



August 6, 2009

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: AICPA Omnibus – **TAB A**<sup>1</sup>

## **OBJECTIVES**

The objectives are to review the attached draft exposure draft (ED) and provide staff with direction on issues identified for discussion. The draft ED incorporates accounting and financial reporting guidance discussed in the American Institute of Certified Public Accountant's (AICPA) professional auditing standards regarding related party transactions and subsequent events.

## **BRIEFING MATERIALS**

This transmittal memorandum includes a discussion of issues and recommendations beginning at page 2 and the following attachments:

- Attachment 1 - Draft ED
- Attachment 2 - Governmental Accounting Standards Board (GASB) Statement 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.*

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

## **BACKGROUND**

During the June 2009 meeting, the FASAB discussed an initial draft ED that proposed to adopt three accounting and financial reporting topics from the AICPA professional auditing standards - related party transactions, subsequent events, and consideration of an entity's ability to continue as a going concern (going concern). At that time, the draft ED only discussed subsequent events and going concern and staff planned to present a related party transactions discussion at the August 2009 meeting. The FASAB determined that the transition from the auditing literature to the accounting and financial reporting standards should not result in a change in practice. Accordingly, the FASAB intended to adopt accounting and financial reporting requirements essentially as they existed in the AICPA's professional literature.

In discussing the topics to be included in the ED, the Board believed that the subsequent events literature could be adopted essentially as it existed in the auditing standards. However, regarding going concern, the Board decided to exclude this topic from the ED. The Board has developed a draft standard for long-term fiscal sustainability reporting and an objective of the standard is to help provide users with information to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. The Board will consider the need for additional guidance in the future and the basis for conclusions section of the ED will discuss these reasons for excluding the going concern guidance.

## **RELATED PARTIES**

The initial plan for the project was to incorporate guidance from the AICPA auditing literature concerning related parties. The auditing literature for related parties discusses *indicators* of related party relationships rather than disclosure requirements. The indicators are intended to assist auditors in identifying related party relationships and transactions and assessing related party disclosures required by the Financial Accounting Standards Board's (FASB) financial reporting guidance for non-governmental entities.

Guidance that provides indicators of related party relationships may be helpful for federal financial report preparers. Preparers may use the indicators to identify transactions and relationships that could be disclosed in the financial reports and the disclosures would assist readers in understanding the impact of the relationships on the entity's financial report.

However, the indicators in the auditing literature are derived from the FASB definition of related parties for non-governmental entities. To revise the indicators to the federal financial reporting environment, the FASAB would need to develop a definition of related parties for federal reporting entities and developing new guidance is not within the scope of the project. In addition, the FASAB would need to adopt related party disclosure requirements, similar to the FASB, to assist federal financial report users in understanding the impact of the relationships on the entity's financial report.

Consequently, the FASAB could: (1) adopt the AICPA and FASB guidance “as is” and note that the Board has a project on the federal reporting entity and additional guidance may be provided as a result of that project; (2) expand the project to allow for additional research; or (3) add the related parties topic to the Board’s list of future projects. To assist Board members in considering these alternatives, Attachment 1 provides a draft ED that incorporates the AICPA guidance and the definition of related parties presented in the Government Accountability Office and President’s Council on Integrity and Efficiency Financial Audit Manual (FAM) Glossary.<sup>2</sup> The draft ED also includes the FASB disclosure requirements for related parties.

## Discussion

The AICPA literature on related parties is discussed in AU section 334 *Related Parties*. This guidance is intended to assist auditors in identifying related party relationships and transactions and it provides a list of transactions that, because of their nature, may indicate the existence of a related party relationship. Those transactions are as follows:

- Borrowing or lending on an interest-free basis or at a rate of interest significantly above or below market rates prevailing at the time of the transaction.
- Selling real estate at a price that differs significantly from its appraised value.
- Exchanging property for similar property in a nonmonetary transaction.
- Making loans with no scheduled terms for when or how the funds will be repaid.

These indicators of related party relationships consider the definition of related parties as discussed in the accounting literature for non-governmental entities – FASB Statement (FAS) 57, *Related Party Disclosures*. FAS 57 defines related parties as follows:

Affiliates of the enterprise; entities for which investments are accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party **controls** or can **significantly influence** the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can **significantly influence** the management or operating policies of the transacting parties or if it has an **ownership interest** in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. Par. 24.f. [Emphasis added]

The FASB believed that certain relationships between parties may enable one of the parties to influence the other party and cause the influenced party to subordinate its

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<sup>2</sup> Staff used the FAM definition of related parties because this would reflect practices in the federal financial reporting environment.

independent interests. As a result, some transactions would not have occurred if the relationship had not existed.<sup>3</sup> Also, the FASB believed that

...Without disclosure to the contrary, there is a general presumption that transactions reflected in financial statements have been consummated on an arm's-length basis between independent parties. However, that presumption is not justified when related party transactions exist because the requisite conditions of competitive, free-market dealings may not exist. Because it is possible for related party transactions to be arranged to obtain certain results desired by the related parties, the resulting accounting measures may not represent what they usually would be expected to represent. Reduced representational faithfulness and verifiability of amounts used to measure transactions with related parties weaken the reliability of those amounts. That weakness cannot always be cured by reference to market measures because in many cases there may be no arm's-length market in the goods or services that are the subject of the related party transactions.<sup>4</sup>

