

CODIFICATION of

GOVERNMENTAL
ACCOUNTING
and
FINANCIAL REPORTING
STANDARDS

as of June 30, 1998

GOVERNMENTAL ACCOUNTING
STANDARDS BOARD



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AUTHORITATIVE STATUS OF THE CODIFICATION

GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide* (July 1984), continued in force then effective pronouncements of the NCGA and the AICPA. This document, a codification of those pronouncements as well as GASB pronouncements issued and effective through June 30, 1998, has been approved for publication by the Governmental Accounting Standards Board and is intended to provide authoritative accounting and financial reporting guidance for state and local governmental entities. GASB pronouncements issued before June 30, 1998 but not effective at that date may alter, amend, supplement, revoke, or supersede the guidance contained in this Codification.

Tom Allen, *Chairman*
Robert J. Freeman, *Vice Chairman*
Cynthia B. Green
Barbara A. Henderson
Edward M. Klasny
Edward J. Mazur
Paul R. Reilly

**The provisions of this Codification need
not be applied to immaterial items.**

USING THE CODIFICATION

This Codification is an integration of currently effective accounting and reporting standards for state and local governments. Material in this Codification is drawn from Governmental Accounting Standards Board (GASB) Statements, Interpretations, Technical Bulletins, and Concepts Statements, and Statements and Interpretations of the National Council on Governmental Accounting (NCGA) and the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of State and Local Governmental Units* (1974), as amended by AICPA Statements of Position issued before July 1984. Accounting principles contained in those NCGA and AICPA documents have been affirmed by the GASB in GASB Statement No. 1, *Authoritative Status of NCGA Statements and AICPA Industry Audit Guide*, issued in July 1984, and constitute generally accepted accounting principles for state and local governments. Standards of the Financial Accounting Standards Board (FASB) and its predecessors are not included in this Codification, except to the extent references are made to specific applicable pronouncements. (See the Introduction section of this Codification for a discussion of the relationship between GASB and FASB pronouncements.) This Codification has been reviewed and approved for publication by the GASB.

GASB Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, has not been codified. Instead, the body of the Statement, definitions, and illustrations are included in this Codification in Appendix A for Codification users' information. The GASB did not consider it useful to integrate the Statement's requirements because its effective date has been deferred. In addition, GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, and GASB Interpretation No. 5, *Property Tax Revenue Recognition in Governmental Funds*, have not been codified because the effective dates of those pronouncements are after June 30, 1998. These pronouncements are also included in this Codification in Appendix A for users' information.

Users of this Codification who wish to make reference to authoritative pronouncements may cite the specific paragraph references of this Codification, for example, GASB Cod. Sec. 2300.103 (Section 2300, paragraph .103), instead of the specific GASB, NCGA, or AICPA pronouncement (in this instance NCGA Interpretation 6, paragraph 3). No changes have been made in the text of the affirmed NCGA and AICPA pronouncements (except as amended by subsequent GASB pronouncements) other than rearrangement for inclusion within the reference system of this text; rearrangement of paragraphs within sections; addition of headings, cross-references, and transition sentences; and correction of typographical and grammatical errors. Accordingly, this Codification is considered authoritative based on the provisions of GASB Statement 1. GASB pronouncements included in this Codification have been included as required by the Codification instructions of each of those pronouncements. Future pronouncements of the GASB are expected to include revisions to this Codification that have been approved for final issuance in accordance with the GASB's due process.

Using the Codification

Organization of the Codification

This Codification is organized into four parts:

- Part I – General Principles
- Part II – Financial Reporting
- Part III – Specific Balance Sheet and Operating Statement Items
- Part IV – Stand-Alone Reporting—Specialized Units and Activities

Parts I and II follow a textbook-type format and present topics of general interest in accounting and financial reporting. Their organization is based on the twelve basic principles of accounting and financial reporting established by NCGA Statement 1. Each section of those parts is identified numerically (for example, 2400 for “Budgetary Reporting”).

Parts III and IV follow an encyclopedia-type format and present topics of interest on specific balance sheet and operating statement items and specialized units and activities. Part III addresses issues encountered in accounting and reporting by the governmental entity, and Part IV addresses issues of stand-alone accounting and reporting by specialized units and activities of government, for example, by pension trust funds. Each section on specific balance sheet and operating statement items is identified by an alpha-numeric code (for example, L20 for “Leases”), with numbers selected to allow space for future additions. Section references for specialized units and activities are denoted by an alpha-alpha-numeric reference, an upper- and lowercase letter with a number (for example, Ut5 for “Utilities”).

