

2012

GOVERNMENTAL
GAAP
GUIDE

For State and Local Governments

ERIC S. BERMAN



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2012

**GOVERNMENTAL GAAP GUIDE
FOR STATE AND LOCAL GOVERNMENTS**

ERIC S. BERMAN, CPA



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Governmental GAAP Guide

By Eric S. Berman, CPA

Highlights

Financial professionals who work with state and local governments must stay current with emerging governmental standards or face unfortunate consequences. This one-of-a-kind tool discusses all the promulgated principles that are applicable to accounting and financial reporting by state and local governments. CCH's *Governmental GAAP Guide* delivers a thorough analysis of GASB Statements, GASB Interpretations, GASB Technical Bulletins, NCGA Statements, NCGA Interpretations, and certain AICPA Audit and Accounting Guides. Everything is analyzed and restated in plain English and is supported by timesaving examples and illustrations.

2012 Edition

To assist preparers and auditors in meeting the requirements of generally accepted accounting principles, the 2012 edition of CCH's *Governmental GAAP Guide* includes an updated comprehensive financial statement presentation and disclosure checklist, complete with cross-references to the applicable professional standards, and a series of practice alerts for pending GASB projects and recently issued GASB pronouncements. This edition of the *Governmental GAAP Guide* has been updated throughout with the very latest information on:

- GASB-62 (Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements)
- GASB-61 (The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34)
- GASB-60 (Accounting and Financial Reporting for Service Concession Arrangements)

Other pronouncements that are being implemented in fiscal years beginning after June 15, 2010, that are also discussed in this edition include the following:

- GASB-59 (Financial Instruments Omnibus)
- GASB-57 (OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans)

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The Government Library also offers in-depth, interpretive guidance. Users can access our government titles that include the *Governmental GAAP Guide*, *Governmental GAAP Practice Manual*, *Knowledge-Based Audits™ of State and Local Governments with Single Audits*, and the *Governmental GAAP Update Service*.

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Our Peer Review Policy

Thank you for ordering the 2012 *Governmental GAAP Guide*. Each year we bring you the best engagement guides available, with accompanying electronic workpapers and practice aids. To confirm the technical accuracy and quality control of our materials, CCH voluntarily submitted to a peer review of our publishing system and our publications (see the Peer Review Statement on the following page).

In addition to peer review, our publications undergo strict technical and content reviews by qualified practitioners. This ensures that our books, workpapers, and practice aids meet real world standards and applicability.

Our publications are reviewed every step of the way—from conception to production—to ensure that we bring you the finest guides on the market.

Updated annually, peer reviewed, technically accurate, convenient and practical—CCH's 2012 *Governmental GAAP Guide* shows our commitment to creating books and workpapers you can trust.



Caldwell, Becker, Dervin, Petrick & Co., L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

July 31, 2008

Executive Board
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We have reviewed the system of quality control for the development and maintenance of Governmental GAAP Guide (2009 Edition), of CCH, a Wolters Kluwer business (the company), applicable to non-SEC issuers in effect for the year ended July 31, 2008, and the resultant materials in effect at July 31, 2008. The design of the system, and compliance with it, are the responsibilities of the company. Our responsibility is to express an opinion on the design of the system, and the company's compliance with that system based on our review.

Our review was conducted in accordance with the standards for reviews of quality control materials promulgated by the Peer Review Committee of the Center for Public Company Audit Firms of the American Institute of Certified Public Accountants. In performing our review, we have given consideration to the following general characteristics of a system of quality control. A company's system for the development and maintenance of quality control materials encompasses its organizational structure and the policies and procedures established to provide the users of its materials with reasonable assurance that the quality control materials are reliable aids to assist them in conforming with professional standards in conducting their accounting and auditing practices. The extent of a company's quality control policies and procedures for the development and maintenance of quality control materials and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the company and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible.