Thus, the FASB required disclosures about certain control relationships and transactions with related parties to help users of financial statements form predictions and analyze the extent to which those statements may have been affected by that relationship. Those required<sup>5</sup> disclosures are as follows:

- The nature of the relationship(s) involved
- A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements
- The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period
- Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.<sup>6</sup>

In addition, the Board should note that the FASB required disclosure of the nature of the control relationship, even if there were no transactions between the parties. The FASB stated

If the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of that control could result in operating results or financial position of the reporting enterprise significantly different from those that would have been obtained if the enterprises were autonomous, the nature of the control relationship shall be disclosed even though there are no transactions between the enterprises.<sup>7</sup>

However, a definition of related parties has not been developed for the federal government environment and a definition is needed to tailor the AU section 334 list of related party indicators and to develop disclosure requirements to the unique nature of the federal government environment. For instance, the federal government uses a

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<sup>3</sup> Financial Accounting Standards Board Statement (FAS) 57, Related Party Disclosures, par. 13.

<sup>4</sup> Ibid, par. 15

<sup>5</sup> Transactions that are eliminated in the preparation of consolidated or combined financial statements are not required to be disclosed.

<sup>6</sup> FAS 57, par. 2

<sup>7</sup> Ibid, par.4

number of organizations and relationships to carry out public policy functions. These organizations may include federal departments and agencies, and entities that possess legal characteristics of both governmental and private sectors such as federal government-sponsored enterprises, federally funded research and development corporations, agency-related nonprofit organizations, venture capital funds, and congressionally chartered nonprofit organizations.

In addition, to help agencies conduct their missions, Congress passed the Economy Act of 1932 which permits federal agencies to purchase goods or services from other federal agencies or organizational units within the same agency. The purchases are intended to be in the best interest of the government and the agreement must achieve full cost recovery. The Economy Act also does not allow agencies to receive a profit when providing the goods or services.

Moreover, the federal government regulates economic activity such as consumer and environmental protection and influences economic behavior through taxes. For example, a federal tax on an item like a beverage may influence decisions about whether to consume or produce the item. The Board would need to consider these and other issues in determining what relationships require disclosure. Thus a definition is needed to help determine appropriate indicators and disclosure requirements for the federal government environment.

## **Staff Analysis**

Staff proposes the following options for the Board:

- (1) adopt the AICPA and FASB guidance “as is” and note that the Board has a project on the federal reporting entity and additional guidance may be provided as a result of that project;
- (2) expand the project to allow for additional research; or
- (3) add the related parties topic to the Board’s list of future projects.

### Option 1

Regarding Option 1, the Board noted that the auditing standards “drive” some of the current federal financial reporting disclosures and that incorporating existing audit literature would not necessarily impact practice. The Board could proceed with essentially the existing language from the AICPA and FASB and note that the Board has a federal reporting entity project on-going and additional guidance may be provided upon completion of that project. However, considering that related party relationships are not discussed in federal accounting and reporting guidance, incorporating a related party definition, indicators, and disclosure requirements developed primarily for nongovernmental entities may be considered new guidance to preparers and may require changes in current practices and resolving implementation concerns.

For example, the US Department of Agriculture (USDA) has authority to establish national organizations for the generic promotion of and research on agricultural commodities. These entities, organized as boards or councils, promote agricultural products generically rather than by brand name; finance their activities by collecting assessments from producers; and are subject to USDA oversight.<sup>8</sup> However, these entities, such as the Cattlemen’s Beef Promotion and Research Board (Beef Board), National Pork Board, and National Dairy Promotion and Research Board were not discussed in the FY 2008 USDA financial statement disclosures and research would need to be conducted to determine whether the relationships should be disclosed and, if so, the content of the disclosures.

In addition, the Department of Veterans Affairs’ (VA) medical centers have a network of nonprofit research and education corporations (NPC). NPCs were established to “provide flexible funding mechanisms for the administration of funds, other than those appropriated to VA, for the conduct of VA-approved research”<sup>9</sup> and during 2007 there were 83 NPCs in 41 states.<sup>10</sup> However, these entities are not discussed in the VA FY 2008 financial statement disclosures<sup>11</sup> and research would need to be conducted to determine whether the relationships should be disclosed and, if so, the content of the disclosures.

## Option 2

Option 2 affords the Board an opportunity to proceed with the project and deliberate issues such as what types of relationships should be considered related party candidates and their characteristics, differences between the federal reporting environment and the environment for non-governmental entities, the possible impact of the relationships on the financial report, and the expectations of federal financial report users. The project could also benefit from the research being conducted as part of the Entity project. The Entity project is considering the boundaries of the reporting entity and the many unique relationships that exist in the federal government. The related party topic could be incorporated in the entity standard or as a separate standard if necessary. Although this approach would help develop meaningful guidance for the federal financial reporting community, it would require more time than initially intended for the project.

## Option 3

Given the FASAB’s current technical agenda and available resources, staff suggests this option - add the related parties topic to the Board’s list of future projects. As noted earlier, the scope of the project involved incorporating the accounting and reporting

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<sup>8</sup> For example, see the following website: <http://www.beefboard.org/about/RoleofUSDA.asp>.

<sup>9</sup> Department of Veterans Affairs (VA) Affiliated Nonprofit Research and Education Corporations (NPC) 2007 Annual Report with Supporting Financial Documents, p. 3.

