



Exposure Draft

December 20, 2013

Comments Due: December 31, 2014

Proposed Statement
of the Governmental Accounting Standards Board

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

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 33-1ED

Governmental Accounting Standards Board

THE HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR STATE AND LOCAL GOVERNMENTS

WRITTEN COMMENTS

Deadline for submitting written comments: December 31, 2014

Requirements for written comments. Comments should be addressed to the Director of Research and Technical Activities, Project No. 33-1ED, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public hearing. The Board has not scheduled a public hearing on the issue addressed in this Exposure Draft.

Public files. Written comments will become part of the Board's public file and are posted on the GASB's website.

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Notice to Recipients of This Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for developing standards of state and local governmental accounting and financial reporting and other accounting and financial reporting communications that will (1) result in useful information for users of financial reports and (2) guide and educate the public, including issuers, auditors, and users of those financial reports.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement on the hierarchy of generally accepted accounting principles (GAAP) for state and local governments. Because this Exposure Draft elevates GASB Implementation Guides to category (b) of the GAAP hierarchy, a related Exposure Draft, *Implementation Guide No. 20XX-1*, provides an opportunity for broader public comment on GASB's implementation guidance.

This proposed Statement would supersede Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

We invite your comments on the issues in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe we should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board's deliberations leading to a final Statement. When the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as appropriate, a vote is taken on the Statement. A majority vote is required for adoption.

Summary

The objective of this proposed Statement is to identify, in the context of the current governmental financial reporting environment, the sources of accounting principles and the framework for selecting the principles used to prepare financial statements of state and local governmental entities presented in conformity with generally accepted accounting principles (GAAP). The GAAP hierarchy consists of the sources of accounting principles used in preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP and the framework for selecting those principles. This proposed Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This proposed Statement would supersede Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this proposed Statement would be effective for financial statements for periods beginning after June 15, 2015, and would be applied retroactively. Earlier application would be permitted.

How the Changes in This Proposed Statement Would Improve Financial Reporting

The requirements in this proposed Statement, in combination with the related Exposure Draft, *Implementation Guide No. 20XX-1*, would improve financial reporting by (1) raising the category of implementation guidance in the GAAP hierarchy, thus providing the opportunity for broader public input on the implementation guidance currently included in the *Comprehensive Implementation Guide*, (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP, and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature.

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.

Proposed Statement of the Governmental Accounting Standards Board

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

December 20, 2013

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Proposed Statement of the Governmental Accounting Standards Board

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

December 20, 2013

INTRODUCTION

1. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the sources of accounting principles and the framework for selecting the principles used to prepare financial statements of state and local governmental entities presented in conformity with generally accepted accounting principles.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 64, 74, and 82. The requirements of this Statement apply to all state and local governmental entities.

The Hierarchy of Generally Accepted Accounting Principles

3. The hierarchy of generally accepted accounting principles (GAAP) sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements.¹

¹ 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. GASB Interpretations also are subject to Rule 203. All GASB Interpretations heretofore issued and currently in effect are considered as being encompassed within category (a) and are continued in force until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements.

- b. GASB Technical Bulletins; GASB Implementation Guides²; and literature of the American Institute of Certified Public Accountants (AICPA)³ if specifically cleared⁴ by the GASB.

Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards*.

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 a source in category (b). If both categories contain accounting treatments for a transaction or other event, a governmental entity should follow the accounting treatment specified by the pronouncement in category (a).

5. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described in paragraph 3, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described in paragraph 3 and then may consider nonauthoritative accounting literature from other sources that does not conflict with or contradict authoritative GAAP. A governmental entity should not follow the accounting treatment specified in authoritative GAAP described in paragraph 3 for similar transactions or other events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or other event or indicate that the accounting treatment should not be applied by analogy.

6. Sources of nonauthoritative accounting literature include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, International Accounting Standards Board, and AICPA (other than AICPA literature cleared by the GASB); practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

7. In evaluating the appropriateness of nonauthoritative accounting literature, a governmental entity should consider the consistency of the literature with the GASB Concepts Statements, the relevance of the literature to particular circumstances, the specificity of the literature, and the general recognition of the issuer or author as an authority.

² GASB Implementation Guides are incorporated periodically into the *Comprehensive Implementation Guide*.

³ AICPA literature, such as AICPA Industry Audit and Accounting Guides, specifically cleared by the GASB is subject to the *Memorandum of Understanding* between the GASB and the AICPA.

⁴ Such literature specifically made applicable to state and local governmental entities contains a statement that indicates that it has been cleared (the majority of the Board members did not object to its issuance) by the GASB.

EFFECTIVE DATE AND TRANSITION

8. The requirements in this Statement are effective for periods beginning after June 15, 2015. Earlier application is permitted. Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented. If restatement for prior periods is not practical, the cumulative effect of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as appropriate) for the earliest period restated (generally the current period). In the first period that this Statement is applied, the financial statements should disclose the nature of the restatement and its effect.

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

Appendix A

BACKGROUND

9. In March 2009, the GASB issued Statement 55. In response to the Exposure Draft that led to that Statement, a number of respondents expressed concerns about the position of GASB Implementation Guides as category (d) literature within the GAAP hierarchy. Those respondents suggested that GASB Implementation Guides be elevated to a higher category, and some also commented that broader public exposure of proposed questions and answers should be incorporated into the due process procedures for implementation guidance. Prior to issuance of Statement 55, the Board considered the respondents' comments regarding placement of GASB Implementation Guides within the hierarchy. However, the Board ultimately concluded that the objective of that project was to incorporate into the GASB's standards the GAAP hierarchy essentially as it existed in the AICPA Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*. Therefore, the Board concluded that reconsideration of placement of GASB Implementation Guides in a category other than category (d) in the GAAP hierarchy and changes to their due process were outside the intended scope of that Statement.

10. A draft proposal for research on the GAAP hierarchy was considered by the Governmental Accounting Standards Advisory Council (GASAC) at its March 2011 meeting. The GASAC members rated this project a high priority among research activities and potential projects in the GASB's Technical Plan.