Our review and tests were limited to the system of quality control for the development and maintenance of the aforementioned quality control materials of CCH and to the materials themselves and did not extend to the application of these materials by users of the materials nor to the policies and procedures of individual users.

In our opinion, the system of quality control for the development and maintenance of the quality control materials of CCH was suitably designed and was being complied with during the year ended July 31, 2008, to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards in the United States of America applicable to non-SEC issuers. Also, in our opinion, the quality control materials referred to above are reliable aids at July 31, 2008.

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Preface

Integrated Approach to Governmental Financial Reporting

Governmental Accounting Standards Board Statement No. 34 (GASB-34) (Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments) and GASB-35 (Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities) serve as the primary guidance for those who prepare, audit, and use government financial reports. In addition, the GASB continues to work on the further development and clarification of other accounting standards for state and local government entities. CCH’s *Governmental GAAP Guide* provides interpretive guidance on the application of the core principles of generally accepted accounting principles (GAAP), and the other accounting and financial reporting pronouncements applicable to state and local governments.

New Pronouncements and Outstanding Exposure Drafts

Updated annually, the GASB’s *Comprehensive Implementation Guide* was developed by GASB staff to assist financial statement preparers and attestors in the implementation and application of a number of GASB pronouncements. Included in this edition are changes, included in the GASB’s 2010–2011 guide as well as the supplement issued in March of 2011.

The AICPA issues two annually updated guides that provide guidance for state and local governments and their auditors. The AICPA Audit and Accounting Guide *State and Local Governments* presents recommendations of the AICPA State and Local Government Audit Guide Revision Task Force on the application of generally accepted auditing standards to audits of financial statements of state and local governments.

The second guide, AICPA Audit Guide *Government Auditing Standards and OMB Circular A-133* presents recommendations of the AICPA State and Local Government Audit Guide Revision Task Force on the application of generally accepted government auditing standards (GAGAS) to audits of financial statements of state and local governments, and audits of compliance with major federal award programs under the Single Audit Act of 1996, as amended. As of the publication date of this edition of CCH’s *Governmental GAAP Guide*, the AICPA had issued the March 1, 2011 edition of *State and Local Governments*, but not yet issued the 2011 edition of *Government Auditing Standards and OMB Circular A-133*. The following GASB pronouncements, issued in 2010 and 2011, are discussed in the present edition:

- GASB-59 (Financial Instruments Omnibus)
- GASB-60 (Accounting and Financial Reporting for Service Concession Arrangements)
- GASB-61 (The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34)

- GASB-62 (Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements)

Other pronouncements being implemented in fiscal years beginning after June 15, 2009, that are also discussed in this edition include the following:

- GASB-57 (OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans)
- GASB-59 (Financial Instruments Omnibus)

At the time of this publication, the following were outstanding GASB exposure drafts, preliminary views, and other proposal documents:

- Pension Accounting and Financial Reporting by Employers (Preliminary Views), comments were due September 17, 2010.
- Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (comments were due February 25, 2011).
- Derivative Instruments: Application of Hedge Accounting Termination Provisions—an Amendment of GASB Statement No. 53 (comments were due April 15, 2011).

Implementation Dates

Certain new GASB pronouncements (and provisions within existing pronouncements) have 2011 and 2012 implementation dates. In an effort to provide financial statement preparers and auditors with timely reminders, summarized here are pronouncements and provisions and their implementation dates:

- *GASB-57 (OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans)* Certain provisions relating to the use of and reporting on the alternative measurement method became effective upon issuance in December 2009. Other provisions, related to the frequency and timing of other postemployment benefit plans, are effective for actuarial valuations first used to report funded-status information in plan financial statements for periods beginning after June 15, 2011 and June 15, 2012.
- *GASB-59 (Financial Instruments Omnibus)* is effective for periods beginning after June 15, 2010.
- *GASB-60 (Accounting and Financial Reporting for Service Concession Arrangements)* is effective for periods beginning after December 15, 2011.
- *GASB-61 (The Financial Reporting Entity: Omnibus—an Amendment of GASB Statements No. 14 and No. 34)* is effective for periods beginning after June 15, 2012.
- *GASB-62 (Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements)* is effective for periods beginning after December 15, 2011.