<sup>10</sup> Ibid, p. 4.

<sup>11</sup> Improvements needed in the administration of NPC funds were discussed in the “Major Management Challenges Identified by the OIG” section of the VA FY 2008 Performance and Accountability Report.

guidance from the auditing literature without substantial deliberations and changes to the original text. However, to provide meaningful guidance to the federal financial reporting community, the auditing literature would need to be adapted to the federal financial reporting environment and additional guidance such as a definition of related parties and disclosure requirements would need to be developed. Developing additional guidance was not within the scope of the project and additional resources would be required. This approach permits the Board to consider the related party project along with other financial reporting issues at that time and prioritize the most pressing topics to address.

## **SUBSEQUENT EVENTS**

Staff incorporated member comments on the Subsequent Events topic in the revised draft ED, provided in Attachment 1. Primarily, staff grouped similar topics. For instance, staff initially presented guidance regarding recognized and nonrecognized events in a manner to show the contrast between the two areas. However, members believed that this approach affected the flow of the document. Therefore, staff separated the two areas in the revised ED. Also, for consideration, Attachment 2 includes the GASB's standard which incorporates the AICPA subsequent events language.

## **OTHER ISSUES**

1. Are there other issues the Board would like staff to address while developing the ED?

If you have questions or need additional information, please contact Ross at 202-512-2512 or email at [simmsr@fasab.gov](mailto:simmsr@fasab.gov) as soon as possible.

Attachments



Federal Accounting Standards Advisory Board

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**Codification of Certain Accounting and Financial Reporting  
Standards Contained in the AICPA Statements on Auditing  
Standards**

**Statement of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by [60 days after issuance]

**Issuance Date**

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board", Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: [www.fasab.gov](http://www.fasab.gov).

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441 G Street, NW, Suite 6814  
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Federal Accounting Standards Advisory Board

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XX, 2009

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Codification of Certain Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*. Specific questions for your consideration appear on page 6 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by **60 days after issuance**.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6K17V  
441 G Street, NW, Suite 6814  
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. **No hearing has yet been scheduled for this exposure draft.** Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen  
Chairman

## 1 Executive Summary

### 2 What is the Board proposing?

3

4 The objective of this proposed Statement is to incorporate into the authoritative  
 5 literature of the FASAB certain accounting and financial reporting guidance that is  
 6 included in American Institute of Certified Public Accountants' (AICPA) Statements on  
 7 Auditing Standards (SAS). This proposed Statement addresses two issues not included  
 8 in the authoritative literature that establishes accounting principles— related party  
 9 relationships and transactions and subsequent events. The presentation of principles  
 10 used in the preparation of financial statements would be more appropriately included in  
 11 accounting and financial reporting standards than in the auditing literature.

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 13 This proposed Statement does not establish new accounting standards but rather  
 14 incorporates the existing guidance (to the extent appropriate in the federal government  
 15 environment) into the FASAB standards.

### 16 How would this proposal improve federal financial reporting and contribute to 17 meeting the federal financial reporting objectives?

18  
 19 The requirements in this proposed Statement would improve financial reporting by  
 20 bringing the authoritative accounting and financial reporting literature together so that  
 21 they derive from a single source. The guidance would be modified as necessary to  
 22 recognize the unique requirements of the federal government environment and federal  
 23 financial report users.  
 24  
 25

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6K17V  
441 G Street, NW, Suite 6814  
Washington, DC 20548

All responses are requested by [60 days after issuance].

Q1. The Board proposes to incorporate accounting principles regarding related party relationships and transactions, and subsequent events that currently reside in the professional auditing literature into the FASAB's authoritative literature. Do you agree or disagree with the Board's proposal? Please explain the reasons for your position in as much detail as possible.

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Q2. This Exposure Draft (ED) proposes guidance for reporting related party relationships and transactions, (see paragraphs 11 - 11.). Do you agree or disagree with the ED's proposal? Please explain the reasons for your position in as much detail as possible.

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Q3. The ED proposes guidance for subsequent events (see paragraphs 14 - 20). Do you agree or disagree with the ED's proposal? Please explain the reasons for your position in as much detail as possible.

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The ED proposes disclosures if it is determined that there is substantial doubt about an entity's ability to continue as a going concern (see paragraph 22). Do you agree or disagree with the ED's proposal? Please explain the reasons for your position in as much detail as possible?

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**Introduction****Purpose**

1. Certain accounting and financial reporting guidance has been included in SASs of the AICPA. The objective of this Statement is to incorporate that guidance into the financial accounting and reporting standards of the FASAB.

**Materiality**

2. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

**Effective Date**

3. The requirements in this standard are effective upon its issuance.

Proposed Standard

Scope

- 4. This Statement establishes accounting and financial reporting standards for **related parties<sup>1</sup> and subsequent events.** This Statement applies to the accounting for and disclosure of **related party relationships and transactions** and subsequent events not addressed in other applicable generally accepted accounting principles (GAAP).
- 5. Other applicable GAAP may address **related party relationships and transactions and** the accounting treatment of events or transactions that occur after the **end of the reporting period** but before the financial statements are issued. If an event or transaction is within the scope of other applicable GAAP, then an entity should follow the guidance in that applicable GAAP, rather than the guidance in this standard. The following are examples of other applicable GAAP that prescribes the accounting and disclosures for specific **related party relationships and transactions and** subsequent events. Note this is not meant to be an exhaustive list.

