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Statement No. 76 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 identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This 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 Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

How the Changes in This Statement Improve Financial Reporting

The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (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. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments.

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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State and Local Governments

June 2015



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of the Financial Accounting Foundation

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Statement No. 76 of the Governmental Accounting Standards Board

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

June 2015

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Statement No. 76 of the Governmental Accounting Standards Board

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

June 2015

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 used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement establishes the hierarchy of GAAP for state and local governments. The requirements of this Statement apply to all state and local governmental entities.

3. 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 Hierarchy of Generally Accepted Accounting Principles

4. The GAAP hierarchy 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 (Category A)¹
- b. GASB Technical Bulletins; GASB Implementation Guides;² and literature of the AICPA cleared by the GASB³ (Category B).

Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), and when presented in the Codification, it retains its authoritative status.

5. 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.

6. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described in paragraph 4, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described in paragraph 4 and then may consider nonauthoritative accounting literature from other sources, as discussed in paragraphs 7 and 8, that does not conflict with or

¹All GASB Interpretations heretofore issued and currently in effect also are considered as being included within Category A and are continued in force until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements. Category A standards, including GASB Interpretations heretofore issued and currently in effect, are the subject of the Accounting Principles Rule of the American Institute of Certified Public Accountants' (AICPA) Code of Professional Conduct, and this Statement does not affect the application of that rule.

²Authoritative material from GASB Implementation Guides is incorporated periodically into the *Comprehensive Implementation Guide*, and when presented in the *Comprehensive Implementation Guide*, it retains its authoritative status.

³Such literature specifically made applicable to state and local governmental entities contains a statement that indicates that it has been cleared by the GASB in accordance with the GASB's Rules of Procedure.

contradict authoritative GAAP. A governmental entity should not apply the accounting principles specified in authoritative GAAP described in paragraph 4 to similar transactions or other events if those accounting principles either (a) prohibit the application of the accounting treatment to the particular transaction or other event or (b) indicate that the accounting treatment should not be applied by analogy.

7. 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, and International Accounting Standards Board, and AICPA literature not 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.

8. 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.

EFFECTIVE DATE AND TRANSITION

9. The requirements of this Statement are effective for reporting 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, if any, 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. In the first period that this Statement is applied, the notes to the financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.

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

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.

David A. Vaudt, *Chairman*
Jan I. Sylvis, *Vice-Chairman*
James E. Brown
William W. Fish
Michael H. Granof
David E. Sundstrom
Marcia L. Taylor

Appendix A

BACKGROUND

A1. 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 the 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 Statement was to incorporate the GAAP hierarchy into the GASB's standards essentially as the hierarchy 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.

A2. A draft proposal for pre-agenda 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 topic a high priority among pre-agenda research activities and potential topics in the GASB's technical plan.

A3. In April 2011, the addition of pre-agenda research activities related to reexamination of the GAAP hierarchy was approved. A draft project prospectus based on that research was discussed by the GASAC in March 2012. At its April 2012 meeting, the Board reviewed the project prospectus, considered the GASAC member input, and added a project to the current technical agenda.

A4. The Board assembled an advisory committee for the project that was broadly representative of the GASB's stakeholders. The advisory committee members reviewed and commented on papers prepared for the Board's deliberations. In addition, further input was sought from members of the GASAC at its meetings.

A5. In December 2013, the Board approved an Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Twenty-two responses were received during the comment period for the Exposure Draft.

Appendix B

BASIS FOR CONCLUSIONS

B1. 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

B2. 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 or amending accounting and financial reporting standards.

B3. 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 then-current standards-setting process and the governmental financial reporting environment supported 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

B4. In its initial deliberations, the Board considered an approach that would have reduced the GAAP hierarchy to one category of authoritative GAAP. That 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 that approach, the Board discussed the effects it would have on pronouncements identified as authoritative in Statement 55.

GASB Statements

B5. GASB Statements are the primary communication method for accounting and financial reporting standards for state and local governmental entities. GASB Statements meet a fundamental need in the application of GAAP. The Board believes that if GASB Statements were eliminated as a source of GAAP, a different form of communication would have to be developed to meet that need. Rather than introducing a new form of communication, the Board concluded that GASB Statements meet the needs of stakeholders and 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 their due process requirements, which include a period of broad public exposure and approval by a majority of the Board, should be retained.

