



North Carolina Office of the State Controller

Financial Reporting Update

GASB 76 Effective for FY 2016

February 5, 2016

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76), which simplifies the structure of the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy sets forth what constitutes GAAP for all state and local governments. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply.

This Statement replaces the current four-level GAAP hierarchy with a new two-level hierarchy of authoritative sources. In doing so, it elevates the GASB's Implementation Guides to authoritative status, meaning that any future implementation guidance will be subject to full due-process prior to release. GASB 76 also 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, which has the same title. GASB 76 is effective for reporting periods beginning after June 15, 2015 (i.e., the fiscal year ending June 30, 2016), and should be applied retroactively.

The sources of authoritative GAAP are categorized in descending order of authority as follows:

- **Category A** — Establishes fundamental accounting and financial reporting standards and guidance (*a majority of Board members must approve the issuance of guidance on this level*):
 - GASB Statements
 - GASB Interpretations previously issued and currently in effect (Note: the GASB will no longer issue Interpretations)
- **Category B** — Restricted to providing limited clarification of Category A guidance (*a majority of Board members must not object to the issuance of guidance on this level*):
 - GASB Technical Bulletins
 - GASB Implementation Guides
 - Literature of the AICPA cleared by the GASB

(Note: Guidance in both authoritative levels would need to follow a period of broad public exposure.)

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. Authoritative GAAP (Category A and B) 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. (Note: Release of the latest edition of the Codification has been delayed until March 2016. This delay results from the need to extensively revise the Codification to conform to the simplified structure of the GAAP hierarchy as defined by GASB 76.)



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If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP (Category A and B), a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP (Category A and B) and then may consider nonauthoritative accounting literature from other sources.

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;
- AICPA literature not cleared by 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.

To gain additional understanding of GASB 76, please refer to the following resources:

- The GASB webpage from which you may access a PDF file of GASB 76 as well as other GASB pronouncements – [GASB Pronouncements](#)
- GASB News Release – [GASB Simplifies GAAP Hierarchy for State and Local Governments](#)

Thank you for your time and attention to this important change. Questions regarding this specific update should be directed to Clayton Murphy at 919-707-0525 (clayton.murphy@osc.nc.gov).