Paragraphs within each section are numbered consecutively, according to the following numeric format:

- | | |
|-----------------------|---|
| Paragraphs .101–.499: | Standards |
| Paragraphs .501–.599: | Definitions |
| Paragraphs .601–.699: | GASB staff Technical Bulletins, and a listing of AICPA Audit and Accounting Guides and AICPA Statements of Position cleared by the GASB (<i>effective after March 15, 1992</i>) |
| Paragraphs .701–.799: | A listing of AICPA AcSEC Practice Bulletins cleared by the GASB (<i>effective after March 15, 1992</i>) |
| Paragraphs .801–.899: | GASB staff Technical Bulletins (<i>effective before March 15, 1992</i>) |
| Paragraphs .901–.999: | Nonauthoritative Discussion (supplemental guidance and illustrations) |

Terms defined in the Definitions portion are in **boldface type** the first time they appear in a section.

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Source References

Source references are provided to indicate the original pronouncements from which material in each paragraph and footnote is derived. They appear in brackets and use the following abbreviations:

NCGAS	NCGA Statement
NCGAI	NCGA Interpretation
GASBS	GASB Statement
GASBCS	GASB Concepts Statement
GASBI	GASB Interpretation
GASBTB	GASB Technical Bulletin
SOP	AICPA Statement of Position
1974 ASLGU	AICPA "Audits of State and Local Governmental Units"
NCGACS	NCGA Concepts Statement
fn	footnote

For example, the source reference [NCGAS 1, fn3] indicates footnote 3 of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*. Source references also are provided by pronouncement and paragraph number in Appendix F, "Finding List of Original Pronouncements." (Paragraph numbers have been assigned to NCGA Statements 1 and 2 for this purpose, with paragraph numbers beginning after the Preface in both cases.)

Nonauthoritative Discussions

Paragraphs .901–.999 of certain sections contain material originally presented for illustrative purposes only in the appendixes of various NCGA Statements and Interpretations. Their designation as nonauthoritative is consistent with the original pronouncements. Those paragraphs also contain the text of GASB pronouncement appendixes that include illustrative disclosures or additional explanatory information.

Use of Original Pronouncements

Additions to or changes in cross-references and additions of headings do not alter the substance of the original pronouncements and are not noted. Certain paragraphs of the original pronouncements have been deleted because they have been superseded or represent background or introductory sections. In no case have deletions affected the substance of the pronouncement. Appendix F identifies the deletions and explains the reasons for all such deletions. Other changes have been made to conform the format of the pronouncements to that of this Codification (for example, "iii" has been changed to "c"). In those rare instances when language that adds explanation or clarification to an original pronouncement has been added, that language

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appears in brackets. Examples of changes made to NCGA Statements (one without brackets and one with brackets) for use in this Codification are:

NCGA Statement 1, paragraph 83

“For this reason, and because proprietary fund budgeting parallels that of business enterprises, the Council has directed its attention primarily to governmental fund budgeting and budgetary control.” Changed to: “For this reason, and because proprietary fund budgeting parallels that of business enterprises, this section addresses primarily governmental fund . . .”

NCGA Statement 1, paragraph 14

“*Audits of State and Local Governmental Units* (ASLGU), the Industry Audit Guide prepared by the American Institute of Certified Public Accountants (AICPA), focuses primarily on audits of GAAP-based financial statements.” Changed to: “*Audits of State and Local Governmental Units*, the 1974 Industry Audit Guide prepared by the American Institute of Certified Public Accountants (AICPA), focuses primarily on audits of GAAP-based financial statements. [That guide was revised and reissued in 1994.]”

Effective Dates and Transition Provisions of Underlying Pronouncements

The effective dates of all NCGA, AICPA, and GASB documents included in this Codification are summarized in Appendix E. That appendix also presents the transition paragraphs of those pronouncements whose effective dates or transition provisions are unusual or are such that they might be initially applied in annual financial statements issued on or after June 30, 1998.

Headnotes are used to denote sections that will be substantially modified or superseded by GASB pronouncements issued with effective dates after June 30, 1998. Users should refer to Appendix E to determine the effective date requirements of recently issued pronouncements in their particular circumstances. Users concerned with accounting and reporting standards for financial statements of prior years also may need to refer to a prior Codification effective for those years.

Independent Audit Considerations

Independent audit considerations addressed in NCGA and AICPA pronouncements are not included in the Codification text, but rather in Appendix D, “Independent Audit Considerations.”

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GASB Concepts Statements

GASB Concepts Statements provide the framework within which the GASB develops standards of financial reporting for governmental entities. However, they *do not* establish standards of governmental accounting and financial reporting. For this reason, GASB Concepts Statements are not codified but are included in Appendix B for the users' information.