GASB Interpretations

B6. GASB Interpretations provide a means for the Board to clarify, explain, or elaborate on GASB Statements as an aid to understanding those Statements. The Board considered the role of GASB Interpretations in the standards-setting process—specifically, the infrequency of their use 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 authoritative literature.

B7. 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 already has been subjected to due process equivalent to that of a GASB Statement, and because GASB Interpretations are the subject of the Accounting Principles Rule of the AICPA's Code of Professional Conduct, the Board concluded that this Statement should refer to existing GASB Interpretations to preserve their authoritative status (described in footnote 1 to paragraph 4).

GASB Technical Bulletins and Implementation Guides

B8. 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 period of broad public exposure than proposed Statements and are issued when a majority of the Board does not object to their issuance.

B9. GASB Implementation Guides are used to provide guidance that is limited to clarifying, explaining, or elaborating on GASB Statements (or GASB Interpretations). GASB Implementation Guides provide the GASB with a mechanism to address a wide range of detailed issues in a single document. Prior to issuance of this Statement, GASB Implementation Guides were exposed to an advisory committee of selected knowledgeable persons and were issued when a majority of the Board did not object to their issuance. The *Comprehensive Implementation Guide*, which was updated periodically using due process procedures similar to those employed with separate GASB Implementation Guides, combined and updated the guidance provided in separate GASB Implementation Guides and offered questions and answers on pronouncements for which separate GASB Implementation Guides had not been issued. The Board considered respondents' comments received during the due process that led to Statement 55 and determined that GASB Implementation

Guides, including the *Comprehensive Implementation Guide*, not only play a significant role in the governmental financial reporting environment but also provide a mechanism through which to promote consistent application of GASB Statements.

B10. 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, the Board recognizes that 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 have 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 are sufficient to support subjecting GASB Implementation Guides to a period of broader public exposure.

B11. To achieve one category of authoritative GAAP in which all sources meet the characteristics of the highest category of GAAP described in paragraph B2, GASB Technical Bulletins and GASB 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, GASB Technical Bulletins, and GASB Implementation Guides potentially could result in expanding the roles of GASB Technical Bulletins and GASB Implementation Guides beyond clarifying, explaining, or elaborating on GASB Statements to addressing 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. Subsequently, it considered whether all of these pronouncements were necessary within the context of one authoritative category of GAAP. The

Board also considered whether the purposes of GASB Technical Bulletins (described in paragraph B8) 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 tentatively concluded during its initial deliberations 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

B12. The Board discussed the effects that establishing a single category of authoritative GAAP would have on AICPA literature. Because AICPA literature is not subject to the 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 outweigh 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.

B13. The Board also discussed the appropriate placement of AICPA literature in the GAAP hierarchy. The Board affirmed 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.

Two Categories of Authoritative GAAP

B14. Based on the conclusions discussed in paragraph B13 with regard to AICPA literature, the Board reconsidered the tentative decision made during its initial deliberations to pursue a single-category approach and concluded that a second category of authoritative literature below the highest category of GAAP (Category B) should be retained in order to allow AICPA literature to remain authoritative and to address the issues associated with GASB Technical Bulletins and GASB Implementation Guides noted above. The Board concluded that the two authoritative categories of GAAP should distinguish guidance that has been approved by the Board from guidance that the Board has not objected to. The categories also should distinguish between guidance that establishes fundamental accounting and financial reporting standards and guidance that is restricted to providing limited clarification of Category A guidance. Based on these conclusions, the Board reconsidered the effects of retaining a Category B on its prior tentative conclusions related to GASB Technical Bulletins and GASB Implementation Guides.

GASB Technical Bulletins

B15. In reconsidering the tentative conclusion in its initial deliberations 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 retain a 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 existing due process requirements for GASB Technical Bulletins should be retained and that the requirement for their issuance should continue to be that a majority of the Board does not object.

GASB Implementation Guides

B16. Within the context of the Board's decision to subject GASB Implementation Guides to broader public exposure, the Board 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 B2. 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 (or GASB Interpretations). Based primarily on the decision to retain a 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 GASB Implementation Guides are better suited to classification in Category B. The Board also concluded that after a period of broad public exposure, the requirement for the issuance of GASB Implementation Guides should continue to be that a majority of the Board does not object.

