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Governmental Accounting Standards Series

Statement No. 1 of the
Governmental Accounting
Standards Board

**Authoritative Status of
NCGA Pronouncements and
AICPA Industry Audit Guide**



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Statement sets forth the authoritative status of the National Council on Governmental Accounting (NCGA) Statements and Interpretations and of the accounting and financial reporting guidance contained in the Industry Audit Guide, *Audits of State and Local Governmental Units*, issued by the American Institute of Certified Public Accountants (AICPA) in 1974, as amended by certain Statements of Position.

All NCGA pronouncements previously issued and in effect as of the date of this Statement and the currently effective accounting and financial reporting guidance contained in the AICPA Industry Audit Guide are continued in force until altered, amended, supplemented, revoked, or superseded by a subsequent GASB pronouncement. The specific pronouncements covered by this Statement are identified in Appendix A.

This Statement also identifies those pronouncements concerning pension accounting and financial reporting that the GASB considers as sources of acceptable accounting and reporting principles for public employee retirement systems (PERS) and state and local government employers, pending issuance by the GASB of a Statement or Statements on that subject.

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AICPA Industry Audit Guide

July 1984



Governmental Accounting Standards Board
of the Financial Accounting Foundation
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Statement No. 1 of the Governmental Accounting Standards Board

Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide

July 1984

INTRODUCTION AND BACKGROUND INFORMATION

1. This Statement sets forth the authoritative status of the Statements and Interpretations heretofore promulgated by the National Council on Governmental Accounting (NCGA) and of the accounting and financial reporting guidance contained in the Industry Audit Guide, *Audits of State and Local Governmental Units*, issued by the American Institute of Certified Public Accountants (AICPA) in 1974, as amended by certain Statements of Position (SOPs).

2. The Governmental Accounting Standards Board (GASB) was established as an arm of the Financial Accounting Foundation in April 1984 by amendment of the Foundation's certificate of incorporation and by-laws, to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities. The GASB is the successor organization to the NCGA. The January 1984 agreement concerning the structure for a Governmental Accounting Standards Board (GASB structural agreement), signed by the organizations concerned with the establishment of the GASB, provides that the NCGA's Statements and the AICPA's State and Local Government Industry Audit Guide shall be recognized by the GASB as being in force until modified by the GASB.

3. Concerning the jurisdictional division between the GASB and the Financial Accounting Standards Board (FASB), the GASB structural agreement provides that the GASB will establish accounting and financial reporting standards for activities and transactions of state and local governmental entities and the FASB will establish such standards for activities and transactions of all other entities. Under this approach, pronouncements of the GASB rank above pronouncements of the FASB in the hierarchy of generally accepted accounting principles applicable to state and local governmental entities. The full text of the jurisdiction segment of the GASB structural agreement is set forth in Appendix B.

4. Chapter A, Article IV-A, Section 6 of the certificate of incorporation and by-laws of the Financial Accounting Foundation sets forth certain due process procedures for the issuance by the GASB of Statements of Governmental Accounting Standards. The by-laws provide further that such procedures do not apply to any such GASB Statement or Statements specifying that any or all, or any portions, of the Statements or Interpretations issued by the NCGA and the State and Local Government Industry Audit Guide issued by the AICPA are considered by the GASB as continuing in force.

5. Accounting and financial reporting for state and local governments has been guided by the principles set forth in NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, issued in 1979, and subsequent NCGA pronouncements. Through widespread acceptance, NCGA Statement 1 and subsequent NCGA pronouncements have been acknowledged as the primary authoritative source of generally accepted accounting principles for state and local governments.

6. NCGA Statement 1 constituted a restatement of the principles of *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR), a 1968 pronouncement of NCGA's predecessor, the National Committee on Governmental Accounting. An important objective of NCGA Statement 1 was the incorporation of pertinent aspects of *Audits of State and Local Governmental Units* (ASLGU), the 1974 Industry Audit Guide of the AICPA, as amended. (The 1968 GAAFR was declared, by NCGA Interpretation 5, *Authoritative Status of Governmental Accounting, Auditing, and Financial Reporting (1968)*, to have been superseded by NCGA Statement 1 and subsequent issuances. NCGA Statement 1 also superseded NCGA Interpretation 1, *GAAFR and the AICPA Audit Guide*.)