11. In April 2011, the addition of pre-agenda research activities related to a project to reexamine the GAAP hierarchy was approved. A project prospectus was discussed by the GASAC in March 2012. At the April 2012 meeting, the Board reviewed the project prospectus, considered the GASAC member input, and the project was added to the current agenda.

12. An advisory committee was assembled in November 2012, comprising 10 persons broadly representative of the GASB's constituency. The advisory committee members reviewed and commented on papers prepared for the Board's deliberations. In addition, further input was sought from the GASAC members at its meetings.

Appendix B

BASIS FOR CONCLUSIONS

13. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the 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.

Approach to Evaluating the Hierarchy of Generally Accepted Accounting Principles

14. In its initial deliberations, the Board considered the structure of the GAAP hierarchy set forth in Statement 55 and the GAAP hierarchies of other standards-setting bodies. Because GAAP hierarchies generally distinguish between categories of authority based on the rigor of due process and the issuing body's intended purpose of the guidance, the Board first discussed what characteristics should be common to sources of authoritative GAAP placed in the highest category. Because the mission of the GASB is accomplished through broad participation and objective consideration of all stakeholder views, the Board concluded that sources in the highest category of the GAAP hierarchy should be subjected to broad public exposure and be approved by the Board. Further, the Board concluded that guidance in the highest category of GAAP should be established for the purpose of creating, amending, or interpreting accounting and financial reporting standards.

15. The Board also evaluated each source of authoritative GAAP set forth in paragraph 3 of Statement 55. The objective of this evaluation was to determine whether the current standards-setting process and governmental financial reporting environment support the need for each source of authoritative GAAP and, if so, whether the significance of that source to the body of authoritative GAAP and to the GASB's stakeholders is appropriately reflected in the rigor of its required due process. The characteristics of sources of authoritative GAAP that were evaluated to be necessary and significant were compared to the characteristics of the highest category of authoritative GAAP to determine placement in the GAAP hierarchy.

Number of Categories of Authoritative GAAP

16. In its initial deliberations, the Board considered an approach that would reduce the GAAP hierarchy to one category of authoritative GAAP. This approach was considered because it potentially could reduce complexity, better reflect the Board's involvement in the development of authoritative guidance, and draw more attention to authoritative sources currently included in lower categories. During the consideration of this approach, the Board discussed the effects of this approach on pronouncements identified as authoritative in Statement 55.

GASB Statements

17. GASB Statements are the primary communication method for accounting and financial reporting standards for state and local governmental entities. Because these meet a fundamental need in the application of GAAP, if GASB Statements were eliminated as a source of GAAP, the Board believes that a different form of communication would need to be developed to meet that need. Rather than introducing a new and potentially confusing form of communication, the Board concluded that GASB Statements should continue to be the primary communication method for authoritative accounting and financial reporting standards. Further, because of their significance, the Board concluded that GASB Statements should continue to be placed at the highest category of authority and should maintain their due process requirements, which include a period of broad public exposure and approval by a majority of the Board.

GASB Interpretations

18. GASB Interpretations provide a means for the Board to clarify, explain, or elaborate on a GASB Statement as an aid to understanding GASB Statements. The Board considered the role of GASB Interpretations in the standards-setting process—specifically, the infrequency of the need for GASB Interpretations and the commonality of their purpose with that of GASB Technical Bulletins and Implementation Guides—and concluded that GASB Interpretations are no longer needed. The Board believes that the purpose that GASB Interpretations serve can be met in the future through other GASB pronouncements.

19. The Board considered two approaches to address the effect of the removal of GASB Interpretations from the GAAP hierarchy on the existing GASB Interpretations. One approach would incorporate the guidance in existing GASB Interpretations, as amended, into a GASB Statement. The other approach would refer in this Statement to existing GASB Interpretations similar to the manner in which the reference in GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*, incorporates Statements and Interpretations promulgated by the National Council on Governmental Accounting into GASB literature. The Board believes that preserving the existing GASB Interpretations would be preferable to relocating the guidance contained within them to a GASB Statement. Because guidance in GASB Interpretations has already been subjected to due process sufficiently equivalent to that of a GASB Statement, and because GASB Interpretations are the subject of Rule 203 of the AICPA's *Code of Professional Conduct*, the Board concluded that this Statement should exclude GASB Interpretations from the GAAP hierarchy but should refer to existing GASB Interpretations to preserve their authoritative status (described in footnote 1 to paragraph 3).

GASB Technical Bulletins and Implementation Guides

20. GASB Technical Bulletins provide a means to (a) issue timely guidance to clarify, explain, or elaborate on GASB Statements and (b) address areas not directly covered by GASB Statements. GASB Technical Bulletins can be subjected to a shorter time period

of broad public exposure and are issued when a majority of the Board does not object to their issuance.

21. GASB Implementation Guides are used to provide guidance that is limited to clarifying, explaining, or elaborating on GASB Statements. GASB Implementation Guides provide the GASB with a mechanism to address a wide range of detailed issues in a single document. The *Comprehensive Implementation Guide*, which is updated periodically, combines and updates the guidance provided in separate GASB Implementation Guides and offers questions and answers on pronouncements for which separate GASB Implementation Guides have not been issued. GASB Implementation Guides are exposed to an advisory committee of selected knowledgeable persons and are issued when a majority of the Board does not object to their issuance. The Board considered respondents' comments received during the due process that led to Statement 55 and determined that GASB Implementation Guides not only play a significant role in the government financial reporting environment, but also provide a mechanism through which to promote consistent application of GASB Statements.

22. Because of the role of GASB Implementation Guides in providing timely, authoritative guidance that aids GASB constituents in understanding and properly applying GASB Statements, the Board considered whether GASB Implementation Guides should be subjected to broader public exposure. Broader public exposure would improve GASB Implementation Guides by eliciting greater and more diverse input and improving awareness of the guidance. However, broader public exposure also might adversely affect the timeliness of the guidance. The Board also acknowledged that the amount and breadth of content of GASB Implementation Guides has significantly expanded since the GAAP hierarchy set forth in AICPA literature was adopted in 1992. The Board concluded that the changes in the standards-setting process and the governmental financial reporting environment since 1992 were sufficient to support subjecting GASB Implementation Guides to a period of broader public exposure.