B17. Some respondents to the Exposure Draft expressed concerns that the due process that would be associated with classifying GASB Implementation Guides in Category B might result in less timely issuance of implementation guidance and would place increased demands on stakeholders. Although the timeline for the issuance of new implementation guidance might be extended because of the change in the due process procedures that will accompany elevating the authoritative status of GASB Implementation Guides in the hierarchy of GAAP and broader public exposure would require stakeholder attention earlier than under former procedures, the Board concluded that the potential increase in the quality of the guidance outweighs those perceived challenges.

B18. Some respondents to the Exposure Draft indicated that, under the current hierarchy, the ability to apply professional judgment to the selection of an accounting treatment for an event that is not addressed in guidance in a higher source of authoritative GAAP enhances the ability of preparers to present information in a manner that provides the most value to the users of financial statements. Those respondents expressed concern that elevating the status of GASB Implementation Guides to Category B in the hierarchy of GAAP would reduce the range of circumstances in which preparers would be permitted to

apply such professional judgment. The Board concluded that the flexibility described by the respondents should continue for transactions that are not addressed in a source of authoritative GAAP, limited by the considerations identified in paragraphs 6–8 of this Statement. However, it concluded that for circumstances that are specifically addressed in a GASB Implementation Guide, it is appropriate to require that the implementation guidance be applied rather than to permit the application of an accounting treatment specified in a source of nonauthoritative accounting literature.

GASB Interpretations

B19. Some respondents to the Exposure Draft suggested that if, in the future, requirements that would have been issued in an Interpretation under the former hierarchy of GAAP will be issued in a GASB Technical Bulletin or a GASB Implementation Guide, it would be most appropriate to classify requirements that are in currently effective GASB Interpretations in Category B. The Board concluded that, regardless of decisions made in the future about the form of document that might be used to issue requirements with characteristics similar to those in currently effective GASB Interpretations, it is preferable to incorporate currently effective Interpretations into the revised hierarchy of GAAP as Category A rather than to lower their authoritative status. The Board reached this conclusion because the requirements in currently effective GASB Interpretations have been subject to due process consistent with that associated with literature classified as Category A under the revised hierarchy and have been relied upon as Category A in the past.

AICPA Literature

B20. Based on the conclusions discussed in paragraphs B13 and B14, and consistent with the proposal put forth in the Exposure Draft, this Statement classifies AICPA literature cleared by the GASB as a source of Category B GAAP. Some respondents to the Exposure Draft, although supportive of the proposal, requested that such AICPA literature be specifically identified in the final Statement. The Board concluded that AICPA literature cleared by the GASB should be identified in the Codification Instructions (Appendix C) of this Statement, as was proposed in the Exposure Draft. The Board also noted that the Codification Instructions presented in the Exposure Draft excluded the criteria from the AICPA Audit and Accounting Guides, *Health Care Entities*, and *State and Local Governments*, that are applied in the determination of whether an entity is “governmental.” Those criteria previously were cleared by the

GASB; therefore, the Board concluded that they should be identified in the Codification Instructions as Category B GAAP. In the Codification Instructions, AICPA literature that has been cleared by the GASB is identified using the date of the most recently cleared edition of the AICPA document (for example, an Auditing and Accounting Guide) that presents the guidance.

Other Considerations Relevant to Authoritative GAAP

B21. The Board discussed the provision in paragraph 3c of Statement 55 that includes in the GAAP hierarchy consensus positions on accounting issues of a group of accountants organized by the GASB for that purpose. 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 were formed in the future, the Board would consider at that time the appropriate place for consensus positions of that group in the GAAP hierarchy.

B22. 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. After considering those factors, 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 prevalent practices should be included as an example of nonauthoritative guidance a government may consider in the absence of authoritative GAAP for a specific transaction or other event.