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Related Party Relationships and Transactions

- a. Statement of Federal Financial Standards (SFFAS) 4, Managerial Cost Accounting, Concepts and Standards
- b. SFFAS 5, Accounting for Liabilities of the Federal Government
- c. SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting
- d. SFFAS 30, Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts.

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Subsequent Events

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<sup>1</sup> Terms defined in the glossary (Appendix B) are in boldface type the first time they appear in this Statement.

- e. SFFAS 5, Accounting for Liabilities of The Federal Government
- f. SFFAS 27, Identifying and Reporting Earmarked Funds
- g. SFFAS 36, Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government

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6. This statement applies to the financial statements of all federal reporting entities.

**Definitions**

7. **Related Party:** Affiliates; trusts for the benefits of employees, such as pensions, that are managed by or under trusteeship of management; management of the entity; their immediate families; and other parties the entity deals with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the parties might be prevented from fully pursuing its own separate interests.

Comment: Taken from the GAO/PCIE Financial Audit Manual Volume I Glossary

8. **Subsequent Events:** Events or transactions that affect the financial statements that occur subsequent to the end of the reporting period but before financial statements are issued.

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9. **Recognized events:** Events that provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates inherent in the process of preparing financial statements.

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10. **Nonrecognized events:** Events that provide evidence with respect to conditions that did not exist at the end of the reporting period but arose subsequent to that date.

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**Related Parties**

11. To achieve their responsibilities and objectives, federal entities may engage in transactions with related parties and the financial statements should disclose these relationships and transactions. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements. The disclosures should include:

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- a. The nature of the relationship(s) involved.
- b. A description of the transactions for each of the periods for which statements of net cost are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements.
- c. The dollar amounts of transactions for each of the periods for which statements of net cost are presented and the effects of any change in the method of establishing the terms from that used in the preceding period.
- d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

12. The preparer should be aware that the substance of a particular transaction could be significantly different from its form and that financial statements should recognize the substance of particular transactions rather than merely their legal form.

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13. Examples of transactions with related parties that have features that may indicate whether a form over substance condition exists include:

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- a. Borrowing or lending on an interest-free basis or at a rate of interest significantly above or below market rates prevailing at the time of the transaction.
- b. Selling real estate at a price that differs significantly from its appraised value.
- c. Exchanging property for similar property in a nonmonetary transaction.
- d. Making loans with no scheduled terms for when or how the funds will be repaid.

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**Subsequent Events**

14. Events or transactions that affect the financial statements sometimes occur subsequent to the end of the reporting period, 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.

15. Recognized events consist of those events that provide additional evidence with respect to conditions that existed at the end of the reporting period, and affect the estimates inherent in the process of preparing financial statements. In evaluating the conditions on which the estimates were based, all information that becomes available prior to the issuance of the financial statements should be used. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence.

16. Identifying recognized events calls for the exercise of professional judgment and knowledge of the facts and circumstances. The receipt of information regarding the loss of an asset or the incurrence of a liability, subsequent to the balance sheet date may be indicative of conditions existing at the balance sheet date, thereby calling for adjustment of the financial statements before their issuance. For example, the settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the event that gave rise to the litigation, such as a personal injury occurring on government property, had taken place prior to the balance sheet date.

17. Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically represent the culmination of conditions that existed over a relatively long period of time.

18. Nonrecognized events consist of those events that provide evidence with respect to conditions that did not exist at the end of the reporting period, but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that their disclosure in the notes to the financial statements is required to keep the financial statements from being misleading. Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the financial statements because such changes typically reflect a concurrent evaluation of new conditions.

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- Deleted:** However, a similar loss resulting from that customer's major casualty, such as a fire or flood, subsequent to the balance sheet date would not be indicative of conditions existing at the balance sheet date, and adjustment of the financial statements would not be appropriate.
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- Comment:** Revised to maintain original language, per B. Dacey
- Deleted:** Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically ... [1]

19. Other examples of nonrecognized events that require disclosure in the notes to the financial statements, but should not result in adjustment, include [the announcement of plans for a new federal program or the provision of benefits or services to protect the public's health and safety during a major disaster.](#)

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**Deleted:** the issuance of bonds, the creation of a new component unit, or the loss of a government facility as a result of fire or flood.

20. When financial statements are reissued, certain events may have occurred subsequent to the original issuance that requires disclosure. Events requiring disclosure are those that are considered important to a user's understanding of the reissued financial statements. These events, occurring between the time of original issuance and reissuance of financial statements, should not result in adjustment of the financial statements unless the adjustment meets the criteria for the correction of an error or the criteria for prior-period adjustments. That also is the case for events occurring subsequent to the original issuance when financial statements are reissued in comparative form with financial statements of subsequent periods.

**Effective Date**

21. The requirements in this standard are effective upon its issuance.

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

## Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

### Project History

A1. Representatives of the American Institute of Certified Public Accountants (AICPA) requested that the U.S. accounting standards-setters consider adopting certain guidance for accounting and financial reporting issues that now reside in the professional auditing literature. In July 2008, the FASAB joined the Governmental Accounting Standards Board in responding to this request.

A2. The AICPA Statements on Auditing Standards address certain accounting and financial reporting issues not included in the FASAB's authoritative literature that establishes accounting principles. Those issues initially concerned related party transactions, subsequent events, and an entity's ability to continue as a going concern.