NCGA Concepts Statement

NCGA Concepts Statement 1, *Objectives of Accounting and Financial Reporting for Governmental Units*, is included in Appendix C. Although that Statement was superseded by GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, the GASB believes users of this Codification may still wish to refer to this appendix for objectives of governmental accounting until the Board completes its financial reporting model project.

INTRODUCTION

Governmental accounting is an integral branch of the accounting discipline. It is founded on the basic concepts and conventions underlying the accounting discipline as a whole and shares many characteristics with commercial accounting. [NCGAS 1, p. 1]

The governmental environment differs markedly from that of business enterprises, however, and the information needs to be met by governmental accounting systems and reports differ accordingly. Thus, a set of basic principles applicable to governmental accounting and reporting has been developed for and used by governmental units. These principles are specific fundamental tenets which, on the basis of reason, demonstrated performance, and general acceptance by public administrators, accountants, auditors, and others concerned with public financial operations, are generally recognized as essential to effective management control and financial reporting. The National Council on Governmental Accounting (NCGA) due process procedures were followed in developing these principles. [NCGAS 1, p. 1]

These basic principles are stated and explained in this Codification. The principles and illustrations provide guidance primarily for accounting and reporting for governmental operations that are different from those of business enterprises. Accounting and reporting for governmental operations that are similar to business enterprises closely parallel commercial accounting and reporting. (See Section P80, "Proprietary Activity Accounting and Financial Reporting.") [NCGAS 1, p. 1; GASBS 20, ¶6–¶7]

Governmental Accounting Standards Board

The GASB was established as an arm of the Financial Accounting Foundation in April 1984 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 National Council on Governmental Accounting (NCGA). [GASBS 1, ¶2]

The January 1984 [GASB structural] agreement . . . , signed by the organizations concerned with the establishment of the GASB, provides that the NCGA Statements [and Interpretations] and the AICPA State and Local Government Industry Audit Guide [and Statements of Position] shall be recognized by the GASB as being in force until modified by the GASB. [This was accomplished in GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*, issued in July 1984.] [GASBS 1, ¶2]

Concerning the jurisdictional division between the GASB and the 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 standards for activities and transactions of all other entities. The hierarchy of generally accepted accounting principles (GAAP) applicable to state and local governmental entities is discussed on pages xv–xvii. [GASBS 1, ¶3]

Introduction

The certificate of incorporation, by-laws, [and GASB rules of procedure] of the Financial Accounting Foundation set forth certain due process procedures for the issuance, by the GASB, of Statements of Governmental Accounting Standards [, Interpretations, and Technical Bulletins]. 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. [GASBS 1, ¶4]

National Council on Governmental Accounting

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. 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. [GASBS 1, ¶5]

NCGA Statement 1 constituted a restatement of the principles of *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR), a 1968 pronouncement of the 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 by applicable SOPs. NCGA Statement 1 also superseded NCGA Interpretation 1, *GAAFR and the AICPA Audit Guide*. [GASBS 1, ¶6]

NCGA Statement 1 and subsequent NCGA Statements and Interpretations supersede the 1968 GAAFR. To the extent that material contained in the 1968 GAAFR is consistent with the principles of such Statements and Interpretations, such material may be considered illustrations of those principles. [NCGAI 5, ¶13]

Other publications, including the Government Finance Officers Association's 1980 GAAFR, attempt to explain and illustrate principles of governmental accounting and financial reporting. To the extent materials in these other publications are consistent with the principles of NCGA Statements and Interpretations, such material may be considered illustrations of those principles. [NCGAI 5, ¶14]

Audits of State and Local Governmental Units (ASLGU) was revised and reissued in 1994 by the American Institute of CPAs. Because the 1994 ASLGU was made applicable to state and local governmental entities by the AICPA and was cleared by the GASB, it constitutes level b in the hierarchy of generally accepted accounting principles, as discussed on pages xv–xvii.

Authoritative Status of NCGA and AICPA Pronouncements

GASB Statement 1 states that all NCGA Statements and Interpretations heretofore issued and in effect at July 1984 are considered as being encompassed within the conventions, rules, and procedures referred to as “generally accepted accounting prin-

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ciples” and are continued in force until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements. [GASBS 1, ¶8]

To the extent that the heretofore issued [1974] ASLGU, as amended by certain Statements of Position in effect at July 1984, 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.* [GASBS 1, ¶10]

The affirmation by the GASB 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. [GASBS 1, ¶11]

Authoritative Status of This Codification

This Codification includes all GASB pronouncements issued through June 30, 1998. It also includes existing NCGA and AICPA pronouncements, as continued in force by GASB Statement 1. It has been reviewed and approved for publication by the GASB.