B23. Some respondents to the Exposure Draft expressed a concern that classifying as nonauthoritative practices that are widely recognized and prevalent in state and local government would result in gaps in the authoritative literature and, potentially, in disagreements over the appropriateness of the use of such practices as the basis for the accounting for transactions or other

events that are not addressed in authoritative literature. The Board believes that, for those events that are not addressed in authoritative literature, such practices—even when classified as nonauthoritative—can continue to inform the selection of accounting treatments. Furthermore, regardless of the classification of such practices, the appropriateness of the selection of such practices as the basis for an accounting treatment would be a consideration in situations in which Category A or Category B literature is not relevant.

B24. Other respondents to the Exposure Draft requested that this Statement specify that a governmental entity should not follow an accounting treatment identified in nonauthoritative literature that would render the financial statements misleading. The Board concluded that this Statement should not include the suggested prohibition because adherence to such a criterion cannot objectively be evaluated.

B25. In considering the sources of authoritative GAAP and the means of communicating authoritative guidance, the Board concluded that the Codification should be retained. The respective authoritative sections of the Codification have equal standing with Category A and Category B literature, as defined in this Statement.

Nonauthoritative Accounting Literature

B26. 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, whereas 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. 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. Further, GASB Concepts Statements are subject to the same due process procedures as GASB Statements, which are a source of Category A guidance. Therefore, the Board also concluded that GASB Concepts Statements should be considered when evaluating guidance provided in other nonauthoritative literature.

B27. 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 emphasizing this preference would encourage more consistency in the consideration of analogies to authoritative literature when selecting an accounting treatment in the absence of authoritative GAAP for a transaction or other event. In that circumstance, this Statement allows for the application of professional judgment, which appropriately would include consideration of whether the characteristics of an event for which the accounting treatment is not specified in authoritative GAAP are sufficiently similar to an event for which there is authoritative GAAP to appropriately apply that authoritative literature by analogy.

B28. In addition to discussions on the role of practices widely recognized and prevalent in state and local governments (described in paragraph B22), 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.

Considerations Related to Benefits and Costs

B29. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that standards address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B30. Present and potential users are the primary beneficiaries of improvements in financial reporting. Individuals within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is

collected and reported in conformity with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze information to inform their assessments and decisions.

B31. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to measure accurately the costs of implementing new standards until implementation has actually taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B32. The Board believes the requirements of this Statement will enhance comparability of financial statements among governments through more uniform application of accounting and financial reporting standards. For example, as a result of raising the authoritative status of GASB Implementation Guides and classifying widely recognized and prevalent practices in state and local government as a nonauthoritative source of accounting literature, the comparability of financial statement information will be improved—and, generally, costs to users of that information reduced—because prevalent practices will be used less frequently as the basis for the selection of different accounting treatments for the same types of transactions by different governments. In addition, the Board believes that the opportunity for additional stakeholder involvement prior to issuance of implementation guidance will strengthen that guidance. Some governments will incur additional costs, primarily in the initial year of implementation of this Statement, as a result of elevating GASB Implementation Guides to Category B in the GAAP hierarchy and establishing a framework for the selection of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP, particularly when the accounting treatment for an event is not specified in authoritative GAAP. On balance, the Board believes that the benefits of this Statement will exceed those costs.

Effective Date and Transition

B33. This Statement is effective for periods beginning after June 15, 2015. The Board believes that this effective date 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. 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 the Category B Implementation Guide, which presents the existing body of GASB implementation guidance and was exposed for broad public comment at the same time as the Exposure Draft of this Statement, will not be immediately available after issuance of this Statement.

Appendix C

CODIFICATION INSTRUCTIONS

C1. The sections that follow update the June 30, 2014 *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

Sources: GASB Statement 76, AICPA Audit and Accounting Guide: State and Local Governments—2002, AICPA Audit and Accounting Guide: Health Care Entities—2011

.101–.105 [GASBS 76, ¶4–¶8, including footnotes; replace *Statement* with *section* and update cross-references. In footnote 1, replace *currently in effect* with *in effect as of June 2, 2015*.]

[Insert new paragraph .801, as follows:]

AICPA LITERATURE CLEARED BY THE GASB

Definition of Government

.801 Public corporations⁴ and bodies corporate and politic [are governmental entities]. Other entities are governmental entities if they have one or more of the following characteristics:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the entity’s governing body by officials of one or more state or local governments

- The potential for unilateral dissolution by a government with the net assets reverting to a government
- The power to enact and enforce a tax levy.

