance and Results Act of 1993</i>	236
	<i>Government Management Reform Act of 1994</i>	236
	<i>Federal Financial Management Improvement Act of 1996</i>	236
	<i>Information Technology Management Reform Act of 1996</i>	236
	Accounting Standards Promulgated by the FASAB	237
	<i>SFFAC 1, Objectives of Financial Reporting</i>	237
	<i>SFFAC 2, Entity and Display</i>	238
	<i>SFFAS 1, Accounting for Selected Assets and Liabilities</i>	238
	<i>SFFAS 2, Accounting for Direct Loans and Loan Guarantees</i>	239
	<i>SFFAS 3, Accounting for Inventory and Related Property</i>	239
	<i>SFFAS 4, Managerial Cost Accounting Concepts and Standards for the Federal Government</i>	240
	<i>SFFAS 5, Accounting for Liabilities of the Federal Government</i>	241
	<i>SFFAS 6, Accounting for Property, Plant, and Equipment</i>	242
	<i>SFFAS 7, Accounting for Revenue and Other Financing Sources</i>	242
	<i>SFFAS 8, Supplementary Stewardship Reporting</i>	243
	<i>Future Projects of the FASAB</i>	244
	Form and Content of Agency Financial Statements	244
	<i>The Overview</i>	244
	<i>Basic Financial Statements</i>	245
	<i>Required Supplementary Stewardship Information</i>	250
	<i>Required Supplementary Information</i>	250
	<i>Other Accompanying Information</i>	250
	Consolidated Financial Statements of the U.S. Government	250
	<i>Overview of the Reporting Entity</i>	251
	<i>Principal Statements and Related Notes</i>	252
10	ACCOUNTING FOR NOT-FOR-PROFIT ORGANIZATIONS	257
	Organizations Covered in this Chapter	259
	Overview of Not-for-Profit Accounting	259
	<i>Three Classes of Net Assets</i>	259
	<i>Financial Reporting</i>	260
	<i>Note Disclosures</i>	260
	<i>Accounting, including Reclassifications</i>	261
	Illustrative Transactions and Statements	263

<i>Beginning Trial Balance</i>	263
<i>Transactions</i>	264
<i>Financial Statements</i>	269
<i>Alternative Procedure for Recording Plant</i>	271
Summary of Not-for-Profit Accounting and Reporting	274

11 ACCOUNTING FOR HOSPITALS AND OTHER HEALTH-CARE PROVIDERS 282

GAAP for Health-Care Providers	283
<i>Category A GAAP</i>	283
<i>Category B GAAP</i>	284
Accounting and Reporting Requirements of the <i>Health Care Guide</i>	284
Illustrative Transactions and Financial Statements	285
<i>Beginning Trial Balance</i>	286
<i>Illustrative Transactions—Unrestricted Net Asset Class</i>	286
<i>Illustrative Transactions—Temporarily Restricted Net Asset Class</i>	289
<i>Illustrative Transactions—Permanently Restricted Net Asset Class</i>	291
<i>Illustrative Statements for Private Sector Not-for-Profit Health-Care Entities</i>	291
Financial Reporting for Governmental Health-Care Entities	293
Financial Reporting for Commercial (For-Profit) Health-Care Entities	295
Summary and Conclusions Regarding Health-Care Accounting and Reporting	296

12 COLLEGE AND UNIVERSITY ACCOUNTING—PRIVATE INSTITUTIONS 303

Overview of Private College and University	
Accounting	304
<i>Net Asset Classification</i>	304
<i>Financial Statements</i>	305
<i>Other Accounting Guidance</i>	305
Illustrative Transactions and Financial Statements	306
<i>Illustrative Transactions—Unrestricted Net Asset Class</i>	307
<i>Illustrative Transactions—Temporarily Restricted Net Asset Class</i>	310
<i>Illustrative Transactions—Permanently Restricted Net Asset Class</i>	311

