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# Governmental Accounting Standards Series

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Statement No. 55 of the  
Governmental Accounting  
Standards Board

**The Hierarchy of Generally Accepted  
Accounting Principles  
for State and Local Governments**



Governmental Accounting Standards Board  
of the Financial Accounting Foundation

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## Summary

The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

The GASB is responsible for establishing GAAP for state and local governments. However, the current GAAP hierarchy is set forth in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, rather than in the authoritative literature of the GASB.

### **How the Changes in This Statement Will Improve Financial Reporting**

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source. The Board concluded that the GAAP hierarchy should reside in the accounting literature established by the GASB and is issuing this Statement to accomplish that objective. This Statement will make it easier for preparers of state and local government financial statements to identify and apply all relevant guidance. The Board does not expect that this Statement will result in a change in current practice.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.
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for State and Local Governments

March 2009



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**The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments**

**March 2009**

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## **Statement No. 55 of the Governmental Accounting Standards Board**

### **The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments**

**March 2009**

#### **INTRODUCTION**

1. The objective of this Statement is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy).

#### **STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING**

##### **Scope and Applicability of This Statement**

2. This Statement applies to the financial statements of all state and local governments that are presented in conformity with GAAP.

##### **The Hierarchy of Generally Accepted Accounting Principles**

3. The GAAP hierarchy governs what constitutes GAAP for all state and local governmental entities. It lists the order of priority of pronouncements that a governmental entity should look to for accounting and financial reporting guidance. The sources of accounting principles that are generally accepted are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements and Interpretations. GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.<sup>1</sup>

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<sup>1</sup>Category (a) standards are the subject of Rule 203 of the AICPA's *Code of Professional Conduct*, and this Statement does not affect the application of that rule.

- b. GASB Technical Bulletins and, if specifically made applicable to state and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared<sup>2</sup> by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.
- c. AICPA Practice Bulletins if specifically made applicable to state and local governmental entities and cleared<sup>3</sup> by the GASB, as well as 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.<sup>4</sup>
- d. Implementation guides (Q&As) published by the GASB staff, as well as practices that are widely recognized and prevalent in state and local government.

4. If the accounting treatment for a transaction or other event is not specified by a pronouncement in category (a), a governmental entity should consider whether the accounting treatment is specified by an accounting principle from a source in another category. In such cases, if categories (b)–(d) contain accounting principles that specify accounting treatments for a transaction or other event, the governmental entity should follow the accounting treatment specified by the accounting principle from the source in the highest category—for example, follow category (b) treatment over category (c) treatment.

5. If the accounting treatment for a transaction or other event is not specified by a pronouncement or established in practice as described in categories (a)–(d), a governmental entity should consider accounting principles for similar transactions or other events within categories (a)–(d) and may consider other accounting literature. A governmental entity should not follow the accounting treatment specified in accounting principles for similar transactions or other events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular

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<sup>2</sup>Such pronouncements specifically made applicable to state and local governments are presumed to have been cleared by the GASB unless the pronouncement indicates otherwise.

<sup>3</sup>See footnote 2.

<sup>4</sup>As of the date of this Statement, the GASB had not organized such a group.

transaction or other event or indicate that the accounting treatment should not be applied by analogy.

6. Other accounting literature includes, for example, GASB Concepts Statements; the pronouncements referred to in categories (a)–(d) of the GAAP hierarchy for nongovernmental entities if not specifically made applicable to state and local governmental entities by the GASB; Financial Accounting Standards Board Concepts Statements; Federal Accounting Standards Advisory Board (FASAB) Statements, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Public Sector Accounting Standards of the International Public Sector Accounting Standards Board or International Financial Reporting Standards of the International Accounting Standards Board, or pronouncements of other professional associations or regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, GASB Concepts Statements would normally be more influential than other sources in this category.