Furthermore, entities are presumed to be governmental if they have the ability to issue directly (rather than through a state or municipal authority) debt that pays interest exempt from federal taxation. However, entities possessing only that ability (to issue tax-exempt debt) and none of the other governmental characteristics may rebut the presumption that they are governmental if their determination is supported by compelling, relevant evidence. [AICPA SLG 2002, ¶1.01; AICPA HCE 2011, ¶1.08]

⁴*Black's Law Dictionary* defines a *public corporation* as: "An artificial person (for example, [a] municipality or a governmental corporation) created for the administration of public affairs. Unlike a private corporation it has no protection against legislative acts altering or even repealing its charter. Instrumentalities created by [the] state, formed and owned by it in [the] public interest, supported in whole or part by public funds, and governed by managers deriving their authority from [the] state." *Sharon Realty Co. v. Westlake, Ohio Com. Pl.*, 188 N.E.2d 318, 323, 25, O.O.2d 322. A public corporation is an instrumentality of the state, founded and owned in the public interest, supported by public funds and governed by those deriving their authority from the state. *York County Fair Ass'n v. South Carolina Tax Commission*, 249 S.C. 337, 154 S.E.2d 361, 362. [AICPA SLG 2002, ¶1.01, fn4]

* * *

REPORTING CAPITAL ASSETS

SECTION 1400

Sources: [Add the following:] AICPA Audit and Accounting Guide: Gaming—
2011

[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 2011, ¶12.14]

.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 2011, ¶12.15]

.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 2011, ¶12.16]

* * *

REPORTING LIABILITIES

SECTION 1500

Sources: [Add the following:] AICPA Audit and Accounting Guide: State and Local Governments—2002

[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 2002, ¶5.06]

.802 [Insert current paragraph .603, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2002, ¶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 Audit and Accounting Guide: State and Local Governments—2002

[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 2002, ¶11.16 and ¶14.56, fn19]

* * *

CLASSIFICATION AND TERMINOLOGY

SECTION 1800

Sources: [Add the following:] AICPA Audit and Accounting Guide: State and Local Governments—2002

[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; put brackets around *economic resources measurement focus*.] [AICPA SLG 2002, ¶5.26]

.802 [Insert the second paragraph of current paragraph .601, put brackets around the following: *current financial resources measurement focus (like governmental fund-level financial statements) and economic resources measurement focus (like proprietary and fiduciary fund-level financial statements and government-wide financial statements)*.] [AICPA SLG 2002, ¶5.26]

.803 [Insert current paragraph .602, including related paragraph heading and omitting lead-in sentence; put brackets around the following: *If the government has, should be reported, and for this amount.*] [AICPA SLG 2002, ¶5.28]

.804 [Insert current paragraph .603, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2002, ¶6.73 and ¶12.70]

* * *

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 Audit and Accounting Guide: State and Local Governments—2002

[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 and brackets.] [AICPA SLG 2002, ¶6.73 and ¶12.70]

* * *

ADDITIONAL FINANCIAL REPORTING CONSIDERATIONS SECTION 2250

.127 [Replace *of the GASB specifies its effective date and the manner of reporting a change to conform with the conclusions of that pronouncement. Other pronouncements of the GASB or other designated bodies as described in categories (b)–(d) with in Category B.*] [GASBS 62, ¶64, as amended by GASBS 76, ¶4]

.137 [Replace *categories (a)–(d) with Category A and Category B.*] [GASBS 62, ¶74, as amended by GASBS 65, ¶31 and GASBS 76, ¶4]

.145 [Replace *AICPA Statement of Position or Practice Bulletin with AICPA literature cleared by the GASB.*] [GASBS 62, ¶82, as amended by GASBS 76, ¶4]

* * *

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

Sources: [Add the following:] AICPA Audit and Accounting Guide: State and Local Governments—2002

[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 .601, including related paragraph heading and 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 2002, ¶8.82]

.802 [Insert current paragraph .602, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2002, ¶11.16 and ¶14.56, fn19]

* * *

BUDGETARY REPORTING

SECTION 2400

Sources: [Add the following:] AICPA Audit and Accounting Guide: State and Local Governments—2002