There have been no changes in the text of the affirmed NCGA and AICPA pronouncements (except as amended by subsequent GASB pronouncements) other than rearrangement for inclusion within the reference system of this text; the addition of headings, cross-references, and transition sentences; and correction of typographical and grammatical errors. Additions to the text are noted in brackets []. (See “Using the Codification” beginning on page vii for additional information.) Accordingly, this Codification is considered authoritative based on the provisions of GASB Statement 1. Future pronouncements of the GASB are expected to include revisions to this Codification that have been exposed for public comment and approved for final issuance in accordance with the GASB’s due process.

Hierarchy of GAAP

The hierarchy of GAAP governs what constitutes GAAP for all state and local governmental entities, including governmental colleges and universities, healthcare providers, and utilities. It lists the priority sequence of pronouncements that an entity should look to for accounting and reporting guidance.

In its November 30, 1989 Jurisdiction Determination, the FAF Trustees stated that the jurisdictional division between the GASB and the FASB shall continue to be as set forth in the 1984 GASB Structural Agreement, but that the hierarchy should be changed. The objective of the hierarchy, as stated in the Jurisdiction Determination, is for each Board to have primary responsibility for setting standards for the reporting entities in its jurisdiction; pronouncements of the other Board should not be mandatory unless designated as such by the primary Board.

*The 1994 ASLGU constitutes level b in the hierarchy of GAAP, as discussed on page xvi.

Introduction

In January 1992, the AICPA Auditing Standards Board issued Statement of Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*. This Statement implements the decision of the FAF Trustees and makes other changes in the hierarchy. With regard to state and local governmental entities, the hierarchy is as follows:

- a. GASB Statements and Interpretations. Also, AICPA and FASB pronouncements specifically made applicable to state and local governmental entities by GASB Statements or Interpretations.
- b. GASB Technical Bulletins. Also, if specifically made applicable to state and local governmental entities by the AICPA and cleared by the GASB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.
- c. AICPA AcSEC Practice Bulletins if specifically made applicable to state and local governmental entities and cleared by the GASB. Also, consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities.
- d. Implementation Guides (Q&A's) published by the GASB staff. Also, practices widely recognized and prevalent in state and local government.
- e. Other accounting literature, including GASB Concepts Statements and AICPA and FASB pronouncements when not specifically made applicable to state and local governmental entities.

Colleges, Universities, Healthcare Providers, Public Authorities, Utilities, and Certain Other Entities

The creation of the GASB has had an effect on the accounting and financial reporting standards applicable to separately issued statements of governmental colleges and universities, governmental healthcare providers, public authorities, public utilities, public benefit corporations, and governmental entities that in the past have used not-for-profit accounting and reporting. In addition, the actions taken in November 1989 by the FAF Trustees, the hierarchy presented above, and the issuance of GASB Statements No. 15, *Governmental College and University Accounting and Financial Reporting Models*, No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*, are intended to clarify the applicability of accounting and financial reporting standards to those governmental entities. Readers should note the following:

- a. Statement 15 made both the AICPA College Guide model and the Governmental model acceptable for accounting and financial reporting by governmental colleges and universities. The two models are described in Section Co5, "Colleges and Universities," paragraph .101.
- b. Statement 29 made both the AICPA Not-for-Profit model and the Governmental model acceptable for accounting and financial reporting for governmental entities that ap-

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plied not-for-profit accounting and financial reporting principles prior to the issuance of that Statement. Both models are discussed in Section No80, "Not-for-Profit Accounting and Financial Reporting."

- c. Statements 20 and 29 address the applicability of FASB pronouncements to proprietary funds and other governmental entities that use proprietary fund accounting. Governmental business-type activities (which include such functions as hospitals, utilities, toll roads and bridges, airports, etc.) may be performed either as part of the legally constituted general purpose government or as separate legally constituted organizations. As noted in several references in this volume, all GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) except where specifically excluded (for example, Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*) are applicable to governmental business-type activities, regardless of their legal structure. (See Section P80.)

AICPA Ethics Rule 203

In May 1986, the Council of the American Institute of CPAs (AICPA) voted in favor of a resolution giving the GASB AICPA Ethics Rule 203 support for its standards. AICPA Rule 203, "Accounting Principles," provides that an AICPA member shall not express an opinion that financial statements are presented in conformity with generally accepted accounting principles if such statements contain any departure from an accounting principle promulgated by the body designated by the Council to establish such principles, which has a material effect on the statements taken as a whole, unless the member can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading. In such cases, the report must describe the departure; the approximate effects thereof, if practicable; and the reasons why compliance with the principle would result in a misleading statement. By passing its resolution, the AICPA Council designated the GASB as the "body to establish financial accounting principles for state and local governmental entities pursuant to Rule 203. . . ."

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