7. Several pronouncements of the NCGA concerning pension accounting and financial reporting by public employee retirement systems (PERS) and state and local government employers have either been superseded or had their effective dates extended indefinitely. A further purpose of this Statement is to provide interim guidance concerning acceptable accounting and reporting principles, pending issuance by the GASB of a Statement or Statements concerning pension accounting and financial reporting.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

8. All NCGA Statements and Interpretations heretofore issued and currently in effect are considered as being encompassed within the conventions, rules, and procedures referred to as “generally accepted accounting principles,” and are continued in force until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements. Such NCGA pronouncements are identified in Appendix A.

9. The NCGA has issued three pronouncements dealing specifically with pension accounting and financial reporting. NCGA Interpretation 4, *Accounting and Financial Reporting for Public Employee Retirement Systems and Pension Trust Funds* (December 1981), was superseded by NCGA Statement 6, *Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers* (June 1983). The effective date of NCGA Statement 6 was extended indefinitely by NCGA Interpretation 8, *Certain Pension Matters* (November 1983), to allow for discussion aimed at reconciling the material differences between NCGA Statement 6 and FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*. Pending issuance by the GASB of a Statement or Statements concerning pension accounting and financial reporting, the following pronouncements are considered by the GASB as sources of acceptable accounting and reporting principles for public employee retirement systems (PERS) and state and local government employers (the order shown below should not be construed as representing an order of preference by the GASB):

- a. NCGA Statement 1 (The related material contained in the 1968 GAAFR may be considered as illustrative of the principles of NCGA Statement 1, to the extent such material is consistent with NCGA Statement 1.)
- b. NCGA Statement 6
- c. FASB Statement 35.

10. To the extent that the heretofore issued ASLGU, as amended by certain Statements of Position currently in effect, contains accounting and financial reporting guidance, such guidance is considered as being encompassed within the conventions, rules, and procedures referred to as “generally accepted accounting principles,” and is continued in force until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements. The ASLGU and the amendments thereto are identified in Appendix A.

11. The affirmation by the GASB in the foregoing paragraphs of those pronouncements of the NCGA and the AICPA that currently constitute “generally accepted accounting principles” for state and local governmental entities should not be construed as representing concurrence by the GASB with each of those pronouncements.

This Statement was adopted by the unanimous vote of the five members of the Governmental Accounting Standards Board:

James F. Antonio, *Chairman*

Martin Ives, *Vice-Chairman*

Philip L. Defliese

W. Gary Harmer

Elmer B. Staats

Appendix A

CURRENTLY EFFECTIVE NCGA AND AICPA PRONOUNCEMENTS CONSIDERED BY THE GASB AS CONTINUING IN FORCE*

12. NCGA Pronouncements

NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* (effective for fiscal years ending after June 30, 1980)

NCGA Statement 2, *Grant, Entitlement, and Shared Revenue Accounting and Reporting by State and Local Governments* (effective for fiscal years ending after June 30, 1980)

NCGA Statement 3, *Defining the Governmental Reporting Entity* (effective for fiscal years ending after December 31, 1982)

NCGA Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences* (effective for fiscal years beginning after December 31, 1982)

NCGA Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments* (effective for fiscal years beginning after June 30, 1983)

NCGA Statement 6, *Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers* (effective date extended indefinitely by NCGA Interpretation 8; refer to paragraph 9 of this Statement)

NCGA Statement 7, *Financial Reporting for Component Units within the Governmental Reporting Entity* (effective for fiscal years ending after June 30, 1984)

NCGA Interpretation 2, *Segment Information for Enterprise Funds* (effective for fiscal years ending after September 30, 1980)

*Note that portions of these pronouncements have been either superseded by or incorporated in other pronouncements.