23. To achieve one category of authoritative GAAP in which all sources meet the characteristics of the highest category of GAAP described in paragraph 14, GASB Technical Bulletins and Implementation Guides would need to be approved by the Board. Because of the Board's involvement in the development of GASB Technical Bulletins, the Board initially determined that approving GASB Technical Bulletins generally would not result in a significant delay in their issuance. Similarly, because of the Board's involvement in the development of GASB Implementation Guides (although more limited than that associated with GASB Technical Bulletins), the Board initially determined that requiring GASB Implementation Guides to be approved by the Board generally would not result in a significant delay in their issuance. However, concerns were expressed that the overlap in the purposes of GASB Statements, Technical Bulletins, and Implementation Guides potentially could result in expanding the roles of GASB Technical Bulletins and Implementation Guides beyond clarifying, explaining, or elaborating on GASB Statements to address other narrowly scoped issues. Any expansion could obscure the distinctions among these pronouncements. The Board initially determined that there should be a clear distinction between a source that provides fundamental accounting and financial reporting standards and a source that is limited to

clarifying those standards and considered whether all of these pronouncements were necessary within the context of one authoritative category. The Board considered whether the purposes of GASB Technical Bulletins (described in paragraph 20) could be divided between GASB Statements and GASB Implementation Guides. GASB Statements could be used to provide guidance on issues that are not directly addressed in other GASB Statements, and GASB Implementation Guides could be used to clarify, explain, or elaborate on GASB Statements. Because GASB Technical Bulletins are infrequently issued and their purposes could be met in the future through the other pronouncements in the single, authoritative category, the Board initially concluded that GASB Technical Bulletins should be eliminated to address the concerns about the potential of an expanding role of these pronouncements and to achieve a single, authoritative category of GAAP that contains pronouncements with distinct purposes.

AICPA Literature

24. The Board also discussed the effects that establishing a single category of authoritative GAAP would have on AICPA literature. Because AICPA literature is not subject to GASB's due process and is not approved by the Board, it would not meet the characteristics of the highest category of GAAP. The Board discussed the unique role of the AICPA in the standards-setting process and acknowledged the historical significance of the AICPA as an original standards setter, its independent and objective focus on accounting and financial reporting, and the formal clearance process to which authoritative AICPA literature has been subjected. The Board also considered the effects of continuing to allow another body or organization to establish authoritative GAAP, such as the potential for conflicts and the need for constituents to research multiple sources of authoritative GAAP. The Board concluded that the expected benefits to the standards-setting process of allowing the AICPA to continue to promulgate authoritative GAAP outweighed the benefits that would be derived from a single category of authoritative GAAP. The Board believes that the AICPA's unique ability to address narrow, yet important, issues within specific types of governments (for example, healthcare and gaming operations) adds valuable guidance to the body of authoritative GAAP.

25. The Board then discussed the appropriate placement of AICPA literature in the GAAP hierarchy. The Board reaffirmed its position that the highest category of GAAP should contain only guidance that has been approved by the GASB. For this reason, the Board concluded that AICPA literature *should not be placed* in a single, authoritative category of GAAP with GASB Statements.

Reconsideration of One Category of Authoritative GAAP

26. The Board reconsidered its initial one-category approach noting that a second category of authoritative literature below the highest category of GAAP (hereafter referred to as category (b)) would allow AICPA literature to remain authoritative. The two authoritative categories would distinguish between guidance that has been approved by the Board and guidance that the Board did not object to. The categories also would distinguish between guidance that establishes fundamental accounting and financial

reporting standards and guidance that is restricted to providing limited clarification of higher category guidance. Based on this decision, the Board reconsidered the effects of maintaining a category (b) on its prior tentative conclusions related to GASB Technical Bulletins and Implementation Guides.

27. In reconsidering the tentative conclusion to eliminate GASB Technical Bulletins from the GAAP hierarchy, the Board focused on its initial discussions regarding the purposes of GASB Technical Bulletins. Based primarily on the decision to maintain category (b) in the GAAP hierarchy, the approach used to communicate the guidance provided, and the restrictions on guidance that can be provided in GASB Technical Bulletins, the Board concluded that GASB Technical Bulletins should continue to be employed in category (b). When included in a single authoritative category with GASB Statements and GASB Implementation Guides, the purposes of GASB Technical Bulletins could be accomplished by other equally authoritative pronouncements; however, when included in category (b) with GASB Implementation Guides, GASB Technical Bulletins are distinguished from GASB Implementation Guides in their ability to provide guidance on issues not directly addressed in GASB Statements. GASB Technical Bulletins also allow for enhanced efficiency in the standards-setting process and provide a means for the GASB to give additional, formal background information on and draw more attention to specific issues. The Board also concluded that GASB Technical Bulletins should continue to be issued when a majority of the Board does not object to their issuance.

28. Within the context of the Board's decision to subject GASB Implementation Guides to broader public exposure, the Board again discussed the appropriate placement of GASB Implementation Guides under the two-category approach. The Board compared the purpose and due process of GASB Implementation Guides with that of GASB Statements and the requirements for the highest category of GAAP discussed in paragraph 14. Although subjecting GASB Implementation Guides to broader public exposure more closely aligns their due process with GASB Statements, guidance that can be provided in GASB Implementation Guides is limited to clarifying, explaining, or elaborating on GASB Statements. Based primarily on the decision to maintain category (b) in the GAAP hierarchy, the approach used to communicate the guidance provided in GASB Implementation Guides, and the restrictions on guidance that can be provided in GASB Implementation Guides, the Board concluded that the GASB Implementation Guides are better suited for classification in category (b). The Board also concluded that after a period of broad public exposure, GASB Implementation Guides should continue to be issued when a majority of the Board does not object to their issuance.