Exposure drafts, preliminary views, and proposals outstanding have proposed implementation dates as follows:

- *Pension Accounting and Financial Reporting by Employers* has no implementation date as of yet, but according to the GASB's latest technical plan it has a projected implementation date sometime in 2013.

How to Use CCH's *Governmental GAAP Guide*

CCH's *Governmental GAAP Guide* is a single reference that discusses all of the promulgated accounting principles applicable to financial reporting by state and local governments that are in use today: GASB Statements, GASB Interpretations, GASB Technical Bulletins, NCGA Statements, and NCGA Interpretations. These original pronouncements have been analyzed and are restated in straightforward language to allow preparers and auditors of governmental financial statements to better understand the original promulgations. To facilitate research, major topics in the text are cross-referenced to the pertinent paragraphs of the original pronouncements. Illustrations, figures, and paragraphs called "Observations" demonstrate and clarify specific accounting principles.

The *Governmental GAAP Guide* alerts readers to and discusses financial accounting and reporting standards necessary to prepare the basic external financial statements of a governmental entity. A companion text, CCH's *Governmental GAAP Practice Manual*, illustrates how governmental financial statements are prepared based on the standards established by GASB-34 and beyond.

Acknowledgments

The preparation of this book was made possible by the efforts of a number of dedicated people. My thanks to Tony Powell for his editing and attention to detail and John “Jack” F. Georger, Jr., Pritchard Osborne, LLC, Clayton, Mo., for his technical review of this *Guide*.

Although other individuals played an important role in the preparation of CCH’s *Governmental GAAP Guide*, any errors or omissions are the responsibility of the author. The *Governmental GAAP Guide* continues to evolve as new pronouncements are issued and as we strive to better explain governmental accounting and reporting standards. If you have suggestions you believe will improve the quality of the material, please send them to the editor:

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I. BASIC GOVERNMENTAL ACCOUNTING CONCEPTS AND STANDARDS

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CHAPTER 1

FOUNDATION AND OVERVIEW OF GOVERNMENTAL GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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INTRODUCTION

Accounting Principles Board Statement No. 4 (APB-4) (Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises) defines “generally accepted accounting principles” (GAAP) as conventions, rules, and procedures necessary to describe accepted accounting practice at a particular time. The importance of reporting entities following generally accepted accounting principles in the preparation of their financial statements is embodied in Rule 203 (Accounting Principles) of the AICPA’s Code of Professional Conduct, which states:

A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

The AICPA Council has designated the Financial Accounting Standards Board (FASB) as the body to establish accounting principles for both for-profit and not-for-profit organizations, the Governmental Accounting Standards Board (GASB) as the body to establish accounting principles for state and local governments, and the Federal Accounting Standards Advisory Board (FASAB) as the body to establish accounting principles for the federal government (APB-4, par. 138; AICPA Code of Professional Conduct, Rule 203).

The Financial Accounting Foundation (FAF) has agreed that the GASB has the authority to issue generally accepted accounting principles for state and local governmental units. Thus, the GASB establishes accounting principles for state and local governments, and the FASB establishes accounting principles for all other reporting entities, including not-for-profit organizations other than state and local governments.

Although not recognized as a standard setter for accounting principles generally accepted in the United States of America, the International Public Sector Accounting Standards Board (IPSASB) focuses on accounting and financial reporting needs of governmental entities at an international level. The IPSASB issues and promotes benchmark guidance and facilitates the exchange of information among governmental accountants and their organizations through the issuance of International Public Sector Accounting Standards (IPSAS) and related guidance. A key part of the IPSASB’s strategy is to ultimately converge the IPSASs with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). However, at the present time there are no discussions under way to converge the accounting principles