NCGA Interpretation 3, *Revenue Recognition--Property Taxes* (effective for years beginning after September 30, 1981)

NCGA Interpretation 5, *Authoritative Status of "Governmental Accounting, Auditing and Financial Reporting" (1968)* (effective upon issuance in March 1982)

NCGA Interpretation 6, *Notes to the Financial Statements Disclosure* (effective for years beginning after December 31, 1982)

NCGA Interpretation 7, *Clarification as to the Application of the Criteria in NCGA Statement 3, "Defining the Governmental Reporting Entity"* (effective upon issuance in September 1983)

NCGA Interpretation 8, *Certain Pension Matters* (effective for fiscal years ending after December 31, 1983)

NCGA Interpretation 9, *Certain Fund Classifications and Balance Sheet Accounts* (effective for fiscal years ending after June 30, 1984)

NCGA Interpretation 10, *State and Local Government Budgetary Reporting* (effective for fiscal years ending after June 30, 1984)

NCGA Interpretation 11, *Claim and Judgment Transactions for Governmental Funds* (effective upon issuance in April 1984)

NCGA Concepts Statement 1, *Objectives of Accounting and Financial Reporting for Governmental Units* (published 1982) (This Statement does not establish standards.).

13. AICPA Pronouncements

Industry Audit Guide, *Audits of State and Local Governmental Units* (published 1974)

SOP 75-3, *Accrual of Revenues and Expenditures by State and Local Governmental Units* (published 1975) (The vacation and sick pay portion of this SOP was superseded by NCGA Statement 4.)

SOP 77-2, *Accounting for Interfund Transfers of State and Local Governmental Units* (published 1977)

SOP 78-7, *Financial Accounting and Reporting by Hospitals Operated by a Governmental Unit* (published 1978)

SOP 80-2, *Accounting and Financial Reporting by Governmental Units* (published 1980).

Appendix B

EXCERPT CONCERNING JURISDICTION⁺ FROM “AGREEMENT CONCERNING THE STRUCTURE FOR A GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)”

4. Governmental Accounting Standards Board:

* * *

- g. The jurisdictional division between GASB and FASB shall be as follows. (The FAF shall have final responsibility for resolving jurisdictional questions):

The GASB will establish standards for activities and transactions of state and local governmental entities and the FASB will establish standards for activities and transactions of all other entities.

Under this approach, the hierarchy of generally accepted accounting principles applicable to state and local governmental entities would be as follows:

- (a) Pronouncements of the Governmental Accounting Standards Board
- (b) Pronouncements of the Financial Accounting Standards Board
- (c) Pronouncements of bodies composed of expert accountants that follow a due process procedure, including broad distribution of proposed accounting principles for public comment, for the intended purpose of establishing accounting principles or describing existing practices that are generally accepted
- (d) Practices or pronouncements that are widely recognized as being generally accepted because they represent prevalent practice in a particular industry or the knowledgeable application to specific circumstances of pronouncements that are generally accepted
- (e) Other accounting literature

Category (a) includes GASB pronouncements and all pronouncements of the NCGA acknowledged as applicable by the GASB. If the accounting treatment of a transaction or event is not specified by a pronouncement identified by category (a), category (b) is presumed to apply. Categories (c) and (d) are both sources of established accounting principles. If an established accounting principle from one or more sources in category (c) or (d) is relevant to the circumstances, the auditor should be prepared to justify a conclusion that another treatment is generally accepted. If there is a conflict between

⁺Paragraph and subparagraph numbers in this appendix conform to those in the original.

sources within those two categories, the auditor should consider which treatment better presents the substance of the transaction in the circumstances. In the absence of a pronouncement in any of the initial four categories, the auditor may consider other accounting literature depending on its relevance in the circumstances.

Generally accepted accounting principles applicable to separately issued general purpose financial statements of certain entities or activities in the public sector should be guided by standards of the FASB except in circumstances where the GASB has issued a pronouncement applicable to such entities or activities. Those entities and activities include utilities, authorities, hospitals, colleges and universities, and pension plans. GASB standards would also apply to those entities or activities when included in combined general purpose financial statements issued by state and local governmental units.

The FAF will request the Auditing Standards Board of the AICPA to issue a pronouncement setting forth the hierarchy of the foregoing sources of accounting principles applicable to state and local governmental entities.