	<i>Illustrative Financial Statements for Private Colleges and Universities</i>	312
	Split-Interest Agreements	314
	Summary of Accounting and Reporting	317
13	COLLEGE AND UNIVERSITY ACCOUNTING— PUBLIC INSTITUTIONS	325
	Overview of Public College and University	
	Accounting	325
	General Overview	325
	The Fund Structure for Colleges and Universities	327
	Illustrative Transactions	330
	Current Funds—Unrestricted	330
	Current Funds—Restricted	331
	Loan Funds	332
	Endowment and Similar Funds	332
	Annuity and Life Income Funds	333
	Plant Funds	333
	Agency Funds	335
	Illustrative Financial Statements	335
	Summary of Current Accounting and Reporting	339
	Proposed Standards by the GASB	342
14	AUDITING; TAX ISSUES RELATED TO EXEMPT ENTITIES; SERVICE EFFORTS AND ACCOMPLISHMENTS	350
	Auditing of Governmental and Not-for-Profit Organizations	350
	Government Auditing Standards	351
	The Single Audit Act and Single Audit Act Amendments	352
	Tax Issues Related to Exempt Organizations	358
	Tax-Exempt Organizations	360
	Federal Filing Requirements	360
	State Filing Requirements	364
	Unrelated Business Income Tax (UBIT)	364
	Summary and Some Conclusions Related to Exempt Entities	365
	Service Efforts and Accomplishments	365
	APPENDIX: GOVERNMENTAL AND NOT-FOR-PROFIT ACCOUNTING TERMINOLOGY	372
	INDEX	391

Chapter 1

INTRODUCTION TO ACCOUNTING AND FINANCIAL REPORTING FOR GOVERNMENTAL AND NOT-FOR-PROFIT ORGANIZATIONS

Governments differ from business organizations discussed in other accounting courses in that governments have no stockholders or other owners, they render services with no expectation of earning net income, and they have the power to require taxpayers to support financial operations whether or not they receive benefits in proportion to taxes paid. Also, governments are not subject to federal, state, or local income taxes. Further, the form of government in the United States requires interrelationships that have no parallel in business organizations, between a state government and local governments established in compliance with state law and within any one government between the executive and legislative branches. Similarly, not-for-profit organizations exist to render services to constituents with no expectation of earning net income from those services, have no owners, and seek financial resources from persons who do not expect either repayment or economic benefits proportionate to the resources provided.

Accounting and financial reporting standards for the federal government are recommended by a recently created organization, the Federal Accounting Standards Advisory Board (FASAB). Recommendations of the FASAB are reviewed and approved by the U.S. General Accounting Office (GAO), the U.S. Depart-

ment of the Treasury, and the U.S. Office of Management and Budget (OMB). These standards apply to financial reports issued by federal agencies and to the Consolidated Financial Report of the United States Government. Accounting and financial reporting standards for the federal government are discussed and illustrated in Chapter 9.

Accounting and financial reporting standards for state and local governments in the United States are set by the Governmental Accounting Standards Board (GASB). The GASB also sets accounting and financial reporting standards for governmentally related not-for-profit organizations, such as colleges and universities, health care entities, museums, libraries, and performing arts organizations. Accounting and financial reporting standards for profit-seeking business and for nongovernmental not-for-profit organizations are set by the Financial Accounting Standards Board (FASB). The GASB and the FASB are parallel bodies under the oversight of the Financial Accounting Foundation (FAF). The FAF appoints the members of the two boards and supports the operating expenses of the boards by obtaining contributions from business corporations; professional organizations of accountants, financial analysts, and other groups concerned with financial reporting; CPA firms; debt-rating agencies; and state and local governments (for support of the GASB). Because of the breadth 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 bodies in the private sector.” Standards set by the GASB and the FASB are the primary source of **generally accepted accounting principles (GAAP)** as the term is used in accounting and auditing literature.

GASB and FASB standards are set forth primarily in documents called **Statements**. From time to time, the boards find it necessary to expand on standards in documents called **Interpretations**. Boards also issue **Technical Bulletins** to explain the application of standards in certain situations or industries. Since independent auditors are engaged to express their opinion that the financial statements of a client present fairly, in all material respects, the client’s financial position as of the end of a fiscal year and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles (GAAP), GASB and FASB Statements, Interpretations, and Technical Bulletins do not cover all possible situations. These independent auditors often have need to refer to publications other than the GASB or FASB already mentioned. The same is true of accountants for state and local governments who want to make sure that the statements they prepare are in conformity with GAAP. Illustration 1-1 presents the “hierarchy of GAAP” published by the American Institute of Certified Public Accountants for the guidance of independent auditors.