Other Considerations Relevant to Authoritative GAAP

29. The Board discussed the provision in paragraph 3c of Statement 55 that includes in the GAAP hierarchy 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. Footnote 4 of Statement 55 notes that, as of the date of that Statement, the GASB had not organized such a group. Because there has not been sufficient need in the standards-setting process to warrant the organization of such a

group, the Board concluded that this provision should be removed from the GAAP hierarchy. If such a group was formed in the future, the Board would consider at that time the appropriate place for consensus positions of that group in the GAAP hierarchy.

30. Paragraph 3d of Statement 55 includes in the GAAP hierarchy practices that are widely recognized and prevalent in state and local government. The Board discussed the difficulties inherent in identifying what would be considered widely recognized and prevalent in state and local government. Specifically, the Board noted that it would be difficult for a governmental entity to research whether an accounting treatment was prevalent across governments of all relevant types and all relevant geographies. Further, prevalent practices are neither approved nor cleared by the Board and, if maintained as a source of authoritative GAAP, would necessitate creating a third category in the GAAP hierarchy. Thus, the Board concluded that practices that are widely recognized and prevalent in state and local government should not be included as a source of authoritative GAAP. Instead, the Board concluded that this should be included as an example of nonauthoritative guidance a government may consider in the absence of authoritative GAAP for a specific transaction or event.

31. The Board also discussed the due process requirements for AICPA literature and concluded that a *Memorandum of Understanding* between the GASB and the AICPA should be established. The objectives of the *Memorandum of Understanding* are to make clear the due process associated with AICPA literature, to ensure that the due process is appropriately reflective of the category of authority of AICPA literature in the GAAP hierarchy, and to improve the incorporation of guidance in AICPA literature into its *Original Pronouncements* and the *Codification of Governmental Accounting and Financial Reporting Standards*, which aids in GASB's efforts to incorporate all authoritative GAAP for state and local governments in each of these publications.

Nonauthoritative Accounting Literature

32. The Board discussed the role of GASB Concepts Statements in the GAAP hierarchy, noting that some standards setters consider their conceptual frameworks to be authoritative, while others do not. The Board believes that GASB Concepts Statements, which are intended to establish objectives and concepts that the GASB will use in developing governmental accounting and financial reporting guidance, do not provide authoritative guidance. Rather, they establish the framework to be used when developing authoritative guidance. Therefore, the Board concluded that GASB Concepts Statements should continue to be nonauthoritative literature. The Board also believes that GASB Concepts Statements should have a significant role in resolving issues that are not addressed in authoritative pronouncements. Therefore, the Board also concluded that GASB Concepts Statements should be considered when evaluating guidance provided in other nonauthoritative literature.

33. The Board reexamined the language in paragraph 5 of Statement 55, which provides the initial steps a governmental entity should take when guidance for a transaction or other event is not specified in authoritative GAAP. The Board believes that paragraph 5 of Statement 55 expresses a preference for considering authoritative GAAP

for similar transactions or events over considering nonauthoritative accounting literature. However, after evaluating the approach of other standards setters, the Board concluded that adding additional emphasis to this preference would encourage more consistency in the consideration of analogies to authoritative literature and in the selection of an accounting treatment in the absence of authoritative GAAP for a transaction or other event.

34. In addition to discussions on the role of practices widely recognized and prevalent in state and local governments (described in paragraph 30), the Board discussed the other sources of nonauthoritative accounting literature named in Statement 55 and concluded that those sources generally are appropriate. Because titles of specific sources of nonauthoritative literature change over time, the Board concluded that reference should not be made to specific types of pronouncements or other nonauthoritative literature.

Effective Date and Transition

35. This Statement is effective for periods beginning after June 15, 2015. The Board believes that this will provide governmental entities with the opportunity to review the provisions of the Statement and make an assessment of their current practices to determine if any accounting changes should be retroactively applied as a result of implementing this Statement. Although this Statement is not effective immediately, the Board concluded that early application should be permitted because it does not anticipate that this Statement will lead to substantial changes in practice in most circumstances. Early application is permitted rather than encouraged because the Board believes that it might not be possible for certain governmental entities to early-adopt the requirements of this Statement because of the potential timing of the availability of the final Implementation Guide after its issuance.

Appendix C

CODIFICATION INSTRUCTIONS

36. The sections that follow update the June 30, 2013, *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.

* * *

[Replace current Section 1000 as follows:]

THE HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

SECTION 1000

Source: GASB Statement XX

.101–.105 [GASBS XX, ¶3–¶7, including footnotes; replace *Statement* with *section* and update cross-references. In footnote 1, replace *currently in effect* with *in effect as of* and insert the issuance date of Statement XX.]

* * *

REPORTING CAPITAL ASSETS

SECTION 1400

Sources: [Add the following:] AICPA Audit & Accounting Guide: Gaming—2012 (AICPA GG 2012)

[Insert new paragraphs .801–.803 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

Capital Asset Impairment Considerations for Gaming Entities

.801 For governmental gaming entities, the following are factors that may be indicators of impairment (assuming such events differ from the gaming entity’s expectations at the time the asset was acquired or built):

- Change in legislation limiting or prohibiting the type or nature of games allowed, such as prohibiting a certain type of game (this may be an indicator of impairment of specific games or machines rather than the gaming entity as a whole)
- Change in legislation limiting the amount of time the gaming entity is allowed to be open.

[AICPA GG 2012, ¶12.15]

.802 Examples of changes in the manner or expected duration of use of a capital asset that may be indicators of impairment for governmental gaming entities include the following:

- Relocation of gaming operations from a cruising riverboat to a land-based casino
- Abandonment of an entertainment facility within a casino.

