GASB CODIFICATION · GENERAL PRINCIPLES

GARS
1200

Section 1200

Generally Accepted Accounting Principles and Legal Compliance

Governments must satisfy two masters at once: GAAP and the law. This section explains what happens when a statute, charter, or budget ordinance says one thing and GAAP says another — and how to report both without keeping two sets of books. Plain-language reference only; not a substitute for the authoritative text.

GENERAL PRINCIPLES

What GAAP Requires

A uniform minimum standard.
GAAP is the common baseline of financial accounting and reporting — it assures the same types of statements and disclosures across every state and local government, regardless of local law or custom.

It sets the whole reporting framework.
The Codification establishes the requirements for the ACFR, MD&A, the basic financial statements, and required supplementary information other than MD&A.

GENERAL PRINCIPLES

Where Law and GAAP Diverge

Legal provisions can conflict with GAAP.
Antiquated charter or statutory language sometimes requires an accounting treatment — like cash-basis budgeting for an enterprise fund — that GAAP doesn't allow.

Two sets of books aren't the answer.
Keep the accounts on the legally required basis for compliance purposes, but maintain enough supplemental records to also produce GAAP-based statements.

GENERAL PRINCIPLES

Reporting Both, Side by Side

GAAP-basis statements are essential.
An unqualified audit opinion requires financial statements prepared in conformity with GAAP, including disclosure of significant legal or contractual violations.

Legal compliance still needs its own showing.
Where the GAAP statements don't demonstrate legal compliance, add supplementary schedules and narrative — in extreme cases, a separate legal-basis special report.

GENERAL PRINCIPLES

Reducing the Conflict Over Time

Push law and GAAP toward each other.
Officials should work to bring outdated legal provisions into agreement with GAAP rather than accepting the conflict as permanent.

Keep statutes general, not prescriptive.
Ideally, law should require GAAP-conforming, audited statements and leave the accounting detail to administrative determination.

Paraphrased for plain-language reference from GASB's Codification of Governmental Accounting and Financial Reporting Standards, Section 1200, “Generally Accepted Accounting Principles and Legal Compliance.” Principal sources: NCGA Statement 1; GASB Statement 38. This summary is not authoritative — consult the current Codification (GARS-Online) or your auditor for application to a specific district.

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