Some organizations possess certain characteristics of both governmental and nongovernmental not-for-profit organizations, and it is necessary to determine whether those organizations are governmental or nongovernmental for purposes of applying GAAP, in accord with the hierarchy shown in Illustration 1-1.

Recently, the FASB and GASB agreed upon a definition of a government. As reproduced in the *AICPA Audit and Accounting Guide: Not-for-Profit Organizations*, the definition is as follows:

Public corporations and bodies corporate and politic are governmental organizations. Other organizations are governmental organizations if they have one or more of the following characteristics:

ILLUSTRATION 1-1 GAAP Hierarchy Summary

	<i>Nongovernmental Entities</i>	<i>State and Local Governments</i>
<i>Established Accounting Principles</i>	FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins	GASB Statements and Interpretations, plus AICPA and FASB pronouncements if made applicable to state and local governments by a GASB Statement or Interpretation
	FASB Technical Bulletins, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position	GASB Technical Bulletins and the following pronouncements if specifically made applicable to state and local governments by the AICPA: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position
	Consensus positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins	Consensus positions of the GASB Emerging Issues Task Force ² and AICPA Practice Bulletins if specifically made applicable to state and local governments by the AICPA
	AICPA accounting interpretations, "Qs and As" published by the FASB staff, as well as industry practices widely recognized and prevalent	"Qs and As" published by the GASB staff, as well as industry practices widely recognized and prevalent
<i>Other Accounting Literature¹</i>	Other accounting literature, including FASB Concepts Statements; APB Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; GASB Statements, Interpretations, and Technical Bulletins; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles	Other accounting literature, including GASB Concepts Statements; pronouncements in categories (a) through (d) of the hierarchy for nongovernmental entities when not specifically made applicable to state and local governments; APB Statements; FASB Concepts Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; pronouncements of other professional associations or regulatory agencies; AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles

¹ In the absence of established accounting principles, the auditor may consider other accounting literature, depending on its relevance to the circumstances.

² As of the date of this edition of this text, the GASB had not organized such a group.

- a. Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments;
- b. The potential for unilateral dissolution by a government with the net assets reverting to a government; or
- c. The power to enact and enforce a tax levy.

Furthermore, organizations are presumed to be governmental if they have the ability to issue directly (rather than through a state or municipal authority) debt that pays interest exempt from federal taxation. However, organizations possessing only that ability (to issue tax-exempt debt) and none of the other governmental characteristics may rebut the presumption that they are governmental if their determination is supported by compelling, relevant evidence.

For the convenience of financial statement preparers and auditors, the GASB annually publishes a *Codification of Governmental Accounting and Financial Reporting Standards*, which is an authoritative codification of all effective Statements, Interpretations, and Technical Bulletins of the GASB. Effective FASB Statements, Interpretations, and Technical Bulletins and other publications listed in the top left-hand box of Illustration 1-1 have not yet been issued in an authoritative codification. Notice that textbooks such as this one are considered to be authoritative sources of GAAP in the Other Accounting Literature section of Illustration 1-1.

OUTLINE OF THE TEXT

The remainder of this chapter and Chapters 2 through 8 are concerned with accounting and financial reporting standards—"generally accepted accounting principles"—applicable to state and local governments in the United States. As indicated earlier, Chapter 9 covers accounting and financial reporting for the federal government. Chapters 10 through 12 discuss and illustrate FASB and AICPA standards for nongovernmental, not-for-profit organizations—general not-for-profits, health-care entities, and colleges and universities. Chapter 13 discusses accounting and reporting requirements of the GASB and AICPA for public colleges and universities. Chapter 14 is concerned with three topics that are essential to an overall understanding of governmental and not-for-profit accounting: (1) the unique aspects of auditing for these organizations, (2) taxation of exempt entities, and (3) service efforts and accomplishments.

OBJECTIVES OF ACCOUNTING AND FINANCIAL REPORTING

Both the Financial Accounting Standards Board and the Governmental Accounting Standards Board have taken the position that the establishment of accounting and financial reporting standards should be guided by conceptual considerations in order that the body of standards be internally consistent and that the standards address broad issues expected to be of importance for a significant