[AICPA GG 2012, ¶12.16]

.803 The following circumstances are not indicators of impairment because although they may result in reduced profits or cash flows, they do not suggest that the service utility of the capital asset has significantly declined:

- Increase in gaming tax rates or revenue sharing obligations to states
- Legalization of gaming in a nearby location
- Change in regulation significantly increasing the number of gaming licenses in the entity's market
- Increased competition resulting from significant changes in legislation or regulations, for example, permitting other entities to conduct a certain type of game that would result in other entities having competitive advantages
- Increased competition from the introduction of competing alternative gaming venues, such as racinos or other casinos, in a nearby location
- Change in legislation (a) limiting the amount of time individual players may spend in the gaming entity, (b) limiting the amount that an individual player may lose in a given time period, or (c) limiting or prohibiting the nature and extent of certain nongaming behavior and activities undertaken by players in the gaming entity, such as smoking cigarettes or drinking alcohol
- An observable decline in travel and tourism resulting from economic, political, social, or other reasons.

[AICPA GG 2012, ¶12.17]

REPORTING LIABILITIES

SECTION 1500

Sources: [Add the following:] AICPA Audit & Accounting Guide: State and Local Governments—2013 (AICPA SLG 2013)

[Replace paragraphs .601–.603, including headings, as follows:]

GASB TECHNICAL BULLETINS

.601 [Insert current paragraph .601, including related paragraph heading.]

[Delete current paragraphs .602 and .603 and related headings.]

[Insert new paragraphs .801 and .802 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801 [Insert current paragraph .602, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶5.10]

.802 [Insert current paragraph .603, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶8.16]

* * *

BASIS OF ACCOUNTING

SECTION 1600

[Revise main heading before .600s paragraphs as follows:]

GASB TECHNICAL BULLETINS

* * *

THE BUDGET AND BUDGETARY ACCOUNTING

SECTION 1700

Sources: [Add the following:] AICPA SLG 2013

[Delete current paragraph .601 and related headings.]

[Insert new paragraph .801 follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801 [Insert current paragraph .601, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶11.16 and ¶14.73]

* * *

CLASSIFICATION AND TERMINOLOGY

SECTION 1800

Sources: [Add the following:] AICPA SLG 2013

[Delete current paragraphs .601–.603 and related headings.]

[Insert new paragraphs .801–.804 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801 [Insert the first paragraph of current paragraph .601, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶5.28]

.802 [Insert the second paragraph of current paragraph .601, omitting lead-in sentence.] [AICPA SLG 2013, ¶5.28]

.803 [Insert current paragraph .602, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶5.30]

.804 [Insert current paragraph .603, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶6.78]

* * *

DEFINING THE FINANCIAL REPORTING ENTITY

SECTION 2100

[Revise main heading before .600s paragraphs as follows:]

GASB TECHNICAL BULLETINS

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION 2200

Sources: [Add the following:] AICPA SLG 2013

[Delete current paragraph .601 and related headings.]

[Insert new paragraph .801 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801 [Insert current paragraph .601, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶12.85]

* * *

ADDITIONAL FINANCIAL REPORTING CONSIDERATIONS SECTION 2250

.127 [Replace *categories (b)–(d)* with *category (b)*.] [GASBS 62, ¶64, as amended by GASBS XX, ¶3]

.137 [Replace *categories (a)–(d)* with *categories (a) and (b)*.] [GASBS 62, ¶74, as amended by GASBS 65, ¶31 and GASBS XX, ¶3]

.145 [Replace *AICPA Statement of Position or Practice Bulletin* with *AICPA literature cleared by the GASB*.] [GASBS 62, ¶82, as amended by GASBS XX, ¶3]

* * *

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

Sources: [Add the following:] AICPA SLG 2013

[Delete current paragraphs .601–.602 and related headings.]

[Insert new paragraphs .801–.802 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801 [Insert current paragraph .602, including related paragraph heading, replacing *The 2013 AICPA Audit and Accounting Guide, State and Local Governments (hereafter referred to as SLG), paragraph 8.106, defines commitments as with [Commitments are],* and removing quotation marks.] [AICPA SLG 2013, ¶8.106]

.802 [Insert current paragraph .601, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶11.16 and ¶14.73]

* * *

BUDGETARY REPORTING

SECTION 2400

Sources: [Add the following:] AICPA SLG 2013

[Delete current paragraph .601 and related headings.]

[Insert new paragraph .801 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801 [Insert current paragraph .601, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶11.16 and ¶14.73]

* * *

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE

SECTION 2600

[Revise main heading before .600s paragraphs as follows:]

GASB TECHNICAL BULLETINS

* * *

CONDUIT DEBT OBLIGATIONS

SECTION C65

Sources: [Add the following:] AICPA SLG 2013

[Delete current paragraph .601 and related headings.]

[Insert new paragraph .801 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801 [Insert current paragraph .601, including related paragraph heading, omitting lead-in sentence, and replacing *The authority* with *[Finance authorities that finance capital assets and are not directly involved in either purchasing or constructing the assets or repaying the debt].*] [AICPA SLG 2013, ¶12.31]

* * *

DEBT EXTINGUISHMENTS AND TROUBLED DEBT RESTRUCTURINGS

SECTION D20

Sources: [Add the following:] AICPA SLG 2013

[Delete current paragraph .601 and related headings.]

[Insert new paragraph .801 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801 [Insert current paragraph .601, including related paragraph heading, omitting lead-in sentence, and replacing *Payments* with *[For current refundings that defease general long-term debt, p]ayments.*] [AICPA SLG 2013, ¶8.104]

* * *

NONEXCHANGE TRANSACTIONS

SECTION N50

Sources: [Add the following:] AICPA SLG 2013

[Replace paragraphs .601–.603, including headings, as follows:]

GASB TECHNICAL BULLETINS

.601 [Insert current paragraph .601, including related paragraph heading.]

[Delete current paragraphs .602 and .603 and related headings.]

[Insert new paragraphs .801 and .802 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801 [Insert current paragraph .602, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶8.44]

.802 [Insert current paragraph .603, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶6.78]

* * *

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS—EMPLOYER REPORTING

SECTION P50

[Revise main heading before .600s paragraphs as follows:]

GASB TECHNICAL BULLETINS

* * *

PROPRIETARY FUND ACCOUNTING AND FINANCIAL REPORTING

SECTION P80

Sources: [Add the following:] AICPA Audit & Accounting Guide: Health Care
Entities—2012 (AICPA HCE 2012)
AICPA GG 2012
AICPA SLG 2013

[Delete current paragraphs .601–.605 and related headings.]