A3. The Board believes that incorporating the accounting and financial reporting guidance essentially as it exists in the AICPA literature would only change the source of the guidance and not significantly affect practice. Upon evaluating each of the topics for incorporation into this Statement, the Board decided to exclude guidance regarding an entity's ability to continue as a going concern. The FASAB recently completed SFFAS 36, Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government. This standard requires the reporting of information to help users determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. Also, the information may be helpful in assessing whether financial burdens without related benefits were passed on by current year taxpayers to future year taxpayers. However, the Board will consider the need for additional guidance in the future.

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**Board Approval**

A4. [Placeholder for Board approval]

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**Appendix B: Abbreviations**

AICPA	American Institute of Certified Public Accountants
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
OMB	Office of Management and Budget
SAS	Statement on Auditing Standards

**Appendix C: Glossary**

Nonrecognized events: Events that provide evidence with respect to conditions that did not exist at the end of the reporting period but arose subsequent to that date.

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Recognized events: Events that provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates inherent in the process of preparing financial statements.

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Related Party: Affiliates; trusts for the benefits of employees, such as pensions, that are managed by or under trusteeship of management; management of the entity; their immediate families; and other parties the entity deals with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the parties might be prevented from fully pursuing its own separate interests.

Subsequent Events: Events or transactions that affect the financial statements that occur subsequent to the end of the reporting period but before financial statements are issued.

**Deleted:** balance sheet date

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[Michael H. Granof](#)

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Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically represent the culmination of conditions that existed over a relatively long period of time.

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# Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards

## Summary

The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes *accounting* principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the *preparation* of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards.

## How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This effort is important from the perspective of bringing the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users.

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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## **INTRODUCTION**

1. Certain accounting and financial reporting guidance has been included in Statements on Auditing Standards of the American Institute of Certified Public Accountants (AICPA). The objective of this Statement is to incorporate that guidance into the state and local governmental accounting and financial reporting standards.

## **STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING**

### **Scope and Applicability of This Statement**

2. This Statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. This Statement applies to all state and local governments.

3. This Statement amends paragraph 26 of the National Council on Governmental Accounting (NCGA) Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*.

### **Related Party Transactions**

4. State and local governments are required to disclose certain related party transactions.<sup>1</sup> 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.

5. Examples of transactions with related parties that have features that may indicate that governments should consider whether a *form-over-substance* condition exists include:

- a. Borrowing or lending on an interest-free basis or at a rate of interest significantly above or below market rates prevailing at the time of the transaction
- b. Selling real estate at a price that differs significantly from its appraised value
- c. Exchanging property for similar property in a nonmonetary transaction
- d. Making loans with no scheduled terms for when or how the loans will be repaid.

6. Determining the substance of a related party transaction may pose challenges not present in assessing transactions between unrelated parties. For example, a related party relationship may result in transactions that would not take place between unrelated parties or would be subject to different terms and conditions. In such cases, the substance of the related party transaction may differ from its legal form due to the related party relationship.<sup>2</sup>

7. It may not be possible to determine whether a particular transaction would have taken place if the parties had not been related, or what the terms and conditions would have been. Therefore, it may be difficult to determine whether a transaction was consummated on terms comparable to those that would be present in arm's-length transactions. Furthermore, governments frequently enter into transactions and engage in activities that are driven by societal needs and concern for the "public good." Therefore, it may not be appropriate to compare some governmental programs and arrangements to what might

have occurred in an arm's-length transaction in the private sector or with unrelated parties.

### **Subsequent Events**

8. Events or transactions that affect the financial statements sometimes occur subsequent to the statement of net assets<sup>3</sup> 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.

9. Recognized events consist of those events that provide additional evidence with respect 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. 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.

10. Nonrecognized events consist of those events that provide evidence with respect to conditions that did not exist at the date of the statement of net assets but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that their disclosure is essential to a user's understanding of the financial statements.

11. Identifying recognized events that require adjustment of the financial statements calls for the exercise of professional judgment and knowledge of the facts and circumstances. For example, a water utility's loss from an uncollectible account receivable as a result of a major customer's deteriorating financial condition leading to the bankruptcy of that customer subsequent to the statement of net assets date may be indicative of conditions existing at the statement of net assets date, thereby calling for adjustment of the financial statements before their issuance. In contrast, a similar loss resulting from that customer's major casualty, such as a fire or flood, subsequent to the statement of net assets date would not be indicative of conditions existing at the statement of net assets date, and adjustment of the financial statements would not be appropriate. The settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the event that gave rise to the litigation, such as a personal injury occurring on government property, had taken place prior to the statement of net assets date.

12. Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically represent the culmination of conditions that existed over a relatively long period of time. Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the financial statements because such changes typically reflect a concurrent evaluation of new conditions.

13. Other examples of nonrecognized events that require disclosure in the notes to the financial statements but should not result in adjustment include the issuance of bonds, the creation of a new component unit, or the loss of a government facility as a result of a tornado, fire, or flood.

14. When financial statements are reissued, certain events may have occurred subsequent to the original issuance that require disclosure. Events requiring disclosure

are those that are considered essential to a user's understanding of the reissued financial statements. These events, occurring between the time of original issuance and reissuance of financial statements, should not result in adjustment of the financial statements unless the adjustment meets the criteria for the correction of an error or the criteria for prior-period adjustments. That also is the case for events occurring subsequent to the original issuance when financial statements are reissued in comparative form with financial statements of subsequent periods.

15. Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, paragraph 11(h), requires a discussion in management's discussion and analysis (MD&A) of currently known facts, decisions, or conditions that are expected to have a significant effect on the government's financial position or results of operations. It may be necessary to include a discussion of subsequent events in the MD&A, depending on the facts and circumstances.

### **Going Concern Considerations**

16. Continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. 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. Moreover, if there is information that is currently known to the government that may raise substantial doubt shortly thereafter (for example, within an additional three months), it also should be considered.

17. Indicators that there may be substantial doubt about a governmental entity's ability to continue as a going concern include:

- a. *Negative trends*—for example, recurring periods in which expenses/expenditures significantly exceed revenues, recurring unsubsidized operating losses in business-type activities, consistent working capital deficiencies, continuing negative operating cash flows from business-type activities, or adverse key financial ratios
- b. *Other indications of possible financial difficulties*—for example, default on bonds, loans or similar agreements, proximity to debt and tax limitations, denial of usual trade credit from suppliers, restructuring of debt (other than refundings), noncompliance with statutory capital or reserve requirements, or the need to seek new sources or methods of financing or to dispose of substantial assets
- c. *Internal matters*—for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project or program, uneconomic long-term commitments (burdensome labor contracts, for example), or the need to significantly revise operations
- d. *External matters*—for example, legal proceedings, legislation, or similar matters that might jeopardize intergovernmental revenues and the fiscal sustainability of key governmental programs; loss of a critical license or patent for a business-type activity; loss of a principal customer, taxpayer, or supplier; or uninsured or underinsured catastrophe such as a drought, earthquake, or flood.

18. In all cases, the effect of the governmental environment should be considered when evaluating the indicators. For example, the taxing power and borrowing capabilities of governments together with the constant demand for the provision of public services are factors that may diminish the possibility that a government would be unable to continue as a going concern. Some conditions or situations identified in the indicators in paragraph 17 should be assessed differently for governments. For example, recurring operating losses are commonplace for some business-type activities such as transit operations or governmental healthcare organizations. However, quality-of-life considerations and the health and welfare needs and interests of the citizenry may create compelling incentives for those operations to be subsidized to the extent necessary by another governmental entity.

19. If it is determined that there is substantial doubt about a governmental entity's ability to continue as a going concern, the notes to the financial statements should include disclosure of the following, as appropriate:

- a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the government's ability to continue as a going concern for a reasonable period of time, as discussed in paragraph 16
- b. The possible effects of such conditions and events
- c. Government officials' evaluation of the significance of those conditions and events and any mitigating factors
- d. Possible discontinuance of operations
- e. Government officials' plans (including relevant prospective financial information)
- f. Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

In addition, Statement 34, paragraph 11(h), requires a discussion in MD&A of currently known facts, decisions, or conditions that are expected to have a significant effect on the government's financial position or results of operations. It may be necessary to include a discussion of going concern issues in the MD&A, depending on the facts and circumstances.

#### **EFFECTIVE DATE**

20. The requirements in this Statement are effective upon its issuance.

**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.*

Robert H. Attmore, *Chairman*

Michael D. Belsky

William W. Holder

Jan I. Sylvis

Marcia L. Taylor

Richard C. Tracy

James M. Williams

## **Appendix A**

### **BACKGROUND**

21. Representatives of the AICPA have requested that the U.S. accounting standards setters consider adopting certain guidance for accounting and financial reporting issues that now reside only in the AICPA's professional auditing literature. In response to this request, a project was added to the GASB's research agenda in December 2007. After conducting research on the subject matter to identify relevant issues, the project was added to the Board's current technical agenda in April 2008. The GAAP hierarchy applicable to governments was originally within the scope of this project. A separate project was established in July 2008 to assist the Board in its efforts to work with the Federal Accounting Standards Advisory Board on issues related to the GAAP hierarchy.

22. In August 2008, the Board issued an Exposure Draft, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The Board received 32 responses to the Exposure Draft. As discussed throughout the Basis for Conclusions of this Statement, the comments and suggestions from the organizations and individuals who responded to the Exposure Draft contributed to the Board's deliberations in finalizing the requirements of this Statement.

23. In arriving at the conclusions presented in this Statement, the Board considered its own standards and those of the Financial Accounting Standards Board, the International Accounting Standards Board, and the International Public Sector Accounting Standards Board.

## **Appendix B**

### **BASIS FOR CONCLUSIONS**

24. This appendix summarizes factors considered significant by the Board members in reaching the conclusions in this Statement. It includes discussion of 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.

25. At the beginning of its deliberations leading to this Statement, the Board evaluated two approaches. One approach considered was to adopt the accounting and financial reporting requirements essentially as they currently exist in the AICPA's auditing literature, modifying the language as appropriate to recognize the characteristics of the governmental environment without affecting the substance of the provisions. The other approach considered was to reexamine the individual issues. The Board recognized that taking the first approach would not significantly affect practice because the accounting and financial reporting requirements would not change, only the source of the guidance. The latter approach, involving significant deliberation, *could* have resulted in changes in practice depending on the extent to which the Board would modify the financial reporting requirements from the way they were stated in the auditing literature. The Board concluded that the transition from the auditing literature to the accounting and financial reporting standards should be as undistruptive as possible; therefore, the first approach was taken.