[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 2002, ¶11.16 and ¶14.56, fn19]

* * *

**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 Audit and Accounting Guide: State and Local Governments—2002

[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; replace *The authority* with *[A finance authority that finances capital assets and is not directly involved in either purchasing or constructing the assets or repaying the debt].*] [AICPA SLG 2002, ¶12.31]

* * *

DEBT EXTINGUISHMENTS AND TROUBLED DEBT RESTRUCTURINGS

SECTION D20

Sources: [Add the following:] AICPA Audit and Accounting Guide: State and Local Governments—2002

[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; replace *Payments* with *[For current refundings that defease general long-term debt, p]ayments.*] [AICPA SLG 2002, ¶8.80]

* * *

NONEXCHANGE TRANSACTIONS

SECTION N50

Sources: [Add the following:] AICPA Audit and Accounting Guide: State and Local Governments—2002

[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 2002, ¶18.34]

.802 [Insert current paragraph .603, including related paragraph heading and omitting lead-in sentence; replace *also* with [. . .].] [AICPA SLG 2002, ¶16.73 and ¶12.70]

* * *

**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

* * *

**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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POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS—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 and Accounting Guide: Health
Care Entities—2011
AICPA Audit and Accounting Guide: Gaming—2011
AICPA Audit and Accounting Guide: State and Local Govern-
ments—2002

[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 2011, ¶15.71]

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 2011, ¶15.109]

.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 2011, ¶15.112]

.804 [Insert current paragraph .602, including related paragraph heading and omitting lead-in sentence and brackets.] [AICPA SLG 2002, ¶6.73 and ¶12.70]

.805 [Insert current paragraph .603, including related paragraph heading and omitting lead-in sentence; replace *The authority* with *[A finance authority that finances capital assets and is not directly involved in either purchasing or constructing the assets or repaying the debt].*] [AICPA SLG 2002, ¶12.31]

.806 [Insert current paragraph .604, including related paragraph heading and omitting lead-in sentence.] [AICPA SLG 2002, ¶8.54]

Reporting by Lotteries

.807 Lottery prize costs normally should be accrued based on a percentage of ticket sales revenues. [AICPA SLG 2002, ¶12.104]

.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 2002, ¶12.105]

.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 2002, ¶12.105]

.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 2002, ¶12.106]

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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶3.07 and ¶3.07, 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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶3.13]

* * *

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 Statement of Position 98-2 (SOP 98-2)

[Delete current paragraph .601 and related headings.]

[Insert new paragraphs .801–.814, 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.]

.814 The following paragraph contains the definition of terms *as they are used in paragraphs .801–.813 of this section*; the terms may have a different meaning in other contexts.

.814-1–.814-11 [Insert glossary definitions from AICPA SOP 98-2, ¶.30; add AICPA SOP 98-2, ¶.30 as a source.]

* * *

HOSPITALS AND OTHER HEALTHCARE PROVIDERS

SECTION Ho5

Sources: [Add the following:] AICPA Audit and Accounting Guide: Health Care Entities—2011
AICPA Statement of Position 98-2

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

[Insert new paragraphs .801–.817, 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 2011, ¶15.109]

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 2011, ¶15.112]

.803 [Governmental health care entities are required to disclose m]anagement’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 2011, ¶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.]

.817 The following paragraph contains the definition of terms *as they are used in paragraphs .801–.816 of this section*; the terms may have a different meaning in other contexts.

.817-1–.817-11 [Insert glossary definitions from AICPA SOP 98-2, ¶.30; add AICPA SOP 98-2, ¶.30 as a source.]

* * *

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

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SPECIAL-PURPOSE GOVERNMENTS

SECTION Sp20

Sources: [Add the following:] AICPA Audit and Accounting Guide: Gaming—
2011
AICPA Audit and Accounting Guide: State and Local Govern-
ments—2002

[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 2002, ¶12.104]

.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 2002, ¶12.105]

.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 2002, ¶12.105]

.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 2002, ¶12.106]

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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶3.07 and ¶3.07, 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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶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 2011, ¶3.13]

* * *

UTILITIES

SECTION Ut5

Sources: [Add the following:] AICPA Audit and Accounting Guide: State and Local Governments—2002

[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 2002, ¶8.54]

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