[Insert new paragraphs .801–.822 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

Proceeds from Bonds Issued by a Financing Authority

.801 Proceeds from [tax-exempt bonds or similar debt instruments issued by a financing authority when the health care entity has no obligation to make payments of principal and interest on the debt or capital or operating lease payments on related buildings or equipment] are reported as contributions from the sponsoring government. [AICPA HCE 2012, ¶15.78]

Charity Care

.802 Charity care represents health care services that are provided but never expected to result in cash flows; therefore, charity care does not qualify for recognition as revenue. For financial reporting purposes, gross service revenue does not include charity care, and

net service revenue is reported net of contractual and other adjustments in the statement of revenues, expenses, and changes in net position. [AICPA HCE 2012, ¶15.116]

.803 [Governmental health care entities are required to disclose management's policy for providing charity care, as well as the level of charity care provided, measured based on the governmental health care entity's costs, units of service, or other statistical measure. [AICPA HCE 2012, ¶15.119]

.804 [Insert current paragraph .602, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶12.85]

.805 [Insert current paragraph .603, including related paragraph heading, omitting lead-in sentence, and replacing *The authority* with *[Finance authorities that finance capital assets and are not directly involved in either purchasing or constructing the assets or repaying the debt].*] [AICPA SLG 2013, ¶12.31]

.806 [Insert current paragraph .604, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶8.76]

Reporting by Lotteries

.807 Lottery prize costs normally should be accrued based on a percentage of ticket sales revenues. [AICPA SLG 2013, ¶12.121]

.808 Prize winners generally can choose to have large prizes paid to them (a) currently at present value in a lump sum or (b) over a period of years at future values. If the periodic payment option is used, the state may finance the prize liability, for example, by purchasing (a) an annuity from an insurance company or (b) U.S. Treasury securities matched in timing and amount to the future payments. If a purchased annuity is in the name of the prize winner, the state should not recognize a liability or asset because it has discharged the primary liability. However, the state may need to disclose in the financial statements that a contingent liability exists. [AICPA SLG 2013, ¶12.122]

.809 Further, if the state does not purchase an annuity in the name of the prize winner, any assets specifically identified to pay the liability (such as U.S. Treasury securities matched in timing and amount to the future payments) and the present value of the liability should be included in the state's financial statements. [AICPA SLG 2013, ¶12.122]

.810 The prize liability (measured using present value) should include lottery prizes that have been won but not yet claimed as well as anticipated prizes for games-in-progress at year-end. [AICPA SLG 2013, ¶12.123]

Reporting by Gaming Entities

.811 Gaming includes activities in which a gaming entity participates in games of chance with customers, with both the gaming entity and the customer having the chance to win or lose money or other items of economic value based on the outcome of the game

(commonly referred to as banked games). Such activities are referred to as gaming activities. Examples of games that typically are played as banked games include, but are not limited to, table games, machines, keno, bingo, and sports and non-pari-mutuel race betting. [AICPA GG 2012, ¶3.01]

.812 Games in which the customer has the chance to win or lose money or other items of economic value, with the gaming entity receiving a fee (typically either a fixed fee or a percentage of play) for administering the game, rather than the gaming entity being at risk to win or lose based on the outcome of the game, are neither banked games nor gaming activities. Such activities are referred to as gaming related activities. Examples of games that typically are played as gaming related activities include, but are not limited to, card games, certain tournaments, lotteries, and pari-mutuel race betting. Certain games may be either gaming activities or gaming related activities, depending on the facts and circumstances. For example, gaming activities games include play as part of tournaments in which customers play with real money or equivalents, and the entity is at risk to win or lose based on the outcome of the game. Accordingly, for a slot tournament in which customers play with real money and retain any payouts from machines during the tournament, the slot play is a gaming activity, whereas the other tournament activities, such as entry fees and prize payouts based on overall standing among tournament entrants, are gaming related activities. Conversely, for a slot tournament in which customers play with credits or other designated machine input other than cash and cash equivalents and accumulate points that determine their standing in the tournament, but retain no cash or other items of economic value as payouts from the machine, the slot play is not a banked game and, therefore, not a gaming activity. [AICPA GG, ¶3.02]

.813 For some gaming related activities, the entity may have the chance to win or lose money or other items of economic value based on factors other than the outcome of the game, such as business risk. [AICPA GG 2012, ¶3.03]

.814 For some activities, the entity has neither business risk nor gaming risk and has no opportunity to make a profit directly from tournament play. A casino may hold a tournament with no banked games, no entry fee, and prizes that are not directly funded by tournament members. For example, the winner of a tournament with no entry fee and no banked games may receive a cash prize or an automobile. Such activities are neither gaming activities nor gaming related activities. [AICPA GG 2012, ¶3.04]

.815 Revenue recognized and reported by a casino is generally defined as the *win* from gaming activities, that is, the difference between gaming wins and losses, not the total amount wagered. [AICPA GG 2012, ¶3.05]

.816 State lotteries use the net presentation described in paragraph .815 for video terminal lottery revenue, but typically report lotto and instant game ticket sales as revenue, with prize payouts reported separately as expenses or as deductions from revenue. Reporting state ticket sales and prize payouts separately reflects a government's responsibility to be accountable to its citizens. The remaining revenue discussion in [paragraphs .817–.822] does not apply to lotteries. [See also] paragraphs .807–.810. [AICPA GG 2012, ¶3.06]

.817 Gross gaming revenue, or win, is the difference between gaming wins and losses from banked games before deducting incentives or adjusting for changes in progressive jackpot liability accruals. Gross gaming revenue is generally not reported by gaming entities in their external financial statements; rather, net gaming revenue is generally reported. [AICPA GG 2012, ¶3.07 and fn2]

.818 Net gaming revenue equals gross gaming revenue (a) minus incentives that are charged to gaming revenue, (b) plus or minus the change in accrued jackpot liabilities, and (c) plus revenue from gaming related activities. [AICPA GG 2012, ¶3.09]