26. The Board is not aware of any compelling reasons to open any of the individual issues for reexamination at this time. Prior to this initiative to codify the financial reporting requirements, none of those issues were under consideration for inclusion in the Board's technical agenda. Furthermore, there has been no significant call from constituents for clarification or additional guidance relative to the financial reporting areas covered by this Statement, and the Board is not aware of any evidence that would imply that the requirements, as they now exist, are not appropriate or effective. As a result, this Statement does not establish new financial reporting requirements or modify existing requirements but rather relocates existing accounting and reporting guidance from the professional auditing standards.

### **Scope**

27. The GASB's analysis of the AICPA's professional auditing literature identified three accounting and financial reporting issues addressed in this Statement as significant areas that should be incorporated into GASB standards. The Board also considered the inclusion of guidance regarding the correction of errors in previously issued financial statements that was provided through a Staff Accounting Bulletin of the Securities and Exchange Commission (SEC). The Board concluded that the SEC guidance should not be included in the scope of the Statement because the goal of the project was to address accounting principles that reside in the AICPA's professional auditing literature.

### **Related Party Transactions**

28. The Statements on Auditing Standards (SAS), AU Section 334, *Related Parties*, appropriately attributes the requirement for related party *disclosures* to the Financial Accounting Standards Board's (FASB) Statement No. 57, *Related Party Disclosures*, and acknowledges that "... accounting principles ordinarily do not require transactions with related parties to be accounted for on a basis different from that which would be appropriate if the parties were not related" (paragraph .02). That paragraph further states that "... the auditor should be aware that the substance of a particular transaction could be significantly different from its form and that *financial statements should recognize the substance of particular transactions rather than merely their legal form*" (emphasis added).

29. FASB Statement 57 is included among the pre-November 30, 1989, standards that conditionally apply to (a) proprietary funds and business-type activities and (b) governmental activities in the government-wide statements. This Statement does not propose modifications to those disclosures nor does it provide for additional disclosures.

Even though the Board did not modify the provision as stated in the SAS guidance, it concluded that the “substance versus form” aspect of assessing related party transactions should be addressed in the context of governmental entities. Accordingly, this Statement acknowledges the difficulty that may be faced in evaluating the substance of transactions in general and in the governmental environment specifically.

30. The comments received concerning related party transactions generally expressed a desire for additional implementation guidance or examples to be added to the final standard. The Board discussed these comments and decided that these issues did not fall within the scope of this project and any additional examples would be considered for inclusion within the Comprehensive Implementation Guide. Suggestions to clarify the related party transaction provisions also were received and changes were made accordingly.

### **Subsequent Events**

31. AU Section 560, *Subsequent Events*, explains that events or transactions that have an effect on the financial statements can sometimes occur subsequent to the statement of net assets date but prior to the issuance of the financial statements and, therefore, require adjustment or disclosure in the financial statements. It discusses two types of subsequent events that require consideration. *Type one* events require financial statement adjustment, and *type two* events may require disclosure in the notes to financial statements.

32. The Board determined that the financial reporting guidance in the SAS is readily adaptable to the governmental environment with only minor terminology modifications. As a result, the requirements, including examples and illustrations, presented in the Exposure Draft were essentially the same as set forth in the auditing standards.

33. After the Exposure Draft was issued, the FASB issued an Exposure Draft, *Subsequent Events*, with a similar initiative to incorporate AU Section 560 into its literature. The FASB's Exposure Draft proposed changes that, if adopted, would result in some differences from the provisions of this Statement. Many respondents noted that these potential differences existed in the terminology, the time period for evaluation, and the disclosure of the time period for evaluation.

34. AU Section 560 states that there are two types of subsequent events and describes both types; but it does not actually give the definitions of either type a name. The FASB's Exposure Draft named these two types of subsequent events, previously referred to as *type one* and *type two*, as *recognized events* and *nonrecognized events*, respectively. The Board agreed that the terms proposed in the FASB's Exposure Draft better communicate the respective types of events. Some respondents to the Exposure Draft commented that the FASB's Exposure Draft also introduced a different period for evaluating subsequent events and a proposal to disclose the period through which subsequent events were evaluated. The Board discussed these differences and decided that it was unnecessary to incorporate an “available-to-be-issued” notion into this Statement because the original proposal presented in the Exposure Draft more appropriately reflected the governmental environment in which financial statements are routinely issued upon completion and become part of the public record. Therefore, the issuance of a government's financial statements appropriately concludes the subsequent events' evaluation period. Accordingly, the Board also determined that disclosure of the date through which subsequent events are evaluated is not necessary.

35. The original AICPA literature stated that disclosure of nonrecognized subsequent events may be “required to keep the financial statements from being misleading.” This language was carried forward to the Exposure Draft. During redeliberation, the Board concluded that the language in this Statement should be more consistent with Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, which uses the term *essential to a user’s understanding* when discussing criteria for disclosing information in the notes to the financial statements.

### **Going Concern Considerations**

36. AU Section 341, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, states that continuation of an entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. It indicates that note disclosure is required as it directs an auditor to “consider the adequacy of disclosure about the entity’s possible inability to continue as a going concern for a reasonable period of time” (paragraph .03(c)). The SAS guidance identifies certain factors that could indicate that there may be substantial doubt about an entity’s ability to continue as a going concern and provides examples of information that a preparer might disclose in the notes to financial statements if the conditions warrant such disclosures.

