*Chapter 1*

The Government and Not-for-Profit Environment

In the first session or two, (after addressing course mechanics – the syllabus, policies, etc.) I present the objectives of the course (See attached file). I note that my priority ranking of the objectives is likely to be close to the reverse of that of the students. I emphasize that the course will, in fact, prepare students for the CPA exam, but that preparation for the CPA exam preparation is not the course’s primary objective.

I then ask the students why we have a course in governmental and not-for-profit accounting when we have no such similar courses for other “industries.” Or, to put in another way, why we have two standard boards – one for government; the other for all other types of entities. In the course of the discussion that ensues, I try to key on the point that a central purpose of accounting is to measure entity performance. In the business sector, the objective of the entity is to earn profit; hence the financial statements focus on profit. Governmental and not-for-profit organizations have objectives other than profit; therefore it would be no sense to focus on profitability.

I try to convince the students that governmental and not-for-profit accounting is far more challenging than business accounting. In governmental and not-for-profit accounting we face all of the same issues as in business accounting (i.e. many governments and not-for-profits engage in business-type activities), plus many more. Examples:

* We have to first determine the objectives of the entity, then measure how well they have been achieved (I engage in a brief discussion of what are the objectives of organizations with which they are familiar, such as a police department or a university).
* In making capital budgeting decisions in business, we typically compare costs with benefits – i.e. cash inflows with cash outflows. In not-for-profit organizations the benefits are not easily defined, let alone measured (e.g. what is the benefit of a new fire station?; what is the value of the lives that might be saved?).
* In assessing the fiscal strength of a business, we focus mainly on the net assets (both tangible and intangible) of the business itself. By contrast, the fiscal strength of a government cannot be assessed by measuring only (or even mainly) its own assets. Instead, we must take into account the resources of its jurisdiction – those that it can draw upon if and when needed. These include the assets of its businesses and residents. Thus, we must perform a comprehensive economic analysis. At the same time we must consider the demands that the citizenry will make upon the government. Hence we must also evaluate a variety of demographic, political and social factors.

To both emphasize the latter point and to try to put into perspective the role of accounting and financial reporting, I review the file, “A City’s Fiscal Status; A Strategic Analysis.”

I ask the students to identify the characteristics that distinguish governments from businesses and use the GASB’s statement of objectives (see attached file) to assure that we identify all the major differences. I then try to show that at least some of these characteristics also apply to not-for-profits.

I then ask the students the purpose of a statement of objectives and review the GASB’s objectives. I focus on the first objective (“Should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability”). I ask the students whether they think this objective, including its three sub-objectives, are reasonable. They almost always agree that they are. I then present them with the problem (see attached file) “What Number do You Have in Mind?” I call on a student to prepare a statement of activities consistent with the first two sub-objectives (interperiod equity and budgetary compliance). The question arises as to whether the cost of the vehicles should be expensed in the year of acquisition (i.e. consistent with the budgetary compliance objective) or the years of use (consistent with the interperiod equity objective). I assert that this conflict underlies much of the difficulty that the GASB has faced in establishing accounting principles and is the reason why the GASB Statement requires, in effect, two sets of financial statements.

*Note on Group Assignment:*

I first assigned the group project (described on a hand-out that follows) to my graduate class. I was extraordinarily pleased with the results. As was evidenced by the quality of their papers (and confirmed by the students themselves), the groups took the project seriously and, in their analysis, went far beyond what I would have expected of them. They reported that the assignment was one of the most beneficial aspects of the course, forcing them to become far more intimately acquainted with a CAFR than they could have by merely working the end-of-chapter materials (including the continuing problem). I now assign the project to undergraduate students – some semesters as an individual project, some (when enrollments are especially large) as a group (four students to a group) project.