.819 Gaming entities generally report all payouts and prizes related to banked games as a component of net gaming revenue. Accordingly, prizes or payouts resulting from banked games, even if not built into a payout table, should not be reported as marketing or promotional expense. For example, customers hitting a particular slot machine combination within a specified time period may win an automobile in addition to the stated jackpot for the particular combination. The cost of that automobile should be reported as a component of net gaming revenue. [AICPA GG 2012, ¶3.10]

.820 In some circumstances, as discussed in paragraph .812, as part of certain gaming related activities, such as tournaments in which the gaming entity is at no risk to win or lose, the gaming entity pays out prizes directly funded by tournament members. For example, tournament members may each pay \$1,000 as an entry fee, with \$950 included in the tournament prize pool and \$50 as a fee to a casino. In such transactions, the prize pool should be reported as a component of net gaming revenue and the fee to the casino included in net gaming revenue. [AICPA GG 2012, ¶3.11]

.821 In some circumstances, as discussed in paragraph .813, as part of certain gaming related activities, the gaming entity has no gaming risk but has business risk. For example, a slot tournament may include no banked games and have a grand prize of \$100,000, regardless of the fees collected from the number of entrants. In this example, the entity may have the chance to win or lose money, and the gaming entity's net profit or loss from such activities should be reported as a component of net gaming revenue. [AICPA GG 2012, ¶3.12]

.822 In some circumstances, as discussed in paragraph .814, as part of certain activities, the gaming entity has no opportunity or intention of making a profit directly from tournament play. For example, a casino may sponsor a tournament with no banked games, no entry fee, and prizes that are not directly funded by tournament members. For example, the winner of a tournament with no entry fee and no banked games may receive a \$100,000 cash prize (or an automobile). Such activities are neither gaming activities nor gaming related activities. Prizes from these types of activities are typically reported as marketing or promotional expense, rather than as a component of net gaming revenue. [AICPA GG 2012, ¶3.13]

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TOBACCO SETTLEMENT RECOGNITION

SECTION T50

[Revise main heading before .600s paragraphs as follows:]

GASB TECHNICAL BULLETINS

* * *

COLLEGES AND UNIVERSITIES

SECTION Co5

Sources: [Add the following:] AICPA SOP 98-2

[Delete current paragraph .601 and related headings.]

[Insert new paragraphs .801–.813 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

.801–.813 [AICPA SOP 98-2, ¶.07–¶.19, including footnotes and related paragraph headings; change *this SOP* to *paragraphs .801–.813* and update cross-references.]

* * *

HOSPITALS AND OTHER HEALTHCARE PROVIDERS

SECTION Ho5

Sources: [Add the following:] AICPA HCE 2012
AICPA SOP 98-2

[Delete current paragraphs .601 and .602 and related headings.]

[Insert new paragraphs .801–.816 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

Proceeds from Bonds Issued by a Financing Authority

.801 Proceeds from [tax-exempt bonds or similar debt instruments issued by a financing authority when the health care entity has no obligation to make payments of principal and interest on the debt or capital or operating lease payments on related buildings or equipment] are reported as contributions from the sponsoring government. [AICPA HCE 2012, ¶15.78]

Charity Care

.802 Charity care represents health care services that are provided but never expected to result in cash flows; therefore, charity care does not qualify for recognition as revenue. For financial reporting purposes, gross service revenue does not include charity care, and

net service revenue is reported net of contractual and other adjustments in the statement of revenues, expenses, and changes in net position. [AICPA HCE 2012, ¶15.116]

.803 [Governmental health care entities are required to disclose management's policy for providing charity care, as well as the level of charity care provided, measured based on the governmental health care entity's costs, units of service, or other statistical measure. [AICPA HCE 2012, ¶15.119]

.804–.816 [AICPA SOP 98-2, ¶.07–¶.19, including footnotes and related paragraph headings; change *this SOP* to *paragraphs .804–.816* and update cross-references.]

* * *

PUBLIC ENTITY RISK POOLS

SECTION Po20

[Delete current paragraph .601 and related headings.]

* * *

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—DEFINED BENEFIT

SECTION Po50

[Revise main heading before .600s paragraphs as follows:]

GASB TECHNICAL BULLETINS

* * *

SPECIAL-PURPOSE GOVERNMENTS

SECTION Sp20

Sources: [Add the following:] AICPA GG 2012
AICPA SLG 2013

[Delete current paragraph .601 and related headings.]

[Insert new paragraphs .801–.816 as follows:]

AICPA LITERATURE CLEARED BY THE GASB

Reporting by Lotteries

.801 Lottery prize costs normally should be accrued based on a percentage of ticket sales revenues. [AICPA SLG 2013, ¶12.121]

.802 Prize winners generally can choose to have large prizes paid to them (a) currently at present value in a lump sum or (b) over a period of years at future values. If the periodic

payment option is used, the state may finance the prize liability, for example, by purchasing (a) an annuity from an insurance company or (b) U.S. Treasury securities matched in timing and amount to the future payments. If a purchased annuity is in the name of the prize winner, the state should not recognize a liability or asset because it has discharged the primary liability. However, the state may need to disclose in the financial statements that a contingent liability exists. [AICPA SLG 2013, ¶12.122]

.803 Further, if the state does not purchase an annuity in the name of the prize winner, any assets specifically identified to pay the liability (such as U.S. Treasury securities matched in timing and amount to the future payments) and the present value of the liability should be included in the state's financial statements. [AICPA SLG 2013, ¶12.122]

.804 The prize liability (measured using present value) should include lottery prizes that have been won but not yet claimed as well as anticipated prizes for games-in-progress at year-end. [AICPA SLG 2013, ¶12.123]

Reporting by Gaming Entities

.805 Gaming includes activities in which a gaming entity participates in games of chance with customers, with both the gaming entity and the customer having the chance to win or lose money or other items of economic value based on the outcome of the game (commonly referred to as banked games). Such activities are referred to as gaming activities. Examples of games that typically are played as banked games include, but are not limited to, table games, machines, keno, bingo, and sports and non-pari-mutuel race betting. [AICPA GG 2012, ¶3.01]