37. Following the general approach taken in this Statement to incorporate the SAS guidance into GASB literature without substantive modifications, the Board agreed that the indicators of going concern issues and the disclosures from AU Section 341 (adapted for governments) constitute the guidance that should be carried forward. The Board concluded that those disclosures—together with the existing MD&A requirement to discuss currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations—are sufficient for governmental entities, given the relatively low probability of having to consider a governmental entity’s ability to continue as a going concern. The Board also concluded that the potential question of whether liquidation basis of accounting (or some other measurement) should be used for a governmental entity when its ability to continue as a going concern is remote should not be addressed in this Statement.

38. Several respondents to the Exposure Draft expressed a need for clarification on the entity level to which the going concern assessment should be applied. The Board concluded that going concern evaluations should not be performed on reporting units that constitute less than a legally separate entity. Those reporting units (for example, funds that are part of a larger legal entity) are accounting and reporting constructs to which a government’s management may assign assets and liabilities. Thus, the appearance of a going concern issue can instantly change through reassignment of certain assets or liabilities. The Board agreed that the going concern concept has little, if any, applicability to reporting units that comprise less than a legally separate entity. As such, this provision was modified to clarify that the focus should be on *legally separate* entities.

39. After the Exposure Draft was issued, the FASB issued an Exposure Draft, *Going Concern*, with a similar initiative to incorporate AU Section 341 into its literature. In the interest of international convergence, the FASB’s Exposure Draft proposed a new time horizon over which an entity should evaluate its ability to continue as a going concern that was different from the time horizon in AU Section 341 but similar to that of IAS 1, *Presentation of Financial Statements*. After the Board discussed this possible change, it agreed with the notion of eliminating the bright-line time horizon from AU Section 341. The Board decided to restate the horizon because it would better ensure that any known facts that may affect the going concern assumption, even if slightly beyond the 12-month period, are taken into consideration.

## **Appendix C**

### **CODIFICATION INSTRUCTIONS**

40. The sections that follow update the June 30, 2008, *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.

#### **COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200**

See also: [Add the following:] Section 2250, "Additional Financial Reporting Considerations"

.109 [At the end of subparagraph h, insert footnote 11 as follows; renumber subsequent footnotes.] Conditions that are expected to have a significant effect on financial position or results of operations include those that give rise to substantial doubt about a government's ability to continue as a going concern, as described in Section 2250, paragraphs .113-.116. [GASBS 56, 19]

[Create new section as follows:]

#### **ADDITIONAL FINANCIAL REPORTING CONSIDERATIONS SECTION 2250**

Source: GASB Statement 56

See also: Section 2200, "Comprehensive Annual Financial Report", Section 2300, "Notes to Financial Statements"

##### **Scope and Applicability of This Section**

.101 [GASBS 56, 2; change *Statement* to *section*.]

##### **Related Party Transactions**

.102-.105 [GASBS 56, 4-7, including footnotes; update cross-references.]

##### **Subsequent Events**

.106-.113 [GASBS 56, 8-15, including footnotes.]

##### **Going Concern Considerations**

.114-.117 [GASBS 56, 16-19, including footnotes; update cross-reference.]

#### **NOTES TO FINANCIAL STATEMENTS SECTION 2300**

Sources: [Add the following:] GASB Statement 56

See also: [Add the following:] Section 2250, "Additional Financial Reporting Considerations"

.106 [Add the following at the end of subparagraph f:] (See Section 2250, paragraphs .106-.112.) [Add GASBS 56, 8-14, to sources.]

.107 [Add the following at the end of subparagraph f:] (See Section 2250, paragraph .102.)

[Add new subparagraph nn as follows:] Conditions and events giving rise to substantial doubt about the government's ability to continue as a going concern. (See Section 2250, paragraph .117.) [Add GASBS 56, 4-7 and 16-19, to sources.]

## **CLAIMS AND JUDGMENTS SECTION C50**

See also: [Add the following:] Section 2250, "Additional Financial Reporting Considerations"

.149 [At the end of the first sentence, insert new footnote 19 as follows; renumber subsequent footnote.] A more detailed discussion of subsequent events is included in Section 2250, paragraphs .106-.113.

## **LEASES SECTION L20**

Sources: [Add the following:] GASB Statement 56

.124 [Revise current paragraph .124 as follows:] When lease arrangements exist between state and local governments and public authorities, the related party considerations discussed generally in Section 2250, paragraphs .102-.105, and more specifically in FASB Statement 13, paragraph 29, should be considered to determine if there are special reporting and disclosure requirements. [NCGAS 5, 26; GASBS 56, 4-7] [1](#)

NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*, is the source of this disclosure requirement. Financial Accounting Standards Board Statement No. 57, *Related Party Disclosures*, which is applicable to governmental entities (to the extent the guidance therein does not conflict with or contradict GASB pronouncements), provides specific disclosure requirements and examples of related party relationships and transactions. [2](#)

For example, Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, includes requirements that affect the basis of assets transferred within the same financial reporting entity. That requirement results in a measurement that is different from what would have occurred in an arm's-length transaction with an external party. [3](#)

For purposes of this Statement, the term *statement of net assets* includes the government-wide statement of net assets, governmental fund balance sheet, proprietary fund statement of fund net assets, and statement of fiduciary net assets, which are required to be presented as components of the basic financial statements.