## **EFFECTIVE DATE**

7. The requirements in this Statement are effective upon its issuance.

<p><b>The provisions of this Statement need not be applied to immaterial items.</b></p>
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*This Statement was issued by unanimous vote of the seven members of the  
Governmental Accounting Standards Board.*

Robert H. Attmore, *Chairman*  
Michael D. Belsky  
William W. Holder  
Jan I. Sylvis  
Marcia L. Taylor  
Richard C. Tracy  
James M. Williams

## **Appendix A**

### **BACKGROUND**

8. Representatives of the AICPA have requested that the U.S. accounting standards setters consider adopting certain guidance for accounting and financial reporting issues that now resides only in the AICPA's professional auditing literature. In response to this request, a project was added to the GASB's research agenda in late 2007. After conducting research on the subject matter to identify relevant issues, the project was added to the GASB's current technical agenda in April 2008. The GAAP hierarchy applicable to governments was originally intended to be within the scope of that broader project. A separate project was established in July 2008 to assist the Board in its efforts to work with FASAB on GAAP hierarchy-related issues.

9. In August 2008, the Board issued an Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Board received 35 responses to the Exposure Draft. As discussed throughout the Basis for Conclusions of this Statement, the comments and suggestions from the organizations and individuals who responded to the Exposure Draft contributed to the Board's deliberations in finalizing the requirements of this Statement.

## **Appendix B**

### **BASIS FOR CONCLUSIONS**

10. This appendix summarizes factors considered significant by the Board members in reaching the conclusions in this Statement. It includes discussion of alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

11. At the beginning of its deliberations leading to this Statement, the Board evaluated two approaches. One approach considered was to adopt the GAAP hierarchy essentially as it currently exists in the AICPA's auditing literature. The other approach considered was to reexamine the hierarchy levels to assess whether the standards-setting process and the governmental financial reporting environment have sufficiently evolved since the establishment of the hierarchy to warrant reconsideration or reconfiguration of certain aspects of the structure. The Board recognized that taking the first approach would not significantly affect practice but the latter approach, involving redeliberation, *could* have resulted in changes in practice. The Board concluded that the transition from the audit literature to the accounting and financial reporting standards should be as undisruptive as possible; therefore, the first approach was taken.

12. The Board believes that incorporation of the GAAP hierarchy into the GASB's authoritative literature would more clearly convey that financial statement preparers are responsible for selecting the appropriate sources of the principles to be used when preparing financial statements that are presented in conformity with GAAP. The structure presented in this Statement generally carries forward the hierarchy included in Appendix C, "Background Information on Governmental Accounting Standards," in

Volume I of the GASB's *Original Pronouncements*. The Board believes that relocating the hierarchy generally "as is" would have the least effect on current practice. If the Board decides it is appropriate to reexamine the existing levels of the hierarchy to consider elevating certain sources (Implementation Guides or Concepts Statements, for example), or combining categories to provide for fewer levels, it would do so as a separate future initiative.

### **Exposure Draft**

13. As discussed in paragraph 9, an Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued for public comment in August 2008. Respondents generally supported the provision to incorporate the GAAP hierarchy into GASB literature.

14. A number of respondents, however, were concerned with the position of Implementation Guides as category (d) literature within the hierarchy. Those respondents suggested that Implementation Guides should be elevated to a higher category, and some also commented that additional due process procedures should be added before the issuance of a Guide. The Board considered the respondents' comments regarding placement within the hierarchy; however, the Board ultimately concluded that the goal of this project is to bring into GASB standards the AICPA literature essentially as it currently exists, as discussed in paragraph 12. Therefore, the Board concluded that reconsideration of Implementation Guides as other than category (d), or changes to due process, was beyond the intended scope of this Statement.

15. Some respondents to the Exposure Draft expressed concern that category (a) no longer included the reference to "AICPA and FASB pronouncements specifically made

applicable to state and local governmental entities by GASB Statements or Interpretations” as stated in the AICPA literature. After considering those comments, the Board concluded that a specific reference to those pronouncements is unnecessary because those AICPA and FASB pronouncements are already included in category (a) within “GASB Statements and Interpretations.” The modification to the AICPA presentation does not exclude those specific sources but rather avoids the redundancy that existed in category (a).

16. In addition to the issues discussed in paragraphs 14 and 15, the Board considered a variety of other editorial comments and suggestions made by respondents.

## **Appendix C**

### **CODIFICATION INSTRUCTIONS**

17. The section that follows updates the June 30, 2008, *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

\* \* \*

[Create new section as follows:]

#### **THE HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

#### **SECTION 1000**

Source: GASB Statement 55

.101–.104 [GASB Statement 55, ¶3–¶6, including footnotes 1, 2, and 3; omit footnote 4.]