.806 Games in which the customer has the chance to win or lose money or other items of economic value, with the gaming entity receiving a fee (typically either a fixed fee or a percentage of play) for administering the game, rather than the gaming entity being at risk to win or lose based on the outcome of the game, are neither banked games nor gaming activities. Such activities are referred to as gaming related activities. Examples of games that typically are played as gaming related activities include, but are not limited to, card games, certain tournaments, lotteries, and pari-mutuel race betting. Certain games may be either gaming activities or gaming related activities, depending on the facts and circumstances. For example, gaming activities games include play as part of tournaments in which customers play with real money or equivalents, and the entity is at risk to win or lose based on the outcome of the game. Accordingly, for a slot tournament in which customers play with real money and retain any payouts from machines during the tournament, the slot play is a gaming activity, whereas the other tournament activities, such as entry fees and prize payouts based on overall standing among tournament entrants, are gaming related activities. Conversely, for a slot tournament in which customers play with credits or other designated machine input other than cash and cash equivalents and accumulate points that determine their standing in the tournament, but retain no cash or other items of economic value as payouts from the machine, the slot play is not a banked game and, therefore, not a gaming activity. [AICPA GG, ¶3.02]

.807 For some gaming related activities, the entity may have the chance to win or lose money or other items of economic value based on factors other than the outcome of the game, such as business risk. [AICPA GG 2012, ¶3.03]

.808 For some activities, the entity has neither business risk nor gaming risk and has no opportunity to make a profit directly from tournament play. A casino may hold a tournament with no banked games, no entry fee, and prizes that are not directly funded by tournament members. For example, the winner of a tournament with no entry fee and no banked games may receive a cash prize or an automobile. Such activities are neither gaming activities nor gaming related activities. [AICPA GG 2012, ¶3.04]

.809 Revenue recognized and reported by a casino is generally defined as the *win* from gaming activities, that is, the difference between gaming wins and losses, not the total amount wagered. [AICPA GG 2012, ¶3.05]

.810 State lotteries use the net presentation described in paragraph .809 for video terminal lottery revenue, but typically report lotto and instant game ticket sales as revenue, with prize payouts reported separately as expenses or as deductions from revenue. Reporting state ticket sales and prize payouts separately reflects a government's responsibility to be accountable to its citizens. The remaining revenue discussion in [paragraphs .811–.816] does not apply to lotteries. [See also] paragraphs .801–.804. [AICPA GG 2012, ¶3.06]

.811 Gross gaming revenue, or win, is the difference between gaming wins and losses from banked games before deducting incentives or adjusting for changes in progressive jackpot liability accruals. Gross gaming revenue is generally not reported by gaming entities in their external financial statements; rather, net gaming revenue is generally reported. [AICPA GG 2012, ¶3.07 and fn2]

.812 Net gaming revenue equals gross gaming revenue (a) minus incentives that are charged to gaming revenue, (b) plus or minus the change in accrued jackpot liabilities, and (c) plus revenue from gaming related activities. [AICPA GG 2012, ¶3.09]

.813 Gaming entities generally report all payouts and prizes related to banked games as a component of net gaming revenue. Accordingly, prizes or payouts resulting from banked games, even if not built into a payout table, should not be reported as marketing or promotional expense. For example, customers hitting a particular slot machine combination within a specified time period may win an automobile in addition to the stated jackpot for the particular combination. The cost of that automobile should be reported as a component of net gaming revenue. [AICPA GG 2012, ¶3.10]

.814 In some circumstances, as discussed in paragraph .806, as part of certain gaming related activities, such as tournaments in which the gaming entity is at no risk to win or lose, the gaming entity pays out prizes directly funded by tournament members. For example, tournament members may each pay \$1,000 as an entry fee, with \$950 included in the tournament prize pool and \$50 as a fee to a casino. In such transactions, the prize

pool should be reported as a component of net gaming revenue and the fee to the casino included in net gaming revenue. [AICPA GG 2012, ¶3.11]

.815 In some circumstances, as discussed in paragraph .807, as part of certain gaming related activities, the gaming entity has no gaming risk but has business risk. For example, a slot tournament may include no banked games and have a grand prize of \$100,000, regardless of the fees collected from the number of entrants. In this example, the entity may have the chance to win or lose money, and the gaming entity's net profit or loss from such activities should be reported as a component of net gaming revenue. [AICPA GG 2012, ¶3.12]

.816 In some circumstances, as discussed in paragraph .808, as part of certain activities, the gaming entity has no opportunity or intention of making a profit directly from tournament play. For example, a casino may sponsor a tournament with no banked games, no entry fee, and prizes that are not directly funded by tournament members. For example, the winner of a tournament with no entry fee and no banked games may receive a \$100,000 cash prize (or an automobile). Such activities are neither gaming activities nor gaming related activities. Prizes from these types of activities are typically reported as marketing or promotional expense, rather than as a component of net gaming revenue. [AICPA GG 2012, ¶3.13]

* * *

UTILITIES

SECTION Ut5

Sources: [Add the following:] AICPA SLG 2013

[Delete current paragraph .601 and related headings.]

[Insert new paragraph .801 as follows:]

AICPA LITERAURE CLEARED BY THE GASB

.801 [Insert current paragraph .601, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2013, ¶8.76]

* * *

37. The sections that follow update the Codification Instructions of Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the effects of this Statement. The requirements of Statement 68 are effective for periods beginning after June 15, 2014.

* * *

**PENSION ACTIVITIES—REPORTING FOR BENEFITS
PROVIDED THROUGH TRUSTS THAT MEET
SPECIFIED CRITERIA**

SECTION P20

[Revise main heading before .600s paragraphs as follows:]

GASB TECHNICAL BULLETINS

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**PENSION ACTIVITIES—REPORTING FOR BENEFITS
NOT PROVIDED THROUGH TRUSTS THAT MEET
SPECIFIED CRITERIA**

SECTION P21

[Revise main heading before .600s paragraphs as follows:]

GASB TECHNICAL BULLETINS

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