



## University of California

### **Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***

Issued: June 2015

#### **Issues Resolution Memo No. 76-1**

Evaluation of GASB Statement No. 76 as it Relates to the UC Reporting Entities

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### **BACKGROUND**

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was adopted by the University beginning July 1, 2015. This Statement establishes the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and 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. 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.

### **DEFINE ISSUES**

The University must determine whether GASB Statement No. 76 changes any existing financial reporting and disclosure requirements for any of the University's financial reporting entities, including:

- Campus foundations
- University of California Retirement System
- Medical centers – separate financial statement reports issued for credit purposes

### **AUTHORITATIVE GUIDANCE AND APPROACH**

GASB Statement No. 76, paragraph 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)
- b) GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (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."



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GASB Statement No. 76, note 1 in paragraph 4, states “All 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. Categories 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.”

GASB Statement No. 76, paragraph 6, states “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 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.”

### IMPLEMENTATION

Prior to Statement No. 76, the GAAP hierarchy followed by the University was set forth in GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GASB Statement No.76 reduces the GAAP hierarchy to two categories from the four categories approved in GASB Statement No.55. GASB Statement No. 76 no longer recognizes any future GASB Interpretations as accepted accounting and financial reporting guidance. However, according to GASB Statement No. 76, note in paragraph 4, GASB Interpretations currently issued are in force until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements. Additionally, GASB Statement No. 76 no longer considers consensus positions as a source of generally accepted accounting principles. Historically, The University has not followed consensus positions as a source of reporting guidance.

GASB Statement No. 76 also amends GASB Statement No. 62, paragraph 64, 74, and 82, by updating those paragraphs with the hierarchical categories as defined in GASB Statement No. 76, paragraph 4. As the impact of the updated hierarchical categories defined in Statement No. 76 was assessed by The University in the above paragraph, the amendments made to GASB Statement No.62 create no additional need for assessment by the University.



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#### **CONCLUSION:**

In practice, implementation of GASB Statement No. 76 has no effect on the financial statements for the year ended June 30, 2016 or going forward. The University will continue to assess future impacts to the financial statements.