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Proposed statement of position : Accounting and financial reporting by governmental units : amendment to AICPA Industry audit guide, Audits of state and local governmental units ; Accounting and financial reporting by governmental units : amendment to AICPA Industry audit guide, Audits of state and local governmental units

American Institute of Certified Public Accountants. Committee on State and Local Government Accounting

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EXPOSURE DRAFT

PROPOSED STATEMENT OF POSITION

ACCOUNTING AND FINANCIAL REPORTING

BY

GOVERNMENTAL UNITS

Proposal to Amend
AICPA Industry Audit Guide
Audits of State and Local Governmental Units

May 22, 1979

**Prepared by the AICPA Committee on State and Local
Government Accounting**

**For comment from persons interested in accounting
and reporting by governmental units**

**Comments should be received by July 23, 1979 and addressed to
Paul Rosenfield, Director, Accounting Standards Division, File 3460,
AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036**



American Institute of Certified Public Accountants

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AICPA. State and Local Government
Accounting Committee.
Accounting and financial re-
porting by governmental units.
1979. ref.

May 22, 1979

To those interested in accounting
and reporting by governmental
units:

An exposure draft of a proposed statement of position entitled
Accounting and Financial Reporting by Governmental Units
accompanies this letter.

Comments and suggestions on any aspect of the enclosed
draft are sought and will be appreciated. They should be
addressed to Paul Rosenfield, Director, Accounting Standards
Division, File 3460, at the AICPA by July 23, 1979. The AICPA
Committee on State and Local Government Accounting will be
particularly interested in the reasoning underlying comments and
suggestions.

Sincerely yours,

Frank S. Belluomini, Chairman
Committee on State and Local Government Accounting

Paul Rosenfield, Director
Accounting Standards Division

ACCOUNTING AND FINANCIAL REPORTING BY GOVERNMENTAL UNITS

An Amendment to Industry Audit Guide on Audits of State and Local Governmental Units

BACKGROUND

1. The AICPA industry audit guide, *Audits of State and Local Governmental Units*, published in 1974, acknowledged *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR), a 1968 publication of the National Committee on Governmental Accounting (NCGA), as an authoritative source in the area of accounting for local governmental units. The guide states that "GAAFR's principles do not represent a complete and separate body of accounting principles, but rather are a part of the whole body of generally accepted accounting principles which deal specifically with governmental units. Except as modified in this guide, they constitute generally accepted accounting principles" (p. 9).

2. In March 1979, the NCGA (now known as the National Council on Governmental Accounting) published a document entitled *Governmental Accounting and Financial Reporting Principles (Statement 1)*. That document defines combined columnar financial statements by fund types and account groups as basic financial statements rather than financial statements of individual funds and account groups and also updates, clarifies, amplifies, and reorders other portions of GAAFR. Since the guide recognizes GAAFR, it is necessary to amend the guide to recognize *Statement 1* as an authoritative modification of GAAFR.

RECOMMENDATION

3. The committee believes that *Audits of State and Local Govern-*

mental Units should be amended throughout to refer to *Statement 1* rather than GAAFR. The following paragraphs amplify that conclusion.

4. Presentation of aggregate data by fund type and account group in the statements of revenues, expenditures, and changes in fund balance (retained earnings) and of changes in financial position of the individual funds in each fund type and account group, in the manner recommended in *Statement 1*, is an extension of the conclusion in the guide that "Homogeneous funds may be consolidated in a single balance sheet, but it is not appropriate to consolidate funds of different types or to consolidate account groups." Accordingly, presentation in accordance with *Statement 1* should be considered to be in conformity with generally accepted accounting principles.

5. When combining statements, individual fund and account group statements, and supporting schedules are presented with the basic financial statements for the various fund types and account groups, the auditor should report on those statements and schedules as supplemental data.¹

6. *Statement 1* identifies the following basic general purpose financial statements (GPFS) as necessary for fair presentation of financial position and operating re-

1. See SAS 1, section 610, (AICPA, *Professional Standards*, vol. 1, AU sec. 610) and Auditing Interpretation 9610, "Reports on Consolidated Financial Statements That Include Supplementary Consolidating Information" (AICPA, *Professional Standards*, vol. 1, AU sec. 9610).

sults in conformity with generally accepted accounting principles:

- a. Combined balance sheet—all fund types and account groups.
- b. Combined statement of revenues, expenditures, and changes in fund balances—all governmental fund types.
- c. Combined statement of revenues, expenditures, and changes in fund balances—budget and actual—general and special revenue fund types (and similar governmental fund types for which annual budgets have been legally adopted).
- d. Combined statement of revenues, expenses, and changes in retained earnings (or equity)—all proprietary fund types.
- e. Combined statement of changes in financial position—all proprietary fund types.
- f. Notes to the financial statements, including segment information for major nonhomogeneous enterprise funds.

(Trust fund operations may be reported in statements *b*, *d*, and *e* above, as appropriate, or separately.)

7. If any individual funds or account groups or any fund types or account groups that should be included in the combined financial statements are omitted (such as the general fixed asset account group or an enterprise fund), the auditor should consider the need to qualify his opinion in accordance with the guidance provided by SAS 2, paragraphs 15 through 17. However, the auditor is not precluded from issuing a report on separately presented financial statements of a fund or account group that are pre-

pared in conformity with generally accepted accounting principles.

8. Combined financial statements may have a "total" column, which aggregates the columnar statements by fund type and account group. If such a total column is shown, it should be captioned "Memorandum Only." The total column on a combined financial

statement is not comparable to a consolidation. It does not present financial position and results of operations in conformity with generally accepted accounting principles because the same basis of accounting is not used by all funds, and interfund transactions and balances and account group balancing accounts may not be eliminated.

9. The recommendations of this statement of position should be adopted for financial statements and auditors' reports for years ending after June 30, 1980. Early adoption is encouraged. If these recommendations are adopted early, conformity with principles in *Statement I* should be disclosed.

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