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Governmental Accounting Standards Board Statements No. 55-59

By:
Rich Kikuchi, CPA



GASB Statement No. 55

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

Issued and effective March 2009



Summary

The objective of this statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature.

The GASB is responsible for establishing GAAP for state and local governments. However, the current GAAP hierarchy is set forth in the AICPA SAS No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*.

This GASB makes SAS No. 69 applicable to state and local governments. It essentially applies to the financial statements of all State and local governments that are presented in conformity with GAAP.



Required Hierarchy

GASB 55 lists the order of priority of pronouncements that a governmental entity should look to for accounting and financial reporting guidance



Required Hierarchy

1. **GASB Standards and Interpretations**
2. **GASB Technical Bulletins, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position**
 - The AICPA guides and statements of position are only applicable to state and local governments if they are cleared by GASB
3. **AICPA Practice Bulletins** (only if cleared by GASB)
4. **Implementation Guides** (Q&A) published by GASB staff

If the accounting treatment for a transaction or other event is not specified in category (1), then the government entity should consider the accounting treatments specified by the accounting principle in from the source in the highest category with (1) being the highest and (4) being the lowest.



Required Hierarchy

If the accounting treatment is not specified in (1) through (4) above, the government entity should consider accounting principles for similar transactions or other events within categories (1) through (4) and may consider other accounting literature.

- a. GASB Concept Statements
- b. The pronouncements referred to in (1) through (4) of the GAAP hierarchy for nongovernmental entities if not specifically made applicable to state and local governmental entities by the GASB
- c. Financial Accounting Standards Advisory Board (FASAB) Statements, Interpretations, Technical Bulletins, and Concepts Statements
- d. AICPA Issues Papers
- e. International Public Sector Accounting Standards Board or International Financial Reporting Standards of the International Accounting Standards Board or pronouncements of other professional associations or regulatory agencies
- f. Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids
- g. Accounting textbooks, handbooks and articles



Purpose

This pronouncement is meant to give guidance to the preparers of financial statements and accounting professionals.

The Board does not expect that this statement will change current practice.



GASB Statement No. 56

The Codification of Accounting and Financial Reporting Guidance

Issued and effective March 2009



Summary

The objective of this statement is primarily to incorporate, into the GASB standards, the existing guidance for:

- Related party transactions
- Going concern considerations
- Subsequent events



Related Party Transactions

State and local governments are required to **disclose** certain related party transactions.



Related Party Transactions

1. Form-over-Substance condition

If the substance of a particular transaction is significantly different from its form because of the involvement of related parties, **financial statements should recognize the substance of the transaction rather than merely its legal form.**

ex. Borrowing or lending on an interest-free basis, selling real estate at a price significantly different from market price, etc.

2. A good rule of thumb when determining whether a transaction is a related party transaction: would the transaction, as such, have taken place if the parties had not been related?

Subsequent Events

Events or transactions that affect the financial statements sometimes occur subsequent to the statement of net assets date but before financial statements are issued.

Some of those transactions and events (referred to as *recognized events*) require **adjustments** to the financial statements while others (referred to as *nonrecognized events*) may require **disclosure** in the notes to the financial statements.



Subsequent Events

1. Recognized events

- a. Recognized events are those events that provide additional evidence to conditions that **existed** at the date of the statement of net assets and affect the estimates inherent in the process of preparing financial statements.
- b. All information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. **The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence.**

2. Nonrecognized events

- a. Nonrecognized events are those events that provide additional evidence to conditions that **did not exist** at the date of the statement of net assets. The events existed subsequent to that date.
- b. These events should not result in adjustment of the financial statements. However, the disclosure **of these events in the notes to the financial statements** may be essential to the user's understanding of the financial statements. (*ex. issuance of bonds, loss of governmental facility, or creation of new component unit*)

Subsequent Events

3. Conditions that exist over a long period of time can be considered recognized events (*ex. settlement of estimated liability*) and conditions that are new should not be considered recognized events (*ex. change in market price of securities*).
4. Significant subsequent events may be included in the management's discussion and analysis (MD&A).



Going Concern Considerations

1. Financial statement preparers have a responsibility to evaluate whether there is substantial doubt about a government's ability to continue as a going concern for 12 months beyond the financial statement date.
2. Indicators that there may be substantial doubt include:
 - a. Negative trends – recurring periods where expenditures exceed revenues
 - b. Financial difficulties – default on bonds or loans, restructuring of debt other than refunding, noncompliance with statutory capital or reserve requirements
 - c. Internal matters – work stoppages, labor difficulties, etc.
 - d. External matters – legal proceedings, matters that might jeopardize intergovernmental revenues



Purpose

The requirements of this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of Generally Accepted Accounting Principles relevant to State and Local governments so that they derive from a single source.



GASB Statement No. 57

OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans

The provisions related to the use and reporting of the alternative measurement method are effective Dec 2009.

The provisions related to the frequency and timing of measurements—for actuarial valuations first used to report funded status information in OPEB plan financial statements is for periods beginning after June 15, 2011.



Summary

GASB 57 is an amendment to GASB 45

The objective of the Statement is to address issues related to the:

- **Use of the alternative measurement method** and,
- **The frequency and timing of measurements** by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans



Use of the Alternative Method

GASB 57 now permits an agent employer with less than 100 total plan members to use, at its option, the Alternative Method.

Consistent with this change, GASB 43 has also been amended to allow the Alternative Method by reporting an aggregation of results of actuarial valuations and measurements resulting from the Alternative Method.



Frequency and Timing of Measurements

Other highlights include:

- The Agent employer should obtain actuarial valuations (including using the Alternative Method) at least as frequently as is required for the agent multiple-employer OPEB plan in which it participates, and
- The agent multiple-employer OPEB plan and each of its participating employers should obtain actuarial valuations as of the same actuarial valuation date.



Benefits

- Allows more agent employers to use the alternative measurement method
- Cost of compliance with GASB Statement 45 may be reduced
- Common dates will improve the consistency and quality of reporting



GASB Statement No. 58

Accounting and Financial Reporting for Chapter 9 Bankruptcies

Effective for periods beginning after
June 15, 2009



Summary

The requirements of this statement is to:

- Provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy code



Key Points

- Requires governments to remeasure liabilities that are adjusted in bankruptcy when the court confirms a new payment plan
- Governments should disclose, in their financial statements:
 - Pertinent conditions and events
 - Expected or known effects of conditions

Prior to GASB 58, there was no authoritative accounting and financial reporting guidance for governments filing for bankruptcy.



GASB Statement No. 59

Financial Instrument Omnibus

Effective for periods beginning after
June 15, 2009



Summary

The requirements of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.



Key Highlights

National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, regarding certain financial guarantees.



Key Highlights

Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, are amended to remove the fair value exemption for unallocated insurance contracts.

The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.



Key Highlights

Statement 31, is clarified to indicate that a 2a7-like pool, as described in Statement 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.



Key Highlights

Statement No. 40, *Deposit and Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool.



Key Highlights

Statement 53 is amended to:

- Clarify that the net settlement characteristic of Statement 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance
- Provide that financial guarantee contracts included in the scope of Statement 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit
- Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement 53
- Provide that one of the “leveraged yield” criteria of Statement 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield



Benefits

The requirements of this Statement will improve financial reporting by:

- Providing more complete information
- Improving consistency of measurements
- Providing clarification of existing standards