Environment & Characteristics

Chapter 1
Welcome

Contrary to what you may have heard, governmental and nonprofit accounting is not a “whole new ball game”

However, it is a game played by slightly different rules

The purpose of this chapter is to lay the groundwork for those rules

The rest of the chapters will examine those rules more closely
Learning Objectives

- Unique characteristics
- Types of G&NP organizations
- Similarities & differences between profit-seeking and G&NP organizations
- Characteristics, concepts, & objectives of GNP accounting & financial reporting
- Users and uses of financial information
- Determining what GAAP to apply
- GAAP hierarchy
Characteristics of G&NP Organizations

- Absence of profit motive
- Owned by constituents – no stock
- Contributors of resources do not receive proportional share of benefits
- Decisions made – directly or indirectly – by voters
- Meetings where decisions are made usually open to the public
Similarities to the Private Sector

- Operate in the same economy and compete for same resources: financial, capital, and human
- Acquire & convert scarce resources into goods & services
- Provide goods and services, many of which may be similar
- Use of accounting & other information systems
- Need to operate economically, effectively, & efficiently
Differences from the Private Sector

- Organizational objectives
- Sources of financial resources
- Methods of evaluating performance and operating results
Organizational Objectives

**Businesses**
- Operating Motive: maximize income from revenues and other resources
- Operational Focus: report quarterly but look to the long-term as well

**G&NPs**
- Operating Motive: maximize services provided from revenues and other resources
- Operational Focus: operate on annual budget, so current year is of primary importance
Sources of Financial Resources

- Businesses raise resources from sales or from capital stock & debt transactions – must account for different sources separately.
- Governments raise resources from sales or debt transactions – typically no distinction made in sources.
Unique G&NP Sources

- Involuntary contributions – taxes!
- Donations
- Appropriations and grants from other governmental entities
Evaluating Performance & Operating Results

In business, continuing a product or service determined by success in marketplace.

In G&NP organizations:
- Profit not a motive and frequently cannot be measured.
- Services not found elsewhere so there is no competition.
- Face rules and regulations not found in private sector.
Special Regulations & Controls Applied to Governments

- **Organization structure** – form; board composition; number & duties of personnel
- **Personnel policies & procedures** – who has power to appoint or hire personnel; tenure; termination policies; promotion policies
- **Sources of financial resources** – types and amounts of taxes, licenses, fines or fees; procedure for setting user charges
Special Regulations (continued)

- Use of financial resources – purposes, including legal restrictions; purchasing procedures; budgeting methods

- Accounting

- Financial reporting – type & frequency of reports; format; recipients

- Auditing – frequency; who performs; scope & type; time & place
Defining a “Government”

Overall characteristics:

- Public corporations – “an instrumentality of the state, founded and owned in the public interest, supported by public funds, and governed by those deriving their authority from the state

- Bodies corporate and politic
Other Characteristics of a “Government”

- Popular election of officers or appointment (or approval) of a controlling majority of members of governing body by one or more SLGs
- Potential for unilateral dissolution by a government with net assets reverting to government
- Power to enact and enforce a tax levy
- Ability to issue tax exempt debt
SLG GAAP Hierarchy

A. GASB Statements & Interpretations, plus AICPA and FASB pronouncements made applicable to SLGs by a GASB Statement or Interpretation
B. GASB Technical Bulletins and AICPA Audit Guides and SOPs if made applicable to SLGs and cleared by GASB
C. Positions of GASB EITF (does not currently exist) and AICPA Practice Bulletins if made applicable to SLGs and cleared by GASB
D. GASB Implementation Guides and widely accepted practice
E. Other accounting literature
Typical Activities of a SLG

Governmental activities – unique to SLGs
- Police and fire protection
- Education
- Social Services
- Courts

Business-type activities – similar to private sector operations
- Utilities
- Golf Courses
- Airports
Purpose of Governmental Activities

Provide goods and services that all constituents need regardless of ability to pay for goods and services
Sources of Financial Resources
(not found in private sector)

- Taxes: property taxes, sales taxes, and income taxes
- Intergovernmental revenues: from other governments
- Licenses & permits
- Fines & forfeitures
- Debt proceeds (typically not used for operations)
Resource Allocation Mechanisms

- Restrictions placed by providers: typical of grantors, taxes for specific purposes, & debt proceeds
- Budget – allocates resources to functions
- Holding public officials accountable for actions
Reporting Issues & Problems

- Demonstrate compliance with restrictions on use of financial resources
- Budgetary reporting
- Impact of restrictions on revenue recognition
- Difficulty in measuring effectiveness and efficiency of operations
- Opportunity to hide or disguise availability of resources
- Tax and debt limits
- Impact of materiality of reporting certain actions
Financial Report Uses

- Comparing results with legally adopted budgets
- Assessing financial condition and results of operations
- Assisting in determining compliance with finance-related laws, rules & regulations
- Assisting in evaluating efficiency & effectiveness
Purposes of Business-Type Activities

- Provide same types of services as found in private sector
- Charge fee for services received
- Separate, self-sufficient operations
Issues in Business-Type Activities

- Relationship between services received and resources provided by consumer
- Revenue-producing capital assets
- Similarly designated activities
- Nature of political process
- Budgets and fund accounting
Financial Reporting Objectives of Business-Type Activities

- Enable users to assess accountability
- Provide information about operating results for the period
- Provide information to assess level of services provided